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Are you clear about the financial implications of the imminent LSP amendment?

MPF
EXPRESS

積金快線

A balanced perspective on your MPF





The Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Bill 2022 (“the Bill”) was passed in the Legislative Council on 9 June 2022, with implementation expected in 2025. Whilst some of the details have not yet been finalised, we believe it is the right time to start considering the financial implications of the changes so that you have time to discuss with your auditor and budget accordingly.

Highlights of the changes:

1. The pre-transition LSP obligation will be based on an employee’s earnings as at the transition date. The post-transition LSP obligation will be based on earnings at the date of termination of service.
2. As announced in 2021, the Government will provide a subsidy to reduce employers’ LSP obligations. The subsidy scheme is expected to have 2 tiers and last up to 25 years.
3. The Government plans to introduce a Designated Savings Account (DSA) into which employers are required to make contributions to meet their future LSP obligations, either fully or partially (unless they are exempted). Details have not been finalised.

What does this mean from a cashflow perspective?

It is expected that employers will be required to pay LSP in the future. Such obligation may be met fully or partially by the reserve in a DSA account. Note that employer contributions to the DSA is just a method to build company reserve. Company’s obligation remains unchanged and will be required to make payment if an employer does not have a DSA account or the account does not have enough money.

What does this mean from a financial reporting perspective?

Under the Hong Kong Accounting Standard 19 (2011) - Employee Benefits (HKAS 19), if an employer has an obligation to pay a benefit to its employees at termination of employment, the present value of the obligation should be reported as a liability in the company’s financial statements and the average annual cost should be part of the staff cost to be reflected in the profit or loss account. With this amendment, we believe companies should review the impact on their financial statements. In particular, some companies will experience a higher potential financial impact – for example, those with a higher number of redundancies, those with a higher proportion of long serving employees or companies which only make employer contributions at the mandatory minimum level.

Given that the Bill was passed in 2022, some auditors have determined that the financial impact related to your LSP obligations regardless of whether you have MPF only or MPF and ORSO needs to be booked starting from year 2022. As company experience varies depending on industry, company size, employee demographics, turnover, retirement arrangements etc., conducting an actuarial valuation of the LSP/SP obligations can provide a forecast of the expected cashflow and the liabilities to be reported in the company’s financial statements.

Contact us

WTW has the largest team of pension actuaries in Hong Kong who can help with such financial costings/valuations. Please reach out to us for a discussion on how we can help.

Other MPF resources

Member education resources

Given the defined contribution nature of the MPF scheme, it is vital to provide sufficient member education so that employees can obtain the best value from their contributions and their employer contributions.

At WTW, we are keen to provide regular short educational articles to members on hot topics and recent events. Recent articles published by WTW are available on MPFexpress [\[Click Here\]](#). Visit our website to find out more.

Article	Content
The Remarkable Report Card of the MPF Default Investment Strategy (DIS)	As at June 30, 2022, the total assets invested in the two component funds making up the default investment strategy amounted to approximately HK\$78 billion, accounting for 7.4% of all MPF assets. Of this amount, about a quarter of the account holders are invested in the default investment strategy itself.
Do you have enough retirement savings?	The overwhelming conclusion of the survey is that, in the context of employee benefits, people want more help in the area of retirement, especially those over the age of 40 or those with a monthly income of over HK\$16,000.
How does the surge in global interest rates affect Hong Kong MPF investment returns?	Faced with inflation that keeps soaring to new levels, central banks in many countries are responding by raising interest rates. To what extent will MPF investments be affected by higher interest rates, and what actions should members take in response?
Guaranteed funds may not provide positive investment returns	Investment markets have been very volatile recently and members have been commenting on their shrinking MPF account balances. Some members have transferred all or part of their MPF assets to Guaranteed funds to preserve the capital built up within the MPF system.
Understanding MPF retirement income funds	A retirement income fund helps members create "passive income" after retirement. It also acts to preserve the purchasing power of the member's assets and counter the effects of inflation. For members with a lower risk tolerance and those near, or already at retirement, this type of fund can be quite attractive.

MPF market share

Do you know how your MPF sponsor ranks in terms of the market share within the entire MPF market? This information is available on MPFexpress [\[Click Here\]](#). This section provides the latest MPF market distribution information and helps you understand the relative MPF asset sizes of different sponsors in the MPF market.

Check out our WTW MPFexpress Website wtwco.com/MPFexpress

Highlight of investment performance up to 30 September 2022

The annualised performance over 1-year and 5-year periods ended 30 September 2022 of each MPF fund type was as follows:

Performance ended 30 September 2022		1-year period			5-year period		
Fund category	Fund type	Highest % p.a.	Average % p.a.	Lowest % p.a.	Highest % p.a.	Average % p.a.	Lowest % p.a.
Mixed Assets Funds	Equity content > 80% Funds	-23.3	-26.2	-29.7	-0.4	-1.1	-2.1
	Equity content 60% - 80% Funds	-21.2	-23.8	-26.5	0.2	-1.2	-4.7
	Equity content 40% - 60% Funds	-20.4	-22.3	-23.9	-0.1	-1.4	-2.4
	Equity content 20% - 40% Funds	-18.2	-19.7	-21.5	-0.7	-1.8	-2.5
Default Investment Strategy Funds	Core Accumulation Funds	-15.2	-17.1	-19.4	2.8	2.2	1.9
	Age 65 Plus Funds	-13.7	-15.0	-15.9	0.7	0.1	-0.3
Equity Funds	Hong Kong Equity Funds	-29.0	-33.5	-36.6	0.5	-5.4	-7.6
	Hong Kong Equity (Index Tracking) Funds	-27.6	-28.3	-31.9	-5.5	-6.6	-7.1
	China Equity Funds	-30.4	-33.6	-37.9	-4.2	-6.7	-9.8
	Greater China Equity Funds	-31.2	-35.2	-39.2	1.4	-1.4	-4.8
	Asian ex Japan ex HK Equity Funds	-25.7	-27.2	-30.7	-0.6	-1.7	-3.9
	Asian ex Japan Equity Funds	-28.2	-29.8	-32.6	-0.6	-2.2	-7.4
	Pacific Basin ex Japan Equity Funds	-23.7	-27.5	-33.5	1.9	-2.2	-7.4
	Global Equity Funds	-17.9	-21.6	-29.0	3.8	1.8	-1.5
	United States Equity Funds	-14.7	-19.3	-33.5	7.5	6.3	3.8
	European Equity Funds	-20.7	-23.5	-36.0	0.4	-2.3	-4.4
	Japanese Equity Funds	-22.1	-22.6	-23.3	-0.1	-0.7	-1.6
	Bond Funds	Hong Kong Dollar Bond Funds	-9.8	-10.4	-11.4	-0.2	-0.5
Asian Bond Funds		-13.3	-14.2	-15.4	-1.1	-1.3	-1.5
Global Bond Funds		-16.3	-18.6	-24.0	-2.1	-3.0	-4.4
RMB Bond		-4.8	-6.2	-8.7	1.4	0.8	0.4
Money Market Funds	MPF Conservative Funds	0.8	0.1	0.0	1.3	0.5	0.1
	Hong Kong Dollar Money Market Funds	-1.6	-1.7	-1.9	0.3	0.3	0.3
	RMB and HKD Money Market Funds	-3.3	-4.4	-4.9	1.4	0.6	0.1
Others	Guaranteed Funds	1.0	-9.2	-20.8	1.0	-0.9	-3.4

Source: Based on unit price information downloaded from MPFA website

As of 30 September 2022

Disclaimer: The information and data included in this table are provided for general information purposes only and do not constitute investment advice, nor should they be construed as an offer or solicitation or recommendation to invest in or deal in any scheme, fund, product, service provider or service referred to. As such, the information provided should not be relied upon for any investment or other financial decisions and no such decisions should be taken without seeking specific professional advice. Any use of or reliance on any information or materials contained herein is entirely at the reader's own risk and WTW and its affiliates accept no responsibility and will not be liable for any consequences howsoever arising from any such use or reliance. In addition, please be reminded that past performance is not an indication of future performance.

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