

Has Director Pay Reached a Tipping Point?

Compensation Committee Series Webinar
Presented by Pearl Meyer and NACD

January 30, 2020

Meet the Presenters



Yvonne R. Jackson is the President and Principal of BeecherJackson, Inc., a human resources management consulting firm she co-founded. She has more than 30 years of experience in human resources. Jackson is currently a director of SpartanNash Co., serving as chair of the compensation committee, and member of the nominating & governance committee. She is also a former board member of Simmons College in Boston and former chair of the Association of Governing Boards of Universities and Colleges. She is also a former director for Best Buy Inc. and Winn-Dixie Stores, Inc. and a former advisory council member of PricewaterhouseCoopers. Jackson has served as the Chief Human Resources Officer for Pfizer, Inc., Compaq Computer Company and Burger King Co.



Jan Koors is a senior managing director with Pearl Meyer and president of the firm's Western Region. She advises company boards and management teams on all aspects of strategic human capital decision making. Koors has been quoted in the New York Times, the Wall Street Journal, and Financial Times. She has appeared on CNN's MoneyLine and NBC Nightly News, and has spoken at numerous seminars on executive and director compensation issues. Koors is an NACD Governance Fellow, and serves as faculty for NACD's Director Professionalism® and Master Class programs. She is also responsible for Pearl Meyer's annual Director Compensation Report, published in conjunction with NACD. She has been named to the NACD D100® 12 times. Koors is a member of the Wellesley College Business Leadership Council, on the board of The Big Shoulders Fund in Chicago, and serves on the advisory board for the Berger Institute of Claremont McKenna College.



Joe Tripolitakis is a consultant in the Chicago office of Pearl Meyer. He has spent over five years helping clients understand current compensation program deficiencies as well as providing recommendations that align with current business strategy. Joe works with companies in a variety of industries and sizes, ranging from small, privately-held firms to Fortune 500 companies. His areas of expertise include pay for performance analyses, peer group selection, and value driver analyses. He also manages the data collection process for Pearl Meyer's annual Director Compensation Report, published in conjunction with NACD.

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.

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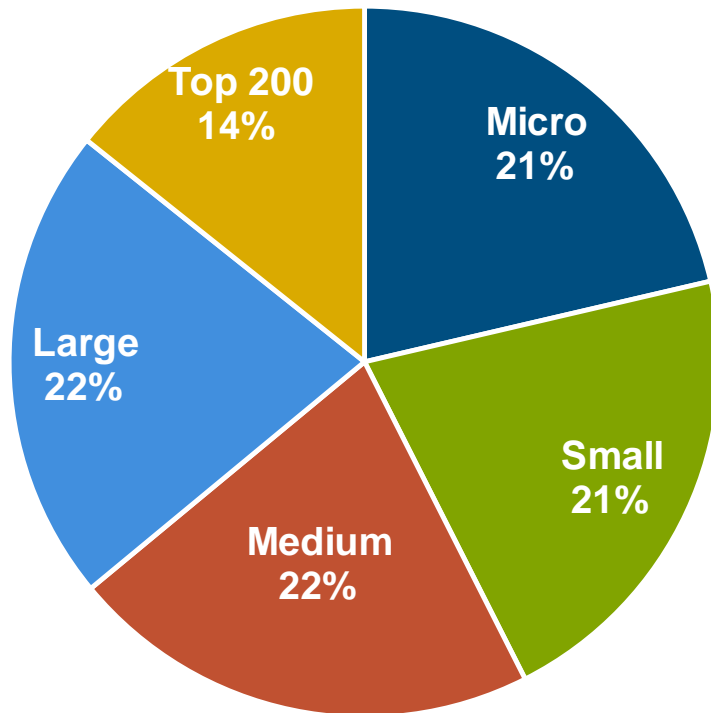
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- Credit may be applied to NACD *Fellowship* programs if you are currently enrolled. Contact Fellowship@NACDOnline.org for more details.
- Presentation slides are available today at www.pearlmeyer.com/director-compensation-2020 and within the webinar console.
- The replay will be available early next week at www.nacdonline.org/webinars and www.pearlmeyer.com/director-compensation-2020.

- Boards are operating in a time of intense media and stakeholder scrutiny
- The depth and breadth of director oversight and time commitment is growing and there is demand for increased expertise/experience in areas like technology, cyber security, HR, innovation, etc.
- Annual increases in director pay continue to be modest
- ISS is analyzing director compensation to identify companies that “consistently” (defined as two or more years in a row) compensate directors at the top 2-3% of the market
- There is a call to better align director pay to shareholder interests

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						2019
	Micro	Small	Medium	Large	Top 200	All Firms	All Firms
Median No. of Directors (a)	8	8	9	10	11	9	9
Median Director Age (yrs)	64	64	64	64	63	64	64
Median Director Tenure (yrs)	7.0	6.4	7.8	7.4	6.8	7.2	7.4
% with 1 year term	57%	56%	64%	77%	94%	68%	68%
Mandatory Retirement Age (yrs)							
Prevalence of disclosure	29%	41%	53%	64%	79%	51%	51%
Median Retirement Age	75	75	73	74	74	74	73
<u>Gender Diversity</u>							
% of companies with \geq 1 female director	71%	82%	93%	97%	100%	88%	82%
% of companies with \geq 2 female directors	31%	47%	60%	80%	94%	60%	53%
% of companies with \geq 3 female directors	9%	16%	25%	41%	67%	29%	23%
Combined CEO/COB Role	31%	34%	37%	34%	56%	37%	36%
Median No. of Board Meetings	7	6	7	7	7	7	7

(a) Includes non-employee and employee directors

\geq +10% pts. higher than last year
 $>$ +5% pts. higher than last year

Source: Main Data Group

Polling Question #1



How long has it been since your board added a new outside director?

- A. Within the last year
- B. Within the last two years
- C. Within the last three to five years
- D. More than five years

Polling Question #2



Does your board have:

- A. Age limits
- B. Tenure limits
- C. Both age and tenure limits
- D. Neither

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



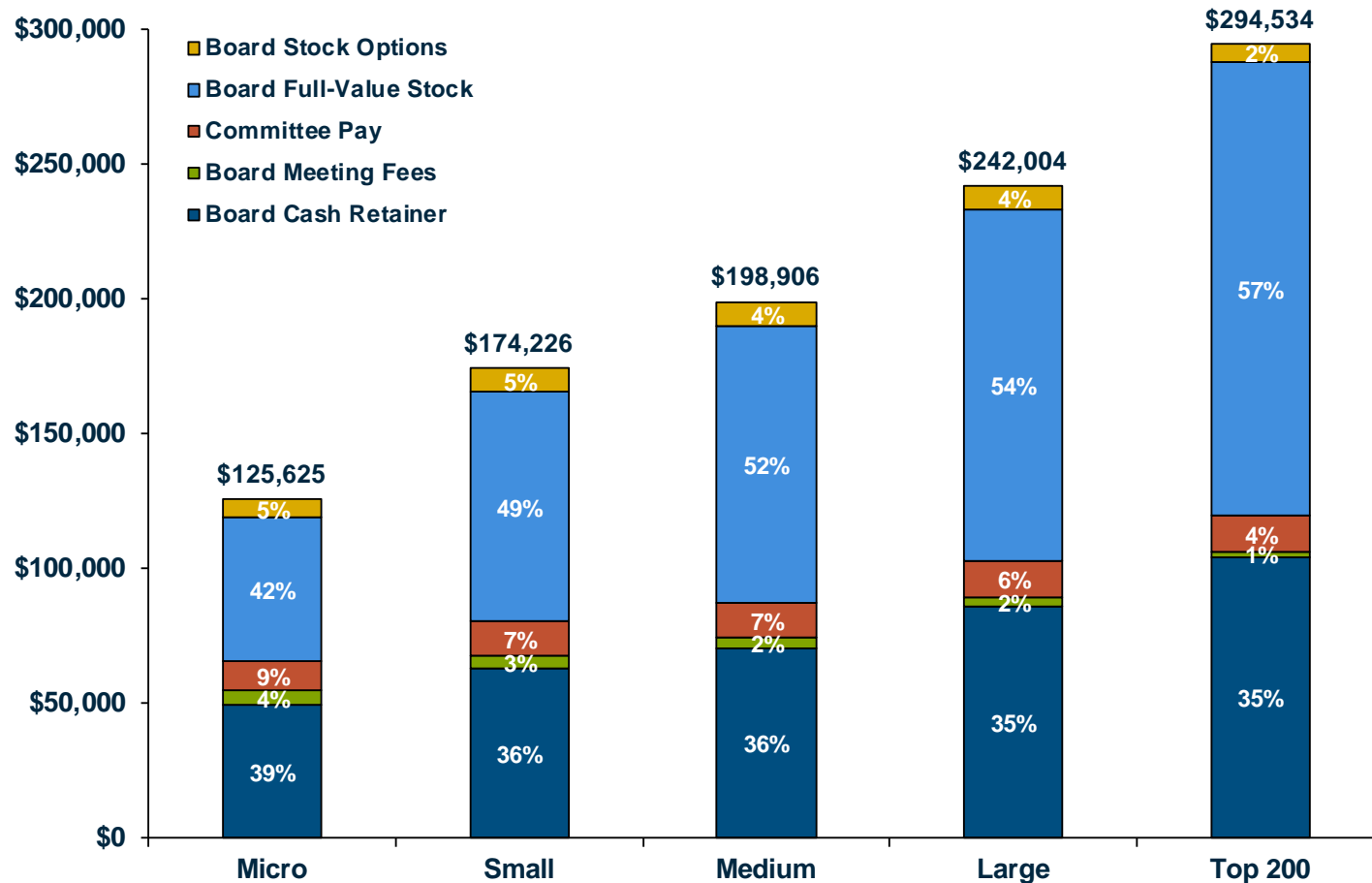
	Total Direct Compensation		Annual Growth in Median Total Direct Compensation										
	2019	2018	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Micro	\$125,625	\$119,991	+5%	-3%	+2%	+4%	+9%	+4%	+4%	+1%	+6%	+20%	-3%
Small	\$174,226	\$169,226	+3%	+2%	+6%	+5%	+3%	+1%	+11%	+2%	+6%	+10%	-6%
Medium	\$198,906	\$191,438	+4%	0%	+6%	-1%	+1%	+5%	+4%	+4%	+8%	+13%	-2%
Large	\$242,004	\$234,444	+3%	+1%	+4%	+1%	+3%	+5%	+6%	+4%	+6%	+7%	-1%
Top 200	\$294,534	\$286,719	+3%	+2%	+3%	+3%	+3%	+2%	+4%	+6%	+1%	+5%	+1%
All Firms	\$207,938	\$203,031	+2%	+2%	+4%	+3%	+1%	+3%	+6%	+3%	+5%	+11%	-2%

Increases have been in cash retainers and equity rather than committee pay



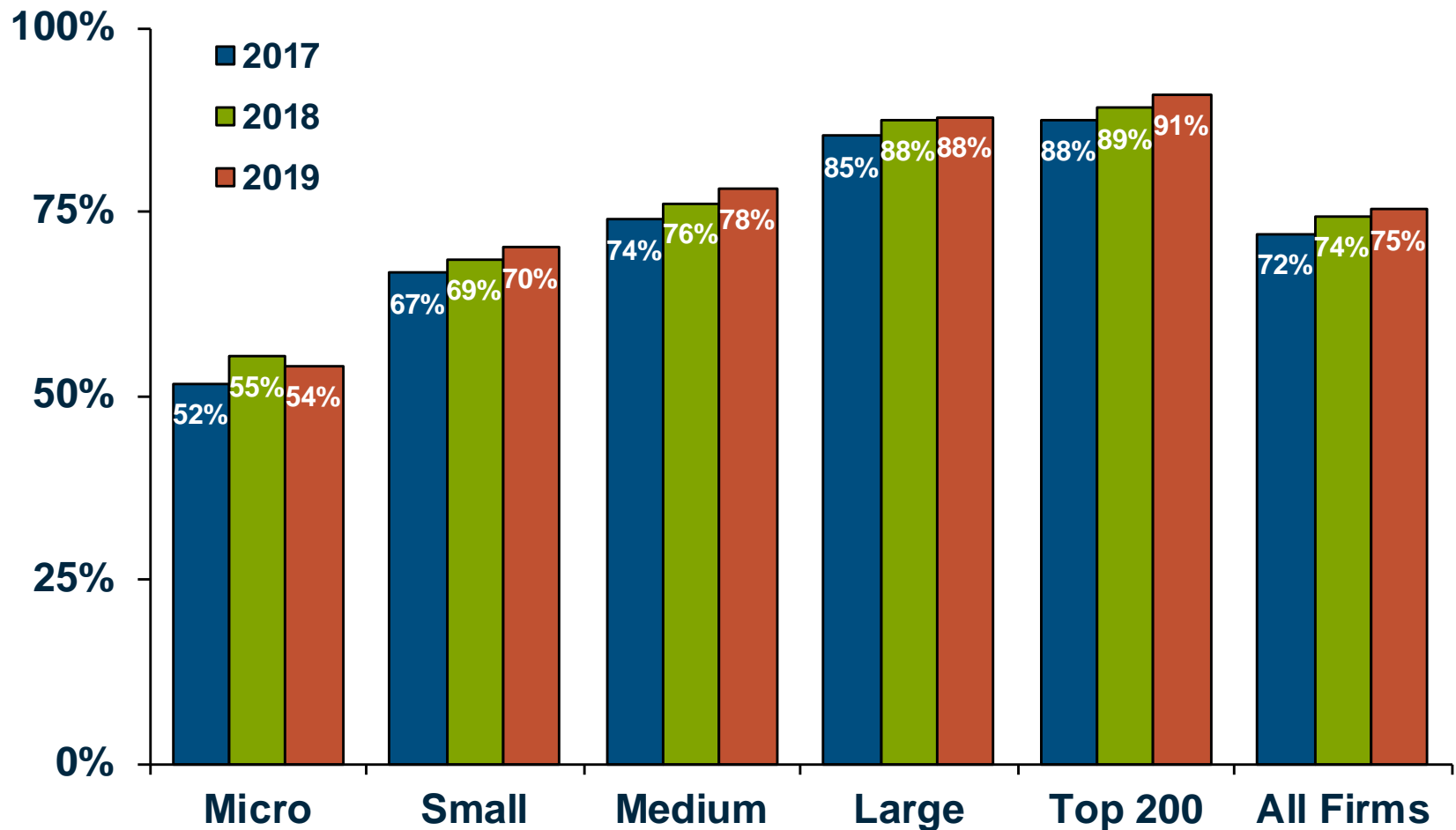
		All Firms						
		2019	2018	2017	2016	2015	2014	5-year Change
Cash	Median Annual Cash Retainer	\$70,000 +6%	\$66,000 +6%	\$62,500 +4%	\$60,000 0%	\$60,000 +9%	\$55,000	+27%
	Median Average Committee Compensation	\$10,000 0%	\$10,000 -13%	\$11,460 +4%	\$11,000 -7%	\$11,847 -1%	\$12,000	-17%
	Prevalence of Board Meeting Fee	21% -2%	23% -4%	27% -2%	29% -4%	33% -5%	38%	-17%
Equity	Median Equity Award	\$125,000 +4%	\$120,000 0%	\$120,000 +9%	\$110,000 0%	\$110,000 +6%	\$104,110	+20%
	Median Total Direct Compensation	\$207,938 +2%	\$203,031 +2%	\$199,938 +4%	\$191,440 +3%	\$186,610 +1%	\$184,943	+12%
	Median Total Board Cost	+3%	+0%	+5%	+3%	+2%		+14%

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



Source: Main Data Group

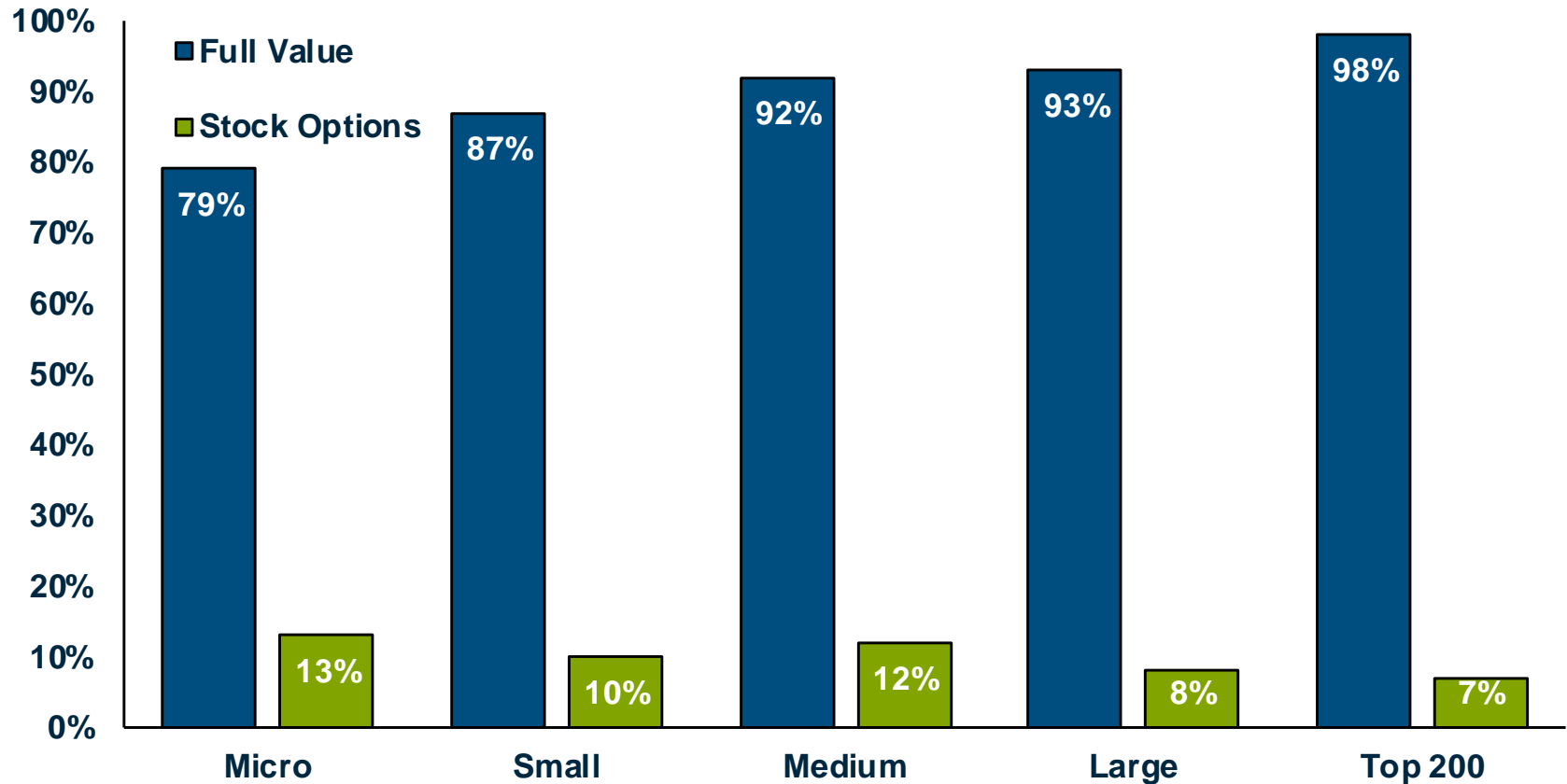
The majority of companies match NACD's leading practice of $\geq 50\%$ of pay in equity



Source: Main Data Group

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

	Micro	Small	Medium	Large	Top 200	All Firms	2019 All Firms
Total Firms Providing Equity	85%	93%	95%	95%	99%	93%	92%
Grant Determination							
Fixed Value	75%	82%	84%	90%	91%	84%	82%
Fixed Shares	22%	18%	12%	9%	4%	13%	15%
Combination	4%	1%	4%	2%	5%	3%	4%

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	2019 All Firms
% of Companies with Any Form of SOG	58%	78%	83%	91%	94%	80%	78%
% of Companies with a Multiple of Retainer SOG	48%	66%	74%	79%	80%	69%	67%
Median Multiple of Retainer Requirement	3.0	4.0	5.0	5.0	5.0	5.0	5.0
% of Companies with Share SOG	8%	8%	8%	8%	12%	9%	9%
% of Companies with Dollar SOG	6%	9%	5%	8%	8%	7%	8%
Median Dollar Value of SOG	\$175,000	\$250,000	\$320,000	\$400,000	\$525,000	\$325,000	\$300,000
Median Time Frame (yrs)	5	5	5	5	5	5	5

Holding Period Requirements

	Micro	Small	Medium	Large	Top 200	All Firms	2019 All Firms
% with Holding Requirements	25%	25%	30%	37%	38%	31%	30%
Type of Holding Guideline							
Until or Beyond Retirement	21%	16%	14%	19%	37%	21%	23%
Until Ownership Guideline Achieved	61%	71%	73%	73%	47%	66%	65%
Other / Unknown	18%	13%	13%	7%	16%	13%	12%

≥ +5% pts. higher than last year

≥ -5% pts. lower than last year

Source: Main Data Group

Polling Question #3

Does your company impose holding restrictions on equity awards:

- Yes, for a fixed number of years (after share vesting or option exercise)
- Yes, until you meet ownership guidelines
- Yes, until retirement
- Yes, a combination of the above
- No

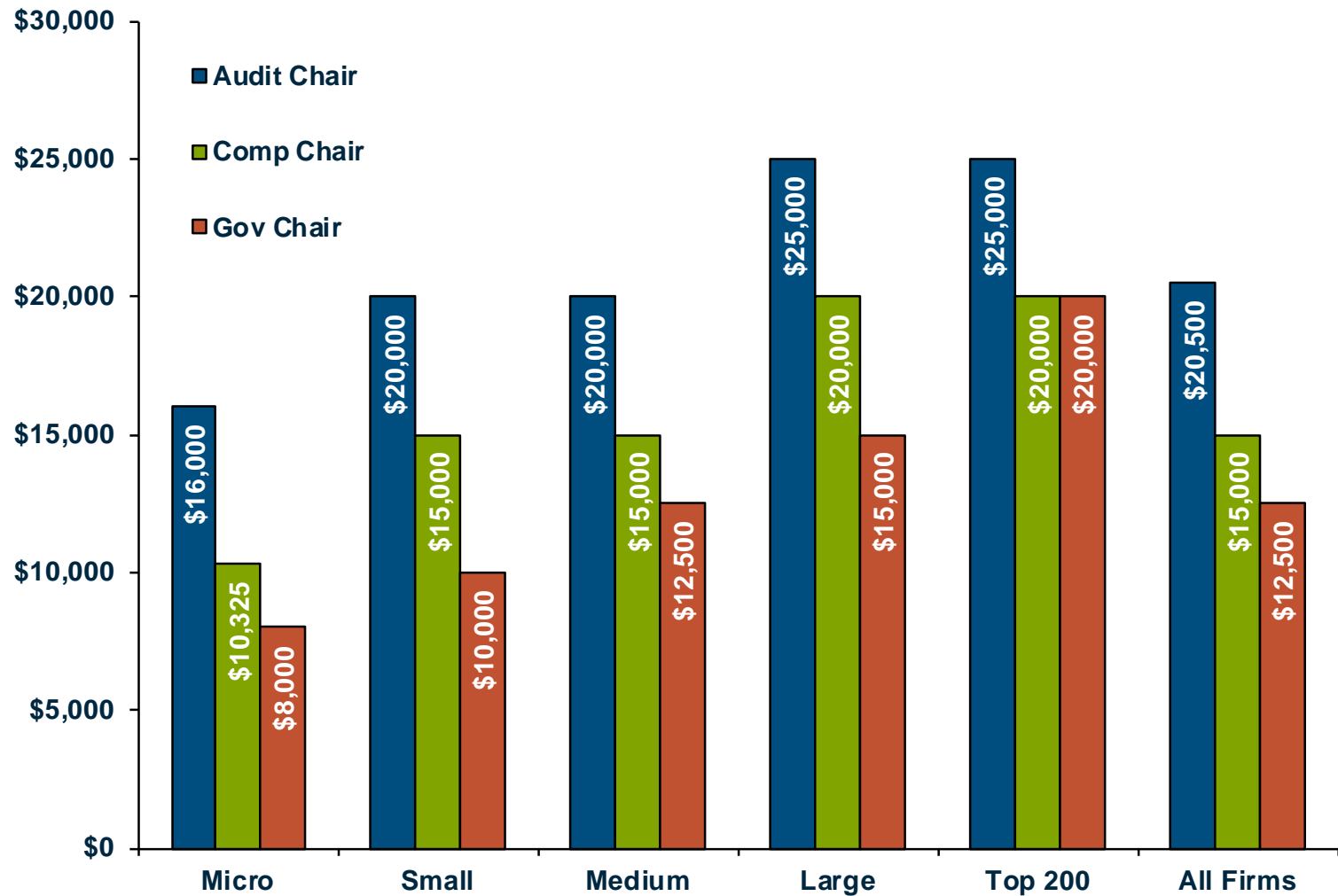
Prevalence of meeting fees to committee members and chairs decreased slightly



YoY Change in Prevalence of Committee Meeting Fees

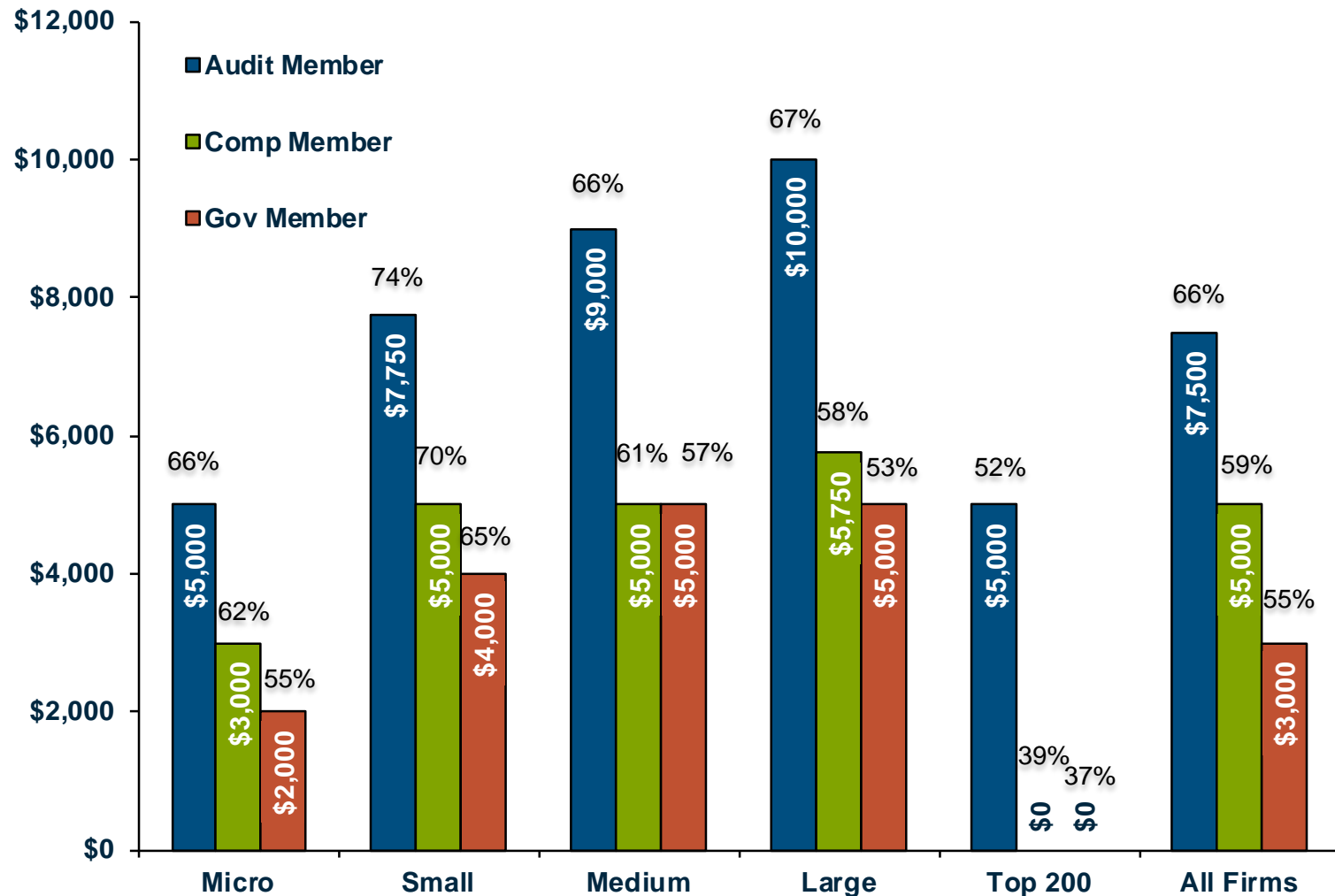
		Micro	Small	Medium	Large	Top 200
Audit	Chair	-3%	-2%	-4%	-3%	0%
	Member	-3%	-2%	-5%	-3%	0%
Comp	Chair	-1%	-4%	-4%	-4%	0%
	Member	-1%	-4%	-4%	-4%	0%
Nom/Gov	Chair	-1%	-3%	-2%	-3%	-1%
	Member	-1%	-3%	-3%	-3%	-1%

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



Source: Main Data Group

Audit committee members are more likely to be paid, and paid more



Source: Main Data Group

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
Micro	\$170,000	\$126,000	1.42x	1.16x
Small	\$239,700	\$176,000	1.44x	1.13x
Medium	\$281,000	\$225,000	1.45x	1.13x
Large	\$355,000	\$260,000	1.56x	1.12x
Top 200	\$455,000	\$325,000	1.63x	1.12x
All Firms	\$276,500	\$243,920	1.48x	1.13x

Source: Main Data Group

How much is too much?

- Ensuring pay is fair, given increasing responsibility, scope, and talent requirements
- Balancing with public scrutiny
- Will we see smaller, more frequent increases – rather than periodic “jumps”
- Will we see more companies introduce shareholder-approved caps on director pay to protect against criticism – or litigation?

Is it time to rethink how we use equity?

- The move toward restricted stock with fixed grant values “insulates” directors from corporate performance
- On the other hand, increased ownership guidelines can tie directors to the long-term performance of the stock
- Could hold-to-retirement requirements be a “tool” to encourage board turnover and refreshment?

Questions

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