THE CPA P-FUND: A NEW WAY FORWARD

HOW THE NEW CONTRIBUTIONS WORK AND WHAT THEY MEAN FOR YOU.

By Michael Yu

As of January 2021, all Cathay Pacific employees will be enrolled onto the new contributions scheme for their Provident Fund. What this means, is that you will need to make a choice with what to do with those contributions. That decision is very much personal, and there is no one "best way" to go about it. Each choice will ultimately effect the overall performance of your provident fund and, it is up to you to decide what is best for you.

We've put together a short guide to help you understand how the Scheme works and what the available options are to you, how they work and any any tax implications you may face.

WANT MORE CONTROL OF YOUR P-FUND?

DONT MISS OUR OFFER ON THE LAST PAGE!

LETS START WITH THE BASICS

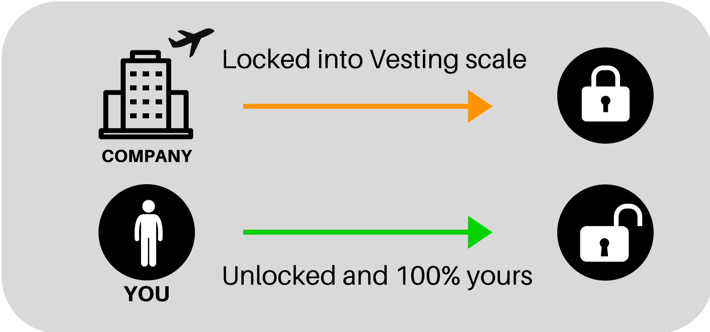
The CPAPF93 is classed as an ORSO (Occupational Retirement Schemes Ordinance) plan. Only available to higher-income individuals, it provides some benefits over the HK MPF scheme, but does also have some key differences. Those differences mainly lie in the fund choices, contribution amounts and the withdrawal process. We'll cover the specific contributions for the updated CPAPF93 later on. In the meantime, let's understand one of the core differences with the CPAPF93 (ORSO): namely, the contribution rules and what you are entitled to.

COMPANY CONTRIBUTIONS & THE VESTING SCALE:

One specific difference with the ORSO scheme is the 'Vesting Scale'. A Vesting Scale is a simple schedule, based on years of service, that serves to determine how much of the provident fund **(contributed by the company)** you are eligible for, come the day you leave CPA. The vesting scale is based on 10% increments for every year you serve at CPA - up to 10 years of service. After 10 or more years of service, you qualify for **100%** of your provident fund balance. See Vesting Scale Table (BOTTOM RIGHT).

Example: You work at CPA for 7 years. According to the vesting scale, you will receive 70% of your provident fund balance.

If you want to know more about the process for withdrawing your funds, be sure to read our other article "Winding Up the CPA P-Fund" found at MyPfund.com



PERSONAL CONTRIBUTIONS

There is one caveat to the contribution rule. If you personally contribute any money from your salary into the provident fund, that money will **NOT** be subjected to the vesting scale calculation. Rather, you will be paid out 100% of any and all money that **YOU** contributed + any interest accumulated. You may contribute up to a maximum of 10% .

Example: You work at CPA for 7 years, but also contribute 10% of your salary to the provident fund each month. According to the vesting scale, you will receive 70% of the funds that the company has contributed and 100% of all the funds you contributed + any interest accumulated.

NOTE: Any money you personally contribute is TAX free **(up to an annual cap set by the IRD each year)** and is deducted from your taxable income each year. Company contributions are not included in your annual income and are therefore not taxed either. More on tax later though.

Completed Years of Service	% of Employer's Accumulation
Less than 1	Nil
1 but less than 2	10%
2 but less than 3	20%
3 but less than 4	30%
4 but less than 5	40%
5 but less than 6	50%
6 but less than 7	60%
7 but less than 8	70%
8 but less than 9	80%
9 but less than 10	90%
10 or more	100%

VESTING SCALE

MY P FUND

SO WHAT'S CHANGED?

From the 1st of January 2021, Cathay Pacific will no longer contribute the equivalent of 15.5% of your monthly salary. Instead, the contributions will be aligned with the policy that came into effect with the inception of COS18.
Contributions going forward now vary based on a couple of choices that are available to you.

Taking a step back, what you will see is that the **company** is contributing the value of **10%** of your income each month towards your 'retirement'. Step in closer, however, and you will see that the 10% contribution is split into two portions of 5% each. This is where that choice comes in...

Choice 1

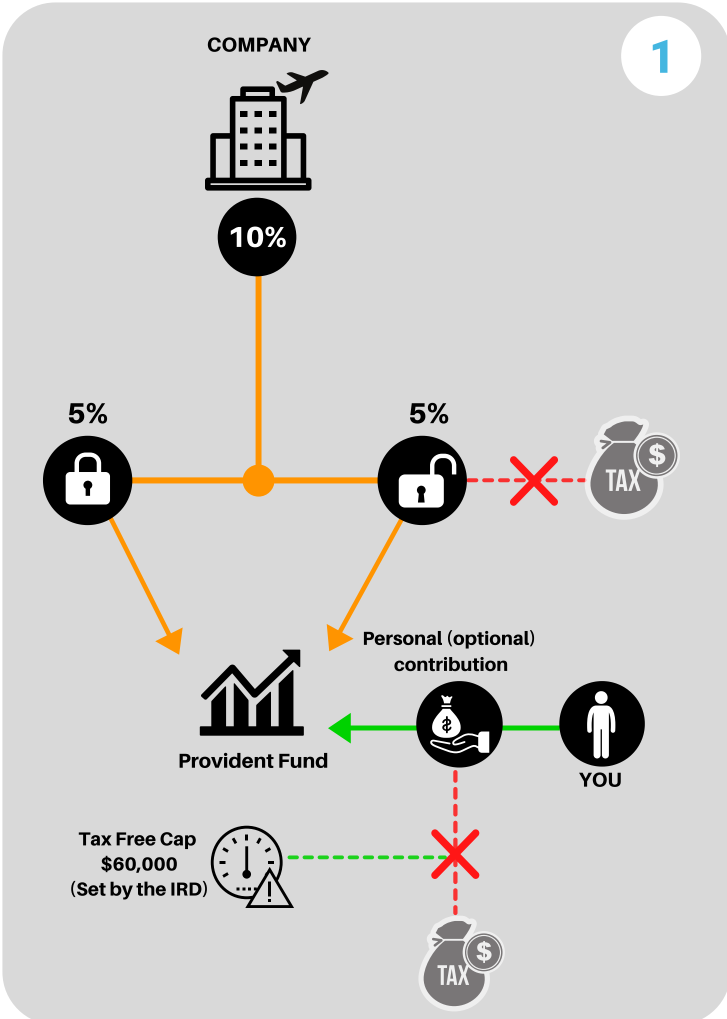
You choose to have the company contribute both 5% portions to the provident fund.

The first 5% portion falls into the "vesting" category (i.e. money that is subjected to the vesting scale - locking up some of the funds until you have completed 10 or more years of service). Still confused? Go to page 2 where we explain the vesting scale in more detail.

The second 5% portion falls under the "personal contribution" category (i.e. a contribution that would be '***viewed***' by the provident fund as though **you** had personally put the money into your provident fund. That money is **NOT** subjected to the vesting schedule mentioned above).

With 'Choice 1', you can still personally contribute an **optional** further portion to your Provident fund.

This personal contribution will be deducted from your monthly salary and, unlike the remainder of your salary, is **NOT** taxed each year by the IRD. However, there is a **'tax -free cap' of $60,000 per year (2019/20) -** any contributions after this will be subjected to your normal income tax - allowing more money to be saved for retirement and less money open for taxation.



The company contribute BOTH portions to your provident fund

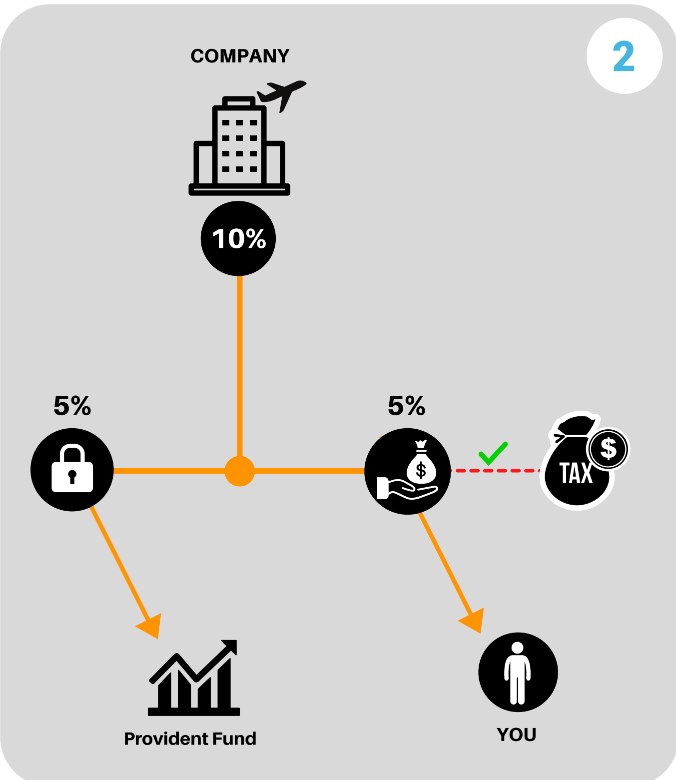
Choice 2

You choose to have one portion contributed to your provident fund and, the other portion, given to you as cash.

As you know by now, One portion will be contributed by the company and will fall into the "vesting scale" category - locking up some of the funds until you have completed 10 or more years of service.

The second 5% portion will, instead, be added to your monthly salary. This will be seen as part of your monthly income. You are able to use that 5% portion for whatever you choose. This money, essentially, can be used as cash and has no limitation for use.

The caveat to taking this option is that you will be liable for paying **income tax** on it. Meaning less of your money is set aside for retirement and, more of your money is open for taxation.



The company contribute one portion to your provident fund and the other portion to you as "cash"

A SHORT WORD ON TAX.

In Hong Kong, there are specified qualifying schemes that are tax-deductible. In the tax year, 2019/2020, for example, a limit of $60,000 can be tax-exempt which is made up of the aggregate of the following schemes: MPF Voluntary contributions, QDAP or Qualified Deferred Annuity Policies, and VHIS or Voluntary Health Insurance Schemes.

This means that if you further contribute 5% (max 10%) to the CPAPF93 scheme in the members' portion (this being part of your **voluntary** contributions), say $5000/month and adding up to $60,000 for the year, this can be tax-exempt when filling our your salaries tax to the Inland Revenue Department. With the current highest tax bracket of 17%, this is a savings of $10,200 each year in tax.

But what if my 5% contributions do not makeup $5000/month ($60,000 per year)? How can I still take full advatage of the full tax deduction each year? We're glad you asked! By using the other schemes mentioned earlier - QDAP & VHIS - you can fill in the void. Better yet, you can also take advantage of growing your money with schemes such as the QDAP. Allowing you to simultaneously gain attractive long term growth.

So how can you set this up? We can help you with that! My team and I are specialists in this feild and can help further explain, guide and set up the whole scheme for you.

Not sure what to do?

WHICH OPTION DO I CHOOSE?

No one choice is better than the other - It's all circumstantial to where you are in life and what your priorities are. Perhaps you have a lot of expenses and need the extra 5% every month. You may feel that you could invest that 5% better than what the provident fund could. Ultimately, there are indeed valid reasons for taking that money out as "cash" each month.
On the contrary, you may feel that the money is better off in your provident fund - it's not taxed and acts as a forced savings of sorts. Keeping the 5% invested in the provident fund has it merits, but it also has its downfalls, such general underperformance compared to other investments options.

NOTE: There are other options that can take advantage of a fully tax free system. There is a tax deferred annuity savings program called QDAP (Qualifying Deferred Annuity Program) and, even the VHIS (Voluntary Health Insurance Scheme) .

Both schemes allow maximum tax savings whilst providing you with either accumulated savings or medical protection (or both). You may even be better off taking the 5% each month and putting it into the QDAP scheme - its still tax free, generates interest and is totally separated from Cathay (giving you peace of mind). **Interested?** Get in touch with us to find out what scheme is best suited for your needs. We can easily help set it up for you.

In summary, Even if you decide to take the 5% from Cathay each month as cash, **you can still put it to work and NOT pay tax on it**. There are many ways to be smart with your money - you just have to know how!

A FINAL WORD

The CPAPF93 has **limited fund choices** and requires careful and timely selections in order to keep ahead of inflation. At **My P-Fund**, we have the solutions for that! My team and I have a solid understanding of the CPAPF93 scheme and all the funds within it. We offer a monthly service that assists you in choosing the right funds to maximise your portfolios performance. **If you are interested in taking more control over your provident fund**, don't hesitate to contact us. We'll happily arrange to meet with you or schedule a call. Alternatively, visit MyPFund.com for more details on our valuable service.

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