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31% of employees may switch to a new MPF service provider

31% of the respondents say they will or may switch to another Mandatory Provident Fund ("MPF") service providers once the employee choice regime (Note 1) is implemented, according to a survey commissioned by the Hong Kong Investment Funds Association ("HKIFA") in July/August.

The key reasons cited for switching providers are the desire to look for better investment returns (56%) and more fund choices (28%).

Meanwhile, 45% indicate they will not consider making a switch. This is underlined by a perception that the switching process may be rather complicated: 29% claim they want to avoid the hassle and 23% believe that the administration process would be rather complicated. However, there is a not insignificant number (27%) who prefers to stay put because they are satisfied with the current providers – in terms of investment performance, services or reputation. Meanwhile, 16% do not see much difference between providers and thus have no intention to switch.

Announcing the survey findings, Mr Desmond Ng, Chairman of the HKIFA Pensions Subcommittee said, "HKIFA welcomes the passage of the MPF Schemes (Amendment) Bill 2009 as this encourages employees to adopt a more proactive approach in the management of their MPF investment.

"The introduction of employee choice is a major milestone in the development of the MPF system. By further empowering the employees, the 'portability' system can potentially result in major changes in the competitive landscape. It will also increase employees' sense of ownership and can be an important catalyst to prompt employees to attach greater importance to MPF investments and retirement investment generally."

Mr Michael Ha, Vice Chairman of the Pensions Subcommittee adds, "to allow the full benefits of employee choice to come into full play, there should be two facilitating factors, namely a more conducive regulatory framework which gives fund managers greater investment flexibility to structure more products to cater for the different needs/profiles of employees. Also, there should be a comprehensive and on-going effort on investor education to ensure that employees have the necessary knowledge and tools to make informed investment decisions."

As to whether the finding, i.e. 31% potential switchers, provides a good indicator of the possible outcome, HKIFA believes that it is difficult to assess as it is still early days, but the movement of preserved accounts may provide a useful reference – 24% of the respondents indicate that they have transferred their preserved account balances to another service providers.

"This indicates that there is a portion of employees who are already on the look-out for better services and products. It is likely that employee choice will accentuate this trend and we are confident that service providers will further improve their product offerings and services to cater for these needs," Mr Ng says.

As to what scheme members will consider before selecting a provider, respondents cite company background (in particular reputation and reliability) (57%) and fund performance (56%) as the key considerations.

In the selection process, word-of-mouth plays an important role: 58% say that they rely on friends, family members or colleagues in making a selection. At the same time, a significant portion – 41% - can be described as self-directed: they claim they will make decisions on their own.

In terms of satisfaction with their MPF providers, the majority (57%) do not have strong views either way. The rest are more or less evenly split, with 20% being very and quite satisfied; and a slightly higher percentage - 23% very and quite dissatisfied.

With respect to product choice, it seems that the current range of six to seven funds per master trust suffices, as borne out by the responses of over two-thirds of the respondents. On average, they see seven products as an optimal number.

For those who wish to have a broader fund choice, the interest is tilted towards high beta products, such as emerging markets, sector funds and commodity products. Amongst the choices provided to respondents to select, Mainland related products – be they providing exposure to mainland stocks and bonds funds - are the most sought after ones.

Mr Ha says, "in view of the long-term nature of MPF investments, we believe that there is a compelling reason to justify the addition of these products to the offerings. Despite the potential short-term volatilities, these markets or asset classes provide opportunities for employees, especially the younger ones, to capitalize on the long-term growth potential of the emerging economies, which can probably offer a better chance to help MPF members to build-up their retirement nests.

"What is important is to ensure that in the selection process, there are robust mechanisms and tools in place to enable employees to fully understand the risks involved and that there is a full assessment to ensure that the products commensurate with their risk profile, investment horizon and liquidity needs, etc."

Another important observation is that whilst there is a general awareness that MPF investment would not be sufficient to meet the retirement needs (82% think so), there is a general apathy to take actions to bridge the gaps: 90% of the respondents have not made any voluntary contributions to the MPF; and 41% have not thought about or do not intend to top up their retirement investment.

For those who are ready to invest more, the vast majority prefer to do it outside MPF. 49% choose to invest outside MPF; 10% will consider both the MPF and non-MPF route and only a meager 1% will go through the MPF route. The key reason why the respondents prefer to do it outside MPF is that they believe these channels can provide better investment returns, more flexibility and more choices.

"MPF already provides a very robust and sound platform for retirement investment purposes, but the findings indicate that its value and potential have not been fully understood by the employees. We believe that it is pertinent to conduct a review to address this and introduce measures to encourage employees to fully capitalize on it. An important tool would be to offer tax incentives to employees to encourage voluntary contributions," Mr Ng suggests.

HKIFA commissioned Cimigo, a market research company, to conduct the survey in July and August across a full spectrum of employees. The objectives of this survey are to gauge scheme members' perception of MPF, to understand scheme members' view for the portability regime; and to facilitate MPF providers to further understand and cater to scheme members' needs. Cimigo interviewed 505 employees via telephone.

HKIFA is a professional body that represents the asset management industry in Hong Kong. It has 50 fund management companies as full/overseas and affiliate members. In addition, it has 46 associate members, which include trustees and other professionals that are involved in the creation and administration of funds.

(End)

Note 1

The Legislative Council in July passed the MPF Schemes (Amendment) Bill 2009, which lays the framework for employee choice. Under the system, employees can, at least once per calendar year, transfer accrued benefits derived from their employee mandatory contributions made during their current employment to an MPF scheme of their own choice.