

REPORT OF THE WORKING GROUP ON THE  
VALUATION OF BENEFITS FOR PAY LEVEL SURVEYS

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PART I - INTRODUCTION

Background

In its First Report on Civil Service Pay Policy (Report No. 7), the Standing Commission on Civil Service Salaries and Conditions of Service concluded that future arrangements for determining the general levels of civil service pay should take into account the total package of pay and other benefits in both the civil service and the private sector. The Standing Commission added that it would therefore be necessary to carry out surveys of the actual levels of pay and benefits of comparable jobs in the civil service and the private sector. Subsequently the Administration accepted the total package concept and considered that the appropriate way of taking account of fringe benefits was by way of pay level surveys or by separate studies of fringe benefits.

2. In its Second Report on Civil Service Pay Policy (Report No. 9), the Standing Commission reiterated the total package concept and considered that full implementation of this would require, inter alia, the carrying out of pay level surveys of comparable jobs in the civil service and the private sector. As a first step, it urged that the Administration should study, in consultation with staff, the questions of which benefits should be included in the total pay package and how they should be valued. Accordingly a Working Group comprising members of the Senior Civil Service Council, the Model Scale 1 Staff Consultative Council and the Police Force Council was formed. The Working Group met on eight occasions between 30 May 1983 and 5 April 1984. A list of participants is at Appendix I. [Although it has received all Working Group papers, the Hong Kong Chinese Civil Servants' Association representative on the Senior Civil Service Council could not attend due to other commitments. The Association's written comments are at Appendix II.]

App I

App II

### Objectives

3. The Working Group was tasked to consider and propose -
  - (a) which benefits should be included in the total pay package for the purpose of pay level comparisons;
  - (b) how the value of benefits to be included in the total package should be determined for the purpose of pay level comparisons;
  - (c) how benefits not to be included in pay level comparisons should be treated in the context of total pay package concept; and
  - (d) what other factors need to be taken into account in comparing the total pay package of comparable jobs in the two sectors.

### The Report

4. Parts II and III of this Report set out the conclusions of the Working Group's deliberations, a summary of which is at Part IV.

### PART II - VALUATION OF BENEFITS

#### (A) General

5. The Working Group noted that local and overseas employees in the private sector generally enjoy different pay and conditions of service. In the civil service, pay is the same for both groups of staff, but there are differences in benefits. The Working Group proposed that, in the main, pay level comparisons should have primary regard to local terms of service as the bulk of the employees in Hong Kong, both in the civil service and the private sector, are employed on local terms. Care should, however, be taken in applying the results of such comparisons in adjusting civil service pay as this would equally affect both local and overseas

civil servants. (The Association of Expatriate Civil Servants representatives on the Senior Civil Service Council, however, considered that like should be compared with like and thus the total package of expatriate civil servants should be compared with the total package of expatriate employees in the private companies.)

6. The Working Group also noted that while male and female staff in the civil service are accorded the same pay and benefits, this is not always the case in the private sector. It proposed that where there is a difference between the terms of service for male and female staff, the terms pertaining to male staff should normally be used for pay level comparisons.

7. In considering whether a benefit should be included in the total package for pay level comparisons, the Working Group proposed the following guidelines :

- (a) a benefit should only be included if it is perceived to be of significant value to the employee. (In this regard, the cost to the employer of providing the benefit should not be a factor); and
- (b) a benefit should not be included if it is provided mainly to enable the employee to perform his duties, or to meet expenses arising from the performance of his duties. Examples in this category are quarters provided for operational reasons, and reimbursement of certain travelling expenses.

Provided that these guidelines are applied consistently in both sectors, they should not result in any significant distortion of the results of pay level comparisons. Items excluded for this purpose could, in any case, be reviewed separately and individually in the light of analogous private sector practice.

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8. The question of utilisation was controversial. On the one hand, it could be argued that a pay level comparison is primarily concerned with the value of pay and benefits attaching to a job, and thus the extent to which the benefits are actually used by the employees at the time of survey is of little relevance. On the other hand, it could equally be argued that a benefit which is little used by those eligible is an indication that it is perceived to be of little value by the employee. Furthermore, to take an accurate account of the rate of utilisation would necessitate the collection and verification of detailed data from survey companies : this could prove to be difficult and would be an extremely complicated exercise. Having regard to these arguments, the Working Group proposed that, for the purpose of pay level comparisons -

- (a) some regard should be had to the extent to which a benefit is utilised in determining whether the benefit should be included in the total pay package; but
- (b) once a decision is taken to include the benefit in the total package, there should be no further need to take account of the actual utilisation rate in placing a value on the benefit. In other words, the maximum value should, where possible, be used.

9. Where it is necessary to assess the value of a benefit by reference to the employee's family circumstances, the Working Group proposed to use the assumption that the employee is the sole breadwinner of a family consisting of a couple and two children.

10. To facilitate comparison, the Working Group proposed that the value of benefits should be expressed as a percentage of salary. The dollar value of the total package attaching to the job could then be calculated by applying the percentage figures to the minimum and maximum of the pay rates for the job.



(B) Retirement and Termination Benefits

11. In the civil service, retirement benefits take the form of pension, annual allowance (which is a form of pension for Model Scale 1 staff) or contract gratuity. In the private sector, comparable benefits are given mainly in the form of provident fund or final salary lump-sum schemes.

12. In considering whether retirement and termination benefits should be included in the total package, the following points were made -

(a) civil service pension is only payable on retirement under very strict rules and represents no immediate benefit to the employees;

(b) civil service pension is not granted as of right, but at the discretion of the Crown. In other words, there is no guarantee that a civil servant would receive a pension, even if he were to retire under the prescribed circumstances. In practice, civil servants have had, up to now, a reasonable expectation that they would receive a pension on retirement, with their total length of service being taken into account in calculating its size (the Senior Non-Expatriate Officers Association representatives could not agree to this latter statement);

(c) retirement benefits are a form of social security and in most advanced societies would be available to all citizens. This is not the case in Hong Kong. Thus taking this benefit into account in comparing the total packages of the civil service and the private sector (where only the more enlightened employers provide any form of retirement benefits) would be considered unfair by many civil servants;

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(d) contract gratuity is granted to make the total package more attractive for the purpose of recruitment. To take it into account in pay level comparisons would tend to defeat the purpose for which contract gratuity is paid; and

(e) irrespective of the purpose for which retirement and termination benefits are given and the rules governing them, such benefits form a part of an employee's total package of pay and benefits in the broad sense. Given a situation where two jobs are exactly the same in all respects, it is likely that the one with such benefits attached would be more attractive to a prospective employee. (The Senior Non-Expatriate Officers Association representatives could not agree to this statement.)

13. The Working Group felt that there was a very real problem of placing a value on retirement and termination benefits as perceived by the employee, as distinct from its actuarial value which in effect represents the cost to the employer. Thus the value of a pension in, say, 30 years time is unlikely to be perceived by a young employee to be of the same value as it would be by an employee with 30 years service and nearing retirement. To this extent, if the value of retirement and termination benefits were to be included in the total package, it could only be taken into account in fairly general terms.

14. The Working Group noted that some civil servants are employed on pensionable terms and are eligible to receive a pension on retirement in prescribed circumstances, while others are employed on agreement terms and receive a contract gratuity on fulfilment of the terms of the agreement (usually 2 1/2 to 3 years). The Working Group considered that for valuation purposes a civil service pension could be equated with a contract gratuity (the latter representing 25% of substantive salary) because -