

## **MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

### **V.5 Guidelines on MPF Exempted ORSO Schemes - Illustrative Examples**

#### **INTRODUCTION**

Section 15(1) of the Mandatory Provident Fund Schemes (Exemption) Regulation (“the Exemption Regulation”) requires employers who have made an application for exemption under section 16 in respect of their relevant ORSO registered schemes to provide the information specified in Part 2 of Schedule 1 of the Exemption Regulation to existing members and new eligible employees of the schemes within the prescribed period.

2. Paragraph 5 of Part 2 of Schedule 1 requires the provision of illustrative examples to demonstrate the differences in benefits between the relevant ORSO registered scheme and the mandatory provident fund scheme (“the MPF scheme”) selected or proposed to be selected by the employer.

3. The Mandatory Provident Fund Schemes Authority (“the Authority”) hereby issues guidelines relating to the illustrative examples to be provided by employers.

## **ILLUSTRATIVE EXAMPLES**

### **Minimum number of illustrative examples per scheme**

4. Employers should at least provide two sets of illustrative examples, one for existing members and one for new eligible employees. For schemes that close membership to new employees, at least one set of examples for existing members is required.

5. If the relevant ORSO registered scheme or the MPF scheme provides different benefit terms and conditions to different classes of members, different sets of illustrative examples should be provided for each class of members.

6. Each set of illustrative examples should demonstrate at least the differences in benefits upon termination of service and retirement and both the projected values of benefit payments (or accruals) and employee own contributions should be shown. Other auxiliary benefits, such as death and disability benefits should also be disclosed in the illustrative examples if they are material.

### **Illustration Period**

7. As ORSO schemes usually have vesting scales spanning over 10 years or longer whereas the MPF mandatory contributions are full and immediately vested with members, the comparison period should start from an age which reflect the average membership characteristics of the scheme or of the relevant member class and all the way up to age 65 in order to assist members or new eligible employees to understand how the benefits of the two schemes may differ over their career life spans.

8. In each set of illustrative examples, the termination of service benefits/retirement benefits are required to be shown at:

- (a) each of the first 5 years;
- (b) year 10; and
- (c) every 10 years thereafter up to age 65.

9. For existing members, all illustrations should be carried out as at the commencement date of the MPF scheme.

### **Assumptions**

10. Each illustrative example needs to disclose the assumptions used to carry out the projection, in particular the following:

- (a) rates of gross investment return (i.e. before levies, administrative and asset management expenses);
- (b) rate of salary inflation; and
- (c) rates of administrative expenses.

11. In order for members or new eligible employees to gain a feel on how investment return may affect their future benefit entitlements, the illustrations should include two gross investment return rates. One of the gross rates should be higher than the assumed rate of salary inflation and the other one should be lower than or at most equal to the assumed rate of salary inflation. The gross yield gaps chosen (i.e. the gap between the gross investment return rate and salary inflation rate) should take into account the risk/return profiles of the underlying scheme investments and it must be within the range of  $\pm 3\%$  per annum.

12. It should be mentioned in every illustrative example that the benefit which one will eventually receive upon termination of service or retirement may be higher or lower than those being illustrated depending upon the actual experience over the period.

13. According to Schedule 3 of the Mandatory Provident Fund Schemes Ordinance (“the Ordinance”), the amount of monthly relevant income is capped at \$20,000 for the purposes of making mandatory contributions. Even though there is no automatic index mechanism being built in the legislation to adjust it periodically, for illustration purposes, this maximum level of monthly relevant income should be assumed to increase in line with the salary inflation assumption being adopted in the illustration.

14. If all of the administrative expenses incurred with respect to the ORSO or the MPF scheme are to be borne by the relevant employers, there is no need to incorporate any assumption on administrative expenses in the illustrations. Otherwise, an assumption should be made on administrative expenses and it should approximate the actual charges levied by all relevant parties who administer or regulate the schemes.

15. With respect to the assumptions on the current or entry level of salary (as defined in the terms of the existing scheme) and relevant income (as defined in the Ordinance) to be used in the examples, they should reflect the average profile of members of the scheme or of the relevant member class.

16. For existing members, in respect of the MPF illustration, MPF benefits should be projected together with the benefits accrued under the ORSO registered scheme by assuming that they opt out to join the MPF scheme as at the MPF commencement date.

## **Specific illustrations**

17. A set of specific illustrations is set out in the Annex to illustrate the projection of benefits under a typical MPF scheme. Employers shall use the basic framework provided in the Annex for the purpose of comparing their own ORSO scheme with an MPF scheme.

18. The illustrations specified in the Annex are for illustrative purposes only and are not intended to be strictly followed. Employers should make appropriate illustrations based on their own situation. Employers who wish to provide more comparisons may refer to the practice notes to be issued by the Actuarial Society of Hong Kong on illustrative examples.