Press Release

LCQ6: Policies on retirement protection

Wednesday, November 1, 2017

Following is a question by the Hon Paul Tse and a reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (November 1):

Question:

It has been reported that Professor Richard H Thaler, a Nobel Memorial Prize laureate in Economics, and Professor Cass R Sunstein of the Harvard Law School have pointed out in a book co-authored by them that just by making small thoughtful changes to the environment and by giving a gentle nudge, without forcing people nor constraining their freedom of choice, it is sufficient to create an environment for making appropriate decisions to steer things in a direction that is beneficial to all. Regarding policies on retirement protection, Professor Thaler suggests increasing employees' retirement savings rate through the two mechanisms of automatic enrolment and automatic contribution escalation, while giving employees the freedom to opt out. In addition, the findings of a recent survey indicate that the respondents are most worried about their housing needs after retirement. In this connection, will the Government inform this Council:

(1) given that since the beginning of this year, the Tracker Fund of Hong Kong (TraHK) has achieved a rate of return of over 30 per cent excluding dividends whereas the Mandatory Provident Fund (MPF) schemes have delivered an average rate of return of merely 15 per cent (i.e. only half of the rate of return of TraHK) over the same period, whether the Government will make reference to Professor Thaler's views and create an environment for making appropriate decisions by providing information on the returns of different investment options, and study the abolition of the requirement of the MPF System for making mandatory contributions, to let members of the public make their own choice on whether they will continue investing in MPF schemes, or switch to invest in TraHK, which has an expenditure ratio of about one-fifteenth of those of MPF schemes only, or other investment vehicles; if not, how the authorities explain to the public that it is still reasonable to adopt the practice of obligating such contributions even though, contrary to the suggestion of the Nobel Prize

laureate, the practice hinders members of the public from making the most rational and most beneficial investments for their retirement protection;

(2) given that the aforesaid survey findings indicate that the housing needs after retirement is the public's greatest worry, that financing down payment is the biggest hurdle to home ownership for quite a number of people, and that the housing policy of the current-term Government emphasises a focus on home ownership, whether the authorities will examine allowing first-time home buyers to use the accrued benefits in their MPF accounts to make down payments; if not, how the authorities convince the public that investing in MPF schemes provides better protection for retirement life than investing in owner-occupied properties; and

(3) as some academics have pointed out that since the Mandatory Provident Fund Schemes Authority (MPFA) has failed to make ends meet for seven consecutive years, MPFA is unable to fend for itself, not to mention convincing the public to trust that the MPF System under its monitoring can offer retirement protection, and in view of MPFA's financial deficits for consecutive years, the availability of ample fund options in the investment market which offer better returns than that of MPF schemes which charge account holders fees of nearly $10 billion annually, of the Government's policies in respect of reminding MPF contributors, particularly those who choose to make additional voluntary contributions, that before they decide to increase their contributions, it is advisable for them to compare the returns of MPF schemes with those of TraHK and other investment tools so as to make sensible choices?

Reply:

President,

The Mandatory Provident Fund (MPF) System runs in the form of privately managed mandatory retirement schemes with an aim to mandating the working population and their employers to make contributions during employment for their retirement savings. It is complementary to other pillars of retirement protection to provide retirement savings for the working population of Hong Kong. Before the MPF System was implemented, only one-third of Hong Kong's working population were covered by retirement protection. Currently, 85 per cent of Hong Kong's employed population (over 3.2 million employees and self-employed persons) are covered by the MPF System or other forms of retirement protection scheme enjoying different levels of retirement protection.

From inception of the MPF System until end September 2017, MPF contributions together with investment returns have grown to $793 billion, $229 billion of which were investment returns net of fees and charges. Over the 16-year period, the MPF System recorded an annualised return of 4.4 per cent after fees and charges, higher than the 1.8 per cent average yearly inflation rate over the same period. It is clear that the MPF System has added value to the assets of scheme members. Replies to the various parts of Hon Paul Tse's question are as follows:

(1) It is not appropriate to compare retirement protection schemes based on mandatory monthly contributions with retail fund subscriptions.

First, under MPF schemes, trustees are required to take up various administrative work to protect scheme members, including verifying the monthly contributions made by employers for employees, assisting in recovering default contributions from employers, and reporting default contribution cases to the Mandatory Provident Fund Schemes Authority (MPFA). However, expenses of retail funds in general (including the Tracker Fund of Hong Kong (Tracker Fund)) do not include the costs of such administrative work.

In addition, scheme members can invest in the Tracker Fund through MPF schemes as well. At present, 12 out of the 32 MPF schemes provide Constituent Funds that invest in the Tracker Fund.

(2) The MPFA is conducting a study on allowing scheme members to withdraw part of their MPF accrued benefits before attaining the retirement age for first home purchase. However, I must emphasise that the MPF System was set up to help the working population accumulate savings for their retirement. Any arrangements allowing early withdrawal of accrued benefits will lead to a reduction in accrued benefits for scheme members' retirement. There are views from the community that we could follow overseas examples, such as the Central Provident Fund (CPF) in Singapore, to allow partial withdrawal of accrued benefits for home purchase. In the Singaporean system, there are three

sub-accounts in a member's savings scheme for retirement, home purchase and medical purposes respectively; and the contribution rate of CPF could reach 37 per cent. It is inappropriate to compare it directly with the MPF System where the total contribution rate of both employers and employees is only 10 per cent. In any event, in determining whether to allow scheme members to withdraw accrued benefits early on the grounds of first home purchase, the Government will consider all relevant factors holistically, and study carefully whether that reason is congruous with the policy objectives of establishing the MPF System.

(3) The operating expenses of the MPFA are not borne by scheme members.

For almost 20 years since its establishment, the MPFA has mainly relied on the investment income generated from the Government's $5 billion one-off Capital Grant provided in 1998 to cover its operating expenses. The MPF legislation approved by the Legislative Council in 1998 provides that the MPFA can collect an annual registration fee from MPF trustees to cover its operating expenses. However, the MPFA has not imposed this fee since the implementation of the MPF System. It is not desirable for the MPFA to be in a lack of recurrent income. The Government and the MPFA are actively studying proposals to help the MPFA achieve long-term financial sustainability.

As mentioned in the reply to part (1) of the question, since the nature of MPF schemes and that of retail investment tools are not the same, it is not appropriate to make comparison between the two.

The MPFA currently provides scheme members with different tools to help them make investment decisions, such as the Fee Comparative Platform for MPF Funds and the Trustee Service Comparative Platform. In February 2018, a new MPF fund performance platform will be launched on the MPFA's website. Information about fund performance as well as risk and fee levels will be made available on the platform, thereby facilitating the effective selection of Constituent Funds by scheme members that suit their investment needs and risk appetites.

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