

Remuneration report

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprised Non-executive Directors: Paul Spencer CBE and Michael Medlicott (as Chairman) until August 2009 and December 2009 respectively, and then Martin Gray and Sir John de Trafford Bt. (as Chairman) from September 2009 and January 2010 respectively. It also comprised two Executive Directors: the Chief Executive and the People and Environment Director, Gillian McGrattan. Support to the Committee is provided by Gerard Hutchinson (Director of Global Reward, Rolls-Royce plc) in an independent advisory capacity.

The Committee's role is to determine NS&I's reward strategy for Senior Civil Service (SCS) members. This includes reviewing the Chief Executive's recommendations on pay and performance-related pay awards within the parameters set by the Cabinet Office for the SCS following recommendations by the Senior Salaries Review Body. The Committee also advises on the role and appointment of Executive NS&I board members. The Cabinet Office gives overall approval to the pay and performance-related awards for the NS&I's SCS members. The Committee also reviews succession planning arrangements for senior staff within NS&I.

Service contracts

The remuneration arrangements of senior members are set out in their contracts and are subject to annual review in line with awards recommended by the Senior Salaries Review Body. The notice period for all senior members of NS&I does not exceed three months. The arrangements for early termination of senior members' contracts are made in accordance with the service contract of the relevant individual.

With the exception of the Chief Executive, whose remuneration is determined by HM Treasury, Executive board members' pay awards and performance-related pay are determined by the NS&I Appointments and Remuneration Committee, based on the performance against targets of both NS&I and the individual Director.

Under the Chief Executive's contract, provided performance is satisfactory, her salary is adjusted by HM Treasury, with reference to the annual increase in salary bands for the SCS laid down by the Cabinet Office in accordance with the Senior Salaries Review Body report. The position of Chief Executive could qualify for a performance award, depending on the achievement of targets set by HM Treasury.

Non-executive Directors have fixed term appointments not exceeding three years. Normally they can serve for two terms of office. Their remuneration is accounted for in 'other costs'. The details of their payments are shown in Table C. No Executive Directors hold any Non-executive directorships elsewhere.

Salary and pension entitlements

The salary and pension entitlements of the Executive board members are shown in Table A. There were no taxable benefits in kind paid.

Table A: The salary and performance-related pay entitlements of the Executive board members of NS&I

Audited

	2009–10 Salary	2009–10 Performance- related pay***	2008–09 Salary	2008–09 Performance- related pay	2008–09 Total
	£000	£000	£000	£000	£000
Jane Platt <i>Chief Executive</i>	190–195		185–190	15–20**	200–205
Mike Chilton <i>Finance and Risk Director</i>	140–145		135–140	15–20	155–160
Peter Cornish <i>Customer Offer Director</i>	100–105		100–105	15–20	115–120
Julian Hynd <i>Change and Strategy Support Director</i>	100–105		95–100	15–20	110–115
Steve Owen <i>Channel Delivery Director</i>	115–120		110–115	15–20	130–135
Gillian McGrattan* <i>People and Environment Director</i>	105–110		60–65	5–10	65–70
John Prout <i>Customer Sales and Retention Director</i>	115–120		110–115	15–20	130–135

* Appointed 1 September 2008. Equivalent annual salary for 2008–09 was £100,000–£105,000.

** In view of the economic background, the Chief Executive chose to limit her variable pay for 2008–09 to the maximum performance-related amount set for Senior Civil Servants, regardless of her contract entitlement.

*** As at 7 July 2010 performance-related payments for Executive board members in 2009–10 were not yet confirmed.

The information in the above table is covered by the Comptroller and Auditor General's audit opinion.

Table B: Pension benefits of the Executive board members of NS&I

Audited

	Real increase in pension at age 60	Real increase in pension- related lump sum at age 60 at 31 March 2010	Total accrued pension at age 60 at 31 March 2010	Pension- related lump sum at age 60 at 31 March 2010	Cash equivalent transfer value (CETV) at 31 March 2009	Cash equivalent transfer value (CETV) at 31 March 2010	Employee contributions and transfers	Real increase in CETV after adjustment for inflation and changes in market investment factors
	£000	£000	£000	£000	£000	£000	£000	£000
Jane Platt <i>Chief Executive</i>	2.5–5	–	5–10	–	95	155	15–20	36
Mike Chilton <i>Finance and Risk Director</i>	2.5–5	–	5–10	–	60	99	0–5	31
Peter Cornish <i>Customer Offer Director</i>	0–2.5	2.5–5	10–15	40–45	219	261	0–5	27
Julian Hynd <i>Change and Strategy Support Director</i>	0–2.5	–	10–15	–	99	129	5–10	16
Steve Owen <i>Channel Delivery Director</i>	2.5–5	7.5–10	40–45	125–130	673	766	5–10	44
Gillian McGrattan <i>People and Environment Director</i>	0–2.5	–	0–5	–	16	48	0–5	27
John Prout <i>Customer Sales and Retention Director</i>	2.5–5	–	15–20	–	290	368	15–20	45

The information in the above table is covered by the Comptroller and Auditor General's audit opinion.

Table C: The remuneration of Non-executive Directors

Audited

	2009–10	2008–09
	£000	£000
Martin Gray (Chairman from September 2009)	15–20	10–15
Michael Medicott (left in December 2009)	10–15	10–15
Paul Spencer CBE (Chairman until August 2009)	5–10	15–20
Simon Ricketts	15–20	10–15
Sir John de Trafford Bt. (joined in January 2010)	0–5	–
David Hulf (joined in January 2010)	0–5	–

The information in the above table is covered by the Comptroller and Auditor General's audit opinion.

Salary

'Salary' includes: gross salary; overtime; and any other allowance to the extent that it is subject to UK taxation.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (classic, premium or classic plus) or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good-quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings

for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid, with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos, a member builds up a pension based on pensionable earnings during the period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with the RPI. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3.0% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but, if they do make contributions, the employer will match these up to a limit of 3.0% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at civilservice-pensions.gov.uk

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but NS&I is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (civilservice-pensions.gov.uk).

For 2009–10, employers' contributions of £1,407,628 were payable to the PCSPS (2008–09: £1,366,721) at one of four rates in the range 16.7% to 24.3% (2008–09: 17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2009–10 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £20,389 (2008–09: £19,008) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0% to 12.5% (2008–09: 3.0% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer contributions of £1,240, 0.8% (2008–09: £1,170, 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision

of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

There were no additional pension liabilities during 2009–10 payable by the Civil Service pension arrangements for individuals who retired early on health grounds.

Cash equivalent transfer values

Table B above shows each member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. The final column reflects the increase in CETV effectively funded by the employer.

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV in 2009–10

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement), and uses common market valuation factors for the start and end of the period.



Jane Platt
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National Savings and Investments
30 June 2010