

White Paper

Salaries for a Capable and Committed Government

Cmd.1 of 2012

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Introductory Note from the Government

Before 1994, the Government did not have formal salary benchmarks for Ministers, although it had set their salaries through informal comparisons with the private sector. Despite periodic salary revisions, Ministerial remuneration continued to lag the private sector by a wide margin. Given the wider range of private sector opportunities in a rapidly developing economy, attracting and retaining able people, especially those with the potential to hold top leadership positions, became increasingly challenging.

While high income should never be the motivation for a person to become a Minister, paying realistic salaries that do not impose an unrealistically large financial sacrifice on those contemplating political office will reduce one significant obstacle to able Singaporeans entering politics. Hence, in 1994, the Government published a White Paper “Competitive Salaries for Competent and Honest Government” that introduced a benchmark pegging Ministerial salaries based on alternative professions that could have been pursued by a Minister. The benchmark incorporated a significant discount to the private sector so that a Minister’s salary will not fully match the private sector, to reflect the ethos of sacrifice that political service involves. Ministers are paid a clean wage without any hidden perks. This ensures transparency and accountability to the electorate.

The salary benchmark was refined in 2000, together with changes to the structure of Ministerial salaries. In 2007, a salary revision was made to narrow the gap between the benchmark and actual salaries, and to include the imputed value of pensions when making comparisons to the benchmark. In 2009, when Singapore experienced a sharp recession arising from the global financial crisis, Ministerial salaries were automatically reduced by 22% in accordance with the formula. Even though salaries have been adjusted and moved up and down with the state of the economy, since the implementation of the 1994 framework, actual salaries for Ministers have never reached the benchmark.

In his swearing-in speech on 21 May 2011 after the General Election, the Prime Minister acknowledged that Singaporeans had genuine concerns over the present salaries of their leaders. At the same time, Ministers should be paid properly so that Singapore will have capable and committed leadership over the long term. Thus, the Prime Minister appointed a committee to review the basis and level of salaries for the President, Prime Minister, political appointment holders and MPs to ensure that the salary framework will remain relevant for the future.

The Committee has completed its review and submitted the attached report to the Prime Minister on 30 December 2011. The Government has considered

the report carefully and agrees with the key principles and approach adopted by the Committee. The Government has accepted all the recommendations in the report and intends to use this as the new basis to set salaries with retrospective effect from 21 May 2011.

Salaries for A Capable and Committed Government

30 Dec 2011

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EXECUTIVE SUMMARY

On 21 May 2011, the Prime Minister announced the appointment of a committee to review the basis and level of political salaries. The new salaries arising from the review will take effect from 21 May 2011, the date when the new Government took office.

This report “Salaries for A Capable and Committed Government” is the result of seven months of deliberation, after seeking feedback from Members of Parliament (MPs) and the public as well as interviews with some past and present appointment holders and MPs. Mercer (Singapore) Pte Ltd, a leading global provider of human resource consulting services and an international expert on remuneration issues, supported our Committee’s work with technical expertise in job evaluation, and pay benchmarking and design.

The findings and recommendations cover the salaries of the President, Prime Minister, Speaker of Parliament, Deputy Speaker of Parliament, political appointment holders, MPs, Non-Constituency MPs and Nominated MPs.

Three Principles

When determining Ministerial Salaries, we kept these principles in mind:

- 1) Salaries must be competitive so that people of the right calibre are not deterred from stepping forward to lead the country;
- 2) The ethos of political service entails making sacrifices and hence there should be a discount in the pay formula; and
- 3) There should be a “clean wage” with no hidden perks.

Taking into consideration the feedback from the public, the salaries should also be linked to the individual performance of political appointment holders, and the socio-economic progress of Singapore Citizens.

New Benchmark

We chose to benchmark the entry MR4 Minister’s salary to the ***median income of the top 1,000 earners who are Singapore Citizens*** but ***with a 40% discount*** to signify the sacrifice that comes with the ethos of political service. This benchmark is based on a larger pool that does not specify occupations and covers only Singapore Citizens, the pool of talent that political leaders will be drawn from.

Salary Framework and Structure for Ministers

We recommend an annual salary formula that features fixed and variable components which are linked to individual performance and national outcomes, i.e.

Annual Salary = Fixed (13 months)
+ Annual Variable Component (AVC) (typically 1 month)
+ Individual Performance Bonus (typically 3 months for good performance)
+ National Bonus (typically 3 months if targets are met)
= 20 months in a typical year.

We also recommend having four indicators for the National Bonus with equal weightage:

- Real median income growth rate of Singapore Citizens (25%);
- Real growth rate of the lowest 20th percentile income of Singapore Citizens (25%);
- Unemployment rate of Singapore Citizens (25%); and
- Real GDP growth (25%).

This means that the National Bonus is linked to the socio-economic progress of average and lower income Singapore Citizens.

We recommend removing the pension scheme and adopting only the Central Provident Fund system which is the basic retirement scheme for Singaporeans. Current medical benefits which are based on the Medisave-cum-Subsidised Outpatient scheme and are the same as for civil servants are retained. This is in keeping with the principle of clean wage, where there are no hidden perks.

We recommend retaining the current pay structure which has four grades from the entry grade of MR4 to MR1 for Ministers. This will allow the Prime Minister the flexibility to appoint or promote Ministers of sufficient seniority or outstanding performance to more senior grades. We also recommend retaining the current grade structure of political appointment holders below the MR4 grade (for example, Ministers of State and Parliamentary Secretaries).

Applying the new benchmark and pay framework, the new salary for a MR4 Minister is as follows:

**Minister's annual salary cut by 31% to \$1.10m
(by 37% including the removal of pension)**

As with current practice, political appointment holders receive only one pay even if they hold more than one portfolio.

Prime Minister and other Political Appointment Holders

**PM's annual salary cut by 28% to \$2.20m
(by 36% including the removal of pension)**

As there is no one to decide on salary increments for the Prime Minister, we recommend that he continue to be on a fixed salary point, which should be pegged to two times the MR4 salary. The Prime Minister's salary will be \$2,200,000, i.e. a drop in salary of \$872,200 or about 28% (36% including the removal of pension). The Prime Minister will not be paid any individual Performance Bonus but will be paid a larger National Bonus in lieu of this salary component.

The total annual salary for all other political appointment holders should also be set at a ratio to the MR4 total annual salary. The salary reductions will range from 9% to 33% (or 20% to 39% if the removal of pensions is included).

The President

President's annual salary cut by 51% to \$1.54m

The President is Head of State and has significant custodial powers. However, unlike the Prime Minister he does not set national policies and does not have direct executive responsibility for governing the country, except as it relates to his custodial role. Taking all factors into account the Committee recommends that the President be paid the same monthly salary as the Prime Minister, with 13th month bonus and AVC, but without the Performance Bonus and National Bonus. His total annual salary will be 70% that of the Prime Minister.

The Speaker of Parliament and Deputy Speaker of Parliament

Speaker's annual salary cut by 53% to \$550,000
Deputy Speaker's annual allowance cut by 15% to \$82,500

We recommend that the salary of a full-time Speaker be pegged to the MR4 benchmark and structured as a 14 month package, i.e. it includes the 13th month bonus and AVC but excludes Performance Bonus and National Bonus. The Deputy Speaker's allowance should continue to be pegged to 15% of a full-time Speaker. Our Committee notes that Parliament currently applies a 50% discount to both positions as they are not full-time positions.

Members of Parliament, Non-Constituency MPs and Nominated MPs

MPs' annual allowance cut by 3% to \$192,500

NCMPs' and NMPs' annual allowance cut by 4% to \$28,900

We recommend that the annual allowance of MPs be pegged to 17.5% of the MR4 benchmark. The annual allowance of NCMPs and NMPs should continue to be pegged to 15% of a MP's annual allowance.

Regular Review

We recommend that the Prime Minister appoint a committee every five years to review the salary framework.

Implementation

As announced by the Prime Minister earlier, the new salaries arising from this review will take effect from 21 May 2011, the date when the new Government took office.

SECTION A: INTRODUCTION

1 Singapore has succeeded over the years as a small nation in a competitive and uncertain world. A key reason for this has been Government policies that have built up our capabilities and attracted investments, and developed a cohesive society. The Government has also taken a long term perspective, envisioning Singapore's future and dealing with challenges and opportunities in advance. It has made careful strategic choices so that we have lived within our means and invested in our future, avoiding national debts that will burden future generations.

2 The result has been a safe home, shared prosperity and a better life for all Singaporeans. All this has been possible because we have systematically and deliberately fostered a capable, honest and committed political leadership. This is a fundamental difference between the governance systems in Singapore and many other countries.

3 Being a small country with a small citizen population and an open economy, our talent pool is naturally limited, and our margin for error is slim. We cannot leave the recruitment and development of leaders to chance. As such, the primary focus of our system is getting competent people in the prime of their careers to enter politics, and devote a substantial part of their lives to serving in political office. Paying competitive salaries is necessary.

4 In his swearing-in speech on 21 May 2011 after the General Election, Prime Minister Lee Hsien Loong said: "We will always need committed and capable ministers. Politics is not a job or a career promotion. It is a calling to serve the larger good of Singapore. But Ministers should also be paid properly in order that Singapore can have honest, competent leadership over the long term. I know that Singaporeans have genuine concerns over the present salaries. Hence I am appointing a committee to review the basis and level of political salaries."

5 This committee was asked by PM Lee to review the basis and level of salaries for the President, Prime Minister, political appointment holders and Members of Parliament (MPs) to help ensure an honest and competent government (refer to [Annex A](#) for the list of committee members and the terms of reference for the committee).

6 The new salaries arising from the review will take effect from 21 May 2011, i.e. the date when the new Government took office.

7 This Report presents our findings and recommendations on the salaries of the President, Prime Minister, Speaker of Parliament¹, Deputy Speaker of Parliament, political appointment holders, MPs, Non-Constituency MPs (NCMPs) and Nominated MPs (NMPs).

SECTION B: BACKGROUND TO SALARY AND BENEFITS FRAMEWORK

8 As one of our first tasks, we set out to understand the background to the Ministerial salary framework.

Benchmark for Salaries

9 Before 1994, the Government did not have a formal method to benchmark salaries for Ministers. Their salaries were set by making informal comparisons with the private sector. In 1994, the White Paper on “*Competitive Salaries for Competent and Honest Government*” established the current framework, setting the benchmark for entry level Ministerial grade at:

2/3AVE24 - This benchmark pegs the annual salary of an entry level Minister to two-thirds of the average salary of a group comprising the top four earners from each of six professions (namely bankers, accountants, engineers, lawyers, CEOs of local manufacturers and CEOs of Multi-National Corporations).

10 As a follow-up to the White Paper, in 2000, the entry Ministerial grade (MR4) benchmark was fine-tuned to make it more stable. This was done by broadening the base of the benchmark, using median income rather than average income, and providing for a 50% discount on gains from stock options. This salary benchmark remains in use today:

2/3M48 - This benchmark pegs the annual salary of an entry level Minister to two-thirds of the salary of the 24th highest earner (i.e. median) among a group comprising the top eight earners from six professions (namely bankers, accountants, engineers, lawyers, employees of local manufacturers and Multi-National Corporations).

11 The six professions in both the 1994 and 2000 benchmarks were selected as they are alternative professions that could have been pursued² by

¹ Although the Speaker and Deputy Speaker are not political appointment holders, they are elected by Parliament from amongst MPs or people qualified to be MPs. As such, the Committee has since been asked to review their salaries for completeness.

² Professions such as doctors and architects were excluded as they required specialist skills.

Ministers. The benchmark level represents the desired calibre of those who hold leadership positions in government.

12 A one-third discount is applied to signify the personal sacrifice involved in public service.

13 An entry level Minister is appointed at MR4 grade. Ministers can also be appointed to more senior Ministerial grades of MR3, MR2 and MR1 subsequently. The President, Prime Minister, Speaker and Deputy Speaker are on fixed salary points which are set at pre-determined ratios to the MR4 salary.

14 Since the introduction of the benchmark in 1994, the actual annual salaries of the Ministers have never reached the benchmark figures. Over the years, there continued to be large gaps between the benchmark and the actual salaries³ even though annual salaries continued to be adjusted in response to market movements. During recessions, the Ministerial salaries were cut while in years of good economic growth, their salaries were restored, but never to the level of the benchmarks. In 2010, while the benchmark figure for the MR4 grade was \$2,598,000⁴, the MR4 annual salary was \$1,583,900, or 39% below the benchmark. Refer to Annex B for details on the benchmarks and the salary movements for the MR4 grade over the past 10 years.

A Clean Wage System

15 Singapore practises a transparent system where salaries are fully accounted for through a clean wage set at a competitive level with no hidden perks and privileges. This is in contrast to systems where salaries appear to be low but are in fact coupled with allowances, benefits and perks. Such systems have come under criticism in several countries because of their non-transparent nature and difficulties in control and accountability.

16 Under Singapore's system, the total Ministerial remuneration is made up of salaries comprising fixed and variable pay components, and medical and retirement benefits. Ministers do not receive perks such as housing and cars for personal use⁵. Ministers do not enjoy tax exemptions and have to pay tax like all who work in Singapore⁶ e.g. income tax on all salary components earned.

³ Between 2001 and 2007, actual MR4 salaries were between 54% and 63% of the benchmark. After the value of future pensions were counted in from 2008 onwards, the gaps remained between 57% and 67%.

⁴ This is based on income tax data for Year of Assessment (YA) 2010, i.e. for income earned in 2009.

⁵ Only the President, Prime Minister and Speaker of Parliament are accorded the use of an official car. This car benefit is also subject to tax.

⁶ However, as is the case for all retirement benefits received by any person from Government pension schemes and CPF, the pensions received by Ministers are not taxable.

Current Pay Structure and Benefits for Ministers

17 The current pay package consists of fixed and variable pay components (see Table 1). A significant proportion of the annual pay is designed to be variable based on individual performance and GDP growth. In 2010, at the senior levels (MR4 and above), about 40% of the annual pay was variable.

18 A Minister receives one pay package as a Minister, even if he holds two or more portfolios.

Table 1: Annual Pay Components for Ministers

Fixed Components	
Monthly Pay	12 months
Non-Pensionable Annual Allowance (NPAA)	1 month; commonly known as 13 th month bonus or Annual Wage Supplement
Special Allowance (SA)	1 month
Public Service Leadership Allowance (PSLA)	2 months
Variable Components	
Annual Variable Component (AVC)	Mid-year and year-end payments based on Singapore's economic performance. It can vary from 0 to 1.5 months. In years of exceptional economic performance, a one-off Special Variable Payment (SVP) can be made. However, this is rare and SVPs are not paid in most years.
Performance Bonus	Depends on individual performance and is determined by PM. Ranges from 0 to 14 months where good performers typically get 9 months.
GDP Bonus	Varies linearly with GDP growth rate, with a payment of 0 to 8 months corresponding to GDP growth of 2% to 10%. No bonus is paid if GDP growth is 2% or less. Maximum of 8 months is paid if GDP growth is 10% or more.

Medical Benefits

19 All Ministers in office in 1994 and all Ministers appointed since then are on the same medical benefits scheme as civil servants (i.e. the Medisave-cum-Subsidised Outpatient, or MSO scheme which was introduced in that year). Under the MSO scheme, a sum of \$70 a month, capped at a maximum of 17 months⁷ or \$1,190 per year, is credited into their Medisave accounts which can be used to buy Medisave-approved medical insurance. Outpatient

⁷ Beyond monthly salaries, other wage components may also be eligible for Medisave Contributions e.g. Performance Bonus, AVC etc. This is capped at a maximum of an additional 5 months.

subsidy (including co-payment of medical expenses at restructured hospitals) is capped at \$350 a year. Like civil servants, Ministers are reimbursed 50% of their dental expenses, up to a maximum subsidy of \$70 per year. Ministers and their families enjoy no other medical or hospitalization benefits.

Pensions

20 Under the Parliamentary Pensions Act, political appointment holders are eligible for a pension. Only those who have served at least 8 years as a political appointment holder (e.g. Ministers and Ministers of State) qualify for a pension. The pension scheme recognises their role and impact on national policies, and the strong reliance on depth of expertise and length of experience for the continuity of national policies.

21 A political appointment holder's pension is calculated based only on the pensionable component of his monthly salary. Bonuses, allowances and other annual salary components are **not** included in pension calculations. To contain pension costs, all salary increases after 1994 are not pensionable.

22 A political appointment holder will get the maximum pension after 18 years of service, but the amount is capped at two-thirds of the pensionable part of his monthly salary. The pension will be less if he has served between 8 and 18 years, and zero if he has served for fewer than 8 years. The pension is calculated according to the length of service and pensionable salary in each office. The maximum pension that he may get after 18 years of service is about 11% of his last drawn total annual package. Since 2008, the value of the maximum possible future pension, which makes up about 7% of the MR4 annual salary, has been accounted for as part of a Minister's total pay package when making benchmark comparisons. This ensures that the total package, including the imputed pension, does not exceed the benchmark.

Current Pay Structure and Benefits for the President

23 The President's monthly salary is set at two times that of the MR4 Minister's monthly salary. The President's pay structure mirrors that of a Minister with the exception of the Performance Bonus component. Instead of Performance Bonus, the President receives a Fixed Service Bonus pegged at the Performance Bonus rate of a MR4 Minister with good performance.

24 Like the political appointment holders, the President is on the MSO medical benefits scheme.

25 The President is accorded the use of an official car which is subject to tax.

26 The pension for the President is provided for under the Civil List and Pensions Act. Parliament may determine the quantum of the President's pension by resolution. This provision has not been exercised and **no** President has ever received a State pension.

Current Pay Structure and Benefits of the Speaker of Parliament and Deputy Speaker of Parliament

27 The Speaker's monthly salary is half⁸ of 1.48 times the monthly salary of a MR4 Minister. The Speaker's pay structure is the same as that of a Minister with the exception of the Performance Bonus component. Instead of Performance Bonus, the Speaker receives a Fixed Service Bonus pegged at the Performance Bonus rate of a MR4 Minister with good performance. The Speaker is also on the MSO medical benefits scheme. He is accorded the use of an official car which is subject to tax. The Speaker is eligible for pension under the Parliamentary Pensions Act.

28 The Deputy Speaker's monthly allowance is equal to 15% of the Speaker's monthly salary. As the Speaker's monthly salary incorporates a 50% discount on account of it not being a full-time position, the monthly allowance of a part-time Deputy Speaker is effectively half of 15% of the monthly salary of a full-time Speaker. The Deputy Speaker also receives NPAA, AVC and a GDP Bonus pegged at 50% of the GDP Bonus rate for the Speaker. The Deputy Speaker is on the MSO medical benefits scheme but does not receive a pension.

Current Allowance Structure and Benefits for Members of Parliament

29 MPs currently receive a monthly allowance, NPAA and AVC⁹. They can receive between 0 and 2 months of GDP Bonus if GDP growth is between 2% and 8%. No GDP Bonus will be paid when GDP is 2% or less. The maximum 2 months of GDP Bonus will be paid if GDP growth is 8% or more. The MPs are also on the MSO medical benefits scheme. Similar to political appointment holders, since 1994, all increases in MP allowances do not accrue towards pension computations. More significantly, MPs elected after 1 January 1995 are not eligible for pension.

30 NCMPs and NMPs receive a monthly allowance pegged at 15% of an MP's monthly allowance. Like MPs, they receive NPAA, AVC and GDP Bonus based on the rates payable to MPs. NCMPs and NMPs are also on the MSO medical benefits scheme and are not eligible for pensions.

⁸ The rate is halved because the Speaker performs his role on a part-time basis.

⁹ For MPs, the allowances of 2 employees engaged by the MPs can be reimbursed – (a) up to \$1,300 per month for a Legislative Assistant; and (b) up to \$500 per month for a Secretarial Assistant. These amounts are reimbursed only if an MP hires such staff. Any sum higher than these amounts will be borne by the MPs themselves. There is no reimbursement for Legislative Assistants for the Speaker and political appointment holders (except Mayors).

Principles for Determining Ministerial Salaries

31 From the history of the salary framework, we gleaned three key principles that have been adopted consistently in determining Ministerial salaries.

(I) Competitive salary

32 Politics is a calling and privilege, and those who want to serve must have a sense of duty to the nation and a desire to contribute to the public good. For a country to succeed, talented people need to step forward to serve when they are in their prime. In designing salaries, it is important to consider the quality of talent that we desire to lead our country and the opportunity cost faced by this group in deciding to enter politics.

33 While money should never be the motivation for anyone becoming a politician, the financial sacrifice should not be so large that it discourages outstanding and committed Singaporeans from devoting the best part of their lives to political office. We must recognise that there is also a sacrifice of personal space and privacy for anyone who desires to enter politics.

34 The business of government is complex. Time is needed for promising leaders to develop experience and build rapport with the people. Hence, our system cannot afford to wait until after the individual has earned and set aside enough money to take care of his personal and family needs before deciding to enter politics. This is why the Government's philosophy has been to pay competitive salaries, so that highly capable individuals in their prime can seriously consider entering politics and take on political leadership roles, without having pay as an obstacle, i.e. he should not need to worry about the ability to meet the financial needs of his family or a drastic reduction in his standard of living. This philosophy of paying competitive salaries should not change.

35 The principle of benchmarking Ministers' pay has been established and widely debated in Parliament since 1994. While there is no perfect method for benchmarking, some form of benchmarking is necessary to ensure a competitive salary.

(II) Ethos of political service

36 Given the nature of political service, some element of financial sacrifice must be expected. The current benchmark level factors in a one-third discount as a demonstration of the personal sacrifice involved in political service. This ethos should continue.

(III) Clean wage

37 The principle of clean wage has already been covered in paragraphs 15 to 16. Many countries are unable to provide competitive pay for their politicians because of public opinion or political constraints. Their pay is supplemented by a higher level of benefits and allowances, making the entire pay package less transparent to the electorate. Singapore has chosen to adopt a “clean wage” philosophy of paying a realistic and competitive salary with no hidden perks, to be more transparent and accountable to the people.

38 The Committee believes these three principles are good and should be retained as we review the salary framework.

SECTION C: REVIEW PROCESS

39 Upon our appointment, we met a total of 10 times over 7 months to understand the current salary framework and deliberate on how to determine the salaries of the President, Prime Minister, Speaker, Deputy Speaker, political appointment holders, MPs, NCMPs and NMPs.

40 We engaged Mercer (Singapore) Pte Ltd (the Consultant), a leading global provider of human resource consulting services and an international expert on remuneration issues, to support our work with technical expertise in job evaluation, and pay benchmarking and design. The Consultant provided information on pay practices in the private sector, both locally and globally, as well as public sector and political wage structures and levels in other countries. This allowed us to consider a comprehensive set of independent data in our deliberations.

41 We sought to understand the perspectives and views of various groups of stakeholders, so that our recommendations can address the stakeholders’ needs and concerns as far as possible. Three main groups of stakeholders were identified:

- a) the ***citizens*** – to understand their views as the electorate are affected by government policies;
- b) the ***potential talent pool*** – to understand why they would or would not join politics; and
- c) the ***elected officials*** – to understand why they joined and remained in politics.

42 The following sections cover in detail some of the salient themes which surfaced from stakeholders' feedback, and our evaluation of various pay models.

SECTION D: STAKEHOLDERS' FEEDBACK

43 We pored over ideas and suggestions garnered from articles, letters and comments made in mainstream and online media.

44 To maintain contact with the public, we set up a blog (www.reviewcommittee2011.blogspot.com) with an email address, and made available a PO Box for feedback. We also issued periodic media releases on the progress of our work.

Feedback from Public and Members of Parliament

45 On 7 June 2011, we invited members of the public to offer ideas and suggestions beyond those already gathered from the media. This was done through a media release and our blog.

46 Concurrently, we wrote to all MPs to seek their views and inputs.

47 We considered every suggestion and idea for their suitability and appropriateness. At the close of the feedback period on 20 June 2011, we received more than 500 emails and letters from members of the public and MPs.

48 Among the contributors were young people, business people (e.g. CEOs and SME owners), retirees, overseas Singaporeans, professionals (e.g. HR, finance, legal and medical), academics, as well as representatives from Non-Government Organisations.

49 The writers offered comments and ideas on the salaries of the President, the Prime Minister, political appointment holders and MPs.

50 We were impressed that some of the proposals were detailed and came with clearly explained rationale. There was feedback on pensions and whether there should be a "clean wage" or more benefits in exchange for lower pay. Comments also covered salary benchmarking and structures, as well as the process to determine salaries. While some of the contributors gave their views, others offered proposals, articulating the pros and cons of various approaches. Some even suggested specific formulae for determining salaries. We noted the range of views, from those recommending drastic salary cuts to those who cautioned against going overboard with the cuts.

51 We are particularly grateful that contributors to the feedback were very constructive in their comments, which helped us tremendously.

Interviews with Past and Current Political Appointment Holders and Members of Parliament

52 In addition to feedback from the public and MPs, interviews with stakeholders such as past and current Ministers, and MPs from both the ruling and opposition political parties were conducted. This is to understand their perspectives and the challenges faced in recruiting new people into politics.

Summary of Feedback

53 Some of the ideas and suggestions gathered from the feedback and consultation exercise were:

- Have a performance-based system, looking at a set of key performance indicators at both the national and individual levels;
- Have a fixed pay component, and a variable pay component that is pegged to the performance of the individual;
- Compare with salaries of leaders of developed nations;
- Peg to indicators such as median salaries, lowest 10th to 30th percentile salaries, Gini coefficient and GDP growth;
- Use private sector best practices but factor in the calling of public service;
- Peg salary at a level that will attract the best talents to serve;
- Peg salary to the job size;
- Peg salary to a larger pool from private and public sectors;
- Drop pensions;
- Pay more only after the person has proven himself;
- Set up an independent committee to do periodic reviews;
- Keep the formula simple and easy to understand;
- Match actual private sector pay for outstanding individuals;
- A combination or permutation of the above.

SECTION E: RECOMMENDATIONS ON POLITICAL APPOINTMENT HOLDERS' PACKAGE

54 Taking into consideration the stakeholders' feedback, we deliberated on the pay benchmark, pay level and pay structure for political appointment holders, guided by the following principles:

- a) Salaries must be competitive so that people of the right calibre are not deterred from stepping forward to lead the country;

- b) Political service ethos entails making sacrifices and hence there should be a discount in the pay formula; and
- c) There should be a “clean wage” which is linked to the individual performance, and the socio-economic progress of Singapore citizens.

Establishing A Suitable Pay Benchmark

Benchmark

55 We discussed whether Ministerial salaries should continue to be based on a benchmark formula which moves in step with market changes, or set at a fixed level which will only be reviewed in a predetermined time period.

56 We recommend that Ministerial salaries continue to be pegged to an annual benchmark formula. This will allow salaries to be competitive and respond annually to market conditions.

57 We debated the merits and shortcomings of several possible benchmarks suggested by the stakeholders.

58 After examining all options, we recommend that the salary of an entry-level Minister (i.e. MR4) be benchmarked to the ***median income of the top 1,000 earners who are Singapore Citizens***¹⁰.

59 In determining this benchmark, we are keenly aware that any new benchmark must reflect the calibre of the people which Singapore needs for good government. This is to send a strong signal to prospective political appointment holders on the type of talent being sought, as well as to ensure that pay levels do not deter capable people from seeking political office. To achieve this, rather than focusing on specific alternative professions, we chose to broaden the pool across all professions since political appointment holders can come from a wide range of industries and sectors.

60 We think that expanding the benchmark pool from 48 to 1,000 individuals will reduce the volatility of the benchmark, while maintaining a link

¹⁰ The current benchmarks are calculated based on Principal Earned Income (PEI) of the top 8 earners from 6 professions i.e. incomes from only the individual's principal profession / trade and not incomes from other employment. The revised benchmarks will be based on the Total Employment and Trade income (TEI) of the top 1,000 earners from all professions, i.e. incomes from all employment and trade of the individual, and will no longer include a 50% discount on stock options. The switch is appropriate as the new benchmark no longer focuses on specific professions but on the all-round earning capability of a much larger pool of individuals. Like PEI, TEI also includes monthly salaries, bonuses, commissions, stock options and partnership income but excludes unearned and passive forms of income, such as dividends, rent and interest.

between salaries and the market. This benchmark is simple and transparent, and easy to understand.

61 In determining the pool, we also moved from benchmarking to a group comprising Singapore Citizens, Singapore Permanent Residents (PRs) and Malaysians working in Singapore to a group comprising only Singapore Citizens working in Singapore. This is to better reflect the pool from which political appointment holders are drawn.

62 The Consultant has also used its job evaluation methodology to evaluate the job size of political appointment holders. While recognizing that the job of a Minister is not entirely comparable to private sector CEOs, the Consultant assessed that given the calibre and experience required of Ministers, the responsibilities and impact of their jobs, and the scope of decisions they are expected to make, the job of a CEO of a Singapore publicly-traded company provides the closest comparison against available compensation information. CEOs in the private sector holding similar size jobs to entry-grade Ministers were paid a median total salary of \$2.29 million in 2010. The Committee notes that this figure is substantially higher than the figure that will result from the proposed benchmark.

63 We have noted the feedback that Singaporeans expect their leaders to demonstrate the ethos of political service and sacrifice. Similar to the discount under the current benchmark, Ministerial salaries should not match private sector levels fully. There is no scientific method for striking a balance between paying competitive salaries and taking a discount to signify the political service ethos. It is a judgment call. On balance, we recommend applying a significant discount of 40% off the salaries of the group of people we intend to benchmark against. The formula, which will be used to determine the salary of a new Minister who enters service at the grade of MR4, is thus as follows:

<p><i>60% of the median income of the top 1,000 Singapore Citizen income earners</i></p>

64 With the new benchmark formula set, the salaries of political appointment holders will be adjusted according to movement of the benchmark each year.

65 The current benchmark is used to derive the salaries of the President, political appointment holders and MPs, the Administrative Service, statutory appointment holders and judicial appointment holders. We are of the view that the element of significant discount or sacrifice expected of political appointment holders should not be applied to civil servants, other statutory appointment holders and judicial appointment holders as political appointment holders are elected while the rest are pursuing professional careers, albeit in the public sector. Competition for talent in these groups is very keen, not just

in Singapore but overseas as well. It is not sufficient just having competent political leaders; they need to be supported by capable leaders in the Public Service, Organs of State and Judiciary. Hence, civil servants, other statutory appointment holders and judicial appointment holders should be paid salaries that are competitive with the market.

Other Benchmarking Methods Considered

66 We studied several other possible benchmarks, some of which were suggested through the feedback, including: (a) *modifying the existing 2/3M48 benchmark*; (b) *applying 30 times the median income of Singapore citizens (or a larger multiple of the lowest 10th, 20th or 30th percentile income)*; (c) *using median salaries of CEOs of Singapore companies of at least \$1 billion market capitalisation*; and (d) *benchmarking to foreign governments*.

- a) ***Modifying the existing 2/3M48 benchmark.*** While we agree with the principles behind the existing benchmark, we note that the benchmark has turned out to be complex and difficult for the public to understand. The benchmark is also highly volatile due to the small benchmark pool. Actual Ministerial salaries have never ever reached the benchmark. We therefore prefer a benchmark that will provide a pay level more closely linked to how actual salaries will be adjusted.
- b) ***Applying 30 times the median income of Singaporeans (or a larger multiple of the lowest 10th, 20th or 30th percentile income).*** Some feedback suggested that Ministerial salaries should be benchmarked to a multiple of the median income or the lowest 10th to 30th percentile income of Singaporeans. We gave this suggestion considerable attention but decided that such a benchmark has no direct link to the talent pool of potential political appointment holders. To set a pay level that is commensurate with the calibre of potential political appointment holders, a multiplier will need to be set arbitrarily, as opinions will differ on what is the right multiplier to adopt. While our view is that the total pay should not be linked to the income of Singaporeans, we think there is some merit to linking some components in the salary package to the median, as well as the lowest 10th to 30th percentile income of Singaporeans. This can be done through the variable pay component which we will discuss later.
- c) ***Median salaries of CEOs of Singapore companies of at least \$1 billion market capitalisation.*** While the portfolios of top CEOs can provide a good approximation of the job size of a Minister, we are not in favour of this benchmark as there are significant data constraints – i.e. the pool of CEOs running

companies with similar complexities, staff and budget is small and the data will be volatile. Any shift in salaries, even among a small number of CEOs, will have a large impact on the benchmark figure. Such a benchmark is in fact inferior to the existing benchmark as it focuses only on one alternative profession of the political appointment holders.

d) ***Benchmarking to foreign governments.*** There were calls from some sectors to peg Ministerial salaries to what other world leaders are paid and we studied in detail whether this can be a viable option. Drawing on the Consultant's technical assistance, we see several downsides of benchmarking to foreign governments:

- Every country employs different methods to determine the pay of political appointment holders. Political pay levels and structures based on domestic political, social and economic considerations in one country may not correlate with the conditions in another. As such, it is more apt to benchmark and structure political salaries in Singapore based on local factors as salaries can then be linked to the economic and social conditions in Singapore (e.g. structuring the salary components such that they vary based on domestic indicators like the employment level and incomes of Singapore Citizens).
- There are many countries that do not adopt the principle of clean wage. A low cash salary may be topped up with large but less visible perks and benefits. For example, in the US, the annual value of pensions, benefits and other allowances for politicians is close to, and in some cases exceeds, that of their actual salaries. This contradicts the clean wage approach which we believe fosters transparency and is the right one for Singapore.
- There is a fundamental difference between the systems in Singapore and many other countries. In Singapore, the primary focus is getting competent people to join politics and take up office in their prime years. Hence competitive salary is necessary. We cannot afford to have a system where people enter politics only after they have accumulated sufficient wealth or leave it to chance that there will be enough top talent who will step forward despite the opportunity cost. If we do this in Singapore, we will have a very limited pool of competent people to draw from. It is for this reason that we believe there is a need to continue to

pay competitive salaries, albeit with a discount to demonstrate the sacrifice that comes with political service.

In coming to a decision on the salary benchmark to recommend, we are of the view that it is best to adopt a pay system that is appropriate for and relevant to the Singapore context – i.e. based on a clean wage system and which facilitates the recruitment of leaders in their prime years, bearing in mind our domestic circumstances.

Clean Wage Linked to Individual Performance and National Outcomes

67 With the benchmark determined, we then went on to construct a pay structure for political appointment holders that will have several essential features. One, any future pay structure should not deviate from Singapore's existing "clean wage" principle. This will ensure transparency and accountability to the public. Two, salaries should continue to be performance-linked, to ensure that the leaders are accountable for their roles and responsibilities. This was also a point raised by many of those who provided feedback. Three, we should acknowledge and incorporate the public desire for political salaries to be linked to socio-economic outcomes.

68 With this in mind, we recommend that the annual salaries for political appointment holders continue to comprise fixed and variable pay components, with no hidden perks or benefits, i.e. Annual Salaries = Fixed Pay + Variable Pay.

Fixed Pay

69 For the fixed pay component, we recommend removing the current fixed annual components of one month Special Allowance and two months Public Service Leadership Allowance, i.e. the annual base pay package should comprise only monthly salaries and a 13th month bonus.

Variable Pay: Annual Variable Component (AVC), Individual Performance and National Bonus

70 As for the variable pay component, we recommend retaining the AVC, which is paid to civil servants. There should also be an individual Performance Bonus. The existing GDP Bonus will be replaced with a new National Bonus to link the political appointment holders' contributions to a broader set of socio-economic outcomes.

71 The variable pay quantum will be reduced to prevent large increases and decreases in salaries from year to year.

- **Annual Variable Component (AVC)** - As with current civil service practice, the AVC will range from 0 to 1.5 months a year. The payments are made in the middle and end of the year and will continue to be announced via a press release before any payment is made. During times of exceptional economic performance, a Special Variable Payment may also be paid.
- **Performance Bonus** - The Performance Bonus quantum will be reduced substantially but should still be significant enough to allow the Prime Minister the discretion to reward a political appointment holder based on performance in his immediate portfolio, as well as wider contributions at a Whole-of-Government level. It will now range from 0 to 6 months with a good performer typically getting 3 months.
- **National Bonus** - The National Bonus component will range from 0 to 6 months with political appointment holders getting 3 months if the targets for the indicators are met. We think that all political appointment holders should get the same National Bonus rate to reflect their joint contributions as part of Cabinet. The details are in the following section.

National Bonus to have four indicators

72 After considering a wide range of indicators, we recommend using these four socio-economic indicators for the National Bonus:

- a) **Real Median Income Growth Rate.** This indicator should be included as it tracks the income of the average Singapore Citizen. The use of real growth rate, as opposed to nominal growth rate, takes into account the level of inflation.
- b) **Real Growth Rate of the Lowest 20th Percentile Income.** This indicator should be included as it tracks the growth of income of more vulnerable Singapore Citizens. This seeks to address the various suggestions to peg salaries to lower income earners, ranging from the 10th to 30th percentile. We decided to choose the mid-point of this range i.e. 20th percentile. Again, the use of real growth rate takes into account the level of inflation.
- c) **Unemployment Rate.** The level of employment of Singapore Citizens should also be taken into account. One of the key roles of the Government is to ensure that citizens have jobs so that they can provide for themselves and their families.
- d) **Real GDP Growth Rate.** GDP growth is a key indicator of how well a country has performed and a fundamental focus of most Governments around the world. Overall economic growth

provides the resources for achieving overall socio-economic well being of the country and citizens. As such, we recommend retaining the link between real GDP growth rate and Ministerial salaries, but at a much smaller weightage compared to the current system.

73 We recommend that each of these indicators account for 25% of the National Bonus.

74 We also recommend setting target rates for each of the four indicators. When the targets are reached, the National Bonus will be 3 months. When the targets for the indicators are far exceeded, a higher National Bonus may be paid. This will be capped at a maximum of 6 months. Over time, these targets will need to be reviewed as the environment and situation change. The proposed National Bonus matrix is at Annex C. The indicators should be tracked annually¹¹ and the National Bonus paid out on an annual basis after the levels of attainment of the indicators have been announced.

75 Besides the above indicators, we also considered including *inflation* and *the Gini co-efficient* as indicators but decided not to do so for the following reasons.

- a) ***Inflation***. While there was feedback that political salaries should take into account the impact of inflation, we note that three of the indicators selected (i.e. real median income growth rate, real growth rate of the lowest 20th percentile income and real GDP growth rate) already take inflation into account. What this means is that even if the nominal growth rate for these indicators is high, the National Bonus payout will be low if inflation for the year is high, resulting in real growth rates that are significantly lower. Hence, we think there is no need to have inflation as a separate indicator.
- b) ***Gini co-efficient***. Although some members of the public suggested that political salaries should reflect the level of income inequality, we prefer having real median income growth and real growth rate of the lowest 20th percentile income as indicators, as they focus more directly on raising the incomes of both average and vulnerable Singaporeans.

76 In summary, the annual pay structure will comprise two fixed and three variable pay components as shown in Table 2.

¹¹While we considered averaging the indicators over a few years and paying bonuses over a period, doing this would remove the direct link to actual performance in any one year.

**Table 2: Current vs. Proposed Annual Pay Components for
Political Appointment Holders**

Component	Current Framework	Revised Framework
Fixed Components		
Monthly Pay	12 months	As per current
Non-Pensionable Annual Allowance (NPAA)	1 month; commonly known as 13 th month bonus or Annual Wage Supplement	As per current
Special Allowance (SA)	1 month	Removed
Public Service Leadership Allowance (PSLA)	2 months	Removed
Variable Components		
Annual Variable Component (AVC)	Mid-year and year-end payments based on Singapore's economic performance. It can vary from 0 to 1.5 months. In years of exceptional economic performance, a one-off Special Variable Payment can also be made.	As per current
Performance Bonus	Depends on individual performance and is determined by PM. Ranges from 0 to 14 months where good performers typically get 9 months.	Varies with individual performance and is determined by PM. Ranges from 0 to 6 months and good performers will typically get 3 months.
GDP Bonus	Varies linearly with GDP growth rate, with payment of 0 to 8 months corresponding to GDP growth of 2 to 10%. No bonus is paid if GDP growth is 2% or less. Maximum of 8 months is paid if GDP growth is 10% or more.	Replaced by National Bonus

Variable Components		
National Bonus	N.A.	Based on (a) real median income growth rate; (b) real growth rate of lowest 20 th percentile income; (c) unemployment rate, and (d) real GDP growth rate. The four indicators will have equal weights. No bonus is paid if the minimum levels of achievement for the indicators are not met. A bonus of 3 months will be paid if the targets for the four indicators are met. A maximum bonus of 6 months will be paid if targets are far exceeded.

The Prime Minister's Pay

77 We recommend that the Prime Minister's total salary be set at two times that of an MR4 Minister. In terms of salary structure, unlike the other political appointment holders, we recommend that the Prime Minister not receive a Performance Bonus as there is no one to assess his individual performance annually. Hence, the practice of awarding the Prime Minister a Fixed Service Bonus in lieu of Performance Bonus¹² should be discontinued. Instead, the Prime Minister should receive a higher National Bonus in lieu of Performance Bonus.

78 The Prime Minister's annual salary should comprise fixed pay and variable pay. His fixed pay should comprise 12 months' salary and the 13th month payment like the other political appointment holders. His variable pay should comprise AVC ranging from 0 to 1.5 months and National Bonus ranging from 0 to 12 months. In a year where the targets for the indicators are met, his National Bonus will be 6 months. The maximum National Bonus that he can receive is 12 months when all the targets are far exceeded.

Remove Pension

79 Next, we examined the pension scheme. While we appreciate the reasons for pension payment and note that political appointment holders in other countries do draw a pension¹³, we recommend dropping the pension scheme in favour of Central Provident Fund (CPF) payments. Removing

¹² Currently, the Prime Minister receives a Fixed Service Bonus, set at the Performance Bonus rate for a good MR4 performer.

¹³ Source: Mercer (Singapore) Pte Ltd.

pension further strengthens the principle of clean wage by adequately paying political appointment holders during their time in office. We also note that the CPF scheme is the national superannuation scheme.

80 With this recommendation, political appointment holders appointed on and after 21 May 2011 will not receive any pension. For office holders appointed before 21 May 2011, they will have their pension frozen, i.e. they will only be eligible for pension accrued up to 20 May 2011. The frozen pension will only be paid when they step down or retire from office¹⁴.

New Pay Framework

81 With the benchmark and pay structure settled, we next examined whether to make changes to the grade structure of Ministers. We recommend retaining the current four grades of MR4 to MR1, to allow the Prime Minister the flexibility to recognise the experience and seniority of his Ministers. We recommend that new Ministers continue to enter service at the MR4 grade and only Ministers of sufficient seniority or outstanding performance be appointed or promoted respectively to more senior grades. We also recommend that the current grade structure of political appointment holders below the MR4 grade (for example, Ministers of State (MOS) and Parliamentary Secretaries (Parl Sec)) be retained.

New MR4 Minister Salary

82 Based on Inland Revenue Authority of Singapore (IRAS) YA2011¹⁵ income data, the new benchmark figure is \$1,100,000, i.e. (after 40% discount). Under the proposed framework, an entry level MR4 Minister will receive an annual salary package of \$1,100,000 if 1 month AVC is paid, he is a good performer and targets for the National Bonus indicators are met. This represents a drop in salary of \$483,900, or about 31%, from the current 2010 MR4 salary. With pension removed, the effective reduction will be about 37%.

¹⁴ This is a change from the current system where an office holder can begin to draw pension from age 55 if he has served at least 8 years as an appointment holder by the time he reaches that age.

¹⁵ Year of Assessment (YA) 2011 refers to income earned in 2010.

Worked example A:

Based on the new benchmark of \$1,100,000, the entry level MR4 Minister's annual salary package will be \$1,100,000 if 1 month AVC is paid, he achieves good individual performance and the targets of the National Bonus indicators are met. Under this scenario, his salary package will comprise the following components:

The annual salary (S) is made up of a fixed pay component (F) and a variable pay component (V), i.e. $S = F + V$.

The fixed pay component (F) comprises his monthly salary x 13.

We assume that an AVC of 1 month is paid. An MR4 Minister who achieves good individual performance will receive a PB of 3 months. In a year when the targets for the National Bonus indicators are met, an NB of 3 months will be paid:

$$V = AVC + PB + NB = 1 \text{ month} + 3 \text{ months} + 3 \text{ months} = 7 \text{ months}$$

Hence, his annual salary will be

$$S = F + V = 13 \text{ months} + 7 \text{ months} = 20 \text{ months}$$

Using this formula, an entry level MR4 Minister who achieves good individual performance when the National Bonus indicators are met, will get a salary package of 20 months, which will be equivalent to \$1,100,000.

Worked example B (Maximum Bonus):

The maximum an entry level MR4 Minister will receive is his fixed pay of 13 months with 13.5 months variable pay. This occurs when the Government decides to pay the maximum AVC of 1.5 months, the Minister turns in *exceptional* individual performance and the targets for all the four National Bonus indicators have been *far* exceeded.

$$V = AVC + PB + NB = 1.5 \text{ months} + 6 \text{ months} + 6 \text{ months} = 13.5 \text{ months}$$

Hence, his annual salary will be

$$S = F + V = 13 \text{ months} + 13.5 \text{ months} = 26.5 \text{ months}$$

Using this formula, an entry level MR4 Minister will receive the maximum salary of \$1,457,500.

Worked example C (Minimum Bonus):

The minimum bonus scenario occurs when there is no AVC, Performance Bonus and National Bonus are paid, due to a combination of poor economic conditions and all the targets not clearing even the minimum threshold level.

$$V = AVC + PB + NB = 0 \text{ month} + 0 \text{ month} + 0 \text{ month} = 0 \text{ month}$$

Hence, his annual salary will be

$$S = F + V = 13 \text{ months} + 0 \text{ month} = 13 \text{ months}$$

Using this formula, an entry level MR4 Minister will only get his fixed pay of 13 months, i.e. \$715,000.

New Salary for Other Political Appointment Holders

84 The total annual salary for all the other political appointment holders should be set at a ratio to the MR4 total annual salary, as shown in Table 3. The salary reductions will range from 9% to 33% (or 20% to 39% if the removal of pensions is included). The Prime Minister's salary will be \$2,200,000, i.e. a drop in salary of \$872,200 or about 28% (36% including removal of pension). The Deputy Prime Ministers will receive a salary of \$1,870,000, a salary drop of \$567,500 or about 23% (31% including removal of pension). The appointments below MR4 will see drops in salaries ranging from about 9% to 25% (20% to 33% including removal of pension).

85 For a comparison between the current salaries and new salaries for political appointment holders, please refer to Table 3.

Table 3: Current annual salaries vs. Revised annual salaries
under the new framework

Grade	2010 Total Annual Salaries	Revised Total Annual Salaries*	Ratios compared with MR4	Change (2010 vs Revised Total Salaries)	Change (2010 with imputed pensions vs Revised Total Salaries)
PM	\$3,072,200	\$2,200,000	2.00	-28% (-\$872,200)	-36%
DPM	\$2,437,500	\$1,870,000	1.70	-23% (-\$567,500)	-31%
MR1	\$2,368,500	\$1,760,000	1.60	-26% (-\$608,500)	-33%
MR2	\$2,145,700	\$1,540,000	1.40	-28% (-\$605,700)	-35%
MR3	\$1,959,700	\$1,320,000	1.20	-33% (-\$639,700)	-39%
MR4	\$1,583,900	\$1,100,000	1.00	-31% (-\$483,900)	-37%
SMS	\$1,251,200	\$935,000	0.85	-25% (-\$316,200)	-33%
MOS	\$873,700	\$770,000	0.70	-12% (-\$103,700)	-22%
Mayor	\$725,300	\$660,000	0.60	-9% (-\$65,300)	-20%
SPS	\$628,900	\$572,000	0.52	-9% (-\$56,900)	-20%
Parl Sec	\$459,800	\$418,000	0.38	-9% (-\$41,800)	-21%

***Revised Total Annual Salaries** are based on the assumption of an AVC of 1 month, good individual performance and targets for the National Bonus indicators are met. For example, the revised total annual salary of \$1,100,000 at MR4 will comprise fixed pay and a variable pay of 1 month AVC, 3 months Performance Bonus and 3 months National Bonus.

Salary Range & Pay Flexibility

86 In Table 3 above, the column “*Revised Total Annual Salaries*”, shows the reference annual salaries for each grade. This is the typical salary point for a political appointment holder in each grade. It is derived from a fixed ratio to the MR4 benchmark salary and also assumes a variable pay of 7 months¹⁶. For example, the reference salary of a Minister of State (MOS) is 0.7 times the MR4 salary. Based on the current level of \$1,100,000 for the MR4 benchmark,

¹⁶ This is the “norm” package as it represents the mid-point of the range of bonuses payable and describes a situation where individual performance is good and targets for the National Bonus indicators are met.

an MOS will typically receive \$770,000 if the AVC payout for the year is 1 month, he receives 3 months Performance Bonus and 3 months National Bonus as a result of targets being met.

87 Consistent with HR practice in both the Singapore public and private sectors, each grade has a salary range to accommodate different monthly salaries. We recommend that the salary range system be retained for Deputy Prime Ministers, Ministers and political appointment holders below MR4, to allow the Prime Minister the flexibility to adjust their salaries when necessary. This provides for the awarding of annual increments so that political appointment holders do not need to be promoted to the next grade in order to get a salary adjustment.

88 The reference annual salaries are the points from which the maximum points on the respective salary ranges are derived. We recommend that the maximum point on the salary ranges be capped at 110% of the reference monthly salary¹⁷. The reference monthly salary for an MR4 Minister works out to a monthly salary of \$55,000 (\$1,100,000 divided by 20 months). The maximum monthly salary for an MR4 Minister would then be \$60,500.

89 Having a salary range will allow the Prime Minister to appoint a new Minister below the reference monthly salary point of \$55,000. For example, the Prime Minister can appoint an entry level Minister on a monthly salary that is at the lower end of the range which is say, \$46,750. The annual package of the Minister will then work out to \$935,000. As is the current practice, the Prime Minister can also appoint an entry level Minister to be an Acting Minister on a lower grade and thus go below the MR4 range, i.e. an Acting Minister who is placed on a Senior Minister of State grade. The above will help address suggestions to have a system that will allow a person to be paid more only after he has served for a period and proven himself.

90 Similarly, we agree with public feedback that the Prime Minister should have the flexibility to offer a higher salary outside of the Ministerial salary ranges to an outstanding candidate from the private sector who may be drawing a significantly higher salary. We therefore propose retaining the current make-up pay system which was introduced in Parliament in 1989 but has not been used so far. Under this system, the Prime Minister can offer a candidate make-up pay for up to 90% of the difference between the pay of the appointment and the candidate's average pay¹⁸ in the last three years prior to the appointment. However, we propose that this be for up to one term in office

¹⁷ The reference monthly salary is determined by dividing the reference annual salary by 20 months i.e. fixed component plus 7 months variable payment.

¹⁸ This should be based on principal earned income only i.e. consisting earnings from the person's primary source of employment and including monthly salary, bonuses, stock options, partnership income and commissions. Unearned and passive forms of income such as dividends, rent and interest are excluded.

only, as compared to the current provision of up to two terms. After this, the person will be paid according to his salary grade.

91 As there is no one to decide on the increments for the Prime Minister, we recommend that he continue to be on a fixed salary point pegged to the MR4 salary.

Only one pay for more than one appointment

92 We recommend retaining the current practice of paying all political appointment holders one pay package as an appointment holder, even when they hold two or more portfolios.

Retain Medisave-cum-Subsidised Outpatient scheme

93 We also looked at the current medical benefits. We recommend that all political appointment holders, including the Prime Minister, remain on the MSO scheme. Under this scheme, political appointment holders do not receive hospitalization benefits. They get \$70 per month, capped at a maximum of 17 months or \$1,190 per year, credited into their Medisave account which can be used to buy Medisave-approved medical insurance. Outpatient subsidy (including co-payment of medical expenses at restructured hospitals) is capped at \$350 a year. They are also reimbursed 50% of their dental expenses, up to a maximum subsidy of \$70 per year.

94 In line with the clean wage principle, we recommend continuing with the current practice of not having benefits for all political appointment holders and their families such as housing, cars¹⁹, or tax exemptions.

SECTION F: RECOMMENDATIONS ON PRESIDENT'S PACKAGE

95 Under the current framework, the salary of the President is set at 2 times that of the MR4 actual salary. This recognises the President's position as Head of State. In this capacity, the President performs important ceremonial, diplomatic and community roles. The President also has significant custodial powers in terms of protecting the reserves, approving appointments of key personnel in the Public Service, concurring with Internal Security Act detentions, allowing investigations by the Corrupt Practices Investigation Bureau and confirming restraining orders connected to the maintenance of religious harmony. However, unlike the Prime Minister he

¹⁹ The Prime Minister will continue to be accorded the use of an official car. This car benefit will continue to be subject to tax.

does not set national policies and does not have direct executive responsibility for governing the country, except as it relates to his custodial role.

96 Taking all these factors into account, we recommend that the President's monthly salary be set equal to the monthly salary of the Prime Minister, but that his annual package omits the Performance Bonus and the National Bonus. This means that the President's salary will only comprise monthly base salary, 13th month bonus and AVC, i.e. the President will receive an annual salary of \$1,540,000²⁰ (assuming 1 month AVC), which is a reduction in salary of \$1,627,500 or 51% from the 2010 salary. This proposed salary is 70% of the Prime Minister's annual salary.

97 The possibility of a pension for the President is provided for under the Civil List and Pension Act. Parliament may determine the quantum of the President's pension by resolution. This provision has not been exercised and no President has ever received a State pension. We recommend that the Government remove this provision, in line with the proposed removal of pensions for political appointment holders.

98 As for benefits, we recommend that the President continue to be on the MSO scheme, be accorded the use of an official car²¹ and receive no perks.

SECTION G: RECOMMENDATIONS ON SPEAKER'S AND DEPUTY SPEAKER'S PACKAGES

Speaker's Package

99 The Speaker of Parliament plays an important role as the presiding officer of Parliament. He regulates Parliamentary debates, keeps order and enforces the rules of Parliament, chairs most Select Committees of Parliament, and acts as the representative of Parliament in its relations with other Parliaments, external bodies and visiting dignitaries. He is also in charge of the administration of Parliament and its Secretariat. In addition, when both the President and the Chairman of the Council of Presidential Advisers are not available, the Speaker exercises the functions of the President.

100 We recommend that the annual salary of the Speaker, if it were a full-time post, be pegged to the MR4 benchmark. We also note that Parliament has previously decided that the Speaker should receive 50% of the salary of a

²⁰ The monthly salary of the Prime Minister will be \$110,000. The President will thus receive a monthly salary of \$110,000. His annual salary, assuming 1 month AVC, will be \$110,000 x 14 months = \$1,540,000.

²¹ This car benefit of the President is subject to tax.

full-time Speaker as the position of the Speaker is currently not a full-time post.

101 Similar to the President, we recommend to exclude Performance Bonus from the Speaker's salary. The Fixed Service Bonus that he currently receives in lieu of Performance Bonus will thus be removed. The package should also exclude the National Bonus as the Speaker does not have an executive role in decisions that contribute directly to national outcomes. Similar to the arrangement for the political appointment holders, we recommend the removal of the GDP Bonus, Special Allowance and Public Service Leadership (PSL) Allowance. This means that the Speaker's salary will only comprise monthly base salary, 13th month bonus, and AVC, i.e. the Speaker will receive an annual salary of \$550,000²² (assuming 1 month AVC), which is a reduction in salary of \$622,800 or about 53% from the 2010 salary.

102 As for benefits, we recommend that the Speaker continue to be on the MSO scheme, be accorded the use of an official car²³ and receive no perks. In line with the removal of pension for political appointment holders, we recommend that the Speaker's pension be frozen on 21 May 2011. Thus, the previous Speaker will only accrue pension up to 20 May 2011 while the new Speaker will not be entitled to pension.

Deputy Speaker's Package

103 The Deputy Speaker covers the functions of the Speaker when he is not available. Parliament has previously determined that his current monthly allowance be pegged at 15% of the Speaker's part-time monthly salary. We recommend that the Deputy Speaker's annual allowance, if it were a full-time post, be pegged to 15% of a full time Speaker's annual salary which is in turn pegged to the MR4 benchmark. We note the Parliament currently imputes a similar discount of 50% for the Deputy Speaker's allowance by virtue of its decision to peg it to the monthly salary of a Speaker which carries with it a 50% discount on account of the position not being a full-time post.

104 The Deputy Speaker's allowance should be structured in the same way as the Speaker. Assuming that the Deputy Speaker continues to be a non full-time position and Parliament decides to continue the same 50% discount, the Deputy Speaker should receive an annual allowance of \$82,500²⁴ (assuming 1 month AVC), which is a reduction in allowance of \$14,000 or about 15% from the 2010 allowance. Unlike the Speaker, the reduction for the Deputy Speaker is much smaller as he is currently not eligible for the Fixed Service

²² The annual MR4 benchmark salary is \$1,100,000. The Speaker's annual package, assuming 1 month AVC, will thus be 50% x \$1,100,000 = \$550,000.

²³ This car benefit will continue to be subject to tax.

²⁴ The annual MR4 benchmark salary is \$1,100,000. The Deputy Speaker's annual package, assuming 1 month AVC, will thus be 50% x 15% X \$1,100,000 = \$82,500.

Bonus, Special Allowance or PSL Allowance and is paid GDP Bonus at only half the rate of the Speaker.

105 As for benefits, we recommend that the Deputy Speaker continue to be on the MSO scheme and receive no perks.

SECTION H: RECOMMENDATIONS ON MEMBERS OF PARLIAMENT'S PACKAGE

106 MPs are currently paid an allowance for the time and expenses incurred in serving in that capacity. The allowance of the MP was structured based on this being a part-time rather than a full-time role. This is so that our MPs can bring to Parliament their current life experiences in other fields to contribute to the richness of Parliamentary debate.

107 Our MPs serve dual roles. One is a community-based role which involves looking after the needs of their constituents and raising their concerns in Parliament. The other is a legislative role in Parliament where they can influence decisions on government budgets, and enact or amend legislation, including the Constitution.

108 We have assessed that the current level of the MP monthly allowance is roughly correct. As MPs play a political role, their allowance should be pegged to that of political appointment holders. However, unlike political appointment holders, MPs do not have an executive role. As such, we recommend that MPs be given only a monthly allowance, a 13th month bonus and AVC. The current GDP Bonus (0 to 2 months) will be removed.

109 Balancing their heavy responsibilities as the direct representatives of their constituents and the consideration that they do not perform executive functions, we recommend that an MP's annual allowance be 17.5% of the MR4 benchmark, i.e. \$192,500²⁵, which is a drop in allowance of \$6,700 or 3% from the 2010 allowance. This formulation will preserve the MP allowance at about the same level as the current monthly allowance, with the reduction mainly attributable to the removal of the GDP Bonus. As is international practice in Westminster Parliamentary systems, the Prime Minister, Speaker, Deputy Speaker and political appointment holders will also receive MP allowances as they have the dual roles of being MPs.

110 While MPs elected after 1 January 1995 are no longer eligible for pensions, MPs elected before 1995 are still eligible for pension. In line with the recommendation to remove pension for political appointment holders, we

²⁵ The annual MR4 benchmark salary is \$1,100,000. An MP's annual package, assuming 1 month AVC, will thus be 17.5% x \$1,100,000 = \$192,500.

recommend that these MPs have their pension frozen as at 20 May 2011, i.e. they can still receive pension accrued up to 20 May 2011 but will not accrue further pension. As is the current practice, they will receive the frozen pension when they step down from their MP positions.

111 We recommend that MPs continue to remain on the MSO scheme.

Non-Constituency MPs' (NCMPs) and Nominated MPs' (NMPs) Package

112 Compared to MPs, NCMPs and NMPs have smaller roles. They do not have a community based role as they do not have constituents. They also have a reduced legislative role in that they cannot vote on government budgets and changes to the Constitution. In view of this, we recommend that the total annual allowance of an NCMP / NMP be pegged to 15% of the MP's total annual allowance, as is the current practice. An NCMP/NMP's annual allowance should be structured in the same way as the MP. This means that a NCMP / NMP will receive an annual allowance of \$28,900²⁶, a reduction of \$1,200 or about 4% from the 2010 level.

113 We recommend that NCMPs and NMPs continue to remain on the MSO scheme.

SECTION I: FUTURE REVIEWS

114 To ensure that the salary framework remains appropriate over time, it should be reviewed at regular intervals. We recommend that the Prime Minister appoint an independent Committee to undertake future reviews of the salaries of the President, Prime Minister, Speaker, Deputy Speaker, political appointment holders and MPs. The Prime Minister should determine the members in the Committee and the review should take place every five years.

SECTION J: CONCLUSION

115 Having studied the current pay system, we are of the view that the present salaries were set at a level that was necessary for the Government to recruit people of the right calibre to serve the nation. However, circumstances have changed. These principles and levels should be reviewed from time to time to reflect prevailing economic, social and political considerations. This review of political salaries is thus timely and important to determine a fair salary for political appointment holders while ensuring a flow of able and committed leaders into Government.

²⁶ An MP's annual package, assuming 1 month AVC, will be \$192,500. An NCMP / NMP's annual package, assuming 1 month AVC, will thus be 15% x \$192,500 = \$28,900.

116 Based on the principles of competitive salary, discount for ethos of political service and clean wage, we have reviewed the salaries of the President, Prime Minister, Speaker, Deputy Speaker, political appointment holders and MPs. We have made recommendations to their pay levels and benchmarks, pay structures, pension and benefits, after taking into account the feedback of all the stakeholders. A summary of the Committee's recommendations is outlined below:

- a) **Benchmark** – To introduce a new benchmark of 60% of the median income of top 1,000 Singapore Citizens income earners for the entry MR4 Ministerial grade. This benchmark will allow salaries to be competitive and respond annually to market conditions. The total annual salary for all other political appointment holders should be set at a ratio to the MR4 total annual salary;
- b) **Pay Mix and Structure** – To adopt a pay package comprising fixed and variable pay components for all political appointment holders. The fixed pay component should comprise a monthly salary and a 13th month bonus. The variable pay component should comprise the Annual Variable Component, Performance Bonus and the National Bonus. The National Bonus should be determined by four socio-economic indicators (real median income growth rate of Singapore Citizens, real growth rate of lowest 20th percentile income of Singapore Citizens, unemployment rate of Singapore Citizens and real GDP growth rate);
- c) **Salary Grades and Ranges** – To retain the current grade structure with salary ranges for all grades, other than the Prime Minister who should be on a fixed salary point;
- d) **Remove Pensions and Retain Medical Benefits** – To remove the pension scheme for political appointment holders with effect from 21 May 2011. All political appointment holders should continue to be on the MSO medical scheme, with no other perks.
- e) **President's Salary** – To peg the President's monthly salary to the monthly salary of the Prime Minister and for his annual package to comprise only monthly salary, a fixed 13th month bonus and the Annual Variable Component. The provision of allowing the President to be eligible for a pension at Parliament's discretion

should be removed. The President should continue to be on the MSO medical scheme, with no other perks.

- f) **Speaker's Salary** – To peg a full-time Speaker's total annual salary to the MR4 benchmark. Parliament should decide whether to continue the current practice of paying the Speaker 50% of this salary as the Speaker's post is currently a part-time post. The salary should comprise only monthly salary, a fixed 13th month bonus and Annual Variable Component. The Speaker should continue to be on the MSO medical scheme, with no other perks. The pension scheme for the Speaker should be removed with effect from 21 May 2011.
- g) **Deputy Speaker's Allowance** – To peg the full-time Deputy Speaker's annual allowance to 15% of a full-time Speaker's annual salary. Parliament should decide whether to continue the current practice of paying the Deputy Speaker a reduced amount as the Deputy Speaker's post is currently a part-time post. The annual allowance should comprise only monthly allowance, a fixed 13th month bonus and Annual Variable Component. The Deputy Speaker should continue to be on the MSO medical scheme, with no other perks.
- h) **MP's Allowance** – To peg an MP's annual allowance to 17.5% of MR4 benchmark. The MP's allowance should comprise a monthly allowance, a 13th month bonus and Annual Variable Component. MPs elected prior to 1995 should have their pension frozen as at 20 May 2011, and not accrue additional pension after that date. MPs should continue to be on the MSO medical scheme, with no other perks.
- i) **NCMP / NMP's Allowance** – To peg an NCMP / NMP's annual allowance to 15% of MP's annual allowance. The NCMP / NMP's allowance should comprise a monthly allowance, a 13th month bonus and Annual Variable Component. NCMPs / NMPs should continue to be on the MSO medical scheme, with no other perks.
- j) **Future Reviews** – For the Prime Minister to appoint a Committee to review the salary framework every five years.

117 We thank the Prime Minister for this opportunity to participate in this most crucial review. It is an honour and privilege to have been called on to do this. We have tried our best to recommend a fair salary system for our political leaders, who carry the heavy burden and duty of ensuring the continued progress and success of Singapore and Singaporeans.

End

**COMMITTEE TO REVIEW SALARIES OF THE PRESIDENT, PRIME MINISTER
AND POLITICAL APPOINTMENT HOLDERS**

On 21 May 2011, Prime Minister Lee Hsien Loong announced the formation of a committee to review political salaries. We are therefore forming a Committee to Review Salaries of the President, Prime Minister and political appointment holders.

Composition of Committee

The Committee will be chaired by Mr Gerard Ee, and comprise a total of 8 members from the private sector, labour movement, and social sector:

Chairman

Gerard Ee

Chairman, National Kidney Foundation
Chairman, Eastern Health Alliance

Members

John De Payva

President, National Trades Union Congress

Fang Ai Lian

Chairman, Charity Council
Chairman, Methodist Girls School Board of Management

Stephen Lee Ching Yen

President, Singapore National Employers Federation

Po'ad bin Shaik Abu Bakar Mattar

Member, Council of Presidential Advisers
Member, Public Service Commission

George Quek

Founder and Chairman, Breadtalk Group Ltd
Vice President, Teochew Poit Ip Huay Kuan
Chairman, Xinmin Secondary School Advisory Committee

Lucien Wong

Managing Partner, Allen & Gledhill LLP
Chairman, Maritime and Port Authority

Wong Ngit Liong

Chairman, National University of Singapore Board of Trustees
Chairman & CEO, Venture Corporation Limited

Terms of Reference

The Committee's terms of reference will be to review the basis and level of salaries for the President, Prime Minister, political appointment holders and Members of Parliament to help ensure honest and competent government.

The Committee should take into account salaries of comparable jobs in the private sector and also other reference points such as the general wage levels in Singapore.

The Committee should also take into account the following guidelines:

While the salary of the President should reflect the President's high status as the head of state and his critical custodial role as holder of the second key, it should also take into account the fact that unlike the Prime Minister he does not have direct executive responsibilities except as they relate to his custodial role.

The salary of Ministers should have a significant discount to comparable private sector salaries to signify the value and ethos of political service.

Implementation

The government will base its new salaries on these recommendations.

Prime Minister Lee Hsien Loong has decided that the new salaries for political appointment holders will take effect from 21 May 2011, i.e. the date when the new government took office.

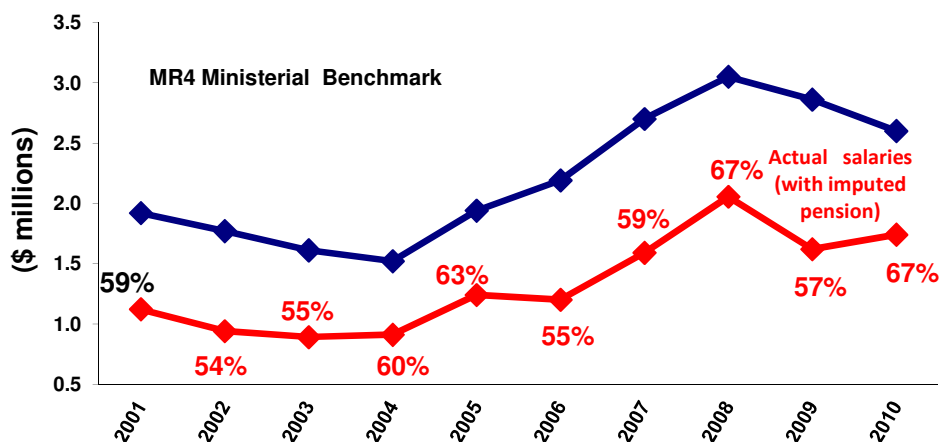
Although the salary for the President will in-principle commence from the new term of the President, the President has informed Prime Minister Lee that he will adopt the new salary from 21 May 2011.

PRIME MINISTER'S OFFICE
22 MAY 2011

BENCHMARKS AND SALARY MOVEMENTS FOR MR4 GRADE

1. For the benchmark data, only earnings of Singapore citizens, Singapore Permanent Residents, and Malaysians working in Singapore are included.
2. The benchmarks are based on Principal Earned Income which has been taxed. These consist of earnings from the individual's primary source of employment and include monthly salaries, bonuses, stock options, partnership fees and commissions. Unearned and passive forms of income, such as dividends, rent and interest, are excluded.
3. Stock options are included in the salaries of the top income earners. However, the gains from stock options vested each year are discounted by 50%. This means we only take half of the stock option gains in the current year as current year income.
4. The benchmark figures are audited by the Auditor-General every year.

Ministerial (MR4) Benchmark & Actual Salaries for Past Years



* Note: The percentages represent actual salaries as a percentage of benchmark. The practice of taking into account the value of pension as part of a Minister's total pay when comparisons are made with the private sector benchmarks only began in 2008.

Calendar Year	Benchmark (\$)	Actual Salaries (\$)	Actual Salaries as % of Benchmark	Remarks
2001	\$1,916,500 (YA2001)	\$1,121,900	59%	Monthly salary increased in Jan 2001, followed by increases in GDP Bonus (from 1 to 2 months) & PSL Allowance (from 1 to 2 months) in Jul 2001. Salaries were cut by 10% in Nov 2001, following the economic recession after 9-11 terrorist attacks.
2002	\$1,765,400 (YA2002)	\$944,700	54%	Wages were frozen in 2002.
2003	\$1,608,900 (YA2003)	\$889,900	55%	Following the economic recession after the SARs outbreak, salaries were cut by a further 10% in Jul 2003.
2004	\$1,518,100 (YA2004)	\$910,000	60%	Restoration of the Nov 2001 wage cuts in July 2004.
2005	\$1,936,100 (YA2005)	\$1,237,900	63%	Restoration of the Jul 2003 wage cuts in Jan 2005.
2006	\$2,195,600 (YA2006)	\$1,202,600	55%	In 2006, government paid more annual components in the form of a higher Annual Variable Component and GDP bonus
2007	\$2,698,200 (YA2007)	\$1,598,800	59%	Salary revisions made in Apr 2007 to bring salaries to 73% of YA2006 benchmark.
2008	\$3,050,700 (YA2008)	\$1,924,300 ((\$2,055,100 with value of future pension imputed)	63% (67% with imputed pensions)	Second round of salary adjustment was made in Jan 2008 to bring salaries to 77% of the YA2007 benchmark, with imputed pensions factored in.
2009	\$2,863,300 (YA2009)	\$1,494,700 ((\$1,624,900 with value of future pension imputed)	52% (57% with imputed pensions)	Third round of salary adjustment to bring salaries to 88% of YA2008 benchmark was deferred in view of the slowdown in the global economy.

Calendar Year	Benchmark (\$)	Actual Salaries (\$)	Actual Salaries as % of Benchmark	Remarks
2010	\$2,598,500 (YA2010)	\$1,583,900 (\$1,736,700 with value of future pension imputed)	61% (67% of YA2010 benchmark)	Despite the strong economic recovery in 2010, the third round of salary adjustment to bring salaries to 88% of YA2009 benchmark was deferred for a second time in view of the reduction in the private sector benchmarks.
2011	\$2,518,000 (YA2011)	-	-	The formula to compute salaries have been suspended on 21 May 2011 pending our review.

Notes:

(1) Actual salaries refer to salaries paid out in the calendar year, whilst benchmark is based on income tax data for the Year of Assessment (income earned in preceding year);

(2) Figures for benchmarks and actual salaries are rounded to the nearest \$100 and figures for the actual salaries as a percentage of benchmark are rounded to the nearest whole number, based on the actual benchmark and salary figures.

NATIONAL BONUS MATRIX

Payout Level	Real Median Income Growth rate for Singapore Citizens	Real Growth Rate of Lowest 20 th Percentile Income for Singapore Citizens	Unemployment rate of Singapore Citizens	Real GDP Growth rate
Targets				
0%	<0.5%	<0.5%	5% and above	<2%
50%	0.5% - <2%	0.5% - <2%	4.5% - <5%	2% - <3%
100%	2% - <3%	2% - <3%	4% - <4.5%	3% - <5%
150%	3% - <4%	3% - <4%	3.5% - <4%	5% - <7%
200%	4% and above	4% and above	<3.5%	7% and above

The target for Real Median Income Growth takes into account the Government's target to raise real median income of Singapore Citizens by increasing productivity by 2% to 3% per year. The target for Real Growth Rate of Lowest 20th Percentile Income of Singapore Citizens is pegged to the target for Real Median Income as the Government should target to improve the lot of all segments of Singapore citizens. The target for Unemployment rate of Singapore Citizens was worked out after noting that the lowest unemployment rate of Singapore Citizens even during periods of high economic growth was 3.1% in the last 10 years. The Real GDP Growth rate takes into account the realistic growth rate of Singapore in the medium term.

Worked Example

The variable pay component (V) of a political appointment holder is made up by the AVC, PB and NB, i.e. $V = AVC + PB + NB$.

The NB is linked to four indicators, i.e. Real Median Income Growth Rate (RMI); Real Lowest 20th Percentile Income Growth Rate (RL20); Unemployment Rate (UN); and Real GDP Growth Rate (RG). Each of these indicators accounts for 25% of the NB. The payout quantum for each indicator will be determined based on the country's performance set out in the above table. If the targets for the indicators are met, the payout level will be at 100%, NB = 3 months

Assuming for Year X, RMI is 1%; RL20 is 0.4%; UN is 3.8%; and RG is 4%. The payout based on RMI will be 50%, the payout based on RL20 will be 0%, the payout based on UN will be 150%, and the payout based on RG will be 100%, i.e. NB payout level = $0.25 (50\%) + 0.25 (0\%) + 0.25 (150\%) + 0.25 (100\%) = 12.5\% + 0.0\% + 37.5\% + 25\% = 75\%$. The quantum of NB paid out will thus be = 3 months x 75% = 2.25 months.