

Legislative Council Panel on Public Service

Pensionable Personal Allowance for D3 and Above or Equivalent Officers

Purpose

This paper briefs Members on the Administration's proposal to continue to grant a pensionable personal allowance (PPA) to officers on pensionable terms who were serving at Directorate Pay Scale Point 3 (D3) and above or equivalent and were subject to the pay freeze in 1998-99.

Pay Adjustment for 1998-99

2. In 1998-99, having regard to the outcome of the pay trend survey, a civil service pay adjustment of 6.03% was made for the upper pay band (including MPS 34 or above and Directorate Pay Scale Points 1 and 2) with effect from 1 April 1998. The pay of all officers at D3 and above (or equivalent) was frozen 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. A total of 295 pensionable officers serving at D3 and above or equivalent (including 249 civil servants and 46 judicial officers) in 1998-99 had their salaries frozen.

Pensionable Personal Allowance for 1998-99

3. In accordance with the current pensions legislation, pension benefits for retiring officers are calculated on the basis of their highest pensionable emoluments. To avoid affecting the pension benefits of officers in addition to freezing their pay, we sought the approval of the Finance Committee on 17 July 1998 to grant a PPA to those D3 and above officers who retired and started receiving pension benefits in 1998-99. These officers were granted an allowance of 6.03% for one day to restore their pensionable emoluments for calculation of pension benefits to their salary level in 1998-99 plus 6.03%. Similar arrangements also applied to ex-civil servants at D3 and above or equivalent who had transferred to public organisations and remained eligible for civil service pension benefits calculated on the basis of a salary point at D3 and above or equivalent upon retirement.

4. We have granted PPA to 18 civil servants and one judicial officer at D3 and above or equivalent who retired in 1998-99. The 276 remaining pensionable officers (including 231 civil servants and 45 judicial officers) serving at D3 and above in 1998-99 who were subject to the pay freeze in 1998-99 are not subject to the special PPA arrangement. Among them, 22 pensionable officers (including 16 civil servants and six judicial officers) have left or are known to be leaving the service in 1999-2000.

Pay Adjustment for 1999-2000

5. The civil service pay has been frozen across-the-board in 1999-2000. In the absence of any PPA arrangement, the pension benefits of those 276 D3 and above officers mentioned above will continue to be affected by the pay freeze in 1998-99, unless their pay is subsequently adjusted to a level above that in 1998-99 plus 6.03% before they leave the service.

Continuing Pensionable Personal Allowance for D3 and Above Officers

6. We consider that there are justifications in support of seeking approval of the Finance Committee to continue to grant a PPA to those D3 and above officers who were not subject to the PPA arrangement approved last year -

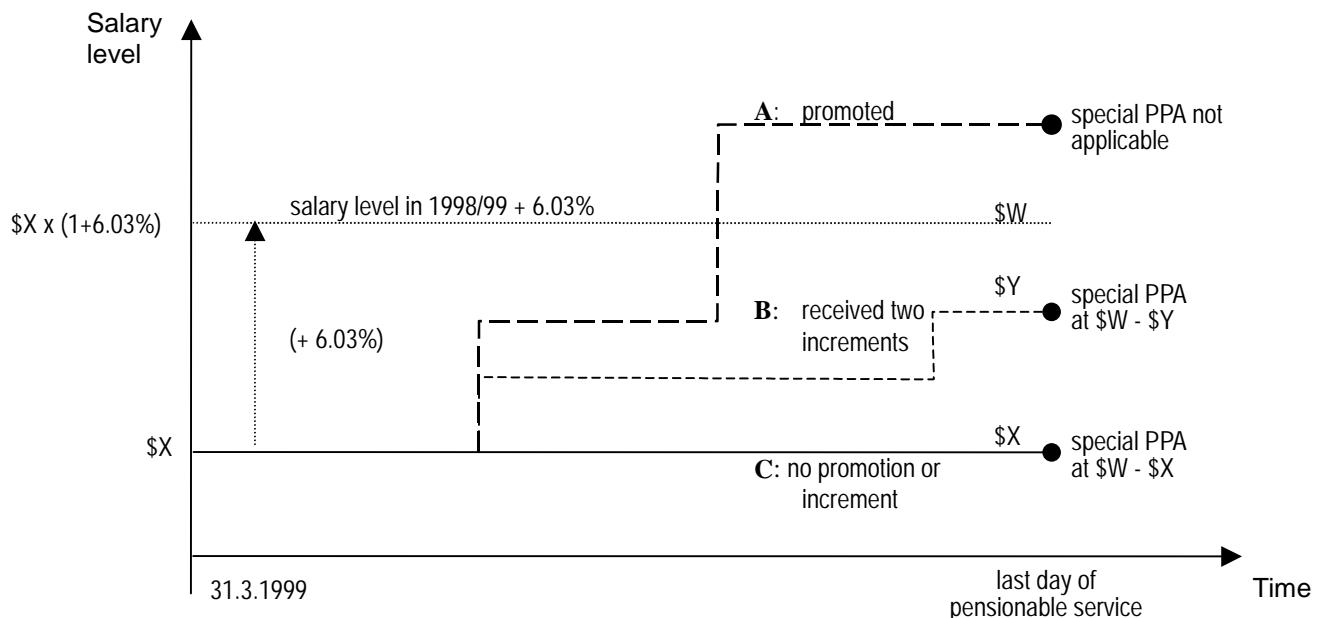
- (a) **Principle of equity:** There are no substantial differences in circumstances between those officers at D3 and above who retired in 1998-99 and in the next few years until and unless their salaries are increased either through promotion or pay adjustment. On grounds of equity and consistency, these officers have legitimate expectations for their pension benefits to be restored in the same manner as those who retired in the last financial year.
- (b) **Pay freeze not intended to affect pension:** PPA was granted to the 18 D3 and above officers and one judicial officer who retired in 1998-99 in recognition that the pay freeze in 1998-99 applied to D3 and above officers was not intended to undercut their pension benefits earned by their whole period of service. Not to grant PPA this year will mean that these officers will suffer on two counts - in pay freeze and in pension benefits. On the other hand, the great majority of the civil service received a pay adjustment in 1998-99, which would be taken into account in their pension benefits.

7. We consider that on the principle of equity and consistency in policy, we have a moral obligation to seek to grant PPA to those D3 and above officers who were

subject to the pay freeze in 1998-99 and who fall outside the PPA arrangement made last year, in order to restore their pension entitlements.

Proposed PPA Arrangement

8. We therefore propose that, for the officers on pensionable terms and who served at D3 and above or equivalent in 1998-99, a PPA should be granted for the last day of their pensionable 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 remains lower than that in 1998-99 plus 6.03%. The PPA will not be granted if the officers concerned have their salaries adjusted to a level exceeding the level in 1998-99 plus 6.03% through increment, promotion and/or salary adjustment before they leave the service. To illustrate, a PPA would be payable only under scenarios B and C below-



9. 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.

Financial Implications

10. The amount of 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.

11. It would not be possible to come up with a realistic estimation of the financial implications, if any, for granting PPA to the remaining 254 officers and 36 ex-civil servants, as it would be difficult to predict their timing of leaving the service, and whether their final salary level would exceed their salary level in 1998-99 by more than 6.03% through increment, promotion and/or salary adjustment.

Way Forward

12. Members are invited to note the proposals. We shall seek the approval of the Finance Committee in January 2000 to continue to grant a PPA to those officers who were serving at Directorate Pay Scale Point 3 (D3) and above or equivalent and were subject to the pay freeze in 1998-99 as proposed in paragraph 7-9 above. Subject to the approval of the Finance Committee, we shall arrange to grant the PPA to those officers as and when they leave the service to restore their pensionable emoluments.

Civil Service Bureau
16 December 1999