

For information

LEGISLATIVE COUNCIL PANEL ON PUBLIC SERVICE

Proposed Civil Service Provident Fund Scheme – Outcome of Consultation

PURPOSE

This paper reports the outcome of the consultation exercise on the proposal to set up a Civil Service Provident Fund (CSPF) Scheme.

BACKGROUND

2. On 16 January 2001, we announced the findings and recommendations of stage one of the consultancy study on the proposal to introduce a CSPF as the retirement benefits system for new recruits to the civil service on permanent terms. We also released a Consultation Document on the proposed design options of the CSPF for consultation with the staff sides, departmental management, civil service advisory bodies and other stakeholders. We have briefed Members on the proposed design options of the CSPF on 19 March 2001 and we undertook to keep Members informed of the feedback received during the consultation period.

3. The Consultation Document has generated considerable discussion amongst civil servants, staff unions, academics, legislators, employers and business groups as well as the public at large. The 3½ month public consultation period on the CSPF proposal ended on 30 April. We have so far received views and comments from 92 parties, including four from the public, four from the employers and business groups, and 84 from the staff councils/associations/unions and departmental management.

OUTCOME OF PUBLIC CONSULTATION

General Comments on the CSPF Proposal

4. The vast majority of the submissions, including those from the staff and departmental management, business groups, academics and editorials, either support or have no objection in principle to the CSPF proposal. Views expressed

include that the proposed CSPF will bring the Government's practice on the provision of retirement benefits to civil servants more in line with that in the private sector, it would help relieve the Government of the pension liabilities in the long run and facilitate the exchange of talent between the Government and the private sector.

5. There are a few submissions expressing different views. Among them is a submission from a staff association which suggested that the CSPF should be introduced alongside the pension scheme as an alternative and all staff, serving and new recruits, should be given a choice. A small number of submissions from the public expressed a view that the existing civil service pension scheme should be abolished as the civil service fringe benefits are too generous.

Design Options of CSPF

(A) Legal Framework for the CSPF Scheme

6. The consultants recommended that the proposed CSPF should be set up under the Mandatory Provident Fund Schemes Ordinance (MPFSO) (Cap. 485). Comments that touch on the legal framework generally supported this proposal. A few of the submissions however indicated concern that the MPFSO may impose too many restrictions in overall operation and may unduly increase the workload of the employer and the service providers. There is a suggestion that the CSPF should be set up under a separate legislation.

(B) Retirement Age

7. The consultants recommended that the current retirement age should remain same as in the New Pension Scheme (NPS), i.e. 60 for the civilian grades and 55 for members of the Disciplined Services except those officers whose prescribed retirement age is 57. The submissions, which commented on this proposal, in general supported the recommendation. A few submissions however gave other views ranging from extending the retirement ages to introducing flexible retirement ages.

(C) Contribution Rates

8. Regarding the contributions to be made by the Government as an employer to the CSPF, the consultants have considered the following options –

- (a) a uniform contribution rate at 17% of basic salary for all staff irrespective of their rank and length of service;
- (b) progressive contribution rates from 5% to 25% of basic salary based on length of service; and
- (c) varying contribution rates based on salary bands.

Level of Contributions

9. Views on the Government's contribution rates under the CSPF are divergent. A few respondents from the public and the business groups considered the level of contributions to be on the high side. On the other hand, staff members in general found the level of contributions acceptable and conducive to maintaining the stability and integrity of the civil service, but some considered the level of benefits much less favourable than under the existing civil service pension schemes and regarded this as a reduction of fringe benefits. Some human resource consultants and academics considered the proposed Government's contribution rate under the CSPF attractive and would help recruit and retain talent within the civil service.

Uniform vs Progressive Contribution Rate

10. As regards whether a uniform or progressive contribution rate schedule based on length of service should be adopted, and how the progressive contribution rates should be staggered, views are even more divergent. While a number of staff unions supported the progressive contribution rate option because of its greater retention effect, others favour the uniform contribution rate option as it is simpler to administer, provides higher contribution at the earlier part of the career and would be more attractive to young prospective appointees. There are suggestions that a higher contribution rate should be offered to further enhance the retention effect, especially for years when staff turnover is expected to be higher. A member of the public and the retirement benefit business group also supported the uniform contribution rate option.

(D) Special Disciplined Services Contribution

11. To address the earlier retirement age for Disciplined Services officers who would have a shorter span of career when compared with civilian staff, the consultants have recommended a "Special Disciplined Services Contribution" (SDSC) at the rate of 2.5% of salary for members of the Disciplined

Services in addition to the rate of contribution that the Government will make towards staff in general.

12. There is general support from staff of the Disciplined Services to the proposal of an additional SDSC. However, some of them have suggested that a higher level of contribution should be made to reflect the full difference in pension benefits under the existing NPS between Disciplined Services and civilian staff. On the other hand, some civilian staff considered that the SDSC should only reflect the difference in benefits between the two groups of staff under the proposed CSPF. Some even regarded the SDSC proposal inappropriate, discriminatory in nature and may lead to staff relation problem.

(E) Employee Contributions

13. The consultants recommended that new recruits to be covered by the CSPF should be required to contribute to the scheme as prescribed in the MPFSO. Only few submissions commented on this point. Some staff disagreed with this proposal on grounds that the existing civil service pension schemes do not require employee contributions. The requirement for employee contributions was regarded as a reduction in salary. However, the retirement benefit business group held a different view as the requirement for employee contributions is not uncommon in the private sector. They further suggested that civil servants under the CSPF should be given the option to increase the employees' voluntary contributions periodically.

(F) Vesting Schedule

14. The consultants recommended 100% vesting of the Government's voluntary contributions after 10 completed years of service. Interim vesting can be at the rate of 10% per year, or with no vesting until 10 years of service. Consideration may also be given to extending the vesting schedule to 20 years with progressive vesting from the 11th year and 100% vesting on 20 completed years of service.

15. The consultants further proposed that benefits accrued under the SDSC arrangement should be subject to one of the following two options –

- (a) 0% vesting until reaching the prescribed retirement ages when 100% vesting will take effect; or

- (b) 0% up to 10 years of service, 5% per year from 11 to 30 years of service (i.e. 50% after 20 years and 100% after 30 years). In all cases, the amount will be fully vested at the prescribed retirement age with 10 completed years of service (which is the minimum qualifying service for the enhancement in the provision of pension benefits upon retirement at the prescribed age in the NPS) or with 30 years of service at any age.

16. There is general consensus amongst staff and the retirement benefit business sector that a service period of 10 years is a reasonable time limit for full vesting of the CSPF benefits due to the Government's voluntary contributions. However, views are divided on whether partial vesting should be allowed in the interim for less than 10 years' service. Whilst the retirement benefit business sector supported an interim vesting arrangement of 10% per annum, staff have put forward a number of other combinations for the full and interim vesting arrangements.

17. As regards the SDSC, a submission from the public opined that there should be no vesting until the prescribed retirement age. This view was shared by some civilian staff who considered that this is in line with the spirit of granting the SDSC and is fair to the civilian staff. Staff members of the Disciplined Services and some civilian staff however supported the option of 0% vesting up to 10 years of service, and 5% per year from the 11th years onwards. Some staff members also considered that 0% vesting of the SDSC under 10 years of service to be unreasonable and proposed immediate vesting.

(G) Withholding, Forfeiture and Cancellation of Benefits attributable to Government's Voluntary Contribution

18. The public and the retirement benefit business sector supported the inclusion of provisions in the CSPF to deal with withholding, forfeiture, cancellation or reduction of benefits under the CSPF attributable to the Government's voluntary contributions on disciplinary grounds so as to help maintain high standards of integrity and probity in the civil service. Staff members' views on the proposed penalty provisions are divided. Some supported the proposal and suggested that clear rules and guidelines should be formulated in consultation with staff; that "misconduct" should be clearly defined and should only include job-related problems; and that there should be an appeal and

arbitration mechanism. Others considered that retirement benefits should be forfeited only if an officer commits a criminal offence and is sentenced to jail immediately. There is also the view from staff that forfeiture of retirement benefits would amount to double penalty.

(H) Transfer Option for Serving Pensionable Officers

19. The consultants did not recommend allowing transfers from the pension schemes to the CSPF. Views from the public and staff members are divided. Some supported the consultants' recommendation and the others considered that a transfer option should be provided because of the flexibility afforded for short service officers. There are suggestions that serving pensionable officers should be paid their accrued pension benefits upon leaving service. A staff association also suggested that serving officers and new recruits should be given the option to choose between the pension scheme and the provident fund.

(I) Provision of Enhanced Benefits

20. The consultants recommended that enhanced benefits granted on occasions of death in service, invaliding, duty-related injury or death under the existing pension schemes, which are by means of enhancing an officer's length of pensionable service, should be paid through a supplementary defined benefit scheme or through payments outside of the CSPF.

21. A submission from the business sector disagreed with the proposal of setting up a supplementary defined benefit scheme for the provision of enhanced benefits for death, incapacity and injury and suggested instead taking out insurance for civil servants. Staff in general supported that special benefits should continue to be provided. They considered that the proposed level of benefits should be comparable to that of the existing pension scheme and asked to be provided with details on the future arrangements.

(J) Other Views

22. The general public, staff sides and the business sector have also raised other suggestions including –

- (a) widow and orphan protection should be a feature of the CSPF;
- (b) civil servants retired under the CSPF should be required to use a minimum portion of the lump sum retirement benefit to

purchase an annuity for the continuous provision of means of living after retirement;

- (c) the CSPF should apply to staff serving on probationary and agreement terms rather than upon appointment on permanent terms. Alternatively, CSPF contributions should be made retrospectively with effect from an officer's date of first appointment, or the period on probationary and agreement terms should be recognised for determining the appropriate CSPF contribution rate when an officer is appointed on permanent terms;
- (d) the arrangement in situations where an officer is not receiving his/her full monthly salary, e.g. during interdiction, extended sick leave, no pay leave, etc., should be clearly set out;
- (e) there should be a regulatory mechanism to safeguard the investment returns of the contributions and to ensure that the scheme is risk-free. Government should also consider providing a guarantee on the rate of investment return, maximizing investment earnings and holding the parties responsible for financial loss due to malpractice; and
- (f) there should be more staff consultation, publicity, training and education seminars on investment and financial planning.

WAY FORWARD

23. We are analysing and considering the views and comments received with a view to addressing them in the development of the detailed design of the CSPF. Members are invited to note the feedback as reported above and we welcome further views from Members on the design options of the proposed CSPF.