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A central provident fund for Hongkong

The Central Provident Fund announced by the Hongkong and Shanghai Bank yesterday may fall a long way short of the ideal of a comprehensive scheme involving all employed people but in view of the undoubted difficulties of launching one administered by the state, the Bank plan marks a major attempt to ensure retirement security for local employees on a large scale.

Obviously it cannot be fully comprehensive and many small firms with a staff of less than 10, daily-paid workers, domestic servants, brokers and commission agents, hawkers and small shop-keepers would be excluded making up a significant proportion of our total working population of about 1.5 million people.

Yet if Hongkong is to work towards the ideal of comprehensiveness the best way to start is to provide cover for as many as possible. A large proportion of our working population in this case would benefit if their employers were to take advantage of such a scheme.

Its introduction is therefore to be welcomed and while it may not be the best time to interest employers in the extension of fringe benefits with the current recession eating into profits, the success of this scheme must be judged over a number of years rather than by the response it receives in the next few weeks or months.

Indeed it is likely to gain in momentum the longer it continues and as more and more employers become convinced of the benefits such a scheme offers.

Guaranteed as it is by Hongkong's leading bank this gives the central fund virtually the same backing as a national scheme operated by a government. Yet it is flexible enough, after accepting the main provisions, such as the guaranteed interest rate of 5 per cent plus bonus apportionment, to enable the proportion of employer-employee benefit to be decided by each company or firm subject to the Inland Revenue Ordinance.

The great virtue of the scheme, however, is that its administration will be handled by a major trustee concern with proven experience in this field. This enables the smaller company to join with little or no administrative problems. And for those companies experiencing problems in operating their own fund there is the option to switch to the central fund by transferring their assets.

The benefits of joining a central fund as opposed to continuing with an individual fund depend largely on the calibre of investment managers. Increasingly this is a highly professional task which would be a daunting responsibility today for any but the biggest firms.

The attractions of a central fund, particularly in a community such as Hongkong where the normal office or factory is a small operation, are thus apparent and in an age when an employee is increasingly anxious to assure protection for himself and his family after retirement a central provident fund should prove popular with a progressive management.

The Bank's initiative is to be welcomed and while many may still prefer to operate outside a central scheme its benefit will be obvious to many who are looking for relative simplicity, security and reliable service.