

CHAPTER 4

THRUST 2: ENHANCE THE COST COMPETITIVENESS OF OLDER WORKERS

INTRODUCTION

1. Even as we expand employment opportunities for older workers, cost competitiveness remains a key challenge today especially with intense global competition. The Committee is of the view that it is necessary to continue with measures to ensure that the cost of employing and retaining older workers does not affect business competitiveness of employers, as this will ultimately undermine the job security and employability of older workers.

PROGRESS MADE IN WAGE RESTRUCTURING AND MOVING AWAY FROM SENIORITY-BASED WAGE SYSTEMS

2. Restructuring of wages towards a flexible and performance-based wage system not only helps to ensure the cost competitiveness of workers in general. For older workers, a wage system that moves away from seniority elements and towards job worth and performance also helps to ensure that a worker is paid based on the value of the job and his contribution. This improves an older worker's cost competitiveness and employability.
3. Progress has been made on wage restructuring since its implementation in January 2004. As at December 2006, 83% of the workforce in the private sector was under some form of flexible wage system¹, up from 81% a year ago and 76% in June 2004. Chart 4.1 shows the proportion of employees with some form of wage flexibility.
4. The narrowing of the maximum-minimum salary ratio to an average of 1.5 or less is one of the three key recommendations of wage restructuring. It is also a key factor in moderating high wages for older workers. In December 2006, 60.2% of the workforce was in establishments that had narrowed/were narrowing the wage ratio for the same job to 1.5 or less, up slightly from 59.6% in December 2005 and 59.3% in December 2004.

¹Establishments are considered to have some form of flexible wage system when they have at least one key wage recommendation incorporated into their wage structure.

CHART 4.1: PROPORTION OF EMPLOYEES BY KEY WAGE RECOMMENDATIONS, 2004 to 2006

Per Cent

Employees	Period	Variable Bonus Linked to KPI	MVC	Max-Min Ratio of 1.5 or lower
All Industries	Dec 06	52.8	37.2	60.2
	Dec 05	54.2	36.0	59.6
	Dec 04	47.1	33.5	59.3
<i>By Establishment Size</i>				
25-199 Employees	Dec 06	31.5	16.5	57.5
	Dec 05	31.4	15.4	52.1
	Dec 04	29.1	14.2	57.6
200 or More Employees	Dec 06	67.5	51.5	62.1
	Dec 05	70.5	50.6	64.8
	Dec 04	62.3	49.8	60.8
<i>By Union Status</i>				
Unionised Establishment	Dec 06	75.6	75.0	67.4
	Dec 05	78.7	73.1	70.9
	Dec 04	70.3	70.3	61.5
Non-Unionised Establishment	Dec 06	40.8	17.4	56.5
	Dec 05	41.8	17.1	53.8
	Dec 04	35.9	15.8	58.3

Note: Figures do not sum up to 100% as establishments can implement more than one key wage recommendation.

Source: Response of Firms to NWC Wage Guidelines, 2006, MOM.

STEP UP PACE TOWARDS JOB-WORTH AND PERFORMANCE-BASED WAGE SYSTEM

- The narrowing of maximum-minimum salary ratio continues to be important in wage restructuring. However, even a ratio of 1.5 implies that an older worker can cost as much as 50% more than a younger worker. To make more significant progress, we need a fundamental change. The Committee as well as the National Wages Council (NWC) had therefore earlier recommended that more companies adopt wage systems which are job-based, competency-based and performance-based². Such a system would better reflect the value of the job and workers' contribution, instead of the workers' seniority in service which tends to be related to age.
- In this area, the tripartite partners have been helping companies to learn from good practices of other companies which have adopted such systems (see [Box Story 4-A](#) on Canon Singapore and [Box Story 4-B](#) on Keppel Shipyard). The experiences of these companies show that proper job evaluation, training and career management to identify the job-specific skill-sets required, career development, and a robust performance appraisal that provides a fair and transparent assessment of the employees' performance are important ingredients in moving towards a job-worth and performance-based wage system. Also important is the need for management to have

² Job-based wage system focuses on responsibilities of the job, while competency-based wage system focuses on the ability of the individual worker to do the job. A performance-based wage system looks at how well the worker performs on the job.

an open communication with employees on the changes, address their concerns and convince them of the benefits. Working with and having the unions' support to implement the change, in the case of a unionised company, was also important. Moving forward, NTUC will continue to encourage unions to use the collective agreement as a platform to push for more job-worth and performance-based wage systems for unionised companies.

7. The Civil Service has also in recent years shifted towards performance-based wages (see Box Story 4-C). It has in fact implemented a portable medical benefits system since 1994.
8. Going forward, **the tripartite partners will step up the pace of wage restructuring by encouraging more companies to move away from a seniority-based wage system to a more job-worth and performance-based wage system.** As such a fundamental change will require extensive efforts and careful implementation, companies are encouraged to tap on the ADVANTAGE! Scheme for funding assistance to restructure their wage systems.

**Box Story 4-A:
CANON SINGAPORE AND ITS PERFORMANCE-BASED WAGE MODEL**

Canon Singapore overhauled its wage model to a performance-based wage structure. Under the new wage system, salary increments are no longer entirely seniority-based. The management implemented a regional-wide common grading system, where similar jobs performed in different countries have the same job grade. This facilitates the talent transfers. Jobs are graded and determined by its job worth and competencies.

A more flexible wage system and base compensation according to job scope and functions was developed. Staff will receive annual increments depending on individual performance. Once the basic salary reaches a ceiling, it will be frozen. The new compensation for staff who have reached the maximum of their salary scale is a lump sum payment for their increments while their basic salary remains the same. Adjustments to salaries and promotions will be analysed across the board, and not decided by an individual department head.

The new wage model helps in the re-employment of older workers because it replaces the conventional seniority based structure. The basic salary will be determined by the job worth, and not by age or years in service. It allows older workers with vast expertise, knowledge and skills to be hired/ stay employed with an appropriate salary based on job worth.

**Box Story 4-B:
KEPPEL SHIPYARD AND ITS PERFORMANCE-BASED WAGE MODEL**

Keppel Shipyard overhauled its wage structure to a more flexible one. Under the new wage system, salary increments moved away from an entirely seniority-based system. Instead, salary adjustments are now based on two components: Service Increment, and Productivity Increments. Wage increments are granted based on the employee's performance (graded through a performance appraisal exercise).

For employees who had reached the ceiling of their salary scales, they would receive only a non-cumulative monthly lump sum payment. Keppel Shipyard had also implemented the Monthly Variable Component (MVC) since 2000.

The bonus was changed to consist of 2 parts: the Annual Wage Supplement (AWS) of one month's basic salary, and the Productivity Bonus. The Productivity Bonus is pegged to the company's business performance. There is also an established formula to peg the total bonuses to be paid.

When implementing the new wage structure, Keppel Shipyard took into consideration a few areas which they could improve on:

- a. The flexible wage system for all employees of the company should be transparent as far as possible;
- b. Clear guidelines on the adjustment of wages according to the company's performance (i.e. Bonuses, AWS, MVC, Basic etc) should be established; and
- c. The performance evaluation exercise should be objective and workers should be aware of how they could improve their performance. The company wanted, as far as practically feasible, for workers to be constantly updated on their performance so as to improve in their weak areas.

Box Story 4-C: THE CIVIL SERVICE AND ITS SHIFT TOWARDS PERFORMANCE-BASED WAGES & PORTABLE MEDICAL BENEFIT SCHEME

The Civil Service has in recent years shifted its wage system towards one based on performance. It has since 2002 introduced a merit-based increment system for most of its graduate schemes whereby the annual increment is no longer a fixed quantum based on seniority but instead, the increment is variable, depending on the officer's performance. Future salary increases will increasingly be built into performance-based components to further strengthen the link between pay and performance. The Civil Service has also implemented a Performance Bonus system for all levels of employees since 2000. The performance-based wage system helps to maintain cost competitiveness for older workers as only those who perform well will receive higher wages. .

The Civil Service implemented its portable medical benefit scheme in 1994. Under this scheme, the employee receives an additional 1% CPF contribution into his Medisave account, in lieu of hospitalisation benefits. The employee also receives an annual amount of \$350 for outpatient expenses. Any amount that is not claimed at the end of the year is credited to the employee's Medisave account. The portable medical benefits scheme with its dollar caps helps contain the higher medical costs that an employer may incur in employing older workers.
