Watson Wyatt Research on Targeted LTI Levels

Companies that target LTI opportunities above the median run the risk of misaligning their pay-for-performance model

- Many companies struggle to find the appropriate pay positioning for their LTI opportunities, insisting that they are better aligned with shareholders if they offer greater LTI opportunities to their executives.
- Our results show a different, less shareholder-friendly effect when considering opportunity versus realizable pay.
- We examined data on pay opportunity, financial performance (TRS) and “realizable pay” to evaluate the impact of these different strategies.

Watson Wyatt Worldwide

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- Companies that target above-median LTI levels pay above-average realizable LTI for mid-range performance – not generally considered shareholder-friendly or pay for performance.
- In contrast, companies that target median LTI levels pay above-median realizable LTI only when performance is high, and medium-range realizable LTI for medium-range performance.

LTI Opportunity	Three-Year TSR Performance: Low	Three-Year TSR Performance: Medium	Three-Year TSR Performance: High
High	**64%ile**	**83%ile**	**91%ile**
Medium	**39%ile**	**50%ile**	**69%ile**
Low	**12%ile**	**23%ile**	**34%ile**

Realizable LTI Percentile

Sample size: 1073 companies
Methodology: Three-Year Cumulative LTI Opportunity Ranking, Three-Year TSR Ranking, Three-Year Realizable LTI Ranking
Low = 33^{rd} percentile or lower
Medium = 33^{rd} percentile to 66^{th} percentile
High = greater than 66^{th} percentile