2018/2019

HEALTH INSURANCE EXECUTIVE TOTAL POTENTIAL REMUNERATION TRENDS REPORT

Based on the Annual Executive Total Potential Remuneration Compensation, Benefits, and Perquisites Survey

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Introduction

BDO USA, LLP, is pleased to present the *2018/2019 Health Insurance Executive Total Potential Remuneration Trends Report* based on 10 years of findings from the annual *Executive Total Potential Remuneration Compensation, Benefits, and Perquisites Survey*.[1]

The annual survey, which is in its 13th year, is designed to help companies develop confidence in their executive pay levels by providing the information necessary to gain insight into their compensation practices relative to the market. This means looking beyond salary and incentives to other elements of executive compensation packages, including benefits, perquisites, supplemental executive retirement plans (SERPs), and change of control (COC) / severance agreements—what BDO calls Total Potential Remuneration. More information about the survey can be found in the "About the Annual Survey" section.

This special *2018/2019 Trends Report* provides in-depth analyses of key topics that highlight how key decision makers at health insurance companies are approaching executive compensation. This includes members of executive teams, human resources (HR), and boards of directors (BOD). The report can help answer questions, such as:

- How is pay trending for key positions?
- How much pay should be at risk? What should be the mix between short-term and long-term incentives?
- How are we paying relative to companies of similar size?
- Are the right performance measures being used in annual incentive plans?
- What types of benefits and perquisites are employees expecting?
- How efficient is the CEO pay package (revenues per dollar of CEO compensation)?

To set the stage, we have developed a brief snapshot of the state of the industry.

1 Source: HR+Survey Solutions, LLC

State of the Industry

The health insurance industry is in a state of growth and facing enormous changes.

- According to the latest data from the Centers for Medicare and Medicaid Services, national healthcare expenditures have increased from 5.2 percent of GDP in 1960 to an estimated 17.6 percent in 2015.[2]
- While health insurance industry revenue increased at an annualized rate of 4.3 percent over the five years prior to 2018, industry profit margins declined, falling from 5.1 percent of revenue in 2013 to 4.4 percent in 2018. This was due to expected increases in healthcare costs.[2]
- Going forward, revenue is projected to increase by only 1.1 percent. [2]
- Due to rapid growth, industry employment is expected to increase at an annualized rate of 3.2 percent.[2]

Key factors driving industry growth are an aging population, a robust economy, and expanded demand for private health insurance. However, significant hurdles are weighing companies down – namely, regulatory uncertainty and the Affordable Care Act (ACA).

The industry is influenced by several major factors, including: government regulation and the associated costs; the aging population; new demands for technology; rising costs for healthcare; and consolidation. To be successful, companies need leaders who can both navigate the new reality and foresee future trends.

2 Source: IBISWorld

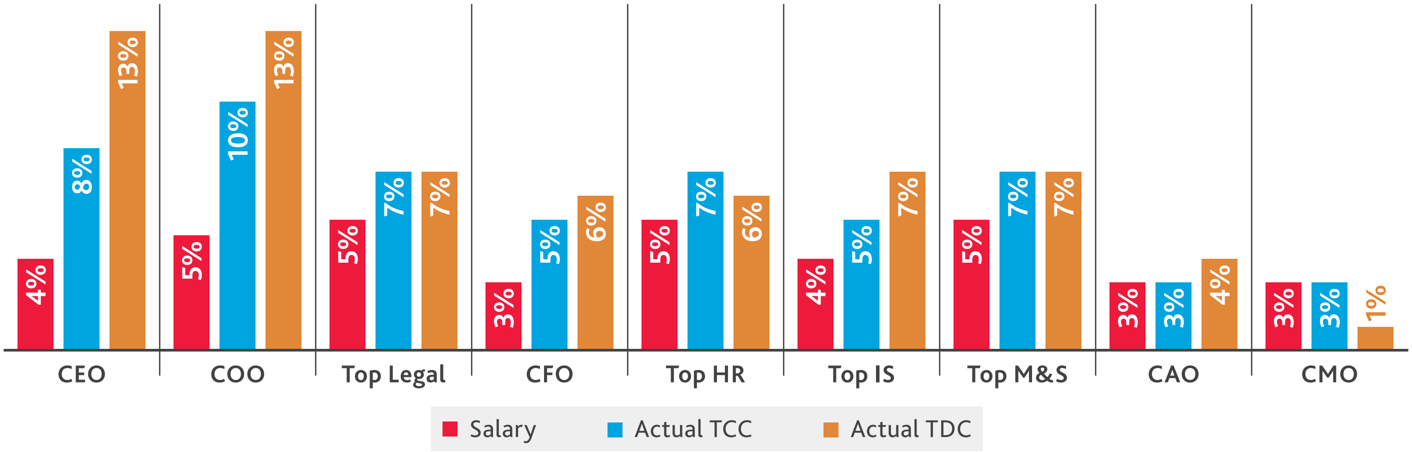
Key findings and trends

The *2018/2019 Trends Report* provides an overview of key findings and an analysis of industry shifts related to compensation levels and plan designs. With market pay data from more than 30 health insurance companies over the past 10 years, the report provides a unique perspective on the history of the industry, which can help guide strategic compensation decisions.

PAY LEVEL TRENDS

- On average, salaries increased at an annualized rate of 3 percent to 5 percent for top executives (Figure 1).
- Most executives saw more significant increases in total cash compensation (TCC), ranging from 3 percent to 10 percent; most hover around 7 percent.
- The largest increases were in total direct compensation (TDC), with CEOs and COOs receiving an annualized increase of 13 percent.
    - This increase was primarily driven by long-term incentive (LTI) values for the CEO and COO, which increased by 21 percent and 18 percent, respectively.

FIGURE 1
FIVE-YEAR ANNUALIZED CHANGES IN PAY



JOB TITLES IN CHARTS

- **CEO:** Chief Executive Officer
- **COO:** Chief Operating Officer
- **CFO:** Chief Financial Officer
- **CAO:** Chief Actuarial Officer
- **CMO:** Chief Medical Officer
- **CHRO:** Chief Human Resources Officer
- **Top IS:** Information Systems
- **Top M&S:** Marketing and Sales
- **Top HR:** Human Resources

While pay levels have climbed over the past five years, revenue per dollar of compensation paid to the CEO has remained steady at approximately $2 million (Figure 2).

Additional analysis (Figure 3) reveals that large companies appear more efficient with regard to the average revenue earned per dollar of CEO pay; however, this is likely because there is a minimum pay level required to take the helm, even at a smaller company.

FIGURE 2
CEO: AVERAGE REVENUE PER DOLLAR OF COMPENSATION ($000)

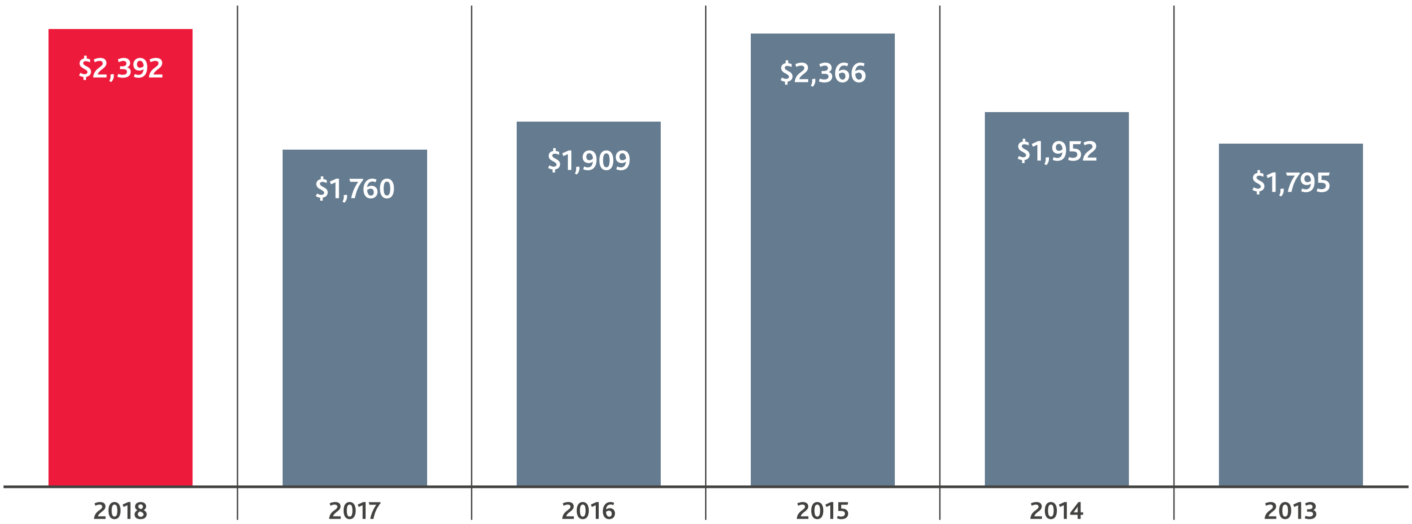
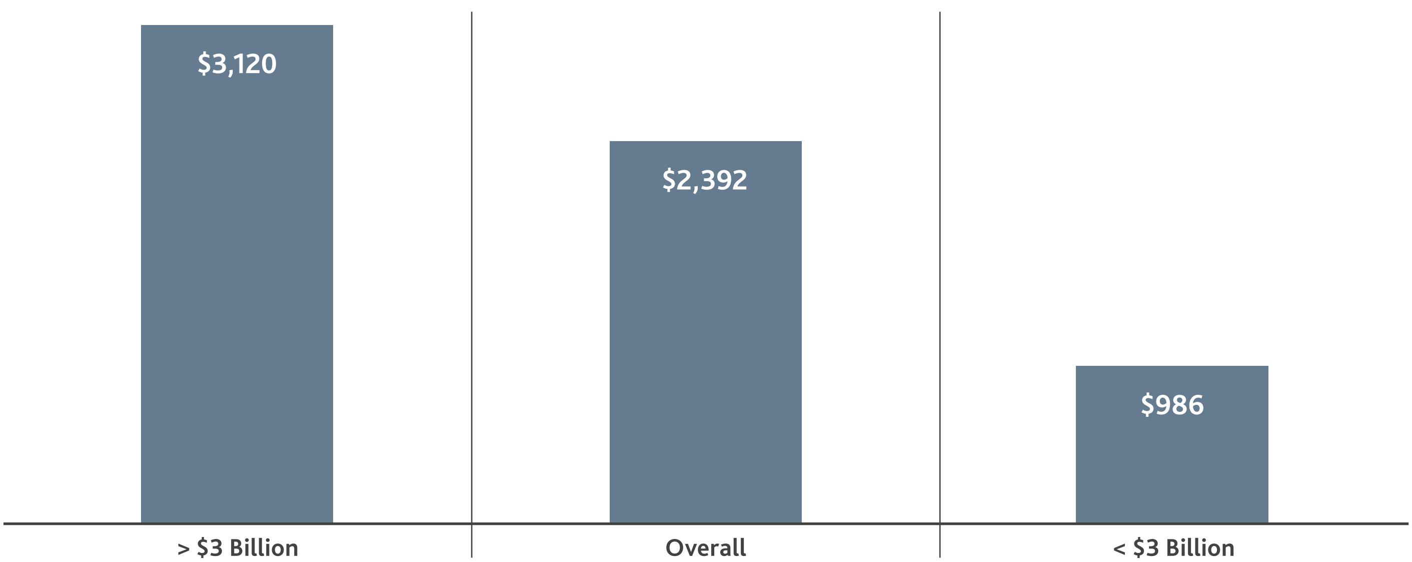


FIGURE 3
REVENUE PER DOLLAR OF 2018 CEO COMPENSATION ($000)



MIX OF PAY TRENDS

Pay is more highly leveraged for the CEO than other executive positions (Figure 4).

Pay is also more highly leveraged for companies with revenues greater than $3 billion than for companies whose revenues are less than $3 billion (Figure 5).

FIGURE 4

MIX OF PAY BY POSITION (TARGET): 2018

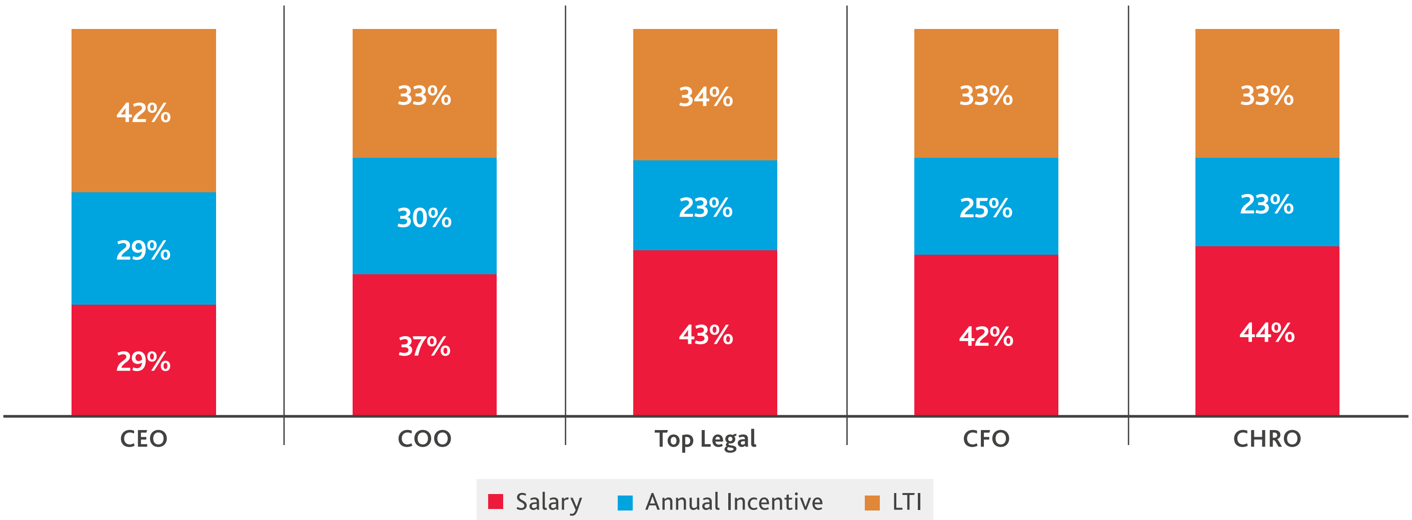
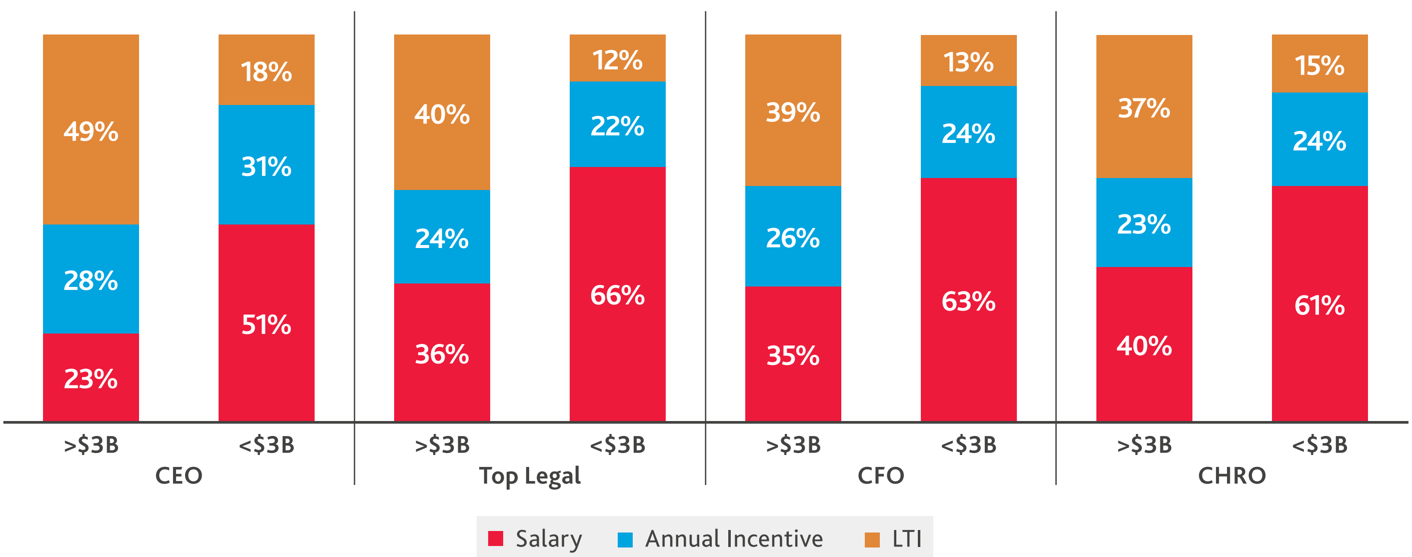


FIGURE 5

MIX OF TARGET PAY BY JOBS AND COMPANY SIZE



The mix of pay over the last five years shows several important trends (Figure 6, a, b):

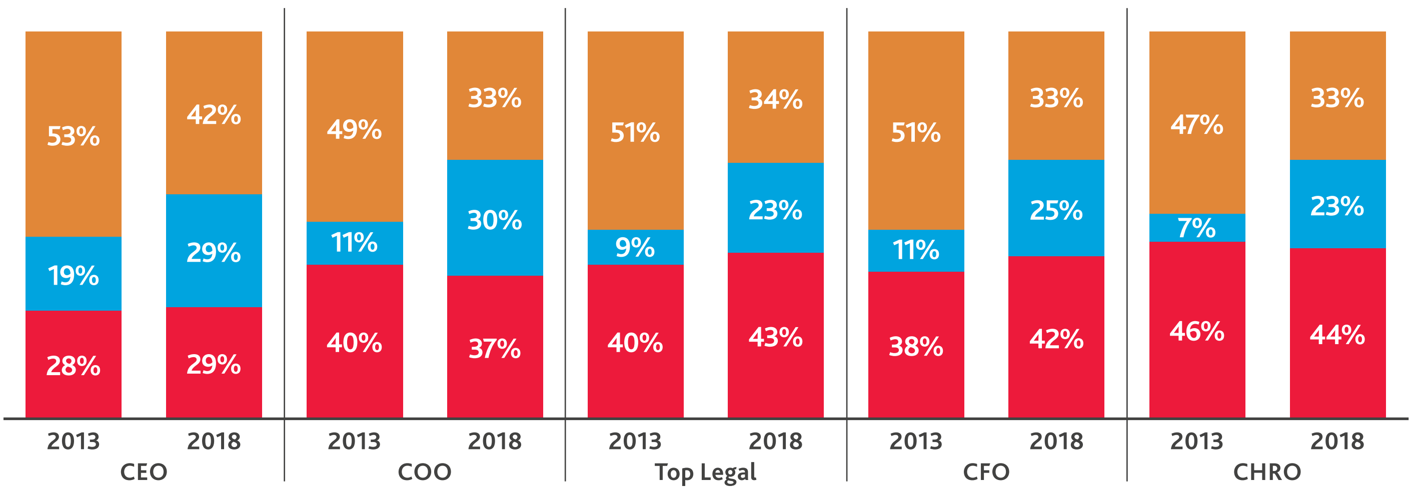
- The mix of **target** pay has changed minimally.
- **Target** opportunity levels consistently increased for the annual incentive (AI) component of the pay mix across all of the positions analyzed.
- **Actual** pay levels show more leverage.

The rebalancing of the pay mix toward short-term incentives may be attributed to uncertainty over the direction of healthcare reform from 2013 to 2016, which led to a focus on shorter-term goals instead of more defining LTI metrics.

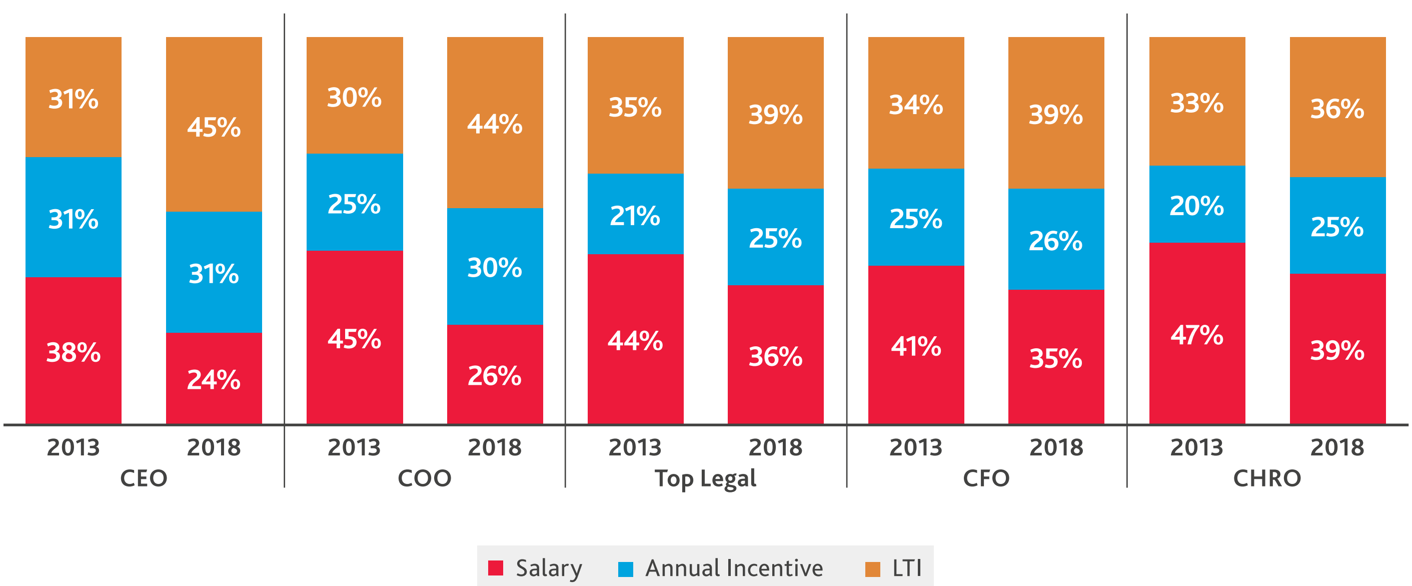
FIGURE 6

MIX OF TARGET AND ACTUAL PAY BY JOBS: 2013 VS. 2018

A / Mix of Target Pay By Job - 2013 vs. 2018



B / Mix of Actual Pay By Job - 2013 vs. 2018



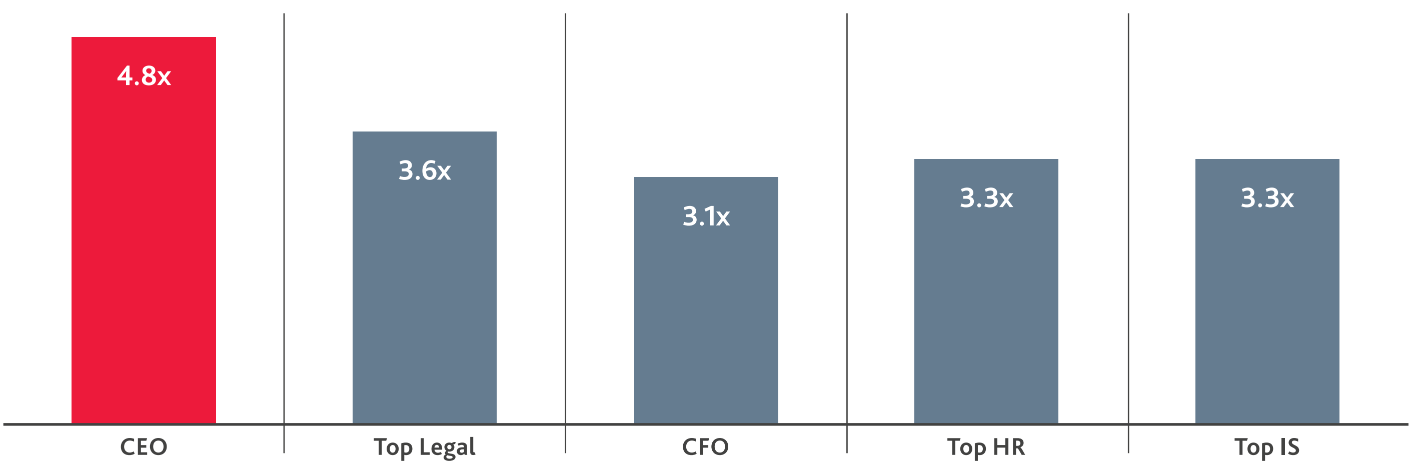
SERPS AND CHANGE OF CONTROL AGREEMENTS

In addition to salaries, bonuses, and LTIs, executives may receive other compensation from plans, such as SERPs or change of control (COC) agreements. Boards need to be aware of the potential size of payments due upon a key executive retiring or upon a COC. As many companies are painfully aware, the large lump sum payouts often make headlines. Our data shows:

- Based on survey findings, the potential annual annuity of retirement benefits, including SERPs, typically runs about 65 percent of the CEO's salary level and gets proportionately lower for other top executives (Figure 7). If this is taken as a lump sum, the payout can reach into the millions.
- The potential payout from a COC agreement is almost five times the CEO's annual salary and proportionately less for other roles as shown below (Figure 8). This may be a payout of several million dollars for a CEO.

FIGURE 7
THE POTENTIAL ANNUALIZED VALUE OF SERPS EXPRESSED AS A PERCENT OF CURRENT BASE SALARY

FIGURE 8
POTENTIAL CHANGE OF CONTROL PAYOUT EXPRESSED AS A MULTIPLE OF CURRENT BASE SALARY



Trends in Pay and Other Policies

ANNUAL INCENTIVES

Prevalence of AI plans

- All companies report having an AI plan.

The top three to five AI performance measures have changed slightly since 2013

- Financial Measures (Figure 9):
  - Net income / profit has been the most widely used performance measure since 2013.
  - Benefit cost containment was only used by 16 percent of companies in 2013 and is now incorporated into 38 percent of the incentive plans.
  - Revenue growth was also used as a performance measure by 16 percent of companies in 2013 and is now used by 31 percent.
- Nonfinancial Measures (Figure 10)
  - Customer satisfaction and contract / member growth have been the most prevalent nonfinancial measures for many years.
- Individual Measures
  - Industry best practices at the executive level emphasize corporate goals over individual goals, since these individuals are primarily accountable for company-wide performance.
  - At the business unit level, we would expect to see incentive plans emphasize individual goals or those items that are in the direct-line-of sight of the plan participants. Managers and support staff can and should expect to impact department and individual performance criteria, but they would have less impact on the direction of the company as a whole.

Our analysis of the survey data found that individual goals were weighted less than corporate goals in annual incentive plans

- Weighting of corporate versus individual performance measures:
  - Corporate annual incentive plans (corporate versus individual): 81 percent / 19 percent
  - Business unit annual incentive plans (corporate versus individual): 68 percent / 32 percent

FIGURE 9
2018 TOP 5 ANNUAL INCENTIVE PERFORMANCE MEASURES (FINANCIAL)

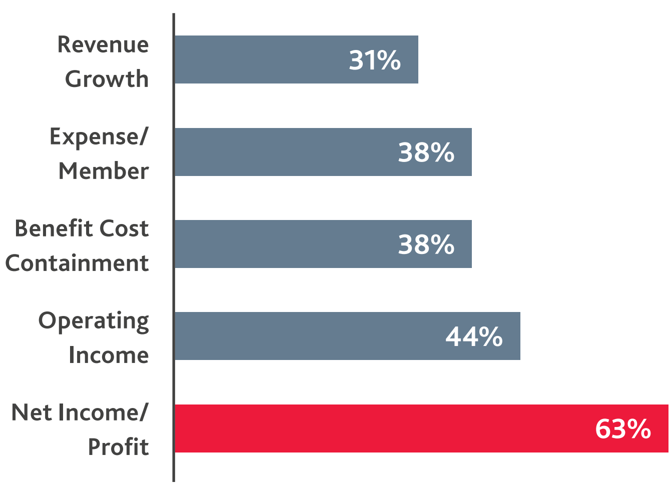
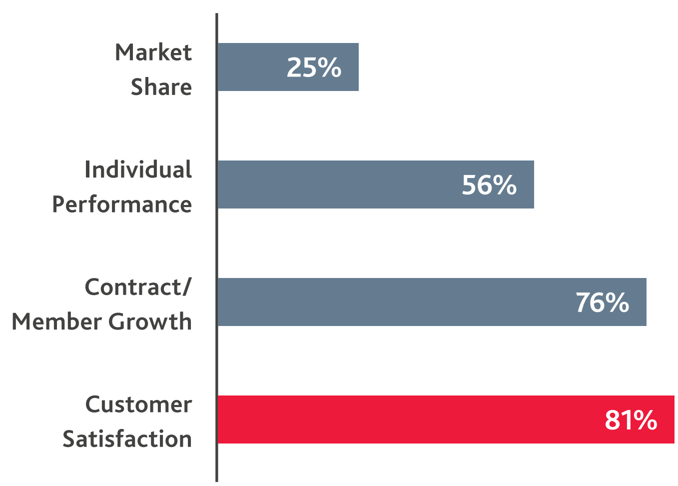


FIGURE 10
2018 TOP 4 ANNUAL INCENTIVE PERFORMANCE MEASURES (NONFINANCIAL)



LONG-TERM INCENTIVES

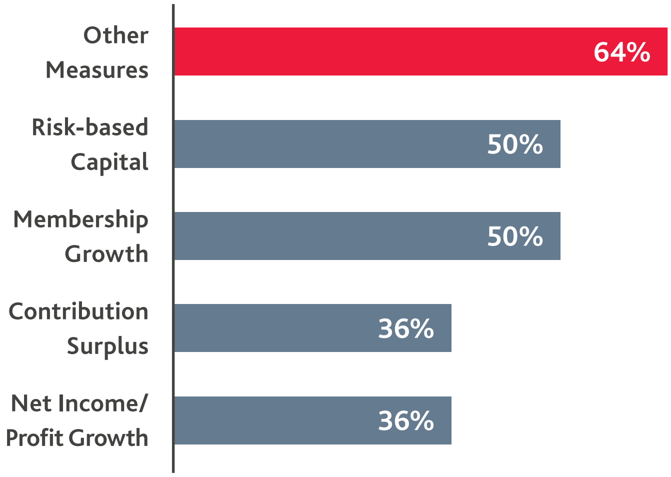
Prevalence of LTI plans

- Eighty-eight percent of companies offer LTI programs, a trend consistent across many industries.
- Because most companies in the survey are not publicly traded, the majority of LTI vehicles employ long-term cash plans; one company used a performance unit plan.

Companies use a wide variety of performance measures in their LTI plans

- The most common performance measures are risk-based capital and membership growth; however, the use of membership growth in LTI plans is declining from a high of almost 70 percent in 2013.
- Other commonly used performance measures (Figure 11) include (listed in order of prevalence):
  - Net income / profit growth
  - Contribution to surplus
  - Customer satisfaction
  - Expense reduction
  - Benefit cost containment

FIGURE 11
2018 TOP 5 LTI PERFORMANCE MEASURES



EXECUTIVE BENEFITS AND PERQUISITES

Deferred Compensation

- Deferred compensations plans are fairly prevalent, used by 81 percent of companies.
- While a vast majority of companies allow executives to defer salaries and bonuses, slightly more than half also allow LTI deferrals (Figure 12).

Defined Benefit Plans

- Defined benefit plans still exist, but are typically limited to grandfathered employees. Among the plans in-use, more than 85 percent are frozen, meaning that no new employees are allowed in. This is a trend consistent across almost all industries.
- Seventy-five percent of companies provide defined benefit plans to executives.
- A majority of active plans are now cash balance plans as indicated in the graph below (Figure 13).
- Traditional defined benefit plans were offered by 73 percent of companies in 2006 and have dropped to only 11 percent in 2018.

Defined Contribution Plans

- All companies in our survey provide corporate-wide defined contribution plans.
- Nearly all companies provide a matching contribution, typically about 4 percent to 4.5 percent of eligible pay.
- Roughly 40 percent of companies provide a flat rate contribution, which does not require employee contributions; those contributions range from 2.6 percent to 4 percent of eligible pay (Figure 14).

Supplemental Executive Retirement Plans

- SERPs are offered to executives at 69 percent of companies (Figure 15).
- As would be expected, the use of defined benefit Employee Retirement Income Security Act of 1974 (ERISA) make-up SERP plans has declined since 2013, when it was offered by 86 percent of companies. Meanwhile the prevalence of defined contribution make-up has increased from a mere 14 percent of companies in 2013.

FIGURE 12
2018 ELEMENTS OF PAY THAT ARE ELIGIBLE TO BE DEFERRED

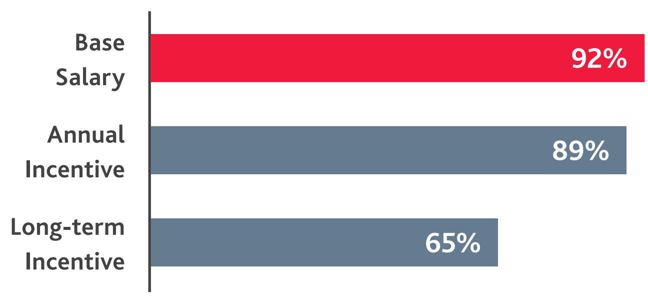


FIGURE 14
2018 401(K) CONTRIBUTION TYPES

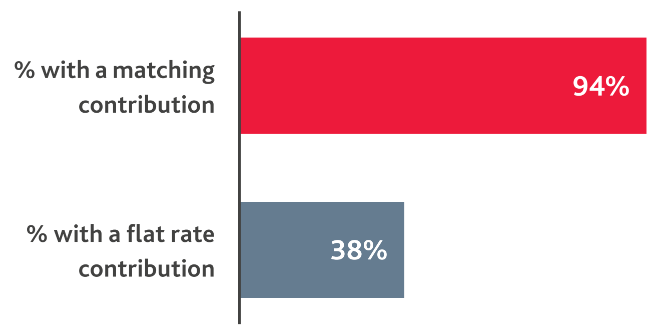


FIGURE 13
2018 TYPES OF DEFINED BENEFIT PLAN

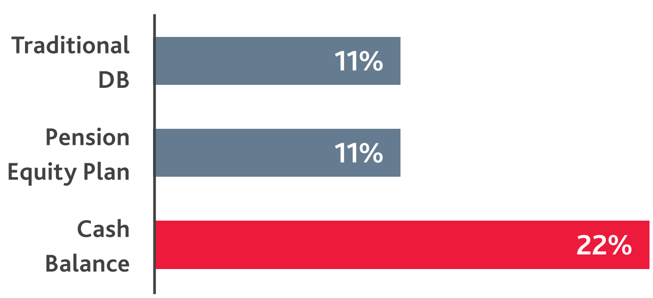
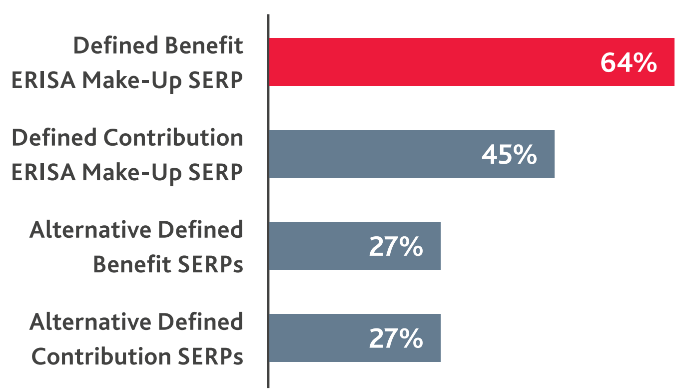


FIGURE 15
2018 TYPES OF SERPS OFFERED TO EXECUTIVES



Other Executive Benefits

- Supplemental medical exams, a fairly common executive perk historically, have become much less prevalent (Figure 16).

Perquisites

- Automobile programs for CEOs (Figure 17) have become more popular since 2013, at which time:
  - Only 32 percent of companies provided an allowance.
  - Only 20 percent provided a company-owned automobile.
- The increase in this offering is a consistent trend across many industries.
- First-class and business-class air travel has also been on the rise (Figure 18). These perks save executives time, often enabling them to work on the plane and arrive at their destination more refreshed, less stressed, and able to focus on their objectives. In 2013:
  - Only one-quarter of companies provided first-class air travel to executives.
  - Less than one-third offered business class-air travel.

FIGURE 16
SUPPLEMENTAL MEDICAL BENEFITS OFFERED: MEDICAL EXAMINATION

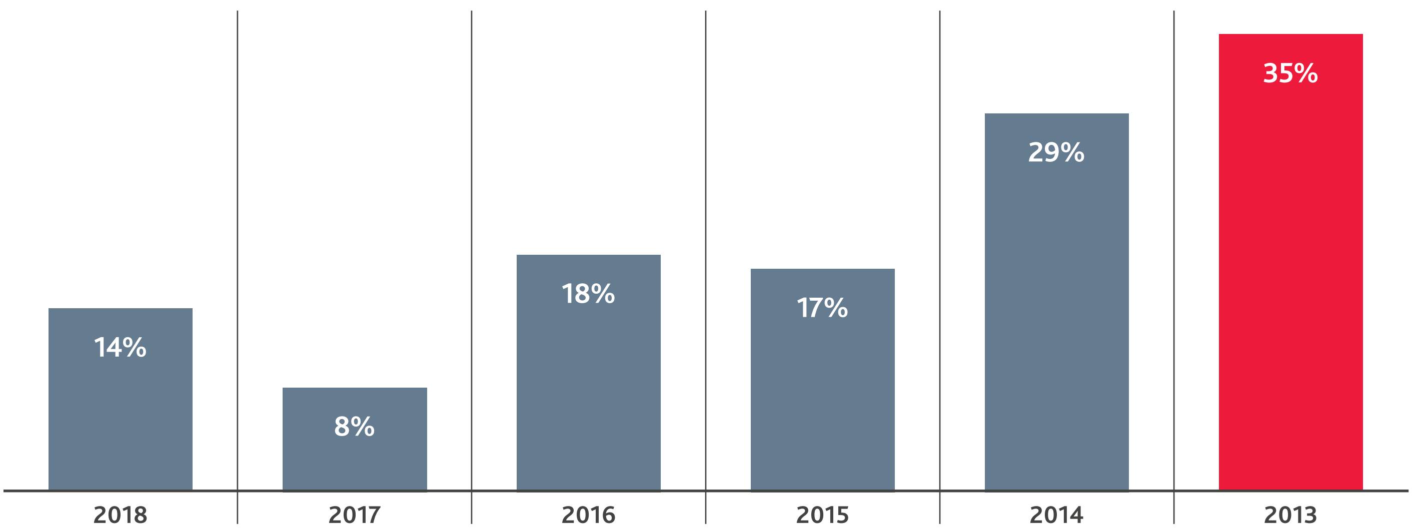


FIGURE 17
2018 PREVALENCE OF EXECUTIVE CAR PROGRAMS

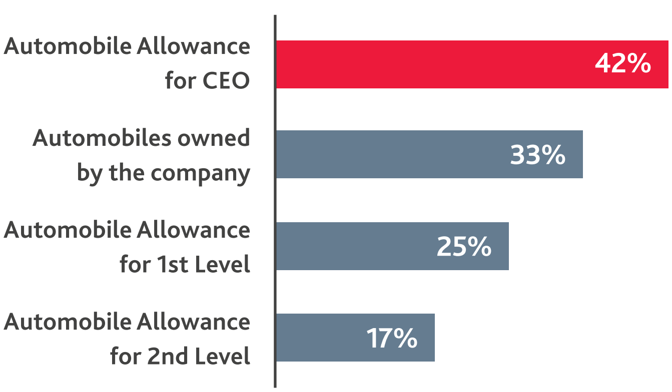
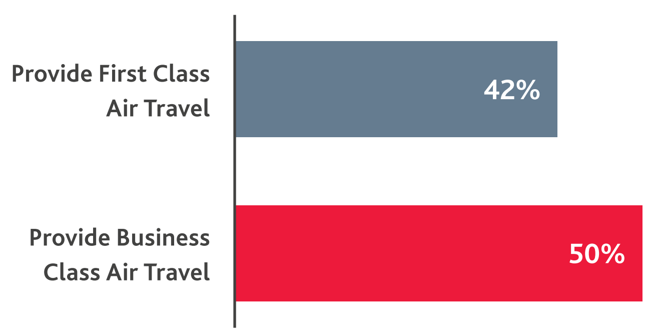


FIGURE 18
2018 PERQUISITES: AIR TRAVEL



Employment Agreements and Contracts

- Employment Agreements
  - Our analysis found that 44 percent of companies offer employment agreements / contracts (Figure 19). The use of contracts has declined since 2006, when 65 percent of companies had agreements with at least the CEO.
  - Among the 44 percent of companies offering employment agreements, all provide one to the CEO; the prevalence is much lower for other executive positions.
- The eligibility for employment contracts has changed over the past five years. In 2013, positions with pay as low as $114,000[3] could have an employment contract; now, the lowest salary eligible is $170,000 (Figure 20).

FIGURE 19
2018 PREVALENCE OF EXECUTIVE POSITIONS WITH EMPLOYMENT CONTRACTS

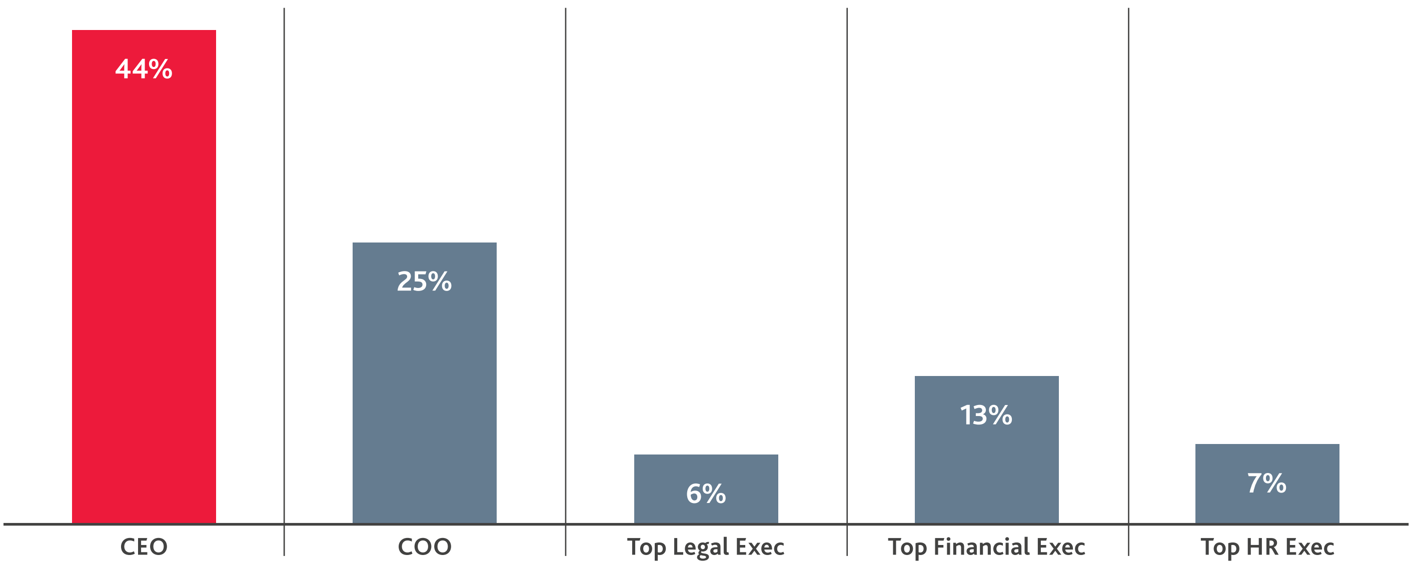
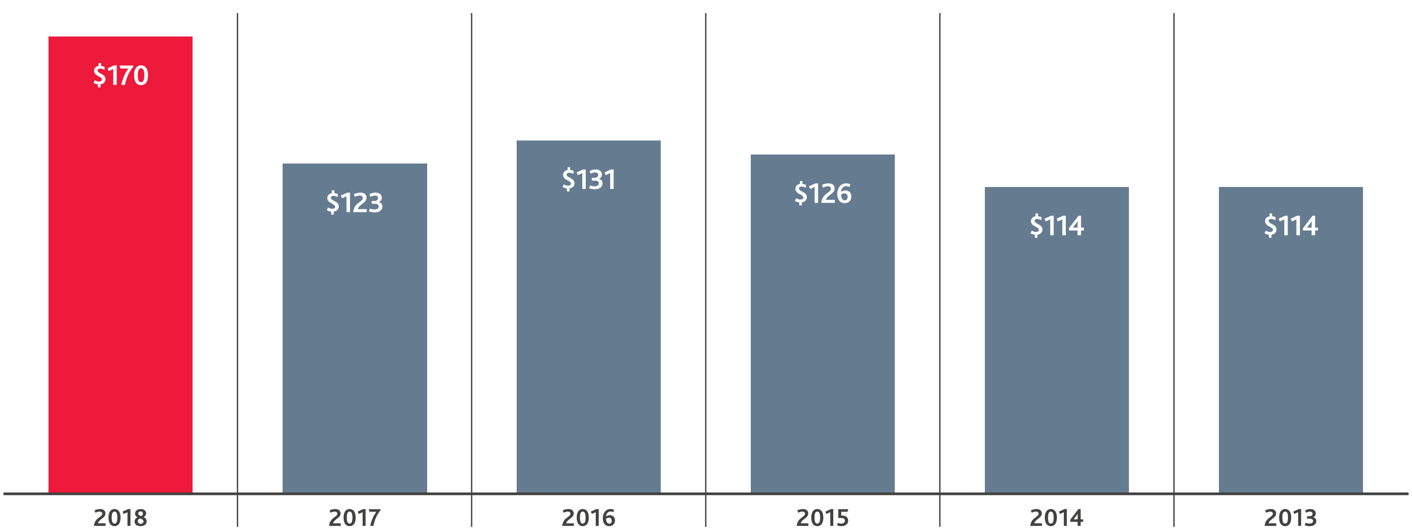


FIGURE 20
LOWEST SALARY ELIGIBLE FOR EMPLOYMENT CONTRACTS THROUGH THE YEARS ($000)



3 Even assuming 3 percent annual growth in salary that would result in a 2018 salary of $132,000, the salary trend is upward.

Change of Control Agreements

- Individual COC agreements are offered by 45 percent of companies. This represents a downward trend in prevalence, with 73 percent of companies providing COCs in 2006 and 57 percent in 2013.
- The most common triggers are **without cause** and **for good reason**, such as failing to pay compensation or benefits provided in the contract (Figure 21).
- The most common definition of COC is the acquisition of a pre-specified percent of the company (Figure 22).

Severance (non–COC) Agreements

- All companies provide individual severance agreements, which has been a consistent since 2006.
- **Without cause** continues to be the most common trigger (Figure 23).
- Use of the **for good reason** trigger, which includes failing to pay compensation benefits provided in the contract, has declined (Figure 24).

The end of the credit crisis and a consistently more stable economy may have diminished the popularity of this metric, since there is less concern about the liquidity of companies to pay out compensation and benefits.

FIGURE 21
CLAUSES FOR TERMINATION COVERED IN CHANGE OF CONTROL AGREEMENTS

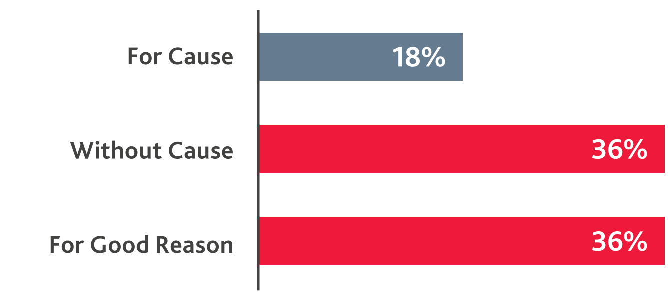


FIGURE 23
CLAUSES FOR TERMINATION COVERED IN SEVERANCE AGREEMENTS

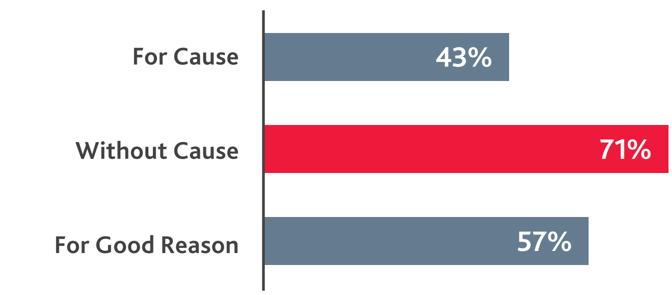


FIGURE 22
CHANGE OF CONTROL DEFINITIONS

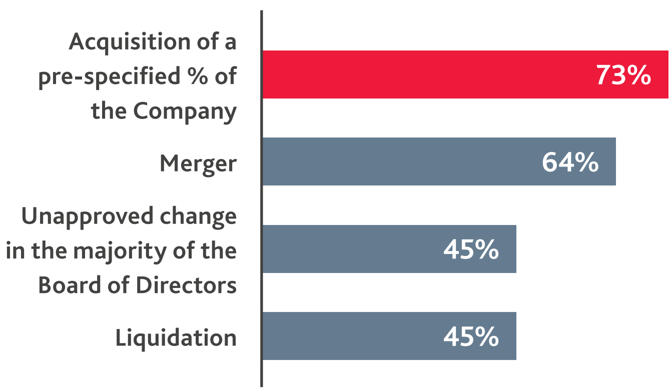
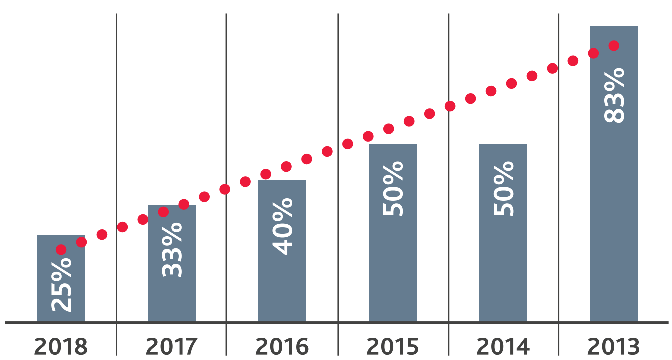


FIGURE 24
FAILING TO PAY COMPENSATION OR BENEFITS PROVIDED IN THE CONTRACT



A Way Forward

Health insurance companies need truly insightful leaders that can help navigate the uncertainties facing the industry in a rapidly changing landscape. Careful consideration must be given to the design of compensation packages to ensure full alignment with a company's strategic plan, keeping a close eye on the following key factors:

- Ensure that employment agreements are appropriately sized and cover the executive, while not exposing the company to undue financial liability.
- Ensure 280G compliance.
- Ensure key executives have COC agreements in place.
- Create an appropriate balance between incentives and fixed pay. Pay should reward the achievement of the company's strategic goals, but should not reward excessive risk-taking.
- Develop a healthy talent pipeline for senior-level positions.

About the Annual Survey

The annual *Executive Total Potential Remuneration Compensation, Benefits, and Perquisites Survey* (TPR Survey) provides data on compensation, benefits, perquisites, and contract agreements for executive and senior management positions in health insurance organizations. Data analysis falls into three categories:

- Compensation levels
- Total Potential Remuneration levels
- Policies and practices

SURVEY OVERVIEW

- Most recent publication date: August 2018
- Number of annual survey respondents: 16 to 23 health insurance organizations annually
- Number of positions included: 44 executive- and director-level positions, including hot job titles such as Chief Data Analytics Officer, Head of Retail Market Development & Consumerism, and Top Healthcare Informatics Executive
- Pay elements included:
  - Base pay
  - Target, minimum, and maximum AI levels
  - Actual AI payout amounts
  - LTI grants (annualized value)
- Benefit and perquisite levels are quantified and include:
  - Executive benefits and perquisites
  - Deferred compensation and pensions (qualified and nonqualified)
  - Potential value of COC and severance agreements
- Policies and practices:
  - AI plan design
  - LTI plan design
  - Retirement benefits, including SERPs
  - Deferred compensation
  - Perquisites
  - Employment, COC, and severance agreements

SURVEY REPORT

Survey participants receive two reports:

1. Hard copy reports are sent electronically in PDF format and include job descriptions, definitions, and plan design.
2. An Excel workbook which contains compensation values by position and position descriptions. Results are presented three ways:
   - Individual position worksheets formatted for printing.
   - A summary compensation worksheet formatted to facilitate uploading to a market pricing program.
   - Regression analysis calculator based on total revenue or number of members provided for each position.

TABULAR DATA

BDO's *TPR Survey* provides detailed market data that guides Boards of Directors and HR professionals in assessing and designing their executive and management pay plans (Table 1a and b). The market data include:

- Base salary levels
- Target, minimum, and maximum AI levels
- Target, minimum, and maximum LTI levels
- Maximum total direct compensation
- Value of defined benefit plans
- Potential value of COC agreements
- Regression analyses

TABLE 1

SURVEY REPORT DATA EXAMPLE: CHIEF FINANCIAL OFFICER

A / Elements of Compensation ($000)

Scope Breaks - Total Revenue	Scope ($Mil)	Mid-point	Base Salary	Annual Incentive				Target Total Cash Comp	Long-Term Incentive				Target Total Direct Comp
					Policy (as a % of Salary)				Policy (Annual $ Value)				
				Actual	Target	Min	Max		Target	Min	Max	Actual	
All Co.'s													
n	16	10	16	16	15	15	15	16	12	10	12	10	16
%	100%	63%	100%	100%	94%	94%	94%	100%	75%	63%	75%	63%	100%
Avg	$ 10,174	$ 487.5	$ 562.8	$ 420.5	61%	38%	92%	$ 899.3	$ 591.2	$ 249.5	$ 954.2	$ 607.9	$ 1,333.5
Percentiles													
10th	1,706.7	292.4	384.7	100.8	32%	15%	50%	554.6	114.6	56.6	172.4	84.2	619.0
25th	2,474.9	418.3	435.0	171.0	50%	25%	60%	629.3	258.0	95.0	362.8	239.0	668.6
50th	4,505.2	507.5	567.5	321.5	60%	33%	75%	897.7	513.5	244.0	712.5	508.5	1,122.0
75th	8,593.2	576.8	644.0	543.3	75%	48%	113%	1,056.4	850.3	378.5	1,613.0	844.8	1,773.8
90th	34,383.3	620.1	789.7	1,040.1	94%	79%	162%	1,554.7	1,466.0	442.4	2,454.9	1,717.9	2,706.9

B / Elements of Total Potential Remuneration ($000s)

Scope Breaks Total Revenues	Scope ($Mil)	Max TDC	Annual Benefits Value	Annual Perks Value	Deferred Comp		Pension and SERP		Employment Agreements & Contracts			
										Change-of-Control		
					Pos. Eligible	Deferred Comp $	Defined Benefit	Defined Contr.	Employ Agree.	Agree.	Potential $	Sev. Agree.
All Co.'s												
n	16	15	3	2	13	3	6	3	2	7	7	6
%	100%	94%	19%	13%	81%	23%	38%	19%	13%	44%	100%	38%
Avg	$10,174.10	$1,881.80	ID	ID		ID	$298.20	ID			$1,719.40	
Percentiles												
25th	2,474.90	1,026.00	ID	ID		ID	116.3	ID			648.7	
50th	4,505.20	1,458.40	ID	ID		ID	224	ID			1,523.80	
75th	8,593.20	2,410.90	ID	ID		ID	519	ID			2,971.20	

Regression Analysis

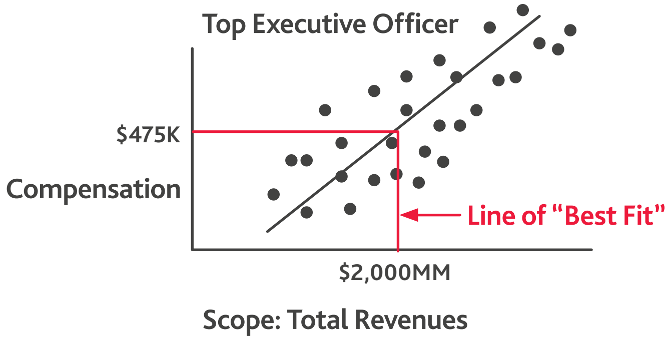
Regression analysis is used to calculate the line of best fit through all of the data points reported for a position. Figure 25 illustrates this concept. Trend lines are used to analyze the impact of the size or scope of the plans on compensation levels.

Our survey is unique because it tests the relationship of pay levels to two scope measures: revenues and membership. Because the trend line analyses are based on the full range of data reported for each position, the trend lines tend to provide a better representation of the results than tabular displays, in which one or two data points may deviate significantly from the rest of the information.

The trend line in Figure 25 indicates that, on average, the market rate for a position responsible for $2 billion in health insurance revenue is an annual salary of $475,000.

FIGURE 25

BEST FIT OF COMPENSATION FOR EXECUTIVE OFFICER PER TOTAL REVENUES



JOBS COVERED IN SURVEY

- Chief Executive Officer
- Chief Operating Officer (second in command)
- Top Legal Executive / General Counsel
- Top Financial Executive
- Top Human Resources Executive
- Top Information Systems Executive
- Top Sales and Marketing Executive
- Top Actuarial Executive
- Chief Medical Officer
- Chief Underwriting Executive
- Subsidiary Head / SBU Executive
- Regional Head / GBU Executive
- Top Managed Care Executive
- Head of Primary Care Medical Home (PCMH)
- Top Pharmacy Executive
- Chief Data Analytics Officer
- Top Sales Executive
- Top Marketing Executive
- Head of Retail Market Development & Consumerism
- Top Corporate, Government and Public Affairs Executive
- Top Communications Executive
- Top Government Operations Executive (Medicare, Medicaid, etc.)
- Top Medicare / Medicaid Executive
- Second Level Information Systems Executive
- Top Healthcare Informatics Executive
- Second Level Healthcare Informatics Executive
- Network Management Executive
- Top Health Services Executive
- Top Service Operations Executive
- Top Claims Executive
- Top Customer Service Executive
- Top Membership and Billing Executive
- Second Level Actuarial Executive
- Second Level Finance Executive
- Top Audit Executive
- Controller
- Treasurer
- Top Corporate Compliance Executive
- Second Level Legal Position
- Top Strategic Planning Executive
- Head of Healthcare Economics
- Regional Medical Director
- Project Management Executive
- Top Real Estate Executive

2018 PARTICIPANT PROFILE

TABLE 2

SUMMARY PROFILE OF PARTICIPANTS 2017 AVERAGE SCOPE

Data Cut	n	All Companies
Total Revenue ($000s)	16	$10,181,475
Employees	16	4,185
Membership Total	16	2,425,772
Company Status		
Not-for-Profit	12	
Mutual	4	

Survey Definitions

Base Salary: Actual or average base salary as of March 1, 2018.

Annual Incentive (AI): The incentive earned based on performance for 2017 regardless of when paid.

- **Target:** A specific target, standard, or guideline for determining annual incentive awards when performance meets expected levels, expressed as a percent of either base salary or midpoint.
- **Minimum:** This is the threshold level of incentive award below which no incentive is paid (as a percent of base salary). This number is greater than zero but generally less than the target incentive.
- **Maximum:** This is the maximum allowed incentive award or cap (as a percent of base salary). Many annual incentive plans "cap" the potential payout at a certain level regardless of achieved performance. This number is greater than or equal to the target incentive.

Target Total Cash Compensation (TTCC): Base salary plus the target annual bonus/incentive.

Total Cash Compensation (TCC): Base salary plus annual incentive.

Long-Term Incentive (LTI): The incentive earned based on performance for a period of more than one year. The actual amount is that which was paid in 2017 or early in 2018.

Cash Based Long-Term Incentive Plans

- **Long-Term Bonus:** Similar to an annual bonus (i.e., payout is a percent of actual salary earned over performance period), but performance is measured over a multi-year period, generally three to five years.
- **Performance Units:** A grant of a specific number of units. These units typically have an initial or target value, and the final value of the units depends on the achievement of established performance criteria. Performance is judged over a predetermined, multi-year period (usually three to five years) during which the executive must remain employed with the company.
- **Performance Shares:** A grant of phantom "shares" of company stock that is earned only if predetermined performance criteria are met during a multi-year period. The value of the shares rises and falls with the value of the company stock. Upon conclusion of the performance period, the executive earns the number of shares commensurate with achieved performance. The shares are valued at the price of the company stock at the conclusion of the performance period. In companies that are not publicly traded, stock price is often determined by a formula.

Total Direct Compensation (TDC): Total Cash Compensation + the Projected Value of the Long-Term Incentives.

Potential Retirement Benefit: to provide an "apples to apples" comparison, this is an estimated potential annual annuity, which includes any non-qualified amounts (supplemental executive retirement plans, or SERPS), and is based on the following assumptions:

- Retirement at age 65, with 25 years of service.
- Final Average Pay equaling the current actual compensation level – this is based on each company's specific definition of final average pay; either base salary, base plus annual incentive, or base plus annual and long-term incentive.

Supplemental Executive Retirement Plan (SERP): a nonqualified retirement plan for key company employees, such as executives, that provides benefits above and beyond those covered in other retirement plans. There are many different types of SERPs available to companies.

Change of Control Agreement (COC): the estimated potential value of the agreement; this potential value is based on the following assumptions:

- The elements of pay that are covered as indicated by each participant in the questionnaire – either base salary, base plus annual incentive, or base plus annual and long-term incentive.
- The current compensation level of the executive.
- The years of pay covered by the COC agreement (typically between one and three years).
- Any tax gross-up for excess payments:
    - Excess payments are calculated as any potential amount that could be paid in excess of 3x pay (since historical W2 earnings are not readily available, this is based on current TDC).
- This amount is multiplied by 20 percent and added to the overall value of the potential COC payment.

STATISTICAL DEFINITIONS

Average: The sum of the reported data is divided by the number of companies reporting. Each company's data counts once in calculating the average (provided only when there are four or more data points).

Percentiles: Each company's data counts once in calculating percentiles. The data is then arrayed from high to low.

The 25th percentile, or first quartile of the data, is the value in an array below which lies 25 percent of the sample and above which lies 75 percent of the sample (provided only when there are 6 or more data points/companies).

The 50th percentile, or median, is the value in an array below which lies 50 percent of the sample and above which lies 50 percent of the sample (provided only when there are 4 or more data points/companies).

The 75th percentile, or third quartile of the data, is the value in an array below which lies 75 percent of the sample and above which lies 25 percent of the sample (provided only when there are 6 or more data points/companies)

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Learn more about BDO's Compensation Surveys practice.

FIRST NAME

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