

## LCQ6: Retirement protection system

Following is a question by the Hon Jimmy Ng and a reply by the Secretary for Labour and Welfare, Dr Law Chi-kwong, in the Legislative Council today (October 27):

Question:

At present, an employer may use the accrued benefits of the contributions he made for an employee to a Mandatory Provident Fund (MPF) scheme to offset the statutory severance payment or long service payment payable by him to that employee (the "offsetting" arrangement). The Chief Executive has stated in the Policy Address just delivered that legislation will be enacted in the next legislative session to abolish such arrangement. The Government will also explore ways to encourage members of the public to convert, after retirement, their one-off MPF assets into annuities to be received regularly. Regarding the retirement protection system, will the Government inform this Council:

(1) as the business sector has all along been concerned about the rise in operating costs after the abolition of the "offsetting" arrangement, of the measures put in place by the Government to allay its concern;

(2) whether it will step up the publicity work on annuities to enhance public understanding about the concept and merits of annuities, so as to make good preparation for the implementation of conversion of MPF assets into annuities; and

(3) as a study report has pointed out that it takes 40 years for a retirement protection system to become mature, and the MPF system has been implemented for only 20 years, whether the Government has any new direction for reforming the retirement protection system into one which provides comprehensive and timely retirement protection for the population of Hong Kong; if so, of the details; if not, the reasons for that?

Reply:

President,

Having consulted the Financial Services and the Treasury Bureau, my consolidated response to the Member's question is set out below:

(1) The Government will introduce the bills into the Legislative Council in the next legislative year with a view to abolishing the use of the accrued benefits of employers' mandatory contributions under the Mandatory Provident Fund (MPF) System to "offset" severance payment (SP) and long service payment (LSP), and will implement the abolition of the "offsetting" arrangement upon full implementation of the eMPF Platform of the Mandatory Provident Fund Schemes Authority (MPFA) in 2025.

To help employers adapt to the policy change, the Government will mandate employers to set up Designated Savings Accounts (DSAs) under their own name to save up for meeting their potential SP/LSP liabilities after the abolition. At the same time, the Government will provide a 25-year subsidy to share out employers' expenses on SP and LSP after the abolition. As announced in the Chief Executive's 2021 Policy Address Supplement, having considered the business sector's views and concerns, we propose to refine the Government subsidy scheme while maintaining roughly the same amount of Government's financial commitment and the same subsidy period, so as to focus more on supporting micro, small and medium-sized enterprises and provide more targeted assistance to help employers adapt to the policy change. Under the refined subsidy scheme, the calculation of subsidy will be simpler and easier to understand. As the calculation of subsidy will be delinked from the balance of employers' DSAs, employers can ascertain in advance the amount of subsidy to be received. During the initial years after the abolition, we will set a low "capped amount" so that employers will receive greater support, and have more time to save up in their DSAs for getting prepared to shoulder their SP/LSP liabilities in the long run.

(2) With a view to raising public awareness of annuity products, the HKMC Annuity Limited (HKMCA) has been actively stepping up its education and publicity efforts in relation to life annuity, such as promoting the concept of life annuity and longevity risk management to the target segments through different channels, including promotional videos, roving exhibitions and public seminars. Moreover, in order to encourage MPF scheme members to convert their accumulated wealth into a lifelong, guaranteed and steady retirement income, the HKMCA launched a premium discount campaign in July 2021 for MPF scheme members, further encouraging the public to convert their assets under the MPF into an annuity, so as to provide a steady income for the elderly.

(3) The MPF System, being one of the pillars of the multi-pronged retirement protection framework of Hong Kong, complements with other pillars thereof. The total MPF assets have been accumulated to over \$1,200 billion. The Government and the MPFA have implemented multi-faceted initiatives to enhance the MPF System, with the most important initiative being the eMPF Platform Project. The eMPF Platform will enhance operational efficiency and reduce administration costs of the MPF System. It will also provide support and create favourable conditions for the implementation of "full-portability" and other new initiatives and functions. As the eMPF Platform becomes fully functional in 2025, the measure of the Government paying five per cent MPF contributions for persons whose income is below the MPF minimum relevant income level will be implemented.

The Government and the MPFA will continue to explore feasible measures to increase the choices and investment return of MPF funds, so as to strengthen the function of MPF in generating greater value to scheme members. As more and more scheme members have reached the retirement age, the MPFA has put in place an arrangement named "Investment Solutions Lab" to enable the MPF industry to develop new retirement solutions and MPF products that would cater for the investment needs of scheme members in the withdrawal phase, in

order to step up support for scheme members entering the retirement stage.

In the Chief Executive's 2021 Policy Address, the Chief Executive pointed out that the Government's poverty alleviation strategies will focus on four areas in future. Among others, under the principle of shared responsibility, the Government will strengthen the MPF retirement protection. The priority task is to take forward the abolition of the "offsetting" arrangement by introducing legislative amendments in the next legislative year. Moreover, the Government will further explore ways to better encourage the public to convert their one-off assets under the MPF into an annuity which they can receive on a regular basis after retirement, so as to provide a steady income for the elderly.

The public annuity programme has been operating for about three years. It is now the opportune timing to launch the said study. I will lead a dedicated working group to conduct research over the subject of better encouraging the public to convert their assets under the MPF into an annuity with the joint participation of the Labour and Welfare Bureau, the Financial Services and the Treasury Bureau, the Hong Kong Monetary Authority, the MPFA and the Hong Kong Mortgage Corporation, etc. The working group will gather and analyse data available and study similar experience in other economies. The working group aims to submit a report, which will propose various feasible directions applicable to the situation of Hong Kong as the foundation of more in-depth discussion by stakeholders of all sectors, to the Chief Executive within the current term of the Government.