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A White Paper

EXECUTIVE PERQUISITES
ABOVE AND BEYOND

Today we define executive perquisites as any benefit provided to the executive that is above and beyond the benefits provided within the executive benefits framework. Modern perquisites are often defined by the "four c's"—cars, clubs, counseling, and contracts. Executive perquisites are often custom-tailored to the company and its individuals and can be numerous and extremely unique in design.

WHY EXECUTIVES WAX NOSTALGIC ABOUT THE 1950'S

In the 1950s high income taxes meant that high paychecks weren't practical. Compared to today, companies made up for the relatively low salaries they paid their executives with things like cars, country club memberships, and big offices. Back then, it wasn't unheard of for an executive to get any one of these things instead of a big raise. Today the executive gets the raise *and* the car, country club membership, and big office.

TRANSAPRENT IS THE NEW BLACK

Executive perquisites are coming under greater review by various governmental, regulatory, and general employee groups. We may even be saying farewell to perks as we know them. The Security and Exchange Commission's (SEC) new compensation disclosures, which call for detailed disclosure of any perquisite in excess of $10,000, may put a speedy end to the wine cellars, golf memberships, and stipends that were easily buried yesterday. The SEC's new regulations call for a transparency that will bring to light company expenditures, which is great news for company shareholders who feel executives are overcompensated. The new regulations are part of the SEC's plan to get companies to name one compensation figure for each top executive, allowing investors to learn more about the fringe benefits of top corporate officers.

ARE THERE PERKS IN THE AFTERLIFE?

Change of control plans were designed to protect the executive in the case of a hostile takeover. In the case of a merger or acquisition that put the executive out of a job, they were guaranteed a certain amount of money. This gave the executive financial security, but also gave shareholders peace of mind as well, as they could rest assured that those in the driver's seat would not make decisions for the company based on whether or not they would have a job in the morning.

What's interesting now is that "single trigger" events, such as a change of control, are enough to put the payout in action. It's becoming more and more common for executives to sign contracts that ensure when they leave the company, they are set for life.

OH, THE BEAUTY OF IT ALL!

Executive perquisites play an important role in any company, especially when it comes to attracting talented executives and many companies use perks exactly as they were designed to be used: to mutually benefit both company and executive without negatively affecting the shareholder.

Executives should expect certain perquisites since they have additional expectations and obligations compared to the rank-and-file workforce. Perquisites can be offered for many different reasons and structured to accomplish various goals.

WHAT'S IN WHAT'S OUT

There are several studies that show executive perquisites boost production and have a good effect on the company overall. However, when an organization provides a tremendous number of status-based perquisites that do not have the requisite business benefits, then executives learn to focus on appearance rather than results. But these days we see compensation, and executive perquisites heading in a direction where they are directly tied to a set of criteria that reflect the company's performance

Let's go through, in detail, the types of perquisites and how they might affect your company's business and people strategies.

REAL MONEY GOING IN: SIGNING BONUSES

Today's signing bonuses are designed for a number of instances. Most instances are for the losses associated with the executive's unvested benefits from the former employer. To the extent the executive is going to lose some incentive amounts, retirement accounts, or other unvested to incentive payments such as long-term restricted stock, it is typical, and probably required, that the executive receives a signing bonus that makes them whole. The best sign-on bonuses are ones that are earned based upon performance, and have vesting requirements that are consistent with the dollar amount of lost benefits.

HERE'S A BIG CHECK NOW GO AWAY: SEVERENCE PACKAGES

Severance pay packages have grown more generous in recent years, especially for the executive ranks. In addition to nonperformance there are always circumstances in which an organization is acquired, and the acquiring organization no longer needs the services of the CEO or, for that matter, large numbers of the executive team. Severance packages are necessary for any company who hopes to attract talent, but first make them reasonable, and second, keep them in check by requiring board and, where possible, shareholder approval.

KEEPING CLEAN: COUNSELING

It's important for the executive to have tax and estate preparation on an annual basis since the last thing an organization needs is to have an executive's tax discrepancy all over the media. Most executives are in need of significant legal counsel. This not only keeps their noses clean in the first place, but if a problem arises, good legal counsel provides important benefits. Legal counsel hopefully clears the executive's name, keeps the company out of the media, and allows the executive to concentrate on his job while the legal team manages the crisis.

IS YOUR NAME TIGER WOODS? CLUBS FOR EATING, MEETING, GREETING

CEOs do use club memberships for a variety of reasons, including entertaining customers and recruits, and giving job evaluations to top executives. Proponents of club memberships argue that leisure boosts workplace productivity, but as with all perks, the goal of the company should be to determine how a particular perk benefits the business as a whole, and not just the individual.

It should be interesting to see whether the SEC's new disclosure regulations curtail company-paid memberships, as well as whether the IRS weighs in to determine whether memberships are taxable perks.

THE RED SOX, THE OPERA, THE BEARS, OH MY: ENTERTAINMENT

Entertainment is one of the most difficult perks to regulate. The problem with entertainment is that it is black and white on one end, but gray in the middle. Entertainment can be hard to regulate because senior executives feel insulted that their integrity is on the line when you start asking them questions. So it becomes difficult to set guidelines.

PREVENTIVE MEDICINE: EXECUTIVE CONTRACTS

Executive contracts serve two main purposes: they benefit the executive, and they benefit the organization. A correctly drafted contract not only makes expectations clear to both parties, it spells out the remedy should either of the parties veer from the stipulations in the contract. Not only does this reduce litigation, it makes debates between executives and companies less public. However, a contract should protect the interests of both the executive and the organization. And that means a contract shouldn't give an executive permission to do his job poorly without having to worry about his financial security.

SAFE AND SOUND: SECURITY

In many situations, the tab for private planes and cars and drivers isn't picked up because organizations want their executives to be as comfortable as possible. It's picked up because companies want their executives to be safe. Here's a good rule of thumb when it comes to security: if there is a real security threat, then security should be paid for by the company.

GROSSOLOGY

Gross-Ups are a tax buy-off that allows executives to receive gross pre-tax sums rather than net post-tax sums. The IRS regards benefits that have a dollar value—benefits like severance payments, supplemental health benefits, and relocation expenses, to name just a few—as taxable income. So that executives won't have to cover a hefty tax bill on these generous benefits, companies reimburse them with gross-out payments. And shareholders get to foot the bill.

LET ME CALL YOU SWEETHEART

In most cases, post-retirement consulting adds up to lots of money for very little work, and is a poor use of company and shareholder funds. Sometimes companies draw up these consulting agreements for what they think are the right reasons. They may want to ease the transition between the departing executive and the new leader, or they may want to dissuade the leaving executive from working with a competitor. In fact, the executive ought to feel obligated to assist the company he is leaving, when you consider that a lot of his benefits are still tied up with the company. Drawing up a contract that gives an executive large amounts of money just for being accessible doesn't make sense, and is a misuse of corporate funds.

THE BIGGEST MYTH

The next time your buddy stops you from reaching for your wallet after a round of golf or a nice dinner and says, "This one's on me, the company will pay for it," know that he's perpetuating one of the greatest myths about executive pay. The company isn't "paying for it" at all. The shareholders are. Our opinion on the use of perquisites is fairly straightforward. If they provide value to the business that outweighs their cost, then it's reasonable to use them. But if they are used as a status symbol or a way to ensure that executives don't have to pay for things like the rest of humankind has to, then they are a big waste of corporate dollars.