

Pearl Meyer

Looking Ahead to Executive Pay Practices in 2026

Executive Summary

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Introduction

Pearl Meyer's "Looking Ahead to Executive Pay Practices" is an annual, online survey and valuable compensation planning tool. This year's plan design survey was conducted in August and September of 2025, with total participation from 248 companies, including 121 publicly traded, 84 private for-profit, and 43 not-for-profit (NFP) organizations. As with prior surveys, responses are broken out separately by respondent type (employee vs. board member), ownership type, industry, and company size.

This year's survey addresses key topics associated with the current environment, including the anticipated impact of tariffs and other macroeconomic factors on company performance and executive compensation and actions taken in response, CEO turnover and succession planning, incentive plan goal setting challenges and use of diversity, equity, and inclusion (DE&I) and environmental, social, and governance (ESG) performance metrics. As with prior surveys, it also addresses compensation philosophy, compensation/human capital committee oversight, recent or anticipated changes to incentive plan designs, projected base salary increases for 2026, expected payouts for short-term incentive (STI) and long-term incentive (LTI) cycles ending in 2025, and anticipated use of discretion. This year's survey also asks respondents to identify primary executive compensation program objectives and their organization's perceived effectiveness in achieving them.

Introduction (cont'd)

This year's survey includes the following nine industry groups:

1. Business/Professional Services
2. Consumer
3. Energy/Utilities
4. Financial/Insurance
5. Healthcare
6. Industrials/Transportation/Materials
7. Life Sciences
8. Real Estate/Construction
9. Technology

Certain industry categories in the online questionnaire were combined to allow for more meaningful sample sizes. Statistics are based on the number of responses for each question, and sample sizes vary. Thank you again to all participating organizations for your valuable input to help gauge how companies are navigating the executive pay landscape.

Please feel free to contact me with any questions.

Bill Reilly

Managing Director

bill.reilly@pearlmeyer.com | 770-261-4082

Key Highlights

- + Despite ongoing challenging market conditions, approximately 75% of respondents expect overall financial performance for Fiscal 2025 to be similar to or better than the prior year, equally split between “about the same” vs. improved performance. Most respondents (55%) expect little or no performance impact from tariffs, with 23% citing a negative impact and 22% unable to quantify the impact. Less than 15% of all respondents have revised or plan to revise incentive plan performance hurdles or have provided supplemental awards in response to macroeconomic challenges, with many taking a “wait and see” approach as relates to potential use of discretion for year-end award determinations.
- + More than three-fourths of all respondents have a strategic and/or emergency succession plan in place for the CEO role, and 16% of respondents experienced a CEO turnover in the past year, typically addressed through a pre-existing strategic plan. Most respondents also reported similar or lower levels of executive turnover over the past year, signaling further softening in the labor market.
- + Most respondents (60%) believe their executive compensation programs have been very effective in achieving primary objectives, providing competitive pay opportunities that are aligned with performance and which promote retention. Only 6% of respondents assigned low effectiveness ratings, typically citing non-competitive pay and inadequate (or lack of) incentive compensation. However, even those with high ratings identified some areas for improvement.
- + Compensation committees continue to address a variety of topics beyond executive and non-employee director compensation, with two-thirds responsible for executive succession planning and slightly more than half citing either moderate or high oversight of broader human capital issues. However, there was a notable decline year-over-year (YOY) in committee oversight of DE&I topics. Additionally, 15% of respondents have either eliminated or recharacterized DE&I incentive plan metrics, consistent with the broader market backlash on this subject.

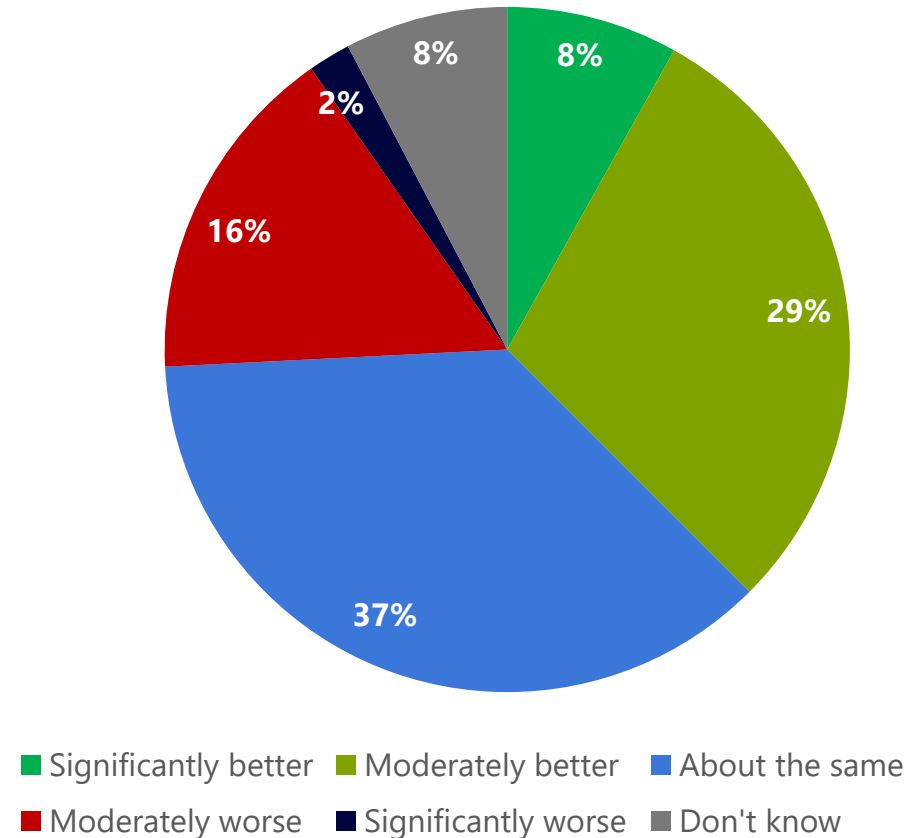
Key Highlights (cont'd)

- + Approximately half of all respondents target executive compensation at or near the market 50th percentile (with higher prevalence for publicly traded and larger-sized companies due to greater external scrutiny), with one-third targeting above the 50th percentile primarily due to use of stretch performance goals and/or competition with larger-sized organizations. Prevalence of tight labor markets as justification for above-median positioning declined YOY to 10% of respondents (vs. 27% last year), although 10% of respondents have increased or will increase targeted pay positioning to further enhance retention.
- + Most respondents are not planning changes to STI or LTI plan designs for 2026, or to the STI performance mix or LTI award vehicle prevalence and mix. Most companies have also not made any changes to LTI grant practices to address stock market volatility or recent changes in shareholder advisory group policies. Most respondents tie performance-based LTI awards to absolute financial goals, typically measured over 3 years.
- + Average salary increase projections for 2026 range from 3.3% to 3.5%, lower than 2025 levels for executives (averaging 3.7% to 3.9%, including some significant market adjustments in 2025). Across the entire sample, 50th percentile salary increase projections for 2026 equal 3.0% for CEOs and non-executives, consistent with the longer-term historical average, and equal 3.4% for CEO direct reports. Approximately 60% of respondents include executives in the same annual merit review process as for other employees while roughly 30% provide periodic increases as needed based on market reviews or role changes.
- + Virtually all respondents expect to provide at least some payout for STI and LTI incentive cycles ending in 2025, with prevalence fairly evenly distributed between above-target, at target, and below-target levels, excluding “not applicable” and “don’t know” responses. Excluding “not applicable” answers, approximately two-thirds of respondents project STI payouts for 2025 to be at or above prior year levels and LTI grant values for 2026 to be similar to those in 2025.

Current Year Financial Performance Projections

- + Approximately three-fourths of all respondents expect overall financial performance for 2025 to be similar to or better than the prior year, equally split between “about the same” vs. better YOY results.
 - Only 2% of respondents anticipate significantly worse YOY results, with 16% expecting moderately worse (-5% to -19%) outcomes.
 - Public companies are more optimistic than other ownership types, with 41% anticipating improved performance as compared with private for-profit (36%) and NFP (30%) respondents.
 - By industry, 52% of respondents in the financial/insurance sector expect improved financial performance along with approximately 40% within the consumer and technology sectors, while one-third of respondents within the energy/utilities and real estate/construction sectors anticipate lower YOY results.

Year-Over-Year Financial Performance Projections



Macroeconomic Factors Impacting Organizations and Executive Pay

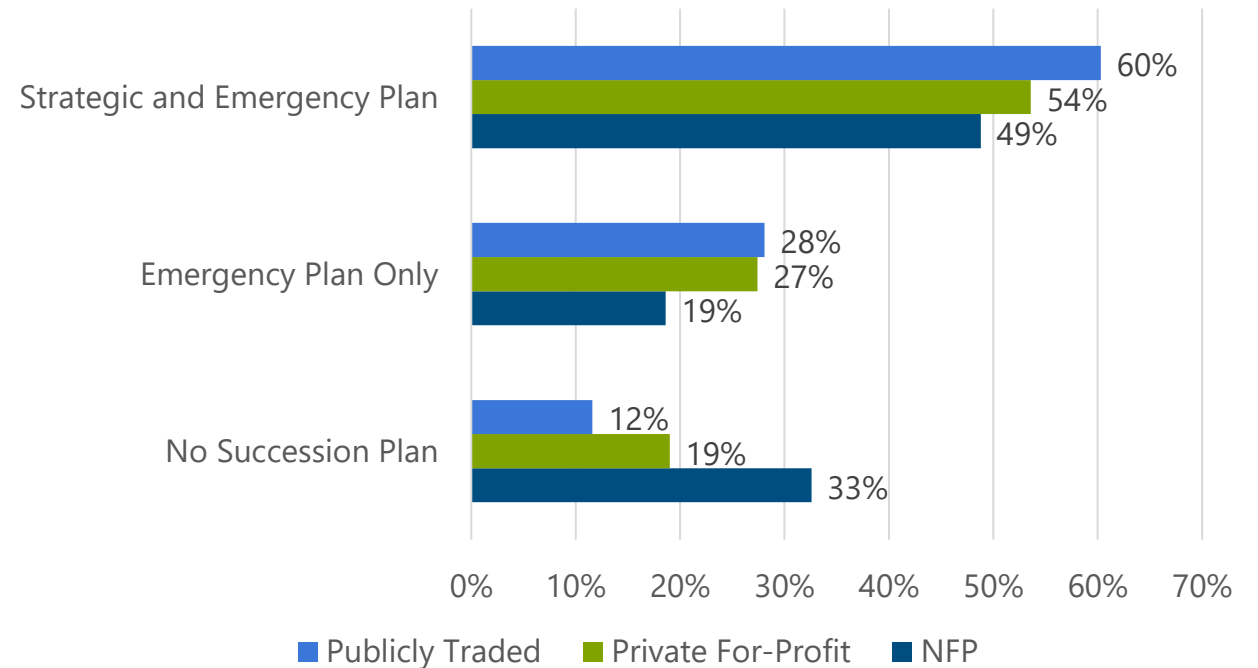
- + Half or more of respondents listed economic uncertainty and inflation among the top three factors impacting their organizations and executive compensation programs, with more than one-third also citing legal/regulatory developments and tight labor markets.
 - The least commonly cited top three factors were shareholder activism (13%), supply chain constraints (18%), and tariffs (20%).
 - By ownership, 40% of public companies included stock market volatility among the top three factors while 38% of private for-profit and 49% of NFP respondents cited tight labor markets; NFP respondents were also far more likely to reference legal/regulatory developments (63% included among the top three factors) than for-profit organizations (36% publicly traded and 33% privately held).
- + Less than 15% of respondents have taken or planned compensation-related actions such as changes to incentive plan performance hurdles (8% for STI, 6% for LTI) and/or supplemental awards (approximately 4% for STI and 2% for LTI) in response to macroeconomic factors.
 - However, many may consider use of discretion following year-end.

Factors	% Biggest Impact	% 2 nd Biggest Impact	% 3 rd Biggest Impact	% Within Top 3
Economic Uncertainty	33%	19%	16%	68%
Inflation	8%	22%	20%	50%
Legal/Regulatory Developments	13%	15%	13%	41%
Tight Labor Market	13%	8%	15%	36%
Stock Market Volatility	7%	11%	12%	30%

CEO Turnover and Succession Planning

- + Within the past year, 16% of respondents experienced a CEO turnover, typically executed through a pre-existing succession plan.
 - CEO turnover was generally higher for larger-sized organizations (including nearly 26% of respondents with \$1 billion to \$3 billion in revenue or assets) vs. smaller companies (less than 3% for respondents below \$100 million) and within the consumer (24%) and industrial/transportation/materials (21%) sectors.
- + Across the entire sample, most respondents have a strategic or emergency succession plan in place for the CEO role; NFP organizations were most likely to not have any plan.
 - Prevalence of strategic succession plans correlates with company size (60%+ for revenues or assets of \$1 billion+ vs. 35% to 40% for smaller organizations).
- + Nearly half of all respondents said executive turnover (excluding the CEO) did not materially change over the past six to twelve months, while 32% cited lower and 16% higher levels.

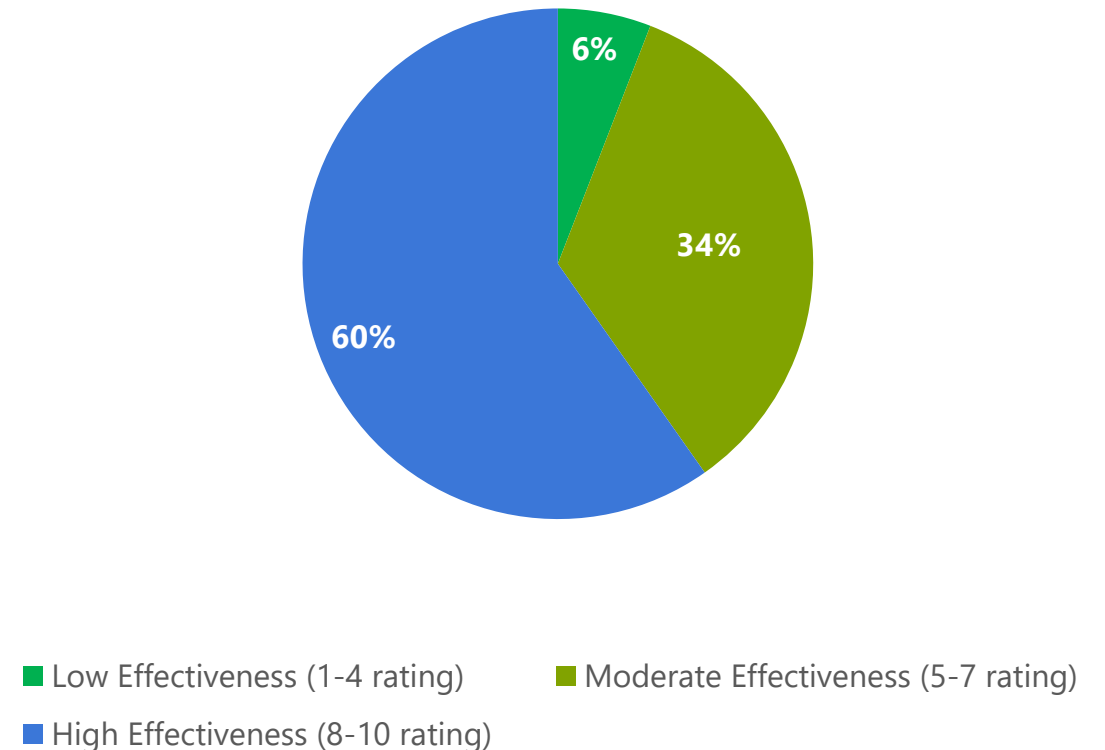
Current Status of CEO Succession Plan



Executive Compensation Program Effectiveness

- + Approximately 60% of all respondents believe their executive compensation programs are highly effective in achieving desired objectives.
 - The top three most commonly cited objectives include:
 1. Reinforcing key business/strategic objectives (78% of respondents ranked among top three)
 2. Aligning pay with performance/value creation (72%)
 3. Attracting and retaining executives (71%)
- + The least commonly cited objective was adherence to shareholder/advisor group policies (7% of all respondents, 12% of publicly traded companies).
 - Perceived program effectiveness ratings were generally more favorable among board members than management (73% high ratings vs. 58%) and public companies (67% high ratings) vs. other ownership types (49% private for-profit and 60% NFP).
 - High effectiveness ratings were provided by the majority of respondents within all industry sectors except for real estate/construction (44%), consumer (48%), and business/professional services (48%).

Effectiveness in Achieving Desired Program Objectives
(Using Scale of 1 - 10)



Executive Compensation Program Effectiveness (cont'd)

- + Respondents assigning low effectiveness ratings for their compensation programs generally cited non-competitive pay opportunities and/or limited or inadequate incentives as the biggest weaknesses.
 - Most respondents within the low effectiveness ranking category are not publicly traded.
- + Respondents assigning the highest rating (10 out of 10) generally cited competitive pay opportunities aligned with strategic objectives and performance outcomes that promote strong retention as key strengths.
 - Program weaknesses cited by these same companies generally included a desire for additional pay upside (for strong performance), incentive plan goal setting challenges, and pay mix, confirming there is always some room for improvement among most compensation programs.

	Low Effectiveness (Ratings 1-4)	Highest Effectiveness (Rating of 10)
Biggest Weaknesses	<ul style="list-style-type: none">+ Limited or inadequate incentives+ Non-competitive pay+ Not aligned with performance+ Too subjective	<ul style="list-style-type: none">+ Market volatility/goal setting challenges+ Remaining competitive/benchmarking+ Pay mix (e.g., conservative base salary)+ Desire for more upside opportunity
Biggest Strengths	<ul style="list-style-type: none">+ Simplicity/consistency+ Allows for work/life balance+ Internal equity (per some)+ None (per some respondents)	<ul style="list-style-type: none">+ Competitive/fair pay+ Alignment with performance+ Promotes strong retention+ Transparency

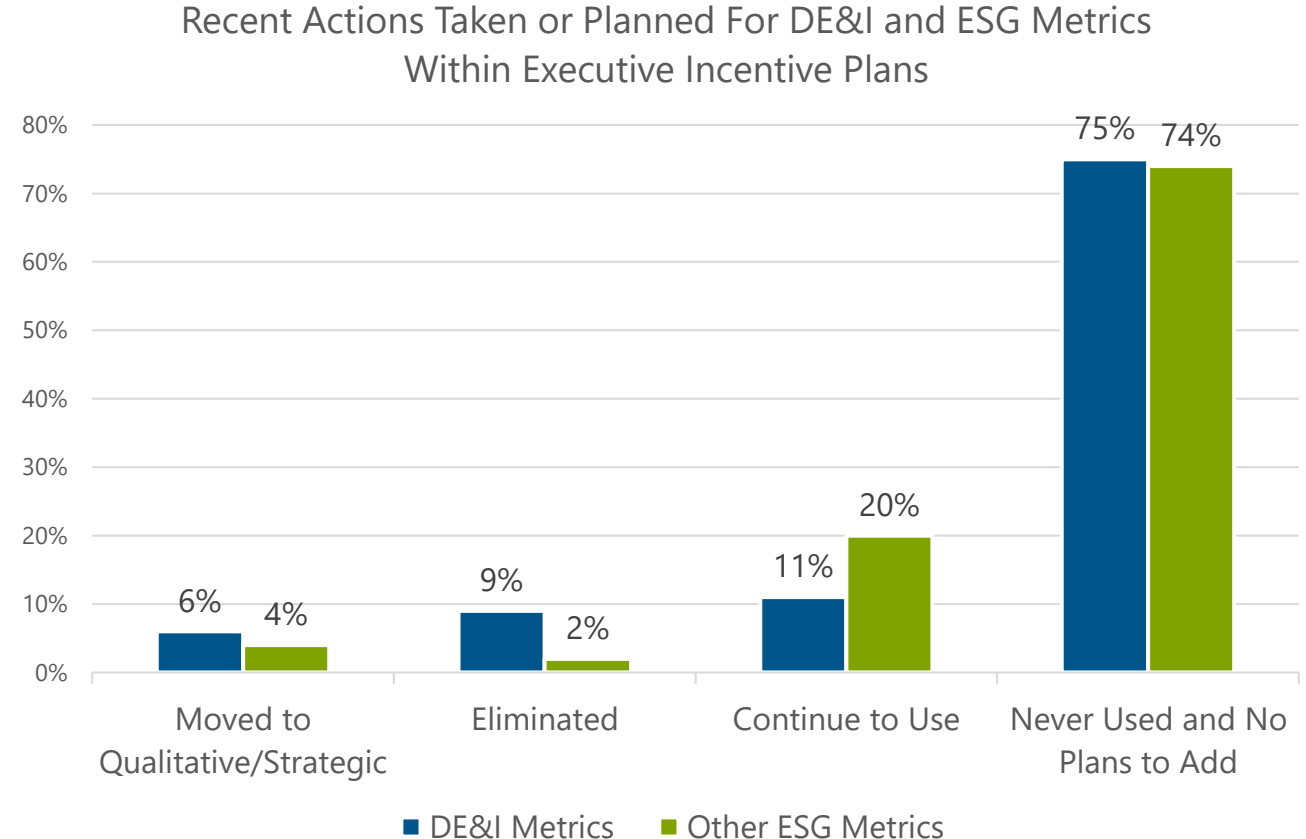
Targeted Executive Pay Positioning

- + Roughly half of all respondents target executive compensation at the market 50th percentile, with prevalence higher for base salary than variable pay (STI and LTI).
 - Public company respondents are more likely to target executive pay at the 50th percentile compared with private organizations, as are larger-sized companies, reflecting the impact of greater external scrutiny.
 - By industry, prevalence of respondents targeting total compensation at the 50th percentile was highest for the real estate/construction sector (67%) and lowest for healthcare (33%, most of which are private).
 - Most respondents targeting executive pay above the 50th percentile cite use of stretch goals (36%) or competing with larger-sized companies (28%); only 10% of respondents cited tight labor markets (down from 27% last year).
- + Nearly three-fourths of respondents have not changed their compensation philosophy, while 10% increased targeted pay positioning and 10% increased the emphasis on STI and/or LTI.

Pay Component	Targeted Pay Positioning (% of All Respondents)			
	Below 50 th Percentile	At 50 th Percentile	Above 50 th Percentile	No Positioning
Base Salary	12%	56%	27%	5%
Short-Term Incentives (STI)	11%	48%	25%	15%
Long-Term Incentives (LTI)	8%	42%	26%	23%
Total Direct Compensation	9%	49%	34%	8%

Use of DE&I and Other ESG Metrics Within Incentive Plans

- + Excluding “don’t know” and “N/A” responses, most companies do not use DE&I or other ESG-related metrics on a stand-alone basis within incentive plans, with approximately 15% eliminating or re-characterizing (e.g., moving from stand-alone to part of a broader set of strategic objectives) DE&I components.
 - Approximately 4% of respondents continue to use these metrics but adjusted the way they communicate about them externally.
 - Responses are similar by ownership as relates to DE&I metrics while use of other ESG-related metrics is higher for publicly traded respondents (22%) vs. private companies (13% private-for-profit and 5% NFP).
 - None of the respondents said they recently added stand-alone DE&I metrics.
 - As shown on the following page, metric prevalence is higher for individual and non-financial strategic goals, some of which may include ESG-related components.



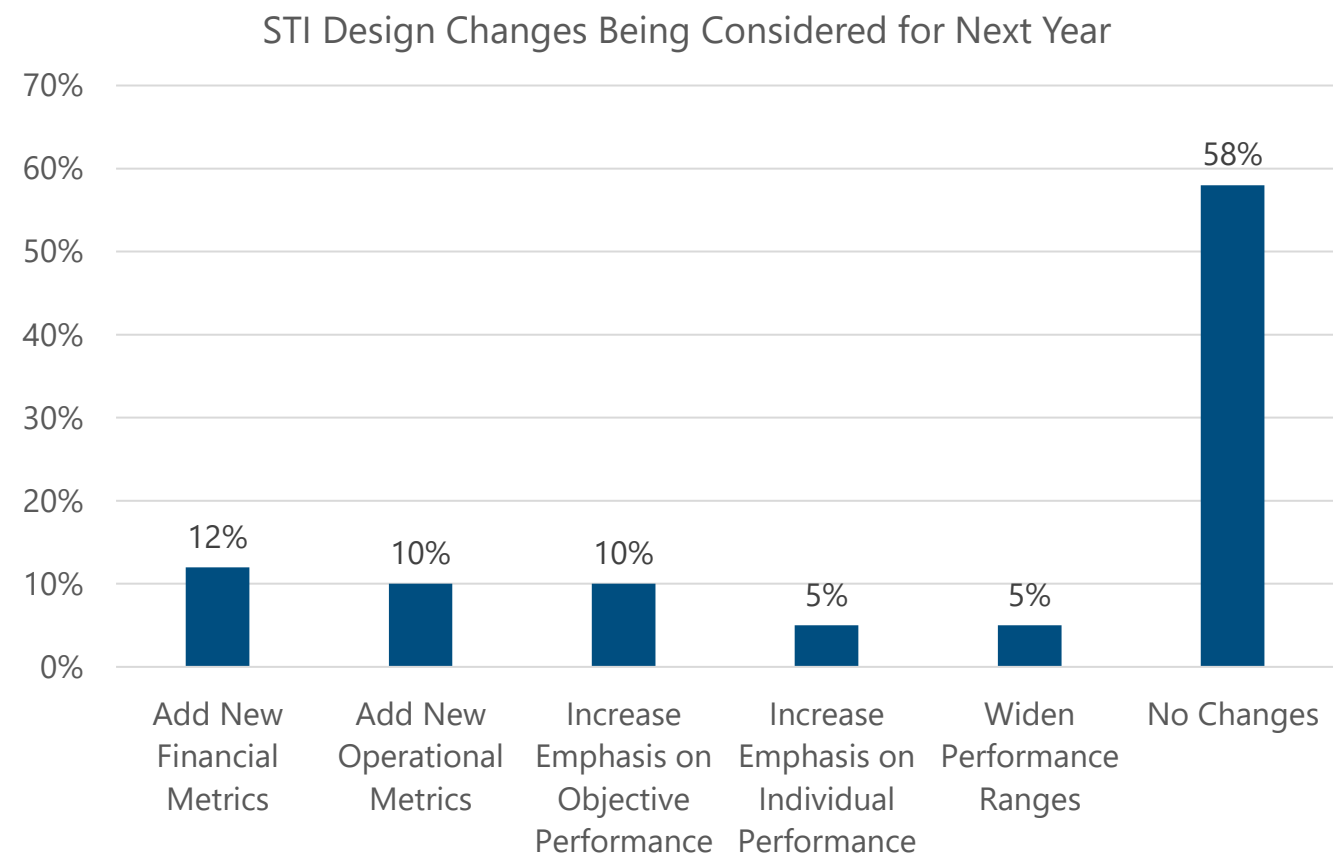
STI Performance Mix Projections for 2026

- + Most respondents (67% of full sample and 81% of public companies) have formulaic STI plan designs, with pre-defined weightings for metrics and award opportunities.
- + The anticipated performance mix for 2026 is very similar to 2025, with a primary emphasis on objective financial/operational goals and very low prevalence of stand-alone DE&I or other ESG metrics.
 - Compared with last year’s survey, there was a notable decline in prevalence for DE&I and ESG metrics (3-7% vs. 13%) and increase for individual goals (33% vs. 17%) for CEOs; this aligns with earlier findings regarding companies moving away from stand-alone DE&I metrics.
- + Among respondents with business unit executives participating in the senior executive STI plan, the average overall performance mix for financial metrics was 60% corporate and 40% business unit results, reinforcing collaboration as well as line of sight.

Performance Metric Category	2026 STI Performance Mix: CEO		2026 STI Performance Mix: CEO Direct Reports	
	Prevalence	Median Weighting (when provided)	Prevalence	Median Weighting (when provided)
Financial/Operational	99%	80%	99%	80%
DE&I (Stand-Alone)	3%	5%	3%	5%
ESG (Stand-Alone)	7%	10%	7%	10%
Other Non-Financial/Strategic Metrics	30%	25%	29%	25%
Individual	33%	20%	42%	25%
Discretionary	11%	20%	11%	20%

STI Plan Design Changes for 2026

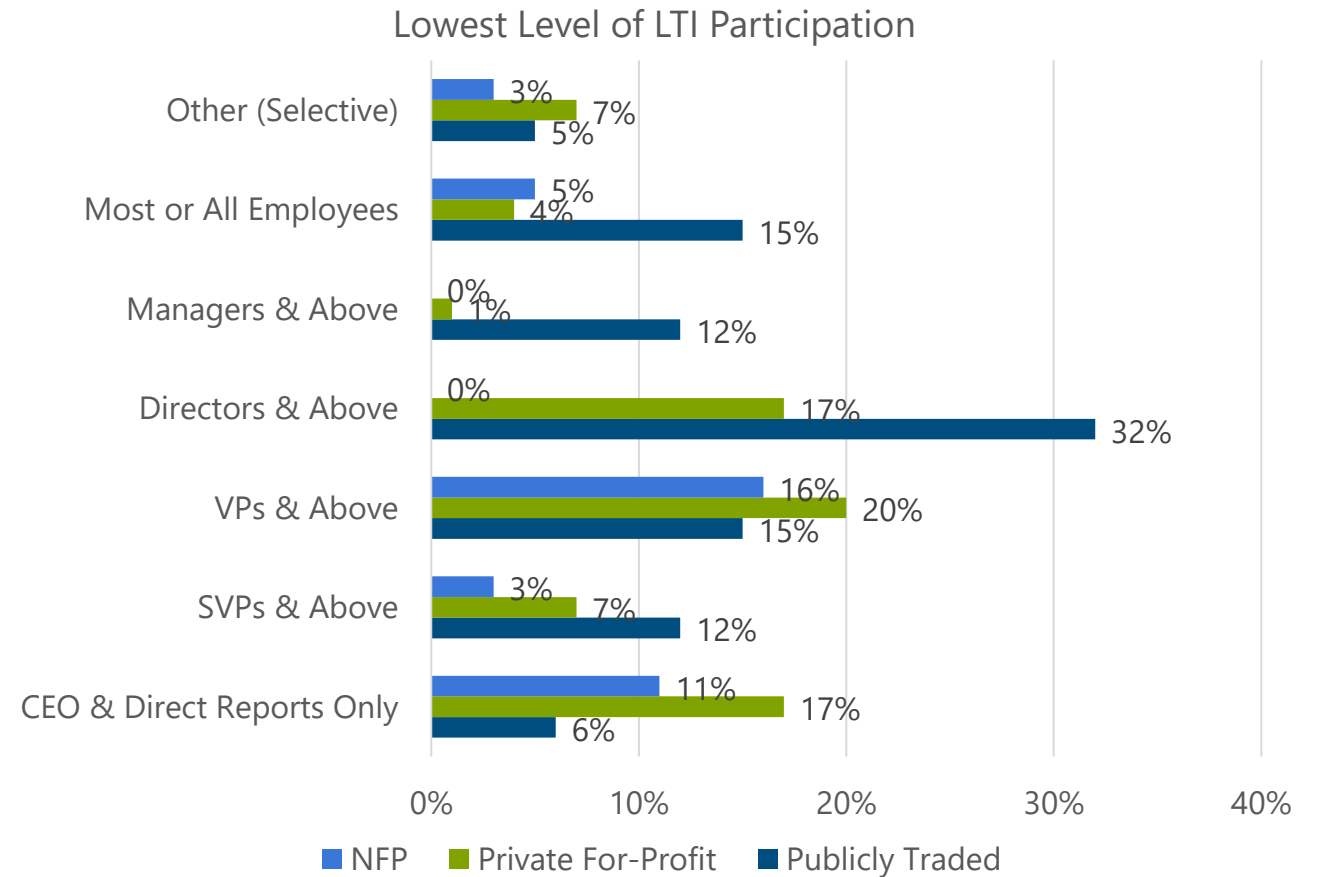
- + Approximately 40% of all respondents are considering making changes to senior executive STI designs for 2026, with the most common actions (expressed as a percentage of all responses, not just for those making changes) shown to the right.
 - Anticipated changes typically include adding new performance metrics, with higher prevalence for private-for-profit respondents vs. other ownership types.
 - By industry, prevalence of adding new financial and operational metrics is highest for respondents in the energy/utilities sector (27%) and lowest in the real estate/construction sector (0%); prevalence may be impacted by low sample sizes for these sectors.



LTI Prevalence and Participation Levels

- + Nearly all (96%) publicly traded and 73% of private for-profit respondents grant LTI awards to senior executives while most NFP respondents (62%) do not.
 - Most respondents (86%) do not expect to increase participation levels next year, with 5% anticipating increases for executives and 3% for other employees.
- + When provided, private companies generally do not make LTI grants below the executive level while most publicly traded companies have broader participation.
 - Public company respondents are fairly evenly divided between limiting grants to executives (VPs and above), employee directors and above, or extending grants further down the organization.
 - Industry sectors with the highest prevalence of grants to most or all employees include life sciences (50% of respondents) and technology (15%), while none within the business/professional services or healthcare sectors (most of which are privately held) provide grants below the employee director level.

Note: In the chart to the right, "Other" refers to other non-specified categories (e.g., senior managers and above, or some other combination of roles)

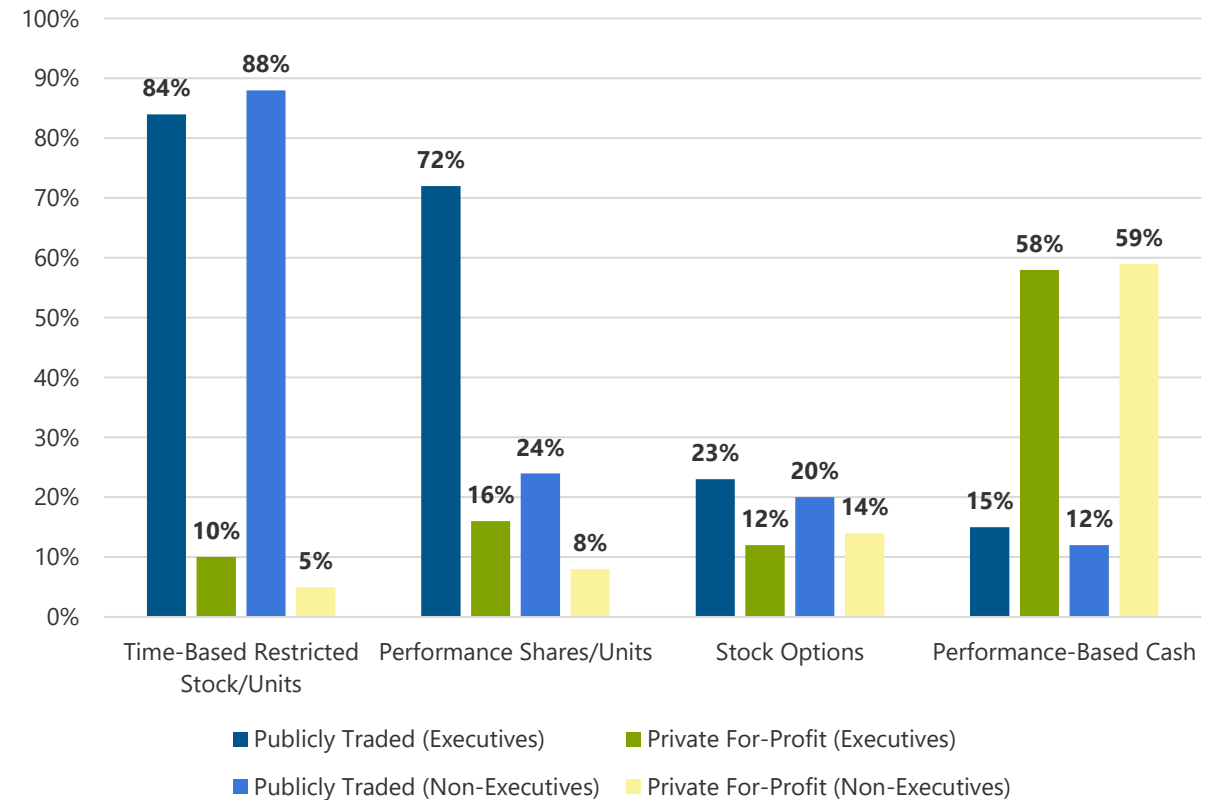


LTI Award Vehicle Prevalence and Target Value Mix

For-Profit Companies

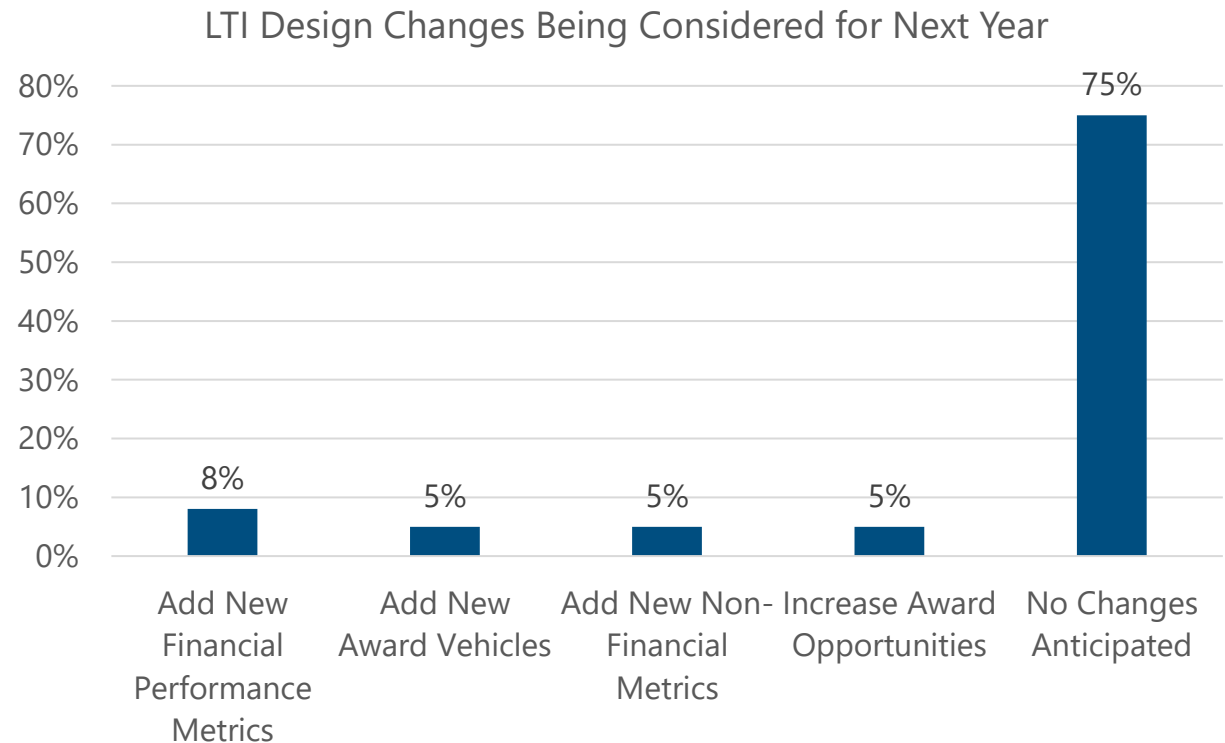
- + Most publicly traded respondents provide a combination of time-based and performance-based equity to executives and time-based restricted stock to non-executives, while private for-profit respondents make relatively greater use of performance-based cash (58% for executives, 59% for other employees).
 - Most respondents do not expect YOY changes in LTI award vehicle prevalence or target value mix for grants in 2026.
 - Use of multiple award vehicles is considerably higher for publicly traded (82% for executives, 39% for other employees) vs. private for-profit respondents (12% for executives, 11% for other employees).
 - Most NFP respondents do not grant LTI; those that do only provide performance-based cash.
- + When provided by public company respondents, average anticipated target value weightings for CEO direct reports in 2026 equals 55% for performance shares/units (PSUs) and 46% for time-based restricted stock/units (RSUs); for non-executives, the average anticipated weightings, when provided, are 48% for PSUs and 77% for RSUs.
 - 58% of public company respondents anticipate a mix of 100% RSUs in 2026 for non-executives, similar to 2025.

LTI Award Vehicle Prevalence (For-Profit Respondents)



LTI Plan Design Changes for 2026

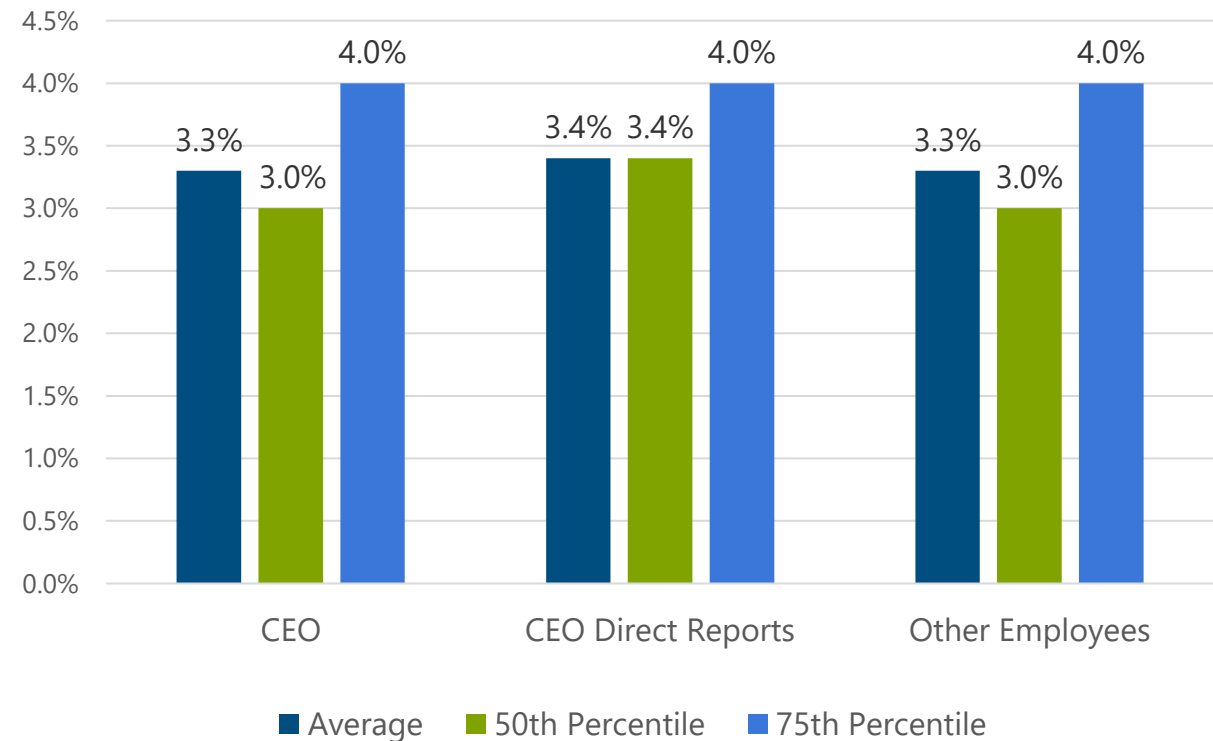
- + Approximately 25% of all respondents currently anticipate making one or more LTI plan design changes for 2026, with the most common actions (expressed as a percentage of all responses including “not applicable”) shown to the right.
 - By industry, anticipated changes are highest for the business/professional services sector (39%, primarily adding new metrics) and lowest for the technology sector (9%, also adding new metrics).
- + Only 10% of all respondents currently anticipate making any change to LTI grant practices for 2026.
 - Approximately 7% of publicly traded and 6% of private for-profit respondents plan to provide additional grants to enhance retention, and 4% of publicly traded companies expect to use longer-term average stock prices to determine grant levels.
- + Most public company respondents (93%) do not expect to make any changes next year to LTI award mix or vesting schedules in response to shareholder advisory group policy shifts.
 - Only 4% currently expect to enhance proxy disclosure regarding LTI design and/or forward-looking goals; we expect prevalence may increase going forward, especially for companies with relatively low “say on pay” support.



2026 Base Salary Increase Projections

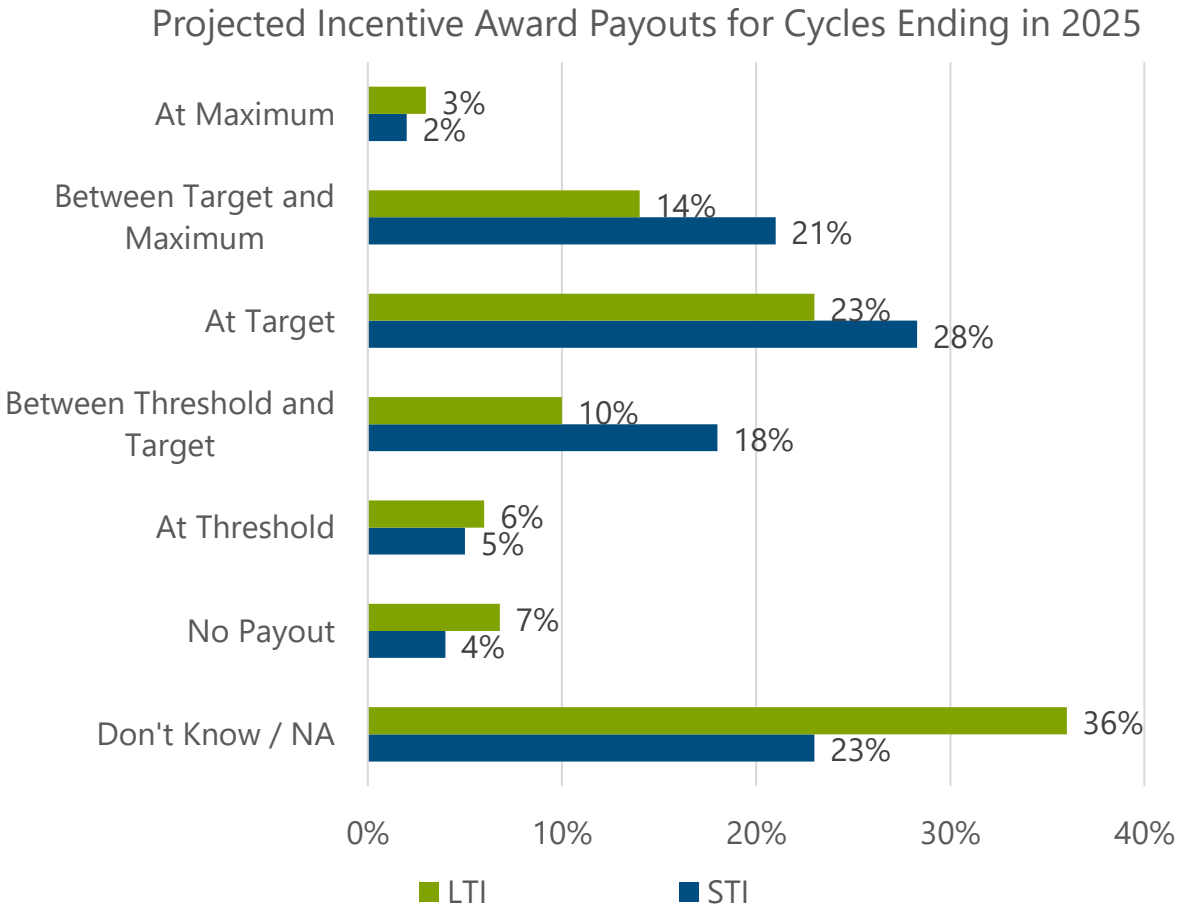
- + Average 2026 projected salary increase percentages range from 3.3% to 3.4% across employee categories, below 2025 actual average percentages for executives and unchanged for other employees, while 50th percentile projections range from 3.0% to 3.4%.
- 2025 average actual increases ranged from 3.3% to 3.9%, with 10% of respondents providing non-promotion-related market adjustments (ranging from 10% to 15%) to the CEO.
- Most respondents expect to provide salary increases in 2026, with salary freeze prevalence equal to 19% for CEOs, 9% for CEO direct reports, and only 2% for other employees.
- Average increase projections for executives are lowest for the energy/utilities sector (2.2% for CEOs and 2.4% for direct reports) and highest for the technology sector (average values of 5.7% for CEOs and 5.4% for direct reports and 50th percentile values of 4.0%); for non-executives, average projections are lowest for the industrial/transportation/materials sector (3.0%) and highest for technology companies (4.0%).
- Average 2026 salary increase projections are lower for respondents anticipating a YOY decline in financial performance (ranging from 2.9% to 3.2% across employee categories) vs. those with improved performance (ranging from 3.5% to 3.9%).

2026 Base Salary Increase Projections



Incentive Award Funding Projections for Cycles Ending in 2025

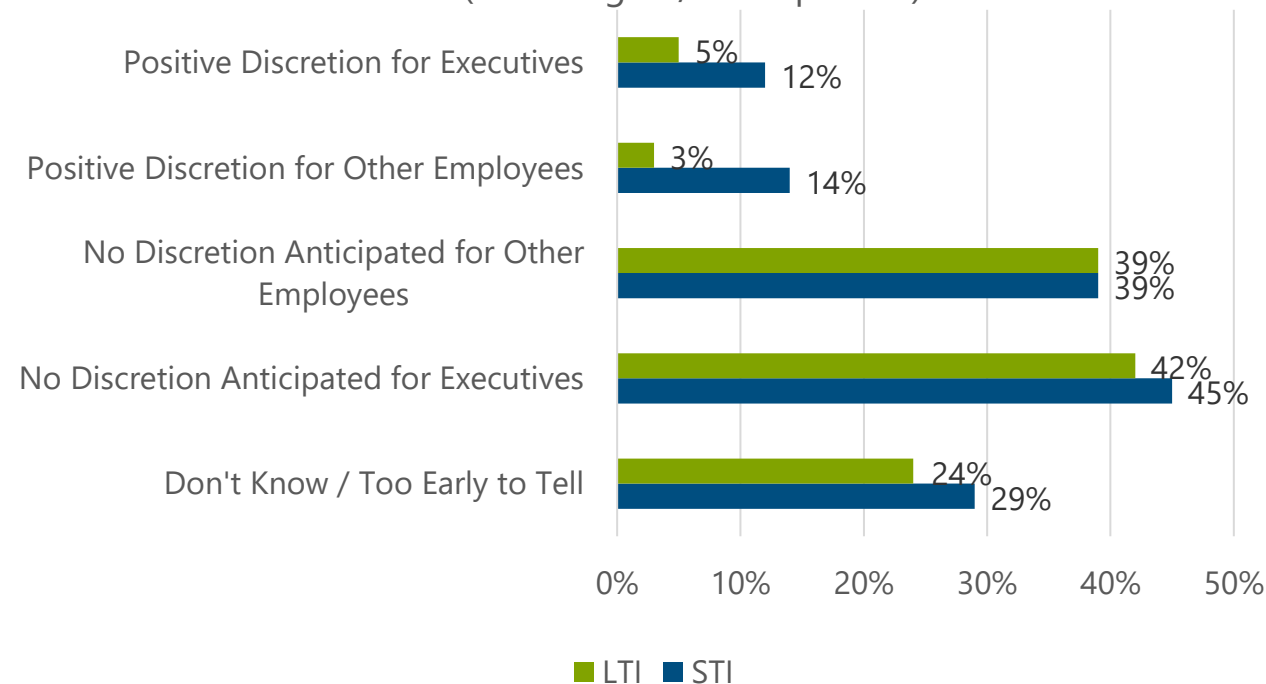
- + Most respondents expect payouts for STI and LTI cycles ending in 2025, with 51% of all respondents expecting payouts at or above-target for STI vs. 40% for LTI (including N/A and “don’t know” responses).
 - Excluding “N/A” and “don’t know” responses, prevalence is fairly evenly distributed between above-target (29%), at target (36%), and below-target (35%) projections for STI as well as for LTI (27% above target, 36% at target, and 37% below target).
 - Approximately half or more respondents within five of nine industry categories (consumer, energy/utilities, financial/insurance, life sciences, and technology) project STI payouts at or above target; for LTI cycles ending in 2025, energy/utilities was the only sector with a majority of respondents projecting target or better payouts.
 - Excluding “N/A” and “don’t know” responses, anticipated incentive award funding outcomes correlate with YOY financial projections, with below-target STI payouts expected by 63% of respondents with lower performance vs. approximately 20% of those with improved results.
 - Including “N/A” responses, 34% of all respondents expect similar STI awards for 2025 vs. 2024 with 25% projecting higher awards and 31% anticipating lower payouts.



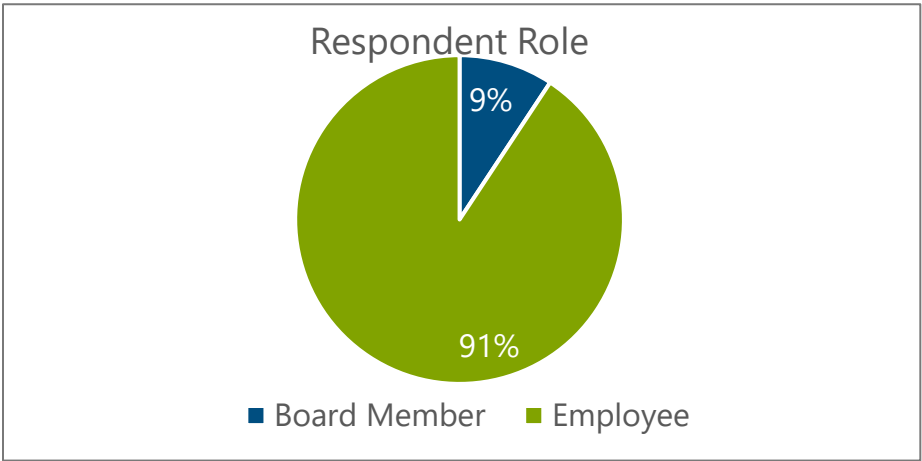
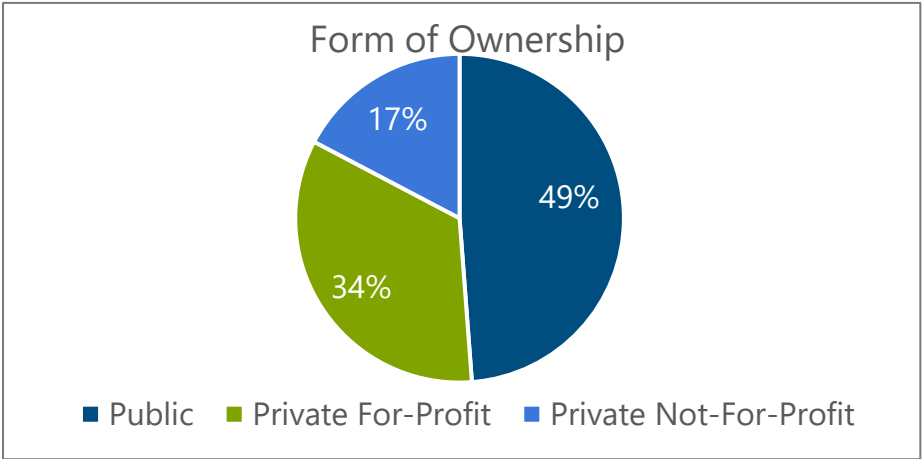
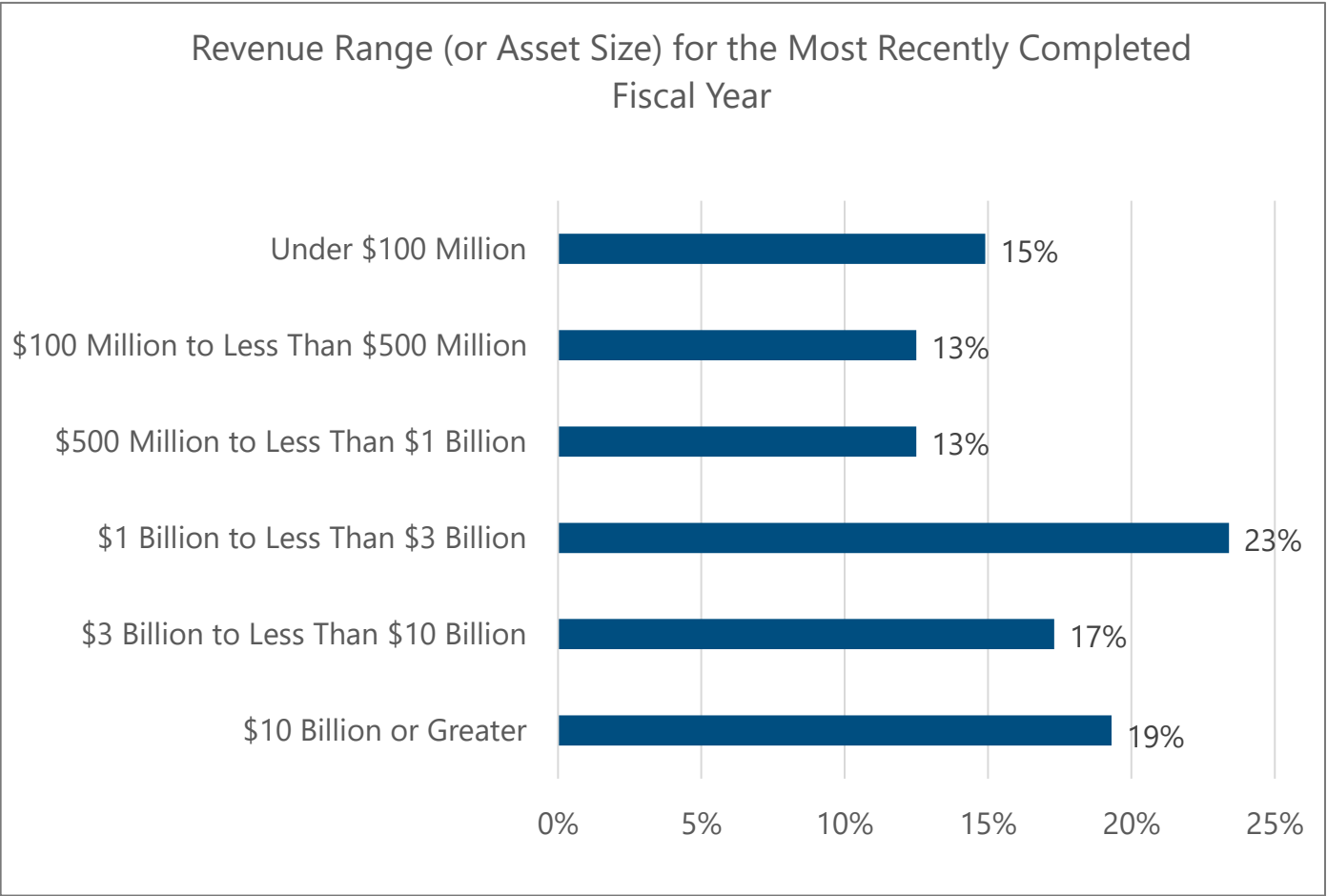
Anticipated Use of Discretion for Incentive Cycles Ending in 2025

- + Most respondents do not currently anticipate applying discretion or are taking a “wait and see” approach as relates to payout determinations for incentive cycles ending in 2025.
 - Anticipated use of discretion is higher for STI than LTI and for non-executives vs. senior executives.
 - Excluding “N/A” responses, no discretion is currently anticipated by approximately half of respondents for STI and by 60% for LTI, with one-third taking a “wait and see” approach.
 - Prevalence of positive discretion for STI payouts is lower for public companies (12% - 15%) than private for-profit organizations (16% - 20%), as well as for larger-sized vs. smaller respondents, presumably due to greater external scrutiny.
 - By industry, anticipated use of positive discretion for executives was highest for life sciences for STI (17%) and the consumer sector for LTI (12%) and lowest for industrial/transportation/materials for STI (4%) and business/professional services, energy/utilities, healthcare, and real estate/construction sectors (0%) for LTI, with results impacted by sample size and LTI prevalence.
 - To date, nearly 90% of respondents have not taken any action to address the unanticipated impact of tariffs on incentive plan cycles ending in 2025.

Anticipated Use of Discretion for Incentive Cycles Ending in 2025 (Including “N/A” Responses)

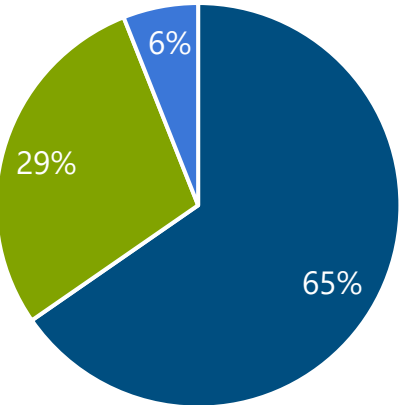


Demographics



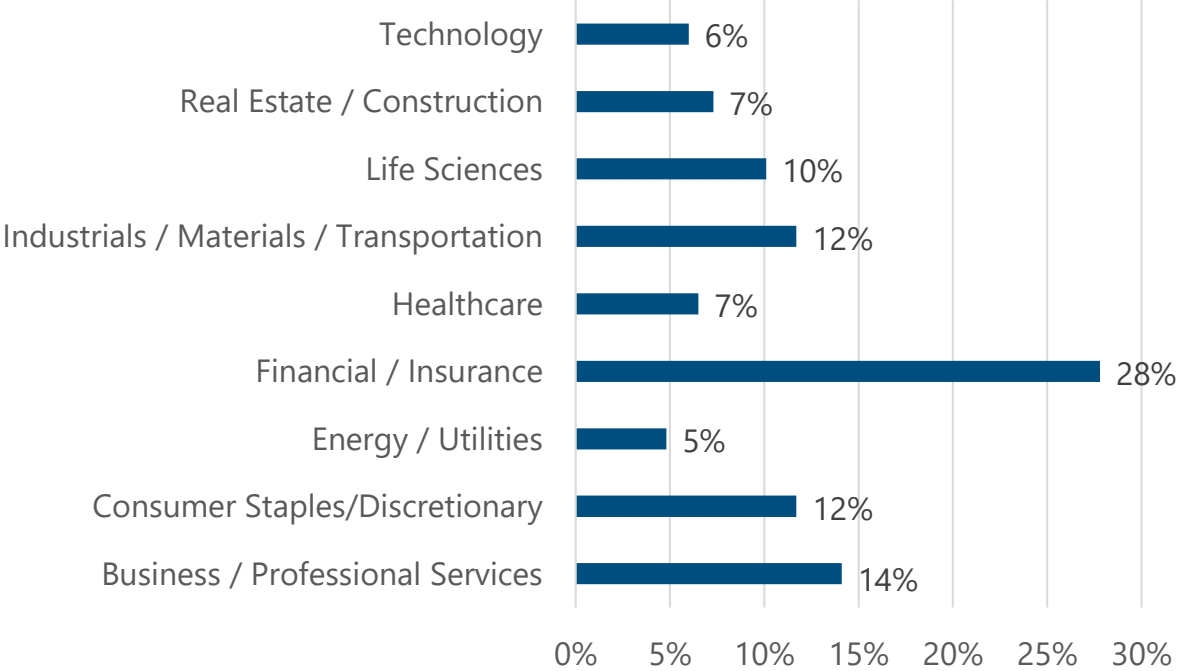
Demographics (cont'd)

US or Global



- US Only
- Global With Less Than 50% of Revenue Generated Outside of the US
- Global With More Than 50% of Revenue Generated Outside of the US

Industry Representation



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.

Pearl Meyer

Connecting People, Purpose & Performance



Thank You

For more information on Pearl Meyer,
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