LCQ3: Abolition of offsetting arrangement of Mandatory Provident Fund

Following is a question by the Hon Edmund Wong and a reply by the Secretary for Labour and Welfare, Mr Chris Sun, in the Legislative Council today (May 21):

Question:

ã€€ã€€The abolition of the use of the accrued benefits derived from employers' mandatory contributions to the Mandatory Provident Fund (MPF) to offset severance payment and long service payment (the abolition of offsetting arrangement) took effect on the 1st of this month. The Government has indicated earlier on that it is not worried that the arrangement would trigger a wave of layoffs. In this connection, will the Government inform this Council:

(1) as there are views pointing out that the current business environment is far worse than before, whether the Government will conduct again a comprehensive assessment of the impact of the abolition of offsetting arrangement (e.g. whether it will trigger a wave of layoffs); if it will conduct such an assessment, of the timetable; if not, the reasons for that;

(2) as the Subsidy Scheme for Abolition of MPF Offsetting Arrangement will last for 25 years, when the Government plans to conduct a review to ascertain that the funding of the scheme will be sufficient to meet the long-term needs; whether it will consider entrusting the relevant funding to the Hong Kong Monetary Authority for investment in order to generate steady returns, thereby obviating the need to seek approval from this Council for supplementary provisions; and

(3) as it has been reported that the authorities have earlier on conducted a consultation on increasing the minimum and maximum levels of income for MPF contributions, whether the Government will, in the light of the overall business environment and the impact of the abolition of offsetting arrangement, consider withholding the adjustment to the relevant income levels; if so, of the details; if not, the reasons for that?

Reply:

President,

ã€€ã€€After years of discussion and refinements, the abolition of the arrangement of using the accrued benefits derived from employers' mandatory contributions under the Mandatory Provident Fund (MPF) system to offset employees' severance payment (SP) and long service payment (LSP) (the abolition of offsetting) has garnered general support from the community, so as to improve employees' retirement protection. The abolition of offsetting took effect on May 1 this year. On the same day, the Government also launched the 25-year Subsidy Scheme for Abolition of MPF Offsetting Arrangement (SSA) with financial commitment of $33.6 billion to share out employers' financial burden and assist them to adapt to the policy change.

ã€€ã€€My reply to the Member's question is set out below:

(1) The abolition of offsetting will not lead to dismissal of employees owing to significant increase in the operating costs of enterprises. With reference to past statistics, the total sum of SP and LSP offset by employers accounts for only about 0.5 per cent of enterprises' total wage bills, while wage bills are but a fraction of the total operating expenses of enterprises. Hence, the abolition of offsetting is not a determining factor for cessation of business or dismissal of employees.

The Government has been reiterating that dismissing existing employees prior to implementation of the abolition of offsetting cannot save SP/LSP expenses, because:

(i) Under the Employment Ordinance, the maximum amount of an employee's SP/LSP is $390,000. As the law stipulates that the abolition of offsetting has no retrospective effect, an employer may still use the accrued benefits derived from his MPF contributions during employees' whole employment periods to offset employees' SP/LSP incurred before the transition date, viz. May 1 this year. SP/LSP of newly-hired employees, on the other hand, will cumulate from scratch to the maximum amount of $390,000, and none of the sum can be offset by employers' mandatory contributions.

(ii) SP/LSP incurred from an existing employee's employment period pre-transition is calculated on the basis of the employee's wages of the last month before the transition date. Therefore, the amount of pre-transition SP/LSP will have been locked down and will not increase no matter how much longer the employee will be employed and whether there will be any increase in his salary thereafter.

ã€€ã€€We emphasise that manpower is a valuable asset of an enterprise. The termination compensation should not be a major factor for an employer's consideration of dismissal. The Labour Department (LD) will continue to monitor the situation after the abolition.

(2) In estimating the financial commitment for the SSA, the Government had commissioned an actuarial consultant. In arriving at the total sum, the consultant made reference to the offsetting claim dataset provided by the Mandatory Provident Fund Schemes Authority (MPFA), projected the number of subsidy applications to be received and the amount of SP/LSP involved in those applications, and took into account the economic cycles during the 25-year subsidy period.

ã€€ã€€The total subsidy payout will hinge on the actual number of subsidy applications received and the amount of SP/LSP involved in those applications. The Government will closely monitor the disbursement of subsidies and, where necessary, follow the established procedure to handle the funding arrangement. Since the subsidy ratio will decrease over time, the subsidy payout sum in the later part of the subsidy period will be less than that in the earlier part of the subsidy period. It is premature to consider the sufficiency of the funding for the SSA at this point in time. When seeking funding approval from the Finance Committee (FC) of the Legislative Council in November last year, the Government pledged to review the operation of the SSA five years after the implementation of the abolition of offsetting.

ã€€ã€€The $33.6 billion approved by the FC in November last year for the implementation of the SSA is the Government's maximum commitment amount that may be used. It is not allocated to the LD's account in one go. The LD, in accordance with the Government's established procedures and based on the cashflow requirement in each financial year, will request funds from that year's Government budget. The funds will then be allocated to the LD's account from the General Revenue Account according to the SSA's disbursement schedule to meet the subsidy payout expenditures. Any balance of the commitment amount yet to be allocated will remain in the Government's fiscal reserve to generate investment income.

(3) Under the Mandatory Provident Fund Schemes Ordinance, the MPFA is required to conduct a review of the minimum and maximum levels of relevant income for MPF contributions not less than once in every four years.

ã€€ã€€The MPFA is conducting a review of the minimum and maximum levels of relevant income for MPF contributions for the next review cycle (i.e. 2022-2026). In conducting the review, the MPFA must, according to the law, take into account the relevant employment earnings statistics and other relevant factors such as social and economic conditions, labour market conditions, business environment for enterprises in particular small and medium enterprises, and impacts (such as financial burden) on employees/self-employed persons. The MPFA will submit the review report to the Government. The Government will carefully examine the report thereafter.