

NAREIT 2017

# HRForum

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Boston, MA



**Compensation Topics on YOUR Mind**

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# Welcome!





- ISS was just sold for the fourth time in the past decade to private equity firm Genstar Capital. How much was it sold for (if you are within \$25 million you win and bonus points if you know how much of a profit the prior owner made!)?
- In February 2017, then acting SEC Chairman Michael Piwowar launched a 45-day request for comment on the pay ratio rule, seeking input from companies about “any unexpected challenges” that they may have experienced in preparing to comply with the rule. He also directed the SEC staff to “reconsider the implementation of the rule based on any comments submitted...question is, how many “form” letters were received in support of the rule (if you are within 1,000 you win!)?
- Out of all the comments received by my reaching out for today’s session, what topic received the largest feedback to discuss?

# CEO Pay Ratio

- The median of the annual total compensation of all its employees, except the CEO
- The annual total compensation of its CEO
- The ratio of those two amounts.
- The final rule defines “employee” to include a registrant’s U.S. and non-U.S. employees, as well as its part-time, seasonal, and temporary employees. Workers not employed by a registrant (or its subsidiaries), however, such as independent contractors, “leased” workers, or other workers who are employed by a third party, were not covered by the SEC’s proposed definition of “employee”
- Two ways to determine the median employee....consistent with the Summary Compensation Table annual compensation or a Consistently Applied Compensation Measure (CACM) – for example, W2 Income (total cash compensation could be a CACM so long as the registrant did not also distribute annual equity awards widely among its employee base)
- Many nuances to know about (e.g., independent contractors, 5% de minimis non-US employee rule, etc.). A public company is permitted to use any date within three months prior to the last day of its last completed fiscal year to identify the median employee and allowing a public company to identify its median employee every three years.



# CEO Pay Ratio Disclosure Example

Company Example	EQR	VTR
Classification	S&P 500 REIT	S&P 500 REIT
Approx. Total Capitalization	≈\$34 B	≈\$34B
Headquarters	Chicago, IL	Chicago, IL
Number of Employees	≈2,700	≈500
<i>“Hypothetical”</i> CEO Comp	\$10 million	\$10 million
<b><i>“Hypothetical”</i> CEO Pay Ratio</b>	<b>167:1</b>	<b>100:1</b>

# REIT CEO Pay Ratios

## REIT CEO Pay Ratio Survey

Please provide the ratio as would be required by the SEC for the CEO to median employee pay - Aggregate and # of Full-Time Employees



Note: Each dot in the charts above represents a participating company's CEO pay ratio.

# US Proxy Season Review

- Average support for say-on-pay reached 92%, the highest level to date.
- The say-on-pay failure rate was an all-time low of 1.3% - 31 failures (4 REITs)
- Annual say-on-pay *frequency* as the largest supported timeframe for Say on Pay voting.
- Total S&P 500 CEO pay increased to its highest level since 2011, in contrast to a slight decline in CEO pay seen at smaller companies.
- The gap between median CEO pay in the S&P 500 vs. the Russell 3000 is the largest since say-on-pay began (CEO pay ratio on the horizon).
- Performance-based pay elements continue to be emphasized while reliance on discretionary awards declined.
- The median CEO golden parachute payment rose by nearly 75% in 2017, whereas average support for golden parachute votes dropped and the failure rate more than doubled.
- Equity plan proposals was consistent with prior years and largely passed (only 8 failures).
- Shareholder proposals on compensation topics remained on the decline and, for the second consecutive proxy season, no proposals received majority support.

*Source: ISS Corporate Solutions – September 2017*

# Defining and Executing a Compensation Strategy

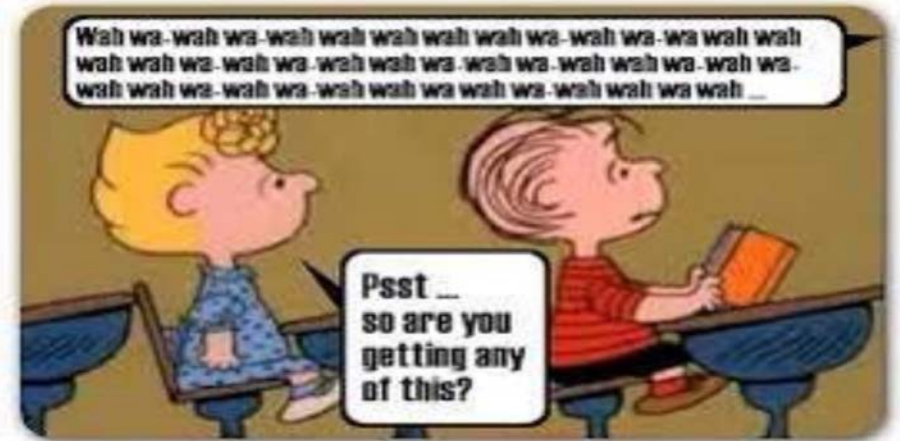
- Are companies using a single compensation structure? Or do they alter how they pay for different business lines, departments, geographies, etc.?





# Communicating Compensation Down Through the Organization

- What approaches and “success stories” can be leveraged to help:
  - Manager communication
  - Employee comprehension
- What type of deliverable is used (e.g., total rewards statement)?



# Compensation Strategy for the Next Generation

- To what extent are companies adjusting to fit millennials who value and request different “things” (e.g. work/life balance, benefits, career transparency)?
- Will existing compensation structures and incentive plans continue to attract and retain all generations?
  - Are long-term incentives an appropriate currency for millennials?



# Benefits & Perks: Common and Uncommon Offerings

- What benefits are most common and how do we differ?
- What unique benefits or perks are making an appearance?

## In the Headlines...

www.dailynews.com

THE WORLD'S FAVORITE NEWSPAPER

- Since 1879

- Paternity leave
- Volunteer time off
- Sabbatical
- Childcare
- Student loan repayment
- Charitable gift matching
- Dog walking
- Telecommuting

# Compensation Trends in the Current Cycle

- Is compensation continuing to rise within the industry?
  - Where are we in the cycle? Where is the trend line?



- How do firms handle tougher situations and keep the team incentivized?
  - Sectors such as retail
  - Companies with “at risk” or possibly “underwater” long-term incentives



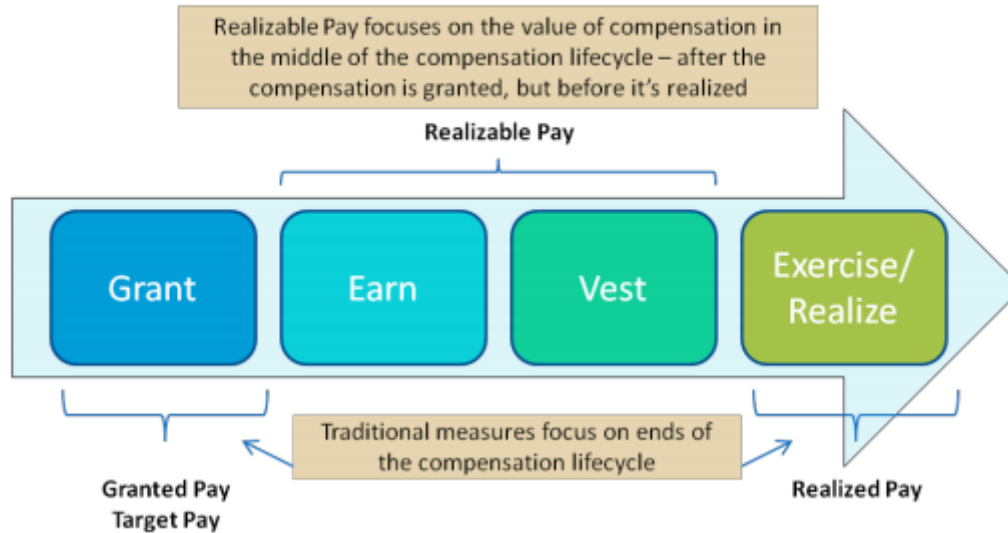
# Golden Handcuffs: LTI Trends and Practices

- How are firms using long-term incentive plans to retain and incentivize employees?
  - How broad is participation across the firm?
  - Are new trends, practices, or ideas emerging?
  - For public companies, how do proxy advisory firms tend to evaluate incentive pay and what are the “hot buttons”?



# Realizable Pay

## The "Compensation Lifecycle"



Source: ISS Corporate Solutions – Realizable Pay 101, April 2013

# Realizable Pay Defined

- Realized only includes compensation that the executive has completely harvested the value from – exercised options or sold their earned performance shares, for instance.
- Realizable, on the other hand, is a more hypothetical metric – it's the value of compensation over a measured period, given the performance of the company and the associated awards of performance-based awards and appreciation or depreciation of other equity and equity-like awards. Realizable pay could be higher or lower than granted pay, depending on a company's performance and how performance targets were set.

*Source: ISS Corporate Solutions – Realizable Pay 101, April 2013*

# Pay in the Headlines

- Which of the following is true (*based on public companies over \$1B in revenue*)?
  - Median CEO pay increased 9.5% to \$16.9 million in 2016
  - Median CEO pay increased 6.1% to \$11.0 million in 2016
  - Median CEO pay fell 0.8% to \$6.1 million in 2016



# Compensation of Mid-Level/Junior Employees

- Companies want to know about mix of base salary/bonus/LTI because of millennials and values
- Along with this they want to know about other benefits like gym memberships, student debt repayment, etc.



# Odds and Ends

- How many REITs work a 40 hour week with a 30 minute lunch (37.5 work hours + paid lunch), or a 40 hour week with a 60 minute lunch (35 work hours + paid lunch) or a 45 hour week (40 work hours + UNPAID lunch), or whatever combo they have?



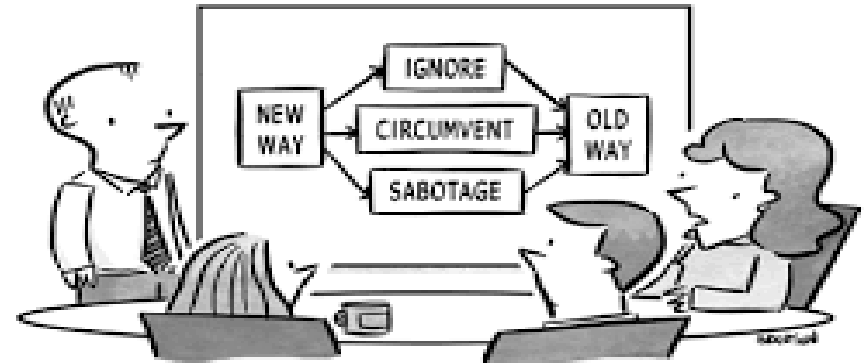
- How many REITs provide auto allowances (what do these look like)? At what level are cell phones provided or paid for?

# Defining and Executing a Compensation Strategy

- How many companies use a compensation strategy or philosophy?
  - Do you find that you are able to “stick to it”?
  - If and when do you find that pay becomes more subjective (i.e., situations, certain positions, etc.)?

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"So business as usual."

# Thank You!

- Thank you for your participation!
- Please feel free to contact us if you have any follow-up questions or comments

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