

香港特別行政區政府
財經事務及庫務局
財經事務科
香港夏慤道十八號
海富中心第一座十八樓



FINANCIAL SERVICES BRANCH
FINANCIAL SERVICES AND
THE TREASURY BUREAU
GOVERNMENT OF THE HONG KONG
SPECIAL ADMINISTRATIVE REGION
18TH FLOOR
ADMIRALTY CENTRE TOWER 1
18 HARCOURT ROAD
HONG KONG

電話 TEL.: 2527 1181
圖文傳真 FAX.: 2528 3345
本函檔號 OUR REF.:
來函檔號 YOUR REF.:

18 October 2011

Clerk to Subcommittee
(Attn: Ms Becky Yu)
1 Legislative Council Road,
Legislative Council Complex,
Central, Hong Kong

Dear Miss Yu,

**Subcommittee on Mandatory Provident Fund Schemes Ordinance
(Amendment of Schedule 3) Notice 2011 –
Follow-up to meeting on 29 July 2011**

I refer to your letter of 1 August 2011 requesting the Administration to provide (in tabular form) response to the written submissions on the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2011. The Administration's response to the submissions on the proposed increase of Maximum Relevant Income Level for Mandatory Provident Fund contribution is enclosed at **Annex**.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Frederick Yu'.

(Frederick Yu)
for Secretary for Financial Services and the Treasury

**Summary of written submissions received and
the response of the Administration**

No.	Summary of written submissions received	Response of the Administration
1.	<p><u>Institution of Dining Art</u> (CB(1) 2809/10-11(01))</p> <p>The Institution considers that the increase of Maximum Relevant Income Level (“Max RI”) for Mandatory Provident Fund (“MPF”) contributions will further increase the operating costs for the catering industry, especially small and medium enterprises (“SMEs”), on top of rising costs on raw materials and rents, as well as increased staff costs due to Statutory Minimum Wage (“SMW”). Employees will also need to make more contributions.</p> <p>The Institution submits that according to a survey conducted by it, employers and employees of the catering industry generally do not support the proposed increase of Max RI from \$20,000 to \$25,000. The Institution requests the Government to shelve the proposal.</p>	<ul style="list-style-type: none"> • In the course of finalizing the legislative proposal on Max RI and the implementation timeframe, the Mandatory Provident Fund Schemes Authority (“MPFA”) has consulted the relevant advisory bodies and the Administration and MPFA have consulted the Legislative Council Panel on Financial Affairs (including attending a public hearing). • The statutory factors to be considered for the review of Max RI have pointed to a level of \$30,000 since 2002, but the existing Max RI of \$20,000 has not been amended since inception of the MPF System in 2000. This is not conducive to the objective of enhancing retirement protection. In this connection, the proposal to increase the Max RI has the support of political parties and a number of employers’ and employees’ associations, although their preferences vary from \$22,000 to \$30,000. • On the other hand, some employers’ associations indicated that businesses, especially small and medium enterprises, were still digesting the cost implications resultant from the implementation of the SMW in May 2011 and any major increase in Max RI would pose hardship. While some employees support making additional MPF contributions to provide greater protection for the retirement needs, there were also different views among employees as some did not support additional MPF contributions which would reduce their disposable income and investment flexibility. • After taking account of the views received, the Administration and

No.	Summary of written submissions received	Response of the Administration
		<p>MPFA consider an increase of Max RI to \$25,000 would strike an appropriate balance between addressing the basic retirement needs of the working population and their present livelihood. We propose the implementation of the increased Max RI should commence on 1 June 2012, which is about one year after the announcement of the proposal on 14 June 2011, so as to allow employees and employers a longer time to adjust to the new contribution level.</p>
2.	<p><u>Hong Kong Catering Industry Association</u> (CB(1) 2840/10-11(01))</p> <p>The Association considers that Max RI should not be increased as (i) the catering industry is still digesting the increased staff costs as a result of the SMW; (ii) the operation of the catering industry has been affected by increased rents and raw materials in recent years. The industry, in particular SMEs, will be most affected by the increased Max RI; and (iii) employees will prefer more disposable income for meeting daily expenses. Staff earning more than \$20,000 should be able to make their own investment for retirement. There is no strong request from employees to increase Max RI.</p>	<ul style="list-style-type: none"> • Please see the response at item 1 above.
3.	<p><u>The Hong Kong Chinese Importers' & Exporters' Association</u> (CB(1) 2809/10-11(02))</p> <p>The Association welcomes the increase of Minimum Relevant Income ("Min RI") from \$5,000 to \$6,500 on 1 November 2011.</p> <p>While the Association agrees that Max RI should be increased,</p>	<ul style="list-style-type: none"> • We welcome the Association's support for the increase of Min RI. • On the proposed increase of Max RI to \$25,000, please refer to the response at item 1 above. • Regarding the reduction of administration fees, MPFA has announced that it would commission an independent consultancy study on trustees' administration costs. The study seeks to

No.	Summary of written submissions received	Response of the Administration
	<p>it has reservation about the proposed increase of Max RI from \$20,000 to \$25,000 which will increase the burden of SMEs given the gloomy global economic outlook, the impact of SMW and rising rents. The Association suggests an increase to \$22,500 instead.</p> <p>The Association also considers the Administration should introduce measures to reduce the administration fees charged by MPF trustees.</p>	<p>identify ways to further simplify administrative processes which may assist MPFA to propose measures to reduce the costs. MPFA expects the preliminary result to be ready in Q2 2012.</p> <ul style="list-style-type: none"> ● In addition, MPFA is now preparing for the implementation of the Employee Choice Arrangement (“ECA”) which allows MPF scheme members to transfer their benefits accrued from mandatory contributions during current employment to an MPF scheme of their own choice. ECA is expected to promote greater market competition with a view to creating room for lower fees. In this connection, the Administration and MPFA is pressing ahead the drafting of the legislation to enhance the regulation of MPF intermediaries activities to safeguard the interests of scheme members before the implementation of ECA. We plan to introduce the Bill into LegCo in Q4 2011. Subject to the passage by LegCo in the 2011-12 legislative year, ECA can be implemented in H2 2012. ● In addition, the Administration and MPFA have undertaken various initiatives over the years to facilitate fee reductions, including, amongst others, streamlining administrative procedures, enhancing fee transparency and increasing market competition. The average Fund Expense Ratio of MPF funds have decreased by 14% from 2.1% in January 2008 to 1.80% in September 2011. All trustees have reduced fees (with over half having fee reduction more than once), or have introduced new low-cost funds or schemes. The Administration and MPFA believe there is still room for fees reduction and MPFA and the industry are expected to continue to work for reduced fee levels. ● The Administration and MPFA will continue to make use of

No.	Summary of written submissions received	Response of the Administration
		market forces to encourage MPF trustees to adjust their fees levels.
4.	<p><u>Federation of Hong Kong Industries</u> (CB(1) 2840/10-11 (02))</p> <p>The Federation welcomes the proposal to increase Max RI from \$20,000 to \$25,000 instead of an increase to \$30,000. The Federation considers the increase will help protect the post-retirement life of employees and alleviate the burden on the next generation.</p> <p>The Federation also supports the implementation of the revised Max RI in June 2012 to allow more time for employees and employers to adapt to the change.</p>	<ul style="list-style-type: none"> • We welcome the views of the Federation.
5.	<p><u>A member of the public</u> (CB(1) 2809/10-11 (03))</p> <p>The respondent opposes to the increase of Max RI from \$20,000 to \$25,000 as (i) the increased contribution on the part of his employer will be offset by reduction in his contract gratuity; (ii) the increase in Max RI and hence additional contribution by employers will be offset in the next pay adjustment; (iii) it will increase the burden of employers; (iv) employees should be allowed to decide the use of their remuneration; and (v) the proposed increase of Max RI will only benefit trustees given the high fees and charges.</p>	<ul style="list-style-type: none"> • On the proposed increase of Max RI to \$25,000, please refer to the response at item 1 above. • On the reduction of fees, please refer to the response at bullets 3-6 at item 3 above. • As regards the increased contributions on the part of employer will be offset by reduction in contract gratuity, the proposed Max RI will be applicable to over 2.5 million MPF scheme members instead of individual employees. Whilst it is an arrangement between employers and employees on individual contract terms, we encourage employers to take into account different circumstances of employees and consider making mandatory contributions separately from pay adjustment or gratuity payment [for the benefit of employees].

No.	Summary of written submissions received	Response of the Administration
6.	<p><u>Mr YEUNG Wai-sing, member of the Eastern District Council (CB(1) 2809/10-11(04))</u></p> <p>Mr Yeung welcomes Government's proposal to increase Max RI from \$20,000 to \$25,000 after taking into account the impact on employees' operation costs. He also considers it appropriate to implement the revised Max RI on 1 June 2012 to allow employees and employers to adjust to the new contribution level.</p>	<ul style="list-style-type: none"> • We welcome the views of the Mr Yeung.
7.	<p><u>The Hong Kong Retirement Schemes Association (CB(1) 2809/10-11 (05))</u></p> <p>The Association cannot see any logical reasons for not increasing Max RI from \$20,000 to \$25,000 taking into account the inflation since commencement of the MPF System, and the increase of Min RI.</p> <p>The Association considers that to encourage employees' voluntary contributions, a total cap of 15% of taxable remuneration should be allowed as tax reduction as long as the amounts cannot be withdrawn until retirement.</p>	<ul style="list-style-type: none"> • We welcome the views of the Association as regards the increase of Max RI. • Subject to the approval of the proposed Max RI by LegCo, the Administration plans to amend the Inland Revenue Ordinance to increase the maximum amount of allowable deduction from \$12,000 to \$15,000 in respect of (i) mandatory contributions to MPF scheme by self-employed persons for the purpose of calculating their tax payable under Profits Tax, and (ii) contributions to recognized occupational retirement schemes and mandatory contributions to MPF schemes by employees for the purposes of calculating tax payable under Salaries Tax or Personal Assessment. • As regards the provision of tax reduction for voluntary contributions, from the policy perspective, scheme members who make voluntary contribution are no different from other members of the public who save or invest for retirement. The provision of tax reduction to MPF voluntary contribution may not be equitable to the latter group. From the operational perspective, there are restrictions on the withdrawal of accrued benefits derived from

No.	Summary of written submissions received	Response of the Administration
		<p>mandatory contributions to ensure the objective of protecting scheme members' retirement is met. Similar restrictions will be required for voluntary contributions if tax reduction is to be provided. Such would increase the operation costs of the MPF System, e.g. tracking the voluntary contributions to ensure they fulfill the restrictions. This may not be fair to other scheme members.</p>

Financial Services and the Treasury Bureau
18 October 2011