

Press Statement: Promoting greater wage and labour market flexibility, and introducing portability

The Working Group on Wages 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

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. To enhance greater wage flexibility, the Working Group recommends :

- a. A different ratio of variable component be adopted for different levels of employees with the extent of variability for rank-and-file employees, middle management/professionals/executives and senior management set at 30%, 30-40% and not less than 40% of annual wages respectively.
- b. The Monthly Variable Component (MVC) be built up expeditiously :
 - o For companies that have not implemented MVC in their wage structure or where the MVC is less than 2% of workers' basic wages, a portion of the basic wages be set aside to build the MVC up to 2%.
 - o For companies that have 2% or more MVC in their wage structure, they could discuss with trade unions/workers whether a portion of basic wages could be set aside to build up the MVC further.
- c. Companies could, in consultation with their trade unions, 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.

Towards a More Competitive Wage Structure

While Singapore's wages are generally higher than that of other Southeast Asian countries and developing economies like China, the cost differential narrows when compensation is adjusted for productivity. To sustain our wage competitiveness, the Working Group recommends that :

- a. The National Wages Council, 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.
- b. The implementation of the "Base-Up wage system", which will be renamed the "Competitive-Base Wage System", be accelerated to achieve a maximum-minimum salary ratio of 1.5 within 2 collective agreements, i.e. 4 to 6 years.

Role of the National Wages Council (NWC)

The National Wages Council (NWC) has played an important role in formulating and issuing wage guidelines based on relevant economic and productivity indicators. The Working Group reviewed the role of the NWC in the changing economic landscape and recommends that:

- a. The NWC should continue to focus on issuing wage and wage-related guidelines based on fundamental economic and productivity indicators.
- b. The NWC could proactively set up tripartite working groups to look into specific industrial relations and employment-related issues, and provide timely and relevant labour market information as well as international comparisons on wages.
- c. 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

Employment benefits are currently tied to individual employers and workers cannot carry along unused benefits with them when they change jobs. As our workforce ages, the cost of providing employment benefits, especially medical benefits, will go up. There is thus a need to restructure the benefits system to inject portability in the provision of these benefits, allow for more efficient use of the benefits, and promote personal responsibility.

Medical Benefits

The Working Group proposed 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.

The Working Group proposed 3 options on **outpatient benefits** which have features to allow the accumulation of unused medical benefits for future use, and co-payment element to promote personal responsibility and contain medical cost.

On **inpatient benefits**, the Working Group recommended two options - the Portable Medical Benefits Scheme (PMBS) and the Transferable Medical Insurance Scheme. The schemes should be implemented through promotional efforts. To encourage employers to implement the schemes, the Working Group recommended that the Government make adjustment to the tax structure for medical expenses. To encourage acceptance of the PMBS 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.

Training

To facilitate employability training and promote lifelong learning, the Working Group recommended that a portable training account for workers be set up to fund individual-based training so that workers can choose the type of courses they want to pursue. Alternatively, a double taxation deduction could be granted to incentivise employers to provide funding for worker training that is not job-related.

Allowing Flexibility in Working Hours

The Working Group recommended 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.

Conclusion

The recommendations of the Working Group aim to bring about greater flexibility in the wage system, a more competitive wage structure and portability in employment benefits. The measures would

enhance cost competitiveness and employability of our workers, and contribute to Singapore's competitiveness and economic growth.

The full report is available at the ERC website www.erc.gov.sg
