The Gaping Hole in Your Benchmarking Strategy

An Interview with Bruce Brownell

There is a hole in your compensation benchmarking strategy. If your situation is like that of most companies, the hole is gaping, awkward and large enough to permit the retirement incomes of top executives to slip through unnoticed.

If you don't know the chasm exists, you're not alone. Executive Compensation Committees, Human Resources executives, and C-Suite and other upper management personnel who have the most to lose down the hole, often don't realize it's there either.

This shortcoming in benchmarking strategies occurs when benefits are left out of the Total Rewards conversation, perhaps because providers of executive benefits services, and the consultants who help companies sort through their plans, historically haven't offered analytics for measuring benefits and their outcomes as part of retirement

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income. Yet this oversight begs the question: *"If benefits aren't compensation, what are they?"*

While companies disclose benefit plans and inputs, they rarely consider following through to look at benefit outcomes. Compensation tables do not show what the value of company retirement contributions will be by the time an executive retires. This means that neither the executives themselves, nor the companies they work for, really know the true value of their Total Rewards packages.

In trying to better understand the real issue, we turned to Bruce Brownell, Managing Director and one of the founders of Fulcrum Partners LLC, asking him to share critical insights on executive benefits benchmarking practices. In addition to his 25-plus years in financial consulting, including the past 15 years exclusively focused on executive benefits, Bruce pioneered Fulcrum Partner's Executive Benefits Benchmarking strategy. We asked Bruce to drill down, explaining how executive benefits fit into benchmarking criteria, and how their inclusion in compensation benchmarking strategies could reduce the pressure companies experience in competing to retain top talent.

Measuring Total Rewards; Filling the Gaping Hole

Q. What do you typically find is missing in traditional benchmarking practices?

A. Bruce Brownell: "Retirement contributions are not being considered as part of Total Rewards. To a Compensation Committee, Total Rewards almost always means cash and stock. From an executive's perspective, this can even feel like an over-allocation of company stock with an under-allocation to the financial objective that causes that executive the most concern—retirement security. So here's the question--when an executive is accumulating an asset through company contribution that is going to pay him or her salary for life, how do we not consider that part of Total Pay?

Q. How do you help companies get a handle on this challenge—the gaping hole in their benchmarking strategy?

A. Bruce Brownell: "Total Rewards can't be measured without data. So we say, first, let's benchmark retirement outcomes against those of your peers or best practices so you know whether or not your Retirement Income Replacement Ratio indicates that retirement contributions are a significant piece of Total Rewards. Typically, we see that within a peer group the results are all over the board. We are responsible to address questions such as: What are your benefits relative to those of your peers? What is the Retirement Income Replacement Ratio for the NEOs (Named Executive Officers; the top five highest paid executives in your company) and the core executive population? And what should it be? In other words, what is your Retirement Strategy within Total Rewards, recognizing that not having a strategy, *IS* a strategy by default. Companies have a Statement of Investment Policy for a 401(k) plan; why wouldn't they also commit to a Statement of Retirement Strategy as its corollary?

"The two charts shown here help quantify what I mean when I say that results are 'all over the board.'

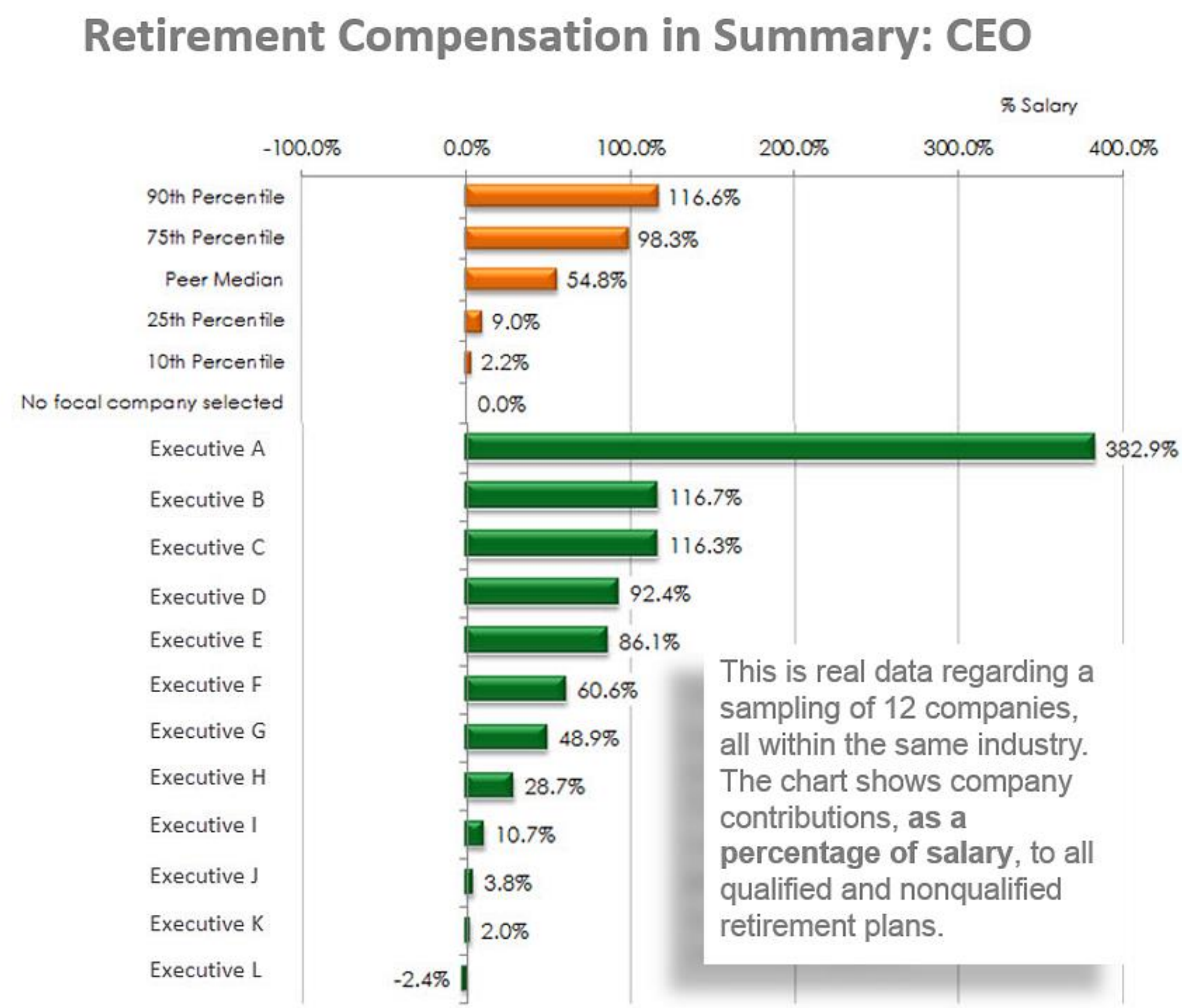
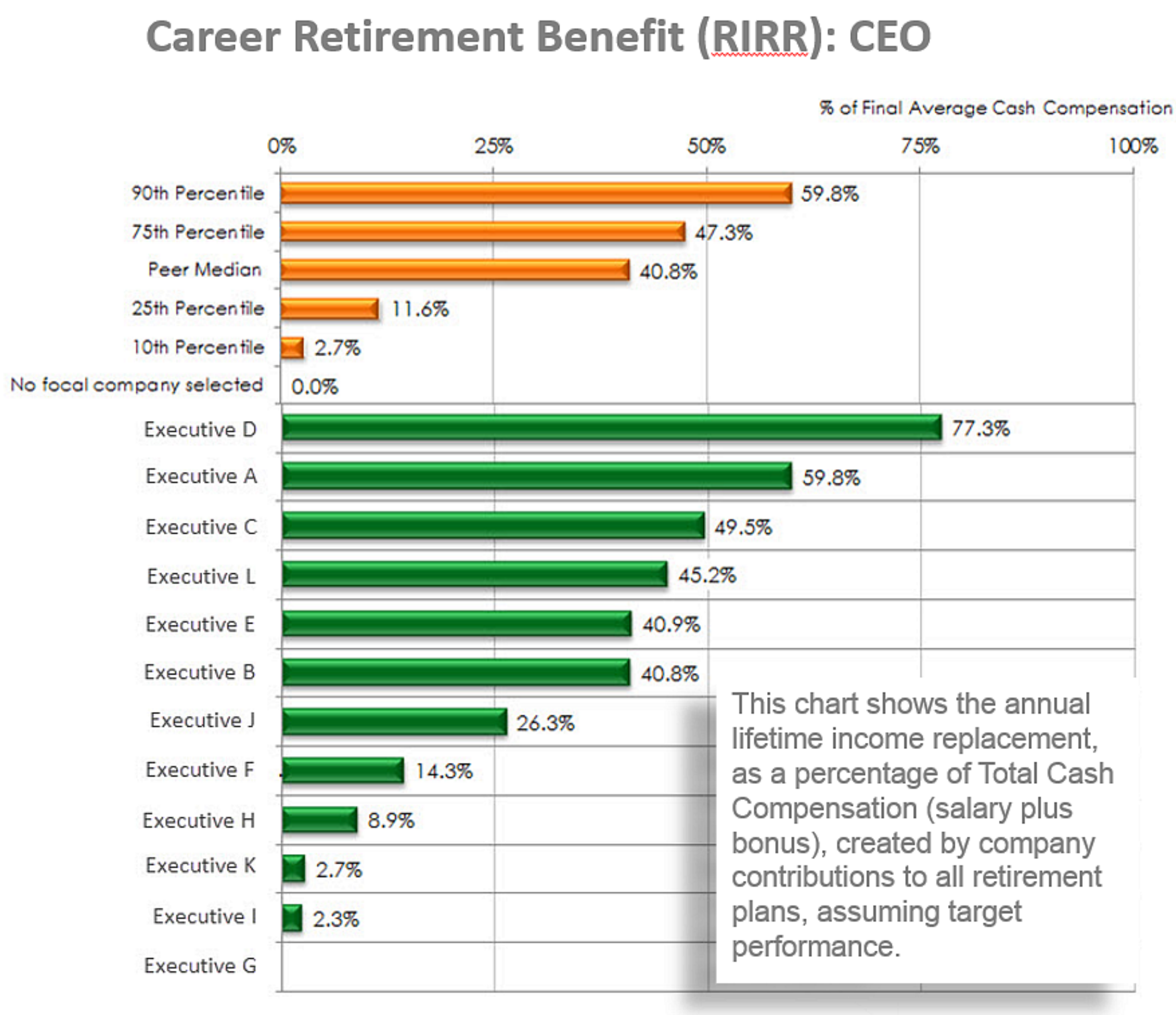


CHART 1 is *Retirement Compensation in Summary: CEO.* This chart shows real data regarding a sampling of twelve companies, all within the same industry. Chart 1 indicates company contributions, as a percentage of the CEO's salary, to all qualified and nonqualified retirement plans. You see that six companies appear to have incorporated retirement into Total Rewards and that six companies appear to offer only a 401(k) match or a 409(A) match or restoration.



"CHART 2 is *Career Retirement Benefit (RIRR): CEO*. This chart shows the annual lifetime income replacement, as a percentage of Total Cash Compensation (salary plus bonus), created by company contributions to all retirement plans, assuming the company meets target performance. Retirement Income Replacement Ratio is based on current plan design, age and year of service. It is a life annuity expressed as a percentage of total cash compensation projected at age 65.

Q. Whose story is this really; who benefits most by developing a strategic, intentional design, wrapped around retirement?

A. Bruce Brownell: "Peer benchmarking for retirement contributions and retirement income replacement ratios reveals a disruptive and insightful story about Total Rewards, exposing imbalances and revealing opportunities. When Compensation Committees and Human Resources know their retirement data, are aware of their key executive's Retirement Income Replacement Ratio, know where that executive is positioned within the peer group, how the executive feels about retirement cash flow and what he or she is willing to trade for it, then the committee is equipped to develop a more compelling Total Rewards strategy. Knowing that retirement security is a primary objective of key executives, then why aren't we incorporating a retirement strategy into Total Rewards?

"HR professionals, Compensation Committees and plan participants are empowered when they measure benefits and their outcomes. They can literally change the trajectory of their company. Without it, everyone is working in the dark; they lack a rational, consistent, approach to executive retirement. They are operating by trying to work around the gaping hole."

About Bruce Brownell:

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