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Hong Kong government decided not to launch severance fund savings account

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The Mandatory Provident Fund (MPF) offsetting mechanism will be cancelled on 1 May 2025

By then, Hong Kong employers can no longer offset severance and long service payments owed to employees against MPF benefits derived from employers' contributions. The Hong Kong government decided in July 2023 not to implement the "Specialized Savings Account Scheme" proposed in 2018 which would require employers to create dedicated savings accounts and make 1% contributions to prepare for the abolishment of such MPF offsetting arrangement.

Administrative cost is too high

The annual administrative cost of the Specialized Savings Account Scheme would be around HK$150 million at its initial stage and would spill over to HK$600 million after 30 years.

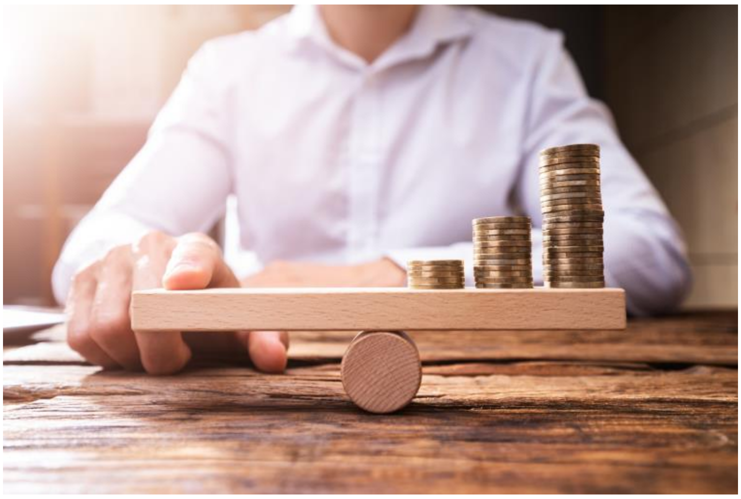
Such high cost is because of the burdensome administration work to:

(1) regulate and ensure the 300,000 plus employers currently making mandatory MPF contributions would successfully open the savings accounts,

(2) collect contributions every month,

(3) verify and approve withdrawal applications, and

(4) handle unforeseeable circumstances.



Further, it is anticipated that the procedures in the scheme would be extremely complicated and thus the cost of outsourcing service agencies to handle the daily operation of the scheme could not be avoided.

Lastly, the employers will also be required to bear the relevant administration duties in complying with the scheme.

Protection of Wages on Insolvency Fund

The government's review of the Specialized Savings Account Scheme considered the amounts involved in the offset cases between 2019 and 2015, and suggested that many employers might not have sufficient cash to pay severance pay and long-term service payment to its employees. For the scheme to fulfil its function, the contribution level would need to be much higher than 1% but that might be too much of a burden for employers to tolerate. Realistically, it may not be appropriate to ask employers to make further contributions in the current economic environment when businesses are facing interest rate hikes, geopolitical pressures and the aftermath of the COVID-19.

Thus, the more practical solution lies with the existing Protection of Wages on Insolvency Fund (PWIF). The Labour and Welfare Bureau concluded the PWIF can still help settling severance to employees as the PWIF with a surplus of HK$6.8 billion should be sufficient for making such payments in case the employers become insolvent.

The PWIF is mainly financed by a levy per annum on each business registration or branch registration under the Business Registration Ordinance. The levy is collected by the Inland Revenue Department when the business registration fee is paid. Under the Protection of Wages on Insolvency Ordinance, the Commissioner for Labour may make ex gratia payments from PWIF to employees who are owed wages, wages in lieu of notice, severance payment, pay for untaken annual leave and/or pay for untaken statutory holidays by their insolvent employers.

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