



Labour Department (Headquarters)

勞工處（總處）

Your reference 來函編號： CB2/PL/MP
Our reference 本處檔案編號： (TC) LD HQ/711/245/5 Pt.8
Tel. number 電話號碼： 2852 4099
Fax number 傳真機號碼： 2543 3194

12 May 2014

Miss Betty Ma
Clerk to Panel
Panel on Manpower
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Miss Ma,

**Panel on Manpower
Adjustment of severance payment and long service payment**

I refer to the Hon Tang Ka-piu's letter of 7 April 2014 addressed to the Chairman of Legislative Council Panel on Manpower, expressing his views on the amount of severance payment (SP) and long service payment (LSP). The Government provides information as follows.

To help alleviate an employee's short-term financial hardship caused by loss of employment, SP was introduced under the Employment Ordinance (EO) in 1974 to compensate employees dismissed by reason of redundancy. As SP could only benefit employees dismissed by reason of redundancy, the EO was further amended in 1986 to introduce 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.

At the time of introduction of SP and LSP, some employers had already been voluntarily providing termination or retirement benefit schemes of various nature or amounts to their employees although there was no mandatory retirement protection scheme. As it was considered that SP and LSP should be alternatives to, rather than additional benefits on top of, such termination or retirement benefit schemes, and to encourage more employers to voluntarily

provide their employees with retirement benefits, the EO stipulates that employers may offset their contributions made to a retirement scheme or gratuity based on length of service paid to an employee against SP or LSP.

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. The MPFSO allows employers to offset the accrued benefits arising from their contributions under the MPF schemes against SP or LSP.

Under the 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. Taking the example of an employee with monthly wages reaching the \$22,500 cap, such employee may receive a SP of \$30,000 if he/she is made redundant upon completion of 2 years' service ($\$22,500 \times \frac{2}{3} \times 2$ years); or if the employee is dismissed upon completion of 5 years' service, he/she may receive a LSP of \$75,000 ($\$22,500 \times \frac{2}{3} \times 5$ years).

According to the General Household Survey of the Census and Statistics Department for the fourth quarter of 2013, the then median monthly employment earnings was \$12,500. The current \$22,500 monthly wage cap as laid down in the EO is still above the monthly wages of the majority of employees.

Having regard to the above background and considerations, and given the nature of SP and LSP as termination compensation to help alleviate an employee's short-term financial hardship caused by loss of employment, we do not propose to change the current statutory payment caps applicable to SP and LSP.

Yours sincerely,



(Charles Hui)
for Commissioner for Labour

c.c. Hon LEE Cheuk-yan (Chairman) (Fax : 2332 3584)
Secretary for Labour and Welfare