In Part 1 of our new MPF series, we look at the frightening first disclosures of expense ratios for MPF funds, and how this will crush the performance of the money trapped in the MPF schemes relative to the markets they invest in.

MPF Part 1: What it Costs You

11th February 2007

In a previous article (Scrap the MPF, 23-Jun-05) *Webb-site.com* drew attention to the fact that a Mandatory Provident Fund index-tracking fund cost employees 2% per year on their accumulated contributions, equivalent to a 55% value-reduction over 40 years, or 33% over 20 years, relative to the underlying investment performance. Here's that table again:

How much of your money goes to expenses?

		Annual Total Expense Ratio					
		0.15%	0.50%	1.00%	1.50%	2.00%	2.50%
Years	10	1.5%	4.9%	9.6%	14.0%	18.3%	22.4%
	20	3.0%	9.5%	18.2%	26.1%	33.2%	39.7%
	30	4.4%	14.0%	26.0%	36.5%	45.5%	53.2%
	40	5.8%	18.2%	33.1%	45.4%	55.4%	63.7%

As you are about to discover, most MPF funds weigh in at well over 2% annual expenses.

Misleading performance

Partly in response to our criticisms, the MPF Authority came out last year with a 5-year investment performance review, seeking to draw attention to investment returns and away from analysing expenses. The report claimed that the MPF system as a whole recorded ***"an annualized return of 6.99% over the five-year period after fees and charges".*** In our view, that claim was misleading, and we'll show you why. Page 6 of the report gives 5 yearly returns for the scheme:

Year to 31-Mar	*Return*
2002	-2.49%
2003	-11.21%
2004	20.08%
2005	4.56%
2006	11.70%

The next line of the table makes that claim of 6.99% again, but if you compound the 5-year returns together, you in fact get a total of 21.42% over 5 years, which is a compound average return (**CAR**) of **3.96%** per year. The figure used in the report was (as the small print discloses) an internal rate of return (**IRR**) or "dollar-weighted" figure

which was higher because there was more money in the scheme in the later, positive years, than there was in the earlier, negative years of the scheme. You can't depend on that pattern repeating itself, but even if exactly the same sequence of annual returns occurred, for those in the scheme from the beginning, the weight of the money already invested would drag the IRR back towards the compound average. The CAR is the fair measure to use.

In any event, 5 years is not a long time in market terms. We have no reason to believe that the gross average performance of all funds will be any worse or better than the underlying markets as a whole, but the net performance is what matters, and what the report completely avoids mentioning is the annual impact of fees and expenses, and how much lower that impact would be if people were allowed to invest their own money directly in the markets or in index funds.

Expenses running at 2.5% per year

In Jun-04, the MPFA published the Code on Disclosure for MPF Investment Funds, but most of its requirements did not kick in until recently. Fund expense ratios (**FERs**) were calculated for any financial year which commences after 31-Dec-04. Some fund providers, such as HSBC, use a June year-end, so the first figures, for the year to Jun-06, have only recently appeared. The Code requires an "On-going Cost Illustration" in a prescribed format which shows the FER for the latest year, and the dollar cost of such expenses after 5 years for each $1,000 invested, assuming a gross return of 5% per year.

Some, but not all, trustees publish these figures on their web sites. The table below shows, for each trustee (in alphabetic order), the lowest and highest FERs of the funds in their disclosure, and the projected 5-year cost for each $1,000 invested:

			5-year cost on $1000	
Trustee	*Min FER*	*Max FER*	*Min $*	*Max $*
Bank Consortium Trust	1.79%	2.04%	100	114
BOCI-Prudential	1.61%	1.75%	90	98
Fidelity	2.24%	2.53%	123	139
HSBC/Hang Seng Bank	2.00%	2.81%	111	154
ING Pension Trust	2.05%	2.81%	114	154
Manulife	2.32%	2.33%	128	129
Principal Class A	2.23%	2.28%	123	126
Sun Life	2.07%	2.11%	115	117

Note: BCT maximum FER is adjusted for refund of a maintenance fee

Under the Code, those expense ratios are actually understated, because they exclude transaction costs on the underlying investments, such as stamp duty and brokerage costs on buying or selling equities. If these aren't expenses, then what are they? The more actively a fund turns over its portfolio, the higher those costs will be, eating into the returns on the funds relative to the markets in which they invest. You can probably add another 0.2% to those FERs to take account of underlying transaction costs, so you'll be

looking at a mid-point of about **2.5% per year, which after 5 years will cost you about $138 for every $1,000 invested**.

That's just 5 years! If the MPF continues, over a lifetime of contributions, the performance of all funds will be crushed by the expenses.

The lack of competition on MPF fees should be no surprise, because it is the employers who choose the fund providers, not the employees, and the only way to change providers is to change jobs, in which case you can move the money to a fund provider of your choice, or to your new employer's fund provider, but in the process you may incur redemption charges.

To stimulate competition, the MPFA should publish on its web site the expense ratios and complete historic performance figures of every fund in the MPF schemes, in an easily searchable database with comparison tables by fund type, so that the public can more readily find out which are the highest-cost and lowest-cost providers for each type of fund. At the moment, you can hunt all over the internet and still not find that information. All the MPFA has produced is clumsy Excel spreadsheets of unit prices, one for each of the last 12 months, but no performance or expense data. The MPF, as long as it exists, is always going to be expensive to administer, and those costs are going to be built into the funds, but competition would help limit the damage to employee's wealth.

Incidentally, the transparency in the mutual fund industry (outside of the MPF) is even worse, as the SFC's Code on Unit Trusts and Mutual Funds contains no disclosure requirement on expense ratios in mutual fund advertisements reports or fact sheets. We call on the SFC to address this problem, and then to publish on its web site a database of mutual fund returns and expense ratios. Indeed it would be better if the SFC and MPF worked together on this so that people can compare MPF funds with non-MPF funds.

Past investment performance may not be a guide to the future, but past expense ratios are.

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Part 2: Stop the MPF Increase

We call on the Government to stop the proposed increase in MPF contributions, which we estimate will cost HK$4.24bn per year. We renew our call to abolish the MPF and return economic freedom to the people. As more capital gets trapped in MPF funds, demands to withdraw it for urgent needs will become more frequent. And is Donald Tsang planning a Mandatory Medical Savings scheme?

MPF Part 2:
Stop the Increase

11th February 2007

If you are a middle-income worker, smiling at the thought of spending your recent pay increase, wipe that smile off your face, because what the employer gave, the Government will take away. It's for your own good, they say.

Quietly during the 3-day week between Christmas and New Year, the Government announced a proposed increase in the costs of employment and a decrease in take-home pay for anyone earning over HK$20,000 per month in Hong Kong. If the Government gets its way, the maximum level of "relevant income" for calculating contributions to the Mandatory Provident Fund will be raised from $20,000 to $30,000. Employers, employed persons (**EPs**) and self-employed persons (**SEPs**) in the MPF schemes have to contribute 5% of relevant income to the MPF, so that's up to an extra $500 per month for each. As we show below, the total additional cost based on 2006 incomes is about **HK$4.24bn**.

To be precise, the proposal has been "submitted" to Government by the Mandatory Provident Fund Schemes Authority. This in turn is advised by the Mandatory Provident Fund Schemes Advisory Committee (**MPFSAC**), one of those Government-appointed bodies created in an attempt to legitimise decisions of a government without an electoral mandate. The proposed increase is subject to the approval of the Chief Executive and the Legislative Council.

The MPFSAC is chaired by Professor Nelson Chow Wing Sun, SBS, a many of many hats who also sits on the Barristers Disciplinary Tribunal Panel, the Commission on Strategic Development Executive Committee, and the Commission on Poverty, to which the Government attaches such importance that it has forgotten to announce any extension of its members' terms, which expired on 27-Jan-07. When we contacted the COP's secretariat, Mr K C Lam told us that the terms had in fact been extended to 30-Jun-07 - you read it here first!

According to Professor Chow, ***"the [MPF] increase proposed would enhance employees' sense of belonging".*** Belonging to whom exactly? Belonging to the Government? Belonging to banks? Belonging to employers? Incidentally, Professor Chow lost his seat on the Election Committee in December, fetching only 707 votes from a voter turnout of 2,505 in the Higher Education sub-sector, far behind leader Joseph Cheng Yu Shek with 1709 votes. Perhaps Professor Chow has lost his own sense of belonging. He has also chaired the MPFSAC for over 8 years, beyond the normal 6-year limit for Government appointments. His term expires on 30-Mar-07.

Twisted rationale

In 2002, the MPF Ordinance was amended to require that every 4 years, the MPFA must conduct a review of the minimum and maximum levels of "relevant income", and make recommendations to Government. Without limiting the factors, they were required to take into account, in respect of the minimum, 50% of the monthly median employment earnings from the General Household Survey (**GHS**) (currently $5,000), and in respect of the maximum, the employment earnings at the 90th percentile - in other words, the level of earnings which is only exceeded by 10% of the work force. In the first review in 2002, the 90th percentile was already at $30k, but the Government cited the *"current economic situation"* and left the maximum at $20k.

The use of the 90th percentile begs a question: if the intent of the MPF was to provide for a basic level of assets upon retirement, to reduce the risk of reliance on social security payments, then why make it mandatory for higher income groups to save so much? For sure, higher savings would afford them a better standard of living on retirement, but the decision to save for that lifestyle ought to be a matter of personal choice, since the state does not have an obligation to support anyone's higher quality lifestyle, as any former judge convicted of welfare fraud will tell you.

The proposal is now that the total contribution at the top end, based on $30,000 per month, should be $3,000, which is 12 times the $250 contribution for a low-skilled worker earning $5,000, because up to that level only the employer has to contribute.

50% of MPF EPs earn less than $10,000 per month and (with employers) pay less than $1,000 monthly into the MPF. The proposed maximum is 3 times the median. Is this median contribution sufficient?, If so, then why force higher savings? Or is the Government implying that the median rate of mandatory savings won't be enough for basic subsistence, for 50% of the workforce? If so, then the MPF fails its purpose, and the Government should have the intellectual honesty to admit it.

Even if the contributions are sufficient, the MPF doesn't really fulfill its intended purpose, because there are no constraints on spending the money when you retire at 65. You can take the lot and pay off debts, or put it on any horse you like at Happy Valley, and then go back to welfare.

Impact on the $20k+ group

According to the MPFA's submission on 5-Jan-07 to the Legislative Council Financial Affairs Panel, as of 30-Jun-06, there were 326,000 EPs in MPF schemes with monthly relevant income over $20,000, or about 16.1% of 2.019m EPs at that date. There were also about 83,900 SEPs in MPF schemes with relevant income over $20,000 per month, or about 29.2% of 0.287m SEPs in the schemes at that date. Of these, the MPFA estimates that 167,600 EPs and 40,400 SEPs earned between $20-30k. The MPFA estimates average monthly relevant income within the bands as follows:

Relevant income	*EPs $/m*	*SEPs $/m*	*Average $/m*
$20-30k	26,475	27,100	26,596

$30k+	30,000	30,000	30,000
Average	28,188	28,604	**28,272**

Using later enrolment data from the latest [MPFA Statistical Digest for 31-Dec-06] (where EPs had grown 2.6% in number), and assuming the same earnings distribution, *Webb-site.com* estimates the number of people in each income band at 31-Dec-06 was as follows:

31-Dec-06	*EPs*	*SEPs*	*Total*	*EPs*	*SEPs*	*Total*
$20-30k	171,917	40,118	212,035	8.30%	14.08%	9.00%
$30k+	162,480	43,197	205,677	7.85%	15.16%	8.73%
	334,396	83,315	417,712	16.15%	29.23%	17.73%
Total enrolment	2,071,000	285,000	2,356,000	100.00%	100.00%	100.00%

Source: MPFA, Webb-site.com

That's probably an understatement, as some EPs would have had pay raises since Jun-06, increasing the numbers of EPs over $20k. Based on our estimated numbers of EPs and SEPs at 31-Dec-06, we've calculated the impact of the proposed MPF increase on people earning more than $20k per month. We've taken into account lunar new year "13th month" payments to EPs (see below). The total increase in contribution is about $3.78bn, as follows:

$m	*Employer*	*EPs*	*SEPs*	*Total*
MPF before				
$20-30k	2,063	2,063	481	4,607
$30k+	1,950	1,950	518	4,418
	4,013	4,013	1,000	9,025
MPF after				
$20-30k	2,761	2,761	652	6,175
$30k+	2,925	2,925	778	6,627
	5,686	5,686	1,430	12,802
Increase $m				
$20-30k	698	698	171	1,567
$30k+	975	975	259	2,209
	1,673	1,673	430	**3,776**

More people affected, higher cost than they claim

The MPFA LegCo submission says that the increase ***"would not have any immediate impact on the 83% of MPF members who earn below $20k per month"***, but that is not true, because the MPFA has ignored the fact that most EPs receive part of their income as a 13th month lunar new year payment. MPF for EPs is assessed on actual pay in each calendar month, so that pushes anyone with a regular salary exceeding $10k into the space above $20k for 1 month. SEPs pay MPF based on their assessable profits as sole proprietor of their business, and can opt for annual payment, so they are not subject to the lunar new year effect.

This effect can be seen in the MPF statistics, which show that mandatory contributions in the quarter to 31-Mar-06 were $6.57bn compared with $5.96bn in the previous quarter. Taking the previous quarter's average of $1.99bn per month, we can see that MPF contributions in the lunar new year month are about 29% higher than normal months.

Looking at the Government's [2006 Q3 General Household Survey] of employment earnings, we note that 22.2% of 3.286m people in employment (including self-employment) earned more than $20k/month, a lot higher than the 16.3% of MPF EPs. That's partly because a lot of higher-income people are in the civil service pension scheme or in exempt ORSO schemes, and hence are exempt from the MPF. Scaling up the rest of the figures from the GHS, we estimate that about 711,000 MPF EPs, or about one third, earn between $10-20k per month, as follows:

Band bottom $/m	*Band median $/m*	*% of MPF EPs*	*Estimated EPs*	*Current MPF $/y*	*Proposed MPF $/y*	*Increase $/y*	*Total MPF increase $m*	*Current MPF $m*
10,000	11,000	10.4%	215,344	7,050	7,150	100	22	1,518
12,000	13,000	9.4%	194,699	8,150	8,450	300	58	1,587
14,000	15,000	8.0%	166,041	9,250	9,750	500	83	1,536
16,000	17,000	3.2%	66,620	10,350	10,850	500	33	690
18,000	19,000	3.3%	68,250	11,450	11,950	500	34	781
		34.3%	710,954				**230**	6,112

The table shows that under the proposed increase, these EPs and their employers will each pay about $230m of additional MPF contributions per year, a total of $460m. So only 50% of EPs, who earn less than $10k, will be unaffected, and even then, some of them, such as estate agents, may have irregular incomes which occasionally exceed the current $20,000 maximum.

Adding the impact on EPs from $10k-20k to the impact on all members above $20k takes our estimate of the total annual increase in MPF contributions, based on 2006 incomes, to **$4,236m**, about 16% more than the $3,641m estimate given to Legislators by the MPFA. 2007 pay increases will raise it further. Mandatory contributions in 2006 were $25.40bn, so the proposal will increase that by about 17% to $29.64bn per year.

What it means for someone on $30k

If you earn $30,000 per month, then your take-home pay (before tax) will be cut by $500, or 1.67% per month. If you have just received a 4% salary increase, then deduct 1.67% for MPF, and then deduct the 2.3% rate of inflation (as of Dec-06), and you will find yourself no better off than last year.

Employers

Although some employer groups have expressed reservations and some have opposed the increase in their [submissions] to LegCo, they have not been protesting loudly about this, but there may be a reason for the mild response. They are allowed to [offset] their

own contributions against amounts that they would have to pay under statutory severance and long-service payments. If a person has served at least 5 years, and is dismissed, or retires after reaching the age of 65, or becomes medically unable to work, then he gets 2/3 of his final month's wages (capped at a salary of $22,500) in respect of each year of service up to a maximum payment of $390,000. That works out at 1/18 or 5.55% of final salary per service year, subject to the caps, so broadly speaking, for the cases of severance, medical disability or retirement, the MPF contributions have only shifted the cash-flow but not materially changed the eventual cost for employers. That offset was how the Government persuaded employers to support the introduction of the MPF in the first place.

There are some real costs, however, because if employees under 65 resign, then they can take the employer's contributions with them, whereas they would not have qualified for long service payment in the past.

The demographic time bomb myth

Governments of developed economies around the world, and Hong Kong is no exception, wring their hands over a purported "demographic time bomb" or the "rising cost of old age social security". It makes for sensational headlines, but it is really a myth supported by the vested interests of financial institutions who push for legislative mandates or tax incentives to capture savings. Here are the realities:

- For sure, people are living longer, and birth rates in the developed economies have fallen below replacement levels, but there is no shortage of young people from the developing world to make up for it - and migration will be incentivised by work opportunities. According to the US Census Bureau, in 2030, the world population is projected at 8.3bn, up from 6.5bn in 2006, and the percentage of working-age between 20 and 64 will be 57.1%, up from 55.6% at present.
- As people live longer and stay fitter longer, they are able to work longer, helping to offset the increase in the retired/working ratio. In 2030, the global percentage over 65 will increase from 7.4% to 12.0%, but the percentage over 70 will be 8.0%. One option is to raise the retirement age for social security by 1 year every 5 years from now until 2027, which would keep the percentage of the population above that age static.
- Technology over decades has produced, and continues to produce, productivity gains so that although the retired/working ratio has increased, the number of workers needed to support each retiree on welfare has reduced. We are no longer in a world of subsistence farming.
- Those who are having fewer or no children will spend less of their lifetime income on child-rearing, increasing their ability to support themselves in retirement.
- Finally, in the case of a recently-developed economy like Hong Kong, remember that people retiring today started work when Hong Kong was just a backward manufacturing economy with much lower real (inflation-adjusted) incomes than now. They did not have the lifetime earnings capacity that many people have today. The retirees of 2030 will, on average, be more prosperous than those of 2006, and fewer will need social welfare.

Moral dilemmas over trapped capital

In Jun-05, we called for the MPF to be scrapped, and we reaffirm that view. The MPF is inconsistent with the principles of economic freedom that made Hong Kong successful, including personal freedom to choose when and how to invest, save or spend. The MPF is hugely expensive to administer and regulate, and as the contributions accumulate, it won't be many more years before the annual fees and expenses on the funds are more than HK spends on old-age social security. Today, thousands of workers in Hong Kong, and the firms which employ them, are paid by all the other workers to do nothing but arrange the MPF schemes for those other workers. Couldn't these MPF arrangers be doing something more productive?

Hypocritically, virtually the only workers who are not subject to the overhead costs of MPF are the civil servants who dreamed up the scheme in the first place, because they will get a pension, paid for from taxation. The Government should focus on providing the basic social safety net through CSSA, which, like civil service pensions, is paid for by taxes, and not interfere with the people's freedom of choice beyond that.

As of Dec-06, there was $202bn in the MPF, and another $211bn in ORSO (Occupational Retirement Schemes Ordinance) schemes. The MPF money is already equivalent to about $86,000 per scheme member. As this pile grows, the public are likely to increasingly resent this intrusion into their affairs, because more of their net worth will be "trapped capital", untouchable at times when they might need it.

For example, if a home-owner loses his job, and can't keep up with his mortgage payments, then he could lose his home to the same bank that is managing his MPF account, but he would be unable to withdraw money from the MPF to service his mortgage. Even for those who have jobs, it is really quite ridiculous that you have to pay fees to a bank for managing your MPF money at the same time as paying an interest spread to the bank on your mortgage debt. The bank makes money both ways! You should be able to divert your MPF contributions to your mortgage.

Wait until interest rates start rising again, and the current property bubble bursts, then you will see what we mean. If the purpose of the MPF was to provide security for retirement, then surely it is consistent with that to allow people to secure a roof over their heads and not require public housing.

Or take another example: a person is told that she or her child needs an operation, only available overseas or privately, or after a lengthy wait in HK, and she can't afford private treatment, but could if she was allowed to withdraw money from her MPF. Or what about education - a child may want to go overseas to university, but the parents can't afford it without drawing down their savings. If the money is trapped in the MPF, then that is not an option. That education might increase the child's earnings potential and thereby make him more able to support his parents in old age, as well as paying more tax to support the social security system.

Coming soon: Mandatory Medical Savings?

All of the issues relating to trapped capital will become more obvious as the MPF enlarges.

Despite this, the Government has another scheme under gestation, which is just beginning to show signs of birth: let's call it the Mandatory Medical Scheme, or MMS. Donald Tsang, in the going-around-in-small-circles policy blueprint published last week for his re-appointment campaign, says:

> **"I will consider introducing savings accounts for our citizens to pay for medical services".**

Now of course, anyone can save already or buy medical insurance if they want, so in order for his statement to imply anything new, he must be alluding to a mandatory scheme, or one that involves Government subsidy to incentivise contributions. Making contributions tax deductible wouldn't have much benefit, since only high income people pay material rates of direct tax and most of them already have private or company medical care anyway. **We dare him to commit that the savings scheme will not be mandatory. If he doesn't, then you'll know why.**

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Part 3: The Bloated Regulator
Part 1: What the MPF Costs You

MPF's regulator, the MPFA, was grossly overcapitalised at inception and has been waiving the annual registration fee it should be charging to trustees, thereby subsidising the industry at almost HK$200m per year. This fee should be collected to cover its costs, and the MPFA should return $5,000m of surplus capital to the Government.

MPF Part 3: The Bloated Regulator

11th February 2007

Perhaps the most ridiculous thing about the Mandatory Provident Fund Schemes Authority (**MPFA**) is the endowment of HK$5bn (US$641m) it was given by Government when it was set up. This is just a regulator, and yet it has more net assets than most listed companies. As shown in the MPFA financial statements, in the year to Mar-06, it had operating expenses of $203m, and net assets of $5,378m. Virtually all of those net assets comprise investments and cash, with just $12m in fixed assets. Even if the returns on that portfolio do no more than keep up with inflation, it would still be enough to operate for the next 26 years without any fee income.

About a quarter of the money is in listed equities. Managing the stash is a task in itself - there is a non-executive Finance Committee which meets twice a year and oversees an internal management team and three external fund managers. Investment expenses alone were $15.2m last year, and that probably excludes the internal asset management staff.

Last year, the MPFA's fee income was just HK$8.9m, only enough to cover 4% of its expenses. This means in effect that the Government, through the MPFA, is subsidising the MPF industry to the tune of $194m per year and rising. Section 22B of the MPF Ordinance actually requires trustees (there are currently 19) to pay the MPFA an annual registration fee to cover its expenses, but the MPFA has been waiving this fee by setting it at zero ever since the MPFA was established. Enough is enough. The annual registration fee should be charged as the law intended. At current levels, the fees would be equivalent to about 0.1% of the $202bn funds under management. If that sounds like a lot, then blame the inefficiencies of the MPF scheme. In the MPFA accounts, there's no divisional breakdown of how they spend $203m, but we would guess that a lot of it goes to the Enforcement Division in handling complaints from employees about non-payment or non-enrolment in MPF (10,285 complaints last year), investigating and prosecuting offenders. The MPFA also had to handle 161,428 enquiries last year, 97% by phone.

When the MPFA was founded in 1998, the funds in the schemes were zero, and it may have been difficult to get the industry to pay for it. The Government probably wanted to minimise the potential for the Legislative Council to disrupt the MPFA's funding, so rather than grant an annual subsidy, it granted an up-front endowment. That was a big mistake on two counts. First, $5bn was grossly excessive, because the MPFA only needed enough money to survive its early years until the industry was established enough to pay the annual registration fee. Second, the money should have been lent to the MPFA instead, so that the industry could pay it back over time, following the principle of user-pays.

If the Government chooses not to abolish the MPF, then obviously we still need

the MPFA to regulate it, but it should return $5bn of surplus capital to the Government and stop waiving the annual fees which should cover its costs. The remaining $378m would be more than enough reserves to handle fluctuations in fee income.

By comparison ,the Securities and Futures Commission, a much larger regulator which had expenses in the year to Mar-06 of $497m, had reserves at 31-Mar-06 of $1.21bn, up from $0.86bn a year earlier, as a result of a huge surplus from levies on the bull market. The Government has cut the SFC's levy rate by 20% this year. Still, the SFC's swollen balance sheet was only a quarter of the size of the MPFA's.

Compensation Fund

We should also mention that apart from the $5bn stuffed into the MPFA at inception, another $600m of public money was put into a compensation fund, in case any of the MPF providers defraud their customers, and their insurers fail to cover the loss. Supplemented by a annual levy of 0.03% on the each fund in the MPF, amounting to $49m last year, this fund has grown to $932m without a claim. As the compensation fund has now exceeded its original target level of $900m, the levy for that can end, unless they plan to use the surplus to repay the $600m to the Government.

There's a case for scrapping the compensation fund anyway, because like the HKMA's Deposit Protection Scheme or the SFC's Investor Compensation Fund, it creates a moral hazard - consumers then care less, or are careless, about the honesty of their financial intermediaries or the quality of the fidelity insurance. Through the levies on their assets, those who do take care are subsidising those who don't. Unfortunately, in the case of the MPF, this argument is undermined by the fact that the trustees and fund providers are generally chosen by the employers, not the employees to whom the assets belong. Until that changes, the compensation fund will have to stay.

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