

Section 5: Remuneration

In the last year, we have continued to see interest rates and inflation falling. Despite this, many in the UK are still feeling the effects of what has been a severe cost-of-living crisis. This is highly likely to have had an impact on the vast majority of those employed in investee companies as well as pension scheme savers.

This is an area of particular focus among investors, especially after the introduction of new disclosure requirements by the Companies (Miscellaneous Reporting) Regulations 2018.¹ The legislation established mandatory reporting for some companies on employee and stakeholder engagement, and disclosure of information on the ratios between CEO and average staff pay, among other demands.

However, in 2025, the UK Government committed to reducing the corporate reporting burden² by 25% as part of its wider strategy to modernise corporate reporting. While simplification may reduce administrative overhead, it also raises concerns about transparency and accountability. Investors should be alert to the risk that reduced disclosure could hinder effective scrutiny of executive pay practices and be alert to opportunities to engage with the government as some of their proposals come through.

Over the last year, there have also been interesting developments in the debate around executive pay due to concerns regarding the competitiveness of the UK market. As the UK Government continues the push for domestic growth, concern has been raised that the pay disparity between executive pay in the UK market vs other markets – the US in particular – is a significant barrier to attracting and retaining top executive talent. We have seen companies proposing new and, in some cases, alternative remuneration structures as well as UK banks removing the bonus cap following the FCA's ruling last year.³

In fact, a key trend emerging from the 2025 proxy season was that UK banks have introduced more US-style pay structures, including higher variable pay opportunities and hybrid incentive plans. While these changes are framed as necessary for global competitiveness, they carry reputational risks — especially in

¹ The Stationary Office, 2018, The Companies (Miscellaneous Reporting) Regulations, <https://www.legislation.gov.uk/uksi/2018/860/contents/made>

² Department for Business and Trade, 2025, Regulation Action Plan Update, and Modernisation of Corporate Reporting, <https://questions-statements.parliament.uk/written-statements/detail/2025-10-21/hcws973>

³ FCA, 2023, PS23/15: Remuneration: Ratio between fixed and variable components of total remuneration, <https://www.fca.org.uk/publications/policy-statements/ps23-15-remuneration-ratio-between-fixed-and-variable-components-total-remuneration>

the context of the UK's cost-of-living crisis. Pensions UK believes that any increase in executive pay must be clearly linked to performance and justified in the context of wider workforce pay and societal expectations.

Executive pay

The shift to improve UK competitiveness is happening across the economy. Among the remuneration structures proposed to attract top executives there are hybrid plans which provide for both time-based and performance-based awards, combined incentive plans which combine the annual and long-term incentives, and increased pay opportunities.

The 2025 proxy season saw a notable rise in shareholder dissent on executive pay, particularly in relation to quantum, structure, and alignment with performance. One-off awards and discretionary bonuses were a key source of concern, with investors increasingly expecting clear justification and robust performance linkage.

To date, there has been limited evidence that the increase in executive pay over the years has genuinely been in response to performance, or that further increases in executive pay or changes to make executive pay packages more generous alone will drive success that significantly boosts economic growth. Given that there are several high-profile UK companies that have managed to attract senior executives from the US, it is also arguable that the issues with UK executive pay is overblown.

Asset owner initiatives, such as the Fair Reward Framework⁴ led by the Church of England Pensions Board, exist to re-frame the debate around executive pay. The Fair Reward Framework offers a balanced approach to executive pay, emphasising fairness, restraint, and alignment with long-term value creation. Investors should use this framework to assess whether companies are striking the right balance between competitiveness and fairness.

Another argument that is made is that UK investors are harsher on UK companies than they are on global counterparts. We are clear that our members should work to identify 'what good looks like' on many corporate governance issues and look to apply voting decisions as consistently as possible across jurisdictions while being mindful of specific local market practices around executive remuneration.

While there is limited data on shareholder dissent on this issue, it remains the case that 'say on pay' votes are advisory only. The 'say on pay' legislation was

⁴ Fair Reward Framework, <https://www.fairreward.org/>

introduced in 2002 and requires publicly traded firms to submit an executive remuneration report to a non-binding shareholder vote. According to research from Harvard Business School, there has been no evidence of a change in the level and growth rate of CEO pay after the adoption of the new rules.⁵ A second stage in the evolution of the regime began in 2013, when shareholders were granted a binding vote on remuneration policy. Another study stated that, in light of the continuing presence of significant levels of excess pay, ‘say on pay’ has to date had limited success as a regulatory strategy.⁶

Pensions UK calls on companies to exercise restraint in executive pay, especially as the UK deals with the impact of the cost-of-living crisis. Pensions UK also encourages investors to evaluate all aspects of a company’s remuneration policy, with a view towards ensuring that it is closely aligned with investors’ interests, driving long-term strategic success and is in line with wider workforce policies.

Investors should be aware that there is a significant and growing reputational risk from the issue of poorly managed executive remuneration, including for investors themselves and how well they are holding companies to account on this issue. We also believe there is growing demand for alignment between remuneration and wider sustainability targets, and we now expect to see this reflected in voting policies.

Building on this, The Investment Association (IA) has recently updated its principles for remuneration⁷ which provide useful information, including how remuneration policies should:

- Promote long term value creation
- Support both individual and corporate performance and encourage long term, sustainable financial health
- Be clearly linked to company performance
- Involve proactive engagement between remuneration committees and shareholders and other stakeholders
- Be appropriate for the company’s circumstances.

⁵ Fabrizio Ferri and David Maber, 2007, Say on Pay Vote and CEO Compensation: Evidence from the UK, Harvard Business School, <https://www.hbs.edu/faculty/Pages/item.aspx?num=30651>

⁶ B. Wu, Iain MacNeil, Katarzyna Chalaczkiewicz-Ladna, 2020, ‘Say on pay’ regulations and director remuneration: evidence from the UK in the past two decades’, Journal of Corporate Law Studies, <http://eprints.gla.ac.uk/210140/7/210140.pdf>

⁷ The Investment Association, 2024, The IA’s Principles of Remuneration, <https://www.theia.org/sites/default/files/2024-10/Principles%20of%20Remuneration%202025%20-%20Final.pdf>

Gender, ethnicity and disability pay gaps

Companies with over 250 employees are mandated to report on gender pay gap, which is normally included in a separate document alongside their annual report.⁸ Building on this, the Draft Employment Rights Bill proposes mandatory equality action plans for gender pay gaps and introduces ethnicity and disability pay gap reporting. Companies should prepare for these requirements by enhancing their disclosures and developing robust action plans.

Investors should expect clear narratives and measurable progress. A 2021 recommendation from the UK Government's Commission on Race and Ethnic Disparities detailed that companies that choose to publish pay gaps between ethnic groups should also publish a diagnosis and action plan to address them.⁹ In December, a group of 10 major UK investors, coordinated by ShareAction, called on the FCA to introduce mandatory ethnicity pay gap reporting for financial institutions.¹⁰

The Draft Equality (Race and Disability) Bill announced in the King's Speech does propose the introduction of mandatory ethnicity and disability pay reporting. This will enshrine in law the full right to equal pay for minorities and disabled people which will make it easier to bring unequal pay claims. The reporting will also support the disclosure of ethnicity and disability pay gaps.

Evidence base

There are often several pages dedicated to executive remuneration in an annual report. However, it is vital that companies and shareholders also have regular discussions on strategy and long-term performance; investors must be sure to then use these engagements as an opportunity to encourage firms to directly link remuneration and corporate performance objectives.

Remuneration metrics should be considered in the context of the sector in which the company operates, the wider workforce and what similar companies are doing in terms of their pay arrangements. There should be evidence of a range of long-

⁸ Government Equalities Office, 2020, Who needs to report their gender pay gap' Government Equalities Office, <https://www.gov.uk/guidance/who-needs-to-report-their-gender-pay-gap>

⁹ Commission on Race and Ethnic Disparities, 2021, Commission on Race and Ethnic Disparities: The Report, [Commission on Race and Ethnic Disparities – Commission on Race and Ethnic Disparities: The Report – March 2021 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/2021/03/25/commission-on-race-and-ethnic-disparities-the-report)

¹⁰ ShareAction, 2023, Investor Letter to the Financial Conduct Authority on Diversity & Inclusion', <https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/FCA-Investor-Letter-press-2023.pdf>

term remuneration structures considered, with a robust, long-term business rationale as to why a particular approach – such as a long-term incentive plan (LTIP) – was chosen over other approaches such as deferred stock options.

Investors should ensure there is a wider, industry discussion around remuneration, not just their own approach, bearing in mind the increased scrutiny from public and policymakers regarding big pay packages in an era where we are likely to face greater economic and market uncertainty.

What does good company behaviour look like?

- Remuneration structures and incentives for executive directors should cascade down to all employees to allow staff to share in the success of a business. For example, the company should seek to offer employees share awards in the most cost effective and simple manner. This should also include executive pension contributions – rates for executive directors should be in line with those available to the workforce. This should be the case for new directors and investors should engage as much as possible to ensure that this is the case for existing directors too.
 - Maximum pay-outs must remain in line with the expectations of shareholders and other stakeholders, including workers and the wider society.
 - The pay policy should not enable any pay award larger than what is necessary to successfully execute the company's wider strategy and to incentivise and reward appropriately.
 - There are clear timeframes for bringing executive pension contribution rates for existing directors in line with those of the wider workforce. No compensation should be awarded for this change.
 - New executive directors or any director changing role are appointed at the same level of pension contribution as for the overall workforce.
- The remuneration policy is clearly linked to incentivising behaviours which are consistent with the company's purpose and values. This should include performance on environmental and social issues and should demonstrate some recognition of wider societal expectations, the general economic environment and the returns to long-term shareholders.
 - The remuneration committees should take into consideration (as a starting point) the company's strategic plan and KPIs to ensure there is a strong explanation for the drivers of executive remuneration given the company's overall strategy.

- This should include a plan in the near term, if not already undertaken, to tie remuneration to company performance on relevant and material environment and social metrics.
- This should be done in a way which does not incentivise the pursuit of sustainability at any cost and should be appropriate to the company context, but remuneration policies should include meaningful and material sustainability metrics, such as climate targets, diversity goals, or social impact indicators.
- Companies should disclose how ESG-linked pay metrics are selected, measured, and verified.
- Where LTIPs are used, these should be linked to several different performance metrics, perhaps including a combination of growth, earnings and a mix of top-line and bottom-line contributions, in order to avoid incentivising short-term behaviour by executives.
- Pay schemes are clear and understandable for both investors and executives. The firm should not be operating multiple long-term schemes – a multiplicity of awards, with varying performance conditions is rarely successful in motivating company executives.
- The remuneration committee designs rewards that drive long-term success. The committee should take ownership of, and be accountable for, both the remuneration policy and its outcomes. The company should consider how it might align pay more closely with the interests and expectations of their long-term owners in order to position themselves well for future success.
- The remuneration committee exercises its judgement, taking a critical and challenging approach to pay increases. Shareholders allow the remuneration committee significant discretion and room to exercise judgement about the overall performance of the company when determining awards.
 - Even when the remuneration committee is thinking about making executive salary increases that are in line with the average employee increase, consideration should be made to how competitive pay is already and to the extent to which this will increase all other areas of remuneration (typically already much higher than that available for employees).
 - The remuneration committee should demonstrate that it is prepared to exert downward pressure on executive pay where necessary and that it has used its discretion to ensure that awards properly reflect business performance. This should include a willingness to scale back on account of wider factors relating to the company, as well as its conduct, reputation and relationship with key stakeholders.
 - Where the remuneration committee has used its discretion to increase pay, it should explain appropriately.

- The remuneration committee should consider how the results have been achieved, not just what was achieved including the creation of meaningful value and not just temporary stock price increases.
- Executive management makes a material long-term investment in shares of the businesses they manage. Senior executives should have significant 'skin in the game' of the companies they manage. Importantly, this should not just arise owing to share awards but be as a result of active purchase of shares by executives in the open market.
 - The bulk of variable rewards should flow over time from the benefits of being an equity owner.
 - Companies should also consider ensuring that executives are exposed to some tail risk for an appropriate length of time once they leave a company.
- There is a cap on variable pay and clear remuneration committee consideration of the wider remuneration landscape. There is no need for there to be a cap on fixed pay, but the remuneration committee should ensure there are set limits for variable pay (typically as a percentage of salary). It should also consider whether an overall pay cap (i.e. the value of awards actually paid) may be appropriate in certain circumstances to ensure executives are not benefiting from windfall gains, particularly as a result of external factors which are outside of management's control.
- There is a clear narrative to support the gender pay gap figures. This should include a well-targeted action plan for any improvement, including anticipated outcomes and how it links back to the company's strategy. The best companies will also be disclosing – in preparation for mandatory reporting requirements – their ethnicity pay gap and any supporting narrative.
- The company initiates appropriately regular discussions with investors on strategy and long-term performance. Any discussions on remuneration should be initiated at a sufficiently early stage and include long-term investors who are committed to stewardship.
 - The company includes in its annual report a description of its malus (reducing bonuses before payment) and clawback (recovering bonus after payment) provisions, which can be applied in certain circumstances such as payments based on erroneous or misleading data, misconduct, misstatement of accounts, serious reputational damage and corporate failure.¹¹

¹¹ Financial Reporting Council, 2024, Corporate Governance Code Guidance', <https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/corporate-governance-code-guidance/>

How investors should consider voting

It is important that investors note the difference between a remuneration policy and a remuneration report when it comes to choosing the right resolution on which to express a view. While one does impact the other, a vote for or against one does not necessarily require a vote for or against the other. Shareholders should view the separate resolutions independently.

On the remuneration report resolution specifically: given that this is advisory and that many companies remain too slow to heed the message on remuneration, Pensions UK believes it is more appropriate for investors to vote against any remuneration report that they feel unable to support, rather than abstain.

Investors should consider voting against the remuneration policy if:

- The company's remuneration policy fails to meet the standards outlined above.
- Pay policies may result in pay awards that could bring the company into public disrepute or foster internal resentment.
- The pay policy awards 'sign-on' bonuses without the inclusion of any conditionality or allows for the payment of awards not already vested at the previous employer.
- The process of engagement prior to the AGM vote fails to produce a remuneration policy that shareholders can support. This represents a serious failure on the part of the chair of the remuneration committee in what is the most fundamental aspect of their role.
- There is no provision to enable the company to claw back sums paid or scale back unvested awards. Such provisions should not be restricted solely to material misstatements of the financial statements.
- The pension payments or payments in lieu of pension (as a percentage of salary) for new appointments are not in line with the proportion paid to the rest of the workforce.
- There is no plan to bring pension payments to incumbent directors in line with the proportion paid to the rest of the workforce over the next few years.
- There is an excessive amount of flexibility being provided for 'exceptional circumstances'.
- The recruitment policy is vague and unlimited or substantial headroom is given and not accompanied by substantial additional hurdles.
- There are guaranteed pensionable, discretionary or 'one-off' annual bonuses or termination payments.
- There is any re-testing of performance conditions to enable awards to be made.
- New share award schemes are layered on top of existing schemes.

Investors should consider voting against the remuneration report if:

- There is insufficient evidence of alignment with shareholders' interests and company long-term strategy. This could include, but is not limited to, a shareholding requirement for which the level is set at less than two times salary.
- The metrics used are inappropriate or there are insufficiently stretching targets for annual bonus or LTIP.
- There are annual pay increases in excess of those awarded to the rest of the workforce and an absence of a convincing rationale.
- Pension payments to incumbent directors (as a percentage of salary) are higher than the rest of the workforce and there is no evidence that this will be reduced.
- The pension payments, or payments in lieu of pension (as a percentage of salary) for new appointments, are not in line with the proportion paid to the rest of the workforce.
- There is a failure to disclose (or to have a retrospective disclosure of) variable pay performance conditions for annual bonuses or ex-gratia and other non-contractual payments.
- There is a change in control provisions which trigger earlier and/or larger payments and rewards and there is an absence of service contracts for executive directors.
- The process of engagement prior to the AGM vote fails to produce a remuneration policy that shareholders can support – this represents a serious failure on the part of the chair of the remuneration committee in what is the most fundamental aspect of their role.

Investors should consider voting against the remuneration committee chair (director's election) if they have been in post for more than one year and:

- The company has repeatedly failed to take investors' concerns into account and fail to respond in what investors consider to be an appropriate fashion.
- The process of engagement pre-AGM has failed to result in a remuneration policy that shareholders can support, or shareholders feel that the chair has failed to take on board their concerns about the remuneration report.
- Any revised policy continues, on a repeat basis, to fail to meet the principles outlined above.
- ESG-linked pay metrics are absent or poorly defined.
- The company fails to disclose or justify significant increases in executive pay amid stagnant workforce pay.

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