THE BEST LAID PLANS OF MICE AND MEN …

The ill-conceived plans of the Government of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) in respect of legislating laws, making it an offence for employees, earning $HK6,000 or more per month, not to contribute to a Mandatory Provident Fund (MPF), matched dollar-for-dollar by his/her employer, is, now, becoming only too apparent.

According to Chapter 485 of The Laws of the HKSAR, The Mandatory Provident Fund Schemes Ordinance, every employee, earning more than $HK6,000 per month, must pay 5 percent of that amount to a Registered Mandatory Provident Fund; and, the employer has to match that amount, dollar-for-dollar.

By law, the maximum amount of money that an employee/employer has to pay per month to a Registered Mandatory Provident Fund, however, is $HK4,000.

The MPF scheme was introduced on December 31, 2000 and, since that date, tens of billions of dollars of employees' wages/salaries and their matching funds from businesses, throughout the HKSAR, have been lost by MPF fund operators.

The MPF Fund operators are not to be completely blamed for the losses of the various funds, however, because those funds have to be put into the various funds, in accordance with the mandates of the funds and in accordance with the law.

The fault lies, it would appear only too clearly, in the poor planning of the MPF concept in that, among other things, employees' and employers' contributions are not guaranteed by the Government of the HKSAR.

Also, the fund operators, themselves, have to turn a profit for the banks, the insurance companies, or the international stockbrokerage houses, trying to churn the funds.

TARGET had been told that agents, selling the MPF funds to businesses in the HKSAR, may earn anywhere from one percent to 3 percent of the gross amount of money that is added to the fund when a company/firm opts to switch from one Registered MPF Fund to another, with the express mandate of the employees of the entity.

In one case, TARGET has confirmed that an international brokerage firm was/is willing to pay $HK50 per head to an agent if he could twist the arm of a company so that that company would switch MPF Providers, that company, employing about 5,000 employees.

That means that the agent will be able to earn about $HK250,000 for his/her efforts if he/she is successful.

TARGET has, today, confirmed that American International Assurance Company (Bermuda) Ltd (AIA) would pay to an employee of TARGET as much as 2 percent of the first month's MPF contribution (employee and employer), payable within one year of that date, if that employee could extricate an MPF Fund away from one company and into the coffers of AIA.

TARGET has, also, confirmed that AIA would be able to kill 2 birds with one stone by this payment because, on the one hand, it would get its hands on a lump sum, which would grow monthly, and, on the other hand, it would have a list of potential prospects for life insurance and/or other insurance products.

Pure mathematics indicates how poorly was the planning of this MPF Scheme because, if an employee paid $HK1,000 per month for 25 years, and his employer matched that amount of money, as is the law as it stands, at the end of his/her useful working life, the fund would have accumulated about $HK600,000 (assuming that there had been no capital appreciation).

However, at the current loss rate, the MPF fund would be worth not more than 50 percent of the total contribution of worker and corporate entity at the end of 25 years.

At $HK300,000, that is not enough money, at today's prices, to purchase even the smallest flat in the HKSAR.

It is equal to about 60 trips to Europe or North America, travelling economy class on most airlines, today.

Of course, 25 years from today, one can appreciate that the cost of an economy class ticket will be much higher than today's cost.

The interest on this sum of money, placed in any HKSAR bank, would not be more than $HK2,500 per month at an annual rate of interest of 5 percent.

But the situation is even worse than this because, since the MPF scheme was first promulgated, most of the MPF funds have lost between 9 percent and 23 percent of all deposits, up to and including January 31, 2001, the first 13 months of the MPF Scheme.

According the Dao Heng MPF Fund's Aggressive Growth Fund, it has lost 22.76 percent of the total amount of money, paid into the fund since it was started on December 31, 2000.

This fund, today, has cash assets of about $HK260.81 million.

The Balanced Growth Fund of the Dao Heng MPF Fund, with about $HK323.45 million under management, has lost about 16.42 percent of all its deposits in the past 13 months.

The Stable Growth Fund of the Dao Heng MPF Fund is the best performing of the bunch, having lost only 9.14 percent of its deposits since it was launched.

Its funds, now, stand at about $HK196.56 million.

TARGET is casting no stone on MPF Fund managers because the funds were launched at a time when the US economy was on the ropes, and this led to nearly every economy of the world, suffering the knock-on effects.

The HKSAR Government, at the time of the establishment of The Mandatory Provident Fund Scheme, said that it was trying to guarantee that, when a person retired from the labour force, he would have a sizeable nest egg, waiting for him/her.

This was an alternative to a social security scheme, the Government maintained.

However, it has not worked as the Government had planned.

The only winners, today, ironically, have been the fund managers and companies, operating the funds, because, regardless of the success or otherwise of the funds, these parties get a slice of the cash *'pie'*, with cash, ringing in on a monthly basis.

The HKSAR, being what it is, is luring *hungry'* salespeople to go out and to canvass employees/companies to change MPF operators – so that they can earn a commission on the transfer of funds.

The best laid plans of mice and men ….

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