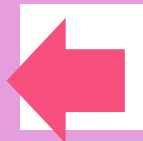


The Subsidy for the Long Service Payment Obligation is Approved

The abolition of MPF offsetting will come into effect on 1 May 2025. To help employers adapt financially to the new arrangement, the Government proposed the Subsidy Scheme for the Abolition of the MPF Offsetting Arrangement (“SSA”), the funding of which was approved by LegCo in November 2024.

A quick recap of the new LSP formula

Service Before 1 May 2025



Change in LSP Calculation

$$\frac{2}{3} \times \text{Average Monthly Wages in the 12 months preceding 1 May 2025} \times \text{Years of Service up to 1 May 2025}$$



Frozen on 1 May 2025

MPF/ORSO offset

- ✓ **MPF** – offset with *entire* employer’s portion (mandatory and voluntary)
- ✓ **ORSO** – offset with *entire* employer’s portion

$$\text{ORSO carved out benefit (akin to employer mandatory contributions under MPF)} = 5\% \times 12 \times \text{Average Relevant Income in the 12 months preceding termination of service} \times \text{Years of Service from 1 Dec 2000}$$

Service After 1 May 2025



Change in LSP Calculation

$$\frac{2}{3} \times \text{Average Monthly Wages in the 12 months preceding termination} \times \text{Years of Service from 1 May 2025}$$

MPF/ORSO offset

- ✓ **MPF** – offset with employer’s voluntary contributions only
- ✓ **ORSO** – offset with *remaining benefits + gratuities*

ORSO remaining benefits = ORSO vested benefit *minus* ORSO carved out benefits (akin to employer voluntary contributions under MPF)

- ✗ **MPF employer mandatory contributions and ORSO carved out benefits CANNOT be used to offset LSP relating to service after 1 May 2025**

The key features of the SSA are summarised as follows:

- The employer pays the full LSP first and then applies for reimbursement of the subsidy.
- The amount of LSP to be borne by the employer is set out in the table on the right. Any payment in excess of the amount shown will be eligible for reimbursement. Note the amount to be paid by the employer will increase to 100% after 25 years.

The Government is engaging a “Processing Agent” who will implement an online platform for submitting applications and administering the reimbursement process, including vetting of applications.

There are still a number of details that still need to be clarified before 1 May 2025. We look forward to sharing further guidance in the coming months.

Employer’s Share under the Refined Government Subsidy Scheme for Post-abolition Severance Payment/Long Service Payment (SP/LSP)

Year after the abolition	Employer’s share per employee (as % of SP/LSP payable)	
	First \$500,000 of all SP/LSP paid by an employer in a year	Beyond the first \$500,000 of all SP/LSP paid by an employer in a year
1-3	50%, capped at \$3,000	50%
4	55%, capped at \$25,000	55%
5	60%, capped at \$25,000	60%
6	65%, capped at \$25,000	65%
7	70%, capped at \$50,000	70%
8	75%, capped at \$50,000	75%
9	80%, capped at \$50,000	80%
10	80%	85%
11	80%	90%
12	85%	95%
13	85%	100%
14-19	90%	100%
20-25	95%	100%

Source: Labour Department

Next steps

- **Familiarise yourself with the LSP and SSA**

The Labour Department has introduced a Calculation Tool on its [website](#) to help employers to determine their share of the LSP expense. In particular, you should ensure that any relevant information relating to the pre-transition period is collected and stored (e.g., monthly wages in the 12 months preceding 1 May 2025) and readily available for future determination.

- **Look out for reimbursement guidelines**

This is important to bear in mind even though we will alert you when these become available.

- **Review your benefit strategy**

This may be a good time to review your strategy in respect of your LSP arrangements to ensure they remain appropriate in the context of the Company’s benefits philosophy, and add value to your employee value proposition, for example:

- Do you continue to offset LSP?
- If you do continue, how do you determine the LSP – would you adhere to the statutory minimum or would you ignore the requirement to use frozen wages for the pre-1 May 2025 LSP calculation? There are still a number of designs you can consider.

- **LSP and SSA Provision**

Both the LSP and SSA should be reflected in your company’s financial statements. If you have not done so already, it would be a good time to discuss this with your auditor, especially given the recent guidance provided by the Hong Kong Institute of Public Accountants (HKICPA) on the accounting treatment of the SSA.

Note that each employer will be impacted differently given all will have different employee profiles, turnover, retirement plan designs, etc. It is important that these aspects and the accounting treatment are appropriately considered and agreed with your auditor.

Highlight of investment performance up to 31 December 2024

The annualised performance over 1-year and 5-year periods ended 31 December 2024 of each MPF fund type was as follows:

Performance ended 30 September 2024		1-year period			5-year period		
Fund Category	Fund Type	Highest % p.a.	Average % p.a.	Lowest % p.a.	Highest % p.a.	Average % p.a.	Lowest % p.a.
Mixed Assets Funds	Equity content > 80% Funds	11.0	10.1	7.9	4.2	2.4	0.8
	Equity content 60% - 80% Funds	9.7	7.3	4.4	2.9	1.6	0.2
	Equity content 40% - 60% Funds	6.4	4.3	2.2	1.5	0.4	-0.7
	Equity content 20% - 40% Funds	3.1	1.8	-0.1	0.2	-0.6	-1.2
Default Investment Strategy Funds	Core Accumulation Fund	15.5	10.4	7.9	7.0	5.7	5.0
	Age 65 Plus Fund	6.3	3.5	2.6	2.1	0.9	0.5
Equity Funds	Hong Kong Equity Funds	18.0	15.2	10.6	-0.2	-4.7	-8.3
	Hong Kong Equity (Index Tracking) Funds	22.0	20.1	10.5	-3.3	-4.5	-7.0
	China Equity Funds	29.7	22.7	15.8	-4.9	-5.7	-6.4
	Greater China Equity Funds	16.3	13.9	12.0	1.8	-0.1	-3.7
	Asia ex Japan Equity Funds	14.3	9.1	3.3	3.2	0.8	-2.0
	Asia Pacific ex Japan Equity Funds	14.3	10.8	7.2	6.3	2.2	-0.6
	Global Equity Funds	23.5	15.6	10.7	10.7	8.2	6.2
	United States Equity Funds	22.8	21.5	18.5	12.6	12.0	10.3
	European Equity Funds	4.2	0.5	-2.9	5.2	3.9	2.1
	Japanese Equity Funds	21.3	15.5	11.3	9.0	7.1	5.5
Bond Funds	Hong Kong Dollar Bond Funds	3.3	2.8	2.1	1.0	0.7	0.1
	Asian Bond Funds	2.4	1.8	0.7	0.1	-0.4	-0.8
	Global Bond Funds	-1.3	-2.9	-4.0	-1.0	-2.7	-4.0
	RMB Bond	1.4	1.1	1.0	1.6	1.1	0.4
Money Market Funds	MPF Conservative Funds	3.9	3.5	3.1	2.0	1.6	1.3
	Hong Kong Dollar Money Market Funds	3.9	3.8	3.8	1.5	1.5	1.5
	RMB and HKD Money Market Funds	1.0	0.2	-0.4	1.8	1.0	0.6
Others	Guaranteed Funds	5.0	2.6	0.2	0.6	-0.2	-1.9

Source: MPFA As of 31 December 2024

Other MPF resources

Member Education

Given the defined contribution nature of the MPF scheme, it is vital to provide sufficient member education so that employees can achieve the best value from their contributions.

At WTW, we provide regular short educational articles to members on hot topics and recent events. Recent articles published by WTW are available on [MPFexpress](#). Visit our website to find out more.

Article	Content
The distribution of MPF equity assets is becoming more international	Relative to overseas stock markets, the performance of the Hong Kong stock market has been relatively lacklustre in recent years, sparking interest among many Mandatory Provident Fund (MPF) members to consider investing in overseas markets. This has coincided with a number of articles and discussions about the importance of diversification generally. In fact, the regional distribution of MPF equity assets is now quite international, with the latest overseas market equity allocation exceeding two-thirds.
Understanding the “out-of-market” period	As of September 30, 2024, there are a total of 24 Mandatory Provident Fund (MPF) schemes available in Hong Kong. Although contributions from your employer and your own mandatory contributions are made to the MPF scheme selected by your employer, you have the flexibility to choose your own provider/scheme for any through Tax Deductible Voluntary Contributions (TVCs) application, Personal Accounts (PAs) consolidation, or the Employee Choice Arrangements (ECA). However, when a member chooses to switch MPF schemes, there is likely to be an “out-of-market” period during the transfer process. This article explains what this period represents and highlights a few key facts for your reference.
Understanding the withdrawal of benefits from the MPF system	The purpose of implementing the MPF is to enable members to save for retirement during their employment years and thereafter to withdraw their accumulated benefits for retirement purposes.
DIS differs from other mixed asset funds	As members become more familiar with the component funds under the Default Investment Strategy (DIS), more members are allocating funds to these so-called “lazy funds”. As of March 2024, about 30% of Mandatory Provident Fund (MPF) accounts (3.31 million accounts) have investments in component funds under DIS. While DIS funds invest in both equities and bonds, categorizing them as mixed asset funds, their investment proportions and performance differ from other mixed asset funds, providing members with further investment opportunities.

Member Education

Do you know how your MPF sponsor ranks in terms of the market share within the entire MPF market? This information is available on [MPFexpress](#). This section provides the latest MPF market distribution information and helps you understand the relative MPF asset sizes of different sponsors in the MPF market.

About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organisational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at [wtwco.com](#).



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