

- (a) having regard to all the circumstances described in paragraphs 12 and 13 above, it would be difficult to develop any generally accepted method of placing a value on the civil service pension scheme on its own;
- (b) pensionable terms and agreement terms are mutually exclusive arrangements. Where a choice between the two was available, staff would elect either way depending on their own individual judgment as to the higher longer term potential of a pension weighed against the more immediate benefit of a contract gratuity; and
- (c) there is a need to assign the same value to both pension scheme and the contract gratuity arrangements otherwise the total package of many civil service jobs would have two different values depending on the terms on which staff are employed.

15. At present, the annual allowance for Model Scale 1 staff on retirement from the civil service is calculated on a factor which is, in general terms, 25% below the factor used in calculating the civil service pension. The Working Group proposed, therefore, that its value might be taken as 75% of that to be assigned to the civil service pension scheme.

16. As regards the method of calculating the real value of retirement and termination benefits, both in the civil service and the private sector, the Working Group proposed that the technique of discounted cash flow (DCF) might be used. This is because money to be paid in the future is worth less than the same sum of money today on account of its use being delayed. To equate future cash flows to consistent present-day values, a 'discount' rate should be applied. This rate should reflect a reasonable earning rate on money invested.

App III(i)

App. III(ii)

App. III(iii)

17. The proposed method of calculation is based on projecting future cash flows whether employee contributions, contract gratuities or lump sum pensions, and reducing them to a present-day value using the DCF technique. The result should then be related to a net annual value as a percentage of current salary. It is necessary to make a number of assumptions. These assumptions, together with the supporting rationale, are set out in Appendix III(i). An example of this method of calculation is set out in Appendix III(ii). To test the impact of the proposed technique, the calculations are applied in a realistic and representative situation, and the results are set out in Appendix III(iii).

18. In conclusion, the Working Group felt unable to recommend whether or not retirement and termination benefits should be taken into account in the total package. If these benefits were to be valued, the method of valuation set out in paragraphs 14 - 17 above might be considered. In any case the results of those calculations should be treated with caution, particularly as such benefits were perceived differently by different individuals.

Death and Disability Benefits

19. Closely related to retirement and termination benefits are death and disability benefits. The Working Group questioned whether they should be included for the purpose of pay level comparison because the likelihood of employees or their dependants enjoying them is not high. In any case, some degree of protection against death and disability for all employees in Hong Kong is available under the provisions of the Employees Compensation Ordinance and in the form of Public Assistance and other welfare schemes. Death and disability benefit schemes in the civil service and the private sector may be additional, or an alternative to these provisions. To calculate the additional element would be a complex exercise and is unlikely to have a significant effect on the total value of the different pay packages.

(67)

(C) Housing Benefits

20. The Working Group felt that, in general, housing benefits form a substantial part of the remuneration package for those eligible for the benefit, and might therefore be included in the total package for the purpose of pay level comparisons. Since there were many different forms of housing benefits it would be necessary to consider in each case whether that particular form of benefit should be taken into account and, if so, how. Having examined the more prevalent forms of housing benefits available in the civil service and the private sector, the Working Group concluded as follows -

(a) Civil Service

(i) Private Tenancy Allowance
Non-departmental Quarters

Local officers on or above Master Pay Scale (MPS) Point 38 or equivalent are eligible for Private Tenancy Allowance, which is a form of rental allowance. Local officers on or above MPS 48 or equivalent are eligible to apply for non-departmental quarters, but their applications are considered in competition with other eligible claimants and there is no guarantee that quarters will be available to all. Non-departmental quarters can thus for valuation purposes be regarded as an alternative to Private Tenancy Allowance. Moreover, there are technical difficulties in placing a value on different quarters, which depend on size, location, amenities, and other variable factors. In the circumstances, the Working Group proposed that, for the purpose of pay level comparisons, the rates of the appropriate

Private Tenancy Allowance might be used as the value of housing benefits for officers on or above MPS 38.

(ii) Departmental Quarters

These are provided, in the main, for operational reasons. If the guideline set out in paragraph 7(b) above is to be followed, the Working Group proposed that such facilities should not be taken into account in calculating the total package.

(iii) Home Purchase Scheme and Housing Loan Scheme

Staff (excluding those on Model Scale 1) on or above MPS 29 or equivalent, or those below MPS 29 but have completed 20 or more years of service, are eligible to apply for a Home Purchase Allowance (HPA). Staff with 10 or more years pensionable service may apply for a Housing Loan (HL). However, staff are not automatically entitled to either a HPA or a HL; approval of their applications is discretionary and is subject to the availability of funds at any time. For staff on or above MPS 38 or equivalent, the HPA scheme is no more than an alternative to other forms of housing benefits the value of which has already been taken into account (see (i) above). In practice, the number of civil servants who have been granted approval to join either scheme is so far relatively small (6,300 HPA applications had been approved as at 1.4.84). In the circumstances, the Working Group proposed that these two

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schemes should not be taken into account in calculating the total package, at least until they have become the predominant form of housing benefit in the civil service.

(iv) Co-operative Housing Schemes

The civil service co-operative housing schemes have been suspended for some time. The Working Group proposed that this form of housing benefit should be excluded in calculating the total package.

(v) Public Housing Quota for Junior Civil Servants

A quota of places is reserved, without any rent subsidy, for civil servants outside the context of the normal application procedure. In the financial year 1983/84 the number of places reserved was 1,500 and the number of applicants was approximately 10,000. The Working Group considered that any advantage accruing from such an arrangement was slight and very difficult to evaluate.

(b) Private Sector

(i) Cash Allowance/Rental Allowance/Quarters

In the private sector, cash allowance/rental allowance is a more prevalent form of housing benefit for local staff than the provision of quarters. The Working Group proposed that the value of cash/rental allowance should be taken into account, and the value of quarters should,

as in the case of the civil service (see (a)(i) above), be equated with that of cash/rental allowance for which the employee would be eligible.

(ii) Subsidised Loan Schemes

This is the most prevalent form of housing benefit in the private sector. The Working Group proposed that its value should be taken into account in the total package.

(iii) Operational Quarters

The Working Group proposed that this item should be treated the same as Departmental Quarters in the civil service (see (a)(ii) above).

(iv) Priority Allocation of Housing Units

Some companies may give priority to their staff in the sale of residential units developed by the company. Provided there is no element of subsidy (e.g. a lower purchase price), the Working Group proposed that this arrangement should not be included in calculating the total package since comparatively few employees in the private sector are likely to enjoy this benefit and it would be difficult to evaluate.

21. As regards the method of valuation, the Working Group proposed that -

- (a) for civil service Private Tenancy Allowance, and for cash/rental allowance in the private sector, the maximum entitlement might be taken into account.

Where the entitlement varied depending on family circumstances, the entitlement appropriate to a family of 4 persons (i.e. married with two children) should be used (see paragraph 9 above); and

- (b) for private sector housing loan schemes, the value might be the difference between the cost of a repayment mortgage at the full market rate less the cost of repayment at the subsidised mortgage rate, taking account of the maximum amount and maximum term of the subsidised loan. (NB : This is the method adopted by Wyatt Company as set out in paragraph 4.4.2 of Part II of the Standing Commission's Report No. 7.)

The results of these calculations should then be adjusted to take account of any employee's contribution and, where necessary, grossed up to allow for tax. (Appendix IV sets out the rationale for and the method of grossing up for tax.)

App IV

(D) Job-related Allowances

22. Job-related allowances are more common in the civil service than in the private sector, due to differences in pay practice between the two sectors. They are a form of pay supplement rather than fringe benefits. The Working Group considered that as a rule, allowances reimbursed to employees for expenditure incurred in the discharge of duties should be ignored. Where an allowance is payable regularly to a large majority of staff on the job, the Working Group proposed that it might be taken as part of pay and be included in the total package.

23. The quantification method proposed for regular overtime allowance is set out in paragraph 24 below. As regards other forms of job-related allowance, they are usually expressed in dollar terms or as a percentage of pay. Their valuation does not therefore present a problem.

(E) Hours of Work, Leave and Holiday Passages

24. The civil service "conditioned" working hours and leave rates may differ from those of private sector companies. In order that the two pay packages may be put on the same footing for comparison purposes, adjustments have to be made to the individual private company's total package. The Working Group proposed that this might be done in the following manner -

$$\begin{array}{r} \text{private company's} \\ \text{total package} \end{array} \times \frac{\begin{array}{l} \text{civil service notional hours of work +} \\ \text{civil service regular overtime hours (if any)} \end{array}}{\begin{array}{l} \text{private company's notional hours of work +} \\ \text{private company's regular overtime hours (if any)} \end{array}}$$

= adjusted private company total package.

This approach takes account of both leave (excluding sick leave and maternity leave which are dealt with in paragraph 25 below), hours of work and regular overtime work. An example illustrating how this method works in practice is at Appendix V.

App V

Sick Leave and Maternity Leave

25. As regards sick leave and maternity leave, the Working Group noted that there are statutory regulations governing minimum provisions in Hong Kong. Thus, only the excess over the minimum statutory requirement in each case is relevant for pay level comparison purposes. Wyatt Company's view (paragraph 4.11 of Part II of the Standing Commission's Report No. 7) was that their value in excess of the (then) statutory minimum, taking into account the incidence of their usage, was likely to be insignificant. The Working Group supported this view and proposed that sick leave and maternity leave should be excluded for the purpose of total package comparisons.

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Holiday Passages

26. The Working Group noted that non-directorate local civil servants are not eligible for holiday passages. A number of private sector companies, however, provide passages as part of their staff's vacation arrangements. The Working Group proposed that this type of passage should be taken into account in calculating the total package. As regards the method of valuation, where a cash allowance is given the whole amount should be included. In cases where travel tickets are provided, the current tariff rates should be used in calculating their value.

(F) Medical and Dental Benefits

27. The Government operates a comprehensive medical service and a free emergency dental service for all Hong Kong citizens. Benefits accorded to civil servants by virtue of their employment with the Government consist of the following -

Medical

- (a) exemption of nominal charges for consultation/drugs;
- (b) concessionary hospital maintenance fees;
- (c) services provided at Family Clinics catering mainly for English-speaking civil servants; and
- (d) separate consultation quota accorded to civil servants in out-patient clinics.

Dental

- (a) free treatment for examination, extractions, filling and scaling; and
- (b) nominal charges for dentures and dental appliances.

28. The private sector practices as revealed in the PSRU 1983 Fringe Benefits Survey Report are -

Medical

This generally takes the form of

either (a)(i) a company doctor scheme which provides similar services as do the Government Family Clinics; and

(ii) subsidy (within limits) for hospitalisation costs;

or (b) reimbursement (within limits) of both consultation/drugs and hospitalisation costs. This scheme gives the employee a freedom of choice of doctors and hospitals.

Dental

Only a few companies provide dental services for their staff on a limited scale.

29. The Working Group observed that -

(a) except for companies employing their own doctors, private sector employees covered by a company medical scheme have a freedom of choice of doctors and hospitals. This choice is not available to civil servants : the benefits to which they are entitled are sometimes only available after a considerable waiting period and may not meet expectations. As a result, many civil servants choose to consult private practitioners or be admitted to private hospitals at their own expense. It is also not uncommon for civil servants to make contributions to medical insurance schemes at their own expense; and

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