



MPF & Retirement Protection System in Hong Kong

A personal view

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Agenda

- I. System Benchmarking
- II. The Themes of Change
- III. Possible Changes and Reform Directions



I. System Benchmarking

(Is MPF any good?)

Possible parameters:

1. Compliance with WB multi pillar model
2. Coverage
3. Contributions
4. Sustainability
5. Supervision and Governance
6. Outcomes, satisfaction and buy-in

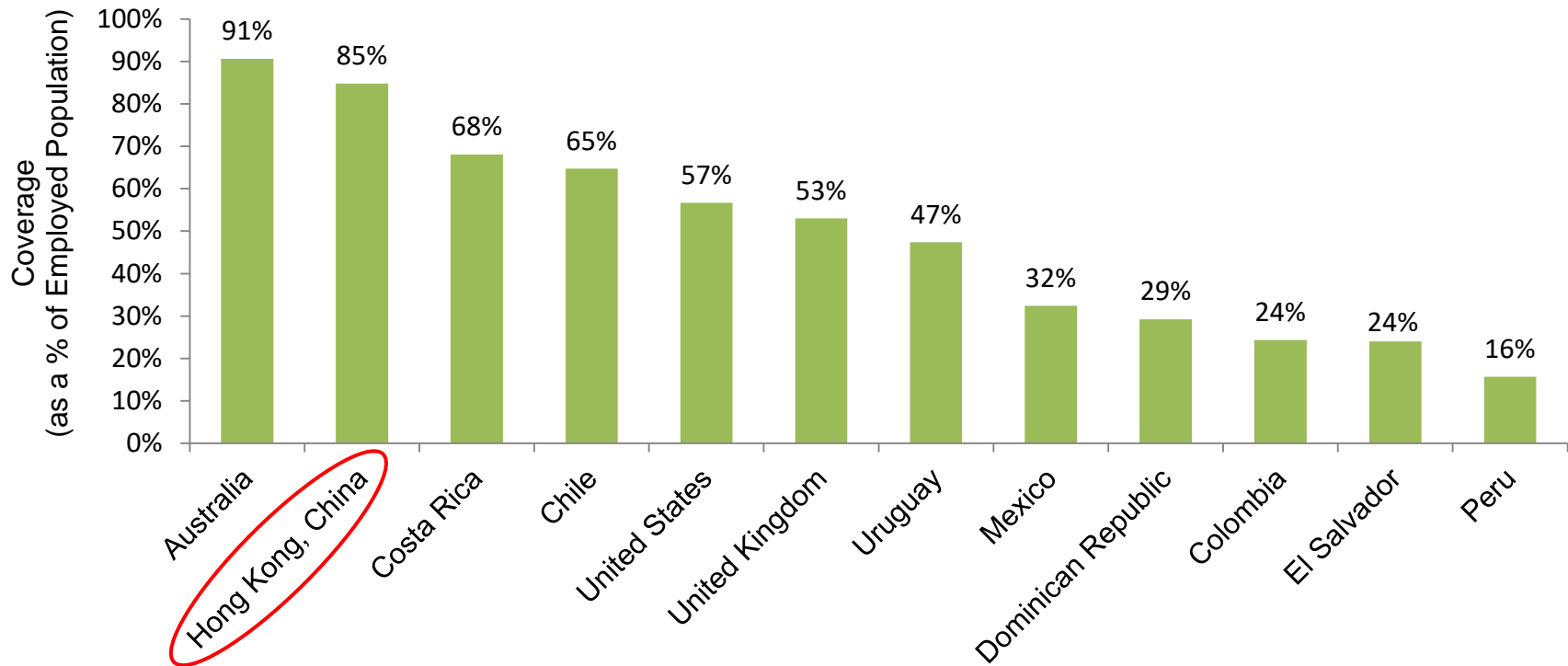
I.1 Multi-pillar Model

– where does MPF fit in

Pillar	World Bank's Model	Retirement Protection in Hong Kong
0	Non-contributory, publicly financed and managed system	<ul style="list-style-type: none"> • Old Age Allowance (OAA) • Guangdong Scheme • Old Age Living Allowance (OALA) • Disability Allowance (DA) • Comprehensive Social Security Assistance (CSSA)
1	Mandatory, contributory and publicly managed system	Nil
2	Mandatory, privately managed, fully funded contribution system	<ul style="list-style-type: none"> • Mandatory Provident Fund (MPF) schemes • Occupational Retirement Schemes Ordinance (ORSO) schemes • Civil Service Pension schemes • Grant Schools and Subsidized Schools Provident Funds
3	Voluntary savings	<ul style="list-style-type: none"> • Voluntary MPF contributions • Top-up ORSO schemes • Personal savings/investment • Life insurance • Annuities
4	Informal support, other formal social programmes, and other individual assets	<ul style="list-style-type: none"> • Family support • Public health care • Elderly care services • Public housing • Self-owned properties • Reverse mortgage • Elderly health care vouchers • Public transport fare concession

I.2 Coverage of Private Pension Schemes

✓ Hong Kong very high by international standards



Source for Australia, United Kingdom and United States:

Antolin, P., Payet, S., & Yermo, J. (2012). *Coverage of Private Pension Systems: Evidence and Policy Options* (OECD Working Papers on Finance, Insurance and Private Pensions, No.20).

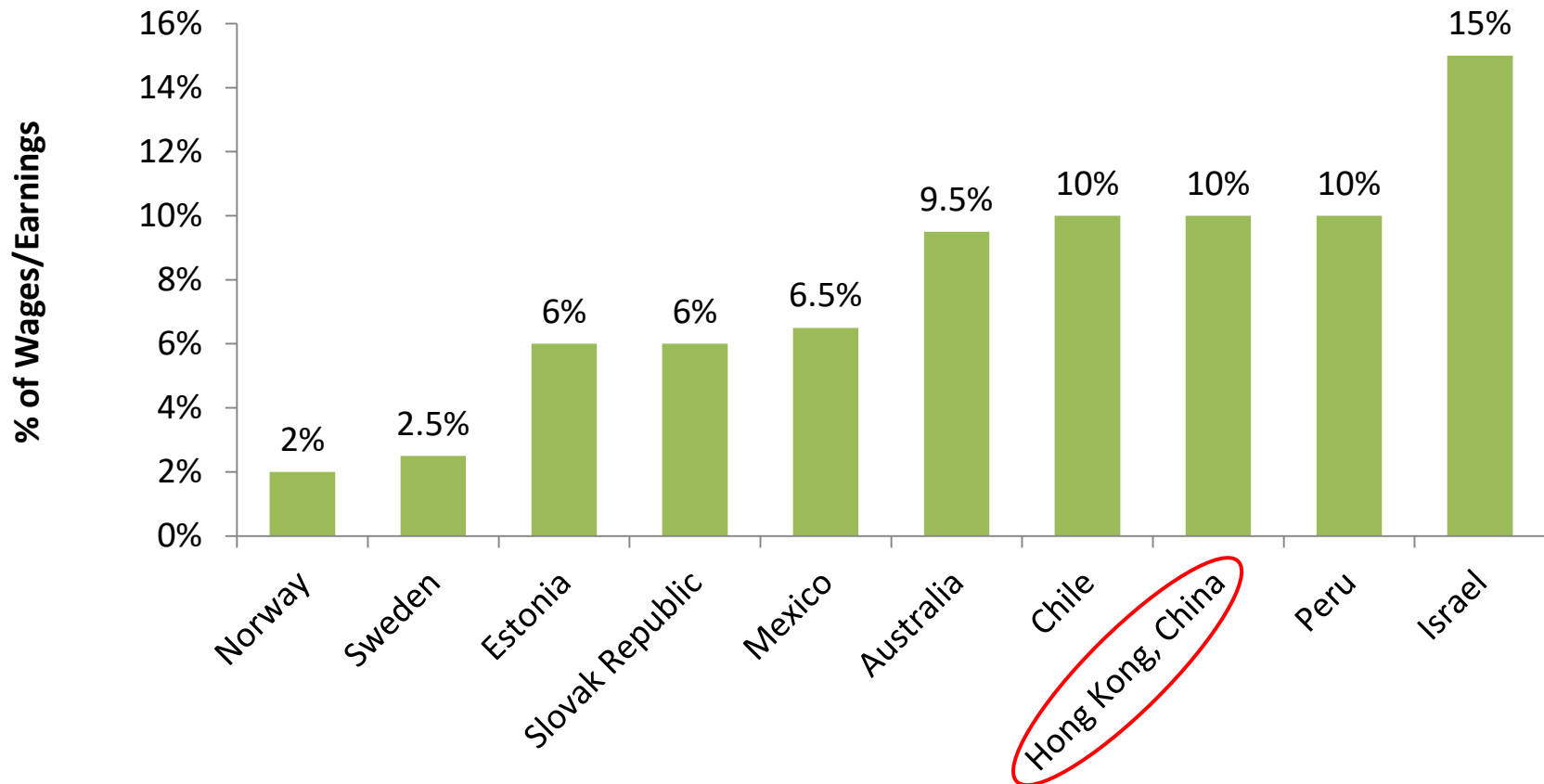
Source for other jurisdictions:

Internacional de Organismos de Supervision de Fondos de Pensiones (AIOS). (2016) *Boletín Estadístico Junio 2016*.

Source for Hong Kong: MPFA

I.3.1 Mandatory Contribution Rate

✓ Comparable to other mandatory systems



Notes:

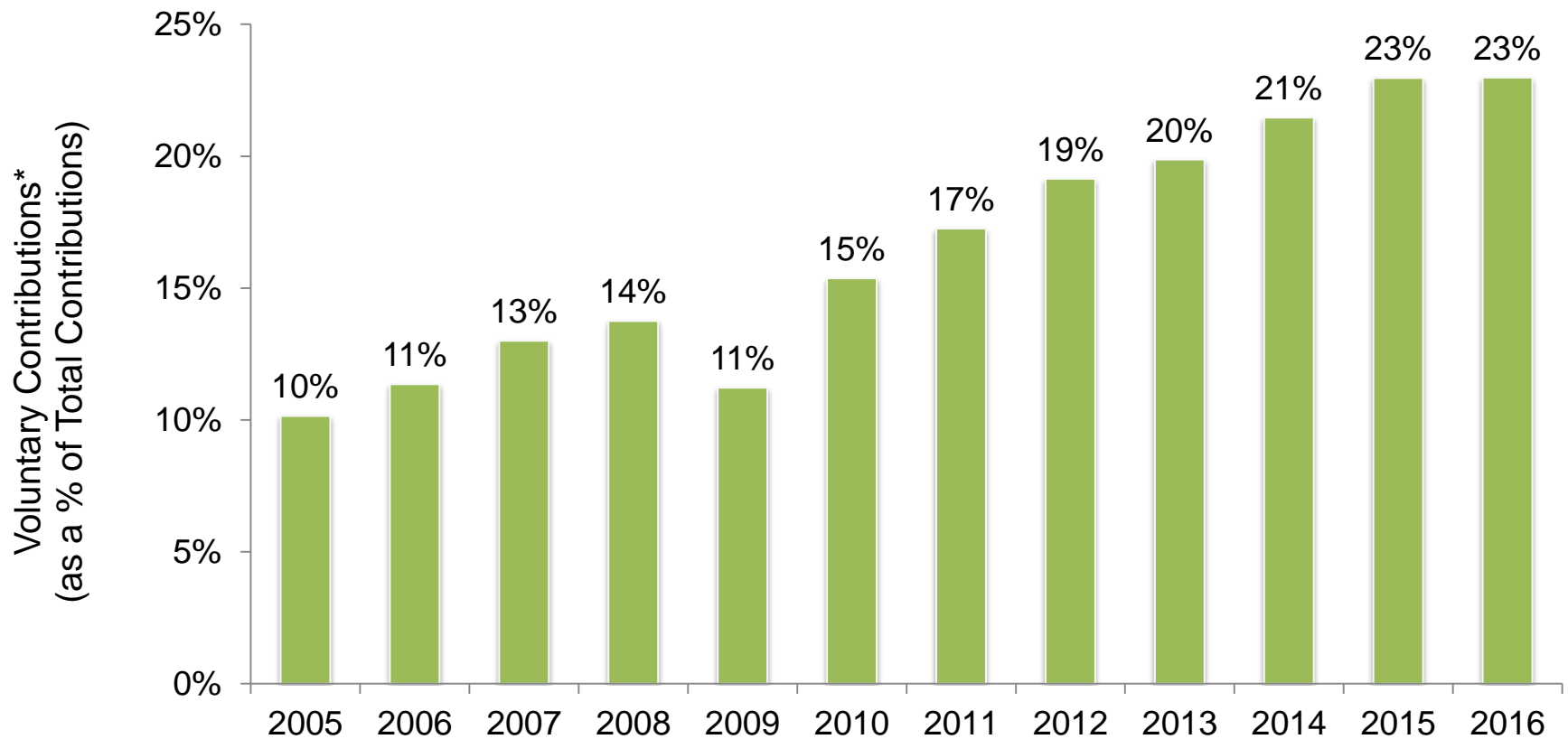
Figure for Sweden refers to Premium Pension System only.

Source: OECD. (2015). *Pensions at a Glance 2015: OECD and G20 Indicators*.



I.3.2 Voluntary Contributions

✓ Generally an increasing trend



* Note: Figures include both Voluntary Contributions and Special Voluntary Contributions.

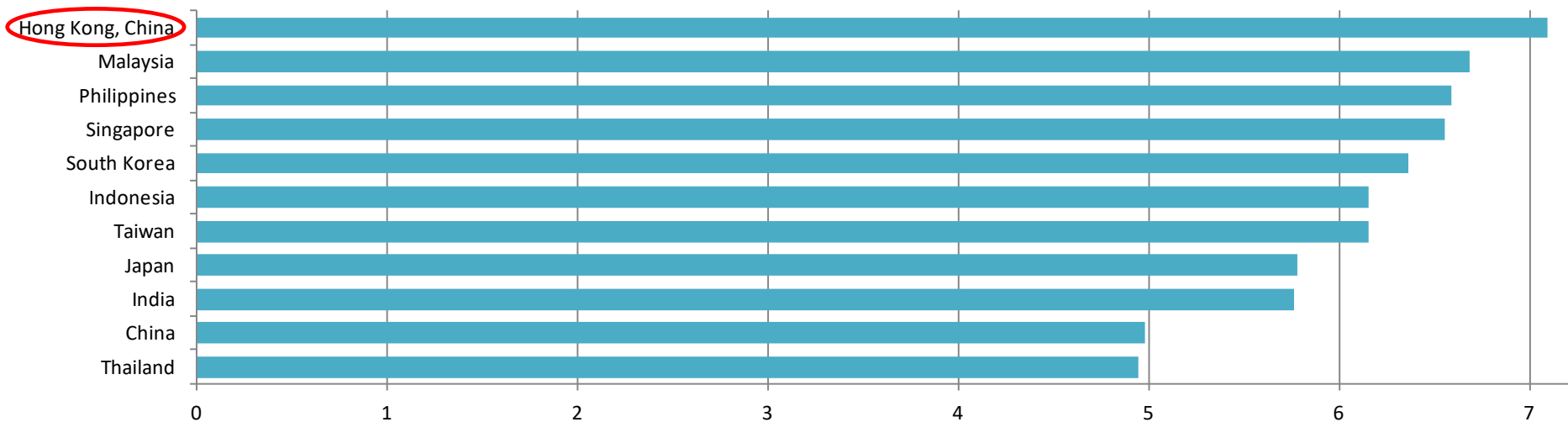
Source: MPFA



I.4.1 Pension Sustainability Index – Asia

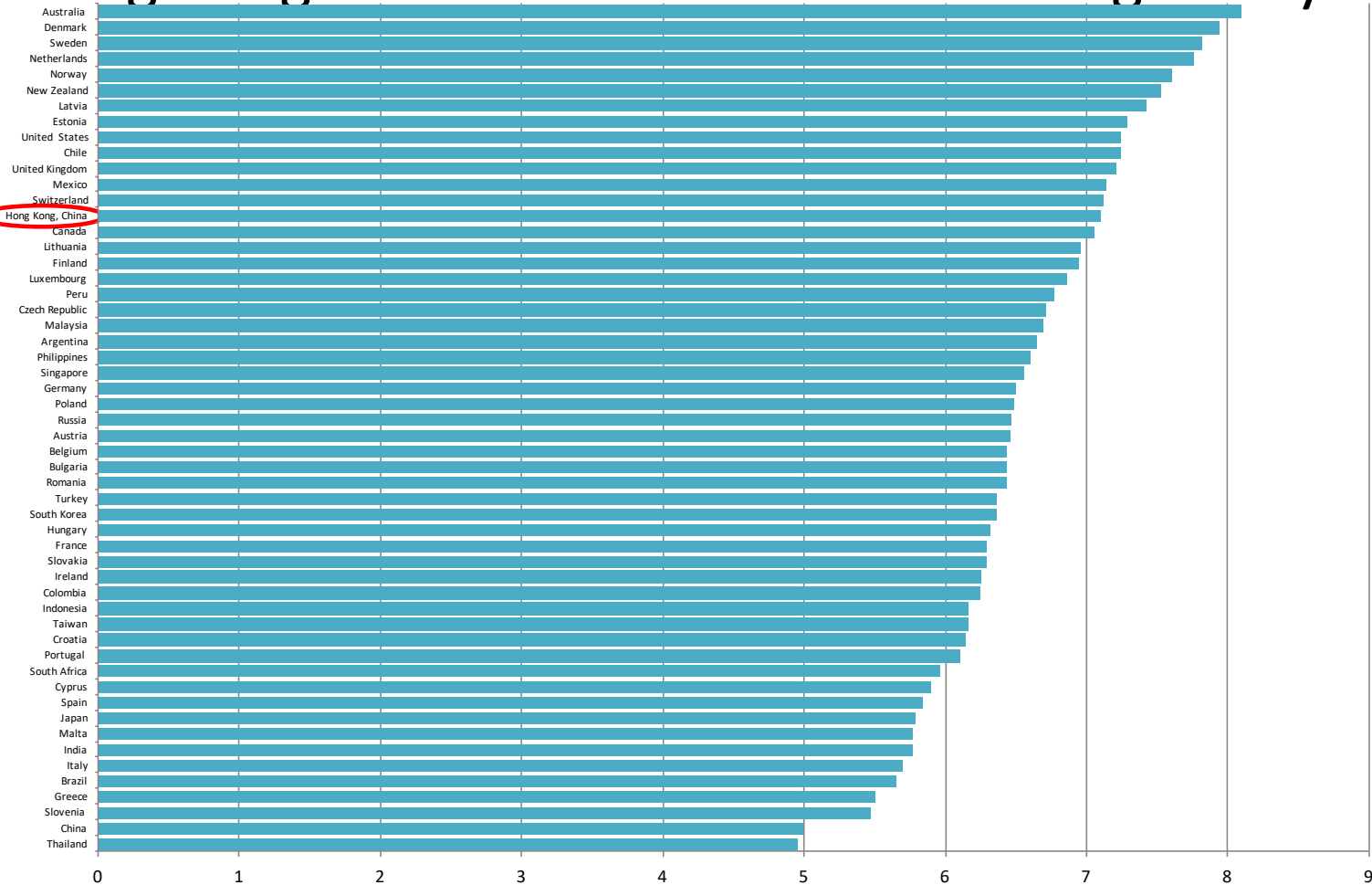
✓ Hong Kong highly sustainable

Scale from 1 – 10. A jurisdiction with an overall score of 1 represents the greatest need for reform and 10 represents the least need for reform.



1.4.2 Pension Sustainability Index – Global

✓ Hong Kong one of the most sustainable globally

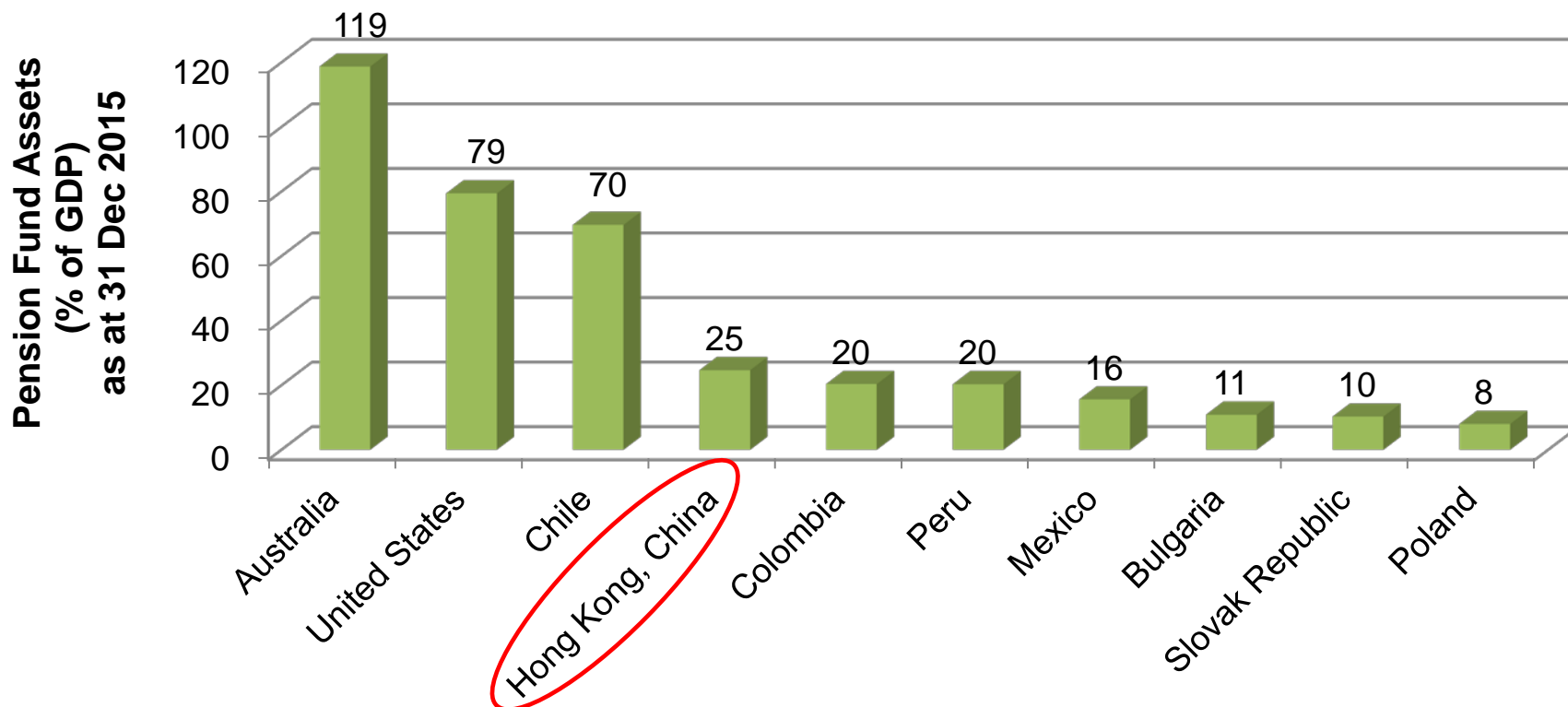


Scale from 1-10; 1 represents the greatest need for reform and 10 represents the least need for reform.



I.4.3 Pension Fund Assets as % of GDP

✓ Hong Kong very high among non-OECD jurisdictions

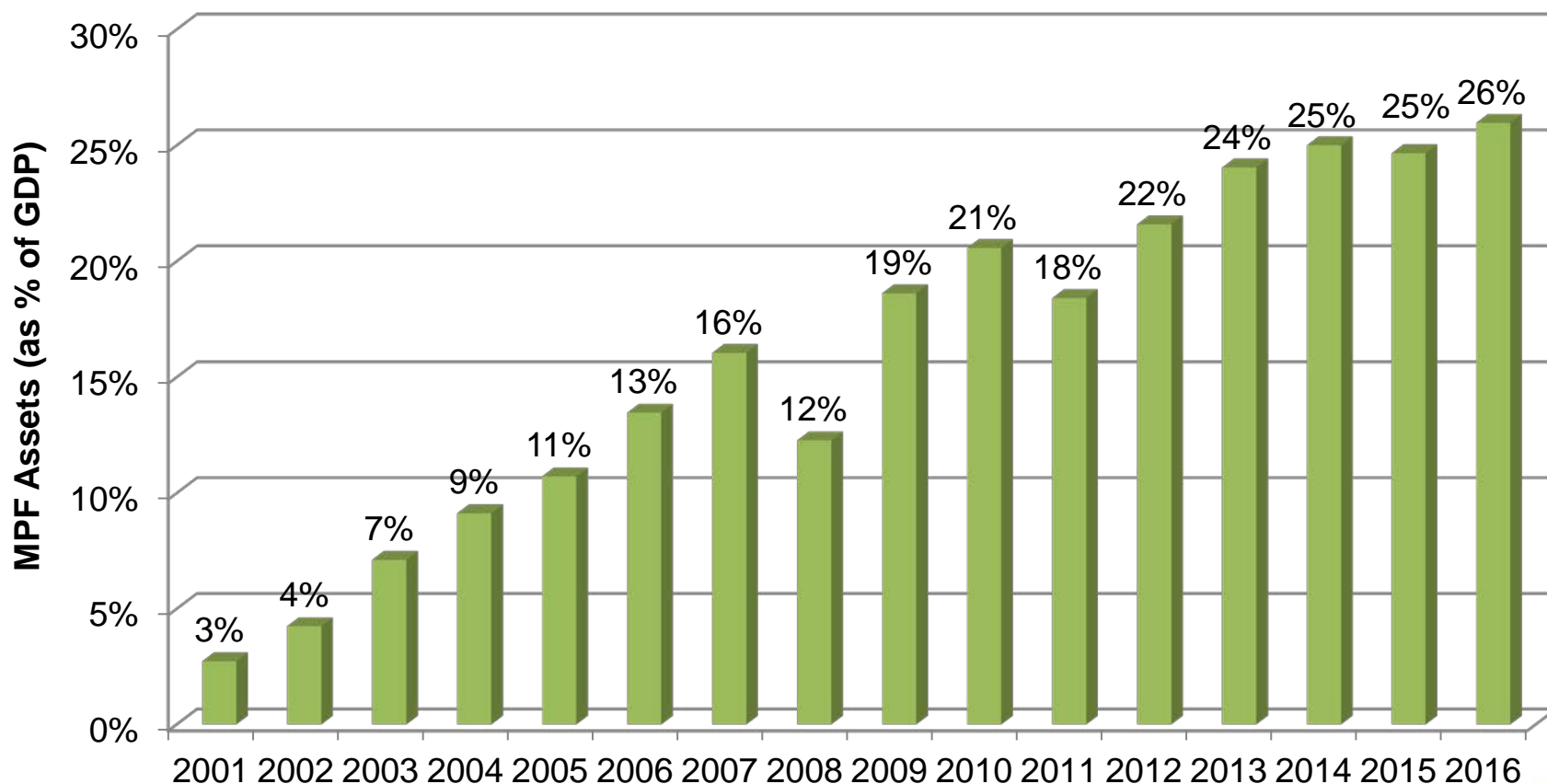


Note: Pension fund assets of Hong Kong refer to assets of MPF schemes only; assets in other retirement schemes are not included

Source: OECD. (2016). *Pension Markets in Focus* <figures for jurisdictions other than Hong Kong>
MPFA and Census & Statistics Department <figure for Hong Kong>

I.4.4 Assets of MPF Schemes as % of GDP

- ✓ MPF gaining increasing importance in the economy





I.5.1 International Standards

- ✓ IOPS Principles of Private Pension Supervision (“Principles”) issued by the International Organisation of Pension Supervisors (“IOPS”)

Principles	
1. Objectives	6. Proportionality and Consistency
2. Independence	7. Consultation and Cooperation
3. Adequate Resources	8. Confidentiality
4. Adequate Powers	9. Transparency
5. Risk Orientation	10. Governance

- ✓ Serve as international good practices of pension supervision



I.5.2 Supervision and Governance of the MPF System

- ✓ Self-assessment of MPFA:
 - All of the 10 Principles have been implemented
 - Meets international standards



I.6 Outcomes, Satisfaction and Buy-in

- ✓ System too young to assess outcomes – 40 year working life required, but investment returns to date on the disappointing side
- ✓ Clear challenges on satisfaction and buy-in
- ✓ Query extent of media/commentator driven dissatisfaction



II. The Themes of Change

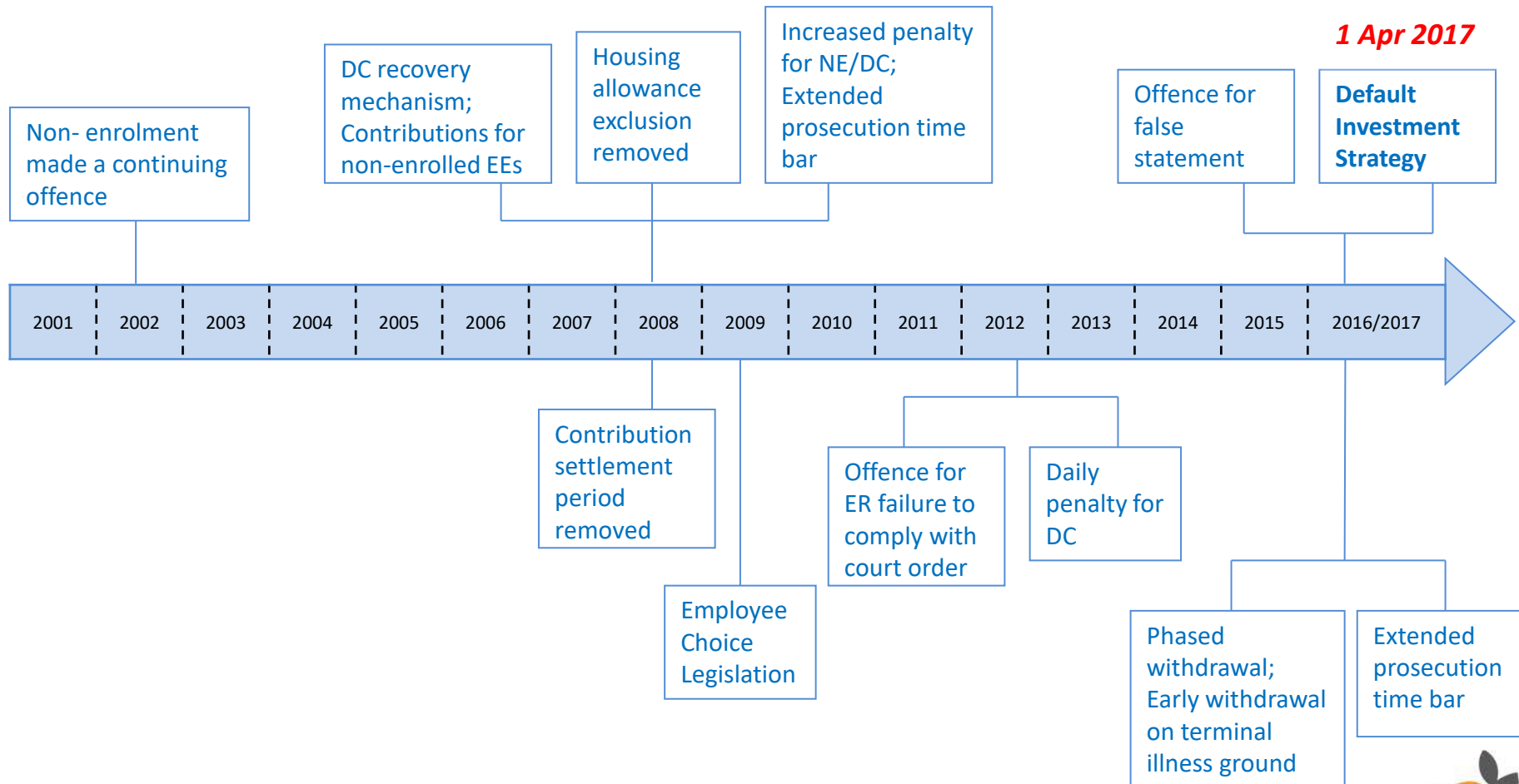


II. The Themes of Change

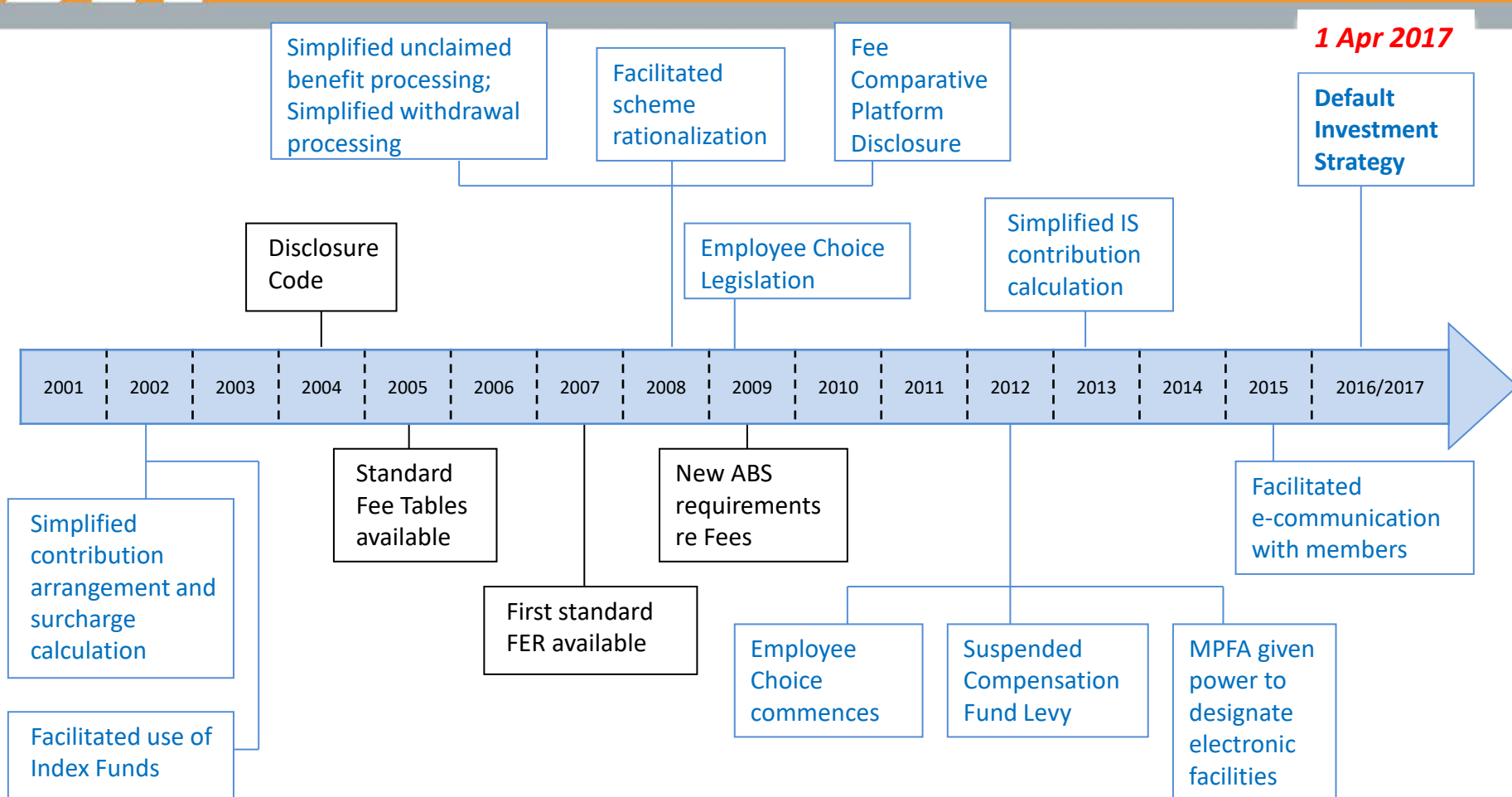
- ✓ Consistent with World Bank suggested model
- ✓ System been refined and/or reformed constantly since commencement
- ✓ 20 legislative actions 2001 to 2016
- ✓ Can be categorized into 4 broad themes



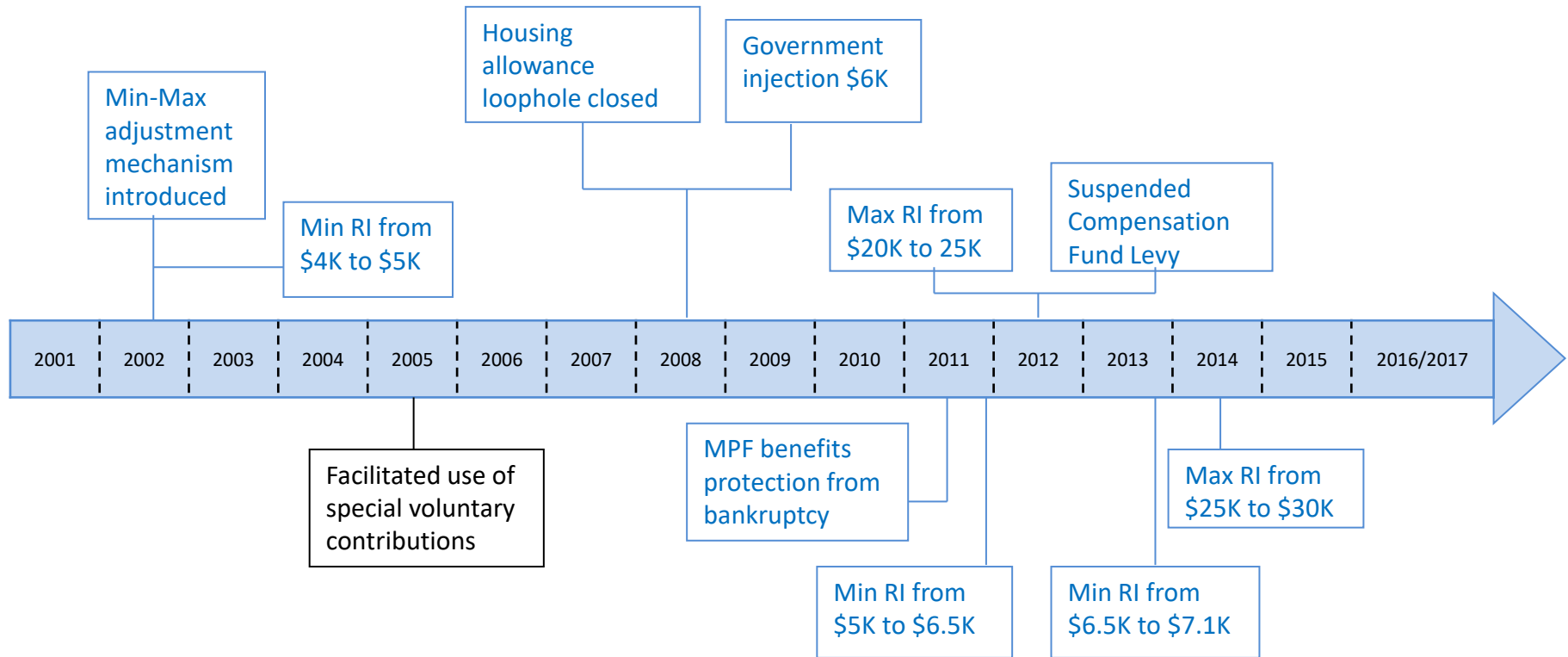
II.1 Enhancing & Protecting Members' Rights



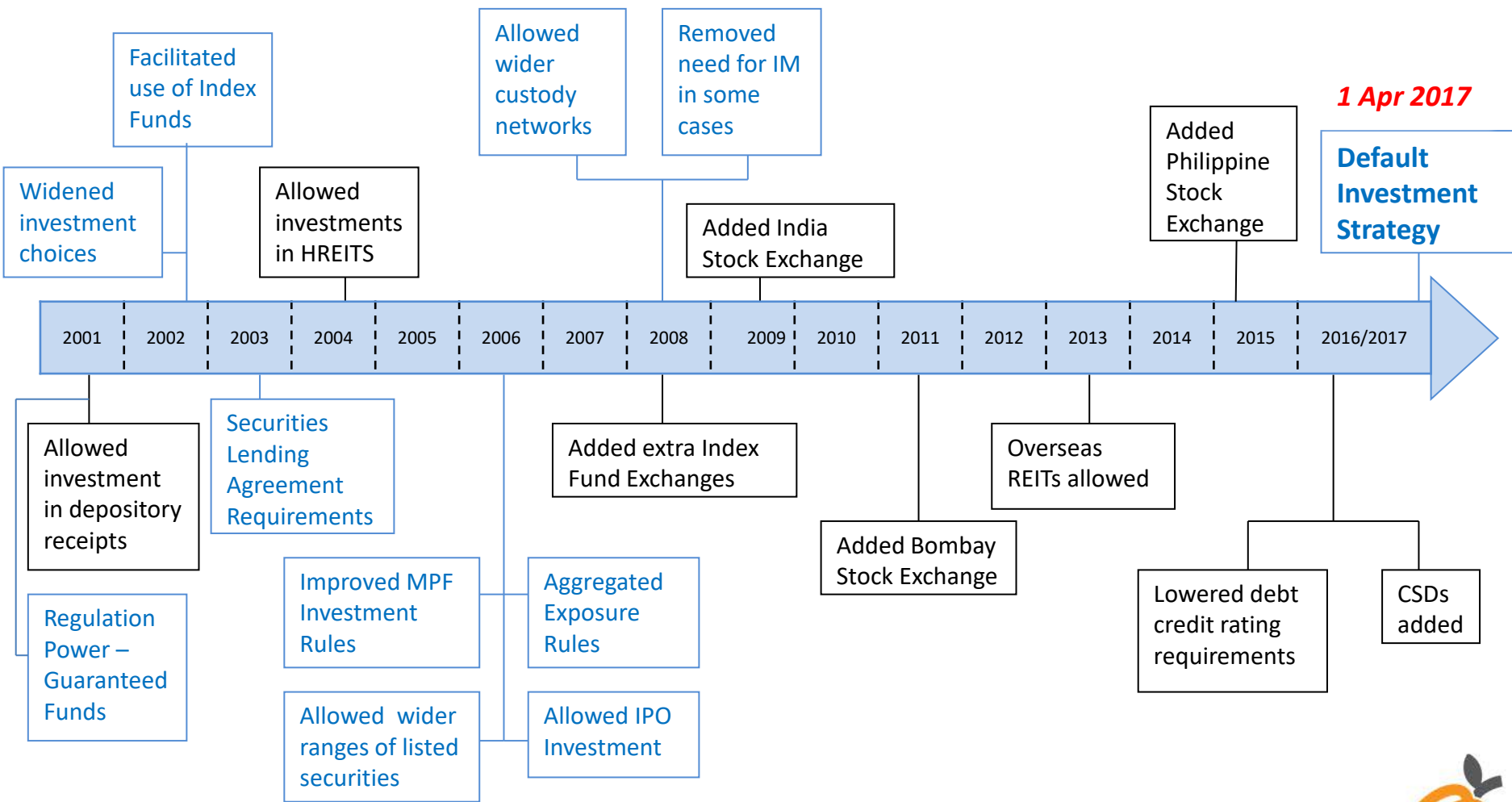
II.2 Reducing Fees & Costs



II.3 Addressing Adequacy



II.4 Improving Investment Rules



1 Apr 2017

Default Investment Strategy





III. Possible Changes and Reform Directions





III.1 Severance Payments (SP)/Long Service Payments (LSP) Offsetting (1)

Employment Ordinance (Cap. 52)

- Minimum qualifying years of service – SP (2 years) and LSP (5 years)
- SP/LSP calculation formula : last month's wage x $\frac{2}{3}$ x years of service
- Offsetting mechanism existed before launch of MPF – employers can use provident fund payment to offset SP/LSP
- Launch of MPF – employers can offset SP/LSP against accrued benefits from employers' contributions



III.1 Severance Payments (SP)/Long Service Payments (LSP) Offsetting (2)

Highlights of statistical data

Table 1: No. of claims, unique employers and employees

Type of Claim	Number of Claims		Number of Unique Employers Involved		Number of Unique Employees Involved	
	2014	2015	2014	2015	2014	2015
SP	30 900	31 500	9 100	8 200	29 700	30 400
LSP	14 500	15 800	7 200	6 900	13 800	14 900
Overall	45 400	47 300	15 600	14 400	43 500	45 300

Table 2: Total offsetting amount by type of claim (in \$ million)

Year	SP	LSP	Overall
2014	1,656	1,351	3,006
2015	1,780	1,575	3,354



III.1 Severance Payments (SP)/Long Service Payments (LSP) Offsetting (3)

- **2017 Policy Address**
 - Government to progressively abolish offsetting of SP or LSP with MPF contributions
 - Three key elements
 - (1) no retrospective effect
 - (2) adjust SP/LSP payable for post-implementation employment period from “2/3 of wages” to “1/2 of wages”
 - (3) Government subsidy in the 10 years after implementation
- Government consulting stakeholders, including MPF trustees
- Target to take proposals to Executive Council by end-Jun 2017



III.2 eMPF

- MPFA developed preliminary conceptual model and is discussing with industry
- **2017 Policy Address**
 - MPFA's objective after DIS is to put in place eMPF in the medium term
 - Electronic infrastructure and processes to standardize, streamline and automate MPF scheme administration
 - Make good use of technology
 - Improve efficiency and lower costs
 - Scheme members – one-stop access
 - Employers - convenient facilities for making contributions
- Government will set up working group with MPFA and industry to explore viable solutions



III.3 Public Annuity/Payout Phase

➤ 2017 Policy Address

- Government will study feasibility of public annuity scheme run by public sector to help the elderly turn their assets into a stable monthly retirement income
 - Hong Kong Mortgage Corporation has commenced design and feasibility study of proposal
- MPFA will review withdrawal of MPF benefits in the light of this and other developments



III.4 Min/Max Relevant Income (RI) Levels

Statutory Adjustment Mechanism

- At least one review of Min/Max RI in every 4 years commencing Jul 2002
 - Min RI : 50% of monthly median employment earnings
 - Max RI : monthly employment earnings at 90th percentile
 - Other relevant factors
- Last adjustments (2014 Review)
 - Min RI : \$7,100 since 1 Nov 2013
 - Max RI : \$30,000 since 1 Jun 2014
- Automatic mechanism proposed in 2015 shelved
- 2018 Review due July 2018



III.5 Investment Flexibility

MPF Investment Regulation

- MPF funds can only be invested in investments permitted under the MPF legislation
- Minimise some avoidable risks but not to direct investment discretion
- Constant call from industry for more flexibility in order to achieve better performance
- Scope for discussion on access to less liquid assets



III.6 Full Portability

➤ 2017 Policy Address

- Government expects abolition of offsetting to remove an impediment to “full portability”
- eMPF to pave way for “full portability” in medium term
- Would increase portable MPF assets from 70% under ECA at present to approximate 91%
- Employees have full control over investment strategy
- Query objective – will extra market competition increase prospect of fee reduction?



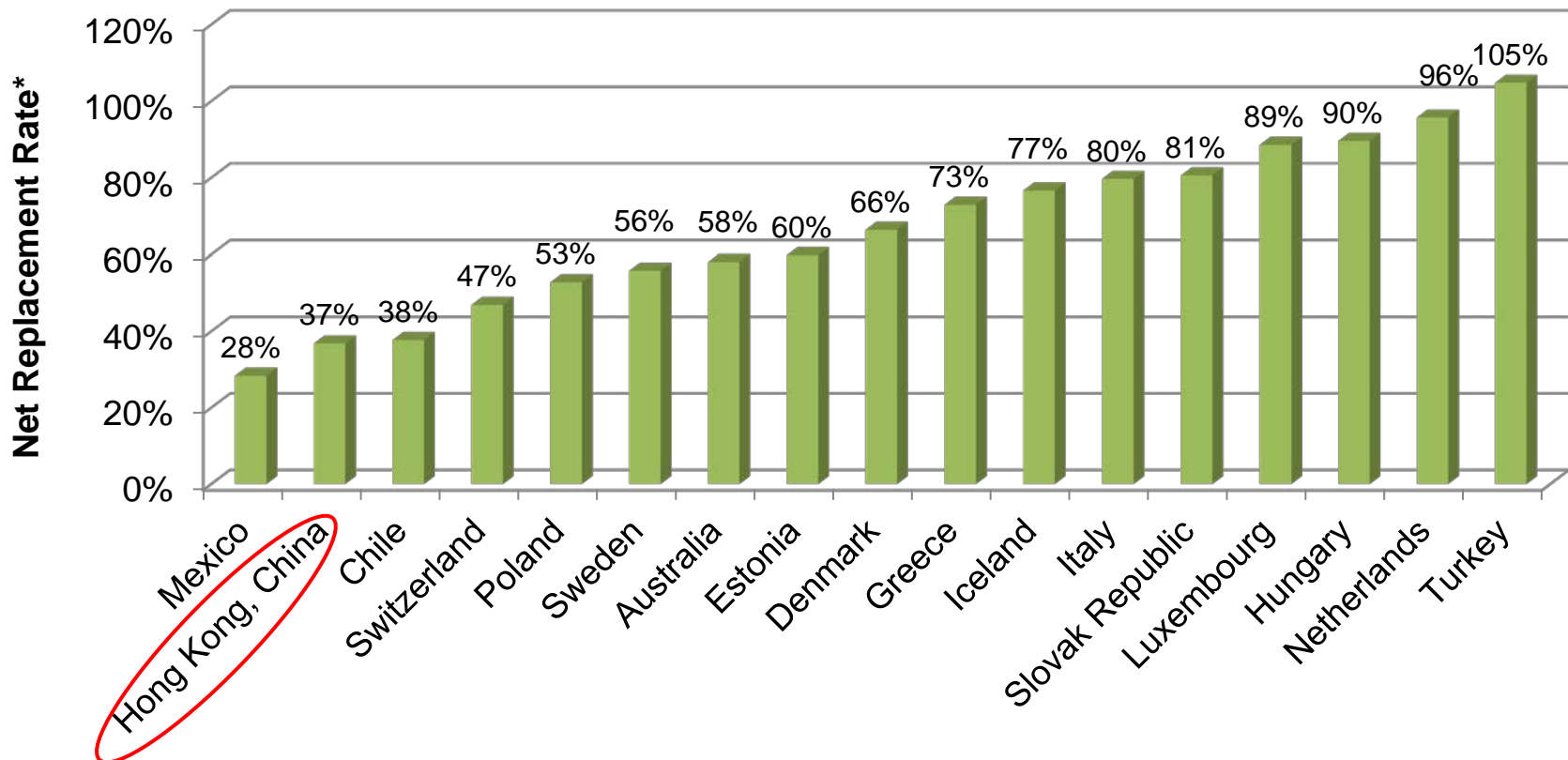
III.7 Increase Contribution Rate (1)

➤ 2017 Policy Address

- Increase total contribution rate gradually to a target of at least 15% in the long term
- Enhance retirement protection for working population

III.7 Increase Contribution Rate (2)

- Replacement rate low on raw data - but treat with care!



*Net replacement rate is derived from public and mandatory private pension for an average earner. For Hong Kong, it covers both MPF and other relevant social benefits.

Source: OECD. (2013). *Pensions at a Glance Asia /Pacific 2013*. <figure for Hong Kong>

OECD. (2015). *Pensions at a Glance 2015: OECD and G20 Indicators*. <figures for other jurisdictions>



III.8 One Member One Account

➤ 2017 Policy Address

- Government's ultimate vision for MPF System
- Each employee pools all MPF benefits into single account
- More effective management of retirement savings



Summary

- MPF system does well on most objective measures – well regarded internationally
- It meets the WB parameters for helping address (not solve) old age poverty
- Needs ongoing refinement
- Faces ongoing dissatisfaction from commentators/politicians/public?



~ Questions ~

