ECONOMIC RESEARCH INSTITUTE

Executive Compensation Trends

July 2018

About The Index

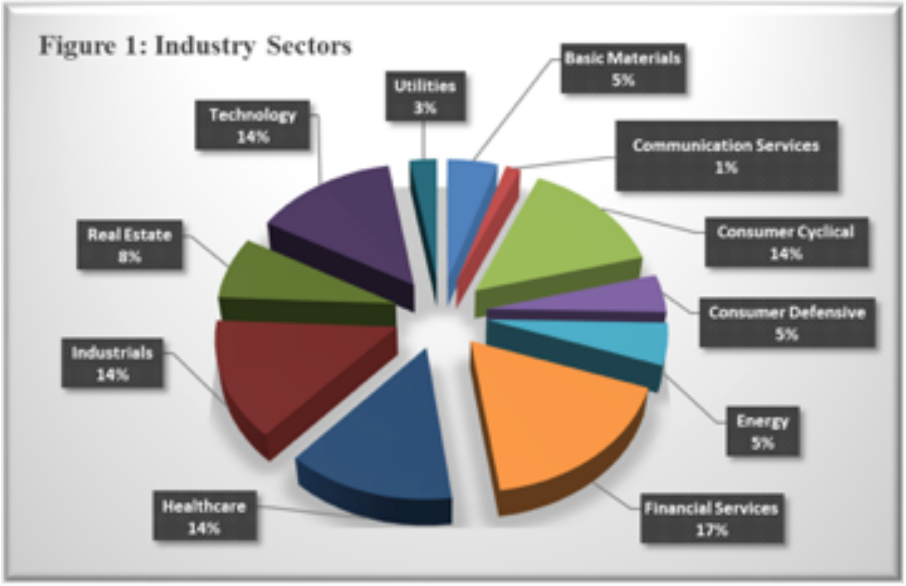
ERI's Executive Compensation Trends is a quarterly report that measures trends in executive compensation using analysis of the companies included in the Russell 3000 index. The Russell 3000 is comprised of 3,000 securities traded on U.S. stock exchanges that collectively represent roughly 98% of the investable equity market in the United States, and the list was last updated on June 26, 2017. We use 2,812 distinct publicly traded companies from the Russell 3000 index in the analysis of compensation in this report. The July 2018 edition of the Executive Compensation Trends specifically highlights compensation for the Chief Executive Officer.

This report will also discuss the fluid landscape for the analysis and benchmarking of executive compensation packages. Analysis of public company disclosures will drive this discussion.

Company Level Data

The most recently filed documents for companies in the Russell 3000 include data from the 2017 fiscal year. Median revenue increased more than 11% from 2016 to 2017 for this group. The median revenue for companies in the index was just over $950 million in 2017. Over 75% of companies in the index saw positive revenue growth in 2017, while 41% increased revenue by at least 10% and nearly 24% increased revenue by 20% or more over 2016.

Figure 1 illustrates the Russell 3000 by industry sector. Companies in the financial services sector represent over 17% of the index, while companies in the technology, industrials, healthcare, and consumer cyclical sectors were also popular, each representing about 14% of the index.



To analyze executive pay, the Russell 3000 companies were divided into three groups by the most recent market capitalization. The market cap groups were defined as follows:

Group 1 Small Cap – less than $750 million (779 companies)
Group 2 Medium Cap – between $750 million and $4 billion (1,100 companies)
Group 3 Large Cap – greater than $4 billion (933 companies)

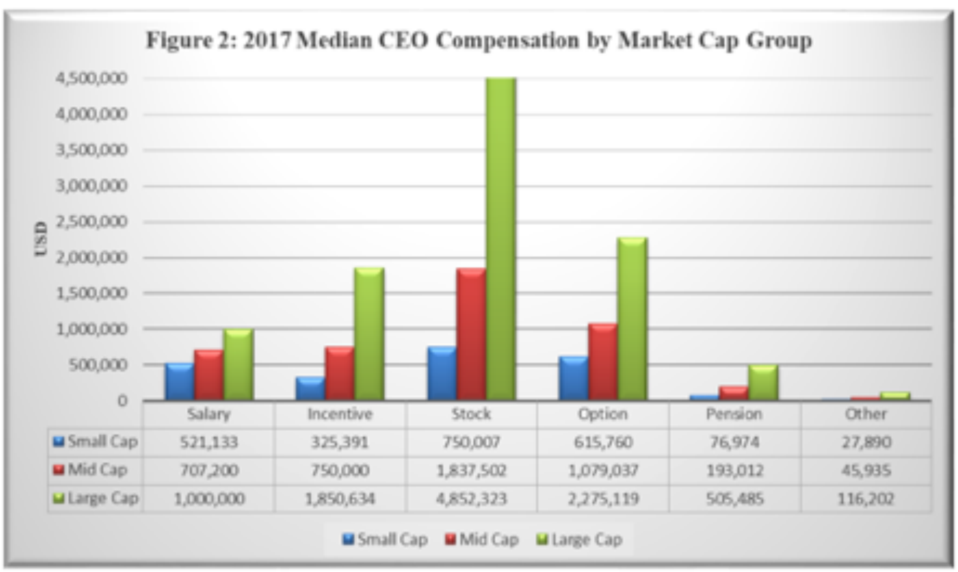
Chief Executive Officer

Table 1 shows the median total direct compensation for Russell 3000 Chief Executive Officers in 2017. Total direct compensation includes salary, annual cash incentive, and the grant-date value of stock and option awards in a fiscal year. This measure of CEO compensation increased by 18%, 10%, and 8% in 2017 for market cap groups 1, 2, and 3 respectively.

Table 1 - 2017 CEO Total Direct Compensation

Market Cap Group	25th Percentile	Median	75th Percentile
1	911,613	1,739,135	2,780,565
2	2,240,076	3,747,024	5,462,478
3	5,749,991	8,789,408	12,823,622

Figure 2 displays median values for the four components of total direct compensation, separated by market cap group. It also shows values for two other traditional summary compensation table elements. Pension refers to above-market earnings in, or direct payouts to, retirement or non-qualified deferred compensation plans. Other refers to executive benefits and perquisites (e.g., use of the company aircraft) that are not included in one of the other categories.



	Salary	Incentive	Stock	Option	Pension	Other
Small Cap	521,133	325,391	750,007	615,760	76,974	27,890
Mid Cap	707,200	750,000	1,837,502	1,079,037	193,012	45,935
Large Cap	1,000,000	1,850,634	4,852,323	2,275,119	505,485	116,202

Figure 2: 2017 Median CEO Compensation by Market Cap Group

CEO Base Salary

Median CEO salaries for the three market cap groups were fairly consistent between 2016 and 2017. In 2017, CEOs in the small and mid market cap groups saw moderate salary increases of 4% and 2% respectively. Median salaries for CEOs at large market cap companies were very flat, with a 0.5% increase from 2016 to 2017. The typical CEO at a large market cap company earned a salary nearly double that of his or her small cap counterpart.

CEO Annual Cash Incentive

CEO annual cash incentives increased across the board in 2017. The small cap companies saw a moderate increase of nearly 5% in annual variable cash, while executives at mid and large cap companies received payouts that were 9% higher than the payouts received in 2016. The typical annual variable cash for a mid cap CEO was 2.3 times higher than the payouts received by their small cap counterparts, while the typical incentive for a large cap CEO was 6 times as high.

CEO Equity Compensation

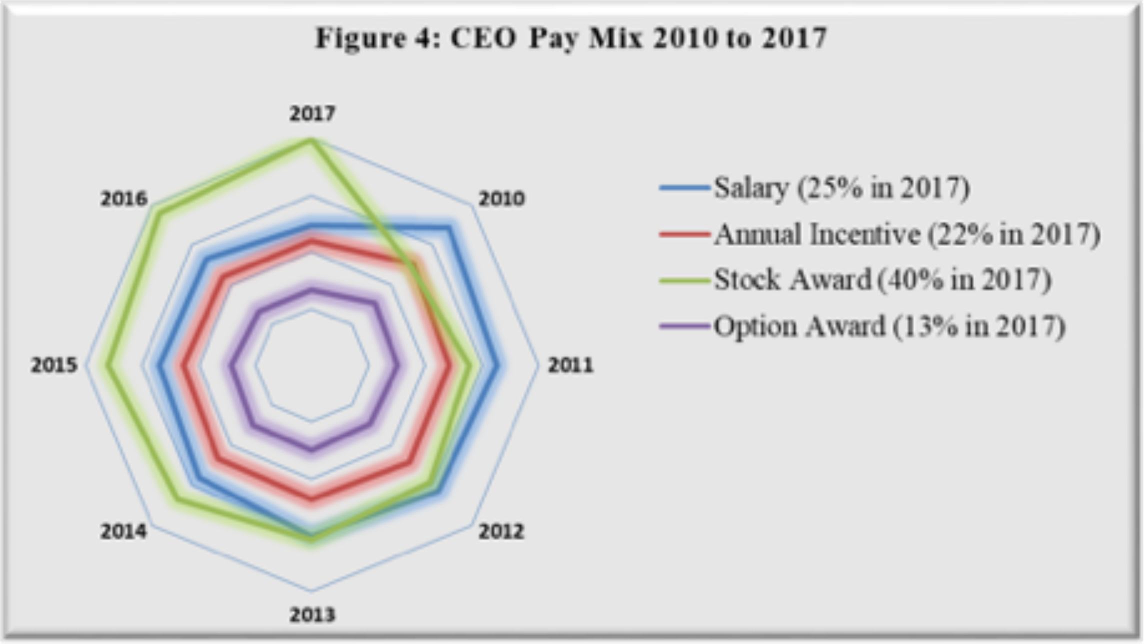
This report refers to equity-based compensation as falling into one of two broad categories. It is either granted as full-value shares of company stock, or as appreciation awards or options. Equity compensation dollar amounts in this report also refer to the value of the payout at the grant date. This is an important distinction because the eventual wealth realized from an equity award may be very different once the stock award vests or the option is exercised.

In total, the median grant-date value of CEO equity grants increased by double digit percentages for small and large cap companies in 2017, with increases of 23% and 10% respectively. CEOs at mid cap companies also saw a median equity increase between 2016 and 2017, although this increase was more modest at 7%. These increases are driven by higher award amounts for those who also earned awards in 2016, as the proportion of Russell 3000 CEOs who received equity awards decreased since 2016.

Within equity pay, full-value stock awards are currently behind only base salary in their likelihood to be included in CEO pay packages. Eighty-three percent of Russell 3000 CEOs earned some full-value stock in 2017. That is compared to the 42% who earned appreciation awards.

Figure 3 outlines the separation of these equity pay categories since 2010. As of 2017, public company CEOs are more than twice as likely to receive full-value stock.

Figure 4 summarizes how the mix of CEO total direct compensation has changed since 2010. This represents a timeline of which pay components have dominated CEO pay packages over the past eight years. The most notable transition has been away from fixed pay and toward variable or at-risk pay. Full-value stock awards have risen from 25% to 40% of the total value of CEO pay packages. Through the volatile years following the 2008 recession, fixed cash, or base salary, was easily the largest component. More recently, however, more investor attention to pay-for-performance along with an improving economy has led to the increased importance of equity and variable cash.



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