2025 Compensation Committee Planning Guide

By Mike Meyer and Rachael Lee

Year-end is an extremely busy time for compensation committees. Fourth quarter meetings are packed with competitive market benchmarking analyses, incentive plan reviews, and equity budget discussions, among other things. While these topics require focus and attention, committees must also plan for the year ahead.

The planning guide below summarizes key questions and topics that should be discussed in advance of the first quarter committee meeting cycle to create an effective oversight process in 2025.

Incentive Plan Payouts

What adjustments will be made (if any) to incentive plan performance outcomes? Will there be any use of discretion? How have payouts trended historically? How will outcomes be messaged internally and externally (e.g., to investors and proxy advisors)? Are there any perceived disconnects between pay and performance? Do outcomes create retention concerns?

Tips: By identifying retention concerns now, compensation committees may elect to address the concerns within the confines of next year's normal annual compensation, avoiding heavily scrutinized off-cycle special awards. Any potential say-on-pay issues (e.g., higher payouts in years of lower goals or lower relative performance) can be addressed in the proxy disclosure. Avoid the appearance of arbitrary discretion, though informed judgment certainly is appropriate.

Individual Pay Positioning

Where do variances exist between executive target pay versus market benchmarks and alignment with compensation philosophy? Is there a good reason for such variances (e.g., new to role)? Are there individuals that require more aggressive positioning (e.g., succession candidates)?

Tips: Avoid applying changes uniformly to the entire executive team. Individual pay can vary based on performance, experience, impact, advancement potential, or internal equitability. It is all right and often necessary to have justifiable variances.

Incentive Plan Design and Performance Goals

Do chosen metrics and weightings support critical business and strategic priorities? Are metrics appropriately defined to take into account nonrecurring and unplanned items outside of management's control? Is there appropriate differentiation between short- and long-term performance-based plans? Are goals rigorous? Is there appropriate downside performance risk and upside leverage in threshold-to-maximum funding schedules?

Tips: Incentive plan payout curves do not need to be symmetrical and should reflect the perceived rigor of goals and predictability of outcomes. The compensation committee should consider several reference points to help triangulate appropriate performance goals. These reference points might include historical performance of the company and peers, external analyst consensus estimates, implied "sharing ratios," and the relationship of goals to company "weighted average cost of capital."

Shareholder Engagement

Who are the company's largest shareholders? How many should we directly engage with? How often should they be engaged? Who should be involved in these conversations? What topics will be discussed? What was the feedback from last year's say-on-pay voting and was there an appropriate response?

Tips: It is important to develop a regular shareholder engagement strategy and cadence to understand external perspectives and avoid surprises. If certain incentive plan design items or pay decisions conflict with their preferences and policies, be prepared to explain the strategic rationale.

Proxy Disclosure

Should the proxy statement include a letter from the compensation committee chair? How were shareholder concerns addressed? Should forward-looking changes be voluntarily disclosed? Will reconciliations be made between adjusted incentive plan performance outcomes and generally accepted accounting principles reported values? Were there named executive officer hiring or termination packages that need to be explained?

Tips: Strive to clearly articulate the "compensation story" (e.g., strategic rationale for decision-making, alignment of outcomes, responsiveness to shareholders), without compromising understandability. Consider clarifying complex or misleading mandatory disclosures (e.g., actual earned pay disclosure to supplement mandatory pay versus performance table). D

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