TUC

PensionsWatch 2011

A TUC report on directors' pensions in the UK's top companies

Executive summary

1.1 The TUC has established PensionsWatch in order to give a picture of occupational pensions in the UK, with a focus on the pension provision for top company directors. The survey draws information from the most recent annual reports on the pension provisions for staff and directors at a number of major UK companies.

1.2 While employees in the UK have seen a trend towards riskier and less generous pensions, directors continue to receive significant retirement benefits. They tend to accrue pensions at a more generous rate than employees, and the majority are still in final salary or other defined benefit (DB) schemes. Those in defined contribution (DC) schemes receive company contributions that are well above the average for these types of scheme.

1.3 The key findings of the report were:

- Of the 100 companies analysed, 58% report that they continue to provide defined benefit schemes to at least some directors whilst 52% provide defined contribution schemes.
- The total number of directors covered by the survey is 362. Many are members of more than one scheme. A total of 40% of directors (145) are members of DB pension schemes, whilst 34% (122) are members of DC pension schemes. A further 29% of directors (104) received cash payments, typically in lieu of participation in a company scheme. 2.5% of directors (nine) received payments to personal pension plans.

Defined benefit schemes:

- For directors having DB pensions, the total value – expressed as the sum of all the transfer values available – is £568 million.
- The average transfer value for a director's pension is £3.91 million. For those directors with the biggest entitlements at each company, the average transfer value is £5.11 million.
- The average accrued pension was £224,121 p.a. whilst the average accrued entitlement for the director with the highest pension in each company was £281,277 p.a. The average occupational pension entitlement for the population as whole is £9,568 p.a. The average director's pension is therefore more than 23 times higher than the national average.
- The most common accrual rate for directors disclosed by companies is 1/30ths.
- The most common Normal Retirement Age (NRA) for directors disclosed by companies is 60. Three times as many directors have an NRA of 60 (67%), as have an NRA of 65 (22%).

Defined contribution schemes:

- For those directors in DC schemes, the average company contribution was £161,149, and the average company contribution rate disclosed by companies was 22%, more than three times the rate typically available to employees. The average contribution received by those individual directors with the highest contribution in each company was £211,859.

Cash payments:

- For directors receiving cash payments, typically in lieu of a pension, the average payment was £138,436. The average level of payment as a percentage of salary disclosed by companies was 28%, the median was 25%. The average payment in lieu to the director who received the highest payment at each company was £181,969.

Company disclosure:

- Companies do not appear to have adopted a standardised disclosure format that has been advocated by shareholder groups. We were only able to identify one FTSE100 company that discloses DB entitlements in the form suggested.

Staff schemes:

- A number of companies announced changes to their staff pension schemes during the last year, with a number closing their DB scheme to future accrual.

1.4 On the basis of these findings, the TUC is reiterating its call for directors to be members of the same pension schemes as their staff on the same terms. There is no justification for more generous pension provision for directors, whose much larger salaries anyway make it much easier to save.

1.5 The TUC is also calling for greater clarity and reporting on pensions, in line with the disclosures required on pay, bonuses and other benefits for senior executives. More detailed information, particularly on accrual rates, contribution rates, and arrangements relating to payments in lieu of contributions, should be provided by companies, and in a standardised format, in order for investors and other stakeholders to scrutinise more effectively the awards made to directors. In addition, companies should make clear any differential treatment for directors.

Introduction

2.1 There is an increasing interest in the large remuneration packages awarded to executive directors, although the spotlight has generally fallen on salaries and bonuses. Pensions are an important part of executive pay and benefits packages but can also be the most opaque element, with limited information available in the public realm. The TUC maintains that pensions should be subject to the same level of scrutiny as other parts of directors' benefits packages.

2.2 There does appear to be an increase in interest in directors' pensions. As we noted in last year's PensionsWatch report, the National Association of Pension Funds (NAPF) and Local Authority Pension Fund Forum (LAPFF) have called on companies to improve their disclosure on directors' pensions. This is intended to make shareholder oversight more effective in this area. However, we have looked at the extent to which companies report in line with the NAPF/LAPFF recommendations and found that compliance is very limited.

2.3 More recently, the High Pay Commission produced a report on directors' pension entitlements which highlighted the divide between provision for directors and that for other employees. The report stated: "it is one rule for the workforce as it is exhorted to put up with a poorer retirement so that companies can stay competitive, and another one for the boardroom where generosity remains unchecked."

2.4 The Coalition Government intends to undertake further action in respect of executive remuneration. Therefore the TUC believes that there is an opportunity to address differential pension provision. In light of the experience of recent attempts to restrain executive remuneration, a focus simply on disclosure is unlikely to be sufficient, and stronger measures may be necessary.

2.5 The TUC launched PensionsWatch in 2003 in order to track the pensions of directors and staff at the top firms in the UK. The central aim of the project is to give an insight into pension provision at some of the UK's biggest companies, with an emphasis on directors' benefits. The project focuses on establishing the nature and level of pensions provision made available to directors, and examining the extent of differential treatment for directors in relation to their employees.

2.6 The PensionsWatch database is compiled by examining the annual reports of top UK companies, drawn from the FTSE100. This year's study gathered information on the pensions of 362 directors. The combined value of all the directors' DB pensions surveyed (calculated by looking at the sum of all the transfer values) is £568 million.

2.7 The most recent company reports have been used. The level of detail given in the reports varies, but most summarise the accrued annual pensions and transfer values for each director in DB schemes, or contributions in that year for DC schemes, or otherwise indicate the award of payments in lieu of pension contributions. Many reports fail to include information on the accrual rates, contribution rates or retirement ages for directors, although some do. For employees, a number of reports set out the type of scheme and recent changes, although in many cases this information is complex, unclear and multi-layered due to successive changes.

What's on offer? – types of scheme

3.1 Of the 100 companies analysed, 58% continue to provide defined benefit schemes for at least some directors; the number providing defined contribution schemes is 52%. Overall, 40% of the 362 directors covered by the survey are members of DB pension schemes, with 34% members of DC pension schemes. This is the first year in which companies have reported a minority of directors with DB provision. This probably reflects a combination of the retirement of more directors with DB provision, and the fact that even executive DB schemes are being closed to future accrual. Some directors are members of both types of scheme, either as a result of shifting from one type of scheme to another (meaning no further benefits accruing in the previous scheme) or because additional provision is offered to offset tax liabilities.

3.2 The provision of cash payments as part of pension packages is an increasing trend across the sample as a whole. The majority of payments are made to directors who are not participating in company pension schemes, though they may be put towards a personal pension. Overall, 41 companies made cash payments to at least one director. In addition, six companies made payments towards directors' personal pensions.

3.3 There is a continuing trend, as documented in previous PensionsWatch surveys, towards the closure of defined benefit schemes to new entrants, and increasingly to future accrual. These are generally replaced by defined contribution schemes. Whilst this often affects directors and employees, some companies have separate arrangements for senior directors.

3.4 A number of the annual reports analysed in this year's report make disclosures in respect of changes to group pension policy, including schemes closed to future accrual. 3i states that its DB scheme was closed to future accrual in April 2011. Barclays states that the defined benefits sections of its pension plan closed to future accrual in April 2010. Capital Shopping Centres states that its DB scheme closed for future accrual on 19 December 2009. The IMI Pension Fund was closed to all employees in respect of future service from 31 December 2011. Old Mutual states that the defined contribution section of its hybrid plan was closed to new members in June 2010. Schroders states it closed its DB scheme to future accrual on 30 April 2011. Tate & Lyle closed it scheme to future accrual from 6 April 2011. Vodafone's DB Scheme closed to future accrual from 31 March 2010.

3.5 There are changes for directors specifically too. Lloyds Banking Group states that future DB accrual for directors will cease in April 2012. Rexam states that any executive director appointed on or after 6 April 2011 will be eligible to join a defined contribution pension with a contribution of 25% of base salary or a cash supplement of 22% of salary.

3.6 Other companies continue to make changes to benefits or other terms of membership. Astrazeneca states that from 30 June 2010, pensionable pay was frozen at the June 2010 level, and members of the pension fund were given the option of remaining in the fund or leaving the fund. RSA Insurance Group states that its schemes' retirement age was raised from 62 to 65.

What is it worth? Values of contributions, transfers and benefits

4.1 The remuneration reports produced as part of company annual reports give varying amounts of information on directors' pensions. For defined benefit (DB) schemes, the reports are required to list the transfer value of the pension and the accrued pension payable. Many reports fail to provide details of directors' accrual rates and normal pension age, although some do. For defined contribution (DC) schemes, some reports outline the contribution rates and the contributions made by the company in the past year.

4.2 There is currently no requirement on companies to publish information on accrual or contribution rates for directors' pension schemes, although, as noted in the introduction, some investors are seeking more information. The TUC believes that greater transparency in this area would allow for effective scrutiny of the real nature and value of directors' pensions and any differential treatment in comparison to other employees. We recommend that companies should be required to publish accrual and contribution rates for directors' and employees' pensions.

Defined Benefit Pension Schemes

Transfer values

4.3 The transfer value of a pension is the amount, calculated by actuaries, which would be paid from one pension scheme to another if a pension scheme member moved all their accrued benefits. PensionsWatch found that the total transfer value of all the DB directors' pensions studied was £568 million. This is lower than the equivalent value last year. Given that the average transfer value of a director's DB entitlement is broadly similar to last year, the drop in the total figure is most likely attributable to a further fall in numbers of directors participating in DB schemes over the period.

4.4 The table below shows the five largest single transfer values at the companies examined by PensionsWatch.

Company	Highest Transfer Value £	Director
ROYAL DUTCH SHELL PLC	21,555,450	Jeroen van der Veer
BARCLAYS PLC	18,256,000	John Varley
BG GROUP PLC	16,574,000	Frank Chapman
ASTRAZENECA PLC	14,711,000	David Brennan
DIAGEO PLC	13,481,000	Paul Walsh

4.5 The average transfer value for a director's pension is £3.91 million. For those directors with the biggest entitlements at each company, the average transfer value is £5.11 million.

Accrued benefits

4.6 Accrued benefits are the amount of pension payable to an individual on retirement, based on their service so far. The five highest single accrued pensions are set out in the table below.

Company	Highest Accrued Pension pa £	Director
ROYAL DUTCH SHELL PLC	1,253,709	Jeroen van der Veer
ASTRAZENECA PLC	1,006,000	David Brennan
BP PLC	776,305	Dr B E Grote
IMPERIAL TOBACCO GROUP PLC	701,000	G Davis
BG GROUP PLC	694,000	Frank Chapman

4.7 The average accrued pension for the directors in the sample was £224,121 p.a. Among those directors with the highest accrued pension in each company, the average was £281,277 p.a. These figures compare to an average occupational pension of £184 per week (£9,568 per year)[1] in the UK. The average director's pension is therefore more than 23 times higher than the national average. However it should also be noted that only 61% of pensioners receive any income from an occupational pension.

Accrual rate

4.8 In a final salary scheme, the accrual rate is the proportion of pay that a person receives as pension for each year that they have been in the scheme. For instance, an accrual rate of 1/60th indicates a pension worth 1/60th of final salary for every year of pensionable service in the scheme.

4.9 The table below sets out the accrual rates for directors in the PensionsWatch survey, where the information was provided in the company reports. The most common accrual rate was 1/30th, enjoyed by over half the directors (23 out of 43) for whom this information was disclosed. The median accrual rate was also 1/30th. The next most common rate of accrual was 1/60th. Some companies offer different accrual rates to different directors. By comparison, the most common accrual rates available to employees are typically 1/60ths or 1/80ths.

[1] *Pensioners' Income Series 2009/10*, page 41 (http://research.dwp.gov.uk/asd/asd6/2009_10/pi_series_0910_final_1.pdf)

Number of Companies	Number of Directors	Accrual Rate
10	23	1/30th
1	1	1/38th
1	1	1/40th
1	1	1/45th
1	1	1/52nd
8	13	1/60th
2	3	1/80th

4.10 We believe the lack of disclosure in this area disguises the fact that a number of other companies also offer rapid accrual rates to directors. Of the companies providing defined benefit pensions, only 24 (41%) disclose an accrual rate. This means an accrual rate is only disclosed for 43 (30%) of directors with a DB pension.

Normal retirement age

4.11 As concerns rise over the long term funding of pensions, many schemes for workers in the public and private sectors are moving or have moved to a Normal Retirement Age (NRA) or Normal Pension Age (NPA) of 65. The Government has proposed a further extension of the NPA for public sector schemes. This has been a controversial issue and a point of some debate in the media.

4.12 PensionsWatch examined the NRA offered to directors in the sample. Many companies do not make this explicit in their reports, but the information provided by a number of companies shows that the most common age by far is 60, with this being the NRA for 67% of the directors for whom the information is disclosed. The next most common is 65, which is the NRA for 22% of directors. A minority adopt a retirement age between the two.

No of Companies	No of Directors	NRA
30	84	60
7	14	62
10	27	65

Defined Contribution Pension Schemes

4.13 Increasingly, companies are closing defined benefit schemes in favour of defined contribution or 'money purchase' schemes for both employees and directors. Some reports set out the contributions made to these schemes. 122 directors were listed as receiving contributions as part of this type of scheme. The five highest recorded contributions to a scheme of this type are set out in the table below:

Company	Company contribution £	Salary	%	Director
XSTRATA PLC	2,458,170	1,350,000	182%	Mick Davis
IMI PLC	979,000[2]	656,000	149%	Martin J Lamb
BHP BILLITON GROUP (GBR)	815,554	1,251,971	65%	Marius Kloppers
HSBC HLDGS PLC	560,486	1,164,000	48%	M F Geoghegan
WPP PLC	400,000	900,000	44%	Martin Sorrell

4.14 The average employer contribution to directors in DC pension schemes is £161,149, while the average employer contribution to the director who received the highest payment in each company is £211,859.

Contribution rates

4.15 There is not currently any requirement on companies to set out the contribution rates for directors in DC schemes as part of reporting on executive remuneration. The figures outlined in the table below are taken from those company reports that do publish this information, and as such this does not include a number of directors included in the table above, where the contribution rates have been calculated for the purposes of this report by comparing them to the relevant director's disclosed salary. Company disclosures clearly show that the contribution rates tend to be generous proportions of executives' salaries. It should also be noted that a number of companies offer different contribution rates for different directors.

[2] Martin Lamb waived part of his cash allowance payable in lieu of future accrual in the IMI Pension Fund and all of his 2010 bonus, and the Company exercised its discretion to make contributions to the executive retirement plan (ERP) totalling £979,000.

Number of directors	Contribution rate
2	3%
1	4%
3	8%
10	10%
3	12.5%
4	13%
2	14%
3	15%
1	15% - 20%
5	20%
21	25%
13	30%
1	34%
1	34.4%
1	35%
1	35.8%
1	36%
4	40%
1	42%

4.16 This indicates an average (mean) contribution rate of 22% for the directors covered (the median is 25%). By comparison the Association of Consulting Actuaries estimates an average company contribution to DC schemes of 6.7%[3]. The contingent employer contribution for employees covered by auto-enrolment into pension schemes will be 3%.

Cash payments

4.17 For directors not participating in sanctioned company pension schemes, equivalent cash payments in lieu are often made. In total, 104 directors received

[3] http://www.aca.org.uk/files/ACA_Pension_trends_report_No.1__-1_September_2009-20090828155500.pdf

cash payments. The five highest recorded individual payments are set out in the table below:

Company	Highest cash payments £	Salary	%	Director
PEARSON PLC	620,700	820,100	75.7%	Marjorie Scardino
MAN GROUP PLC	531,747	566,710	94%	Peter Clarke
ROYAL BANK OF SCOTLAND GROUP	420,000	1,219,000	34.5%	Stephen Hester
STANDARD CHARTERED PLC	367,977	500,000	73.6%	Jaspal Bindra
RSA INSURANCE GROUP PLC	344,000	956,000	36%	Andy Haste

4.18 The average payment is £138,436, while the average employer cash contribution to the director who received the highest payment in each company is £181,969. The average level of payment as a percentage of salary was 28%, the median was 25%.

4.19 In addition, some reports indicated that payments were made towards directors' personal pension schemes. In total, nine directors received payments towards personal pension schemes. The average payment towards a personal pension was £139,645.

4.20 More generally, the move by an increasing number of companies to provide cash instead of a pension, or to fund a personal pension, is likely to have an impact on company reporting. In some cases these types of payments may be rolled in with other 'emoluments', making them harder to detect. This may result in the number of directors being covered in any review of executive retirement provision shrinking.

Disclosure and compliance with NAPF/LAPFF recommendations

5.1 As noted in the introduction, last year the National Association of Pension Funds (NAPF) and Local Authority Pension Fund Forum (LAPFF) wrote to companies seeking better disclosure of directors' pension entitlements.[4] The letter sought the disclosure of accrual rates and NRA for DB provision, and clear disclosure of contributions to DC schemes as both cash amounts and percentage of salary. Similar disclosure was sought in respect of payments in lieu.

5.2 In respect of DB provision, of all the companies reviewed only 11 (19%) disclosed all the information requested by the NAPF/LAPFF joint letter. We were only able to identify one company (Hammerson Plc) that disclosed all the requested information in one clear table as proposed in the letter.

5.3 In respect of DC provision, 29 companies (57%) disclose contributions as both cash amounts and disclose the normal contribution rate as a percentage of salary. For cash supplements in lieu of pension, 20 (50%) companies disclosed the payments as both a cash figure and as a percentage of salary. But again, companies do not typically disclose information about DC schemes or payments in lieu in a tabular form as requested by the NAPF and LAPFF.

5.4 Given that the NAPF/LAPFF recommendations effectively built on best practice (as a minority of companies already disclosed information such as accrual rates and NRA) it appears that disclosure is largely unchanged and that companies have failed to respond to the initiative. This suggests that a mandatory approach to disclosure is now required.

Conclusion

6.1 PensionsWatch demonstrates the significant pensions packages offered to directors of major companies. The report shows that many directors with DB provision still benefit from rapid accrual rates, and that the clear majority can look forward to retiring on a full pension at age 60, if not earlier. The shift towards defined contribution provision, and even simple cash supplements instead of a pension, is now well established. But even when offered such alternatives, directors are provided with far more generous terms than other employees. The average contribution rate is far higher than that available for other staff, yet typically no justification is provided.

6.2 Therefore the TUC is reiterating its call for directors and employees to be members of the same pension schemes, on the same terms. Since directors earn more than their employees and therefore accrue greater pension benefits on the same terms, there cannot be a justification for offering a differential approach. Different arrangements for directors and employees risk undermining good workplace relations.

6.3 Disclosure continues to be poor, with many companies failing to make clear the terms on which provision has been made for directors. The TUC is concerned that companies do not appear to have responded to a direct request from shareholders for greater openness, and believes that a mandatory approach to

4 http://www.napf.co.uk/PressCentre/Press_releases/0024_061510_Investors_want_greater_transparency_0610.aspx

improved disclosure of directors' pension entitlements is required. Since the Government already intends further action in respect of executive remuneration, improved disclosure in the area of pensions would be a straightforward policy initiative, especially since it is supported by shareholder groups.

6.4 However it should also be noted that disclosure on its own may not be sufficient to address differential provision. Despite greater transparency, and the introduction of a mandatory shareholder approval vote on remuneration policy, investors have not been able (or have not chosen) to prevent the pay gap within companies from growing ever wider. The same may be true of boardroom pension, and stronger measures may be necessary to address differential pension provision.

6.5 The report also notes the shift to DC provision in staff schemes. It should be reiterated that the TUC wishes to retain and encourage DB provision. However, where DB is not possible, we would rather employers adopt risk-sharing approaches rather than pure DC pension provision. Therefore where employers would otherwise switch to DC provision, then measures that would encourage them to opt for risk-sharing are to be welcomed.

6.6 The TUC's recommendations, drawn from the findings of this report, are:

- Directors and staff should be members of the same schemes, on the same terms.
- The Government should introduce a legal requirement for more comprehensive reporting on company pension provision for directors and employees in company annual reports. The TUC proposes that such disclosure should include the information set out in the table below.

For all company pension schemes for all directors and staff	Full disclosure of all company pension schemes and details of who is entitled to join each scheme on what terms; numbers of employees who are not in a company pension scheme
Disclosure on all company DB pension schemes	Transfer values for each director
	Accrued benefits for each director
	Accrual rates for each director and accrual rates for employees; where these differ, an explanation should be given
	Normal retirement or pension age for directors and for employees; where these differ, an explanation should be given
Disclosure on all company DC pension schemes	Contribution amounts for each director and average contribution amount for employees
	Contribution rates as a percentage of salary for each director and average

	contribution rate for employees; where these differ, an explanation should be given
Disclosure on cash payments in lieu of pensions	Contribution amounts for each director and average contribution for any employees receiving equivalent benefits
	Contribution rates as a percentage of salary for each director and average contribution rate for any employees receiving equivalent benefits; where these differ, an explanation should be given
	Who is entitled to receive such payments