

Issue no. 50

Unlock the Benefits of MPF Employer Voluntary Contributions (ERVCs)

MPF
eXPRESS

積金快線

A balanced perspective on your MPF





When discussing the MPF, the focus is normally on mandatory contributions or employee contributions, and Voluntary Employer Contributions (EMVC) often overlooked. In this issue, we bring the spotlight on EMVC, highlighting its many benefits that have gone unnoticed so far.

What are ERVCs?

Under Hong Kong legislation, employers are required to make mandatory contributions (“ERMCs”) to their MPF schemes for their employees at a rate of 5% of Relevant Income (RI), where RI is defined as all cash income paid to an employee in a month. RI is currently subject to a cap of HK\$30,000 per month (please note that RI is likely to increase after the MPFA’s next regular review). ERVCs are any additional employer contributions voluntarily made on top of ERMCs.

Based on the latest results of the WTW Benefits Design Practice survey, 60% of employers make contributions higher than ERMC. Employer voluntary contributions are often determined as a percentage of basic monthly salary without a salary cap.

So how can ERVCs help?

ERVCs can be paid in cash at leaving service

By law, ERVCs are not subject to MPF preservation and therefore many MPF providers offer continued investment in a personal account and / or withdrawals in cash.

Employees will often recognize/appreciate the value of a benefit if it can be paid in cash at leaving service (Chart 1).

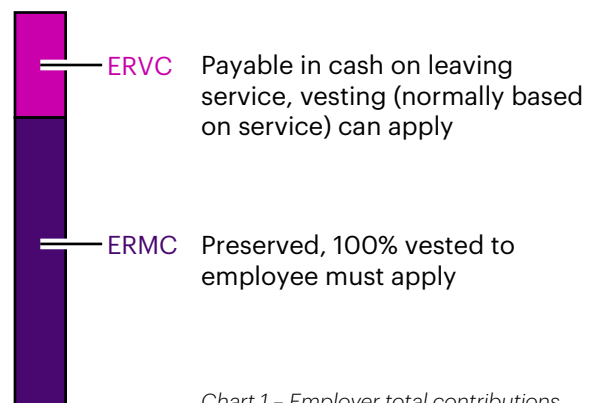


Chart 1 – Employer total contributions

ERVCs can act as an attraction/retention tool

Scenario 1: you are considering two similar employment offers, but one potential employer offers ERVCs and the other does not. All other things being equal, would that make you ponder your choice? Nowadays, job candidates not only ask about basic salary and expected bonus, but also add employer voluntary contributions to the total package for consideration.

Scenario 2: you are not happy with your current employment. Would the prospect of becoming entitled to an extra 10% of your accumulated employer contributions plus returns in your ERVCs in three months make you think twice before handing in your resignation?

Note that the total cost to employers of providing ERVCs is not usually the full “headline” amount of ERVCs payable as there is often a vesting scale which applies 10 years, for example, the actual employer cost is often much lower, depending on the employee turnover rate.

With the current war for talent, it is important to consider ERVCs as a part of the employment package.



ERVCs are subject to a beneficial tax advantage

An employer can claim a tax deduction for all contributions made in respect of an employee (mandatory and voluntary), provided it does not exceed 15% of the employee’s total emoluments.

From an employee perspective, the vested benefit paid from the accumulated ERVCs is tax free as long as the usual 10-year vesting applies (i.e., the Proportionate Rule being a vested % not higher than the number of completed months of service divided by 120). If an employer uses a shorter vesting schedule, only the excess benefit amount is taxable.

ERVCs can be used to offset SP/LSP

ERVCs can be used to offset SP/LSP now as well as under the Government’s proposed offsetting arrangements – see chart below.

Effective date: 1 May 2025

	Pre-Transition Period	Post-Transition Period
1 SP/LSP calculated using:	Wages Immediately preceding the transition date	Wages before termination of employment
2 SP/LSP offset by:		
- Total ERMC	✓	✗
- Total ERVC	✓	✓

ERVCs can act as a buffer against future increases in MPF Relevant Income (RI)

There have been reports recently that the MPFA is undertaking a review of the RI cap which has been in place since June 2012. If an employer already has ERVCs in place, the impact of the RI increase would be somewhat reduced or may not even be relevant.

Each employer has its own remuneration philosophy and communication strategy. Talk to us to see how ERVCs could fit into your total reward offering.

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
How MPF Trustees Protect Members' Rights	The MPF trustee plays a critical role in the MPF system, overseeing essential tasks such as system administration and holding the scheme assets. We examine this in more detail and share how our MPF benefits are protected by the MPF trustees, especially in light of the recent failure of some overseas financial institutions.
The Ultimate Guide to decipher your MPF Annual Benefit Statement	In the first quarter of each year, MPF members receive an annual benefit statement from their MPF provider. However, the annual benefit statement is not always easy reading, so members should learn how to interpret the information therein to maximize the effectiveness of the statement.
Increasing prescribed savings rate will improve returns on Conservative Funds	Hong Kong's deposit rates have been increasing recently following increases in interest rates around the world. Banks are attracting cash by offering higher interest rates on time deposits, and the one-year Hong Kong Dollar fixed-term interest rate has now reached more than 4%.
What happened to MPF in 2022?	First impressions of the MPF's performance in 2022 might reasonably be of continued market volatility and poor investment performance. Let us provide a brief recap of 2022 and look forward to the development of the MPF in 2023.
Can I take my MPF benefits if I retire early?	Most members are aware that you need to be age 65 before you can start to withdraw your retirement savings from the MPF system. However, some companies have a retirement age which is earlier than 65, and other companies may allow employees to retire early. In such cases, can the employee withdraw their MPF benefits before age 65?

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.

Highlight of investment performance up to 31 March 2023

The annualised performance over 1-year and 5-year periods ended 31 March 2023 of each MPF fund type was as follows:

Performance ended 31 March 2023		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	-4.7	-6.8	-9.0	1.9	1.0	-0.2
	Equity content 60% - 80% Funds	-4.4	-6.5	-9.1	1.8	0.4	-2.9
	Equity content 40% - 60% Funds	-5.6	-7.3	-8.7	0.7	-0.1	-0.8
	Equity content 20% - 40% Funds	-5.1	-7.1	-8.8	-0.2	-0.7	-1.4
Default Investment Strategy Funds	Core Accumulation Funds	-5.6	-6.8	-8.7	4.3	3.7	2.9
	Age 65 Plus Funds	-5.5	-6.7	-7.3	1.5	1.0	0.5
Equity Funds	Hong Kong Equity Funds	-5.4	-7.3	-12.0	0.4	-3.8	-6.6
	Hong Kong Equity (Index Tracking) Funds	-4.6	-5.2	-6.4	-4.0	-5.2	-5.7
	China Equity Funds	-5.1	-8.4	-12.4	-4.1	-6.0	-8.5
	Greater China Equity Funds	-5.9	-9.8	-13.3	2.9	0.0	-3.1
	Asian ex Japan ex HK Equity Funds	-12.4	-12.7	-12.8	-0.3	-0.7	-1.0
	Asian ex Japan Equity Funds	-9.9	-12.6	-16.3	1.0	-1.2	-5.6
	Pacific Basin ex Japan Equity Funds	-8.7	-10.9	-14.7	4.0	-0.9	-6.5
	Global Equity Funds	-3.1	-8.4	-12.1	6.5	4.2	0.1
	United States Equity Funds	-8.4	-11.0	-19.2	9.4	8.0	6.2
	European Equity Funds	9.2	2.6	-2.0	7.6	3.1	0.7
	Japanese Equity Funds	0.6	-0.8	-2.4	2.2	1.3	0.4
	Bond Funds	Hong Kong Dollar Bond Funds	-2.4	-2.7	-3.4	0.8	0.5
Asian Bond Funds		-3.1	-3.9	-4.7	0.5	-0.1	-0.7
Global Bond Funds		-4.8	-7.9	-10.6	-0.7	-2.1	-3.5
RMB Bond		-2.4	-2.9	-4.4	1.6	0.9	0.5
Money Market Funds	MPF Conservative Funds	2.1	1.0	0.2	1.5	0.7	0.1
	Hong Kong Dollar Money Market Funds	1.3	1.1	0.8	0.7	0.7	0.7
	RMB and HKD Money Market Funds	-2.1	-3.2	-3.7	1.1	0.3	-0.2
Others	Guaranteed Funds	0.9	-2.8	-8.3	0.6	-0.3	-2.2

Source: Based on unit price information downloaded from MPFA website

As of 31 March 2023

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.

About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organisational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success - and provide perspective that moves you. Learn more at [wtwco.com](https://www.wtwco.com).



[wtwco.com/social-media](https://www.wtwco.com/social-media)

Copyright © 2023 WTW. All rights reserved.

[wtwco.com](https://www.wtwco.com)

The WTW logo, consisting of the lowercase letters 'wtw' in a bold, purple, sans-serif font.