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Panel on Financial Affairs
Meeting on 21 February 2011

Background Brief on
Review of the minimum and maximum relevant income levels for Mandatory Provident Fund contributions

Purpose

This paper provides background information on the review of the minimum and maximum relevant income levels for Mandatory Provident Fund (MPF) contributions, and a summary of Members' concerns and views on the subject.

Background

2. Under section 7A of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (MPFSO), each employee and employer has to contribute 5% of the relevant income as mandatory contributions, subject to the minimum and maximum levels of relevant income. The minimum and maximum levels of relevant income are currently prescribed in Schedules 2 and 3 to MPFSO as $5,000 and $20,000 per month respectively. A relevant employee or self-employed person earning less than the minimum level of relevant income is not required to contribute to an MPF scheme while the employer of the employee still has to contribute for the employee. A relevant employee or self-employed person earning more than the maximum level of relevant income is not required to contribute to an MPF scheme in respect of the earnings in excess of that maximum level. The employer of the employee is also not required to contribute for the employee in excess of that maximum level.

3. When the MPF System was first launched in December 2000, the minimum and maximum levels of relevant income were $4,000 and $20,000 per month respectively. These minimum and maximum levels were adopted in 1995 when the MPFSO was enacted. According to the Administration, the $4,000 was derived from 50% of the then monthly median employment earnings; and the $20,000 was based on the target to cover the entire earnings of 90% of the working population.

Review in 2002

4. In April 2002, the Administration introduced the Mandatory Provident Fund Schemes (Amendment) Bill 2002, which proposed, inter alia, a new section 10A of MPFSO to provide a mechanism for future review of the minimum and maximum levels of relevant income. The proposed new provision stipulates that -

(a) MPFA must conduct a review of the minimum and maximum levels of relevant income not less than once in every four years.

(b) Without limiting the factors which MPFA may take into consideration, MPFA must take into account the following findings prevailing at the time of the review as compiled from the General Household Survey conducted by the Census and Statistics Department:

(i) in respect of the minimum level of relevant income, 50% of the monthly median employment earnings; and

(ii) in respect of the maximum level of relevant income, monthly employment earnings at 90th percentile of the monthly employment earnings distribution.

5. Applying the above principles, the Administration also proposed in the Bill to revise the minimum level of relevant income from $4,000 to $5,000. However, for the maximum level of relevant income, the Administration proposed to maintain it at $20,000, instead of raising it to $30,000 in accordance with the relevant findings, on account of the prevailing economic conditions at that time. The Bill was passed by the Legislative Council on 12 July 2002. The new section 10A, as proposed in the Bill, has since then been incorporated into MPFSO, while the revised minimum level of relevant income of $5,000 per month became effective on 1 February 2003.

6. A summary of the major views and concerns expressed by Members in the course of scrutinizing the 2002 Bill is in the **Appendix**.

Review in 2006/2007

7. The MPFA conducted a review of the minimum and maximum relevant income levels in mid-2006, which was the first such review conducted since the commencement of section 10A of MPFSO. Based on the adjustment basis under the said provision, MPFA put forward the following recommendations for the Administration's consideration:

(a) maintaining the minimum level of relevant income at $5,000 per month; and

(b) increasing the maximum level of relevant income from $20,000 to $30,000 per month.

8. The Administration and MPFA briefed the Panel on Financial Affairs (FA Panel) on MPFA's recommendations at the meeting on 5 January 2007, and the Panel held a special meeting on 1 February 2007 to receive views of deputations from trade associations and trade unions.

9. On MPFA's recommendation to increase the maximum relevant income level from $20,000 to $30,000 per month, while some members supported the proposed increase, some other members were concerned that the resultant increase in employers' MPF contributions would inevitably increase the operating costs of employers, in particular small and medium enterprises which had been hard hit during the economic downturn in the preceding years. Some members pointed out that as employees earning over $20,000 were likely to have other retirement or savings plans, there might not be a strong need to raise the maximum relevant income. There was also a concern that employers might try to offset their increased MPF contributions by withholding wage increases for their employees.

10. As regards MPFA's recommendation to maintain the existing minimum relevant income level at $5,000 per month, some members considered that it should be raised to $6,000 a month to relieve the financial burden of lower income earners in making MPF contributions and enable them to have more disposable income to make their ends meet. Some other members cautioned that excluding more workers from the

contribution net might not be consistent with the objective of the MPF system to provide retirement protection to the general workforce.

11. Subsequent to the Panel meetings, the Administration did not put up any legislative proposal to revise the minimum and maximum relevant income levels, which have remained at $5,000 and $20,000 per month respectively.

12. During the Panel discussions, members also raised the following related concerns -

(a) The definition of "relevant income" under MPFSO should be reviewed, as some employers had tried to evade their responsibility for making MPF contributions by designating a sizable portion of the employee's income as housing allowance, thereby reducing the amount of "relevant income"[1].

(b) To cater for the retirement needs of the workforce, in particular low-income earners, the Administration should consider whether the MPF System should be supplemented by a publicly managed, tax-financed universal retirement fund scheme in the long run.

(c) The Administration should review the current arrangements that employers who have made severance payments/long service payments to their employees in accordance with the Employment Ordinance (Cap.57) can offset the corresponding amounts from the employees' vested benefits which are attributable to the employers' contributions, as the MPF accrued benefits of an employee could be substantially reduced as a result of the offsetting arrangement.

Recent development

13. The Administration will brief the FA Panel on 21 February 2011 on MPFA's proposals following the Authority's latest review of the minimum and maximum relevant income levels.

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[1] The definition of "relevant income" under MPFSO was amended under the Mandatory Provident Fund Schemes (Amendment) Ordinance 2008, which was passed by the Legislative Council on 9 January 2008, to include housing allowance and other housing benefits for computation of mandatory contribution purpose.

Relevant papers

14. The relevant papers can be retrieved from the following website –

http://www.legco.gov.hk/database/english/data_fa/fa-mpf.htm

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Legislative Council Secretariat
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Appendix

Major views and concerns expressed by Members on the Mandatory Provident Fund Schemes (Amendment) Bill 2002

Time-frame for review

Members raised no objection to the four-year time-frame but were concerned about the transparency of future reviews conducted by MPFA. To address the concern, the Administration undertook to report to the Panel on Financial Affairs on each review conducted by MPFA under section 10A of MPFSO. The Administration also took note of members' concern about the need to enhance publicity on the outcomes of future reviews by MPFA.

Minimum and maximum levels of relevant income

2. In proposing to raise the minimum level of relevant income from $4,000 to $5,000 per month in the 2002 Bill (i.e. adopting the threshold of 50% of the monthly median income), the Administration sought to strike a balance between avoiding to burden lower income workers and protecting their retirement needs.

3. While most members of the Bills Committee did not have any strong view against the Administration's proposal, a few members were of the view that the minimum level should be raised to $6,000 per month so as to relieve low income workers of the financial burden of making MPF contributions and to enable them to retain more disposable income which could help boost private consumption. For this purpose, Hon Andrew CHENG moved Committee Stage amendments (CSAs) to the Bill in his name stipulating that not less than 60% of the monthly median income should be adopted as the minimum relevant income level for MPF contributions.

4. The Administration objected to the member's CSAs and pointed out during the Second Reading debate on the Bill that some 130 000 employed persons would be excluded from the MPF contribution net if the proposed 60% level was adopted, thereby defeating the purpose of helping lower income workers to prepare for retirement. Furthermore, this would also mean a reduction in the amount of MPF benefits that

would be accrued for scheme members upon retirement. According to the Administration, based on the 2001 statistics, it was estimated that increasing the minimum relevant income level from $5,000 to $6,000 per month would increase private consumption expenditure by a mere 0.009% which was not significant.

5. Given the economic conditions prevailing at that time, the Administration considered it appropriate to retain the maximum relevant income level at $20,000 per month, instead of raising it to $30,000 in accordance with the existing adjustment mechanism, to avoid increasing the burden on employers/employees. According to MPFA, many employees in the higher income bands were members of MPF schemes receiving voluntary contributions on top of mandatory contributions. Therefore, proposing no change to the maximum level at that time would unlikely affect the retirement protection for these employees.

6. Some members queried the Administration for adopting a double standard in not adjusting the maximum level of relevant income in accordance with the relevant findings as in the case of the minimum level of relevant income. In this connection, Hon Andrew CHENG considered that a lower percentile of the monthly employment earnings distribution should be stipulated in the legislation so as to obviate the need to deviate from the agreed principle every now and then and to rely on the discretion of the MPFA/Administration to determine the appropriate level. He had therefore moved CSAs to the effect that the monthly employment earnings at a percentile not exceeding 80th of the monthly employment earnings distribution should be adopted as the maximum level of relevant income.

7. The Administration advised that the objective of its proposal on the maximum relevant income level was to extend as far as possible the coverage of the MPF system. It considered that lowering the percentile would run contrary to the aforesaid objective and did not support the member's CSAs.

8. The CSAs moved by Hon Andrew CHENG relating to the minimum and maximum levels of relevant income were negatived. The Administration's proposals were passed and have been in force since 1 February 2003.