Executive remuneration in FTSE 100 companies

2019 market data report for executive and non-executive directors

September 2019

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Contents

This report provides a final update for the 2019 Annual General Meeting (AGM) season on key pay developments this year. It also sets out an overview of executive director market data and non-executive director fees for companies in the FTSE 100.

This report includes data sourced from Willis Towers Watson's Global Executive Compensation Team. This report is based on the FTSE 100 as at 24 June 2019.

Key headlines from the 2019 AGM season

Who changed what?

- 2019 was not a regular policy review year and we saw a decrease in the number of companies tabling a new policy for shareholder approval this year (18% vs 25% in 2018).
- There were only a handful of examples of significant changes to policy with one company adopting a value creation plan and one company re-working the remuneration framework to discontinue the annual bonus and increase the focus on the LTIP.
- As we expected, most of the changes were made by early adopters to the UK Corporate Governance code (UKCGC) and responses to evolving views from shareholders and proxy agencies.

How did investors and proxy agencies react?

- Proxy agency recommendations remained broadly stable compared to 2018, although we did see an increase in the percentage of companies getting an "Amber-top" from IVIS, an increase from 60% last year to circa (c.) 70% of companies this year.
- The main area of contention continues to be quantum, with base pay and incentive increases among the top area of concern where not accompanied by robust rationale. The 'perceived' stretch of performance targets also continued to receive focus, as was the case last year.
- A number of companies received challenges around how they treated directors leaving/joining during the year, illustrating that the implementation of the policy is as important as ever.
- While disclosure was frequently cited as an area of concern last year, there were far fewer instances of that this year suggesting that companies have responded to this feedback.

And what happened at AGMs?

- There was little change in the median AGM voting out-turn which remained high at 96% for the Annual Report on Remuneration (ARR) and 97% for the policy.
- We did, however, see an increase in the proportion of companies that received less than 90% support to around 30% of companies for both the ARR and policy (from c. 20% in 2018). The proportion of companies receiving less than 80% remained broadly stable at c. 10% for both the ARR and policy.

Looking ahead to 2020

- We expect over half of FTSE 100 companies to table a new policy for approval during the 2020 AGM season and Willis Towers Watson believes there are a few critical success factors:
  - **Business first** – we always advocate putting the business first and then reviewing through external market and governance lenses to determine if 'tweaks' or adjustments are required.
  - **Storytelling is key** – changes accompanied by a robust rationale linked to the strategy are more likely to be supported, even if the changes result in an atypical pay structure. Telling the story concisely and persuasively in both shareholder consultation materials and the Directors' Remuneration Report (DRR) is important.
  - **Know your audience** – this AGM season has demonstrated that there are a number of shareholder and proxy agency 'hotspots'. It is therefore worth being prepared for any challenge/questions you may get on your proposed approach, taking these views into account.
- It is clear that the engagement process is more time intensive than ever before with a significant amount of work taking place 'behind the scenes'. While undertaking a policy review alongside the expansion of the Remuneration Committee's remit increases the pressure on both companies and Boards, it does provide an opportunity for companies to consider their approach to executive pay to ensure that the approach is right for the business, its stakeholders and its executive talent. It also ensures the approach to pay for executives can be appropriately aligned with the wider workforce.

Key trends from the 2019 AGM season

The graphics below provide further detail on the key themes we observed this year.

Fixed pay

2% Median CEO salary increase

Around **1 in 4** CEOs received no salary increase *(1 in 5 CFOs)*

Around **40%** of companies have made pension changes. 75% of these companies are making these changes for new hires only.

Of those committed to reducing for new hires, the median contribution has dropped from **25% of salary** to **12% of salary**

The median contribution for FTSE 100 CEOs has decreased this year to 20% of salary, from 25% of salary last year.

Annual bonus

Seven companies have increased the annual bonus opportunity and one company has decreased it.

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Two of the companies that increased their bonus decreased the LTIP opportunity resulting in a re-balancing of incentives. One of the companies that increased also implemented a one-off growth incentive plan.

The most common changes are:

c. 70% of companies changed measures and/or weightings

11% of companies have enhanced clawback triggers

Long-term incentive plans

Changes to LTIP opportunity have been more consistent with last year. So far we have seen four companies increasing and three companies decreasing.

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We have seen more instances of companies reducing LTIP grant levels to take into account a share price decline.

Changes to LTIPs are more varied than changes to annual bonuses:

Over **50%** have adjusted vesting schedule

86% adjusted targets and 14% adjusted vesting at threshold.

c. 25% changed measures and/or weightings

11% have increased holding period

Most companies already comply with the five year time horizon provision in the Corporate Governance Code.

Pay out-turns and shareholding guidelines

2018 median CEO single figure **£3.96 million**

2019 median CEO single figure **£3.60 million**

The median annual bonus payout as a percentage of maximum has decreased slightly from **76%** last year, to **70%** this year. **Discretion** was applied by Remuneration Committees to reduce bonus payments in nine companies.

Median LTIP vesting has also **decreased to 65% of maximum**, from 68% of maximum last year. Discretion was applied by Remuneration Committees to reduce LTIP vesting in five companies.

Shareholding guidelines

- 9% of companies have increased shareholding guidelines.
- 30% of FTSE 100 companies now operate post-employment shareholding guidelines.

Executive director market data
Salary

- The figures below set out the quartile salary data for the CEO and CFO roles in the FTSE 30, FTSE 50 and FTSE 100.
- We continue to observe moderate salary increases, with a higher proportion of companies applying no increase to the CEOs salary.
- We typically find a salary differential of 60% to 70% for the CFO to CEO role, with a median of 65%.

CEO salary trends

Figure 1. **CEO salary data by quartile**

	Lower quartile	Median	Upper quartile
FTSE 30	£1,093,000	£1,211,000	£1,346,000
FTSE 50	£926,000	£1,088,000	£1,275,000
FTSE 100	£740,000	£876,000	£1,101,000

Figure 2. **CEO median salary increases**

FTSE 30	2.0%
FTSE 50	2.0%
FTSE 100	2.0%

Figure 3. **Proportion of companies applying 0% increase for CEO salaries**

FTSE 30	37%
FTSE 50	32%
FTSE 100	24%

CFO salary trends

Figure 4. **CFO salary data by quartile**

	Lower quartile	Median	Upper quartile
FTSE 30	£702,000	£763,000	£862,000
FTSE 50	£570,000	£703,000	£791,000
FTSE 100	£480,000	£566,000	£716,000

Figure 5. **CFO median salary increases**

FTSE 30	2.5%
FTSE 50	2.0%
FTSE 100	2.0%

Figure 6. **Proportion of companies applying 0% increase for CFO salaries**

FTSE 30	24%
FTSE 50	24%
FTSE 100	19%

Benefits

- Following pressure from some institutional investors and proxy agencies, we have seen a clear trend of companies reducing pension provisions for executive directors, with most companies changing the provision for new hires.
- For companies that have changed the pension provision for new hires, the median contribution has decreased from 25% of salary to 12% of salary. There are also examples of companies reducing the pension provision for existing incumbents (12% of companies). The median contribution for the CEO has decreased by 5% of salary to 20% this year.
- While disclosure on car allowance benefits practice is mixed, it continues to be a common benefit at executive director level, and we have not seen a significant change in its value over recent years.

Pension contribution

- In the FTSE 100, over 90% of companies offer a defined pension contribution or cash allowance.
- C. 40% of companies changed their pension provision during the most recent financial year, with a mix in practice (*Figure 9*). Most companies applied the change to new hires only although we did see examples of change also being applied to existing directors, some on a phased basis.

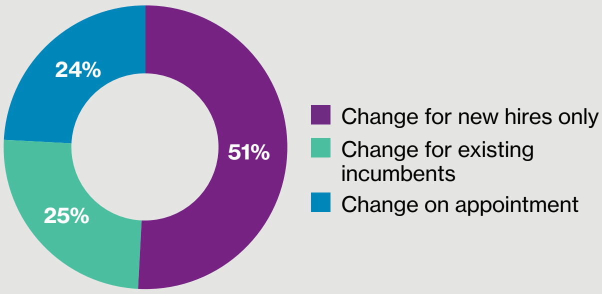
Figure 7. **Value of defined contribution/cash allowance for CEO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 30	16%	20%	25%
FTSE 50	15%	20%	25%
FTSE 100	15%	20%	25%

Figure 8. **Value of defined contribution/cash allowance for CFO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 30	20%	23%	25%
FTSE 50	15%	24%	25%
FTSE 100	15%	20%	25%

Figure 9. **Pension provision practices, based on c. 40% companies making changes**



Car allowance

Eighty-five percent of companies in the FTSE 100 disclose that executive directors receive a car benefit or car allowance. *Figure 10* provides data on the value of this benefit for those companies that do disclose the details of the car allowance.

Figure 10. **Value of car allowance benefit in FTSE 100 companies**

	CEO	CFO
Upper quartile	£25,000	£22,000
Median	£20,000	£17,000
Lower quartile	£15,000	£15,000

Annual bonus

- The median annual bonus payout was 70% of maximum for the CEO role in the FTSE 100.
- We haven't seen a significant change in bonus opportunity in the FTSE 100 this year, therefore changes in the data are mostly due to a change in sample constituents.
- Three year annual bonus deferral is the norm, and only two companies in the FTSE 100 operate a deferred bonus matching plan.

Maximum bonus opportunity as percentage of salary

Figure 11. **Maximum bonus opportunity for CEO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 30	200%	200%	230%
FTSE 50	180%	200%	225%
FTSE 100	150%	200%	200%

Figure 12. **Maximum bonus opportunity for CFO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 30	150%	200%	210%
FTSE 50	150%	190%	210%
FTSE 100	150%	150%	200%

Bonus payouts as percentage of maximum

Figure 13. **Bonus payouts for CEO role (% of maximum opportunity)**

	Lower quartile	Median	Upper quartile
FTSE 30	59%	76%	84%
FTSE 50	57%	76%	84%
FTSE 100	51%	70%	84%

Figure 14. **Bonus payouts for CFO role (% of maximum opportunity)**

	Lower quartile	Median	Upper quartile
FTSE 30	58%	72%	83%
FTSE 50	60%	75%	86%
FTSE 100	52%	68%	85%

Application of discretion

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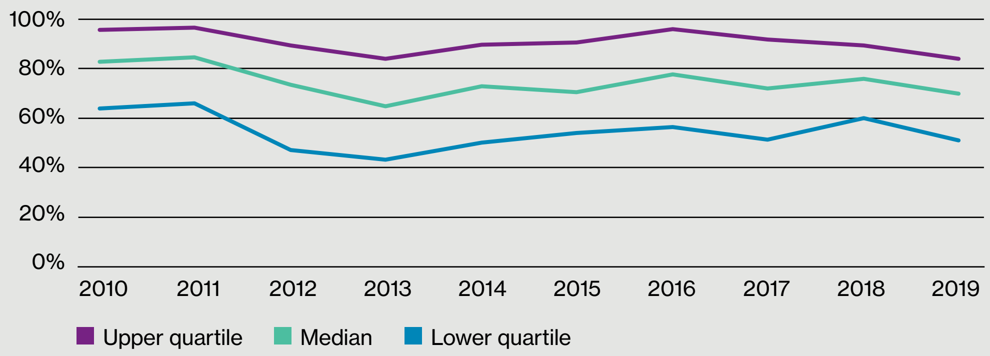
Instances of Remuneration Committees applying downward discretion

2
Instances of Remuneration Committees applying upward discretion

Bonus payouts over time

Over the past 10 years, the median annual bonus payout has generally been between 70% and 80% of the maximum opportunity in FTSE 100 companies. The median payout has only fallen outside this range in three of the last 10 years (two above and one below).

Figure 15. **Bonus payouts from 2010 – 2019 (% of maximum opportunity)**



Performance measures

In FTSE 100 companies, the median split of financial versus non-financial measures is 70% and 30%, respectively. This split is typically consistent across the whole of the FTSE 100.

Figure 17 shows that a profit or income-based measure continues to be the most common measure used in FTSE 100 annual bonus plans. We have seen an increase in the proportion of companies taking a more tailored approach, for example, incorporating a financial measure specific to a company's sector. Around 60% of FTSE 100 companies incorporate environmental, social and governance (ESG) metrics in their annual bonus plan.

Figure 16. **Split of performance measures in FTSE 100 bonus plans**

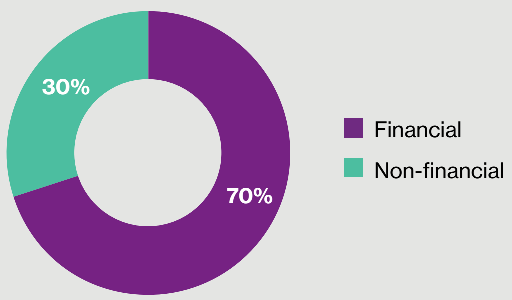
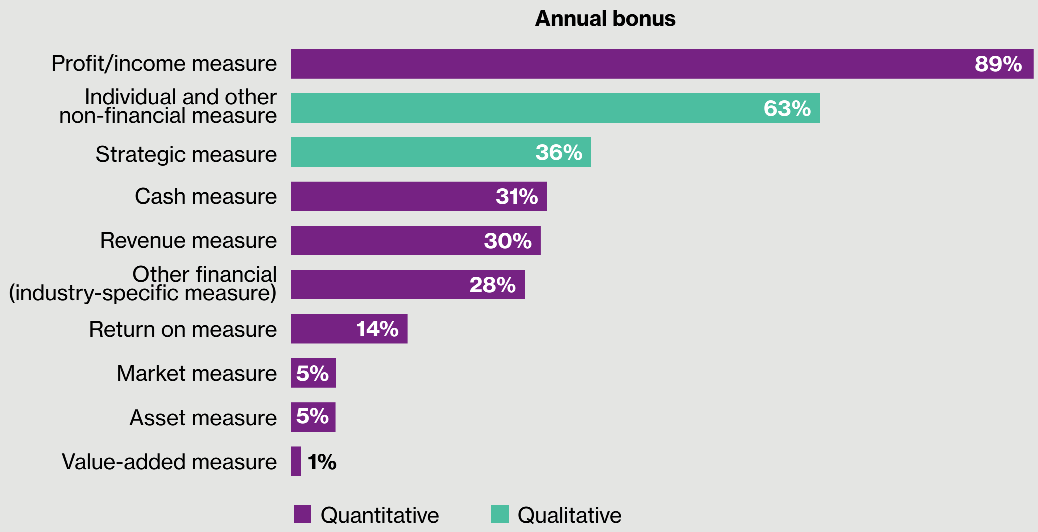


Figure 17. **Prevalence of performance measures (by measure category)**



Annual bonus deferral

Figure 18. **Proportion of deferral**

	% of FTSE 30	% of FTSE 50	% of FTSE 100
Up to 25.0%	6%	4%	3%
25.1% – 33.0%	0%	2%	3%
33.1% – 50.0%	58%	54%	52%
50.1% +	10%	12%	12%
No deferral	19%	21%	19%
% in excess of salary/other	*7%*	*7%*	*11%*

Figure 19. **Deferral mechanism**

	% of FTSE 30	% of FTSE 50	% of FTSE 100
Deferral with no match	74%	75%	79%
Deferral with match	7%	4%	2%
No deferral	19%	21%	19%

Figure 20. **Deferral time period**

	% of FTSE 30	% of FTSE 50	% of FTSE 100
Less than two years	0%	0%	0%
Two years	13%	12%	12%
Three years	55%	52%	52%
Four years	3%	2%	1%
No deferral	19%	21%	19%
Phased	*10%*	*13%*	*16%*

Malus and clawback

Based on disclosure, malus and clawback provisions apply to the annual bonus within FTSE 100 companies as follows:

- Nearly 95% have the ability to operate clawback on the cash bonus.
- 93% of companies have the ability to operate malus on shares that have not yet vested.
- We have seen malus and clawback provisions strengthened in 10% of companies.
- The most common practice is for malus and/or clawback provisions to be operated for two to three years on the annual bonus.
- Common triggers for malus and clawback include material misstatement of financial results, serious misconduct and miscalculation of any performance condition.

Long-term incentive plans (LTIPs)

- While the performance share plan (PSP) continues to be the most common plan operated, there are examples of companies taking a more tailored approach.
- The majority of companies now operate the PSP over a five-year time period (i.e. performance period plus holding period).
- Limited change has been observed to payouts this year and they are broadly consistent across the FTSE 100 at 65% of the maximum opportunity.
- There has been no application of upwards discretion to PSP awards this year, and more examples of downwards discretion.

Types of plans

The most prevalent plan type continues to be a PSP, which is operated by 90% of the FTSE 100. Other share plans include share options (5% of companies), deferred bonus matching plans (2% of companies) and restricted shares (5% of companies).

Figure 21. **Number of LTIPs operated**

	FTSE 30	FTSE 50	FTSE 100
No plan	0%	2%	2%
One plan	87%	84%	87%
Two plans	13%	12%	10%
Three plans	0%	2%	1%

Maximum PSP opportunity

Figure 22. **Maximum PSP opportunity for CEO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 30	290%	365%	500%
FTSE 50	205%	300%	400%
FTSE 100	200%	250%	350%

Figure 23. **Maximum PSP opportunity for CFO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 30	250%	300%	400%
FTSE 50	210%	250%	350%
FTSE 100	200%	225%	300%

The median threshold opportunity in the FTSE 100 is 25% of the maximum opportunity, with a lower quartile of 20% and an upper quartile of 25%.

Exceptional PSP maximums

Thirty-three percent of companies in the FTSE 100 disclose an exceptional PSP maximum in their policy. This is typically 50% to 100% of salary above the usual maximum PSP opportunity.

PSP payouts as a percentage of maximum

We observe the same payouts to the CEO and CFO roles as they generally participate in the same LTIP with the same performance measures.

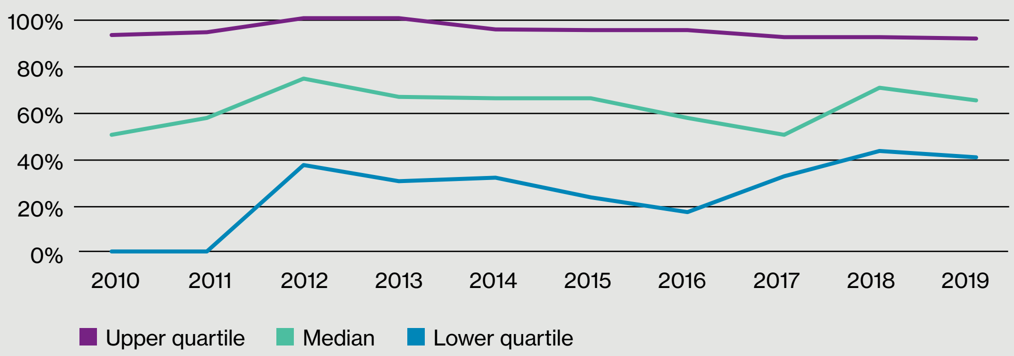
PSP payouts over time

PSP payouts tend to be more variable than payouts under the annual bonus, and we have observed median payouts between 45% and 75% over the past ten years (*Figure 25*).

Figure 24. **PSP payouts (% of maximum opportunity)**

	Lower quartile	Median	Upper quartile
FTSE 30	41%	71%	84%
FTSE 50	44%	70%	84%
FTSE 100	40%	65%	91%

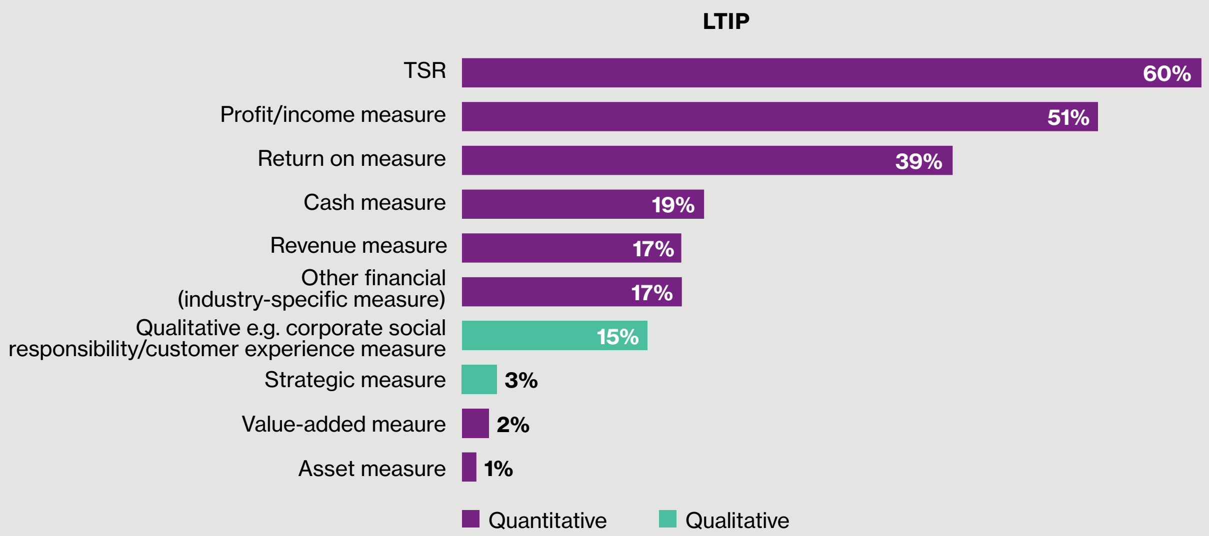
Figure 25. **PSP payouts from 2010 – 2019 (% of maximum opportunity)**



PSP performance measures

Figure 26 provides an overview of the performance measures used in PSPs in FTSE 100 companies. Around 11% of FTSE 100 companies use ESG metrics in their PSPs.

Figure 26. **Prevalence of performance measures (by measure category)**



PSP time horizons

Eighty-five percent of companies in the FTSE 100 now have a total time horizon (i.e., performance plus holding) of at least five years. Ninety-one percent of companies in the FTSE 100 now operate a holding period on the PSP (*Figure 28*).

Figure 27. **Length of performance period**

	% of FTSE 30	% of FTSE 50	% of FTSE 100
Three years	72%	75%	82%
Four years	0%	2%	4%
Five years	14%	15%	10%
More than five years	14%	8%	4%

Figure 28. **Length of holding period**

	% of FTSE 30	% of FTSE 50	% of FTSE 100
One year	10%	6%	5%
Two years	59%	67%	75%
Three years	7%	4%	2%
No HP	21%	21%	15%
Phased	*3%*	*2%*	*3%*

Application of discretion

5
Instances of Remuneration Committees applying downward discretion

0
Instances of Remuneration Committees applying upward discretion

Malus and clawback

Based on disclosure, malus and clawback provisions are operated as follows:

- 97% of companies disclose the ability to operate malus.
- Around 95% of companies disclose the ability to operate clawback.
- Common triggers for malus and clawback are similar to those which apply to the annual bonus – they include material misstatement of financial results, serious misconduct and miscalculation of any performance condition.
- Companies are most likely to operate clawback two to three years after shares have vested.
- We have seen malus and clawback provisions strengthened in 11% of companies.

Single figure

CEO single figure

The CEO single figure in the FTSE 100 has now reduced, compared to 2018 as shown in *figures 29 to 31*, and is now a similar level to that shown in 2015/16.

We would advise caution using the single figure as an indication of excess/restraint in relation to quantum given the significant impact of share price on the out-turn.

Figure 29. **CEO single figure total compensation in 2019**

	Lower quartile	Median	Upper quartile
FTSE 30	£4,375k	£6,620k	£10,289k
FTSE 50	£3,307k	£4,542k	£7,766k
FTSE 100	£2,395k	£3,596k	£5,887k

Figure 30. **CEO total remuneration from 2010 – 2019**

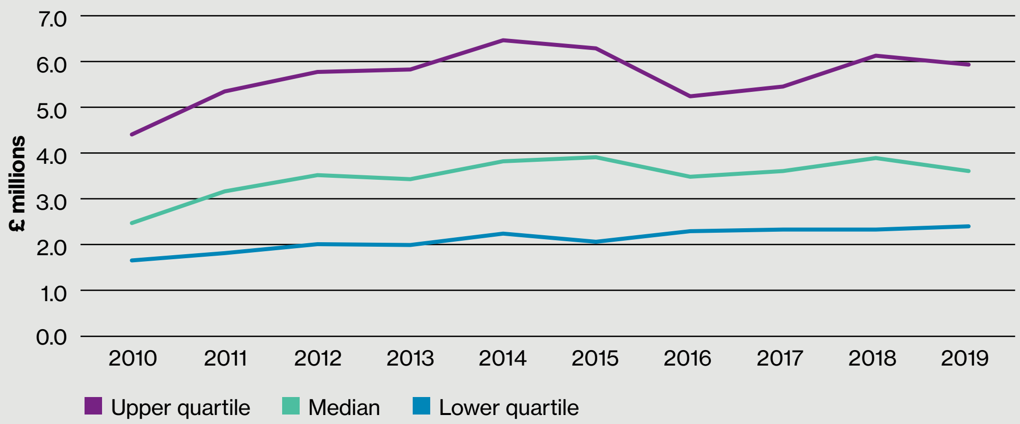
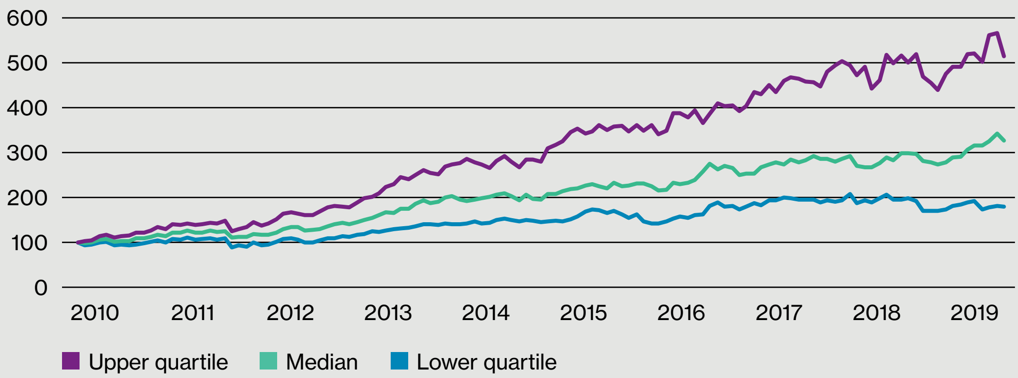


Figure 31. **FTSE 100 total shareholder return (TSR) performance from 2010 – 2019**



Shareholding guidelines

The figures below set out the level of shareholding guidelines in the FTSE 30, FTSE 50 and FTSE 100 for both the CEO and CFO roles. Around 71% of companies in the FTSE 100 have a higher guideline for the CEO than other executive directors.

Around two-thirds of FTSE 100 companies disclose a time period over which the shareholding should be built. Of those that disclose this information, the most common time period for compliance is five years (90% of companies).

Figure 32. **Shareholding guidelines for CEO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 30	300%	350%	500%
FTSE 50	260%	300%	400%
FTSE 100	225%	300%	350%

Figure 33. **Shareholding guidelines for CFO role (% of base salary)**

	Lower quartile	Median	Upper quartile
FTSE 30	200%	300%	300%
FTSE 50	200%	210%	300%
FTSE 100	200%	200%	300%

Actual median shareholdings

CEO actual shareholdings in the FTSE 100 are generally higher than the guidelines (*Figure 34*).

Post-cessation shareholding guidelines

30 companies in the FTSE 100 operate post-cessation shareholding guidelines, and of those companies 12 of them are compliant with the Investment Association (IA) guideline of the lower of the shareholding requirement immediately prior to departure or the actual shareholding on departure for at least two years. Of those who do not comply with the IA guideline, either the requirement applies on a phased basis or the level is lower than the in-employment guideline.

Figure 34. **Actual median shareholdings for CEO and CFO roles (% of base salary)**

	CEO	CFO
FTSE 30	480%	250%
FTSE 50	430%	180%
FTSE 100	440%	160%

Non-executive directors' fees

The figures below set out fee levels paid to non-executive directors in the FTSE 30, FTSE 50 and FTSE 100.

The Chairman is typically paid an all-inclusive fee for all responsibilities based on company size, time commitment and role responsibilities.

Non-executive directors are typically paid a base fee for Board membership with additional fees for other responsibilities such as chairing a Board Committee.

Figure 35. **Chairman fee**

	Lower quartile	Median	Upper quartile
FTSE 30	£560,000	£660,000	£750,000
FTSE 50	£425,000	£560,000	£700,000
FTSE 100	£320,000	£420,000	£610,000

Figure 36. **Basic non-executive director fee**

	Lower quartile	Median	Upper quartile
FTSE 30	£77,000	£87,000	£100,000
FTSE 50	£70,000	£80,000	£94,000
FTSE 100	£61,000	£70,000	£80,000

Figure 37. **Senior independent director fee**

	Median	Prevalence
FTSE 30	£30,000	90%
FTSE 50	£27,000	92%
FTSE 100	£20,000	87%

Figure 38. **Median committee fee levels and prevalence**

Audit Committee				
	Chairman fee	Chairman fee prevalence	Member fee	Member fee prevalence
FTSE 30	£37,000	100%	£22,000	70%
FTSE 50	£30,000	100%	£19,000	60%
FTSE 100	£22,000	92%	£15,000	43%

Remuneration Committee				
	Chairman fee	Chairman fee prevalence	Member fee	Member fee prevalence
FTSE 30	£31,000	100%	£18,000	70%
FTSE 50	£30,000	100%	£15,000	60%
FTSE 100	£20,000	94%	£14,000	42%

Nomination Committee				
	Chairman fee	Chairman fee prevalence	Member fee	Member fee prevalence
FTSE 30	£26,000	13%	£14,000	57%
FTSE 50	£13,000	20%	£11,000	50%
FTSE 100	£15,000	16%	£10,000	34%

Risk Committee				
	Chairman fee	Chairman fee prevalence	Member fee	Member fee prevalence
FTSE 100	£30,000	18%	£14,000	14%

This sample is heavily skewed towards companies in the financial services sector.

Corporate Social Responsibility Committee				
	Chairman fee	Chairman fee prevalence	Member fee	Member fee prevalence
FTSE 30	£30,000	37%	£15,000	30%
FTSE 50	£30,000	30%	£15,000	22%
FTSE 100	£22,000	23%	£13,000	15%

Further information

For more information on FTSE 100 market data and pay trends please contact your Willis Towers Watson contact or:

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