Hide and seek on pay

By Tom Garcia | 15/02/2016

Super funds have a well-earned reputation for holding the boards of listed companies accountable for the remuneration of their directors and executives.

Yet for many years – and without any legal requirement to do things differently – many of these same super funds lagged behind corporate Australia in terms of their own remuneration disclosure. Up until 2014, only a handful of super funds – namely industry funds – published any meaningful information about the pay packets of their directors and key executives.

All this changed with the arrival of MySuper and new regulations on disclosure requiring funds to publish the salaries of directors and key executives on their websites.

Importantly, the regulations include the requirement for remuneration paid by related parties, such as a parent body, and whether the remuneration for directors is paid directly to the trustee director, or an employer or union-sponsoring body.

Information about the pay packets of directors and senior executives of most super funds is now widely available on websites and, predictably, the media was quick to focus on the biggest numbers it could find.

We now know, for example, that the highest paid super fund CEO in 2013–14 was paid was more than a $1 million. We also know that many CIOs earn a lot more than their bosses, while a typical director is paid about $62,000 a year.

Somewhat ironically – particularly for some of those who were nervous about disclosing their salary figures – most of the media commentary has focused on the fact that remuneration levels in the superannuation industry are modest compared with elsewhere in the financial services sector. This is particularly so for the not-for-profit sector. The Australian Financial Review went so far as to suggest that not-for-profit funds were unlikely to attract job applicants from the retail sector because their salaries are too low. There are predictions that this new era of transparency will lead to salary inflation.

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But, media headlines aside, remuneration disclosure is more than providing information on the size of a pay packet. Full disclosure is about detail and providing a breakdown of remuneration components, in addition to salary and superannuation payments. Such components might be incentives, post-employment benefits and – for directors in particular – payments such as board and committee fees, training allowances, reimbursement of personal expenses, out-of-home allowances and even non-monetary benefits. Arguably, funds should include these factors in their disclosure documents, irrespective of whether the director actually received these benefits.

Currently, disclosure of these sorts of payments varies widely across the industry and is far from uniform. While some funds are doing a great job, others have some way to go in terms of providing information that is more meaningful and easily found.

Recent research by the Australian Institute of Superannuation Trustees found nearly half the funds surveyed list director remuneration as comprising “fees”, “remuneration” or “salary” without providing additional information or a further breakdown of those elements. When you consider that a member of parliament can lose their job for improperly classifying expenses, it is only reasonable to expect similar high disclosure standards from super fund directors who are responsible for delivering the best retirement outcome for their members in a compulsory system.

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Funds that do provide extra detail about how their staff and directors are remunerated send a positive message.

While the monetary amounts may be small in some cases, information about training allowances, for instance, provides members and others with insight into the value that a fund places on the continual professional development of its directors.

Super funds have come a long way on remuneration disclosure in a relatively short time. But there is still room for improvement.

The public shouldn't have to search through copious website links to find remuneration details: information should be easily found and easily interpreted, with explanatory footnotes if necessary.

Remuneration disclosure is also a key element of risk management. With talk of more super funds providing incentives to their senior executives, as well as performance-based arrangements, full disclosure will become even more important.

Tom Garcia will be speaking at the Conference of Major Superannuation Funds (CMSF) at the Adelaide Convention Centre on March 16-18. To find out more about CMSF click here.