Pearl Meyer

ARTICLE | JUL 2025 | NACD

Why Compensation Committees Should Care About Holding Power

Matt Depp

MANAGING DIRECTOR

While not usually part of a standard agenda, compensation committees that regularly assess the holding power of companies' equity awards are in a stronger position to spot retention risks early, gauge the true impact of their executive pay programs, and maintain alignment between pay, performance, and shareholder value. Monitoring holding power is a vital sign of a compensation program's health, just as tracking blood pressure is to physical health.

What Is Holding Power?

Holding power is defined as the total value of an individual's unvested equity compensation, expressed as a ratio of base salary, and it includes the value of restricted stock units or shares (RSUs) and performance stock units or shares (PSUs). Unvested RSUs and PSUs are valued at the current or assumed stock price, with PSUs adjusted for performance to-date (i.e., the elapsed portion of the performance cycle).

Any unvested stock options should also be included and calculated to reflect the intrinsic value, which is the difference between the current price and the exercise price. Holding power can then be determined by dividing the total unvested equity value by the executive's base salary. For example, if an executive has a base salary of $800,000 and total unvested equity worth $3.2 million, the holding power ratio is $3.2 million divided by $800,000, or four to one.

Broadly speaking, the assessment of holding power ratios should include a comparison to the external market range to determine the strength and competitiveness of a given ratio. As a rule of thumb, ratios below one- or two-times base salary would be considered weak for most executive roles, but the positioning of a specific ratio within a benchmark range will be dependent on several factors.

Understanding the Retention Risk

Low holding power signals a higher risk of executive attrition. Executives may feel as though they don't have a lot to lose by leaving the company, and limited unvested equity can be more easily bought out by competitors. Understanding this retention risk becomes essential during leadership transitions, internal promotions, merger and acquisition activity, and periods of a company's depressed stock price.

In many cases, a holding power analysis that indicates risk will prompt a reassessment of retention strategy or even the overall compensation philosophy more broadly.

Evaluating Holding Power and Realizable Pay

Holding power can also be a valuable tool for a more granular assessment of the alignment between target awards and actual payouts over time. Setting long-term incentive plan targets is among the more challenging responsibilities of the compensation committee. There is often significant effort dedicated to reviewing and approving target equity grants, but far less time is spent evaluating the realizable value of equity compensation, particularly as measured by holding power.

Regular analysis of holding power can provide compensation committees with important insights, including into the alignment of granted and realizable equity compensation and the appropriateness of incentive target calibration over time. Holding power and realizable pay, when used together, are vital tools for ensuring a well-functioning compensation program, especially when evaluated alongside other key "health indicators," such as the alignment between pay and total shareholder return (TSR) and the average payout as a percentage of target.

Incorporating Holding Power Analysis into the Compensation Cycle

Compensation committees are encouraged to assess holding power on an annual basis. This should be coordinated with the review and approval process for annual equity grants and evaluations of long-term incentive plan design changes as it may reveal concerns, such as retention risk, that should be addressed in the next compensation cycle.

As this becomes a regular exercise, compensation committees can begin to evaluate holding power from two perspectives. *Absolute analysis* can include an assessment of current levels in the context of historical trends and future projections, factoring in stock price sensitivity. *Relative analysis* can include internal comparisons among executives to understand internal equity, as well as external comparisons to understand market competitiveness. In most cases, the company's compensation peer group serves as an effective benchmark for the external perspective.

There are other key variables that can factor into the compensation committee's analysis and determination of action needed, which include the following:

- **Role.** CEOs and other highly compensated executive roles, such as the chief financial officer, generally have higher holding power.
- **Company size**. Generally, company size correlates with executive compensation levels, leading to higher holding power at larger companies.
- **Stock price performance.** Absolute and relative performance against peers is a key factor that influences where holding power falls within the market range.
- **Industry.** Sector norms can influence holding power, primarily due to differing degrees of executive mobility, though typically to a lesser extent than company size, role, or performance.
- **Tenure.** A newer executive may naturally have lower holding power due to limited participation in the equity program.

Treat Holding Power as a Strategic Indicator

In today's highly competitive executive talent market, especially at the C-suite level, the effectiveness of compensation is far more nuanced than headline grant values. Holding power analysis offers compensation committees a forward-looking tool to evaluate retention risk, pay-for-performance alignment, and the true motivational value of equity awards. When paired with realizable pay analysis, it provides a more complete picture of the relationship between compensation design, actual outcomes, and executive behavior. By embedding regular holding power assessments into the annual compensation cycle, compensation committees can leverage another strategic indicator that is on par with pay-for-performance or TSR alignment and ensure executive compensation programs truly support long-term shareholder value creation.

About the Author

Matt Depp is a managing director at Pearl Meyer. He provides executive compensation advisory services to boards and management teams of public and private companies. Matt specializes in compensation benchmarking, incentive plan design, peer group development, performance goal calibration, pay-for-performance alignment, and SEC regulatory issues.

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.