Celebrating the 25th anniversary of Hong Kong's MPF System

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1 Executive Summary

2025 marks the 25th anniversary of Hong Kong's Mandatory Provident Fund (MPF) System. The Pension Schemes Association (PSA) and Ernst & Young Advisory Services Limited (EY) are taking this opportunity to review the achievements and challenges the MPF System, has encountered, interviewing scheme members on their actual experience over these 25 years, and gather their thoughts on how it could be further enhanced.

Since its inception in 2000, Hong Kong's Mandatory Provident Fund (MPF) has grown into a cornerstone of Hong Kong's retirement framework, increasing retirement protection from just one third of the total employed workforce when it began, to achieving a near-universal coverage of Hong Kong's employed population, accumulating over HK$1.5 trillion[1] in assets. It has significantly improved retirement readiness, reduced elderly poverty, and contributed to the development of Hong Kong's financial markets.

Despite these successes, there are still opportunities for the MPF System to improve, including a regular review of the mandatory contribution rates, facilitate product innovation and product development, encourage additional contributions to improve adequacy, provide education to targeted groups, etc.

Comparisons with international pension systems highlight both the common features and unique characteristics of Hong Kong's pension framework, reflecting its distinctive approach to meeting the retirement needs of its members.

The paper also explores the transformative potential of digitalisation and artificial intelligence (AI), including the rollout of the eMPF Platform and the integration of robo-advisors. These innovations aim to improve user experience, reduce administrative costs, and empower scheme members with personalised financial planning tools.

Looking ahead, this paper calls for a collective effort from key stakeholders: scheme members should take a more active role in managing their MPF portfolios; MPF providers can further educate their scheme members; while policymakers could encourage the increase in savings. Together, these actions can ensure the MPF System remains robust, inclusive, and sustainable for future generations.

1: MPFA website article : "Total MPF assets surpassed $1.5 trillion"

Key achievements in the past 25 years

Reduced social welfare burden

Before the MPF, only about one-third of the workforce had retirement protection. Now, nearly all employed individuals are covered.

Boosted asset growth

Total MPF assets have grown to over HK$1.5[1] trillion (as of September 2025), providing a substantial retirement nest egg for Hong Kong.

Fostered a savings culture

The MPF has made retirement savings a mandatory practice for millions, encouraging long-term financial planning.

Reduced old-age poverty

The Government and MPFA have continually enhanced the MPF System through regulatory improvements and investment options to maximise risk-adjusted returns for future

Voluntary contributions

The introduction of Tax-Deductible Voluntary Contributions (TVC) encourages additional savings for a more secure retirement.

Timeline of key events:

- **2000: MPF launch**
- **2012: Employee Choice Arrangement (ECA)**
- **2017: Default Investment Strategy (DIS)**
- **2019: Tax-Deductible Voluntary Contributions (TVC)**
- **2024: eMPF Platform rollout**
- **2025: Abolition of MPF offsetting arrangement**

Note: timeline not to scale

2 Hong Kong's MPF journey

Since its introduction in December 2000, the Mandatory Provident Fund (MPF) System has played a crucial role in reshaping retirement planning for Hong Kong's workforce.

As the city's first and only compulsory retirement savings system, the MPF has delivered a number of benefits such as enhanced social financial security, improved retirement readiness and greater long-term stability for Hong Kong's asset and wealth management industry.

2.1 Achievements of the MPF System since 2000

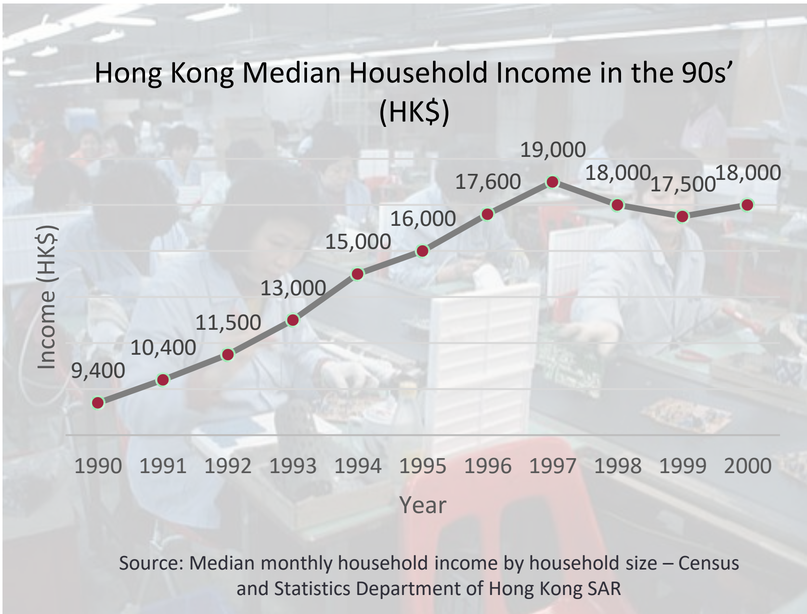
Before the MPF System was introduced, many Hong Kong workers relied on personal savings, family support or government social welfare for their retirement.

As Hong Kong experienced rapid economic growth during 1990s, household income double over a 7-year period from 1990 to 1997. The investment market was also blooming during this period with main investments vehicles being:

Stock market

Property investment

Cash savings



Despite the soaring prosperity in the 1990s, the Asian financial crisis in 1997 tested the city's resilience like never before.

With an average household savings ratio of 30%[1], planning for retirement protection (or the idea of it) was often lacking. Low- and middle-income earners in particular faced challenges due to high inflations (5 - 9%)[2]. Maintaining a consistent standard of living was not easy, leaving little room to plan for retirement protection.

The MPF was introduced in December 2000 and has been transformative for those who previously lacked planning for retirement protection and relied on government's social welfare system.

Source: 1. Census and Statistics Department – The Government of Hong Kong SAR
2. The Hong Kong Council of Social Service - https://www.socialindicators.org.hk/en/indicators/economy/11.3

Key retirement issues in Hong Kong before MPF was introduced

1

More than a quarter of elderly (65+) did not receive adequate income security from the current retirement system and some were even unable to meet their basic living needs.

Poverty ratio for the elderly was **40.1%** in 2006, meaning two in every five elderly were classified as extremely low income

More than **40%** of elderly had income below social security level

Close to **90%** of elderly scavengers (60+) said they did it for a living

The proportion of residents aged 65 and above in Hong Kong has increased from 10.0% in 1996 to **12.1%** in 2006

The number of elderly people receiving social welfare increased from 97,000 in 1996 (accounting for 11.7% of the population aged 60 or above) to 188,000 in 2006 (accounting for **17.1%**)

The cost of social welfare for the elderly increased from $3.6 billion in 1996 to **$8.3 billion** in 2006

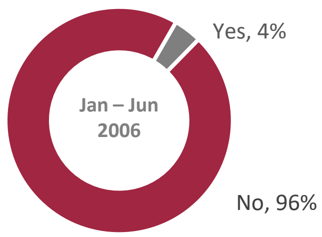
2

The number of elderly people receiving financial assistance from social welfare continued to rise, placing increasing financial pressure on the government.

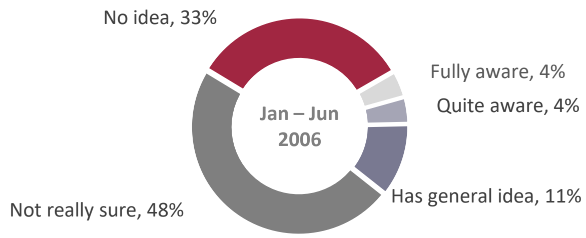
Source: Policy (April 2008 edition), The Hong Kong Council of Social Services

A study in the mid-2000s indicated that there was generally a lack of planning for retirement protection during that time.

Has a specific retirement plan been defined (for Non-retired citizens)?



Are you aware of how much savings is required to maintain your expected lifestyle after retirement?



Source: Policy (April 2008 edition), The Hong Kong Council of Social Services

The MPF System setup in Hong Kong is in line with The World Bank's Pension Conceptual Framework and has undeniably elevated Hong Kong's retirement landscape. Yet, the System must evolve to ensure long-term sustainability.

According to OECD reports[1], the replacement rates—defined as the percentage of pre-retirement income replaced by retirement benefits—are lower compared to jurisdictions such as Singapore and Australia. Additionally, the population ageing is expected to continue. The number of elderly persons aged 65 and above is projected to nearly double over the 25-year period to 2046 and the corresponding proportion of the population is projected to increase from 20.5% to 36.0%, meaning more than one in every three Hong Kong people will be an elderly[2].

As debates continue, one thing is clear: while the MPF has laid a solid foundation and provides clear benefits—including tax advantages and reducing old-age poverty—its full potential has yet to be realised. Ongoing reform and innovation will be crucial to ensure the system remains robust, inclusive and sustainable amid evolving socioeconomic challenges.

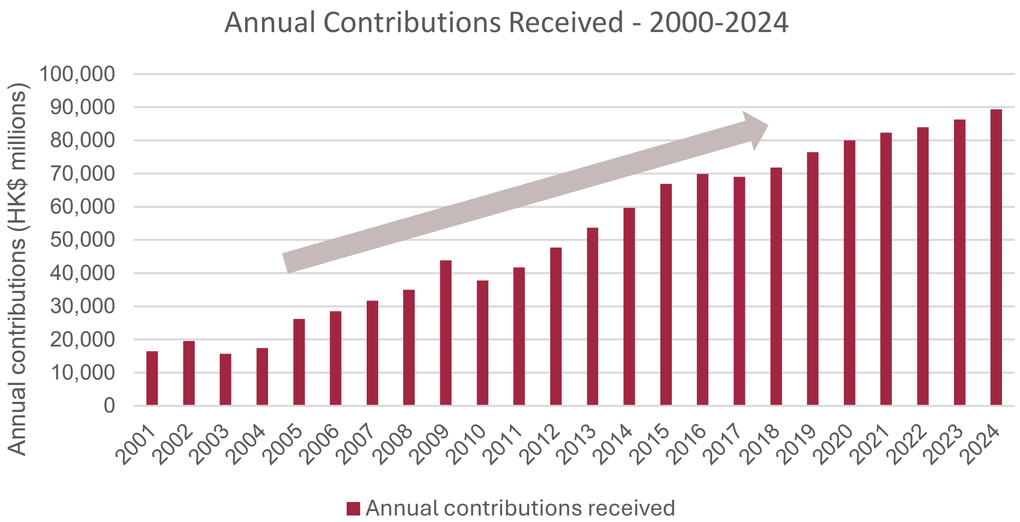
1. Organisation for Economic Co-operation and Development (OECD). (2024). Pensions at a Glance Asia/Pacific 2024. OECD Publishing. Retrieved from https://www.oecd.org/en/publications/pensions-at-a-glance-asia-pacific-2024_d4146d12-en.html
2. Census and Statistics Department, Hong Kong SAR. (2023, August). Hong Kong population projections for 2022–2046 released. Retrieved from https://www.censtatd.gov.hk/en/press_release_detail.html?id=5368

2.2 How the MPF System has transformed Hong Kong's retirement and financial landscape

Since its introduction, the MPF System has addressed the city's retirement savings gap, drove financial market growth and strengthened retirement readiness. By providing this structured savings mechanism, fostering financial innovation and improving retirement adequacy, the MPF has reshaped Hong Kong's socio-economic fabric.

Addressing the retirement savings gap

Before the MPF system, Hong Kong faced a significant retirement savings gap, with only one-third of the workforce covered by any form of retirement protections. The MPF mandated contributions from both employees (5% of income) and employers (also 5%), subject to the Minimum and Maximum Relevant Income level, creating a structured savings mechanism. Self-employed persons should make mandatory contribution of 5% of income. In addition, employees and self-employed persons and employers may choose to make voluntary contributions on top of their mandatory contributions.



Source: https://www.mpfa.org.hk/en/info-centre/research-reports/quarterly-reports/mpf-schemes

Over the past two decades, the System has accumulated over HK$1.5 trillion* in assets, providing a financial cushion for retirees. It has expanded the coverage to nearly the entire working population, providing a structured savings mechanism for employees and self-employed persons.

* Source: MPFA website article : "Total MPF assets surpassed $1.5 trillion"

Evolvement of the MPF System

The MPF has also influenced Hong Kong's labour market. With employers required to contribute since the introduction of MPF System, they had to adjust payroll structures. Some small businesses argued that the additional cost had strained operations, while others saw it as a necessary investment in employee welfare.

Additionally, retirement savings under MPF accounts are portable, which improves job mobility. Workers can preserve their accrued benefits via MPF personal accounts – a significant improvement from the pre-MPF era.

Recent reforms, such as the abolition of MPF offsetting arrangement[1], aim to enhance retirement protection. At the same time there are ongoing calls for further improvements – notably higher contribution rates to improve retirement adequacy and more diversified investment options to enhance long-term outcomes.

Enrolment in MPF schemes

The enrolment percentage—a measure of how effectively a pension system is utilised by the pre-retirement population—serves as a key indicator of future trends. It reflects the percentage of the labour force participating in the mandatory pension system at a given timepoint. The MPF's achievement of 100% enrolment from Employers and Employees, and a remarkable 89% enrolment rate for self-employed persons (SEP)[2] underscore its pivotal role in bridging the retirement savings gap and ensuring financial security for Hong Kong's workforce.

Impact

MPF has empowered individuals to take ownership of their retirement protection planning, reducing reliance on government welfare and fostering a culture of long-term financial responsibility.

1. The abolition of MPF offsetting arrangement has taken effect on 1 May 2025 (i.e. the transition date). Starting from the transition date, employers can no longer use the MPF derived from their mandatory contributions to offset long service payments or severance payments of their employees in respect of the years of service starting from the transition date.
2. Mandatory Provident Fund Schemes Authority (MPFA). (2024, September). Annual Report 2023–2024. Retrieved from https://www.mpfa.org.hk/en/info-centre/press-releases/20240901

Strengthening retirement readiness for Hong Kong's future

The MPF System has made significant progress in helping individuals prepare for retirement, as shown by its growing ability to help improve financial security for retirees. The System's achievements highlight its role in ensuring that Hong Kong's workforce can look forward to a more stable and comfortable retirement.

Statistical evidence

Data from the Organisation for Economic Co-operation and Development (OECD) highlights the improvement in Hong Kong's net pension replacement rate, a key indicator of retirement adequacy. This rate measures the effectiveness of a retirement protection system to provide retirement income to replace earnings.

In 2011, the replacement rate stood at 34.1%, meaning retirees received about 34% of their working income from their pension. By 2022, this rate increased to 41.5%, indicating that retirees now receive a larger share of their pre-retirement earnings during their retirement years. This growth demonstrates the MPF System's increasing effectiveness in helping individuals maintain their standard of living after leaving the workforce.

Regional context

Across Asian economies, the average net replacement rate for mandatory pension schemes is 55% for average earners. While Hong Kong's rate is lower than this regional average, it is important to consider that Hong Kong has higher income levels compared to many other Asian economies.

Additionally, the retirement protection system in Hong Kong provides higher replacement rates for lower earners than for higher earners. For low earners (those earning half the average worker's income), the net replacement rate is 59.7%, compared to 32.7% for high earners (those earning double the average worker's income).

This reflects the retirement protection policy's progressive nature, offering greater support to those with lower incomes.

Driving financial market growth

The MPF System has been a catalyst for the growth of Hong Kong's financial markets. By channelling billions of dollars into investment funds, the MPF has contributed to deepening the capital markets and supporting the development of the asset management industry. The MPF System helps consolidate small-amount contributions into sizable investment funds which allow lower-income scheme members to have access to more investment products they would be unable to access by themselves

Economic and employment effects

The MPF System has demonstrated impressive growth in assets under management (AUM). As of September 2025, the MPF's total assets exceeded $1.5 trillion[1], representing a 130% increase compared to a decade ago. This growth underscores the system's ability to accumulate substantial retirement savings for Hong Kong's population.

Additionally, the number of fund choices has grown significantly[2], from 299 in March 2001[3] to 378 in June 2025[4], offering contributors greater flexibility and options for investment. This diversification has contributed to improved investment outcomes, benefiting contributors over the long term.

Impact

The MPF has enhanced Hong Kong's position as a global financial hub, attracting international asset managers and fostering innovation in financial products and driving employment in these areas.

1. Mandatory Provident Fund Schemes Authority. (6 October 2025). Press Release : MPFA website article : "Total MPF assets surpassed $1.5 trillion"
2. In June 2025, there were 380 constituent funds to choose from across six major fund types. They are equity funds, mixed assets funds, bond funds, guaranteed funds, MPF conservative funds and money market funds.
3. Mandatory Provident Fund Schemes Authority. (March 2001). Mandatory Provident Fund Schemes Statistical Digest. Retrieved from https://www.mpfa.org.hk/pdf/tch/information_centre/statistics/mpf_schemes_statistical_digest/files/Mar_2001_SD.pdf
4. Mandatory Provident Fund Schemes Authority. (June 2025). Quarterly Report on MPF Schemes. Retrieved from https://www.mpfa.org.hk/en/-/media/files/information-centre/research-and-statistics/quarterly-reports/mpf-schemes/june_2025_issue.pdf

2.3 Comparing Hong Kong's pension system with other jurisdictions

As populations age worldwide, retirement schemes play a crucial role in ensuring financial security for retirees. Hong Kong's Mandatory Provident Fund (MPF) System is a key pillar of the city's multi-pillar retirement protection system but how does it compare with system in other major economies? This section examines the MPF alongside Australia's Superannuation (Super), Singapore's Central Provident Fund (CPF), Malaysia's Employees Provident Fund (EPF), U.K.'s Defined Contribution (DC) pension scheme, US's 401(k) and Canada's Pension Plan (CPP), highlighting key differences in contributions, benefits and sustainability.

Australia's Superannuation (Super)

It is compulsory for all employees working and residing in Australia. Employers contribute 12% of their employees' salaries into industry, public sector, corporate or retail funds depending on the industry. Employee contribution is voluntary. Retail funds are run by financial institutions and open to everyone. Funds can be withdrawn in a lump-sum or a retirement income stream upon reaching the age of 65 or earlier if conditions are met.

Source: https://www.australiansuper.com/

Singapore's Central Provident Fund (CPF)

The CPF is a mandatory government-administered savings scheme where both employers (17%) and employees (20%) contribute to accounts for retirement, housing, healthcare and education. Contribution rates decrease with age and funds can be withdrawn as lump sum or monthly payouts from age 55.

Source: https://www.cpf.gov.sg/member/cpf-overview

Malaysia's Employees Provident Fund (EPF)

It is very similar to Singapore's CPF where the fund is managed by a government statutory body. Both employers and employees make contributions (12% - 13% employer, 11% employee) into different accounts that vary by the share of savings and withdrawal flexibilities such as paying for housing, education or medical expenses.

Source: https://www.kwsp.gov.my/en/

UK's Defined Contribution (DC) Pension Scheme

Retirement benefits depend on contributions and investment performance. Employers automatically enrol workers (who can opt out) with minimum 8% contribution (3% employer, 5% employee). Withdrawals start at age 55, complementing the State Pension funded through National Insurance Contributions (NICs).

Source: https://www.gov.uk/workplace-pensions

US's 401(k)

401(k) resembles UK's DC Pension but isn't mandatory nationwide, though some states require retirement plans. Employers can offer 401(k) or state-sponsored alternatives with no minimum contribution requirements. Most employers match employee contributions but uniquely, employer contributions may vest over time rather than transferring immediately to employees.

Source: https://www.irs.gov/retirement-plans/401k-plans

Canada's Pension Plan (CPP)

CPP is federally administered with investments managed by CPPIB. Monthly benefits begin at age 65 and continue until death. Unlike Hong Kong's MPF, payment amounts are not tied to investment performance but depend on years of contribution, career earnings, inflation and retirement age.

Source: https://www.canada.ca/en/services/benefits/publicpensions/cpp.html

2.3 Comparing Hong Kong's pension system with other jurisdictions

Contribution rates

Hong Kong's contributions are **among the lowest**, potentially leading to smaller retirement savings unless supplemented voluntarily.

- **Total mandatory contribution**: 10% (5% employer + 5% employee, capped at HKD 3,000/month combined).
- **Self-employed**: Only 5% (no employer contribution).

Other jurisdictions require higher level of contributions (e.g., Singapore 37%, Malaysia 24%)

Coverage and flexibility

Hong Kong's scheme exempts low-income earners who earn below HK$7,100 per month from employee's contribution, but employer must still contribute 5% of the employee's income.

Others:

- **Singapore (CPF)**: Employees earning total wages below $50 per month exempted, employer must contribute to the CPF
- **Australia / Canada / UK**: Similar income based exemption rules available

Payout structure

Hong Kong's MPF System allows retirees to withdraw their MPF benefits either in one lumpsum or by instalment withdrawals.

Others:

- **Singapore (CPF LIFE)**: Mandatory annuity for monthly payouts but must maintain a certain amount in the Retirement Account
- **Australia/UK/US/Canada**: Mix of lump sums and income streams (e.g., Super pensions, Social Security).

Tax benefits

In Hong Kong, MPF contributions are tax-deductible for both individual and corporates and withdrawals are tax-free, which is similar to peers like Singapore.

Others:

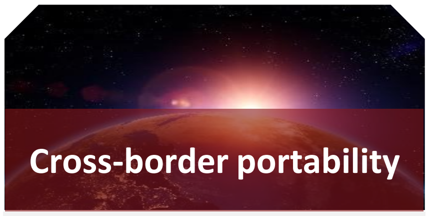
- **Singapore**: Tax-free contributions and withdrawals.
- **Australia/US/Canada**: Tax-deferred growth (except Roth options).
- **UK**: 25% tax-free lump sum; rest taxed as income.

Investment choices

MPF scheme members could choose from a diverse range of MPF funds with exposure to a variety of asset classes including stocks, bonds, REITs and ETFs.

Others:

- **Australia/US/Canada**: Wide range of investment choices (e.g., stocks, ETFs in Super/401(k)/RRSP).
- **Singapore (CPF)**: May invest in insurance products, physical gold, unit trusts, under specific criteria



Cross-border portability

Hong Kong MPF System allows early withdrawal for permanent departure. Also , employees on short-term assignments or covered by non-local retirement plans may be exempt from the MPF scheme.

Others:

- **Singapore (CPF):** Requires renouncement of citizenship
- **Australia (Super)**: Temporary visa holders can withdraw upon leaving Australia
- **UK/US/Canada**: No restrictions on moving pensions abroad

Summary

In summary, Hong Kong's MPF System is rather competitive compared to other jurisdictions. It has a relatively low contribution rate which makes it less stressful for the workers in the short run, especially the lower income groups; but it also leads to larger retirement savings gap in the long run. Nevertheless, Hong Kong incentivizes voluntary contributions by making it tax-deductible, subject to a cap, for both employees and employers, while withdrawal at retirement is tax free. In addition, Hong Kong's MPF System allows both lump-sum withdrawal or using their lump-sum withdrawal to purchase life annuity, but does not have an annuity payout option.

Although no retirement solution is perfect, ongoing development is encouraged to better meet the needs of MPF scheme members during both contribution and withdrawal phases.

3 Case sharing

Introduction

To better understand the actual experience of the MPF scheme members in Hong Kong, we interviewed 2 groups of working classes who have contributed MPF since it was introduced.

The first group is the “stepping into retirement" group consists of individuals aged 60–68 who are close to or have just entered retirement. They experienced the pre-MPF era when there was less public attention on planning for retirement protection and had later participated in the MPF System. Our goal was to understand how MPF has impacted them, whether they feel financially prepared for retirement, and what they would do differently if given the chance to replan their retirement protection.

The second group, “vibrant workforce“, includes individuals aged 40–50 who entered the job market around the time MPF System was launched in 2000. We explored their investment approaches and results, their planning for retirement protection approach, and how they see MPF’s role in their retirement protection 20 years from now.

We summarise the discussions and extract insights here from the interviews.

Case 1A: Stepping into retirement – section manager at a logistics company

BACKGROUND

Ms. Cheng, a 64-year-old section manager at an international logistics company, is set to retire in early 2026 after 25 years with her company and the MPF System.

Career experience: Across her career, she has worked in logistics control and human resources (HR) administration and participated in an Occupational Retirement Schemes Ordinance (ORSO) plan, which is a common type of retirement scheme related to occupations.

MPF accumulation: Despite starting with a minimal balance transferred from her ORSO scheme, she built her MPF portfolio with active management of fund choice, including mandatory and voluntary contributions (about 50% target-date retirement fund, 20% Asia-Pacific equity fund and 30% healthcare sector fund) to nearly HK$2 million over the years.

Investment approach: Ms. Cheng has evolved from a passive investor to an active one by enhancing her investment knowledge and understanding her risk appetite.

Note: Photo is Illustrative and not representing the case subject

Fund management

Initial low-maintenance approach

Ms. Cheng began her MPF journey with a low-maintenance investment approach, not actively monitoring her portfolio for the first one to two years. As she took on more HR responsibilities at work, she became more involved by not only managing her own MPF portfolios but also experience sharing with her colleagues'.

Pro-active investment strategy

In the past nine years, with the introduction of the Employee Choice Arrangement (ECA), Ms Cheng has actively rebalanced her portfolio and transferred funds to her preferred schemes.

Portfolio allocation

Her investments include 50% in a target-date retirement fund, 20% in Asia-Pacific equity funds and 30% in a healthcare sector fund. She documents these in a spreadsheet and conducts regular investment performance reviews.

Account consolidation

Ms. Cheng praised the introduction of MPF funds consolidation so that she could combine all her MPF accounts into one account for easier management. She also encouraged her colleagues to follow and monitor their MPF funds' performance.

Voluntary contributions

As she was pleased with the performance of her MPF portfolio, she started making Special Voluntary Contributions (SVC) around 10 years ago and more recently began making Tax-deductible Voluntary Contributions (TVC) to enjoy further tax deductions.

Options at retirement

Ms. Cheng plans to reinvest her MPF balances based on performance, except in the case of any health emergencies.

She is considering perpetual annuity plan to generate stable income.

In addition to her MPF portfolio, she has rental income and insurance savings plans. These resources provide her with a strong and diversified retirement protection.

Reflections

- Ms. Cheng illustrates the transition from a low-maintenance approach to a pro-active approach on retirement investment management.
- Thoughtful fund selection is key to her investment approach.
- Regular performance monitoring supports informed investment decision-making.
- Diversified aids for retirement protection planning in a confident transition to retirement.

Case 1B: Stepping into retirement – team head

Background

Mr. Ngan has been working in his current trading company for over 30 years. He started as an administrative assistant and worked his way up to become a team head. He is married with two children and approaching retirement at the age of 64.

His wife works as a housewife and has no income, while both children have graduated from university and are both employed full time.

The company Mr. Ngan's works at originally offered ORSO scheme before it was replaced by MPF introduced 25 years ago.

Note: Photo is Illustrative and not representing the case subject

Fund management

Maximising gains

Mr. Ngan's MPF investment strategy focuses on maximising gains by allocating all contributions to high-risk products, believing their potential returns outweigh the risks.

Let it grow

Confident that his investment approach is targeted for long-term growth, he has not actively reviewed or adjusted his portfolio and just let it grow by itself.

Long term focused

Despite short-term market fluctuations, he remains unfazed, viewing volatility as normal and trusting in favourable long-term results.

Options at retirement

At his retirement, Mr. Ngan plans to withdraw his MPF funds in a lump sum before deciding how to allocate the money. Apart from himself, he will need to account for his wife's financial needs as they age since she does not have retirement savings.

By withdrawing the lumpsum, it allows him immediate access to a substantial amount of capital, giving him the flexibility to explore various investment opportunities or personal expenditures.

One option he is considering is investing a portion of his retirement savings into an annuity fund which could provide him a steady income stream during his retirement years, offering financial security and peace of mind.

Reflections

Mr. Ngan believed in high-risk, high return and has therefore been contributing to the fund of higher risk category. This strategy raises concerns about the need for periodic reviews and the risks of significant losses, suggesting that a more balanced approach with diversification could better protect his retirement savings.

As he is close to retirement, any major fluctuations in the market could cause a reduction in his portfolio. Since his wife did not have a job, his retirement funds would also need to cater for his wife's financial needs so any drawdown could impact both of their post-retirement lifestyles.

Instead of making a lumpsum withdrawal at retirement, Mr. Ngan has options including phased withdrawal, or keeping his savings in his MPF account to continue investing. Many MPF providers also provide post-retirement products that provides a steady income stream. This would help cover general expenditures for both himself and Mrs. Ngan, thereby reducing uncertainties after retirement.

MPF trustees could provide more tailored support to scheme members to help them prepare for retirement, it could help scheme members like Mr. Ngan to plan and adjust his investment strategy to face unforeseen challenges.

Case 2A: Vibrant workforce – a senior executive of a manufacturing company

BACKGROUND

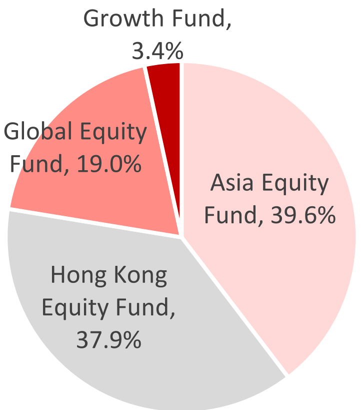
Mr. Tse is 48 years old and works as a Chief Financial Officer of a Hong Kong based manufacturing company, with operations in China and exports globally. He is married and has an 8-year-old son.

He has been in the workforce since 1999. He has changed 4 different jobs before settling with his current company nearly 20 years ago, with over 10 years working at its factory in the Chinese Mainland. He has been making MPF contributions since its inception.

Note: Photo is Illustrative and not representing the case subject

Fund management

Mr. Tse's current MPF portfolio consists of the following:



Passive approach

Mr. Tse is conscious of what he has in his MPF portfolio, but does not actively manage or adjust the investment. He has no voluntary contributions and would rather invest on his own.

Options at retirement

Mr. Tse believes that HK$8 million is required for his retirement, though he is still some distance from this target.

To feel financially secure, his top priority is home ownership, followed by generating enough investment income to cover living expenses. For him, the MPF serves as an additional safety buffer.

Other investments

Over the years, he has only consolidated MPF funds from various accounts to one account under a single trustee, as suggested by his insurance agent. Besides MPF, he has invested in properties and securities.

Reflections

Mr. Tse thinks that MPF is a small sum to him when deducted every month, so he doesn't focus much on his MPF portfolio.

Nevertheless, MPF is a long-term investment that requires time to accumulate. More communication could be provided to scheme members like him to elaborate on the power of compounding to encourage them to adopt a longer-term perspective and plan for retirement protection more effectively.

To drive stronger focus on MPF, policy makers could also consider providing additional incentives, for example, increasing tax benefits for voluntary contributions or other investment choices for retirement purposes.

Case 2B: Vibrant workforce – a dedicated worker in the food & beverage industry

BACKGROUND

Mrs. Chan is a restaurant server who has made MPF contributions for almost 25 years. She has changed jobs several times over the period.

At 45 years old, being married and a mother of one, she tries hard to balance her long work hours and taking care of her son and therefore has little time for financial planning. Her son has graduated from secondary school and is looking for a job.

Despite her modest income, Mrs. Chan has continued to contribute to her MPF account, which represents a meaningful portion of her total income.

Note: Photo is Illustrative and not representing the case subject

Fund performance

- Over the past 25 years, Mrs. Chan has taken a largely low-maintenance approach to managing her MPF, rarely adjusting her portfolio as she could not understand the financial details in the statements sent to her. She randomly invested in MPF funds, with 80% in US stocks and the rest in Hong Kong and the Chinese Mainland. Looking back, she believes US stocks delivered the strongest returns and regrets not allocating more there.

However, she noted a shift in the geo-political situation, especially during recent years, which may affect her fund's performance. She has limited understanding of how to manage her funds.

Options at retirement

At 45 years old, Mrs. Chan has not devoted much time to think about her retirement. Her goal is to accumulate as much as possible, and she recognizes that her current MPF contributions and performance alone may not be sufficient to cover her post-retirement needs. She anticipates a need to continue working beyond the age of 65.

To supplement her MPF contributions, Mrs. Chan also invests in other assets, including gold and stocks. Her retirement vision is flexible, depending on the amount she accumulated. She plans to withdraw her retirement funds in a lumpsum as soon as she reaches 65.

Reflections

Mrs. Chan is part of the local labour force who does not have a lot of financial investment knowledge to plan or review retirement portfolios.

Due to relatively lower income level, MPF represents a larger portion of assets for this group. MPF providers should proactively offer education to support this group to understand their portfolio, product features and market conditions. For example, the Default Investment Strategy (DIS) was designed for this purpose yet scheme members who habitually neglect their MPF may remain unaware of it.

Mrs. Chan also expects to work after 65, reflecting concerns that her retirement protection may not be sufficient. This suggests an opportunity for all industry participants, including regulators, to collaborate in developing products that promote continuous investing and provide a steady income stream to cover living expenses after retirement.

Mrs. Chan's case underscores the challenges faced by individuals with modest incomes in securing a comfortable retirement and the necessity of diversifying retirement investments beyond the MPF.

Insights from the cases

Based on what we've gathered from our interviewees, we have gathered the following thoughts:

Small contributions, big savings

The current MPF System requires only 10% contributions (5% from employer and 5% from employees) which has a cap of HK$3,000 per month and HK$1,500 for SEPs. The accumulated amount over three to four decades, coupled with investment returns, could result in a substantial sum to withdraw upon retirement. This lump-sum is important to support the workforce's basic retirement protection. Member could consider making additional contribution beyond the minimum considering the increasing life expectancy in Hong Kong.

Investment trends outside MPF

Being one of the biggest financial investment markets globally, MPF scheme members are offered with a diverse range of MPF funds with exposure to a variety of asset classes including stocks, bonds, REITs and ETFs. Members can achieve much better diversification and economies of scale as compared to investing directly in securities themselves. To further expand investment potential, and given the strong indications from members to invest in new products and asset classes through the MPF, we encourage all stakeholders to work together and evolve with new financial trends to help members achieve better returns.

Product innovation for post retirement revenue stream

Most of our interviewees have indicated that they plan to withdraw all their MPF in one lump sum when they reach the age of 65. Although they have not decided on how to use the funds, it is clear that these funds should be sufficient to support their basic needs for years after retirement. While some post-retirement products are already available, it is important to continue developing and enhancing products and solutions that support a sustainable post-retirement income stream.

Continuous scheme member education

Another common view from the interviewees indicate that scheme members typically do not manage their MPF portfolios, or find it hard to do so given their lack of time or knowledge. Even though a number of tools have been introduced over the past two decades for scheme members to better manage their MPF portfolios, including accounts consolidation, use of SVC and TVC for further investment and tax saving, transferring benefit between trustees through the Employee Choice Arrangement (ECA) and the full portability to be implemented. Further education to all scheme members may enable them to make sound investment plans based on their life stage, financial situation and risk-tolerance level.

As the MPF System matures, it should provide more flexibility for scheme members to prepare for retirement in the way they need. This should consider retirement trends such as new investment tools, retirement in the Greater Bay Area (GBA) and full portability. MPF providers should also continue to educate scheme members and improve products and services to provide better experience and encourage usage.

4 Looking into the future

The establishment of MPF System has contributed effectively towards addressing the retirement savings gap by helping the workforce save for basic retirement protection, thereby strengthening retirement readiness for Hong Kong's future and driving significant growth in its financial markets.

What has MPF brought to Hong Kong over the 25 years?

Fostered a savings culture

The MPF System requires employees, employers and self-employed persons to contribute to MPF. It has successfully encouraged the working population to save money they might not have set aside voluntarily. As a result, Hong Kong has seen a significant increase in household savings rates, especially among middle-income workers who now have growing retirement accounts.

Promoted retirement planning

Retirees today enjoy more fulfilling lifestyles thanks to greater financial security. With retirement savings, elderly individuals have the freedom to pursue their interests. This financial independence allows them to make choices based on personal preferences rather than financial constraints.

Reduced old-age poverty

Hong Kong has been implementing various initiatives to reduce elderly poverty, with the MPF serving as a cornerstone policy to address the growing need for post-retirement income. The Government and MPFA have continually enhanced the MPF System through regulatory improvements and investment options to maximise risk-adjusted returns for future retirees.

Reduced social welfare burden

Hong Kong has experienced significant population growth in the 1960s to 1980s, yet without an established comprehensive retirement protection system in place. The introduction of the Mandatory Provident Fund (MPF) in 2000 has reduced pressure on social welfare systems over time. This shift toward self-funding retirement has helped alleviated the burden of the government from expenditure on elderly assistance programs.

How to further maximise the benefits of the MPF System?

In the past 25 years, MPF has been an exceptional tool that has helped workers in Hong Kong to better prepare for retirement. Yet, there is still room to further enhance and bring additional protection to the society, such as a regular review of the contribution rate, further encouraging voluntary contributions and increase investment flexibilities. We encourage collective effort from the key stakeholders to further maximise benefits from the System.

Scheme members could get more involved in contributing and monitoring their MPF

Scheme members should review and adjust their retirement portfolios regularly to ensure that they stay on track with financial goals. Active management involves making informed decisions to optimise returns and manage risks, ensuring investments are aligned with retirement objectives.

The government could further increase the System's convenience

Since its introduction, the MPF System has become more convenient and flexible with the introduction of ECA, DIS, eMPF, etc., which were welcomed by the city. With the rollout of eMPF, the government could provide further regulatory enhancements that brings more convenience to the MPF System.

Trustees, MPF providers and fund managers could provide more assistance to scheme members in managing their portfolios

Financial literacy is key to establishing a suitable MPF portfolio. Although this has gradually improved over the years, more could be done to provide more financial education to scheme members. With new technologies being available, new mediums can be leveraged to achieve the goal.

The industry could collaborate more to improve retirement security

By collaborating more closely, Hong Kong can transform MPF into a more robust, inclusive and efficient retirement savings system, ensuring better financial security for Hong Kong's aging population.

What could be done in the long run to enhance further :

Increase employer and employee contribution rates

The existing 5% contribution rate from the employees, employers and self-employed persons could be reassessed to further enhance the adequacy of retirement savings, and uplift post-retirement living standard.

Encourage low-income earners to contribute

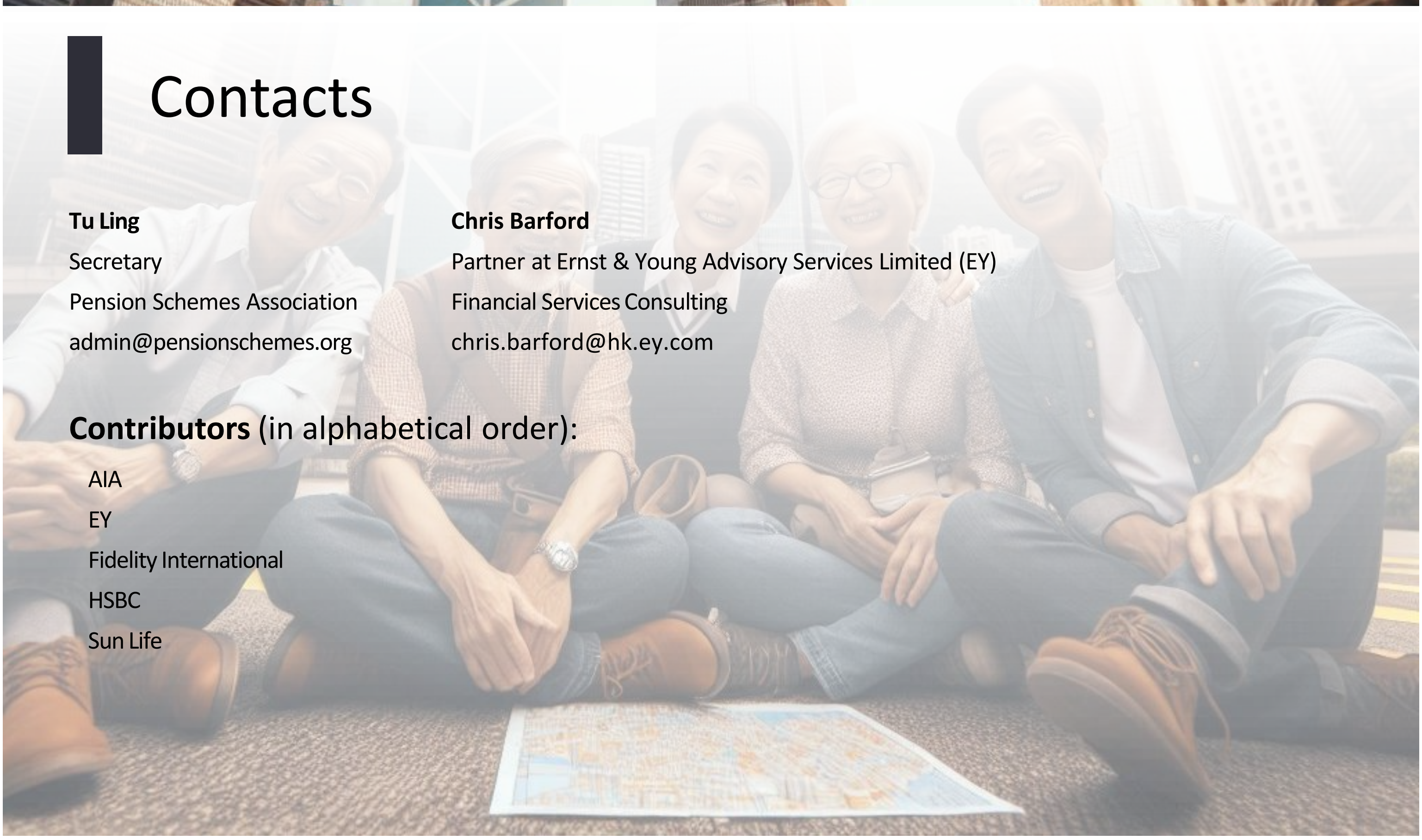
Low-income earners (below minimum relevant income level) is a relatively vulnerable group where only Employers are required to contribute. Further education can be provided to this group on topping-up voluntarily to save for their retirement, enabling better financial security to this group, reducing reliance on social welfare as they age.

Innovative solutions for retirement planning

The MPF industry and the government can collaborate to explore more innovative solutions that address changing cultural habits, such as the adoption of digital technologies and retirement in the GBA.

Encouraging product development

Encouraging and facilitating more creative product development is essential to meeting evolving investment needs, such as products with income features, targeted returns, and exposure to new asset classes for diversification.



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About PSA

Pension Schemes Association (PSA) was established in 2018 with six founding members. As the most prominent MPF sponsor association in the industry, PSA assumes the bridging role among stakeholders to facilitate further development in the MPF system. In addition, PSA acts as a consultative body in liaising with relevant policy makers and regulatory bodies on matters related to the development of the MPF system. PSA also aims to enhance the trust and confidence in the MPF industry by partnering with industry stakeholders to cultivate public awareness of MPF.
Visit www.pensionschemes.org to discover more.