REPORT OF WAGES WORKING GROUP

SUB-COMMITTEE ON POLICIES RELATED TO TAXATION, THE CPF SYSTEM, WAGES & LAND
ECONOMIC REVIEW COMMITTEE

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PREFACE

The Wages Working Group was tasked by the ERC Sub-committee on Policies related to Taxation, CPF, Wages and Land to review the systems on wages and employment benefits, and recommend changes so that our wage & benefits systems could be placed on a sound and rational basis and could better meet the needs of companies and employees in a rapidly changing business environment.

The Terms of Reference adopted by the Working Group are as follows:

- To review the wage system;
- To review the benefits system; and
- To recommend measures to promote greater flexibility in wages and portability in benefits system to enhance business competitiveness and employability of Singapore's workforce in a rapidly changing environment.

EXECUTIVE SUMMARY OF KEY RECOMMENDATIONS

INTRODUCTION

The Working Group on Wages has reviewed the wage and benefits systems in Singapore. It recommends changes to promote greater wage and labour market flexibility, and introduce portability in employment benefits. This would enhance business competitiveness and employability of Singapore's workforce in a rapidly changing environment. The Working Group also examined the role of the National Wages Council (NWC) and its continued relevance in a rapidly changing business environment.

TOWARDS GREATER WAGE FLEXIBILITY

2. Over the years, our wage system has undergone major reforms and has become more flexible to meet the needs of companies, employees and the economy. However, in today's rapidly changing and unpredictable business environment, greater wage flexibility is needed to ensure that companies are able to make quick adjustments to their wage cost. This is because wage cost constitutes a key component of business cost. A flexible wage system would allow companies to stay viable and preserve jobs during economic downturns while rewarding workers when companies do well.

3. Since the introduction of the flexible wage system in 1986 as recommended by the NWC Wage Reform Sub-Committee, most companies in Singapore have adopted the flexible wage system with a variable year-end payment linked to company's performance. As at 2001, the percentage of variable component is about 15% of total annual wages. This is below the 20% target as recommended by the sub-committee.

4. While companies have built up the year-end variable component, the recent sharp downturns revealed that our wage system was still not flexible enough to enable companies to make quick adjustments to their wage costs. As a result, the employer's CPF contribution rate had to be cut in 1999.

5. The Working Group noted that the NWC has recommended in 1999 the introduction of a Monthly Variable Component (MVC), to be built up from future wage increases, to form 10% of total wages. This would provide greater flexibility for companies to respond more readily to a volatile business environment. Instead of waiting till year end to adjust the annual variable component, companies could make quick adjustments to their wage costs through the MVC as and when the need arises.

Successful building up of the MVC would also minimise the need to cut the employer's CPF contribution rate whenever our economy faces a severe downturn.

6. The Working Group noted that the progress in implementing the MVC has been slow since its introduction in 1999. In 2001, only 4.8% of firms had adopted the MVC structure. This comprised 34% and 3.4% of firms in the unionised and non-unionised sectors respectively. The low level of implementation was mainly due to the wage freeze or wage cuts in many companies during the 2001 recession.

Variability of Wages

7. The Working Group is of the view that more could be done to enhance the flexibility of the wage system. In this regard, companies should expand the variable component in their wage structure. As the contribution of management staff, particularly the senior management staff, is closely linked to company's performance, their variable component should be higher than that of the rank-and-file employees.

8. **The Working Group therefore recommends that a different ratio of variable component be adopted for different levels of employees.**

- **For rank-and-file employees, to give a measure of income stability, 30% of their annual wages should be made variable.** This would comprise 10% in MVC and 20% in annual variable component. This is consistent with past NWC recommendations.

- **For the middle management, professionals and executives, the variable component should account for about 30-40% of their annual wages**.

- **For senior management, as they are directly accountable for the performance of the company, the percentage of their variable component should be higher than that of the other employees. It should constitute not less than 40% of their annual wages.**

Monthly Variable Component (MVC)

9. Companies should build up the MVC expeditiously.

- **For companies that have not implemented MVC in their wage structure or where the MVC is less than 2% of workers' basic wages, the Working Group recommends that they set aside a**

portion of basic wages to build the MVC up to 2%. This will kick-start the implementation of the MVC.

- **For companies that have 2% or more MVC in their wage structure, the Working Group recommends that they discuss with their trade unions/workers whether a further portion of basic wages could be set aside to build up the MVC further.** This will expedite the building up of the MVC to the 10% target.

10. With the MVC wage structure in place, clear guidelines would be needed on when the MVC could be adjusted downwards and subsequently restored. Under the current practice, companies can only cut the MVC when they suffer severe losses. This does not provide sufficient flexibility for the companies to make quick adjustments to their wage cost in a volatile business environment to remain viable and save jobs for workers.

11. **The Working Group recommends that companies, in consultation with their trade unions, could reduce the MVC in a severe economic downturn when the business is adversely affected and/or the jobs of a significant number of workers are at risk. Likewise, employers should restore the MVC when business conditions improve.**

TOWARDS A MORE COMPETITIVE WAGE STRUCTURE

12. Wages and productivity levels are important considerations for businesses in deciding which country to locate their operations. Measured in nominal terms, Singapore's wages are generally higher than that of other Southeast Asian countries and developing economies like China. However, when compensation is adjusted for productivity, the cost differential narrows, especially for the manufacturing sector that is exposed to global competition. Notwithstanding this, China's productivity could catch up with us quickly while its wages could remain relatively low given its large pool of labour. Hence, we need to watch our wage costs vis-à-vis China very carefully.

13. Over the years, a close link has been established between productivity and wage increases. However, the gap has widened since 1996 with real wage increases leading productivity gains. The situation was aggravated by the economic downturn in 1998 and the recession in 2001 which resulted in sharp reductions in output and a cyclical decline in productivity. **To sustain our wage competitiveness, the Working Group recommends that the National Wages Council (NWC), in formulating its annual wage guidelines, maintain the principle that "real built-in**

wage increases lag behind productivity growth at all levels of the organisation".

Competitive-Base Wage System

14. One of our key challenges is to enhance the cost competitiveness and employability of our workers, especially older ones. Under our predominantly seniority-based wage system, workers' wages are closely linked to their length of service and this is manifested in long salary scales. As a result, older workers become less cost competitive and are at greater risk of being retrenched when companies need to downsize.

15. In the 80s, the wage differential for workers doing the same jobs was often 2 to 3 times. In 1986, the NWC Wage Reform Sub-Committee recommended that the average maximum-minimum salary ratio should be reduced to 1.5. Since then, the ratio has gradually been brought down and it is currently 1.7.

16. To help move further away from the seniority-based wage system, the Base-up wage system was recommended in 1997. The system is founded on the principles that the wage structure should reflect the actual value of the jobs and that wage increase should be closely linked to productivity and performance. Such a system would help older workers remain cost competitive and employable.

17. **To accelerate the implementation of the Base-up wage system to replace the seniority-based wage system, the Working Group recommends the following:**

- **Companies and their trade unions work towards narrowing the salary ratio to 1.5 within 2 collective agreements, i.e. 4 to 6 years; and**

- **Companies, in consultation with their trade unions, regularly review and adjust the salary ratio when job skills and job requirements change so that workers would be rewarded based on the value of the jobs and their contributions.**

18. **The Working Group also recommends that the Base-up wage system be renamed the "Competitive-Base Wage System".** This would better reflect the objective of enhancing the cost competitiveness of our workers.

NATIONAL WAGES COUNCIL (NWC) – A TRIPARTITE MECHANISM TO ACHIEVE WAGE COMPETITIVENESS AND EQUITABLE REWARDS

19. Since its inception in 1972, the NWC has played an important role in formulating and issuing wage guidelines based on relevant economic and productivity indicators. The NWC guidelines ensure that workers are equitably rewarded for their contributions and that wage increases would not undermine our cost competitiveness.

20. The NWC provides an important forum for the 3 social partners – employers, trade unions/workers and Government - to discuss and reach consensus on key wage and wage-related issues for the benefit of workers, companies and the economy. The NWC guidelines have served as an important reference point in wage negotiations. Employers and trade unions have been able to reach agreement on wage adjustments based on NWC guidelines. This has helped foster labour management co-operation and industrial harmony which have been competitive advantages for Singapore.

21. Given its contribution to maintaining orderly wage increases, initiating wage reforms, and fostering industrial harmony and tripartite partnership, the Working Group concluded that the NWC is a valuable institution which has played an important role in Singapore's economic and social development.

22. The Working Group is of the view that the NWC can continue to play a strategic role in the new economy, and should be preserved and strengthened. Specifically, the NWC :

- **Should continue to focus on issuing wage and wage-related guidelines based on fundamental economic and productivity indicators and tripartite consensus;**

- **Could proactively set up tripartite working groups to look into specific industrial relations and employment-related issues or to study emerging trends**; and

- **Could, with the support of the Ministry of Manpower and other government agencies, provide timely and relevant labour market information as well as international comparisons on wages**. This would enable companies and trade unions to be better informed of such trends and guide them in wage negotiations. Such information could further enhance management's capabilities in developing human resources.

23. The Working Group also examined the desirability of expanding the role of the NWC to include other manpower issues such as strengthening social safety nets and foreign talent. **The Working Group recommends against the expansion of the NWC's role, as this would dilute the effectiveness and affect the timeliness of the NWC recommendations.**

INTRODUCING PORTABILITY IN EMPLOYMENT BENEFITS

24. Companies are restructuring, downsizing and merging in response to today's intensely competitive global environment. The average job tenure of most workers is becoming shorter as business cycles shorten, and companies employ contract workers and outsource non-core activities. Workers are likely to switch jobs several times in their working life. However, current employment benefits are often tied to individual employers and workers cannot carry along unused benefits with them when they change jobs.

25. At the same time, the Working Group recognises that benefits form a significant portion of the business cost to employers. This cost will go up when our workforce ages, especially medical expenses.

26. To better meet the needs of workers and companies in the new economy, there is therefore a need to inject portability into the provision of these benefits, allow for more efficient use of the benefits and to promote greater personal responsibility.

Portability in Medical Benefits

27. Most large companies bear both the outpatient and inpatient costs incurred by their employees. Small companies provide less. At the same time, employers make contributions to the employee's CPF account, part of which is allocated to the Medisave account[1]. Employees can use their Medisave contributions to pay the premiums for Medishield or other approved medical insurance schemes, as well as for inpatient expenses. About 72% of the resident population is covered by Medishield or other approved medical insurance schemes[2].

28. Currently, medical costs amount to about 1.4% of the total wage cost, of which inpatient costs constitute about 40%. However, medical costs are likely to rise significantly over time as the experience of developed countries has shown. In particular, with a rapidly ageing

[1] 6-8% depending on the age group. The long term target is to raise the allocation to 7-9%.
[2] Source : Report of the Tripartite Committee on Portable Medical Benefits, May 2002.

workforce, medical costs of older workers are expected to rise sharply and this would undermine the employability of older workers. At the same time, with more frequent job changes, workers would need medical coverage not only during employment but also when they are in between jobs.

29. The Working Group has reviewed the previous study undertaken by the Tripartite Committee on Portable Medical Benefits. **Building on the study, the Working Group proposes an approach to the provision of outpatient and inpatient benefits that seeks to provide choice and flexibility to employers and employees, and allow for free play in the market**. It proposes a range of options that employers and employees can adopt. The adoption of a particular option would depend on the existing medical benefit usage, the needs of the employees and the unique circumstances of the company.

Outpatient Benefits

30. **The Working Group proposes 3 options[3] for employers and employees/trade unions to consider in restructuring their outpatient benefits**. All the options have 2 common features as follows :

- Provision to allow employees to accumulate unused medical benefits for future use; and
- Co-payment element to promote personal responsibility for medical expenses and thus help contain the rise in medical cost.

Implementation of these options is optional.

<u>Options A: Co-payment with Annual Individual Budget</u>

- Employers and employees co-pay outpatient expenses, say in the ratio of 85%:15%.
- Employers to set aside an annual outpatient budget for each employee from which the employer's portion of the outpatient bill would be drawn.
- Unused portion of the lump sum would be credited into employees' Medisave accounts.
- Once the lump sum is exhausted, employees would be responsible for the entire outpatient bill.

<u>Option B: Direct co-payment with additional Medisave contribution as trade off</u>

- Employees co-pay outpatient expenses of say 20-25%.
- As a trade-off, employers could make an additional contribution to employees' Medisave account, say 0.5% to 1% of employee's monthly salary.

[3] The first two options were recommended by the Tripartite Committee for Portable Medical Benefits.

Option C: Direct co-payment with cash incentives as trade off

- Employees co-pay outpatient expenses of say 20-25%
- As a trade-off, employers could grant employees cash incentives.

Inpatient Benefits

31. **The Working Group proposes two options on inpatient benefits - the Portable Medical Benefits Scheme (PMBS) and the Transferable Medical Insurance Scheme (TMIS)[4]**. Both options introduce portability to medical benefits (which are elaborated below).

32. The Working Group proposes that **the PMBS or TMIS be implemented through promotional efforts, rather than through legislation.** Employers and trade unions/workers should consider either option for adoption. While mandating the implementation of PMBS or TMIS would help ensure adoption by all companies, it imposes a statutory cost on employers and sets a minimum national standard of medical entitlement. This could introduce rigidity and increase the operating cost for companies, especially smaller ones. **To encourage the adoption of the schemes, the Working Group recommends that Government make adjustments to the existing tax structures on medical benefits.**

33. Given the need for workers to be continuously covered throughout their working life and the concern over rising medical costs, **the Working Group recommends that the Government monitor the implementation of these portable schemes over time**. If the coverage remains low, other measures may have to be adopted to facilitate implementation. The Working Group noted that some countries, eg. US, have mandated the provisions of inpatient benefits.

Portable Medical Benefits Scheme (PMBS)

34. The main features of the PMBS are as follows :

- In lieu of the existing employer-based inpatient benefits, employers would make additional contribution to employees' Medisave account, subject to a minimum of 1% of monthly salary.
- Employees would be responsible for inpatient expenses from the 1st dollar henceforth.
- Employees should use the additional Medisave contributions to purchase approved medical insurance schemes, eg. Medishield, to meet their inpatient needs.

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[4] PMBS was recommended by the Tripartite Committee on Portable Medical Benefits while TMI was formulated with the support of MAS, the General Insurance Association and Life Insurance Association.

35. The PMBS rides on the existing Medisave/Medishield framework. It provides coverage during employment, in-between employment, and even after retirement, so long as the individual continues to pay the premiums for the medical insurance. It can help enhance the wage competitiveness and employability of older workers as companies would be paying the same rate of additional Medisave contribution for all workers. Furthermore, the co-payment and deductible elements under the approved medical insurance schemes would discourage indiscriminate use of medical benefits, and this would help contain medical cost. Employers would benefit from the PMBS as it provides certainty for them to plan and set aside funds for medical expenses.

36. The Working Group assessed that younger and healthy employees would be more receptive to the PMBS as they generally do not incur high medical expenses and can save the unconsumed amounts for future needs. However, older workers and those with pre-existing medical conditions may find the additional Medisave contribution insufficient to meet their current medical needs, let alone save for future needs. **To encourage acceptance of the schemes by all employees, the Working Group recommends that the Government consider providing a once-off assistance to older workers and workers with pre-existing illnesses by paying, say 1 to 2 years' premiums for the medical insurance.**

37. Workers and unions have expressed concerns about the high deductible and co-payment levels, as well as the low rate of successful claims under the existing Medishield and other approved medical insurance schemes. To address these concerns and facilitate the implementation of the PMBS, the Ministry of Health may need to review and enhance these schemes.

Transferable Medical Insurance Scheme (TMIS)

38. The main features of the TMIS are as follows :

- It is an employer-sponsored group medical insurance scheme which offers transferability of coverage when an employee moves from one employer to another. It provides inpatient benefits coverage up to prevailing retirement age (currently 62 years old).
- Participating group insurers will treat any employee covered under a TMIS plan as continuously insured, for the purpose of applying the pre-existing medical exclusion[5], when he joins a new employer.
- It offers an extension of medical coverage of up to 12 months to employees who are retrenched, provided premiums are paid.

[5] In a typical group medical insurance plan, an employee with a pre-existing medical condition is excluded from medical coverage in respect of that condition for 12 months each time he joins a new employer. Under the TMIS, this pre-existing condition exclusion occurs once only, ie. with the first employer.

- Premiums are expected to be between 5 and 20% more than existing group insurance plans.
- Insurers may provide various insurance plans under TMIS with different levels of benefits and premiums.

39. The TMIS builds on the existing employer-provided group medical insurance scheme, and is therefore relatively easy to implement. It covers employees both during employment and for up to 12 months in-between employment[6]. Under the TMIS, it is possible to build in co-payment and deductibility features which would encourage individual responsibility for medical needs.

40. For TMIS to meet the objective of injecting portability into the medical benefits scheme, it has to be widely accepted and implemented by employers so that employees could continue to be covered under TMIS plans when they change employment. Active promotion by the insurance industry would be necessary. Initial indications from insurance companies are that large companies may be receptive to the scheme. The insurance companies have fedback that the TMIS can be offered to companies with not less than 30 employees. For smaller companies, ways can be explored to make it viable for them to participate in the TMIS as well.

Portability in Training

41. While achieving wage flexibility and competitiveness could help workers remain employable, it is equally important to ensure that the workforce is adequately equipped to take on new or higher value-added jobs in a knowledge economy. Life-long learning to encourage workers to constantly upgrade themselves with relevant skills is therefore crucial. **The Working Group recommends the setting up of a portable training account for workers to fund individual-based training.** This would encourage greater individual ownership of training and allow workers greater flexibility to choose their own upgrading courses. **The funding of the portable training account could come from different sources including the Lifelong Learning Fund.**

42. An alternative to the portable training account is to incentivise employers to provide funding to workers for training that is not job-related. At present, employers are allowed to claim 100% tax deduction for training expenses incurred. For individuals, they can claim relief for course fee up to $2,500 a year if the training course leads to approved academic and professional qualifications or vocational qualifications related to his trade, business, vocation or employment. **To encourage employers to help**

[6] This is adequate as 98% of retrenched local workers are re-employed within 3-6 months. Source : Labour Market Survey, Second Quarter 2002.

fund worker training that may not be job-related but can help enhance their employability, the Government could consider granting double taxation deduction to employers in respect of funds provided for such training.

ENHANCING LABOUR MARKET FLEXIBILITY

Allowing Flexibility in Working Hours

43. The Employment Act which regulates the minimum terms and conditions of employment including working hours has generally been flexible enough and companies have no difficulties in implementing various forms of flexible work arrangements. The Act stipulates that an employee is not required to work more than 8 hours a day or 44 hours a week. All work in excess of these shall be considered as overtime work and the employee must be paid at the rate of not less than 1½ times his hourly basic rate of pay.

44. However, there are industries, such as the aerospace industry, whose business cycles are volatile and where orders fluctuate sharply. Companies in these industries do not require their employees to report for work on a regular basis when there is no demand for their services but require them to work overtime when they are needed to complete the task.

45. **The Working Group recommends that companies, whose nature of business justifies the implementation of a flexible working hours scheme, be exempted on a case-by-case basis from the provisions of the law governing daily and weekly working hours and the rate of overtime payment.** Companies will then have the flexibility to implement flexible working hours over a monthly, quarterly or longer duration and will only be required to pay overtime after the contractual hours of work computed over a specific duration.

46. As the proposed flexible working hours scheme has an impact on workers, there is a need to gather more information from companies which require such flexibility. **The Working Group recommends that a tripartite taskforce be set up to work out the principles and operational details**. The Taskforce should draw up a set of safeguards against abuses to ensure some stability in workers' income, securing workers'/trade unions' consent and ensuring the safety and health of workers before implementing the flexible working hours scheme. The Taskforce should also study how savings and productivity gains could be shared between companies and workers.

Modifying the CPF System

47. The Working Group has made the following 3 recommendations to enhance labour market flexibility and preserve the employability of older workers through modifying the CPF system.

- Keep the employer's CPF contribution rate for employees in the 50-55 age group at its present level of 16%

- Lower the salary ceiling from $6,000 to $5,000

- Raise the wage floor for employee's CPF contribution from $200 - $363 to $500 - $750

48. The above recommendations, incorporated into the CPF Report[7], have been accepted by the Government in July 2002.

CONCLUDING REMARKS

49. The recommendations made by the Wages Working Group aim to bring about greater flexibility in the wage system to enable companies to make quick adjustments in response to the changing business conditions. To maintain wage-competitiveness and to enhance employability of older workers, the seniority-based wage system should be replaced with one that rewards workers based on the value of the jobs and their performance, and motivates them to give their best.

50. In view of the greater churn in the labour market and the rising cost in providing employment benefits, there is also a need to make changes to the benefits system to introduce greater portability and personal responsibility in the consumption of the employment benefits.

51. Some of the measures recommended would need time to implement. For example, the proposed portable medical benefits which seeks to serve the long-term interest of our ageing and increasingly mobile workforce would require time for companies and trade unions/workers to go through a process of consultation and implementation. Together with the recommendations submitted by the other Working Groups of the Economic Review Sub-Committee, the Working Group hopes that the recommendations could help contribute to Singapore's competitiveness and continued economic growth and ensure that workers have jobs and remain employable.

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[7] "Refocusing the CPF System for Enhanced Security in Retirement and Economic Flexibility", 15 July 2002.

SUMMARY OF KEY RECOMMENDATIONS

S/No.	Recommendations	Objectives
Towards Greater Wage Flexibility		
1.	To expand the variable component in wages. ***For rank-and-file employees***: 30% of the annual wages as variable component comprising 10 % in MVC and 20% in Annual Variable Component. ***For Middle Management***: 30-40% of the annual wages as variable component. ***For Top and senior Management*** : the percentage of variable component should be higher and constitute say, not less than 40% of the annual wages.	To allow companies greater flexibility in adjusting wage cost in line with changing business condition.
2.	To expedite the implementation of Monthly Variable Component (MVC) : a) to expedite the building up of MVC by encouraging companies to set aside basic wages as MVC in the following manner: • for companies that have not implemented MVC in their wage structure or where the MVC is less than 2% of worker' basic wages, to set aside basic wages to build the MVC up to that level. • for companies that have 2% or more MVC in their wage structure, to discuss with trade unions/workers whether a further percentage of basic wages could be hived off for building up the MVC further. b) Companies be allowed, in consultation with the unions, to reduce the MVC in severe economic downturn when the business is adversely affected and/or the jobs of a significant number of workers are at risk. Likewise, employers should also restore the MVC when business conditions improve.	To enhance the flexibility of the wage system and to minimise the need to cut CPF contributions as a means of adjusting wage cost. To enable companies to respond more quickly in adjusting wage cost to remain competitive and to save jobs.

S/No.	Recommendations	Objectives
Towards a More Competitive Wage Structure		
3.	The National Wages Council (NWC), in formulating its annual wage guidelines, should maintain the principle that built in real wage increases should lag behind productivity increase at all levels of the organization.	To maintain cost competitiveness of workers.
4.	To accelerate the implementation of the Base-Up wage system to replace seniority-based wage system which is based primarily on workers' performance and productivity growth and less on seniority and experience. To refine the Base-Up wage system and rename it as the "Competitive Base Wage System" to promote its adoption. For the implementation of the Competitive-Base wage system, unions and employers should work towards narrowing the salary ratio to 1.5 within 2 collective agreements, i.e. 4 to 6 years; and Companies, in consultation with the trade unions, could regularly review and adjust the salary ratio when job skills and job requirements change so that workers would be rewarded based on the value of the jobs and their contributions.	To move away from the seniority-based wage system to a system which rewards workers based on job worth and performance and contribution of employees, and to enhance the wage competitiveness of our workers, especially the older one.
Role of the National Wages Council		
5.	NWC to continue to focus on issuing wage and wage-related guidelines based on fundamental economic and productivity indicators and tripartite consensus. The NWC could more proactively set up tripartite working groups to look into specific industrial relations and employment-related issues. It could also, with the support of the Ministry of Manpower and other government agencies, provide timely and relevant labour market information as well as international	To ensure that NWC continues to focus its role in setting the strategic direction of wage policies and issuing annual wage guidelines.

S/No.	Recommendations	Objectives
	comparison on wages to enable companies and trade unions to be better informed of such trends. The NWC should not expand its role to include other manpower issues as this would dilute its effectiveness and affect the timeliness of its recommendations.	
Introducing Portability in Employment Benefits		
6.	An approach to the provision of outpatient and inpatient benefits that seeks to provide choice and flexibility to employers and employees, and allow for free play in the market is proposed. To restructure the outpatient benefits. 3 options are recommended for employers and employees to consider. Implementation would be optional: <u>Option A: Co-payment with Annual Individual Budget</u> ▪ Employers & Employees co-pay outpatient expenses, say 85%:15% ▪ Employers to set aside an annual outpatient budget for each employee from which the employers' portion of outpatient expenses will be drawn ▪ Unused portion of the lump sum will be credited to employees' Medisave accounts ▪ Once the lump sum is exhausted, employees will be responsible for entire outpatient bill <u>Option B: Direct co-payment with additional Medisave contribution as trade off</u> ▪ Employees co-pay outpatient expenses of say 20-25% ▪ As a trade-off, employers could pay employees additional Medisave contributions, say 0.5 to 1% of employee's monthly salary.	To allow employees to accumulate unused medical benefits and save it for future use. To contain the rise in medical cost by introducing personal responsibility of medical expenses.

S/No.	Recommendations	Objectives
	<u>Option C: Direct co-payment with cash incentives as trade-off</u> ▪ Employees co-pay outpatient expenses of say 20-25% ▪ As a trade-off, employers could grant employees cash incentives.	
7.	To restructure Inpatient benefits. 2 options are recommended: <u>A) Portable Medical Benefits Scheme (PMBS)</u> • In lieu of the existing employer-based inpatient benefits, employers would make additional contribution to employees' Medisave accounts, subject to a minimum of 1% of monthly salary • Employees would be responsible for inpatient expenses from 1st dollar henceforth • Employees should use the additional Medisave contributions to purchase Medishield and other approved medical insurance scheme to meet their inpatient needs.	To allow workers to enjoy medical coverage not only during their employment but also when they are in between jobs and after retirement. To enhance the wage-cost competitiveness of older workers To provide certainty for employers to plan and set aside funds for medical expenses.
	<u>B) Transferable Medical Insurance Scheme (TMIS)</u> • it is an employer-sponsored group medical insurance scheme which offers transferability of coverage when an employee moves from one employer to another. It provides inpatient benefits coverage up to prevailing retirement age (currently 62 years old). • Participating group insurers will treat any employee covered under a TMIS plan as continuously insured, for the purpose of applying the pre-existing medical exclusion, when he joins a new employer. • It offers an extension of medical coverage of up to 12 months to employees who are retrenched, provided premiums are paid. • Premiums are expected to be between 5	To allow workers to enjoy continued medical coverage when they change employment or are in between jobs.

S/No.	Recommendations	Objectives
	and 20% more than existing group insurance plans. Insurers may provide various insurance plans under TMIS with different levels of benefits and premiums	
	To implement PMBS or TMIS through promotional efforts. To encourage the adoption of the schemes, the Government could make adjustments to the existing tax structures on medical benefits. The Government to consider providing a once-off assistance to older workers and workers with pre-existing illness by paying, say 1 to 2 years' premiums for medical insurance.	To encourage companies to take up the PMBS or TMIS. To encourage acceptance of the PMBS by all employees.
8	To facilitate employability training. 2 alternative proposals are recommended: A) To set up a portable individual training account for workers. Possible sources of fund : Lifelong Learning Fund B) To grant double taxation deduction to employers in respect of funds provided for workers training that may not be job-related but can help enhance employability.	To enhance workers' employability and promote life-long learning among workers
Enhancing Labour Market Flexibility		
9.	To allow flexible working hours scheme. Companies, whose nature of business justifies implementation of a flexible working hours scheme, be exempted on a case by case basis, from the provisions of the law governing working hours and the rate of overtime payment so that they can have the flexibility to implement flexible working hours on a monthly, quarterly or longer duration. To set up a tripartite taskforce to work out the	To enable employers to maximise productivity by optimising use of manpower. To enable workers to share productivity gain and achieve work-life balance.

S/No.	Recommendations	Objectives
	principles and operational details. The taskforce should draw up a set of safeguards against abuses.	
10.	To Modify the CPF system. (The recommendations below, incorporated into the CPF Report[8], have been accepted by the Government in July 2002)	
	A) To lower the salary ceiling for CPF contribution from $6,000 to $5,000 a month, to be phased in as the CPF contribution rate is restored to 40%	To reduce the mandatory saving for high-income employees and allow them more freedom to deploy their income.
	B) To raise the wage floor for employee's CPF contribution from $200-$363 to $500-%750.	To allow lower-income workers to have more take-home pay and encourage lower-income group to enter the workforce.
	C) To keep the employer's CPF contribution rate for employees in the 50-55 age group at its present level of 16%, even when the CPF rate for younger cohorts is progressively restored to 20%. To lower the employee's CPF contribution rate for workers in the 50-55 age group from the present level of 20% to 16%.	To correct the distortion of the seniority-based wage system and enhance the wage competitiveness and employability of older workers.

[8] "Refocusing the CPF System for Enhanced Security in Retirement and Economic Flexibility"

CHAPTER 1: TOWARDS A MORE FLEXIBLE WAGE SYSTEM

EVOLUTION OF THE FLEXIBLE WAGE SYSTEM

Singapore's wage system has evolved over the years in response to the changing economic environment. In the 1970s, the wage system in Singapore was typically seniority based, with long salary scales and pre-determined wage increases, a legacy from the wage system established by the British colonial government. By the mid 70s, Singapore was losing its comparative advantage in labour intensive industries. Attempts to restructure the economy away from labour intensive activities were hindered by the oil crisis in 1974 and 1975.

2. In the late '70s and early '80s, the government undertook to restructure Singapore's economy. The government's initiative to launch the economic restructuring included a wage correction policy to encourage companies to use less labour and more technology. That meant high built in wage increases and fixed bonuses which were generally higher than productivity increases in the early 1980s.

3. In 1985, Singapore was hit by a severe recession. The recession revealed that the wage system was not flexible enough to enable companies to adjust wage cost. The main drawback was the weak link between wages and wage increases with company or individual performances. Companies having difficulties in adjusting business costs downward during an economic downturn had to resort to retrenchment to cut cost.

4. In 1986, the NWC Sub-Committee on Wage Reform was set up to review the wage system. The Committee identified the following rigidities in our wage system:

a. wage increases are paid on account of seniority in service rather than company or individual performance
b. high pre-determined annual increments are given automatically to almost all employees
c. Annual Wage Supplement (AWS) is fixed and not normally adjustable
d. NWC wage guidelines are implemented without sufficient attention to company and individual performances
e. Annual increments, NWC adjustments and merit increments, once granted, are built into basic wages.

5. The Committee recommended that the wage system be restructured to make it more flexible and responsive to changing business conditions.

Companies were encouraged to link wage increases to productivity and profitability. It was recommended that the flexible wage system should have the following features:

a. a basic wage to reflect the value of the job and to provide a measure of stability to workers' income
b. an AWS of one month's basic wage which may be adjusted under exceptional circumstances
c. A variable component of about 2 months' basic wage. This together with the 1 month AWS would allow for about 20% of wages to be variable
d. A small service increment in recognition of workers' length of service, loyalty and experience. The increment can either be negotiated annually or fixed for the duration of the collective agreement
e. Wages should reflect the value of jobs and salary range should not be too wide. A reasonable ratio between the minimum and maximum could be 1.5 times.

6. A 5-year phasing-in period was recommended for companies to implement the flexible wage system. A review was conducted in 1993 to assess whether the objectives of the flexible wage system had been achieved. The review found that the flexible wage system was widely implemented. Overall, 71% of companies in Singapore had adopted some form of flexible wage system by 1992. The proportion of companies with a flexible wage system was higher among unionised companies at 85%. Under Singapore's current flexible wage system, the variable component should form about 20 percent of total wages. The remaining 80 percent is fixed wages. The variable component comprises the AWS and variable bonus formed about 15% of workers' total annual wages in 1992.

7. The flexible wage system has served Singapore well until the recent regional economic crisis. The recession was sudden and sharp. Many companies were caught unprepared for an adjustment of the wage cost as their wage system with an annual variable component was not responsive enough to cope with the sharp business downturns. Companies could not make quick adjustments to their wage costs as the variable component consisted mainly of year-end bonuses. This meant that companies had to wait till end of the year to cut the bonus payment in order to reduce their wage costs.

8. To cut wage cost, many companies had to resort to retrenching workers during the recession. To companies, this has meant losing experienced workers and having to re-hire new ones when business conditions improve. To workers, this has meant losing jobs and a source of

regular incomes. They also face the trauma of having to look for alternative employment at a time when jobs are scarce.

9. To enhance the flexibility of our wage system, the National Wages Council recommended the introduction of a monthly variable component (MVC) in our salary structure in 1999. With the MVC in place, companies will be able to adjust wage costs quickly to remain viable and save jobs for workers in times of sudden business downturns. A cut in the MVC can help avert a retrenchment and the need to reduce CPF contributions as a measure to cut wage cost. With MVC, individual companies that turn around faster would be able to restore the MVC earlier, as compared to CPF cuts which can be restored only when the whole economy recovers.

10. The tripartite partners recommended that MVC should come from part of future wage increases. The percentage of the wage increase to be set aside as MVC would be determined by employers in consultation with unions. To be an effective mechanism for wage adjustment in a sudden business downturn, the MVC should be built up progressively to form about 10% of total wages. Over time the present 80:20 flexible wage structure could evolve into a wage structure of 70:10:20 representing basic wage, monthly variable and annual variable components respectively. The public sector has already implemented such a salary structure.

11. As at 2001, 4.8% of companies have implemented the MVC. While progress has been made in the unionised sector, with 34% of firms having MVC, only 3.4% of non-unionised firms have done so[9]. The slow take-up rate was due to many companies having to cut or freeze wages during the economic downturn and thus not in a position to build up the MVC.

VARIABILITY OF WAGES

12. Over the years, the proportion of companies adopting a flexible wage system[10] has risen but the variable component as a percentage of total annual wages has remained relatively unchanged. In 2001, 9 in 10 unionised firms (93%) had adopted a flexible wage system. The percentage of non-unionised firms with a flexible wage system was lower (88%), although the number was rising in recent years. However, the variable component as a percentage of total annual wages was still 15% in 2001, below the 20% recommended by the 1986 NWC Sub-Committee on Wage Reform. If we were to exclude the AWS, which comprises about 8

[9] MOM, Report of Wages in Singapore, 2001

[10] Firms were classified as having such a wage system if they paid variable component (annual wage supplement and variable bonus) according to the performance of the firm and/or individual.

%-points of the variable component, the percentage of total wages that is variable would be lower[11].

13. Since the implementation of the flexible wage system in 1986, Singapore was hit by 2 major recessions in 1998 and 2001. During both recessions, companies that were not doing well were able to moderate total wage cost (excluding CPF) through lower wage increases, a wage freeze or a cut including the AWS to stay afloat. In 1998, workers on average suffered a 0.4% cut in total wages (excluding CPF cut) because some companies that could afford it still gave wage increases. However, workers in 38% of companies that cut wages suffered a deeper cut in total wages, averaging 5.6% per worker.

14. In 2001, workers received a marginal 1.1% increase in their total wages as the economy slipped in the 2nd half of 2002. The 1.1% was a sharp drop from the 6.6% increase in 2000 when the economy was growing strongly. Like in the 1998 recession, about one third of companies in the 2001 recession cut total wages. Workers in these companies suffered a cut in total wages averaging 5.4% per worker.

15. A recent study by MAS[12] showed that nominal wages excluding employers' CPF contribution had responded fairly flexibly in the 2001 recession. A cross-country comparison of 8 countries namely Germany, France, UK, Italy, Japan, US, Korea and Taiwan, showed that wages in Singapore were among the most flexible. However, Singapore's exported-oriented economy has and will continue to experience sharp fluctuations when the global economic climate changes. The present extent of wage flexibility may not be sufficient for companies to meet the drastic changes in business conditions. More would need to be done to enhance the wage flexibility.

RECOMMENDATIONS

16. As Singapore moves into the New Economy characterised by shorter business cycles and more frequent business fluctuations, we would need a more flexible wage system that can allow employers to make quick adjustment to wage cost in case of a severe downturn to stay competitive and save jobs. The wage system should have the following features:

a) A fixed component to ensure the stability of income for workers,

[11] See para 25 below.
[12] MAS, Macroeconomic Review, July 2002

b) Wage increase which is tied to productivity to maintain cost-competitiveness and attract foreign investments to generate new jobs

c) Sufficient flexibility to incentivise and reward workers for their performance and responsive to changing business conditions.

17. Our recommendations aim to strengthen features (b) and (c) above without adversely compromising (a), through

- Linking wage increases to productivity gains
- Promoting the competitive base wage system
- Increasing the variable component in the wage structure
- Speeding up the implementation of MVC

Increase the Variable Component In Wages

18. Companies should be encouraged to increase the variable component in wages so that they can adjust wages to save jobs and to survive in a severe economic downturn. **The Working Group recommends that companies adopt a different ratio of variable components for different levels of employees**. The rewards for top management and executive employees should be even more closely tied to company performance as they have a more direct influence on a company's well-being. Hence, the variable component in their wages should also be higher as compared to that of the rank-and-file employees.

Variable Component for Rank-and-file Employees

19. The Working Group is of the view that the National Wages Council's recommendation on the variability of wages remains valid for the majority of workers. **It therefore recommends that the annual wage of rank-and-file employees should comprise 30% as the variable component, with 10% from the Monthly Variable Component (MVC) and 20% from the annual variable component**. This ratio of variable component would provide the workers with some measure of stability. At the same time, companies can remain cost-competitive by adjusting the variable component if need be.

20. However, while the Annual Wage Supplement (AWS) is part of the annual variable component, most rank-and-file employees consider the AWS as deferred wages and rely on the AWS to meet their year-end obligations. In this respect, a cut in AWS would have a significant impact on the worker's annual income.

Variable Component for Middle Management Staff, Professionals and Executives.

21. The variable component for middle management staff, professionals and executives should be about 30-40% of the annual wages. This could comprise a monthly salary component (akin to the MVC), short term incentives (such as the year end bonus) and mid term incentive (such as deferred bonuses and non built-in skills and market adjustments) and long term incentives (such as stock options). Individual company should decide on the share of each variable component.

Variable Component for Senior Management Staff

22. To attract and retain top talent for Singapore, we should ensure that their pay is globally competitive**. Since the senior management staff are directly accountable for the performance of the company, the percentage of variable component for them should be higher than that of the other employees. It should constitute not less than 40% of their annual wages.** The variable component can comprise both short and long term incentives and may be several times the annual basic pay.

23. According to a Towers Perrin report, Singapore CEOs' pay has a variable portion at 43% of total remuneration, compared to 61% for American CEOs, 53% for Canadians, 45% for Australians and 38% for both Hong Kong and Malaysian CEOs.

Expedite The Implementation Of Monthly Variable Component (MVC)

24. Since the introduction of the MVC in 1999, the Singapore economy has become more volatile. Many companies have frozen wages or paid marginal wage increases. This has hampered the implementation of MVC which is to be built up from future wage increases. It may take many years to build up the MVC to 10% as recommended by NWC. As MVC is an effective tool to enhance the flexibility of our wage system, there is an urgency to promote its implementation.

To hasten the building up of MVC, the Working Group recommends:

A) Setting aside 2% of workers' basic wages as MVC

25. In introducing the MVC, NWC had recommended that the MVC should be built up from a portion of the future wage increases. In view of the economic slowdown, it may take many years to build up the MVC based on future wage increases. This is particularly so when many companies have cut the basic wages of management and executives and in some cases, of bargainable employees.

26. **The Working Group recommends that companies should build up the MVC expeditiously.**

- **For companies that have not implemented MVC in their wage structure or where the MVC is less than 2% of workers' basic wages, the Working Group recommends that they set aside basic wages to build the MVC up to 2%.** This will kick-start the implementation.

- **For companies that have 2% or more MVC in their wage structure, they could discuss with trade unions/workers whether a further percentage of basic wages could be hived off to build up the MVC further.** This will expedite the building up of the MVC to the 10% target.

27. These measures would pave the way for the quick build-up of the MVC when companies are in a position to grant wage increases when the economy recovers. Companies may consider setting aside a bigger percentage of the management staff's basic salaries as MVC, subject to their consent. This would be consistent with the NWC recommendation and companies' practices that management should take the lead in implementing the MVC.

B) Reducing MVC in Severe Economic Downturn

28. The tripartite guidelines on the implementation of MVC issued in 1999 recommended that companies and unions should formulate and agree on a set of clear criteria under which MVC could be adjusted quickly. Under the current practice, companies can make adjustments to the wage cost by cutting the MVC only when they suffer losses. However, this may be too late to help them to recover and remain viable. **The Working Group recommends that companies be allowed, in consultation with their trade unions, to reduce the MVC in a severe economic downturn when the business is adversely affected and/or the jobs of a significant number of workers are at risk. Likewise, employers should also restore the MVC when business conditions improve.**

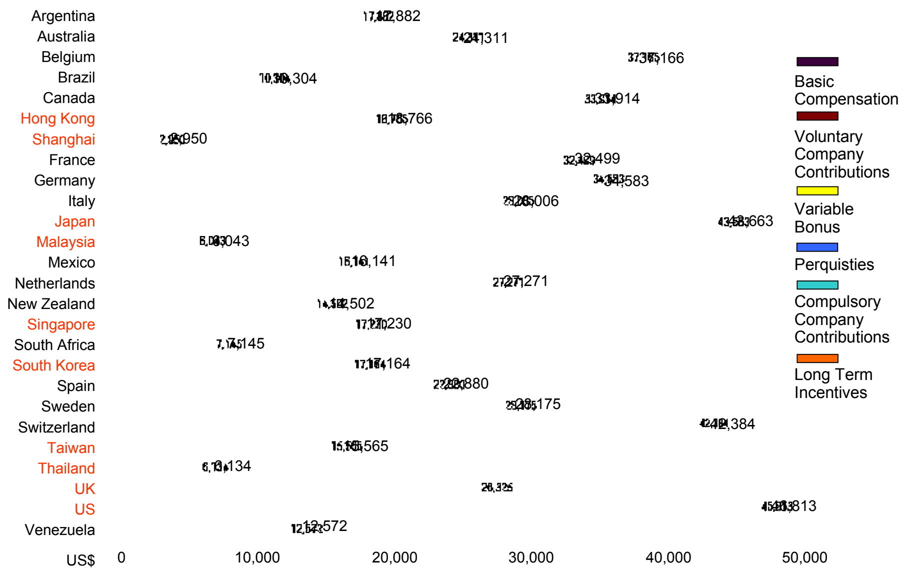
CHAPTER 2: TOWARDS A MORE COMPETITIVE WAGE STRUCTURE

SINGAPORE'S WAGE COMPETITIVENESS IN RELATION TO OTHER COUNTRIES

Wages and productivity are important considerations for any business when deciding which country to locate their operations. Although the degree of capital- and technology-intensity would play an important role for manufacturing firms, these factors of production are more mobile than labour, and thus labour cost, among other location specific factors, could potentially swing decisions too.

2 When measured in nominal terms, wage levels in Singapore are generally higher than our Asian competitors. With an average manufacturing employee costing US$17,230 annually, Singapore's labour costs are higher when compared with our neighbours (see Exhibit 1).

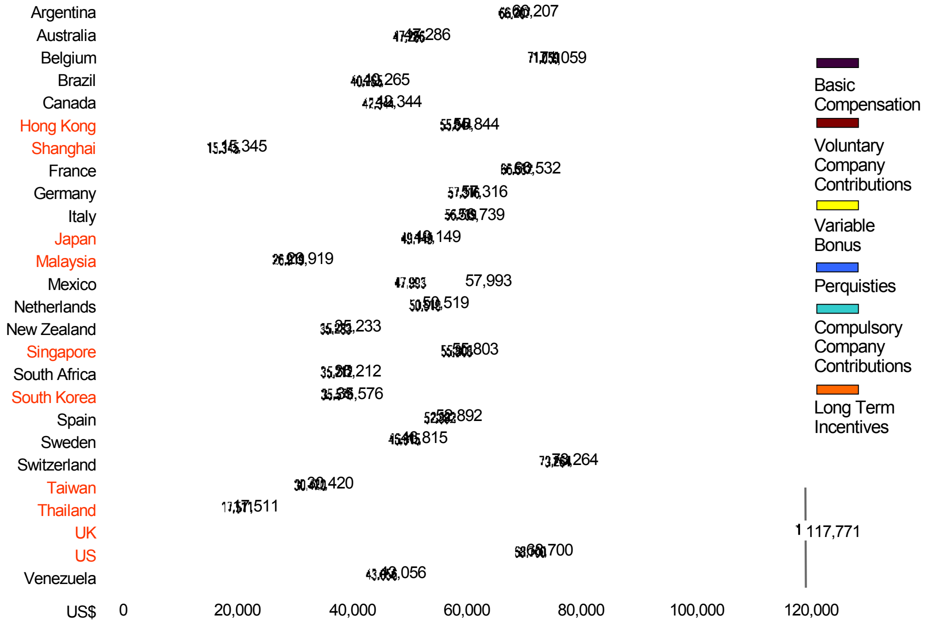
EXHIBIT 1: TOTAL ANNUAL REMUNERATION FOR MANUFACTURING EMPLOYEE



Source: World Wide Total Remuneration 2001-2002, Towers Perrin, April 2001

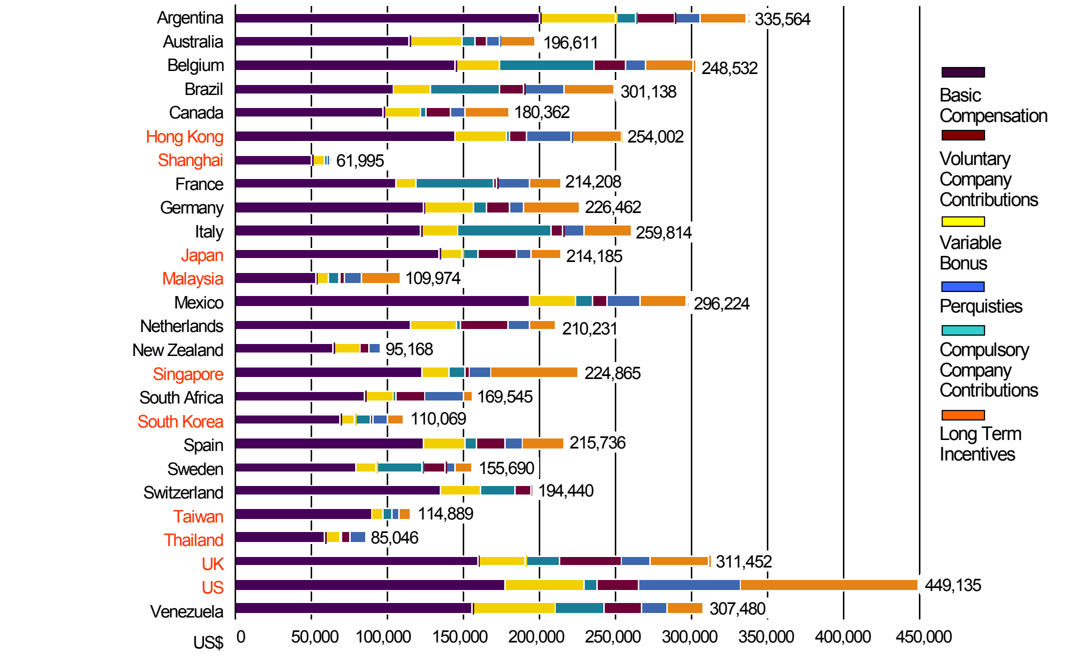
3 Similarly, statistics on key appointment holders in management suggest that while compensation levels in Singapore are generally lower than the developed economies, they are considerably higher than most of Singapore's competitors in Asia (see Exhibit 2-4).

EXHIBIT 2: TOTAL ANNUAL REMUNERATION FOR ACCOUNTANT



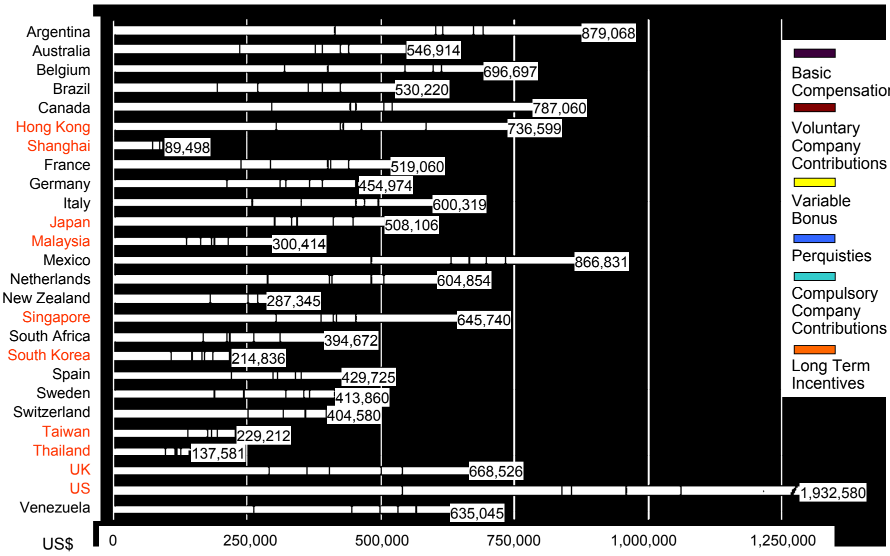
Source: <u>World Wide Total Remuneration 2001-2002</u>, Towers Perrin, April 2001

EXHIBIT 3: TOTAL ANNUAL REMUNERATION FOR DIRECTOR-HUMAN RESOURCES



Source: <u>World Wide Total Remuneration 2001-2002</u>, Towers Perrin, April 2001

EXHIBIT 4: TOTAL ANNUAL REMUNERATION FOR CHIEF EXECUTIVE OFFICER



Source: World Wide Total Remuneration 2001-2002, Towers Perrin, April 2001

4 However, wage competitiveness is not only about the absolute wage level. It should also account for the differences in labour productivity across countries. To take into account manufacturing labour productivity, we need to adjust the compensation levels in different countries by their respective productivity measures[13].

5 Exhibit 5 provides a comparison of productivity-adjusted wages of 11 countries and regions, which suggests that the gap is smaller after adjustments for productivity. From the table, we can see Singapore lags behind countries like China and Mexico in terms of productivity-adjusted wage competitiveness.

EXHIBIT 5: COMPENSATION AND PRODUCTIVITY OF SELECTED COUNTRIES, 2000

	Compensation Level (Total hourly compensation for manufacturing workers)		Productivity in Industry; 2000	Compensation/Productivity	
	US$ (A)	Expressed as Index: Singapore=100	US$ (B)	(A) / (B)	Expressed as Index: Singapore=100
China	0.5	6.7	3,326	0.00014	82.9
Malaysia	2.0	27.8	9,741	0.00020	118.0
Mexico	2.1	30.3	16,572	0.00013	75.7
Taiwan	6.2	88.4	28,404	0.00022	128.9
Singapore	7.1	**100.0**	**41,413**	**0.00017**	**100.0**
Korea	8.7	122.9	33,480	0.00026	152.1
Ireland	11.7	166.1	65,285	0.00018	105.4
UK	15.5	219.4	62,018	0.00025	146.5
USA	19.2	272.0	85,911	0.00022	131.1
Japan	22.0	312.2	72,610	0.00030	178.1
Germany	22.7	320.8	45,030	0.00050	295.1

Source: World Competitiveness Yearbook 2001, IMD, 2001

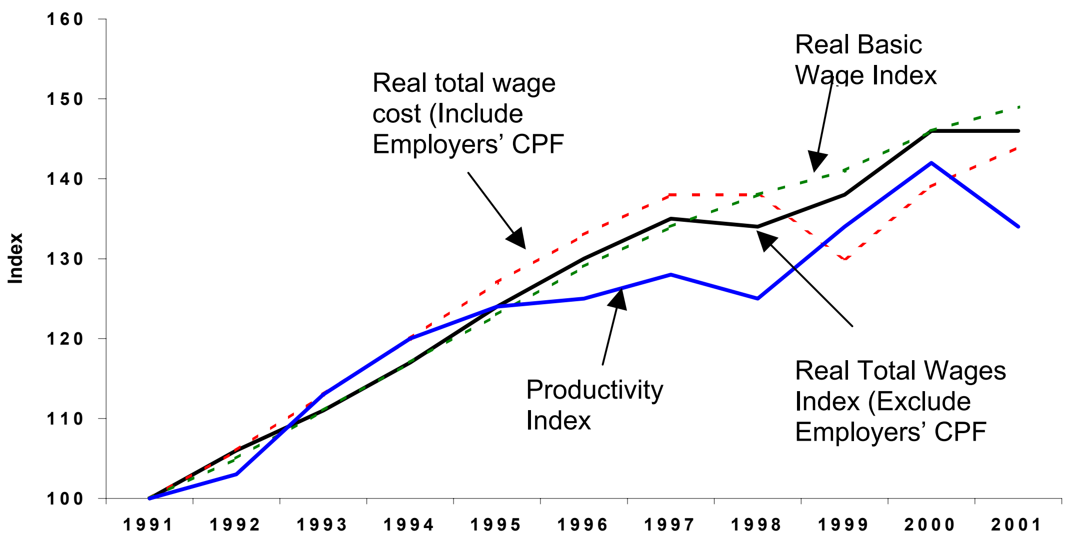
[13] Productivity = GDP per person employed in industry (in 2000), measured in US$ terms.

6 From the table, we can see that the compensation level of an average manufacturing worker in China is 7% of that of Singapore when measured in nominal terms. However, Singapore's productivity in the industrial sector is 12.5 times that of China's. By factoring in the lower productivity of Chinese workers, the compensation level works out to be 83% of that of a Singaporean[14]. However, With China's rapid industrialisation, its productivity could catch up with us quickly while its wages could remain relatively low given its large pool of labour. Hence, we need to watch our wage costs vis-à-vis China very carefully.

PRODUCTIVITY AND WAGE INCREASES

7 Over the years, a close link has been established between productivity and wage increases. However, since 1996, the gap has widened with real basic wage increases leading productivity increases. The situation was aggravated by the economic downturn in 1998 and the recent recession in 2001 which resulted in sharp reductions in output and a cyclical decline in productivity. Nevertheless, the change in total wages appeared to follow the fluctuations in productivity more closely in recent years as employers generally prefer to adjust wages using the variable component. On the other hand, taking into account the employers' CPF contribution, the total wage cost index had lagged behind the productivity in 1999 and 2000 following the cut in employers' CPF contribution.

EXHIBIT 6: PRODUCTIVITY AND REAL WAGE INCREASES (1991=100)



Sources: Report of Wages in Singapore, MOM
Economic Survey of Singapore, MTI

[14] Note that labour productivity does not measure the specific contributions of labour as a single factor of

8 **To sustain our wage competitiveness, the Working Group recommends that the National Wages Council (NWC), in formulating its annual wage guidelines, maintain the principle that "real built-in wage increases should lag behind productivity increase at all levels of the organisation"**.

COMPETITIVE BASE WAGE SYSTEM

9 Under a seniority-based wage system, wage levels are governed by length of service and do not reflect the value of the job. In the 80's the wage differential for workers doing the same jobs was often 2 to 3 times. The wide gap between the minimum and maximum salary gives rise to dissatisfaction among the new workers who are paid lower although they are performing the same job as the higher-paid long service workers. The seniority based wage system can be detrimental to business competitiveness and the job security of older employees.

10 Addressing the issue, the Tripartite Committee on the Extension of the Retirement Age recommended, in 1997, the adoption of the Base-Up Wage System (BUWS). The BUWS was founded on the principles that the wage structures should reflect the actual value of the job and that wage increase should be closely linked to productivity growth. Such a system would help older workers remain cost competitive and employable.

11 To facilitate the implementation of the BUWS, the Tripartite Committee further recommended the following principles and guidelines:

- Wage increases should lag behind productivity growth;
- Wages should reflect the value of the job. The desirable salary max/min ratio should be 1.5 or other appropriate ratio to be agreed between union and management, taking into consideration the nature of the job, learning curve, the skills and experience required, etc;
- Productivity gains should be shared by all employees in the form of base-up wage increases.

12 The NWC, in its annual wage guidelines, has also called for companies to implement the BUWS. Through the efforts of the NWC and the tripartite partners, the average salary maximum-minimum ratio has been brought down to 1.7. The BUWS has been implemented by some

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production. Rather, it is an observed outcome based on the joint effects of other complementary variables such as new technology, capital investment, capacity utilisation, energy use, managerial skills, and so on.

companies in the unionised sector, but it has not taken off among companies in the non-unionised sector.

13 As Singapore's workforce ages, there is an increasing need to ensure that older workers are not priced out of the labour market. By 2020, 19% of our labour force will be aged 55 years and above, more than double the 8.3% in 1998. Currently, the overall wage cost of employing a worker aged 55 and above is reduced by way of lower CPF contribution rates for this category of workers.

14 In the current economic downturn, many middle-aged and older employees were retrenched. About 45.9% of the local retrenched in 2001 are aged 40 & above. This includes not only lower educated workers but also mid-career professionals and executives. Besides, a significant number of workers in the 30 to 40 years age group were also laid-off. It is therefore imperative that the wage costs of older workers are competitive under the prevailing labour market conditions.

15 **To accelerate the implementation of the BUWS to replace the seniority-based wage system, the Working Group recommends the following:**

- **Companies and their trade unions work towards narrowing the salary ratio to 1.5 within 2 collective agreements, i.e. 4 to 6 years; and**

- **Companies, in consultation with the trade unions, could regularly review and adjust the salary ratio when job skills and job requirements change so that workers would continue to be rewarded based on the value of the jobs and their contributions.**

16 The term "Base-Up" gives an impression that wages must necessarily move up even when there is no productivity growth. **To reflect that wage increases should lag behind productivity growth so as to maintain cost-competitiveness, the Working Group proposes that the Base-up wage system be refined and renamed as the "Competitive-Base Wage System".** The new term together with the flexibility to review the salary ranges would clearly signal to both employers and workers that salary range are based on productivity, performance and market forces and do not automatically increase every year.

CHAPTER 3: NATIONAL WAGES COUNCIL (NWC) – A TRIPARTITE MECHANISM TO ACHIEVE WAGE COMPETITIVENESS AND EQUITABLE REWARDS

INTRODUCTION

This chapter gives the background of the formation of the National Wages Council (NWC) and examines its role and contributions over the years, and reviews whether the Council is still relevant in the light of changing economic and business environment.

2 The NWC, comprising key leaders from the employers, trade unions as well as the Government, was established in February 1972 as an advisory body to the Government on wage and wage-related issues. It was set up at a time when the country was facing a period of rapid industrialization, resulting in unrealistic wage expectations. The Government was concerned that with the strong demand for manpower, wage negotiations would lead to uncontrolled wage increases and spiralling wage costs if left completely to the vagary of market forces. Wage disputes could result in industrial action which could be detrimental to the investment climate and the long term economic growth of Singapore.

3 The NWC was tasked to help bring about orderly wage increases through rational negotiation based on its yearly wage guidelines. Since its formation in 1972, the tripartite partners in the NWC have formulated wage guidelines taking into account economic and other relevant factors to reward workers equitably for their contribution. These guidelines are based on the principle that wage increases should lag behind productivity growth to maintain our cost-competitiveness.

ROLES AND CONTRIBUTION OF THE NWC

4 The Council provides a regular platform for discussions on wage and wage-related issues among employers, workers/unions, the Government as well as feedback from the general public. The NWC wage guidelines have been widely accepted and implemented by employers, trade unions and the Government, although implementation is not mandatory. Annual surveys on the responses to NWC guidelines conducted by the Ministry of Manpower showed that the NWC guidelines have been used as an important reference point for wage adjustment by companies, particularly those in the unionised sector. Over the years, wage increases have been implemented in an orderly manner, trending in tandem with productivity growth. The rational way in which wage increases are determined has helped Singapore maintain cost-competitiveness.

5 The NWC guidelines have enabled wage negotiation to be conducted on a sound and rational basis and in turn they have facilitated speedy conclusion of wage negotiation. The consensus approach in formulating the annual wage guidelines also helps to bring about closer labour management relations and a favourable industrial relations climate, a far cry from the confrontational and adversarial climate in the 50's and 60's. The Working Group recognises the valuable contribution made by the NWC in fostering Singapore's harmonious industrial relations environment. Industrial peace and stability attract foreign investment, create jobs, and promote economic growth and social progress.

RELEVANCE OF THE ROLE OF THE NWC IN THE NEW ECONOMY

6 The Working Group examines whether the NWC has outlived its usefulness and reviews its continued relevance in an economy characterised by intense global competition, rapidly changing business conditions and a volatile economic landscape.

Has the NWC Outlived its Usefulness?

7 There are views that wages should be best left to market forces, especially for companies operating in a highly volatile business environment, thus suggesting the original objective of NWC is no longer relevant. On the other hand, proponents of the NWC call for greater intervention of the Council by setting sectoral and/or quantitative guidelines to meet the needs of different industries and individual companies. This is because the NWC guidelines, being national in scope, may not meet the specific needs of individual industries and companies against the backdrop the varying circumstances faced by the industries/companies.

8 The Working Group, after deliberating the different viewpoints, reached consensus that the NWC guidelines provides an important reference point for wage negotiations between employers and the workers/unions. Members of the Working Group are concerned that if wages were to be left entirely to market forces without the benefit of objective parameters and the process of consultation amongst the tripartite partners within the NWC, wage negotiations could degenerate into open confrontation. This would harm our industrial harmony which been fostered over many years of careful nurturing. The absence of the NWC guidelines could also lend pressure for the enactment of a minimum wage law, with the consequence of wage rigidity. Without the NWC, the tripartite platform where local and foreign representatives from the employers' group, trade unions representing employees in different sectors and the government

agencies can come together to discuss and collaborate on wage issues would be effectively removed. Such an eventuality will be a setback for Singapore as the 3 social partners have been instrumental in the last 30 years in setting the direction of wage policies in both good and difficult times.

9 Since 1986, the NWC has moved away from issuing quantitative wage guidelines to broad guidelines based on macroeconomic indicators such as GDP growth, productivity improvement, changes in unit labour costs and the employment situation. This is because of great business diversity, increased global competition and the need to link rewards to individual workers' and companies' performance. With qualitative guidelines, companies can have greater flexibility to reward workers based on companies' performance and individual workers' contribution. The Working Group re-affirmed the approach and for the same reason, felt that the NWC should not issue sectoral guidelines.

10 The Working Group concludes that the NWC is a valuable tripartite institution that has achieved far beyond its original objectives. It remains relevant in guiding wage trends, while at the same time balancing cost competitiveness and equitable rewards for workers. It also plays a pivotal role in fostering close labour-management co-operation and tripartite partnership among the government, employers and unions.

<u>Should the Role of the NWC be Expanded?</u>

11 Since the NWC has been effective in influencing orderly wage increases based on economic and productivity growth, there are suggestions that the NWC should expand its role to take on other key manpower issues such as strengthening social safety nets and foreign talent.

12 One concern in expanding the role of the NWC is that members are key industry and union leaders and senior government representatives who may not have the time to deal with a wide range of manpower and employment issues. Besides, the NWC has been operating on the basis of consensus; it would be difficult to achieve consensus if it were to handle a wide range of issues. The danger is that wage guidelines may lose focus and this could seriously undermine the effective implementation of the guidelines. The expansion of role could lead to protracted discussion and might affect the timeliness of the guidelines, thus rendering them ineffective. The Working Group noted that there are already other forums to look into key manpower issues such as the Tripartite Job Taskforce, National Manpower Council and the National Skills Council. The NWC should not duplicate their efforts.

13 The Working Group concludes that it is not desirable for the NWC to take on other manpower issues which would be more appropriately dealt with at other forums.

RECOMMENDATIONS

14 The Working Group is of the view that the NWC can continue to play a strategic role in the New Economy and should be preserved and strengthened. **The NWC should continue to focus on issuing wage and wage-related guidelines based on fundamental economic and productivity indicators and tripartite consensus.**

15 **While the NWC should not expand its role to take on other manpower issues, it could proactively appoint tripartite working groups to look into specific industrial relations or employment-related issues or to study emerging trends**.

16 **The NWC could also, with the support of the Ministry of Manpower and other government agencies, provide timely and relevant labour market information as well as international comparisons on wages**. This would enable companies and trade unions to be better informed of such trends and guide them in wage negotiations. Such information could further enhance management's capabilities in developing human resources.

CHAPTER 4: INTRODUCING PORTABILITY IN EMPLOYMENT BENEFITS

BENEFITS CURRENTLY PROVIDED BY EMPLOYERS

Workers in Singapore enjoy a range of job-related benefits as provided in their individual employment contracts, Collective Agreements or the Employment Act (if they fall within the ambit of the Act). Aside from the statutory benefits provided in the Employment Act, employers use employment benefits to differentiate themselves from their competitors as a way to attract, retain and motivate workers. Therefore, the types of benefits that workers enjoy vary from company to company and between industries.

2 The types of benefits workers in Singapore currently enjoy could be grouped into 2 major categories:

(a) ***Statutory Benefits*** - annual leave, sick leave, public holidays, maternity leave and paid medical consultation are mandatory for workmen and certain categories of employees[15] under Part IV of the Employment Act.

(b) ***Non statutory leave and welfare benefits*** - Besides statutory leave provisions, companies commonly provide workers with other benefits such as compassionate leave, marriage leave, paternity leave and examination leave.

IMPACT OF ECONOMIC RESTRUCTURING ON LABOUR MARKET

3 Globalisation, technological advances and changing demographics are driving radical changes in business models and the labour market. Companies are restructuring, downsizing and merging to compete in today's intensely competitive global environment. The average job tenure of most workers is becoming shorter as business cycles shorten and companies employ contract workers and out-source non-core activities in a rapidly changing business environment. Workers will likely switch jobs several times in their working life. However, as current employment

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[15] The provisions of Part IV of the Employment Act apply:
(a) to workmen; and
(b) to employees who are in receipt of a salary not exceeding $1,600 a month (excluding overtime payments, bonus payments, annual wage supplements, productivity incentive payments and any allowance however described) or such other amount as may be prescribed by the Minister.

benefits are often tied to individual employers, workers cannot carry along unused benefits with them when they change jobs.

4 At the same time, benefits form a significant portion of the business cost to employers. This cost will go up when our workforce ages, especially medical expenses.

5 To better meet the needs of workers and companies in the new economy, there is therefore a need to inject portability into the provision of these benefits, allow for more efficient use of the benefits and to promote greater personal responsibility.

PORTABILITY IN MEDICAL BENEFITS

6 Most large companies bear both the outpatient and inpatient costs incurred by their employees. Small companies provide less. At the same time, employers make contributions to the employee's CPF account, part of which is allocated to the Medisave account[16]. Employees can use their Medisave contributions to pay the premiums for Medishield or other approved medical insurance schemes, as well as for inpatient expenses. About 72% of the resident population is covered by Medishield or other approved medical insurance schemes[17].

7 Currently, medical costs amount to about 1.4% of the total wage cost, of which inpatient costs constitute about 40%. However, medical costs are likely to rise significantly over time as the experience of developed countries has shown. In particular, with a rapidly ageing workforce, medical costs of older workers are expected to rise sharply and this would undermine the employability of older workers. At the same time, with more frequent job changes, workers would need medical coverage not only during employment but also when they are in between jobs.

8 The Working Group has reviewed the previous study undertaken by the Tripartite Committee on Portable Medical Benefits. **Building on the study, the Working Group proposes an approach to the provision of outpatient and inpatient benefits that seeks to provide choice and flexibility to employers and employees, and allow for free play in the market.** It proposes a range of options that employers and employees can adopt. The adoption of a particular option would depend on the existing medical benefit usage, the needs of the employees and the unique circumstances of the company.

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[16] 6-8% depending on the age group. The long term target is to raise the allocation to 7-9%.

[17] Source : Report of the Tripartite Committee on Portable Medical Benefits, May 2002.

OUTPATIENT BENEFITS

9 The Working Group proposes 3 options[18] for employers and employees/unions to consider in restructuring their outpatient benefits. All the options have the provision to allow employees to accumulate unused medical benefits for future use. Besides, they have the co-payment element which aims to promote personal responsibility of medical expenses and thus help contain the rise in medical cost. Implementation will be optional to allow flexibility for the provision of outpatient benefits which vary widely from company to company.

Option A: Co-payment with Annual Individual Budget

10 Employees and employers will **co-pay outpatient expenses, with employers bearing the major portion, say 85%.** In return, **employers will set aside for each employee an annual individual outpatient budget from which the employer's portion of the outpatient bill will be drawn.** This is similar to outpatient benefits provided under the public sector Medisave-cum-outpatient (MSO) scheme[19].

11 Once the annual outpatient budget is exhausted, employees will be responsible for the entire outpatient bill. Conversely, any unconsumed portion of the annual outpatient budget will be credited to the employees' Medisave account to save for future medical needs and to encourage greater individual responsibility for healthcare expenses.

12 While this option will enhance the portability of medical benefits and encourage employees to make responsible use of medical services, unions are concerned that older workers who require expensive outpatient or specialist treatments as well as workers with chronic illnesses will quickly exhaust the annual individual budget. The Ministry of Health has also expressed concerns that the option can result in a shift of the cost borne by employers to the individual and ultimately the government. In addition, companies have given feedback that maintaining an annual individual outpatient budget will be administratively complex.

Option B: Direct Co-Payment with additional Medisave contribution as trade off

[18] The first two options were recommended by the Tripartite Committee for Portable Medical Benefits.

[19] Civil servants recruited on or after 1 January 1994 are placed under the Medisave-cum-Subsidised Outpatient Scheme (MSO). They are required to co-pay 15% of their outpatient and specialist expenses (employer pays 85% subject to a limit of $350 per year).

13 To address these concerns, **another option is formulated for employees to directly co-pay part of the outpatient expenses from the first dollar, say 20% - 25%.**

14 In exchange for bearing part of the expenses and to encourage existing employees to adopt the co-payment**, employers can make an additional Medisave contribution, say 0.5% to 1% of worker's monthly salary.**

<u>Option C: Direct Co-Payment with cash incentives as trade off</u>

15 Under this option, **employees will directly co-pay part of the outpatient expenses from the first dollar, say 20% - 25%.** As a trade off, **employers can grant employees cash incentives**.

16 Option B and C are also in line with the principle of portability in that the unused portion of the additional Medisave savings or cash incentives trade-off benefits could be saved up to meet the workers' future medical needs.

INPATIENT BENEFITS

17 **With respect to the inpatient benefits, the Working Group proposes two options - the Portable Medical Benefits Scheme (PMBS) and the Transferable Medical Insurance Scheme (TMIS)[20]**. Both options introduce portability to medical benefits.

18 The Working Group proposes that **the PMBS or TMIS be implemented through promotional efforts, rather than through legislation.** Employers and trade unions/workers should consider either option for adoption. While mandating the implementation of PMBS or TMIS would help ensure adoption by all companies, it imposes a statutory cost on employers and sets a minimum national standard of medical entitlement. This could introduce rigidity and increase the operating cost for companies, especially smaller ones. **To encourage the adoption of the schemes, the Working Group recommends that Government make adjustments to the existing tax structures on medical benefits.**

19 Given the need for workers to be continuously covered throughout their working life and the concern over rising medical costs, **the Working Group recommends that the Government monitor the implementation of these portable schemes over time.** If the coverage remains low, other measures may have to be adopted to facilitate implementation. The

[20] PMBS was recommended by the Tripartite Committee on Portable Medical Benefits while TMI was formulated with the support of MAS, the General Insurance Association and Life Insurance Association.

Working Group noted that some countries, eg. US, have mandated the provisions of inpatient benefits.

20 The features of PMBS and TMIS are detailed below.

Portable Medical Benefits Scheme (PMBS)

21 **In lieu of the inpatient benefits that employers currently provide, employers would make additional contribution to employees' Medisave account**. The additional Medisave contribution rate is to be negotiated between employers and unions based on the existing medical benefits provision, but **subject to a minimum of 1% of monthly salary**. This is similar to the inpatient benefits provided under the public sector Medisave-cum-outpatient (MSO) scheme[21]. Henceforth, employees would be responsible for their own inpatient benefits from the first dollar.

22 **The additional Medisave contribution should be used by employees to purchase Medishield or other approved medical insurance to meet their inpatient expenses.** Employees can save up the unused Medisave contribution for future use or buy medical insurance for their dependants.

23 The PMBS rides on the existing Medisave/Medishield framework. It provides coverage during employment, in-between employment, and even after retirement, so long as the individual continues to pay the premiums for the medical insurance. It can help enhance the wage competitiveness and employability of older workers as companies would be paying the same rate of additional Medisave contribution for all workers. Furthermore, the co-payment and deductible elements under the approved medical insurance schemes would discourage indiscriminate use of medical benefits, and this would help contain medical cost. In the light of the high inflation of medical cost, employers would benefit from the PMBS as it provides certainty for them to plan and set aside funds for medical expenses.

24 The Working Group assessed that younger and healthy employees would be more receptive to the PMBS as they generally do not incur high medical expenses and can save the unconsumed amounts for future needs. However, older workers and those with pre-existing medical conditions may find the additional Medisave contribution insufficient to meet their current medical needs, let alone save for future needs. **To encourage acceptance of the schemes by all employees, the Working**

[21] In lieu of their inpatient benefits, civil servants on MSO would receive an additional 1% CPF (subject to a maximum of $70 per month) contributed by the employer and credited into their Medisave account. They are responsible for their own inpatient expenses in full.

Group recommends that the Government consider providing a once-off assistance to older workers and workers with pre-existing illnesses by paying, say 1 to 2 years' premiums for the medical insurance.

25 Workers and unions have expressed concerns about the high deductible and co-payment levels, as well as the low rate of successful claims under the existing Medishield and other approved medical insurance schemes. To address these concerns and facilitate the implementation of the PMBS, the Ministry of Health may need to review and enhance these schemes.

<u>Transferable Medical Insurance Scheme (TMIS)</u>

26 The Transferable Medical Insurance scheme is an enhancement of the existing employer-sponsored group medical insurance. It provides inpatient medical coverage up to prevailing retirement age. The TMIS plans offered by insurers may provide different level of inpatient benefits and charge different premiums. The additional benefits offered under TMIS are as follows:

- <u>Employees transferring between TMIS Plans when they change jobs</u>: Coverage will continue when an employee moves from one employer to another. Participating group insurers will treat any employee covered under a TMIS plan as continuously insured, for the purpose of applying the pre-existing medical exclusion[22]. However, exclusions that are currently in-force will continue to apply for a period as prescribed in the original TMIS plan.

- <u>Employees who are retrenched</u>: Options would be offered to employers who wish to extend inpatient medical benefits to all retrenched employees, for a maximum period of up to 12 months after retrenchment. As long as insurance premiums are paid, the employees can continue their medical insurance coverage for up to 12 months or until they are employed with a new employer with its own medical insurance plan, whichever is earlier.

27 The insurance operators have estimated that TMIS, because of its additional benefits, would cost employers a 5% to 20% increase in insurance premium when compared to normal group medical insurance.

[22] In a typical group medical insurance plan, an employee with a pre-existing medical condition is excluded from medical coverage in respect of that condition for 12 months each time he joins a new employer. Under the TMIS, this pre-existing condition exclusion occurs once only, ie. with the first employer.

28 The TMIS builds on the existing employer-provided group medical insurance scheme, and is therefore relatively easy to implement. It covers employees both during employment and for up to 12 months in-between employment[23]. Under the TMIS, it is possible to build in co-payment and deductibility features which would encourage individual responsibility for medical needs.

29 For TMIS to meet the objective of injecting portability into the medical benefits scheme, it has to be widely accepted and implemented by employers so that employees could continue to be covered under TMIS plans when they change employment. Active promotion by the insurance industry would be necessary. Initial indications from insurance companies are that large companies may be receptive to the scheme. The insurance companies have fedback that the TMIS can be offered to companies with not less than 30 employees. For smaller companies, ways can be explored to make it viable for them to participate in the TMIS as well.

PORTABILITY IN TRAINING

30 In the New Economy with the rapid pace of skill obsolescence, it is important to ensure that the workforce is adequately equipped to take on new or higher value-added jobs and to remain employable. However, with the shortening of job tenure, companies will be less committed to training workers whom they do not expect to employ for a long period. They also tend to be keener on training that meets the immediate needs rather than training to ensure the long-term employability of their workers. This means that workers who want to upgrade themselves in areas that are not related to their job requirements need to pay for such courses on their own either fully or with subsidy from self help groups and NTUC.

31 To instil in the individual a sense of responsibility for training and promote lifelong learning, the Work Group recommends **the setting up of a portable training account for workers to fund individual based training.** This would encourage greater individual ownership of training and allow workers greater flexibility to choose their own upgrading courses. **The funding of the portable training account could come from appropriate sources. One possible source is the Lifelong Learning Fund.**

32 The idea of Individual training accounts has been implemented in many developed countries like United Kingdom, Scotland, Sweden and Netherlands. The training accounts are usually managed by the Government with contributions made by employers, individuals and the

[23] This is adequate as 98% of retrenched local workers are re-employed within 3-6 months. Source : Labour Market Survey, Second Quarter 2002.

CHAPTER 5: ENHANCING LABOUR MARKET FLEXIBILITY

INTRODUCTION

As the economy restructures, business cycles are getting shorter and more volatile. Companies reorganize their business operations more regularly and there is a need for our labour market to be more flexible and nimble to respond to these changes.

2 Singapore is also witnessing an increasingly greying population. To help older workers remain employable their wage cost will need to be competitive.

3 Labour flexibility can be achieved by refining the laws in working hours and CPF contribution rules. This chapter discusses two areas – implementation of a flexible working hour scheme, and modifications to the CPF system. The latter formed part of the recommendations of the CPF Report[24] which was released on 15 July 2002.

ALLOWING FLEXIBILITY IN WORKING HOURS

4 Companies face volatile fluctuations in demand resulting in insufficient manpower capacity during peak periods and excess capacity during lull periods. The use of manpower resources can be optimised through a flexible work pattern to improve productivity and save overtime cost.

5 The Employment Act, which regulates the minimum terms and conditions of employment including working hours, stipulates that an employee is not required to work more than 8 hours a day or 44 hours a week. All work in excess of these shall be considered as overtime work and the employee must be paid at the rate of not less than 1½ times his hourly basic rate of pay.

6 While companies can adopt a flexible work pattern on a regular basis under the present legal provision, there are companies whose nature of business is such that they do not require employees to report for work on a regular basis when there is no demand for their services but require them to work overtime when they are needed to complete the task. For example, in the aerospace industry, the services of workers would not be required before the arrival of aircraft but once the planes are sent for maintenance, the work is continuous and workers may need to work beyond the stipulated 8 hours limit. For such industries, the existing

[24] "Refocusing the CPF System for Enhanced Security in Retirement and Economic Flexibility"

provision in the Employment Act governing overtime work has given rise to rigidity and hampered the optimal use of manpower resources.

7 The Working Group notes that flexible working hours schemes like Annualised and Quarterly working hours have been practised in other countries like United Kingdom, Sweden and US. By “annualizing” or quarterlising the working hours, the peak and lull periods are moderated over a 12 months period. Overtime is payable after the contractual hours of the quarterly or annualised period have been performed. This period would include the time spent on annual leave, public holiday and sick leave.

8 Under the flexible working hours system where the weekly working hours are averaged out over a longer period, employers can optimise the use of manpower to meet unscheduled demands by allowing workers to take off during non-peak periods and requiring them to work longer hours during peak periods. This will help companies better manage their wage cost to stay competitive. With the flexible work arrangement, employees could better plan their leave or allocate time for their own needs such as spending time with the family under a flexible work pattern. This would enable them to achieve a better work-life balance.

9 The Working Group recommends that **companies, whose nature of business justifies the implementation of a flexible working hours scheme, be exempted on a case-by-case basis from the provisions of the law governing daily and weekly working hours and the rate of overtime payment.** Companies will then have the flexibility to implement flexible working hours over a monthly, quarterly or longer duration and will only be required to pay for overtime work after the contractual hours of work computed over a specific duration are exceeded.

10 As the proposed flexible working hours scheme has an impact on workers, there is a need to gather more information from companies which require such flexibility. **A pilot project with a few companies could be introduced and monitored for 2 years**. Amendments to the relevant legislation to facilitate flexi-hour work arrangements could be considered based on the experience gained.

11 The Working Group also recommends that a **tripartite taskforce be set up to work out the principles and operational details**. The taskforce should study how savings and productivity gains could be shared between companies and workers. The taskforce should also draw up a set of guidelines on the implementation of the flexible working hours system. The guidelines should include the following safeguards against abuses:

- Companies must obtain the consent of union and/or workers before making an application to the Commissioner for Labour for exemption from the provision in the Employment Act which stipulates that the computation of weekly working hours should be based on a 3 week cycle.
- Management must give workers sufficient notice before changes are made to the work schedule
- Workers should have a measure of stability in their income
- Companies implementing flexible working hours should ensure that the health and safety of workers are not compromised.
- The flexible working hours scheme in the company should be reviewed regularly.
- The maximum hours of work per day should not exceed 12 hours, as is the case today.

MODIFIYING THE CPF SYSTEM

12 As part of a broader initiative to move away from the seniority-based wage system and to enhance the wage competitiveness and employability of older workers, the Working Group has recommended keeping the employer's CPF contribution rate for workers in the age group of 50 to 55 at its present level of 16%, when the contribution rate for younger age groups is restored to 20%. To enhance labour market flexibility, the Working Group has also recommended changes to the salary ceiling and salary floor range for CPF contribution. These recommendations, which were released on 15 July 2002 together with other recommendations by the CPF Working Group, have been accepted by the Government.

A) Enhancing Wage Flexibility And Employability For Workers Aged 50-55

13 In an increasingly competitive and uncertain business environment, the creation and retention of jobs remains a key priority. This will require greater flexibility in wages, increased willingness to accept new jobs and more frequent upgrading of skills across the workforce.

14 The experiences of the last two recessions have shown that older workers, once retrenched, face more difficulty in securing re-employment compared to their younger counterparts. The re-employment rate for those aged 50 and above[25] was 37%, compared to the rate of 56% for the 30 year-old and younger cohort. For unemployed older workers who managed to get another job, it also took them longer on average to be re-employment. The median duration of unemployment for workers aged 40

[25] Source : Labour Market Survey, First Quarter 2002.

and above was 14.2 weeks. For those aged 50 and above, it was 21 weeks. These compare unfavourably to the 11.5 weeks for workers below 40. With continued economic re-structuring, this trend can be expected to worsen.

15 There are a number of reasons for this trend. Firstly, older workers have to overcome a skills mismatch situation. Secondly, the prevailing seniority-based wage system is more pronounced in Singapore than in other countries. Coupled with large statutory contributions under the CPF system, employers find it more costly to employ older workers. This puts older workers at greater risk when companies are forced to downsize. A holistic approach to tackle the employability problems of older workers is needed by focusing on both skills upgrading as well as removing rigidities in the wage structure. This would ensure that wages are more closely tied to productivity, thereby enhancing flexibility as well as preserving jobs.

Upgrading Skills

16 The Government introduced the "People for Jobs Traineeship Programme" (PJTP) in Jun 2001, which aims at helping older job seekers (aged 40 years and above) who are prepared to make a career switch across sectors. The programme encourages companies to put in place traineeship arrangements to better induct and increase the comfort level of older workers taking on a new job in a new working environment, thereby shortening the average time for the older worker to pick up new skills and start contributing to the company.

17 The programme was conceived for a 6-month pilot run from June to November 2001. Due to worsening labour market conditions, the programme was extended for another year from 1 November 2001. At the same time, financial support for the programme was increased to the lower of 50% of gross salary or $2000 per month for a period of up to 6 months. This enhancement was part of the Government's off-Budget measures announced in October 2001.

18 Older workers can also boost their skills through broader upgrading schemes with support from their employers and the Skills Development Fund (SDF). In addition, employers can send their workers for skills upgrading under the Skills Redevelopment Programme (SRP), under which the employers are eligible to claim subsidies of up to 100% of the course fee in some cases.

19 The Government introduced the National IT Literacy Programme (NITLP) in June 2001, to help equip workers with basic Internet skills and to integrate IT into their daily lives. Older workers can leverage on the

NITLP to improve their IT knowledge and thereby enhance their employability in the New Economy.

Removing Rigidities in the Wage System

20 While these schemes on skills upgrading will help improve the skill levels and productivity of older workers, they are insufficient on their own. Measures are needed to move away from the seniority-based wage system, which is more pronounced in Singapore than in other countries, so that wages are more closely tied to skills and productivity. However, this process will take time and may not be sufficient, because of institutional and labour market rigidities.

21 Efforts have been made to enhance the flexibility of our wage system and promote the implementation of the base-up wage system in place of the seniority-based wage system. While there has been some progress in the unionised sector with about 10% of the firms adopting the base-up wage system, the take-up rate in the non-unionised sector is low at only 2.4%.

22 Workers above 50 will be the most vulnerable to competitive pressures. They are less educated than younger workers, less readily retrained and less easily redeployed into new jobs. With a greying workforce and increasingly shorter business and economic cycles, there is a need to increase the incentive for companies to employ older workers by restructuring the seniority-based wage system and scaling back statutory wage components such as the CPF. Otherwise, more may become victims of an unemployment trap.

23 CPF contribution rates for workers above 55 are already much lower than for the rest of the workforce (currently, the CPF contribution rate is halved when a member reaches age 55). Ideally, however, the CPF contribution rate should step-down gradually, rather than drop suddenly from 40% for younger workers to 20% for workers aged 55 and above. Similar, but more modest, adjustments for those in the 50-55[26] age group should be made, so as to achieve greater wage flexibility and help preserve jobs for these workers. The Working Group recommends **keeping the employer's CPF contribution rate for those in the 50-55 age group at its present level of 16%, even as the employer's CPF contribution rate for the other age groups is restored to 20%.**

24 The Working Group also recommends that **the employee's CPF contribution rate for workers in the 50-55 age group be lowered from the present level of 20% to 16%. This should similarly be phased in as we restore the CPF contribution rate to 40% for the other age groups.**

[26] 50-55 refers to those who are aged between 50 years and 1 day and 55 years exactly

For older workers seeking re-employment in lower-paying jobs, this measure would help them by mitigating the reduction in take-home pay.

25 The overall effect of these changes will be a meaningful step-down in total CPF contribution rate, from 40% (20 + 20) for those below 50, to 32% (16 + 16) for those aged 50-55 to 20% (7.5 + 12.5) for those aged 55-61, after restoration to 40%. This will make it easier for the 50-55 age group to remain employed.

26 The intention is to increase flexibility for employing older workers and not to reduce wages or business costs. **Employers are encouraged to pass on part of their cost savings to deserving workers in this age group as the CPF is restored for the others. Employers can do so through the variable component of their wages, e.g. bonuses or the monthly variable component (MVC), depending on the circumstances of each company and the contribution of each worker.**

27 Some workers in the 50-55 age group may face mortgage payment shortfalls, especially when the Special Account and Medisave Account rates are increased to reach their target level. When the Government reduced employer's CPF contribution rate in 1999, a set of measures was implemented to assist members with mortgage shortfalls. This included allowing the use of the Special Account savings for mortgage payments. The intention was to phase out these measures when the CPF rate is fully restored to 40%. To help affected members adjust, **the Government should allow members aged 50 – 55 who have exhausted their OA savings to continue to draw on their Special Account savings for a period of time, to meet any shortfalls in their mortgage repayments due to the non-restoration of employer CPF rate.**

28 The employer's CPF contribution for employees aged 55 and above should be restored alongside with the younger age groups, as their contribution rates were already adjusted when the Government extended the retirement age to 62 years.

29 These proposed recommendations to enhance the flexibility and competitiveness of the wage structure for workers in the 50-55 age group can only be part of a broader programme to address the long-term employability of these workers. The non-restoration of the employer CPF rate for this group signals the need to address this long-term issue and must be complemented by sustained efforts through other measures, such as providing incentives for re-training and skills upgrading, and encouraging a mindset shift on the part of both employers and employees. These will be critical ingredients in preserving jobs for older workers, and helping them to meet the challenges of the New Economy.

B) Reducing Mandatory Contributions For High-Income Earners

30 Based on the December 2001 CPF data, the current monthly salary ceiling of $6,000 (for both the employer and employee) covers 92% of active CPF members. In line with the principle of refocusing CPF to meet the needs of the broad majority of Singaporeans, i.e. between the 10th and 80th percentile, there is no reason to impose high levels of mandatory saving for individuals with incomes above the 80th percentile.

31 This group of high-income earners should have the wherewithal to plan for and look after their own retirement needs, relying more on their voluntary savings. The level of statutory contributions should be reduced and they should be given greater autonomy and flexibility to deploy their income. The Working Group therefore recommends lowering the monthly salary ceiling for CPF contributions.

32 Based on the December 2001 CPF data, a $4,000 salary ceiling would cover about 82% of active CPF members. However, a one-step reduction in the salary ceiling from $6,000 to $4,000 would be too drastic. The Working Group therefore proposes to **lower the CPF salary ceiling for both employer and employee contributions from $6,000 to $5,000**, which would still cover 88% of active CPF members. With wage growth and inflation, a monthly salary of $5,000 will naturally gravitate toward the 80th percentile income level over 5 – 6 years.

33 **The purpose of this measure is not to cut wages or costs but rather to enhance wage flexibility by reducing high statutory contributions.** To give CPF members as well as the labour market adequate time to adjust, **the lowering of salary ceilings should be phased in together with the CPF restoration to 40%**.

34 **Employers are encouraged to make appropriate adjustments to salary packages of employees so as to offset the CPF reduction and to reflect the employees' market value.** Since CPF contributions are tax-deductible, employees who wish to enjoy a similar tax position compared to before the lowering of the salary ceiling can channel more of their voluntary savings into the Supplementary Retirement Scheme.

C) Giving Low-Income Earners More Take-Home Pay

35 Currently, employers contribute the full rate of CPF on salary above $50 per month. Employees do not contribute to CPF for wages below $200. Employee CPF contribution rates are then phased in on a sliding scale from 5% for wages at $200 to the full rate of 20% for wages at $363 and above. These limits were set many years ago.

36 The principles underlying the existence of wage floors for employer and employee contributions differ. Employers' contributions constitute part of the total wage package for workers. A higher wage floor for employers' contributions would mean that lower income workers receive lower wages. Hence, the objective would be set as low a wage floor for employers' contributions as feasible to protect these workers

37 In contrast, a low wage floor for employee's contribution would reduce their take home pay. For the lower income members, a higher wage floor for employees' contribution would be desirable.

38 The current employer's salary floor for CPF contribution of $50 should be retained so as to provide most of the lowest income workers with some CPF savings for retirement. The threshold salaries at which the employee's contribution is phased-in, however, should be raised. The Working Group proposes to **raise the employee CPF wage bands from $200 - $363 to $500 - $750.** This will effectively increase the take-home pay for all workers earning $750 and below. It will also help encourage more workers to enter the workforce, even if it is on a part-time basis. The Working Group **recommends that this measure be implemented immediately**.

ANNEX A

Composition of the Working Group on Wages

Chairpersons

Mdm Halimah Bte Yacob	Asst Secretary General National Trades Union Congress
Mr Stephen Lee	President Singapore National Employers Federation

Government and Academia

Mr Ong Yen Her	Divisional Director (Labour Relations & Welfare) Ministry of Manpower
A/P Hui Weng Tat	Vice Dean Division of Research & Graduates Studies, FASS National University of Singapore
A/P Tan Khee Giap	Associate Professor Division of Banking & Finance Nanyang Technological University
Mr Goh Eng Ghee	Director, Resource Development Economic Development Board

Employers

Mr Shawn Bergemann	Vice President, Director Motorola Electronics Pte Ltd
Mr Alexander C Melchers	Member German Business Association
Mr William Tan	Chief Executive Officer SIA Engineering
Mr Mazakazu Ozawa	Managing Director Yokogawa Electric Asia Pte Ltd
Mr Koh Juan Kiat	Executive Director Singapore National Employers Federation [Resource Person]

Unions

Mr Cyrille Tan	General Secretary United Workers of Electronic & Electrical Industrial Union (UWEEI)
Mr Thomas Thomas	General Secretary Singapore Shell Employees Union
Ms Nora Kang	President DBS Staff Union
Mr Lim Chin Siew	Director Industrial Relations Dept National Trades Union Congress

ANNEX B

Secretariat for the Working Group on Wages

Mr Soh Chin Heng
Director, Employment Pass Department, MOM

Mr Tan Jing Koon
Deputy Director, Labour Relations Department, MOM

Ms Goh Sor Imm
Assistant Director, Industrial Relations Department, NTUC

Mr Yeo Han Sia
Economist, Economics Division, MTI

Mdm Anita Ng
Senior International and Policy Officer, MOM

Mr Dave Lim
Senior Officer, Enterprise Ecosystem Policy, EDB