Compensation
Advisory Partners

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2019-20 Director Compensation: Board Pay Flat, Leadership Pay Up

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Each year CAP analyzes non-employee director compensation programs among the 100 largest companies. These companies can provide early insights into trends for compensation practices. This report reflects a summary of pay levels and pay practice trends based on 2020 proxy disclosure.

Key Takeaways

- Lowest year-over-year increase in total board compensation in the last 10 years
- Median retainer for Lead Director is now $45K, up from $35K in prior year

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CAP Findings

Board Compensation

PAY LEVELS REMAINED GENERALLY FLAT AGAIN

- **Total Fees.** Board compensation continues to be in a steady state with low single-digit annual increases. Median is now $310K, up from $305K last year. This is the lowest year-over-year increase during the 10 years that CAP has been conducting this study. Despite a significant increase in time requirements for board members during 2020 due to implications of the COVID-19 pandemic, we do not expect to see increases to annual director pay programs during 2020. That said, pay will be up during 2020 at the limited number of large companies that have retained meeting fees as an element of their non-employee director compensation program.

- **COVID-19.** 11 percent of companies announced pandemic-related temporary compensation reductions for directors, with most decreases only impacting cash compensation. In each of these cases, the company also announced a CEO salary reduction. 73 percent of these reductions were set to expire at the end of 2020, or sooner, while others did not specify a timeframe or stated "for the duration of the crisis."

- **Pay Structure.** Companies rely mainly on annual retainers (cash and equity) to compensate directors. Pay programs for large companies are simple and tend to not use meeting fees. We support this approach as it simplifies administration and the need to define what counts as a meeting, though it may not be appropriate in all situations. While workload varies from year-to-year, this "advisory fee" approach takes a long-term view of director compensation and time requirements.

- **Meeting Fees.** Consistent with prior years, only 11 percent of companies studied provide meeting fees. Companies could consider having a mechanism for paying meeting fees if the number of meetings in a single year far exceeds the norm ("hybrid approach"). 5 percent of companies studied used this "hybrid" approach to meeting fees.

- **Equity.** 95 percent of companies used full-value awards (shares/units) and only 5 percent used stock options (3 of the 5 companies granting stock options used both equity award vehicles). Almost all companies denominated equity awards using a fixed value, versus a fixed number of shares. Using fixed value is generally considered best practice as it manages the "target" value awarded each year. The timing of director equity awards is typically linked to the annual meeting of stockholders. As a result of this and the standard fixed value approach to equity award determination, the number of shares directors received this year, at many companies, was significantly greater than prior years given typically short-term pandemic-driven stock price declines.

- **Pay Mix.** On average, total pay is comprised of 61% equity and 39% cash, which is consistent with findings over recent years.

- **Process:** 19 percent of companies disclosed increases to board cash and/or equity retainers in their 2020 proxy. This represents a significant decline from the one-third of companies that disclosed increases last year.

Committee Member[1] Compensation

PREVALENCE CONTINUES TO SLOWLY DECLINE

- **Overall Prevalence.** 41 percent of companies paid committee-specific member fees for Audit Committee service, while only about a quarter of companies pay fees for other committee membership. Companies rely more on board-level compensation to recognize committee member (non-Chair) service, with the general expectation that all independent directors contribute to committee service needs.

- **Total Fees.** Of the companies that paid committee member compensation, the median was $18K in total.

Committee Chair[1] Compensation

LITTLE/NO CHANGE AGAIN

- **Overall Prevalence.** More than 90 percent of companies provided additional compensation to Chairs to recognize additional time requirements, responsibilities, and reputational risk.

- **Fees.** Median additional compensation increased to $28K from $25K for Audit Committee Chairs and remained $20K for Compensation Committee and Nominating/Governance Committee Chairs.

1 Audit, Compensation and/or Nominating and Governance committees.

Independent Board Leader Compensation

PAY LEVELS CONTINUE TO INCREASE

- **Non-Exec Chair.** Additional compensation is provided by nearly all companies with this role. Median additional compensation was $235K. As a multiple of Total Board Compensation, total Chair pay was 1.75x a standard Board member, at median.
- **Lead Director.** Median additional compensation was $45K, up significantly from $35K last year. Additional compensation is provided by nearly all companies with this role[2]. The differential in pay versus non-executive Chairs is in line with typical differences in responsibilities.

Pay Limits

PREVALENCE CONTINUES TO INCREASE

- 67 percent of companies have a shareholder approved limit in place for director compensation, up from 62 percent in the prior year.
- 54 percent of limits apply to just equity-based compensation, compared to 60 percent last year. We anticipate that the prevalence of limits that apply to both cash and equity-based compensation (i.e., total pay) will continue to increase.
- Director pay limits are in place largely due to advancement of litigation where the issue has been that directors approve their own annual compensation and are therefore deemed to be inherently conflicted.
- Similar to last year, limits range from $245K to $3.76M, with a median limit of $750K. The limited group of companies that denominate the limit in shares tend to have a higher dollar-equivalent limit, with a median of $1.18M.
- The limits are generally much higher than annual equity grants. Nearly one-third of limits are equivalent to more than 5x the annual equity grant.

Limit	Prevalence
<= 3X annual equity	40%
3.01X - 5X annual equity	27%
5.01X - 7X annual equity	19%
> 7X annual equity	13%

- Some companies exclude initial at-election equity awards, committee Chair pay, and/or additional pay for Board leadership roles from the limit.
- The higher limits above likely are intended to address the possibility of having to pay higher amounts to a non-executive Chair.

Some Changes CAP Suggests Companies Consider (Looking Ahead)

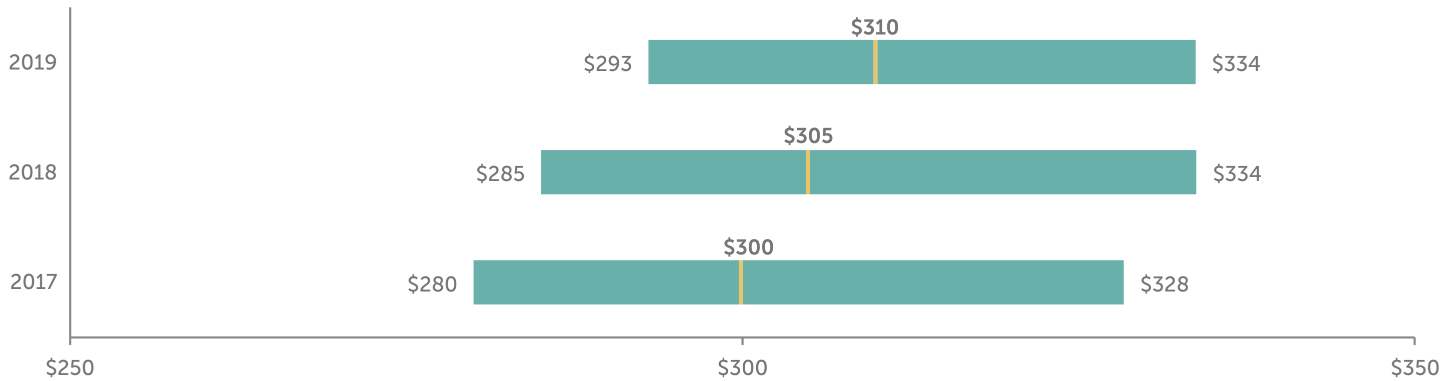
- **Recruiting New Directors.** As boards look to refresh and diversify their membership, this may be the time to re-visit initial at-election equity awards for new directors. There has been a considerable "move to the middle" with director pay programs, and at-elections grants can be a way to differentiate your company's pay program in the recruiting process without a broader, more costly, increase to standard director pay levels.
- **Board Leadership Roles.** Taking on the role of non-executive Chair, Lead Director or Chair of a major committee can come with considerable time requirements, responsibilities, and reputational risk, yet additional compensation provided for most of these roles only reflects a modest premium on the standard director pay program. Providing greater additional compensation for the role of Lead Director of Chair of a major committee should be considered, in recognition of the typical time requirements, responsibilities and reputational risk individuals in these roles take on.
- **Stock Ownership Requirements.** Many boards, especially among the largest companies, require equity-based compensation be deferred until retirement (i.e., termination of board service). While we support alignment of director and shareholder interests through equity compensation, a standard stock ownership guideline (e.g., multiple of annual cash retainer) may be a competitive advantage when recruiting new directors who may be more focused on current compensation.

2 Excludes controlled companies. Also excludes instances where Lead Director role is assumed by Chair of Nominating and Governance Committee, who receives compensation for the role.

Appendix: Historical 3-Year Look

Range between 25th and 75th percentiles   Median Value

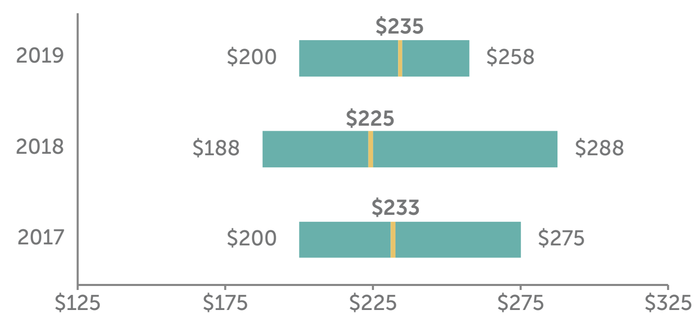
Total Board Compensation ($000s)[3]



Additional Compensation for Independent Board Leaders ($000s)

Lead/Presiding Directors

Non-Executive Chairs



3 **Total Board Compensation** reflects all cash and equity compensation for Board and committee service, excluding compensation for leadership roles such as committee Chair, Lead/Presiding Director, or non-executive Board Chair.

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