

For Information

**Legislative Council
Panel on Financial Affairs**

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

PURPOSE

This paper informs Members of the result of the latest review on the minimum level of relevant income (“Min RI Level”) and the maximum level of relevant income (“Max RI Level”) for Mandatory Provident Fund (“MPF”) contributions.

REVIEW ON THE MIN RI AND MAX RI LEVELS

The Review by the Mandatory Provident Fund Schemes Authority (“MPFA”)

2. Under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (“MPFSO”), an employer and an employee must each contribute 5% of the employee’s relevant income (“RI”) to an MPF scheme as mandatory contributions for the employee, while a self-employed person (“SEP”) must similarly contribute 5% of his/her RI. The amount of mandatory contributions payable is subject to the Min RI and Max RI Levels. Specifically, section 9 of the MPFSO provides that a relevant employee or an SEP whose RI is less than the Min RI Level is not required to contribute to an MPF scheme. The employer of the employee still has to contribute for the employee whose RI is less than the Min RI Level. Section 10 of the MPFSO provides that a relevant employee or an SEP whose RI is more than the Max RI Level is not required to contribute 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 RI.

3. Section 10A of the MPFSO requires the MPFA to conduct a review of the Min RI and Max RI Levels not less than once in every four years. The law further requires that in conducting the review, the MPFA must take into account the relevant statistics of monthly employment earnings prevailing at the time of the review¹. Following a review conducted by the MPFA in 2013,

¹ Section 10A(2) of the MPFSO stipulates that without limiting the factors which the MPFA may consider, it must take into account the following two statutory adjustment factors in the conduct of the review –

(a) in respect of the Min RI Level, 50% of the monthly median employment earnings prevailing at the

the monthly Min RI and Max RI Levels were increased to \$7,100 and \$30,000 respectively. These represent the prevailing Min RI and Max RI Levels.

4. In accordance with the MPFSO, the MPFA conducted a review in 2018 on the Min RI and Max RI Levels, which is the fourth review since the commencement of the relevant statutory provision². Based on the statistical data compiled from the General Household Survey (“GHS”) conducted by the Census and Statistics Department (“C&SD”) for the quarter of December 2017 to February 2018, and having regard to other relevant factors and comments received during the engagement exercise³, the MPFA recommended to the Government in May 2018 that –

- (a) the Min RI Level should be adjusted from \$7,100 to \$8,250; and
- (b) the Max RI Level should be adjusted from \$30,000 to \$48,000 by two phases (i.e. from \$30,000 to \$39,000 for the first two years, and then from \$39,000 to \$48,000 from the third year onwards).

5. The MPFA’s full report on the review of the Min RI and Max RI Levels is at **Annex**.

The Government’s View

6. Based on the proposals submitted by the MPFA, the maximum monthly mandatory contribution payable by each employee, employer and SEP will be raised from the current level of \$1,500 for the first two years to \$1,950 (+\$450), and then \$2,400 (+\$900) for subsequent years. If applying the latest statistical data of the monthly employment earnings for the quarter of October to December 2020, the maximum monthly contributions will be further increased⁴.

time of the review as compiled from the GHS conducted by the C&SD; and

- (b) in respect of the Max RI Level, monthly employment earnings at 90th percentile of the monthly employment earnings distribution prevailing at the time of the review as compiled from the GHS conducted by the C&SD.

² The MPFA has completed four reviews of the Min RI and Max RI Levels in 2006, 2010, 2013 and 2018 respectively.

³ The engagement exercise conducted by the MPFA covered 19 stakeholder groups, the Mandatory Provident Fund Schemes Advisory Committee, the Management Board of the MPFA, MPF scheme members and employers, as well as by means of monitoring of social responses. Details of the engagement exercise and comments received are set out in paragraphs 37 -51 of the report at **Annex**.

⁴ Based on the latest data as compiled from the GHS for the quarter of October to December 2020 and if applying straightly the factors under section 10A(2) of the MPFSO (see footnote 1), the proposed Min RI and Max RI Levels will be increased to \$9,000 and \$50,000 respectively. The maximum monthly mandatory contributions payable by each employee, employer and SEP will increase from \$1,500 to \$2,500 per month (i.e. an increase of \$1,000 per month).

7. The Government noted that the social and economic environment of Hong Kong has undergone a period of uncertainties, complications and significant downward pressure subsequent to the last review on the Min RI and Max RI Levels conducted by the MPFA. The situations besetting Hong Kong from a global, regional and local perspective in the past eighteen months or so and as a result of the recent COVID-19 pandemic are exceptional, and have dealt a severe blow to the people's livelihood and business environment. Taking into account these circumstances, the Government considers that it is not appropriate to adjust the Min RI and Max RI Levels at this stage. Therefore, the Min RI and Max RI Levels should be maintained at \$7,100 and \$30,000 respectively.

WAY FORWARD

8. The next cycle of review on the Min RI and Max RI Levels is due to be conducted next year i.e. 2022. The MPFA will conduct the review in accordance with the MPFSO and make recommendation to the Government on the adjustment to the Min RI and Max RI Levels in due course.

9. Members are invited to note the results of the latest review of the Min RI and Max RI Levels.

**Financial Services Branch
Financial Services and the Treasury Bureau
March 2021**

**REPORT ON
REVIEW OF MINIMUM AND MAXIMUM
LEVELS OF RELEVANT INCOME UNDER
MANDATORY PROVIDENT FUND (MPF) SYSTEM**

PURPOSE

To conduct a review of the minimum and maximum levels of relevant income (Min and Max RI Levels) pursuant to section 10A of the Mandatory Provident Fund Schemes Ordinance (the Ordinance) and consider the need to amend these levels. Recommendations are set out in paragraph 52 below.

BACKGROUND

I. MPF Contributions Subject to Min and Max RI Levels

2. Under the Ordinance, unless exempted, an employer and employee must each contribute 5% of the employee's relevant income (RI) to an MPF scheme as mandatory contributions, while a self-employed person (SEP) must similarly contribute 5% of his/her RI. The amount of mandatory contributions payable is subject to the Min and Max RI Levels.

3. Section 9 of the Ordinance stipulates that a relevant employee or an SEP whose RI is less than the Min RI Level is not required to contribute to an MPF scheme while the employer of the employee still has to contribute for the employee.

4. Section 10 of the Ordinance stipulates that a relevant employee or an SEP whose RI is more than the Max RI Level 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.

5. The Min and Max RI Levels were first set in 1995 when the Ordinance was enacted. The principles adopted in setting the two levels in 1995 were based on the recommendations in the "Report of the Consultancy on the

Mandatory Provident Funds System”¹, i.e. monthly Min RI Level at \$4,000, which was half of the then monthly median income, and monthly Max RI Level at \$20,000, which covered the entire earnings of close to 90% of the working population. In 2002, a statutory adjustment mechanism which governed the adjustment of the two levels was introduced (see paragraph 6 below) and the Min RI Level was adjusted from \$4,000 to \$5,000 while the Max RI Level remained unchanged at \$20,000 (see **Appendix A** for more details). The Min and Max RI Levels are prescribed in Schedules 2 and 3 to the Ordinance respectively. Currently, the Min RI Level is \$7,100 per month (\$280 per day and \$85,200 per year), effective since 1 November 2013 while the Max RI Level is \$30,000 per month (\$1,000 per day and \$360,000 per year), effective since 1 June 2014.

II. Adjustment Mechanism

6. Section 10A of the Ordinance stipulates a statutory adjustment mechanism for the Min and Max RI Levels which 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 on 19 July 2002, conduct a review of the Min and Max RI Levels to ascertain whether or not there are grounds to amend the levels.

7. Section 10A(2) of the Ordinance sets out two factors that MPFA must take into account in conducting a review of the Min and Max RI Levels to ascertain whether there are any grounds to amend the levels, i.e.

- (a) for Min RI Level – 50% of the monthly median employment earnings (50% of Median Earnings); and
- (b) for Max RI Level – monthly employment earnings at 90th percentile of the monthly employment earnings distribution (90th Percentile Earnings),

both prevailing at the time of the review as compiled from the General Household Survey (GHS) conducted by the Census and Statistics Department (C&SD). The Ordinance does not preclude MPFA from taking into account other relevant factors in conducting the review.

¹ The “Report of the Consultancy on the Mandatory Provident Funds System” was prepared jointly by Hewitt Associates LLC and GML Consulting Ltd in April 1995.

8. Since the commencement of section 10A, MPFA has completed three reviews of the Min and Max RI Levels in July 2006 (2006 Review), July 2010 (2010 Review) and February 2013 (2013 Review) respectively².

9. In January 2011, the Statutory Minimum Wage (SMW) legislation was enacted. When the findings of the 2010 Review were deliberated on at the meeting of the Legislative Council (LegCo) Panel on Financial Affairs (FAP) and a public hearing conducted by FAP, a majority of LegCo Members expressed concerns that the statutory adjustment mechanism under section 10A of the Ordinance had become outdated in the light of the implementation of SMW. Views in the community also supported adjusting the Min RI Level with reference to SMW. The Government and MPFA then committed to start reviewing the statutory adjustment mechanism 18 months after the implementation of SMW when the actual impact of SMW on wages became more apparent.

10. In April 2014, MPFA completed a review of the statutory adjustment mechanism. A public consultation on a proposed automatic adjustment mechanism was conducted from January to March 2015. The results of the public consultation indicated that a vast majority of the respondents did not support the proposal. There was also no consensus among different stakeholder groups. The Government then agreed with MPFA that the proposal should not be pursued for the time being and MPFA would continue to review the Min and Max RI Levels under the existing statutory adjustment mechanism.

11. To ensure continual compliance with the statutory requirements, MPFA needs to complete a review of the Min and Max RI Levels for the current four-year interval of 2014 to 2018 by July 2018 (the 2018 Review or the current review).

THE CURRENT REVIEW (2018 REVIEW)

12. Pursuant to section 10A of the Ordinance, MPFA needs to conduct a review of the Min and Max RI Levels by 18 July 2018. Paragraphs 13 to 36 below discuss the statutory factors specified in section 10A that must be taken into

² See [Appendix A](#) for details of the past reviews of the Min and Max RI Levels.

account and other relevant factors that may be taken into account when considering whether or not the Min and Max RI Levels should be amended.

I. Review of Min RI Level

(A) Statutory factor

(a) *50% of Median Earnings*

13. The Median Earnings for the quarter of December 2017 to February 2018 is \$16,500. According to the statutory adjustment factor for the Min RI Level (i.e. 50% of Median Earnings), the Min RI Level should be adjusted to \$8,250, meaning an upward adjustment of \$1,150 (about 16%) from the current level of \$7,100.

14. If the Min RI Level is adjusted from \$7,100 to \$8,250, employees and SEPs earning monthly income in the range of \$7,100 to below \$8,250 will not be required to make their portion of mandatory contributions of not more than \$412.5 a month (i.e. \$8,250 x 5%). It is estimated that the number of affected employees and SEPs is about 42 300 and 5 000 respectively³, representing approximately 1.6% of the total number of relevant employees of 2.57 million and 1.7% of the total number of SEPs of 297 100. As a result of such adjustment, it is estimated that the total monthly contributions to the MPF System will be reduced by about \$19 million⁴. The accrued benefits upon retirement in respect of each affected employee and SEP member will decrease by about \$315,000 and \$318,700 respectively⁵. Any change to the Min RI Level will not have effect on

³ The estimation is based on the information obtained from various sources including (1) the Q4 2017 GHS compiled by C&SD; (2) the information on income distribution of teachers covered by Grant/Subsidized Schools Provident Fund and civil servants covered by Civil Service Pension Scheme provided by the Financial Services and the Treasury Bureau in March 2018; (3) the information on income distribution of expatriates and casual employees (except construction and catering sectors) provided by C&SD in October 2013, October 2014, and July 2017; and (4) the December 2017 MPF Schemes Statistical Digest, MPFA. A set of assumptions is adopted in the estimation.

⁴ Breakdown of \$19 million: \$17 million (reduction in employee contributions) + \$2 million (reduction in SEP contributions).

⁵ The estimation is based on the assumption that the member makes MPF contributions for 30 years and the MPF investment return is 4.8% per annum (i.e. the same rate as the annualized rate of return of MPF since the implementation of the MPF System to 31 December 2017).

the employment costs of employers as they still have to make mandatory contributions for their employees even if their income is below the Min RI Level. The impact of adjusting the Min RI Level to \$8,250 is set out in **Appendix B**.

(B) Other relevant factors

(a) *Statutory minimum wage*

15. Despite the efforts of the Government to distinguish the policy intent of the Min RI Level from that of SMW, SMW has been commonly adopted by commentators as a factor to which the adjustment of the Min RI Level should make reference. According to the Minimum Wage Commission, the review of SMW is conducted in a comprehensive, objective and impartial manner. It is worth noting that the setting of SMW draws reference to a basket of indicators which fall into different categories⁶. The indicators in the category of social inclusion encompass the key factors on standard of living such as those reflecting changes in employment earnings and changes in Consumer Price Index (CPI) which are also factors that can be considered in determining the Min RI Level, albeit from a different assessment perspective⁷.

16. In the 2010 and 2013 Reviews, there was widespread support from LegCo Members and other stakeholders for increasing the Min RI Level having regard to the SMW adjustment. Although the Government made it clear that the objectives of the two were different⁸ and they should not be linked, the Min RI

⁶ There are four main categories of indicators for minimum wage setting purposes: (1) general economic conditions; (2) labour market conditions; (3) competitiveness; and (4) social inclusion.

⁷ For example, for minimum wage setting purposes, the indicators of wage level and distribution as well as changes in employment earnings and consumer price could help ascertain the wage levels which are excessively low. For MPF purposes, information on the wage level and distribution can help ascertain whether a high percentile of lower-paid employees would be excluded from the MPF contribution net if the Min RI Level is set at a particular level.

⁸ The purpose of setting a Min RI Level is to lessen the financial burden of mandatory contributions on scheme members with lower income. Below a certain earnings level, their immediate needs outweigh the need for them to put money aside for long-term retirement savings. With regard to SMW, the main object of its setting is to provide for a minimum wage so as to forestall the payment of excessively low wages for labour provided by employees. The intention of the Government is that SMW is not intended to serve as a living wage in the context of Hong Kong. At the SMW rate, wages might not be sufficient to cover all family expenses of all employees which could vary greatly

Level was finally adjusted with reference to the SMW-based formula⁹ in those two review exercises.

17. In the current review, if the Min RI Level were to be adjusted using the SMW-based formula previously adopted and the current SMW hourly rate of \$34.5, the new Min RI Level would be \$7,900 (i.e. $\$34.5 \times 8.7 \text{ hours}^{10} \times 26 \text{ working days} = \$7,804$, rounded to the next \$100). It is estimated that about 16 400 employees and 1 500 SEPs earning income in the range of \$7,100 to below \$7,900 would be affected¹¹, representing approximately 0.6% of the total number of relevant employees and 0.5% of the total number of SEPs. While the total monthly contributions to the MPF System will be reduced by about \$6.6 million¹², the accrued benefits upon retirement in respect of each affected employee and SEP member will decrease by \$299,500 and \$301,700¹³ respectively.

18. In the table below, we set out a comparison of (a) the Min RI Level derived by using the SMW-based formula, (b) the Min RI Level suggested by the statutory adjustment factor, and (c) the actual Min RI Level implemented (where applicable) in respect of the 2010 Review, 2013 Review and the current review.

according to family circumstances.

⁹ SMW-based formula: Hourly SMW rate x median daily working hours of the four low paying sectors identified by the Provisional Minimum Wage Commission x Assumed number of working days in a month (26 days).

¹⁰ The median daily working hours of the four low paying sectors according to the 2017 Annual Earnings and Hours Survey is 8.7 hours.

¹¹ See footnote 3. ¹² Breakdown of \$6.6 million: \$6 million (reduction in employee contributions) + \$0.6 million (reduction in SEP contributions).

¹² Breakdown of \$6.6 million: \$6 million (reduction in employee contributions) + \$0.6 million (reduction in SEP contributions).

¹³ See footnote 5.

Min and Max RI Levels review	Min RI Level derived by using SMW-based formula¹⁴ (before rounding)	Min RI Level suggested by statutory adjustment factor¹⁵	Actual Min RI Level implemented
2010 Review	\$6,188 (SMW rate \$28, effective 1 May 2011)	\$5,500 (Q3 2010 GHS data)	\$6,500
2013 Review	\$7,020 (SMW rate \$30, effective 1 May 2013)	\$6,000 (Q3 2012 GHS data)	\$7,100
2018 Review (current review)	\$7,804 (SMW rate \$34.5, effective 1 May 2017)	\$8,250 (Dec 2017 to Feb 2018 GHS data)	To be determined

Note: There was also an SMW rate of \$32.5 which was effective on 1 May 2015.

19. As shown in the table above, in the 2010 and 2013 Reviews, when the Min RI Level was calculated using the SMW-based formula, the Min RI Level so determined would be higher than that suggested by the statutory factor of 50% of Median Earnings. However, in the 2018 Review, the situation is reversed. This phenomenon is likely attributable to the fact that, in the 2010 and 2013 Reviews, as the latest available quarterly GHS data (i.e. Q3 2010 and Q3 2012 data) used for determining the respective statutory factor were released before the

¹⁴ One of the variables in the SMW-based formula is the median daily working hours of the four low paying sectors identified by the (Provisional) Minimum Wage Commission. Based on the information from C&SD, the median daily working hours was 8.5 hours for the 2010 Review and 9 hours for the 2013 Review with reference to the respective SMW hourly rates of \$28 and \$30. The latest figure available is 8.7 hours for the current review of the Min RI Level with reference to the SMW hourly rate of \$34.5. ¹⁵ Based on the GHS data for the relevant quarters provided by C&SD.

¹⁵ Based on the GHS data for the relevant quarters provided by C&SD.

implementation of the then SMW rate and hence those GHS data could not reflect the change in wages after the implementation of the relevant SMW rate in May 2011 and May 2013. In the 2018 Review, the latest quarterly statistics (i.e. for December 2017 to February 2018) should have substantially, if not fully, reflected the impact of the SMW rate implemented in May 2017.

20. In the 2018 Review, given that wage growth is usually on an upward trend, it follows that the Min RI Level derived from the SMW-based formula using the current SMW rate should be lower than the Min RI Level based on the statutory factor of 50% of Median Earnings and the gap between the two would be widened as time passes by. Should that hold true, there should be less demand from stakeholders calling on the Government to adjust the Min RI Level with reference to SMW, although a new, higher SMW rate may be recommended by the Minimum Wage Commission to the Government towards the end of this year.¹⁶

(b) Costs and efforts

21. With the experience on past adjustments of the Min RI Level and increasing knowledge about MPF, trustees and employers should become quite familiar with the preparation work required for coping with the change in the Min RI Level (e.g. amendments to the payroll and MPF administration systems of trustees and employers, revision of internal procedure manual, staff training). The costs and efforts required for the implementation of the new level should be of less concern to trustees and employers as compared with the situation in early years.

II. Review of Max RI Level

(A) Statutory factor

(a) 90th Percentile Earnings

22. The 90th Percentile Earnings for the quarter of December 2017 to February 2018 is \$48,000. Applying the statutory adjustment factor for the Max

¹⁶ The Minimum Wage Commission conducted a six-week public consultation to invite views from the community on the review of the SMW rate from 9 April to 20 May 2018. The Commission is required to submit its recommendation report on the SMW rate on or before 31 October 2018.

RI Level (i.e. the 90th Percentile Earnings), the Max RI Level should be set at \$48,000 per month (an increase of 60%). Raising the Max RI Level to \$48,000 will increase the contribution of each of employers, employees and SEPs with earnings exceeding \$30,000 by a **maximum** amount of \$900 per month (i.e. 5% of the increase of \$18,000 from the current Max RI Level of \$30,000).

23. It is estimated that about 492 000 employees and 74 500 SEPs¹⁷ earn \$30,000 or more monthly. As a result of the above upward adjustment of \$18,000, it is estimated that the total monthly contributions to the MPF System will increase by about \$669 million¹⁸. The accrued benefits upon retirement in respect of each of the affected employee and SEP members earning above \$30,000 per month will increase by \$1,009,000¹⁹ and \$545,500²⁰ on average respectively. As regards employers, the employment costs will rise as the monthly maximum contributions per employee will be increased from \$1,500 to \$2,400. It is estimated that employers will have to make total extra contributions of around \$309 million per month. The impact of adjusting the Max RI Level to \$48,000 is set out in **Appendix C**.

(B) Other relevant factors

(a) *Economic situation*

24. The Hong Kong economy expanded notably throughout 2017 as the improving growth momentum in late 2016 evolved into a full-fledged upturn in 2017 amid a synchronized global economic upswing. The strong economic performance was broad-based. We set out below the performance of some of the key economic indicators and the outlook for 2018²¹:

¹⁷ See footnote 3.

¹⁸ Breakdown of \$669 million: \$309 million (additional employer contributions) + \$309 million (additional employee contributions) + \$51 million (additional SEP contributions).

¹⁹ See footnote 5.

²⁰ See footnote 5.

²¹ Information extracted from the report “2017 Economic Background and 2018 Prospects” issued by the Government of HKSAR on 28 February 2018 and the press releases “Unemployment and Underemployment Statistics for October – December 2017”, “Economic Situation in the First

- (i) The labour market remained in a state of full employment and tightened further in 2017 on the back of a vibrant local economy. The unemployment rate went lower progressively over the course of 2017, averaging at 3.1% for the year as a whole, 0.3 percentage point below that in 2016, and reached 2.9% in the 4th quarter of 2017. In the three-month period from February to April 2018, it further edged down to 2.8%, the lowest level in more than 20 years. The Government expected that the overall labour market conditions will likely remain tight in the near term amid the prevailing positive economic environment.
- (ii) Private consumption expenditure expanded notably by 5.4% in real terms in 2017, as compared with its 1.9% growth in 2016. In the 1st quarter of 2018, the figure surged by 8.6% in real terms over a year earlier, following the growth of 6.3% in both the 3rd and the 4th quarters of 2017. The Government anticipated that the private consumption expenditure is likely to attain further solid growth in 2018, underpinned by the tight labour market and solid income growth.
- (iii) The consumer price inflation, after netting out the effects of all Government's one-off relief measures, stayed modest at 1.7% on average throughout 2017, abating from 2.3% in 2016. It further edged down to 1.7% in the 3rd quarter of 2017 and 1.6% in the 4th quarter of 2017. In the first four months of 2018, the underlying consumer price inflation was 2.4%. The Government expected that price pressures will likely go up over the course of 2018 if the robust economic conditions continue. Nevertheless, inflation rate should remain within a moderate range in the near term.
- (iv) The Gross Domestic Product (GDP) grew notably by 3.8% in real terms in 2017, markedly faster than the 2.1% growth in 2016 and

Quarter of 2018 and Latest GDP and Price Forecasts for 2018”, “Unemployment and Underemployment Statistics for February – April 2018” and “Consumer Price Indices for April 2018” issued by C&SD on 18 January, 11 May, 17 May and 21 May 2018 respectively.

2.9% trend growth over the preceding ten years. The year-on-year growth rate of real GDP leaped to 4.3% in the 1st quarter of 2017 and maintained above-trend growth at 3.9%, 3.7% and 3.4% respectively in the 2nd, 3rd and 4th quarters. According to the preliminary data released by C&SD, the figures showed a robust growth of 4.7% in the 1st quarter of 2018. Barring any drastic external shocks, the real GDP in 2018 is forecast to grow by 3 to 4%, representing the second consecutive year of above-trend growth if materialized.

25. Over the medium term, the Government expected that the outlook for the Hong Kong economy remains bright. With strong competitive edge in a wide range of services, Hong Kong is well positioned to benefit from the strong growth potential of the Mainland and other developing Asian economies which will continue to be the engine for global economic growth. That is despite some external uncertainties such as the implication of the US tax reform on the global economy and the US-China trade war. As a small and open economy, Hong Kong's economic outlook in 2018 will mainly hinge on the global economic and financial conditions.

(b) Sentiments of business establishments

26. Conducted independently by Hong Kong Productivity Council (HKPC)²² and sponsored by Standard Chartered Bank (Hong Kong) Limited, the quarterly survey on small and medium-sized enterprises (SMEs) provides insights into around 800 local SMEs' outlook on the overall business environment, covering five areas on "Sales Amount", "Profit Margin", "Investments", "Staff Number" and "Global Economic Growth" for the next quarter. According to the survey conducted from mid- to late March 2018, the overall index of the Standard

²² The "Standard Chartered Hong Kong SME Leading Business Index" is a forward-looking quarterly survey with an aim to assist the public and SMEs to get an insight into the forthcoming business climate. The index is computed from the analysis of local SMEs' view on the outlook of the overall business environment and regional economic change for the next quarter, through telephone interviews done by HKPC professionals. According to HKPC, the size and scope of the survey is one of the most extensive of its kind in Hong Kong, with more than 3 000 responses expected from the four quarterly surveys for analysis, and covering eight industries including manufacturing, import/export trade and wholesale, retail, accommodation and catering services, information and communications, finance and insurance industry, professional services, and real estate industry.

Chartered SME Index has increased for three consecutive quarters. Some of the findings of the survey²³ are extracted below:

- (i) All sub-indices on the five aspects, namely “Sales Amount”, “Profit Margin”, “Investments”, “Staff Number” and “Global Economic Growth”, increased in the 2nd quarter of 2018 as compared to the same period of 2017.
- (ii) For the three major industries, the business sentiment of the Retail Industry and the Manufacturing Industry has improved, with the industry sub-indices continuing the growth momentum of last quarter. For the Import, Export Trade and Wholesale Industry, the industry sub-index increased as compared to the same period of last year. However, dragged down by the “Global Economic Growth” and “Investments” readings, there are still worries across the industry prospect.
- (iii) The proportion of SMEs who believe that Hong Kong’s economy has been steadily improving has doubled over the past year, reflecting a more optimistic business outlook.

27. Apart from the above findings in respect of SMEs, the results of the “Quarterly Business Tendency Survey”²⁴ for the 2nd quarter of 2018 conducted by C&SD indicated that many large business establishments expected that near-term business prospects in terms of business situation and volume of business to be better. Most of them expected their employment to increase or to remain broadly unchanged while their selling price or service charges will remain unchanged or go up.

²³ “Standard Chartered Hong Kong SME Leading Business Index”, Q2 2018, Hong Kong Productivity Council.

²⁴ This survey aims to collect views on short-term business performance from the senior management of about 560 prominent establishments in various sectors in Hong Kong with a view to providing a quick reference, with minimum time lag, for predicting the short-term future economic performance of the local economy. It should however be noted that this survey only collects views of respondents on their own establishments rather than those on the respective sectors they are engaged in.

(c) Abolishing severance payment (SP)/long service payment (LSP) offsetting arrangement

28. The 2017 Policy Address outlined the Government's proposal to progressively abolish the offsetting of SP/LSP with employers' mandatory contributions and the Government is still in active discussion with employers and employees to refine the proposal. It is anticipated that employers will raise their concerns on the cost implications arising from the proposed abolition of SP/LSP offsetting if the Max RI Level were to be adjusted upward in the current review.

(d) Statutory minimum wage

29. Any upward adjustment of SMW would have direct cost impact on employers and their businesses, incurring additional expenditure on wages of employees with low hourly wage and also those of the remainder of the workforce through its ripple effects. In the 2010 and 2013 Reviews, while there was general acceptance that the Max RI Level should be adjusted, some employer representatives expressed that with the implementation of SMW, enterprises, especially SMEs, should not be required to shoulder further financial burden as a result of the revision of the Max RI Level. There was also concern that implementation of the adjusted Max RI Level at around the same time with the then new, higher SMW rate would have great impact on business sector. In the current review, if upward adjustments to the Min and Max RI Levels are to take effect simultaneously at a time which coincides with the coming into operation of the next new, higher SMW rate (if revised upwards), comments similar to those raised during the 2010 and 2013 Reviews will likely be made particularly by the employer sector, thus adding resistance to any proposed upward adjustment of the Max RI Level.

(e) Contribution situation of higher-income earners

30. As mentioned in paragraph 23 above, according to the latest GHS data (Q4 2017), there are about 492 000 employees and 74 500 SEPs members with monthly earnings in excess of \$30,000. It is estimated that about 266 200²⁵

²⁵ See footnote 3.

of these employees and 34 700²⁶ of these SEPs earn between \$30,000 and \$48,000 monthly and their average monthly income is about \$38,000 and \$38,600 respectively. If the Max RI Level is raised to \$48,000 per month, the employees of that income band and their employers would each have to increase their amount of monthly contributions by \$400²⁷ while the SEPs by \$430²⁸, accounting for about 1% of their average monthly income. For those earning \$48,000 or more, the additional monthly contribution over the existing mandatory contribution to be made would be capped at \$900²⁹ each (hence accounting for 1.875% at most of their income). Please refer to **Appendix D** which shows the impact of an increase in Max RI Level **in one go** on the additional percentages of one's income required to be contributed as mandatory contribution (which range from > 0% to 1.875%).

31. Despite that such upward adjustment in the Max RI Level should not impose too heavy a financial impact on the higher-income earners under the current positive economic environment, some of them may prefer to make use of other investments to increase their retirement savings rather than putting additional funds in the MPF System.

(f) Housing cost burden

32. According to the “2016 Population By-census – Snapshot of the Hong Kong Population”, for domestic households living in owner-occupied private permanent housing and with mortgage payment or loan payment, the **median** mortgage payment and loan repayment was \$10,500. In 2016, the **median** mortgage payment and loan repayment to income ratio was 19.0%. On rental, the **median** monthly domestic household rent of domestic households renting private residential flats was \$10,000 and the **median** rent to income ratio was 30.7%.

²⁶ See footnote 3.

²⁷ (Average monthly income of employees of \$38,000 – Current Max RI Level of \$30,000) x 5% = \$400.

²⁸ (Average monthly income of SEPs of \$38,600 – Current Max RI Level of \$30,000) x 5% = \$430.

²⁹ (Adjusted Max RI Level of \$48,000 – Current Max RI Level of \$30,000) x 5% = \$900.

33. The “First Quarter Economic Report 2018” of the HKSAR Government issued in May 2018 pointed out that, as a result of the surge over the past several years, overall flat prices in March 2018, on average, exceeded the 1997 peak by a rampant 113%. The surge in property prices also drove up rents in the private housing market. As such, if the payment of mortgage or hefty rents already constitutes one of the major expenditures of members of the public, they may be less receptive to a full increase in the Max RI Level.

(g) Adjustment magnitude and frequency

34. It is important that the Max RI Level should reflect the income distribution of the working population so that the level of benefits of the MPF System can be maintained. Based on the past adjustment exercises, one of the major concerns of the business sector was drastic upward adjustments of the Max RI Level in short intervals. A two-phased approach was therefore recommended in the 2010 Review in relation to the adjustment of the Max RI Level to avoid imposing too heavy financial burden on employers at a time. That is, when the benchmark pointed to \$30,000, suggesting an increase of \$10,000 from the then Max RI Level of \$20,000, the level was eventually adjusted by two phases from \$20,000 to \$25,000 (a 25% increase) and then from \$25,000 to \$30,000 (a 20% increase)³⁰.

35. In the current review, given the positive outlook of the economic environment and the fact that the Max RI Level has remained unchanged for a period of almost four years since June 2014, consideration may be given to effecting a full level adjustment to \$48,000. To avoid an abrupt one-off change in the current Max RI Level, the level can be adjusted by two phases, from \$30,000 to \$39,000 (an increase of 30%) for the first two years and then from \$39,000 to \$48,000 (an increase of 23%) from the third year onwards, or by three phases, from \$30,000 to \$36,000 (an increase of 20%) for the first year and then from \$36,000 to \$42,000 (an increase of 17%) for the second year, and at last from \$42,000 to \$48,000 (an increase of 14%) from the third year onwards. The phased approach may help alleviate the cost concerns of the business sector and the

³⁰ The adjusted levels of \$25,000 and \$30,000 became effective on 1 June 2012 and 1 June 2014 respectively.

higher-income earners and reduce their resistance to a full upward adjustment of the Max RI Level.

36. The impact of adjusting the current Max RI Level to the benchmark level of \$48,000 under a two-phased approach and a three-phased approach is set out in **Appendix E**. A comparison of the impact of the adjustment of the Max RI Level in one go and by phases is set out in **Appendix F**.

ENGAGEMENT EXERCISE

I. Engagement Plan

37. In order to gauge the views of relevant stakeholders on the preliminary proposals of adjusting the Min and Max RI Levels strictly in accordance with the statutory factors, MPFA conducted a stakeholder engagement exercise during the period from September 2017 to March 2018. The exercise was conducted according to an engagement plan prepared by MPFA with the comments of the Financial Services and the Treasury Bureau (FSTB) incorporated.

38. The engagement was carried out on two fronts, namely (1) major MPF stakeholder groups and (2) MPF scheme members and employers. The engagement with major MPF stakeholder groups was carried out by having meetings with/briefings for them. For MPF scheme members and employers, the engagement was conducted by means of a questionnaire distributed by email or on location during roving exhibitions, talks or seminars where participants would be briefed on the coming review of the Min and Max RI Levels before being asked to fill out the questionnaire.

39. As the engagement exercise spanned about half a year, two sets of quarterly GHS data were therefore used for ascertaining the statutory benchmarks for the proposed Min and Max RI Levels, namely:

- (a) \$7,750 and \$45,000 (Q2 2017 data) used for the earlier engagement before December 2017; and
- (b) \$8,000 and \$45,000 (Q3 2017 data) used for the post-December 2017 engagement.

40. During the engagement exercise, stakeholders' views were sought on:

- (a) implementing the adjusted Min RI Level of \$7,750 (used for earlier engagement) and \$8,000 (used for more recent engagement); and
- (b) implementing the adjusted Max RI Level of \$45,000 in one go, by two phases or three phases.

II. Comments Received

41. As regards the stakeholder groups, MPFA briefed a total of 19 groups, comprising business chambers, employer associations, a human resources (HR) body, labour unions, Chairmen/Vice Chairmen of District Councils, professional bodies, a think tank and the MPF Industry Schemes Committee. Written submissions were subsequently received from a business chamber and an employer association. A list of these stakeholder groups is at **Appendix G**.

42. For MPF scheme members and employers to whom a questionnaire concerning the proposed adjustments of the Min and Max RI Levels was distributed for completion, MPFA received a total of 1 968 questionnaires.

43. The comments received from the stakeholder groups, MPF scheme members and employers were mainly related to the proposed adjustment of the Max RI Level and are set out below. For more details, please refer to **Appendix H** and **Appendix I**³¹.

(A) Min RI Level

44. As regards the proposed adjustment of the Min RI Level from \$7,100 to \$7,750 (or \$8,000), the stakeholder groups, MPF scheme members and employers generally supported that the Min RI Level should be adjusted upwards. Some stakeholder groups and questionnaire respondents considered that the adjustment should make reference to SMW, consumer price index, basic allowance for individuals for tax purposes, etc., while some others considered the proposed adjustment too small and hence suggested a higher level (e.g. \$9,000). They however did not support their proposals with justifications. The stakeholder groups and questionnaire respondents shared the views that the Government

³¹ **Appendix H** sets out a summary of the key comments received from the stakeholder groups, MPF scheme members and employers, and **Appendix I** contains a statistical summary of the questionnaires received from MPF scheme members and employers.

should make contributions for low-income earners as they were not required to make their own share of contribution which would enhance their retirement protection.

(B) Max RI Level

45. On the Max RI Level, the stakeholder groups and questionnaire respondents generally agreed that the level would need to be adjusted over time. They however expressed concerns that the adjustment from the current level of \$30,000 to \$45,000 was too drastic and would aggravate their financial burden. Employer groups were particularly concerned about the proposed increase of the Max RI Level in the light of the other policies of the Government being discussed in the community which would have impact on their business costs (e.g. the proposed abolition of the SP/LSP offsetting arrangement, the introduction of standard working hours, SMW). Some employer representatives remarked that if the Max RI Level must be fully adjusted, it would be preferable to adjust it gradually using a three-phased approach.

46. On the question of whether to adjust the Max RI Level to \$45,000 in one go, by two phases or by three phases, the stakeholder groups representing the employer side generally tended to support adjusting the level by three phases while the professional bodies supported a two-phased approach. On the other hand, the questionnaires completed by MPF scheme members and employers indicated that almost half of the respondents (49%) preferred a one-go adjustment for the sake of convenience and simplicity and about 30% of the questionnaire respondents preferred a two-phased adjustment approach. A number of stakeholder groups suggested that the current statutory factor for the Max RI Level of 90th Percentile Earnings should be reviewed or lowered (e.g. to 75th Percentile Earnings provided the benchmark would not fall below the current Max RI Level of \$30,000³²).

SOCIAL MEDIA RESPONSES

47. In late March this year, the news media widely reported the current

³² Based on the statistics compiled by C&SD for the period from December 2017 to February 2018, the 75th Percentile Earnings stand at \$28,000.

review of the Min and Max RI Levels by MPFA, including the preliminary proposals of adjusting the Max RI Level from \$30,000 to \$48,000 (and mandatory contributions from \$1,500 to \$2,400) by two or three phases, and the Min RI from \$7,100 to \$8,000.

48. According to the Analysis of Media Reports and Social Media Posts for the first quarter of 2018, netizens had a strong sentiment against raising the Max RI Level, with some seizing the opportunity to launch severe attacks against the MPF System. However, online attacks/ discussions died down quickly.

CONSULTATION WITH MANDATORY PROVIDENT FUND SCHEMES ADVISORY COMMITTEE AND MPFA MANAGEMENT BOARD

49. Having considered the findings of the review of the Min and Max RI Levels conducted by MPFA and the outcome of the engagement exercise, we have formulated proposals to amend the two levels. Views of the Mandatory Provident Fund Schemes Advisory Committee (MPFSAC) and the MPFA Management Board (MB) were sought on the following proposals at their respective meetings on 7 and 8 May 2018:

- (a) the Min RI Level be adjusted from the current level of \$7,100 to \$8,250; and
- (b) the Max RI Level be adjusted from the current level of \$30,000 to \$48,000 by two phases.

MPFSAC

50. Members of MPFSAC expressed the following views:

- Supported adjusting the Min and Max RI Levels in keeping with the spirit of the MPF legislation.
- Adjustment to the RI Levels and the timing should take into account all factors.
- Min RI Level
 - Members did not have much concern; and
 - Suggested taking into account updated GHS data and SMW review outcome.
- Max RI Level

- The proposed increase was considered very drastic for employers, employees and self-employed persons alike;
- Suggested considering carefully the timing of adjustment – impact on employers (particularly SMEs) due to abolition of severance payment / long service payment offsetting and SMW adjustment; and
- Suggested adopting a phased approach in implementation.

MB

51. Members of MB expressed the following views:

- Generally supported adjusting the Min and Max RI Levels in accordance with the statutory mechanism.
- Considered it necessary to take into account all factors in determining the implementation approach and timing of the adjustment, including the public response to the outcome of the upcoming SMW review and the impact of abolition of SP/LSP offsetting on employers.
- The proposed adjustment to the Max RI Level would be too drastic from the employers' point of view.
- Suggested that the Max RI Level be adjusted in phases.
- Suggested maintaining the discipline in conducting future reviews at regular intervals.
- Suggested that going forward, the statutory adjustment factors of 50% of Median Earnings for the Min RI Level and 90th Percentile Earnings for the Max RI Level be reviewed.
- Agreed that the proposals set out in paragraph 49 above be submitted to the Government for consideration.

RECOMMENDATIONS

52. In view of the above, MPFA recommends to the Government that:
- (a) the Min RI Level be adjusted from the current level of \$7,100 to \$8,250 as suggested by the statutory factor of 50% of Median Earnings; and
 - (b) the Max RI Level be adjusted from the current level of \$30,000 to \$48,000 by two phases - from \$30,000 to \$39,000 for the first two years and then from \$39,000 to \$48,000.

JUSTIFICATIONS

53. The justifications for the above recommendations are set out below:

(a) Min RI Level

- (i) The statutory factor of 50% of Median Earnings suggested that the Min RI Level should be adjusted to \$8,250.
- (ii) The prevailing employment earnings distribution of GHS has more or less fully reflected the impact of the current SMW rate of \$34.5.
- (iii) Suggestions made by the stakeholders for increasing the Min RI Level to a higher level (e.g. \$9,000) appear arbitrary as no justifications have been provided by them.
- (iv) The lack of compelling factors suggesting a departure from the statutory factor of 50% of Median Earnings in setting the Min RI Level.

(b) Max RI Level

- (i) The statutory factor of 90th Percentile Earnings suggested that the Max RI Level should be adjusted to \$48,000.
- (ii) There exists a large gap between the current Max RI Level of \$30,000 and the prevailing statutory benchmark of \$48,000. The situation has proven to worsen over time. The wider the gap, the more difficult it is to close it. It may also become the norm to deviate from the statutory benchmark. It is desirable to close the gap as otherwise the MPF System cannot maintain its function of helping the working population to save for basic retirement protection, let alone the continuous widening of the gap.
- (iii) The expected improving economic situation in Hong Kong may help improve the affordability of the additional mandatory contributions payable caused by an increase in the Max RI Level.

- (iv) Adopting a phased approach in adjusting the Max RI Level may help to allay the cost concerns of employers and scheme members.
- (v) By the time when it is ready to introduce a new Max RI Level into LegCo for scrutiny in the current exercise, it is likely that the prevailing statutory benchmark may be higher than the current benchmark of \$48,000. That would attract stronger demand from stakeholders to call on the Government to implement the adjustment of the Max RI Level by phases. The present recommendation of adjusting the Max RI Level by two phases may make the proposal more palatable to stakeholders.
- (vi) Increasing the Max RI Level by two phases instead of three phases can reduce the administration and publicity work required for implementing a new level and avoid possible confusion due to frequent changes of level. Adopting a two-phased approach can strike a balance between the preference of the stakeholder groups and that of the MPF scheme members and employers.
- (vii) Even if the Max RI Level is fully adjusted upwards to \$48,000, such an increase would have different financial impacts on different employees (their employers) and SEPs, depending on their actual earnings. For example, as illustrated in **Appendix D**, for an employee with monthly earnings of \$35,000, the additional monthly contribution he/she has to make is \$250 (i.e. \$5,000 x 5%), representing 0.714% of his/her income, whilst for an employee with monthly earnings of \$48,000, the additional monthly contributions he/she has to make is \$900 (i.e. \$18,000 x 5%), representing 1.875% of his/her income.
- (viii) The lack of compelling factors suggesting a departure from the statutory factor of 90th Percentile Earnings in setting the Max RI Level.

30 May 2018

Encl.

A. PAST REVIEWS OF MIN AND MAX RI LEVELS PURSUANT TO SECTION 10A

(i) Review When Adjustment Mechanism was being Formulated in 2001/2002

1. In 2001/2002, while an adjustment mechanism for the Min and Max RI Levels was being formulated for introduction to the Legislative Council (LegCo) for approval, the initial monthly Min and Max RI Levels (\$4,000 and \$20,000) were reviewed simultaneously using that mechanism. The two adjustment factors for the Min and Max RI Levels (i.e. 50% Median Earnings and 90th Percentile Earnings) pointed to \$5,000 and \$30,000. Having also considered the then economic situation, it was proposed to increase the monthly Min RI Level to \$5,000 but to maintain the Max RI Level at \$20,000. The proposed adjustment mechanism and the proposed adjustment to the Min RI Level were covered in the MPFS (Amendment) Bill 2002, which was passed by LegCo in July 2002. A new section (section 10A) enacted which stipulates an adjustment mechanism for the Min and Max RI Levels.

(ii) 2006 Review

2. In accordance with section 10A, MPFA completed the first review of the Min and Max RI Levels in early July 2006. That review was conducted based on the two statutory adjustment factors (i.e. 50% Median Earnings and 90th Percentile Earnings) and consideration of relevant factors which mainly involved the then economic conditions and outlook. As the statutory factor suggested that the Min RI Level should stay at \$5,000 and there was no other relevant factor identified, the recommendation was therefore to maintain the Min RI Level at \$5,000. For the Max RI Level, the statutory factor suggested that the Max RI Level be adjusted from \$20,000 to \$30,000. Moreover, it was considered difficult to identify other factors that suggested that the Max RI Level should not be so increased. Recommendations on the adjustment of the two levels (i.e. Min RI Level maintained at \$5,000 and Max RI Level increased to \$30,000) were made

by MPFA to the Government. The Government consulted the LegCo Panel on Financial Affairs (FAP) and FAP conducted a public hearing on the review results. Having taken into account all relevant factors and views expressed, the Government did not pursue any change to the two levels.

(iii) 2010 Review

3. The second review of the Min and Max RI Levels was completed by MPFA in mid-July 2010. Similar to the first review, MPFA worked out the Min and Max RI Levels using the two statutory factors, which suggested that the Min and Max RI Levels should be adjusted from \$5,000 to \$5,250 and from \$20,000 to \$30,000 respectively. MPFA also identified other relevant factors including the impending introduction of the Statutory Minimum Wage (SMW) and the outbreak of the global financial crisis in 2008 which would have impact on whether the two levels should be adjusted. MPFA consulted the Labour Advisory Board (LAB) on its preliminary review findings.

4. Considering that the situation during that review was much more complex with uncertainties due to a number of identified factors which were expected to have wide read-across implications, MPFA submitted a review report to the Government in July 2010 mainly setting out the review findings without concrete recommendations for it to consider whether the two levels should be adjusted. A phased approach for increasing the Max RI Level was also mentioned as an alternative to a one-off increase.

5. After the first SMW was written into the law in early January 2011, the Government took the Min and Max RI Levels review findings to FAP to consult legislators and FAP conducted a public hearing. A majority of LegCo Members commented that the Min RI Level should be adjusted with reference to SMW. Moreover, there were overwhelming views in the community that the Min RI Level should take into account or even be linked to SMW. The Government thus finally increased the Min RI Level from \$5,000 to \$6,500 by making reference to the hourly SMW rate and the median monthly working hours of the four low paying sectors identified by the Provisional Minimum Wage

Commission (PMWC)¹. During that review, the Government and MPFA committed to start reviewing the statutory adjustment mechanism prescribed in section 10A after a lapse of about 18 months from the implementation of SMW (i.e. in around November 2012) when the actual impact of SMW on wages was available. On the Max RI Level, a two-phased adjustment approach was adopted and the level was adjusted to \$25,000 as a first step.

(iv) 2013 Review

6. The third review of the Min and Max RI Levels was not due for completion until 18 July 2014. However, in the light of the Government's announcement of the adoption of the new SMW rate of \$30 per hour in December 2012 which would likely arouse another round of comments and criticisms pertinent to the Min RI Level and requests for increasing the Min RI Level, MPFA advanced the timing for conducting the third review. Pending the review of the statutory adjustment mechanism, the Government proposed to follow similar methodology adopted for adjusting the Min RI Level in 2011, and made reference to the new SMW rate (\$30), the latest statistics on the median daily working hours of the four low-paying sectors (9 hours) and assuming a 26-working day per month arrangement. On that basis, the Min RI Level was proposed to be increased from \$6,500 to \$7,100. On the Max RI Level, it was proposed to complete the phased increase recommended in the 2010 Review by increasing the Max RI Level to \$30,000. MPFA consulted LAB on the recommendations before submitting the review findings to the Government.

7. The Government consulted FAP before proposing legislative

¹ The Min RI Level was derived by assuming a 26-working day per month arrangement. By applying the SMW hourly rate of \$28 to the median working hours of the four low paying sectors in the working population (which was 8.5 hours) under the assumed working arrangement of 26-working day per month, the monthly reference for the Min RI Level turned out to be \$6,188. The Government thus considered increasing the Min RI Level to \$6,500 acceptable as it also reflected the broad-based consensus of the public.

The four low paying sectors identified by the PMWC when deliberating the recommended initial SMW rate were: restaurants; retail; estate management, security, and cleaning services; and other low paying sectors (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

amendments in line with the recommendations.

B. PROPOSED REFORM OF STATUTORY ADJUSTMENT MECHANISM (2012 to 2015)

8. The original plan of MPFA was to commence a review of the statutory adjustment mechanism in section 10A in around November 2012. In the light of the anticipated announcement of a new SMW rate in November 2012, it was decided that the timing for commencing the review of the adjustment mechanism should be advanced to March 2012. After identifying potential options for the key features of a new adjustment mechanism, MPFA conducted a round of soft consultations with key stakeholder groups from September 2013 to January 2014 and made recommendations to the Government in April 2014.

9. The Government considered the recommendations and made some refinements, and suggested that MPFA conduct a public consultation. Accordingly, a public consultation on the proposed mechanism was conducted during the period from 23 January to 5 March 2015 to gauge the views of the public on the proposal. A total of 35 075 submissions were received, with 34 994 (over 99%) received on 4 and 5 March 2015 mostly via the online response system provided on the MPFA website. Almost all of them objected to the proposed mechanism. Some of the submissions objecting to the proposed mechanism might, at least in part, be attributed to the misguided messages on the social media at that time. However, an analysis of the written comments provided by the respondents revealed that they were not actually responding to the consultation questions on specific aspects of the proposed mechanism. Most of the comments were about the dissatisfaction of respondents about the MPF System (e.g. high fees but low investment returns). In view of the consultation results, the Government decided not to pursue the proposal at that time and to continue to review the Min and Max RI Levels under the existing statutory adjustment mechanism in accordance with section 10A. In that case, MPFA is required to complete a review of the Min and Max RI Levels for the current four-year interval of 2014 to 2018 by 18 July 2018.

**Impact of Adjusting the Min RI Level from \$7,100 to \$8,250 on
Employees/Self-employed Persons**

If the Min RI Level is adjusted from \$7,100 to \$8,250, only employees (EEs) and self-employed persons (SEPs) with earnings at or above the current level of \$7,100 but below the adjusted level of \$8,250 would be affected.

A summary of the overall impact of the adjustment on (a) total monthly contributions and (b) accrued benefits upon retirement per EE/SEP member is set out in the table below.

EE / SEP monthly earnings	\$7,100 – <\$8,250	<u>Explanatory Note *</u>
No. of EEs covered by MPF schemes (% of total no. of EEs covered by MPF schemes (i.e. 2 569 000))	42 300 (1.6%)	(1)
No. of SEPs covered by MPF schemes (% of total no. of SEPs covered by MPF schemes (i.e. 297 100))	5 000 (1.7%)	(3)
(a) Total monthly contributions		
Decrease in total monthly EE contributions	(\$17 m)	(1)
Decrease in total monthly SEP contributions	(\$2 m)	(3)
Total decrease in monthly contributions	(\$19 m)	
(b) Accrued benefits upon retirement per member		(2)
Decrease in accrued benefits upon retirement per EE member	(\$315,000)	
Decrease in accrued benefits upon retirement per SEP member	(\$318,700)	

*See “Explanatory Notes for Appendices B, C and E” after Appendix E.

Impact of Adjusting the Max RI Level on Employers/Employees/Self-employed Persons with Monthly Earnings >\$30,000
(Increase from \$30,000 to \$48,000 in One Go)

If the Max RI Level is adjusted from \$30,000 to \$48,000, the adjustment would affect employees (EEs) (and their employers (ERs)) and self-employed persons (SEPs) whose earnings exceed \$30,000.

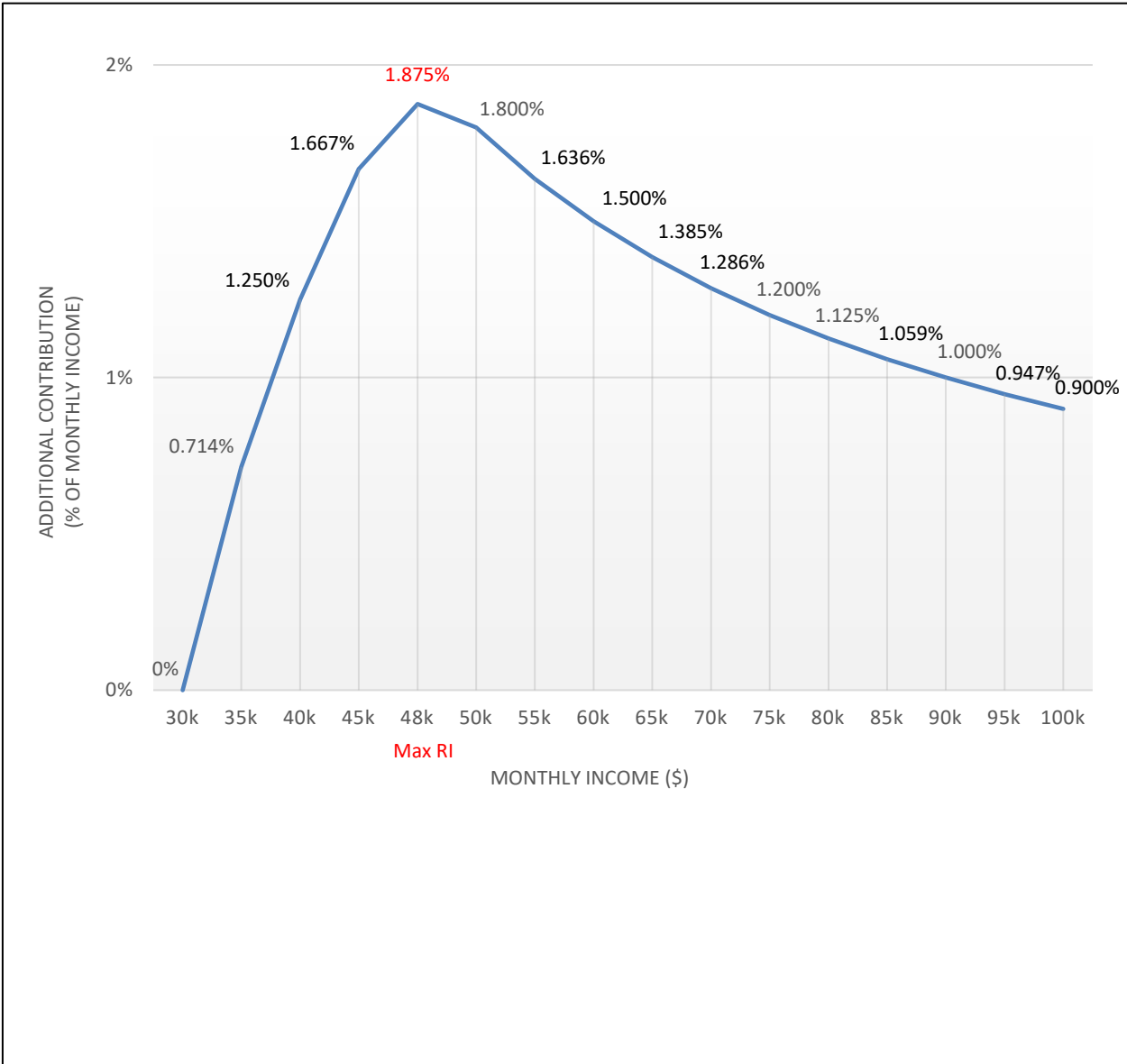
A summary of the overall impact of the adjustment on (a) total monthly contributions and (b) accrued benefits upon retirement per EE/SEP member is set out in the table below.

EE/ SEP monthly earnings	\$30,001 – \$48,000	>\$48,000	>\$30,000	<u>Explanatory</u> <u>Note *</u>
No. of EEs covered by MPF schemes (% of total no. of EEs covered by MPF schemes (i.e. 2 569 000))	266 200 (10.4%)	225 800 (8.8%)	492 000 (19.2%)	(1)
No. of SEPs covered by MPF schemes (% of total no. of SEPs covered by MPF schemes (i.e. 297 100))	34 700 (11.7%)	39 800 (13.4%)	74 500 (25.1%)	(3)
(a) Total monthly contributions				
Increase in total monthly ER contributions	\$107 m	\$203 m	\$309 m	(1)
Increase in total monthly EE contributions	\$107 m	\$203 m	\$309 m	(1)
Increase in total monthly SEP contributions	\$15 m	\$36 m	\$51 m	(3)
Total increase in monthly contributions	\$229 m	\$442 m	\$669 m	
(b) Accrued benefits upon retirement per member				(2)
Increase in accrued benefits upon retirement per EE member	\$320,100	\$721,900	\$504,500	
- ER contributions	\$320,100	\$721,900	\$504,500	
- EE contributions				
Total	\$640,200	\$1,443,800	\$1,009,000	
Increase in accrued benefits upon retirement per SEP member	\$343,300	\$721,900	\$545,500	

*See “Explanatory Notes for Appendices B, C and E” after Appendix E.

Impact of Adjusting Max RI Level from \$30,000 to \$48,000

Additional Monthly Contribution (as % of Monthly Income)



**Impact of Adjusting the Max RI Level on
Employers / Employees with Monthly Earnings >\$30,000
(Increase from \$30,000 to \$48,000 by 2 Phases and by 3 Phases)**

		<u>Explanatory</u>
Employers (ERs) and Employees (EEs)		<u>Note *</u>
No. of EEs covered by MPF schemes	492 000	(1)
(% of total no. of EEs covered by MPF schemes (i.e.2 569 000))	(19.2%)	(1)
Average income	\$58,100	(1)

Table 1: Increase from \$30,000 to \$48,000 by 2 phases				
Phase 1: From \$30,000 to \$39,000 (Effective 1/1/2019)				
Phase 2: From \$39,000 to \$48,000 (Effective 1/1/2021)				
	2019	2020	2021	2022
Additional monthly ER contributions	\$187 m	\$187 m	\$309 m	\$309 m
Additional monthly EE contributions	\$187 m	\$187 m	\$309 m	\$309 m
Increase in accrued benefits upon retirement per EE member	\$961,900			

(1)

(1)

(2)

Table 2: Increase from \$30,000 to \$48,000 by 3 phases				
Phase 1: From \$30,000 to \$36,000 (Effective 1/1/2019)				
Phase 2: From \$36,000 to \$42,000 (Effective 1/1/2020)				
Phase 3: From \$42,000 to \$48,000 (Effective 1/1/2021)				
	2019	2020	2021	2022
Additional monthly ER contributions	\$132 m	\$233 m	\$309 m	\$309 m
Additional monthly EE contributions	\$132 m	\$233 m	\$309 m	\$309 m
Increase in accrued benefits upon retirement per EE member	\$959,300			

(1)

(1)

(2)

*See “Explanatory Notes for Appendices B, C and E” after Appendix E.

**Impact of Adjusting the Max RI Level on
SEPs with Monthly Earnings >\$30,000
(Increase from \$30,000 to \$48,000 by 2 Phases and by 3 Phases)**

SEPs		<u>Explanatory Note *</u>
No. of SEPs covered by MPF schemes	74 500	(3)
(% of total no. of SEPs covered by MPF schemes (i.e.297 100))	(25.1%)	(3)
Average income	\$78,100	(3)

Table 1: Increase from \$30,000 to \$48,000 by 2 phases				
Phase 1: From \$30,000 to \$39,000 (Effective 1/1/2019)				
Phase 2: From \$39,000 to \$48,000 (Effective 1/1/2021)				
	2019	2020	2021	2022
Additional monthly SEP contributions	\$29 m	\$29 m	\$51 m	\$51 m
Increase in accrued benefits upon retirement per SEP member	\$516,800			

Table 2: Increase from \$30,000 to \$48,000 by 3 phases				
Phase 1: From \$30,000 to \$36,000 (Effective 1/1/2019)				
Phase 2: From \$36,000 to \$42,000 (Effective 1/1/2020)				
Phase 3: From \$42,000 to \$48,000 (Effective 1/1/2021)				
	2019	2020	2021	2022
Additional monthly SEP contributions	\$21 m	\$37 m	\$51 m	\$51 m
Increase in accrued benefits upon retirement per SEP member	\$515,600			

*See “Explanatory Notes for Appendices B, C and E” after Appendix E.

Explanatory Notes for Appendices B, C and E

1. The estimation is based on the information obtained from various sources including (1) the Q4 2017 GHS compiled by C&SD; (2) the information on income distribution of teachers covered by Grant/Subsidized Schools Provident Fund and civil servants covered by Civil Service Pension Scheme provided by FSTB in March 2018; (3) the information on income distribution of expatriates and casual employees (except construction and catering sectors) provided by C&SD in October 2013, October 2014 and July 2017; and (4) the December 2017 MPF Schemes Statistical Digest, MPFA. A set of assumptions is adopted in the estimation.
2. The estimation is based on the assumption that the member makes MPF contributions for 30 years and the MPF investment return is 4.8% per annum (i.e. the same rate as the annualized rate of return of MPF since the implementation of the MPF System to 31 December 2017).
3. Q4 2017 GHS compiled by C&SD.

**Comparison of Impact of Adjusting the Max RI Level from \$30,000 to \$48,000
in One Go, by 2 Phases and by 3 Phases**

Table 1: Impact of increasing Max RI Level from \$30,000 to \$48,000 on <u>EEs/ERs</u> with monthly earnings >\$30,000					
	2019	2020	2021	2022	Total
(a) Additional monthly ER contributions					
Increase in one go	\$309 m	\$309 m	\$309 m	\$309 m	\$1,236 m
Increase by 2 phases	\$187 m	\$187 m	\$309 m	\$309 m	\$992 m
Increase by 3 phases	\$132 m	\$233 m	\$309 m	\$309 m	\$983 m
(b) Additional monthly EE contributions					
Increase in one go	\$309 m	\$309 m	\$309 m	\$309 m	\$1,236 m
Increase by 2 phases	\$187 m	\$187 m	\$309 m	\$309 m	\$992 m
Increase by 3 phases	\$132 m	\$233 m	\$309 m	\$309 m	\$983 m
(c) Increase in accrued benefits upon retirement per EE member					
Increase in one go	\$1,009,000				
Increase by 2 phases	\$961,900				
Increase by 3 phases	\$959,300				

Table 2: Impact of increasing Max RI Level from \$30,000 to \$48,000 on <u>SEPs</u> with monthly earnings >\$30,000					
	2019	2020	2021	2022	Total
(a) Additional monthly SEP contributions					
Increase in one go	\$51 m	\$51 m	\$51 m	\$51 m	\$204 m
Increase by 2 phases	\$29 m	\$29 m	\$51 m	\$51 m	\$160 m
Increase by 3 phases	\$21 m	\$37 m	\$51m	\$51 m	\$160 m
(b) Increase in accrued benefits upon retirement per SEP member					
Increase in one go	\$545,500				
Increase by 2 phases	\$516,800				
Increase by 3 phases	\$515,600				

Stakeholder Engagement on Min/Max RI Levels Review

Number of Participants at Briefings and Membership of Stakeholder Groups

	Organizations	No. of participants attending the briefings	Total no. of members
1.	Hong Kong General Chamber of Commerce (HKGCC)	22	4 000
2.	Chinese General Chamber of Commerce (CGCC)	6	6 000
3.	The Chinese Manufacturers' Association of Hong Kong (CMA)	12	3 700
4.	Hong Kong Chinese Enterprises Association (HKCEA)	40	1 000
5.	Employers' Federation of Hong Kong (EFHK)	14	432
6.	Hong Kong Institute of Human Resource Management (HKIHRM)	4	5 400 (including corporate & individual members)
7.	Hong Kong Small & Medium Enterprises Association (HKSMEA)	36	1 400
8.	The Federation of Hong Kong Industries (FHKI)	80	3 000
9.	The Hong Kong Chinese Importers' & Exporters' Association (HKCIEA)	9	4 000 (including corporate & individual members)
10.	Hong Kong Confederation of Trade Unions (CTU)	17	140 000
11.	The Hong Kong Federation of Trade Unions (FTU)	20	420 000
12.	Federation of Hong Kong and Kowloon Labour Unions (FLU)	70	58 000
13.	The Law Society of Hong Kong (LawSo)	9	10 800
14.	Hong Kong Professionals and Senior Executives Association (HKPASEA)	11	730
15.	Hong Kong Medical Association (HKMedA)	3	13 000
16.	Hong Kong Institute of Certified Public Accountants (HKICPA) - Executives	6	42 000
	Hong Kong Institute of Certified Public Accountants (HKICPA) - Members	350	42 000
17.	District Councils (DC) Chairmen and Vice-chairmen	36	480 DC members
18.	MPF Industry Schemes Committee (MPF ISC)	12	12
19.	Bauhinia Foundation Research Centre (BFRC)	20	NA

Summary of Comments Received from Stakeholder Groups, MPF Scheme Members and Employers on Min/Max RI Levels Review

1. MPFA conducted a stakeholder engagement exercise during the period of September 2017 to March 2018.
2. On the implementation arrangement for the proposed Min RI Level of \$7,750 (or \$8,000), the key comments are set out below.
 - (A) Major MPF stakeholder groups
 - (a) Members of the major MPF stakeholder groups who expressed views generally supported that the Min RI Level should be adjusted upwards to lessen the financial burden of the lower income earners. However, they also suggested the following:
 - (i) some members considered that other factors should be considered when adjusting the Min RI Level, e.g. the Statutory Minimum Wage, the basic allowance for individuals for Hong Kong tax purposes, the consumer price index; and
 - (ii) a member of a labour union suggested that the Min RI Level should be increased to \$9,000.
 - (b) Members of some employer associations and labour unions expressed the view that the Government should make contributions for lower income earners as they were not required to make their own share of contribution which would enhance their retirement protection.
 - (B) MPF scheme members and employers
 - (a) A few employees suggested that the Min RI Level should be linked with the Statutory Minimum Wage while a few other employees considered that the proposed Min RI Level too low.
 - (b) Some public members and some employees considered that low income earners should be spared from making MPF contributions.
3. On the implementation arrangement for increasing the Max RI Level from \$30,000 to \$45,000 via one-off adjustment, by two phases or by three phases, the key comments are set out below.

(A) Major MPF stakeholder groups

- (a) Overall speaking, views received so far seemed to suggest that the increment of \$15,000 was too drastic and a three-phased approach would be preferred.
- (i) Most of the business chambers, employer associations and an HR body had some members expressing the views that the increment of \$15,000 was too drastic. Members of a labour union and the employer representatives of the MPF Industry Schemes Committee expressed similar views.
 - (ii) A few business chambers, employer associations and an HR body had some members expressing the views that a three-phased adjustment would be preferred if the Max RI Level must be fully adjusted to \$45,000. A labour union and both the employer and employee representatives of the MPF Industry Schemes Committee expressed similar views.
 - (iii) Some members of one employer association and two professional bodies preferred a two-phased adjustment.
 - (iv) Only one labour union had some members who preferred to implement the adjustment in one go.
- (b) Other comments were also expressed.
- (i) The current statutory factor for the Max RI Level of 90th Percentile Earnings should be reviewed or lowered (e.g. to 75th Percentile Earnings provided the benchmark would not fall below the current Max RI Level of \$30,000¹).
 - (ii) Other factors such as the inflation rate, widening wealth gap, increasing business costs, the affordability of employers (particularly SMEs and employers with more high-income employees) should also be considered in setting the Max RI Level.
 - (iii) A number of the business chambers, employer associations and an HR body expressed views that this would not be a suitable time to increase the Max RI Level (and hence employers' contribution burden) given the additional costs resulting from the

¹ Based on the statistics compiled by C&SD for the period from December 2017 to February 2018, the 75th Percentile Earnings stand at \$28,000.

(possible) implementation of different Government policies such as SMW, standard working hours, and the abolition of offsetting arrangements. An employer association suggested that the implementation should be delayed for two years while a member of another employer association suggested a delay period of 4 years.

- (iv) A number of the business chambers, employer associations and an HR body and the employer representatives of ISC expressed the view that some employees might not want to contribute more due to, for example, other financial commitments and the shortcomings of the MPF System, like high fees. That said, only one labour union and a member of a think tank expressed similar views.

(B) MPF scheme members and employers²

- (a) About 49% of the respondents indicated preference for implementing the proposed increase of the Max RI Level in one go. These 49% respondents include both employers and scheme members. The other respondents indicated support for a two-phased approach (about 30%) and a three-phased approach (about 19%). The remaining 2% respondents held other views or opposed the proposed increase in the Max RI Level.
 - (i) The respondents who indicated support for a one-off increase were of the view that a one-off increase would be easier and more convenient to implement, thus saving administration costs and minimizing the occurrence of calculation errors.
 - (ii) Those in support of a two-phased approach or a three-phase approach mainly responded based on the consideration that a gradual increase in the Max RI Level could minimize impact on the contribution burden of employers and employees who could thus adapt to the change better. A gradual increase in the Max RI Level should be more acceptable to employers and employees.
 - (iii) The remaining 2% respondents considered that:

² See Appendix I for more details.

- the proposed increase from \$30,000 to \$45,000 was too drastic. Rather, the Max RI Level should be increased in line with the inflation rate;
- their pay rise rate could not catch up with this proposed rate of increase of the Max RI Level of 50%;
- they were already facing a heavy financial burden (e.g. mortgage payments, high living costs);
- high-income earners can arrange their own investments and hence there is no need to increase the Max RI Level to make them contribute more; and
- the MPF System with high fees, poor investment returns should be abolished.

Statistical Summary of Questionnaires Received from MPF Scheme Members and Employers on Min/Max RI Levels Review

Table 1: Distribution of types of questionnaire respondents

Types of questionnaire respondents	Total no. of persons
Civil Servants	836 (42.48%)
Scheme Members	881 (44.77%)
General Public	174 (8.84%)
Employer Representatives of Small & Medium Enterprises (SMEs)	77 (3.91%)
TOTAL	1 968 (100%)

Table 2: Comparison of preference of adjusting proposed Max RI Level to \$45,000 in one go, by two phases and three phases by types of questionnaire respondents

Types of questionnaire respondents	Adjustment of Max RI Level			Other comments / objection	Total no. of respondents
	In one go	By two phases	By three phases		
Civil Servants	402 (48.09%)	240 (28.71%)	176 (21.05%)	18 (2.15%)	836 (100%)
Scheme Members	439 (49.83%)	268 (30.42%)	150 (17.03%)	24 (2.72%)	881 (100%)
General Public	82 (47.13%)	56 (32.18%)	34 (19.54%)	2 (1.15%)	174 (100%)
Employer Representatives of SMEs	34 (44.16%)	28 (36.36%)	15 (19.48%)	0 (0%)	77 (100%)
TOTAL	957 (48.63%)	592 (30.08%)	375 (19.05%)	44 (2.24%)	1 968 (100%)