believe financial security is either “important” or “very important” in order to have a successful NED career.
Non-Executive Directors (NEDs) are a core part of effective business governance. Their responsibility to provide critical oversight and scrutiny make NED roles both challenging and rewarding. It is no surprise, therefore, that becoming a NED is a popular career move for experienced individuals.

Plenty has been written before about what makes a good NED. Less has been said about the financial pressures NEDs face. So, Saunderson House recently conducted a survey with existing and potential future NEDs to understand their financial outlook, challenges and plans.

The results are intriguing. Nearly all respondents (98%) recognise that understanding regulatory responsibilities is important or very important to have a successful NED career. But next on the list of important factors is being financially secure – rated as either “important” or “very important” (89%) of the people we surveyed. That places it higher than being able to structure work-life balance and gaining a broad business knowledge.

Financial security is clearly an important factor for current and aspiring NEDs. After all, nearly two-thirds of respondents expect or have experienced a decrease in income as a result of becoming a NED.

Any career move prompts a range of important financial questions for us to consider. Why do I want this new role? Can I make it work financially? Have I thought through the implications? These questions are equally as important for prospective NEDs as they are for established ones.

This short report summarises the findings from our research. We also explore three areas we found particularly interesting in more detail. Finally, we offer four key areas for consideration for current and future NEDs.

I hope you find this interesting and useful. Please get in touch if you would like to discuss any of our findings further or would like to know more about Saunderson House and our services.
Summary of research findings

Saunderson House conducted an online survey with 116 existing and potential future Non-Executive Directors in Spring 2018, working in partnership with the Financial Times NED Club. Respondents fell into the following categories:

• Interested in becoming a NED
• Currently transitioning into a NED role
• Recently appointed as a NED (less than 5 years’ experience)
• Established NED (more than 5 years’ experience)

The questions we posed explored the factors seen as important to being a successful NED, income expectations during a career as a NED, and the investment and financial planning activity respondents undertake.

Financial security seen as a key factor to becoming a successful NED

Nearly half of respondents believe financial security is - or was - an important factor to have a successful NED career.

How important were (or do you foresee) the following areas in order to have a successful NED career? (% who answered “important” or “very important”)

• Understanding your regulatory responsibilities: 98%
• Being financially secure: 89%
• Structuring your work-life balance: 89%
• Gaining a broad business knowledge: 85%

Becoming a NED often associated with a fall in income

Nearly two thirds of respondents (62%) expect / have experienced a decrease in income from becoming a NED.

Do you expect (or have you experienced) an increase / decrease in your earned income from becoming a NED? (% who answered “decrease in income”)  

<table>
<thead>
<tr>
<th>Currently transitioning into a NED role</th>
<th>Recently appointed as a NED</th>
<th>Established NED</th>
</tr>
</thead>
<tbody>
<tr>
<td>92%</td>
<td>76%</td>
<td>52%</td>
</tr>
</tbody>
</table>

NED roles associated with less regular income

Among the factors respondents selected as elements they will/do miss from their previous role, a regular or higher income is cited in the top five.

As a NED, what do you (or what do you expect to) miss the most from your previous role?

1. Direct involvement in a business
2. Working in a team
3. Interaction with colleagues
4. Infrastructure of my executive role
5. Regular income
NEDs are increasingly being asked to invest in their employer

Just under a third (31%) of those who have been NEDs say they have been asked to invest in the company where they hold the role.

Have you ever been asked to invest in the company where you have held / currently hold a NED role? (% who answered “yes”)

- Currently transitioning into a NED role: 44%
- Recently appointed as a NED: 34%
- Established NED: 24%

NEDs prefer managed/collective investments

When asked how they currently invest, respondents prefer Collective Investments to Single Stocks.

How do you currently invest your assets? Please tick all that apply.

- Collective Investments: 53%
- Managed Portfolio: 50%
- Multiple Joint Stocks: 38%
- Single Stock: 8%

Quarter of NEDs face concern or uncertainty over retirement income

Nearly three in four (72%) respondents say they are content (somewhat/very) with the anticipated level of income they will receive in retirement.

- 28% of respondents say they are indifferent, unsure or concerned about the amount of income they will have in retirement
- 66% of respondents have undertaken pensions planning

Over the next three pages we look at some of these findings in more detail
Financial security is important for NEDs – but may be less of a prerequisite for accepting a NED role in the future

One of the most interesting findings from our research is what current and future NEDs think is important in order to have a successful career. In particular, the need for NEDs to be financially secure.

On the face of it, our respondents seem unified in their view. The overwhelming majority (89%) think that being financially secure is important to have a successful career as a NED. This may be symptomatic of the fact that most expect their income to decrease when they become a NED - with 62% expecting or having experienced a decrease in income.

But a closer look reveals an intriguing trend. Around half of new, established and soon-to-be NEDs, think financial security is a “very important” factor. However, among those interested in becoming a NED, only one in three hold the same view.

This suggests that for the next generation of NEDs, financial security won’t be as high a priority as it is today. The consequences of such a shift in thinking could be significant. After all, setting financial security as a prerequisite to becoming a NED may restrict the pool of potential NED candidates a firm can choose from. Many candidates who tick every other box, and who could make a genuine contribution, may be put off by thinking they’re not financially secure enough (although some may actually be in a better position than they think).

Likewise, is it critical to be financially secure to be totally independent and speak truth to power and ask difficult questions, or are those skills/capabilities separate to your financial position?

“Financial security is clearly an important factor to consider when deciding whether or not to become a NED. Future NEDs may not rank it so highly, but seeking clarity on your financial situation before taking such a role remains a sensible course of action.”

Ian McNally, Director, Saunderson House

Either way, considering a NED position presents a real opportunity to seek advice in order to get clarity on your financial position.

NEDs undoubtedly play a critical oversight and scrutiny role. Indeed, there is evidence that average NED salaries are increasing. Better remuneration for these roles might attract a greater diversity of people who may not initially consider themselves financially independent or secure.

Percentage who think financial security is “very important” in order to have a successful NED career

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established NEDs</td>
<td>48%</td>
</tr>
<tr>
<td>Recent NEDs</td>
<td>48%</td>
</tr>
<tr>
<td>Transitioning to be a NED</td>
<td>54%</td>
</tr>
<tr>
<td>Interested in becoming a NED</td>
<td>34%</td>
</tr>
</tbody>
</table>

1 https://www.ft.com/content/87bed6b0-14bb-11e8-9e9c-25c814761640

A financial view from Non-Executive Directors
NEDs are increasingly being asked to invest in the companies they join

As NEDs become an ever more common fixture on the corporate governance landscape, our research has found that among existing NEDs, nearly one in three (31%) have been asked to invest in the companies they join. This can benefit both parties, and it needn’t compromise the NED’s independence if they remain separate from day-to-day executive team matters.

Intriguingly, this trend is becoming more common.

By asking NEDs to invest in them, companies are essentially asking those they hire to invest in a Single Stock. However, our research suggests that this is not their preferred way of investing. Only 8% of respondents currently invest in a single stock. In comparison, 53% prefer to invest in Collective Investments and 50% in a Managed Portfolio.

These findings suggest that if NEDs are increasingly being asked to do this, they should take time to consider whether their portfolio of roles should mirror their portfolio of investments.

The difference is stark. Newer NEDs are far more likely to be “encouraged” to invest in their companies than their predecessors. But does the practice fit with the way NEDs tend to invest?

Proportion asked to invest in the companies they join

<table>
<thead>
<tr>
<th>Type of NED</th>
<th>Proportion asked to invest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transitioning NEDs</td>
<td>44%</td>
</tr>
<tr>
<td>Recent NEDs</td>
<td>34%</td>
</tr>
<tr>
<td>Established NEDs</td>
<td>24%</td>
</tr>
</tbody>
</table>

“Asking NEDs to invest in the companies they join makes sense. It ensures they have skin in the game. It can also be a valuable way for NEDs to support young or growing businesses in particular. It also offers NEDs with retirement in mind the opportunity to secure a return on their investment.”

Ian McNally, Director, Saunderson House
Transitioning NEDs most concerned about levels of retirement income

People choose to become NEDs for all manner of reasons; a change of pace, a new challenge, or the desire to make a genuine difference to the way businesses govern themselves. For many, NED roles are also seen as a stepping stone between full-time employment and retirement.

Retirement was definitely on the mind of the transitioning NEDs we surveyed. They were distinctly more worried about their pension income than other respondents.

These splits reveal a distinct change in mindset among those in the process of making the transition to a NED. It may be that this is when they first start thinking seriously about what the career change could mean for their retirement income. As engagement with the topic increases, it is natural that concerns will increase for some.

The good news for these individuals is that once the NED roles start, most of them see these concerns dissipate. It may be that these NEDs had the same concerns while transitioning, but have since sought advice or taken steps to reduce their concerns.

“Somewhat concerned” about income I will have in retirement

<table>
<thead>
<tr>
<th>Category</th>
<th>Concerned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transitioning NEDs</td>
<td>41%</td>
</tr>
<tr>
<td>Recent NEDs</td>
<td>14%</td>
</tr>
<tr>
<td>Established NEDs</td>
<td>12%</td>
</tr>
<tr>
<td>Interested in becoming a NED</td>
<td>11%</td>
</tr>
</tbody>
</table>

“When we begin something new, or make a change, a sense of excitement is naturally accompanied by a sense of trepidation. When it comes to transitioning to a NED role, questions about retirement income naturally come to the fore alongside an eagerness to get stuck in. It offers an ideal moment to take stock financially, and model your future expenditure against best and worst case income scenarios to give comfort that your NED plans are financially underwritten.”

Ian McNally, Director, Saunderson House
Four areas for consideration

Major milestones in our lives often prove to be moments when financial hopes and fears sit front of mind. Making a career move – in this case to become a Non-Executive Director – is one such milestone. Here are four areas for consideration for those thinking about becoming NEDs, those who are on their way, or those already in a role.

1. Think ahead
   Consider the financial implications of becoming a NED and ask yourself whether seeking advice will help you properly assess your current levels of financial security and independence.

2. Cashflow planning
   Undertake a cashflow planning exercise to make sure you fully understand how cashflow levels are going to change / are changing / have changed as a NED.

3. Tax efficiency
   Alongside income, think about other assets that you could draw on to create a tax-efficient income stream throughout your NED career.

4. Diversification
   Revisit your current investment portfolio to understand the options for - and implications of – investing in the company where you are a NED.

If you have any questions regarding any of the survey findings or would like to discuss your personal finances further, please contact Ian McNally at Saunderson House:

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T: 020 7315 6513

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