

PART II

REPORT TO THE STANDING COMMISSION ON
CIVIL SERVICE SALARIES AND CONDITIONS OF SERVICE
BY THE WYATT COMPANY (HK) LTD. ON THEIR
INVESTIGATION INTO THE PAY TREND SURVEY EXERCISE

STANDING COMMISSION
ON CIVIL SERVICE SALARIES AND CONDITIONS OF SERVICE

INVESTIGATION INTO
THE PAY TREND SURVEY EXERCISE

March 1982

1304 World Trade Centre, Hong Kong.
Telephone: 5-775291 Telex: 86043 WYINT

1 March, 1982.

Standing Commission on Civil Service Salaries
and Conditions of Service,
1801, Tower 1, Admiralty Centre,
Harcourt Road,
HONG KONG.

Dear Sirs,

We were instructed by the Commission to investigate and report on two issues:-

- (1) The effect of making allowance for the value of benefits in comparing the trend of remuneration as between the Private Sector and the Civil Service.
- (2) The effect of weighting the Pay Trend Survey results to take account of the major categories of employment in Hong Kong as classified by the Census and Statistics Department.

The purpose of the investigation arose from the Commission wishing to determine whether the information provided by the Pay Investigation Unit ("PIU") on the trend of pay in the Private Sector would reveal substantially different results if the value of benefits were included within the scope of the Survey. The Commission also wished to determine whether the weighting attached to the information processed by the PIU from the Private Sector employers was representative of Hong Kong industrial classification as a whole. If the weightings were found to be unrepresentative the Commission wished to ascertain the effect of using more representative weightings in the PIU Survey.

We much appreciate the co-operation and assistance given to us by the Commission and its officials, by the PIU and by the employers in the Private Sector who participated in the Pay Trend Survey.

Cont/...

A MEMBER OF THE *Wyatt* COMPANY
ACTUARIES AND CONSULTANTS

EUROPE
LONDON
MANCHESTER
MUNICH
STOCKHOLM

THE AMERICAS
ATLANTA
BOSTON
CHICAGO
CLEVELAND
DALLAS
DETROIT

FORT WORTH
GRAND RAPIDS
HONOLULU
HOUSTON
LOS ANGELES
MEMPHIS
MIAMI

MINNEAPOLIS
ST. PAUL
NEW YORK
ORLANDO
PHILADELPHIA
PHOENIX

PORTLAND
SAN DIEGO
SAN FRANCISCO
SEATTLE
STAMFORD
WASHINGTON

CALGARY
GALIFAX
MONTREAL
OTTAWA
TORONTO
VANCOUVER

ASIA/PACIFIC
HONG KONG
KUALA LUMPUR
MANILA

We are pleased to present herewith our report which incorporates our findings previously presented to the Commission during October and November 1981.

Yours faithfully,
THE WYATT COMPANY (H.K.) LIMITED

John Ferguson

J.L. Ferguson, M.A., F.I.A., A.S.A., F.P.M.I.
Managing Director & Actuary

Heather Bowker

Heather Bowker, B.A.(Hons), A.I.P.M.
Compensation Consultant - Far East

Encl.

CONTENTS

<u>SECTION</u>		<u>PAGE NO.</u>
1	SUMMARY OF RESULTS AND PRINCIPAL RECOMMENDATIONS	
	1.1 Conclusions	1
	1.2 Recommendations	1 - 2
2	TERMS OF REFERENCE	
	2.1 PIU Pay Trend Survey	3
	2.2 Surveyed Employers	3
	2.3 Pay Bands	4
	2.4 Analysis of Pay Increases	4
	2.5 Consultants' Brief	4 - 5
3	BONUSES	
	3.1 Type 1 Bonuses	6
	3.2 Type 2 Bonuses	6
	3.3 Type 3 Bonuses	6 - 7
	3.4 Treatment of Bonuses	7
	3.5 Bonus Levels	7 - 8
4	VALUATION OF BENEFITS	
	4.1 Principles	9 - 11
	4.2 Housing Allowances	11 - 12
	4.3 Housing Provision	12 - 13
	4.4 Housing Loan Schemes	13 - 15
	4.5 Retirement Schemes	15 - 17
	4.6 Death and Disability Benefits	17
	4.7 Medical Schemes	17 - 18
	4.8 Leave Entitlement	18 - 19

<u>SECTION</u>		<u>PAGE NO.</u>
4	4.9 Travel Allowances	19 - 20
	4.10 Children's Education Allowances	20 - 21
	4.11 Sickness Benefit and other excluded items	21 - 22
5	COLLECTION AND ANALYSIS OF DATA	
	5.1 Data Sources	23
	5.2 Stage Points	23
	5.3 Classification of Employees	23 - 24
	5.4 Standardization of Data to the Three Stage Points	24 - 27
	5.5 Private Sector Pay and Benefits Movement	27 - 28
6	RESULTS AND CONCLUSIONS	
	6.1 Basic Pay Movement	29
	6.2 Total Remuneration Movement	29 - 30
	6.3 Comparison of PTS with Consultants' Results	30
	6.4 Value of Benefits	31 - 32
	6.5 Comments on Results	32 - 33
	6.6 Factors influencing Pay in the Private Sector	33 - 34
7	COMMENTS AND RECOMMENDATIONS	
	7.1 Validity	35
	7.2 Reliability of Results	35
	7.3 Representation	35
	7.4 Breakdown of Pay Increases	36
	7.5 Effect of Benefits	36
	7.6 Absence of Independent Monitoring Method	36 - 37
	7.7 Analysis by Pay Bands	37
	7.8 Late Adjustment	37
	7.9 Timing of Civil Service Increases	37 - 38
	7.10 Long Term Review	38

Myat

APPENDIXPAGE NO.

1	CIVIL SERVICE PAY SCALES AND CONDITIONS OF SERVICE	39
	Al.1 Pensions, Annual Allowances and Gratuities	40 - 42
	Al.2 Housing	42 - 44
	Al.3 Leave	44 - 46
	Al.4 Passage	46
	Al.5 Medical and Dental Facilities	46
	Al.6 Hours of Work	47
	Al.7 Allowances	47 - 49
2	THE 50 PRIVATE SECTOR COMPANIES PARTICIPATING IN THE PAY INVESTIGATION UNIT SURVEY	50 - 51
3	ACTUARIAL ASSUMPTIONS	
	A3.1 Introduction	52
	A3.2 Retirement Schemes	52 - 54
	A3.3 Retirement Schemes - Comments on Assumptions	54 - 56
	A3.4 Life Assurance Schemes	56
	A3.5 Medical Schemes	56 - 57
	A3.6 Life Assurance and Medical Schemes - Comments on Assumptions	58
	A3.7 Types of Retirement Scheme	58 - 59
4	ANALYSIS OF BENEFITS AS A PERCENTAGE OF BASIC SALARY AND BONUS AS AT 1.4.1981	60

SECTION 1

SUMMARY OF RESULTS AND PRINCIPAL RECOMMENDATIONS

1.1 Conclusions

The main conclusions of our investigation are as follows:-

- (1) The trend of pay increases revealed by our investigation has been marginally lower than that revealed by the Pay Trend Survey. The difference is probably due to our using a higher figure for the merit exclusion than that used by the PIU. (See Section 5.4.3)
- (2) Benefits are materially more valuable as a percentage of pay in the Civil Service than in the Private Sector. (See Section 6.4)
- (3) The employers used in the Pay Trend Survey (PTS) are not as representative of Hong Kong industrial classification as a whole as they might be. (See Section 7.3)
- (4) During the period under review the disregarding of benefits and the somewhat unrepresentative sample of employers has not had a substantial effect on the PTS results (see Sections 6.1 and 6.2), although this may be purely fortuitous.

1.2 Recommendations

- (1) Because of the difficulty in obtaining a reliable measure of the merit component of pay increases in the Private Sector, the PTS should record full pay increases. The point-to-point increment in the Civil Service should then be deducted from any adjustment to the Civil Service Pay Scales. (See Section 7.4)
- (2) A more representative sample of employers should be drawn up for future Surveys. (See Section 7.3)
- (3) Benefits should be taken account of in future Surveys.

- (4) The adjustment to take account of pay increases which are announced too late to be included in the Survey results should be abolished. Instead employers who do not announce increases in time should be excluded from the sample for that particular year. (See Section 7.8)
- (5) The PTS should be completed in time for the Civil Service pay increases to go into force without retrospective effect. (See Section 7.9)
- (6) An independent method of monitoring the PTS should be carried out. (See Section 7.6)
- (7) The PIU should try to carry out more extensive pay level comparisons. (See Section 7.10)

Myall

SECTION 2

TERMS OF REFERENCE

2.1 PIU Pay Trend Survey

The PIU has, since 1974, carried out an annual Pay Trend Survey ("PTS") to determine the movement in pay between one year and another in the Private Sector. The PTS does not lead to comparisons of pay in absolute terms as between the Civil Service and the Private Sector. The results of the PTS are taken into consideration in making the annual revisions to the principal Civil Service pay scales - Master Pay Scale ("MPS"), Model Scale 1 ("MOD1"), and the two Disciplined Services Pay Scales ("DPS").

2.2 Surveyed Employers

The sample on which the PTS is based comprises fifty employers. The criteria for selecting the sample employers are:-

- (1) They provide jobs relatively comparable to those in the Civil Service.
- (2) They are major establishments in their respective fields.
- (3) They are generally known as responsible employers.
- (4) Their Hong Kong operations are essential to their existence.
- (5) They do not as a matter of policy follow Civil Service on pay.

The latter criterion leads to the exclusion of a number of large employers, e.g. utility companies.

The fifty employers currently included in the Survey are shown in Appendix 2.

2.3 Pay Bands

The PIU, in carrying out the PTS, collects details of the pay trends within three broad pay bands. The bands correspond to the lower, middle and higher sectors of the MPS. The PIU also collects information on the pay trend for manual workers, being the comparators of the Civil Servants who are paid according to MOD1.

2.4 Analysis of Pay Increases

The purpose of the PTS is to record the general change in pay, i.e. the component arising from cost of living and market rate adjustments, but to exclude the merit element (i.e. the flexible amount awarded on an individual basis in recognition of performance or special contribution). The PTS also excludes increases due to promotion (i.e. increased responsibility or change of job).

The reason for these exclusions is to ensure that the information collected should indicate an appropriate general adjustment for the Civil Service pay scales. Promotion in the Civil Service is dealt with separately, and individual merit awards are replaced by a progression along the scale, which generally occurs on the anniversary of appointment to the relevant grade. A Civil Servant who has not reached the highest point of the scale for his rank may expect two increases in each year - the general increase due to the revision of his pay scale and a point-to-point increment.

The PIU collects some information on significant changes in benefits. To date, however, little account has been taken in the PTS of changes in the value of benefits.

2.5 Consultants' Brief

2.5.1 General

The Commission referred to us the two principal issues of adjusting the PTS results to allow for the value of benefits and to allow for different occupational weightings should our findings show this to be necessary.

As a result of the assignment we were able to make recommendations which in our view would improve the PTS.

2.5.2 Consultants' Specific Tasks

We have re-worked the PTS over the two periods:-

- (1) 2 April 1979 to 1 April 1980
- (2) 2 April 1980 to 1 April 1981.

In the re-working we paid particular attention to:-

- (1) The components of pay which should be excluded from PTS, in particular "merit".
- (2) The value of benefits - in particular, assistance with personal accommodation and retirement schemes.
- (3) The effect of re-weighting the PTS results to allow for major employment categories as published by the Census and Statistics Department.