

Investors seek transparency over pensions

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The UK's biggest investors are demanding more transparency from companies over the pension perks awarded to top executives.

The National Association of Pension Funds and the Local Authority Pension Fund Forum, whose members hold £800bn and £85bn of assets respectively, have written to the chairmen of each company in the FTSE 350 warning that continued lack of transparency and overgenerous terms risk rewarding top executives for failure.

Pensions have become a bone of contention between shareholders and boards in recent years, hitting a high point in 2009 when it emerged that Sir Fred Goodwin, ex-chief executive of stricken Royal Bank of Scotland, had been awarded a pension of £703,000 a year when he left the bank.

This prompted an outcry, with shareholders demanding from companies tighter service contracts, additional disclosure and a cut in notice periods to a year.

Retirement benefits are rarely tied to performance, unlike other elements of directors' pay, share options, bonuses and long-term incentive plans.

The NAPFF and LAPFF pointed out that top executives are also awarded pensions on significantly more generous terms than the rest of a company's workforce. Benefits accrue faster, companies frequently contribute more and an increasing number offer cash payments instead of contributing to a pension. Retirement ages are set lower and plans sometimes include special early retirement provisions.

The NAPF and LAPFF said on Monday that "firms should make it clear that an unreduced pension on early retirement is usually inappropriate".

The letter does not call for directors' pensions to be cut, but argues more clarity is needed so shareholders can judge awards properly.

Joanne Segars, NAPF chief executive, 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.

"Where boardroom pensions are more generous than those on the shop floor, investors may have questions about fairness that need to be answered. "Shareholders need to see what's going on under the bonnet if they're to hold management to account. We hope that companies heed our call for greater transparency."

Ian Greenwood, chairman of the LAPFF, said: “The most important thing is transparency. At present it sometimes isn’t possible for investors to take an informed view on directors’ pensions arrangements because of the lack of clarity in some remuneration reports.”