

CEO Pay at S&P 1500 Companies: 2021

Trends in Pay Levels and Practices

Willis Towers Watson's
Global Executive Compensation Analysis Team

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Methodology

- This year's analysis is based on 1,010 S&P 1500 companies with a constant CEO incumbent in fiscal years 2018 – 2020, broken down by indices as follows:
 - S&P Large-cap 500: 330 companies
 - S&P Mid-cap 400: 278 companies
 - S&P Small-cap 600: 402 companies
 - Pay changes in 2019/2020 detailed in this report are compared with findings in last year's S&P 1500 CEO pay report for 2018/2019. Data for 2019 are based on 1,006 S&P 1500 companies with a constant CEO incumbent for fiscal years 2017 – 2019, while 2018 data are based on 1,018 S&P 1500 companies with a constant CEO incumbent for fiscal years 2016 – 2018.
- Industry breakdowns are based on the 11 Global Industry Classification Standard (GICS) sectors.
- Pay definitions used within the study:
 - Total pay: Total pay reported in the Summary Compensation Table (SCT)
 - Total direct compensation (TDC): Target cash + grant-date value for stock options, time-vested restricted stock (TVRS) and performance plans
 - Earned pay: Salary + annual and long-term incentives earned + value of vested and exercised awards
 - Realizable pay: Earned cash + option/TVRS intrinsic value + long-term incentive payout values for award cycles that start and end during the period
- CEO pay ratio:
 - Data for CEO compensation, median employee (ME) compensation and CEO pay ratio data was used as reported in year-end proxy disclosures. A three-year comparison of the 1,010 S&P 1500 companies were used for this year's sample.



This report was completed by Willis Towers Watson's Global Executive Compensation Analysis Team.

Financial data were sourced from Standard and Poor's Capital IQ.

Key findings

Total pay

4.7%	Increase in <u>target total direct pay</u> for S&P 1500 CEOs. Target pay for S&P 500 large-cap CEOs increased 5.4%. Pay for S&P 600 small-cap CEOs grew just 3.7% over the prior year, while S&P 400 CEOs saw a 4.4% increase. These figures reflect a slower rate of growth compared with the previous cycle.
3.9%	Increase in <u>earned pay</u> for S&P 1500 CEOs, down from the 5.5% increase observed in 2019. Mid-cap CEOs saw the biggest shift in earned pay, moving from just a 0.2% bump in the 2018 – 2019 cycle to a 7.6% increase in 2020.
47.5%	Percentage of S&P 1500 CEOs who did <u>not</u> receive a base salary increase in 2020. This contributed to no change in base salary at the median.
102x	2020 median ratio of CEO pay to median employee for S&P 1500 companies in this study. The pay gap at S&P 500 companies has widened the most over the past three years, reaching 174:1 in 2020. Conversely, the 2020 pay ratio for small-cap CEOs has returned to its 2018 level of 57:1 after an increase to 63:1 in 2019. Median pay ratios vary considerably by industry sector.
3.5x	2020 median target pay gap between CEOs and other named executive officers (NEOs) at S&P 1500 companies in this study.

Key findings

Annual bonuses

Target bonus in 2020		Bonus payouts earned in 2020	
2.5%	Increase in annual target bonus values for S&P 1500 CEOs	-1.6%	Median change in annual bonus payout for S&P 1500 CEOs in 2020, a slower rate of decline than the -3.2% change observed in the prior year
18%	of companies increased their target annual bonus in 2020, a slight drop from 19% that did so in 2019	99%	Average annual bonus payout as a percentage of target for S&P 1500 CEOs, a drop from 102% in 2019
125%	Median target bonus as a percentage of base salary, reflecting no change from 2019	20% of CEOs received a bonus at or below 50% of target	7 of 11 GICS industry sectors paid fewer bonuses at or above target compared with 2019

Key findings

2020 long-term incentives (LTI)

Target LTI	5.1%	Median increase in target LTI value in 2020, a lower rate of increase compared with the 7.1% bump observed in 2019	459%	Median target LTI value as a percentage of base salary, an increase from 443% in the prior year
	51%	of LTI value delivered through performance plans in 2020, with 78% of companies issuing this type of award	74%	of S&P 1500 companies issued time-vested restricted stock in 2020; this type of award comprised 34% of LTI value in 2020, up slightly from 33% in 2019
Earned LTI	5.5%	Median increase in earned LTI value in 2020, down from 8.4% in 2019	+16.7	Percentage point increase at the median for S&P 400 earned LTI , moving from a 2% decrease in 2019 to a 14.7% increase in 2020 .
	107%	Average payout as a percentage of target for LTI awards granted and completed during the 2018 – 2020 cycle	-15.8	Percentage point decrease at the median for S&P 600 earned LTI , shifting from a 6.8% increase in 2019 to a 9% decrease in 2020

General pay data

Pay adjustments and levels

Total direct pay for CEOs in 2020 grew at a slower rate compared with the prior year, particularly at mid- and small-cap companies, driven by lower target bonus and LTI levels.

Pay element	Median change 2018 – 2019				Median change 2019 – 2020			
	S&P 1500	S&P 500	S&P 400	S&P 600	S&P 1500	S&P 500	S&P 400	S&P 600
Base salary	2.5%	0.0%	2.0%	3.0%	0.0%	0.0%	2.0%	1.0%
Target annual bonus	3.0%	3.0%	3.0%	3.0%	2.5%	2.4%	2.9%	2.0%
Earned bonus	-3.2%	-4.7%	-3.3%	0.0%	-1.6%	-2.8%	-4.0%	0.0%
Target cash compensation	3.0%	3.0%	3.0%	3.0%	2.1%	1.0%	2.6%	2.0%
Earned cash compensation	0.0%	-1.9%	0.0%	1.6%	0.0%	-1.5%	-0.2%	0.7%
Target long-term incentives	7.1%	6.2%	6.6%	8.4%	5.1%	6.7%	4.2%	3.7%
Earned long-term incentives	8.4%	23.5%	-2.0%	6.8%	5.5%	14.9%	14.7%	-9.0%
Total pay (SCT)	7.3%	7.4%	5.1%	8.0%	3.3%	3.5%	3.4%	2.9%
Total pay (SCT) — Excluding CIP and NQDC*	4.2%	3.9%	2.6%	5.7%	3.6%	3.4%	3.5%	3.8%
Total direct compensation (TDC)	6.0%	5.6%	6.0%	6.4%	4.7%	5.4%	4.4%	3.7%
Earned pay	5.5%	13.1%	0.2%	4.8%	3.9%	8.6%	7.6%	0.0%

Earned pay grew modestly in 2020, supported by gains in earned LTI



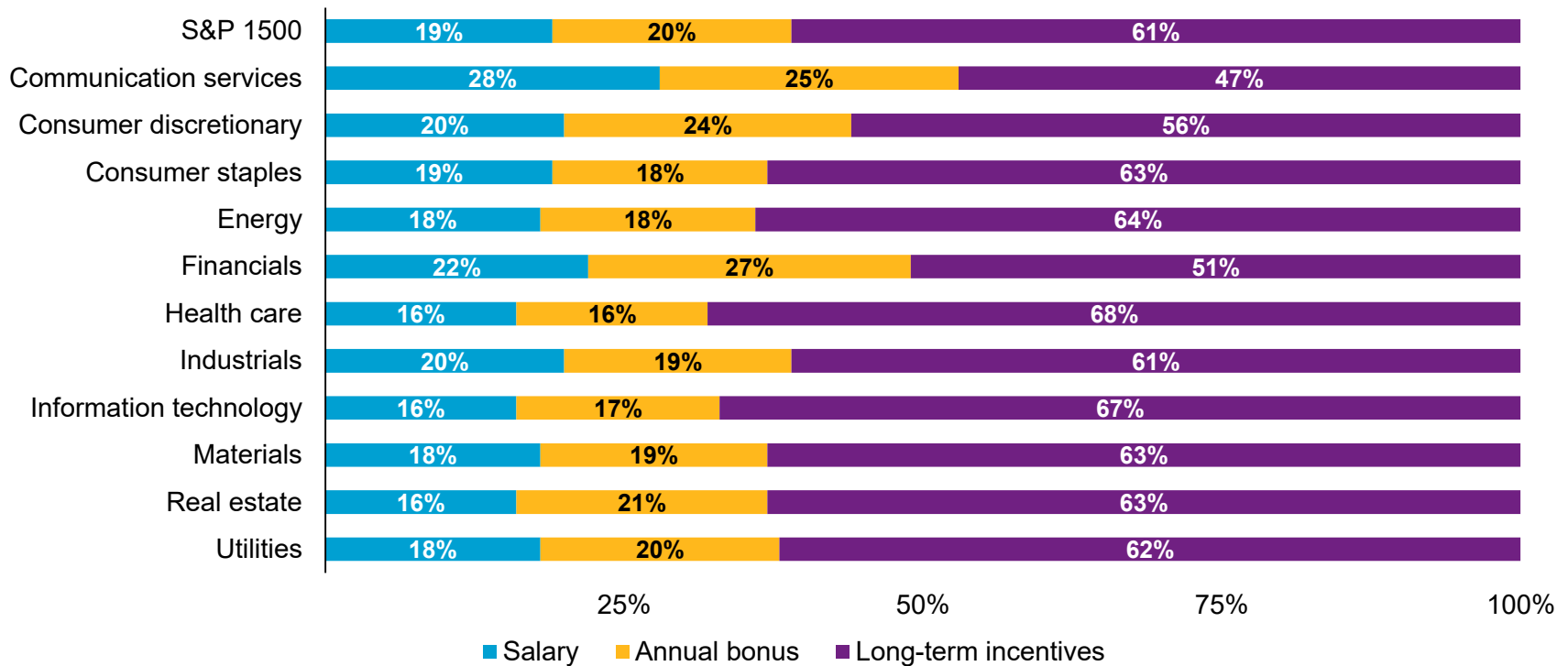
Earned annual bonuses continued to fall in 2020 but at a slower rate than the previous cycle



Fluctuation in earned LTI for S&P 400 and S&P 600 CEOs balanced the overall S&P 1500 year-over-year change in 2020

Target total pay mix by sector

Total direct compensation mix by sector, 2020



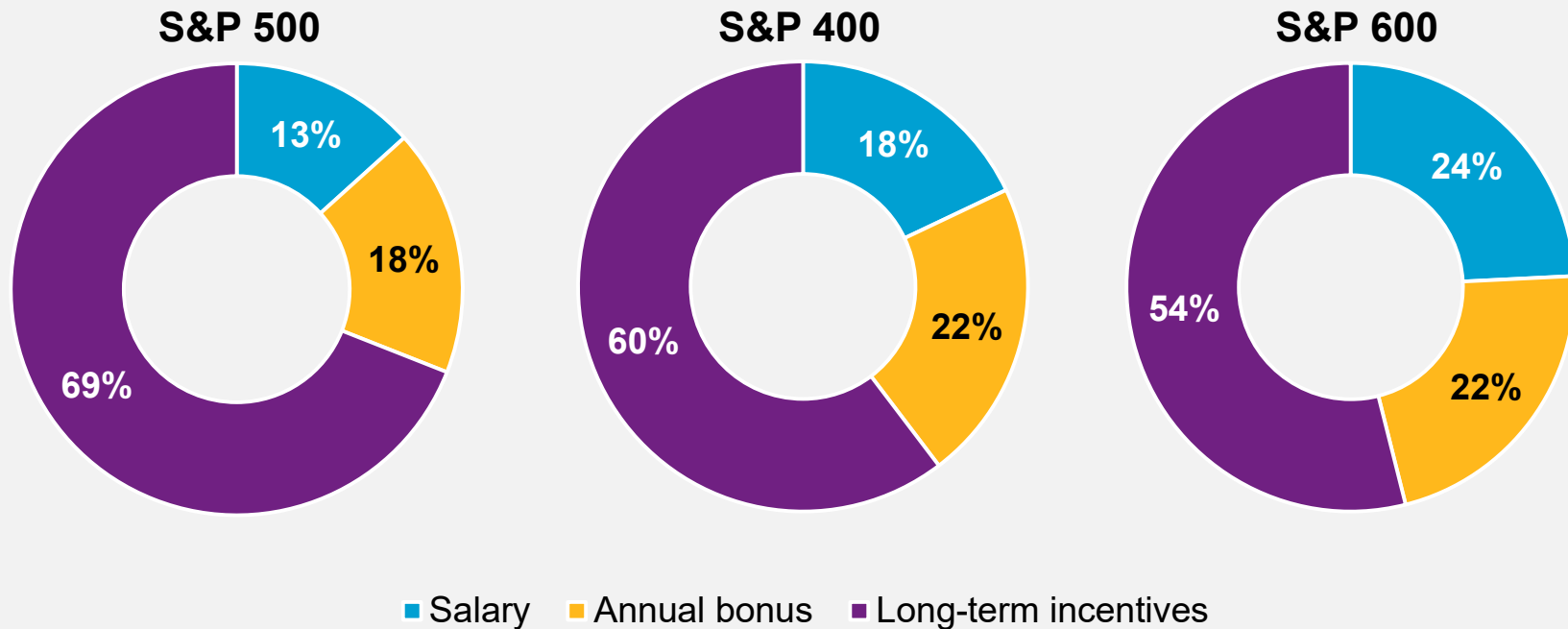
Most industries primarily deliver pay through LTI; only the communications services sector provided less than half of pay in LTI.



Target total pay mix by company size

LTI is the dominant pay component for S&P 500 CEOs.

Average CEO pay mix, 2020



Base salaries remained relatively flat in 2020.

	Median salary increase in 2020	Prevalence of CEOs with...		
		No salary increase in 2020	No salary increase over three years	Salaries >\$1M in 2020
S&P 1500	0.0%	47.5%	30.2%	43.0%
S&P 500	0.0%	55.4%	35.8%	75.2%
S&P 400	2.0%	45.0%	27.3%	44.2%
S&P 600	1.0%	42.9%	27.6%	15.7%
Communication services	0.0%	62.5%	40.6%	45.5%
Consumer discretionary	0.0%	54.5%	38.6%	61.7%
Consumer staples	0.3%	41.9%	16.3%	57.8%
Energy	0.0%	66.7%	46.7%	46.7%
Financials	0.0%	56.5%	43.5%	40.0%
Health care	3.0%	26.9%	14.3%	42.9%
Industrials	0.0%	43.3%	20.7%	39.5%
Information technology	0.0%	53.7%	32.8%	26.1%
Materials	2.6%	36.2%	19.0%	62.7%
Real estate	0.0%	46.5%	34.9%	24.1%
Utilities	2.7%	28.6%	7.1%	57.1%

7 of 11 sectors had **no salary increase** at the median in 2020.



Short-term incentives

Annual bonus targets and results



Mid-cap CEOs received larger target bonus increases despite the fact that the number of companies that made an adjustment remained flat.

Fewer S&P 600 CEOs received a target bonus increase, while both S&P 500 and S&P 600 CEOs received smaller increases compared with the prior year.

Index	2019		2020	
	Percentage of companies increasing annual target bonus percentage	Median percentage point increase in target annual bonus	Percentage of companies increasing annual target bonus percentage	Median percentage point increase in target annual bonus
S&P 1500	19%	+13	18%	+11
S&P 500	20%	+15	21%	+11
S&P 400	19%	+10	19%	+20
S&P 600	16%	+10.5	14%	+10

Note: Shift defined as an increase in target bonus greater than or equal to 5%; results exclude companies providing nominal salaries of \$0 or \$1 to their CEO.



Bonus opportunities remained steady due to fewer salary increases and smaller adjustments to bonus targets.

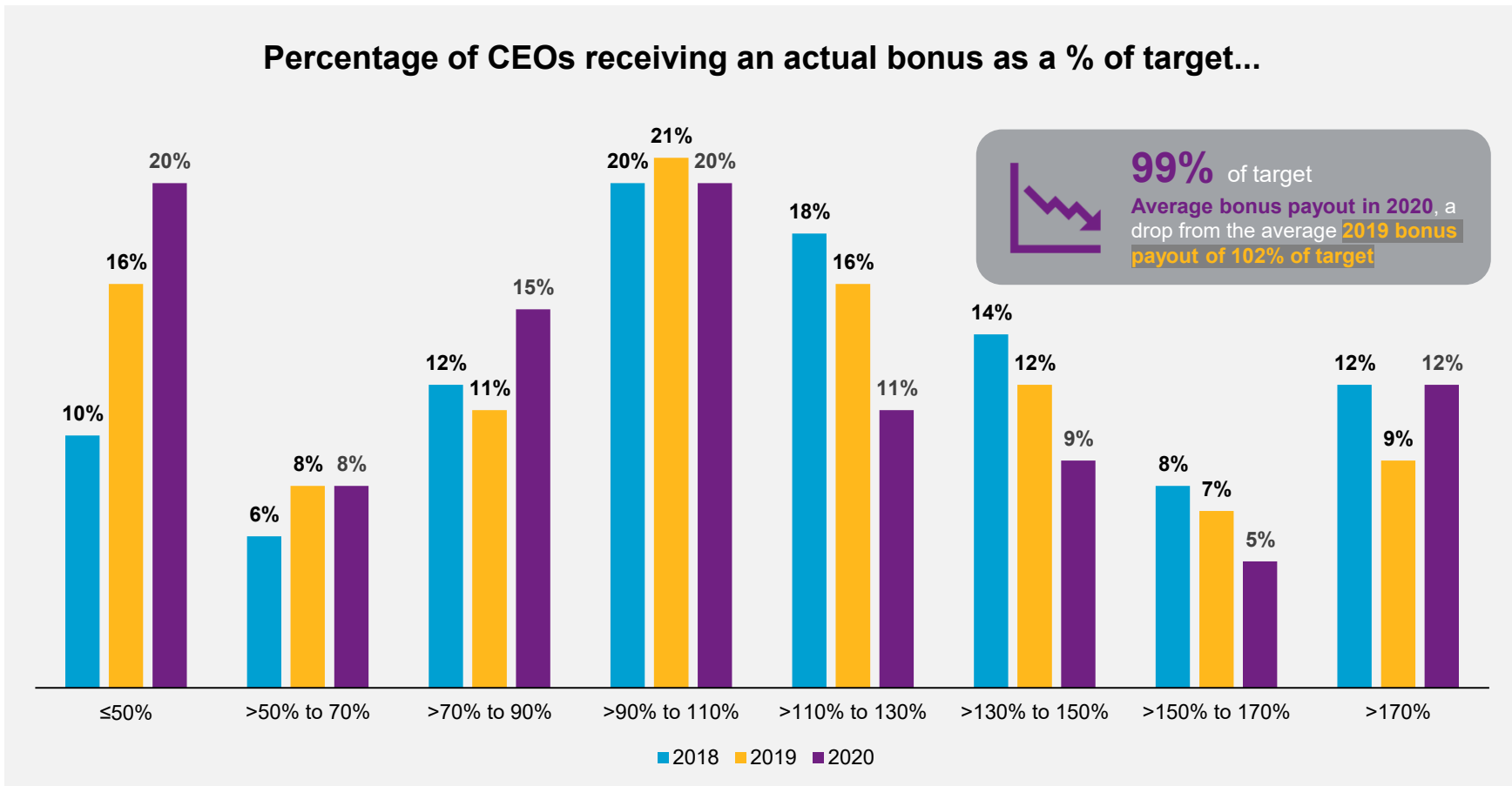
S&P 500	Target bonus as % of base salary			Target LTI as % of base salary		
	2018	2019	2020	2018	2019	2020
10th percentile	119%	120%	120%	387%	404%	421%
25th percentile	130%	130%	135%	522%	527%	562%
Median	150%	150%	150%	697%	726%	744%
Average	162%	166%	168%	798%	837%	864%
75th percentile	180%	200%	200%	854%	900%	933%
90th percentile	200%	225%	225%	1100%	1211%	1284%

S&P 400	Target bonus as % of base salary			Target LTI as % of base salary		
	2018	2019	2020	2018	2019	2020
10th percentile	100%	100%	100%	208%	199%	206%
25th percentile	100%	100%	100%	295%	307%	302%
Median	120%	125%	125%	411%	422%	420%
Average	124%	126%	129%	473%	490%	535%
75th percentile	135%	140%	150%	595%	583%	593%
90th percentile	160%	160%	175%	770%	859%	909%

S&P 600	Target bonus as % of base salary			Target LTI as % of base salary		
	2018	2019	2020	2018	2019	2020
10th percentile	75%	75%	75%	90%	96%	93%
25th percentile	100%	100%	100%	174%	169%	181%
Median	100%	100%	100%	280%	305%	321%
Average	107%	108%	112%	321%	366%	360%
75th percentile	120%	120%	125%	425%	436%	456%
90th percentile	150%	150%	150%	596%	621%	626%

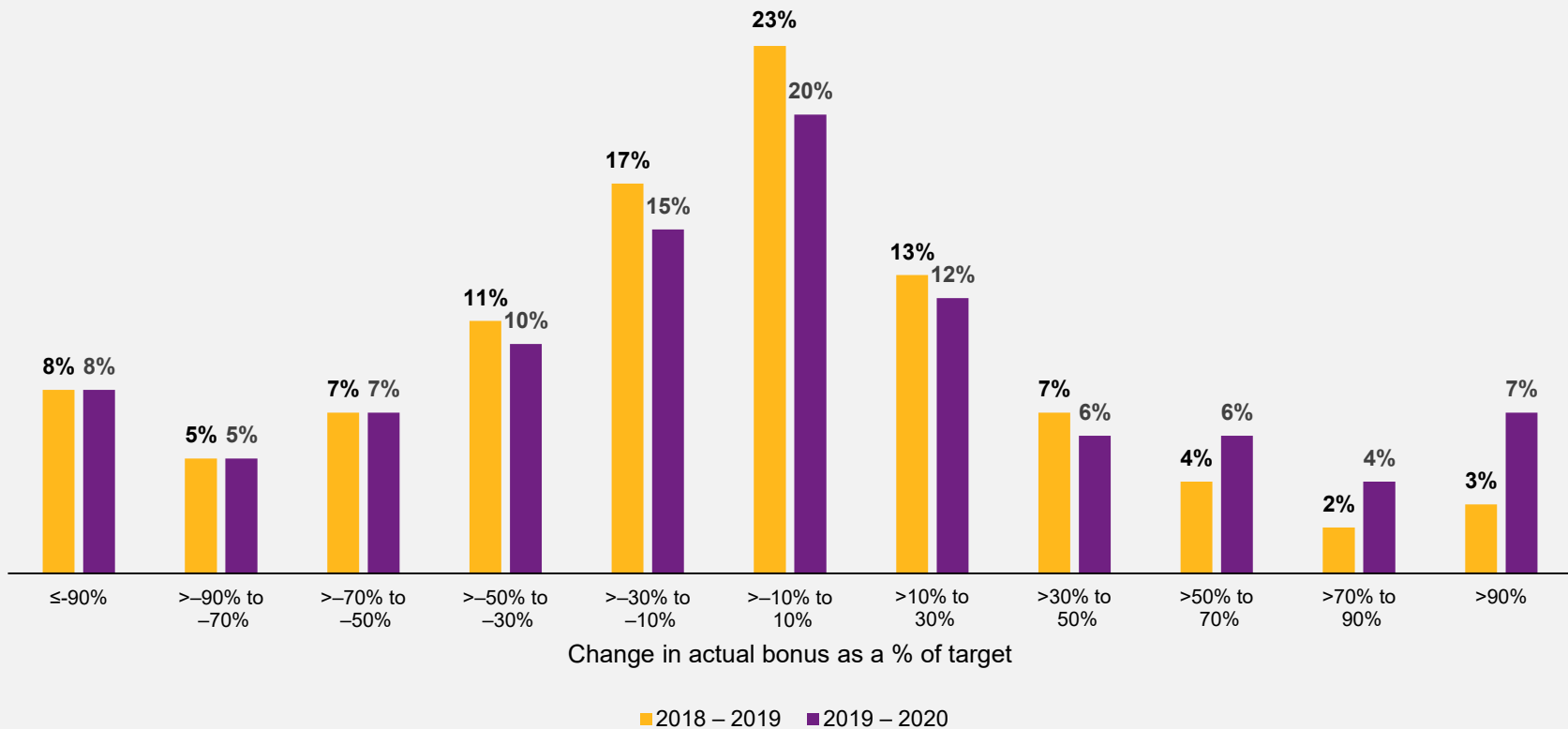
Bonus payouts continued to fall, with the average payout dipping below target in 2020.

The number of bonuses above 170% of target increased, but the overall average payout was offset by the rise in bonuses paid below target.



Shifts in bonus payout levels were the driver behind the modest decline in average payout observed in the most recent cycle.

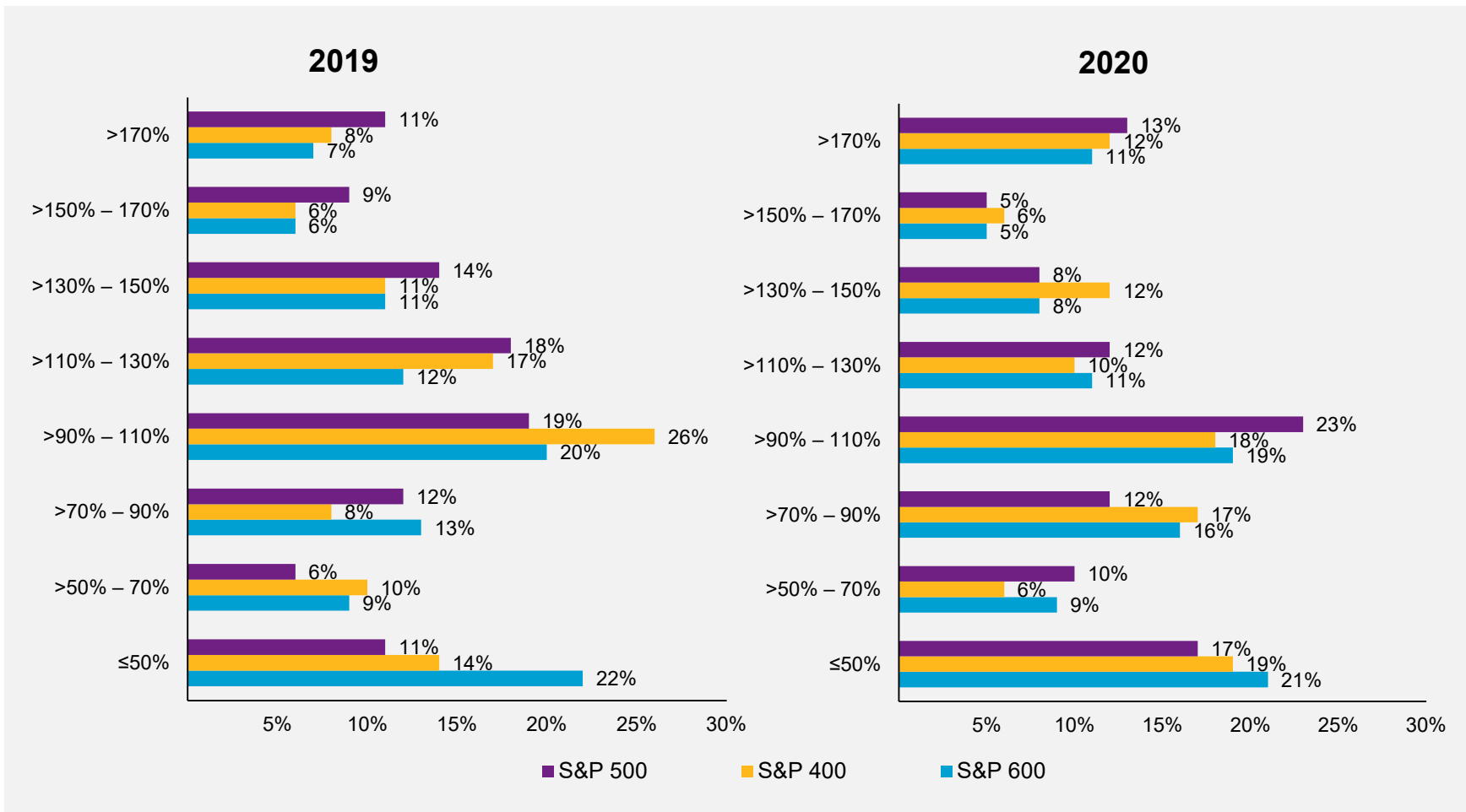
Percentage change in actual bonus as a % of target



*Does not account for shifts in target bonus.

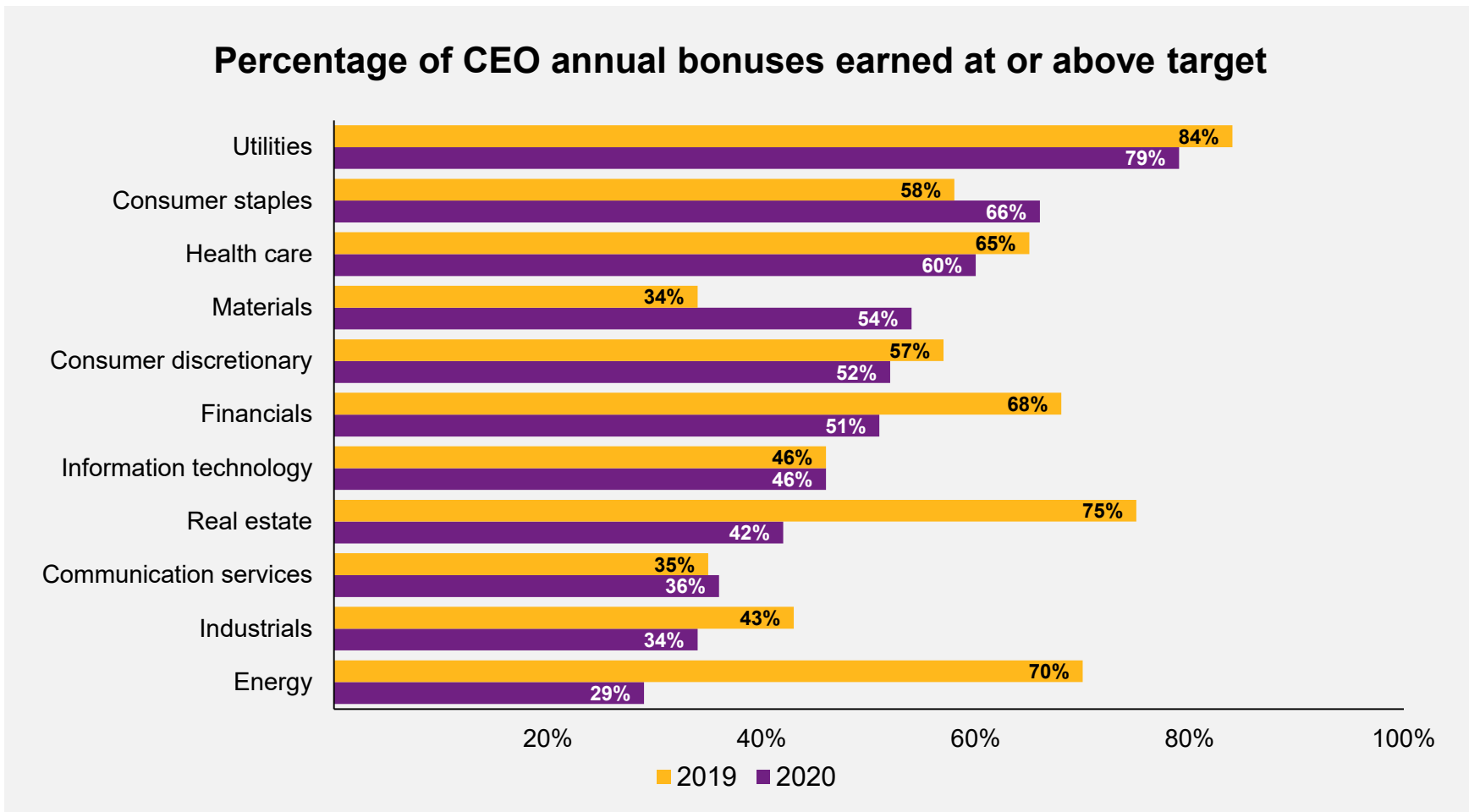
Bonus payouts by company size

The number of bonuses paid in the >110% – 170% range dropped significantly for S&P 500 CEOs.



Bonus payouts by sector

The number of energy and real estate sector CEOs receiving an above-target bonus payout in 2020 sharply declined.





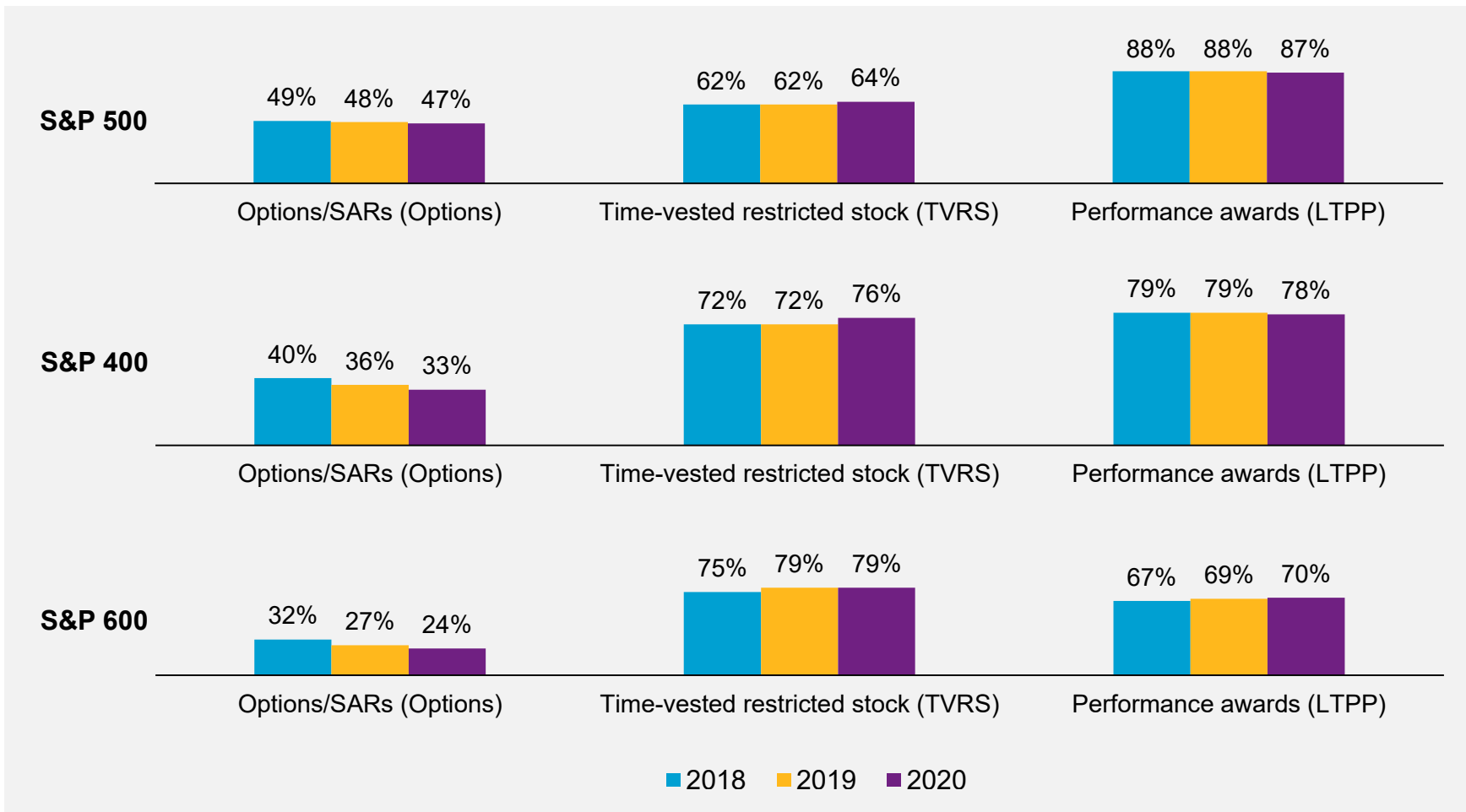
Long-term incentives

Prevalence, mix and results from completed performance periods

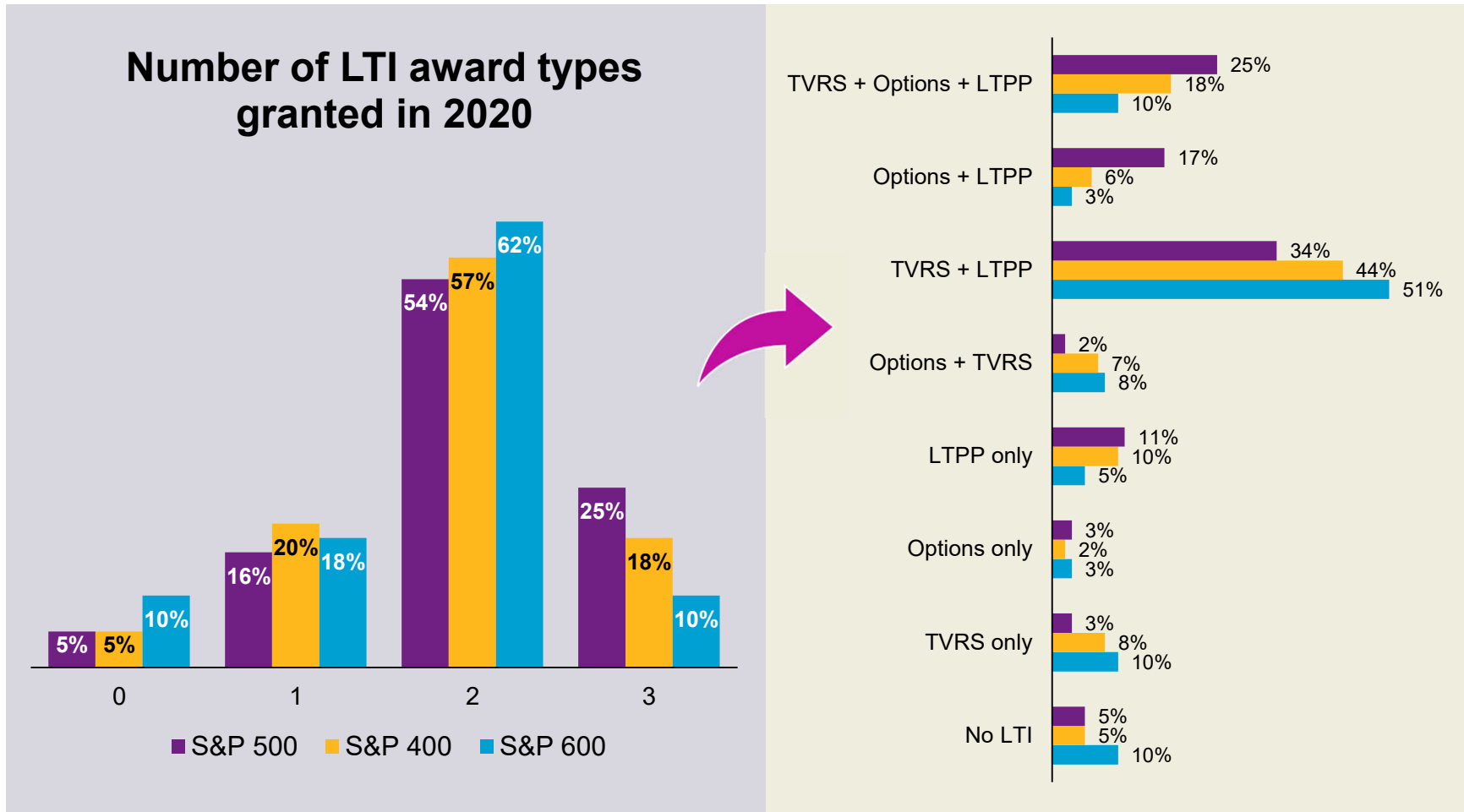


Uptick in use of time-vested restricted stock at large- and mid-cap companies in 2020.

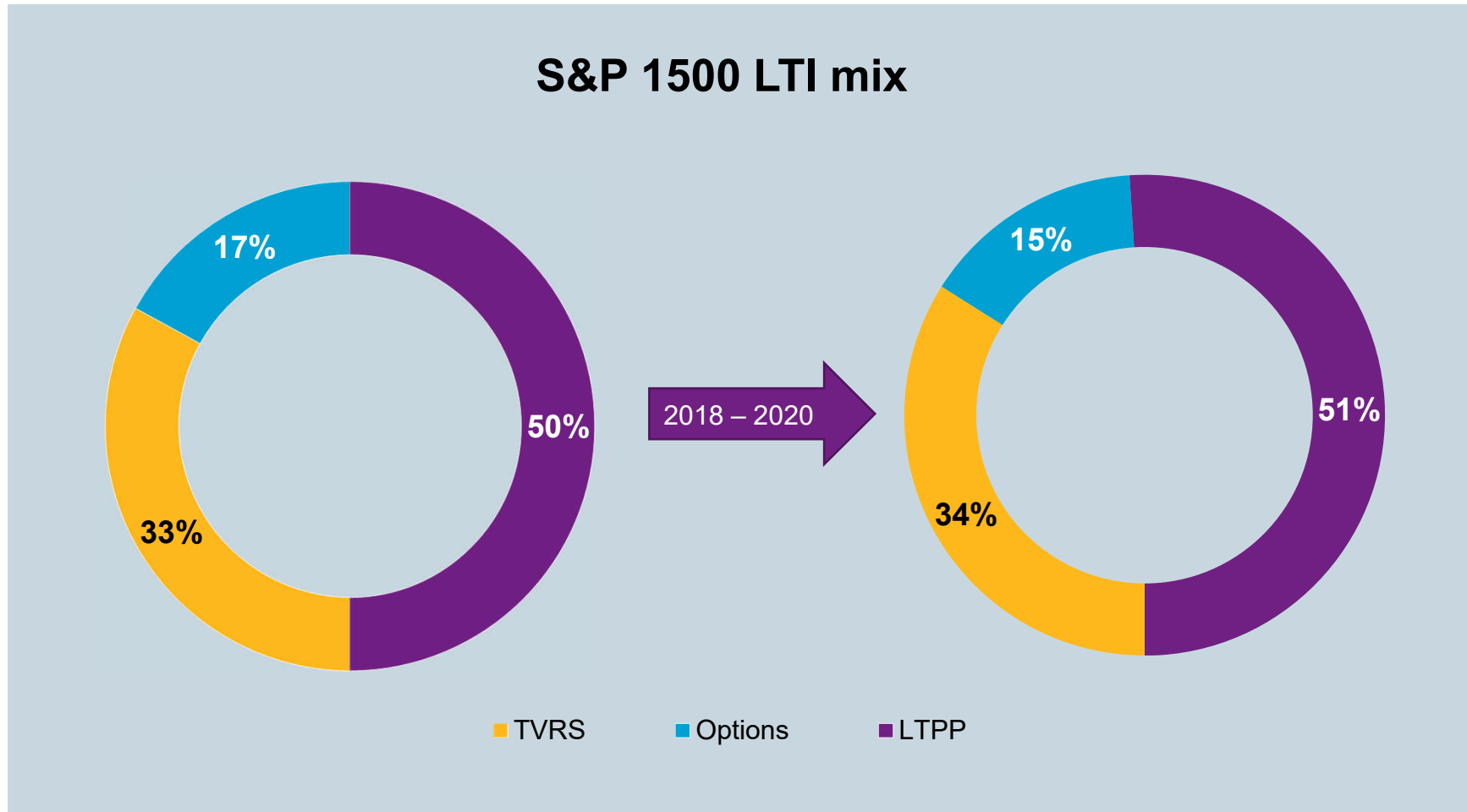
Prevalence of stock options within LTI programs continues to decline.



The majority of companies use two LTI vehicles.



Performance awards comprise over half of LTI pay; value delivered through stock options continues to fall.

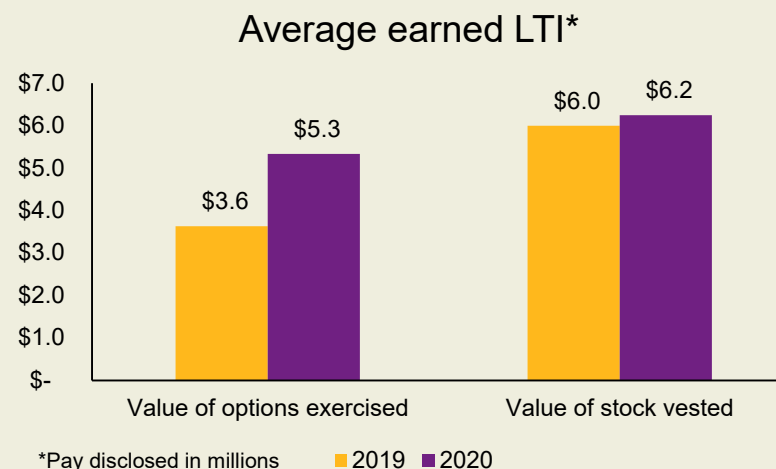
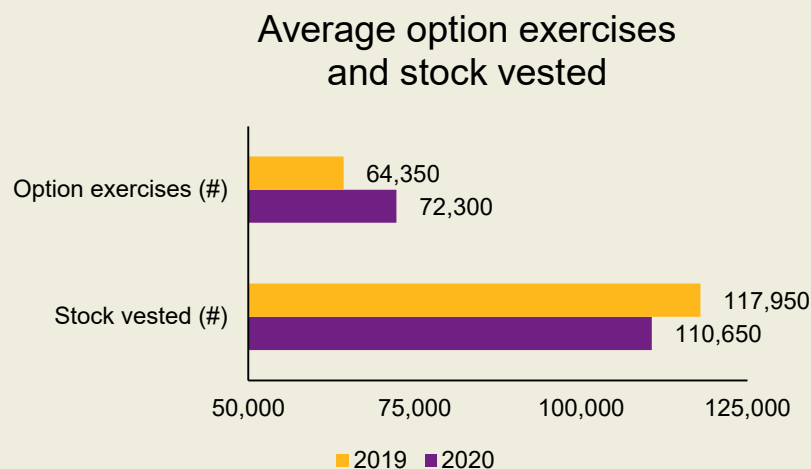


Earned LTI grew significantly in 2020.

31% of CEOs exercised options in 2020, **down from 33% in 2019**, while 90% of CEOs earned vested shares across both years.

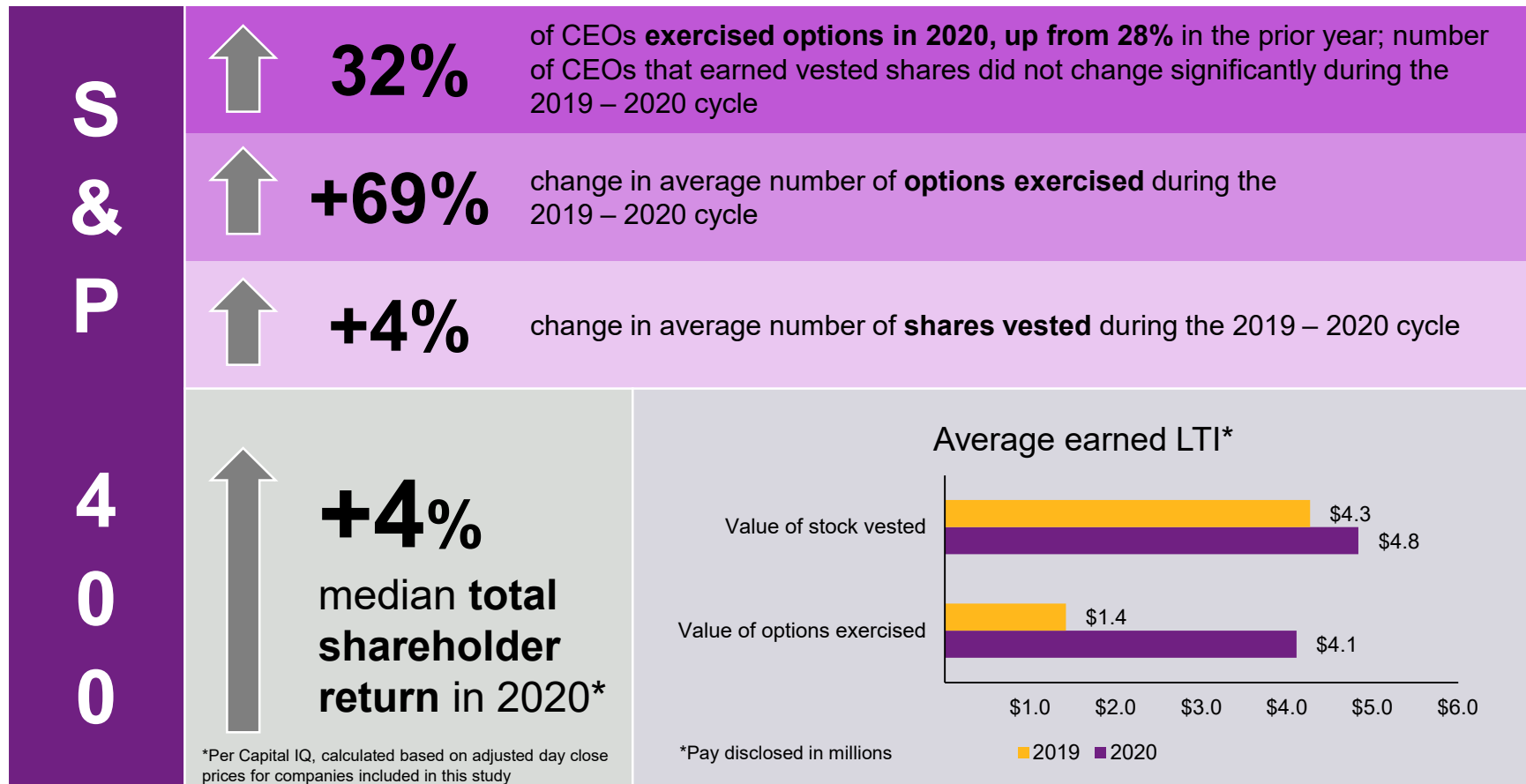


2020 average earned LTI: \$11.5M



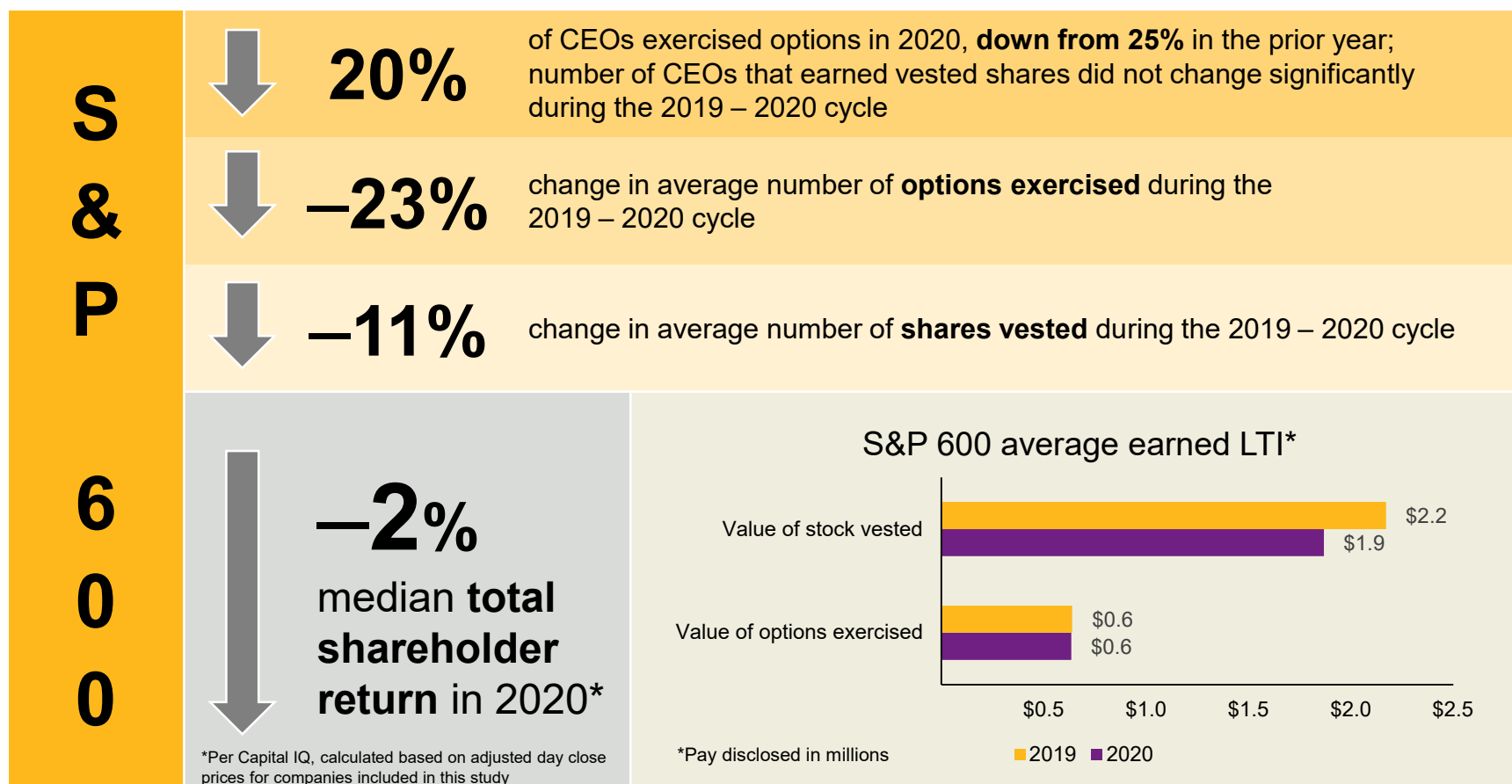
Mid-cap CEOs saw a significant jump in earned LTI during the 2019 – 2020 cycle.

Earned LTI for S&P 400 CEOs increased 14.7% at the median, up from the 2% decrease observed in the previous cycle.



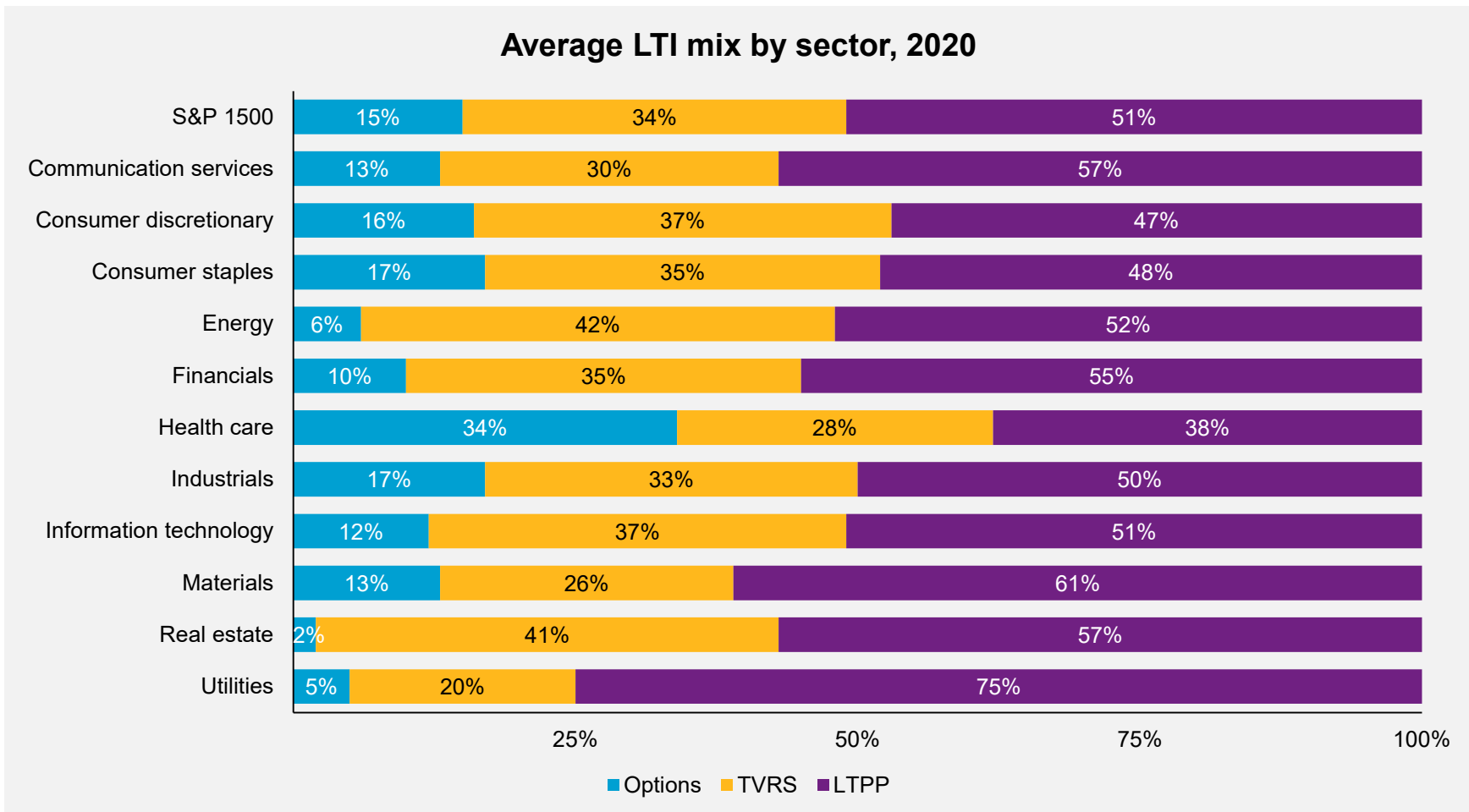
Earned LTI growth for small-cap CEOs fell far below their S&P 400 contemporaries.

Median change in earned LTI for 2019 – 2020 was –9%, a steep decline from the 6.8% increase observed in the previous cycle.



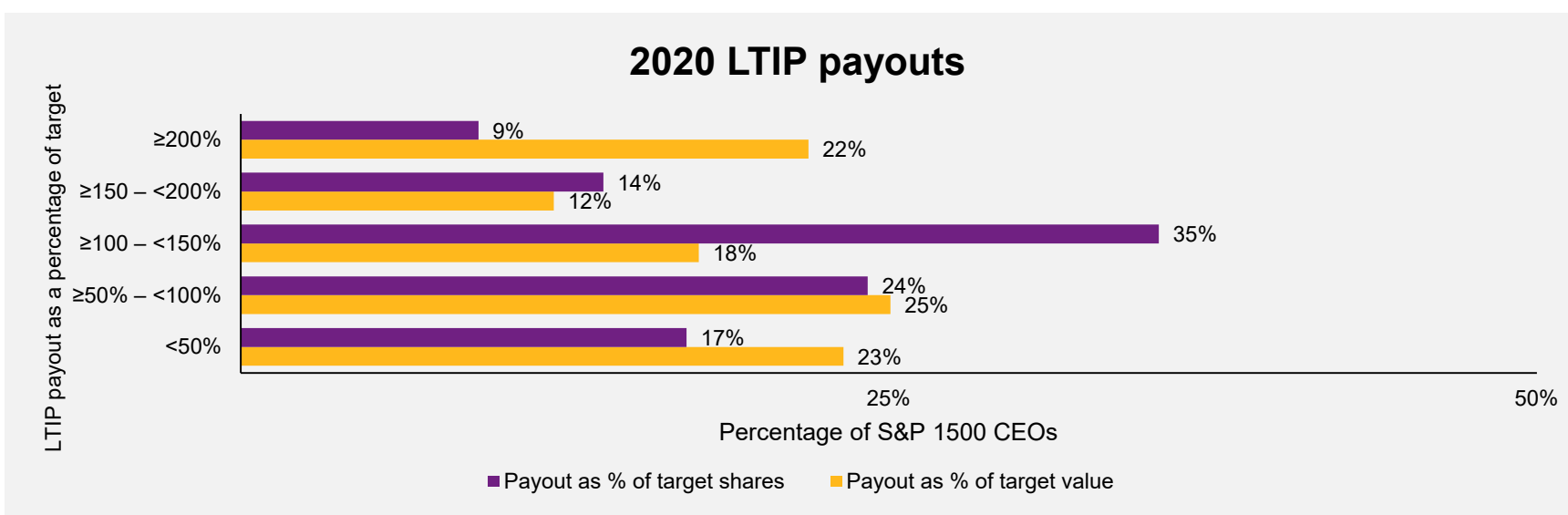
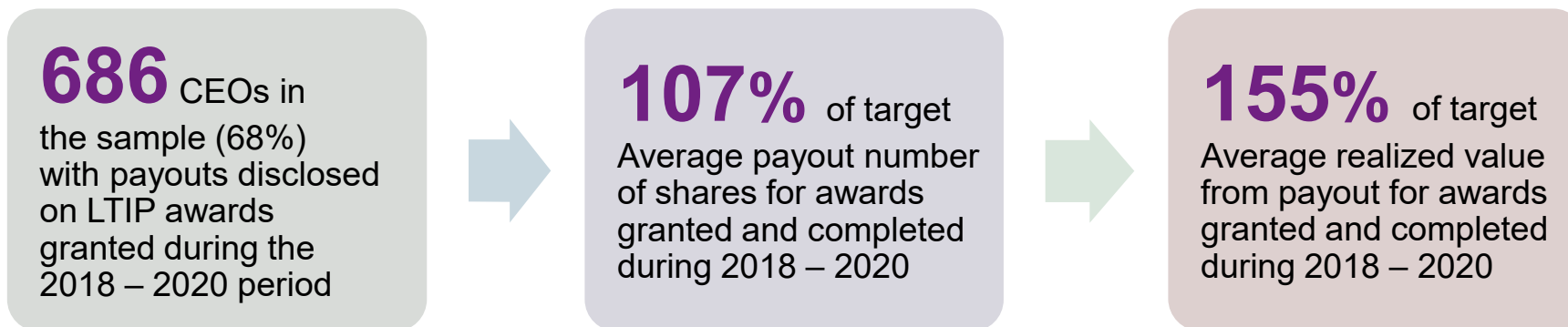
LTI mix by sector

Consumer discretionary, consumer staples and health care sectors all provided less than half of LTI pay through performance awards.



Long-term incentive plan (LTIP) payouts with and without stock price impact

A market rebound by the end of 2020 resulted in moderate value gained from LTI performance awards this cycle.



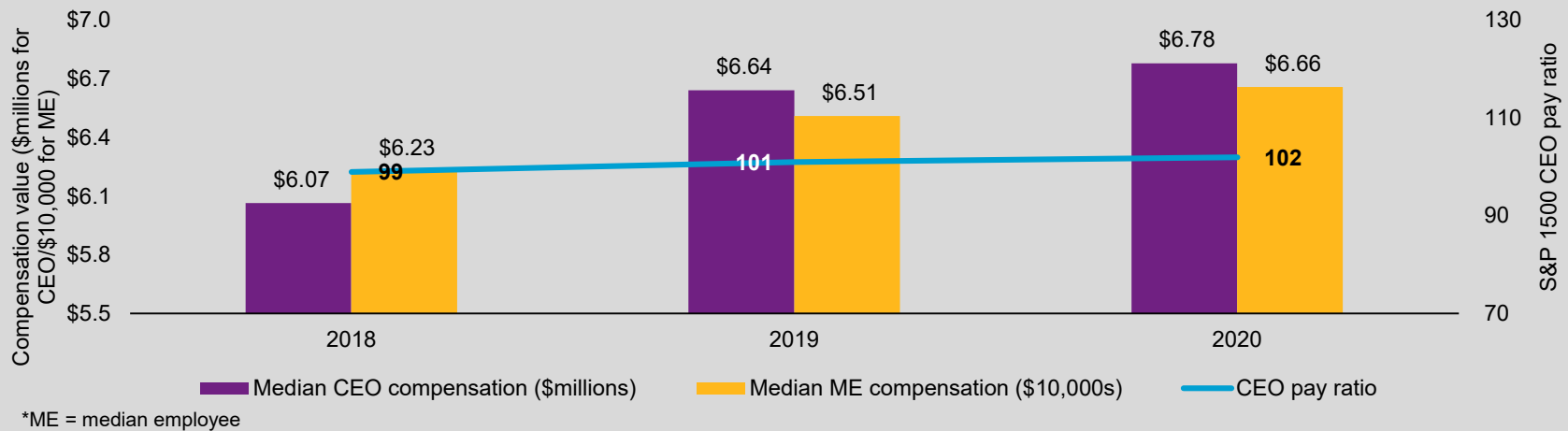
Additional CEO pay perspectives

CEO pay ratio to median employee,
CEO target pay vs. an average NEO,
and realizable pay relative to company performance

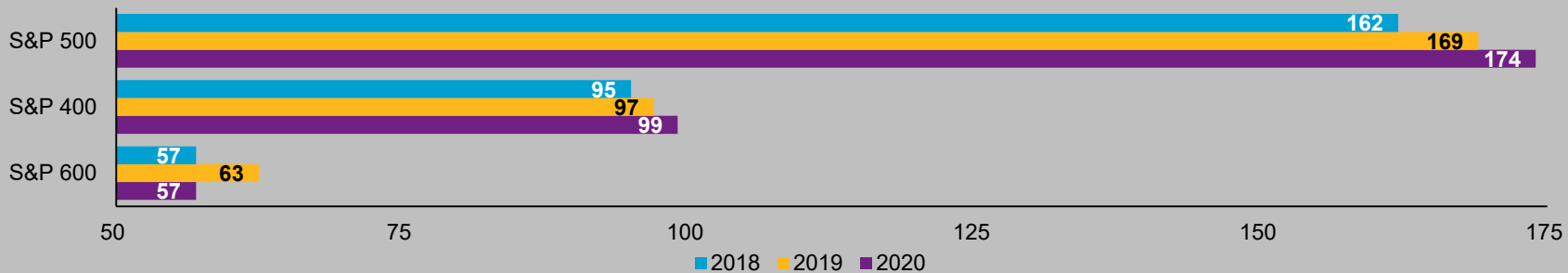


S&P 1500 CEO pay ratio to median employee has widened slightly in the past three years, with the pay gap at large-cap firms increasing the most.

Median CEO, ME* compensation and CEO pay ratio, 2018 – 2020

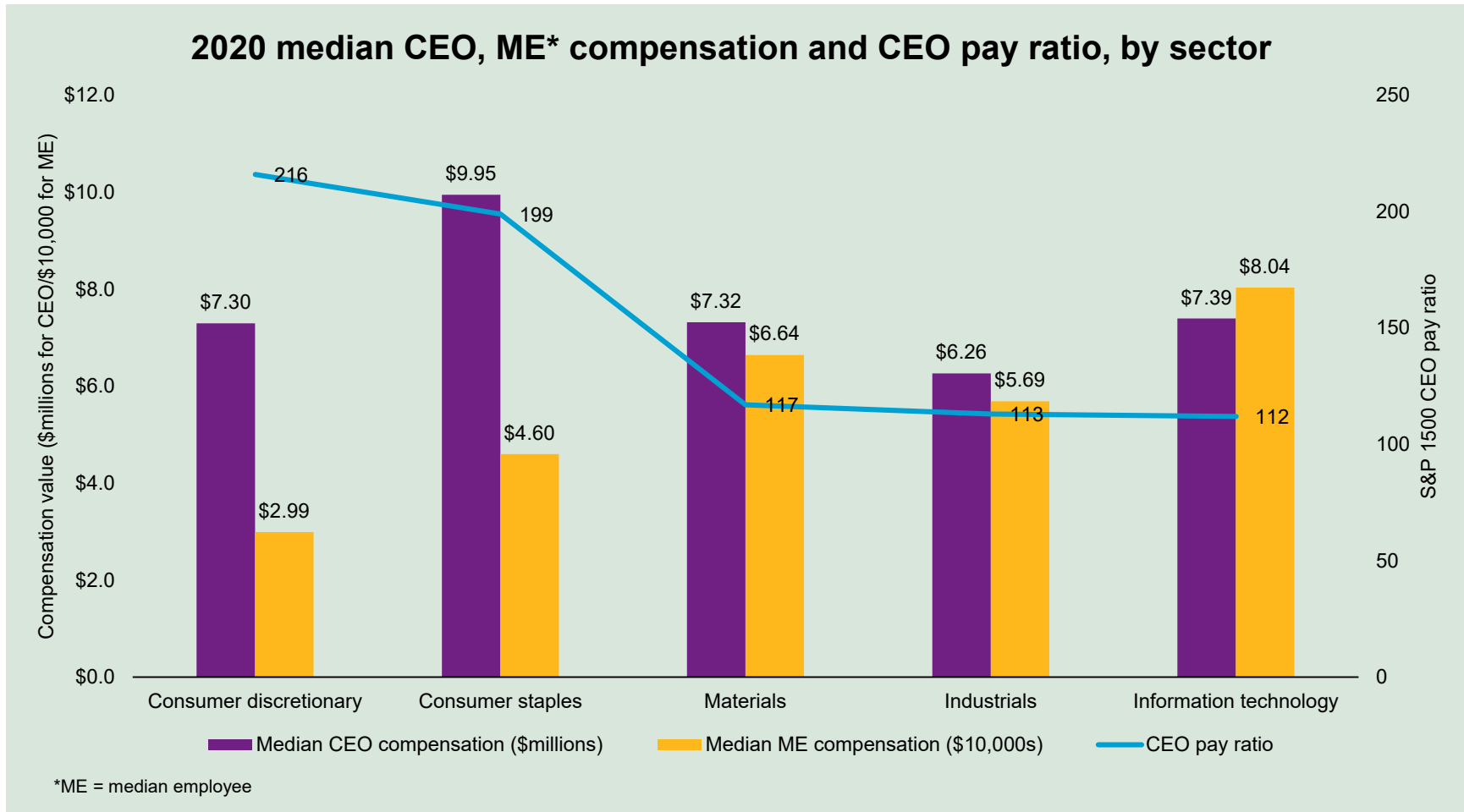


Median CEO pay ratio, by company size, 2018 – 2020



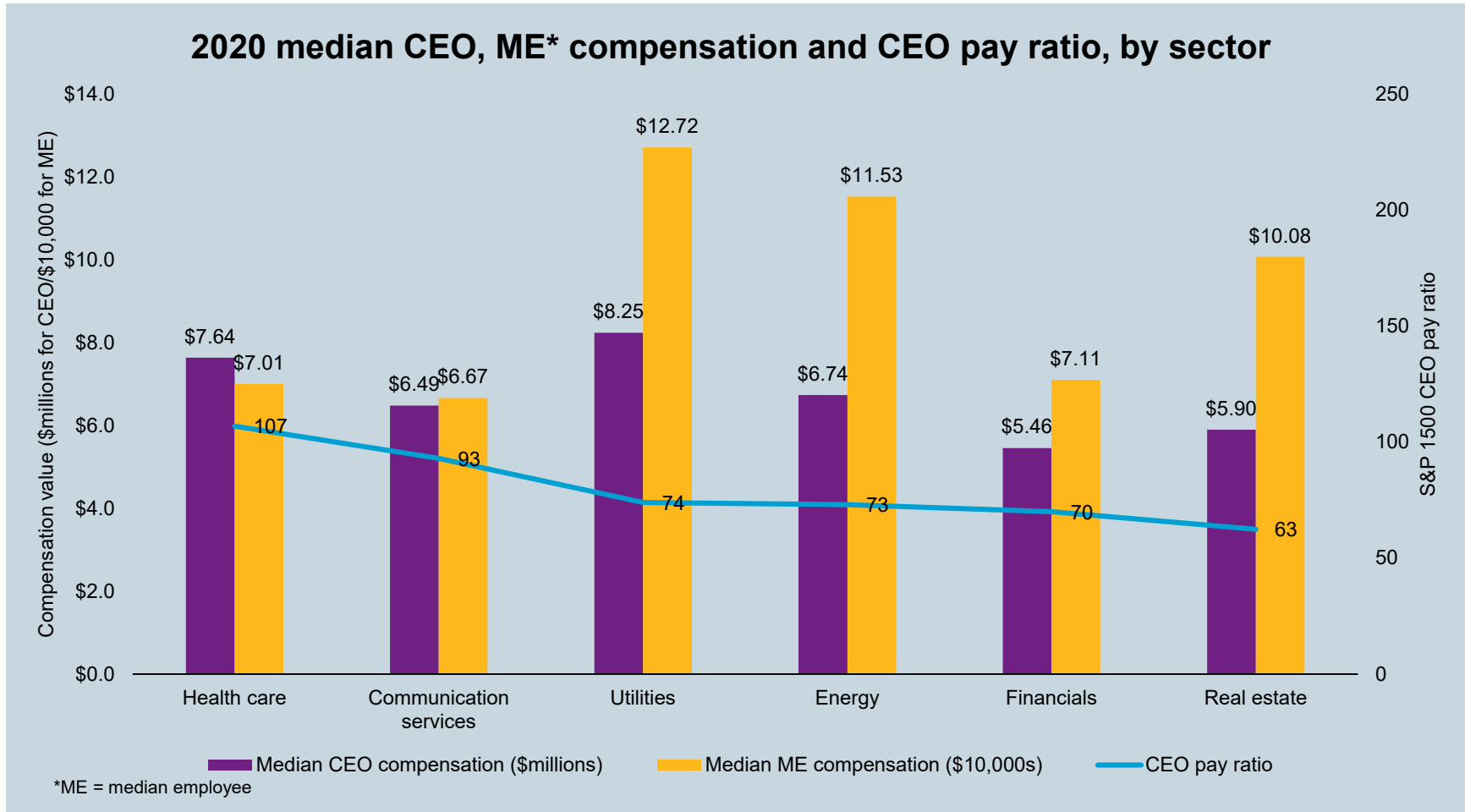
CEO pay ratio by sector

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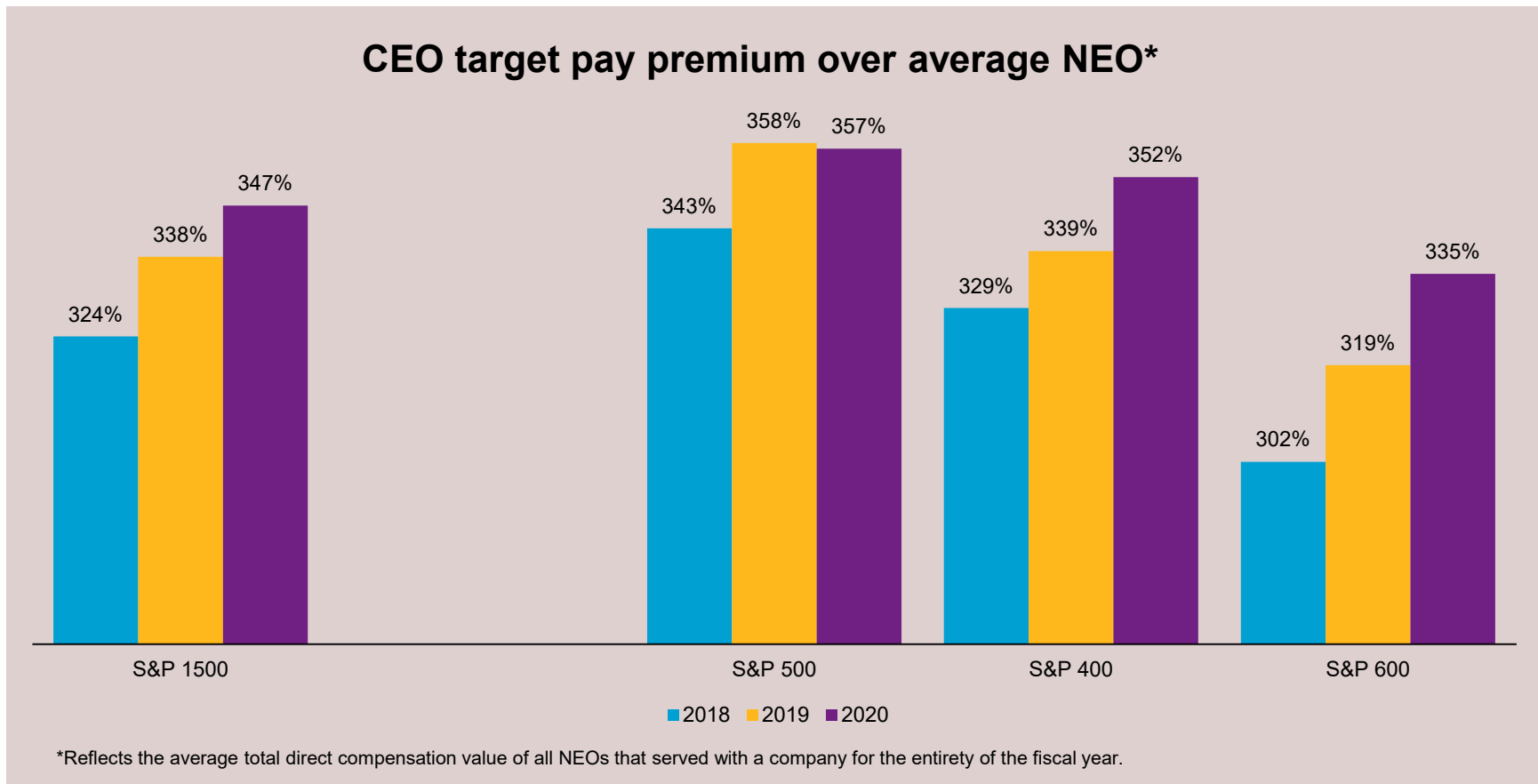
CEO pay ratio by sector

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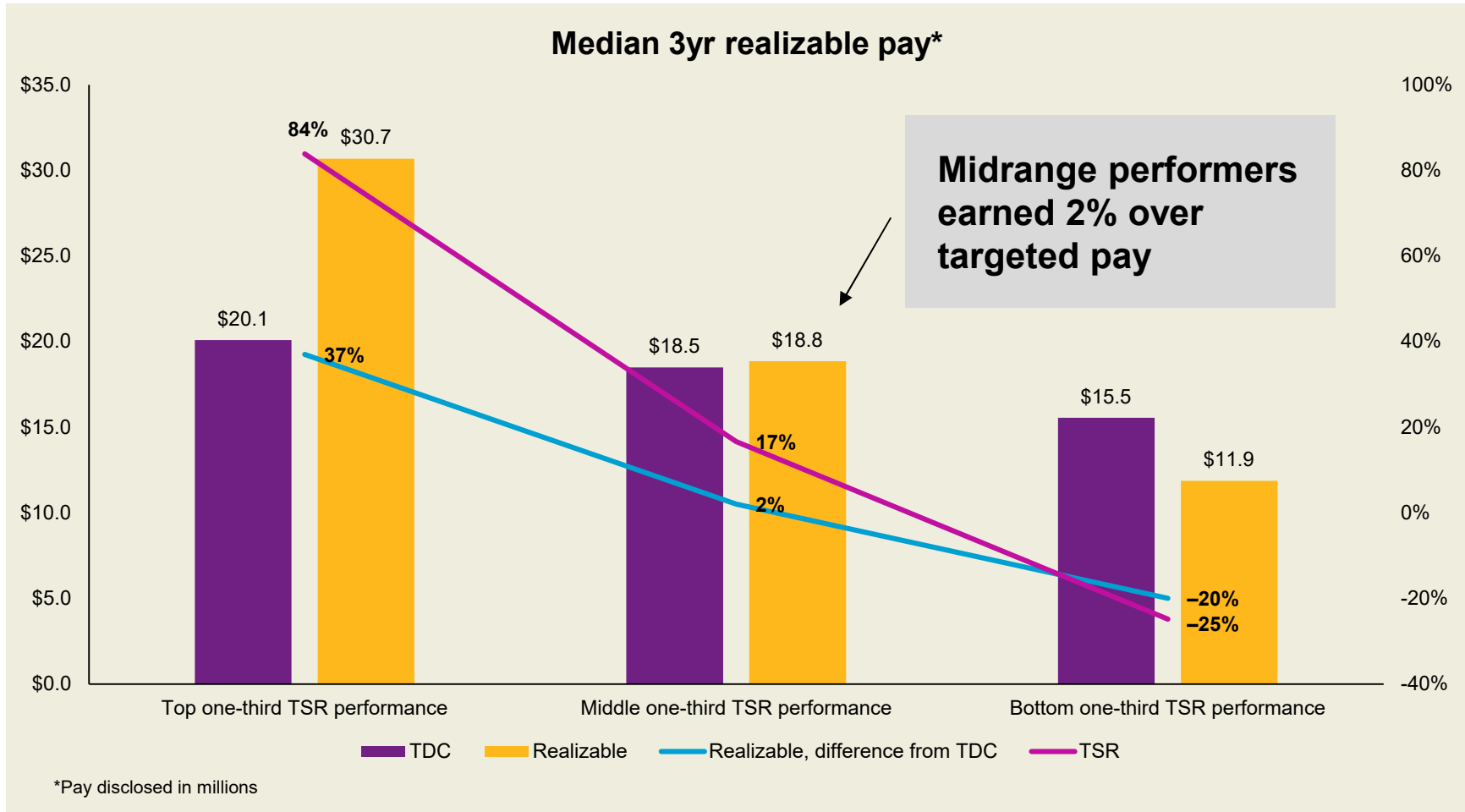


Pay gap between CEOs and other NEOs widened at mid- and small-cap firms.

Target pay disparity between S&P 500 CEOs and their C-suite colleagues remained stable in the most recent year.



CEOs at high-performing companies made large gains in realizable pay.



Midrange performers earned 2% over targeted pay