

SHORT TAKES



CEO PAID THREE TIMES MORE THAN OTHER NAMED EXECUTIVES

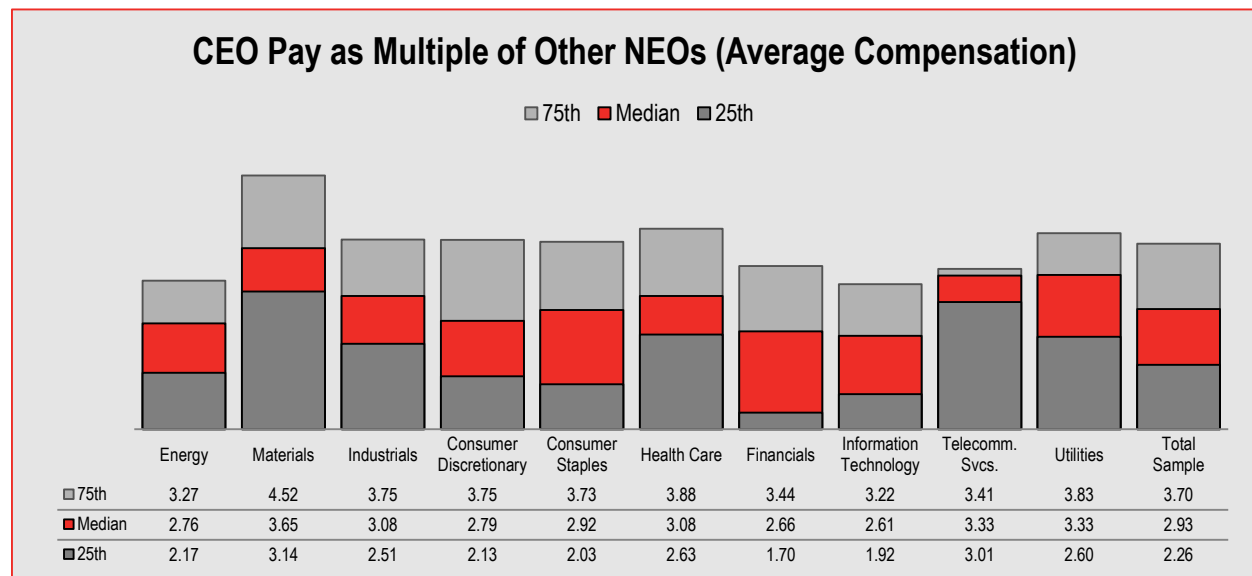
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We're currently awaiting the final rules from the SEC on how companies will be required to calculate and disclose the ratio of CEO pay to median worker pay. However, investors and governance experts continue to maintain that the more important ratio is that of the CEO and other members of the management team.

CEO pay is 2.93 times that of the other named executive officers at companies in the S&P 500. Median multiples of CEO to named executive officer (NEO) pay ranged from 2.61 to 3.65 at information technology and materials companies, respectively, according to our study of recent SEC filings.

Additionally, CEO pay is 2.98 times that of CFOs at the same companies. This ratio ranged from 2.71 to 3.50 at information technology and materials companies, respectively.

S&P 500	CEO Pay as Multiple of	
	Avg. of Other NEOs	CFO
Sample Size	500	498
25th	2.26	2.31
Median	2.93	2.98
75th	3.70	3.76



These ratios were calculated under the same methodology as the pending CEO to median employee ratio disclosure that will be mandated once the SEC finalizes the rules required under the five-year old Dodd-Frank Act. Under the rules, companies will be required to use a definition of total pay consistent with that currently used in the Summary Compensation Table of the proxy statement. In addition to base salary, bonus, equity awards valued on the date of grant, and the value of benefits and perquisites, this total pay number also includes the change in pension value and

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nonqualified deferred compensation earnings. This last element in particular is a matter of controversy in the governance community, as it says less about pay delivered than it does about executive tenure and changes in actuarial assumptions.

This ratio has been widely criticized by the business community, as well as institutional shareholders and shareholder advisory firms, and even the SEC, all of whom contend that the statistic will not be useful or comparable across companies. Indeed, the ratio may be more illustrative of the type of business and the number of overseas workers than it is about whether or not the company is providing fair pay to employees. And at least one of the major shareholder advisory firms has suggested that the firm does not intend to incorporate pay ratios into their Say on Pay vote recommendation analysis.

Unlike the CEO to median employee ratio, the CEO to NEO ratio can provide insight on the executive team in charge of the company, including talent development, succession planning and retention. A high ratio, for example, may be indicative of an imperial CEO, or a lack of a viable CEO successor among the management team. Additionally, high ratios can be harbingers of retention concerns, as it may suggest that members of the management team may not have sufficient “glue”, in the form of long-term retention awards. This should be an area of particular concern for boards, as it is often more expensive to recruit an executive from outside the company than to promote from within.

In our experience, most companies informally review this relationship on a regular basis, as a way to “gut-check” results of pay levels determined based on an individual position’s competitive market and the relative strength of the incumbent executive to others in the same position.