



May 7, 2020

## To Conserve Cash, a Growing Number of U.S. Companies are Adjusting CEO and Board Pay

---

*As the scale and severity of the COVID-19 crisis deepens, business leaders are taking pay cuts to preserve cash and protect jobs. Using our database, we examine the depth of the pay cuts, industries most impacted and what leaders should consider before acting.*

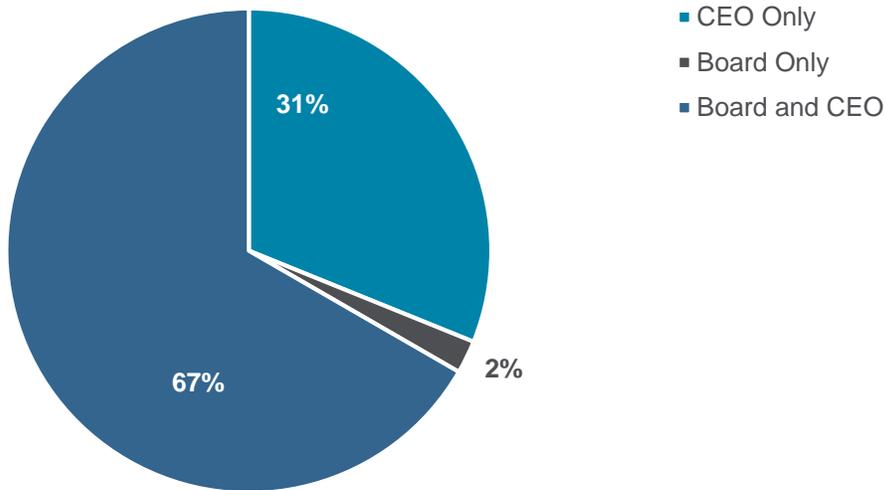
Businesses of all sizes are going through unprecedented change in the current environment — from reassessing operations and reorganizing supply chains to adjusting their workforce and rewards programs. To ensure business continuity, offset lower sales projections, protect jobs and send a unifying message of shared sacrifices to their employees, leaders are actively reviewing and adjusting executive and board of director compensation.

To help our clients better understand how businesses are responding, Aon created a database tracking 8-K disclosures from Russell 3000 companies on changes made to compensation programs for CEOs, board members and employees more broadly. This article focuses on adjustments made to CEO and board pay, and we plan to cover broader employee pay reductions in a follow-up article. The data reflected in this article was collected through May 5, 2020.

Overall, 364 companies reported adjustments to CEO or board pay — about 18% of the Russell 3000. Of those, 67% adjusted both the CEO and directors' pay, 31% adjusted only CEO pay and 2% made changes to only board pay (see Figure 1). For CEOs, the pay actions are reductions in base salary for a specified period or the full year. The director pay actions are typically reductions in cash compensation (e.g., retainers and meeting fees) or the suspension of payment for a specific period, such as the second quarter. In cases where a timeline is not specified, the general direction indicated is the pay reductions will be lifted when economic conditions improve or when normal business operations resume.

Figure 1

## Who is Taking a Pay Cut? Pay Adjustments for CEO, Board or Both



Source: Aon Russell 3000 8-K database

## Pay Adjustments by Sector

The consumer discretionary sector has had the most adjustments with 137 companies disclosing pay cuts. The industry groups in this sector include:

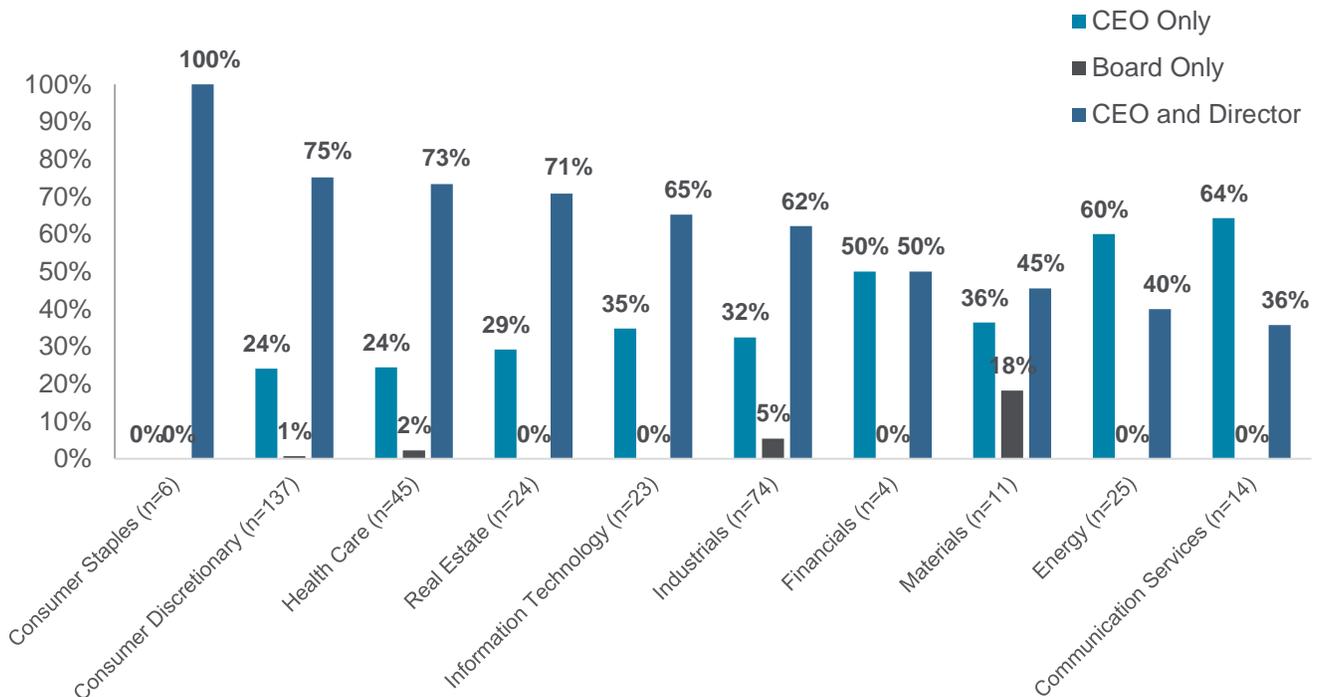
- Automobiles and Components (15)
- Consumer Durables and Apparel (28)
- Consumer Services (38)
- Retailing (56)

This sector has been one of the most effected by the COVID-19 pandemic early on as discretionary spending has significantly been pulled back. The impact of this slowdown may be a key driver in companies using specific levers to mitigate cost pressures, including pay.

On the other end of the spectrum, our current sample does not contain any cases of utility companies making pay adjustments and only four financial services firms cutting pay. Currently, many of these companies are in a wait-and-see mode, with several major financial banks announcing a pledge to hold off on layoffs or furloughs.

**Figure 2**

**Percent of Companies Making CEO and Director Pay Adjustments by Sector**



Source: Aon Russell 3000 8-K database

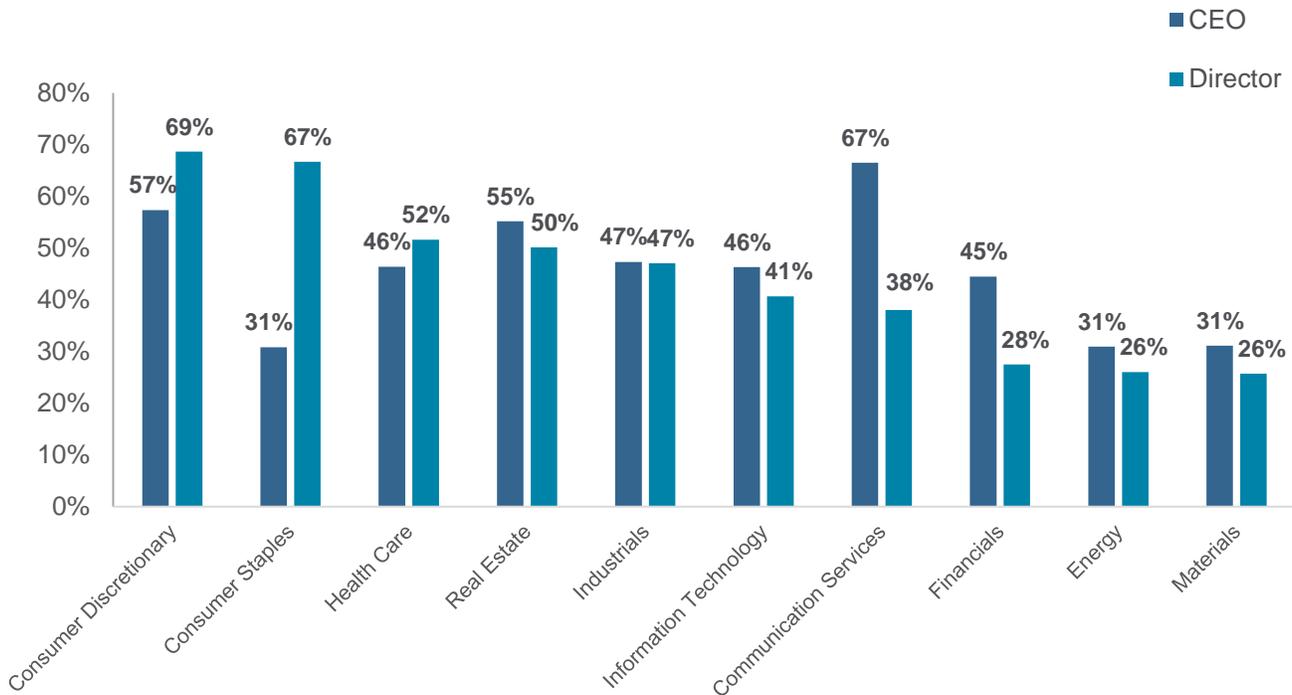
CEOs are taking a 50% pay reduction, on average, compared to 55% for the board. The deepest pay cuts (i.e. the largest amount of pay being reduced on average) are among consumer discretionary companies followed by consumer staples (see Figure 3). The smallest amount of pay cuts, on average, are in energy and materials.

It may be surprising that, so far, companies are only cutting base salary when so much of CEO and board pay is in equity. However, that has to do with the timing of when the COVID-19 pandemic hit the United States and when the annual grant cycle occurs at most firms. Executive equity grants are typically made in the first quarter of the calendar year while director grants often occur during the time of the annual meeting, which is often in May or June. Therefore, the only current lever for executive pay is base salary, while there is still potential for directors to forgo equity awards if the current situation persists.

We anticipate more companies will make some modifications to short-term incentive plans and potentially long-term incentives in the back half of the year. And while many companies have already made their grants by the time the pandemic really took hold, several had annual grants planned in April that they have pushed into the third quarter because of volatility.

Figure 3

### Average Percent of CEO and Board Pay Reduction by Sector



Source: Aon Russell 3000 8-K database

## Key Considerations for Making Executive Pay Cuts

When determining whether it is appropriate to temporarily reduce executive or board compensation there are some key considerations. Board pay tends to change more slowly over time and there has been little variation in how non-employee directors are compensated in the external market. Any adjustments prior to this current downturn have generally been modest.

Furthermore, over the past five years, we have seen an increase in director pay litigation, resulting in many companies implementing pay limits in their director compensation plans. Setting reasonable compensation limits may have some level of mitigation risk, but it is important to balance this risk with providing competitive and fair compensation to directors.

Before companies consider executive and board pay cuts, we recommend careful review of any applicable employment or severance agreements, as well as governance considerations and corporate disclosures. Human capital decisions can be perceived as impacting investors, employees and communities. As such, companies should consider weighing any changes to the C-suite or board compensation programs against broader employee decisions and capital allocation decisions (including buybacks or dividends).

Another consideration before making pay adjustments is whether you have the ability move more cash compensation into equity that vests over time with certain retention conditions. This only makes sense for

companies that are not managing significant losses and if you have the shares to do it without tripping up your burn rate or share pool.

Aon's database of COVID-19 actions is available for special analyses of peer groups or industries. To learn more please write to [rewards-solutions@aon.com](mailto:rewards-solutions@aon.com).

To read more articles on how rewards professionals can respond to the COVID-19 pandemic, please [click here](#).

*COVID-19 Disclaimer: This document has been provided as an informational resource for Aon clients and business partners. It is intended to provide general guidance on potential exposures, and is not intended to provide medical advice or address medical concerns or specific risk circumstances. Due to the dynamic nature of infectious diseases, Aon cannot be held liable for the guidance provided. We strongly encourage visitors to seek additional safety, medical and epidemiologic information from credible sources such as the Centers for Disease Control and Prevention and World Health Organization. As regards insurance coverage questions, whether coverage applies or a policy will respond to any risk or circumstance is subject to the specific terms and conditions of the insurance policies and contracts at issue and underwriter determinations.*

*General Disclaimer: The information contained in this article and the statements expressed herein are of a general nature and not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without the appropriate professional advice after a thorough examination of the particular situation.*

## Author Contact Information

### **Scott Allen**

Partner, Rewards Solutions  
Aon  
+1.312.381.7206  
[scott.allen@aon.com](mailto:scott.allen@aon.com)

### **Michael Garcia**

Senior Consultant, Rewards Solutions  
Aon  
+1.973.493.4978  
[michael.garcia@aon.com](mailto:michael.garcia@aon.com)

### **Laura Wanlass**

Partner, Rewards Solutions  
Aon  
+1.847.771.6263  
[laura.wanlass@aon.com](mailto:laura.wanlass@aon.com)

## About Rewards Solutions

The Rewards Solutions practice at Aon empowers business leaders to reimagine their approach to rewards in the digital age through a powerful mix of data, analytics and advisory capabilities. Our colleagues support clients across a full spectrum of needs, including compensation benchmarking, pay and workforce modeling, and expert insights on rewards strategy and plan design. To learn more, visit: [rewards.aon.com](https://rewards.aon.com).

## About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance. For further information, please visit [aon.com](https://aon.com).

This article provides general information for reference purposes only. Readers should not use this article as a replacement for legal, tax, accounting or consulting advice that is specific to the facts and circumstances of their business. We encourage readers to consult with appropriate advisors before acting on any of the information contained in this article.

The contents of this article may not be reused, reprinted or redistributed without the expressed written consent of Aon. To use information in this article, please [write to our team](#).

©2020 Aon plc. All rights reserved