

MPF offsetting arrangement should be handled with care to avoid hurting Hong Kong's business environment

In response to the invitation of views by the Legislative Council Panel on Financial Affairs and Panel on Manpower on the arrangement of offsetting severance payments and long service payments against MPF accrued benefits, the Hong Kong General Chamber of Commerce would like to submit our views as follows.

Recently, there were suggestions for the Government to review the arrangement of offsetting severance payments and long service payments against accrued benefits derived from employers' contributions made to employees' MPF accounts, or even to abolish the offsetting arrangement. The business community is very concerned that any change to this proven effective mechanism will increase the operating costs of enterprises and hurt our business environment. It will further weaken Hong Kong's competitiveness. The Chamber hopes that the Government will treat this with extra caution. We understand that there are diverse views on the offsetting arrangement among different sectors of the community. The Government should engage in thorough discussions with all stakeholders as any hasty decision may impact the long-term economic development of Hong Kong.

Before the MPF system came into operation, the Employment Ordinance had already allowed employers to use their contributions to retirement schemes to offset severance payments or long service payments. The decision to adopt this long-established offsetting arrangement into the MPF system was made after extensive consultations and consideration of all relevant factors. It is not advisable for the Government to abolish this policy without a thorough and wide-ranging consultation and evaluating all possible consequences and risks.

The business community opposes abolishing the offsetting mechanism which was based upon consensus reached after extensive consultation on the establishment of the MPF system. Many companies agreed to adopt the MPF schemes because of the continuation of this offsetting mechanism. Abolishing the offsetting arrangement will impose a double burden on employers, because they will have to find additional funds to pay for long service and severance payments. Such a move would put severe financial pressure on businesses. There are currently over 300,000 SMEs in

Hong Kong, accounting for more than 98% of local businesses. They hire about 1.2 million employees, which would be equivalent to about 47% of total employment in Hong Kong (civil servants excluded). The cash flow of most SMEs is limited. Given the harsh external economic environment, as well as the never-ending emergence of new regulations, such as the statutory minimum wage, Competition Law and Trade Descriptions Ordinance, many SMEs are struggling to survive. Abolishing the offsetting mechanism will strike a double blow to them, and some SMEs may be forced to close down.

The MPF system was introduced in December 2000. Between July 2001 and June 2013, companies' MPF contributions used to offset severance and long service payments exceeded HK\$20.7 billion. Since 2009, this amount has exceeded HK\$2 billion annually. Such magnitude clearly indicates that abolishing the offsetting mechanism would have a huge financial impact on businesses, particularly SMEs. For example, if two long-serving staff members retire from a company, the maximum long service payment each could receive would be HK\$390,000. Therefore, if the offsetting arrangement were abolished, the company would have to pay HK\$780,000 in total, an unbearable sum for many SMEs.

We acknowledge that there are areas for improvement in our MPF system. Hence, the Government should conduct a comprehensive review and assessment on MPF, instead of singling out the offsetting mechanism for adjustment. Given the Government's projections for an imminent ageing population issue, it ought to be more cautious in adapting the current MPF system to meet our future needs. We believe that after the Commission on Poverty has completed its study on retirement protection, the Government should then conduct an overall comprehensive assessment on MPF based on the resulting data and analysis.