

Hong Kong Retirement Schemes Association Christmas Luncheon
10 December 2018
Keynote Speech
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Distinguished guests, ladies and gentlemen

Good afternoon.

I would like to thank the Hong Kong Retirement Schemes Association (HKRSA) for inviting me to this Christmas luncheon. It gives me great pleasure to be here today to exchange views with you on all the remarkable things we have done for the betterment of the retirement industry in Hong Kong during the year.

The HKRSA has been our treasured long-time partner in promoting the interests and best practices of retirement schemes in Hong Kong.

As I am sure you all know, the MPF System came into operation on 1 December 2000, so the MPFA has just celebrated the 18th anniversary of the MPF System. As the MPF System will take some 40 years to reach maturity, that means we are close to halfway to maturity now.

I would like to take this opportunity to share with you how the MPF System has performed so far, and some of the work and challenges that lie ahead.

First and foremost, I must thank all of you in the industry for your hard work over the past 18 years in helping us build an MPF System which is valued by scheme members.

As at the end of September 2018, total MPF assets stood at \$858 billion. This includes investment returns of \$245 billion, net of fees and expenses, which is close to one third of the total assets. The annualized rate of return since the inception of the MPF System is 4.1%, comfortably exceeding the corresponding inflation rate of 1.8% over the same period.

With the support of the industry, the MPF System has helped the workforce develop investment discipline by regularly setting aside part of their income for future retirement use. The MPF System has also enhanced scheme members' financial literacy and made them aware of the importance of self-preparation for retirement. On top of the mandatory contributions, quite a number of employers and employees are making voluntary contributions. In fact, voluntary contributions accounted for 15% of total contributions in 2017.

More and more MPF scheme members are recognizing the benefits of MPF schemes and using them as a vehicle to add to their retirement savings. This development is encouraging, as it illustrates scheme members' growing confidence in the MPF System. Voluntary contributions signify that scheme members identify with the System and are more aware of the need to save for retirement.

We are also pleased to note that the MPF System measures well in certain areas against international benchmarks. For example, in 2016, the World Bank developed an Outcomes Based Assessment Framework for Private Pensions (Framework), which is an integrated strategy and assessment tool for diagnosis, policy making, monitoring and evaluation of privately managed pension systems. The Framework sets out five key ultimate outcomes of a pension system:

- Outcome 1 is Coverage, relating to the participation rate of the working-age population in a private pension scheme.
- Outcome 2 is Sustainability, relating to the certainty that the promised retirement income will be delivered.
- Outcome 3 is Security, relating to the risk of loss or misappropriation of pension assets before being withdrawn by members.
- Outcome 4 is Adequacy, relating to the extent to which the accumulated retirement benefits can protect them from poverty and from a severe drop in living standards at retirement.
- Outcome 5 is Efficiency, relating to the extent to which the pension system can maximize net-of-fee returns by improving investment performance.

According to this Framework, the MPF System is doing well in terms of coverage, sustainability and security.

As for adequacy and efficiency, I'm sure you will agree with me that there is always room to do better. Before I move on to talk about how we will overcome these challenges, I would like to share with you our experience on a trip to Beijing in October this year, during which we attended the Global Forum on Private Pensions, which attracted participants from some 50 private pension jurisdictions around the world. The Forum was jointly organized by the China Banking and Insurance Regulatory Commission, the Organisation for Economic Co-operation and Development, and the International Organisation of Pension Supervisors. While in Beijing, I also had the opportunity to meet with a number of ministries and agencies in the Central People's Government that are concerned with pensions. I am glad to report that the MPF System was highly praised by different international experts and the Central People's Government authorities.

The discussions in Beijing further deepened my belief that providing income security for the elderly is a multifaceted task, touching upon a wide array of issues. We have made improvements to the MPF System over the past 18 years by streamlining and simplifying MPF scheme administration, enhancing disclosure and providing decision-making tools for scheme members to increase market competition, launching better solutions for retirement savings purposes, and working with trustees to merge less efficient schemes and funds. For example, we launched the Employee Choice Arrangement (ECA) in 2012 to allow market forces to work better, and we launched the Default Investment Strategy (DIS) last year to help scheme members, particularly those who do not want to make fund choices themselves, manage their MPF investments. A few months ago, MPF trustees pledged to commit to the "Governance Charter for MPF Trustees", which we championed. One of the core values of the Charter is delivering value-for-money MPF schemes and services to scheme members. We must keep on refining and enhancing the MPF System to optimize its value as a retirement savings vehicle in a rapidly changing environment.

So how do we tackle the issues of “adequacy” and “efficiency” mentioned earlier?

Regarding “Adequacy”, the MPF System is designed to provide basic retirement protection only for the employed population. Therefore, there are often public concerns about the insufficiency of MPF benefits to meet the retirement needs of the overall population.

Since MPF mandatory contribution rates are set at only a moderate level and contributions are subject to a maximum relevant income level, to enhance the adequacy of the MPF System, the most direct response is to raise the contribution rate and to regularly adjust the maximum relevant income level according to the statutory review findings to keep up with the income distribution of the working population.

However, this is not an easy task, as there are always public concerns about depriving scheme members of the right to make other personal savings or investments. It is necessary to build a social consensus and instil greater public confidence in the MPF System over time.

Short of making adjustments to the mandatory contribution part, we are pleased that the Financial Secretary announced in the 2018 Budget Speech that tax concessions would be introduced for voluntary MPF contributions. The MPFA welcomes the proposal, as the tax concession should encourage more scheme members to make more contributions for retirement on a voluntary basis and further strengthen the retirement protection function of the MPF System.

I am pleased to let you know that the Amendment Bill in relation to tax deductible voluntary contributions will be introduced to the Legislative Council this Wednesday (12 December 2018) and the proposed tax concession amount per annum will be increased from the original \$36,000 to the current \$60,000. I hope all of us here will be making tax deductible voluntary contributions starting from April next year and enjoying the tax benefits.

I would like to take this opportunity to thank the industry for your commendable assistance and support during the past few months in helping to deliver the Budget

initiative within such a short time.

Now let me turn to the subject of efficiency. The current MPF legislation was enacted in 1995, and the System was set up in 2000. While the current decentralized management model of the MPF System was a logical and sensible choice when the System was started 18 years ago, it is extremely paper-intensive and resulted in a lot of operational inefficiencies. The lightning speed of technological evolution in recent years has driven us to re-examine the management model of MPF accounts to organize it in a more efficient and convenient way. The development of internet technology and advances in data processing and mobile technology in recent years have taken control of and reshaped our lives in many ways. Smartphones, tablets and computers – we really cannot seem to function without them.

In order to keep abreast of the new technological developments and enhance the efficiency of the MPF System, the MPFA's key focus area in the next few years will be to put in place a smart digital centralized platform (eMPF) to reform the existing mode of MPF operation and enhance the user experience. Our objective is to apply the concept of smart administration to enable employers and scheme members to better manage their MPF through one central eMPF platform.

The eMPF, or centralized platform, is a common digital platform to assist all trustees in the discharge of their scheme administration duties by streamlining, standardizing and automating scheme administration tasks.

The centralized platform is expected to benefit all MPF scheme members and employers by enhancing their experience as users and help scheme members manage their MPF accounts more actively and effectively. Standardization of scheme administration tasks and automation will also reduce the time and efforts of employers in managing MPF transactions and records.

To enable the successful implementation of the eMPF platform, I would like to appeal for the full support of the whole retirement industry. We look forward to receiving your ideas and cooperation in bringing about future improvements and changes, so that the

MPF System can better fulfil its role as the second pillar of retirement protection for the working population of Hong Kong.

2018 marks the 20th anniversary of the MPFA. While my colleagues in the MPFA are celebrating 20 years of hard work in establishing and maintaining the MPF System for Hong Kong, I hope you will share our pride in the achievements in the past two decades and excitement about the new challenges on the horizon.

May I wish everyone in the retirement industry in Hong Kong a Merry Christmas and a prosperous year ahead.

Thank you.