Benefits of a Hong Kong Retirement Scheme

It's best known for its financial prowess, but Hong Kong's robust corporate pensions infrastructure is an often overlooked jewel in its crown. – By Tom Broughton

Hong Kong has long served as a financial and commercial hub for Southeast Asia, and it now serves as the key gateway to burgeoning mainland China. Benefitting from a common law legal system and a simple and competitive tax regime, Hong Kong is home to the headquarters of many multinational companies. But one of Hong Kong's greatest assets as a regional headquarters' platform – its corporate pensions' infrastructure – is often overlooked.

Employee benefits packages are a vital consideration to any employer that wishes to attract and retain the best talent, as well as to maintain a loyal and committed workforce. One of the main components of any employee benefits package is occupational pensions or savings provision.

Companies undertaking specialist activities, or operating from certain regions such as Asia, invariably recruit a high proportion of their workforce from overseas. The recruitment, relocation, orientation, and training of expatriate employees require considerable investment. This makes high staff retention all the more important.

The basis for Hong Kong's corporate pensions' infrastructure was provided by the Occupational Retirement Schemes Ordinance (ORSO), which became effective in 1995. This established a registration system for occupational retirement schemes that were established voluntarily by employers to provide retirement benefits for their employees. It was followed in 2000 by the Mandatory

Provident Fund Schemes Ordinance, which then provided a framework for the establishment of Mandatory Provident Fund (MPF) schemes.

MPF schemes are compulsory in nature, as the name implies, while ORSO schemes are set up voluntarily by employers and therefore afford greater flexibility. ORSO schemes enable the sponsoring employer to decide the enrolment and eligibility arrangements, the contribution rates, and the minimum retirement age. They also permit a much wider range of investment options. Contributions can be made solely by the employer or by the employer and the employee if the scheme allows.

In addition, a time-based vesting scale can be applied to every ORSO scheme. If an employee fails to meet the time-based vesting criteria, he or she will forfeit any unvested contributions made by the employer.

For example, if the minimum period of service stated in the vesting scale is three years and an employee has served less than three years, he or she will not be entitled to any part of the employer's contributions upon the premature termination of employment. The time-based vesting criteria can either be absolute or on a sliding scale.

A trust-based structure for an ORSO scheme, such as those set up by Sovereign, will further ensure the legal separation of a scheme's assets from those of its sponsoring employer. This provides an additional layer of comfort to employees and protects the plan from any party seeking to lay claim to the assets of the business.

The Hong Kong government incentivises employers to contribute to Hong Kong-based ORSO schemes. Contributions into pension schemes on behalf of a company's staff members get full tax relief against corporate profits tax, subject to a maximum of 15% of each of those individual's total annual emoluments.

For example, where an individual is earning HK$1 million per year, a maximum of an additional HK$150,000 can be settled upon the pension scheme by the employer. The HK$150,000 contribution by the employer will also reduce the employer's assessable profits tax by HK$150,000.

ORSO schemes offer particular tax advantages to expatriate staff who intend to return to a country that has a double taxation agreement with Hong Kong. Hong Kong has treaties with a number of countries – including Belgium, Canada, the Czech Republic, France, Hungary, Indonesia, Ireland, South Korea, the Netherlands, Romania, Russia, Switzerland, and the UK – which specify that pension distributions from Hong Kong corporate retirement plans "in consideration of past employment" are only taxable in Hong Kong.

Flexi-access Drawdown (FAD) is available upon meeting the minimum retirement age. The minimum retirement age is determined by the employer but may not be less than 45 years of age. On attaining the minimum age of retirement under an ORSO scheme, distributions to members can be made in the form of lump sum and/or regular payments or transfer to other pension plans or annuity contracts.

ORSO schemes can also be particularly attractive for employers using Hong Kong as a platform for regional retirement schemes. Employers from within a grouping of companies may operate, contribute to or participate in a group occupational retirement scheme that covers two or more companies from within a group. This can be particularly important for employees based in less politically or economically stable countries. B

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