Compensation
Advisory Partners

CAPintel // September 14, 2021

# Director Compensation: Pay Levels Were Flat Among the 100 Largest US Companies – What's Next?

▪ By **Dan Laddin, Matt Vnuk, Whitney Cook,** and **Kyle White**

Each year CAP analyzes non-employee director compensation programs among the 100 largest US public companies. These companies are trendsetters and can provide early insights into evolving pay practices across the broader public company marketplace. This report reflects a summary of pay levels and pay practice trends based on 2021 proxy disclosures.


NEW YORK
1133 Avenue of the Americas
New York, NY 10036
Phone: (212) 921-9350 | Fax: (212) 921-9227
www.capartners.com

CHICAGO
200 S Wacker Drive
Suite 3100
Chicago, IL 60606
Phone: (312) 462-4500

HOUSTON
840 Gessner
Suite 375
Houston, TX 77024
Phone: (713) 559-2715

LOS ANGELES
400 Continental Blvd
6th Floor
El Segundo, CA 90245
Phone: (310) 426-2340

## Key Takeaways

- Median Total Board Compensation remained flat versus prior year, and 75th percentile Total Board Compensation has remained flat for the past two years
- During the last year, there were the fewest increases to board cash and/or equity retainers of any year during the last decade, in reaction to the COVID-19 pandemic and related implications
- Shareholder approved director pay limits that apply to both cash and equity-based compensation (i.e., that apply to total pay) became majority practice in 2020

## Looking Ahead

- Reviews of director pay levels that were delayed during 2020 are again beginning to take place
- During 2021, companies will continue to be focused on COVID-related external optics, but we do expect to see increases to director pay levels, especially at businesses less impacted by the pandemic. By 2022, we expect that companies will be back on the normal cadence of reviewing and modifying director pay every other year
- As a result, we expect many companies will contemplate increases to director pay levels during 2021 or 2022, and year-over-year increases to director pay levels will return to historic norms

## CAP Findings

### Board Compensation

PAY LEVELS REMAINED FLAT

- **Total Fees.** Board compensation continues to be in a steady state. Consistent with last year, median is $310K. This is the first year median has not increased, even marginally, in over a decade.
- **COVID-19.** 15 percent of companies announced pandemic-related temporary compensation reductions for directors, with the most common action on board pay being a 100 percent suspension of cash compensation for three to nine months. In most cases, the magnitude of the pay cut for directors was aligned with the reduction in a CEO's base salary.
- **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 is not appropriate in all situations. While workload varies from year-to-year, this "advisory fee" approach takes a long-term view of compensation and time requirements.
- **Meeting fees.** Consistent with prior years, only 10 percent of companies studied provide meeting fees. While 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"), the 4 percent of companies that maintained such a hybrid approach during 2020 did not pay additional meeting fees during 2020, despite there being significantly elevated time requirements during the last year.
- **Equity.** 96 percent of companies granted full-value awards (shares/units) only, and 4 percent granted stock options (3 of the 4 companies granting stock options used both equity 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.

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

- **Process:** 9 percent of companies disclosed increases to board cash and/or equity retainers in their 2020 proxy. This represents a significant decline from the approximately 25 percent to 33 percent of companies that disclosed increases during each of the last five years.

## Committee Member[1] Compensation

LITTLE/NO CHANGE

- **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 companies that paid committee member compensation, median was $14K in total.

## Committee Chair[1] Compensation

NO CHANGE

- **Overall Prevalence.** More than 95 percent of companies provided additional compensation to committee Chairs to recognize additional time requirements, responsibilities and reputational risk.

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

## Independent Board Leader Compensation

LITTLE/NO CHANGE

- **Non-Exec Chair.** Additional compensation is provided by nearly all companies with this role. Median additional compensation was $223K. As a multiple of total Board Compensation, total Board Chair pay was 1.73x a standard Board member, at median.

- **Lead Director.** Median additional compensation was $50K, up from $45K during the prior year and up from $35K two years earlier. 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. As a multiple of total Board Compensation, total Lead Director pay was 1.15x a standard Board member, at median.

## Pay Limits

PREVALENCE CONTINUES TO INCREASE

- 71 percent of companies have a shareholder approved limit in place for director compensation, up from 67 percent in the prior year.

- Prevalence of limits that apply to both cash and equity-based compensation (i.e., total pay) has continued to increase in recent years and became majority practice during 2020 (i.e., increased from 46 to 53 percent).

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

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.

- Director pay limits are in place largely due to advancement of litigation where the issue has been that directors approve their own compensation and are therefore deemed to be inherently conflicted.

- Similar to last year, limits typically range from $250K to $4 million, 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 $1.45M.

- The limits are generally much higher than annual equity grants. One-quarter of limits are equivalent to more than 5x the annual equity grants.

| Limit Multiple Range | Prevalence |
|---|---|
| < = 3x annual equity | 38% |
| 3.01x - 5x annual equity | 30% |
| 5.01x - 7x annual equity | 12% |
| > 7x annual equity | 20% |

- 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 are intended to address the possibility of having to pay higher amounts to a non-executive Chairman. However, in terms of potential perceived conflict of interest when it comes to setting pay for the non-executive Chairman, the incumbent can be recused from discussions and the vote on their own pay.

## Some Changes CAP Suggests Companies Consider

- **Communication and Education:** Not all companies get this aspect of effective compensation programs right. Oftentimes, distributing a simple summary (or "cheat sheet") of the director pay program to participants can be an effective tool, that limits misunderstandings, and that helps to prompt questions and support consistent understanding of the program and the philosophy and rationale behind the program.

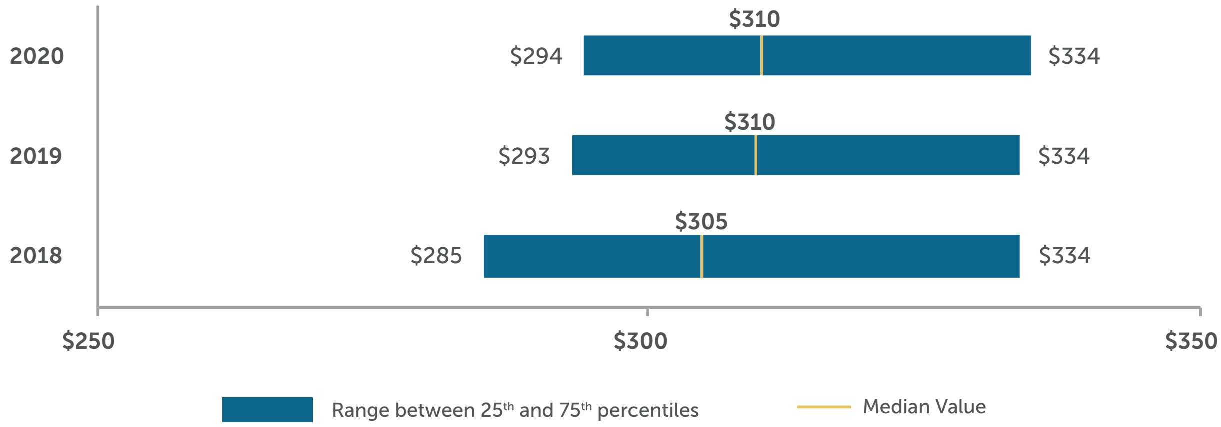
- **Recruiting New Directors.** As boards look to refresh and diversify their membership, this may be the time to re-visit initial at-election equity awards for new directors. At-election grants can be a way to differentiate your company's pay program in the recruiting process without a more costly increase to standard director pay levels.

- **Board Leadership Roles.** Taking on the role of non-executive Chairperson, Lead Director or Chair of a major Board committee can come with considerable additional 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 Board 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.

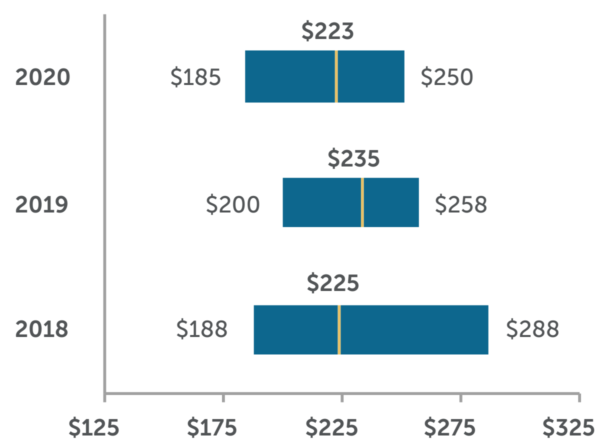
## Historical 3-Year Look

### Average Total Board Compensation ($000s)[3]




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.