Non-alignment of executive pensions and worker pensions

Executive directors' pension contributions not being aligned with the average pension contribution for employees is biggest area of non-compliance under the Corporate Governance Code, finds Thomson Reuters Practical Law

Just under half (49 per cent) of FTSE 350 companies are fully compliant with the UK's Corporate Governance Code, with pension contributions being the most common area of non-compliance, according to recent research from Thomson Reuters Practical Law.

The group's study revealed that 30 per cent of companies reported failing to meet the code's requirements by paying executive directors pension contributions that are not aligned with the average pension contribution for employees.

Under the code, companies are expected to pay the same percentage salary in pension contributions to their entire workforce, including board executives.

Allowing a chair to remain in position for more than nine years was the second highest area of non-compliance with the code, as the study found 12 per cent of the FTSE 350 were non-compliant in this area, a moderate improvement from the 14 per cent that were non-compliant in 2022.

Commenting on the findings, Thomson Reuters Practical Law senior editor, Amanda Cantwell, said: "Although companies may have justifiable reasons for non-compliance, levels of compliance with the code are rising, which should mean improved corporate governance for FTSE 350 companies.

"The improvement in adherence with corporate governance principles shows a positive cultural change in British corporate governance five years on from the collapse of Carillion, which has highlighted the importance of corporate governance regulation.

"Meeting high standards of corporate governance set by the code can foster an environment of trust and accountability within the UK's biggest listed companies."

However, UK Sustainable Investment and Finance Association (UKSIF) head of public affairs, Joe Dharampal-Hornby, states: "UKSIF is concerned by the new research showing a significant discrepancy between executive and average worker pension contributions within FTSE 350 companies.

"The Corporate Governance Code's requirement for aligned contribution percentages is an important safeguard for the retirement savings of millions of UK workers, regardless of annual salaries. Stronger monitoring efforts and clear consequences for non-compliance would give savers greater confidence that companies they invest in are adhering to good governance practices."

Meanwhile, Pensions and Lifetime savings Association (PLSA) director for policy and advocacy, Nigel Peaple, highlights that "pension funds demand high levels of disclosure around employment practices from their investee companies because organisations that look after their workforces tend to outperform their competitors".

"Unfortunately, when it comes to workforce issues, best practice is still the exception rather than the rule, with remuneration continuing to rank high on the list of areas resulting in shareholder dissent," he says.

"Furthermore, UK workers are currently not saving enough for an adequate retirement with around a quarter projected to fall short of the PLSA's Minimum Retirement Living Standard. We would encourage those companies subject to the UK Corporate Governance Code to pursue paying higher pension contributions as an end in itself."