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**Panel on Manpower**

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**Severance payment and long service payment**

Background

Severance payment ("SP") was introduced under the Employment Ordinance (Cap. 57) in 1974 to compensate employees dismissed by reason of redundancy. EO was further amended in 1986 to introduce long service payment ("LSP") for compensating older employees who were dismissed other than by reason of redundancy after having served the same employer for a long period of time.

2. Following the enactment of the Mandatory Provident Fund Schemes Ordinance ("MPFSO") and its subsidiary legislation in 1995 and 1998 respectively, the Mandatory Provident Fund ("MPF") system came into operation in December 2000 to provide statutory retirement protection to the workforce. Under MPFSO, employers are allowed to offset the accrued benefits arising from their contribution under the MPF schemes against SP or LSP.

Eligibility for SP and LSP

3. In general, an employee is eligible for SP if he/she has been in continuous employment for not less than 24 months prior to dismissal by reason of -

- (a) redundancy ; or
- (b) not renewing an employment contract of a fixed term due to redundancy\* ; or
- (c) lay-off.

An employee is eligible for LSP if he/she has been in continuous employment for not less than five years prior to termination of service by reason of -

- (a) dismissal for reasons other than redundancy or summary dismissal;  
or
- (b) not renewing an employment contract of a fixed term \*; or
- (c) death; or
- (d) resignation on ground of ill health \*\*; or
- (e) resignation at the age of 65 or above on ground of old age.

\* If not less than seven days before the date of dismissal / expiry of the fixed term contract in case of SP, and not less than seven days before the expiry of the fixed term contract in case of LSP, the employer has offered in writing to renew the contract of employment or re-engage him/her under a new contract but the employee has unreasonably refused the offer, the employee is not eligible for the entitlements. An employee will NOT be simultaneously entitled to both LSP and SP.

\*\* The employee should be certified by a certificate in the form specified by the Commissioner for Labour and issued by a registered medical practitioner or a registered Chinese medicine practitioner as permanently unfit for the present job.

#### Amount of SP and LSP

4. Under EO, the amount of SP and LSP is calculated by allowing two-thirds of the last month's wages, or two-thirds of the average monthly wages in the last 12 months, for every reckonable year of service of an employee. The monthly wages for calculating SP or LSP is capped at \$22,500 and the maximum amount of SP or LSP payable to an employee is \$390,000.