

## Quick Quiz

2. Put a ✓ in the appropriate boxes to show the major financial needs at different life stages.

Major financial needs	Young single	Couple	Married with young children	Pre-retirement	Retirement
(a) Create and accumulate wealth	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Plan for medical expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(c) Save for family expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Prepare to have a family	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Estate planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

## Exam Drill

4. Mr Chan, aged 63, will retire next year. Which of the following is the major financial need of Mr Chan?

- A. Create and accumulate wealth
- B. Prepare to have a family
- C. Save for medical expenses
- D. Have good estate planning

C

*Adapted from HKDSE Exam BAFS practice paper 2012 paper 1A Q.13*

## 3.3 The Mandatory Provident Fund System

### A. Background

The problem of an ageing population is becoming more serious in Hong Kong. To help the ageing workforce save for their retirement, **the Mandatory Provident Fund (MPF) System** was launched in December 2000. **It is a mandatory, privately managed, fully funded contribution scheme.** The operation of the MPF is regulated and supervised by the Mandatory Provident Fund Schemes Authority<sup>1</sup> (MPFA).

### Learning Objective

Describe the rights and responsibilities of employees and self-employed persons under the Mandatory Provident Fund (MPF) System

### Web Resources

**Mandatory Provident Fund Schemes Authority**

<http://www.mpfa.org.hk/eng/main/index.jsp>

1. Mandatory Provident Fund Schemes Authority 強制性公積金計劃管理局

## B. Features of the MPF System

- (i) In Hong Kong, except for exempt persons, regular employees and self-employed persons who are at least 18 but under 65 years of age are required to join an MPF scheme.
- (ii) **Casual employees** are also required to join an MPF scheme. They must be at least 18 but under 65 years of age, and employed in **the construction or the catering industry** on a day-to-day basis or **for a fixed period of less than 60 days**.
- (iii) Employees and employers are required to make **regular mandatory contributions calculated at 5% of the employee's relevant income** to an MPF scheme, subject to the minimum and maximum relevant income levels. **For an employee paid monthly, the minimum and maximum relevant income levels are \$7,100 and \$25,000 respectively.**
- (iv) Employees with a monthly income of HK\$7,100 or below are not required to contribute to an MPF scheme, but their employers are still required to make contributions for them.
- (v) Both the employer and employee can choose to make extra voluntary contributions.
- (vi) Exempt persons are not required to join an MPF scheme. They include domestic employees<sup>1</sup> and self-employed hawkers<sup>2</sup>.



**Fig 3.18** Domestic employees and self-employed hawkers are not required to join an MPF scheme.



強制性公積金計劃管理局  
MANDATORY PROVIDENT FUND  
SCHEMES AUTHORITY

**Fig 3.17** The operation of the MPF schemes is regulated and supervised by the MPFA.

### Teaching Notes

Starting from 1 June 2012, the maximum relevant income level of the mandatory contribution was increased from \$20,000 per month to \$25,000 per month.

Starting from 1 November 2013, the minimum relevant income level of the mandatory contribution was increased from \$6,500 per month to \$7,100 per month.

### DSE Reminder

Refer to HKDSE Exam 2012 paper 1A Q.5. The question asks students to identify which type of employee is exempted from joining the MPF Scheme.

1. domestic employee 家務僱員    2. self-employed hawker 自僱小販

(vii) MPF scheme members are only allowed to withdraw their money when they reach the retirement age of 65.

However, in some situations, members can withdraw their money before the retirement age. They are:

- Early retirement at the age 60
- Permanent departure from Hong Kong
- Total incapacity
- A small balance account of \$5,000 or less, and no contributions made to an MPF scheme for 12 months
- Death

This section discusses the rights and responsibilities of employees and self-employed persons under the MPF System.

## C. Employee Choice Arrangement (ECA)

Commencing on 1 November 2012, the MPF Employee Choice Arrangement<sup>1</sup> (ECA) allows employees, once a year, to transfer the employee's part of the mandatory contributions to an MPF scheme of their own choice.

Furthermore, under ECA, employees are also allowed to transfer their investment returns in their contribution accounts to an MPF scheme of their own choice.

### Information Express

According to the Mandatory Provident Fund Schemes Authority, nearly 30% of the funds reduced their

### Web Resources

#### Employee Choice Arrangement

<http://minisite.mpfa.org.hk/eca/en/learneca/learneca.html>

management fees (44% at maximum) after implementing the Employee Choice Arrangement (ECA) for one year. Employees have saved around \$250 million in fund management fees.

FINANCE

DAILY NEWS

28 August 2013

### Employee Choice Arrangement is not welcomed by employees

The MPF Employee Choice Arrangement (ECA) has been launched for six months. However, a survey has found that employees do not welcome this arrangement.

According to the survey, 95% of MPF account holders had not transferred their accounts to other MPF schemes. Some of them think that there is no need to transfer, while some of them said that they do not understand the arrangement.

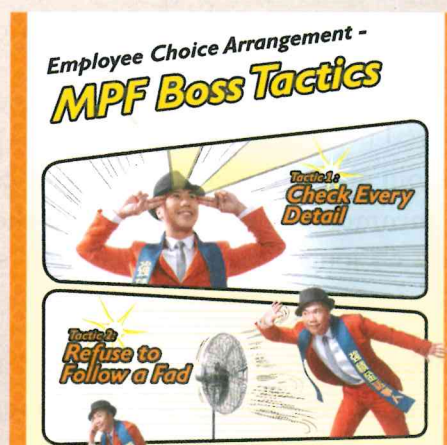


Fig 3.19 Since MPF Employee Choice Arrangement has launched, less than 5% of MPF account holders had transferred their accounts to other MPF schemes.

1. Employee Choice Arrangement 僱員自選安排

## D. Rights and responsibilities of employees

Under the MPF System, employees have the **right to receive contributions from their employers**. The employees also have the **right to change the scheme and trustee**, and **change the allocations of their contributions in the MPF scheme**.

The basic responsibility of the employees under the MPF System is to **make mandatory contributions to the selected MPF scheme**. Employees have the responsibility to **manage their own MPF accounts well**. They should check whether contributions have been properly made. They should also check for any irregular movements in their accounts.



Fig 3.20 Employees should check their MPF accounts regularly.

## E. Rights and responsibilities of self-employed persons

A self-employed person is a person who earns income from the production or trade in goods or services in a capacity other than that of an employee.

All self-employed persons at least 18 but under 65 years old have the legal obligation to **join an MPF scheme** and **make contributions**. They should **report their income** annually, and **update their information regularly**. When they are no longer self-employed, they should **inform the trustee<sup>1</sup> of the cessation<sup>2</sup> of self-employment**.

Similar to employees, self-employed persons have the right to **change the scheme and trustee**, and **change the allocations of their contributions in the MPF scheme**.

### Teaching Notes

Suppose a self-employed person does not join the Mandatory Provident Fund Scheme. A first offender will be fined \$50,000 and subject to 6 months of imprisonment.



Fig 3.21 A taxi driver is a self-employed person. He has to join an MPF scheme.

1. trustee 受託人 2. cessation 終止

The following table summarises the rights and responsibilities of employees and self-employed persons under the MPF System.

	Employees	Self-employed persons
Rights	<ul style="list-style-type: none"> <li>• Receive contributions from employers</li> <li>• Change the scheme</li> <li>• Change allocations of their contributions in the MPF scheme</li> </ul>	<ul style="list-style-type: none"> <li>• Change the scheme</li> <li>• Change allocations of their contributions in the MPF scheme</li> </ul>
Responsibilities	<ul style="list-style-type: none"> <li>• Make mandatory contributions to the selected MPF scheme</li> <li>• Manage their own MPF account well</li> </ul>	<ul style="list-style-type: none"> <li>• Join an MPF scheme</li> <li>• Make contributions</li> <li>• Update information</li> <li>• Inform your trustee of cessation of self-employment</li> </ul>

**Table 3.6** Rights and responsibilities of employees and self-employed persons under the MPF System

## Exam Drill

5. Workers in which of the following industries are required to join the Mandatory Provident Fund scheme even when their working period is less than 60 days?

- (1) Retailing
- (2) Catering
- (3) Construction

- A (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

C

*HKDSE Exam BAFS practice paper 2012 paper 1A Q.12*

6. Which of the following types of employees is exempted from joining the Mandatory Provident Fund Scheme?

- A Construction workers
- B. Security guards
- C. Catering workers
- D. Domestic employees

D

*HKDSE Exam BAFS 2012 paper 1A Q.5*

### 3.4 Rights and responsibilities of individual investors and consumers of financial services

Although both individual investors and consumers of financial services have similar rights and responsibilities, there are some differences. **Both individual investors and consumers of financial services can make investments through intermediaries, while individual investors can invest in the primary market directly.**

#### A. Rights of individual investors and consumers of financial services

Both individual investors and consumers of financial services have the following rights:

- **Right to be informed:** have the right to receive timely information about the performance of their financial investments.
- **Responsible investment management:** should receive responsible advice. Insurance companies, financial services companies and private banks provide investment management services to consumers.
- **Ask for the rationale behind an investment recommendation:** Investment agents provide different investment recommendations to investors and consumers. They have the right to ask for the rationale behind these recommendations.
- **Obtain accurate information:** To make appropriate investment decisions, investors and consumers should be provided accurate information about the financial services, including the details of the service, the risk and return of the financial products and investor reports.
- **Right to complain:** If their investments are mishandled, they can complain to the Hong Kong Monetary Authority<sup>1</sup>.
- **Voting right:** If an individual investor is a stockholder, he has the right to vote in the general meeting and elect directors.
- **Receive entitlements<sup>2</sup>:** Shareholders have the right to receive dividends.

#### Learning Objective

Describe the rights and responsibilities of individual investors and consumers of financial services

#### Teaching Strategies

Teachers may remind students that only ordinary shareholders possess voting rights, and preference shareholders do not have voting rights. (Refer to 'Business Environment and Introduction to Management' P.65)



**Fig 3.22** To protect the rights of consumers, a recording is required when banks are selling their financial services.

1. Hong Kong Monetary Authority 香港金融管理局

2. entitlement 權益

## B. Responsibilities of individual investors and consumers of financial services

Individual investors and consumers of financial services have the following responsibilities:

- **Study information:** To protect their own rights, individual investors and consumers of financial services should study the information about the financial services carefully.
- **Consider the risk and return:** Investors and consumers of financial services need to understand the risks involved in the financial services, and consider whether the risks are acceptable.
- **Understand the terms of a contract:** To protect their own interest, investors and consumers of financial services should fully understand the terms of a contract before signing it.
- **Monitor activities on own account:** Investors and consumers of financial services should check and monitor their investment account regularly. For example, they need to check the statements of account<sup>1</sup>, contract notes<sup>2</sup> and other transaction documents.

### Teaching Notes

Investors should consider their risk tolerance level when making investments. A person's risk tolerance level usually decreases with age. The elderly are advised to adopt a conservative investment strategy.



### Investor Education Centre

Investors and consumers of financial services have the responsibility to study more information and carefully consider the risk and return. However, some of them may not have enough expertise and knowledge to do so.

The Investor Education Centre<sup>3</sup> (IEC) can equip the public with the skills and knowledge to make appropriate investment decisions. IEC was established in November 2011, as a subsidiary of the Securities and Futures Commission<sup>4</sup>.

To improve investment literacy<sup>5</sup> in Hong Kong, the IEC provides multimedia, games, case studies and reports to the public.



Fig 3.23 The logo of the Investor Education Centre

### Web Resources

#### Investor Education Centre

<http://www.hkiec.hk/iec/en/html/section/index.html>

1. statement of account 帳戶結單    2. contract note 買賣單據    3. Investor Education Centre 投資者教育中心  
4. Securities and Futures Commission 證券及期貨事務監察委員會    5. literacy 知識

## Quick Quiz

3. What is the difference between investors and consumers of financial services?
4. If a consumer of financial services find that his investment have been mishandled, what can he do?

### Suggested Answers

3. Investors invest in the primary market directly, while consumers of financial services make investments through intermediaries.
4. He can complain to the Hong Kong Monetary Authority.

## Case in Focus 3.1

### Mr Lam's investment experience

Mr Lam has graduated from a university for 6 years. Although he is not married, he wants to purchase a flat. Therefore, he has joined an investment plan which is managed by an investment agent.

Mr Lam received a statement of investment account from a bank, but he did not read it immediately. After two weeks, he found that he had lost lots of money in his investment account.



Fig 3.24 Mr Lam expects that an investment plan can help him to purchase a flat.



Fig 3.25 Mr Lam found that he had lost lots of money.

### Let's think

1. Which life stage is Mr Lam at? What are his major financial needs?
2. As a consumer of financial services, what rights does Mr Lam have? Name three of them.
3. Which responsibility does Mr Lam not fulfil?

### Suggested Answers

1. Young single. Mr Lam needs to create and accumulate wealth, and plan for the later stages.
2. Responsible investment management; ask for the rationale behind an investment recommendation; obtain accurate information; and the right to complain.
3. Mr Lam should have checked the statement of investment account. He should monitor his investment account regularly.