

HEALTH WEALTH CAREER

“A WILD COMPENSATION JOURNEY” | TOP 5 TRENDS IN EXECUTIVE COMPENSATION YOU NEED TO KNOW RIGHT NOW

NOVEMBER 15, 2018

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SPEAKERS



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AGENDA

- Case Studies
- 5 Executive Compensation Trends to Look Out For
- Lets Play a Game

FINANCIAL SERVICES COMPANY

- New employment contracts
- Uh oh.....
- Low vote result
- Shareholder engagement
- Changes for the upcoming FY



BIOPHARMACEUTICAL COMPANY

- Flying high –
Preparing for an IPO
- Programs fully baked
 - Peer groups
 - Private vs public



TOP 5 TRENDS IN EXECUTIVE COMPENSATION 2019



TOP 5 TRENDS IN EXECUTIVE COMPENSATION

- 1 Say-on-Pay
- 2 Section 162 (m)
- 3 Pay Ratios
- 4 ESG
- 5 Board Composition & Practices

1) SAY-ON-PAY

- 1 Increase shareholder engagement
- 2 Enhance disclosure
- 3 Reduce discretion in incentive plans
- 4 Demonstrate pay-for-performance link
- 5 Enhance alignment with strategic business objectives

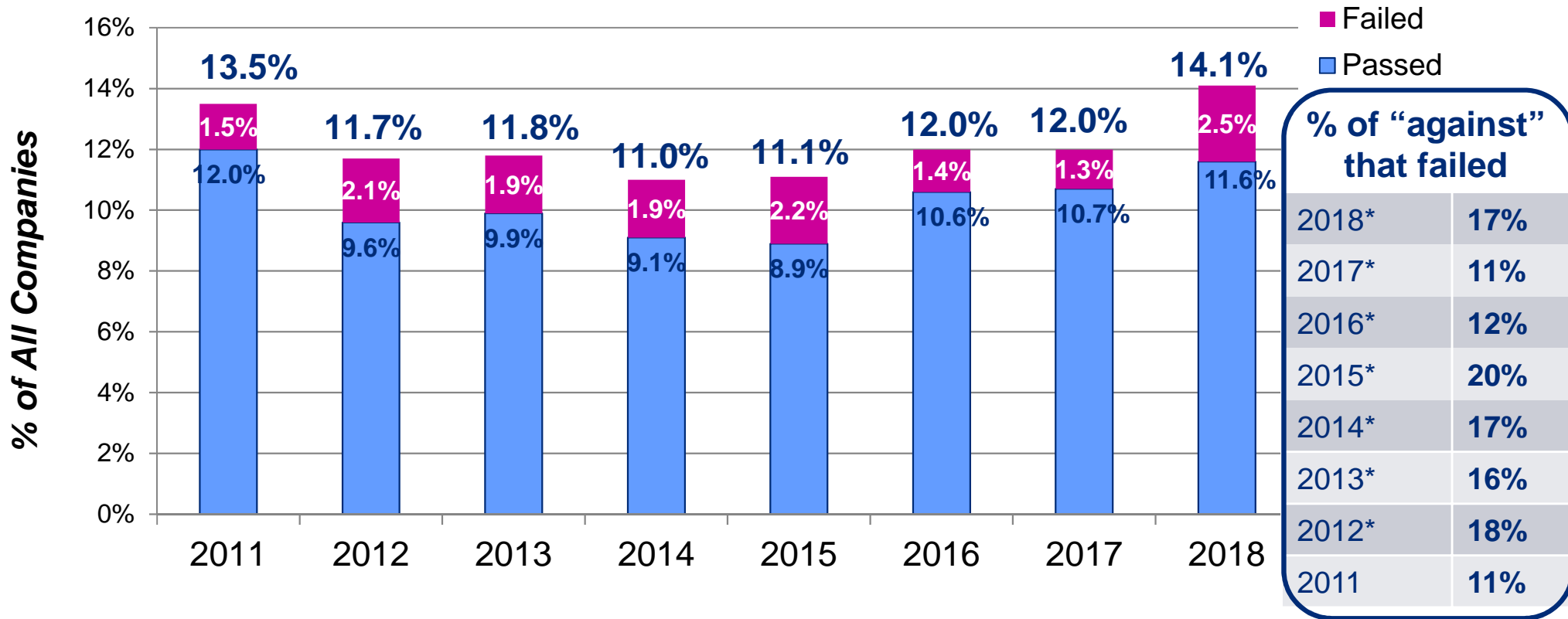
1) SAY-ON-PAY

- **SEC:** requires disclosure of response to say-on-pay vote
- Proxy advisers may recommend against say on pay or directors where response is not sufficient
 - **ISS:** support <70% and company response inadequate may recommend a vote against say on pay and directors
 - **Glass Lewis:** support <80% will scrutinize pay programs, and considers shareholder engagement and whether concerns are addressed in making vote recommendations

Model engagement disclosure	
Number/percentage of shareholders contacted	Proxy advisers involved
Number/types of engagement activities	Independent compensation consultant advice
Management/board members involved	Changes in response to shareholder concerns

1) SAY-ON-PAY ISS “AGAINST” RECOMMENDATIONS

ISS “Against” recommendations higher than ever



“All Companies” is all size companies followed by ISS where SOP vote results have been reported in US proxies: total approximately 2,600 in 2018 through Sept. 30; 3,100 in 2017; 2,900 in 2016 and 2015; 3,300 in 2014; 3,200 in 2013; 2,000 in 2012 and 2011.

* Excludes companies that failed despite ISS “for” recommendation: 4 in 2018, 0 in 2017, 8 in 2016, 6 in 2015, 3 in 2014, 9 in 2013, and 4 in 2012.

2) SECTION 162(m)

- 1 Develop procedures for identifying and tracking covered employees, grandfathered amounts
- 2 Avoid changes that could jeopardize the grandfather status
- 3 Follow old performance-based pay rules for grandfathered incentives (administration by “outside directors,” certification etc.)
- 4 Determine impact of grandfather on deferred tax accounts for financial reporting
- 5 Look for evolving updated state and federal guidance

2) SECTION 162(m)

Pay element	Subject to deduction limit?	
	Pre-amendment	Post-amendment
Salary	Yes	Yes
Cash incentives	Eligible for performance-based exception	Yes
Stock options/SARs	Eligible for performance-based exception	Yes
Performance shares	Eligible for performance-based exception	Yes
Service-based restricted stock/RSUs	Yes	Yes
Nonqualified deferred comp/retirement benefits	Yes, if paid while in service No, if paid post-termination	Yes
Severance	No, if paid post-termination	Yes

3) PAY RATIOS

- 1 Evaluate global or several payroll systems for compliance
- 2 Employees rarely questioned ratios or median pay levels but that does not mean that this will not be a problem in a future
- 3 Media called out high ratios, but didn't put companies in crisis mode; Crisis management should prepare for an escalating event
- 4 Institutional investors interested in seeing ratios but didn't have strong negative reaction
- 5 Proxy advisors noted in reports but didn't use them in say-on-pay recommendations
- 6 SEC didn't issue comment letters on disclosure; however, expect standards to be set in the coming years

3) PAY RATIOS

CEO PAY RATIO ISSUES FOR 2019

Same median employee

Changes that could affect use of same median employee

- Different circumstances for median employee
- Change in employee population
- New compensation arrangements

Supplemental disclosure

Factors to consider in using supplemental disclosure

- *Supplemental ratios:* used by only 10-12% of companies
- *Median employee context:* position and location were common
- *Workforce structure:* helpful for global companies

Other uses

Other possible uses for pay ratio data

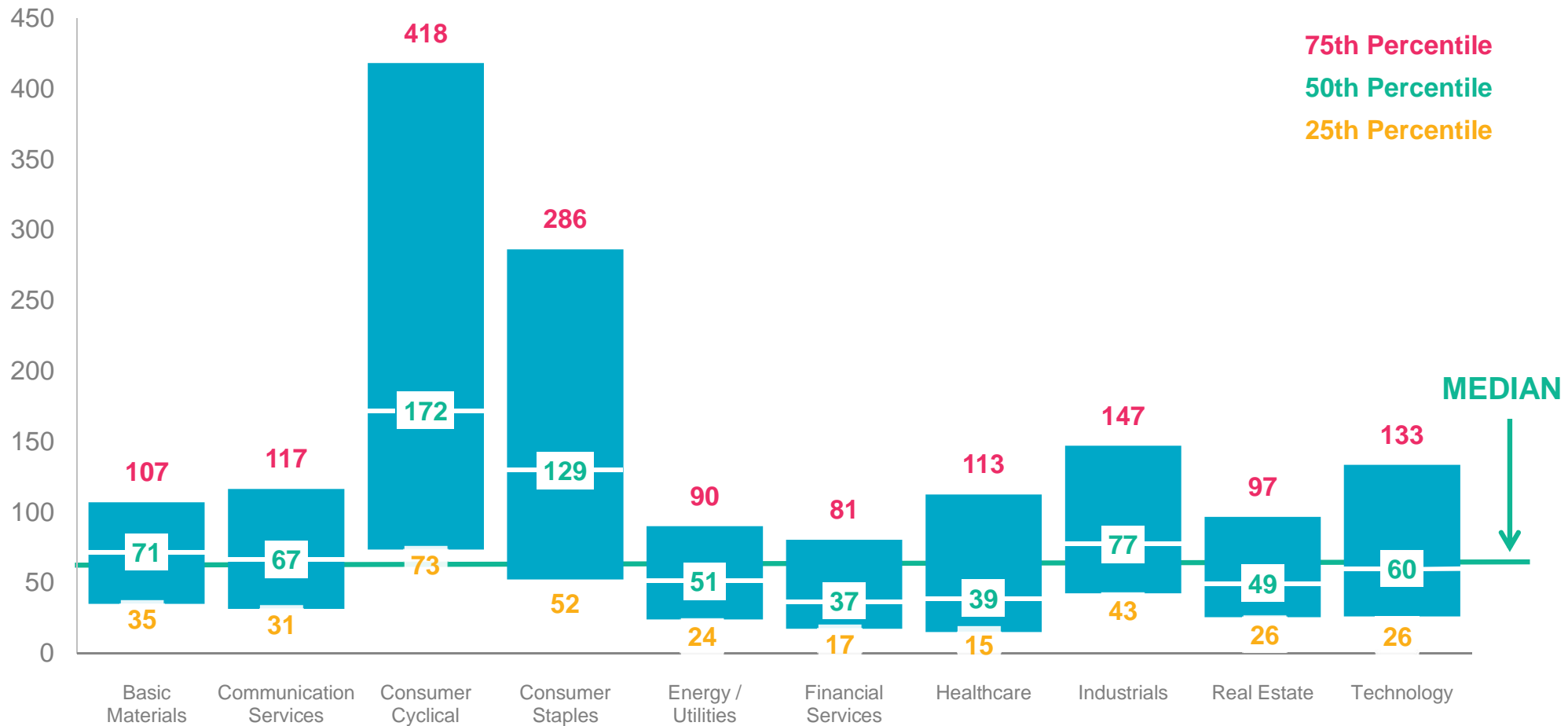
- Companies can use data to learn more about their workforce and human capital management
- State and local initiatives are piggybacking on disclosure to sanction companies

3) PAY RATIOS

CEO – ALL COMPANIES

- Median ratio = 64:1 wide variation among and within industries

PAY RATIO - ALL COMPANIES

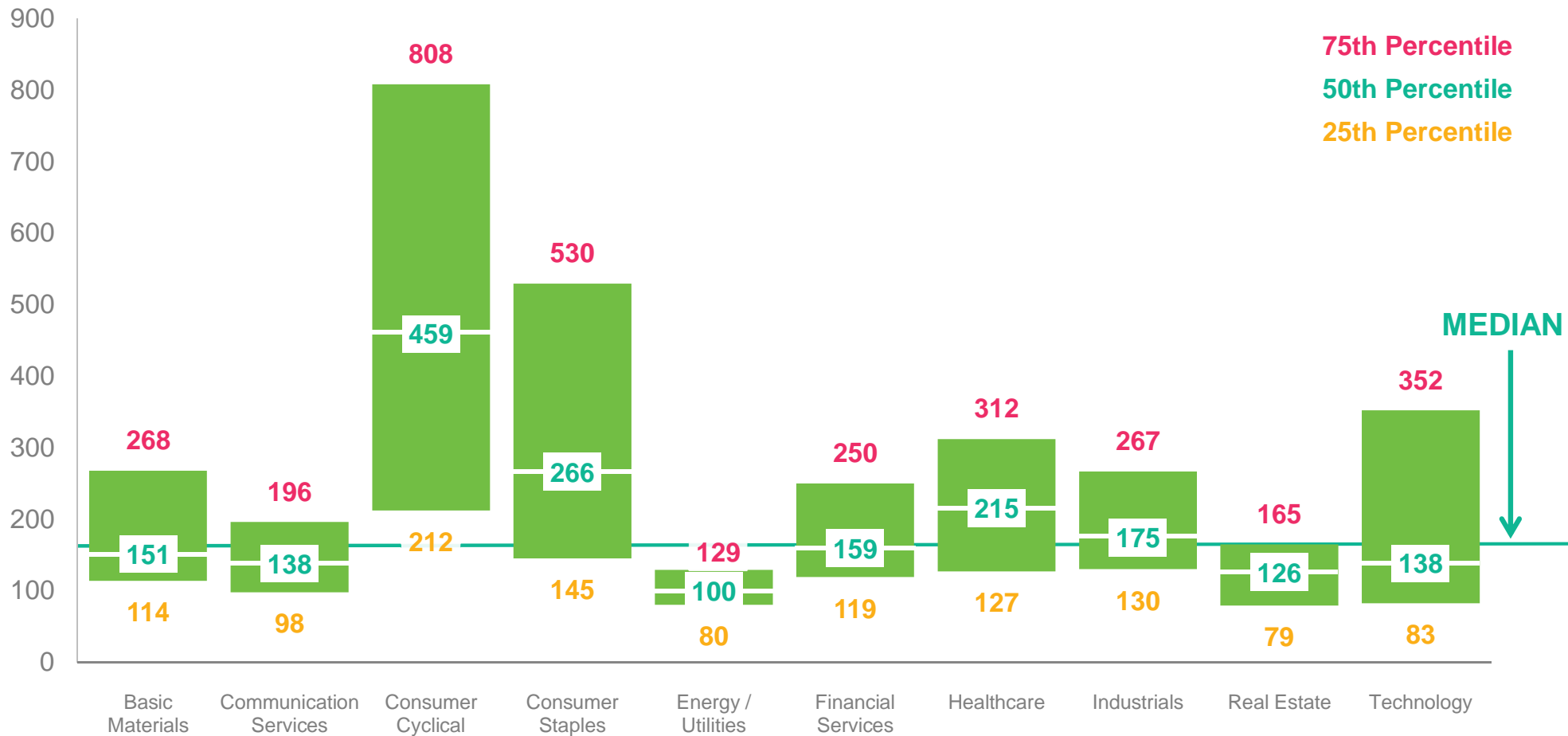


3) PAY RATIOS

CEO - S&P 500

- S&P 500 median ratio = 166:1

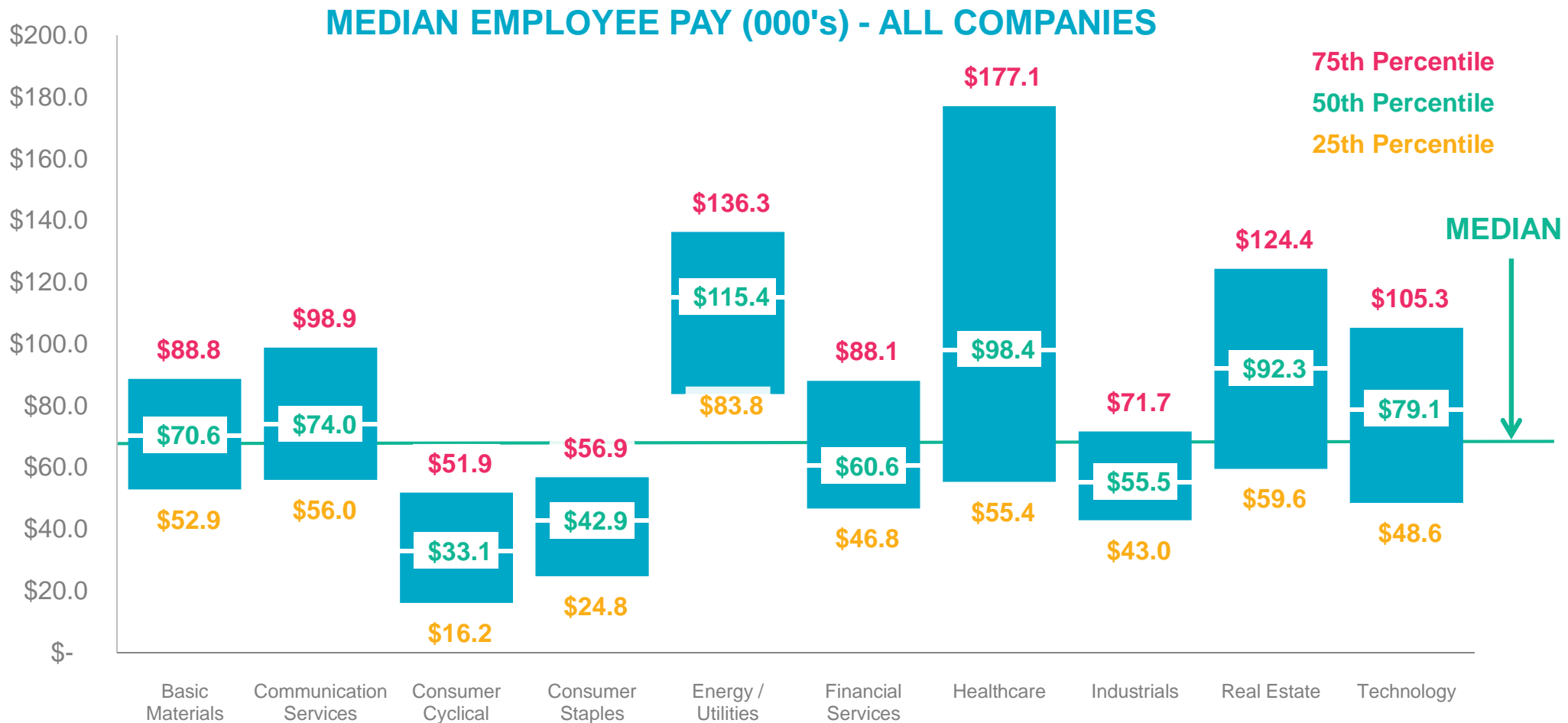
PAY RATIO - S&P 500



3) PAY RATIOS

EMPLOYEE MEDIAN

- Median value of median employee pay = \$64,000
- Varies based on industry, but not correlated with company size



Approximately 2,560 companies reporting as of 10.16.18

Underlying data provided by Proxy Insight

4) ENVIRONMENT, SOCIAL, AND GOVERNANCE

- 1 Open communications with activist shareholders to understand their concerns and demands for the business
- 2 Track ongoing ESG proposals and the expected voting outcomes
- 3 Proactive evaluation of ESG topics within the company and aligning long term strategy goals with ESG proposals
- 4 Engaging with shareholders to increase shareholder voter efficacy
- 5 Develop and promote ongoing ESG efforts to educate shareholders on what is already being done

4) ENVIRONMENT, SOCIAL, AND GOVERNANCE

- Overall, the number of shareholder proposal submitted during the 2018 proxy season (788) was down slightly (-5%) compared to 2017
- The key areas of focus were:
 - Social – diversity, political contributions, etc.
 - Environmental – climate change, sustainability etc.
 - Governance – special meeting rights, proxy access, etc.
 - Executive compensation – ESG performance measures, diversity, etc.
- Slightly less than half of proposals submitted went to a vote
- Most of shareholder proposals fail to achieve majority support

Source: Harvard Law School Forum on Corporate Governance and Financial Regulation

4) ENVIRONMENT, SOCIAL, AND GOVERNANCE – EXAMPLE

- **Company:** C H Robinson Worldwide Inc
- **Shareholder:** Sisters of the Presentation of the Blessed Virgin Mary
- **Proposal:** Adoption of time-bound, quantitative, company-wide, science-based targets for reducing total greenhouse gas (GHG) emissions, taking into account the goals of the Paris Climate Agreement, and report, at reasonable cost and omitting proprietary information, on its plans to achieve these goals
- **Outcome:** 38% For votes

5) BOARD COMPOSITION & PRACTICES

- 1 The Board of Directors is critical to determining and evaluating executive pay.
- 2 Board of Director elections are becoming a new medium for shareholders to express discontent regarding executive pay.
- 3 Encourage those on the compensation committee to closely track say on pay outcomes.
- 4 Remembering that increased executive compensation scrutiny has in turn drawn attention to BOD pay and fees.



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