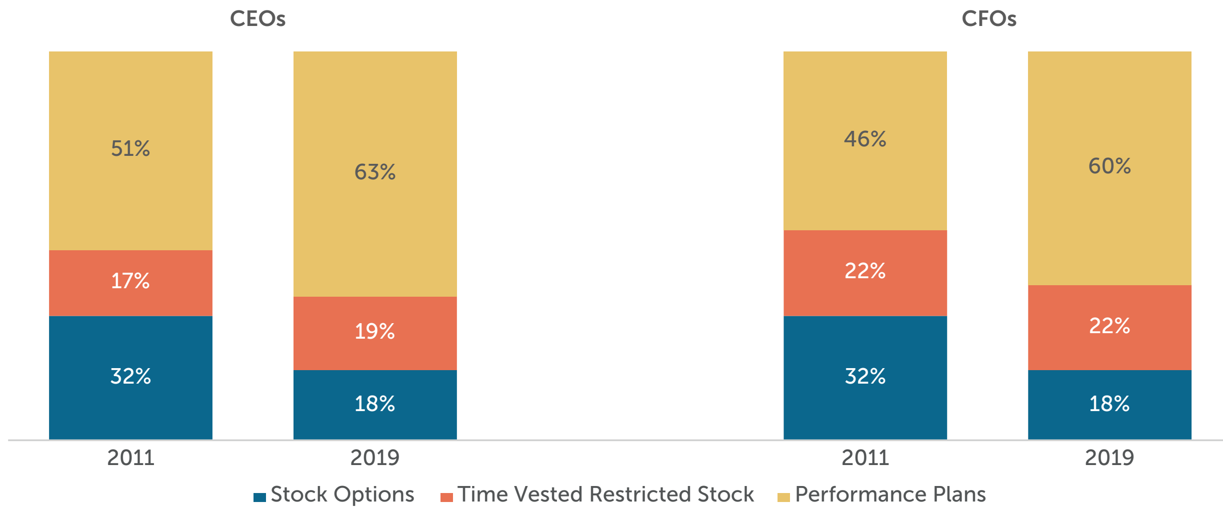
Long-Term Incentive (LTI) Vehicle Prevalence and Mix

Prevalence of performance plans continued to increase in 2019. The use of two different vehicles to deliver LTI remains the most prevalent approach and approximately 33% of companies studied use all 3 equity vehicles (stock options, time-based stock awards, and performance plan awards).

Performance plans account for nearly 60% of LTI awards on average among the companies studied. The other portion of LTI is delivered through an almost equal mix of stock options and time-vested restricted stock awards.



Conclusion

Weaker financial performance in 2019 led to lower bonus payouts compared to 2018 and contributed to the second year of slowing growth of total compensation for both CEOs and CFOs. Higher tariffs and trade policy uncertainty contributed to declines in manufacturing and industries reliant on global trade. The outcomes in 2019 (i.e., lower bonus payouts on weakened absolute financial performance) reinforces that boards and senior management continue to emphasize the alignment of pay outcomes with company performance. With the COVID-19 pandemic and resulting economic turmoil in 2020, we expect to see even lower bonus payouts in 2020. Since many companies made their equity grants early in 2020, prior to the impact of the pandemic on the stock market, we may not see the pandemic's impact on LTI levels until the 2021 grants are disclosed.

Since 2011 performance-based LTI plans have increased about 13% for both CEOs and CFOs with a similar drop in the prevalence of stock options, and time-vested stock being relatively the same. With the difficulty of setting goals in the time of a global pandemic, we expect to see an increase in time-based awards for grants approved after the pandemic started. This may be a short-lived shift as we expect the focus on executive pay with long-term shareholder value and performance will continue to be important.