

The Abolition of MPF Offsetting Arrangement and Government Subsidy Scheme

Answers to Frequently Asked Questions

I. The Abolition of MPF Offsetting Arrangement

Q1. When will the abolition of MPF offsetting arrangement be implemented?

A1. The abolition of MPF offsetting arrangement will be implemented in tandem with the full implementation of the eMPF Platform of the Mandatory Provident Fund Schemes Authority (MPFA) not later than 2025.

Q2. What is the difference in the calculation of severance payment (SP) / long service payment (LSP) after the abolition of MPF offsetting arrangement?

A2. According to the existing Employment Ordinance (EO), the calculation of SP/LSP for monthly rated employees* is two-thirds of the last monthly wages before termination of employment, subject to a monthly wage ceiling of \$22,500, for each year of service; and the maximum payment of SP/LSP is \$390,000. These ceilings of SP/LSP will remain unchanged after the abolition of MPF offsetting arrangement.

* The calculation for daily-rated/ piece-rated employee is any 18 days' wages chosen by the employee out of his/her last 30 normal working days before termination of employment for each year of service, and the sum should not exceed 2/3 of \$22,500. An employee may also elect to use his/her average wages in the 12 months before the termination of employment for the calculation.

(1) If an employee's employment commences after the commencement date of the abolition of MPF offsetting arrangement (transition date)

If an employee's employment commences after the transition date, his/her SP/LSP will be calculated according to the existing provisions of EO as stipulated above. The calculation remains unchanged.

(2) If an employee's employment commences before the transition date

If an employee is already in employment before the transition date, his/her SP/LSP will be comprised of two portions, namely pre-transition portion and post-transition portion.

Pre-transition portion:

- **The last full month's wages immediately preceding the transition date $\times 2/3 \times$ years of service before the transition date**

Post-transition portion:

- **The last full month's wages before termination of employment $\times 2/3 \times$ years of service starting from the transition date**

Example

Assumptions -

- Years of service before the transition date: 4 years
- Years of service starting from the transition date: 3 years
- Last month's wages immediately preceding the transition date: \$15,000
- Last month's wages before termination of employment: \$18,000

Calculation of SP/LSP:

Pre-transition portion of SP/LSP	$\$15,000 \times 2/3 \times 4 \text{ years}$ $= \$40,000$
Post-transition portion of SP/LSP	$\$18,000 \times 2/3 \times 3 \text{ years}$ $= \$36,000$
Total amount of SP/LSP	$\$40,000 + \$36,000$ $= \$76,000$

Q3. If an employee's employment period before the transition date is less than 2 or 5 years, will his/her eligibility for SP/ LSP be affected?

- A3. The existing eligibility for SP/ LSP remains unchanged. Dividing an employee's whole employment period into pre-transition employment period and post-transition employment period is only for the sake of calculating his/her pre-transition and post-transition portion of SP/LSP. This will not affect the employee's eligibility for SP/ LSP.

Example

Assumptions -

- Years of service before the transition date: 6 months
- Years of service starting from the transition date: 5 years
- Last month's wages immediately preceding the transition date: \$15,000
- Last month's wages before termination of employment: \$18,000

Calculation of SP/LSP:

Pre-transition portion of SP/LSP	$\$15,000 \times 2/3 \times 0.5 \text{ year}$ = \$5,000
Post-transition portion of SP/LSP	$\$18,000 \times 2/3 \times 5 \text{ years}$ = \$60,000
Total amount of SP/LSP	$\$5,000 + \$60,000$ = \$65,000

- Q4. How to calculate the amount of an employee's pre-transition portion of SP/LSP if his/her employment period before the transition date is less than 1 month (for monthly-rated employee) or 30 days (for non-monthly rated employee)?**

- A4. If the employment period before the transition date of a monthly-rated employee is less than 1 month, his/her pre-transition portion of SP/ LSP is calculated using the first full month's wages after commencement of employment. For a non-monthly-rated employee whose employment period before the transition date is less than 30 days, his/her pre-transition portion of SP/ LSP is calculated using the sum of any 18 days' wages chosen by the employee out of his/her first 30 normal working days after the commencement of employment.

Q5. How to calculate the amount of pre- and post-transition portion of SP/LSP if an employee's total SP/LSP exceeds the maximum payment of \$390,000 as stipulated in the Employment Ordinance (EO)?

A5. If the total SP/LSP of an employee exceeds the maximum payment of \$390,000 as stipulated in EO, the amount in excess will be deducted from the post-transition portion. In other words, the amount of pre-transition portion of SP/LSP remains unchanged, subject to a maximum of \$390,000, whilst the amount of post-transition portion of SP/LSP will be the remainder of \$390,000 minus the amount of pre-transition portion.

Example

Assumptions -

- Years of service before the transition date: 20 years
- Years of service starting from the transition date: 10 years
- Last month's wages immediately preceding the transition date: \$22,500
- Last month's wages before termination of employment: \$30,000

Calculation of SP/LSP:

Pre-transition portion of SP/LSP	$\$22,500 \times \frac{2}{3} \times 20 \text{ years}$ = \$300,000
Post-transition portion of SP/LSP	$\$22,500^* \times \frac{2}{3} \times 10 \text{ years}$ = \$150,000 Since the total amount of SP/LSP exceeds \$390,000, the amount of post-transition portion of SP/LSP should be the remainder of \$390,000 minus the amount of pre-transition portion of SP/LSP - $\$390,000 - \$300,000$ = \$90,000
Total amount of SP/LSP	$\$300,000 \text{ (pre-transition portion)}$ $+ \$90,000 \text{ (post-transition portion)}$ = \$390,000

* The ceiling of the monthly wages for calculating SP/LSP is \$22,500.

Q6. After the abolition of MPF offsetting arrangement, whether all benefits can no longer be used for offsetting an employee's SP/LSP?

A6. Currently, the accrued benefits derived from employer's MPF contributions (including mandatory and voluntary contributions) as well as gratuities based on employees' years of service can be used for offsetting an employee's SP/LSP.

Accrued benefits derived from employers' mandatory MPF contributions (ERMC)

After the abolition of MPF offsetting arrangement, employers can no longer use ERMC to offset an employee's SP/ LSP in respect of the **employment period starting from the transition date** (i.e. the post-transition portion).

The abolition has no retrospective effect. If an employee commences employment before the transition date, employers can continue to use the accrued benefits derived from their MPF contributions (irrespective of the contributions made before, on or after the transition date, and irrespective of mandatory or voluntary contributions) to offset SP/LSP in respect of the employment period before the transition date (i.e. the pre-transition portion).

Example

Assumptions -

- Years of service before the transition date: 4 years
- Years of service starting from the transition date: 3 years
- Last month's wages immediately preceding the transition date: \$15,000
- Last month's wages before termination of employment: \$18,000
- ERMC: \$68,400 (assuming the employee has been given wage increase once only during the 7-year employment, which takes effect on the transition date, and ERMC has no profit/loss)

Calculation of SP/LSP with offsetting arrangement:

a)	SP/LSP of the employee	
	(i) Pre-transition portion of	\$40,000 (= \$15,000 × 2/3 × 4 years)

	SP/LSP	
	(ii) Post-transition portion of SP/LSP (cannot be offset by ERMC)	\$36,000 (= \$18,000 × 2/3 × 3 years)
	Total:	\$76,000
b)	ERMC (can only be used for offsetting pre-transition portion of SP/LSP)	\$68,400
c)	ERMC used by the employer to offset pre-transition portion of SP/LSP	\$40,000
d)	ERMC retained in the employee's MPF account	\$28,400
e)	Remaining SP/LSP payable by the employer after offsetting	\$36,000
f)	Aggregate benefits of the employee	\$104,000 (= \$76,000 SP/LSP + \$28,400 ERMC retained in the employee's MPF account)

Accrued benefits derived from employer's voluntary MPF contributions (ERVC)

ERVC can continue be used for offsetting SP/LSP (irrespective of pre-transition or post-transition portion of SP/LSP).

Gratuities based on years of service

Gratuities based on employee's years of service can continue be used

for offsetting SP/LSP (irrespective of pre-transition or post-transition portion of SP/LSP).

Q7. What actual benefits would the abolition of MPF offsetting arrangement bring to the employees?

A7. After the abolition of MPF offsetting arrangement, the aggregate benefits (i.e. SP/LSP and ERM in their MPF accounts) received by the vast majority of employees, including employees with long years of service, will be higher than that under the current offsetting regime. It is because employers can no longer use ERM to offset employees' post-transition portion of SP/LSP, thereby employees can retain more MPF accrued benefits for retirement protection. For those employees whose pre-transition portion of SP/ LSP has already reached the maximum amount, the aggregate benefits received by them after the abolition would not be less than that under the current offsetting regime.

Q8. After the abolition of MPF offsetting arrangement, under what scenarios would the aggregate benefits received by employees be less than that under the current offsetting regime? How would the Government address these cases?

A8. For those employees whose employment commences after the transition date, the aggregate benefits received by them after the abolition of MPF offsetting arrangement would not be less than that under the current offsetting regime. For those employees whose employment commences before the transition date, the aggregate benefits received by them after the abolition would generally be higher than that under the current offsetting regime.

Under special circumstances, the aggregate benefits received by employees after the abolition would be less than that under the current offsetting regime, for example: (a) the employee has a substantial pay rise after the transition date and thus the wage rate for calculating pre-transition portion of SP/LSP (i.e. the monthly wages immediately preceding the transition date) would have a greater disparity when comparing with existing calculation; (b) the pre-transition employment period is long, and thus the above effect is amplified ; and (c) the post-transition employment period is short, and thus the employee's benefits gained from the abolition are relatively small. The

Government anticipated that there will not be many such cases and their number would gradually decrease when the post-transition employment period of employees is getting longer and fewer employees would have employment period straddling across the transition date.

The Government has undertaken to make up for the shortfall should any such case arise so as to ensure that no employee would be worse off due to policy change.

Q9. What provisions are made under the abolition of MPF offsetting arrangement to reduce the risk of dismissal before the transition date? Why employers dismissing employees before the transition date may incur higher SP/LSP expenses?

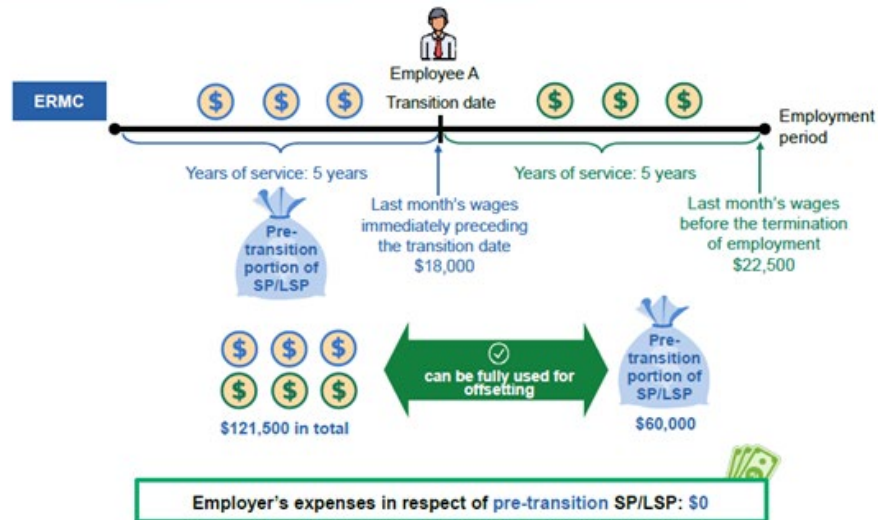
A9. To reduce the risk of dismissal before the transition date, the abolition of MPF offsetting arrangement will have no retrospective effect. The following arrangements will be put in place in respect of the pre-transition portion of SP/LSP of employees whose employment commence before the transition date:

- Pre-transition portion of SP/LSP will be calculated on the basis of the wage rate as at the transition date instead of that at the termination of employment. As such, regardless of any increase in salary or length of employment after transition date, the amount of pre-transition portion of SP/LSP would be the same as if an employee's employment was terminated before the abolition; and
- Employers can continue to use ERM to offset employees' pre-transition portion of SP/LSP. As such, employers should not dismiss employees (especially those with longer years of service) before the transition date in order to use ERM to offset SP/LSP before the abolition takes effect.

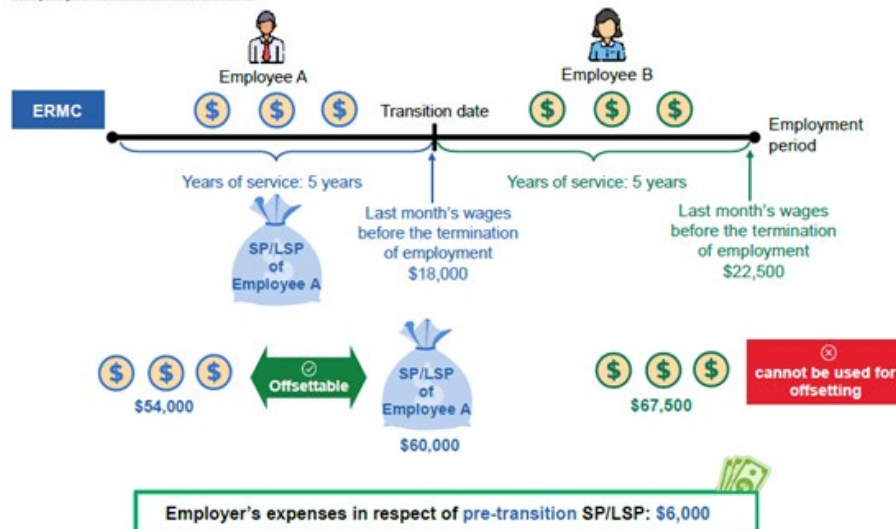
Employers dismissing existing employees and hiring new employees will incur higher SP/LSP expenses because the accrued benefits derived from ERM in respect of existing employees' whole employment period can continue to be used to offset their pre-transition portion of SP/LSP. Retaining existing employees allows ERM to grow, which can be used to offset employees' pre-transition portion of SP/LSP in future.

Example

Scenario 1: Employer continues to employ an existing employee after the transition date



Scenario 2: Employer dismisses an existing employee before the transition date and employs a new employee after the transition



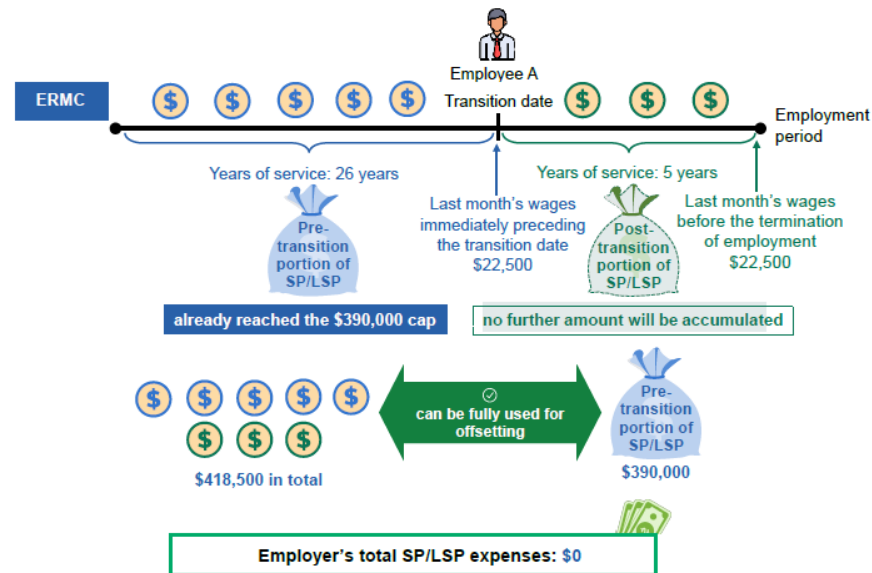
Besides, the maximum amount of SP/LSP (i.e. the sum of pre-transition and post-transition portion of SP/LSP) remains \$390,000 after the abolition. The amount in excess will be deducted from the post-transition portion.

Assuming an employee's SP/LSP has already exceeded \$390,000 before the transition date, and the employer continues to hire that employee after the abolition. Since the amount in excess of the cap will be deducted from the post-transition portion, his/her total amount of SP/LSP would not increase and can still be offset by ERM no matter when the employee leave employment after the transition date. On the contrary, if the employer dismisses the employee before the transition date and hire a new employee, the new employee's SP/ LSP

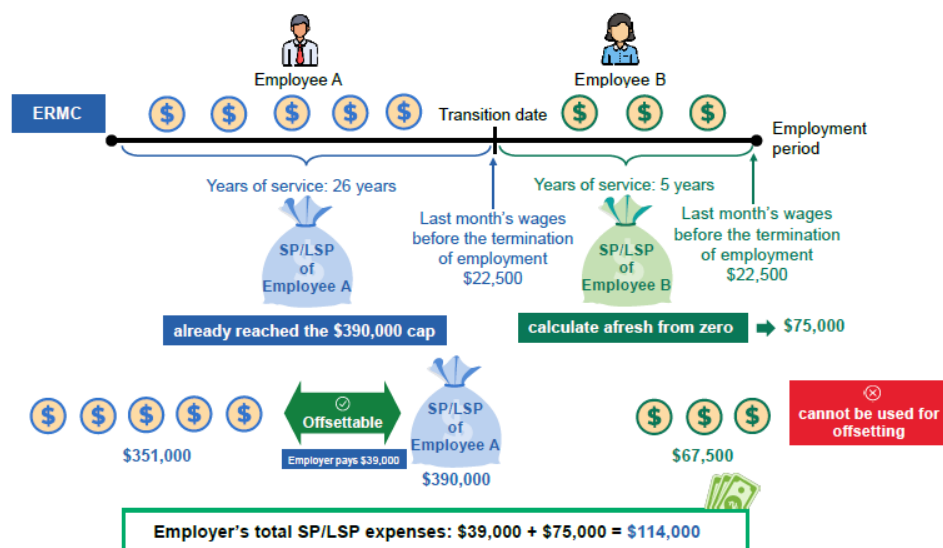
will build up afresh to a maximum of \$390,000, which cannot be offset by ERM. This will incur higher SP/LSP expenses for the employer.

Example

Scenario 1: Employer continues to employ an existing employee after the transition date



Scenario 2: Employer dismisses an existing employee before the transition date and employs a new employee after the transition



Q10. Is the abolition of MPF offsetting arrangement applicable to employees under occupational retirement schemes (ORS)? How does the arrangement operate?

A10. The abolition of MPF offsetting arrangement is also applicable to ORS exempted under the Mandatory Provident Funds Schemes Ordinance (MPFSO). Since the employers' contributions under ORS are not

differentiated into mandatory or voluntary portions, a portion of benefits (“carved-out benefits”) will be calculated and carved out from employee’s vested benefits using the below formula -

$$\text{Final average monthly relevant income}^* \times \text{Years of service with ORS benefits} \times 5\% \times 12$$

* “Final average monthly relevant income” means the employee’s average monthly relevant income in the 12 months immediately preceding the termination of employment, subject to the maximum level of relevant income under MPFSO. The current monthly maximum relevant income level is \$30,000.

“Carved-out benefits” is akin to the accrued benefits derived from employers’ mandatory MPF contributions, whilst the remainder of vested benefits after carving out the “carved-out benefits” is akin to the accrued benefits derived from employers’ voluntary MPF contributions.

If an employee commences employment after the transition date, the “carved-out benefits” cannot be used to offset SP/LSP, whilst the remainder of vested benefits after carving out the “carved-out benefits” can be used to offset SP/LSP.

If an employee commences employment before the transition date, his/her SP/LSP will be divided into the pre-transition portion and the post-transition portion. The “carved-out benefits” can only be used to offset pre-transition portion of SP / LSP, whilst the remainder of vested benefits after carving out the “carved-out benefits” can be used to offset pre-transition and/or post-transition portions of SP/LSP.

Example

Assuming an employee commences employment after the transition date -

- Years of service: 6 years
- Last month’s wages before termination of employment: \$32,000
- Final average monthly relevant income: \$32,000
- Vested benefits derived from employers’ ORS contributions: \$120,000

Calculation of SP/LSP with offsetting arrangement:

a)	SP/LSP of the employee	\$90,000 (= \$22,500* × 2/3 × 6 years)
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b)	“Carved-out benefits”	\$108,000 (= \$30,000 [#] × 6 years × 5% × 12)
c)	Remainder of vested benefits after carving out the “carved-out benefits” (can be used to offset SP/LSP)	\$12,000 (= \$120,000 – \$108,000)
d)	Vested ORS benefits retained by the employee	\$108,000
e)	Remaining SP/LSP payable by the employer after offsetting	\$78,000 (= \$90,000 – \$12,000)
f)	Aggregate benefits of employee	\$198,000 (= \$90,000 SP/LSP + \$108,000 vested ORS benefits retained by the employee)

* The ceiling of the monthly wages for calculating SP/LSP is \$22,500.

Final average monthly relevant income is capped at \$30,000.

Example

Assuming an employee commences employment before the transition date -

- Years of service before the transition date: 4 years
- Years of service starting from the transition date: 3 years
- Last month’s wages immediately preceding the transition date: \$15,000
- Last month’s wages before termination of employment: \$18,000
- Final average monthly relevant income: \$18,000
- Vested benefits derived from employer’s ORS contributions: \$109,440

a)	SP/LSP of the employee	
	(i) Pre-transition portion of	\$40,000 (= \$15,000 × 2/3 × 4 years)

	SP/LSP	
	(ii) Post-transition portion of SP/LSP	\$36,000 (= \$18,000 × 2/3 × 3 years)
	Total :	\$76,000
b)	“Carved-out benefits” (can only be used to offset pre-transition portion of SP/LSP)	\$75,600 (= \$18,000 × 7 years × 5% × 12)
c)	Remainder of the vested benefits after carving out the “carved-out benefits” (can be used to offset pre-transition and post-transition portions of SP/LSP)	\$33,840 (= \$109,440 – \$75,600)
d)	Vested ORS benefits retained by the employee (i.e. the remaining “carved-out benefits” after offsetting pre-transition portion of SP/LSP)	\$35,600 (= \$75,600 – \$40,000)
e)	Remaining SP/LSP payable by the employer after offsetting (i.e. the remainder of post-transition portion of SP/LSP after offset by “remaining benefits”)	\$2,160 (= \$36,000 – \$33,840)
f)	Aggregate benefits of	\$111,600

	employee	(= \$76,000 SP/LSP + \$35,600 vested ORS benefits retained by the employee)
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Q11. Is the abolition of MPF offsetting arrangement applicable to all employees?

A11. Apart from MPF schemes, the abolition of MPF offsetting arrangement will also be applicable to ORS exempted under MPFSO, the two school provident funds regulated by the Grant Schools Provident Fund Rules and Subsidized Schools Provident Fund Rules under Education Ordinance, and overseas ORS of employees from outside Hong Kong which are exempted from the MPF System. The abolition of the offsetting arrangement for the above schemes/funds will take effect on the same date as the abolition of the offsetting arrangement for MPF System.

The abolition of MPF offsetting arrangement will not be applicable to employees who are currently not covered by the MPF System or other statutory retirement schemes (including overseas and local domestic helpers, and employees below the age of 18 or at the age of 65 or above). Their SP/LSP, if applicable, will continue to be calculated according to the existing provisions of EO.

Q12. When the abolition of MPF offsetting arrangement takes effect, what kind of records should the employer keep? How long should these records be kept?

A12. According to the existing EO, employers must at all times keep wage records of each employee covering the period of his/her employment during the preceding 12 months, and the records should be kept for a period of another 6 months after the employee ceases to be employed.

After the abolition of MPF offsetting arrangement, an employer must keep wage records covering an employee's employment period during the 12 months immediately preceding the transition date until 6 months after the employee ceases to be employed. This can facilitate the calculation of the employee's pre-transition portion of SP/LSP when necessary.

II. Government Subsidy Scheme

Q13. Which kind of employees whose SP/LSP expenses are covered by the Government Subsidy Scheme?

A13. The aim of the Government Subsidy Scheme is to relieve the financial pressure of employers in paying SP/LSP after the abolition of MPF offsetting arrangement. As such, the Government Subsidy Scheme would generally cover all employees being affected by the abolition, but not the SP/LSP expenses in respect of those who are not covered by the MPF System or other statutory retirement schemes (e.g. domestic helpers) as the policy change will not incur additional SP/LSP expenses to employers of such employees. Therefore, they are not eligible for Government subsidy for the SP/LSP expenses in respect of such employees. These employees will not benefit from the abolition, and their existing SP/LSP entitlement will remain unchanged after the abolition.

Q14. Why does the Government set a \$500,000 threshold for an employer's total expenses of SP/LSP in a year? What criterion is used for setting the threshold?

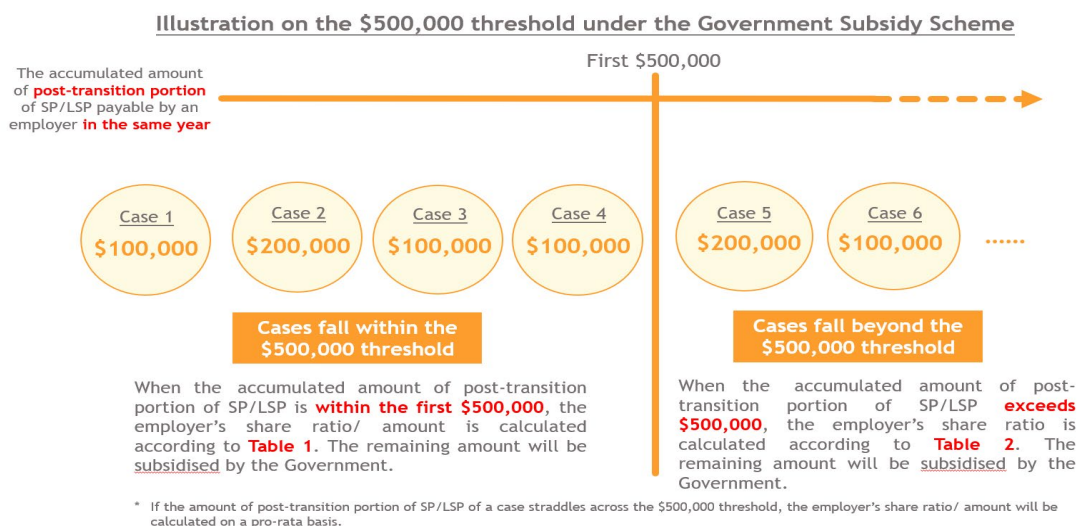
A14. The aim of the Government Subsidy Scheme is to better assist micro, small and medium-sized enterprises (MSMEs) to adapt to the policy change. The government proposed to set the threshold at \$500,000 to specify the subsidy ratio for each year. Cases falling within the \$500,000 threshold will benefit more from a higher subsidy for each SP/LSP payout, whilst cases falling beyond the \$500,000 threshold will have a relatively lower and shorter period of subsidy. According to the statistics provided by the MPFA, close to 90% of MSMEs had no more than \$500,000 SP/LSP liabilities per year. Therefore, the threshold should cover the SP/LSP expenses of most MSMEs.

Q15. Should employers pay SP/LSP to employee before submitting application for Government subsidy?

A15. Employers should first pay SP/LSP to employees according to the Employment Ordinance before submitting applications to the Government for disbursement of subsidy.

Q16. How to define “cases falling within the first \$500,000”? How to calculate the subsidy amount if the amount of an SP/LSP case straddles across the \$500,000 threshold?

A16. The \$500,000 threshold refers to whether the accumulated amount of post-transition portion of SP/LSP payable by an employer during the same year exceeds \$500,000. Please refer to the following illustration:



For cases straddling across the \$500,000 threshold, the share ratio/ amount payable by an employer is calculated on a pro-rata basis. For example, assuming an employer has already paid post-transition portion of SP/LSP for 12 employees totaling \$470,000 in Year 3 after the abolition, when the employer has to pay \$40,000 post-transition portion of SP/LSP to the 13th employee, \$30,000 will fall within the \$500,000 threshold and the remaining \$10,000 will fall beyond the threshold. The amount payable by the employer in respect of the \$30,000 falling within the \$500,000 threshold will be calculated according to the share ratio/ amount in Table 1, with the “capped amount” calculated on a pro-rata basis as \$2,250 (i.e. \$3,000 x \$30,000 / \$40,000). For the remaining \$10,000 falling beyond the threshold, the employer's share ratio/ amount will be calculated according to Table 2, i.e. \$5,000 (\$10,000 x 50%).

Table 1: Cases falling within the first \$500,000

Year after the abolition	Employer's share ratio/ “capped amount” in respect of post-transition portion of SP/LSP per case
1 – 3	50% or \$3,000 (whichever is the lower)
4	55% or \$25,000 (whichever is the lower)

5	60% or \$25,000 (whichever is the lower)
6	65% or \$25,000 (whichever is the lower)
7	70% or \$50,000 (whichever is the lower)
8	75% or \$50,000 (whichever is the lower)
9	80% or \$50,000 (whichever is the lower)
10 – 11	80%
12 – 13	85%
14 – 19	90%
20 – 25	95%

Table 2: Cases **exceeding \$500,000**

Year after the abolition	Employer's share ratio in respect of post-transition portion of SP/LSP per case
1 – 3	50%
4	55%
5	60%
6	65%
7	70%
8	75%
9	80%
10	85%
11	90%
12	95%
13 – 25	100%

Q17. Can organisations currently receiving funding from the Government apply for Government subsidy? How about organisations which are subvented by these organisations?

A17. To avoid “double subsidy”, subvented organisations cannot apply for Government subsidy under the Government Subsidy Scheme if the SP/LSP of their employees has been or will be fully funded or subvented by the Government. Generally speaking, organisations would not be eligible for Government subsidy if the SP/LSP of their employees are fully funded by the Government (including those sponsored by the subvented organisations).