

SECTION 4

VALUATION OF BENEFITS

4.1 Principles

4.1.1 Problem of Subjectivity

The valuation of benefits gives rise to differences of opinion because in the valuation process assumptions have to be made. Differences in assumptions can lead to very wide variations in the values placed upon benefits. These variations are not too critical for the purpose of our assignment since we are concerned with comparatives rather than absolutes. The same set of assumptions have been applied to both the surveyed employers and the Civil Service in valuing benefits. We have, however, made a specific allowance for pension increases for Civil Servants.

4.1.2 Value to Employee and Cost to Employer

Apart from variations in assumptions there is a fundamental distinction between the value of a benefit as perceived by its recipient and the cost to the employer of supplying the benefit. For the purpose of our assignment we have taken the view that the value of the benefit to the individual is relevant. Our approach has been to determine the necessary expenditure on the part of the employee to replace a benefit if it were withdrawn by his employer. The reason for this requires some explanation, and this is easily illustrated by the example of residential accommodation, which in Hong Kong generally means a flat. Employers which provide flats for their employees (a benefit usually restricted to expatriate or very senior staff) are exposed to a wide variety of costs depending, inter alia, on lease expiry dates. The employee is only concerned as to the quality of his flat and not the rent paid by the employer. If the rent were substantially increased at the next review date it would not, of itself, increase the value of the

benefit to the employee. Also, identical flats may be subject to widely different rents. It would distort the comparisons if such differences were reflected in our results.

To take another example, it would be possible for two otherwise identical retirement schemes to have widely differing costs for the employers because of differences in funding policies, investment performance or distribution of ages of members. These differences are of no consequence to the members of the retirement schemes and should not therefore be reflected in the comparison.

4.1.3 Utilization

Not all benefits which an employer provides are taken up by the employee. This is particularly true of benefits for which the employer meets only part of the cost, leaving the balance to be met by the employee who enjoys the benefit. For example, in the Civil Service, allowances are available to assist with the cost of overseas education. However, even with the allowance the costs which would have to be met by the Civil Servant himself are of such a magnitude that only a small proportion of those who are eligible to receive the benefit actually take it up. It would be to over-state the value of the education allowance in the Civil Service if it were assumed that all those theoretically eligible to receive the benefit actually enjoyed it. We have, therefore, in our calculations introduced a "Utilization Factor" to reflect the extent to which a benefit is used.

Another aspect of utilization is that certain benefits are restricted to particular categories of employees, e.g. maternity benefits.

4.1.4 Valuation Formula

The valuation formula which we have applied for each benefit in the Private Sector and the Civil Service is:-

$$\begin{aligned} &\text{Value to the Employee} \\ &= \\ &\quad \text{Basic Value} \\ &\quad \times \\ &\quad \text{Utilization Factor} \end{aligned}$$

For the purpose of this exercise we have expressed the value to the employee as a percentage of pay.

The application of the formula in specific instances is set out in the following paragraphs.

4.2 Housing Allowances

4.2.1 Description

These are cash payments made to employees specifically to assist with the cost of providing accommodation. The employer has no contractual obligations with the landlord of the premises nor does he have any title to them where the allowance is used for house purchase. The Civil Service is unusual in that it ensures that the housing allowance is specifically used for the intended purpose, whereas many Private Sector employers appear not to monitor how the allowance is used.

4.2.2 Basic Value

The basic value of the housing allowance has been expressed as a percentage of salary according to the formula:-

$$\frac{\text{Average Net Monthly Cash Amount per Employee}}{\text{Monthly Salary}} \times 100\%$$

The monthly salary is determined according to the mid-point of the relevant sector of the pay band (see Section 5.4.2).

4.2.3 Utilization

This is taken as unity (1) since the average monthly cash amount

implicitly allows for the degree of utilization.

4.3 Housing Provision

4.3.1 Description

This is employer-provided accommodation which is made available to the employee. In certain cases the employee contributes towards the cost. We have ignored the value of employer-provided accommodation if the nature of the job entails living in particular premises (e.g. the police in the Public Sector, and security guards/caretakers in the Private Sector). Also we have ignored a few rare instances where, because of the availability of employer-owned accommodation, this has been allocated on a discretionary basis to employees, but is not regarded as an entitlement appropriate to the terms and conditions of service.

4.3.2 Basic Value

For this benefit we distinguished between the value of the benefit as between expatriates and local employees. The reason for this is that expatriates in the Private Sector tend to occupy premises which are significantly more spacious than those occupied by local employees who otherwise have equivalent terms and conditions of service. The basic value of the accommodation provided by the employer has been assumed in accordance with the following table:-

Stage Point (See §5.2)	Assumed Monthly Rental	
	Local (i)	Expatriate (ii)
	\$ p.m.	\$ p.m.
1 April 1979	3,000	6,600
1 April 1980	4,425	11,550
1 April 1981	5,025	11,850

Notes: (i) Based on 75 m² the rental/m² being derived from the 1981 Property Review by the Commissioner of

Rating and Valuation.

- (ii) Based on flat of 150 m² the rental/m² being derived as in note (i).
- (iii) Rates are generally paid for by employers if accommodation is provided. The above values are assumed to be inclusive of the payment of rates. We found no cases where rates were paid by the employee but were such cases to arise, the payment of rates would be regarded as a contribution to the cost of accommodation.

The Basic Value is taken as:-

$$\frac{(\text{Monthly Rental}) \text{ less } (\text{Monthly Contribution by Employee})}{\text{Monthly Salary}} \times 100\%$$

4.3.3 Utilization

This is taken as unity (1) for those entitled to receive it. Accommodation is so scarce and expensive in Hong Kong that it is unlikely that an employee eligible for employer-provided accommodation would not take up the option.

4.4 Housing Loan Schemes

4.4.1 Description

A housing loan may take one of the following forms:-

- (1) Loan from the employer usually at favourable interest rate or
- (2) Interest subsidy to independent provider of finance which is usually a bank.

4.4.2 Basic Value

For each pay band the maximum amount available is calculated according to the rules of each employer's scheme.

We have made the following assumptions as to the full mortgage rates at each stage point which are 1% above the minimum lending rates of the Hongkong and Shanghai Banking Corporation.

Stage Point (See §5.2)	Full Mortgage Rate
1 April 1979	12% p.a.
1 April 1980	17% p.a.
1 April 1981	18% p.a.

Note: The full mortgage rate is compounded monthly.

Where there is a housing loan scheme in force, the majority of employees who take up the option will borrow the full amount of money for the maximum term available under the scheme. This arises because the cost of purchasing accommodation is so high that a housing loan scheme is unlikely to provide all the necessary finance and therefore additional loans at the full mortgage rate are commonly required.

The formula for computing the basic value is the difference between the cost of a repayment mortgage at the full mortgage rate less the cost of repayment at the reduced mortgage rate.

Example

Full mortgage rate (1979) : 12% p.a.
Subsidized rate : 8% p.a.
Maximum amount of subsidized loan : \$450,000
Maximum term of subsidy : 10 years

Monthly repayment @ 12% p.a.	=	\$6,456
Monthly repayment @ 8% p.a.	=	<u>\$5,460</u>
Amount of subsidy	=	\$ 996

The Basic Value is taken as:-

$$\frac{\text{Amount of Monthly Subsidy}}{\text{Monthly Salary}} \times 100\%$$

4.4.3 Utilization

We received information from each surveyed employer as to the extent of utilization of its particular housing loan scheme. The Civil Service housing loan scheme which was introduced in November 1981, i.e. after the period to which the assignment refers, has been omitted from our calculations.

4.5 Retirement Schemes

4.5.1 Description

These include schemes of the following type:-

- (1) Pension schemes, that is, arrangements which provide for a continuing income during retirement.
- (2) Gratuity schemes, that is, arrangements which provide for a lump sum on retirement or leaving service which is expressed as a multiple of salary and service.
- (3) Provident fund schemes which are similar to gratuity schemes except that the benefit is determined by the accumulation at interest, and in some cases capital growth, of the contributions paid by the employee and on his behalf by the employer.

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