

TOP 10 COMPENSATION HOT TOPICS

HR HOUSTON | MAY 11, 2017

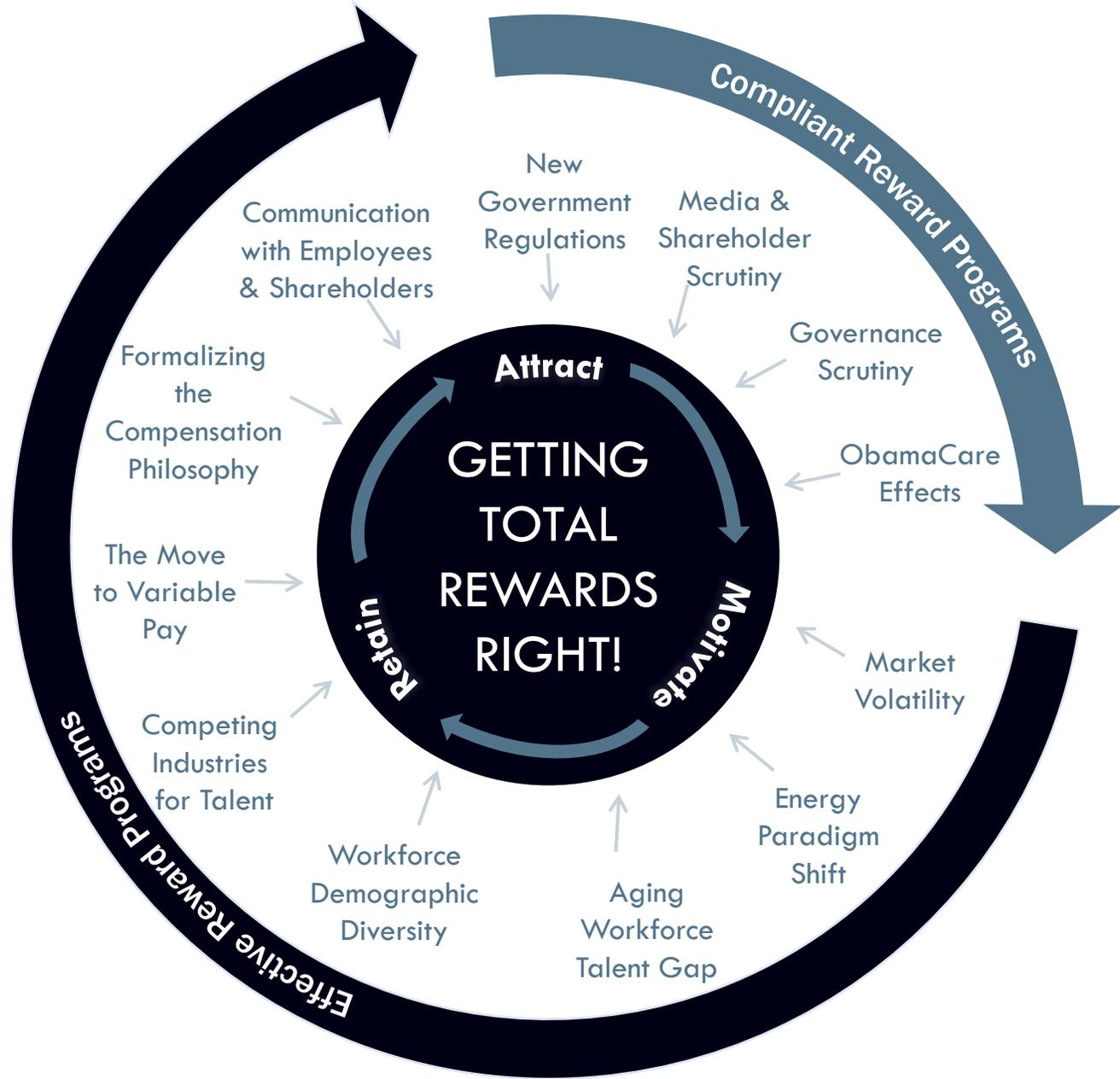
BRENT LONGNECKER, COB & CEO
CHRIS CRAWFORD, PRESIDENT
LONGNECKER & ASSOCIATES



LONGNECKER

& ASSOCIATES

ALL IN.



TOP 10 COMPENSATION HOT TOPICS

1. Talent Gap = Talent War
2. Variable Pay is on the Rise: Short-term Incentives
3. Variable Pay is on the Rise: Long-term Incentives
4. Millennial Pay: There are differences that matter
5. Closing the Gender Pay Gap
6. Disclosing the CEO Pay Gap in 2018
7. Peer Group Selection
8. Navigating the ISS Maze
9. Increasing Government Audits of Compensation Practices
10. Board Compensation

HOT TOPIC #1

TALENT GAP= TALENT WAR

- 48 years is the average age of a U.S. employee
- Approximately 20% of the workforce is within 5 to 7 years of retirement
- Aging U.S. Workforce
 - Fewer workers with less skills
 - Oliver Wyman study showed that the number of employees 65+ would jump 43% in 2012 from 2002
- Big gap left in the 30 – 45 age range

HOT TOPIC #1

TALENT GAP= TALENT WAR

Aging US Workforce

Oliver Wyman study showed that the number of employees 65+ would jump **43%** in 2013 from 2002

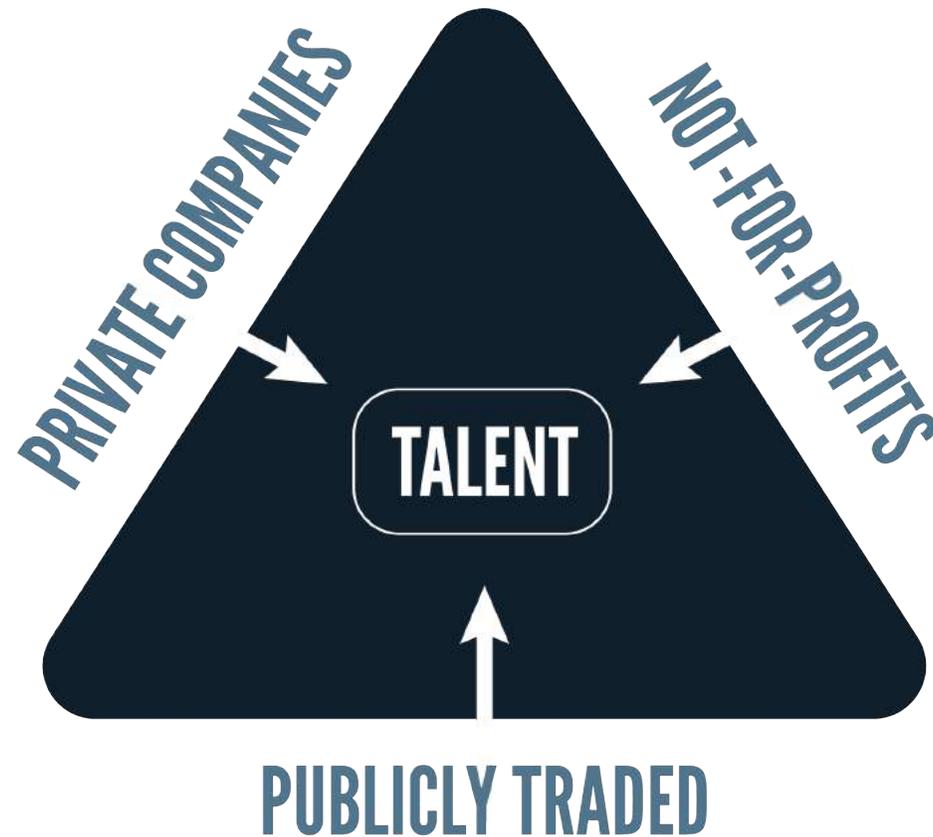
Civil Labor Force Age Projections- 1990-2020 (in millions)

Age	Levels				Percent Change		
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2020</u>	<u>1990-2000</u>	<u>2000-2010</u>	<u>2010-2020</u>
16-24	22.492	22.52	20.934	18.33	0.1%	-7.0%	-12.4%
25-54	88.322	101.394	102.94	104.614	14.8%	1.5%	1.6%
55+	15.026	18.669	20.014	41.411	24.2%	7.2%	106.9%

*Data provided by the Bureau of Labor Statistics.

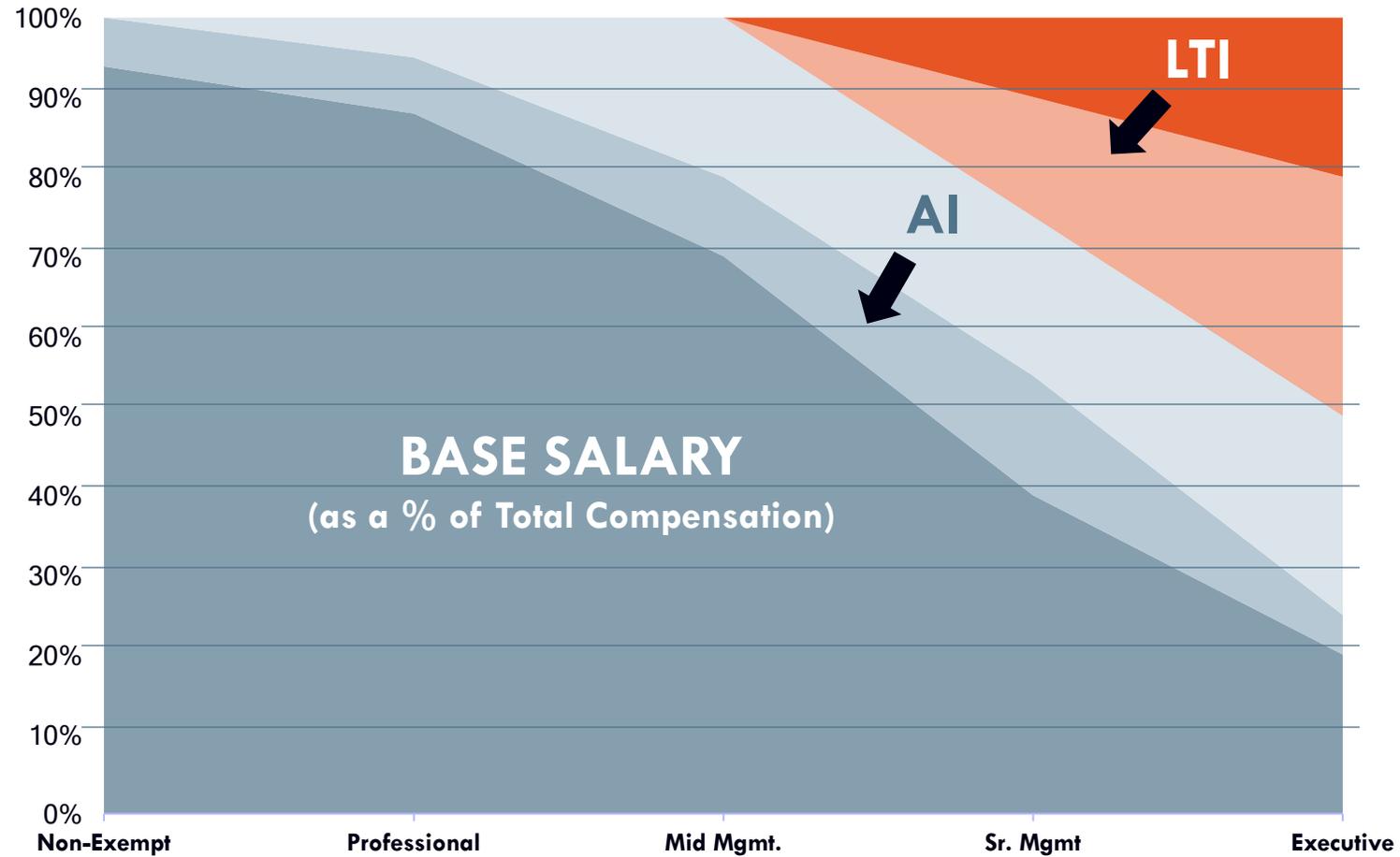
HOT TOPIC #1

TALENT GAP= TALENT WAR



HOT TOPIC #2 AND #3

VARIABLE PAY IS ON THE RISE



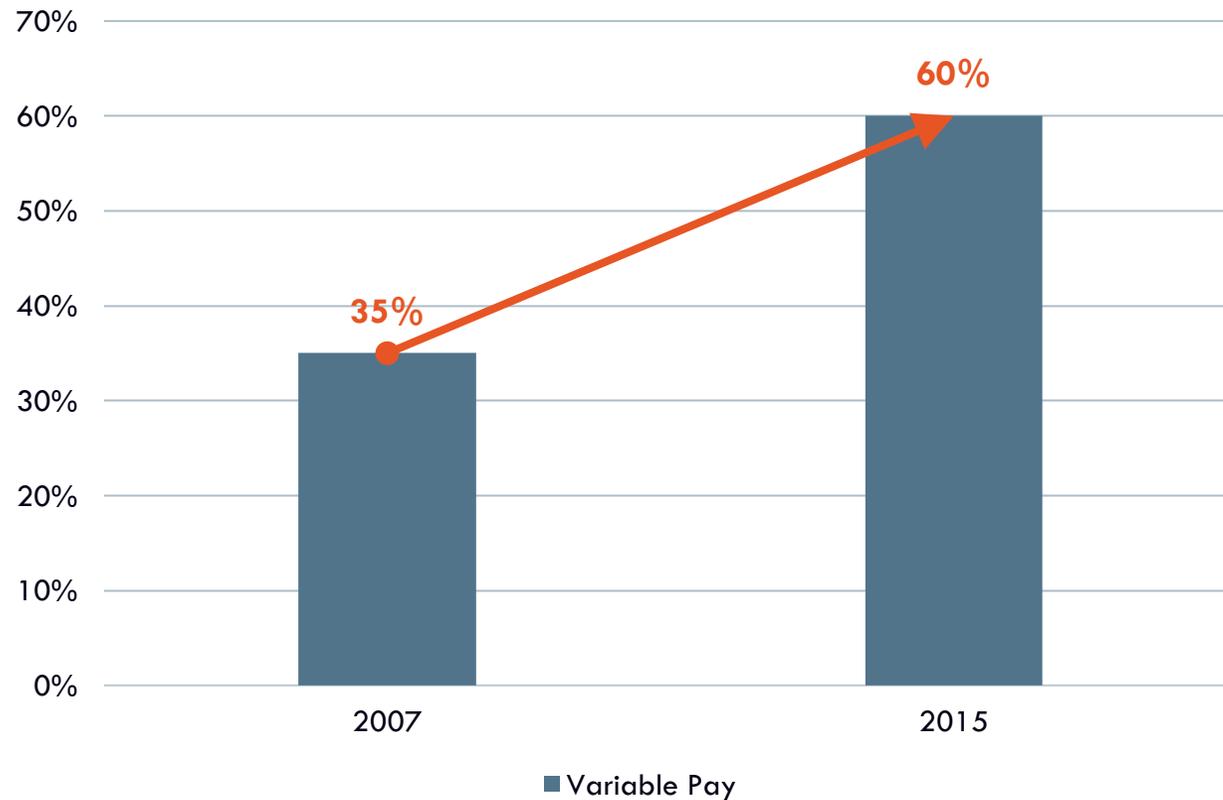
HOT TOPIC #2

VARIABLE PAY IS ON THE RISE: SHORT-TERM INCENTIVES ALIGNMENT. COMMUNICATE. DISCLOSE.



HOT TOPIC #3

VARIABLE PAY IS ON THE RISE: LONG-TERM INCENTIVES



Source: WorldatWork – Private Company Incentive Practices

Private company LTI prevalence has nearly doubled in less than 10 years! Why...?

HOT TOPIC #3



VARIABLE PAY IS ON THE RISE: LONG-TERM INCENTIVES

Dilution

When utilizing equity or cash for LTI in private companies, the potential dilution to owners is 5-15%, with most companies targeting 10% potential dilution in growth of the Company value from the date the LTI is awarded.

Eligibility

Companies typically restrict eligibility to employees that have P&L responsibility, are key value creators, or are key employees to retain for the future. A common base salary level that restricts eligibility in private companies is \$150,000.

Vesting

Private companies either provide vesting on a three, four, or five year basis, with four years being the most common. Vesting is established on upon a transaction event such as IPO, sale, death, disability, or retirement.

Liquidity

Payout is commonly made upon vesting utilizing the operating cash flow of the Company or upon a transaction event. Companies that pay dividends to owners often establish a dividend equivalent right to provide pro rata payouts to eligible participants.

Award Value

The long-term incentive award value should approximate the annual incentive payout or greater to ensure there are sufficient handcuffs to retain the employee and drive long-term decision making over short-term performance.

Example:

\$200,000 Base Salary

\$50,000 - \$75,000 Annual Incentive Opportunity

\$75,000 - \$100,000 Long-term Incentive Opportunity

(Future value determined by long-term growth)

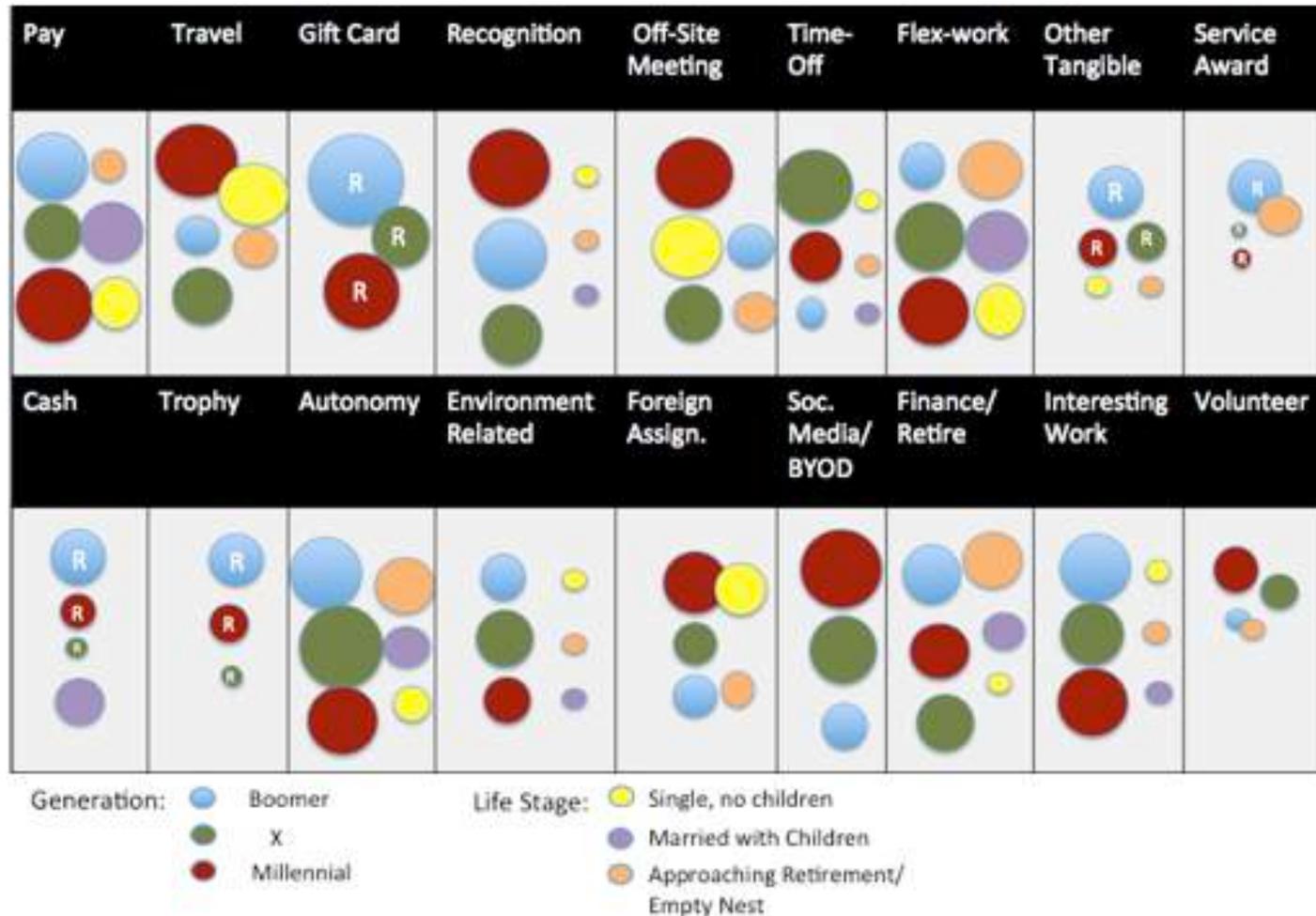
HOT TOPIC #4

MILLENNIAL PAY: THERE ARE DIFFERENCES THAT MATTER

	Baby Boomers (1946-1964)	Gen X (1965-1980)	Gen Y / Millennials (1981-2000)
Work/Life Flexibility	5	3 • Need to care for both Baby Boomers and Gen Y / Millennials	4
Base Salary & Annual Incentive	1 • Salary was historically most important component of pay • Incentive-driven / Need to win	2 • Team bonuses important	1 • Expects it to be right • Priority #1, but not a difference-maker
Benefits	3	5	5
Recognition	4 • Prefers public recognition	4 • Prefer delivery in time-off • Prefers private recognition	3 • Need the most frequent recognition - tailored, experience-based and public
Promotion & Career Opportunity	2 • Need to win and be recognized	1 • Grew up during more turbulent time – need stability	2

HOT TOPIC #4

MILLENNIAL PAY: THERE ARE DIFFERENCES THAT MATTER

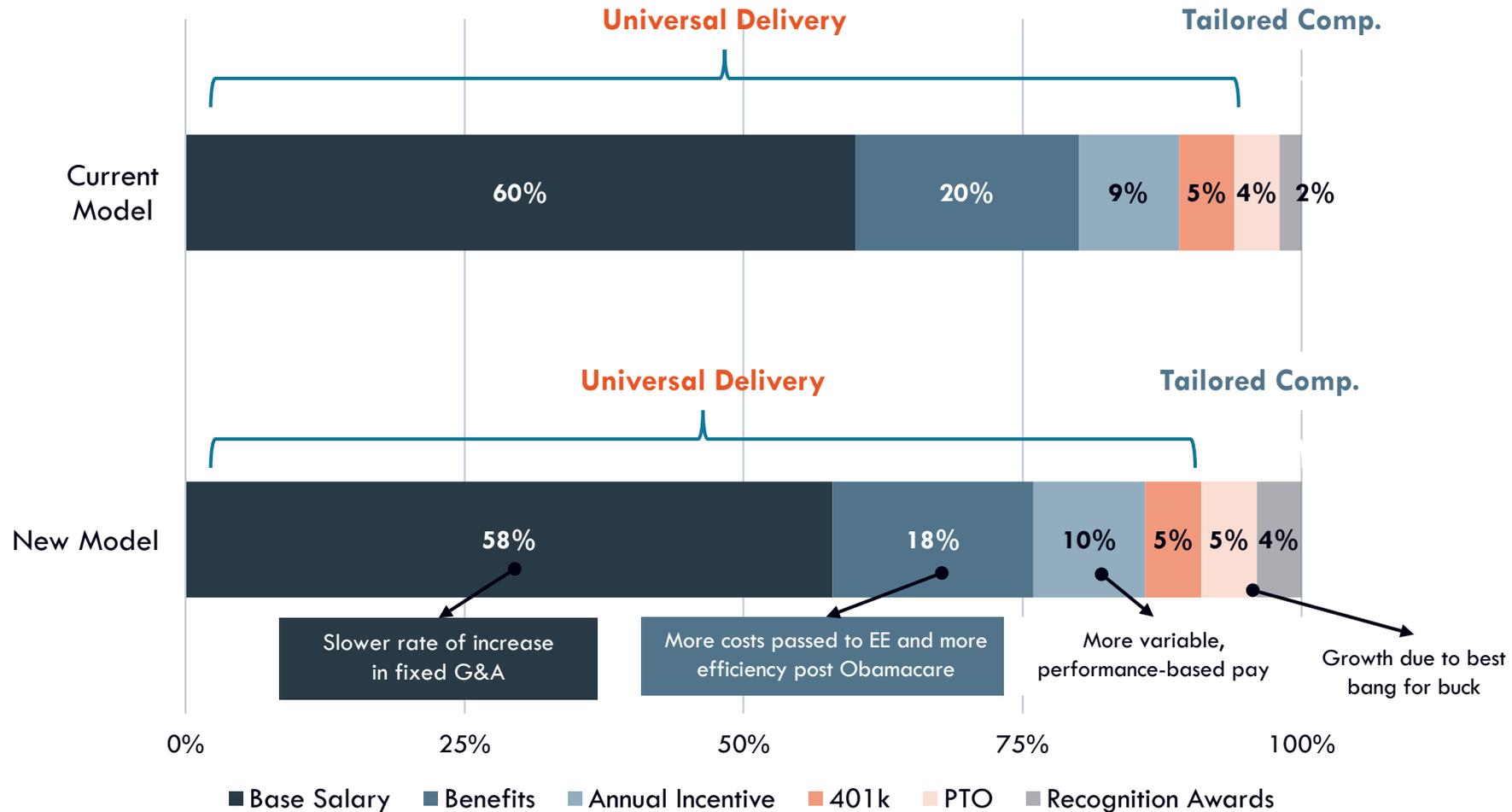


The bigger the circle, the more it matters

HOT TOPIC #4

MILLENNIAL PAY: THERE ARE DIFFERENCES THAT MATTER

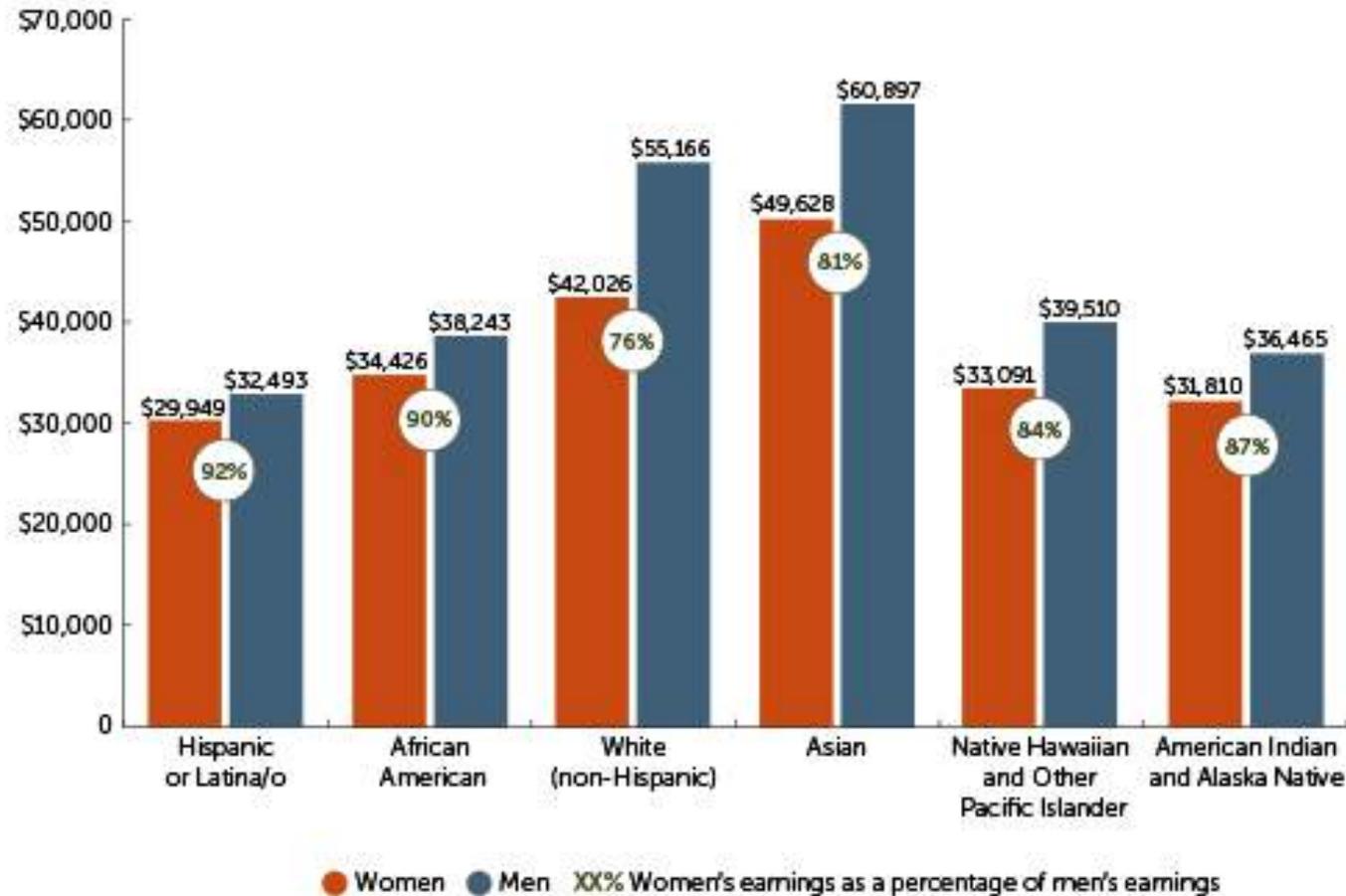
AVERAGE TOTAL COMPENSATION & BENEFITS



HOT TOPIC #5

CLOSING THE GENDER PAY GAP

MEDIAN ANNUAL EARNINGS, BY RACE/ETHNICITY AND GENDER, 2015



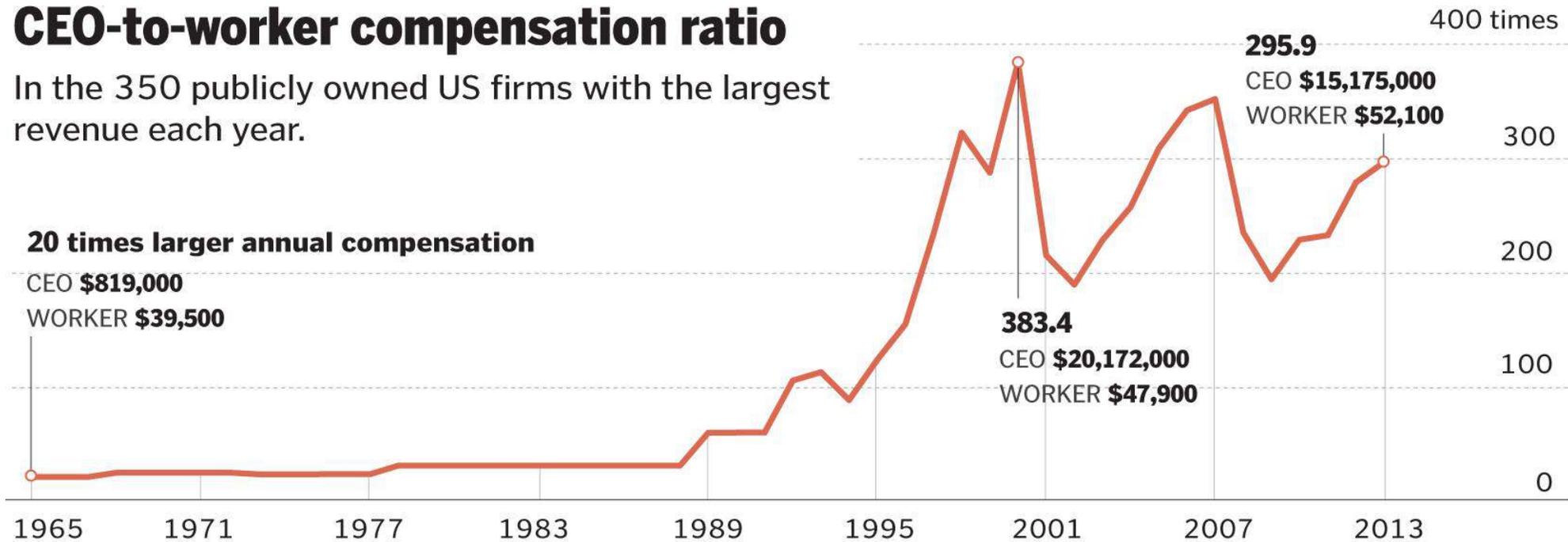
Source: U.S. Census Bureau, 2015 American Community Survey 1-Year Estimates

HOT TOPIC #6

DISCLOSING THE CEO PAY GAP IN 2018

CEO-to-worker compensation ratio

In the 350 publicly owned US firms with the largest revenue each year.

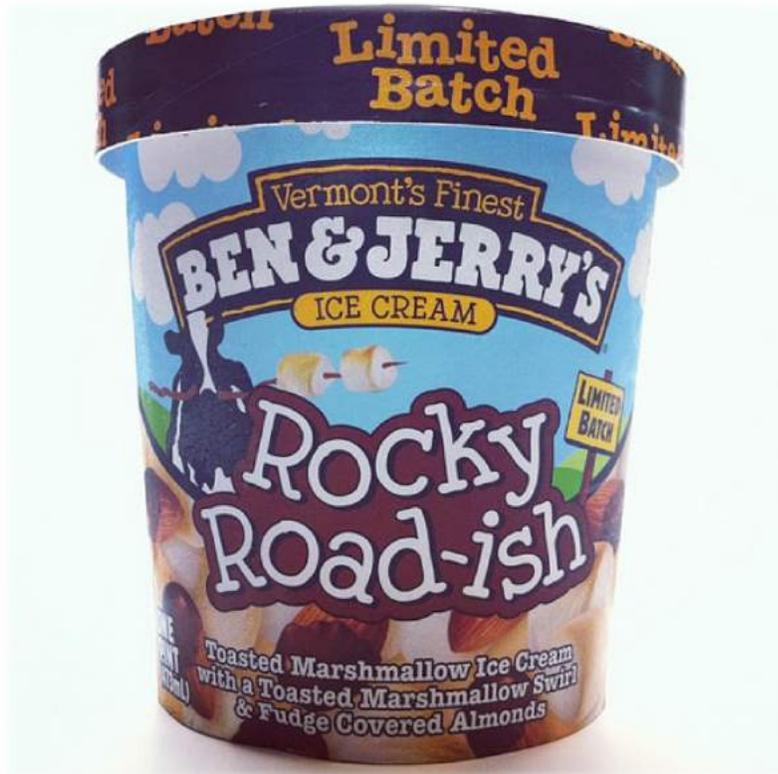


SOURCE: Economic Policy Institute

OLIVIA HALL FOR THE BOSTON GLOBE

HOT TOPIC #6

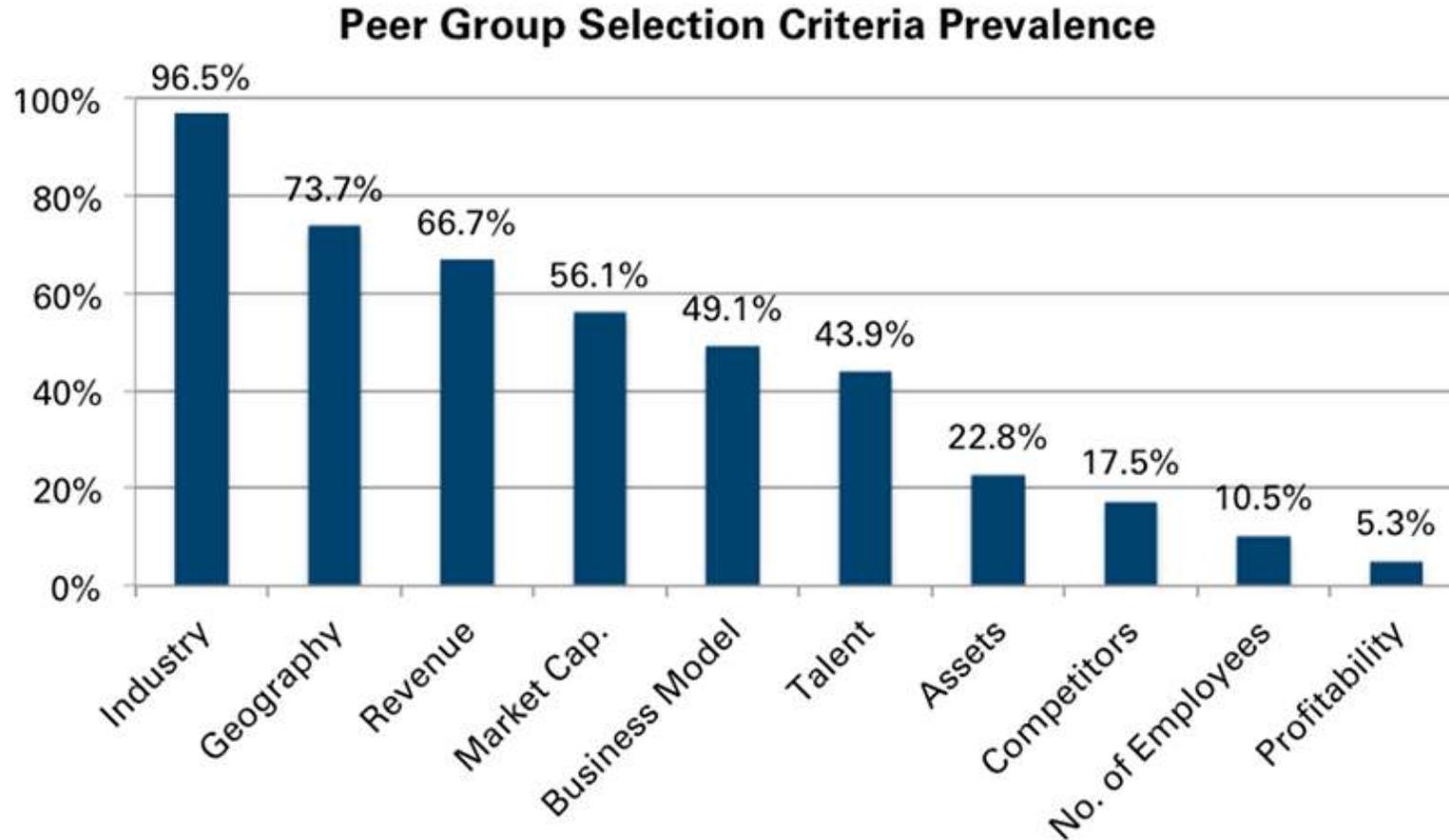
DISCLOSING THE CEO PAY GAP IN 2018



- The CEO Pay Cap has been tried before... and it was a Rocky Road at Ben & Jerry's

HOT TOPIC #7

PEER GROUP SELECTION



HOT TOPIC #8

NAVIGATING THE ISS MAZE



HOT TOPIC #9

INCREASING GOVERNMENT AUDITS OF COMPENSATION PRACTICES



"I have to admit ... the fist pumps are making me nervous."

HOT TOPIC #10

BOARD COMPENSATION



QUESTIONS?

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