Employers dismissing existing employees and employing new ones cannot save up monies under the abolition of MPF offsetting arrangement

1 Employers will not save severance payment (SP) / long service payment (LSP) expenses by dismissing employees before the transition date because the amount of pre-transition portion of SP/LSP will be calculated on the basis of the wage rate and years of service as at the transition date, and the amount is ascertained at the time of transition date. Even if the employer continues to employ the same employee or increase his/her salary, the amount of pre-transition portion of SP/LSP will not be increased.

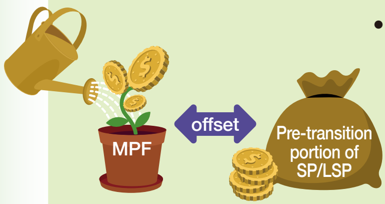
Transition date

Pre-transition portion of SP/LSP	**Post-transition portion** of SP/LSP

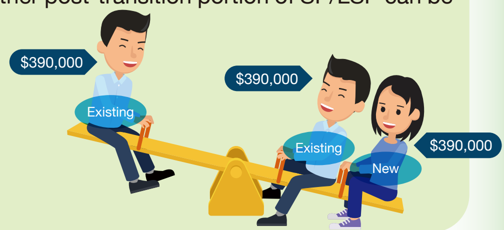
The amount is ascertained at the time of transition date

Calculated on the basis of the wage rate and years of service as at the transition date

2 On the contrary, a higher amount of SP/LSP will be incurred if employers dismiss employees before the transition date and employ new ones because:



- The accrued benefits derived from employer's MPF contributions in respect of the whole employment period of the employee can be used to offset the pre-transition portion of SP/LSP. Retaining existing employees allows the accrued benefits to grow, which can be used to offset pre-transition portion of SP/LSP in future; and
- If an existing employee's SP/LSP has already reached the statutory maximum of $390,000 before the transition date, no further post-transition portion of SP/LSP can be accumulated. However, in case an employer dismisses an existing employee before the transition date and employs a new one, the new employee's SP/LSP will build up afresh to a maximum of $390,000, which cannot be offset by the accrued benefits derived from employer's MPF mandatory contributions.



Examples of employers dismissing existing employees before the transition date and employing new ones resulting in higher SP/LSP expenses:

Example 1

Example 2

Relevant provisions of the laws concerned remain the sole authority for the abolition of MPF offsetting arrangement.

Offsetting Policy Division
Labour Department

March 2023