Proxy Season Signals: What Compensation Committees Need to Revisit Before Fall Decisions

A Compensation Committee Series Webinar

July 21st, 2026

Presenters

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Housekeeping

+ Submit a question and receive your answer directly from the presenters, either during today's webinar or as a follow-up. You will also be opted-in to receive future executive compensation thought leadership from Pearl Meyer.
+ Presentation slides are available today at;
    - https://pearlmeyer.com/insights-and-research/webcast/2026-proxy-season-signals

The replay will be available early next week at:

- www.nacdonline.org/webinars
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Agenda

- 2026 Proxy Season Insights
  - Say-on-pay
  - Pay Mix Data
  - AIP and LTIP Metrics
  - AI in Incentive Plans
  - TSR Design and LTI Mix
  - CEO Perks and Personal Security
  - CD&A Lessons
  - Compliance Reduction Agenda

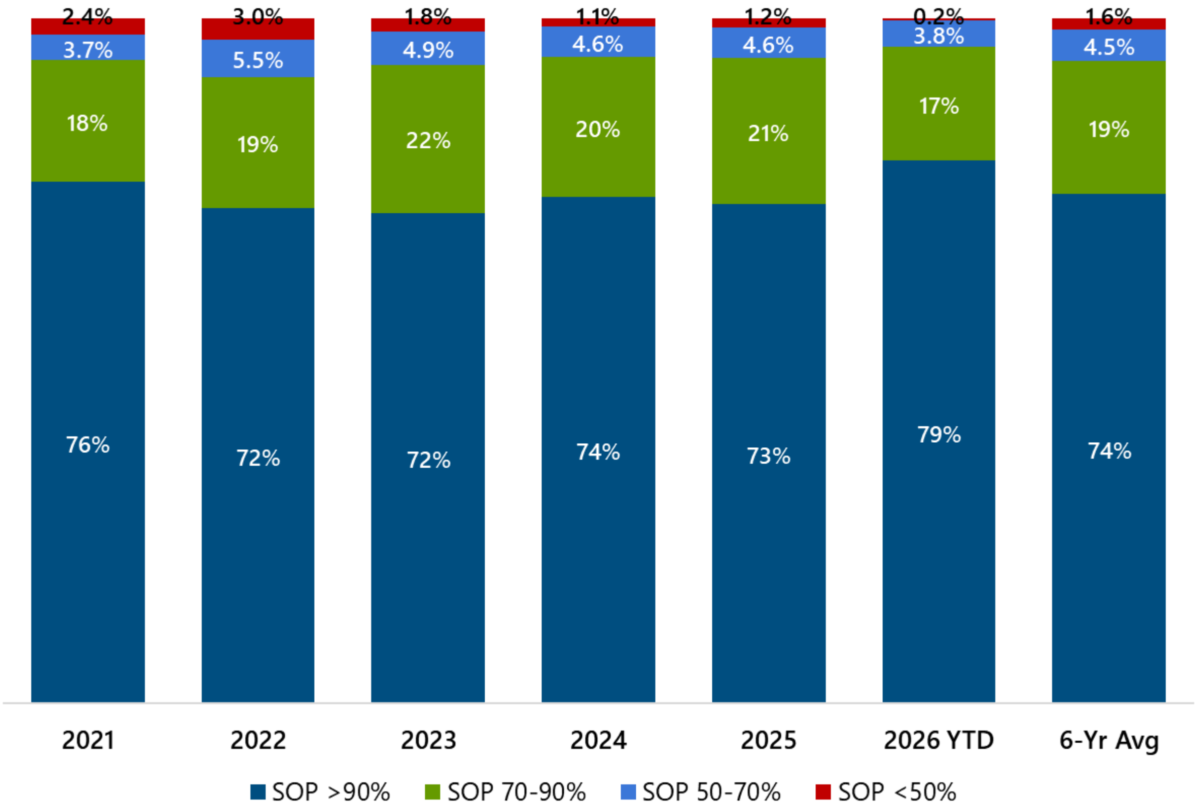
Polling Question #1

How much should ISS influence compensation committee decisions?

1. **Significant influence**: avoid an “Against” recommendation where possible
2. **Important input**: but not determinative
3. **Limited influence**: focus primarily on top shareholder views
4. **Depends**: only if ISS concerns align with investors

Most Companies Maintain Strong SOP Support

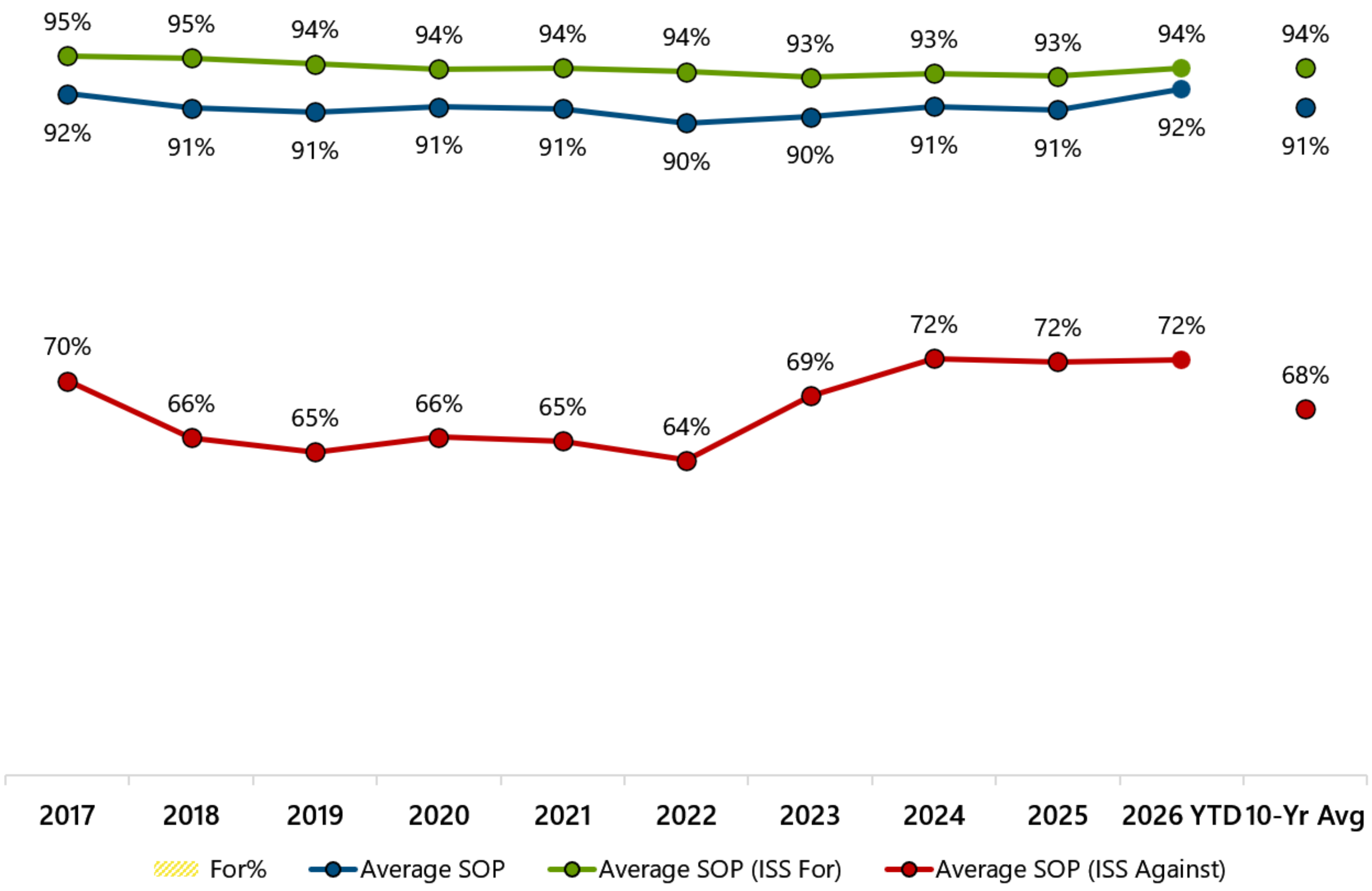
Most companies continue receiving strong say-on-pay support because they demonstrate strong pay-for-performance alignment, align incentives with key operating and strategic priorities, and maintain sound compensation governance practices.



Most Companies Maintain Strong SOP Support

Say-on-pay support remains strong overall, but ISS continues to have a meaningful impact on voting outcomes.

Over the 10-year period shown, an ISS “Against” recommendation reduced average SOP support by ~25 percentage points. More recently, the impact has been closer to ~20 percentage points



Same CEO Year-Over-Year Pay

CEO compensation increased meaningfully in 2025, driven primarily by long-term incentives and improved company performance rather than large increases in fixed compensation. The data suggests committees continued emphasizing at-risk and long-term compensation rather than materially increasing fixed pay.

Same CEO Year-Over-Year: 2,307 Companies

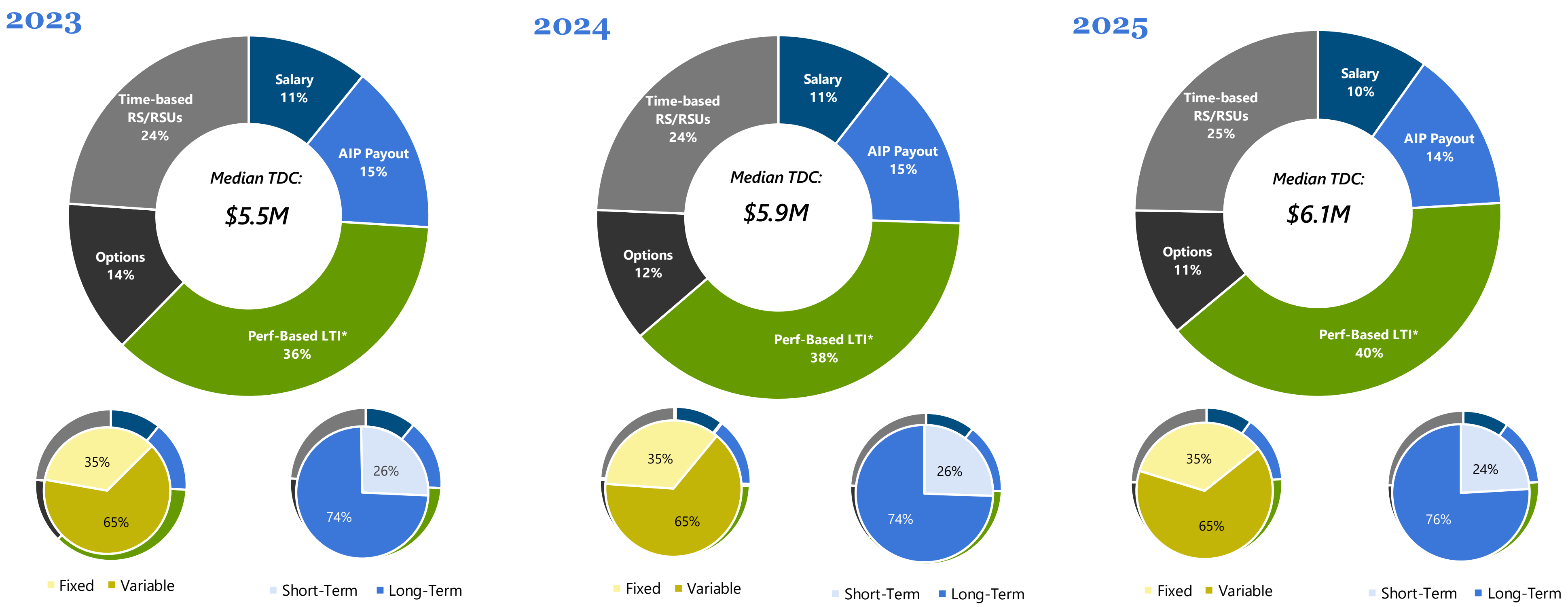
Compensation Component	Prevalence		Average			Median		
	2025	2024	2025	2024	25 vs. 24	2025	2024	25 vs. 24
Base Salary	99%	98%	$927	$890	+4.2%	$880	$850	+3.5%
Target Annual Incentive	84%	83%	$1,411	$1,312	+7.5%	$1,098	$1,020	+7.6%
Target Total Cash			**$2,130**	**$1,993**	**+6.9%**	**$1,771**	**$1,679**	**+5.5%**
Actual Annual Incentive	82%	81%	$1,422	$1,300	+9.4%	$900	$751	+19.9%
Actual Total Cash			**$2,364**	**$2,206**	**+7.2%**	**$1,783**	**$1,582**	**+12.8%**
Time-based RS/RSUs	78%	76%	$2,414	$2,026	+19.1%	$1,364	$1,124	+21.4%
Perf. Contingent	69%	67%	$3,958	$3,284	+20.5%	$1,856	$1,486	+24.9%
Stock Options	30%	33%	$1,092	$1,053	+3.7%	$0	$0	n/m
Total Long-term Incentives	**93%**	**92%**	**$8,057**	**$6,948**	**+16.0%**	**$5,156**	**$4,642**	**+11.1%**
Target Total Direct Compensation			$10,231	$9,014	+13.5%	$7,218	$6,603	+9.3%
Actual Total Direct Compensation			$10,484	$9,223	+13.7%	$7,414	$6,670	+11.2%
One-Year TSR					+16.0%			+5.0%
Net Income ($M)			$1,994	$1,676	+19.0%	$57	$55	+3.3%

n/m = "not meaningful"

The largest increases occurred in long-term equity compensation, particularly performance-based awards

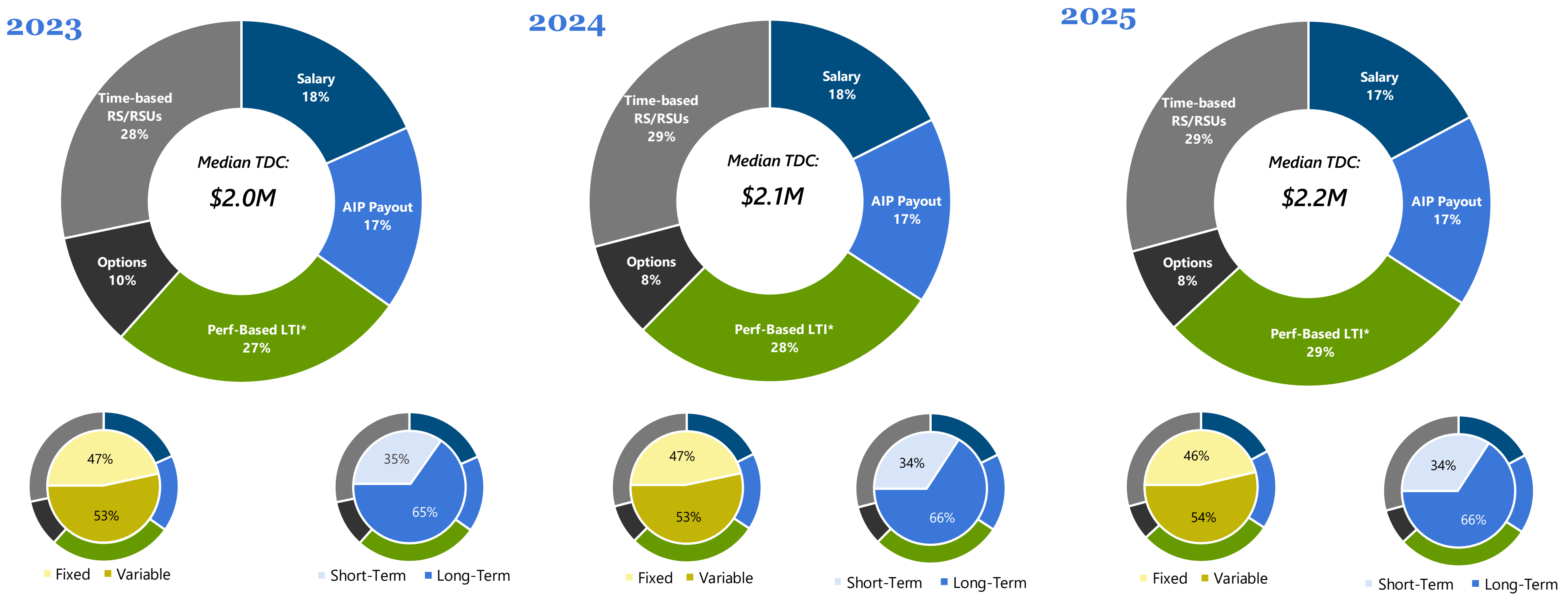
Median CEO TDC

Median CEO pay levels continued to rise moderately, while pay mix continued shifting toward performance-based and long-term compensation



Median NEO Rank #2-#5 TDC

Boards continue emphasizing performance orientation for the broader executive team, but with greater retention and stability considerations than at the CEO level



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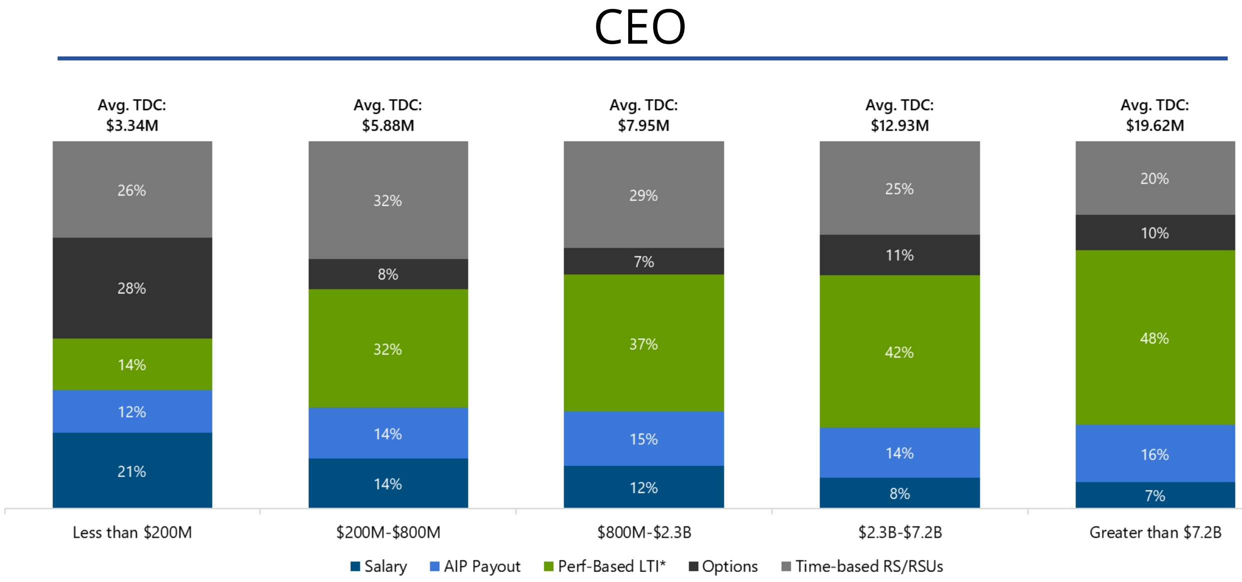
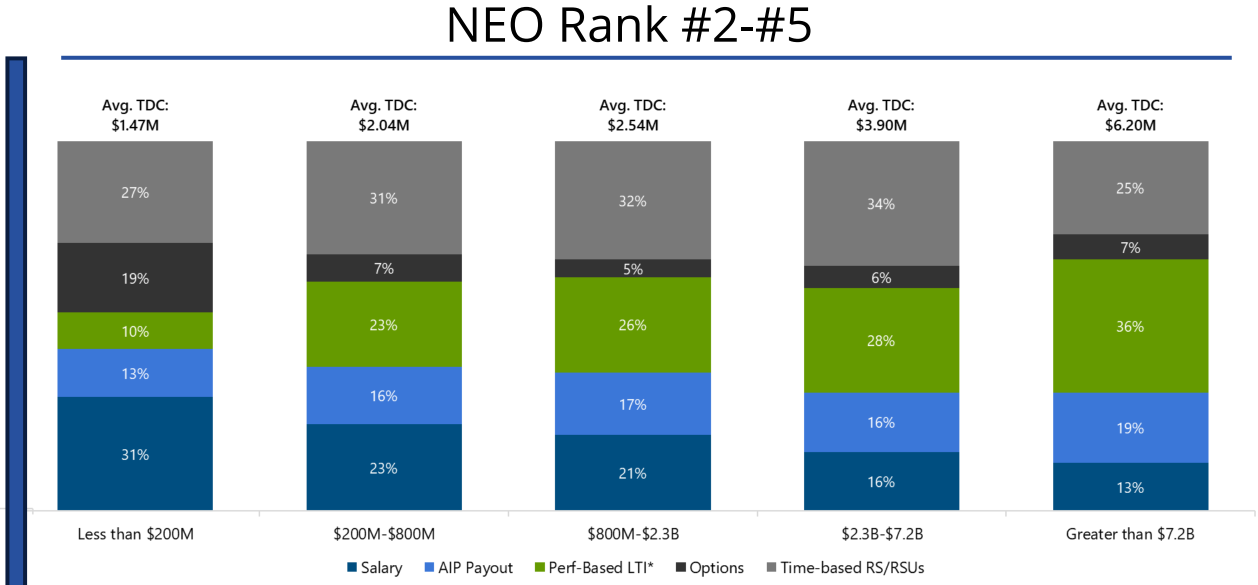
Average Pay Mix by Revenue

As organizations scale, executive compensation increases materially, but so does incentive complexity and performance orientation. Larger companies place much heavier emphasis on measurable long-term performance outcomes.





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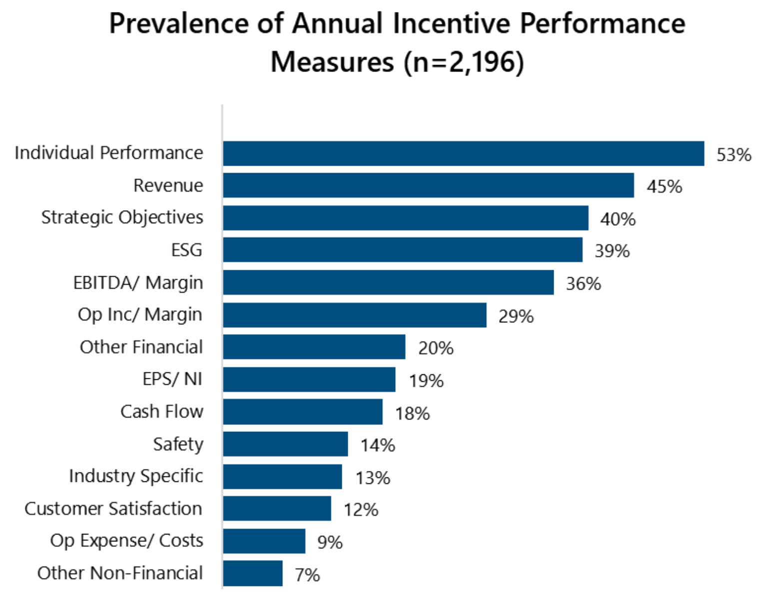
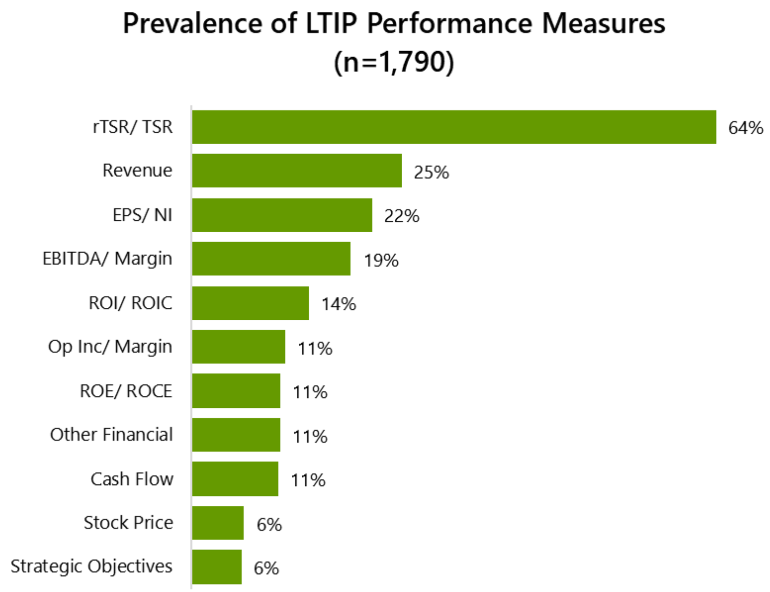
AIP and LTIP Metrics

Annual incentives continue expanding into broader operational and strategic measures, while LTIPs remain overwhelmingly anchored in shareholder return and financial performance. Relative TSR continues serving as the dominant external accountability metric because it evaluates shareholder outcomes within a competitive market context.





AI in Incentive Plans: Early Adoption, Mostly Through AIPs

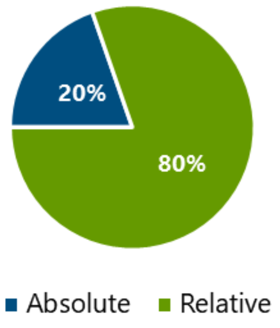
AI is showing up in incentive plans, but most companies are using it as part of broader strategic or individual performance goals rather than as a standalone metric.

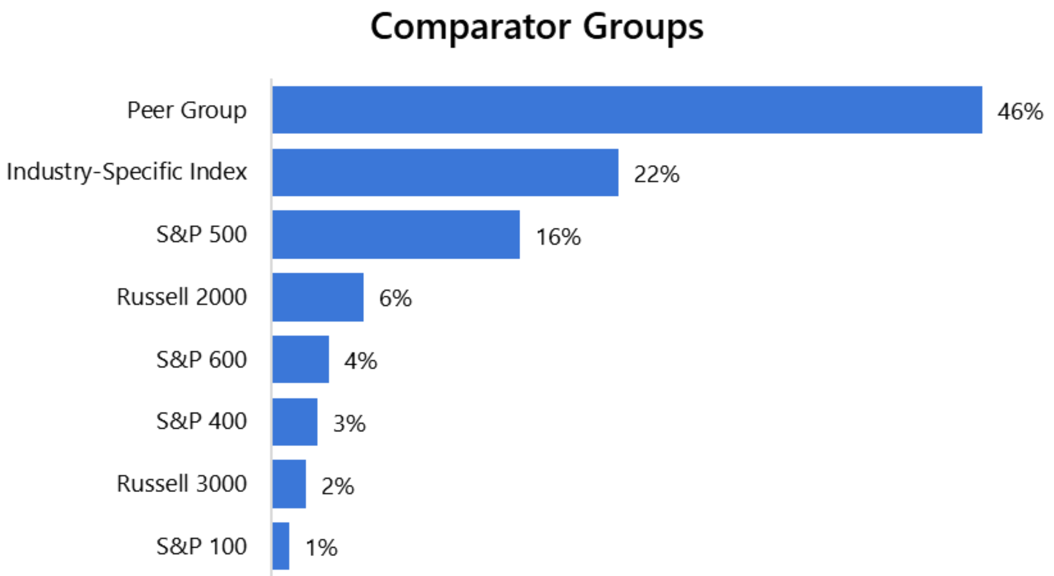
Only ~2% of reviewed public companies incorporated AI into executive incentive programs

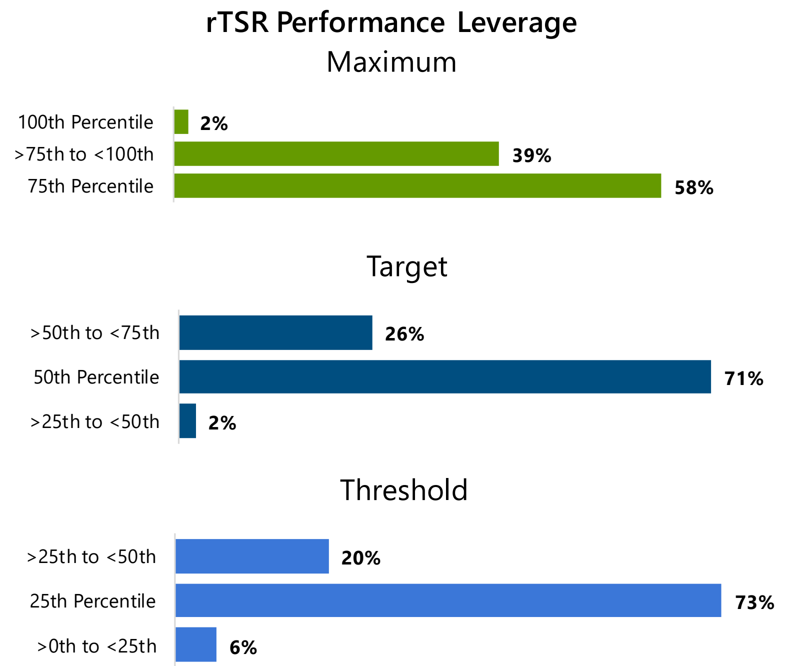
Approach	Prevalence	How It Typically Shows Up
Embedded in broader goals	60%	Transformation, productivity, technology deployment, operational efficiency
Qualitative / individual assessment	28%	Leadership in AI adoption, governance, innovation, enterprise execution
Explicit AI metric	12%	Discrete AI adoption, utilization, or deployment metric, often modestly weighted

TSR Design Parameters

The market overwhelmingly favors relative TSR over absolute TSR. Most boards continue believing shareholder outcomes are best evaluated relative to directly comparable competitors rather than against broad market benchmarks alone. Most TSR plans continue clustering around traditional percentile calibration standards.







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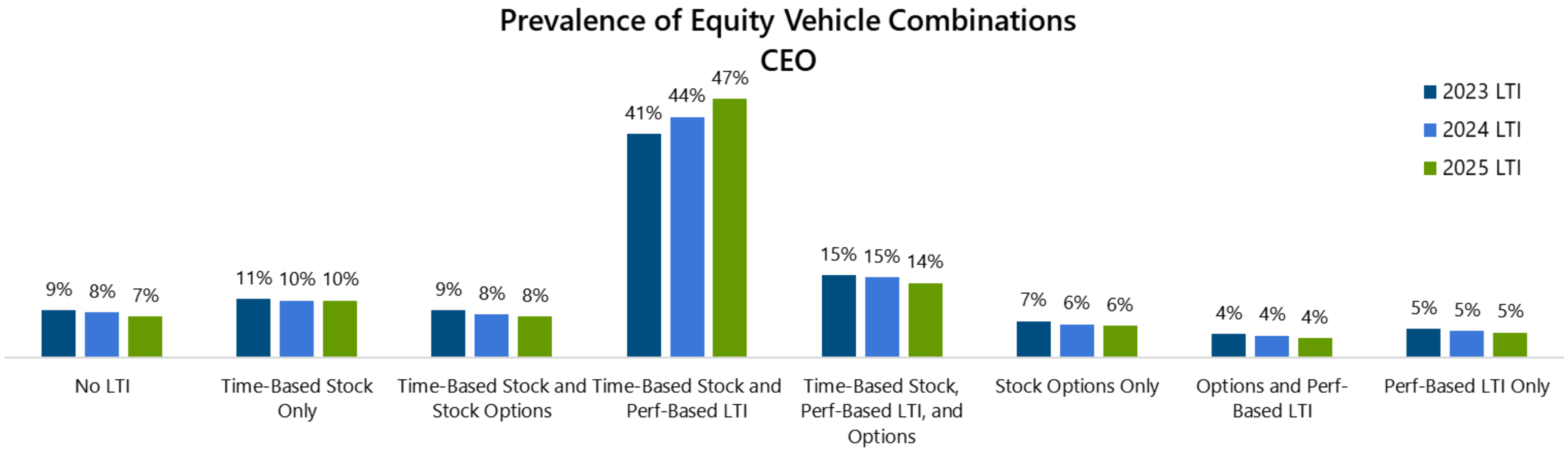
CEO LTI Mix

Companies continue converging toward balanced long-term incentive portfolios that combine time-based equity with performance-based equity, while reliance on stock options continues declining. Nearly half of companies now use a blended LTI structure combining RSUs and PSUs.



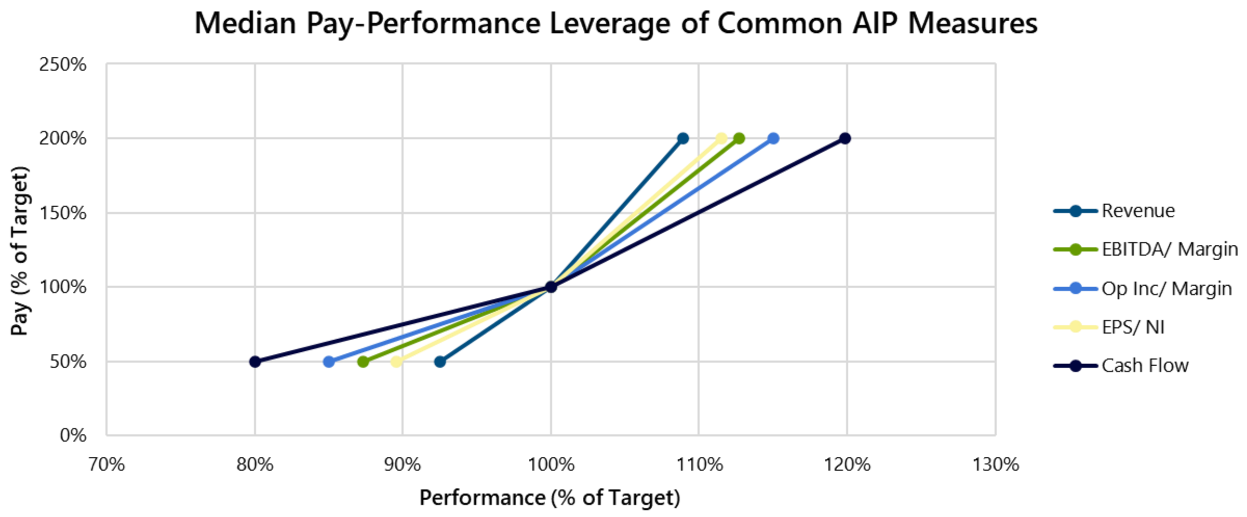
NACD Polling Question #2

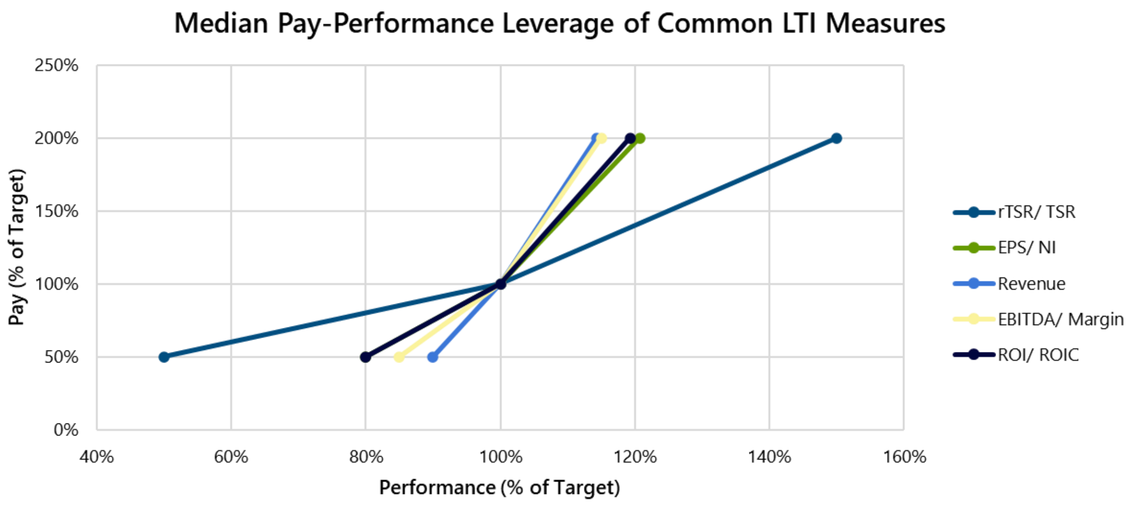
Which executive compensation design issue is your board most focused on right now?

1. Strengthening pay-for-performance alignment
2. Revisiting incentive metrics
3. Balancing retention and performance-based equity
4. Responding to shareholder / proxy advisor feedback

AIP and PSU Pay-Performance Leverage

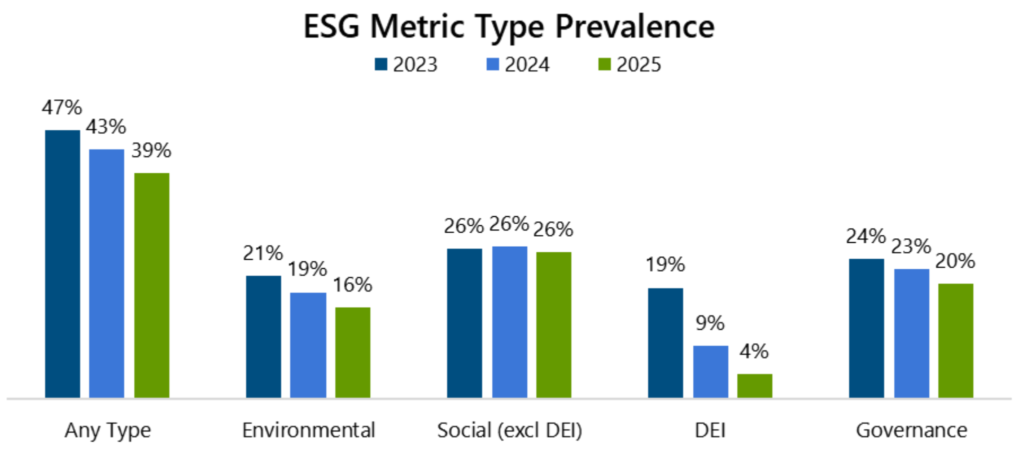
Most companies continue using relatively standardized payout leverage frameworks, but leverage varies meaningfully by metric type and reflects how boards balance motivation, rigor, and payout risk. While performance metrics continue evolving, payout leverage structures themselves remain relatively standardized across the market.

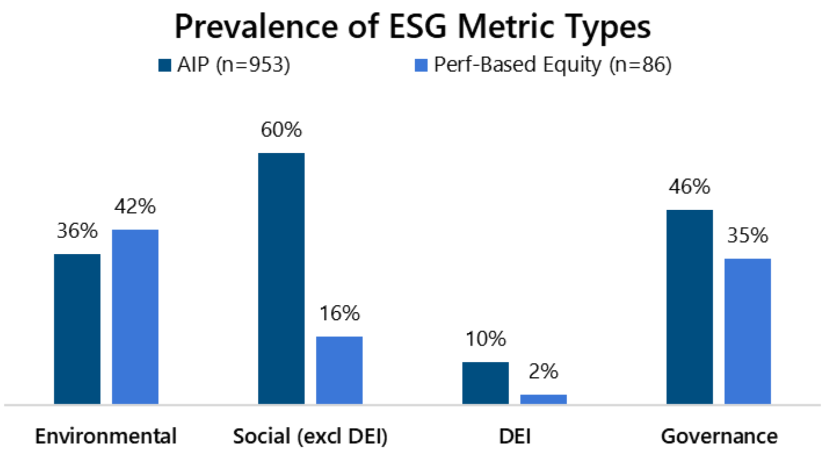




Use of ESG Metrics

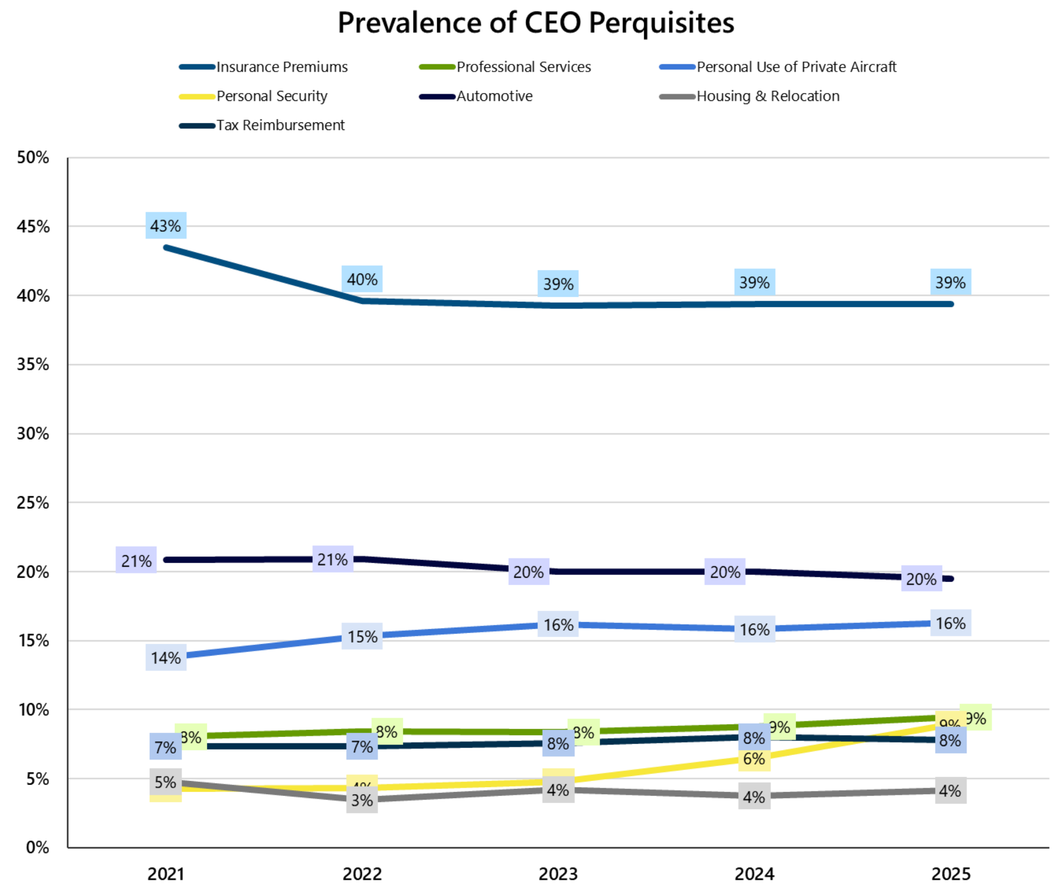
We continue seeing companies become more selective and targeted in how ESG-related measures are incorporated into incentive programs. Investors today are generally less focused on labels and more focused on whether metrics are material, measurable, and connected to long-term business performance.





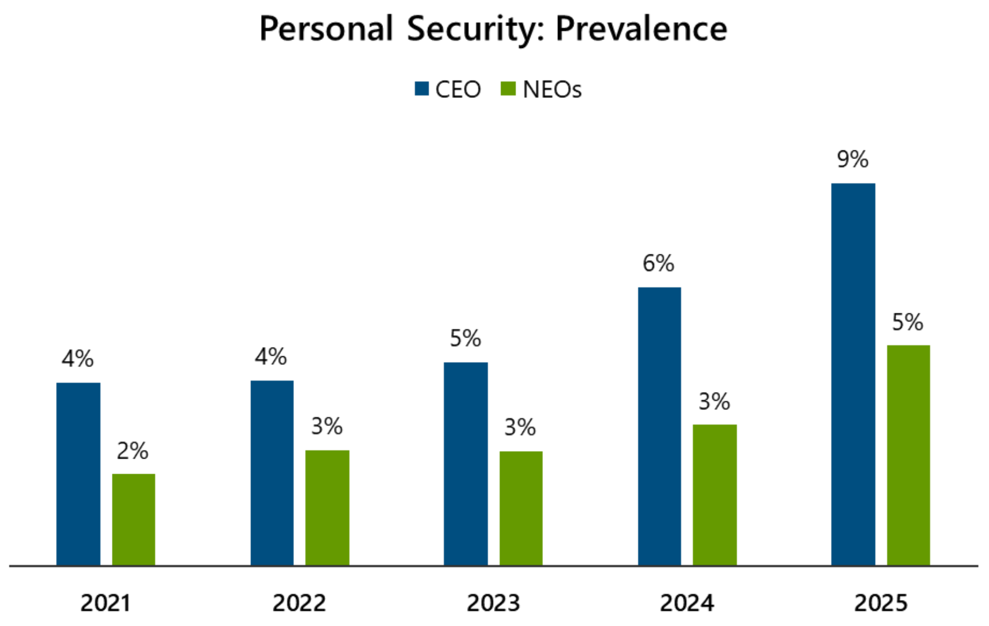
CEO Perks

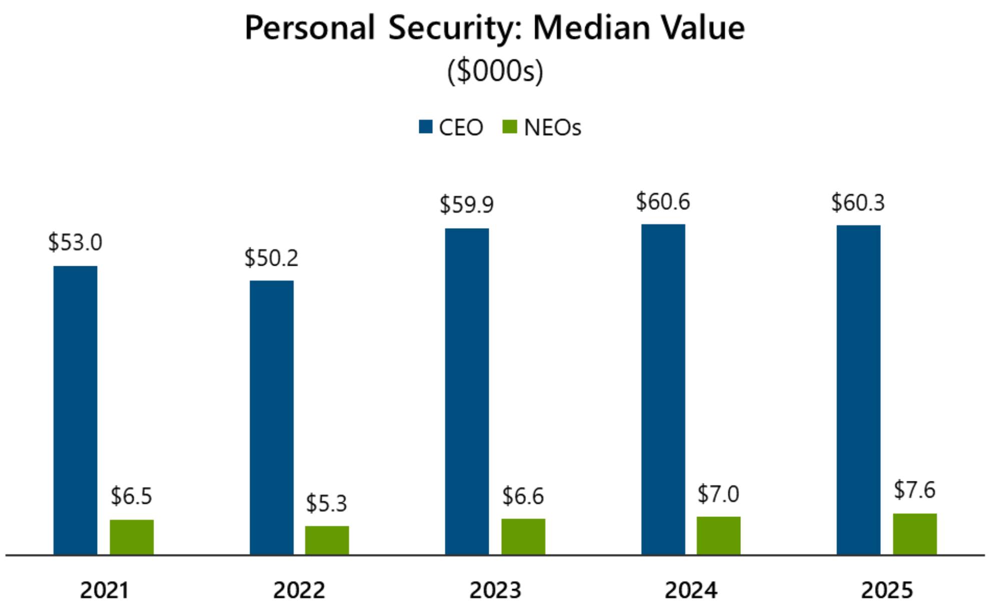
CEO perquisites remain relatively limited and stable overall, but companies continue selectively expanding benefits tied to security, executive productivity, and risk management



Personal Security

Executive security is becoming a more prominent board-level risk management issue, with both prevalence and spending levels increasing over time, particularly for CEOs. This is much less about traditional executive perks and much more about: enterprise risk, executive protection, cyber risk, and operational continuity.





Polling Question #3

How should compensation committees approach AI in incentive plans today?

1. Add explicit AI metrics where AI is a strategic priority
2. Embed AI within broader transformation or productivity goals
3. Use qualitative assessment until measurement improves
4. Keep AI out of incentives for now

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Polling Question #4

How should boards think about executive security benefits?

1. Necessary business expense / risk management
2. Appropriate only after a formal risk assessment
3. Perquisite requiring careful limits and disclosure
4. Generally not appropriate except in unusual cases

CD&A lessons: Aligning Metrics with Strategy

- Management should be able to clearly explain how incentive metrics support the company's strategy, operational priorities, and long-term value creation objectives.
- Investors increasingly expect a direct connection between what executives are paid for and what the company is trying to achieve.
- Strong incentive plans align with key operating and strategic priorities.

Company Industry	Metric	Strategic Connection
Retail	Customer Experience	Reinforces operational execution that drives sales and earnings growth
IT	AI Revenue	Supports AI-driven technology transformation
Pharma	Platform Revenue	Focuses management on product revenue targets
Auto	Quality & EV Volume Metrics	Aligns incentives with product quality and electrification strategy
Airline	Customer Experience & Relative Margin Metrics	Balances operational competitiveness with customer strategy

CD&A lessons: Metrics Should Demonstrate Rigor

- Management should be able to clearly explain how performance goals were calibrated and why payout opportunities are appropriately challenging.
- Investors increasingly evaluate not only the metrics used, but also the rigor behind the targets.
- Well-designed goals should motivate performance while maintaining investor credibility.

Company Industry	Goal-Setting Approach	Governance Signal
Entertainment	Raised thresholds and narrowed payout ranges	Increased performance difficulty
Retail	Requires above-median peer performance for target payout	Reinforces stronger shareholder alignment
Manufacturing	Adjusts targets based on business-cycle positioning	Maintains rigor across market conditions
Communications	Incorporates analyst expectations and market conditions	Improves external credibility

CD&A lessons: Adjustments Must Preserve Credibility

- Management should be able to clearly explain why adjustments were necessary, why they were appropriate, and how they preserved the integrity of the incentive framework.
- Investors are increasingly skeptical of adjustments that appear retrospective or opportunistic.
- The strongest adjustment frameworks preserve consistency, transparency, and credibility.

Company Industry	Adjustment Approach	Governance Signal
Auto	Pre-defined tariff and regulatory adjustments	Reduced appearance of hindsight discretion
IT	Automatic export-control adjustment framework	Preserved realism after material regulatory disruption
Insurance	Catastrophe-loss adjustments	Neutralized uncontrollable volatility
IT	Adjusted for business unit deconsolidation	Improved comparability of results
Pharma	Excluded settlement reversal	Prevented unintended payout windfalls

CD&A lessons: Discretion Requires a Clear Governance Rationale

- Management and the compensation committee should be able to clearly explain why discretion was applied, how the decision was reached, and why the outcome remained aligned with shareholder interests.
- Investors generally support disciplined judgment but are skeptical of unexplained overrides of formulaic outcomes.
- Effective discretion reinforces credibility, accountability, and sound governance judgment.

Company Industry	Use of Discretion	Governance Signal
Healthcare	Reduced payouts despite formulaic achievement	Better aligned outcomes with shareholder experience
Airline	Limited executive payouts when employees did not receive profit sharing	Reinforced internal pay alignment
Healthcare	Reduced executive payouts to support broader employee bonuses	Demonstrated stakeholder sensitivity
IT	Capped payouts below formula results	Balanced financial outcomes with broader business considerations

SEC Open Roundtable June 2025

Summary: An all-day open meeting to discuss streamlining and revamping old disclosure rules

Highlights:

1. **Disclosure Overload**
   - Current rules viewed as overly complex, producing long and technical proxy filings
   - Going forward, SEC may revisit Item 402 overhaul and streamlining requirements (item 402 covers executive compensation disclosures). Some commenters even suggested limiting proxy disclosure to current CEO and CFO
2. **Materiality**
   - Push to prioritize investor-relevant information vs. check the box data
3. **Executive Security Disclosures** (see increase for Top 200 at right)
   - Almost all participants were skeptical of current requirements in light of recent UnitedHealth homicide
   - Current requirements could have chilling effect on offering the perk and/or further jeopardize executive safety
   - Sense of urgency the rule should be amended with either a higher reporting threshold or eliminated altogether
   - Deadly shooting in NYC offices of NFL / Blackstone (occurred after the SEC meeting) underscores the risk
4. **Other Specific Rule Critiques**
   - Pay vs. performance (PVP) harshly criticized as overly complex, costly and confusing
   - Pay ratio and clawback disclosures were also criticized as unhelpful to investors with no tangible impact
   - PVP unlikely to go away, but could be streamlined to reduce years covered, number of executives included, and other cumbersome data points

Effectiveness: Proposed Rules still not released, but the SEC has focused on scaling disclosure in other ways by reorganizing filing frequency and classifications.

Compliance Reduction Agenda: Filing Frequency

- In early May 2026, the SEC proposed allowing public companies **the option** to report semiannually rather than quarterly, with the intentions of reducing compliance costs, encouraging more companies to access public markets and allowing management to focus on long-term value creation
- Impact on insider trading & equity programs
  - Longer periods between SEC filings may require:
    - Reconsideration of trading window schedules
    - Updates to insider trading policies and review of plan administration
- Impacts on executive compensation design could include the following:
  - Reduce emphasis on quarterly financial performance
  - Create opportunity to reinforce longer-term incentive design and strategic performance measures
- Investor expectations may not change even if companies choose to switch to semi-annual reporting
  - Quarterly earnings releases will still be expected
  - Perioding operating updates and transparency about company performance (including compensation decisions) will continue to be expected

The proposal generally focuses on financial reporting. However, if a company chooses to report on a semi-annual basis, it will still need to ensure that transparency around executive pay programs and insider trading practices is robust and consistent with investor expectations. For this reason, many companies may not elect the semi-annual option.

Compliance Reduction Agenda: Filing Classifications

- In late May 2026, the SEC continued efforts to scale disclosure by reducing the number of filer categories:
  - Large Accelerated Filers (LAFs – 19% of public market) and Non-Accelerated Filers (NAFs – 81% of public market)
  - NAFs will have significantly reduced executive compensation requirements, with the following eliminations:
    - Mandatory Say on Pay, Say on Frequency and Golden Parachute votes
    - Compensation Discussion and Analysis
    - CEO pay ratio and pay-versus-performance disclosure
    - Several executive compensation tables (GPBA, Pension, Option Exercised/Stock Vested & NQDC)
- In addition, required NEO disclosure reduced from 5 to 3 people and Summary Compensation Table reduced from 3 to 2 years
- Despite these changes, investor expectations will not be reduced, and we anticipate there will be an even stronger need to present executive compensation disclosure around:
  - Board judgment
  - Governance quality
  - Compensation philosophy
  - Pay for performance alignment

Final rules are not likely until late 2026. Even if implemented in 2027, committees should continue to document and articulate rational behind compensation decisions. Focus will be on providing investors proof of accountability and rational for committee actions and compensation design even with reduced requirements and in the absence of Say on Pay.

Q&A

Please submit your questions in the Q&A box below.

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