

## **ITEM FOR FINANCE COMMITTEE**

### **PENSIONABLE PERSONAL ALLOWANCE**

Members are invited to approve the continued grant of a pensionable personal allowance for officers (including civil servants and judicial officers) who served on pensionable terms at Directorate Pay Scale Point 3 and above or equivalent in 1998-99 and similar arrangements for ex-civil servants who transferred to subvented or public organisations and remain eligible for civil service pension benefits.

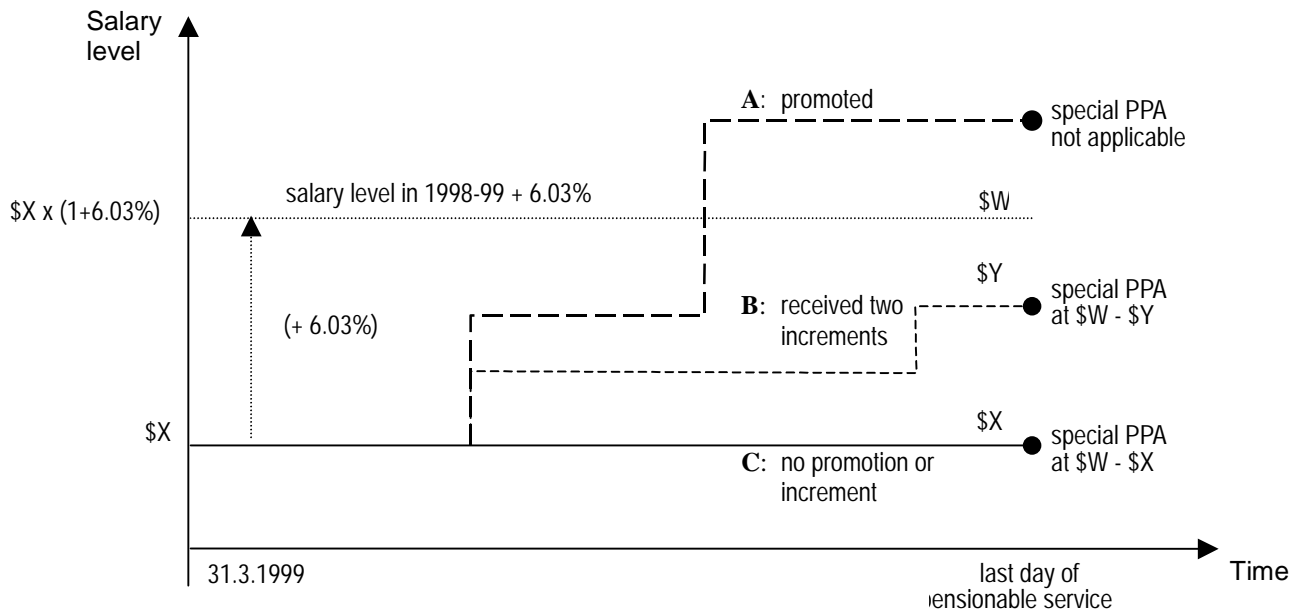
### **PROBLEM**

Civil servants and members of the judicial service at Directorate Pay Scale Point 3 (D3) and above or equivalent to whom we imposed a pay freeze in 1998-99 will have their pension benefits affected by the pay freeze. This Committee approved on 17 July 1998 to grant a pensionable personal allowance (PPA) to these officers who left service and started to draw their pension benefits in 1998-99 so as to restore their pensionable emoluments for calculation of pension benefits to their salary level in 1998-99 plus 6.03%. We need to decide whether we should continue to grant a PPA to other officers who served at D3 and above or equivalent and were subject to the pay freeze in 1998-99, but who have started or will start to draw their pension benefits after 1998-99.

### **PROPOSAL**

2. We propose that, for those officers (both civil servants and judicial officers) who served at D3 and above or equivalent in 1998-99, when they leave the service and receive pension benefits, a PPA should be granted for the last day of their service at an amount equivalent to the difference between their pensionable emoluments on that day and that in 1998-99 plus 6.03%. The PPA will be granted only if the officers' pensionable emoluments when they leave the service is lower than that in 1998-99 plus 6.03%. To illustrate, a special PPA would only be payable under scenarios B and C below -

/Salary .....



3. As with last year, similar arrangements should also apply to ex-civil servants who have transferred to public organisations and remain eligible for civil service pension benefits calculated on the basis of a salary point at D3 and above or equivalent upon retirement.

**JUSTIFICATION**

4. Members approved on 17 July 1998, inter alia, a pay increase of 6.03% for civil servants in the upper pay band (including Master Pay Scale Point 34 or above and Directorate Pay Scale Points 1 and 2 and equivalent) with effect from 1 April 1998. A pay freeze was imposed on those D3 and above or equivalent officers in 1998-99 to demonstrate that those responsible for decision-making in Government were prepared to share the hardship caused by the economic turmoil. The pay freeze also applied to judicial officers whose pay scale is pegged to that for directorate civil servants. Noting that the pay of D3 and above or equivalent officers would be frozen in 1998-99 and those who retired in 1998-99 would lose out permanently in pension benefits<sup>1</sup>, Members approved the grant of a one-off PPA to those D3 and above or equivalent officers who left the service in 1998-99 and started receiving pension benefits on or before 1 April 1999.

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<sup>1</sup> Pension benefits for retiring officers are calculated on the basis of their highest pensionable emoluments, determined with reference to their highest substantive salary before retirement. Had there not been a pay freeze, the pension benefits of retiring officers would be based on a higher substantive monthly salary.

5. In view of the across-the-board civil service pay freeze in 1999-2000, the pension benefits of those officers who were serving at D3 and above or equivalent in 1998-99 and who retire after 1 April 1999 and thus not eligible for the PPA, will continue to be affected by the pay freeze in 1998-99. As the pay freeze in 1998-99 was not intended to undercut officers' pension entitlements, and on grounds of equity and consistency in policy, we propose to continue to grant a PPA to these officers. The PPA will be granted for the last day of the officer's pensionable service, and be calculated at an amount equivalent to the difference between their pensionable emoluments on that day and that in 1998-99 plus 6.03%. The grant of PPA will allow those D3 and above or equivalent officers to receive the same treatment in terms of pension benefits as with other civil servants who received their pay adjustment in 1998-99 and those D3 and above officers who retired in 1998-99 and were granted a 6.03% PPA.

### **FINANCIAL IMPLICATIONS**

6. The total salary cost of the PPA to be granted to 22 pensionable officers and two ex-civil servants who have left or will leave the service in 1999-2000 is \$7,280. With the grant of PPA, these officers would have their pension benefits restored by an amount of \$9,494,000 in terms of one-off commuted lump-sum, and \$62,660 in terms of monthly pensions.

7. It would not be possible to come up with a realistic estimate of the financial implications, for granting PPA to the remaining pensionable officers and ex-civil servants, as it would be difficult to predict whether their final salary level before leaving the service would exceed their salary level in 1998-99 by more than 6.03% through increment, promotion and/or salary adjustment.

### **BACKGROUND INFORMATION**

8. On 17 July 1998, Members after considering FCR(98-99)18 approved, inter alia, an increase in salary of 6.03% for civil servants in the upper pay band and D1 and D2 or equivalent. Members also approved the grant of a PPA for officers at D3 and above or equivalent serving on pensionable terms who left the civil service in 1998-99 and received pension benefits on or before 1 April 1999. Similar arrangements were extended to the judicial service and ex-civil servants who had transferred to public organisations and serve on mixed service

/pension<sup>2</sup> .....

pension<sup>2</sup>, frozen service pension<sup>3</sup> or special no pay leave<sup>4</sup> arrangements, and who remain eligible for civil service pension benefits calculated on the basis of a salary point at D3 and above or equivalent upon retirement. The effect was that these officers' pensionable emoluments for calculation of pension benefits would be restored to the level of their salary in 1998-99 plus 6.03%.

9. With Members' approval, we have granted PPA to 18 civil servants and one judicial officer at D3 and above who retired in 1998-99 with pension benefits payable on or before 1 April 1999. There are another 276 officers (including 231 civil servants and 45 judicial officers) who were serving at D3 and above in 1998-99 and were subject to the pay freeze in 1998-99, but who are not eligible for the special PPA arrangement as previously approved. Among them, 22 officers (including 16 civil servants and six judicial officers) have left or are known to be leaving the service in 1999-2000.

10. We have also granted PPA to three pensionable ex-civil servants who transferred to public organisations and left the service in 1998-99. There are another 38 pensionable ex-civil servants whose pension benefits were affected by the salary adjustment freeze in 1998-99 but who are not subject to the special PPA arrangement. Among them, two have left or are known to be leaving the service in 1999-2000.

11. Another occasion of a PPA granted was in 1990-91, when the pay increase for the directorate officers in that year was implemented in phases (7.5% with effect from 1 April 1990 and a further 7.5% with effect from 1 October 1990). PPA was granted as a special arrangement to directorate officers who retired or died during the period from 1 April 1990 to 30 September 1990 to restore their pension benefits as if there had been a full pay increase, so that their pension benefits would not be undercut by the phased pay adjustment.

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Civil Service Bureau  
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<sup>2</sup> Ex-civil servants transferred to organisations (e.g. the Hospital Authority) on mixed service pension would continue to enjoy pension benefits for their service with the subvented non-government organisations (NGOs). Pension payments will be apportioned between the Government and the NGOs.

<sup>3</sup> Ex-civil servants transferred to organisations (e.g. the Hospital Authority) on frozen pension have their frozen civil service pension or allowance computed on the basis of their last substantive civil service salary point before transfer and the corresponding salary prevailing when they retire from the subvented NGOs in approved circumstances.

<sup>4</sup> Civil servants may be granted special no-pay leave to serve in organisations such as the Independent Commission Against Corruption. Any salary revision during the period of special no-pay leave will be taken into account in the computation of his pension benefits.