



**The Hong Kong Retirement Schemes Association  
Default Investment Strategy Seminar – Planning & Implementation**

# **An Overview of Default Investment Strategy, the Regulator's Role and its Public Communication Plan**

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Mandatory Provident Fund Schemes Authority**

**13 October 2016**





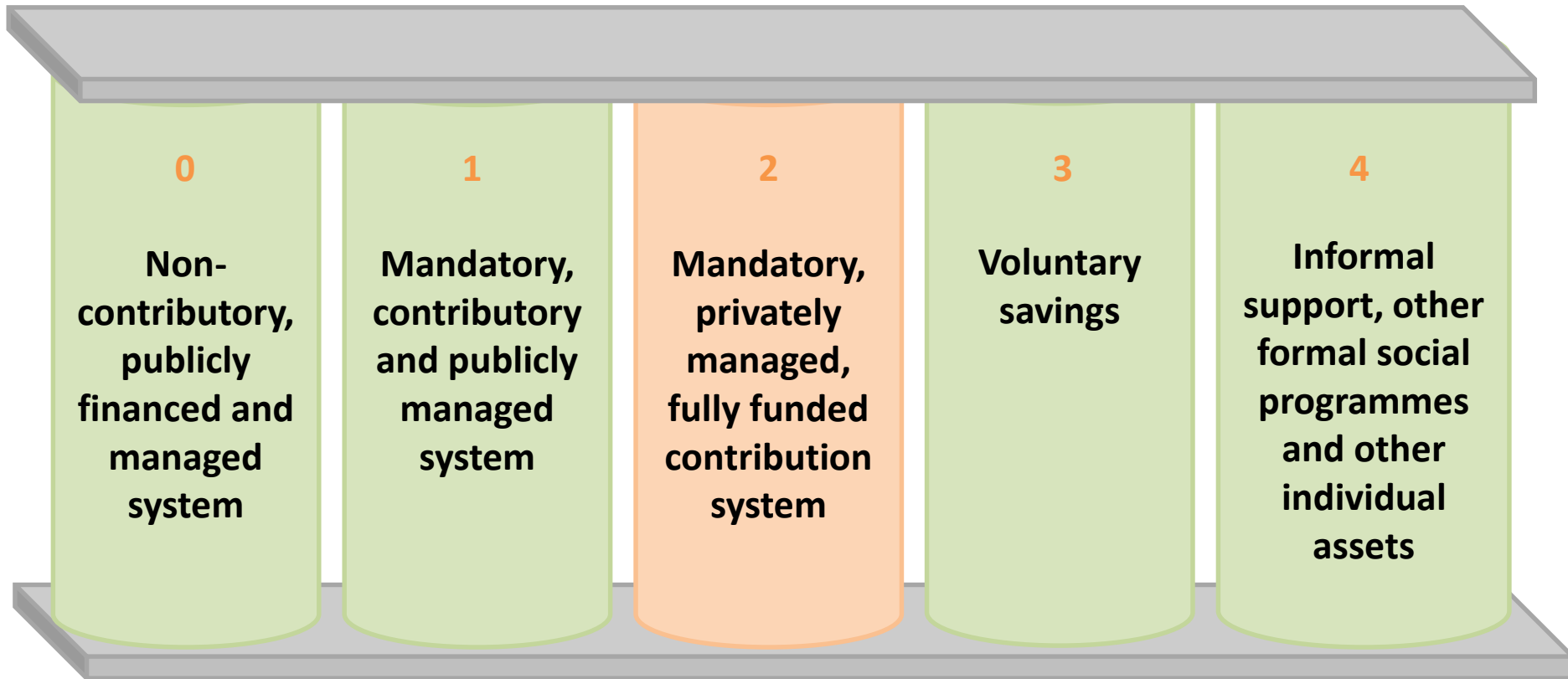
# 1

## Retirement Protection Framework





# MPF as Pillar 2 of the World Bank's Multi-pillar Retirement Protection Framework





# Examples of the Multi-pillar Retirement Protection Framework in Hong Kong

Pillar	The World Bank	Retirement Protection in Hong Kong
0	Non-contributory, publicly financed and managed system	<ul style="list-style-type: none"> <li>• Old Age Allowance</li> <li>• Old Age Living Allowance</li> <li>• Disability Allowance</li> <li>• Comprehensive Social Security Assistance Scheme</li> </ul>
1	Mandatory, contributory and publicly managed system	-
2	Mandatory, privately managed, fully funded contribution system	<ul style="list-style-type: none"> <li>• Mandatory Provident Fund Schemes</li> <li>• Occupational Retirement Schemes</li> <li>• Civil Service Pension Schemes</li> <li>• Grant/Subsidized Schools Provident Fund</li> </ul>
3	Voluntary savings	<ul style="list-style-type: none"> <li>• MPF Voluntary Contributions</li> <li>• ORSO Top-up Scheme</li> <li>• Personal Savings / Investment</li> <li>• Life Insurance</li> <li>• Annuity</li> </ul>
4	Informal support, other formal social programmes and other individual assets	<ul style="list-style-type: none"> <li>• Family Support</li> <li>• Public Healthcare Services</li> <li>• Services for the Elderly</li> <li>• Public Housing</li> <li>• Home Ownership</li> <li>• Reverse Mortgage</li> <li>• Elderly Health Care Voucher Scheme</li> <li>• Public Transport Fare Concession Scheme</li> </ul>



# 2

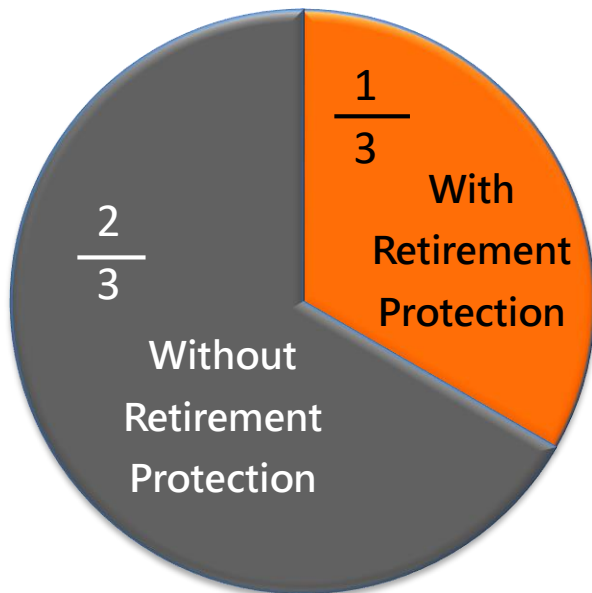
## MPF System





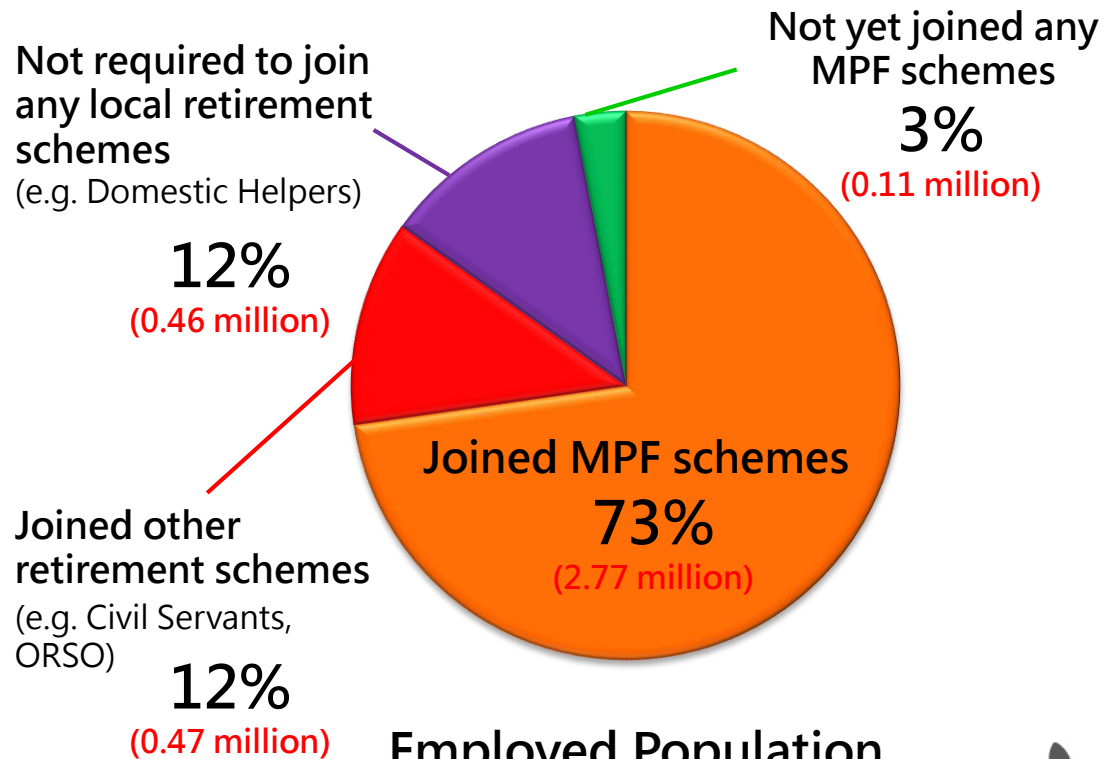
# Coverage

## Before Implementation of MPF System



Employed Population  
1999 = 3.23 million

## As at 30 Jun 2016

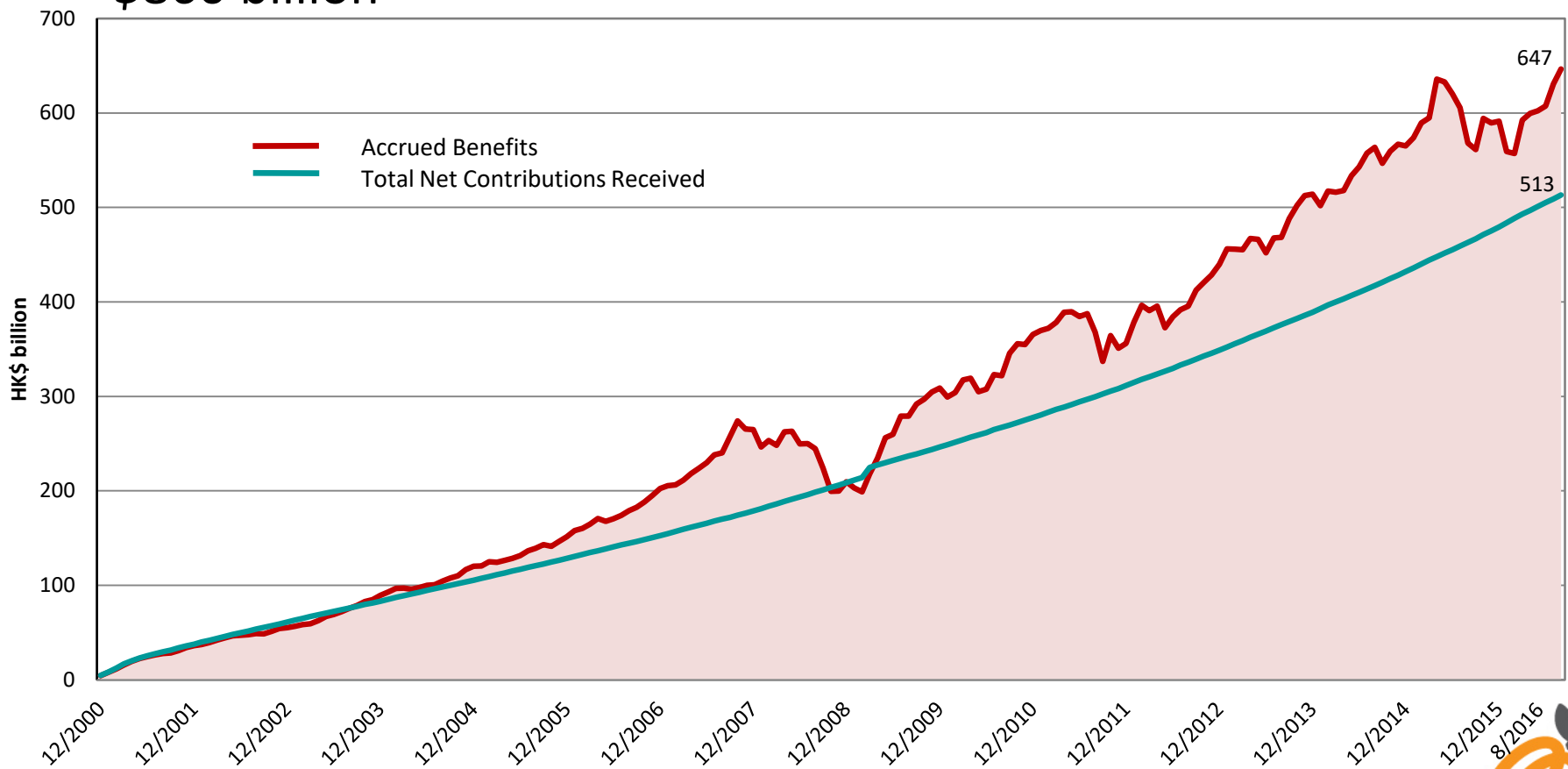


Employed Population  
2016 = 3.81 million



# Assets

- Equivalent to 75% of Government's estimated fiscal reserve of \$860 billion



Source: MPFA



# Refinements

- Number of low-fee funds increased
  - ✓ **165** as at Sep 2016 (36% of the total number of MPF funds)
- Scheme members have more control over investment of benefits (Employee Choice Arrangement since Nov 2012)
- Consumer protection strengthened – statutory regulatory regime on MPF intermediaries (since Nov 2012)
- Withdrawal flexibility
  - ✓ Adding terminal illness as a ground for early withdrawal (since Aug 2015)
  - ✓ Withdrawal by installment allowed on retirement, instead of solely by lump sum (since Feb 2016)





# 3 Key Issues and Challenges





# Key Issues and Challenges

**Fees**

**Choices of Funds**

**Investment Performance**

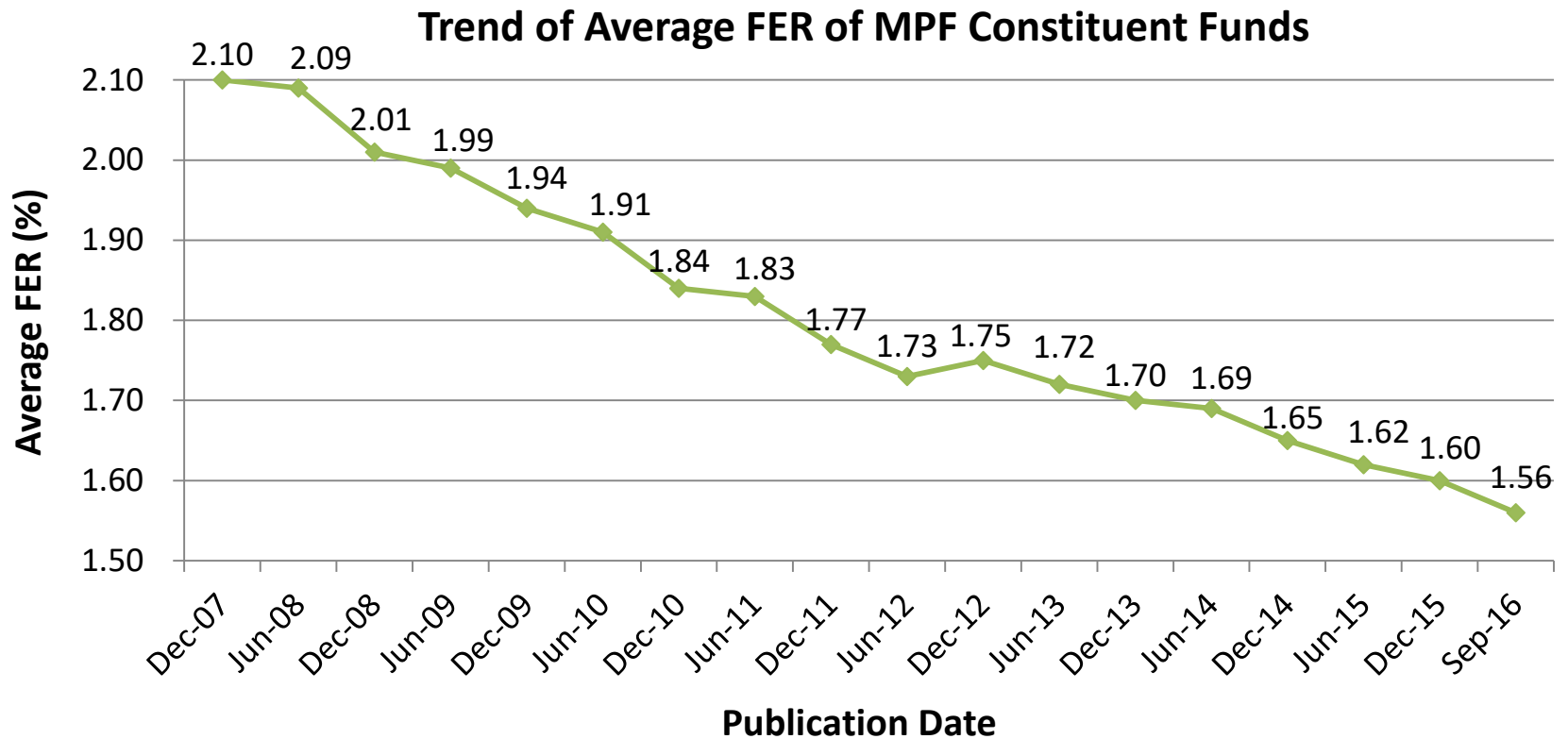
**Adequacy**

**Administrative Work**



# Fees

- From Dec 2007 to Sep 2016: average FER dropped by 26%



Source: MPFA





# Choices of Funds

## Wide range of products

- MPF schemes: 38
- Funds: 462
- Average: 12 funds in each scheme  
(maximum: 27; minimum: 3)

*Data as at 30 Sep 2016*





# Investment Performance

- As of August 2016:



\* net of amount withdrawn

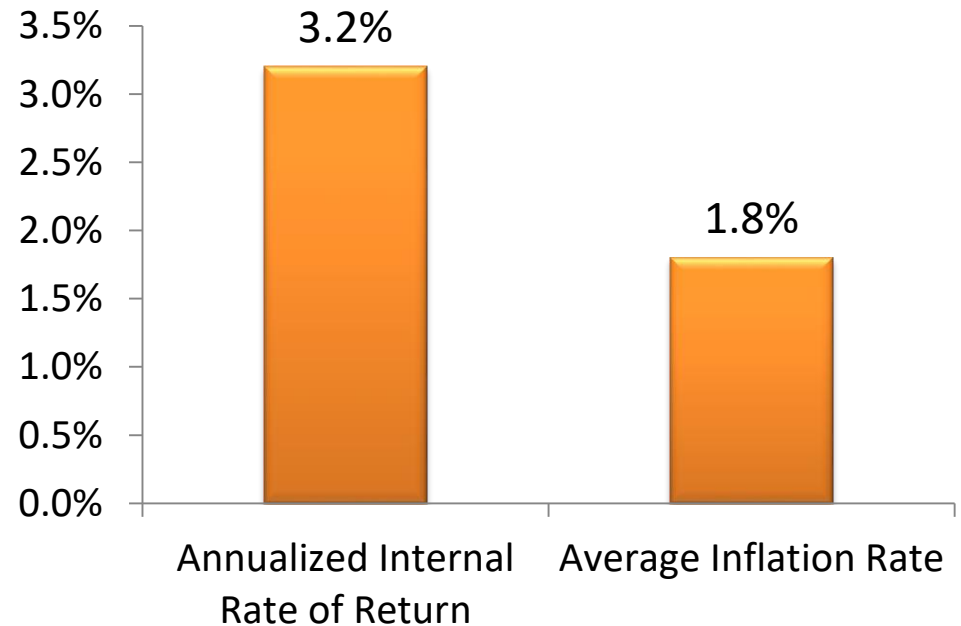
# net of fees and charges





# Investment Performance

- Annualized rate of return of the MPF System:  
(1 Dec 2000 – 31 Aug 2016)



Source: MPFA & C&SD





# Investment Performance

## Returns of Different Types of Funds (Net of Fees and Charges)

Fund Type	1 Dec 2000 – 31 Jul 2016	
	Annualized Return	Cumulative Return
Equity Funds	4.0%	84.0%
Mixed Asset Funds	3.8%	79.3%
Bond Funds	3.0%	59.7%
Guaranteed Funds	1.2%	21.4%
MPF Conservative Funds	0.8%	12.9%
Money Market Funds	0.5%	8.5%





# Adequacy

## Scope Limitations of MPF

- As a Pillar 2 system, the MPF System is only intended to provide basic retirement protection for employed population

## Relatively Low Contributions

- Employers and employees contribute a total of 10%, subject to a cap of \$3,000 per month
- Employees earning <\$7,100 per month need not contribute, but employers need to contribute (5%)
- Self-employed persons: Contribute 5% subject to a cap of \$1,500 per month; no need to contribute if earning <\$7,100 per month





# Adequacy

(An illustrative example)



Age 25

Monthly income earned :  
\$15,000

Age 65

Annualized return: 1.4%  
(after discounting inflation)  
Accumulation of MPF benefits :  
around \$1 million

Monthly income  
\$4,000

Monthly income  
\$3,300





# Administrative Work

- **Complicated administrative work and high cost**
  - 15 trustees and 38 MPF schemes
  - More than 9.1 million MPF accounts (around 3.8 million contribution accounts and 5.3 million personal accounts)
  - Around 30 million transactions for MPF administration per year
  - Around 100,000 paper-based manual transactions per day
  - Significant admin work for member protection



# 4

## Default Investment Strategy



# Default Investment Strategy (DIS)

## What is DIS?

- A standardized investment approach for retirement savings (de-risking, global diversification)
- Mandated in every MPF scheme
- Amendment Bill passed by Legislative Council in May 2016
- Target launch date: First half of 2017



# DIS – Background

## Why develop DIS?

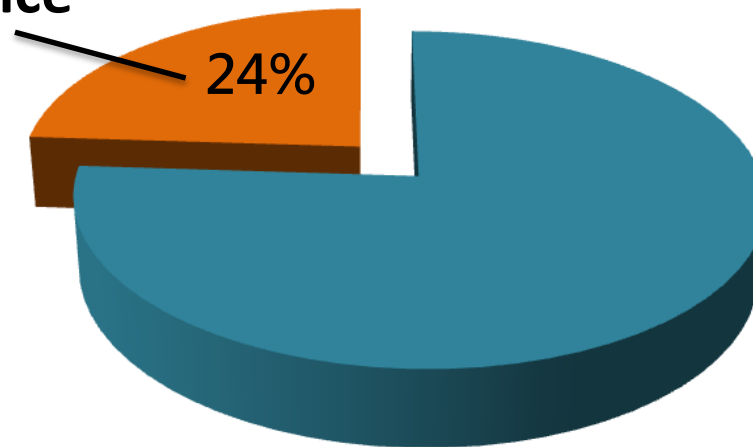
- Investment decision-making is difficult
- Too many funds — hard to choose
- Default fund different from scheme to scheme
- International best practices
- Need for a low cost default solution
- MPF fees generally high





# DIS – 2013 Survey

**Said they had never made a fund choice**



**Scheme members who responded to the survey**





# DIS – “1, 2, 3”

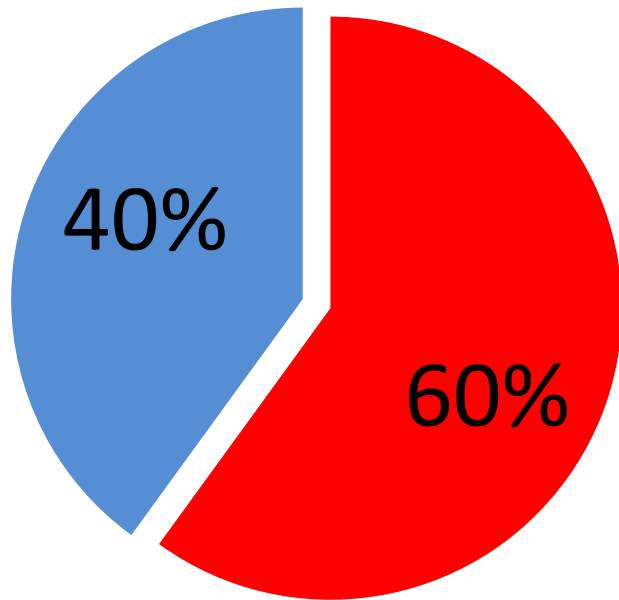
## 1 Ready-made, Low-fee Investment Solution



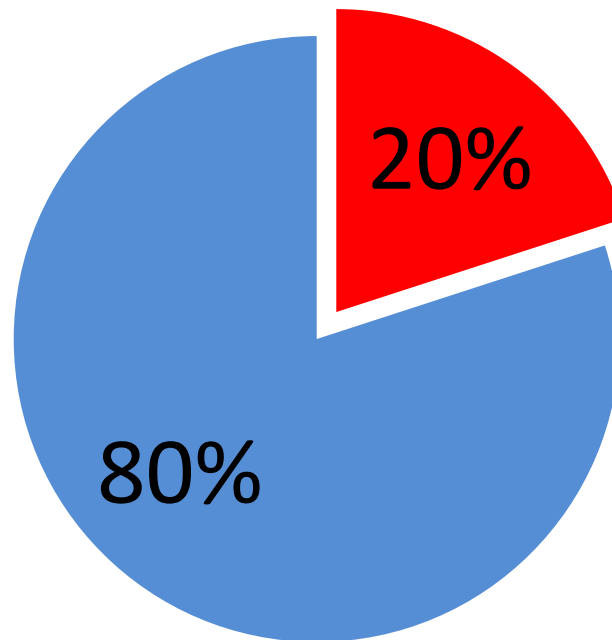
# DIS – “1, 2, 3”

## 2 Constituent Funds

Core Accumulation Fund (CAF)



Age 65 Plus Fund (A65F)

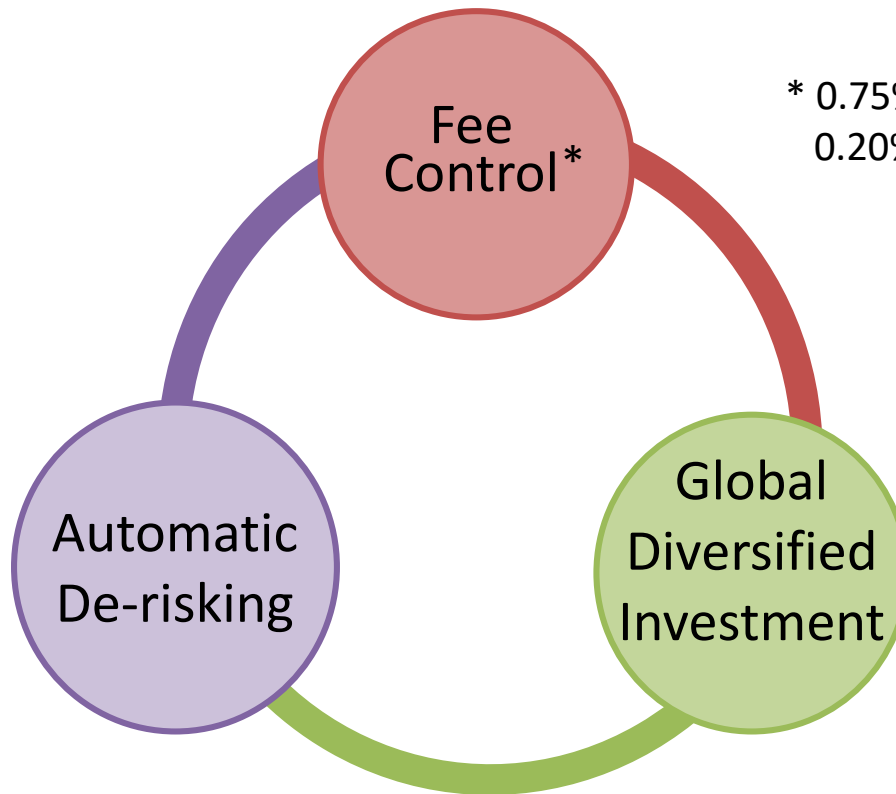


- Higher Risk (mainly global equities)
- Lower Risk (mainly global bonds)



# DIS – “1, 2, 3”

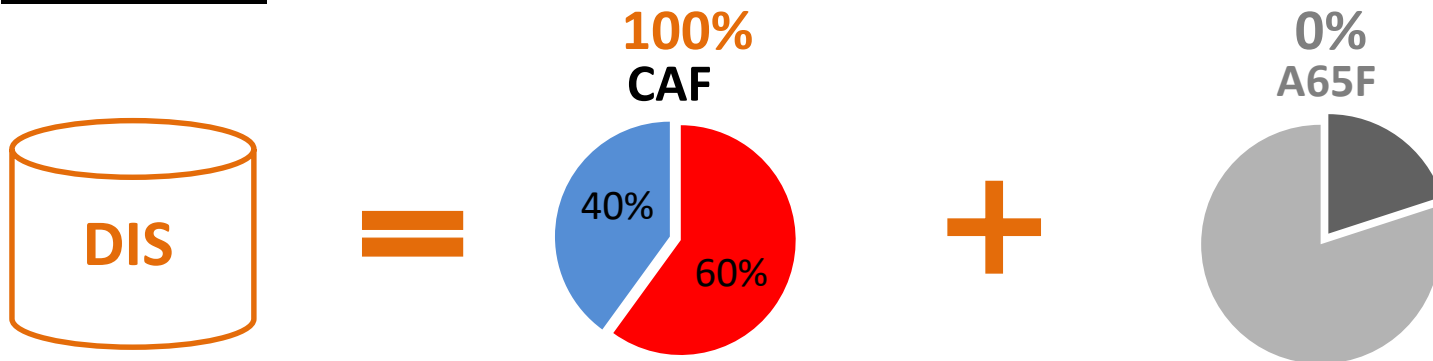
## 3 Main Features



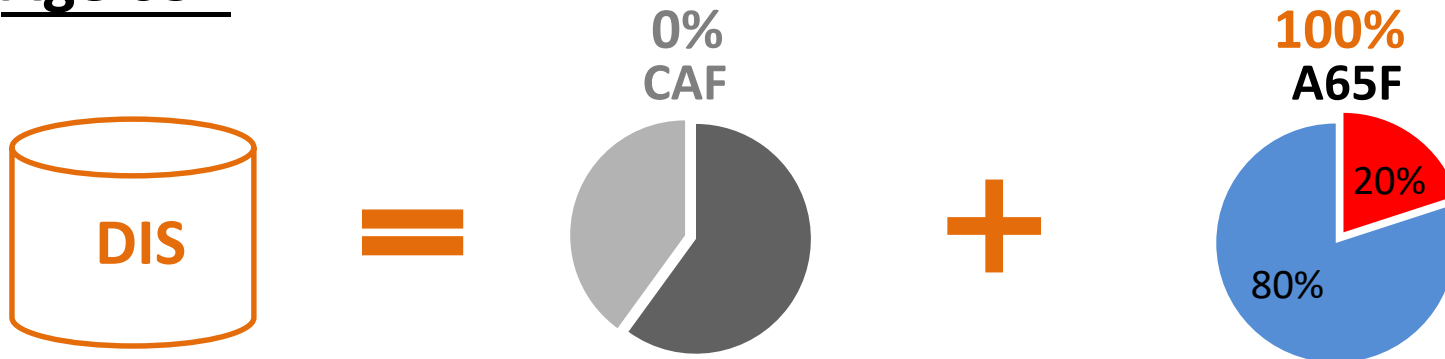
\* 0.75% management fee and  
0.20% out-of-pocket expenses

# DIS – Investment Approach

## Below 50

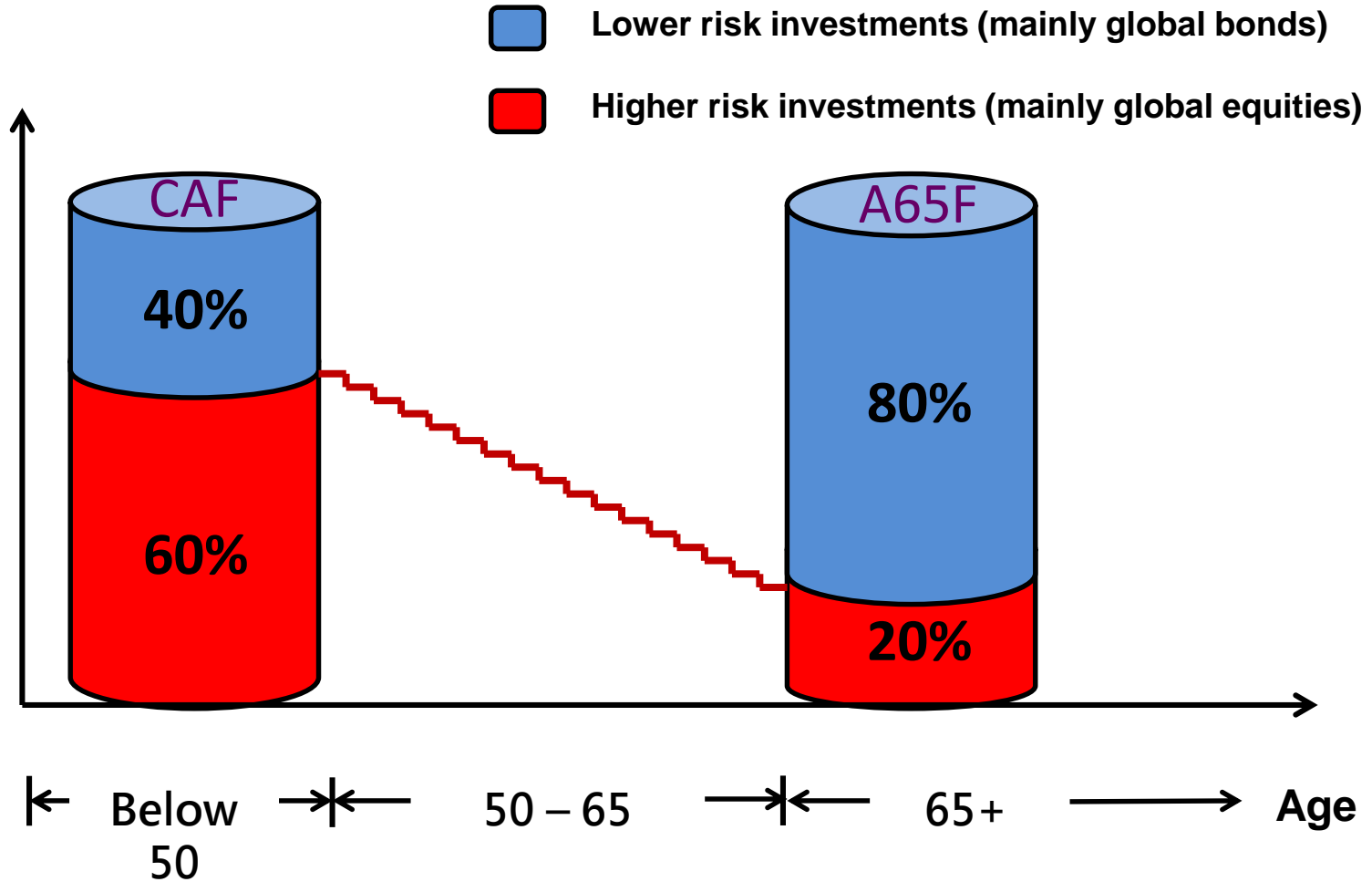


## Age 65+



Age 50 to 65 move progressively from CAF to A65F

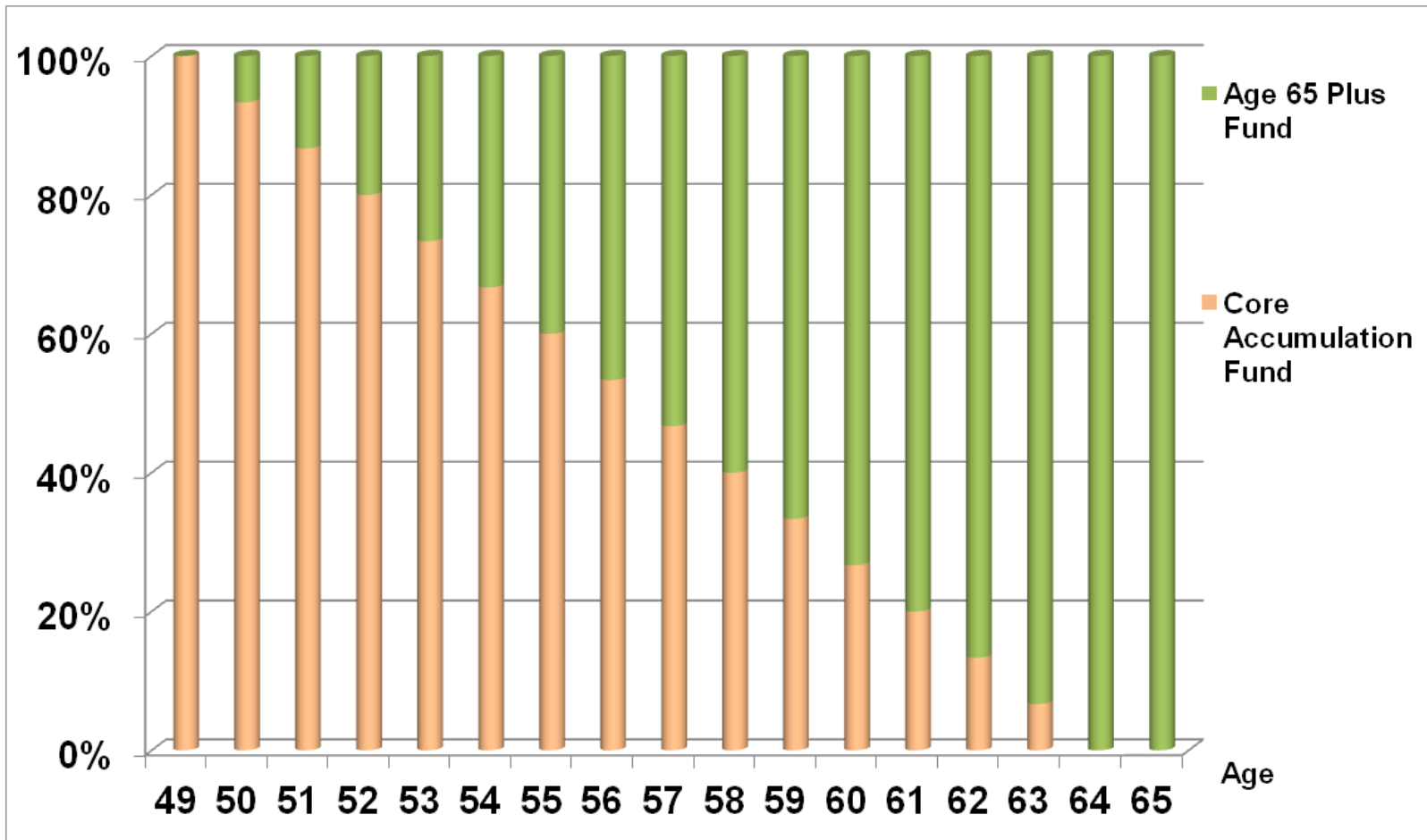
# DIS – Investment Approach





# DIS – Investment Approach

Investment Ratio



# DIS – Impact on Scheme Members



Additional investment choice

- **DIS**
- **CAF**
- **A65F**



Not made investment choice i.e. following scheme default

**Accrued benefits**  
**Future MPF contributions**

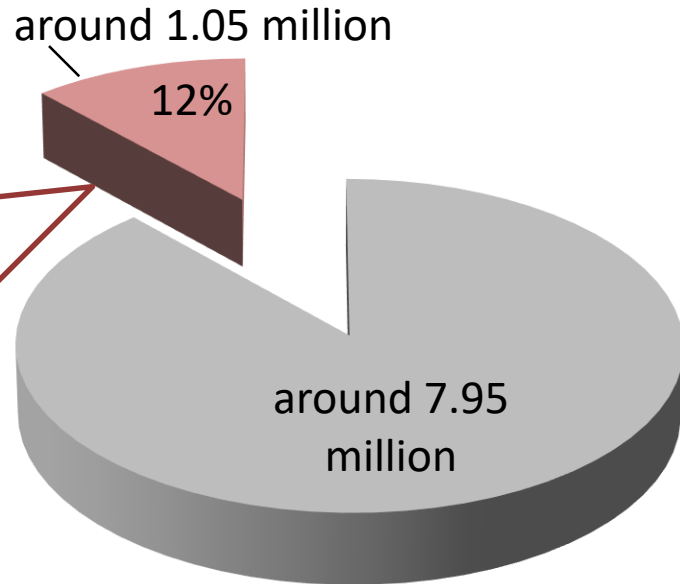


*effective date*



# DIS – Impact on Scheme Members

- ✓ Around \$18 billion
- ✓ Will be transferred to DIS on effective date
- ✓ Future MPF contributions to DIS



Around 9 million  
MPF Accounts

- Made an investment choice
- Not made an investment choice



# DIS – Transitional Arrangements

- Trustees issue DIS Re-investment Notices (DRN) within 6 months for pre-existing MPF accounts that are invested wholly in previous default arrangement
- Members can opt out from investing their benefits in DIS within a 42-day reply period
- If no reply received, trustees to invest members' benefits in DIS within 14 days





# DIS – What Will It Achieve?

## Choice

- For those who are uninterested or unsure about investment

## Investment

- Provides ready made strategy
- Balancing long-term risks vs returns

## Fees

- Provides cost protection







# 5

## MPFA's Role





# DIS – Transparency

- To ensure a great degree of transparency, MPFA displays the fees and charges of all CAFs and A65Fs, as with other funds, in the Fee Comparative Platform on MPFA's website



# DIS – Transparency

- Trustees shall compare the investment performance of the two funds of DIS with the investment performance of the Reference Portfolio in the Fund Fact Sheet. If there is any material difference in performance, the reasons for the difference should be outlined
- MPFA monitors trustees to see if they have disclosed the reasons for the performance gap. If a trustee fails to disclose the information, MPFA will require the trustee to amend the information in the Fund Fact Sheet to reflect the actual situation
- Fund Fact Sheets will also be uploaded onto MPFA's Fee Comparative Platform for public's reference





# DIS – Monitoring Trustees

- It is the responsibility of the trustee to comply with all legal and compliance requirements and to establish its relevant systems and internal control measures to ensure compliance with relevant requirements and regulations
- The MPFA will supervise the implementation of DIS, including
  - ✓ ensure that the management fee and out-of-pocket expenses of DIS are under 0.75% and 0.2%
  - ✓ ensure that the trustees can implement de-risking on a timely basis



# DIS – Monitoring Trustees

- On fee cap and investment, a compliance report must be prepared by an independent auditor annually for each registered scheme as part of the annual audit of each scheme
- MPFA will review the reports submitted by independent auditors and take appropriate regulatory and enforcement actions if any irregularities are found
- MPFA will also identify problems or irregularities involving DIS from the complaints raised by scheme members, and take follow-up action





# DIS – Non-Compliance

- MPFA may require a trustee to arrange for auditor investigation and report if it reasonably believes that it has failed to comply with DIS requirements
- Trustees' Failure to comply with requirements of DIS
  - ✓ Revocation of approval
  - ✓ Suspension and termination of administration
  - ✓ Financial penalties



# DIS – Regulation of Intermediaries

- The MPFA has issued Guidelines on Conduct Requirements for Registered Intermediaries under the Mandatory Provident Fund Schemes Ordinance
- It provides guidance in respect of the minimum standards of conduct expected of regulated persons who engage in conducting sales and marketing activities and giving advice in relation to registered schemes
- Sales and marketing activities involving DIS are included



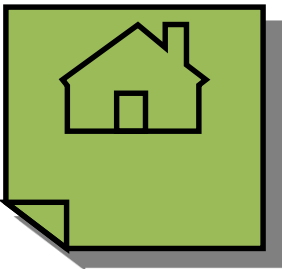
# 6 Public Communication Plan for Default Investment Strategy





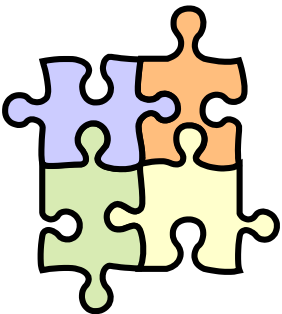


# DIS – Preparation



**Changed  
correspondence  
address / not receive  
any letters from MPF  
trustees recently**

- **Check with MPF trustees immediately and update correspondence address**
- **Provide email address to MPF trustees**

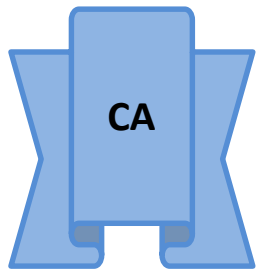


**Investment Choice**

- **Confirm with MPF trustees**

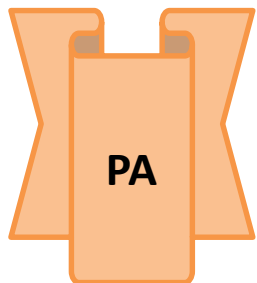


# DIS – Preparation



**Do not know where  
(trustee or scheme)  
contribution account  
is**

- Enquire with employer



**Do not know where  
(trustee or scheme)  
personal account is**

- Enquire with MPFA



# DIS – Public Communication Plan

Phase	Campaign
Phase 1	<ul style="list-style-type: none"><li>• Public education on DIS</li><li>• Public education on retirement investment and MPF investment</li><li>• Thematic campaign on account management</li></ul>
Phase 2	<ul style="list-style-type: none"><li>• Mass media publicity on DIS: To tie in with mailing of trustees' DIS Pre-implementation Notice (DPN) to members</li></ul>
Phase 3	<ul style="list-style-type: none"><li>• Mass media publicity on DIS: To tie in with DIS launch and issuance of DIS Re-investment Notice (DRN)</li></ul>





# DIS – Public Communication Plan

## Phase 1 : From Jun 2016

### 1. Public education on DIS

- Features of DIS
- Urge members to pay attention to trustees' DPN

### 2. Public education on retirement investment and MPF investment

- Important factors for retirement investment
- Merits of MPF
- Fundamentals of MPF investment





# DIS – Public Communication Plan

## Phase 1 : From Jun 2016

### 3. Thematic campaign on account management

- Remind scheme members to update their contact details and review their investment mandate
- Advise casual employees to open Industry Scheme casual employee accounts in advance

### 4. Publicity riding on gazettal of DIS commencement date

- Commencement date of DIS
- Key features of DIS
- Impact of the new law on scheme members





# DIS – Public Communication Plan

## Thematic Campaign on Account Management

### Key messages for all scheme members

- DIS will be introduced in the first half of 2017, providing a ready-made, low-fee investment solution for scheme members.
- Trustees will send you a notice to explain how DIS may affect your MPF investment
- If you have changed your correspondence address, please update it with your trustee(s) as soon as possible to ensure that you receive notice(s) related to DIS
- Contact your trustee(s) immediately if you have any queries about your MPF account(s) or investment choices



#### Remember to ensure your correspondence address is up to date

MPF trustees regularly send out important information to you about your MPF account such as benefit statements and fund fact sheets. The Default Investment Strategy ("DIS") is expected to be introduced in the first half of 2017. Your trustee(s) will send you a notice explaining how DIS may affect your MPF investment, which you should receive by the end of this year.

**Please contact your trustee(s) to ensure your correspondence address is up to date.**



- If you are unsure under which trustee or scheme your MPF contribution account is held, please ask your employer.
- If you have lost track of how many MPF personal accounts you have, or which trustee(s) hold these accounts, please visit the MPFA website to find out how to make an enquiry.
- If you have any queries about your MPF account(s) or investment choices, please contact your trustee(s) immediately.



Update your correspondence address  
or other personal particulars

Hotline : 2918 0102 Website : [www.mpfa.org.hk](http://www.mpfa.org.hk)



Print advertisement

# DIS – Public Communication Plan

## Thematic Campaign on Account Management

### Industry Scheme (“IS”) members

- Casual employees in the construction and catering industries are advised to open causal employee accounts with each of the two IS trustees, in advance
- The three merits
  - ✓ Easier for employers to make contributions for you
  - ✓ Keep all MPF contributions made by different employers in your two IS accounts for easy management
  - ✓ Able to receive important information about your accounts from your trustees in a timely manner



Flyer



# DIS – Public Communication Plan

## Phase 1 Means of Communication

- Press briefing
- Advertisements in print and online media; search engine marketing
- New webpage in MPFA website to facilitate updating members' personal information
- Radio commercials in horse racing programme
- Advertisements on Facebook
- SMS to construction workers (tbc)
- Letters to all IS employers from the two trustees; enclosed an MPFA notice
- Proactive visits to selected IS employers
- New flyer on Casual Employee Card





# DIS – Public Communication Plan

## Phase 2 : Mass Media Publicity on DIS (DPN)

- Key features of DIS
- Commencement date of DIS
- Issuance of trustees' DPN to members and its significance
- Impact of the new law on scheme members



# DIS – Public Communication Plan

## Phase 2 Means of Communication

- Press briefing
- Briefing to stakeholders (e.g. 18 District Councils)
- Advertisements in TV, radio, print and online media
- Thematic website
- Flyer and leaflet on DIS
- Promotion via trustees' channels





# DIS – Public Communication Plan

## Phase 3: Mass Media Publicity on DIS (DRN)

- DIS is launched
- Key features of DIS
- Trustees will issue DRN to affected scheme members
- Impact of the new law on scheme members
- Actions required by affected members



# DIS – Public Communication Plan

## Phase 3: Means of Communication

- Press briefing
- Advertisements in TV, radio, print, out-of-home, online and social media
- Short videos
- Outreaching activities at district level
- Thematic website
- Flyer on DRN
- Promotion via trustees' channels



# 7 What You Should Do on DIS?





# Employees' Expectation

- According to a survey conducted in 2016, 57% of employees think that employers have the responsibility to better manage their MPF apart from making mandatory contribution.
- Employees think that employers have the responsibility to offer the following assistance:
  - ✓ providing more than one MPF service provider for selection
  - ✓ providing support on personal account consolidation
  - ✓ offering MPF market information and investor education regularly
  - ✓ Evaluation, analysis and choosing of investment portfolios

Source: Gain Miles MPF Consultants Limited commissioned the Public Opinion Programme of The University of Hong Kong in April 2016 to conduct "Survey on the Public's Opinion towards MPF Management and Confidence 2016"





# What You Can Do for Employees on DIS

- Be ready for queries from employees about DIS
- Alert them to the opt-out arrangement / impact on their MPF investment
- Remind them where their contribution account is opened
- Ask them to approach MPFA if they have forgotten about where their personal accounts are
- Remind them to check with their MPF trustee(s) and :
  - ✓ update correspondence and email address
  - ✓ Confirm their investment choices
- Ensure that new employees' MPF enrolment forms are fully completed

**MPFA can help by providing briefing sessions  
and information materials on DIS**





# Q & A

