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Meridian Signal

Finding the signal in executive compensation data.

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Tariff-Related Adjustment of Executive Incentives

The introduction of U.S. tariffs during 2025 created meaningful, unbudgeted pressure on the financial results of many companies. As Compensation Committees finalized fiscal 2025 incentive outcomes, an important governance question emerged: should tariff-related impacts be neutralized (all or in part) in determining incentive payouts, or should executives bear the consequences as part of normal pay-for-performance accountability?

In evaluating the alternatives, Boards and Compensation Committees attempted to balance the distinction between external macroeconomic disruption and management accountability. While some companies were able to absorb the impact of tariffs through pricing strategy, supply chain diversification, cost discipline and operational agility – others were more directly impacted by this challenge to meet their budgets for the year.

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Even in a year of significant tariff disruption, most Boards chose not to adjust executive incentive outcomes—reinforcing that macroeconomic shocks remain part of management's accountability.

To better understand how this question was answered in practice, Meridian reviewed the most recent proxy statements of S&P 500 companies and summarized what, if any, adjustments were made to both annual and long-term incentive (LTI) payouts.

Total Companies	AI Adjusted For Tariffs	LTI Adjusted For Tariffs	Adjusted Both AI & LTI
500 with proxy filed	**25** = 5.0% of total	**7** = 1.4% of total	**6** = 24.0% of AI adjusters

Key Findings

Our review identified several consistent patterns in how Compensation Committees approached tariff-related incentive decisions.

- Tariff-related adjustments to incentive compensation remain the exception, not the rule – only 25 of S&P 500 companies (~5%) adjusted annual incentive (AI) outcomes for tariffs in fiscal 2025.
- Adjustments to outstanding long-term incentive (LTI) awards were far less common – only 7 companies (~1.4%) modified LTI awards for tariff impacts.
- Six companies adjusted both AI and LTI awards
- Adjustments were concentrated in tariff-exposed sectors – Industrials, Consumer Staples, Healthcare Equipment and Aerospace & Defense – where supply chain geography or input costs were materially affected by 2025 trade actions.
- Most committees that adjusted disclosed pre-established guardrails or a documented framework rather than purely discretionary upward adjustments, consistent with proxy advisor expectations.

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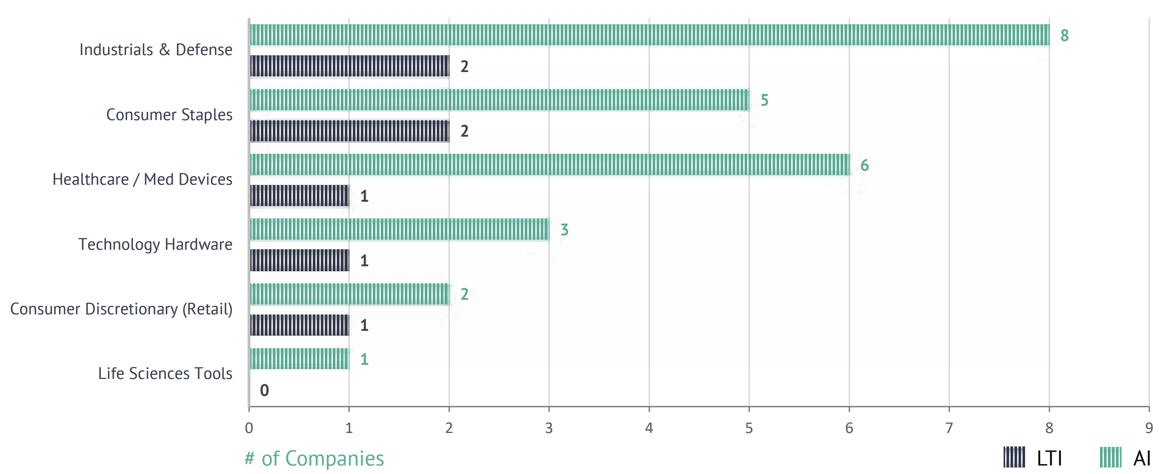
95% of S&P 500 companies left annual incentive outcomes unchanged.

Tariff-Related Adjustments
by sector



Annual Incentive Adjustments

Across the S&P 500 proxies reviewed, 25 companies (approximately 5%) disclosed an adjustment to fiscal 2025 annual incentive payouts to reflect – in whole or in part – the impact of tariffs. The remaining S&P 500 companies either explicitly addressed tariffs and elected not to adjust their incentive payouts or made no reference to tariff-driven adjustments in their disclosed incentive payout determinations.

Among companies that did adjust, the most common approaches were:

- Pre-established guardrails embedded in target-setting that automatically excluded incremental tariff impact beyond defined thresholds.

- Post-period equitable adjustments approved by the Compensation Committee where management performance was viewed as obscured by externally imposed trade actions .
- Non-GAAP/adjusted metric definitions that, by their construction, excluded the differential between baseline and inflated tariff rates.
- Discretionary recognition of management's tariff mitigation efforts in determining final payout factors .

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The most defensible incentive adjustments were supported by pre-established frameworks developed before tariff impacts emerged. Such frameworks specify how specific items will factor into any adjustment, including whether any minimum or maximum amounts must be met before the adjustment will reflect such items.

Long-Term Incentive Adjustments

Adjustments to long-term incentive awards were extremely rare. Only seven (7) S&P 500 companies (~1.4%) disclosed any modification to outstanding LTI awards or completed LTI performance period payouts to reflect tariff impacts. This is consistent with the long-held governance view that LTI performance cycles – typically three years – should absorb a wider range of macroeconomic variability and that adjustments to in-flight LTI awards invite heightened scrutiny from proxy advisors and institutional investors. Five of the seven companies adjusted completed 2023-2025 performance cycle payouts; six of the seven also adjusted annual incentive outcomes, suggesting a coordinated, rather than isolated, response.

Meridian Perspective

The data suggest that Compensation Committees have, on the whole, set a high bar before adjusting incentive outcomes for tariff impacts. Five observations are worth highlighting:

- **Adjustment is the exception:** Only ~5% of S&P 500 companies adjusted annual incentives, and even fewer, ~1.4%, adjusted LTI – even in a year of meaningful, externally imposed cost pressure. The default posture remained 'no adjustment.'
- **Frameworks beat discretion:** The most defensible adjustments cited pre-established guardrails, neutral non-GAAP metric definitions, or board-approved frameworks set before the tariff shock crystallized – rather than ad hoc, post-period, discretionary adjustments.
- **LTI is held to a higher bar:** Committees were significantly less likely to disturb in-flight LTI awards, consistent with proxy advisor and institutional investor expectations that long-cycle awards absorb a wider range of macroeconomic variability.
- **Sector concentration matters:** Adjusters were clustered in tariff-exposed industries – Aerospace & Defense, Machinery, Health Care Equipment, Packaged Foods/Household Products and Auto.

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Boards appear far more comfortable designing adjustment frameworks in advance than explaining discretionary adjustments afterward.

- **Symmetry and disclosure quality are paramount:** Companies that adjusted typically also disclosed mitigation efforts and, in several cases, made both downward and upward adjustments (e.g., excluding both adverse tariff costs and favorable tax benefits). One-sided 'upside-only' adjustments remain a flashpoint risk.

This highlights the fact that as a matter of thoughtful planning, Committees should consider whether their plans contemplate the recurrence of tariff (or analogous) macro shocks in advance – through clearly defined non-GAAP adjustment policies, ex-ante guardrail mechanics, or scenario-based target-setting – rather than relying on post-period discretion, which is more difficult to defend with shareholders and proxy advisors.

Methodology

- **Sample:** S&P 500 constituents; most recently filed proxy statement within 12 months of May 5, 2026.
- **Annual Incentive:** Adjustment defined as any committee-approved modification of bonus performance results, metrics, or payout factors to reflect tariff impacts, including pre-established guardrails and non-GAAP adjusted measures.
- **LTI:** Adjustment defined as any modification to outstanding (in-flight) LTI awards or completed performance-period payouts to reflect tariff impacts.
- Data not available for a small number of companies (2 companies) where a proxy was not filed within 12 months of May 5, 2026.

NOTE: The Trump Administration adopted new tariffs in July 2026. Consequently, tariffs may again become an issue for 2026 annual incentive and long term incentive payouts, in addition to determining the impact of any tariff refunds of 2025 tariffs which the U.S. Supreme Court did not uphold.

This Meridian Signal was prepared by Meridian Compensation Partners' Governance and Regulatory Team co-led by Edward Hauder and Nathan Williams. Questions regarding this Meridian Signal or executive compensation technical issues may be directed to the Governance and Regulatory Team at govreg@meridiancp.com.