

Briefing Paper

The changing remuneration mix for UK top management¹

The period 2002 to 2011 saw major changes in the size and design of reward for lead executives in the UK's largest-listed companies. Pay packages for CEOs in FTSE100 organisations soared, outpacing retail prices, average earnings, equity indices and company profitability. Seemingly insulated from the global financial crises of the decade and the straitened circumstances faced by others, their average (mean) annual income escalated from £2.6 million to £4.8 million (with the top ten executives receiving between £7.9 and £20.9 million in 2011).

Within these totals, differing components of 'fixed' (salaries, pensions and perquisites) and 'variable' pay (annual bonuses and long-term incentives [LTIs]) operated as more-or-less significant drivers. Salaries, for instance, showed modest year-on-year increases but formed a receding core of overall remuneration. The average rose from £620,000 in 2002 to £850,000 by 2011 but value as a proportion of aggregate income halved to less than 20%, largely attributable to a dramatic growth in bonuses and LTIs.

Using higher quantum of bigger base salaries, bonuses (cash and/or shares) shot up from £573,000 to £1.8 million. Shares became the more prevalent payment medium towards the end of the time-frame with performance benchmarked against total-shareholder-returns, earnings-per-share and/or cashflow (and vested over 2-3 years). Operating with similar metrics and staged pay-outs, the share

¹ Data for this Briefing Paper is taken from C. Weight (2012) *Directors' Remuneration Handbook*, Haywards Heath: Bloomsbury Professional.

incentive plan element of LTIs also surged while another, discretionary share grants, declined. Largely due to increasingly restrictive offer conditions, the grant option lost popularity and consequently fell in value from an annual average of £568,000 to £193,000. By contrast, incentive plans rose from £336,000 (54% of base salary) to £1.5 million (171%), with those in the top quartile receiving nearer £3 million.

If aspects of variable pay formed the vanguard of the new prosperity, pensions and perquisites offered steadfast support. In spite of 28% of FTSE100 companies switching their lead executives from defined-benefit to defined contribution schemes and/or cash allowances, the level of pension sponsorship did not falter. Transfer values of defined-benefit plans averaged (median) £436,000 in 2011, investments in defined-contribution schemes £255,000 with the increasingly popular cash supplements/replacements reaching £267,000. Perquisite packages also showed steady upward movement, climbing to between £100,000 and £200,000.

These burgeoning incomes (often flourishing in the context of poor/tepid company performance) led to a crisis of credibility, with many politicians, financial analysts and shareholders voicing anxiety. The Government responded by seeking to restrain future increases through amended governance arrangements; this involved increasing shareholder powers and enhancing corporate accountability and transparency. From October 2013, investors will be able to veto executive pay policy while companies will be required to: demonstrate how their performance and remuneration strategies align; disclose the main terms of executive contracts (fixed and variable constituents, performance conditions and termination details) and provide a single total remuneration figure.

Critics argue that these moves may facilitate greater shareholder engagement, provide more detailed public information on CEO earnings and even trim bonuses and future LTI awards, but they

are unlikely to massively affect the gap between high- and low- earners, replace the short-termism in executive pay or overcome current public distrust.

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