GLASS LEWIS

The Resurgence Of Executive Perquisites

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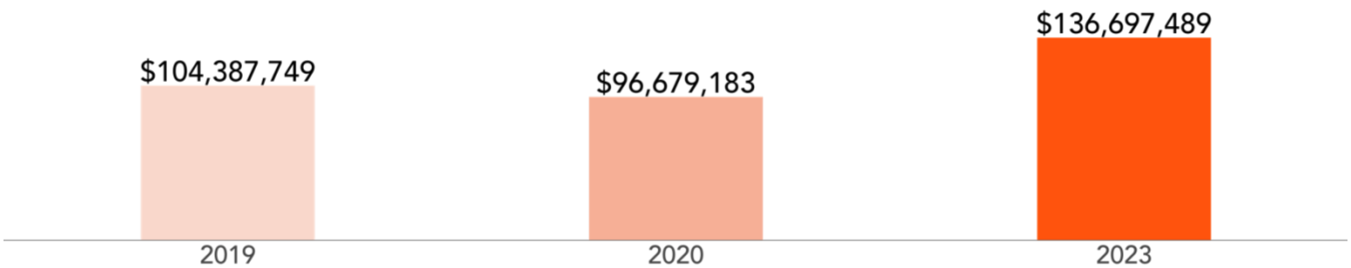
Introduction

Compensation policies are adopted to align with a company's culture, its business needs and strategies and market trends. An effective compensation program plays a pivotal role in attracting and retaining key talent without incurring unnecessary costs.

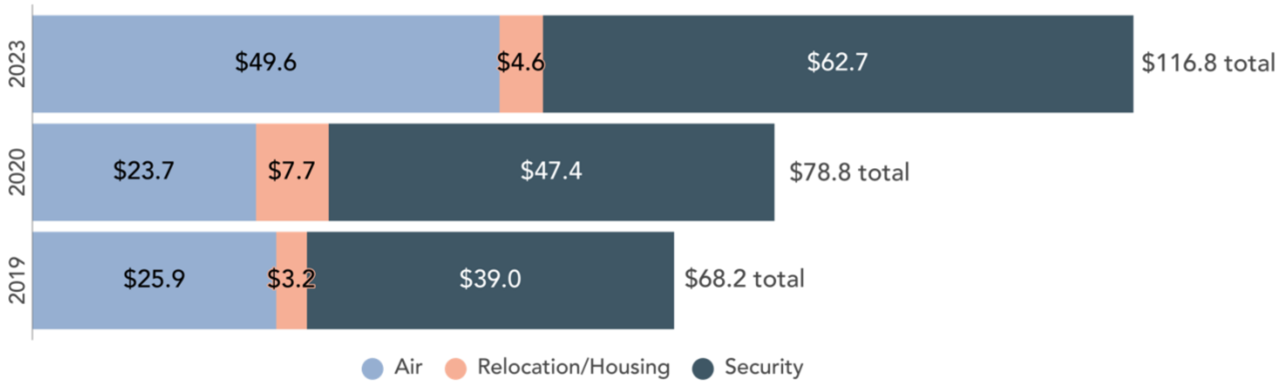
Perquisites, while usually a small component of executive pay packages, are currently soaring -- and becoming a point of focus among shareholders and the public. Perquisites are often provided to support the executives in performing their duties, but the exclusivity it offers can also serve as a status symbol. They become problematic when they become excessive, underscoring broader concerns with executive compensation practices. Ultimately, while perquisites will remain a constant feature of executive pay packages, a recent spike in perquisite costs is testing shareholder tolerance. In this post, we look at what is driving that spike, with a focus on aircraft, housing and security, and at how companies are reporting the costs.

Total Perquisite Costs by Year



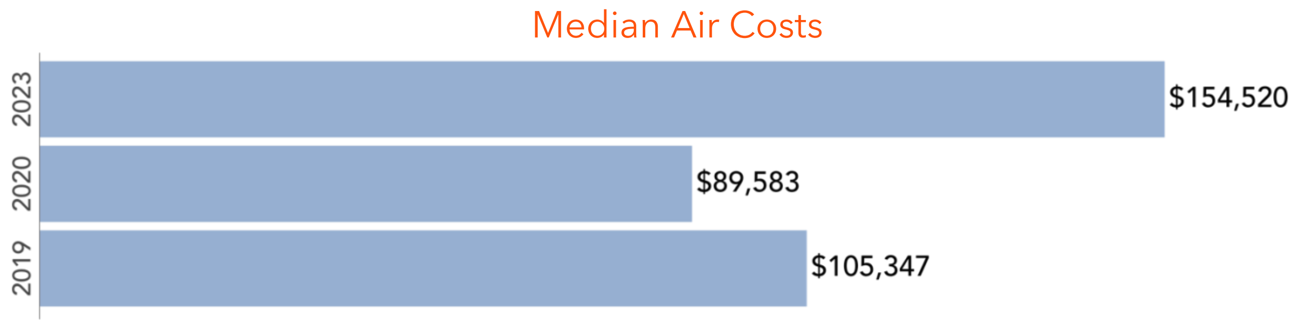
Why are perquisites back in the spotlight? Starting during the COVID-19 pandemic, total CEO perquisites among the S&P 500 companies in fiscal 2023 saw 31% and 41% increases compared to fiscal 2019 (before the impacts of the pandemic). This trend seemingly stems from changes to the way white-collar professionals work. Personal aircraft usage, security services and relocation have seen the most change over the past years, both in frequency and value. While housing and relocation costs have come down after spiking during the pandemic, they remain well above 2019 levels. And the norms continue to evolve. Reports echo what we've heard in our recent engagement discussions: the December 2024 killing of a health insurance executive has caused companies and shareholders to review their approach to certain perquisites.

Air, Housing & Security Cost Breakdown (in millions)



Aircraft Costs: Gaining Elevation

Among S&P 500 companies, the median value for CEO air travel in 2023 climbed by approximately 46% compared to 2019. The number of companies providing this benefit also increased over this period, from 169 in 2019 to 217 in 2023 (up 28%).



Executive perquisites related to personal aircraft use have received extensive public and regulatory scrutiny over the last ten years. For example, the SEC took enforcement actions against companies with faulty reporting of air travel perks, and Boeing's former CEO David Calhoun drew criticism after deciding not to move to the company's headquarters and instead travelled via private jet from his two homes (one in New Hampshire's Lake Sunapee and the other in a gated South Carolina resort community) to the Arlington, Virginia headquarters. In reviewing Calhoun's commute, the Wall Street Journal identified more than 400 trips in the past three years. This reporting prompted an internal company review which revealed that over a half million dollars in aircraft costs incurred by Mr. Calhoun and three other executives during 2022 and 2021 had been misclassified under SEC rules and guidance.

At Salesforce.com, CEO Mark Benioff received $4.6 million in perquisites for FY2024, more than twice as much as in 2022 or 2023. The 2024 amount consists only of two types of perquisite fees: security costs at $3 million and aircraft usage at $1.6 million. Salesforce argues that the aircraft-related fees were business-appropriate expenses as these were attributable to CEO Benioff's work-related travel, including between his permanent residence in Waimea, Hawaii and the company's headquarters in San Francisco, California.

In reporting their CEO's personal aircraft use, companies like Salesforce.com state that they consider executive travel an appropriate business expenses, but also acknowledge that some portions of this travel "may be deemed to be in the nature of commuting…" (Salesforce.com 2024 proxy statement). Notably, a study from Boston College and Arizona State University highlighted in a New York Times opinion piece found that CEOs working long-distance from offices underperformed CEOs that returned to the office.

Apart from cost and questions about performance, Benioff's ability to commute to the company's headquarters in the comfort of a private jet also increases the disparity between C-suite executives and the rank and file employees, considering the recent mandate for some Salesforce employees to return to office up to five times per week. Different sets of rules create the potential to alienate the workforce and ultimately increase turnover.

Take, for example, Starbucks Corporation, which dealt with both a pricey CEO transition and labor relations issues last year. In addition to approximately $90 million in sign-on awards and $28.2 million in total target annual compensation, its new CEO Brian Niccol will be eligible to use company aircraft for travel between

Southern California and the company's headquarters in Seattle, Washington "as is required to perform your duties and responsibilities" (SBUX Form 8-K, 8/14/2024). This will not be cheap, if Salesforce.com's payments for Mr. Benioff are any indication. Starbucks will also cover the additional cost of setting up a remote office in California, and Mr. Niccol is allowed use the corporate jet for personal travel, up to a maximum of $250,000 in aggregate incremental cost per year. Although a cap is positive, $250,000 handily exceeds the median value of air travel perks for the S&P 500 (approximately $150,000).

Mr. Niccol's pay and perquisite package stand out in the context of Starbucks' high profile labor relations issues, which led to a contested proxy battle ahead of the company's March 2024 annual shareholder meeting. The Dissident, Strategic Organizing Center, accused the company of human capital mismanagement. The proxy contest ended prior to the 2024 annual meeting when both sides agreed to work toward a "foundational framework" on collective bargaining.

Canary in the Coal Mine?

Although the financial impact of CEO travel on these corporate giants might be perceived as minuscule in comparison to total compensation levels, excessive levels of perquisites might be an indicator of underlying broader problematic pay practices and should be examined with scrutiny. This was the case for Mr. Benioff and Salesforce.com, which exhibited excessive granting practices in fiscal 2024 after promising shareholders that CEO pay would decrease for the year. Shareholders ultimately rejected the company's 2024 say-on-pay vote, with excessive perquisites serving as a harbinger for other excessive pay practices. Indeed, if there are concerning practices in one area of compensation, other concerns tend to follow.

During CSX Corporation's 2022 annual meeting, the company received only 59.5% support for its say on pay not only because of the magnitude of CEO pay but because of excessive CEO perquisites after the company spent over $200,000 in "company-mandated aircraft usage." The company responded to the reprimand by placing a $175,000 annual cap on the perk only to reverse course two years later. Although the increase may be triggered by increasing cost of operating an aircraft, the adoption of a higher limit was not accompanied by a compelling rationale, particularly given that it was a reversal of a shareholder-driven improvement to the pay program.

With almost $2 million in costs related to personal use of private jet and associated taxes, Palo Alto Networks topped the list of S&P 500 companies with highest CEO air travel perk for its fiscal 2023. This is 2.8 times larger than the amount paid to its CEO in 2022, which marked the first year Palo Alto reported any air travel expense. Palo Alto also paid more than $1 million in CEO security costs for 2023. To explain these payments, the company reported that its CEO, Nikesh Arora, had been involved in a security incident, and that a security consulting firm had identified credible threat actors with the willingness and resources necessary to conduct an attack on Mr. Arora.

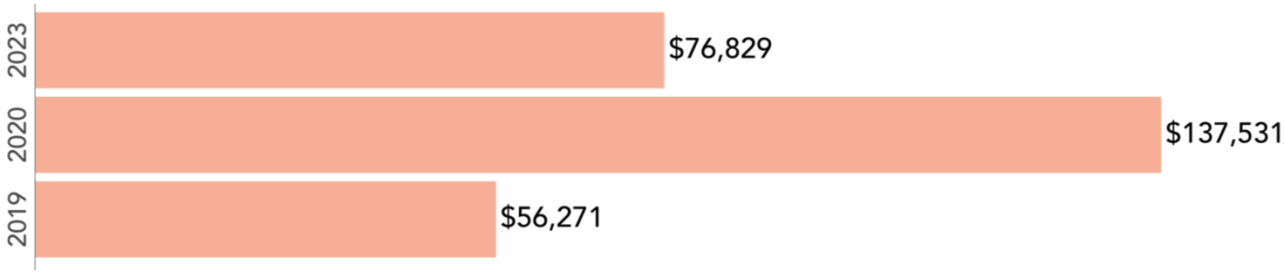
To address safety-related issues, provide more convenient means to visit multiple offices, and save time by avoiding airport delays to more quickly attend to urgent business needs – these are the most common reasons why companies provide private jet allowances to their top executives. While these clearly business-related reasons are generally merited for companies' use of private jets, many executives stretch the definition of business-related to cover expenses that are considered personal to other classes of working adults and the SEC, such as your commute to work.

On the Move: Housing and Relocation

Relocation has long been treated as a necessary offering to attract executives. The pandemic prompted companies to revisit their policies on relocation, recognizing the importance of flexibility and support for the workforce.

Less than 10% of the companies in the S&P 500 index have provided this perquisite over the past years in the context of executive transitions; this is likely in line with the number of S&P 500 companies that have appointed a replacement CEO from outside of their companies. In 2019, 31 companies reported CEO relocation and housing costs, which increased to 41 in 2020 and back down to 29 in 2023. Similarly, the median spend reported for relocation and housing benefits for CEOs was $76,829 in 2019, which climbed to $145,465 in 2020 and declined to $56,271. However, in terms of total relocation expenses, 2020 and 2023 showed approximately 136% and 41% growth compared to 2019, respectively.

Median Housing & Relocation Costs

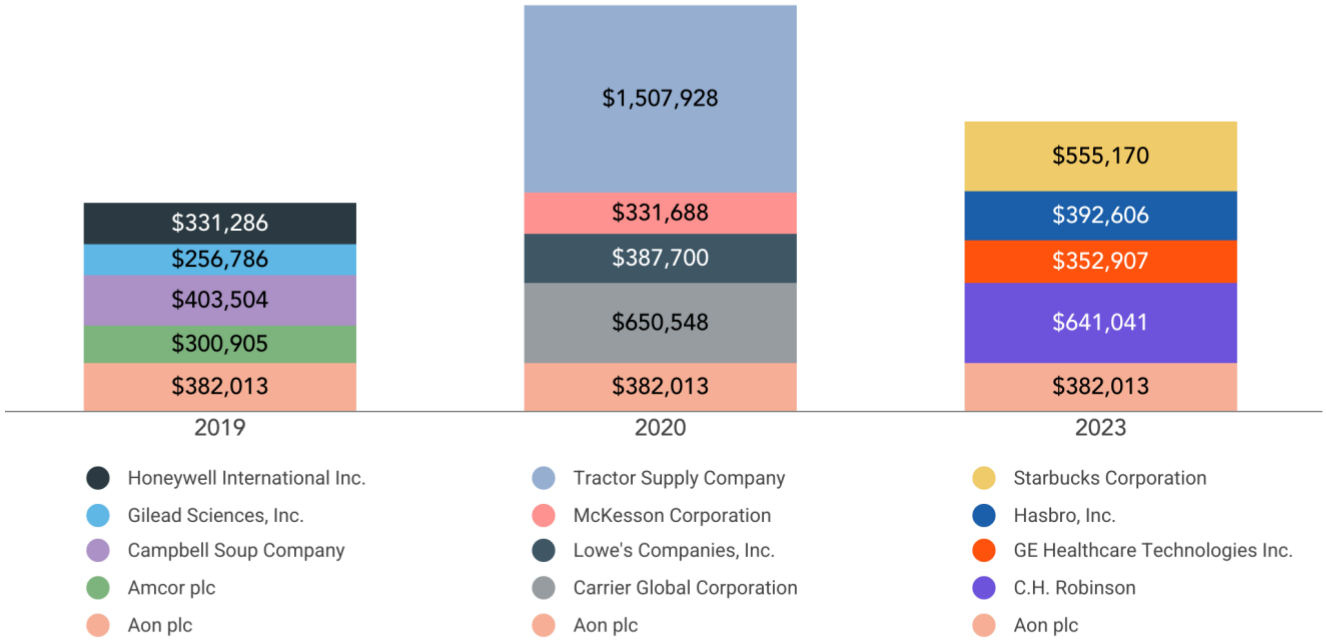


Campbell Soup paid $680,500 in relocation and related tax reimbursements in 2019, including costs associated with the sale of the new CEO's former home. Tractor Supply Company paid $1.5 million in 2020, representing relocation and temporary housing costs reimbursed to the new CEO for eight months. In 2023, C. H. Robinson paid $919,253 to facilitate the new CEO's negotiation and execution of the offer and relocation to the company's headquarters.

The then-Starbucks CEO Laxman Narasimhan moved from London to Seattle when he joined the company in 2022, for which he was reimbursed $555,170. Founder Howard Schultz said, "When I learned about Laxman's desire to relocate, it became apparent that he is the right leader to take Starbucks into its next chapter." Now current-CEO Brian Niccol did not have to relocate to the company's headquarters – but as discussed in our Case Study, below, any potential savings from relocation may be substantially negated by the costs of Niccol's super-commuting privilege. Depending on the circumstances, a company paying the upfront relocation expenses may well be less costly than using corporate aircraft to commute.

On top of the actual relocation expenses, some large multinational companies have made payments related to tax equalization for executives moving overseas. Following the move of its global headquarters to London in 2021, Aon plc pays housing, tax equalization and other cost of living payments to certain executives in line with their international assignment letters and the company's relocation program. The CEO and CFO relocated to London and have been receiving an annual relocation allowance, amounting to $382,013 and $286,510, respectively, for the past five years. The CFO also receives tax equalization benefit, which for 2023 was almost $2.5 million.

Top 5 Housing & Relocation Costs by Year

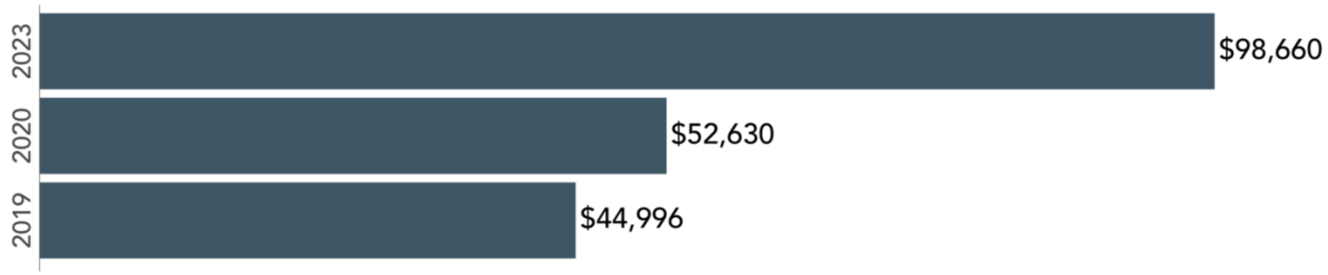


Now that the pandemic is over, it remains to be seen how companies will recalibrate their relocation policies for executives, taking into account the return-to-office mandates, economic conditions and shift in business strategies, among others. There are valid reasons for companies to consider relocating executives, including the offsetting of costs associated with taking on a new role, particularly when trying to convince an executive to join the organization. On the other hand, companies are not just facing logistical challenges in relocating executives, but also the potential strain in their budget given that associated expenses could cover everything from temporary housing to living costs. Similar to personal security, relocation is synonymous with investment as it entails costs, risks and uncertainties but with long-term rewards. The key question is whether any economic gain of relocating an executive will outweigh the associated costs and benefits to shareholders over the long term.

Skyrocketing Security Expenses

Personal security-related perquisites have steadily increased since 2019, with many boards citing the risk inherent in the executives' roles, particularly when a company has seen growth over the years or is in the spotlight.

Median Security Costs



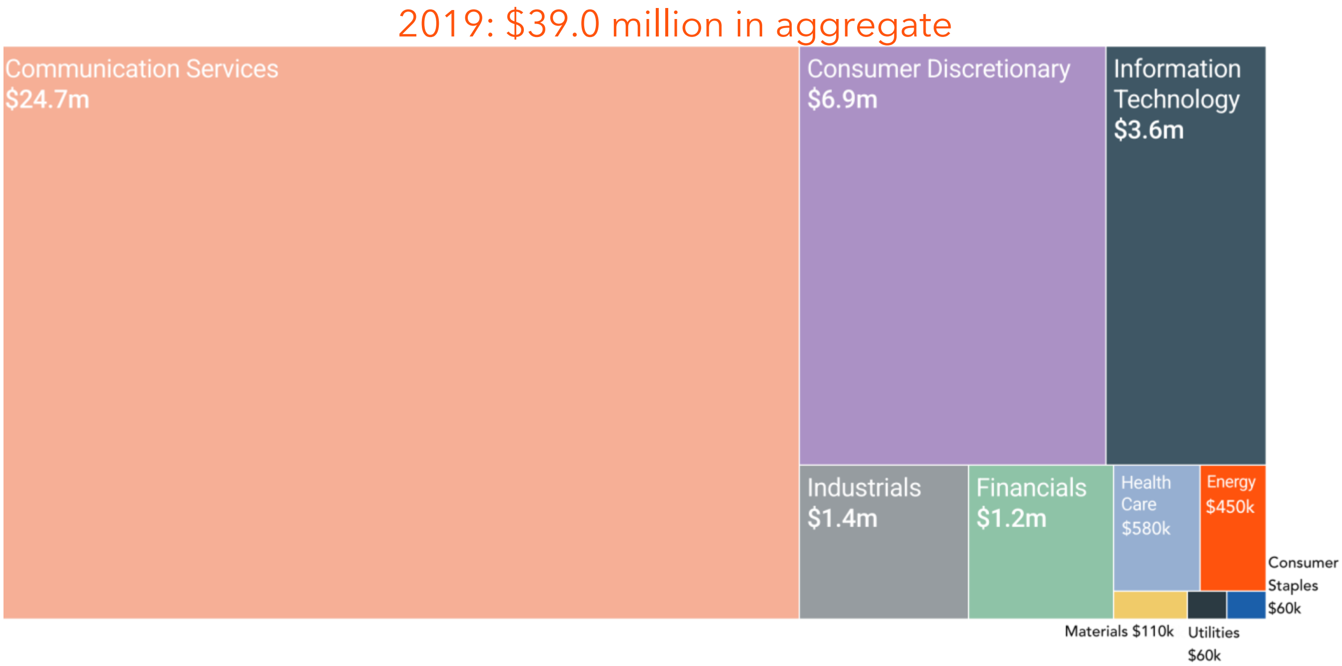
There is disagreement between corporations and the Securities and Exchange Commission regarding personal security expenses provided to executives. Although the SEC "has expressly stated that it considers expenditures incurred to ensure the personal safety of a named executive officer to be a disclosable perquisite", many companies view security expenses to be "integrally and directly related to the performance of [an] executives' duties". In a competitive market for C-suite talent, the potential risks associated with profile roles could be viewed as a disadvantage; internalizing security costs is seen as a way to mitigate that disadvantage, while also helping the executive to focus on running the company.

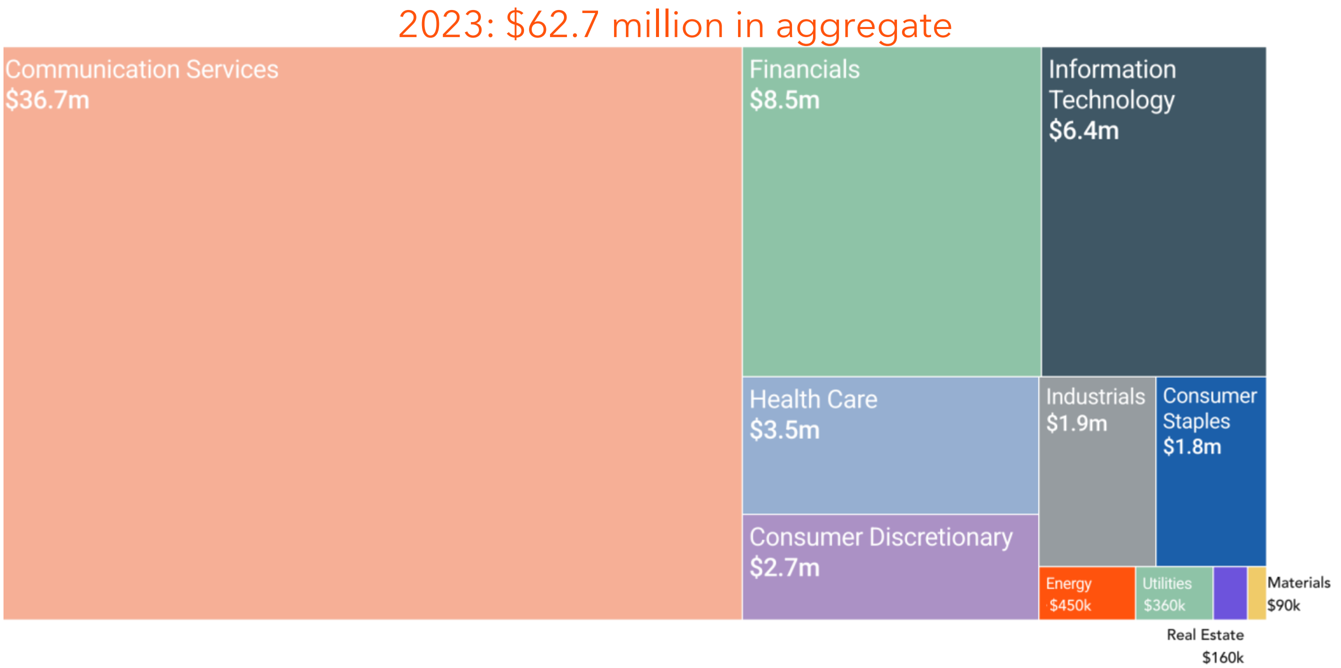
During the pandemic, Moderna, Inc. began reporting incremental expenses associated with personal and home security services provided to its CEO, citing increased profile as a result of COVID-19 vaccine development. The CEO received such services through 2023, reaching $1.1 million, in response to heightened risk environment. Given the increased visibility of CEOs as the public face of an organization, executive protection is now considered a necessary business expense to avoid any potential operational disruptions and reputational harm stemming from security threats.

For example, Fox Corporation has reported a year-over-year increase in residential security costs for the CEO since 2020. The company has in place a security plan developed by third-party consultants, citing the inherent risk in its core business of broadcasting, which could at times set off strong public sentiment, particularly given the heightened political climate during U.S. election years.

In Las Vegas Sands Corp.'s case, after the company received feedback from shareholders regarding perquisites, particularly security and personal use of aircraft, the company stated that it does not consider the security costs to be a personal benefit. The security costs, which amounted to as much as $3 million for both CEO and COO in 2022 and 2023, were based on third-party recommendation. In these cases, the companies argue that paying for security is necessary for these executives in high-profile, public positions to ensure their safety and provide safety assurance within that role.

Industry Breakdown of Security Expenses





Among S&P 500 companies, the median total security reported for CEO in 2023 increased by approximately 114% and 98% compared to fiscal years 2019 and 2020, respectively. Prior to the pandemic, only 67 S&P 500 companies covered security costs for executives. This rose to 98 companies in 2023.

Meta Platforms, Inc. consistently tops the list with Mark Zuckerberg's personal security. In 2023, he received $9.4 million in personal security and another $14 million as an annual pre-tax allowance to cover additional costs related to his and his family's personal security. The amount was only nominally lower than his total in 2023. The $14 million additional allowance was increased from $10 million in 2022, and was initially put in place in 2018.

In 2019, Meta's CEO security budget accounted for 52.4% of the total security expenses paid by companies in the S&P 500. In 2023, this has slipped to 37.4%, largely attributable to the increase in security costs and number of companies providing this benefit. Mr. Zuckerberg's case is unusual in that his company agreed to provide security directly for members of his family, not just the executive himself. For context, however, Mr. Zuckerberg does not receive other compensation except for a $1 base salary. Compared to the total compensation packages of his counterparts at other companies, this may be a mitigating factor for some shareholders.

Personal security has remained a top priority among large companies even at a time when executive privileges have gone under increased public scrutiny. The emphasis on personal executive security is only expected to grow after the assassination of UnitedHealthcare, Inc. executive Brian Thompson outside a Midtown Manhattan hotel. Nearly overnight after Mr. Thompson's killing, corporate security officers came together virtually to discuss additional protective measures. While some companies have already indicated that they will be reviewing their perquisite guidelines, the immediate impact has yet to be seen. However, an increase in disclosure regarding these perquisites is almost certainly guaranteed, particularly for instances of increases in quantum.

For 2025 compensation (which will be up for vote at annual meetings in 2026), shareholders can expect higher personal security perquisites reported on in proxy statements. This may also impact air travel, with private or company aircraft providing additional insulation. As with any cost increase associated with executive pay, it is important that companies spend responsibly and demonstrate informed spending decisions. As mentioned previously, Palo Alto Networks, Inc. provided relatively strong disclosure regarding the reasons for its CEO security and air travel spending.

Amid the potential rise in security-related expenditures, shareholders may ask if other perquisites elevate security risks, forcing the company to further increase spending. In the case study below, from Starbucks, allowing the CEO to super-commute to company headquarters may create more security gaps that companies must pay to fill.

Going Forward

Long seen as a footnote to the compensation table, the recent increase in scope and cost appears to have sparked shareholder interest in perquisites. In responding to Glass Lewis' 2024 Policy Survey, a majority of investors expressed concern that excessive perquisites may indicate broader pay concerns, and stated that excessive perks can, on their own, lead the investor to oppose a voting proposal. They also believe that directors can be held accountable for the absence of a reasonable limit on perquisite pay when excessive payments are made.

Investor respondents also commented on the personal use of aircraft. One cited their firm's voting policy prohibiting any type of use of a private jet, emphasizing that shareholders should not shoulder expenses related to family travel of the CEO. "Private use of company aircraft should no longer be considered a reasonable perquisite," another respondent commented.

Perquisites can serve as an important component of a company's compensation strategy, when used appropriately. From the company's perspective, these personal benefits are important factors to reduce travel time, increase efficiency and flexibility, and protect their most prominent personnel. Companies are in the process of reassessing their policies as post-pandemic circumstances continue to evolve, while ensuring that perquisites will not only properly incentivize and support executives but also will continue to be aligned with the company's business strategy and commitment to shareholders.

The problem stems when the costs of the perks outstrip the benefits seen by shareholders, causing a disconnect and likely contributing to a larger issue related to company pay practices. With this in mind, shareholders may feel it necessary to voice their concerns when perquisites become excessive. Increased discussion and disclosure regarding rationale for out-of-the norm perquisites should be regarded as best practice and a standard in proxy statements going forward. Increased engagement on such topics is also efficient in curtailing excessive benefits. Going forward, we expect increased disclosure and increased adoption of limitations on total perquisite benefits, particularly as they relate to personal use of aircraft.

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