

# Executive Reward Survey 2014

Overview of FTSE 100 market  
practice

# Foreword

In 2014, 226 companies participated in our survey and we have received data for around 12,000 roles across seven tiers of management. This data has helped us build a clear picture of the reward landscape and help understand the challenges that organisations are facing for the future.

It has been an incredibly busy year for anyone involved in executive pay. The requirement to put a policy to a binding vote has prompted many organisations to conduct detailed reviews of their executive reward framework and Remuneration Committees have had to navigate a path between balancing the engagement and motivation of executives while being sensitive to external reactions. Incentive levels have not changed for the executive population. Indeed salary and bonus outcomes increased only very slightly at board level and as the market improved, it has been long-term incentive outcomes that have made up the biggest increase in the single figure compared to 2013. However, many organisations have taken the opportunity to review other details such as the use of clawback, shareholding requirements and post-vest holding periods.

Below board however, organisations are facing different challenges as set out in the charts below. Restraint continues and companies are reluctant to drive up pay, particularly in a low inflation environment and where labour productivity has not returned to pre-downturn levels. But nonetheless, there is an expectation, particularly from employees, that as we return to greater growth, bonuses will rise and pay budgets will have to move too. As labour mobility starts to rise, this presents a challenge in the context of restraint.

Figure 1. What are the macro-issues giving the Reward function the most concern?

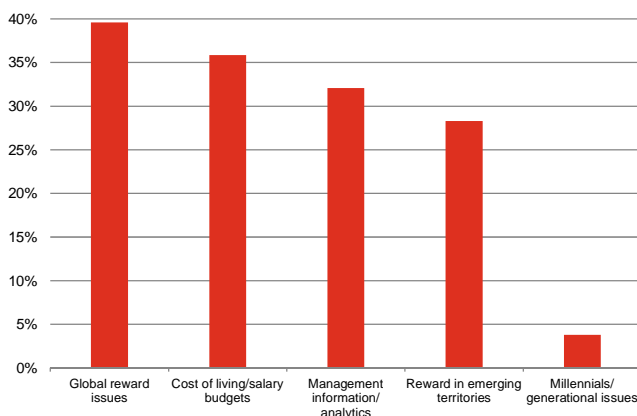
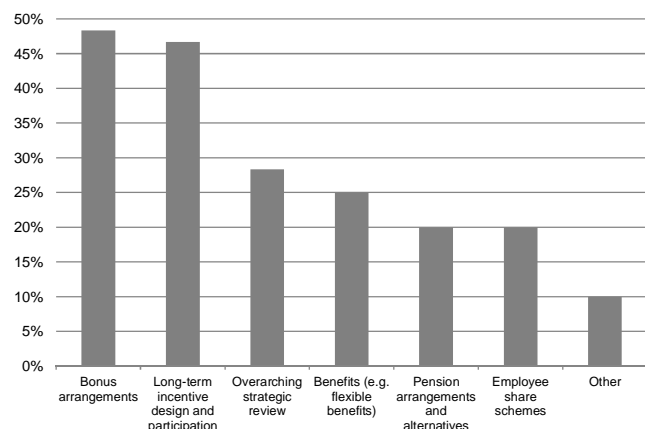


Figure 2. What are the priority areas for the next 12 months?



Organisations will need to use pay strategically and may need to find innovative ways to focus reward to get the best value and maximise its effectiveness. As it stands though, performance pay remains a significant cost. There are a number of questions that each element needs to answer as organisations seek to justify the cost of variable reward. Is it managing to engage and motivate the right individuals? Is it genuinely linked to performance at business and individual level? Alongside this, the whole performance management process is high up on the business agenda as organisations seek to drive engagement, improve productivity and embed critical behaviours in their teams.

There is indeed much on the “to do list” of the Head of Reward and HR. We hope this survey is useful in considering reward ahead of 2015. We would be happy to discuss the results further with you.



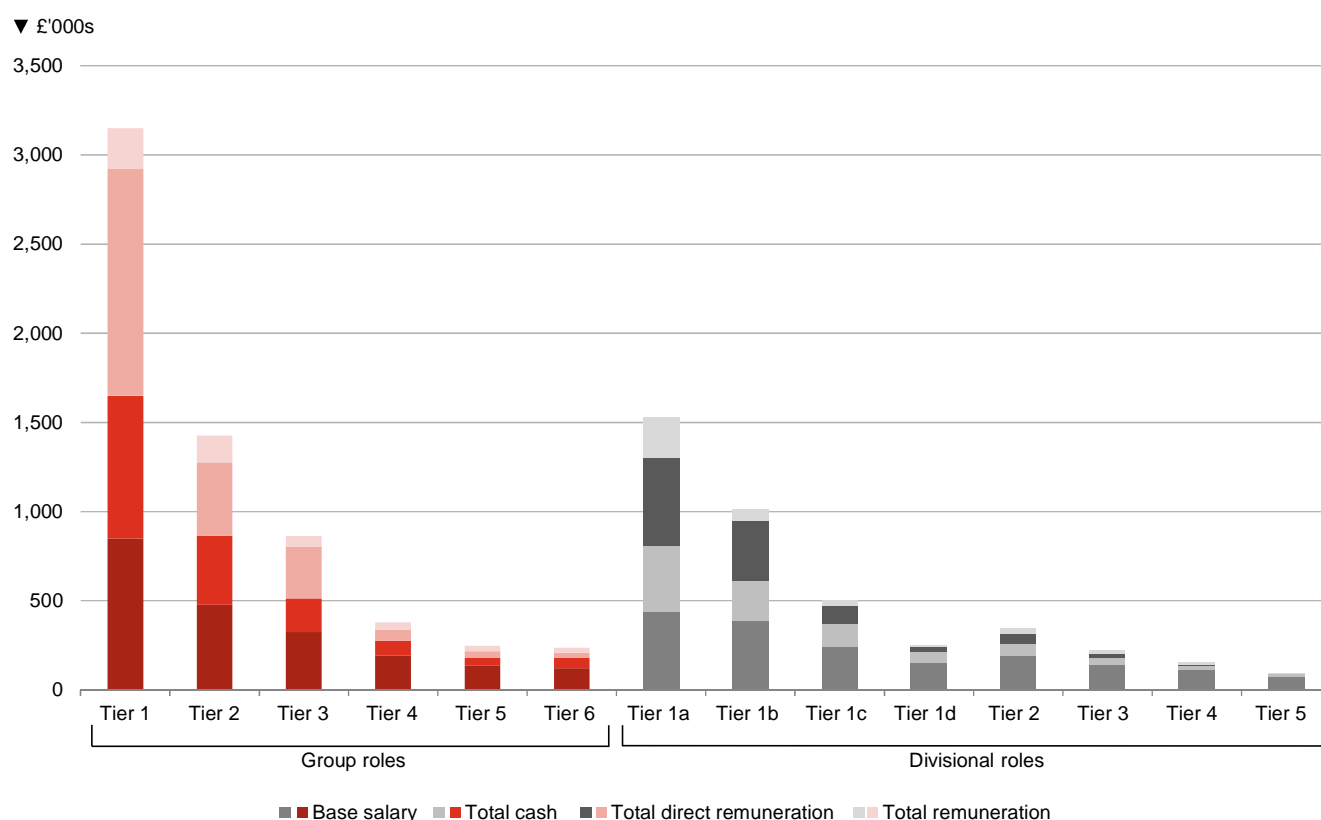
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# Total remuneration

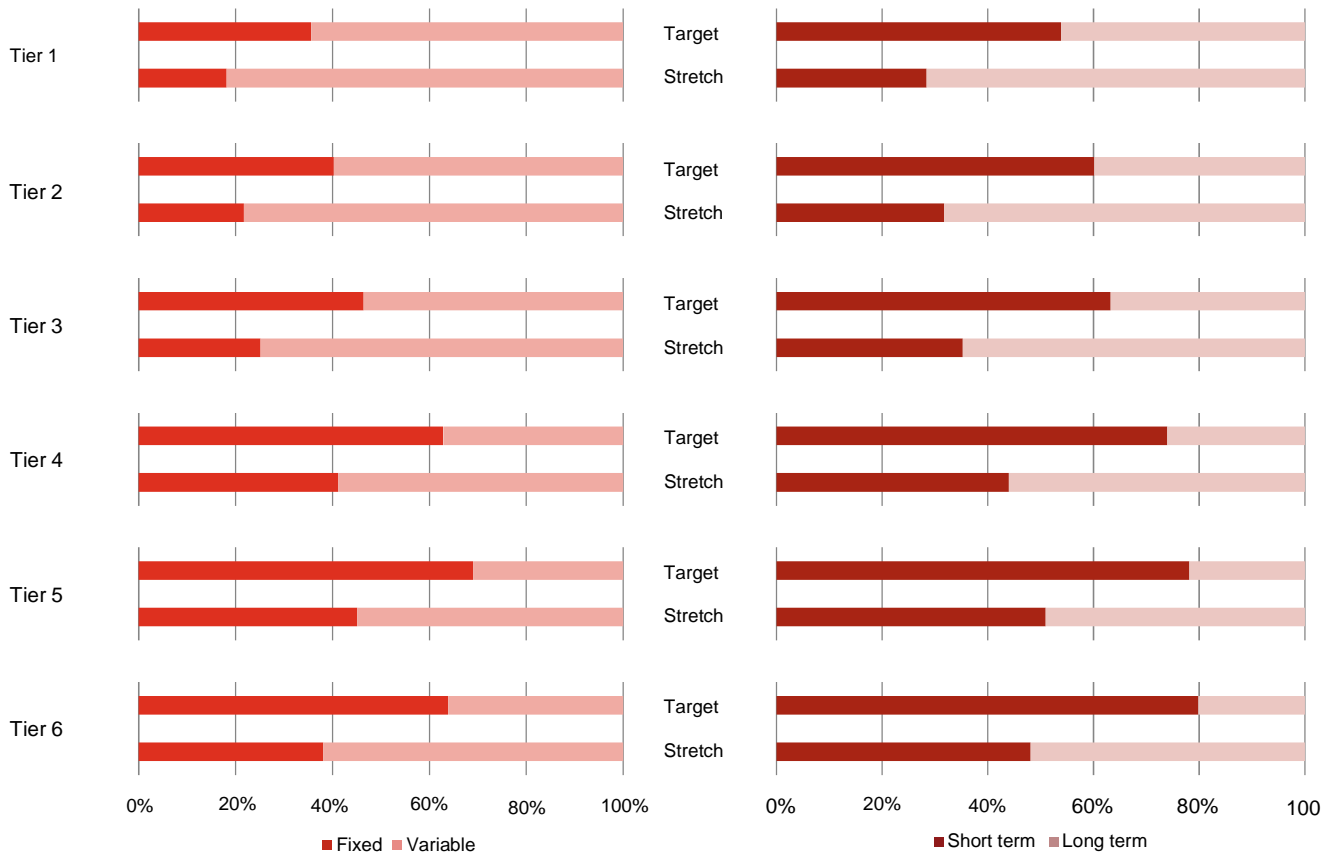
Total remuneration on an expected value basis

	Base salary	Total cash	Total direct remuneration	Total remuneration
Group Tier 1	850	1,649	2,934	3,153
Group Tier 2	477	866	1,276	1,428
Group Tier 3	325	515	804	863
Group Tier 4	193	277	338	378
Group Tier 5	138	181	218	247
Group Tier 6	123	180	208	238
Division Tier 1a	440	813	1,301	1,529
Division Tier 1b	390	616	951	1,015
Division Tier 1c	242	372	472	503
Division Tier 1d	151	215	243	252
Division Tier 2	194	263	314	345
Division Tier 3	140	182	204	224
Division Tier 4	116	137	141	152
Division Tier 5	76	91	92	96

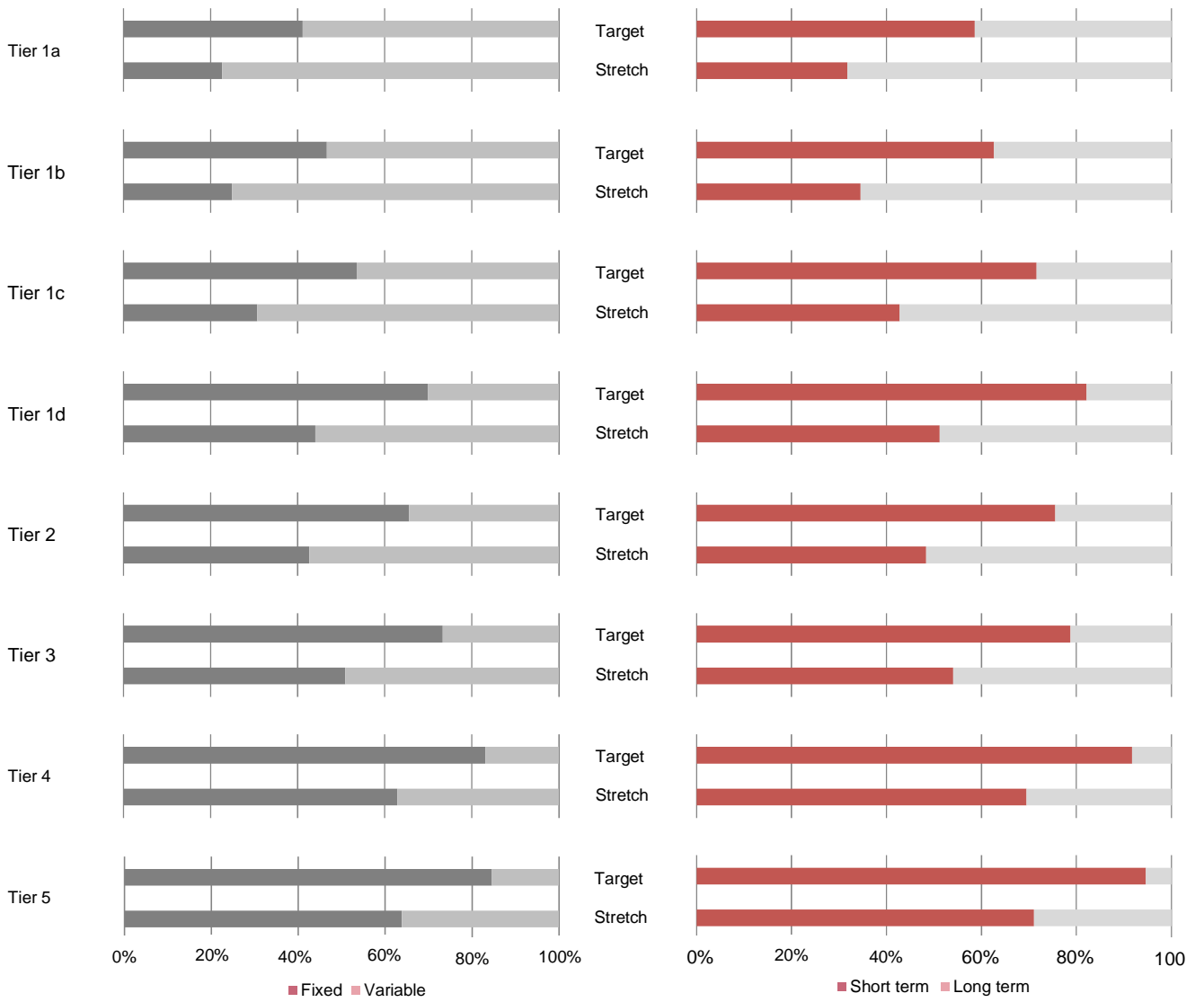


# Package composition

Composition of package at target and stretch performance (group roles)



Composition of package at target and stretch performance (divisional roles)



## Base salary

The information below excludes pay freezes. Pay freezes have occurred in just over one quarter (27%) of companies at main board level in FTSE 100 companies, with fewer freezes applied to below board roles.

### Base salary increases (% salary)

	Actual (2014)	Forecast (2015)
Group Tier 1	2.7%	3.0%
Group Tier 2	2.8%	3.0%
Group Tier 3	3.0%	3.0%
Group Tier 4	3.0%	3.0%
Group Tier 5	3.0%	3.0%
Group Tier 6	3.0%	3.0%
Division Tier 1a	2.7%	3.0%
Division Tier 1b	3.0%	3.0%
Division Tier 1c	3.0%	3.0%
Division Tier 1d	3.0%	3.0%
Division Tier 2	2.9%	3.0%
Division Tier 3	3.0%	3.0%
Division Tier 4	2.9%	3.0%
Division Tier 5	3.0%	-

### Base salary increases by sector (% salary)

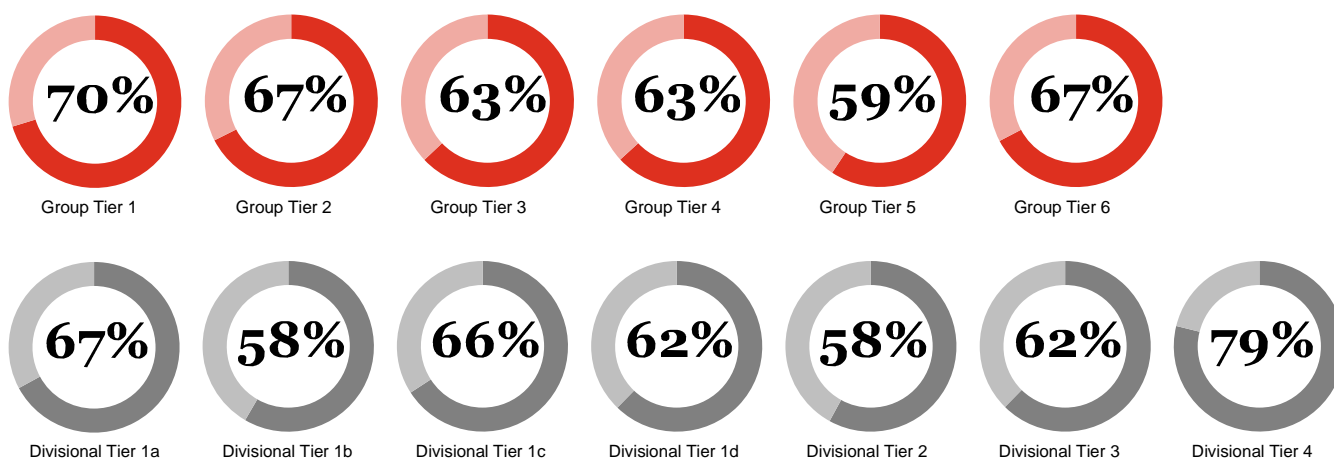
	Actual (2014)
Technology	5.0%
Oil & Gas	3.8%
Telecommunications	3.5%
Consumer Goods	3.1%
Financials	3.0%
Basic Materials	3.0%
Industrials	3.0%
Healthcare	2.8%
Consumer Services	2.8%
Utilities	2.7%

# Annual bonus

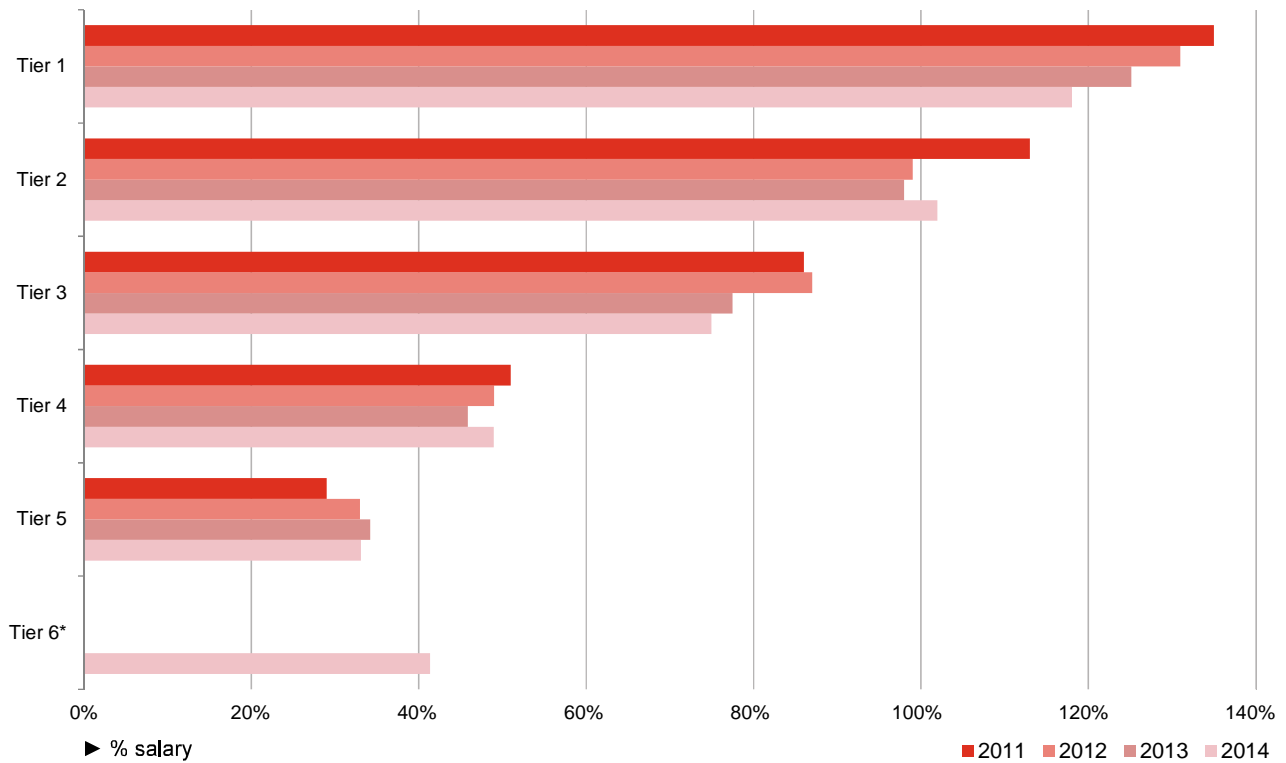
	Actual bonuses paid in 2014		Target bonus
	Value (£'000)	Change from previous year* (% increase)	Proportion of total package (% total remuneration)
Group Tier 1	978	3.6%	25.7%
Group Tier 2	472	2.9%	25.9%
Group Tier 3	233	8.8%	23.1%
Group Tier 4	97	13.0%	21.0%
Group Tier 5	47	8.5%	16.6%
Group Tier 6	41	26.8%	23.7%
Division Tier 1a	464	12.5%	25.0%
Division Tier 1b	321	20.9%	23.5%
Division Tier 1c	193	19.2%	22.3%
Division Tier 1d	84	13.0%	20.4%
Division Tier 2	92	-1.4%	20.9%
Division Tier 3	69	2.2%	19.0%
Division Tier 4	21	6.0%	14.2%
Division Tier 5	61	33.0%	13.9%

\*Only individuals who have been in role for more than two years are included.

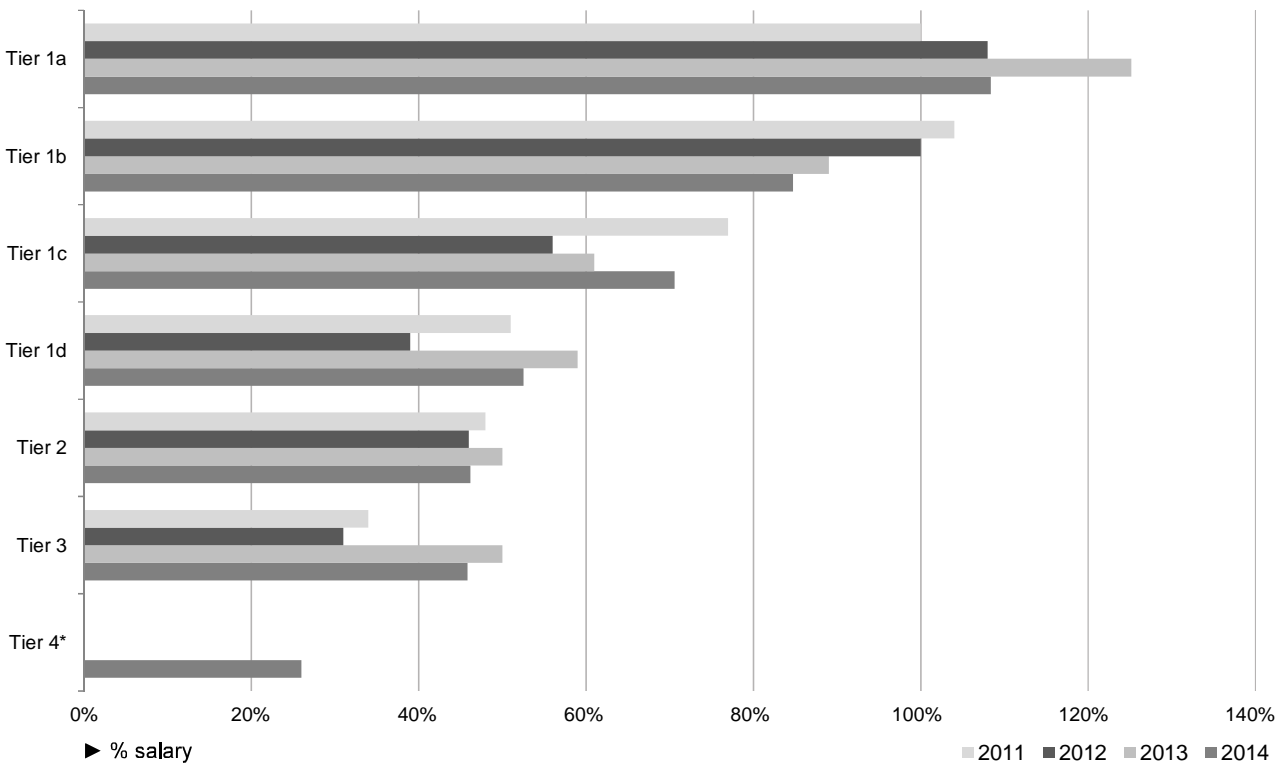
## Actual bonus payments as a percentage of maximum bonus opportunity



Actual bonus payments as a percentage of base salary: 2011 – 2014 (group roles)

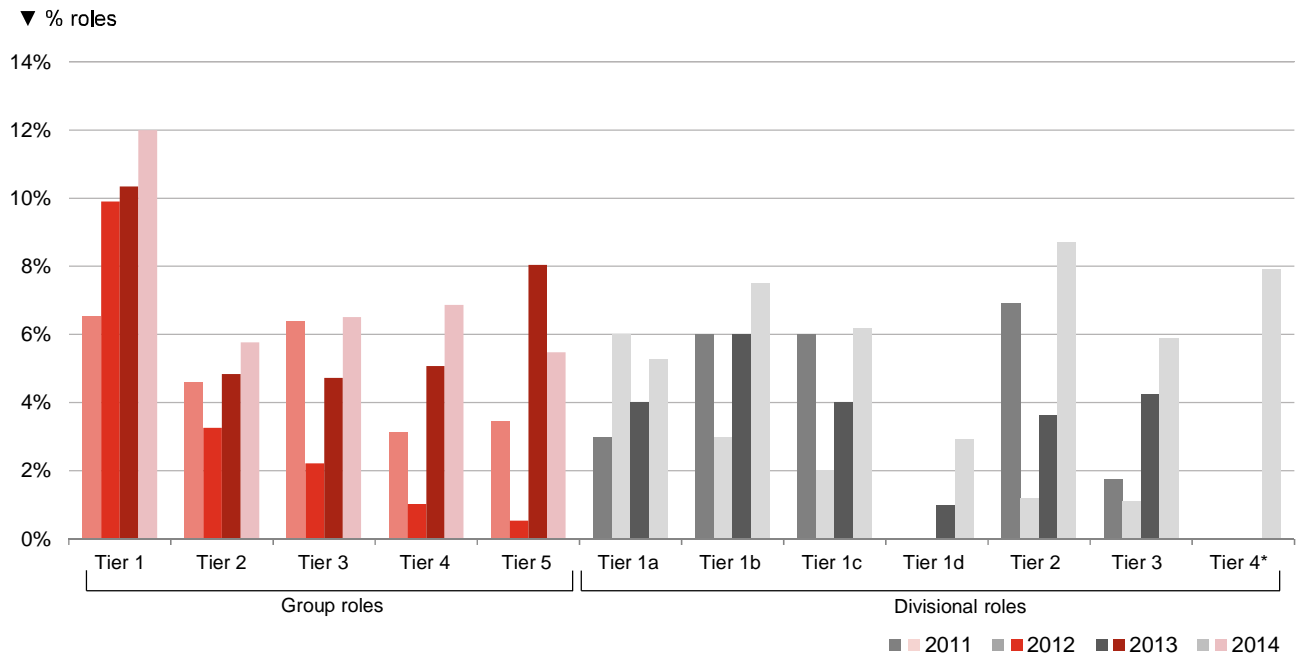


Actual bonus payments as a percentage of base salary: 2011 – 2014 (divisional roles)





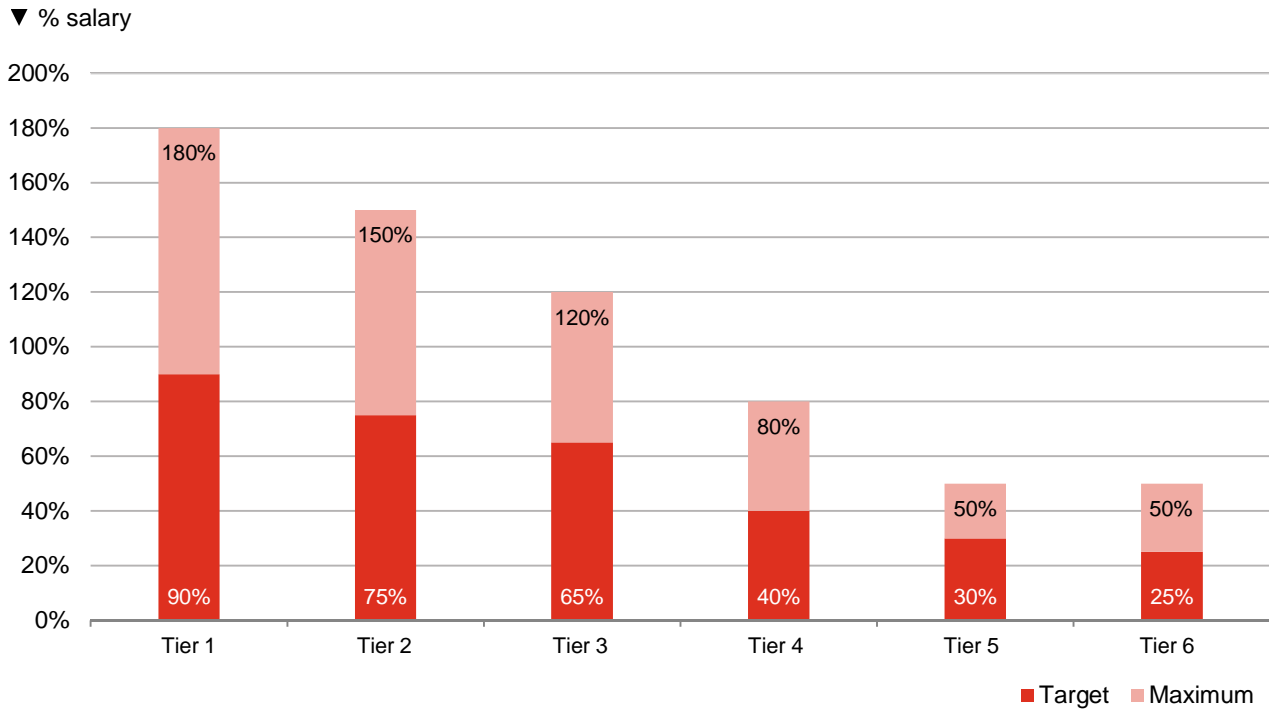
Proportion of roles receiving nil bonus payments: 2011 - 2014



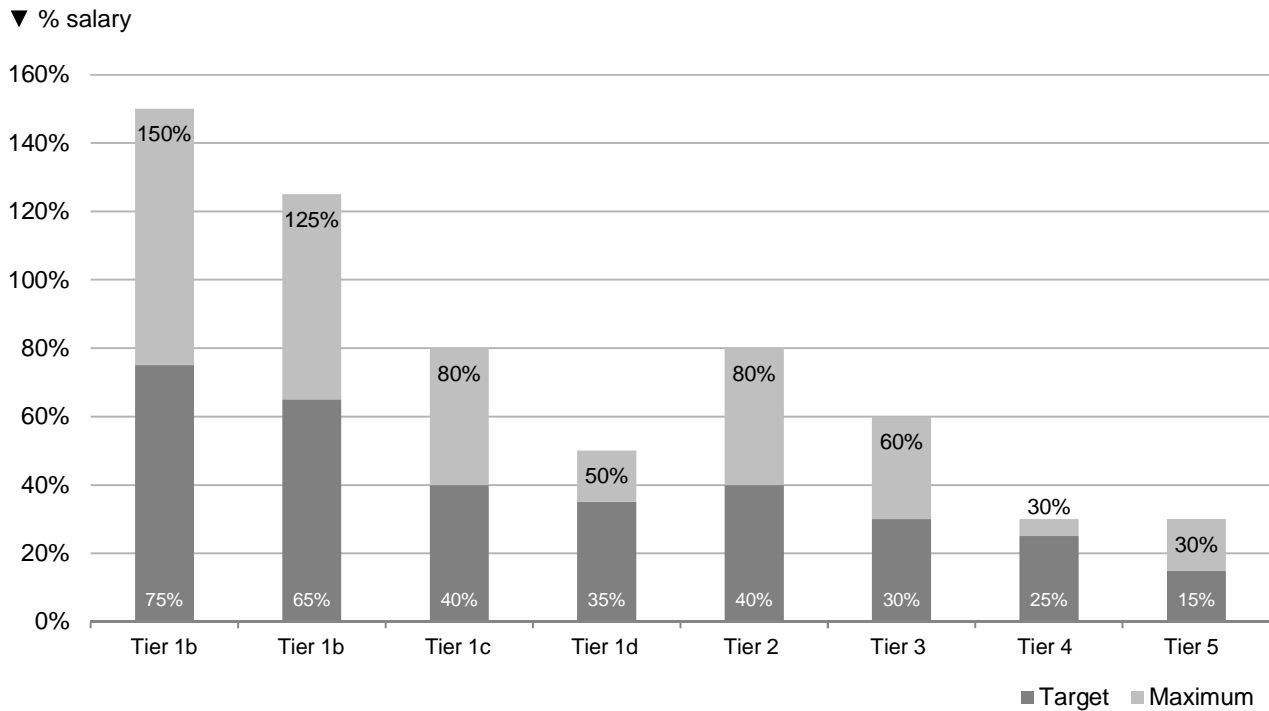
\* No comparative information available for previous years.

# Annual bonus policy

## Target and maximum bonus opportunity (group roles)



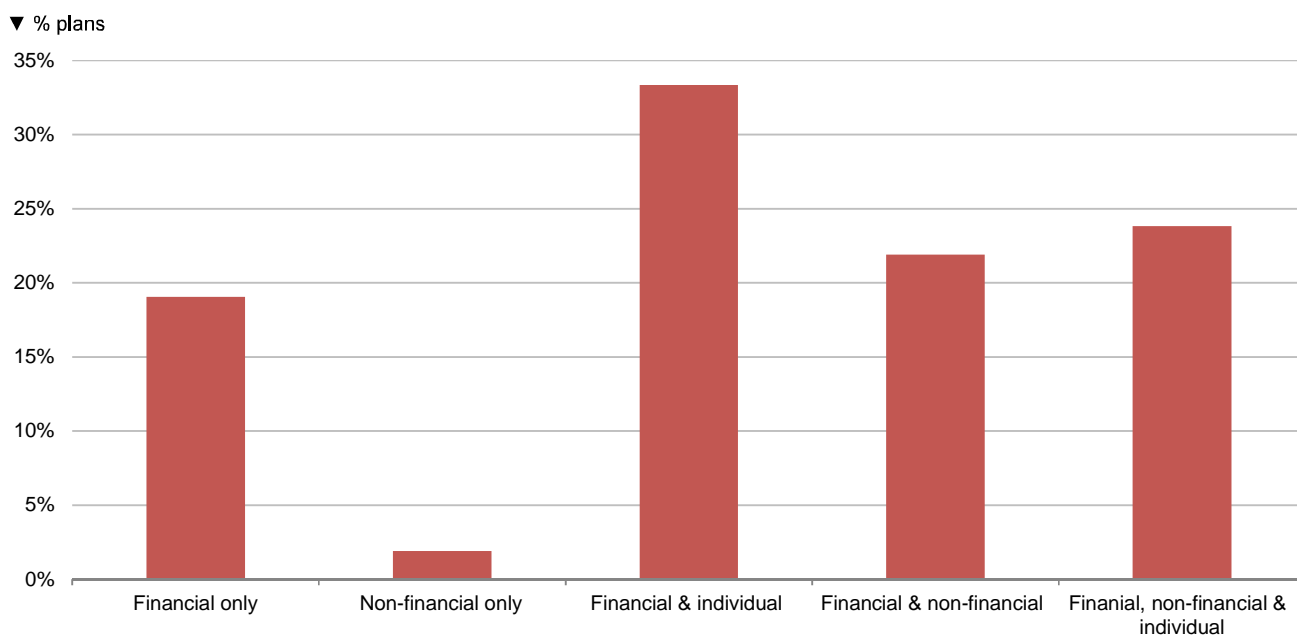
## Target and maximum bonus opportunity (divisional roles)



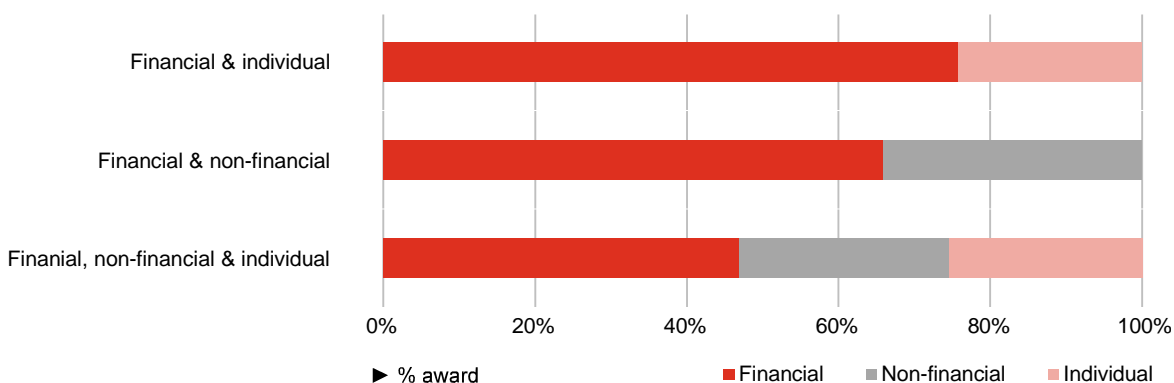
## Types of performance measure (% plans)

Group profit	Cashflow	Revenue	Business unit profit	EBIT	EPS	ROCE
60%	36%	18%	12%	12%	12%	5%
Personal	Strategic objectives	Health & safety	Customer satisfaction	Operational measures	Risk management	Employee engagement
69%	18%	18%	15%	10%	7%	6%
Environment & CSR	Production / Productivity	Project delivery	Corporate sustainability	Market share / Brand	Shareholder measures	
4%	4%	3%	3%	2%	2%	

## Performance measures by type



## Distribution of performance measures (where combination is present)



# Deferred annual bonus

## Types of DAB arrangements

	Eligibility (% roles)	Type of DAB		
		Compulsory only deferral (% roles)	Voluntary only deferral (% roles)	Compulsory and voluntary deferral (% roles)
Group Tier 1	71%	86%	3%	11%
Group Tier 2	68%	87%	2%	11%
Group Tier 3	59%	86%	9%	6%
Group Tier 4	37%	81%	15%	3%
Group Tier 5	30%	73%	24%	3%
Group Tier 6	30%	99%	1%	0%
Division Tier 1a	70%	83%	0%	17%
Division Tier 1b	61%	85%	6%	9%
Division Tier 1c	56%	88%	10%	2%
Division Tier 1d	43%	89%	6%	5%
Division Tier 2	31%	87%	6%	7%
Division Tier 3	28%	91%	2%	6%
Division Tier 4	14%	100%	0%	0%
Division Tier 5	20%	100%	0%	0%

## Deferral level

	Compulsory deferral (% bonus)	Maximum voluntary deferral (% bonus)	Compulsory and voluntary deferral	
			Compulsory deferral (% bonus)	Maximum voluntary deferral (% bonus)
Group Tier 1	50%	75%	25%	25%
Group Tier 2	50%	100%	25%	17%
Group Tier 3	50%	50%	25%	25%
Group Tier 4	50%	50%	30%	20%
Group Tier 5	50%	50%	-	-
Group Tier 6	50%	50%	-	-
Division Tier 1a	50%	-	25%	25%
Division Tier 1b	50%	100%	25%	20%
Division Tier 1c	50%	33%	30%	20%
Division Tier 1d	33%	42%	30%	20%
Division Tier 2	33%	33%	30%	20%
Division Tier 3	33%	50%	30%	20%
Division Tier 4	33%	-	-	-
Division Tier 5	-	-	-	-

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## DAB vesting

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The majority of deferred annual bonus plans vest at one point after three years, cliff vesting, as opposed to phased vesting periods.

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## Malus and clawback of annual and deferred bonuses

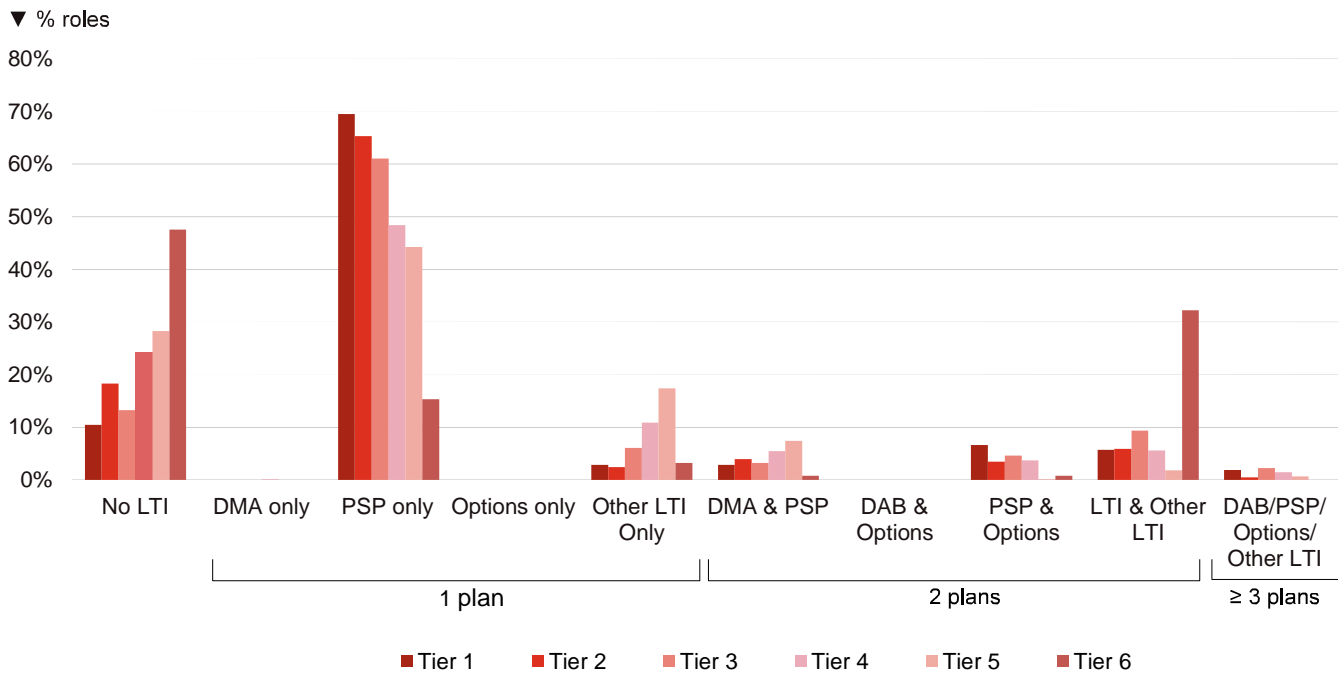
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Around half of companies operate malus on their deferred bonus, where the level of unvested awards may be reduced in certain circumstances such as material misstatements in financial accounts. A similar proportion of companies also operate clawback on deferred bonuses where individuals may be required to pay back the deferred amount post vesting. Approximately 40% of companies also have a clawback provision on their annual bonus.

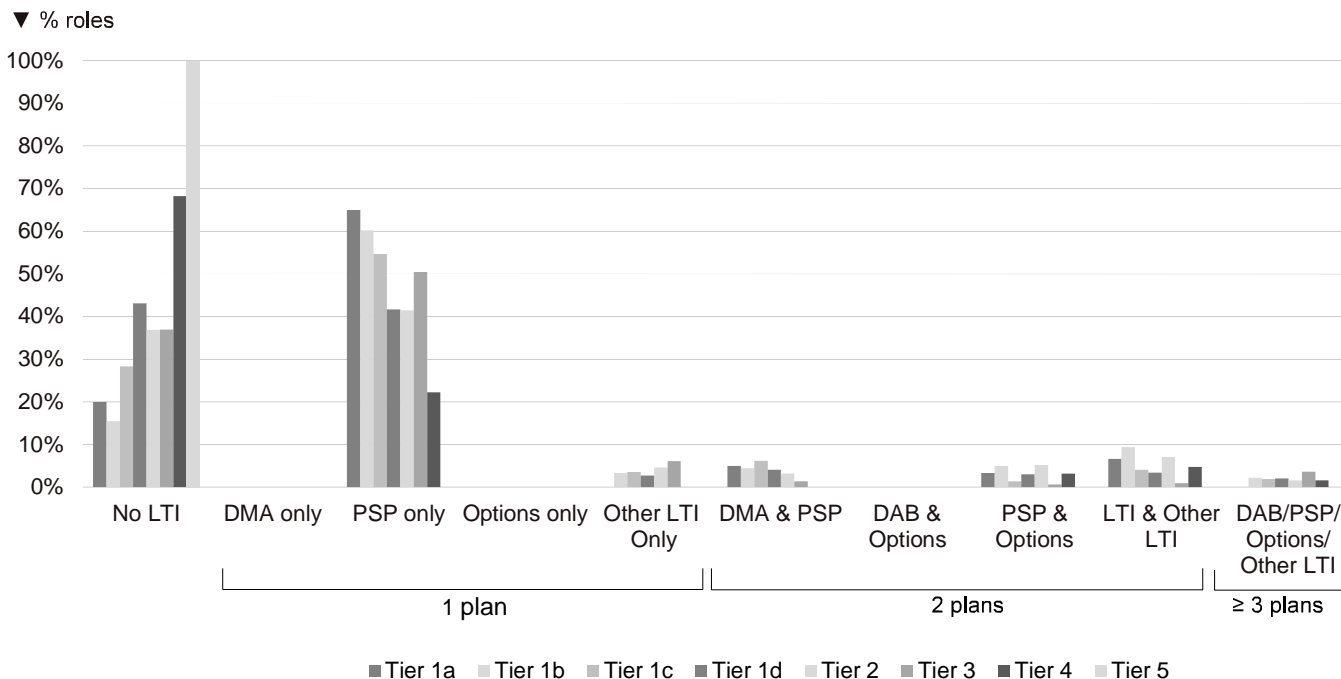
It should be noted that with the new Corporate Governance Code provisions on malus and clawback, we are expecting to see a dramatic increase in their prevalence for executive directors.

# Long-term incentives

## Types of long-term incentive (group roles)



## Types of long-term incentive (divisional roles)



'DMA' refers to deferred matching awards. 'Other LTI' consists of restricted awards, co-investment plans, additional PSP awards, cash plans, value creation plans (VCP/VSP) and any other type of award not defined previously. In the charts above, LTI refers to either DMA, PSP or options.

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## Value of LTIs (on-target)

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	Expected value (£'000)	Expected value (% salary)	Proportion of package (% total remuneration)
Group Tier 1	1,209	150%	39%
Group Tier 2	514	115%	35%
Group Tier 3	255	75%	31%
Group Tier 4	79	42%	20%
Group Tier 5	39	27%	15%
Group Tier 6	34	28%	13%
Division Tier 1a	578	110%	35%
Division Tier 1b	306	75%	32%
Division Tier 1c	108	45%	21%
Division Tier 1d	29	18%	11%
Division Tier 2	73	36%	18%
Division Tier 3	26	18%	11%
Division Tier 4	7	5%	4%
Division Tier 5	5	6%	5%

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## Malus & clawback of LTIs

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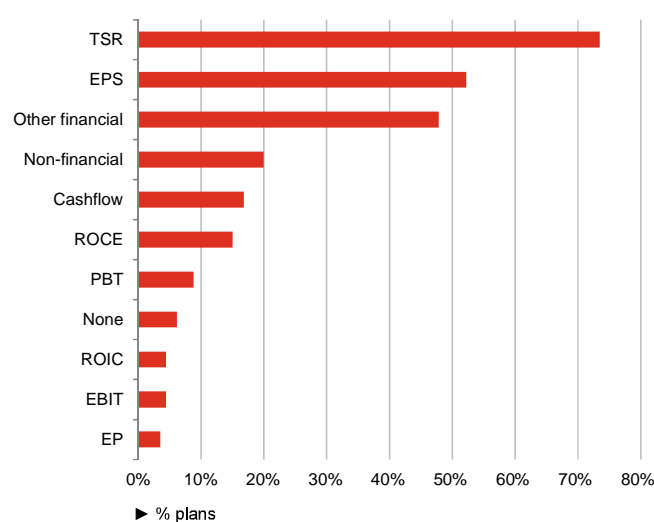
Around half of companies have malus and clawback provisions for their long-term incentives. It should be noted that with the new Corporate Governance Code provisions on malus and clawback, we are expecting to see a dramatic increase in their prevalence for executive directors.

# Performance share plans

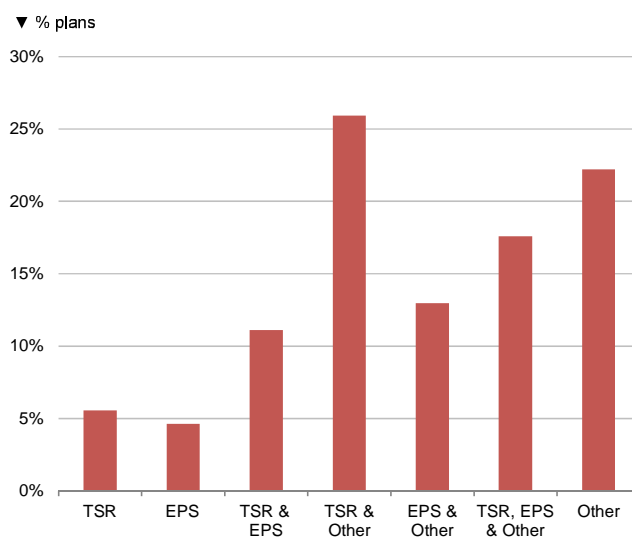
## PSP eligibility and award levels

	Eligibility (% roles)	Face value			Expected value	
		Policy award (% salary)	Maximum award (% salary)	Actual award (% salary)	Policy award (% salary)	Actual award (% salary)
Group Tier 1	86%	200%	250%	200%	133%	121%
Group Tier 2	78%	162%	200%	175%	109%	105%
Group Tier 3	78%	120%	180%	128%	84%	89%
Group Tier 4	64%	50%	80%	54%	45%	36%
Group Tier 5	54%	35%	45%	35%	21%	21%
Group Tier 6	49%	20%	20%	20%	12%	12%
Division Tier 1a	80%	150%	200%	151%	98%	90%
Division Tier 1b	79%	125%	150%	121%	76%	77%
Division Tier 1c	64%	80%	90%	81%	54%	52%
Division Tier 1d	47%	40%	50%	41%	24%	26%
Division Tier 2	55%	50%	70%	50%	42%	30%
Division Tier 3	56%	35%	45%	35%	21%	21%
Division Tier 4	19%	20%	20%	20%	19%	12%
Division Tier 5	0%	-	-	-	-	-

## Prevalence of performance measures



## Combination of measures



'Other financial' and 'non-financial' measures typically comprise company specific measures

## PSP vesting and holding periods

The majority (78%) of PSP plans vest at one point after three years rather than phased vesting over a comparable or longer period. However, around one-in five (21%) companies now operate post-vesting holding periods. Where present, executives are generally required to hold shares for a further two years after vesting. Our expectation is that the new UK Corporate Governance Code will have an impact on the increasing prevalence of holding periods and longer vesting periods



## Other LTIs

### Types of Other LTI arrangements

	Eligibility (% roles)	% plans					
		Share options	Restricted awards	Co- investment	Cash plan	VCP/VSP	Other
Group Tier 1	19%	50%	22%	22%	0%	6%	6%
Group Tier 2	13%	32%	28%	32%	0%	4%	8%
Group Tier 3	24%	29%	35%	15%	17%	5%	6%
Group Tier 4	23%	24%	36%	8%	32%	0%	6%
Group Tier 5	21%	8%	40%	1%	50%	0%	5%
Group Tier 6	36%	2%	0%	0%	9%	0%	89%
Division Tier 1a	10%	33%	0%	67%	0%	0%	0%
Division Tier 1b	21%	31%	8%	19%	33%	0%	14%
Division Tier 1c	16%	56%	12%	37%	35%	0%	2%
Division Tier 1d	22%	73%	0%	17%	28%	0%	0%
Division Tier 2	23%	49%	18%	24%	23%	0%	10%
Division Tier 3	16%	36%	10%	5%	67%	0%	3%
Division Tier 4	46%	93%	0%	0%	2%	0%	7%
Division Tier 5	38%	100%	0%	0%	0%	0%	0%

### Other LTI award levels

Award levels vary significantly depending on the type of award. Where share options are granted, these are typically between 250% and 300% salary for board and senior management roles. Further down the organisation, award levels are granted at 25% - 50% salary.

# Pensions

## Defined contribution pension

	Eligibility (% roles)	Total salary		Capped salary	
		% plans	Employer contribution (% salary)	% plans	Employer contribution (% salary)
Group Tier 1	35%	87%	25%	13%	5%
Group Tier 2	44%	83%	22%	17%	6%
Group Tier 3	62%	89%	18%	11%	4%
Group Tier 4	70%	83%	14%	17%	5%
Group Tier 5	77%	97%	13%	3%	13%
Group Tier 6	56%	100%	12%	0%	-
Division Tier 1a	37%	84%	23%	16%	6%
Division Tier 1b	54%	84%	16%	16%	4%
Division Tier 1c	58%	91%	10%	9%	6%
Division Tier 1d	65%	100%	7%	0%	-
Division Tier 2	48%	92%	10%	8%	12%
Division Tier 3	60%	98%	8%	2%	15%
Division Tier 4	76%	100%	6%	0%	-
Division Tier 5	99%	100%	6%	0%	-

## Defined benefit pension

	Eligibility (% roles)	Accrual rate (1/x)	Final salary (% plans)	CARE (% plans)	Capped (% plans)
Group Tier 1	15%	50	75%	25%	7%
Group Tier 2	11%	50	63%	37%	4%
Group Tier 3	11%	55	79%	21%	2%
Group Tier 4	20%	60	66%	34%	5%
Group Tier 5	17%	60	56%	44%	9%
Group Tier 6	36%	60	56%	44%	32%
Division Tier 1a	18%	45	44%	56%	10%
Division Tier 1b	17%	60	82%	18%	4%
Division Tier 1c	17%	60	53%	47%	5%
Division Tier 1d	22%	60	67%	33%	12%
Division Tier 2	27%	60	44%	56%	13%
Division Tier 3	36%	60	40%	60%	22%
Division Tier 4	18%	60	58%	42%	5%
Division Tier 5	1%	-	-	-	-

## Salary supplement eligibility

	Eligibility (% roles)	Main benefit (% plans)	Additional benefit (% plans)	Typical employer contribution (% salary)
Group Tier 1	50%	85%	15%	30%
Group Tier 2	50%	82%	18%	25%
Group Tier 3	23%	78%	22%	25%
Group Tier 4	13%	38%	62%	19%
Group Tier 5	9%	57%	43%	10%
Group Tier 6	6%	100%	0%	-
Division Tier 1a	58%	71%	29%	25%
Division Tier 1b	20%	86%	14%	25%
Division Tier 1c	16%	83%	17%	20%
Division Tier 1d	6%	95%	5%	20%
Division Tier 2	18%	81%	19%	20%
Division Tier 3	10%	80%	20%	15%
Division Tier 4	1%	100%	0%	-
Division Tier 5	0%	-	-	-

Main benefit refers to where salary supplement is the sole pension provision.

Additional benefit refers to where salary supplement is used in conjunction with another form of pension provision.

# Benefits

## Value of benefits (£'000)

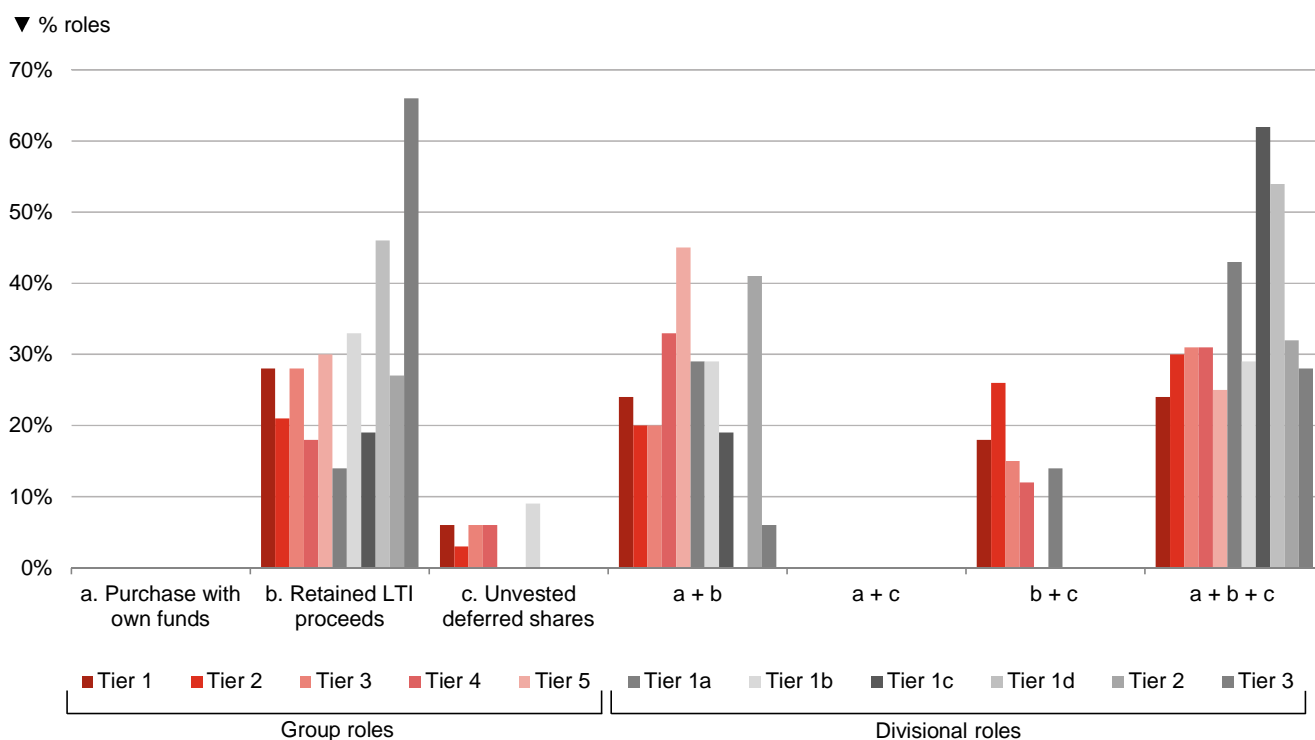
	Benefits in kind	Annual car cash allowance	Typical car list price
Group Tier 1	22	17	75
Group Tier 2	18	16	62
Group Tier 3	14	13	49
Group Tier 4	12	11	39
Group Tier 5	11	10	35
Group Tier 6	9	8	-
Division Tier 1a	19	16	-
Division Tier 1b	14	13	46
Division Tier 1c	12	12	39
Division Tier 1d	8	8	38
Division Tier 2	10	8	39
Division Tier 3	8	8	35
Division Tier 4	8	7	-
Division Tier 5	6	5	-

Private medical insurance, long-term ill health benefits and life assurance are the most common benefits provided to executives and senior management. The benefits in kind value represents the total value of benefits, including the annual car benefit, but not pension.

# Share ownership

	Shareholding requirement (% roles)	Level of shareholding requirement (% salary)
Group Tier 1	90%	200%
Group Tier 2	90%	150%
Group Tier 3	68%	100%
Group Tier 4	30%	50%
Group Tier 5	7%	50%
Group Tier 6	0%	-
Division Tier 1a	89%	150%
Division Tier 1b	60%	100%
Division Tier 1c	31%	90%
Division Tier 1d	36%	50%
Division Tier 2	47%	50%
Division Tier 3	40%	60%
Division Tier 4	25%	49%
Division Tier 5	0%	-

## Shareholding mechanisms



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To find out more about this survey, or to discuss any of the findings please contact our survey team, or your usual PwC contact.

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