

11 May 1987

His Excellency Sir David Wilson, K.C.M.G.,  
Governor of Hong Kong.

Your Excellency,

We were recently invited by the Administration to advise, under Item I(d) of our Terms of Reference, whether a proposed new pension scheme should be adopted in the civil service.

#### Background

2. We were informed that for a number of years, staff in the civil service had been seeking changes in their existing pension arrangements and that, in response to this, the Administration had conducted a detailed review of the subject, which revealed that the existing scheme was in need of modernization. This then led to the formulation of the proposed new pension scheme which was first put to staff for consultation in August 1985. The new scheme was subsequently revised twice in the light of staff comments and was recently accepted by the Chinese Authorities.

#### The Main Proposals of the New Pension Scheme

3. The final version of the new pension scheme referred to us for comment comprises the following main proposals :

- (a) normal retirement age to be 60, but serving officers to be allowed to retire at any time after the age of 55;
- (b) the pension factor to be 1/675. There would be a common pension factor for pensionable and non-pensionable\* staff, although, in respect of service prior to the introduction of the common factor, the factor of 1/800 for non-pensionable\* staff would be used. The maximum pension payable to remain two-thirds of salary;

\*Please see paragraph 5.

- (c) officers leaving the service after 10 years to be eligible for a deferred pension. They would not receive their pension benefits until reaching retirement age;
- (d) an option to commute up to 50% of pension at a commutation factor of 14;
- (e) the rank and file of the Disciplined Services to be eligible to retire with their pension benefits at the age of 50 and the Officer ranks at the age of 55;
- (f) the heads of the Disciplined Services to be empowered to prescribe that any grade, rank or category of officer in the Disciplined ranks should retire on or after reaching the age of 55 on operational grounds and officers so retired should receive an enhanced pension;
- (g) officers transferring to the new scheme to be given a second opportunity to opt for 90% or 100% pensionability tied to a reduction in their vacation leave rate;
- (h) widows' and children's benefits to remain at their present level;
- (i) pensions to be made a right\*; and
- (j) the maximum length of service qualifying for an enhancement of pension benefits in the case of officers invalided from the service with service of five years or more should be raised from 20 years to 22½ years.

4. The Administration proposes that the new scheme will be made mandatory only in the case of new appointees, while serving officers will be given an option to transfer to it or, if they wish, to remain on the existing scheme. It is also proposed that an option should be given for serving officers to transfer to the new scheme whilst retaining their existing retirement age. For serving officers below the age of 50, an option period of five years or an option period until their 50th birthday, whichever is the less, is proposed, subject to a minimum option period of one year. For serving officers above the age of 50, the proposal is that the option period should be confined to one year.

\*Please see paragraph 11.

5. Furthermore, in response to our comments, the Administration suggests that the term 'non-pensionable staff' should be dispensed with in the new pension legislation and be replaced by the term 'holder of a non-established office', in order to remove the anomalous position whereby 'non-pensionable staff' receive pensions, as in the case of staff on Model Scale 1. We welcome the proposal to change the term 'non-pensionable staff'; however the proposed new phraseology struck us as being unduly obscure. We understand that corresponding amendments will be made to the relevant Civil Service Regulations so that the existing non-pensionable officers will not qualify for benefits applicable only to pensionable officers as a result of dropping the term 'non-pensionable'.

#### The Standing Commission's Comments and Recommendations

6. We have examined the main proposals as outlined above and, in principle, we endorse them. Our main consideration, however, is whether the new scheme would entail a significant change in the value of pension benefits in the civil service. In particular, we have had in mind proposals (a), (b), (c) and (d) outlined in paragraph 3 above. Our observations are :

(a) On Proposal (a)

Officers under the new scheme will be provided with guaranteed employment up to 60 years of age and this will be a benefit to those who wish to continue working after the age of 55 which is the retirement age under the existing scheme.

(b) On Proposal (b)

For new appointees, the new pension scheme will introduce a common pension factor of 1/675 for both pensionable and non-pensionable\* staff. For serving officers who transfer to the new scheme, however, the situation varies between those who are pensionable and those who are not : in the case of pensionable staff whose pension factor under the existing scheme is 1/600, the new pension factor of 1/675 will apply to service prior to the introduction of the common factor; in the case of non-pensionable\* staff, the existing factor of 1/800 will still apply in respect of service prior to the introduction of the common factor. For those on Model Scale 1 who are still at a relatively young age, it appears to us that this will be an improvement in benefits : their pension factors under the existing scheme are 1/800 for the first 25 years and 1/600 thereafter;

\*Please see paragraph 5.

(c) On Proposal (c)

Under the new pension scheme, officers leaving the service after 10 years will be eligible for a deferred pension. This is not provided for under the existing scheme and will also imply an increase in benefits in respect of this specific group of staff.

(d) On Proposal (d)

Officers transferring to the new scheme will be given an option to commute up to 50% of pension at a commutation factor of 14, as compared to an option to commute up to 25% of pension at the same commutation factor under the existing scheme. This also appears to be an attraction, if not a benefit, to those joining the new scheme.

7. Although the Administration had advised that, depending on the number of officers who ultimately elect to convert to the new scheme, the anticipated result of the scheme would be a short-term increase in costs followed by long-term savings, we felt that it was also necessary to establish the value of the new scheme vis-a-vis the existing scheme from the point of view of civil servants i.e. the employee and recipient of the benefit. This method of assessing the value of a benefit from the point of view of the employee, instead of that of the employer, was promulgated in our First Report on the Pay Level Survey (Report No. 16) which we submitted to His Excellency the Acting Governor in July 1986. It was subsequently applied as part of our overall methodology for that survey. For the sake of consistency, we engaged Hay Management Consultants (HK) Ltd., which had previously been commissioned to conduct the Pay Level Survey, to undertake a separate consultancy study on the subject, applying the same method of calculation used in the Pay Level Survey.

8. The results of the study show that there will be a decrease in the value of the pension benefit to employees of the new scheme, when compared to the value attainable by them under the existing scheme. Under the new scheme, the value of the pension benefit is found to be 10.9% of pay for officers on the Master Pay Scale, 10.8% for staff on Model Scale 1 and 12.6% for members of the Disciplined Services whereas under the existing scheme, the value of the benefit is 14.8% of pay for officers on the Master Pay Scale, 11.0% for staff on Model Scale 1 and 16.4% for members of the Disciplined Services. The consultants have attributed the findings to two major factors : an extension of the

retirement age from 55 to 60 years of age and monthly pension payments to be effected over a much shorter period after retirement. We are further of the view that, despite the increase in the pension factor from 1/800 for the first 25 years to 1/675 in the case of non-pensionable\* staff, the reduction in the pension factor from the current 1/600 to 1/675 under the new scheme for pensionable staff is also a vital factor in not causing an increase in the value of the pension benefit.

9. Having examined the findings of the consultancy study, we support the implementation of the new scheme which we are advised will not result in significant changes in the value of pension benefits in the civil service.

10. As regards proposal (e) in paragraph 3 above, which recommends the rank and file of the Disciplined Services to be eligible, under the new scheme, to retire with their pension benefits at the age of 50 and the Officer ranks at the age of 55, we were asked to consider a representation from the staff associations of the Police Force that the Police should be exceptionally allowed to retain their current premature retirement ages set at 45 for the rank and file and at 50 for the Officer ranks. Apart from the fact that this issue would have wider implications for the rest of the Disciplined Services, we were advised by the Administration that the new voluntary retirement ages were part of the overall pension package for the Disciplined Services and that any change would mean a re-examination of the package as a whole. In the circumstances, and having regard to the fact that serving officers who wish to retain the earlier voluntary retirement ages can remain on the existing pension scheme we accept the Administration's view that there should be no change.

11. Proposal (i) in paragraph 3 above will make pensions a right under the new scheme. We were given to understand by the Administration that notwithstanding this, pensions would not be an absolute right because there would still be limited circumstances under which pensions might be withdrawn or reduced. In this connection, we recommend that staff should be made fully aware of such circumstances by the Administration.

12. We have no other specific comments on the remaining proposals of the new pension scheme, which we also endorse as part and parcel of the whole package.

\*Please see paragraph 5.

Conclusion

13. In the light of the above comments, we recommend the adoption of the new pension scheme in the civil service with effect from a current date.

We have the honour to be  
Your Excellency's obedient servants,

(S.Y. Chung)  
Chairman

Kim Y.S. Cham

Therese H.C. Chan

Stanley G. Elliott

Victor K.K. Fung

Vincent H.C. Ko

Alice Lam

Gordon M. Macwhinnie

Poon Chi-fai

Andrew K.W. So