Strategic Integration
of
Executive Compensation and Benefits

CASE STUDY
Executive Compensation Benchmarking

Today’s Speaker:

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Executive Compensation Benchmarking

- Common Practice

- Compares typical elements of pay within a peer group
  - Salary
  - Annual Incentive
  - Long Term Incentive
  - Equity

- ISS conducts its own benchmarking based on its own peer group formulation
  - Opines on pay practices and advised institutional investors on approval or disapproval in proxy voting

- Def 14A Filing
  - Boards disclose who their peers are, how they get data, and who advises them
The value of executive benefits

- Company contributions to qualified and nonqualified plans (401k and 409A)

Why?

- Compensation consultants have never been able to quantify the value of benefits
- Couldn’t calculate the outcomes of contributions at retirement

Result:

- Compensation Committees don’t actively include benefits in their Total Rewards strategy
- Over allocation to company stock in executive portfolios

Our View:

- If benefits aren’t compensation, what are they?
What’s New?

Finally benefits and their outcomes can be measured
- Without costly customized work by pension actuaries

New way to measure Total Rewards

New way to empower HR professionals, compensation committees, plan participants
- Able to calculate the present and future value of a career
- Quantify an under recognized pay element
EXECUTIVE RETIREMENT

What We See
Why Benchmark Executive Retirement?

▲ Total rewards can’t be measured without data

▲ Benchmarking proves there is no rational, consistent approach to executive retirement
  ➢ Natural result of ignoring the space

▲ Peer group companies tend to fall into one of three categories:
  ➢ Outdated, expensive, legacy plans
  ➢ No retirement strategy at all
  ➢ A balanced strategy incorporated into long term incentive plan
RECENT CASE STUDY
Executive Data Review: *Peer Group Observations*

**Revenue**
- Range: $1.5B to $6.2B
- Median: $3.3B

Client revenue is near median at $3.5B

**Profitability**
- Profitability range: (-$137M) to $365M
- Median income: $154M

All peer group companies were profitable during the last reporting year, except one (-$137M)
Executive Data Review: Peer Group Observations (cont’d)

Total Shareholder Return
- 1 year TSR ranges widely: (-61%) to 18%
- 1 year TSR median: (-3.15%)
- 3 year TSR range: (-2%) to 452%
- 3 year TSR median: 66.75%

Employees
- Range: 1,900 – 26,000
- Median employee count: 10,550
Executive Data Review: Chief Executive Officer

Cash Compensation:
- Median Salary: $892,908
- Median Target NEIP: $920,000
- Median Total Cash: $1,849,936
- Total Cash as a % of Salary: 231.3%

Total Cash Compensation Low and High:
- $675,000 (salary only)
- $1,226,081 (salary + NEIP)
- $3,415,825 (304.6% of salary)

Total Cash Compensation Percentile (% of salary):
- 90th: 304.3%
- 75th: 287.1%
- Median: 231.3%
- 25th: 188.0%
- 10th: 150.5%
Plan Based Equity Awards

- **Options (Time Vest)**
  - Seven companies offer stock options
  - Median award: $297,428

- **Stock (Time Vest)**
  - Six companies offer time vested stock
  - Median award: $115,635

- **Stock (Performance)**
  - Eight companies offer performance based stock awards
  - Median award: $1,787,921

- Median stock award: $2,933,916
- Median Total Equity Awards: $3,215,226
- Median Total Equity Awards (% of salary): 325.1%

Plan-Based Equity Awards Percentiles (% of salary):

- 90th: 720.7%
- 75th: 527.2%
- Median: 325.1%
- 25th: 193.7%
- 10th: 78.4%
Average Annual Retirement Value

- Six companies appear to have incorporated retirement into Total Rewards
- Six companies appear to offer only a 401(k) match or a 409(A) match or restoration
- The peer group has a typically wide dispersion of contributions

Retirement Compensation in Summary

- These values are widely disbursed
  - Change in pension value can be quite large due to changes in actuarial assumptions
  - Values range between zero and an increase of over $3.7 million
- Total Retirement (change in pension, plus current contributions)

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<thead>
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<th>Percentile</th>
<th>Value</th>
<th>Percentage of Salary</th>
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<tr>
<td>90th</td>
<td>$1,153,695</td>
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<tr>
<td>75th</td>
<td>$836,450</td>
<td>98.3%</td>
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<td>Median</td>
<td>$546,723</td>
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<td>9%</td>
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<td>10th</td>
<td>$17,353</td>
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Retirement Compensation in Summary: CEO

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<tr>
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<td>98.3%</td>
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<tr>
<td>Peer Median</td>
<td>54.8%</td>
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<td>25th Percentile</td>
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Companies with the highest retirement compensation:
- MeadWestvaco (John A. Luke Jr.) - 382.9%
- Glatfelter P H Co (Dante C. Parrini) - 116.7%
- Greif (Michael J. Gasser) - 116.3%
- Sonoco Products (Harris E. DeLoach) - 92.4%
- Graphic Packaging Holding (David W. Scheible) - 86.1%
- Packaging Corporation of America (Mark W. Kowlzan) - 60.6%
- Domtar (John D. Williams) - 48.6%
- Verso Paper (Michael A. Jackson) - 28.7%
- Rayonier (Lee M. Thomas) - 10.7%
- Sealed Air (William V. Hickey) - 3.8%
- Boise Inc. (Alexander Toeldte) - 2.0%
- Weyerhaeuser (D. S. Fulton) - 2.4%
Career Retirement Benefit

- Retirement Income Replacement Ratio (RIRR) based on current plan design, age and years of service
- RIRR is a life annuity expressed as a percentage of total cash compensation projected at age 65

CEO median age: 61  
Median PV of retirement plans: $1,654,726 
Median YOS: 25  
RIRR at age 65: 40.8%

Note: Wide dispersion caused by legacy defined benefit plans

RIRR at age 65 (% of cash comp)

90th: 59.8%  
75th: 47.3%  
Median: 40.8%  
25th: 11.6%  
10th: 2.7%
Career Retirement Benefit (RIRR): CEO

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<tr>
<td>Peer Median</td>
<td>2.7%</td>
<td>11.6%</td>
<td>40.8%</td>
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<td>25th Percentile</td>
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Companies:
- Sonoco Products (Harris E. DeLoach): 77.3%
- MeadWestvaco (John A. Luke Jr.): 59.8%
- Greif (Michael J. Gasser): 49.5%
- Weyerhaeuser (D. S. Fulton): 45.2%
- Graphic Packaging Holding (David W. Scheible): 40.9%
- Glatfelter P H Co (Dante C. Parrini): 40.8%
- Sealed Air (William V. Hickey): 26.3%
- Packaging Corporation of America (Mark W...): 14.3%
- Verso Paper (Michael A. Jackson): 8.9%
- Boise Inc. (Alexander Toeldte): 2.7%
- Rayonier (Lee M. Thomas): 2.7%
- Domtar (John D. Williams): 2.3%
Long Term Incentive Pay Mix

Mean Values
- Performance stock: 47.1%
- Time vested stock: 24.3%
- Stock options: 16.8%
- Long term NEIP: 11.8%

The most common combination
- Performance stock
- Stock options

2nd most common
- Performance stock only

3rd most common
- Performance stock
- Time vested stock
- Stock options
Wealth Accumulation Pay Mix (WAP)

- LTI + retirement contributions
- Mean Values:
  - Performance stock: 40.9%
  - Time vested stock: 20.3%
  - Retirement contributions: 17.2%
  - Stock options: 12.7%
  - Long term NEIP: 8.9%
CASE STUDY SUMMARY
Peer Benchmarking for retirement contributions and retirement income replacement ratios tells a whole new story about Total Rewards

- Exposes imbalances
- Reveals opportunities
  - Negotiation
  - Target Benefit
  - Attraction
  - Retention
- Reorganize incentive compensation to longer term value creation
ACTION for COMPENSATION COMMITTEE
1. Know your retirement data
   - What is your CEO’s career RIRR?
   - Where is he/she positioned within the peer group?
   - How does he/she feel about retirement cash flow?
   - What is he/she willing to trade for it?

2. Develop a retirement strategy
   - No strategy is a strategy
   - Target income replacement
   - Incentive diversification
   - Compensation Risk (cost) Reduction

3. Call for help
Your Questions?

Suggestions for future topics:

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