



ORSO & MPF Seminar

The Hong Kong Retirement Schemes Association

Darren McShane

Chief Regulation & Policy Officer

and Executive Director

Mandatory Provident Fund Schemes Authority

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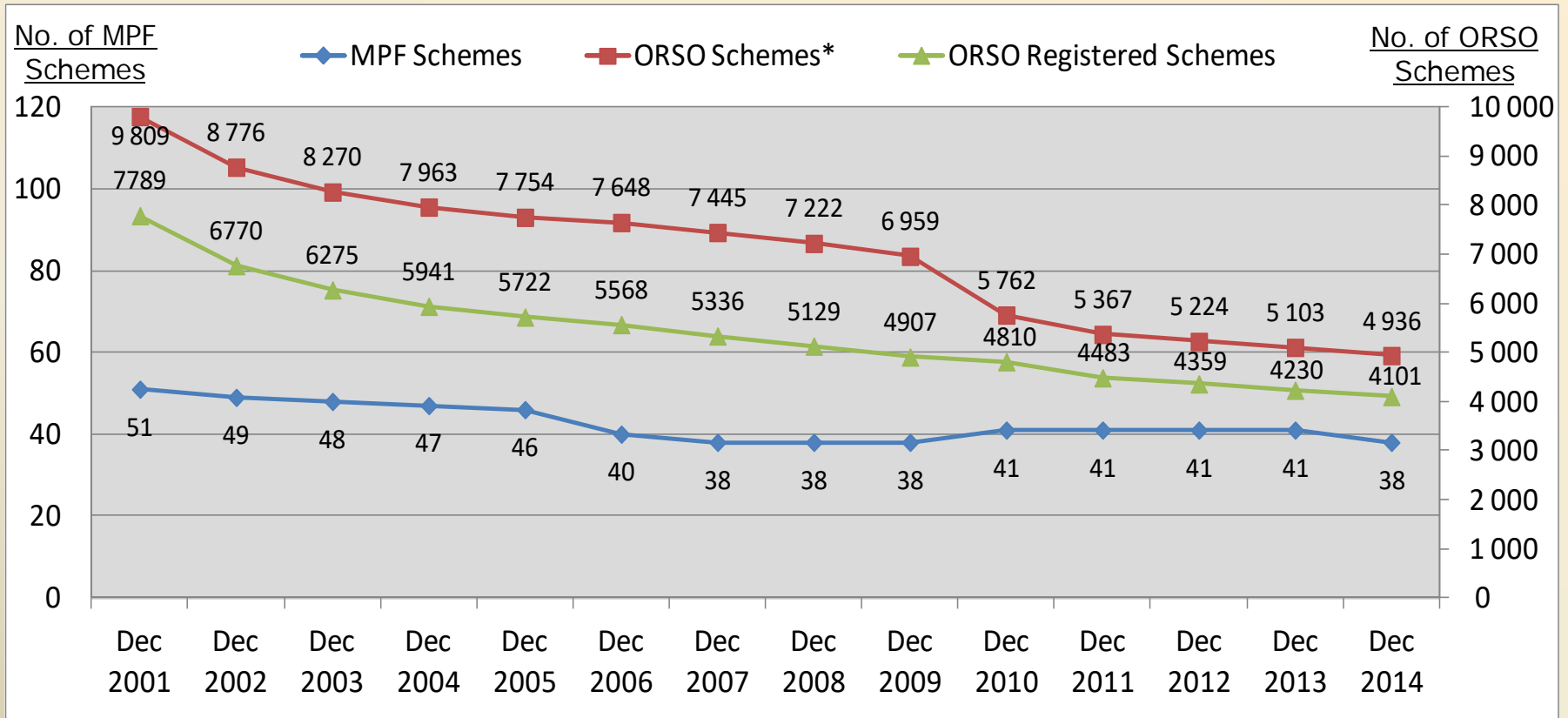


Agenda

- 1. Trends – MPF v ORSO**
- 2. Core Fund/DIS – Developments**
- 3. Other major directions - MPF**



1. Trends MPF v ORSO Number of Schemes



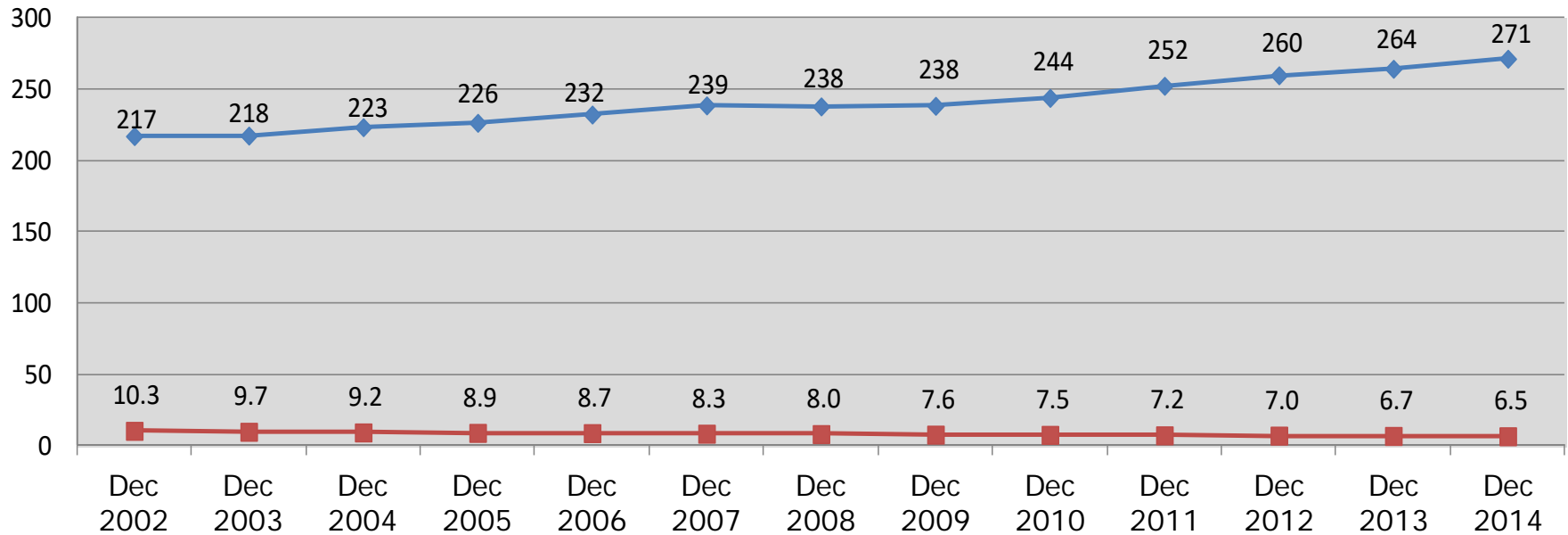
* Includes ORSO Registered Schemes and ORSO Exempted Schemes

1. Trends MPF v ORSO Number of Employers

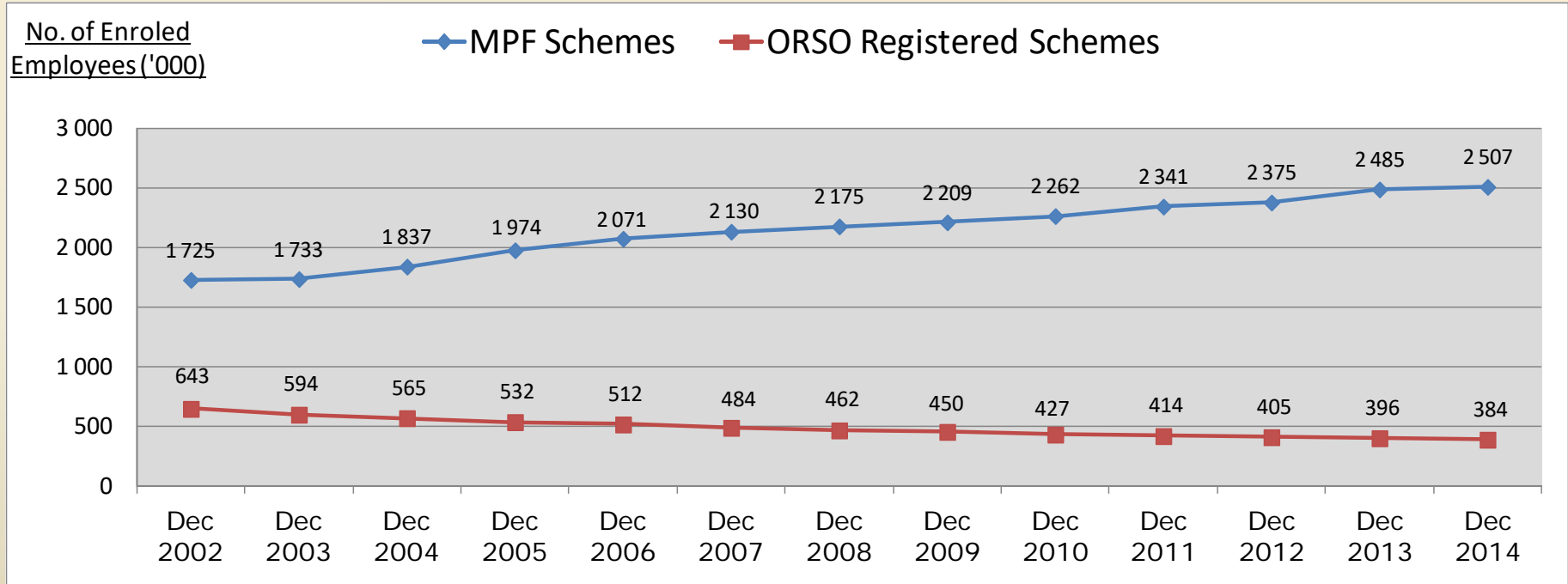


No. of Enroled
Employers ('000)

◆ MPF Schemes ■ ORSO Registered Schemes

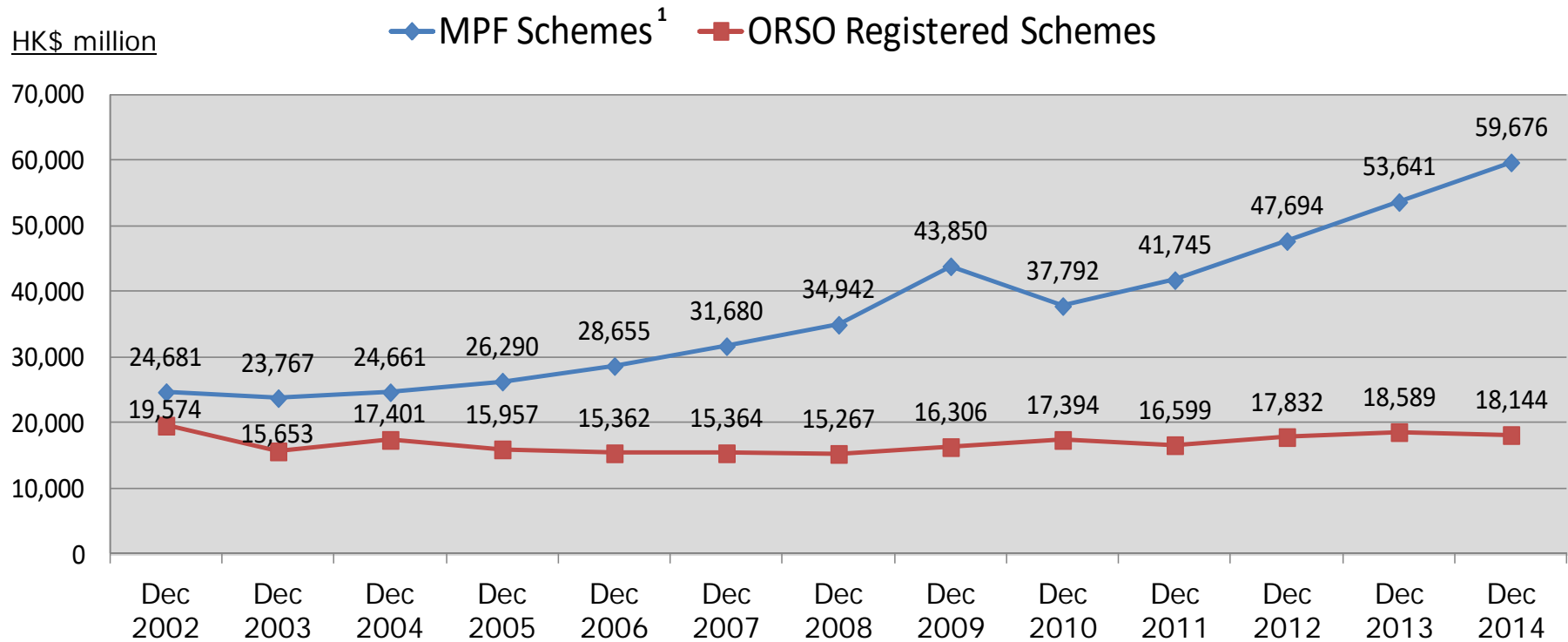


1. Trends MPF v ORSO Number of Employees





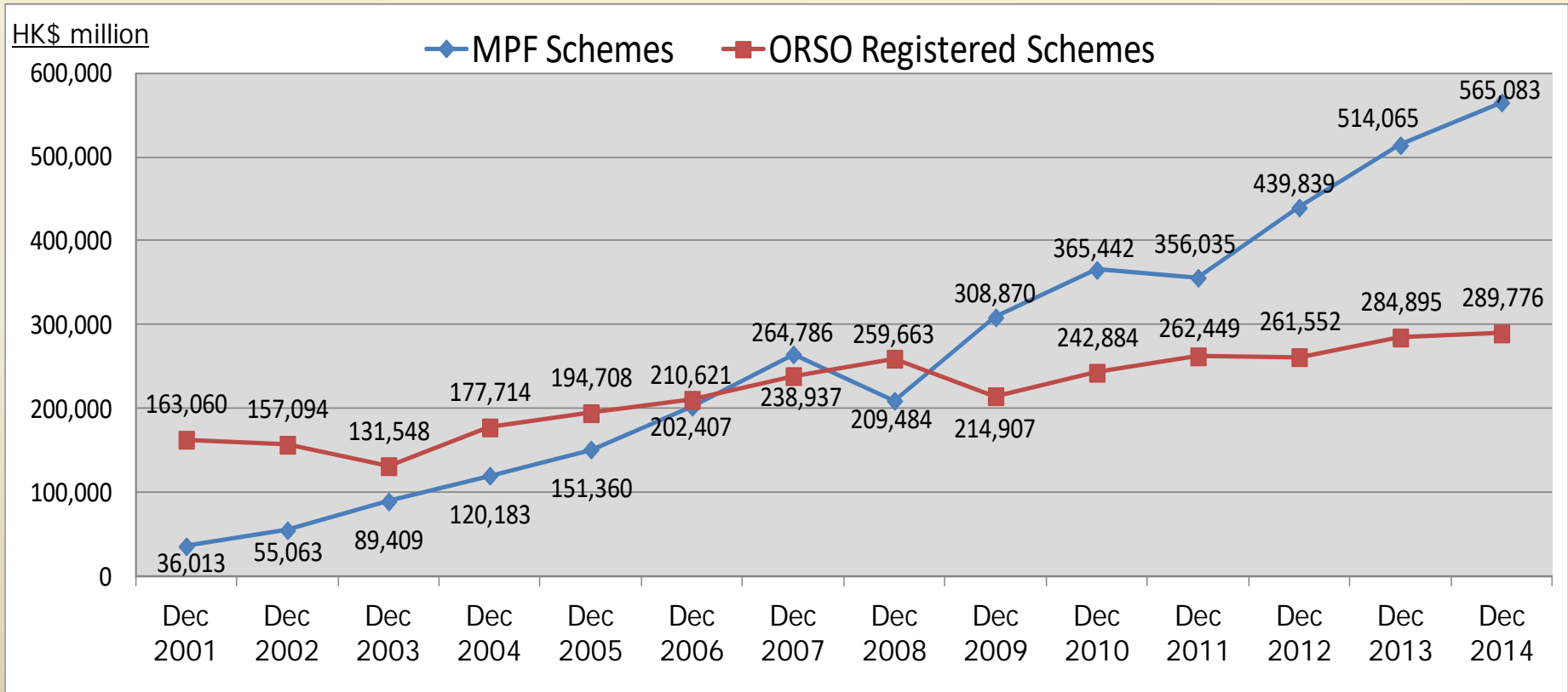
1. Trends MPF v ORSO Annual Contribution Amount



¹ Includes \$8.41 billion of net special contributions paid by the Government to eligible MPF/ORSO scheme members in the period of March 2009 – December 2010.

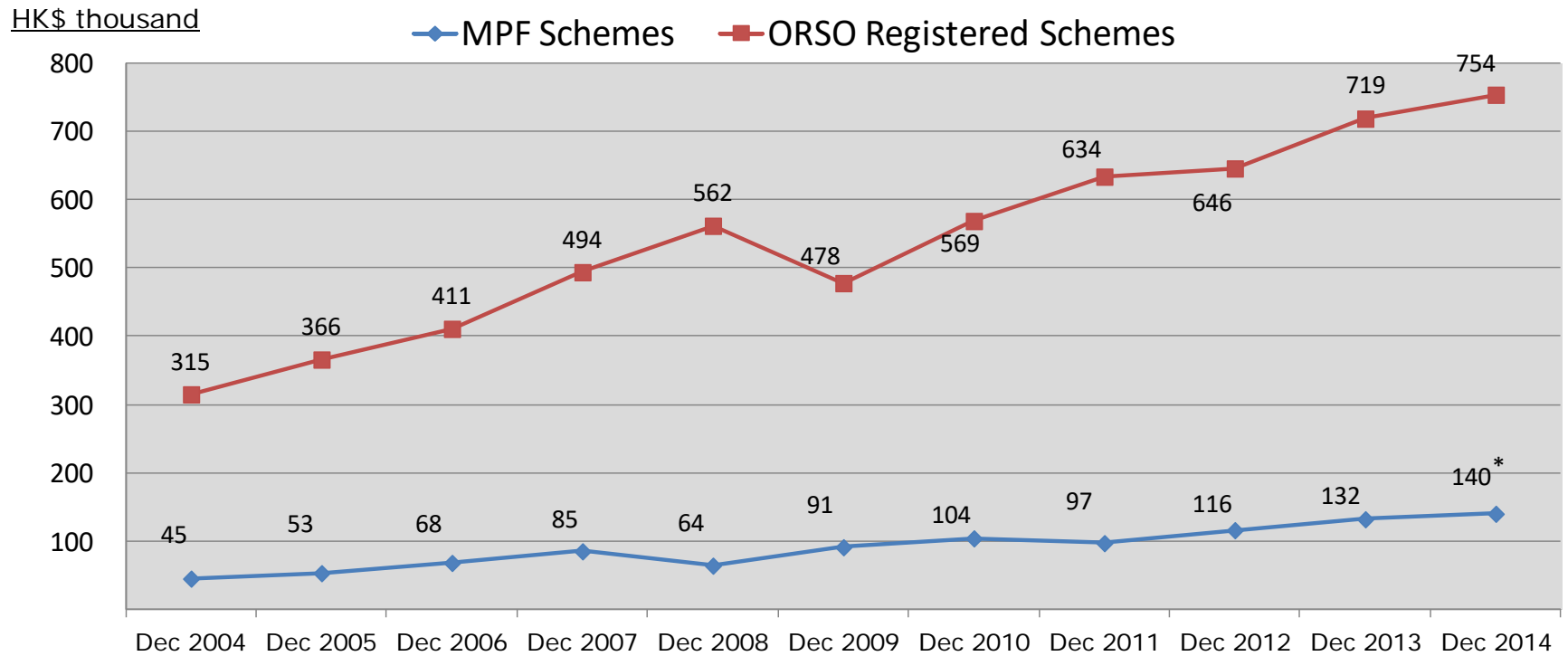


1. Trends MPF v ORSO Net Asset Values (NAV)



1. Trends MPF v ORSO

Avg Accrued Benefits/Member



•Provisional figure

•Note that figures are assumption dependent

2. Core Fund/DIS - Consultation



- **Proposals to introduce a standardised “Core” investment strategy as default with fee cap at 0.75%**
- **Consultation June – Sept 2014**
- **256 written responses, 2900 people attended briefing sessions**
- **Consultation Conclusions published on 12 March 2015**

2. Default Investment Strategy – Developments Consultation outcomes (1)



- **General support for a default investment strategy that:**
 - is substantially the same in all MPF schemes
 - is subject to a fee control
 - is available as a choice
 - has a balanced investment approach that automatically reduces risk over time as a member gets closer to age 65

2. Default Investment Strategy – Developments Consultation Outcomes (2)



➤ Diversity of views on issues such as

- investment strategies
- active vs passive
- naming
- structure
- level of fee control
- government involvement

2. DIS Developments

Proposed Direction



- Default investment strategy (DIS) in all schemes to be based on same investment approach
- DIS for those who do not make a choice or specifically choose DIS
- DIS to reduce risk as member approaches 65
- Fees to CF not to exceed 0.75%
- Investment performance and asset allocation to be benchmarked against an agreed industry standard

2. DIS – Developments

The Investment Approach



➤ Research findings

- Saving for retirement is very long term - 40 years
- Exposed to multiple investment cycles
- Need to manage risks and return trade-offs – not just investment risk
- Retirement savings increase as human capital declines
- Need to be more conservative close to retirement

2. DIS Developments

The Investment Approach (cont'd)



➤ OECD stochastic modeling - different asset allocations and glide paths

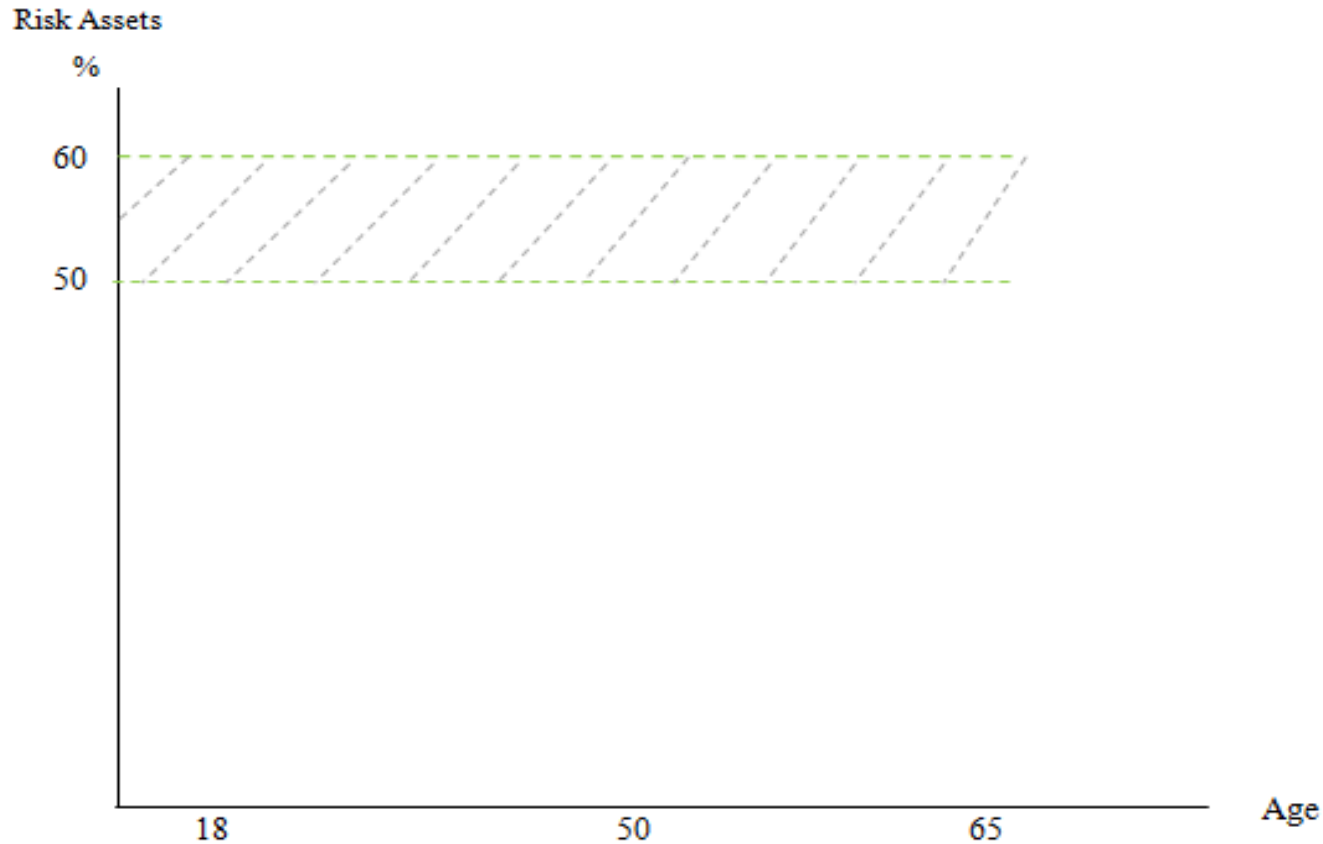
- 100% risky assets (e.g. equities) higher returns at median but only 50.2% of balanced approach at 90th percentile
- 100% cash underperforms balanced approach across almost all probability distributions
- Balanced approach 50-60% equity preferred
- Risk reduction over time to manage equity “shocks”
 - but, no value in reducing risk too early
 - keep some risk after 65



2. DIS Developments

Glide path and risk adjustment mechanism

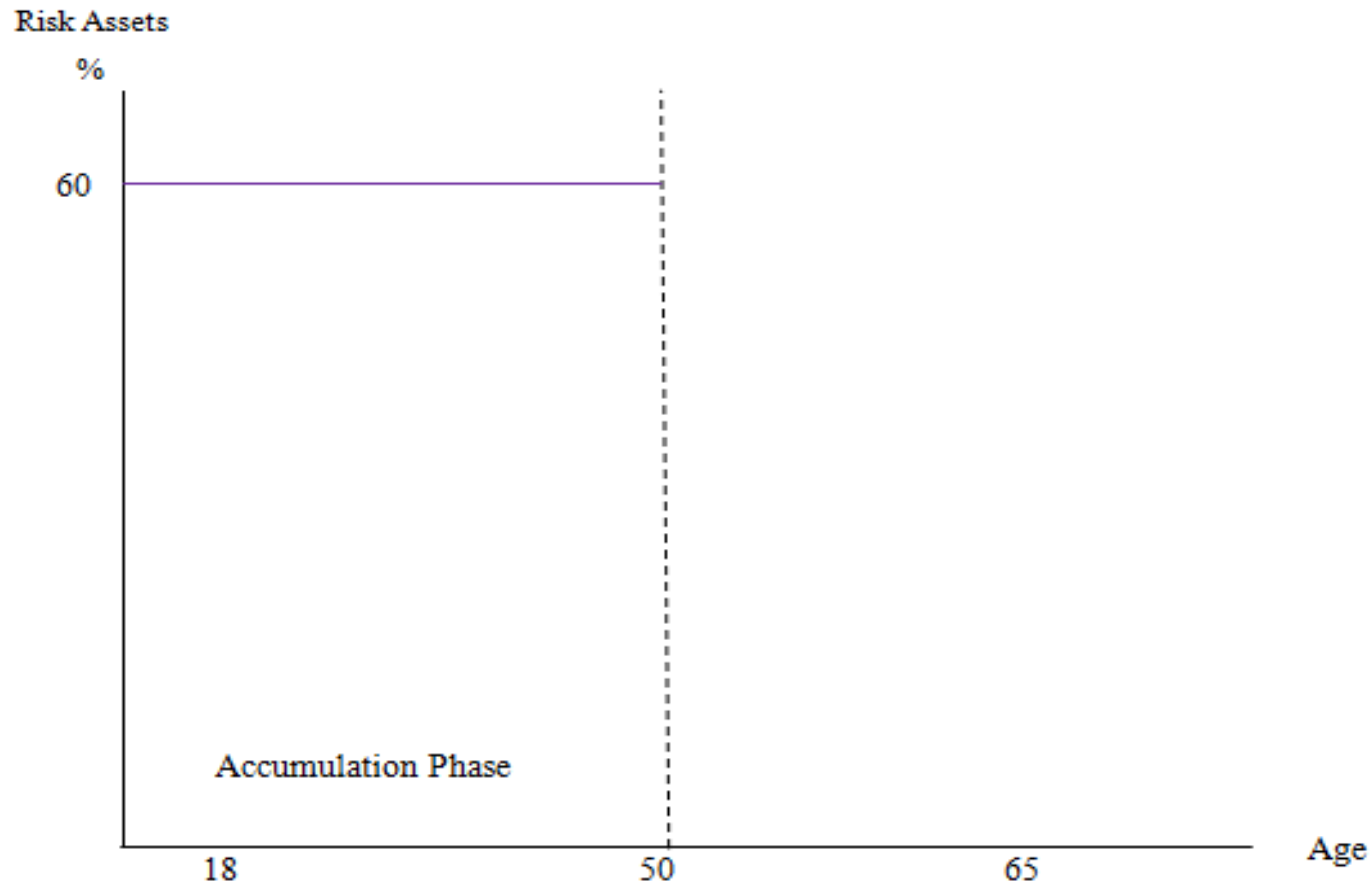
Average 50-60% exposure to riskier assets



2. DIS Developments

Glide path and risk adjustment mechanism

Start Exposure at 60% - Maintain until Age 50

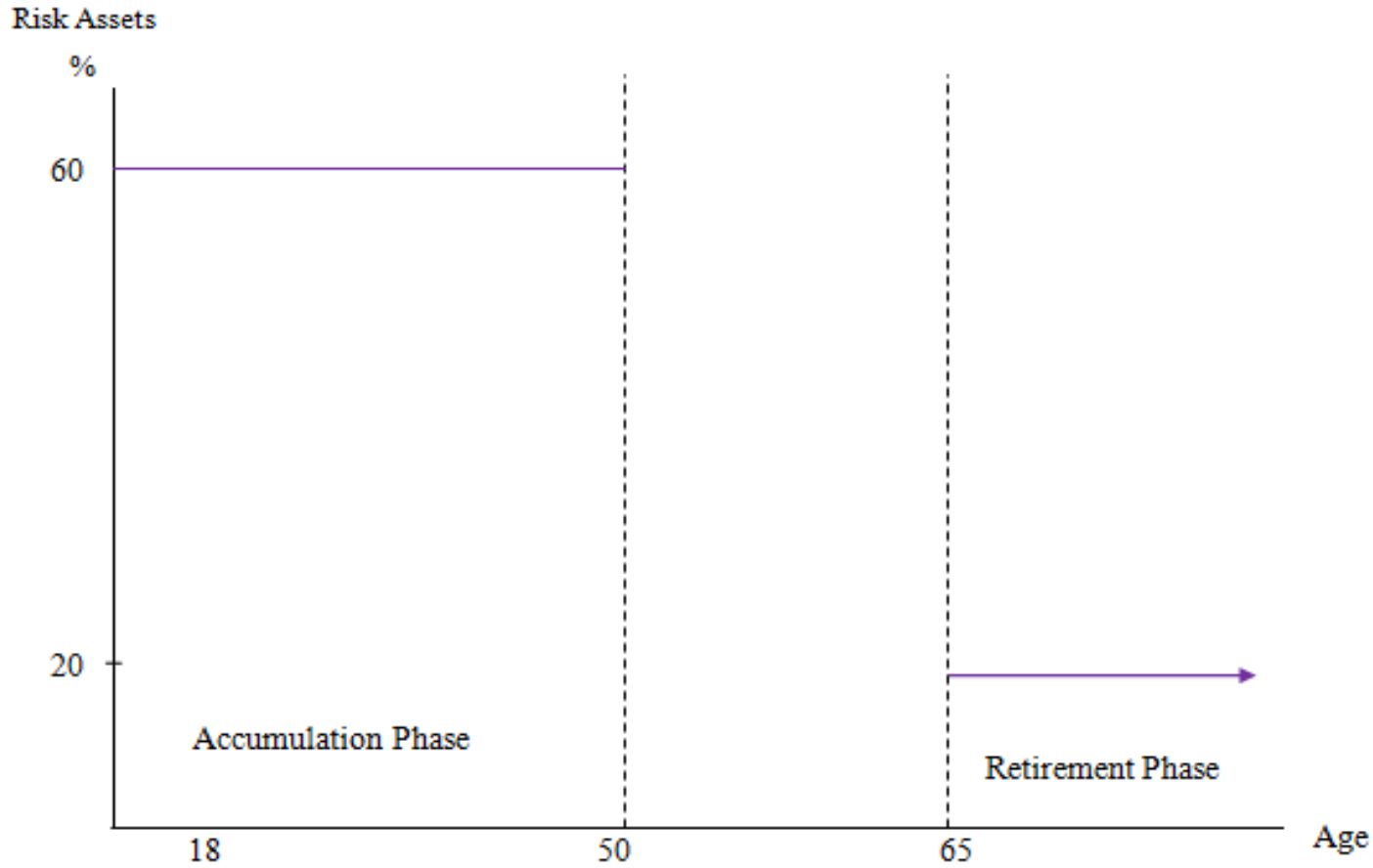


2. DIS Developments

Glide path and risk adjustment mechanism



Exposure during Retirement Phase - Maintain at 20%

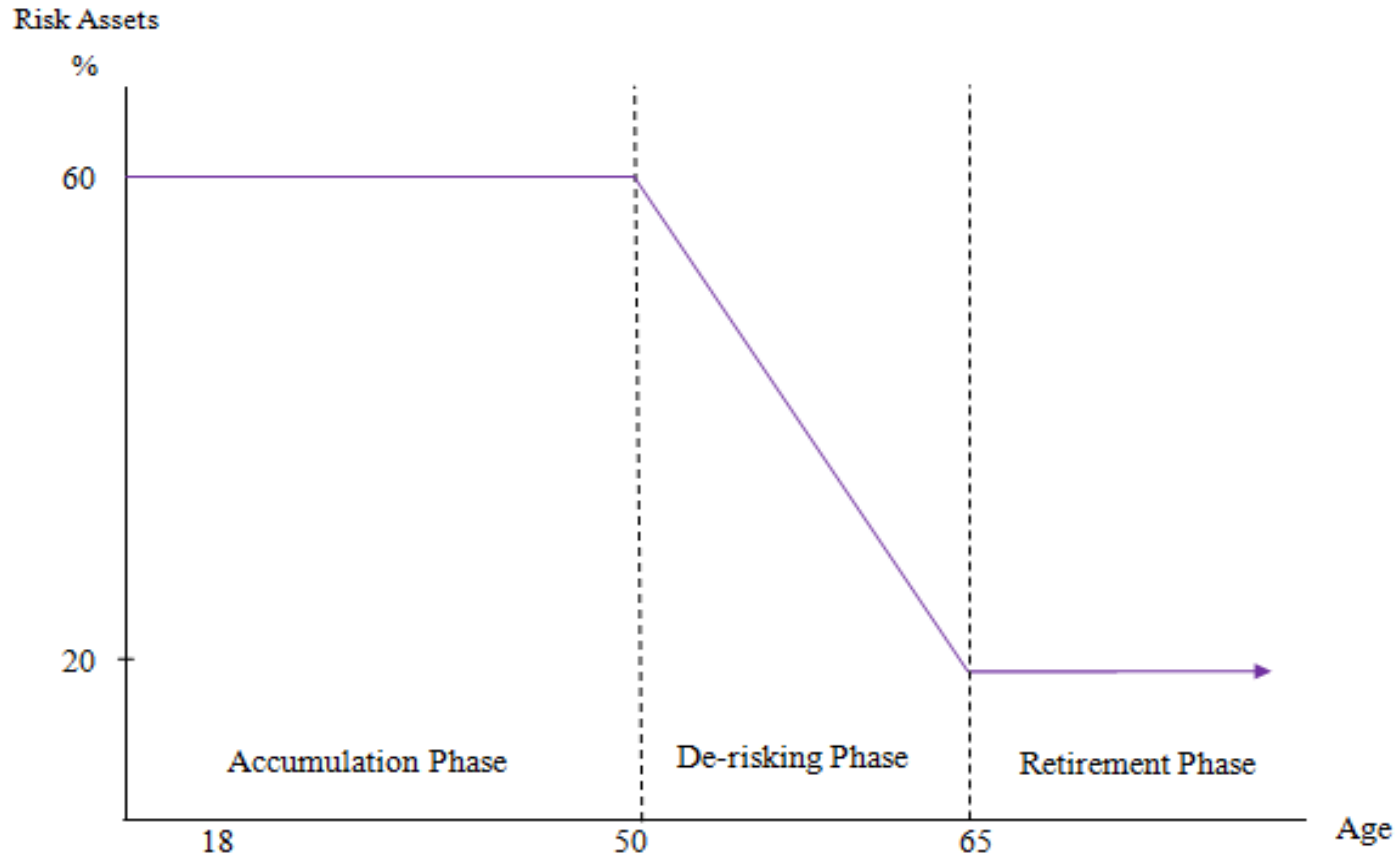


2. DIS Developments

Glide path and risk adjustment mechanism



De-risking Phase – Reduce Exposure from 60% to 20%

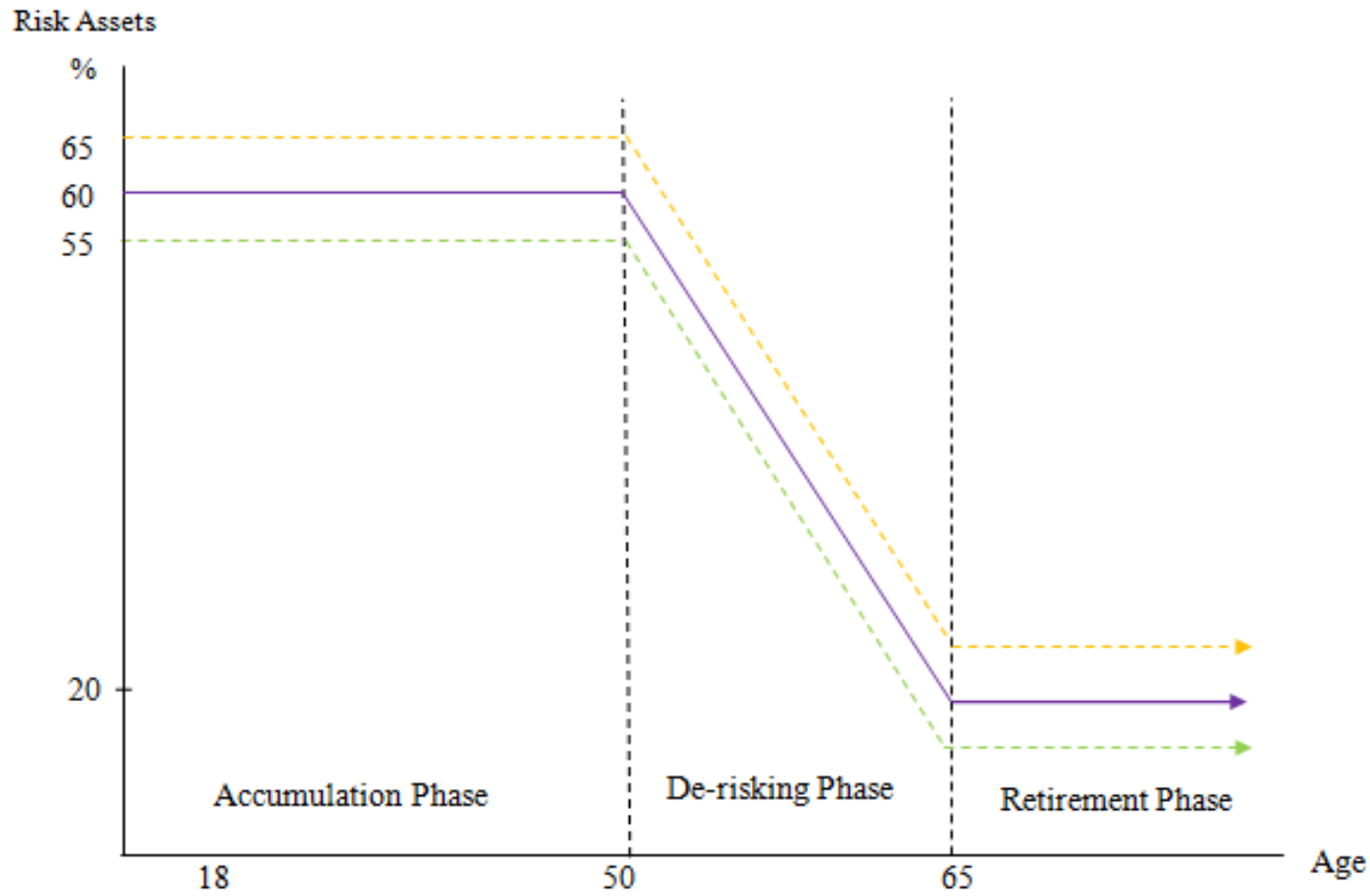


2. DIS Developments

Glide path and risk adjustment mechanism



Allocation Buffers $\pm 5\%$



2. DIS Developments

Glide path and risk adjustment mechanism



Life cycle or Target date Funds ?

➤ Target date

- Commonly used - easy to understand
- Changes to portfolio can be quickly implemented
- But lots of funds

➤ Life cycle

- No need for regular addition of constituent funds
- Minimal upfront investment
- Capable of refinements to investment approach as investment and allocation strategies develop

DIS - Way Forward



- MPFA will continue to work with relevant stakeholders on design and transitional arrangements
- Legislative amendments expected to be introduced to LegCo within 2015
- Target date for launch of the default investment strategy: end 2016



Some Other Issues - MPF

1. Contribution Incentives

- Tax deductions
- Co-contributions?

2. Addressing adequacy

- Contribution rates/levels
- Leakage

3. Payout phase



Q&A