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Reported Compensation Changes Among U.S.-Listed Public Companies Due to COVID-19

Gallagher's Executive Compensation Consulting Practice

Introduction

The world has been significantly impacted by the outbreak of coronavirus (COVID-19) in just a matter of weeks. From cessation of business operations to significant employee layoffs and furloughs, the virus's effects on businesses across the United States and globally have been swift. Unemployment in the U.S. is increasing, with more than 10 million claims filed in March 2020. Moreover, many of those managing to keep their jobs are getting paid less – particularly at the executive level.

In response to COVID-19 and its far reaching economic consequences, many companies are making changes to their compensation levels as a means to reduce the impact to their employees during this unprecedented time, as well as to conserve cash flow.

Gallagher has been closely tracking Securities and Exchange Commission (SEC) filings from publicly traded companies that detail material changes to compensation plans and programs in response to COVID-19 and the economic threat that the virus poses. This study reviews the extent of these compensation adjustments based on a sample of 151 U.S.-listed companies that have filed this information as of April 6, 2020.

Findings relate primarily to compensation changes for the CEO and other top executives; but also they include data for outside directors and as well as for the broader salaried employee population, if disclosed.

Company Sample

This report details compensation adjustment data from 151 public companies that have reported material compensation changes with the SEC between March 10, 2020 and April 6, 2020. As expected, the majority of companies reporting such measures do business in industries that have been hit the hardest by the financial effects of COVID-19. Almost half (43%) of the 151 companies are in the suffering retail and consumer sector, which, in addition to typical retail companies, includes airlines, cruise lines, trucking companies, hotel chains, restaurants and shipping companies.

Sector	Percentage of Companies
Retail & Consumer	43.0%
Industrial Products	17.9%
Entertainment, Media & Communications	11.9%
Technology	7.3%
Energy & Mining	7.3%
Real Estate[1]	5.3%
Pharmaceutical & Life Sciences	4.6%
Health Industries	2.6%

[1] The Sector analysis is based on Standard Industrial Classification (SIC), which is a four-digit coded system designed for classifying the primary business activities of a company. The 5.3% of companies in the Real Estate sector are technically classified as Financial Services by their SIC code. However, because all companies are real estate-focused businesses versus other financial services businesses, Gallagher has labeled the sector as "Real Estate" for clarity.

Summary of Findings

Overall

Of the 151 publicly traded companies reporting compensation adjustments, 143 reported pay reductions for at least the CEO if not for other top executives and/or outside board members as well.[2]

Over half of companies in the sample (54%) reported salary and retainer reductions to *all three* leadership roles – CEO, other top executives, and outside directors. A large percentage of companies (87%) reported reductions to both CEOs and other top executives (but not outside directors), while 58 percent reported reductions to both CEOs and outside directors (but not other top executives). A small number of companies (9%) reported reductions for the CEO only.

	Salary Reduction Percentage			Company Size ($ millions)	
	CEO (100% of cos.)	Other Top Execs (87% of cos.)	Outside Director (58% of cos.)	Revenue	Market Cap
Minimum	**10%**	**8%**	**10%**	**$0**	**$4**
25th Percentile	**25%**	**20%**	**25%**	**$431**	**$259**
Median	**50%**	**25%**	**50%**	**$1,452**	**$1,226**
75th Percentile	**100%**	**40%**	**100%**	**$3,674**	**$3,815**
Maximum	**100%**	**100%**	**100%**	**$143,599**	**$573,173**

CEO

All identified compensation reductions apply to at least the CEO's salary. The median salary reduction for the CEO is 50%, ranging from a low of 10% to a high of 100% (or $1 in a few instances). In most cases, the CEO's salary reduction is higher than that of the other executives. Of the companies stating a reduction for both the CEO and at least one additional executive (81%), roughly two-thirds reported reducing CEO pay more than the other executives. Of these companies, the difference between the CEO and other executive pay reduction ranges from 10% to approximately 25%.

Other Top Executives

In the majority of instances (87% of companies reporting reductions), other top executives also are taking a salary reduction. For these other executives, the median reduction is 25%, ranging from a low of 10% to a high of 100%.

Outside Directors

More than half of outside directors (58% of companies reporting reductions) also are receiving some sort of compensation reduction, most often in the form of a reduction in the cash retainer. The median reduction to the cash retainers is 50%, ranging from 10% to 100%. In many cases, the reduction is the same as the CEO's salary reduction. Moreover, a few companies disclose that the retainers will be paid in equity rather than in cash.

[2] 8-K filings of the remaining eight companies reported other actions such as forgoing salary increases, increasing wages and benefits, providing one-time bonuses, furloughs of employees, enacting hiring freezes, or reducing salaries, without providing further details.

Broad-Based Salaried Employee Population

While not yet a typical practice, a small percentage of companies (16%) reported a reduction for salaried employees. The median reduction for salaried employees is 20%, ranging from 15% to 50%. In many instances, the reduction is graded, applying greater reductions to higher salaried employees.

Length of Reduction

Approximately 66% of companies state that the pay reduction time period is “temporary” or “indefinite” without assigning a specific length. The remaining 34% of companies specify a specific length of time that the reduction will be in place. Of these stated time periods, the most common are 90 days (or one quarter), nine months (or the remainder of 2020), and six months. It is worth noting that most (two-thirds) of retail and consumer companies reporting reductions with specific lengths noted longer reduction periods of six months or nine months, which is not surprising given the challenges the retail and consumer industry is facing.

Deferral of Salary Reduction

A few companies state that the reduction is being deferred, implying that the reduced amount may be repaid in the future in some form. One company specifically noted they will be reducing the CEO salary by 50%, with 25% being deferred and reducing the other top executive salaries by 30% with 20% being deferred. Amounts deferred are expected to be paid back in March 2021.

Other Considerations

In addition to salary reductions, some companies reported other considerations with regard to compensation. Some examples follow:

- The salary paid to the executive will only be enough to cover benefits provided by the company.
- Salary increases set to go into effect in Q1 of 2020 are being deferred or reduced.
- The value of the salary reduction will be provided in the form of restricted stock units (RSUs) which vest during the following quarter if still employed.
- The 2019 bonus will be reduced or eliminated.
- The reduced salary will apply to the 2020 bonus.
- 401(k) matching contributions will be reduced or suspended.
- Providing hazardous duty premium for certain industries and employees.

While this report details compensation reductions as filed with the SEC, it is important to note that other companies in the United States are taking an alternative approach. While not a material change requiring an 8-K filing, many companies reported in the news in recent weeks sharing actions such as pledging not to lay off staff, suspending layoffs, not counting sick days or PTO during the pandemic, and offering funds to cover unforeseen employee costs.

For more information, please contact James F. Reda, National Managing Director – Executive Compensation with the Gallagher Human Resources & Compensation Consulting practice: james_reda@ajg.com or 646-367-4466. James works with both public and private organizations in planning, creating, and implementing incentive programs. The executive compensation consulting team partners with boards of directors and senior management to ensure that executive, board member and broad-based employee compensation programs are competitive, compliant with regulatory requirements, supportive of strategic business objectives and tax-efficient.

DISCLAIMER

This study represents only a small portion of publicly traded companies in the United States (151 out of more than 3,500). The remaining companies may be doing more limited layoffs, pay reductions below the executive level, or nothing at all. The source for this study is SEC filings, primarily Current Reports on Form 8-K, as well as press releases.

An 8-K must be filed when the compensation of the CEO, CFO or other named executive officer is materially amended or modified. As such, the vast majority of the 8-Ks filed in connection with a Covid-19 related compensation action include the CEO.

An 8-K may not have to be filed for furloughs, salary reductions or reductions in force that are not material to the company. Therefore, there may be changes to the general employee population that are not reported and are not included in this study.

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