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CEO and Executive Compensation Practices in the Russell 3000 and S&P 500
2020 EDITION
by Paul Hodgson and Matteo Tonello

CEO and Executive Compensation Practices in the Russell 3000 and S&P 500: 2020 Edition documents trends and developments in senior management compensation at 2,402 companies issuing equity securities registered with the US Securities and Exchange Commission (SEC) that filed their proxy statement in the period between January 1 and June 30, 2020, and, as of January 2020, were included in the Russell 3000 Index. In addition to total compensation figures, the study offers details on base salaries and incentive-related elements of a typical compensation package—including annual bonuses (discretionary bonus plus nonequity incentive), stock awards (including long-term incentive cash), and stock option grants—as well as on perquisites and, unlike many other annual publications on the subject, changes in pension value. The compensation analysis includes both CEOs and other named executive officers (NEOs).

The project is a collaboration among The Conference Board, compensation consulting firm Semler Brossy, and ESG data analytics firm ESGAUGE. See “Access Our Online Dashboard” on page 18 for more information on the study methodology. Visit conferenceboard.esgauge.org/executivecompensation to access and manipulate our data online.

The following are the key findings and insights.

Over the last decade, the prevalence of base salary, annual bonus, and perquisites as elements of compensation for CEOs has remained fairly constant in both the S&P 500 and the Russell 3000. What keeps increasing, however, is the use of stock awards.

Since 2010, the use of stock awards has increased by almost 13 percentage points in the Russell 3000 (70.8 to 83 percent) and by almost 6 percentage points in the S&P 500 (87.6 to 93.8 percent). In contrast, recourse to stock options has dropped by over 20 percentage points in the S&P 500 and just under 20 in the Russell 3000 index. (See “Stock Awards and Stock Options Categories in the Summary Compensation Table,” page 19).
Insights for What’s Ahead

Recent trends in executive compensation practices offer actionable insights for boards seeking to adjust to the challenges ahead—in particular, those posed by the uncertainties of the COVID-19 crisis.

- The prevalence of stock awards is likely to continue in the near future, but given the difficulty of setting long-term operating, financial, or stock performance targets in these uncertain market conditions, companies may wish to move away from using performance-restricted stock and opt for simple time-restricted stock. Such a decision is likely to meet resistance from institutional investors, who understand the challenges of performance-based equity grants in these economic and market conditions but may nonetheless wish to retain them. Ultimately, companies will need to use alternative metrics for future grants. Retaining an element of risk and relative performance will require a heightened level of disclosure and shareholder engagement to inform investors’ case-by-case analysis of such changes.

- Stock options may become more common. However, compensation committees should consider whether it is prudent to link stock grants to estimated dollar value, which can lead to grants with an inflated number of shares when stock prices are very depressed due to the pandemic. Similarly, any company awarding stock options during 2020 and into 2021 will need to be very careful about the timing of such awards so that they cannot be seen as exploiting a depressed stock price resulting from economic effects outside of management’s control.

- This year’s disclosed base salary, as a proportion of total pay, is likely to decline for both CEOs and NEOs—though it will be more pronounced for the former. Such a decline is likely to be due to the number of executives whose base salary was reduced due to the COVID-19 emergency. (See “Executive Compensation Changes in the COVID-19 Era,” page 11.) Even though only a subset of Russell 3000 companies announced such reductions, they affected a significant enough number to influence aggregate statistics on pay mix.

- Including changes in pension value has, in recent years, driven increases to total reported compensation for NEOs. With the potential decline in other forms of pay attributable to the economic effects of the pandemic, pensions and other retirement benefits are likely to be unaffected or, at the very least, less affected. As a result, in 2020, the inclusion of changes in pension value in the total compensation calculations is likely to have an even more significant effect on aggregate statistics than it did in prior years. It will be important to keep it in mind when examining future total compensation figures, as it might appear that compensation increased more (or decreased less) than if pensions had been excluded.

- We are unlikely to see the continuation of significant increases in total compensation for executives between 2019 and 2020. We expect both management and boards to exercise restraint in making compensation decisions for 2020, given public scrutiny and the commitment many business leaders and investors have made to being mindful, in these very difficult circumstances, of the interests of employees, customers, and other stakeholders. Specifically, we are likely to see decreases in compensation in industries hard hit by the pandemic and moderated increases even at companies that have performed relatively well.

- While it is possible that some CEOs received raises in base salary based on decisions made before the crisis, most of such salaries are flat, and many are in fact reduced. Where base salary did increase, companies should develop a very careful communication strategy.
Among NEOs, base salary, annual bonus, and perks have also remained fairly constant in both the S&P 500 and the Russell 3000 over the last decade (averaging more than 99 percent, around 90 percent, and around 96 percent, respectively). The use of stock awards for NEOs, as with their CEO colleagues, in the Russell 3000 has increased by more than 13 percentage points (from 73.1 to 87 percent). In the S&P 500, the early adoption of stock awards, in particular performance stock, explains the lower rate of prevalence increase found in this index (5.4 percentage points, from 90 to 95.4 percent). The use of stock options to reward NEOs has fallen in both indexes, though they are still relatively common in the S&P 500, with almost half of executives receiving such awards.

**What’s ahead?** While the prevalence of stock awards is likely to continue in the near future, companies—given the difficulty of setting long-term operating, financial, or stock performance targets in these uncertain market conditions—may wish to move away from performance-restricted stock and opt for simple time-restricted stock. Such a decision is likely to meet resistance from institutional investors, who understand the challenges of performance-based equity grants in these economic and market conditions but may nonetheless insist that they are the best tool to align pay and performance. Ultimately, companies will need to look for alternative metrics to use in future grants while retaining an element of risk and relative performance. These changes will require a heightened level of disclosure and shareholder engagement to inform investors’ case-by-case analysis.

It is unlikely that the prevalence of base salary will be affected by the number of CEOs and NEOs whose base salaries were revised following the COVID-19 crisis because, even where salaries were reduced to zero, these revisions occurred partway through the fiscal year. In many cases, salaries were not eliminated but only reduced, especially for NEOs.

In both indexes, base salary as a proportion of CEO and NEO pay has declined over the last decade and, amid the COVID-19 crisis, may continue to do so. Changes to incentive plan designs and missed performance targets are likely to affect compensation mix in the year ahead.
In the Russell 3000, CEO base salary went from representing 27.5 percent of total pay in 2010 to only 22.5 percent in 2019; in the S&P 500, it declined from 13.2 percent to 11.1 percent. This finding is indicative of the growing reliance on performance-related vehicles rather than fixed elements of compensation: in fact, in the Russell 3000, the proportion represented by stock awards has almost doubled in the same time period (from 24.7 percent in 2010 to 40.2 percent in 2019). The extraordinary developments regarding stock awards have happened at the expense of other compensation elements. Among all elements, only perks have stayed relatively constant, at around 3.5 percent of total compensation in both the Russell 3000 and the S&P 500.

In both indexes, as a proportion of pay, base salary represents a higher level for NEOs than for CEOs and has done so over the last 10 years. In the Russell 3000, base salary constituted 29.3 percent of total NEO pay in 2019, compared to 22.5 percent for CEOs; in the S&P 500, it represented 18 percent of total NEO pay in 2019, compared to 11.1 percent for CEOs.

For both CEOs and NEOs, in 2019, annual bonuses represented around a fifth of total pay in most business sectors—though only just over 13 percent in health care and information technology.

**What’s ahead?** As a proportion of pay, base salary is likely to continue its decline for both CEOs and NEOs, though the decline will be more appreciable for the former. Such a reduction in the proportion of pay represented by base salary is likely to be due to the number of companies that chose to introduce executive salary reductions as a measure of liquidity preservation and a sign of solidarity with employees during the “lockdown.” Even though only a subset of Russell 3000 companies adopted such measures, the number was high enough to influence aggregate statistics.

To be sure, the value of other elements of pay may also be affected—either because of changes in incentive plan design deliberated by compensation committees to address the new economic circumstances or because performance targets, as set by incentive plans approved before the crisis, have been missed. Even if targets are partially met, made easier to reach, or shifted to a new metric, actual compensation levels for these incentives are still likely to be lower (see “Executive Compensation Changes in the COVID-19 Era,” page 11).
Stock options remain in the mix for both CEOs and NEOs in the largest companies. As the COVID-19 crisis continues, these options may be retained as an alternative to stock awards with unrealistic performance metrics.

CEOs at companies in the top two brackets by annual revenue and asset value are more likely to receive a mix of cash, stock awards, and stock options than their peers. Granting stock options to CEOs is a majority practice among companies with higher revenues (58.3 percent of companies with revenue between $25 billion and $49.9 billion and 52.5 percent with revenues of more than $50 billion); among all other size groups by revenue, only a minority of companies use this compensation vehicle.

Similarly, by asset value, companies are far more likely to pay their NEOs in cash and stock awards only. Generally, around 70 percent of NEOs receive this pay mix, except in the two largest asset value brackets, where a significant proportion shifts to including stock options in the compensation structure. The difference is even more marked in the revenue analysis, where a majority of NEOs (55.6 percent in companies with revenue between $25 billion and $49.9 billion and 51.5 percent with revenues of $50 billion or more) received this more “traditional” mix of pay. Only a minority of NEOs receive stock options, except in the smallest companies by revenue, where 76.9 percent of companies offer stock options as part of the NEO compensation mix.

What’s ahead? Any company awarding stock options during 2020 and into 2021 will need to be very careful about the timing of such awards so that they cannot be seen as exploiting a depressed stock price resulting from an economic situation outside of management’s control. To avoid potential windfall profits, companies should consider granting a number of stock options that is consistent with historical grants rather than based on an estimated dollar amount tied to stock market valuations.

The same concerns apply to any form of stock incentive. If, for example, executives typically receive between 100 and 200 percent of base pay as a stock incentive, continuing in a depressed stock market the practice of basing grants on an estimated dollar amount could mean granting many more shares to hit the target level. In turn, this would lead to windfall profits when shares returned to former levels. Compensation committees can avoid such an issue by using the number of shares awarded in prior years as a guide.
Changes in pension value have had a marked effect on increases in total disclosed compensation for both NEOs and CEOs. However, the impact of these changes tends to balance out over time.

For CEOs in the Russell 3000, the 2019 year-over-year increase in median total compensation was 7.8 percent including pension, compared to only 4.8 percent excluding pension. For CEOs in the S&P 500, the effect of adding pension value was even more dramatic: from an increase of 4.1 percent when pension is included to a decrease of 2.6 percent when pension is excluded. For NEOs in the Russell 3000, the increase in median total compensation including pension was 9 percent, compared to 6.3 percent when pension is excluded. As with CEOs, for NEOs in the S&P 500 the effect was more dramatic: from an increase of 3.7 percent when pension is included to a fall of 1.9 percent when pension is excluded. Also noteworthy, however, is that over the decade, the effect of including or excluding the change in pension value pay element tends to balance itself out: overall nine-year total CEO and NEO compensation figures are fairly similar, whether or not pension values are included.

What’s ahead? While other forms of pay have the potential to decline due to the economic effects of the pandemic, pensions and other retirement benefits are likely to be unaffected or, at the very least, less affected. Thus, including or excluding change in pension value when calculating increases in total compensation is likely to have an even more significant effect on aggregate total compensation figures for 2020. Since increases in executive compensation may be driven by changes in pension value, future reports about changes in executive compensation should be carefully reviewed to ascertain the impact of pension values on the headline amounts.

Median total compensation for CEOs and NEOs generally increased between 2018 and 2019, with communication services and industrials companies as the only exceptions.
Most industry NEOs saw increases in median total compensation (excluding pension), with many in the double digits. NEOs in industries such as consumer staples, financials, and materials received double-digit increases by including pension. The only industry to see a decline in NEO pay (excluding pensions) was communication services, though it was only by a tenth of a percentage point, while NEOs in industrials saw no change in median total compensation.

All industry CEOs (other than industrials) saw increases in median total compensation (excluding pensions): like NEOs, in some industries such as consumer discretionary, energy, and real estate, rises were in the double digits (11.4, 11, 10.6 percent, respectively); communication services and consumer staples companies saw CEO median total pay increases of more than 9 percent.

The CEOs of industrials companies saw their median pay fall by 2.6 percent, or $123,000.

What’s ahead? Due to the COVID-19 crisis, double-digit increases in total median compensation for executives between 2019 and 2020 are highly unlikely. In fact, in the most affected industries, such as consumer discretionary (which includes travel, tourism, and nonfood retailing businesses), and industrials (where companies have had to close factories due to outbreaks or the fear of outbreaks), in 2021 CEOs and NEOs will presumably experience significant decreases in total compensation. Even in industries where boards have not had to institute reductions to base salary or other forms of pay, double-digit compensation increases for executives would be untenable in the current economic climate.

Two-thirds of NEOs and half of CEOs received raises in base salary from 2018 to 2019. CEOs, in particular, often received double-digit increases—a finding unlikely to be repeated in 2020.

Just over half of CEOs in both the Russell 3000 and the S&P 500 received a base salary raise in 2019. Among this subset, the mean raise in base salary was 17.8 percent in the Russell 3000 and 14.2 percent in the S&P 500. Some 62.6 percent of NEOs in the Russell 3000 and 59.3 percent in the S&P 500 were awarded base salary increases. Within this group, the mean salary raise was 8.4 percent in the Russell 3000 and 8.2 percent in the S&P 500—markedly lower than their CEO counterparts.

Only two business sectors—communication services and information technology—reported a decline in median CEO base pay from 2018 to 2019. While health care, industrials, and real estate companies saw little or no change to base salary for their chief executives, CEOs in utilities reported a median salary raise of 7.5 percent. Unlike for CEOs, median base salaries for NEOs did not decline in any business sector and were unchanged among information technology companies and essentially unchanged among communication services companies. The highest increase was found for NEOs of consumer staples companies (8.3 percent), followed by NEOs of utilities companies (a 7.2 percent rise from 2018 base salary figures).

What’s ahead? Unlike total compensation, which tends to fluctuate more from year to year, changes to base salaries are more durable. However, the extraordinary
circumstances of the COVID-19 crisis may make 2020 an exception and lead to notable dips in median base salaries for CEOs and NEOs in various business sectors.

While it is possible that some CEOs received raises in base salary based on decisions made before the crisis, most of such salaries are flat, and many are in fact experiencing reductions. Where base salary did increase, the companies should develop a very careful communication strategy.
Executive Compensation Changes in the COVID-19 Era

The COVID-19 crisis significantly altered operational priorities and financial results for companies in nearly all sectors. In recent months, to address some of these issues, many compensation committees of US public companies have disclosed base salary reductions as well as changes to in-flight and go-forward executive incentive plans.

The Conference Board, in collaboration with Semler Brossy’s research team and ESG data analytics firm ESGAUGE, is keeping track of SEC Form 8-K filings and proxy statements by Russell 3000 companies announcing these changes. For the live database and some helpful visualizations of key trends across business sectors and company size groups, click here.

The following are some key observations from disclosures made since March 1, 2020. (Note: The commentary below refers to disclosures as of October 9, 2020, but the database is updated biweekly; please review the database and visualizations for the most current information).

Base Salary Reductions

- About one-fifth of the companies in the Russell 3000 Index have announced executive base pay cuts in light of COVID-19. The number of announcements saw two peaks during the lockdown in the spring, then softened and reduced to a trickle over the summer and in recent weeks. In total, 643 companies had announced some type of base salary reduction for their leaders as of the end of the week of June 4. The week of April 5, 2020, saw the highest number of announcements (103 in the Russell 3000, up from 93 in the previous week) and was followed by a second wave at the beginning of May (93 announcements in the week of May 3, up from 65 in the previous week). The number declined rapidly afterward, first to 49 announcements in the week of May 10, then to 11 in the week of May 17, and finally to a single-digit number in each of the following weeks and throughout the summer. As the pandemic evolves—and if the United States experiences a new wave of infections in the winter months—we may see a resurgence in the number of announcements. Rising infections
and unemployment numbers, in particular, could prompt other companies to implement similar decisions.

- **Most of the pay reductions have been announced at midmarket companies.** Forty percent of the announcements were made by companies reporting annual revenue between $1 billion and $4.9 billion, and 29 percent by companies reporting annual revenue between $100 million and $999 million. Two percent of the pay-cut filings came from the largest companies in the Russell 3000 (with annual turnover exceeding $50 billion), and another 2 percent by the second-largest company size groups (with annual revenue between $25 billion and $49.9 billion). The analysis of financials and real estate companies by asset value shows that most announcements were made by hospitality-focused REITs in the $1 billion–$9.9 billion asset value group (40 percent) or in the $10 billion–$49.9 billion asset value group (27 percent).

- **In most cases, executives beyond the C-suite are also receiving pay cuts.** Seventy percent of the companies announcing reductions are applying them to compensation for senior managers beyond the top five highest-paid executives. However, 24 percent of the companies that disclosed reductions limited them to the CEO and other named executive officers (NEOs), whereas 6 percent cut CEO pay only.
• Among those that announced pay cuts, about one-sixth of CEOs won’t collect a base salary this year. Seventeen percent of the Russell 3000 companies that announced reductions to the CEO salary cut it in its entirety, while 14 percent cut it by 50 percent. Twenty-one percent of the sample applied a reduction of 20 percent or less, and 21 percent announced the intention to reduce the CEO salary without disclosing the amount of the reduction. Communication services, consumer discretionary, and real estate companies reported the largest median CEO pay cut (50 percent each), followed by health care, industrials, and information technology (each with a 30 percent CEO pay cut, at the median). The least affected CEOs are those of consumer staples and energy companies (20 percent, at the median). Across the 11 GICS business sectors, the median CEO base salary cut was 30 percent.

• A tiered approach is used for NEOs and other senior executives. The reduction percentage applied to NEOs and other senior managers is generally quite a bit lower than the one seen for CEO salaries. For NEOs, the most common cut falls between 20 percent and 50 percent (23 percent of the sample), whereas 17 percent reported base salary reductions of 20 percent, 20 percent disclosed cuts of less than 20 percent, and only 2 percent said they were forfeiting their entire base salary. Across the 11 GICS business sectors, the median NEO base salary cut was 21.3 percent. For other executives below the top five, the most common base pay cut is of less than 20 percent (24 percent of the announcement sample), but it should also be noted that 40 percent of the announcements regarding senior managers were not further quantified in the disclosure document. None of the senior managers to which these measures were applied saw their full base salary cut. These findings confirm a tiered approach, where the percentage of the pay cut rises with salary level.

Incentive Design Changes

In the examined period, 177 Russell 3000 companies announced structural changes to their in-flight and/or go-forward incentive plans. An additional 43 Russell 3000 companies disclosed only payout suspension, adjustments, or deferrals for a recently completed compensation program; these companies are excluded from the analysis of structural changes.
• In-flight changes cover any structural changes to an ongoing plan, and go-forward changes cover any forward-looking structural changes to a recently started or upcoming plan.

• All but four of the 177 companies explicitly disclosed that such changes were in response to economic distress caused by COVID-19. The other four companies did not make such an explicit link in the disclosure document.

• Consumer discretionary (29 percent), industrials (16 percent), and information technology (15 percent) companies make up slightly more than half the sample; consumer discretionary and industrials representation in the sample is higher than the broader Russell 3000 Index.

• About half (48 percent) the sample announced changes to their annual incentive plan only, about 30 percent announced changes to both the annual and long-term incentive (LTI) plans, and about one-fifth (21 percent) announced changes to the LTI plan only.

![Sample Breakdown by Actions Taken](image)

**Annual Incentive Plan Changes** In the examined period, 139 of 177 companies in the sample disclosed annual incentive plan changes. Of those, 93 companies disclosed changes to in-flight programs only, 37 companies disclosed changes to go-forward programs only, and nine companies disclosed changes to both the programs.

• The most common structural annual incentive plan change has been to reduce the target and/or max payout opportunity (35 percent, or 49 companies); this change has commonly been applied in concert with changes to recalibrate the annual incentive plan with revised performance projections and operational priorities (e.g., add new metrics and reset goals).

• The second most common change has been to add new metrics (27 percent, or 37 companies); commonly added metrics are focused on liquidity or strategic measures in the context of the pandemic.

• Thirty companies modified the annual incentive plan performance period (typically to measure partial-year performance or separate the year into halves).
- Nineteen companies canceled or suspended the annual incentive plan entirely, and 11 companies switched to paying the annual incentive plan in equity instead of cash.

- Six companies reset goals partway through the performance period based on updated performance projections, and 16 companies delayed goal setting to later in the fiscal year; we recognize this practice may be more prevalent among companies that have not disclosed such actions.

- Thirteen companies proactively added Committee discretion to determine payouts (although this approach may be more prevalent in practice given the qualitative measurement of certain additional metrics). Forty-two companies have already disclosed the application of Committee discretion to adjust, suspend, or defer the payout for the recently completed annual incentive plan.

**Long-Term Incentive Plan Changes** In the examined period, 92 of 177 companies in the sample disclosed LTI plan changes. Of these, 65 companies disclosed changes to in-flight programs only, 24 companies disclosed changes to go-forward programs only, and three companies disclosed changes to both the programs.

- Eighteen companies switched performance stock unit (PSU) metrics, typically to metrics that are 1) more focused on operational health (e.g., cost reduction); 2) more easily forecast; and/or 3) relative metrics.
Twenty-five companies granted special awards to one or more NEOs (with varying rationales), and 21 companies elected to cancel outstanding LTI grants and/or suspend granting new awards. Six companies from this group applied both actions together.

Eleven companies disclosed modifications to in-flight PSU awards’ performance goals.

Nineteen companies reduced the PSU target and/or max payout opportunity, 13 companies modified the PSU performance period, and 12 companies delayed goal setting for PSUs.

Fourteen companies adjusted the LTI vehicle mix to a higher weighting for time-based vehicles (i.e., restricted stock units or stock options).

What’s Ahead
As discussed above, due to the stock market volatility and the difficulty of gauging executive performance in such extraordinary business circumstances, compensation committees are facing a number of issues, such as: underwater stock options; performance-restricted pay awards that were unlikely to pay out despite, in some cases, two and half years of above median performance; levels of performance that had suddenly disappeared amid collapsing stock prices; unsustainable business models; and compensation policies that had to be completely redesigned. Annual cash bonuses, in many instances, would also be unlikely to pay out because of circumstances outside of executives’ control. As a result, compensation committees have to consider whether to do nothing, adjust performance metrics or goals midterm, replace awards with time-vesting awards, award retention grants, or more generally resort to broader discretion in compensation award decisions.

To address these complex issues, compensation committees need information about the number of shares remaining in plan reserves, which performance cycles will be affected, whether targets or even thresholds will be met, and the extent of tax, regulatory, and other legal effects.

Of equal importance would be the reactions of investors and proxy advisors when changes were filed using 8-K disclosures and, eventually, proxy statements in 2021—when any changes would be subject to a shareholder vote. Both of the main proxy advisors typically have fixed, standard reactions to changes to incentive awards. However, both also issued special guidance following the onset of the pandemic and the likely problems companies were going to face.

The largest proxy advisor in the US, Institutional Shareholder Services (ISS), issued early guidance in April on a range of compensation subjects, including changes to performance targets and stock option repricing. In general, it will not support reducing expectations unless the resulting compensation is also reduced. In practice, it will decide its voting recommendation on a case-by-case basis, after reviewing the specifics of each company. Companies, however, are encouraged to immediately disclose any changes rather than wait until next year’s proxy statement.

Later guidance in October again stresses that a reasonable approach with justifications clearly disclosed will generally be acceptable. Any major changes should explain how specific COVID-19 challenges affected incentives. Any discretionay awards should be
based on performance that is clearly disclosed; wording such as “strong leadership” will be deemed insufficient. On specific changes, the proxy advisor indicates that if targets are lowered, payouts must be also. Any in-progress LTI changes will generally be viewed negatively. Reasonable changes to programs awarded in 2020 will be acceptable, though wholesale changes to time-vesting awards will be viewed negatively. Retention awards are acceptable, but must be long term and must not simply replace forfeited incentives.²

The second largest proxy advisor, Glass Lewis, has been much more draconian in its advice, warning that companies can “(e)xpect a marked increase in shareholder concerns on repricing, dilution, burn rates, hurdle adjustments, changes to vesting periods, caps and cuts on incentives, and the quality of disclosure concerning the limits and exercise of board discretion.” “Crocodile tears,” it noted, are unlikely to be tolerated.³

Finally, compensation committees should be listening carefully to their shareholders’ views on these issues. Investor expectations regarding executive compensation are evolving. In recent discussions The Conference Board has held with major institutional investors, some themes emerged:

- Most investors are not expecting a major reset of executive compensation: while that seemed a possibility as the economy went into a historic recession and stocks dropped dramatically earlier this year, it has become less likely now as stock markets and segments of the economy have recovered or stabilized.

- Investors are also not expecting across-the-board adjustments to annual bonuses for 2020, and outperforming companies are not likely to be punished for recognizing performance as long as such recognition is not out of alignment with the effects of the crisis on other stakeholders (nonexecutive employees, in particular). That said, investors expect that the hardest-hit companies will see their poor performance reflected in the size of their annual bonuses.

- Investors are assessing adjustments to LTI plans on a case-by-case basis but continue to believe that this form of compensation must remain “at risk” and performance based. For this reason, there is continued resistance to replacing PSU with restricted stock. In the face of difficulties setting targets, relative total shareholder return within the company’s industry might be the most effective and fair way to reward outperformance.

- While investors are approaching 2021 say-on-pay decisions with an open mind, support levels might decline amid many more potential triggers for negative votes. What seems certain is that corporate-shareholder engagement on issues of executive compensation will increase. If a company introduces more discretion, it will need to provide additional disclosure. And if a company switches from hard financial targets to extrafinancial ones, these targets will still need to be measurable and even more fully disclosed.


Access Our Online Dashboard

CEO and Executive Compensation Practices in the Russell 3000 and S&P 500: 2020 Edition documents trends and developments in senior management compensation at 2,402 companies issuing equity securities registered with the US Securities and Exchange Commission (SEC) that filed their proxy statement in the period between January 1 and June 30, 2020, and, as of January 2020, were included in the Russell 3000 Index. The project is a collaboration among The Conference Board, compensation consulting firm Semler Brossy, and ESG data analytics firm ESGAUGE.

Data from CEO and Executive Compensation Practices in the Russell 3000 and S&P 500: 2020 Edition can be accessed and visualized through an interactive online dashboard. The dashboard is organized in two parts. Part I: CEO Compensation provides benchmarking information on the compensation awarded in FY2019 to the chief executive officer (CEO). Part II: NEO Compensation extends the review to the compensation of other (non-CEO) named executive officers (NEOs). In addition to total compensation figures, the study offers details on base salaries and incentive-related elements of a typical compensation package—including annual bonuses (discretionary bonus plus nonequity incentive), stock awards (including long-term incentive cash), and stock option grants— as well as on perquisites and, unlike many other annual publications on the subject, changes in pension value.

Compensation figures included in CEO and Executive Compensation Practices in the Russell 3000 and S&P 500: 2020 Edition reflect disclosures companies have made in the summary compensation tables (SCTs) included, under SEC rules, in filed proxy statements. For newly appointed executives who did not serve for the full reported year, the base salary disclosed in the SCT was annualized.

Occasionally, companies may appoint co-CEOs. When we found such instances in the Russell 3000 sample, we used the compensation figures of the CEO receiving the highest compensation package; we used a similar approach for a very small number of companies that do not explicitly designate a top executive as the CEO and instead opt for titles such as principal executive officer or president. A handful of Russell 3000 companies with no clearly designated leader in their executive team were excluded from the sample.

Since SCTs typically state the value of stock and option awards on their grant date, the total compensation figures published in this report should not mislead the reader, as they do not reflect the actual amount CEOs brought home over the course of the year: that amount may in fact be higher or lower, depending on the market value that the equity has attained when sold.
Stock Awards and Stock Options Categories in the Summary Compensation Table

Under Section 229 Item 402 of Regulation S-K, companies must report the aggregate grant date fair value of all stock awards and option awards granted during the reported fiscal year, computed in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures and without regard to the rules on when the expense is recognized. This regulatory terminology simplifies and lumps into two main categories the complex array of equity-based compensation types a compensation committee may resort to in the design of an executive incentive plan.

For the purpose of SEC rules and the SCT included in proxy statements, “stock awards” are equity awards whose value is derived from the company’s equity securities or that may be settled by issuance of the company’s equity securities. Restricted stock, restricted stock units, phantom stock, phantom stock units, common stock equivalent units, and other similar instruments that do not have option-like contractual features are all stock awards. “Option awards” include stock options, stock appreciation rights (whether they can be settled in stock or cash), and other similar instruments with option-like contractual features.

A section on compensation mix illustrates each element as a percentage of the total compensation value. The commentary to these figures primarily refers to median (midpoint) values. However, to highlight possible outliers, the report may also reference the mean (average) of variables and major percentiles (10th, 25th, 50th, 75th, and 90th percentile). Figures in Part II refer to two sample sizes: the first number (n=) is the number of companies examined, while the second (i=) represents the total number of incumbents (i.e., NEOs other than CEOs) across the sample of companies examined.

Throughout Parts I and II, compensation figures are segmented according to business industry and company size. The industry analysis aggregates companies within 11 groups, using the applicable Global Industry Classification Standard (GICS). For the company-size breakdown, data are categorized along seven annual-revenue groups (based on data received from manufacturing and nonfinancial services companies) and seven asset-value groups (based on data reported by financial companies, which tend to use this type of benchmarking). Annual revenue and asset values are measured in US dollars.

Comparisons with the S&P 500, another commonly followed equity index, are also included to offer an additional perspective on the difference between large and small firms. In particular, the S&P 500, or a subset of the S&P 500, is used to further investigate certain compensation practices, such as changes in pension value, perquisites, and incentive plans. Figures and illustrations used throughout the report refer to the Russell 3000 analysis unless otherwise specified.

The Russell 3000 sample distribution is illustrated in Exhibits 1 through 4. To highlight historical trends, the most recent data are compared with the compensation disclosures made in each of the full calendar years since 2010 by companies that, as of January of each of those years, were in the Russell 3000 Index.
### Exhibit 1—Sample Distribution, by Index (2019)

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<thead>
<tr>
<th>Index</th>
<th>n=</th>
<th>i=</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell 3000</td>
<td>2402</td>
<td>8600</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>432</td>
<td>1778</td>
</tr>
</tbody>
</table>

n= Number of companies  
i= Number of NEOs (other than CEOs)  

### Exhibit 2—Sample Distribution, by Business Sector (GICS) (2019)

<table>
<thead>
<tr>
<th>Business Sector (GICS)</th>
<th>n=</th>
<th>Percent of total</th>
<th>i=</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication Services</td>
<td>83</td>
<td>3.5%</td>
<td>306</td>
<td>3.6%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>272</td>
<td>11.3%</td>
<td>1021</td>
<td>11.9%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>65</td>
<td>2.7%</td>
<td>238</td>
<td>2.8%</td>
</tr>
<tr>
<td>Energy</td>
<td>135</td>
<td>5.6%</td>
<td>470</td>
<td>5.8%</td>
</tr>
<tr>
<td>Financials</td>
<td>462</td>
<td>19.2%</td>
<td>1685</td>
<td>19.6%</td>
</tr>
<tr>
<td>Health Care</td>
<td>440</td>
<td>18.3%</td>
<td>1402</td>
<td>16.3%</td>
</tr>
<tr>
<td>Industrials</td>
<td>330</td>
<td>13.7%</td>
<td>1242</td>
<td>14.4%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>272</td>
<td>11.3%</td>
<td>978</td>
<td>11.4%</td>
</tr>
<tr>
<td>Materials</td>
<td>109</td>
<td>4.5%</td>
<td>423</td>
<td>4.9%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>174</td>
<td>7.2%</td>
<td>601</td>
<td>7.0%</td>
</tr>
<tr>
<td>Utilities</td>
<td>60</td>
<td>2.5%</td>
<td>234</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

n= Number of companies  
i= Number of NEOs (other than CEOs)  

### Exhibit 3—Business Sectors, Industry Groups and GICS Codes

<table>
<thead>
<tr>
<th>Business Sector</th>
<th>GICS Code</th>
<th>Industry Group</th>
<th>GICS Subcode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication Services</td>
<td>50</td>
<td>Media &amp; Entertainment</td>
<td>5020</td>
</tr>
<tr>
<td>Communication Services</td>
<td>50</td>
<td>Telecommunication Services</td>
<td>5010</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>25</td>
<td>Automobiles &amp; Components</td>
<td>2510</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>25</td>
<td>Consumer Durables &amp; Apparel</td>
<td>2520</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>25</td>
<td>Consumer Services</td>
<td>2530</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>25</td>
<td>Retailing</td>
<td>2550</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>30</td>
<td>Food &amp; Staples Retailing</td>
<td>3010</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>30</td>
<td>Food Beverage &amp; Tobacco</td>
<td>3020</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>30</td>
<td>Household &amp; Personal Products</td>
<td>3030</td>
</tr>
<tr>
<td>Energy</td>
<td>10</td>
<td>Energy</td>
<td>1010</td>
</tr>
<tr>
<td>Financials</td>
<td>40</td>
<td>Banks</td>
<td>4010</td>
</tr>
<tr>
<td>Financials</td>
<td>40</td>
<td>Diversified Financials</td>
<td>4020</td>
</tr>
<tr>
<td>Financials</td>
<td>40</td>
<td>Insurance</td>
<td>4030</td>
</tr>
<tr>
<td>Health Care</td>
<td>35</td>
<td>Health Care Equipment &amp; Services</td>
<td>3510</td>
</tr>
<tr>
<td>Health Care</td>
<td>35</td>
<td>Pharmaceuticals, Biotechnology &amp; Life Sciences</td>
<td>3520</td>
</tr>
<tr>
<td>Industrials</td>
<td>20</td>
<td>Capital Goods</td>
<td>2010</td>
</tr>
<tr>
<td>Industrials</td>
<td>20</td>
<td>Commercial &amp; Professional Services</td>
<td>2020</td>
</tr>
<tr>
<td>Industrials</td>
<td>20</td>
<td>Transportation</td>
<td>2030</td>
</tr>
<tr>
<td>Information Technology</td>
<td>45</td>
<td>Semiconductors &amp; Semiconductor Equipment</td>
<td>4530</td>
</tr>
<tr>
<td>Information Technology</td>
<td>45</td>
<td>Software &amp; Services</td>
<td>4510</td>
</tr>
<tr>
<td>Information Technology</td>
<td>45</td>
<td>Technology Hardware &amp; Equipment</td>
<td>4520</td>
</tr>
<tr>
<td>Materials</td>
<td>15</td>
<td>Materials</td>
<td>1510</td>
</tr>
<tr>
<td>Real Estate</td>
<td>60</td>
<td>Real Estate</td>
<td>6010</td>
</tr>
<tr>
<td>Utilities</td>
<td>55</td>
<td>Utilities</td>
<td>5510</td>
</tr>
</tbody>
</table>

### Annual Revenue

(All companies except Financials and Real Estate) | n= | Percent of total | i= | Percent of total |
--- | --- | --- | --- | --- |
Under $100 million | 255 | 14.4% | 641 | 10.2% |
$100-999 million | 553 | 31.3% | 1872 | 29.6% |
$1-4.9 billion | 579 | 32.8% | 2242 | 35.5% |
$5-9.9 billion | 151 | 8.6% | 618 | 9.8% |
$10-24.9 billion | 152 | 8.6% | 619 | 9.8% |
$25-49.9 billion | 36 | 2.0% | 151 | 2.4% |
$50 billion and over | 40 | 2.3% | 171 | 2.7% |

### Asset Value

(Financials and Real Estate) | n= | Percent of total | i= | Percent of total |
--- | --- | --- | --- | --- |
Under $500 million | 19 | 3.0% | 54 | 2.4% |
$500-999 million | 31 | 4.9% | 97 | 4.2% |
$1-9.9 billion | 377 | 59.3% | 1289 | 56.4% |
$10-24.9 billion | 98 | 15.4% | 386 | 16.9% |
$25-49.9 billion | 49 | 7.7% | 204 | 8.9% |
$50-99.9 billion | 21 | 3.3% | 85 | 3.7% |
$100 billion and over | 41 | 6.4% | 171 | 7.5% |

*n= Number of companies\ni= Number of NEOs (other than CEOs)\nSource: ESGAUGE, 2020.

Data in this report are descriptive, not prescriptive, and should be used only to identify the latest practices and emerging trends. None of the commentaries included are intended as recommendations on executive compensation design, compensation-related resolutions, or board oversight practices in the field. On the contrary, The Conference Board, Semler Brossy, and ESGAUGE recommend that companies make compensation and governance decisions after careful consideration of the specific circumstances the company faces in the current marketplace, including its overall compensation policy, strategic priorities, and business needs.

Access the dashboard at: conferenceboard.esgauge.org/executivecompensation
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