

January 30, 2007

Honorary Chan Kam-lam, SBS, JP
Chairman of the Panel on Financial Affairs
Legislative Council, HKSAR of the PRC
Legislative Council Building
8 Jackson Road
Central, Hong Kong

Dear Mr. Chan,

Re: Review of the minimum and maximum relevant income levels for Mandatory Provident Fund (“MPF”) contributions

I refer to your letter dated January 10 and thank you for inviting HKIFA to provide our views on the subject.

The Hong Kong Investment Funds Association (Please refer to Appendix 1 for the background) is in support of the proposal to maintain the adjustment mechanism for determining the minimum and maximum relevant income levels MPF contributions, i.e.

- a) in respect of the minimum level of relevant income, 50% of the monthly median employment earnings (monthly median income); and
- b) in respect of the maximum level of relevant income, monthly employment earnings at 90th percentile of the monthly employment earnings distribution.

The levels have been arrived at after thorough deliberations by the Legco members and we believe that they represent an optimal balance – they take into consideration the needs of employers and employees; as well as allow sufficient flexibility to cater for the prevailing economic conditions.

Based on the above mechanism, the Mandatory Provident Fund Schemes Authority has, under the current review exercise, proposed to raise the maximum level of relevant income from HK\$20,000 to HK\$30,000 per month. We believe that this move will further reinforce the robustness of the Hong Kong retirement system.

What is the implication to employers and employees if the cap is raised to HK\$30,000?

For an employee who earns HK\$30,000, he/she has to contribute HK\$500 more per month. This also applies to his/her employer.

Hong Kong Investment Funds Association

Assumptions:

- 1) Assume the employee is at age 35 and makes contributions till 65, i.e. total number of years of contribution – 30.
- 2) MPF investment return: 6.99% per annum (Based on MPFA's report – A five-year investment performance review of the MPF system – July 2006)

Outcome:

| | |
|--|---------------|
| Increase in the monthly contribution amount made by the employee and the employer: | HK\$1,000 |
| Increase in contributions over the 30-year period: HK\$1,000 x 12 x 30 | HK\$360,000 |
| Increase in accrued benefits upon retirement: | HK\$1,220,000 |

Based on the above, it can be seen that the additional contributions would translate into a much larger pool of accrued benefits due to the power of compounding – in the above example, the output is 3.4 times that of the input. The effect of compounding is even more powerful if the process starts earlier and if the amount put aside is even larger.

We would exhort members of the Legco to support this proposal so to enable more employees to further capitalize on MPF to build their retirement nest eggs – over the long term, this would not only benefit the employees; but the community at large.

If you have further questions or need clarification, please don't hesitate to contact us on 2537-9912.

Yours sincerely,



Sally Wong
Executive Director

Hong Kong Investment Funds Association

Appendix 1

Hong Kong Investment Funds Association - Introduction

The Hong Kong Investment Funds Association ("HKIFA") is the professional body that represents the investment management industry in Hong Kong.

Established in 1986, the HKIFA has two major roles, namely consultation and education. On consultation, it acts as the representative and consulting body for its members and the fund management industry generally in all dealings concerning the regulation of unit trusts, mutual funds, retirement funds and other funds of a similar nature. Towards this end, it reviews, promotes, supports or opposes legislative and other measures affecting the fund management industry in Hong Kong. Another very important task is to educate the public about the role of investment funds in retirement planning and other aspects of personal financial planning.

The HKIFA has four categories of members, namely full member, overseas member, affiliate member and associate member. A fund company can qualify as a full member or an overseas member if it is either the manager or the investment adviser of at least one Investment Fund.

An "Investment Fund" means

- an authorized unit trust/mutual fund; or
- a pooled retirement fund authorized under the Code on Investment-Linked Assurance Schemes or the Code on Pooled Retirement Funds; or
- a retirement scheme registered under the Occupational Retirement Scheme Ordinance; or
- a provident fund scheme registered under the Mandatory Provident Fund Schemes Ordinance; or
- a closed-end investment company listed on a recognized exchange.

The main difference between these two types of members is that a full member must be a company incorporated in Hong Kong or if it is incorporated outside Hong Kong, has established a place of business in Hong Kong whereas an overseas member must be a company incorporated outside Hong Kong.

An affiliate member is a company that has obtained a licence from the Hong Kong Securities and Futures Commission for type 9 regulated activities or it is a fund company incorporated in the People's Republic of China; and its primary business is fund management including the management of discretionary accounts, segregated portfolios or providing investment management services for non-collective investment schemes or the manager or investment adviser of any fund investment company or arrangement not included as an Investment Fund.

An associate member is a company conducting or providing any service of accounting, legal, trustee, custodian, administration, banking, distribution, and technological support to the fund management industry or any related professional services.

At present, HKIFA has 41 fund management companies as full/overseas members, managing about 1,100 active SFC-authorized funds. Assets under management amounted to about US\$620 billion as at the end of November 2006. In addition, it has 52 affiliate and associate members.

www.hkifa.org.hk

(Prepared: January 2007)