

Special retention awards: A five-year analysis of the S&P 1500

WTW's
Global Executive Compensation Analysis Team

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Special retention awards are used by companies to keep the services of effective senior leaders

These awards are issued as a supplement to an executive's regular annual pay program and require a specified time to elapse before the entire value of the award is delivered.

The decision to issue a retention award is largely situational. Awards are often granted to solidify the management team during a business transformation or to incentivize an executive to stay with the company during a competitive talent environment. Companies justify making a grant during a period of sustained success as well as while navigating a challenging business or industry environment.

Companies should consider how retention awards will be viewed by proxy advisors and stakeholders. Award design and rationale are primary criteria taken into account by proxy advisors when making say-on-pay vote recommendations.



Methodology

- Our analysis of special executive retention awards is based on a review of a constant sample of 1,433 S&P 1500 companies with a public data filing available for fiscal years 2017 – 2021, broken down by indices as follows:
 - S&P Large-cap 500: 489 companies
 - S&P Mid-cap 400: 381 companies
 - S&P Small-cap 600: 563 companies
- Industry breakdowns are based on the 11 Global Industry Classification Standard (GICS) sectors.
- Methodology of data from fiscal years 2017 – 2021:
 - Prevalence by company is based on the total number of companies that granted one or more retention awards in our sample, cut by year.
 - Prevalence and award values by executive and role are based on the total number of executives who were granted retention awards, also cut by year.
 - Job titles in our sample have been categorized into 48 total roles.
 - Award vehicle prevalence is reflective of awards delivered through multiple vehicles.
 - Retention award effectiveness is defined as whether an executive remained with the company through the end of the retention period.
 - Consists of a review of awards granted during 2017 – 2019.
 - Review of Institutional Shareholder Services (ISS) recommendations on say-on-pay proposals at companies in our sample for fiscal 2017 – 2021. Recommendations confirmed using ISS's Governance Analytics.
- Methodology of data from fiscal year 2022:
 - A review of awards to executives disclosed in early fiscal 2022 proxies and 8-K filings through August 31, 2022. Full-year prevalence data and award value comparisons not available until 2023 proxies are filed.

This report was completed by WTW's Global Executive Compensation Analysis Team. Financial data were sourced from Standard and Poor's Capital IQ.



Key takeaways

Prevalence*

37%



of S&P 1500 companies granted a retention award to at least one executive during 2017 – 2021.

21%



of all retention awards granted during 2017 – 2021 were to the chief financial officer (CFO). Chief executive officers (CEO) were recipients of 13% of all retention awards during the same period.

Consumer discretionary



companies granted the most retention awards to executives during 2017 – 2021, as 43% of companies in this sector granted an award during the study period. Financials (24%) and real estate (27%) were the only sectors with fewer than one-third of companies issuing any retention awards.

2021 Values*

148%



median value of an S&P 1500 executive retention award as a percentage base salary.

261%



median value of a CEO retention award as a percentage of base salary. Median value of a CFO retention award was 154%.






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sectors granted retention awards with a median value as a percentage of base salary over 175%, including communication services (1,244%), consumer discretionary (181%), information technology (176%) and real estate (265%).

*Disclosure rules require companies to provide pay info for the CEO and CFO positions. Prevalence results for all other roles is dependent on whether pay levels were high enough to be included on the summary compensation table.

Key takeaways

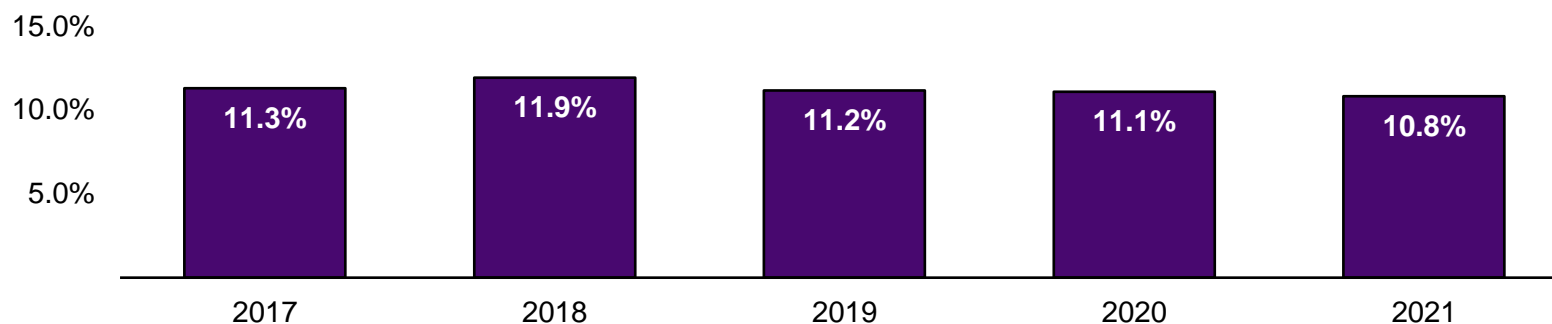
	Award vehicles	33%	of retention grant packages in 2021 included a long-term performance award, the most in any year in our study and a +10 percentage point increase from the prior year. Time-vested restricted stock remained the primary vehicle, being included in 58% of retention packages.
	Vesting type	65%	of equity awards in 2021 are subject to graded vesting, providing opportunity for value to be delivered during the retention period rather than cliff vesting all at once at the end of the period.
	Retention period	76%	of retention packages granted in 2021 required the executive to remain for no more than three years in order to receive the entire award value.
	Retention effectiveness	76%	of executives who received a retention award during 2017 – 2019 remained with the company through the duration of the retention period.
	Proxy advisor stance	11%	of the companies that granted a retention award during the study period saw the award flagged as part of an “Against” say-on-pay ISS recommendation.

Special retention awards: Company view

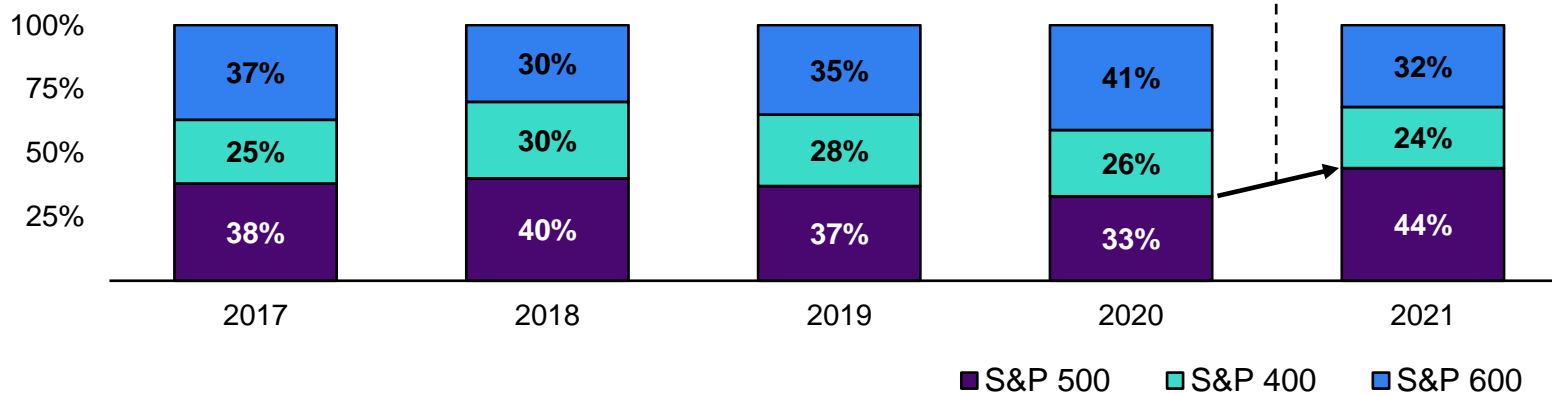
37%
of companies granted a retention award to one or more executives during the past five years.

38%
of companies (14% of the entire sample) that made a grant during the five years in this review did so in more than one year.

Retention awards by company, by year*



Retention awards by index, by year*



*Prevalence based on total sample of 1,433 S&P 1500 companies

Special retention awards: Executive view

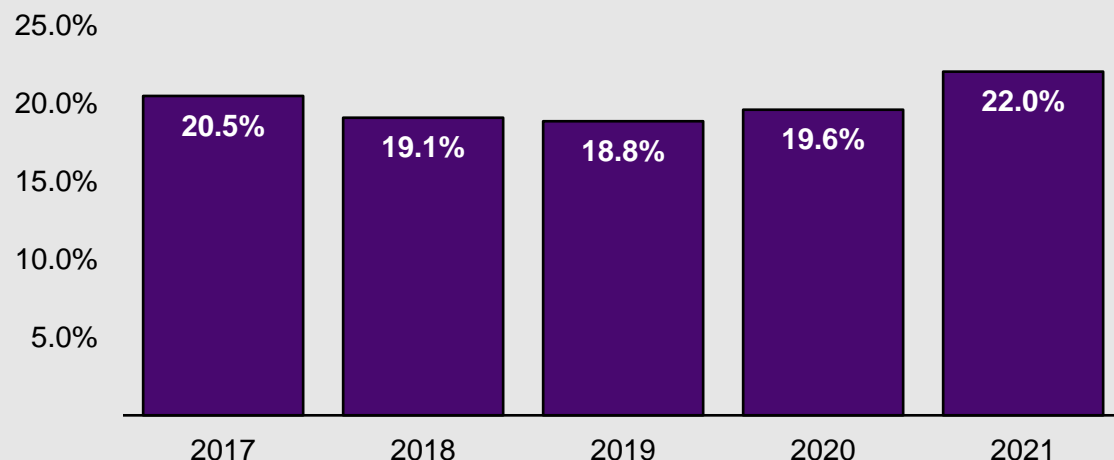
- The number of executives receiving retention awards increased over the past two years, while the number of companies issuing awards fell slightly.
- Despite fewer companies granting retention awards, those that did included a broader set of C-suite roles.



Demographics

- The percentage of retention awards received by female executives jumped from 8% in 2017 to 17% in 2021, with early 2022 results continuing this trend to over one-fifth (22%).

Retention awards per year, by executive*



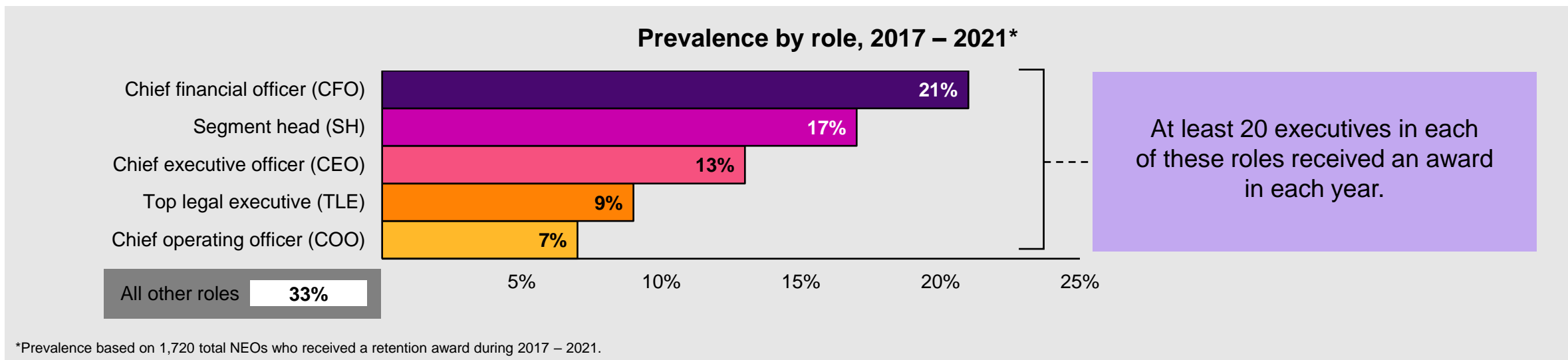
*Prevalence based on 1,720 total named executive officers (NEOs) in the sample that received a retention award during 2017 – 2021.

The percentage of executives receiving awards by age began to decline at age 55+, with significantly fewer receiving an award after reaching retirement age (65).

Age range	Percentage of NEOs receiving a retention award
< 40	5.0%
40 – 44	5.8%
45 – 49	6.1%
50 – 54	6.2%
55 – 59	4.0%
60 – 64	3.7%
65+	2.5%

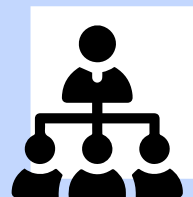
Special retention awards by role

Our analysis identified 48 unique roles* that received at least one retention award during the 2017 – 2021 period, with a focus on the five most frequently awarded positions.



CFO

retention was prioritized as companies considered the importance of the role.



55

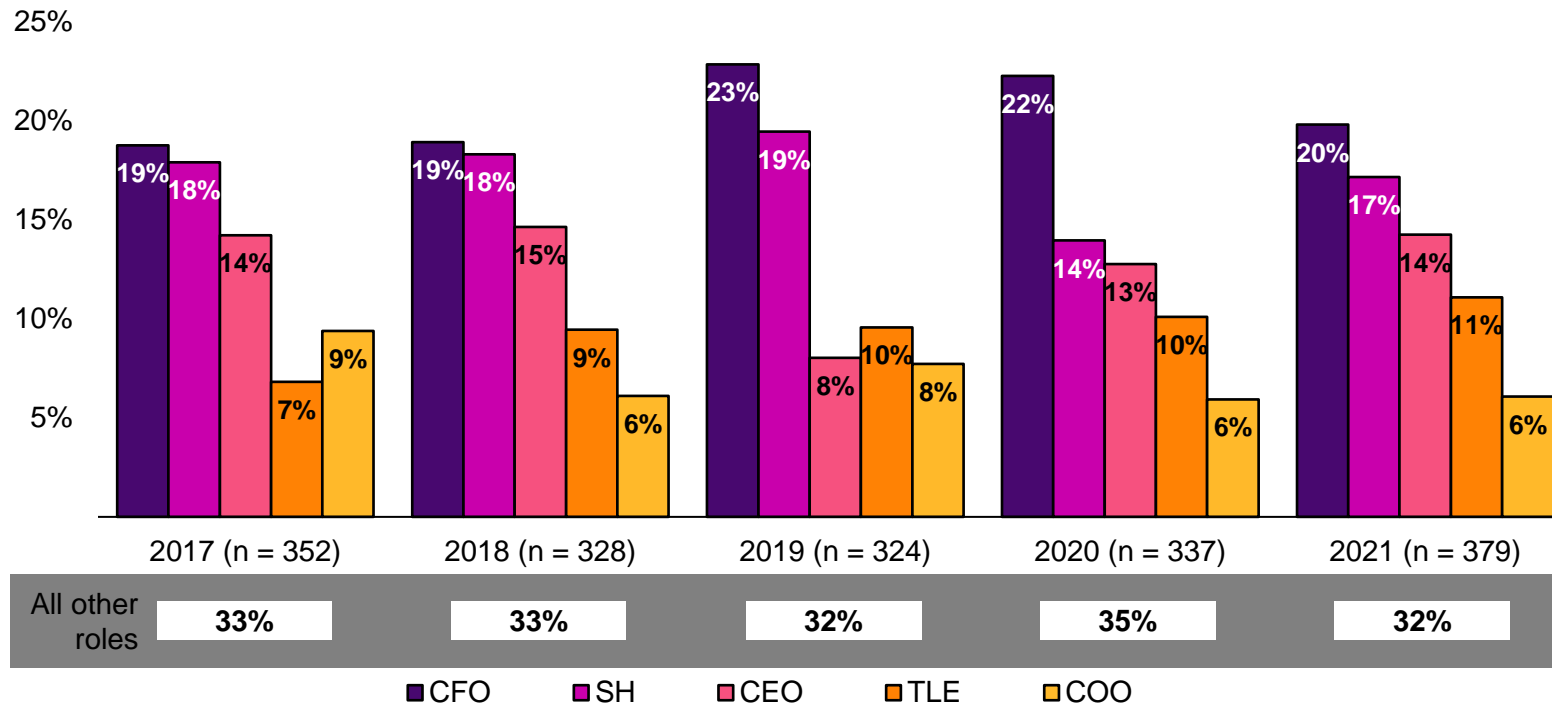
companies granted retention awards to multiple segment heads in the same year.

*Full list of roles is disclosed in the appendix on slide 23.

**Disclosure rules require companies to provide pay info for the CEO and CFO positions. Prevalence results for all other roles is dependent on whether pay levels were high enough to be included on the summary compensation table.

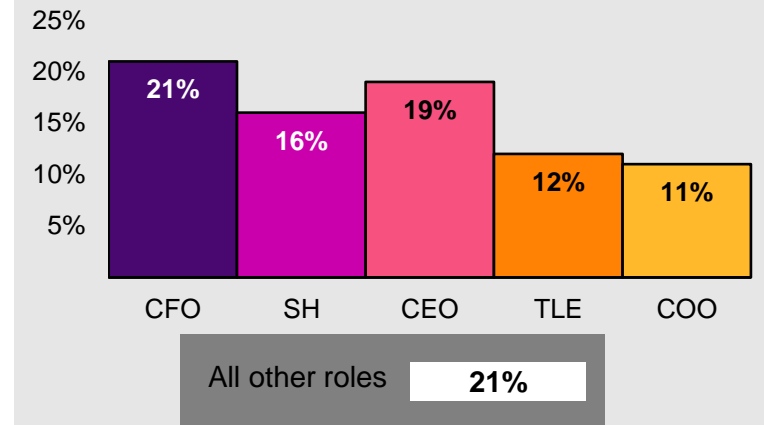
CFOs were nearly three times more likely to receive a retention award than CEOs in 2019, though the gap has shrunk in subsequent years

Prevalence by role, per year



2022 early look*

Prevalence by role



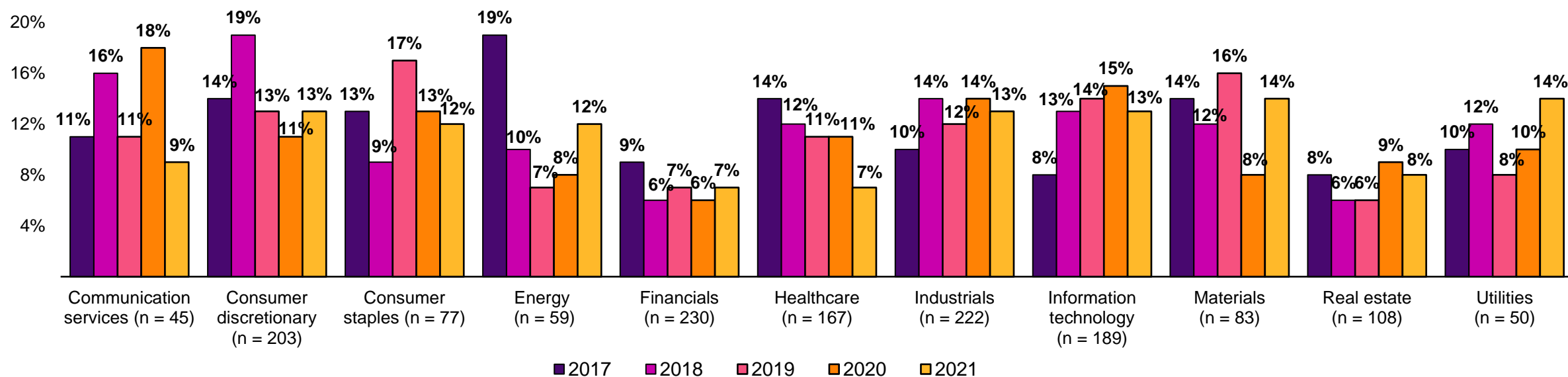
*Based on 2022 retention awards for 92 executives disclosed as of August 31, 2022.

CEOs and COOs, the two roles most responsible for oversight of company operations, have received a larger share of total retention awards granted so far in 2022 compared with prior years.

Industries tend to grant more retention awards in high-performing years

- Retention awards at energy companies spiked in 2017, as the industry emerged from turbulence in the oil and gas industry in 2016.
- Nearly one-fifth (19%) of consumer discretionary companies granted a retention award in 2018, spurred by strong market performance and growth in e-commerce.
- Award prevalence was more balanced across sectors in 2021; no more than 14% of any industry issued a retention award that year, the lowest of the study period.

Use of retention awards, by sector*



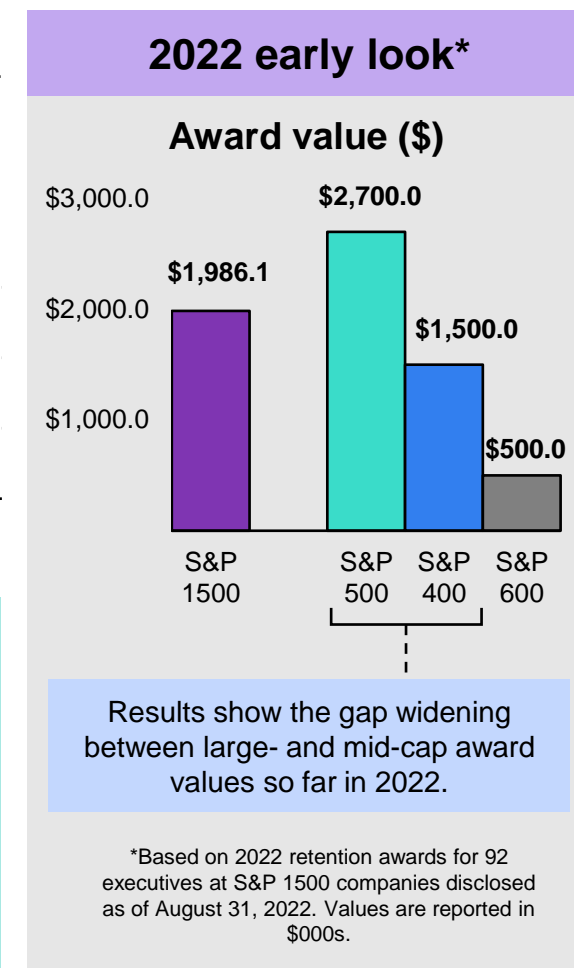
*Prevalence reflects number of companies that granted retention awards within each GICS sector.

Award values rebounded as we emerged from the global pandemic in 2021

Index	2017		2018		2019		2020		2021	
	Award value (\$)	Award value as % of salary	Award value (\$)	Award value as % of salary	Award value (\$)	Award value as % of salary	Award value (\$)	Award value as % of salary	Award value (\$)	Award value as % of salary
S&P 1500	\$1,000.0	183%	\$1,000.0	169%	\$623.8	127%	\$600.0	125%	\$1,000.0	148%
S&P 500	\$1,687.8	288%	\$1,634.2	291%	\$1,202.8	184%	\$1,609.1	250%	\$1,500.0	191%
S&P 400	\$673.4	152%	\$870.0	164%	\$1,000.0	169%	\$804.8	142%	\$1,060.3	193%
S&P 600	\$508.1	136%	\$330.0	80%	\$298.1	64%	\$409.2	79%	\$360.0	76%

Note: All values reflect the median data point and are reported in \$000s. Award value as a percentage of base salary for 2022 will not be available until 2023 proxy statements are released.

- Decline in values in 2019 can largely be attributed to a drop in the number of CEOs receiving a retention award, as the top role tends to receive higher value awards.
 - CEOs accounted for just 8% of all retention awards granted in 2019, down from 15% in the prior year.



Award values increased significantly in several industries in 2021

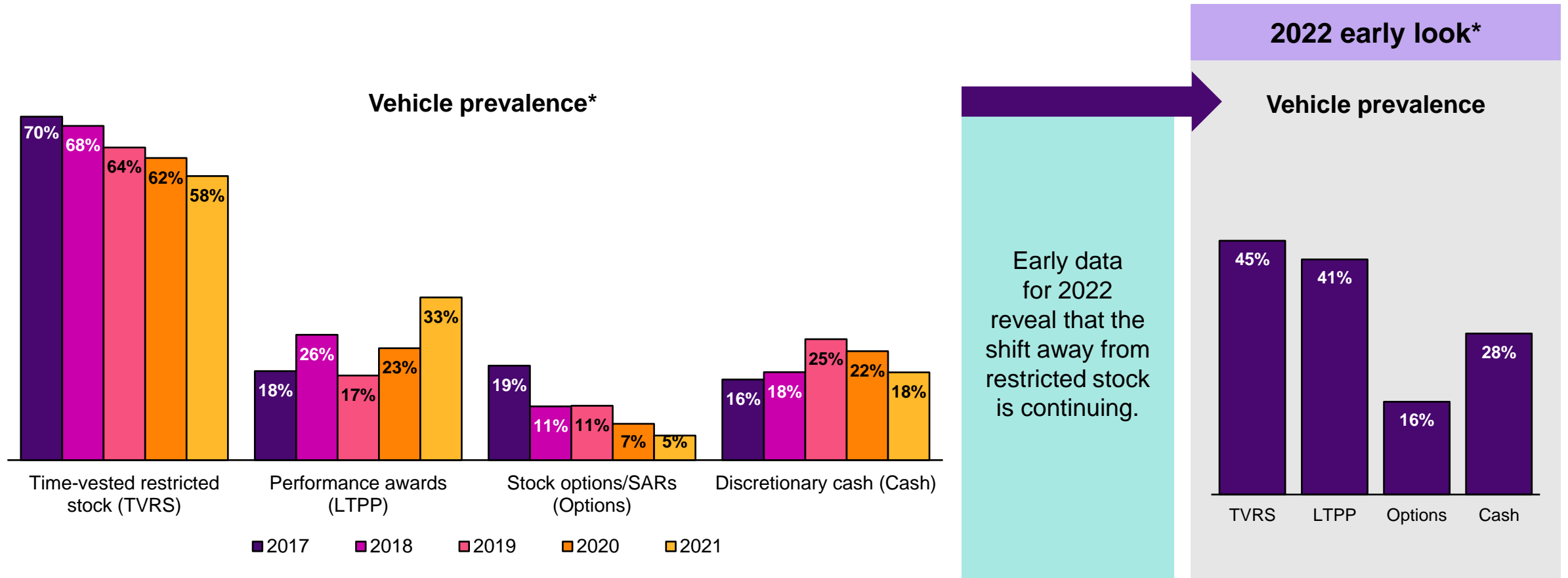
Predictably, either the lowest or second lowest median value for companies in nearly all sectors occurred in 2020, amid overall uncertainty in the labor market as a result of the pandemic...

... Award values increased in 2021, although the value as a percentage of base salary fell for recipients in the materials sector despite the growth in award value. The consumer staples sector was the only other sector to have award values dip below base salary levels.

Sector	2017		2018		2019		2020		2021	
	Award value (\$)	Award value as % of salary	Award value (\$)	Award value as % of salary	Award value (\$)	Award value as % of salary	Award value (\$)	Award value as % of salary	Award value (\$)	Award value as % of salary
Communication services	\$4,861.5	632%	\$2,897.6	398%	\$2,037.7	251%	\$1,000.0	208%	\$7,466.2	1,244%
Consumer discretionary	\$809.9	181%	\$1,000.1	174%	\$346.7	61%	\$712.5	150%	\$1,197.9	181%
Consumer staples	\$994.4	199%	\$1,059.8	194%	\$1,461.1	206%	\$603.4	107%	\$443.8	75%
Energy	\$1,532.5	281%	\$307.5	74%	\$280.0	51%	\$950.3	150%	\$750.0	120%
Financials	\$891.6	144%	\$316.7	83%	\$471.7	100%	\$446.3	90%	\$954.4	112%
Healthcare	\$1,172.0	264%	\$1,000.0	175%	\$750.0	143%	\$478.7	90%	\$982.3	146%
Industrials	\$650.0	106%	\$522.5	101%	\$1,000.0	154%	\$500.0	105%	\$907.2	131%
Information technology	\$1,000.0	238%	\$1,269.9	242%	\$1,000.0	188%	\$1,087.9	235%	\$1,000.0	176%
Materials	\$831.1	173%	\$1,364.9	278%	\$397.5	81%	\$369.6	105%	\$554.0	89%
Real estate	\$875.0	90%	\$1,500.0	275%	\$783.5	124%	\$804.7	158%	\$1,081.5	265%
Utilities	\$875.0	126%	\$1,007.6	173%	\$300.0	62%	\$950.3	175%	\$750.0	154%

Note: All data points reflect the median. Values are reported in \$000s and are inclusive of awards granted to all NEOs.

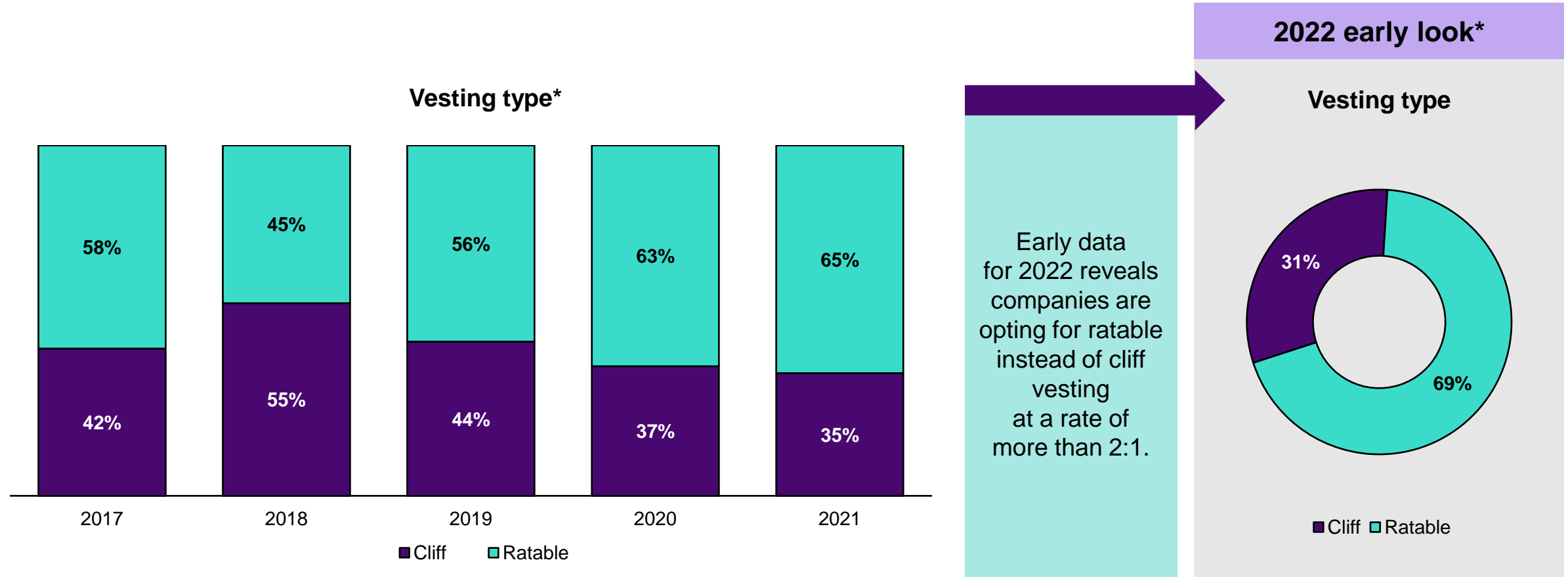
Companies are increasingly using performance-based awards for retention, but restricted stock remains the most common retention award vehicle



*Prevalence includes awards delivered through multiple vehicles.

Shift toward graded vesting of awards has continued since 2019

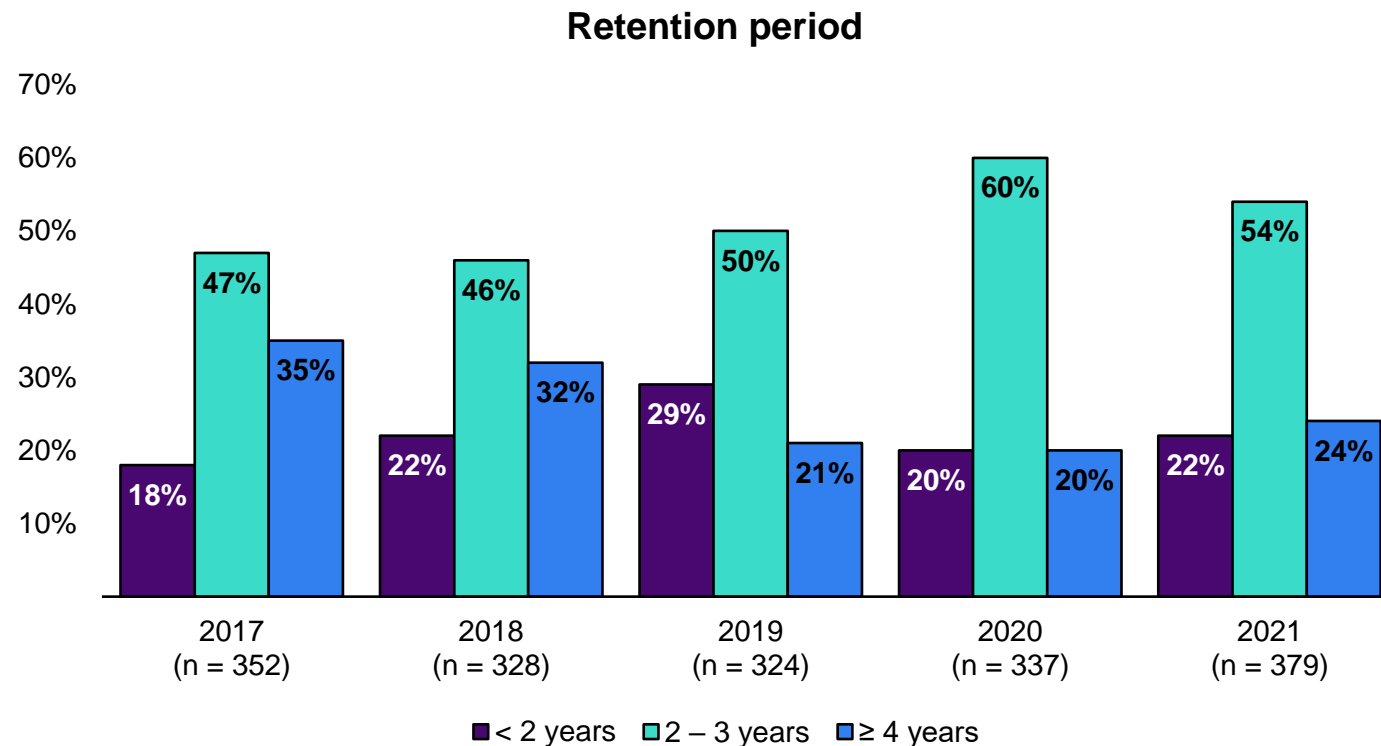
Ratable vesting allows for portions of the total award value to be delivered during the retention period rather than cliff vesting, which delivers value only at the end of the period.



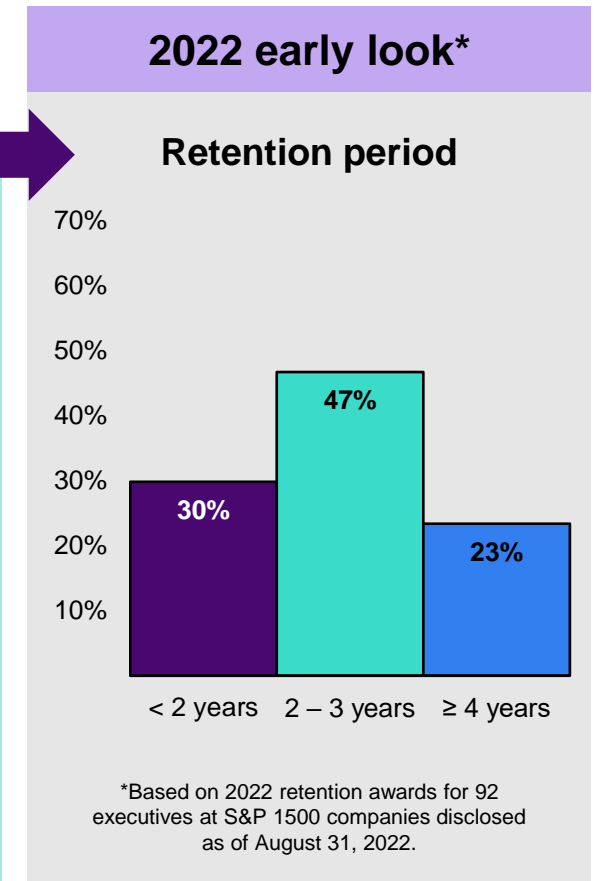
*Includes all awards with vesting schedule disclosed.

Retention length has loosened since 2018

Three years is the most common retention period length assigned to awards, representing the most performance periods and restricted stock vesting schedules.

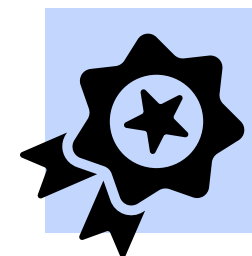
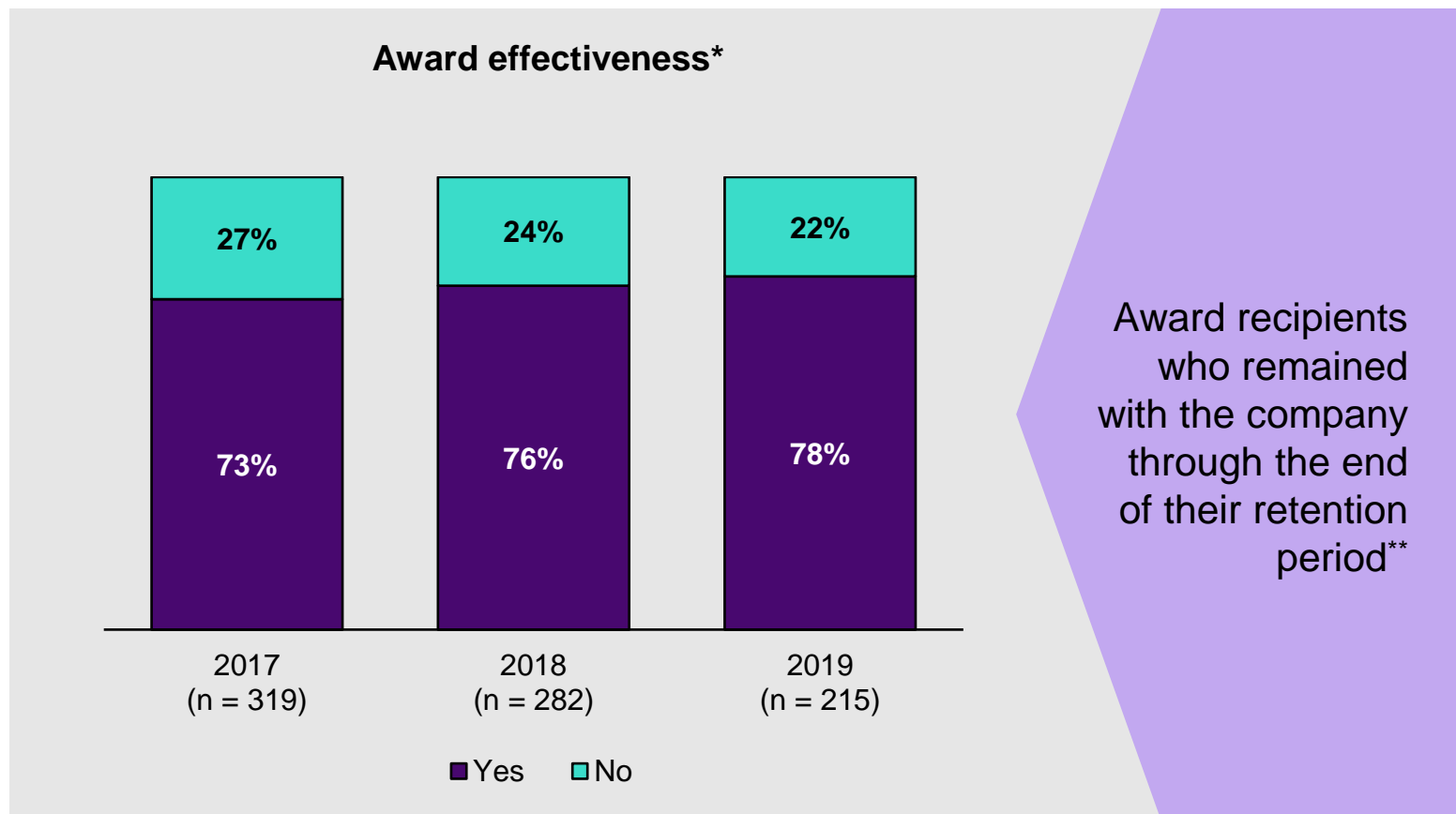


Most recipients need to stay for no longer than three years before receiving the entire award.



Retention award effectiveness

A substantial majority of executives remained at the company through the end of the retention period for awards granted 2017 – 2019.



Based on awards granted in 2017 – 2019, these special awards appear to be an effective retention tool.

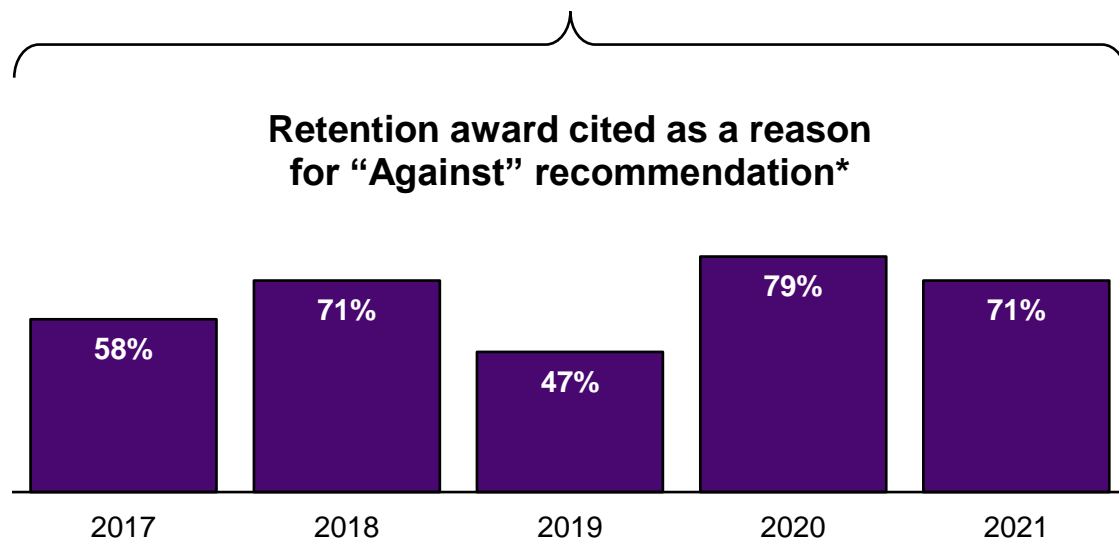
*Includes recipients whose retention periods were completed by August 31, 2022.

**Awards to recipients granted after 2019 excluded due to majority of retention periods not complete.

Proxy advisor view

16% of companies that made retention awards received an “Against” recommendation on say-on-pay from ISS.

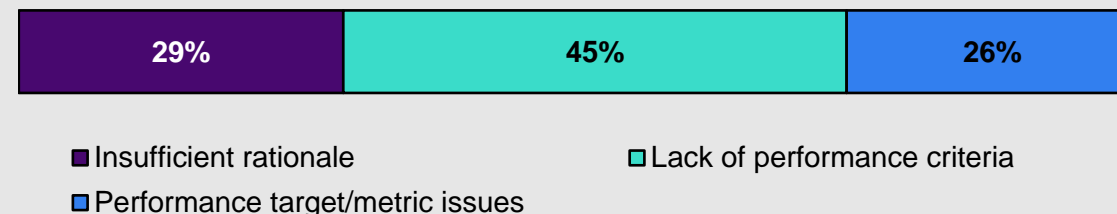
Say-on-pay proposals from ISS					
For:	81%	82%	89%	85%	80%
Against:	19%	18%	11%	15%	20%



*Reflects the total number of companies in our sample that granted one or more retention awards to executives, by year.

Source: WTW Global Executive Compensation Analysis Team analysis of ISS recommendations for companies in our sample. Recommendations confirmed using ISS’s Governance Analytics.

Citations for “Against” recommendation



Award features commonly cited for an “Against” recommendation

- **Lack of performance criteria:** Awards without performance criteria or a minimal portion of the award held to performance conditions
- **Performance target/metric concerns:** Performance targets that lack rigor, or concerns about the number or type of metrics used
- **Insufficient rationale:** Issues with award size or circumstances under which an award was granted

Appendix

List of roles granted at least one retention award: 2017 – 2021

CFO/Top financial officer	Top administration executive (major functions)	Top merchandising executive
Chief executive officer	Top asset management executive	Top mergers and acquisitions executive
Chief information officer	Top brand/Category management executive	Top new product development management executive
Chief medical officer	Top commercial executive	Top nuclear executive
Chief operating officer	Top credit and collections executive	Top procurement/Purchasing executive
Chief risk officer	Top customer services/Operations executive	Top real estate development/Construction executive
Chief technology officer	Top E-commerce business executive	Top regulatory affairs and compliance executive
Corporate secretary	Top engineering executive	Top research and development executive
Executive chairman of the board (not CEO)	Top general accounting executive	Top retail operations executive
Finance executive (second level)	Top human resources executive	Top safety executive
Financial controller	Top information technology executive	Top sales and marketing executive
General/Country manager	Top investment portfolio management executive	Top sales executive
No applicable executive benchmark	Top investor relations executive	Top strategic planning and development executive
Nonmanufacturing operations management executive	Top legal executive	Top supply chain executive
Regional head	Top manufacturing executive	Treasurer
Segment head	Top marketing executive	Vice chairman of the board

Thank you!