

Bonus deferrals hide 4% payout rise in 2012/13

Bonuses are a key part of remuneration packages for both employers and employees, and the whole economic landscape can be affected when bonus payouts are postponed by a month. In this article we look at the official figures on bonus levels across the economy in the past year, as well as using IDS data to look at how much is being paid, on what basis and what employers expect to happen in the coming year.

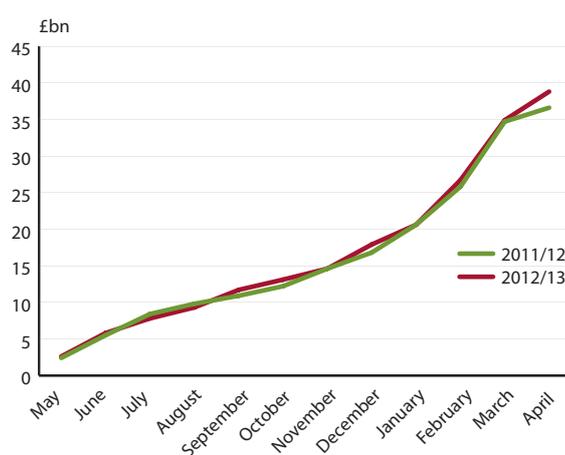
The picture on bonuses in 2012/13 is somewhat complicated, muddled by the decision of a significant number of employers to defer bonus payments until April for tax reasons. Once this has been taken into account, the Office for National Statistics (ONS) estimates that the total amount of bonuses paid in 2012/13 grew by around 4 per cent from the figure paid in 2011/12. Meanwhile, the IDS subscriber survey reveals some cautious optimism around payouts in the coming year.

Deferred bonuses

The traditional bonus season, particularly in the financial services sector, usually runs from December to March. The highest-paying individual months are typically February and March, as annual bonus schemes pay out to coincide with the end of the financial year. However, from April 2013, the Government reduced the top rate of income tax, meaning that individuals' annual earnings in excess of £150,000 are now taxed at 45 per cent rather than the previous 50 per cent rate. This meant that a small number of very high earners could reduce the amount of tax due on their bonuses if their 2012/13 bonus payouts were postponed until the 2013/14 financial year. Some employers, particularly in the finance sector, consequently chose to switch their bonus payouts to April.

Although only a very small number of employees stood to gain or lose from the change in bonus timings, an additional £1.7 billion was paid in bonuses in April 2013 compared to April 2012 – a figure large enough to have a noticeable impact on the figures for the income measure of GDP in the second quarter of the year. As a result of this postponement of bonuses to April, the whole bonus season was effectively stretched, rendering traditional year-on-year comparisons incomplete. The ONS therefore took the unusual but necessary step of publishing bonus figures for the year

Whole economy bonuses, May to April (cumulative)



Source: ONS

to the end of April in its annual bonuses summary, alongside the traditional figures to the end of March.

Bonuses on the rise

Looking at the figures for the 12 months to the end of April 2013 shows a total of £38.6 billion paid out in bonuses, a 4 per cent increase on the £36.9 billion paid over the same period in 2011/12. This equates to an average of £1,500 per employee across the whole economy in 2012/13, although this figure is heavily skewed by small numbers of employees earning large bonuses in a few specific sectors. Looking at the graph below, we can see that bonuses in 2012/13 followed a near-identical pattern to 2011/12 across the year to March, with almost the whole 4 per cent increase accounted for by the payouts postponed until April.

Although the total amount paid in bonuses rose by 4 per cent over the year, it is also worth noting that prices also rose by 2.9 per cent over the 12-month period, as measured by the Retail Prices Index. This means that while bonuses grew, much of

Average bonuses recorded by IDS in 2012/13

	Lower quartile	Median	Average	Upper quartile
Cash bonuses (annual)	£400	£700	£1,644	£1,450
Bonuses as a percentage of salary	3.3%	7.7%	8.9%	13.5%

Source: IDS

this was offset by increases to the cost of living. Add in the fact that the numbers in employment also grew over the year, and the average bonus per employee across the economy was worth little more in real terms than it was in 2011/12.

The total figure of £38.6 billion paid out in 2012/13 remains some distance below the record pre-recession mark of £42 billion in 2007/08. Adjusted for inflation, that pre-crash high-water mark of £42 billion would be worth around £49 billion in today's money.

Bonuses by sector

The scale of bonuses in the finance and insurance sector dwarf those in any other part of the economy – so much so that the ONS regularly breaks down bonus figures into simply finance and the 'rest of the economy'. Some £14 billion was paid in bonuses to employees in the finance and insurance sector in the year to April 2013, or around 36 per cent of the total amount paid in bonuses across the economy, despite the sector employing only around 4 per cent of the workforce. Payouts in the whole of the rest of the economy combined totalled £24.6 billion.

The ONS reports that the average bonus in the finance and insurance sector was £12,600 per employee in the year to April 2013, almost double the average in the next highest-paying sector, mining and quarrying, at £7,300 per employee. The average bonus for the information and communication sector was £4,600 per employee, but no other sector showed an average of more than £3,000.

As with all average bonus data, this figure of £12,600 per employee in finance and insurance is skewed upwards by large bonuses paid to the top earners – senior staff, executives and City traders. The majority of the finance and insurance workforce, in call centres, support roles and retail banking, receive much lower levels of bonus payments.

When looking at the financial year to the end of March, bonuses in the finance and insurance sector were almost unchanged from 2011/12, but they showed significant growth when the postponed April bonuses were included. This is because employers in finance were comparatively more likely to defer bonuses to help staff avoid the 50 per cent tax rate, since they have a larger number of high earners who stood to benefit than in other sectors. When including April's figures, bonuses in finance and insurance grew by £550 million, more than in any other sector.

As well as the finance sector, other parts of the economy showing growth in bonus levels over the twelve months to April 2013 included

information and communication (up £340 million); retail trade and repair (up £280 million); and transport and storage (up £220 million). Total bonuses paid out in the professional, scientific and technical sector fell by £190 million over the year, while bonuses in the construction sector and in administrative and support services each fell by £60 million over the year.

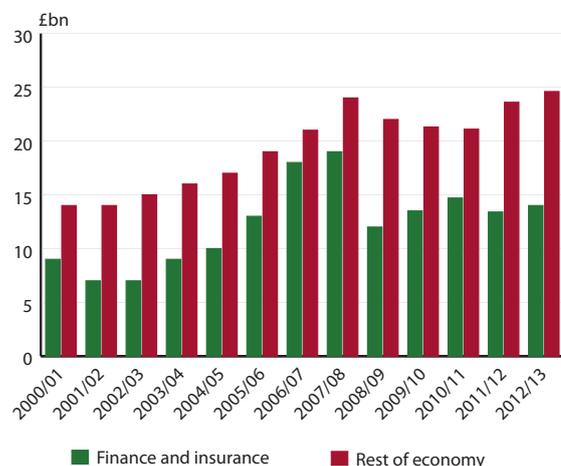
Across the private sector as a whole, the average bonus per employee was £1,700, while for the public sector excluding the nationalised banks it was just £100 per employee. Bonuses are rare in the public sector, and normally paid only to staff in the civil service.

Bonuses recorded by IDS

Looking at bonuses recorded by IDS over the past twelve months shows a slightly different picture to the official figures, and covering a slightly different time period. On most measures the average and median bonuses we have recorded in the last 12 months are similar to or slightly lower than those recorded in the previous year, contrasting with the 4 per cent year-on-year rise reported by the ONS.

Employers report bonuses either in terms of a cash sum or as a percentage of salary, and we have calculated summary figures for both, based on their responses. For those employers expressing bonuses as a cash figure, the median payout was £700 a year, with half of all bonuses recorded worth between £400 and £1,450. The average cash bonus, which is always heavily influenced by a small number of employees receiving very large sums, was £1,644 a year. This was the one measure of bonuses which showed a year-on-year rise in our figures, and is actually slightly higher than the ONS estimate of an average £1,500 annual bonus for employees across the economy.

Bonus payments (May to April)



Source: ONS

Where employers reported bonuses as a percentage, the median payout was 7.7 per cent of salary, with the average a little higher at 8.9 per cent. Half of all payouts recorded were between 3.3 and 13.5 per cent. These figures are all slightly below those recorded in 2011/12, but the varying ways in which employers record bonuses and the differences in organisations providing data year-on-year mean we expect a certain amount of fluctuation.

Of the 115 organisations that supplied us with bonus data in the year to the end of August 2013, only five paid a bonus while also freezing basic pay. The remainder all awarded increases to basic pay alongside their bonus scheme, with almost all increasing pay by 2 per cent or more.

Bonus intentions for 2014

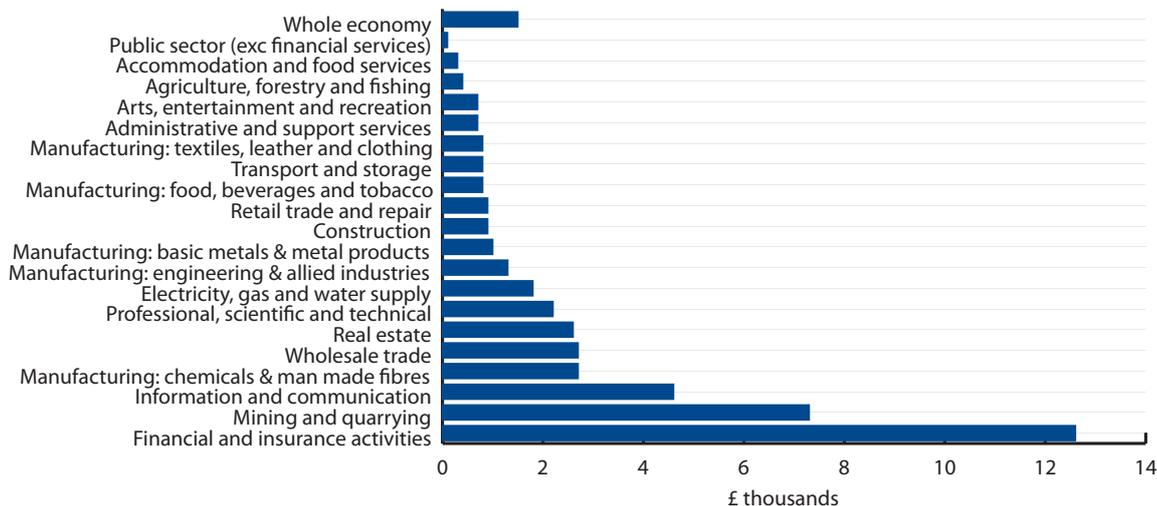
Our survey of subscribers suggests that employers are largely optimistic about paying bonuses to employees in the coming year. Some 82 per cent of respondents told us that they plan to make bonus payments in 2014. By comparison, only 60 per cent of respondents told us that they paid bonuses to most staff in 2013, although some organisations may also have paid bonuses to a small proportion of the workforce, for example to senior managers.

Where employers told us that they intend to pay a bonus in 2014, a third told us that they expected to pay out at a higher level than in 2013. Just under a half told us that they expected 2014 bonus payments to be around the same level as in 2013, and just under one-in-five told us that they expect lower bonus payouts next year.

Bonus criteria

Of those respondents to our subscriber survey that told us what criteria they use to determine the level of bonus payments, 84 per cent of employers based their bonus payouts at least partially on company performance. However, only 12 per cent of organisations based payouts on company performance alone. Some 86 per cent of employers used individual performance as an element in determining payout levels, with 12 per cent operating schemes based entirely on individual performance. Some 16 per cent of organisations used an element of team or departmental performance, while 18 per cent used site-level targets to help determine bonuses. Some 70 per cent of employers combined individual and company performance to decide on the level of payouts.

Annual average bonuses per employee (May 2012 to April 2013)



Source: ONS