For discussion
21 February 2011

Legislative Council Panel on Financial Affairs

Review of the Minimum and Maximum Relevant Income Levels for Mandatory Provident Fund Contributions

Purpose

This paper briefs Members on the review conducted by the Mandatory Provident Fund Schemes Authority ("the MPFA") on the minimum level of relevant income ("Min RI") and the maximum level of relevant income ("Max RI") for Mandatory Provident Fund ("MPF") contributions, and seeks Members' views on the review findings to increase the Min RI from $5,000 to $5,500 and the Max RI from $20,000 to $30,000.

The Authority's Review

2. Section 10A of the Mandatory Provident Fund Schemes Ordinance ("the Ordinance") requires the MPFA to conduct a review of the Min RI and the Max RI not less than once in every 4 years. The MPFA conducted a review in 2010 in accordance with the Ordinance. The MPFA and the Administration then consulted the Labour Advisory Board, amongst others, on the preliminary review findings to increase the Min RI from $5,000 to $5,250 and the Max RI from $20,000 to $30,000, which were based on the statistical data compiled from the General Household Survey conducted by the Census and Statistics Department for Q1 2010. In view of the concerns expressed about a one-off increase of the Max RI from $20,000 to $30,000, a phased approach may be considered. A report setting out the findings of the review was submitted by the MPFA to the Administration in July 2010.

3. With the subsequent availability of the statistical data for Q3 2010, the MPFA has updated the findings of its review. Based on the revised data, consideration should be given to increasing the Min RI to $5,500 instead of the earlier review findings of $5,250. A note which sets out the MPFA's review findings with the latest available data and

relevant developments is at **Appendix**.

Advice sought

4. Members are invited to note and offer views on the review findings of the Min RI and the Max RI conducted by the MPFA. The Administration will take into account Members' views in considering the way forward and consult the Panel on the legislative proposal for effecting revisions to the Min RI and the Max RI in due course.

Financial Services and the Treasury Bureau
Mandatory Provident Fund Schemes Authority
14 February 2011

Legislative Council Panel on Financial Affairs

Review of Minimum and Maximum Relevant Income for Mandatory Provident Fund Contribution

Introduction

Section 10A of the Mandatory Provident Fund Schemes Ordinance, which was enacted in July 2002, requires the Mandatory Provident Fund Schemes Authority ("MPFA") to conduct a review of the minimum and maximum relevant income levels not less than once in every 4 years beginning with the commencement of that section.

2. In accordance with section 10A, the MPFA completed the first review of the minimum and maximum relevant income levels in July 2006. To ensure continual compliance with that section, the MPFA conducted the second review in July 2010. A paper, based on the report of the second review submitted by the MPFA to the Government, setting out the findings of the review is attached at **<u>Annex</u>**.

Mandatory Provident Fund Schemes Authority
14 February 2011

Annex

Review Report on the Minimum and Maximum Levels of Relevant Income

Mandatory Provident Fund Schemes Authority

January 2011

Table of Content

1 Abstract

1.1 Section 10A of the Mandatory Provident Fund Schemes Ordinance ("Ordinance") (Appendix A) provides that the Mandatory Provident Fund Schemes Authority ("MPFA") must, not less than once in every 4 years beginning with the commencement of that section, conduct a review of the minimum and maximum levels of relevant income ("RI") to ascertain whether or not there are grounds to amend the levels.

1.2 Section 10A was added to the Ordinance by virtue of the Mandatory Provident Fund Schemes (Amendment) (No. 2) Ordinance 2002 ("Amendment Ordinance"). Section 10A commenced operation on 19 July 2002.

1.3 The MPFA completed the first statutory review in accordance with section 10A of the Ordinance in July 2006. To ensure continual compliance with that section, the MPFA completed the second review in July 2010. That review was conducted based on the information prevailing at the time of the review as compiled from the General Household Survey ("GHS") conducted by the Census and Statistics Department ("C&SD") (i.e. the statistical data for the 1st quarter of 2010), which is in accordance with the requirements of section 10A.

1.4 The objective of this report is to set out the findings of our review of the minimum and maximum RI levels using the factors, explicitly set out in section 10A of the Ordinance, that must be taken into account by the MPFA. The report also sets out the other relevant factors considered by the MPFA for the purpose of conducting the review. To reflect the latest development, the statistical data for the most recently available period (i.e. 3rd quarter of 2010) has been used for the purpose of this report.

2 Background

2.1 The Ordinance provides that unless exempted, an employer and employee must each contribute 5% of the employee's RI to an MPF scheme, while a self-employed person ("SEP") must contribute 5% of the person's RI. The amount of mandatory contributions payable is subject to the minimum and maximum levels of RI.

2.2 Section 9 of the Ordinance (Appendix A) stipulates that a relevant employee or an SEP whose RI is less than the minimum level of RI is not required to contribute to an MPF scheme while the employer of the employee still has to contribute for the employee. Presently, the minimum level of RI prescribed in Schedule 2 to the Ordinance is $5,000 per month (or $60,000 per year) (Appendix A).

2.3 Section 10 of the Ordinance (Appendix A) stipulates that a relevant employee or an SEP whose RI is more than the maximum level of RI is not required to contribute to an MPF scheme in respect of the excess RI. The employer of the employee is also not required to contribute for the employee in respect of the excess amount. Presently, the maximum level of RI prescribed in Schedule 3 to the Ordinance is $20,000 per month (or $240,000 per year) (Appendix A).

2.4 Section 10A(1) of the Ordinance (Appendix A) provides that the MPFA must, not less than once in every 4 years beginning with the commencement of that section on 19 July 2002, conduct a review of the minimum and maximum levels of RI to ascertain whether or not there are grounds to amend the levels. Accordingly, the MPFA completed the first statutory review in July 2006. The MPFA has completed the second review by July 2010.

3 Statutory Adjustment Mechanism

3.1 Section 10A(2) of the Ordinance sets out the two factors (hereinafter the "two statutory adjustment factors") that the MPFA must take into account in conducting a review of the minimum and maximum levels of RI to ascertain whether there are any grounds to amend the levels, i.e.

(a) for minimum RI level – 50% of the monthly median employment earnings; and

(b) for maximum RI level – monthly employment earnings at 90th percentile of the monthly employment earnings distribution,

both prevailing at the time of the review as compiled from the GHS conducted by the C&SD.

3.2 In addition to the two statutory adjustment factors, section 10A(2) of the Ordinance does not preclude the MPFA from taking other factors into account in conducting the review.

4 Previous Reviews

4.1 Upon commencement of the MPF System in December 2000, the minimum and maximum RI levels were initially set at $4,000 per month (or $48,000 per year) and $20,000 per month (or $240,000 per year) respectively. With the passage of the Amendment Ordinance in July 2002, the minimum level of RI was raised to $5,000 per month (or $60,000 per year) which became operative in February 2003. With respect to the maximum level of RI, despite the fact that the 90th percentile figure had stayed at the level of $30,000 since 2001/2002, in the light of the economic difficulties prevailing at that time, it was decided that no corresponding upward adjustment be made to the then maximum level of $20,000.

4.2 In the first review conducted pursuant to section 10A of the Ordinance in 2006, given that the monthly median employment earnings prevailing at the time of the review was $10,000 and no other factors suggested a change, the minimum level was recommended to be maintained at $5,000 per month according to the adjustment basis of 50% monthly median employment earnings as set out in that section. For the maximum level of RI, taking into account the prevailing 90th percentile level of $30,000 and other economic factors, the maximum level was recommended to be adjusted from $20,000 to $30,000. The recommendations were presented to the Legislative Council Panel on Financial Affairs on 5 January 2007, which then invited deputations to discuss the issues on 1 February 2007. Divergent views were put forward by different stakeholders. Having taken into account all relevant factors and views expressed, the Government did not pursue any change to the minimum and maximum levels of RI as a result of that review.

5 Current Review

5.1 Two Statutory Adjustment Factors

Review of Minimum RI Level

50% of monthly median employment earnings

5.1.1 As mentioned in paragraph 1.3 above, the current statutory review completed by the MPFA in July 2010 was conducted based on the data for the most recently available period (i.e. 1st quarter of 2010) prevailing at the time of that review. At that time, the prevailing monthly median employment earnings was $10,500. Applying the statutory adjustment factor for the minimum RI level in section 10A of the Ordinance (i.e. 50% of the prevailing monthly median employment earnings), the minimum RI level may be adjusted to $5,250.

5.1.2 At the time of writing this report, the MPFA noted that the monthly median employment earnings for the most recently available period (3rd quarter of 2010), as compared with that for the 1st quarter of 2010, has increased slightly by $500 to $11,000. In order to reflect the latest position, we have used the latest data for the 3rd quarter of 2010 in preparing this report. According to the statutory adjustment factor, the minimum RI level may be adjusted to $5,500, an upward change of $500 from the current level of $5,000.

5.1.3 If the minimum RI level were adjusted from $5,000 to $5,500, only employees and SEPs earning income in the range of $5,000 to below $5,500 will be affected. This group of employees and SEPs will become exempted from making their ***own*** monthly mandatory contributions in the approximate range of $250 (i.e. $5,000 x 5%) to $275 (i.e. $5,500 x 5%). It is estimated that the number of affected employees and SEPs is about 75 800[1] and 7 600[2] respectively. As a result of such adjustment, it is estimated that the total monthly contributions to the MPF System will decrease by about $22 million. The accrued benefits upon retirement in respect of each of the affected employee and SEP members will decrease by $221,000[3] and $217,000[4] on average respectively on the basis of the assumptions set out in footnotes 3 and 4. Any change to the minimum RI level will not have any impact on the employment costs of

1 Represents approximately 3% of the total relevant employees of 2.29 million covered by the MPF System.
2 Represents approximately 2% of the total SEPs of 309 000 covered by the MPF System.
3 The estimations are based on the assumptions that the member makes MPF contributions for 30 years and the MPF investment return is 5.1% per annum (i.e. the same rate as the annualized rate of return of MPF since the implementation of the MPF System to 30 Sep 2010).
4 Ditto

employers as they still have to make mandatory contributions for their employees even if their income is below the minimum RI level. Accordingly, these employees can still accumulate accrued benefits derived from mandatory contributions made by their employers. The impact of adjusting the minimum RI level to $5,500 is set out in Appendix B for reference.

Review of Maximum RI Level

90th percentile of the monthly employment earnings distribution

5.1.4 The prevailing 90th percentile of the monthly employment earnings for the most recently available period when the statutory review was conducted (1st quarter of 2010) as well as for that at present (3rd quarter of 2010) is $30,000. This figure has generally been static since the review of the minimum and maximum RI levels in July 2002. Applying strictly the statutory adjustment factor set out in section 10A of the Ordinance (i.e. the 90th percentile of the monthly employment earnings distribution prevailing at the time of the review), the maximum level may be set at $30,000 per month. Raising the maximum level to $30,000 will affect employees (and their employers) and SEPs with monthly earnings of more than $20,000 (the current maximum RI level). This will increase the mandatory contribution payable by each of the affected employers, employees and SEPs by a maximum amount of $500 per month (i.e. 5% of the increase of $10,000). On average, the increase in monthly contribution amounts to about $413, representing 1% of the average income of this group of individuals.

5.1.5 Based on statistics for the 3rd quarter of 2010, it is estimated that about 395 500 employees and 80 500 SEPs earn over $20,000 monthly. Among these employees and SEPs, there are about 199 200[5] employees and 44 600[6] SEPs earn between $20,001 and $30,000 monthly. For those earning more than $30,000, the number of employees and SEPs is estimated to be about 196 300[7] and 35 900[8] respectively. As a result of the adjustment from $20,000 to $30,000, it is estimated that the total monthly contributions to the MPF System will increase by $361 million (i.e. $164 million from additional employer contributions, $164 million from additional employee contributions and $33 million from additional SEP contributions). The accrued benefits upon retirement in respect of each of the affected employee and SEP members earning above $20,000 per month will, on average, increase by $705,000[9] and $349,000[10] respectively, on the basis of the

5 Represents approximately 9% of the total relevant employees of 2.29 million covered by the MPF System.
6 Represents approximately 14% of the total SEPs of 309 000 covered by the MPF System.
7 Represents approximately 9% of the total relevant employees of 2.29 million covered by the MPF System.
8 Represents approximately 12% of the total SEPs of 309 000 covered by the MPF System.
9 Same as footnote 3. Breakdown of $705, 000 = $352,500 derived from employer contributions + $352,500 derived from employee contributions.

assumptions set out in footnotes 9 and 10. As regards employers, the employment costs will rise as the monthly mandatory contributions per affected employee will increase from $1,000 to a maximum of $1,500. Affected employees and SEPs who will have to make employee mandatory contributions and SEP mandatory contributions respectively up to a maximum of $1,500 will be in a similar situation.

5.2 Other Relevant Factors

Review of Minimum RI Level

(A) Cost and efforts

5.2.1 Any change to the minimum RI level will necessarily entail amendments to the payroll and MPF administration systems, whether manual or computerized, operated by approved trustees and employers. Extensive communication and education to employers and employees would be required. If the minimum RI level were raised by $500 based on the statutory adjustment factor for the minimum RI level, it may be necessary to consider the administrative costs and efforts involved as compared with any benefits that may arise from raising the minimum RI level by such small incremental amount. The costs and efforts involved in implementing a small change in the minimum RI level would be less of an issue if the maximum RI level were adjusted at the same time.

(B) Statutory minimum wage

5.2.2 Another issue that may need to be considered is the Minimum Wage Bill which was passed by the Legislative Council on 17 July 2010 and the setting of statutory minimum wage ("SMW"), initially at $28 per hour, which will come into force on 1 May 2011. The Minimum Wage Ordinance aims to modify a contract of employment so as to provide for a top-up wage payment if necessary to ensure that employees are paid not less than the SMW. The modified contract applies when calculating entitlements and liabilities under a number of ordinances, including the Ordinance.

5.2.3 Whilst the SMW and the minimum RI level for MPF contributions serve quite different purposes, there are voices following the setting of the SMW, expressing that unless the minimum RI level is adjusted, some low-income earners whose salaries are originally lower than

[10] Same as footnote 3.

the minimum RI level of $5,000 may have to make MPF contributions after the SMW comes into effect, implying that their take home pay, after deducting MPF contributions, may be lower than before.

Review of Maximum RI Level

(A) Economic conditions

5.2.4 The outbreak of the global financial crisis in the 3rd quarter of 2008 had a great impact on the economy of Hong Kong. In 2010, the local economy demonstrated a robust recovery from the crisis. We set out below the performance of some of the key economic indicators and the outlook for the near-term[11]:

(i) The unemployment rate surged from the steady figure of 3.3% to 3.4% in the past 12 months before the 3rd quarter of 2008 to a high of 5.4% in the 2nd quarter of 2009. As the economy hit bottom and progressively regained strength, the unemployment situation exhibited a steady improvement, falling back to 4.4% and 4.2% in the 1st and 3rd quarter of 2010.

(ii) Private consumption expenditure went down by 6.2% and 0.6% year-on-year in real terms in the 1st quarter and 2nd quarter of 2009 respectively, compared with the 8.7% and 4% growth in the 1st quarter and 2nd quarter of 2008 respectively. The figure bottomed out in the 3rd quarter of 2009, followed by a significant growth of 6.5% in the 1st quarter and 5.7% in the 3rd quarter of 2010.

(iii) The consumer price inflation has been running at a moderate pace since mid-2004, until mid-2009 when deflation started to emerge. In the 3rd quarter of 2009, the year-on-year rate of change in the underlying consumer price inflation (i.e. after netting out the effects of all Government's one-off relief measures) was negative at –0.3%. It edged up to a positive figure of 0.8% in the 1st quarter and further to 2.0% in the 3rd quarter of 2010.

(iv) The gross domestic product plunged sharply by 7.7% in real terms in the 1st quarter of 2009 over a year earlier, followed by a smaller year-on-year decline of 3.8% in the 2nd

[11] Extracted from the Hong Kong Economic Reports (Current Issue: 12 November 2010) issued by the Government of HKSAR (http://www.hkeconomy.gov.hk) and the Government press release on Economic Situation in the Third Quarter of 2010 and the Latest GDP and Price Forecasts for 2010 issued by the Government on 12 November 2010.

quarter and the decline tapered significantly further to 2.4% in the 3rd quarter. There was further improvement to a positive growth at 8.2% and 6.8% in the 1st and 3rd quarter of 2010.

5.2.5 Given three quarters of vigorous revival of the economy in 2010 as demonstrated by the improvement in unemployment rate and various economic indicators, the GDP growth forecast for 2010 as a whole is 6.5%. However, the Government considered that external trade environment remained subject to considerable headwinds from the weakening recovery in the advanced economies, thus increasing the downside risks to Hong Kong's trade outlook.

5.2.6 In times which are generally perceived as economically and financially difficult, employers are usually quite concerned about an increase in the maximum RI level. This is evident in the previous reviews of the minimum and maximum RI levels during which employer groups expressed concerns about increasing the maximum RI level from $20,000 to $30,000 in one lump in difficult times. Some employer stakeholders thus suggested that the Government could consider adopting gradual adjustment to the maximum RI level.

5.2.7 In view of the above, the MPFA also considered the impact of adopting a phased approach in adjusting the maximum RI level from $20,000 to $30,000 in the current review. Under a phased approach, there are a wide range of permutations possible, and the following two models were considered:

(i) Increase by a larger equal amount at a less frequent interval (at an irregular rate), e.g.
- from $20,000 to $25,000 at the beginning of the 1st year (↑ 25.0%)
- maintained at $25,000 for the 2nd year (↑ 0%)
- from $25,000 to $30,000 at the beginning of the 3rd year (↑ 20.0%)
- maintained at $30,000 for the 4th year (↑ 0%)

(ii) Increase by a smaller equal amount at a more frequent interval (at a decreasing rate), e.g.
- from $20,000 to $22,500 at the beginning of the 1st year (↑ 12.5%)
- from $22,500 to $25,000 at the beginning of the 2nd year (↑ 11.1%)
- from $25,000 to $27,500 at the beginning of the 3rd year (↑ 10.0%)
- from $27,500 to $30,000 at the beginning of the 4th year (↑ 9.09%)

5.2.8 Generally, a phased approach will gradually increase the contribution costs of the employers (and employees) over the next few years until the next review and the *total* contribution costs over those few years should be less than that in the case where the maximum RI level is sharply increased to $30,000 under a non-phased approach. As less employer (and employee) contributions in total will be made over those few years, there will be a smaller increase in the accrued benefits of the employees when compared with that under a non-phased approach. The impact on employers, employees and SEPs in terms of contribution costs and accrued benefits under a phased approach and a non-phased approach is summarized in Appendix C. As the different permutations under the phased approach are by no means exhaustive, the comparison in Appendix C serves to provide a general overview on the possible impact only.

(B) Contribution situation of higher income earners

5.2.9 As mentioned in paragraph 5.1.5 above, in the 3rd quarter of 2010, there are about 395 500 employee and 80 500 SEP members with monthly earnings in excess of $20,000 covered by the MPF System. It is estimated that about 199 200 of these employees and 44 600 of these SEPs earn between $20,001 and $30,000 monthly. Their average monthly income is $26,600 and $26,800 respectively. If the maximum RI level were raised to $30,000 per month, the employees of that income band and their employers would each have to increase their amount of monthly contributions by around $330 on average while the SEPs would have to contribute an additional amount of around $340 per month on average. For those earning more than $30,000, the additional monthly contributions over the existing mandatory contributions to be made is capped at $500 each. These employees may make use of other investments to increase their savings for retirement, regardless of the maximum level of RI.

5.2.10 Based on the GHS for the 3rd quarter of 2010 compiled by the C&SD, the total number of employees with monthly earnings in excess of $20,000 approximates 602 300, among which it is estimated that about 206 800 employees[12] are exempt persons not covered by the MPF System. These 206 800 exempt employees would not be affected by any change of the maximum level of RI. Only the remaining employees numbered about 395 500 (i.e. 602 300 minus 206 800) as set out in paragraph 5.2.9 above will be affected by the maximum RI level adjustment.

[12] These exempt persons who are not covered by the MPF System are primarily civil servants, teachers covered by Grant/ Subsidized Schools Provident Fund, expatriates working in Hong Kong for a limited period or who are members of overseas retirement schemes, and scheme members of MPF-exempted ORSO schemes.

6 Consultation

Consultation with MPFSAC and LAB

6.1 The MPFA consulted the MPF Schemes Advisory Committee ("MPFSAC") on the findings of the statutory review on 11 May 2010. The Financial Services and the Treasury Bureau and the MPFA also consulted the Labour Advisory Board ("LAB") on 5 July 2010 on those findings.

6.2 There were a variety of views expressed by the Members of the MPFSAC and the LAB however the range of views were similar in both groups and are summarized below. We note that when the two advisory bodies were consulted, the prevailing monthly median employment earnings (1st quarter of 2010) at that time was $10,500, whereas the latest figure (3rd quarter of 2010) has risen slightly to $11,000. However, in view of the relatively small difference, the comments received are not expected to be materially different should the latest figures be presented to them today.

(a) For both the Minimum and Maximum RI Levels –

(i) Some members considered that the two levels should be adjusted in accordance with the statutory adjustment mechanism.

(b) For the Minimum RI Level –

(i) Statutory minimum wage

- Some members suggested that the timing and level of adjustment of the minimum RI level should take into account the development of the statutory minimum wage.
- On the other hand, some members noted that the statutory minimum wage and the minimum RI level should not necessarily be pegged, given their different policy objectives and calculation basis (i.e. the former on an hourly wage basis and the latter on a monthly salary basis).

(ii) Two members noted that the administrative costs associated with making a small incremental change of $250 (i.e. from $5,000 to $5,250) to the current level according to the then statutory adjustment factor might outweigh the benefits.

(iii) Two members suggested that the minimum RI level should be adjusted from \$5,000 to \$6,000 rather than to \$5,250 according to the then statutory adjustment factor as the small incremental change of \$250 might not help in relieving the financial hardship of the low-income group.

(c) For the Maximum RI Level –

Employer situation

(i) Two members suggested that the Government should wait for the results on the setting of the statutory minimum wage before arriving at a decision on the adjustment of the maximum RI level as employers, after bearing the additional costs associated with the minimum wage, might not have any spare financial capacity to take up extra costs arising from an upward adjustment of the maximum RI level.

(ii) As the economy has not fully recovered and the business environment was still difficult, two members suggested that phased increases should be considered instead of sharply and significantly raising the maximum RI level by 50% from \$20,000 to \$30,000.

(iii) A member noted that an upward adjustment of the maximum RI level would only have limited impact on the small and medium sized enterprises which, in majority, had small number of high-paid employees.

Employee situation

(iv) Some members commented that increasing the maximum RI level might not be beneficial to the high-paid employees as:

- they might not be willing to make the extra contributions;
- that might result in corresponding reduction in their other retirement benefits;
- that might hinder their investment flexibility if they were required to pay additional mandatory contributions.

(v) A member noted that there did not seem to be any complaint from the high-paid employees about the non-adjustment of the maximum RI level in the past two reviews and accordingly, the maximum RI level in the current review could be maintained.

(vi) On the other hand, a member noted that high income earners should support the upward adjustment of the maximum RI level which would mean an increase in employer contributions for them.

Other than the above comments on whether or not to amend the minimum and maximum RI levels, Members of the MPFSAC and the LAB have also expressed other comments on the review mechanism per se and the review frequency.

7 Conclusion

7.1 The current review based on the two statutory adjustment factors suggest that the minimum and maximum RI levels may be adjusted to $5,500 and $30,000 respectively, as set out in Part 5.1 above.

7.2 Apart from the two statutory adjustment factors, other relevant factors that may be taken into consideration are set out in Part 5.2 and Part 6 above. Consistent with the result of consultation for the previous reviews, a range of views have been received. There would appear to be general support for an increase in the minimum RI level, although some stakeholders have suggested an increase beyond the level that would be arrived at in accordance with the statutory adjustment factor. Views are more diverse as regards increasing the maximum RI level. Many support an increase to $30,000 but some are concerned that a substantial increase will pose a financial strain on employers, particularly with the impending introduction of the SMW. In view of the concerns expressed about a one-off increase of the maximum level of RI from $20,000 to $30,000, a phased approach may be considered. For this purpose, we have compared and set out the impact of adjusting the maximum level to $30,000 under a phased approach and a non-phased approach in Appendix C for consideration (see also the discussion in paragraphs 5.2.6 to 5.2.8 above).

Appendix A

An extract of the Mandatory Provident Fund Schemes Ordinance

Section 9

Heading: Minimum level of income for contribution purposes

(1) A relevant employee whose relevant income is less than the minimum level of relevant income is not required to contribute to a registered scheme but he may, if he so wishes, by notice in writing to his employer elect to do so.

(2) An employer who receives a notice under subsection (1) must give effect to the election by making deductions and paying contributions in respect of the employee in accordance with section 7A.

(3) A relevant employee may not make an election under subsection (1) in respect of a contribution period during which he is not a member of a registered scheme as required by section 7.

(4) A self-employed person whose relevant income is less than the minimum level of relevant income is not required to contribute to a registered scheme.

Section 10

Heading: Maximum level of income for contribution purposes

(1) A relevant employee whose relevant income is more than the maximum level of relevant income is not required to contribute to a registered scheme in respect of the excess relevant income but he may, if he so wishes, by notice in writing to his employer elect to do so.

(2) An employer who receives a notice under subsection (1)—

  (a) must give effect to the election by making deductions and paying contributions in respect of the employee in accordance with section 7A; and

  (b) may also make contributions to the scheme in respect of that excess relevant income, but is not obliged to do so.

(3) A relevant employee may not make an election under subsection (1) in respect of a contribution period during which he is not a member of a registered scheme as required by section 7.

(4) A self-employed person whose relevant income is more than the maximum level of relevant income is not required to contribute to a registered scheme in respect of the excess relevant income.

Appendix A

Section 10A

Heading: Authority to conduct review of minimum and maximum levels of relevant income every 4 years

(1) The Authority must, not less than once in every period of 4 years beginning with the commencement of this section, conduct a review of the minimum level of relevant income and the maximum level of relevant income to ascertain whether or not there are grounds to amend Schedule 2 or 3 or Schedules 2 and 3.

(2) Without limiting the factors which the Authority may take into account for the purposes of conducting a review mentioned in subsection (1), the Authority must take into account-

(a) in respect of the minimum level of relevant income, 50 per cent of the monthly median employment earnings prevailing at the time of the review as compiled from the General Household Survey conducted by the Census and Statistics Department; and

(b) in respect of the maximum level of relevant income, monthly employment earnings at 90th percentile of the monthly employment earnings distribution prevailing at the time of the review as compiled from the General Household Survey conducted by the Census and Statistics Department.

Schedule 2

Heading: Minimum level of relevant income per contribution period

(1) The minimum level of relevant income, in the case of a relevant employee (not being a casual employee who is a member of an industry scheme), is-

(a) if the employee is remunerated on a monthly basis, \$5,000 per month;

(b) if the employee is remunerated more frequently than on a monthly basis, \$160 per day;

(c) if the employee is remunerated less frequently than on a monthly basis, \$5,000 per month, that amount as prorated.

(2) The minimum level of relevant income is, in the case of a casual employee who is a member of an industry scheme, \$160 per day.

(3) The minimum level of relevant income is, in the case of a self-employed person, \$5,000 per month or \$60,000 per year.

Appendix A

Schedule 3

Heading: Maximum level of relevant income per contribution period

(1) The maximum level of relevant income, in the case of a relevant employee (not being a casual employee who is a member of an industry scheme), is-

(a) if the employee is remunerated on a monthly basis, $20,000 per month;

(b) if the employee is remunerated more frequently than on a monthly basis, $650 per day;

(c) if the employee is remunerated less frequently than on a monthly basis, $20,000 per month, that amount as prorated.

(2) The maximum level of relevant income is, in the case of a casual employee who is a member of an industry scheme, $650 per day.

(3) The maximum level of relevant income is, in the case of a self-employed person, $20,000 per month or $240,000 per year.

Appendix B

IMPACT OF ADJUSTING THE MINIMUM LEVEL OF RELEVANT INCOME FROM $5,000 TO $5,500

(A) Employees (EEs)

Employee monthly earnings	**$5,000 - <$5,500**		Explanatory Note
No. of employees covered by MPF schemes	75 800		(1)
% of total no. of EEs covered by MPF schemes (i.e. 2 294 600)	3%		(1)
Average income	$5,200		(1)
EE contributions:			
Decrease in average monthly EE contributions per member	($260)		
Decrease in total monthly EE contributions	($20 million)	*(a)*	
Decrease in accrued benefits upon retirement per member	($221,000)	*(b)*	(2)

(B) Self-employed Persons (SEPs)

SEP monthly earnings	**$5,000 - <$5,500**		
No. of SEPs covered by MPF schemes	7 600		(3)
% of total no. of SEPs covered by MPF schemes (i.e. 309 000)	2%		(3)
Average income	$5,100		(3)
Decrease in average monthly SEP contributions per member	($255)		
Decrease in total monthly SEP contributions	($2 million)	*(c)*	
Decrease in accrued benefits upon retirement per member	($217,000)	*(d)*	(2)

Appendix B

SUMMARY OF OVERALL IMPACT

(I) Overall Impact on Total Monthly Contributions

EE/ SEP monthly earnings	**$5,000 - <$5,500**	
Decrease in total monthly EE contributions	($20 million)	*(a)*
Decrease in total monthly SEP contributions	($ 2 million)	*(c)*
Total decrease in monthly contributions	**($22 million)**	*(a)+(c)*

(II) Overall Impact on Accrued Benefits upon Retirement

EE/ SEP monthly earnings	**$5,000 - <$5,500**	
Decrease in accrued benefits upon retirement per EE member	**($221,000)**	*(b)*
Decrease in accrued benefits upon retirement per SEP member	**($217,000)**	*(d)*

* The adjustment on the minimum RI level has no impact on employers as they still have to make mandatory contributions for their employees even if the employees' income is below the minimum RI level.

Appendix C(i)

IMPACT OF ADJUSTING THE MAXIMUM LEVEL OF RELEVANT INCOME ON EMPLOYERS / EMPLOYEES WITH MONTHLY EARNINGS >$20,000

Employers (ERs) and Employees (EEs)		Explanatory Note
No. of EEs covered by MPF schemes	395 500	(1)
(% of total no. of EEs covered by MPF schemes (i.e. 2 294 600))	17%	(1)
Average income	$41,600	(1)

Option 1: One-off increase from $20,000 to $30,000 (Effective 1/1/2012)					
	2012	2013	2014	2015	
Additional monthly ER contributions	$164 m	$164 m	$164 m	$164 m	
Additional monthly EE contributions	$164 m	$164 m	$164 m	$164 m	
Increase in accrued benefits upon retirement per member	$705,000				(2)

Option 2: Increase from $20,000 to $30,000 by 2 phases					
Phase 1: From $20,000 to $25,000 (Effective 1/1/2012) Phase 2: From $25,000 to $30,000 (Effective 1/1/2014)					
	2012	2013	2014	2015	
Additional monthly ER contributions	$92 m	$92 m	$164 m	$164 m	
Additional monthly EE contributions	$92 m	$92 m	$164 m	$164 m	
Increase in accrued benefits upon retirement per member	$667,000				(2)

Option 3: Increase from \$20,000 to \$30,000 by 4 phases				
Phase 1: From \$20,000 to \$22,500 (Effective 1/1/2012) Phase 2: From \$22,500 to \$25,000 (Effective 1/1/2013) Phase 3: From \$25,000 to \$27,500 (Effective 1/1/2014) Phase 4: From \$27,500 to \$30,000 (Effective 1/1/2015)				
	2012	2013	2014	2015
Additional monthly ER contributions	\$48 m	\$92 m	\$130 m	\$164 m
Additional monthly EE contributions	\$48 m	\$92 m	\$130 m	\$164 m
Increase in accrued benefits upon retirement per member	\$647,000			

(2)

Appendix C(ii)

IMPACT OF ADJUSTING THE MAXIMUM LEVEL OF RELEVANT INCOME ON SEPS WITH MONTHLY EARNINGS >$20,000

SEPs		Explanatory Note
No. of SEPs covered by MPF schemes	80 500	(3)
(% of total no. of SEPs covered by MPF schemes (i.e. 309 000))	26%	(3)
Average income	$48,600	(3)

Option 1: One-off increase from $20,000 to $30,000 (Effective 1/1/2012)					
	2012	2013	2014	2015	
Additional monthly SEP contributions	$33 m	$33 m	$33 m	$33 m	
Increase in accrued benefits upon retirement per member	$349,000				(2)

Option 2: Increase from $20,000 to $30,000 by 2 phases					
Phase 1: From $20,000 to $25,000 (Effective 1/1/2012) Phase 2: From $25,000 to $30,000 (Effective 1/1/2014)					
	2012	2013	2014	2015	
Additional monthly SEP contributions	$18 m	$18 m	$33 m	$33 m	
Increase in accrued benefits upon retirement per member	$330,000				(2)

Option 3: Increase from $20,000 to $30,000 by 4 phases					
Phase 1: From $20,000 to $22,500 (Effective 1/1/2012) Phase 2: From $22,500 to $25,000 (Effective 1/1/2013) Phase 3: From $25,000 to $27,500 (Effective 1/1/2014) Phase 4: From $27,500 to $30,000 (Effective 1/1/2015)					
	2012	2013	2014	2015	
Additional monthly SEP contributions	$10 m	$18 m	$26 m	$33 m	
Increase in accrued benefits upon retirement per member	$320,000				(2)

Explanatory Notes for Appendix B and Appendix C

1. The estimations are based on (i) the Q3 2010 GHS compiled by the C&SD; (ii) the information provided by the C&SD on 14 Jan 2011; (iii) the information provided by the FSTB on 11 Oct 2009; and (iv) the Sep 2010 MPF Schemes Statistical Digest issued by the MPFA.

2. The estimations are based on the assumptions that the member makes MPF contributions for 30 years and the MPF investment return is 5.1% per annum (i.e. the same rate as the annualized rate of return of MPF since the implementation of the MPF System to 30 Sep 2010).

3. Q3 2010 GHS compiled by the C&SD.