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it's our business

newspad of the Employee Share Ownership Centre

Centre-backed index spotlights success of all-employee plans

The UK Employee Ownership Index, which tracks results in Eso-supporting companies, again easily outperformed the FTSE All-Share index in 2014, for the third successive year.

In the year ended December 31, the index, supported by the **Esop Centre,** rose by 5.8 percent, compared to a rise of only one percent in the FTSE All-Share index on a total return basis. All the other FTSE main benchmark indices for UK equities fell last year.

This news, plus other recent research results, provides almost incontrovertible proof that employee share ownership, when coupled with open participative management, can – and often does - lead to lasting improvement in corporate performance via productivity increases and greater employee loyalty to the businesses for whom they work.

The Esop index tracks the performance, by share price, of 70 FTSE and AIM quoted companies in which employees own a 'substantial' share of the ownership, defined for statistical purposes as more than three percent of the issued equity. The index is calculated each quarter by index specialist FTSE International, a subsidiary of the **London Stock Exchange Group**, on behalf of **Capital Strategies**, which created the index in 1995.

The Esop Centre hosted the index's first annual review, with the support of **Barclays,** to an audience of major companies, analysts, officials, academics, think-tanks and media.

Centre chairman Malcolm Hurlston, CBE, said: "High employee share ownership is a proxy for a culture of employee engagement. It is gratifying to see that quality companies are delivering superior investment returns."

Nigel Mason of Capital Strategies said: "After we stripped out the biases in the index, such as trade sector and company size, we were left with an unexplained variance, which we can only attribute to the way these companies are run."

£100 invested in the EOI in January 2003 would now be worth £749 – a compound return of 18.4 percent – as compared to £277 if it had been invested in the FTSE All-Share, added Mr Mason.

The Esop index tracks total return, including dividends, and is weighted to ensure that the performance of large companies does not swamp the performance of smaller ones, as it sometimes does in other indices.

From the Chairman

Employee ownership, right or wrong? I don't think so. This month to contrast with the success of the Esop Index and companies like BT, Shell and Conviviality we have the sorry saga of Circle which received the lowest possible grade for care from the Care Quality Commission. It is hard to fault its commercial decision to "cut and run", as union leaders tagged it, from its contract to run Hinchingbrooke Hospital in Cambridge, given the nature of the contract. What were the employee owners doing all the time when patients were suffering? Helpless in the vortex of failure?

Malcolm Hurlston CBE

The disparity between the Esop index's performance and that of the FTSE All-Share would have been even bigger, had the Eso-supporting companies been taken out of the FTSE All-Share index.

Mr Hurlston later gave an in-depth interview about the impressive performance of the EOI to *Shareradio* (www.shareradio.co.uk) which is owned by Centre member Gavin Oldham, founder of **The Share Centre.** The item included comment from Graham Brough, md of the Centre for Economic and Business Research; Paul Jackson of the Investors Chronicle; financial journalist David Thompson; Francis O'Mahony of index member BT; and Chris Mowatt of Barclays. It is available for listening on the Centre's website: www.esopcentre.com

The Centre chairman told *newspad*: "In some companies, annual pay rises are already a thing of the past because price inflation is now so low. This presents an ideal opportunity for such companies to install broad-based employee share ownership plans, if they don't already have them, in order to motivate their employees and give them some hope of a more profitable tomorrow.

"Many thousands of companies, both quoted and privately-held, could benefit from the introduction of broad-based employee share ownership, but it is taking an awfully long time for word about Eso's many benefits to get around. Why is it that it is only among the

FTSE top 100 companies that employee shareholding is almost universal – a 'given' when job applicants ask about staff benefits?" he asked.
As Mr Hurlston spoke, the media were being treated to the spectacle of a Tory prime minister calling for UK employees to be given better pay rises! Some journalists thought they had misheard David Cameron tell them at a media briefing in Washington: "Britain needs a pay rise". His justification was that the fall in oil prices has helped create a 16-year high in corporate profitability. Mr Cameron said he wanted the success enjoyed by companies to be "passed through in terms of wage increases". Businesses which could afford to pay the *Living Wage* should do so. "It's good and helps to reduce the welfare bill", he said, explaining that more than £5bn is paid in benefits to the UK's five million low-wage employees. What he didn't tell them was that the *level* of UK pay awards in 2014 ended the year below where it started, with the median basic pay rise for UK employees standing at two percent in the three months ending December, compared to a 2.4 percent award recorded in the first quarter of 2014. The latest figures from pay analysts at **XpertHR** continue to reflect the subdued nature of pay settlements within businesses in the UK. Companies have got used to a situation termed '*profits without (general economic and staff) prosperity*,' coined by US economics professor William Lazonick in the *Harvard Business Review*. Smaller and smaller proportions of escalating corporate earnings on both sides of the Atlantic are finding their way into wage packets and workforce investment.
Instead, this financial growth is going towards share buy backs and dividends, which boost executive rewards, said Centre member the **Chartered Institute of Personnel & Development (CIPD).** Like the Centre, it too wants to see a major push by UK government and others to further stimulate the attractiveness of employee share ownership to the corporate sector. "Less than ten percent of UK employees are members of general profit sharing or all-employee share plans, despite the extensive evidence that such schemes are associated with employee engagement and higher employer productivity. If you needed more evidence that it's a good idea, the PM's own Chancellor has repeatedly emphasised that the recovery, driven by higher productivity, is a precondition for higher wage awards," said the CIPD.

BIS celebrates with stakeholders
The Centre was among the guests at Vince Cable's annual party for the Department's "stakeholders" (he put the word in inverted commas too in his short and pithy speech.) The event was held at the British Film Institute on London's South Bank, just along the road from the Shell Centre where Vince had plied his trade as an economist for top Centre award-winner Shell. He told guests how well and responsibly the Coalition had worked in the national interest and how much the Department had done. It was rare for a Secretary of State to have lasted the full term of a government. Your chairman took the opportunity of congratulating the Secretary of State, in particular for his outstanding achievement in bringing more than 150,000 Royal Mail employers into share ownership, taking the national total above the one million mark.
Esop minister Jo Swinson who has also served over two years was charming and animated as she circulated among the guests, her concordant interest in women's affairs and women in employee ownership recalled by the presence of Dr Anna Zecharia, co-founder of pressure group Sciencegrrl.
Those enjoying the wine and suitable finger food included recent guest at the Centre's high table, Stephen Haddrill, from the Financial Reporting Council, and John Mulkerry, md of the CIC Association who was keen that the CIC would make employee shareholding possible in the social enterprise sector. Top BIS official Martin Donnelly co-hosted, clearly pleased with the success of the event and his ministers' impressive performance.

DAVOS: Feb 5 & 6
Global Shares will deliver a presentation about employee share ownership in private companies, at the Centre's **16th Global Employee Equity Forum,** which takes place at the **Hotel Seehof,** in **Davos Dorf,** on **Thursday February 5** and **Friday February 6.** US investment bank **ButcherJoseph** and international oil and gas services giant **Petrofac,** which employs 18,000 staff worldwide, have registered recently. Almost 40 people have registered and you can join them if you contact Centre international director Fred Hackworth. Our Davos e-brochure logo sponsors are **Appleby Global**, **Bedell Group** and **Elian** (formerly Ogier Fiduciary)**:**
Appleby *is one of the world's largest providers of offshore legal, fiduciary and administration services, with 800 lawyers and professional specialists, operating from 12 offices worldwide. Appleby advises global public and private companies, financial institutions, and high net worth individuals, working with them and their advisers to achieve practical solutions, whether in a single location or across multiple jurisdictions. The website is at: www.applebyglobal.com_and contact: Patrick Jones, partner, Appleby Trust (Jersey) Ltd*. Tel: *+44 (0) 1534 818390*
Bedell *is a leading provider of legal and fiduciary services with more than 300 partners and staff in key financial centres including Jersey, Guernsey, London, Dublin, Geneva, Mauritius, BVI and Singapore. Its offshore law firm, Bedell Cristin offers comprehensive Channel Islands, Mauritian and BVI legal advice. Its trust company, Bedell Trust, has been providing fiduciary and administration services offshore and onshore since 1971. Experience and commitment to excellence have earned Bedell a strong client list of world class institutions, corporates, high net worth individuals and intermediaries. Contact: Grant Barbour, Partner, Bedell Group +44 (0) 1534 814627 grant.barbour@bedellgroup.com*
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industry standards by challenging standard practice. Whatever the size of the business, wherever the jurisdiction, however complex the structure required – it will deliver. Its market-leading, innovative and flexible plan administration and reporting systems mean it can create a bespoke solution to suit each and every client. For further information please contact Tania Bearryman, Group Director, +44 (0) 1534 753936, tania.bearryman@elian.com

All Sharesave bonus rates back to zero
Five-year Sharesave bonus rates have been cut for all Sharesave invitations made on or after December 27, said Louise Drake, national sales manager of Centre member **YBS Share Plans**. HMRC announced that the 0.06 percent monthly bonus rate, re-introduced last July for five year contracts, has reverted to zero. The bonus rate on the three year contract remains unchanged at 0.00 percent, along with early closure interest at zero percent for all contracts. The rates are set by HMRC and the mechanism used to set Sharesave Bonus Rates is based on a fixed difference between market swap rates and the bonus rate.

Capgemini, the consulting, technology and outsourcing services specialist, announced that five million shares offered to employees as part of its third global employee share ownership plan were fully subscribed at €46 each. Capgemini said that 17,660 team members from 20 countries agreed to participate, representing almost 14 percent of eligible employees. This plan was rolled out in conjunction with the termination of the first plan, ESOP 2009 and enabled the group to maintain a significant Eso presence - above six percent of issued stock in employee hands. Paul Hermelin, Capgemini chairman and ceo, said: "We saw an increase of over 50 percent in the number of ESOP 2014 participants, compared to ESOP 2012, which was already a big success. This is another strong sign of confidence in the future prospects of the Group."

Another DB pension scheme bites the dust
Tesco confirmed plans to close its defined benefit pension scheme and one of its head offices as part of wider measures to reduce annual costs by up to £250m. Tesco's huge scheme is one of the last defined-benefit pension schemes in the private sector. It has 350,000 members, including 203,000 current members of staff. The scheme is generous, offering a predetermined monthly payout based on average career earnings. However, Britain's biggest retailer is nursing a £3.4bn pension deficit in the face of falling sales and threats from credit rating agencies to downgrade its debt to junk status. Its latest annual report showed that it cost Tesco £542m in the last financial year to service the pension scheme and that its obligations under the defined benefit pension scheme were more than £11bn. The retailer announced in a trading statement to the London Stock Exchange that it will shut its company DB scheme for all employees after a consultation period.

On the move
Centre award winning Eso-friendly company **Conviviality** was given a buy recommendation in the *Investors Chronicle* (Jan 23/9) post Christmas trading. IC noted: "An agreement giving franchisees a stake in the company's equity is helping to re-energise sales, with 1.1 percent more stock sold to each member during the first half. Franchisees are now on a more financially sustainable footing too, with 87 percent less debt written off than in the previous year." Good call by the Centre judges.
Carol Mullard, formerly share plans manager at **Barclays** and **RSA Insurance Group**, is now senior manager at **EY (Ernst & Young).**
John Meehan has been appointed md at **Global Shares**, with responsibility for leading the new business development team based in the UK.
Former Financial Secretary to the Treasury **Mark Hoban MP** announced that he is to stand down at the General Election. The ex PwC chartered accountant, who supported Eso during his political career, was re-elected Tory MP for Fareham at the last General Election with a big majority.
Dave Poole, former Esop Centre UK director, registered his first anniversary working in Toronto, Canada, for **Medgate,** the environmental, health & safety software solutions company, where his role is online community manager.
Dean Bradford is now share plans manager at **Tullow Oil,** the Irish based oil and gas explorationcompany, after leaving **Imagination Technologies,** where he was assistant company secretary. Tullow will need to reverse a multiyear downward trend in its share price: can Dean be the saviour?
Darren Smith is now a share plan consultant at **Yorkshire Building Society Group.**
Gamevy, an employee-owned tech start up based in London, has no bosses. As part of its unusual way of running itself, it set up a conference called *Spark the Change*, for the first time last year – *see* www.sparkthechange.co.uk, a site which offers videos of some of the talks and programme. Gamevy is now planning *Spark 2015*! in July, at which Bob Doak of Centre US member **W.L.Gore & Associates** will give a talk about **Gore**; Centre chairman **Malcolm Hurlston, CBE**, will address delegates too, as will Miranda Ash of **WorldBlu** and Dr Paul Thomas, of BBC1's *Ban the Boss* programme.

Part employee-owned company in the spotlight
The first semi-private firm to manage an NHS hospital said it wanted to withdraw from its contract. **Circle Holdings**, which operates Hinchingbrooke Hospital in Cambridgeshire, said its franchise was "no longer viable under current terms". Circle made payments to the NHS trust totalling £4.84m and could be required to make a final support payment of £160,000, the firm said. Under the terms of its ten-year contract, it has the right to end the franchise if the amount of money it has to put in to the trust exceeds £5m. Circle runs two private hospitals in Reading and Bath, which accept NHS patients, and an NHS treatment centre in

Nottingham. The move has been widely condemned not least by the unions as further evidence of the private sector being ready to cut and run. It is unclear what effect the level of employee ownership had in the decision for good or for bad. However, what has not been noticed to date is how employee ownership has evolved – it is now up to 25 percent under an ownership 'reset' deal - within the company. "Obviously Circle Health has attracted the headlines but this is not a failure of employee ownership. On the contrary AIM listed Circle Holdings has taken a great step forward to enhance its employee ownership structure by collapsing its complicated dual ownership arrangement," said Graeme Nuttall, partner at Centre member law firm **Fieldfisher**, who helped navigate the deal. More at: http://tinyurl.com/jw4rblk

FTSE 250 company **EA Gibson Shipbrokers** is being sold by owner **Hunting** to an employee benefit trust (EBT), which will allow its employees to own the ship-broker business by March 31, subject to Gibson management finalising the structure and funding. Mr Nuttall said: "This is a significant announcement. Instead of a management buy-out, the proposal is that this 120 year old shipbroker becomes owned on behalf of all 180 of its employees through an employee trust. Managing director Nigel Richardson confirmed the trust will benefit every member of staff. Employee ownership is not just a neat succession solution for owners of family businesses: it is flexible enough to provide a method for listed companies to 'spin-out' businesses." Mr Richardson said that the transfer of shares from the FTSE 250-quoted company to an employee-owned trust will prevent individuals taking control of Gibson and potentially selling it off. "The new structure is being created to benefit all Gibson employees, as opposed to an MBO that would have rewarded a select few." Gibson employs 180 people in the tanker, dry cargo, gas and offshore segments, as well as consultancy and research. More at:
http://tinyurl.com/o55xc9v

St Brides Partners – the City financial PR agency has adopted employee ownership, with Fieldfisher providing all the legal advice including structure and implementation.

Equity remuneration calendar

The Centre would like to thank **Sonia Gilbert** partner at **Clifford Chance** and **Sally Robinson,** editor, *Employee Benefits News* for this comprehensive and succinct summary of what to expect on the employee equity front pre-General Election.

January

*Claw-back requirements. For Prudential Regulation Authority (PRA) authorised firms, new rules on claw-back apply to remuneration awarded on or after January 1 this year, in addition to the existing *malus* (pre-vesting adjustment) requirements. Variable remuneration must be subject to claw-back for at least seven years from the date on which it is awarded. Firms should seek to recover 'an appropriate amount' corresponding to some or all vested variable remuneration. Firms are required to make 'all reasonable efforts' to exercise claw-back where there is reasonable evidence of employee misbehaviour or material error, or where the firm or relevant business unit suffers a material failure of risk management. More extensive claw-back provisions are due to be introduced for awards made for performance periods commencing on or after January 1 (see below).

*Remuneration Code requirements. Following a joint PRA/Financial Conduct Authority (FCA) consultation, a number of changes are expected to their respective remuneration codes, which will apply to awards made for performance periods commencing on or after January 1. The material changes which were consulted on include extending minimum deferral periods for all *Material Risk Takers* (MRTs), with senior managers subject to a minimum deferral of seven years, with the first vesting no earlier than the third anniversary of the award and vesting no faster than pro rata. Other MRTs will be subject to a minimum deferral of five years, with the first vesting no earlier than the first anniversary of the award and vesting no faster than pro rata. The FCA consulted on the revised claw-back rules which the PRA as already introduced (see above). In addition, both the PRA and the FCA are proposing further amendments so that for senior managers there should be an option to increase the new seven year claw-back by up to a further three years in certain

*Mandatory online filing of share plan year end returns. All companies operating share plans (whether tax-qualifying or not) must register online with HMRC so that they can submit their share plan year end returns for 2014/2015 by July 6, this year. HMRC is finalising the templates for online returns.

February

*Finance Bill 2015. Draft measures for the Finance Bill 2015 were published last December. A limited consultation on the draft measures (including in relation to the taxation and payrolling of employee benefits and expenses closes on **February 4.**

March

*Budget Day 2015. This Budget will be on **March 18**. As Parliament will be dissolved on March 30 any Finance Bill is likely to contain only essential measures. Whether the remaining measures are then incorporated into a second Finance Bill will depend on the result of the General Election.

*EBA Remuneration Guidelines. The European Banking Authority has indicated that it will review and update its existing detailed guidelines on remuneration policies.

April

*Mandatory online filing of share plan year end returns. Online share plan returns for the 2014/2015 tax year must be submitted from April 6 this year.

*Tax/NIC treatment of options/awards granted to internationally mobile employees (IMEs). Important changes to the taxation and NIC treatment of share options and awards granted to IMEs come into force on April 6. The new rules will apply to existing options/awards as well any future options/awards. Under the new rules income arising from share options/awards may be apportioned between income treated as earned in the UK and income treated as earned outside the UK over the ‘relevant period’ (e.g. for an option - between grant and vesting). The rules will apply where the IME is either not UK resident for part of the relevant period or is a UK resident non-domicile taxable on the remittance basis. Proposed new NIC rules have been subject to consultation, but not yet published. Under the proposed new rules, an IME would *not* have to pay NICs for any time during the relevant period when not resident or present in the UK or subject to the social security system of another country as a result of EU law or an international social security agreement.

*Corporation Tax (CT) relief rules for options/awards granted to IMEs. Some helpful changes are being made to the statutory CT relief provisions for share options and awards granted to IMEs come into force on April 6. The new rules will apply to existing options/awards as well any future options/awards. A UK company will be able to claim a statutory CT deduction (a) for options exercised/shares acquired by an IME seconded to it from a non-UK company; and (b) where an IME acquired an option/shares by reason of a non-UK employment and at that time or later takes up employment with the UK company.

*Tax exemption for trivial benefits. Currently there is no minimum cost threshold for benefits in kind being subject to tax/NIC. The Government has confirmed that from this April a statutory tax exemption will apply for ‘trivial benefits in kind’ costing less than £50. This will mean that employers will no longer have to agree with HMRC which benefits are trivial for the purposes of relying on a tax/NIC exemption granted by way of HMRC concession. However, the new exemption will not apply where the trivial benefit is provided in connection with a salary sacrifice arrangement or other contractual obligation.

Name change at City institution

The IMA changed its name last month to become **The Investment Association (IA)**.

The name change reflects its wider remit since it incorporated the investment affairs division of the **Association of British Insurers (ABI)** last summer. The Investment Association represent 85 percent of investment management in the UK, and acts as an important voice on corporate governance matters and between shareholders and the companies in which they invest. Members manage £5 trillion worth of assets, some 35 percent of all the assets managed across Europe.

Chief executive of the Investment Association, Daniel Godfrey, will be guest of honour at the Centre’s next esop high table dinner this month. Patrick Neave, senior remuneration analyst at the IA, gives regular updates at the Centre’s world-leading events.

“The Investment Association exists to make investment better - better for clients, so they achieve their financial goals; better for companies, so they get the capital they need to grow and better for the economy, so everyone prospers,” said spokesman Andrew Ninian. The new contact details for IVIS and the corporate governance and engagement team, including its work on remuneration consultations are outlined below and at www.ivis.co.uk/contact-us :

IVIS

Andrew Ninian, 020 7269 4612,
andrew.ninian@theinvestmentassociation.org
Karoline Herms, 020 7269 4609,
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Klara Weber, 020 7269 4615,
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Corporate Governance and Remuneration

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CONFERENCES

JERSEY March 13 2015

This year’s joint share schemes seminar for trustees, held in association with the Jersey branch of the **Society of Trust & Estate Practitioners (STEP),** will take place at the **Pomme D’Or Hotel**, in **St Helier**, on **Friday, March 13**. The speakers include: Malcolm Hurlston, CBE, chairman **Esop Centre**; Graham Muir, **Nabarro LLP**; Tony Locke**, Grant Thornton;** Paul Malin, **Haines Watts;** Steven Meiklejohn, **Ogier Legal** and Rosemary Marr of **STEP** and **Moore Stephens**. Trustees will discuss the key current issues in a special panel session. This half-day event, starting 0900, will be followed by luncheon. Ticket prices are **£325** for Centre and STEP members; **£450** for all others. The **Early Bird* offer is three tickets for the price of two. To reserve your delegate place(s), contact esop@esopcentre.com or phone: +44 (0)207 239 4971. *(* offer expires February 6*).

ROME June 4 & 5 2015

The Investment Association; the **European Trade Unions Confederation, Solium** and international lawyers **White & Case** are among the first batch of institutions and service providers to reserve speaker roles at the Centre’s **27th annual European employee equity plans conference,** which takes place at the **Residenza di Ripetta** hotel in **Rome** on **Thursday June 4** and **Friday June 5.** Our summer event offers an ideal forum for updating yourself on latest legal, regulatory and market trends in the employee and executive equity schemes industry within the EU; doing business; discussing share plan strategies and networking. Centre trustee member **Bedell Group** has confirmed logo sponsorship – and other members are invited to follow suit - of the conference e-brochure, which will be published in spring.

Speakers benefit from a significant price reduction on the package fee, subject to agreed topic content. Practitioner **speakers**, who are Centre members, will pay only **£995** and plan issuer **speakers** will pay just **£595**. (No sales tax is chargeable on delegate/speaker fees). **If you wish to book a speaking slot at this event, you should do so now.**

The Centre offers **delegates** an attendance package comprising:

- Entrance to all conference sessions
- Two nights’ accommodation (on single occupancy basis) on June 3 & 4 in the Residenza di Ripetta in central Rome.

- Breakfasts, lunches and refreshments during coffee breaks
- Delegate pack with speech summaries
- Cocktail party early evening on June 4

Delegate fees:
Centre member delegates:
Practitioners: £1,135 Plan issuers: £675
Non-member delegates:
Practitioners: £1,750 Plan issuers: £765

The historic Residenza di Ripetta is a converted 17th century convent featuring ancient frescoes, original arches, a Baroque chapel and an inner courtyard with garden, *perfect for meals and drinks in the sun*, plus a panoramic terrace offering views over central Rome. This four-star plus hotel is superbly located between Piazza del Popolo, the River Tiber and Piazza Borghese. Spanish Steps, the Field of Mars, Villa Medici and top shopping quarter Via Condotti are all within walking distance. Flaminio, the nearest Metro station is five minutes away.
(web: *http://niquesahotels.com/residenza-di-ripetta*)
Our special discounted room prices* are available to those who want to upgrade their rooms or **extend their stay** (subject to availability)
Supplements charged for two person room occupation are only €20 extra per night, so bring your partner or friend/family with you.
The normal hotel rate for rooms in our conference hotel is €651 per night = GBP 512 per night approx. However, you will pay a group rate of only c €250 = GBP 189 (at current exchange rates) per night if you wish to stay extra nights.* Please contact **Fred Hackworth at fhackworth@esopcentre.com with a copy to: esop@esopcentre.com

City urged to fund fines from bonuses

The **Financial Conduct Authority (FCA)** told the banks at the centre of the foreign exchange rigging scandal that their huge fines should be funded out of this year's round of bonuses. The financial watchdog is reviewing the bonus pools of the biggest British banks and UK subsidiaries of foreign ones, and has told them that any payouts that do not reflect the recent penalties will be considered inappropriate. **Royal Bank of Scotland (RBS), HSBC, UBS, JPMorgan** and **Citibank** were fined a combined £1.1bn by the FCA last November for failures that meant traders were able to manipulate foreign exchange rates at the expense of customers.
The regulator can ask banks to alter pay plans if it has concerns about both the total level of bonuses, and high payouts for senior individuals. The warning came after regulators and investors raised concerns that the billions of pounds in fines since the financial crisis had been shouldered by shareholders rather than the bankers responsible, and that taking fines out the banks' profits affected their ability to lend.
RBS and HSBC paid £217m and £216.4m to the FCA and **Barclays** was expected to receive a similar penalty before it pulled out of the deal with New York's financial regulator. The five banks that were punished, plus **Bank of America**, were fined an additional £1.6bn by US and Swiss authorities. When announcing the penalties, Clive Adamson, the FCA's director of supervision, said: "We would expect firms to think hard about this in the current bonus round". The regulator has been negotiating with banks about their bonus pools for this year. It is expected that both total bonus pots and certain individuals' rewards, which will be revealed alongside annual results in February, will reflect these fines. Although banks are attempting to use claw-back powers to retrieve bonuses paid to the individuals responsible for currency rigging, these are unlikely to cover the full extent of the fines.
RBS cut 2012 bonuses by more than £300m after it was fined £390m for its role in the Libor scandal, with the investment banking unit bearing most of the cost. The bank's total bonus pool amounted to £588m last year, so inflicting a similar reduction would have a significant drag on bonuses. Including the £184m fine from the **US Commodities and Futures Trading Commission,** RBS paid £400m in foreign exchange penalties. HSBC, which was fined a similar amount, had a bonus pool of about £2.4bn last year. RBS will no longer pay annual bonuses to top executives as it seeks to defuse what has become a yearly political battle over the remuneration of its most senior staff. City shareholders have given a mixed reaction to RBS' plans to scrap annual bonuses and pay all variable rewards in shares which vest over four and five years. Previously, top executives were eligible for both annual bonuses and long-term incentive awards. The new policy at the bank, which is 81 percent-owned by taxpayers, applies to Ross McEwan, RBS ceo and eight members of his senior management committee. In last year's annual report, RBS said that "executive directors will no longer be eligible to receive annual bonuses", while McEwan said in a speech last autumn that "short-term bonuses will no longer be paid to me or any member of my executive committee". Sources at the bank confirmed that the decision to scrap annual bonuses is in fact a 'permanent' decision, with the taxpayer seen as a likely investor in RBS for at least another five years. However, McEwan has no intention of waiving a £1m shares payment, equivalent to one year's salary. It would take his maximum pay package for 2015 – including salary, pension and performance-related long term bonuses – to almost £4m. One MP described the award as 'wholly inappropriate' and said McEwan and fellow bosses should show some 'moral backbone' and forfeit their windfall payments. To get around the bonus cap, most of the major banks introduced additional payments – known as fixed 'role-based' allowances – on top of annual bonuses to ensure top executives are not left out of pocket. The EU bonus cap limits banks to paying a maximum of one year's fixed pay, rising to twice this if shareholders approve. The new pay-outs are guaranteed and count as part of an executive's basic pay package, pushing up the maximum bonus that can be awarded. John Mann, a Labour member of the Treasury Select Committee, said: 'It is wholly inappropriate for a taxpayer-owned bank that's mired in scandal to be awarding bonuses at all."

Say on Pay

Employees should have a say on their bosses' bonuses and long-term investors should be rewarded with additional powers and benefits, a senior EU lawmaker has proposed. The EU is revising its rules on shareholder rights to put pressure on companies to focus on long-term sustainable growth and not short-term gains to please markets. The proposed revision will also make it easier for companies to identify their shareholders, force asset managers to disclose their investment strategies and give shareholders a say on executive pay.

Sergio Gaetano Cofferati, a centre-left Italian who is responsible for finding agreement on the draft in the **European Parliament**, has proposed going further. Employees, and not just shareholders, should be entitled to express a view on planned bonuses for executives, Cofferati said in proposed amendments to the draft law seen by *Reuters.* Environmental, social and corporate governance factors, not just the share price, should be considered when assessing the performance of directors, he added. European Parliament's legal affairs committee was discussing the report from Cofferati, who is a former leader of the Italian trade union, the General Confederation of Labour (CGIL)**.** EU states should put in place a mechanism giving those investors who agree to hold shares in a company for two years or more benefits such as additional voting rights, tax incentives, loyalty dividends or loyalty shares, Cofferati proposed in another departure from the original draft. "Short-term shareholding is one of the main barriers for a proper shareholders' engagement and for a stronger focus by shareholders on the long-term performance and sustainability of investee companies." The original draft said asset managers should disclose their investment strategies to large investors but Cofferati wants to force fund managers to make public their strategies. "Institutional investors and asset managers should publicly disclose, for each company in which they hold shares, whether and how they cast their votes in the general meetings ... and provide an explanation for their voting behaviour," he proposed.

Bonus corner (2)

Financial Director's* annual **FD Salary Survey revealed that base salaries of FTSE 100 financial directors fell 6.2 percent to £478,592 last year, while their bonuses increased by 4.4 percent to £554,264. Lower down in the FTSE 250, cfos saw their salaries jump 5.4 percent to £315,085, while their bonuses increased 9.9 percent to £307,188.

***Channel 4** executives will have their bonus payments cut if they fail to meet radical new diversity targets which require women, black, Asian or minority ethnic (BAME) people and the disabled to be given leading roles across its programme range. A new Diversity Charter launched by the broadcaster includes a pledge that 20 percent of all staff will be BAME by 2020, up from a current level of 15 percent. In addition, six percent of the workforce will be lesbian, gay, bisexual, and transgender (LGBT), up from 2.4 percent. New commissioning diversity guidelines require Channel 4's drama and comedies to include at least one lead character from an ethnic minority, LGBT or disabled background. Programme makers must ensure 50 percent of the lead roles are female, if no other minority groups feature. Drama and comedies must 'reflect the experiences of under-represented groups' in modern Britain in order to qualify for a YES which will be ticked in a YES/NO diversity box when programmes are being commissioned. Entertainment shows - such as panel shows – must demonstrate, during a series, 25 percent female on-screen representation as well as a minimum of 15 percent guests or presenters who are LGBT, ethnic minority, disabled or 'another underrepresented group.' Executives who fail to demonstrate that they have actively worked to hit the ambitious diversity targets which Channel 4 has set itself will find the variable pay - or bonus – element of their salaries cut. "It will be a black (sic) mark against that person," said David Abraham, the Channel 4 ceo, at a Parliamentary launch of the charter, which was endorsed by Ed Vaizey, the Communications Minister. Senior executives, including Jay Hunt, Channel 4's chief creative officer, can add 20 percent to their salaries through bonus pay, while general staff are entitled to an extra 10 percent depending on performance. Mr Abraham could lose up to an additional 30 percent of his salary if he fails to meet his own targets.

*An Irish banking heavyweight seems to have put himself in line for a big pay rise after being selected to be the next ceo of will-they, won't-they **Clydesdale Bank.** The Glasgow-based bank announced that David Duffy will succeed David Thorburn as ceo within the next few months after spending three years leading **Allied Irish Bank**. Clydesdale did not disclose how much the 53-year-old will be paid. However, Mr Duffy is likely to earn much more than he does at AIB, where he is on a base salary of €425,000. The Irish Government has capped the pay of banking executives at €500,000, including bonuses. Mr Thorburn, who announced plans to stand down recently after around four years in charge, had a pay package worth nearly £1m in total in the year to September. Employees could soon have the chance to buy shares in Clydesdale Bank, which includes the Yorkshire Bank operations in England, as the parent **National Australia Bank** (which has said something similar many times before) now wants to offload Clydesdale as soon as possible under plans to exit the UK market. As no buyers have come forward, a stock market flotation is seen as the most likely option

*US investment bank **Goldman Sachs** paid its senior executives the most lucrative bonuses of all UK-based banks in 2013, statistics compiled by Reuters suggest. The bank's employees in key high-ranking executive and risk-taking roles were given bonuses of £2.57m on average - twice the amount awarded by other banks based in Britain. *Reuters'* research compared and contrasted salaries doled out by 13 prominent investment banks operating in London. The study revealed 2,600 City bankers were paid £3.4 bn in 2013, almost 50 times the average yearly salary in Britain. The **TUC** criticised Goldman Sachs, insisting the time had come for its employees' bonuses to come *"back to planet earth."* RBS paid its staff more moderately. Reuters' research shows senior employees and key risk -takers working for the bank were offered on average £600,000.

*Bonuses of more than £100,000 could be still be paid to **Network Rail** top brass despite overseeing Boxing Day travel chaos that left thousands of passengers stranded in London. Executive directors at the state-owned company have refused to rule out taking bonuses worth up to 20 percent of their salaries, despite the unfestive transport problems. Network Rail unreservedly apologised after an internal report blamed planning and communication errors for huge crowds being stuck for many hours at Finsbury Park station after Christmas. Chloe Smith, a former minister, called on the directors to "carefully consider" giving up their bonus after the "mess" over Christmas. Mark Carne, ceo of Network Rail, told MPs that while he would not take a bonus after the failures other executive directors may still get payouts. Mr Carne said he could "absolutely not" guarantee other directors would forgo their bonuses and added that the Christmas errors would have to be balanced out with other successes. "I will make a decision on the bonuses of the other executive directors at the end of the fiscal year, when I will reflect upon their whole year's performance," Carne told the House of Commons Transport Committee. Reforms to Network Rail's bonus scheme mean executive directors can be awarded up to 20 percent of their salary in a lump sum linked to a range of performance statistics. Patrick Butcher, fd, could get up to £80,000 beyond his £401,000 salary and Paul Plummer, group strategy director, could get up to £71,000 on top of his £355,000 wage. A Network Rail spokesman played down the possible payouts, saying performance statistics suggested both men are more likely to get a bonus of around five percent of their salary.

*Jim Sutcliffe, the incoming deputy chairman and strategy director of **Quindell**, resigned from the board of the **Financial Reporting Council** with immediate effect, less than a week after coming under fire for the share options deal he agreed with the troubled insurance outsourcer. Quindell announced that the insurance industry veteran was joining the board and would receive options over about 10.9m shares in the scandal-hit Aim-listed company as part of his "remuneration and incentive package". Richard Rose, Quindell's new chairman, was granted 8.7m options. The appointments followed a director share-dealing controversy that resulted in the ousting of founder Rob Terry from Quindell's board, and were aimed at restoring investor confidence in the group. The remuneration packages drew fierce criticism. Not only did they appear to contravene the FRC Corporate Governance Code but they threw a spotlight on Mr Sutcliffe's position as chairman of the FRC's Codes & Standards Committee, which is charged with updating the guidelines. However, Mr Sutcliffe told *The Telegraph* that he was confident that 'good standards' had been applied regarding the remuneration packages, although he conceded that "the FRC was clearly uncomfortable about arrangements with Quindell". There was no animosity between himself and the FRC, he added.

Under the Code, it is recommended that non-executives such as Mr Rose are not remunerated in options. In addition, the code recommends that "in normal circumstances, shares granted or other forms of deferred remuneration *should not vest or be paid and options should not be exercisable, in less than three years"*. The options granted to Mr Sutcliffe and Mr Rose vest within a year. However, Mr Sutcliffe said that Quindell was "in a very unusual situation" and that "the arrangements that have been put in place were talked through with investors". He said: "The vesting periods are short because we're only being asked to be here for a short period of time, it's a short-term job so we agreed a vesting period that was tied to the period of work and then a holding period."

***Starbucks** ceo Howard Schultz received a 24 percent boost in his compensation package for 2014. A regulatory filing with the **Securities and Exchange Commission** shows that Schultz's base salary stayed steady at $1.5m for the company's fiscal year that ended in September. But the value of his stock awards increased five percent to almost $6.3m and a cash payment primarily based on overall performance enhanced 30 percent to $2.9m.

His extras, which included dwelling safety solutions and retirement strategy contributions, rose too to $502,076 from $215,933. The Seattle-based coffee giant gave Schultz the reward rise as Starbucks' total income increased 11 percent to $16.45 bn in its fiscal year 2014 and its adjusted net income per share rose 21 percent to $2.66.

***UBS** said it would follow Zurich-based **Credit Suisse** in paying 2014 bonuses partly in perpetual bonds that implode if capital ratios weaken. Paying banker bonuses in bonds is the new fashion. Ratcheting up risk would mean bankers, instead of shareholders or other creditors, getting hit first. UBS's move develops a debt bonus scheme that is already in place. In 2013, bankers who earned more than $300,000 received 40 percent of their bonuses in Tier 2 debt instruments that were deferred for five years but paid annual interest. Under the new plan, UBS intends to make these same payments in so-called Additional Tier 1 (AT1) capital, an even more subordinated form of debt.

Deutsch pay uber alles

Ceos of big German companies are being paid more than their British counterparts for the first time, following pressure over 'excessive' remuneration in the UK, reported *The Guardian.* They took home average annual pay of €3.44m (£2.69m) for 2013, compared to the €3.40m (£2.66m) paid to the ceos of UK FTSE 100 firms, according to a study of more than 500 companies across Europe. In 2012, the average FTSE 100 CEO was paid €4.7m, compared with €3.1m for the bosses of equivalent-sized German companies. The study, by Vlerick business school in Belgium, compares non-financial listed firms with a market value of more than €5bn. The study's author, Xavier Baeten, said it was a historic moment for the continent, reflecting changing attitudes towards pay in Britain and Germany. “There is more and more scrutiny on pay in the UK from institutional investors. The general trend in the UK has been for much more engagement with investors over pay, but that hasn’t happened so much in other countries. Maybe the UK has realised it’s overpaying,” he said. “In Germany, pay had been much more restricted, but it has been increasing.” Just under two-thirds of FTSE 100 firms kept ceo pay flat or reduced it between 2011 and 2013, while in Germany 69 percent increased it over the same period. Historically, German executive pay has been restrained by the *Mitbestimmungsgesetz* law, which requires that half the seats on companies’ supervisory boards represent the workforce. It is increasing, however, as companies increase the amount of share-based performance-related pay for bosses. “In former times granting share-based pay was forbidden, [but] more and more German companies are starting to grant share-based pay and that brings up total pay,” Baeten said. The highest paid ceo in Germany was Volkswagen’s Martin Winterkorn, who collected €15.7m in 2013, according to Bloomberg. Winterkor’s pay packet sparked outrage in Germany in 2012, when his total remuneration almost doubled from €9.3m to €17.5m. In the UK, Sir Martin Sorrell, ceo of WPP, was paid £29.8m in 2013. The vast majority of his pay was in long-term share awards, with basic pay and bonuses totalling £5.25m. The latest UK ceo to have his pay deal slashed after public and shareholder pressure was Helge Lund of the oil and gas company **BG Group**. The company had wanted to give him a £25m pay deal, but was forced to cut his package back to a maximum of £14m a year. Simon Walker, dg at the **Institute of Directors**, called the original award “excessive, inflammatory and a red rag to the enemies of the free market”. In the UK 67 percent of executive pay was variable - made up of bonuses and performance share awards, according to the Vlerick study. Germany is catching up, with 61 percent of pay now coming from variable awards. In France and Belgium two-thirds of pay is at a fixed rate. The average pay of big company ceos is €2.53m in France and €3.26m in Belgium.

The **German Federal Tax Court (BFH)** has considered whether the acquisition of shares **at a discounted price** represents employment income, reported Centre member **Deloitte**. Although elements of the Court’s decision were consistent with prior case law, the BFH departed from its previous position on the timing of the valuation of the benefit. In accordance with previous decisions, the BFH confirmed that a benefit in kind resulting from the acquisition of shares at a reduced price represents employment income only if it qualifies as consideration for providing services within the broad scope of the employment. The court confirmed its previous decisions as to when the tax liability arises, i.e. at the time the employee acquires the economic authority to dispose of the shares, which is when legal and economic ownership of the shares is transferred to the employee (generally at the time the shares are booked into the employee’s custody account). However, the BFH ruled that, when calculating the taxable benefit in kind, a taxpayer no longer should value the benefit at the time of the taxable event (i.e. when ownership transfers to the employee), but rather at the time of the legally binding sales transaction, when the employee and employer finally agree on the acquisition of the shares (e.g. generally at the time the employee notifies the employer they would like to exercise their share options or purchase discounted shares). The BFH said that any change in value between the time of the transaction and the actual transfer of ownership is no longer based on the employment, but derives from the market. As the BFH decision applies to shares acquired at a reduced price, it may affect discounted share options plans, share purchase plans where shares are purchased at a discount, or Sharesave plans where the employee receives a discount to the option exercise price.

When applying the new valuation approach to standard employee share option plans, for example, the taxable option gain should be calculated by reference to the share quotation (i.e. the lowest listed price quoted on the relevant stock exchange) on the day the option is exercised and no longer at the time ownership in the shares transfers to the employee following the exercise of the option (when the shares are booked into the employee’s custody account). The new valuation approach may make the fiscal administration of employee share plans easier in practice, since employers will no longer have to determine when the ownership of the shares is actually transferred to the employee when determining the taxable amount. Instead, they may simply look to the time of the legally binding sales transaction (e.g. exercise, in the case of share options). Employers should now be in a position to use the share price on the day of exercise to calculate the taxable benefit in kind, irrespective of the chosen exercise method listed above. The BFH’s decision was published in the Federal Tax Gazette but it was not yet clear whether the German tax authorities would follow the new valuation approach adopted by the BFH in practice, as the decision referred to a case where a third person, not the employee (a close member of his family), acquired the shares. Employers that would like to apply the new approach in the wage tax withholding procedure should consider requesting a binding wage tax ruling from the tax authorities. Even if an employer continues to follow the former valuation rules, employees may apply to determine the benefit in kind in accordance with the new valuation approach in their annual income tax return, if this would result in a lower taxable benefit in kind. Any amount over-withheld by the employer would be refunded to the employee. Contact: William Cohen 020 7007 2952 wacohen@deloitte.co.uk

Ireland

The new ceo of the **National Treasury Management Agency** could get a bonus entitlement worth up to 80 percent of his €480,000 salary. The Department of Finance said the contract of the new appointee, Conor O’Kelly, will mirror that of his predecessor, which included an entitlement to a performance-related payment worth that amount. However, a spokesman for the NTMA said a decision on the percentage of pay to be included in the contract would not be finalised until its board meets early this year. Any bonus would not be due until 2016 based on the new chief executive's performance this year. His predecessor, John Corrigan, waived bonuses from 2010 to last year due to a Government ban on their payment in the commercial semi-states. However, as a state agency the NTMA does not strictly come under the ban. Former stockbroker Mr O'Kelly, who was ceo of NCB Stockbrokers, is due to start at the NTMA following Mr Corrigan's retirement. Mr O'Kelly will get an €86,000 pension contribution on top of his €480,000 salary, and the entitlement to a bonus. Mr Corrigan got a basic salary of €490,000, but this was reduced to €416,500 after he agreed to a 15 percent pay cut in 2012 following a request from the Minister for Finance.

Zimbabwe
LSE-quoted **Vast Resources**, a mining minnow, has found a fresh use for employee options. Workers in Zimbabwe who are to be sacked following a refocus on Romania qualify for eight million plus options exercisable at 0.5p each any time over the two years from its AIM listing to December 31 2016. Vast's long term fd is ex Rossminster Roy Tucker who presided over a share price which fell heavily during the previous two years. Whether or not the options turn into gold dust, this presents an interesting model for unions and for companies in flux.

M & A deals strongest level since 2007
During the calendar year 2014 there were 3,282 deals overall, worth a total of $3.12 trillion*, compared with 2263 deals worth $1.83tn in 2013 said lawyers *Allen & Overy*. The two regions that drove strong growth in M&A were the U.S and Western Europe, despite the sluggish economic environment in the latter. The U.S accounted for 34 percent of all activity by volume and 45 percent by value. The UK was the number one target for U.S outbound acquisitions with a total of 65 transactions, followed by Canada with 28 and Germany with 20. A majority of the deals in the U.S were completed by strategic investors to either extend their portfolios or bolt on new areas of growth. Despite inconsistent economic growth in Western Europe, overall transaction values were up by nearly $400bn compared with the same time last year to reach a high of $863bn. The success was driven by strong Life Sciences and TMT sectors. The UK saw the biggest deal in the insurance industry for 15 years in Q4 with Aviva buying Friends Life for £5.6bn. The outlook in Europe is for a diverse M&A market with key deals in 2015 expected in a number of sectors, assuming concerns regarding the macro-political environment do not have a negative effect.

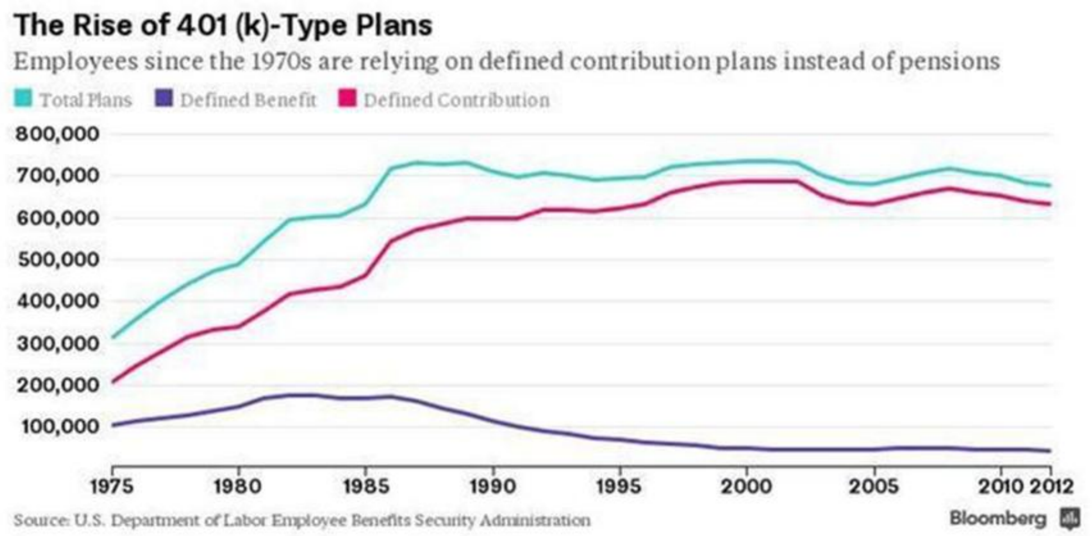
Government boosts Eso in Oz
The Australian Government introduced draft laws affecting the tax treatment of employee share schemes. The draft legislation would amend the income tax law to implement the Government's commitment to improve the tax treatment of employee share schemes as part of the *Industry Innovation and Competitiveness Agenda*.

The proposed amendments would:
*Reverse some of the changes made in 2009 to the point at which rights issued as part of an employee share scheme are taxed for employees of all corporate tax entities. One of the most anticipated changes is the tax treatment of rights to acquire shares, like options. Under current laws, tax-deferred share options are generally taxed at vesting – when there is no longer a real risk of the employee forfeiting them – even if they are not actually exercised at that time. *This approach produced unfavourable results for employees and put Australia 'out of step' with the way share options are taxed in most other countries.* Under the draft laws, the taxing point for tax-deferred share options will generally be when the employee exercises the options or, if there are transfer restrictions on the underlying shares that had been in place since the options were acquired, when those restrictions are first lifted.
*Introduce a further tax concession for employees of certain small start-up companies; and
*Allow the Australian Taxation Office to work with industry to develop safe harbour valuation methods, supported by standardised documentation, that will streamline the process of establishing and maintaining an employee share scheme for businesses.
These changes would improve the tax treatment of employee shares schemes, making them more accessible and attractive to business in order to facilitate the alignment of interests between employers and their employees, and stimulate the growth of innovative start-ups in Australia by helping small unlisted companies be more competitive in the labour market.
"This is a welcome development," said Aidan Douglas, of the London office of Oz law firm *Minter Ellison*. "It will be interesting to see whether there will be a rebirth of option plans in Australia, many of which were suspended or abandoned following the 2009 changes, as many local companies have followed the global trend towards issuing performance rights and like interests (eg. restricted stock units), as opposed to options with an exercise price. Nonetheless, the tax laws should not now be an impediment to companies implementing option plans if they choose to," he added. It seems that employees will be taxed at exercise on fully vested rights, even if they are not subject to a risk of forfeiture.
The Australian Taxation Office is consulting with stakeholders to identify appropriate safe harbour methodologies and develop standardised documentation.
The changes will apply to shares or rights to acquire shares that are acquired *on or after July 1 2015*. The changes will not be retrospective and there are no transitional provisions for awards acquired before this date, unlike the approach that was taken with the move from Division 13A to Division 83A. This means that any options granted before this date would still be taxed at vesting. There are changes to the rules for valuing unlisted rights. The tax laws use ordinary market valuation guidelines to determine the taxable value of ESS interests. However, as a safe harbour for valuing unlisted rights with an exercise price, employees can use statutory tables in the *Income Tax Assessment*

Regulations 1997. The tables are based on a Black-Schöles option valuation methodology.
Employees of eligible start-up companies will benefit in two main respects under the new rules: *for shares, a 'qualifying' discount will not be subject to tax and the shares will then be subject to the CGT rules (so, in practice, employees will only be taxed on discount shares when they are sold); and *for rights, a 'qualifying' discount will not be subject to upfront tax and the right and underlying share will thereafter be subject to the CGT rules.

US workplace pensions depend on 401k plans

The gap in the U.S. workplace between the highest and lowest paid has been growing for years. Far less noticed has been the growing gulf in retirement pay, said *Bloomberg*. While the very top often continue to receive executive pensions as well as other benefits, most workers are left only with their **401(k) plans**. Ceo compensation at large U.S. companies was 204 times higher than the pay of line workers on average in 2013, up 20 percent since 2009, according to **data** compiled by Bloomberg. And the retirement benefits divide $45,000 that workers have saved in the company's 401(k) plan. Steinhafel's package included $27.7m from a combined pension plan for top executives and a deferred compensation plan, according to proxy **filings**. He was also paid $9.8m from an earlier deferred compensation plan, as well as an additional $9.9m in interest payments on that sum. In addition, Steinhafel got a $7.2m cash severance payment and $4.1m from vested **stock** awards when he left at age 59. This was on top of the more than $20m in cash salary and bonus he earned over the prior five years and $56.4m in realized equity gains over the same period, according to company filings. Target said its directors have changed executive compensation programmes to better reflect the retailer's commitment to pay for performance and that Steinhafel was the last top executive eligible for the deferred compensation plan that paid 12 percent interest. "In response to shareholder feedback, we embarked on a comprehensive overhaul of our executive compensation programs to even better align compensation with company performance," said **Eric Hausman**, a spokesman for Target.



"perpetuates income inequality into old age," said **Paul Hodgson**, a corporate governance consultant who has researched executive compensation. Some industries illustrate this trend more starkly than others. Big retailing chains, with their armies of lower-paid floor workers and their elite executive ranks, can be especially emblematic of the retirement gap.
Gregg Steinhafel, who stepped down as ceo of **Target Corp.** in May following a massive credit-card data breach, received retirement plans worth more than $47m. When he joined Target in 1979, the Minneapolis -based company offered generous retirement programmes, so generous for executives that it included a deferred compensation plan that paid a guaranteed 12 percent interest.
That's quite a contrast with the average Target employees' retirement plans. Steinhafel's total package is **1,044** times larger than the average balance of For decades executive retirement savings plans were designed to replace ceo incomes, which were more modest than today. "These benefits weren't originally intended to be huge wealth generators," said Gary Hewitt, director of governance research at Amsterdam-based **Sustainalytics**, which provides research to investors. "But it's become that as ceo compensation has grown to 200 - 300 times what average workers make. They're controversial and harder to justify now that companies have abandoned pensions for those in the ranks." Many who save in a 401(k), by contrast, don't have enough for a secure retirement. At Target, those who work less than 1,000 hours aren't eligible to save in the plan at all. "Target throws workers a cracker and top executives take the cake," said Ron Pierce, a former worker at the retailer's distribution center in Stuarts Draft, Virginia. "Who can even

spend $47m? I'd like to see a chunk of that go for pensions for all employees." Pierce, employed at Target from 2007 through 2012, advocated better worker benefits and wages. He said he put in 10-hour shifts, lifting 5,000 cartons a day for $21 an hour. By the time he left, Pierce had $32,000 in his 401(k) account. Target matches 100 percent of workers' contributions, up to five percent of their pay. He also left the company with a one-time payout of about $4,600 from a pension, which the company ended for new employees in 2008. The retailer's 31,000 retirees received an average annual pension benefit of about $4,000 in 2013, according to company filings. For current employees, Target has "below average" participation in its 401(k), according to **BrightScope,** a San Diego firm that rates 401(k)s. Target store workers, like those at other retailing companies, earn at the lower end of the pay scale -- store clerks typically make about $10 an hour. Such companies not only have low 401(k) participation rates, many also tend not to automatically enroll their workers, said BrightScope CEO Mike Alfred**.**

Among the challenges for those earning hourly wages has been the almost universal decline of traditional pensions. The number of pension plans dropped by more than 70 percent to about 42,300 between 1984 and 2012, while 401(k) plans multiplied to more than 500,000 from 17,000 in that period. Employee funded 401(k)s haven't effectively replaced those pensions. The median combined 401(k) and individual retirement account balance for households headed by people between 55 and 64 was $111,000 in 2013. Those savings will provide a little more than $4,000 a year, assuming the recommended four percent withdrawal rate.

It's a different reality for ceos and their top lieutenants, especially those with so-called executive pensions. Sometimes called supplemental executive retirement plans, or SERPs, they're usually calculated by multiplying years of service and the average pay earned over the executives' last three to five years of service, when earnings are at their peak. About 30 percent of Fortune 1000 companies offered SERPs in 2013, according to consulting firm The Newport Group. Unlike pensions, SERPs are generally unfunded liabilities on companies' balance sheets. They're paid in cash when executives retire or leave.

More common than SERPs are deferred compensation plans, which more than three-quarters of *Fortune 1000* companies offer, according to The Newport Group. They allow executives to set aside salary and bonus income on a pretax basis and circumvent caps lower-paid employees face on contributions to 401(k) accounts. About half of these companies contributed to their executives' balances and three-quarters of the plans had different options, usually more robust than those offered to 401(k) participants, The Newport Group said.

Like Target's Steinhafel, **John Hammergren**, ceo of **McKesson Corp**., has been awarded a varied mix of retirement benefits. Hammergren's deferred compensation was valued at $30m in 2013, according to proxy filings. Additionally, his executive pension was valued at $159m, making it the most lucrative for a ceo at a company in the Standard & Poor's 500 Index, according to compensation consultants. The 55-year-old ceo of the San Francisco-based medical products company agreed last year to reduce his pension by $45m and cap its value at $114m, following complaints from activist investors. "It's important to note his pension is no longer subject to fluctuations based on continued service, changes in pay rates or changes in interest rate assumptions," said Kristin Hunter, a company spokeswoman. McKesson's traditional pension for all employees was frozen in 1996 and the executive pension was ended for new participants in 2007, Hunter said. The company has had a 401(k) plan since 1983.

The dwindling number of companies that still offer traditional pensions to employees often give sweeteners to top executives. **Exxon Mobil** ceo **Rex W. Tillerson**'s pension was valued at $2.1m in 2013. In addition, he had an additional pension valued at $21.1m and an "additional payment plan" valued at $38.6m, according to proxy filings. About 1,000 U.S. executives at Exxon are on track to receive that sort of additional payout, based on the average of the three highest bonuses received in the last five years prior to retirement, according to proxy filings. "Exxon Mobil maintains retirement and other employee benefits to attract and retain the best talent," said Alan T. Jeffers, a spokesman for the company. That's good for the coveted top tier. Whether the oil price collapse will change Exxon Mobil's reward policy remains to be seen. For everyone else, workers must save whatever they can and make it last as long as possible. Pierce, the former Target worker, has about $150,000, including what he saved at Target. He's living on $1,000 a month and hopes to find a less physically taxing job. "If I live only eight or 10 more years, I can get by, because I don't have kids and my house is paid off, but if I have 20 or 30 more years, I'm worried," he said.

The Employee Share Ownership Centre Ltd is a members' organisation which lobbies, informs and researches on behalf of employee share ownership