

Employment update: increased average wages



August 2023

General

Recently, several major cities announced their decision to increase the monthly average compensation to be paid to employees within the area of their relevant municipalities; as a result, employers may face increased costs under severance packages, claims for wrongful termination or dismissal and social insurance contributions.

In detail

The average monthly compensation (“MAC”) serves as benchmark to cap severance payments at a rate of 300% of the relevant local MAC. Such caps are, in particular, used when employers decide not to renew fixed-term contracts or offer severance packages upon entering into negotiations for termination. Damages for wrongful termination or dismissal are likewise bound to rise because such damages are generally capped at a rate of 200% of employees’ relevant statutory severance pay.

For a survey of the relevant changes, please refer to the following table:

City	Previous MAC	Current MAC	Effective Date	Increase	Current Cap on Severance	Current Cap on Damages
Beijing	13,876	14,873	1 June 2023	7.2%	44,619	89,238
Chengdu	7,655	8,034	23 May 2023	5.0%	24,103	48,206
Chongqing	8,914	9,285	18 May 2023	4.2%	27,855	55,710
Guangzhou	12,024	12,694	28 June 2023	5.6%	38,082	76,164
Shanghai	11,396	12,183	1 July 2023	6.9%	36,549	73,098
Shenzhen	12,964	13,730	29 June 2023	5.9%	41,190	82,380

The said changes will also cause increases in the level of employers’ maximum and minimum contribution under the relevant schemes for retirement, medical treatment, unemployment and occupational health insurance.

In case of questions, please do not hesitate to reach out to us for further information.

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