

Equipped for uncertainty: Executive pay programs and governance for the future

A WTW executive compensation webcast

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Today's speakers

Hear from our experts



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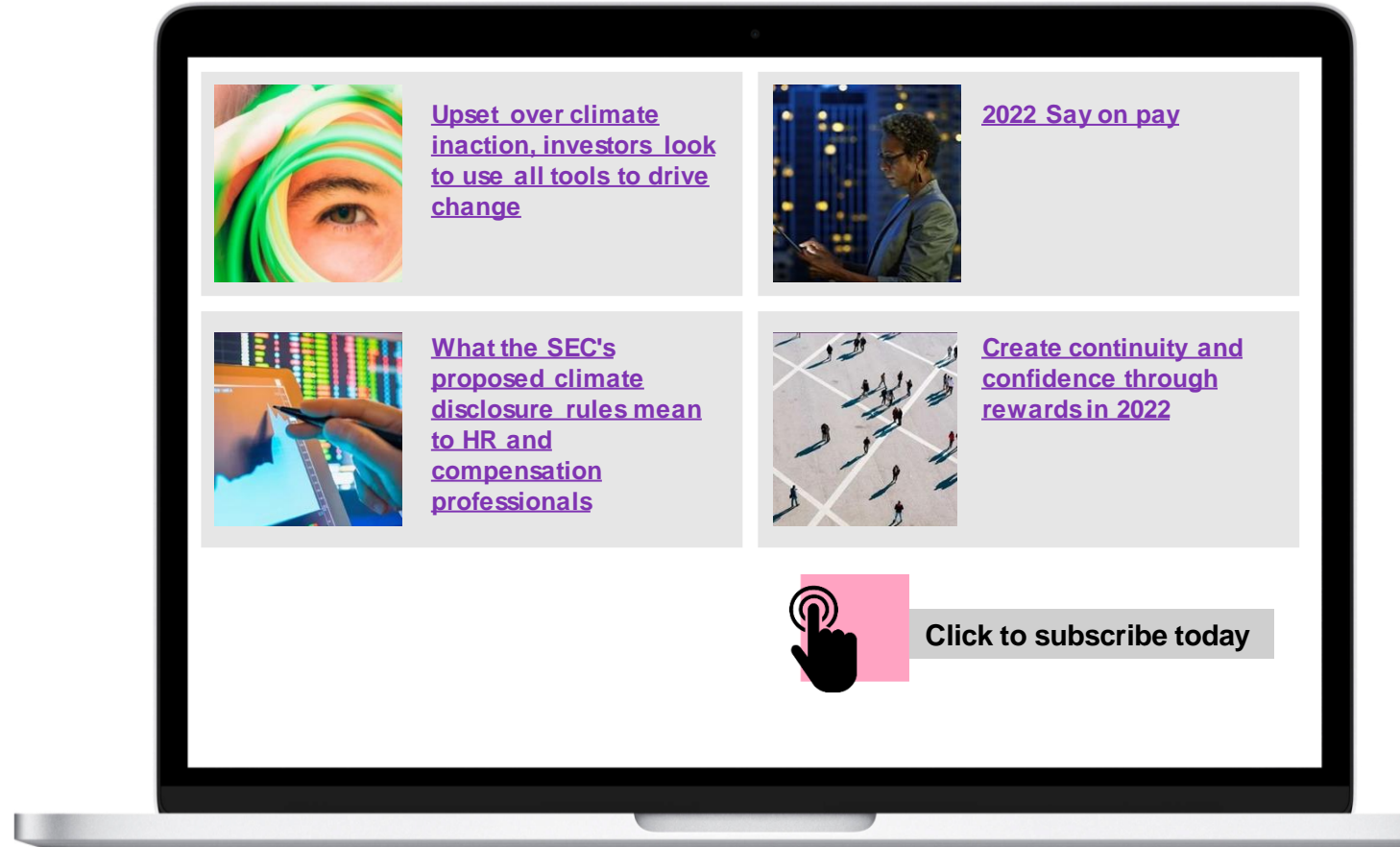
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Executive pay memo

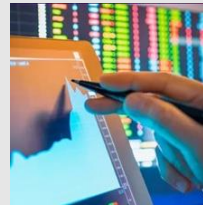
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Framing today's session

Mark Chen



While executive pay design and process have stood still, the world is experiencing systematic change. It's time to embrace the change and futureproof our process for a riskier world

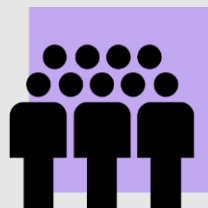
Executive Pay and LTI Trends

- **2021 showed a return to pre-pandemic practices:**
 - Target pay increased
 - Large incentive payouts
 - Less reliance on discretion
- **LTI remains key:** increases in target pay were in LTI and it played a big role in retention
- **It's time to retool:** Pay design remains the same while the world continues to change



Proactive Shareholder Engagement

- **Shareholders expect systematic change:** conversation are shifting from pay to governance
- **Governance is front and center for proxy advisor:** recent policies are focused on governance, not pay
- **Meaningful change isn't done overnight:** be proactive, communicate and bring shareholders along for the journey



ESG in Practice

- **New tools means new concepts:** It's clear that ESG is going to be part of the toolset
- **Let's talk shop:** It's time to talk about how to incorporate ESG and not just what's going on with ESG



Board Effectiveness

- **Change comes from the top:** new tools, processes and governance means the board needs to be ready
- **A philosophy for the board:** remaining effective and being prepared for the future requires a north star



Recap of 2021 CEO pay and broad LTI trends

Aman Malhotra and David Sims



CEO compensation pay trends for 2021

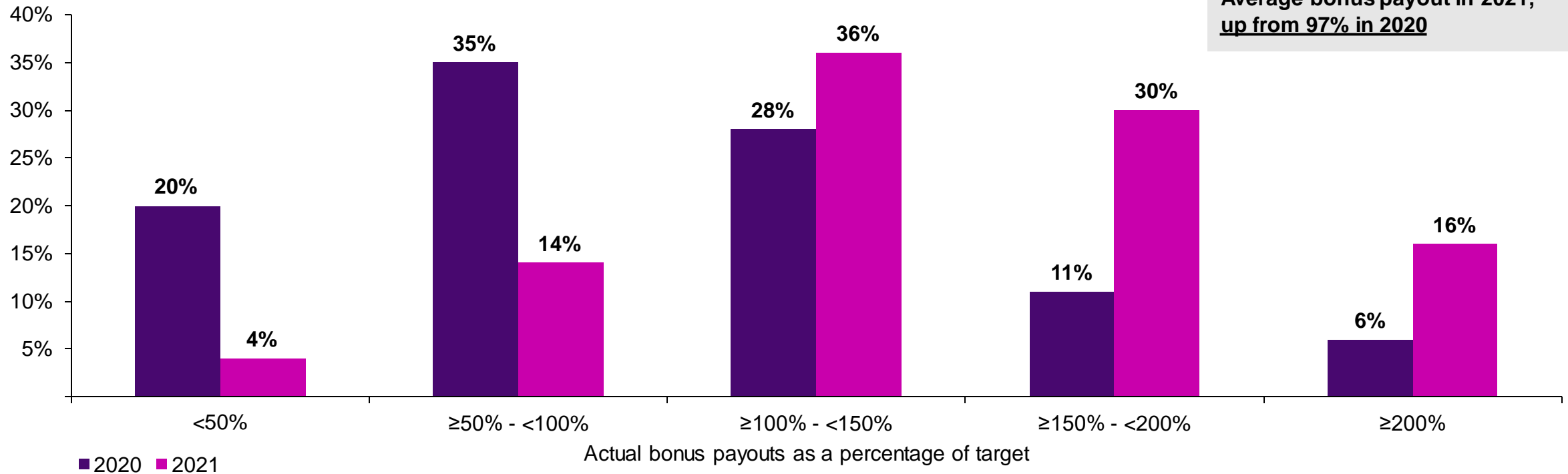
- Overall, median target TDC for CEOs increased modestly vs. 2020 (~8%)
 - Base salary, target bonus and target total cash were flat year over year
 - Target LTI values increased by ~9%
- Median earned pay for CEOs was up substantially vs. 2020 (~37%)
 - While salary was flat, both earned bonus (actual bonus paid vs. previous year performance) and earned LTI (realized value of options exercised and shares vested) drove the increase in earned pay

Pay element		Definition
No change	Base salary	Disclosed annual salary
No change	Target bonus	Target annual cash bonus set at the beginning of the year
~39%	Earned bonus	Earned annual bonus determined at the conclusion of the year
~9%	Target long-term incentives	Grant-date fair value of stock options, restricted stock/units and performance plan awards
~42%	Earned long-term incentives	Value of stock vested and stock options/stock appreciation rights (SARs) exercised during the year
~8%	Total target pay	Target cash + grant-date fair value of stock options, restricted stock and performance awards
~37%	Total earned pay	Reported salary + bonus and long-term incentives earned + value of vested restricted stock/units and exercised options/SARs

Source: WTW Global Executive Compensation Analysis Team research; reflects a constant sample of 500 S&P 1500 CEOs.

CEO 2021 annual bonus payouts rebounded significantly from 2020

Percentage of CEOs receiving an actual bonus as a % of target



145% of target
Average bonus payout in 2021,
up from 97% in 2020

Source: Willis Towers Watson Global Executive Compensation Analysis Team research; reflects a constant sample of 500 S&P 1500 CEOs.

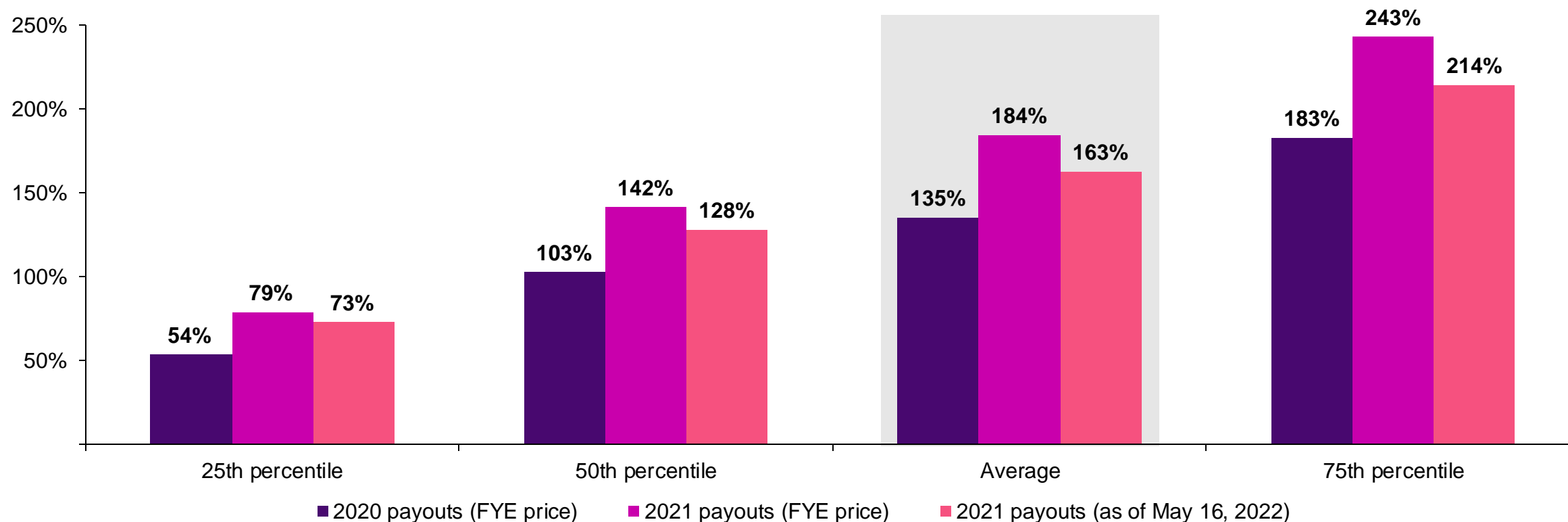
CEO LTI performance plan payouts in 2021 were also up relative to 2020



Source: WTW Global Executive Compensation Analysis Team research; reflects a constant sample of 265 S&P 1500 CEOs for the FY 2018 – 2020 and FY 2019 – 2021 cycles.





CEO values realized from LTIP payouts in the 2019 – 2021 cycle increased over outcomes during the previous cycle on a fiscal year end basis, but have decreased substantially when measured as of May 16, 2022

Market volatility in 2022 illustrates how quickly value from LTIP grants can fluctuate.



Source: WTW Global Executive Compensation Analysis Team research; reflects data for a constant sample of 265 S&P 1500 CEOs for the FY2018 – 2020 and FY 2019 – 2021 cycles.

While total equity usage was down in 2021, actual total values delivered were up

Component	2020 (Median)	2021 (Median)	2021 vs. 2020
Overhang	6.4%	5.9%	 0.5% age pts
Run Rate	0.60%	0.51%	 0.9% age pts
LTI Fair Value	\$96.3M	\$107.0M	 11%
LTI Fair Value as % of Mkt Cap	0.36%	0.38%	 --

Lower run rate means less shares were granted in 2021 vs. 2020

Meanwhile, total fair value of awards was up

Flat LTI as % of market cap suggests stock price increases drove up grant values, while requiring less shares

* Based on 446 S&P 500 companies, compared with the same set of companies in the prior year.

External environment factors and the impact to compensation design

- While it started with the COVID-19 pandemic, external factors continue to materially impact the perceived value of compensation programs (talent market pressures and the “Great Resignation”, sustained high levels of inflation, stock market volatility, geopolitical issues, and the continued effects of the pandemic)
- These key principles are important to keep in mind as these external factors, and others, continue to impact the market:

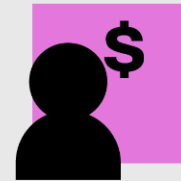
Don't forget what's in your "compensation toolbox"

- More material salary increase budgets
- Off-cycle and targeted increases for critical talent
- More generous new hire packages
- Retention award and “top performer” award programs
- Revisiting pay mix
- Revisiting incentive design (vehicle mix, eligibility, vesting, grant date and frequency, hybrid plans, changes to other design features, etc.)



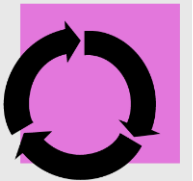
Focus on non-compensation components of the employee experience

- Flexible work arrangements
- Greater focus on ESG and DE&I
- Communicating career paths and opportunities
- Ensure and communicate line-of-sight on incentive plans
- Improve performance management system and manager training
- Adjustments to other benefits



Rely on precedence and good governance processes

- COVID-19 has set precedence and highlighted the need for strong governance practices
- Ensure governance processes are in place for goal setting and calibration adjustments, and the use of structured discretion
- Proactive monitoring and engagement is key



Proactive governance and shareholder engagement

Brian Myers and Mike Biggane



Setting the stage

Summary observations

- During the early part of the 2022 proxy voting season, we have observed a **“back to business”** theme, as companies have learned to adjust programs within a chaotic environment and key **say-on-pay results are consistent with the historical norm**
- Proxy advisor policy updates for 2022 support this back to business theme
 - Enhancing board diversity returns to the spotlight
 - Though little by way of policy activity, compensation is again focused on a guiding principles approach, based on disclosure and rationale
- As we continue through 2022 and ongoing world events, we expect continued focus on **engagement, responsiveness, and clear, compelling and concise disclosure**

Russell 3000 say-on-pay snapshot

Early 2022 – back to business

90%

Average support
2021 = 90%



3%

Failure rate (30 failed votes)
2021 = 3% (based on 71 failed votes)



10%

ISS (Institutional Shareholders Services) negative
vote recommendations

Down from
12% in 2021



35%

Difference in average support between an
ISS “for” and “against” vote recommendation

Up from
32% in 2021



68%

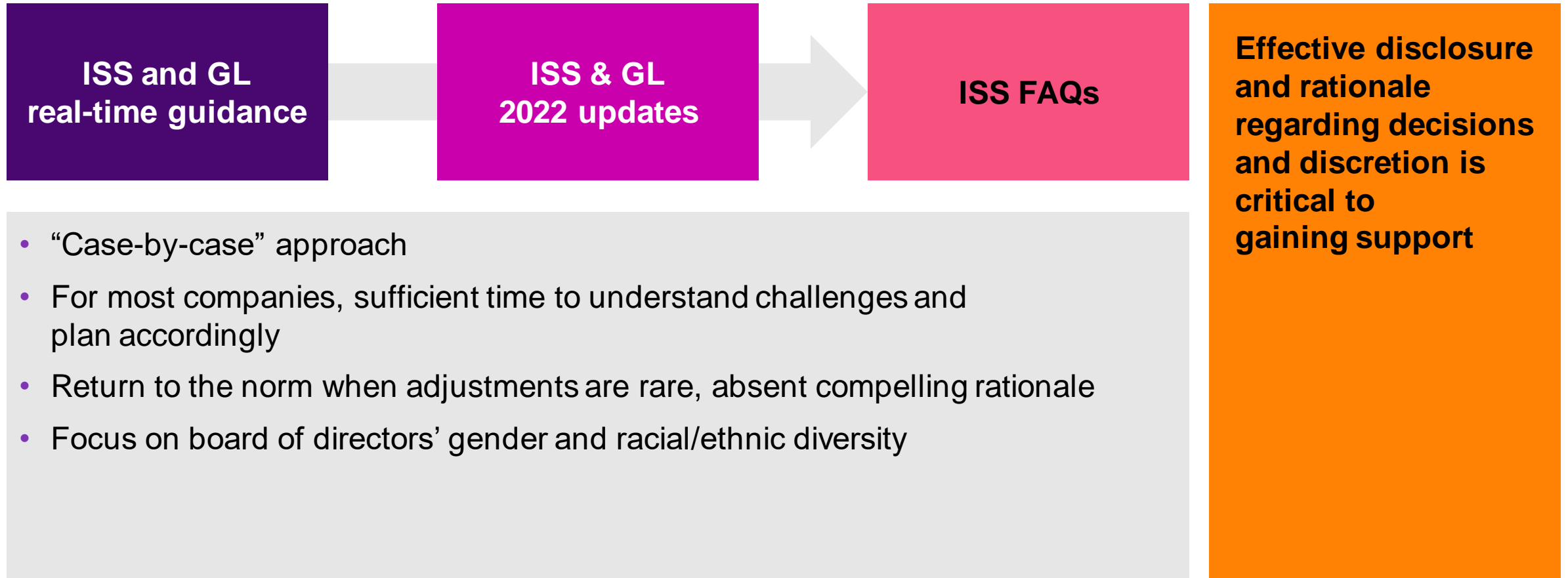
Rate of “high” ISS concerns related to pay-for-performance
among proposals that ultimately received an “against”
vote recommendation

Down from
77% in 2021



Source: WTW Global Executive Compensation Analysis Team analysis of 1,033 Russell 3000 companies from January 1, 2022, to May 20, 2022, and 2,334 of Russell 3000 companies reporting results in 2021. ISS recommendations confirmed using ISS's Governance Analytics.

Proxy advisors have indicated a “back to business” approach, highlighting that clear and transparent disclosure will be important



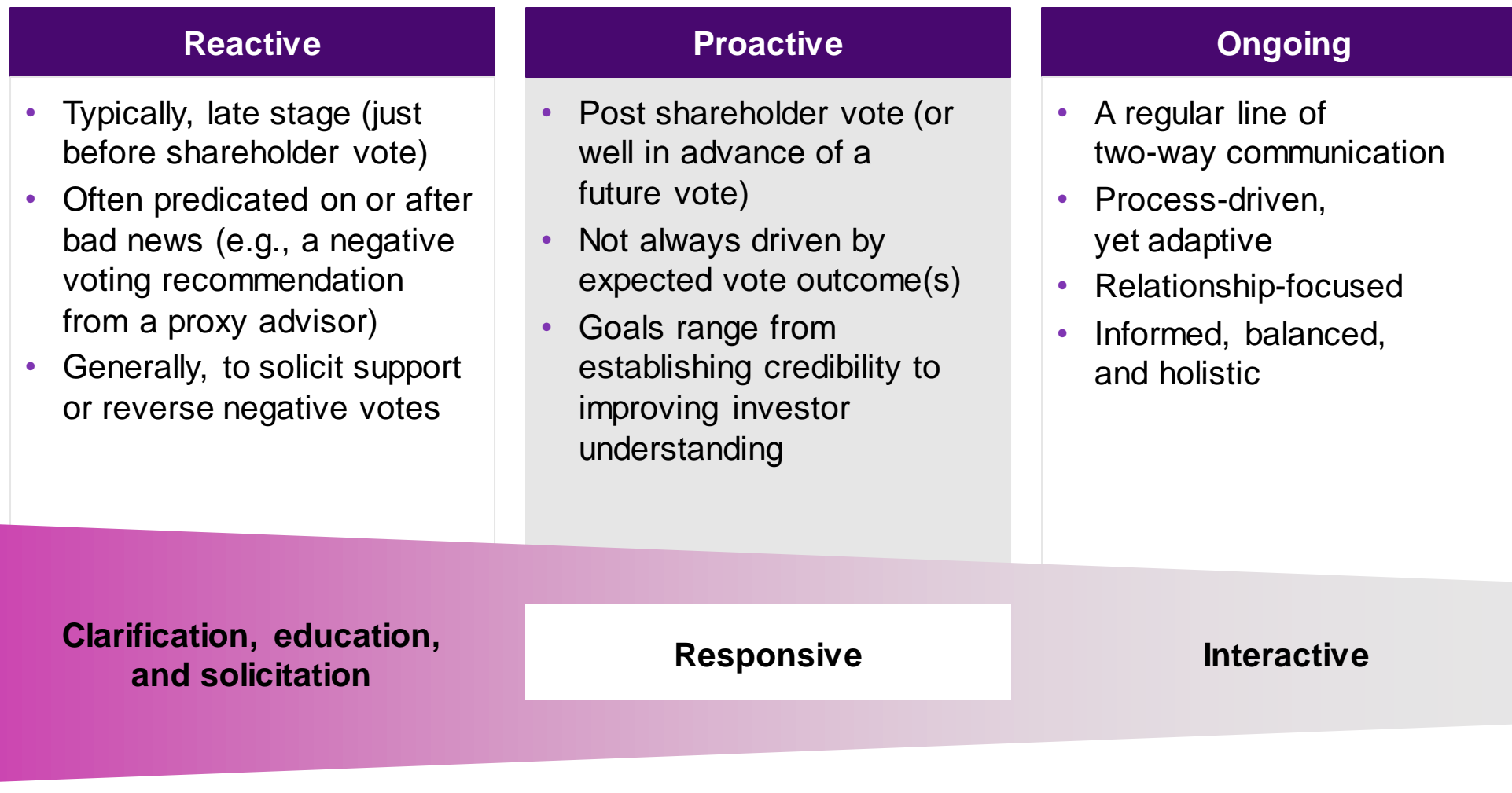
2022 ISS and Glass Lewis proxy reports have provided insights into their areas of focus for say-on-pay and board votes



- Changes to in-flight LTI Awards
- Board diversity
- One-time special awards
- Say-on-pay responsiveness
- Severance triggers and rationale
- Changes to annual incentive programs
- Lowered annual incentive performance targets
- ESG related disclosures

Poor disclosure can lead to negative voting recommendations

There are different types of shareholder engagement



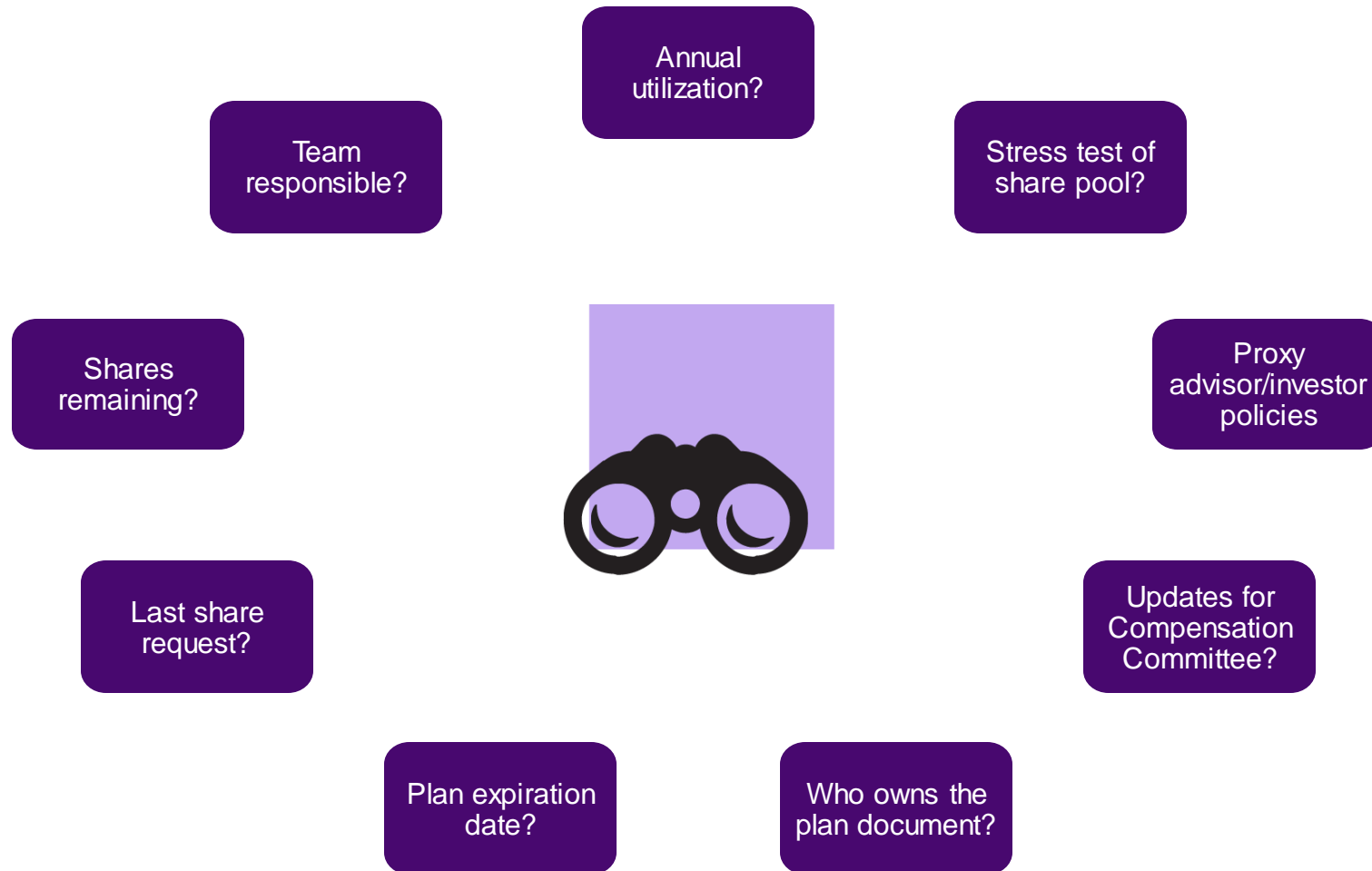
Engagement fundamentals – proper preparation prevents poor performance

Step	Key actions
Identify your team	<ul style="list-style-type: none">• Identify the core members of your team (e.g., HR, Legal, Investor Relations, Comp Committee Chair (as appropriate), external advisors)
Identify your audience	<ul style="list-style-type: none">• Identify the key investors and proxy advisors with whom you wish to engage• Identify the specific contacts at each organization
Get to know your audience	<ul style="list-style-type: none">• Items to review include:• Do your shareholders have their own voting policies, or do they follow one of the proxy advisors?• Review relevant proxy advisor policies and recent reports about your organization• What concerns have your shareholders or proxy advisors raised in the past?
Develop your strategy and talking points	<ul style="list-style-type: none">• Develop an engagement strategy based on audience and areas of concern (e.g., say-on-pay, etc.)• Define what you hope to accomplish• Prepare talking points, even if you do not plan to distribute them• Determine who will speak on the company's behalf based on talking points• Prepare questions you will ask of your audience given your expectations

Investor engagement is not a one-size-fits-all proposition

Equity plans in a volatile market – do you know the answers?

Don't lose sight of these ...



There will be a continued need for strong, transparent and compelling disclosure as companies embrace change

**Highly tailored actions
and decisions to
support the business**



**More detailed,
nuanced disclosures
to secure support**



**Evidence of strong,
principled governance**



**Adapting to an altered
and evolving business
environment**



Implementing ESG in executive pay

Michael Siu and Michael Wach



Short-term incentive plans with ESG metrics

Change in S&P 500 ESG metrics year-to-date (out of 310 cos)

92



companies added an ESG metric to their 2021 or 2022 STI plan

+30



Added an Environmental metric

+81



Added a Social metric

+16



Added a Governance metric

42



companies which did not have an ESG metric previously, added one to their 2021 or 2022 STI plan

Sample Metrics

- Renewable energy & carbon offsets
- Low carbon technologies
- Greenhouse Gas and Low Carbon Priorities

- Women in leadership roles
- Diverse slates of candidates and interview panels
- Diverse supplier spend
- Vaccines to low-income countries

- NERC Compliance - # of Effective Internal Controls
- Risk Management
- Ethics and compliance

Source: Willis Towers Watson Global Executive Compensation Analysis Team research; reflects 310 S&P 500 companies with FYE's March 2021 – December 2021.

Long-term incentive plans with ESG metrics

Change in S&P 500 ESG metrics year-to-date (out of 310 cos)

22



companies added an ESG metric to their 2021 or 2022 LTI plan & an additional 5 companies used an ESG metric in a one-time award

+15



Added an Environmental metric

+14



Added a Social metric

+1



Added a Governance metric

Sample Metrics

- Reduction in CO2e Emissions
- Absolute Reduction in Greenhouse Gas Emissions
- Achieve measurable reductions in company's environmental footprint
- World Without Waste
- Increase diverse representation among the leaders in top U.S. positions by 10%
- Close the gap in the employee engagement quotient (EQ) scores of our Black employees relative to other employees



21

companies which did not have an ESG metric previously, added one to their 2021 or 2022 LTI plan

Source: Willis Towers Watson Global Executive Compensation Analysis Team research; reflects 310 S&P 500 companies with FYE's March 2021 – December 2021.

Putting this step-by-step guide into practice



Drilling down into specifics

Example One: Developing a DEI index for a performance share plan for a chemicals company

Guiding principles:

Min. 15% weighting per metric

Consider global/local priorities

Focus on outcome metrics

Focus on quantitative metrics

Proposed Index:

Pillars	Focus Areas	Priority	Metric	Weighting
Colleagues	Workforce diversity	Representation of underrepresented groups (female and people of color in US)	<ul style="list-style-type: none"> Increase female representation at (a) workforce-wide, (b) STEM jobs and (c) leadership levels Increase black and/or Hispanic representation for STEM jobs and leadership levels 	40% 30%
	Inclusive talent processes	Succession planning	<ul style="list-style-type: none"> Develop a diverse bench (at least one diverse candidate) at two levels down from US CEO 	30%
Company	Inclusive workplace	Empowering colleagues	<ul style="list-style-type: none"> Increase membership and participation in Employee Resource Groups (including allyship) to promote belonging 	To be tracked and considered for inclusion in future grants
Community	Partnership & support	Establishing ABC as an employer of choice for women and people of color	<ul style="list-style-type: none"> Develop community engagement program, including quantitative measures of assess achievement 	To be tracked and considered for inclusion in future grants

Process involved workshops with Heads of:

- Total Rewards
- Talent Acquisition
- Diversity, Equity & Inclusion
- Talent Management
- People Analytics

to identify what's being **measured**, **measurable** and **material** to the DEI strategy

Drilling down into specifics

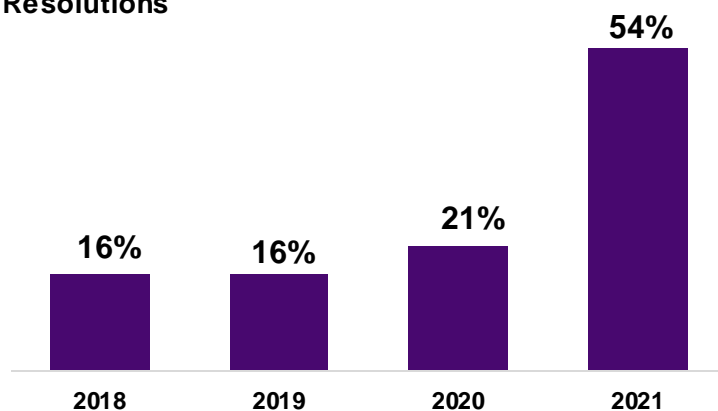
Example Two: Oil & gas company integrating its climate objectives within its LTI plan

Background



- Climate objectives have become a material component of company strategy
- Rapidly evolving shareholder sentiment supported a market-leading approach

Oil & Gas Shareholder Support for Climate Resolutions

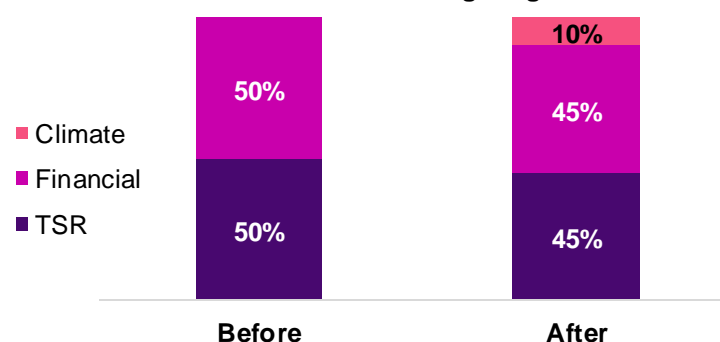


Actions



- Expanded review to include European peers with long-term climate metrics
- Identified “building-block” steps that support the net-zero by 2050 goal
- Understood necessity of strong share price and financial performance to achieve climate goals, supporting a lower initial weighting on climate

PSU Metric Weighting



Evolve and learn over time



- Embraced uncertainty, understanding the initial design to be imperfect
Continued evolution:
 - Confirm whether the objectives and weighting remain appropriate
 - Refine to become more quantitative
 - Frequent dialogue between the board and management
 - Monitor changes among key stakeholders and in the market

Board effectiveness



Becky Huddleston and Marie Holmstrom, Ph.D.

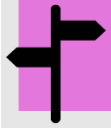
The role of the board

The role of the board



Regulatory conformance

Regulatory and legal compliance, sound governance



Organization performance

Long-term value creation delivered by management and key talent



Sustainability and future-proofing

Future-proofing the organization to ensure sustainable growth

A high functioning board/compensation committee delivers the following:

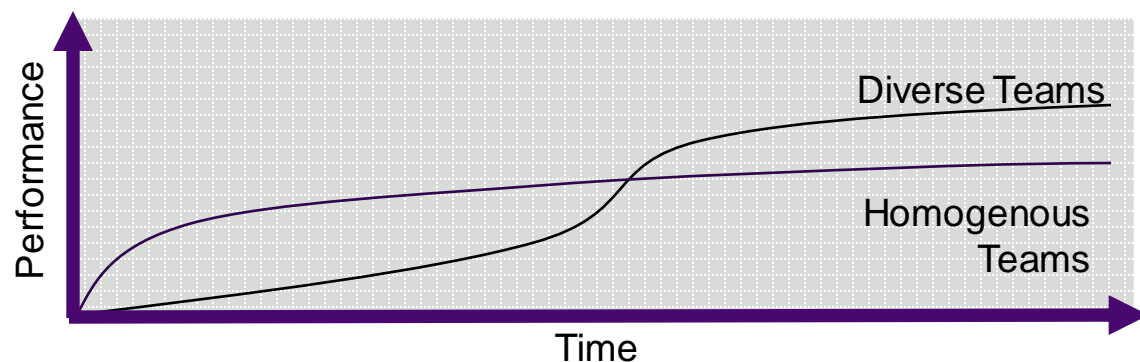
- Proactive human capital strategy
- Thoughtful executive compensation program design
- Productive deliberations
- Responsible use of discretion
- Ability to address complex issues that will continue to arise
- Prepares company to respond to the unexpected

Boards strive for diversity, collaboration, and overall effectiveness

"One of the most frequently cited qualities of a productive board member is the ability to collaborate. A good board will have members who offer diverse perspectives— and occasionally disagree. However, collaboration should not take the place of healthy debate, among board members or with management."

*-- Directors & Boards, What Makes a Good Board Member?,
Margaret Steen*

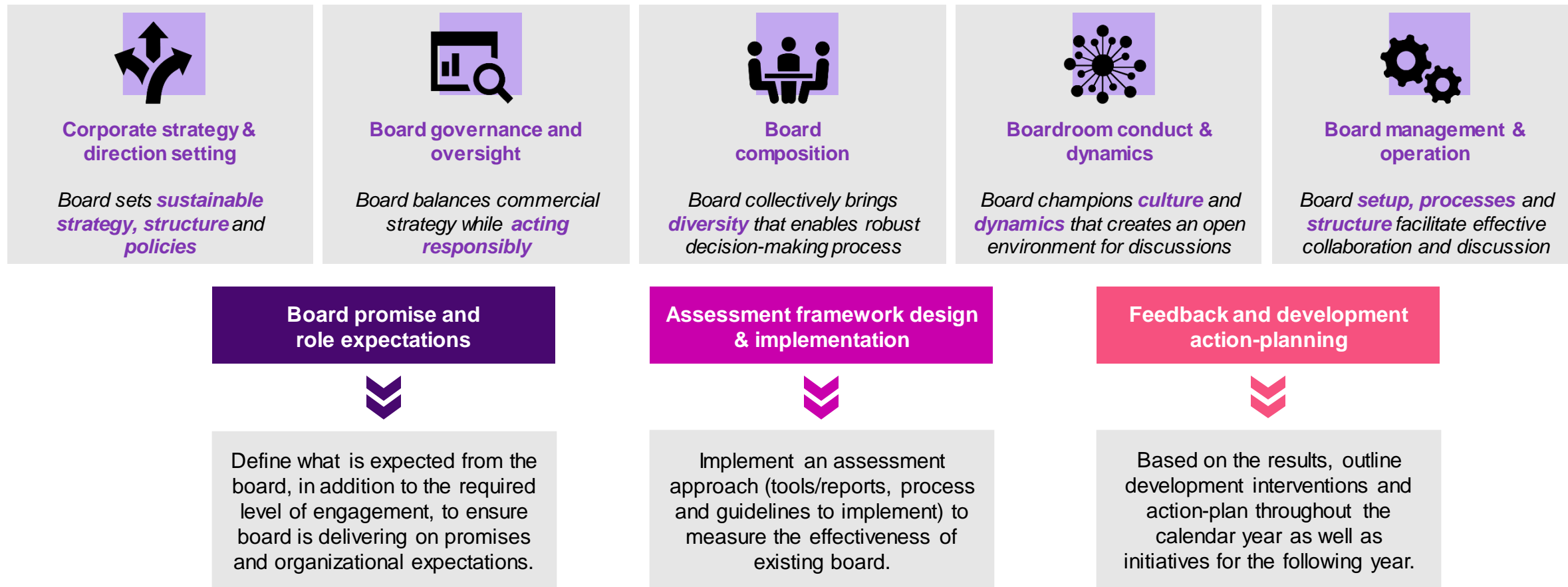
Research on diversity in teams largely agrees that, over time, teams made up of diverse personalities and styles outperform those team comprising of very similar personalities and styles.



Majority of boards assess their overall effectiveness regularly. Outcomes of this process include:

- Reassure stakeholders, particularly shareholders, of board's **commitment to continuous improvement** and development
- Creation of a **fit-for-purpose board** with the right composition and diversity
- Generates **self awareness** while defining the individual and collective expectations
- **Improved relationship** between a company's **board and its management**
- **Fulfillment of corporate governance requirements**

Characteristics of a high performing board and how to get started



Closing remarks

Mark Chen



Key takeaways

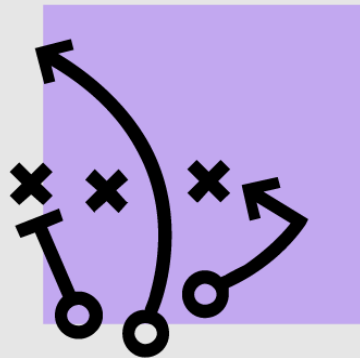
Executive pay and LTI trends

- Be bold and adaptive
- Remember what's in your toolbox and know when to use it



Proactive shareholder engagement

- Don't be complacent and start your conversations



ESG in practice

- Don't be intimidated and take a first step



Board effectiveness

- Lead by example – Change comes from the top

