

Differences between an MPF scheme and an ORSO scheme

The following table sets out the major differences between an MPF scheme and an ORSO scheme:

MPF schemes and ORSO schemes

Mandatory Provident Fund Schemes (MPF schemes) and Occupational Retirement Schemes (ORSO schemes) are both retirement protection schemes set up for employees. However, the operations of the two schemes are different.

The MPF System has been in operation since 1 December 2000 to provide the working population with basic retirement protection. The law stipulates that except for some exempt persons, all employed persons aged 18 to aged below 65 are required to join an MPF scheme.



ORSO schemes are retirement schemes set up voluntarily by employers prior to the launch of the MPF System to provide retirement benefits for their employees. The scheme rules and provisions are drawn up by individual employers. Some employers continue to operate ORSO schemes that are granted MPF exemption, giving their employees a choice of joining an MPF scheme or staying in the existing ORSO scheme.

How to choose between an MPF scheme and an ORSO scheme?

If your employer provides both the MPF and ORSO schemes:

- he should enrol you in either scheme within the first 60 days of employment;
- he should give you a choice of joining either scheme within the first 10 days of employment. He should also provide you with detailed information of both schemes such as the contribution arrangements and the appropriate calculation method of accrued benefits to help you make decisions that suit your needs;
- you should notify your employer of your decision in writing within the first 30 days of employment, otherwise you will be deemed to have chosen an MPF scheme; and
- you have a one-off option to choose between the two schemes.

Whether you opt for an MPF scheme or an ORSO scheme, the contributions and the accrued benefits under the scheme are part of your personal assets with direct impact on your retirement protection. So make sure you understand the differences between the two schemes before making a decision. You may ask your employer for more information of the schemes he provides.

| | MPF scheme  | ORSO scheme  |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Contributions | Who pays? <ul style="list-style-type: none"> • Your employer is mandated to make contributions. You may or may not pay, depending on your income levels. • If you earn less than \$5,000 a month, you do not have to pay. • Your employer and you each has to pay 5% of your relevant income as mandatory contributions, which are capped at \$1,000. | <ul style="list-style-type: none"> • Contributions can be made solely by your employer or by both your employer and you, depending on your employer's decision. • The contributions payable by your employer or you are set out in scheme documents. |
| | Who is entitled to the contributions? <ul style="list-style-type: none"> • Mandatory contributions made by both your employer and you are fully and immediately vested. • Severance payments or long service payments can be offset by the accrued benefits derived from your employer's contributions. | <ul style="list-style-type: none"> • In general, a "vesting scale" is in place specifying the percentage of the accrued benefits derived from your employer's contributions that you are entitled to, and it is calculated based on the number of years of service when you cease employment. <i>(Please see example 1)</i> • Severance payments or long service payments can be offset by the accrued benefits derived from your employer's contributions. |
| Investment portfolio | Who makes the decision? <ul style="list-style-type: none"> • Your employer chooses the MPF scheme. • You choose the investment portfolio under the scheme. | <ul style="list-style-type: none"> • In general both the scheme and investment portfolio are chosen by your employer. |
| Accrued Benefits | What are the withdrawal conditions? <ul style="list-style-type: none"> • Generally, you can only withdraw your accrued benefits derived from the mandatory contributions when reaching the age of 65. <div style="border: 2px solid orange; border-radius: 50%; padding: 10px; margin-top: 10px;"> <p>The rules of ORSO schemes vary across employers. Your entitlement to accrued benefits, hence your retirement protection, upon ceasing employment is primarily determined by the "vesting scale" of the ORSO scheme. So please make sure you understand the scheme rules in detail and contact your employer for enquiries.</p> </div> | <ul style="list-style-type: none"> • If you have joined an ORSO scheme on or before the day the MPF System was implemented (i.e. 1 December 2000), when you cease employment: <ul style="list-style-type: none"> - You should calculate and collect the accrued benefits you are entitled to in accordance with the vesting scale of the ORSO scheme your employer operates. • If you have joined an ORSO scheme after the MPF System was put in place (i.e. after 1 December 2000), when you cease employment: <ul style="list-style-type: none"> - You should calculate the accrued benefits you are entitled to in accordance with the vesting scale of the ORSO scheme your employer operates. - Then you should calculate the minimum MPF benefits <i>(please see example 2)</i> and transfer the whole sum from the ORSO scheme to an MPF preserved account under your name. The sum of money can be withdrawn when you meet one of the withdrawal requirements as set out in the MPF legislation. - Any residual funds after the transfer can be withdrawn according to the rules of individual ORSO schemes. |



How to calculate accrued benefits when changing jobs ?

To illustrate, let's assume there are two employees, Uncle Wah and Auntie Jane, working for the same company and joining the same ORSO scheme. Their employment details are set out below:

| Uncle Wah | Auntie Jane |
|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Years of service 5 years | Years of service 2 years |
| Accrued benefits derived from the employer's contributions \$33,000 | Accrued benefits derived from the employer's contributions \$11,500 |
| Accrued benefits derived from the employee's contributions \$33,000 | Accrued benefits derived from the employee's contributions \$11,500 |
| Average monthly relevant income in the final year of service \$8,000 | Average monthly relevant income in the final year of service \$6,800 |

Vesting scale of accrued benefits in the ORSO scheme

Under the scheme rules, for employees with less than three years of service, there is no vesting of the accrued benefits derived from the employer's contributions. Employees will enjoy a 30% vesting after completing three years of service. Thereafter, an additional 10% of the employer's contributions will be vested for an additional completed year of service. The employer's contributions will be fully vested in the employee after ten completed years of service.

Example 1

Vesting scale

(specifies an employee's entitlement to the accrued benefits derived from the employer's contributions based on the employee's years of service)

Since Uncle Wah's and Auntie Jane's years of service are different, their entitlements to the accrued benefits derived from the employer's contributions are not the same:

Uncle Wah's entitlement to the accrued benefits derived from the employer's contributions upon leaving service

Accrued benefits derived from the employer's contributions × vesting scale based on the employee's total years of service

$$= \$33,000 \times (30\% + 10\% + 10\%) = \mathbf{\$16,500}$$

Explanation: Under the scheme rules, Uncle Wah with more than three years of service is entitled to the accrued benefits derived from the employer's contributions.

Auntie Jane's entitlement to the accrued benefits derived from the employer's contributions upon leaving service

Accrued benefits derived from the employer's contributions × vesting scale based on the employee's total years of service

$$= \$11,500 \times 0\% = \mathbf{\$0}$$

Explanation: Under the scheme rules, Auntie Jane with less than three years of service is not entitled to any accrued benefits derived from the employer's contributions.

Example 2

Calculating minimum MPF benefits

Both Uncle Wah and Auntie Jane joined the ORSO scheme after the launch of the MPF System (i.e. after 1 December 2000). Their minimum MPF benefits upon ceasing employment are whichever the lesser calculated by the following two methods:

| | |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Calculation method 1 | The accrued benefits under the ORSO scheme for the whole employment period, i.e. the accrued benefits derived from the employee's contributions + the accrued benefits derived from the employer's contributions under the vesting scale |
| Calculation method 2 | Average monthly relevant income in the final year of service (capped at \$20,000) × years of service × 1.2 |

| | Uncle Wah | Auntie Jane |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Calculation method 1 | Accrued benefits derived from the employee's contributions + Accrued benefits derived from the employer's contributions under the vesting scale $\$33,000 + \$16,500 = \mathbf{\$49,500}$ | Accrued benefits derived from the employer's contributions under the vesting scale $\$11,500 + \$0 = \mathbf{\$11,500}$ |
| Calculation method 2 | Average monthly relevant income in the final year of service × years of service × 1.2 $\$8,000 \times 5 \times 1.2 = \mathbf{\$48,000}$ | Average monthly relevant income in the final year of service × years of service × 1.2 $\$6,800 \times 2 \times 1.2 = \mathbf{\$16,320}$ |
| Explanation: | Upon ceasing employment, Uncle Wah is required to transfer all his minimum MPF benefits (\$48,000) from the ORSO scheme to his MPF account. He may withdraw the exceeding portion (\$1,500) in accordance with the scheme rules of the ORSO scheme. | Upon ceasing employment, Auntie Jane is required to transfer all her minimum MPF benefits (\$11,500) from the ORSO scheme to her MPF account. |
| | Uncle Wah Minimum MPF benefits \$48,000 | Auntie Jane Minimum MPF benefits \$11,500 |

It is important for you to understand the differences between the two schemes before you opt for an MPF scheme or an ORSO scheme.



MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

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The information contained in this leaflet is for reference only. The provisions stipulated in the Occupational Retirement Schemes Ordinance (Cap 426) and the Mandatory Provident Fund Schemes Ordinance (Cap 485) and their subsidiary legislation shall prevail.

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Understanding MPF schemes and ORSO schemes



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