

Business Community Supports the ‘With-Financial-Needs’ Principle for Retirement Protection System; Opposes Abolition of MPF Offsetting Mechanism

The five major business chambers in Hong Kong, including the Federation of Hong Kong Industries, the Chinese Manufacturers’ Association of Hong Kong, the Hong Kong General Chamber of Commerce, the Chinese General Chamber of Commerce, and the Employers’ Association of Hong Kong, jointly organised a consultation forum for the Hong Kong business community on retirement protection today (Tuesday). Chief Secretary for Administration Carrie Lam, and Secretary for Labour and Welfare Matthew Cheung, were invited to join the forum to exchange views with members of the chambers on retirement protection.

The business community believes that Hong Kong should take the initiatives to improve its retirement protection system, including reviewing on the MPF and other pillars of retirement protection. The social affordability and financial burden on public expenditures should be very carefully examined to ensure the sustainable and stable development of the whole system. At the forum, participants welcomed the Government’s efforts to canvas the community’s views through a series of public consultations on retirement protection. However, the business community feels that that issues relating to retirement protection are very complicated and broad. Therefore, in-depth and impact analysis studies are needed to enable the community to reach a consensus.

The business community shares the Government’s view that those who are more able to do so should take care of the less privileged. However, we also believe an individual should bear the responsibility of properly plan for his/her own retirement. Social support should only serve as a safety net. Therefore, retirement protection should not only be about cash allowances or subsidies. It should focus on providing suitable conditions for retirement, encouraging employment and promoting saving among the general public. Meanwhile, any retirement protection system should not affect the social resources designated for social-livelihood and economic development.

Support for the “with-financial-needs” principle for retirement protection

Retirement protection relates to the long-term commitment of society. In the face of an ageing population, slowing economic growth and limited social resources, etc, the business community believes that resources should be better allocated to provide assistance to the elderly in need. This will not only give them adequate protection, but also take into account the affordability of society as a whole. The simulated “those with financial needs” option presented in the Government’s *Retirement Protection Forging Ahead* consultation document is considered an effective means of proper utilisation of public resources in helping the elderly in real need.

According to the projections of the consultation document, if the "regardless of rich or poor" option is to be adopted as the principle for retirement protection scheme, it is estimated that new expenditure will reach HK\$2,395 billion in 50 years, 10 times higher than the estimated expenditures of the "those with financial needs" option. In the long run, it will further worsen the fiscal situation of the Hong Kong Government. In such case, structural deficit and depletion of fiscal reserve will be expected much earlier.

In fact, retired elderly from different backgrounds and in different financial circumstances have needs other than just financial assistance. If the "regardless of rich or poor" option is to be adopted, misallocation of resources may result, further increasing the pressure to public expenditures. Worst still, it may speed up the problem of fiscal reserve depletion and ultimately the retirement protection system will fail to perform effective and sustainable development.

Some forum participants stated that a proper asset review measure would effectively ensure the proper utilisation of social resources. However, most of them believe that the asset limit proposed by the current "those with financial needs" option in the consultation document is too strict and this may induce exclusion of some elderly with genuine needs. It is suggested that a more detailed assessment of the applicant asset limits and other requirements should be performed.

Representatives of the participating chambers also stated that the business community is concerned about the impact that changes would have on public finance and the daily operations of businesses. As Hong Kong boasts one of the lowest tax rates in the world, increasing taxes will substantially dampen investment sentiment, retard commercial development and reduce employment opportunities. In addition, consumption patterns, saving behaviour and family planning among the younger generation will be affected as they would have to bear a much heavier social burden due to our ageing population. The community should therefore carefully study the issue to gather more information and data so that the various options can be analysed and discusses.

Strong opposition to the abolition of MPF offsetting mechanism

At the forum, representatives from business chambers made a clear stance that they strongly oppose the complete or progressive abolition of the MPF offsetting mechanism. The offsetting arrangement was the result of a consensus reached in 1995 when the MPF system was introduced. The then *Employment Ordinance* had a long-established practice of allowing employers to use the benefits and gratuities in the Occupational Retirement Scheme to offset severance payments and long service payments to their departing employees. The intent of such policy was to enable this practice to be applied to the MPF Scheme. On the premise of allowing the offsetting arrangement, the *MPF Schemes Ordinance* (MPFSO) was enacted with the support from the industrial and

business sectors. Any deviation from the consensus made at the time goes against the original agreement.

Representatives from the chambers also pointed out that the abolition of the offsetting mechanism would inflict a huge financial burden on businesses, especially SMEs. This would be largely due to the provision of the offsetting arrangement, under which most of the enterprises do not make provision for such expenses. But once the offsetting arrangement is abolished, enterprises will have to set aside provisions for additional severance payments and long service payments. These “debts” would be reflected in their financial reports, complicate financial reporting and management, and thereby affect the company’s profitability and financial operations, including its ability to get loans and letters of credit, etc.

In addition, the comment “MPF’s offsetting mechanism undermines employees’ retirement interests” is misleading. Under the current offsetting mechanism, the accrued benefits of the MPF of the resigned or dismissed employees are not forfeited. These benefits are withdrawn in advance from the MPF account of the respective employees (they do not need to wait until 65 years of age). These benefits still belong to employees, so they do not suffer a loss.

Members of the business chambers suggested that before taking any decision to change the current mechanism, the Government should instead conduct an in-depth study and quantitative analysis to gather data which can help both employers and employees reach an acceptable solution. The business community remains open-minded to other feasible solutions, such as the Government making contributions to MPF account of employees with monthly salary under HK\$7,100.

Some chamber representatives said that the MPF is an important pillar for retirement protection. At the moment, the community has reservations about the MPF Scheme’s ability to provide for retirement, due to its low returns yet high administrative fees. There is huge room for the MPF system to be improved. The business community in agrees that we should improve the existing system rather than establishing an alternative one. Participants at the forum expressed their hope that the Government and the Mandatory Provident Fund Authority will take effective measures to lower the administrative fees and increase returns to alleviate the public’s concerns and ensure it is an effective retirement protection tool.

In conclusion, the business community considers that the issue of establishing a retirement protection system should be handled with caution, because it will affect the overall financial stability of Hong Kong. Any measures that would jeopardize the city’s public financial and long-term competitiveness should be avoided. The community should urge the Government to find

ways to enhance the MPF's function to provide sufficient retirement protection whilst keeping the current MPF offsetting arrangement intact.

[Powerpoint Presentation of Retirement Protection Forging Ahead \(Chinese version only\)](#)