

Law &amp; Policy Group

**GRIST**

# Hong Kong to abolish Mandatory Pension Fund offsetting

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Hong Kong employers will face increased costs for long service (LSP) and severance (SP) payments when the Mandatory Pension Fund (MPF) offsetting system ends. Currently, employers can reduce the amount of LSP and SP to employees by offsetting them against the employer's mandatory and voluntary contributions to the MPF and occupational retirement schemes under the Occupational Retirement Schemes Ordinance (ORSO). After the effective date of abolition, employers' mandatory contributions to MPF or ORSO cannot be used to offset SP and LSP. These changes appear in the Employment & Retirement Schemes Legislation (Offsetting Arrangement) Amendment Act 2022 that passed the Legislative Council on 9 June 2022. No effective date was announced, but implementation is not expected until at least 2025.

## Highlights

- No retrospective application. Employers can continue to offset SP and LSP accrued for employment periods before the effective date. However, SP and LSP accrued after this date can only be offset against the employer's voluntary contributions to MPF and ORSO, not the employer's mandatory contributions. The calculation methods for SP and LSP payments will not change.
- Government support for employers. A government subsidy scheme allocates HK\$33.2 billion to help alleviate the additional costs for employers over a 25-year period. In addition, the government will implement measures that require employers to save for future SP and LSP liabilities by contributing 1% of employees' wages to a "designated savings account."
- Clarification of taxation of LSP and SP. Statutory LSP and SP that comply with the Employment Ordinance will not be taxed, but any additional payments will be taxable.

## Related resource

- [Press release \(Government, 17 June 2022\)](#)

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