Calculation of Subsidy Amount in Shortfall Applications

Subsidy is only payable to employees who receive less aggregate benefits after the abolition of the MPF offsetting arrangement than what they would have received if the MPF offsetting arrangement had not been abolished. Aggregate benefits of an employee after the abolition of the MPF offsetting arrangement mean:

Aggregate Benefits = **SP/LSP*** +

After offsetting (if any) with SP/LSP -

- **Any employer-funded MPF scheme benefits remaining^; and/or**
- **Any vested employer-funded ORS benefits remaining; and/or**
- **net amount of gratuities receivable**

* *The amount refers to the SP/LSP amount received by an employee from his/her employer, or the amount calculated in accordance with EO after offsetting with the allowable offsetting item(s) (if any), whichever is higher.*

^ *Employer-funded MPF scheme benefits include both employer-funded (mandatory) MPF scheme benefits (here below referred to as "ERMC") and employer-funded (voluntary) MPF scheme benefits (here below referred to as "ERVC") (if any).*

<u>Irrespective of whether the employer had used the employer-funded MPF scheme benefits/ORS benefits/contractual gratuities (if any) to offset an employee's SP/LSP after the abolition of the MPF offsetting arrangement, the Service Centre would use these benefits (if available) to offset the employee's SP/LSP to derive the employee's aggregate benefits under the "no-abolition" regime as illustrated in the examples below.</u>

Examples

<u>**Examples 1 to 6 below**</u> assume that the employees (i.e. "EEs A, B, C, D and H") had been employed for 20 years before the transition date (i.e. 1 May 2025) and were dismissed after 25 years of service. Their monthly wages immediately preceding the transition date were \$18,000 while the monthly wages immediately preceding the termination of employment were \$21,000 as illustrated below:

The employees' SP/LSP if the MPF offsetting arrangement had not been abolished and after the abolition are calculated as follows:

	SP/LSP entitlement		
If there had been no abolition	\$21,000 × 2/3 × 25 years of service		**\$350,000**
After the abolition	**Pre-transition period**	**Post-transition period**	**Total: \$310,000**
	\$18,000 × 2/3 × 20 years of service = \$240,000	\$21,000 × 2/3 × 5 years of service = \$70,000	

<u>Example 1 – EE A had ERMC and employer used ERMC to offset SP/LSP</u>

Assuming that the amount of ERMC of EE A at the time of dismissal was **<u>$279,000</u>**, EE A's aggregate benefits if the MPF offsetting arrangement had not been abolished and after the abolition are set out as follows:

<table>
<tr><th></th><th colspan="2">SP/LSP entitlement
(a)</th><th colspan="2">ERMC[+] available for offsetting with SP/LSP
(b)</th><th>Remaining ERMC after offsetting with SP/LSP
(c)</th><th>Aggregate benefits</th></tr>
<tr><td>If there had been no abolition</td><td colspan="2">$350,000</td><td colspan="2">$279,000</td><td>$0*</td><td>$350,000
[(a) + (c)]</td></tr>
<tr><td rowspan="2">After the abolition</td><td>Pre-transition period (a1)</td><td>Post-transition period (a2)</td><td>Pre-transition period</td><td>Post-transition period</td><td rowspan="2">$39,000[%]</td><td rowspan="2">$349,000
[(a1) + (a2) + (c)]</td></tr>
<tr><td>$240,000</td><td>$70,000</td><td>$279,000</td><td>No offsetting by ERMC allowed</td></tr>
<tr><td colspan="6">Amount of shortfall in aggregate benefits</td><td>$1,000
(i.e. $350,000 − $349,000)</td></tr>
</table>

\+ *If the MPF offsetting arrangement had not been abolished, ERMC can be used to offset the SP/LSP entitlement for the whole employment period.* ***After the abolition of the MPF offsetting arrangement, ERMC can only be used to offset the pre-transition portion of SP/LSP****.*

* *The Service Centre would use all ERMC available ($279,000) to offset EE A's SP/LSP to derive EE A's aggregate benefits under the "no-abolition" regime.*

% *The employer had used part of the ERMC to offset the pre-transition portion of SP/LSP ($240,000). The remaining ERMC is $39,000 (i.e. $279,000 − $240,000).*

EE A is eligible for a subsidy of **<u>$1,000</u>** to make up for the shortfall in aggregate benefits.

<u>Example 2 – EE B had ERMC but employer did not use ERMC to offset SP/LSP</u>

Assuming that the amount of ERMC of EE B at the time of dismissal was **<u>$279,000</u>**, calculation of EE B's aggregate benefits if the MPF offsetting arrangement had not been abolished and after the abolition are set out as follows:

<table>
<tr><th></th><th colspan="2">SP/LSP entitlement
(a)</th><th colspan="2">ERMC+ available for offsetting with SP/LSP
(b)</th><th>Remaining ERMC after offsetting SP/LSP
(c)</th><th>Aggregate benefits</th></tr>
<tr><td>If there had been no abolition</td><td colspan="2">$350,000</td><td colspan="2">$279,000</td><td>$0*</td><td>$350,000
[(a) + (c)]</td></tr>
<tr><td rowspan="2">After the abolition</td><td>Pre-transition period (a1)</td><td>Post-transition period (a2)</td><td>Pre-transition period</td><td>Post-transition period</td><td rowspan="2">$279,000^</td><td rowspan="2">$589,000
[(a1) + (a2) + (c)]</td></tr>
<tr><td>$240,000</td><td>$70,000</td><td>$279,000</td><td>No offsetting by ERMC allowed</td></tr>
<tr><td colspan="6">Amount of shortfall in aggregate benefits</td><td>$0 (because $350,000 – $589,000 < $0)</td></tr>
</table>

\+ *If the MPF offsetting arrangement had not been abolished, ERMC can be used to offset the SP/LSP entitlement for the whole employment period.* ***After the abolition of the MPF offsetting arrangement, ERMC can only be used to offset the pre-transition portion of SP/LSP****.*

* *The Service Centre would use all ERMC available ($279,000) to offset EE B's SP/LSP to derive EE B's aggregate benefits under the "no-abolition" regime.*

^ *The employer did not use ERMC to offset SP/LSP and the whole amount of ERMC ($279,000) remains in EE B's MPF account.*

EE B is NOT eligible for subsidy as there is **<u>no shortfall</u>** in aggregate benefits.

<u>Example 3 – EE C had both ERMC and ERVC and employer used both types of benefits to offset SP/LSP</u>

Assuming that the amounts of ERMC and ERVC of EE C at the time of dismissal were **<u>$279,000</u>** and **<u>$150,000</u>** respectively, calculation of EE C's aggregate benefits if the MPF offsetting arrangement had not been abolished and after the abolition are set out as follows:

<table>
<tr><th></th><th colspan="2">SP/LSP entitlement
(a)</th><th colspan="2">ERMC+ available for offsetting with SP/LSP
(b)</th><th colspan="2">ERVC~ available for offsetting with SP/LSP
(c)</th><th>Remaining ERMC & ERVC after offsetting with SP/LSP
(d)</th><th>Aggregate benefits</th></tr>
<tr><td>If there had been no abolition</td><td colspan="2">$350,000</td><td colspan="2">$279,000</td><td colspan="2">$150,000</td><td>$79,000*</td><td>$429,000
[(a) + (d)]</td></tr>
<tr><td rowspan="2">After the abolition</td><td>Pre-transition period (a1)</td><td>Post-transition period (a2)</td><td>Pre-transition period</td><td>Post-transition period</td><td>Pre-transition period</td><td>Post-transition period</td><td rowspan="2">$119,000^</td><td rowspan="2">$429,000
[(a1) + (a2) + (d)]</td></tr>
<tr><td>$240,000</td><td>$70,000</td><td>$279,000</td><td>No offsetting by ERMC allowed</td><td colspan="2">$150,000</td></tr>
<tr><td colspan="8">Amount of shortfall in aggregate benefits</td><td>$0
(i.e. $429,000 - $429,000)</td></tr>
</table>

\+ *If the MPF offsetting arrangement had not been abolished, ERMC can be used to offset the SP/LSP entitlement for the whole employment period.* ***After the abolition of the MPF offsetting arrangement, ERMC can only be used to offset the pre-transition portion of SP/LSP****.*

~ *ERVC can be used to offset the SP/LSP entitlement for the whole employment period.*

* *The Service Centre would use ERMC and ERVC available (i.e. $279,000 + $150,000 = $429,000) to offset SP/LSP. The remaining ERMC and ERVC are $79,000 (i.e. $429,000 − $350,000) in total after offsetting.*

^ *The employer offset the pre-transition portion of SP/LSP ($240,000) by ERMC and the post-transition portion of SP/LSP ($70,000) by ERVC. The remaining ERMC and ERVC are $39,000 and $80,000 respectively, totalling $119,000 [i.e. ($279,000 − $240,000) + ($150,000 − $70,000)].*

EE C is NOT eligible for subsidy as there is **<u>no shortfall</u>** in aggregate benefits.

Example 4 – EE D joined an employer-funded exempt ORS and employer used the vested employer-funded exempt ORS benefits to offset SP/LSP

For employees joining employer-funded exempt ORS, the employer's contributions to ORS are not differentiated into mandatory and voluntary contributions. For the purpose of offsetting with SP/LSP, the vested employer-funded exempt ORS benefits are divided into the "employer-funded (basic portion) exempt ORS benefit" (akin to ERMC under the MPF system) (here below referred to as "basic portion") and the "employer-funded (prescribed portion) exempt ORS benefit" (akin to ERVC under the MPF system) (here below referred to as "prescribed portion"), by the following formula:

Basic portion^	=	**Final average monthly relevant income***	×	**5%**	×	**12 months**	×	**Years of service with ORS benefits#**

Prescribed portion	=	**Vested employer-funded exempt ORS benefits**	−	**Basic portion**

^ *If the amount of the vested employer-funded exempt ORS benefits is less than or equal to the amount of the "basic portion" calculated using the above formula, the whole amount of vested employer-funded exempt ORS benefits should become the "basic portion".*

* *It means the employee's average monthly relevant income in the 12 months immediately preceding the termination of employment contract, subject to the maximum level of relevant income under MPFSO.*

\# *Only years of service on or after 1 December 2000 will count.*

Assuming that EE D's final average monthly relevant income was $21,000. The "basic portion" is $21,000 × 5% × 12 months × 25 years = $315,000. The "basic portion" can only be used to offset the pre-transition portion of SP/LSP while the remaining vested employer-funded exempt ORS benefits (i.e. the "prescribed portion"), if any, could be used to offset **both** the pre- and post-transition portions of SP/LSP.

Assuming that the actual vested employer-funded exempt ORS benefits of EE D at the time of dismissal were **$270,000**, which were smaller than the "basic portion" calculated using the above formula ($315,000), **the amount of the "basic portion" was $270,000** and there was **no "prescribed portion"**.

Calculation of EE D's aggregate benefits if the MPF offsetting arrangement had not been abolished and after the abolition are set out as follows:

<table>
<tr><th></th><th colspan="2">SP/LSP entitlement
(a)</th><th colspan="2">Vested employer-funded exempt ORS benefits[+] available for offsetting with SP/LSP
(b)</th><th>Remaining vested employer-funded exempt ORS benefits after offsetting SP/LSP
(c)</th><th>Aggregate benefits</th></tr>
<tr><td>If there had been no abolition</td><td colspan="2">$350,000</td><td colspan="2">$270,000</td><td>$0*</td><td>$350,000
[(a) + (c)]</td></tr>
<tr><td rowspan="2">After the abolition</td><td>Pre-transition period (a1)</td><td>Post-transition period (a2)</td><td>Pre-transition period</td><td>Post-transition period</td><td rowspan="2">$30,000^</td><td rowspan="2">$340,000
[(a1) + (a2) + (c)]</td></tr>
<tr><td>$240,000</td><td>$70,000</td><td>$270,000</td><td>No offsetting by the "basic portion" allowed</td></tr>
<tr><td colspan="6">Amount of shortfall in aggregate benefits</td><td>$10,000
(i.e. $350,000 − $340,000)</td></tr>
</table>

\+ *If the MPF offsetting arrangement had not been abolished, all vested employer-funded exempt ORS benefits can be used to offset the SP/LSP entitlement for the whole employment period.* ***After the abolition of the MPF offsetting arrangement, the "basic portion" can only be used to offset the pre-transition portion of SP/LSP****.*

* *The Service Centre would use all vested employer-funded exempt ORS benefits available ($270,000) to offset SP/LSP to derive EE D's aggregate benefits under the "no-abolition" regime.*

^ *The employer used the "basic portion" ($270,000) to offset the pre-transition portion of SP/LSP ($240,000). The remaining ORS benefits after offsetting were $30,000 (i.e. $270,000 − $240,000).*

EE D is eligible for a subsidy of **<u>$10,000</u>** to make up for the shortfall in aggregate benefits**.**

<u>Example 5 - EE D joined an employer-funded exempt ORS and employer did not use the vested employer-funded exempt ORS benefits to offset SP/LSP</u>

For EE D in Example 4, if the employer did not offset EE D's SP/LSP with the vested employer-funded exempt ORS benefits, calculation of EE D's aggregate benefits if the MPF offsetting arrangement had not been abolished and after the abolition are set out as follows:

<table>
<tr><th></th><th colspan="2">SP/LSP entitlement
(a)</th><th colspan="2">Vested employer-funded exempt ORS benefits available for offsetting with SP/LSP
(b)</th><th>Remaining vested employer-funded exempt ORS benefits after offsetting SP/LSP
(c)</th><th>Aggregate benefits</th></tr>
<tr><td>If there had been no abolition</td><td colspan="2">$350,000</td><td colspan="2">$270,000</td><td>$0*</td><td>$350,000
[(a) + (c)]</td></tr>
<tr><td rowspan="2">After the abolition</td><td>Pre-transition period (a1)</td><td>Post-transition period (a2)</td><td>Pre-transition period</td><td>Post-transition period</td><td rowspan="2">$270,000^</td><td rowspan="2">$580,000
[(a1) + (a2) + (c)]</td></tr>
<tr><td>$240,000</td><td>$70,000</td><td>$270,000</td><td>No offsetting by the "basic portion" allowed</td></tr>
<tr><td colspan="6">Amount of shortfall in aggregate benefits</td><td>$0
(because $350,000 – $580,000 < $0)</td></tr>
</table>

* *The Service Centre would use all vested employer-funded exempt ORS benefits available ($270,000) to offset SP/LSP to derive EE D's aggregate benefits under the "no-abolition" regime.*

^ *The employer did not use the vested employer-funded exempt ORS benefits to offset SP/LSP.*

EE D is NOT eligible for subsidy as there is **<u>no shortfall</u>** in aggregate benefits.

Example 6 – EE H had both ERMC and vested employer-funded non-exempt ORS benefits and employer used both types of benefits to offset SP/LSP

Assuming that the amounts of ERMC and the vested employer-funded non-exempt ORS benefits of EE H at the time of dismissal were **$279,000** and **$150,000** respectively, calculation of EE H's aggregate benefits if the MPF offsetting arrangement had not been abolished and after the abolition are set out as follows:

<table>
<tr><th></th><th colspan="2">SP/LSP entitlement
(a)</th><th colspan="2">ERMC+ available for offsetting with SP/LSP
(b)</th><th colspan="2">Vested employer-funded non-exempt ORS benefits~ available for offsetting with SP/LSP
(c)</th><th>Remaining ERMC & vested employer-funded non-exempt ORS benefits after offsetting with SP/LSP
(d)</th><th>Aggregate benefits</th></tr>
<tr><td>If there had been no abolition</td><td colspan="2">$350,000</td><td colspan="2">$279,000</td><td colspan="2">$150,000</td><td>$79,000*</td><td>$429,000
[(a) + (d)]</td></tr>
<tr><td rowspan="2">After the abolition</td><td>Pre-transition period (a1)</td><td>Post-transition period (a2)</td><td>Pre-transition period</td><td>Post-transition period</td><td>Pre-transition period</td><td>Post-transition period</td><td rowspan="2">$119,000^</td><td rowspan="2">$429,000
[(a1) + (a2) + (d)]</td></tr>
<tr><td>$240,000</td><td>$70,000</td><td>$279,000</td><td>No offsetting by ERMC allowed</td><td colspan="2">$150,000</td></tr>
<tr><td colspan="8" align="right">Amount of shortfall</td><td>$0
(i.e. $429,000 - $429,000)</td></tr>
</table>

\+ *If the MPF offsetting arrangement had not been abolished, ERMC can be used to offset the SP/LSP entitlement for the whole employment period.* ***After the abolition of the MPF offsetting arrangement, ERMC can only be used to offset the pre-transition portion of SP/LSP****.*

~ *Vested employer-funded non-exempt ORS benefits can be used to offset the SP/LSP entitlement for the whole employment period.*

* *The Service Centre would use ERMC and vested employer-funded non-exempt ORS benefits available (i.e. $279,000 + $150,000 = $429,000) to offset the SP/LSP. The remaining ERMC and vested employer-funded non-exempt ORS benefits are $79,000 (i.e. $429,000 − $350,000) in total after offsetting.*

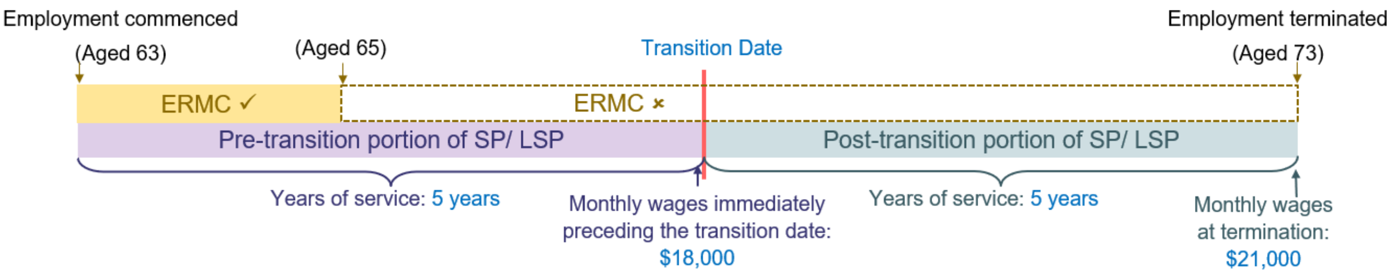
^ *The employer used ERMC to offset the pre-transition portion of SP/LSP ($240,000) and the vested employer-funded non-exempt ORS benefits to offset the post-transition portion of SP/LSP ($70,000). The remaining ERMC and vested employer-funded non-exempt ORS benefits after offsetting were $119,000 [i.e. ($279,000 − $240,000) + ($150,000 − $70,000)] in total.*

EE H is NOT eligible for subsidy as there is **no shortfall** in aggregate benefits.

Example 7 – Employer was obliged to make ERMC for EE Y in part of the employment period and employer used ERMC to offset SP/LSP

Under MPFSO, employers are not obliged to enrol employees aged under 18 or aged at 65 or above in an MPF scheme and make mandatory contributions for them.

Assuming that EE Y was employed at age 63 and dismissed at age 73. EE Y's pre- and post-transition employment periods were five years respectively. His/her monthly wages immediately preceding the transition date (i.e. 1 May 2025) were $18,000 while the monthly wages immediately preceding the termination of employment were $21,000 as illustrated below:



EE Y's SP/LSP if the MPF offsetting arrangement had not been abolished and after the abolition are calculated as follows:

<table>
<tr><th></th><th colspan="3">SP/LSP entitlement</th></tr>
<tr><td>If there had been no abolition</td><td colspan="2">$21,000 × 2/3 × 10 years of service</td><td>$140,000</td></tr>
<tr><td rowspan="3">After the abolition</td><td>Pre-transition period</td><td>Post-transition period</td><td rowspan="3">Total: $130,000</td></tr>
<tr><td>$18,000 × 2/3 × 5 years of service</td><td>$21,000 × 2/3 × 5 years of service</td></tr>
<tr><td>= $60,000</td><td>= $70,000</td></tr>
</table>

Assuming that the amount of ERMC of EE Y was **<u>$30,000</u>**, calculation of EE Y's aggregate benefits if the MPF offsetting arrangement had not been abolished and after the abolition are set out as follows:

<table>
<tr><th></th><th colspan="2">SP/LSP entitlement
(a)</th><th colspan="2">ERMC[+] available for offsetting with SP/LSP
(b)</th><th>Remaining ERMC after offsetting SP/LSP
(c)</th><th>Aggregate benefits</th></tr>
<tr><td>If there had been no abolition</td><td colspan="2">$140,000</td><td colspan="2">$30,000</td><td>$0*</td><td>$140,000
[(a) + (c)]</td></tr>
<tr><td rowspan="2">After the abolition</td><td>Pre-transition period (a1)</td><td>Post-transition period (a2)</td><td>Pre-transition period</td><td>Post-transition period</td><td rowspan="2">$0^</td><td rowspan="2">$130,000
[(a1) + (a2) + (c)]</td></tr>
<tr><td>$60,000</td><td>$70,000</td><td>$30,000</td><td>No offsetting by ERMC allowed</td></tr>
<tr><td colspan="6">Amount of shortfall in aggregate benefits</td><td>$10,000 (i.e. $140,000 – $130,000)</td></tr>
</table>

\+ *If the MPF offsetting arrangement had not been abolished, ERMC can be used to offset the SP/LSP entitlement for the whole employment period.* ***After the abolition of the MPF offsetting arrangement, ERMC can only be used to offset the pre-transition portion of SP/LSP.***

* *The Service Centre would use all ERMC available ($30,000) to offset SP/LSP to derive EE Y's aggregate benefits under the "no-abolition" regime.*

^ *The employer used the whole amount of ERMC ($30,000) to offset SP/LSP.*

EE Y is eligible for a subsidy of **<u>$10,000</u>** to make up for the shortfall in aggregate benefits**.**