



Early insights from FTSE 250 Directors' Remuneration Report publications – 2023

As of 20 April, 92 FTSE 250 companies had published their 2022 annual report and accounts, representing c. 57% of index constituents*. This update, the second 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, 43% of companies have published a new policy for approval (2022: 27%).

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.

*Excluding Investment Trusts and other companies with no Executive Directors

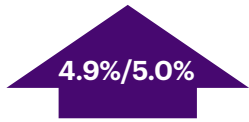
Implementation for 2023

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 3.5% to 6.0%.

In line with investor expectations, salary increases for EDs have been more restrained, with over 75% of recently published companies discounting ED increases compared to those of the wider workforce, typically by 1.5%-2.0%.

Median CEO/CFO salary increases:



below those of the wider workforce



12%/8% of CEOs/CFOs received no salary increase (2022: 22%/18%)

17%/12% of CEOs/CFOs received increases above 6%: many were in line with or lower than those for the wider workforce, but around half were higher and these ranged from 7.8% to 15.0%.

Annual bonus



13% of companies have increased bonus opportunities, although two-thirds have excluded the CEO.

Eight companies are increasing within previously approved policy limits and four are increasing policy limits.



Over 67% of companies already include ESG metrics in their annual bonus. Societal, especially People & HR related measures, are the most common ESG metrics in annual bonuses.

Long-term incentives (LTIs)



10% of companies have increased LTI opportunities: two-thirds have included all EDs.

Five companies are increasing within previously approved policy limits and four are increasing policy limits.



5% of companies are changing the LTI vehicle: three companies are replacing alternative structures (two Single Variable Plans and one Value Creation Plan) with market-standard PSPs; one company is replacing its PSP with an RSP and another is introducing a stretch element to its PSP.



ESG metrics are less prevalent in LTI plans (around 40%). Environmental & sustainability are the most common ESG metrics in LTI plans.

Chairman and NEDs

Similar to last year, around half of companies have increased either their all-inclusive Chairman and/or basic NED fee.

Median levels of increase are around 5.0% for both roles (2022: 4.0%/c. 3.0% respectively), in line with ED but below wider workforce increases.

Around 10% 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 - many companies have increased their disclosure regarding the Remuneration Committee's awareness and oversight of the remuneration of and actions taken for the wider workforce. Some of the most common actions taken are: one-off payments; salary increases focused on the lowest paid; enhanced benefits / well-being programmes; and off-cycle salary adjustments.

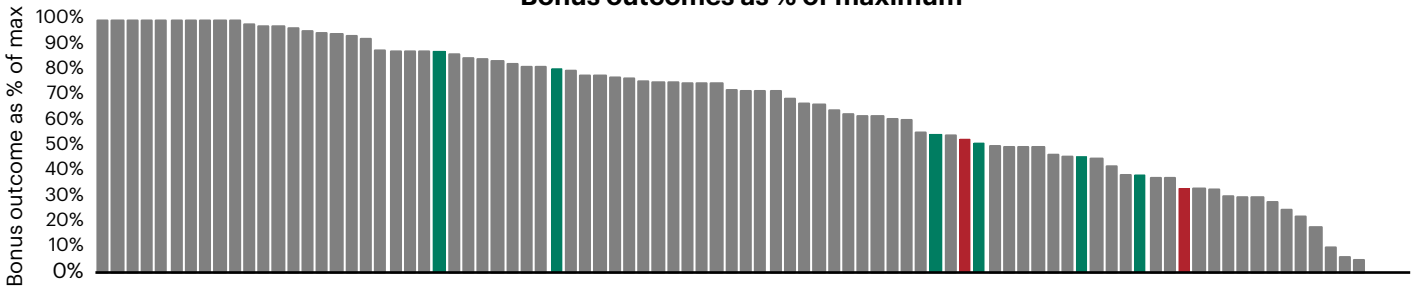
Incentive outcomes for 2022

Summary

- The median annual bonus payout is 72% of maximum
 - Although lower than in 2022 (85%), this is in line with long-term levels
- LTI payouts vary widely, but the median so far is 54% of maximum
 - This is similar to 2022 (52%) and long-term levels
- Interventions are twice as likely for annual bonus as LTI outcomes and, so far, less prevalent than last year:
 - Bonuses at 12% of companies were adjusted by the RemCo (2022: 18%), 10% downwards and 2% upwards
 - Formulaic LTI outcomes were adjusted at 6% of companies (2022: 7%), half upwards and half downwards

Annual bonus

Bonus outcomes as % of maximum



Green bar – overall downwards discretion; **Red bar** - overall upwards discretion

72%

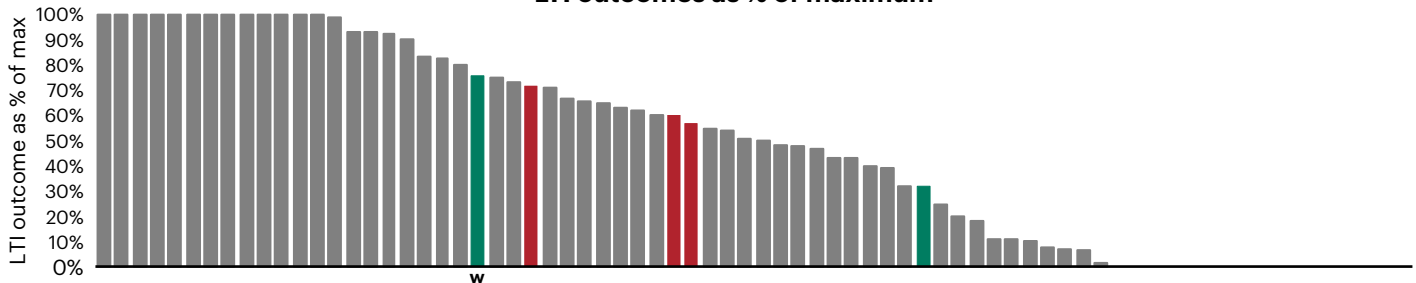
Median bonus outcome, as % of maximum



9 RemCos used their discretion to reduce formulaic outcomes: reductions range from 4% to 100% of bonus, with a median of 16%. Two companies increased bonus outcomes, one from 46.6% to 53% and the other from 0% to 33% of maximum.

Long-term incentives

LTI outcomes as % of maximum



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

54%

Median LTI outcome, as % of maximum

15% of companies' LTIs lapsed entirely (2022: 20%)



6 RemCos used their discretion to adjust formulaic outcomes.

The disclosed reductions ranged from 10%-20% and the increases from 60%-70%.

Windfall gains

One of the reduction cases was an adjustment for windfall gains, of around 10%.

Of the companies with December year ends and some portion of LTI vesting, 2% adjusted for windfall gains, 77% stated they considered it but made no adjustment and 21% were silent.

Further information

For more information on FTSE 250 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 250 as at 1 April 2023.



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