

ITEM FOR FINANCE COMMITTEE

HEAD 120 - PENSIONS

Subhead 015 Public and judicial service pension benefits and compensation

Members are invited to approve supplementary provision of \$110 million under Head 120 Pensions Subhead 015 Public and judicial service pension benefits and compensation.

PROBLEM

The approved provision of Subhead 015 under Head 120 Pensions is not sufficient to meet increased expenditure in 2002-03.

PROPOSAL

2. The Director of Accounting Services (DAS) proposes supplementary provision of \$110 million under Head 120 Subhead 015 Public and judicial service pension benefits and compensation.

JUSTIFICATION

3. On the basis of the actual expenditure for the nine months from April 2002 to December 2002, and the revised estimate for the remainder of 2002-03, 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 -

/(a)

	\$'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)]	11,270,662
Less	
(d) Approved provision for 2002-03	11,161,100
(e) Shortfall [(c) – (d)]	109,562
Say	110,000

Encl.

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 Enclosure).

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 45 and 55 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 estimate, 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 lengths of pensionable service may also differ, for estimate 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 included in the 2002-03 Estimates a provision of \$11,161.1 million for Head 120 Pensions Subhead 015.

8. According to the latest returns submitted by departments, we estimate that 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 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 the latest information.

9. Having regard to the actual cases of retirements in 2002-03 so far, 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 at \$7,064 is also more than the original estimate of \$7,020. This gives rise to an increase in the revised estimate for pensions expenditure to \$11,270.7 million, or an increase of about 1% of the approved estimate of \$11,161.1 million. 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 proposed supplementary provision represents about 1% of the approved estimate. Such a discrepancy from the approved estimate is within the normal range of deviation, and in line with the spending pattern in the last three years.

FINANCIAL IMPLICATIONS

11. If Members approve the proposal, we shall offset the supplementary provision of \$110 million under Head 120 Subhead 015 by deleting an equivalent amount under Head 106 Miscellaneous Services Subhead 251 Additional commitments.

BACKGROUND INFORMATION

12. The approved estimate for Head 120 Pensions 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 legislation.

13. We consulted the Legislative Council Panel on Public Service on 20 January 2003 on the proposal. Members did not raise any objection to the proposal.

**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%