CEO pay rockets as economy, stocks recover

Matt Krantz and Barbara Hansen, USA TODAY    1:36 p.m. EDT April 1, 2013

Don't think that rising stock prices and surging piles of corporate cash are being missed by corporate CEOs, especially when it comes to their pay.

Coming off a year in which the Standard & Poor's 500 gained 13% and companies ended up sitting on record amounts of cash, CEOs are back to collecting big raises. While many CEOs fell short of performance targets and saw their bonuses get cut as a result, lucrative salary gains and stock awards powered by a rising stock market are more than repairing any hit. Meanwhile, big raises continue even as many companies are laying off employees.

All told, CEOs scored an 8% pay increase in 2012, taking the median to $9.7 million, for the biggest increase in two years. These are the results of a USA TODAY analysis of data from GMI Ratings and S&P Capital IQ based on 145 Standard & Poor's 500 companies that have reported 2012 CEO pay this year with the same CEO for all of 2012 and 2011. These results are preliminary, as companies continue to file their CEO pay data.

While CEOs have gotten bigger raises in years past, the return of a solid percentage increase in pay is a startling change from 2011, when pay inched up just 2% based on the different universe of companies that had reported as of the same time last year.

MORE: Stock gains create huge payoffs for executives (/story/money/business/2013/03/20/wall-streets-gains-propelling-huge-options-and-stock-payoffs-for-ceos/2000541/

The jump in CEO pay in 2012 serves as a startling contrast with the rest of the economy. The broad economy, while still trying to recover, remains weak enough to coax the Federal Reserve to recommit to its stimulative efforts to keep unemployment from rising from the already elevated 7.7%. But CEOs haven't wasted any time getting raises that outstrip the 2% inflation rate.

"I'm shell-shocked. I can't believe this can go on," says John Bogle, founder of the Vanguard mutual fund company and long-term critic of CEO pay. "I can't believe owners of these companies can't take a bigger stand."

The payouts are staggering in their:

• Sheer size. Of the universe of CEO pay packages examined by USA TODAY, 16 weighed in the mega-payout range of $20 million or more, and an additional 63 surpassed $10 million. Just three CEOs, Walter Robb and John Mackey, co-CEOs of Whole Foods Market, along with Warren Buffett of Berkshire Hathaway, came in with pay packages of less than $2 million. Robb earned $1.3 million, Mackey earned $69,019, and Buffett, $423,923.

• Solid gains in their salaries alone. CEOs routinely get a relatively small slice of their total pay from salaries. In 2012, though, even salaries saw a significant 4% jump. That large gain helped to offset a 4% decline in bonuses, as many CEOs were unable to hit performance targets.

• Bonanza in stock and option awards. The reputation of CEO pay being largely rooted in stock awards rang true again in 2012. The value of stock and option awards jumped 14%, setting executives up for a potential score in the future if the rally on Wall Street continues.

• Windfall from the stock market rally. Thanks to the market's rise, the stock and incentive payments granted to CEOs years ago, which they are taking ownership of and selling now, are blowing away the year-ago comparisons. The median amount CEOs actually took home last year, including cash bonuses and stock and options awarded in previous years that vested or were cashed in, rose 40% to $10.2 million.

• Return of perks. Special perks, ranging from the use of the company jet and free financial planning services, had become touchy with investors in years past, especially when stocks were falling. But now that the stock market and economy are less fragile, companies are back to boosting the perks they dole out to CEOs. The value of perks rose 10% to a median $191,013 last year.
2012 CEO COMPENSATION
USA TODAY's analysis focused on 170 S&P 500 companies that filed proxies since Jan. 1, 2013, and were processed by March 22. It includes only companies in which the CEO served all of fiscal year 2012. The change in total compensation from 2011 was calculated only for CEOs who served all of 2012 and 2011.

Select column header to sort. See definitions and footnotes at end of story.

Source: GMI Ratings; S&P Capital IQ; USA TODAY research
BARBARA HANSEN, USA TODAY

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The big winners

Given that 2012 was such a good year for CEOs when it comes to their pay, there's no shortage of notable gains.

The biggest payday went to Robert Iger, CEO of Walt Disney. Iger pulled in more than $37 million, including $17.3 million in stock and options awards and a bonus of more than $16 million. The company says Iger was worth the payout because of his "excellent performance," according to Disney's regulatory filing.

"During his tenure, the Company's financial results have been outstanding," the filing says, pointing to Disney's 15% compounded annual growth in earnings per share. Disney's filing also points out that Iger's total pay in 2009, 2010 and 2011 was below the median of other large media companies. Shareholders will have a tough time complaining, since the company's total return of 73% in 2012 topped the S&P's.

STORY: More big paydays for CEOs in 2012 (/story/news/nation/2013/03/08/more-ceos-cash-in-on-bountiful-2012/1974305/)

The year brought some massive raises, too. Ralph Izzo, CEO of energy generator Public Service Enterprise Group, scored the biggest raise of any CEO in the survey, at 217%. That's quite a bump, which took Izzo's total pay to $8.4 million, while the stock posted a 3% decline in total return.

The 212% pay increase for DirecTV's Michael White was also a serious boost, which took his total pay to $17.9 million.

Investors may have become jaded with such large jumps in CEO pay, but it's hard to look past raises that contrast with lagging stock prices, says Paul Hodgson, an independent corporate governance analyst. "There are plenty of (pay packages) in the danger zone," he says.

Some CEOs scored big pay packages and raises, even as employees lost jobs and investors suffered big losses.

Meg Whitman, CEO of Hewlett-Packard, saw her pay package hit nearly $15.4 million in 2012 as investors suffered a 46% decline in total return during the year. Meanwhile, in mid-2012, the company announced plans to lay off 27,000 workers, or 8% of its workforce. In its regulatory filing, HP justified the payout, saying, "The independent members of the Board determined that Ms. Whitman had exceeded her objectives."

The rising stock market has also added some juice to CEO pay packages, in many cases making stock and options granted years ago highly lucrative.

Tim Cook, CEO of Apple, cashed in realized gains of $143.8 million, which far exceeds that of any other CEO in the USA TODAY analysis. Howard Schultz, founder and CEO of Starbucks, came in next, with realized gains, coming from stock and option grants that he received in years past, of $117.6 million. Schultz' gains were, in part, connected with the 38% total return of Starbucks' stock.
Meanwhile, perks continue to stage a powerful recovery as corporate boards get more bold about using them as a way to reward executives. Perks, in general, account for a small portion of CEOs' total pay. Last year, these payments accounted to 2% of CEOs' median pay.

Still, some of the amounts are significant. CEO Alexander Cutler of power-management company Eaton hauled in $11.6 million in "other" compensation, which accounted for more than 60% of his total pay. Those perks included $50,750 worth of personal use of the corporate jet. Most of the amount, $11.5 million, was connected with the company covering the CEO's excise tax payments associated with stock-based pay.

Over at Tyco, a security firm long associated with large CEO packages, former CEO Edward Breen won a package of perks with a dollar value of $8.2 million. Of that, $296,093 was associated with personal use of the company jet. But the largest sum, $7.5 million, resulted from severance paid to Breen as he stepped down from the CEO post.

**Saying goodbye, with pay**

Lucrative severance deals for CEOs who step down was another attribute of the 2012 CEO pay season.

Samuel Palmisano, who resigned the post of CEO at IBM in December 2011 but served as chairman part of 2012, walked away with $2.2 million in "other" pay in 2012, which included an office space remodel. Meanwhile, IBM has a deal with Palmisano in which he may be hired periodically to act as an independent contractor for the company. If he is hired in that capacity, the company will pay him $20,000 a day, if he works for four hours or more, and $10,000 a day if he works less than that. IBM said that as of the end of 2012, it had not hired Palmisano in that capacity.

Stephen MacMillan, former CEO of surgical equipment maker Stryker, hauled in a $5.6 million perks package. MacMillan received a severance payment of $5.5 million on Feb. 27, 2012, his last day as an employee. The payment was in accordance with a resignation agreement between him and the company.

Some payments are raising the ire of shareholders. Daniel Ustian, former CEO of Navistar International who resigned in August, walked away with a lucrative retirement package, including a roughly $8 million severance payment and pension benefits worth about $17 million, says executive pay consulting firm Semler Brossy. This rich payout may be a big reason Navistar is one of the few companies in which shareholders have failed to pass the company's CEO pay plan.

Each year, companies are required to ask investors what they think of their pay policies. So far this year, 143 companies in the Russell 3000 have polled investors on what they think of the company's pay schedule, and 94% are passing with 70% support, Semler Brossy says. So far, three -- truck maker Navistar, transcription company Nuance Communications and advertising company Digital Generation -- have failed; 18% of Navistar investors approved of the company's pay structure. In a statement to USA TODAY, Navistar says it takes the vote "seriously," and in February approved changes to its pay policies. "We're confident that with the changes we've made, we'll have a strongly favorable vote on 'Say on Pay' for next year," the statement says.

While the 2012 increase in pay is nowhere near the banner 27% jump in 2010, 2012 marks the return of big raises for CEOs. While that doesn't sit well as the economic recovery is still weak and jobs shaky, investors seem unwilling to push for change, says Eleanor Bloxham, CEO of the Value Alliance. "The continual disconnect between CEO and worker pay is just creating more of a gulf," she says.

**Definitions and Footnotes**

USA TODAY's executive compensation report is based on data provided by GMI Ratings, S&P Capital IQ and USA TODAY research. It includes data for 170 S&P 500 companies that filed their proxies as of March 22, 2013.

**Definitions:**

- **Executive:** CEO in fiscal year 2012
- **Salary:** Base pay
- **Bonus:** Sum of bonus and performance-based compensation other than stock or options.
- **Other:** Includes value of such things as perks, tax reimbursements and payment of life insurance.
- **Stock and options:** Fair value on grant date of stock and option awards made in the year.
- **Total:** Sum of salary, bonus, other compensation, stock and option awards.
- **Change from '11:** Percentage change in total compensation for 2012 compared with 2011. Calculated only for companies with the same CEO for all of fiscal years 2012 and 2011.
- **2012 stock return:** 12-month total return, based on closing price of month nearest fiscal year end. Data provided by Standard & Poor's.

**Footnotes:**
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