

# FLEXIBLE WAGE SYSTEM

A Guide for Employers



Jointly developed by:

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## NWC Chairman's Foreword

The Flexible Wage System (FWS) was first introduced in 1986. Over the years, it has helped employers respond quickly to periods of poor economic conditions such as the SARS outbreak, the Asian and Global Financial Crises, and more recently the COVID-19 pandemic, by allowing prompt wage adjustments to be made based on business conditions. FWS helps businesses stay afloat and save jobs. It also helps ensure that the wage adjustments are fairly and more quickly restored in tandem with business recovery.

In October 2020, the National Wages Council (NWC) released the 2020/2021 Supplementary Guidelines that called on employers to urgently implement the FWS to remain resilient and competitive during the COVID-19 pandemic and emerge stronger when the economy recovers. The NWC Guidelines for 2021/2022, which were released in October 2021, reiterated this message.

The tripartite partners strongly encourage employers to take the opportunity to review and transform their existing wage system to a more robust and future-ready system.

This guidebook provides employers with a broad understanding of the various components of the FWS, the supporting systems and practices which need to be in place for FWS, and useful resources if employers need to seek further assistance on implementing the FWS.

**Peter Seah**  
NWC Chairman





# Preface

“ The flexible wage system (FWS) is a “shock absorber” that can cushion the impact of economic downturns for employers. It can also help save jobs during bad times while providing upside during good times for workers. I strongly urge employers not to wait for another economic crisis before implementing FWS. Please enhance your wage flexibility now.”

**Dr Robert Yap**, President (SNEF)

“ The pandemic’s impact on the labour market has amplified the importance for wage structures to adjust quickly according to business performance and productivity growth. For sectors which are faring better, employers are encouraged to reward workers fairly with wage increases and variable payments; and for businesses that are severely impacted to make fair and informed wage adjustments. To ensure that workers’ livelihoods are protected, NTUC will continue to work closely with our tripartite partners to develop transparent and fair FWS mechanisms that provide income security and job stability for our workers.”

**Mary Liew**, President (NTUC)

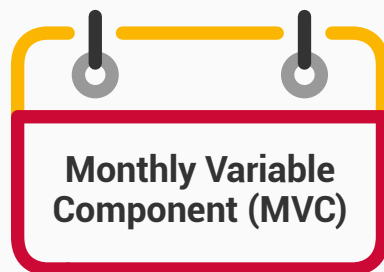
“ COVID-19 has shown the advantages of having flexibility in the wage system. We urge employers to implement FWS as this will give them the necessary flexibility to navigate economic uncertainty, increase job security for employees, and ensure that wages are fairly and more quickly restored in tandem with business recovery. Employees can be assured that their wages are linked to business performance and rewards, and would be motivated to help the business improve quickly so that their wages would be restored.”

**Aubeck Kam**, Permanent Secretary (MOM)

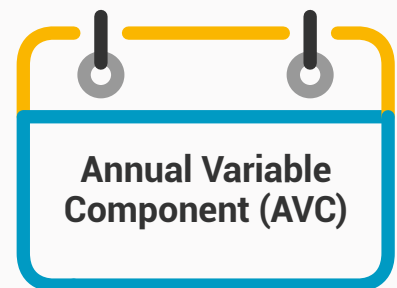
# What is the Flexible Wage System?

A flexible wage system is one that has a sizeable variable component that can be adjusted quickly by companies to reduce wage costs during business slowdowns as well as to reward employees fairly when companies do well in a particular year.

The variable components comprise the:



- ✓ **Component which can be adjusted in response to sudden changes in business conditions to sustain the business and save jobs.**
- ✓ Basic monthly salary consists of a) monthly fixed component and b) MVC which is included in computing overtime payment, CPF contributions, AWS and bonus.



- ✓ **Comprises performance bonuses**
- ✓ The Annual Wage Supplement (AWS), commonly known as the "13<sup>th</sup> month payment" can be considered as part of the AVC if it is a variable payment tied to business performance<sup>1</sup>, and is not regarded as fixed salary that is deferred from monthly wages.

The variable components should be linked to clearly defined Key Performance Indicators (KPIs) so that wages move in tandem with business and economic performance.

The KPIs can be organisation level, departmental level and/or individual level. The KPIs set should also be realistic and achievable.

<sup>1</sup>Under Employment Act Section 48, Notwithstanding that an annual wage supplement may be payable under subsection (1) or (3), an employer may, in the event of exceptionally poor business results for any year, invite the employees or a trade union representing his employees to negotiate for a lower quantum of annual wage supplement or for no annual wage supplement to be paid for that year.



# How do the MVC and AVC fit within basic and gross wages?

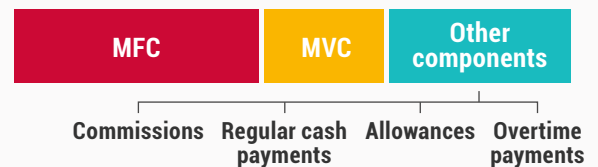
## Defining Basic Monthly and Gross Monthly Wages:

### Basic Monthly Wage



Refers to the sum of Monthly Fixed Component (MFC) and Monthly Variable Component (MVC)

### Gross Monthly Wage



Refers to the sum of Basic Monthly Wage, overtime payments, commissions, allowances, and other regular cash payments. (It excludes bonuses, stock options, other lump sum payments and payments-in-kind.)

Note: **Both Basic Monthly Wage and Gross Monthly Wages** are before deduction of employee's CPF, and excludes employer's CPF contributions.

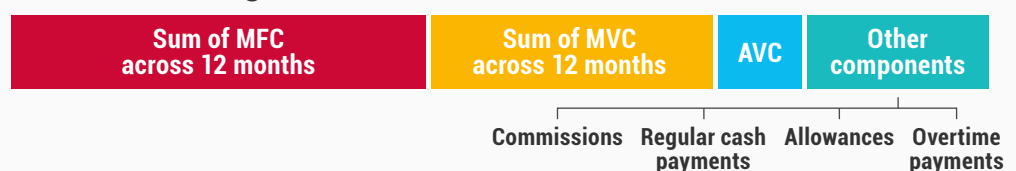
## Defining Basic Annual and Gross Annual Wages:

### Basic Annual Wage



Note: Some firms regard the Annual Wage Supplement (AWS), commonly known as the 13<sup>th</sup> month payment, as part of the fixed component in the basic annual wage, while others regard it as variable component in the basic annual wage. As the practice of AWS payment varies across companies, the NWC recommends that companies assess how much flexibility they require in their wage structures and decide accordingly if the AWS should be variable. When the AWS is regarded as variable, then it can be considered as part of the AVC. When the AWS is regarded as deferred fixed wages, it can be considered as part of the sum of MFC across 12 months.

### Gross Annual Wage





# Key Benefits of Flexible Wage System:

Employers that have MVC and AVC included in their wage structure have benefitted in the following ways:



## Increased Flexibility & Enhanced Competitiveness

- Variable components allow for quicker wage adjustments amidst economic uncertainty, and timely wage restorations in tandem with business recovery.
- Timely adjustments to wages allow employers to remain competitive in challenging economic times by cutting wages to sustain business operations. Workers also benefit from greater job security.



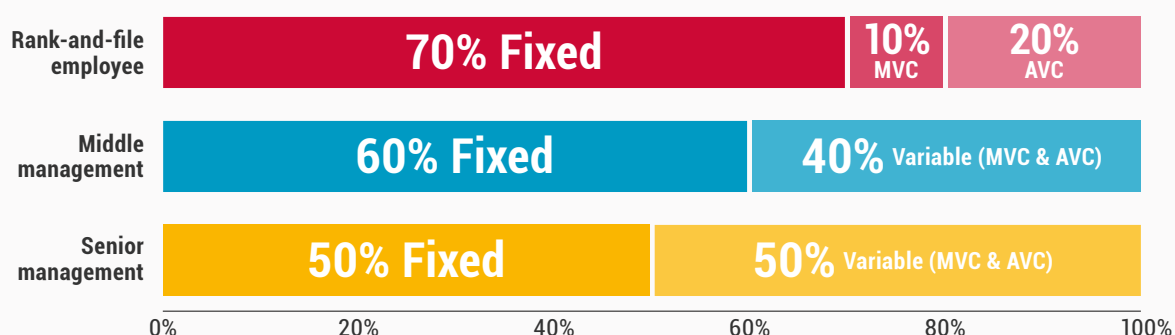
## Higher Productivity

- Variable components linked to KPIs can increase productivity as employees see the direct relationship between business performance and rewards.



## What is the recommended level of MVC and AVC?

The NWC has recommended the following wage ratios to be applied to the basic annual wage:



Companies should discuss with their employees and negotiate with their unions to set the proportion of MVC and AVC as recommended above, while considering their business and operational needs, and the income stability of their employees. To facilitate negotiation, employers should share relevant information, such as company performance and business prospects. Transparency is crucial so that sound decisions can be made for mutual interests and trust.

Some companies may have wage structures where a significant proportion of wages come from other components (e.g. commissions) that may not fit within the basic annual wage. Such companies should discuss with their employees the appropriate level of MVC and AVC in the basic annual wage that considers the overall degree of flexibility in the gross annual wage.

## How should companies build up MVC and AVC to the recommended wage ratios?

In offering salary to new employees, employers should incorporate the same percentage of MVC as in the case of existing employees.

Employers can consider the following options to build up the MVC and AVC by transferring part of fixed wages into MVC or AVC, and treat future wage increases as MVC or AVC; Treat any wage cuts or wage restorations made as adjustments to a new MVC or AVC and; Treat AWS as part of the AVC if AWS is a variable payment.





## **Adjusting wages and Setting KPIs for MVC/AVC computation**

Employers should set trigger points (based on set KPIs) for wage adjustments and restoration via the MVC and AVC. Employers should discuss and clearly explain the KPIs to unions and workers. The KPIs for MVC/AVC formulation should also be easy for workers to understand.

For example, employers may define certain situations or scenarios such as sustained reduction in production output, cargo load yield, gross operating profits and/or sales to initiate MVC/AVC adjustments.

The AVC is commonly seen in the form of bonuses which are regularly adjusted based on business outcomes. Employers are encouraged to adopt the recommended NWC guidelines for wage adjustments and refer to subsequent sections of the guidebook for more information on setting KPIs for AVC computation and communicating effectively to employees on the wage adjustments.



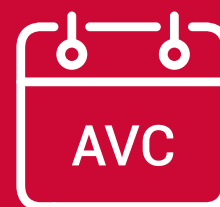
## **Supporting systems & practices**

A flexible wage system would be more effective if supported by:

- Regular sharing of relevant information on company performance and business prospects with unions and employees, so that it is clear when employers may trigger an MVC and/or AVC adjustment and restoration.
- An effective and transparent performance appraisal system.
- Management taking the lead in setting aside a larger proportion of their total compensation as a variable component.

The table below provides a list of suggested KPIs that employers can take reference from when setting trigger points for wage adjustments and restoration. Employers may use any of the suggested KPIs or other indicators that are more relevant to the company.

### Variable components



### Suggested KPIs

- |                          |   |
|--------------------------|---|
| – Gross Operating Profit | – Market share                          |
| – Revenue                | – Productivity indicators               |
| – Cashflow               | – Individual performance (for AVC only) |
| – Return on Equity       |   |

Note: Employers are advised to:

- Share the KPIs with employees to ensure transparency
- Monitor KPIs on either short term or long term basis
- Take into consideration the timing of adjustments, e.g. AVC could be adjusted first when it is due.



**The KPI targets set should be realistic and achievable.**

Examples of KPIs that employers could consider include income generating indicators (e.g. revenue, profit margin) or individual performance indicators (e.g. performance appraisals).



### Industry examples of MVC/AVC

As the KPIs for each company may differ depending on the nature of business and operating environment, there is no fixed formula when it comes to determining MVC and AVC.

Below are some sample clauses and provisions (adapted from real examples) which companies have adopted in implementing MVC and AVC. In deciding a reasonable MVC and AVC, companies should still adopt a formula that best suits their needs.

#### i) Sample of AVC formula

The variable bonus is based on the performance of the employee and the company, based on the following variable bonus funding formula.

#### Company's performance

Profit after Tax	Variable Bonus (Excl AWS)
Below \$100,000	1.75 months
\$100,000 – \$500,000	2.00 months
\$500,001 – \$750,000	2.25 months
\$750,001 – \$1 million	2.50 months
>\$1 million	3.50 months

#### Individual performance

Performance Band	Relative Share
Excellent	1.2 × the reference quantum
Good	1.1 × the reference quantum
Satisfactory	Reference quantum for bonuses
Need Improvement	0.25 × the reference quantum



## ii) Sample of AVC clause

Variable Bonus – The quantum of variable bonus shall be in accordance with the company's KPI which is the percentage of the Target Profit achieved by the company as follows:

Company's KPI (%)	Variable Bonus (months)
$\geq 130$	2.50
$120 \leq 130$	2.25
$110 \leq 120$	2.00
$100 \leq 110$	1.50
$90 \leq 100$	1.25
$80 \leq 90$	1.00
$< 80$	0

## iii) Sample of MVC clause

The MVC will be capped at 10% of the Basic Annual Salary under this Agreement. Should there be a need to cut wages in future, the wage cut may be effected from MVC as part of the means to minimise retrenchments. Both company and Union shall discuss and mutually agree within a reasonable period of time on the criteria for reduction and restoration of the MVC.

## iv) Sample of MVC wage adjustments can be linked to exceptional changes in any quarter in a financial year.

Cumulative Company Operating Loss for any quarter in a Financial year	MVC wage adjustment
$\$3.0M \leq \text{Operating Loss} < \$4.5M$	2.5%
$\$4.5M \leq \text{Operating Loss} < \$6.0M$	5%
$\$6.0M \leq \text{Operating Loss} < \$8.0M$	7.5%
Operating Loss of \$8.0M or more	10%



## Communicating FWS to employees

Employers and employees need to work together and support each other to help businesses succeed during the good and bad times. Here are some key messages employers can share with employees to explain the benefits of FWS:

**FWS ensures that employees' compensation is closely linked to business performance**

"Our employees play an important role in our company and should share in a company's success and difficulties.

The FWS will ensure that we are able to compensate employees fairly. When the company is performing well, we will be able to reward employees through an increase in the AVC payment.

However, during periods of difficulty, the FWS allows us to make adjustments so that our company remains competitive and we are able to save jobs. These adjustments are temporary and will be restored in tandem with business recovery."

**Wage adjustments will only be considered after cuts in non-wage costs have been considered**

"To sustain the company and minimise impact on our employees' livelihoods, we will always make adjustments to non-wage costs first before considering implementing wage adjustments."

**Management should lead by example on larger wage adjustments**

"Our management will accept earlier and deeper MVC/AVC wage cuts. Therefore, employees can be reassured that the burden of any MVC/AVC wage adjustments will not fall excessively on any one group."

**FWS allows for clearer expectations and ensures employees are rewarded fairly**

"Our employees can be reassured that any wage adjustments will be done fairly. We will inform employees of the KPIs that are linked to MVC and AVC adjustments. These KPIs will be clearly defined to ensure that any MVC/AVC wage adjustments are fair and transparent.

These pre-determined KPI triggers will provide our employees with clarity on when wages need to be adjusted and when wages will be restored as business picks up."

# Implementation Checklist

## Before implementing FWS, employers should:



Review existing wage structure, and identify the recommended level of adjustments to be made.



Give special consideration to lower-wage workers (e.g. if the general policy is to implement wage cut for all workers, a wage freeze should be implemented for lower-wage workers instead).



Identify and decide clear KPIs which are relevant to their business operations.



Plan how the build-up of MVC/AVC for all employees should be implemented, i.e. whether it needs to be done in one go, or built up progressively across several pay cycles.



Any wage adjustments effected during business downturn should be clearly communicated and understood by all employees.



The FWS should apply to all levels of employees – management, executive and rank-and-file – unionised and non-unionised companies.



Tap on Government grants such as Productivity Solutions Grant to upgrade existing HR/payroll system to incorporate FWS feature.



Consult and agree with unions and employees on the KPIs to trigger wage adjustments and restoration plans as well as the sequence of wage adjustments (e.g. non-wage cuts first and if wage cuts are still necessary, which variable component to be adjusted first) and principles of wage cuts (e.g. management to take the lead).



Send HR professionals for training in FWS.



## Case Study 1



A company in the hospitality sector, used MVC to their advantage when the COVID-19 pandemic adversely affected business operations. The company integrated MVC into their company's wage structure in August 2019.

When the company adopted MVC, they clearly explained to employees that the MVC would be linked to the business' quarterly revenue. The company also explained the different levels in the KPI that would trigger an MVC wage adjustment and restoration. This important information was communicated to employees at multiple townhalls and included in the employee handbook.

Subsequently, even though they had exhausted non-wage cost-saving measures, the company still faced significant cost pressures and poor business prospects. Management then led by example and started taking earlier and deeper cuts to their wages.

In May 2020, the company's operations financial position became more dire and wage costs were no longer sustainable. While some companies in the hospitality sector were engaged in discussions with various stakeholders on the appropriate wage cuts to both sustain the business and minimise impact on employees' livelihoods, this company was able to move much faster in triggering the MVC cuts. The company showed their employees the statistics on quarterly revenue and informed them of the need to trigger an MVC wage adjustment based on the pre-determined trigger levels. With the understanding of their employees, the company was able to quickly adjust wages through the MVC cuts.

In doing so, the company ensured that employees kept their jobs without significant disruptions to the business operations. The company also assured their employees that the quarterly revenue figures would remain transparent to employees so that they would know when the MVC wage adjustment would be restored.





## Case Study 2



An employee who works in a transport services company supporting the aviation industry did not have MVC in her wage structure. Due to the challenging business conditions with the low demand in air travel, her employer implemented temporary wage cuts of up to 5%.

Following the NWC supplementary guidelines' recommendations, the employer decided that it was timely to treat any wage cuts already made as adjustments to a new MVC component.

Given the exceptional circumstances of the travel industry, the employer informed his employees that the MVC would comprise the 5% wage cut already implemented and another 5% that would be transferred from the fixed component of the basic monthly salary. He also explained that the MVC would help the company to respond quicker to the uncertain economic conditions and provide greater job security with fair wages. In addition, the employer explained the key performance indicators (KPIs) such as profitability of the company, and how the KPIs will impact any adjustment (and restoration) of the MVC.

With this, the employer informed and sought agreement from all his employees (including administration clerks, finance assistants, and drivers) of such wage arrangements. The employee was reassured by the transparency of her employer on the implementation of FWS, its benefits and how the wage adjustments and restoration would be done in a timely manner.

After seeking agreement of his employees, the employer also advised his employees to seek advice from the Human Resources Department and/or their supervisors, for any concerns and feedback on the new wage arrangements.



# Frequently Asked Questions

## Q1 **My company has already implemented cost-saving measures (e.g. shorter work week) to adjust wages. Do I still need to implement the FWS?**

Yes, you should still implement FWS urgently. Although some cost-saving measures may be implemented for a short period to help provide temporary relief to employers, it is still important to build up FWS as a flexible wage system that will help prevent disputes over quantum of wage cuts in the future. Furthermore, there is no guarantee that disputes will not arise if cost-savings measures are further extended in duration and intensity.

FWS provides an objective and transparent approach to deciding when and how wages will be adjusted and restored when companies encounter periods of poor business conditions. This allows employees to feel assured that their wages were adjusted in accordance with business performance and will motivate employees to help the business improve quickly so that their wages will be restored.

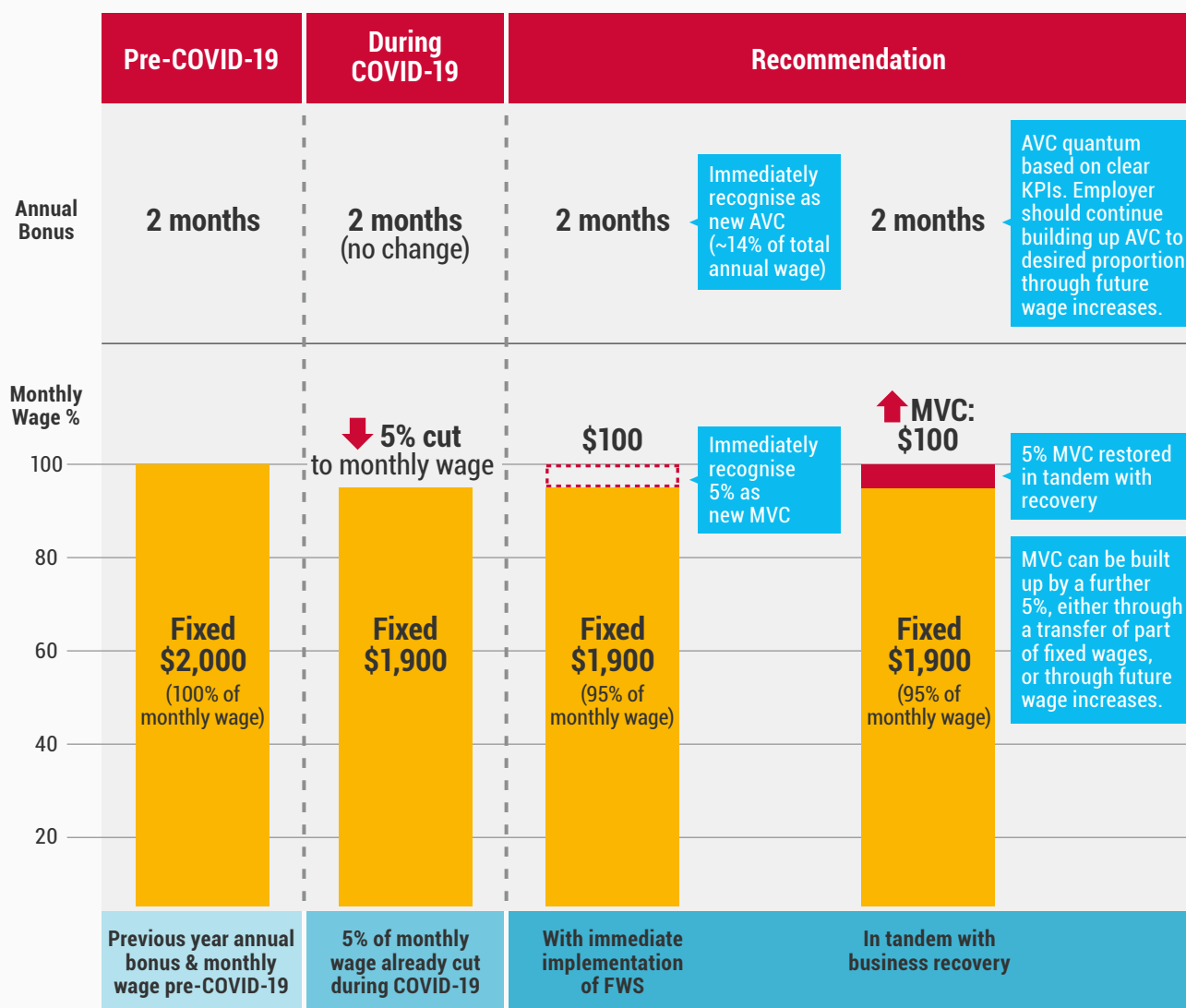


## Q2 My company made wage reductions last year and is planning to restore employees' wages soon. How can my company implement FWS?

You are encouraged to treat any wage cuts already made as adjustments to a new MVC or AVC component.

You can refer to the following illustrations<sup>2</sup>:

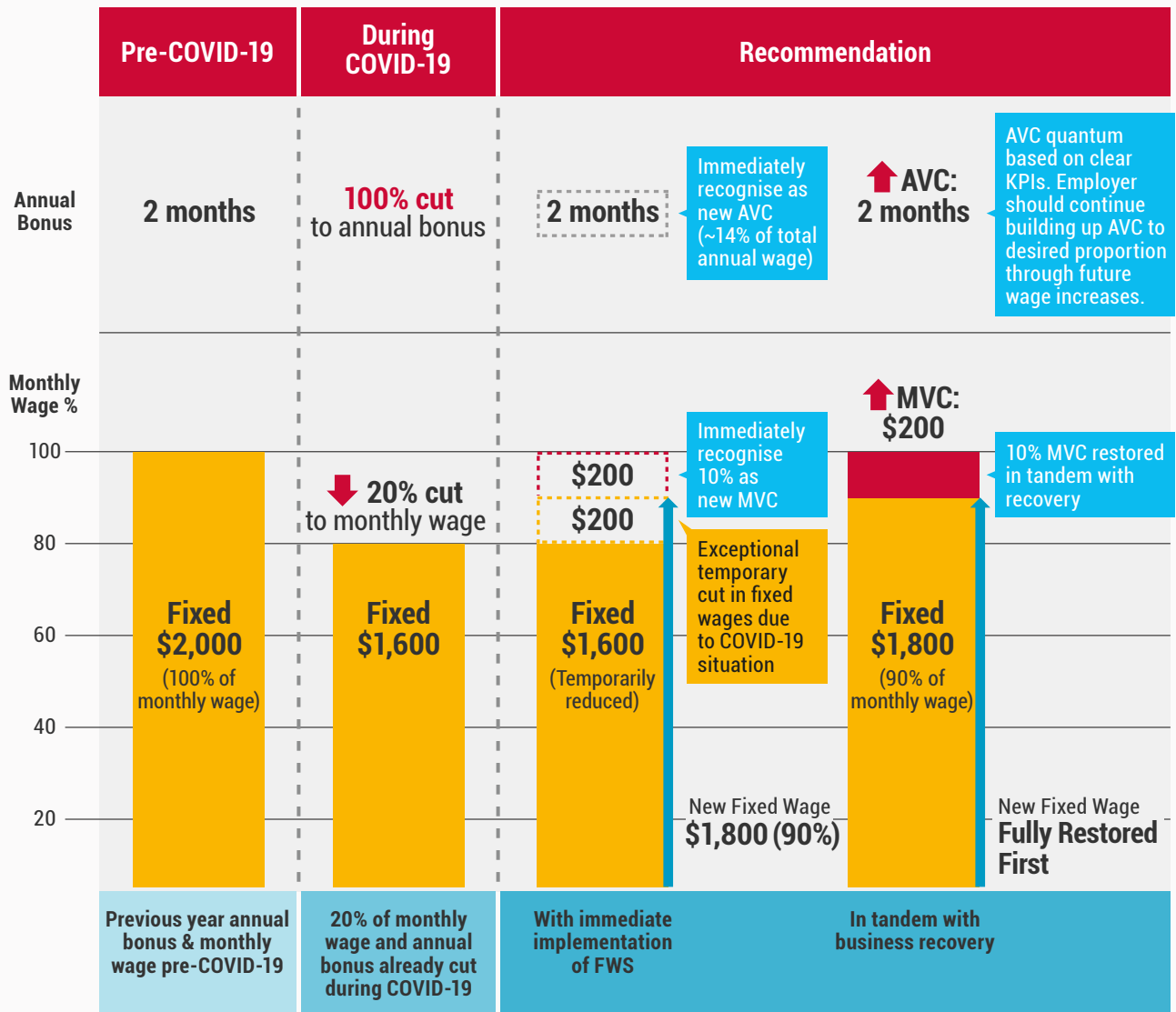
**Illustration 1 – Implementing the FWS after a 5% monthly wage cut**



<sup>2</sup> Source from Annex A NWC 2020 – 2021 Supplementary Guidelines.



**Illustration 2 – Implementing the FWS after deeper cuts to monthly wage and annual bonuses in exceptional circumstances**



### Q3 Does my company need to seek employees' consent before implementing wage adjustments to the MVC and AVC?

You should consult and engage your unions and employees when implementing the MVC and AVC. This includes the pre-determined levels for the KPIs which will trigger adjustments to MVC and AVC.

You should then share information on performance indicators so that employees (and unions) know when an MVC/AVC adjustment may be triggered.

### Q4 Does my company have to adopt the suggested share of MVC and AVC in the employees' wage structure?

The NWC recognises that each employer's workforce profile is different and recommends different tiers of FWS components, given the uneven impact of COVID-19 and the significant variation in business conditions across and within industries.

Companies should discuss with their employees and negotiate with their unions to set the proportion of MVC and AVC as recommended below, while considering the business and operational needs, and income stability for their employees.

Some companies may have wage structures where a significant proportion of wages come from other components (e.g. commissions) that may not fit within the basic annual wage. Such companies should discuss with their employees the appropriate level of MVC and AVC in the basic annual wage that considers the overall degree of flexibility in the gross annual wage. Under the FWS, the variable components should comprise:



**30%** of basic annual wage  
for rank-and-file employees



**40%** of basic annual wage  
for middle management



**50%** of basic annual wage  
for senior management

## Q5 The employees in my company generally prefer taking no-pay leave (NPL) instead of wage adjustments. Why do we need to incorporate the MVC component into their wage structure?

The FWS provides more certainty to employees on when and how their wages will be adjusted and restored. By relying on prolonged NPL and other forms of ad hoc cost cutting measures, it creates uncertainty for employees as these measures tend to be unstructured and reactive.

Under FWS, the management leads by example in taking deeper wage cuts which reduces workplace disputes over wage cuts and shields lower-wage workers from more severe cost saving measures. Overall, FWS provides transparency and objectivity in managing wage costs during a business downturn.





## Further Resources And Acknowledgements:

If you require assistance to implement FWS, you can approach the following partners:



### Singapore National Employers Federation (SNEF)

- Advisory services
- Training workshops



trg@snef.org.sg



+65 6827 6927  
(SNEF Training Services)



### Tripartite Alliance for Fair and Progressive Employment Practices (TAFEP)

- Industry briefing sessions
- Mentors/advisory services and hotline



events@tafep.sg



Appointment Service:  
<https://appointment.tal.sg/tafep/>



### Singapore Human Resources Institute (SHRI)

- Consultants
- Training workshops



events@shri.org.sg



+65 6438 0012



### National Trades Union Congress (NTUC)

- Advisory services
- Ong Teng Cheong Labour Leadership Institute (OTCi) Training Workshops:  
<https://bit.ly/OTCi-Training>



ntucird@ntuc.org.sg



### Productivity Solutions Grant

- Support companies/ SMEs keen on adopting HR technology solutions to enhance business processes



[go.gov.sg/helloesg](https://go.gov.sg/helloesg)



### Institute for Human Resource Professionals (IHRP)

- Community of Practice for Flexible Wage System



[community@ihrp.sg](mailto:community@ihrp.sg)

Acknowledgment to the following partners: National Trades Union Congress (NTUC) | Singapore National Employers Federation (SNEF) | Tripartite Alliance for Fair and Progressive Practices (TAFEP) | Singapore Human Resources Institute (SHRI) | Institute for Human Resource Professionals (IHRP)

