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**Bills Committee on Mandatory Provident
Fund Schemes (Amendment) Bill 2008**

**Background Brief on the
Mandatory Provident Fund Schemes (Amendment) Bill 2008**

Purpose

This paper sets out the background of the Mandatory Provident Fund Schemes (Amendment) Bill 2008 (the Bill) and summarizes Members' major concerns on the legislative proposals.

Background

2. In the 2008-2009 Budget, the Financial Secretary (FS) announced a proposal to make a one-off injection of \$6,000 into the MPF accounts of employees and self-employed persons who earned not more than \$10,000 a month¹. The original estimate for implementing this measure is \$8.5 billion.

3. In his Budget Concluding Speech on 23 April 2008, FS elaborated on the scope of the proposed injection. In addition to employees and self-employed persons who had MPF contribution accounts and members of MPF-exempted occupational retirement defined contribution schemes (ORSO DC schemes) as at 29 February 2008, the one-off injection would be expanded to cover persons who had recently terminated their employment, as well as all those who were members of ORSO defined benefit (ORSO DB) schemes, if the monthly income of their last employment between 1 March 2007 and 29 February 2008 did not exceed \$10,000. As such, the scope of the potential beneficiaries will include –

- (a) holders of an MPF contribution account as at 29 February 2008;
- (b) holders of an MPF preserved account as at 29 February 2008 who last contributed to an MPF account or who were members of

¹ According to the Administration, \$10,000 was the median monthly employment earnings for the whole year of 2007.

MPF-exempted ORSO schemes during the one-year period before announcement of the Budget (i.e. between 1 March 2007 and 29 February 2008);

- (c) members of MPF-exempted ORSO DC schemes as at 29 February 2008; and
- (d) members of MPF-exempted ORSO DB schemes as at 29 February 2008.

4. According to the latest estimate provided by the Mandatory Provident Fund Schemes Authority (MPFA), about 1.7 million people will benefit from the proposal. They include about 1.6 million MPF scheme members and about 130,000 ORSO scheme members. Based on the revised estimate on the number of beneficiaries, the amount of funds required will be \$11.5 billion².

The Bill

5. On 10 June 2008, the Chief Executive-in-Council ordered that the Bill to provide a legal framework for the MPFA to implement the one-off injection exercise should be introduced into the Legislative Council (LegCo). The Bill was gazetted on 13 June 2008 and introduced into the LegCo on 18 June 2008.

6. The Bill seeks to amend the Mandatory Provident Fund Schemes Ordinance (Cap. 485) and the Mandatory Provident Fund Schemes (General) Regulation (Cap. 485 sub. leg. A) to provide the MPFA with the necessary powers and to stipulate the obligations of trustees and employers, with the attendant provisions for financial penalty to sanction against non-compliance. The scope of the Bill does not cover the eligibility criteria or the amount of contribution made to each account in this injection exercise.

Major views and concerns expressed at the Panel on Financial Affairs (FA Panel)

7. At the FA Panel meeting on 5 May 2008, members were briefed by the Administration and MPFA on the proposal to make the one-off injection of \$6,000 into accounts of eligible members of MPF schemes and ORSO schemes. In principle, members had no objection to the proposal in the Bill. Their major views and concerns are summarized in the following paragraphs.

Timeliness of relief measures

8. Members expressed concern that as the accrued benefits in the MPF accounts could only be withdrawn by scheme members at the age of 65, the

² This estimate has included a 10% buffer to cater for possible variations when actual data are collected by the MPFA to work out a list of eligible recipients.

proposal could not provide immediate relief to the needy to cope with inflation. There are suggestions to consider allowing scheme members to withdraw the \$6,000 before the age of 65 under special circumstances or providing cash assistance to the low-income and disadvantaged groups. Members noted the Administration's advice that the objective of the proposal was to enhance retirement protection and boost the savings of low-income workers for their retirement. To address the needs of low-income workers and disadvantaged groups in the face of inflation, a number of measures had already been proposed by FS in the 2008-2009 Budget (e.g. the electricity charge subsidy and the provision of an additional one-month standard rate of Comprehensive Social Security Assistance payments etc.).

Scope of beneficiaries

9. Some members suggested to further expand the scope of beneficiaries to cover all MPF scheme members holding preserved accounts irrespective of the termination date of their last employment. The Administration advised that the proposed expanded scope (i.e. covering employees and self-employed persons currently unemployed and with monthly income not exceeding \$10,000 in their last employment between 1 March 2007 and 29 February 2008) was considered a balanced and practicable arrangement, taking into consideration the policy intention of the proposal and the well-being of workers who were temporarily unemployed.

Fees and charges of MPF funds

10. Some members took the opportunity to express concern about the high level of fees and charges of MPF funds, which would have the effect of reducing up to 40% of the accrued benefits available to scheme members upon their retirement. They were keen to ensure that measures to increase transparency and drive down the level of fees and charges would be put in place. In response, the Administration considered that competition would bring market forces into full play and in turn drive down the fees and charges of MPF funds. Moreover, the MPFA had been working closely with scheme trustees to improve the transparency of fees and charges in the past few years, such as through the introduction of the Code on Disclosure for MPF Investment Funds and the Fee Comparative Platform.

Relevant papers

11. A list of relevant papers is in **Appendix I**.

List of relevant papers

Committee	Paper	LC Paper No.
Meeting of the Legislative Council on 27 February 2008	<p>✧ 2008-09 Budget Speech (paragraphs 176 - 179)</p> <p>http://www.budget.gov.hk/2008/eng/speech.html</p>	--
Meeting of Panel on Financial Affairs on 5 May 2008	<p>✧ Paper on Proposal on Government Injection into Accounts of Members of Mandatory Provident Fund Schemes and Occupational Retirement Schemes</p> <p>http://www.legco.gov.hk/yr07-08/english/papers/fa/papers/fa0505cb1-1379-6-e.pdf</p>	CB(1)1379/07-08(06)
	<p>✧ Minutes of meeting</p> <p>http://www.legco.gov.hk/yr07-08/english/papers/fa/minutes/fa080505.pdf</p>	CB(1)1774/07-08