

For discussion
on 20 January 2003

LEGISLATIVE COUNCIL PANEL ON PUBLIC SERVICE

Supplementary provisions for pension

PURPOSE

This paper informs Members of the problem regarding the insufficiency of existing provision to meet pension expenditure for 2002-03 and seeks Members' support for us to seek the approval of the Finance Committee for supplementary provision.

DETAILS

Background

2. The approved estimate for Head 120 Pension Subhead 015 Public and judicial service pension benefits and compensation in 2002-03 is \$11,161.1 million. The ambit of this subhead as approved by the Finance Committee is for the payment of pensions, gratuities, and other allowances due to officers in accordance with the provisions under the pensions laws.

Shortfall of the approved estimate

3. On the basis of the actual expenditure for the nine months from April 2002 to December 2002, and the revised estimates for the remainder of 2002-03, Director of Accounting Services (DAS) estimates that expenditure for the whole of the financial year under Subhead 015 will exceed the approved provision by \$110 million, calculated as follows -

	\$'000
(a) Actual expenditure from 1 April 2002 to 31 December 2002	8,702,898
(b) Estimated expenditure for the remainder of 2002-03	2,567,764
(c) Total expenditure for 2002-03 [(a) + (b)]	<hr/> 11,270,662

Less

(d) Approved provision for 2002-03	11,161,100
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(e) Shortfall [(c) – (d)]	109,562
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4. Pension payment to a retiree includes a lump-sum pension gratuity and a monthly pension, and the pension entitlement is calculated by reference to the officer's length of pensionable service and his highest pensionable emoluments. There is always a degree of deviation between the estimated and the actual expenditure in pension payment. In the past three years, the deviation is in the range of 0.38% to 3% (details are at **Annex**).

5. The deviation is mainly due to the fact that although the normal retirement age under the Old Pension Scheme (OPS) is 55 while that under the New Pension Scheme (NPS) is 60, retirement before the normal retirement age is permissible subject to meeting the conditions specified in the pension legislation. For example, officers under the OPS may retire between the ages of 50 and 55 or between 45 and 50 subject to approval on strong compassionate or personal grounds. Officers who were appointed before 1 July 1987 and opted to join the NPS may retire between the ages of 55 and 60. Other conditions for early retirement include retirement under approved voluntary retirement schemes, on grounds of ill health, and in the event of an abolition of office or to facilitate improvement in the organisation of the department. Given the different circumstances under which early retirement may take place, we cannot estimate accurately the number of officers who will retire earlier than the normal retirement age. It is also very difficult to predict the actual profile of these officers who will retire before attaining the normal retirement age, in particular their respective salary bands and length of pensionable service.

6. Therefore, in preparing the estimates, we have been using a formula approach to project at a specific point of time the number of retirees, assuming that a certain percentage of civil servants in each age group within the retirement age brackets will retire in the year. Since civil servants of the same age group may belong to different salary bands and their length of pensionable service may also differ, for estimates purpose, we have adopted an overall average salary and length of service for each age group.

7. In working out the estimated provision for 2002-03, we have projected that there would be 5 509 new retirees in the year. This number includes those who will reach their normal retirement age in 2002-03 and must retire, as well as a projected number of officers who may retire before reaching the normal retirement age. As for the pension benefits, we estimated the

average pension gratuity for new retirees to be \$855,000 while the average monthly pension was estimated to be \$7,020 for a total of 72 200 pensioners. Working on this basis, we have sought approval from the Finance Committee a provision of \$11,161.1 million in 2002-03 for Head 120 Pension Subhead 015.

8. According to the latest returns submitted by departments, there will be 5 241 new retirees in 2002-03. Although the number of retirees is less than that originally estimated, there have been more retirees in the more senior salary bands. For comparison purpose, we have set out at the table below the actual profile of retirees in 2001-02 as compared to the latest information regarding the profile of retirees in 2002-03. The figures indicate that there could be large variation regarding the profile of retirees in a year.

Profile of Retirees				
Salary Bands	2001-02 (actual)		2002-03 (latest information)	
	Number	%	Number	%
Directorate and Upper	518	5.6	625	11.9
Middle	3 999	43.2	2 943	56.2
Lower	4 744	51.2	1 673	31.9
Total	9 261	100	5 241	100

* In 2001-02, there were 7 407 officers who retired under the Voluntary Retirement Scheme and Hong Kong Housing Authority's Voluntary Departure Scheme. In 2002-03, the number is 3 010 according to latest information.

9. Having regard to the actual cases of retirements in 2002-03, the average pension gratuity for new retirees is \$916,000, which is higher than the estimate of \$855,000 used in the preparation of the 2002-03 Estimates. The average monthly pension for all pensioners has also increased to \$7,064 as against the original estimate of \$7,020. This gives rise to an increase in the revised estimate for pensions expenditures to \$11.27 billion, or an increase of about 1% of the approved estimates of \$11.16 billion. Since pension payment is a statutory obligation of the Government and that the existing provision is insufficient to meet the increased expenditure, we need to seek a supplementary provision of \$110 million for 2002-03.

10. The supplementary provision which we now sought represents about 1% of the approved estimates. Such a discrepancy from the approved estimates is within the normal range of deviation when compared to the spending pattern over the last three years.

WAY FORWARD

11. Subject to Members' comments, we shall seek the approval of the Finance Committee for the supplementary provision at the meeting on 21 February 2003.

Civil Service Bureau
January 2003

**Comparison of Approved Provision and Actual Expenditure
for Head 120 Subhead 015**

1999/2000			2000/01			2001/02			2002/03		
Approved Estimate \$M	Actual Expenditure \$M	% Spent	Approved Estimate \$M	Actual Expenditure \$M	% Spent	Approved Estimate \$M	Actual Expenditure \$M	% Spent	Approved Estimate \$M	Revised Estimate \$M	% Spent
7,611.1	7,374.6	96.89%	8,700.5	8,513	97.84%	12,022	11,976.4	99.62%	11,161.1	11,270.7	100.98%