

Regulatory Framework Hong Kong Experience

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Agenda

- *Introduction*
- *Main Features of ORSO*
- *Main Features of MPF*
- *Operating ORSO and MPF together*
- *Statistics & Trend*



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Introduction



Introduction

Retirement Issues of Hong Kong

- *Very low fertility*
- *Favorable life expectancy*
- *Deteriorating dependency ratio*
- *Change in employment patterns – mobile workforce*
- *Minimal social security, no explicit sickness or unemployment benefits*
- *Existing social security for retirees – old age allowance with no mean test and comprehensive social security assistance scheme (CSSAS) with mean test.*



Introduction

Sources of Post-Retirement Income

- *Savings/Family Support*
 - *Personal Savings*
 - *Financial Supports from children/family members*
- *Employment/Social Security Benefits*
 - *Long Service Payment/Severance Payment*
 - *Old age allowance/CSSAS*
- *Employer Sponsored Retirement/Pension Scheme*
 - *Schemes operates under Occupational Retirement Schemes Ordinance - voluntary*
 - *Mandatory Provident Fund (MPF) Schemes – compulsory*



Introduction

Historic Reference

- *Occupational Retirement Schemes Ordinance (ORSO) implemented as at 15 October 1993*
- *Enactment of Mandatory Provident Fund (MPF) Schemes Ordinance in August 1995*
- *Mandatory Provident Fund Schemes Authority (MPFA) was established in September 1998*
- *With effect from 10 January 2000, MPFA take over the role in administering ORSO*
- *ORSO schemes applied to MPFA to become MPF exempted ORSO scheme*
- *MPF System became effective 1 December 2000*



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Main Features of ORSO



Main Features of ORSO

Aim

- *To regulate the retirement scheme industry*
- *To ensure all voluntarily established retirement schemes are properly administered and funded*
- *To separate scheme assets from company's offer*
- *To provide greater certainty that the promised benefit will be paid to employees*



Main Features of ORSO *MPF Exemption*

- *All ORSO schemes applied for MPF exemption before 1 Dec 2000*
- *MPF exemption allows ORSO Schemes to continue operating but with a number of changes.*
- *Different rules apply to members who joined the MPF exempted ORSO Scheme before and after 1 December 2000*
- *Without MPF exemption, ORSO can still operate*



Main Features of ORSO Registration

- *All schemes operated in and from Hong Kong, including offshore schemes, need to be registered*
- *Offshore schemes registered and approved by an overseas authority are exempted*
- *Schemes with not more than either 10% or 50 of scheme's members with Hong Kong permanent ID card are also exempted*



Main Features of ORSO

Registration

- *Employers who operate retirement scheme need to apply for registration or exemption for the schemes within 3 months after entering a contact with employees for setting up the scheme*
- *Schemes have to meet certain criteria and conditions under ORSO in order to be registered*



Main Features of ORSO Registration

- *All schemes must have provision prohibiting the terms of the scheme to be altered to reduce the accrued rights or vested benefits unless such an alteration is consented by not less than 90% of the members of the scheme*



Main Features of ORSO

Scheme Types

- *Mainly two type of schemes*
 - *defined benefit schemes*
 - *defined contribution schemes*
 - *benefit features decided by the employers*
- *Types of Arrangement*
 - *governed by trust*
 - *insurance contract : pooling agreement*



Main Features of ORSO

Main Requirements

- ***Trusteeship Requirements***

- *if governed by a trust, should have at least 1 independent trustee, unless using a corporate trust*

- ***Investment Requirements***

- *loan to employer is prohibited;*
- *not more than 10% assets invested in restricted investments*
- *not more than 15% invested in share capital of one corporate*



Main Features of ORSO

Main Requirements

- ***Funding Requirements (defined benefit schemes)***
 - *assets should be sufficient to meet aggregate vested liability*
 - *should be funded according to recommendations in the actuarial certificate (PS2 of ASHK)*
 - *shortfall between assets and past service liability should be made good over an agreed period*
- ***Independent Audit and Actuarial Review***
 - *actuarial review of defined benefit schemes should be conducted by an actuary triennially (PS2 of ASHK)*
 - *annual audit required*



Main Features of ORSO

Main Requirements

- ***Disclosure of Information***
 - *provide an annual statement to each employee of the scheme*
 - *inform members of any amendments to the scheme*
- ***Submission of annual return to MPFA by trustee***
 - *within 6 months after the end of financial year*
 - *file an annual return by completing the specified form*
 - *file a copy of financial statement with the auditor's report*



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Main Features of MPF



Main Features of MPF

Coverage

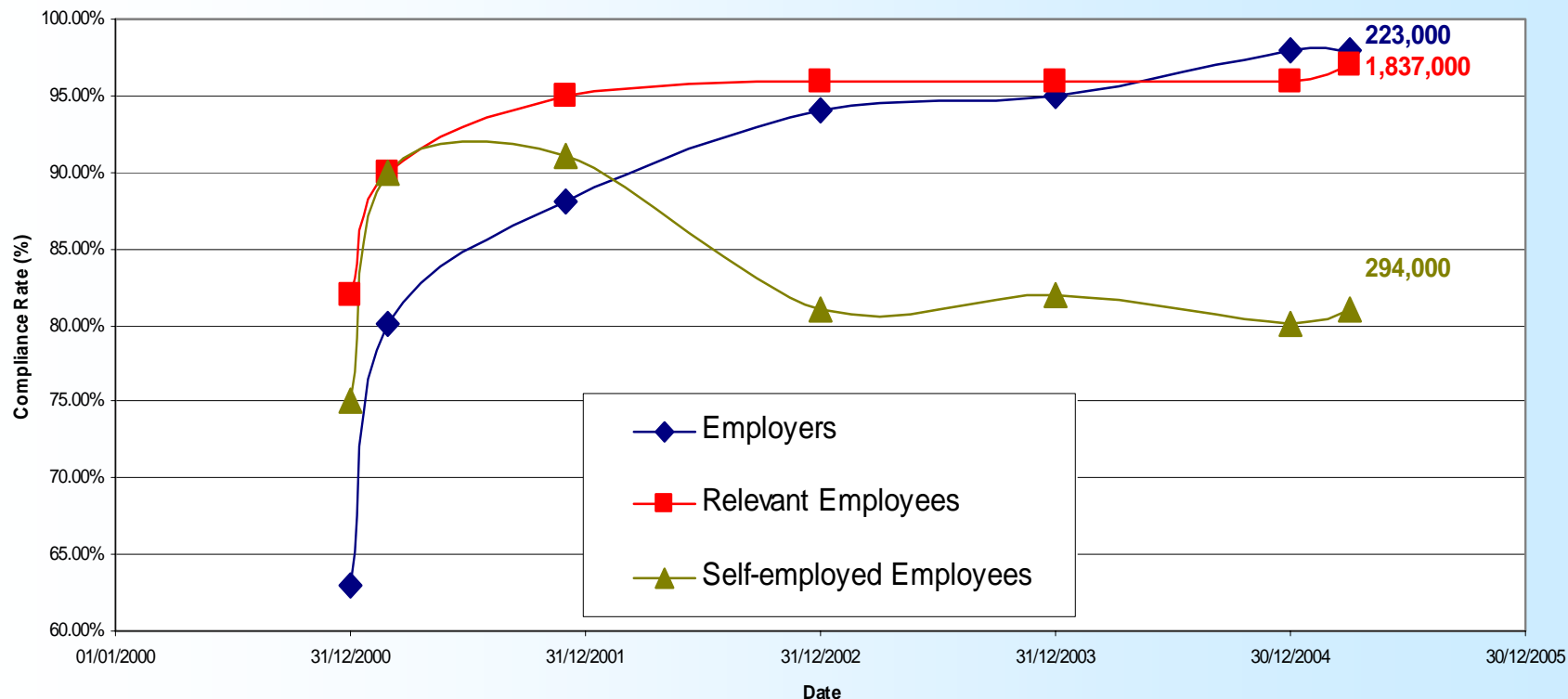
- *All employees, both permanent and part time, between 18 and 65 must join an MPF Scheme within 60 days after employment*
- *Self-employed people*
- *Exemptions*
 - *domestic workers & hawkers*
 - *those covered by MPF exempted ORSO schemes*
 - *expatriates working for not more than 12 months, or covered by overseas retirement schemes*



Main Features of MPF

MPF Compliance Rate

Compliance Rates of MPF Scheme in Hong Kong



(Source : Mandatory Provident Fund Schemes Authority of Hong



Main Features of MPF *Monthly Contributions*

- *Employer – 5% of Relevant Income*
- *Employee – 5% of Relevant Income*
- *Maximum relevant income : HK\$20,000 p.m.*
- *If relevant income is less than HK\$5,000 per month, only employer contributions are required.*
- *Voluntary Contributions are allowed.*



Main Features of MPF

Benefits

- *Immediate fully vested*
- *Portable*
- *Preserved under MPF system until :*
 - *Age 65*
 - *Early retirement from age 60 subject to declaration*
 - *Death/disability*
 - *Permanent departure from Hong Kong*



Main Features of MPF

Type of Schemes

- *47 Schemes at 31 March 2005*
- *Master Trust Schemes - 43*
- *Industry Schemes - 2*
- *Employer Sponsored Schemes - 2*



Main Features of MPF *Service Providers*

- *Approved Trustee (currently 19)*
 - *required to have share capital of at least HK\$150m and assets of HK\$15m*
 - *with share capital of at least HK\$30m and assets of HK\$15m, if a subsidiary of a substantial finance institution*



Main Features of MPF

Service Providers

- ***Custodian***

- *could be an authorized financial institution, a registered trust company, an approved overseas bank or an authorized insurer.*
- *different sets of capital requirement applies to each type of company.*

- ***Administrator***

- *usually will be the trust company or insurer*



Main Features of MPF

Service Providers

- ***Investment Manager***

- *must be registered with the Securities and Futures Commission of Hong Kong*
- *must be a local incorporated investment management company with at least HK\$10million paid up capital and net assets of at least the same amount*



Main Features of MPF *Investment Requirements*

- *Must have Capital Preservation Fund (CPF)*
 - *Required by law*
 - *Low investment risk product*
 - *Provide net investment return comparable to bank saving rates*
 - *Restriction on administrative expenses*



Main Features of MPF

Investment Requirements

- *Permissible Investments*
 - *Shares on recognized stock exchanges*
 - *Investment grade debt securities*
 - *Derivatives for hedging purpose only*
 - *Min 30% in exposure of HK currency*
 - *Not more than 10% in investment issued by the same corporation*
 - *Avoid over concentration*



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Operating ORSO and MPF Together



Operating ORSO and MPF Together

- *For members joined the MPF-exempted ORSO scheme on or before 1 December 2000, status quo retained*
- *For members joined the MPF exempted ORSO scheme after 1 December 2000, a portion of benefit is required to be preserved under the MPF system which will be calculated based on a fixed formula*



Operating ORSO and MPF Together

- *If employers offer an MPF-exempted ORSO scheme to new employees, they must also offer an MPF scheme as a choice. Employees can choose which scheme to join*
- *If employers offer a non MPF exempted ORSO scheme to new employees, employees must also be enrolled into an MPF scheme*



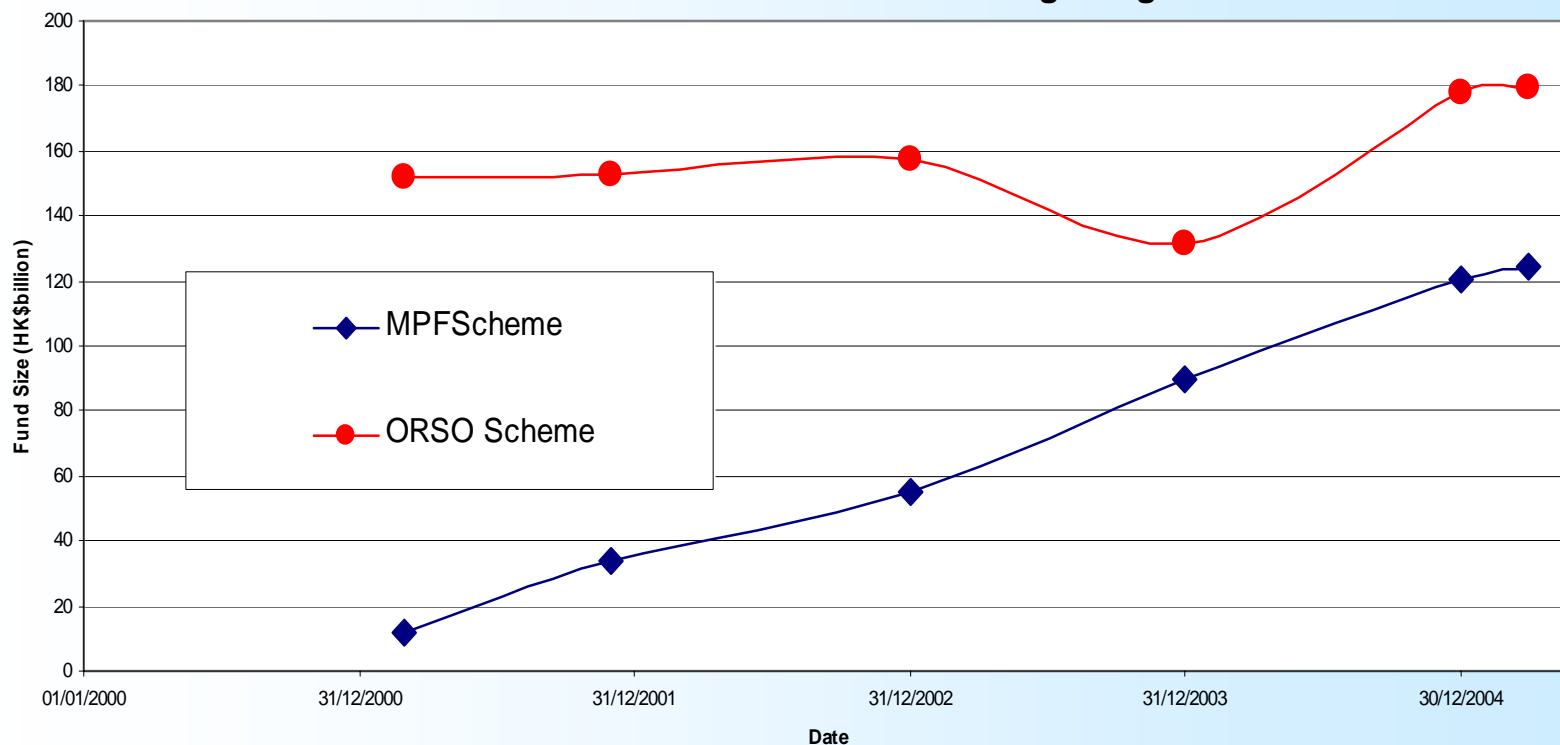
Operating ORSO and MPF Together

- *Employee contributions to both ORSO and MPF schemes are tax deductible, subject to a maximum amount of HK\$12,000 per year.*
- *Employer contributions to both ORSO and MPF schemes are also tax deductible, provided that the deduction is less than 15.0% of employees' emolument.*



Operating ORSO and MPF Together

Development of Fund Assets of
MPF and ORSO Schemes in Hong Kong



(Source : Mandatory Provident Fund Schemes Authority of Hong Kong)



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Statistics & Trends



Statistics – As at 31 March 2005

	<i>MPF Universe</i>	<i>Employed Population</i>
<i>Employers</i>	228,000	
<i>Employees</i>	2,313,000 <i>(including self-employed)</i>	3,330,000

	<i>MPF</i>	<i>ORSO</i>
<i>Participating Employers</i>	224,000	9,126
<i>Enrolled Employees</i>	2,181,000 <i>(including self-employed)</i>	558,000
<i>Asset Sizes</i>	<i>HK\$124billion</i> <i>(US\$16billion)</i>	<i>HK\$179billion</i> <i>(US\$23billion)</i>

(Source : Mandatory Provident Fund Schemes Authority of Hong Kong)



Trends

● *Market*

- *More consolidation in the market*
- *Number of ORSO schemes is decreasing but not expected to be all ceased*
- *More fund choices as employees become more sophisticated and familiar with investments*
- *More investment products evolve around MPF schemes.*
- *Annuity ?*



Trends

● *Regulations*

- *More disclosures required for MPF schemes*
- *Standardized methods in preparing, calculating and presenting information to members of MPF schemes.*
- *Further review of contribution levels.*