

Extension of the Service of Civil Servants

Consultation Paper

Civil Service Bureau

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FOREWORD

1. This consultation paper sets out the major findings of a study conducted by the Civil Service Bureau (CSB) for sizing up the retirement and manpower situation of the Civil Service over the coming years, and invites comments on the proposed framework for extending the service of civil servants.
2. We welcome views and suggestions from staff, grade/departmental management and concerned parties on or before **2 August 2014** through any of the following means –

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INTRODUCTION

- 1.1 As set out in the consultation document on population policy of the Steering Committee on Population Policy (SCPP), the number of people aged 65 or above is projected to increase to 2.16 million by 2031, more than doubling the 980 000 in 2012. This figure will rise further to 2.56 million by 2041, representing nearly one third of the then projected total population.
- 1.2 An ageing population will lower our labour force participation rate, from 58.8% in 2012 down to 49.5% in 2041. According to the projection, our labour force is expected to peak at 3.71 million in 2018 and then decline to 3.51 million in 2035 before resuming modest growth.
- 1.3 One way to mitigate the impacts of ageing population and a shrinking labour force is to prolong the working life of the population by retiring later. The issue of extending the working life of our population has therefore been raised in SCPP's consultation document on population policy.
- 1.4 In the face of the demographic challenges arising from an ageing population and a shrinking labour force, the Government, being the largest employer in Hong Kong, considers it an opportune time to examine possible options for extending the working life of civil servants so as to enable us to better respond to such challenges. At the same time, in anticipation of the higher wastage of civil servants in the coming years mainly due to the expansion of the Civil Service in the 1980s, we would need to examine whether there are any operational and/or succession issues that require to be addressed.

1.5 Against the above backdrop, CSB has conducted a study to assess the manpower and retirement situation in the Civil Service in the coming years, and to examine possible options for extending the service of civil servants after their retirement. We had carried out a survey to size up the retirement and manpower situation of individual civil service grades/departments in the ten-year period between 2013-14 and 2022-23. We had also gauged the feedback of grade/departmental management on the need for and, if so, the means of retaining experienced civil servants beyond their retirement age to address any operational or succession issues identified.

STUDY FINDINGS

- 2.1 The key findings of the study conducted by CSB are summarised in the ensuing paragraphs.
- 2.2 For the five-year period from 2008-09 to 2012-13, the annual average number of retirees (excluding Voluntary Retirement retirees) was about 4 200 (or 2.7% of the civil service strength). During the same period, the annual average increase of civil service establishment was around 1 300 (or about 1.0% of the civil service establishment) to meet the demand for new or improved services to the public.
- 2.3 According to our projection, the number of civil servants who will retire in the coming years is expected to increase further. Specifically, the annual average number of retirees will increase from around 6 000 (or 3.7% of the civil service strength as at 31 March 2013) for the five-year period ending 2017-18 to around 7 000 (or 4.4% of the civil service strength as at 31 March 2013) for the next five-year period ending 2022-23. But the number is expected to decline to around 5 400 (or 3.4% of the civil service strength as at 31 March 2013) for the following five-year period ending 2027-28 and the declining trend will continue thereafter.
- 2.4 Based on the data collected from the Heads of Grade/Heads of Department (HoGs/HoDs) in the study, the natural wastage rate of the civilian departments/offices will be 16.0% of their strength as at 31 March 2013 (or annual average rate of 3.2%) for the five-year period ending 2017-18 and the rate will increase to 25.3% of their strength as at 31 March 2013 (or annual average rate of 5.1%) for the following five-year period ending 2022-23. Taking the ten-year period ending 2022-23 as a whole, the natural wastage rate will be 41.4% (or an annual average rate of 4.1%).

- 2.5 In the case of disciplined services, the natural wastage rate of the six disciplined services departments (covering disciplined services grades only) for the five-year period ending 2017-18 and that for the following five-year period ending 2022-23 will both be 18.3% of their strength as at 31 March 2013 (or annual average rate of 3.7%). Taking the ten-year period ending 2022-23 as a whole, the natural wastage rate will be 36.7% (or an annual average rate of 3.7%).
- 2.6 No specific succession problems are anticipated for most grades. According to the relevant HoGs/HoDs' assessment, only a few professional and technical grades with higher wastage up to 2022-23 might have possible succession problems/recruitment difficulties and hence the need for further employment of civil servants without a break in service beyond retirement age. Analysis of the wastage situation of the civil service grades from 2013-14 to 2022-23 are set out at **Annex**.
- 2.7 In addition to the above quantitative analyses, we have obtained the following general feedback from the management of the relevant bureaux/departments –
- (a) the wider picture of demographic challenges arising from an ageing population and a shrinking labour force is duly recognised. The Civil Service, being part of the working population in Hong Kong, should consider introducing a higher retirement age for new recruits to the Civil Service, subject to any necessary physical fitness requirements being met;
 - (b) notwithstanding the above, except for a few grades which require highly specialised skill-sets or which will face higher wastage particularly at the upper ranks, anticipated and consequential vacancies arising from retirement are expected to remain at a manageable level which could be filled by promotion and recruitment without much difficulty;

- (c) while the existing mechanism on further employment of civil servants without a break in service beyond retirement age provides a useful human resource (HR) tool for succession planning purposes, it would be desirable to allow more flexibility for HoGs/HoDs to retain experienced staff where necessary in the face of the higher wastage of civil servants over the coming years;
- (d) a service-wide extension of the retirement age of serving officers on a voluntary basis may not be conducive to manpower planning. To avoid manpower mismatch between the expertise/aptitude required by grades/departments and the skill-sets/performance of those who are willing to serve beyond their retirement age, service extension should be subject to a selection process by the management. They have, however, cautioned that too extensive use of service extension, might cause management problems such as adversely affecting promotion prospects of younger officers, and injection of new blood into the Civil Service;
- (e) in considering the retention of retired officers, physical fitness, which is likely to be affected by age, is a requirement which needs to be taken into account in respect of disciplined services grades and possibly some civilian grades which are required to perform physically demanding duties (e.g. field work);
- (f) any proposal for extending the service of staff beyond retirement age must be carefully balanced against its adverse impacts on the promotion prospects of serving officers and the need for healthy injection of new blood into the Civil Service. On the former, there is particular concern that some younger professional officers on new terms of appointment may opt to quit the Civil Service if they see their promotion prospects being adversely affected; and

(g) while retired civil servants could be employed to fill non-civil service contract (NCSC) positions under the existing NCSC scheme, suitable refinements could be made to the parameters of the scheme (e.g. its scope) to further facilitate the engagement of retired officers, on a need basis, to undertake ad hoc duties which require specific civil service skills or experience.

2.8 While the findings above indicate that from the civil service management perspective, there is no need to extend the retirement age of serving civil servants across the board, there is a strong case to introduce a higher retirement age for the Civil Service against the backdrop of an ageing population. Furthermore, we see merits in introducing suitable retirement and employment initiatives to equip HoGs/HoDs with additional HR tools to extend the service of serving civil servants after their retirement so as to cope with different operational and succession needs of individual grades/departments at different times.

PROPOSED FRAMEWORK

3.1 This chapter sets out the proposed framework embracing a range of flexible retirement and employment initiatives.

3.2 Objectives and Guiding Principles

3.2.1 In the light of the findings of the study, we propose to adopt a holistic approach which embraces a range of flexible retirement and employment initiatives with a view to serving the following objectives –

- (a) keeping pace with the demographic changes of society so that the Civil Service, as part of the entire working population, can better respond to the economic and social challenges arising thereof, and setting an example to the private sector and other public bodies to follow; and
- (b) addressing the different operational and succession needs of individual grades/departments having regard to the needs to maintain effective management and to meet the aspirations of different cohorts of civil servants.

3.2.2 In devising the retirement and employment initiatives, we are also guided by the following principles –

- (a) relevant employment initiatives should be participated by serving or retired civil servants on a voluntary basis. Such initiatives should allow staff to continue to make contributions beyond their retirement age, while enabling HoGs/HoDs to retain experience and expertise of retirees to meet operational and/or succession needs. Consideration of applications for the employment initiatives would need to be processed by HoGs/HoDs by going through a transparent and objective selection process;

- (b) balance has to be struck between the need to provide sufficient incentives for serving or retired civil servants to take up employment after their retirement and to ensure prudent use of public funds;
- (c) liabilities on retirement benefits particularly the pension liabilities should be contained so as to minimise additional costs that may be incurred by taxpayers; and
- (d) due regard should be given to the need to minimise adverse impacts on the promotion prospects of serving officers¹ and healthy injection of new blood to the Civil Service.

3.3 Proposed Initiatives

3.3.1 Taking into account the objectives and guiding principles above, we propose a flexible retirement and employment package that embraces the following initiatives –

- (a) to adopt a higher retirement age for civil service new recruits as from a future date;
- (b) to provide HoGs/HoDs with more flexibility to further employ officers, on a need and selective basis, after they have reached retirement age to fill civil service posts;
- (c) to introduce a new “Post-retirement Service Contract Scheme” (PRSC Scheme) for engaging retired officers on contract terms, on a targeted basis, to undertake ad hoc duties (including time-limited or part-time ones) which require specific civil service expertise or experience; and

¹ In 2012-13, it took an average of 14.6 years for civil service promotees to be promoted to the next higher rank.

- (d) to streamline the control regime of post-service employment for non-directorate civil servants at junior ranks to facilitate their taking up of outside work after retirement, if they so wish.

Higher Retirement Age for New Recruits

3.3.2 Promoting a longer working life for the working population in Hong Kong is one of the means to mitigate the adverse impacts of demographic challenges arising from an ageing population and a shrinking labour force. With a corresponding increase in life expectancy, better health, higher education levels and less physically demanding jobs in the community, it is expected that more people would be willing to stay longer in the labour force. Being the largest employer in Hong Kong, the Government should play its part in encouraging people to stay longer in the work force.

3.3.3 At present, the retirement ages of serving civil servants range between 55 and 60, depending on whether they are on the Old Pension Scheme, New Pension Scheme (NPS) or Civil Service Provident Fund (CSPF) Scheme, and whether they are civilian or disciplined services staff. To better respond to the demographic challenges, we see merits in prescribing a higher retirement age for new recruits.

3.3.4 Having regard to the age of 65 for the withdrawal of accrued Mandatory Provident Fund benefits in a lump sum as stipulated under the Mandatory Provident Fund Schemes Ordinance and the general feedback we have so far received from staff, we propose that for the civilian grades of the Civil Service, the retirement age of new recruits should be extended by five years to 65, from a future date.

- 3.3.5 For disciplined services grades, we propose that the retirement age for new recruits of all the disciplined services grades, regardless of their ranks², be set at 57, but may be further extended subject to an annual suitability assessment based on both physical fitness and work performance. Officers passing the annual suitability assessment may serve up to the age limit of 60.
- 3.3.6 At present, under the CSPF Scheme, the Government's contributions, inclusive of mandatory and voluntary contributions, would increase from 5% of the basic salary of an eligible officer at his substantive rank for below three years of service, to 15% from three years to below 15 years of service, and then progress every five years until reaching 25% for 30 or above years of service. For disciplined services officers, they are provided with the Special Disciplined Services Contribution (SDSC) in recognition of their earlier retirement age vis-à-vis civilian staff. The SDSC is at a rate of 2.5% of the basic salary on top of the Government's voluntary contributions under the CSPF Scheme. CSPF officers may withdraw the accrued benefits attributable to the Government's voluntary contributions upon leaving the Civil Service at the prescribed retirement age (60 for civilian officers, and 55/57 for disciplined services officers). If the existing CSPF Scheme and its contribution rates remain unchanged, the proposal of adopting a higher retirement age to new recruits would result in an increase in the Government's voluntary contributions under the CSPF Scheme since such contributions increase progressively with the years of service of officers covered by the Scheme. We need to examine in greater detail the financial implications of the proposal with a view to hammering out the implementation details at the next stage.

² Currently, under NPS and the CSPF Scheme, the prescribed/normal retirement age for disciplined services officers is 55 or 57 (depending on rank).

3.3.7 If the retirement age of all new recruits is extended (say, by five years), about 30-35 years down the road, there would be a period when the natural wastage rate in the Civil Service would be significantly reduced. This would give rise to promotion blockage and hinder healthy turnover in the Civil Service. In this connection, there are merits in adopting a phased approach in introducing a higher retirement age by applying a higher retirement age to new recruits progressively to smoothen the adverse impacts of raising the retirement age in the transition process.

Further Employment Mechanism

3.3.8 Under the existing mechanism, we may offer, on an exceptional basis, further employment to officers on pensionable terms without a break in service beyond their normal retirement age if HoGs/HoDs see a genuine need to retain the officers for a specified period to meet special operational and/or succession needs which cannot be met through other possible means such as promotion, redeployment, etc. Given the stringent approval criteria currently adopted and the limited duration of the further employment period (usually less than 12 months), the number of further employment cases in recent years is far and few between.

3.3.9 To meet specific operational and/or succession needs against the backdrop of the higher wastage of civil servants in the coming years up to 2022-23, we propose that suitable adjustments be made to the mechanism on further employment so that HoGs/HoDs would have more flexibility to retain experienced officers beyond their retirement age under the current further employment terms. Possible adjustments may include –

- (a) allowing a longer period of further employment other than final extension of service, subject to the relevant conditions being met (i.e. well justified operational and/or succession needs, no undue promotion blockage, good performance and physical fitness, and periodic review of the duration of further employment). In any case, such period should, in total, not be more than five years;
- (b) relaxing suitably the approval criteria for further employment (e.g. adding the new criterion of transfer of expertise or experience to younger civil servants, apart from the existing criteria of genuine need to retain the officers for a specified period so as to meet special operational and/or succession needs);
- (c) raising suitably the maximum period for final extension which is currently set at 90 days, to say, 120 days, and relaxing suitably the approval criteria; and
- (d) extending the coverage to officers on new terms of appointment³.

3.3.10 While suitable adjustments are proposed to allow HoGs/HoDs with greater flexibility to retain staff by way of further employment, applications for further employment will continue to be subject to vetting through a transparent and objective process, and only be approved where fully justified having regard to the relevant factors (including genuine operational and/or succession needs, no undue promotion blockage, good performance, conduct and physical fitness, and periodic review of the duration of further employment).

³ Civil servants are normally required to retire from service upon reaching prescribed normal retirement age. This notwithstanding, civil servants on pensionable terms may apply for further employment beyond normal retirement age without a break in service. However, at present, there is no specific provision in the Civil Service Regulations for further employment of officers on new terms of appointment beyond their normal retirement age.

3.3.11 Currently, a pensionable officer serving on further employment in the same rank without a break in service is normally eligible for consideration for promotion provided that he has not less than 12 months to service before going on leave prior to finally leaving the service. In this connection, a view has been expressed that the career of officers should have already ended upon reaching the normal retirement age and that further employment should not offer an opportunity for promotion during the further employment period. We see merits in this argument and propose that officers on further employment should not be eligible for consideration for promotion during the further employment period.

New PRSC Scheme

3.3.12 Under the existing NCSC Scheme, which aims at providing B/Ds with a flexible means of employment to meet their changing operational and service needs, retired civil servants may be employed to fill NCSC positions to undertake time-limited, short-term, part-time, seasonal or ad hoc duties particularly those requiring specific civil service expertise or experience, subject to resource availability and approved NCSC ceiling.

3.3.13 The current NCSC Scheme has served, to a certain extent, as a useful tool for HoGs/HoDs to handle ad hoc duties in general. However, with increasing number of ad hoc jobs requiring specific civil service expertise or experience, we see merits in institutionalising and improving the arrangement for engaging retired civil servants specifically to fill contract positions with a view to facilitating HoGs/HoDs in tapping this HR pool. We thus propose to introduce a new PRSC Scheme to provide HoGs/HoDs with additional flexibility for employing retired civil servants on contract terms to perform ad hoc/time-limited tasks which require civil servant expertise and/or experience, but cannot be undertaken by civil service established posts because of the urgent or part-time (e.g. service subject to seasonal fluctuations) nature of the jobs. The Scheme should also be designed to

facilitate transfer of expertise or experience and maintain the quality of service delivery (e.g. provision of training reserve) in the face of the higher wastage of civil servants in the coming years.

- 3.3.14 Similar to the existing NCSC Scheme, it is proposed that the PRSC Scheme should cover positions which correspond to civil service non-directorate level only. It is also proposed that the age limit of 65 for civilian staff and 60 for disciplined services staff may generally apply to appointment under the PRSC Scheme. For the terms and conditions, we initially propose that the salaries of the PRSC positions should be no better than the pay level of comparable civil service ranks, but position holders are not entitled to other civil service fringe benefits generally⁴.
- 3.3.15 As with other manpower resources, to ensure prudent use of public funds, positions to be created under the PRSC Scheme should be fully justified on the basis of the operational and/or succession needs, and subject to resource availability. The proposed Scheme would provide necessary flexibility for HoGs/HoDs to adjust their staffing levels and staff mix with a view to meeting operational and/or succession needs at different times in the face of the higher wastage of civil servants in the coming years.
- 3.3.16 The PRSC Scheme will have minimal impacts on the existing civil service system (including promotion, establishment, injection of new blood, etc.) as the contract positions under the proposed PRSC Scheme will not form part of the civil service establishment. We should ensure that the PRSC Scheme could only be used under well-justified circumstances, and the selection process should be transparent and objective. In this connection, we would draw up suitable guidelines for the implementation of the Scheme, if so pursued.

⁴ Monthly pension will be paid when the officers on pensionable terms have retired and have reached the applicable normal retirement age.

Streamlining Control Regime on Post-service Outside Work

3.3.17 Civil servants who wish to stay in the workforce after retirement may opt for working in the private or non-Government sector apart from continuing to serve in the Government. Under the current control regime on post-service outside work, civil servants have to seek prior permission from the approving authority for taking up outside work within a specified control period after retirement. The control regime seeks to ensure that no impropriety (e.g. conflict of interests, embarrassment to the Government) is involved in retired civil servants taking up post-service outside work.

3.3.18 As far as non-directorate civil servants are concerned, those on pensionable terms leaving the Civil Service on retirement are required to seek prior approval from the authority before taking up outside work in the first two years of retirement. Although the vast majority of the applications for post-service outside work were approved in recent years, there is a case for streamlining the approval process so as to avoid unduly deterring non-directorate civil servants from pursuing post-retirement career if they so wish. At present, blanket permission has been granted to civil servants remunerated on the Model Scale 1 Pay Scale to take up post-service outside work after retirement. In a bid to remove unnecessary barriers for retired civil servants to stay in the labour market and considering the relatively remote risk of impropriety for non-directorate civil servants at junior ranks taking up outside work after retirement, we propose that consideration be given to extending such blanket permission to other frontline and supporting civil servants, say, those holding positions below a certain pay point.

LOOKING AHEAD

- 4.1 The Civil Service must keep pace with demographic changes of society and strive continuously to upkeep the quality of service provided for the public. This consultation paper puts forward a package of initiatives with a view to achieving these objectives.
- 4.2 Over the next four months, we look forward to receiving views and suggestions from all concerned parties. We will engage in active exchange with the staff sides, grade/departmental management and other parties concerned.
- 4.3 Taking into account the feedback received through this consultation and further examination of the relevant issues including the financial implications of the proposals, the Administration would decide on the way forward and work out the implementation details.

**Analysis of Wastage Situation of the Civil Service Grades
from 2013-14 to 2022-23**

In total, 350 civil service grades were covered in the internal study. Of which, 331 are civilian grades with strength of about 102 000 (or 63.6% of the civil service strength of 160 663 as at 31 March 2013). The remaining 19 are disciplined service grades with strength of about 53 600 (or 33.3% of the civil service strength as at 31 March 2013).

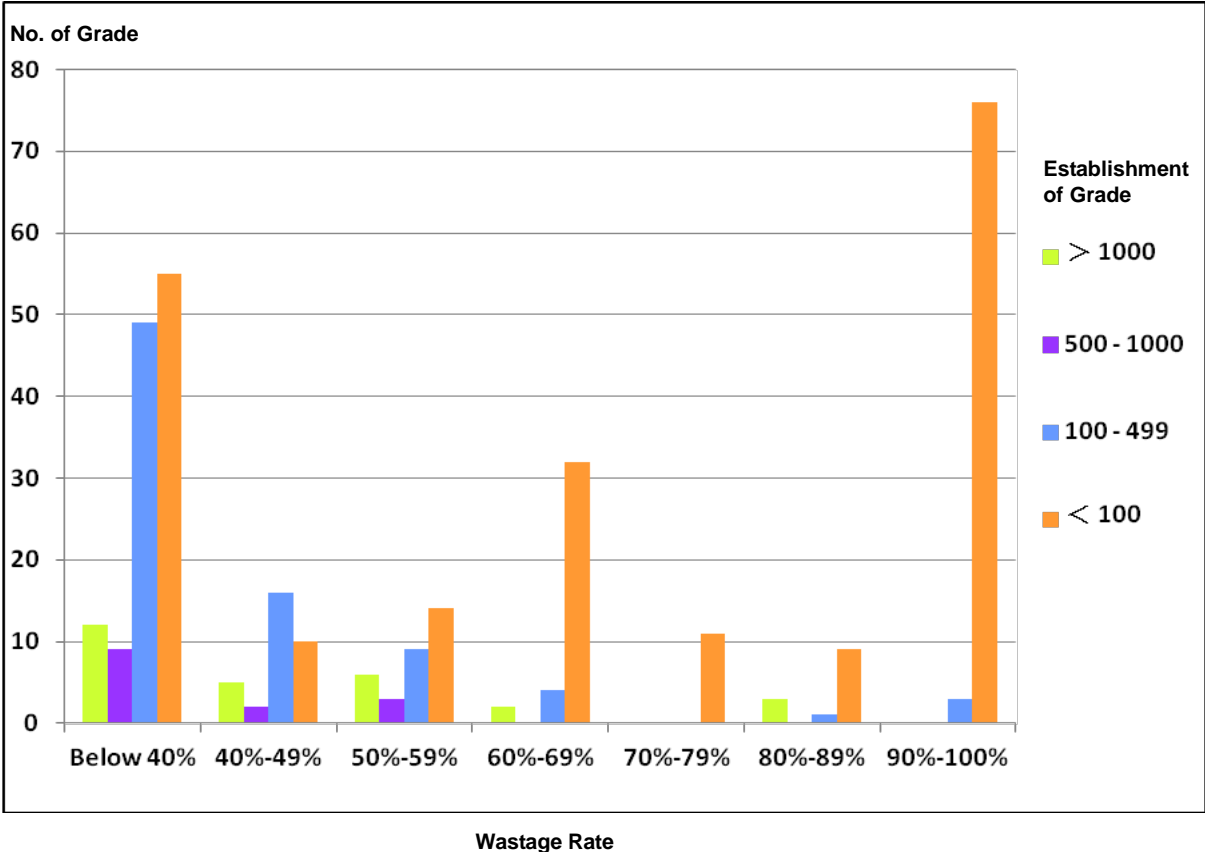
(a) Natural wastage of civilian grades

2. Based on the data collected from the Heads of Grade / Department (HoGs/HoDs), the natural wastage rate of the civilian departments/offices will be 16.0% of their strength as at 31 March 2013 (or annual average rate of 3.2%) for the five-year period ending 2017-18 and the rate will increase to 25.3% of their strength as at 31 March 2013 (or annual average rate of 5.1%) for the following five-year period ending 2022-23. Taking the ten-year period ending 2022-23 as a whole, the natural wastage rate will be 41.4% (or an annual average rate of 4.1%).

3. The natural wastage rate of the 331 civilian grades will be 18.2% of their strength as at 31 March 2013 (or annual average rate of 3.6%) for the five-year period ending 2017-18 and the rate will increase to 24.4% of their strength as at 31 March 2013 (or annual average rate of 4.9%) for the following five-year period ending 2022-23. Taking the ten-year period ending 2022-23 as a whole, the natural wastage rate will be 42.6% (or annual average rate of 4.3%).

4. Among the 331 civilian grades, a small number of them have anticipated that there might be possible succession problems/recruitment difficulties and hence the need for further employment of officers without a break in service beyond retirement age as identified by the relevant HoGs/HoDs. The latter include one-rank grades with small establishment and professional and technical grades. According to the assessment of the relevant HoGs/HoDs, the majority of the problems/difficulties could be addressed by further employment beyond retirement age.

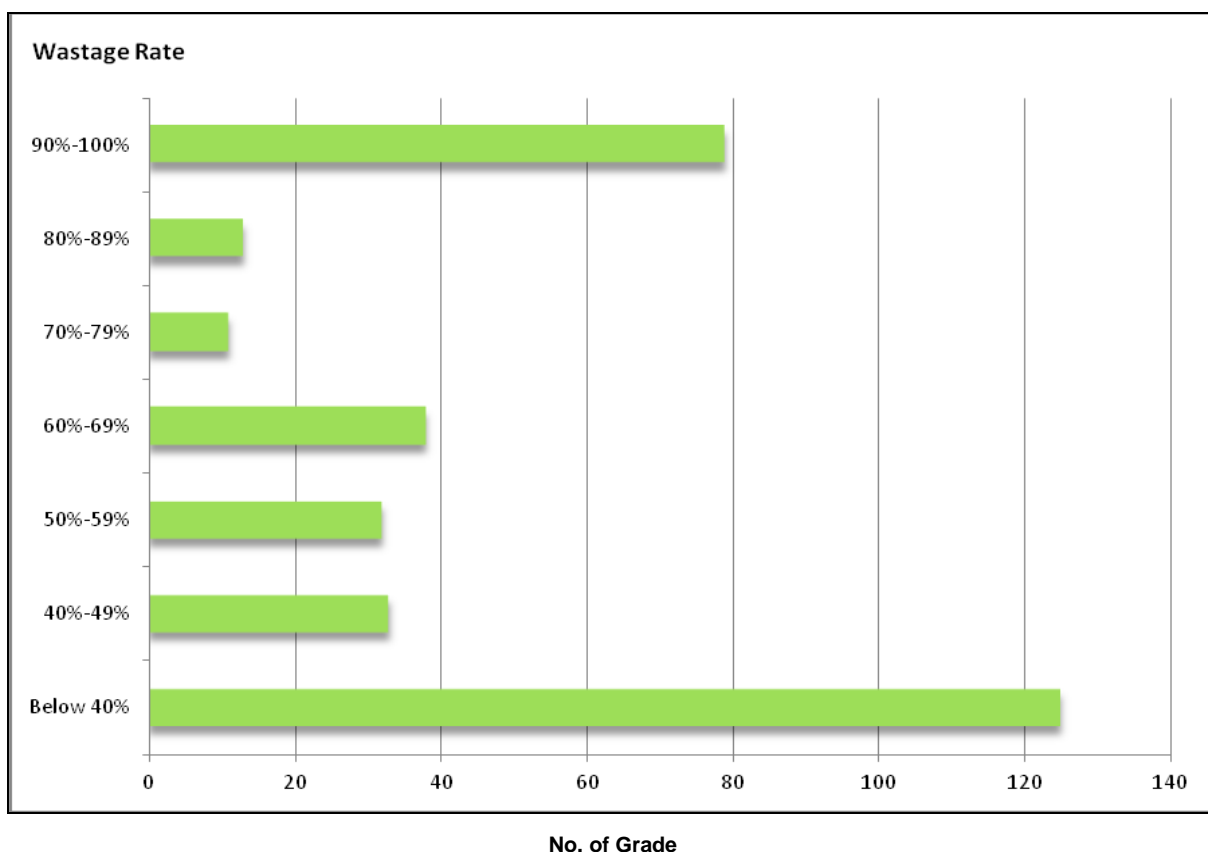
5. In addition, quite a number of civilian grades will have natural wastage rate of 40% or above¹ (or an annual average rate of 5.6%) for the period from 2013-14 to 2022-23. It is, however, noteworthy that the majority of these civilian grades are small ones with establishment less than 100 (including one-rank grades). Relevant details are as follows –



Note:

(1) The majority of the grades with natural wastage rate of 90% or above are one-rank and/or controlled grades.

¹ The annual average number of retirees (excluding Voluntary Retirement retirees) was around 4 200 (or 2.7% of the civil service strength) in the five-year period from 2008-09 to 2012-13. Annual natural wastage rate of 4% or above is regarded as higher in the context of this study.



(b) Natural wastage of disciplined service grades

6. The natural wastage rate of the six disciplined services departments (covering disciplined services grades only) for the five-year period ending 2017-18 and that for the following five-year period ending 2022-23 will both be 18.3% of their strength as at 31 March 2013 (or annual average rate of 3.7%). Taking the ten-year period ending 2022-23 as a whole, the natural wastage rate will be 36.7% (or an annual average rate of 3.7%).

7. The natural wastage rate of the 19 disciplined services grades will be 16.3% of their strength as at 31 March 2013 (or annual average rate of 3.3%) for the five-year period ending 2017-18 and the rate will decrease to 15.5% of their strength as at 31 March 2013 (or annual average rate of 3.1%) for the following five-year period ending 2022-23. Taking the ten-year period ending 2022-23 as a whole, the natural wastage rate will be 31.9% (or annual average rate of 3.2%).

8. Among the 19 disciplined services grades, a few of them have anticipated that there might be possible succession problems/recruitment difficulties and hence the need for further employment of officers without a break in service beyond retirement age as identified by the relevant HoGs/HoDs. They are mostly small grades.

9. Some of the 19 disciplined services grades will have natural wastage rate of 40% or above (or an annual average rate of 4.6%) for the period from 2013-14 to 2022-23. Relevant details are as follows –

