

Press release

**LCQ10: Severance payments and long service payments
from accrued benefits of the MPF Schemes**

Wednesday, November 10, 2010

Following is a question by the Hon Wong Kwok-kin and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 10):

Question:

Under section 12A of the Mandatory Provident Fund Schemes Ordinance (Cap. 485), an employer may make an application to a trustee of a Mandatory Provident Fund (MPF) scheme for using the accrued benefits derived from his contributions made for his employees under the MPF scheme to offset severance payments or long service payments. In this connection, will the Government inform this Council:

(a) whether it knows since the MPF system came into operation in December 2000:

(i) the annual total number of MPF accounts from which the accrued benefits derived from employers' contributions had been used to offset severance payments or long service payments, the total amount of such payments and their percentages; if it does not have the relevant data, of the reasons for that;

(ii) the total number of MPF accounts from which the accrued benefits derived from employers' contributions had been used to offset severance payments or long service payments more than once, and the largest number of withdrawals made; and

(iii) if there are MPF accounts in which, as a result of the aforesaid accrued benefits being used to offset severance payments or long service payments, the balances of such benefits had become less than 50%, 30% or 10% respectively of their original amounts, or even become as low as zero; if so, of the details; and

(b) whether the authorities will review afresh the aforesaid mechanism, including considering the abolition of the arrangement whereby the accrued benefits derived from employers' contributions can be used for offsetting severance payments or long service payments; if not, how the authorities protect employees from being affected by the aforesaid arrangement upon retirement?

Reply:

President,

The MPF system is one of the retirement protection arrangements. Before the MPF system came into operation in 2000, the Employment Ordinance already allowed employers to use their contributions to retirement schemes for offsetting severance payments or long service payments (the offsetting arrangement). This long-established offsetting arrangement was extended to cover MPF Schemes after extensive consultations and balancing all relevant considerations. This also ties in with the established practices under the Employment Ordinance. The offsetting arrangement involves considerations pertaining to the overall employer-employee relationship. The Government has no plan to review the arrangements at this stage.

It is an existing requirement of the Mandatory Provident Fund Schemes Authority (MPFA) that approved trustees should submit information on MPF Schemes regularly, including the amount of accrued benefits withdrawn from a registered scheme due to different reasons. MPFA collects such information for the purpose of monitoring the withdrawal of benefits from MPF Schemes from an overall perspective. MPFA does not have the withdrawal record of individual accounts. According to the information provided by the approved trustees, the total amount of MPF accrued benefits used to offset severance payments or long service payments pursuant to section 12A of Mandatory Provident Fund Schemes Ordinance from July 2001 to June 2010, and their percentages over the total asset value of MPF Schemes in the relevant years are listed in Annex.

Ends