

# MPF - Major changes on the way

watsonwyatt.com

On 17 July 2009, the Mandatory Provident Fund Schemes (Amendment) Ordinance 2009 (the “Ordinance”) was gazetted after it was passed by the Legislative Council (“LegCo”) following its third reading.

The purpose of the Ordinance is to promote greater market competition among MPF providers, and to encourage employees to take a more active interest in their MPF investments. The Ordinance will allow employees to transfer the balance in their mandatory employee contribution accounts held in their current employers’ MPF schemes to another MPF scheme of their choice. The Ordinance is expected to be implemented in around 18 months.

## HIGHLIGHTS FROM THE ORDINANCE

Whilst much of the details regarding the transfer arrangements will need to be worked out by the MPF Authority in the next year or so, the following are some highlights from the Ordinance:

- The Ordinance requires that MPF schemes must allow members to transfer their mandatory employee contribution balances held in respect of their current employment to another MPF scheme. Note that this relaxation does not permit employees to transfer their accrued mandatory employer balances.
- Employees must be provided at least one transfer opportunity each year.
- No administration fees can be charged by the transferring or by the receiving MPF schemes. Only “necessary” transaction costs involved in buying / selling investment units may be recovered.
- The current Preserved Account will be renamed Personal Account.
- A register of Personal Accounts will be established.

## HOW WILL THE CHANGES AFFECT EMPLOYERS?

Allowing employees to transfer their mandatory employee contribution balances to another MPF scheme of their choice will have no direct administrative impact on employers, as transfers will be handled directly between members and service providers.

However, there are a few issues that will need to be considered:

- Although employees may welcome the transfer option, there is a risk that they may make selections

based on inadequate knowledge, especially regarding the merits of different providers and their underlying investment products.

- Employees may lack access to objective and independent advice and be unduly influenced by MPF providers’ marketing campaigns. In this regard, it is unclear if the MPF Authority will monitor the regulation and conduct of MPF providers given the changing landscape.
- It is unlikely that employees will have the resources to monitor the appropriateness of their selected provider and funds over time.
- Employees may exhibit ‘chasing the market,’ behaviour patterns, switching balances and providers based purely on the short term investment track record of providers.
- Employees are likely to ask questions of their employers about the merits of their employers’ choice of MPF scheme.

Whilst the Ordinance provides employees with new flexibility for which employees are ultimately responsible, it is likely that some employees will turn to their employer for guidance when deciding between an employer’s MPF or an alternative.

Employers will therefore need to be prepared, and consider in advance how they respond, including the extent to which they want to become involved. Many companies will not want to provide individual financial advice to employees, but may want to provide some generic information to assist.

Employers should therefore review and/or monitor their selected MPF provider in order to be able communicate appropriately to their employees regarding their choice.

## WHAT SHOULD EMPLOYERS DO?

With MPF arrangements having been in existence for nine years now, and with the changes introduced by the Ordinance on the horizon, we believe that it is an opportune time for employers to initiate a review of their existing MPF arrangements.

Some broad areas that employers may want to review include the following:

- Level of knowledge and understanding amongst the members
- MPF product details and contract terms
- Investment capabilities and performance
- Services offered to the employer and members and their quality
- Quality and sufficiency of administration support

Assessment of these and other measures will help the employer to identify whether the current MPF arrangement is meeting or exceeding the employer's and members' initial and ongoing expectations.

## HOW WATSON WYATT CAN HELP

Watson Wyatt has extensive knowledge of the MPF market as well as the pensions / benefits market more generally. We have been monitoring the development of MPF arrangements since their inception and, as such, we are in an excellent position to assist employers in assessing their own MPF arrangements in the context of the external market.

For example:

- we issue a quarterly MPF performance survey;
- we have an on-the-ground investment manager research team who regularly meet and assess managers, and issue Manager Watch reports;
- we conduct site-visits to major service providers to understand their services and administration capabilities;
- we conduct many MPF provider selection exercises each year;
- we assist clients with investment education seminars.

Watson Wyatt is also best placed to assist with employee opinion surveys; scheme benchmarking; scheme design work; establishment of an ongoing governance framework, and other elements of post selection work such as scheme implementation and member communications.

## FURTHER DISCUSSION

If you have any questions, please contact your usual Watson Wyatt consultant, or

*Elaine Hwang*  
Head of Retirement Benefits Practice, Hong Kong  
2820-9923 or [elaine.hwang@watsonwyatt.com](mailto:elaine.hwang@watsonwyatt.com)

*Philip Tso*  
Head of Investment Consulting Practice, Hong Kong  
2820-9932 or [philip.tso@watsonwyatt.com](mailto:philip.tso@watsonwyatt.com)

## ABOUT WATSON WYATT WORLDWIDE

Watson Wyatt is the trusted business partner to the world's leading organizations on people and financial issues.

Our client relationships, many spanning decades, define who we are. They are shaped by a deep understanding of our clients' needs, a collaborative working style and a firm-wide commitment to service excellence.

Our consultants bring fresh thinking to client issues, along with the experience and research to know what really works. They deliver practical, evidence-based solutions that are tailored to your organization's culture and goals.

With 7,700 associates in 33 countries, our global services include:

- Managing the cost and effectiveness of employee benefit programs
- Developing attraction, retention and reward strategies that help create competitive advantage
- Advising pension plan sponsors and other institutions on optimal investment strategies
- Providing strategic and financial advice to insurance and financial services companies
- Delivering related technology, outsourcing and data services