Press Release

LCQ5: Offsetting severance payments and long service payments with the accrued benefits of Mandatory Provident Fund schemes

Wednesday, January 22, 2014

Following is a question by the Hon Tang Ka-piu and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (January 22):

Question:

Under the existing legislation, an employer is allowed to use the accrued benefits derived from the employer's contributions made to a Mandatory Provident Fund (MPF) scheme for an employee to offset the severance payment (SP) or long service payment (LSP) payable to that employee under the Employment Ordinance (the offsetting arrangement). Some employees have pointed out that the offsetting arrangement undermines the interests of employees and deprives them of retirement protection. In this connection, will the Government inform this Council:

(1) of the circumstances under which the authorities will abolish the offsetting arrangement; the considerations for deciding whether to abolish the offsetting arrangement in one go or by phases, and whether such factors include the impacts on the administrative costs and average expense ratio of the funds; if so, of the details; and

(2) whether it will introduce MPF full portability in tandem with the abolition of the offsetting arrangement, and stipulate that the accrued benefits derived from the contributions made by the employers before the abolition of the offsetting arrangement can no longer be used in the offsetting arrangement; if it will, of the details; if not, the reasons for that?

Reply:

President,

The arrangement of offsetting severance payments (SP) and long service payments (LSP) against Mandatory Provident Fund (MPF) accrued benefits is a concern of the community. It involves the interests of various stakeholders, affecting both the retirement protection of employees and operating costs of employers. In fact, there are opposite views on the offsetting arrangement among different sectors of the community. While abolishing the offsetting arrangement could undoubtedly preserve the entire contributions from employers for employees' retirement in the future, there are also views in the community, including those from some employers' associations, which strongly oppose to the abolition. They consider that the abolition will not only greatly increase their operating costs, but will also have adverse impact on their budget if they are not allowed to use their contributions in the past decade or so to offset SP or LSP. The change will cause pressure for employers, especially small and medium enterprises, and may even affect employees' terms of employment and job opportunities, ultimately jeopardising employees' interests. Moreover, there are various options in taking forward the phased-abolition of the offsetting arrangement, each with varying impact on employers and employees. Therefore, we would need to listen to the views of different sectors, consider and examine the issue in a holistic and careful manner.

The Hon Tang also expressed concern about MPF full portability, which is one of the various measures to improve the MPF System. The Government and the Mandatory Provident Fund Schemes Authority (MPFA) are pursuing various measures to lower MPF fees, increase employees' autonomy in choosing MPF funds, and assist them in making suitable choices. They include the following:

(1) The Employee Choice Arrangement (ECA) which came into operation in November 2012, allows employees greater autonomy in choosing MPF schemes. In the period from the commencement of ECA to December 31, 2013, the management fee of 34% of MPF funds (i.e. 163 MPF funds) have been reduced by up to 44% or 80 basis points. As the fund expense ratio is calculated on the basis of the data of the previous financial year, the latest published ratio of 1.70% does not fully reflect the effect of fee reduction;

(2) The MPFA has provided a list of low-fee funds (with management fee not exceeding 1%, or fund expense ratio not exceeding 1.3%) on its website since December 2012. Since the publication of the list, there has been an increasing number of MPF schemes offering low-fee funds. As of December 2013, there are 148 low-fee funds (accounting for about 31% of the total number of funds). Except for those MPF schemes which will soon be merged, all MPF schemes

will offer at least one low-fee fund that invests in equity and/or bonds by early 2014;

(3) On achieving greater economies of scale for MPF funds and reducing trustees' operating costs, two trustee companies have responded to MPFA's appeal by applying for the merging of two of their schemes into one, which is expected to be completed in early 2014. The MPFA anticipates that another 30 to 40 existing MPF funds will cease operation by end-2014. As a result of the promotion of the MPFA, MPF trustees received about 14 500 applications from scheme members for consolidating their personal accounts from end-March 2013 to mid-December 2013. Meanwhile, the MPFA is following up with trustees on other measures to streamline the administrative procedures;

(4) Last year, I proposed to conduct consultation on proposals to rationalise MPF fund types and achieve a major reduction in MPF fees. After thorough examination, we consider that the most effective and pragmatic approach is to introduce a "core fund" as a default fund in each scheme to facilitate those scheme members who do not have time nor expertise in fund selection, to choose MPF funds which align with the objective for retirement protection. The proposed "core fund" will be subject to fee control and based on a long-term investment strategy which balances investment risk and return. We aim to conduct public consultation on the proposal in the first half of 2014; and

(5) It has been our objective to allow scheme members full control of their MPF investment. The MPFA is studying various proposals to implement MPF full portability and the necessary supporting measures such as the establishment of a central database. The MPFA plans to submit its recommendations to the Government by end-2015.

Ends