Pearl Meyer

RESEARCH REPORT | JAN 2024

Looking Ahead to Executive Pay Practices in 2024: Banking Edition

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This year's survey addresses key topics associated with the current environment, including the expanding role for compensation committees with broader human capital oversight, actions taken to address incentive plan goal-setting challenges, and the potential impact of recent regulatory developments on executive pay practices at publicly traded companies. As with prior surveys, it also covers subjects such as compensation philosophy, expected pay outcomes for Fiscal 2023, projected salary increase levels for 2024, recent or anticipated incentive plan design changes and use of discretion for cycles ending in 2023, and long-term incentive award prevalence and participation.

After a tumultuous first quarter, many banks faced significant uncertainty surrounding the achievement of annual objectives. As the year approaches an end, about half of respondents expect performance at or above the prior year's performance. However, accruals relative to budget for short-term incentives ("STI") are averaging 87% of budget, with larger organizations more negatively impacted than smaller ones. As a result, nearly half of respondents have either applied positive discretion or are taking a "wait and see" approach at year end to their STI plans.

Similar to prior surveys, most respondents target executive compensation at or near the market 50th percentile, especially in the case of publicly traded companies. While most respondents did not recently change or anticipate changes to their executive compensation philosophy, nearly 28% increased or plan to increase competitive positioning for one or more pay components, suggesting that labor markets remain somewhat tight.

Compensation committees continue to address a variety of topics beyond executive and non-employee director compensation, with many respondents starting to become more involved with broader human capital oversight, and 9% of respondents having already taken on any additional oversight responsibilities.

Salary increase projections for 2024 continue to be elevated compared to historical norms. Across the entire sample, 50th percentile or median increase projections equal 4.0% for CEOs and 3.8%-4.0% for other senior executives and employees.

More than 40% of all respondents took one or more actions this year to address incentive plan goal-setting challenges, including delaying the timing for finalizing goals (13%), widening performance range spreads, and adding or increasing the emphasis on relative (vs. absolute) or qualitative (vs. quantitative) measures. About 40% of all respondents described current-year incentive plan performance goals as having similar degrees of stretch compared with 2022, with nearly 32% citing more aggressive hurdles.

About half of all respondents anticipate making changes to short-term incentive design and 30% anticipate making changes to long-term incentive designs for 2024. Among those that do, the most commonly cited change is to add new performance metrics, but respondents are also considering adding strategic, new objective, subjective, and relative performance metrics. Compared with prior surveys, anticipated prevalence of adding new environmental, social, and/or governance (ESG) metrics within short-term incentive plans declined, perhaps in response to the recent Supreme Court ruling against race-based affirmative action admission practices at certain universities and the growing ESG backlash.

Most public company respondents state that the new "pay versus performance" disclosure requirement has not had a significant impact on executive compensation designs or practices, with many viewing it as a compliance exercise. While most public company respondents plan to exactly mirror the new requirements within their new or revised clawback policy, 35% either have or expect to establish a broader policy (e.g., in terms of covered participants and/or recoupment triggers) or maintain multiple plans. These and other key survey findings are addressed in more detail in the executive summary available to download.

About the Authors

Dan Wetzel is a managing director at Pearl Meyer. With over 30 years of experience in the field of compensation and benefits, Dan assists clients in the areas of executive and non-employee director compensation and employee pay, focusing on the development of annual and long-term incentive compensation programs to meet clients' strategic objectives. He also provides consultation in the areas of employment contracts and change of control provisions, mergers and acquisitions, expert testimony, reasonableness of compensation, salary administration, performance management, and employee and executive benefits. His client engagements cover a variety of industries and company organizational and developmental stages, including startup/pre-IPO, privately-held, public, subsidiary, foreign-owned, and non-profit organizations.

Rhonda is a senior survey account manager at Pearl Meyer. She joined the team in August of 2019 and she works as a liaison to the Southeast banking associations on banking salary surveys while also assisting many other state and national survey clients.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.