

CHAPTER 7

COMMENTS ON THE FRINGE BENEFITS SURVEYED

7.1 In Chapter VII of their report, the Consultants compared the value of each fringe benefit in the civil service with that in the private sector according to the five pay bands. The following were the general comments made by members concerning the various fringe benefits :

7.2 HOUSING BENEFITS

7.2.1 Association of Expatriate Civil Servants

The Association strongly suspected that the rental value of Government-owned quarters as assessed by Jones Lang Wootton, was too high and requested the Chairman to seek the Rating and Valuation Department's views on Jones Lang Wootton's valuation results. The Association's request had been set out in their letter dated 12 December 1986, attached at Annex I.

The Chairman agreed to this information being made available to the Committee.

7.2.2 Senior Non-Expatriate Officers Association

- (a) The Association expressed concern regarding the over-valuation of quarters by Jones Lang Wootton and the methodology, which did not take into account, say, the possibility that one officer might live in non-departmental quarters valued at \$10,000 and another might live in non-departmental quarters valued at \$40,000, but the latter officer might, if given the choice, choose to live in non-departmental quarters valued at \$20,000 and add the \$10,000 difference to his take-home pay.
- (b) The Association also suggested that leased quarters should be included in the calculation of housing benefits in the civil service.

This suggestion was supported by the Pay Level Survey Steering Group which, after investigation, ascertained that, out of a total of 3,199 non-departmental quarters in use in August 1986, about 900 were leased.

- (c) The Association also pointed out that Private Tenancy Allowances (PTA) should be calculated on the basis of actual amounts and not notional maximum value. This was because PTA was administered in such a way that only rarely could an officer obtain the maximum allowance to which he was entitled. Under this system, the officer was responsible for negotiating with the landlord the rental for the housing unit under lease. The agreed rental would then be vetted by the Rating and Valuation Department. In the event that the agreed rental and the assessment of the department differed, the grant would only amount to the lower of the two figures. This proposal was supported by the Association of Expatriate Civil Servants.

The Pay Level Survey Steering Group agreed that this point, which appeared to be valid, should be included in the chapter of the Consultants' report which dealt with the supplementary information on housing in the civil service, which had been requested by the Acting Governor.

7.2.3 Administration

The Administration sought the view of the Rating and Valuation Department on Jones Lang Wootton's valuation of Government-owned quarters and the Department gave the following view :

In general, the quarters were assessed at about 17% to 25% higher than the market value : 25% higher in the case of Grade A quarters, 17% higher for Grade B quarters, 18% higher for Grade C quarters, 17% higher for Grade CD quarters and 18% higher for Grade D quarters. (A copy each of the Administration's memorandum dated 18 December 1986 together with its enclosures, the Rating and Valuation Department's memorandum dated 5 January 1987, and Jones Lang Wootton's letter dated 13 January 1987 are attached at Annexures J, K and L respectively).

The Administration also clarified that the words "actual utilization" included in the methodology meant the number of officers utilizing a particular benefit - i.e. the pattern of utilization, but still based on the notional maximum value.

7.2.4 Hong Kong Institute of Personnel Management

With regard to the Rating and Valuation Department's views on Jones Lang Wootton's valuation results, the Institute pointed out that the Rating and Valuation Department itself was a Government department and was also therefore part of the civil service. This might deviate from the original proposed methodology for the valuation of housing benefits in that valuation of non-departmental quarters should be undertaken by independent property valuers.

The Administration indicated that while the Rating and Valuation Department was a Government department, it was staffed by professional property valuers whose job it was to exercise independent professional judgment on behalf of the Government in all rating and valuation matters affecting both members of the public and civil servants.

7.3 MEDICAL BENEFITS

7.3.1 Hong Kong Chinese Civil Servants' Association

- (a) The assumption in calculating the insurance premium applicable to medical benefits that third class hospital accommodation would be available should not only be applied to Model Scale 1 civil servants, but also to those in the lower and middle bands of the Master Pay Scale. This was because it was equally difficult for these civil servants to gain admission to first or second class hospital accommodation because, in actual practice, a "limit" was adopted in Government hospitals to admit only certain ranks of officers to first and/or second class hospital accommodation.

The Standing Commission, having considered this comment, agreed that for Model Scale 1 and the lower and middle bands of the Master Pay Scale, the calculation of medical benefits should be based on the assumption that third class hospital accommodation at the concessionary rate would be used.

- (b) The Association also felt that the valuation of medical benefits on the assumption that patients would choose a European diet was totally incorrect. In fact, very few patients chose European diet. This view was supported by the Hong Kong General Chamber of Commerce, the Employers' Federation of

Hong Kong, the Senior Non-Expatriate Officers Association and the Model Scale 1 Staff Consultative Council.

The Commission Secretariat later clarified with the Medical and Health Department that almost 99% of patients in third class hospital accommodation chose Asian diet and the amendment was accordingly accepted by the Standing Commission, which agreed that the valuation of medical benefits should be done on the basis of third class hospital maintenance fees applicable to an Asian diet for Model Scale 1 and the lower and middle bands of the Master Pay Scale.

7.3.2 Model Scale 1 Staff Consultative Council

The Council pointed out that the hospital charges assumed by the Consultants were not in line with the existing public rate. As the third class hospital charge for civil servants was \$15 per day and that for the public was \$20 per day, the actual benefit for civil servants was \$5 per day. Hence the Council proposed that the insurance premium for medical benefits in the civil service be valued on the basis of \$5 per day.

The Council pointed out that the factors assumed by the insurance company in valuing medical benefits, such as Hong Kong's status as a typhoon area, its dense population with many people living in high buildings, its location in a cholera zone, and the high number of females of child-bearing age living in Hong Kong, who might suffer complications or produce babies with severe congenital disorders leading to long periods of hospitalization etc., were all over-exaggerated. This view was shared by the Hong Kong Chinese Civil Servants' Association.

7.3.3 Consultants

The Consultants advised that international standards based on claim history, insurance coverage and environmental factors in a particular area had been applied in determining a premium and that these standards had similarly been applied in assessing the insurance premium for medical benefits in Hong Kong. The Consultants also confirmed that the same methodology had been applied in the calculation of insurance premiums in both the civil service and the private sector.

7.3.4 Administration

The Administration clarified that although the public rate for hospital maintenance fees was adjusted to \$20 per day as from 1 August 1986, the civil service concessionary rate was not adjusted to \$15 per day until

1 September 1986. The Pay Level Survey, having been conducted as at 31 August 1986, therefore fell within this one-month period and the Administration therefore recommended that the civil service benefit of \$5 per day effective from 1 September 1986 should be used. This was agreed.

7.4 DENTAL BENEFITS

7.4.1 Hong Kong Chinese Civil Servants' Association

The Association pointed out that the assumption used for determining the insurance premium for dental benefits was not realistic as the waiting period for civil servants to have an inspection could be as long as 18 months.

7.4.2 Model Scale 1 Staff Consultative Council

In determining the insurance premium for dental benefits, consideration should be given to the utilization of the benefit. In the Council's view, no more than 30% of civil servants actually made use of Government dental services.

The Council suggested that, instead, the following assumption should be used for the civil service : half an inspection, a quarter of a correction and a quarter of an emergency visit would be granted to each member of a civil servant's family per annum.

7.4.3 Administration

The Administration advised that it would be fair to adopt an assumption of four inspections, two corrections and one emergency treatment for a family of four persons per annum. Based on this advice, the Standing Commission agreed that this assumption should be adopted for the valuation of dental benefits.

7.5 RETIREMENT BENEFITS

7.5.1 Model Scale 1 Staff Consultative Council

The turnover rate (wastage) of 3.84% should be used in the calculation of retirement benefits for Model Scale 1. This rate had been provided by the Administration based on information gathered over the past ten years. Actual turnover rates for individual pay bands should be used to produce more accurate results.

7.5.2 Hong Kong Chinese Civil Servants' Association

The Association agreed that a separate turnover rate should be used for Model Scale 1. However, at the same time, the Administration was requested to provide a further breakdown of the turnover rates for the four bands of the Master Pay Scale. The Association felt strongly that such information should be readily available.

7.5.3 Administration

The Administration believed that the term "wastage rate" would be more appropriate than "turnover rate" for the purpose of calculating retirement benefits.

Having consulted the Treasury and the Staff Planning Division of the Civil Service Branch, the Administration pointed out that it was not possible to provide separate figures for each pay band on the Master Pay Scale or equivalent, as only the wastage rates for the categories of pensionable and non-pensionable staff were available. While some old statistics existed, they were broken down by different pay groupings than those requested by the Staff Side representatives and were presumably kept for different purposes. Retrieval of such information would require the deployment of many extra staff and also take months to complete. In any case, the Administration felt that it would not be meaningful to look at a breakdown of the "wastage rate" by different pay bands because most officers on the Master Pay Scale or equivalent passed through more than one pay band during their whole career in the civil service.

7.5.4 Steering Group's Decision

Two wastage rates should be used in the calculation of retirement benefits in the civil service, viz. 3.63% for the Master Pay Scale or equivalent and 3.84% for the Model Scale 1.

7.6 MISCELLANEOUS BENEFITS : PERSONAL LOANS

7.6.1 Hong Kong Chinese Civil Servants' Association

The Association regarded the criteria governing applications for advances of salary under Civil Service Regulation 618, as restrictive. The calculation of personal loans on an annual basis, therefore, had over-estimated the value of the benefit. This view was shared by the Model Scale 1 Staff Consultative Council and the Senior Non-Expatriate Officers Association.

7.6.2 Model Scale 1 Staff Consultative Council

In view of the restrictions imposed on the benefit, personal loans should be excluded from the calculation of total packages. Previously, Model Scale 1 staff were required to have at least five years' service before they became eligible for applying for personal loans. The service requirement was only lifted on 22 September 1986 which was after the cut-off date for the Pay Level Survey. Before this date, about 40% of the total strength of Model Scale 1 were not eligible for this benefit.

The Council considered it inappropriate to include personal loans in the calculation of civil service total packages. They also felt that the inclusion of personal loans was not practical because of the low possibility for civil servants to apply for the loans year after year on grounds of moving house or marriage. If personal loans were to be included in the calculation of civil service total packages, it should be done on the basis of the actual utilization pattern and maximum notional value of the benefit, similar to the valuation of housing benefits. In other words, a formula of $\$357 \times 60\%$ should be applied.

7.6.3 Administration

The Administration supported the view that it would be desirable for the Standing Commission to consider excluding personal loans from the calculation of total packages, having regard to their more restrictive nature than the private sector and relatively low utilization. The Administration said that Model Scale 1 staff with less than five years service had become eligible for personal loans only four months ago and that the number of applications had been quite small so far.

7.6.4 Consultants

The Consultants confirmed that the same methodology for the valuation of personal loans in both the civil service and the private sector had been applied and that restrictions were indeed imposed on the use of this benefit in both sectors.

7.6.5 Steering Group's Decision

Having regard to the Consultants' advice, the Steering Group considered that the inclusion of personal loans in the calculation of total packages in both the civil service and the private sector should be maintained. The

points made by the Model Scale 1 Staff Consultative Council and the Administration were noted, but the fact remained that on 31 August 1986, there were 20,608 outstanding cases of advancement of salary under Civil Service Regulation 618 which represented 11.6% of the total number of civil servants receiving the benefit of personal loans.

7.7 GENERAL REMARKS

7.7.1 Hong Kong Institute of Personnel Management

The Institute felt that much time had been spent at many PLSAC meetings on discussing the valuation of certain fringe benefits which were of little dollar value and it would be useful if the Consultants could produce information which showed the proportion of the total value of fringe benefits which were contributed by each fringe benefit individually.

The Consultants had provided at Annex M the relevant information as requested.