How to calculate accrued benefits when ceasing employment?

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

Years of service	5 years
Accrued benefits derived from the employer's contributions	$33,000
Accrued benefits derived from the employee's contributions	$33,000
Average monthly relevant income in the final year of service	$8,000

Auntie Jane

Years of service	2 years
Accrued benefits derived from the employer's contributions	$11,500
Accrued benefits derived from the employee's contributions	$11,500
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 that an employee has to work for a number of years in order to be entitled to the accrued benefits derived from the employer's contributions based on the employee's year of service and in form of a percentage)

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 x vesting scale based on the employee's total years of service

= $33,000 x (30% + 10% + 10%)

= $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 x vesting scale based on the employee's total years of service

= $11,500 x 0%

= $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.

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

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 $30,000) x years of service x 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 = $49,500	$11,500 + $0 = $11,500
Calculation method 2	Average monthly relevant income in the final year of service x	years of service x 1.2
	$8,000 x 5 x 1.2 = $48,000	$6,800 x 2 x 1.2 = $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.

Uncle Wah
Minimum MPF benefits
$48,000

Explanation: Upon ceasing employment, Auntie Jane is required to transfer all her minimum MPF benefits ($11,500) from the ORSO scheme to her MPF account.

Auntie Jane
Minimum MPF benefits
$11,500

Mandatory Provident Fund Schemes Authority

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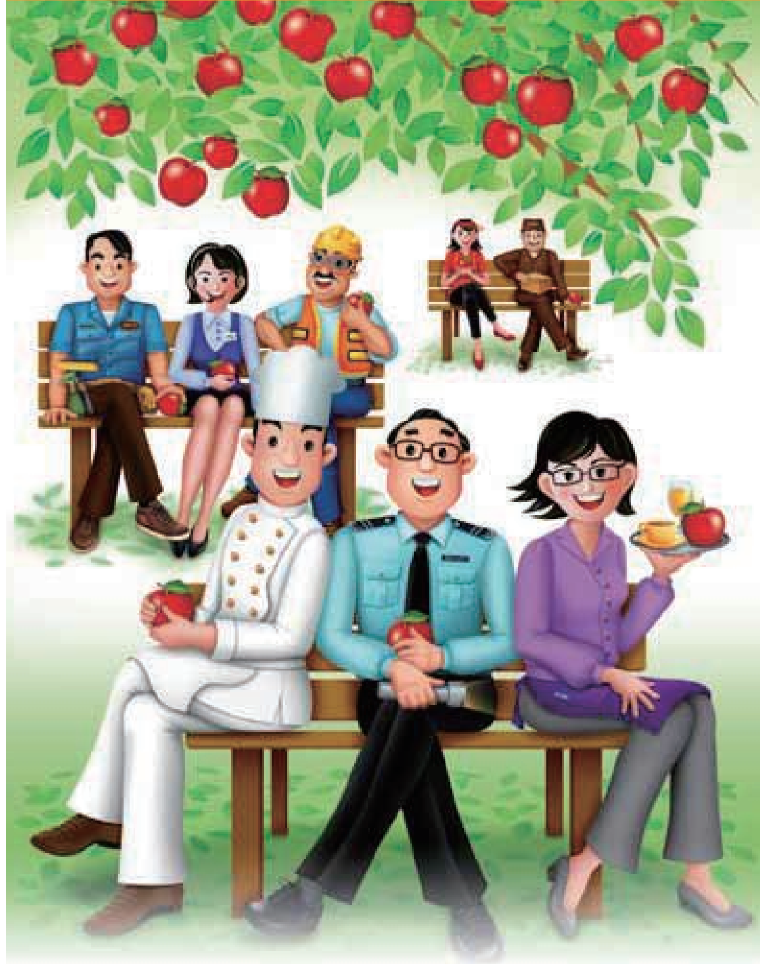
Understanding MPF schemes and ORSO schemes



Mandatory Provident Fund Schemes Authority

MPF schemes and ORSO schemes

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

The Mandatory Provident Fund (MPF) System has been in operation since 1 December 2000 to assist the employed population of Hong Kong to accumulate retirement savings. The law stipulates that except for some exempt persons, all employed persons aged 18 to 64 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 MPF exempted ORSO schemes, he should also provide the MPF schemes:

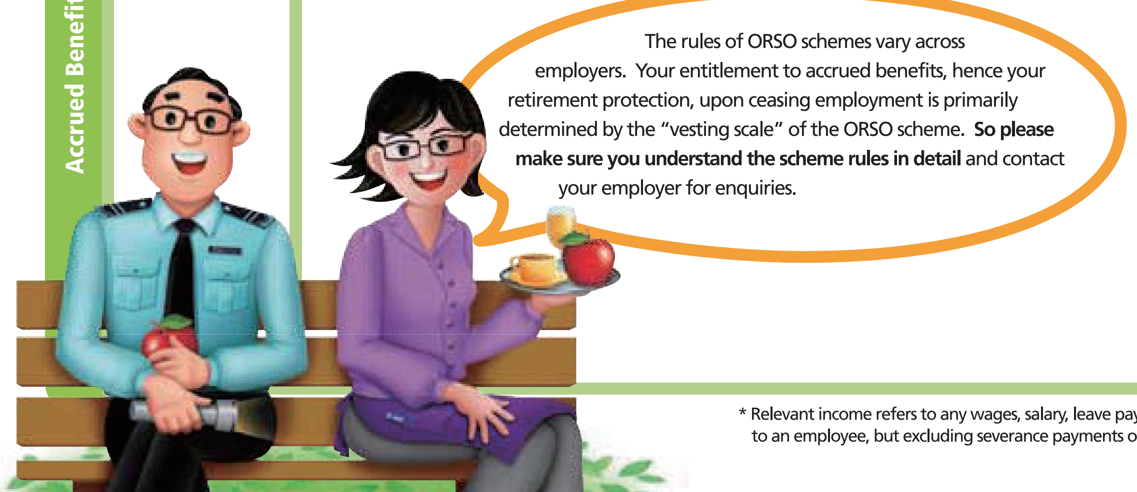
- he should enrol you in either scheme within the first 60 days of employment;
- **he should give you a choice of joining either scheme within the first 10 days of employment.** He should also provide you with detailed information of both schemes such as the contribution arrangements and the appropriate 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.

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 scheme	ORSO scheme
Contributions	Who pays?	• If your monthly relevant income* is less than $7,100, you do not need to make the employee's mandatory contributions, but your employer still needs to make contributions equivalent to 5% of your relevant income. • If your monthly relevant income is from $7,100 to $30,000, the mandatory contributions to be made by you and your employer are equivalent to 5% of your relevant income each, i.e. 10% of your relevant income in total. • If your monthly relevant income is more than $30,000, the maximum monthly mandatory contributions made by you and your employer are $1,500 respectively, i.e. $3,000 in total.	• 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?	• No matter how many years you have worked, mandatory contributions made by both your employer and you are **fully and immediately vested** once they are paid to your trustee. • Severance payments or long service payments can be offset by the accrued benefits derived from your employer's contributions.	• **In general, a "vesting scale" is in place specifying that you have to work for a number of years in order to be entitled to the accrued benefits derived from your employer's contributions. It is calculated based on the number of years of service when you cease employment in form of a percentage which is determined by the employer. E.g. you are not entitled to any of the employer's contributions if you have worked for less than 3 years; you can enjoy a 30% vesting for working for 3 years; 40% for working for 4 years; and 100% for working for 10 years. *(Please see example 1)*** • 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?	• Your employer chooses the MPF scheme. • You choose the investment portfolio under the scheme.	• In general both the scheme and investment portfolio are chosen by your employer.
Accrued Benefits	What are the withdrawal conditions?	• Generally, you can only withdraw your accrued benefits derived from the mandatory contributions when reaching the age of 65.	• 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: - 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: - 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 *(please see example 2)* and transfer the whole sum from the ORSO scheme to an MPF 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.



* Relevant income refers to any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance, expressed in monetary terms, paid or payable by an employer to an employee, but excluding severance payments or long service payments under the Employment Ordinance.