

Executive Compensation Index United States



**ECONOMIC
RESEARCH**
I N S T I T U T E

111 Academy Drive, Suite 270
Irvine, CA 92617
800-627-3697
www.eri.com

January 2016

About the Index

ERI's Executive Compensation Index 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 3000 securities traded on U.S. stock exchanges that collectively represent roughly 98% of the investable equity market in the United States. Last updated on June 26, 2015, the Russell 3000 includes 2,986 distinct publicly traded companies. The January 2016 edition of the ERI Executive Compensation Index specifically highlights compensation for the top executive and two other executive titles:

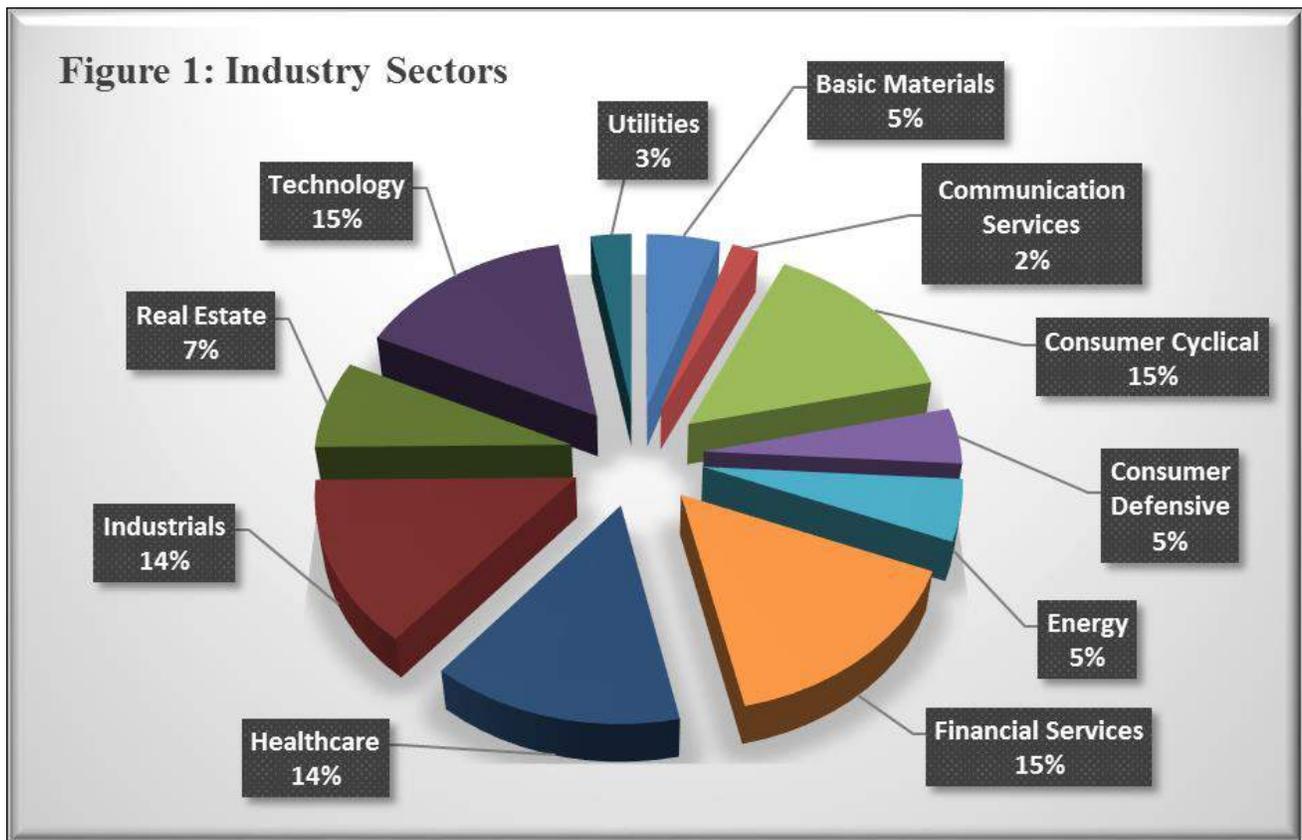
- Chief Executive Officer
- Chief Legal Officer
- Chief Information Officer

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

Median revenue for the Russell 3000 increased 4.4% from 2013 to 2014. The median revenue for companies in the index was just over \$810 million in 2014. From 2008 to 2009, median annual revenue dropped more than 12% for this group. Since 2009, median revenue is up more than 25%. Roughly 80% of companies in the index saw positive revenue growth in 2014, while 56% increased revenue by at least 10% over 2013.

Figure 1 illustrates the 2015 Russell 3000 by industry sector. Financial services, technology, and consumer cyclical companies each represent 15% of the index. Not far behind are healthcare and industrials at 14%.



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 (948 companies)
- Group 2: Medium Cap – between \$750 million and \$4 billion (1,176 companies)
- Group 3: Large Cap – greater than \$4 billion (862 companies)

Chief Executive Officer

Table 1 shows the median total direct compensation for Russell 3000 Chief Executive Officers in 2014. 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 17%, 20%, and 13% in 2014 for market cap groups 1, 2, and 3 respectively.

Table 1 - 2014 CEO Total Direct Compensation

| Market Cap Group | Total Direct Compensation (\$) | | |
|------------------|--------------------------------|-----------|-----------------|
| | 25th Percentile | Median | 75th Percentile |
| 1 | 926,856 | 1,680,901 | 2,867,292 |
| 2 | 2,004,291 | 3,358,097 | 5,223,317 |
| 3 | 4,988,645 | 7,857,661 | 11,756,937 |

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.



CEO Base Salary

CEO salaries increased across the board in 2014. The medium and large market cap groups saw salary increases of roughly 8%, while the small group median salary increased 10%. The median salary for the top executives at small cap companies was exactly \$500,000. The typical large cap company CEO earned a base salary roughly twice as high as his or her small cap counterpart.

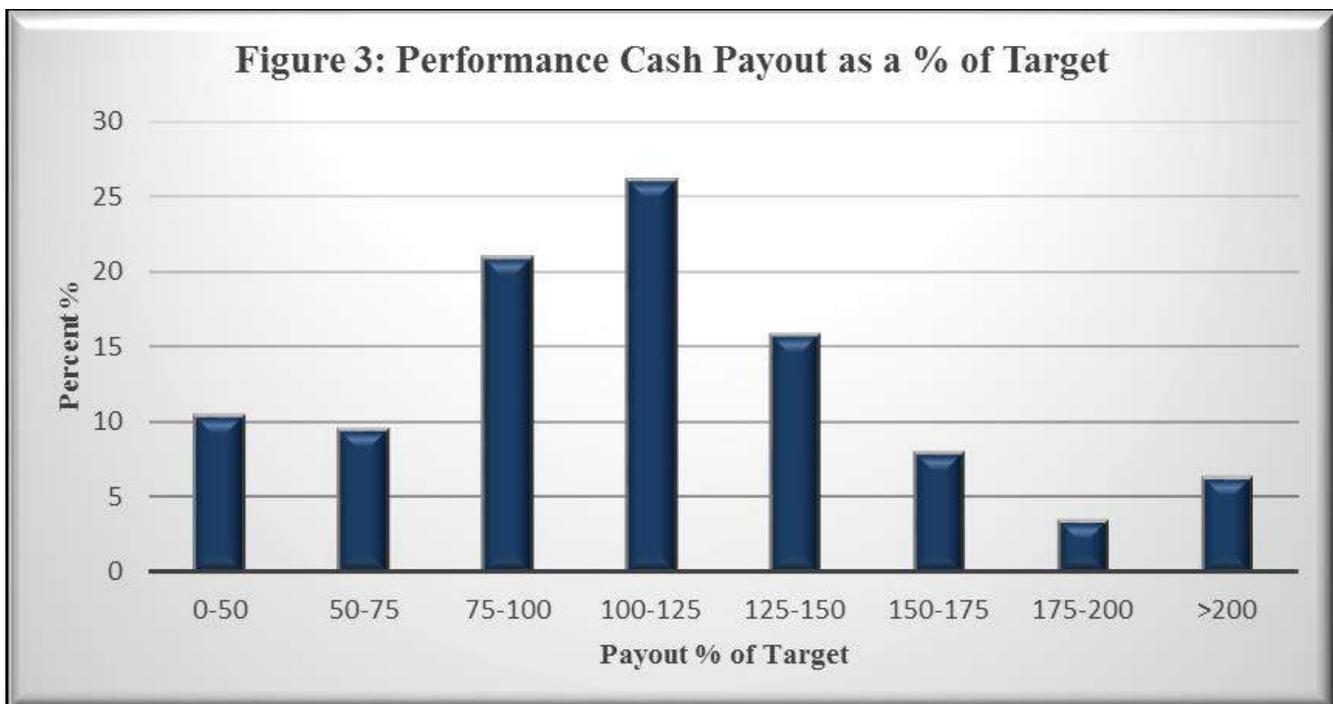
CEO Annual Cash Incentive

Annual cash incentives also generally increased from 2013 levels. In both 2013 and 2014, one-third of CEOs received cash incentives of at least \$1 million.

These types of payouts typically fall into one of three categories. They can be based on individual or company performance in a *reactive* way, in which case the compensation committees make a somewhat subjective decision regarding payout amounts at the end of given period. They can also be *proactive*, in which specific plan targets and performance goals, set at the beginning of a period, determine payout amounts. Lastly, they may not be based on performance at all. Examples of non-performance cash include sign-on and retention bonuses, as well as cash bonuses resulting from a merger agreement. Executive compensation packages often include annual cash incentives with components in more than one of these categories. When this is the case, the *proactive* piece is reported separately. ERI's Executive Compensation Index refers to target-based and objective-driven cash incentives as "performance cash" and all other cash incentives as "discretionary bonuses."

Discretionary variable cash has decreased steadily in CEO pay packages in the past decade. In 2005, 84% of Russell 3000 CEOs earned some discretionary annual cash bonus. In 2014, only 22% earned such a bonus. In an effort to display pay-for-performance, these payouts have largely been replaced by non-equity incentives, or performance cash.

Figure 3 illustrates CEO payouts from performance-based annual cash incentive plans in 2014. Of those CEOs that earned performance cash in 2014, 60% received payouts that were equal to or greater than the predetermined plan target. More than one-third of performance cash payouts were 25% or more above target.



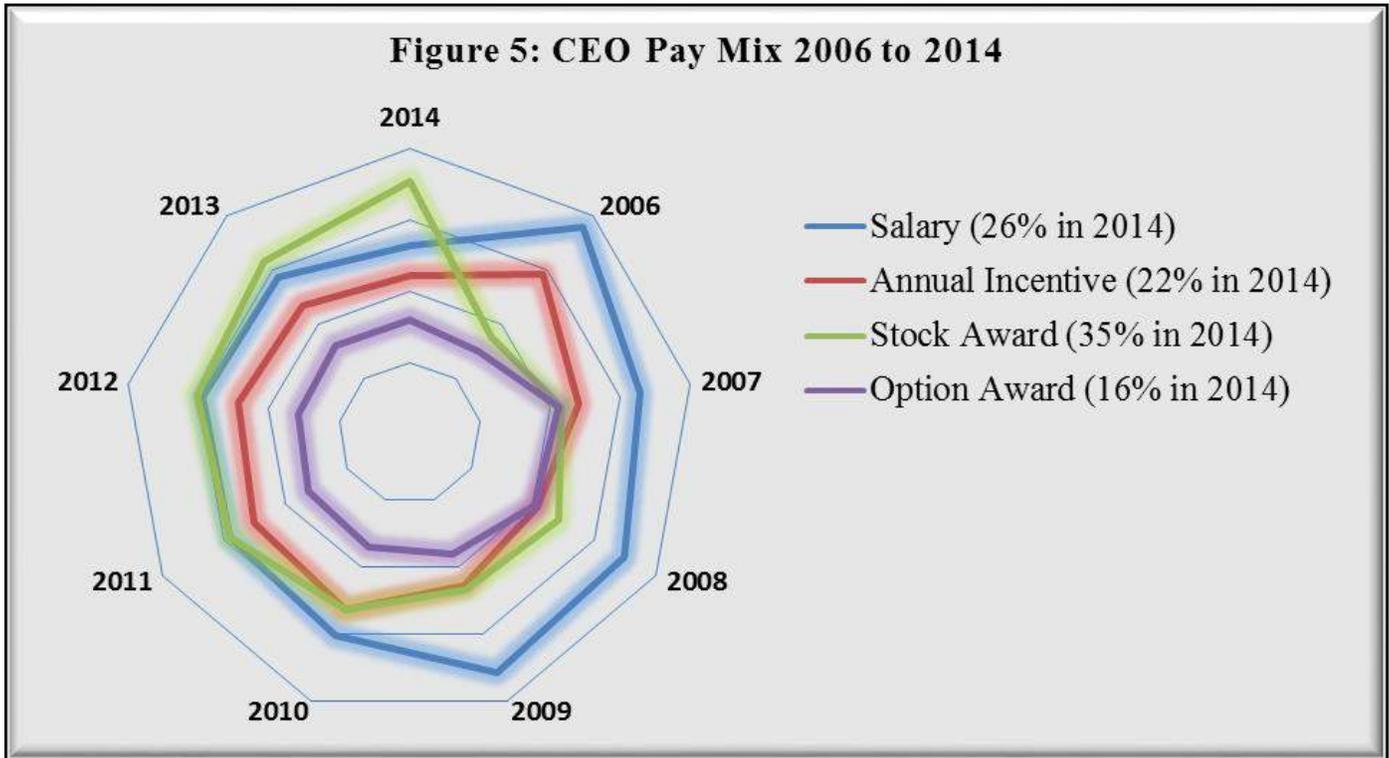
More than 75% of Russell 3000 companies reported using more than one performance measure in determining performance cash payouts in 2014. The most common plan designs included between two and five metrics. Naturally, most plan designs included measures of earnings growth and returns to shareholders, but non-financial goals were reported in about one in ten cases. Where the outcomes could be measured objectively, things like workplace safety and customer satisfaction also affected executive cash incentives. Many companies use a weighted approach, assigning more weight to those performance goals that are considered more important to overall company success.

CEO Equity Compensation

Median CEO stock and option grants increased in 2014 for all public company sizes. Full-value equity awards are currently behind only base salary in their likelihood to be included in CEO pay packages. Seventy-six percent of Russell 3000 CEOs earned some full-value stock in 2014. That is compared to the 47% who earned appreciation awards. Figure 4 outlines the separation of these equity pay categories since 2007. As of 2014, public company CEOs are almost twice as likely to receive full-value stock.



Figure 5 summarizes how the mix of CEO total direct compensation has changed since 2006. Full-value stock awards have risen from 17% to more than one-third of the total value of CEO pay packages. Through the volatile years following the 2008 recession, fixed cash 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.



Chief Legal Officer

Table 2 shows the median total direct compensation for Russell 3000 Chief Legal Officers in 2014. The small cap group saw the largest increase to median total direct compensation at more than 15%. The medium and large cap groups saw median increases of 10% and 7% respectively.

Table 2 - 2014 Chief Legal Officer Total Direct Compensation

| Market Cap Group | Total Direct Compensation (\$) | | |
|------------------|--------------------------------|-----------|-----------------|
| | 25th Percentile | Median | 75th Percentile |
| 1 | 518,827 | 738,965 | 1,048,326 |
| 2 | 795,055 | 1,118,038 | 1,611,296 |
| 3 | 1,449,206 | 2,018,169 | 2,859,057 |

Figure 6 displays median values for the four components of total direct compensation, as well as medians for the *Pension* and *Other* columns defined in the CEO section of this report. Again these values should be interpreted as the median for those Russell 3000 Chief Legal Officers earning some compensation in the given form in 2014. The typical equity grant was 30% higher in 2014 for small cap Russell 3000 Chief Legal Officers. These large equity payouts account for the bulk of the total direct compensation increase for this group in 2014. Base salaries grew moderately in 2014 for all three market cap groups, with the small cap group leading the way at 3.5%. Cash-based performance incentives remained flat as well, so Russell 3000 Chief Legal Officers saw little change to their annual cash compensation in 2014.



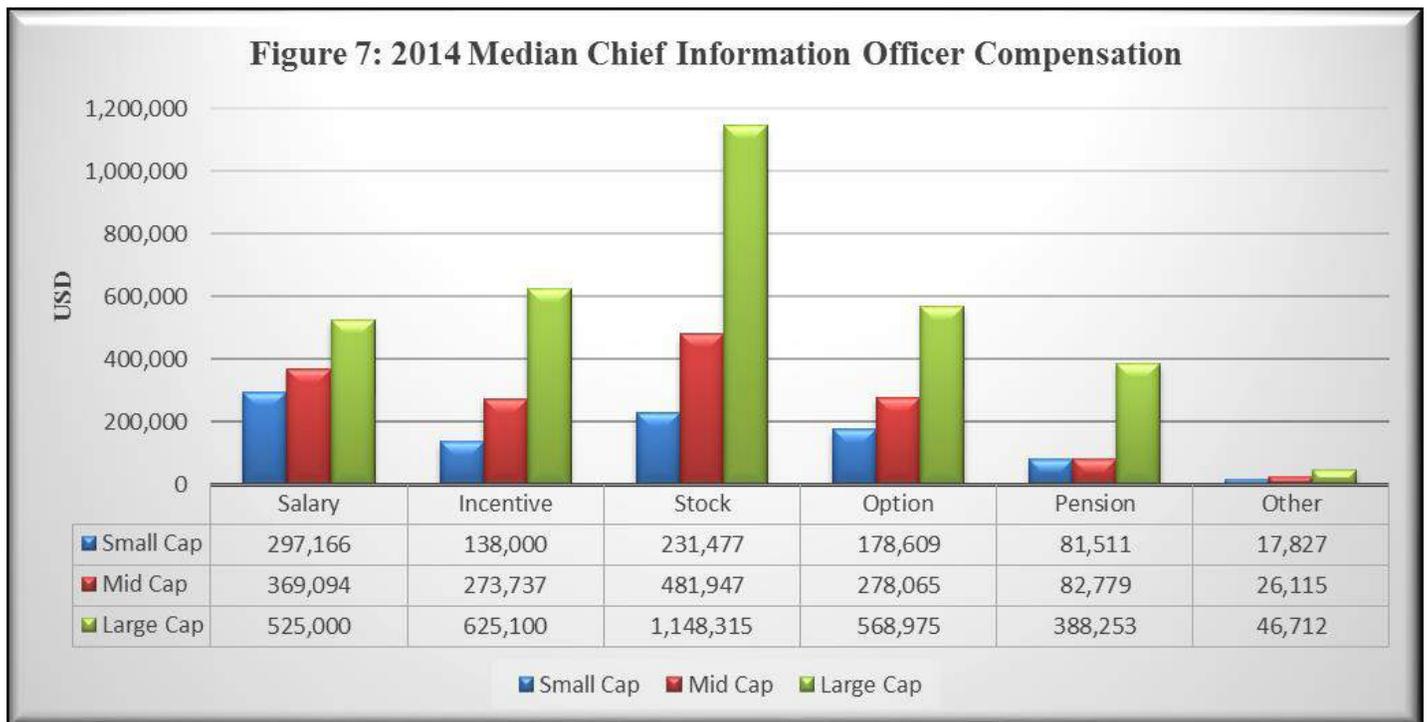
Chief Information Officer

Table 3 shows the median total direct compensation for Russell 3000 Chief Information Officers in 2014. Median total direct compensation grew more than 25% for top information officers at the largest companies analyzed. Total direct increased 16% and 12% for medium and small cap companies respectively.

Table 3 - 2014 Chief Information Officer Total Direct Compensation

| Market Cap Group | Total Direct Compensation (\$) | | |
|------------------|--------------------------------|-----------|-----------------|
| | 25th Percentile | Median | 75th Percentile |
| 1 | 434,016 | 668,273 | 1,018,508 |
| 2 | 707,032 | 1,139,911 | 1,604,800 |
| 3 | 1,770,594 | 2,653,484 | 4,882,230 |

Figure 7 breaks down total direct compensation for Chief Information Officer into its respective components. Base salaries remained largely unchanged for this group compared to 2013. Large increases in incentive payouts were the main driver of the almost universal increases in total direct compensation for this group.



Supplemental Information

An Update Regarding the Disclosure of CEO Pay Ratios

In August 2015, after years of contentious debate, the SEC finally adopted the CEO pay ratio disclosure rules set forth by the Dodd-Frank act more than five years ago. Beginning with the 2018 proxy season, public companies will be calculating and reporting the ratio between the total annual pay of the highest paid executive officer and that of the average employee.

Ratios comparing top executive pay to that of the average worker are sure to be a hot topic over the next few proxy seasons. ERI recently conducted a study of the evolution of CEO pay over the last ten years; and how it compares to the growth in the wages of the typical U.S. worker. Figure 8 below is taken from that study. It compares the median pay of CEOs at companies in the S&P 500 Index to the annual wages of the median U.S. worker. By this measure, the top CEO pay ratio has grown to more than 300:1 when you include performance incentives. Whether that result is alarming, simply interesting, or completely useless is a different question. [Click here](#) to view the complete ERI report regarding current and historical CEO pay ratios.

Figure 8: Median U.S. Worker Pay Compared to Median S&P 500 CEO

| Year | All Workers | Total Cash Compensation | | Total Direct Compensation | |
|------|-------------|-------------------------|--------|---------------------------|---------|
| | | Executive Median | Ratio | Executive Median | Ratio |
| 2005 | \$29,430 | \$2,345,904 | 80 : 1 | \$6,005,049 | 204 : 1 |
| 2006 | \$30,400 | \$2,472,700 | 81 : 1 | \$6,158,083 | 203 : 1 |
| 2007 | \$31,410 | \$2,574,018 | 82 : 1 | \$8,015,388 | 255 : 1 |
| 2008 | \$32,390 | \$2,221,771 | 69 : 1 | \$7,870,948 | 243 : 1 |
| 2009 | \$33,190 | \$2,426,528 | 73 : 1 | \$7,481,409 | 225 : 1 |
| 2010 | \$33,840 | \$3,062,167 | 90 : 1 | \$9,283,136 | 274 : 1 |
| 2011 | \$34,460 | \$3,000,000 | 87 : 1 | \$9,708,178 | 281 : 1 |
| 2012 | \$34,750 | \$2,965,900 | 85 : 1 | \$10,611,072 | 305 : 1 |
| 2013 | \$35,080 | \$3,052,154 | 87 : 1 | \$10,076,140 | 287 : 1 |
| 2014 | \$35,540 | \$3,048,580 | 86 : 1 | \$11,335,484 | 319 : 1 |

Please email Matt Skrinjar at matt.skrinjar@erieri.com with questions or comments.

ERI's Executive Compensation Index - United States

ERI Economic Research Institute

111 Academy Drive, Suite 270

Irvine, CA 92617

(800) 627-3697

info.eri@erieri.com



**ECONOMIC
RESEARCH**
I N S T I T U T E

ABOUT ERI ECONOMIC RESEARCH INSTITUTE

ERI Economic Research Institute has been trusted for decades to provide compensation survey data. We compile the most robust salary survey, cost-of-living, executive compensation, and job competency data available. Thousands of corporate subscribers, including the majority of the Fortune 500®, rely on ERI analytics to streamline the compensation planning process, develop compensation packages that attract and retain top performers, and provide defensible data that holds up during litigation and audit.

