

## **Objection to the Proposed Abolition of the MPF Offsetting Mechanism by the Business Community**

According to recent news reports, the Government is proposing to abolish the MPF offsetting mechanism by adopting a "cut-off date", which will be announced in the upcoming Policy Address. The Federation of Hong Kong Industries, the Chinese Manufacturers' Association of Hong Kong, the Hong Kong General Chamber of Commerce, the Hong Kong Chinese General Chamber of Commerce and the Hong Kong Employers Federation ("the Chambers") are deeply concerned that the proposal is being introduced without due consideration by and consensus amongst stakeholders. The Government's unilateral action in this regard is totally unjustified and in direct contradiction to the original intention and purpose of the MPF System when this was first set up. It will also impose heavy financial burden on businesses, especially SMEs, undermine international confidence, and cripple entrepreneurship. As such, the proposed arrangement is at odds with Hong Kong's economic prosperity and stability.

It is believed that the Government would propose a "cut-off date" at a certain time to be determined after which the accrued benefits from employers' contributions can no longer be used to offset either severance or long service payments. Reports have also suggested that the Government would set up a fund, which is designed to provide subsidies to employers over a transitional period of time. The Chambers regard the proposal as being a stop-gap measure that would ultimately end with the abolition of the offsetting mechanism. Despite the proposed subsidies, employers will have to pay twice for employees' retirement protection, namely, through a severance payment / long service payment and then MPF contribution.

The Chambers would like to stress the importance of maintaining the long-standing practice for pension contributions to offset severance and long service payments. It was precisely because of the Government's acknowledgement that there was an overlapping function between the severance payment / long service payment and MPF, which resulted in the implementation of the existing offsetting arrangement to relieve employers of the burden of duplicate contributions. The abolition of the offsetting arrangement would not only violate the original intention of introducing MPF, but calls into question the spirit of cooperation, as well as the Government's commitment to the business sector. Indeed, a key aspect of Hong Kong's attractiveness to investors is our respect for the rule of law and upholding of contractual obligations; if investors are not protected by legal contract, Hong Kong's international image will be tarnished thereby jeopardising our hard-earned status as an international financial and commercial centre.

Local employers have been paying their contributions in accordance with the requirements, and claims of employees' benefits being "diluted" does not hold up to scrutiny. It is also unfair to employers as the discussion on the offsetting mechanism has devolved into unfounded allegations against employers who are trying to evade responsibility.

Changing the offsetting arrangement represents a major and far-reaching issue. Against this background, the Government should provide objective data through in-depth quantitative research on the abolition's impact to employers, employees, the job market, the overall economy and people's livelihood. The availability of such data will provide a basis for rational thinking and discussion, and facilitate a solution

that is acceptable to all stakeholders. Any unilateral proposal to abolish the offsetting mechanism is rash and hasty, and, fails to balance the demands of all parties and cater to the overall well-being of the community.

We are also worried that abolition of the offsetting mechanism will incur a heavy financial burden for the business sector, especially SMEs. Based on the existing offsetting arrangement, most companies have not made any corresponding financial provision for the additional outlay. Despite the proposed transition period and the provision of government subsidies, businesses will eventually have to bear the "double burden". The profit margin for SMEs in Hong Kong is very modest, generally only around 2-3%, and many of them are barely profitable. In recent years, SMEs have been subject to increasing difficulties due to such factors as rising labour costs, tightening labour regulations, and challenging domestic and international economic situations. The removal of the offsetting arrangement will definitely add to operating pressures, and could lead to widespread bankruptcies and increased unemployment.

For those SMEs that are operating under very slim margins, they may be forced to dismiss long-serving employees prior to the "cut-off date" so as to pre-empt future long service payments. After the "cut-off date", the hiring of temporary workers could become the norm, a practice adopted during periods of economic instability.

The Government has also been actively promoting the development of start-ups in recent years with considerable success. However, in view of the fact that start-ups are usually inexperienced in business scaling and cost control, and attend to operate on tight budgets, abolition of the offsetting mechanism would require an increase in labour expenditure with the undesirable outcome of weakening young entrepreneurs' willingness to start a business. This is contrary to the Government's commitment to promoting the development of start-ups, especially in the innovative technology sector.

The Chambers wish to point out that the abolition of the offsetting mechanism will affect the operation of the business sector and the overall economic development in Hong Kong, which is a major issue relating to social stability. Therefore, the Government must handle this issue with extreme caution. Before deciding how and what changes are to be made to the existing mechanism, the Government should build consensus in the society based on actual data and impact analysis.

The Hong Kong business community has always been committed to maintaining good labour relationship. In the past, the Chambers have made a number of suggestions to the Government on the offsetting issue, including the promotion of MPF contributions to be made by employers, employees and the Government, as well as a comprehensive review and integration of the existing MPF, severance payment and long service payment arrangements. Going forward, the business sector will continue to adopt an open attitude and explore the feasibility of various proposals to enhance the protection of employees. The Chambers hope the Government will maintain its communications with the community, deriving a solution that is acceptable to all parties and in the best interests of the community, before it will decide on its proposal.

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