

# Fundamentals of Executive Compensation

JUNE 16, 2026 | PART ONE



# How to Interact During the Session

- We encourage you to turn camera on
- Raise hand in Zoom and ask questions live
- Type a message in “Chat” –  
Chat button is located on the webinar menu.



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*CEO*

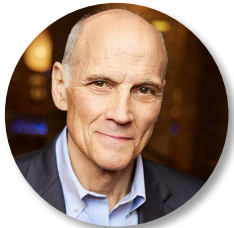
Center on Executive Compensation



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# Fundamentals of Executive Compensation



- **Part One:** Design Fundamentals



- **Part Two:** The Regulatory and Governance Context



- **Part Three:** Finance and Measurement Basics

## DESIGN FUNDAMENTALS



*11:10 a.m. ET*

**What makes executive compensation different?**

*11:25 a.m. ET*

**Executive compensation objectives and philosophy**

*11:50 a.m. ET*

**Target pay and peer group selection**

*12:05 p.m. ET*

***Break***

*12:10 p.m. ET*

**The elements of pay**

*1:00 p.m. ET*

**Breakout group exercise**

*1:40 p.m. ET*

**Other forms of pay**

*1:55 p.m. ET*

**Review and Day 2 assignment**

# What Makes Executive Compensation Different?

# Why isn't there a similar backlash about the pay of other highly paid professionals?

\$45.8 million



**Bob Iger**  
Chairman & CEO, Disney

\$70 million



**Margot Robbie**  
Actress

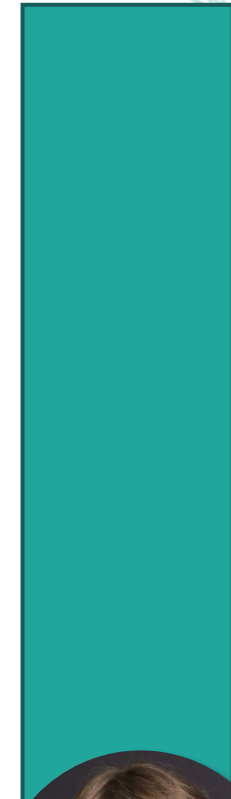
\$260 million



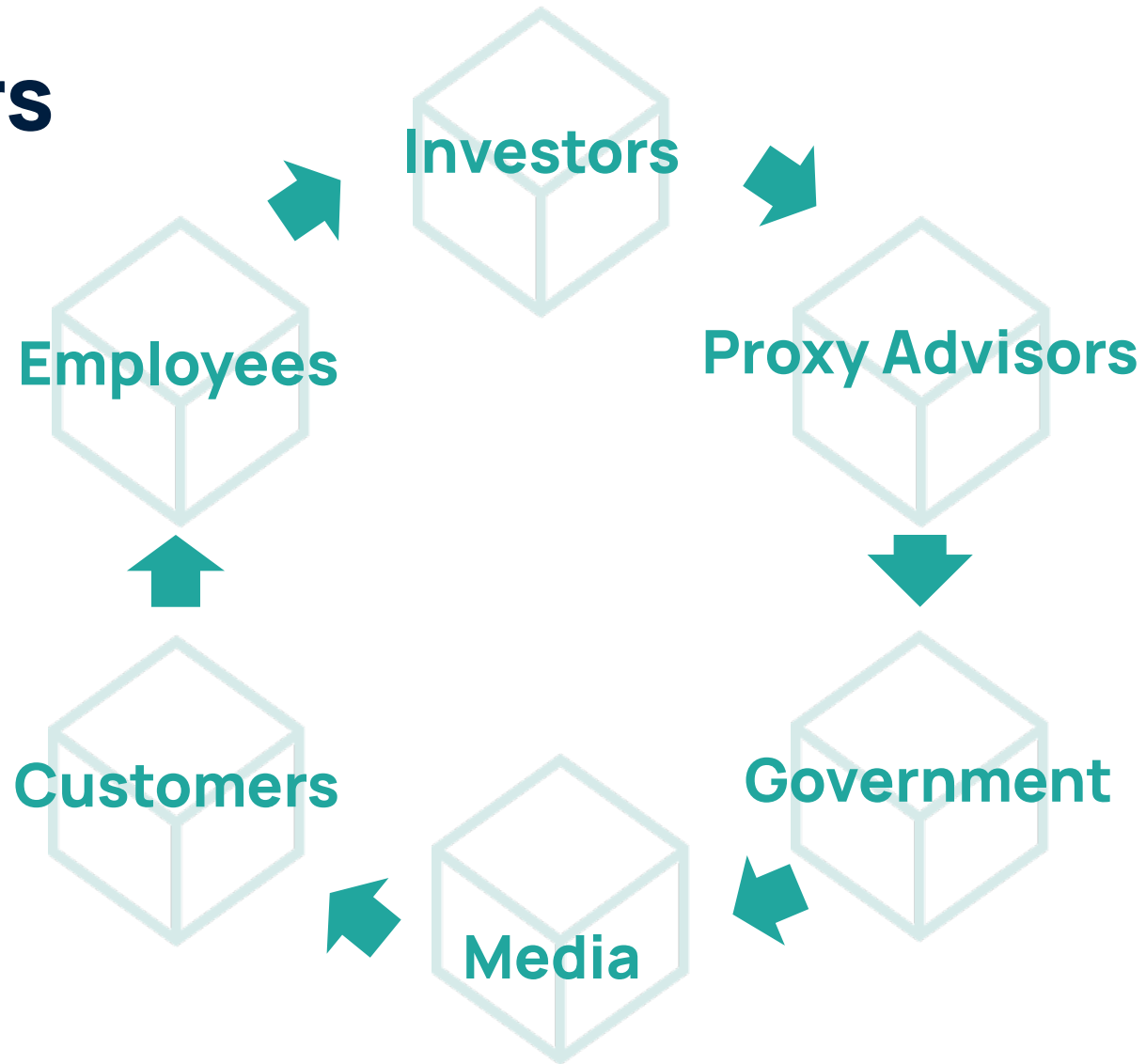
**Cristiano Ronaldo**  
Athlete



**Taylor Swift**  
Musician



# Key Stakeholders Influencing Executive Pay



# Investors

- One of the most influential stakeholder groups with differing interests and objectives
- Institutional investors have largest share of ownership
  - Mutual funds
  - Pension funds
  - Sovereign entities
- Activist investors challenge pay if excessive or misaligned with performance

# Proxy Advisors

- Analyze and advise institutional investors on proxy voting
- Two firms control most of the market and have significant influence on Say on Pay voting
  - Institutional Shareholder Services (ISS)
  - Glass Lewis
- Large investors develop custom voting policies; smaller investors vote according to proxy advisor recommendation
- Criticized by public companies (more on this later in the course)

# Government

- Increase in government oversight of pay over the past 20 years
- In the U.S., regulations typically included as part of broader legislation or tax code revisions
- Government agency with most direct impact is the Securities and Exchange Commission
- The SEC's influence resulted from increased disclosure requirements: expansion in what companies must disclose about the process used to determine pay and the actual amounts paid

# Media

- Both business and non-business media are important stakeholders
- Business media focus mainly on financial, business and governance issues
- Non-business media more likely to view executive pay negatively
- Social media activism can use executive pay issues to cause reputational damage

# Customers

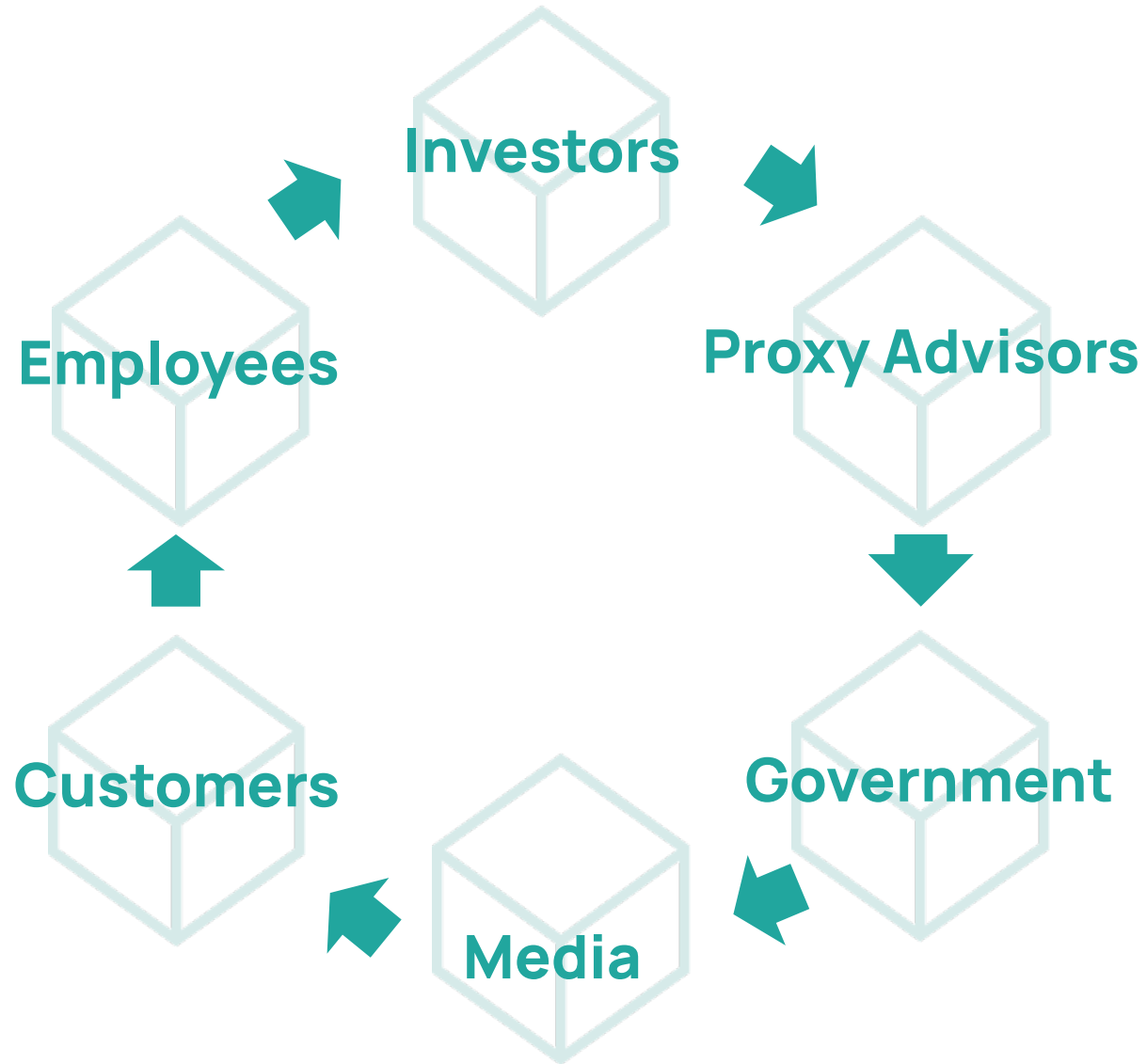
- Customers are an increasingly important stakeholder, especially for companies that sell products and services directly to consumers
- Brand reputation and consumer trust influences consumer behavior
  - A 2024 PwC Trust in Business study found that 4 in 10 customers no longer purchase from a company due to lack of trust. Consumers say ethics, disclosure, data protection and responsiveness are core to that trust.

# Employees

- To be effective, pay programs need to be understood and viewed as fair by executives
- Although most regulations impact the pay of a small number of executives, the overall climate influences the design of pay programs below the C-Suite
- The pay ratio requirement to disclose median worker pay may generate employee interest and concerns about rising inequality

# The Bottom Line

Designing executive pay programs requires balancing the interests of diverse stakeholders with differing objectives, motivations and interests.



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# Executive Compensation

*Objectives and Philosophy*

# Defining 3 Categories of Executives

## Executive Officer

- Section 16 Officers reportable under Securities Exchange Act of 1934
- Also called “Section 16 Officers”; executives in charge of a principal business unit or who perform a policymaking function of the company

## Named Executive Officers (NEOs)

- Defined by proxy reporting rules
- Compensation is required to be disclosed in the annual proxy
- Consists of CEO, CFO and next 3 most highly paid officers

## Company Designated Officers or Executives

- All positions that generally participate in annual and long-term incentives (may not meet criteria for Section 16 or NEOs)
- Number will differ by company
- Provides status and recognition of the person or role and its authority

# Objectives of Executive Pay

- What are the one or two most important objectives of your company's executive compensation program?



Chat

*Use the Chat button to answer.  
Chat is located on the webinar menu.*

# Common Objectives of Executive Pay

- Align the interests of management and shareholders
- Link pay to performance
- Attract and retain talent
- Create an effective incentive
- Manage risk

*Effective design requires tradeoffs between (sometimes) competing objectives.*

# Pay Philosophy: The Three Questions

- How much should we pay our executives?
  - Setting target pay position and comparator group
- How should pay programs be designed?
  - Pay components and mix
- What should we pay for?
  - Selecting performance measures

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# Executive Compensation

*Target Pay and Peer Group Selection*

# Target Pay

- What is the “right” level of pay to attract the talent we need?
- Business and talent context is critical to establishing target pay
- Most public companies target executive compensation at the median of their peer group

# Peer Group Selection: Stakeholder Perspective



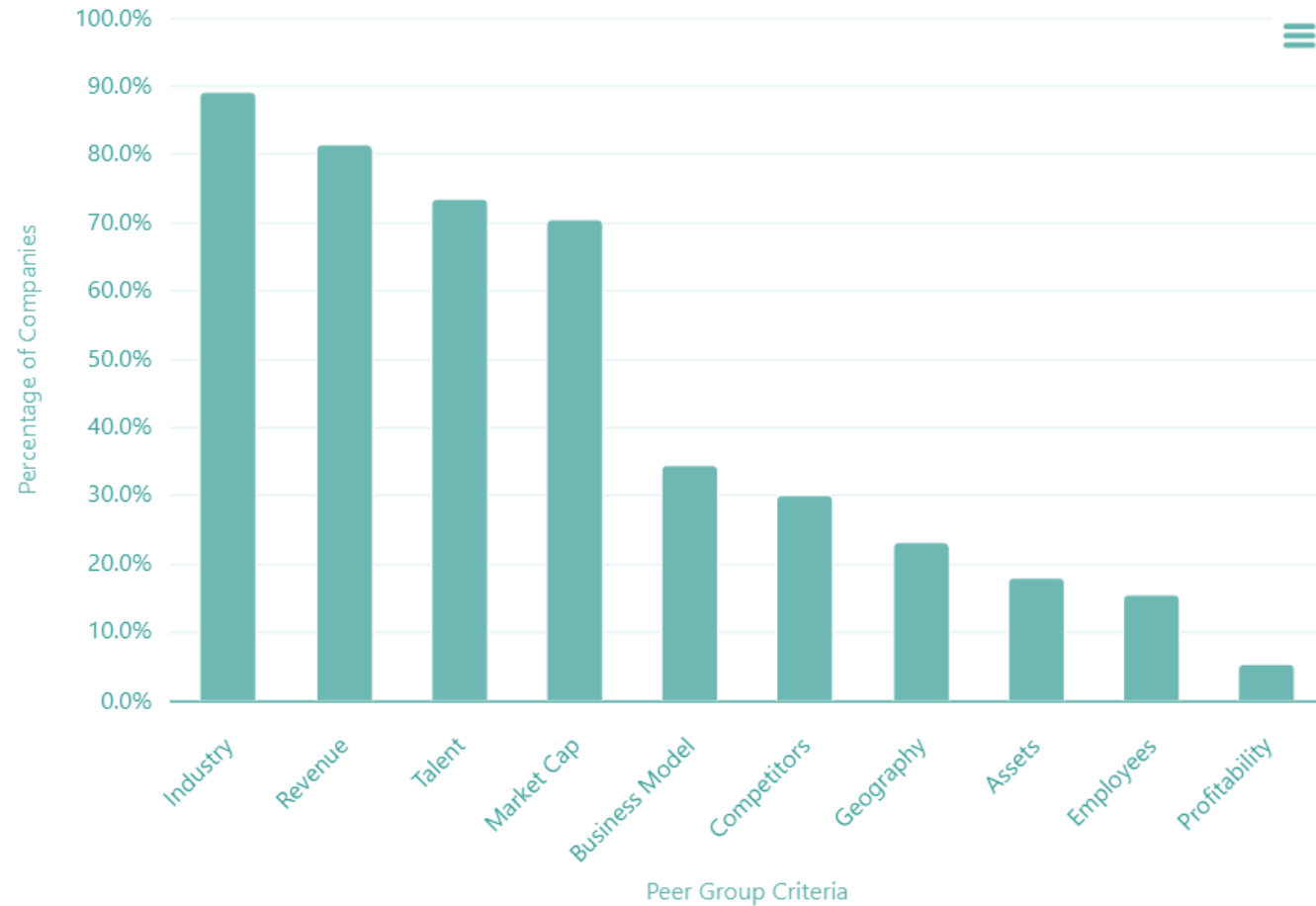
**Ira T. Kay**  
Managing Partner  
Pay Governance

# Establishing the Peer Group

- Peer groups are used in three primary ways:
  - Compare the amount of pay being delivered
  - Compare pay program design and practices
  - Compare performance in incentive plans
- Peer group selection often a source of tension between management and stakeholders, such as proxy advisory firms

# Peer Group Characteristics

- According to data from Equilar<sup>1</sup>:
  - 70% of companies have between 11 and 20 peers
- Industry is the most common criterion, followed by size (measured by revenue and talent market)



# Homework: Who are your company's executive compensation peers?

- Get a copy of your company's most recent proxy statement and find the section disclosing the peer group
- Be prepared to answer the following questions at tomorrow's session:
  - How many peers are listed?
  - Is the peer group used for comparing pay, performance or both?
  - What criteria is used to select the peer group?
  - Are there any companies you expected to see that didn't make the list? Any that made the list that were surprising to you? Why?



# Break

## *Our Session Will Resume Shortly*

Please read Day 1 Case Study if you have not already done so.

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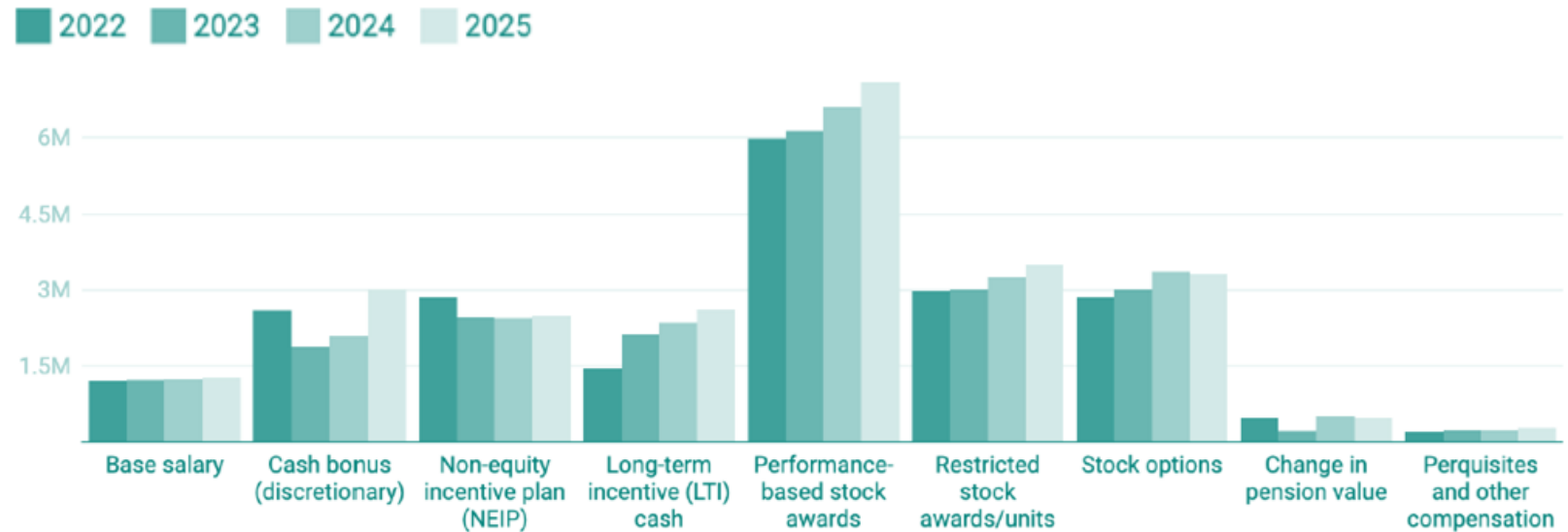
# The Elements of Pay

*Building a Pay Program*

# Elements of Pay

- Base salary
- Annual incentives (mostly cash)
- Long-term compensation (mostly stock-based)
- Other (benefits, perks, severance)

CEO compensation elements, median reported value (US\$), S&P 500, 2022–2025



Note: Data are current as of September 7, 2025.  
 Source: The Conference Board/ESGAUGE, 2025

*Stock-based compensation is the largest component of executive pay*

# Base Salary

- Smallest component of the total pay package, paid in cash
- Increases typically modest and infrequent
- Benchmarked to peer company data
- May be subject to symbolic cuts — for example, during recessions or company-specific financial distress

# Annual Incentives

- Significant portion of total compensation, paid in cash
- Target opportunity typically set as a percentage of base salary
- Actual amount earned based on performance

# Annual Incentive CEO Payout Trends

YEAR-BY-YEAR PAYOUT LEVELS IN THE CONTEXT OF THE MACROECONOMIC ENVIRONMENT

S&P 500	Payout		Revenue Growth		U.S. GDP <sup>1</sup>
	Avg.	Median	Avg.	Median	
2012	118%	110%	6%	4%	2.3%
2013	114%	113%	5%	4%	2.1%
2014	117%	115%	6%	5%	2.5%
2015	110%	107%	0%	1%	2.9%
2016	110%	111%	5%	3%	1.8%
2017	126%	119%	10%	6%	2.5%
2018	125%	125%	11%	7%	3.0%
2019	111%	111%	6%	4%	2.6%
2020	106%	100%	-1%	0%	-2.1%
2021	149%	148%	26%	14%	6.2%
2022	118%	116%	17%	11%	2.5%
2023	117%	115%	4%	5%	2.9%
2024	119%	113%	5%	4%	2.8%

<sup>1</sup> U.S. Bureau of Economic Analysis, "Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product"

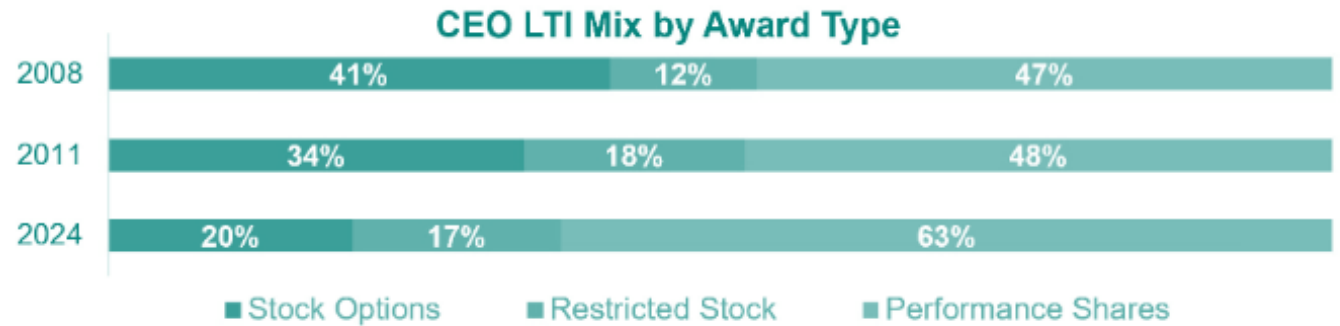
# Long-Term Compensation

- Aligns interests of management with shareholders
- Largest component of total compensation
- Most frequently paid in equity, but can be cash-based
- Accounting, tax and financial considerations can be complex\*
- Prevailing forms of LTI include:
  - Performance plans
  - Stock options
  - Restricted stock

*\* To be covered in Part Three*

# Top 250 CEO Equity Mix

- Performance awards: over half of the LTI opportunity
- 75% is at risk (Performance Awards + Stock Options/SARs)
- Stock options declined in prevalence over the past decade and held constant in recent years, while use of performance awards is nearly universal



Source: FW Cook Executive Compensation Surveys reflecting large-cap companies

*FW Cook, 2025 Top 250 Report*

# Performance Plans

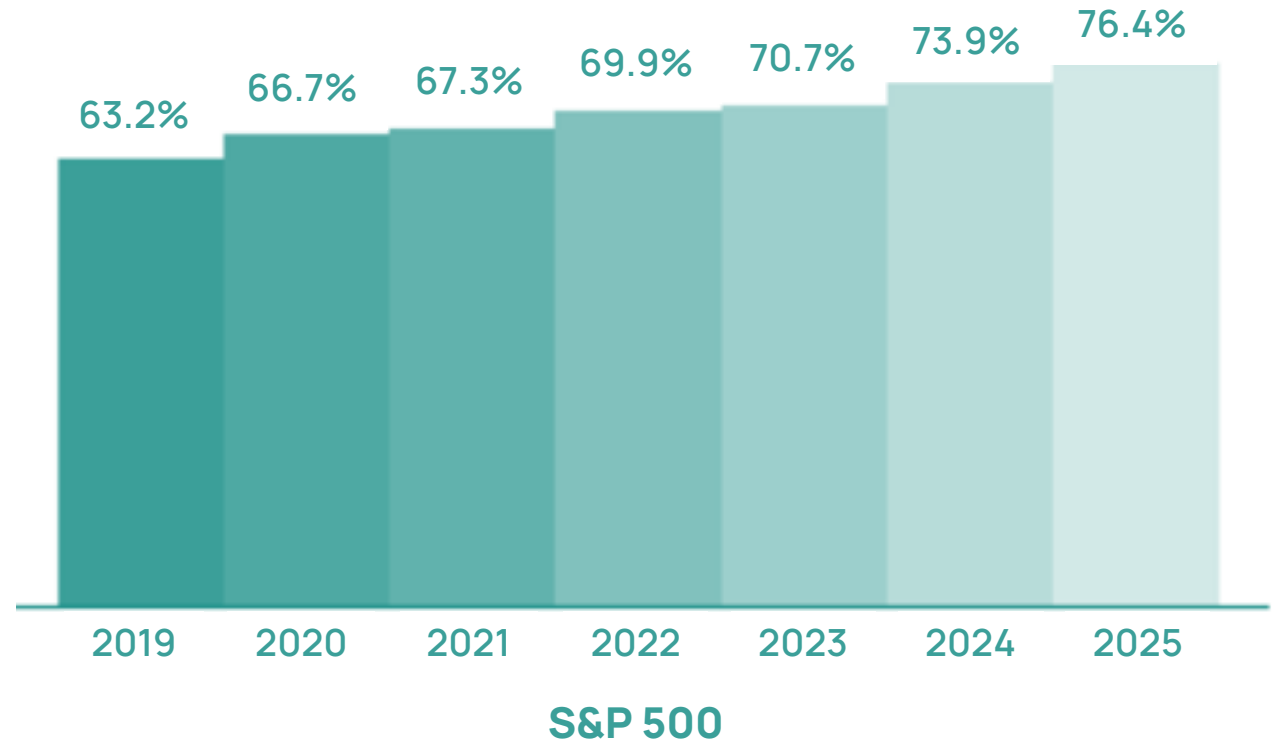
- Most common form of long-term incentive
- Amount earned depends on performance against an established metric over time
- Most common performance period is three years
- Paid in stock or cash

# Stock Options

- The right to purchase a share of stock at a specified price for a set period of time
- Provides partial alignment of management with shareholders
  - Recipient receives upside benefit but not downside risk
- Stock Appreciation Rights (SARs) operate in a similar fashion
  - No underlying right to purchase stock; right to receive gain from the share appreciation

# Restricted Stock

- Grant of shares of stock with vesting contingent only on the passage of time and continued employment
- Value depends on stock price performance
- RSUs have become more prevalent in CEO pay



*Source: Russell Reynolds/The Conference Board 2025*

# Your Breakout Rooms

- You'll each be assigned to a Breakout Room for a team exercise: "Navigating CEO Pay Issues"
- Review the short case exercise and discuss

# Group Discussion

*How would you handle the situation  
with the CEO of SmartCo?*

# Other Forms of Pay

- **Inducement or “hire on” pay:** Hiring executive talent from outside the company often requires granting significant amounts of compensation to address two factors:
  - Risk to the executive
  - Replacement of existing awards
- **Risk Considerations:** new company culture, nature of the business challenge, reputation and history of person being replaced, reputation of the management team and board

# Inducement Compensation

- Buyout of existing LTI awards is complex and depends not only on establishing value of compensation being forfeited but also the philosophy of the organization
- Inducement packages generally composed of time-based equity
  - Performance conditions becoming more common

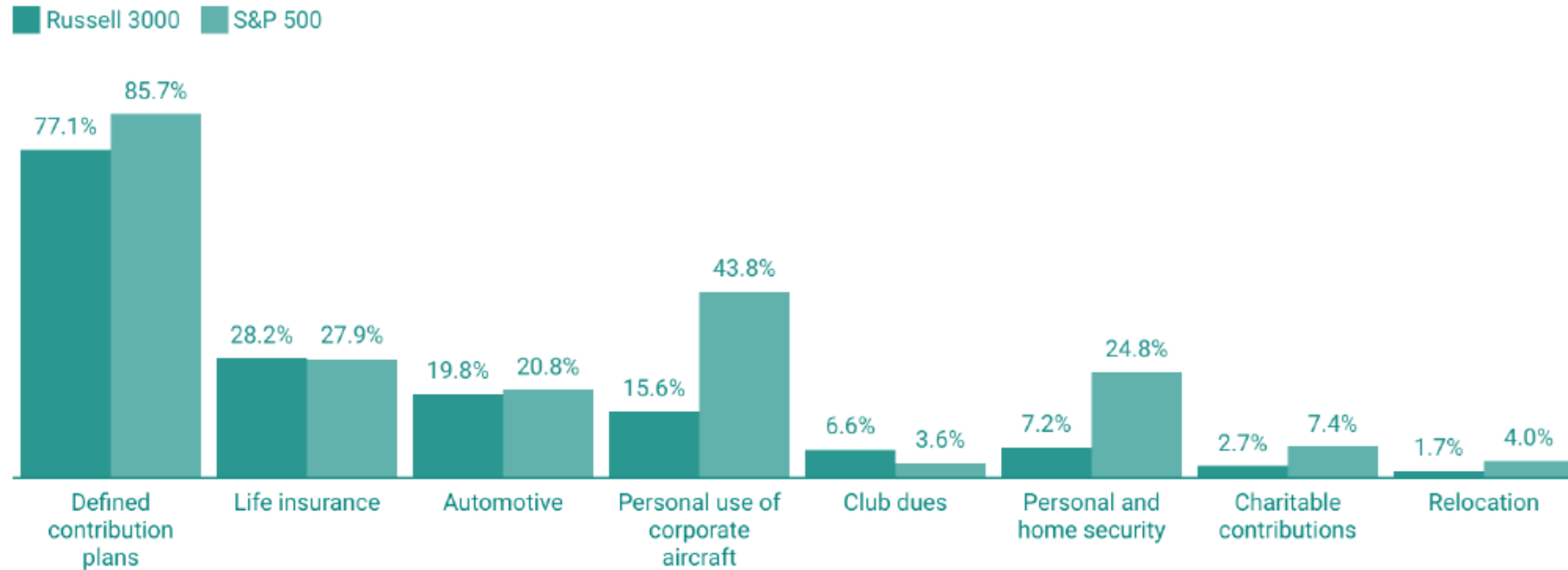
# Severance Packages

- Typically, three basic components:
  - Cash payment(s)
  - Treatment of outstanding awards under existing compensation arrangements
  - Continuation of benefits and other perquisites
- Severance typical when the executive's exit is involuntary
- Severance arrangements are also used in conjunction with corporate transactions (mergers, acquisitions, divestitures)

# Benefits and Perquisites

## Perquisite prevalence varies by company size and sector

Prevalence of selected perquisite types in reported CEO compensation, 2025



Note: Data are current as of September 7, 2025.  
 Source: The Conference Board/ESGAUGE, 2025

# Executive Security on the Rise

- Following the UnitedHealthcare CEO homicide, companies have re-evaluated their security programs
  - Median spending on security perks increased 119.5% from 2020 to 2024 for NEOs
  - Now median spend is \$106,500
- 37% of S&P 500 disclosed enhanced security for CEOs (up from 28% in 2023 and 18% a decade ago)
- The Center has advocated to the SEC that security costs should not be considered an executive perk and not be included in Summary Compensation Table figures

# Other Benefits and Perquisites

- Personal use of corporate aircraft
  - Often provided for security and efficiency purposes
  - Most prevalent perk, provided to 41% of S&P 500 CEOs
  - Median annual limit: \$150,000 or 75 hours
- Home/personal security services
- Executive physicals
- Financial/tax planning
- Non-qualified deferred comp/supplemental retirement plans
- Lifestyle Spending Accounts are emerging to better support employee wellbeing, choice and engagement

# Fundamentals of Executive Compensation

*Part One Recap*

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# Thank you!