

UK pension funds call for clarity on senior FTSE350 pensions

Investment & Pensions Europe, 15th June 2010

UK – Two pension fund organisations have joined forces to call on the boards of FTSE350 companies to be "upfront" about the pension packages of senior executives.

The National Association of Pension Funds (NAPF) and the Local Authority Pension Fund Forum (LAPFF) warned that a lack of transparency around boardroom pensions was an obstacle to shareholder scrutiny, while generous pensions could still be seen as a reward for executives despite poor performance.

Although the two organisations admitted companies already offered some information about executive pensions, they have written to the chairman of each of the FTSE350 companies to urge the boards to volunteer more information to allow shareholders to "judge total pay policies more effectively".

The NAPF highlighted the letter was not calling for directors' pensions to be cut, but both the NAPF and LAPFF raised concerns that because pensions are not linked to performance the generous terms of some pension packages could effectively reward directors despite failing to do their jobs.

In particular, the letter called for greater transparency on accrual rate in defined benefit pensions, as some directors' benefit from a rapid accrual rate of 1/30th of final salary against the norm of 1/60th or 1/80th.

It also called for more information on contribution rates to defined contribution schemes, alongside details of payments in lieu of pensions, retirement ages and special early retirement provisions available to directors.

Joanne Segars, chief executive of the NAPF, said: "There should be no reward for failure, and pensions must be scrutinised as a key part of the overall pay package.

"Pensions are not usually linked to performance and so must not become a back door to increasing directors' pay."

She added that shareholders needed to see what was "going on under the bonnet if they're to hold management to account".

"We hope companies heed our call for greater transparency," she said.

Under existing rules, a company's remuneration report – which shareholders have to approve – is a mixture of mandatory disclosures under the Directors Remuneration Reporting regulations and voluntary reporting.

However, some of the areas highlighted in the letter from the NAPF and LAPFF are not covered by the mandatory disclosure requirement, so a number of companies do not make explicit information available.

Ian Greenwood, chair of the LAPFF, said: "The most important thing is transparency.

"If companies set out clearly what retirement provision is in place for directors, this will greatly aid shareholder understanding.

"At present, it sometimes isn't possible for investors to take an informed view on directors' pension arrangements because of the lack of clarity in some remuneration reports."

Brendan Barber, general secretary of the Trades Union Congress (TUC), added: "Too many of Britain's boardrooms have a vested interest in keeping their pension arrangements as obscure as possible.

"Unlike the public sector, top directors frequently have special gold-plated pensions that are not open to other staff.

"These are often specially designed to Hoover up maximum tax relief too."