Early insights from FTSE 100 Directors' Remuneration Report publications – 2024

By the end of March, 60 FTSE 100 companies had published their 2023 annual report and accounts. This update, the first in our 2024 series, provides an analysis of key insights so far.

Over recent months, one of the main areas of debate on executive remuneration has been how the approach in the UK contributes (or otherwise) to its competitiveness as a place for businesses to list and thrive. We published an article in November 2023 setting out our views on how the approach to remuneration could evolve.

While we are cognisant that remuneration is only a small but emotive part of the debate, it has clearly informed the decisions made by some FTSE 100 remuneration committees during this AGM season. We have recently supported companies navigating this challenge and, so far during 2024, have observed 6 companies tabling more "atypical" approaches (these companies represent 35% of the 17 companies tabling a new policy for shareholder approval and 10% of the total number of companies that have published to date). These approaches can broadly be categorised as follows:

- significant increases in variable pay opportunities (generally to LTI, although some to both bonus and LTI); and/or
- introduction of alternative/portfolio of vehicles (with all three companies taking different approaches).

To date, none of the major proxy agencies have made significant changes to their 2024 policy guidelines in response to the competitiveness debate. In their February 2024 letter to FTSE 350 remuneration committee chairs, the IA emphasised that their Principles of Remuneration are just that – principles – as opposed to binding rules, and they intend to carry out a fundamental review of their Principles later in 2024 stating that "they should not dictate market practice". The results of our broader investor outreach exercise at the end of last year suggest that there may be more openness from institutional investors to companies making proposals on structure, such as hybrid LTIs, when supported by sufficiently compelling rationale.

We also observe the following key themes compared to last year:

- narrowing of the gap between all employee and ED salary increases;
- increase in proportion of companies increasing both bonus and LTI opportunities;
- no change to median incentive opportunities;
- no significant change to incentive payouts;
- increase in application of downwards discretion applied to formulaic bonus out-turns;
- some softening of bonus deferrals, typically once shareholding guidelines are met; and
- continued growth in the number of companies increasing Chair and/or NED fees on an annual basis.

Implementation for 2024

Base salary

With inflation levels now more in line with long-term norms, median salary increases for the wider workforce have reduced from around 6.0% in 2023 to 4.4%. Executive director (ED) increases disclosed so far have typically been set in-line with (around half), or just below (over one-third), those of the wider workforce.

Median ED salary increases:

4.0%

slightly below those of the wider workforce

10%/9% of CEOs/ CFOs received no salary increase (2023: 8%)

Long-term incentives (LTIs)

15

0

No change to median LTI opportunity

25% have increased LTI opportunities and none have decreased

40% of those increasing LTI opportunities (6 companies) have also increased annual bonus opportunities

Eight companies increasing LTI opportunities are doing so within previously approved policy limits and seven are increasing policy limits. The range of increases is very wide, from 5% to 200% of salary.

8% of companies are changing the structure of variable pay or their LTI vehicle.

Two companies have moved from atypical to market-standard structures: one replacing its SVP with a bonus and PSP; the other replacing its RSP with a PSP.

Three companies have replaced or adopted atypical structures: one has replaced its VCP with a 'stretch' PSP; one has discontinued its bonus and RSP and introduced a long-term SVP; and one has introduced a RSP to run alongside its PSP for its US-based ED.

5% of companies are making one-off reductions to their LTI awards this year. In one case, this reflects a return to normal levels after an exceptional award last year; for the others, the reduction takes into account recent share price falls. The year-on-year share price falls were 40% and 60%, and the corresponding reductions in award levels were c. 7% (from 350% to 325% of salary) and 14% (from 250% to 215% of salary) respectively.

Annual bonus

10

2

No change to median bonus opportunity

20% of companies have changed bonus opportunities: 17% have increased (including one new introduction) and 3% have decreased (including one discontinuation)

13% are making changes to annual bonus deferral, most of which suggest a softening of the feature: three-quarters are reducing the level of mandatory deferral (for half of these, the reduction applies only once share ownership guidelines have been met); one company is increasing the level of mandatory deferral and one company is including deferral within its newly introduced bonus plan.

Share ownership guidelines (SOG)

17% of companies have increased their SOG requirements for one or more ED. All these companies have done so in conjunction with a policy increase to LTI opportunities. These increases have not yet had an impact on the median level of SOG for CEOs (300% of salary).

Chair and NED fees

Over 60% of companies (similar to last year) have increased either their all-inclusive Chair and/ or basic NED fee. Median levels of increase are 4.5% for Chairs (2023: 4.0%), broadly in line with wider workforce increases, and 4.0% for NEDs (no change on prior year), in line with ED increases. Around two thirds of companies (up from around 60% last year) making increases to Chair and NED fees this year are doing so for a second consecutive year.

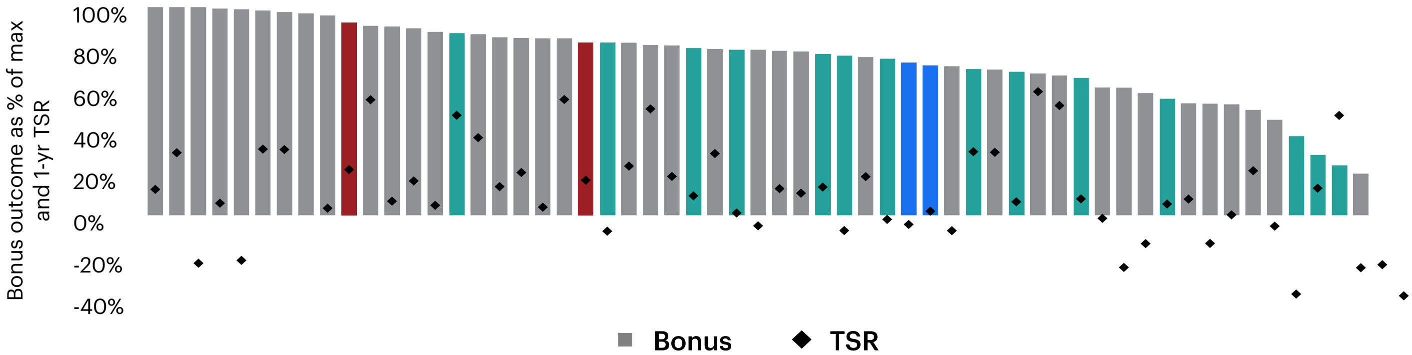
Incentive outcomes for 2023

Summary

- The median annual bonus payout is 79% of maximum
  - This is a little higher than last year (75%) and longer-term median levels (c. 70% of maximum)
- LTI payouts vary more widely than annual bonus outcomes but the median so far is 67% of maximum
  - This is in line with last year (67%) and a little higher than longer-term median levels (c. 60% of maximum)
- Interventions have been significantly more prevalent for annual bonus than LTI outcomes:
  - Bonuses were reduced at 30% of companies; this is considerably higher than in recent, post-pandemic years (2022/23: 13%; 2021/22: 18%)
  - Formulaic LTI outcomes were reduced at 7% of companies (2022/23: 9%)
  - Two companies increased the annual bonus payout (3% vs 1% in 2022/23); there have been no increases to LTI vesting to date (2% in 2022/23)

Annual bonus

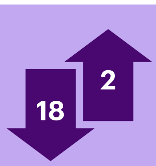
Bonus outcomes as % of maximum versus TSR



Green bar – overall downwards discretion; **Red bar** - overall upwards discretion; **Blue bar** - reduced due to ED waivers

TSR is measured point to point, 1 Jan 23 - 31 Dec 23

79% **Median bonus outcome, as % of maximum**

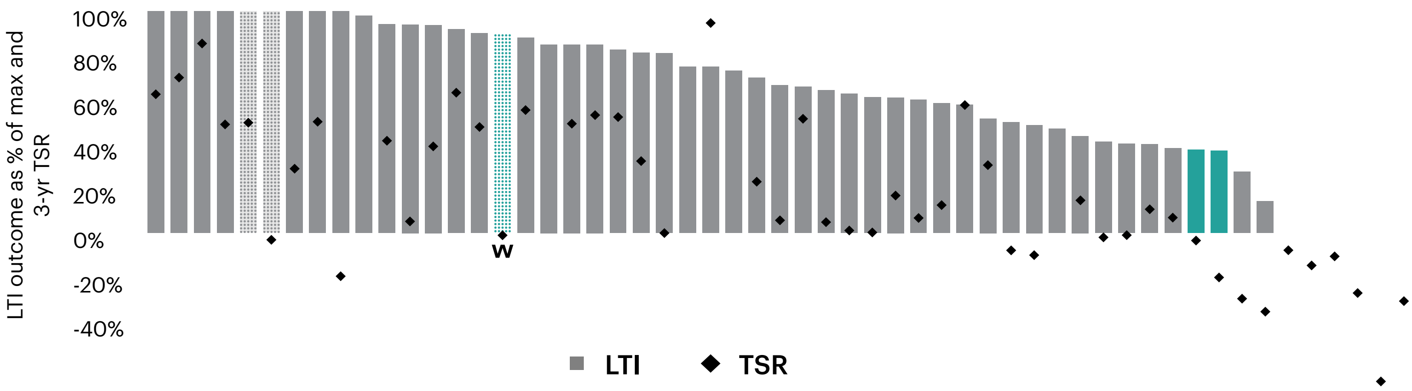


16 RemCos used their discretion to reduce formulaic outcomes (two to zero), and EDs at two companies waived a portion of their bonus: reductions range from 1.9% to 100% of bonus, with a median of 8%.

2 RemCos used their discretion to increase formulaic outcomes; in one case, it was for just one ED [not the CEO].

Long-term incentives

LTI outcomes as % of maximum versus TSR

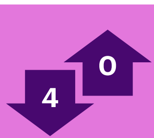


Green bar – overall downwards discretion; **Patterned fill** – restricted share awards; **W** – windfall gains adjustment

TSR is measured point to point, 1 Jan 21 - 31 Dec 23

67% **Median LTI outcome, as % of maximum**

10% of companies' LTIs lapsed entirely (2022/23: 8%)



3 RemCos used their discretion to reduce formulaic outcomes; one of these was an adjustment for windfall gains.

EDs at one company waived their right to an LTI award at the time of grant in 2020.

Further information

For more information on FTSE 100 market data and pay trends please contact your WTW contact or:

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This report includes data sourced from **WTW's Global Executive Compensation Analysis Team**. This report is based on the FTSE 100 as at 1 April 2024.

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