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Panel on Manpower and Panel on Financial Affairs

**Joint Subcommittee to Study the Arrangement of
Offsetting Severance Payments and Long Service Payments
against Mandatory Provident Fund Accrued Benefits**

**Minutes of meeting
held on Monday, 18 April 2016, at 9:00 am
in Conference Room 1 of the Legislative Council Complex**

Members present : Hon SIN Chung-kai, SBS, JP (Chairman)
Hon TANG Ka-piu, JP (Deputy Chairman)
Hon LEUNG Yiu-chung
Hon Tommy CHEUNG Yu-yan, GBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon CHEUNG Kwok-che
Hon IP Kwok-him, GBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon LEUNG Kwok-hung
Hon CHAN Yuen-han, SBS, JP
Dr Hon KWOK Ka-ki
Hon Christopher CHEUNG Wah-fung, SBS, JP
Hon POON Siu-ping, BBS, MH
Dr Hon CHIANG Lai-wan, JP
Hon CHUNG Kwok-pan

Members attending : Hon Frankie YICK Chi-ming, JP
Hon WU Chi-wai, MH

**Members
absent** : Hon LEE Cheuk-yan
Hon Abraham SHEK Lai-him, GBS, JP
Hon Vincent FANG Kang, SBS, JP
Hon WONG Kwok-kin, SBS
Hon LEUNG Che-cheung, BBS, MH, JP
Hon Kenneth LEUNG
Hon KWOK Wai-keung

**Public Officers
attending** : Item I

Mr Matthew CHEUNG Kin-chung, GBS, JP
Secretary for Labour and Welfare

Ms Melody LUK Wai-ling
Assistant Commissioner for Labour
(Labour Relations)

Ms Esther CHAN Lai-heung
Senior Labour Officer (Labour Relations)
Labour Department

Miss Wendy CHUNG
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services)

Ms Gabriella YEE
Head (Policy Development and Research) /
Mandatory Provident Fund Schemes Authority

**Attendance
by invitation** : Item I

Individuals

Dr YUEN Wai-kee, Associate Head and Assistant
Professor, Department of Economics & Finance,
Hong Kong Shue Yan University

Dr POON Che-cheong, Associate Professor,
Department of Economics & Finance, Hong Kong
Shue Yan University

Mr LAU Tak-ching, Lecturer, Department of Economics
and Finance, Hang Seng Management College

Mr TAM Chiu-yin, Lecturer, Department of Economics
and Finance, Hang Seng Management College

Clerk in attendance : Miss Betty MA
Chief Council Secretary (2) 1

Staff in attendance : Mr Raymond LAM
Senior Council Secretary (2) 7

Ms Kiwi NG
Legislative Assistant (2) 1

I. The arrangement of offsetting severance payments and long service payments against Mandatory Provident Fund accrued benefits

The Joint Subcommittee deliberated (index of proceedings attached at **Annex**).

2. The Subcommittee received oral representations from four academics attending the meeting. The major views and concerns expressed by these academics are summarized as follows:

- (a) from the point of view of an employee, the arrangement of offsetting severance payments ("SP") and long service payments ("LSP") against Mandatory Provident Fund ("MPF") accrued benefits arising from employers' contribution ("the offsetting arrangement") should be abolished;
- (b) from the angle of an employer, abolition of the offsetting arrangement would result in double benefits for employees. It would increase the operating cost of businesses and reduce the competitiveness of Hong Kong;
- (c) abolition of the offsetting arrangement would result in a cost increase of about 5% to 6% for employers. To cope with the increase, employers might seek to increase the productivity

of employees, reduce the rate of increase in wages of employees or increase the price of products;

- (d) employers might need to set aside additional funds for meeting LSP and SP, if the offsetting arrangement was abolished;
- (e) the offsetting arrangement might hinder the implementation of "full portability" of MPF benefits;
- (f) abolition of the offsetting arrangement would facilitate the retention of staff, attract talents from other places to work in Hong Kong and stimulate local spending;
- (g) to reduce the impact of abolition of the offsetting arrangement on enterprises and the economy of Hong Kong, consideration could be given to progressively reducing the proportion of the offsetting amount or abolishing the offsetting arrangement for elementary workers as a first step;
- (h) as the Gini's coefficient of Hong Kong was the highest among developed economies, actions should be taken to address the problem. Consideration could be given to the establishment of a government managed universal retirement protection scheme, under which the offsetting arrangement would be retained, employees would contribute to the scheme instead of the MPF Scheme and a 3% goods and services tax would be introduced to generate income for ensuring the scheme to be financially sustainable; and
- (i) to provide better retirement protection for employees, actions should be taken to address the problems of high MPF management fees and low investment return rate of MPF funds.

3. In response to the views and concerns of the academics attending the meeting, the Administration made the following points:

- (a) offsetting was a complex issue and should be examined holistically;

- (b) where involved, low-income employees were more affected than the others by the offsetting arrangement;
- (c) the impact of abolition of the offsetting arrangement on the operation and affordability of enterprises, especially small and medium enterprises, should not be underestimated;
- (d) whilst the Administration maintained an open mind towards the offsetting issue, it was important to strike a balance between the interests of employees and employers. The Administration had a role to play in taking the issue forward; and
- (e) after the completion of the consultation period on 21 June 2016, the views received would be carefully analysed. It was important for the way forward regarding the offsetting issue to be acceptable to both employers and employees.

II. Any other business

- 4. The Chairman advised that the next meeting would be scheduled after the meeting.
- 5. There being no other business, the meeting ended at 10:50 am.

Council Business Division 2
Legislative Council Secretariat
25 July 2016

**Proceedings of meeting of the
Joint Subcommittee to Study the Arrangement of
Offsetting Severance Payments and Long Service Payments
against Mandatory Provident Fund Accrued Benefits
held on Monday, 18 April 2016, at 9:00 am
in Conference Room 1 of the Legislative Council Complex**

Time marker	Speaker	Subject(s) / Discussion	Action Required
000000 - 001706	Chairman	Opening remarks	
001707 - 002420	Chairman Dr YUEN Wai-kee, Associate Head and Assistant Professor, Department of Economics & Finance, Hong Kong Shue Yan University	Presentation of views	
002421 - 002908	Chairman Dr POON Che-cheong, Associate Professor, Department of Economics & Finance, Hong Kong Shue Yan University	Presentation of views [LC Paper No. CB(2)1322/15-16(01)]	
002909 - 003527	Chairman Mr LAU Tak-ching, Lecturer, Department of Economics and Finance, Hang Seng Management College	Presentation of views	
003528 - 003923	Chairman Mr TAM Chiu-yin, Lecturer, Department of Economics and Finance, Hang Seng Management College	Presentation of views [LC Paper No. CB(2)1312/15-16(01)]	
003924 - 004501	Chairman Deputy Chairman Admin	Deputy Chairman's concerns regarding: (a) how the Administration would deal with issues relating to the arrangement of offsetting severance payments ("SP") and long service payments ("LSP") against Mandatory Provident Fund ("MPF") accrued benefits arising from employers' contribution ("the offsetting arrangement"); and	

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		<p>(b) whether the offsetting arrangement hindered the implementation of "full portability" of MPF benefits.</p> <p>Administration's response that:</p> <p>(a) the employment-based MPF system was one of the four pillars of retirement protection in Hong Kong. The Commission on Poverty ("CoP") had stated in its consultation document that the offsetting arrangement would weaken the retirement protection function of the MPF system;</p> <p>(b) the offsetting arrangement was a rather complicated issue and had its historical background. The impact of its abolition on small and medium enterprises ("SMEs") should not be underestimated;</p> <p>(c) COP's consultation on retirement protection was still underway until 21 June 2016, and it had yet to reach the stage of formulating concrete proposals on the offsetting issue. The Administration maintained an open mind towards any views and suggestions expressed; and</p> <p>(d) it was important for the way forward regarding the offsetting issue to be acceptable to both employers and employees.</p>	
004502 - 005024	Chairman Mr Tommy CHEUNG	<p>Mr Tommy CHEUNG's remark that:</p> <p>(a) the abolition of the offsetting arrangement might not lead to a decrease in the Gini's coefficient of Hong Kong;</p> <p>(b) abolition of the offsetting arrangement would not increase the spending power of members of the public; and</p> <p>(c) the Administration had introduced too many changes to the requirements under the employment-related legislation on LSP, SP and holidays in recent years.</p>	

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005025 - 005550	Chairman Mr WONG Ting-kwong	<p>Mr WONG Ting-kwong's declaration as the Chairman of the MPF Schemes Advisory Committee.</p> <p>Mr WONG's remark that:</p> <p>(a) a majority of enterprises in Hong Kong were SMEs. If the offsetting arrangement was abolished, they might lack sufficient financial resources for settlement of SP when there was a need to wind up; and</p> <p>(b) the abolition of the offsetting arrangement would not facilitate the implementation of "full portability" of MPF benefits.</p>	
005551 - 010058	Chairman Mrs Regina IP Dr YUEN Wai-kee, Associate Head and Assistant Professor, Department of Economics & Finance, Hong Kong Shue Yan University	<p>Mrs Regina IP's concern that if the abolition of the offsetting arrangement was introduced at times of economic downturn, employers might seek to meet the additional costs arising from the abolition by redundancies or wage reduction.</p> <p>Dr YUEN Wai-kee's view that whether there would be wage reduction and redundancies would be subject to the labour market situation at that time.</p>	
010059 - 010620	Chairman Mr Andrew LEUNG Dr POON Che-cheong, Associate Professor, Department of Economics & Finance, Hong Kong Shue Yan University	<p>Mr Andrew LEUNG's remark that:</p> <p>(a) MPF and LSP were not found in co-existence in many countries;</p> <p>(b) the impact of abolition of the offsetting arrangement on SMEs and the economy of Hong Kong should be carefully studied; and</p> <p>(c) the abolition of the offsetting arrangement might result in employers offering employment on short contract terms.</p> <p>Mr Andrew LEUNG's concerns and Dr POON Che-cheong's response regarding whether there were statistics supporting the abolition or otherwise of the offsetting arrangement.</p>	

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010621 - 011133	<p>Chairman Mr LEUNG Yiu-chung Dr YUEN Wai-kee, Associate Head and Assistant Professor, Department of Economics & Finance, Hong Kong Shue Yan University</p>	<p>Mr LEUNG Yiu-chung's expression of support for abolition of the offsetting arrangement.</p> <p>Mr LEUNG's remark that entitlement to LSP was subject to specific conditions, such as resignation at the age of 65 or dismissal other than by reasons of redundancy or serious misconduct.</p> <p>Mr LEUNG's question and Dr YUEN Wai-kee's response regarding whether abolition of the offsetting arrangement would result in a lower staff turnover rate and hence savings in recruitment and training costs for employers.</p>	
011134 - 011654	<p>Chairman Mr POON Siu-ping Mr TAM Chiu-yin, Lecturer, Department of Economics and Finance, Hang Seng Management College Dr POON Che-cheong, Associate Professor, Department of Economics & Finance, Hong Kong Shue Yan University Dr YUEN Wai-kee, Associate Head and Assistant Professor, Department of Economics & Finance, Hong Kong Shue Yan University</p>	<p>Mr POON Siu-ping's question regarding the effect of abolition of the offsetting arrangement.</p> <p>Mr TAM Chiu-yin's view that consumers might face an increase in the price of products, if the offsetting arrangement was abolished.</p> <p>Dr POON Che-cheong's view that employers might need to set aside additional funds for meeting LSP and SP, if the offsetting arrangement was abolished.</p> <p>Mr POON's question regarding whether there were specific proposals for abolition of the offsetting arrangement.</p> <p>Dr YUEN Wai-kee's view that consideration could be given to progressively reducing the proportion of the offsetting amount or abolishing the offsetting arrangement for elementary workers as a first step.</p> <p>Extension of meeting time.</p>	
011655 - 012222	<p>Chairman Miss CHAN Yuen-han Dr YUEN Wai-kee, Associate Head and Assistant Professor, Department of Economics & Finance, Hong Kong Shue Yan University</p>	<p>Miss CHAN Yuen-han's question and Dr YUEN Wai-kee's view regarding whether it was fair to require employees to bear the consequences of an increase in operating costs or decline in business of an enterprise.</p>	

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012223 - 012732	Chairman Dr KWOK Ka-ki Dr YUEN Wai-kee, Associate Head and Assistant Professor, Department of Economics & Finance, Hong Kong Shue Yan University	Dr KWOK Ka-ki's remark that: (a) accrued benefits attributable to employers' contribution withdrawn for offsetting SP and LSP had amounted to more than 25 billion since the establishment of MPF and about half of the employees concerned were aged 50 or over; and (b) it was rental cost which constituted a major part of the operating costs of enterprises. Dr KWOK's question and Dr YUEN Wai-kee's view regarding whether LSP and SP constituted a major part of the operating costs of enterprises.	
012733 - 013238	Chairman Mr Jeffrey LAM	Mr Jeffrey LAM's remark that: (a) abolition of the offsetting arrangement would weaken the competitiveness of enterprises in Hong Kong. Enterprises which were unable to cope with the additional cost arising from the abolition would have no choice but to wind up; (b) although accrued benefits attributable to employers' contribution withdrawn for offsetting SP and LSP had amounted to more than \$25 billion since the establishment of MPF, the total amount of SP and LSP involved was in the region of hundreds of billion dollars; and (c) high labour costs would cause enterprises to consider replacing workers with robots.	
013239 - 013742	Chairman Mr LEUNG Kwok-hung	Mr LEUNG Kwok-hung's remark that: (a) the investment return rate of MPF funds was much lower than those of other investment alternatives in Hong Kong; and (b) although the Gini's coefficient of Hong Kong was the highest among developed economies, no concrete actions had been taken by the Administration to address the problem.	

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013743 - 014253	Chairman Mr CHEUNG Kwok-che Dr POON Che-cheong, Associate Professor, Department of Economics & Finance, Hong Kong Shue Yan University	Mr CHEUNG Kwok-che's remark that: (a) as the purposes of SP and LSP were different from the purpose of MPF, it was wrong to offset SP or LSP against accrued benefits arising from employers' contribution to MPF; and (b) it was unfair for employees to bear the consequences of business failure of enterprises though the offsetting arrangement. Dr POON Che-cheong's view that consideration should be given to abolishing the offsetting arrangement progressively.	
014254 - 014801	Chairman Dr CHIANG Lai-wan Dr YUEN Wai-kee, Associate Head and Assistant Professor, Department of Economics & Finance, Hong Kong Shue Yan University	Dr CHIANG Lai-wan's remark that: (a) abolition of the offsetting arrangement might speed up the closedown of enterprises in trouble especially at a time of economic downturn; and (b) consideration might be given to the introduction of a non-means tested but time limited unemployment subsidy. Dr YUEN Wai-kee's view that it was undesirable for the Administration to introduce too many forms of subsidy. Further extension of meeting time.	
014802 - 015026	Chairman Admin	Administration's response to issues raised by academics and members: (a) offsetting was a complex issue and should be examined holistically; (b) where involved, low-income employees were more affected than the others by the offsetting arrangement; (c) the impact of abolition of the offsetting arrangement on the operation and affordability of enterprises, especially SMEs, should not be underestimated;	

Time marker	Speaker	Subject(s) / Discussion	Action Required
		(d) whilst the Administration maintained an open mind towards the offsetting issue, it was important to strike a balance between the interests of employees and employers. The Administration had a role to play in taking the issue forward; and (e) after the completion of the consultation period on 21 June 2016, the views received would be carefully analysed.	
015027 - 015111	Chairman	Scheduling of the next meeting.	

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