

## Video Transcript: Five Key Criteria for Evaluating an Executive Incentive Plan

Terry Newth: One of the key responsibilities that the compensation committee has is to evaluate and ultimately approve the bonus plan that management has put forward for the next year. There are five key questions that a compensation committee can ask of themselves and can ask of management when they're actually reviewing the annual incentive plan proposal.

The first is really the most fundamental of all. It's around whether or not the bonus plan is aligned with the business strategy of the company.

The second is around the metrics that are included in the annual incentive plan. We want to make sure that the measures that we're using ultimately are indicative of shareholder value creation.

The third is around the goals of the incentive plan and whether or not those goals are sufficiently challenging. We have analytical tools at our disposal where we can actually test whether or not those goals have a proper embedded probability of achievement.

The fourth topic is around the actual slope of the incentive line. As you move from threshold to target and from target to maximum, do you have the right slope of the line?

Then, last but not the least, is certainly around the simplicity and the ability to communicate the plan which is also fundamentally important. Honing in on those five topics can really help the committee get their arms around whether or not the bonus plan, the annual incentive plan, is appropriate and reasonable for our management and the company to use going forward.

