

(4) Dependants' benefits schemes. These are schemes which provide for benefits to be paid to the dependants of a member.

#### 4.5.2 Basic Value

Since retirement benefits are for the majority of employees remote in time, an allowance has to be made for this factor by discounting the prospective value of the benefit. Unless this were done, the value of benefits would not be comparable to those benefits (like housing allowances) which are immediately payable.

It should be emphasised that the actual contribution rate being paid by an employer to a particular retirement scheme is not necessarily an indication of its value to the employee. The point is of very great relevance to the current assignment because the Civil Service pension scheme, apart from being an exceptionally good one, is unfunded and, apart from the Widows and Orphans Scheme, is non-contributory.

It is readily appreciated that the value of a pension to a young employee at the commencement of his career is much less than the value to an employee who is on the point of retirement. In drawing comparisons between the different schemes of the surveyed employers we assumed an age of thirty. This is the age which we have determined to be the average for members in retirement schemes in Hong Kong. However, for the Civil Servants remunerated on the highest of the three bands of MPS and their comparators in the Private Sector, we assumed an average age of forty. This reflects the fact that there is some broad correlation between seniority in employment and age. Apart from age a number of assumptions have to be made in order to assess the relative value of benefits. These assumptions are collectively described as an actuarial basis since they represent the statistical framework within which actuaries value retirement schemes in order to determine their solvency, contribution rates and other financial details. The assumptions are explained in Appendix 3. The basic value is determined net of any contribution which the

employee may make under the terms of his employer's retirement scheme.

#### 4.5.3 Utilization

The utilization of a retirement scheme is calculated from the actuarial assumptions. The principal factor is the probability of remaining in service to retirement age. However, allowance has to be made for the benefits which are payable under the various employers' schemes for those who leave service prior to retirement age. Thus the utilization factor varies from scheme to scheme.

### 4.6 Death and Disability Benefits

#### 4.6.1 Description

These are benefits which are payable on the death or disability of employees whilst in service. These benefits are generally provided through policies of assurance but in certain cases an employer may carry the risk himself or it may be borne by a retirement scheme.

#### 4.6.2 Basic Value

The basic value is determined on the premium rates charged by leading insurers for the benefits provided. These are set out in Appendix A3.4.

#### 4.6.3 Utilization

The premium rates allow for the statistical incidence of claims. The utilization factor may therefore be regarded as being inherent in the premium rates.

### 4.7 Medical Schemes

#### 4.7.1 Description

Benefits provided under medical schemes for clinical treatment and hospital expenses are included. These schemes may either

be financed through policies of insurance or direct subvention by the employers. In some instances medical schemes cover optical and dental facilities.

#### 4.7.2 Basic Value

As for life assurance schemes we have determined the value of the medical schemes by reference to insurance companies' premium rates.

#### 4.7.3 Utilization

The utilization factor is inherent in the premium rates (see Section 4.6.3).

### 4.8 Leave Entitlement

#### 4.8.1 Description

Statutory holidays have been excluded from the analysis since these will affect all employees to the same degree and will be neutral in the comparison exercise. For leave entitlement in excess of the statutory holidays we have assumed a standard leave entitlement as shown in the table below. We compared the Civil Service and each of the surveyed employers' leave entitlement as additions or deductions from the standard leave entitlement.

| Employment Category (i)   | Standard Leave Entitlement (ii) |
|---------------------------|---------------------------------|
| MOD1                      | 7 days (iii)                    |
| MPS - Lower               | 2 weeks                         |
| MPS - Middle              | 2 weeks                         |
| MPS - Higher (local)      | 3 weeks                         |
| MPS - Higher (expatriate) | 5 weeks                         |

Notes: (i) See Section 5.3 for details of this classification.

(ii) Based on other assignments carried out by the Consultants.

(iii) Statutory minimum.

#### 4.8.2 Basic Value

Leave entitlement is a non-monetary benefit but it is necessary to place a value on any variation from the Standard Leave Entitlement for comparison purposes. In order to do this it has been assumed that one day's additional leave is worth less than a day's pay on the grounds that few people would forfeit full pay for extra holiday. This assumption is a subjective one and cannot be substantiated by statistics but for the purposes of the calculations each additional day's holiday has been equated to a benefit of half a day's pay.

#### Example

Junior staff - three weeks' holiday.

Extra holiday is five days which on our assumption is equivalent to 2½ days' pay a year.

Some employers have service-related leave entitlement. In these cases we have taken the entitlement for those who have three years' service.

#### 4.8.3 Utilization

This is taken as unity (1), and no allowance is made for those who do not take their full leave entitlement.

### 4.9 Travel Allowances

#### 4.9.1 Description

This benefit is widespread for expatriate staff but there has been

a tendency for it to be extended to senior local management. Originally, employers required that employees who had a leave travel entitlement used it expressly for the purpose of returning to their countries of origin. The allowances were specifically the transportation costs to and from the country of origin. The reduction in air fares to the United Kingdom over recent years has not generally led to a corresponding reduction in the amount of allowances and employees have generally benefited from the reduction by being able to use the allowance to meet other costs, e.g. hotel bills, or to take additional leave travel. However, some employers have retained the original system and relate the allowance to the cost of travel.

#### 4.9.2 Basic Value

In cases where the allowance is expressed as a monetary amount we have taken this as the cash value. In the other cases we have used the appropriate air tariff and in cases where the allowance extends to an employee's family, we have assumed on average an employee receives the equivalent of three adult fares per annum.

#### 4.9.3 Utilization

This is taken as unity (1) for those eligible for the allowance.

### 4.10 Children's Education Allowances

#### 4.10.1 Description

Allowances for children's education may be for either local schools (i.e. in respect of schools situated in Hong Kong) or for overseas schools. The cost of education in overseas schools is naturally extremely expensive and is not extensively used even by expatriate employees. We have therefore ignored overseas educational allowances in our analysis.

#### 4.10.2 Basic Value

The basic value has been determined on the cost of Form V education in Hong Kong schools. We have distinguished between expatriate employees and local employees by using the English Schools Foundation charges for the former and Anglo-Chinese School charges for the latter.

#### 4.10.3 Utilization

The allowances are only applicable to employees who have children of schooling age. For the purpose of comparison we have assumed that an employee will have two children. This will broadly result in an average of half ( $\frac{1}{2}$ ) a child at the secondary school stage during a full working career.

#### 4.11 Sickness Benefit and other excluded items

There are complex statutory regulations regarding minimum sickness benefit. Since all employers must grant the statutory minimum, for comparison purposes we were concerned with the excess over the minimum. The Hong Kong workforce is young and therefore the incidence of sickness is likely to be low although we have no statistics to support this assumption. Our calculations showed that the value of any sickness benefit in excess of the statutory minimum is so trivial, when considering the low level of utilization, as to be insignificant. This item has therefore been excluded.

Apart from sickness there are a number of other benefits and terms/conditions of service which were not valued by us either because they were inconsequential, or applied to very small numbers of employees, or were impossible to quantify, or the data were not available. The excluded terms were:

- Hours worked.
- Overtime premiums.
- Shift allowances.
- Special allowances for working conditions, etc.
- Discretionary bonuses or profit sharing schemes, paid on an individual merit basis.

- Provision of company cars for private use  
(rare for Master Pay Scale comparators).
- Purchase Discounts (strict rules generally apply).
- Taxation advantages which may arise from paying benefits in particular forms, e.g. housing allowances may or may not attract Salaries Tax depending on how they are structured.