

15 June 2001

Ms Anissa Wong, JP
Deputy Secretary for the Civil Service
Civil Service Bureau
Government Secretariat
Hong Kong

Civil Service Provident Fund Scheme

Thank you for your letter of 2 June 2001 in which you set out the Civil Service Bureau's proposed design options for the Civil Service Provident Fund (CSPF) Scheme and other proposals related to the CSPF Scheme on the death, incapacity and injury benefits for new recruits on permanent terms.

At the Commission's meeting on 7 June 2001, Members considered your proposals and agreed that they are a step in the right direction in the Government's effort to modernise the retirement benefits system for new recruits on permanent terms. Members, therefore, fully supported your proposals. Our specific comments/observations on the various issues raised by you are set out below –

Application Scope

You propose that the CSPF Scheme will apply only to recruits appointed on permanent terms on or after 1 June 2000. Recruits on probationary and/or agreement terms (as they are not yet career civil servants) will not be covered. Probationers will receive only MPF contributions, while agreement officers will receive MPF contributions plus end-of-agreement gratuity.

Your proposals are noted with agreement by us.

Retirement Ages

You propose that the existing retirement ages under the New Pension Scheme (NPS) i.e. 60 for all civilian staff, 55 for disciplined services staff in general or 57 for certain prescribed disciplined ranks will remain without change.

We see no objection to your proposal.

Contribution Rate

You propose a progressive contribution rate schedule starting from 5% and increasing up to 25%, subject to the total financial commitment of CSPF contributions, including the Special Disciplined Services Contribution, kept at no higher than 18% of basic salary.

We welcome the introduction of a progressive contribution rate with benchmark of 18% over the entire career span of staff. In designing the rate schedule, you may wish to bear in mind two observations from Members, viz. (a) bearing in mind the career profile of the civil service and the fact that recruits appointed directly to higher ranks will be eligible for a higher contribution rate at the start of their career, the actuarial assumptions used must be carefully considered to ensure that the 18% benchmark will not be exceeded; (b) the progressive contribution scales should be designed so that staff in earlier years (say after 3 to 5 years subject to the Administration's view) can enjoy a relatively attractive contribution rate. This would provide an extra incentive to help reduce the risk of losing this group of officers who will become the key driving force of the civil service in the future.

Special Disciplined Services Contribution (SDSC)

You propose that an additional SDSC rate of 2.5% be given to disciplined services staff on grounds that if the retirement ages under the existing NPS are maintained, the proposed 2.5% contribution rate for SDSC appropriately reflects the difference in retirement benefits under the CSPF Scheme due to the difference in retirement ages between civilian staff and disciplined services staff.

We see no objection to your proposal.

Vesting Schedule

You propose the following vesting schedules –

- (a) for civilian staff : a 10-year cliff-vesting, i.e. no partial vesting for less than 10 years' service, full vesting upon reaching 10 years' service or normal retirement age, whichever is earlier, in line with the current NPS design under which officers who leave with less than 10 years' service are not entitled to a deferred pension;
- (b) for disciplined services staff : full vesting only upon reaching age 55, to mirror the existing NPS under which disciplined services staff who leave before reaching 55 would not enjoy enhancement to their pension benefits and would only draw the same pension benefits as with civilian staff.

We see no objection to your proposal.

Transfer Option for Serving Staff and Option for New Recruits

Given that the pension scheme and the CSPF Scheme are based on entirely different design logic, resulting in difficult settlement over the appropriate transfer value and that transfer would entail significant financial implications and administrative and legislative complexities, you are of the view that serving staff should not be allowed a transfer option. Furthermore, given that the CSPF Scheme is a modernised retirement benefits scheme for new recruits in place of the existing pension schemes, you do not consider it appropriate to allow new recruits an option to join the existing pension schemes.

We see no objection to your proposal.

Death, Incapacity and Injury Benefits

Your proposals for death, incapacity and injury benefits for new recruits, which are broadly comparable to those for existing staff on permanent terms in general, are supported by us.

Withholding, Forfeiture, Cancellation and Reduction of Benefits

To help maintain high standards of integrity and probity in the civil service, you propose to include provisions to deal with withholding, forfeiture, cancellation or reduction of benefits under the CSPF Scheme arising from the Government's voluntary contributions.

We support your proposal.

General Observations

In the course of our discussion, we sought clarifications from you on a number of issues related to the detailed operation of the new Scheme e.g. whether early retirement will be allowed and what benefits can staff seeking early retirement obtain under the new Scheme; and whether the penalty of withholding/forfeiture etc. will affect the entire portion of the new provident fund or just the portion contributed by Government? It appears to us that it would be useful if you could add a section on "Portable Benefits and Preservation" at the end of your paper on the new Civil Service Provident Fund Scheme to ensure that readers will have a comprehensive and precise understanding of the new Scheme. A "reader's easy guide" should assist you in your communication with staff and the public on this complex issue.

You may wish to bear the above observations in mind in taking your proposals further within the Administration.

Yours faithfully,

(Yeung Ka-sing)
Chairman
for and on behalf of
Members of the Standing Commission
on Civil Service Salaries and Conditions of Service