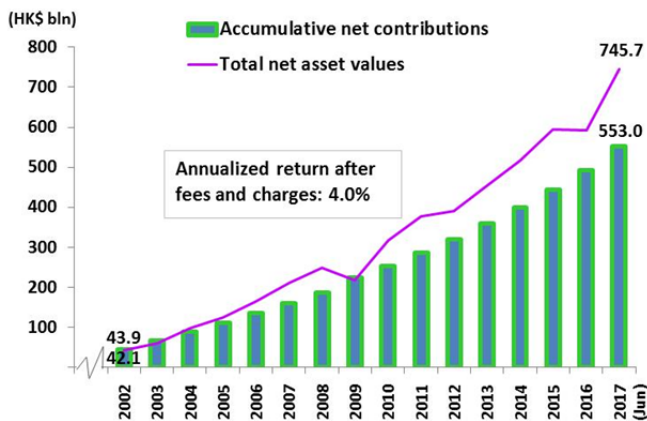




Mandatory Provident Fund System

Figure 1 – Growth of MPF assets[#]



Note: (#) Data for 2002-2016 as at March.

Figure 2 – Voluntary MPF contributions

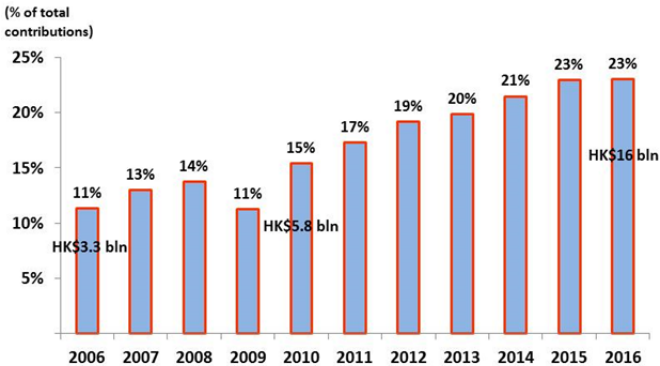
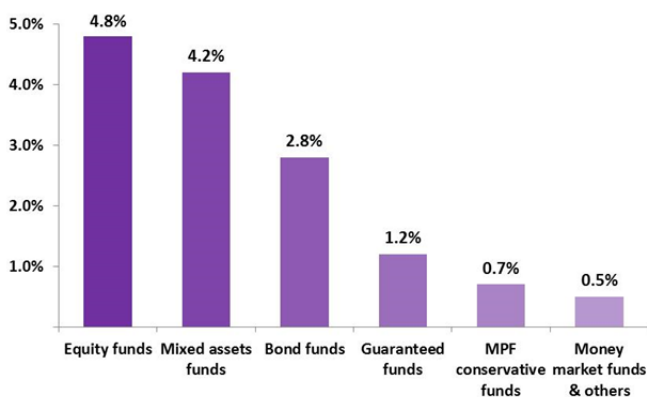


Figure 3 – Net annualized return of MPF funds (December 2000 to June 2017)



Highlights

- The Mandatory Provident Fund ("MPF") System has been in operation in Hong Kong for almost 17 years. Since its inception in December 2000, the total net asset size has grown to HK\$746 billion at end-June 2017 (**Figure 1**). The growth was fuelled largely by the increase in net contributions during the period, which accounted for a total of HK\$553 billion or 74% of total MPF assets.
- As at end-June 2017, net investment return accounted for another HK\$193 billion or 26% of total MPF assets. This translated into a system-wide annualized return of 4.0% after fees and charges over the period from December 2000 to June 2017. Over the same period, the average yearly inflation was 1.8% and the Hong Kong dollar fixed deposit rates were in the range of 0.5%-0.9% per annum on average.
- Probably as a result of the continued low-interest rate environment and the increased awareness on the need to make additional savings for retirement, there has been a significant rise in the amount of MPF voluntary contributions in recent years. In 2016, the amount of voluntary contributions has risen to HK\$16 billion, representing 23% of that year's total contributions (**Figure 2**).
- Among the various types of MPF funds, equity funds registered the highest net annualized return of 4.8% during the period from December 2000 to June 2017, followed by mixed assets funds (4.2%) (**Figure 3**). On the other hand, guaranteed funds, MPF conservative funds, and money market funds failed to beat inflation with the annualized returns ranging between 0.5% and 1.2%.

Mandatory Provident Fund System (cont'd)

Figure 4 – Share of MPF fund types in terms of net asset values as at end-June 2017

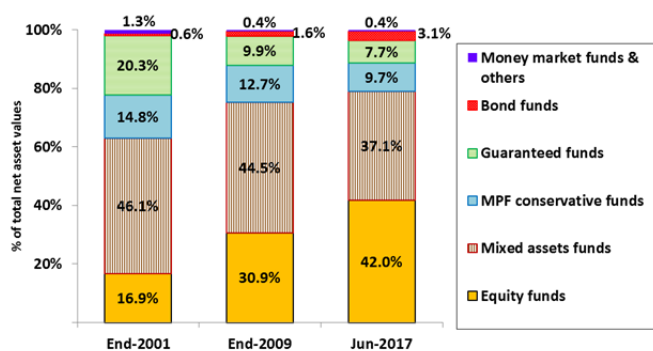
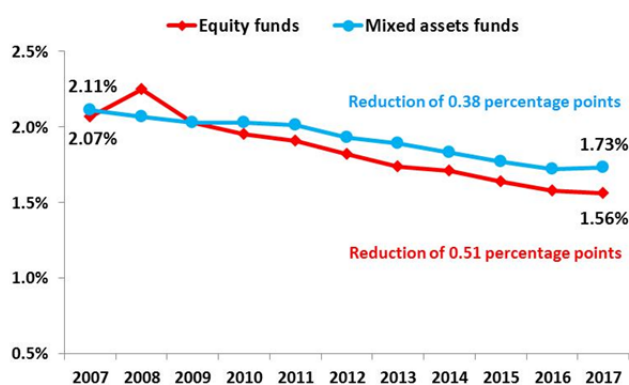


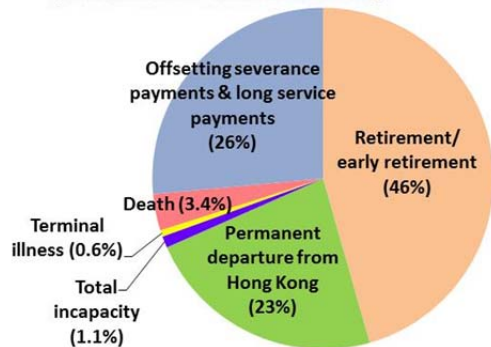
Figure 5 – Average fund expense ratios[^]



Note: (^) Fund expense ratios indicate the total amount of expenses charged by MPF funds as a percentage of fund size.

Figure 6 – Withdrawal of MPF benefits* (2016)

Total withdrawal of MPF benefits on below grounds: HK\$14.6 billion (2.25% of total MPF assets as at end-2016)



Note: (*) Withdrawal on the ground of small account balance represented less than 0.02% of the total amount. Percentages may not sum up to 100% due to rounding.

Highlights

- Higher net returns have made equity funds a favourable investment choice for MPF scheme members. In 2017, equity funds accounted for about 42% of total net asset values, as opposed to just 17% in 2001 (Figure 4). In contrast, the fund types yielding below-inflation returns, such as guaranteed funds and MPF conservative funds, have reduced in share markedly.
- MPF funds have been subject to criticism for high fees for years. While the average fee levels of the popular fund types, i.e. equity funds and mixed assets funds, have declined by 0.51 percentage points ("pts") and 0.38 pts respectively since 2007 (Figure 5), the extent of reduction is considered not sharp enough. The newly-introduced Default Investment Strategy is subject to a statutory cap on both management fee and recurrent out-of-pocket expenses (0.75% and 0.2% per annum of fund size respectively). Whether it will become a popular low-fee option for MPF scheme members remains to be seen.
- In 2016, MPF accrued benefits totalling HK\$14.6 billion were withdrawn on different grounds allowed by law, representing about 2.25% of total MPF assets (Figure 6). Of this amount, withdrawal for retirement accounted for 46%, followed by offsetting severance payments and long service payments (26%), and permanent departure from Hong Kong (23%). The offsetting arrangement has been an issue of grave community concern and the Government is in discussion with stakeholders to come up with an arrangement acceptable to both the labour and business sectors.

Data source: latest available data from the Mandatory Provident Fund Schemes Authority.

Research Office
Information Services Division
Legislative Council Secretariat
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Tel: 2871 2122

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