Top executives swap annual pension contribution for £150,000 cash

Now in its 13th year, the TUC’s *PensionsWatch a*nalyses the latest trends in retirement provision for senior executives by looking at the most recent annual reports of FTSE-100 companies. This year it studied the pension arrangements of 316 top executives.

The average employer contribution to senior executives’ pensions in the last year was 34.1 per cent of their salary. Given how high executive salaries are these payments can be enormous, and in some cases the contribution is more than 50 per cent of the salary.

By contrast, the typical employer contribution for a worker in a defined contribution pension scheme is just 6.1 per cent. This is the most common type of scheme for workers and it carries more risk than a defined benefit scheme.

While workers rely on these inadequate contributions to risky defined contribution schemes to see them through retirement, just 14 per cent of top bosses have all their pension contributions paid into defined contribution schemes.

Executives are increasingly taking cash top-ups to their salary in place of formal pension arrangements. More of the UK’s top directors than ever (70 per cent) opted to receive cash payments in lieu of contributions to their pension scheme last year. The huge sums going into cash payments totalled £34 million last year.

The choice to do this is in part driven by tax rules about pension scheme contributions, but some executives receive the salary top-ups in addition to payments into pension schemes.

The typical cash amount received by senior executives in lieu of a pension contribution is £152,926 (or 29 per cent of their salary). And the top three cash payments in lieu of pension contributions went to Richard Solomons, IHG (£3.2million), Douglas Flint, HSBC (£750,000) and Antonio Horta-Osorio, Lloyds Banking Group (£556,890).

Not only does this mean that executives are getting far larger proportionate contributions, it also means they are increasingly disconnected from the realities of the UK’s pension system. If fewer of those at the top table have a financial stake in workplace pensions, it raises concerns about boardroom commitment to providing good quality retirement provision, says the TUC.

Everybody deserves security in retirement. But while pension benefits for most workers have been drastically cut back in recent years, FTSE bosses are diverting pension contributions to top-up what are already colossal pay packets.

Dramatic differences in pension provision mean that pay inequalities are amplified in retirement.

If senior executives continue to detach themselves from the pension schemes that their employees rely on, they will be less likely to take an active interest in schemes’ quality and adequacy.

Although auto-enrolment has helped millions more people enrol in a pension scheme that their employer pays into, more must be done to ensure that all workers receive sufficient contributions to give them a decent income in retirement.

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