

Appendix 2

A Guide to the Abolition of Mandatory Provident Fund Offsetting Arrangement with Examples

If an employee becomes entitled to severance payment or long service payment and is also entitled to accrued benefits derived from employer's Mandatory Provident Fund ("MPF") contributions, vested benefits of occupational retirement scheme ("ORS") attributable to employer's contributions or gratuities based on length of service, the offsetting arrangement is as follows:

- (i) If an employee's employment was terminated before 1 May 2025, his severance payment or long service payment can be offset against the aforementioned amount of gratuities and benefits.
- (ii) If an employee's employment commenced on or after 1 May 2025:

	Severance Payment / Long Service Payment	
	Offsettable	Non-offsettable
Accrued benefits derived from employer's MPF mandatory contributions ¹		✓
Accrued benefits derived from employer's MPF voluntary contributions ²	✓	
Vested benefits of MPF exempted ORS attributable to employer's contributions – "carved-out benefits" ³		✓
Vested benefits of MPF exempted ORS attributable to employer's contributions – "remaining benefits" ⁴	✓	
Vested benefits of non-MPF exempted ORS attributable to employer's contributions ⁵	✓	
Gratuities based on length of service	✓	

- (iii) If an employee's employment commenced before 1 May 2025 and terminated on or after 1 May 2025:

	Pre-transition Portion of Severance Payment / Long Service Payment		Post-transition Portion of Severance Payment / Long Service Payment	
	Offsettable	Non- offsettable	Offsettable	Non- offsettable
Accrued benefits derived from employer's MPF mandatory contributions ¹	✓			✓
Accrued benefits derived from employer's MPF voluntary contributions ²	✓		✓	
Vested benefits of MPF exempted ORS attributable to employer's contributions – "carved-out benefits" ³	✓			✓
Vested benefits of MPF exempted ORS attributable to employer's contributions – "remaining benefits" ⁴	✓		✓	
Vested benefits of non-MPF exempted ORS attributable to employer's contributions ⁵	✓		✓	
Gratuities based on length of service	✓		✓	

The severance payment / long service payment is to be offset against the aforementioned amount of gratuities and benefits to the extent that they relate to the employees' years of service for which the severance payment / long service payment is payable.

¹ It refers to "employer-funded (mandatory) MPFS benefit" under the Employment Ordinance ("EO").

² It refers to "employer-funded (voluntary) MPFS benefit" under EO.

³ It refers to "employer-funded (basic portion) exempt ORS benefit" under EO.

⁴ It refers to "employer-funded (prescribed portion) exempt ORS benefit" under EO.

⁵ It refers to "employer-funded non-exempt ORS benefit" under EO.

“Carved-out benefits” and “Remaining benefits”

- Since ORS contributions are not differentiated into mandatory and voluntary portions, a portion of benefits akin to employer’s MPF mandatory contributions will be carved out (“carved-out benefits”) from the vested benefits of employer’s contributions. The remainder of vested benefits after carving out the “carved-out benefits” (“remaining benefits”) will be akin to employer’s MPF voluntary contributions.
- Calculation of “carved-out benefits” and “remaining benefits” of vested benefits of MPF exempted ORS attributable to employer’s contributions are as follows:

Carved-out benefits [^]	Final average monthly relevant income* X 5% X 12 X Years of service with MPF exempted ORS benefits [#]
Remaining benefits	Vested benefits of MPF exempted ORS attributable to employer’s contributions - “Carved-out benefits”

* It means the employee’s average monthly relevant income in the 12 months immediately preceding the termination of employment contract, subject to the maximum level of relevant income under the Mandatory Provident Fund Schemes Ordinance (Cap. 485).

Only years of service on or after 1 December 2000 will count.

[^] If the amount of the vested benefits of MPF exempted ORS attributable to employer’s contributions is less than or equal to the amount calculated using the above formula, the whole amount of vested benefits of MPF exempted ORS attributable to employer’s contributions should be “carved-out benefits”.

Example 1

Calculating severance payment / long service payment of an employee whose employment commences on or after 1 May 2025 (i.e. the transition date) and the offsetting arrangement of an employee who joins an MPF scheme

Assumptions

- Employment commencement date: 1 May 2025
- Date of termination of employment contract: 30 April 2030
- Years of service: 5 years
- Last full month's wages: \$18,000
- Accrued benefits derived from employer's MPF mandatory contributions: \$50,000 (comprising employer's contributions for the whole employment period and the returns derived therefrom)
- No employer's MPF voluntary contributions, employer's ORS contributions or gratuities based on length of service

Calculation of severance payment / long service payment and the offsetting arrangement

(a)	Severance payment / long service payment	$\$18,000 \times 2/3 \times 5 \text{ years} = \$60,000$
(b)	Accrued benefits derived from employer's MPF mandatory contributions <i>(cannot be used to offset severance payment / long service payment)</i>	\$50,000
(c)	Accrued benefits derived from employer's MPF mandatory contributions for offsetting severance payment / long service payment	\$0 [Not applicable]
(d)	Accrued benefits derived from employer's MPF mandatory contributions to be retained in employee's MPF account [= (b) – (c)]	$\$50,000 - \$0 = \$50,000$
(e)	Employee's aggregate benefits [= (a) + (d)]	$\$60,000 + \$50,000 = \$110,000$

Example 2

Calculating severance payment / long service payment of an employee who commenced employment before 1 May 2025 (i.e. the transition date) and the offsetting arrangement of an employee who joins an MPF scheme

Assumptions

- Employment commencement date: 1 May 2022
- Date of termination of employment contract: 30 April 2030
- Years of service: 8 years
- Last full month's wages immediately preceding the transition date: \$15,000
- Last full month's wages immediately preceding the termination of employment contract: \$18,000
- Accrued benefits derived from employer's MPF mandatory contributions: \$80,000 (comprising employer's contributions for the whole employment period and the returns derived therefrom)
- No employer's MPF voluntary contributions, employer's ORS contributions or gratuities based on length of service

Calculation of severance payment / long service payment and the offsetting arrangement

	Severance payment / long service payment	
(a)	Pre-transition portion	$\$15,000 \times 2/3 \times 3 \text{ years} = \$30,000$
(b)	Post-transition portion	$\$18,000 \times 2/3 \times 5 \text{ years} = \$60,000$
(c)	Total:	\$90,000
(d)	Accrued benefits derived from employer's MPF mandatory contributions <i>(can only be used to offset pre-transition portion of severance payment / long service payment)</i>	\$80,000
(e)	Accrued benefits derived from employer's MPF mandatory contributions for offsetting pre-transition portion of severance payment / long service payment	\$30,000
(f)	Accrued benefits derived from employer's MPF mandatory contributions to be retained in employee's MPF account after offsetting pre-transition portion of severance payment / long service payment [= (d) – (e)]	$\$80,000 - \$30,000 = \$50,000$
(g)	Employee's aggregate benefits [= (c) + (f)]	$\$90,000 + \$50,000 = \$140,000$

Example 3

Calculating severance payment / long service payment of an employee who commenced employment on or after 1 May 2025 (i.e. the transition date) and the offsetting arrangement of an employee who joins an MPF exempted ORS

Assumptions

- Employment commencement date: 1 May 2025
- Date of termination of employment contract: 30 April 2030
- Years of service: 5 years
- Last full month's wages: \$18,000
- Final average monthly relevant income: \$18,000
- Vested ORS benefits attributable to employer's contributions: \$90,000 (comprising employer's contributions for the whole employment period and the returns derived therefrom)
- No employer's MPF contributions, other ORS contributions or gratuities based on length of service

Calculation of severance payment / long service payment and the offsetting arrangement

(a)	Severance payment / long service payment	$\$18,000 \times 2/3 \times 5 \text{ years} = \$60,000$
(b)	Vested ORS benefits attributable to employer's contributions	\$90,000
(c)	"Carved-out benefits" <i>(cannot be used to offset severance payment / long service payment)</i>	$\$18,000 \times 5\% \times 12 \times 5 \text{ years} = \$54,000$
(d)	"Remaining benefits" <i>(can be used to offset severance payment / long service payment)</i>	$\$90,000 - \$54,000 = \$36,000$
(e)	Vested ORS benefits attributable to employer's contributions for offsetting severance payment / long service payment	\$36,000
(f)	Vested ORS benefits attributable to employer's contributions to be retained by the employee after offsetting severance payment / long service payment [= (b) – (e)]	$\$90,000 - \$36,000 = \$54,000$
(g)	Employee's aggregate benefits [= (a) + (f)]	$\$60,000 + \$54,000 = \$114,000$

Example 4

Calculating severance payment / long service payment of an employee who commenced employment before 1 May 2025 (i.e. the transition date) and the offsetting arrangement of an employee who joins an MPF exempted ORS

Assumptions

- Employment commencement date: 1 May 2021
- Date of termination of employment contract: 30 April 2028
- Years of service: 7 years
- Last full month's wages immediately preceding the transition date: \$15,000
- Last full month's wages immediately preceding the termination of employment contract: \$18,000
- Final average monthly relevant income: \$18,000
- Vested ORS benefits attributable to employer's contributions: \$100,000 (comprising employer's contributions for the whole employment period and the returns derived therefrom)
- No employer's MPF contributions, other ORS contributions or gratuities based on length of service

Calculation of severance payment / long service payment and the offsetting arrangement

	Severance payment / long service payment	
(a)	Pre-transition portion	$\$15,000 \times 2/3 \times 4 \text{ years} = \$40,000$
(b)	Post-transition portion	$\$18,000 \times 2/3 \times 3 \text{ years} = \$36,000$
(c)	Total:	\$76,000
(d)	Vested ORS benefits attributable to employer's contributions	\$100,000
(e)	"Carved-out benefits" <i>(can only be used to offset pre-transition portion of severance payment / long service payment)</i>	$\$18,000 \times 5\% \times 12 \times 7 \text{ years} = \$75,600$
(f)	"Remaining benefits" <i>(can be used to offset pre- and post-transition portions of severance payment / long service payment)</i>	$\$100,000 - \$75,600 = \$24,400$
(g)	Vested ORS benefits attributable to employer's contributions for offsetting pre-transition portion of severance payment / long service payment <i>(can be offset by both "carved-out benefits" and "remaining benefits")</i>	\$40,000

(h)	Vested ORS benefits attributable to employer's contributions for offsetting post-transition portion of severance payment / long service payment <i>(can only be offset by "remaining benefits")</i>	\$24,400
(i)	Vested ORS benefits attributable to employer's contributions to be retained by the employee after offsetting severance payment / long service payment [= (d) – (g) – (h)]	$\$100,000 - \$40,000 - \$24,400 = \$35,600$
(j)	Employee's aggregate benefits [= (c) + (i)]	$\$76,000 + \$35,600 = \$111,600$