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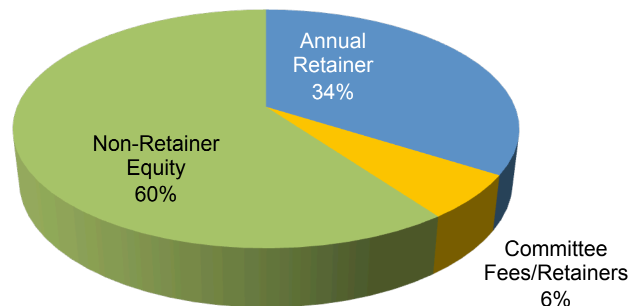
Outside Director Compensation

Overall Compensation Design

Non-executive members of corporate boards are generally paid for their service. The overall compensation structure typically includes an annual retainer, committee meeting fees and/or retainers, and a non-retainer equity grant. In recent years, many companies have adopted a structure with a higher retainer and no meeting fees.

The actual level of pay is usually related to the size of the organization—the larger the corporation, the larger the director pay package. The chart below shows the average mix of director pay at public Fortune 100 companies.



Annual Retainer

Generally, annual retainers are paid to outside directors in cash. The annual retainer is the base compensation for the director's time and service on the Board. Occasionally, companies will require that a portion of the annual retainer be paid in company stock.

Some companies allow the cash retainer to be deferred into an account where it may be paid out at a later date in cash or shares. In a design that includes meeting fees, the annual retainer represents approximately one-third of the total annual compensation.

In 2014, 11% of public Fortune 100 companies provided a meeting fee for each board meeting attended, in addition to the retainer. Some companies will pay a slightly reduced per-meeting fee for telephone meetings versus in-person meetings.

Committee Fees

Most companies provide additional compensation for directors that are members of board committees. Nearly all companies have Audit, Compensation and Governance Committees. Often, companies have additional committees (i.e., executive, finance, risk and/or corporate responsibility). The chairs of these committees will usually receive an annual retainer for planning and overseeing the meetings.

The members of the committees (and the chairs) often receive a per-meeting fee for the actual time spent. Companies that do not pay meeting fees may provide a member retainer (smaller than the Chairman's retainer) or increase the total annual retainer to all board members.

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Equity
Almost all companies provide equity to their outside directors to create alignment between the directors and shareholders. The most common approach is to provide a specific value denoted in full-value shares.

Sometimes, companies will grant restricted stock subject to time-based vesting (typically 1-year cliff) or stock options. However, the majority practice is to provide an outright stock grant or deferred share units that do not pay out until board service ends.

Lead Director
The majority of companies have a combined Chairman and CEO role. Usually, when a company has this leadership structure, the Board will elect one director to act as the Lead Director. The Lead Director generally presides over executive sessions and acts as a liaison between the CEO and outside directors. The majority practice is to provide a lead director with an additional annual retainer of about $30,000. However, this value can vary significantly, company to company.

Non-Executive Board Chair
About one-third of companies separate the roles of CEO and Chairman. A non-executive chairman usually receives additional retainer for his or her increased responsibilities. Some companies provide the additional retainer in the form of equity, but the majority of companies provide it in cash. The value of this additional compensation varies significantly and depends on the responsibilities and time requested of the Chairman.

Executive Board Chair
Some companies have a separate board chair who is a former CEO or senior officer of the company, and who is paid as an employee. Pay in such instances can be almost as high as that of the CEO.

Stock Ownership Guidelines and Holding Period
A majority practice is to require directors to maintain a stake in the company during their tenure on the Board. Some companies have implemented a stock ownership guideline requiring directors to own company stock equivalent in value to a stated multiple of the annual retainer, generally 4 times to 5 times annual retainer. Other companies have retention requirements requiring directors to hold some or all the equity granted to them until their board service terminates.

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