A GUIDE TO IMPLEMENT MONTHLY VARIABLE COMPONENT (MVC)
FOR SMALL & MEDIUM ENTERPRISES

What is Monthly Variable Component (MVC) and why do employers need to build up MVC?

MVC is a **“standby” component** to be used by employers to bring down wage costs in sudden and severe business downturns to survive and save jobs.

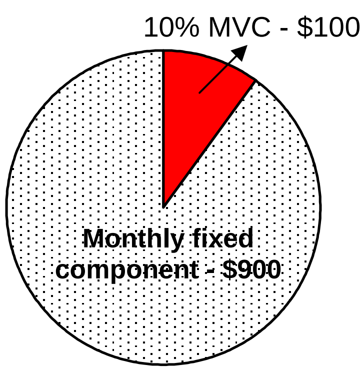
With the reduction of CPF contribution rate, there is little room to adjust wage cost through CPF cut in the future. Employers therefore should get ready MVC as an “**emergency lever**” to be used in bad times.

What is the desirable level of MVC?

MVC is part of monthly basic salary and should be included in computing overtime payment and CPF contribution. For MVC to be an effective mechanism for wage adjustment, it is recommended that MVC should form **10% of monthly basic salary**. The percentage of MVC should be the same for all levels of employees.

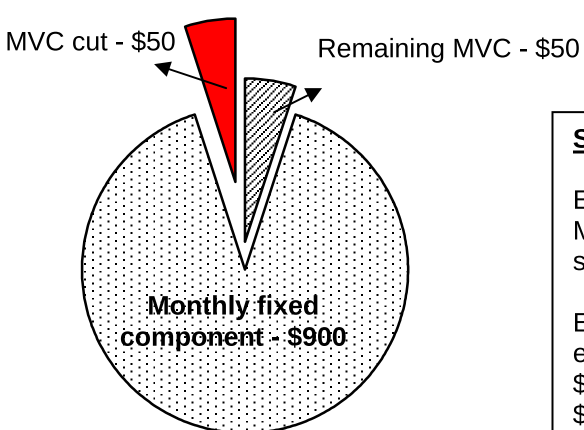
In offering salary to new employees, employers should incorporate the same percentage of MVC as in the case of existing employees.

How will the introduction of MVC affect my employees?



Normal times:

There will be no change in employee’s take home pay. As shown in the example in the left, employee takes home $1,000, including $900 monthly fixed component and $100 MVC.



Severe business downturn:

Employer can bring down wage cost by cutting MVC in full or partially depending on the severity of the business downturn.

Example: if employer cut MVC by 5%, employee will take home $950, inclusive of $900 monthly fixed component and $50 MVC. $950 will be used for computing CPF contribution and overtime payment.

How to build up MVC?

About 40% of our workforce has MVC as one of their wage components

Employers can build up MVC from:

1) wage increase; or
2) wage increase and existing monthly basic salary

Example 1: building up MVC gradually from wage increase

A company set aside the full amount of wage increase to build MVC

Year	Basic salary	Wage increase	New Salary	MVC	MVC (Amount)
Y1	$1000	3.5%	$1035	3%	$1035 x 3% =$31
Y2	$1035	3.5%	$1071	6%	$1071 x 6% =$64
Y3	$1071	4.5%	$1119	10%	$1119 x 10%=$112

Example 2: building up MVC from wage increase and existing monthly basic salary

Set aside the wage increase and reclassify a portion of existing basic wage to build up 10% MVC.

Basic Salary	Wage increase	New Salary	Reclassify from existing Salary	MVC	Amount of MVC
$1000	3%	$1030	7% (to reach 10% MVC)	10%	$1030 x 10% = $103

Initiating the use of MVC

Employers should identify parameters or performance indicators, which are relevant to their business operations, to trigger MVC cut/restoration. Alternatively, they can define certain situations or scenarios to initiate the MVC cut.

Two broad parameters that can be considered as triggering indicators for an MVC cut:

a) the company is suffering from extremely poor business performance and cost cutting measures are needed; and
b) the job security of employees is threatened.

The indicators, parameters or circumstances leading to MVC cut or restoration should be communicated to and understood by all employees.

Other key recommendations on wage restructuring

Annual variable component

1. **Linking the payment of annual variable component (AVC) closely to performance.**
   Employers should identify **key performance indicators (KPIs)** which can reflect company's or individual employee's performance. The payment of AVC should be based on the achievement of KPIs.

Narrowing salary maximum-minimum ratio

2. **Moving away from the seniority-based wage system and narrowing the salary maximum-minimum ratio to an average of 1.5** to better reflect the value of the jobs. This will help companies enhance their wage competitiveness.

The full Wage Restructuring Taskforce Report is available at MOM's website http://www.mom.gov.sg/Publications/LabourRelations/LabourRelationsPublications/TheReportsofTripartiteTaskforceonWageRestructuring.htm

Enquiries can be made at SNEF (6327 9297 / 6827 6827 x 903),
MOM (6317 1154 / 6317 1155 / 6317 1157 / 6317 1161)
NTUC (6213 8008)

SINGAPORE BUSINESS FEDERATION

SNEF

MINISTRY OF MANPOWER

NTUC

Frequently Asked Questions (FAQs) on Monthly Variable Component (MVC)

Q1. What is Monthly Variable Component (MVC) and what is the appropriate percentage?

A1. Monthly Variable Component ((MVC) forms part of monthly basic salary. It is to be included in computing overtime payment and CPF contribution. For MVC to be an effective mechanism for wage adjustment, the Tripartite partners recommend that MVC should form **10% of monthly basic salary**. The percentage of MVC should preferably be the same for all levels of employees.

Monthly Basic Salary = Monthly Fixed Component + Monthly Variable Component

E.g. $1,000 = $900 (90%) + $100 (10%)

For administrative convenience, it is recommended that MVC be denoted as a percentage of monthly basic salary so that the ratio between MVC and monthly basic salary can remain constant despite salary changes in subsequent years. A constant ratio would make the administration of MVC much easier.

Q2. What is the objective of implementing MVC?

A2. MVC is a **"standby" component** to be used by employers to bring down wage costs in sudden and severe business downturns to survive and save jobs. Putting in place MVC also prepares employees to be more prudent in making their financial planning and commitment.

Q3. Why do we need to restructure our wage systems?

A3. In January 2004, the Tripartite Taskforce on Wage Restructuring strongly recommended companies to implement wage restructuring to ensure that we can stay competitive during short-term crisis, as well as in the long term, when faced with intense competition from developing countries in the region.

Q4. Is wage restructuring meant to cut wages?

A4. Wage restructuring is not about cutting wages. It is about increasing flexibility by having greater variability in wages, enhancing competitiveness by ensuring that wages reflect the value of the jobs and the contributions of employees.

Q5. How will MVC be introduced into my monthly basic salary?

A5. With the introduction of MVC, your monthly basic salary will consist of 2 components:

a) monthly fixed component and
b) MVC.

The MVC can be built up to the recommended 10% level from wage increase and /or existing monthly basic salary.

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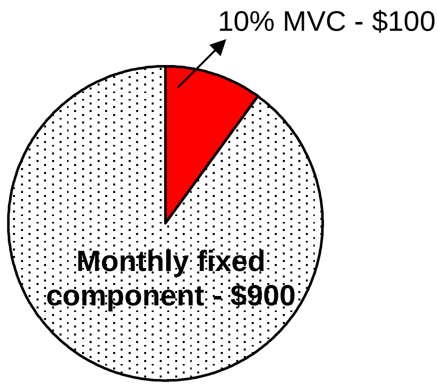
Q6. How will the introduction of MVC affect my take home pay?



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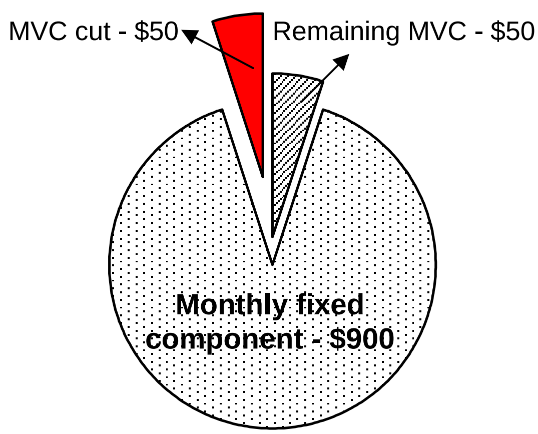

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Q7. What will be the triggers for a cut in MVC?

A7. Employers should identify appropriate Key Performance Indicators and trigger points which will demonstrate an urgent need for MVC adjustment.
Two broad parameters that are used in guiding MVC cut are:

c) the company is suffering from extremely poor business performance and cost cutting measures are needed; and

d) the job security of employees is threatened.

Q8. How can MVC be restored and by how much can it be restored?

A8. The rate and the level at which MVC is rebuilt depends on the extent of the company's recovery and its sustainability, and market conditions as per the KPIs and trigger points identified by the company.