



# What's Next for Director Compensation in 2018?

---

February 1, 2018

**Pearl Meyer**



# Meet the Presenters



**Tanuja Dehne (moderator)** is an independent director on the boards of Advanced Disposal Services, where she chairs the compensation committee, and Granite Point Mortgage Trust Inc., where she chairs the nominating and corporate governance committee. She is a past director of Silver Bay Realty Trust Corp., and a former C-suite executive and corporate secretary of NRG Energy Inc. Dehne serves on four nonprofit boards, including the Geraldine R. Dodge Foundation, and she is a senior advisor to The B Team. Dehne was recognized as a “Director to Watch Class of 2017” by *Directors and Boards Magazine*.



**Jannice Koors** is a senior managing director with Pearl Meyer and president of the firm’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.



**Ed Steinhoff** is a director in Pearl Meyer’s Chicago office and has more than 25 years of experience in executive compensation. He works with the boards of directors and senior management teams of public and private companies, ranging from small and middle-market firms to multi-billion dollar corporations, to design pay programs that drive business performance and value creation, secure high-performing executive talent, and withstand external scrutiny. He leads client engagements across many industries, with a particular focus on manufacturing, insurance, banking, healthcare, and not-for-profit organizations.



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.

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

Presentation slides are available at  
[www.pearlmeyer.com/director-compensation-2018](http://www.pearlmeyer.com/director-compensation-2018)  
and within the webinar console.

## 1 SKILL-SPECIFIC CREDIT

You will automatically receive 1 NACD credit for your participation.

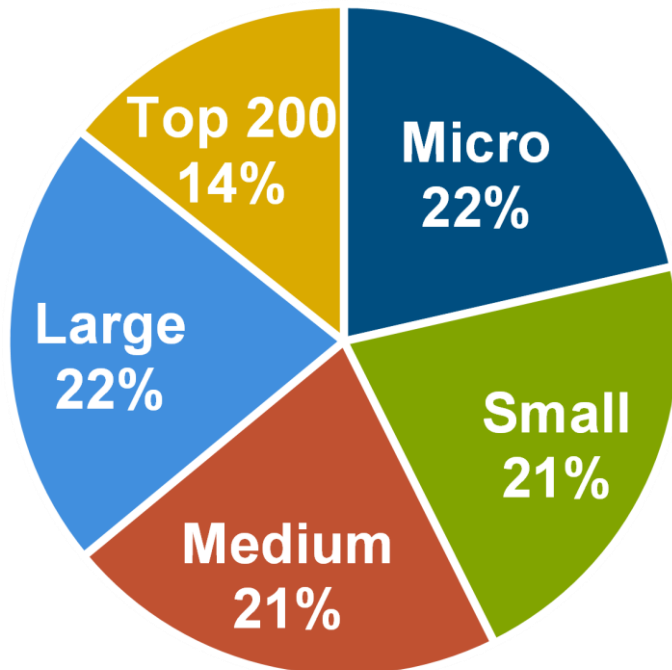
Credit may be applied to NACD Fellowship programs. Contact [Fellowships@NACDOnline.org](mailto:Fellowships@NACDOnline.org) for more details.

The replay and slides will be available early next week at [www.NACDOnline.org](http://www.NACDOnline.org) and [www.pearlmeyer.com](http://www.pearlmeyer.com).

 Download Presentation

Listen Now

## Five 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)	8	8	9	10	12	9
	% with 1-Year Term	57%	59%	63%	77%	94%	68%
	Median Director Age (years)	64	64	64	64	64	64
	Median Director Tenure (years)	8.7	8.3	8.9	8.3	7.5	8.3
<b>Mandatory Retirement</b>	Prevalence of Disclosure	25%	36%	50%	60%	80%	48%
	Median Retirement Age	75	73	72	72	72	72
<b>Board Gender Diversity</b>	% of Companies with at Least 1 Female Director	59%	76%	88%	93%	100%	82%
	% of Companies with at Least 2 Female Directors	23%	39%	51%	69%	92%	52%
	% of Companies with at Least 3 Female Directors	6%	12%	17%	28%	62%	22%
	Prevalence of Combined CEO/COB Role	38%	36%	40%	43%	62%	43%

(a) Includes non-employee and employee directors

### Is your company planning to take any actions now that ISS will begin to review director compensation?

- *No, we feel our director compensation levels are appropriate and defensible*
- *Yes, we will begin to review our director compensation program more frequently and make changes as necessary*
- *Not yet, we plan to take a wait and see approach*
- *We have not had any discussions in this area yet*



# Total Direct Compensation Increased by +4% Relative to the Prior Year



	Median Total Direct Compensation		Annual Growth in Median Total Direct Compensation						
	2017	2016	2017	2016	2015	2014	2013	2012	2011
<b>Micro</b>	\$123,230	\$120,286	+2%	+4%	+9%	+4%	+4%	+1%	+6%
<b>Small</b>	\$166,278	\$157,292	+6%	+5%	+3%	+1%	+11%	+2%	+6%
<b>Medium</b>	\$192,250	\$181,357	+6%	-1%	+1%	+5%	+4%	+4%	+8%
<b>Large</b>	\$232,091	\$222,227	+4%	+1%	+3%	+5%	+6%	+4%	+6%
<b>Top 200</b>	\$280,455	\$271,456	+3%	+3%	+3%	+2%	+4%	+6%	+1%
<b>All Firms</b>	\$199,938	\$191,440	+4%	+3%	+1%	+3%	+6%	+3%	+5%

# Average Compensation Went Up for Most Directors, Due to Increased Stock Awards



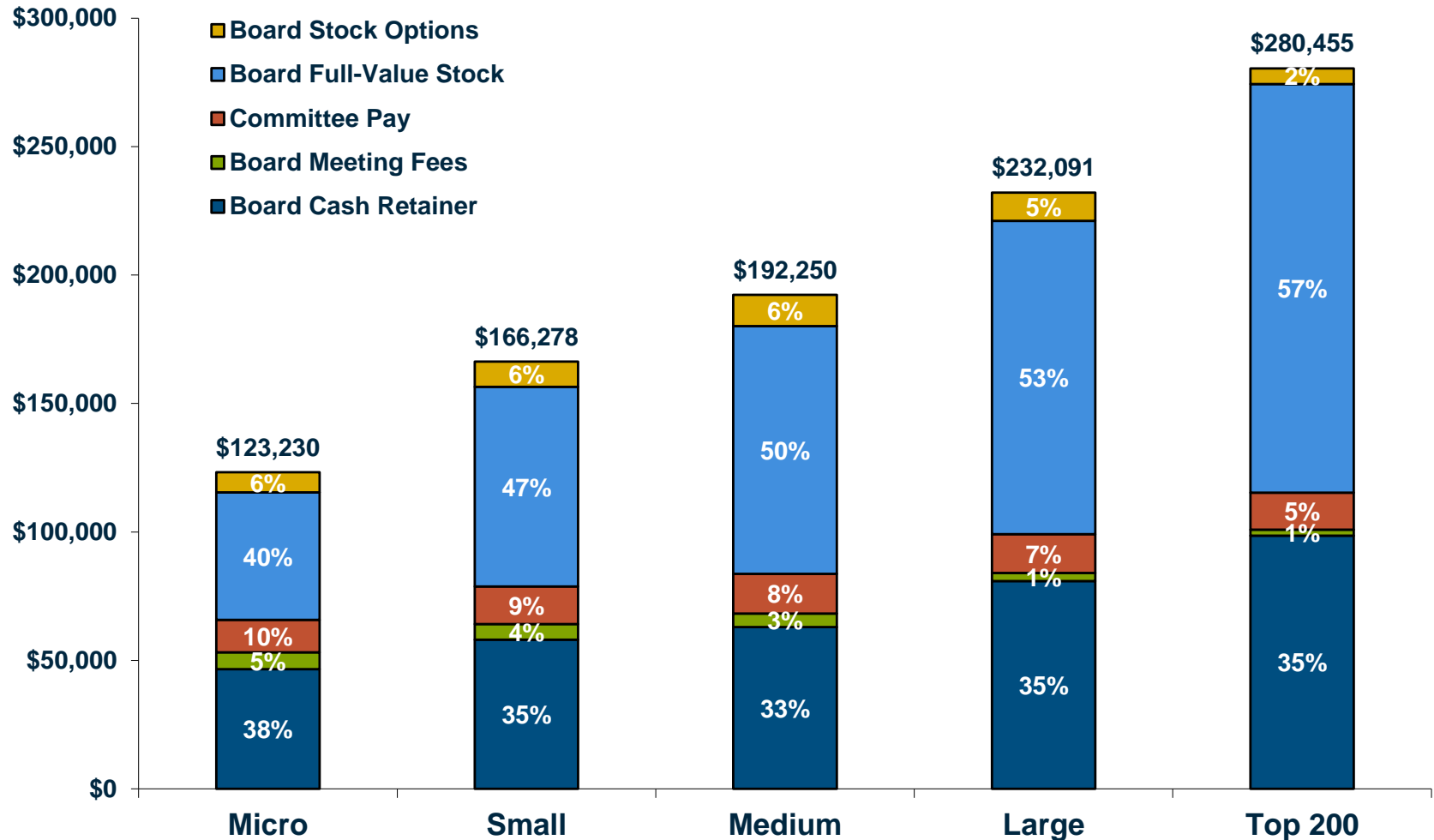
Year-Over-Year Change in Compensation by Element						
Board Compensation	Micro	Small	Medium	Large	Top 200	All Firms
Cash Retainer (a)	13%	0%	0%	7%	0%	4%
Board Meeting Fees (b)	-17%	11%	4%	-10%	14%	0%
Total Stock Award (a)	12%	9%	10%	4%	2%	9%
<b>Total Board Compensation (a)(c)</b>	<b>6%</b>	<b>3%</b>	<b>3%</b>	<b>5%</b>	<b>4%</b>	<b>6%</b>
<b>Committee Compensation</b>	<b>-1%</b>	<b>8%</b>	<b>1%</b>	<b>4%</b>	<b>0%</b>	<b>4%</b>
<b>Total Direct Compensation</b>	<b>2%</b>	<b>6%</b>	<b>6%</b>	<b>4%</b>	<b>3%</b>	<b>4%</b>
<b>TDC Per Meeting</b>	<b>11%</b>	<b>4%</b>	<b>8%</b>	<b>11%</b>	<b>6%</b>	<b>8%</b>
<b>Total Board Cost</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>	<b>6%</b>	<b>5%</b>

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

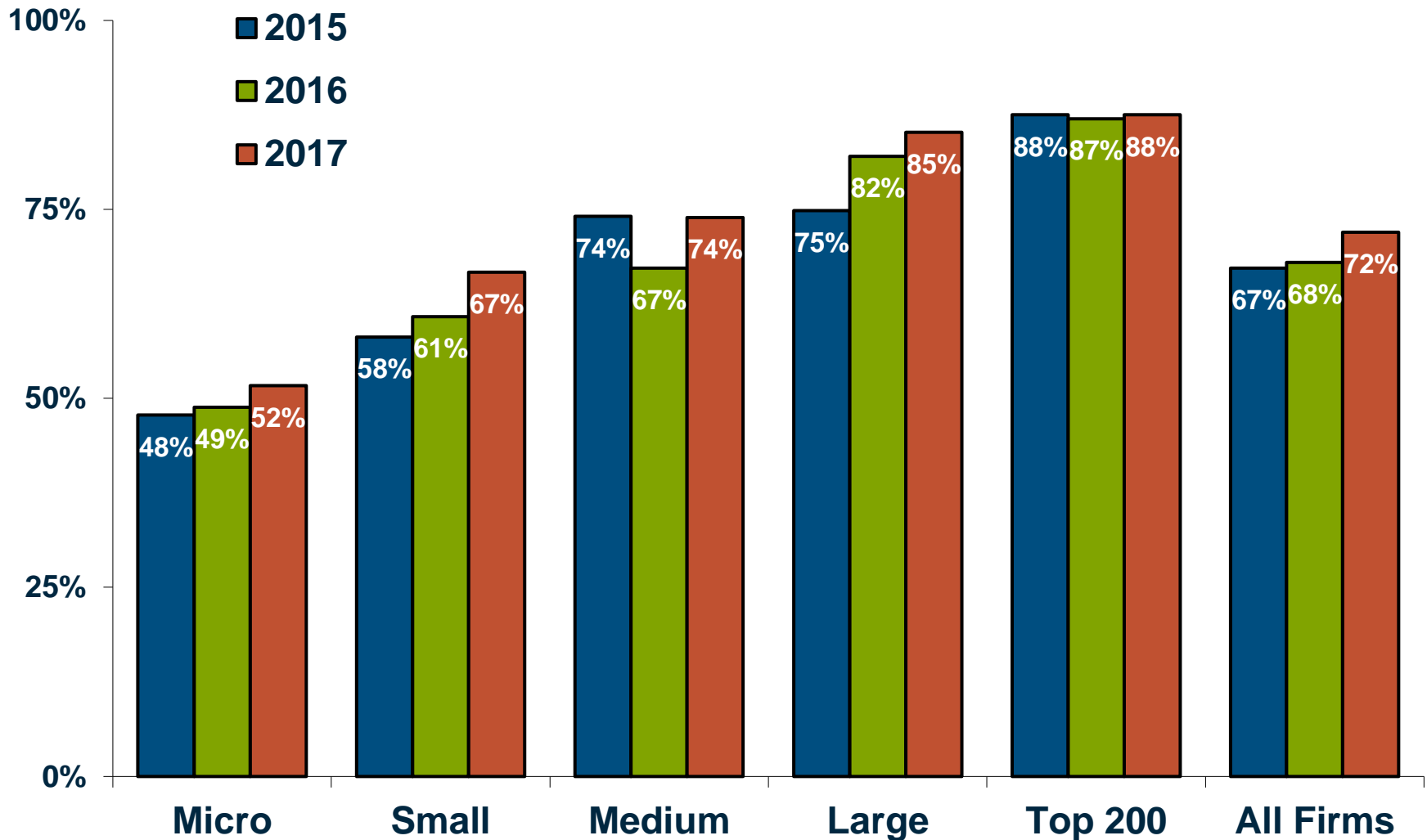
(b) Reflects median of companies using that pay element (i.e., summary data excludes zeros).

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

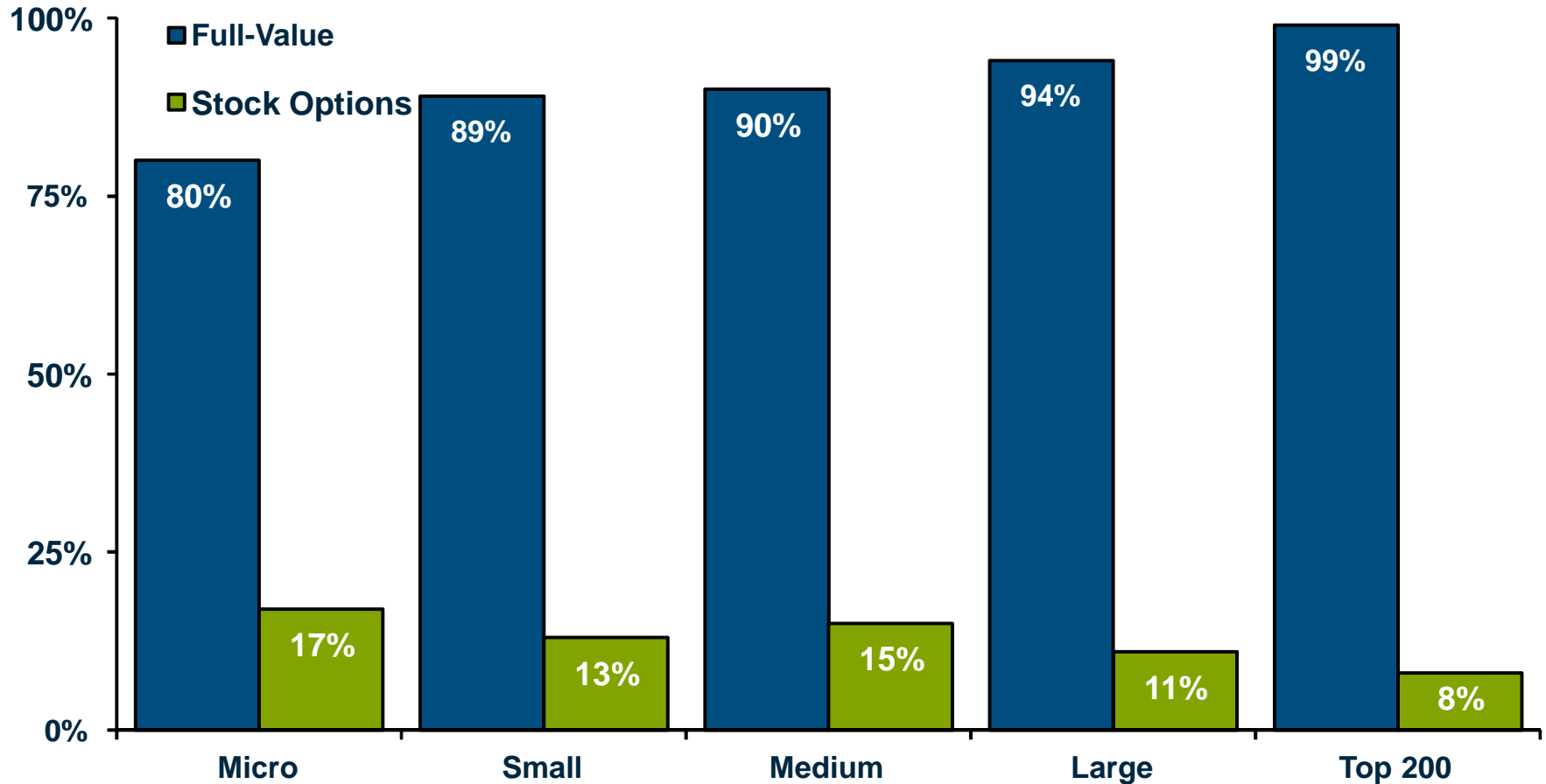
# Full-Value Stock Accounts for the Largest Portion of Total Pay



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



## Prevalence of Full-Value Equity and 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 200	All Firms
Total Firms Providing Equity	88%	94%	95%	97%	100%	95%
Fixed Value	67%	75%	74%	87%	90%	78%
Fixed Shares	29%	23%	22%	10%	6%	18%
Combination	4%	3%	4%	3%	4%	4%

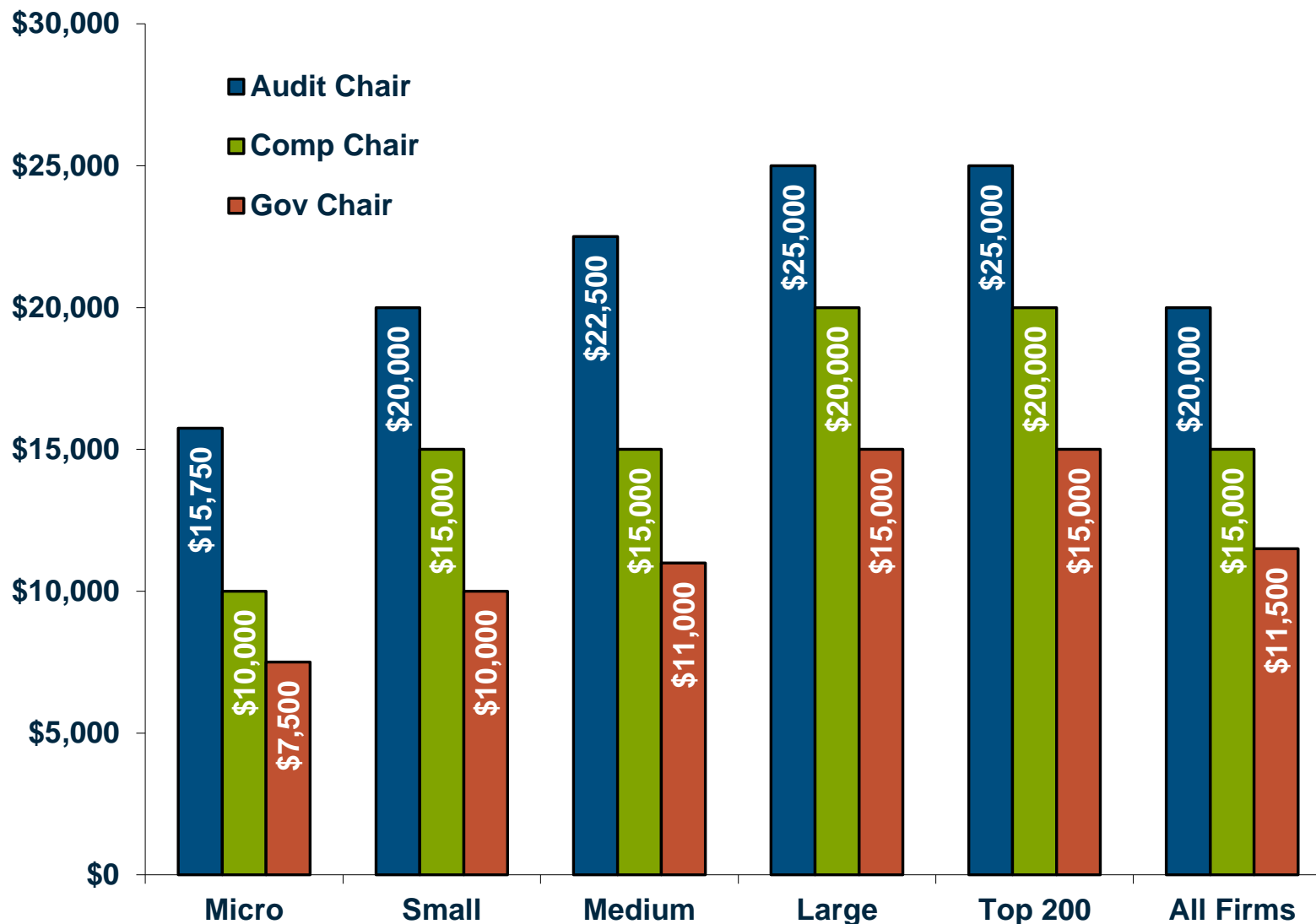
# Prevalence of Pay to Committee Members and Chairs Remained Flat



## YoY Change in Prevalence of Any Committee Pay

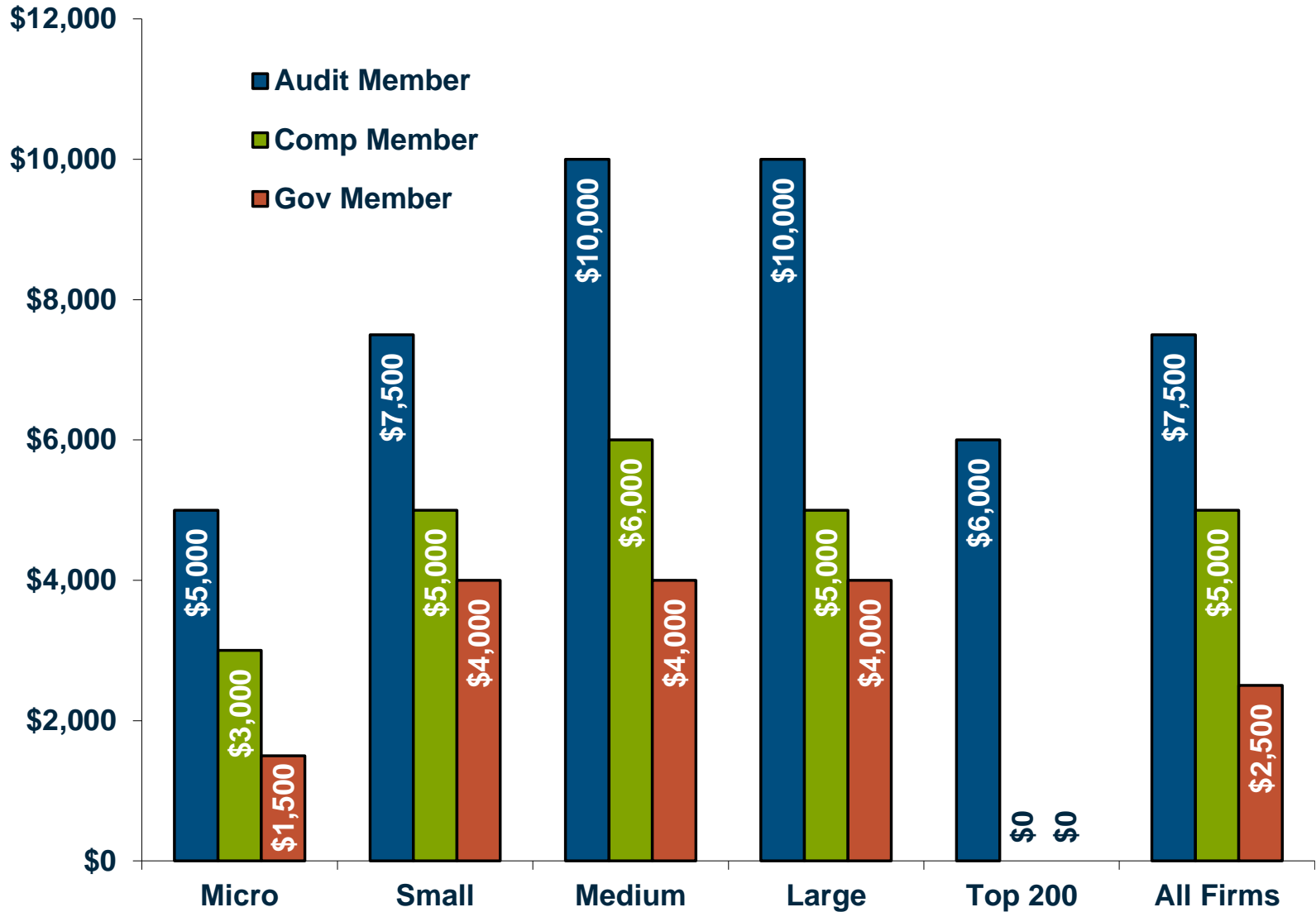
		Micro	Small	Medium	Large	Top 200
<b>Audit</b>	Chair	0%	-1%	-1%	-1%	0%
	Member	-1%	2%	0%	0%	1%
<b>Comp</b>	Chair	0%	1%	0%	0%	0%
	Member	-2%	3%	1%	0%	-1%
<b>Nom/Gov</b>	Chair	0%	0%	-2%	0%	2%
	Member	-2%	2%	0%	0%	-1%

# 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 #2

**Given the current regulatory environment and recent tax reform, do you anticipate an increased workload at the committee level?**

- *Yes*
- *No*
- *Too early to tell*

**If you believe there will be increased work at the committee level, does your company have plans to increase committee compensation?**

- *Yes, for at least one committee*
- *No, we don't plan to make changes*
- *Too early to tell, we will wait to see what the actual workload will look like*
- *We do not expect increase workloads*

# Prevalence of Premiums for Board Leadership



## Compensation for Non-Executive Board Leadership

	Prevalence of Premium Compensation for (a)		Prevalence Difference: Premium Compensation for Non-Exec Chair vs. Lead/ Presiding Director		Median TDC for Board Leadership (b)		Median Board Leadership TDC as a Multiple of Board Member TDC (b)	
	Non-Executive Chair	Lead / Presiding	2017	2016	Non-Executive Chair	Lead / Presiding	Non-Executive Chair	Lead / Presiding
Micro	88%	62%	26%	28%	\$175,000	\$126,000	1.40x	1.14x
Small	92%	70%	22%	20%	\$237,312	\$172,000	1.46x	1.13x
Medium	88%	77%	11%	16%	\$275,000	\$203,194	1.49x	1.13x
Large	90%	79%	11%	9%	\$350,000	\$245,000	1.58x	1.12x
Top 200	92%	83%	9%	10%	\$450,000	\$300,000	1.74x	1.11x
All Firm	90%	75%	15%	16%	\$267,000	\$230,000	1.50x	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	52%	72%	78%	89%	86%	75%
% of Companies with a Multiple of Retainer Guideline	44%	57%	67%	76%	72%	63%
Median Multiple of Retainer Requirement	3.0x	4.0x	5.0x	5.0x	5.0x	5.0x
% of Companies with Share-Based Guideline	6%	6%	11%	10%	12%	9%
% of Companies with Dollar-Based Guideline	4%	13%	5%	9%	9%	8%
Median Dollar Value Requirement	\$175,000	\$200,000	\$300,000	\$375,000	\$500,000	\$250,000

## Full-Value Share Holding Requirement

	Micro	Small	Medium	Large	Top 200	All Firms
% of Companies with Holding Requirement	17%	23%	26%	30%	24%	24%
% Specified Time in Years	6%	16%	1%	6%	2%	6%
% Until or Beyond Retirement	13%	5%	18%	20%	45%	19%
% Until Guideline Achieved	77%	73%	80%	74%	53%	72%
Median % of Shares Required to be Held	100%	75%	100%	100%	100%	100%

### Who owns director compensation within your organization?

- *Compensation Committee*
- *Nominating/Governance Committee*

## 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 requirement

### ▪ Scrutiny

- Increased scrutiny from ISS



# Questions

---

**Pearl Meyer**







## Don't Miss Our Next Webinar in This Series

---



Join NACD and Pearl Meyer for our next  
Compensation Series webinar on

**March 22, 2018 at 2:00 PM (ET)**

To register or check out the archives of earlier webinars in this series, visit [www.NACDonline.org/webinars](http://www.NACDonline.org/webinars).

**If you have any questions regarding NACD credit or the Fellowship programs, please contact:**

Meghan Metzbower, Senior Fellowship Program Manager

Phone: (571) 367-3638

Email: [Fellowships@NACDonline.org](mailto:Fellowships@NACDonline.org)

**To learn more about NACD Fellowships, visit us at  
[NACDonline.org/Fellowships](http://NACDonline.org/Fellowships).**

**Thank You**