

2007 CEO Perquisites and Supplemental Retirement Benefits Study

“Stealth Compensation” Study Shows Perquisites and Pension Benefits at Double a CEO’s Annual Salary

In light of the new disclosure requirements for perquisites circulated by the Securities and Exchange Commission, James F. Reda and Associates, located in New York, New York, analyzed perquisite and supplemental retirement disclosures for Chief Executive Officer’s at *Fortune* magazine’s top 150 public companies.

For proxies filed in 2007, publicly-traded companies must disclose in the Summary Compensation Table (SCT) the annual value of perquisites and supplemental retirement benefits. Perquisites can range from country club memberships, home security systems to personal use of aircraft. Supplemental retirement benefits include the change in the accrued pension value and preferential/above-market earnings on deferred compensation.

For the first time, shareholders can see the value of these additional compensation items – which some have referred to as “stealth compensation” since they previously were unreported.

For this review, we separated retirement-related benefits from personal perquisites, and included a table to highlight other information such as dividends on unvested restricted stock, flexible personal spending accounts, charitable awards, and relocation assistance.

Perquisites

Companies are now required to identify perquisites if the aggregate amount is \$10,000 or greater. If it is greater than \$25,000, or 10 percent of total perquisites or other personal benefits, then the actual value itself must be disclosed. Prior to 2007, the threshold requirement was 10 percent of total salary and bonus or \$50,000 in value. This rule change forces companies to now disclose a majority of their perquisites.

With 2006 compensation being the first period subject to the new rules, year-over-year value comparisons show an explosion in values from 2005 to 2006, with the variance attributed to the significant differences in reporting requirements between years.

The most popular perquisite is the personal use of corporate aircraft with 67% of the *Fortune* 150 public companies offering this benefit to their CEO. Some companies limit the number of allowable trips and offer the benefit to include the CEO’s spouse.

Around half the companies offer financial/tax/legal assistance, use of an automobile, tax gross-ups or reimbursements, and supplemental health and welfare benefits.

Perquisites such as home security systems are less prevalent due to investor scrutiny. Investors now ask questions, for example, on why a CEO that earns more than \$1 million in salary and bonus would need assistance paying for a home security system.

Perquisites and Enhanced Benefits (Average and Median statistics exclude zeros, except Total Perquisites column)

Summary Information	2006 Revenues (\$mil)	Total Perquisites	Financial/Tax/ Legal Assistance	Auto Allowance/ Car Service	Aircraft Usage	Club Memberships	Home/ Personal Security	Supplemental Health	Physical Exam	Life/ Disability/ Liability Insurance	Tax Gross-Ups or Reimbursement
Prevalence *		69%	50%	51%	67%	16%	35%	23%	21%	47%	47%
Average	\$45,876	\$197,284	\$31,387	\$37,166	\$145,945	\$11,412	\$87,125	\$33,808	\$2,782	\$47,483	\$45,376
25th Percentile	\$19,321	\$32,715	\$10,000	\$10,992	\$51,419	\$2,706	\$2,364	\$3,532	\$1,566	\$2,765	\$7,000
Median	\$26,853	\$109,178	\$14,000	\$24,085	\$122,032	\$6,659	\$32,760	\$11,808	\$2,149	\$11,613	\$19,990
75th Percentile	\$51,522	\$264,993	\$21,025	\$32,888	\$192,039	\$22,204	\$64,483	\$43,258	\$3,118	\$39,881	\$60,206

* Refers to the percentage of companies providing this perquisite

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Supplemental Retirement Benefits

The new rules require SCT disclosure of the change-in-value for all defined benefit plans and ‘above-market’ or preferential earnings on deferred compensation amounts. Separate individual tables require disclosure of the present value of the pension benefit and on qualified plan balances.

The value of the supplemental pension benefit is a costly part of an executive’s pay package and represents a significant portion of compensation that is not performance based. In some cases, the annual increase in pension benefits is nearly eight times that of salary. The average annual increase for the largest 150 public companies is approximately one times salary.

Retirement (Excludes zeros, except Total Retirement Increase column)

Summary Information	2006 Revenues (\$mil)	Total Retirement Increase	Defined Contribution Match and Company Credits / Above Mkt Interest	Pension Value Change
<i>Prevalence *</i>		95%	86%	67%
<i>Average</i>	\$45,876	\$1,395,163	\$150,630	\$1,909,090
<i>25th Percentile</i>	\$19,321	\$55,914	\$11,000	\$326,328
<i>Median</i>	\$26,853	\$439,948	\$59,048	\$1,149,931
<i>75th Percentile</i>	\$45,876	\$2,134,661	\$129,680	\$2,932,541

* Refers to the percentage of companies providing this perquisite or supplemental benefit

Other Perquisites Information

A small percentage of companies exchanged CEO perquisites for flexible accounts that can be used for any purpose they choose. There are also instances where companies provide for reimbursement for CEO spending on items of their choosing. But these types of arrangements are still rare (4%).

Dividends on unvested restricted stock and restricted stock units represent a significant benefit to at least 11% of CEOs. The median value of this compensation benefit is \$138,400.

Other Information (Excludes zeros)

Summary Information	2006 Revenues (\$mil)	Relocation	Charitable Awards	Flexible Perquisites	Dividends on Unvested Stock
<i>Prevalence *</i>		9%	5%	4%	11%
<i>Average</i>	\$45,876	\$258,263	\$173,423	\$36,590	\$269,439
<i>25th Percentile</i>	\$19,321	\$55,469	\$20,006	\$33,500	\$29,512
<i>Median</i>	\$26,853	\$123,412	\$49,295	\$35,000	\$138,408
<i>75th Percentile</i>	\$51,592	\$196,391	\$59,827	\$46,250	\$215,893

* Refers to the percentage of companies providing this perquisite or supplemental benefit

Conclusion

The new SEC disclosure requirements confirmed what many analysts suspected for a long time—that there is considerable compensation amounts hidden from public view, and most importantly, from the shareholders. On average, the annual value of perquisites and retirement-related increases, represent double the annual CEO salary. And while salaries are subject to 162(m) restrictions, these nonperformance related benefits, are not encumbered by this restraint.

Now that we can see more clearly the size and nature of these benefits, it remains to be seen how corporate boards will react. We have seen increased discussions regarding the needs for these additional benefits and expect to see reductions or eliminations of these benefits in the future. On the other hand, it could result in CEO’s demanding more equitable treatment relative to their peers and a ratcheting up of perquisites and benefits. The answers will be revealed in the next six months.

Contact Information

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