

RSG



REMUNERATION
STRATEGIES
GROUP

REMUNERATION STRATEGIES GROUP PTY LTD

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Our Business

At Remuneration Strategies Group, we provide consulting services and advice to a wide range of corporate and other clients in Australia and New Zealand.

The advice we provide falls into four principal areas:

- § Employee share plan design, implementation and administration
- § Remuneration planning, design and implementation
- § Incentive plan design, implementation and administration
- § The assessment of individual employment benefits packages

These areas are not mutually exclusive, and the assignments that we carry out often cover more than one area.

Employee share plan design, implementation and administration

We assess our clients' needs and design and tailor individual share or option plans that best meet these needs. We also assess the effectiveness of existing plans and, where necessary, suggest variations to take advantage of recent legislative and regulatory changes.

We also plan the implementation of employee share plans and either carry it out using our resources, or provide the necessary help for businesses that want to do it themselves.

Through our associated and specialised management company, Trinity Management Group Pty Ltd, we carry out the administration of employee share plans.

Our experience spans the last twenty years, and during that time our principals have been directly involved in discussions with Government on the development of modern plans to meet the needs of business.

Remuneration planning, design and implementation

This covers the following areas:

- § The design of total remuneration packages
- § The evaluation of the existing package structure
- § The provision of advice on the taxation treatment of the various elements of employment packages

Incentive plan design and implementation

This covers the following areas:

- § The introduction of flexible remuneration structures
- § The design of quantitative performance measures
- § The design of profit sharing plans

Assessment of individual packages

Key employees are hard to recruit and difficult to replace.

We use a process which we have developed to assess carefully the total remuneration package of existing employees, or those proposed for new employees. In doing this, we ask two questions:

1. How adequate is the total package that the employer is providing?
2. How attractive are the individual elements in the package?

In some cases, we also look at the way the benefits package has been communicated. In some instances, employees did not value their benefits because they did not understand the after-tax value of some elements. In other cases, employees did not realise that there may be no point in increasing a particular benefit because of the taxation implications of doing so. For example, an increase in the company's superannuation contribution may take an employee over his or her 'reasonable benefit limit'. A more practical approach may be to introduce a savings plan.

RSG also has links to remuneration packaging administrators, and can provide advice to firms that want to outsource their employment benefit administration.

Share plan design

Employee financial participation is a critical element in the human resources strategy of a modern business. The most successful way of achieving employee financial participation is through a well-designed employee share plan.

This sort of participation provides employees with both a stake in the business as an owner and, through that stake, think and behave like shareholders.

Plan types

The term 'employee share plan' covers a range of different plans, including option plans, and different sorts of plans can be designed to achieve different results. The choice of plan should be determined by the objectives that the individual business wants the plan to achieve.

Plans range from simple plans, with benefits that are easy to communicate to all the employees in the business, to relatively complex plans, which are often re-

Well-designed employee share plans that secure income tax concessions for employers and employees fall into two categories.

Exempt plans

With Exempt plans, businesses may grant employees up to \$1,000 of free shares each year without the employee incurring tax on these shares. 'Buy one-get one free' is an example of a plan that makes use of this sort of concession.

Deferred plans

Under 'deferred plans' shares may be issued at a discount to the market price, and the taxation of the discount may be deferred for up to ten years.

These are sometimes called 'qualifying plans'.

There are also other plans that may be tailored to meet the specific requirements of a particular business. These are called non-qualifying plans.

Design considerations

If you are planning to introduce an employee share plan, there are a number of questions that you must answer before you decide what sort of plan suits you best.

Some of these questions are as follows:

1. What does the business want to achieve with its plan?
2. Who will take part in the plan?
3. Does the company want to use real shares or options in its plan or would it prefer to use a replicator plan? For example, a company might opt to use a replicator plan if its shares were tightly held.
4. If the company wants to use real shares or options, does it want to buy these on-market, or to issue new stock?
5. Over what period does the company want the plan to operate?
6. Does the company want to offer the plan to employees every year?
7. Does the company want to carry out its administration in-house or to have it undertaken by a specialist firm?
8. How will the company tell its employees about the plan?
9. Will the costs of the plan be tax deductible to the company?
10. How will the shares or options granted to employees be taxed at their hands?

1. If the company wants to use options, how long will it be before they can be exercised?
2. What will happen if a company uses an option plan, and the share price falls so low that it is uneconomic for employees to exercise their options?
3. If the purpose of the plan is to build up employees' capital, would they be better off under a savings plan?

The RSG team has been designing and implementing share plans in Australia and New Zealand since the 1980s and we have the answers to these questions and many others that you should consider in developing a plan.

Implementation

A well-designed plan provides the foundation for introducing a successful employee share plan; but a sound implementation strategy is just as critical to ensuring success.

Employees should have the choice to participate in a plan or not; however, a low take-up may be a reflection of a poor implementation strategy rather than a conscious decision by employees not to participate in the plan. Given the time and resources that most companies devote to the design of employee share plans, it is disappointing when the take-up is low because of obstacles in the implementation process.

We have identified five common obstacles in implementing plans:

1. The share plan documentation is too complex and legalistic to be readily understood by employees, or it is written in a style that is not appropriate for general employees, and may even serve to alienate them.
2. The documentation does not explain exactly what employees need to do to accept the offer, when they need to do it and how they are to finance the purchase.
3. The plan is not communicated effectively to managers, and they feel no 'ownership' of it.
4. The company relies too heavily on written documentation to communicate the plan, forgetting that employee shares will be the first shares that many of their employees have ever bought.
5. The company does not establish a system to handle individual queries.

With our extensive experience assisting companies to implement employee share plans, we have developed a system to ensure smooth implementation. This covers:

- § Writing explanatory material

- § Presenting the plan to other employees
- § Designing publicity for the plan
- § Handling the more complex employee queries

We are happy to undertake the entire communication process, or to train company staff to carry out the work.

Administration

Amongst other things, the role of RSG is to design and implement employee share plans. The structure of most plans requires that shares or options be held for a period before they vest completely with the employee. This means that records must be established and maintained and a procedure set up to keep track both of the transfer of shares to employees, and of the special treatment of employees that leave the employing company. In addition, with many plans the share plan administrator must keep track of payments made by the employee.

Some companies are prepared to carry out the administration in-house but because this becomes a part time job for someone and is usually added on to their other tasks, many companies find it easier to appoint a dedicated administrator to do the work. For this reason, RSG has set up the Trinity Management Group with the specialised task of carrying out share plan administration in Australia and New Zealand.

Trinity Management Group is a dedicated administration company and able to carry out all or part of the administration of employee share plans. It also administers other employee benefits.

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Our People

The principals of Remuneration Strategies Group Pty Ltd have experience in developing employee share plans in a number of countries, particularly in Australia and New Zealand. They have prepared all the necessary documentation, obtained necessary opinions and approvals, and have presented information sessions to a range of employees from senior management to shop floor employees.

In addition, RSG have conducted research on share plans in a range of countries, and have prepared reports on their findings.

John Day, Director BBS FCA CFP

John is a fellow of the Institute of Chartered Accountants. He comes from a chartered accounting background, and this provides the basis for the rigorous accounting skills that he brings to all his assignments.

John has a broad background in remuneration consulting, particularly in the integration of employee share plans into companies' total remuneration strategy. John has been closely involved with the implementation of the full range of employee share plans for a wide variety of disparate organisations, including Primelife Corporation Limited, Macquarie Bank Limited, Stemcell and Cabone.

John is a qualified financial planner, and has developed and conducted accredited remuneration consulting courses for financial planners. He has written several books and numerous articles, and has lectured on a range of topics including small business, remuneration planning and financial planning. He has conducted numerous total remuneration and salary reviews and he has designed remuneration software. Currently John is managing author of Thomson's *Australian Financial Planning Handbook*.

John is a founding director of Remuneration Strategies Group Pty Ltd and its associated share plan administration business, Trinity Management Group Pty Ltd.

Gary Fitton, Director B Leg S DBS (Acc)

Gary has developed most of the recent employee share plan models operating in both Australia and New Zealand. He has consulted to many leading companies including Qantas, AXA, Ford, Orica, AIDC, Ord Minett, Primelife, Goodman Fielder, Westpac, Boulderstone Hornibrook, Boom Logistics, PNG Banking Corporation, Vodafone, Ericsson and Suncorp-Metway.

After leaving the Australian Tax Office where he helped prepare the White Paper on Reform of the Australian Taxation System, Gary worked for Cullen Egan Dell and Remuneration Planning Corporation before joining the Remuneration

Strategies Group. He is a Director of that company and Trinity Management Group.

Gary co-authored *Employee Share Planning in Australia* in 1991 and helped draft the ACTU's *Employee Share Plan Handbook* in 1993. He currently contributes to Thomson's *The Australian Tax Practice* and is contributing author to *Thompson's Australian Financial Planning Handbook*.

**Dick Stradwick, Consultant
B Com (Melb) MBA (Melb)**

After working in a number of senior positions in the Australian Public Service and Telecom (Australia, in 1977 Dick joined Cadbury Schweppes (Australia) as Personnel Director. Amongst other things, he introduced that company's first Australian employee share plan in 1983 and extended employee share ownership to New Zealand employees in 1986.

In 1991, Dick moved to the UK as Cadbury Schweppes Group Human Resources Director worldwide, and an Executive Director on the Main Board of Cadbury Schweppes plc. He was responsible for extending employee share plans to the US employees of Cadbury Schweppes and for planning the extension to Spain, France and Belgium. This followed a major research project that he instituted in 1995 to assess the effectiveness of the company's UK share plan

He is the author of *Employee Share Plans, Edition 1 (1992)* and *Edition 2 (1996)*.

Dick joined the Remuneration Strategies Group in 2002.

**Jade Forbes, Employee Share Plan Manager
B Com (Tas)**

Jade is currently completing a Master of Applied Commerce in Accounting at Melbourne University.

Jade is the Employee Share Plan Manager for Trinity Management Group Pty Ltd. Trinity carries out the administration of employee share plans for the Remuneration Strategies Group.

Jade's principal responsibilities cover the management of employee share trusts for Australian plans and employee share option trusts for New Zealand plans. She is also responsible for maintaining continuous liaison with the responsible authorities on all aspects of taxation and superannuation legislation that influence the work of Trinity Management Group.

Her other responsibilities include responsibility for carrying out investigations and preparing reports and documentation for companies and individuals covering:

- § Employment agreements
- § Retirement benefit reports

- § Remuneration advice
- § Profit share agreements
- § Shareholder agreements

Jade joined Trinity after extensive experience in the retail pharmaceutical industry, and she has also worked in the travel and executive search industries.

Associate

Sarah Turberville MA (Edin) Msc (LSE) MIER (Monash)

Sarah Turberville brings to RSG an in-depth understanding of employee share ownership as it relates to human resource management and industrial relations strategy and practice. This knowledge has grown from an examination of relevant academic literature primarily from North America and the UK. Her academic training brings both quantitative and qualitative social science research skills, which can assist in developing case study material of those firms that have or are considering implementation of employee share schemes, especially for general employees.

Sarah is currently engaged in doctoral studies examining the employee share ownership as a human resource management initiative and these schemes as an industrial matter. She has presented at local and international conferences and seminars disseminating this research. Importantly, she has undertaken a large-scale analysis of the Australian workplace establishment data (AWIRS) from 1990 and 1995 examining the characteristics of Australian firms with employee share schemes and other forms of financial participation in terms of other human resource management initiatives and industrial relations factors. Sarah is recognised as a commentator on this issue, having spoken on national and local radio. She made the sole academic submission into the *House of Representatives Standing Committee: Inquiry into employee share ownership in Australian enterprises*.

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