

# Newsletter May 2018



## 2018 Mid-Year Pay Review

The setting for a June/July Pay Review for those on the minimum wage, those on average weekly earnings, senior professional staff and an organisation's leadership, is about to become front and centre.



## Governance and Pay: Ministers and Board Chairmen

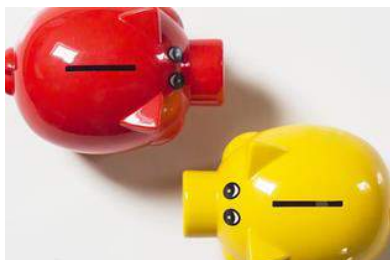
With questions related to protocols and practices leading to the appointment of Directors or Board Chairmen including the disclosure of Directors' capabilities should appointees to the leading government bodies in the country be subject to the same scrutiny?



## Issues on the Mind of Boards, CEOs and their Advisors

Remuneration planning over the coming two years  
Fair Work Commission's decision on the minimum wage.

Does top pay attract the most capable?  
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## Superannuation in the Spotlight

For a number of reasons, superannuation funds in Australia are providing mixed returns for members.

# 2018 Mid-Year Pay Review

The setting for a June/July Pay Review for those on the minimum wage, those on average weekly earnings, senior professional staff and organisation leadership, is about to become front and centre.

There have clearly been observations made in various sectors of the community that wage increases are desirable given their impact on the community's spending and well-being. On the other hand, many major employers believe that the stimulus for positive wage increase will arise from significant investment which will, in part, be sponsored by a reduction in corporate tax rates.



In this setting, Australia's wage rates are seen as high by international standards and corporate tax is considered high compared to many of our global competitors in the export market. Australia's consumer price movement in recent times has been modest and, in that context, has not sponsored a response from employers despite improving profitability to increase wages as their observations in relation to labour productivity, as distinct from other sources of productivity, have not encouraged such initiatives.

Unlike the immediate past, both major parties in the Commonwealth Parliament are supportive of the Coalition Government's proposal to reduce taxes on the least well-paid. indicatively, in the near term, this will add around \$10 per week to the less well-paid in Australia's workforce.

Recent decisions by the Fair Work Commission have indicatively progressively declined over recent years with minimum wage adjustments varying from 4.8% in 2010 to 3.3% in its 2017 decision. The history of increases since 2010 are set out in the table below:

Year	Increase in the Minimum Wage
2010	4.8%
2011	3.4%
2012	2.9%
2013	2.6%
2014	3.0%
2015	2.5%
2016	2.4%
2017	3.3%

The table below gives the history of the Consumer Price Index over several financial years.

Year	Consumer Price Index
2010	3.1%
2011	3.5%
2012	1.2%
2013	2.4%
2014	3.0%
2015	1.5%
2016	1.0%
2017	1.9%
2018*	1.9%

\* As at March 2018

We understand that the Fair Work Commission's adjudication has regard to a series of broad economic indices including productivity which they note, in recent reports, varies across industries, as does the level of both employment and unemployment. Wages also vary across industries and locations.

The table below provides a 3-year scan of employment growth (%) by location.

Employed Full Time; Persons; Seasonally Adjusted Annual Growth Rate			
	Nov 2014- 2015	Nov 2015- 2016	Nov 2016- 2017
Australia	2.62%	-0.12%	3.72%
New South Wales	6.58%	-2.25%	4.95%
Victoria	2.26%	4.12%	3.66%
Queensland	2.89%	-0.65%	2.85%
South Australia	-1.72%	1.11%	3.05%
Western Australia	-3.95%	-3.30%	3.12%
Tasmania	0.74%	-3.96%	3.33%
Northern Territories	-2.52%	2.46%	-1.58%
Capital Australian Territory	-0.82%	4.26%	3.34%

The above table reveals growth through to November 2017 in employment of 3.72% over the prior year which was marginally negative (- 0.12% in 2016) on a national basis. NSW reveals the strongest rate of employment growth with all States and Territories being positive other than the Northern Territory in 2017.

The Federal Coalition Government recently announced that since their election in 2013 over 1 million jobs have been added to Australia's workforce.

On an industry basis, sector growth is far more variable, being highest in the 12 months to November 2017 in the arts & recreation services sector (17.73%) following negative growth in the prior 2 years, and the agricultural, forestry & fishing sector (10.14%) again being negative in the prior 2 years.

Other sectors to reveal positive growth were construction, retail trade, transport & logistics, education & training and accommodation & food services. Significant declines in employment were noted in the manufacturing sector, administrative support services sector and public administration & safety.

Average weekly earnings have also varied by sector and location, the table below revealing average weekly earnings by sector as of November 2017, reveals the highest paying industries were mining, electricity, gas, water & waste services, financial & insurance services, construction, public administration & safety and transport.

Average Weekly Earnings, Industry, Australia (Dollars) - Original - Persons, Total Earnings				
	Nov-14	Nov-15	Nov-16	Nov-17
<b>Mining;</b>	2518.1	2555.1	2625.2	2619.8
<b>Manufacturing;</b>	1268.5	1266.9	1295.1	1309.4
<b>Electricity, Gas, Water and Waste Services;</b>	1707.4	1745.7	1830.7	1856.2
<b>Construction;</b>	1508.2	1474.8	1439.5	1501.8
<b>Wholesale Trade;</b>	1242.8	1277.7	1310.1	1351
<b>Retail Trade;</b>	669.8	703.7	687.6	723
<b>Accommodation and Food Services;</b>	513.9	563.2	524.1	561.1
<b>Transport, Postal and Warehousing;</b>	1358.6	1377.6	1401	1465.5
<b>Information Media and Telecommunications</b>	1437.1	1492.4	1622.2	1672
<b>Financial and Insurance Services;</b>	1483	1612.7	1659.4	1589.5
<b>Rental, Hiring and Real Estate Services;</b>	1065.4	1089.8	1117.7	1196.4
<b>Professional, Scientific and Technical Services</b>	1568.9	1528.9	1559.8	1597.7
<b>Public Administration and Safety;</b>	1355	1388.5	1422.6	1473.1
<b>Education and Training;</b>	1117.2	1121.7	1151.9	1162.7
<b>Health Care and Social Assistance;</b>	1002.7	985.2	1034.6	1053.1
<b>Arts and Recreation Services;</b>	710.7	703.8	808.2	827.6
<b>Other Services;</b>	840.7	891.9	915.6	977.9
<b>All Industries;</b>	1128.7	1145.7	1163.5	1191.5

Average weekly earnings by State and Territory reveal that the highest paying region is the ACT followed by WA then NT, NSW, QLD and VIC with SA and TAS being the least well-paying States.

As highlighted in the table below, there is also variability between average pay levels in the private and public sectors as well as the annual rate of growth over recent years. This information reinforces a potential concern, given that the majority of Australians are employed in the private sector, that rates of increase in the substantially funded public sector have exceeded those in the private sector.

		<b>AWOTE by Sector</b>	
		<b>Private sector</b>	<b>Public sector</b>
	<b>Nov-14</b>	1452.1	1568.2
	<b>Nov-15</b>	1468.4	1616.6
	<b>Nov-16</b>	1495.7	1670.7
	<b>Nov-17</b>	1529.5	1717.9

		<b>AWOTE by Sector Annual Growth Rate</b>	
		<b>Private sector</b>	<b>Public sector</b>
<b>2014-15</b>		1.12%	3.09%
<b>2015-16</b>		1.86%	3.35%
<b>2016-17</b>		2.26%	2.83%

With the above basic data and an awareness of variable submissions from government, industry groups and the ACTU, we understand that proposals before the Fair Work Commission are recommending increases from less than 2% through to the ACTU's submission which is seeking an increase to the modern award minimum wage of 7.2% or \$50.00 per week. This would increase the minimum wage from the current \$694.90 to \$744.90, or from \$18.29 per hour to \$19.60.

The ACTU has also proposed minimum rates through the various award classifications from \$55.14 (C13) through to \$84.39 (C2b). While acknowledging that productivity growth is slow, their submission highlights that the national minimum wage has not kept pace with the growth in labour productivity, as observed in real labour unit costs.

The AI Group's submission to the Fair Work Commission highlights industry differentials and global competitiveness together with general economic indices as key factors in supporting their proposal for a 1.8% wage increase across all classifications, which equates to \$12.50 per week in the national minimum wage and about \$14.60 per week at the base trade level. AI's submission also supports the principle of equal remuneration for work of equal value and the importance of improving gender equality in the workplace.

The Australian Government in their submission reveals that over the last 10 years the national minimum wage rate has increased on average by 2.8% per year, in nominal terms, and 0.8% per year in real terms. They reflect that this is higher than the growth in median fulltime earnings which averaged 2.7% per year in nominal terms and 0.7% per year in real terms. They also reflect that the increase in the national minimum wage has been at a greater rate than inflation and in line with the wage price index which

increased on average by 2.9% per year in nominal terms over the same period (their reference points are the latest data available in the 2017 calendar year).

Their submission also has regard to taxes and transfers which highlight variable circumstances facing families, as well as those of single tax payers, single parents, dual income couples, etc. They also state that due to the increase in the minimum wage rate over the past 5 years, tax payable, particularly for fulltime minimum wage earners, has increased.

Their submission also highlights areas of gender inequality and the demographic attributes of the least well-paid members of the Australian workforce. The Government's submission indicates that up to 2.3 million Australians (22.7% of all employees) are paid an award rate (May 2016). It reveals that 70.3% of award reliant employees are not low paid and more than a quarter are paid more than the median hourly wage (\$29 per hour as May 2016).

The report makes reference to technological change, shifting demographics and changing consumer preferences which continue to affect the skills distribution in the labour market as well as creating new jobs and displacing others. They report that the emergence of the gig economy presents new earning opportunities, particularly in the services sector, and has generated debate in Australia and elsewhere. Research, however, reveals that less than 1% of the workforce presently participate in the gig environment.

The Government's submission, while providing comprehensive demographic data, use a number of economic and demographic research data points to highlight the state of play in the world of employment without directing the Commission in their decision making though constantly reference the framework within which prior decisions have been made.

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# Governance and Pay: Ministers and Board Chairmen

With comments from proxy advisers, major institutional investors and shareholder activists questioning Directors' (particularly Chairmen's) capacity, to serve on more than three or four Boards for which they will often receive more than \$1 million in annual fees, the community should not be aggrieved with the level of reward paid to our Prime Minister, our Premiers or our Ministers.



Irrespective of the quality of their Departmental support, or support from commercial or corporate entities over which they have stewardship, the legislative and regulatory requirements imposed on them, in office, are at the highest level. Scrutiny is greater than that to which the majority of Board Directors, including Chairmen, are subjected.

A key gap in the governance process which may well be worthy of discussion is the paucity of relevant disclosure whether for those seeking to stand for Parliamentary office, with the obvious potential to assume a Ministerial portfolio or, indeed, leadership of a State or the Nation.

Should there be open disclosure to the electorate (before individuals stand for public office) of their capabilities including their knowledge and experience in the world of government as well as external to government? What guidelines should be published to assist voters assess the relevance of those capabilities to represent their constituents, to serve on Parliamentary Committees or chair Parliamentary Committees, to serve in an outer Ministry role and ultimately on the Board of Australia Inc. or State Inc.?

While the political class may have ideological alignment, the success of the nation in which there are 25 million stakeholders (and many others who have an inter-dependence upon our nation's enterprise and global engagement) clearly needs the highest leadership standards, particularly in those that aspire to pursue positions in Ministerial portfolios and the Cabinet.

Many of those seeking election to Parliament and Ministerial careers, on the basis of current levels of remuneration, are making significant personal sacrifices, hopefully for the benefit of their constituents and the broader community.

A recent article in the Sydney Morning Herald, referencing data from market research firm IG (which revealed the standing of Australia's Prime Minister on a global footing as receiving a high level reward) from our perspective raised interesting questions at a time when Board pay and the governance of Directors in Australia's largest public companies is under scrutiny as is diversity including gender representation.

With the above overlaid with questions related to protocols and practices leading to the appointment of Directors or Board Chairmen, disclosure of Directors' capabilities and, in particular, the relevance of those capabilities to their stewardship of the company on



whose Board they serve with elections looming, Governments are also the subject of scrutiny. Additional questions are also being raised in relation to the number of Boards on which Directors have the capacity to serve, their commitment to those Boards, their competence in that context but more related to effectiveness and thoroughness of engagement.

Without question, the Prime Minister leads the most substantial enterprise in this country, chairing the Cabinet of the Federal Government. Ministers lead portfolios which are generally both engaged in commercial endeavours and the provision of services to every citizen, including those living overseas.



State Governments, substantially with the benefit of appropriations from the Commonwealth, are similarly structured with the Chair being their Premier and their Ministers being the Board of State Inc. which, like the Commonwealth, is unbundled into core portfolios of scale and significance with energy and infrastructure, together with health and education, being front and centre.

Should we be concerned with remuneration levels from \$350,000 to \$600,000 payable to Ministers who under legislation in the majority of instances are accountable to the Parliament and ultimately to the largest group of nominal shareholders being 25 million Australian citizens?

Have press comments flagged the follies of benchmarking the appropriateness of Ministerial remuneration with that of a margin over a Backbencher. Should there be full disclosure of Ministers' capabilities, aptitudes, commitment and level of engagement outside their core role as an electorate representative? Should there be transparent disclosure of each portfolio's complexity and the capabilities essential to have oversight of that portfolio and the capabilities possessed by those serving in the highest, most complex and stakeholder sensitive enterprises where hundreds of billions of the nation's resources are deployed? A key Commonwealth Government Minister's management and governance oversight exceeds that of most ASX top company's Chairman.

Having had some engagement in understanding and commenting on the role of a Member of Parliament, as distinct from a Minister of a designated portfolio, there appears to be broad acceptance, based upon market standards and the demands of those positions whether at State or Federal level, that current levels of remuneration are reasonable.

The role of a Member of Parliament, which is also a core role of a Minister in government, is complex, often unpredictable with appointments subject to an ideological (not necessarily capability) foundation for endorsement. Notwithstanding that, the obligations of a community's representative in a Parliament are common and universal with variability influenced by the scale of the electorate, in geographic terms, the industries conducted within the electorate and the prospects for economic growth, the nature of the population in the broadest demographic sense which clearly require variable support across electorates.



The role of a Minister, and as a consequence potential remuneration, is different and the demands (variable across portfolios in terms of time commitment) complexity of issues under consideration, impact on Australian citizens and businesses within Australia and those engaged in the import and export sector, are highly varied.

While I believe there is significant comparability between the role of a Board Chairman and that of a Minister, it may well be, having regard to commonality of scale and organisation complexity, that recent disclosures in relation to the corporate sector highlight the necessity for different levels of engagement, and the criticality of fulltime executive leadership having the relevant capabilities and commitment to the welfare of their key stakeholders, the shareholder, has led in some instances to sub-optimal outcomes.

Should appointees to the leading governance bodies in the country be subject to the same scrutiny, whether a listed public company or a Ministers' portfolio, with similar transparent disclosure in relation to incumbent capabilities and availability to meet the role's commitments?

It is my judgement, given the level of remuneration in corporate Australia, that despite the overlay of the issues raised at the beginning of this article being of continuing importance, in order for Boards to secure the most capable, committed and available talent to provide the level of stewardship essential in meeting the governance requirements in the interests of shareholders, there is further analysis required in relation to:

- The size of Boards
- The diversity of capabilities and demographic attributes
- The capacity for commitment of Board members, and
- The alignment between those with stewardship of a company's governance and success and the reward of the executive team.

Further questions which have arisen as a result of the Royal Commission would be whether indeed Boards require a small independent staff, forensically monitoring the implementation of Board approved plans and strategies, compliance with governance protocols and regulatory controls which might reflect some of the attributes of a Minister's staff.

Would such an initiative increase Director visibility of corporate activity and reduce their dependence on access to the C-Suite?

Do issues raised flag a requirement for greater involvement and time commitment of Directors?

Are these issues only relevant to the ASX 100 or ASX 200?

What are shareholder expectations and what is their willingness to pay for improved governance and forensic oversight?

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# Issues on the Mind of Boards, CEOs and their Advisors

Remuneration planning over the coming two years

- Implications of the Coalition's budget and reduced tax for the least well-paid.
- Implications of parliamentary approvals in relation to low income earners tax rates
- Fair Work Commission's decision on the minimum wage.
  - Impact of the above on foreshadowed adjustments to fixed pay reviews in the 2019 Financial Year and beyond
- Implications of the deferral of **tax concessions for major corporations** for a number of years
- Implications of the above on funds available for investment by major corporations in innovation, new initiatives and wage adjustments
- Implications of the above on employment levels
- Implications of the above on major corporates' decisions in relation to business growth and employment growth in Australia as distinct from offshore locations
- Strikes against **Remuneration Reports** and rationale
- Changing shareholder perspectives when voting against the Remuneration Report
- Prior rejection of incentives based on cultural, behavioural and employee engagement KPIs
  - Implications of the **Royal Commission** into the financial services sector including the criticality of culture, corporate ethics and behavioural attributes of employees
- Emerging questioning of the level of Board engagement in the review of commercial practices and the mitigation of risk including compliance risk with regulatory guidelines.
  - Do the above issues being widely canvassed and raised by Counsel at the Royal Commission flag the prospect of Board's requiring a separately staffed Secretariat



managed by a Head of a Board Office reporting to the Board Chair and serving Board Committees on a breadth of issues relevant to their accountabilities?

- Would such an initiative increase Director visibility of corporate activity and reduce their dependence on access to the C-Suite?
- Do issues raised flag a requirement for greater involvement and time commitment of Directors?
- Are these issues only relevant to the ASX 100 or ASX 200?
- What are shareholder expectations and what is their willingness to pay for improved governance and forensic oversight?
- What topics do emerging issues raise in relation to the capabilities of the CEO, CFO, General Counsel and members of major corporates' leadership teams?
- Emerging questions in relation to **Board Composition**
  - Continuing and focused discussion on Director capability, experience and skillsets
  - Discussions in relation to Directors' capacity to serve on multiple Boards given the increasing requirement for more forensic engagement in risk mitigation and the design of reward programs cascading throughout the organisation, not simply restricted to KMPs.
- What implications do the above issues have in relation to the frequency and nature of **Board Effectiveness Reviews**?
  - Should Board Effectiveness Reviews thoroughly consider the capability of Board members and the alignment of those capabilities with the organisation's needs and shareholder expectations?
  - Should there be a different weighting of consideration given to major/institutional shareholders, the review process of proxy advisers and the resources drawn upon by Board and corporate advisers?
  - Does the myriad of issues being flagged in the Royal Commission and other observations by regulators including ASIC and APRA, raise questions for Government stewardship and oversight?
  - Do these questions include the requirement for those standing for membership of parliaments and local government to have open disclosure in relation to the capability requirements of office and the capabilities and experience possessed by those standing for public office?

- **Should similar questions be addressed and publicly disclosed in respect of those holding Ministerial office?**
  - Should these questions cascade to a clear definition of the requirements of the support staff supporting a Minister and senior officers in government departments and government businesses?
  - What are the implications in respect of the current gap between public sector pay and private sector reward?
  - To what extent does pay attract the most capable?
- **To what extent do governments require an increased share of the most experienced and capable executives?**
  - Should their search for talent be local or international?
  - Should employment be subject to fixed periods of service?

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# Superannuation in the Spotlight

For a number of reasons, superannuation funds in Australia are providing mixed returns for members. With the recent [Productivity Commission \(PC\)](#) review assessing the efficiency and competitiveness of superannuation funds in Australia, it is timely to explore the reasons behind their performance.

Firstly, there is a significant gap between the relative performance of superannuation funds.

The PC review found that not-for-profit funds tend to outperform retail funds. The graph below, sourced from the PC review, illustrates this in more detail:

**Figure 2 Funds by segment: not-for-profit funds outperform retail funds on average**

Benchmark adjusted for asset allocation, 2005–2016



Sources	PC analysis of APRA confidential data and financial market index data (various providers).		
Benchmark	BP2.		
Coverage	All APRA-regulated funds in each year (100% of assets and member accounts), excluding SMSFs and exempt public sector funds. Over the whole super system, the figure represents 228 funds, 93% of member accounts and 61% of assets in 2016.		
Survivor bias	No.	Selection bias	No.

\*Sourced from the [Productivity Commission Draft Report Overview on, Superannuation: Assessing Efficiency and Competitiveness](#), pg. 9.

The performance levels of super funds changes across the individual funds and products. The majority of the underperformers are in retail funds, and a third are in industry funds. Default funds are also often underperforming.

Another critical factor is that members have unintended multiple accounts. Multiple accounts tend to arise due to a lack of action by employees when they change jobs. If a new employee does not specify a specific superannuation fund they wish their

contributions to be directed to, they will automatically go into the company's default fund.

Having multiple funds means paying fees for each fund which can amount to hundreds of dollars paid each year unnecessarily across the multiple accounts.

Research reveals that to resolve this issue, members who have multiple accounts need consolidate their accounts into one for example: a 55-year-old who has multiple accounts, could gain \$61,000 by retirement if they consolidated their accounts. If these multiple accounts are not combined they can erode members' balances quite severely. According to the PC review, a third of accounts (about 10 million) are unintended multiple accounts. These accounts could undermine members balances by \$2.6 billion a year in avoidable fees and insurance.

Another issue which impacts superannuation is the provision of Insurance in super. This is often a product which can be misused and can further undermine member accounts. Unnecessary insurance can undermine retirement balances by \$50,000, which again is caused by duplication of accounts, or unsuitable policies and products.

This issue relates to another significant problem: members lack information about their superannuation accounts, and the comparable products available. This is a common problem and results from a lack of clarity and understanding and an inability to truly compare funds as products on a like-for-like basis.



The [\*Productivity Commission Draft Report Overview on, Superannuation: Assessing Efficiency and Competitiveness\*](#) , also found that members lacked information on comparable products available for members. It stated,

"There is wide variation in performance in the default segment that is not fully explained by differences in asset allocation. About 1.7 million member accounts and \$62 billion in assets are in MySuper products that underperformed conservative benchmarks over the 10 years to 2017. This suggests that many members are currently being defaulted into underperforming products and could be doing better."

According to the PC these issues are caused through poor governance, regulation, and a lack of competition between Australia's super system.

Members need to have more available information about their superannuation funds. Superannuation funds need to provide insurance that is beneficial and suitable for its members, and there need to be stronger governance rules in place.

To find out more about the [\*Productivity Commission Draft Report Overview on "Superannuation: Assessing Efficiency and Competitiveness"\*](#) go to their website below;

<https://www.pc.gov.au/inquiries/current/superannuation/assessment/draft>

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# About Egan Associates

For more than 25 years, Egan Associates has advised leading organisations and emerging enterprises in Australia and New Zealand on the remuneration of Board Directors, executives and key staff members, as well as performance management, corporate governance and Board effectiveness.

Our Services include:

- **Remuneration reviews and benchmarking:** for CEOs, executives, senior management and professional positions, including specialist roles
- **Annual incentive plan structures:** advice on performance criteria, target and maximum payment levels as well as deferral and clawback provisions
- **Long term incentive plan structures:** advice on participation, performance hurdles, equity instruments, valuation and allocation, as well as provision of performance monitoring services
- **Corporate transactions / IPOs:** assistance transitioning pre-IPO reward arrangements into the listed company environment (or any other corporate transformation) considering issues including escrow provisions
- **Government pay reviews:** assistance at federal, state and local level in administrative, policy and corporatised environments on reward for senior executives, professional and administrative staff, and governing Boards
- **Board fee reviews:** benchmarking Board fee levels, including Chairman and Director retainer fees, Committee Chairman and member fees and fees for adhoc engagements.
- **Board effectiveness:** assistance with Board reviews, Board skills matrices, scenario planning and Board documentation.
- **Workforce & Governance:** *Define and evaluate positions and analyse pay the easy way!* Our new cloud-based software captures more than 30 years' knowledge, learning and experience in organisation analysis and remuneration in a suite of products which operate either as powerful, stand-alone modules or as an integrated combination. Access more than 1,000 role templates and over 13,000 accountability statements or easily create your own PDs from scratch. Organisation charts are generated automatically. Powerful analytics give you pay and workforce insights in one click. And our intuitive, user-friendly job evaluation module is designed to bring your JE process into the 21<sup>st</sup> century. And because *Workforce* is designed and hosted in Australia by Egan Associates, you know you're in great hands!



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