LCQ3: Mandatory Provident Fund System

Following is a question by the Hon Paul Tse and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (October 21):

Question:

Quite a number of members of the public who are in financial distress due to the epidemic have requested the Government to allow them to withdraw the accrued benefits in their Mandatory Provident Fund (MPF) accounts in order to address their imminent needs. Regarding MPF schemes, will the Government inform this Council:

(1) whether it has studied acceding to the aforesaid request, which is supported by the general public and the vast majority of Members of this Council, and whether this initiative will help alleviate the financial pressure on the Government in implementing the relief measures; if it has studied, of the outcome; if not, whether it can assess if the Government's continued disregard for the public request will exacerbate public grievances and undermine public confidence in the Government's governance;

(2) as it is learnt that 30 per cent of the investment portfolios of MPF funds comprise shares of HSBC Holdings, whether it has assessed the impact of the slump in the share price of HSBC Holdings in recent years on the total assets of MPF accounts; if it has assessed, of the details; if not, whether it can expeditiously make an assessment, and review whether requiring members of the public (especially those who are urgently waiting to buy a home and form a family, and who wish to bear a smaller burden of the down payment for their first home or mortgage payment) to make long-term mandatory contributions to the MPF schemes, which have been criticised for their low cost-effectiveness and even ridiculed by scholars as something that "may eventually become condolence money", is tantamount to depriving them of the option to find an early solution to the retirement housing problem by making home purchase, thereby adding to their anxieties about retirement; and

(3) as the federal government of Canada has, in order to encourage its nationals to save for retirement, offered tax concessions to participants in a "Registered Retirement Savings Plan" (such as the relevant tax-free savings may be used for first-time home purchase, taking out insurance and buying blue-chip shares), whether the Government has studied replacing the MPF system, which has been a subject of criticism, with a similar plan; if so, of the details; if not, whether it will expeditiously commence such a study?

Reply:

President,

The Mandatory Provident Fund (MPF) System is an important part of the retirement protection system in Hong Kong to help ensure retirement savings by the employed population. It fulfils the requirement of the second pillar under the retirement protection framework advocated by the World Bank. MPF as a long-term retirement saving scheme is complementary to voluntary savings and other retirement protection solutions that constitute the overall retirement protection system.

In consultation with the Mandatory Provident Fund Schemes Authority (MPFA), my reply to the various parts of the question raised by the Hon Paul Tse is as follows:

(1) The MPF System is a long-term saving scheme for retirement. According to the information of MPFA, depending on the duration of participation and income of scheme members, out of the over four million existing MPF scheme members, around 36 per cent of these accounts have accrued benefits of $10,000 or less. Another 26 per cent have accrued benefits of more than $10,000 and at $50,000 or below. Those accounts with more than $50,000 and at $100,000 or below account for 12 per cent. The average accrued benefits of MPF accounts amount to $250,000. In overall terms, the total assets of MPF increased from $867.8 billion in end-March this year to over one trillion dollars in end-August. Of this total, more than $300 billion are net investment return after deducting charges. The annualised return rate after discounting fees and charges is 4.2 per cent, which is higher than the inflation rate of 1.8 per cent for the same period.

Any proposals allowing early withdrawal of accrued benefits from MPF System must take into consideration the corresponding reduction of scheme members' accrued benefits meant for their retirement. Scheme members should not overlook the characteristics of MPF as a long-term investment with compounding effect. Its design is to allow MPF benefits to accumulate steadily and keep in the accounts for value growth during the working life of scheme members. Therefore, accrued benefits should be preserved in the System as far as possible and should only be withdrawn upon retirement of the employed persons. The MPF legislation only allows scheme members to make early withdrawal of accrued benefits before reaching the retirement age under certain exceptional circumstances. If we were to relax the preservation requirement on accrued benefits and allow scheme members to make early withdrawal to meet short-term financial needs or contingency, the accrued benefits would be leaked from the system from time to time and fail to accumulate for value growth, thereby undermining the integrity of the MPF system and rendering it difficult to achieve the purpose of assisting the working population to save for their retirement.

The Government understands the financial plights due to the epidemic faced by our citizens and enterprises. In this connection, the Government has introduced multi-faceted relief measures through the Anti-epidemic Fund and the Employment Support Scheme to help the community weather the difficult times.

(2) According to the latest information provided by MPF trustees, there are in total 253 MPF funds that invest in shares of HSBC Holdings. These

investments amount to some $12.6 billion and account for only 1.45 per cent of the total MPF assets. Hence, the fluctuations of relevant stock price have little impact on MPF total assets.

As mentioned above, the very design of the MPF System is to ensure the working population make long-term and steady retirement savings. Allowing members of the public to use MPF contributions for home purchase is not the original intent of the MPF System.

This notwithstanding, the MPF System has been implemented for almost 20 years and we acknowledge that the system has room for improvement. We need to keep abreast of the latest circumstances to better meet public expectation. To this end, we have been working closely with MPFA to implement multi-pronged measures in order to lower the fees and charges of MPF funds and make MPF more value-for-money, for example:

(i) launching the fee-controlled Default Investment Strategy (DIS) in April 2017. Currently, there are around 20 per cent of MPF accounts having chosen DIS funds. Since the passage of the relevant legislation in May 2016, the average fund expense ratio (FER) of MPF funds has dropped from 1.57 per cent to 1.45 per cent as of September 2020, with 149 MPF funds reducing their fees and the largest amount of reduction being 55 per cent. As can be seen, DIS has a positive effect in bringing down fees of other MPF funds;

(ii) requiring trustees to set up at least one low fee fund with FER not more than 1.3 per cent. Currently, more than half of all MPF funds are charged at low fee level;

(iii) enhancing transparency of fees and costs of the MPF System to enable easy comparison by scheme members and increase market competition; and

(iv) preparing in full steam for the development of the eMPF Platform to standardise, streamline and automate MPF scheme administration processes, thereby enhancing operation efficiency and creating room for fee reduction. We are drafting the second-phase amendment bill, in order to meet the target of completing the development work in 2022 for full operation of the eMPF Platform in 2025 at the earliest.

(3) For a retirement protection system to cater for various financial needs of the people, as evidenced by experience of other economies, the retirement savings contribution rate inevitably needs to be raised in order to support different functions. For instance, as we understand, the Registered Retirement Savings Plan in Canada mentioned in the question is a voluntary saving arrangement on top of Canada's mandatory pension plan. Its contribution rate is up to 18 per cent of pre-tax income or some $20,000 Canadian Dollars per annum (whichever is the less), which is subject to tax concession. Whilst participants of the voluntary saving plan may withdraw contributions at any age, only those sum of money used for first-time home purchase or full-time qualifying courses can continue to enjoy the tax concession. There is also a maximum limit for the withdrawal amount of contributions, and participants need to repay the amount for home purchase or

education within a specified period.

In fact, the MPF System of Hong Kong also offers flexibility of voluntary contribution in addition to mandatory contribution. For instance, employees can make additional voluntary contributions through the MPF scheme chosen by their employers. Generally speaking, employees can withdraw or continue to invest their accrued voluntary contributions when they cease employment. Since April 1 last year, for the purpose of increasing retirement savings, scheme members can also select trustee and MPF scheme of their choice and open a tax-deductible voluntary contribution account for making tax-deductible voluntary contributions according to individual needs.

In essence, MPF contributions should be made as savings for retirement to provide basic retirement protection to scheme members through long-term accumulation and "dollar cost averaging". We will continue to spare no effort in implementing measures to improve the MPF System.