

Broader Market Comparison - SES Remuneration

Department of Employment, Workplace Relations and
Small Business

May 2000

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Introduction

The Department of Employment, Workplace Relations and Small Business (DEWRSB) commissioned Mercer Cullen Egan Dell (MCED) to conduct a survey of Senior Executive Service (SES) officers' remuneration within the Australian Public Service (APS) on behalf of participating APS agencies. This report makes up the second part of this survey, which was to conduct a wider market comparative study of executive remuneration, with particular emphasis on senior executive positions in the private sector and in State and Territory governments.

To do this we have conducted a "desk research approach" and drawn on our extensive remuneration databases and knowledge of senior executive service remuneration in the public sector.

Indicative paylines have been constructed for the APS using data from the 1999 SES Remuneration Survey (as at 31 December 1999). These paylines are based on the following work value points for each grade:

Table 1
SES Pay Band – Indicative Work value Points Ranges

Band	Minimum	Midpoint	Maximum
SES 1	685	817	949
SES 2	950	1225	1499
SES 3	1500	1840	2179

This report utilises the results of the 1999 SES Remuneration Survey, paylines constructed for the State public service and our private sector database evaluated at the appropriate level of work value.

Specifically, this report presents:

- remuneration and economic movements in the past twelve months across both the private and public sectors;
- the relative position of the median actual remuneration for SES Bands 1 to 3 to the private sector market and State public service;

- comparison of incentive practices across the private sector, the State public service and the APS for SES Bands 1 to 3;
- commentary on Incentive Practices and Salary Packaging; and
- glossary of terms used in this report.

Remuneration Movements

This section of the report provides some highlights of movements in key economic and remuneration data over the past year.

The following tables show remuneration movements for Headline CPI, Average Weekly Ordinary Time Earnings (AWOTE), Ordinary Time Earnings for public and private sector and public sector and private sector movements for senior executives, according to latest ABS figures and the Mercer Cullen Egan Dell database. The classification of Senior Executives includes CEOs, Directors and General Managers. Public sector includes all local government authorities and government departments, agencies authorities created by, or reporting to the Commonwealth and State Parliaments.

Table 2
Annual Movements in Key Indicators - 1999

CPI ¹	AWOTE ²	Ordinary Time Earnings - Public Sector ²	Ordinary Time Earnings - Private Sector ²	Public Sector Senior Executives ³	Private Sector Senior Executives ³
1.8	2.8	3.2	2.9	4.0	5.8

Notes

- 1 ABS catalogue 6401.0, measured December 1998 to December 1999
- 2 ABS catalogue 6302.0, measured November 1998 to November 1999 (Full-time adult ordinary time earnings – trend estimate)
- 3 MCED 1999/2000 Top Management Review

Relative Position of the APS SES Pay Bands to the Private Sector

The following comparative analyses has been undertaken using the Median figure from Mercer Cullen Egan Dell's 1999 SES Remuneration Survey results for each SES Pay Band.

Each SES pay band has been compared to the private sector at the midpoint for each band, using:

- the **Private Sector First Quartile (Q1)** (the pay position at which 75% of private sector organisations pay more for equivalent sized positions and 25% pay less);
- the **Private Sector Median** (the pay position at which 50% of private sector organisations pay more for equivalent sized positions and 50% pay less); and
- the **Private Sector Third Quartile (Q3)** (the pay position at which 25% of private sector organisations pay more for equivalent sized positions and 75% pay less).

We provide comparative analysis in tabular and graphical form. These comparisons comprise work value based midpoint analyses for the private sector (Q1, Median and Q3) against the median APS figure for each band at Base Salary and TRP level.

Table 3

Base Salary Remuneration Comparisons of each SES Pay Band with the Private Sector¹

Band	Work Value Points (Midpoint for Pay Band)	SES Base Salary for Pay Band (as at Dec 1999)	Private Sector (as at Jan 2000)		
			Q1	Median	Q3
SES 1	817	\$ 88,900	\$ 88,906	\$105,060	\$123,060
SES 2	1225	\$108,998	\$120,013	\$147,123	\$176,950
SES 3	1840	\$132,212	\$181,378	\$224,594	\$281,610

Notes

1 Median Base Salary Remuneration Comparisons using the Midpoint (work value and pay) of each SES Pay Band with the Private Sector

Table 4

Difference to Private Sector Q1 – Base Salary

Band	Work Value Points (Midpoint for Pay Band)	SES Base Salary for Pay Band (as at Dec 1999)	Private Sector Q1 (as at Jan 2000)	Difference	Comparatio
SES 1	817	\$ 88,900	\$ 88,906	\$- 6	1.00
SES 2	1225	\$108,998	\$120,013	\$-11,015	0.91
SES 3	1840	\$132,212	\$181,378	\$-49,166	0.73

Commentary on Tables

- For Base Salary remuneration the APS is competitively positioned very close to private sector Q1 at SES Band 1. At SES Bands 2 and 3, the APS is positioned below Q1; and
- All SES Levels are positioned significantly below the private sector median.

Figure 1
Comparison of Median SES Base Salary with Private Sector

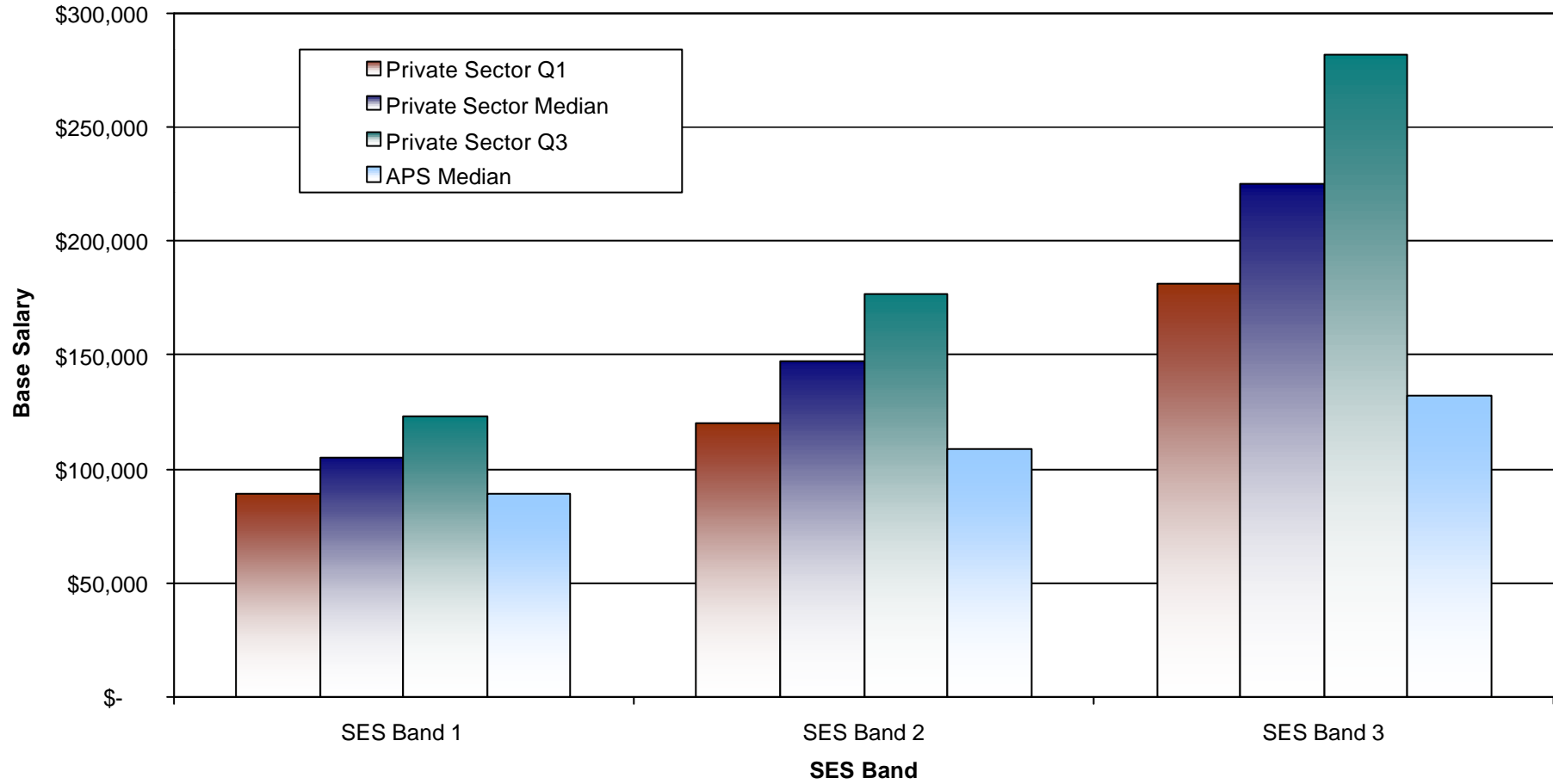


Table 5**APS Total Remuneration Package Comparisons with the Private Sector¹**

SES Pay Band	Work Value Points (Midpoint for Pay Band)	Median SES TRP for Pay Band (as at Dec 1999)	Private Sector (as at Jan 2000)		
			Q1	Median	Q3
SES 1	817	\$123,649	\$121,801	\$143,930	\$171,050
SES 2	1225	\$148,365	\$164,417	\$201,550	\$249,500
SES 3	1840	\$179,757	\$248,489	\$307,690	\$399,890

Notes

1 Total Remuneration Package Remuneration Comparisons using the Midpoint (work value and pay) of each SES Pay Band with the Private Sector

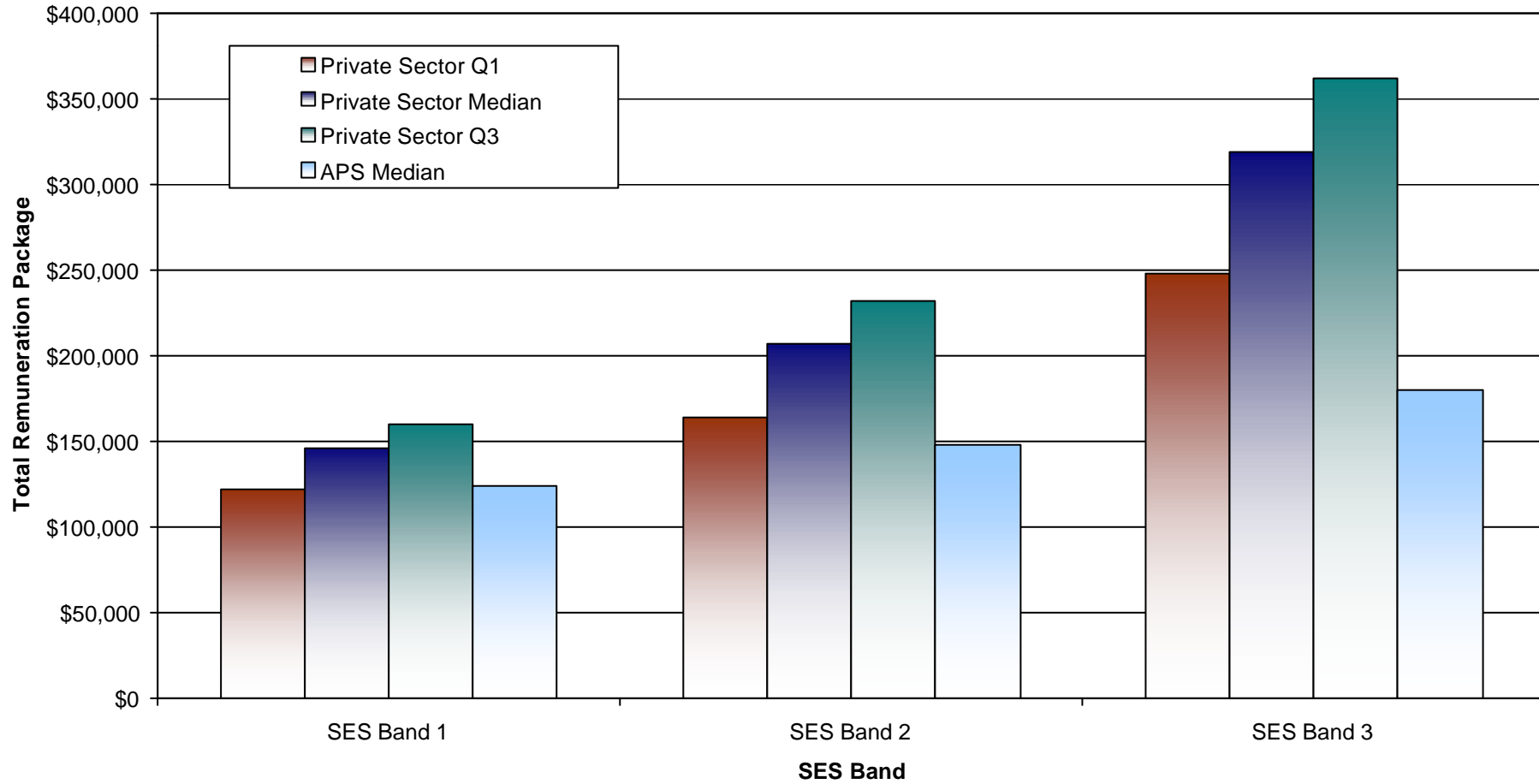
Table 6**Difference to Private Sector Q1**

SES Pay Band	Work Value Points (Midpoint for Pay Band)	SES TRP for Pay Band (as at Dec 1999)	Private Sector Q1 (as at Jan 2000)	Difference	Comparatio
SES 1	817	\$123,649	\$121,801	\$1,848	1.02
SES 2	1225	\$148,365	\$164,417	\$-16,052	0.90
SES 3	1840	\$179,757	\$248,489	\$-68,732	0.72

Commentary on Tables

- For TRP the APS is positioned slightly above the private sector Q1 for SES Band 1
- For TRP the APS is positioned below Q1 for SES Bands 2 and 3
- All SES levels are positioned significantly below the private sector median.

Figure 2
Comparison of Median SES Total Remuneration Package with Private Sector



Commentary on APS vs Private Sector

An inspection of the tables and figures presented on the previous pages reveals:

- For Base Salary and TRP the APS is paying around the private sector Q1 for SES Band 1 and below Q1 at Bands 2 and 3
- For Base Salary Level and TRP the APS is paying well below the private sector median
- An analysis of the comparatios of the APS and the private sector Q1 shows that both the APS and the private sector are providing packages in very similar proportions. This is supported by the findings in the salary packaging section of this report which showed that:
 - APS motor vehicles tend to be lower in value than private sector executives earning a similar level of TRP; and
 - APS employer superannuation contributions tend to be significantly higher than employer contributions of private sector executives earning a similar level of TRP.

Relative Position of the APS SES Pay Bands to the State Public Services

The following comparative analyses has been undertaken using the Median figure from Mercer Cullen Egan Dell's 1999 SES Remuneration Survey results for each SES Pay Band.

Each APS SES pay band has been compared to the State public services at the midpoint for each band, using an indicative payline. This payline has been constructed for the overall State public services so that remuneration levels can be compared to the corresponding midpoint value in the SES Pay Bands. The following States have been included in the construction of this line: Victoria, NSW, South Australia, Queensland, Western Australia, ACT and Northern Territory. A regression line was constructed based on an analysis of the midpoints of the remuneration ranges for each State.

Similar to our private sector analysis, we provide comparative analysis in tabular and graphical form. These comprise work value based midpoint analyses for the State public services against the Median APS figure for each band at Base Salary and TRP level.

Table 7
APS Base Salary Remuneration Comparisons with the State Public Service¹

SES Pay Band	Work Value Points (Midpoint for Pay Band)	Median SES Base Salary for Pay Band (as at Dec 1999)	State Public Service (as at Dec 1999)	Difference	Comparatio
SES 1	817	\$ 88,900	\$ 86,556	\$2,344	1.03
SES 2	1225	\$ 108,998	\$111,694	\$-2,696	0.98
SES 3	1840	\$ 132,212	\$140,644	\$-8,432	0.94

Notes

1 Base Salary Remuneration Comparisons using the Midpoint (work value and pay) of each SES Pay Band with the State Public Service

Commentary on Tables

- At SES Band 1, the APS is competitively positioned at just above the State public service for Base Salary; and
- At SES Bands 2 and 3, the APS is positioned slightly below the State public service for Base Salary.

Figure 3
Comparison of Median SES Base Salary with State Public Service

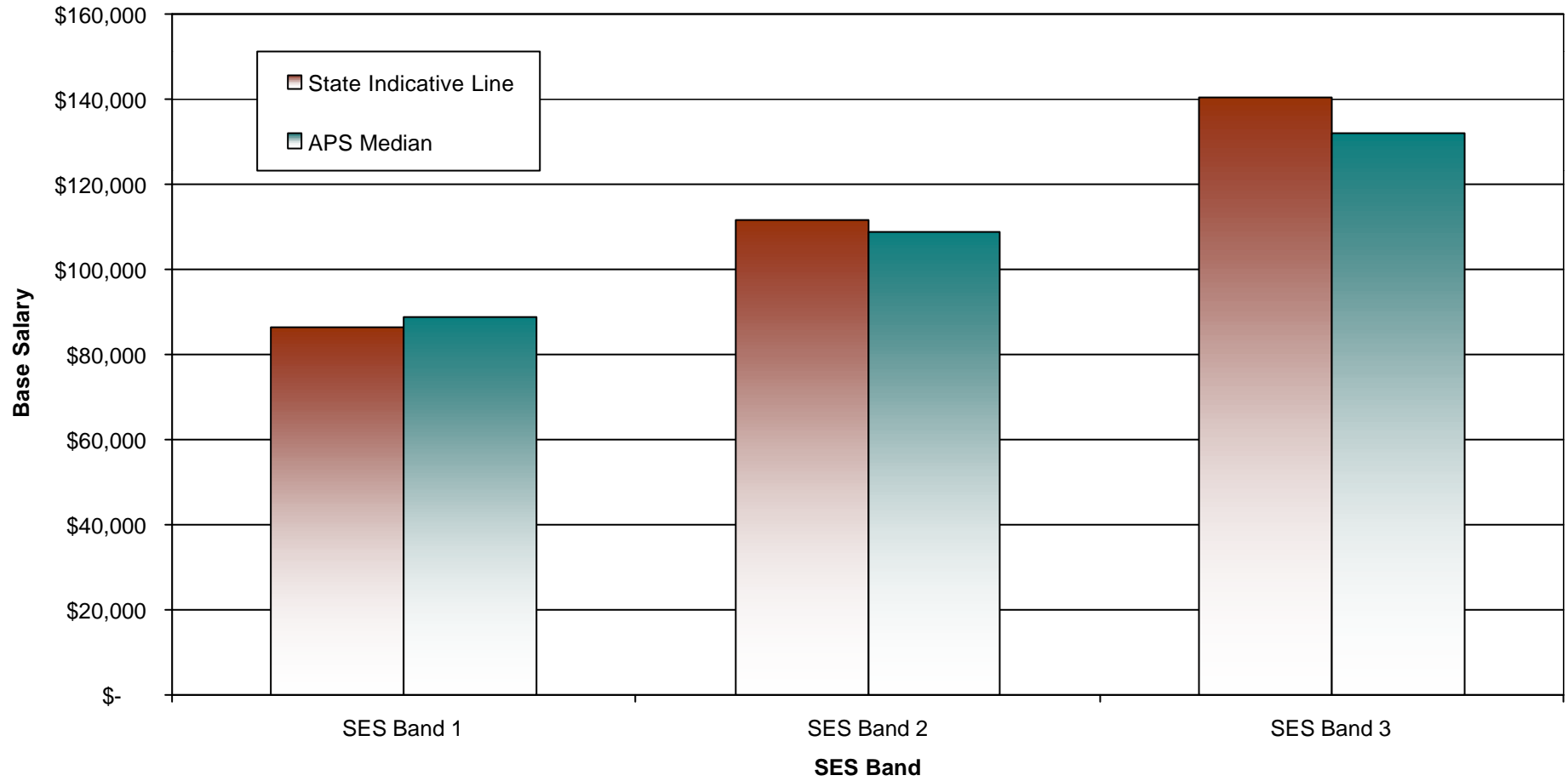


Table 8
APS Total Remuneration Package with the State Public Services¹

SES Pay Band	Work Value Points (Midpoint for Pay Band)	SES Total Remuneration Package for Pay Band (as at Dec 1999)	State Public Service (as at Dec 1999)	Difference	Comparatio
SES 1	817	\$123,649	\$123,163	\$ 486	1.00
SES 2	1225	\$148,365	\$156,756	\$-8,391	0.95
SES 3	1840	\$179,757	\$196,949	\$-17,192	0.91

Notes

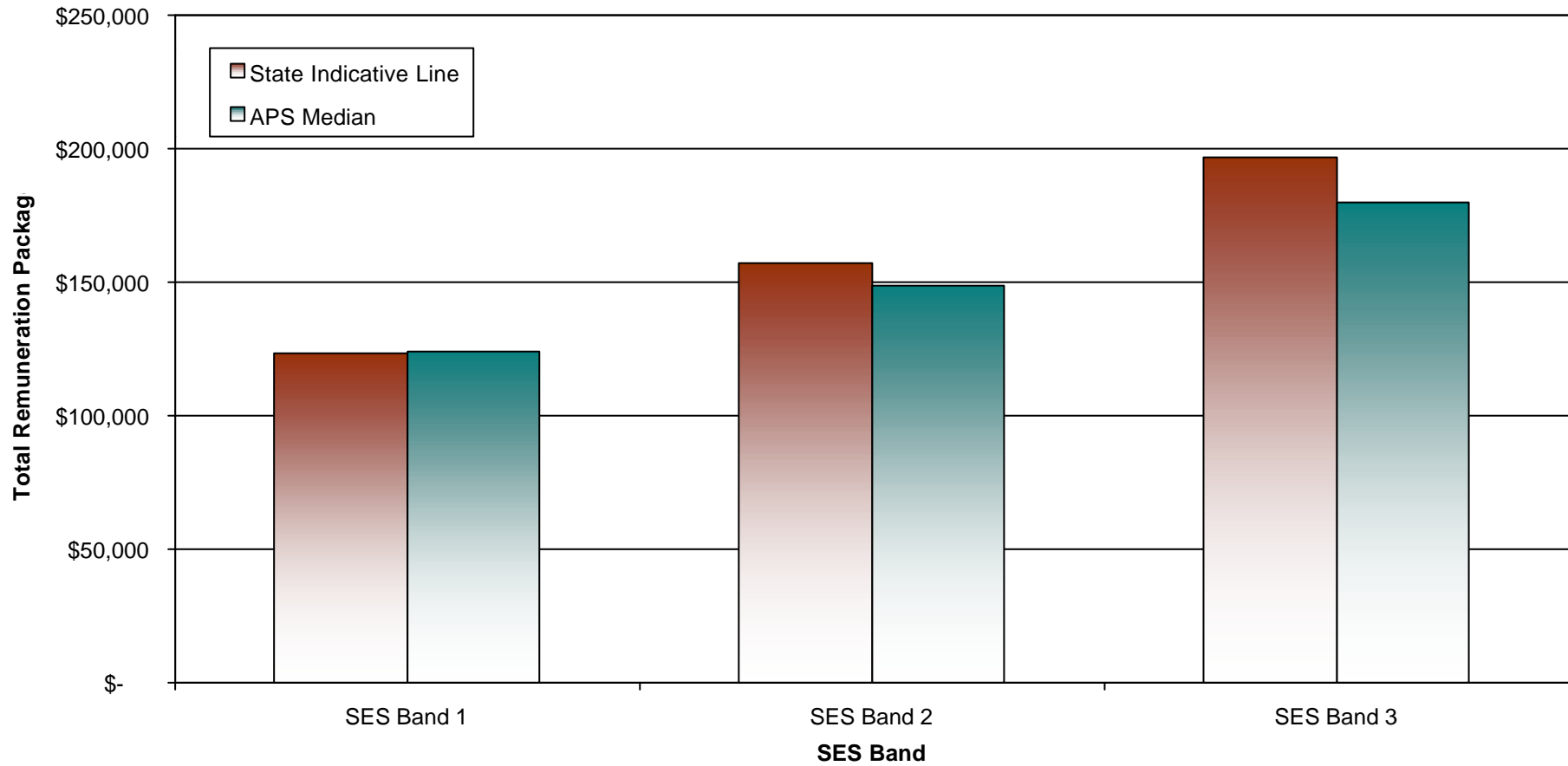
1 TRP Comparisons using the Midpoint (work value and pay) of each SES Pay Band with the State Public Services

Commentary on Tables

An analysis of the above tables reveals the following:

- At SES Band 1 the APS is competitively positioned at just above the State public service for TRP;
- At SES Bands 2 and 3, the APS is positioned below the State public service for TRP.
- For each SES level the APS is marginally less competitive for TRP than Base Salary.

Figure 4
Comparison of Median SES Total Remuneration Package with State Public Service



Overall Comparison

Figure 5 presents the overall picture of Base Salary for the APS compared to Q1 and the Median in the private sector and the State public services.

The following can be noted from analysis of this graph:

- The APS and State public services follow similar progression through SES Bands
- For the private sector the remuneration progression is steeper at both Q1 and the Median. That is, the dollar gap widens as the work value increases.

Figure 6 shows a similar result with an analysis of TRP.

Figure 5
Comparison of Base Salary - Private Sector Q1, State Public Service (Indicative Line) and APS
Median using Midpoint Workvalue

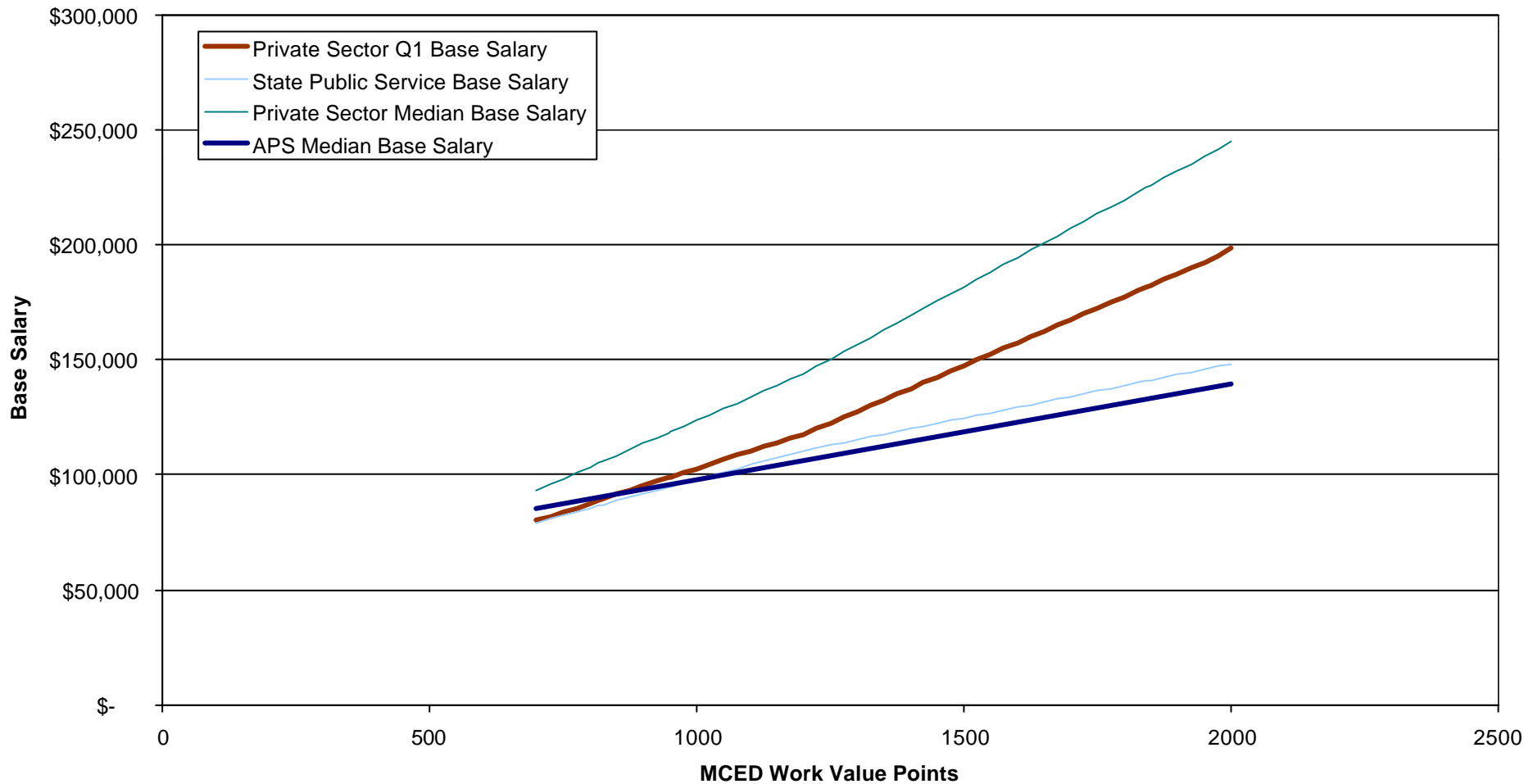
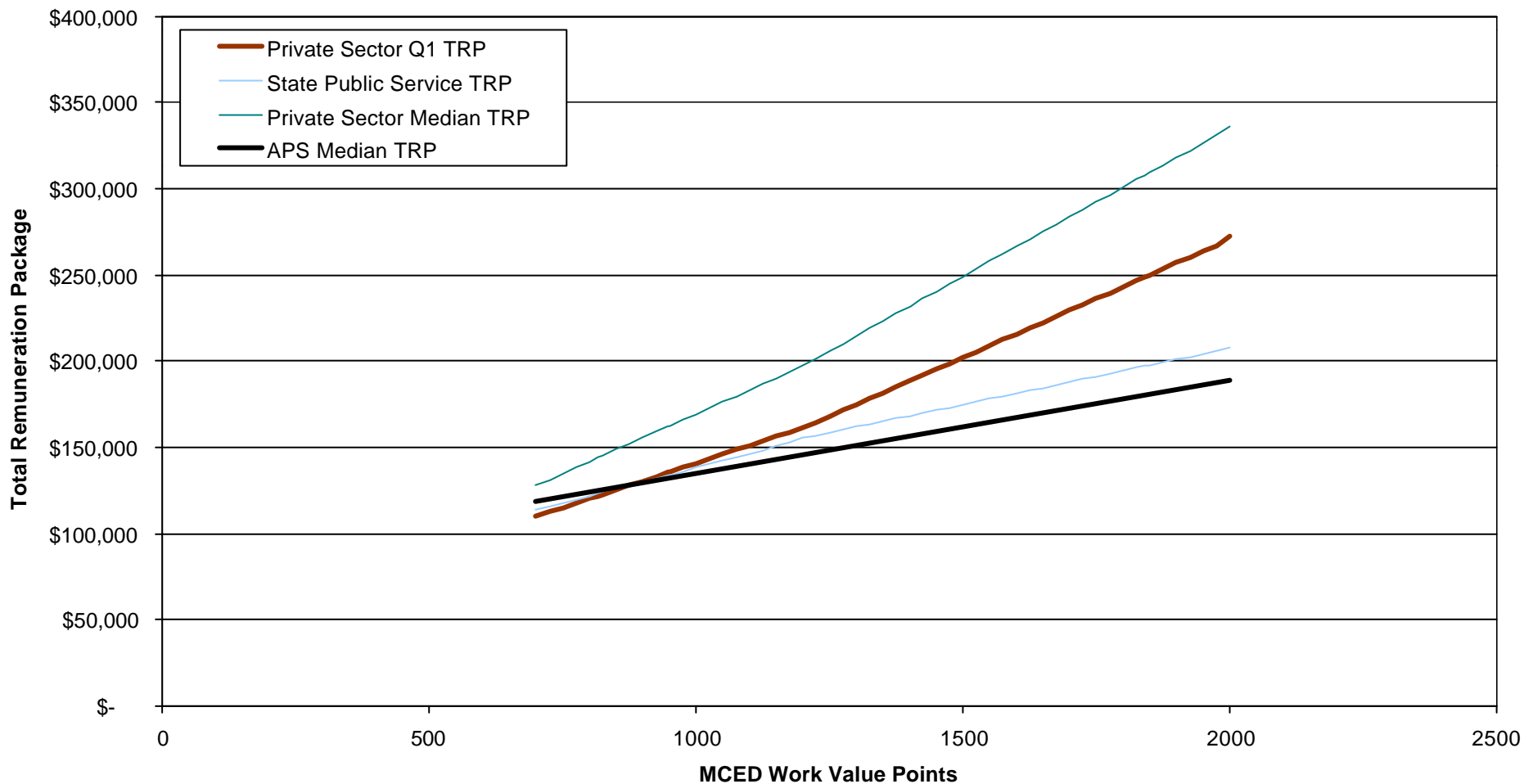


Figure 6
Comparison of Total Remuneration Package (TRP) - Private Sector Q1, State Public Service
(Indicative Line) and APS Median using Midpoint Workvalue



Comparison of Incentive Practices

The following tables show an analysis of average incentive payments for SES based on a comparison of private sector and State public service executives earning *similar levels of TRP* to their APS counterparts.

Table 9
Average incentives as a percent of TRP¹

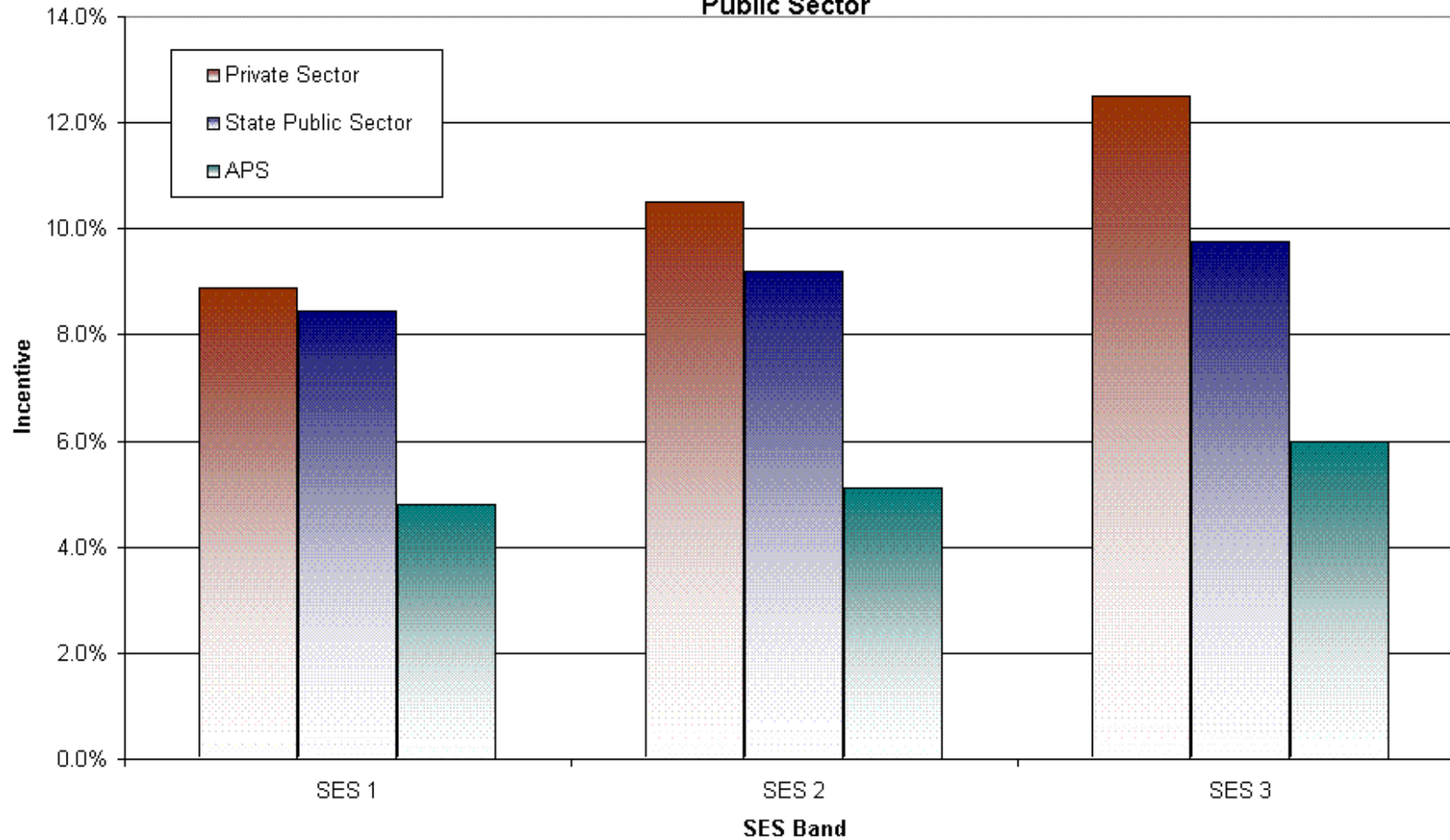
Band ²	In APS	In Private Sector	In State Public Service ³
SES 1	4.8%	8.9%	8.5%
SES 2	5.1%	10.5%	9.2%
SES 3	6.0%	12.5%	9.8%

Notes

- 1 Short term incentives only – does not include any long term incentives, such as shares or options
- 2 Based on private and State public service senior executives earning similar levels of TRP
- 3 Indicative figures based on Victoria and NSW SES only

The APS pays around half as much in incentives as the private sector at the average. Indicative State public service figures show a more competitive level of incentive payments against the private sector. This is also shown on the following graph.

Figure 7
Comparison of Average Incentive Practices as a percent of TRP - APS vs Private Sector & State Public Sector



The following tables show an analysis of incentive payments for SES based on a comparison of private sector executives earning *similar levels of TRP* to their APS counterparts.

Table 10
Indicative Private Sector Incentive payments¹

Band ²	Q1	Median	Q3	Average
Dollars				
SES 1	6,000	10,100	15,000	11,700
SES 2	7,800	13,300	20,000	15,600
SES 3	10,800	20,000	30,000	23,300

Table 11
APS Incentive payments¹

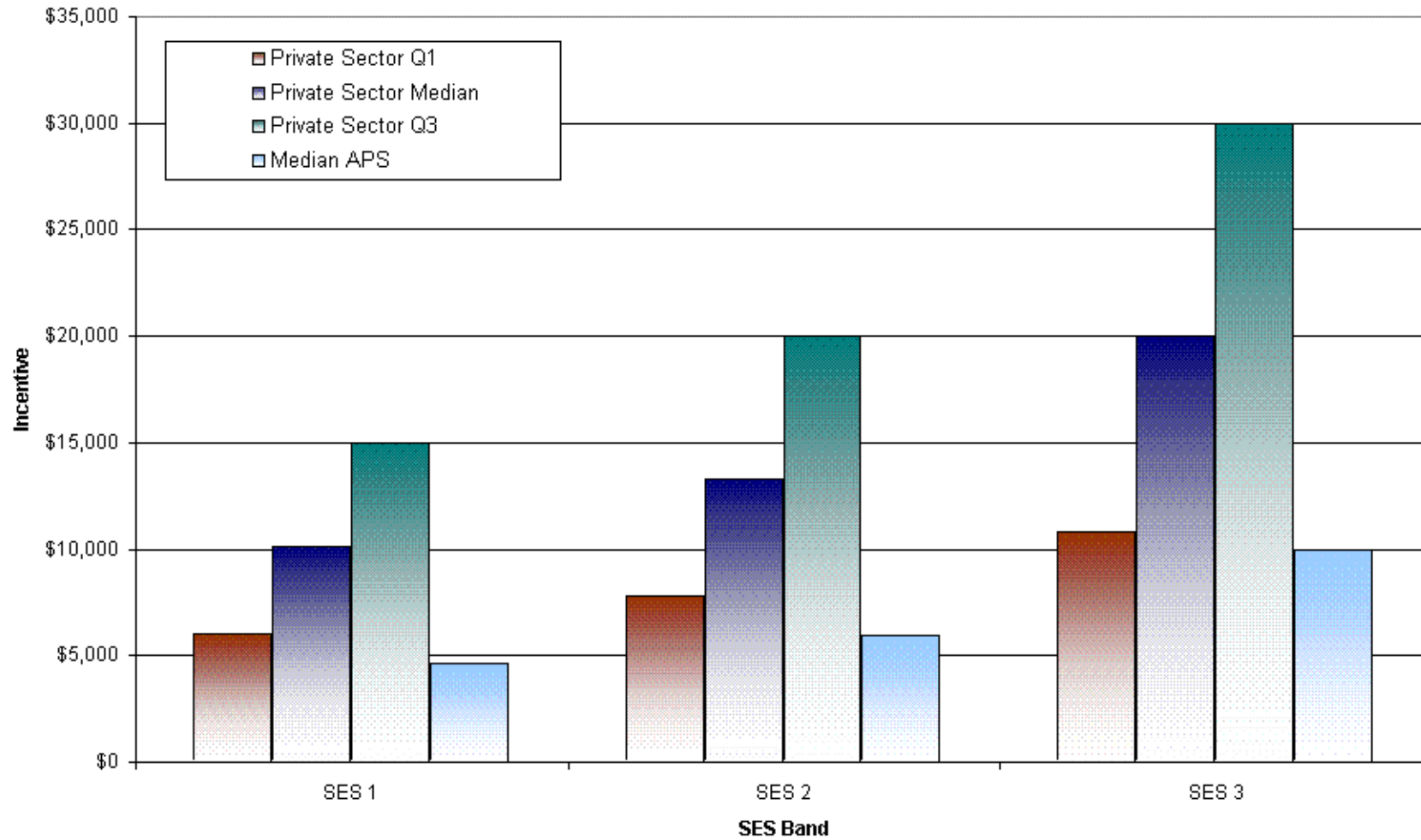
Band	Q1	Median	Q3	Average
Dollars				
SES 1	3,486	4,606	7,904	5,921
SES 2	4,464	5,937	9,817	7,732
SES 3	6,789	9,959	12,483	10,864

Notes

- 1 Short term incentives only – does not include any long term incentives, such as shares or options
- 2 Based on private sector senior executives earning similar levels of TRP

This shows a similar result to the previous analysis and implies that the APS is paying around half as much as the private sector in incentive payments. The following graph shows further an analysis of the APS Median incentive against the private sector Q1, Median and Q3.

Figure 8
Comparison of Incentive Practices - Private Sector vs Median APS



Incentive Practices

The Total Remuneration Package information provided in this report refers to “fixed pay”, or pay received regardless of company or individual performance. “Variable Pay”, or pay received based on individual, team or company results, is often a part of the employee’s total package. Below is an overview and commentary on variable pay for Senior Executives in the private sector.

- Short term incentives are payments received in the 12 months for a performance period of 12 months or less
- Incentives are rewards designed to achieve a particular outcome. Payments are geared to defined performance parameters, and are designed to bring about positive employee action and generally improve the organisation’s prosperity
- Bonus plans base reward on the organisation’s overall performance and are often discretionary as distinct from being based on a predetermined target
- Variable pay is common for senior executives in the private sector, with our database indicating that 77% of organisations offer variable reward at this level (The 1999 SES Remuneration Survey showed that 84% of participating agencies provided performance based incentives for their SES officers).
- Variable pay has been used increasingly over the past three to five years, such that the proportion of variable to fixed pay has increased substantially.

The results of the 1999 SES Remuneration Survey indicate the following APS incentive pay practices with average incentive payments given as a percentage of Total Remuneration Package and Base Salary for each band:

Table 12
Average Short Term Incentives as a percent of Base Salary and Total Remuneration Package

Band	Total Remuneration Package	Base Salary
SES 1	4.8%	6.6%
SES 2	5.1%	7.0%
SES 3	6.0%	8.0%
Senior Executives – Private Sector (Average) ¹	19.7%	29.8%

Notes

1 Mercer Cullen Egan Dell 1999/2000 Australian Benefits Review – Average for all Private Sector Executives. Compare to Table 9 which shows figures for senior executives earning similar levels of TRP

Short-term Incentives (STIs)

Senior executive staff in the overall market were eligible to participate in some form of variable reward plan in 77% of organisations we surveyed in 1999. The most common types of variable reward for staff at the senior level of organisations are incentive plans and bonus plans. There are several features of well designed short-term incentive schemes. They:

- are tightly aligned with the annual business plan, with individual objectives cascading directly down
- provide a clear *line of sight* relationship between the performance of the individual and their level of reward
- focus executives on key business drivers, by limiting the incentive plan to 3–5 measures
- are progressive around the targets, rather than creating an all-or-none scenario
- typically, provide target payout levels of 20%–30% of salary and maxima of 40%+
- are self-funding (funds for payment from the plan are generated through increased performance within organisation)

- provide cash payments, with the opportunity to sacrifice in favour of superannuation or shares.

Results from our recent surveys continues to show that employees who have a more direct impact on the organisation's results are provided with relatively higher levels of rewards than those employees at lower levels. Thus, the executive team, with ultimate accountability for organisation performance, bear a higher risk and have access to a higher reward if results are achieved. Across the private sector recent, Mercer Cullen Egan Dell surveys found the following range of short-term incentives for Senior Executives:

- for Chief Executives, the range of short-term target incentives is 15% – 30% of Base Salary (median of 23%); and
- other senior executives have target short-term incentives in the range 8% – 20% of Base Salary (median of 15%).

Salary Packaging and Employee Benefits

Allowing employees the flexibility to vary their remuneration package offers them a number of advantages and may be considered a benefit in itself. Flexible packaging:

- provides employees with an opportunity to tailor their own reward to suit their lifestyle and needs. For example, an employee may choose a higher value of superannuation contributions and a lower-valued packaged car
- can be a motivating factor for employees who are able to make informed decisions about their reward packages
- may provide additional financial benefits to employees who take advantage of the concessional taxation arrangements for cars and superannuation, without extra cost to the employer
- can provide organisations with a competitive edge in attracting and retaining staff.

The precise number of SES officers utilising their agencies' flexible packaging arrangements is difficult to report. Forty-one agencies (84% covering 1122 SES) reported they have some kind of flexible packaging arrangements available to SES officers. Incentives were paid to 847 of the 1122 officers eligible to receive an incentive.

Motor Vehicles

Motor Vehicles remain a common item to package across both the private and public sectors. The majority of SES officers had a motor vehicle as part of their package through the Executive Vehicle Scheme (EVS). The 1999 SES Remuneration Survey found that most officers elected to take the motor vehicle rather than take cash in lieu. Additionally the survey found the following:

- there is little variation in vehicle costs across SES 1, 2 and 3
- APS vehicles tend to be between 26% to 33% lower in value.

Table 13
Motor Vehicle costs^{1,2}

Band	Motor Vehicle Values			
	Q1	Median	Q3	Average
Dollars				
SES 1	14,538	16,254	17,683	16,153
SES 2	13,920	16,859	17,326	16,151
SES 3	15,711	17,282	20,152	18,038
Overall	14,544	16,254	17,683	16,245

Table 14
Indicative Private Sector Motor Vehicle Values³

Band ⁴	Q1	Median	Q3	Average
Dollars				
SES 1	19,600	21,600	24,100	21,700
SES 2	20,400	23,100	26,200	23,200
SES 3	22,100	26,700	29,900	26,700

Notes

- 1 Cost to SES officers package, not actual value of vehicle
- 2 Differs to 1999 SES Remuneration Survey as figure here does not include parking but does include FBT
- 3 Does not include parking but includes FBT
- 4 Based on private sector senior executive earning similar level of TRP

An analysis of these tables shows that the private sector provides cars with a substantially larger package value than the APS. Indeed, Q3 car values in the APS are less at all SES levels when compared to the private sector.

Superannuation

Superannuation is a major component of remuneration packages in the Australian market across all sectors. The following tables show a comparison of private sector and APS Superannuation based on private sector executives earning a similar level of remuneration to their APS counterparts. It is apparent from these tables that at the average, the Private Sector pays around 40 percent lower level of superannuation than a position with similar remuneration in the private sector.

Table 15
Indicative Private Sector Superannuation¹

Band ²	Q1	Median	Q3	Average
Dollars				
SES 1	6,800	8,300	10,500	9,000
SES 2	8,600	11,200	14,200	11,600
SES 3	10,800	14,000	18,500	14,800

Notes

1 Employer contribution only

2 Based on private sector senior executive earning similar level of TRP

Table 16
Superannuation Funds (APS)

Band	Average value		
	CSS	PSS	Average of Both
Dollars			
SES 1	18,119	11,868	16,686
SES 2	22,421	13,976	20,427
SES 3	27,648	20,408	26,133

It is clear from these tables that overall the APS pays a substantially higher level of superannuation than the private sector at all SES Bands, even when compared to Q3 in the private sector.

Table 17
Percent Differences at Average - APS to Private Sector

	CSS	PSS	Diff at Average
SES 1	101.3%	31.9%	85.4%
SES 2	93.3%	20.5%	76.1%
SES 3	86.8%	37.9%	76.6%

The following is a comparison of typical remuneration package items across the APS, private sector and State public service:

Table 18
Typical Remuneration Package Items

APS	State PS	Private Sector
<ul style="list-style-type: none"> ▪ Motor vehicles ▪ Superannuation ▪ Memberships ▪ Telephone ▪ Spouse travel ▪ Study ▪ Home computer ▪ Internet ▪ FBT 	<ul style="list-style-type: none"> ▪ Motor vehicles ▪ Superannuation ▪ Telephone ▪ Memberships ▪ Mortgage repayments ▪ Spouse Travel ▪ Health Insurance ▪ FBT 	<ul style="list-style-type: none"> ▪ Motor vehicles (often two) ▪ Superannuation ▪ Memberships ▪ Home computer ▪ Additional Superannuation (employer and salary sacrifice) ▪ FBT

Glossary of Terms

Base Salary [BS]

Base Salary represents the full time equivalent annualised PAYE salary. It *includes* post-tax employee superannuation contributions and any additional car post-tax salary sacrifice amount. It *excludes* all other cash components including bonus, commission, leave loading, allowances and other ‘sacrificed’ amounts.

Total Remuneration Package [TRP]

Base Salary plus the total of the following items:

- Superannuation
- Motor Vehicles (including parking and FBT)
- Other fixed benefit items

Total Reward [TR]

Total Remuneration Package plus actual annual incentive/bonus payments.

Statistical Terms

Median

The median is the midpoint of a range of figures. It is calculated by sorting all the values into ascending order then locating the value above which 50% of the scores fall and below which 50% of the scores fall.

First and third quartile (Q1 and Q3)

After calculating the median, the first quartile is the midpoint of the lower half of the sample and the third quartile is the midpoint of the upper half of the sample. That is, the first quartile is the score below which 25% of the cases fall and above which 75% fall, and the third quartile is the score below which 75% of cases fall and above which 25% fall.

Percentile

A percentile is a variable dividing the distribution of a set of scores into one hundred equal parts. Hence, at the 83rd percentile, 83% of the sample fall below this point and 17% of the sample are above it.

Comparatio

The ratio of APS SES remuneration to the market.