



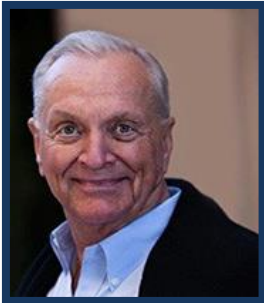
Will 2017 Bring a New Direction for Director Compensation?

January 2017

Pearl Meyer



Meet the Presenters



Richard Goeglein (moderator) is currently a Fellow and faculty member of the National Association of Corporate Directors and is regularly engaged as a speaker, panelist and webcast moderator for the Association. He also serves as a Trustee on the Board of Volunteers in Medicine of Southern Nevada, a 503(c) non-profit and is Chairman of the Executive Committee and member of its Finance committee. He was Non-Executive Chairman of the Board of Pinnacle Entertainment from 2003 thru May 2015 and continued as a director thru May 2015.



Jannice Koors is a managing director with Pearl Meyer and the head of the firm's Chicago office. She advises company management and boards on all aspects of executive compensation, including value-based annual and long-term incentive plans, salary structure development, subsidiary pay programs, and performance measure selection. She is a member of the faculty for the NACD Directors Institute programs and has led the data collection and analysis for the Pearl Meyer/NACD director compensation study for more than 15 years.

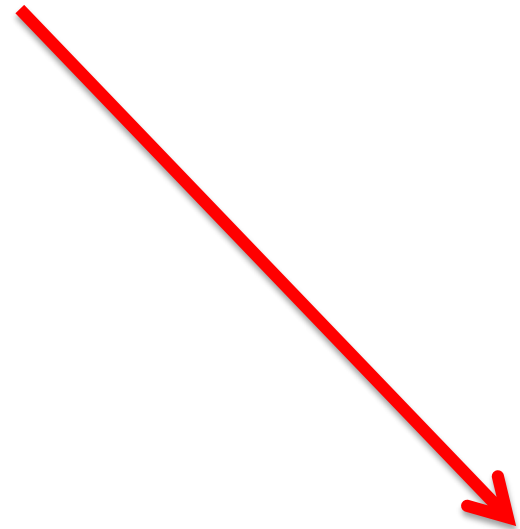


Tim Dupuis is a vice president in the Chicago office of Pearl Meyer, where he specializes in executive compensation and works closely with boards and senior management teams to design programs that are aligned with the organization's business strategy, aid in the attraction and retention of key executive talent, and withstand external scrutiny.

Submit a question and receive your answer directly from Pearl Meyer. You will also be opted-in to receive future executive compensation thought leadership from Pearl Meyer.

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Presentation slides are available at www.pearlmeyer.com/director-compensation-2017 and within the webinar console.





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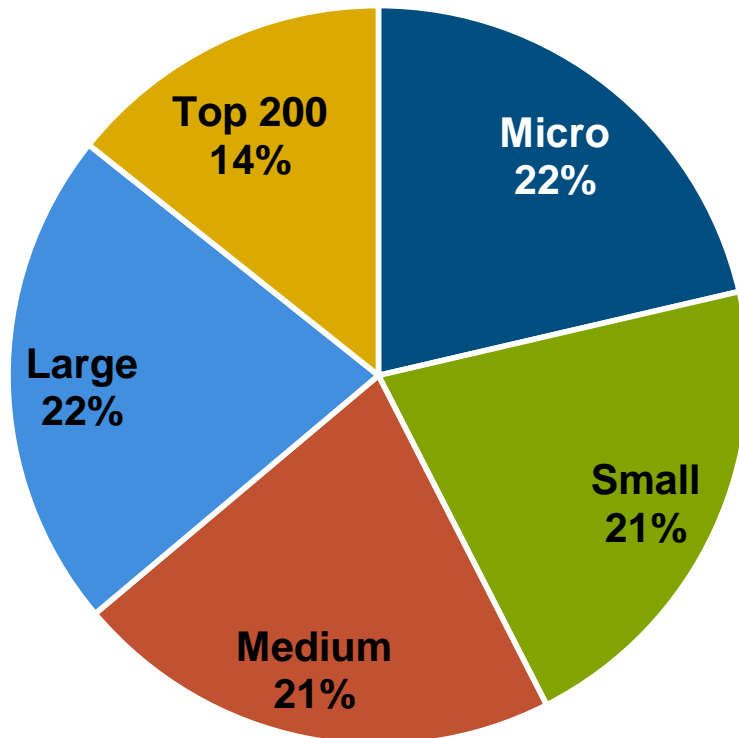
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Director Compensation Data for 1,400 Companies Grouped by Industry and Company Size



5 Size Categories Based on Annual Revenue



All Companies are Publicly-Traded

- **Micro:** \$50M-\$500M
- **Small:** \$500M-\$1B
- **Medium:** \$1B-\$2.5B
- **Large:** \$2.5B-\$10B
- **Top 200:** Largest 200 Companies in the S&P 500
- **Across 24 industries based on GICS at the group level**

Board Composition Continues to Evolve



		Board Composition					
		Micro	Small	Medium	Large	Top 200	All Firms
	Median No. of Directors ^a	7	8	9	10	11	9
	% with 1 year term	56%	56%	64%	76%	93%	67%
	Median Director Age (yrs)	64	64	64	64	64	64
	Median Director Tenure (yrs)	8.6	8.5	9	8.7	7.7	8.5
Mandatory Retirement	Prevalence of disclosure	23%	35%	51%	58%	81%	47%
	Median Retirement Age (yrs)	75	73	72	72	72	72
Board Gender Diversity	% of companies with at least 1 female director	57%	73%	85%	93%	100%	80%
	% of companies with at least 2 female directors	19%	35%	48%	66%	90%	49%
	% of companies with at least 3 female directors	5%	12%	14%	26%	54%	20%
	Prevalence of Combined CEO/COB Role	38%	38%	43%	44%	64%	44%

(a) Includes non-employee and employee directors

Poll Question #1

Which of the following does your board have in place to promote board refreshment

- *Mandatory retirement age and/or term limits*
- *Acceleration of equity vesting at retirement*
- *Both of the above*
- *None of the above*

Poll Question #2

Does your board have formal processes in place to address the following?

- *Director succession planning*
- *Annual evaluation of individual directors (versus only full board and committee evaluations)*
- *Yes, we have formal a process for both*
- *No, we do not have a formal process for either*

Total Direct Compensation Increased by +3% Relative to the Prior Year



	Median Total Direct Compensation		Annual Growth in Median Total Direct Compensation						
	2016	2015	2016	2015	2014	2013	2012	2011	2010
Micro	\$120,286	\$115,125	+4%	+9%	+4%	+4%	+1%	+6%	+20%
Small	\$157,292	\$149,252	+5%	+3%	+1%	+11%	+2%	+6%	+10%
Medium	\$181,357	\$183,864	-1%	+1%	+5%	+4%	+4%	+8%	+13%
Large	\$222,227	\$220,063	+1%	+3%	+5%	+6%	+4%	+6%	+7%
Top 200	\$271,456	\$266,770	+3%	+3%	+2%	+4%	+6%	+1%	+5%
All Firms	\$191,440	\$186,610	+3%	+1%	+3%	+6%	+3%	+5%	+11%

While Average Compensation Went Up for Most Directors, the Per Meeting Amount Decreased



Year-Over-Year Change in Compensation by Element						
Board Compensation	Micro	Small	Medium	Large	Top 200	All Firms
Cash Retainer (a)	0%	0%	8%	0%	5%	0%
Board Meeting Fees (b)(c)	14%	-10%	-4%	-10%	-12%	0%
Total Stock Award (a)	4%	3%	-1%	0%	5%	0%
Board Service Compensation (a)	5%	7%	3%	4%	4%	3%
Committee Compensation (c)	-6%	1%	-9%	-14%	3%	-7%
Total Direct Compensation	4%	5%	-1%	1%	2%	3%
TDC Per Meeting	-14%	-7%	-6%	-4%	-5%	-5%
Total Board Cost	5%	3%	1%	2%	-2%	3%

(a) Reflects median of all companies (i.e., summary data includes zeros).

(b) Board meeting fees reflect median of those companies using that pay component.

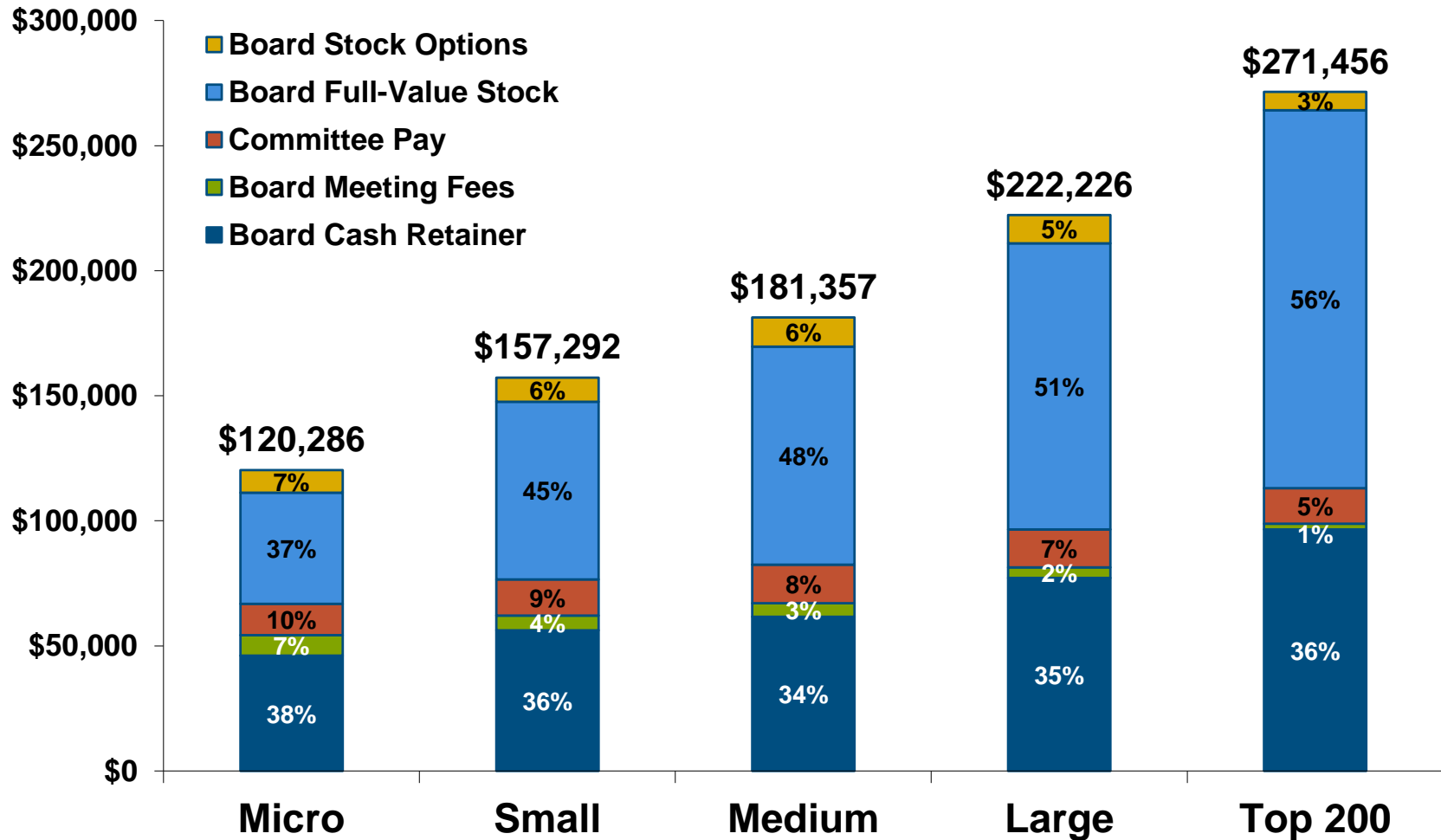
(c) Includes all committee pay whether in cash and/or stock.

Poll Question #3

When was the last time you made significant changes to your director compensation program?

- *Last year*
- *Two years ago*
- *Three years ago*
- *More than three years ago*

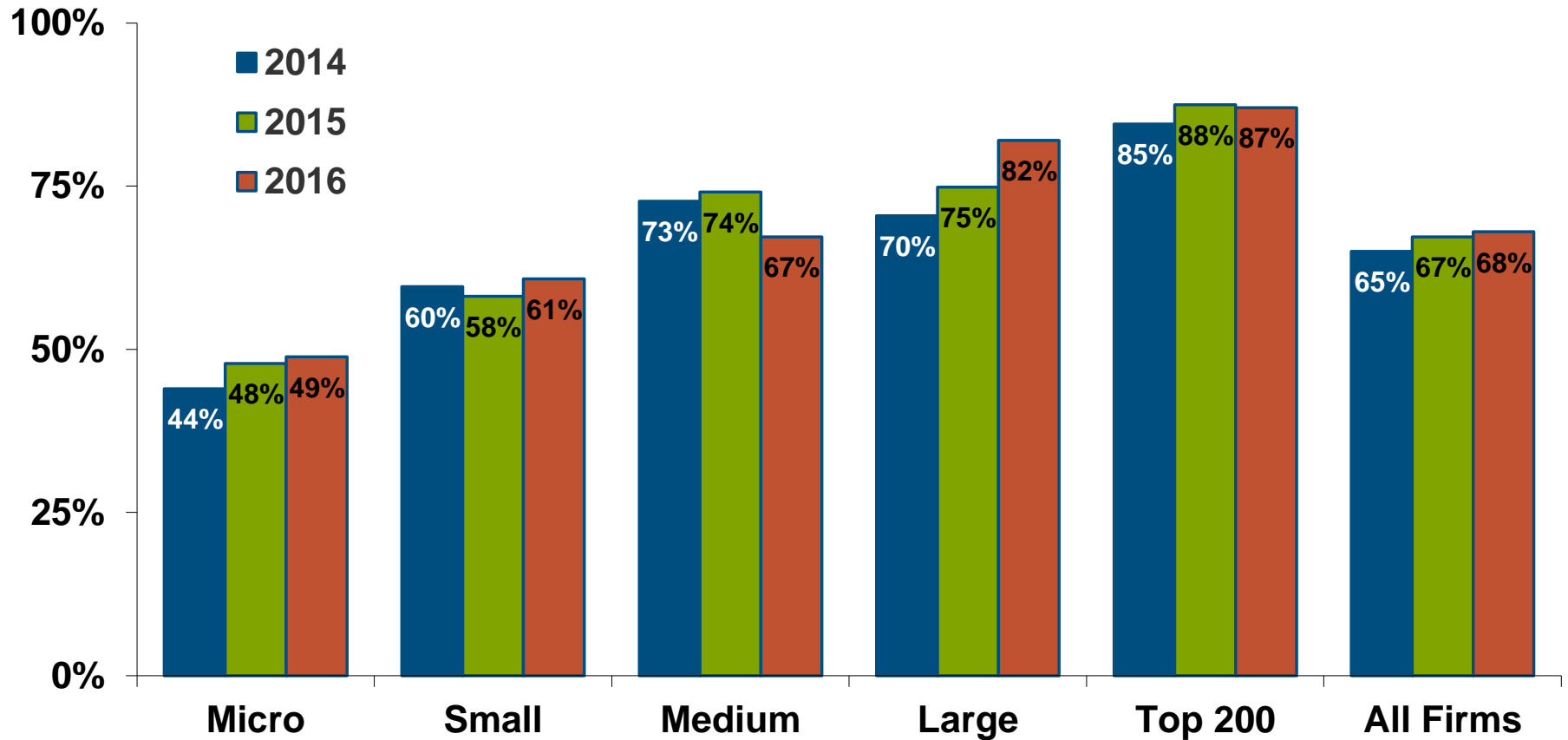
Full-Value Stock Accounts for the Largest Portion of Total Pay



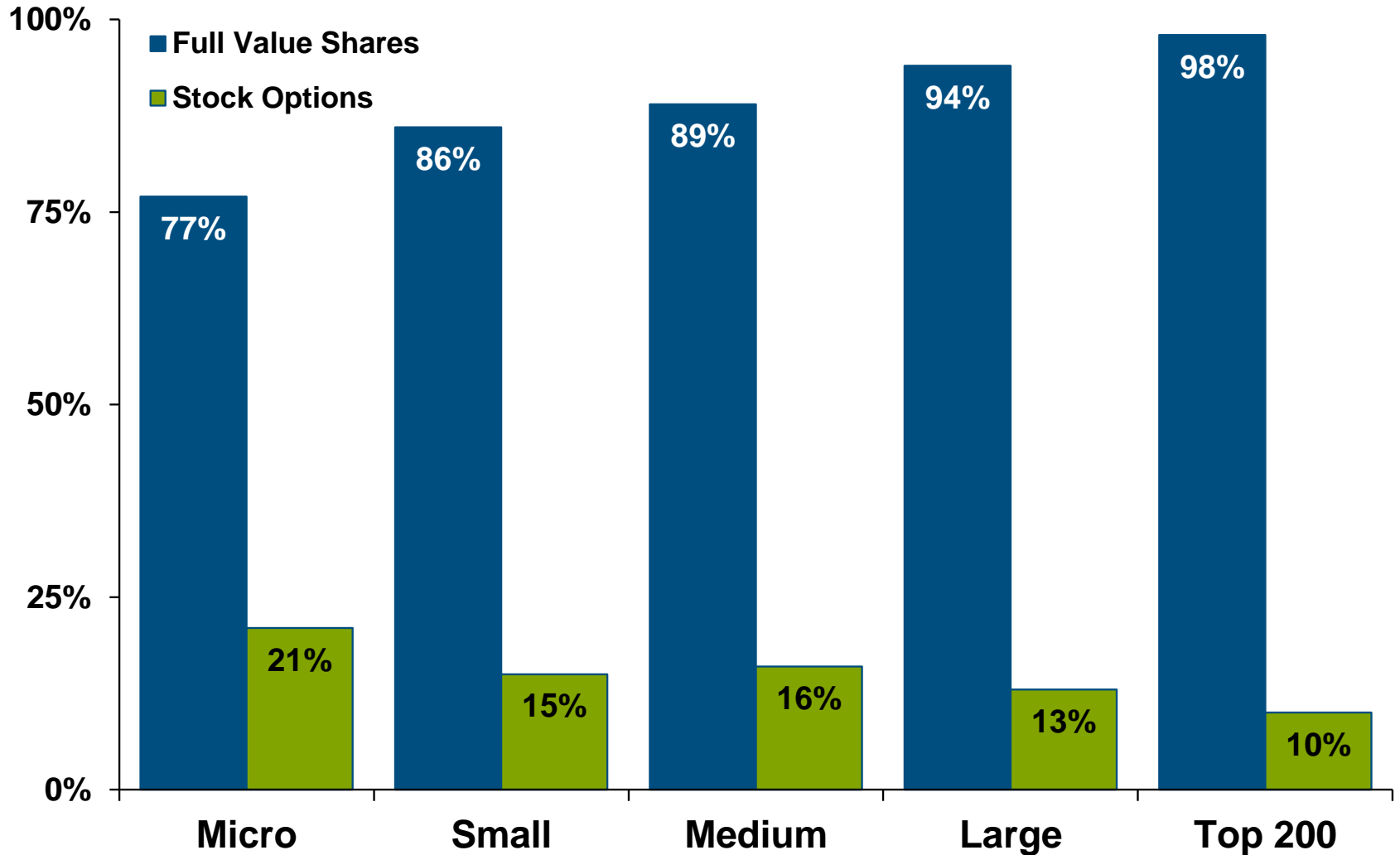
Most Companies Comply with NACD's Leading Practice to Deliver at Least 50% of Pay in Equity



Percentage of Companies Delivering 50% or More of Total Director Pay in Equity



Full-Value Shares Preferred Over Stock Options



Most Companies set Equity Awards as a Fixed Value



Equity Grant Practices: Fixed Values vs Fixed Shares

Board Equity	Micro	Small	Medium	Large	Top 20	All Firms
Total Firms Providing Equity	86%	92%	95%	96%	99%	93%
Fixed Value	60%	75%	70%	83%	86%	74%
Fixed Shares	33%	22%	25%	13%	9%	21%
Combination	7%	3%	6%	5%	5%	5%

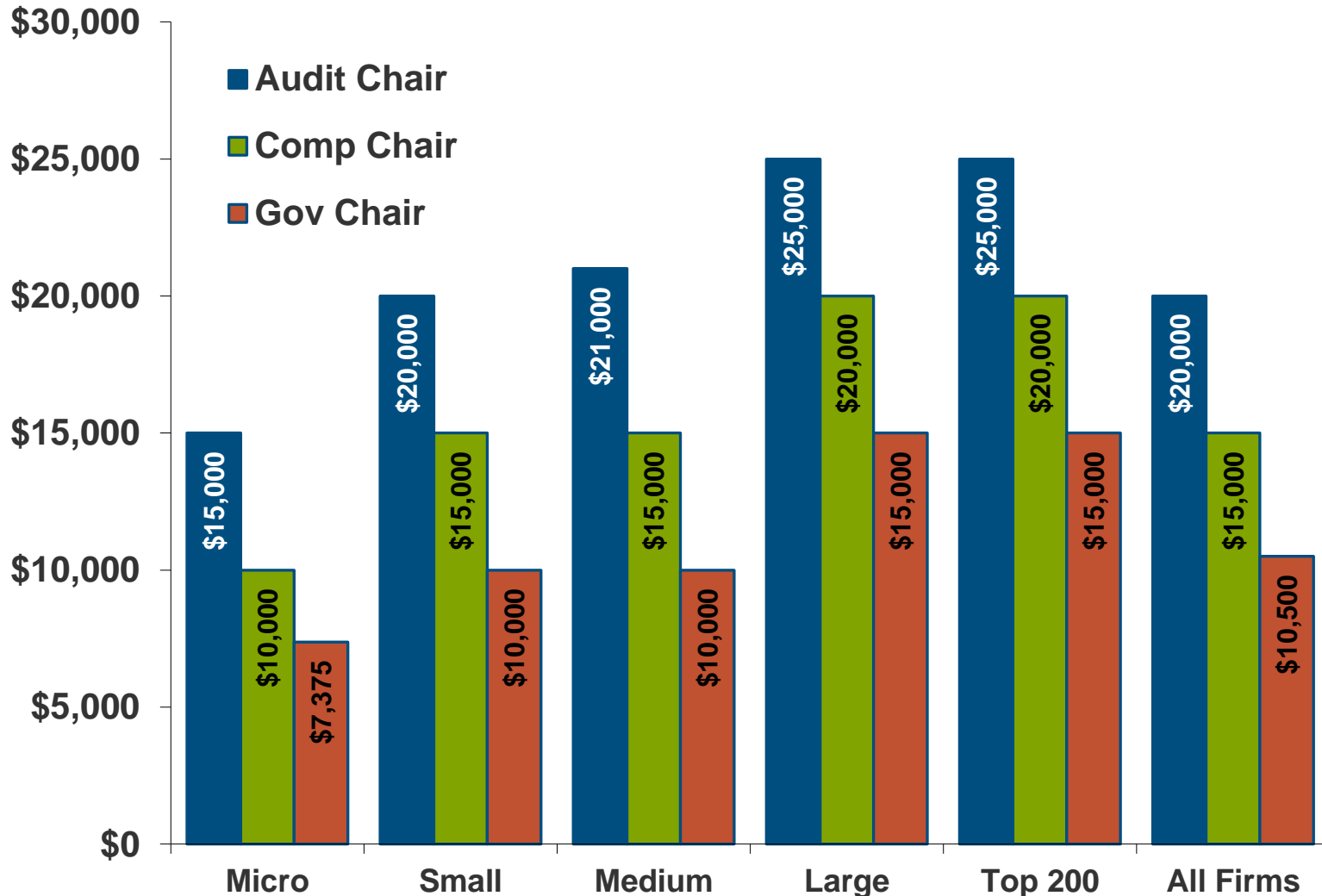
Prevalence of Pay to Committee Members Continues to Decline



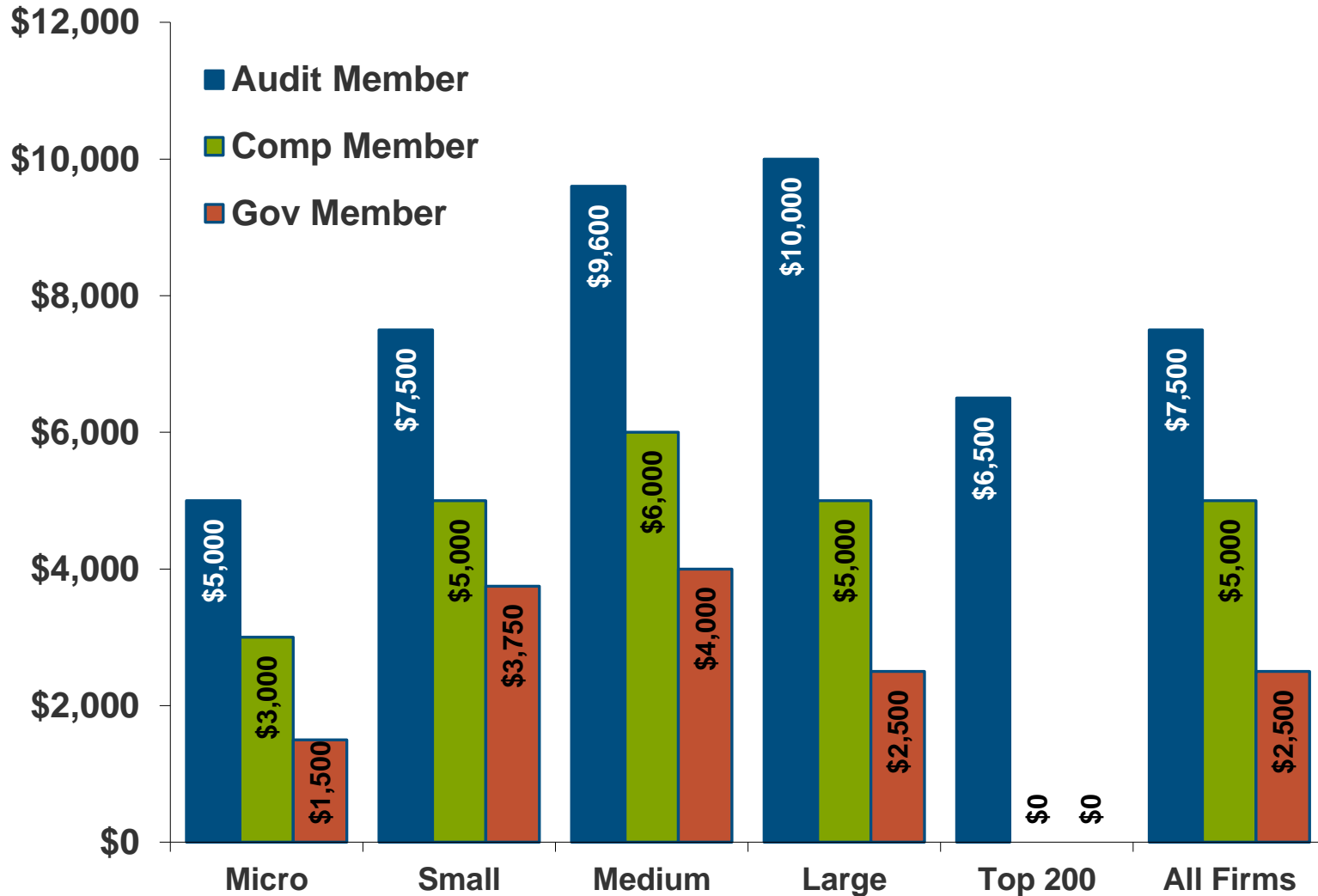
YoY Change in Prevalence of Any Committee Pay

		Micro	Small	Medium	Large	Top 200
Audit	Chair	0%	2%	0%	1%	1%
	Member	-2%	-1%	-3%	-5%	-1%
Comp	Chair	0%	2%	-2%	0%	1%
	Member	-1%	1%	-7%	-5%	-1%
Nom/Gov	Chair	-1%	2%	0%	2%	0%
	Member	-2%	1%	-6%	-4%	-2%

Audit Committee Chairs Continue to be Paid More Than Other Committee Chairs



Median Pay for Top 200 Compensation and Nom/Gov Committee Members is \$0



Poll Question #4a

How does your company compensate committee members?

- *We pay all committee members*
- *We pay only audit committee members*
- *We don't pay committee members*

Poll Question #4b

For those who pay committee members:

- *We pay annual retainer only*
- *We pay meeting fees only*
- *We pay both annual retainer and meeting fees*

Prevalence of Premiums for Board Leadership



Compensation for Non-Executive Board Leadership						
	Prevalence of Premium Compensation for (a)		Median TDC for Board Leadership (b)		Median Board Leadership TDC as a Multiple of Board Member TDC (b)	
	Non-Executive Chair	Lead / Presiding	Non-Executive Chair	Lead / Presiding	Non-Executive Chair	Lead / Presiding
Micro	89%	61%	\$162,012	\$123,750	1.40x	1.13x
Small	89%	69%	\$216,758	\$163,167	1.45x	1.13x
Medium	91%	75%	\$274,908	\$185,000	1.51x	1.13x
Large	89%	80%	\$340,000	\$235,000	1.57x	1.11x
Top 200	93%	83%	\$450,000	\$290,000	1.78x	1.11x
All Firms	90%	74%	\$254,362	\$215,000	1.51x	1.12x

(a) Prevalence based on those firms with that type of independent board leadership

(b) Excludes fees paid for committee service

Ownership Guidelines Typically Expressed as a Multiple of Annual Cash Retainer



Prevalence of Stock Ownership Guidelines (SOG)

	Micro	Small	Medium	Large	Top 200	All Firms
% of Companies with Any Form of SOG	50%	71%	79%	88%	87%	74%
% of Companies with a Multiple of Retainer Guideline	40%	56%	66%	72%	70%	60%
Median Multiple of Retainer Requirement	3.0x	4.0x	5.0x	5.0x	5.0x	5.0x
% of Companies with Share-based Guideline	7%	6%	10%	11%	12%	9%
% of Companies with Dollar-based Guideline	3%	13%	5%	9%	9%	8%
Median Dollar Value Requirement	\$150,000	\$200,000	\$250,000	\$300,000	\$480,000	\$250,000

Full-Value Share Holding Requirement

Prevalence	15%	21%	23%	21%	18%	20%
Specified Time in Years	2%	13%	2%	1%	0%	4%
Until or Beyond Retirement	12%	9%	15%	19%	56%	21%
Until Guideline Achieved	85%	73%	82%	76%	42%	73%
Median % of Shares Required to be Held	75%	100%	100%	100%	100%	100%

Key Takeaways

▪ Modest

- Compensation increases in the low- to mid-single digits for the foreseeable future

▪ Simple

- Elimination of meeting fees and committee pay in favor of board cash retainer and equity grants

▪ Aligned

- Equity > cash
- Ownership guidelines and holding requirements



Questions

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