

# The Impact of COVID-19 on Executive Compensation Programs

**Daniel Rodda**  
*Meridian  
Compensation  
Partners*

**Dan Kaufman**  
*Meridian  
Compensation  
Partners*

**Bank**Director.

#BEYOND20

# 2020 Has Presented Many Unique Challenges



**CORONAVIRUS (COVID-19)**

**Global Pandemic**

- Health crisis and business lock downs
- Impact most severe in travel, retail, hospitality
- Global economic impact



**Social Unrest**

- National protests
- Focus on ESG and diversity
- Long-term implications to how businesses are run



**Interest Rates**

- Historically low interest rates
- Pressure on banking industry profits
- Strong mortgage activity



**Election Year**

- Uncertainty and unpredictability
- Potential tax legislation
- Potential increased regulation



**Impact on Bank Business**

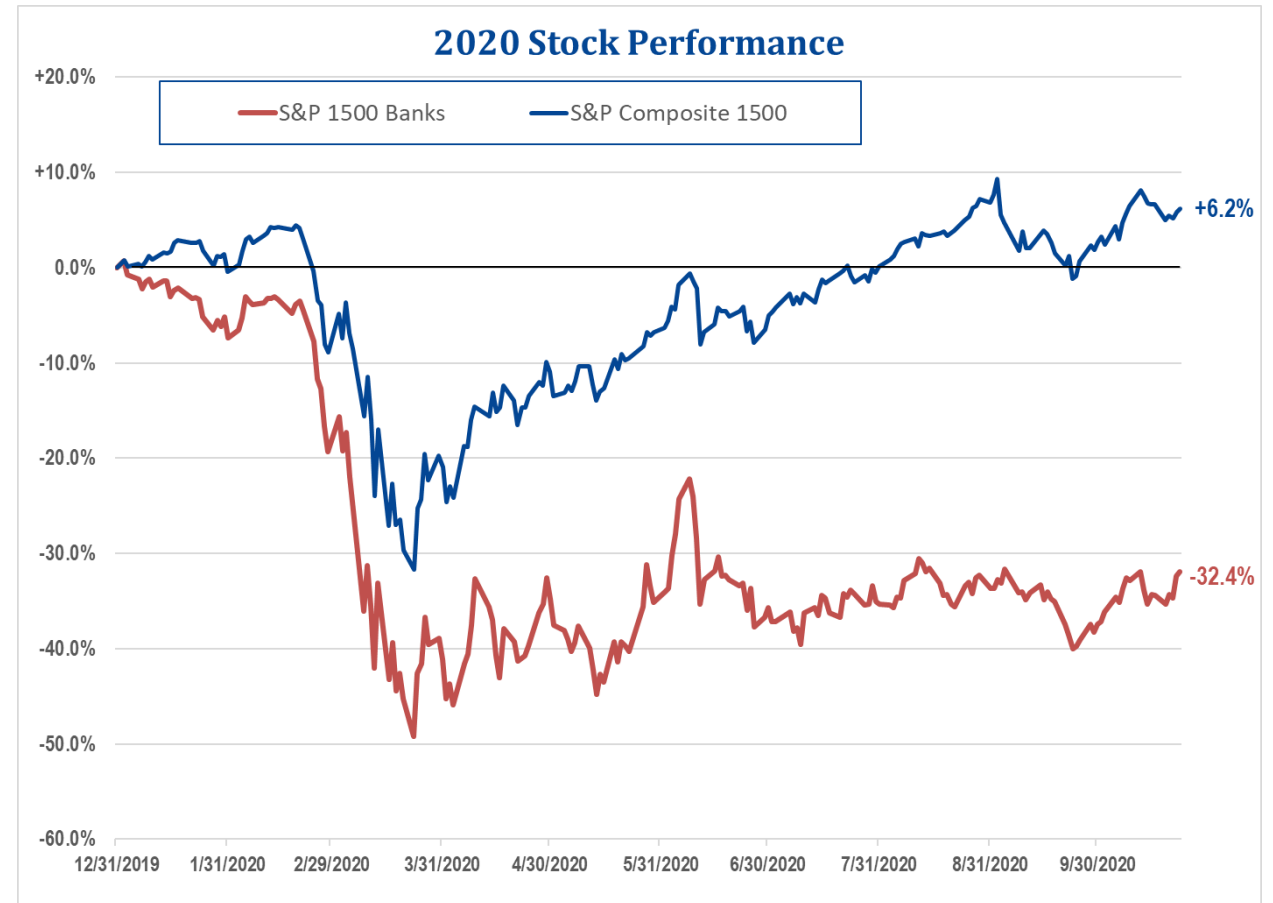
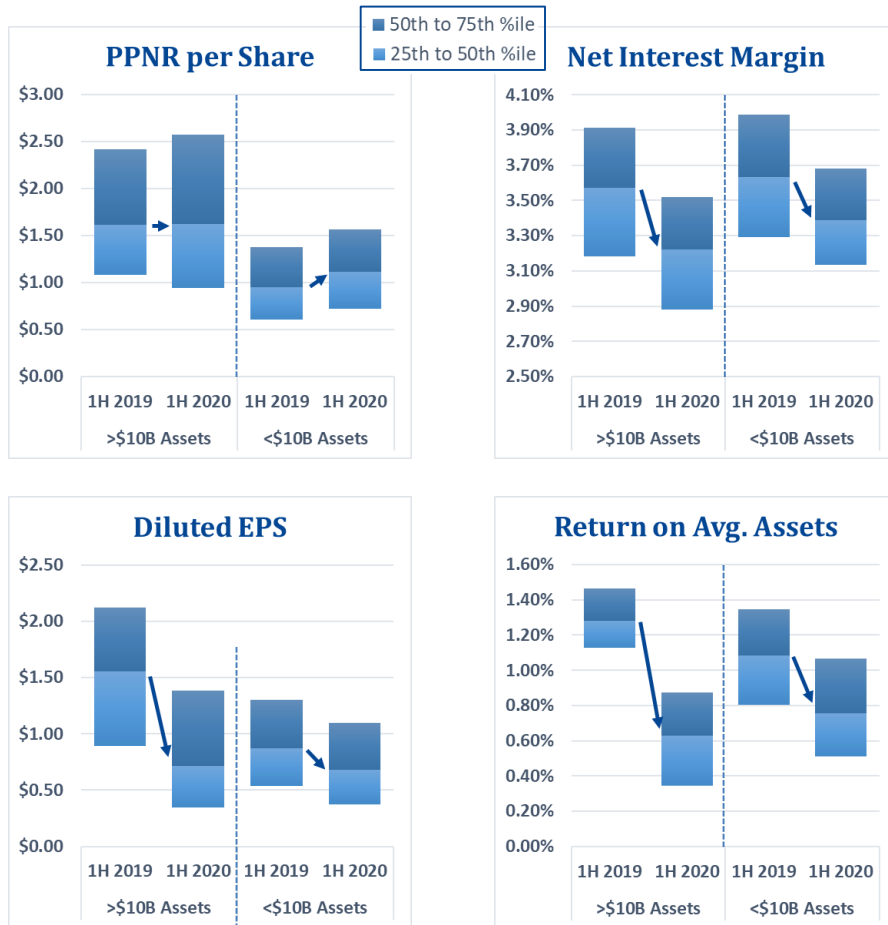


**Impact on Financial Results**

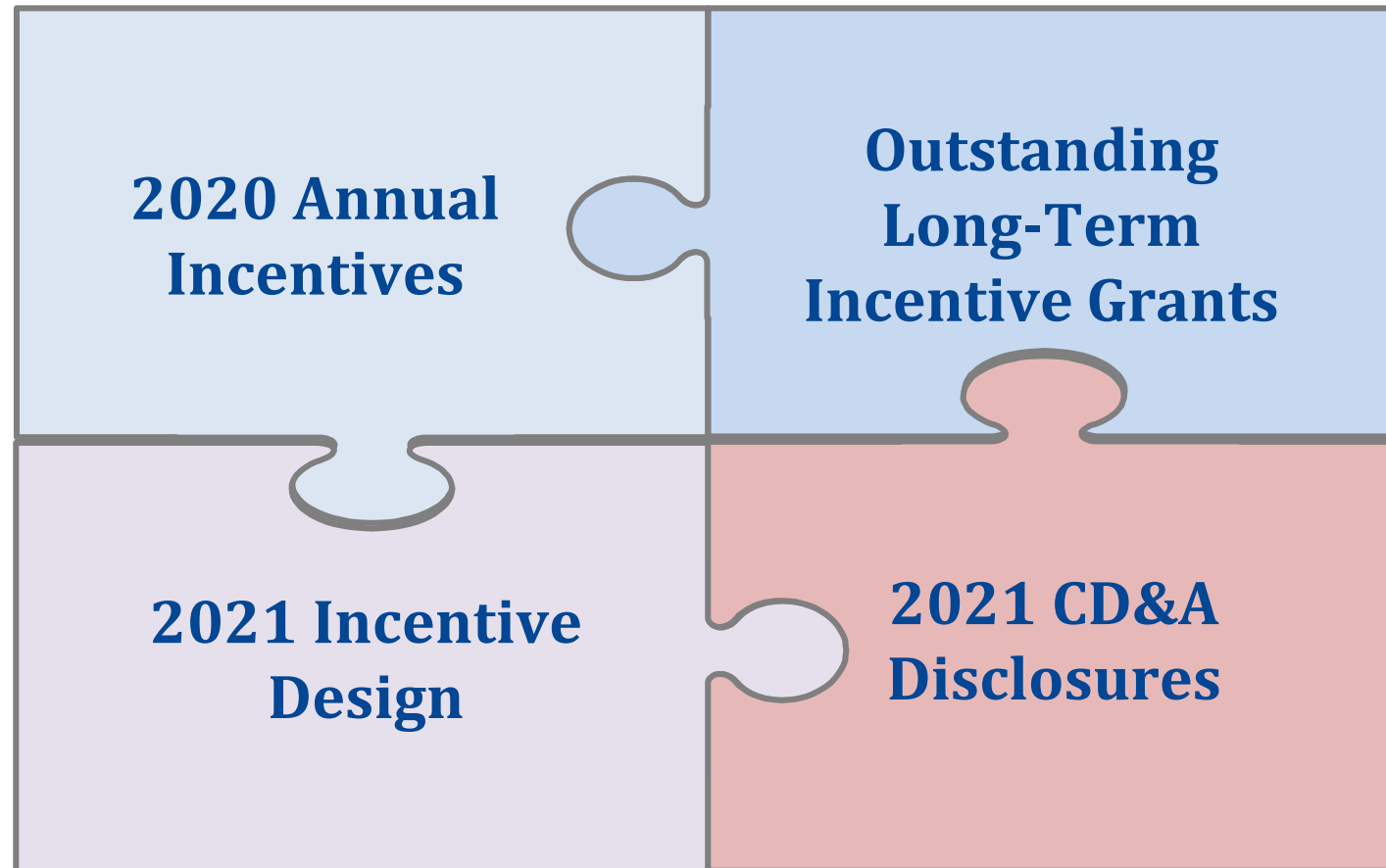


**Impact on Compensation**

# The Impact on Bank Results Has Been Significant



## Compensation Decisions Need to Be Considered Together



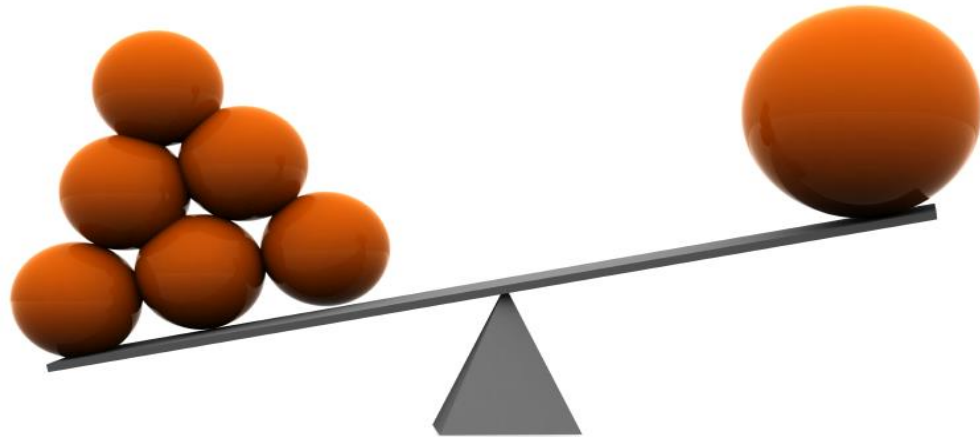
## Some Program Designs Have Provided More Protection from COVID-19 Impacts



## Many Banks Are Considering Whether to Adjust 2020 Annual Incentive Payouts

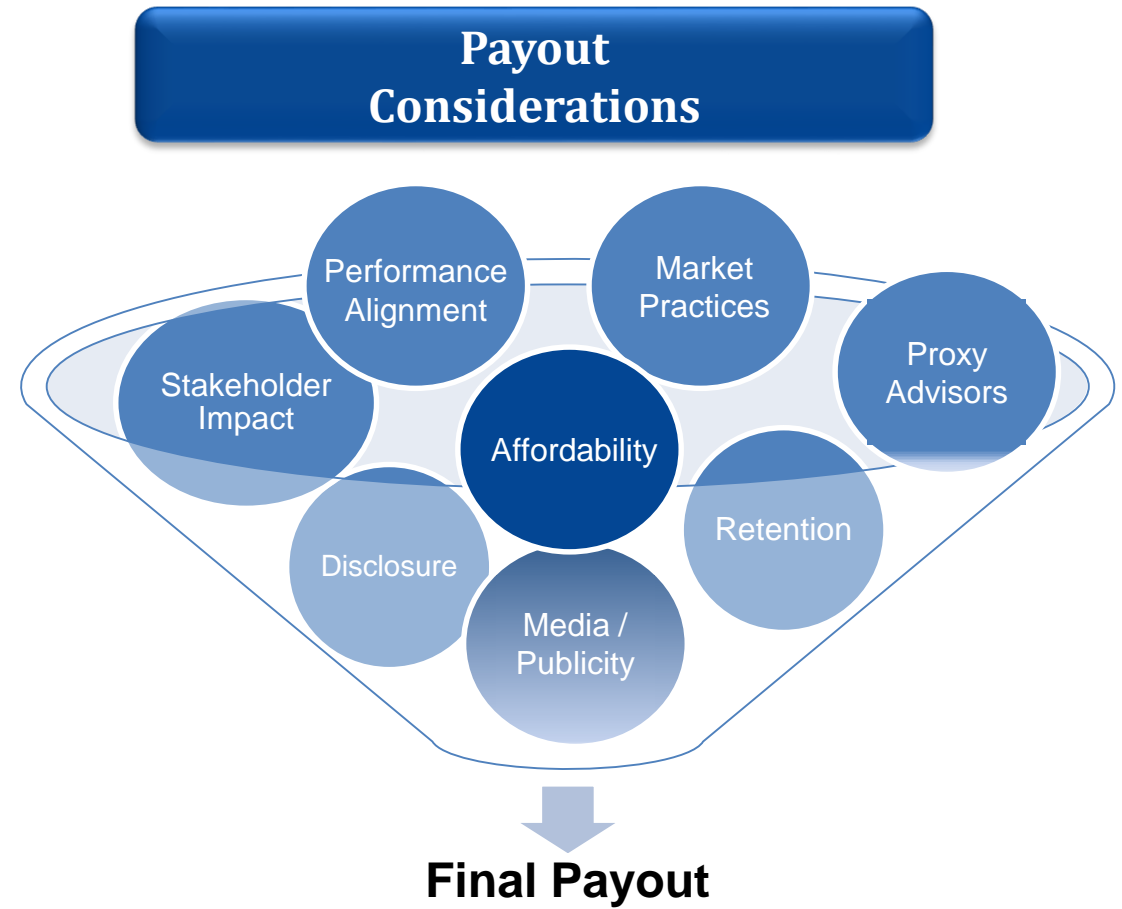
### Majority Practice

### Minority Practice



- Guided Discretion
- Below Target Payouts
- Scorecard Approach

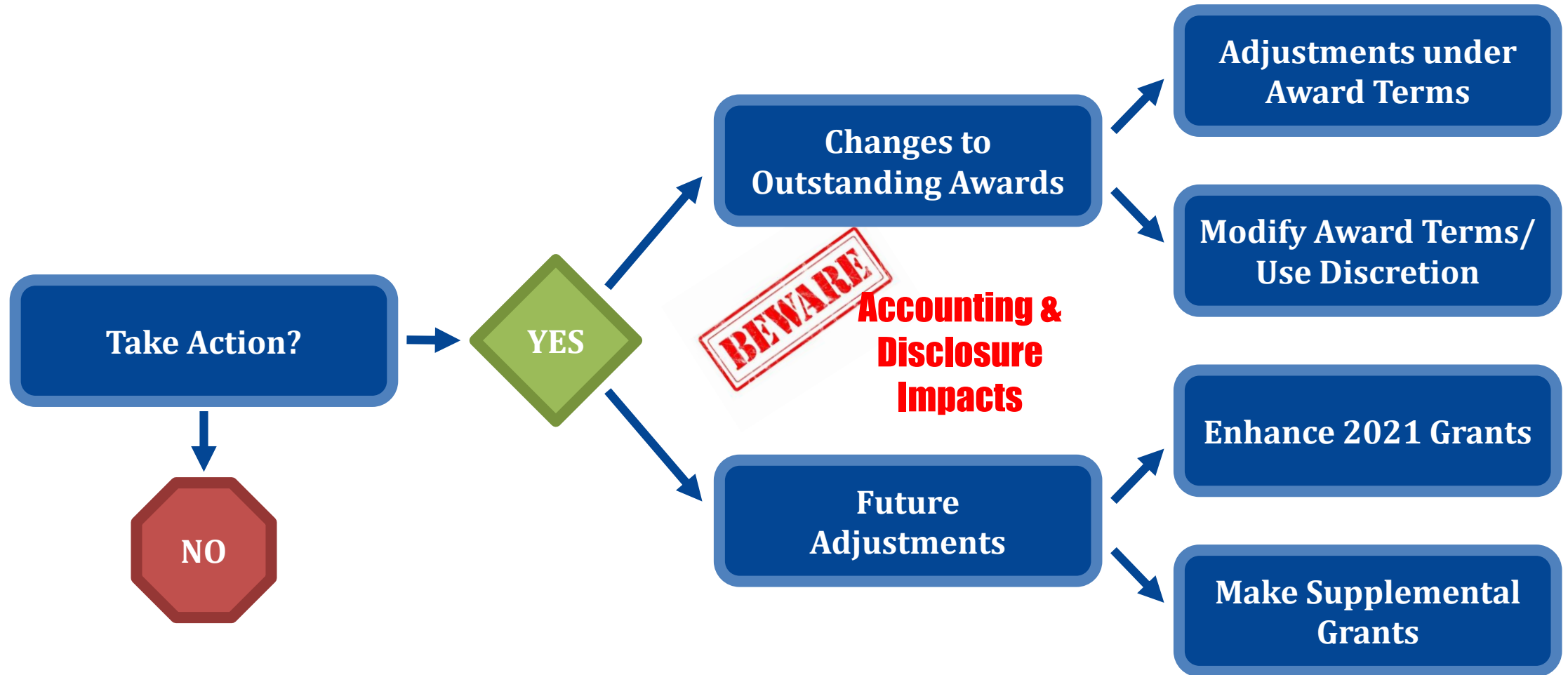
- Formal Plan Change
- Above Target Payouts
- Financial Metrics Only



## Consider Developing a Scorecard with a Holistic View of Performance

Financial Impact	Employee Impact	Customers / Community Impact	Business / Strategy Impact
<ul style="list-style-type: none"> <li>• Results vs. Original Plan</li> <li>• Impact of COVID</li> <li>• CECL Impact</li> <li>• Stock Price and Dividends</li> <li>• Relative Performance</li> </ul>	<ul style="list-style-type: none"> <li>• Layoffs / Furloughs</li> <li>• Benefit Reductions</li> <li>• Non-Executive Payouts</li> <li>• Employee Engagement &amp; Safety</li> </ul>	<ul style="list-style-type: none"> <li>• PPP Activity</li> <li>• Deferrals</li> <li>• Customer Loyalty / Satisfaction</li> <li>• Support for Local Community</li> </ul>	<ul style="list-style-type: none"> <li>• COVID-19 Response Effectiveness</li> <li>• Impact on 2020 Priorities</li> <li>• Ability to Innovate and Move Bank Forward</li> </ul>

## Providing Consideration for Reduced Long-Term Incentive Values Requires Caution





## Changes May Be Appropriate for 2021 Annual Incentive Programs

<i>Alternative</i>	<i>Appropriate when...</i>
<b>Evaluate Metrics</b>	<ul style="list-style-type: none"> <li>• Key priorities evolving for 2021</li> <li>• Externally driven volatility</li> </ul>
<b>Wider Goal Ranges</b>	<ul style="list-style-type: none"> <li>• Continued uncertainty and volatility</li> <li>• Desire to maintain “core” program</li> <li>• Lowering threshold payout level</li> </ul>
<b>Add Relative Metrics</b>	<ul style="list-style-type: none"> <li>• Challenges setting absolute goals</li> <li>• Have an appropriate comparator group ability to gather comparator bank results with consistent methodology</li> </ul>
<b>Add Non-Financial</b>	<ul style="list-style-type: none"> <li>• Desire to reflect broader view of performance</li> <li>• Key strategic priorities not reflected in short-term financials (ESG, transformation)</li> </ul>
<b>Increase Judgment</b>	<ul style="list-style-type: none"> <li>• Desire to build in opportunity to apply discretion</li> <li>• Committee prepared to evaluate performance holistically</li> </ul>

## Many Factors Should Be Considered When Determining 2021 Long-Term Incentives



## Disclosure of COVID-Related Adjustments Will Be Critical

- NO formal changes to date of proxy advisor policies
  - Some signaling that receptive to annual incentive plan changes/discretion, but less receptive to LTI changes
  - Expectation of robust disclosure for any changes
- This year media, stakeholder, community, employee reaction critical in addition to proxy advisor response



### Glass Lewis (blog)



GLASS LEWIS

*“The stark reality is that for many workers, including executives, they should not expect to be worth as much as they were before the crisis, because their free market value as human capital has now changed. There is a heavy burden of proof for boards and executives to justify their compensation levels in a drastically different market for talent.”*

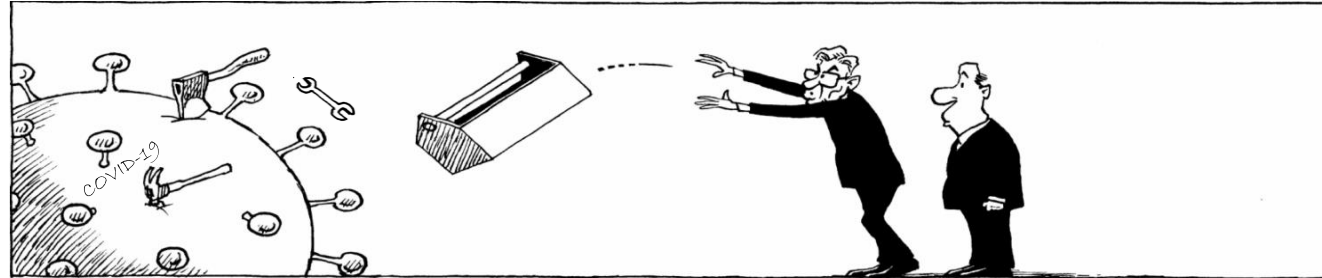
### 2020 ISS FAQs



*“It is expected that many companies will be making adjustments to annual incentive programs, which may include changes to metrics, performance targets, and measurement periods. Some companies, particularly those most severely impacted by the pandemic, may suspend their programs entirely and instead make one-time discretionary payments. Other companies may take a combination of these approaches. Such actions would be considered problematic under normal circumstances; however, in the extraordinary circumstances of the current economic downturn, ISS may view such actions to be a reasonable response so long as the justification and rationale are clearly disclosed, and the resulting outcomes appear reasonable”*

## Consider All Alternatives and Tread Carefully

Consider all available strategies and tools for addressing 2020/2021 incentive program design



### Be mindful of:

- External and internal optics
- Retaining and motivating employees
- Unintended consequences/windfalls
- Shareholders' and proxy advisory firms' reactions
- Company's response to the crisis
- Profitability, affordability and sustainability
- Disclosure impacts



# MERIDIAN

COMPENSATION PARTNERS, LLC

<https://www.meridiancp.com/insights/financial/>

**Daniel Rodda**

**Partner**

400 Galleria Parkway SE, Suite 1170  
Atlanta, GA 30339

Office: 770-504-5946

Email: drodda@meridiancp.com

**Dan Kaufman**

**Lead Consultant**

400 Galleria Parkway SE, Suite 1170  
Atlanta, GA 30339

Office: 770-504-5943

Email: dkaufman@meridiancp.com