LCQ20: Mandatory Provident Fund schemes

Following is a question by the Hon Luk Chung-hung and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (January 6):

Question:

Regarding Mandatory Provident Fund (MPF) schemes, will the Government inform this Council:

(1) of the following information as at December 31, 2020,

(i) a breakdown of the number of MPF scheme members by age group, the average amount of accrued benefits in each account, and the average yearly rate of return of MPF accounts;

(ii) the number of holders of Tax-deductible Voluntary Contribution Accounts under MPF schemes and among them, the number and percentage of those who were civil servants; the total amount of funds involved in this type of accounts, and the amount of funds involved in those accounts held by civil servants and its percentage in the total amount;

(iii) the number of MPF scheme members who had been employed by the same employers since participating in the MPF schemes concerned, and its percentage in the total number of scheme members, together with a breakdown of the average amount of accrued benefits and the average rate of return of their accounts by age group and monthly salary group; the respective percentages of the sum of contributions and the total investment returns in the accrued benefits of such accounts; the number of civil servants among such members; and

(iv) the number of MPF accounts in which the accrued benefits derived from employers' contributions had been used to offset severance payments and long service payments (commonly known as the offsetting mechanism), and the amount involved; the percentage of such accounts in the total number of MPF accounts; the progress of the legislative work to abolish such offsetting mechanism and the implementation timetable; and

(2) of the new measures put in place to (i) further lower the management fees of MPF schemes, (ii) offer more investment plans with guaranteed return, and (iii) ensure that employees will not be subject to retaliation for lodging complaints about their employers defaulting on MPF contributions; whether "full portability" of MPF benefits will be implemented expeditiously, so that employees may transfer all the accrued benefits derived from their employers' mandatory contributions to MPF schemes of their own choice?

Reply:

President,

In consultation with the Mandatory Provident Fund Schemes Authority (MPFA), Civil Service Bureau and Labour and Welfare Bureau, my reply to the various parts of the question raised by the Hon Luk is as follows:

(1)(i) As of November 30, 2020, there were about 4 459 000 persons participating in the Mandatory Provident Fund (MPF) schemes, with an average accrued benefits of scheme members amounting to $246,000. In terms of overall investment return, since the establishment of the MPF System in December 2000 and until November 2020, the annualised return of MPF after netting fees and expenses was 4.5 per cent, which was higher than the inflation rate of 1.8 per cent over the same period.

The MPFA does not keep information on the number of scheme members and breakdown of the accrued benefits and investment returns in members' accounts by different age groups.

(ii) As of November 2020, there were around 43 200 tax deductible voluntary contribution (TVC) accounts, with a total contribution of $2,575 million. The Government and the MPFA do not keep information on the number TVC account holders who are civil servants.

(iii) A scheme member under the same employment can hold more than one account under MPF schemes of different trustees. Looking from the account level, as at December 2019, around 90 000 employee contribution accounts were set up when the MPF System was launched in December 2000 and received contributions continuously under the same scheme. The average accrued benefits derived from mandatory contributions of these accounts amounted to $423,000. Out of these 90 000 accounts, about 30 000 accounts received both mandatory contributions and voluntary contributions. The average accrued benefits of these 30 000 accounts amounted to $1,015,000.

Except from the above, the MPFA does not have information on the number of employees being employed by the same employer since the launch of MPF System to date, nor the age, income, contribution amount, accounts' investment returns of their accounts and whether the account members were civil servants.

(iv) Since July 2001, the MPFA has been collecting from trustees data about the amount of claims for offsetting Severance Payment (SP)/Long Service Payment (LSP) against MPF accrued benefits every quarter. As of June 2020, the total amount of SP/LSP offsetting claims amounted to around $49 billion. The MPFA does not keep information on the number of relevant accounts.

On the abolition of the arrangement of offsetting SP and LSP with accrued benefits attributable to employers' mandatory contributions under the MPF System (offsetting arrangement), the Government is working at full steam in taking forward the related preparatory work, including drafting the bills. The abolition of the offsetting arrangement cuts across different policy areas and involves complex issues. The Government is currently pressing ahead with the preparatory work and examining whether there is room to simplify the implementation and administration of the abolition proposal, with a view to completing the drafting of the bills as soon as possible. It is planned to introduce the bills into the next term of the Legislative Council in the next legislative year.

(2) The Government and the MPFA have all along been committed to enhancing the effectiveness of the MPF System as the second pillar of the overall retirement protection framework in Hong Kong, including lowering fees. The overall fund expense ratio to the total asset under management has dropped from 2.1 per cent in 2007 to 1.44 per cent in November 2020. Further to the introduction of low fee funds in 2012, the fee-controlled Default Investment Strategy (DIS) in 2017, and the one-stop MPF Fund Platform in 2019, the Government and the MPFA are preparing for the establishment of the eMPF Platform. The eMPF Platform seeks to tackle the existing decentralised model of MPF scheme administration and high-cost issues by standardising, streamlining and automating administration work. It has the benefits of enhancing operational efficiency of the MPF System, thereby creating room for fee reduction and a predominantly paperless experience. With an eMPF Platform fee level in the range of 30 to 40 basis points in the two-year transitional stage, we expect that scheme members can enjoy an average of around 30 per cent upfront cut in scheme administration costs, with corresponding reduction to the topline fees. Our target is to complete the development of the eMPF Platform by 2022 at the earliest for trustees to migrate to the eMPF Platform in batches, in order to facilitate the full operation in around 2025 the earliest for bringing benefits to scheme members. The capabilities of the eMPF Platform to process centrally the MPF administration work and scheme members' information kept by different MPF schemes or trustees will assist the consolidation and analysis of data such as employment and contribution of scheme members, while facilitating introduction of future reform initiatives such as "Full Portability".

Lowering the fees of MPF schemes would also help improve the net investment return received by scheme members. As of November 2020, the total MPF assets grew into a sum of more than $1 trillion, of which more than 30 per cent (or around $360 billion) were net investment return after fees. The annualised return of MPF after fees and expenses was 4.5 per cent, higher than the inflation rate of 1.8 per cent over the same period. Overall speaking, the growth in investment return is steady. Currently, MPF schemes provide scheme member with more than 400 funds of different risk and return combinations. Scheme members can choose a suitable investment portfolio according to their individual circumstances such as age and risk tolerance. Amongst these investment choices, the DIS funds are designed to diversify investment risks and are particularly suitable for those scheme members who do not have the time or investment knowledge to manage their MPF benefits. Since the implementation of the DIS in April 2017, the annualised returns of the Core Accumulation Fund and Age 65 Plus Fund under the DIS are 6.3 per cent and 4.8 per cent respectively, which out-perform inflation and other similar types of mixed asset funds.

As for the protection to employees against default MPF contribution by their employers, the MPFA treats every case of complaints by the employees in strict confidence, and respects complainants' decision to remain anonymous. To protect employees who lodge complaints, the MPFA will not disclose to employers the source of complaints or the complainants' identity during the investigation unless consent is obtained from the complainants. Even if an employee lodges an anonymous complaint with the MPFA about non-compliance with the Mandatory Provident Fund Schemes Ordinance by his/her employer, the MPFA will still process the complaint and conduct investigation as appropriate.