



Designing a Private Pension System that Complements the Public Pension System

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MPF - Basic Design Elements

Mandatory Provident Fund Schemes (Hong Kong)

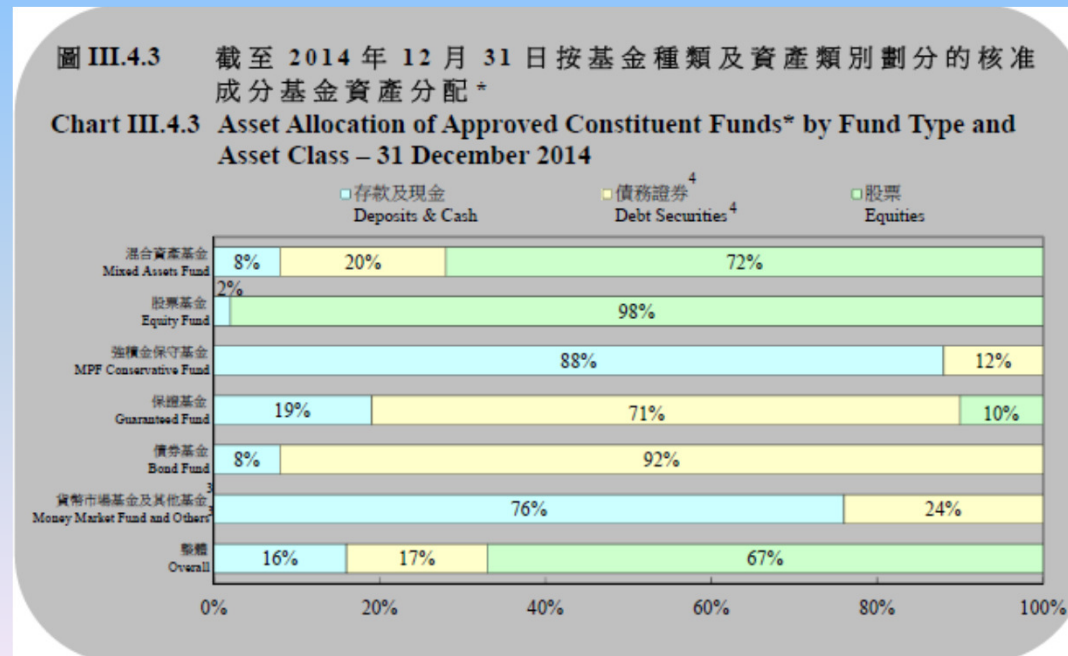
- ▶ Established 2000. Current a.u.m. US\$77B
- ▶ **Mandatory** for employees and self employed
- ▶ Employed person covered by MPF or alternate
 - Pre 2000 - 30% 2015 - 90%
- ▶ Enrolment rates
 - ER 100% EE 100% SEP 68%
- ▶ Contributions 5% ER + 5% EE
- ▶ DC - fully vested in member
- ▶ 70% of benefits fully portable within system



MPF - Basic Design Elements

Mandatory Provident Fund Schemes (Hong Kong)

- ▶ Investment – ER choose scheme (38 master trusts)
- ▶ EE has choice of investment fund
- ▶ Annualized return Dec 2000 – March 2015 6.4%





MPF - Basic Design Elements

Mandatory Provident Fund Schemes (Hong Kong)

Design Stress Points

- ▶ Coverage good - but mandatory not popular
- ▶ Adequacy – vis-à-vis government provision
- ▶ Leakage – labour related payments
- ▶ “High fees & low returns”
- ▶ Administration costs and efficiency
- ▶ Choice complexity for members



Design issues – Default investments

- Existing defaults unregulated, vary scheme to scheme
- Risks and returns vary materially
- Moving to standardized default investment strategy across all schemes
- Same structure, investment approach
- DIS to reduce risk as member approaches 65
- Fee cap 0.75% AUM p.a.
- Investment performance and asset allocation to be benchmarked against an agreed industry standard

Design Issues – Default Investments

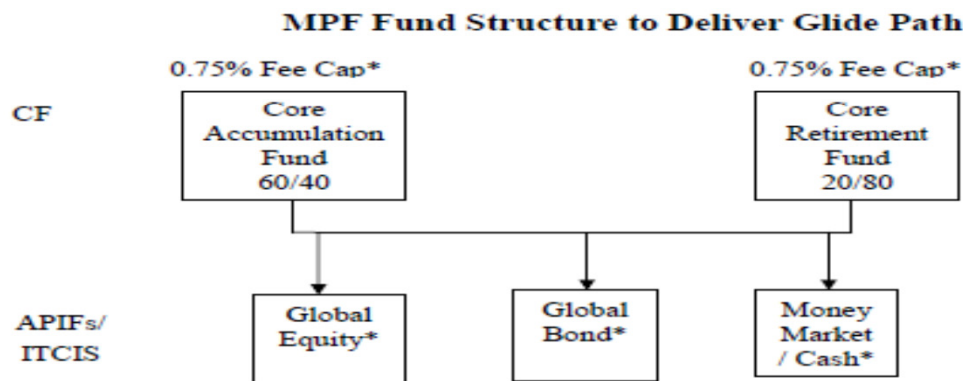
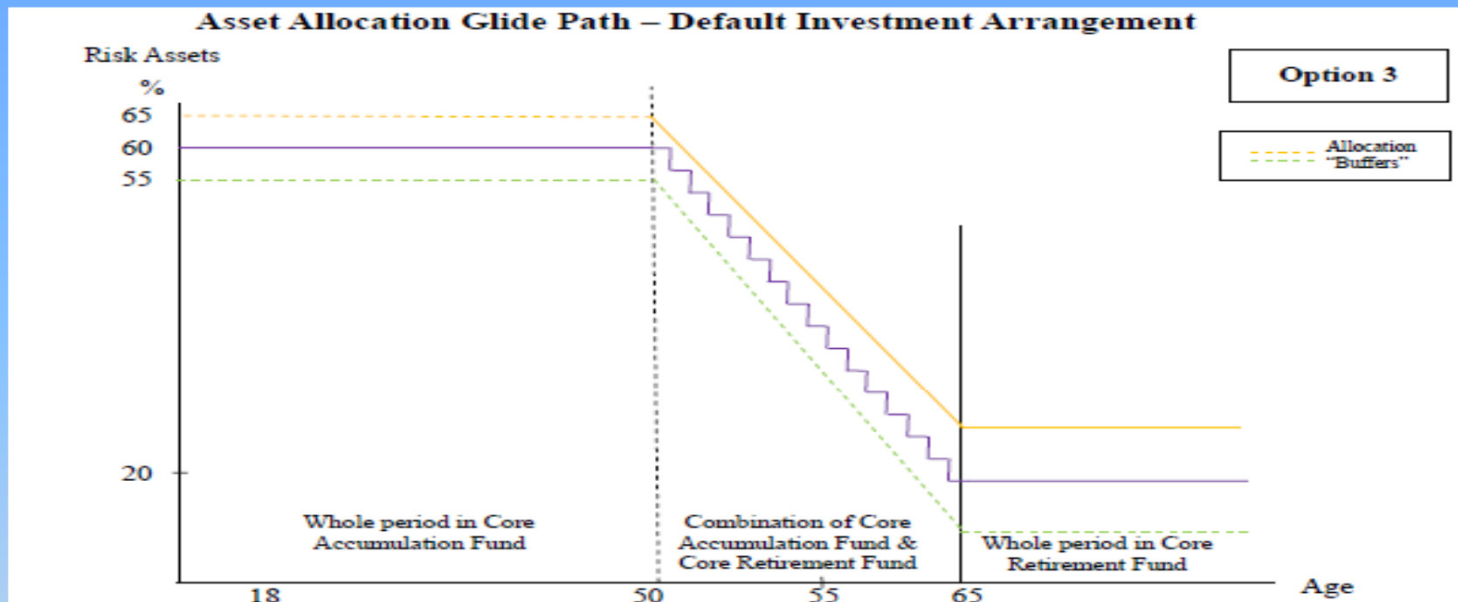
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Investment Approach

- ▶ Balanced approach 50-60% average equity exposure preferred
- ▶ Start at 60% equity exposure
- ▶ Risk reduction over time to manage equity “shocks”
- ▶ Risk reduction from age 50 to 65
- ▶ Terminal equity exposure 20%
- ▶ Life – cycle rather than target date approach

Design Issues – Default Investments (cont'd)



* Fee cap applies in total across layers



Way Forward

- Legislative amendments to be introduced 2015
- Target date for launch of the default investment strategy: end 2016



Q&A