

## **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.

**Illustration 1**

Existing Member :

- Age 25 at the Commencement Date of the MPF Scheme
- Belongs to the General Staff Grade in both ORSO and MPF Schemes
- 2 years with the Company
- 2 years with the ORSO Scheme
- Salary of HK\$10,000 per month
- Annual Remuneration = 13 months pay (no other allowances and bonuses)

Contribution Balance under the ORSO Scheme as at the Commencement Date of MPF Scheme :

- Employee Contribution Balance = HK\$12,000
- Employer Contribution Balance = HK\$12,000

The MPF Scheme :

- Employee Contribution : 5% of Relevant Income
- Employer Contribution : 5% of Relevant Income
- Relevant Income includes the 13 month pay
- The employer and employee contribution balances under the ORSO Scheme are transferred into the MPF Scheme on the Commencement Date of the MPF Scheme.

Benefit Illustration :

*(a) Higher Investment Return Scenario*Projection Assumptions

- Rate of Gross Investment Return : 7% p.a.
- Rate of Salary Inflation : 4% p.a.
- Rate of Administrative Expenses : 2% p.a.

	<u>Projected Benefit under the MPF Scheme</u>		<u>Projected Benefit under the ORSO Scheme</u>	
	<u>Value of Employee Contributions (include initial balance) HK\$</u>	<u>Gross Benefit Amount HK\$</u>	<u>Value of Employee Contributions (include initial balance) HK\$</u>	<u>Gross Benefit Amount HK\$</u>
Age 26	19,236	38,473		
Age 27	27,100	54,200		
Age 28	35,633	71,265		
Age 29	44,879	89,758		
Age 30	54,887	109,773		
Age 35	118,195	236,391		
Age 45	338,552	677,104		
Age 55	767,617	1,535,234		
Age 65	1,570,324	3,140,647		

(b) *Lower Investment Return Scenario*Projection Assumptions

Rate of Gross Investment Return	:	4% p.a.
Rate of Salary Inflation	:	4% p.a.
Rate of Administrative Expenses	:	2% p.a.

	<u>Projected Benefit under the MPF Scheme</u>		<u>Projected Benefit under the ORSO Scheme</u>	
	<u>Value of Employee Contributions (include initial balance) HK\$</u>	<u>Gross Benefit Amount HK\$</u>	<u>Value of Employee Contributions (include initial balance) HK\$</u>	<u>Gross Benefit Amount HK\$</u>
Age 26	18,795	37,590		
Age 27	25,988	51,975		
Age 28	33,597	67,194		
Age 29	41,642	83,285		
Age 30	50,143	100,287		

	<u>Projected Benefit under the MPF Scheme</u>		<u>Projected Benefit under the ORSO Scheme</u>	
	Value of Employee Contributions <u>(include initial balance)</u>	Gross Benefit Amount	Value of Employee Contributions <u>(include initial balance)</u>	Gross Benefit Amount
	<u>HK\$</u>	<u>HK\$</u>	<u>HK\$</u>	<u>HK\$</u>
Age 35	100,250	200,500		
Age 45	248,946	497,892		
Age 55	491,072	982,144		
Age 65	876,320	1,752,641		

Warning : The amount of benefits 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.

### **Illustration 2**

New eligible employee :

- Age 40 at the Date of Employment
- Belongs to the Managerial Staff Grade in both ORSO and MPF Schemes
- Salary of HK\$20,000 per month
- Annual Remuneration = 12 months pay + bonus

The MPF Scheme :

- Employee Contribution : 5% of Relevant Income  
(up to HK\$20,000 only)
- Employer Contribution : Matching Contribution
- Relevant Income = HK\$20,000 per month increasing each year with the salary inflation assumption

Benefit Illustration :

(a) *Higher Investment Return Scenario*

#### Projection Assumptions

- Rate of Gross Investment Return : 7% p.a.
- Rate of Salary Inflation : 4% p.a.
- Rate of Administrative Expenses : 2% p.a.

	<u>Projected Benefit under the MPF Scheme</u>		<u>Projected Benefit under the ORSO Scheme</u>	
	<u>Value of Employee Contributions</u>	<u>Gross Benefit Amount</u>	<u>Value of Employee Contributions</u>	<u>Gross Benefit Amount</u>
	<u>HK\$</u>	<u>HK\$</u>	<u>HK\$</u>	<u>HK\$</u>
Age 41	12,273	24,546		
Age 42	25,650	51,300		
Age 43	40,206	80,412		
Age 44	56,021	112,042		
Age 45	73,180	146,360		
Age 50	182,432	364,864		
Age 60	567,207	1,134,414		
Age 65	884,262	1,768,524		

(b) *Lower Investment Return Scenario*Projection Assumptions

Rate of Gross Investment Return : 4% p.a.

Rate of Salary Inflation : 4% p.a.

Rate of Administrative Expenses : 2% p.a.

	<u>Projected Benefit under the MPF Scheme</u>		<u>Projected Benefit under the ORSO Scheme</u>	
	<u>Value of Employee Contributions</u>	<u>Gross Benefit Amount</u>	<u>Value of Employee Contributions</u>	<u>Gross Benefit Amount</u>
	<u>HK\$</u>	<u>HK\$</u>	<u>HK\$</u>	<u>HK\$</u>
Age 41	12,110	24,220		
Age 42	24,946	49,892		
Age 43	38,542	77,084		
Age 44	52,935	105,870		
Age 45	68,160	136,320		

	<u>Projected Benefit under the MPF Scheme</u>		<u>Projected Benefit under the ORSO Scheme</u>	
	<u>Value of Employee Contributions</u>	<u>Gross Benefit Amount</u>	<u>Value of Employee Contributions</u>	<u>Gross Benefit Amount</u>
	<u>HK\$</u>	<u>HK\$</u>	<u>HK\$</u>	<u>HK\$</u>
Age 50	158,182	316,364		
Age 60	426,970	853,940		
Age 65	620,757	1,241,514		

Warning : The amount of benefits 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.