

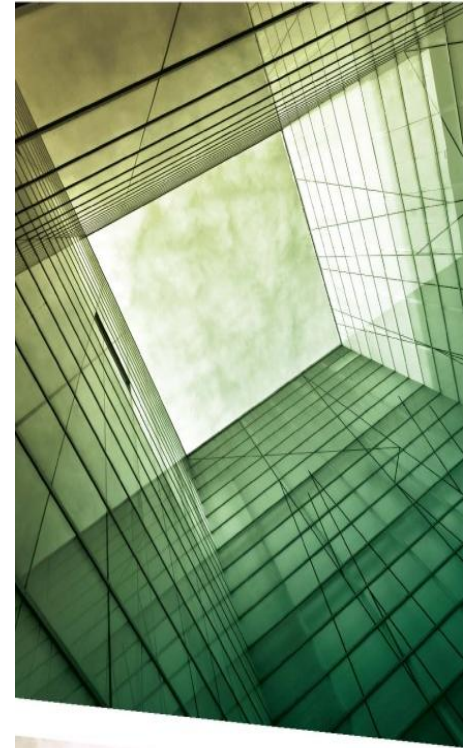
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# Strategic Integration *of* Executive Compensation and Benefits

**CASE STUDY**



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# Executive Compensation Benchmarking

Today's Speaker:



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# Executive Compensation Benchmarking

## ⚡ Common Practice

## ⚡ Compares typical elements of pay within a peer group

- Salary
- Annual Incentive
- Long Term Incentive
- Equity

## ⚡ ISS conducts its own benchmarking based on its own peer group formulation

- Opines on pay practices and advised institutional investors on approval or disapproval in proxy voting

## ⚡ Def 14A Filing

- Boards disclose who their peers are, how they get data, and who advises them

# What's Missing in Traditional Benchmarking?

## ⚡ The value of executive benefits

- Company contributions to qualified and nonqualified plans (401k and 409A)

## ⚡ Why?

- Compensation consultants have never been able to quantify the value of benefits
- Couldn't calculate the outcomes of contributions at retirement

## ⚡ Result:

- Compensation Committees don't actively include benefits in their Total Rewards strategy
- Over allocation to company stock in executive portfolios

## ⚡ Our View:

- If benefits aren't compensation, what are they?

# What's New?

- Finally benefits and their outcomes can be measured
  - Without costly customized work by pension actuaries
- New way to measure Total Rewards
- New way to empower HR professionals, compensation committees, plan participants
  - Able to calculate the present and future value of a career
  - Quantify an under recognized pay element

# EXECUTIVE RETIREMENT

*What We See*

# Why Benchmark Executive Retirement?

- ⌄ Total rewards can't be measured without data
- ⌄ Benchmarking proves there is no rational, consistent approach to executive retirement
  - Natural result of ignoring the space
- ⌄ Peer group companies tend to fall into one of three categories:
  - Outdated, expensive, legacy plans
  - No retirement strategy at all
  - A balanced strategy incorporated into long term incentive plan

# RECENT CASE STUDY



# Executive Data Review: *Peer Group Observations*

## **Revenue**

- Range: \$1.5B to \$6.2B
- Median: \$3.3B

Client revenue is near median at \$3.5B

## **Profitability**

- Profitability range: (-\$137M) to \$365M
- Median income: \$154M

All peer group companies were profitable during the last reporting year, except one (-\$137M)

## **Total Shareholder Return**

- 1 year TSR ranges widely: (-61%) to 18%
- 1 year TSR median: (-3.15%)
- 3 year TSR range: (-2%) to 452%
- 3 year TSR median: 66.75%

## **Employees**

- Range: 1,900 – 26,000
- Median employee count: 10,550

# Executive Data Review: *Chief Executive Officer*

## **Cash Compensation:**

- Median Salary: \$892,908
- Median Target NEIP: \$920,000
- Median Total Cash: \$1,849,936
- Total Cash as a % of Salary: 231.3%

## **Total Cash Compensation Low and High:**

- \$675,000 (*salary only*)
- \$1,226,081 (*salary + NEIP*)
- \$3,415,825 (*304.6% of salary*)

## **Total Cash Compensation Percentile (*% of salary*):**

|                    |        |
|--------------------|--------|
| 90 <sup>th</sup> : | 304.3% |
| 75 <sup>th</sup> : | 287.1% |
| Median:            | 231.3% |
| 25 <sup>th</sup> : | 188.0% |
| 10 <sup>th</sup> : | 150.5% |

## ⌄ Plan Based Equity Awards

### ➤ Options (Time Vest)

- Seven companies offer stock options
- Median award: \$297,428

### ➤ Stock (Time Vest)

- Six companies offer time vested stock
- Median award: \$115,635

### ➤ Stock (Performance)

- Eight companies offer performance based stock awards
- Median award: \$1,787,921

➤ Median stock award: \$2,933,916

➤ Median Total Equity Awards: \$3,215,226

➤ Median Total Equity Awards (*% of salary*): 325.1%

## ⌄ Plan-Based Equity Awards Percentiles (*% of salary*):

|                    |        |
|--------------------|--------|
| 90 <sup>th</sup> : | 720.7% |
| 75 <sup>th</sup> : | 527.2% |
| Median:            | 325.1% |
| 25 <sup>th</sup> : | 193.7% |
| 10 <sup>th</sup> : | 78.4%  |

## ⚡ **Average Annual Retirement Value**

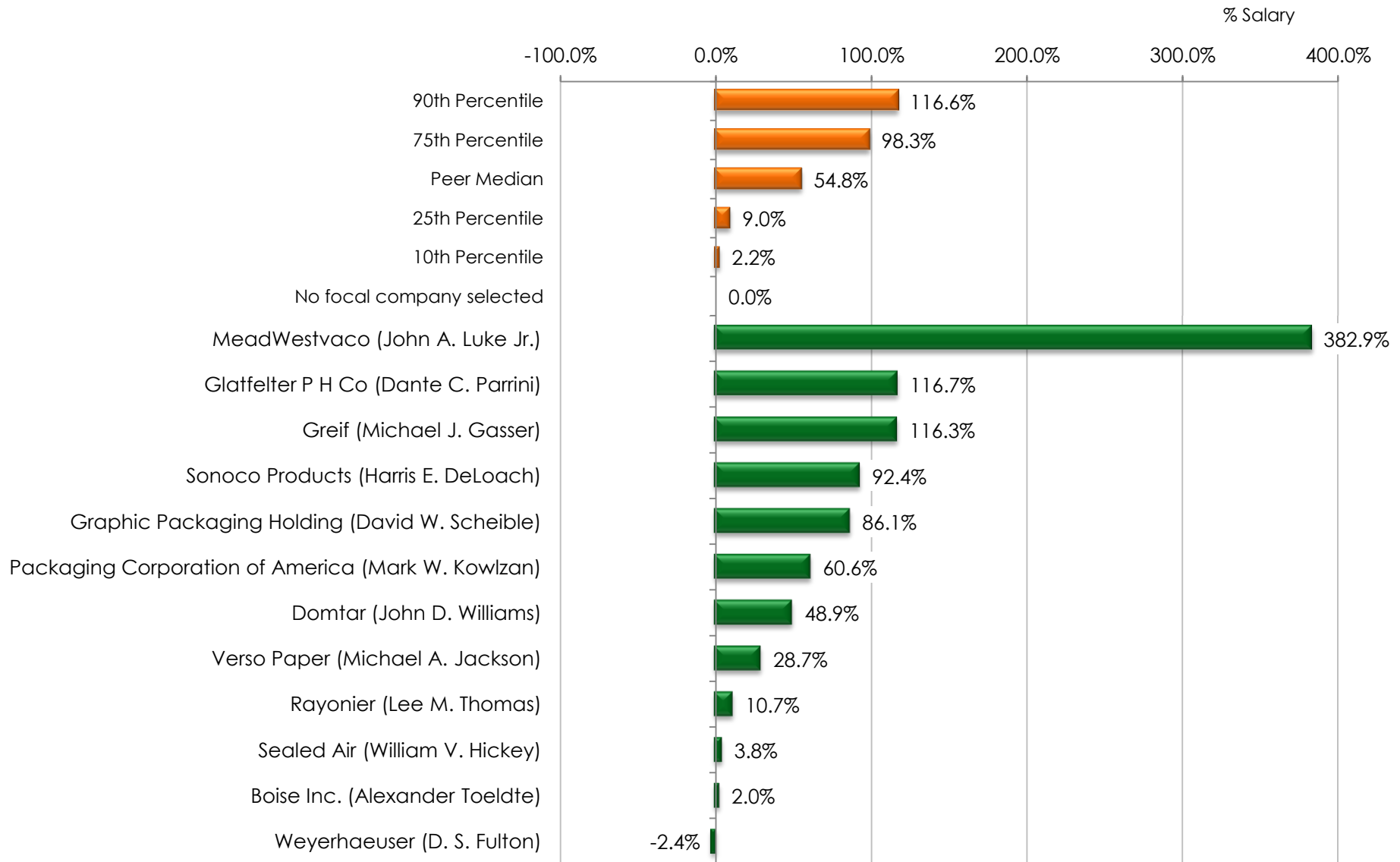
- Six companies appear to have incorporated retirement into Total Rewards
- Six companies appear to offer only a 401(k) match or a 409(A) match or restoration
- The peer group has a typically wide dispersion of contributions

## ⚡ **Retirement Compensation in Summary**

- These values are widely disbursed
  - Change in pension value can be quite large due to changes in actuarial assumptions
  - Values range between zero and an increase of over \$3.7 million
- Total Retirement (*change in pension, plus current contributions*)

|                    |              |                 |
|--------------------|--------------|-----------------|
| 90 <sup>th</sup> : | \$ 1,153,695 | (116.6% salary) |
| 75 <sup>th</sup> : | \$ 836,450   | (98.3% salary)  |
| Median:            | \$ 546,723   | (54.8% salary)  |
| 25 <sup>th</sup> : | \$ 81,266    | (9% salary)     |
| 10 <sup>th</sup> : | \$ 17,353    | (2.2% salary)   |

# Retirement Compensation in Summary: *CEO*



## ▲ Career Retirement Benefit

- Retirement Income Replacement Ratio (RIRR) based on current plan design, age and years of service
- RIRR is a life annuity expressed as a percentage of total cash compensation projected at age 65

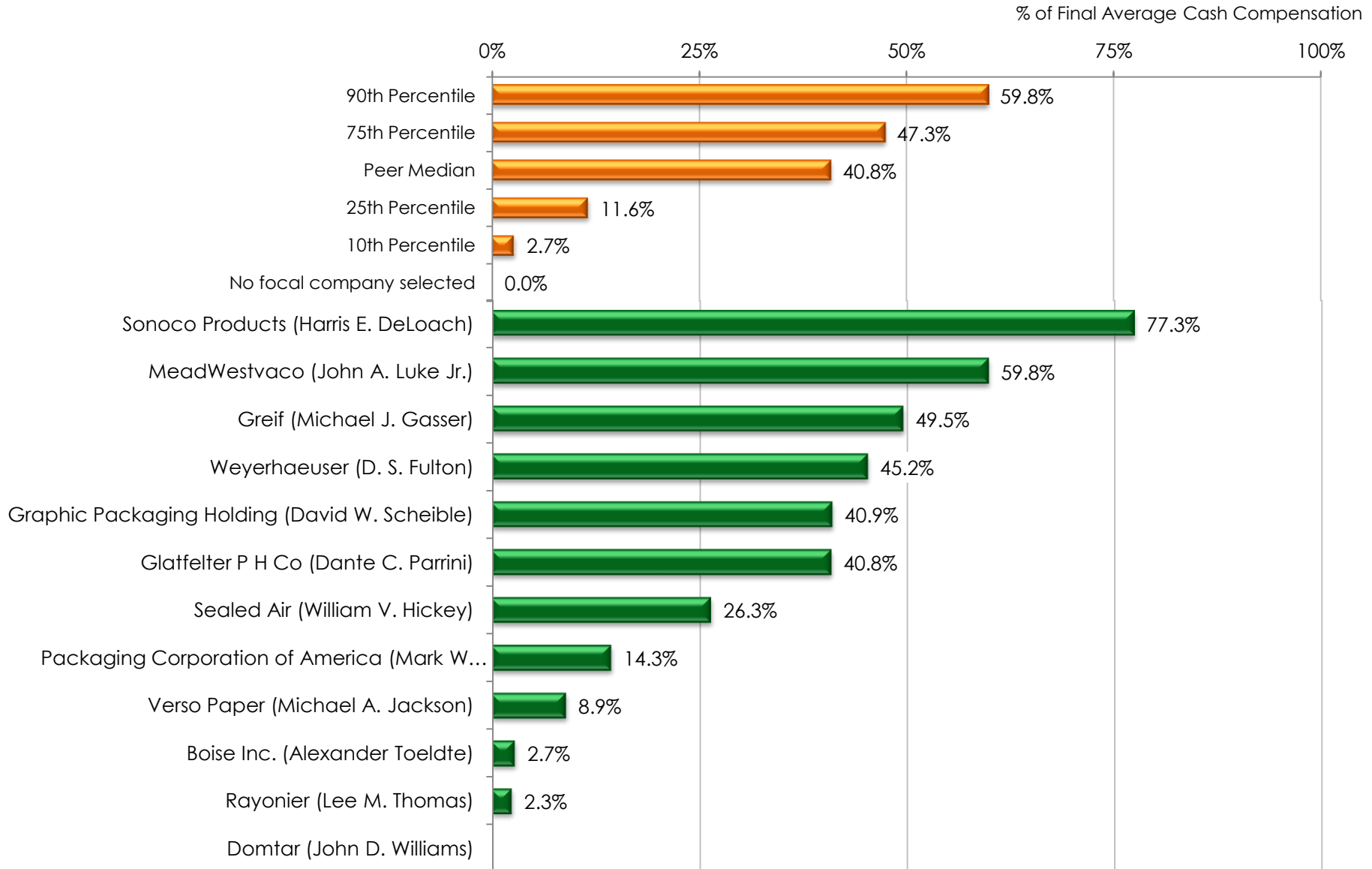
|                                       |             |
|---------------------------------------|-------------|
| <b>CEO median age:</b>                | 61          |
| <b>Median PV of retirement plans:</b> | \$1,654,726 |
| <b>Median YOS:</b>                    | 25          |
| <b>RIRR at age 65:</b>                | 40.8%       |

*Note: Wide dispersion caused by legacy defined benefit plans*

## ▲ RIRR at age 65 (% of cash comp)

|                    |       |
|--------------------|-------|
| 90 <sup>th</sup> : | 59.8% |
| 75 <sup>th</sup> : | 47.3% |
| Median:            | 40.8% |
| 25 <sup>th</sup> : | 11.6% |
| 10 <sup>th</sup> : | 2.7%  |

# Career Retirement Benefit (RIRR): *CEO*





## **Long Term Incentive Pay Mix**

### ➤ Mean Values

Performance stock: 47.1%

Time vested stock: 24.3%

Stock options: 16.8%

Long term NEIP: 11.8%

### ➤ The most common combination

- Performance stock
- Stock options

### ➤ 2<sup>nd</sup> most common

- Performance stock only

### ➤ 3<sup>rd</sup> most common

- Performance stock
- Time vested stock
- Stock options

## **Wealth Accumulation Pay Mix (WAP)**

➤ LTI + retirement contributions

➤ Mean Values:

Performance stock: 40.9%

Time vested stock: 20.3%

Retirement contributions: 17.2%

Stock options: 12.7%

Long term NEIP: 8.9%

# CASE STUDY SUMMARY

# Case Study Summary

- ▲ Peer Benchmarking for retirement contributions and retirement income replacement ratios tells a whole new story about Total Rewards
- ▲ Exposes imbalances
- ▲ Reveals opportunities
  - Negotiation
  - Target Benefit
  - Attraction
  - Retention
- ▲ Reorganize incentive compensation to longer term value creation

# **ACTION *for*** **COMPENSATION** **COMMITTEE**

1. Know your retirement data
  - What is your CEO's career RIRR?
  - Where is he/she positioned within the peer group?
  - How does he/she feel about retirement cash flow?
  - What is he/she willing to trade for it?
2. Develop a retirement strategy
  - No strategy is a strategy
  - Target income replacement
  - Incentive diversification
  - Compensation Risk (cost) Reduction
3. Call for help

# Executive Compensation Benchmarking

## ▲ Your Questions?

### Suggestions for future topics:

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