

# Executive Compensation Index United States



**ECONOMIC  
RESEARCH**  
INSTITUTE

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## 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 October 2015 edition of ERI's **Executive Compensation Index** specifically highlights compensation for the top executive and two board member positions:

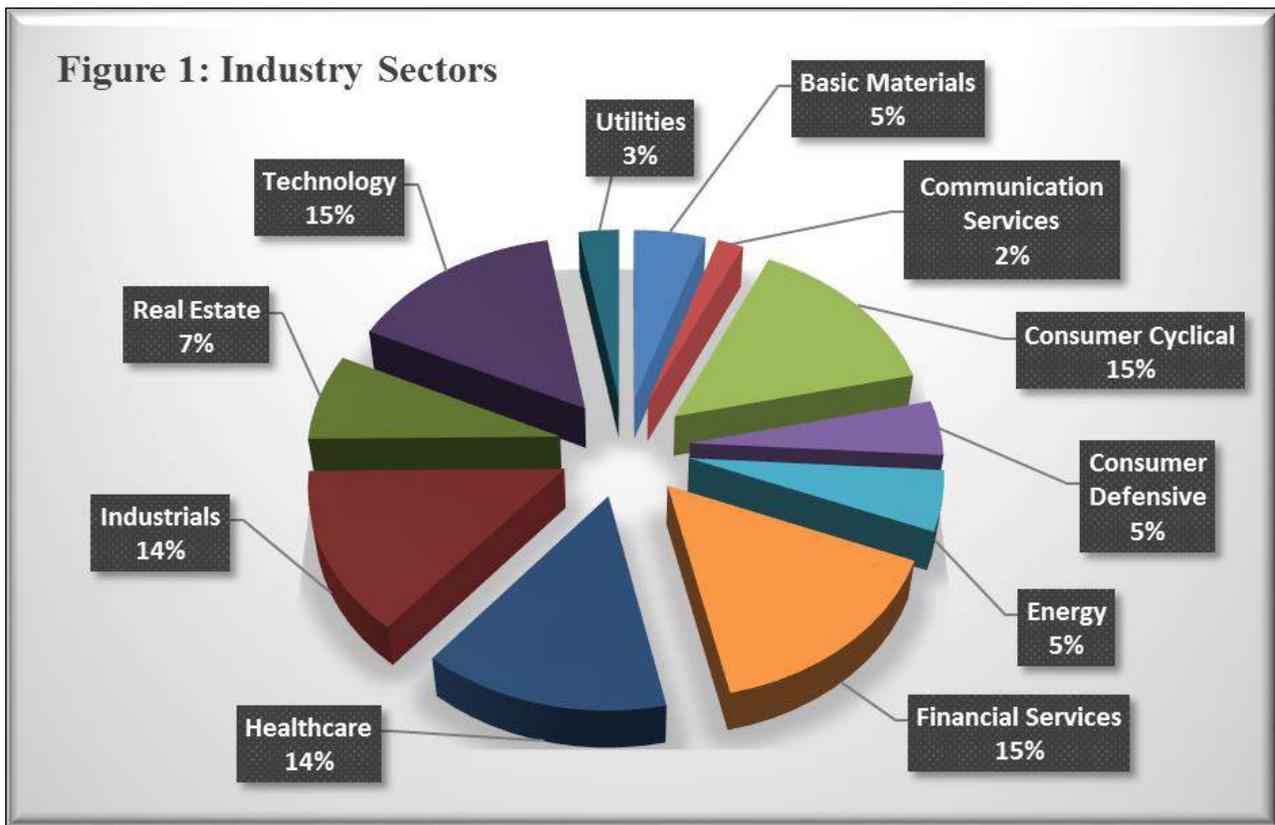
- Chief Executive Officer
- Chairman of the Board
- Independent Director

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 4.43% 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:

- Small Cap – less than \$750 million (948 companies)
- Medium Cap – between \$750 million and \$4 billion (1,176 companies)
- 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 her small cap counterpart.

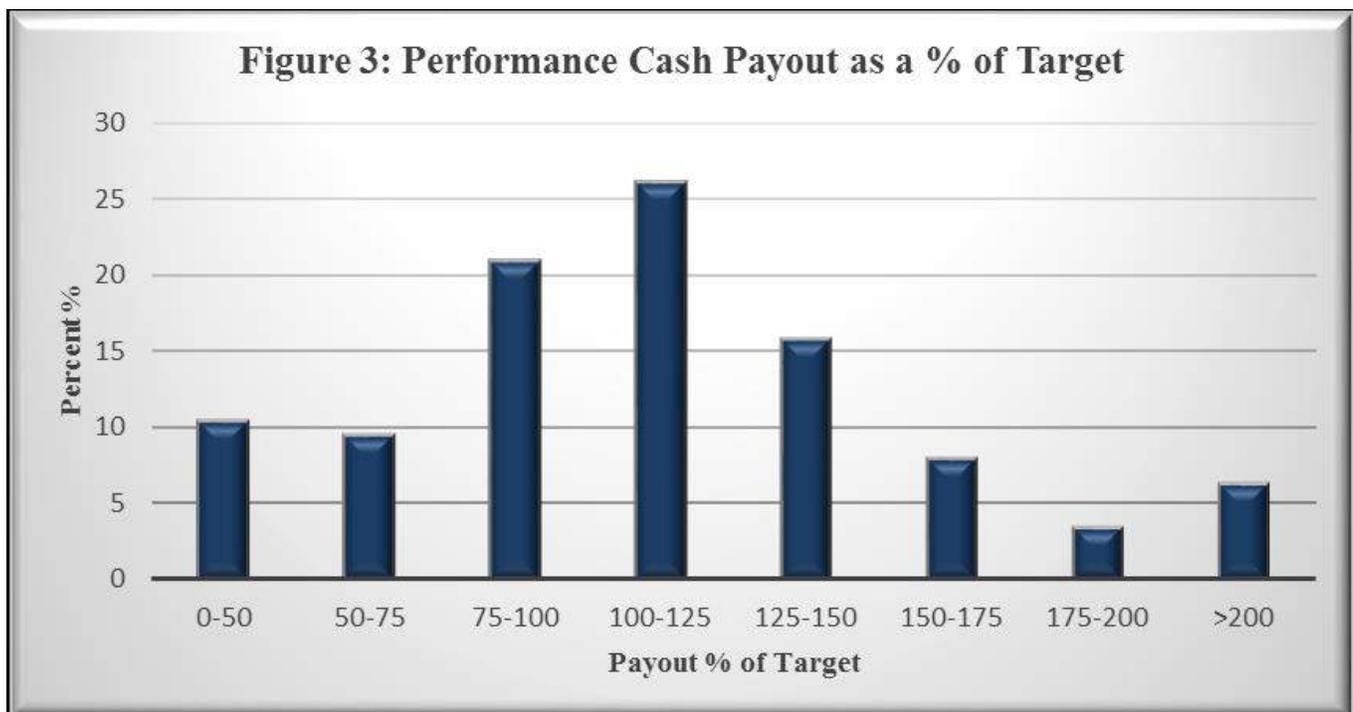
## CEO Annual Cash Incentive

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*, where 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 at equal to or greater than the predetermined plan target. More than one-third of performance cash payouts were 25% or more above target.



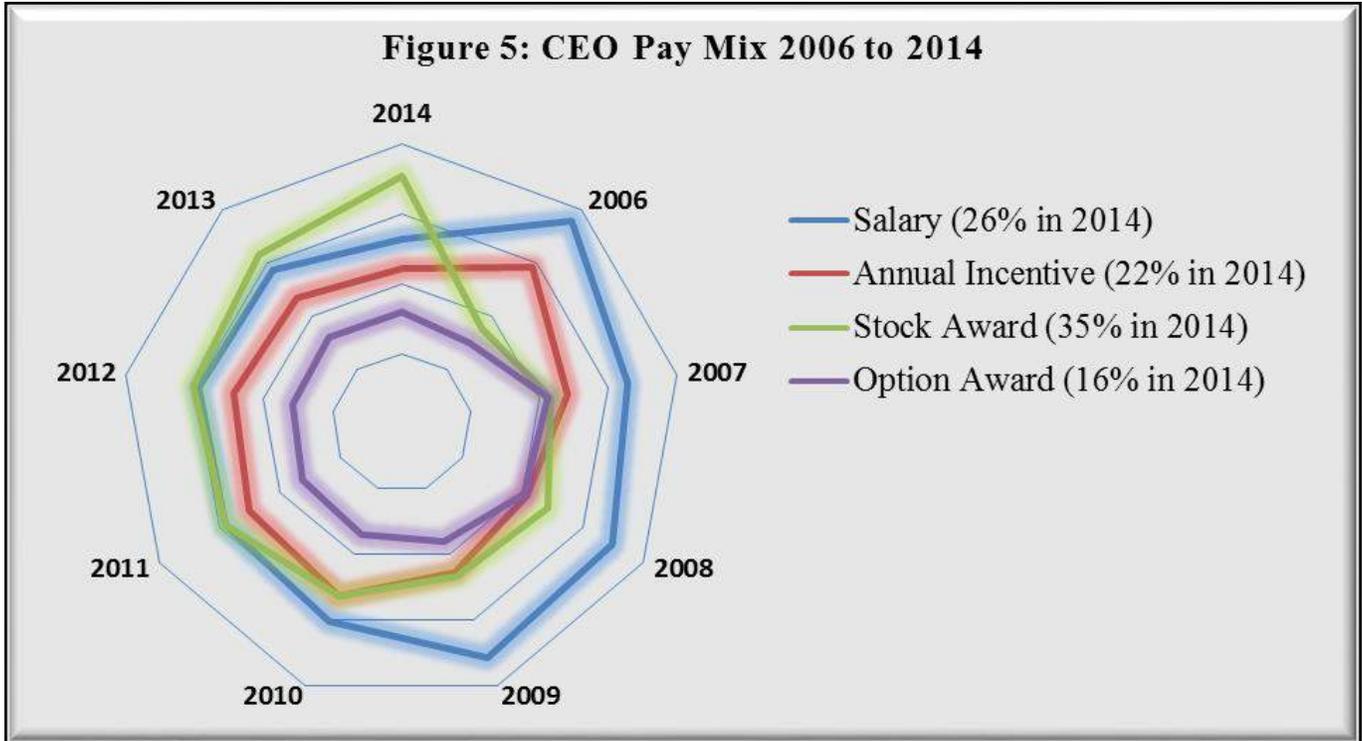
More than 75% of Russell 3000 companies reported using more than one performance measure in determining performance cash payouts in 2014. The most common plan designs included between two and five metrics. Naturally, most plan designs included measures of earnings growth and returns to shareholders, 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 have led to the increased importance of equity and variable cash.



# Chairman of the Board

Table 2 shows the median total direct compensation for Russell 3000 outside Board Chairs in 2014. The small cap group saw the largest increase to median total direct compensation at just over 6%. The small and large cap groups saw median increases near 1%.

**Table 2 - 2014 Chairman of the Board Total Direct Compensation**

Market Cap Group	Total Direct Compensation (\$)		
	25th Percentile	Median	75th Percentile
1	93,883	166,102	234,167
2	147,000	229,454	328,581
3	280,238	389,632	499,994

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 Board Chairs earning some compensation in the given form in 2014. Large cap company board chairs are the most likely to earn annual cash incentives, and the growth in direct pay for this segment was driven mainly by higher cash incentives in 2014. The median cash fees for large company board chairs actually declined 10% compare to 2013. All three market cap groups, in fact, showed declines in fixed cash fees for 2014. This represents a general trend of company boards electing to pay their leaders in equity rather than cash.

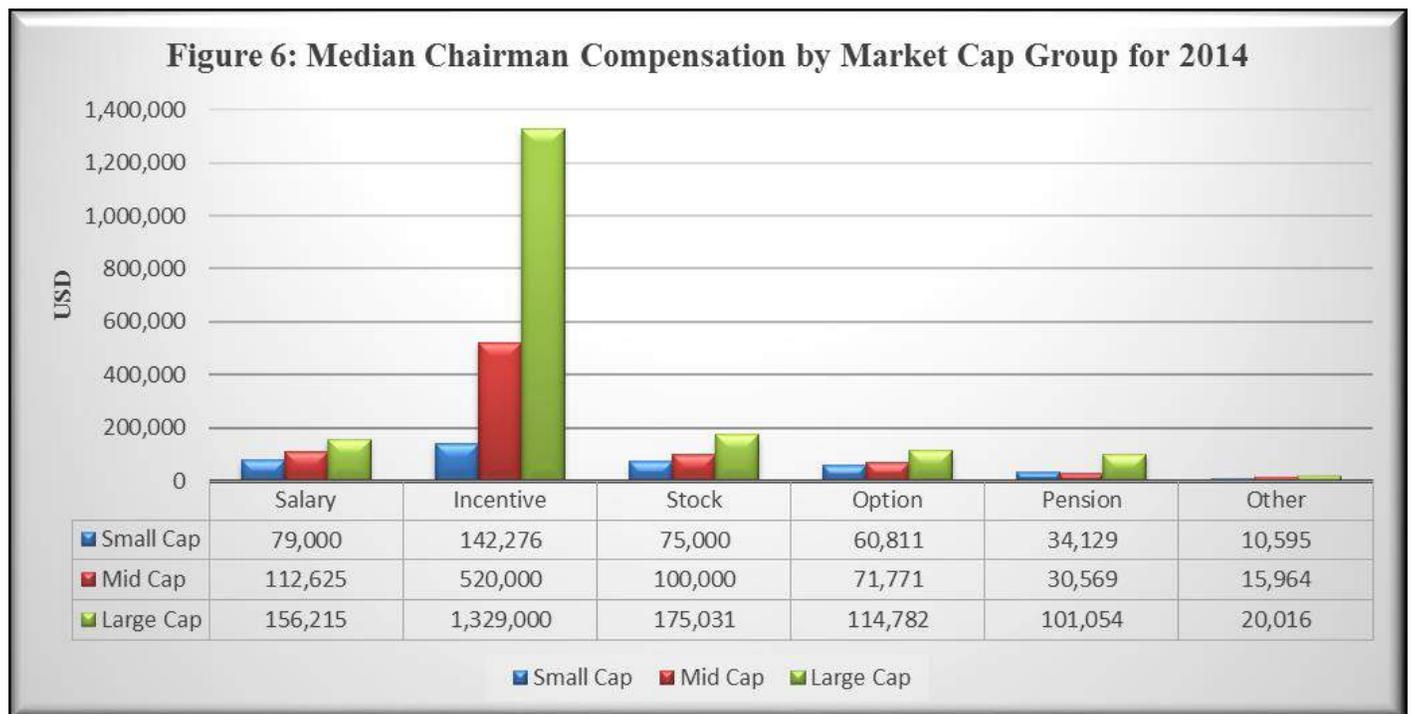


Table 3 below displays the percentage of board chairs earning specific pay elements in 2014. Nearly all Board Chairs earn some fixed cash. Annual cash incentives, full-value stock awards, and additional indirect benefits and perquisites are much more likely at large companies as compare to small ones.

**Table 3 - Percentage of Outside Board Chairs Earning Specific Pay Components in 2014**

Market Cap Group	Cash Fees	Annual Incentive	Stock Awards	Option Awards	Pension	Other
1	96.73	3.6	70.5	26.2	6.3	26.2
2	95.05	5.8	78.3	21.7	7.4	40.1
3	96.74	8.7	85.3	24.5	9.8	51.1

## Independent Director

Table 4 shows the median total direct compensation for Russell 3000 Independent Directors in 2014. These are non-chairman members of company boards that are not also part of the executive team. The small cap group saw the largest increase to median total direct compensation at over 8%. The small and large cap groups saw median increases of 1% and 4% respectively.

**Table 4 - 2014 Independent Director Total Direct Compensation**

Market Cap Group	Total Direct Compensation (\$)		
	25th Percentile	Median	75th Percentile
1	63,000	112,229	167,081
2	114,083	165,589	219,000
3	190,500	234,971	283,276

Figure 7 breaks Independent Director total direct compensation into its respective components. Less than one percent of these directors earned a cash incentive in addition to fees in 2014, so that element is not included in this chart. Directors saw a modest increase in cash fees of about 3% over the past year. Similar to the story for company board chairs, the most dramatic changes in 2014 were to typical equity awards. Full-value *and* appreciation equity grants were 10% higher on average compared to a year ago. Directors at medium-sized companies saw the largest single pay component increase, with option award grants in 2014 that were 20% higher than those seen in 2013 on average.

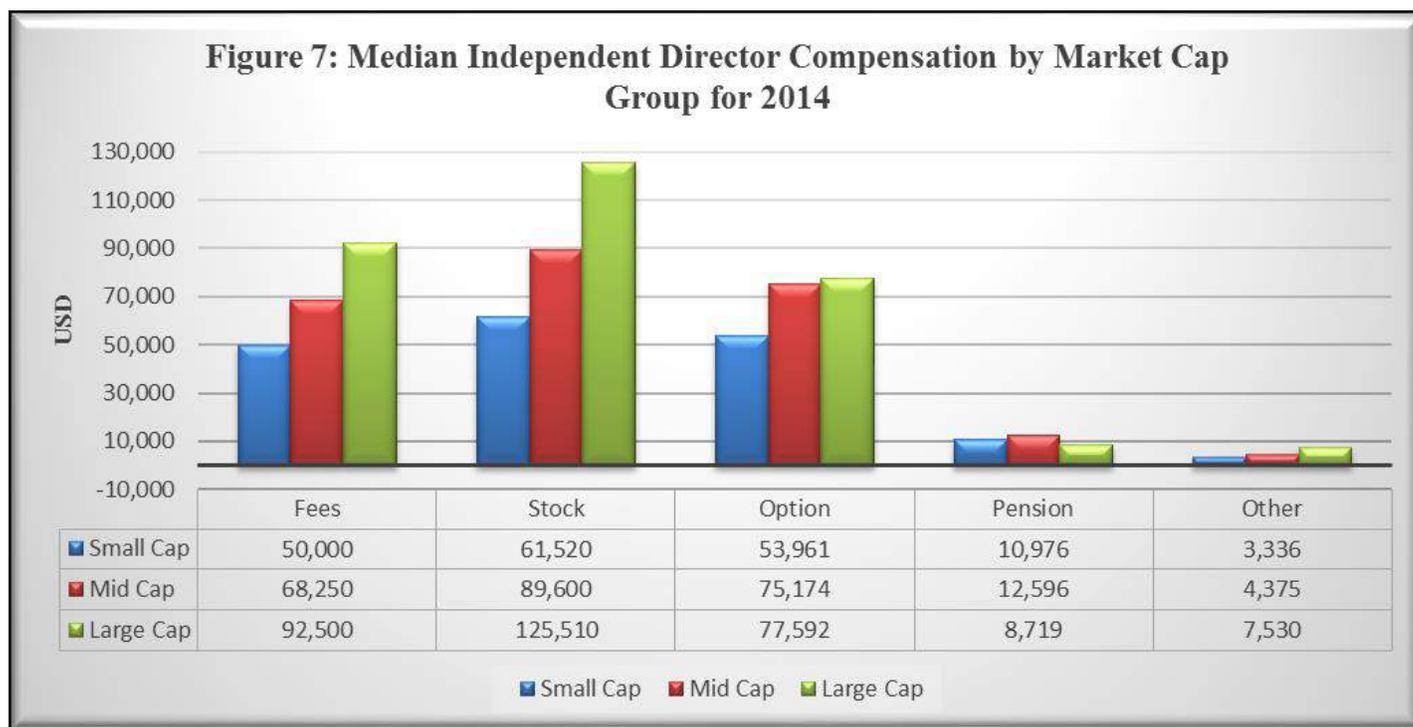


Table 5 below displays the percentage of Independent Directors earning specific pay elements in 2014. Fixed cash fees and full-value stock awards dominate the typical pay package. As expected, larger companies were less likely to award stock options, and more likely to provide additional benefits and perquisites.

**Table 5 - Percentage of Independent Directors Earning Specific Pay Components in 2014**

Market Cap Group	Cash Fees	Annual Incentive	Stock Awards	Option Awards	Pension	Other
1	96.92	0.3	70.8	24.7	2.6	15.6
2	98.31	0.3	82.4	23.5	3.8	28.4
3	97.26	0.2	90.4	20.1	4.6	40.9

# Supplemental Information

## ERI Executive Compensation Survey 2015

Last month, ERI released the 2015 edition of its *Top Management & Executive Compensation Survey*. This survey was redesigned in 2015 to add additional pay elements and further context to the existing estimates. Mean, median, and percentile estimates for base salary and annual cash incentive were provided in a way similar to previous years of the survey. Added to the survey for 2015 were descriptive statistics for equity grants and performance-based cash payouts. What's more, the survey results for 2015 are segmented into four groups based on the annual revenue of the participants.

- Small Business - Annual revenue less than \$25 million
- Medium Business - Annual revenue between \$25 million and \$250 million
- Large Business - Annual revenue between \$250 million and \$1 billion
- Enterprise - Annual revenue greater than \$1 billion

The 2015 survey includes data for 57 executive positions. The results for the Top Marketing Officer position at medium-sized businesses are shown in Table 6 below. The survey participants section reflects analysis from only those 44 incumbent Top Marketing Officers at companies with between \$25 million and \$250 million in 2014 revenue. About 80% of the top marketers in this group received some sort of long-term incentive in the form of company equity grants. About 75% received some sort of variable annual cash. The average performance-based cash payment was about half the size of the average discretionary cash payment, but considering the high spread of discretionary cash (i.e., standard deviation of more than 200%) this is likely due to one or two unusually high earners. The ERI Assessor Database section compares the survey results to ERI's database of Top Marketing Officers in similarly sized industries.

### Table 6: Top Marketing Officer

Survey Title: Top Management and Executive Compensation Survey

Area: U.S. National

Revenue: \$25 million to \$250 million

Categories	Incumbents	Mean	10th Percentile	25th Percentile	Median	75th Percentile	90th Percentile	Std. Dev.
<b>ERI Assessor Database</b>								
Salary		213,054	134,806	170,347	210,635	263,009	309,212	
Bonus		53,434	33,856	42,782	52,899	66,053	77,656	
Non-equity Incentive		-	-	-	-	-	-	
Stock Award		-	-	-	-	-	-	
Option Award		-	-	-	-	-	-	
Total		266,488	168,662	213,129	263,534	329,062	386,868	
<b>Survey Participants Database</b>								
Salary	44	252,211	179,690	221,608	250,000	294,327	350,000	26.8
Bonus	12	188,514	12,000	33,750	71,519	128,426	241,779	200.4
Non-equity Incentive	26	93,028	31,414	47,484	68,000	120,765	200,167	67.8
Stock Award	26	451,506	27,027	87,920	137,194	304,253	1,202,850	187.6
Option Award	21	682,346	63,255	128,146	447,209	762,300	1,578,000	116.1
Total Direct Compensation	44	951,866	215,002	354,367	603,584	1,239,835	2,119,975	97.5

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