

Superannuation Schemes of
the Hong Kong Trade Development Council,
the Hong Kong Tourist Association and
the Vocational Training Council

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Background

1. This research studies the superannuation schemes of the Hong Kong Trade Development Council (TDC), the Hong Kong Tourist Association (HKTA) and the Vocational Training Council (VTC) which, like tertiary institutions funded by the University Grants Committee (UGC), operate defined benefit retirement schemes that rely on government subventions as a source of funding. Apart from examining the basic features of their schemes, attempt is made to see if these organisations encounter similar solvency problems as some of the tertiary institutions and the measures they use to address the problems, if any.

2. It is one of the three supplementary research areas identified by the LegCo Panel on Education at its meeting on 7 June 1995 in its study of the superannuation schemes of UGC-funded institutions.

Major Scheme Features

3. TDC has had a defined benefit scheme since 1977 while HKTA changed its scheme from a defined contribution scheme to a defined benefit scheme in 1989. The VTC one is a combination of defined benefit and defined contribution schemes. Particulars of the schemes are at Appendix I.

Benefit Calculations

4. Benefits under the TDC scheme is determined by the formula: factor X final salary X years of scheme service, calculated separately for different durations of employment in different staff categories. The factor ranges from 2.7 to 3.3 depending on whether a member is a general or management staff.

5. For the HKTA scheme, benefit is taken to be the greatest of three values calculated using the same formula: factor X final salary X years of scheme service, but applying different factors to different periods of employment, classified by length of service, age and staff categories respectively. The factor ranges from 1.1 to 2.75.

6. For the VTC scheme, benefit is equal to the greater of (a) factor X final salary X years of scheme service; and (b) Council and members' contribution plus interests. The factor for calculating the benefit under (a) is 2.28.

Factor Changes

7. Both TDC and HKTA have increased their factors over the years while VTC has maintained the same factor since the scheme came into existence in 1982.

8. TDC amended the factors to introduce benefit improvements with effect from 1 August 1991. They were increased from 2.4 to 2.7 and from 2.4 to 3.12 for general staff and management staff respectively. The factor for management staff was improved again in 1994 to 3.3.

9. Benefit of the HKTA scheme was increased by 10% in October 1992. The factor was increased from 1 to 1.1 for the lower end and from 2.5 to 2.75 for the top end of its range of factors.

Contributions

10. According to the TDC scheme rules, staff contribute 5% of their salaries to the scheme while the employer contributes 13.2%, with variations allowed. The actual contribution by the employer varies with the performance of the scheme. For example, the Council contributed at a rate as high as 15.3% from 1983 to 1988, but has been contributing at a rate of 12.4% since 1988.

11. The HKTA scheme does not require contribution from its members. The Board contributes at a rate as determined by the actuary. It is currently contributing at a rate of 14% of its members' salaries.

12. For VTC, staff contribute 5% and the employer contributes 15% to the scheme in accordance with the scheme rules.

Funding arrangements

13. The three organisations receive different kinds of subventions from the Government.

TDC

14. An appropriation in an amount equivalent to the yield from the ad valorem levy on imports and exports of the previous year, less full collection cost, is made available by the Government to TDC to cover its operating costs, including contribution to its superannuation scheme. Government subventions provided in this way amount to about 50% of TDC's total recurrent expenditure. The Council has certain degree of flexibility in allocating money among different categories of expenditure.

15. In the funding agreement with the Government, TDC can also call on additional funding from re-export levy if the ad valorem levy is insufficient to cover

its expenditure. This has never taken place since the agreement came into effect in 1988.

16. TDC also generates its own income through various activities such as trade fairs, publications, business training programmes and souvenir sales.

17. TDC maintains a reserve fund to guard against any unforeseen expenditure. The fund is not allowed to be less than 25% of the Council's total recurrent expenditure. With the Government's approval, the Council can switch money from the reserve fund to cover shortfall in its superannuation scheme, if necessary.

18. The Council, through its Staff and Finance Committee, monitors the performance of the scheme and from time to time decides if it is necessary to change the rate of contribution.

HKTA

19. HKTA submits an annual budget as a basis for the Government to provide the amount of subventions required. The provision for contribution to its superannuation scheme is based on actuarial advice. HKTA's board of management, on which the Government has a representative, can decide on the switching of money between different heads of expenditure. However, there is an informal understanding that switching should not exceed 5% of any expenditure head. In the past several years, there were two cases of additional contribution to cover shortfall in the superannuation scheme. The first time involved \$869,000 in the 1991-92 financial year. Another \$1.7 million was switched to the scheme in the 1992-93 financial year. Minutes of the decisions were at Appendix II.

20. Another source of income for HKTA is subscriptions by members and the various fees they collect.

VTC

21. VTC receives annual block grant from the Government for its recurrent expenditure including contribution to its superannuation scheme. Theoretically, VTC also has the flexibility to switch fund between expenditure heads to cover shortfall in the superannuation scheme, if necessary. VTC officials said they would not do so without proper consultation with the Government. Another source of income for VTC is school fees.

Performance of the schemes

22. In the past, TDC, HKTA and VTC conducted actuarial valuations once every two to three years. Findings of their actuarial valuations from 1990 to 1995 are summarised at Appendix III.

23. According to the three actuary reports provided, the TDC scheme has been solvent. Its solvency ratio decreased from 238% in 1990 to 127% in 1993. Its actuary has suggested TDC to reduce its contribution rate, build up a contingency reserve or to improve leaving benefits for its staff.

24. HKTA changed its scheme from defined contribution to defined benefit in 1989. According to the three actuarial reports prepared since then, it was only solvent in 1994. Its solvency ratio was 96.1% in 1991, 97.1% in 1993 but increased to 120.3% in 1994; probably as a result of the injection of funds into the scheme twice as mentioned in paragraph 19.

25. The VTC had its first independent actuary valuation conducted in 1992. The solvency ratio provided by its fund manager was 158% in 1990 compared to 147% in 1992 and 133% in 1995 provided by its actuary. The actuary has remarked that the Council could afford to reduce its contribution rate or increase benefits for its staff.

Registration Under the Occupational Retirement Schemes Ordinance (ORSO)

26. The TDC superannuation scheme has already been registered under ORSO. HKTA and VTC plan to apply for registration under ORSO in July and August 1995 respectively.

Defined Benefit Retirement Schemes of Selected Subvented Organisations

Institution	Hong Kong Trade Development Council	Hong Kong Tourist Association	Vocational Training Council
Type of scheme	Final Salary	Final Salary	Final Salary or defined contribution, whichever higher
Date of operation	1 Apr. 1977	1 Apr. 1989 (The scheme, established in 1966, was defined contribution in nature until Mar. 1989.)	In operation since 1982 and has been administered under trust since 1 Oct. 1992
Principal documents	Trust Deed and Rules	Trust Deed and Rules	Trust Deed and Rules
Eligibility	All permanent full-time local employees aged 19-49 can apply to join [Rule 7]	All permanent full-time salaried employees [Rule 1]	All permanent full-time teaching and equivalent administrative staff [Rule 1]
Number of members	529 (as of 31 May 1995)	168 (as of 30 Jun. 1995)	2,128 (as of 31 May 1995)
Contribution - Members - Institution	5 % [Rule 8 (a) & (b)] 13.2% [Rule 8(a)] Variations: [Rule 8(c)] Actual contribution rates - 1978 : 13.2% - 1983 : 14.8% 1988 : 15.3% present : 12.4%	Ni I [Rule 4(a)] As determined by actuary [Rule 4(b)] Actua I contribution rate - 14%	5 % [Rule 4(a)] 15% [Rule 4(b)]
Normal retirement age	55 [Rule 1]	55 [Rule 1]	60 [Rule 1]

Institution	Hong Kong Trade Development Council	Hong Kong Tourist Association	Vocational Training Council
Calculation of Final Salary benefits	Sum of benefits relating to service as a general staff and that as a management staff. Benefits for both categories of staff calculated using the same formula: Factor x Final Salary x Years of Scheme Service [Rule 15 (a) (1)] Different factors are used for the two staff categories	The greatest of three values calculated using the formula: Factor x Final Salary x Years of Scheme Service. Different factors are used for different durations of employment, classified by (a) age, (b) length of service and (c) staff grading respectively [Rule 5(a)]	A lump sum equal to the greater of : (a) Factor x Final Salary x Years of Scheme Service; and (b) Members' contribution balance + Council balance* [Rule 5(a)] * plus interests credited from time to time
Factor value upon normal retirement	2.7 or 3.3 depending on staff category i.e. general staff and management staff [Rule 11]	From 1.1 to 2.75 depending on length of service and the classification [Rule 5(a) as amended]	2.28 [Rule 5(a)]
Previous factor values, where changed, during 1990-1994	2.7 or 3.3 depending on staff category (since 1 Dec. 1994) 2.7 or 3.12 depending on staff category (Aug. 1991 to Nov. 1994) 2.4 (until Jul. 1991)	From 1 to 2.5 depending on length of service and the classification (until Oct. 1992)	Nil.
In case of deficiency arising		Board shall provide for immediate payment to make up deficiency or increase the contribution rate, as advised by actuary [Rule 15(d)]	Council shall increase the rate of contributions or reduce members' benefit with their approval [Rule 7(d)]
Authority to amend scheme	Council reserves right to amend scheme by giving written notice to members.	Board with Trustees' approval [Rule 16(a)]	The Trustees, with the consent of the Council [Clause 16 of the Trust Deed]

Institution	Hong Kong Trade Development Council	Hong Kong Tourist Association	Vocational Training Council
Protection of members' rights if scheme amended	Any amendment which would reduce members' accrued or vested benefit would need approval from 90% of all members [Rule 6]		Any reduction in benefits would need written approval of all members [Clause 16(b) of the Deed]
Authority to terminate scheme	Council reserves right to discontinue scheme by giving one month's written notice to members [Rule 17 (2)]	Board giving one month's notice [Rule 18]	Council has the right to discontinue the Fund by giving six months' written notice to members [Clause 14(a) of the Deed]
In case of deficiency upon termination of scheme	Any deficiency in the value of the Trust Fund shall be made good by the Council [Rule 17 (3)]	Board shall make up any deficiency [Rule 19A]	Council shall make up the deficiency [Clause 14 (b) (vi) (A) of the Deed]

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3. Minutes of a Staff & Finance Sub Committee Meeting (Cont'd)

- 3.2 The Executive Director highlighted the under performance of investments by the Investment Managers of HKTA's Staff Retirement Scheme and presented the Sub Committee's recommendation to inject into the Retirement Fund before 31st March, 1993 a sum of \$1.7 million from current year's surplus to partially cover an estimated funding shortfall of \$2.5 million for the year. As the sum proposed by the Sub Committee was less than the original estimate of \$3.2 million and a change in investment managers was agreed in principle subject to a final review, the Board approved the transfer of \$1.7 million to the Retirement Fund before 31st March, 1993.

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5. Finance

5.1 Minutes of the Staff and Finance Sub Committee Meeting held on 24th September, 1991.

5.1.2 The Executive Director told the Board that based on a Wyatt actuarial report on HKTA's retirement scheme for 1990/91, the Fund had, due to lower performance, produced a negative solvency balance of HK\$869,000 or 3.9% of total Fund. After considering the effects of a pending review of scheme benefits for 1992/93, the Sub Committee agreed with management's recommendation for a special contribution to be made from operating funds in 1991/92. The Chairman remarked that actuaries have long used the assumption of investment performance being 1% higher than salary increases. This has changed with high inflation in Hong Kong.

**Actuarial Assessments of the Staff Superannuation Scheme
of the Hong Kong Trade Development Council**

Valuation date	Actuary	Solvency ratio (%)	Adequacy ratio (%)	Long-term funding ratio (%)*	Actuarial conclusions
1 April 1990	Wyatt	238	136.8	NA	Solvent Reduce contribution rate, build up reserve or improve benefits
1 April 1992	Wyatt	135.2	112.2	NA	Solvent Reduce contribution rate, build up reserve or improve benefits
1 April 1993	Wyatt	127	111	NA	Solvent Reduce contribution rate, build up reserve or improve benefits

Source: Actuarial reports of TDC

NA = Not available

* Assuming a 1% gap between investment returns and salary increase in the valuation.

Definitions of ratios given in the attached note.

**Actuarial Assessments of the Staff Superannuation Scheme
of the Hong Kong Tourist Association**

Valuation date	Actuary	Solvency ratio (%)	Adequacy ratio (%)	Long-term funding ratio (%)*	Actuarial conclusions
31 March 1991	Wyatt	96.1	77.4	104	Insolvent Long-term funding adequate Immediate lump sum to cover the shortfall or let the shortfall to be covered by future contributions
31 March 1993	Towers Perrin	97.1	85.3	97.7	Insolvent Long-term funding adequate
31 March 1994	Towers Perrin	120.3	107.1	100.3	Solvent

Source: Actuarial reports of HKTA

* Assuming a 1.5% gap between investment returns and salary increase in the valuation.

Definitions of ratios given in the attached note.

**Actuarial Assessments of the Staff Superannuation Scheme
of the Vocational Training Council**

Valuation date	Fund Manager/ Actuary	Solvency ratio (%)	Adequacy ratio (%)	Long-term funding ratio (%)*	Actuarial conclusions
31 Oct. 1990	Manulife (fund manager)	158	110	NA	Solvent
30 April 1992 (first independent actuary report)	Wyatt	147	122	NA	Solvent Reduce contribution rate or increase benefits
31 March 1995 (figures are provisional as the actuary report is being finalised)	Wyatt	133	118	NA	Solvent

Source: Actuarial reports of VTC

NA = Not available

* Assuming a 1.5% gap between investment returns and salary increase in the 1990 valuation and a 2% gap in the 1992 valuation.

Definitions of ratios given in the attached note.

Note on actuarial ratios

Solvency ratio

= (market value of scheme's assets)

÷ (value of benefits payable if all members were to leave employment on the valuation date)

X 100%

Adequacy ratio, or past service ratio

= (market value of scheme's assets)

÷ (the discounted present value of members' benefits in respect of service to date on eventual exit)

X 100%

Long-term funding ratio

= { (market value of assets) + (present value of future contributions) }

÷ { present value of members' expected benefits in respect of past *and* future service }

X 100%