

# *Executive and management reward survey*

## Reward in 2016

*December 2015*





# *PwC executive and management reward survey 2015 – Details*

## Group tier definitions

<b>Tier</b>	<b>Definition</b>
<b>1</b>	Group Chief Executive Officer (CEO).
<b>2</b>	Main board (executive directors).
<b>3</b>	Executive committee (ExCo) – The most senior executive level below the main board, typically comprised of core function heads and CEOs of major divisions.
<b>4</b>	The next layer of senior management below the ExCo. Sub-function heads and heads of smaller core functions are usually at this tier. May also include deputy-heads of core functions.
<b>5</b>	Heads of departments, smaller sub-functions and roles responsible for business areas that sit within a function or sub-function.
<b>6</b>	Senior professionals/management, forming the next reporting level/grade below Tier 5.

FTSE 100

**58** companies

FTSE 250

**72** companies

Private & Other

**91** companies

Over **15,000**  
incumbents

**7** Group executive  
Tiers/levels

**5** Division executive  
Tiers/levels



# *The main messages for 2015*

The past year has been quiet on the reward front, but there are key reward challenges for 2016

## Overall remuneration

- There is pressure to find ways through reward to find and create adaptable talent and future skills
- Organisations seeking, through reward and performance to shift productivity and change behaviours to gain competitive advantage.
- Continued focus on driving greater value for money in a cost-constrained environment
- Organisations seeking to justify reward spend – And reviewing reward programmes at different levels
- Board-level reward practices cascading to lower management tiers

## Salary

- Salary increases stable between 2-3%
- 2% salary increases forecast for 2016 pay reviews
- Two-thirds of companies expect next year's salary budget to be the same as this year
- Pay 'hotspots' emerging with more focussed differentiation in key functions and for key talent
- Increased focus on governance around pay – and responding to regulatory change

## Incentives

- Greater incentive target transparency sought – particularly at senior levels
- Questions about whether current incentive models are fit for purpose and delivering value for money
- Bonus opportunities unchanged at most tiers
- Bonus deferral increased at two to three levels below main board
- Performance share plans remain the most common type of long-term incentive, but with more measures
- The trend to operate only one long-term incentive gaining strength

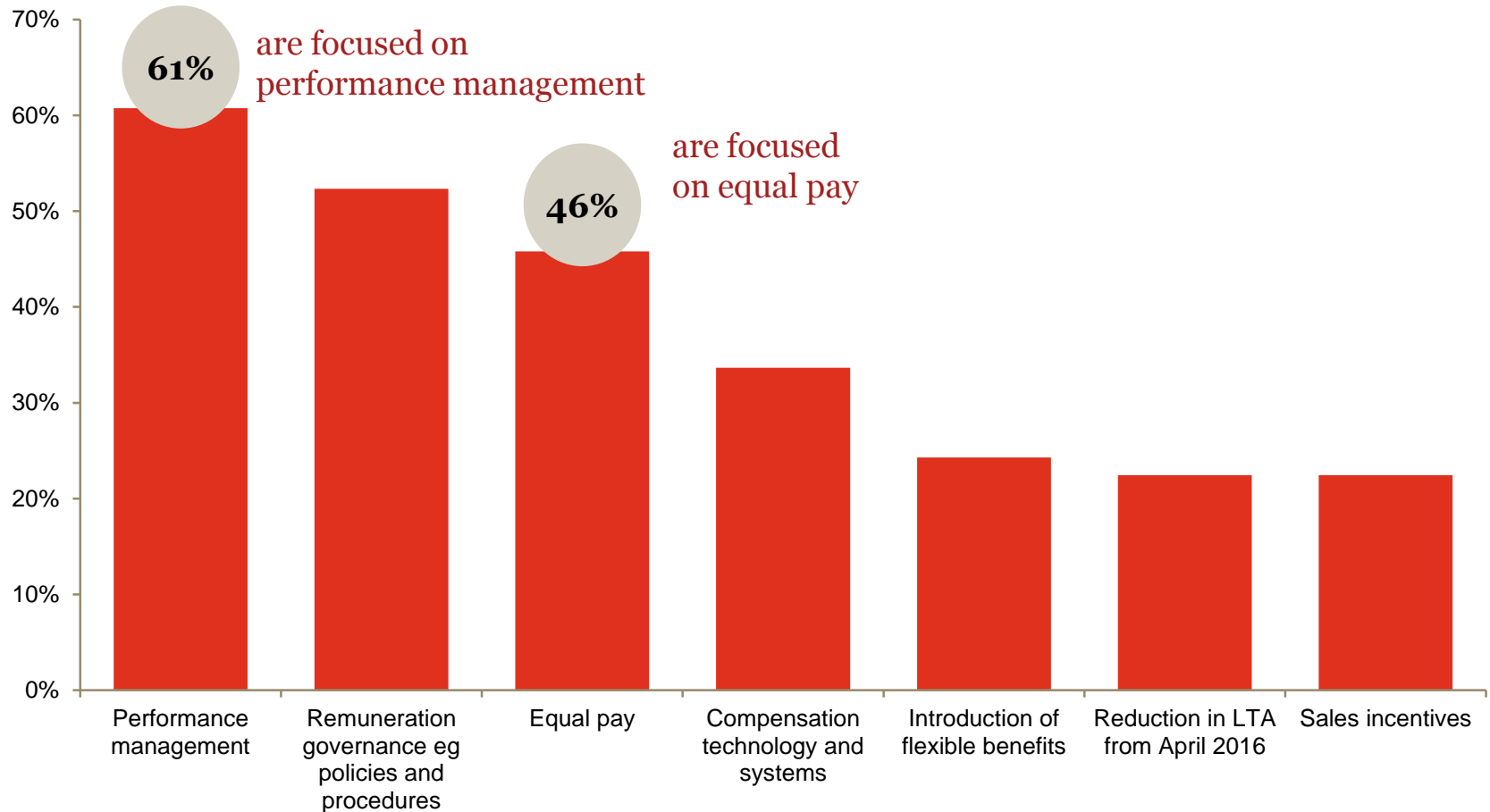
## Pension and benefits

- The four most popular benefits offered by companies reflect the varying lifecycles of individuals at different stages of their career: pensions; private medical cover; buy or sell annual leave; employee share schemes
- There is a potential mismatch between the benefits that companies are willing to flex and the benefits employees most value
- Pensions flexibility will become more important over the next few years as taxation begins to bite lower down the management hierarchy
- New models emerging around pension to ensure employees can save for the future – and improved education



## Reward priorities for the next 12 months?

Performance management and equal pay will be key priorities over the coming year





# ***Looking forward to 2016***

We see the following areas as priorities for 2016

## **Business imperative**

**Add value to the business – increased productivity and behavioural change**

**Responding to regulatory change**

**Simplification**

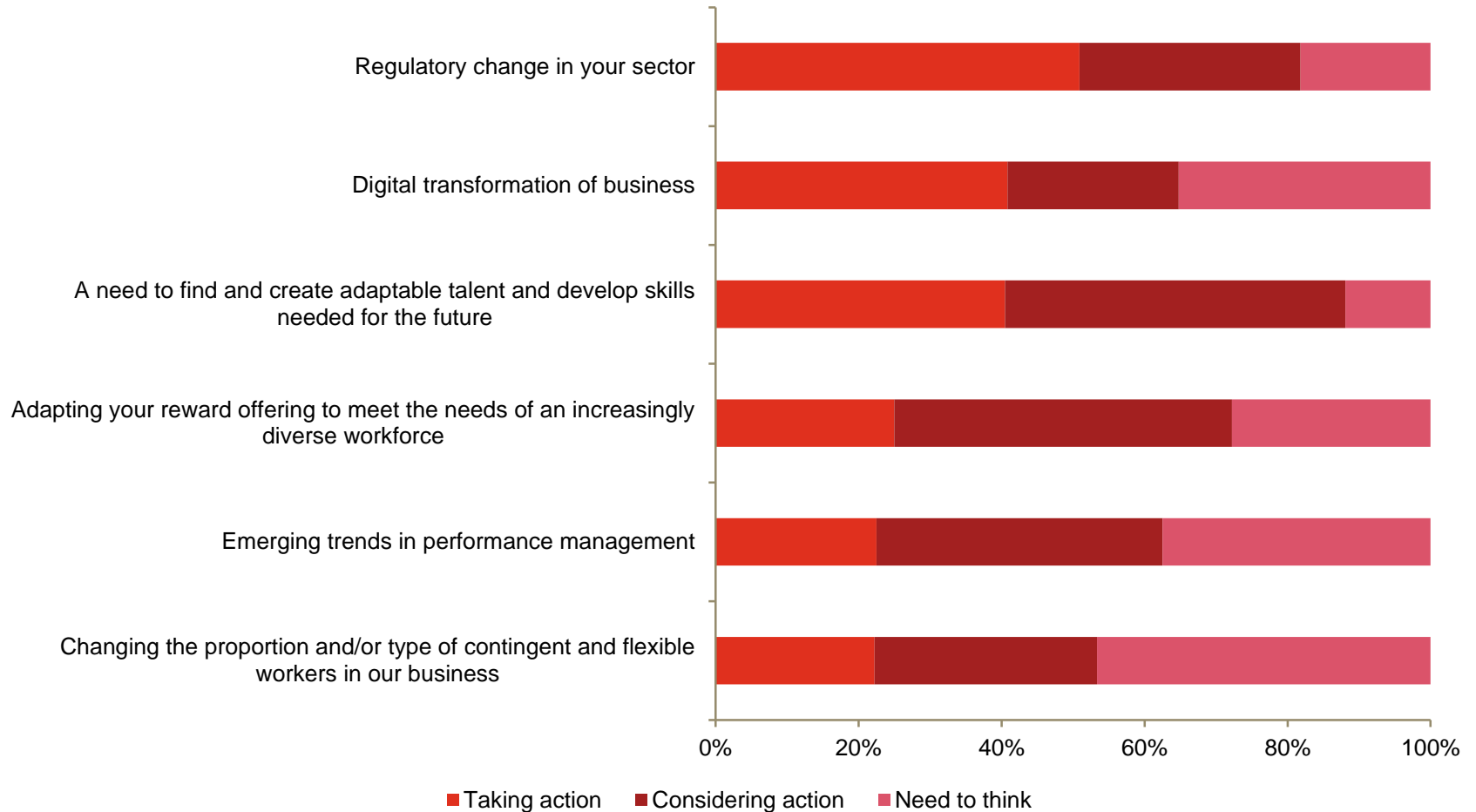
**Maximising reward value**

## **Reward response**

- Reviewing performance management and reward outcomes
  - New recognition programmes
  - Redesign of incentive structures
- 
- Addressing root causes of pay gaps
  - Managing reward spend across business units
  - Alternative pensions vehicles
- 
- Ensuring incentive plans are relevant and well understood
  - Improved communications
- 
- Providing choice and flexibility in the delivery of benefits
  - Considering the employee value proposition



# How do you plan to react to the following reward issues in 2016?



# *Salary*

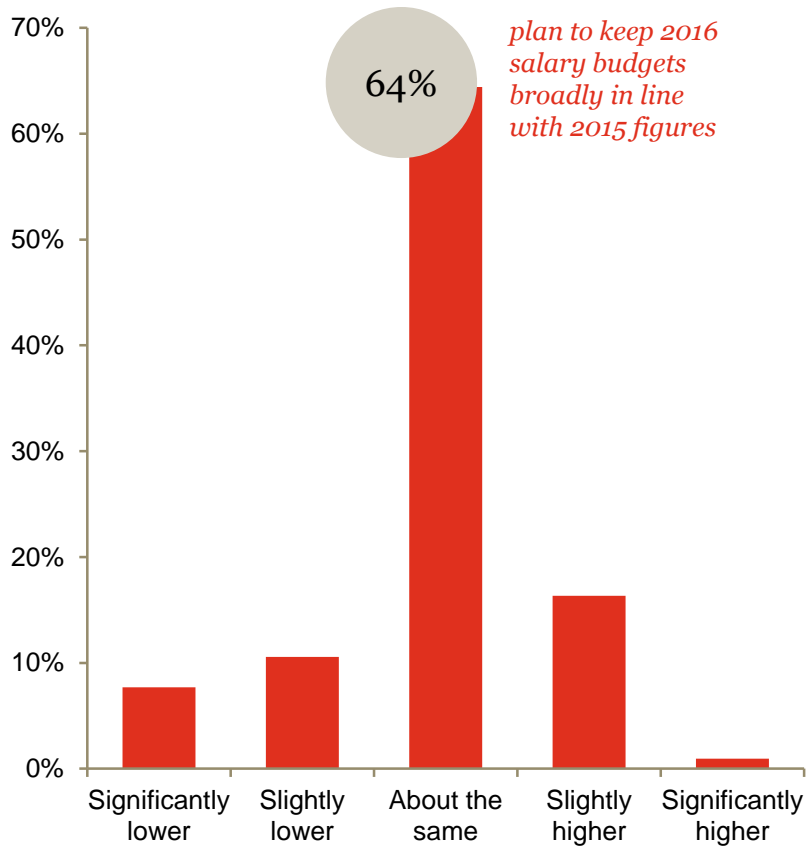
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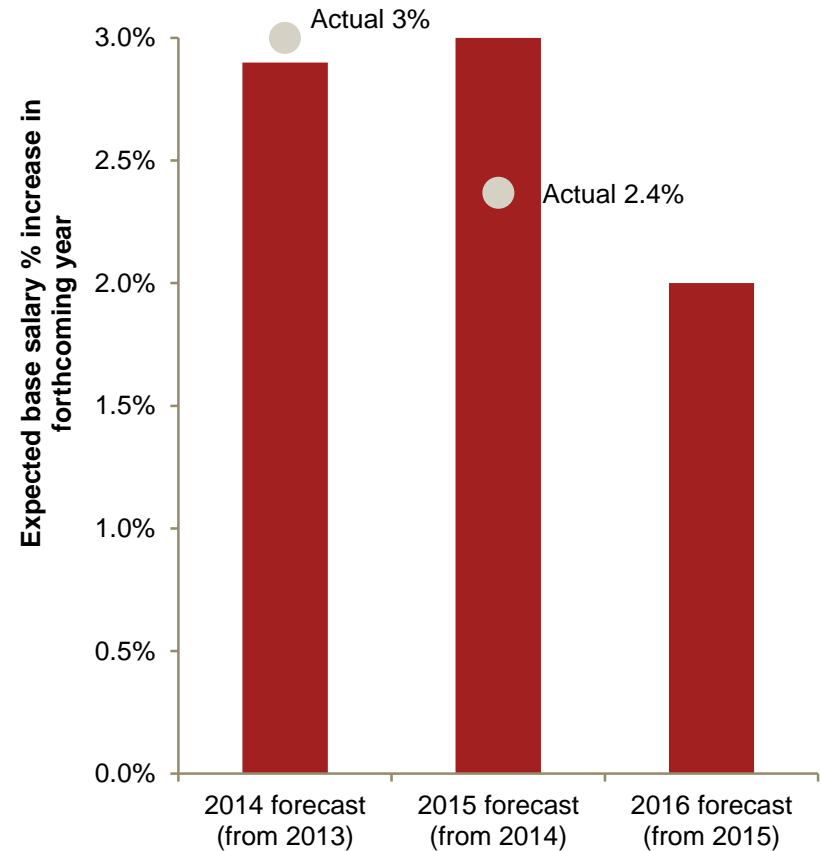
# Salary budgets

Salary budgets are anticipated to be flat

How does next year's salary budget compare with your previous budget?



Expected base salary increase in next year





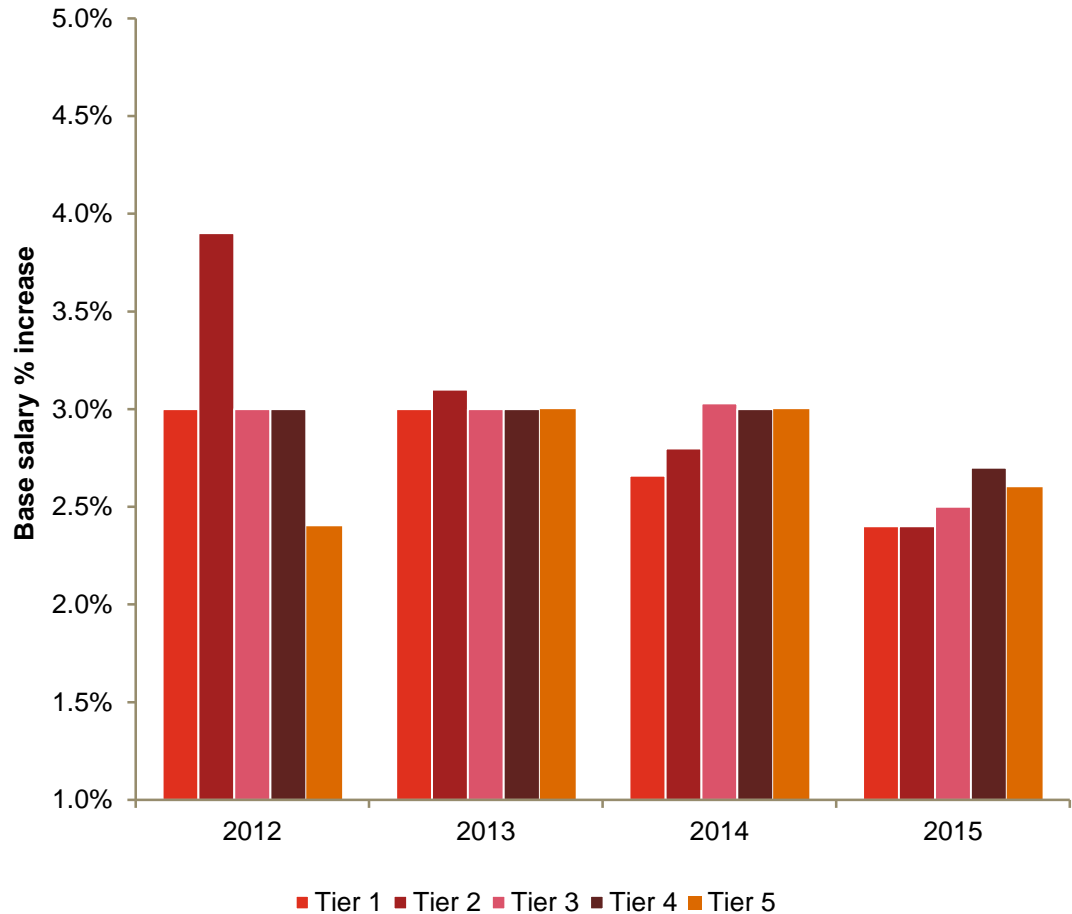


# Actual base salary percentage increase

## Lower salary increases at all levels in 2015

Differentiation in salary increases outside of the 2-3% range in some industries and key functions

Employers may face pay 'hotspots' in particular industries or for particular skills over the coming months



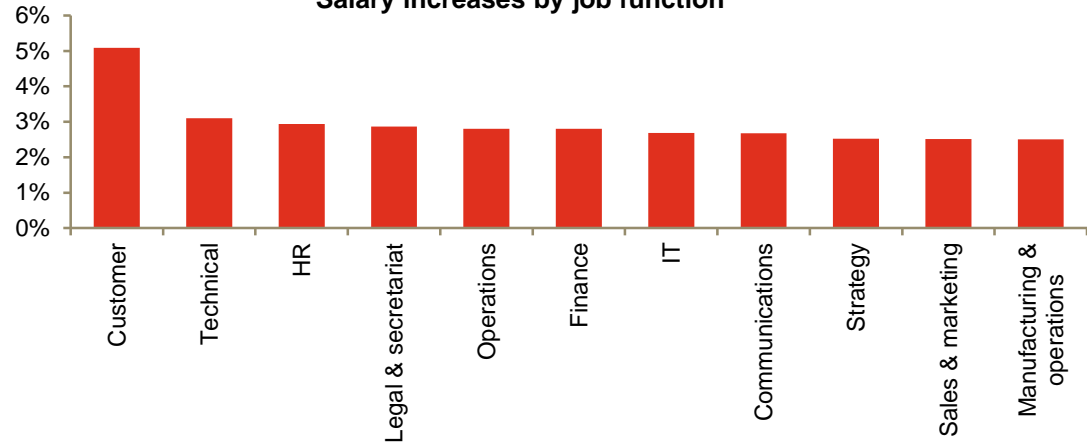


# Talent shortages driving salary 'hot spots'

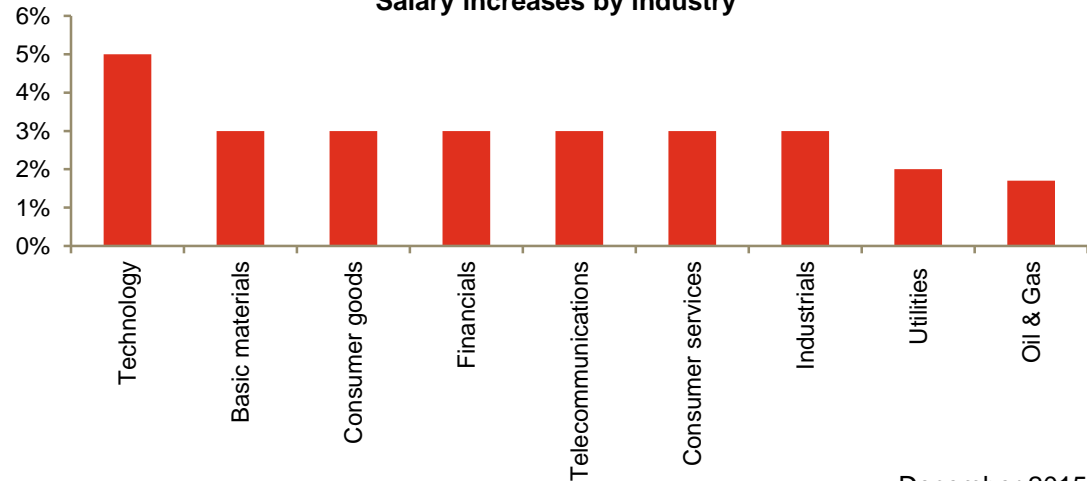
While 2-3% dominates, there are certain areas – Namely Customer and Technical areas which are commanding increased budgets and may be considered pay 'hotspots' in 2016

Across industries, the impact of commodities prices is impacting the Resources sector, while planned budgets in the Technology sector is well above the market

Salary increases by job function



Salary increases by industry



# *Incentives and shareholding requirements*

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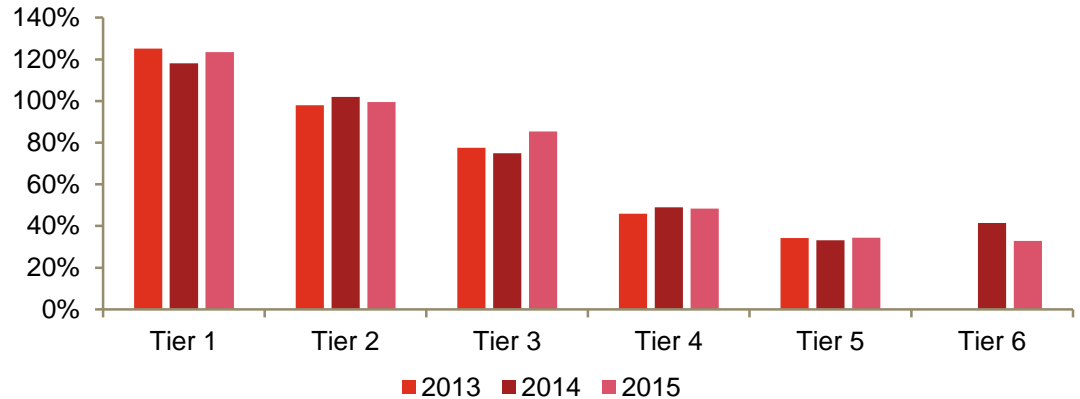


# Annual bonus awards

Bonus outcomes showed only small variations across most job levels

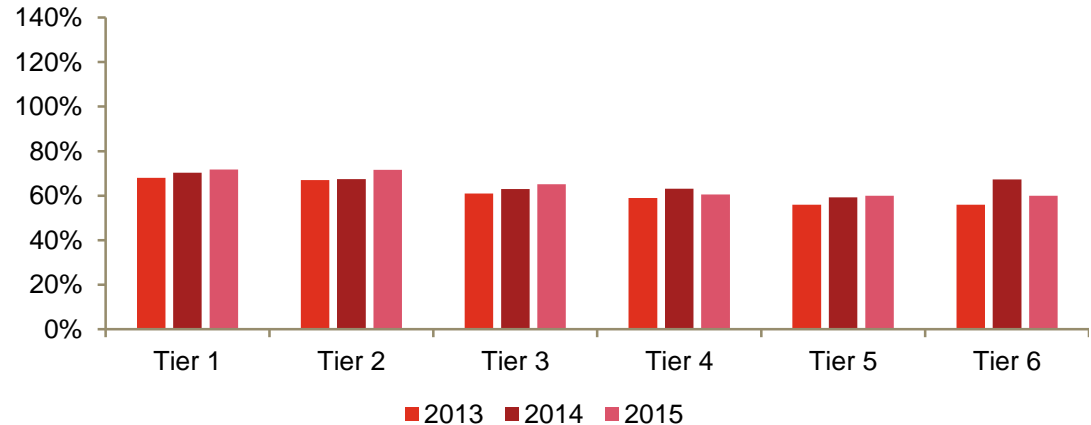
Bonus payments are stable as a percentage of salary, but there are small variations by job level. CEO bonuses are slightly up, while awards are slightly down at the lowest management tier

Bonus awards as percentage of salary



Bonus payments are also stable when measured as a percentage of potential opportunity. CEO bonuses reached 72% of the maximum in 2015 and Tier 6 awards were worth 60%

Actual annual bonus as % of maximum

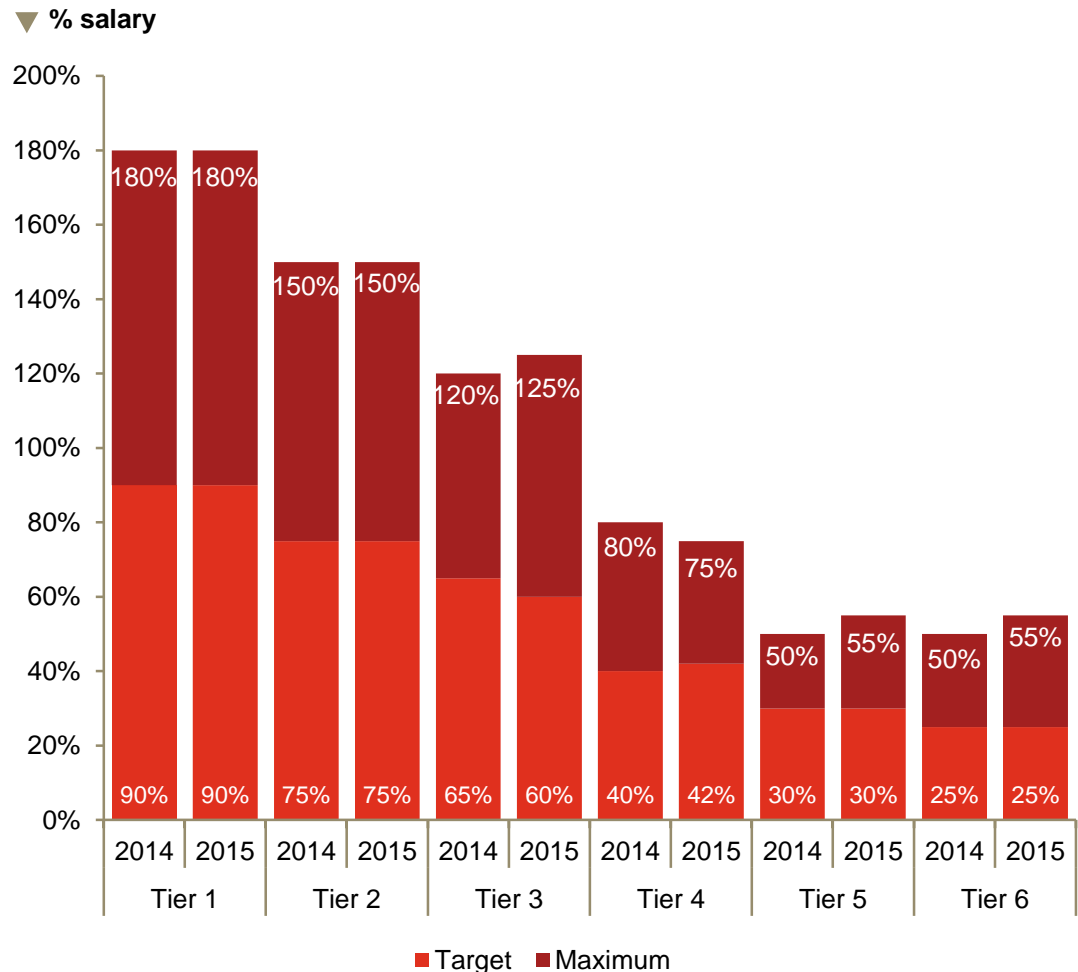




# Annual bonus scheme structures

Target and maximum bonus opportunities flat at most levels

Bonus scheme target and maximum thresholds are largely unchanged at senior levels, but there was a small upturn at the lowest management tiers



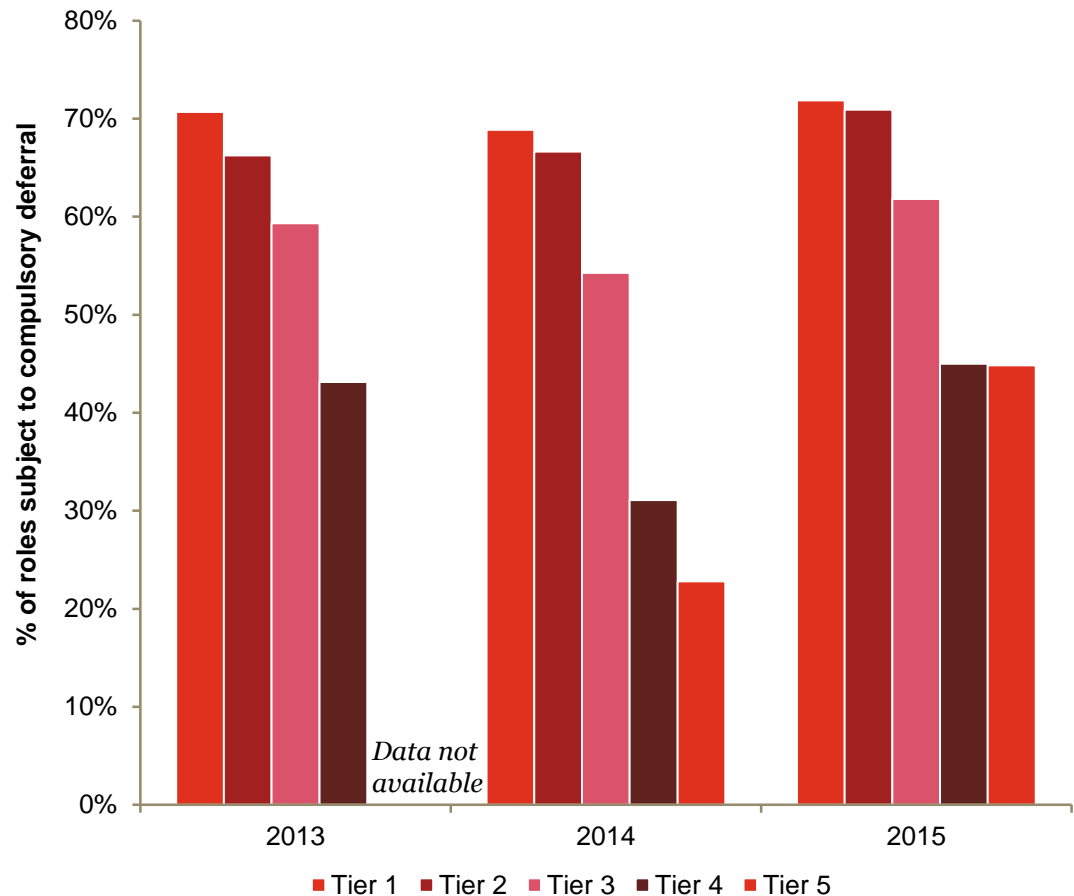


## Bonus deferral

Increased use of bonus deferral, particularly at lower tiers

Once the preserve of senior executives, bonus deferral has become more common at lower management levels

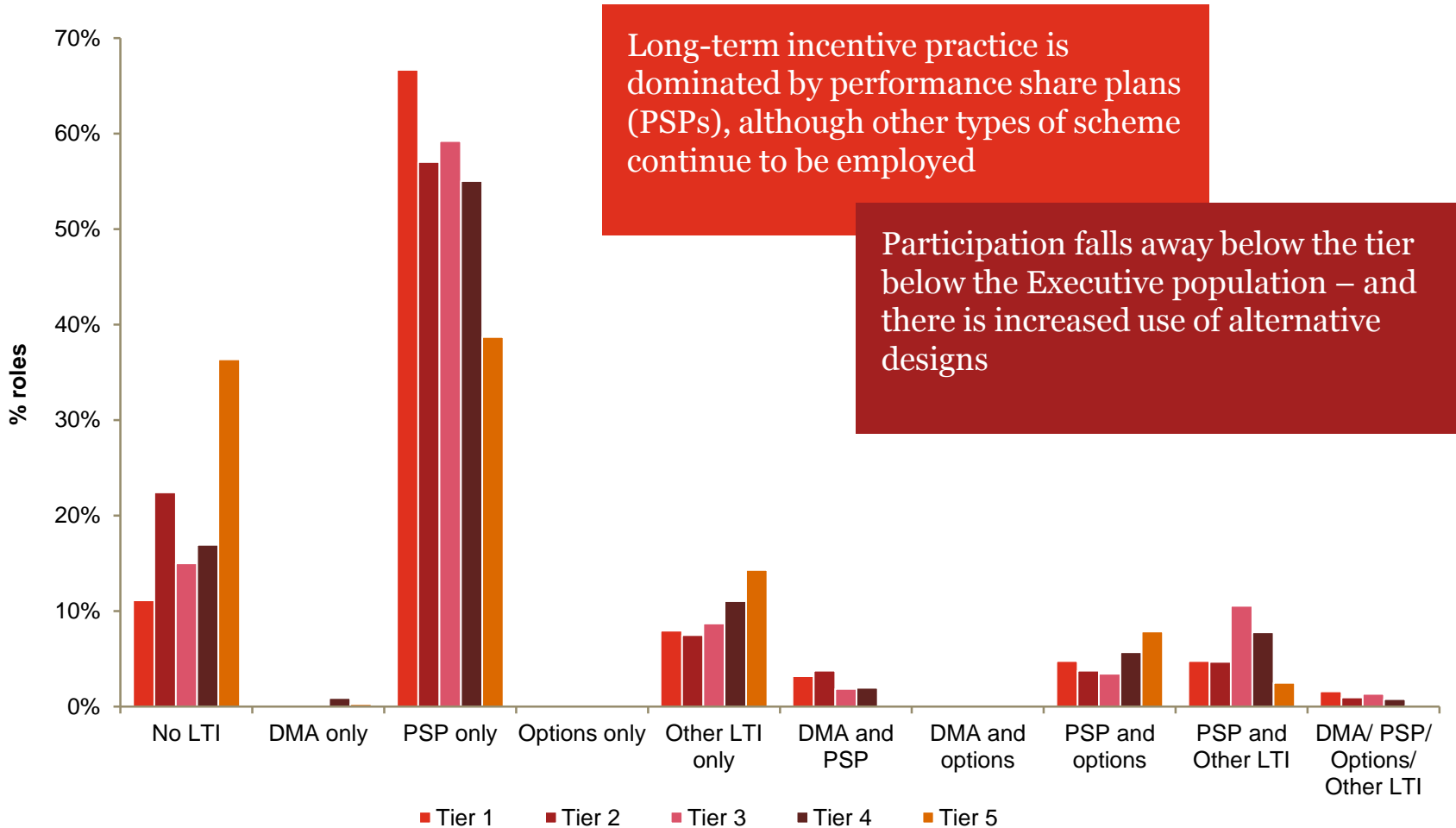
Bonus deferral is usually compulsory with normally around half of the award set aside for three years. In most cases, all the deferred bonus is paid out at a single point in time, cliff vesting, as opposed to phased vesting periods





# LTIP approaches

Use of PSP as only LTIP is the most common approach at all tiers

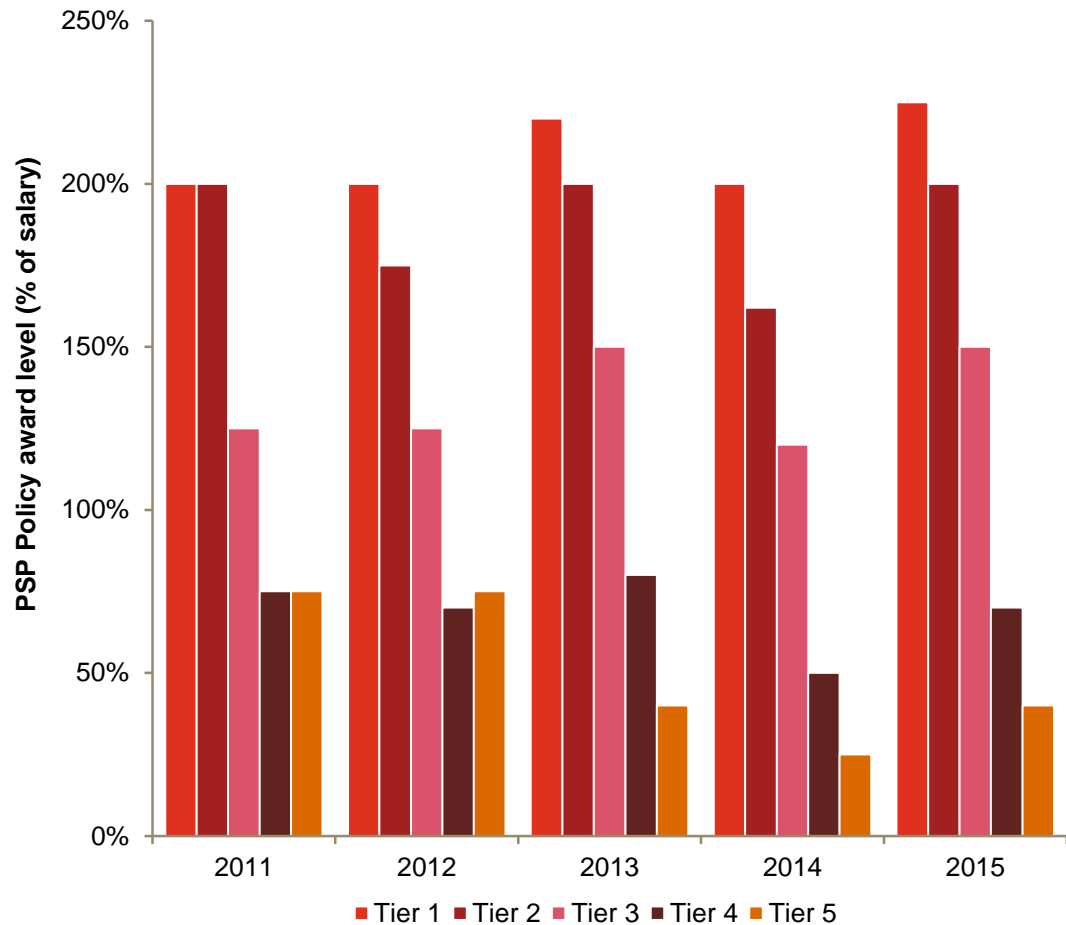




## *PSP policy award levels*

PSP policy award levels edging up at most levels

There are signs that companies are beginning to increase PSP policy award levels. The upturn is noticeable across all management tiers







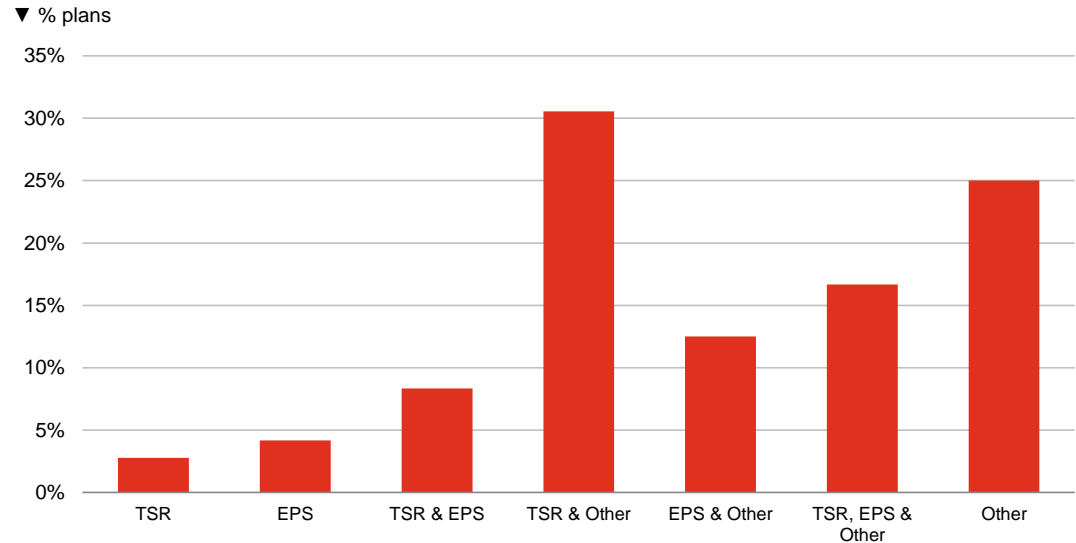
## ***PSP targets***

PSP targets are changing

TSR remains the dominant PSP target, but increasingly used in tandem with other types of measure.

Nearly a quarter of PSPs are now based solely on performance measures outside the status quo of TSR and EPS.

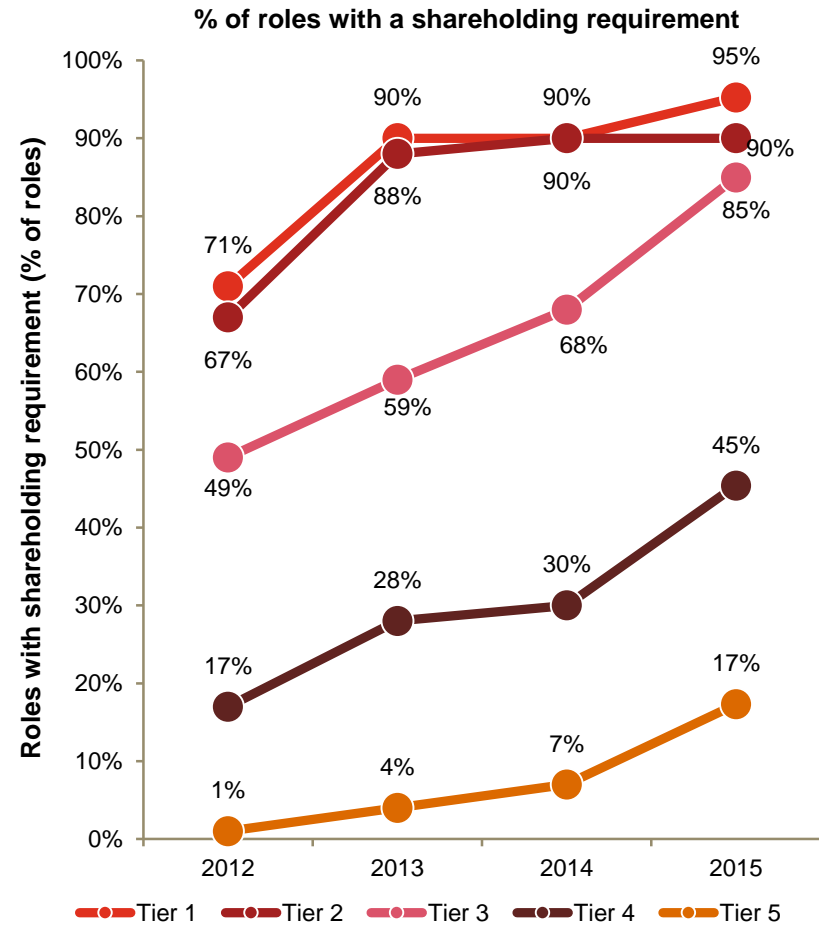
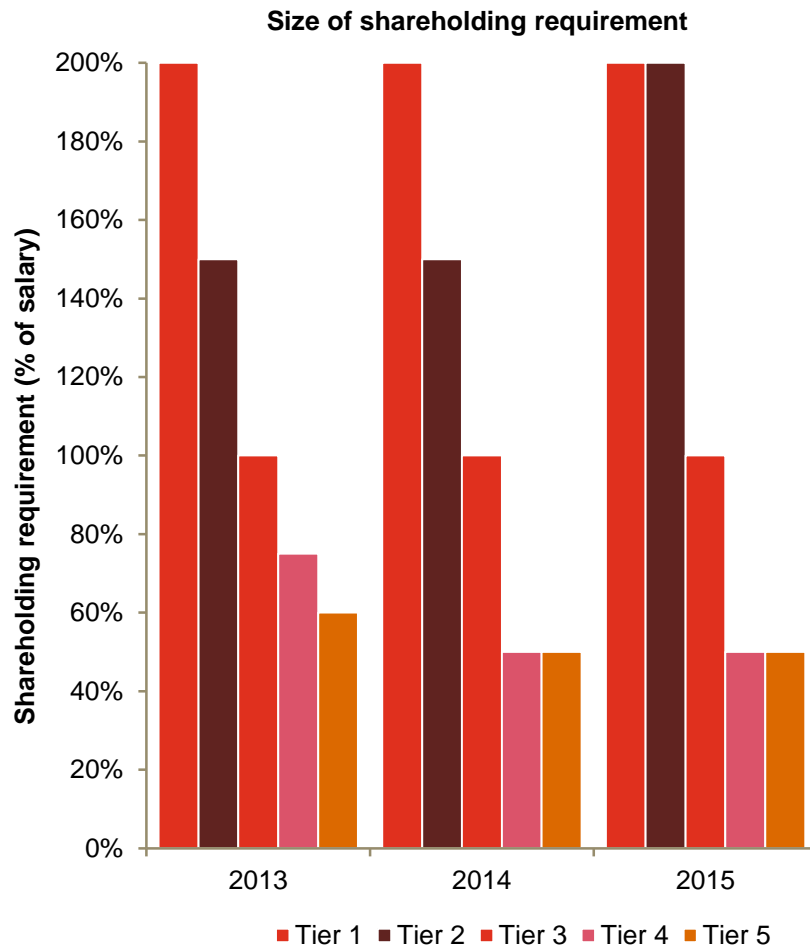
Over 50% of FTSE 100 companies now have three performance measures or more.





# Shareholding requirements

Increased use of share ownership guidelines at lower tiers and standardisation of requirement at board level



# *Pensions and benefits*

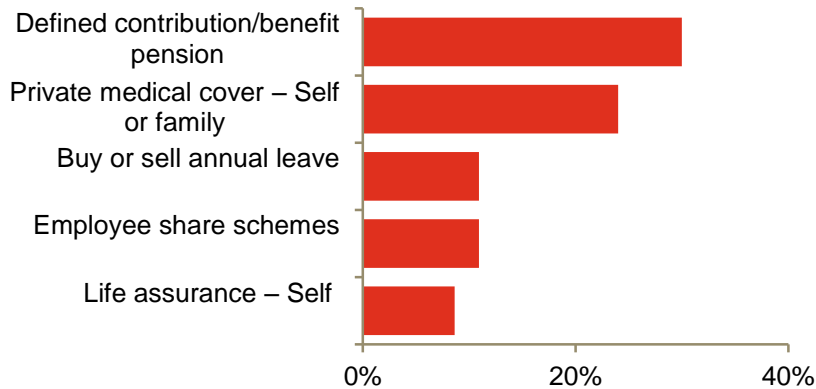
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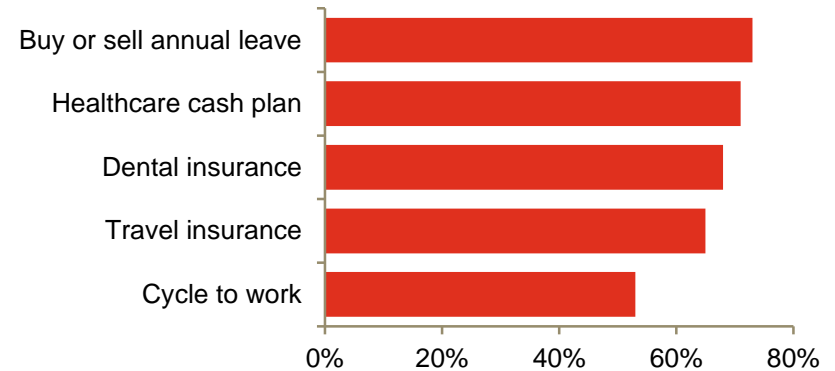
# Benefits for a diverse workplace

Mismatch between the benefits that companies are willing to flex and the benefits employees most value

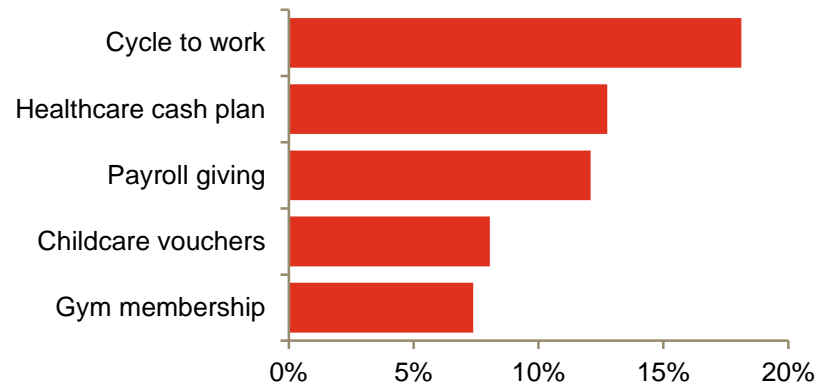
Five most popular benefits



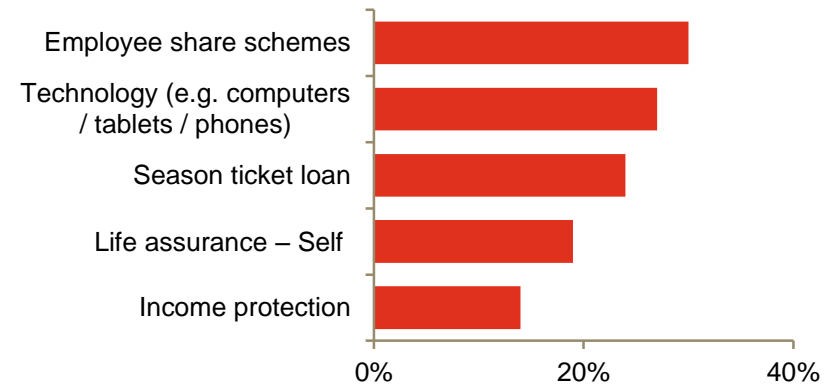
Most flexible benefits offered as part of a flexible package



Five least popular benefits



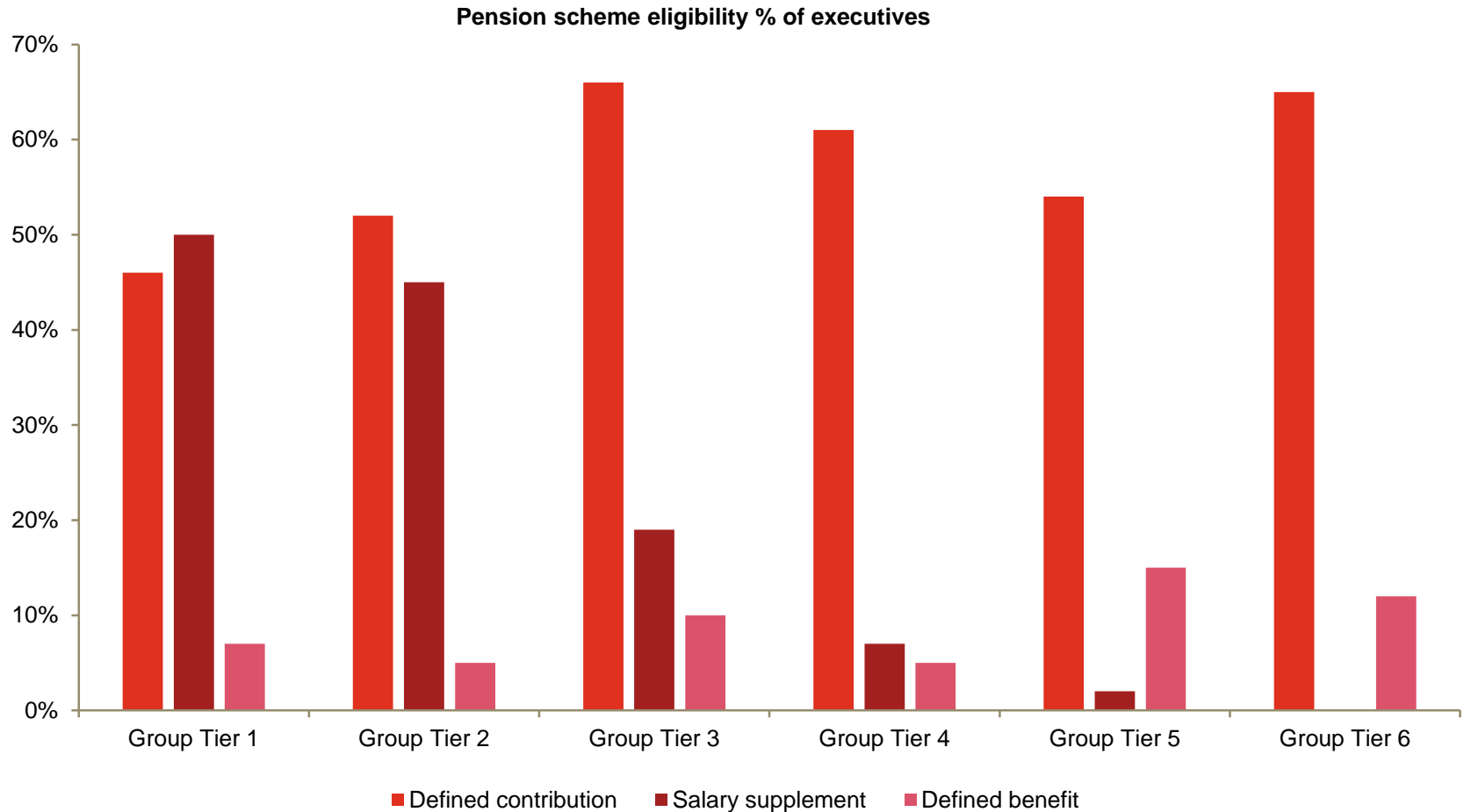
Least flexible benefits





## Pension scheme eligibility

An increasing number of individuals at lower tiers now receiving salary supplements. Trend likely to pick up pace as the pension tax changes start to impact in 2016



# *For further information contact...update*

PwC's Pay Performance and Risk team supports clients with the strategic and operational aspects of pay using robust data to support decision-making.

We work with organisations to help them benchmark, develop and implement remuneration frameworks that cascade down through the organisation in a way that is relevant for the participant regardless of their level, and is effective in linking individual performance and corporate strategy.

We have extensive experience advising clients on better aligning reward with business strategy to drive key behaviours and improve performance. We have supported numerous clients in the implementation of innovative remuneration arrangements including management of key stakeholders. We can provide detailed advice on performance metrics drawing on our sector expertise within PwC and dedicated financial modelling experts.

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