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More Pieces. Still a Puzzle.

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EXECUTIVE PAY: A SPECIAL REPORT

“SUNLIGHT,” remarked the Supreme Court justice Louis D. Brandeis, “is said to be the best of disinfectants.” One problem with too much sunlight, however, can be the blinding glare.

That, in many ways, captures what compensation experts say are positive and negative developments in the newest round of executive pay disclosures. In response to a barrage of criticism that regulators have not kept up with the complexities of swelling pay packages, the Securities and Exchange Commission now requires corporate America to disclose details of executive compensation more fully. As this year’s proxies pour in, they are packed with fresh information aimed at making pay more transparent.

Inclusion of new data, like the value of retirement benefits and potential severance payouts, was supposed to paint a fuller picture of everything that an executive could make. Disclosure of such things as the performance criteria used to award lucrative bonuses was supposed to make the pay-setting process clearer. And the addition of a single headline number that tallied up all the elements of annual compensation was supposed to make different executive pay packages easier to compare. But while all the new disclosure rules have resulted in far more information, analysts say they still do not necessarily offer greater insight.

“It’s like reading through Tolstoy’s ‘War and Peace,’ ” said Lynn E. Turner, a former S.E.C. chief accountant and now a managing director of research at Glass, Lewis & Company, a proxy research firm in San Francisco. “What is missing is a clear, succinct story about how the compensation committee came to the amount they were going to pay.”

Many shareholders say the new proxies require more work, not less, to decipher. Pay consultants say some of the new data is so dizzying that they are not sure how to sift through it; some charts even require another set of charts to interpret them. And a new section in proxies, meant to explain clearly how executives are compensated, is overrun with mind-numbing corporate-speak and legalese.

Even the simplest of questions becomes mired in the disclosure swamp. For example, just how big was the average chief executive's pay increase in 2006? At most companies, it seems, fuller disclosure has made answering that question a tricky endeavor.

This year, for the first time, corporate filings disclose a single, handy executive compensation figure. But how that figure was calculated differs markedly from how investors arrived at similar ones in previous years — making apples-to-apples comparisons difficult. Despite that problem, it is still clear that bosses enjoyed healthy raises in 2006. The typical chief executive at a big company was paid about \$10.1 million, up 9.8 percent from 2005, according to a survey by Equilar Inc., an executive compensation research firm based in San Mateo, Calif. Equilar's analysis is based on the compensation awarded to chief executives at 150 of the biggest companies, as ranked by revenue. The analysis includes only companies that had filed proxies by the end of March using the new disclosure rules.

Of course, that payday is freighted with lavish exit packages and deferred compensation plans, forms of pay that have never been fully disclosed until this year. Nearly one-third of the executives whose pay was examined for this article can count on pension benefits worth more than \$10 million down the road, according to Equilar.

Tighter reporting requirements for perquisites reveal even more extra benefits for being the boss — including “personal health coaching” for [Motorola's](#) top executives; free beer, haircuts and club memberships at [Anheuser-Busch](#); and, at more than 70 percent of the companies examined, personal use of the corporate jet. Facing greater scrutiny, at least a dozen boards, including those at Lockheed Martin and [Washington Mutual](#), eliminated all or some executive perks last year. In many cases, boards then replaced those benefits with cash.

The shape of pay packages is changing, too. With new rules highlighting performance measures, more companies are awarding equity linked to meeting certain goals rather than bestowing stock options or restricted stock, which often pays executives for simply

having a pulse. About 40 percent of the typical chief executive's pay package this year was linked to hitting specific corporate targets.

Even so, some things remain essentially the same. Chief executives in the financial services, oil and health care industries generally landed outsized paydays in 2006, just as they have for years. Ray R. Irani, [Occidental Petroleum](#)'s chief executive, had a \$52.1 million payday, the largest of anyone on the list of 150 companies that filed under the new rules. But even that amount was overshadowed by what Lloyd C. Blankfein, [Goldman Sachs](#)'s chief executive, was paid under the old disclosure system. His \$54.3 million pay package made him Wall Street's highest-paid boss, though he held the top job for less than half the year. Not far behind Mr. Blankfein were the heads of Wall Street's other big investment banks, where the typical pay package crossed the \$40 million mark.

(Of course, those sums are probably a pittance compared with some paydays in the buyout and hedge fund worlds, where compensation remains a private matter.)

Home builders also continued to reap big rewards, even as the American housing market soured. The typical chief executive in the home-building business received total compensation of \$22.4 million in 2006, up 2.7 percent from the previous year. Shareholders in those home-building companies, meanwhile, saw their returns decline by 1.3 percent, on average.

Disclosures also show for the first time just how big several executives' paydays will be even when they stop working. On top of a 2006 pay package worth \$31.5 million, Edward E. Whitacre Jr., 65, the chief executive of [AT&T](#), can look forward to about \$73.8 million in deferred pay and the largest pension on the list, at \$84.7 million in retirement benefits. Mr. Irani of Occidental Petroleum has more money socked away in his deferred compensation account than any other executive Equilar examined. In fact, Mr. Irani's deferred pay of \$124 million yielded at least \$679,396 in interest last year — interest that amounted to more than 14 times the average salary of an oil industry worker.

The new rules "may have increased the visibility of pay packages," said Mark M. Reilly, a partner at 3C, Compensation Consulting Consortium, in Chicago. "But there are still a lot of problems out there."

OVER the last year, outsized pay has been at the core of some of the biggest corporate controversies and national debates. Even President Bush has weighed in on the matter. Ordinary American workers are also complaining about the huge salaries and golden goodbyes handed to their chief executives at a time when their own wages and benefits are being cut.

Pay-for-failure has also fueled the compensation debate, highlighted by the nearly \$200 million exit package that Henry A. McKinnell secured at [Pfizer](#) and the \$210 million parachute tied to Robert L. Nardelli's back at [Home Depot](#). Both left after investor uproar over their companies' poor performance.

Federal investigations into options backdating at more than 140 companies, meanwhile, have kept executive compensation on the national agenda. On Capitol Hill, lawmakers are considering a say-on-pay rule — which would give shareholders the right to a nonbinding, up-or-down vote on their top executives' pay packages — even though a similar bill failed to gain traction last year. While that idea is unlikely to become law, investor groups have lobbied to put similar proposals on the shareholder ballots of at least 70 companies, according to Glass, Lewis. Only seven were on corporate ballots last year.

Amid all this attention, the Securities and Exchange Commission made its first attempt to overhaul pay disclosure in 15 years. Ever since the agency began the process in late 2004, its goal was to tighten reporting loopholes that allowed large chunks of an executive's pay to go unnoticed. Regulators also wanted to provide investors with a clearer understanding of how corporate boards make compensation decisions.

Yet greater disclosure has also made it more challenging to peruse proxies, which have grown exceedingly long. Pfizer's compensation report runs over 17,000 words. [I.B.M.](#) needed 47 pages to explain how its chief executive, Samuel J. Palmisano, and other senior managers were paid last year. Its proxy included a lengthy preamble that bills itself as a helpful "guide to executive pay at I.B.M.," as well as a reference table just to make sense of its five different bonus programs and three types of retirement plans. The only thing missing was a simple way for the average investor to tally executive pay at the company in less than an afternoon.

(According to Equilar’s analysis, Mr. Palmisano was paid about \$18.8 million in total compensation last year, and can expect an additional \$34.9 million in deferred pay and \$33.1 million in retirement benefits.)

An I.B.M. spokesman, John Bukovinsky, attributed the proxy’s length and any difficulties to the S.E.C.’s new, more detailed reporting requirements. “I am grading our own papers, but I think we do a very good job of explaining I.B.M.’s compensation philosophy,” he said.

Still, even professionals have found most compensation reports to be heavy lifting. “We are very quickly moving to a situation where every proxy comes with its own hand truck — it might be readable, but page after page after page you blur out,” said Brian T. Foley, an independent compensation consultant in White Plains. “For sophisticated shareholders, it is probably useful. For the ordinary guy, it becomes a doorstop.”

And those are just the ones in which the writing is clear. Clarity Communications, an investment relations firm, analyzed the new compensation discussion sections of 40 big companies that filed their proxies before March, to measure their readability. The company used three standard tests that gauge sentence length and word complexity. From Clarity’s perspective, all 40 companies fell short. Even state insurance contracts were easier to read.

“The numbers have added a great deal to investors’ understanding, but we have a way to go on the English prose that accompanies the numbers,” said Christopher Cox, the S.E.C. chairman, in an interview. “If the real purpose was to get a message across to the retail audience, no company would do this,” he added. “A retail products company would never let the legal department write its sales copy.”

Companies, for their part, say they are struggling just to gather all the detailed data just to comply with the new rules, let alone tell the story behind it. (The S.E.C. did, after all, provide 372 pages of detailed rules for a “principles based” analysis.) Boilerplate reports have been a result.

“Plain English has been subsumed by the need to be legally precise,” said Michael S. Kesner, an executive compensation consultant at Deloitte & Touche. “People have agonized over describing whether something is a perk or not.”

Compensation committees have also agonized, pay advisers say, over how much information to release about performance measures they use to help determine short- and long-term bonuses. In this case, proxy watchers say they erred on the side of less disclosure, not more. At stake is the credibility of the S.E.C.'s push to make companies clearly describe the link between pay and performance.

Pay consultants estimate that between half and two-thirds of all companies laid out precise performance metrics last year, such as numbers for revenue growth goals or profit targets, as the new S.E.C. rules require. Only some, like [Allstate](#) and the MDU Resources, took the additional step of providing the company's actual results. And even then, most offered only a few words about how boards determined bonuses. But a surprisingly large number of companies — as many as 40 percent, according to pay consultants — are still speaking about performance in glaring generalities. [Dow Chemical](#) and [PepsiCo](#) are two examples.

A PepsiCo spokesman said the company had chosen not to reveal the targets because the information was competitive. Dow Chemical did not return calls.

Pay consultants say that many companies, like PepsiCo, are taking advantage of a clause in the new S.E.C. rules that allows them to withhold information about financial targets for competitive reasons. Some of these concerns are legitimate, but many boards are taking a more cautious stance than necessary, several pay advisers said. After all, much of the performance data they are keeping under wraps tends to be for the previous year, they added. In many cases, "I don't think that the data is confidential to the point where it was competitive harm," Mr. Kesner said. "The problem is the lawyers said you could take the position that it was confidential."

Still, some companies are providing useful information. [General Electric](#), which earned high marks from analysts for its concise, 10-page compensation report, also provided investors with a scorecard for how it calculates bonuses.

G.E.'s discussion provides clear insight into the factors that helped directors assess the performance of the C.E.O., [Jeffrey R. Immelt](#), even if his \$5 million bonus was not determined by a numerical formula. It stacked up a short list of his nonfinancial accomplishments against G.E.'s strategic objectives and assembled a handy chart that compared several financial targets with the company's actual performance.

Navigating the summary compensation table in new proxies also presents challenges. In the new category of “total compensation,” the S.E.C. said it intended to provide investors a single figure that offered an easy way to compare pay packages. But there is not just one way to tabulate annual pay. There are at least three. And the results are based largely on how companies record stock options and incentive payouts.

While most people consider “total pay” as the amount an executive takes home for the year — the figure that appears on his or her tax return — the S.E.C.’s new requirements produce a very different figure: what the company books as the executives’ compensation expense, which is an accounting number.

And compensation committees look at pay packages a different way: the total amount that executives receive if the company performs as they expect — what they call “the pay opportunity.” Depending on what method is chosen, an executive’s total pay package can be cast in at least three different lights.

Consider Richard D. Fairbank, the chief executive of Capital One. By the S.E.C.’s calculations, Mr. Fairbank received total compensation worth \$37.4 million. If you consider his pay opportunity, it was about \$18.2 million. And if you look at the amount he actually took home, he made just \$151,484 in 2006. (Of course, his take-home pay was bolstered by more than \$249.3 million in option profits the year before.)

At a handful of companies, total compensation figures can be mind-boggling. The C.E.O. of [Brookfield Homes](#), Ian G. Cockwell, reported making a negative \$2.3 million. What he really took home last year, however, was closer to a positive \$8 million. A Christmas Eve change to the S.E.C. rules that govern how companies value options produced these strange accounting numbers.

All of that makes calculating a meaningful “total compensation” figure difficult. Corporations, consultants and investors are not putting much stock in the headline compensation number on the S.E.C.’s table. In fact, a handful of companies, including [Bank of America](#) and Goodrich, are plucking from other parts of the proxy to construct their own “alternative summary compensation” charts.

Calculating the change in total pay is similarly tricky. Not only is the S.E.C.’s headline figure confusing, but the agency did not require companies to update their previous-year data to reflect new disclosure rules. Equilar’s “estimated change in pay” analysis relies on

several standard assumptions to make comparisons possible. Determining how much money an executive can expect if he or she is fired or forced out is also harder than many investors and pay consultants expected. Even so, the new rules are still unearthing some gravity-defying figures.

In a break from the past, companies must now report what some pay consultants call the “Nardelli Number,” after the former Home Depot chief — the value of any potential severance and change-in-control payouts as of a certain date.

For example, William R. Klesse, the chief executive of [Valero Energy](#), will get more than \$24 million if he is ousted. [Merrill Lynch](#)’s chief executive, E. Stanley O’Neal, could walk away with \$251.4 million if a merger sets off a change-in-control payout.

But how well companies display Nardelli Numbers is all over the map. Some companies, like [Boeing](#) and [MBIA](#), have easy-to-read tables. [Cigna](#), by contrast, offers a sprawling, five-page explanation that rivals a credit card application for the sheer amount of fine print. It takes a shovel, meanwhile, just to dig out the payout that Cigna would give H. Edward Hanway its chief executive, if he voluntarily stepped down after any sale of the company. (It is between \$72.8 million and \$80.5 million, according to company estimates.)

DESPITE a lack of clarity, the new disclosure rules are having a significant impact in some areas. Compensation committee members are spending more time discussing how they reward top executives. Bogus peer-group comparisons are harder to generate. With huge retirement packages being exposed, boards are tallying up how much money was awarded to executives over their careers — some for the very first time.

Under scrutiny, many boards are also pushing back on executive compensation, pay advisers say. Besides cutting down on perks, a few compensation committees are asking questions they might not have asked a few years ago: How much wealth is enough? Why is the chief executive paid significantly more than the next layer of management?

Executive benefits lawyers contend that hardball negotiations over severance are becoming more common. Boards are also inserting “claw back” provisions in new employment contracts, which will allow companies to recoup ill-gotten bonuses.

“The old way of looking at things is being seriously challenged right now,” said John C. Wilcox, in charge of corporate governance matters at TIAA-CREF, the big pension fund. “It’s going to be a learning year for boards, so they won’t make mistakes again in the future.”

Or as Mr. Cox at the S.E.C. suggested in a recent interview: “A company that is required to undress in public will pay more attention to its figures.”