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Background brief on
adjustment mechanism for the minimum and maximum levels of relevant
income for Mandatory Provident Fund mandatory contributions

Purpose

This paper provides background information on the adjustment mechanism for the minimum and maximum levels of relevant income ("Min RI" and "Max RI") for Mandatory Provident Fund ("MPF") mandatory contributions, and a summary of the major concerns and views expressed by Members on the subject when related matters were discussed by the relevant committees of the Legislative Council ("LegCo") after establishment of the statutory adjustment mechanism in 2002.

Background

Minimum and maximum levels of relevant income for MPF contributions

2. Under section 7A of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) ("MPFSO"), each employee and employer has to contribute 5% of the relevant income as mandatory contributions, subject to the Min RI and Max RI levels as prescribed in Schedules 2 and 3 to MPFSO. A relevant employee or self-employed person earning less than the Min RI level is not required to contribute to an MPF scheme while the employer of the employee still has to contribute for the employee. A relevant employee or self-employed person earning more than the Max RI level 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.

Statutory adjustment mechanism for Min RI and Max RI levels

3. When the MPF System was first launched in December 2000, the Min RI and Max RI levels were \$4,000 and \$20,000 per month respectively. These levels were adopted in 1995 when MPFSO was enacted. According to the Administration, the Min RI at \$4,000 was derived from 50% of the then monthly median employment earnings; and the Max RI at \$20,000 was based on the target to cover the entire earnings of 90% of the working population.

4. On 12 July 2002, the Mandatory Provident Fund Schemes (Amendment) Bill 2002 ("MPFS(A) Bill 2002")¹ was passed by LegCo to, inter alia, introduce a new section 10A of MPFSO to provide a statutory adjustment mechanism for future adjustment of the Min RI and Max RI levels. The mechanism requires that –

- (a) Mandatory Provident Fund Schemes Authority ("MPFA") must conduct a review of the Min RI and Max RI levels not less than once in every four years²; and
- (b) without limiting the factors which MPFA may consider, Mandatory Provident Fund Schemes Authority ("MPFA") must take into account the following findings prevailing at the time of the review as compiled from the General Household Survey conducted by the Census and Statistics Department³:
 - (i) in respect of the Min RI level, 50% of the monthly median employment earnings⁴; and
 - (ii) in respect of the Max RI level, monthly employment earnings at 90th percentile of the monthly employment earnings distribution.

5. Based on the statutory adjustment mechanism, the Min RI was revised from \$4,000 to \$5,000 per month with the passage of the MPFS(A) Bill 2002, whereas the Max RI was retained at \$20,000 in view of the economic difficulties at the prevailing time.

¹ The Bill was enacted as the Mandatory Provident Fund Schemes (Amendment) (No.2) Ordinance 2002 in July 2002.

² Section 10A(1) of MPFSO

³ Section 10A(2) of MPFSO

⁴ When determining the statutory adjustment basis for the Min RI level in the context of MPFS(A) Bill 2002, MPFA had considered various factors such as the consumer price index, nominal wage index and median income. MPFA took the view that the median income was a more suitable factor as it reflected not only the effect of price changes but also the overall wage trend, whereas 50% of the median income was viewed as an appropriate level to balance the need between reducing the financial burden on lower income workers and accruing financial benefits of the working population for retirement protection.

Review of Min RI and Max RI levels

6. After establishment of the statutory adjustment mechanism in 2002, MPFA conducted the first and second reviews of the Min RI and Max RI levels in 2006⁵ and 2010⁶ respectively. During the second review in 2010, there were views that the adjustment mechanism of the Min RI level should be updated having regard to the implementation of the Statutory Minimum Wage ("SMW") at the initial rate of \$28 per hour with effect from 1 May 2011. MPFA undertook to conduct a comprehensive review of the statutory adjustment mechanism when the actual impact of SMW became more evident.

7. In the light of adjustment of the SMW rate to \$30 per hour from 1 May 2013, MPFA conducted an interim review of the Min RI and Max RI levels in 2013, ahead of the third statutory review due in July 2014. Following the interim review, the Min RI and Max RI levels were adjusted to \$7,100 and \$30,000 per month respectively⁷, which are the Min RI and Max RI levels at present. A summary of statutory review results and past adjustments on the Min RI and Max RI levels is in **Appendix I**.

Public consultation on an automatic mechanism for adjusting Max RI and Min RI levels

8. MPFA has completed a review of the mechanism for adjusting the Max RI and Min RI levels, and launched a public consultation⁸ for six weeks from 23 January 2015 on its proposal to introduce an automatic mechanism under which the Min RI and Max RI levels would be determined at the same time every two years in strict accordance with the proposed benchmarks and other

⁵ Based on the statutory factors, MPFA proposed keeping the Min RI at \$5,000 per month and adjusting the Max RI from \$20,000 to \$30,000 under the first review in 2006. When the proposals were discussed at the meetings of the Panel on Financial Affairs on 5 January 2007 and 1 February 2007, views expressed by Panel members and the attending deputations were divergent. Having regard to all relevant factors and views, the Administration finally did not pursue any changes to the Max RI and Min RI.

⁶ For the second review in 2010, review findings showed that the Min RI should be increased from \$5,000 to \$5,500 per month, whereas the Max RI should be increased from \$20,000 to \$30,000 per month. MPFA did not make any recommendations to the Administration after the review but suggested seeking further consultation with key stakeholders before arriving at policy decisions. Taking account of the views of members of the Panel on Financial Affairs and the community, the Administration finally put forward legislative proposals in 2011 to adjust the Min RI from \$5,000 to \$6,500, and the Max RI from \$20,000 to \$25,000. The Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 2) Notice 2011 and the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2011 were passed by LegCo on 30 June 2011 and 23 November 2011 respectively to give effects to the proposed adjustments.

⁷ The Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 2) Notice 2013 and the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2013 were passed by LegCo on 17 July 2013 to give effect to the proposed adjustments.

⁸ The consultation paper is hyperlinked in **Appendix III**.

components to be prescribed in MPFSO. The key components of the proposed mechanism for public consultation are in **Appendix II**.

Concerns and views expressed by Members

9. Members have expressed views on issues relating to the adjustment mechanism at meetings of the Panel on Financial Affairs ("FA Panel") 5 January and 1 February⁹ 2007, 21 February and 20 April¹⁰ 2011 and 4 March 2013; and during the scrutiny of the Mandatory Provident Fund Schemes (Amendment) Bill 2002, the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 2) Notice 2011, the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2011, the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 2) Notice 2013 and the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2013. The major views and concerns are summarized in the ensuing paragraphs.

Factors for determining the Min RI and Max RI levels

10. During previous reviews of the Min RI and Max RI levels, some Members expressed concerns about the difficulties faced by low income earners in making ends meet and the inadequacy of the MPF System in providing retirement protection to the workforce as a whole. While noting that raising the Min RI level would reduce the number of employees making MPF contributions and hence, the accrued benefits available to scheme members upon retirement, these Members urged that the immediate financial hardship of lower income earners had to be addressed with priority. They called on MPFA/the Administration to review the adjustment mechanism, including whether 50% of the monthly median employment earnings was an appropriate threshold for determining the Min RI level, having regard to inflation, changes in employment earnings, introduction of SMW and the monthly income threshold or other criterion adopted for government schemes for low-income people. There was a suggestion that not less than 60% of the monthly median income should be adopted as Min RI so as to help relieve low-income earners of the financial burden of making MPF contributions and enable them to have more disposable income for improving their immediate livelihood.

⁹ Special meeting of FA Panel to receive views from deputations on the 2006 review of the Min RI and Max RI levels.

¹⁰ Special meeting of FA Panel to receive views from deputations on the 2010 review of the Min RI and Max RI levels.

11. As the underlying premise of setting Min RI was to relieve employees or self-employed persons whose income was below a certain threshold from significant financial difficulties if they were required to make MPF contributions, and that SMW was implemented to ensure that the wages of the workforce in Hong Kong would not be too low, some Members opined that SMW should form the basis for determining Min RI. They considered that Min RI should be linked with SMW by working out a suitable methodology (like the use of median or a certain percentile) for translating SMW into a monthly income. There was also a suggestion that employees receiving SMW should be exempted from making MPF contributions.

12. Some other Members were concerned that the financial burden on employers and employees would further increase if other contribution schemes (e.g. mandatory medical insurance scheme) were introduced in future. They opined that factors which might affect the operating costs of the business sector should also be taken into account when considering upward adjustment of the Max RI level, in particular, the impacts of implementation of SMW on the small and medium enterprises.

13. The Administration stressed that apart from the statutory adjustment factors, other relevant factors could also be taken into account when determining the Min RI and Max RI levels. During past reviews of the Min RI and Max RI levels, both the views of employees and employers were gauged through the Labour Advisory Board and other channels. The Administration was mindful of the need to give due regard to the prevailing economic situation and avoid additional burden on employers and employees. The Administration further pointed out that it was necessary to strike a balance between the short-term impact of complying with the statutory contribution requirements and the long-term retirement protection of MPF scheme members, and any change to the adjustment mechanism would require community-wide consultation and must not be resorted to lightly.

14. As regards linking Min RI with SMW, the Administration stressed that MPFA had considered the SMW factor in its review after implementation of SMW. In this regard, Members noted that MPFA would conduct a comprehensive review of the statutory adjustment mechanism for the Min RI and Max RI levels when the actual impacts of SMW became more evident.

15. Given that a statutory review for the Min RI and Max RI levels must be conducted not less than once in every four years, a Member suggested adopting the average income levels over the four-year period before each review as the basis for adjustment. The Administration advised that if wages were on an upward trend during the four-year period, using the four-year average would

result in a lower figure, and might not reflect the prevailing wage level for determining Min RI.

Review cycle

16. Members noted that MFPSO required MPFA to review the Min RI and Max RI levels at least once in every four years, and there were no provisions relating to mandatory adjustment of the levels as well as the frequency of the adjustment. Some Members opined that the Administration should conduct the review more frequently, say, once every two to three years, to enable more timely adjustments to the relevant income levels. There was also a view that the timing of review should synchronize with that of the SMW rate which was currently reviewed every two years.

17. The Administration considered that an interval of four years was an appropriate timeframe for reviewing the Min and Max RI levels as it would not be desirable to require service providers to adjust their computer systems too frequently. The Administration further advised that while under the legislation, the Min RI and Max RI levels for MPF contributions must be reviewed at least once in four years, if necessary, MPFA could conduct the review more frequently within a period shorter than four years, such as when there were significant changes in the salary levels of the workforce.

Legislative timeframe for revising the Min RI and Max RI levels

18. Some Members enquired about the basis for determining the implementation dates for adjusting the Min RI/Max RI levels, and raised concern whether the timeframe to enact revised Min RI could be shortened so that workers whose income had been increased resulting from implementation of SMW would not be required to make MPF contributions if their income did not exceed the Min RI level. Moreover, expediting the implementation of Min RI would help lessen the financial burden of MPF contribution on low-paid employees. There was a view that trustees should have the responsibility and ability to adjust their systems within a short time for revising Min RI, given their experience in past adjustments. Some Members also questioned the rationale for implementing revised Max RI by different phases when adjustments were made to both the Min RI and Max RI levels in past reviews. They also urged the Administration to consult relevant stakeholders as to whether a one-off or phased approach should be made when adjusting the Max RI level.

19. The Administration responded that adjustment of the Min RI and Max RI levels had to go through necessary legislative procedures, and the proposed

implementation dates for adjustment aimed to allow reasonable time for employers and trustees to adjust the payroll systems and MPF scheme administration systems, and for MPFA to publicize such arrangements, regardless of whether the adjustments involved were simple or complicated in nature. While a staggered implementation schedules for Min RI and Max RI might necessitate extra efforts in changing the systems and procedures concerned, the Administration considered it a reasonable arrangement to address employees' concern about reduction of disposable income and employers' concern on increased business cost arising from upward adjustment of Max RI. Furthermore, Members noted that employees might be against early implementation of revised Max RI as they needed to pay extra contribution if the implementation schedule for Max RI was advanced.

Recent development

20. The Administration and MPFA will brief FA Panel on the review of the adjustment mechanism for the Min RI and Max RI levels and consult the Panel on the proposal to introduce an automatic mechanism for adjusting the relevant income levels at the meeting on 2 March 2015.

Relevant papers

21. A list of relevant papers is in **Appendix III**.

**Summary of statutory review results and past adjustments on the
minimum and maximum levels of relevant income**

Year	Event	Monthly relevant income			
		Review results		Implementation	
		Minimum level	Maximum level	Minimum level	Maximum level
2000	Inception of the MPF System	-	-	HK\$4,000	HK\$20,000
2002	Review of the levels of relevant income and incorporation of section 10A to Mandatory Provident Fund Schemes Ordinance ("MPFSO") through enactment of Mandatory Provident Fund Schemes (Amendment) Ordinance 2002	HK\$5,000	HK\$30,000	HK\$5,000 (implemented in 2003)	HK\$20,000 (no change)
2006	First statutory review pursuant to section 10A of MPFSO	HK\$5,000	HK\$30,000	HK\$5,000 (no change)	HK\$20,000 (no change)
2010	Second statutory review pursuant to section 10A of MPFSO ^(Note)	HK\$5,500	HK\$30,000	HK\$6,500 (implemented in 2011)	HK\$25,000 (implemented in 2012)
2013	Interim review in light of the new Statutory Minimum Wage rate	HK\$7,100	HK\$30,000	HK\$7,100 (implemented in 2013)	HK\$30,000 (implemented in 2014)

Note: In this statutory review, the Mandatory Provident Fund Schemes Authority did not make recommendations to the Administration but suggested consulting the stakeholders on their views taking into account the introduction of the statutory minimum wage regime.

[Source: Adapted from Table 2 of Information note on "Minimum and Maximum levels of relevant income for Mandatory Provident Fund contributions" prepared by the Legislative Council Secretariat for the meeting of the Panel on Financial Affairs on 4 March 2013 (LC Paper No. IN09/12-13).]

**Key components of the automatic mechanism for adjustment of
minimum and maximum levels of relevant income
("Min RI" and "Max RI") proposed by
Mandatory Provident Fund Schemes Authority ("MPFA")**

1. Adjustment approach & review/adjustment frequency

- The proposed adjustment mechanism is an automatic one under which the Min RI and Max RI would be determined at the same time every two years in strict accordance with the proposed adjustment benchmarks and other components to be prescribed in the Mandatory Provident Fund Schemes Ordinance (Cap. 485).

2. Adjustment benchmarks

Min RI Level

- The proposed adjustment benchmark would be 55% of the monthly median employment earnings of all employed persons (excluding foreign domestic helpers) aged 18 to 64.
- Compared with the existing adjustment benchmark of 50% of the monthly median employment earnings, the new adjustment benchmark would incorporate a 5% gross up to ensure that after paying the 5% employee mandatory contributions, lower income workers would still have take-home pay equal to at least 50% of the monthly median employment earnings.

Max RI Level

- The proposed adjustment benchmark would be the 90th percentile of the monthly employment earnings distribution of all employed persons (excluding foreign domestic helpers) aged 18 to 64.
- The exclusion of the earnings of foreign domestic helpers from the earnings data for the determination of the two proposed benchmarks is expected to better reflect the earnings distribution of local workers who are intended to be covered by the Mandatory Provident Fund System.

3. Limit on adjustment magnitude

Min RI Level

- The Min RI Level would be adjusted downwards or upwards in strict accordance with the adjustment benchmark.

Max RI Level

- The Max RI Level would be adjusted downwards in strict accordance with the adjustment benchmark. However, every upward adjustment would be subject to a \$5,000 limit on the magnitude of the increase, thereby striking a balance between helping the working population accumulate more retirement savings and not seriously aggravating the financial burden on employers and employees at any single point in time.

4. Rounding mechanism

Min RI Level

- The adjustment benchmark is proposed to be rounded up to the next \$100.

Max RI Level

- The adjustment benchmark is proposed to be rounded to the nearest \$2,500.

[Source: Extracted from the press release entitled "MPFA to consult the public on introducing an automatic adjustment mechanism for relevant income levels" issued by MPFA on 23 January 2015.]

List of relevant papers

Date	Event	Papers/Minutes of meeting
12 July 2002	The Legislative Council ("LegCo") passed the Mandatory Provident Fund Schemes (Amendment) Bill 2002	Hansard (page 39 - 105) The Bill passed Report of the Bills Committee (LC Paper No. CB(1)2114/01-02)
5 January 2007	Meeting of the Panel on Financial Affairs ("FA Panel")	Discussion paper (LC Paper No. CB(1)602/06-07(03)) Background brief (LC Paper No. CB(1)603/06-07) Minutes (paragraphs 7 - 42) (LC Paper No. CB(1)976/06-07)
1 February 2007	Special meeting of the FA Panel	Updated background brief (LC Paper No. CB(1)820/06-07) Minutes (paragraphs 1 - 40) (LC Paper No. CB(1)1231/06-07)
21 February 2011	Meeting of the FA Panel	Discussion paper (LC Paper No. CB(1)1291/10-11(01)) Background brief (LC Paper No. CB(1)1290/10-11) Minutes (paragraphs 33 - 58) (LC Paper No. CB(1)1853/10-11)
2 March 2011	Council meeting	Hon Mrs Regina IP LAU Suk-ye raised a written question on "Minimum level of relevant income for Mandatory Provident Fund contributions"

Date	Event	Papers/Minutes of meeting
20 April 2011	Special meeting of the FA Panel	Administration's paper (LC Paper No. CB(1)1291/10-11(01)) Minutes (paragraphs 1 - 45) (LC Paper No. CB(1)2871/10-11)
June 2011	The relevant subcommittee studied the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 2) Notice 2011	Report of the Subcommittee (LC Paper No. CB(1)2599/10-11)
30 June 2011	LegCo approved the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 2) Notice 2011	Hansard (page 56 - 103)
June to October 2011	The relevant subcommittee studied the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2011	Report of the Subcommittee (LC Paper No. CB(1)241/11-12)
23 November 2011	LegCo approved the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2011	Hansard (page 133 - 195)
4 March 2013	Meeting of the FA Panel	Administration's paper (LC Paper No. CB(1)599/12-13(05)) Information note (LC Paper No. IN09/12-13) Minutes (paragraphs 21 - 30) (LC Paper No. CB(1)1131/12-13)

Date	Event	Papers/Minutes of meeting
June 2013	The relevant subcommittee studied the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 2) Notice 2013 and the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2013	Report of the Subcommittee (LC Paper No. CB(1)1478/12-13)
17 July 2013	LegCo approved the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 2) Notice 2013 and the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2013	Hansard (page 249 - 305)
23 January 2015	The Mandatory Provident Fund Schemes Authority launched a public consultation on the proposal to introduce an automatic mechanism for adjusting the minimum and maximum levels of relevant income	Press release Consultation paper