

**For discussion on
6 July 2015**

Legislative Council Panel on Financial Affairs

Review of the Adjustment Mechanism for the Minimum and Maximum Levels of Relevant Income for Mandatory Provident Fund Mandatory Contributions

PURPOSE

This paper briefs Members on the results of the public consultation conducted by the Mandatory Provident Fund Schemes Authority (“MPFA”) on “Introducing an Automatic Mechanism for Adjustment of Minimum and Maximum Levels of Relevant Income” A between 23 January and 5 March 2015 (consultation paper at Annex A) and the suggested way forward.

BACKGROUND

2. The Mandatory Provident Fund (“MPF”) System, introduced in December 2000, is a mandatory system for assisting the working population in saving for retirement and is the second pillar of Hong Kong’s multi-pillar retirement protection system according to the model advocated by the World Bank¹. Under the MPF System, a self-employed person, an employee as well as his employer are each required to contribute 5% of the relevant income of the self-employed person or employee concerned to his MPF account. However, a self-employed person or an employee is not required to make mandatory contributions if his income is below the minimum level of relevant income (“Min RI Level”), although such exemption does not apply to the employer of such an employee. On the other hand, if the income of a

¹ The World Bank advocates a multi-pillar retirement protection model. The model originally had three pillars, but later developed into a five-pillar one, including (a) a non-contributory basic or social pension system as the “zero pillar”, (b) a mandatory public pension plan as the “first pillar”, (c) a mandatory occupational or personal pension plan as the “second pillar”, (d) a voluntary occupational or personal pension plan as the “third pillar” and (e) access to informal support such as family support and formal social programmes including medical care as the “fourth pillar”.

self-employed person or an employee is above the maximum level of relevant income (“Max RI Level”), the self-employed person, the employee and the employer of the employee are not required to make mandatory contributions in respect of the income exceeding the Max RI Level.

3. The purpose of setting a Min RI Level is to relieve the financial burden of mandatory contributions on lower income earners, while the purpose of setting a Max RI Level is to allow higher income earners the flexibility to meet their retirement savings needs by means other than mandatory contributions. It is necessary to adjust the Min and Max RI Levels over time so that they reflect changes in the income distribution of the working population.

4. Section 10A of the Mandatory Provident Fund Scheme Ordinance (“MPFSO”) (Chapter 485) sets out the adjustment mechanism which provides that MPFA must, not less than once in every four years, conduct a review of the Min and Max RI Levels to ascertain whether or not there are grounds for adjustment. It further provides that MPFA must take into account the following two adjustment factors in conducting the review -

- (a) for the Min RI Level - 50% of the monthly median employment earnings (“50% of Median Earnings”); and
- (b) for the Max RI Level - monthly employment earnings at 90th percentile of the monthly employment earnings distribution (“90th Percentile Earnings”),

prevailing at the time of the review², but does not prevent MPFA from taking into account other relevant factors. Actual adjustments to the Min and Max Levels require legislative amendments in the form of subsidiary legislation.

5. In 2002 and 2006, MPFA reviewed the Min and Max RI Levels in accordance with the statutory adjustment mechanism. In the 2010 and 2012 review exercises, apart from adopting a Statutory Minimum

² Both 50% of Median Earnings and 90th Percentile Earnings are compiled from the General Household Survey conducted by the Census and Statistics Department.

Wage (“SMW”)-based formula³ as the benchmark for adjusting the Min RI Level, the Government had committed that MPFA would conduct a comprehensive review of the statutory adjustment mechanism in response to some Legislative Council (“LegCo”) Members’ concern about the impact of the SMW introduced in May 2011 on the Min RI Level.

6. The existing statutory adjustment mechanism lies between a fully-automatic mechanism and a fully-discretionary mechanism and broad community consensus is required before legislative amendments are introduced in accordance with the MPFSO. While providing flexibility, such a mechanism falls short of providing certainty to employers and trustees. Deliberation on the appropriate Min and Max RI Levels also involves protracted discussions, making close tracking of the economic and employment situations difficult.

Proposed Automatic Adjustment Mechanism

7. With the objective of keeping the contribution levels of the MPF System aligned with the earnings distribution of the working population to better reflect the economic conditions and enhance the efficiency of the MPF System, MPFA conducted a review of the existing statutory adjustment mechanism for the Min and Max RI Levels and developed a proposal of replacing the existing adjustment mechanism with an automatic one (“Proposal”). The Proposal was put forward for public consultation between 23 January and 5 March 2015 and comprised the following key features –

- (a) to determine the Min and Max RI Levels at the same time once every two years based on the benchmarks set out in subparagraphs (b) and (c) below;
- (b) to set the benchmark for determining the Min RI Level at 55% of the monthly median employment earnings (“55% of Median Earnings”) of all employed persons (excluding foreign domestic helpers (“FDHs”)) aged 18 to 64, rounded up to the next \$100; and

³ Based on the formula, the Min RI Level was the product of (i) the SMW hourly rate; (ii) the latest statistics on the median daily working hours of the four low-paying sectors available at the time of review; and (iii) the assumed number of working days per month (i.e. 26 days).

- (c) to set the benchmark for determining the Max RI Level as the monthly employment earnings at 90th percentile of the monthly employment earnings distribution of all employed persons (excluding FDHs) aged 18 to 64, rounded to the nearest \$2,500 and subject to the magnitude of each increase not exceeding \$5,000.

CONSULTATION CONCLUSIONS

8. MPFA received a total of 35 075 submissions in response to the consultation⁴, 35 062 of which were made by members of the public and 13 were from key stakeholder groups. The consultation conclusions are at **Annex B**. Major views collected are set out in the following paragraphs.

General views

9. A vast majority of the respondents did not support the Proposal and 65% of them submitted additional comments. Among the latter, about one-third indicated preference for the existing adjustment mechanism. Some considered that an automatic adjustment mechanism lacked flexibility and could not give due consideration to all other relevant factors such as the prevailing social and economic situations, income distribution of working population, and inflation rate. Some respondents considered employees' participation in the adjustment process important on the ground that MPF contributions are their assets.

10. Views of the 13 stakeholder groups were divided with one trade union and most employer associations preferring the existing adjustment mechanism while all labour unions, a professional body, an employer association and MPF industry bodies and players in favour of introducing an automatic mechanism to varying degrees. They considered that an automatic and predictable mechanism could better protect the benefits of employees and allow employers and trustees to be better prepared for the

⁴ 34 985 submissions were from members of the public received on the last two days of the consultation period when there were misleading messages spreading on social media that the Proposal would lead to continual upward adjustment of the Max RI Level and produce Min and Max RI Levels adjustment results that would not require scrutiny by LegCo.

implementation of the new Min and Max RI Levels.

Views on the adjustment frequency

11. Specifically on the proposal to determine the Min and Max RI Levels at the same time on a biennial cycle, there were concerns that more frequent adjustments would raise the administrative cost for trustees for managing their MPF schemes and for employers for managing the payroll system. One labour union and an MPF industry player proposed raising the frequency of adjustment from once every two years to once every year.

Views on the proposed adjustment benchmark and rounding mechanism for Min RI Level

12. Labour unions generally supported the proposed adjustment benchmark but some considered that the SMW should be an additional benchmark for adjusting the Min RI Level. A professional body considered that the Min RI should not be amended if the adjustment was insignificant so as to minimise impact on operating costs for small- and medium-sized enterprises. Employer associations generally had less concern about the introduction of an automatic mechanism for adjusting the Min RI Level. Some found the proposed adjustment benchmark of 55% of Median Earnings reasonable, while some considered that it would exempt more employees from making contributions, running contrary to the original intent of the MPF System.

Views on the proposed benchmark and rounding mechanism for Max RI Level

13. More than half of the employer associations were concerned about the perceived automatic increase of the Max RI Level by \$5,000 every two years and objected to the automatic adjustment mechanism for the Max RI Level. One labour union suggested adopting a smaller rounding unit for the Max RI Level to avoid drastic adjustment and to facilitate public understanding. There were also suggestions to raise the cap for each upward adjustment of the Max RI Level to minimise the gap between the Max RI Level and the statutory benchmark.

RECOMMENDATIONS FROM MPFA

14. There is clear majority opposition to the Proposal judging from the overall response. About one-third of those who provided additional comments in their submissions indicated that they preferred the existing adjustment mechanism. There is no consensus among the stakeholder groups which provided written submission on the Proposal, with the labour unions and the MPF industry bodies and players generally in support of it and the majority of employer associations opposing it. Views are also divided on individual features of the Proposal which makes pursuing them separately at this moment difficult. With regard to the opposition from members of the public, despite that it is in part due to misguided messages on the social media, it reflects that the public does not fully understand the Proposal.

15. Having considered the lack of general support for the Proposal and the diverse views on its individual features, MPFA has recommended to the Government that the Proposal not be pursued for the time being. As a result, MPFA will continue to review the Min and Max RI Levels in accordance with section 10A of the MPFSO.

WAY FORWARD

16. In view of the consultation results, the Government agreed with the recommendation of MPFA not to pursue, in whole or in part, the Proposal at this stage and to continue to review the Min and Max RI Levels under the existing statutory adjustment mechanism in accordance with section 10A of the MPFSO.

**Financial Services and the Treasury Bureau
Mandatory Provident Fund Schemes Authority
26 June 2015**



強制性公積金計劃管理局
MANDATORY PROVIDENT FUND
SCHEMES AUTHORITY

Introducing an Automatic Mechanism for Adjustment of Minimum and Maximum Levels of Relevant Income

Consultation Paper

January 2015

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FOREWORD

We invite interested parties to submit comments on a proposal to introduce an automatic mechanism for adjusting the minimum level of relevant income and the maximum level of relevant income. The automatic mechanism would keep contribution levels aligned with the earnings distribution of the working population and enhance the efficiency of the Mandatory Provident Fund (“MPF”) System.

Interested parties should submit comments to the Mandatory Provident Fund Schemes Authority (“MPFA”) on or before 5 March 2015.

Submissions will be received on the basis that MPFA may freely publish, reproduce, quote or summarize them in whole or in part, and in any form, without seeking permission from or providing acknowledgment of those who provide comments. Please note that the names of those who provide comments and the contents of their submissions may be posted on MPFA’s website or referred to in other documents published by MPFA. In this connection, please read the “Personal Information Collection Statement” attached to this Consultation Paper.

If you wish to make a submission but do not wish your name to be published by MPFA, please state that you wish your name to be withheld from publication when you make the submission. If you wish to make a submission as a representative of an organization, please provide details of the organization whose views you represent.

Comments may be sent through any of the following means:

By mail to: Policy Development & Research Department
Mandatory Provident Fund Schemes Authority
Units 1501A and 1508, Level 15
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Attention: Consultation on “Introducing an Automatic Mechanism for Adjustment of Minimum and Maximum Levels of Relevant Income”

By fax to: (852) 2259 8108
By email to: minmax@mpfa.org.hk
Via MPFA's website: <http://www.mpfa.org.hk>

Please note that MPFA will not issue acknowledgements, or reply to, individual submissions received.

A copy of this Consultation Paper is available on MPFA's website at <http://www.mpfa.org.hk>.

Mandatory Provident Fund Schemes Authority
Hong Kong

January 2015

PERSONAL INFORMATION COLLECTION STATEMENT

This Personal Information Collection Statement is made in compliance with the requirements of the Personal Data (Privacy) Ordinance (Cap. 486) (“PDPO”). This statement sets out the purposes for which your Personal Data¹ will be used following collection, what you are agreeing to with respect to the use of your Personal Data by the Mandatory Provident Fund Schemes Authority (“MPFA”) and your rights under the PDPO.

Purpose of Collection

You may decide whether or not to supply your Personal Data when submitting comments on this Consultation Paper to MPFA. Any Personal Data provided in your submission may be used by MPFA for one or more of the following purposes:

- in exercising MPFA’s statutory functions under the Mandatory Provident Fund Schemes Ordinance (Cap.485);
- for the purpose of consultation for this Consultation Paper;
- for research and statistical purposes; and/or
- for any other purposes directly related to the above purposes.

Disclosure of Personal Data

Personal Data provided in your submission may be disclosed by MPFA to members of the public (whether in Hong Kong or elsewhere), as part of the public consultation on this Consultation Paper. Your name together with the whole or part of your submission may be disclosed to members of the public. This may be done by publishing such information on MPFA’s website and in documents to be published by MPFA during the consultation period, or at, or following its conclusion.

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¹ Personal Data means personal data as defined in the PDPO.

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Retention

Your Personal Data provided to MPFA in response to this Consultation Paper will be retained for such period as may be necessary for the fulfillment of the purposes stated above.

Enquiries

You may make enquiries regarding the Personal Data provided in your submission on the Consultation Paper, or request for access to or correction of such Personal Data, by writing to:

The Personal Data (Privacy) Officer
Mandatory Provident Fund Schemes Authority
Units 1501A and 1508, Level 15
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

GLOSSARY

CPI	Consumer Price Index
FDHs	Foreign domestic helpers
Max RI Level	Maximum level of relevant income specified in Schedule 3 to the Ordinance; currently at \$30,000 per month
Min RI Level	Minimum level of relevant income specified in Schedule 2 to the Ordinance; currently at \$7,100 per month
MPFA	Mandatory Provident Fund Schemes Authority
MPF scheme	Mandatory Provident Fund scheme
MPF System	Mandatory Provident Fund System
Ordinance	Mandatory Provident Fund Schemes Ordinance (Cap. 485)
SMW	Statutory Minimum Wage
SMW rate	Statutory Minimum Wage rate
Transport Subsidy Scheme	Work Incentive Transport Subsidy Scheme
50% of Median Earnings	50% of monthly median employment earnings as stipulated in section 10A of the Ordinance
90 th Percentile Earnings	Monthly employment earnings at 90 th percentile of the monthly employment earnings distribution as stipulated in section 10A of the Ordinance

EXECUTIVE SUMMARY

1. Launched in December 2000, the objective of the Mandatory Provident Fund System (“MPF System”) is to assist the working population of Hong Kong to accumulate retirement savings by means of mandatory contributions by both employers and employees, as well as self-employed persons.

2. The Mandatory Provident Fund Schemes Authority (“MPFA”) is the statutory body tasked with regulating and supervising the privately-managed Mandatory Provident Fund schemes (“MPF schemes”). The primary objectives of MPFA are to ensure compliance with the Mandatory Provident Fund Schemes Ordinance (Cap.485) (“Ordinance”) by employers, self-employed persons and MPF service providers. MPFA’s functions also include considering and proposing reforms of the laws relating to MPF schemes or occupational retirement schemes.

3. Employers and employees are each required to make mandatory contributions at 5% of the relevant income of the employees for the benefit of the employees. Self-employed persons are required to make mandatory contributions at 5% of their relevant income. The amount of mandatory contributions is subject to the minimum level of relevant income (“Min RI Level”) and the maximum level of relevant income (“Max RI Level”) which should be adjusted over time having regard to changing circumstances.

4. The purpose of setting a Min RI Level is to lessen the immediate financial burden of mandatory contributions on lower income earners. Below a certain earnings level, their immediate needs outweigh the need for them to put money aside for long-term retirement savings. The rationale for setting a Max RI Level is that the MPF System is to require the working population to set aside a moderate level of retirement savings during their work life. Beyond a moderate income level, mandatory contributions should not be required, as higher income earners should be allowed greater flexibility as to how to achieve their retirement savings needs.

5. Section 10A of the Ordinance provides that MPFA must, not less than once in every four years beginning on the commencement date of that section (i.e. 19 July 2002), conduct a review of the Min and Max RI Levels to ascertain whether or

not there are grounds to amend the levels. It further provides that MPFA must take into account the following two adjustment factors in conducting the review, i.e. –

- (a) for the Min RI Level – 50% of the monthly median employment earnings (“50% of Median Earnings”); and
- (b) for the Max RI Level – monthly employment earnings at 90th percentile of the monthly employment earnings distribution (“90th Percentile Earnings”),

both prevailing at the time of the review as compiled from the General Household Survey conducted by the Census and Statistics Department. The Ordinance does not prevent MPFA from taking other factors into account in conducting the review. After a review, actual adjustments to the Min and Max RI Levels require a legislative process during which stakeholders and legislators may put forward their views and suggestions, and strive for a solution that could balance different interests. Chapter 1 below provides more details of the current adjustment mechanism and the adjustments of the Min and Max RI Levels that were made following past reviews.

6. Based on the experience gained in previous rounds of adjustments, MPFA has conducted a review of the adjustment mechanism, including the benchmark factors and the adjustment frequency. Details of the review are set out in Chapter 2.

7. In this Consultation Paper, we put forward, for consultation, a proposal to replace the existing discretionary adjustment mechanism with an automatic mechanism. Key proposed changes are set out below. Further details are set out in Chapter 3.

- (a) The Min RI Level and the Max RI Level would be determined at the same time every two years based on the benchmark factors set out in (b) and (c) below;**
- (b) the benchmark factor for determining the monthly Min RI Level would be 55% of the monthly median employment earnings of all employed persons (excluding foreign domestic helpers (“FDHs”)) aged 18 to 64 rounded up to the next \$100; and**
- (c) the benchmark factor for determining the monthly Max RI Level would be 90th percentile earnings of the monthly employment earnings distribution of all employed persons (excluding FDHs) aged 18 to 64 rounded to the nearest \$2,500, subject to the magnitude of each increase not exceeding \$5,000.**

We expect the proposed mechanism would keep the contribution levels better aligned with the earnings distribution of the working population and enhance the efficiency of the MPF System.

8. We invite interested parties to submit to us comments on the proposed mechanism on or before 5 March 2015.

CHAPTER 1 CURRENT ADJUSTMENT MECHANISM

9. The Mandatory Provident Fund System (“MPF System”) is a mandatory system for assisting the working population to save for retirement. It is one of the pillars forming the retirement protection system as advocated by the World Bank. Understanding that members of the working population also have other needs and some may have preference for other saving or investment vehicles for accumulating retirement benefits, the contributions to the MPF System are kept at a reasonably low level. Employees, employers and self-employed persons are each required to contribute 5% of relevant income, subject to the minimum level of relevant income (“Min RI Level”) (where applicable) and the maximum level of relevant income (“Max RI Level”) prescribed under the Mandatory Provident Fund Schemes Ordinance (Cap.485) (“Ordinance”).

10. An employee or a self-employed person whose relevant income is less than the Min RI Level is not required to contribute to a Mandatory Provident Fund scheme (“MPF scheme”). This does not, however, affect the obligation of the employer to make employer mandatory contributions to the employee’s account under an MPF scheme. The Max RI Level is the level beyond which an employee or a self-employed person is not required to make any mandatory contributions in respect of the excess amount of relevant income. The employer is likewise not required to make any employer mandatory contributions for the employee in respect of such excess amount.

11. It is necessary to adjust the Min and Max RI Levels over time so that they reflect changes in the income distribution of the working population. Section 10A of the Ordinance sets out the adjustment mechanism which provides that Mandatory Provident Fund Schemes Authority (“MPFA”) must, not less than once in every four years beginning with the commencement of that section on 19 July 2002, conduct a review of the Min and Max RI Levels to ascertain whether or not there are grounds to amend the levels. It further provides that MPFA must take into account the following two adjustment factors in conducting the review, i.e. –

- (a) for the Min RI Level – 50% of the monthly median employment earnings (“50% of Median Earnings”); and
- (b) for the Max RI Level – monthly employment earnings at 90th percentile of the monthly employment earnings distribution (“90th Percentile Earnings”),

both prevailing at the time of the review as compiled from the General Household Survey conducted by the Census and Statistics Department. The Ordinance does not prevent MPFA from taking other factors into account in conducting the review.

12. The monthly employment earnings distribution obtained through the General Household Survey which is used for compiling 50% of Median Earnings and 90th Percentile Earnings covers all employed persons aged 18 to 64.

History of Adjustments of Min and Max RI Levels

13. The history of the adjustments made to the monthly Min and Max RI Levels is set out in the table below –

Effective Date	Min RI Level	Max RI Level
1 December 2000	\$4,000	\$20,000
1 February 2003	\$5,000	\$20,000
1 November 2011	\$6,500	\$20,000
1 June 2012	\$6,500	\$25,000
1 November 2013	\$7,100	\$25,000
1 June 2014	\$7,100	\$30,000

14. As a result of the recovery of the economy after the severe acute respiratory syndrome epidemic and the 2008 global financial crisis as well as the enactment of the Minimum Wage Ordinance (Cap. 608), more frequent adjustments to the Min and Max RI Levels have been made in recent years.

15. The initial Max RI Level of \$20,000 reflected 90th Percentile Earnings in 1994. When the current adjustment mechanism was introduced in 2002, the prevailing 90th Percentile Earnings had increased to \$30,000. In the light of the poor economic conditions at that time, however, no adjustment was made to the Max RI Level. For the reviews conducted in 2006 and 2010, 90th Percentile Earnings still pointed to \$30,000. MPFA suggested that a staggered approach be adopted to gradually bring the Max RI Level to \$30,000 by two increases of \$5,000 at a time. The adjustments eventually became effective in 2012 and 2014 respectively.

CHAPTER 2 REVIEW OF CURRENT ADJUSTMENT MECHANISM

16. In reviewing the adjustment mechanism, the following inter-related key components have been considered –

- (a) extent of automation of adjustments (see paragraphs 17 to 18 below);
- (b) adjustment benchmarks (see paragraphs 19 to 27 below);
- (c) frequency of reviews and adjustments (see paragraphs 28 to 30 below);
- (d) limits on adjustment magnitude (see paragraphs 31 to 33 below); and
- (e) rounding mechanism (see paragraphs 34 to 36 below).

(a) Extent of Automation of Adjustments

17. The current adjustment mechanism for the Min and Max RI Levels is a mechanism that lies between a fully-automatic mechanism² and a fully-discretionary mechanism³ – the reference benchmarks and review frequency for MPFA to conduct a review are prescribed in the Ordinance, but the outcome of each adjustment exercise requires the community to come to a broad consensus and a formal legislative process. Factors not explicitly set out in the legislation are also taken into account during the process.

18. A mechanism such as the current one can provide flexibility. However, the outcome is highly uncertain which can increase administrative uncertainty and operating costs. The current mechanism may be most appropriate during an initial phase for building consensus for the benchmarks and review frequency. If consensus can be reached on the benchmarks and review frequency, switching to a fully-automatic mechanism may be considered as it will produce a highly predictable outcome and ensure that adjustments can be made promptly in line with economic developments to better achieve the objectives of the MPF System.

(b) Adjustment Benchmarks

Min RI Level

19. The current statutory adjustment factor for the Min RI Level is 50% of

² The Min and Max RI Levels are adjusted strictly based on the key components as prescribed.

³ None of the key components is prescribed and adjustment is on a completely discretionary basis.

Median Earnings which is compiled from the employment earnings distribution of all employed persons (including foreign domestic helpers (“FDHs”)) aged 18 to 64. In considering the appropriate benchmark for the Min RI Level, MPFA has taken into account a number of other possible indicators, including, for example, a higher percentage of Median Earnings, the Consumer Price Index (“CPI”), the Statutory Minimum Wage (“SMW”) rate, the monthly income limit for a one-person household for the Work Incentive Transport Subsidy Scheme (“Transport Subsidy Scheme”) and the Poverty Line set by the Commission on Poverty.

20. The use of Median Earnings as a Min RI Level benchmark has the advantages of being easily understood, relatively objective and should, in the long run, reflect changes in economic conditions. Median Earnings reflect not only the effect of price changes but also the overall wage trend. In view that employees may be more concerned about their net take-home pay after the deduction of 5% mandatory contributions, a refinement may be considered to provide for an extra 5% in the calculation formula (i.e. using 55% of Median Earnings as the benchmark).

21. Since 2012, the Census and Statistics Department has published two sets of statistics on monthly median employment earnings of employed persons, the standard set including all employed persons and the refined set excluding FDHs. MPFA has considered which set of statistics will be more appropriate for purposes related to MPF contributions. As the monthly earnings, working patterns and entitlements to in-kind benefits of FDHs are quite different from those of local workers, **the refined data set excluding FDHs may better reflect the earnings distribution of local workers who are covered by the MPF System.**

22. On CPI, experience shows that it tends to increase more slowly than earnings. If adopted as the benchmark for adjusting the Min RI Level, it may result in an increasing proportion of the low income earners being required to make contributions.

23. As regards SMW, its main objective is to maintain an appropriate balance between forestalling excessively low wages and minimizing the loss of low-paid jobs; and to sustain Hong Kong’s economic growth and competitiveness. The setting of SMW draws reference to a basket of indicators which fall into different

categories⁴. While some of the indicators, such as average monthly employment earnings and CPI, can be considered as relevant in determining the Min RI Level, there are also less relevant indicators in the basket, such as those on the relative economic freedom and competitiveness of Hong Kong. In addition, the Minimum Wage Commission undertakes analysis and impact assessments based on wage distribution data and findings of other relevant surveys, and considers views from various sectors of the society in order to develop its recommended SMW rate. This recommendation is then considered by the Government before a proposal is deliberated by the Legislative Council. As such, the outcome is a negotiated one which may not necessarily reflect any particular criteria in an objectively ascertainable way.

24. The SMW rate directly affects the earnings of employees with low hourly wage. It would also likely affect indirectly the earnings of the remainder of the working population through its ripple effects on wage rates. Overall, the effects should be fully reflected in the earnings distribution of the working population and, as such, would be reflected in the Median Earnings in any event.

25. The Transport Subsidy Scheme aims to relieve the burden of travelling expenses commuting to and from work on low-income households with employed members and to promote sustained employment, which are quite different from the objective of setting the Min RI Level. Using the Transport Subsidy Scheme income limit for setting the Min RI Level has an additional drawback of the potential lack of permanence as the Scheme is an administrative arrangement not backed by legislation.

26. The Poverty Line was first set for Hong Kong in 2012 at 50% of the median monthly household income before tax and welfare transfers. The 2013 Poverty Line for one-person households was set at \$3,500, and at \$8,300, \$12,500, \$15,400, \$16,000 for two, three, four and five-person households, and \$17,100 for households with six or more people. While it is typical to use household income to measure poverty, extending its application to adjustment of the Min RI Level for MPF which is employment and individual-based is difficult and somewhat arbitrary. When compared with the current statutory adjustment factor for the Min RI Level of 50% of Median Earnings (i.e. an individual-based statistical data point), it seems

⁴ There are four main categories of indicators for SMW setting purposes: (1) general economic conditions; (2) labour market conditions; (3) competitiveness; and (4) social inclusion.

difficult to justify why the Poverty Line of 50% of median monthly household income (i.e. a household-based statistical data point) (which will need to be converted to an individual-based benchmark based on arbitrary assumptions) could reflect better low income earners' affordability to make mandatory contributions.

Max RI Level

27. On the Max RI Level, the current statutory adjustment factor is 90th Percentile Earnings. It is easy to understand and aligns with the policy objective. Due to non-adjustment of the Max RI Level from implementation till 2012, there has been a quite significant difference between the Max RI Level and 90th Percentile Earnings benchmark. In 2012 and 2014, the Max RI Level was increased by \$5,000 each time to bring it closer to the benchmark.

(c) Frequency of Reviews and Adjustments

28. The Ordinance requires MPFA to conduct a review of the Min and Max RI Levels at least once in every period of four years. The period was set taking into account, among others, that such timeframe can cater for the administrative and operational work required of service providers and employers, and without requiring them to adjust their computer systems at intervals that are too frequent.

29. Less frequent reviews and adjustments can reduce the work and costs, particularly for employers, self-employed persons and service providers involved in implementing the adjustments. However, less frequent adjustments may mean more significant adjustments to the Min and Max RI Levels following each review and less sensitivity to changing socio-economic conditions in between the adjustments.

30. More frequent reviews and adjustments, such as annually, will allow the Min and Max RI Levels to more closely track socio-economic conditions but create more administrative work and consequently increase the costs of the MPF System. The adjustment amounts will likely be smaller each time.

(d) Limits on Adjustment Magnitude

31. Allowing the Min and Max RI Levels to be fully adjusted in accordance with the benchmarks will most closely track changes that the benchmarks reflect. However, to avoid adjustments to the Min and Max RI Levels being too substantial,

and to remove the need to make relatively small adjustments, consideration can be given to imposing limits on the adjustment magnitude. For example, the phased adjustments of the Max RI Level in 2012 and 2014 were, in effect, equivalent to the imposition of a \$5,000 limit on the magnitude of increase for the Max RI Level.

32. In respect of the Min RI Level, a full increase in line with the benchmark will provide relief from contributions for those employees who may otherwise experience difficulties in meeting their immediate needs. Imposition of a limit on the magnitude of increase may therefore not be so appropriate. There also appears to be no strong justification for the imposition of any limit on the magnitude of decrease in the less likely scenario when the benchmark sees a fall in value.

33. In respect of the Max RI Level, if the benchmark has increased substantially, full adjustment in line with the benchmark implies that employers, employees and self-employed persons have to make substantially more contributions. By imposing a limit on the increase magnitude, the increase of the Max RI Level is in effect phased in more gradually. The drawback is that the accrued retirement savings will be smaller compared with those under the full adjustment approach. If the limit needs to be consistently applied, then the gap between the benchmark and the Max RI Level will not be closed, rendering the benchmark less effective. As regards a decrease in value of the benchmark, there appears to be no strong justification for the imposition of any limit on the magnitude of decrease of the Max RI Level.

(e) Rounding Mechanism

34. Where the benchmark does not always produce figures that are easy to apply, a rounding mechanism may be adopted. Such figures can be rounded down, up or to the nearest unit. Rounding practices may also help mitigate the need for more frequent adjustments. The current statutory adjustment mechanism sets no rounding requirements.

35. On the Min RI Level, if the benchmark is viewed as the level below which mandating contributions will make it difficult for scheme members to meet immediate needs, then only rounding upwards will be appropriate. Given the current Min RI Level is at \$7,100, rounding upwards to the next \$100, \$250 or \$500 may be reasonable options. The choice of the unit for rounding represents a balance between accruing more benefits and the work and costs involved in making

adjustments. If the unit for rounding is a small amount, then it is more likely that each review will result in an adjustment, thus causing more work and costs. This approach will exempt low income earners from contributions more gradually, meaning that system-wide, more benefits will be accrued for retirement. On the other hand, if the unit for rounding is a larger amount, not every review may result in an adjustment, thereby saving adjustment work and costs. However, in this case, for each adjustment, a larger number of scheme members will be affected.

36. On the Max RI Level, all three rounding approaches are possible options. Rounding up will produce a higher amount of accrued benefits; rounding down may be more easily accepted by employers, employees and self-employed persons; and rounding to the nearest unit may be perceived as a fairer and more neutral approach. As the current Max RI Level is at \$30,000, potential units for rounding may be \$1,000 and \$2,500.

CHAPTER 3 PROPOSED MECHANISM FOR CONSULTATION

37. Having considered various factors, including the experience of operation of the current adjustment mechanism, MPFA has drawn up a proposed mechanism for consultation.

38. **The key features of the proposed mechanism are –**

- (a) the Min RI Level and the Max RI Level would be determined at the same time every two years based on the benchmark factors set out in (b) and (c) below;**
- (b) the benchmark factor for determining the monthly Min RI Level would be 55% of the monthly median employment earnings of all employed persons (excluding FDHs) aged 18 to 64 rounded up to the next \$100; and**
- (c) the benchmark factor for determining the monthly Max RI Level would be 90th percentile earnings of the monthly employment earnings distribution of all employed persons (excluding FDHs) aged 18 to 64 rounded to the nearest \$2,500, subject to the magnitude of each increase not exceeding \$5,000.**

Each key component of the proposed mechanism is further discussed below.

(a) Full Automation

39. The proposed mechanism is a fully-automatic one under which the Min and Max RI Levels would be determined at the same time in accordance with the proposed adjustment benchmarks and other key components to be prescribed in the Ordinance. Accordingly, relatively prompt adjustment and implementation of the two levels to more closely reflect economic conditions should be feasible. Stakeholders, such as trustees and employers, will also be able to plan for adjustments with more certainty than is possible under the existing mechanism.

(b) Adjustment Benchmark

40. There would only be two simple and objective adjustment benchmarks –

- (a) for the Min RI Level – 55% of the monthly median employment earnings of all employed persons (excluding FDHs) aged 18 to 64

compiled from the General Household Survey conducted by the Census and Statistics Department; and

- (b) for the Max RI Level – 90th percentile earnings of the monthly employment earnings distribution of all employed persons (excluding FDHs) aged 18 to 64 compiled from the General Household Survey conducted by the Census and Statistics Department.

41. The above proposed adjustment benchmarks are refinements of the current statutory adjustment factors of 50% of Median Earnings for the Min RI Level and 90th Percentile Earnings for the Max RI Level, and hence should be relatively easy to understand. Moreover, having considered the fundamental principles of the MPF System, it is considered that the existing employment earnings distribution (and accordingly the existing adjustment benchmarks)⁵ can be refined by **excluding** the earnings data of FDHs for setting the Min and Max RI Levels.

42. In Hong Kong, a prospective employer intending to recruit an FDH must enter into an employment contract as specified by the Director of Immigration and must pay salary of no less than the Minimum Allowable Wage⁶ announced by the Government and prevailing at the date of signing the employment contract for employing the FDH. This way of setting the monthly earnings at a standard level at the Minimum Allowable Wage differentiates FDHs from the local working population whose earnings is usually set by agreement, subject to the requirements in the labour legislation in Hong Kong. Moreover, there are significant differences between FDHs and the local working population in other aspects such as working patterns and entitlements to in-kind benefits (e.g. free accommodation). There are over 300 000 FDHs working in Hong Kong and they are exempted from the MPF System. As such, including the earnings of FDHs in the employment earnings distribution may unintentionally distort the distribution of earnings for setting the appropriate Min and Max RI Levels for contribution purposes. The proposed

⁵ The existing benchmarks for the Min and Max RI Levels are compiled from the employment earnings distribution which covers all employed persons (i.e. including FDHs) aged 18 to 64 (see paragraph 5 above).

⁶ The current Minimum Allowable Wage is \$4,110 per month.

mechanism therefore adopts benchmarks using the refined employment earnings distribution that covers all employed persons aged 18 to 64, but excluding FDHs.

43. The proposed Min RI Level adjustment benchmark of 55% of Median Earnings is also relatively objective. The median earnings distribution (excluding FDHs) reflects not only the effect of price changes but also the overall wage trend of the local working population. Compared with the existing benchmark of 50% of Median Earnings, the “5% gross up” factor ensures that, after having paid their own 5% mandatory contributions, these workers would still have take-home pay equal to at least 50% of Median Earnings.

44. On the Max RI Level, the proposed adjustment benchmark is similar to the current statutory adjustment factor of 90th Percentile Earnings. The adoption of the proposed benchmark of 90th Percentile Earnings based on the employment earnings distribution but excluding the earnings data of FDHs would be consistent with the intended scope of coverage of the MPF System.

(c) **Frequency of Reviews and Adjustments**

45. An automatic adjustment mechanism makes more frequent reviews and adjustments of the Min and Max RI Levels feasible. Hence, the proposed mechanism is that the review and adjustment frequency for the two levels be set at once every two years. Too frequent reviews and adjustments of the two levels (e.g. once a year) would likely add work and costs to the MPF System and its stakeholders.

(d) **Limits on Adjustment Magnitude**

46. If there is a downward movement of 55% of Median Earnings, under the proposed mechanism, the Min RI Level will be adjusted downwards accordingly. There is no strong justification for forbidding or limiting downward adjustments.

47. If there is an upward movement of 55% of Median Earnings, under the proposed mechanism, the Min RI Level will be adjusted upwards accordingly. Full

adjustment upwards will provide relief from making contributions for those employees and self-employed persons who may otherwise experience difficulties in meeting their immediate needs.

48. If there is a downward movement of 90th Percentile Earnings, under the proposed mechanism, the Max RI Level will be adjusted downwards accordingly. There is no strong justification for forbidding or limiting downward adjustments. This means that if the benchmark decreases, employers, employees and self-employed persons would pay less contributions. Those individuals who like to maintain the same level of contributions as before could make voluntary contributions or use other vehicles to invest the difference to better provide for their retirement.

49. If there is an upward movement of 90th Percentile Earnings, employers, employees and self-employed persons will have to pay more contributions. There will be financial impact on these parties, and a very substantial increase may need to be phased-in. From past experience, \$5,000 may be a realistic limit on the magnitude of an increase, beyond which a one-off increase may impose too heavy an impact. The proposed mechanism therefore includes a limit of \$5,000 on the magnitude of an increase in the Max RI Level in order to strike a balance between helping the working population accumulate more retirement benefits whilst not seriously aggravating the financial burden of the business sector and the working population at a single point in time.

(e) **Rounding Mechanism**

50. As explained in paragraph 35 above, only rounding upwards will be appropriate for the Min RI Level, and the remaining component to be considered is the rounding unit. If there is only a small change in the benchmark, the work and costs associated with effecting a small corresponding adjustment to the Min RI Level may outweigh any benefit resulting from the adjustment. On the other hand, smaller adjustments can track changes in the benchmark more closely. In the past (see paragraph 13 above), rounding up to the next \$100 multiple has been adopted and it is proposed to maintain this practice.

51. On the rounding mechanism for the Max RI Level, rounding to the nearest rounding unit will be a fair mechanism to employers, employees and self-employed persons. As the current Max RI Level stands at \$30,000, the proposed mechanism suggests adopting a rounding unit of \$2,500.

Implications of Implementation of the Proposed Mechanism

52. Based on the statistics from the General Household Survey conducted by the Census and Statistics Department (for the third quarter of 2014), the Median Earnings and 90th Percentile Earnings of the monthly employment earnings distribution of all employed persons (excluding FDHs) aged 18 to 64 are at \$15,000 and \$40,000 respectively. In other words, if the proposed mechanism is implemented today, the Min RI Level will be adjusted to \$8,300 (55% of \$15,000 rounded up to the next \$100) while the Max RI Level will be adjusted to \$35,000 (the current Max RI Level of \$30,000 increased by \$5,000, being the limit on the magnitude of each increase).

53. If the Min RI Level is increased from the current level of \$7,100 to \$8,300, employees and self-employed persons earning \$7,100 or above but below \$8,300 will be exempted from making mandatory contributions. The estimated impact of the increase is set out in the table below –

Employees (“EE”) / Self-employed Persons (“SEP”) monthly earnings	\$7,100 – <\$8,300
(a) Number of relevant EEs and SEPs affected	
No. of relevant EEs affected (% of total no. of relevant EEs covered by MPF schemes (i.e. 2 543 500))	125 400 (4.9%)
No. of SEPs affected (% of total no. of SEPs covered by MPF schemes (i.e. 287 800))	11 100 (3.9%)
(b) Total monthly mandatory contributions	
Decrease in total monthly EE contributions	(\$48.93 million)
Decrease in total monthly SEP contributions	(\$4.38 million)
Total decrease in monthly contributions	(\$53.31 million)

Employees (“EE”) / Self-employed Persons (“SEP”) monthly earnings	\$7,100 – <\$8,300
(c) Accrued benefits upon retirement per member ⁷	
Decrease in accrued benefits upon retirement per EE member	(\$271,600)
Decrease in accrued benefits upon retirement per SEP member	(\$275,300)

54. If the Max RI Level is increased from the current level of \$30,000 to \$35,000, employees and their employers, as well as self-employed persons earning more than \$30,000 will have to make extra mandatory contributions of not more than \$250. The estimated impact of the increase is set out in the table below –

EE/ SEP monthly earnings	\$30,001 – \$35,000	>\$35,000	>\$30,000
(a) No. of relevant EEs and SEPs affected			
No. of relevant EEs affected (% of total no. of relevant EEs covered by MPF schemes (i.e. 2 543 500))	73 700 (2.9%)	268 300 (10.5%)	342 000 (13.4%)
No. of SEPs affected (% of total no. of SEPs covered by MPF schemes (i.e. 287 800))	8 200 (2.8%)	43 000 (14.9%)	51 200 (17.8%)
(b) Total monthly mandatory contributions			
Increase in total monthly employer (“ER”) contributions	\$13.39 million	\$67.06 million	\$80.45 million
Increase in total monthly EE contributions	\$13.39 million	\$67.06 million	\$80.45 million
Increase in total monthly SEP contributions	\$1.52 million	\$10.75 million	\$12.27 million
Total increase in monthly contributions	\$28.30 million	\$144.87 million	\$173.17 million
(c) Accrued benefits upon retirement per member ⁸			
Increase in accrued benefits upon retirement per EE member			
- ER contributions	\$126,500	\$174,100	\$163,800
- EE contributions	\$126,500	\$174,100	\$163,800
Total	\$253,000	\$348,200	\$327,600

⁷ The estimations are based on the assumption that the member is at the age of 35 and makes mandatory contributions for 30 years and the investment return is at 4.0% per annum (i.e. the same rate as the annualized internal rate of return of the MPF System for the period from 1 December 2000 to 30 September 2014).

⁸ The estimations are based on the assumption that the member is at the age of 35 and makes mandatory contributions for 30 years and the investment return is at 4.0% per annum (i.e. the same rate as the annualized internal rate of return of the MPF System for the period from 1 December 2000 to 30 September 2014).

EE/ SEP monthly earnings	\$30,001 – \$35,000	>\$35,000	>\$30,000
Increase in accrued benefits upon retirement per SEP member	\$128,800	\$174,100	\$166,800

Consultation Questions

- 1. Do you support replacing the current discretionary adjustment mechanism with the proposed automatic mechanism for adjusting the Min RI Level and the Max RI Level?*
- 2. If you support only some of the features (extent of automation, adjustment benchmarks, review and adjustment frequency, limits on adjustment magnitude and rounding mechanism) of the proposed mechanism, please explain your views in respect of those features that you do not support and suggest how and / or what modifications should be made.*

RESPONSE TO CONSULTATION QUESTIONS

1. Do you support replacing the current discretionary adjustment mechanism with the proposed automatic mechanism for adjusting the minimum level of relevant income (“Min RI Level”) and the maximum level of relevant income (“Max RI Level”)?

Yes

No

Please explain your views:

2. If you support only some of the features of the proposed mechanism, please explain your views in respect of those features that you do not support and suggest how and / or what modifications should be made.

Min RI Level

Please indicate which key features you support.

- (a) Automatic adjustment Support Not support
- (b) Adjustment benchmark (55% of the monthly median employment earnings (Foreign Domestic Helpers (“FDHs”) excluded)) Support Not support
- (c) 2-year review and adjustment frequency Support Not support
- (d) No limit on adjustment magnitude Support Not support
- (e) Round up to next \$100 Support Not support

In respect of those features that you do not support, please explain your views and suggest how and / or what modifications should be made:

Max RI Level

Please indicate which key features you support.

- (a) Automatic adjustment Support Not support
- (b) Adjustment benchmark (90th percentile earnings of the monthly employment earnings distribution (FDHs excluded)) Support Not support
- (c) 2-year review and adjustment frequency Support Not support
- (d) \$5,000 limit on increase magnitude Support Not support
- (e) Round to nearest \$2,500 Support Not support

In respect of those features that you do not support, please explain your views and suggest how and / or what modifications should be made:

3. Do you have any additional comments on the proposed mechanism for the Min RI Level or the Max RI Level?

Yes

Please explain your views:

No

Information of Respondent

(Please refer to the Personal Information Collection Statement on pages 4 and 5 of this Consultation Paper.)

Name (optional):

Organization (where applicable, optional):

Address (optional):



強制性公積金計劃管理局
MANDATORY PROVIDENT FUND
SCHEMES AUTHORITY

Consultation Conclusions on Introducing an Automatic Mechanism for Adjustment of Minimum and Maximum Levels of Relevant Income

June 2015

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CHAPTER 1 INTRODUCTION

1. On 23 January 2015, the Mandatory Provident Fund Schemes Authority (“MPFA”) launched a public consultation exercise (“Consultation”) to gauge the views of the public on the proposal in respect of the introduction of an automatic mechanism for adjustment of the minimum level of relevant income (“Min RI Level”) and the maximum level of relevant income (“Max RI Level”) (“Proposal”). The consultation period ended on 5 March 2015.
2. A total of three questions were asked in the Response to Consultation Questions Form (“Response Form”) provided in the Consultation Paper “Introducing an Automatic Mechanism for Adjustment of Minimum and Maximum Levels of Relevant Income” (Annex A). The three questions are:
 - Q1. Do you support replacing the current discretionary adjustment mechanism with the proposed automatic mechanism for adjusting the Min RI Level and the Max RI Level?
 - Q2. If you support only some of the features of the proposed mechanism, please explain your views in respect of those features that you do not support and suggest how and / or what modifications should be made.
 - Q3. Do you have any additional comments on the proposed mechanism for the Min RI Level or the Max RI Level?
3. The Consultation Paper was uploaded onto the websites of MPFA (www.mpfa.org.hk), the Financial Services and the Treasury Bureau of the Government of the HKSAR (www.fstb.gov.hk/fstb) and the Business Consultation e-Platform on GovHK (www.gov.hk). Hardcopies were made available at all MPFA offices. A press release was published on 23 January 2015 inviting views from the public on the Proposal and another one was published on 25 February 2015 reminding the public to submit views before the closing date of the Consultation.
4. To facilitate submission of responses to the Consultation, a number of

response channels, including by post, facsimile and electronic mail, were provided. In addition, an online Response Form was made available at the MPFA website to collect the views from the general public.

5. In order to facilitate clearer understanding of the Proposal by and to better gauge the views of key stakeholder groups, during the consultation period, MPFA also conducted briefing sessions to introduce the Proposal and to hear the views of nine employer associations, three labour unions, a relevant professional body and two MPF industry bodies. A list of the 15 key stakeholder groups is attached at Annex B.

Summary of views and comments

6. At the end of the consultation period on 5 March 2015, MPFA had received 35 047 submissions. We further received 28 late submissions during the period from 6 to 11 March 2015. The total number of submissions received is 35 075.
7. Among the 35 075 submissions, 34 994 (over 99%) were received on 4 and 5 March 2015 and almost all were submitted via the online response system provided on the MPFA website. The timing of this upsurge in the number of online submissions coincides with the timing of messages spreading on social media urging the community to object to the Proposal and to use the template comments as provided in the messages when responding to the Consultation. As some messages suggested a misunderstanding of the Proposal, to ensure that public members could understand the Proposal which was being consulted, MPFA issued a press release clarifying that the Proposal would not mandate an increase of the Max RI Level every two years on 4 March 2015. The press release also clarified that under the Proposal the Min and Max RI Levels might be adjusted upwards or downwards depending on the proposed adjustment benchmarks and other components prescribed, and re-iterated the proposed adjustment benchmark and other components for the Max RI Level.
8. Almost all of the respondents are individual members of the public who made their submissions via the MPFA online response system and 99% of them indicated that they did not support the Proposal. Among these respondents, 26% commented on the Proposal (and some also commented

on other aspects of the MPF System). Another 31% also commented on the Proposal based fully or partially on the template comments provided in the messages on social media as mentioned in paragraph 7 above. The remaining 43% of the respondents did not comment on the Proposal but expressed dissatisfaction about other elements of the MPF System which were unrelated to the Proposal.

9. With respect to the 15 key stakeholder groups who were consulted on the Proposal as mentioned in paragraph 5 above, MPFA subsequently received written submissions from nine of them. MPFA also briefed the Labour Advisory Board on 1 April 2015. Views expressed by these bodies and their members are polarized. The Proposal was fully or generally supported by one employer association, and all of the labour unions, the relevant professional body, and the MPF industry bodies and players. However, more than half of the employer associations did not support the Proposal, expressing concerns particularly about the perceived continual automatic increase of the Max RI Level every two years.
10. During the consultation period, the Financial Services and the Treasury Bureau of the Government of the HKSAR and MPFA briefed the Legislative Council Panel on Financial Affairs on the Proposal on 2 March 2015. Similarly, views expressed by the Panel members were diverse, with some supporting the Proposal whilst others were concerned about the loss of flexibility in adjusting the Min and Max RI Levels under the proposed mechanism and the additional amount of mandatory contributions payable under the proposed mechanism.
11. A more detailed analysis of the total submissions of 35 075 can be found in Chapter 2 of this Consultation Conclusions Report. We categorize these 35 075 submissions into two groups of respondents for separate analysis, namely, the 35 062 submissions made by members of the public and the 13 submissions made by key stakeholder groups. Among the 13 submissions received from key stakeholder groups, a total of nine submissions were made by employer associations, labour unions, a relevant professional body and an MPF industry body to which MPFA had introduced the Proposal while the other four submissions were made by a labour union, a trade union and two MPF industry players which received no briefing on the Proposal from MPFA.

12. We would like to thank all respondents who participated in the Consultation and provided us with their feedback.

CHAPTER 2 SUMMARY OF RESPONSES

13. At the end of the consultation period, there were 35 047 submissions received by MPFA. A further 28 submissions were received by MPFA during the period from 6 to 11 March 2015, thus making up the total number of submissions to 35 075. Among the 35 075 submissions, 34 994 (over 99%) were received on 4 and 5 March 2015 and almost all were submitted via the online Response Form provided on the MPFA website by members of the public. Considering all the 35 075 submissions as a whole, 99% of the respondents indicated that they did not support the Proposal.
14. Apart from receiving submissions from members of the public in respect of the Proposal, MPFA received submissions made by key stakeholder groups including, for example, employer associations, labour unions and MPF industry bodies. We separately analyse the 35 062 submissions made by members of the public in Part 2.1 below and the 13 submissions made by key stakeholder groups in Part 2.2 below.

2.1 Summary of Responses Made by Members of the Public

15. There were in total 35 062 submissions received from members of the public in respect of the Proposal, representing over 99% of the total number of submissions of 35 075. Over 99% of the members of the public made their submissions via the online Response Form available on the MPFA website. An overwhelming majority (99%) of the respondents did not support the Proposal.
16. A majority (65%) of the respondents who did not support the Proposal provided comments in their submissions, apart from checking the boxes for the questions in the Response Form indicating that they were not supportive of the Proposal. The key comments made by these respondents are highlighted below (further details are set out in Annex C):
 - (i) 26% commented on the Proposal (and some also commented on other aspects of the MPF System) and 19% of this group expressed preference for the current adjustment mechanism;

- (ii) another 31% commented on the Proposal (and some also commented on other aspects of the MPF System) based fully or partially on the template comments provided in the messages on social media, and 90% of this group expressed preference for the current adjustment mechanism; and
 - (iii) the remaining 43% made comments on the MPF System which were unrelated to the Proposal (e.g. high management fees and low returns).
17. Among the 26% of the respondents who provided comments on the Proposal which they did not support, some considered that the proposed automatic adjustment mechanism lacked flexibility and the adjustment of the Min and Max RI Levels should take into account other relevant factors such as the prevailing social and economic situation. Some respondents considered that any proposed change in the two levels should be subject to the scrutiny of the Legislative Council or consent by employees. There were also comments that there would only be upward adjustments in the two levels under the proposed mechanism. For those among this group who expressed preference for the current adjustment mechanism, some respondents commented that the current mechanism was flexible as it allowed relevant factors (e.g. income distribution of the working population, inflation rate, and prevailing local and global economic conditions) to be taken into account when reviewing and adjusting the Min and Max RI Levels. Some other respondents considered that the current mechanism allowed room for discussion by the community on the adjustment of the Min and Max RI Levels as after all MPF contributions made by them are their assets and hence they should have a right to participate in the review and adjustment process. There were also respondents who considered the current mechanism sufficiently good as the proposed mechanism would increase the amount of contributions endlessly.
18. There were another 31% of the respondents who also commented on the Proposal. It is observed that their comments were based fully or partially on the template comments provided in the messages on social media. Some template comments on the internet contained a point stating that the current adjustment mechanism was not perfect but it was better than the proposed automatic mechanism. The reason was, under the current mechanism, any adjustments of the Min and Max RI Levels were subject to

scrutiny and approval by the Legislative Council. Under such circumstance, members of the Legislative Council could take into account the prevailing social situation when deliberating on the proposed adjustments in detail. Such checks and balances could, to a certain extent, keep the Government from becoming too powerful. In this group of respondents, 90% had included this comment indicating preference for the current mechanism in their submissions.

2.2 Summary of Responses Made by Key Stakeholder Groups

19. During the consultation period, MPFA conducted briefing sessions to introduce the Proposal and to hear the views of 15 key stakeholder groups, including nine employer associations, three labour unions, one relevant professional body and two MPF industry bodies. MPFA subsequently received written submissions from nine of them. MPFA also received four other submissions made by a labour union, a trade union and two MPF industry players which received no briefing on the Proposal from MPFA. The 13 key stakeholder groups with submissions made are set out below.

Table 1: List of 13 key stakeholder groups with submissions made

No.	Name
1.	AIA Pension and Trustee Co. Ltd.
2.	The Chinese General Chamber of Commerce*
3.	The Chinese Manufacturers' Association of Hong Kong*
4.	Dimensional Fund Advisors Pte. Ltd.
5.	Employers' Federation of Hong Kong*
6.	The Federation of Hong Kong and Kowloon Labour Unions*
7.	Federation of Hong Kong Industries*
8.	Hong Kong and Kowloon Trades Union Council
9.	Hong Kong Confederation of Trade Unions*
10.	Hong Kong E-Logistics Practitioners Association
11.	The Hong Kong Federation of Trade Unions*
12.	Hong Kong Institute of Human Resource Management*

No.	Name
13.	Hong Kong Trustees' Association*

* MPFA conducted briefing sessions to introduce the Proposal to these key stakeholder groups during the consultation period.

20. Views expressed in the submissions are split, with some supporting the Proposal and some not supporting it.
21. All the labour unions, the relevant professional body and the MPF industry bodies and players fully or generally supported the Proposal. They generally considered that the Proposal could protect the benefits of employees better and it would be more effective in terms of time and costs involved in the consultation and legislative processes. Moreover, they could get better prepared for the implementation of the new levels under the proposed automatic mechanism. Some suggested fine-tuning some of the components of the proposed mechanism as well, e.g. increasing the frequency of review and adjustment of the Min and Max RI Levels from once every two years under the Proposal to once a year; adding the Statutory Minimum Wage as an additional benchmark to the Proposal for adjusting the Min RI Level so that the adjusted Min RI Level would not fall below an income level produced with reference to the Statutory Minimum Wage; not amending the Min RI Level if the adjustment was small (e.g. \$500) in order to minimize administrative work and costs of small- and medium-sized enterprises; and adopting a smaller rounding unit of \$1,000 (vs \$2,500 under the Proposal) for the Max RI Level so that each upward adjustment of the Max RI Level would not be too drastic.
22. More than half of the employer associations did not support the proposed mechanism for the Max RI Level. They were mainly concerned about perceived automatic increases of the Max RI Level by \$5,000 every two years. An employer association generally supported the Proposal considering that, as long as consensus could be reached on the adjustment benchmarks, the proposed automatic mechanism could achieve administrative efficiency, avoid political debate and delay of the review of the Min and Max RI Levels, and ensure timely and progressive improvement in the MPF System. In general, employer associations appeared to have less concern about the introduction of an automatic

adjustment mechanism in relation to the Min RI Level as set out in the Proposal.

23. The trade union that made a submission did not support the Proposal.

CONSULTATION QUESTIONS

1. Do you support replacing the current discretionary adjustment mechanism with the proposed automatic mechanism for adjusting the minimum level of relevant income (“Min RI Level”) and the maximum level of relevant income (“Max RI Level”)?

- Yes
 No

Please explain your views:

2. If you support only some of the features of the proposed mechanism, please explain your views in respect of those features that you do not support and suggest how and / or what modifications should be made.

Min RI Level

Please indicate which key features you support.

- (a) Automatic adjustment Support Not support
(b) Adjustment benchmark (55% of the monthly median employment earnings (Foreign Domestic Helpers (“FDHs”) excluded))
 Support Not support
(c) 2-year review and adjustment frequency Support Not support
(d) No limit on adjustment magnitude Support Not support
(e) Round up to next \$100 Support Not support

In respect of those features that you do not support, please explain your views and suggest how and / or what modifications should be made:

Max RI Level

Please indicate which key features you support.

- (a) Automatic adjustment Support Not support
- (b) Adjustment benchmark (90th percentile earnings of the monthly employment earnings distribution (FDHs excluded)) Support Not support
- (c) 2-year review and adjustment frequency Support Not support
- (d) \$5,000 limit on increase magnitude Support Not support
- (e) Round to nearest \$2,500 Support Not support

In respect of those features that you do not support, please explain your views and suggest how and / or what modifications should be made:

3. Do you have any additional comments on the proposed mechanism for the Min RI Level or the Max RI Level?

- Yes

Please explain your views:

- No

**LIST OF KEY STAKEHOLDER GROUPS TO WHICH MPFA
PROVIDED A BRIEFING ON THE PROPOSAL**

Employer Associations

1. The Chinese General Chamber of Commerce
2. The Chinese Manufacturers' Association of Hong Kong
3. Employers' Federation of Hong Kong
4. Federation of Hong Kong Industries
5. The Hong Kong Chinese Enterprises Association
6. The Hong Kong Chinese Importers' & Exporters' Association
7. The Hong Kong General Chamber of Commerce
8. The Hong Kong General Chamber of Small and Medium Business
9. Hong Kong Small and Medium Enterprises Association

Labour Unions

10. The Federation of Hong Kong and Kowloon Labour Unions
11. Hong Kong Confederation of Trade Unions
12. The Hong Kong Federation of Trade Unions

Relevant Professional Bodies

13. Hong Kong Institute of Human Resource Management

MPF Industry Bodies

14. Hong Kong Investment Funds Association
15. Hong Kong Trustees' Association

**SUMMARY OF COMMENTS MADE IN SUBMISSIONS NOT
SUPPORTING THE PROPOSAL**

		% of 22 493 respondents who made comments (a)	% of 22 493 respondents who made comments (b)
(1)	Comments made were related to the Proposal	26%	
	- no indication of preference for the current adjustment mechanism		21%
	- indicated preference for the current adjustment mechanism		5%
(2)	Comments based fully or partially on the template comments provided in the messages on social media	31%	
	- no indication of preference for the current adjustment mechanism		3%
	- indicated preference for the current adjustment mechanism		28%
(3)	Comments on the MPF System which were unrelated to the Proposal	43%	
	- MPF System should be frozen or abolished		16%
	- Comments/ complaints on other issues (e.g. withdrawal of benefits, offsetting arrangement)		13%
	- Low returns		8%
	- MPF System reduces members' take-home pay		7%
	- High fees		7%

		% of 22 493 respondents who made comments (a)	% of 22 493 respondents who made comments (b)
	- MPF System only benefits fund managers and service providers		7%
	- Members should be allowed to invest or save the money themselves		7%
	- MPF System is useless		4%
	- Offensive comment, foul language and unfounded accusations		3%
	- Members should be allowed to use MPF benefits to purchase real estate properties instead		1%
	Total percentage	100%	

Notes:

1. Among the 34 730 respondents who indicated in their submissions that they did not support the Proposal, 65% of them also provided comments in their submissions. The table shows a summary of those comments.
2. As a respondent may make multiple comments, the column total in column (b) does not add up to 100%.