



**TOWERS
PERRIN**

HR SERVICES

Talking Points: “The Consultants Speak”

Doug Friske

Managing Principal

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Concerns with Executive Pay – 2005 CS Conference

- Excessive reliance on market data
- Lack of disciplined and consistent administration of pay plans
- Difficulty saying no
- Poor succession planning
- Excessive focus on best practice, as opposed to best fit
- Missing big picture (i.e., total rewards)

We're Starting to See Some Change

- Broadened definitions of market, use of internal pay comparisons
- Greater customization of rewards to fit unique Company circumstances
- Less willing to make exceptions (which usually only favor management)
- Near universal use of tally sheets and related tools
- Sharper focus on employment agreements and severance provisions

However, Still Room for Improvement

- Succession planning
- Reliance on market data as required pay
- Consistent application of pay for performance
- Rationalizing total pay levels

Action Items – 2005 CS Conference

- View market data as an input, not a decision
- Ensure Compensation Committees have complete understanding of all relevant factors
- Allow thoughtful discussion and apply judgment
- Build stronger performance management system, including succession planning

One year later these all still makes sense

Additional Action Items

- Rationalize each element of the existing program against business priorities
 - Feeds into preparation of the CD&A report
 - Avoid boilerplate or use of generic mock-ups
- Pay special attention to special severance, perquisites and retirement benefits
 - Examine anything that is unique to executives
- Understand the future implications of existing pay arrangements
- Don't underestimate the internal implications of the new disclosure requirements
- Ensure strong relationships with your investor base