

**香港退休計劃協會****The Hong Kong Retirement Schemes Association**

CB(1)862/06-07(02)

31 January 2007

The Hon Chan Kam-lam
Chairman of the Panel on Financial Affairs
LegCo
Hong Kong

By fax 2121 0420
and followed by post

Dear Hon Chan Kam-Lam,

Proposed adjustment of minimum and maximum relevant level of MPF Contribution

We refer to the proposed adjustment of maximum level of relevant income to \$30,000.

By way of introduction, the Hong Kong Retirement Schemes Association (HKRSA) is a not for profit, non political organization which represents retirement schemes and has as its members employers and service providers. The HKRSA was formed with a view to safeguard the best interests of retirement schemes and their members. More information is available from our website, www.hkrsa.org.hk.

Whilst we are of the general view that the current mandated level of contributions is a good start and we support measures to improve the system, we do feel that there needs to be more careful consideration and review before introducing measures to increase contributions. The following should be taken into consideration:

- 1) There should be greater emphasis on encouraging additional voluntary contributions by employees. The Government should introduce tax relief by way of a tax deduction (say up to 15% of MPF earnings) or a tax credit on contributions made, in order to improve the incentive and funding for retirement. Such contributions could form part of the mandatory contribution account and thus preserved until retirement or other special circumstance. Currently, only the employee's mandatory MPF contributions (up to \$12,000 a year) are an allowable expense against salaries tax. We thus feel that this should be reviewed.
- 2) Any increase in an employer's mandatory contribution should be applied on a gradual basis, in order to ensure that employers are not unexpectedly burdened by any one-off significant increase. Other jurisdictions, such as Australia, have seen a gradual increase in contributions over a time period that spanned a number of years. Such increase should also go hand in hand with a review of the current level of tax relief to employers on contributions and other incentives for employers to make higher contributions.

- 3) We feel that the Government and the regulator need to do more to encourage members of retirement schemes to accept the MPF system as a means for saving for retirement. More effective support, member education, publicity and promotion are needed. Only when the members and public generally have greater acceptance of the system, will it lead to more individual contributions being paid into MPF accounts.

In summary, the MPF contribution system needs to be a balance of employee contributions, employer contributions and Government incentives. We do feel that the current minimum level of \$5,000 monthly relevant income should be maintained, but it is not appropriate or reasonable to target the mandatory contributions only, i.e. by just raising the maximum level of relevant income. Measures should be considered by the Government to assist employees and employers by providing more tax relief and other incentives. More member education, as well as publicity and promotion of the merits of the system should in turn encourage more individual contributions.

We thus feel that these measures would be more effective than simply increasing the maximum level of income.

We trust that the above is helpful in your review of the MPF contributions and if you need any assistance or further information, please do not hesitate to contact us.

Yours sincerely,



Nancy Chan
Chairman
HKRSA

cc Stuart Leckie
 Jonathan Watkin