Pearl Meyer

ADVISOR BLOG

Director Pay in a World Without Meetings Fees

Over the past several years, one of the most consistent trends we have seen in the design of director compensation programs has been the decline in the prevalence of meeting fees. In this year's NACD/Pearl Meyer Director Compensation Report, the prevalence of board meeting fees dipped below 25% of our survey sample, and the last time board meeting fees were a majority practice was in our 2011-2012 study. Most companies that have eliminated board meeting fees over recent years have replaced those fees with higher annual cash retainers or larger equity grants.

Meeting fees can help encourage meeting attendance and at least historically they were viewed as a fair way to differentiate directors based upon individual effort. At the same time, tracking and paying for meeting attendance adds complexity to program administration. In addition, with the expectation that all directors attend at least 75% of the meetings each year and where much of the work put in by nonemployee directors happens outside formal meetings, most companies have determined that meeting fees are no longer an appropriate differentiator.

No matter how comfortable companies may be with the rationale for doing away with meeting fees, however, concerns about their elimination still pop up from time to time, even for companies that have been without meeting fees for several years. How and to what extent you choose to respond with program changes will depend upon your specific situation. Here are some questions to ask:

- **Is there an ongoing issue?** Is your board concerned about compensation because the number of board or committee meetings is consistently above the peer group median? The first step here would be to revisit your benchmarking relative to market. Are you already paying at a level relative to peers that implies a larger meeting load or is an increase to board or committee retainers justified?
- **Is this a one-time event?** Is the concern driven by an additional workload attributable to a specific non-recurring situation? Perhaps you had a particularly challenging transaction or executive transition situation that required an abnormally large time commitment from your directors. Occasionally, boards will foresee the need for additional commitment and will establish a special committee for that purpose. In either case, a supplemental—often post-hoc—retainer may be provided to the affected directors. For guidance, you may be able to look to fees paid for

services on standing committees of the board and evaluate how the work load for the special situation compares.

- **Fear of the unexpected?** The concern expressed may not spring from experience on your board but may be driven by a general sense that sometimes a given year turns out to have a greater work load than expected. If this is the case, and directors are not comfortable with a more discretionary post-hoc evaluation, some companies opt to establish conditional meeting fees. In these cases, the default program of retainers anticipates a certain meeting load during the year, and meeting fees kick in after the board has exceeded that threshold. As someone who has promoted the elimination of meeting fees, this approach feels to me like a step backward, but it may allow you to address concerns without going all the way back to the practice of paying regular meeting fees.

Whether you end up revising your pay positioning to address a chronically overworked board, add supplemental retainers for service above-and-beyond, or install a conditional meeting fee to address unforeseen developments, you should consider external optics. While still not subject to the same scrutiny as executive pay, director compensation can no longer fly entirely under the radar. So before finalizing any changes, think carefully about how you will discuss your rationale in the proxy and how individual director pay levels that result from these actions will stand up next to peers or within the latest proxy advisory firm evaluation model.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, Raleigh and San Jose.

Pearl Meyer

NEW YORK
461 Fifth Avenue, 19th Floor
New York, NY 10017
(212) 644-2300
newyork@pearlmeyer.com

HOUSTON
Three Riverway, Suite 1575
Houston, TX 77056
(713) 568-2200
houston@pearlmeyer.com

ATLANTA
One Alliance Center
3500 Lenox Road, NE, Suite 1708
Atlanta, GA 30326
(770) 261-4080
atlanta@pearlmeyer.com

LONDON
Collegiate House
9 St. Thomas Street
London SE1 9RY
+44 (0)20 3384 6711
london@pearlmeyer.com

BOSTON
93 Worcester Street, Suite 100
Wellesley, MA 02481
(508) 460-9600
boston@pearlmeyer.com

LOS ANGELES
550 S. Hope Street, Suite 1600
Los Angeles, CA 90071
(213) 438-6500
losangeles@pearlmeyer.com

CHARLOTTE
3326 Siskey Parkway, Suite 330
Matthews, NC 28105
(704) 844-6626
charlotte@pearlmeyer.com

RALEIGH
505 Millstone Drive
Hillsborough, NC 27278
(919) 644-6962
raleigh@pearlmeyer.com

CHICAGO
151 North Franklin Street, Suite 450
Chicago, IL 60606
(312) 242-3050
chicago@pearlmeyer.com

SAN JOSE
333 West San Carlos Street
San Jose, CA 95110
(669) 800-5074
sanjose@pearlmeyer.com

For more information on Pearl Meyer, visit us at www.pearlmeyer.com or contact us at (212) 644-2300.