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Navigating the Executive Benefits Landscape
with The Todd Organization

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Proxy Season: Lessons and Trends

NOT SURPRISINGLY, EXECUTIVE PAY ISSUES continued to receive a good deal of attention from the media and activist investors this past proxy season. Generally speaking, companies were able to solidly defend their executive pay and benefits practices, while avoiding confrontation or even public relations difficulties.

There are still many challenges ahead, though, and now is not a time for complacency.

Public perception of executive compensation and benefits practices impacts a company's ability not only to retain and attract a top-notch executive team, but their overall reputation as well. As such, Boards are regularly and intently scrutinizing these issues.

In fact, in light of recent legislation, new requirements, and the conventional wisdom that this would be a trying year for companies on executive pay, many did not expect the resulting calm proxy season. However, public awareness about executive compensation remains high and there is high potential of volatile reaction to company plans, whether justified or not.

By analyzing this year's developments companies can be even better prepared to address these issues in the future.

"Say on Pay" Votes Favor Companies' Practices

The "say on pay" shareholder votes, required this year as a result of the Dodd-Frank Act, generally received overwhelming approval. The proxy advisory firm, Institutional Shareholder Services, reported that 98 percent of companies' executive compensation practices were accepted by shareholders, at the 1,836 companies reporting results in early June.

Drilling down further, the Center on Executive Compensation found shareholder approval at 358 of 363 Fortune 500 companies that held their "say on pay" votes by June 16. In fact, the median support level for the proposals was 94 percent of voting shareholders.

The Center's data also showed that a majority (67.9 percent) of large companies recommended holding a say on pay vote annually, while fewer than 30 percent recommended a vote every three years. Shareholders voted for an annual say on pay over 90 percent of the time.

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Proxy Season: Lessons and Trends... cont'd

Pay Activism Was Generally Down

A study of the country's 100 largest public companies by the Manhattan Institute think tank found that the overall number of shareholder proposals related to executive compensation and corporate governance was down. Through mid-June 2011, only 12 percent of all shareholder proposals dealt with executive compensation, compared with 30 percent during 2008-10.

According to the Institute, "The effect of this new requirement [Dodd-Frank] has been to eliminate what had been one of the most popular shareholder proposals [say on pay]."

A strong stock market and generally high multiples are also credited with offsetting investors' concerns.

Challenges Remain

Experts warn, however, that the results should not be seen as grounds for complacency on executive compensation practices at companies. Indeed, just one egregious practice could trigger a vote against the entire executive compensation practice. This past proxy season, ISS found that performance disconnects or problematic pay practices were the reasons most plans were rejected by shareholders.

Furthermore, proxy advisory firms are generally perceived as having growing and considerable influence. It is important to monitor what these firms are saying, or likely to say about a company's practice early on and ensure that the firms have accurate information.

Remember the Fundamentals

For numerous reasons, including proxy disclosure, "say on pay" votes, and overall executive retention effectiveness, it remains very important for companies to periodically review their executive benefits plans. Adjustments should be made accordingly, particularly with respect to plan design, administration, and optics.

Companies should continue to act prudently and where necessary adjust their plans accordingly.

Companies may even want to proactively discuss these changes with investors (as well as executives who participate in the plans) to showcase how the plans serve both executives and shareholders.

The Todd Organization has numerous experts available to help companies review, evaluate, and implement optimal executive benefit retirement plans. For more information about these programs, please contact your Todd consultant or visit our website at www.toddorg.com.