



THE
HIGH PAY
COMMISSION

Just deserts, or good luck? High Earners' attitudes to pay

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About The High Pay Commission

The High Pay Commission is an independent inquiry into high pay and boardroom pay across the public and private sectors in the UK. The Commission was established by Compass with the support of the Joseph Rowntree Charitable Trust.

The Commission is independent from any political party or organisation. It is non-partisan in its approach and will draw conclusions based solely on the findings of the Commission.

Over the last 30 years pay at the top has increased, and pay differentials have grown. The Commission provides an opportunity to explore and understand the drivers behind this trend and to look at its effects. It will also seek to look at reforms that could to mitigate or reduce this trend.

The Commission will run for one year from November 2010.

For more information visit:
www.highpaycommission.co.uk

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About Ipsos MORI

Ipsos MORI is one of the largest and best known research companies in the UK and a key part of the Ipsos Group, a global research company. The Ipsos MORI Social Research Institute is the leader in public sector research, helping policy and decision makers understand what works.

Our award-winning qualitative research department carries out in-depth research into the motivations, attitudes and behaviours of citizens, consumers and stakeholder, to provide rich and useful insight for policymakers.

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Executive Summary

Pay is a rarely discussed topic. In the UK it can be a social taboo to discuss your income or attitudes to your earnings, yet understanding what people earn and where we each sit in the pay hierarchy is an important part of understanding and engaging in our society. For this reason the High Pay Commission commissioned research to understand attitudes to pay. This report explores what top earners think about their pay. The research looked specifically at attitudes towards desert and luck; whether top earners understood where they sat in the income distribution; and whether they saw themselves as the “squeezed middle” or felt that we were all “in it together”.

This qualitative study of high earners looks at the attitudes of those in the top 1% of the income distribution, and revealed some important issues.

Do we get what we deserve?

- Many felt pay levels were determined by the **market, by luck, and by ability to negotiate**.
- For most participants, there was **little correlation between hard work and/or aptitude and the absolute amount** that a person earns.
- There was an acknowledgement that **individual performance is usually hard to quantify** in terms of an individual's contribution to corporate success. It was felt to be a myth that pay always accurately reflects an individual's performance.
- Broadly, satisfaction with pay was **wrapped up in the idea of entitlement**, and the amount that participants' friends in similar companies earn is the arbiter of what they themselves feel entitled to.

Are we paying for risk?

- Participants who were members of senior management agreed that **they took responsibility for risk, that the 'buck' stopped with them**, and that they were ultimately responsible for the actions and behaviour of all their members of staff.
- But there was some debate about the exact nature of the risk; participants felt that **earning more money would give you a cushion against losing your job**, so the risk taken by junior members of staff would be higher in practice.

Is it about hard work?

- Interestingly, **we did not hear participants cite their hard work as the primary rationale for high pay**. Participants in our Opinions of High Earners work in 2008, on the other hand, told us they felt they were on a treadmill of hard work which justified their high pay.
- Instead these participants said that **market forces mean there is no alternative** to high salaries in some industries.
- Therefore they **do not feel they have to take personal responsibility** for the system which pays them high salaries, or explain personally why they deserve salaries much higher than others.
- **Inequality is seen as systemic**, rather than fair inequality on the basis of desert.

Do they know how they compare with the rest of society?

We discussed with participants where they felt they fitted on the income spectrum, and what words or phrases they used to describe their income.

- **Participants (all earning in excess of £100,000) were reluctant to describe themselves as 'highly paid'**. They knew they worked in industries which paid well, but could always point to people who earned more than them, who they considered highly paid.
- Because they experienced a need to work each day (in order to pay school fees or a mortgage), **they did not feel 'rich'**. We did not hear participants explicitly acknowledging the value of their assets in this equation (for example, I may be paying a high mortgage, and working hard, but I come out of this with a valuable house at the end of the day).
- The high earners we spoke to **do not broach the subject of salaries with those in lower paid industries**. This creates an arguably slightly skewed view of entitlement, as they see their industry, and its pay thresholds, in a vacuum.

What about tax?

- **Participants saw a justification for the 50% tax rate** and accepted it, indeed older participants, who had worked through the 1980s, felt that the current system of taxing high earners leaves them better off.
- However, there was a **consensus that it should go no higher** due to concerns about driving business away from the UK.
- Interestingly, there was a sense among some that, if this did happen, they might personally have to take steps to try and minimise the effect of tax on their own incomes.

But does it matter?

- While the **participants recognised a public anger about high levels of pay**, they saw some positive benefits of high earnings in society; they did not identify negative social or economic effects of high pay.
- The negative effects of income inequality were felt to be largely **feelings of jealousy and hostility** between those on different incomes.
- For some participants high salaries were perceived to trickle down into the wider economy.
- However, **some questioned whether the highest salaries can be justified**. The point at which salaries become 'too high to justify' tends to be at the point where an individual earns too much to realistically be able to spend.

Can the issue be addressed?

- The **participants largely saw wage inequality as an institutional, global and systemic phenomenon** and so changes would have to be on a global level.
- Those working in finance **felt that the City could not be controlled from outside**, by people who didn't understand it.
- Equally participants also feel it cannot be controlled from within. Those working in finance in our study said that **asking the City to behave differently is unlikely to work, as it only answers to its own rules**.

1 | Background

Previous research on high pay

In 2010, the Conservative and Liberal Democrat Coalition Government commissioned Will Hutton to make recommendations on promoting pay fairness in the public sector by tackling disparities between the lowest and the highest paid in public sector organisations. He published his findings in March 2011.¹ The High Pay Commission considered it would also be timely to look at attitudes to pay in the private sector.

Ipsos MORI has previously carried out research into high pay in the private in 2007. A small scale, qualitative study explored the views of London City bankers and lawyers, funded by the Barrow Cadbury Trust and Joseph Rowntree Foundation.² At that time, participants underrated how highly they were placed in the distribution of UK incomes. When they heard more about the real distribution, participants then said they would be prepared to pay more tax in principle; but they quickly followed this up by saying that they were sceptical that the tax would be used properly.

These reactions are typically found in research with all sections of society, and are also described by behavioural economists. So, one of the conclusions of the study was that high earners are not different to others on the income spectrum when it comes to attitudes towards redistribution. The High Pay

Commission wanted to know whether high earners display the same behaviours today, or whether anything has changed, in light of a changed economic environment.

The Fabian Society's project on 'Tackling Economic Inequality' published in June 2009³ looked at the strategies the general public used for explaining income inequality; for example crediting high earners for their hard work; greater virtue or greater desert; or suggesting that inequality of income is simply inevitable; or that it is beneficial to society. The High Pay Commission is interested in finding out whether high earners today use similar strategies, or whether there are differences.

In recent months there has been renewed focus on pay and taxation in the light of proposed government cuts to public services. David Cameron, in his first Party Conference speech as Prime Minister in October 2010, set out his view for deficit reduction and the new austerity stating memorably that "We're all in this together".⁴ In light of this The High Pay Commission wants to understand how high earners perceive themselves and their role in society.

About the research

Ipsos MORI was commissioned by the High Pay Commission in 2011 to conduct a small piece of qualitative research with those earning high salaries. The objectives of the research were:

- To gain a broad picture of high earners' perceptions of their pay and their experience of work;
- To understand the different views they hold on their pay. In particular, how far they feel they deserve their high pay; what kinds of arguments they use about desert, entitlement, reward, how they compare themselves with others in the same and different industries;
- To uncover how they think high earners are perceived in the current climate, and their views of high earnings in the wider societal and media context.

METHODOLOGY

Fieldwork

An online discussion group was held on the evening of 23rd June with participants who earn between £100,000-£200,000. Participants came from a range of different sectors, namely finance, IT, property and law. Five depth interviews took place in June and July in London with respondents earning in excess of £200,000. Again, participants came from a range of sectors, namely law, finance, engineering, management consultancy and media. It is worth noting that though participants were in the top 1% of the income distribution in the country, a small proportion of the top 1% earn considerably more than do our participants.

Interpretation of the findings

Qualitative research is intended to shed light on why people have particular views and how these views relate to demographic and other characteristics. Unlike quantitative surveys, qualitative research is not designed to provide statistically reliable data on what people as a whole are thinking. It is illustrative; so it does not allow conclusions to be drawn about the extent to which something is happening.

¹ http://www.hm-treasury.gov.uk/indreview_willhutton_fairpay.htm

² The original research report is available on our website <http://www.ipsos-mori.com/researchpublications/researcharchive/2827/Opinion-of-High-Earners-2007-Qualitative-Research.aspx>. Findings from it were also published in Polly Toynbee and David Walker's book *Unjust Rewards*, 2008

³ <http://www.jrf.org.uk/sites/files/jrf/attitudes-tackling-economic-inequality-full.pdf>

⁴ <http://news.sky.com/skynews/Home/Politics/David-Cameron-Calls-On-Britain-To-Pull-Together-During-His-First-Party-Conference-Speech-As-PM/>

In the case of this research, the depth interviews and discussion groups enabled a cross-section of the audience, (people on high incomes), to participate in an informal and interactive discussion. From this, we can gain insight into some of the attitudes which are present within this population of high earners.

But the findings from this research should not be taken to be representative of all those on high incomes. Any numbers reported are indicative rather than statistically significant. Specific opinions may indeed reflect opinions which are held more widely. However, they may equally reflect the makeup of our sample and the types of people who agreed to take part.

Verbatim comments from the discussions have been included within this report. These have been selected to provide an insight into the themes and opinions which emerged from the group and depths overall. We have cited the industries from which participants came when attributing comments, because comments reflect the general culture and experiences of those in different industries, as well as those on different incomes. We have also cited whether the speaker is male or female. It's important to remember that this gives contextual information only; conclusions cannot be drawn on whether the comments are typical of all those in different industries, or all male / female speakers.

This study has been carried out by Ipsos MORI in compliance with the Market Research Society Code of Conduct.

Acknowledgements

Ipsos MORI would like to thank the participants who gave up their free time to participate in this research.

2 | What pay means to those on high incomes

Key findings:

You get used to high pay

High earners claimed that high earnings were not the original motivator for work – instead they were motivated to have an interesting and challenging career.

However as they got used to the benefits of increasingly high earnings, their horizons and expectations changed. High earnings become increasingly necessary for them to achieve their goals; particularly for those in finance.

Many say that luck played a part in the salaries they receive. Being in the right place at the right time and having good negotiation skills were considered to be key in determining salary levels, and sometimes felt relevant than hard work.

Participants felt **entitled** to their high pay and felt they **deserved** it:-

- **Industry standards:** thresholds of pay in certain industries. Few directly 'keep score' by comparing themselves with peers or colleagues. However all compare themselves to what they perceive to be the standard for their industry

- **Adding shareholder value:** individuals are rewarded for bringing value to the company, though an acknowledgement that individual performance is hard to quantify.
- For those freelancing: high pay reflects the **market value of their product**
- **Highly skilled and a scarce resource:** those with more experience, and depth respondents, feel they are paid a premium for accumulated experience and wisdom.
- **Responsible for risk** – though in practice many felt that high earners take **less personal risk than low earners or those in the public sector**, because their high earnings give them a cushion against losing their jobs.

But most also agreed that **society does not necessarily reward everyone fairly.**

In a change from the research in 2008, it seems more acceptable now to **simply say you are highly paid** rather than having to justify it, e.g. by saying you work very long hours.

Our conclusions: **inequality is seen as inevitable and systemic rather than fair inequality based on desert.**

HIGH PAY WAS A NICE SURPRISE, BUT IS EASY TO GET USED TO

In the early part of our discussions with participants, we discussed the reasons behind their choice of jobs and careers, and the extent to which high pay motivated them to apply for the jobs they did. For many, it was less of a consideration when they first embarked on their careers, but became more important as their careers progressed. Enjoying what they did, and getting a sense of creative fulfilment were more important than the remuneration, at least at the start.

Many had chosen their industry based on the courses they studied at university, and gave consideration to how the skill set that they had developed might be applied to the commercial world.

"I think money is important, and anybody who says otherwise might be being a bit disingenuous. I think money is important, but it's not the sole motivator. Actually if you find something that you're reasonably good at, that you enjoy, then the money and relative success will follow"

Male, Marketing, Depth

However, with time, there was a feeling amongst participants that, once the novelty had worn off, the pay became more, or at least as important, as the job.

"Pay was not that important when I started, but became more important to me once I got used to it."

Male, Marketing, Depth

It seemed that it was important for participants to live in a 'style to which they had become accustomed' and the need to do so had discouraged them from, for example, changing industries or taking career breaks. Others were able to identify a 'pay trap' in some high paid professions which forces employees to stay in their professions, despite no longer enjoying them, in order to meet their commitments.

"I've got lots of friends who are lawyers, some of them like it, a lot of them don't and they feel slightly trapped because they're very well paid."

Male, Marketing, Depth

Participants claimed that, when thinking about their own situation, becoming used to being on a high income was a greater motivator than anything else, but for some, there was also the sense that being a high earner **defined** them as it set them apart from their friends.

"Pay then became important once I started as it was relatively better than my friends... I realised that I was better off and it became important not to lose it."

Female, Finance, Group

As such, the more that our participants earned, the more important that their income becomes to them, and the more of a factor it becomes in determining whether they stay at their companies, or seek out more competitive packages elsewhere. This seems to be particularly true for those working in the financial sector, who are less likely to have been motivated by a wider interest in the industry or a desire to work at a particular company prior the university 'milk round'.

"My first boss told me – always move for the money. It's the rule. Forget about how much you like it as you can enjoy life later."

Female, Finance, Group

The idea of 'enjoy life later' is significant for these participants. They may have had more modest aims at the start of their careers (perhaps imagining they would always work) but the goalposts have now moved. They have realised that through their current earnings, complete financial

independence and the ability to retire early may be within their reach. With this goal in view, many are working hard now - in order to amass the resources to stop work entirely as soon as possible.

"Financial security is a big driver for many high earners – the ability to walk away and never be accountable again."

Male, Finance, Group

"My goal is to make enough that I don't have to worry about money and I've got enough savings and investments to pay for anything, and then you can do whatever. At the time I started out I didn't think that would have been an option. After doing this job for three or four years, being successful at it then, I thought if it continues like this, then this would actually be a proposition in ten years."

Male, Finance, Group

Given this amended goal, it is perhaps not surprising that most people we spoke to still felt they had a way to go before they would consider they had fulfilled their financial goals.

Those working in the City are particularly focused on these goals of financial independence. This may be why they say that they are not a very loyal workforce – and tended to say that their salary was more of a motivator than other considerations when changing jobs.

“I have little loyalty!”

Female, Finance, Group

There was variation by age. Older participants across industries, who were nearer to achieving their financial goals, felt they could slacken the pressure somewhat.

“I have targets based on income (paying off a mortgage etc.) but as you get closer to these targets and get older, those targets are less money focussed and more quality of life focussed.”

Male, IT, Group

“I chased money and worked longer hours more when younger. Now, I’ll take a shorter commute for slightly less money and better hours”

Female, IT

Most in our sample were satisfied with the level of pay they were achieving. Of course, amongst our sample of high earners, there was variation in terms of satisfaction, and this was informed by many things, including where participants were on the career ladder, and the level of pay that they believed that their peers were earning.

We explored whether pay was ‘a way of keeping score’. Few admitted that they compared themselves directly with peers – and this was partly due to a lack of transparency over comparative levels of pay, (which is discussed in the next section). Our participants were, however, comparing themselves with **what they felt to be the standard in their industries.**

I DESERVE MY PAY BECAUSE I AM ENTITLED TO IT

For most, there was little correlation between hard work and/or aptitude and the amount that a person earns in absolute terms. Participants in the group felt that there are thresholds of pay that a person at a certain level in a certain industry can expect to earn, based on the market standards for that industry.

Broadly, satisfaction with pay was wrapped up in the idea of entitlement, and the amount that participants’ friends in similar companies earn is the arbiter of what they themselves feel entitled to. The high earners we spoke to do not

broach the subject of salaries with those in lower paid industries, therefore this creates an arguably slightly skewed view of entitlement, as they see their industry, and its pay thresholds, within a vacuum. Some are aware they are only seeing ‘one side of life’ and make efforts to benchmark themselves against a wider group.

“There is a group dynamic here. I try to spend time away from my industry for a dose of reality. When 10 people all go skiing and drive Porsches, that becomes normal”

Male, Finance, Group

When questioning their entitlement, participants tended to think that their industries would be offering these salaries with or without them – there was a sense that the money was there for the taking.

Though some felt that this money would be earned by someone else if they were not working in that particular role, others saw their salary as a personalised reward that reflected the money that they bring into the organisation.

“I deserve it. I make a lot more than I am paid and there is no more contingency left behind to crystallise when I am gone”

Male, Finance, Group

“Relative to the value of what I do for my employer, my pay is an efficient market outcome”

Male, Consulting, Depth

Market forces were cited - exceptional employees who bring the most value and grow the business as they advance their careers should, it was felt, be rewarded with the most exceptional salaries.

“There are some super talented people, so I believe there should be some super earners”

Male, IT, Group

However there was an acknowledgement that individual performance is usually hard to quantify in terms of an individual’s contribution to corporate success. It was felt to be a myth that pay always accurately reflects an individual’s performance; salary (and, in the city, bonuses) was felt to be often either a reward for loyalty or a reflection of an individual’s ability to barter, rather than purely a measure of experience and/or aptitude.

“Performance related pay is so hard to quantify. Merely defining performance and measuring it is hard for many industries”

Male, Finance, Group

“Whereas the pay is fairly stable across the industry, the ability and performance of the people getting paid similar amounts is not. Your pay is often a reflection of how good you are at negotiating rates rather than how good you are at your job.”

Male, IT, Group

Because of this, some had a feeling that the level of pay that they were receiving was fortuitous, rather than a fair reward for their hard work, or their contribution to society.

“I don’t think I deserve it at all...it’s an enormous amount of money, and I’m very fortunate to be getting it.”

Male, Engineering, Depth

“I am very grateful for the pay and wouldn’t trade it now, but it was luck.”

Female, IT, Group

Some depth respondents, earning over £200,000, did not attribute their high pay to luck. They commented that they were specialists, with a particular blend of experience and skills which meant they could command a premium for their services. This was also the case for group participants who worked as freelancers;

for them, pay was a very clear reflection of the market value of their USP as a service provider, and they thought of pay in terms of “costing” and “pricing” for their business as much as in terms of personal reward.

“The rate I can command is related to previous work I’ve done.”

Female, IT, Group

HIGH EARNERS TAKE RESPONSIBILITY, BUT TAKE LITTLE REAL PERSONAL RISK

We also discussed the question of risk with participants; whether they felt that high pay reflected the risk that high earners undertook each day. Those that we spoke to who were members of senior management agreed that there was a risk, that the ‘buck’ stopped with them, and that they were ultimately responsible for the actions and behaviour of all their members of staff.

The ‘risk’ was that they may not know what all their staff are doing all of the time, there are limits to their management of them, and that senior managers are in a situation where their downfall may be caused by something about which they know very little.

“The reason it’s more risky is that there are likely to be things that you can’t do very much about, which are still seen to be your responsibility and for which you are held to be accountable. Therefore, on that basis, there is an increased risk to your professional reputation.”

Male, Marketing, Depth

But there was some debate about the exact nature of the risk – the above participant felt that high earners risked a loss to their reputation if things went awry, but other more junior members of staff would lose more - their jobs and their lifestyles. For those on exceptionally high incomes, the risk of losing a job is mitigated by the vast sums of money that are earned; an example was the £13.5million salary package awarded to Antonio Horta-Osario. Were he to lose both his job and reputation, the money that he had earned would more than provide for him in the future. Put simply, the more money earned, the more this mitigates any risk.

Our discussion group contained two IT freelancers, for whom reputational risk was a much more important issue. Their self-employed status gives them much more freedom in terms of earning potential, but leaves them much more exposed in the event of an error for which they might get the blame.

“Increasingly I’m needing to have higher levels of professional indemnity insurance as a requirement of my contracts.”

Female, IT, Group

An interesting comparison around risk was made between those in private sector boardrooms and cabinet ministers. The latter work in, arguably, more risky and short lived tenures, yet their pay is capped in a way that it is not in the private sector. Though they may do the jobs they do for the political acclaim that they receive, theirs is an example of a much more risky profession, where the level of risk is not matched by the remuneration.

Other professions were held up as examples of the extremes of a risk to reward ratio, namely soldiers who take high risks and footballers who earn a lot and suffer little risk. However, there was a sense from some that, though it is easy to portray Premiership footballers’ pay as profligate, they provide a level of entertainment that far outstrips, for example, footballers in the championship, therefore their much higher pay is justified on the grounds of market forces and their exceptional talent.

SOCIETY DOES NOT REWARD EVERYONE FAIRLY

Beyond the question of entitlement to pay, we also asked about a wider sense of desert. Here, some brought in a wider societal perspective.

“From a capitalist perspective I think I’m worth it because the company pays it. From a human perspective, I don’t think I’m more valuable than 5 teachers, for example”

Male, IT, Group

Some professions, such as medicine, are perceived to provide an altruistic, or social ‘good’ which is not reflected in their pay (at least in relation to that of bankers).

“Compared to what similarly skilled people who save lives and add more value to society get paid in medicine they are getting paid less than somebody sitting at a desk all day.”

Male, Finance, Depth

Interestingly, we did **not** hear participants cite their hard work as the primary rationale for high pay. Participants in our Opinions of High Earners work in 2008, on the other hand, told us they felt they were on a treadmill of hard work.

We’ve been increasingly successful from wealth around this table and around the city. But in terms of the quality of our family life I would suggest it’s been a bit iffy, if not gone backwards because we work harder, we work longer, we have less time to do things.

Lawyer, 2007⁵

In previous research with the general public, also, the general public tend to assume that those on high salaries are working, or have worked, exceptionally hard.⁶

Our participants, on the other hand, did not claim to work harder than others in society.

“It’s been hard work to get here and hard work to sustain it, but I’m not foolish enough to think that others who are paid less don’t work hard.”

Male, IT, Group

They did say that their hours were long and they did not like the reality of being available for work all the time. However not all of them said they were working as hard as they possibly could – and those who were said they were, were doing so in order to achieve a better work life balance later.

This suggests that the prevalent discourse around work may have changed. This small scale study suggests that it is perhaps more acceptable today to say that your work simply pays well, rather than having to defend your high salary by explaining how hard you work for it.

“[Those who work long hours] burn out, they’re not well, and I suppose it’s quite nice to look at your payslip, but I’m not sure how nice it is. It’s much better to do a modest amount of work and earn a lot of money, I think, and I think everybody else would agree.”

Male, Engineering, Depth

CONCLUSIONS

This shift may be because our participants feel that the labour market is global. They tell us that market forces therefore mean there is no alternative to high salaries in some industries. Therefore they do not feel they have to take personal responsibility for the system which pays them high salaries, or explain personally why they deserve salaries much higher than others. Inequality is seen as systemic rather than fair inequality on the basis of desert.

“In a world where many chase money, the more talented people do what pays well regardless of contribution to society. It is society that is wrong.”

Male, Finance, Group

⁵ Opinions of High Earners, 2007 <http://www.ipsos-mori.com/researchpublications/researcharchive/2827/Opinion-of-High-Earners-2007-Qualitative-Research.aspx>

⁶ p5, Tackling Economic Inequality; the authors explain this as a cognitive coping strategy for people to explain why others earned more than them - participants “would invent or exaggerate the virtues (and therefore desert) of those with high incomes in order to justify existing inequalities”. <http://www.jrf.org.uk/sites/files/jrf/attitudes-tackling-economic-inequality-full.pdf>; in Ipsos MORI’s own research, the general public have also showed this strategy. For example, in the past, our participants have cited people like “high-earning trainee solicitors” as the most hard-working people in the country; see p14, Opinions of High Earners <http://www.ipsos-mori.com/researchpublications/researcharchive/2827/Opinion-of-High-Earners-2007-Qualitative-Research.aspx>

3 | Self perceptions and definition of highly paid

Key findings:

Previous research by Ipsos MORI in 2008 among lawyers and bankers highlighted that those high earners put themselves **nearer the middle of the income spectrum than they really were.**

All participants in this research were in the top 1% of high earners. It is worth noting, however, that there are still some within that top 1% earning considerably more than they are.

Overall, participants were **more aware than those who contributed to the 2008 study that they were in the 'higher than average' income bracket.** Their idea of a 'high' salary was also on average lower than the figures given by participants in the 2008 research.

But their ideas of 'high' and 'low' salaries were still **slightly higher than the general public's** (when the public is asked the same question in BSA surveys).

Participants knew their industries pays well compared with other industries. And as with previous research, living in London creates a distorting effect on perceptions of

average incomes and how much is needed for someone to be 'rich'.

Because they experienced a need to work each day they did not feel 'rich'. We did not hear participants explicitly acknowledging the value of their assets in this equation (for example, I may be paying a high mortgage, and working hard, but I will come out of this with a valuable house).

Because **transparency around pay is not a cultural norm**, our participants said they were wary of discussing their earnings. They said it was 'lonely at the top' and they had nobody with whom to discuss high pay. This made it hard to find out what others earned, and how to compare or benchmark themselves.

Our conclusions: high earners are aware that they are high in the spectrum, and aware that there are people who suffer on low incomes. However, they still do not know exactly who to compare themselves with.

WE KNOW WE ARE HIGHLY PAID, BUT STILL FEEL CLOSER TO AVERAGE THAN WE REALLY ARE

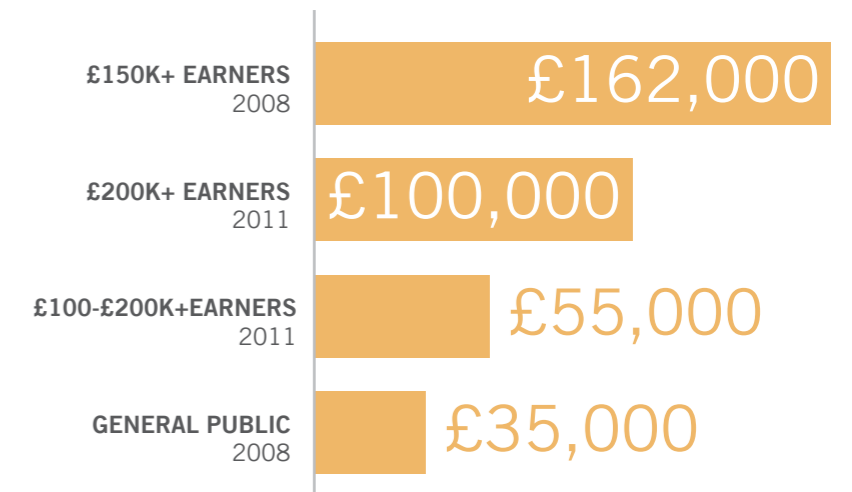
We discussed with participants where they felt they fitted on the income spectrum, and what words or phrases they tended to use to describe their income. Participants (all earning in excess of £100,000) were reluctant to describe themselves as 'highly paid'. The barrier against doing so seemed to be the income echelons above them; essentially it is always the people who earn more than them, who are the highly paid.

Previous research with high earners highlighted an inaccurate perception amongst high earners about where they sit on the income spectrum, with many, when describing where they sit, placing themselves in, or around, the middle. Our participants were slightly more grounded in reality; they described themselves as 'well paid', 'comfortable' or in the 'higher than average' category.

We asked participants to identify the amount at which someone becomes a high earner. Many gave an answer around the £50,000 to £60,000 mark, though they felt that it was necessary to give separate figures for inside and outside of London. This was significantly lower than the figure from the 2008 qualitative work. This could mean a better understanding of incomes amongst high earners than previously. However, it could also reflect the fact that the bankers and lawyers in the earlier research project are likely to have been earning more than the participants in this

research, on average, and it seems that the higher your earnings, the higher you judge the level of earnings needed to be a high earner. In this project, the depth interview participants, who earned the most, tended to place the figure higher than group participants as the chart below shows.

HOW MUCH DOES A SINGLE PERSON HAVE TO EARN TO BE A 'HIGH EARNER'?



Overall, the figures from high earners are higher than the amount that the general public said in a quantitative survey in 2008 (£35,000⁷).

We also discussed what the highest amount a person could earn and still be on a low wage, and participants' responses matched the public response more closely – the public said £11,000 and responses given to us by respondents in both the groups and the depth interviews were in the region of £12,000-£20,000.

⁷ <http://www.natcen.ac.uk/media/606622/bsa%202009%20annotated%20questionnaires.pdf>

For some, length of service is the arbiter when deciding whether pay is low or not, in that a graduate or young person might be expected to be on a low salary though someone else might not.

“If you are 30 years in the job and being paid £20,000 that seems low”

Male, Law, Depth

We asked participants where they felt the most problematic pay gap was. Many felt that it was at the bottom of the pay spectrum. They felt it was unfair that there was such a divide, but felt that equality of pay meant that lower salaries should be brought more in line with what those at the top earned, rather than the other way around.

“I find it hard to justify my salary compared to a nurse, for example”

Female, Law, Group

Indeed, from the high earners that we spoke to, it seems to be the case that, interestingly, though they are keen to focus on those who earn more than them, they are also mindful of those on very low incomes, and the difficulties that they face.

THE LONDON EFFECT

Living and working in London seems to add a particularly distorting lens, both in terms of the salaries that are offered, but also the cost of living creating salary expectations which do not match those in the rest of the country.

“London house prices are vastly different to the rest of the world let alone country!!”

Female, Property, Group

An additional aspect of living in London is that there is a normalising effect, helped by property and cost of living, where high earners can still feel that they are ‘slumming it’ compared to the world that they see around them.

“I live in a terraced house off of Clapham Common’s busiest road, I’m driving around in an old Volvo and my kids go to state school!”

Male, Marketing, Depth

Participants were quick to dispel the idea that they see themselves as ‘rich.’ Firstly, to be rich, it was felt, one needs to have money locked in to assets, such as property, and for those still paying off mortgages this still seems far off.

Secondly, the word ‘rich’ conjures up images of ostentation, and, as discussed, those living in London did not feel that these images fitted with their lifestyle.

“Rich to me is an old fashioned view of motor boats and homes overseas”

Female, Finance, Group

For group participants earning between £100,000-£200,000 there is also a comparison to be made with the standard of living of people in the recent past – before the boom in property prices, they explain, you could earn a low salary but still have a comfortable, reasonably large and secure home without needing to pay such a high mortgage. They feel this is not the case today. While they earn more, their money buys them less.

As a general rule, participants focused on their continued daily efforts to maintain their standard of living when judging whether or not they were ‘rich’. Because they experienced a need to work each day, (in order to pay school fees or a mortgage), they did not feel ‘rich’. We did not hear participants explicitly acknowledging the value of their assets in this equation (for example, I may be paying a high mortgage, and working hard, but I come out of this with a valuable house at the end of the day). It may be that the shared experience

of working hard on a daily basis makes these high earners feel similar to those on lower incomes, who are also working to keep things going.

LIVING IN A BUBBLE – HIGH EARNERS DON’T KNOW WHO TO COMPARE THEMSELVES WITH

High earners benchmark themselves against industry norms. They find it hard to discuss pay with friends or colleagues. Some discussion can happen with those within the industry, where like for like comparisons can be made; and especially among peers who have ‘risen through the ranks’ together.

There is wariness around discussing pay with friends from other industries, partly because high earners are sensitive in case they earn a lot more than others. Transparency around pay is not a cultural norm.

“I wouldn’t talk about salary to friends in other industries....I sometimes discuss it with friends who are at other similar law firms. Not to measure success but to make sure the package I’m receiving is still competitive.”

Female, Law, Group

And as high earners progress with their careers, their seniority means that it becomes more and more difficult for them to discuss salary with colleagues, as there are few, if any, colleagues who are on the same pay packet as them. Furthermore, they may have managerial responsibilities towards other staff which would make it inappropriate to discuss their own pay.

“There is nobody for me to discuss my salary with, really. I’ve got two regional peers, but we’re not going to find out what each other gets paid and I’m not going to ring them up to discuss it.”

Male, Marketing, Depth

Because of these various cultural barriers against discussing high pay, the only source of information about the salary scale is recruitment consultants, therefore those that have less appetite to move jobs are less likely to understand the context of their pay.

“Recruitment consultants will phone you up and you’ll ask what they are offering. And then you’ll know basically if you’re underpaid, overpaid or reasonably well paid.”

Male, Finance, Group

Many high earners therefore have little ability to place themselves on an earnings spectrum, and may not even identify themselves as high earners. At least in salary terms, it seems to be ‘lonely at the top’.

4 | The impact of high pay in the current climate

Key findings:

Participants suspect that **high pay leads to societal benefits to the UK:-**

- Increases aspiration
- **Trickles down** into wider economy
- **Keeps the UK competitive** by attracting business and talent.

Those who work in the financial sector are most positive about the benefits of high incomes.

However, overall, high earners do not have a sense of strong negative societal effects of high earnings or income inequality.

When the minority acknowledged that a wide distribution of income might lead to negative consequences, they focused on the very **highest** incomes. They did not make a distinction, in terms of justification of income, between those earning very high amounts money through employment (e.g. a hired CEO of a company) and an entrepreneur (e.g. Bill Gates)

All are aware of **negative media interest in high salaries**, and most feel this focuses on the City.

- Those in the City themselves see media attention as an **unpleasant, but inevitable** effect of income inequality.

- Some (both finance and non finance) suggest it is simply because there is an **economic downturn in the country as a whole** that high earners are put under the spotlight,
- A small minority suggest that **disproportionately high salaries in the City** are responsible for negative press in themselves.

Those in the City reflect that the City has responded to this media interest by focusing on salaries and share options rather than bonuses. Perceive this to be a **cosmetic rather than a systemic change**.

All say that they **would not accept higher than 50% tax rate**. The highest earners suggest that (esp mobile City population) would leave the country.

They suggest firms taxed more highly would **change their hiring policies** e.g. to the Far East.

Because they feel high earnings to be a global and systemic issue, they are not sure what action could be taken to change the current situation.

MORE POSITIVE EFFECTS OF HIGH SALARIES SEEN THAN NEGATIVE EFFECTS

We discussed with participants the importance of high pay and the role that it plays in society. Many, particularly those in the city, felt, quite simply, that it is important in a capitalist economy for some to be highly paid to create an aspirational workforce and a competitive working environment.

They again turned to those who were earning more money than them as an example of motivation – they are spurred on by the possibility of earning more money in the future, and feel that those further down the salary ladder feel the same way. Only when they reach the top of the ‘food chain’ at a particular organisation do these priorities change. Also, there is a worldwide ‘culture of plenty’ in terms of salaries, meaning that to keep the UK professionally competitive and attract the best individuals, globally, our salary packages have to match those around the world. Some (especially those in the City) suggest that if individuals were not paid high salaries, UK business would suffer in some way compared to other markets. Participants felt that talented individuals might move - though they themselves said they probably wouldn’t, which suggests some contradiction in their views. But they also felt companies might take their business elsewhere if they sensed the climate becoming less favourable.

“If Manchester United didn’t pay Thierry Henry (sic) 100 grand a week then Arsenal would – I think people understand that”

Male, Finance, Group

“Over time firms would change their hiring priorities. Not people moving to Asia, but instead they’re hiring Asians or they’re hiring in New York and hiring Americans. So you just lose the tax revenues.”

Male, Finance, Depth

Whatever the process of losing talent might be, the City participants made the point that we have to be careful not to lose profitable companies at a time when the UK is still recovering from the recession. They see are economic benefits of companies establishing themselves in the UK, and hiring British workers.

High salaries were perceived to trickle down into the wider economy (among all participants):-

“well depends what super earners spend on... tipping waiters, using builders, buying British... evens out”

Female, Finance, Group

Few participants could think of negative effects of salary disparity, other than a feeling of envy and hostility between those on different incomes. They certainly did not feel that it might be responsible, even indirectly, for causing social problems or crime. Some argued that lower incomes all round might cause more crime, and many suggested a range of different drivers of crime which they saw as more salient than income inequality.

However, some questioned whether the highest salaries can be justified. The point at which salaries become ‘too high to justify’ tends to be at the point where an individual earns too much to realistically be able to spend – therefore very high, much higher than the earnings of participants in the study. An example given was Bill Gates, though participants did not differentiate between entrepreneurs and those who had created their income through being employed by a larger company. As before, this fixation with those on very high incomes stems from participants looking up the ladder, rather than across, or downwards.

“The distribution of pay is much wider than you can justify.”

Male, Finance, Group

AWARE OF MEDIA INTEREST IN HIGH SALARIES

When thinking about the current economic climate, participants feel that the media and the public in general are focusing on the issue of high salaries. In the discussion in the group, participants suggested that this could be happening because of the context of public spending reductions in the UK. For example, when a company makes redundancies, the media is always keen to point out how many workers the Chief Executive’s salary could ‘save’ if their pay was cut. This creates an overarching media rhetoric that some earn unjustifiably high salaries, and this has filtered down to the rest of society, in the context of a period of austerity.

Participants who worked in the City see this as an inevitable consequence of some people earning high salaries.

“M: envy is back. pay freezes focus minds on what others get

F: I think bankers are much more targeted and people are now more vocal about disapproval

M: I’ve noticed a shift in that perception in mainstream media, but not so much in the circles I travel in. And I don’t only travel in high earning circles.

F: I have noticed it in circles I travel in, bankers are an easy target now

F: I agree, bankers are in the same boat as estate agents these days”

Group

A few, outside the City, pointed out that the public may simply be against disproportionately high salaries. But this was very much an issue of noting a public response, or a media potential responses – the participant below, for example, says that a lot of people are resentful, but stops short of making a judgement himself.

“I think a lot of people see London and specifically the city as the root cause, wrongly or rightly, of many of the problems that we’re now encountering. And I think a lot of people in the UK are resentful of individuals that they perceive to be doing the job that doesn’t actually hold that much personal risk for them, and getting paid disproportionately for what they’re doing”

Male, Marketing, Group

Depth respondents pointed out that there is a certain obsession with bonuses in the media and the effect of this current obsession was the City taking action to make its remuneration look more palatable.

For example, some felt income is currently moving away from bonuses and back into salaries. Tax levied on bonuses is another reason for this shift.

“The general public hate bonuses more than salaries so banks have shifted balance”

Male, Finance, Group

In light of the need to open up discussions about high earnings it is possible that, if salaries are discussed less openly than bonuses, a refocusing back to salaries may have a dangerous effect of obscuring the issue of pay after a period of relative transparency on bonuses.

Some depth interview participants point out that the media and public as a whole don’t know how the City works, so don’t know what solutions are actually best. This means that the City cannot be easily ‘controlled’ from outside, because the system is too complex for others to judge. For example, the media may condemn pay guarantee practices, thinking that pay guarantees are unfair; whereas people in the City think they are a good thing, working subtly to control traders:-

“Actually guarantees reduce people taking risk because they know their pay’s guaranteed so they don’t have to take any risk. While if it’s not guaranteed then you’re incentivised to be risky, because it’s not your money you’re risking.”

Male, Finance, Depth

If the City cannot be controlled from outside, participants also feel it cannot be controlled from within. Those working in finance in our study said that asking the City to behave differently is unlikely to work, as it only answers to its own market rules.

“I never saw anything like “shame” in the city. I don’t think that’s in the city’s makeup.”

Male, Finance, Group

ACCEPTING THE 50% TAX RATE, BUT WON’T GO ANY HIGHER

Depending on political affiliation, there is more or less support for the Government’s taxation agenda. Polling amongst the public in 2009 showed that more support than oppose the 50p tax rate, and more support amongst Labour voters than Conservative voters.⁸

Broadly, participants saw a justification for the 50% tax rate, indeed older participants, who had worked through the 1980s, felt that the current system of taxing high earners leaves them better off. However, there was a consensus that it should go no higher due to concerns about driving business away from the UK. Interestingly, there was a sense among some that, if this did happen, they might personally have to take steps to try and minimise the effect of tax on their own incomes.

“I think it [higher tax] would make a little more creative with my earning”

Female, Property, Group

“They fiddle it before the tax rate’s come in, and borrow from government, borrow from the Inland Revenue in order to finance their pre-hike bonuses”

Male, Engineering, Depth

There was also a feeling that, though tax is reasonably fair, understanding how it worked for those with high incomes is particularly difficult, and confusion around it creates the possibility of loopholes and ‘creativity’.

“They should stop messing around with the personal allowance which is needlessly complex”

Male, Consulting, Depth

⁸ <http://www.nextleft.org/2009/04/fabian-poll-public-support-for-50p-tax.html>

Conclusions

Compared to the research of 2008, these groups are **more aware of where they sit in the distribution**. The current media climate, and a wider discussion around public sector cuts and inequality, has perhaps sensitised high earners to the fact that their pay is higher than average, and made it easier for them to understand and empathise with those on very low incomes.

The problem that many high earners face is that it is **hard for them to understand if they are earning what they should be**. This is especially true for those outside of the City who are more senior, who have little basis for comparison aside from conversations with headhunters, and they feel they cannot discuss the subject with their friends.

“I could be really, really valuable, but I might never know”

Male, Finance, Group

There may be **potential to increase transparency around pay**. However there are a number of **cultural barriers** to these high earners being more transparent about what they earn.

Compared to a similar sample of high earners in 2008, these high earners are more thoughtful about the way society values them, and less likely to claim that they deserve their pay purely through their own hard work and skills. They are

more likely to say that some industries simply pay high. They recognise that there is income inequality, and they are, to a great extent, **fortunate to earn what they do**.

There may be potential to communicate with high earners about **changing the way society values different incomes**.

However, when it comes to interventions around equalising pay, high earners believe high pay to be an **institutional, global and systemic phenomenon** and any change would have to be on a global and societal level.

They also see a number of **positive things coming from high earnings**, and are not very aware of negative effects of income inequality.

To engage high earners with any agenda of equalising pay, it will be necessary to clarify what the **negative social consequences** of inequality might be; **who can drive change**; and **what is required of high earners themselves**.

Appendix 1 – discussion

1 discussion group of 10 participants (income of between 100-199k)

5 depth interviews (income of over £200K)

Timing

Introduction/warm up

6.00-6.05

Introduction/ purpose of the research

- Welcome and thanks
- Assure confidentiality and what the research will be used for

The High Pay Commission is an independent body that looks at high pay and boardroom pay across the public and private sectors in the UK. The Commission was established by Compass with the support of the Joseph Rowntree Charitable Trust. HPC will use this research to get a general picture of how pay, and other rewards, motivate ‘high flying’ people, and what senior people think about pay across the UK. They will use this as part of their evidence base when making recommendations to government on issues relating to pay.

- Interviews will be recorded/ Group will be transcribed/ No right or wrong answers/respect each other’s views
- 90 minute group/45 minute interview

To get things rolling would you tell us a little about your job and how long you have been in the role?

What sector do you work in? Do you enjoy your job?

What gives you the most job satisfaction?

Which is more important to you, the job that you do or the sector that you work in?

How did you find yourself in this job? Design or default?

The importance and meaning of (high) pay

6.05 – 6.25

Thinking about the salary that you receive – what does this mean to you? Is it the only reason that you come to work each morning?

How important was pay a factor in terms of the industry that you chose? And/or the role that you are in?

To what extent do you see one's level of pay as a way of 'keeping score'?

To what extent do you see the level of pay as a motivation? PROBE for influence/power/importance as motivating factors And how does it motivate you to act?

And who do you compare yourselves with? Colleagues? Others working in your industry? What about workers in other countries/cities?

Do you know what your colleagues earn? Do they know what you earn? Is it openly discussed? How has this changed as you have progressed in your careers?

Is pay something you worry about? To what extent do you feel validated by the pay that you earn?

What would happen if you had to take a pay cut, perhaps due to the company's performance? What would be more difficult – the practical or emotional considerations if this were to happen?

How would this make you feel about yourself? Would you feel personally responsible for the company's underperformance? Does pay denote personal, or corporate success?

By the same token, what would happen if you were given a substantial pay rise? Would you see this as reward for hard work and/or success?

What advice do you give to junior colleagues/younger members of staff about pay? What advice would you have liked to have been given at the start of your career?

Satisfaction with levels of pay

6.05 – 6.25

Why do you think you receive the level of pay that you do?

Follow up on any mention of NEED, DESERT, ENTITLEMENT, EXPECTATION
Why?

How far do you think you deserve this level of pay?

Do you see yourselves as the ones ultimately responsible for the success or failure of the organisation? **Does the buck stop with you?**

IF YES – do you see your level of pay as a fair reward for the level of risk that you operate in?

And what exactly is this risk – risk of losing your job, or risk of losing jobs of your workforce, or is it something more discrete; i.e. damage to your professional reputation should the company be unsuccessful etc.

What would be 'too much' pay for the role you do – would you ever feel that you were earning more than you really should? (e.g. twice as much, a third as much again, etc – not figures)

Thinking beyond your own job... what sort of jobs are overpaid? Why? Which ones are underpaid?

Are people generally paid what they deserve? Is reward correctly scaled to risk, in your experience?

PROBE – for whether this is industry or level specific – examples include bankers, footballers vs armed forces, nurses, CEOs earning a lot more than the next level down etc.

Antonio Horta-Osorio, the new group CEO at Lloyds, will receive a £13.5m pay package which includes a £1.2 million reference salary. What is your reaction to this? Is it justifiable?

The Hutton Report into public sector pay states "in reviewing corporate accountability and transparency requirements the

government should also consider how clearer explanation of executive pay by **private** companies can be achieved”

Is this as important in the private sector? Why? Who would benefit from greater transparency?

57% of the public say it is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes (only 19% disagree). (USE SHOW CARD)

What is your reaction to this? Should something be done about it? And, if so, by the government?

Where is the most problematic pay gap? Is it the gap at the very top and near the top? (4% of the public agree)
OR
Between the top and the middle? (19% agree)
OR the overall gap between the top and the bottom? (64% agree)

Self perceptions and definition of 'highly paid'

6.50 – 7.10

How do you think you compare with most people in the country in terms of pay – are you near the top, in the middle, towards the bottom....?

Some politicians have been using the term 'the squeezed middle' recently – is this you? If not who is it?

Do you think of yourself as highly paid?

Straw poll - What figure does a single person have to earn to become highly paid? (await their response - general public said £35,000 in 2009) (IDEALLY DO THIS AS SECRET POLL AND SHOW THEIR RESPONSE ALONGSIDE PUBLIC RESPONSE ON A GRAPH)

Straw poll - What is the highest a single person can earn and still be considered on low pay (await their response - general public said £12,000 in 2009)

Do you see yourself as rich? What is the difference between

being rich and highly paid? How much do you have to earn (or have) to be 'rich'?
How about super rich?

How would you feel if you found out that other people referred to you as a high earner?

What is 'super rich'? How much do you have to earn to be 'super rich'? (MAYBE DO THIS AS POLL) Do the super rich attract criticism, if so why?

Show income distribution slide – discuss the 'long tail' and the fact they are near the top.

What is your reaction to this? Does it surprise you at all?

Thinking generally, is it a good idea that there are some "super earners" or should there be less diversity in the income spectrum?

Is there an inevitability associated with this? Will there always be people who earn considerably more than others?

What benefits does this create? To the economy – to organisations, or just to individuals?

Do you think that large differences in incomes contribute to social problems like crime?
(await their response) 63% of the public agree.

Do you think that large differences in incomes give people incentives to work hard?
(await their response) 61% of the public agree.

Is it possible that, though high pay can create income inequality, it can also be used to incentivise people out of poverty?

High earners in the current climate

7.10 – 7.25

Have you noticed a shift in public perception of high earners recently? How recently? Since the recession? Longer?

What role does the media play in informing the public about high earners? Do high earners get a fair press? Why? Why not?

What is this due to? Bonus culture? Anything else?

PROBE again for any differences between public and private sectors

Have there been any changes in the ratio of your salary to bonuses or stock options recently? What do you attribute this to? Is there less 'shame' in a high salary at the moment, providing it is not paid out as a 'bonus'?

Is it relevant how earners use their money? Can you think of an example of the press reporting a story about excessive boardroom spending? Any difference if this is spent personally or professionally?

How does this compare to, for example, footballers ordering huge bar bills?

Thinking generally, have you been affected by the economic downturn? In what way? Do you feel that you have taken a hit?

PROBE – if not in salary, have their stocks/shares been affected/VAT increase, hike in retail prices?

Do you agree with David Cameron when he says that we are "all in this together"? How do you think you personally are 'in it'???

Do you feel that the burden of taxation (income tax as well as VAT) falls heavier on high earners? What about the 50p tax rate? How has this affected you?

If taxes were higher what would you do? PROBE - Move abroad etc.?

What do they think about the 50% tax rate for those earning £150,000–
What effects has this/will this have?

The general public feel that taxes for those on high incomes should be increased – what is your reaction to this?

<http://www.uhy-uk.com/pages/posts/uk-has-one-of-the-highest-tax-burdens-for-both-low-and-high-earners805.php>

A recent study has shown that, compared with other major economies, the UK has one of the highest tax burdens of those on low and high incomes.

What is your reaction to this? Should there be more progressivity of tax – i.e. should the scale creep up rather than jump up in bands?

7.25 – 7.30

Thank and close – encourage any final comments/thoughts about high pay

Findings will be sent to the High Pay Commission for publication.

Emphasise anonymity – names/organisations will not be shared with client.