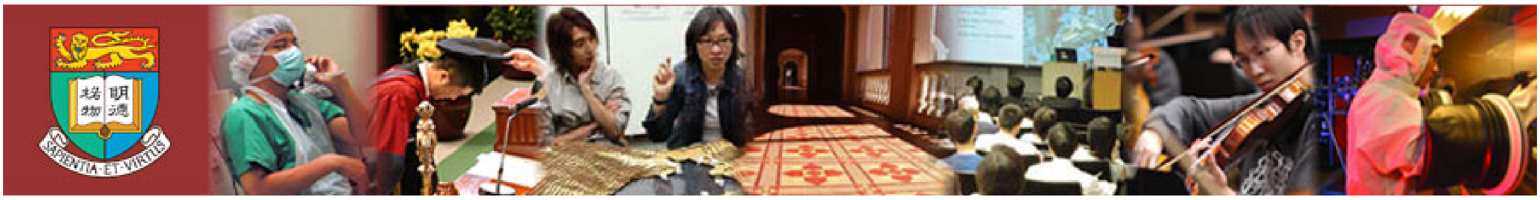

Hong Kong's Mandatory Provident Fund System: A Study of the Evolution of Governance and Policy Tools

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Declaration

We declare that this Capstone Project, entitled ‘Hong Kong's Mandatory Provident Fund System: A Study of the Evolution of Governance and Policy Tools’, represents our own work, except where due acknowledgement is made, and that it has not been previously included in a thesis, dissertation or report submitted to this University or any other institution for a degree, diploma or other qualification.

[Signed]

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Abstract

As a member of the developed world, Hong Kong is dealing with the common problem of an aging population. Hong Kong's answer to the demand of retirement protection is the Mandatory Provident Fund (MPF) System. Launched in 2000, the MPF System is a compulsory, privately managed, and fully funded contribution scheme for employees, and this project intends to evaluate whether the challenges of retirement protection in Hong Kong are met with the implementation of the system.

The MPF System will be analysed in terms of its mode of governance and the policy tools that fit in the study. Theories on the modes of governance and policy tools will be discussed, and a background of old age protection in Hong Kong will be laid out for better understanding of the historical development.

The main assessment is on the MPF System, its current development and proposed way forward will provide a better picture of the situation of old age protection in Hong Kong. Although the project has its limitations, attempts to make recommendations on the topic will provide more fruit for thought.

List of Figures and Tables

List of Abbreviations

CSSA	Comprehensive Social Security Assistance
CPF	Central Provident Fund
DIS	Default Investment Strategy
ECA	Employee Choice Arrangement
LegCo	Legislative Council
MPF	Mandatory Provident Fund
MPFA	Mandatory Provident Fund Schemes Authority
MPFSO	Mandatory Provident Fund Schemes Ordinance
NOAA	Normal Old Age Allowance
OAA	Old Age Allowance
OALA	Old Age Living Allowance
OPS	Old Age Pension Scheme
ORSO	Occupational Retirement Schemes Ordinance
SSF	Social Security Fund
SWD	Social Welfare Department

Chapter 1 - Introduction

Focus, Objectives and Background of the Project

This project addresses the topic of retirement protection in Hong Kong. Its objective is to assess the evolution of retirement protection in a governance and policy tools approach through the study of the Mandatory Provident Fund (MPF) System. The effectiveness or fitness of the MPF System as a policy tool to alleviate the problem of an ageing population is also assessed.

The aging population is a common problem in the developed world. As the baby boomers enter the retirement age, governments in the developed world must find a way to support the senior citizens and not bankrupt the treasury. In Hong Kong, the MPF System is the present policy tool deployed to alleviate the impact of an ageing population.

The MPF system was launched in 2000, and it is a compulsory, privately managed, and fully funded contribution scheme for employees in Hong Kong. Its set up was in response to the World Bank's 'Three Pillars of Old Age Protection' in 1994, and the Hong Kong government enacted the Mandatory Provident Fund Schemes Ordinance (MPFSO) in 1995 to regulate the MPF system.

Research Questions and Related Propositions: Theory and Practice

This project focuses on the evolution of governance and policy tools of the retirement protection over time with an emphasis on the present MPF System. In response, the project addresses the following research questions:

1) Why and how do governments seek to respond to the retirement needs of their citizens?

2) What has the Hong Kong government done in responding to the retirement needs of its citizens?

3) Why did the Hong Kong government decide on the MPF System as a particular response to the issue of retirement?

4) How successful has the MPF System been in terms of appropriate evaluative criteria?

An ageing population may lead to widespread social problems. A responsible government would prioritise retirement protection as a prime policy in a regime, so as the Hong Kong government. Since no policy tool is perfect and universally applicable, different regimes deploy specific policy or range of policies to handle the issue, and in turn manifest governance mode.

The Hong Kong government deployed different policy tools in alleviating the impact of an ageing population over time. At present, the government upholds the belief of positive non-interventionist approach by deploying the MPF System as the main policy tool. The MPF System itself, at the same time, is incorporating bundles of tools. The MPF System as a policy evolves constantly to meet social changes. However, the effectiveness of the system is a subject of challenge ever since its deployment.

Through answering the above research questions, this project seeks for the understanding on the evolution of retirement protection policy in Hong Kong with a particular attention to the present MPF System.

Overview of the Analytical Framework

Chapter 2 establishes the analytical framework for the project. It discusses on the theories of governance and policy tools intended as the basis for an analysis of the MPF System. It considers different types of governance and policy tools.

The matrix of Knill and Tosun's (2012) mode of governance is precisely the foundation of the project when we look into the MPF System with due regard to the development of retirement protection in Hong Kong over the years. The degree of legal obligation and cooperation between the public and private sectors are to be highlighted in the discussion of the design and running of the MPF System. Furthermore, this chapter introduces the six types of policy tools suggested by Frieberg (2010), and they will be applied in the analysis of the MPF System which is in itself a tool to use tools with a view to provide retirement protection. A number of evaluative criteria will be introduced whilst attempt will also be made in subsequent chapters to evaluate the effectiveness of MPF System in particular, the fitness of tools that the Mandatory Provident Fund Schemes Authority (MPFA) has employed under the system.

Research Methodology

In the project, a comprehensive academic literature review on the mode of governance, policy tools and associated evaluative criteria on assessing its' effectiveness establishes the analytical framework. It provides the basis for subsequent analysis on empirical data.

Information on empirical findings and analysis are primarily based on desktop research. References are made to the public domain of official information and related data released by competent authorities. These data derived mainly from websites, press release, speeches, discussion paper of the MPFA, Social Welfare Department, Census and Statistics Department, Consumer Council, Legislative Council, etc.

The desktop research approach is considered to be appropriate for the project. Retirement protection is an important public policy in Hong Kong. The policy evolves constantly with extensive study and discussion. The history and current information on the retirement protection policy including the MPF System and other relevant topics are comprehensive and are readily available online. These data are extensive for the purpose of establishing empirical findings and analysis in the project.

Outline of Following Chapters

Following this introduction, Chapter 2 defines the concept of governance and policy tools. It establishes the analytical framework with particular reference to the modes of governance addressed by Knill and Tosun (2012), policy tools by Freiberg's (2010) and the evaluative criteria by Winfield and Rossell (2010, 1993). This framework guides and informs subsequent empirical analysis.

Thereafter, Chapters 3, 4 and 5 analyse the evolution of retirement protection including the MPF System based on the framework set in Chapter 2. A discussion on the situation of Hong Kong's retirement protection before and after the implementation of the MPF System shows how the governance and policy tools evolve over time. Based on the type of governance and policy tools chosen, Chapter 3 focuses on the past of retirement protection in Hong Kong, and Chapters 4 and 5 discuss the present and future developments of the MPF System.

Chapter 6 concludes the analysis of the MPF System as Hong Kong's policy tools to alleviate the impact of an ageing population. Selected experiences of old age protection from outside of Hong Kong are drawn on briefly as a comparison with the MPF System. Limitations and recommendations of the project are noted.

Chapter 2 - Analytical Framework

Introduction

This chapter establishes an analytical framework to structure, guide and inform the empirical study in subsequent chapters. The framework comprises the key concept of governance, policy tools and relevant evaluative criteria for assessing their effectiveness.

In a governmental system, there are different modes of governance type and may vary across different policy areas or societies. Different governance modes indicate dominance on the use of certain types of policy tool as a means of regulation or intervention, to induce individuals or groups to make decisions or actions compatible with public policies (Freiberg, 2010). Whilst it is difficult to define a 'perfect' mode of governance which depends on its fitness with the particular government policy and society, it is therefore common for governance modes to shift from one to another to take place over time in a single society. Although there is not a perfect governance mode, its ancillary use of policy tools could be assessed based on a number of evaluative criteria, which could help account for its effectiveness and fitness in responding to the policy issue.

Definition of Governance

Governance or good governance, as a concept, is a prominent term in social science research in particular in public policy analysis. Nonetheless, there is a lack of general accepted definition (Kooiman et al., 2008). Governance as a new process of governing can be referred to the development of the governing approaches where boundaries between public, private and non-profit societal sectors blur with the increasing trend of corporate management and marketisation (Kooiman et al., 2003). This is a governing process requiring coordination among different sectors and is often associated with non-hierarchical modes of political steering. It distinguishes from government, a traditional hierarchical mode.

In contrast, governance can be defined in the broad term as a classification of modes of political steering with attempts to coordinate individual action to achieve policy goals. It includes both hierarchical and non-hierarchical modes (Knill & Tosun, 2012). In the boarder sense of governance, there are different modes and can vary in different policy areas in the same country.

According to Lynn, Heinrich, and Hill (2001), governance is defined as the "regimes, laws, rules, judicial decisions, and administrative practices that constrain, prescribe, and enable the provision of publicly supported goals and services." Governance is widespread in both public and private sectors, in characterising both global and local arrangements, and in reference to both formal and informal norms and understandings. Since the term has a strong intuitive appeal, precise definitions are seldom thought to be necessary by those who use it. As a result, "when authors identify 'governance' as important to achieving policy or organisational objectives, it may be unclear whether the reference is to organisational structure, administrative processes, managerial judgement, systems of incentives and rules, administrative philosophies, or a combination of these elements" (Lynn, Henrich, and Hill, 2000).

Lynn et al.'s (2000) model of governance as an analytic framework is as follows:

O = f {E, C, T, S, M}; where

O = outputs/outcomes. The end product of a governance regime

E = environmental factors. These can include political structures, levels of authority, economic performance, the presence or absence of competition among suppliers, resource levels and dependencies, legal framework, and the characteristics of a target population

C = client characteristics. The attributes, characteristics, and behaviour of clients

T = treatments. These are the primary work or core processes of the organisations in the governance regime. They include organisational missions and objectives, recruitment and eligibility criteria, methods for determining eligibility, and programme treatments or technologies

S = structures. These include organisational type, level of coordination and integration among the organisations in the governance regime, relative degree of centralised control, functional differentiation, administrative rules or incentives, budgetary allocations, contractual arrangements or relationships, and institutional culture and values

M= managerial role and actions. This includes leadership characteristics, staff-management relations, communications, methods of decision making, professional/career concerns, and mechanisms of monitoring, control, and accountability.

Types of Governance

Knill and Tosun (2012), with reference to hierarchical intervention and market contribution, defined a different government ruling model and categorised it into four ideal types, namely:

i. Interventionist Governance
ii. Regulated Self-Governance
iii. Cooperative Governance
iv. Private Self-Governance

The four ideal types are differentiated in mainly two dimensions: the cooperation of public and private actors and degree of legal obligation (see Table 2.1) (Knill and Lendschow, 2002).

Table 2.1 – The matrix of Knill and Tosun's Mode of Governance

		Cooperation of public and private actors	
		High	Low
Degree of legal obligation	High	Regulated Self-Governance	Interventionist Governance
	Low	Cooperative Governance	Private Self-Governance

Interventionist Governance

Interventionist Governance is the mode of governance with a high degree of legal role but with rare cooperation between public and private actors. This indicates that the government takes most dominant role in formulating and deciding policies. Public and private actors do not have much power or role in making policy decisions. Knill and Tosun state that it is a hierarchical relationship between public and private actors, with the state intervening “from above” into the society through highly detailed and legally binding requirement, i.e. Command and Control mechanism.

Interventionist Governance is similar to the concept of “governance by hierarchy” which indicates an asymmetrical relationship between public and private actors. The public or state establishes formal rules and procedures that bind both the private and public sectors into compliance with preset public policies. Private actors have little or no inference on policymaking, but simply comply with rules and regulations established by the state. One of the advantages of governance by hierarchy is that the states produce fair conditions for all players in the supply of common goods, and therefore the framework of daily economic activities is reliable. In contrast, the state being the sole player in policy setting may not know about the actual problems which the society is confronting.

Regulated Self-Governance

Regulated Self-Governance is the mode of governance with a high degree of legal role as well as high cooperation between public and private stakeholders. It indicates that although the state may still play a dominant role in the final decision on policy contents and regulatory arrangements, the society participates on the basis of clearly formalised and institutionalised procedures (Knill & Tosun, 2012). Involvement of society in formulating policies might be much higher than that in Interventionist Governance, but the government or the policyholder should have the power on determining the policies, i.e. the government hierarchically defines the rules of the game for public and private sectors (Knill & Tosun, 2012).

Cooperative Governance

Cooperative Governance is a model with low degree of legal obligation but a high degree of cooperation with the society. It indicates that the roles of the policyholder are relatively low (or even without policyholder) and the stakeholders in the policies (public or private sectors) may be in a much higher position in formulating policies. The stakeholders might cooperate, decide and involve throughout themselves in the whole policy developing process before implementation. Knill and Tosun (2012) clearly reveal that the implementation of public policies is based on close cooperation between state and society and the focuses of this governance are:

i. to enhance the cooperation between private and public sectors;
ii. to allow for the negotiation of cooperative arrangements by including a broad range of public and private actors; and
iii. to replace hierarchical intervention by voluntary agreements between public and private actors.

However, Cooperative Governance is different from Regulated Self-Governance as it involves less legal binding rules. Cooperative Governance may assume the position between network and market governance. Cooperative Governance may also correspond to B. Guy Peters' deregulated government which argues for the unleash of potential power and creativity of government through deregulation.

Private Self-Governance

Private Self-Governance, on the other hand, has a low legal binding duty and also a low cooperation between the public and private sectors. It is a concept similar to "governance by market" where solely market forces allocate goods and services i.e., based on prices without the intervention of the state. Since market governance assumes that all players are rational in making decisions i.e., with a profit making mentality, therefore negative externalities, which harm third parties, are likely produced.

The four types of governance and political context

Knill and Tosun (2012) have specified that governance type could not be understood in the light of mere ideological orientations or political preferences of the governing party. It should instead be interpreted with the backdrop of specific institutional and political structures, which vary across countries and policy sectors.

In adopting the governance type which could best serve its purpose, it is essential for policymakers to understand clearly the existing problems before making such decision. Furthermore, the characteristics of the state, such as culture, tradition, social expectations, ability of the public and private sectors are also crucial factors to be taken into consideration when deciding what type of governance to adopt. Knill and Tosun

(2012) have summarised a list of crucial criteria as follows:

i. The basic factor affecting the governance capacity of national government;

ii. The particular institutional arrangements, i.e. the legal, administrative and political system;

iii. The degree of organisation and the willingness to contribute to the provision of common goods by the private organisations; and

iv. The ability of the private and public sectors in implementing the policies.

It is rare to see a specific governance type applied to all policy areas within a country. Rather, the type of governance differs in different policy areas, and there may often be changes in the ruling party in a democratic country. “Appropriate governance arrangements have to be designed carefully by taking into account the specific institutional and problem structures at hand” (Knill &Tosun, 2012). Furthermore, a right choice on a specific type of governance in a policy area does not necessarily bring about success; whereas the utilisation of appropriate policy tools in the policy implementation will be another important factor.

Regulation by Policy Tools

Social order is the result of a complex interplay between non-legal norms, cultural, religious and economic practices, more formal norms and the edicts of government, and it is in this broad sense that all the behaviour are regulated (Parker, 2000). It is therefore believed to be the case that regulation has occurred for as long as government existed

(Mclean, 2004). Amongst its great variety of definitions, 'regulation' can simply be regarded as "mechanisms of social control or influence affecting behaviour, from whatever source, whether intentional or not" (Baldwin, Scott and Hood, 1998), whilst legal instruments and rules are two common examples of this. It is for good reasons that regulations help manage risks of harm, create an environment of trust and reduce the economic and psychological transaction costs of negotiating life in a very complex society where labour is minutely divided, government uses 'tools' with a view to bring out desired regulatory outcome even though some may find it oppressive, burdensome or restrictive (Freiberg, 2010).

Definition of policy tools

The terms 'tools', 'instruments', 'methods', 'measures' and 'interventions' are all used in the literature to represent the means by which the behaviour of individuals and groups were influenced with desired regulatory outcomes produced. Salamon (2002) defines tools as "an identifiable method through which collective action is structured to address a public problem". Gunningham and Grabosky (1998) consider that "instruments are tools employed by institutions to do what they wish to do". Landry and Varone (2005) suggest "a policy instrument, or a tool, as means of intervention by which governments attempt to induce individuals and groups to make decisions and take actions compatible with public policies". Freiberg (2010) highlights that "the tools of governments are, in essence, things of cultural significance that can be concentrated or amassed and used to influence behaviour". Whilst there is no settled or recognised definition of policy tools, for the purpose of this project, there is no intention or attempt to establish a definitive definition of policy but to examine its fitness for the purpose in bringing out the desired regulatory outcome.

Classification of policy tools

On the other hand, policy tools could be classified in terms of its modes (models) and the roles that the government takes up. Some models derived from the 'command and control' role of the government, others include the deployment of wealth, harnessing markets, use of information, direct action, conferral of protected rights and liabilities, enforced self-regulations, co-regulation, corporate compliance systems, incentive-based systems…etc. Some other classifications based on the strategies of intervention such as mandates, inducements, capacity building and system changing (McConnell and Enmore); the underlying modality of control that is intended to influence behaviour: command (legal rules), competition (economic instruments), communication (social norms, disclosure, advertising), consensus (cooperation, contracts, partnerships and self-regulation) and code (architecture, techno-regulation) (Morgan and Yeung, 2007). It is also classified accordingly to the role of government and the type of resources used, for example: information, authority, treasure and the organisational resources of government (Hood, 1983); whereas categorised into economic tools, transactional regulation, authorisation as regulation, structural regulation, informational regulation and legal regulation (Freiberg, 2010).

Freiberg's types of policy tools

Freiberg's (2010) considers regulations pertain to the essential underlying principle of the use of power. He classifies tools according to its nature with six broad forms of power which can be employed by the government to produce behavioural change as follows:

- Economic tools
- Transactional regulation
- Authorisation as regulation
- Structural regulation
- Informational regulation
- Legal regulation

Economic tools utilise economic power and it is a means of economic regulation. It involves the manipulation of the production, allocation or use of material resources such as money or property, in all its form, so as to bring about behavioural change. Transactional regulation is a variant of economic regulation where the form of the tool assumes great importance. Examples of transactional regulations are contract, contract disqualification and grants.

Authorisation as regulation can be described as the exclusive power that governments have to confer benefits by authorising or permitting certain forms of conduct is a major resource which can then be deployed to direct or prohibit activities. For instance, licensing, registration and accreditation are some commonly known regulatory measures. Structural regulation pertains to the physical power, or structural regulation, relates to the ability to manipulate the physical environment to influence action. Informational regulation relates to access to knowledge or beliefs such as the requirement on disclosure of information and identification of performance indicator. Legal regulation pertains to the ability to invoke the mechanisms of the legal apparatus for the purpose of applying or not applying other resources (or tools) through a legitimated authority.

Features of Freiberg's classification of policy tools incorporate with the concept that any resource of cultural significance can be used by governments to influence behaviour. It is broader than an approach that regards government regulation as rules and sanctions. Under this approach, the government can be regarded as having many roles: as authoriser and facilitator, as economic actor, as trading partner and as information provider. In each of these capacities, government can influence action and produce outcomes often more effectively than through rule-based mechanisms (Freiberg, 2010).

Fitness of Policy Tools

In order to assess whether a specific policy tool can bring about the desired regulatory outcome in a cost-effective way, we need to know how to assess the fitness of policy tools. According to Coglianese and Lazer, the fittest policy tool is one that "under given conditions, achieves the greatest net social gain or that minimises both the regulated entities' compliance costs and the government's costs of selecting and implementing a standard that achieves a given regulatory objective" (Coglianese and Lazer, 2003). However, many scholars including Coglianese and Lazer, suggest that there is no one fittest policy tool and it all depends upon a number of factors with various evaluation criteria.

Factors for fitness of policy tools

Regarding the factors for fitness of policy tools, different scholars suggest different factors. For example, May suggests that the types of firms, the complexity of tasks and the potential for harm or risk associated with the industry would be the main factors (May, 2007); while Coglianese and Lazer suggest that the main factors are the homogeneity of regulated entities and the capacity of the regulator to assess outputs (Coglianese and Lazer, 2003); Hoberg suggests the characteristics of the problem being addressed and the political environment in which standards are developed (Hoberg, 2003); Gunningham suggests the motivations of the actors and industry being regulated (Gunningham, 2007); while Howlett and Rayner suggest the capacity of both the private and public sectors (Howlett and Rayner, 2006).

It is considered that all of the factors are appropriate, and some of them are quite similar, such as the factor on the capacity of the regulator to assess outputs suggested by Coglianese and Lazer, and the factor on the capacity of both the private and public sectors suggested by Howlett and Rayner actually focus on the same aspect. All-in-all, it is considered that the factors suggested by Howlett and Rayner are more comprehensive. They also develop a framework according to these two factors that, if both the private sector capacity and the state capacity are high, regulated self-regulation may be the best choice; if the private sector capacity is high and the state capacity is low, private self-regulation may be the best choice; if the private sector capacity is low and the state capacity is high, low command and control regulation may be the best choice; while if both the private sector capacity and the state capacity are low, then there is ineffective regulation (Howlett and Rayner, 2006).

Evaluation criteria for fitness of policy tools

Regarding the evaluation criteria for fitness of policy tools, it is noted that there are not much scholars having concrete evaluation criteria suggested. Nevertheless, both Winfield and Rossell suggest four similar evaluation criteria, which are effectiveness, economic efficiency, distributional fairness and political acceptability, to assess the fitness of policy tools.

In brief, the criterion on effectiveness means the degree to which the approach is likely to be successful and precise in achieving desired outcomes; another criterion on economic efficiency is mainly about the costs to society as a whole, governing agencies and regulated entities of the proposed regime; the criterion on distributional fairness is about the fairness of the distribution of costs and benefits; while the last criterion on political acceptability is the likelihood that a proposed approach will be supported by politicians (Winfield, 2010; Rossell, 1993).

World Bank's Multi-Pillar Model

On top of the types of governance and policy tools, the World Bank's Multi-Pillar Model (i.e. Three-Pillar Model suggested in 1994 and Five-Pillar Model in 2005) is also essential and crucial in the study of the retirement protection policy in Hong Kong.

In view of the rapid demographic transition as a result of rising life expectancy and declining fertility, the proportion of the elderly people in the general population is growing rapidly (World Bank, 1994). To address the ageing population, the World Bank issued the 'Policy Research Report – Adverting the Old Age Crisis' in 1994, to better protect the old age group and to promote sustainable growth. The World Bank studied different retirement protection policies, including the tax-financed model, the mandatory saving model and voluntary saving model. However, the study revealed that neither of them could be sustainable as a single pillar system was like putting all eggs in one basket and they will be in serious trouble if the basket, either public or private, breaks. Thus, broad diversification across differing financial and managerial sources would be the best way to insure in an uncertain world and the Multi-Pillar Model was introduced in that context. In 1994, the World Bank's Multi-Pillar Model only conspired three unique pillars, which were introduced as follows and summarised at Table 2.2 below:

Pillar I - Mandatory Publicly Managed Pillar

The first pillar has the objective of reducing old age poverty and co-insuring against a multitude of risks. Through government taxation, this pillar has the unique capacity to support the old people or the needy by redistributing the incomes from the rich to the poor. This pillar can co-insure the public at large against long spells of low investment returns, recession, and private market failures by using the public money.

Pillar II – Mandatory Privately Managed Pillar

The second pillar could be the mandatory personal saving accounts or, in some cases, mandatory occupational plans. This pillar should be fully funded and privately managed by the employers and employees, but it should also be regulated to prevent malpractices or misuse of the money. It might also boost capital accumulation and financial market development and reduce political pressure to expand the public pillar.

Pillar III – Voluntary Pillar

The third pillar will be the voluntary occupational or personal saving plans. In case any person wants to have a better protection in the retirement, he/she can keep the personal savings until retirement so as to have additional protection in the future. This high saving rate of the public can also reduce the political pressure to expand the public pillar as well.

Table 2.2 – Summary of Three-Pillar Model

Pillar	**Objective**	**Form**	**Financing**	**Outcome**
Pillar I – Mandatory Publicly Managed pillar	Redistribution and insurance	Means-tested, minimum pension guarantee or flat rate	Tax-financed	Poverty reduction
Pillar II – Mandatory Privately Managed Pillar	Saving and insurance	Mandatory personal savings plan/ occupational plan	Regulated and fully-funded	Forced saving
Pillar III – Voluntary Pillar	Saving and insurance	Voluntary personal savings plan/ occupational plan	Fully-funded	Voluntary saving

Source: The World Bank (1994)

In light of demographic change and the ease of adaptation of other countries in the Multi-Pillar Model, the World Bank further enhanced and modified its model to the Five-Pillar in its report – "Old Age Income Support in the 21st Century: An International

Perspective on Pension Systems and Reform" in 2005. Based on the three original pillars, the 2005 report added two more pillars: a universal or means-tested basic government pension and monetary sources from informal support such as family support, other security programme and fixed assets. The Five-Pillar Model is summarised below (LegCo's Paper, 2011):

> **Pillar 0** – non-contributory basic pension plan financed by the state with the objective of providing elderly people with a minimal level of protection;
>
> **Pillar I** – mandatory earnings-related public pension plan;
>
> **Pillar II** – mandatory earnings-related occupational or private pension plans;
>
> **Pillar III** – voluntary contributions to occupational or private pension plans; and
>
> **Pillar IV** – non-financial support including access to informal support (e.g. family support), other formal social security programmes (e.g. health care and/or housing), and other individual financial and non-financial assets (e.g. homeownership and reverse mortgages).

The Multi-Pillar Model might provide better redistributions, more productive savings with lower social cost. Also, it might be able to reach the goal of better retirement protection by reducing the political, investment and country specific risks. However, whether the government can fully adopt the World Bank's model will largely depend on what type of governance it adopts and what policy tools it applies with reference to the social, economical and political context of the countries.

Concluding Comments

This chapter introduces the analytical framework which serves as the foundation to structure, guide and inform the discussion of the empirical study in subsequent chapters. Its main features include governance, governance type, policy tools and their evaluative criteria which have been further discussed at above. Whilst it has been highlighted that these elements should not be construed out of context, it is of paramount importance to identify factors including policy areas, governance capacity of the state, institutional arrangement and degree of cooperation between public and private sectors should the features above are being addressed regarding a public policy.

In the following chapter, we shall look into the history and development of retirement protection system in Hong Kong with due reference to the concept of governance, governance type, policy tools, and also take into account of the context in which they were/are adopted. Attempt shall then be made to evaluate its effectiveness, or fitness, with suggestion of further improvement if appropriate.

Chapter 3 - Retirement Protection Scheme Developments

Introduction

Chapter 2 provided the framework of the governance model and policy tools and introduced the World Bank's Multi-Pillar Model as a reference for retirement protection. Inevitably, the Three-Pillar-Model of the World Bank issued in 1994 was an important paradigm shift in Hong Kong's retirement protection.

Before 1994, Hong Kong already adopted Pillar I and III. Pillar I is comprised of the Comprehensive Social Security Assistance (CSSA) and Old Age Allowance (OAA), with an aim to redistribute public resources to provide basic protection to the impoverished, whilst Pillar III is the voluntary privately savings of the public at large for their own retirement protection. However, right after the introduction of the World Bank's model, the Hong Kong government immediately enacted the Mandatory Provident Fund Schemes Ordinance (MPFSO) in 1995 and launched the Mandatory Provident Fund (MPF) Schemes in 2000 to set up a mandatory private saving programme for the working population to fill up the empty space of Pillar II.

Before further discussing on the governance and policy tools of the MPF System, the evolution of the retirement protection system in Hong Kong should first be evaluated. Three major timeframes are identified that outline the history and development of retirement protection in Hong Kong. In parallel, Knill and Tosun's governance model will be applied and what policy tools were implemented in the phases will also be reviewed.

Phase I: Before 1965 – A Hands-Off Private Self-Governance Approach, as the Existing Pillar III

Before 1965, old age retirement was solely relied on voluntary contribution as the Hong Kong government did not provide any social support and retirement protection to the public. Two main reasons are identified for the phenomenon. First, in traditional Chinese culture, the belief that families should take care of their elderly and relatives instead of relying on the support of the government strongly embedded in the society. The colonial government was eager to see the rolling of the traditional culture and saw no point to provide any instant assistance to the elderly. Second, with limited financial resources, the government worried that any active participation in retirement protection would incur serious financial burden on the government and hesitated to take action. Meanwhile, the non-government/non-profit organisations (NGOs/NPOs) were weak and not well established. They were not able to put any pressure on the government or make contributions to fight for the benefits of the needed. The public had no choice but rely on their private savings to deal with retirement needs.

Neither the government nor the public sector had a leading role in the retirement policy. On the other hand, the public at large had a relatively high autonomy and flexibility to plan and prepare their retirement protection. The planning and preparation of the retirement of the public would be determine their own retirement lives. Furthermore, no general support or assistance would be provided by the government and NGOs/NPOs. In this context, with low legal binding duty of the government and a low cooperation between the private and public sectors, it is fair to conclude that the government assumed a Private Self-Governance in this policy area.

Under the Private Self-Governance, the government also adopted a hands-off strategy in this policy area. No specific tools or regulations were taken and the financial responsibility of retirement protection laid solely on the shoulder of citizens. Rather than concluding the government implemented the Pillar III – the voluntary pillar, it would be more appropriate to define the Pillar III as a by-product under the Private-Self Governance.

Phase II: Between 1965 – 1987 - A Hands-On and a More Interventionist Governance Approach as the Birth of Pillar I

Although the colonial government aimed to minimise its role in poverty protection before 1965, it realised that the absence of social safety net might incur a higher social cost to the govern. Thus, the government started to evaluate the social welfare policy in 1965.

Gertude Williams, a consultant, was employed by the government to evaluate social welfare policy in Hong Kong. Williams' findings reflected that rather than relying on the private sectors, there was an urge for the government to set up a more structural social protection system. Shortly after the findings, the government embarked on a feasibility study on establishing the Central Provident Fund (CPF) in 1966 and further formed a Task Force in 1967 for the setting up of a better social safety net. The Task Force affirmed that the government should take a leading role in retirement protection and considered the CPF as the way out for the retirement protection. However, the government at the time worried about the sustainability of the CPF, in particularly after the riots in 1967. The CPF was discarded but the government still took a more proactive role to devise different means to deal with the problem of poverty and an ageing population.

Public Assistance/CSSA

To deal with the problem of poverty, the government launched the Public Assistance in 1971, the predecessor of the CSSA, to provide a financial subsidy as a basic support to those in financial need.

The CSSA Scheme is an economic tool designed to serve as a safety net to those who cannot support themselves financially due to old age, unemployment, low-income, disability, illnesses, etc. Under the scheme, each family is a unit and applications are household based. Successful households would pass both asset and income test, i.e., they do not have sufficient household income to meet their monthly expenses (LWB, FSTB & CPU, 2011).

An elderly person may also apply for the CSSA but has to submit a declaration to the Social Welfare Department (SWD) about his/her financial position that he/she does not receive any financial resources or have any linkages with family members (LWB, FSTB & CPU, 2011). In recognising their needs during retirement whilst they have no ability to make a living, the average CSSA payment and asset limit for aged recipients are set at a higher rate than those for general recipients.

OAA

On top of the CSSA, the government further introduced the OAA to enhance elderly protection in 1973.

There are two kinds of OAA in Hong Kong, namely the Normal Old Age Allowance (NOAA) and Old Age Living Allowance (OALA), and both are non-contributory. NOAA is a means-tested scheme, whereas OALA is non-means-tested scheme. Elderly citizens aged above 70 and 65 are eligible for NOAA and OALA respectively, whereas both NOAA and OALA are given at a flat rate to eligible applicants.

The significance of the CSSA and OAA

In the period between 1966 and 1987, the introduction of the CSSA and OAA was a milestone for Pillar I. The government delivered the basic social safety net to the public through a mandatory tax-financed public contribution. Citizens who pass the means test set by the government (i.e. SWD) will be eligible for CSSA or OAA. Pillar I was then established through the redistribution of tax revenue.

The censorship system in CSSA and OAA reflects that the government took the hands-on approach in the running and monitoring of the redistribution of tax revenue. The more pivotal role of the government in the safety net indicates the mode of governance shifted away from Private-Self approach and moved towards the Interventionist Governance. However, contribution from the public sector was still limited in this policy. Public sector organisations such as the Hong Kong Federation of Trade Unions and religious bodies made some retirement protection suggestions, but they were not crucial to the government which still had the ultimate authority in the policy area.

The strong decision-making power of the government compared to the low level of cooperation with public sectors showed that the government adopted the Interventionist Governance with the principle of "small government and large market", the government continually refused to contribute a larger sum of public fund and hesitated to set up a CPF to tackle the ageing problem. In the absence of any legal binding retirement protections such as CPF or MPF, the mode of governance should be somewhere between Private-Self Governance and Interventionist Governance.

Several policy tools were applied in the operation of Pillar I. The government used SWD as the regulatory body for the administration of CSSA and OAA, such as censorship of applications, monitoring of issues of funds and on-going evaluation of the system. On the other hand, CSSA and OAA themselves were used as the economic tools to deliver monetary allowances to the vulnerable people under SWD's administration umbrella. Under this mode of governance, the policy tools were effective for the operation of Pillar I.

Phase III: Between 1987 and 2000 - Hands-On and Off Regulated-Self Governance Approach as the Forming of Pillar II

The longstanding struggle for the development of Pillar II

Although the government moved a step forward from the hands-off approach to a more proactive role in providing financial subsistence to the needy, the call for a better retirement protection plan never stopped. Nevertheless, the debate for the universal retirement protection was still controversial in the society and the diverging views on the retirement plan made nothing more than discussion over the years.

In 1987, some retirement plans including the CPF had been submitted to the Legislative Council (LegCo) for extensive discussion (Official Records of Proceedings of the Legislative Council, 1987), but neither the government nor LegCo favoured the CPF for several reasons. First, the enormous monetary capital under centralised control for investment purposes would seriously affect the financial, monetary and foreign exchange markets. Second, the scheme would impose additional costs to employers but could not provide sufficient protection for the retired (HKSAR Government, 1992). Third, the social welfare development of Hong Kong saw both external and internal constraints at the time. Externally, Hong Kong had to achieve a balanced budget and maintain fiscal reserves for any unforeseeable challenges; whereas internally, the colonial administrators of the government aimed to maintain low taxation (Chan, 1998).

After four years in the first attempt to modify the retirement plan, another motion was submitted to LegCo urging the government to "take immediate steps to re-examine the setting up of a CPF or other forms of compulsory retirement schemes in order that workers in Hong Kong are provided with comprehensive retirement protection". Again, the motion was voted down without the consensus amongst LegCo members and citizens (Official Records of Proceedings of the Legislative Council, 1991).

Interim version - Occupational Retirement Schemes Ordinance

After the longstanding development, the public sectors (NGOs and NPOs) began to have much higher political influence and had the ability to contribute in the retirement policy area. Their persistent urge for a better retirement plan gave substantial pressure to the government. The Occupational Retirement Schemes Ordinance (ORSO) was introduced to address the public sentiment. It was enacted in late 1992 and came into operation in 1993.

The ORSO is a voluntary scheme participated by the employers whom provide retirement benefits to their employees. Terms of the scheme such as the coverage, enrolment arrangement and contribution rate are determined by individual employer. The contribution rate is mainly based on basic income and there is no compensation fund to protect the funds. The ORSO does not outline details of the ORSO schemes. Joining the scheme is a sole voluntary commitment and this could be considered as a quasi-legal regulation devised by the government before the establishment of the MPF System (MPFA, 2015). There was no formal requirement for employers to establish or join any retirement schemes before the MPF System appeared. To cope with the launch of the MPF System, employers with ORSO schemes can be exempted from joining the MPF System given that certain conditions are fulfilled (MPFA,2015). The setting of the ORSO was a more moderate and less controversial policy that acted as a test of the public acceptance of voluntary contribution by the employers before actually moving towards the MPF or CPF. The result of the ORSO was promising and gave confidence to the government for implementing some mandatory voluntary contributions.

The situation before MPFSO

The implementation of the ORSO would not end the desire for better retirement plans, the government thus formed an inter-departmental working group on this aspect. The objective of the group was to review options other than the CPF that would enable workers to have a better retirement protection. In October 1992, the working group issued a consultation paper, 'A Community-wide Retirement Protection System', proposing for the introduction of a privately-managed mandatory contributory retirement scheme – a retirement protection system – for all full-time employees under the age of 65. However, the proposal was turned down by citizens in public consultations.

In December 1993, the government proposed to LegCo an Old Age Pension Scheme (OPS) for discussion. OPS would provide a flat-rate monthly pension for all eligible elderly aged 65 or above. All eligible residents would receive a monthly pension equivalent to approximately 30% of the median wage, i.e. HK$2,300 at the price levels of 1994. The government planned to make a capital injection of HK$10 billion as a start-up fund to finance the scheme and enable an immediate payment of pension to eligible persons. The amount of benefits would be indexed annually to the Composite Consumer Price Index and it was to be funded by a compulsory contribution i.e., 3% of an employee's income to be shared equally between the employers and employees in a long-term basis. The consultation paper of OPS was launched in July 1994 for comments. Again, the OPS was discarded in January 1995 as the public opinions diverged and were not supportive.

The catalyst for the launch of MPFSO

The development of the retirement policy was stuck due to the diverging public opinions and the balance of needs of various parties also made this policy complicated. Having said so, the introduction of Three-Pillar-Model by the World Bank in 1994 was the catalyst for the birth of the MPF System.

In 1994, Hong Kong only covered Pillar I and III but not Pillar II. With reference to the World Bank's model, the government decided to fulfil the remaining Pillar II. Whilst the submissions on OPS were of divided opinions, the public consultation indicated that there would be greater public acceptance of a mandatory, privately-managed provident fund scheme, particularly if it could be set up by 1997. The lobbying works with LegCo members, trade union leaders and representatives of business community also showed that the introduction of MPF would be regarded as a pragmatic way forward to help the retired citizens. In this juncture, the government expeditiously proposed another motion in March 1995 to introduce a mandatory, privately managed occupational retirement protection system with provision for the preservation and portability of benefits. Finally, the LegCo voted 28-21 in support of the government's motion to introduce a mandatory, privately-managed occupational retirement.

The MPFSO (Cap. 485) was subsequently submitted to and passed by LegCo in July 1995. The MPFSO provided the framework for the establishment of the non-governmental mandatory MPF System for the purpose of funding benefits for retirement. It was amended in March 1998 and supplemented by subsidiary legislation enacted in April 1998 and May 1999 respectively, which set out the detailed rules governing the operation of the MPF System (Legislative Council Secretariat FS18/04-05). Under the MPFSO, the Mandatory Provident Fund Schemes Authority (MPFA) was formed as the statutory body to establish, monitor and evaluate the development of MPF. After the longstanding struggle and fierce debates, the MPF Schemes were finally launched for the working population in December 2000.

The significance of the developments of ORSO and MPFSO

The period between 1987 and 2000 should be concluded as a watershed for the development of retirement protection plan in Hong Kong. Under the persistent desire for a better retirement plan by the public and private sectors, the government took a more pivotal role in old age protection. The enactment of ORSO was the first indicator showing the eagerness of the government in addressing the public needs via legislation. The plan to inject a large sum of monetary contribution (i.e. HKD 10 billion) as start-up capital for the OPS also reflected the aspiration of the government in the retirement policy. Although the OPS was rejected in LegCo, the government immediately submitted another proposal i.e. the MPFSO as an alternative for retirement protection. The intension to set up the OPS, the enactment of the ORSO and the MPFSO revealed that the government had finally taken up the legal responsibilities in the retirement plan. Meanwhile, the increasing bargaining power of the public sector also urged the government to use the MPFA as a statutory body, not only to monitor and evaluate the MPF System, but also to closely cooperate with stakeholders such as fund houses, trade unions, scholars, etc. With the high degree of legal binding capacity and a much closer cooperation with the public and private sectors via MPFA, the mode of governance moved towards the Regulated-Self approach.

Under this mode of governance, some other policy tools were applied. The enactment of ORSO and MPFSO was the legal tool for the government to invoke legal apparatus for the purpose of applying or not applying other resources (or tools) through a legitimated authority. In parallel, the MPFA, as a statutory body, was empowered under the ordinance to monitor, control and evaluate the running of MPF System. The mandatory contributions by the employers and employees were on the other hand the economic tool for the retirement plan. As such, Pillar II, a mandatory funded private pillar, was finally developed.

Concluding Comments

Contemplating on the development of the retirement plan in Hong Kong up to 2000, it is noted that the mode of governance had been changing throughout the decades and different policy tools were applied with reference to the Pillar model and mode of governance.

Before 1965, under the traditional Chinese culture, the public did not expect the government to provide any retirement protection and social safety net. Thus, the government adopted the Private-self Governance and Hands-off approach to deal with the retirement policy with no particular policy tool required. Autonomy was given to the public so that they could prepare for their own retirement plan. Pillar III – the voluntary pillar was seen in operation.

Between 1966 and 1987, the government realised the necessity of setting up the social safety net and initiated the Public Assistance and OAA for the public in 1971 and 1973 respectively. Since then, the government shifted more towards the Interventionist Governance by taking more responsibility in the social safety net. To launch the social safety net, the government assigned SWD as the gatekeeper for the censorship, monitoring and running of CSSA and OAA. CSSA and OAA, on the other hand, were the economic tools to provide subsidies to the needy. Pillar I – mandatory tax-financed public contribution was in place.

In the period between 1987 and 2000, different kinds of retirement plans were proposed including ORS, MPF and OPS. Different ordinances were enacted as well. This indicated that the government had taken up a more pivotal and legal role in formulating the retirement policy. The enactment of MPFSO stipulated that the MPFA would be the statutory body of the government to monitor the MPF to bring in the opinions of the public and private sectors. The mode of governance was identified to be moving towards Regulated-Self Governance. Three policy tools were also identified i.e. the legal tool via ORSO and MPFSO; the MPFA as the authorisation; and the mandatory private contribution as the economic tool. After painstaking effort, Pillar II – the mandatory private contribution was finally put in place.

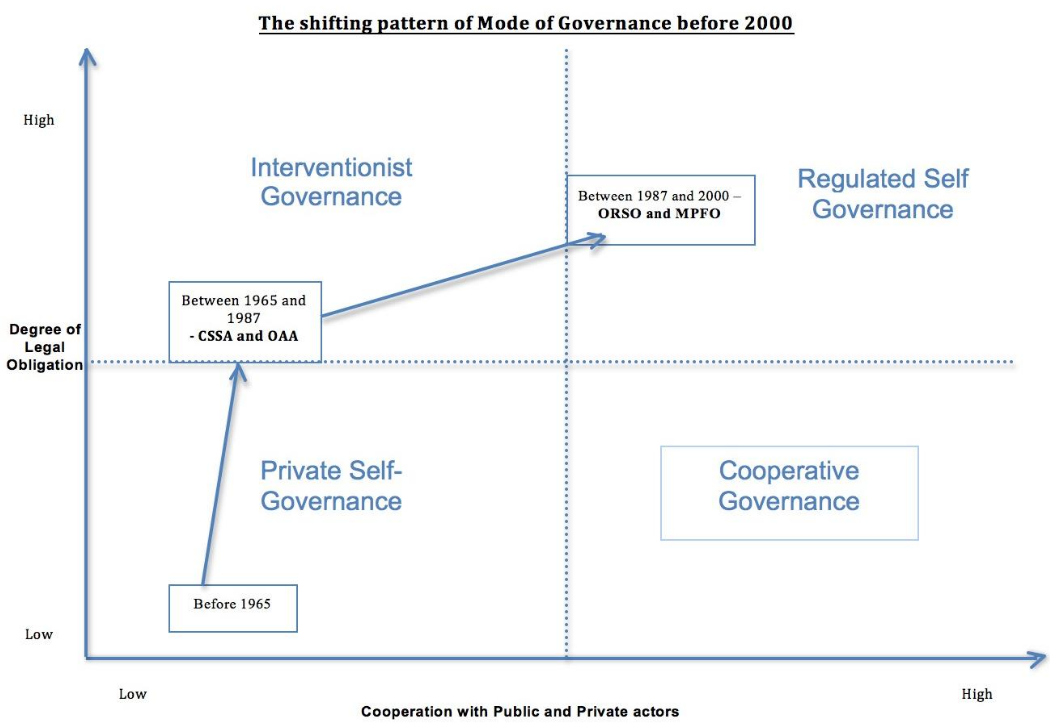
Table 3.1 summarises the development of the retirement plan before 2000 while Figure 3.1 shows the movement of the mode of governance during the period.

Table 3.1 - The development of the retirement plan before 2000

	Before 1965	**Bet 1965 and 1987**	**Bet 1987 and 2000**
Mode of governance	Private-Self	Moving toward Interventionist	Moving toward Regulated-Self
Policy	Nil (only autonomy to public)	CSSA and OAA	Schemes: ORS; MPF Ordinances: ORSO & MPFO
Department/ Statutory body involved	Nil	Social Welfare Department	Mandatory Fund Scheme Authority

Policy tools	Nil	Economic Tool; Authorisation Tool	Economic Tool; Legal Tool; Authorisation Tool
Pillar development	Pillar III	Pillar I and III	Pillar I, II and III

Figures 3.1 - The movement of the mode of governance before 2000



In conclusion, the government always adhered to the principles of small government and positive non-interventionism, regarding welfare as a responsibility shared between the government and the family (Chow, 1998), but the public have a growing sense of their own social rights and the government's responsibility to provide social welfare. All these drove the government to enhance the safety net and modify the retirement protection. In this context, the MPF System was finally established as the result of intensive policy debates in the past 40 years. However, the establishment of MPF was the start only, Hong Kong citizens, the politicians and the public sectors would continuously battle for better plans, such as universal retirement protection. The next chapter will discuss how the governance and tools during the implementation of the MPF and how the MPF were adjusted with reference to the public needs and wants.

Chapter 4 - The MPF System

Introduction

This chapter provides an empirical analysis of the MPF System after its launch in 2000. The discussion of the MPF System will focus on the governance and policy tools applied in the MPFSO and the MPFA. The MPFSO is the basis of the MPF system, and the MPFA is the organisation that oversees the system.

The MPF System – A Core Policy Tool in Regulated-Self Governance

The MPF System, being the core policy tool in retirement protection policy in Hong Kong, consists of the public sector, employees, employers and different types of service providers with different roles and responsibilities. Public and private sectors are cooperating together in the policy-making and implementation, but this is not a simple expression of network governance involves market and hierarchy. The institutional relationship between public and private sectors is not only characterised by high cooperation; but also under a high degree of legal obligation.

The public policy in the area of retirement protection through the MPF System is an expression of a Regulated-Self Governance, in which cooperative relationship between public and private actors is accompanied by legally binding rules as stated in the MPFSO, Chapter 485, Laws of Hong Kong. Private sectors are participating under clearly formalised and institutionalised procedure.

Regulated Self-Governance involves market, hierarchy and also the use of appropriate policy tools. The associated legally binding rules and procedures established by primary legislation, is a policy tool implemented by the government as a regulatory method. The government regulates the MPF System by introducing the bill on MPFSO, to implement the regulation through a statutory body, the MPFA. This is a form of legal regulation through primary legislation of laws and establishment of a regulatory structure.

The operation of the MPFA is independent from the government. MPFA is not a government department, this arrangement strengthens the foundation of a minimal state and its market mechanism (Chan, 2003). However, is it the case?

The MPFSO – The Regulatory Basis

The MPFSO was enacted in 1995. It was a bill introduced by the government. This ordinance provides a basis for the establishment of the MPF System. This is a primary legislation initiated by the government with a function to provide a set of legal binding rules for governing all activities related to the MPF System.

The Ordinance was not enacted without controversy. It was only introduced after a series of discussions and debates in the society as elaborated in the previous chapter. It was only after the introduction of the Three-Pillar-Model by the World Bank in 1994 via the Report 'Averting the Old Age Crisis', the government proposed the bill on MPFSO for LegCo's consideration.

The MPFSO is divided into six parts with different areas of focus. The long title of the ordinance outlines the objectives as follows (MPFSO, 2013):

- to provide for contributions to and the registration of MPF schemes;
- to provide and create a regulatory regime i.e., a MPF Schemes authority to oversee the administration and management of MPF schemes;

- to exempt certain classes of persons from contributing to the schemes;
- to provide for the approval of persons as trustees of registered schemes, and to control and regulate approved trustees, to regulate the sales and marketing activities; and
- to give advice related to registered schemes.

The MPFSO is a primary legislation incorporated into the Laws of Hong Kong. It provides comprehensive legal binding rules designed by the government, however, the ordinance clearly positions the MPF as a non-governmental scheme for the purpose of funding benefits on retirement protection to the workforce. The MPF System is rather based on cooperation between public and private participants with strong legal binding i.e., a reflection of Regulated Self-Governance type.

The MPFA – The Regulatory Body

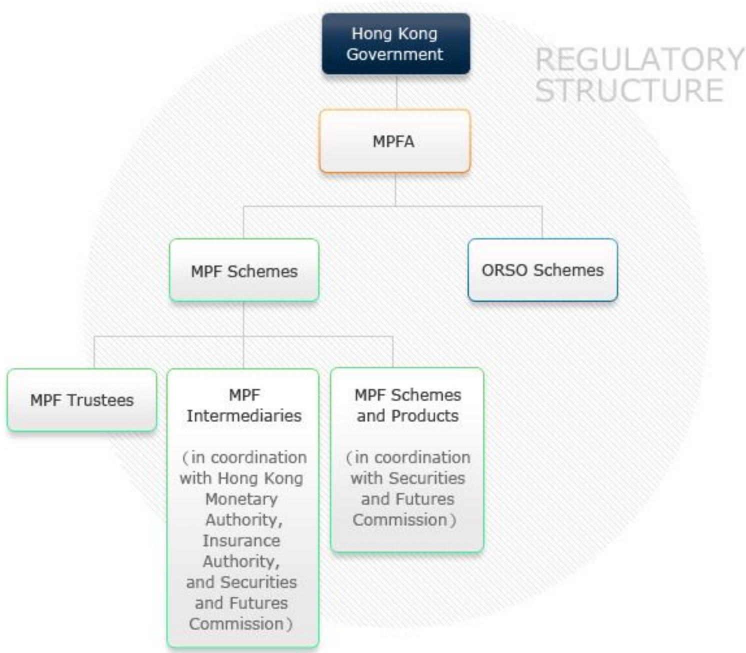
Regulatory structure of the MPFA

The MPFA was established in 1998 pursuant to section 6 of the MPFSO. The MPFA positioned itself as a regulatory structure responsible for regulating and supervising the operations of the MPF System so as to ensure the compliance to MPFSO.

The MPFA is governed by a Management Board, which is assisted by supporting committees and receives advices from two statutory advisory committees. Supporting committees include both standing and ad hoc committees, which provide on-going support and advices on specific issue respectively. Under the Management Board is the Managing Director whom is responsible for overseeing the daily operations of MPFA (MPFA, 2015).

Reference to the regulatory structure chart in Figure 4.1, under the MPF schemes, there are MPF trustees, MPF intermediaries and MPF schemes and products. The MPFA is responsible for approving qualified trustees and intermediaries, regulating their affairs and activities; registering provident fund schemes as registered schemes; making rules or guidelines for the payment of mandatory contributions and for the administration of registered schemes, etc.

Figure 4.1 - Regulatory Structure of the MPFA (MPFA, 2014)



Organisation of the MPFA: a policy tool to use policy tools

The MPFA as a statutory body is a policy tool adopted by the government to regulate and supervise the MPF schemes. Functions of the MPFA are laid down in section 6E(1) of MPFSO. In the aspect of regulating and supervising, the MPFA is responsible for ensuring compliance with MPFSO; registering provident fund schemes as registered schemes; approving qualified persons to be approved trustees of registered schemes; and regulating their affairs and activities, etc.

Apart from regulation and supervision, the MPFA takes up the role of educator, promoter and facilitator of the MPF schemes. Under the Managing Director, the MPFA is divided into a number of divisions with different functions. These divisions are established to oversee, manage and implement the work of MPFA in the areas of enforcement, supervision, regulation and policy, external relations and media, corporate services, and risk management.

A policy tool is capable of assuming multiple roles with various functions or actions. The MPFA as a policy tool itself deploys other tools to address different issues of the MPF System. Regulatory function is the main tool, which is supplemented by other tools, which is "softer" in nature, such as education, promotion and facilitation.

Characteristics of Regulated Self-Governance in the MPFA

The MPF System is clearly defined as a privately managed retirement scheme and not centrally managed by the government. Under the regulated self-governance mode, relationship between private and public sectors is characterised by high cooperation without government domination. It can be found in areas such as financial, operational and managerial composition.

The MPFA as a statutory body is independent from the government, which preserves its autonomy over financial and operational affairs. Upon the set up of MPFA in 1998, LegCo approved a capital grants of $5 billion provided for MPFA's initial set up and $600 million put into the Compensation Fund established under the MPF System. Subsequently, the MPFA operates on a self-financing basis, its' incomes are the fees and charges collected and investment returns generated from the initial lump-sum grant (MPFA, 2007). This arrangement has a capacity to enable MPFA to run efficiently in the economic term.

The composition of MPFA's Management Board reveals high cooperation between the public and private sectors. Pursuant to section 6A of the MPFSO, the Chief Executive appoints all directors. In appointing directors, the Chief Executive must ensure that the number of persons appointed represent the interests of relevant employees is equal to the number of persons appointed to represent the interests of participating employers.

Currently, there are 11 non-executive directors and 5 executive directors in the Management Board. The present chairman of the Management Board is Dr David Wong, who is also a managing director of an investment limited company. He was appointed in March 2015 as the successor of Anna Wu, ex-chairman of the Board, who was a member of the Executive Council of the Hong Kong government with extensive record of public records. The rest of the 10 non-executive directors include 2 Permanent Secretaries from the government, 2 legal professionals, 3 Legislative Councillors, 2 finance/investment professionals and 1 being the General Secretary of the Hong Kong Federation of Trade Unions.

Although the MPF Scheme is a privately managed scheme, as a public policy on retirement protection, the government contributes to the board by having 2 seats i.e., the alternate Permanent Secretary for Financial Services and the Treasury and the Permanent

Secretary for Labour and Welfare. The composition is clearly designed and endorsed by the government so as to ensure balance of powers among stakeholders of the MPF System from both public and private sectors.

The MPF system is regulated by the MPFSO. It requires strict compliance of rules and regulations. However, detail operations including direction and focus of the MPFA are not outlined in the legislation. Directors from different backgrounds, through participation in the board, the sole governing body of the MPFA, will be able to influence each other via liaison and communication. The composition of the board facilitates flexible cooperation between public and private sectors, and also reflects the nature of the MPF system at the same time.

Code on Disclosure for MPF Investment Funds

Under the MPFSO, the MPFA is empowered to issue guidelines for approved trustees, service providers and other persons concerned with the MPFSO. Apart from the legislation, the Code on Disclosure for MPF Investment Funds (the Code) was first published in June 2004, i.e. 3.5 years after the launch of the MPF System, to improve transparency of the scheme in particular the degree of disclosure of information on fees, charges and performance of MPF funds. It gives guidance on top of the MPFSO to approved trustees and other service providers about the disclosure of information about MPF schemes and constituent funds, particularly in information about fees, charges and performance; sets out guidance about content for a range of documents such as offering documents, fund fact sheets and annual benefit statements as supplement to the MPFSO and other existing code and regulation (MPFA, 2012). This Code enjoys the same status as a guideline issued under the MPFSO which has also set out the consequence of the contravention of a guideline, whilst compliance with a guideline issued by the MPFA is also stated as a standard condition that a trustee and registration of a scheme have to complied with before approval is granted to them to be listed under the MPF market.

During the course of the operation of MPF scheme, information is provided to a range of parties for different purposes. Obviously, scheme members and prospective scheme members need information for a variety of purposes: firstly, to understand the nature, characteristics and rights pertaining to the scheme; secondly, to enable them to make informed investment decisions about the range of choices available to them; thirdly, to verify transactional information such as contributions and redemptions; and fourthly, to assist them in longer term financial planning for retirement and lifestyle needs. In order to facilitate decision-making, members need to be provided with information on a continuous basis. The Code has therefore set out some guidelines governing the *manner* and *extent* with respect to the disclosure of information which should facilitate decision making, promote comparability whilst the information provided should be consistent, clear, concise and timely (MPFA, 2012). Under these directives, samples and templates of information and its scope to be provided were designed to ensure compliance. For instance, a 'Fee Table' has been recommended which cover all fees and charges under the scheme; what a particular fee is for; the amount of each fee currently charged; and from whom each fee is payable (MPFA, 2012).

In addition to the obvious needs of scheme members (i.e. citizens), other stakeholders such as employers, industry peers, academics, regulators, the government and the media will have an interest in information about the registered schemes. The focus of the guidance contained in the Code is not solely on the provision of information to citizens who have/or will be registered under MPF schemes; whilst the needs of other stakeholders, particularly employers, have also been giving more comprehensive information about fees and charges which will be of good assistance to them in choosing a scheme for their employees since fees and charges are some of the key relevant factors in making that decision.

Since the launch of MPF in December 2000, the MPFA has been working with the industry under the ideal of regulated self-governance. The Code is a good example of public-private collaboration initiated by the MPFA and the industry is supportive of the project and has contributed significantly to the development of it. It has not only enhanced the transparency of fee, charges and performance on MPF funds by means of a legal regulation under the Code, it has also played its role as an informational regulation tool which seeks to provide scheme members with clearer and information that is easier-to-understand so as to enable them to make a better informed investment decision for their retirement protection through the MPF. Interestingly, it is also recognised that some disclosure material has both served the purpose of providing information to scheme members to help them make decisions and also the commercial purpose of promoting MPF products, contributing to a win-win scenario between the citizens who have to invest in MPF and the private sectors participating in the scheme and selling the product.

Under the Code, some requirements in the form of informational tools include the use of mechanisms such as simplified language, improving the consistency of presentation and language, and a variety of tools that will assist members in better understanding the MPF information such as a fee table for all registered MPF schemes, an on-going cost illustration that shows the cost over a period of investment time, and fund expense ratios which show the total level of expenses incurred by a fund (MPFA, 2012).

Compliance Standards for MPF Approved Trustees

With a view to ensuring the smooth operation of the MPF System, enhancing the monitoring role of the authority, hence promoting good corporate governance and proper risk management as well as a strong compliance culture among the MPF approved trustees (Trustees), MPFA issued a set of Compliance Standards (the Standards) in July 2005 for the guidance of Trustees specifically to assist them in developing a structured framework for monitoring their compliance with the statutory duties and responsibilities (MPFA, 2005).

The Standards outlines different sets of compliance programme to help the organisation (i.e. Trustees) address statutory obligations; develop and maintain policies that drives the organisation towards a positive compliance culture and encourages compliance practices; allocate resources to monitor an organisation's compliance and to ensure that compliance reporting is timely, accurate and complete; ensure that staff understand their respective roles in meeting the trustee's statutory obligations with capacity building through training and communication; enable proactive and timely management of complaints received from scheme members and participating employers; evaluate its compliance with these programmes and conduct regular review; and establish reporting mechanisms to the board of directors of the organisation (MPFA, 2005).

Precisely, the Standards form a compliance standards framework. They describe the purpose of a compliance programme and elements that approved trustees may put in place to help ensure compliance level with the legal requirement under the MPFSO. These elements aim at ensuring that there is a solid foundation in the organisation for the development of specific measures (or compliance plans) to address key obligations. Implementation of these elements will help assist an approved trustee to develop a positive compliance culture and as a result ensure the effectiveness of its compliance programme as required by the legal regulation.

By outlining compliance plan and elements for trustees so as to ensure their compliance level with the statutory requirement, the Standards serve as structural regulations which are utilised to manipulate the physical environment of the organisation to influence its action. It depicts some compliance plans which are the key tools within a compliance programme to achieve compliance with respect to obligations. It is under this intangible power that the MPFA intends to influence the trustees so that the latter could formulate plans and measures to meet identified obligations, monitoring, supervision these measures as well as reporting of the compliance level as and when necessary, under the umbrella of the regulated self-governance.

Comparative Platform: Fees and Trustee Service

Fee comparative platform

Followed by the Code on Disclosure for MPF Investment Funds which was launched in 2004, the MPFA introduced the Comparative Platform as another informational tool to improve the transparency of information about MPF funds. Operated on its website since July 2007, the Comparative Platform of MPF funds provides scheme members with information about fees and charges measured by the average/highest/lowest fund expense ratio of the six main types of MPF funds namely Capital Preservation Fund, Guaranteed Fund, Bond Fund, Mixed Assets Fund, Equity Fund and others, thus enabling comparison of fees and charges across different types of MPF funds at an one-stop online platform (MPFA, 2007).

Given its comparative features, the platform could also serve the purpose as an educational tool to facilitate scheme members to better understand fees and charges of MPF funds and to compare across the funds, with reference to the MPF Investment Education Campaign conducted since 2005 whilst the aim of which is to enhance scheme members' knowledge of MPF investments and understanding on the information made available under the Disclosure Code, such as fee table and fund fact sheet etc.

Trustee service comparative platform

Back in September 2012, there were about 40 MPF schemes provided by over a dozen MPF trustees in the market. Since the services offered by the different trustees and the fund choices available were never identical, it was not easy for citizens to understand the details when they were trying to choose in the basket the most suitable scheme for themselves.

As a quick solution, the "Trustee Service Comparative Platform" was launched by the MPFA, and served as a helping tool for citizens by providing details of the services offered in different schemes of each trustee specifically in the following three areas (MPFA, 2012):

- **Fund Choices** - types of funds and number of each type of fund available for selection;

- **Account Administration** - the time required to process benefits transfer, withdrawal and contribution settlement, and the channels available and time required to change investment allocation.
- **Customer Services** - for example, how often Member Benefit Statements and Fund Fact Sheets are sent to members, enquiry channels, details of online services and interactive voice response systems.

As a service provider and facilitator with a shift of the responsibility to the citizen in planning for their retirement protection, the comparative platforms introduced by MPFA allow scheme members to compare service fee and services offered under all available schemes, a few selected trustees or schemes, or simply focus on a particular scheme. These platforms are also helpful to scheme members planning to switch trustees and schemes after the implementation of the Employee Choice Arrangement, or if they want to review the services of the current scheme and trustee of their personal accounts. Employers and self-employed persons can also refer to the information on this platform when selecting the trustees and schemes for their employees or themselves, with greater degree of information and hence autonomy provided under the regulated self-governance model coupled with the use of informational tools.

General Performance of the MPF System

It is noted that MPF does contribute to the retirement protection in Hong Kong to a certain extent. In respect of retirement protection coverage, the percentage of workforce with retirement protection has increased from around 33% before the MPF's introduction to around 85% in December 2014. From being protected by nothing to being protected by the MPF, it is indeed a significant improvement on retirement protection for the 52% of the workforce. In respect of asset capacity, the total assets of the MPF as at the end of March 2015 is almost $600 billion. Such considerable amount would greatly relieve the financial burden of the government on retirement protection. In respect of return level, the annualised rate of return (net of fees and charges) of MPF is 4.2% for the period from December 2000 to October 2014. As compared with the annualised inflation rate at 1.8% and the annualised one-month Hong Kong Dollar deposit rate at 0.7% over the same period, the return level of the MPF stands out obviously (ISD, 2014) (Wong, 2015).

However, the performance of MPF in respect of cost level is not satisfactory. According to a study of the administrative costs of MPF conducted by Ernst & Young engaged by MPFA, the average Fund Expense Ratio of MPF is 1.74% from July 2010 to June 2011, which is the highest among all other comparing countries, such as Chile at 0.6%, United States at 0.83%, Australia at 1.21% and Mexico at 1.32% (Ernst & Young, 2012). In fact, this problem of high cost level of MPF has been continuously raised by the Consumer Council, LegCo, as well as MPFA itself. For the Consumer Council, its study in 2007 revealed that a good sizeable proportion of investment is deducted by MPF service providers over a host of fees and charges (a 1% annual fee will reduce 23% of retirement benefits or $690,000 less for an accrued balance of $3.05 million, over 40 years on assumption of a 5% investment return) with a wide range of variations in Fund Expense Ratio (ranging from the lowest of 0.41% to the highest of 3.87% for all funds, or ranging from the lowest of 1.38% to the highest of 2.84% for the same fund type which is balanced fund, a major portion of the MPF investment) (Consumer Council, 2007), and its study in 2008 further called for greater reduction of MPF fund management fees

(Consumer Council, 2008). For LegCo, there was a motion debate on January 10, 2013, criticising on the MPF's high fees, and urging for a comprehensive review of the MPF including the setting a ceiling for the Fund Expense Ratio. For the MPFA itself, Dr David Wong, Chairman of MPFA admitted in his speech on "MPF - 15 Years and Beyond" at the luncheon of Hong Kong Retirement Schemes Association on May 14, 2015, that "the fees charged by funds are often the target of the most vehement attacks" (Wong, 2015). In short, it is a must for MPFA to explore some new policy tools as cost drivers.

Recent Refinements of the MPF System

Employee choice arrangement (ECA): a new policy tool - from regulated self-governance towards private self-governance

As mentioned above, it is a must for MPF to explore some new policy tools as cost drivers. One of these new policy tools is ECA, which not only helps reduce the cost level of MPF, but also shows an evolution from Regulated Self-Governance moving towards Private Self-Governance, as well as shifts the focus from employers to employees.

The MPFA introduced the ECA on November 1, 2012, to allow semi portability. Under ECA, employees can, once a year, opt to transfer the accrued benefits derived from the employee mandatory contributions in their contribution accounts to a scheme of their own choice. Alternatively, they do not have to make any changes and retain the accrued benefits in the original scheme selected by their employers. As compared with the situation before the introduction of ECA that employees can only choose among the schemes selected by their employers, ECA allows employees much greater autonomy in the MPF market (MPFA, 2015).

By giving employees greater autonomy in the MPF market, ECA enhances market competition and thus reduces the cost level of MPF. This common economic viewpoint is proved by real statistics. Jointly with other measures such as urging trustees to introduce low-fee funds and launching a low-fee fund list, ECA helps decrease the average Fund Expense Ratio of MPF from 1.74% for the period from July 2010 to June 2011 (before ECA) to 1.62% as at the end of April 2015 (after ECA). Therefore, ECA does serve as a cost driver for MPF.

Besides serving as a cost driver, ECA also illustrates an evolution from Regulated Self-Governance moving towards Private Self-Governance. For any single policy, there is a mixture of policy tools under a mixture of types of governance, and every policy tool would strengthen or show an evolution moving towards certain type of governance. ECA is an economic tool under Freiberg's classification of policy tools. This policy tool enhances market competition and facilitates free market and free trade, thus shows an evolution from Regulated Self-Governance moving towards Private Self-Governance under Knill and Lehmkuhl's four types of governance.

Furthermore, ECA also shows an evolution of focus from employers to employees. As admitted by Anna Wu, the ex-Chairman of MPFA in her speech on March 13, 2015, on MPF reform proposals in recent years and her personal perspective on the concepts guiding these proposals and where they may lead, that to get the MPF started quickly 15 years ago, the initial design of MPF gave employers the choice of schemes and trustees thus reduced the focus on employees, and MPFA wanted the focus shifted to employees thus they introduced ECA (Wu, 2015). This shift of focus is considered rectifying to the right direction for such a scheme established for protecting the retirement living of employees.

Default investment strategy (DIS): a new policy tool -- from regulated self-governance towards interventionist governance

Notwithstanding the recent decrease in cost level thanks to various measures particularly the ECA, the MPFA believes that the Fund Expense Ratio "can and should go down further", as expressed by Dr David Wong, Chairman of MPFA in his speech on "MPF - 15 Years and Beyond" at the luncheon of Hong Kong Retirement Schemes Association on May 14, 2015 (Wong, 2015). The main force to make the Fund Expense Ratio to go down further will be the DIS, thus Dr David Wong further expressed that his "first and foremost" work priority for the next two years is "to see DIS launched by the end of 2016". Why does DIS rank in such the highest priority in the Chairman's work schedule?

Before knowing the reason why DIS ranks in such the highest priority in the Chairman's work schedule, we shall first know what DIS is about. DIS is a default core fund with its management fees capped at 0.75% through legislation and its investment approach best designed to manage the long-term risks associated with investing retirement savings. It is designed to allow the employees who do not make a fund choice to automatically default into the core fund. It will also provide for automatic de-risking over time and allow members to opt out as well as opt in. The MPFA is expediting the launching procedures of DIS. It published a consultation paper on "Providing Better Investment Solutions for MPF Members" in June 2014 and launched a three-month consultation to seek views from the public and the industry on the details of the core fund proposal. The consultation Concluding Comments were released in March 2015. The MPFA would brief the LegCo on the consultation results and the way forward in July 2015. Subject to the progress of the legislative processes and the preparation work, it is anticipated to introduce the relevant Bill into the LegCo in the 2015-2016 session and to implement the DIS by the end of 2016 (LegCo, 2015).

The DIS does not only mean an extra fund with low fee. By imposing a fee cap (a price ceiling) which will serve as a benchmark for all other MPF funds in the market, DIS will also bring down the cost level of all these funds. Clearly it will become an important cost driver for MPF. Moreover, besides serving as a cost driver, DIS also tackles employees' concern of making difficult MPF choice. In the workforce market, while there are employees who like to or know how to make MPF choice, there are also employees who do not like to or do not know how to make MPF choice. Interestingly, the ECA is targeted at the former, while the DIS is targeted at the latter. Given that there are so many different funds in the MPF market, and some of the funds are complicated with volatile return, the DIS is targeted at delivering a more consistent performance and offering a more simplified choice for those employees who do not like to or do not know how to make the choice.

Similar to ECA, DIS is also a policy tool showing an evolution moving towards certain type of governance. DIS is an economic tool using price regulation under Freiberg's classification of policy tools. This policy tool interferes with private market price setting. Such intervention shows an evolution from Regulated Self-Governance moving towards Interventionist Governance under Knill and Lehmkuhl's four types of governance.

Amendments to the MPFSO

The Regulated-Self Governance of the MPF System is based on the legally binding rules set in the MPFSO. Since the MPFSO's enactment in 1995, it has gone through some changes. Below is the list of amendments made to the MPFSO from launch to 2015 (MPFA Milestones, 2015).

When the government first introduced the MPFSO, it only had a broad framework of the yet to be established MPF System. The first amendment to the MPFSO was made in 1998 on the principal Ordinance for the effective operation and enforcement of the MPF System; and MPF subsidiary legislation to map out details on MPF schemes membership, registration, operational and exemption matters. The MPF System would not launch until 2000.

Two years after the MPF System was in operation, the government introduced new amendments to the MPFSO. The first and second Mandatory Provident Fund Schemes (Amendment) Ordinance 2002 were enacted in February and July of that year respectively to improve the administrative and operational aspects of the MPF legislation and enhance the effectiveness and efficiency of the MPF System.

In January and June 2008, the government enacted that year's first and second Mandatory Provident Fund Schemes (Amendment) Ordinance to improve MPF scheme administration and to enhance enforcement against non-compliant employers. The third amendment was then made in July to provide a legal framework for MPFA to implement the Government's injection of contributions into the accounts of eligible MPF and Occupational Retirement Schemes Ordinance scheme members.

In 2009, the government amended the MPFSO to provide for the Employee Choice Arrangement, and in 2011 the MPFSO was amended to protect MPF accrued benefits in a registered scheme upon bankruptcy of scheme members.

In June 2012, the government amended the MPFSO to provide for a statutory regime for regulating MPF intermediaries, and it came into operation in November along with the launch of the ECA.

In January 2015, the MPFSO was amended to increase flexibility of withdrawing MPF accrued benefits and to facilitate streamlining of the administrative procedures of MPF schemes and enable more effective enforcement actions to protect scheme members' interests.

In addition to the MPFSO, amendments to the Mandatory Provident Fund Schemes (General) Regulation were also made in 2006 and 2012 respectively to improve MPF investment rules and to put in place an automatic levy triggering mechanism for the Compensation Fund.

In the two decades of the MPFSO's enactment, it has been amended every few years (11 times in total) to adapt to changes in society and improve the MPF system. As the Financial Services and the Treasury Bureau replied to a Legislative Councillor's question in 2014 indicated, "the Government and the MPFA have been reviewing arrangements in various areas under the MPF System with a view to identifying improvement measures, in the light of experience gained from actual operation and opinions from various stakeholders." The MPFSO will continue to change in the future.

The proposed change to the MPF System in 2015 was the adjustment mechanism for the minimum and maximum levels of relevant income for the MPF mandatory contributions.

The MPFSO has already set out that the MPFA must conduct a review of the minimum and maximum relevant income levels to determine whether there are grounds for adjusting the MPF minimum and maximum mandatory contribution not less than once every four years. The purpose of setting the minimum and maximum relevant income levels is to relieve the financial burden of lower income earners and to give higher income earners more flexibility on the use of their own money. The minimum and maximum relevant income levels must be adjusted from time to time to reflect the changes of income distribution in the workforce.

At present, the adjustment mechanism is a mixture of automatic and discretionary mechanism, and the MPFA would like to change the adjustment mechanism to fully-automatic, but this requires consensus in society in order to amend the MPFSO. The MPFA conducted a public consultation from January to March 2015 to change the adjustment mechanism to determine the minimum and maximum relevant income levels at the same time once every two years instead of doing it at least once every four years at an unfixed time.

A majority of the response received in the public consultation is against the proposed adjustment mechanism. As a result, MPFA recommended to the Government to make no change for the time, and the current rules set in the MPFSO shall stay the same.

The Government agrees with the MPFA, and no amendments to the MPFSO will be made for the time being.

Concluding Comments

This chapter has discussed in details the organisation of the MPFA and the regulations of the MPFSO. The MPF system is based on cooperation between public and private participants with strong legal binding, as set out in the MPFSO, and is in reflection of regulated self-governance. Since the MPF's launch in 2000, the system continues to be refined, and the performance of the MPF remains strong. At the same time, there is a gradual shift of the MPF system to the direction of private self-governance in the approach to ECA and interventionist governance in the introduction of the DIS.

Chapter 5 - Evaluation of the MPF System

Introduction

The MPF system is a reflection of Regulated Self-Governance. It is a policy tool deployed to match with the retirement problem in Hong Kong, and it uses various policy tools itself. Is the MPF System the right policy tool? The appropriateness of the use of policy tools and whether it reflects on good governance can be assessed based on several evaluative criteria. Winfield and Rossell suggest four evaluation criteria, i.e. effectiveness, economic efficiency, distributional fairness and political acceptability. In this chapter, Winfield and Rossell's four evaluation criteria for fitness of policy tools will be applied to assess the various policy tools of the MPF System. The chapter will have a thorough assessment on whether the MPF System is a fit policy tool to match with the retirement problem in Hong Kong.

Fitness of the Policy Tools of the MPF System

The MPFSO and MPFA

The MPFSO was supported and passed by LegCo in 1995 despite the fact that there was controversy over the deployment of MPF System as the sole retirement protection for the society. In the political sense, it can be concluded that the MPFSO and the relevant MPF System as a retirement protection had general support. The MPFSO outlined the structure, authority, functions, operations of the MPFA System, etc. Although the MPFSO did not outline everything relevant to the MPF System, it is effective in providing a framework for the MPF System as a primary legislation.

MPFA, established pursuant to the MPFSO, is the sole regulatory structure of the MPF System. The MPFA has a mission to regulate and supervise the privately managed provident fund schemes; to educate the working population about saving for retirement; to promote the role of MPF System as one of the pillars supporting retirement living; and to lead improvements to MPF Systems so as to make them more efficient, user-friendly and better meet the needs of the working population (MPFA, 2015). Functionally, the MPFA is a carefully structured organisation with many roles. Regulations and guides are comprehensive; however, is MPFA effective in educating the working population about saving and leading improvement of the MPF System?

It is undoubtedly that a majority of the working population knows the existence of the MPF System, but do they know the details of their own retirement schemes? There are several amendments to the MPFSO and these amendments affect the operation of the MPF System, but do people know about the changes? Employees often criticised their MPF scheme for not generating a satisfactory return, but many of them never took the time to study the scheme performance or did not have the knowledge to understand, and they simply criticise the system instead. If the general public were more educated about the operation of the MPF System, they would be more able to administer their own scheme i.e., to generate more return. The MPFA may be effective in regulating the MPF System, but there is area for improvement in assuming the educator role.

MPFA as the sole regulatory structure of the MPF System runs itself financially. After the one-off capital grant and fund approved by the LegCo for initial set up at a non-recurrent cost, the MPFA operates on a self-financing basis without seeking extra money.

Referencing to the MPFA annual reports since the establishment of the MPFA in 1998, they recorded surplus or deficit in different years. The overall capital and reserve was above $5 billion i.e., the initial set up grant before 2013. It is only since 2011; the MPFA recorded 4 consecutive years of deficit and the overall capital and reserve first recorded below $5 billion i.e., in 2013. In 2014, it recorded a deficit of $356 million and the overall capital and reserve fell to $4.6 billion (MPFA, 2000-2014).

Consecutive years of deficit suggests that the income is smaller than expenditure for several years. Does the consecutive years of deficit suggest structural deficit? Fees, interests from bank deposits and net investments are the main incomes of MPFA, whereas, staff costs contribute to the greatest amount of expenditure. It is worth to note that the amount of staff costs increased considerably in the past 20 years. Income of MPFA in 2014 was only one-third to that of 2000, but the expenditure in 2014 increased more than 4 times to that of 2000! Although MPFS operates on a self-financing basis, what would happen if the MPFA runs into bankruptcy? It is still too early to predict bankruptcy. As a whole, it is submitted that MPFA is so far economically efficient as it does not seek recurrent funding from the government so far and the cost to the society as a whole is rather low.

Code on disclosure for MPF investment funds

With the shift towards Regulated Self-Governance, the MPFA has been working with the industry on how to better refine the scheme upon the implementation of MPF since December 2000. The Code could be considered as an effective tool which has enhanced the transparency of fee, charges and performance on MPF funds by means of a legal regulation under the Code and has also played its role as an informational regulation tool which seeks to provide scheme members with clearer and information that is easier to understand so as to enable them to make a better informed investment decision for their retirement protection through the MPF. From the distribution of costs and benefits perspective, it turns out to be a good example of public-private collaboration initiated by the MPFA and the industry is supportive of the project and has contributed significantly to the development. Apart from serving the purpose of providing information to scheme members to help them make investment decisions, the disclosure of more materials has also achieved the commercial purpose of promoting MPF products, resulting in a win-win scenario between the citizens who have to invest in MPF and the private sector participating in the scheme and selling the product with good degree of economic efficiency and hence political acceptability as well.

Compliance standards for MPF approved trustees

By drawing up the compliance plan and elements for trustees so as to ensure their compliance level with the statutory requirement and thus the smooth operation of the MPF System, the Compliance Standards for MPF Approved Trustees serve as structural regulations which are utilised to manipulate the physical environment of the organisation to influence its action. It depicts some compliance plans which are the key tools within a compliance programme to achieve compliance with respect to obligations. It is under this intangible power that the MPFA intends to influence the trustees, promote good corporate governance and proper risk management as well as a strong compliance culture among the MPF approved trustees. Whilst economic efficiency, distribution of costs and benefits and political acceptability of this policy tool could be considered as reasonably positive, the effectiveness of the tools will nevertheless depend on the level of compliance of the trustees which is subject to individual and self-discipline, leaving uncertainty in the overall effectiveness and fitness of this regulatory tool.

Comparative platform: fees and trustee service

Following the Code on Disclosure for MPF Investment Funds, the MPFA introduced the Comparative Platform as another informational tool to improve the transparency of information about MPF funds. It operates on its website to provide scheme members with information about fees and charges at an one-stop online platform. Similarly, the "Trustee Service Comparative Platform" launched by the MPFA serves as a helping tool for citizens by providing details of the services offered by the different schemes in Fund Choices, Account Administration and Customer Services. Provided that the public is made well aware of this tool and educated to use it, there leaves no questions to its effectiveness and economic efficiency. Whilst the MPFA will be responsible for the manning of these online platforms, thus minimising the cost of other stakeholders but maximising the benefits of both the current and prospective scheme members, there is generally a high degree of acceptability to these initiatives which could provide more information to the public in order to make a better decision on the purchase of MPF products.

ECA

As mentioned earlier, ECA, jointly with other measures, helps decrease the average Fund Expense Ratio of MPF from 1.74% for the period from July 2010 to June 2011 (before ECA) to 1.62% as at the end of April 2015 (after ECA). Moreover, ECA gives employees much greater autonomy in the MPF market to choose the scheme of their own choice instead of just choosing among the schemes selected by their employers. Therefore, ECA is quite successful and precise in achieving its desired policy outcomes on reducing the cost level of MPF and shifting the focus from employers to employees. Thus it is considered that ECA is a quite effective policy tool.

The costs of ECA are just the one-off promulgation cost during the initial implementation stage and the recurrent administration cost when the employees, once a year, opt to transfer the accrued benefits derived from the employee mandatory contributions in their contribution accounts to a scheme of their own choice. Therefore, it is considered that ECA's costs to society as a whole is low, thus ECA is an economically efficient policy tool.

Before ECA, the distribution of costs and benefits is not fair. As mentioned earlier, Anna Wu, the ex-Chairman of MPFA has admitted that to get the MPF started quickly 15 years ago, the initial design of MPF gave employers the choice of schemes and trustees thus reduced the focus on employees, and MPFA wanted the focus shifted back to employees thus they introduced ECA. ECA successfully shifts the focus from employers back to employees and thus regain the fairness of the distribution of costs and benefits. Moreover, ECA allows all employees to enjoy greater autonomy in the MPF market and enhances the market competition. Therefore, it is considered that ECA is a fair policy tool.

There are a few politicians criticising the problems of high cost level of MPF and unfair focus on employers. As ECA is quite successful and precise in reducing the cost level of MPF and shifting the focus from employers to employees, it is considered that ECA is a quite politically acceptable and supported policy tool.

DIS

DIS itself is a default core fund with its management fees capped at only 0.75% through legislation. It does not only mean an extra fund introduced to the MPF market with low fee, but also a strong force influencing all other funds in the market to lower the cost level through its fee cap (a price ceiling) which will serve as a market benchmark. Moreover, DIS also tackles employees' concern of making difficult MPF choice by directly engaging in the default core fund with its investment approach best designed to manage the long-term risks associated with investing retirement savings. Therefore, DIS is expected to be successful and precise in achieving its desired policy outcomes on reducing the cost level of MPF and bettering investment choice. Thus it is considered that DIS is an effective policy tool.

The costs of DIS are just the one-off promulgation cost during the initial implementation stage and the recurrent administration cost for managing the default core fund. Therefore, it is considered that DIS's costs to society as a whole is low, thus DIS is an economically efficient policy tool.

Although DIS interferes with the private market price setting through its fee cap, it is in fact just an extra fund introduced to the market with low fee to enhance market competition. Moreover, it also offers a simplified choice for those employees who do not have the resources to make investment choice. Therefore, it is considered that DIS is fair on the distribution of costs and benefits, thus it is a fair policy tool.

There was a motion debate at LegCo on January 10, 2013 on the problems of MPF including high fees, and urging for a comprehensive review of the MPF Scheme including setting a price ceiling for the Fund Expense Ratio. DIS directly addresses the concerns of the politicians by imposing a price ceiling on the default core fund and further influencing all other funds in the market to lower the price. Moreover, according to the consultation Concluding Comments on the consultation paper "Providing Better Investment Solutions for MPF Members" released in March 2015, the majority of respondents (including political parties) indicated overall support for the core fund proposals (FSTB & MPFA, 2015). Therefore, it is considered that DIS is a politically acceptable and supported policy tool.

Concluding Comments

The evaluation on the fitness of various policy tools of the MPF system by using the four evaluation criteria (i.e. effectiveness, economic efficiency, distributional fairness and political acceptability) is summarised in Table 5.1 below.

Table 5.1 - The evaluation on the fitness of various policy tools of the MPF system

Policy Tools of MPF	Evaluation Criteria for Fitness of Policy Tools			
	Effectiveness	Economic Efficiency	Distributional Fairness	Political Acceptability
MPFO	V	N/A	N/A	O
MPFA	O	V	N/A	O

The Code	V	V	V	V
Compliance Standard	O	V	V	V
Comparative Platform	V	V	V	V
ECA	O	V	V	O
DIS	V	V	O	V

V –fulfil the evaluation criterion

O – quite fulfil the evaluation criterion

X – not fulfil the evaluation criterion

According to Table 5.1, it is noted that the various policy tools of the MPF System can generally fulfil most of the criteria. Among these policy tools, the Code and the Comparative Platform fulfil all the four criteria, and are thus the relatively fit policy tools of the MPF System. Among the four criteria, economic efficiency is best fulfilled, but the effectiveness and political acceptability are relatively less fulfilled. It indicates that the MPF System, though provides quite low cost to the society as a whole, is not very successful in achieving the desired outcomes for retirement protection and thus less supported by politicians. In short, it is considered that the MPF System is a fit policy tool to match with the retirement problems in Hong Kong, but the effectiveness and political support would need to be strengthened.

Chapter 6 - Conclusion and Recommendations

Introduction

In previous chapters, the retirement protection scheme developments of Hong Kong and selected empirical data of the MPF System are discussed under the analytical framework of governance and policy tools approaches. This chapter summarises the findings of previous chapters and provides a concluding discussion on the MPF System as a policy tool to match with the retirement problem in Hong Kong. Macao and Singapore's experiences of retirement protection are used to compare with that of Hong Kong for the purposes of showing how other societies similar to Hong Kong (in size, political setup, culture etc.) are dealing with the issue. The chapter ends with discussion of the limitations of the project and a recommendation concerning the framework used to analyse the MPF System.

Summary of Findings of Previous Chapters

In the policy area of alleviating the potential impact of ageing population, it is noticed that the Hong Kong government adopted different governance modes with dominance of appropriate policy tools over the years. The shift of governance over time has been separately analysed based on Knill & Tosun's 4 ideal types of governance. Shifts were identified from Private Self-Governance to Interventionist Governance and the later Regulated Self-Governance since 1965.

Reference to the World Bank multi-pillar-model proposed in "Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth", the Hong Kong government adopted the three pillars approach through the enactment of the MPF system. The MPF system as a mandatory, privately managed, fully funded contribution scheme was introduced as being the second pillar. The MPF system is a reflection of Regulated Self-Governance mode with high cooperation between private and public sectors under the regulation of primary legislation. In addition to applying Knill & Tosun's (2002) theory, features of the MPF system including the MPFSO, the MPFA, Code on Disclosure for MPF Investment Funds, Compliance Standards for MPF Approved Trustees, Comparative Platform: Fees and Trustee Service, etc were classified with reference to Freiberg's classification of policy tools.

Since no one particular mode of governance is perfect, the appropriateness of the use of the MPF system as a policy tool and whether it reflects good governance was assessed. Reference to Winfield and Rossell's four evaluation criteria, it is considered that the MPF system is a quite fit policy tool to match with the retirement problem in Hong Kong.

Selected Experience Beyond Hong Kong

Having studied on Hong Kong's MPF System for retirement protection, this project has drawn comparison from Macao and Singapore to show how similar societies are dealing with the issue. The two societies chosen are not exactly comparable, but both have the closest similarities and acceptable differences compared with Hong Kong. All three cities were once colonies under European rule, and are more willing to adapt to changes in the developed world. Whereas Hong Kong and Macao are both special administrative regions of China, the two cities are different in size and economy.

Singapore and Hong Kong are more comparable, but one is a sovereign state while the other is merely part of a much larger nation.

Macao

Macao has been a special administrative region of the People's Republic of China since 1999. Much of the city's revenues are generated from the gaming industry, and with a population of around 600,000, Macao generates one of the highest per capita Gross Domestic Product in the world after Qatar, Luxembourg and Liechtenstein (World Factbook, CIA). Macao is an affluent society.

Continued economic development by the 1980s in Macao had prompted its society to aspire for the protection of local workers and the establishment of social security system. In 1990, the Macao government introduced the Social Security Fund (SSF), nine years before the city was returned to China.

SSF is under the Macao government and is currently subordinate to the Secretariat for Economy and Finance. At the same time, the SSF enjoys administrative and financial autonomy, and is responsible for implementing various policy measures related to social security.

At its establishment in 1990, the SSF provided social security for employees in the city with economic aid when they were old, unemployed and sick. Although only employees working for others were allowed contribute to the SSF at its initial implementation, the coverage of the social security system has since extended in introducing voluntary contribution for the self employed and those who have stopped working but with to continue making contributions.

In addressing to the needs of the aging population, the Macao government announced “The Social Security and Old-age Pension System Reform Program” in 2008 to build a double-tier social security system. Whereas the first-tier social security system covers all Macao residents with basic social and an old-age protection, additional protection after workers retire is supported by the non-mandatory Central Provident Fund to be established in the future.

In 2012, the setting up of the Provident Fund Individual Accounts laid the foundation for then non-mandatory Central Provident Fund System, a system comprises of contributions from employees and employers, and Macao advanced towards a double-tier social security system.

Singapore

In Singapore, the needs of its population on retirement, healthcare and housing are addressed by the Central Provident Fund (CPF), a compulsory savings plan for working Singaporeans and permanent residents. The CPF Board is the statutory body under the Ministry of Manpower, which oversees the CPF.

The CPF was introduced by the British colonial government in 1955 when Singapore was still impoverished a decade after the end of World War II. Both the employers and the employees make contributions to the employees’ account, and although the CPF was primarily set up to address the retiring needs of workers, it has since grown into a more comprehensive scheme that covers the retiring, housing, medical and educational needs of contributors.

There are four types of accounts in the CPF - Ordinary Account, Special Account, Medisave Account and Retirement Account. Contributors of the CPF would save up in the first three accounts during their career, whereas the Retirement Account would be the combination of the Ordinary and Special Accounts upon a contributor's retirement.

Throughout the contributor's career life, the contributions already made to the CPF could be withdrawn for various purposes like hospitalisation expenses and treatments, but more importantly, one's CPF savings could be withdrawn for the purpose of home purchasing. If a contributor's account already exceeds certain amount of savings, the contributor could divert part of the savings to invest for higher returns.

Summary and Lesson for Hong Kong

In Macao and Singapore, the governments are in control of the retirement schemes of their working population. In contrast, the Hong Kong government has more or less contracted out the operation of the MPF System to private institutions.

In Macao, retirement protection is first-tier and basic, while the proposed Central Provident Fund is yet to be established, and contributions will only be on a voluntary basis. Singapore's CPF is comprehensive in covering not only retirement but also other important needs of the contributor, and provides much flexibility for contributors.

As a small and focused economy, Macao can easily tackle the problem of an aging population by directing the revenues generated in the gaming industry to the social welfare system. Since Singapore is a regional economic hub and financial centre, it is keen to retain its competitiveness and ensure those people that work in the city-state will remain there. Singapore will continue to adapt to changes in the world and enhance its CPF. Hong Kong's MPF System is definitely more developed as compared to Macao's SSF, but is not as favourable when compared to the CPF in Singapore. If Hong Kong is to improve the MPF System, Singapore's CPF will always be a good comparison.

Limitations and Recommendations

The project adopts the approach of studying the evolution of governance and policy tools with a particular focus on the MPF System. It emphasised on the development from 1965 to present. It does not provide a full account on the discussion of retirement protection, as there are continuing debates and studies on other new proposals or schemes.

Knill & Tosun's mode of governance (2012) is a typology based on degree of cooperation between public and private sectors and the degree of legal obligation that characterises collective policy solutions to problems. An evolution of governance is a mere reflection of change of policy tools. This is simply a general description with no indication of good or bad.

In a regime like Hong Kong with high private sector and state capacity, an adaptation of Regulated Self-Governance mode seems a good choice. However, discussion on retirement protection in Hong Kong did not end with the introduction of the MPF System, rather, studies and debates continue. Is the MPF System not an appropriate policy tool? Although using relevant evaluative criteria can assess the appropriateness of policy tools, but how comprehensive are they? In the project, the assessment based on Winfield and Rossell's four evaluation criteria concludes that the MPF System is a fit policy tool to match with the retirement problem in Hong Kong. In reality, the effectiveness and appropriateness of the MPF System are questionable.

If the desired outcome of the MPF System is to provide adequate retirement protection to the society, it is presumed that the system can generate enough capital for the later retired population economically and effectively. In fact, the effectiveness of the system is often being challenged. The handling fee charged by intermediaries is too high when compared to the returns generated by the scheme. The MPF System may be economical to operate for the whole society for now, however, it may not be effective to generate enough capital to meet future retirement need.

Winfield and Rossell's evaluation criteria only provide a general guideline in assessing the appropriateness. Different policy tools have specific nature and therefore unique or more criteria are required for conducting a comprehensive assessment. It is recommended to design policy specific evaluative criteria for assessment if opportunity arises.

The study provides a framework of understanding the evolution of policy tools to match with the retirement problem in Hong Kong. However, as the MPF System evolves, some tools may become irrelevant, more relevant or even the whole system being replaced by others. As the policy evolves, it would be fruitful to revisit the topic with an attempt to offer policy recommendation to alleviate the impact of an ageing population.

Concluding Comments

This project aims to put retirement protection in Hong Kong under the lens of the typology of governance and policy tools. The evolution of governance mode in history against the change in terms of tools adopted by the government in this policy area has been the focus along the discussion. It highlights the change of the government's stance under the spectrum of retirement protection policy from a hands-off approach with a gradual increase in terms of the degree of participation and initiative. The subsequent enactment of MPFSO in 1995 and the establishment of the MPFA in 2000 as a tool to use tools are discussed in length with its duality in role elaborated, supplemented with various types of policy tools which have been adopted.

It is interesting to note, however, that there has been a greater degree of cooperation between the government and private sector in the furtherance of retirement protection, allowing the government to take a step backward from a hands-on approach, which could best be accounted under the mode of Regulated Self-Governance. Relevant government policy together with the retirement protection as a whole in Hong Kong has also been benchmarked with the ideology under the World Banks' Five-Pillar Model, which had also been developed from a Three-Pillar Model in order to meet with the demographic change in the society.

Equally inspiring, the attempt to evaluate the effectiveness of MPF as a tool to provide retirement protection raise the concern of relevance and legitimacy of the four evaluation criteria purported by Winfield and Rossell. A possible answer to this query may rest with the increasing reliance on the political capacity of a government in governing a state and introducing new policy. It is not uncommon to find in any part of the world that government with weak political power has generally met with greater difficulty in implementing new policies. This may explain the difference between the theoretical appropriateness of the policy tools and their practical effectiveness from a realistic perspective as exemplified in this project.

Last but not least, the examples from outside of Hong Kong in retirement protection have opened up the suggestions of a greater involvement of a government in the policy area under discussion. This appears to be in contradiction against the Regulated Self-Governance mode in which a high degree of public-private cooperation was emphasised, raising the question of whether the Hong Kong government should further take up more responsibility in retirement protection. After all, what is the ultimate function of the MPF System? Is it a tool to provide retirement protection or rather, an economic incentive to boost the economy? Through the implementation of the MPF System, the government upholds the belief of "small government and large market". Is the positive non-interventionist approach the right policy under the arena of retirement protection?

Apparently, these are all difficult questions for Hong Kong to answer, bearing in mind that there is no "perfect" policy and the controversial discussion on retirement protection in Hong Kong over the years with the government's role and degree of participation being put under the spotlight. In 2012, the Hong Kong government had once appointed Nelson Chow Wing-sun, chair-professor of social work and social administration at the University of Hong Kong, to research retirement protection plans suitable for Hong Kong. His suggestion of a universal pension scheme failed to secure consensus from the public in view of the concern on the financial position and sustainability of the government in this scheme. Similarly, suggestions for retirement protection from other stakeholders in the society have not brought the issue forward but stirred up the discussion in the policy area only.

Having said that, this project has provided an overview on the evolution of governance mode and hence the changes on how retirement protection is being deliberated in the society, with due regard to the various application of policy tools over the years, which have all been affirmatively accounted under the analytical framework from an academic perspective.

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