

What Does the Future Hold for Director Compensation?

Compensation Committee Series Webinar
Presented by Pearl Meyer and NACD

January 31, 2019

Meet the Presenters



Richard Goeglein is former chair and director of Pinnacle Entertainment Inc., where he served on both the compliance and compensation committees. Over the course of a career spanning 40 years, Goeglein has held numerous senior executive positions and has served on the boards of more than a dozen organizations, including AST Research Inc., Platinum Software Corp., Boomtown Inc., Holiday Corp., and Aladdin Gaming LLC. In addition to his activities as an NACD Fellow and faculty member for NACD education programs, Goeglein is a trustee and director of Volunteers in Medicine of Southern Nevada, where he chairs the executive committee and serves on the finance committee.



Jan Koors is a senior managing director and president of Pearl Meyer's Western region. 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 Pearl Meyer's Chicago office 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.

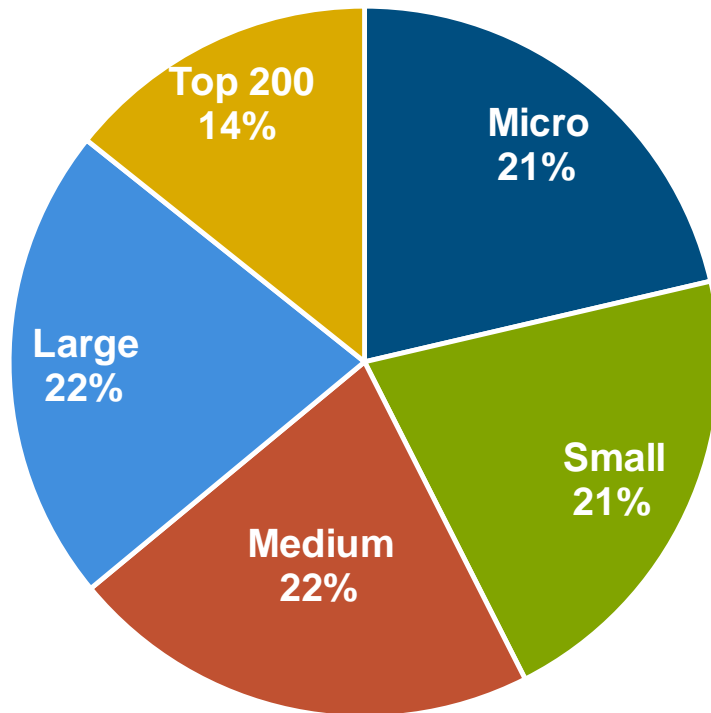
Submit a question and receive your answer directly from Pearl Meyer, either during today's webinar or as a follow-up. You will also be opted-in to receive future executive compensation thought leadership from Pearl Meyer.

Tweet live during the event today with **@NACD** and **@PearlMeyer**.

- You will automatically receive **1 NACD skill credit** for your participation (live program only).
- Credit may be applied to NACD Fellowship programs. Contact Fellowship@NACDOnline.org for more details.
- Presentation slides are available today at www.pearlmeyer.com/director-compensation-2019 and within the webinar console.
- The replay will be available early next week at www.NACDOnline.org and www.pearlmeyer.com/director-compensation-2019.

Director Compensation Data for 1,400 Companies

Five Size Categories Based on Annual Revenue



- All companies are publicly traded
- Information is collected across 24 industries based on GICS at the group level
- Source: [Main Data Group](#)

- Micro: \$50M – \$500M
- Small: \$500M – \$1B
- Medium: \$1B – \$2.5B
- Large: \$2.5B – \$10B
- Top 200: Largest 200 companies in the S&P 500

Board composition remains similar to prior year.



		Organization Size					
		Micro	Small	Medium	Large	Top 200	All Firms
	Median No. of Directors (a)	8	8	9	10	12	9
	% With one-year term	58%	57%	62%	78%	94%	68%
	Median director age (years)	64	64	64	64	63	64
	Median director tenure (years)	7	7	8	7	7	7
Mandatory Retirement	Prevalence of disclosure	28%	41%	53%	63%	81%	51%
	Median retirement age	75	75	74	73	72	73
Board Gender Diversity	% Of companies with at least 1 female director	61%	74%	89%	94%	99%	82%
	% Of companies with at least 2 female directors	24%	37%	53%	72%	90%	53%
	% Of companies with at least 3 female directors	5%	10%	18%	32%	62%	23%
	Prevalence of Combined CEO/COB Role	31%	31%	34%	37%	53%	36%

(a) Includes non-employee and employee directors

Source: Main Data Group

Total direct compensation increased by 2% relative to the prior year.



	Total Direct Compensation		Annual Growth in Median Total Direct Compensation						
	2018	2017	2018	2017	2016	2015	2014	2013	2012
Micro	\$119,991	\$123,230	-3%	+2%	+4%	+9%	+4%	+4%	+1%
Small	\$169,226	\$166,278	+2%	+6%	+5%	+3%	+1%	+11%	+2%
Medium	\$191,438	\$192,250	-0%	+6%	-1%	+1%	+5%	+4%	+4%
Large	\$234,495	\$232,091	+1%	+4%	+1%	+3%	+5%	+6%	+4%
Top 200	\$286,719	\$280,455	+2%	+3%	+3%	+3%	+2%	+4%	+6%
All Firms	\$203,094	\$199,938	+2%	+4%	+3%	+1%	+3%	+6%	+3%

We saw decreases in board meeting fees and committee compensation.



Year-Over-Year Change in Compensation by Element						
Board Compensation	Micro	Small	Medium	Large	Top 200	All Firms
Cash Retainer (a)	0%	16%	8%	0%	0%	6%
Board Meeting Fees (b)	-10%	-13%	0%	10%	-27%	-13%
Total Stock Award (a)	0%	6%	-2%	4%	6%	0%
Total Board Compensation (a)(c)	1%	7%	3%	0%	2%	3%
Committee Compensation	-14%	-17%	-19%	-11%	-7%	-13%
Total Direct Compensation (TDC)	-3%	2%	0%	1%	2%	2%
TDC Per Meeting	8%	18%	15%	15%	25%	14%
Total Board Cost	-6%	-1%	0%	-2%	3%	0%

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

(b) Reflects median of companies using that pay element (i.e., summary data excludes zeros).

(c) Excludes pay for committee service and/or leadership premiums.

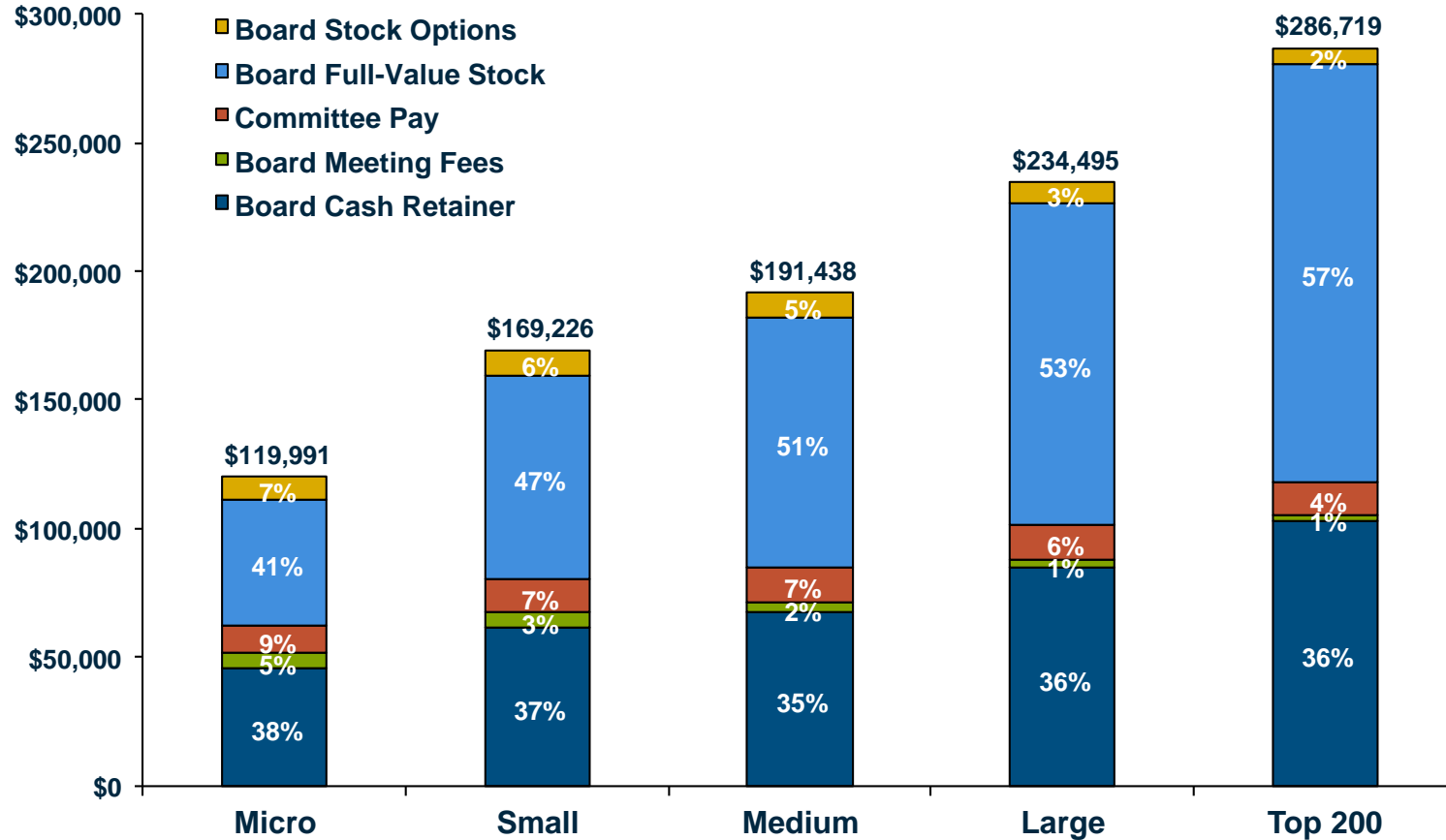
Poll Question #1



Has your organization provided special pay or enhanced travel allowances for directors that fly across the globe for meetings?

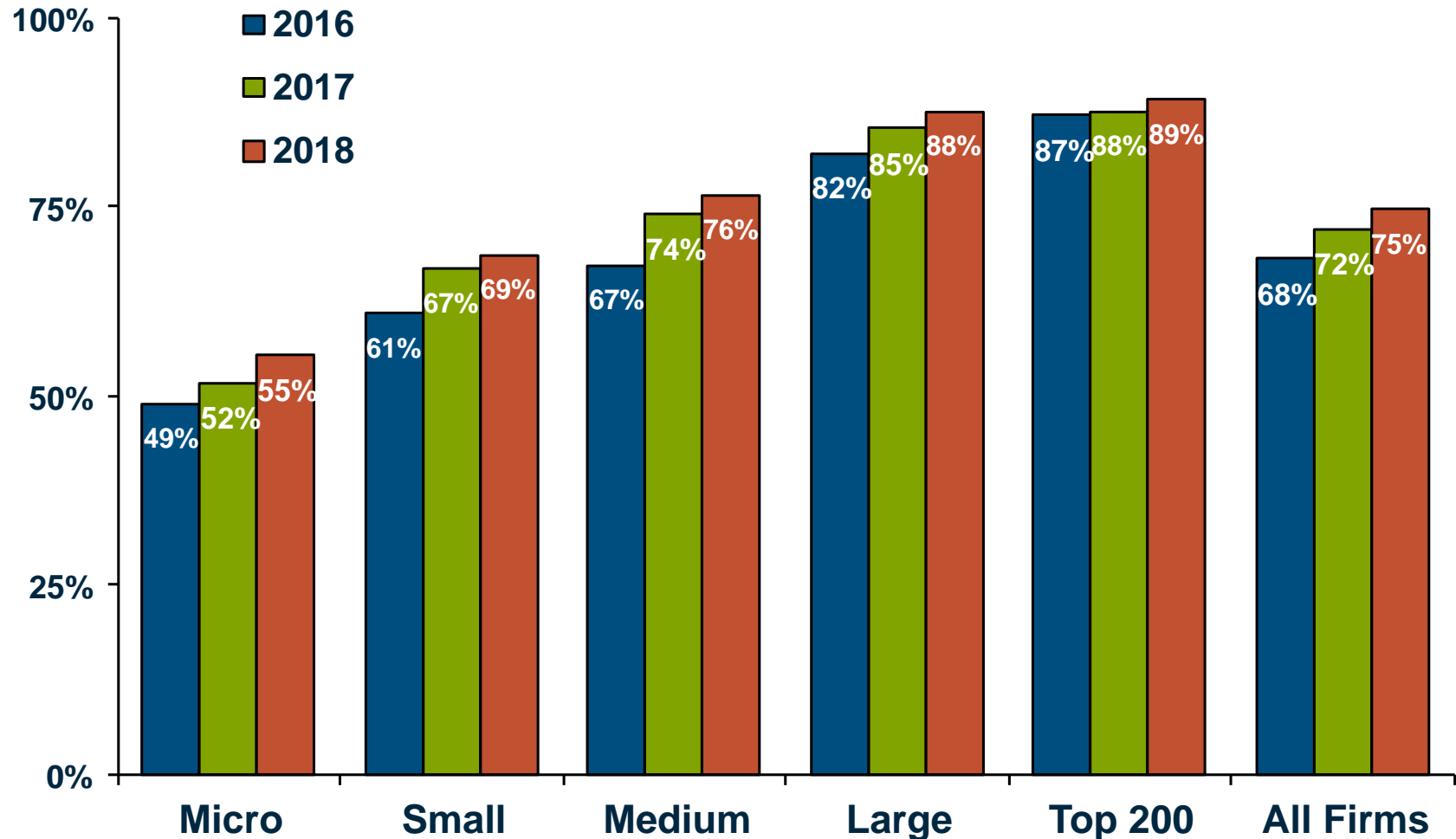
- Yes
- No
- It has been discussed, but no action taken

Full-value stock accounts for the largest portion of total pay.



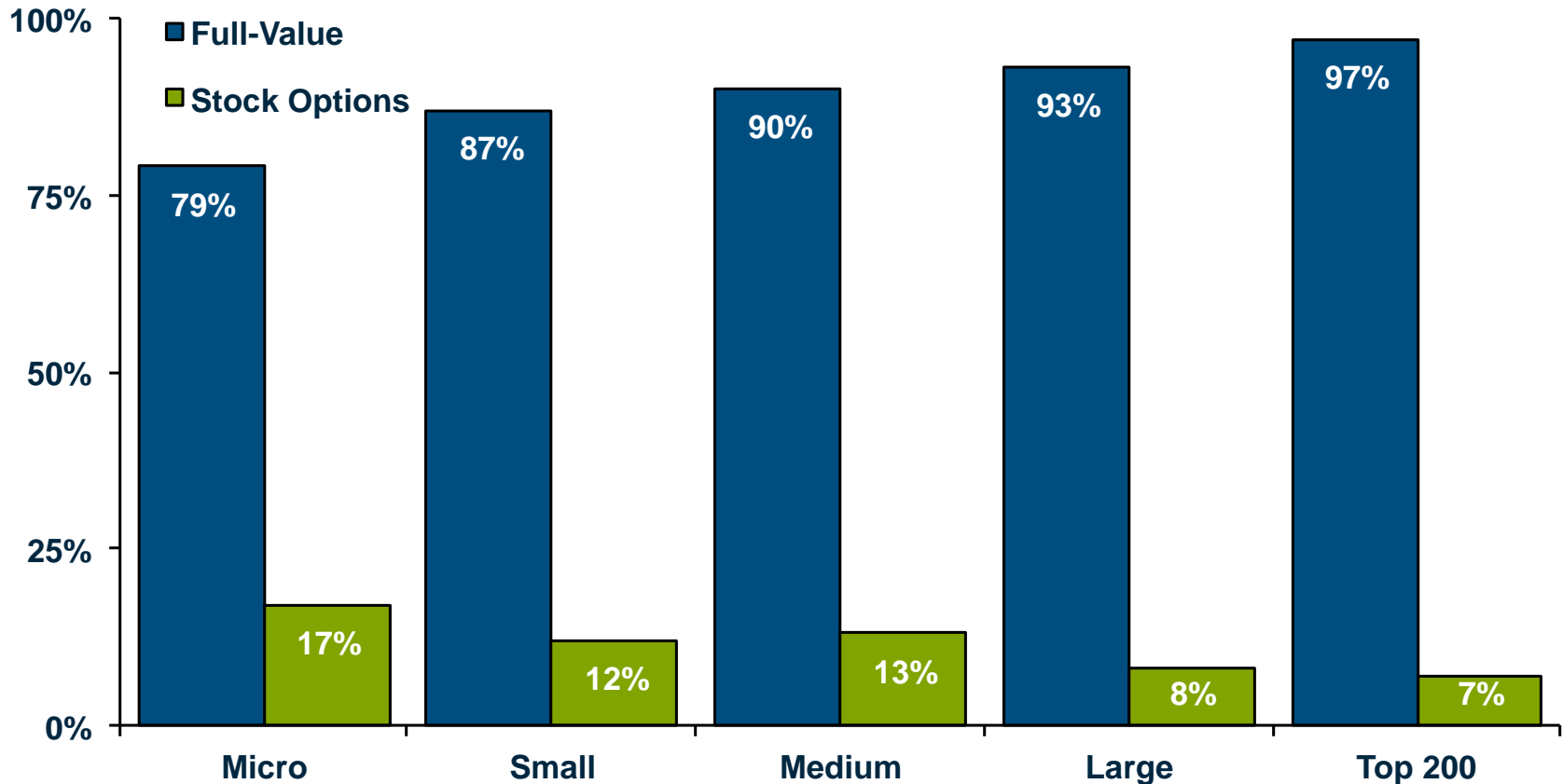
Source: Main Data Group

The majority of companies match NACD's leading practice to deliver at least 50% of pay in equity.



Full-value shares are preferred over stock options.

Prevalence of Full-Value Equity and Stock Options



Source: Main Data Group

Most companies set equity awards as a fixed value.



Equity Grant Practices: Fixed Values vs Fixed Shares						
Board Equity	Micro	Small	Medium	Large	Top 200	All Firms
Total Firms Providing Equity	86%	93%	94%	95%	98%	93%
Fixed-Value	70%	79%	80%	90%	91%	82%
Fixed Shares	26%	18%	15%	8%	4%	15%
Combination	4%	3%	5%	2%	5%	4%

Source: Main Data Group

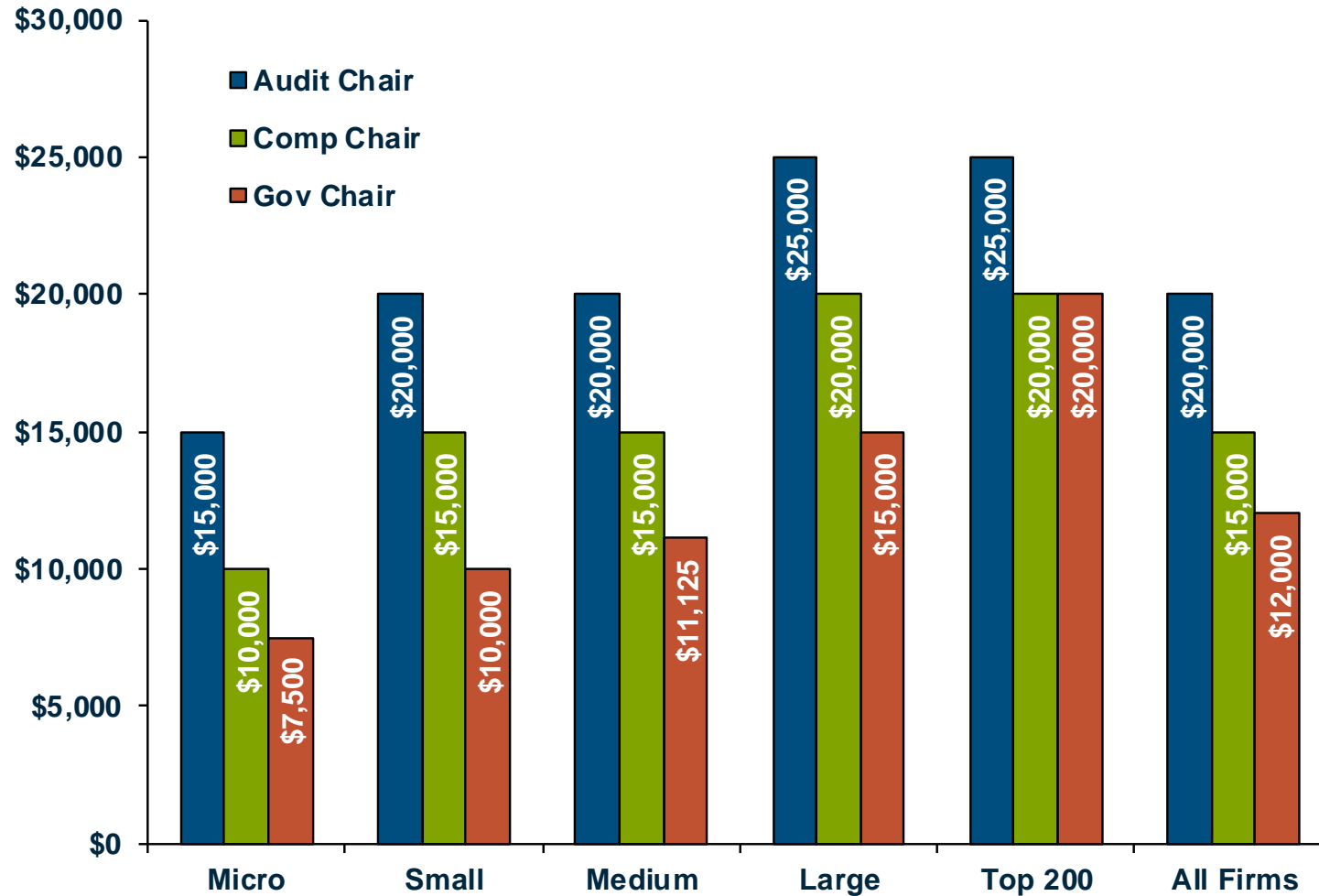
Prevalence of pay to committee members and chairs decreased slightly.



YoY Change in Prevalence of Committee Meeting Fees

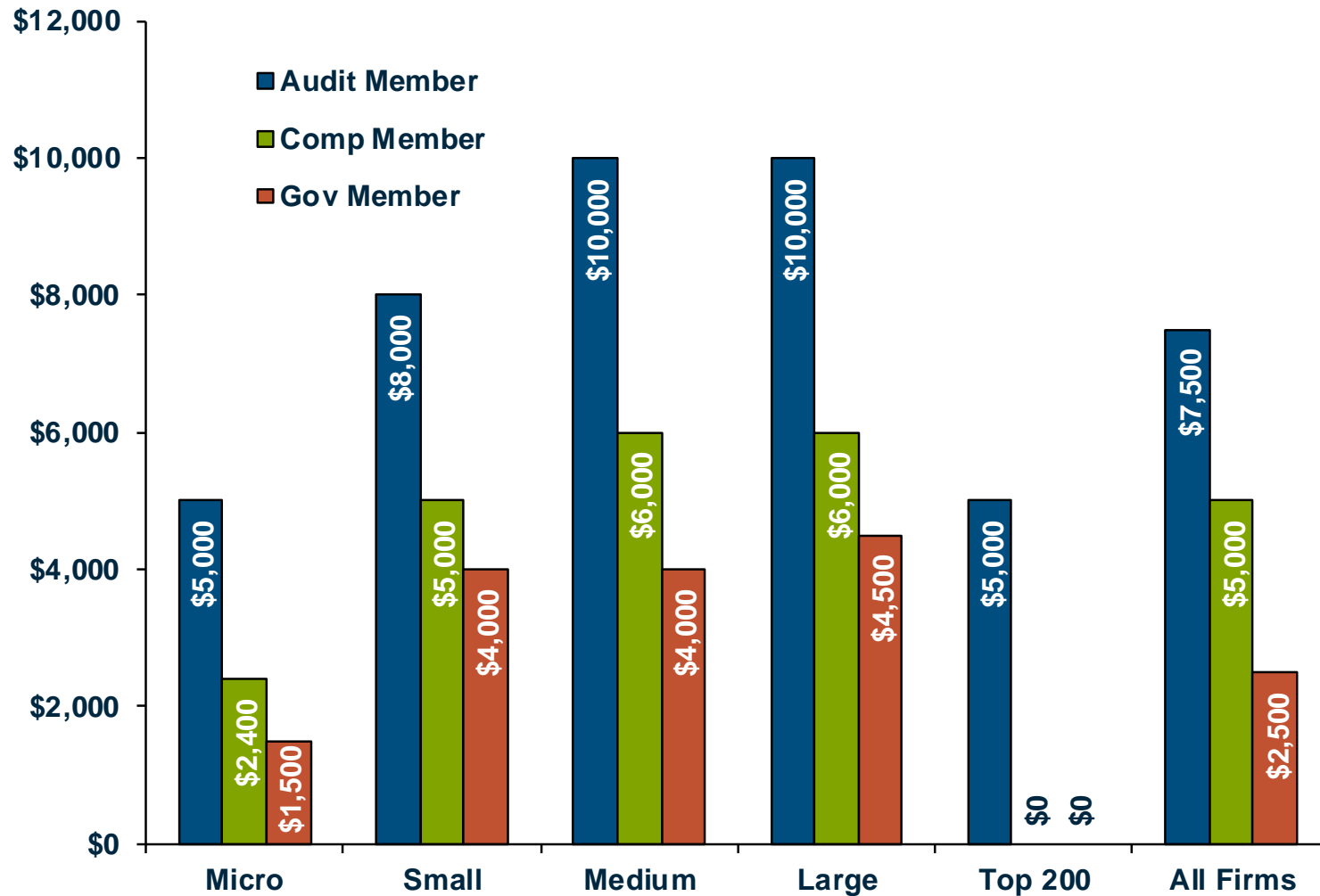
		Micro	Small	Medium	Large	Top 200
Audit	Chair	-2%	-4%	-7%	-1%	-2%
	Member	-2%	-4%	-7%	-1%	-2%
Comp	Chair	-4%	-4%	-6%	-2%	-2%
	Member	-4%	-4%	-6%	-2%	-2%
Nom/Gov	Chair	-3%	-3%	-5%	-2%	0%
	Member	-3%	-3%	-5%	-2%	0%

Audit committee chairs continue to be paid more than other committee chairs.



Source: Main Data Group

Median pay for top 200 compensation and nom/gov committee members is \$0.



Source: Main Data Group

Poll Question #2



Has your organization provided additional compensation for extreme workloads or service on special or ad-hoc committees?

- Yes
- No
- It has been discussed, but no action taken

Compensation for Non-Executive Board Leadership



Compensation for Non-Exec Leadership			
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
\$160,000	\$125,500	1.39x	1.14x
\$213,500	\$171,800	1.42x	1.13x
\$260,000	\$205,000	1.47x	1.13x
\$327,500	\$250,000	1.54x	1.12x
\$442,500	\$310,000	1.75x	1.12x
\$248,000	\$235,000	1.47x	1.13x

Source: Main Data Group

Ownership guidelines are 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	53%	77%	82%	90%	93%	78%
% Of companies with a multiple of retainer guideline	43%	64%	72%	79%	79%	67%
Median multiple of retainer requirement	3.0x	4.0x	5.0x	5.0x	5.0x	5.0x
% Of companies with share-based guideline	8%	7%	9%	10%	13%	9%
% O companies with dollar-based guideline	5%	10%	6%	9%	9%	8%
Median dollar value requirement	\$175,000	\$250,000	\$200,000	\$400,000	\$500,000	\$300,000

Full-Value Share Holding Requirement

	Micro	Small	Medium	Large	Top 200	All Firms
% Of companies with holding requirement	21%	28%	28%	36%	36%	30%
% Until or beyond retirement	20%	11%	15%	24%	44%	23%
% Until guideline achieved	65%	76%	74%	70%	36%	65%
Other/Unknown	15%	13%	10%	6%	20%	12%
Median % of shares required to be held	100%	100%	100%	100%	100%	100%

Source: Main Data Group

Poll Question #3

Given the increased scrutiny from ISS regarding director compensation, has your company enhanced its proxy disclosure for items relating to director compensation (e.g., philosophy, benchmarking methodology, etc.)?

- Yes
- No
- Not yet, but we plan to

Key Trends for Director Pay



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
- Ensuring directors are paid fairly in times of extreme workloads, given the elimination of meeting fees

Aligned

- Equity > cash
- Ownership guidelines and holding requirements

Examined

- Increased scrutiny from ISS

Questions

You can submit a question in the top-right corner of your webinar console.

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