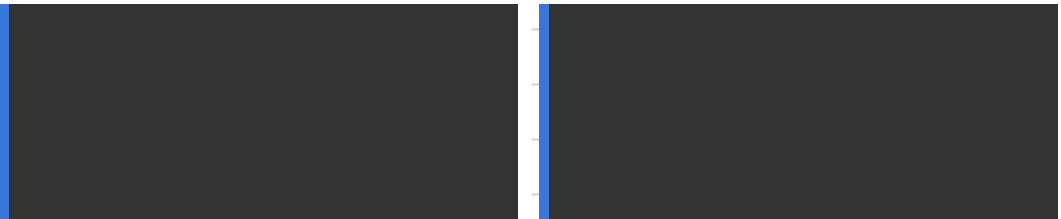


Pearl Meyer

# The Anticipated Impact of Tariffs on Incentive Plans

Executive Summary

May 5, 2025



# Introduction and Key Takeaways

Pearl Meyer's recent Quick Poll on "The Anticipated Impact of Tariffs on Incentive Plans" was conducted between April 9 and April 22, 2025. Board directors, management, and HR professionals at 146 organizations provided their viewpoints.

This quick poll was designed to gather real-time information on how boards and management teams are thinking about the impact of tariffs on business results, and the corresponding performance metrics for short- and long-term incentive plans.

Key Takeaways:

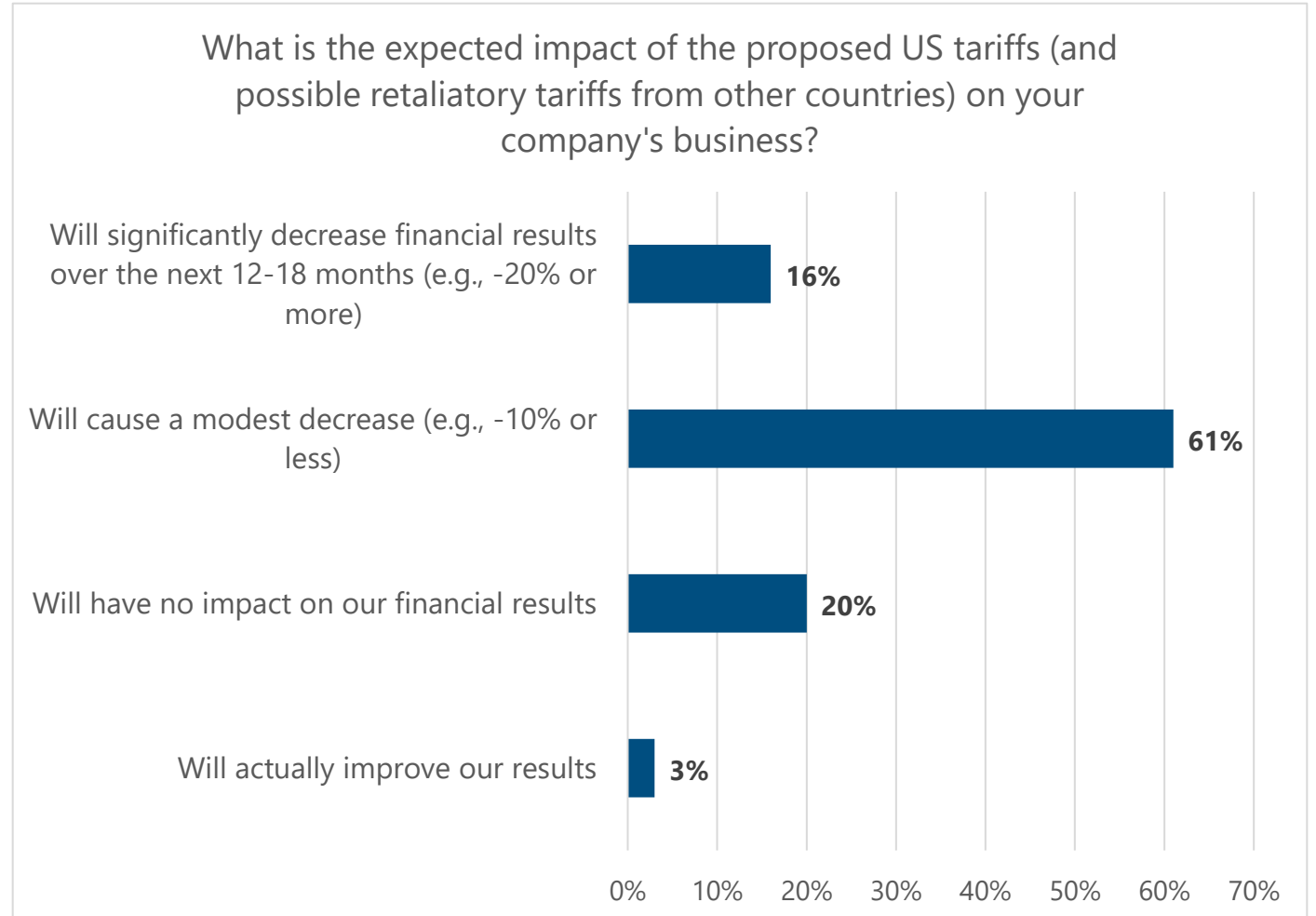
- + **Companies anticipate negative financial effects from tariffs, but few are planning to adjust goals.** While more than 75% of respondents expect tariffs to meaningfully impact financial results, nearly 40% say they have no plans to adjust short-term incentive goals, and nearly half do not intend to modify in-flight long-term performance plan goals.
- + **Tariffs have not been widely discussed in relation to incentive goals—yet.** While the issue is on everyone's radar, most respondents say tariff impact on incentive plan metrics has not been formally raised with the board or compensation committee. Still, nearly a quarter say tariff impacts are already being discussed, indicating growing awareness and concern.
- + **Most companies have used discretion sparingly, typically to increase payouts.** When applied, discretion was nearly three times more likely to result in increased payouts than reductions, with most upward adjustments reported in the consumer, financial, and healthcare sectors. Notably, fewer than a quarter of respondents say they have used discretion in the past three years in response to unplanned events that materially affected performance.

# Overall Impact on Business

- + As expected, the majority of respondents expect tariffs to have a negative impact on their business
  - Currently, most respondents assume modest negative impact
- + Those who are expecting no impact are primarily in the financial and healthcare industries
- + Those expecting significant impact are primarily in the consumer staples/discretionary and industrial and manufacturing industries

## ***Pearl Meyer commentary:***

- + Continued uncertainty about the timing and severity of actual tariffs is likely affecting the estimate of financial impact; companies know there will be an impact should tariffs be enacted, but it is difficult to quantify at this point
- + This perspective is likely to change as the year progresses and actual impact becomes clearer



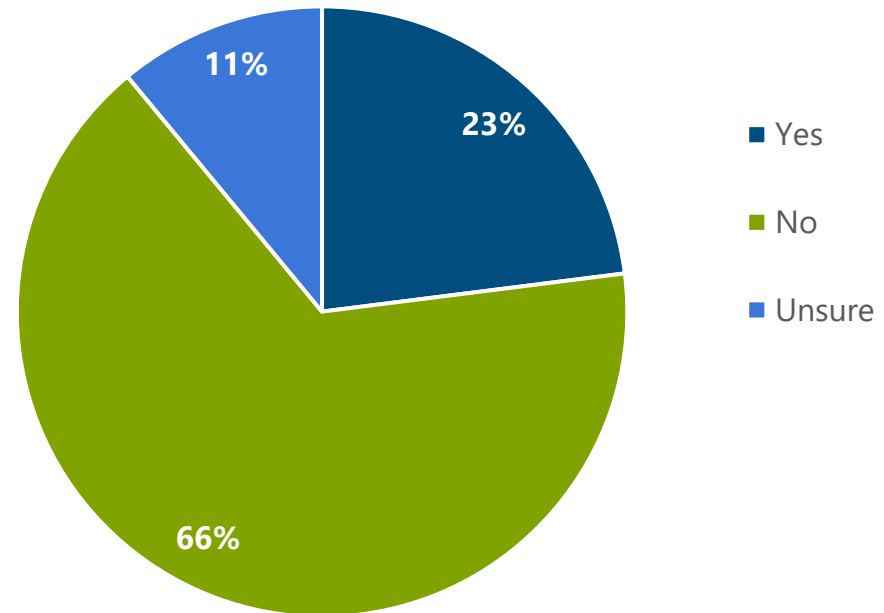
# Management Concern About Incentive Metrics

- + Most respondents report that the impact of tariffs on incentive goals has not been a topic of discussion

## ***Pearl Meyer commentary:***

- + We assume that most management teams (and compensation committees) are waiting for additional clarity/finality before assessing the impact that tariffs might have on financial results and corresponding incentive targets
- + While any application of discretion may not occur until after fiscal year end, companies should proactively begin to discuss tariff impacts and the potential use of discretion with compensation committees to facilitate comprehensive and well-informed decision-making

Has the management team voiced concern to the board/compensation committee about current short- and/or long-term incentive metrics or performance ranges in light of proposed tariffs?

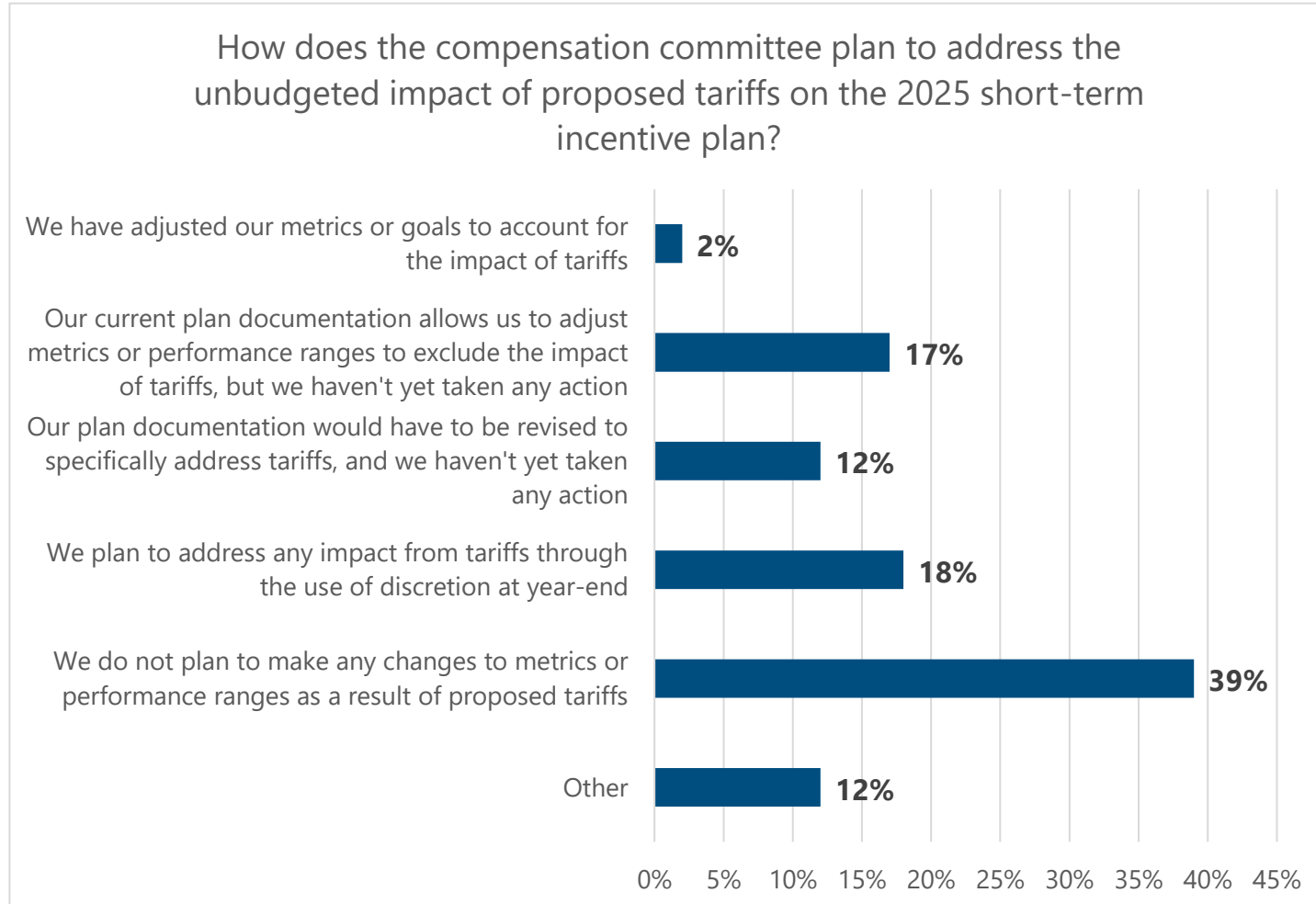


# Addressing Impact on Short-Term Incentives

- + Interestingly, nearly 40% of respondents state that they have no plans to adjust incentive goals to reflect the impact of tariffs, despite that fact that more than 75% of respondents believe tariffs will have a meaningful impact on their financial results
- + On the other hand, 35% of companies anticipate possible adjustments either because tariffs are a “covered” adjustment under the current measurement methodology, or they plan to use discretion at year-end, if necessary

## ***Pearl Meyer commentary:***

- + The high percentage of respondents not planning on making adjustments is consistent with a later finding that nearly two-thirds of respondents have not exercised discretion in the recent past
- + Again, as tariff policy becomes clearer, and actual impact begins to flow through financial results, we expect that these responses will shift

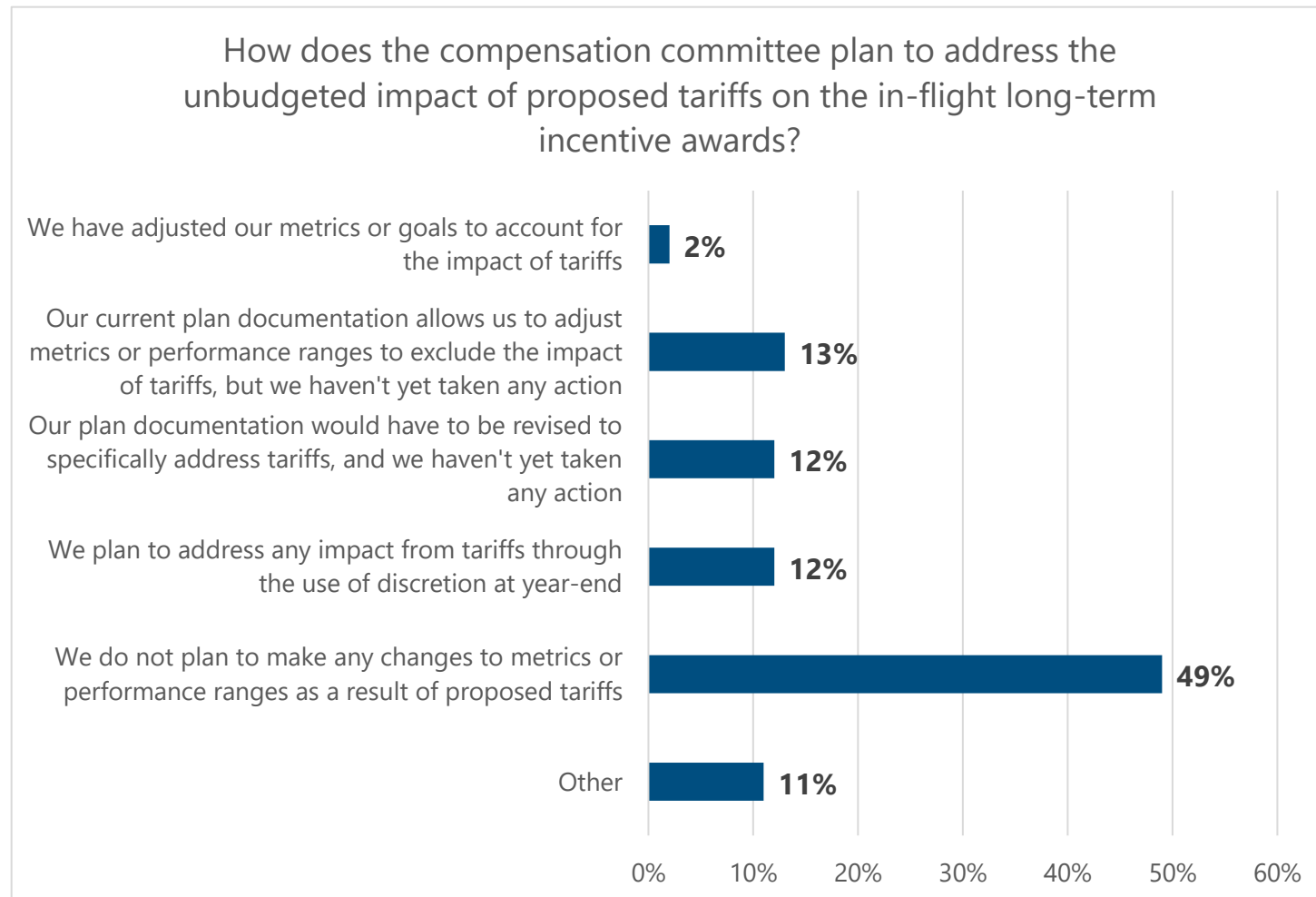


# Addressing Impact on Long-Term Incentives

- + Nearly half of respondents do not plan to make changes to goals for in-flight long-term performance plans

## ***Pearl Meyer commentary:***

- + This response is not surprising, as companies tend to be less inclined to use discretion on long-term plan payouts vs. short-term plans
- + That said, we note that companies often deal with mis-alignment through other vehicles, e.g., supplemental retention awards

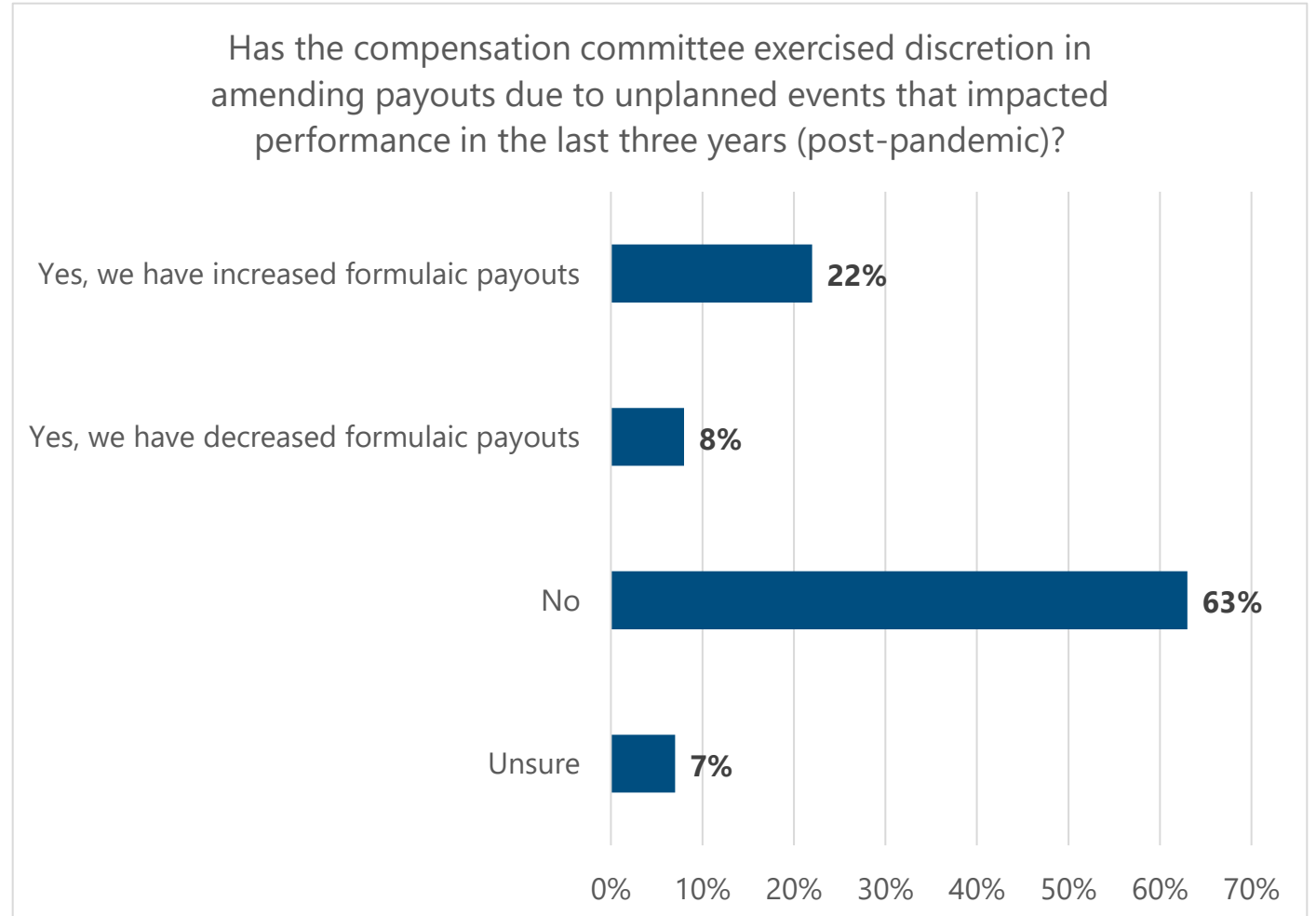


# Recent Use of Discretion

- + The majority of respondents have used discretion sparingly
  - When exercised, discretion was used to increase payouts nearly 3x more often than it was used to decrease payouts
  - Those who increased payouts are primarily in the consumer, financial, and healthcare industries

## ***Pearl Meyer commentary:***

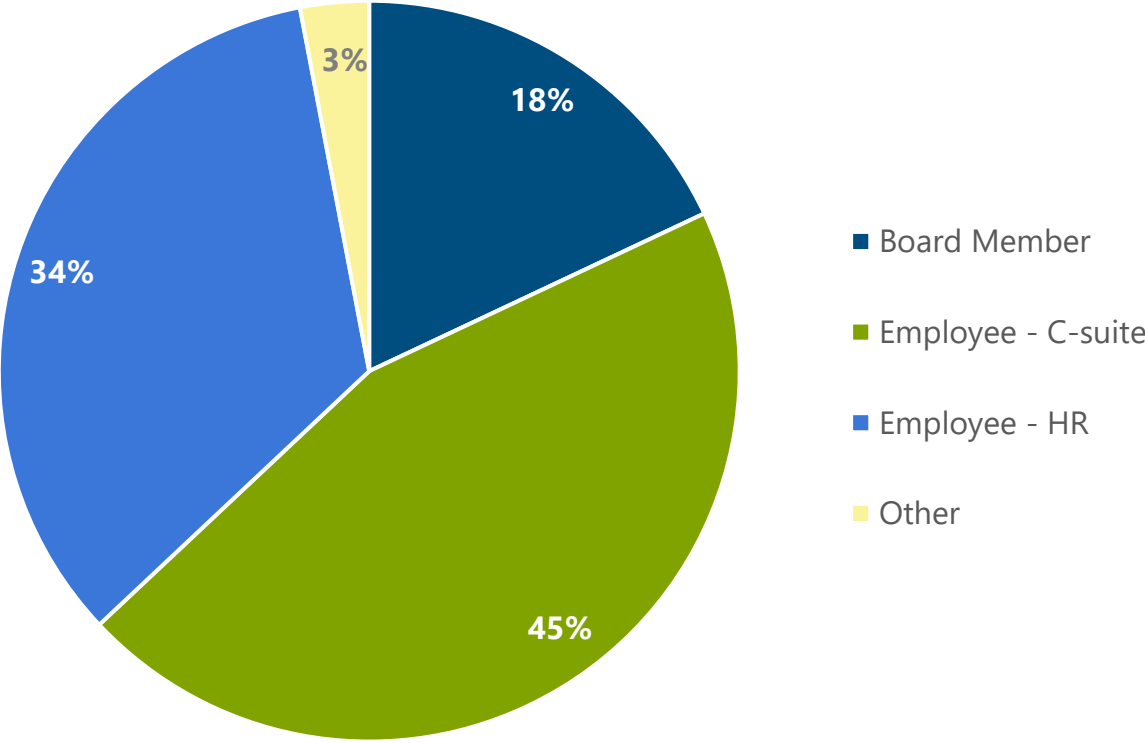
- + While committees generally appreciate the ability to exercise discretion, the reality is that there is a strong preference to maintain the integrity of pre-determined incentive plan goals
  - That said, many companies exercise “quasi-discretion” through the use of financial adjustments that often fall into pre-established categories
  - For public companies, disclosure of discretionary adjustments is often an additional impediment



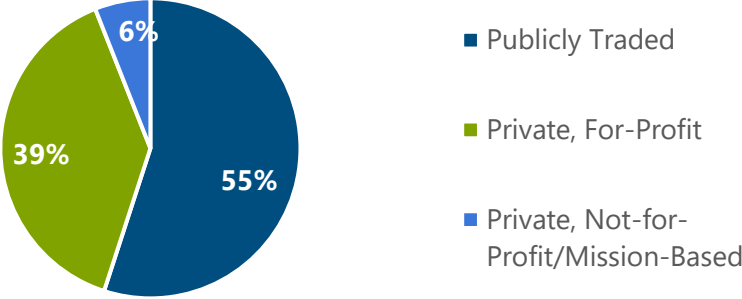


# Demographics

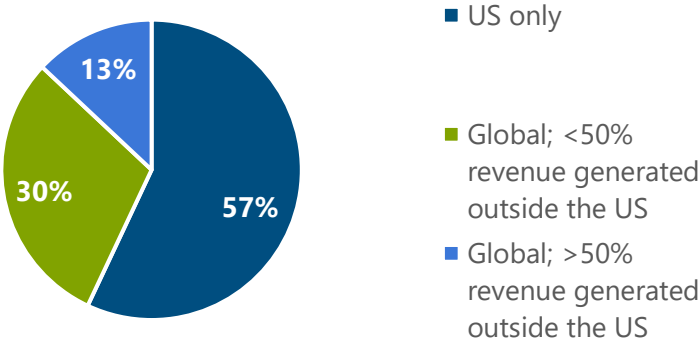
Survey Respondent Roles Within Their Company



Organization Ownership

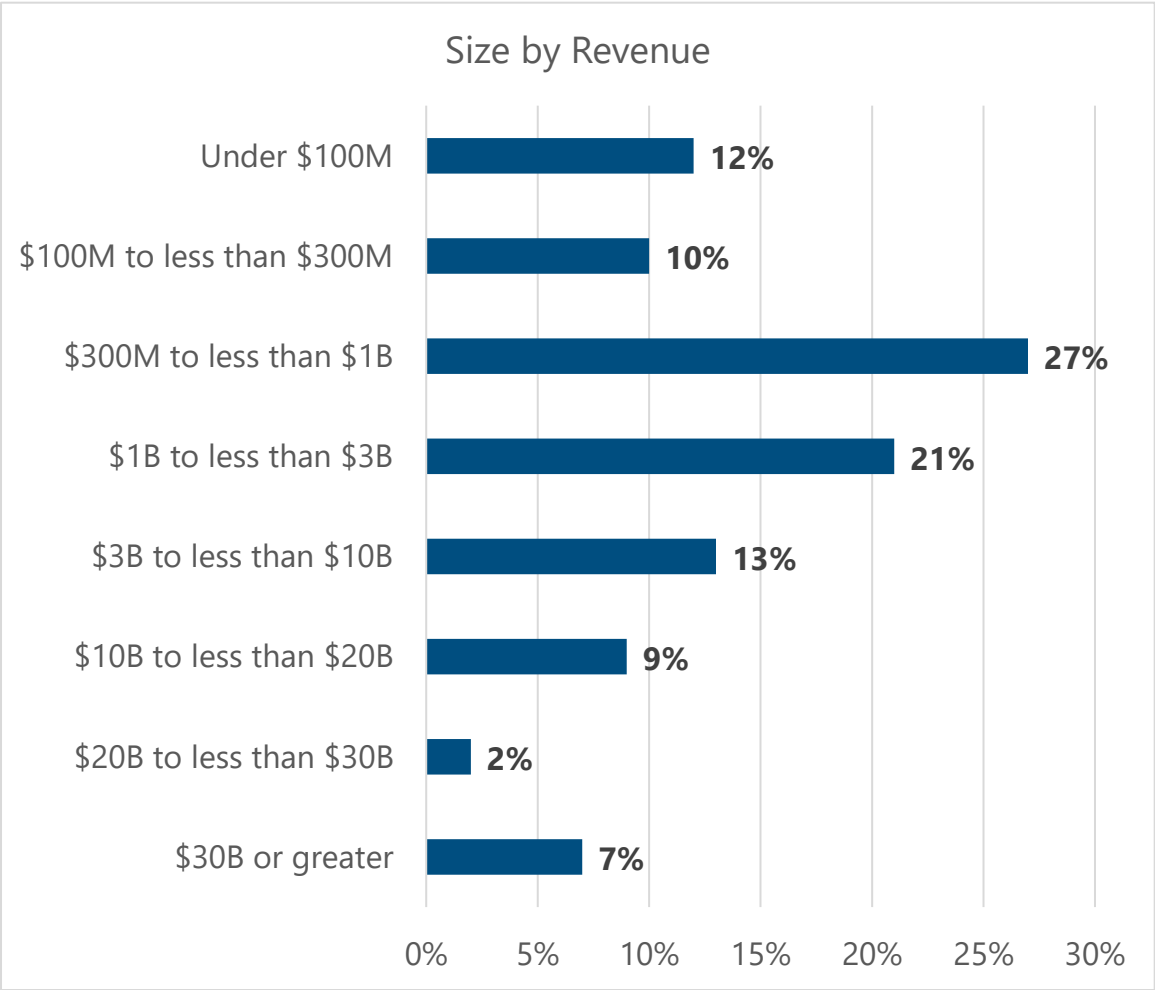
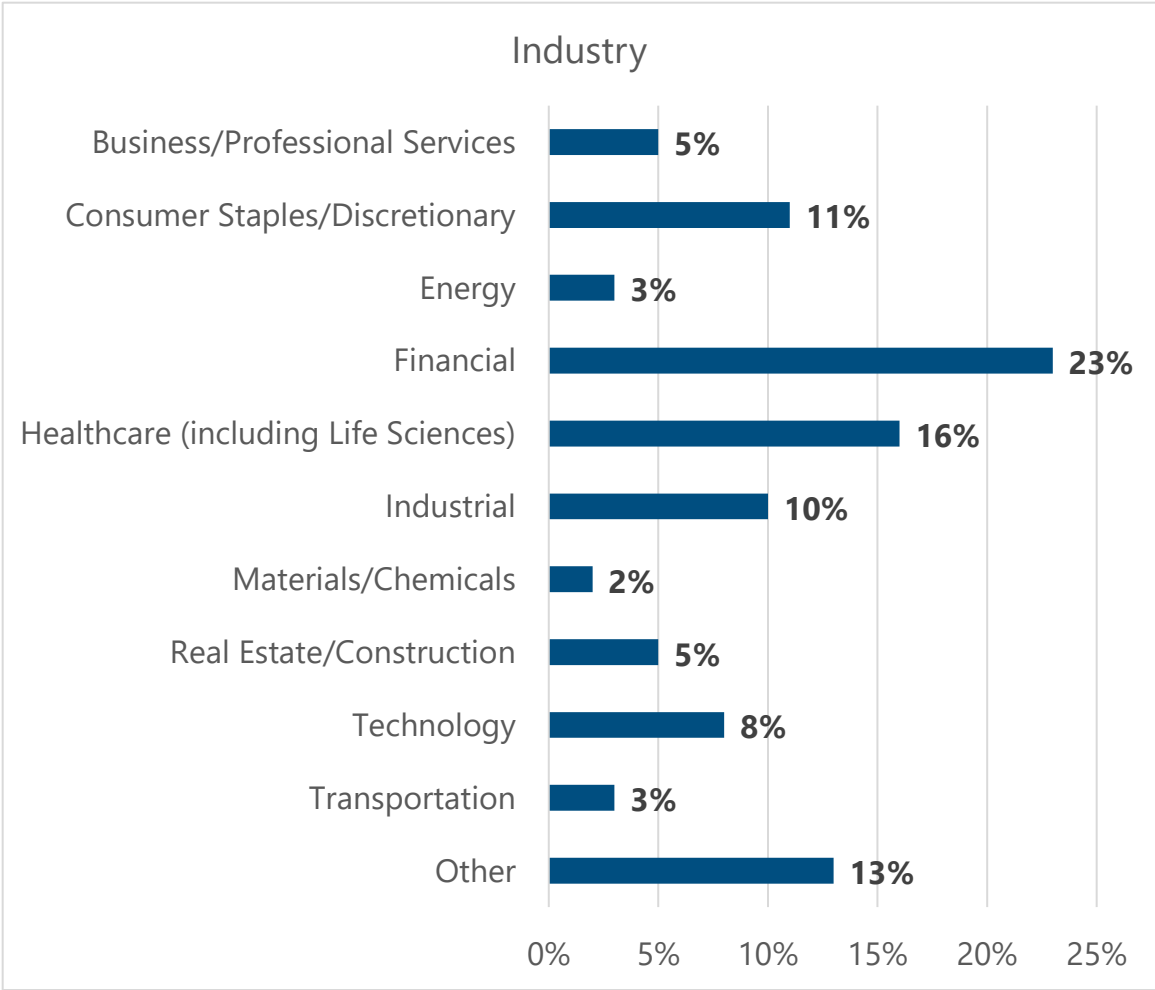


US vs Global





# Demographics





# Pearl Meyer

Connecting People, Purpose & Performance

# Thank you

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