



香港工業總會
FHKI

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Federation of Hong Kong Industries

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Hon. Chan Kam-lam, SBS, JP
Chairman
Panel on Financial Affairs
Legislative Council
8 Jackson Road
Central
Hong Kong

30 January 2007

Dear Mr Chan,

Review of the Minimum and Maximum Relevant Income Levels for MPF Contributions

Thank you for inviting our views on the recommendations of the above review undertaken by the Mandatory Provident Fund Schemes Authority (MPFA).

The issue was discussed at a recent meeting of our General Committee. After careful consideration, we do not find it advisable to raise the maximum relevant income from \$20000 to \$30000 as recommended by the MPFA. The reasons are as follows:

1. The primary purpose of the MPF system is to provide basic retirement protection for local workers, not least low income earners. Introducing hefty increases in mandatory contributions for high income workers would shift the system away from its original aim, creating profound ramifications for our society.
2. The proposed increase in the maximum relevant income is at variance with the salary and price trends. As shown in Table 1 below, rather than ascending, the overall income levels of the local workforce have actually come down slightly since the commencement of the MPF in December 2000. In respect of consumer prices, it can be seen from Table 2 that the current levels have remained lower than those of 2000 after successive years of deflation.

In the absence of any major wage rise or inflation, there is hardly any justification for raising the maximum relevant income, let alone a 50 per cent increase.

Table 1
Employment Earnings of the Workforce

	% of the workforce with a monthly income less than \$20000	% of the workforce with a monthly income of \$20000 or above
4th quarter of 2000	78.4%	21.6%
3rd quarter of 2006	79.2%	20.8%

Source: Census and Statistics Department, Quarter Reports on General Household Survey, October to December 2000 and July to September 2006

Table 2
Year-on-Year Change in Composite Consumer Price Index

	2000	2001	2002	2003	2004	2005	Jan. to Nov. 2006
Year-on-Year Change in Composite CPI	-3.8%	-1.6%	-3.0%	-2.6%	-0.4%	1.0%	2.0%

Source: Hong Kong Annual Digest of Statistics, 2006

3. The proposed increase, if implemented, would entail an additional annual cost of HK\$1.6 billion on Hong Kong employers, curtailing their competitiveness in the global market. To curb the extra financial burden, some employers may be forced to dismiss their workers or cut their wages. Those who would bear the brunt are likely to be low skilled workers as they generally have less bargaining power in the employment sector.
4. The existing maximum income level for mandatory contributions is comparable to that of Singapore's Central Provident Fund, which is currently set at S\$4500 (approximately equivalent to HK\$22500). Given the economic similarities between Hong Kong and Singapore, and our close competition with them for investment and talents, it is not advisable to raise the level of contributions much higher.
5. As Hong Kong boasts the freest economy in the world, our workers should enjoy greater freedom to decide how to use their income and invest for their retirement. Workers earning \$20000 or above tend to be well educated. They have the knowledge of how and when to invest to meet their future retirement needs. The current contribution levels already provide adequate basic security for their retirement. Increasing them will further infringe upon the freedom of these higher income earners to make such investment decisions.

In view of its negative repercussions, we are against increasing the maximum relevant income for MPF contributions to \$30000. We hope members of the Panel

on Financial Affairs will carefully consider our views when deliberating the MPFA's recommendations.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Clement Chen', written in a cursive style.

Clement Chen
Deputy Chairman