PARITY CONSULTING

POTENTIAL FY2022

SUPERANNUATION CHANGES

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FOREWORD

After a high calibre candidate rejected an employment offer with our client based on the clients' response to the potential Superannuation changes, we decided to do some further digging. If the Superannuation legislation were to go ahead on 1st July 2021 and increase the Superannuation Guarantee Contribution (SGC) for all Australians by 2.5% over 5 years, how would companies fund it? What would be the positioning to their staff? And most importantly, what will be the financial and emotional impact for their employees?

Avoiding the argument either for or against SGC increases, we are pleased to present our findings which may help organisations and every day Australians understand more about these potential increases, how it can affect their remuneration structure, as well as how it may play out.

We also share predictions and insights into the recruitment of Product, Pricing, Marketing & Digital professionals in 2021. I hope you find it insightful and beneficial to you, your organisation and broader team.

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OUR VALUES

Knowledge
We educate and empower through Parity *Plus* initiatives

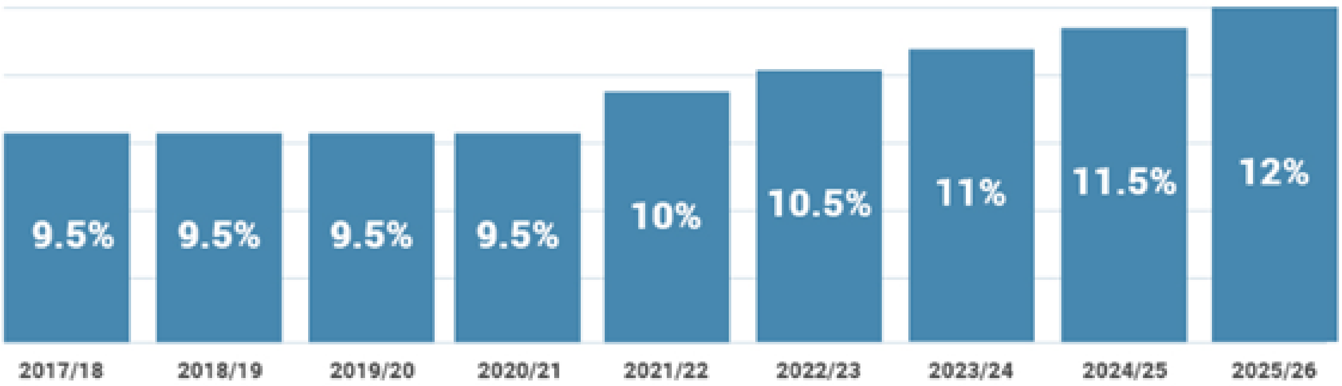
Accountable
We do what we say are going to do

Fun
We love what we do and it shows in our results

Caring
True parity through investing in ALL our relationships

Invest
We understand individual needs by immersing ourselves in our market

BACKGROUND AND CONTEXT



About Superannuation

Superannuation accounts for almost $3 trillion in retirement savings on behalf of 16 million Australians and this will likely reach $5 trillion by 2034. The 2020 federal budget included new measures aimed at reducing duplicate super accounts, making it easier for people to compare super funds, and targeting underperforming funds. There has also been a retirement income review and much debate over the pros and cons of increasing SGC from the legislated 9.5% to 12 % over the next five years.

Current Environment

In March 2012, the Labour government legislated an increase from 9% - 12% over six years. The first two increases occurred from 9% to 9.5% over two years however since 2014, the coalition government has deferred the remaining increases. The increase to 10% SGC is due to take place from 1st July and then increase by 0.5% over the next four years (source). This will only take place if the government announces it in the federal budget in May 2021.

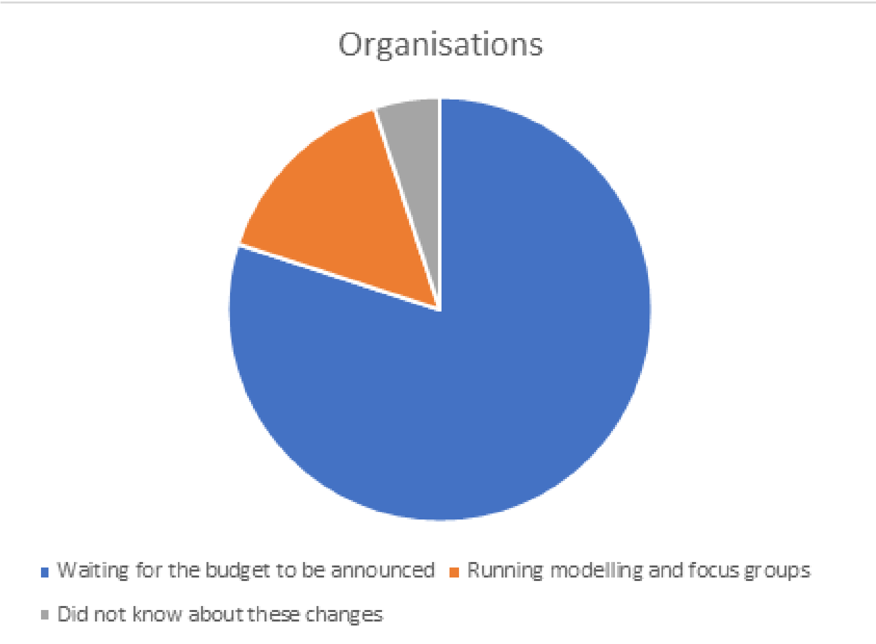
Impacts

If the SGC increases do take place from 1st July, there will be a series of knock-on effects. Deliberately avoiding the political pros and cons of increasing superannuation, this study has focused on how organisations are planning for it, their position on how it will be funded, and employee understanding of the changes and how they feel about it. Financial impact is one thing, however emotional impact may be just as important. If/when these increases do take place, the positioning and communication to employees will be very important to avoid increased attrition, adverse cultural change and organisations not attracting high calibre talent.

We surveyed 50 organisations across all industries ranging from 50 to 20,000 staff and spoke to the HR/Procurement and Talent Management departments. We also interviewed a diverse group of 50 candidates within Product Management, Pricing, Marketing & Digital earning salaries from AU $80,000 – AU $300,000. All interviews were off the record.

FOR ORGANISATIONS

Over 80% of the organisations we surveyed were waiting for the 2021 budget to be released and would act then. 16% were running models with their Finance teams and looking at how they will budget for these changes and 4% of companies did not have these increases on their radar.
We have categorised the organisations below;



Organisational Absorbers

- When an organisation has a remuneration structure which is 'base plus super' separately outlined in their employment contracts, they will have no choice but to absorb the government dictated increases.
- 40% of organisations who work on a package basis have indicated they will increase each of their employee's package by the amount dictated by the government.

Employee Absorbers

- 30% of organisations who have a remuneration structure which is based on 'package' commented they are not expecting to increase their employee's package - at least not for the first 1-2 years when they considered the increases to be 'minimal'. They would be expecting their staff to take less base salary in favour of placing the money in their superannuation.
- Out of these 30%, there was a high percentage who were intending to soften the blow by proposing/highlighting other employee benefits.

Not Applicable

- Organisations who already pay more than 9.5% super.

FOR ORGANISATIONS (CONT.)

Organisational Absorbers

The future of work and human capital has never been more important than since the start of COVID-19, and an increasing number of organisations are considering their people in line with profit. By funding these recommended government changes, they are sending a strong message of support and investment in their employee's lives post retirement.

To consider:
- Are these organisations simply absorbing the additional costs within their salary increase budget for the year? Which will effectively mean a net result for the employee?
- With pay rises being zero due to the global pandemic (and before!), where will this money come from and more importantly, how will it be clawed back by the organisation? Or is it absorbed and written off?

Employee Absorbers

Organisations who either will not or cannot absorb these increases are not necessarily all about 'profit first'. They may be a small business who simply cannot absorb the increase in SGC expenditure or a business who has a total remuneration package model. These organisations focus on the total remuneration of each of their employees which includes base, super, benefits and bonus.

To consider:
- With young Australians seemingly caring very little about their retirement plan, up to 2.5% less in their monthly wage packet could make them look for a new employer.
- While some employees may not leave on the back of absorbing these increases, there may be other impacts such as a decrease in discretionary effort and commitment.

Not Applicable

Organisations that pay 12% or above SGC will be unaffected by the government enforced SGC changes. Those organisations who currently offer between 10-12% SGC will need to assess these changes over the coming years. The advantage of this is that these organisations will be able to learn from their peers how to roll out the changes with their employees! Employees who earn more than the SGC cap of $21,694.20 will also be unaffected.

To consider:
- Some employees who work for organisations paying more than the guaranteed Superannuation may expect that their business increase the SGC level by 2.5% (in line with the increases happening elsewhere)
- A sizable portion of employees who work for organisations offering more than 12% SGC take the difference in their monthly cash salary. These employees will progressively see less income each month as the SGC increases.

FURTHER CONSIDERATIONS

Small Businesses

While some businesses have been positively affected by COVID-19, it is safe to say that most small businesses have not. Small businesses may not have any choice but to ask their staff to absorb these increases on their base salaries. There is an obvious financial impact for small business employees however the emotional one could be far larger. Small businesses rely on their team taking on varied and often ‘large’ workloads and a business’s success can be linked to their team’s discretionary effort, which is above and beyond what they are paid to do. What may feel like a financial burden to the small business now, may have far more catastrophic effects in the future.

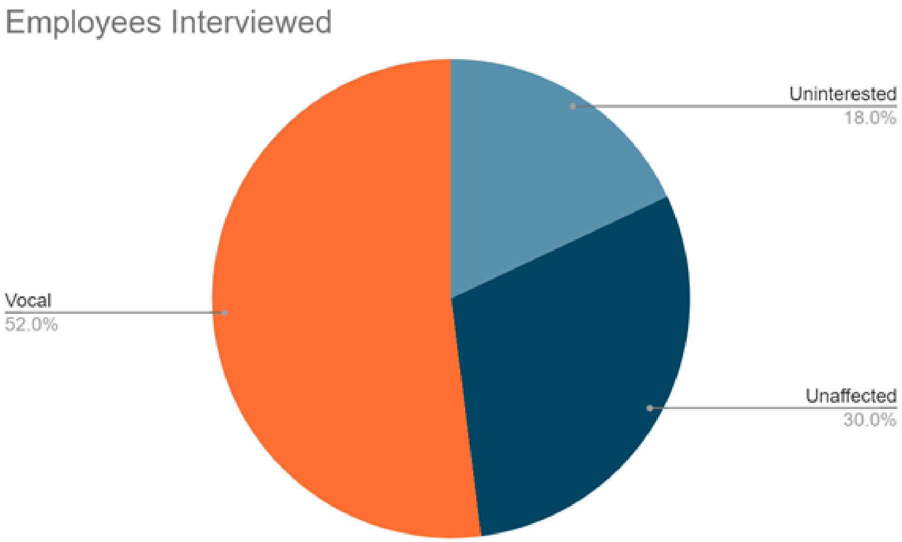
Overseas Parent Company

If the changes do go ahead on 1st July 2021, it is doubtful the overseas parent would have budgeted the increased cost into their P&L. With an already cost-sensitive market, it will be interesting to see how companies who have not accounted for this increase and perhaps do not understand the value of superannuation, respond. In addition, an overseas parent will often work on a different financial year cycle which could also affect employees wage increases/bonuses if they need to find the extra Superannuation funds out of budget cycles.

FOR EMPLOYEES

Over 74% of the interviewed candidates who work in the Product, Pricing, Marketing & Digital functions were not aware of the intended changes within their organisation. It would likely be higher if we were surveying candidates from sectors outside of the Financial Services.

We have categorised the Employees below:



Uninterested 18%

Even when we explained these changes, this category remained disinterested. This was the case even if they were earning less than $100,000, where the employee did not feel compelled to worry about 2.5% of their wages or the benefit of the additional 2.5% Superannuation for their retirement.

Unaffected 30%

Those who earn a total income of above $228,000 per annum are not affected as they would be above the $21,694.20 annual cap. For the professionals who already have more than 9.5% contributed to their superannuation, the majority seem unphased as it would not affect them personally.

Vocal 52%

More than 50% of the professionals we interviewed felt quite strongly about this subject, in one way or another. We have summarised the thoughts and feelings below;

- Package should increase regardless of how the remuneration is structured:
  - Already impacted by minimal/no pay rises in years;
  - Work rate already not commensurate to salary;
  - Impact is much more to an individual than it is a large organisation;
  - Why should they be worse off due to government changes?
  - The funds for the increase should not come out of the salary increase budget for the following year; and
  - During a pandemic, organisations should support their staff.

- Package should stay the same:
  - Organisations have to survive to keep building the economy;
  - After JobKeeper, there is a view that some companies will not survive; and
  - The money is still technically given to the employee - they just cannot access it for 20 years!

IN SUMMARY

There is no 'one size fits all' approach to this legislated increase and how to approach it from an organisational standpoint, however this study has shown that getting it right will be a critical part of employee engagement/retention and effectively recruiting external talent. More than 50% of the employees have a strong view on how it should be handled. After a harrowing year in 2020, employees are more sensitive to change and how their employers treat them than ever before. When the pandemic started, we released insights around salaries and how people were feeling about their employer, their role, their leader and remuneration (source 1) (source 2). Even in the pandemic, this showed 86% of people still passively or actively looking for a new role. These insights were published in July 2020 and while most people were grateful for their job and open to other opportunities, there was a significant decrease in employees who took the plunge and moved companies. This has now changed as there is renewed confidence in the market, more roles, more work and less people. Employees are now about what their employers can do for them.

Below are some recommendations for organisations:

Communication

How these increases and the organisations' position on them are communicated to employees will be critical. A multi-dimensional communication strategy will be needed for large organisations which should be tailored as much as possible. Educating people leaders and ensuring they are armed with a robust communications plan will be advantageous. While organisations will never keep everyone happy, tailoring communications and running a targeted campaign will go a long way. Factsheets, FAQs, town halls and working groups will all be advantageous.

Pulse-Check your Employees

Going into this study, we predicted there would be some emotion around the subject, however we did not realise how emotive the subject would be. As a result of the pandemic and associated impacts, employee relations with their organisations have been up and down. In March 2020, we heard nothing but glowing reports about how organisations in Australia (and globally) were looking after their people. Once September came around, we started to hear fewer positive stories. Profit and shareholder value was back on the agenda - as well as regulation pressure and the drive for productivity. Therefore, understanding an organisations employee expectations and providing them options/choices about their remuneration package will be important.

Transparency

Whether organisations move towards or away from package-based employment contracts, it will become important that there is full transparency. Employees will pay far more attention to their employment contract wording and will be asking more questions about how their remuneration is structured.

Stay Competitive

Organisations want to adequately recognise their people and provide a compelling offering to existing and new top talent. Ensuring organisations are staying in touch with market salary surveys and that existing employees are also given fair and equitable pay increases, is as important as hiring new talent.

RECRUITMENT PREDICTIONS IN 2021

COVID-19 would be 12 months old!
Nobody can deny 2020 was a harrowing year! Professionals have been doing more, with less resources, while juggling new working conditions for a year. It has taken its toll, and organisations have begun to appreciate that replacement headcount and project resources are necessary to stay compliant, keep up with regulatory change and to support their team members with the volume of work. Vacancy volumes have increased by 40% since December 2020.

Regulatory Pressure
Regulatory pressure has touched most Financial Services companies in 2019/2020 and will continue firmly into 2021/2022. There is a significant number of priorities which will require new project teams and extra resources in the governance and compliance areas. These projects would typically second resources from BAU teams and hire backfills or external project resources.

M&A Activity
With some large-scale M&A activity in 2020, there are some significantly sized projects which will need additional resources in IT, Change Management, Product Governance, Digital and Communications. While some roles may have duplicates, in our experience, it's large mergers that create new opportunities for internal and external talent in the areas we recruit.

Separation Activity
Where organisations are separating and reforming either on their own or within another organisation, there will need to be investment in projects to separate operating systems. These projects can be complex and require large project teams which consist of IT, Change Management, Communications, and Product Owners (amongst other functions).

We predict there will be a consistent flow of vacancies throughout 2021. Some of the key reasons are outlined below:

New Product Development (NPD)
The evolution of customer needs has meant there is a requirement for new products to meet these requirements. There is a more conservative approach to NPD where the project scoping, seed funding and customer testing is increasingly more extensive.

Customer Retention
With an environment which has so much product and ownership change, customer retention (and of course satisfaction) becomes paramount. Investment in communications and engagement will increase in FY2022.

Digital Transformation
The current financial crisis will not slow an organisation's focus on digital transformation and will continue to place strong emphasis on a digital first customer journey.

Pricing
M&A activity, NPD and Business Transformation all require commercial resources to forecast, attribute and predict the impact of these changes. The pricing/actuarial function has been recession-proof in the past. Competition for these roles will be higher in 2021 than we saw in 2020, however there will still be a war for talent for ‘hard to fill roles’ which require a thorough and comprehensive market search.

WHO WE ARE

At Parity we're so much more than recruiters. As micro-specialists in product management, pricing, marketing, communications and digital recruitment we're obsessed with adding value to our community.

We don't just have an outstanding reputation for matching great talent with the best companies, we're also proud to invest 10% of our profits into industry training and events through Parity *Plus*, a recruitment industry first in Australia!

Most importantly, we love what we do - and it really does show in our results, with a delivery rate over 90%. With low attrition across our team since we were established, our clients and applicants have access to a wealth of specialist industry knowledge. Our low volume, high-service approach gets results. We are true partners who put equal value on client and candidate relationships, hence the name Parity.

Relationships are everything to us; many of our candidates become clients, and most of our clients have been with us for many years.

Our service is second to none. Our staff are all specialists in their industry field who have been technically trained in their functional area. They know what you are talking about and they get what you're looking for.

We are a diverse team and pride ourselves on our culture. Our team consists of shark divers, prima ballerinas and ABBA enthusiasts to name a few!

4 Years
Average tenure for placed candidates

>90%
Delivery Rate

BRW
Fast Starter Award

Low
Team Attrition

Strong
Industry Reputation

Flexible Culture
90% Part time workforce

MEET THE TEAM

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RESOURCES

- https://www.aist.asn.au/Advocacy/Policy-advocacy/12-Super
- https://www.superannuation.asn.au/policy/12-superannuation-guarantee
- https://grattan.edu.au/news-list/retirement-incomes/
- https://www.ricewarner.com/retirement-income-review/
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