SUMMIT

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PENSION TRENDS FOR EXECUTIVES IN FTSE 350 AND SMALLCAP COMPANIES 2020

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PENSION TRENDS FOR EXECUTIVES IN FTSE 350 AND SMALLCAP COMPANIES 2020

By Steve Glenn, Head of Executive Remuneration Research, E-reward.co.uk

Over recent years, we have been continuing to develop our executive pay database which now records almost everything found in large companies' remuneration reports. This information provides the basis for regular trend reports that we provide to our clients alongside the frequent data updates they receive as part of their annual contracts with us.

Often, these updates are a source of greater interest to them than the numerical data because they shed light on the underlying trends and patterns that exist beyond the headline pay figures. Each client commentary covers various aspects of remuneration ranging from incentive plan changes to employee engagement, from post-employment shareholding requirements to the growth in the use of environmental-based performance targets.

This month, we have pulled together all this information and over the next few weeks we will be producing a number of overviews focusing on how various specific areas of executive remuneration changed during 2020.

The first of these reviews focuses on pensions. This is one of the areas that have undergone significant transformation over the last 12 months. It's not a new development, however, representing a continuation of a longer-term trend that we examined in September 2019. At that time, we noted that executive pension contribution rates had already started to decline; our latest research illustrates the trend has continued and, in some cases, accelerated.

Overview

More precisely, in this research, we outline:

- How contribution rates vary across the UK's three main indices.
- The level of contribution rates paid to the majority of staff in the UK's largest companies.
- Some of the approaches that individual companies have followed to reduce the pensions of their new and existing directors.

Sample details

Our data is sourced from over 1,200 annual reports published between September 2017 and 2020 from companies listed on the FTSE 100, mid-250 and SmallCap indices. This data represents information spanning a number of years and covers just over 430 companies that disclosed sufficient pension information for executives over the period.

We analysed the pension contribution levels by annual report year-end date as well as by the FTSE index for each company. Focusing on year-end dates is useful because it makes it possible to understand how pension policies have evolved over time.

More specifically, the sample includes:

- 98 FTSE 100 firms, 182 from the mid-250 and 153 SmallCap companies.
- 29.5% of annual reports were published in 2017; 30.2% in 2018; 30.1% in 2019; and 10% had 2020 dates.

Some companies are missing from the sample because either they do not provide pensions to their directors or their disclosure levels are not detailed enough to provide analysable data.

SUMMARY FINDINGS

Overall, it is clear from our analysis that **pension maxima found in the policies of FTSE 100, mid-250 and SmallCap have all fallen quite significantly** over the last four years illustrating that the combination of code changes and shareholder pressure has had an impact. In addition, the interquartile ranges, the difference between the lower- and upper-quartile levels, narrowed for FTSE 100 and SmallCap firms over the same period indicating that company contribution rates have converged in these indices.

Remuneration policy executive pension limits

- Currently, the most common method of aligning incumbent director and staff contribution rates is to phase board levels downwards over a number of years in line with investor guidance.
- In 2017, the headline median defined contribution rate in the FTSE 100 was 25% while it was 20% in the mid-250 and 15% for SmallCap firms.
- The corresponding amounts fell consecutively in each of the next few years finishing at 11.5%, 10% and 7.5% respectively by 2020.
- Also notable was that while the trend began in 2017 in FTSE 100 and mid-250 firms it only started apace in 2018 in SmallCap companies.
- For example, all four statistics – median, average and both quartiles – for SmallCap were largely unchanged between 2017 and 2018 while there were significant falls during the same period for FTSE 100 and mid-250 companies.
- In terms of levels, for the very latest policies, director contribution rates across the three indices do not vary a great deal.
- Where differences do occur, however, rates in mid-250 and SmallCap companies tend to be slightly lower than those found in FTSE 100 firms.
- For example, medians in the very latest policies stand at 12% in the FTSE 100 and 10% in both FTSE mid-250 and SmallCap indices.
- In the few cases where organisations do not intend to align their directors' rates with those of staff, some justify their policies because the rates paid are still below those found in similar companies or because they are based on, or result in, below-market amounts.

Staff pension levels

- Staff contribution levels in the FTSE 100 are higher than those in the mid-250 which, in turn, are slightly higher than the corresponding levels in SmallCap companies.
- For instance, the median in the FTSE 100 stands at 10% of salary compared to 9% in mid-250 and 6.5% in SmallCap firms.
- Average levels are slightly higher than the corresponding medians in the FTSE 100 and SmallCap indices at 10.8% and 6.9% while the mean figure in the mid-250 is slightly lower standing at 8.7%.

IMPETUS FOR CHANGE HAS GROWN

Back in 2019, the impetus to reduce pension contributions came following the change to the UK Corporate Governance Code made in the previous year . The code stated that executive directors' pensions, or payments in lieu, should be aligned with those available to the workforce. It conceded that it may not be practical to alter existing contractual commitments but said that firms needed to ensure future arrangements comply.

Since then, investor groups have ramped up pressure on companies by focusing more directly on incumbent as well as new executive directors.

For example, in September 2019, the Investment Association (IA) stated that companies must set a credible plan to pay all executive directors the same pension contributions as the majority of their workforce by the end of 2022 or risk shareholder dissent. It also specified that companies with existing directors who are paid more than 25% of salary as a pension contribution will be given a 'red top' – the highest level of warning by the IA's Institutional Voting Information Service (IVIS) – unless they have set out a credible action plan to bring their contributions in line with the workforce within the same time-period.

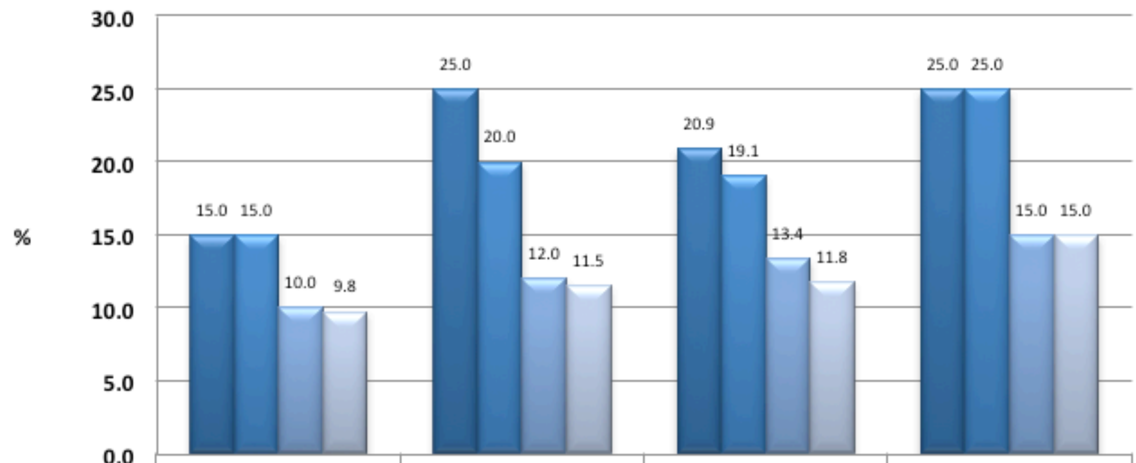
Main findings

- As the following graphs illustrate, remuneration policy pension maxima found in the FTSE 100, mid-250 and SmallCap indices have all fallen quite significantly over the last four years.
- The rates shown in the graphs below relate to the contribution levels intended for new appointees as stated in the remuneration policies from annual reports published in each of the last four years.
- In some cases, incumbent directors may receive the same amounts but in most instances they will be entitled to higher levels as agreed via their own individual contracts negotiated at the time of their appointments and prior to the code change.
- Despite this, as more recent IA guidance recommends, it is clear from remuneration reports that existing directors' rates have also started to follow a downward trend albeit not to the same extent as those relating to new appointees.
- As well as the data trends, it is clear from these outcomes that, in all three indices, the influence exerted by shareholders and their representatives is no doubt having a greater impact on policy than perhaps it would have done in the past.

FTSE 100 PENSION TRENDS

- In the FTSE 100, pension falls were largest between 2017 and 2019, with the latest year still representing an overall downward trend but at a slower rate.
- The median defined contribution rate in the FTSE 100 was 25% for policies from 2017 annual reports and the corresponding amounts fell consecutively in each of the next two years finishing at 11.5% in 2020.
- The patterns were similar for the average figures but quartile amounts levelled off in the last two years.
- The interquartile range, the difference between the lower- and upper quartile levels, fell from 10 percentage points in 2017 down to 5.2 percentage points in 2020 illustrating that contribution rates in the FTSE 100 have converged over the period.

BOX 1: MAXIMUM DEFINED-CONTRIBUTION PENSION RATES IN FTSE 100 COMPANIES BY ANNUAL REPORT YEAR-END DATE, 2017-2020



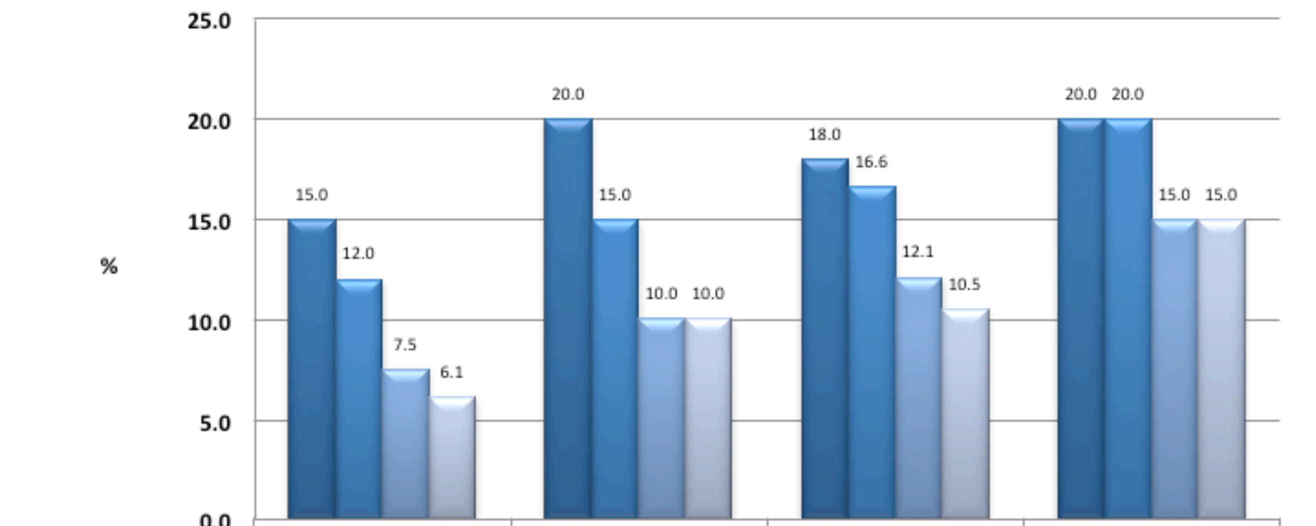
	Lower quartile %	Median %	Average %	Upper quartile %
2017 year-end dates	15.0	25.0	20.9	25.0
2018 year-end dates	15.0	20.0	19.1	25.0
2019 year-end dates	10.0	12.0	13.4	15.0
2020 year-end dates	9.8	11.5	11.8	15.0

Source: E-reward's Summit executive remuneration database (n = 284 company reports across four years).

FTSE MID-250 PENSION TRENDS

- The pattern in the mid-250 is similar to FTSE 100, although the level of pension contributions were lower than those in the FTSE 100 for most of the statistics.
- The median defined contribution rate in the FTSE mid-250 was 20% for annual reports published in 2017 while the corresponding amounts fell consecutively in each of the next two years finishing at 10% in 2020.
- The patterns were similar for the lower quartile, average and upper quartile figures finishing at 6.1%, 10.5% and 15% respectively.
- Unlike the FTSE 100, the interquartile range actually widened but this was largely due to the large fall in the lower quartile figure whereas the equivalent decline in the upper quartile was not so significant.

BOX 2: MAXIMUM DEFINED-CONTRIBUTION PENSION RATES IN MID-250 COMPANIES BY ANNUAL REPORT YEAR-END DATE, 2017-2020



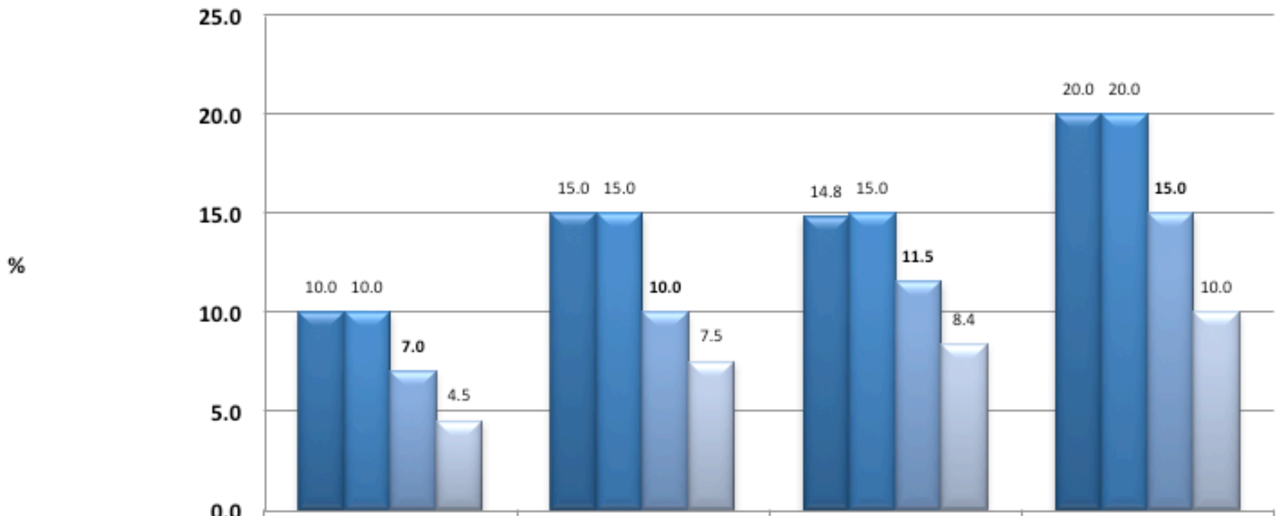
	Lower quartile %	Median %	Average %	Upper quartile %
2017 year-end dates	15.0	20.0	18.0	20.0
2018 year-end dates	12.0	15.0	16.6	20.0
2019 year-end dates	7.5	10.0	12.1	15.0
2020 year-end dates	6.1	10.0	10.5	15.0

Source: E-reward's Summit executive remuneration database (n = 540 company reports across four years).

FTSE SMALLCAP

- Pension contribution rates in FTSE SmallCap companies are also on a downward trend.
- In all cases, the amounts relating to remuneration policies from annual reports with year-end dates from 2020 were lower than those disclosed in the prior periods.
- Unlike the FTSE 100 and mid-250, however, trends in SmallCap firms often lag behind those in larger organisations probably explaining why the downward trend started in 2018 instead of 2017.
- The median defined contribution rate in the SmallCap was 15% for policies with year-end dates in 2017 and 2018 while the corresponding amounts fell consecutively standing at 10% in 2019 and 7.5% for 2020.
- The patterns were broadly similar for the average and quartile figures while the interquartile range narrowed illustrating that pension levels in the SmallCap are converging.
- In comparison to the FTSE 100 and mid-250 equivalent levels, for 2020 year-end dates, all four statistics found in SmallCap firms were less generous.

BOX 3: MAXIMUM DEFINED-CONTRIBUTION PENSION RATES IN SMALLCAP COMPANIES BY ANNUAL REPORT YEAR-END DATE, 2017-2020



	Lower quartile %	Median %	Average %	Upper quartile %
2017 year-end dates	10.0	15.0	14.8	20.0
2018 year-end dates	10.0	15.0	15.0	20.0
2019 year-end dates	7.0	10.0	11.5	15.0
2020 year-end dates	4.5	7.5	8.4	10.0

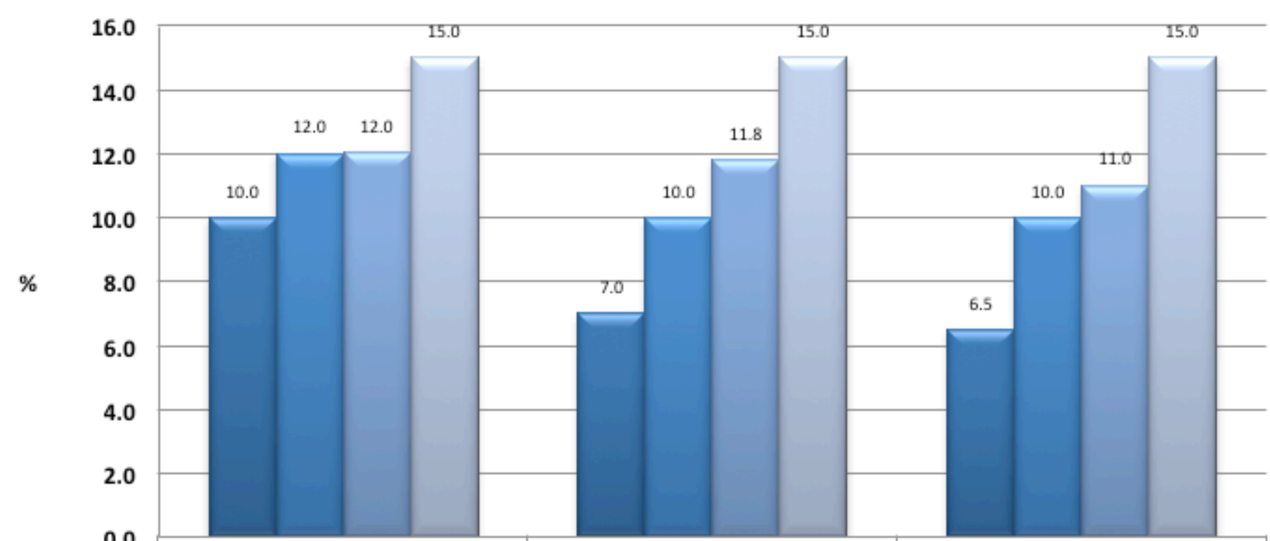
Source: E-reward's Summit executive remuneration database (n = 382 company reports across four years).

PENSION LEVELS BY INDEX

Boxes 1 to 3 looked at how policies have changed over the last four years but if we only include the very latest annual reports for each company we can see more clearly how pension contribution levels for executive directors vary across the UK's three main indices.

- Box 4 demonstrates that there is not a great deal of difference between contribution rates for new appointees across the three indices.
- Although there are few variations, where differences do occur, rates in mid-250 and SmallCap companies tend to be slightly lower than those found in FTSE 100 firms.
- For example, medians stand at 12% in the FTSE 100, and 10% in the FTSE mid-250 and SmallCap.
- There is no variation at upper quartile levels where rates stand at 15% for all three indices.
- The most variation is exhibited at lower quartile levels where the figure is 10% in the FTSE 100 compared to 7% in the mid-250 and 6.5% in SmallCap companies.

BOX 4: MAXIMUM DEFINED-CONTRIBUTION PENSION RATES IN FTSE 100, MID-250 AND SMALLCAP COMPANIES IN THE LATEST AVAILABLE ANNUAL REPORTS



	FTSE 100	Mid-250	SmallCap
Lower quartile	10.0	7.0	6.5
Median	12.0	10.0	10.0
Average	12.0	11.8	11.0
Upper quartile	15.0	15.0	15.0

Source: E-reward's Summit executive remuneration database (n = 433 company reports).

STAFF PENSION CONTRIBUTION RATES

Given that companies are focusing on aligning directors' pension contribution rates with those paid to staff it is not surprising that many organisations have been disclosing the rates that the majority of their people receive. IA guidance published in November 2020 reinforces this by stating that shareholders now expect companies to disclose staff rates as well as to explain how any rates have been derived.

In total, a substantial number of firms from all three indices provided this information:

- 63 FTSE 100 companies.
- 108 mid-250 firms.
- 74 SmallCap organisations.

Box 5 shows the quartile, median and average rates across the three main indices demonstrating that staff contribution levels in the FTSE 100 are higher than those in the mid-250 which, in turn, are slightly higher than the corresponding levels in SmallCap companies.

For instance, the median in the FTSE 100 stands at 10% compared to 9% in the mid-250 and 6.5% in SmallCap firms. Average levels are slightly higher than the corresponding medians in the FTSE 100 and SmallCap indices at 10.8% and 6.9% while the mean figure in the mid-250 is slightly lower standing at 8.7%.

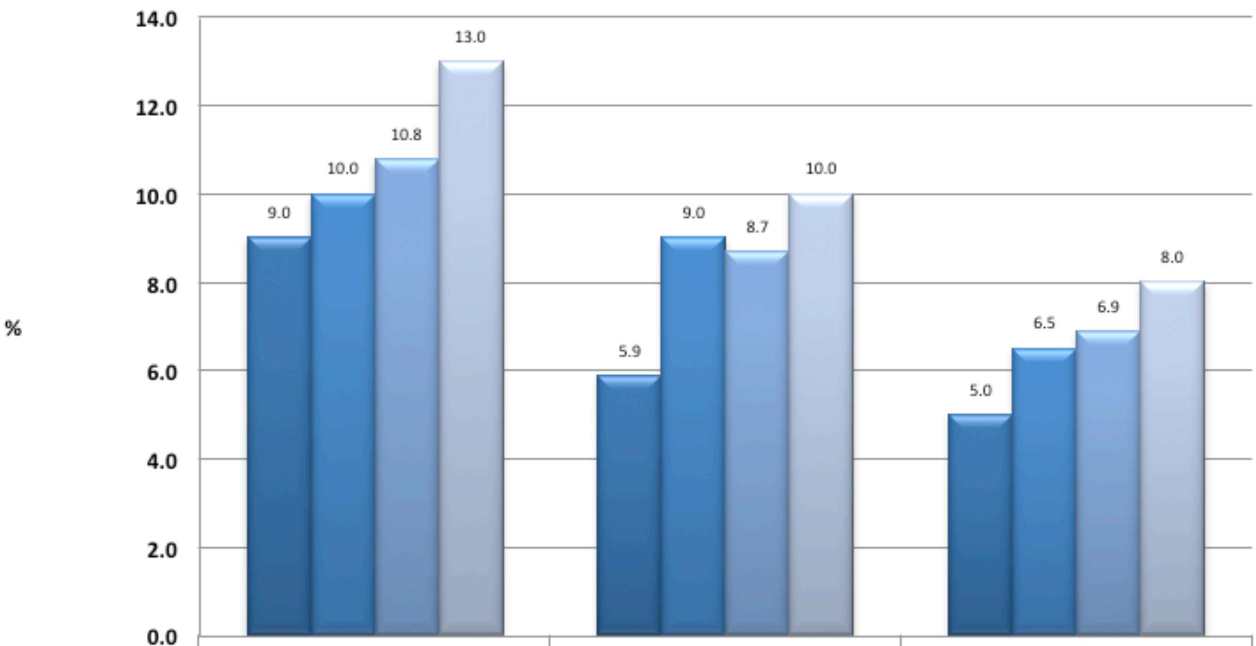
Other staff pension disclosures

As well as providing the staff majority pension contribution rates, some companies disclose additional information shedding light on broader staff pension policies.

- For example, FTSE 100 firm **Anglo American's** UK workforce rates range from 8% to 15% with an average of 11% although there is a plan to increase rates to a single level of 15%.
- Similarly, **BAE Systems** explained it has an even broader range with employer contributions for different schemes ranging from 8% to approximately 50% of salary. Its majority figure is based on a weighted average of active members across all schemes and is around 17%.
- **Rio Tinto** also reported a relatively high figure, in its case, around 25%. The company stated current contribution levels for its UK-based directors are slightly below 25% and are broadly consistent with the majority of its UK employees. Despite the alignment, the firm says that it will give further consideration to the issue when it develops its next policy in 2021.
- Different approaches were exhibited by **SSE** and **St James' Place Capital** that gave more than one typical contribution level because their pension rates vary with length of service.
- In contrast, other organisations with substantial operations in non-UK locations, such as **Bodycote**, **Sirius Real Estate** and **XP Power** also provided contribution levels made in other countries.

- Another approach followed by some organisations was to disclose the pension rates provided to specific groups of employees that do not necessarily represent the majority of staff. For example, **AO World** reported that its management group receive 9% of salary. Similarly, **Domino's Pizza's** office-based colleagues receive 5% while those that have been auto-enrolled (the majority) are paid 3%. Likewise, **Morgan Sindall's** staff level is 6% of salary while senior managers receive 10%.

BOX 5: STAFF DEFINED-CONTRIBUTION PENSION RATES IN FTSE 100, MID-250 AND SMALLCAP COMPANIES IN THE LATEST AVAILABLE ANNUAL REPORTS



	FTSE 100	Mid-250	SmallCap
Lower quartile	9.0	5.9	5.0
Median	10.0	9.0	6.5
Average	10.8	8.7	6.9
Upper quartile	13.0	10.0	8.0

Source: E-reward's Summit executive remuneration database (n = 245 companies).

ALIGNING EXISTING DIRECTORS' PENSIONS MORE COMPLEX

The figures in Box 4 represent the contribution levels outlined in the latest remuneration policies designed, in large part, to cover new board-level appointees. The transition to these new rates has been a relatively straightforward process because it has not involved the renegotiation of any existing contracts.

By contrast, renegotiating current directors' pensions is more complex because it means changes to their existing employment arrangements. Understandably, some directors have been somewhat unenthusiastic about reductions in their pensions but, as mentioned above, pressure from institutional investor groups has largely trumped these concerns. As a result, almost all the companies we examined are in the process of lowering the pension rates received by their existing board members.

Timeline of evolving company approaches for existing directors

Over the course of late 2019 and 2020, we reported extensively on how companies are tackling the challenge of aligning their existing directors' pensions with those received by the majority of their staff. A notable feature of this was how approaches have evolved over the period.

BOX 6: HOW APPROACHES TO PENSIONS ALIGNMENT HAVE EVOLVED OVER LATE 2019/2020

September 2019

- Many organisations had yet to make changes to their pensions for new or existing directors but said they intended to at their next policy review.
- Many of these were companies that had remuneration policies passed at their 2017 AGMs and were waiting until 2020 when their policies were up for renewal and the new regulations officially came into force.
- Despite this, at the time, a small but significant number of organisations were reducing their existing directors' pension rates and where they were, there was a variety of approaches.
- At one end of the spectrum were a few companies that did reduce contribution levels for both existing and new board members to the same level while, in others, existing directors volunteered to make reductions themselves.
- More commonly, some stated they intended to freeze the monetary value of current directors' pensions while others said they were reducing rates but not to the same extent as for new appointees aligning them to more senior staff group levels.

January 2020

- We reported that pressure to align current directors' pension contributions had increased while two firms actually raised staff levels to assist convergence.
- Our analysis of remuneration reports with a variety of year-end dates found that those published later on were more likely to have measures to align the pensions of existing as well as new directors than those published earlier.
- This is perhaps not surprising as guidance from institutional investors and others have become clearer in the months up to January 2020.

March 2020

- We reported that pension reductions for existing directors were more common and were taking place in a variety of ways including voluntary reductions, one-step decreases and transitional declines.
- As in January, a small number of companies also narrowed their pension gaps by increasing staff pension rates although we reported that there were still some companies that were resisting calls to reduce existing director rates.

May 2020

- In this update, we noted that one-step falls in pension rates for existing directors had become less common with approaches were more likely to involve phased reductions or pension values frozen in monetary terms.
- In some cases, organisations were transitioning rates by aligning board level contribution rates with a particular group of staff such as head office employees, senior executives or those that joined at the same time in the past when the offering was more generous.
- There were a small number of companies that were narrowing their pension gaps by increasing staff pension rates. As more information on staff emerged, we observed some notable variations in contribution rates available to staff in different companies and sectors.

September 2020 onwards

- We produced a couple of updates based on the smaller number of companies publishing accounts in those months.
- Around that time, some investor groups had made it clear that freezing pensions in monetary terms was not an acceptable approach to aligning the pensions of existing directors. As a result, we noted that phasing pension contribution rates downwards in incremental steps had become by far the most common approach although was by no means universal.
- For instance, there was a small number of organisations aligning existing director rates with those that are available to staff that joined their firms at the same time or that had the same or similar job tenures.

COMPANY APPROACHES IN DETAIL

In addition to recording every company's executive pension policy details, the E-reward database includes information on how plans have changed. This is particularly useful at the present time as it allows us to look back and explore in detail how UK firms have transitioned towards aligning their existing directors' rates with those of their staff.

To balance the aggregate trends outlined above and illustrate the degree of depth of information we collect, below we summarise a selection of company approaches followed over the last year.

With strategies to address the challenge of alignment varying to a certain degree, it is difficult to create discrete categories describing methods that organisations have followed. Despite this, we have attempted to define eight broad groupings:

- Phased reductions in pension rates.
- Freezes in monetary values.
- Increases to staff contribution rates.
- Voluntary reductions by directors themselves.
- One-step changes.
- Alignment to other employee groups.
- Companies not fully aligning rates.
- Other approaches.

In each case, we describe a few examples that exemplify the approach in question followed by a selection of similar companies.

Phased reductions in pension rates over multiple years

Over the last 12 months, company policy has evolved so that now the most common method of aligning existing directors' pensions with those of staff is to phase levels down over a number of years.

- In terms of disclosure, some companies, such as **Flutter Entertainment**, simply stated that existing directors' pensions will reduce over a certain period with no details of any interim values. In this case, the company said that board-level rates would decrease from 15% down to workforce levels by January 2023.
- Others, including **Derwent London**, provided more information on how rates are scheduled to fall. For Derwent, the limit for new directors is already aligned with its workforce at 15% while existing directors' levels which were 20% in January 2020, will reduce to 17.5% in 2021 and 15% by January 2022.

- Similarly, **Johnson Matthey** set out specific details of its planned transition with rates decreasing in three steps from 25% in 2019 to 23% in April 2020, 20% in 2021 before aligning with staff rates of 15% by April 2022.
- Others face complications because they have numerous legacy plans including defined benefit (DB) arrangements. In this group is **RELX** whose chief executive is a legacy member of its UK DB pension scheme. RELX explains that while its chief executive's pension may appear generous, the director will have to pay significant plan fees over the next few years amounting to 25% of pensionable earnings in 2020, 30% in 2021 and 35% in 2022. Further benefits will cease to accrue at the end of 2022 and after 31 December 2022, the chief executive and all existing directors will be subject to the new appointment pension policy currently capped at 11% of salary in the UK.
- **Bodycote** illustrates how having various locations can also complicate matters with its existing directors' rates reducing from 25% to 24.5% from 2020 with further falls over the next two years to align with staff by January 2022. The final level will be 23.5% which is the staff rate in the countries in which the company's directors are employed rather than the UK.

A selection of other companies falling into this category included:

- Associated British Foods
- Balfour Beatty
- Barratt Developments
- Bellway
- BHP Group
- Clipper Logistics
- Dechra Pharmaceuticals
- Dunelm
- Elementis
- Greggs
- Hays
- ITV
- Marshalls
- MJ Gleeson
- Mondi
- National Express
- NCC Group
- Prudential
- Rank
- Reach
- Redrow
- Ricardo
- Rolls-Royce
- Smith & Nephew
- Spectris
- Spirax Sarco
- St James Place Capital
- St Modwen
- Stagecoach
- Studio Retail
- Ultra Electronics
- Vistry Group
- WPP

Freezes in monetary values

Earlier in 2020, a number of companies said they intended to approach the task of pensions alignment by freezing their current directors' rates in monetary terms so that over time, as basic pay increased, values as a proportion of salary would fall. Others planned to freeze rates for a few years before fully aligning them at a later time.

- **Rentokil Initial** reduced pensions from 25% to 21.9% of salary from January 2020 with these amounts frozen and to be aligned with staff by the end of 2022. This compares to the new directors' rate which was reduced from 15% to 3% to align with staff levels.
- **AstraZeneca** followed a similar strategy reducing its chief executive's pension from 30% to 20% of salary with this monetary amount frozen in the future.
- **Page Group** stated that while its new directors will be aligned with the wider UK workforce, incumbent directors' pensions would be frozen in cash terms at 2019 levels through to the end of 2022. At this point, the rate will then be adjusted to align with UK staff.
- The situation at **Next** was more complex as it had a variety of legacy approaches including DB arrangements. To aid alignment, Next's chief executive volunteered to cap the service accrual under his DB pension annually so that the single figure value attributed to that portion of his pension is no more than 9% of salary. This resulted in the chief executive's single figure pension value, a combination of the DB pension and salary supplement values, now being worth up to 24% of salary in aggregate. The remuneration report said that this was the second material reduction in the chief executive's pension with the committee explaining that it would consider a third reduction if shareholders' views were to change.
- **DFS Furniture** is one of the companies stating that it will review its policy at the next renew date in 2021. Despite this, it did disclose that it has made some changes in 2019 and 2020. For example, in 2019 it stated that it would freeze existing director pension levels in monetary terms while any 2020 salary rises received were non-pensionable. As a result, the chief executive has received £50,000 and chief financial officer £29,350 for the last two years.

A selection of other companies falling into this category included:

- James Fisher
- Hikma Pharmaceuticals
- Hill & Smith Holdings
- Meggitt
- Moneysupermarket
- Morgan Advanced Materials
- Rotork
- Severfield
- Smiths Group
- SThree
- Travis Perkins
- Unite Group

Increases to staff contribution rates

A number of high-profile companies took an alternative approach by working towards aligning pensions by increasing staff rates.

- **Barclays** raised its staff pension rate from 10% to 12% of salary for the most junior employees from 2020. The bank also consolidated bonus payments into salary for customer-facing staff which also had the effect of increasing pensionable remuneration for these employees.
- A similar consolidation occurred at **Royal Bank of Scotland/NatWest** which also served to enhance pension levels.

- **Lloyds Banking Group** increased pension levels for the majority of its staff covering 50,000 colleagues with the maximum contribution now standing at 15%. Increases to employer contributions for the lowest-paid employees rose by 1% which the company said represented an investment of around £20 million per year.
- **WPP** reported that during 2020, as far as practicable, the average maximum pension contribution available to its employees across the UK would be increased to 10% from the current average rate of 5% to ensure alignment.
- **Ultra Electronics**, while not increasing staff rates yet, stated that it has not finalised director reductions because it is considering its employee value proposition which may change and impact staff pension contribution levels, presumably raising them.

A selection of other companies falling into this category included:

- Capital & Counties
- Hyve Group
- Intercontinental Hotels Group
- Marshalls
- Redefine International

Voluntary reductions by directors themselves

Other organisations reported that their existing directors volunteered to reduce their pension contribution rates.

- **RSA's** CEO took a voluntary cut in pension of 3% in 2019 and another of equal value in 2020 with further reductions down to 10% by December 2022.
- **Capital & Counties'** directors will take voluntary reductions from 24% to 15% by the end of 2022. Over the period, workforce rates will increase to 15% from 2021 ensuring alignment.
- **McCarthy and Stone** reported a longer-term transition with its directors voluntarily reducing their pensions in 2018 from 20% to 15%. Decreases will continue with further 2.5% reductions each year until they are aligned with staff at 5%.

A selection of other companies falling into this category included:

- Foxtons
- HSBC
- Intercontinental Hotels Group
- National Grid

One-step changes

As we mentioned above, the dominant trend is now to align director pensions with staff by phasing contributions levels downwards over a number of years. Earlier in 2020 and late 2019, however, there were many companies reporting that they were reducing pension rates for existing directors in one step. In some cases, the steps resulted in immediate alignment with staff levels while in others they represented initial moves towards parity without providing further details of any future reductions. Another variation, then and now, is for firms to take the opportunity to reduce contribution rates when a director changes roles or is promoted making it possible to renegotiate their contracts.

Among the organisations making one-step changes were a number of banks including **Lloyds**, **Royal Bank of Scotland/NatWest** and **Standard Chartered**.

- At **Lloyds**, incumbent directors' pension allowances were reduced to 15% of salary in a single step in 2020 with no offsetting adjustment in salary or other remuneration.
- At the **Royal Bank of Scotland/NatWest**, the situation was different because it had a new chief executive and finance director who received rates aligned with staff at levels of 10% which were significantly lower than the 35% paid to their predecessors. This meant that board level rates were in line with those of over 99.7% of the company's UK employees.
- In 2019 another bank, **Standard Chartered** suffered a significant vote against its remuneration policy in large part due to its pension arrangements. As a result, the company reviewed its arrangements and in January 2020 it reduced the rates for its incumbent directors from 20% of salary to 10%. It also reported that this reduction would negatively impact variable pay potential because incentives are linked to fixed pay rather than being solely based on basic salary.
- **Vodafone** also embarked on a one-step change. Its legacy limit was 24% while its latest policy formally adopted a 10% cap that took effect in July 2018.

A selection of other companies falling into this category included:

- Micro Focus
- Ocado
- Topps Tiles
- John Wood Group
- Go-Ahead

Alignment to another employee group

Some companies, particularly in 2019, reported aligning their new directors' pension levels with a specific group of employees rather than the rate received by the majority of staff.

- **Domino's Pizza** stated that new directors' contribution levels would be aligned with those of office-based staff rather than the majority.
- Similarly, **Big Yellow Group** currently caps pensions for directors at 10% of salary which is the same level as its department heads.

- **John Laing** disclosed that its recently-appointed finance director was entitled to a pension contribution rate aligned with senior staff at 12% of salary whereas the policy for any newer directors would be 8%, in line with the UK workforce.
- Similarly, rates for directors at **Weir Group** and **Morgan Sindall** are aligned with those of senior staff rather than the staff majority.
- **Savills** takes a different approach with its CEO receiving 14% of salary which is the equivalent level received by staff who were recruited at the same time, whereas the chief financial officer receives 18% based on a legacy arrangement. New directors receive 8% of salary aligned with the UK workforce. The company also points out that its contributions are based on salaries that are below market level.

A selection of other companies falling into this category included:

- Devro
- Gym Group
- Inchcape
- JD Sports
- Rentokil

Companies not fully aligning rates

While the majority of companies have stated that they are working towards aligning their directors' pensions with those of their staff, there were a number that appear to have no intention of doing this, at least for now. In some cases, all existing director rates are not currently aligned while in others the exceptions only relate to some board members.

- One example is **J.D. Wetherspoon** whose July 2020 annual report stated that whereas any new directors will have rates of 6% of salary in line with the staff average, existing board members will continue to receive 12% of salary. This level rises by 2% for each additional five years' service after 25 years' tenure. Unlike most companies though, the firm says that the 12% will continue for existing directors because 'this has never been excessive, is lower than the average for FTSE 250 firms and is not disproportionate with that of the wider workforce'.
- In April 2020, **Redde Northgate's** annual report did not explicitly state that its pension levels will not be aligned. However, it disclosed that while new directors' rates will be aligned with the majority of the workforce at between 5% and 15% depending on country, its current chief financial officer receives a higher level of 18% of salary.
- **GlaxoSmithKline i**s one of the companies that have only aligned pensions for some directors. In Glaxo's case, the latest policy for future directors appointed in the UK or US is to provide a pension aligned with the opportunity available to the broader employee population in their location. For incumbent UK board members, full alignment with the wider UK workforce levels will occur from January 2023. In contrast, the company's chief scientific officer, who is based in the US, has a contractual commitment recognising his critical importance to the firm and receives 38% of salary.

A selection of other companies falling into this category included:

- Assura
- Avon Rubber
- Chemring
- Crest Nicholson
- Foxtons
- Genus
- GlaxoSmithKline
- Glencore
- Grainger
- McColl's Retail
- On the Beach
- Redefine International
- Safestore Holdings
- Saga
- Segro
- Senior
- SSP
- Superdry
- Victrex
- Virgin Money
- Volution

Other approaches

Throughout the FTSE 350 and SmallCap indices there was a variety of approaches and even within these there were a few cases that stood out.

- Back in December 2019, FTSE 100 firm **Melrose Industries** said that the pension provision for its current executive directors was *within the range* provided to the wider workforce. The current rate is 15% of salary which is at the top end of the UK staff range that stretches from 8% up to 15%. While not aligning with the staff majority, Melrose stated that this level is materially below the lower quartile of contributions in the FTSE 100 of 20% (at that time) and that contribution rates across its various business units more generally range from 3% to 20%.
- Another approach was followed by **Telecom Plus** that was one of the few companies to mention compensating its board members for agreeing pension reductions. In this case, it paid its chief executive and chief financial officer an extra £6,000 in salary to compensate them for contributions that fell from £10,000 to £4,000 per year.

By contrast, some other organisations are making pension contributions to some directors that are actually lower than their stated maxima.

- **SIG** reduced contribution rates to 5% for its executive directors which are, in some cases, below those of the wider workforce contribution level.
- Similarly, **Headlam** provides 11% of salary to its finance director which is lower than the stated policy maxima of 15% while the current chief executive does not receive a pension.
- **IWG's** current directors receive 7% of salary compared to the maximum set for new directors' pensions of up to 15% based on their location.
- Location also plays a role in **Ferguson's** pension arrangements with the company setting separate pension limits based on where its directors are employed. For those based in the USA there is a cap on pensions of 16% of salary whereas it is lower at 9% for those in the UK and rest of the world. The company states that these levels are aligned with staff rates and the dual policy approach also applies for incentive opportunities.

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