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MERIDIAN COMPENSATION PARTNERS

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Compensation Thought Leadership

Key Issues Awaiting Compensation Committees in 2025

Meridian foresees five significant issues that Compensation Committees may face in 2025. Anticipating these issues may provide opportunities for strategic planning and positive outcomes despite a challenging business environment.

Five Key Issues that Meridian sees on the horizon for Executive Compensation in 2025

- **Volatility:** In both the business and political environments, makes it challenging to set performance goals
- **Regulatory Actions:** The current U.S. administration is making changes to both regulations and regulatory structure
- **Increase in M&A:** The shift in the regulatory attitude of the Federal Trade Commission under the new administration may increase M&A
- **Retention:** It can be challenging to retain the key employees needed to drive strategy and manage operations in the face of significant business uncertainty
- **Retirement Treatment of Equity:** Changing executive demographics and increased emphasis on performance based pay raise new questions about how performance-based awards should be treated on retirement

Volatility

Both business and political volatility is likely to remain high in 2025. While this may make for a challenging business environment, it will also present opportunities for companies that are able to take advantage of this volatility. Supporting the opportunistic behavior that can benefit the company and its investors may require more incentive design flexibility to appropriately reward executive leaders who can deliver business results, potentially in unconventional ways.

At a minimum, Compensation Committees should evaluate the following components of their incentive programs:

- **Performance Metrics:** Are the metrics used in the short-term and long-term incentive plans appropriate? Do they allow executives flexibility to drive the company's success and adapt to a changing environment?
- **Goal Setting:** Given political uncertainty with the new administration, including potential tariffs and retaliatory tariffs companies should consider appropriate goals and what adjustment could be made for changes in public policy after the start of the performance measurement period.
- **Goal Ranges:** Does the expected volatility make the level of achievement less sure? If so, is it appropriate to expand the range around target goals? Or is it better to establish a target that is more likely to be achieved and tighten the payout range to limit the upside and downsides?
- **Performance Measurement Periods:** Given the business environment and potential limitations on the company's ability to predict business activity over the next several years, a company may consider a shortened performance period, even though proxy advisors and many institutional shareholders prefer a three-year performance period.
- **Adjusting Metrics and Use of Discretion:** Have the appropriate non-reoccurring events been identified and defined for adjustment. Should the company establish principles to govern adjustment of payouts based on unanticipated events not included in the budget-setting process?

Regulatory Actions

Several regulatory actions under the Biden administration are likely to be abandoned by the Trump administration, including the Federal Trade Commission's efforts to outlaw noncompete agreements. The new administration may also take different actions concerning existing regulations and interpretations of existing rules and regulations.

The change in administration causes some uncertainty for companies, but the new administration is expected to generally reduce regulatory burden on businesses. However, it is impossible to fully anticipate how things may change due to the change in administration, so uncertainty remains.

If proposed regulations impact a company's compensation programs, companies may need to update their programs once there is a final resolution of the status of the regulations. In the meantime, companies should catalog the proposed regulations that could impact their compensation programs (such as the FTC's proposed ban on non-competes) and ensure they understand the implications if the regulations are implemented.

Increase in Mergers & Acquisitions

M&A activity is expected to increase, particularly for specific industries undergoing consolidation, such as the oil and gas, other energy and packaging industries. The new administration is expected to have a more "hands off" process for reviewing mergers and acquisitions, which could increase deals.

These developments have significant implications for companies, especially in retaining key talent in the face of potential deals. Companies should evaluate whether their change in control protections are appropriate given their industry and the broader market.

Ensuring that the company has market-appropriate change in control protections should make key executives relatively indifferent to whether a Change-in-Control occurs. This lessens the likelihood that they will leave the company at a critical juncture. This helps ensure that executives and key employees focus on achieving the company's strategic business strategies and act in the best interests of shareholders if a suitor of the company comes knocking.

Retention

Economic uncertainty can increase retention risk. Compensation Committees should evaluate how much unvested incentive award value executives have ("retention glue") and whether that will be sufficient to retain them.

Companies should also be mindful of their incentive plan payouts over the past several years against targets and relative to peer companies and their broader industry. If the company incentive payouts have lagged behind industry competitors, key executives are more likely to consider moving to one of those industry competitors to maximize their realized compensation.

Finally, Committees should evaluate realized pay vs. performance for the company and peer companies, to understand the retention glue in different share price performance scenarios, to better evaluate potential retention risks.

Retirement Treatment of Equity Awards

Companies should evaluate how their retirement treatment of equity aligns with their strategic talent needs and market practices. As the executive group tends to be older, retirement provisions are an increasingly important consideration for compensation programs.

As companies have moved away from time-based incentives and towards more performance-based, at-risk incentives, the treatment of equity awards upon retirement has become much more of an issue, particularly as most performance-based equity awards have a performance period of 3 years. Possible approaches range from full continued vesting of PSUs to complete forfeiture. Many companies prorate vesting based on actual performance through the date of retirement or the end of the performance period. Determining the right treatment to promote long term decision making and maintain retention glue can be complex.

Develop a Strategy for Success

Companies that tackle these issues successfully further ensure their businesses and compensation programs are **flexible**, **resilient** and **adaptable**. Committees should inventory their compensation programs to determine **vulnerabilities** that may lie in wait and take steps to develop strategies to address them before they evolve into **problems** the Committee is forced to deal with.

Meridian Can Help

Meridian is here to support you. We help companies evaluate their incentive plan designs to ensure they are appropriately calibrated to handle expected volatility. We also assist in benchmarking equity ownership levels, treatment of equity awards upon retirement and severance programs to ensure your company is well-positioned in this uncertain business environment.

Be sure to check out Meridian's podcasts: Key Trends for Compensation Committees in 2025 - Meridian Compensation Partners, Executive Transitions — Key Questions Every Comp Committee Should Ask About Equity Treatment Upon Retirement - Meridian Compensation Partners, Effective Goal Setting for Incentive Plans - Meridian Compensation Partners, Executive Compensation Actions You Should Be Taking Now To Prepare for a Merger - Meridian Compensation Partners, Navigating Executive Compensation Economic Turbulence and Enhancing Resilience in Executive Compensation Design - Meridian Compensation Partners.

Also, check out Meridian's recent article from the National Association of Corporate Directors' Advisory Fall 2024 issue: 2025 Compensation Committee Planning Guide - Meridian Compensation Partners.

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The ***Meridian Beacon*** is prepared by Meridian Compensation Partners. Questions regarding this Meridian Beacon may be directed to Ed Hauder at 224-775-4852 or ehauder@meridiancp.com.