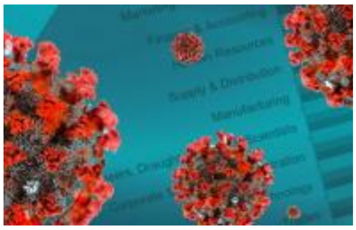
Covid-19 Impact on Pay Levels is limited . . . so far



There is widespread recognition that Covid-19 has posed substantial challenges in both the public health and economic arenas. At least part of that economic challenge is focussed on employment and employee management, with many employers taking difficult employment decisions to cope with lower income and funding. While Government wage subsidies have provided some protection, many employers facing financial constraints have been left with little option but to impose lay-offs, defer recruitment to reduce payroll costs, and implement short-term pay reductions, pay freezes and reductions in benefits values, particularly incentive payments.

Widespread media coverage of these decisions has created the perception that the impact of Covid-19 on pay levels has been significant. As MHR Global's *September 2020 pay survey* shows however, that impact has been limited – to date.

The September 2020 survey covers the period from 1 September 2019 to 1 September 2020. That period is important to provide context, as the results include decisions made between September 2019 and March 2020 – *before* the first cases of Covid-19 were identified in New Zealand. And more significantly, before any impact on business operations. For that first six months of the survey therefore, it was largely "business as usual" – and this included annual reviews and pay adjustments. The survey results reflect that.

That all changed in March, following the identification of Covid-19 in NZ, the closure of NZ's borders and the first imposition of various levels of lockdown. Almost immediately, faced with decreasing sales and reduced funding, employers had to grapple with the twin challenges of keeping essential operations going, while also reducing costs. Government wage subsidies helped – provided the organisation qualified – but despite this many staff were laid off, or placed on extended leave, while others were faced with temporary pay reductions or some form of freeze on pay increases. In many cases, variable benefits were also cut.

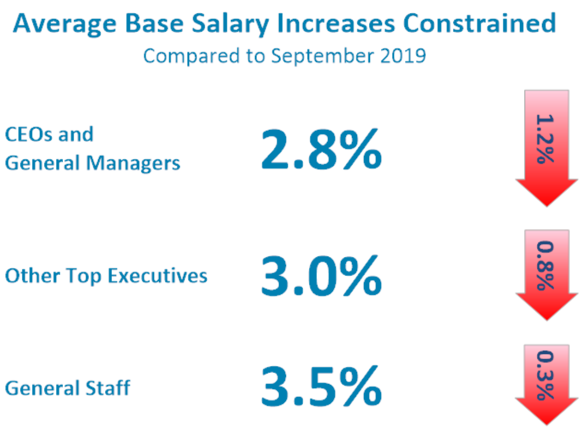
The perception – based largely on personal experience or anecdotal evidence – was that all employees were suffering from reduced income, while senior managers remained largely immune.

Examination of the results of our September survey however, suggest a rather different picture.

In the interests of clarity, it is important to stress that the MHR survey does not capture details of staff layoffs. We collect our data based on employees *on pay* on 1 September 2020, so the only indication of layoffs from the survey statistics is a slight reduction in the national sample. That does not deny that layoffs were extensive over this period: we simply do not capture them in our analysis as we report on pay changes for staff remaining on pay.

As an example, we can consider changes in the level of pay increases received. Public perception is that pay constraints because of the pandemic would impact more on General Staff employees than on Management.

As the results show however, the opposite is in fact the case, with the national *Average Increase in Base Salary* for *General Staff* reducing by just 0.3 of a

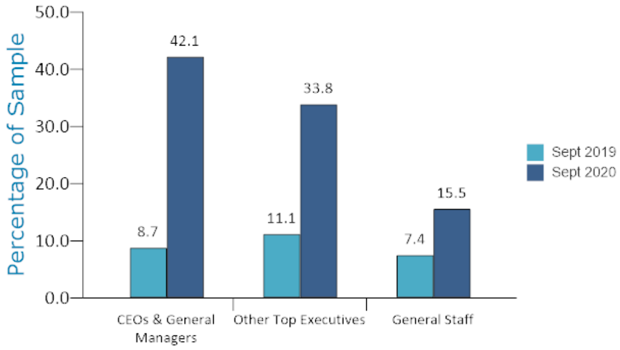


percentage point when compared to September 2019, while the increase *for Chief Executives and General*

Managers was down 1.2 percentage points over the same period. Even the level of increase for other *Top Executives* was subject to a greater reduction (0.8 of a percentage point) than the movement for General Staff.

At first glance this is counter-intuitive, but a close examination of the underlying data quickly reveals the major contributors. In any annual pay survey a major influence on the average increase is the proportion of eligible staff who receive no increase in the survey period – typically because they are at the top of a pay range, or the employer has determined that performance and contribution does not warrant any adjustment. Or simply because increases cannot be afforded.

Increase in Pay Freezes Influences Lower Average Movements



As the chart shows, for all three groups this proportion has increased markedly because of the imposition of pay freezes, or deferral of pay reviews for many staff. In the year ending September 2020, the largest increase in staff receiving no adjustment is seen in the *Chief Executives & General Managers* grouping (up to 42.1 percent of the national group sample). While there is still an increase in this proportion at General Staff level (up to 15.5 percent of the eligible staff), the lower level of this growth has considerably less impact on the national average movement for this group.

There are three significant contributors to this:

- As noted earlier the survey period covers September 2019 to September 2020:
  - Many employees would have already received pay adjustments prior to March 2020 – the arrival of Covid-19.
- Many General Staff are employed under some form of collective employment agreement
  - It is far more difficult for employers to implement any pay freeze – or defer any increases – which are already embedded in many such agreements
- A significant proportion of General Staff would have already received increases in this period, *prior to March 2020 and the "arrival" of Covid-19 constraints*
  - In contrast, the majority of Top Executives and CEO/General Managers would be on individual contracts, with pay reviews tied to the end of the financial year – typically in the period from March to September
    - A combination of timing and the need for cost savings in the light of the pandemic post March 2020 makes a pay freeze, or deferral of any pay review, attractive for these senior staff.

The combined impact of these is that while there has been a slight reduction in the average increase in Base Salary for General Staff, that reduction is significantly less than that identified for *CEOs & General Managers* and for other *Top Executives*.

Another way of tracking pay movement is to monitor the changes in Median Total Remuneration for each group, giving an indication of how pay levels are changing when all influences are considered. Over any extended period, it is likely that the overall trend will be upward movement, albeit with an occasional fall, reflecting changes in recruitment patterns, Base Salary movements and Benefits, particularly incentive payments.

Median Total Remuneration Falls
Year ending September 2020

For the first time in many years the movement for all three groups has been negative – albeit at less than one percentage point for all three groups.

In effect this summarises the remuneration impact of Covid-19 to date: overall pay rates (measured here using Median Total Remuneration) have remained largely static as employers adjust to the effects of the pandemic on revenue and funding levels.

Bearing in mind however that these results reflect only the first six months of that impact, further changes are to be expected when a full year of Covid-19 policy adjustments are considered in March 2021.

Digging Deeper

I am conscious that our standard analysis can only touch on a very few impacts of the Covid-19 pandemic. Acknowledging that wehave been working with our Australian associates, *InSight Pay* to collect and analyse a range of additional data on how employers have responded to the crisis.

The results of that survey will be available late October.

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