

Old problem for investors

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When Sir Methuselah Struldbrug, recently retired chief executive of mismanaged BigCo, shamelessly regales the golf club bar with his good fortune at being paid a handsome pension, most listeners want to wrap a five-iron round his neck. Milder souls would still happily claw back his lavish retirement benefits. But both methods of redress are legally dubious.

The call by big investors for companies to be more transparent about retirement perks is welcome, therefore. The question is whether it is enough.

As **Royal Bank of Scotland** discovered in the case of Sir Fred Goodwin, persuading ex-bosses to give up contractual entitlements is hard work. If the company is itself restricting the benefits of remaining staff to limit pension liabilities, the imbalance in retirement provision starts to look unhealthy. Some of the practices outlined by the National Association of Pension Funds and Local Authority Pension Fund Forum sound egregious. In extreme cases, executives may be accruing better benefits than staff, at a faster rate, on terms that allow them to retire earlier on a full pension. Bad enough if the executives have done well; sickening if they've failed.

Bespoke pension deals are likely to be more common as chief executives (such as Marc Bolland at **Marks and Spencer**) are appointed to companies whose own schemes are closed to new members. They should be a particular target of scrutiny. Generous pension benefits can increase the fixed element of compensation for bosses, muffling the impact of performance-related incentives. Companies also need to be vigilant below board level: failure to spot an overgenerous pension deal struck earlier in a high-flyer's career can create a costly problem later.

Change seems to be slow coming. The NAPF/LAPFF letter follows a similar missive to companies from the Association of British Insurers in 2007, after ex-directors at Scottish Power retired with big enhancements to their pension pots. Sir David Walker still felt the need to reiterate the point in his review of financial companies' governance last year.

It's a long time to the next annual meeting season, but come next year, a more pointed protest may be in order. Otherwise investors risk allowing Sir Methuselah and his like to draw down pension payments for failure for decades.