2009 Hay Group Open House Webinar
Insurance and Financial Services Industries

October 27, 2009
2 to 3:30 PM Eastern Time
Agenda

- Current compensation trends and salary planning
- Trends in long-term incentives and other key issues for 2010
- Insurance and financial services survey for 2010
Introductions

Hay Group

- Vince Milich
- Janice Boyle
- Allison Carpenter
- Jaclyn Durkin
# Introductions and webinar format

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Open discussion forum

Current compensation trends and salary planning
Trends in executive compensation

The more things change, the more things change …

- “The phrase 'Pay Czar' is very unfortunate. ”It sounds like I’m going to issue some imperial edict that’s going to compel changes in compensation.”
  - Kenneth Feinberg
  - June 11, 2009 Interview with CNBC

- “Pay Czar to Slash Compensation at Seven Firms “
  - Wall Street Journal October, 23 2009
  - Base salary drops by 90% on average
  - Introduce “salary stock” - 4 year vesting
Topics

- Trends in CEO Pay
- What to expect for 2009
- New executive compensation principles
- The new executive compensation model
Trends in CEO pay
Trends in CEO Pay

WSJ/Hay Group CEO Compensation Study Headlines – General Industry

- In 2008, total compensation declined for the first time since 2001, but not as much as many expected
  - Salaries increased – these were typically set at the beginning of the year
  - LTI awards were essentially flat – most were granted at the beginning of the year before much of the turmoil, were not “performance-granted”, and made up the largest portion of TDC
  - Only bonuses were down, but down significantly

- In 2009, we anticipate an acceleration of this trend
  - Salary freezes are typical for top executives
  - Bonuses will be down significantly
  - With share prices moving upwards, LTI impact may not be as much as anticipated, however, many organizations have not increased the number of shares in order to deliver the same value

- A continuing trend has been the change of LTI pay mix in favor of performance plans, as for the second year in a row they edge out stock options as the most widely used long-term incentive vehicle
Trends in CEO Pay

Change in CEO Long-Term Incentive Mix - 2007 vs. 2008 – General Industry

- Performance awards overtake stock options to make up the greatest emphasis within the LTI portfolio by a significant margin

2007 LTI
- Stock Options/SARs: 44%
- Restricted Stock: 17%
- Performance Awards: 39%

2008 LTI
- Stock Options/SARs: 40%
- Restricted Stock: 15%
- Performance Awards: 45%

Includes only constant incumbents
Trends in CEO Pay

Mix of Long-Term Elements – Industry CEOs

- Six of nine industries prioritize performance awards, with the other three emphasizing stock options

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0% 20% 40% 60% 80% 100% Percentage of Long-Term Incentives

Telecommunications is excluded due to lack of data
Trends in CEO Pay

Use of LTI Portfolios

- Of companies that grant LTI to their CEOs, 71% of companies now take a “portfolio” approach. This includes a significant gain in companies (24%) using all three vehicles.
What to expect for 2009
What to expect for 2009

Which TARP restrictions have staying power?

- **Some provisions are definitely here to stay**
  - **“Say on Pay”** – Government has now endorsed “say on pay” as part of the recently-released compensation principles
  - **Clawbacks** – seen as a best practice, will be broader than SOX provisions
  - **Risk assessment** – involvement of risk officers in ensuring incentives are not motivating excessive risk. This is already being regarded as a best practice

- **Other provisions might apply some time in the future**
  - **Golden parachutes** – could be further restrictions along these lines in the form of further tax penalties. Overall trend will be conservative
  - **Luxury expenditures** – these tend to receive disproportionate levels of scrutiny by shareholders. Another area that will only become more conservative
What to expect for 2009

Expected 2009 pay trends – General Industry

- We expect 2009 to be an unusual year for executive pay. A time of change and turmoil.
  - Reconsidering benchmarks and comparators
  - Target levels and performance metrics for STI will be recalibrated
    - Measures of risk to be included
  - Lower LTI grant values due to share availability and Board concerns
  - Little base pay movement
    - The exception on salaries will be financial companies that will likely raise currently below market salaries to more competitive levels
  - Many companies will make one-time restricted stock or cash retention awards
  - Those using performance plans will put more emphasis on relative performance measures
  - Establishments of an absolute threshold or “trigger” to ensure plans do not pay out while the company as a whole is not meeting expectations
New executive compensation principles
New executive compensation principles

1. Compensation plans should properly measure and reward performance
   - May shift heavy reliance on stock price and TSR to more strategic measures

2. Compensation should be structured to the time horizon of risks
   - Will likely result in the broader use of “bonus banks” and clawbacks

3. Compensation should be aligned with sound risk management
   - How to measure risk? Will almost certainly require more Board-level discretion and more holistic assessments of performance

4. Examine whether golden parachutes/SERPs align the interests of executives and shareholders
   - Difficult to get rid of existing change-in-control (CIC) and severance protections
   - Companies may need to consider “sunset provisions”, and/or performance-based SERPs

5. Promote transparency and accountability in the process of setting compensation
   - Say on pay – two votes annually - Program described in the CD&A and actual compensation
   - Independence of Compensation Committees and their advisors
The new executive compensation model
The new executive compensation model

Balancing the pay package

- The key word for managing a program in the new environment is balance
- What does a balanced program look like?
  - Makes use of a portfolio of vehicles that align compensation strategy with the business objectives of the company
  - Pay elements – provide a strategic rationale for a company’s emphasis on base vs. annual vs. long-term compensation, and emphasis on cash vs. equity
  - Long-term elements – provide a strategic rationale for a company’s emphasis on stock appreciation (options) vs. retention/ownership (time-vested restricted stock) vs. strategically critical performance (performance plans)
  - Performance measurement – measures being utilized for the annual plan should support and align with measures triggering the long-term plan
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Key Issues:

Incentives

- Split of cash versus LTI for executives for 2009 year end
- How companies that are flat or negative in earnings expect to calculate bonus pool
- Bonus design changes, targeted funding, eligibility... how far down the organization are employees eligible?
- Risk mitigation in incentive funding measures
- Incentive Pay
- Collection functions - use of incentive
- Use of "Ranking" in lower level incentive roles
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Key Issues:

**Employee engagement:**
- Employee engagement challenges, initiatives... how you are tackling this?
- Rewarding high performing employees
- High potential identification and programs to retain/engage them
- Rewarding high potential employees
- Recruiting, retention, and turnover trends

**Other key issues:**
- Impact of health care reform
- Business Referrals - part of incentive or separate payments?
- e-Business development
- New business sales plan - threshold or not?
New direction of the 2010 Insurance and Financial Services Industry Survey
Introducing 2010 Survey

Insurance and Financial Services Total Remuneration Survey

- Industry focus
- All jobs and all levels
- All compensation elements including base salary, STI, LTI, benefits, and total remuneration
- One easy to use report
- One Hay Group Account Manager
- Unlimited users
- Unlimited data support
- One price
- Launch in February 2010
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