

Legislative Council Panel on Financial Affairs

**Adjustment of the Minimum and Maximum Levels of
Relevant Income**

Introduction

Section 10A of the Mandatory Provident Fund Schemes Ordinance, which was enacted in July 2002, requires the Mandatory Provident Fund Schemes Authority (“MPFA”) to conduct a review of the minimum and maximum relevant income levels not less than once every 4 years.

In accordance with section 10A, the MPFA conducted a review of the minimum and maximum relevant income levels in mid-2006. This is the first such review conducted by the MPFA since the commencement of section 10A. A paper, based on the report submitted by the MPFA to the Government, setting out the finding of the review is attached at [Annex A](#).

Mandatory Provident Fund Schemes Authority

27 December 2006

**Review Report on Adjustment of the Minimum
and Maximum Levels of Relevant Income**



強制性公積金計劃管理局
Mandatory Provident Fund Schemes Authority

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1 Abstract

1.1 Section 10A of the Mandatory Provident Fund Schemes Ordinance (“Ordinance”) provides that the Mandatory Provident Fund Schemes Authority (“MPFA”) must, not less than once in every 4 years beginning with the commencement of that section, conduct a review of the minimum and maximum levels of relevant income to ascertain whether or not there are grounds to amend the levels.

1.2 Section 10A was incorporated into the Ordinance by virtue of the Mandatory Provident Fund Schemes (Amendment) (No. 2) Ordinance 2002. Section 10A commenced operation on 19 July 2002. To comply with that section, the MPFA would need to conduct the review of the levels and form a view as to whether or not the minimum and maximum levels of relevant income should be amended by July 2006.

1.3 The objective of this report is to set out the results of our review on the minimum and maximum levels of relevant income for mandatory contribution purpose, having considered the factors set out in section 10A of the Ordinance and other relevant considerations, and to make recommendations to the Government based on the review results.

1.4 We propose that the Government may consider:

- (a) retaining the minimum level of relevant income at \$5,000 per month; and
- (b) increasing the maximum level of relevant income from \$20,000 to \$30,000 per month.

2 Background

2.1 The minimum and maximum levels of relevant income are currently prescribed in Schedules 2 and 3 to the Ordinance as \$5,000 and \$20,000 per month respectively.

2.2 A relevant employee or self-employed person earning less than the minimum level of relevant income is not required to contribute to an MPF scheme while the employer of the employee still has to contribute for the employee.

2.3 A relevant employee or self-employed person earning more than the maximum level of relevant income is not required to contribute to an MPF scheme in respect of the earnings in excess of that maximum level. The employer of the employee is also not required to contribute for the employee in excess of that maximum level.

2.4 Section 10A of the Ordinance provides that the MPFA must, not less than once in every 4 years beginning with the commencement of that section, conduct a review of the minimum and maximum levels of relevant income to ascertain whether or not there are grounds to amend the levels. Section 10A commenced on 19 July 2002. This is our first review conducted since the commencement of that section.

3 Review

3.1 Present Position

Minimum Level of Relevant Income

3.1.1 Under section 9 of the Ordinance, a relevant employee or self-employed person whose relevant income is less than the minimum level of relevant income is not required to contribute to an MPF scheme but the relevant employee may by notice in writing to his employer elect to do so. The employer of the employee still has to contribute for the employee (Appendix A). The minimum level was initially set at \$4,000 on commencement of the MPF System in 2000 and legislation to raise the level to \$5,000 per month was passed in 2002 and became operative from 1 February 2003. The current \$5,000 level was set at 50% of the median income of \$10,000 per month in 2002.

3.1.2 The rationale behind the setting of a minimum level of relevant income would appear to be that an employee or self-employed person whose income is below a certain threshold might face significant financial difficulties if required to make MPF contributions.

3.1.3 Section 10A(2) of the Ordinance (Appendix A) sets out one of the factors that the MPFA must take into account in adjusting the minimum level of relevant income, viz. 50% of the monthly median employment earnings prevailing at the time of the review as compiled from the General Household Survey conducted by the Census and Statistics Department.

Maximum Level of Relevant Income

3.1.4 Under section 10 of the Ordinance (Appendix A), a relevant employee or self-employed person whose relevant income is more than the maximum level of

relevant income is not required to contribute to an MPF scheme in respect of the excess relevant income but the relevant employee may by notice in writing to his employer elect to do so. Further, an employer of a relevant employee is not required to contribute in respect of the excess relevant income. The maximum level of \$20,000 per month has been in place since the implementation of the MPF System in 2000.

3.1.5 The rationale behind the setting of a maximum level would appear to be that the MPF System is intended to mandate that the workforce save for basic retirement needs only; employees and self-employed persons who earn above a certain level of income should not be required to make further mandatory contributions even though they could always make additional voluntary contributions or make other investments to increase their savings for retirement.

3.1.6 Section 10A(2) of the Ordinance sets out one of the factors that the MPFA must take into account in reviewing the maximum level of relevant income, viz. monthly employment earnings at 90th percentile of the monthly employment earnings distribution prevailing at the time of the review as compiled from the General Household Survey conducted by the Census and Statistics Department.

3.2 Analysis

Minimum Relevant Income Level

3.2.1 The monthly median employment earnings for the second quarter of 2006 is \$10,000. According to the adjustment basis for the prevailing minimum relevant income level (i.e. 50% of monthly median employment earnings), the minimum relevant income level should be \$5,000, which is the same as the current level. The figures indicate that 50% of the monthly median employment earnings has stayed at around \$5,000 since the second quarter of 2001.

3.2.2 The MPFA is not aware of any other factors that suggest that the minimum relevant income level should be changed. The MPFA therefore recommends that the minimum level of relevant income be kept at the current level of \$5,000.

Maximum Relevant Income Level

3.2.3 The 90th percentile of the monthly employment earnings for the second quarter of 2006 is \$30,000. Applying the adjustment factor set out in section 10A of the Ordinance, the maximum level of relevant income would be increased to \$30,000 per month. In fact, the 90th percentile figure has stayed at the level of \$30,000 since 2001/2002.

3.2.4 In a review of the minimum and maximum levels of relevant income conducted in 2001/2002, before section 10A was enacted, it was decided that the level of \$20,000 should be maintained. The primary reason was due to the economic difficulties experienced at that time and in the light of the additional financial burden on employers if the maximum income level were to be increased. The secondary reason was that many employees in the income bands between \$20,000 and \$30,000 per month were members of MPF schemes receiving voluntary contributions on top of mandatory contributions, or were exempted from the Ordinance (e.g. teachers of subvented schools, civil servants on pension terms, overseas employees in other retirement schemes, members of exempted retirement schemes, etc.). In other words, these employees were already receiving contributions calculated on the basis of their total earnings. Based on those reasons, it was considered that even if the maximum level of relevant income was kept at \$20,000 per month, there would still be around 90% of employees receiving contributions based on total earnings. No proposal was therefore put forward to adjust the maximum level of relevant income in the 2001/2002 review.

3.2.5 In contrast, the current economic conditions and economic outlook are much improved compared to those prevailing in 2001/2002 when the maximum level of relevant income was last reviewed. Since mid-2003, the Hong Kong economy has

recovered gradually from the sluggishness experienced in the immediately preceding years. The employment situation has improved, with the unemployment rate falling gradually from 8.6% in the second quarter of 2003 to 5% in the second quarter of 2006. Private consumption expenditure went up by 3.7% year-on-year in real terms in 2005, after a 6.8% growth for 2004. The 68-month long deflation that started in November 1998 was arrested in July 2004. The consumer price inflation has been running at a moderate pace since then. GDP grew solidly by 7.6% in real terms in 2005, following a 8.6% growth for 2004 as a whole.

3.2.6 The methodology of using the 90th percentile of monthly employment earnings for adjusting the maximum level of relevant income was adopted after consultation with the employer and employee representatives and finally endorsed by the Legislative Council in 2002. Whilst it is an arbitrary benchmark, it does represent the consensus of the relevant stakeholders. With the economy in a healthier shape, it is difficult to identify other factors that suggest that the maximum level of relevant income should not be increased, in accordance with the statutory methodology, to the \$30,000 level.

Impact of Increasing the Maximum Relevant Income Level

3.2.7 The proposal to raise the maximum relevant income level to \$30,000 per month would only have an impact in relation to those who have monthly earnings in excess of \$20,000 per month. It would not have any immediate impact on the 83% (about 2 million) of MPF scheme members who currently earn below \$20,000 per month.

3.2.8 According to the information gathered by the MPFA as at June 2006, there are about 326,000 employees in MPF schemes with monthly earnings in excess of \$20,000. We estimate that about 167,600 of these employees earn between \$20,001 and \$30,000 monthly and about 158,400 of them earn above \$30,000. The average income of employees in the MPF System currently earning from \$20,001 to \$30,000 per month is 26,475, suggesting that the increase in the amount of employer mandatory contribution and employee mandatory contribution would each be \$325

per month (i.e. total additional contribution of \$650) should the maximum relevant income be raised to \$30,000. For those earning more than \$30,000, the respective additional contribution over the existing employer and employee mandatory contribution would be capped at \$500 per month for employer contribution and \$500 per month for employee contribution (i.e. total additional contribution capped at \$1,000). The impact of adjusting the maximum level of relevant income to \$30,000 on employees is summarized in Appendix B.

3.2.9 If the number of employees contributing to the MPF System is deducted from the total number of employees, there would be about 200,600 employees earning over \$20,000 not covered by the MPF System. These employees, mostly by virtue of their exempt status, would not be affected by any change of the maximum level of relevant income.

3.2.10 As for the self-employed persons (“SEPs”), there are about 83,900 SEPs in MPF schemes with monthly earnings in excess of \$20,000. About 40,400 of these SEPs earn between \$20,001 to \$30,000 per month while 43,500 of them earn above \$30,000. The average income of the SEPs in the MPF System currently earning from \$20,001 to \$30,000 per month is \$27,100, suggesting that the increase in the amount of mandatory contribution per month is around \$360 should the maximum relevant income be raised to \$30,000. For those earning more than \$30,000, the additional contribution over the existing mandatory contribution is capped at \$500 per month. The impact of adjusting the maximum level of relevant income to \$30,000 on SEPs is also summarized in Appendix B.

3.2.11 The MPFA is not aware of any other factors, relevant to the retirement savings system, that suggest that the maximum relevant income level should not be increased to \$30,000. A failure to raise the maximum level of relevant income at a time when economic circumstances are reasonably favourable might send a message that the contribution arrangement for the MPF System is intended to remain static. This would lend support to those who criticize the MPF System on the basis that it does not and will not provide an adequate level of savings for retirement. The MPFA therefore recommends that the Government consider increasing the maximum

Adjustment of Minimum and Maximum Relevant Income Levels

relevant income level to \$30,000, recognizing however that there may be other factors, not related to the retirement savings system, that the Government will need to take into account.

4 Recommendations

4.1 In the light of the discussion set out in section 3, the MPFA recommends that the Government consider:

- (a) maintaining the minimum level of relevant income at \$5,000 per month;
and
- (b) increasing the maximum level of relevant income from \$20,000 to \$30,000 per month.

4.2 The above recommendation has been endorsed by the MPFA's Management Board on 27 June 2006.

Appendix A

An extract of the Mandatory Provident Fund Schemes Ordinance

Section 9 Minimum level of income for contribution purposes

A relevant employee or self-employed person whose relevant income is less than the minimum level of relevant income specified in Schedule 2 is not required to contribute in relation to a registered scheme but, in the case of a relevant employee, may by notice in writing to his employer elect to do so.

Section 10 Maximum level of income for contribution purposes

- (1) A relevant employee or self-employed person whose relevant income is more than the maximum level of relevant income specified in Schedule 3 is not required to contribute in relation to a registered scheme in respect of the excess relevant income but, in the case of a relevant employee, may by notice in writing to his employer elect to do so.
- (2) If a relevant employee referred to in subsection (1) elects to make contributions to a registered scheme in respect of the employee's excess relevant income, the employee's employer-
 - (a) must give effect to the election by making deductions and paying contributions in respect of the employee in accordance with section 7A; and
 - (b) may also make contributions to the scheme in respect of that excess relevant income, but is not obliged to do so.

Section 10A Authority to conduct review of minimum and maximum levels of relevant income every 4 years

- (1) The Authority must, not less than once in every period of 4 years beginning with the commencement of this section, conduct a review of the minimum level of relevant income and the maximum level of relevant income to ascertain whether or not there are grounds to amend Schedule 2 or 3 or Schedules 2 and 3.
- (2) Without limiting the factors which the Authority may take into account for the purposes of conducting a review mentioned in subsection (1), the Authority must take into account-
 - (a) in respect of the minimum level of relevant income, 50 per cent of the monthly median employment earnings prevailing at the time of the review as compiled

from the General Household Survey conducted by the Census and Statistics Department; and

- (b) in respect of the maximum level of relevant income, monthly employment earnings at 90th percentile of the monthly employment earnings distribution prevailing at the time of the review as compiled from the General Household Survey conducted by the Census and Statistics Department.

Appendix B

IMPACT OF ADJUSTING THE MAXIMUM RELEVANT INCOME LEVEL (with Q2 2006 Figures)

Maximum Relevant Income Level

Current Level	HK\$20,000
Proposed Adjusted Maximum Level	HK\$30,000

Impact on Employees/Employers

Employees with earnings between \$20,001 and \$30,000

Average Income	HK\$26,475
Increase in monthly Employer Contributions	HK\$325
Increase in monthly Employee Contributions	HK\$325
No. of Employees covered by MPF Schemes	167,600
Increase in Annual Contributions	\$1,307 million (a)

Employees with earnings > \$30,000

Average Income	HK\$52,910
Increase in Employer Contributions	HK\$500
Increase in Employee Contributions	HK\$500
No. of Employees covered by MPF Schemes	158,400
Increase in Annual Contributions	\$1,901 million (b)

Total Increase in Annual Contributions \$3,208 million (a) + (b)

Adjustment of Minimum and Maximum Relevant Income Levels

Impact on Self-employed Persons (SEPs)

SEPs with earnings between \$20,001 and \$30,000

Average Income	HK\$27,100
Increase in monthly SEP Contributions	HK\$355

No. of SEPs covered by MPF Schemes	40,400
Increase in Annual Contributions	\$172 million (c)

SEPs with earnings > \$30,000

Average Income	HK\$73,400
Increase in monthly SEP Contributions	HK\$500

No. of SEPs covered by MPF Schemes	43,500
Increase in Annual Contributions	\$261 million (d)

Total Increase in Annual Contributions \$433 million (c) + (d)

Employees, Employers and SEPs

Total Increase in Annual Contributions \$3,641 million