

**LegCo Subcommittee to Study the Subject of Combating Poverty
Mandatory Provident Fund Schemes**

Purpose

This paper is prepared in response to request of the LegCo Subcommittee to Study the Subject of Combating Poverty (“the Subcommittee”) for information on –

- (a) the range of management fees charged by fund managers under the Mandatory Provident Fund (MPF) Schemes; and
- (b) the number of cases in which long service payments / severance payment (LSP/SP) has been offset by employers’ MPF contribution since the launch of the MPF Schemes, together with the amount involved.

MPF Fees

Background

2. Fees and charges of MPF funds are set out in the offering or constitutive documents of a scheme. Fees and charges can be expressed in various ways such as a fixed dollar amount or as a percentage of assets. They can be payable by cash deduction from a constituent fund of a MPF scheme or some lower level investment fund or, less frequently, from contributions. As an additional complexity, some schemes will rebate some amounts to some members. To enhance information transparency, the Code on Disclosure for MPF Investment Funds (“the Disclosure Code”) promulgated by the Mandatory Provident Fund Schemes Authority (“MPFA”) in 2004 requires trustees to prepare fee table in standard format and language. The fee table also sets out who pays the various fees (e.g.

whether it is paid by the member, employer or relevant fund). The fee table is contained in the offering documents available to scheme members.

Management fees

3. Different MPF schemes have different fee structures so the range of management fees charged by fund managers (or investment managers) of individual schemes could be wide. For some funds there is no separate fee payable to investment managers as their fee may be part of some larger aggregated fee. For capital preservation funds (“CPF”), there are fee deduction restrictions in the legislation that limit, under certain circumstances, the amount of fees that can be deducted and CPFs are therefore not included in the range figures below.

4. Based upon the latest fee tables as contained in the offering documents of MPF schemes, the fee payable to investment managers ranges from 0% in the lowest case (i.e. no separately identified fee payable to the investment manager) to a quoted maximum of 1.5%. In some schemes some of these fees are subsequently rebated to the fund or members.

5. It is important to note however that there are a range of fees and charges payable by MPF schemes and/or MPF members other than investment managers’ fees. It is very difficult to understand the totality of fees and charges by looking to the segregated information about different fee types such as investment manager, trustee, administrator etc. A far better way of understanding the cost of MPF funds is to look at total expenses. This is best done as a percentage of fund size. Trustees are now required by the Disclosure Code to produce such a figure, called a Fund Expense ratio. Based on information submitted by trustees (up to April 2007) representing 90% of MPF assets under management, the average fund expense ratio of MPF funds amounted to 2.08% on an asset-weighted basis.

Enhancing market efficiency in fee-setting

6. The MPF system relies on market forces to set the type and

level of fees. In an effort to promote market efficiency in setting fees at a reasonable level, the MPFA has been constantly improving the transparency of fee information. The first steps were the improvements set out in the Disclosure Code in 2004. More recently the MPFA has been developing a comparative platform to help comparison of fees and charges across funds and schemes. The first phase of this platform, which will show the highest/average/lowest expenses by fund type, will be available in July this year. The second, more detailed phase, which will show information for each individual scheme, is dependant upon enactment of relevant legislative amendments. The Bill containing the amendments will be introduced into LegCo shortly.

7. In addition, the MPFA will continue with ongoing efforts to educate scheme members about the importance of fees and charges in decision-making. They also conduct regular review of the operation of the MPF system in consultation with stakeholders and recommend legislative amendments with a view to streamlining procedures and reducing operating costs of MPF schemes. A number of these legislative amendments have been enacted.

8. To increase market competition, the MPFA is currently considering expanding the portability of accrued benefits by allowing employees to transfer accrued benefits derived from their own contributions from the scheme chosen by their employers to an MPF scheme of their own choice. If practicable, this would result in around 60% of MPF benefits being portable as between trustees. The MPFA plans to consult stakeholders on the proposal and make recommendations to the Government this year.

Data on Offsetting of LSP / SP through the MPF System

9. In respect of offsetting of LSP/SP paid by employers, the MPFA has the data on payment amount but not the number of cases. As at 31 March 2007, the total amount of payment for offsetting LSP/SP was HK\$6,876 million. Payment broken down by individual years / periods is shown below -

<u>Period</u>	<u>HK\$ Million</u>
2001 (Q3 - Q4)	166
2002	750
2003	1 174
2004	1 268
2005	1 429
2006	1 634
2007 (Q1)	455
Total	6 876

Mandatory Provident Fund Schemes Authority
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