



Singapore: Guidance issued on implementing variable pay cuts

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Singapore's tripartite National Wages Council (NWC) has issued supplementary guidelines for employers about implementing cuts to variable pay components — under the terms of the Flexible Wage System (FWS) — with the aim of avoiding layoffs due to the COVID-19 pandemic. The NWC also announced its decision not to reduce employers' contribution rates to the Central Provident Fund (that finances employees' mortgages, medical and old age needs) and to rely on the FWS to reduce costs and maintain jobs.

The guidelines apply from 1 Nov 2020, to 30 June 2021, and follow earlier guidance issued on 30 Mar 2020. To be eligible to implement variable compensation cuts, employers must have already implemented or plan to immediately implement the FWS.

Highlights

Categories of workers. The guidelines set out recommendations for reducing variable pay components for three categories of workers:

- Rank and file employees. Up to 30% of an employee's total wage can be variable, comprising a 10% monthly variable component and a 20% annual variable component. Employers should give "special consideration" to low wage workers, and should consider applying a wage freeze to employees earning up to S\$1,400 per month instead of cutting wages. Employers should not reduce pay that would result in employees earning less than S\$1,400 per month.
- Middle management. Up to 40% of an employee's wage can be variable.
- Senior management. Up to 50% of an employee's total wage can be variable.

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Amount of reduction. Employers should apply “earlier and deeper” cuts to variable pay for employees in managerial roles. The decision about the size of the reduction should be “fair and reasonable” — based on company and industry sector performance and the amount of government support available to offset business costs and wages. The employer should tell employees how reduced wages will be restored when the business and sector performance improve.

Thirteenth month payment. Employers should try to continue the 13th month salary payment (the annual wage supplement) where applicable, due to its importance to lower-wage workers

Unionized companies. Unionized companies must negotiate and agree to reduce wages and FWS implementation. As part of the process, employers must provide prior information about the company’s performance and prospects.

Workforce communication in nonunionized companies. Nonunionized employers are encouraged to take “a proactive and transparent approach” when communicating with employees about cost-saving measures to be implemented.

Related resources

Non-Mercer resources

- [Information on National Wages Council](#) (Singapore Tripartism Forum)
- [National Wage Council 2020/2021 supplementary guidelines](#) (Ministry of Manpower, 16 Oct 2020)

Mercer Law & Policy resource

- [Singapore strengthens responsible retrenchment principles](#) (20 Oct 2020)

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