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

20 January 2016

Hon TAM Yiu-chung, GBS, JP
Chairman
Bills Committee on Mandatory Provident Fund Schemes (Amendment) Bill 2015
Legislative Council of HKSAR Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Honourable Mr Tam,

Mandatory Provident Fund (MPF) Core Fund (CF) – Default Investment Strategy (DIS)

We refer to Section 4 (d) of the Discussion Paper (Ref: CB(1)1034/14-15(02)) of the Legislative Council Panel on Financial Affairs dated 6 July 2015.

By way of background, The Hong Kong Retirement Schemes Association (HKRSA) was established in 1996 to promote the interests and best practices of retirement schemes in Hong Kong, including provident and pooled retirement funds. It is a not-for-profit, non-political association that represents retirement schemes and their members and also provides a forum for discussing issues of current and topical interest.

Our reading of that section has given us cause for concern as to whether the proposed arrangements adequately address the matter of "opting-out" versus "opting-in" of the default investment strategy for new/existing scheme members.

In both Paragraph 12 and Paragraph 13, it is specified that "unless or until" a scheme member gives specific instructions to the trustee, the trustee will be required by law to invest or transfer all benefits in accordance with the DIS. Paragraph 12 refers to new members and Paragraph 13 refers to existing scheme members who have "previously not given any instruction on choice of CFs prior to DIS implementation" – with the additional requirement of "after due notification and adequate time to provide contrary instructions".

Firstly, the "unless or until" phrase, which is used in both paragraphs, begs the question of what might be an appropriate time limit for giving instructions. Secondly, even though Paragraph 13 mentions "adequate time", the time period is undefined and can be interpreted differently. Regardless, the question remains on the matter of how much time should pass before the member would be deemed to have given up his/her right to actively refuse the offered default option.

Linked to the above is the more important question of whether the notion of allowing members some time for providing instructions, in and of itself, necessarily leads to more informed decision making, which presumably would be a major reason for considering the time factor. The Mandatory Provident Fund Schemes Authority (MPFA) has repeatedly emphasized the need to empower members by encouraging member education and active participation in making investment decisions. But unless members become better educated about what the "opt-out" or "opt-in" options entail and what risks are involved, they will not be in a position to make choices in their own best interests.

香港金鐘道89號力寶中心第2座22樓2202室
2202 Tower 2, Lippo Centre, 89 Queensway, Hong Kong
Tel : (852) 2147 0090 Fax : (852) 2147 3690
Website : www.hkrsa.org.hk E-mail : info@hkrsa.org.hk

There are some, not always out of ignorance, who just will not take any action to make a change, however well studied or guided and even for a significant amount. It could be the fear of making a mistake and so allow the default option to stand. Hence how the option is put ("opt-in" or "opt-out") becomes highly important. We all want such persons to have made the wisest choice whatever his or her motives.

HKRSA clearly supports efforts that enable individuals to better understand and actively choose their retirement investment options. We therefore see the introduction of the DIS as a golden opportunity for both the government and industry to improve MPF members' knowledge about the proposed changes as well as the implications of their decisions, by conducting educational marketing campaigns prior to having individuals commit to opting-in or opting-out. These activities will motivate members to become more actively involved in deciding how they want their benefits to be invested. By doing so, the MPFA can also help to reduce potential complaints arising from unforeseeable adverse investment outcomes, since no written informed consent is obtained when assets are transferred under the DIS.

In closing, we would like to suggest that this could be an opportune time for the MPFA to require that all 2.7 million MPF members (and not just new or existing default fund members) be notified of the new DIS, thus giving everyone a reminder and a chance to rethink his/her retirement investment options. While professionals are well aware that both opt-outs and opt-ins carry risks, this may not be as apparent to lay persons, including members who already find current MPF offerings too complicated to understand. By embarking on a membership-wide Information-Education-Communication (IEC) campaign when bringing in the new DIS, the MPFA would be acting even more responsibly to, in their own words, "better protect scheme members' interests and directly address public concerns over 'high fees and complexity of choice' of some MPF schemes".

We trust that the MPFA appreciates the concerns we raised and will find a way to ensure that the interests of the stakeholders we represent will be addressed in the process of amending the MPF Schemes Ordinance (MPFSO).

Thank you for the opportunity to present our views. We appreciate if we can meet with the Panel on Financial Affairs at a mutually convenient time to discuss further. If there is anything HKRSA can be of assistance, please do not hesitate to call us at 2147-0090.

Yours sincerely,

Yvonne Sin, Chairman
The Hong Kong Retirement Schemes Association

香港金鐘道89號力寶中心第2座22樓2202室
2202 Tower 2, Lippo Centre, 89 Queensway, Hong Kong
Tel : (852) 2147 0090 Fax : (852) 2147 3690
Website : www.hkrsa.org.hk E-mail : info@hkrsa.org.hk