Press Release

LCQ5: Withdrawal of Mandatory Provident Fund contributions for first home purchase

Wednesday, November 29, 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 29):

Question:

In reply to my question on the 1st of this month, the authorities indicated that the Mandatory Provident Fund Schemes Authority (MPFA) was conducting a study on allowing Mandatory Provident Fund (MPF) Schemes members to withdraw part of their MPF accumulated contributions before attaining the retirement age for first home purchase (the MPF first home purchase arrangement). The proposed arrangement has sent considerable reverberations across the community and, for consecutive days, the following public comments have come up: (i) in the MPF first home purchase arrangement, one can "at least secure a place to live in, and also obviate the need to pay fund management fees"; (ii) home ownership offers the best protection for a person's retirement life and, for those with no child, retirement protection can also be provided by way of reverse mortgage; (iii) proposals that allow flexible use of MPF contributions for down payment of home purchase should be supported; (iv) members of the public have the right to control their own assets, and the Government has no right to forcibly withhold part of their wages for retirement purpose; (v) it is undoubtedly more conducive to increasing the value of the personal assets of wage earners if members of the public can opt for early withdrawal of MPF contributions for home purchase to pay for part of the down payment or miscellaneous fees involved; (vi) the MPF first home purchase arrangement will force MPF trustees to lower their fund management fees and to enhance their investment performance, thereby leaving more returns in the hands of members of the public; and (vii) in the long run, it has always been the hope of employers and employees that the MPF system will be abolished so that they can keep money in their own hands which is far better than having their money nibbled up by fund managers. In this connection, will the Government inform this Council:

(1) whether it knows the effectiveness of the Reverse Mortgage Programme since its launch in 2011; whether the authorities will, in the light of the above comments, study the implementation of the MPF first home purchase arrangement in parallel with reverse mortgage, so that the needs for first home purchase and the needs for retirement protection can be addressed in one go;

(2) whether it has considered that the MPF first home purchase arrangement can help MPFA (which was ridiculed by some academics as being "unable to fend for itself" and having "failed to make ends meet for seven consecutive years") try its best in cutting the loss and enhance public confidence in MPFA's ability to monitor the MPF system, as well as urge MPF trustees to lower their fund management fees and enhance their investment performance; if so, of the details; and

(3) of the anticipated time for the completion of the feasibility study on the MPF first home purchase arrangement, and whether it will undertake that in case the study finds the arrangement practicable, it will expeditiously implement the arrangement, so that prospective first-time home buyers will not miss the opportunity for acquiring a property when property prices fall to a level acceptable to them?

Reply:

President,

The idea of allowing scheme members to withdraw part of their Mandatory Provident Fund (MPF) accrued benefits before attaining retirement age for first home purchase is controversial. There are divergent opinions from the community, not only the supporting views as listed out by the Hon Tse. In contrast, there are objections and reservations as summarised below:

(i) The objective of the MPF is to help the public save for their retirement, not for home purchase. The idea goes against the retirement protection objective of the MPF;

(ii) The objective of the MPF is to accumulate wealth through long-term and regular mandatory investments with the benefit of cost averaging. If contributions are used as a lump sum for down payment and when property price drops drastically, property owners will lose their retirement savings or even run into more debt when they are unable to repay their mortgage;

(iii) This idea goes against the Government's target to cool down property price;

(iv) This idea in effect encourages the public to purchase properties;

(v) Given the overheated property market, it is not the right time to put the idea into practice as it will raise property prices through increased demand;

(vi) Such arrangement will increase exuberance risk by bringing a group of new buyers with marginal financial ability into the market;

(vii) Investment in real estate is way riskier than investment in MPF funds. MPF investment allows risk diversification whereas property purchase reduces diversification;

(viii) The priority should be improving the MPF System, including addressing the problem of high fees;

(ix) When comparing with other countries, Hong Kong's MPF mandatory contribution rate is relatively low, and the average balance of MPF accounts at $180,000 is not meaningful in helping home purchase;

(x) The MPF contribution rate has to be risen to make the proposal of allowing early withdrawal of MPF benefits for home purchase reasonable;

(xi) Need to address the question of whether the proceeds should be clawed back to the MPF after sale of the property purchased with the MPF withdrawal for down payment. If not, the early withdrawal of MPF benefits will be a leakage weakening its value for retirement; and

(xii) Need to consider the administrative burden in implementing the idea.

The Mandatory Provident Fund Schemes Authority (MPFA) has only examined relevant arrangements in other countries, analysed the pros and cons and studied the feasibility of introducing such arrangement into Hong Kong.

The MPFA has not had a final proposal yet.

As I mentioned in my reply to the Hon Tse's related question last time, the Government will consider all relevant justifications holistically, and study carefully whether they are congruous with the policy objectives of establishing the MPF System. I must emphasise that we need to manage the risk of the impact of rate hike cycle on asset prices. As a responsible Government, we should not assume ever rising property prices. The Government therefore will not act contrary to any counter-cyclical measures.

I now reply the Hon Tse's question as follows:

(i) The Reverse Mortgage Programme (RMP) was launched in mid-2011 to provide retirees with an additional financial planning option to enhance their quality of life. Under the programme, a property owner can use his/her residential property in Hong Kong as security to borrow reverse mortgage loan from a bank. The participant can receive monthly payouts either over a fixed period of time or throughout his/her entire life, while staying in the property for the rest of his/her life. Up to end-October 2017, the RMP had recorded a total of 2 200 applications, with an average monthly payout to the participants at HK$15,100. In the first ten months of this year, the programme recorded 644 new applications, increased by 1.5 times year on year. I wish to emphasise that reverse mortgage is a standing arrangement and any person meeting the eligibility criteria can apply for loans through this mechanism.

(ii) The Government does not think there is a direct relationship between allowing the withdrawal of MPF benefits for first home purchase and the investment performance of MPF funds. However, I must point out that the MPF System allows diversification of investment risks, but if MPF benefits are used for buying home, risk diversification will be reduced. Furthermore, the financial situation of the MPFA and whether withdrawal of MPF benefits should be allowed for first home purchase are two separate matters. In my previous reply to a related question raised by the Hon Tse, I have explained that the MPFA's operating expenses are mainly covered by the investment income generated from the Government's $5 billion one-off Capital Grant provided in 1998. The financial deficit in recent years is due to volatility in the investment market against a low interest environment lately. Relying solely on non-recurrent investment return is insufficient for the MPFA to meet its expenses, and hence its deficit in consecutive years. The MPFA has never collected annual registration fees from MPF trustees to cover its operating expenses so far.

(iii) As demonstrated by the pros and cons presented in the Hon Tse's main question and my reply just now, the study on whether the withdrawal of MPF benefits should be allowed for first home purchase is a very complex subject. We will give this matter full and focused deliberation to ensure that the proposal being floated will indeed achieve the intended benefits suggested by the proponents. We will not make property price projections. However, the Government has a responsibility to alert members of the public to the impact of rate hike cycle on property price. The public should not overstretch themselves financially for home purchase. Thank you, President.

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