LCQ16: The Mandatory Provident Fund voluntary contribution regime

Following is a question by Hon Paul Tse and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (April 17)

Question:

By offering tax concessions as an incentive, the Government implements the Mandatory Provident Fund (MPF) voluntary contribution regime. Yet, there are comments that the regime has much room for improvement. On enabling members of the public to effectively achieve tax savings and enhancing the attractiveness of the regime to members of the public, will the Government inform this Council:

(1) whether it will set up a department dedicated to providing services for MPF contributors (contributors), which will offer only exchange traded funds (e.g. index funds such as the Tracker Fund of Hong Kong (TraHK) and Hang Seng FTSE China 50 Index ETF) plus money market funds as investment options to contributors, so as to provide contributors with an MPF investment option which is relatively safe and charges low management fees; if so, of the details; if not, the reasons for that; and

(2) whether it will allow, subject to a tax deduction cap of $60,000, contributors to purchase by themselves from stock markets, without involving their MPF trustees, index funds (such as TraHK) which charge low management fees, and then inject such funds into their MPF schemes' accounts, so as to ameliorate the situation of management fees persistently nibbling away at contributions and to increase the incentive for making voluntary contributions?

Reply:

President,

(1) The Government considers that, instead of being managed by a Government department, the Mandatory Provident Fund (MPF) System should be managed and operated privately by the market.

We agree that scheme members should be offered investment options which are relatively safe and charge low management fees. As of February 2019, 29 MPF Constituent Funds (CF) are passively managed index-tracking funds (12 of which invest in the Tracker Fund of Hong Kong). The Fund Expense Ratios (FERs) of these CFs range between 0.71 per cent and 1.30 per cent.

In addition, the objective of the Default Investment Strategy (DIS) is precisely to offer an investment option which is relatively safe and charges low management fees. The DIS is subject to fee control which consists of two caps, namely a management fee cap of 0.75 per cent and a recurrent out-of-pocket expenses cap of 0.2 per cent. The Government has previously undertaken to review the fee cap levels within three years after the launch of the DIS, with a view to further lowering the fee caps. We expect to start discussions on the new fee caps next year.

The Mandatory Provident Fund Schemes Authority (MPFA) will continue to proactively encourage MPF trustees to make available more investment options which are relatively safe and charge low management fees to scheme members.

(2) MPF is a scheme whereby trustees pool small amounts of monthly contributions from individual scheme members together for investment. As compared to the small amount of monthly investments by individuals, this pooled investment model achieves a higher level of cost efficiency.

We understand Hon Tse's good intention in enhancing the cost efficiency of the MPF system. However, under Hon Tse's suggestion, scheme members may need to pay for a number of transaction fees to different financial institutions. They may also need to take up various administrative tasks on their own. This may go against the original intention of Hon Tse's proposal.

The MPFA has been requiring MPF trustees to regularly review the fee levels of their MPF products. Since the introduction of the FER in July 2007 and up to March 2019, the average FER of MPF funds has dropped from 2.06 per cent to 1.52 per cent. During this period, the DIS legislation was enacted in May 2016 and 138 MPF funds had reduced their fees.