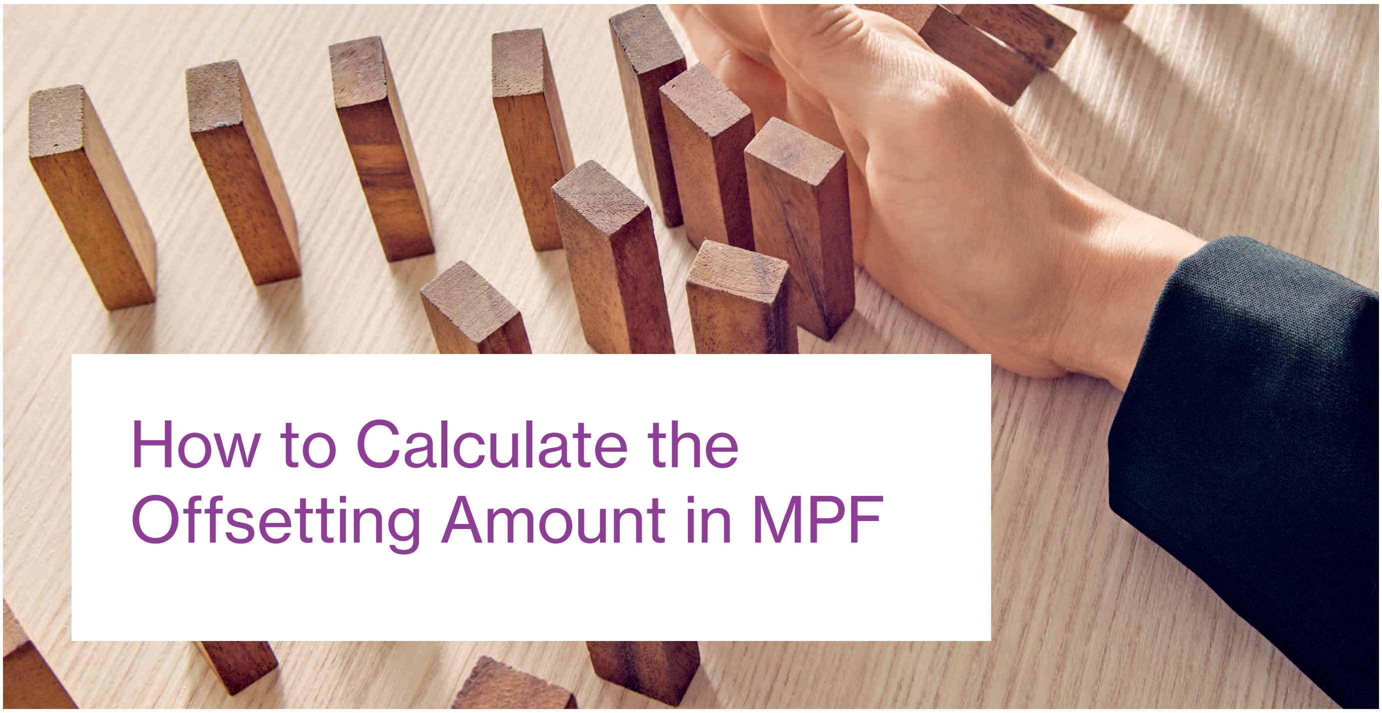

How to Calculate the Offsetting Amount in MPF

At the end of June, the last Executive Council endorsed the government's proposal to abolish the MPF offsetting mechanism before a deadline. An effective date will be determined, according to the proposal. When that happens, the MPF offsetting mechanism on severance and long-service payments will be scrapped once and for all. In the proposed 10-year transition period, the government will offer employers a subsidy of $7.9 billion. After the effective date, the amount of a severance payment and long-service payments calculated with the years of work post-effective date will be adjusted downwards from the existing entitlement of two-thirds of the monthly salary to half the monthly salary.

MPF benefits can be used to offset severance and long-service payments

MPF members who are laid off from their jobs may be entitled to a long-service payment or severance payment from their employer (refer to Figure 1 and 2). Employers are permitted to offset the severance and long-service payments with the accrued benefits derived from the employer's contributions. However, the amount offset from the employee's MPF account cannot exceed the amount of the severance and long-service payments payable to the employee.

Figure 1: Eligibility for severance payment and long-service payment

Payments entitled	Severance payment	Long-service payment
Employment period	Employed under a continuous contract for not less than 24 months	Employed under a continuous contract for not less than five years
Conditions	The employee is dismissed due to redundancy	The employee is dismissed, but not because of the following reasons: - summary dismissal due to serious misconduct - dismissal due to redundancy
	Employment contract of a fixed term is not renewed due to redundancy	Employment contract of a fixed term ends without renewal
	The employee is laid off	The employee dies while at work The employee resigns for health reasons The employee is aged 65 or above and resigns due to old age

Note: An employee can only be entitled to either a long-service payment or severance payment at any given point in time, not both.

Figure 2: The calculation method for severance and long-service payment

Monthly-paid employee	(Last month salary* x 2/3)# x reckonable years of service
Daily-rated and piece-rated employee	(Any 18 days' salary* chosen by the employee out of the last 30 normal working days*)# x reckonable years of service

* An employee may choose to use the average salary in the past 12 months for the calculation.
# The upper limit is two-thirds of $22,500 (i.e. $15,000).
If the relevant date of termination of employment occurs on or after 1 October 2003, the maximum amount of severance payment or long-service payment is $390,000.
Source: The Labour Department

As can be seen in Figure 3, if the accrued benefits derived from the employer's contributions exceed the amount of severance or long-service payments, the employers will not incur any extra expenses. If the employer has not yet paid any part of the severance or long-service payments, members can file an application to the trustee directly to withdraw the accrued benefits derived from the employer's contributions. In the case below, the member can withdraw $30,000 from his/her MPF account as severance or long-service payments; after the withdrawal, the amount of accrued benefits from employer's contributions will be lowered to $20,000. In other words, the member's MPF benefits will be reduced, which will hamper the member's ability to cover post-retirement expenditures.

Figure 3: Offsetting arrangement on severance and long-service payment

Scenario 1: Accrued benefits (employer's portion) exceed severance or long-service payment	
Severance or long-service payment employee is entitled to	$30,000
Accrued benefits (employer's portion) in employee's account	$50,000
After offsetting	
Amount offset from accrued benefits (employer's portion)	$30,000
Balance of accrued benefits (employer's portion) in employee's account	$20,000
Additional amount paid by the employer as employee's severance or long-service payment	$0
Scenario 2: Accrued benefits (employer's portion) smaller than severance or long-service payment	
Severance or long-service payment employee is entitled to	$30,000
Accrued benefits (employer's portion) in employee's account	$20,000
After offsetting	
Amount offset from accrued benefits (employer's portion)	$20,000
Balance of accrued benefits (employer's portion) in employee's account	$0
Additional amount paid by the employer as employee's severance or long-service payment	$10,000

Source: MPFA

If the proposal to remove the MPF offsetting mechanism is implemented, what will be the impact on members?

Suppose a member is earning a monthly salary of $50,000. Under current regulations, employers have to make a monthly MPF contribution equal to 5% of the employee's salary, with an upper limit of $1,500. If the worker has worked for the employer for 16 years, the mandatory contributions made by the employer are assumed to be $288,000 (with the upper limit of the monthly salary set at $22,500). As seen in Figure 4, assume the employee works for five more years. Under the current offsetting mechanism, the employee can received a long-service payment of $315,000 (A), while the MPF account balance (employer's portion) will be $63,000 (B) after offsetting. The employee will thus be entitled to a total amount of $378,000. If the current proposal is adopted, however, the employee can receive a long-service payment of $296,000 (A) while the MPF account balance (employer's portion) will be $138,000 (B) after offsetting, meaning that the employee will be entitled to a total amount of $434,000. Therefore, after the removal of the MPF offsetting mechanism, members may be able to receive a larger amount of total compensation.

In conclusion, the removal of the MPF offsetting mechanism will be a step forward in protecting MPF members' retired life. Let's hope that the government can find common ground between the different parties and find a feasible way to abolish the mechanism. Members should pay attention to the latest developments in the debate too, as this will directly affect their personal interest. ■

Figure 4: The impact of the removal of MPF offsetting mechanism – comparing two scenarios 5 years after the "proposed deadline"

Calculation method	Adopting the current calculation method	The "proposed deadline" solution
Severance/ long-service payment = (A)	22,500 x 2/3 x (16 + 5) = $315,000 (can be fully offset)	22,500 x 2/3 x 16 + 22,500 x 1/2 x 5 = $240,000 + approx. $56,000 = approx. $296,000 (only the benefits before the deadline can be offset)
Employer's MPF contributions	Contributions before deadline + contributions after deadline = $288,000 + $90,000 = $378,000 (can be fully offset)	Contributions before deadline + contributions after deadline = $288,000 + $90,000 = $378,000 (only contributions made before the deadline can be used for offsetting)
MPF balance after offsetting	$378,000 - $315,000 = $63,000	$288,000 - $240,000 = $48,000
Employee's MPF account (employer's contributions) = (B)	$63,000	Contributions before deadline (after offsetting) + contributions after deadline = $48,000 + $90,000 = $138,000
Total Sum to be received by employee = (A) + (B)	$315,000 + $63,000 = $378,000	$296,000 + $138,000 = $434,000