

**Pearl Meyer**

**On Point**

TIMELY, ACCURATE, INSIGHTFUL

# Looking Ahead to Executive Pay Practices in 2020

Executive Summary



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## Introduction

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Pearl Meyer’s “Looking Ahead to Executive Pay Practices” is an annual, online survey and valuable compensation planning tool. This year’s survey was conducted in August and September of 2019, with participation from 199 companies, including 127 publicly traded, 50 private for-profit, and 22 not-for-profit (NFP) organizations.

As with prior surveys, responses are broken out separately by respondent role (board member versus employee), ownership type, industry, and company revenue size. This year’s survey addresses several fundamental compensation philosophy issues, such as primary program objectives and target pay positioning versus market. It also reports on expected pay outcomes for Fiscal 2019 and projected pay opportunities for 2020, incentive plan design changes, and diversity, inclusion, and gender pay. Topics relating to proxy advisor firm influence, shareholder outreach, and use of Environmental, Social & Governance (ESG) incentive plan metrics are also explored for public company respondents.



## Introduction (cont.)

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This year's survey includes the following seven industry groups: business and other services; consumer discretionary/staples; financial/insurance/real estate; healthcare; industrials/materials/transportation; technology; and energy/utilities.

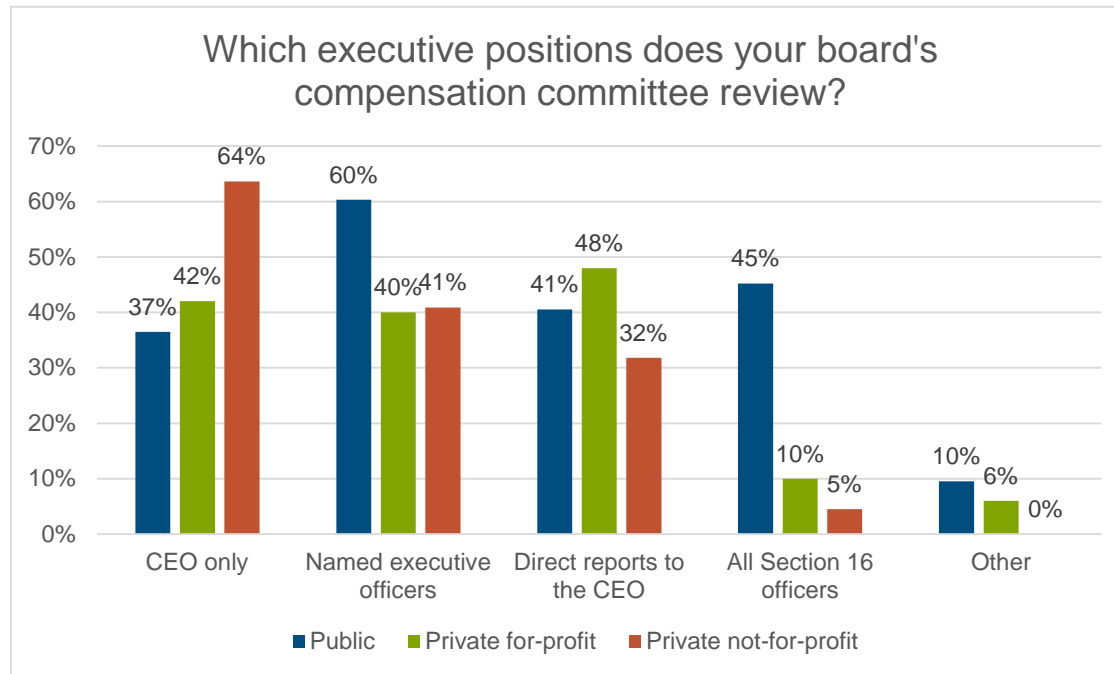
Certain industry categories in the online questionnaire were combined to allow for more meaningful sample sizes. Statistics are based on the number of responses for each question, and sample sizes vary. We believe results of this survey will serve as a useful tool as your organization prepares for year-end pay determinations and Fiscal 2020 compensation planning.

Please feel free to contact me with any questions.

Bill Reilly  
Managing Director  
[bill.reilly@pearlmeyer.com](mailto:bill.reilly@pearlmeyer.com)  
770-261-4082

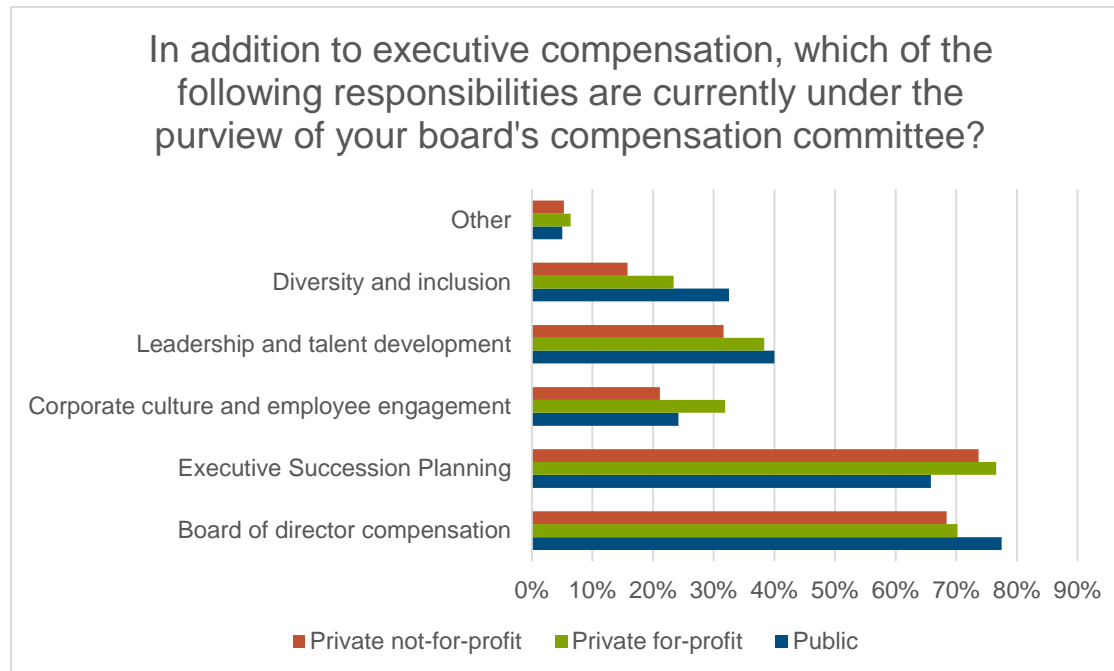
# Compensation Committee Oversight

- Compensation committee oversight responsibilities vary by ownership type—pay is reviewed for all corporate officers at 45% of public company respondents compared with only 10% at privately held organizations.



# The Expanding Role of the Compensation Committee

- The role of compensation committees continues to expand, with most responsible for non-employee director compensation (75%) and executive succession planning (69%), and a growing number having oversight for leadership and talent development (39%), diversity and inclusion (29%), and culture/employee engagement (26%). Responses are generally consistent across ownership types.



# Executive Compensation Philosophy

- Most respondents (56%) have a formal, written executive compensation philosophy, with prevalence higher for public companies (61%) versus private for-profit (44%) and NFP (50%) organizations; prevalence also increases with company size.
- When asked to list and rank the top three executive compensation program objectives, the most commonly cited responses (rounded) were as follows:

Objective	% Most Important	% 2 <sup>nd</sup> Most Important	% 3 <sup>rd</sup> Most Important	% Within Top 3
Align pay with performance & value creation	44%	30%	11%	85%
Reinforce key business objectives	21%	29%	20%	70%
Align executive & shareholder interests	19%	18%	13%	50%

## Target Pay Positioning

- Most respondents target executive compensation at the 50<sup>th</sup> percentile, especially for base salaries.
- Responses are generally consistent across ownership types, with private for-profit organizations slightly more likely than public companies to target total direct compensation (salary + STI + LTI) above the 50<sup>th</sup> percentile (37% vs. 32%)
- Most respondents (63%) have not changed targeted pay positioning, while 25% increased or expect to increase positioning due to competitive pressures and/or use of stretch incentive goals.

Pay Component	Targeted Pay Positioning (% of All Respondents)		
	Below 50 <sup>th</sup> Percentile	At 50 <sup>th</sup> Percentile	Above 50 <sup>th</sup> Percentile
Base Salary	10%	66%	17%
Short-Term Incentives (STI)	6%	55%	26%
Long-Term Incentives (LTI)	8%	47%	28%
Total Direct Compensation	7%	53%	32%



## Pay Projections

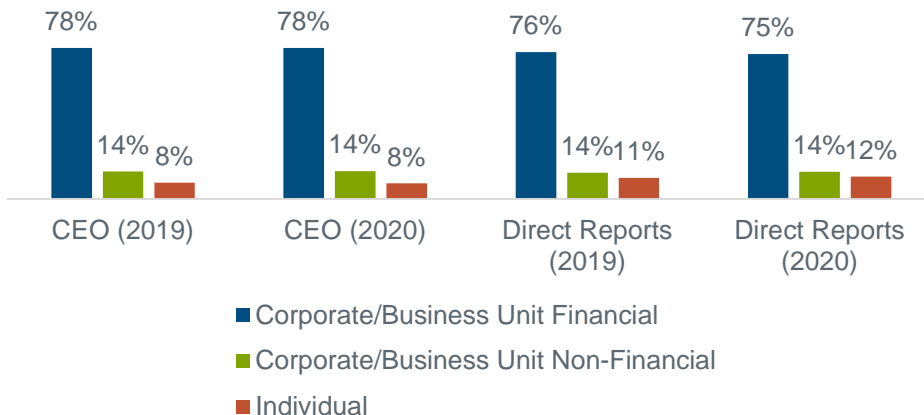
- Average base salary increase projections for 2020 equal 2.9% for the CEO and direct reports and 3.0% for other employees; median values equal 3.0% across all categories.
- Most respondents plan to increase senior executive salaries in 2020 (71% for the CEO and 85% for direct reports).
- Most respondents (78%) expect STI awards for 2019 to be at or near (within +/- 20%) of target award opportunities; only 3% expect no payouts to be earned.
- Most respondents (51% of the entire sample and 56% of public companies) expect 2020 grant date LTI award values to be similar to 2019, with 21% forecasting higher values and 12% lower amounts.

	Public	Private for-profit	Private not-for-profit
Anticipated average base salary increase for the CEO	2.3%	3.5%	4.5%
Anticipated average base salary increase for the CEO's direct reports	2.7%	3.1%	3.8%
Anticipated average base salary increase for non-executive employees	2.9%	3.1%	3.3%

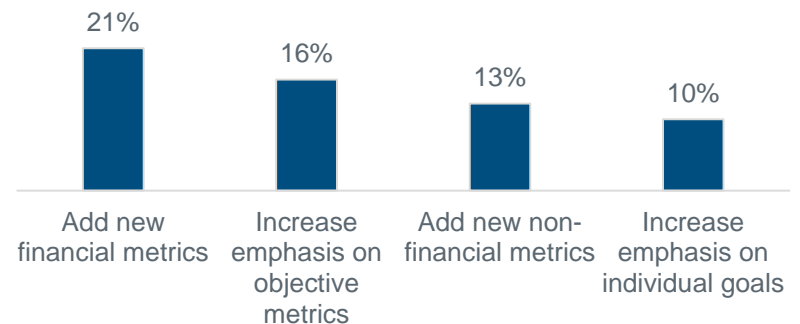
# Annual Incentives

- Most companies (79% of all respondents and 87% of public companies) have formulaic plans for senior executives with pre-defined weightings for metrics and award opportunities and a primary emphasis on corporate/business unit financial goals.
- Senior executive annual incentive award opportunities are primarily tied to objective financial goals at the corporate/business unit level, with no significant changes expected.
- Half of all respondents recently made or are considering annual incentive plan design changes, with the most common change being the addition of new financial metrics (21%).

Average Performance Mix for Annual Incentives



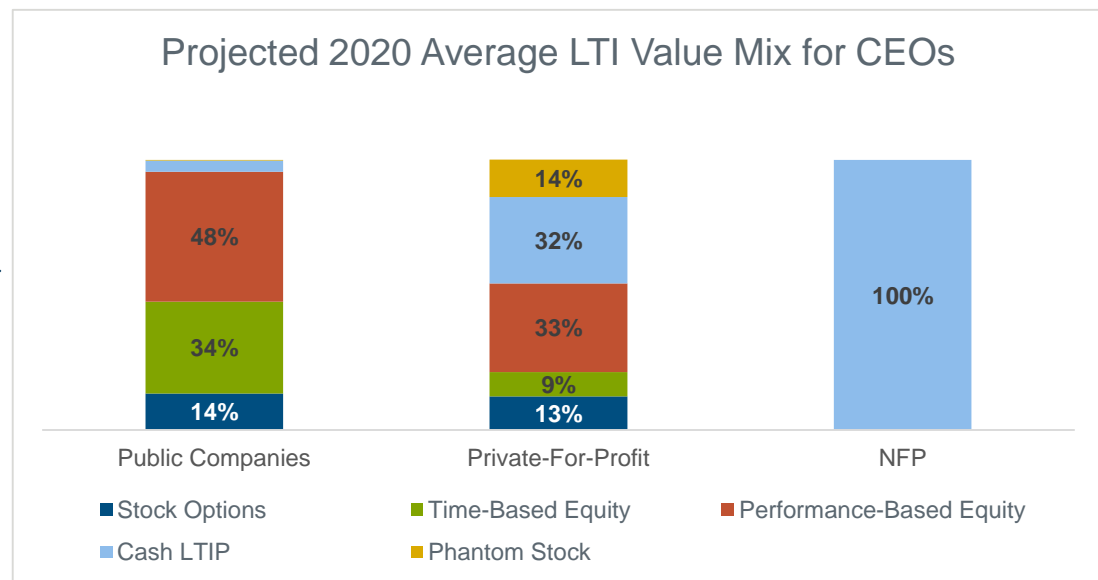
Actual or Planned Annual Incentive Design Changes



## Long-Term Incentives (LTI)

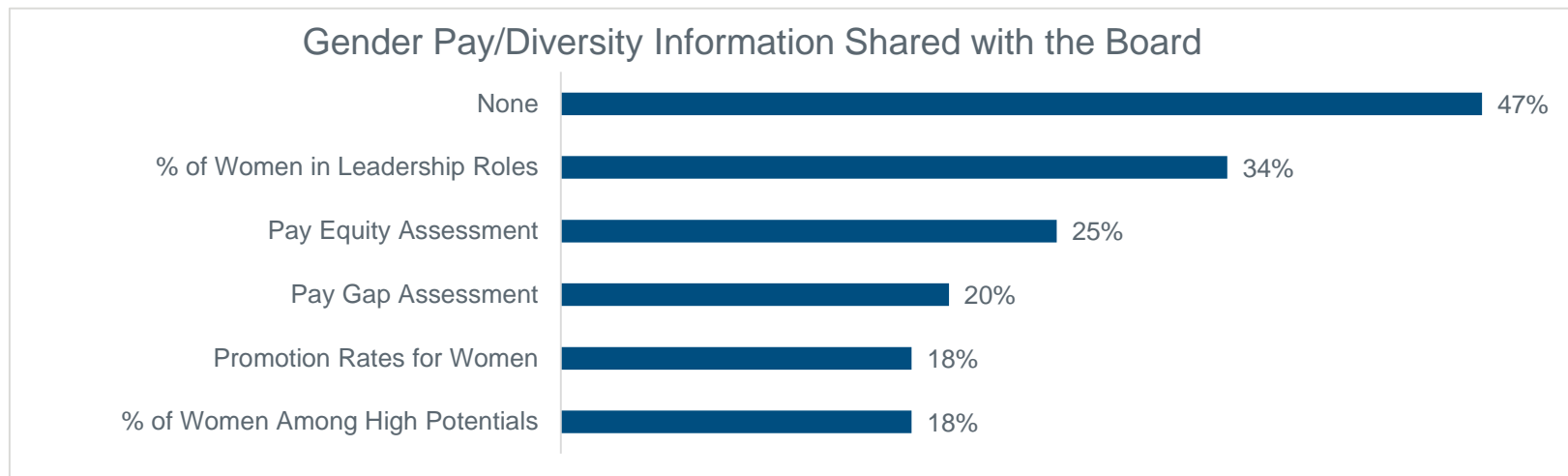
- LTI award vehicle prevalence varies by ownership type, with most public companies granting performance-based equity (78% of respondents) and/or time-based restricted stock/units (84%) to senior executives, and private for-profit companies also providing performance-based cash (“cash LTIP” 32%) and phantom stock (24%).
- Most public companies (86%) and half of private for-profit respondents establish target LTI award values for senior executives. Target LTI value mix varies by ownership type.
- Among respondents with LTI plans, 43% (45% public, 33% private for-profit) made or are considering one or more design changes for 2020, with the most common actions being: add new metrics (23%); change existing award mix (10%); and add new vehicles (8%).

On average, performance-based equity represents nearly half of the total target value mix for public companies and one-third for private for-profit respondents.



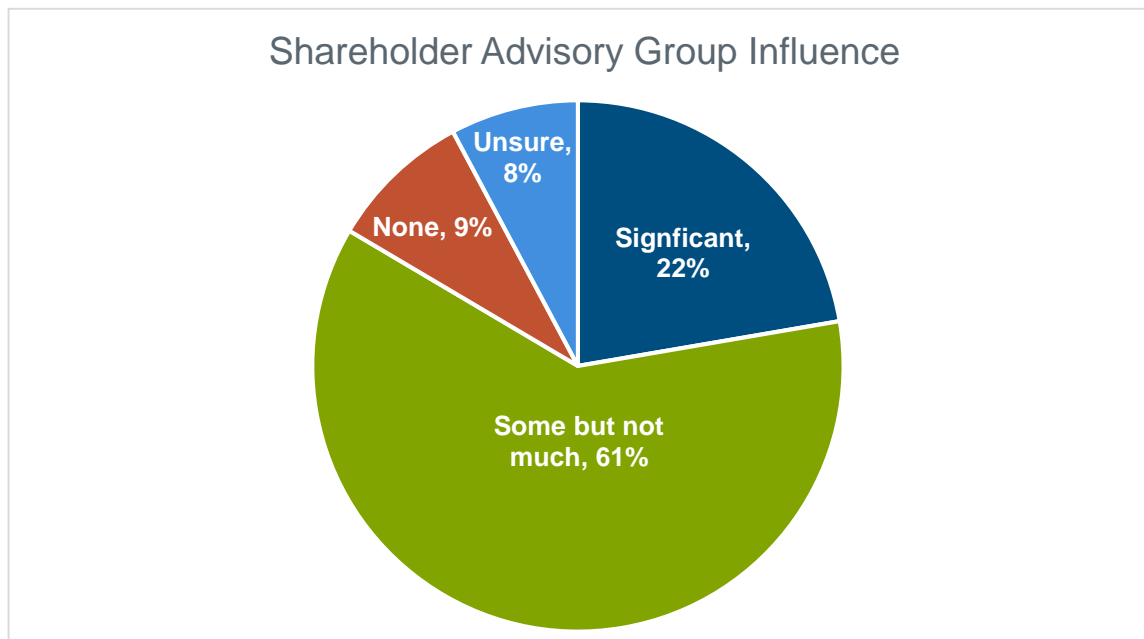
# Gender Pay Equity, Diversity & Inclusion

- Most respondents (59%) have conducted an internal assessment of gender pay equity (comparable pay for comparable work) and many (35%) have also reviewed gender pay gaps (relationship of median pay for female versus male employees); prevalence of gender pay reviews increases with company size.
- While most respondents say promoting gender pay equity is an organizational priority, nearly half (47%) don't share any information on this subject with the board.
- Only 13% of respondents (15% for public companies) currently tie or plan to tie a portion of CEO annual incentives to diversity and inclusion metrics.



## Shareholder Advisory Group Influence and Shareholder Outreach (Public Companies Only)

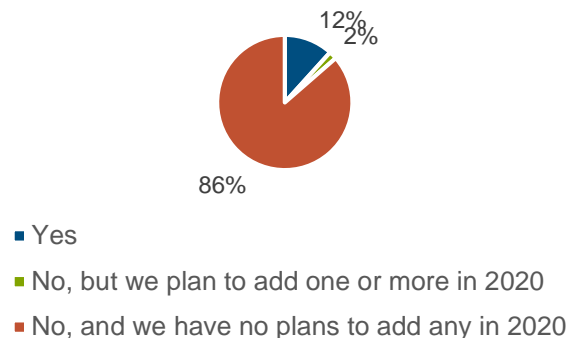
- Most respondents say shareholder advisory groups (such as ISS and Glass Lewis) have some but not significant influence over executive compensation design and practices.
- Only 5% of respondents currently use or plan to add Economic Value Added (EVA) as an incentive plan metric in Fiscal 2020, while 24% may consider adding EVA in future years and 51% have no plans to add it.
- Half of all public company respondents conduct annual shareholder outreach and 30% do so periodically but not every year. Respondents are more likely to just include management (44%) versus also including the compensation committee (26%) and/or other non-employee directors (25%).



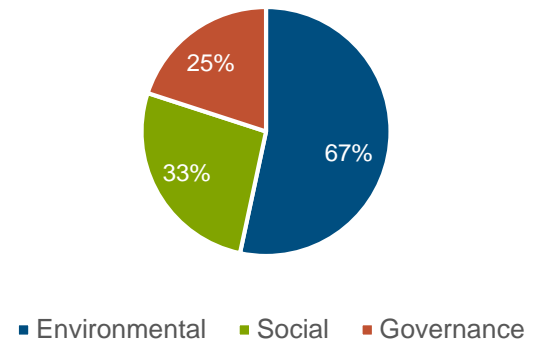
# Executive Pay and ESG-Related Performance (Public Companies Only)

- Only 14% of public company respondents currently use or plan to include ESG metrics within senior executive incentive plans.
- For those that do, respondents are more likely to include environmental metrics (67%) as compared with social (33%) or governance (25%) goals.
- When used, ESG metrics typically represent 5% to 10% of incentive award opportunities and typically apply for all plan participants.

Are there one or more ESG metrics formally built into your incentive plan(s)?

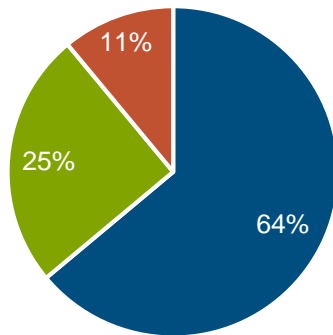


What type(s) of ESG metrics do you use?



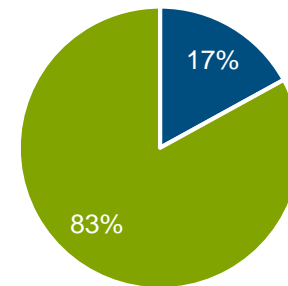
# Demographics

### Form of Ownership



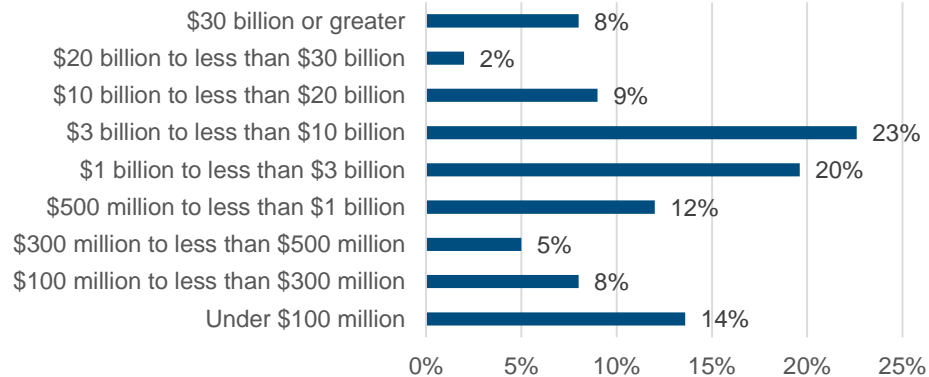
■ Public ■ Private for-profit ■ Private not-for-profit

### Respondent Role

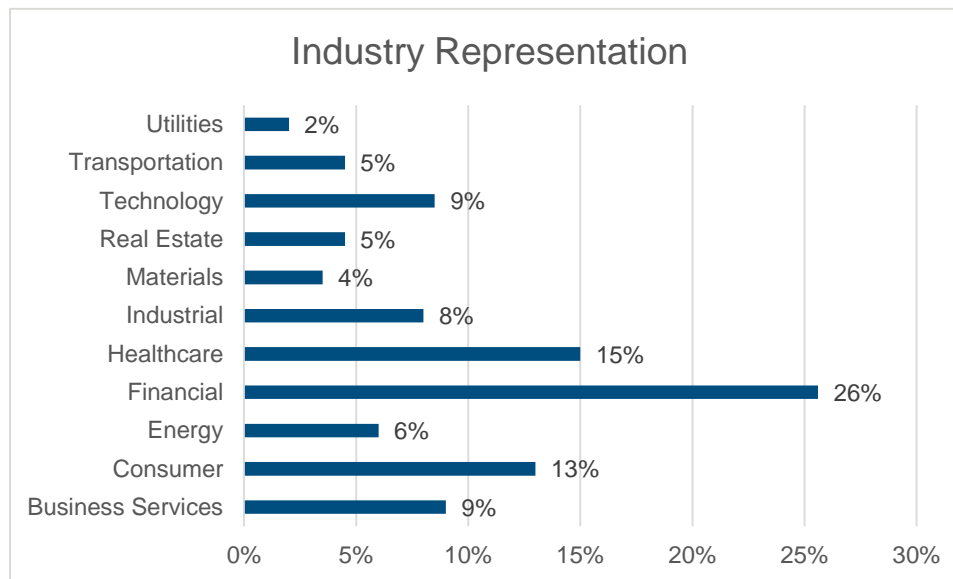
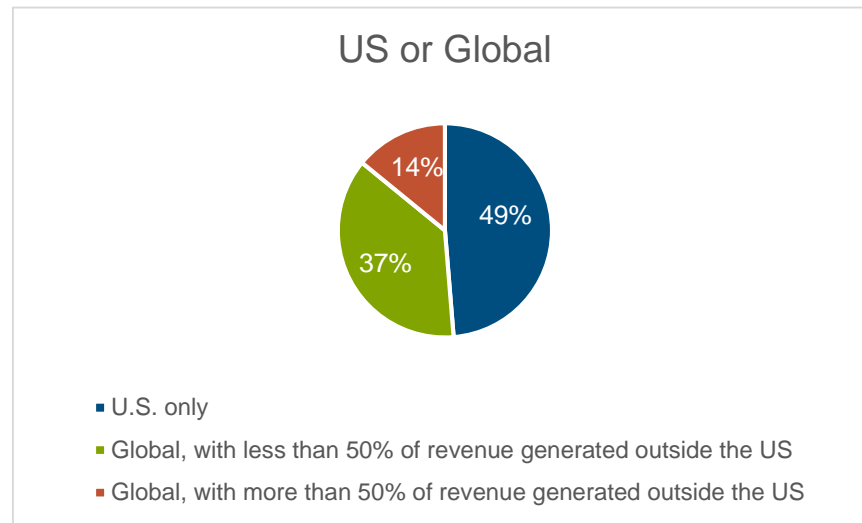


■ Outside director ■ Employee of the firm

### Revenue range (or asset size for financial institutions) for the most recently completed fiscal year



# Demographics







## About Pearl Meyer

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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, Raleigh, and Los Angeles.



# Pearl Meyer

## **NEW YORK**

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

## **ATLANTA**

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

## **BOSTON**

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

## **CHARLOTTE**

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

## **CHICAGO**

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

## **HOUSTON**

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

## **LONDON**

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

## **LOS ANGELES**

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

## **RALEIGH**

505 Millstone Drive  
Hillsborough, NC 27278  
(919) 644-6962  
raleigh@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](http://www.pearlmeyer.com) or  
contact us at (212) 644-2300.**