

Survey of Private Company Board Pay Practices – Webinar

2020/2021 Edition

Thursday, June 24, 2021

NEWPORT
retirement services

Presenter Biographies



David Baum, CLU
Regional Director
Newport | Dallas, TX

469-621-1032 | david.baum@newportgroup.com

David Baum develops business relationships and identifies market opportunities to promote Newport's deferred compensation and executive benefits services in the Western United States. He joined Newport in 2005 and has been in the executive benefits arena since 1984.



Dennis Koletsos
Engagement Leader
Newport | Chicago, IL

312-488-6767 | dennis.koletsos@newportgroup.com

Dennis Koletsos is an accomplished management consulting professional. As an Engagement Leader with Newport's Compensation Consulting team, Dennis is responsible for helping clients build compensation programs that reinforce the organization's business strategy, culture and values, while at the same time managing costs.

Four Takeaways from Today's Webinar

1. Understand the importance of assessing Board compensation levels and structures on a regular basis to ensure compatibility with market leading practices.
2. Learn about deferred compensation opportunities for Board Chairpersons and Directors.
3. Learn about one of the Board's primary fiduciary duties – conducting CEO and Chairperson/Independent Director performance evaluations.
4. Learn about contemporary Board topics such as term limits and diversity.

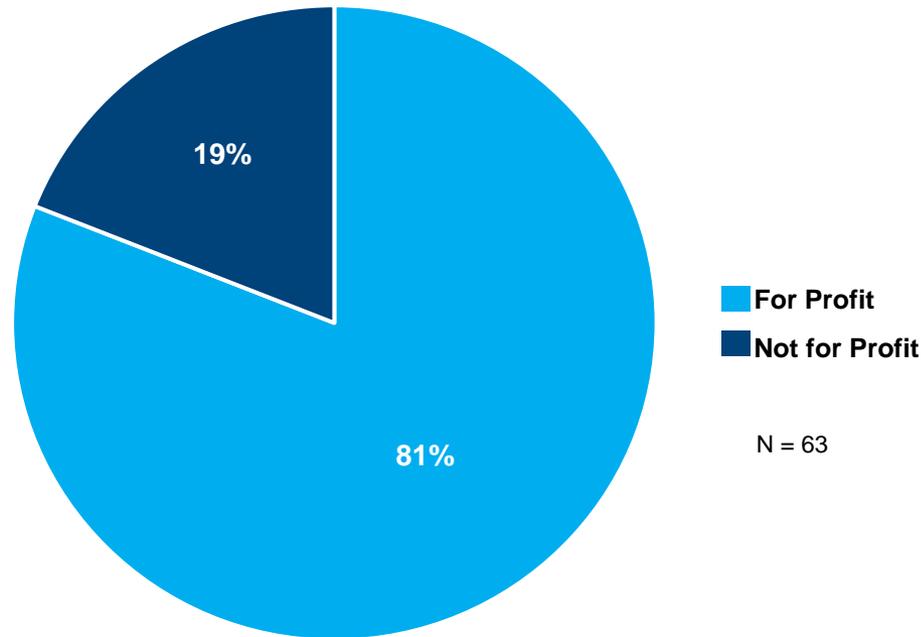


Survey Demographics

Survey Demographics

The majority of participating organizations are “for profit.”

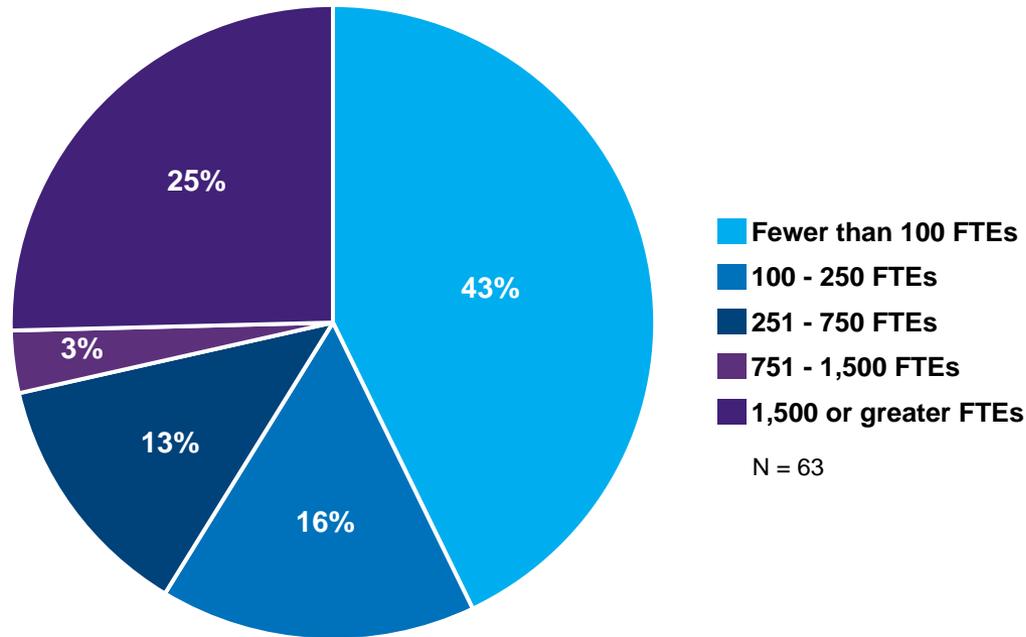
For Profit vs. Not-for-Profit Status



Survey Demographics

The majority (59%) of participating organizations have fewer than 250 employees with 25% of organizations have greater than 1,500 employees.

Full-Time Equivalents (FTEs)

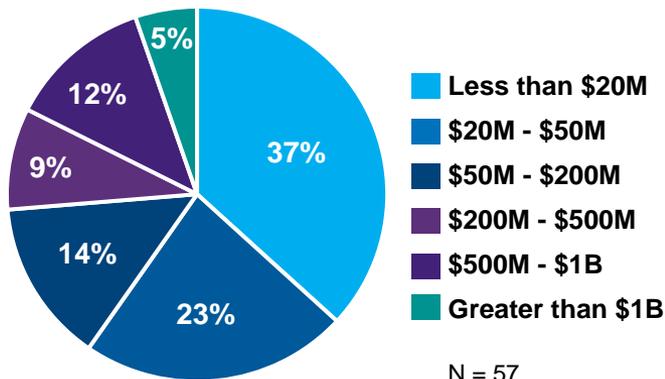


Survey Demographics

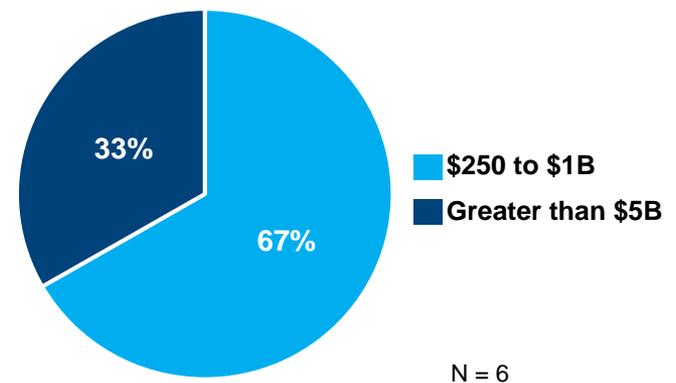
The majority of participating organizations have annual revenues that are less than \$20M. Slightly greater than one-third have annual revenues ranging from \$20M to \$200M.

Two-thirds of financial services organizations reported assets of \$250M to \$1B. One-third of organizations reported assets in excess of \$5B.

Organizations—Annual Revenue
(Non-Financial Services)



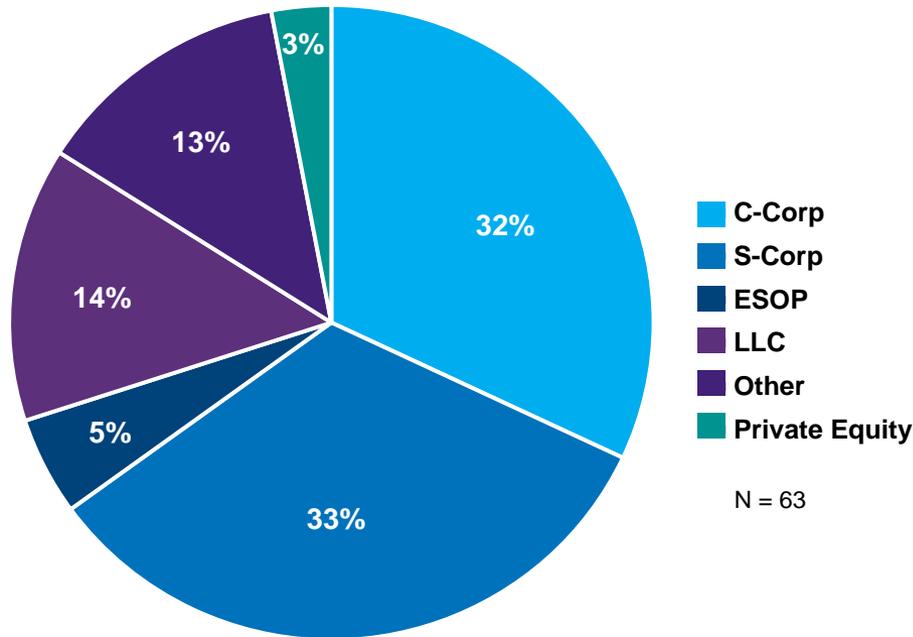
Financial Services Organizations—Assets



Survey Demographics

Approximately one-third of organizations are C-Corporations; another one-third are S-Corporations. Other organizations are LLCs, ESOPs, or owned by Private Equity.

Organizations by Company Structure



Demographics

Regions

Northeast

New England:

Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont

Middle Atlantic:

New Jersey, New York and Pennsylvania

Midwest

East North Central:

Illinois, Indiana, Michigan, Ohio and Wisconsin

West North Central:

Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota

South

South Atlantic:

Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia and West Virginia

East South Central:

Alabama, Kentucky, Mississippi and Tennessee

West South Central:

Arkansas, Louisiana, Oklahoma and Texas

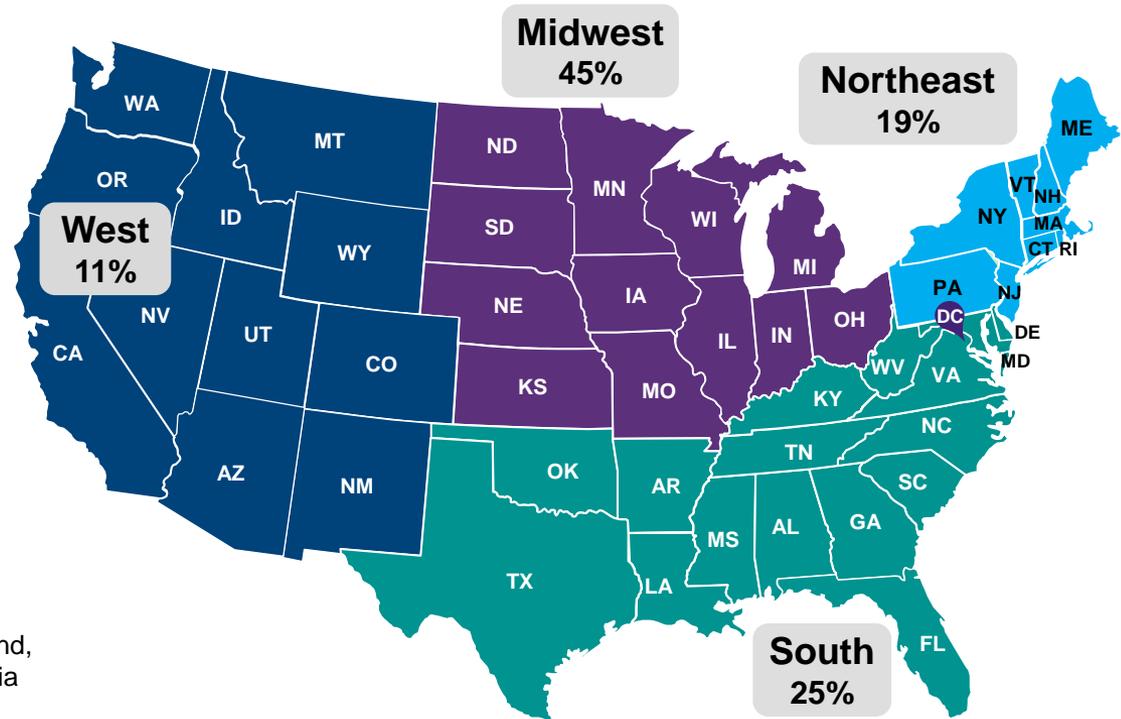
West

Mountain:

Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah and Wyoming

Pacific:

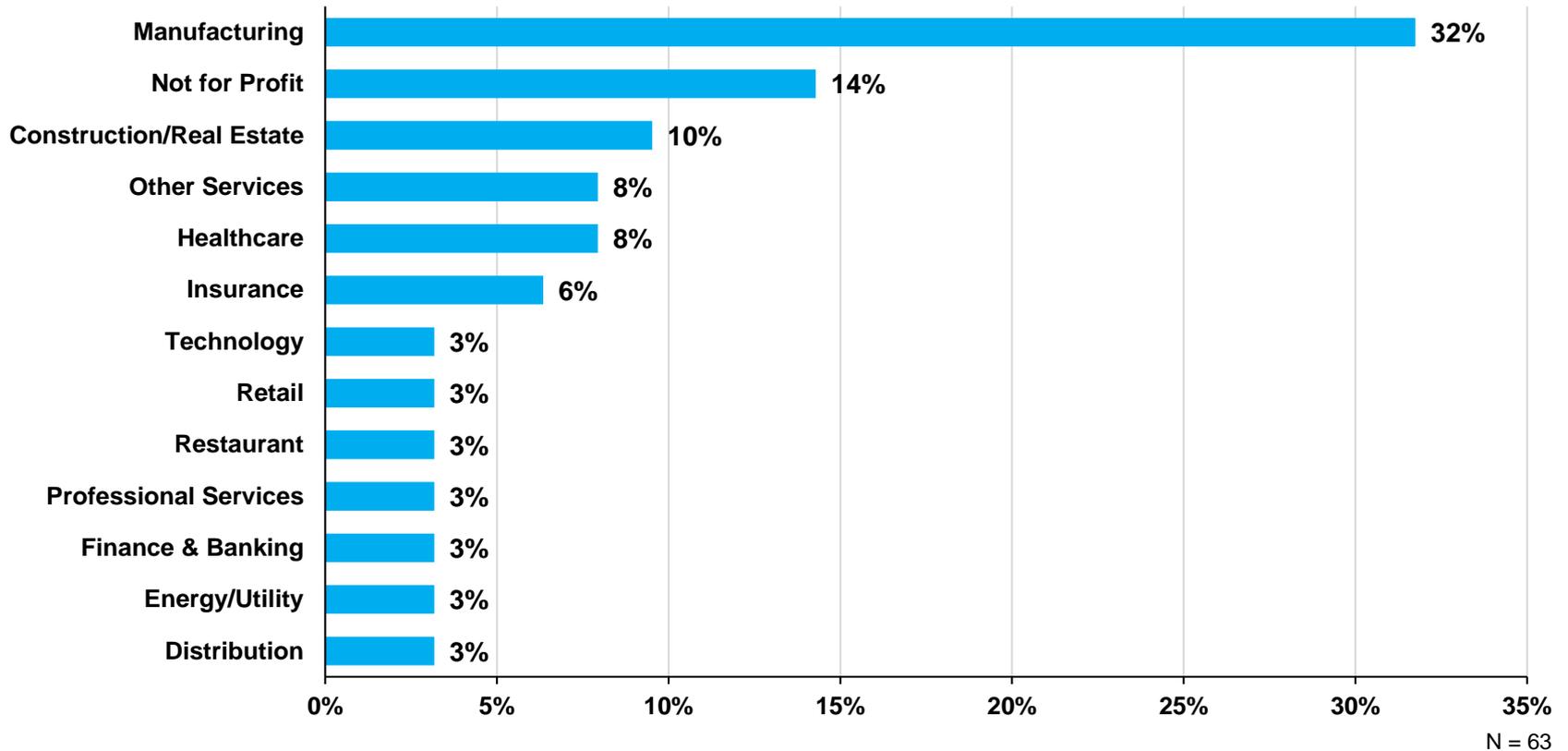
Alaska, California, Hawaii, Oregon and Washington



N=63

Survey Demographics

Organizations by Industry



Note: Some Not-for-Profit organizations reported an industry other than "Not-for-Profit." Survey responses have not been altered.



Board Structure and Compensation

Survey Highlights – Board Structure

Board Meeting Frequency

- Most boards meet **four** times annually.
- Not-for-profit boards meet **seven** times annually.

Committee Meeting Frequency

- Most committees meet **four** times annually.
- Meeting frequency varies widely from **once per year to monthly**.

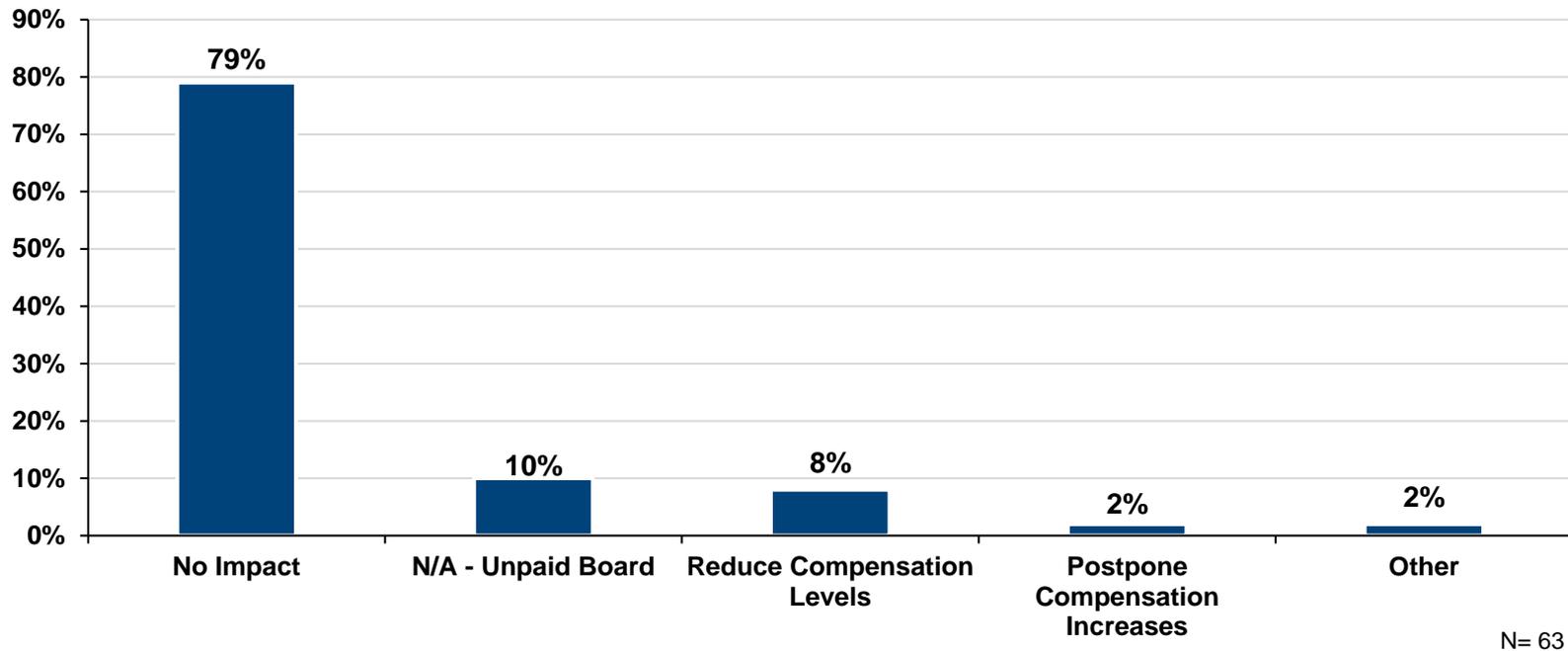
Number of Directors

- Most orgs. have **seven** directors.
- Not-for-profit orgs. have **ten** directors.
- Outside directors outnumber inside directors by a margin of **2:1**.

COVID-19 Impact on Board Compensation Levels

QUESTION: *What impact, if any, will COVID-19 have on your organization's Board compensation program for 2021?*

Effect of COVID-19 on 2021 Board Compensation Levels



Survey Highlights – Compensation

Annual Retainers

- Avg. annual retainer for Outside Board Chairperson is **\$51,143**.
- Avg. annual retainer for Outside Board Director is **\$43,989**.
- **16%** differential between Chairperson and Director annual retainers.

Board Meeting Fees

- Avg. Board meeting fee for Outside Board Chairperson is **\$1,360**.
- Avg. Board meeting fee for Outside Board Director is **\$2,442**.

Committee Fees

- Avg. additional retainer for Committee Chairperson is **\$9,737**.
- Avg. committee meeting fee is **\$1,439**.

Equity Compensation

- Of the **12%** of for profit orgs. who provide equity to Board Directors, the avg. annual equity grant is **\$60,980**.

Note: Compensation data reflect All Organizations.



Board of Directors Deferred Compensation Plans



Now Let's Hear from You!

Time for a Quick Poll Question

What is a Non-Qualified Deferred Compensation Plan (NQDCP)?

A “qualified” plan meets the requirements of Code Section 401(a)

- Covers broad, nondiscriminatory group of employees
- Employer receives tax deductions for plan contributions, but employees don't include balances as income until payments are made
- Subject to substantive provisions of ERISA including fiduciary rules and requirements that all assets be held in trust

A “non-qualified” plan does not meet the requirements of Code Section 401(a)

- Covers corporate executives, directors or highly compensated employees
- No employer deduction until participants recognize income at distribution
- Must satisfy Code Section 409A rules
- Generally exempt from most provisions of ERISA
- Assets may not be held in trust unless trust assets remain subject to company's creditors (so-called “rabbi trust”)
- May be established for one individual (e.g., under an employment agreement), or for a group of highly compensated executives

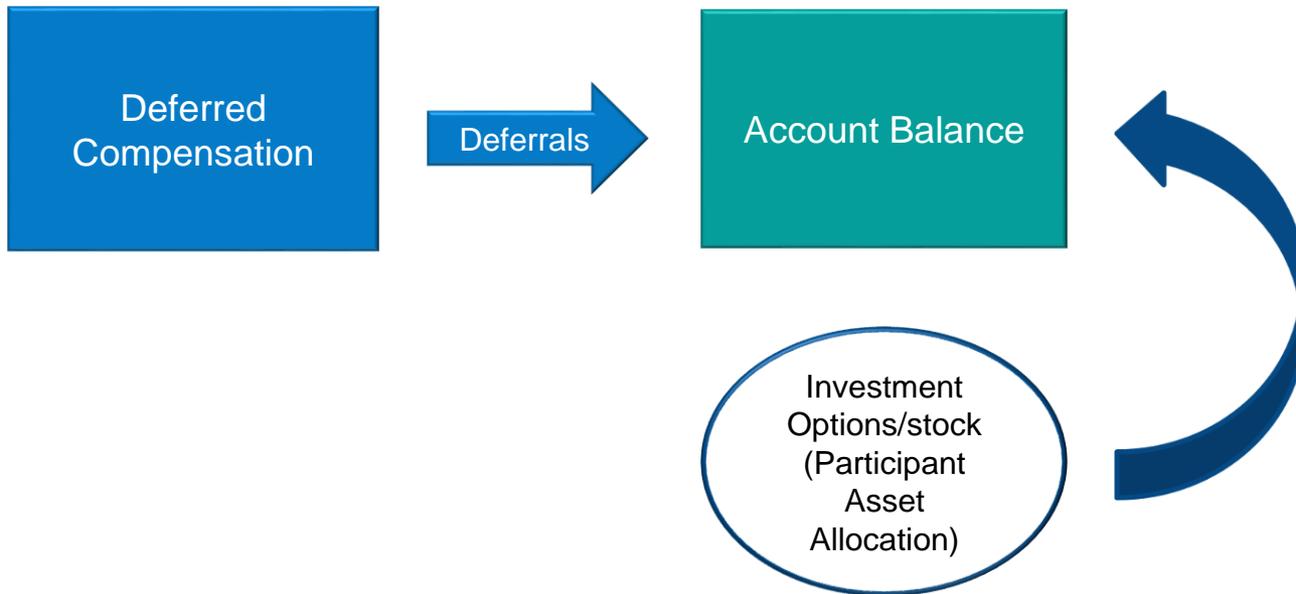
Contemporary Plan Design

Director Contributions	Deferral of up to 100% director's cash compensation to include retainers and/or meeting fees, RSUs and/or equity awards on a pre-tax basis.
Investment Options	Typically a broad range of well-known investment managers and/or company stock. Asset allocation changes, rebalances and transfers are allowed daily.
Distribution Events	<ul style="list-style-type: none"> • Separation from service • Specified date • Death
Forms of Payment	<ul style="list-style-type: none"> • Lump sum • Annual installments up to 15 years. Typically, subsequent installments are paid on a date during the calendar year selected by the Company.
Subsequent Deferrals	<ul style="list-style-type: none"> • Must be made 12 months before scheduled distribution date. • Must be re-deferred for at least 5 years.
Benefit Security	Assets can be held in a separate Rabbi Trust to pay Plan benefits. In order to maintain the Plan's tax-deferred status, Rabbi Trust assets are subject to the claims of creditors of the Company in the event of its bankruptcy.

How the Plan Works

Director's View

The account balance is **indexed** to the asset allocation from a 'menu' of investment portfolios, fixed rate or company stock.

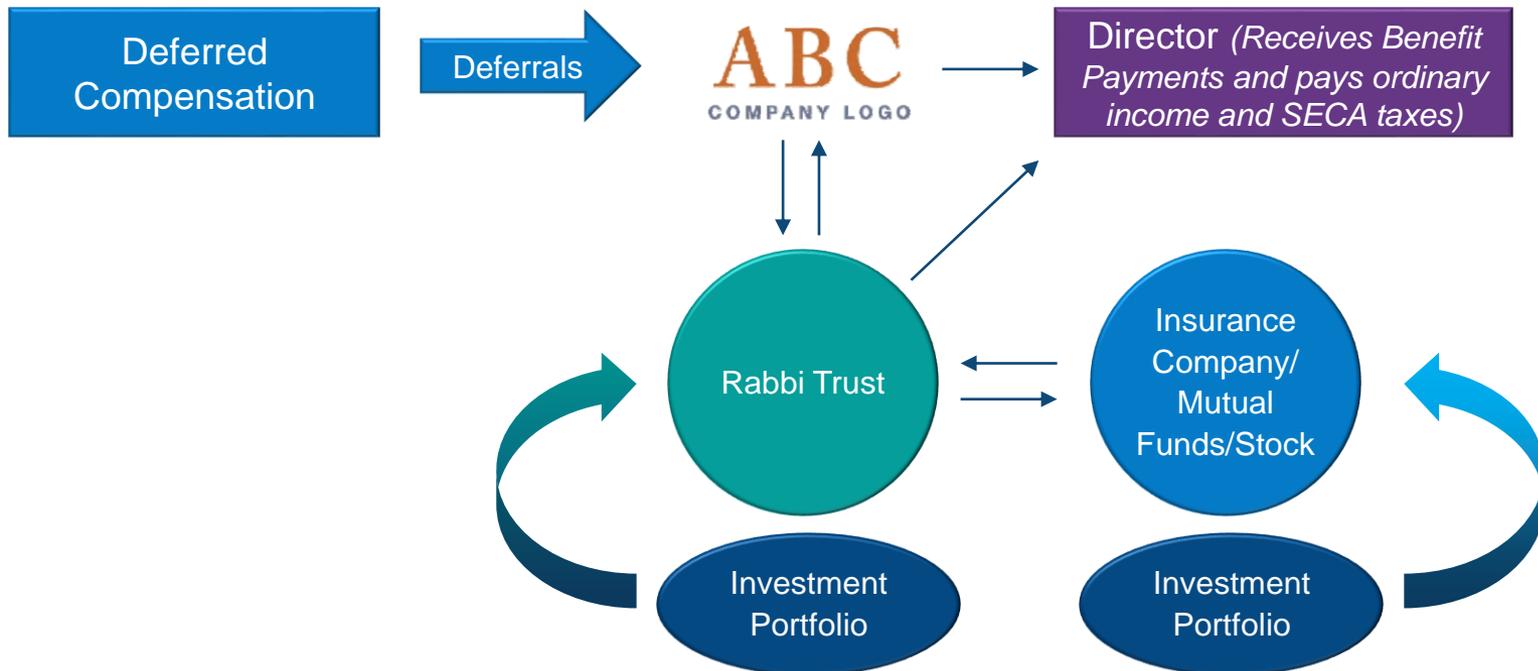


How the Plan Funding Works

Employer's View

Employer may fund the plan with either taxable or non-taxable investments (COLI).

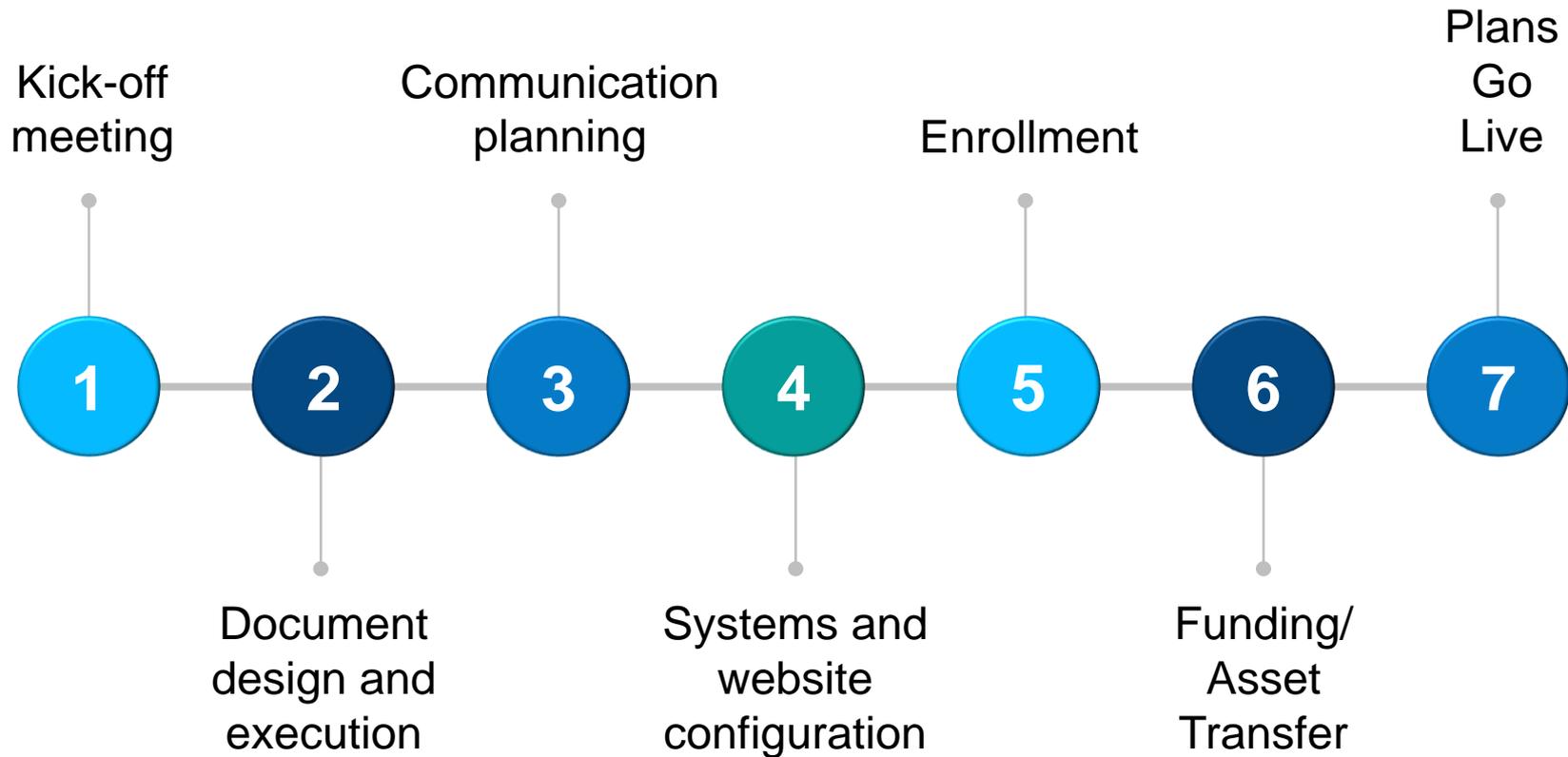
- Mutual fund investment gains are taxable to the plan sponsor.
- The insurance company charges fees and expenses which includes the cost of insurance.



Tax Consequences

Tax Event	Director	Employer
Deferrals	Deferred tax	Deferrals are current income to employer (no deduction for rabbi trust contributions)
Earnings	Pre-tax	Taxable interest, capital gain (unless COLI)
Distributions	Earned (ordinary) income and SECA Tax	Compensation deduction

Implementation Milestones

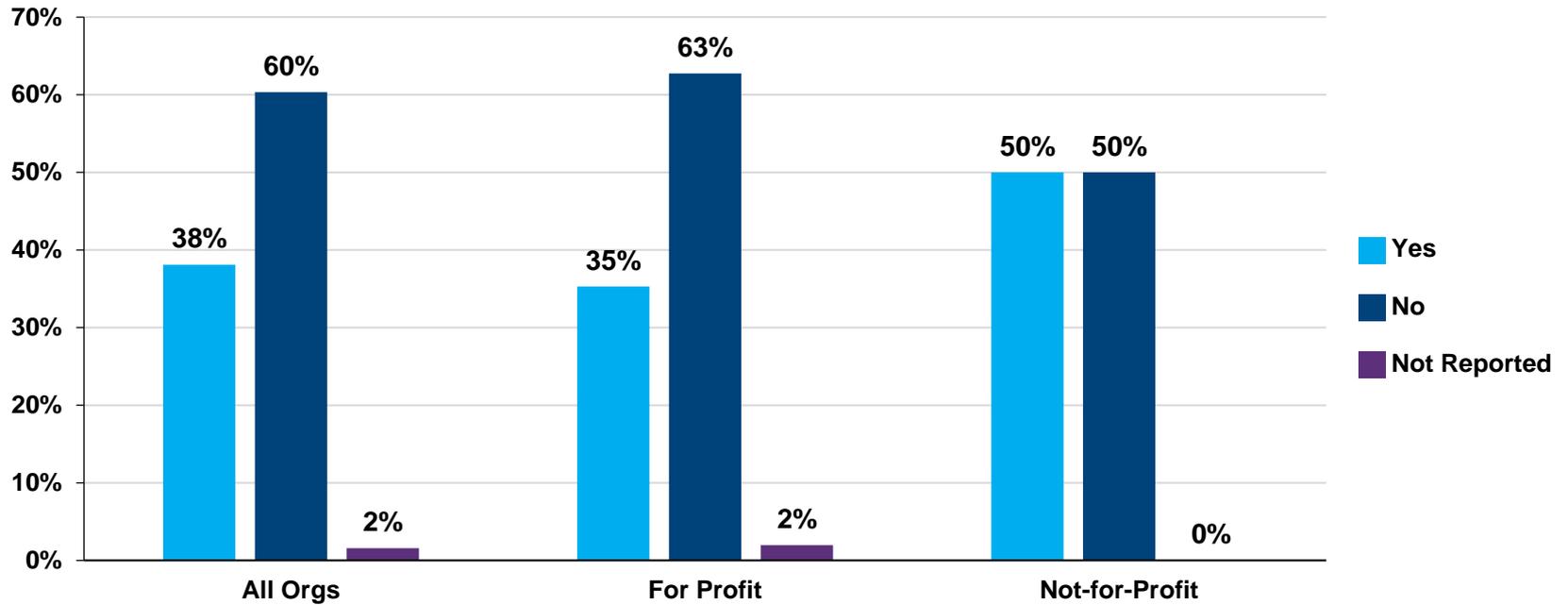




Board Administration

Job Descriptions

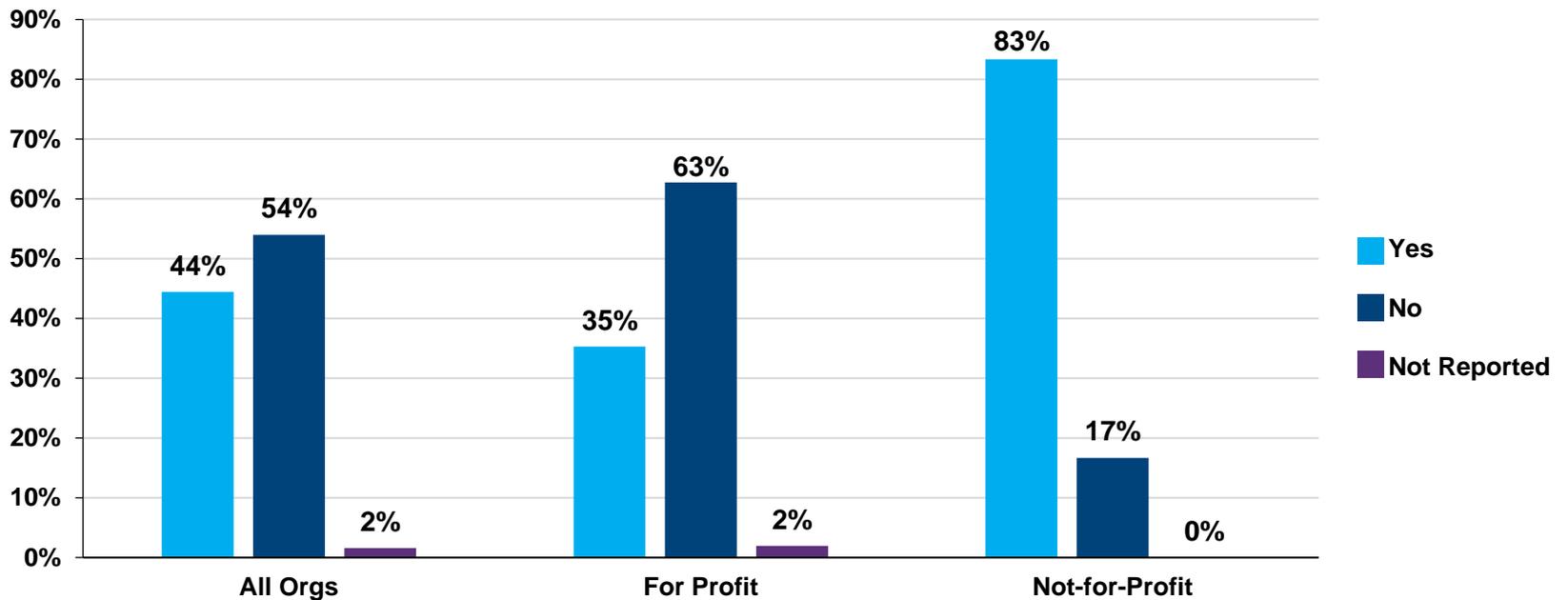
Formal Job Description for Director Role



N= 63

Committee Charters

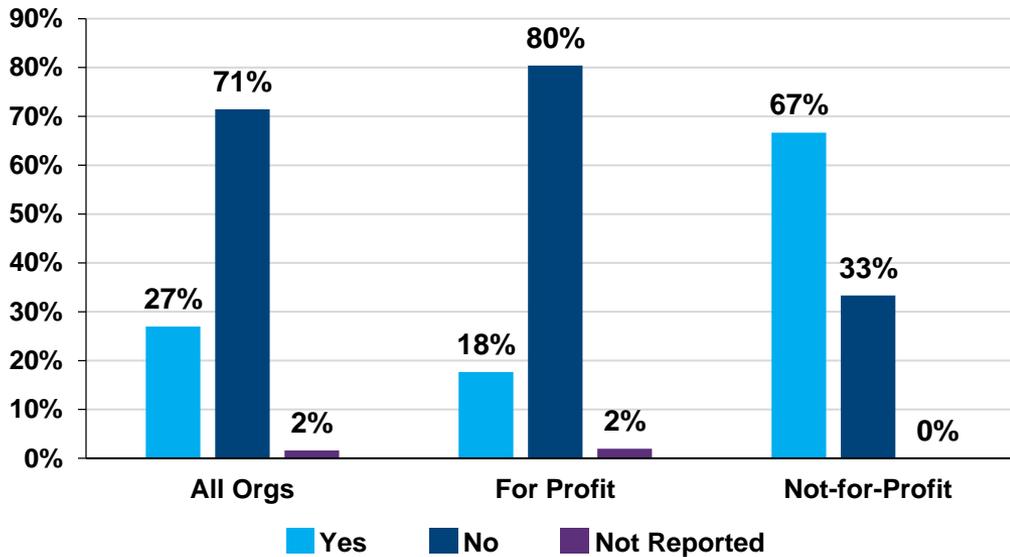
Formal Committee Charter in Place



N= 63

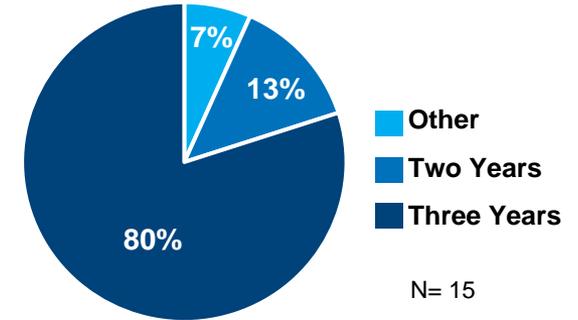
Term Limits – Prevalence

Term Limits in Place



N= 63

Duration of Director Terms (Years)

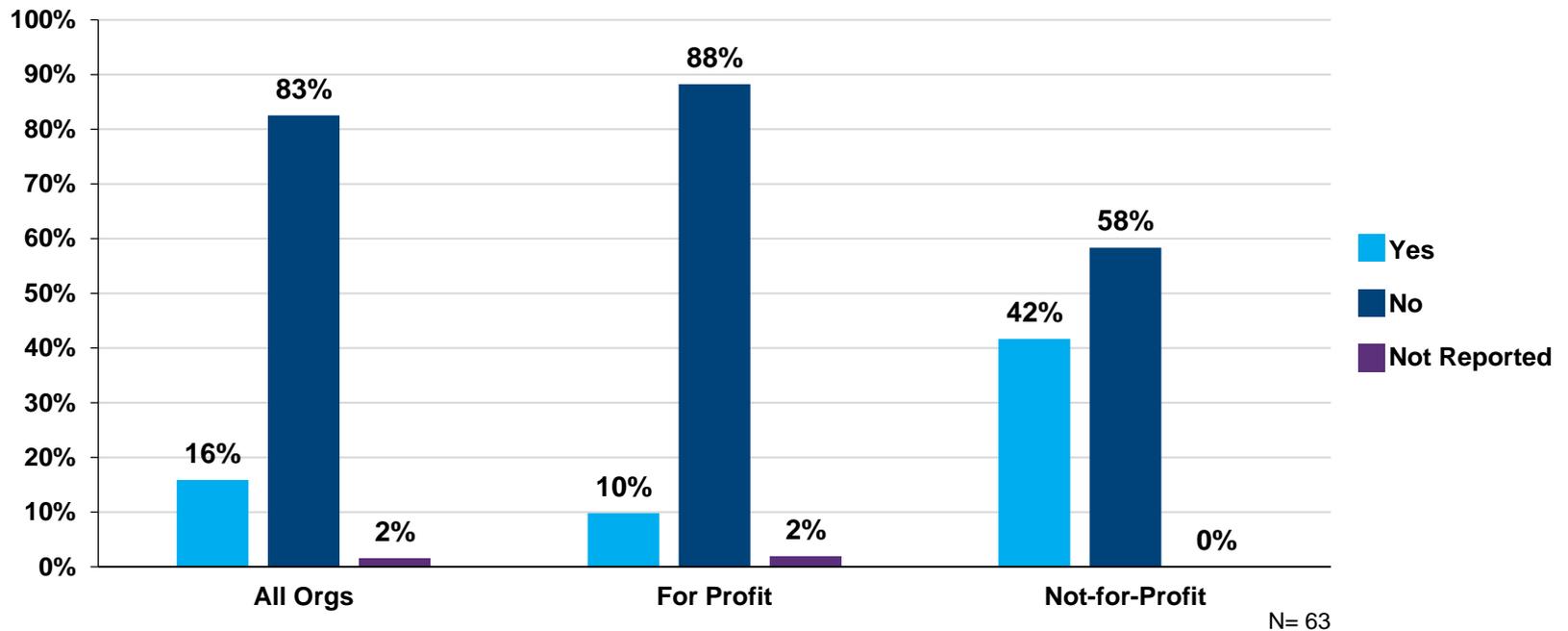




Diversity, Performance Management and Benchmarking

Diversity

Prevalence of Diversity Policies



Gender Diversity

- Only **40%** of private companies report having at least one female on their boards (as compared to **100%** female representation at S&P 500 public companies).
- *In terms of gender diversity, companies with sustained high representation of female directors (three or more in at least four of five years) outperformed those with sustained low representation by 84% on return on sales, 60% on ROIC, and 46% on ROE.*
Source: Private Company Director: The Magazine for Private Company Governance
- Private companies, only 7% of board seats (as a percentage of overall directors) held by women. (see chart)

Comparison of Private Versus Public Company Board

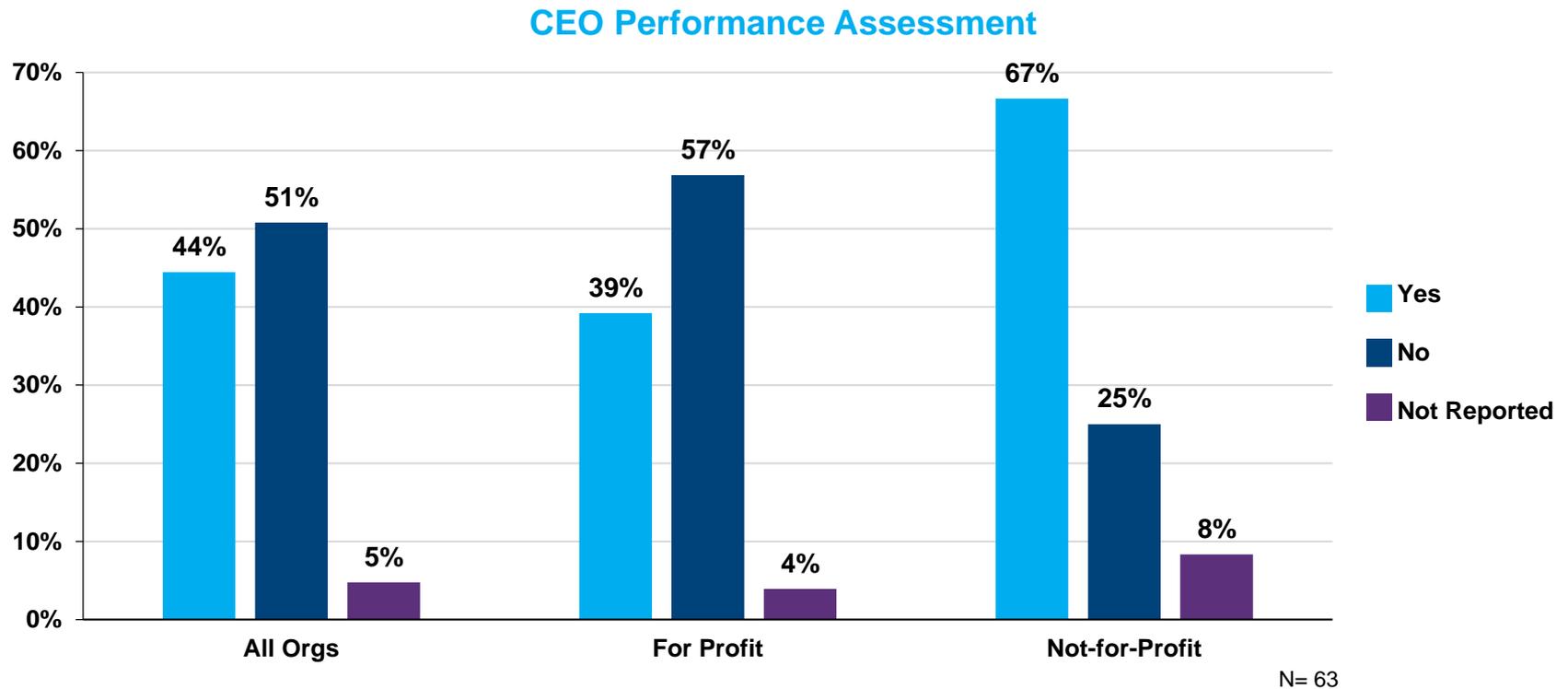
	Private Companies	Recent IPO	Russell 3000	S&P 500
Women Directors	7%	18%	20%	26%
Boards with at Least One Woman	40%	82%	89%	100%
Boards with Two or More Women	10%	41%	56%	92%

Source: 2019 Study of Gender Diversity in Private Company Boardrooms

Why Evaluate CEO and Board Performance?

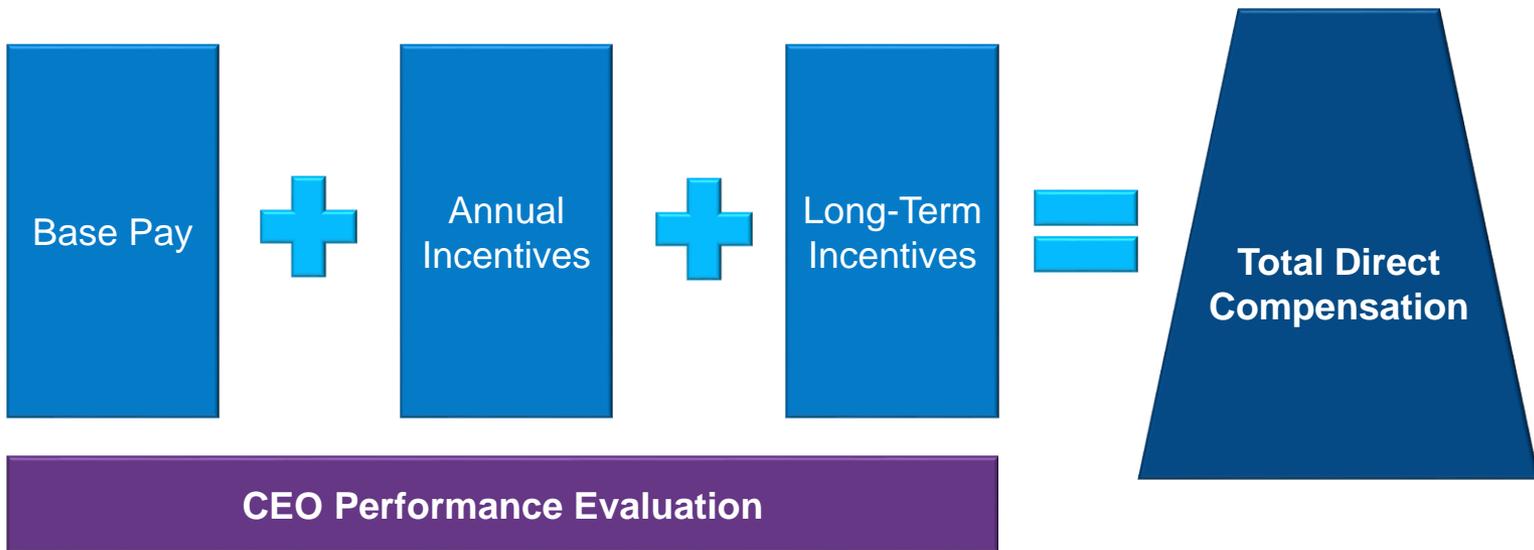
CEO Performance Evaluation	Board Performance Evaluation
<ol style="list-style-type: none">1. Provide timely and focused feedback to the CEO about how well he/she is performing in the key performance areas identified by the Board.2. Obtain objective criteria to assist with CEO base salary increase and bonus/long-term incentive compensation decisions.3. Identify developmental opportunities.	<ol style="list-style-type: none">1. Determine whether the Board is structured appropriately to provide adequate oversight.2. Determine to what extent each Board Member (including the Chairperson) is aligned with the organization's mission, vision, and values.3. Ensure that all Board Members are acting with the company's best interests in mind (fiduciary duty).

CEO Performance Appraisals



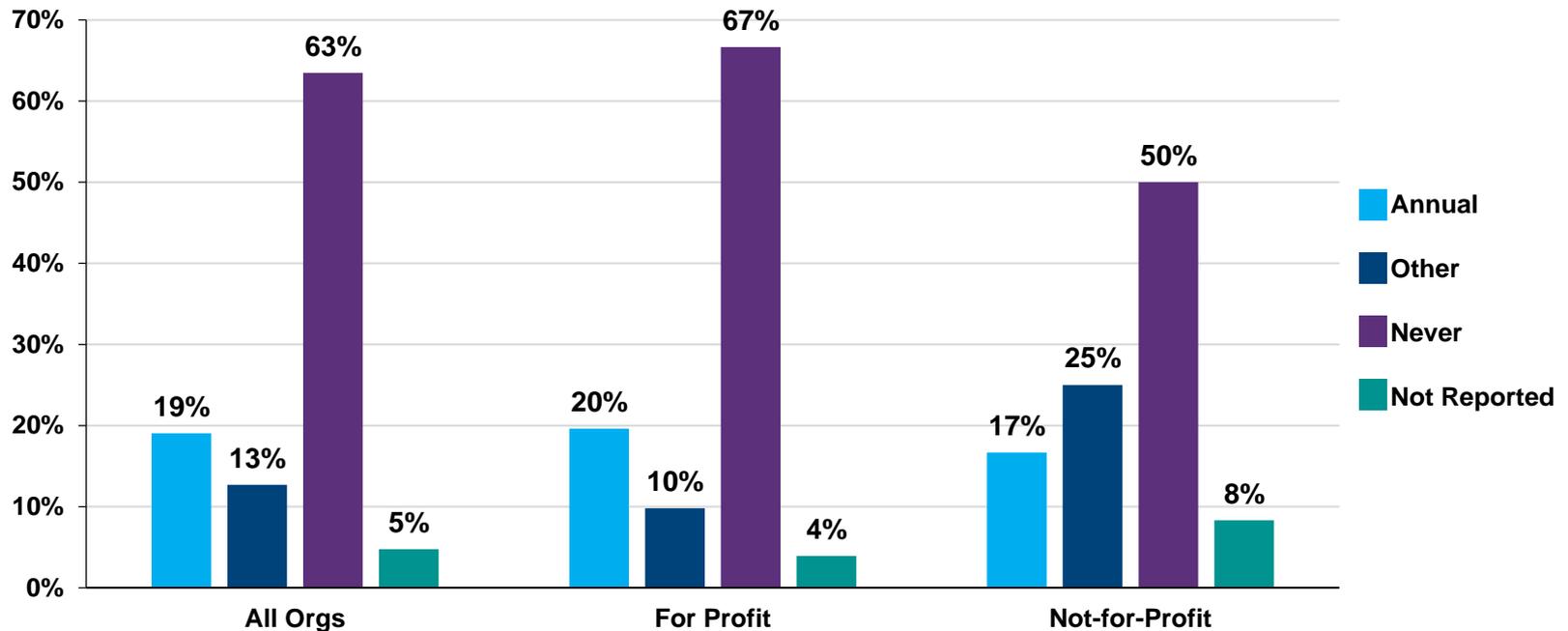
Link Between CEO Performance Evaluation and Executive Compensation Decisions

The CEO Performance Evaluation provides the foundation for a number of critical executive compensation decisions.



Director Performance Appraisals

Director Performance Assessment - Frequency



N= 63



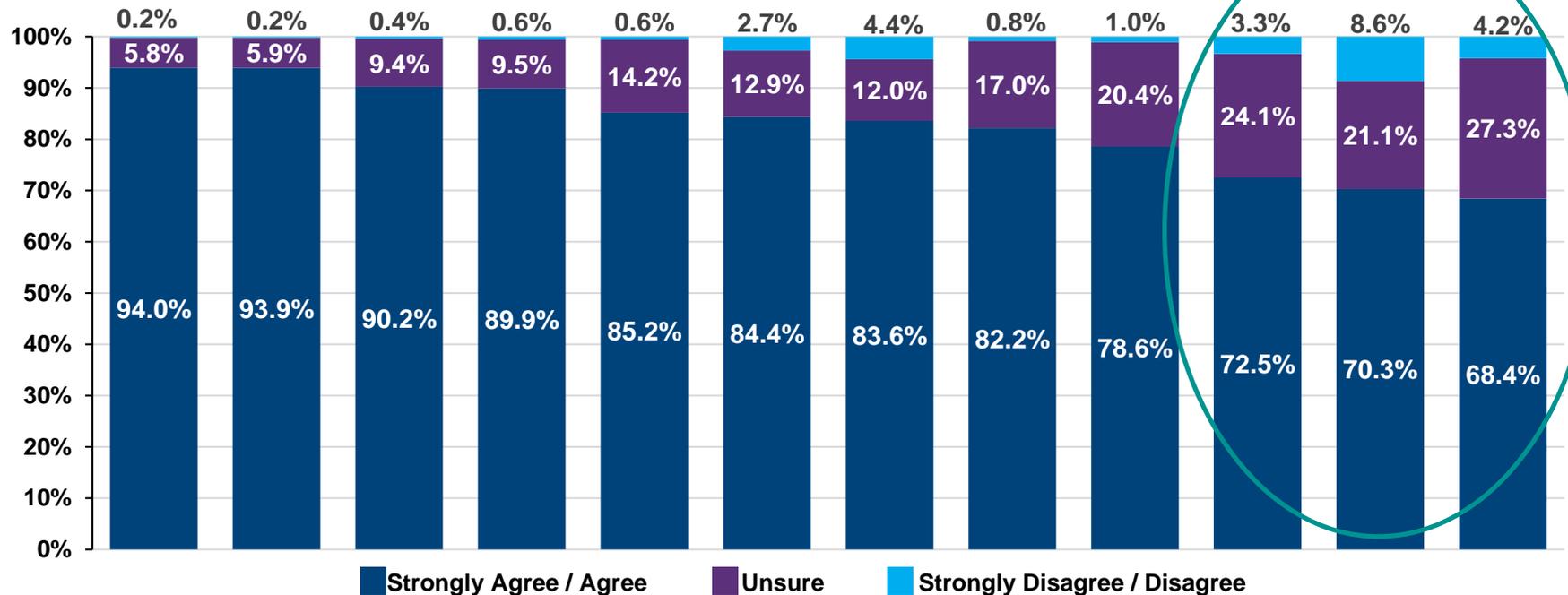
Now Let's Hear from You!

Time for a Quick Poll Question

Board Member Performance Illustration

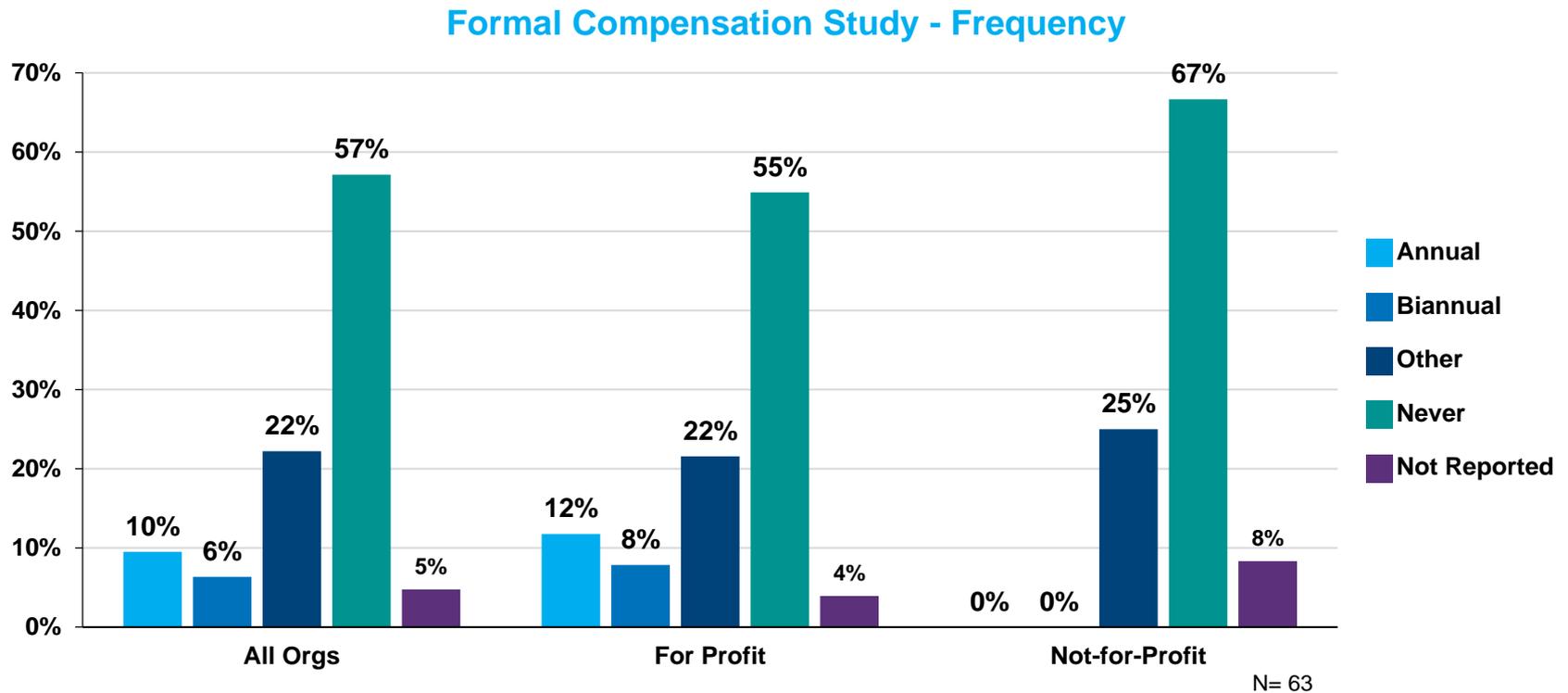
Establishing relativity is a helpful benchmark for assessing Director performance.

Performance Evaluation:
Aggregate Findings by Director



Lower-Performing Directors

Formal Compensation Study – Frequency





Now Let's Hear from You!

Time for a Quick Poll Question

For More Information

If you have questions about this survey or Newport services,
or would like a **COMPLIMENTARY 30-minute review**
of your Board's pay program, please contact:

Compensation Consulting Practice

Dennis Koletsos, M.B.A.

Engagement Leader and Survey Administrator

Chicago, IL

312-488-6767

dennis.koletsos@newportgroup.com

Rena Somersan, M.B.A.

Managing Principal

Milwaukee, WI

414-236-0470

rena.somersan@newportgroup.com

Non-Qualified Consulting Practice

David Baum

Regional Director

Dallas, TX

469-621-1032

david.baum@newportgroup.com

NEWPORTTM

retirement services

1350 TREAT BOULEVARD, SUITE 300, WALNUT CREEK, CA 94597

VISIT **NEWPORTGROUP.COM**

Newport Group, Inc. and its affiliates provide recordkeeping, plan administration, trust and custody, consulting, fiduciary consulting, insurance and brokerage services.

This material has been prepared for informational purposes only. It is not intended to provide, and should not be relied on for, tax, legal or accounting advice. Consult your own tax, legal and accounting advisors before making any decisions. Newport and its affiliates do not provide tax, legal or accounting advice. 20210618-1666219