Early insights from FTSE 100 Directors' Remuneration Report publications – 2023

As of 1 April, 61 FTSE 100 companies had published their 2022 annual report and accounts. This update, the first in our 2023 series, provides an analysis of key insights so far.

2023 was expected to be a peak year for remuneration policy renewals. However, this triennial 'wave' appears to be flattening somewhat, due to companies occasionally putting policies to vote outside the three-year cycle as well as newly IPO'd companies joining the index over time. So far this year, 57% of companies have published a new policy for approval (2022: 30%).

Our annual investor outreach exercise at the end of 2022 highlighted three major areas of focus going into the 2023 season:

- **ED salary increases**: in the context of current high levels of inflation and increases in the cost of living, there is an expectation that salary increases for executive directors [EDs] should be below those of the wider workforce and that companies should be focusing particularly on pay for the lower paid, as they are disproportionately affected.
- **Windfall gains:** companies should clearly disclose the approach they have taken to assess whether EDs have benefitted from windfall gains, i.e. that a relatively large number of shares may have been granted under long-term incentive plans in early 2020 following significant COVID-19 induced share price falls, and apply downwards discretion as appropriate.
- **ESG**: while there are differing views from investors on how/where ESG measures should be incorporated into variable remuneration, it is clear that they should be aligned to a company's wider messaging on ESG, be quantifiable and robust.

Following the Investment Association's (IA) updated Principles with respect to Non-Executive Director (NED) fees, which encouraged companies to ensure fees reflect the increased complexity, skillset and time required to fulfil the role, we anticipated an increase in the number of companies reviewing Chairman and NED fees.

Implementation for 2023

Base salary

Although down from its peak of 11.1% in October, the UK inflation rate remains over 10% and median salary increases for the wider workforce have increased from 3.0% to 5.9%

In line with investor expectations, salary increases for EDs have been more restrained, with around 90% of recently published companies discounting ED increases compared to that of the wider workforce, typically by 2.0%.

Median CEO/CFO salary increases:

4.0%/4.3%

below those of the wider workforce

11%/8% of CEOs/CFOs received no salary increase (2022: 11%)

10%/16% of CEOs/CFOs received increases above 5%: most were in line with or lower than those for the wider workforce, but a third were higher and these ranged from 9.6% to 19.0%.

Annual bonus

13% have changed bonus opportunities: seven companies increased and one decreased (by re-balancing variable pay, reducing bonus whilst increasing LTI)

51% have changed measures or weightings

Changes to metrics vary widely. However, 81% of companies making such changes are either introducing or, more typically, modifying/ expanding their ESG metrics.

10% are making changes to annual bonus deferral: half are reducing the deferral percentage once the share ownership guideline has been met; half are switching from variable, depending on bonus outcome, to a fixed percentage.

Long-term incentives (LTIs)

21% have changed LTI opportunities: twelve companies increased and one decreased (for EDs other than CEO)

64% have changed target or payout calibration

Three companies increasing LTI opportunities are doing so within previously approved policy limits and nine are increasing policy limits. For those companies increasing their policy limits, the median CEO opportunity increase is 48% of LTI opportunity, e.g. from 200% to 295% of salary.

5% of companies are changing the LTI vehicle: one is replacing its PSP with an RSP, another its RSP with a PSP and one has introduced a one-off four-year PSP.

41% of companies are making changes to their measures or weightings. These vary but 68% include either introductions or, more typically, modifications/expansions to existing ESG metrics.

Environmental, Social, Governance

Annual bonus: around 85% of companies already include ESG metrics in their annual bonus. 34% of companies have disclosed either the introduction (10%), or modification of measures (62%) and/or weightings (52%) of ESG metrics in their 2023 plan. Societal, especially People & HR related measures, are the most common ESG metrics in annual bonuses.

Long-term incentives: ESG metrics are less prevalent in LTI plans (55%). 23% of companies have disclosed either the introduction (36%), or modification of measures (71%) and/or weightings (36%) of ESG metrics for their 2023 awards. These new and expanded metrics almost all include environmental objectives. Environmental & sustainability are the most common ESG metrics in LTI plans.

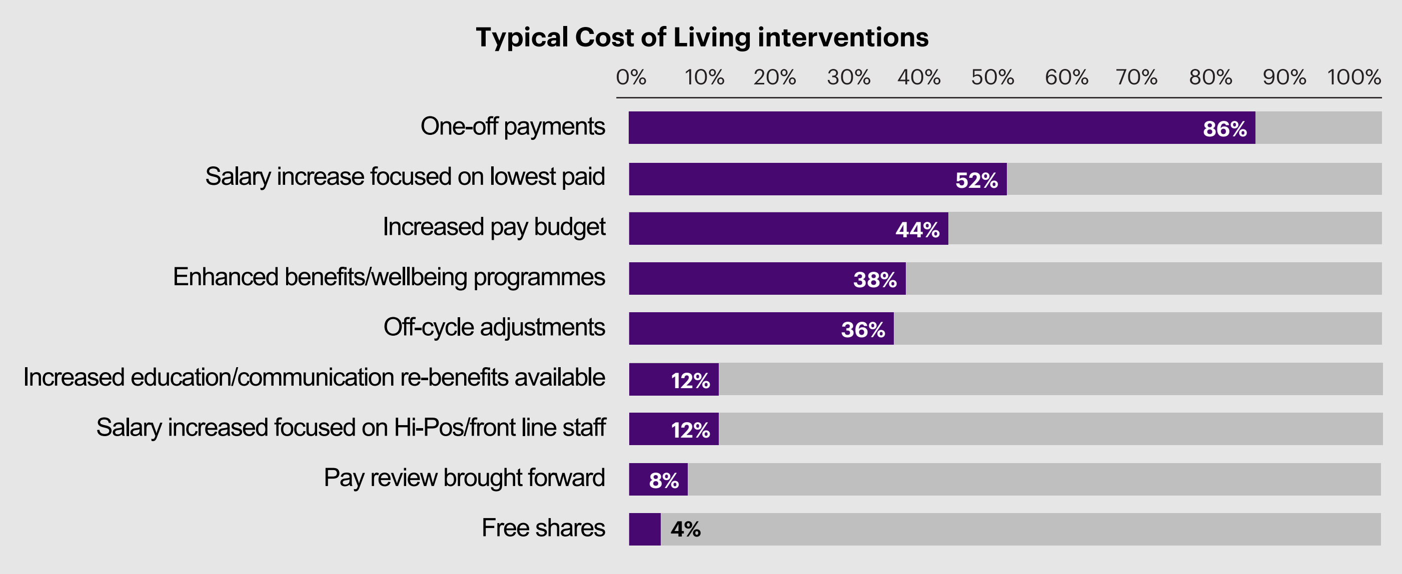
Chairman and NEDs

Half of FTSE 100 companies (slightly more than last year) have increased either their all-inclusive Chairman and/or basic NED fee. Median levels of increase are 4.0% for both roles (2022: 3.0%), in line with ED but below wider workforce increases. Around 60% of companies making increases to Chairmen and NED fees this year are doing so for a second consecutive year.

Broader macro-economic environment/wider workforce actions

Given the broader macro-economic environment of the last few years - the COVID-19 pandemic, the invasion of Ukraine by Russia, soaring inflation and the associated cost of living crisis - most companies have increased their disclosure regarding the Remuneration Committee’s awareness and oversight of the remuneration of and actions taken for the wider workforce. So far this year, 82% of companies have made reference to some kind of change and/or intervention for the broader employee population.

The chart below shows the most common interventions explicitly disclosed.

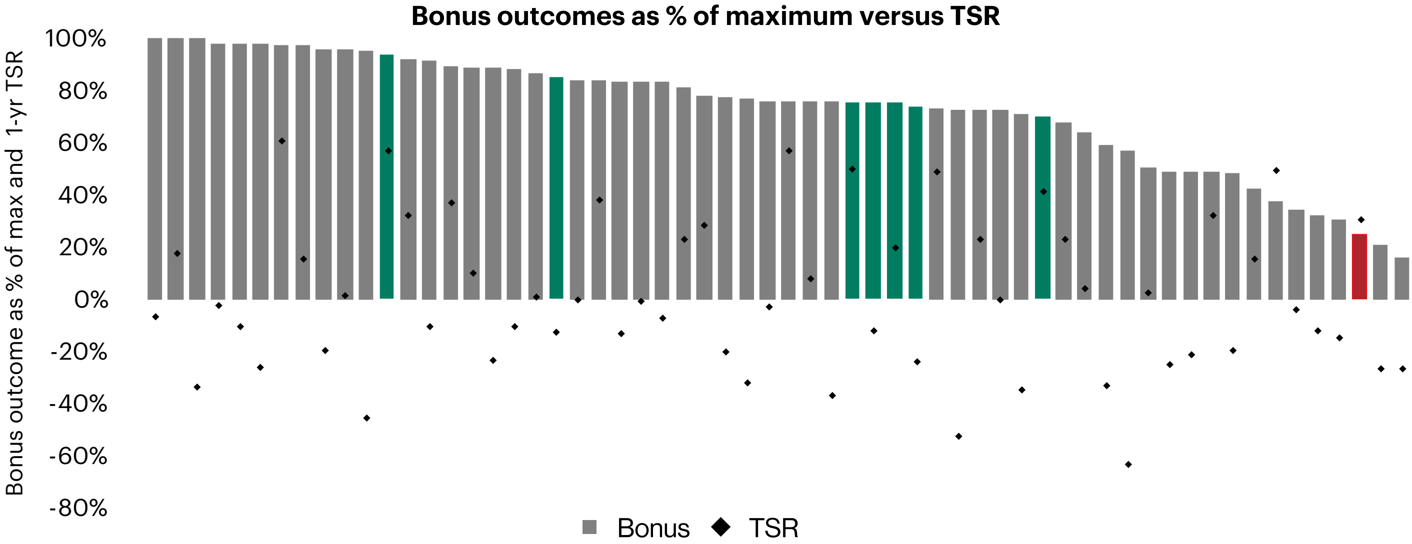


Incentive outcomes for 2022

Summary

- The median annual bonus payout is 76% of maximum
  - Although lower than in 2022 (90%), this is in line with long-term levels
- LTI payouts vary widely, but the median so far is 59% of maximum
  - This is similar to 2022 (60%) and long-term levels
- Interventions were as likely for annual bonus as LTI outcomes:
  - Bonuses at 11% of companies were reduced by the RemCo (2022: 19%).
  - Formulaic LTI outcomes were reduced at 10% of companies (2022: 3%), mostly due to windfall gains.
  - Two companies have increased outcomes, one for annual bonus (2% vs 0% in 2022) and one for LTI vesting (2% vs 8% in 2022).

Annual bonus



Green bar – overall downwards discretion; **Red bar** - overall upwards discretion
TSR is measured point to point, 1 Jan 22 - 31 Dec 22

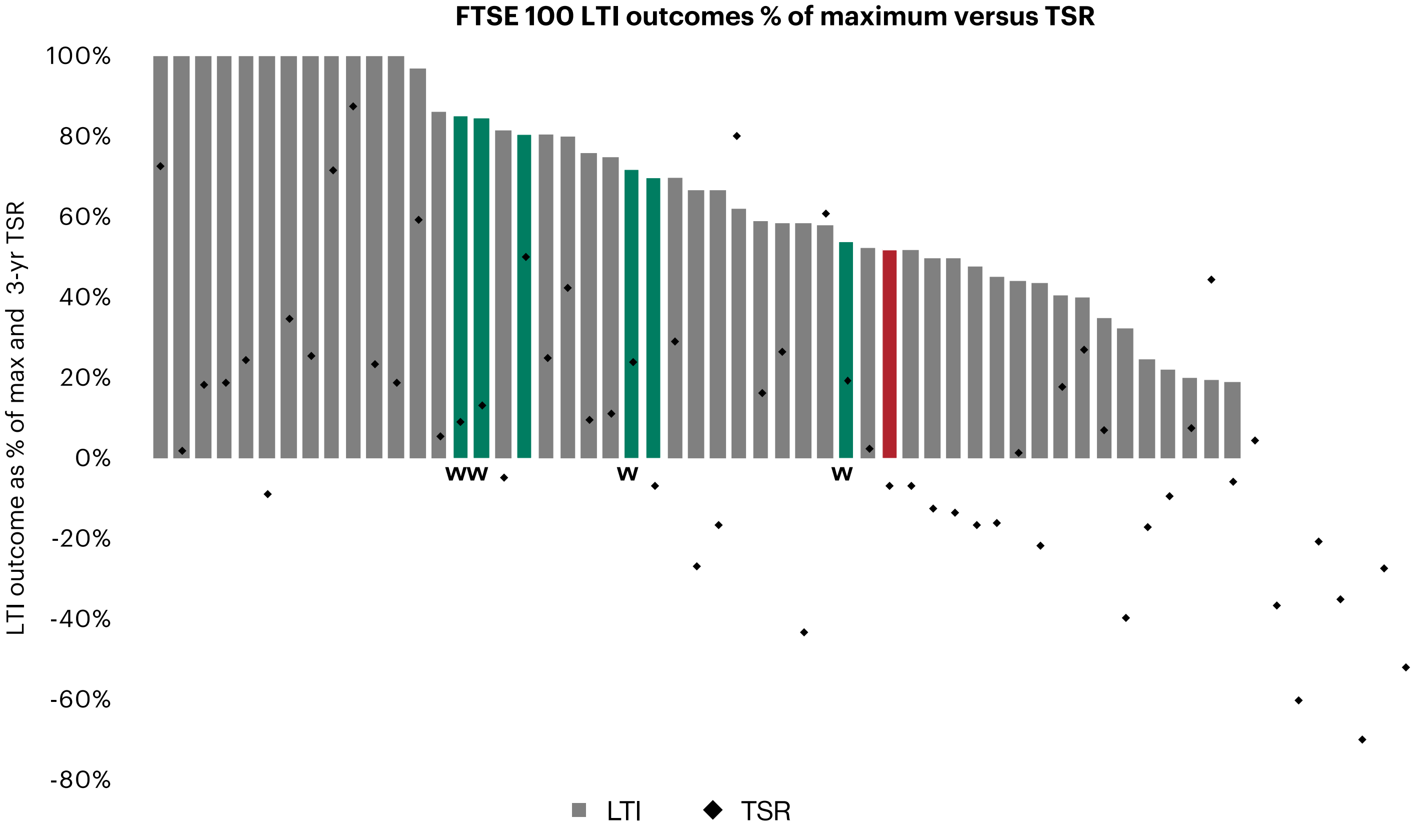
76% **Median bonus outcome, as % of maximum**

7 1

7 RemCos used their discretion to reduce formulaic outcomes: reductions range from 2.5% to 17% of bonus, with a median of 5%.

The one company that increased its bonus outcome did so from 0% to 25% of maximum.

Long-term incentives



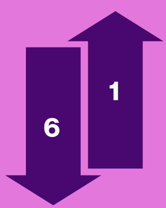
Green bar – overall downwards discretion; **Red bar** – overall upwards discretion; **W** – windfall gains adjustment

TSR is measured point to point, 1 Jan 20 - 31 Dec 22

59%

Median LTI outcome, as % of maximum

13% of companies' LTIs lapsed entirely (2022: 13%)



6 RemCos used their discretion to reduce formulaic outcomes.

The one company that increased its LTI vesting outcome did so from 45% to 52% of maximum.

Windfall gains

Four of the reduction cases were adjustments for windfall gains. Three companies adjusted by 10% and one by 15%; corresponding share price falls ranged from 33% to 50%.

Therefore, of the companies with December year ends and some portion of LTI vesting, 8% adjusted for windfall gains, 72% stated they considered it but made no adjustment and 20% were silent.

Further information

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

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This report includes data sourced from **WTW's Global Executive Compensation Analysis Team**. This report is based on the FTSE 100 as at 1 April 2023.

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