



Hong Kong General Chamber of Commerce
香港總商會 1861

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31 January 2007

The Hon Chan Kam-lam
Chairman of the Panel on Financial Affairs
Legislative Council
8 Jackson Road
Hong Kong

Dear Mr Chan,

**Review of the minimum and maximum relevant income levels
for MPF contributions**

Thank you for your letter of 10 January 2007 inviting views of our Chamber on the above subject. The Chamber has consulted our members on the proposals by the Mandatory Provident Fund Schemes Authority (MPFA) regarding minimum and maximum relevant income levels for MPF contributions. The Chamber would like to offer our comments as follows:

1) On maintaining the minimum level of relevant income at \$5,000 per month

Our members are of the view that the minimum level of relevant income should be maintained at \$5,000 per month.

2) On increasing the maximum level of relevant income from \$20,000 to \$30,000 per month

We appreciate the merits of the proposed increase in that a low contributory rate will defeat the purpose of the MPF Scheme, leaving employees with less savings and reducing their post-retirement income, while a rise in the maximum limit will increase the likelihood that retirees will be able to support themselves without relying on Government assistance. In addition, the subsequent increase in the funds within the system will encourage greater competition among MPF providers to improve performance for the benefit of Scheme members. The increase in MPF contributions will also benefit the financial services industry as a whole.

- 2 -

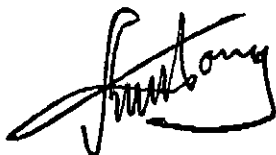
On the other hand, there are considerable demerits in the proposed increase which are of concern to many of our members, especially SMEs. In actual monetary terms, the increase could mean an additional cost of \$500 per month per affected employee. The proposal represents a 50% increase and could impose a substantial burden on SMEs. With the increased cost of compliance of doing business in Hong Kong, competitiveness of SMEs can be affected. This can be another add-on cost in addition to other initiatives, such as the wage protection scheme, the labour and taxation reform in Mainland China, which can create further impact on cost burden for SMEs.

Some members have suggested that the following measures should be considered to alleviate the concerns of business, especially SMEs:

- a) The government should allow adequate time for both employers and employees to plan for cost increase and a more restricted personal cash flow. A sufficient grace period for implementation is recommended. More appropriate would be a stable and regular increase rather than significant jumps at longer intervals.
- b) The government should also consider giving incentives, e.g. tax benefit to employees for making higher voluntary contribution to MPF for their own retirement planning, thus avoiding the need to put more burden on employers in the long run.

The Chamber in general favours less rather than more government regulation. We hope the views we have collected from members will be of help to the Panel's deliberation on this subject.

Yours sincerely,



Alex Fong
CEO