

FTSE directors' earnings defy gravity

Top directors' earnings continue to defy gravity with increases still running into double figures, finds the newly published *Directors' Pay Report 2008* from IDS. Average total earnings for FTSE 100 lead executives in 2007/08 reached a record high of £3,540,049, a healthy looking 11.5 per cent up on the number published in the previous year's report. Year-on-year growth in mid-250 lead executive average total earnings of £1,582,251 also ran into double figures at 10.4 per cent. On the face of it, it looks like the directors of UK plc are still prospering while the UK economy is entering much tougher times and more and more employees risk losing their jobs.

IDS' new *Directors' Pay Report 2008* further shows that whatever the future may hold for British banking following the Government's rescue, FTSE 100 finance sector chief executives still received average total earnings of £3,478,396 in 2007/08, while their FTSE 250 colleagues received £2,290,136. A summary of the salary and total earnings levels for all FTSE 100 and mid-250 executive directors is shown below:

FTSE 350 average pay in 2007/08

	Salary £pa	Total earnings* £pa
FTSE 100		
Chief executive	767,550	3,540,049
Finance director	456,203	1,778,790
Other director	459,872	1,846,713
FTSE mid-250		
Chief executive	431,787	1,582,251
Finance director	290,206	825,248
Other director	265,568	999,800

*total earnings include long-term incentive payments and notional gains made on the exercise of share options.

Looking ahead, the *Directors' Pay Report 2008* explains that remuneration committees face a dilemma over the coming year. Up until now, top pay packages have been driven by incentives received on the back of earlier years' performance when business was more buoyant - the real question is what will happen to incentive payouts over the next year? Will remuneration committees, as in the past, redesign current reward schemes to ensure directors remain 'incentivised' or will they allow performance targets to run their course and be prepared to see plans fail to pay out? So far the signals are mixed.

Other findings in the report

- FTSE 350 salary rises for a matched group of directors averaged 8.5 per cent and total cash, which is salary, benefits plus bonus, increased by 10 per cent;
- nearly all incentive payments running at higher levels compared to previous year;
- for the first time median long-term incentive plan (LTIP) payments for FTSE 100 chief executives breached the £1 million ceiling, coming to £1,132,649 during the year;
- median LTIP payments for FTSE mid-250 chief executives equalled £439,207;
- median notional gains on share options for FTSE 100 and mid-250 lead executives equalled £891,662 and £482,749;
- five FTSE 350 directors earned more than £10 million with the highest package worth over £22.3 million;
- there were signs that some companies were already preparing for a downturn in the economy making changes to their incentive plans in advance.

Commenting, Steve Tatton, editor of the *IDS Executive Compensation Review* and one of the

authors said: "Greedy City bankers rather than 'fat cat' directors may be currently attracting all the adverse comment, but unless remuneration committees avoid making 'toxic' pay decisions over the coming year UK boardrooms may soon find the spotlight returning to their pay packages."

Steve Tatton added that: "If there is ever a time for the pay-for-performance culture that has gripped UK boardrooms in the past decade to live up to its promise it is when the UK economy enters stormy weather. The proof of the pudding will be in the eating when large numbers of directors do not receive any incentive payments as a result of deteriorating corporate performance."

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