

# Are Your Board Compensation Practices Keeping Pace?

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*A Compensation Committee Series Webinar*

Presented by NACD and Pearl Meyer

March 17, 2022

# Presenters



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# Housekeeping



- Submit a question and receive your answer directly from the presenters, 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.
- Presentation slides are available today at [www.pearlmeier.com/2022-director-compensation](http://www.pearlmeier.com/2022-director-compensation) and within the webinar console.
- The replay will be available early next week at [www.nacdonline.org/webinars](http://www.nacdonline.org/webinars) and [www.pearlmeier.com/2022-director-compensation](http://www.pearlmeier.com/2022-director-compensation).

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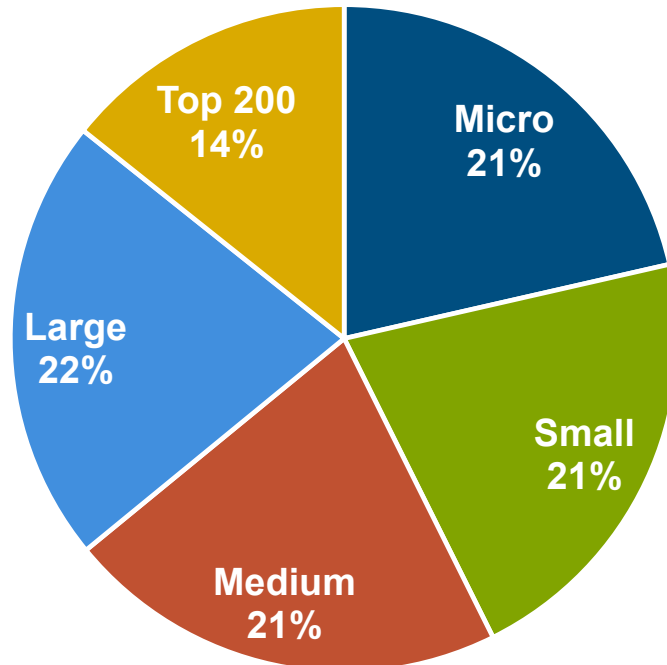
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- Boards face enhanced pressure in several areas, including trying to navigate the pros and cons of returning to in-person work, a highly competitive talent market exacerbated by the “great resignation,” supply chain bottlenecks and inflation, and the potential for an economic slowdown.
- Directors are being asked to step up and lead in new and different ways. Their responsibility has evolved and broadened beyond the traditional focus on profitable growth, including:
  - Asking the right questions and requesting data to provide insights into current ESG issues, DE&I metrics, measurement, and goals
  - Looking more deeply at organizational culture, level of organizational health, and how culture will need to evolve to drive future growth
  - Working on effectively leveraging the board’s diversity and ensuring the organization is benefiting in turn
  - Ensuring a strong, diverse leadership talent bench, beyond traditional aspects of governing the organization
  - Keeping up with environmental, societal, technological, and economic changes that impact a company’s strategic direction
- Despite the increasingly complex and dynamic environment that boards must navigate, director compensation levels continue to see modest year-over-year growth.

# Director Compensation Data

## 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

# Total direct compensation increased by +3% relative to the prior year

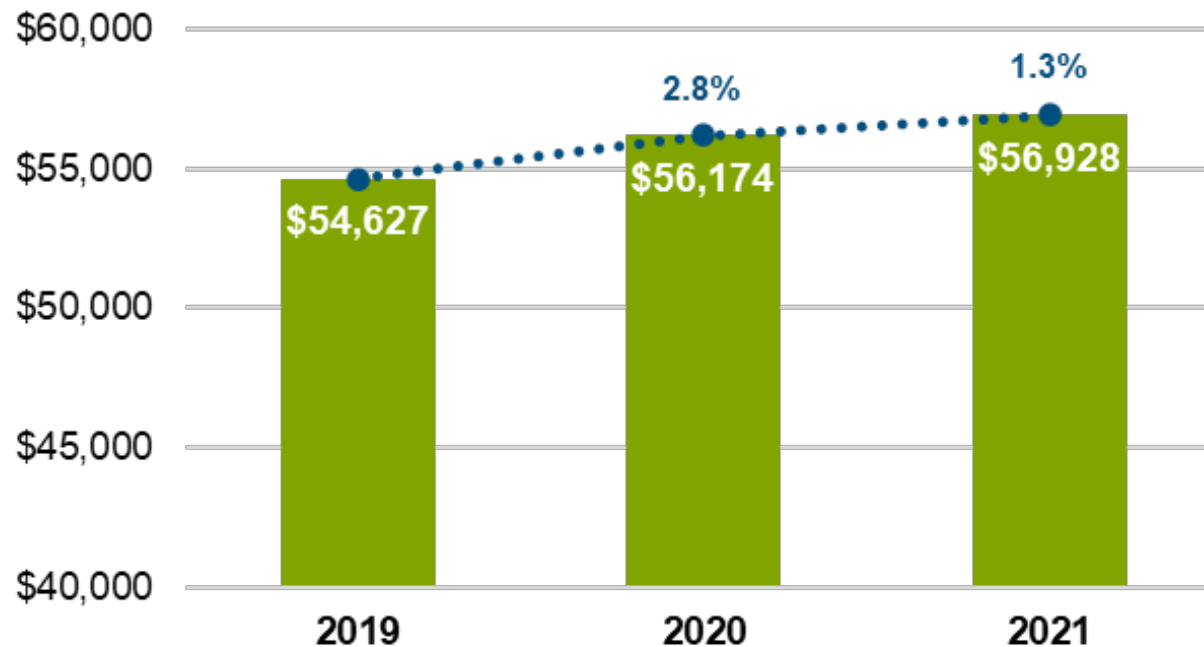


	Total Direct Compensation		Annual Growth in Median Total Direct Compensation												
	2021	2020	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	
Micro	\$133,171	\$125,000	7%	-0%	5%	-3%	2%	4%	9%	4%	4%	1%	6%	20%	
Small	\$181,000	\$177,318	2%	2%	3%	2%	6%	5%	3%	1%	11%	2%	6%	10%	
Medium	\$213,727	\$203,019	5%	2%	4%	-0%	6%	-1%	1%	5%	4%	4%	8%	13%	
Large	\$252,750	\$246,373	3%	2%	3%	1%	4%	1%	3%	5%	6%	4%	6%	7%	
Top 200	\$309,773	\$305,250	1%	4%	3%	2%	3%	3%	3%	2%	4%	6%	1%	5%	
<b>All Firms</b>	<b>\$221,557</b>	<b>\$214,115</b>	<b>3%</b>	<b>3%</b>	<b>2%</b>	<b>2%</b>	<b>4%</b>	<b>3%</b>	<b>1%</b>	<b>3%</b>	<b>6%</b>	<b>3%</b>	<b>5%</b>	<b>11%</b>	

# Over the last year, the average retainer for an independent director in a privately-held board increased by 1.3%



Private board annual retainer over time  
(mean)





# The prevalence of female board members continues to increase



	Organization Size						Prior Year
	Micro	Small	Medium	Large	Top 200	All Firms	All Firms
Median No. of Directors (a)	7	8	9	10	12	9	9
Median Director Age (yrs)	64	63	64	64	64	64	64
Median Director Tenure (yrs)	6.4	6.4	7.3	7	6.3	6.7	6.7
% with 1 year term	60%	56%	66%	77%	93%	69%	67%
Mandatory Retirement Age (yrs)							
Prevalence of disclosure	27%	40%	47%	61%	78%	49%	50%
Median Retirement Age	75	75	74	75	74	75	75
<u>Gender Diversity</u>							
% of companies with ≥ 1 female director	82%	96%	97%	99%	100%	94%	92%
% of companies with ≥ 2 female directors	43%	67%	78%	88%	98%	73%	69%
% of companies with ≥ 3 female directors	15%	27%	42%	54%	82%	41%	35%
Combined CEO/COB Role	36%	32%	31%	37%	50%	36%	37%
Median No. of Board Meetings	8	7	8	8	8	8	7

(a) Includes non-employee and employee directors

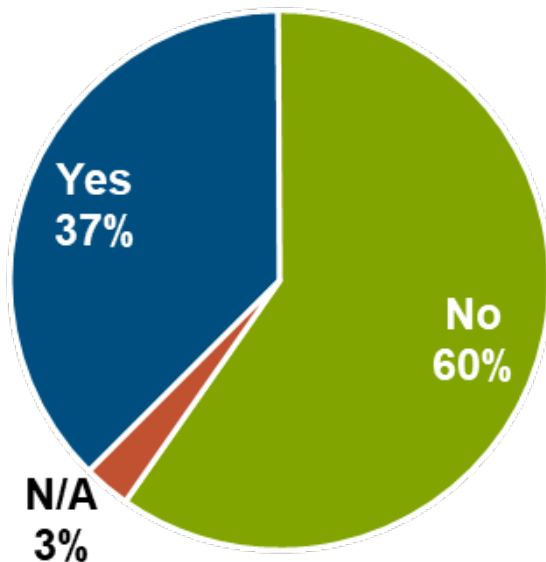
- ≥ +10% pts. Higher than last year
- > +5% pts. Higher than last year

Source: Main Data Group

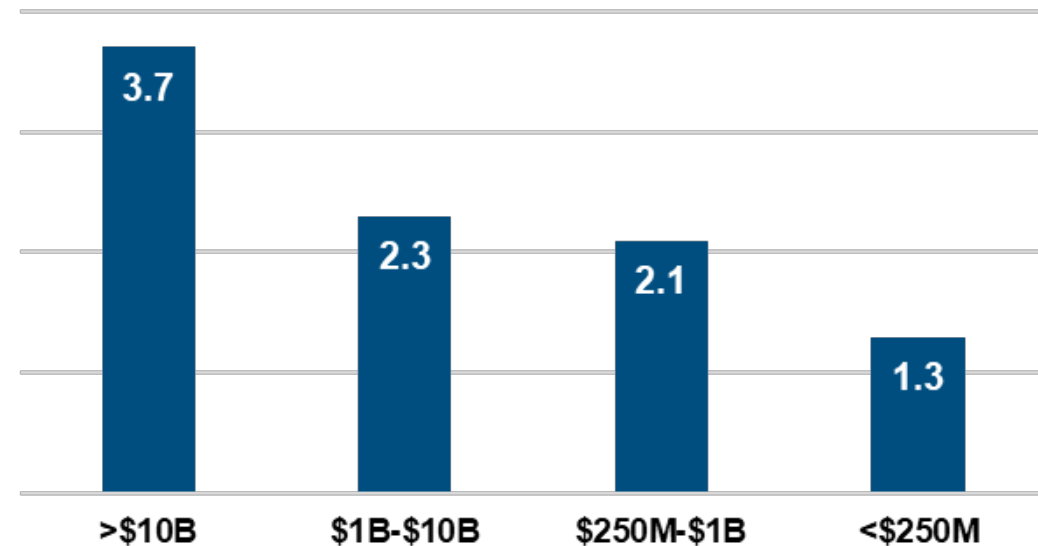
# The average number of board seats held by women and other underrepresented groups also continues to increase in private boards



Has your board recently appointed a candidate from an underrepresented group?



Women Per Board by Company Annual Revenue



# Polling Question #1



Is the composition of your board aligned with board gender goals?

- A. We don't have formal board gender goals
- B. Yes, we are fully aligned
- C. We expect to be fully aligned next year
- D. We expect to be fully aligned in two or more years

# Polling Question #2



Is the composition of your board aligned with board diversity goals?

- A. We don't have formal board diversity goals
- B. Yes, we are fully aligned
- C. We expect to be fully aligned next year
- D. We expect to be fully aligned in two or more years

# Boards continue to simplify pay by relying more on cash and equity rather than committee pay

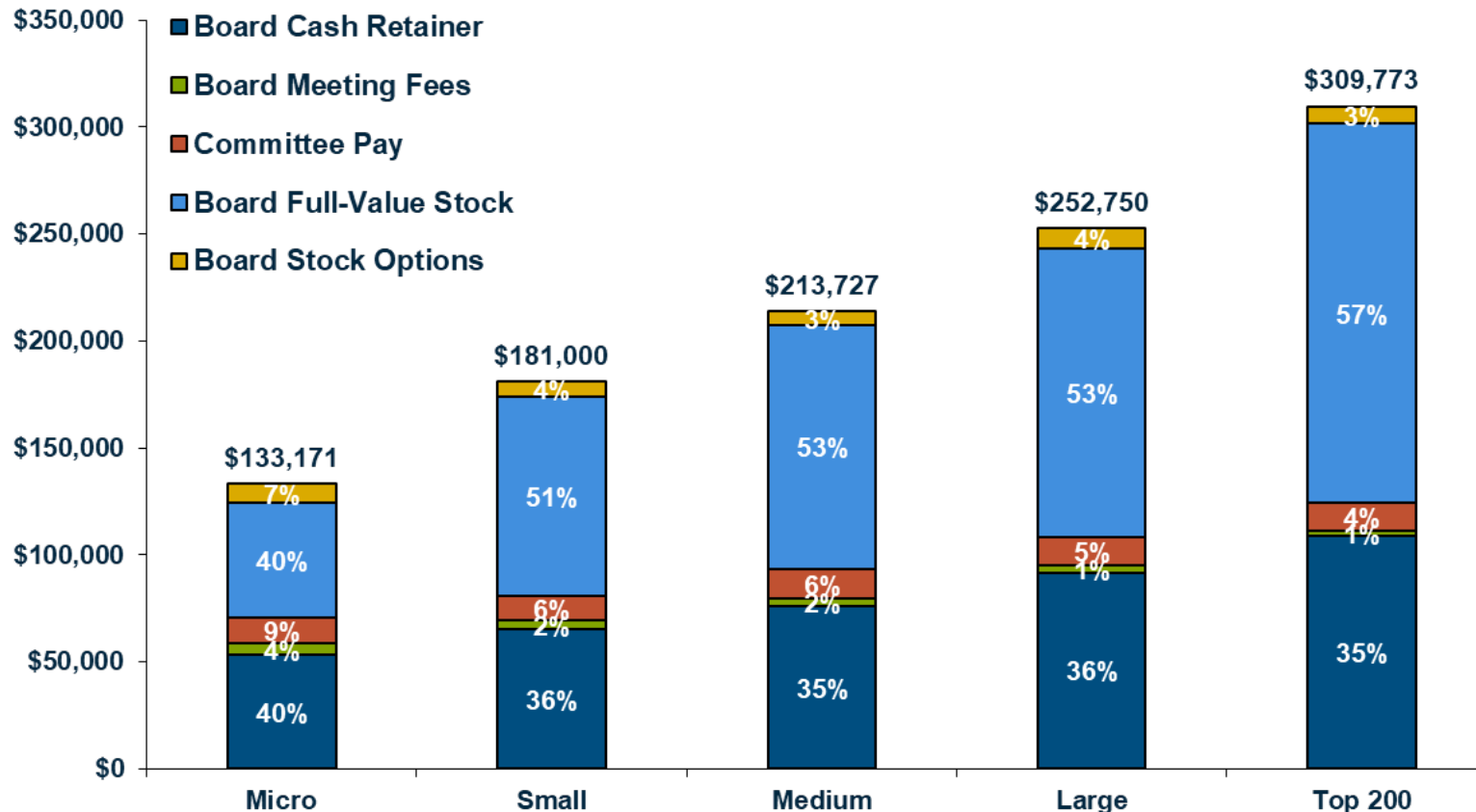


		All Firms						
		2021	2020	2019	2018	2017	2016	5-year Change
Cash	Median Annual Cash Retainer	\$75,000 4%	\$72,000 3%	\$70,000 6%	\$66,000 6%	\$62,500 4%	\$60,000	25%
	Median Average Committee Compensation	\$9,410 -2%	\$9,640 -4%	\$10,000 0%	\$10,000 -13%	\$11,460 4%	\$11,000	-14%
	Prevalence of Board Meeting Fees	17% -2%	19% -2%	21% -2%	23% -4%	27% -2%	29%	-12%
Equity	Median Equity Award	\$130,000 4%	\$125,000 0%	\$125,000 4%	\$120,000 0%	\$120,000 9%	\$110,000	18%
	Median Total Direct Compensation	\$221,557 3%	\$214,115 3%	\$207,938 2%	\$203,031 2%	\$199,938 4%	\$191,440	16%
	Median Total Board Cost	\$1,702,500 4%	\$1,644,472 3%	\$1,596,250 3%	\$1,555,393 0%	\$1,550,002 5%	\$1,471,764	16%

# Full-value stock continues to account for the largest portion of director pay



Median TDC and Pay Mix by Company Size

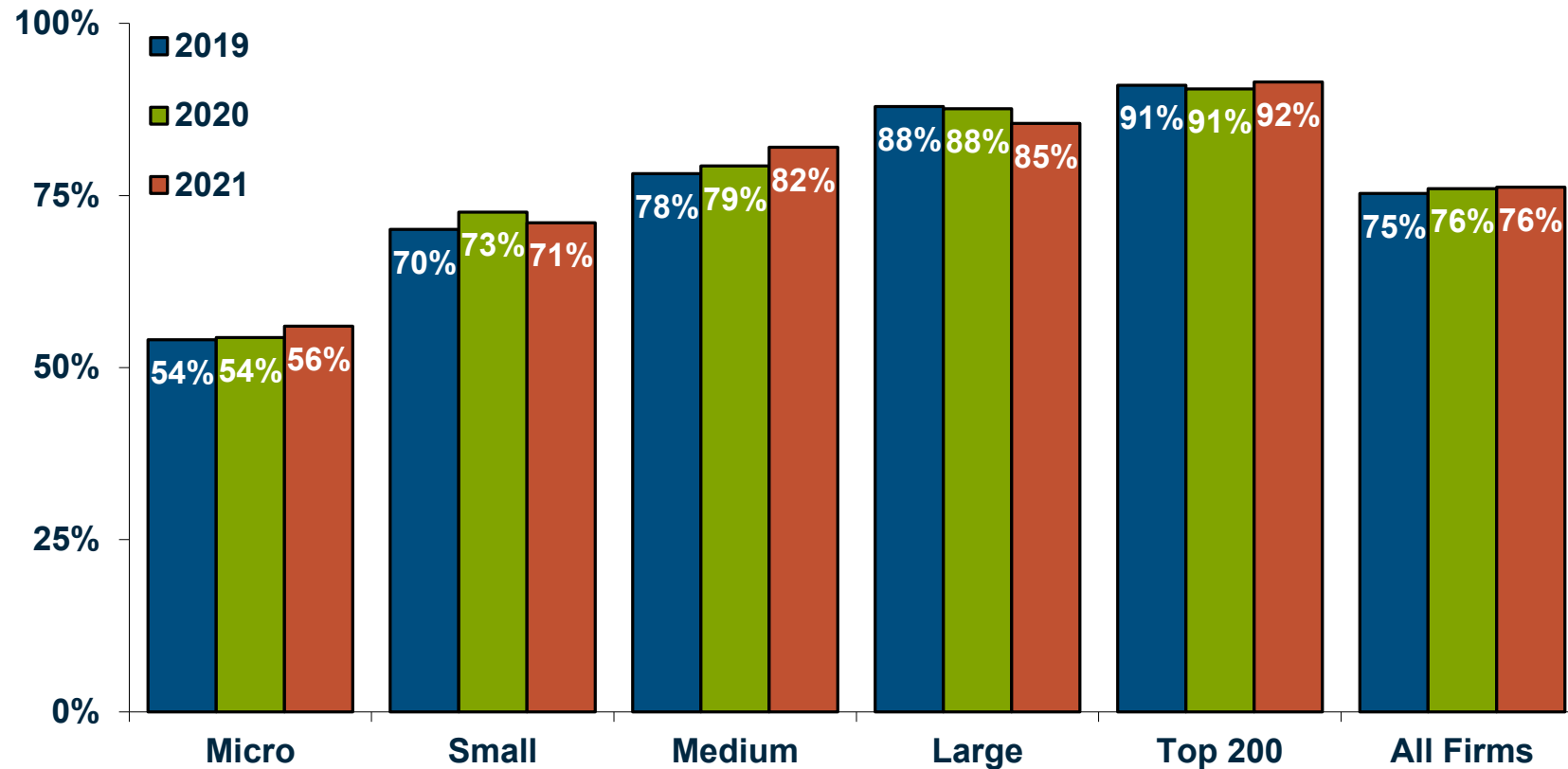


Source: Main Data Group

# Equity compromises over 50% of the total director pay package for all size categories



Prevalence of Companies Delivering  $\geq 50\%$  of TDC in Equity



Source: Main Data Group

# Most companies set equity awards as a fixed value because it enables more precise control over compensation



Equity Grant Practices: Fixed Values vs Fixed Shares							
	Micro	Small	Medium	Large	Top 200	All Firms	Prior Year All Firms
<b>Total Firms Providing Equity</b>	83%	92%	93%	95%	99%	92%	93%
<b>Grant Determination</b>							
Fixed Value	73%	82%	88%	92%	94%	86%	86%
Fixed Shares	24%	17%	9%	6%	4%	12%	11%
Combination	3%	1%	3%	2%	3%	2%	3%

Source: Main Data Group



# Polling Question #3



Did you or do you expect to reduce the board equity grant value because of declining stock prices:

- A. No
- B. Yes, we approved the 2022 board equity grant already, which was less than the target amount or the value we granted last year
- C. We have not made the grant yet, but we may reduce the board equity value in 2022
- D. We have not made the grant yet, but we don't expect to reduce the board equity grant value in 2022

# Polling Question #4



How do you structure equity grants for new board members before the first annual granting date?

- A. We make our first equity grant to board members at the annual granting date
- B. We provide all new board members with a pro-rated equity grant when they begin board service based on the numbers of months worked from the start date to the annual granting date
- C. We provide an equity grant at or around the date a new members begins service regardless of the months worked before the annual grant date

# Stock ownership guidelines serve as an important link between the interests of directors and shareholders



Prevalence of Stock Ownership Guidelines (SOG)							
	Micro	Small	Medium	Large	Top 200	All Firms	Prior Year All Firms
% of Companies with Any Form of SOG	58%	73%	85%	91%	95%	80%	81%
% of Companies with a Multiple of Retainer SOG	50%	63%	78%	80%	85%	70%	71%
Median Multiple of Retainer Requirement	3.0	4.0	5.0	5.0	5.0	5.0	5.0
% of Companies with Share SOG	5%	6%	5%	7%	9%	6%	7%
% of Companies with Dollar SOG	6%	8%	5%	8%	8%	7%	7%
Median Dollar Value Requirement	\$198,000	\$300,000	\$325,000	\$400,000	\$600,000	\$325,000	\$350,000
Median Time Frame (yrs)	5	5	5	5	5	5	5

Holding Period Requirements							
	Micro	Small	Medium	Large	Top 200	All Firms	Prior Year All Firms
% with Holding Requirements	33%	30%	35%	42%	43%	37%	35%
Type of Holding Guideline							
Until or Beyond Retirement	17%	15%	20%	20%	46%	23%	22%
Until Ownership Guideline Achieved	64%	68%	69%	68%	39%	62%	62%
Other / Unknown	19%	18%	11%	13%	16%	15%	16%

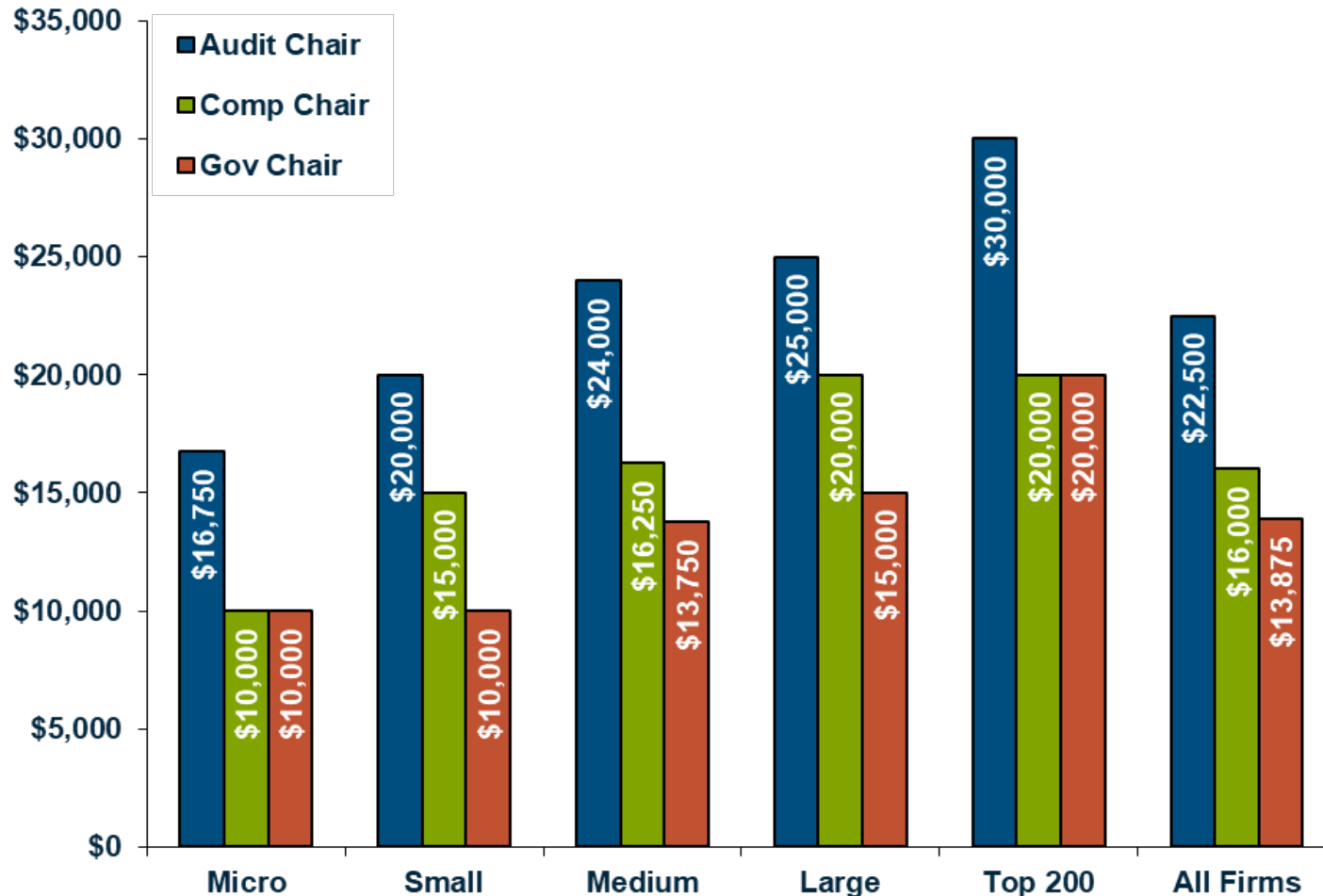
≥ +5% pts. higher than last year  
 ≥ -5% pts. lower than last year

Source: Main Data Group

# Committee chair premiums are commonly used to acknowledge the increased time commitment and additional responsibility of the role

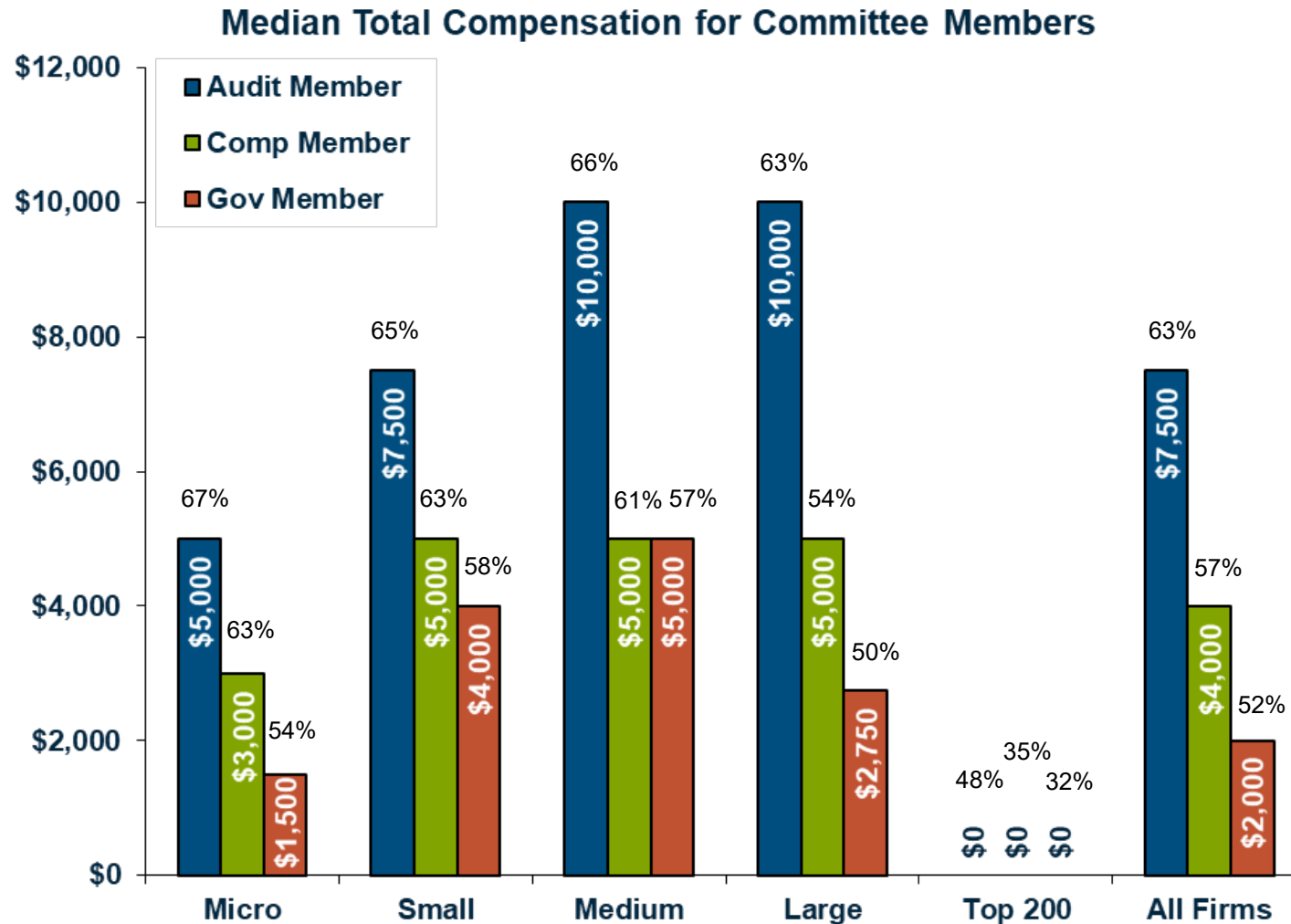


Median Total Compensation for Committee Chairs



Source: Main Data Group

# Retainers vary by committee based on expertise and time commitment requirements



Source: Main Data Group

# A larger premium is typically provided to non-executive board chairs relative to other types of board leadership



Compensation for Non-Exec Leadership				
Median TDC for Board Leadership			Median Board Leadership TDC as a Multiple of Board Member TDC (a)	
	Non-Executive Chair	Lead/ Presiding	Non-Executive Chair	Lead/ Presiding
<b>Micro</b>	\$180,000	\$150,000	1.36x	1.14x
<b>Small</b>	\$257,100	\$196,081	1.44x	1.13x
<b>Medium</b>	\$299,000	\$235,000	1.48x	1.13x
<b>Large</b>	\$365,000	\$275,000	1.53x	1.13x
<b>Top 200</b>	\$485,000	\$340,000	1.66x	1.13x
<b>All Firms</b>	\$295,491	\$255,000	1.47x	1.13x

(a) Excludes fees for committee service.

Source: Main Data Group

# Future Planning



- Director responsibilities continue to evolve and expand, requiring boards to examine board structure and committee responsibilities.
  - ESG and HCM goal identification and setting, succession planning, and leadership development may be handled by the full board or committees.
  - Has your board reviewed board and committee responsibilities recently?
- Diversity is and continues to be a top priority for boards. Boards should consider establishing formal policies to achieve their diversity goals and set timeframes.
- Private company boards pay less than public companies. Private companies may need to consider raising pay to recruit diverse candidates and those with specialized backgrounds.
- Board leadership pay varies significantly, and survey compensation data may not reflect how best to set board leadership pay.

# Questions

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Use the “Ask the Experts” box in your webinar console to submit a question for the presenters.



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