Pearl Meyer

Looking Ahead to Executive Pay Projections in 2025

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, it has been separated into two surveys, with the first "Practices/Design" focused primarily on compensation philosophy and plan design, and the second "Pay Projections" focused on 2024 year-end and 2025 pay projections. Findings for the "Practices/Design" survey were published in September 2024 and summary results can be accessed here. Analysis and summary findings for the "Pay Projections" survey are covered in this document.

This year's pay projections survey was conducted in October of 2024, with total participation from 219 companies, including 110 publicly traded, 83 private for-profit, and 26 not-for-profit (NFP) organizations. As with prior surveys, responses are broken out separately by respondent role (board member vs. employee), ownership type, industry, and company size.

The pay projections survey addresses anticipated financial performance outcomes for 2024, projected award funding outcomes for short-term incentive (STI) and long-term incentive (LTI) cycles ending in 2024, anticipated use of discretion, and 2025 projections for base salary increases and LTI grant values.

Introduction (cont.)

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

+ Business/Other Services
+ Consumer
+ Energy/Utilities
+ Financial/Insurance
+ Healthcare/Life Sciences
+ Industrials/Materials/Transportation
+ Real Estate/Construction
+ 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. We believe this information will serve as a useful tool as your organization prepares for Fiscal 2025 compensation planning.

Please feel free to contact me with any questions.

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Key Highlights

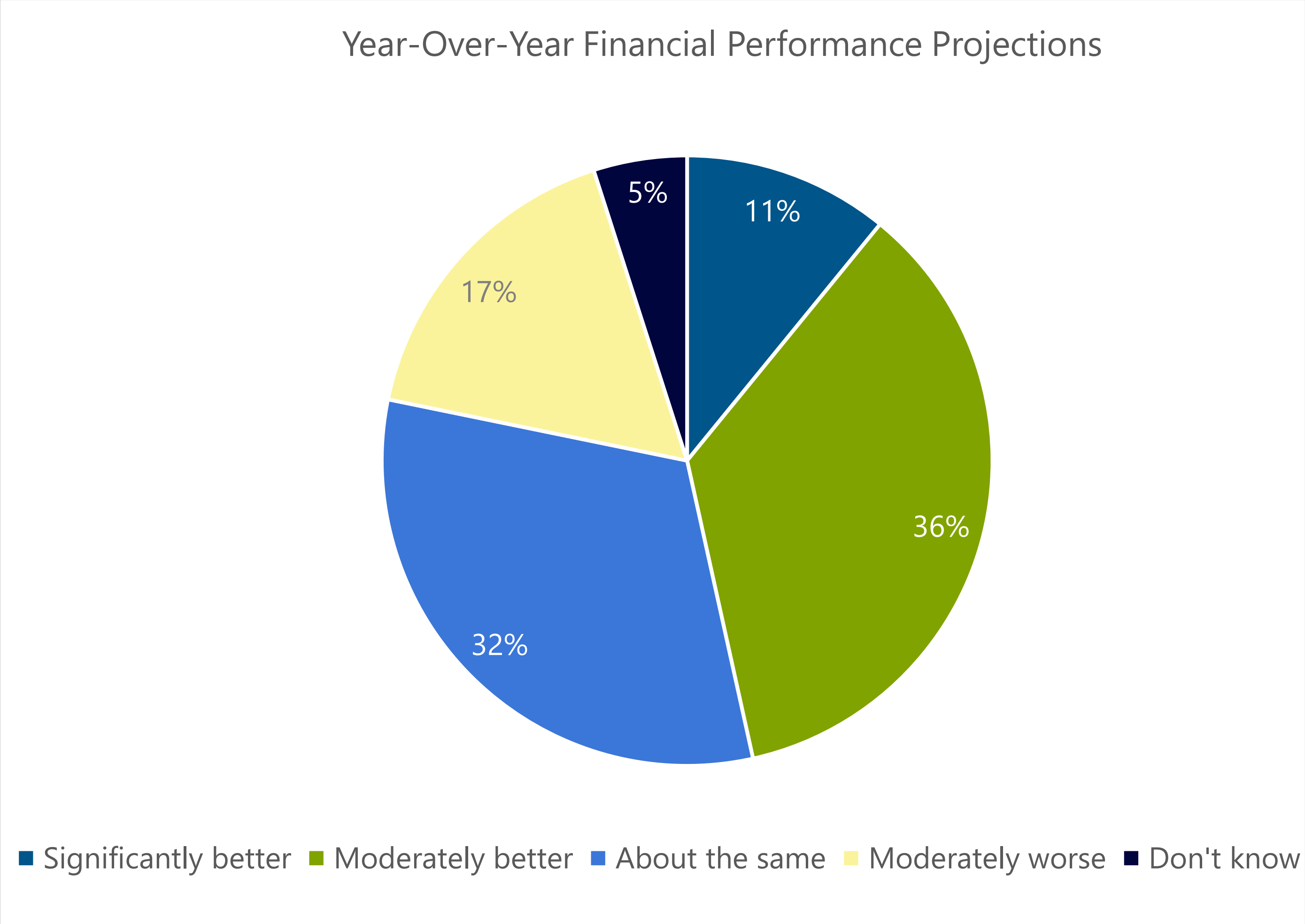
- Nearly half of all respondents expect improved financial results for Fiscal 2024 vs. the prior year, in most cases citing “moderate” improvement while 17% anticipate a moderate decline. Across the entire sample, average salary increase projections for 2025 range from 3.3% to 3.5%, lower than the past several years but higher than the longer-term historical average (3.0%), and consistent with the gradual moderation in inflationary and labor market pressures. Most respondents expect to provide salary increases in 2025, with average projected increase percentages generally higher for private vs. publicly traded respondents and for higher-performing vs. lower-performing companies.
- Virtually all respondents expect to provide at least some payout for STI and LTI incentive cycles ending in 2024, with generally higher award funding levels relative to target for STI than for LTI. By industry, payout forecasts are generally most favorable for respondents in the real estate/construction sector for STI and the energy/utilities sector for LTI and least favorable in the consumer sector (both for STI and LTI). Including not applicable (“N/A”) responses, 41% of all respondents expect similar STI awards for 2024 vs. 2023 with 28% projecting higher awards and 23% anticipating lower payouts. Among respondents providing incentive award funding projections, approximately 75% with lower year-over-year financial performance anticipate below-target STI and LTI award funding, while more than one-third with improved performance expect above-target payouts.
- Most respondents do not currently expect to exercise discretion or are taking a “wait and see” approach as relates to payout determinations for incentive cycles ending in 2024. Anticipated use of positive discretion is higher for STI than LTI and for non-executives vs. executives. It is also higher for privately held and smaller-sized respondents than for publicly traded and larger organizations, as the latter generally are subject to greater external scrutiny. Among respondents anticipating potential use of discretion, the most commonly cited criteria include unanticipated transactions and restructuring charges.

Key Highlights (cont.)

- Among respondents with long-term incentive plans, nearly two-thirds expect similar grant date award values for 2025 vs. 2024, with 26% forecasting higher amounts and 9% lower values. Prevalence of increased grant values in 2025 is also higher for publicly traded vs. private for-profit respondents (25% vs. 17%, respectively), with most NFP companies not providing any LTI awards.

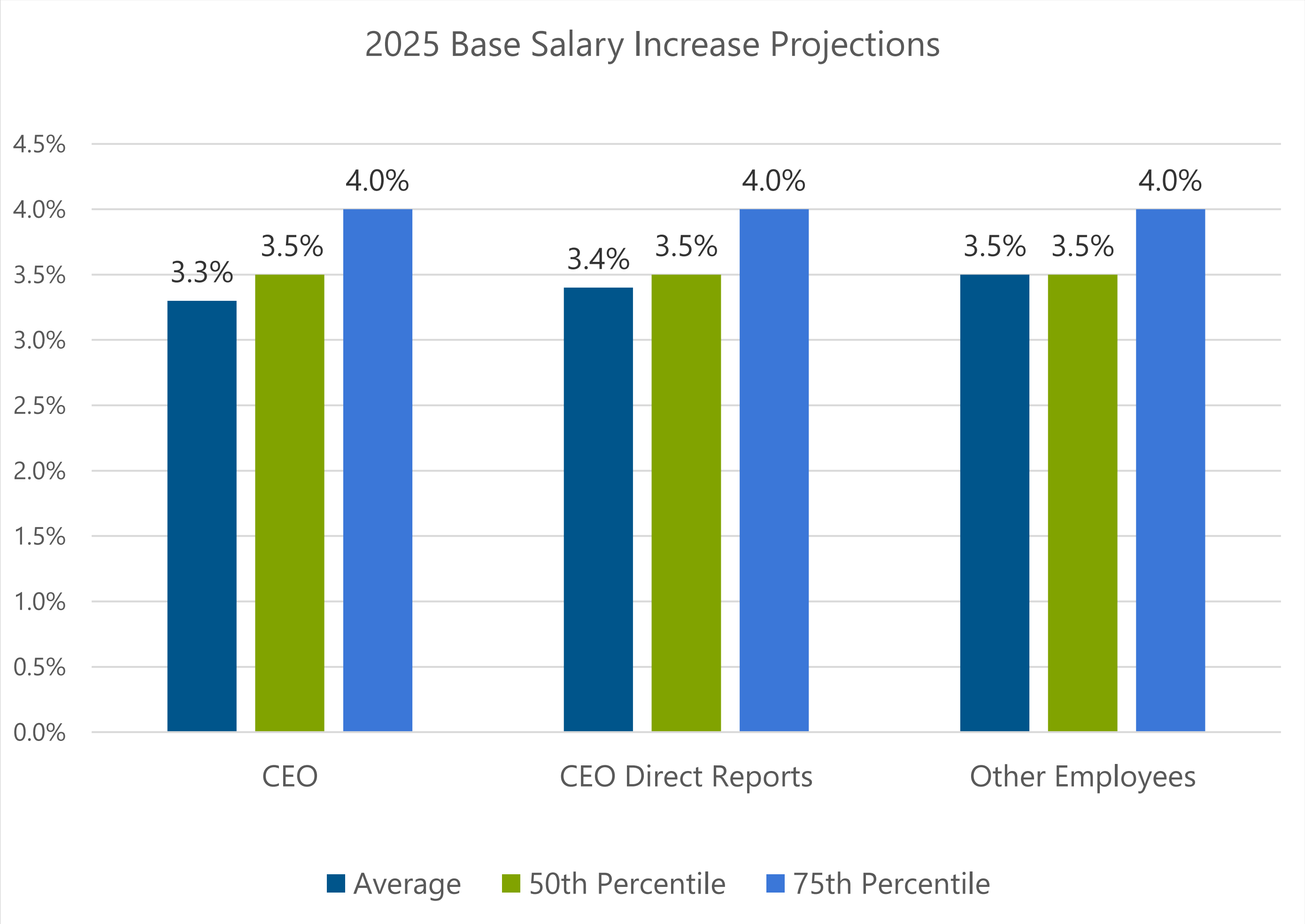
Current Year Financial Performance Projections

- Nearly half of respondents anticipate year-over-year (YOY) improvements in overall financial performance, with only 17% anticipating a decline.
  - None of the respondents anticipate significantly worse YOY results.
  - Private for-profit organizations are more optimistic than other ownership types, with 53% anticipating improved performance as compared with publicly traded (46%) and NFP (31%) respondents.
  - By industry, the consumer sector had the highest prevalence of an anticipated YOY decline in performance (33% of respondents) while two-thirds of respondents in the real estate/construction sector expect improved performance, followed by 51% of those in the financial/insurance sector.



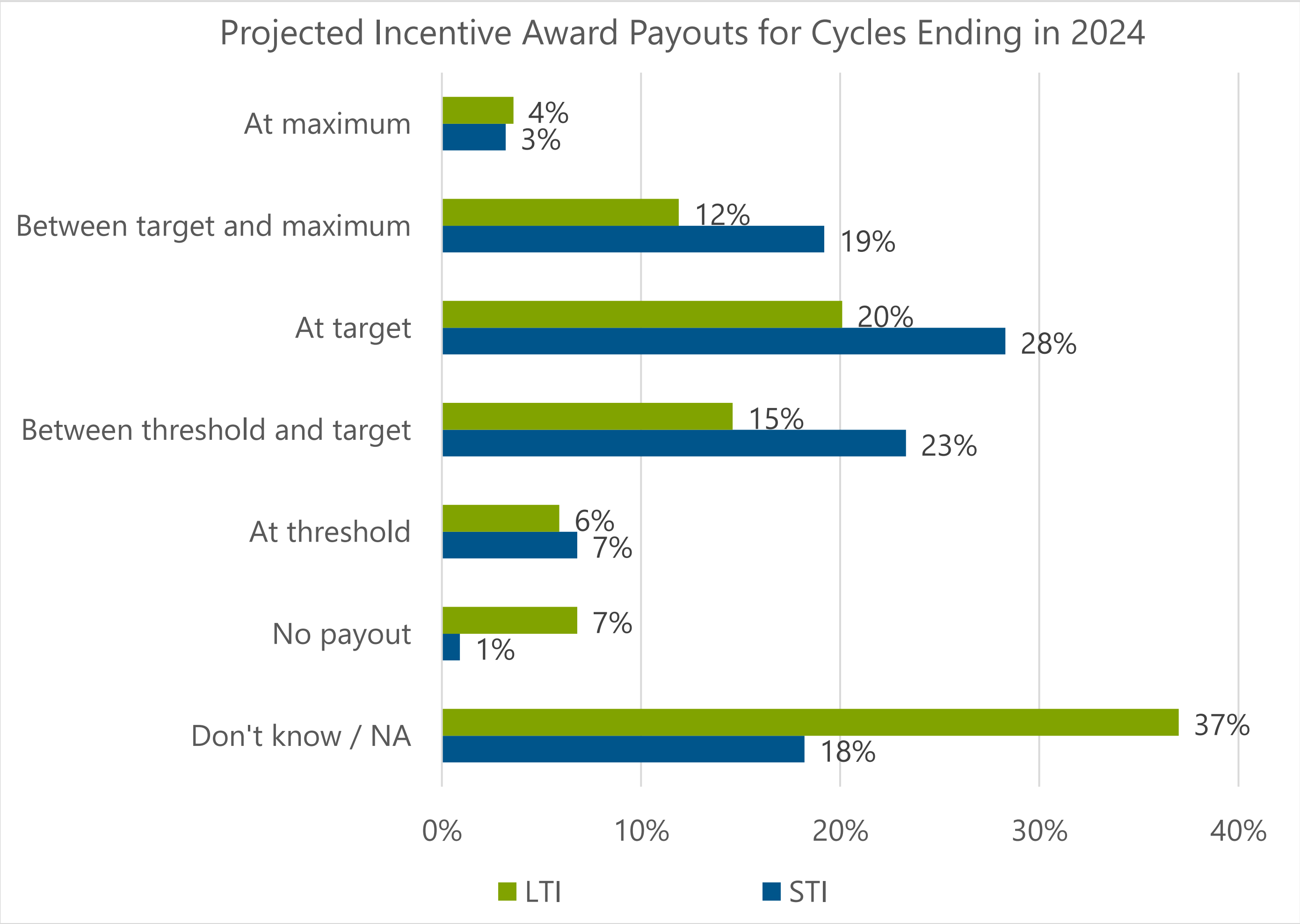
2025 Base Salary Increase Projections

- Projected salary increase percentages for 2025 are lower than the past several years as inflationary and labor market pressures have started to moderate, with average expected increases ranging from 3.3% to 3.5% and 50th percentile values equal to 3.5%
  - Most respondents expect to provide salary increases in 2025, with salary freeze prevalence equal to 21% for CEOs, 12% for senior executive direct reports, and only 3% for other employees.
  - Most respondents (71%) expect similar salary increase percentages vs. the prior year, with 18% forecasting lower levels and 11% higher levels.
  - By ownership, 50th percentile projections are higher for NFP respondents (4.0%) than for-profit organizations (ranging between 3.0% - 3.5%); comparisons may be impacted by the relatively low sample size for NFP respondents.
  - Average 2025 salary increase projections are lower for respondents anticipating a YOY decline in financial performance (ranging from 2.9% - 3.1% across employee categories) vs. those with improved performance (ranging from 3.3% - 3.6%).



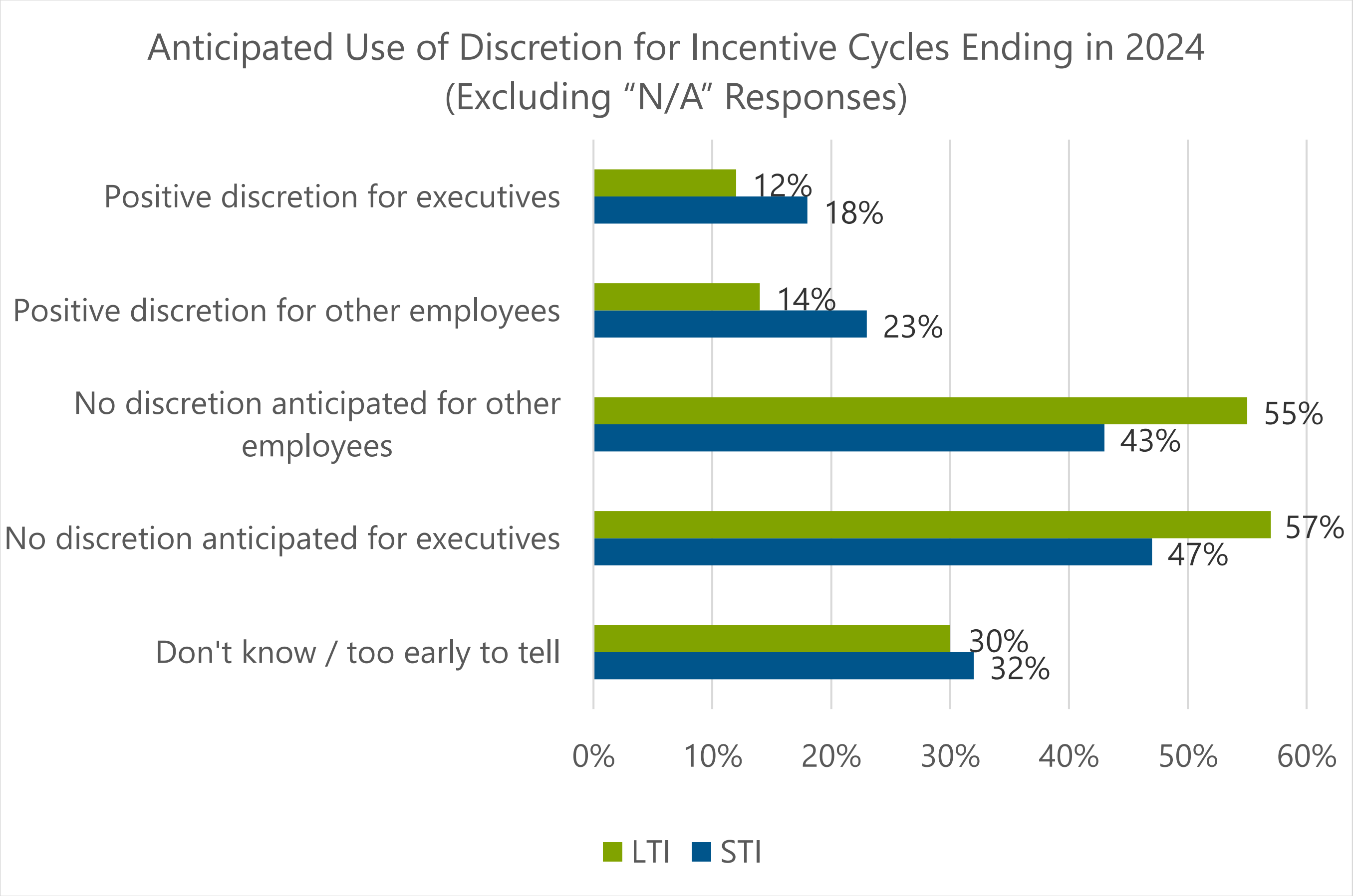
Incentive Award Funding Projections for Cycles Ending in 2024

- Most respondents expect payouts for STI and LTI cycles ending in 2024, with half of all respondents expecting payouts at or above-target for STI vs. 36% 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 (27%), at target (35%), and below-target (37%) projections for STI, with less optimistic forecasts for performance-based LTI cycles (25% above target, 32% at target, and 43% below target.)
  - By industry, the least optimistic forecasts are within the consumer sector, where more than half of respondents expect below-target payouts, while the highest expected prevalence of at or above-target payouts is for the real estate/construction sector for STI (63%) and the energy/utilities sector for LTI (62%).
  - Anticipated award funding outcomes correlate with YOY financial projections, with below-target payouts expected by nearly 75% of respondents with performance declines vs. approximately 30% of those with improved results.
  - Including "N/A" and "don't know" responses, 41% of all respondents expect similar STI awards for 2024 vs. 2023 with 28% projecting higher awards and 23% lower payouts.



Anticipated Use of Discretion for Incentive Cycles Ending in 2024

+ Most respondents do not currently anticipate applying discretion or are taking a "wait and see" approach as it relates to payout determinations for incentive cycles ending in 2024.
  - Anticipated use of discretion is higher for STI than LTI and for non-executives vs. senior executives.
  - Only 2% of respondents currently anticipate using negative discretion for STI and none expect to do so for LTI cycles ending in 2024.
  - Prevalence of positive discretion is lower for publicly traded than for private companies and for larger-sized vs. smaller-sized respondents, presumably due to more external scrutiny.
  - By industry, anticipated use of positive discretion was highest for the healthcare/life sciences sector for STI and the energy/utilities sector for LTI and lowest within the consumer sector.
  - Most respondents either expect similar levels of discretion vs. the prior year or have not yet made a determination for the 2024 cycle.



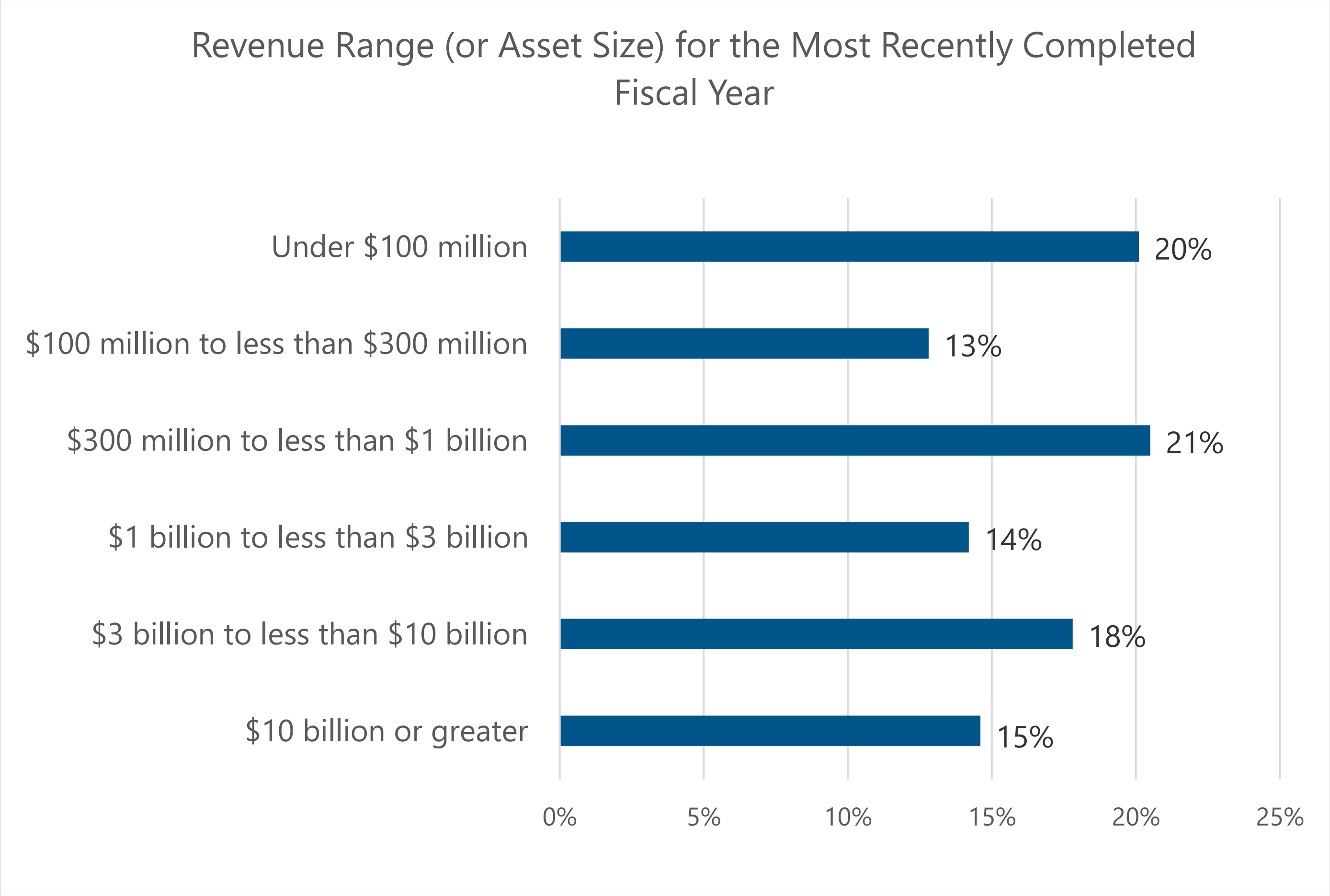
Criteria Warranting Potential Use of Discretion

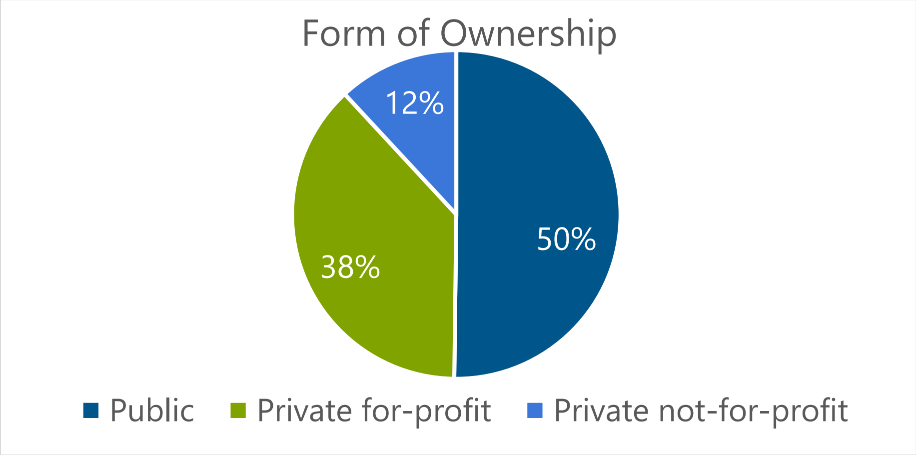
+ Unanticipated transactions and restructuring charges are the most commonly cited criteria potentially warranting use of discretion among respondents
  - Approximately 56% of respondents answered “N/A” or “Other”
  - By sector, the energy/utilities sector had the highest prevalence of unanticipated transactions as a potential discretion trigger (55% of respondents) while the financial/insurance sector had the highest prevalence for extraordinary changes in interest rates (24% of respondents) and technology-related disruptions (11% of respondents); the technology and consumer sectors had the highest prevalence for “N/A” or “Other” responses (75% and 71%, respectively.)

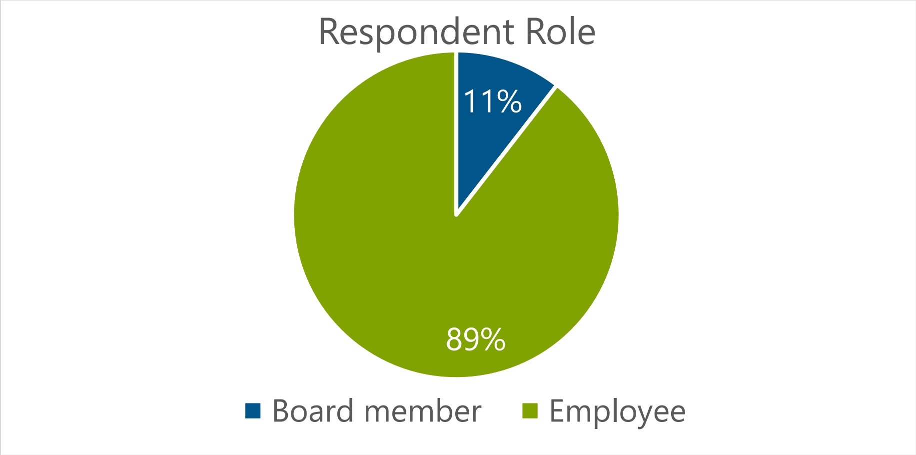
Most Commonly Cited Criteria Warranting Potential Use of Discretion

Criteria / Event	Prevalence (All Respondents)
Unanticipated transactions	23%
Restructuring charges	11%
Extraordinary changes in interest rates	9%
Asset write-downs/impairments	6%
Technology-related disruptions	5%
Tax/accounting rule changes	5%

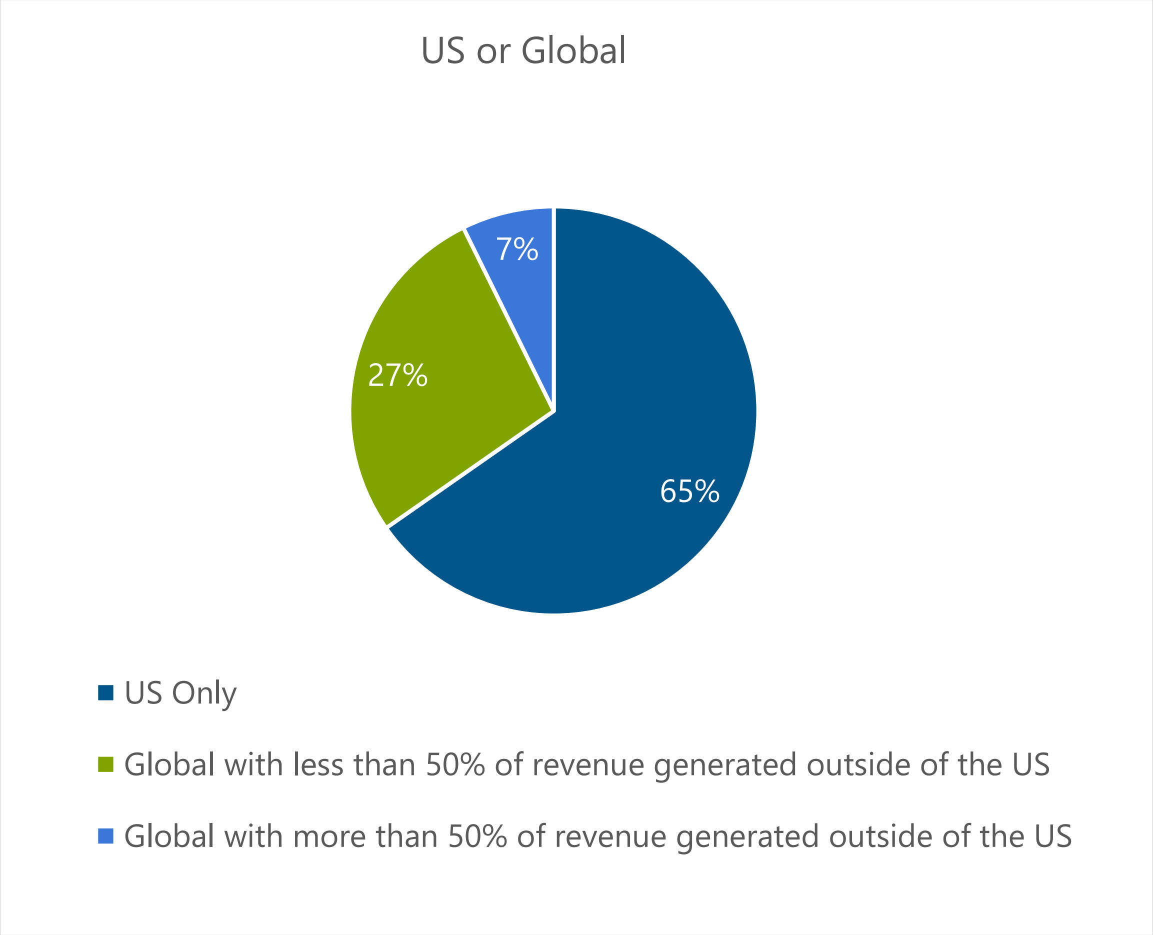
Demographics

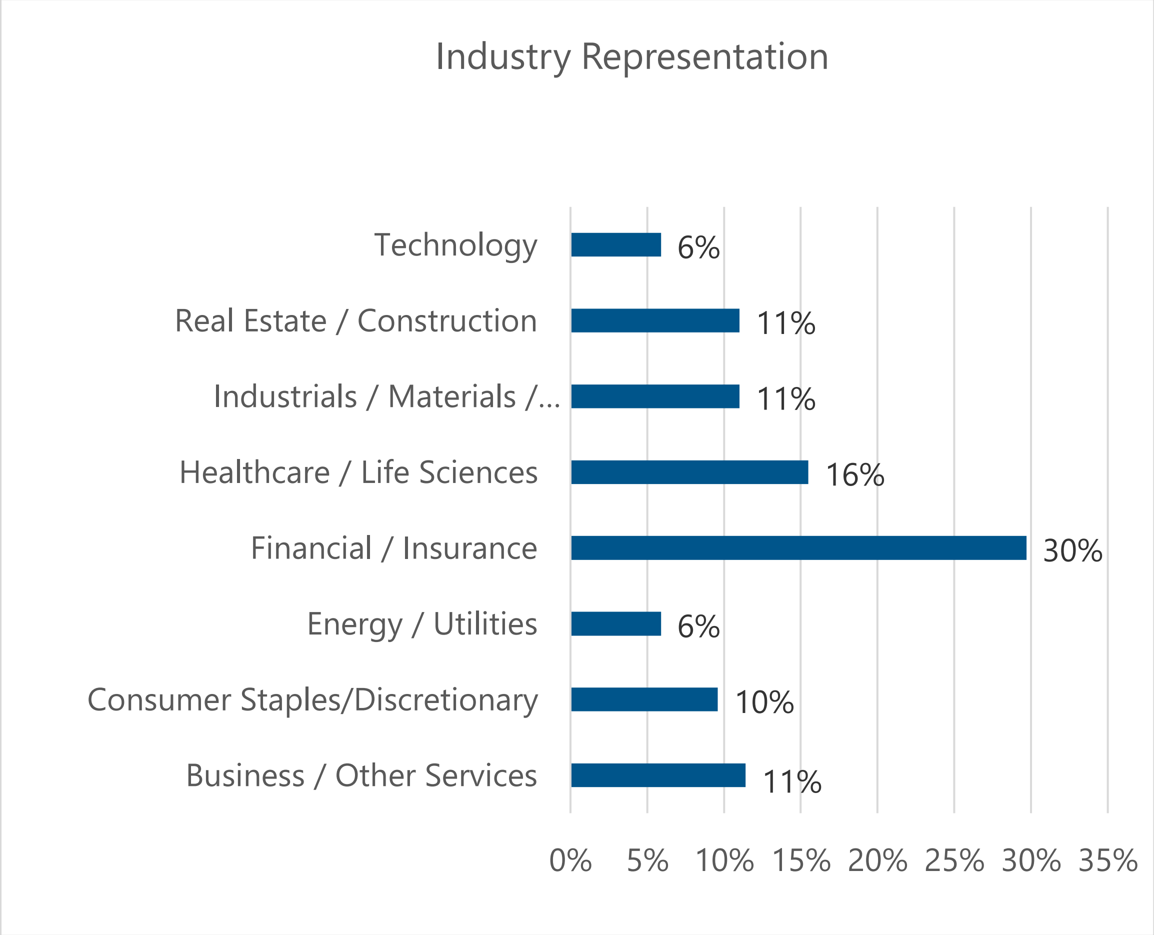






Demographics (cont.)





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.

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