

CEO pay at S&P 1500 companies: 2020

Trends in pay levels and practices

Willis Towers Watson's
Global Executive Compensation Analysis Team

August 2020



Key findings

2019 total pay results as disclosed in 2020

6.0%

increase in target total pay for S&P 1500 CEOs. S&P 500 CEOs received an increase of 5.6%, while S&P 600 CEO pay grew at 6.4%. The S&P 400 CEO pay jump aligned with the overall group at 6.0%.

62%

of target pay value is performance-based, remaining constant with results from the prior year. Performance-based pay consists of an annual bonus, long-term performance plan awards and stock options; non-performance pay includes base salary and time-vested restricted stock.

2.5%

increase in base salary for S&P 1500 CEOs.

5.5%

increase in earned pay for S&P 1500 CEOs.

Two out of five (40.5%)

S&P 1500 CEOs receive a base salary over \$1M.

Despite the increase over the prior year, this growth observed in 2019 was significantly lower than the 13.7% jump at the median reported in last year's study, particularly due to the decrease in S&P 400 performance-based earned pay.

Key findings

Annual bonuses

Target bonus set for 2019

3.0%

Increase in annual target bonus values for S&P 1500 CEOs.

125%

Target bonus as a percentage of base salary for S&P 1500 CEOs.

19%

of S&P 1500 companies increased their bonus targets, a slight decrease from the 20% that did so in the prior year.

Bonus payouts earned in 2020

-3.2%

Median decrease in annual bonus payout values for S&P 1500 CEOs compared with a 5.8% increase in the previous cycle.

50% of payouts were at or above target.

102% Average bonus payout as a percentage of target, down from 114% in the prior year.

16%

of S&P 1500 bonus payout results were at or below 50% of target, up from only 10% in the prior year.

Key findings

2019 long-term incentives (LTI)

7.1% median increase in target LTI values, up slightly from 6.5% observed in the prior year.

443% median target LTI value as a percentage of base salary for S&P 1500 CEOs.

51% of LTI value is delivered through performance plans; this type of LTI award is issued to over three-quarters (78%) of CEOs in the S&P 1500.

8.4% median increase in earned LTI value; however, a lower bump compared with the 13.1% increase observed in the prior year.

Methodology

- This year's analysis is based on 1,006 S&P 1500 companies with a constant CEO incumbent in fiscal years 2017 through 2019, broken down by indices as follows:
 - S&P Large-cap 500: 340 companies
 - S&P Mid-cap 400: 271 companies
 - S&P Small-cap 600: 395 companies
 - Pay changes in 2018/2019 detailed in this report are compared with findings in last year's S&P 1500 CEO pay report for 2017/2018. Data for 2018 is based on 1,018 S&P 1500 companies with a constant CEO incumbent for fiscal years 2016 – 2018, while 2017 data is based on 1,008 S&P 1500 companies with a constant CEO incumbent for fiscal years 2015 – 2017.
- Industry breakdowns are based on the 11 Global Industry Classification Standard (GICS) sectors
- Pay definitions used within the study:
 - Total pay (SCT): Total pay reported in the Summary Compensation Table (SCT)
 - Total direct compensation (TDC): Target cash + grant-date value for stock options, time-vested restricted stock (TVRS) and performance plans
 - Earned pay: Salary + annual and long-term incentives earned + value of vested and exercised awards
 - Realizable pay: Earned cash + option/TVRS intrinsic value + long-term incentive payout values for award cycles that start and end during the period

This report was completed by Willis Towers Watson's
Global Executive Compensation Analysis Team.

Financial data sourced from Standard and Poor's Capital IQ

General pay trends

Pay levels and adjustments



Total direct pay for CEOs in 2019 grew at rates comparable with the prior year, while earned pay fell significantly for S&P 400 and S&P 600 companies due to lower earned LTI values and fewer above-target bonuses

Pay element	Median change 2017 – 2018				Median change 2018 – 2019			
	S&P 1500	S&P 500	S&P 400	S&P 600	S&P 1500	S&P 500	S&P 400	S&P 600
Base salary	2.7%	0.4%	2.9%	3.0%	2.5%	0.0%	2.0%	3.0%
Target annual bonus	3.1%	3.0%	3.0%	3.5%	3.0%	3.0%	3.0%	3.0%
Earned bonus	5.8%	6.3%	4.8%	5.7%	-3.2%	-4.7%	-3.3%	0.0%
Target cash compensation	3.0%	3.0%	3.0%	3.1%	3.0%	3.0%	3.0%	3.0%
Earned cash compensation	5.2%	5.7%	4.6%	5.2%	0.0%	-1.9%	0.0%	1.6%
Target long-term incentives	6.5%	6.7%	5.3%	7.4%	7.1%	6.2%	6.6%	8.4%
Earned long-term incentives	13.1%	13.7%	16.8%	10.7%	8.4%	23.5%	-2.0%	6.8%
Total pay (SCT)	5.3%	5.2%	4.9%	6.0%	7.3%	7.4%	5.1%	8.0%
Total pay (SCT) – Excluding CIP and NQDC*	7.0%	7.2%	6.9%	6.7%	4.2%	3.9%	2.6%	5.7%
Total direct compensation (TDC)	5.5%	5.7%	5.1%	5.5%	6.0%	5.6%	6.0%	6.4%
Earned pay	13.7%	11.6%	14.7%	13.3%	5.5%	13.1%	0.2%	4.8%

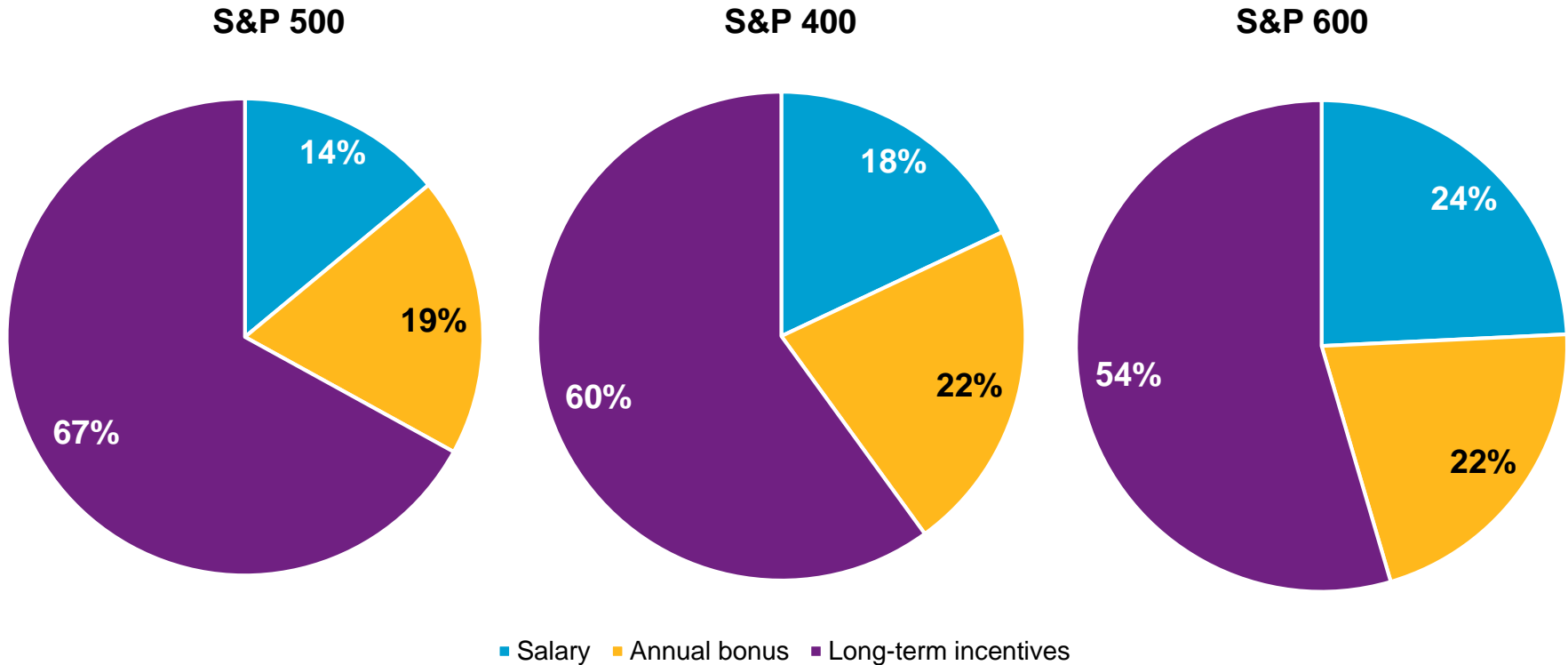
*Excludes amounts attributed to change in pension value and/or nonqualified deferred compensation

CEOs at the largest companies (S&P 500) were not immune to lower bonus payouts; however, significant gains in earned LTI led to a year-over-year increase in take-home pay.

LTI pay remained the primary driver of overall target pay

Nearly two-thirds of pay is delivered through performance-based incentives

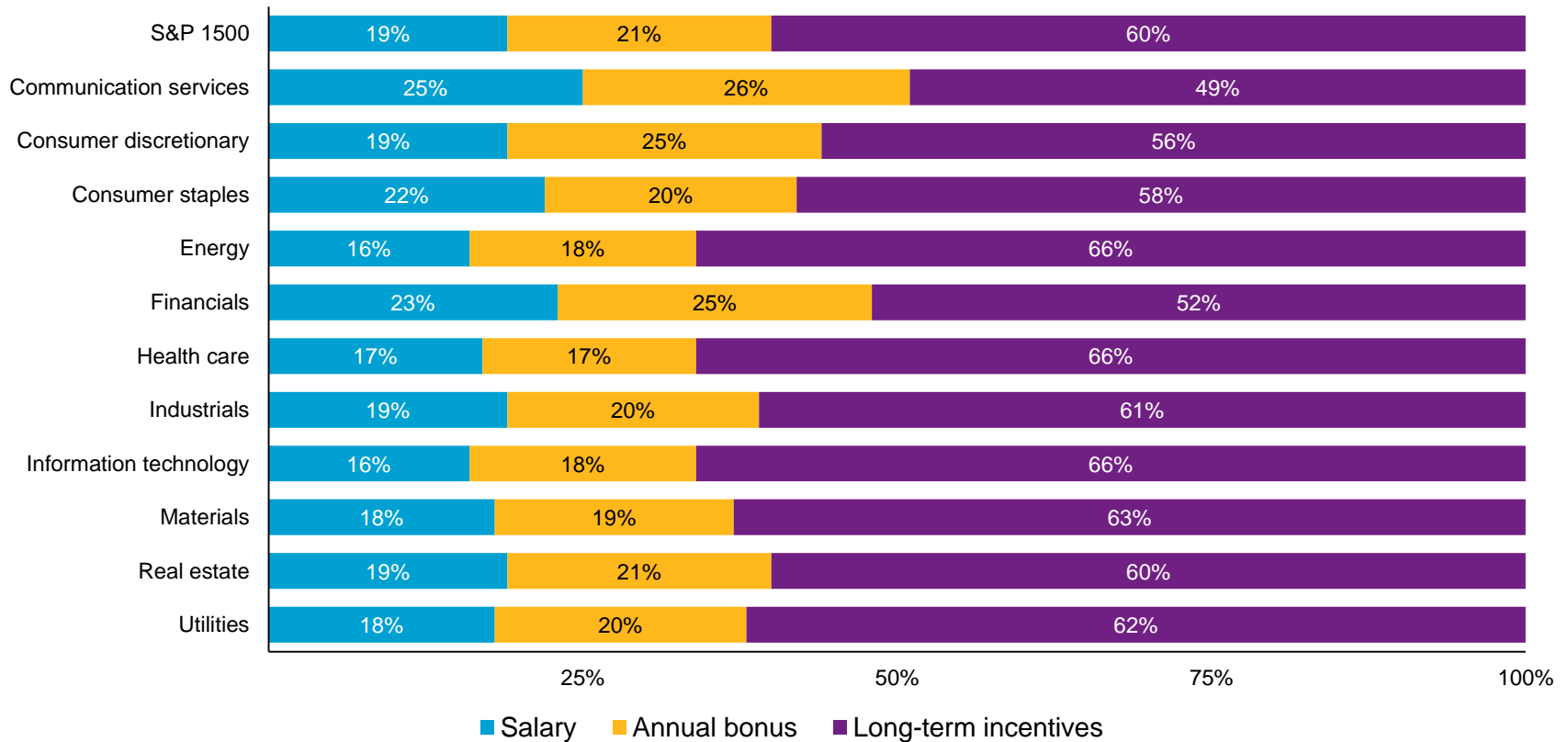
Average CEO pay mix, 2019



Target total direct compensation mix by sector

S&P 1500 CEOs receive 60% of pay through LTI; only communication services sector CEOs receive less than half of pay in LTI

Total direct compensation mix by sector, 2019



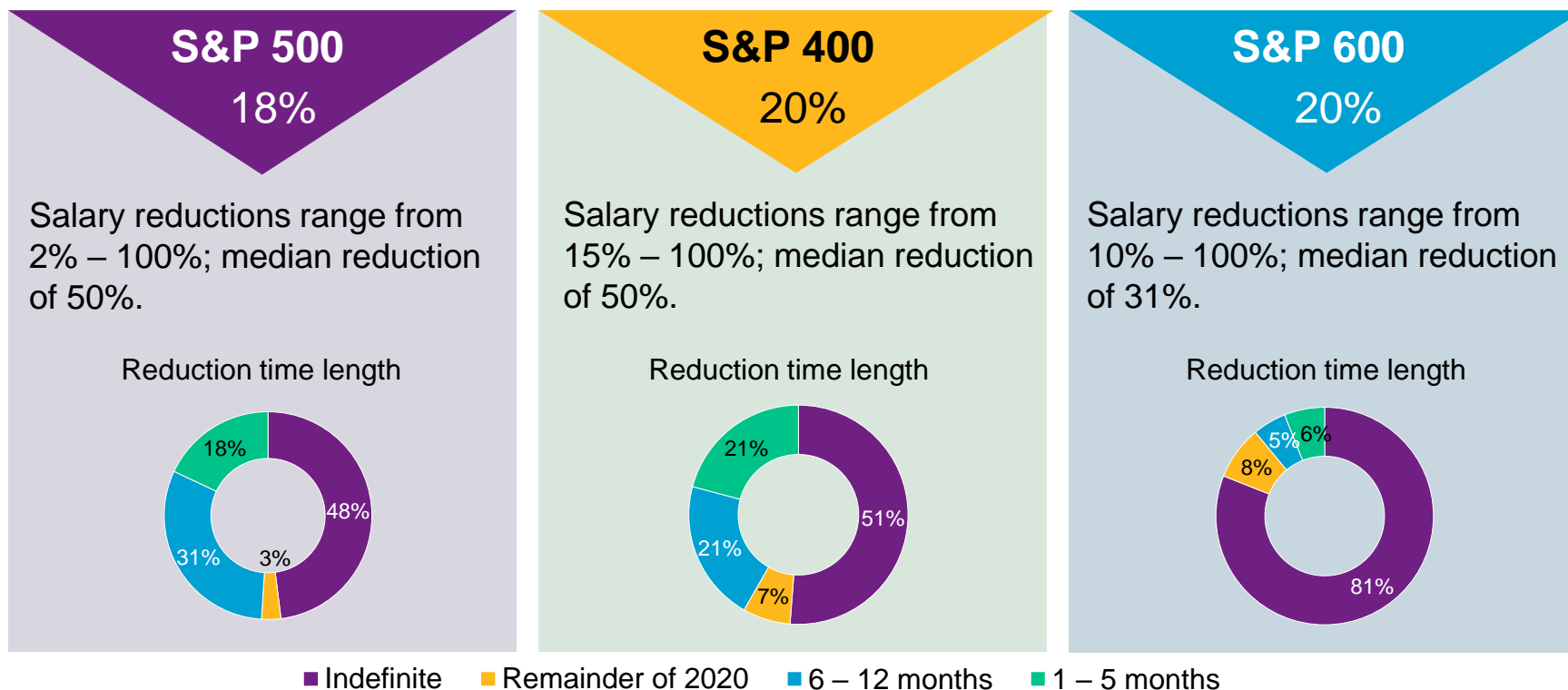
Modest base salary increases for mid-cap and small-cap CEOs continued in 2019, while S&P 500 CEO salaries remained flat at the median

	Median salary increase in 2019	Prevalence of CEOs with...		
		No salary increase in 2019	No salary increase over three years	Salaries >\$1M in 2019
S&P 1500	2.5%	42.8%	27.2%	40.5%
S&P 500	0.0%	48.2%	33.4%	75.6%
S&P 400	2.0%	42.1%	25.8%	40.2%
S&P 600	3.0%	38.5%	22.7%	10.4%
Communication services	0.0%	65.7%	50.0%	47.2%
Consumer discretionary	0.0%	52.4%	32.3%	56.0%
Consumer staples	3.0%	21.1%	7.9%	42.5%
Energy	1.4%	47.4%	31.6%	42.1%
Financials	0.0%	56.6%	42.8%	39.5%
Health care	3.0%	31.0%	18.6%	42.5%
Industrials	3.0%	27.7%	14.2%	36.3%
Information technology	0.0%	47.8%	27.9%	27.2%
Materials	2.6%	36.7%	16.7%	56.7%
Real estate	0.0%	52.3%	38.4%	23.0%
Utilities	3.4%	15.8%	7.9%	55.3%

COVID-19 actions in 2020

Unprecedented economic fallout resulting from the COVID-19 pandemic led to companies of all sizes and industry sectors making pay adjustments

Nearly one-fifth (19%) of S&P 1500 companies in our sample have made a salary reduction since March 2020.* Reductions have been found at slightly fewer S&P 500 companies.



*COVID-19 pay adjustment data as of August 15, 2020.



Short-term incentives

Annual bonus targets and payouts

Fewer S&P 1500 companies increased target bonus opportunities in 2019

Increase levels remained flat for large and mid-cap CEOs but fell for S&P 600 CEOs at the median

Index	2018		2019	
	Percentage of companies increasing annual target bonus percentage	Median percentage point increase in target annual bonus	Percentage of companies increasing annual target bonus percentage	Median percentage point increase in target annual bonus
S&P 1500	20%	+15	19%	+13
S&P 500	24%	+15	20%	+15
S&P 400	18%	+10	19%	+10
S&P 600	17%	+15	16%	+10

Note: Shift defined as an increase in target bonus greater than or equal to 5%; results exclude companies providing nominal salaries of \$0 or \$1 to their CEO.

Bonus targets remained flat at the median for large-cap CEOs; however, movement in the upper percentiles are a result of flat salary growth and increases in target bonus opportunities

LTI targets were above results observed in the prior year across companies of all sizes

S&P 500	Target bonus as % of base salary			Target LTI as % of base salary		
	2017	2018	2019	2017	2018	2019
10th percentile	110%	119%	120%	349%	387%	404%
25th percentile	125%	130%	130%	500%	522%	527%
Median	150%	150%	150%	680%	697%	726%
Average	166%	162%	166%	755%	798%	837%
75th percentile	180%	180%	200%	826%	854%	900%
90th percentile	200%	200%	225%	1055%	1100%	1211%

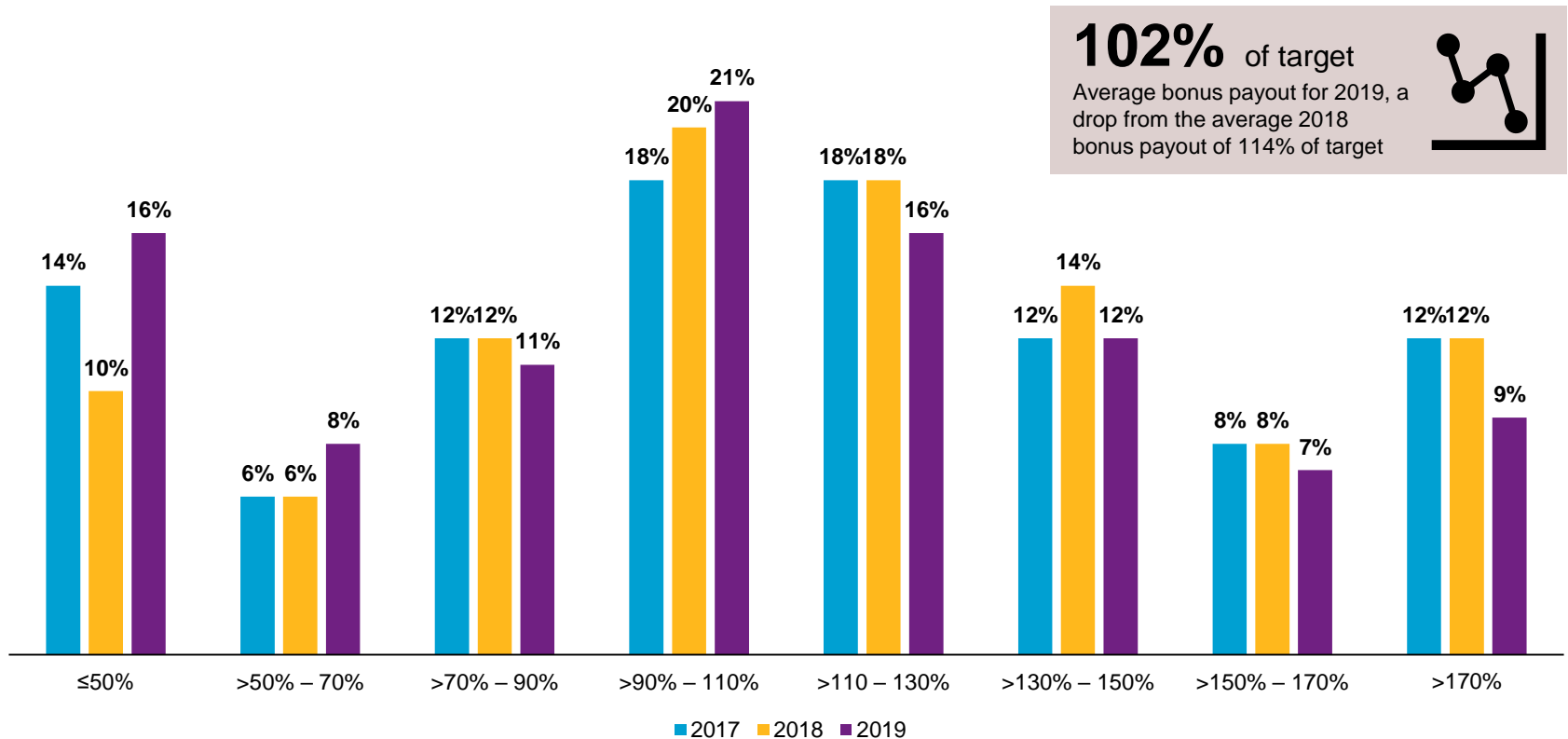
S&P 400	Target bonus as % of base salary			Target LTI as % of base salary		
	2017	2018	2019	2017	2018	2019
10th percentile	100%	100%	100%	179%	208%	199%
25th percentile	100%	100%	100%	266%	295%	307%
Median	115%	120%	125%	423%	411%	422%
Average	122%	124%	126%	482%	473%	490%
75th percentile	130%	135%	140%	571%	595%	583%
90th percentile	150%	160%	160%	770%	770%	859%

S&P 600	Target bonus as % of base salary			Target LTI as % of base salary		
	2017	2018	2019	2017	2018	2019
10th percentile	70%	75%	75%	92%	90%	96%
25th percentile	90%	100%	100%	152%	174%	169%
Median	100%	100%	100%	249%	280%	305%
Average	104%	107%	108%	318%	321%	366%
75th percentile	114%	120%	120%	376%	425%	436%
90th percentile	138%	150%	150%	563%	596%	621%

Annual bonus payouts fell significantly

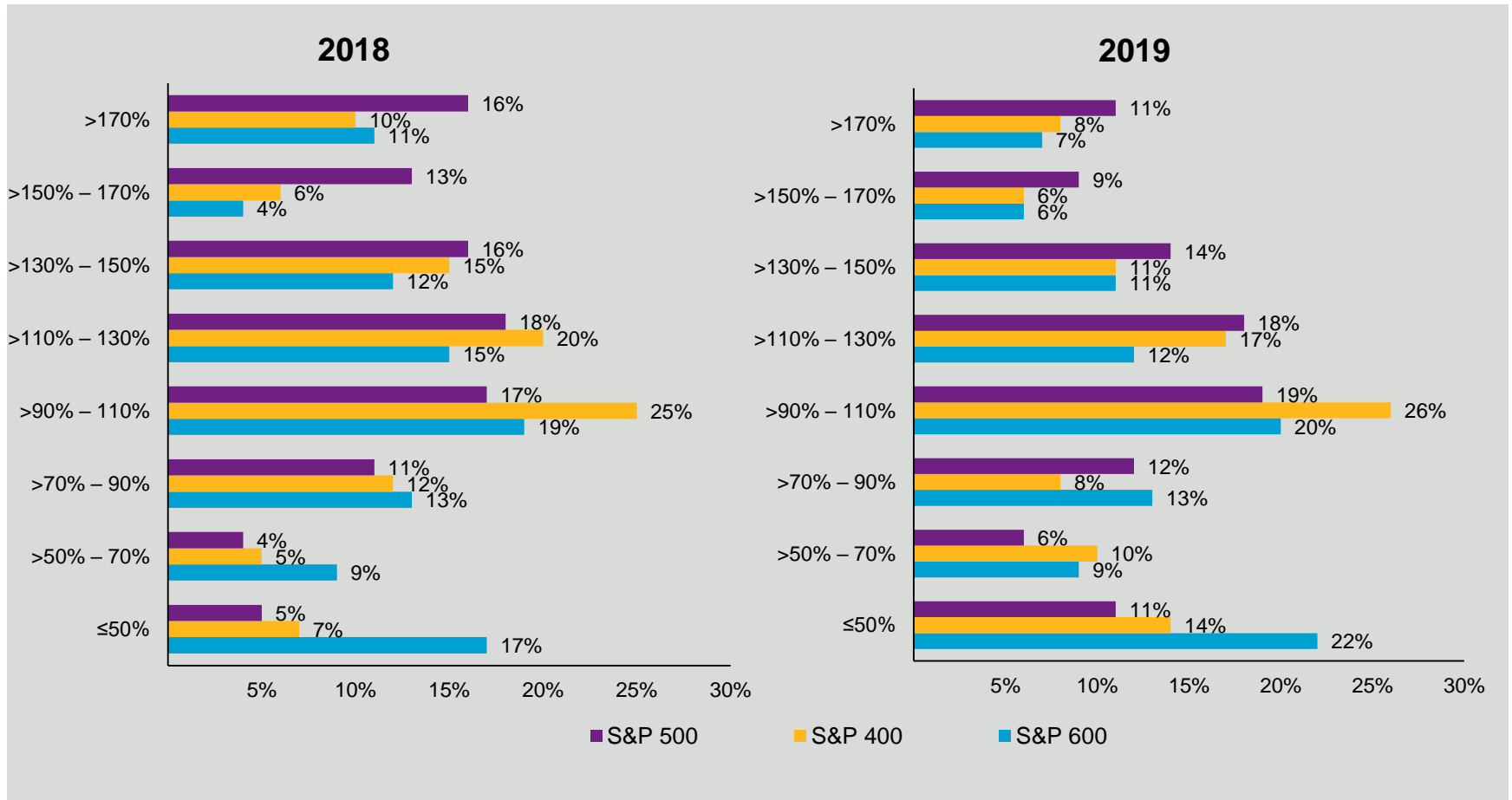
The number of CEOs receiving no more than half of their targeted bonus saw the biggest jump

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



Large- and mid-cap CEOs saw a large decline in the number of bonuses paid above 150% of target

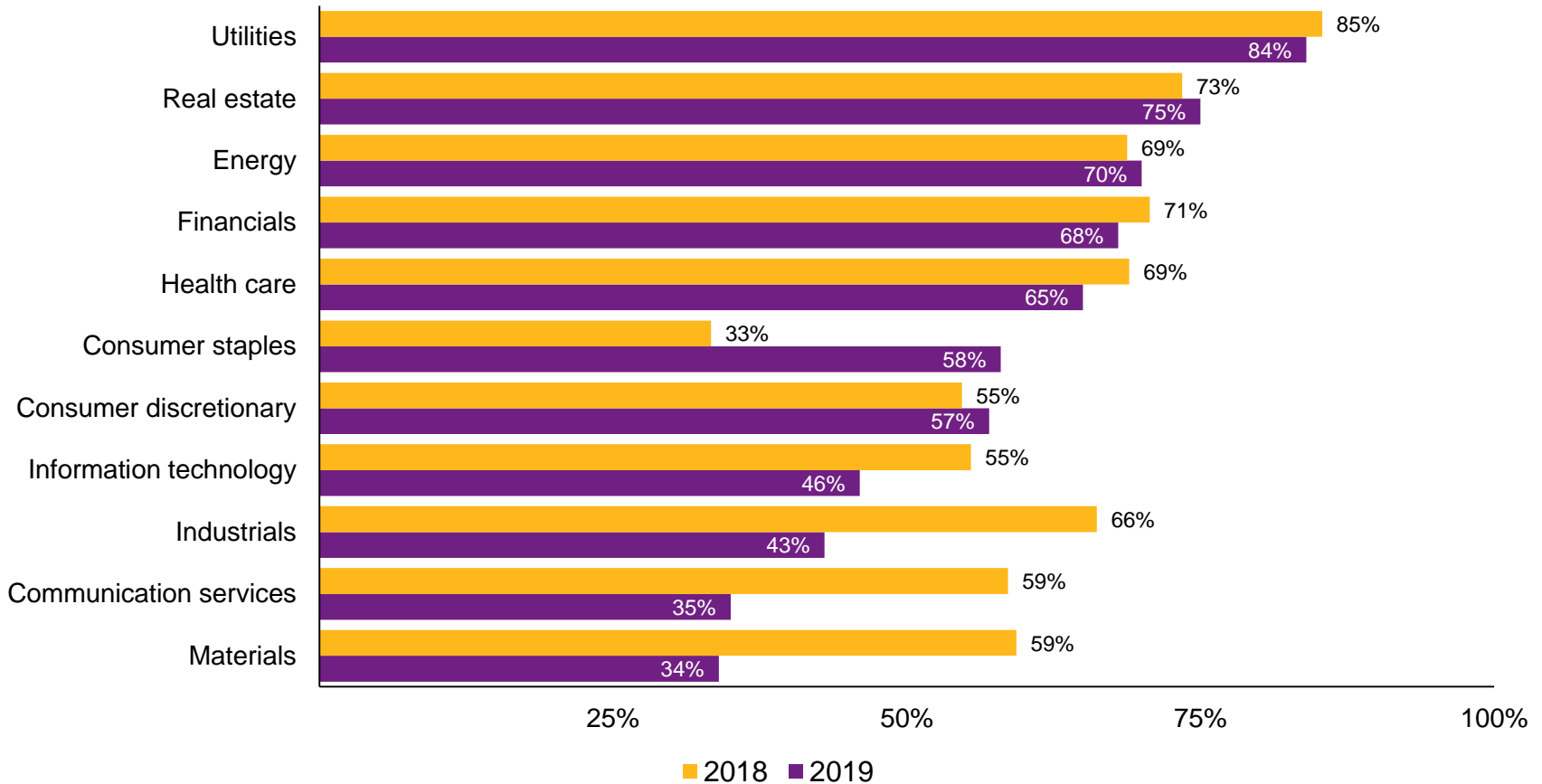
Percentage of CEOs receiving an earned bonus that is...



Seven industry sectors had a drop in above-target bonuses

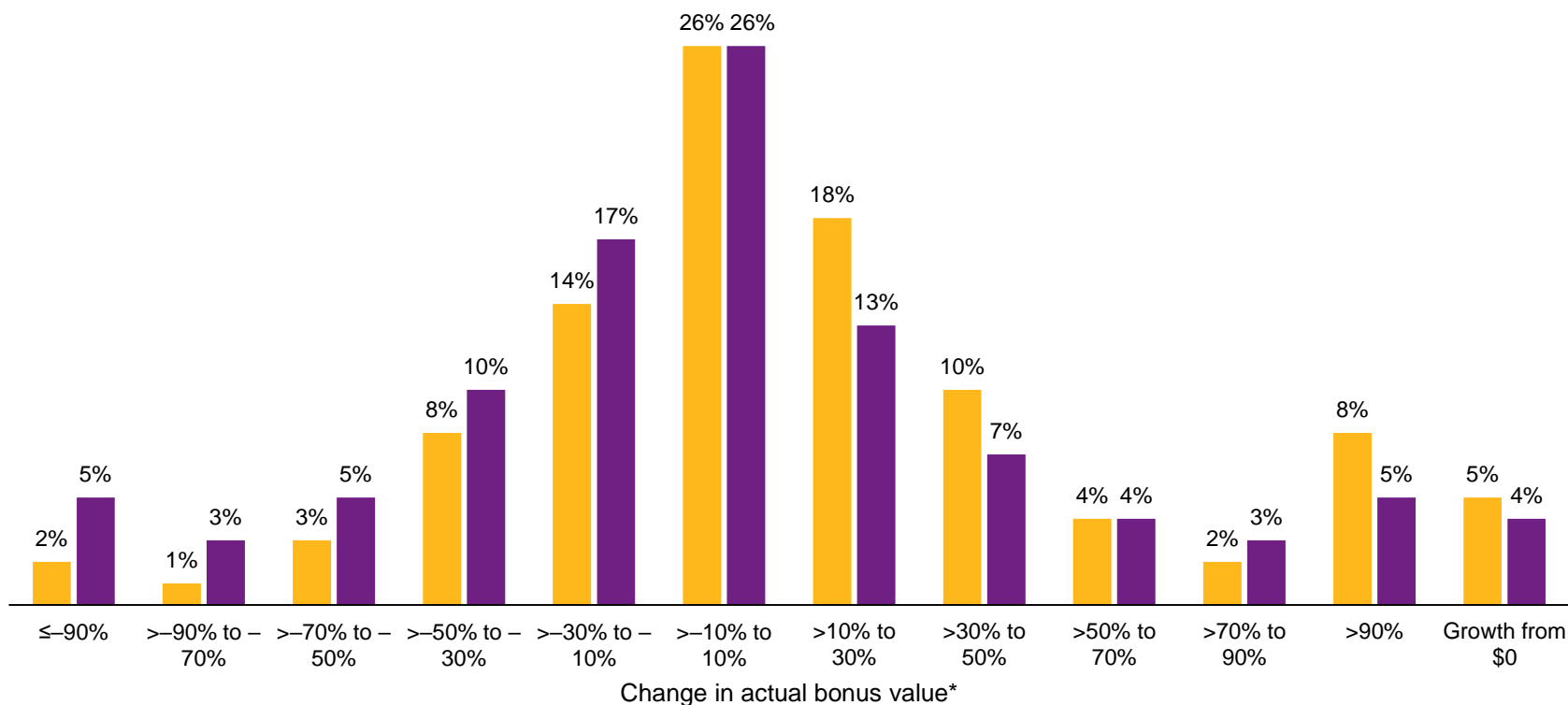
Materials sector experienced the biggest fall in bonuses paid at or above target compared with the prior year

Percentage of CEO annual bonuses earned at or above target



Annual bonus results shifted downward from the prior cycle

Percentage change in actual bonus...



*Does not account for shifts in target bonus.

■ 2017 - 2018 ■ 2018 - 2019

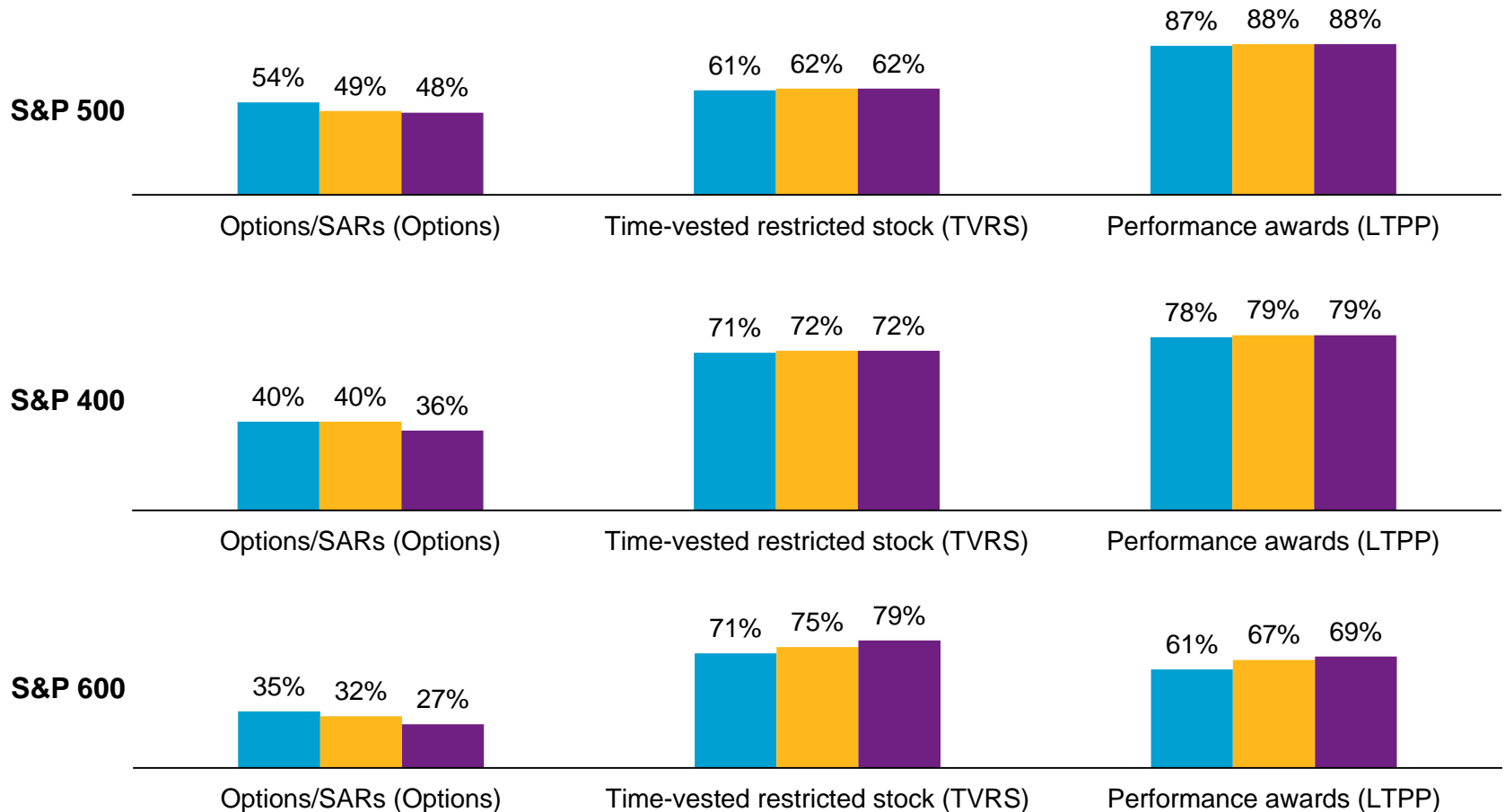


Long-term incentives

Prevalence, mix and results from completed performance periods

LTI prevalence largely remained steady for S&P 500 and S&P 400 CEOs

Stock options featured in fewer LTI programs across companies of all sizes

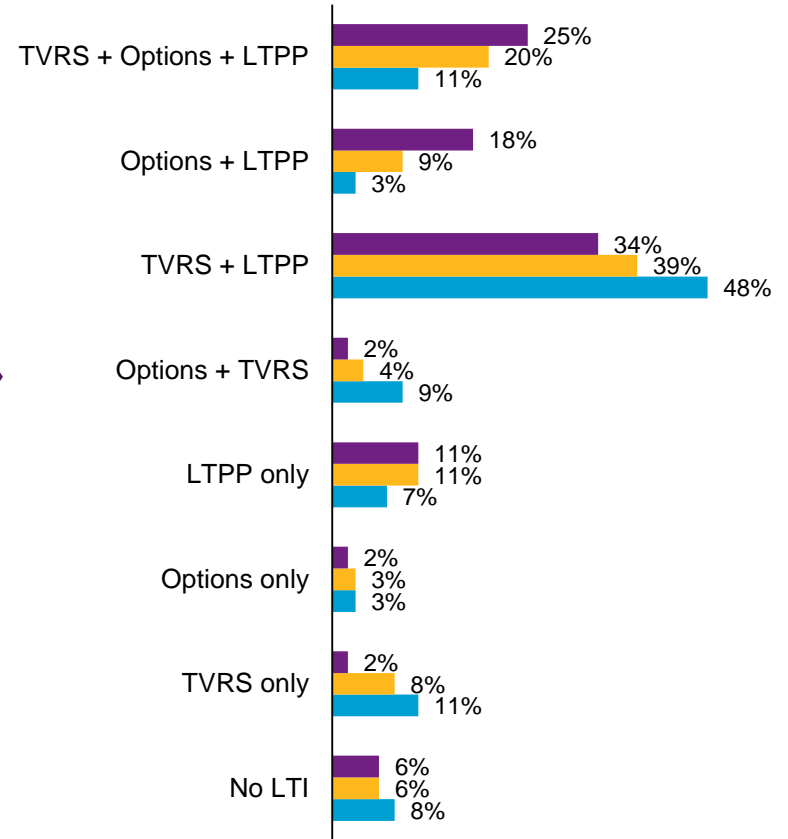
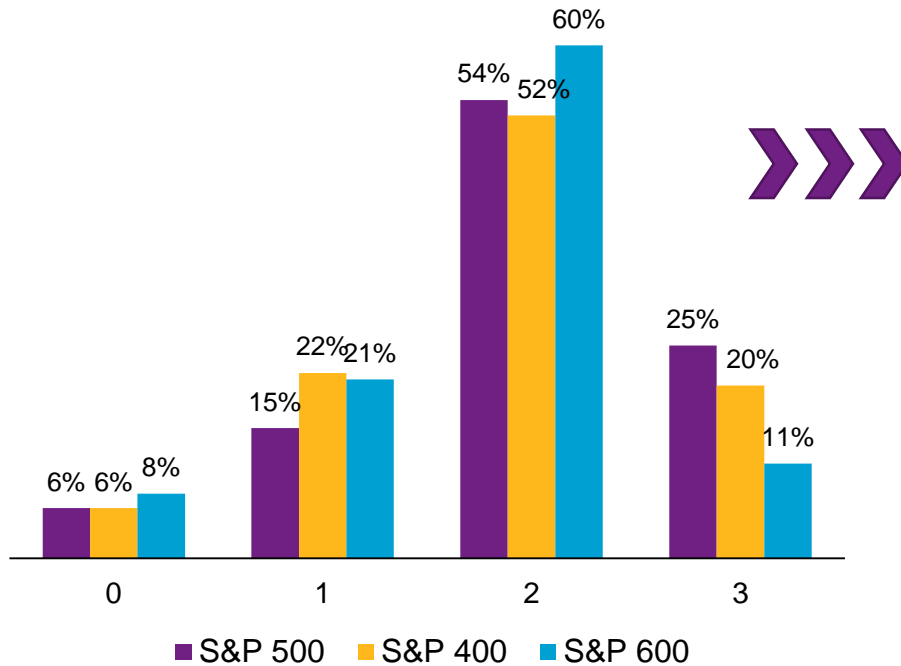


Note: Charts show percentage of companies granting each LTI vehicle.

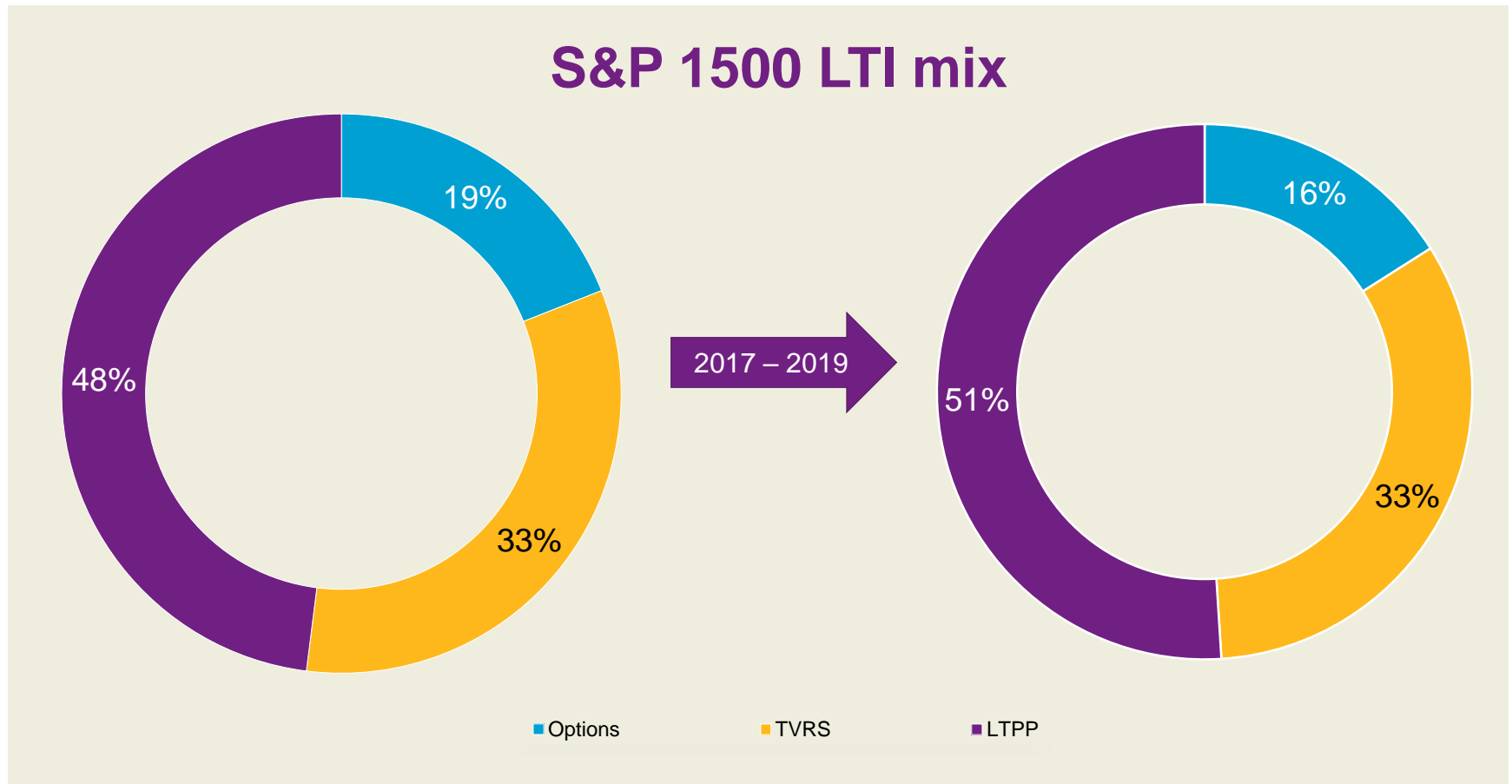
■ 2017 ■ 2018 ■ 2019

Nearly half of S&P 600 CEOs receive a combination of time-vested restricted stock and performance awards

Number of LTI award types granted in 2019



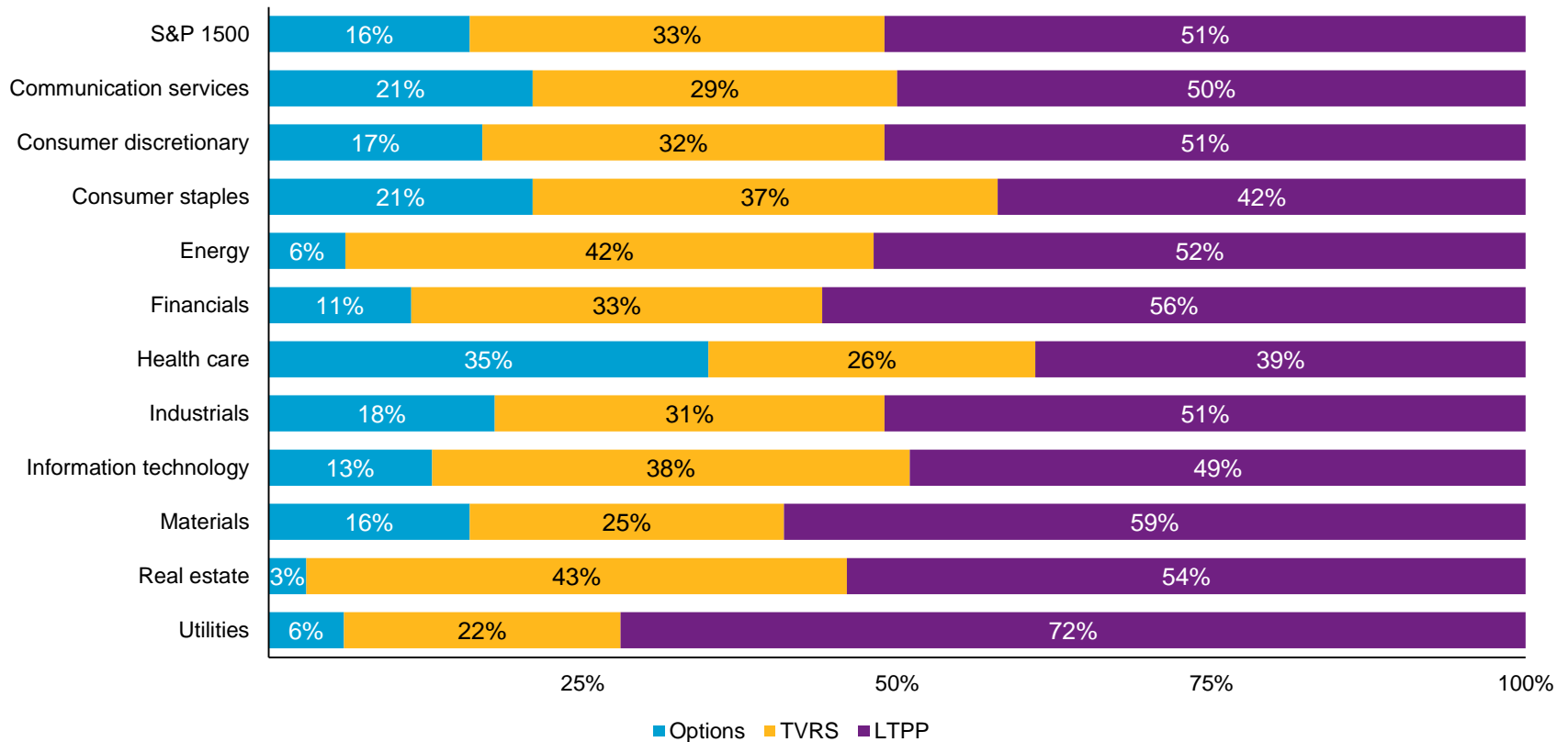
Over half of LTI pay is now delivered through performance awards



LTI value mix by sector

Information technology sector approached delivering half of LTI pay through performance awards

Average LTI mix by sector, 2019

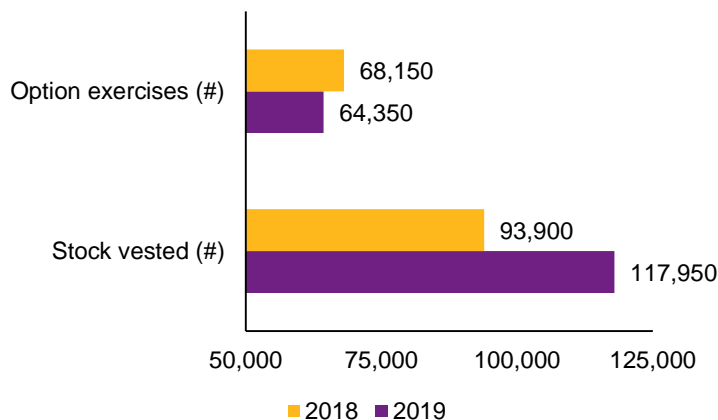


The number and value of shares earned by S&P 1500 CEOs grew significantly in 2019

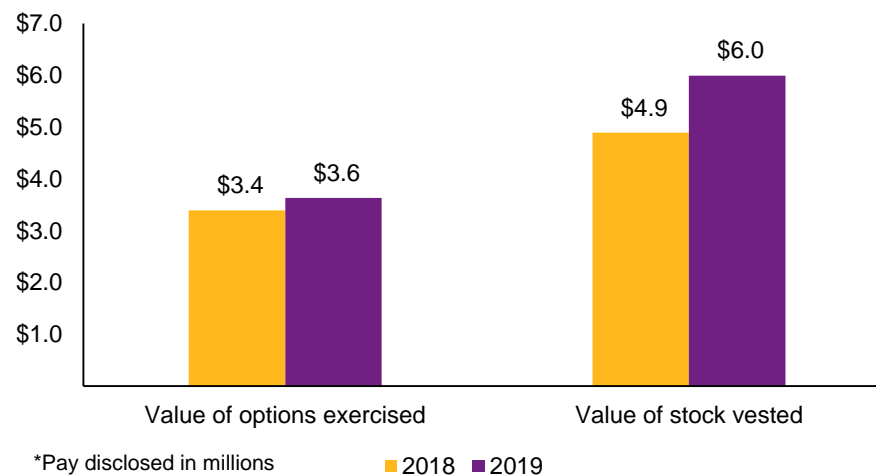
33% of CEOs exercised options in 2019, **down from 35%** in 2018, while 90% of CEOs earned vested shares across both years.



Average option exercises and stock vested

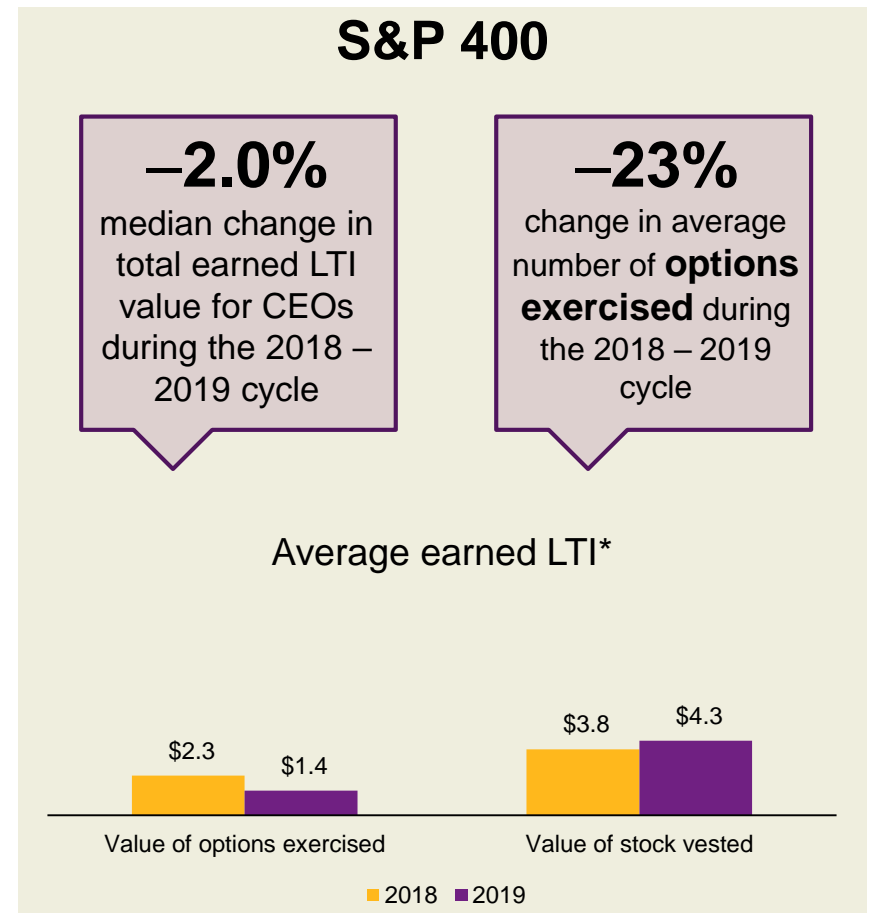
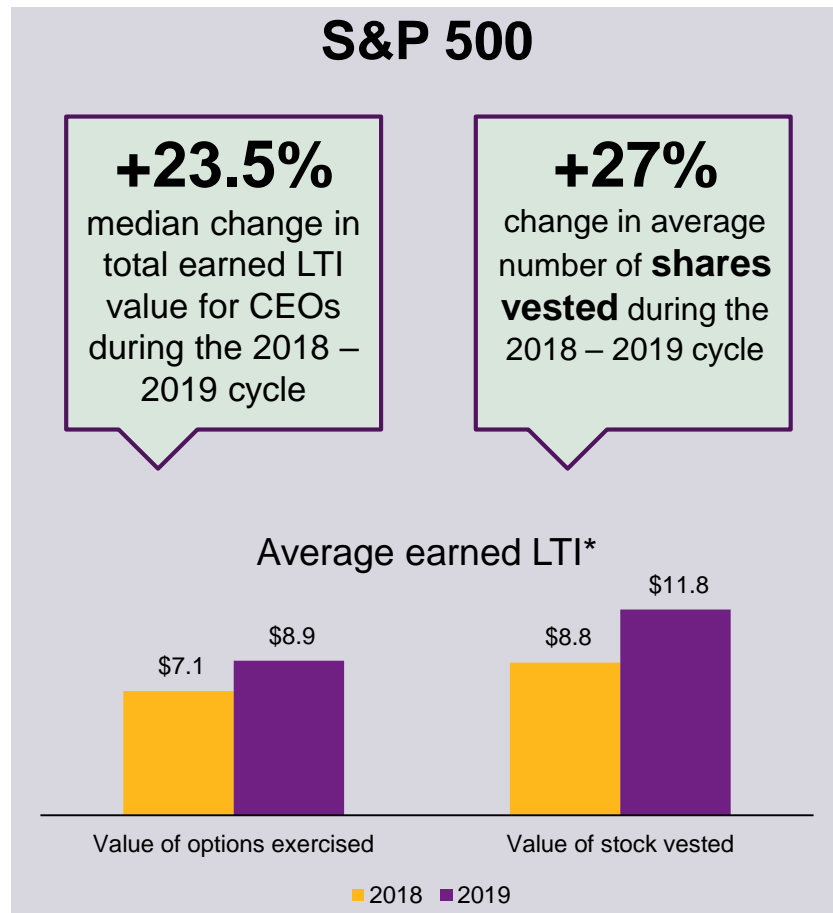


Average earned LTI*



Median earned LTI increase for S&P 1500 CEOs was 8.4% in 2018 – 2019, though results varied greatly when reviewing by company size

Strong S&P 500 stock price performance in 2019 and an increase in the number of earned shares contributed to significant value gains; only 28% of S&P 400 CEOs exercised options in 2019, down from one-third (33%) in 2018



* Pay disclosed in millions

LTIP payouts with and without stock price impact

Strong market performance through the end of 2019 boosted value gains, particularly for high performers

640 CEOs in the sample (64%) with payouts disclosed on LTIP awards granted during the 2017 – 2019 period

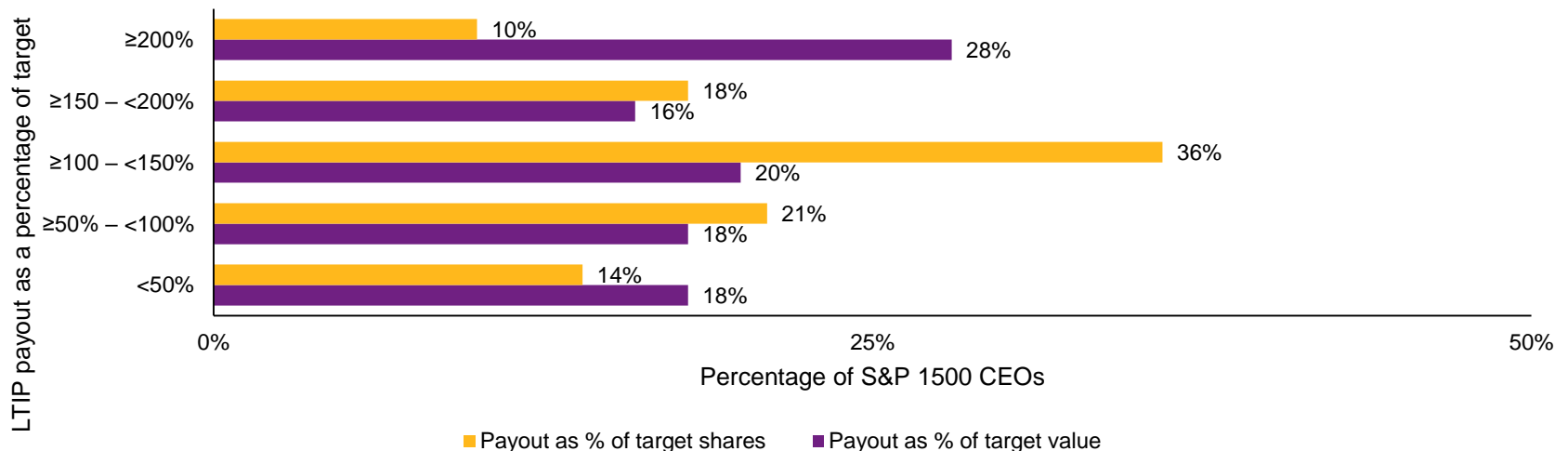
112% of target

Average payout number of shares for awards granted and completed during 2017 – 2019

175% of target

Average realized value from payout for awards granted and completed during 2017 – 2019

2019 LTIP payouts





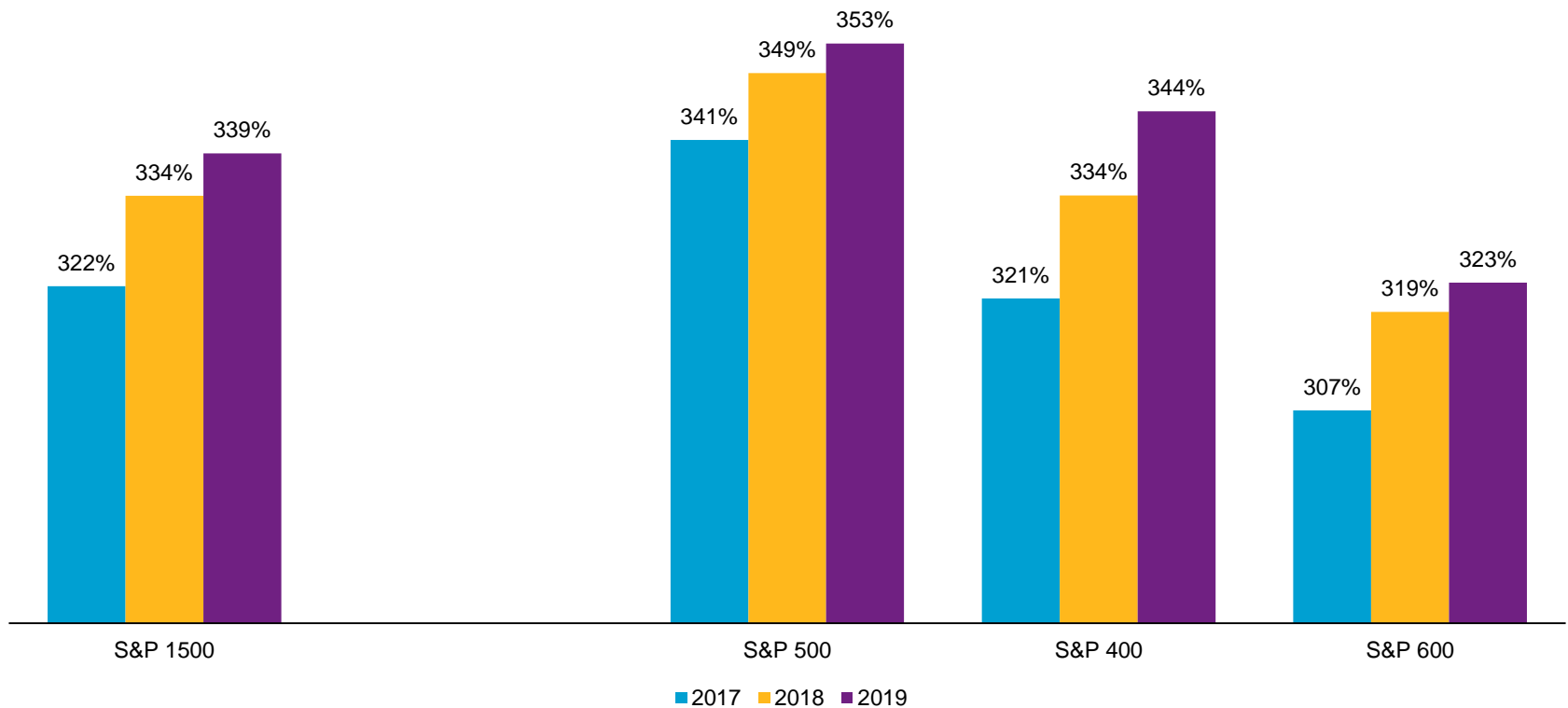
Additional total pay comparisons

CEO target pay vs. average NEO target pay, and realizable pay relative to company performance

S&P 1500 CEOs inch toward making 3.5x as much as other named executive officers

However, the gap widened at a slower rate during 2018 – 2019 compared with the previous cycle

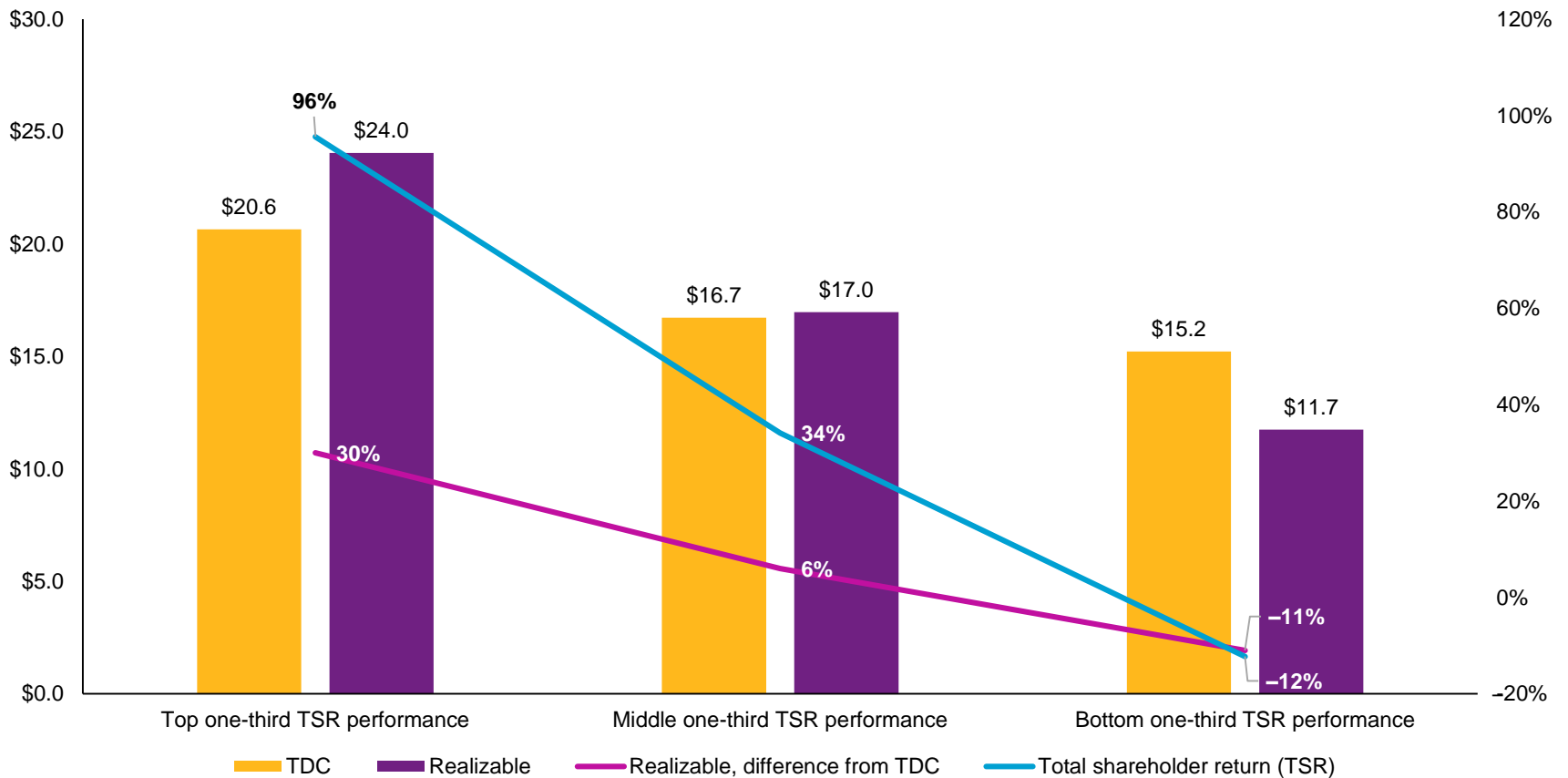
CEO target pay premium over average named executive officer*



*Reflects the average total direct compensation value of all named executive officers that served with a company for the entirety of the fiscal year.

Top-performing companies achieved high returns at the end of the 2017 – 2019 measurement period; midrange performers still earned a 6% premium over targeted pay

Median three-year realizable pay*



* Pay disclosed in millions