

Sustaining Excellence and Building Stability in the Face of Uncertainty

Alexander Yaffe
Managing Director
alexander.yaffe@pearlmeyer.com
(410) 494-4140

Peter Wertheimer
Principal
Peter.Wertheimer@pearlmeyer.com
(312) 242-3056

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The Environment: The Leadership Challenge

Navigating Uncertainty

- + We gather today at a pivotal moment for private higher education. The landscape is shifting beneath our feet—demographically, financially, and reputationally.
- + The traditional model of our institutions is being tested by:
 - declining enrollments
 - intensifying competition
 - greater scrutiny from accreditors and legislators
 - a growing demand for measurable return on educational investment
- + At the same time, we are called to lead transformative initiatives without compromising the mission-centered values that define our sector
 - growing revenue through new programs
 - expanding access and equity, integrating technology
 - enhancing institutional resilience
- + These are not small tasks. And they cannot be left to chance or addressed solely through fixed compensation structures that reward tenure rather than outcomes.

The Environment: The Leadership Challenge

Private institutions today face:

- **Volatile enrollment pipelines**, especially among traditional undergraduates
- **Tuition sensitivity** and increasing tuition discount rates
- **Escalating labor and infrastructure costs**, while endowments may underperform or stagnate
- **Accountability pressures** from governing boards, donors, the IRS, and the public
- A **competitive talent market**, especially for mission-aligned executive leaders with strategic, operational, and fundraising acumen



In this context, it is no longer enough to ask our executive leaders to *do more with less*. We must instead structure leadership compensation systems that reflect the complexity of their charge—and the urgency of our mission.

The Environment: High Stakes, High Scrutiny

Private institutions are navigating a **perfect storm**:

- **Demographic cliffs** and regional enrollment declines
- **Shifting public perception** of the value of a degree
- **Rising operating costs** amid constrained tuition growth
- **Declining margins** exacerbated by controllable and uncontrollable factors which lead to cuts, restructuring, and/or innovation.
- **Donor and board pressure** for visible, measurable outcomes
- Increasing **regulatory and IRS scrutiny** around executive compensation
- + In this context, compensation can no longer be treated as a passive cost—it must become a **strategic tool** that drives leadership focus, retention, and institutional value creation.

Boards are faced with the challenges of:

- **Declining Tenure**: The average tenure of college presidents has decreased from 8.5 years in 2006 to 5.9 years in 2022, indicating increased turnover and potential instability within institutions.
- **Impending Leadership Exodus**: Over half of current presidents plan to step down within the next five years, signaling a forthcoming wave of leadership transitions.
- **Diversity Gaps**: Despite efforts, the presidency remains predominantly older, white, and male, underscoring the need for more inclusive leadership pipelines. These trends are compounded by external pressures:
- **Increased Scrutiny**: Presidents face heightened scrutiny from various stakeholders, including donors, political entities, and the public, often leading to abrupt resignations and interim appointments.
- **Complex Challenges**: Leaders must navigate declining enrollments, financial constraints, and calls for greater accountability and transparency..

Why consider a variety of incentives?

Objective: Retain High-Impact Presidential Talent Over Time

Presidents are under increasing pressure to deliver results in a shorter time frame. But institutions need consistent, visionary leadership to execute long-range strategic goals. A layered incentive strategy solves for both realities by rewarding:

- + Annual Incentive: Short-term wins that keep momentum.
- + Long-Term Incentive: Long-term impact that aligns with mission.
- + Retention Incentive: Loyalty and commitment to institutional continuity.

This is where **annual, long-term, and retention incentive compensation** comes into play. When designed thoughtfully, incentive plans can:

- + **Focus executive attention** on high-impact strategic priorities.
- + **Drive alignment** between leadership behavior and institutional outcomes.
- + **Reinforce accountability and transparency**, with clear performance metrics.
- + **Enhance retention** of top talent in an increasingly competitive marketplace.
- + **Demonstrate to boards and stakeholders** a commitment to performance-based leadership.
- + These are not Wall Street ideas imposed on academia—they are tools that, when aligned with our educational mission, can help us navigate uncertainty, advance innovation, and deliver on the promise we make to students and society.



Triangulating for Alignment

A multi-faceted approach to creating a cohesive, layered, **compensation** leadership strategy recognizing progress, loyalty, and fiscal stewardship



Annual Incentive Plans (AIP)

- + Help sharpen attention on **near-term objectives**—enrollment targets, net tuition revenue, budget control, annual fundraising goals.
- + Eligibility now sits @ ~2/3rds of Presidents – no longer a differentiator.
- + Median opportunities hover around 15% to 20% of Base Salary



Long-Term Incentive Plans (LTIP)

- + Are powerful mechanisms to reward **strategic durability**—endowment growth, capital campaign success, academic program development, and multi-year institutional metrics.
- + Utilization is growing due to evolving strategic imperatives, financial considerations, and to respond to shorter tenure experience.
- + Often calibrated to no less than 2 years and no more than 5 years, with 3 or 4 being most common.



Retention Incentives

- + Allow an executive to understand the **potential long-term value creation** associated with retention.
- + Encourage retention over a defined period to counter higher leadership turnover risk and/or strategic succession concerns.
- + Important to ensure deferred compensation contributions are equitable with faculty/staff & with market
- + Most common for Presidents followed by CFOs, and Chief Enrollment Officers.

The most effective institutions are now integrating all three, recognizing that **sustainable performance requires multi-layered accountability and reward frameworks coupled with sufficient tenure and transition planning.**

Annual Incentive Plan

Short-Term Performance Focus



- + **Purpose:** Drive focus on key annual goals and maintain engagement.
- + **Metrics:** Enrollment targets, operating budget adherence, fundraising goals, strategic initiative milestones.
- + **Design:** Typically 10–20% of base salary, with defined performance thresholds, targets, and maximums.
- + **Retention Role:** Reinforces annual alignment; shows board is paying attention to execution.
- + ✓ Ideal for keeping leaders motivated in the “now” and demonstrating responsiveness to board priorities.

Annual Incentive Plan Design Considerations

- + Clear and Measurable Goals: **How many goals?** Establish limited specific, attainable performance metrics aligned with the institution's strategic objectives.
- + Balanced Scorecard & Evaluation: **Focus on broad but limited spectrum** and anticipate unforeseen circumstances. Combine quantitative metrics with qualitative assessments to capture a comprehensive view of presidential performance.
- + Regular Review and Adjustment: **Continuously assess** and adjust performance goals to reflect changing institutional priorities and challenges.
- + Transparency: **Ensure** that the criteria and outcomes of **incentive plans are transparent** to stakeholders to **build trust and accountability**.
- + Design with Judgement: **What performance elements can a President truly control?**
 - Controllables: Enrollment strategy, expense discipline, advancement efforts, leadership team performance.
 - Uncontrollables: Legislative actions, global pandemics, market-driven endowment declines
- + Effective plans:
 - Isolate controllable factors
 - allow for board discretion or formulaic adjustments when external shocks occur
 - This ensures leaders are not punished for acts of nature—but are rewarded for how they respond to them.

The Psychology of Incentives - A Deeper Dive into Leverage

Compensation shapes behavior—but not just in the metrics.

When executives see **upside potential**—a meaningful opportunity to earn beyond baseline for stretching toward bold, strategic goals—they become more **entrepreneurial**.

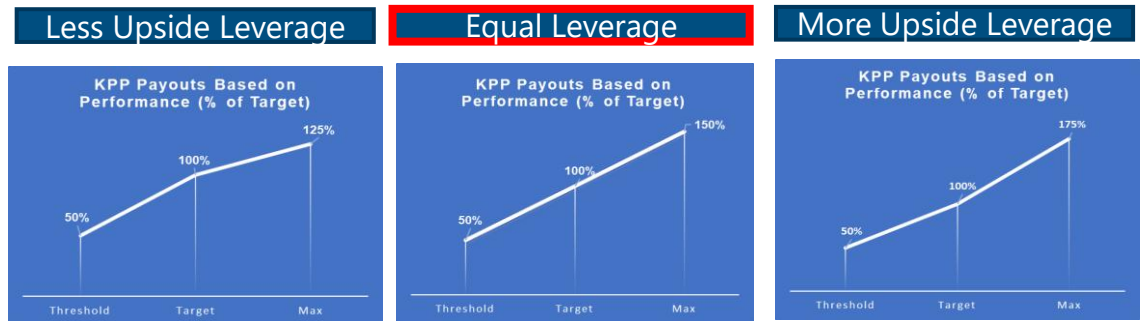
When plans also include **downside leverage**—such as reduced payouts for missed targets—leaders become **more focused**, more data-driven, and more risk-aware.

+ But balance is key: the most effective incentive designs **motivate** rather than intimidate. They provide **clarity without rigidity**, and **accountability without discouragement**.

Stretch— A level of performance materially above budget or reasonable expectations. May be indicated by “top quartile” performance

Target— A level of performance at or near performance expectations. May reflect median or budget

Threshold— Minimally acceptable performance for any incentive funding. May also be informed by college-specific factors



Overemphasis on quantifiable metrics may lead presidents to prioritize measurable outcomes at the expense of other important, but less tangible, aspects of institutional health, such as faculty development or community engagement.

Each discrete performance level aligns with a payout level. Payouts for performance between discrete levels are interpolated, and typical rules of thumb for goal calibration reflect:

- 80-90% probability of achieving at least threshold payout
- 50-60% probability of achieving at least target payout
- 10-15% probability of achieving maximum payout

Long-Term Incentive Plan

Strategic Vision and Sustainability

- + **Purpose:** Reinforce multi-year outcomes and institutional transformation.
- + **Metrics:** Campaign completion, endowment growth, new program ROI, retention of cabinet talent, multi-year student success data.
- + **Vesting Structure:** Typically 3–5 years with or without overlapping performance cycles.
- + **Opportunity:** 20% of base salary per year of the cycle or fixed amount to cover the entire cycle, with payouts earned only if cumulative performance justifies. Aligns magnitude with leadership responsibility yet maintains fiscal discipline.
- + **Form of Payment:** Cash or Deferred should be carefully evaluated.
- + ✓ Establishes a loose-fitting performance-based “golden handcuff” linking large payouts to sustained, visible impact.



Long-Term Incentive Plan Design Considerations

Align with Strategic Plan and Mission

- + **Anchor LTIP goals in multi-year institutional priorities:** Presidents need to think long-term; LTIPs reward them for it.
- + **Use Multi-Year Performance Cycles**
 - Structure rolling or end-to-end 3-to-5-year cycles:
 - Goals can evolve with institutional strategy while maintaining continuity: Encourages sustained leadership and protects against short-term thinking.
- + **Define Clear Performance Metrics and Thresholds**
 - Incorporate both quantitative and qualitative measures:
 - **Quantitative:** Net tuition revenue, research funding, endowment growth
 - **Qualitative:** Board engagement, culture/leadership development, external relations
 - Use tiered goals (Threshold / Target / Maximum) for each metrics because clear targets ensure objectivity, fairness, and IRS defensibility.
- + Depending length of the plan, other components of the compensation program, and institutional culture - balance performance with time-based retention to retain talent during the execution phase of strategic plans.
- + **Allow for Board Discretion and Flexibility** by including **discretionary language** for unexpected market conditions (e.g., COVID, economic downturn), significant shifts in institutional direction. This allows for adaptability without losing accountability.

Recap on Annual & Long-Term Incentive Plan Design

Design Area	Annual Incentive Plan (AIP)	Long-Term Incentive Plan (LTIP)
Objective	Drive short-term execution of key goals	Reinforce multi-year strategic impact
Performance Period	1 year	3–5 years (rolling cycles recommended)
Metrics	Operational: budget, enrollment, fundraising	Strategic: endowment, campaigns, academic outcomes
Payout Timing	Annually	At end of performance cycle
Payout Form	Cash (immediate or deferred)	Cash or deferred into NQDC or SERP
Vesting	Typically no vesting; pay-for-performance	Performance and/or time-based vesting
Alignment	Yearly institutional priorities	Strategic plan execution and mission outcomes
Retention Leverage	Low to moderate	Moderate to high
IRS/Board Process	Standard documentation and benchmarking	Requires clear goal setting, defensibility, board approval
Public Reporting	Form 990 Schedule J; treated as an expense liability but could be differently structured	Form 990 Schedule J at vesting; treated as an expense liability but could be differently structured

Examples of Goal Setting Calibration & Achievement Calculation

Objective	Benchmark Source	FY2025 Year-End Baseline	AchievementThreshold (50%)	Target (90%)	Stretch (110%)	Weight
Net Tuition Revenue Growth	Budget	Flat YOY	+2%	+3.5%	+5%	20%
Fundraising – Cash & Commitments	Development Office	\$25M	\$30M	\$33M	\$36M	20%
Undergraduate Retention Rate	Institutional Research	78%	80%	82%	84%	15%
Student Placement Rate (Job/Grad School)	Career Services	84%	86%	89%	91%	15%
Operational Efficiency (Admin Cost %)	Finance	24%	23%	22%	21%	10%
Faculty/Staff Engagement Score	HR Survey	68%	70%	74%	77%	10%
Strategic Initiatives Launched	President's Office	1 program	2 programs	3 programs	4 programs	10%

Objective	Benchmark Source	FY2025 Year-End Baseline	AchievementThreshold (50%)	Target (90%)	Stretch (110%)	Weight	Achievement
Net Tuition Revenue Growth	Budget	Flat YOY	+2%	+3.5%	+5%	20%	18.0%
Fundraising – Cash & Commitments	Development Office	\$25M	\$30M	\$33M	\$36M	20%	10.0%
Undergraduate Retention Rate	Institutional Research	78%	80%	82%	84%	15%	0.0%
Student Placement Rate (Job/Grad School)	Career Services	84%	86%	89%	91%	15%	16.5%
Operational Efficiency (Admin Cost %)	Finance	24%	23%	22%	21%	10%	11.0%
Faculty/Staff Engagement Score	HR Survey	68%	70%	74%	77%	10%	11.0%
Strategic Initiatives Launched	President's Office	1 program	2 programs	3 programs	4 programs	10%	5.0%

Goal Framework Example

Objective	Weight	Benchmark Source	FY2025 Year-End Baseline	Achievement			Award %
				Threshold (50%)	Target (90%)	Stretch (110%)	
Institutional Objectives							
A. Category							
1.	20%	Budget					
2.	20%	Budget					
Subtotal	40%						0.00%
B. Enrollment & Retention							
1.	10%						
2.	10%						
3.	10%						
Subtotal	30%						0.00%
C. Operations							
1.	0%						
2	0%						
Subtotal	0%						0.00%
D. Leadership Development							
1.	10%						
Subtotal	10%						0.00%
E. Growth							
1.	20%						
Subtotal	20%						0.00%
F. Institutional Objectives Total	100.00%						0.00%

Communicating Incentives

Clear communication and ongoing engagement are essential to build trust, reinforce alignment, and ensure the plan drives the intended leadership behaviors.

1. Start with the Purpose — Why the Plan Exists

Senior leaders must anchor the conversation in the rationale behind the incentive plan.

For Annual Incentives:

- Drive Annual Results:** Emphasize how the plan rewards execution of near-term goals — financial, operational, or mission-specific.
- Focus Behavior:** Link performance metrics to what matters most this year.

For Long-Term Incentives:

- Reinforce Strategic Priorities:** Show how the plan supports multi-year objectives, financial strength, innovation, or institutional transformation.
- Retention and Stewardship:** Highlight LTIPs as a commitment to rewarding sustained contribution and long-term value creation.

Communicating Incentives

2. Clarify Performance Expectations

Confusion around what success looks like will undermine motivation. Be exact.

- **Define Metrics:** What are the performance measures? (e.g., EBITDA, enrollment growth, endowment return, operational efficiency)
- **Set the Bar:** Explain threshold, target, and maximum performance levels — and what's realistically achievable.
- **Link to Organizational Goals:** Tie individual/team performance to enterprise results.

3. Explain Mechanics and Payouts

Transparency in how the plan operates builds trust.

- **Calculation Formula:** Break down how payouts are derived, including weighting of goals.
- **Timing:** Communicate when performance will be measured and when payouts occur.
- **Form of Payment:** Cash? Deferred comp? Equity or phantom equity?
- **Eligibility and Participation:** Be clear about who is in the plan and why.

Communicating Incentives

4. Operational Considerations

Remove administrative ambiguity. Leaders must anticipate execution questions.

- **Governance & Approval:** Who reviews results? Who approves payouts?
- **Mid-Year Changes:** What happens if goals change mid-cycle?
- **Treatment of Exceptional Events:** Clarify how outliers (e.g., M&A, COVID-like disruptions) will be handled.
- **Performance Measurement Periods:** Confirm if measurement is fiscal/calendar year, rolling periods, or milestone-based.

5. Communicate the Broader Message

Incentives are cultural tools — don't miss the chance to shape mindset.

- **Reinforce Accountability:** Emphasize that rewards follow results — and vice versa.
- **Support the Team Mentality:** Use incentives to highlight interdependence, not just individualism.
- **Highlight the Institution's Investment:** Make it clear this is part of a broader commitment to people and performance.

Communicating Incentives

6. Provide Education and Accessibility

Even seasoned professionals often misunderstand incentive mechanics.

- Hold Briefings:** Don't assume plan documents are enough — talk through scenarios.
- Use Examples:** Show what payouts might look like at various performance levels.
- Encourage Questions:** Create an open forum for clarification without fear.

Summary: Executive Messaging Checklist

<u>Topic</u>	<u>Should Address</u>
Why	What is the purpose of the incentive plan?
What	What behaviors and results does it reward?
How	How are payouts calculated and delivered?
When	When will performance be reviewed and rewards paid?
Who	Who is eligible and accountable?
What if	How are exceptions or contingencies handled?

Retention Incentives

Commitment & Institutional Continuity

Acknowledging loyalty ensures leadership continuity through critical strategic milestones when stability matters most

- + **Purpose:** Encourage presidents to stay through key inflection points (e.g., a capital campaign, accreditation cycle, presidential succession plan for a major initiative).
- + **Benefit Calibration:** Determine degree of competitiveness both with respect to the benefit provided and overall.
- + **Vehicles:** IRC Sections - 457(f), 7872, 162
- + **Design:** Funded or unfunded; employer contributions made annually or in lump sum.
- + **Vesting Triggers:** Could be time-based (e.g., remain through year 6) or milestone-based (e.g., stay through campaign close in FY28).
- + ✓ Builds “stickiness” into the package—especially important when job market churn is high.



Retention Incentives

Focused on Medium and Long-Term Time Horizon

- + Clearly Define the Purpose of the Plan: **What are we trying to accomplish?** Typical goals:
 - **Retention:** Encourage the president to remain through a campaign, accreditation cycle, or key transition.
 - **Succession planning:** Retain talent through a planned leadership handoff.
 - **Supplement retirement:** Replace lost QRP contributions due to contribution limits; enhance relative benefit % to align with staff, faculty, and or market, anticipate talent market developments.
- + Use Meaningful Vesting Milestones. **The power of NQDC lies in vesting, which should be:**
 - Time-based (e.g., 100% vest at year 6)
 - Milestone-based (e.g., vest upon completion of a campaign or strategic plan)
 - Graded (e.g., 1/3 vests at year 3, 1/3 at year 6, 1/3 at year 10)
- + Choose the Appropriate Legal Structure: Work with advisors to evaluate available plan types
- + Determine Funding Approach:
 - **Unfunded/book reserve:** Institution sets aside liability, but not actual dollars
 - **Funded with illiquid asset:** Use real estate or other non-cash assets (strategic but complex)
 - **Funded with insurance or trust:** Provides asset backing, improves perception of value.
- + Set an Appropriate Benefit Formula: **Flat dollar amount** (e.g., \$50k per year); **% of base salary** or total cash compensation; **projected value at retirement** (e.g., actuarial model)
- + Include Forfeiture and Claw back Provisions: **Build guardrails to protect the institution.** Forfeit if the executive resigns early without cause. Include claw backs for misconduct, legal violations, or reputational harm.

Funding Incentives

Funding strategy shapes feasibility, optics, and long-term sustainability of the incentive plan

While incentive compensation is a powerful tool for aligning leadership with institutional priorities, how we fund these incentives is equally strategic. Institutions must weigh funding methods not only for cost and liquidity, but also for optics, sustainability, and alignment with long-term financial planning.

This slide outlines three commonly used approaches — each with distinct trade-offs — across annual, long-term, and deferred compensation programs.

1. Accrued Cash from Budgeted Operations

- Pros: Simple to administer, fully liquid, immediate availability.
- Cons: Impacts annual operating budget, no leverage or investment yield.

2. Investment Gains from Specialized High-Yield Products

- Pros: Potential to enhance funding through returns, can be aligned with long-term endowment or reserve strategy, limits market exposure
- Cons: Initial capital is illiquid for 3-to-5 years.

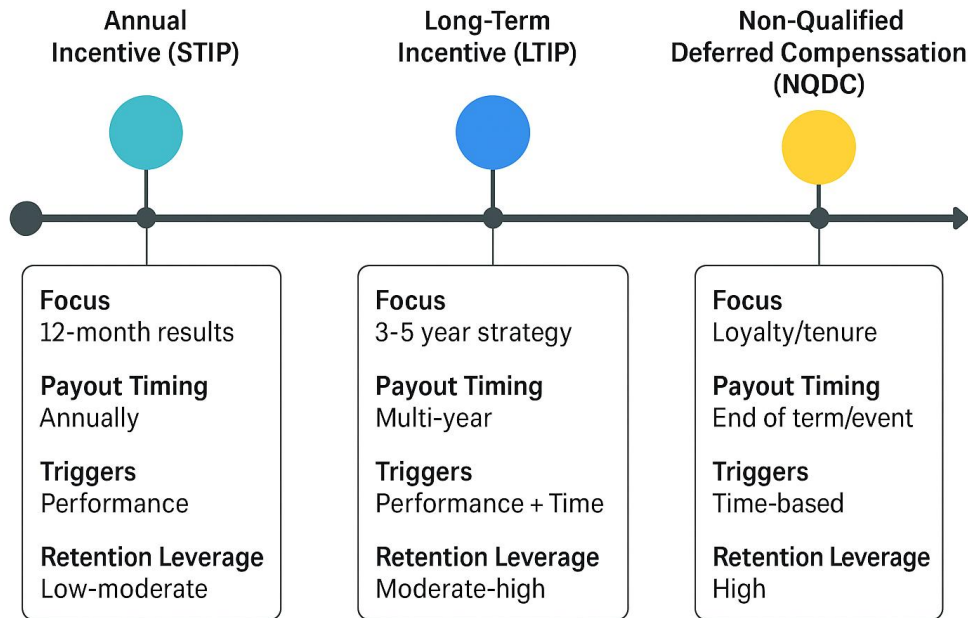
3. Collateral Assignment Split Dollar Insurance

- Primarily used for long-term incentives and NQDC (e.g., 457(f), retention plans).
- Pros: Better public optics, tax-efficient for participant, institutional cost recovery, provides retention value via vesting.
- Cons: More complex than alternatives to structure, perceived opacity if not well communicated.

- How will this show up on the financials? Consider budget impact, FASB treatment, and long-term liability.
- How do I explain this to my CFO or faculty? Link funding to institutional priorities and mission-aligned leadership continuity.
- Is this defensible under IRS scrutiny or shared governance? Use benchmarking, documentation, and independent plan review.
- Optics: Some methods (e.g., split-dollar insurance) may appear more mission-compatible by avoiding overt cash payouts.
- Risk Profile: Accrued cash is liquid but burdensome; investments and insurance offer alignment but involve timing and complexity.

How They Work Together

This isn't about paying more — it's about paying smarter. Our institutions are too important to leave leadership to chance.



This multi-layered design ensures:

- Presidents are rewarded regularly for execution
- They remain aligned with mission-critical goals
- There's a strong incentive to stay through long-range strategic milestones

Best Practices:

- Use **independent benchmarking** and **documented plan criteria** for defensibility and IRS "rebuttable presumption" compliance.
- Maintain **board discretion** for uncontrollable events (e.g., market shocks, policy changes).
- Avoid unintended redundancy—each plan should have **distinct purpose and measurement horizon unless intentionally doubling down for a specific purpose**.
- **Funding** should be discussed upfront because it **may impact plan design features**

Private institutions can no longer rely solely on base salary to retain presidential talent. With the right blend of STIP, LTIP, and NQDC, you create a **compensation ecosystem that fosters continuity, drives performance, and sustains mission-aligned leadership**—which is the ultimate competitive advantage in today's higher education landscape.



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Connecting People, Purpose & Performance

Thank you

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