

Press Release

LCQ7: Implementation of Mandatory Provident Fund Scheme

Wednesday, January 11, 2017

Following is a question by the Hon Chan Kin-por and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (January 11):

Question:

Since the inception of the Mandatory Provident Fund (MPF) Scheme in December 2000, approved trustees have all along been implementing measures to reduce administration fees in a bid to control fund costs, including the implementation of standardised and automated administration processes, such as establishing the electronic Portability Automation Services System and the E-Payment for MPF Transfer System. In addition, the Mandatory Provident Fund Schemes Authority (MPFA) implemented the Employee Choice Arrangement (ECA) in November 2012 to allow employees to opt for transferring the accrued benefits derived from their MPF contributions to the MPF schemes of their choices. MPFA also introduced in 2007 a Fund Expense Ratio (FER) as a standardised tool for use by employees to compare fees of funds. According to a report titled Fees and Expenses of MPF Funds: An Overview of the Fund Expense Ratio and Its Trends published by MPFA on November 23 last year, the average FER of MPF funds dropped from 2.06% in July 2007 to 1.57% in June last year. However, some members of the industry have pointed out that the actual FER was in fact lower than that published by MPFA since the latter did not take into account the discounts on fees and charges offered by approved trustees to scheme members (collectively referred to as "member rebates"). In this connection, will the Government inform this Council whether it knows:

- (1) the latest progress of the implementation of standardised and automated administration processes by MPF approved trustees;
- (2) the number to-date of employees who have participated in ECA; whether the authorities have assessed the effectiveness of ECA; if they have, of the outcome; and

(3) the current actual average FER of MPF funds after taking into account member rebates?

Reply:

President,

(1) Over the past few years, MPF approved trustees (trustees) have launched various electronic and online services, enabling scheme members to manage their MPF accounts, enquire contribution history, change personal data, submit fund switching requests etc., through online services. Employers can also provide employee's contribution data to the trustees and download administration forms online. Individual trustees also provide e-alert service, e-statements and accept e-cheque for payments.

Moreover, the Mandatory Provident Fund Schemes Authority (MPFA) has developed the electronic Portability Automation Services System and the electronic Payment and Settlement System to standardise and automate the MPF transfer process between trustees, thus shortening the transfer processing time and enhancing efficiency and accuracy of MPF transfers.

The MPFA will continue working with the trustees to further simplify and automate MPF administration processes, to lower the operating costs of MPF providers and allow employers and scheme members to manage various MPF matters more conveniently and efficiently.

(2) From the launch of Employee Choice Arrangement (ECA) on November 1, 2012 to November 30, 2016, trustees received about 370 000 ECA transfer requests. However, we should not assess the effectiveness of the ECA with the number of transfer requests received. In fact, the MPFA reminds scheme members to take into account their age, the products (MPF schemes and funds) and services provided by trustees, fund fees and personal factors when they consider switching their trustees.

Since the commencement of ECA, 48% of the MPF funds (i.e. 231 funds) have reduced their management fees, with the biggest reduction reaching 76% or 128 basis points. At the same time, trustees have launched a number of "low fee funds" (i.e. funds with a fund expense ratio (FER) \leq 1.3% or management

fees $\leq 1\%$). At present, there are a total of 172 "low fee funds" in the market, which account for about 42% of the total number of MPF funds currently available for selection in the MPF market.

(3) It is individual trustees' commercial decisions to offer unit rebates to members, and the extent of rebates differs among schemes and individual members. Not all scheme members are entitled to such rebates. Hence, if these rebates are factored into the calculation of the system-wide FER, it will not reflect the actual situation of the MPF system. As such, the MPFA has no plan to publish such adjusted FER.

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