LSP Valuation

Enhancing Accuracy and Compliance under HKAS 19 Employee Benefits

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Background

Valtech has conducted review of common models, Excel worksheets, and methodologies used for recording liabilities related to the abolition of the Mandatory Provident Fund (MPF) offsetting mechanism during our provision of advice on valuation or review opinion to auditors. We have identified several areas for improvement, applicable regardless of whether an external valuer is engaged. We strongly recommend companies and auditors to evaluate the impact and risk from the issues.

A prevalent issue is the oversimplified assumption that LSP is only payable upon an employee’s retirement at age 65 (or the defined retirement age). This approach assumes a binary outcome—either LSP is paid upon retirement, or no payment is made if the employee resigns before that age. In reality, employees are entitled to LSP not only at retirement but also in cases of dismissal or death, provided they have been with the company for five years or more.

Another key concern we observed is the potential underestimation of LSP liabilities, primarily due to the practice of applying a global turnover rate or age-specific turnover rates that fail to account for "loyalty." Typically, more experienced employees exhibit greater loyalty, leading to lower turnover rates. Inaccurate estimations can arise when a generalized turnover rate is applied to employees over the age of 50, particularly when their accumulated LSP balance is significant. This could result in an overestimation of resignation probabilities for loyal, long-serving employees, which in turn could lead to a significant underestimation of LSP liabilities.

Valtech's Enhanced Approach to LSP Actuarial Valuation

1

Incorporating Loyalty Factors

We account for employee loyalty in our models, particularly for those with longer service histories. This ensures a more accurate estimate of LSP liabilities and avoids underestimations related to staff turnover.

2

Detailed Breakdown for Audits

Our valuation reports include detailed individual breakdowns to facilitate a smoother, more formal audit process. This level of detail is crucial for meeting auditors' requirements.

3

Tailored Solutions for Diverse Organizations

Drawing on extensive experience with public and private companies, multinational corporations (MNCs), and non-governmental organizations (NGOs), Valtech designs actuarial programs that cater to various employee benefit schemes (including MPF, ORSO, voluntary contributions, vested portions, gratuities, and withdrawals).

4

Customizable LSP Valuation Tools

For clients seeking frequent updates on LSP liabilities for enhanced financial management, we offer custom-made LSP programs that can be licensed for internal use. This provides companies with the flexibility to perform unlimited calculations during the service period.

With Valtech's refined approach, we aim to deliver more accurate, compliant, and reliable LSP valuations, ensuring that companies meet HKAS 19 requirements while avoiding costly errors in estimating long-term liabilities.