

## Proxies shed light on CEO stashes

Deferred compensation adds up to millions

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If you think Robert Ulrich's \$74.2 million pay total at Target Corp. last year is stupendous, wait till you see what he's got on hold. Ulrich, 63, has deferred \$133.5 million in pay over the years that is collecting interest tax-free until he retires. That's in addition to a 401(k), pension and other payouts.

The balances highly paid executives have stashed in deferred-compensation accounts are detailed in company proxies for the first time this year under revamped pay-disclosure rules. Critics charge that the so-called hold 'em accounts give already overpaid executives unnecessary tax breaks and, depending on how they are structured, can siphon off company dollars.

Companies argue that the commonplace funds, which are distinct from pensions and the familiar 401(k) accounts, are necessary to attract and retain industry talent. After all, deferred-comp accounts are a way around limits on 401(k) contributions, and with companies often matching deferrals, executives get to build big retirements tax-free.

The special accounts also take some of the pressure off meeting targets necessary for executives to get their performance-based bonuses, said one compensation specialist.

Plus, while companies can deduct only the first \$1 million they pay executives in any year (they can deduct more only if the pay is performance-based) the deferred payout is fully tax-deductible.

However you see it, deferring pay is clearly popular.

"We are seeing, for the first time, the size of these deferred-compensation packages, and the amounts are sometimes staggering," said Jesse Fried, a law professor at the University of California at Berkeley and co-author of "Pay Without Performance: The Unfulfilled Promise of Executive Compensation."

CEOs at the 25 largest public companies in the Twin Cities have at least \$155 million in deferred pay that has been accumulating in the dark, according to a Pioneer Press review of proxies filed by mid-May.

Most of it is Ulrich's. But plenty of other big balances are on hold.

A full 85 percent of SP 500 CEOs have some balance in their deferred plans. The national median last year was more than \$3.7 million, according to a recent survey by Equilar Inc., a San Mateo, Calif.-based compensation analytics company. Generally, the balances can't be touched, except in certain circumstances, until executives retire or leave.

The deferral plans aren't limited to CEOs. Over the past five to 10 years non-qualified deferred compensation plans have spread further down the ranks to middle managers, said Jeff Ramsey, director of wealth management for Minneapolis accounting firm RSM McGladrey Inc.

Here's a quick scan of notable local balances, as they stood at the end of the company's last fiscal year:

- Jerry Grundhofer, who retired as U.S. Bancorp's CEO in December: \$86.1 million. Grundhofer, 62, continues as chairman until the end of the year.
- Stephen Hemsley, 54, who took over as UnitedHealth Group's CEO last November: \$5.5 million.
- James Cracchiolo, 48, CEO of Ameriprise Financial Inc.: \$3.9 million.
- Best Buy Co. CEO Bradbury Anderson, 57: \$3.5 million.

Generally, deferred pay is more of a paper IOU and isn't literally parked in some outside Vanguard or Fidelity mutual fund, experts explain. Think of it as a loan the executive makes to the company. The company itself pays the CEO interest on the deferred pay.

Shareholders need to keep an eye on whether the interest rate on the account or the matches the company makes are excessive, compensation experts say. Annual interest alone can amount to hundreds of thousands of dollars when pay accumulates.

Typically companies either pay the executive a market rate based on a smorgasbord of possible benchmarks including their own stock, or they slap a bunch of percentage points on top of a federal long-term market rate, such as the 10-year Treasury bill, and call it an "above-market rate."

Shareholders frown on guaranteeing executives extra premiums on their stash. That practice was already on the way out before this year's revelations, pay experts say.

Ameriprise Financial just redesigned its deferred comp plan and will no longer pay above-market rates, the company said in its most recent proxy. Last year it paid nearly 19 percent on deferrals made between 1994 and 2004.

Target used to pay Ulrich a market interest rate on his deferred account plus an extra 6.6 percent annual return. It froze that plan in 1996, although the old balances continue to grow at that rate.

One reason Ulrich's balance is so big is that he's been with Target 40 years.

Still, the additional 6.6 percent annual return Target guaranteed hasn't hurt. Ulrich earned \$767,698 just on the interest on his deferred compensation last year.

Of course the newer models for setting interest rates aren't exactly stingy.

Executives at Best Buy Co. can choose from a list of interest rates pegged to select funds. Among their offerings is Vanguard's VIF International which, according to Best Buy's proxy, had an annual return last year of nearly 27 percent. Those kinds of returns would turn CEO Brad Anderson's \$3.5 million balance into \$4.4 million in just one year. Not bad.

Executives at UnitedHealth, too, choose the interest rate they'll charge the company based on selection of existing mutual funds.

Last year those funds had annual returns ranging from 4.42 percent to 22.17 percent, with a median of 13.72 percent, according to the company's proxy. Executives can change rates daily.

The plans cost companies, compensation pros say. Companies do get to deduct the final deferred payout, but that doesn't offset the costs of deferred compensation plans, said Michael Kesner, head of Deloitte Touche's compensation practice in Chicago.

One reason, explain Kesner and Fried: Companies have to pay taxes on the extra earnings they must generate in order to pay executives the guaranteed returns on the deferred sums. That amounts to a tax subsidy, Fried said.

Kesner estimates that a company's cost will be about an extra 5 percent of the amount being deferred, Kesner said.

"They are essentially financing the tax deferral of the executive," Kesner said.

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