

LEGISLATIVE COUNCIL BRIEF
VOLUNTARY RETIREMENT SCHEME

INTRODUCTION

At the meeting of the Executive Council on 9 May 2000, the Council ADVISED and the Chief Executive ORDERED that the Voluntary Retirement Scheme as set out in paragraphs 7 to 15 below should be approved.

BACKGROUND AND ARGUMENT

Background

2. The Government's commitment and continuous efforts to enhance efficiency and to respond to changing needs of the community in a cost-effective manner has from time to time resulted in proposals with staffing implications. These proposals have inevitably given rise to staff concern over their security of employment, possible reduction in their terms of employment, and their ability to adjust to the new environment.

3. It remains the Government's policy to avoid redundancy, and departments hitherto have been asked to plan their efficiency measures in line with natural wastage or, where appropriate, arrangements for staff redeployment. To manage staff redeployment in a more proactive and effective manner, the Civil Service Bureau and Finance Bureau have jointly operated a central clearing house mechanism since last year to help re-deploy surplus staff who cannot be absorbed within their own departments. Whilst these measures have achieved their intended purposes, they are inevitably constraining the scope and pace for greater efficiency. Moreover, our experience so far suggests that re-absorption within the service is not without problems. It creates tension between staff and management and some staff find it difficult to adapt to changing job requirements or their new working environment. Introduction of a voluntary retirement

scheme to deal with the potential staff surplus problem is therefore considered necessary.

4. The concept of voluntary retirement as a means to help discharge staff in redundancy situations was first introduced in March 1999 when the Civil Service Reform Consultation Document was published. The idea was developed further as a management tool to help achieve greater productivity in the Civil Service. The proposal of a voluntary retirement scheme was subsequently circulated to departmental and grade management for consultation, and discussed with the Staff Sides in the Working Group on Exit Arrangements formed specifically under the Civil Service Reform. Members of the Working Group comprise the four central staff consultative councils (i.e. the Senior Civil Service Council, Police Force Council, Disciplined Services Consultative Council and Model Scale I (MOD I) Staff Consultative Council), and four service-wide staff associations.

5. Feedback received indicates that a voluntary retirement scheme is welcomed by the departmental and grade management as a useful management tool for dealing with surplus staff. They also consider that the scheme will allow them more room to take forward their efficiency enhancement initiatives in the context of the Enhanced Productivity Programme.

6. The Staff Sides are generally in support of the introduction of the retirement scheme provided that it is strictly voluntary. The key principles which we have agreed with the Staff Sides for designing the scheme are that the compensation package should be fair and sufficiently attractive to staff. At the same time, we have to ensure that the scheme should bring about greater cost-effectiveness in the use of public funds.

THE SCHEME

7. The Voluntary Retirement (VR) Scheme is to be introduced as a compensation scheme under Section 6A of the Pensions Ordinance (Chapter 89) and Section 13 of the Pension Benefits Ordinance (Chapter 99). These sections empower the Chief Executive in Council to approve a compensation scheme for the purposes of Section 6(1)(h) of Chapter 89 and Section 11(1)(i) of Chapter 99 respectively. Such a compensation scheme :

- (a) shall apply to such officers as are specified;
- (b) may provide for the payment of compensation, pension benefits and additional benefits to officers on their retirement, the commutation of pension benefits, the payment of death gratuities to dependants of officers, and for other matters relating thereto, other than in accordance with the pensions legislation; and
- (c) shall provide for the circumstances in which compensation and other benefits are payable under the scheme.

Eligibility

8. The VR Scheme is a means to deal with potential staff surplus problem, and hence will only be introduced to grades at ranks and above where there is staff surplus or anticipated staff surplus problem. This may come about when demand for services provided by the grades is declining, or where alternative modes or more cost-effective modes of service delivery are preferred. In this regard, we have consulted Heads of Department and Heads of Grade and have compiled, in Annex A, a list of grades to which the Scheme should apply.

9. The grades included in the current exercise are mainly supporting and ancillary grades. While these grades have a total strength of about 70 000, this does not mean that there is such surplus. The departure of VR-takers in these grades will make room for the introduction of efficiency enhancement measures. The invitation for and approval of applications for VR will be conducted in a controlled and phased manner having regard to operational exigencies and financial resources available.

10. Officers who are not eligible to receive retirement benefits under the relevant sections of the two Ordinances are **not** covered by the Scheme, even if they are members of the grades included in the current exercise. These officers, generally speaking, are agreement officers and officers appointed on month-to-month terms to fill short term posts and whose service does not attract pension, and a group of MOD I officers on the Old Pension Scheme who do not hold established posts.

11. The VR Scheme is not intended for the following groups of officers

whether or not they are eligible officers under the pensions legislation :

- (a) officers with less than one year active service before normal retirement age;
- (b) officers who have tendered notice to retire or resign, applied for early retirement, or in the case of those on trial, have applied to revert to their former grades to which the VR Scheme does not apply;
- (c) officers against whom disciplinary proceedings or other actions have been, or are contemplated to be taken and the proceedings or actions, in the opinion of the Secretary for the Civil Service, may lead to the removal of the officers from the service; and
- (d) staff in the Housing Department to whom a Voluntary Departure Scheme is available.

12. We would like to emphasize that there will be **no** compulsory element in the Scheme. Application for joining the Scheme will be entirely voluntary. We have no pre-determined numbers of retirees under the Scheme and will accommodate as many applicants as possible, subject to the approved financial ceiling and exigencies of service. The introduction of the VR Scheme to officers in the designated grades shall not be followed by forced redundancy in these grades. Once included in the designated list for VR, recruitment to the grades would be frozen until further notice, say, at least for a period of five years.

Compensation Package

13. The compensation to be provided to officers joining the VR Scheme is recommended as follows :

- (a) the pension benefits which an officer would be eligible as at the date of voluntary retirement, irrespective of whether or not he has attained the minimum age of retirement and whether or not he has completed the minimum qualifying length of service. The pension benefits are to be granted in accordance with the relevant pensions

legislation. This includes a commuted pension gratuity payable on the date of retirement and a monthly pension payable immediately after the officer's retirement;

- (b) a lump-sum payment (VR payment) to the officer on the date of his retirement. This is calculated on the basis of **one** month's salary for every **two** complete years of service¹ of the officer plus **nine** months' salary, up to a maximum amount equivalent to **20** months' salary of the officer²; and
- (c) the VR payment is also subject to the ceiling that the amount of the VR payment, when added to the commuted value of the pension benefits which the officer would be eligible upon retirement under the VR Scheme, will not exceed the commuted value of the pension benefits which the officer would be eligible at his normal retirement age plus **six** months' salary³.

14. At Annex B is a table showing the total up-front payment (including the pension gratuity and the VR payment) an officer with varying length of service would receive under the Scheme.

15. We assess that the package should be sufficiently attractive to officers with some 25 years of service or more. Younger officers may be less interested because they will get a relatively small pension since their service length is short and because they may still be the key bread-winner of the families and would prefer the relatively higher job security of Civil Service employment.

¹ As the date of retirement under the Scheme after the officer has exhausted his accrued leave.

² For the purpose of calculating the lump-sum payment, the amount of the officer's last substantive monthly salary will be used.

³ For the purpose of computing the ceiling, the commuted value of the officer's pension benefits will be taken as the lump-sum when 50% of the pension benefits is commuted [**lump-sum VR payment + lump-sum pension gratuity at VR commuted at 50%** or = **lump-sum pension gratuity at normal retirement commuted at 50% + 6 months' salary**]. Also, the amount of the officer's last substantive monthly salary at the date of voluntary retirement will be used.

MOD I OFFICERS ON OLD PENSION SCHEME

16. Section 6(1)(h) of Chapter 89, under which the proposed VR Scheme derives its authority, does not cover officers on the Old Pension Scheme who are holding non-established offices. In the specified grades for the VR Scheme, there are some 420 such officers. They are mostly MOD I staff in the junior grades of Workman, Property Attendant, Ward Attendant, etc.

17. The MOD I staff representatives have expressed grave concern that a group of MOD I staff in the designated grades could not apply for the VR Scheme. To address their concern, we propose to introduce administrative measures outside the VR Scheme to facilitate some of these officers to retire early under the prevailing policy, if they so wish, and to receive the same benefits as if they were retiring under the VR Scheme. Specifically, it is proposed that for the MOD I officers aged 45 or above (about 240), they may, if they belong to a designated VR grade, apply for early retirement in accordance with the Pensions Ordinance and prevailing regulations within the same period when we invite other eligible officers to apply for VR. If they meet the same selection criteria for the VR Scheme, they will, when their applications for early retirement are approved, receive retirement benefits provided by the Pensions Ordinance and an ex-gratia payment equivalent to the VR payment. This exceptional arrangement will only apply concurrently with the VR Scheme on a one-off basis.

18. For the rest of the MOD I officers who are below 45 (about 180), there is no provision in the Pensions Ordinance enabling them to retire early. It is therefore difficult to accord these officers similar retirement and compensation benefits provided by the VR Scheme. In any case, these relatively younger officers are unlikely to find the VR Scheme attractive.

19. The Staff Side representatives of the MOD I Staff Consultative Council considered that arrangement for ex-gratia payments as described above acceptable.

FINANCIAL AND STAFFING IMPLICATIONS

20. The proposed VR Scheme would incur pension expenditure (both the commuted gratuity and the monthly payments) and compensation cost in the form of the one-off VR payment. Pensions are officers' earned benefits and since

we are not enhancing pensions (unlike in the case of retirement on abolition of office (AOO) terms), the Scheme does not involve additional cost in this respect. Pension expenditure is a statutory charge on General Revenue as provided for under the pensions legislation. The one-off VR payments would be additional cost of the Scheme and given the one-off nature of the exercise, at least initially, we propose that the total VR payments should be subject to a financial limit to be approved by Finance Committee.

21. The total cost of the VR payments will depend on the number of VR takers, their current pay and their years of service. The total payroll of the 70 000 staff in the designated grades amounts to about \$1,095 million a month. Assuming 5% (about 3,500 officers) of all staff in the proposed list of grades opt for VR, and assuming an average service length of 25 years, the total cost of the VR payments would be in the region of \$1,100 million. The related pension expenditure for this group of retirees would be \$2,050 million for the commuted pension gratuities and recurrent pension payments of \$147 million annually.

22. We consider it justified to introduce the VR Scheme at an additional one-off cost of \$1.1 billion, lest we would have to carry the surplus or potential surplus staff at a higher payroll cost or at a later stage, resort to redundancy on AOO terms at a higher cost to Government. According to our estimates, redundancy on AOO terms would be about 40% more costly because of the enhanced element in the commuted and monthly pensions. Introducing the VR Scheme to make room for more efficiency initiatives such as outsourcing is also attractive in terms of cost-effectiveness in the delivery of public service. The services provided by the majority of the grades included in this exercise are of a supporting and ancillary nature, readily available from the private sector. Based on some contracting-out experience, a conservative estimate is that we should be able to achieve 30% savings in staff salaries through contracting out. On this basis, the cost of the VR Scheme at \$1.1 billion can be paid back in less than six years through projected savings in staff salaries.

23. We would approach Finance Committee for a financial commitment of \$1.1 billion for the VR payment and of \$2.4 million for the ex-gratia payment made outside the Scheme for the group of MOD I staff mentioned in paragraph 17 above. The additional pension payments and monthly payments for VR-takers required in 2000/01 will be sought through supplementary provision where necessary. If the response from staff turns out to be more enthusiastic and release

could be arranged without detriment to service, we will revert to Finance Committee for raising the financial commitment.

24. The staff and other resources required for administering the proposed VR Scheme will be absorbed within existing provision.

BASIC LAW IMPLICATIONS

25. The proposal has no Basic Law implications.

BILLS OF RIGHTS IMPLICATIONS

26. The Department of Justice has advised that the proposal in this paper does not have any implications inconsistent with the provisions of the Bill of Rights Ordinance.

STAFF CONSULTATION

27. The Staff Sides were first consulted on the concept of voluntary retirement in March 1999 when the Civil Service Reform Consultation Document was promulgated. They were further consulted on the proposed VR Scheme through the Working Group on Exit Arrangements. The Staff Sides are generally agreeable to the principles based on which the Scheme is devised, in particular the principle that the Scheme should be strictly voluntary. They remain, however, concerned on the application of the Scheme (i.e. staff should not be pressurised to apply) and on the attractiveness of the proposed package. They counter-proposed some fundamental changes to the package (e.g. 100% commuted pension), but since the Scheme is entirely voluntary, we do not see the merits of getting into a bargaining position with the Staff Sides. Staff have varying views on the proposed compensation package : some have expressed reservations that the package being less favourable when compared with the AOO terms in forced redundancy situations, and that the package would not be attractive enough to officers with short length of service. The Staff Sides emphasised that there should be objective criteria for approving applications, especially when there were more officers applying to retire than the number permissible under the Scheme. On the other hand, staff of some affected grades have indicated agreement that their grades be included in the VR Scheme. For those staff who object to the Scheme, they would be reassured that the Scheme is strictly

voluntary in nature.

28. We shall continue with our efforts to alleviate any concerns staff may have through further communication with the Staff Sides and the staff direct.

PUBLICITY

29. We will also brief the Public Service Panel of the Legislative Council on the details of our proposals, and seek approval from Finance Committee for the requisite financial commitment. A line to take will be prepared and a spokesman will be available for answering media enquiries.

OTHERS

30. Enquiries relating to this brief may be directed to Ms Grace Lui, Principal Assistant Secretary for the Civil Service, at 2810 2746.

Civil Service Bureau

10 May 2000

(Ref : CSBCR/SMP/5-045-007/3 Pt.8/00)

59 grades for inclusion into the VR Scheme

Artisan & Senior Artisan	Motor Driver, Special Driver & Chauffeur
Building Supervisor	Photographer
Calligraphist	Photoprinter
Car Park Attendant ^{Note 1}	Police Communications Assistant
Chainman	Police Communications Computer Operator
Chinese Language Officer	Police Translator
Clerical & Secretarial grades ^{Note 2}	Printing Officer
Cook	Printing Technician
Court Reporter	Projectionist
Darkroom Technician	Proof Reader
Data Processor	Property Attendant & Head Property Attendant
Dental Technician	Radiographic Technician
Education Assistant	Ship Inspector
Electrical Inspector	Supplies Supervisor & Supplies Attendant
Foreman	Telephone Operator
Ganger	Timekeeper
Inoculator	Traffic Assistant
Laboratory Attendant	Transport Services Officer
Land Inspector	Ward Attendant
Launch Mechanic, Launch Master & Sailor	Workman
Lift Operator	Works Supervisor
Mechanical Inspector	Workshop Attendant
Midwife	

Note 1 : Carpark Attendant I and Carpark Attendant II grades

Note 2 : Clerical & Secretarial grades include: Office Assistant, Clerical Assistant, Clerical Officer, Confidential Assistant, Typist, Supervisor of Typing Service & Personal Secretary.

Annex B**Illustration of Proposed VR Compensation Package****(An officer on new pension scheme, joining Government at the age of 20)**

Years of Service	VR Compensation (A)	Pension Gratuity (assuming a commutation rate of 50%) (B)	Total upfront payment (C) = (A) + (B)
2	10 months	3 months	13 months
4	11 months	6 months	17 months
6	12 months	9 months	21 months
8	13 months	12 months	25 months
10	14 months	15 months	29 months
12	15 months	18 months	33 months
14	16 months	21 months	37 months
16	17 months	24 months	41 months
18	18 months	27 months	45 months
20	19 months	30 months	49 months
22	20 months	33 months	53 months
24	20 months	36 months	56 months
26	20 months	39 months	59 months
28	20 months	42 months	62 months
30	17 months	45 months	62 months
32	14 months	48 months	62 months
34	11 months	51 months	62 months
36	8 months	54 months	62 months
38	6 months	56 months	62 months
39	6 months	56 months	62 months