

## Insights

# ABOLITION OF MPF OFFSETTING MECHANISM IN HONG KONG

## KEY ACTION POINTS FOR HONG KONG EMPLOYERS

May 07, 2025

### SUMMARY

From 1 May 2025, in respect of Hong Kong's MPF scheme, the MPF offsetting mechanism will be abolished, meaning that employers no longer will be able to use the accrued benefits of their mandatory contributions under the Mandatory Provident Fund ("MPF") scheme to offset employees' severance payments ("SP") and long service payments ("LSP").

## CURRENT MPF OFFSETTING MECHANISM

Under the MPF scheme, employers and employees each are required to contribute 5% of the employee's monthly salary, up to a combined maximum amount of HK\$3,000 per month towards the employees' MPF account.

As regards entitlements to SP and LSP, the calculation of SP / LSP is:

- 2/3 of last month's wages (this sum is capped at HK\$15,000)<sup>[1]</sup>, multiplied by years of service

The maximum amount of SP / LSP is HK\$390,000.

The current MPF offsetting mechanism (which will be abolished) allows employers to use an employee's accrued benefits derived from the employer's contributions under the MPF system as an offset against the employer's obligations to pay the employee's SP / LSP.

## ABOLITION OF THE MPF OFFSETTING MECHANISM

Starting from 1 May 2025, employers no longer will be able to make the offset by deducting the accrued benefits of the employer's **mandatory** contributions under the MPF scheme.

However, offsetting will continue to be allowed against the accrued benefits derived from employers' **voluntary** MPF contributions, being contributions by employers in excess of the mandatory 5% requirement of the employees' monthly salary.

A transitional arrangement applies to employees whose employment straddles over 1 May 2025, meaning that their employment commenced before 1 May 2025, but terminates on or after 1 May 2025. For these employees, offsetting will continue to be applied in respect of their employment period before 1 May 2025. (The Government has said that this "grandfathering" arrangement is introduced to reduce the risk of large-scale dismissal before 1 May 2025.)

These employees' SP / LSP entitlements will be divided into two portions: the pre-transition portion (for employment period before 1 May 2025) and post-transition portion (for employment period on or after 1 May 2025).

The calculation of SP / LSP in respect of these two periods are:

- Pre-transition portion
  - 2/3 of **last month's wages immediately preceding the transition date**, multiplied by years of service before the transition date
- Post-transition portion
  - 2/3 of **last month's wages before termination of employment**, multiplied by years of service starting from the transition date

Employers can continue to use the accrued benefits derived from their MPF contributions to offset the pre-transition portion, but not the post-transition portion, of SP / LSP.

The maximum entitlement to SP / LSP (i.e. the sum of pre-transition and post-transition portions of SP / LSP) will remain at HK\$390,000.

## GOVERNMENT SUBSIDY

To assist employers in gradually adapting to the policy change, the Labour Department has launched the Subsidy Scheme for Abolition of MPF Offsetting Arrangement ("Subsidy Scheme"), which will share employers' expenses on SP / LSP in respect of the post-transition period.

The Subsidy Scheme will be in place for 25 years, during which the subsidy ratio will be progressively reduced, meaning that the share ratio of employers will be gradually increased.

For the first three years<sup>[2]</sup>, an employer's liability to pay an employee's post-transition portion of SP / LSP will be HK\$3,000 per employee, provided that the accumulated amount of post-transition

portion of SP / LSP payable by an employer to all eligible employees during the same subsidy year is below HK\$500,000.

## KEY TAKEAWAYS FOR EMPLOYERS

In light of the policy changes above, employers should consider taking the following actions:

### CHANGES TO INTERNAL HR SYSTEMS

Internal policies, employment handbooks and template employment contracts should be reviewed in view of the policy changes. Employers also should make sure that the relevant HR personnel are aware of these changes and arrange proper training for HR as needed.

### KEEPING OF PROPER RECORDS

Employers must keep wage records for employees hired before 1 May 2025, in particular covering the 12-months preceding 1 May 2025.

The Labour Department has reminded employers to keep such records until six months after an employee's last day of employment, and any failure to do so is a criminal offence.

### CHANGES TO THE ACCOUNTING SYSTEM

Accounting staff should be aware of the guidance note issued by the HKICPA discussing the acceptable approaches to accounting for the offsetting mechanism and the accounting issues resulting from its abolition.

### APPLYING FOR GOVERNMENT SUBSIDY

Eligible employers should submit their applications to the Subsidy Scheme to enjoy the benefits under this scheme.

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[1] This capped amount is 2/3 of HK\$22,500, being HK\$15,000.

[2] From 1 May 2025 to 30 April 2028.

## RELATED CAPABILITIES

- Employment & Labor

## MEET THE TEAM



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