LCQ5: Issues relating to Mandatory Provident Fund

Following is a question by the Hon Paul Tse and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 6):

Question:

It has been reported that amid the global economy being hit by the Coronavirus Disease 2019 pandemic, it is estimated that Mandatory Provident Fund (MPF) schemes incurred losses of as high as 16.59 per cent in the first quarter of this year, which is the poorest quarterly investment performance ever recorded, with each MPF scheme contributor (contributor) suffering a substantial loss of $50,000 on average. However, MPF trustees (commonly known as fund managers), irrespective of the investment funds under the MPF schemes they manage making gains or losses, are able to safely pocket hefty management fees amounting to over $10 billion. Some members of the public have pointed out that despite MPF schemes having experienced record-breaking losses, fund managers' profits have not been seriously affected by the epidemic, and that if fund managers are still eligible for applying for the subsidies under the second-round relief measures, it is a waste of public money and is unreasonable. These members of the public have criticised the Mandatory Provident Fund Schemes Authority (MPFA) for not having tried its best to limit the fees charged by fund managers, and for failing to make ends meet for more than eight consecutive years. They also query whether MPFA has faithfully performed its duties of protecting contributors' rights and interests and monitoring MPF schemes' operations. In this connection, will the Government inform this Council:

(1) whether it knows if MPFA has kept records on the amounts of management fees collected by fund managers each year; if MPFA has, of the total amount of management fees collected by fund managers in each of the past three financial years; if not, the reasons for that;

(2) whether fund managers are eligible for receiving the wage subsidies of the Employment Support Scheme and other subsidies under the second-round relief measures; if so, of (i) the expected maximum amounts of subsidies that may be disbursed to the top five fund managers which have the largest market shares, as well as (ii) the Government's justifications for allowing fund managers to benefit from the relief measures even though their profits are guaranteed, and whether it will review this issue and immediately exclude them from the scope of beneficiaries so as to plug the loophole;

(3) whether, in order to help address the imminent needs of those employers and employees who, due to the epidemic, have suffered substantial income loss and of those who have been unemployed, the Government will consider the following proposals of "gains for those who labour" put forward by members of

the public: (i) making MPF contributions on behalf of employers and employees for six months, and (ii) immediately allowing employees to withdraw half of their MPF contributions' accrued benefits; and

(4) whether it knows MPFA's financial situation since MPFA recorded failure to make ends meet for the eighth consecutive year in 2018; if MPFA has still recorded deficits, of the details, and whether it has assessed if MPFA's recording successive years of deficits will give rise to a negative perception among members of the public that MPFA is unable to monitor the effective operation of the MPF system as MPFA is unable to look after its own financial situation?

Reply:

President,

Given the recent impact of the epidemic on the global economy and investment market, the investment performance of MPF has inevitably been affected to a certain extent. However, MPF is a long-term investment spanning across an investment period up to 30 to 40 years. We therefore consider that we should not put too much emphasis on short-term fluctuations. For MPF fee, as a matter of fact, the overall average Fund Expense Ratio of all MPF funds has decreased by 31 per cent from 2.10 per cent in 2007 to 1.45 per cent in end March 2020. The Government and the MPFA will continue to refine the MPF System, with a view to lowering the fee and expense level of MPF funds.

Our reply to the Hon Tse's question is as follows:

(1) Since April 2019, breakdowns of percentage of fees charged by each service provider, including the investment manager, of each fund have been uploaded onto the MPF Fund Platform on the MPFA's website for reference. Investment manager fee provided by the MPF Fund Platform reflects the total fee range of individual MPF fund and each of its underlying funds. As at March 31 2020, the relevant figures ranged from 0.025 per cent to 1.3 per cent. That being said, the relevant figures do not reflect the weightings of various underlying funds of a MPF fund. Hence, it cannot represent the actual fee level, nor can it derive the actual total amount of fees charged.

The above fee information disclosure approach is in line with international disclosure standards amongst defined contribution pension plans. Indeed, disclosing fee of each fund in percentage rate can better facilitate members in comparing the fee levels of different funds during the fund selection process.

(2) The Employment Support Scheme (ESS) is implemented by the Policy Innovation and Co-ordination Office (PICO). PICO's response is as follows:

The primary objective of the ESS is to maintain employment during the epidemic by providing time-limited financial support to employers to retain their employees who will otherwise be made redundant. Some overseas governments (such as Singapore, the United Kingdom and Australia) also implemented similar schemes to provide financial assistance to employers to maintain employment, with a view to preparing businesses and the economy for quick recovery once the epidemic is over.

Employers joining the ESS are required to provide an undertaking not to implement redundancies during the subsidy period, i.e. the number of paid employees during the subsidy period should not be smaller than the number of employees (regardless of whether they are paid or not) in March 2020 and to spend all wage subsidies from the Government on paying wages to their employees. Should an employer reduce the headcount of employees during the subsidy period, the Government will adjust the wage subsidies for that employer including clawing back and imposing other penalty.

Other than the ineligible employers (e.g. Government of the Hong Kong Special Administrative Region, statutory bodies), all employers who have been making MPF contributions or have set up Occupational Retirement Schemes will be eligible for applying for the ESS. It is estimated that the ESS can benefit about 270 000 employers and their about 1.77 million employees. In order to provide timely assistance to employers and employees, it is imperative that the administrative arrangements for the ESS are as simple as possible and the subsidy can be paid as soon as practicable. Detailed vetting of individual applicant, including the financial situation of individual employer such as business turnover and/or profits, would involve highly complex procedure, as a result of which the Government will not be able to disburse the first tranche of subsidy to applicants before the end of June.

Appropriate monitoring and auditing mechanisms will be put in place under the ESS so as to screen and follow up any cases involving abuse or irregularities. We are finalising the details of the relevant mechanism and penalties with stakeholders, and will announce details prior to receiving application. Furthermore, the Government will adopt a highly transparent approach, including publishing the list of employers receiving ESS subsidy, the total number of employees benefited and the amount of subsidy granted to enable the society and the employees concerned to monitor the situation. In the event an employer is found to have breached the conditions of the scheme, the employees concerned or members of the public may report to the relevant authorities.

(3) As regards proposals relating to MPF contributions and accrued benefits, it should be noted that legislative amendments are required and the legislative exercise will take time. Hence, they are not able to provide the most direct and timely assistance to address the current situation. Furthermore, these proposals will not be conducive to achieving the objective of the MPF Scheme of helping the working population save for their retirement.

(4) The Government sought approval from the Legislative Council (LegCo) for a one-off Capital Grant of $5 billion to the MPFA in 1998. The MPFA has all along been relying mainly on the investment return from its Capital Grant to fund its operating expenditure. However, due to the low-interest environment and the volatile investment market in recent years, the relevant investment

return has decreased, resulting in an annual deficit ranging from $0.25 billion to $0.51 billion over the past five years. The MPFA has implemented various cost-saving measures such as office relocation from central business districts to Kwai Chung in the New Territories and imposition of a cap on the MPFA's personal emolument by the Financial Secretary. As a result, its annual expenditure over the past five years was controlled at a level between $0.49 billion to $0.53 billion. Nonetheless, merely relying on the investment return from the Capital Grant is inadequate to meet the MPFA's recurrent expenditure. As at March 31 2020, the balance of the Capital Grant stood at $2.58 billion (Note).

In order to enable the MPFA to fulfill its statutory obligations, it is essential for the MPFA to attain financial sustainability through charging trustees the Annual Registration Fee (ARF) to generate a stable stream of income. In this connection, the Government received support from the Panel on Financial Affairs of LegCo in December 2018 and introduced into LegCo the Mandatory Provident Fund Schemes (Amendment) Bill 2019 in October last year, proposing to enable the MPFA to start charging MPF approved trustees the ARF at a level of 0.03 per cent of the net asset value of an MPF scheme. The original proposal was supposed to be effective from January 1 2020. However, the House Committee of LegCo has yet to elect its Chairman and Deputy Chairman and has not yet decided whether Bills Committee should be formed for the scrutiny of the relevant amendment bill. As a result, subsequent legislative procedures cannot be proceeded, and the plan for the MPFA to charge the ARF cannot be implemented as scheduled. The Government will continue to closely monitor the situation in LegCo and maintain close communication with the MPFA to ensure that the MPFA has sufficient resources to fulfill its statutory obligations.

Note: Unaudited figure