For discussion
7 January 2013

Legislative Council Panel on Financial Affairs

Results of the MPFA's Consultancy Study on Trustees' Administration Cost and Reform Directions to Lower MPF Fees Proposed by the MPFA

Introduction

Taking note of public sentiments about the level of Mandatory Provident Fund ("MPF") fees, the Government is determined to address the issue and consider more fundamental changes to the MPF System with a view to achieving early and substantial reduction in MPF fees.

Background

2. Hong Kong adopts a multi-pillar model for retirement protection as advocated by the World Bank. The MPF System is consistent with the second pillar, i.e. "mandated, privately managed, fully-funded defined contribution scheme". The System has been in place for 12 years, and as a retirement protection system, it has not yet reached a mature stage in terms of both the institutional arrangements and the overall level of accrued benefits. Mindful of its very important role in our retirement protection system, we have been making improvements to the System over the years. In parallel to the preparation for the implementation of the Employee Choice Arrangement, the Mandatory Provident Fund Schemes Authority ("MPFA") has, at the request of the Government for a comprehensive review of the MPF System, formulated the scope of the overall review, which includes a study on the administration cost of trustees.

Results of the MPFA's Consultancy Study on Trustees' Administration Cost and Reform Directions to Lower MPF Fees Proposed by the MPFA

3. The MPFA released the results of the Consultancy Study on 26 November 2012. The five strategic responses proposed by the Consultant are: (a) implement industry-wide initiatives to deliver end-to-end online and electronic payments and data processing; (b) introduce measures to facilitate account consolidation, while transitioning to full member choice; (c) facilitate industry consolidation of MPF schemes, investment funds, trustees and administration platforms; (d) clarify the objectives of the MPF System; and (e) improve governance and transparency. Some of them are pursuable under the existing legislative framework while others require further feasibility studies and/or legislative amendments. The Consultant estimates their implementation would drive down MPF administration costs by 0.35 %. Such extent of cost reduction, even if fully passed on to scheme members, is not sufficient. In this connection, the MPFA has proposed four reform approaches to drive down fees, namely (a) capping the fees of MPF funds; (b) mandating the provision of low-fee funds in MPF schemes; (c) providing a basic, low-fee, default fund arrangement; and/or (d) introducing a not-for-profit operator to operate a simple and low-fee MPF scheme. These are conceptual suggestions and would need to be further examined and debated in the community. Please refer to the paper prepared by the MPFA attached for further information.

Next Steps

4. Going forward, the Government will work closely with the MPFA on the implementation of the recommendations of the Consultant. In particular, the Government sees the need to review the current proliferation of MPF fund choices, which is akin to a retail investment platform, and assess whether it provides real value to employees for retirement protection. Together with the MPFA, we will pursue this review as well as develop options to empower the MPFA and to introduce fundamental changes to the MPF System with a view to driving down

MPF fees. The industry, the community and Legislative Council will be engaged in the process.

Financial Services and the Treasury Bureau
28 December 2012