



# Executive remuneration in FTSE 250 companies

**2019 market data report for executive  
and non-executive directors**

December 2019

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## 2019 market data report for executive and non-executive directors

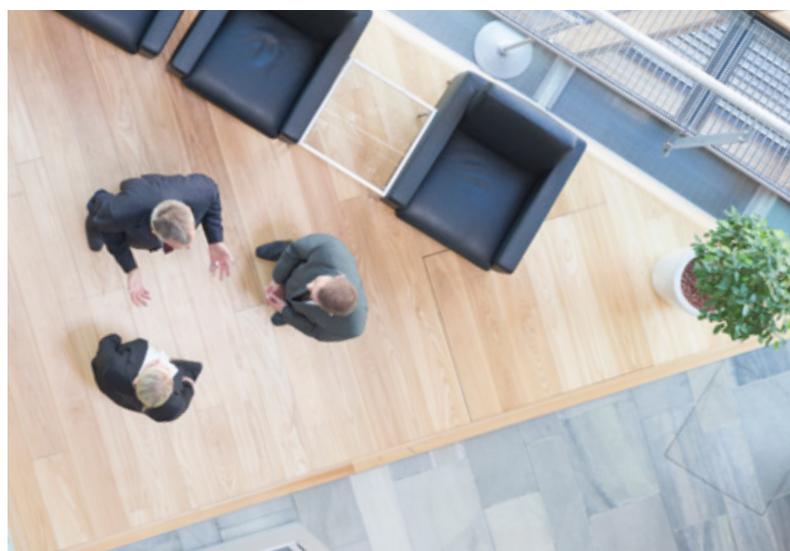
December 2019

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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 250.

This report includes data sourced from Willis Towers Watson's Global Executive Compensation Team. This report is based on the FTSE 250 as at 23 September 2019.



# Key headlines from the 2019 AGM season

## Who changed what?

- Structures other than the 'typical' annual bonus and Performance Share Plan (PSP) are more prevalent in the FTSE 250 than the FTSE 100 with c. 16% of companies operating other incentive structures (including restricted shares, single incentive plan etc.).
- There were only a handful of examples of significant changes to policy with one company adopting a value creation plan, one company moving from a PSP for their LTIP to Restricted Stock, and another company also adding a Restricted Stock element to their LTIP.
- As we expected, most of the changes were made by early adopters to the 2018 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 51% last year to circa (c.) 60% of companies this year.
- There has been continued focus on quantum, pay for performance and incentive target disclosure.
- A number of companies received challenge around how they treated directors leaving/joining during the year, illustrating that the implementation of the policy is as important as ever.

## 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 policy.
- We did, however, see an increase in the proportion of companies that received less than 80% support to around 14% of companies for the ARR (from c. 10% in 2018).

## Looking ahead to 2020

- We expect over half of FTSE 250 companies to table a new policy for approval during the 2020 AGM season, and we expect further reductions to pension, an increased focus on fairness and Environmental, Social & Governance (ESG) measures. 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'. Whilst 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



**Around 30%** of companies have made pension changes. The majority of these companies are making these changes for new hires.

Of those committed to reducing pension for new hires, the median contribution has dropped from **20% of salary** to **10% of salary**

The median contribution for FTSE 250 CEOs is 15%, which has decreased from 20% last year.

## Annual bonus

Sixteen companies have increased the annual bonus opportunity and eight companies have decreased it.

**16** ↑ **8** ↓

One company has decreased bonus opportunity to re-balance incentives towards the long-term.

The most common changes are:



**c. 35%** of companies changed measures and/or weightings



**11%** introduced or increased bonus deferral

## Long-term incentive plans

Changes to LTIP have been more common than annual bonus this year, with twenty three companies increasing opportunity and eight companies decreasing.



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:



**c. 40%** have adjusted vesting schedule

77% adjusted targets and 23% adjusted vesting at threshold.



**c. 15%** changed measures and/or weightings



**18%** introduced or 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 **£1.52 million**

**2019** median CEO single figure **£1.63 million**

The median annual bonus payout as a percentage of maximum has decreased slightly from **72%** last year, to **68%** this year. **Discretion** was applied by Remuneration Committees to reduce bonus payments in twelve companies.

Median LTIP vesting has also **decreased to 54% of maximum**, from 56% of maximum last year. Discretion was applied by Remuneration Committees to reduce LTIP vesting in one company.

### Shareholding guidelines

- 14% of companies have increased shareholding guidelines.
- 18% of companies in the FTSE 250 operate a post-employment guideline.

# Executive director market data

## Salary

- The figures below set out the quartile salary data for the CEO and CFO roles in the FTSE 101-150, the FTSE 151-350 and the full FTSE 250.
- We continue to observe moderate salary increases, with the same proportion of companies applying no increase to both CEO and CFO salaries.
- We typically find a salary differential of 60% to 70% for the CFO to CEO role, with a median of 66%.

### CEO salary trends

Figure 1. CEO salary data by quartile

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	£563,000	£643,000	£760,000
<b>FTSE 151-350</b>	£482,000	£551,000	£640,000
<b>FTSE 250</b>	£500,000	£569,000	£665,000

Figure 2. CEO median salary increases

<b>FTSE 101-150</b>	2.0%
<b>FTSE 151-350</b>	2.0%
<b>FTSE 250</b>	2.0%

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

<b>FTSE 101-150</b>	28%
<b>FTSE 151-350</b>	22%
<b>FTSE 250</b>	24%

### CFO salary trends

Figure 4. CFO salary data by quartile

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	£400,000	£441,000	£475,000
<b>FTSE 151-350</b>	£324,000	£362,000	£420,000
<b>FTSE 250</b>	£330,000	£378,000	£435,000

Figure 5. CFO median salary increases

<b>FTSE 101-150</b>	2.0%
<b>FTSE 151-350</b>	2.0%
<b>FTSE 250</b>	2.0%

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

<b>FTSE 101-150</b>	22%
<b>FTSE 151-350</b>	24%
<b>FTSE 250</b>	23%



# Benefits and Pension

- 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 provisions for both new and existing hires, the median contribution has decreased from 20% of salary to 10% of salary. Only 10% of companies applied changes to existing directors.
- 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 250, over 80% of companies offer a defined pension contribution or cash allowance.
- C. 30% 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 although we did see examples of change also being applied to existing directors, some on a phased basis.

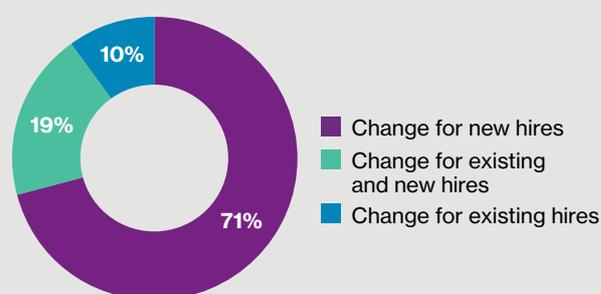
Figure 7. Value of defined contribution/cash allowance for CEO role (% of base salary)

	Lower quartile	Median	Upper quartile
FTSE 101-150	14%	20%	25%
FTSE 151-350	10%	15%	20%
FTSE 250	10%	15%	21%

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

	Lower quartile	Median	Upper quartile
FTSE 101-150	14%	20%	20%
FTSE 151-350	10%	15%	20%
FTSE 250	10%	15%	20%

Figure 9. Pension provision practices, based on c. 30% companies making changes



## Car allowance

Roughly 70% of companies in the FTSE 250 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 250 companies

	CEO	CFO
FTSE 101-150	£16,000	£15,000
FTSE 151-350	£18,000	£15,000
FTSE 250	£16,000	£15,000

# Annual bonus

- The median annual bonus payout was 68% of maximum for the CEO role in the FTSE 250.
- Three year annual bonus deferral is the norm (although c. 20% don't operate deferral).

## Maximum bonus opportunity as percentage of salary

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

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	150%	150%	200%
<b>FTSE 151-350</b>	125%	150%	150%
<b>FTSE 250</b>	125%	150%	160%

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

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	125%	150%	150%
<b>FTSE 151-350</b>	100%	125%	150%
<b>FTSE 250</b>	100%	130%	150%

## Bonus payouts as percentage of maximum

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

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	51%	62%	75%
<b>FTSE 151-350</b>	39%	69%	87%
<b>FTSE 250</b>	45%	68%	85%

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

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	35%	62%	75%
<b>FTSE 151-350</b>	22%	62%	82%
<b>FTSE 250</b>	24%	62%	82%

## Application of discretion

**12**

Instances of Remuneration Committees applying downward discretion



**4**

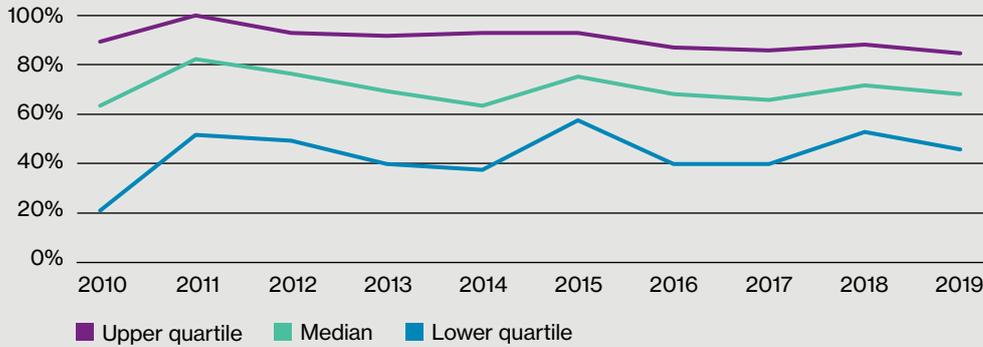
Instances of Remuneration Committees applying upward discretion



## Bonus payouts over time

Over the past 10 years, the median annual bonus payout has generally been between 65% and 75% of the maximum opportunity in FTSE 250 companies. The median payout has fallen outside this range in four of the last 10 years (two above and two below).

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



## Performance measures

In FTSE 250 companies, the median split of financial versus non-financial measures is 80% and 20%, respectively. This split is typically consistent across the whole of the FTSE 250.

Figure 17 shows that a profit or income-based measure continues to be the most common measure used in FTSE 250 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.

Figure 16. Split of performance measures in FTSE 250 bonus plans

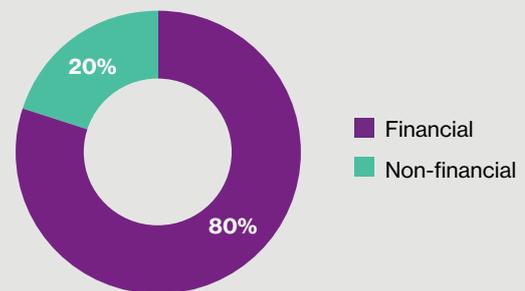
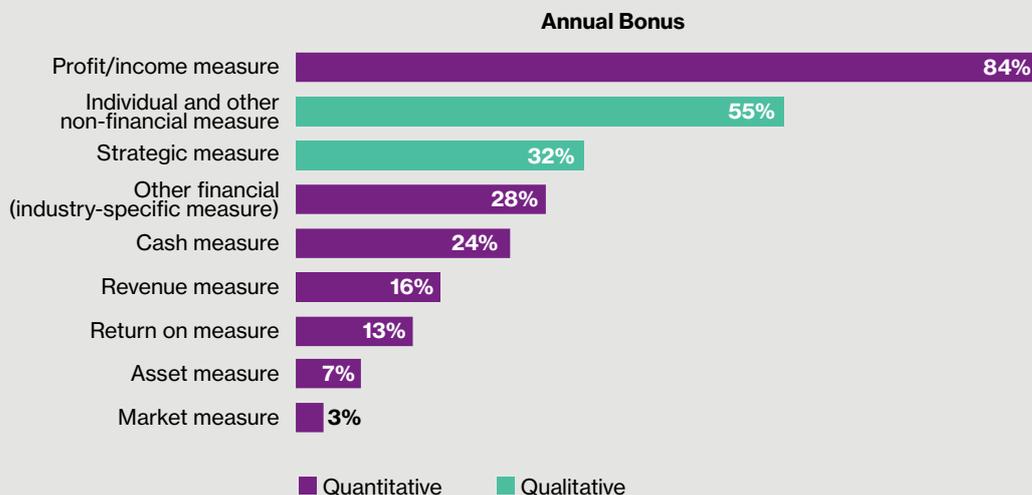


Figure 17. Prevalence of performance measures (by measure category)



## Annual bonus deferral

Figure 18. Proportion of deferral

	FTSE 101-150	FTSE 151-350	FTSE 250
<b>Up to 25.0%</b>	7%	7%	7%
<b>25.1% – 33.0%</b>	4%	4%	4%
<b>33.1% – 50.0%</b>	36%	38%	37%
<b>50.1% +</b>	7%	4%	5%
<b>No deferral</b>	22%	22%	22%
<b>% in excess of salary/other</b>	24%	25%	25%

Figure 19. Deferral mechanism

	FTSE 101-150	FTSE 151-350	FTSE 250
<b>Deferral with no match</b>	78%	79%	79%
<b>Deferral with match</b>	0%	0%	0%
<b>No deferral</b>	22%	21%	21%

Figure 20. Deferral time period

	FTSE 101-150	FTSE 151-350	FTSE 250
<b>Less than two years</b>	2%	1%	1%
<b>Two years</b>	14%	21%	19%
<b>Three years</b>	49%	41%	43%
<b>Four years</b>	0%	1%	1%
<b>More than four years</b>	0%	1%	1%
<b>No deferral</b>	22%	21%	21%
<b>Phased</b>	13%	14%	14%

## Malus and clawback

Based on disclosure, malus and clawback provisions apply to the annual bonus within FTSE 250 companies as follows:

- 96% have the ability to operate clawback on the cash bonus.
- 88% of companies have the ability to operate malus on shares that have not yet vested.
- We have seen malus and clawback provisions strengthened in c. 20% 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, with reputational risk and corporate failure recently added by some companies to strengthen the provisions.



# Long-term incentive plans (LTIPs)

- While the 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 250 at 54% of the maximum opportunity. Payouts at median have been between 50% and 60% for the last five years.
- There has been one example of upwards discretion to PSP awards this year, and one example of downwards discretion.

## Types of plans

The most prevalent plan type continues to be PSP, which is operated by 159 companies within the FTSE 250. Other plans include Restricted Shares (11 companies), Co-investment plans (3) and Stock Options (2).

Figure 21. Number of LTIPs operated

	FTSE 101-150	FTSE 151-350	FTSE 250
<b>No plan</b>	5%	4%	5%
<b>One plan</b>	86%	90%	88%
<b>Two plans</b>	9%	6%	7%

## Maximum PSP opportunity

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

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	150%	200%	250%
<b>FTSE 151-350</b>	150%	175%	200%
<b>FTSE 250</b>	150%	200%	200%

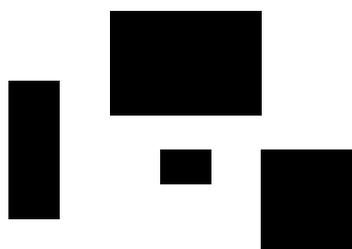
Figure 23. Maximum PSP opportunity for CFO role (% of base salary)

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	150%	200%	230%
<b>FTSE 151-350</b>	125%	150%	200%
<b>FTSE 250</b>	125%	150%	200%

The median threshold opportunity in the FTSE 250 is 25% of the maximum opportunity, with a lower quartile of 20% and an upper quartile of 25%.

## Exceptional PSP maximums

Around 40% of companies in the FTSE 250 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.

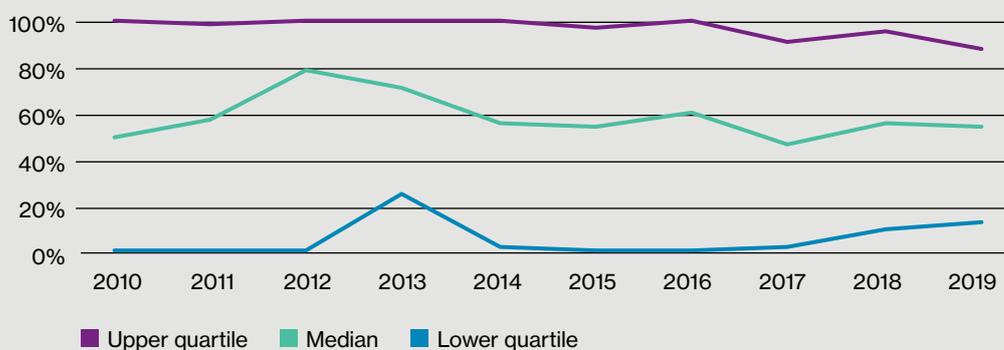
## PSP payouts over time

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
<b>FTSE 101-150</b>	26%	56%	100%
<b>FTSE 151-350</b>	0%	53%	86%
<b>FTSE 250</b>	13%	54%	88%

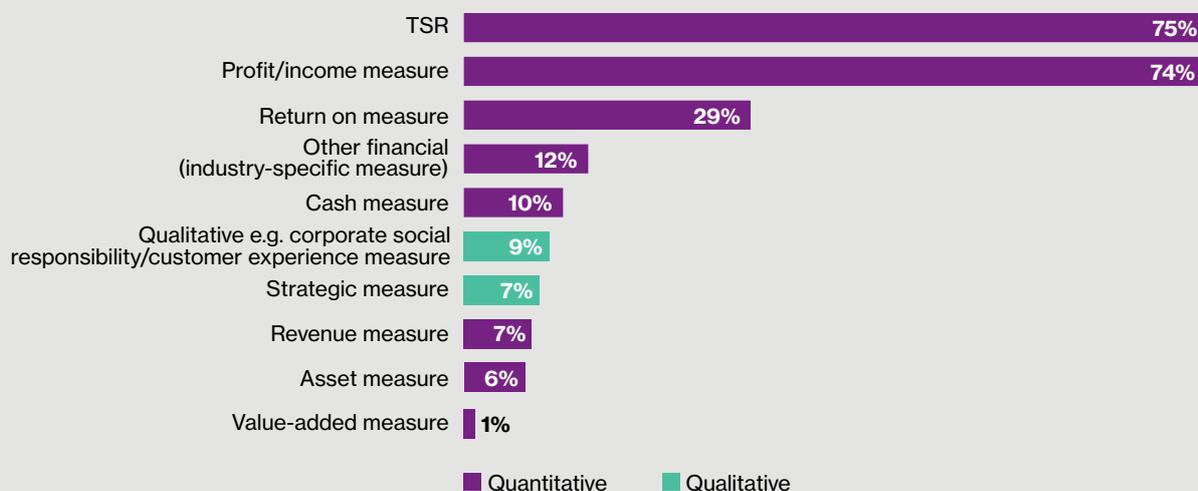
Figure 25. PSP payouts from 2010 – 2019 (% of maximum opportunity)



## PSP performance measures

Figure 26 provides an overview of the performance measures used in PSPs in FTSE 250 companies. As we can see, TSR and profit/income measure are the most popular metrics used by 75% of FTSE 250 companies in their PSPs.

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



## PSP time horizons

Ninety-three percent of companies in the FTSE 250 now have a total time horizon (i.e., performance plus holding) of at least five years. Ninety-two percent of companies in the FTSE 250 now operate a holding period on the PSP (*Figure 28*).

Figure 27. Length of performance period

	FTSE 101-150	FTSE 151-350	FTSE 250
<b>One year</b>	0%	0%	0%
<b>Two years</b>	0%	0%	0%
<b>Three years</b>	95%	96%	96%
<b>Four years</b>	0%	1%	1%
<b>Five years</b>	2%	1%	1%
<b>More than five years</b>	3%	2%	2%

Figure 28. Length of holding period

	FTSE 101-150	FTSE 151-350	FTSE 250
<b>One year</b>	3%	2%	2%
<b>Two years</b>	90%	90%	90%
<b>Three years</b>	0%	0%	0%
<b>More than three years</b>	0%	0%	0%
<b>No holding period</b>	7%	7%	7%
<b>Phased</b>	0%	1%	1%

## Application of discretion

1

Instance of Remuneration Committees applying downward discretion



1

Instance of Remuneration Committees applying upward discretion



## Malus and clawback

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

- 93% of companies disclose the ability to operate malus.
- Around 96% 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 c. 20% of companies.

# Single figure

## CEO single figure

The CEO single figure in the FTSE 250 has increased slightly, compared to 2018 as shown in *Figure 30*, and this has been the third consecutive year of increase.

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 and the change in constituents of the FTSE 250 year-on-year.

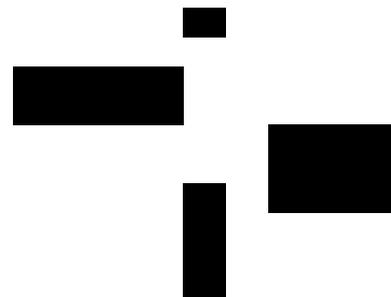


Figure 29. CEO single figure total compensation in 2019

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	£1,657k	£2,238k	£3,095k
<b>FTSE 151-350</b>	£947k	£1,503k	£2,128k
<b>FTSE 250</b>	£1,078k	£1,626k	£2,284k

Figure 30. CEO total remuneration from 2010 – 2019

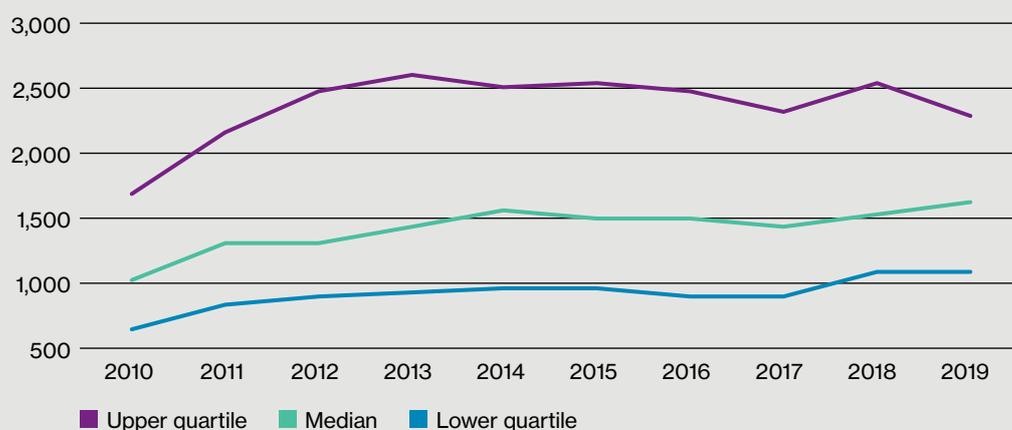
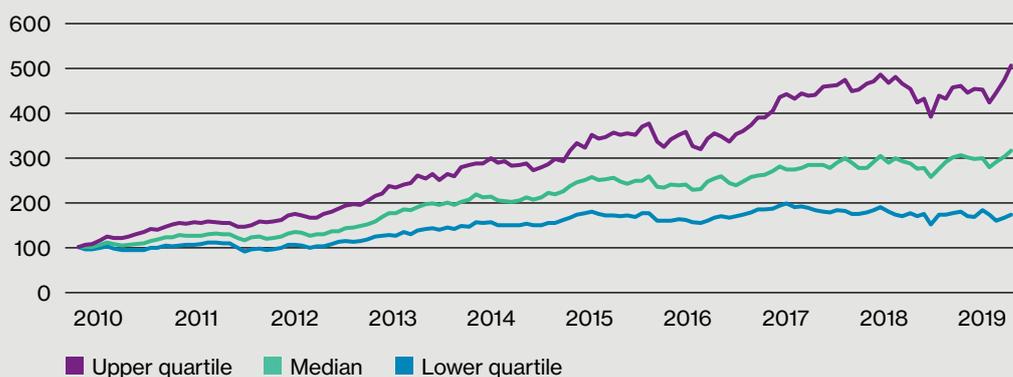


Figure 31. FTSE 250 total shareholder return (TSR) performance from 2010 – 2019



# Shareholding guidelines

The figures below set out the level of shareholding guidelines in the FTSE 101-150, the FTSE 151-350 and the full FTSE 250 for both the CEO and CFO roles. C. 30% of companies in the FTSE 250 have a higher guideline for the CEO than other executive directors.

Around half of FTSE 250 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 (c. 80% of companies).

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

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	200%	200%	300%
<b>FTSE 151-350</b>	200%	200%	200%
<b>FTSE 250</b>	200%	200%	250%

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

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	200%	200%	210%
<b>FTSE 151-350</b>	200%	200%	200%
<b>FTSE 250</b>	200%	200%	200%

## Actual median shareholdings

CEO actual shareholdings in the FTSE 250 are generally higher than the guidelines (Figure 34).

## Post-cessation shareholding guidelines

18% of companies in the FTSE 250 operate post-cessation shareholding guidelines, and of those companies, just under half 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
<b>FTSE 101-150</b>	354%	73%
<b>FTSE 151-350</b>	346%	108%
<b>FTSE 250</b>	352%	100%



# Non-executive directors' fees

The figures below set out fee levels paid to non-executive directors in the FTSE 101-150, the FTSE 151-350 and the full FTSE 250.

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 (i.e. Audit or Remuneration). Other Board Committees (e.g. Risk) are less prevalent in the FTSE 250 than the FTSE 100.

Figure 35. **Chairman fee**

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	£230,000	£275,000	£332,000
<b>FTSE 151-350</b>	£174,000	£205,000	£250,000
<b>FTSE 250</b>	£180,000	£222,000	£280,000

Figure 36. **Basic Non-Executive Director fee**

	Lower quartile	Median	Upper quartile
<b>FTSE 101-150</b>	£55,000	£60,000	£65,000
<b>FTSE 151-350</b>	£50,000	£54,000	£60,000
<b>FTSE 250</b>	£50,000	£55,000	£62,000

Figure 37. **Senior Independent Director fee**

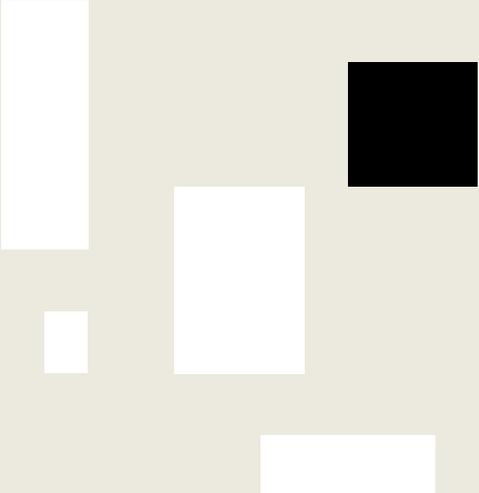
	Median	Prevalence
<b>FTSE 101-150</b>	£11,000	89%
<b>FTSE 151-350</b>	£10,000	79%
<b>FTSE 250</b>	£10,000	81%

Figure 38. **Median Audit Committee fee levels and prevalence**

	Chairman fee	Chairman fee prevalence	Member fee	Member fee prevalence
<b>FTSE 101-150</b>	£15,000	96%	£10,000	24%
<b>FTSE 151-350</b>	£10,000	87%	£5,000	18%
<b>FTSE 250</b>	£11,000	89%	£6,000	20%

Figure 39. **Median Remuneration Committee fee levels and prevalence**

	Chairman fee	Chairman fee prevalence	Member fee	Member fee prevalence
<b>FTSE 101-150</b>	£13,000	96%	£10,000	24%
<b>FTSE 151-350</b>	£10,000	85%	£5,000	18%
<b>FTSE 250</b>	£11,000	88%	£5,000	20%



## Further information

For more information on FTSE 250 market data and pay trends please contact your Willis Towers Watson contact or:

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