



What 'Perks' Can Tell Us About Executive Compensation

How a Small Component in Pay Reveals Insights into Corporate Trends

Daniel Heitlinger, Associate Vice President, ISS Corporate Solutions
Samantha Greenwald, Associate, ISS Corporate Solutions
Christian Darmanin, Associate, ISS Corporate Solutions

WWW.ISSCORPORATESOLUTIONS.COM



SUMMARY

Perquisites, or “perks,” are an often-overlooked component of a CEO’s pay package even though they remain remarkably relevant and widely used. More than two-thirds of the S&P 500 and one-third of the remaining Russell 3000 companies utilize at least one perquisite in their CEO’s pay package. While perquisites do not generally encompass a large portion of a CEO’s total compensation, many believe they can be a useful vehicle for attracting and retaining key executives and can be part of a fair pay program when used responsibly.

ISS Corporate Solutions (ICS) reviewed the perquisite usage within CEO pay packages among Russell 3000 companies (including the S&P 500) presented at annual general meetings (AGMs) between Jan. 1, 2020 and June 1, 2023 (2023 YTD) to identify recent trends and understand their impact on shareholder support for management’s say-on-pay (MSoP) proposals.

KEY TAKEAWAYS

- Russell 3000 companies (excluding the S&P 500) that provide at least one perquisite to their CEO declined by 5.4 percentage points between 2020 and 2023, while the decrease was just 0.5 percentage points for S&P 500 companies.
- Since 2020, corporate aircraft and home security perquisites have seen the largest increase in both frequency of use and median value, while most other benefits have remained relatively stable or slightly decreased.
- Large or unusual perquisites may be indicative of other underlying problems in a pay program’s design as there is a measurable impact on the level of shareholder support when perquisites are noted as a key concern, irrespective of the vote recommendation by Institutional Shareholder Services.



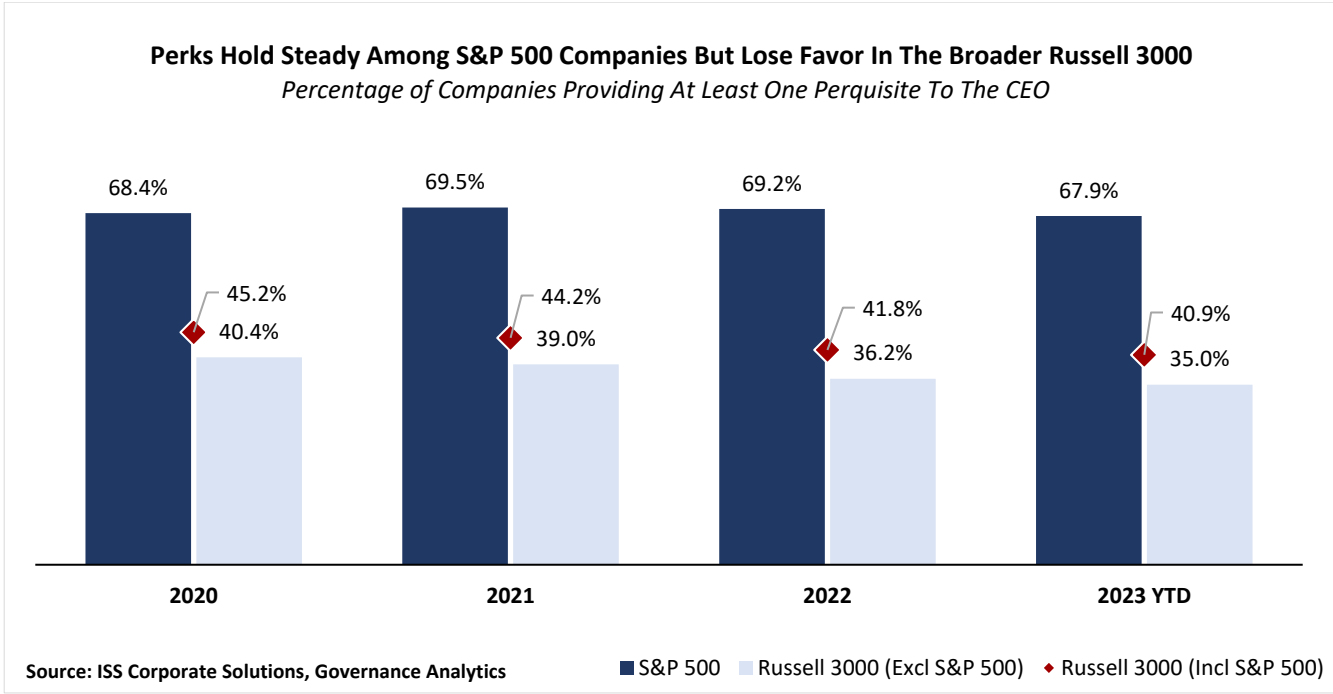
INSIGHTS FROM A SMALLER COMPONENT OF CEO PAY

While short-term and long-term incentives generally make up the largest portions of a CEO’s pay package, perquisites can be a frequently dismissed component of pay. Perquisites are sometimes perceived negatively by shareholders as they provide benefits to Named Executive Officers (NEOs) that are not directly associated with the company’s performance. However, this common perception may undermine the importance of perquisites as a comparatively cheap form of incentive compared with base salary – which could have a cascading effect on overall levels of compensation – and the tangible benefits that they provide to NEOs. While these benefits may be open to debate, their prevalence may indicate that they often perform an important role in attracting, retaining, and incentivizing talent.

ISS Corporate Solutions (ICS) reviewed the pay structures for Russell 3000 companies with annual general meetings (AGMs) between Jan. 1, 2020 and June 1, 2023 (2023 YTD) to uncover trends in the usage and magnitude of perks as well as the potential impact on the overall level of shareholder support for management’s say-on-pay (MSoP) proposals. ICS’ analysis includes data where the perquisite type and amounts provided to CEOs were clearly identified. In addition, for the purpose of this analysis, certain perquisite types were ignored due to the limited rates of adoption among the broader Russell 3000. As such, this analysis does not include an exhaustive list of perquisites provided to CEOs but does take a closer look at some of the more commonly used perks.

DIVERGING TRENDS OF PERQUISITE USAGE

Since 2020, the share of S&P 500 companies providing their CEOs with at least one perk has remained relatively consistent at about 68%. That compares with a decline of more than 5 percentage points among companies in the rest of the Russell 3000.



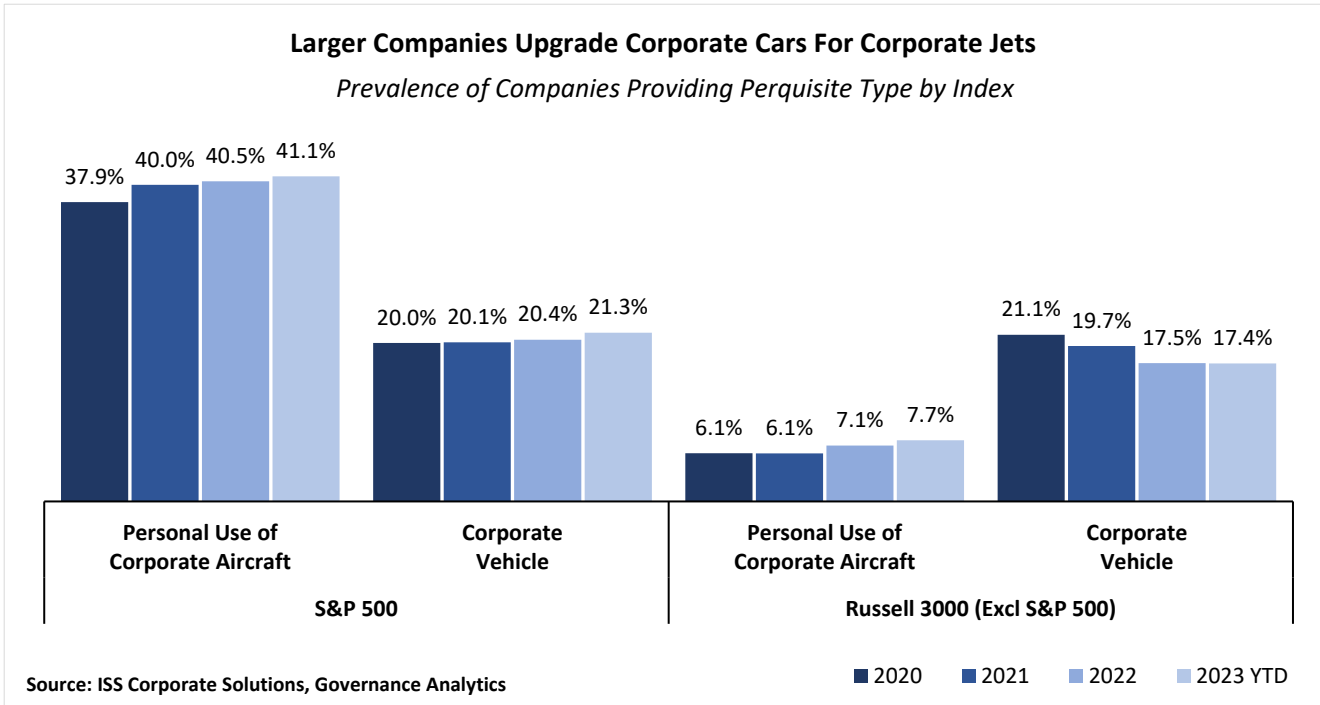


ON THE ROAD AGAIN

The use of transportation-oriented perks, such as the personal use of a corporate aircraft or other corporate vehicle, are often the most visible and frequently adopted perks among both indices studied.

Over the past four years, more companies have provided CEOs with personal use of corporate aircraft reimbursements despite, or perhaps due to, the COVID-19 pandemic. The prevalence of this perk increased 3.2 percentage points among S&P 500 companies and 1.6 percentage points among the remainder of the Russell 3000. As of June 2023, more than 40% of S&P 500 CEOs and 7% of Russell 3000 (excluding the S&P 500) CEOs received corporate aircraft perquisites.

While the use of corporate aircrafts has steadily increased over the past four years, corporate vehicle perquisites have varied by index. The prevalence of corporate vehicle perks among S&P 500 CEOs increased by less than 1.5 percentage points while it declined by almost 3.5 percentage points across the rest of the Russell 3000. Less than 20% of CEOs in the Russell 3000 (excluding the S&P 500) now receive some form of corporate vehicle perk.

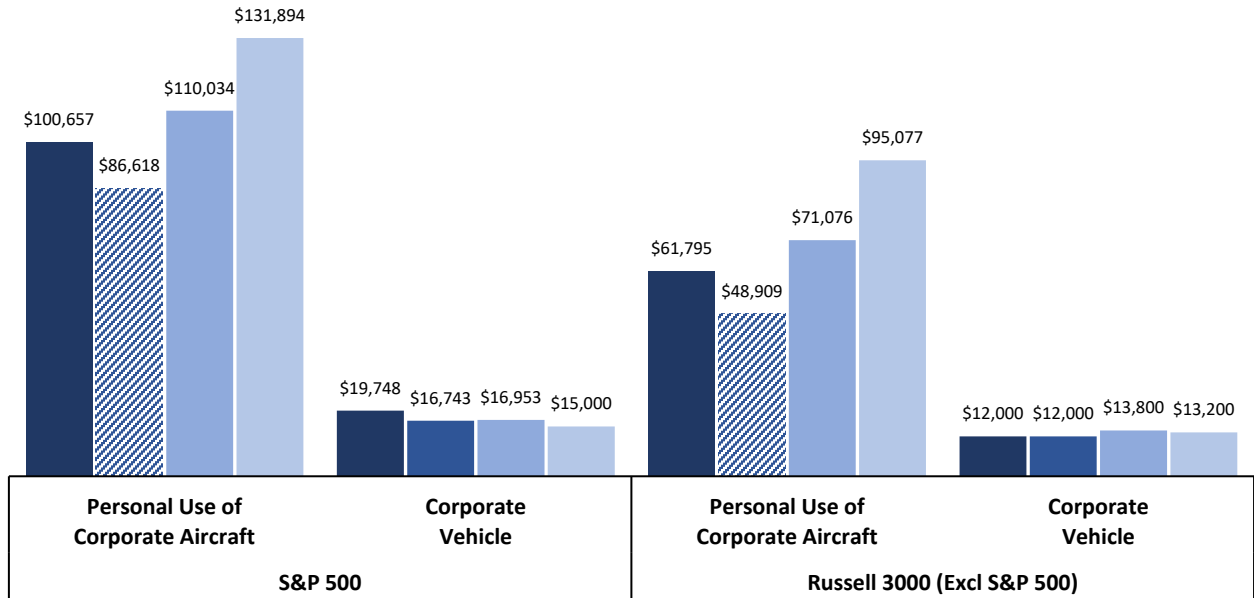


Personal use of corporate aircraft perk is not only becoming more common, but also is increasing in value. Specifically, the median value of corporate aircraft perks provided to CEOs have trended upwards, potentially indicating more frequent or longer-distance traveling. This may also be a product of increased fuel and travel expenses, particularly in recent years as inflation and rising oil prices have become more pronounced. A notable exception was the value of corporate aircraft benefits provided in fiscal year 2020 during the height of the COVID-19 pandemic, when international travel was halted, 2021 AGM pay disclosures show. Nevertheless, median corporate aircraft perquisite values have increased by roughly 30% to \$131,900 at S&P 500 companies since 2020 and 50% to \$95,100 across the rest of the Russell 3000 companies.



Personal Use of Corporate Aircraft Costs Increase between 30% and 50%

Median Perquisite Value Provided to The CEO By Index



Source: ISS Corporate Solutions, Governance Analytics; The decline of Personal Use of Corporate Aircraft in 2021 likely reflects the impact of COVID -19 on domestic and international travel in 2020.

■ 2020 ■ 2021 ■ 2022 ■ 2023 YTD

For The Two Certain Things in Life

In addition to transportation-oriented perquisites, companies often provide life insurance and financial planning benefits to NEOs.

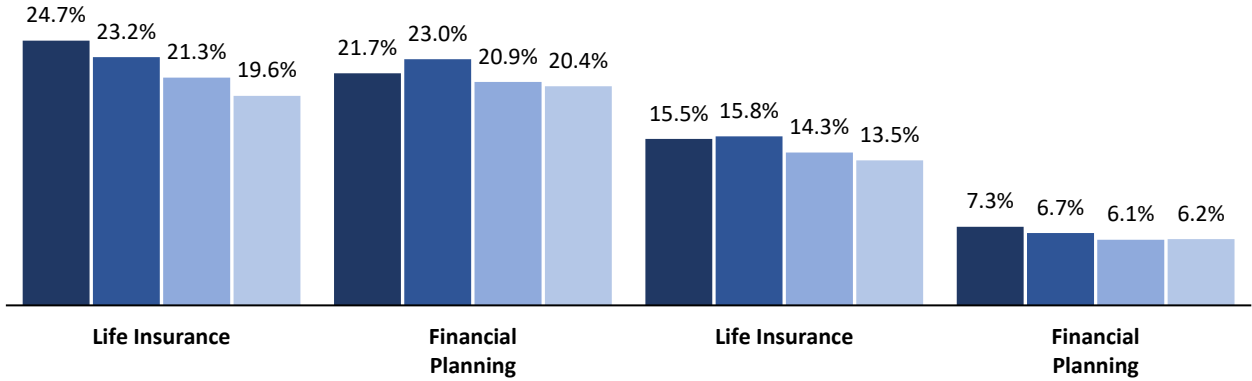
While life insurance benefits have become less prevalent among S&P 500 companies over the past four years, they remained more persistent across the rest of the Russell 3000. Currently, only 13.5% of Russell 3000 companies (excluding the S&P 500) provide life insurance benefits compared to 19.6% of S&P 500 companies. However, when perquisites are provided to CEOs, Russell 3000 companies excluding S&P 500 companies tend to utilize life insurance benefits more frequently than S&P 500 companies. Roughly 30% of S&P 500 companies that provide at least one perk to their CEO provide life insurance benefits while 40% of the remaining perks-providing Russell 3000 companies provide their CEO with similar benefits.

The slight uptick in life insurance benefits provided by Russell 3000 companies (excluding the S&P 500) in 2021 could reflect COVID-related concerns that fully materialized in 2020. Arguably, the life insurance benefits given to those CEOs may have provided added peace of mind to a CEO’s family. The prevalence of life insurance benefits has since dipped below 2020 levels.



Life Insurance Benefits Markedly Decline Among S&P 500 Companies

Prevalence of Companies Providing Perquisite Type by Index



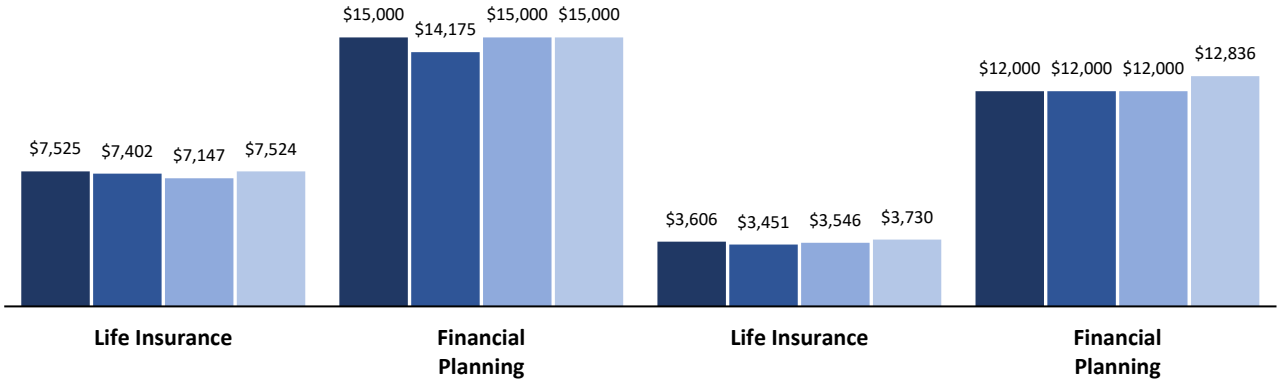
Source: ISS Corporate Solutions, Governance Analytics

■ 2020 ■ 2021 ■ 2022 ■ 2023 YTD

Adoption of financial planning benefits has remained relatively consistent over the last four years across the Russell 3000. As of June 2023, financial planning benefits were more prevalent among S&P 500 companies than life insurance benefits as the popularity of life insurance benefits have declined over time.

Life Insurance and Financial Planning Costs Remain Relatively Consistent

Median Perquisite Value Provided to The CEO By Index



Source: ISS Corporate Solutions, Governance Analytics

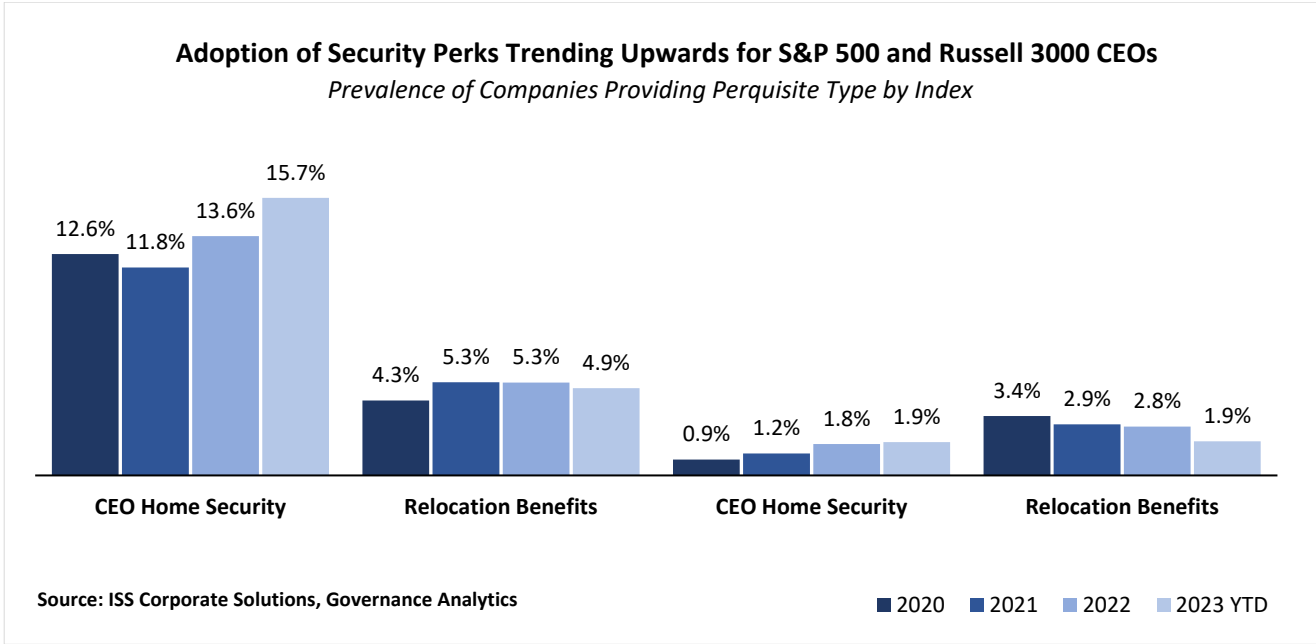
■ 2020 ■ 2021 ■ 2022 ■ 2023 YTD

From a dollar perspective, median values of both life insurance and financial planning benefits have also remained relatively constant between 2020 and 2023 with median values deviating by less than \$1,000 over the period. The median value of life insurance benefits received by S&P 500 CEOs was roughly 2 times greater than the benefits received by their Russell 3000 counterparts. Conversely, the financial planning pay disparity between these two groups of CEOs was smaller on both a nominal and percentage basis. This could suggest that such benefits and the expenses associated with financial planning perks may be independent of the size of the organization or the daily operations of the business.



Home Sweet Home

To attract and retain talent from around the world, some companies have subsidized an NEO's cost of uprooting their lives with relocation benefits. In addition, home security (as well as other forms of personal security) has increasingly been layered into perquisite pay designs.



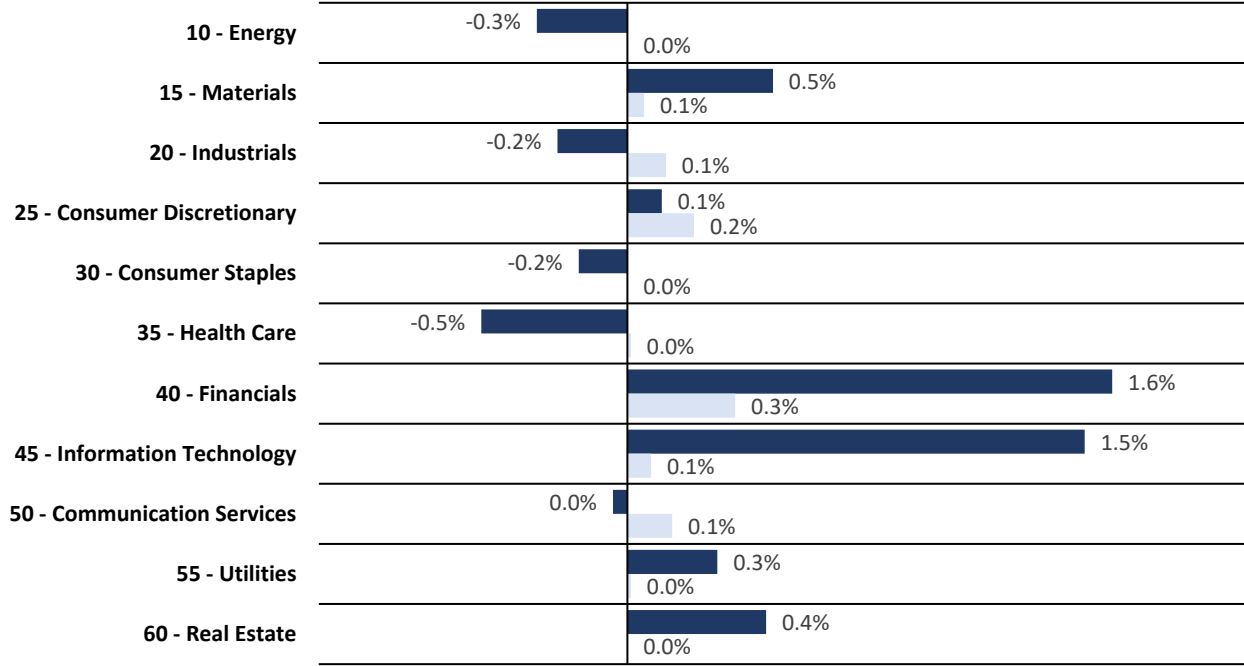
The prevalence of relocation benefits among Russell 3000 companies (excluding the S&P 500) continued to wane over time and is down from its high of 3.4% in 2020.

Conversely, the prevalence of CEO home security perks among S&P 500 companies increased by 3.1 percentage points to 15.7% while the prevalence among Russell 3000 companies (excluding the S&P 500) increased by 1 percentage point to 1.9% between 2020 and 2023.

While home security benefits are the least commonly adopted perquisite within our study, it is only one of two perquisites (the other being corporate aircraft perks) that has not seen a decline in adoption across any sector among Russell 3000 companies (excluding the S&P 500). The Financial Services sector saw the largest increase in the adoption of home security perquisites among both indices over the four-year measurement period.



The Financials Sector Leads The Increased Adoption of Home Security Perquisites
Change in Home Security Perquisite Adoption Rates Between 2020 and 2023 YTD By Sector



Source: ISS Corporate Solutions, Governance Analytics

■ S&P 500 ■ Russell 3000 (Excl S&P 500)

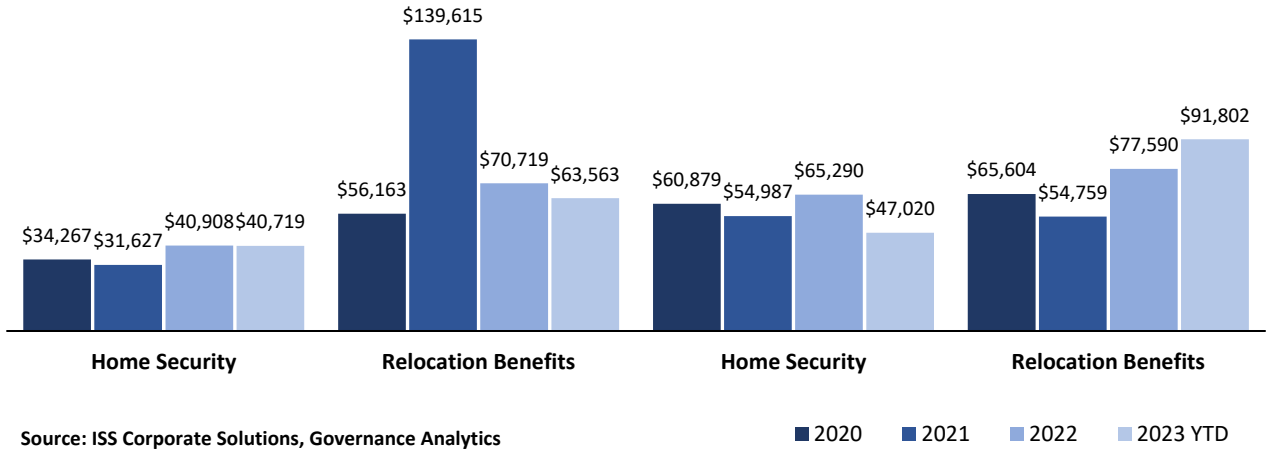
Coinciding with the increased adoption of CEO home security benefits, we also note that the median values provided to S&P 500 CEOs has marginally increased, going from \$34,300 in 2020 to \$40,700 in 2023. Meanwhile, CEO home security benefits among Russell 3000 companies (excluding the S&P 500) markedly decreased by more than \$13,000 over the same four-year period to a median value of \$47,000 as of June 2023.

Home security and relocation benefits are unique in that, except for 2021 relocation benefits, the median values provided to CEOs at Russell 3000 companies (excluding the S&P 500) are routinely larger than the median benefits provided to their S&P 500 counterparts over each of the prior four years. The operational setbacks and financial repercussions that arise from the loss of a NEO may disproportionately impact smaller entities, which may necessitate spending more on perks such as home security for key personnel. In addition, it is possible that smaller entities may need to provide more attractive relocation benefits to attract and retain talent by easing the transition for those originating from major cities or other primary locations.



Russell 3000 (Excl S&P 500) Security and Relocation Benefits Outpace Benefits at S&P 500 Companies

Median Perquisite Value Provided to The CEO By Index

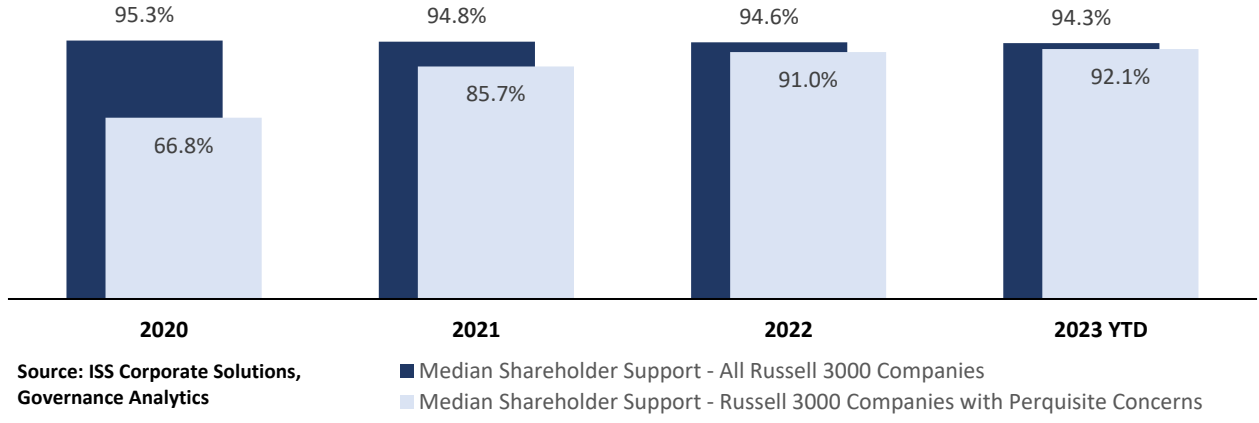


SHAREHOLDERS WEIGH IN

We next sought to better understand the impact that perquisites have on shareholder support for a company’s Say-on-Pay proposal, particularly when highlighted by Institutional Shareholder Services (ISS) Proxy Research. To conduct this assessment, we first found the median shareholder support for the MSoP proposal among all Russell 3000 companies (including the S&P 500) and compared that to the median shareholder support for the MSoP proposals among Russell 3000 companies (including the S&P 500) where ISS noted perquisites as a concern (irrespective of ISS’ final vote recommendation).

Companies With Perquisite Concerns Receive Lower Levels of Shareholder Support For MSoP Proposals

Median Shareholder Support For MSoP Proposals at All Russell 3000 Companies Compared to Median Shareholder Support at Russell 3000 Companies With Perquisite Concerns (Irrespective of ISS' Vote Recommendation) By Meeting Year



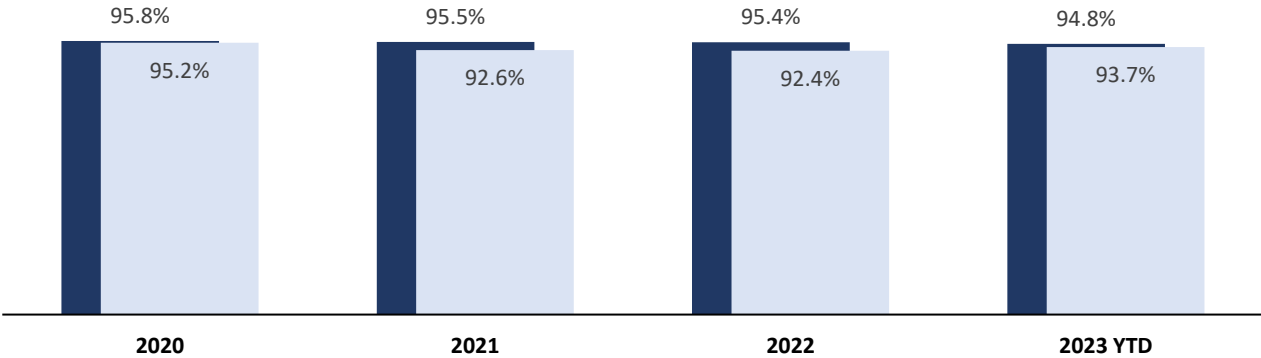


We found that there is, on average, an 11 percentage-point decline in the level of shareholder support for MSoP proposals among Russell 3000 companies when ISS highlights perquisites as a concern in its research report. However, given the magnitude of the perks in relation to the overall NEO pay package, it can be difficult to conclude that perquisite concerns directly and solely caused the decreased level of shareholder support as there are other pay factors at play. Nevertheless, excessive perquisites could be an indication of more troubling, underlying pay program design features that ultimately influence institutional investors voting decisions.

An analysis of shareholder support for MSoP proposals among companies with generally favorable pay program designs appears to support this finding. Specifically, the impact of outsized perquisites on median shareholder support for MSoP proposals appears to be less significant when the overall compensation program designs are deemed appropriate. Over the last four years, the average median shareholder support for MSoP proposals receiving a "FOR" vote recommendation from ISS among Russell 3000 companies (including the S&P 500) was only 2 percentage points lower when a perquisite-related concern was noted in the ISS assessment. The narrowing spread in shareholder support between these two samples (11 percentage point spread for all pay programs vs 2 percentage point spread for favorable pay programs) may be indicative of the disruptive effect that outsized perquisites can have on overall levels of shareholder support when they are part of a problematic pay program.

The Impact of Perquisites is Less Significant When the Overall Pay Program is Deemed Appropriate

Median Shareholder Support For MSoP Proposals With "FOR" Vote Recommendation at All Russell 3000 Companies Compared to Median Shareholder Support at Russell 3000 Companies With Perquisite Concerns and "FOR" Vote Recommendations By Meeting Year



Source: ISS Corporate Solutions, Governance Analytics

■ Median Shareholder Support - All Russell 3000 Companies
 ■ Median Shareholder Support - Russell 3000 Companies with Perquisite Concerns



CONCLUSION

While perquisites will likely never be the core driver of NEO compensation - nor should they - this less substantial component of pay may serve as a “compensation zeitgeist.” Perquisites can shed light on the operating environment and other, more tangible, benefits believed to be necessary to attract key talent or to be successful at that moment in time. At the same time, perquisites can become a cause for concern for shareholders and are gradually losing popularity as a compensation vehicle. Assuming current trends hold, we’ll likely continue to see a slight decline in the prevalence of perquisite usage among the broader Russell 3000 companies paired with a steady increase in the median perquisite values provided to CEOs. It is likely that the decline will remain gradual as companies still believe that there is value in providing perquisites over alternative forms of compensation, but as the prevalence declines and value increases, shareholder scrutiny over these perquisites could increase as well.

With that said, since the globalization of the business environment shows no signs of slowing down and the easing of COVID-19 restrictions, we expect corporate aircraft usage will likely continue to grow. Similarly, if the perceived need for increased safety endures, we believe companies will continue offering home security benefits for CEOs.

ICS suggests routinely monitoring the benefits provided to key executives to ensure that they remain aligned with industry and index peer practices. Working with ICS helps issuers proactively address potential risks associated with the perquisites that they provide to NEOs. By proactively addressing these risks, companies are better positioned to defend themselves against shareholder scrutiny if, among other pay program concerns, perks are deemed to be extraordinary.

If you are interested in learning more about perquisites, other components of pay, and compensation governance best practices, please reach out to your ICS advisor. If you are not a current ICS subscriber, reach out to us at [ICS Info@isscorporatesolutions.com](mailto:Info@isscorporatesolutions.com) to learn more about the various services we offer.



ISS Corporate Solutions is a leading provider of compensation, governance, cyber risk monitoring, and sustainability SaaS and advisory services to companies globally

LEARN MORE ABOUT ICS

ICS_Info@isscorporatesolutions.com
Americas: +1 301 556 0570
EMEA: +44 203 192 5773
APAC: +852 39051840
www.isscorporatesolutions.com

Companies turn to ISS Corporate Solutions, Inc. (“ICS”) for expertise in designing and managing corporate governance, executive compensation, cyber risk monitoring, and sustainability programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering data, tools, and advisory services. ICS’ global client base extends to more than 1,500 companies located across North America, Europe, and Asia, as well as other established and emerging markets worldwide. Headquartered in Rockville, Maryland, ICS has offices in North America, Europe, and Asia.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the “Information”) is the property of ISS Corporate Solutions, Inc. (“ICS”) or its affiliates. The Information may not be reproduced or disseminated in whole or in part without prior written permission of ICS. ISS MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION. ICS is a wholly owned subsidiary of Institutional Shareholder Services Inc. (ISS). ICS provides advisory services, analytical tools and publications to companies to enable them to improve shareholder value and reduce risk through the adoption of improved corporate governance practices. The ISS Global Research Department, which is separate from ICS, will not give preferential treatment to, and is under no obligation to support, any proxy proposal of a corporate issuer (whether or not that corporate issuer has purchased products or services from ICS). No statement from an employee of ICS should be construed as a guarantee that ISS will recommend that its clients vote in favor of any particular proxy proposal.