

Cash allowances for CEOs? They're not kids

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Do CEOs need an allowance?

Scores of corporate boards believe they do, and provide executives extra pocket money that would surely make your kids' allowances look like chump change.

As corporate proxy season comes to an end, it's clear that many CEOs have scored big on the compensation front. They've also parlayed huge gains from company stocks and stock options, whose values have soared with the economy's rebound and Wall Street's five-year-old bull market.

Given increasing shareholder unrest and the widening compensation divide between the top rung of Corporate America and the rest of the country's labor force, many corporate boards are reining in executive perquisites ranging from personal use of corporate jets to company cars.

Yet the executive cash allowance still lines plenty of pockets. About 7% of Fortune 500 companies provide CEOs an allowance, unchanged from 2008, says compensation tracker Towers Watson. Median annual allowance: \$32,000.

A USA TODAY analysis of 2013 proxy filings found large-scale allowances at a broad array of companies of up to \$500,000 a year, including payouts to CEOs that seemingly need them the least.

Governance experts say allowances, some in lieu of other perks, some on top of other corporate freebies, are unwarranted. "There's little economic logic for public companies to reward top executives with perks," says Lucian Bebchuk, director of Harvard Law School's Program on Corporate Governance.

United Technologies — where allowances equal 5% of executive salaries — is ending them this year, joining St. Jude Medical and Charles River Laboratories, which gave CEO James Foster allowances of \$90,000 in 2013 and \$180,000 in 2012. Components maker TE Connectivity is also weaning execs from allowances, but offset their demise by boosting salaries 10%.

Still, among some corporate boards, there's rationale not only to keep executive allowances, but to sweeten them. Donut chain Krispy Kreme has upped CEO James Morgan's allowance 25% to \$30,000 a year. Tobacco marketer Lorillard upped CEO Murray Kessler's annual allowance for personal use of corporate aircraft to \$375,000, up 50% from 2013.

Advertising and marketing firm MDC Partners gives CEO Miles Nadal a \$500,000 annual allowance instead of health benefits, pension or funding a 401(k) plan. As founder and CEO since 1986, Nadal, 56, appears to have ample funds for his golden years. His stake in MDC is currently worth \$197 million, he received \$20.2 million in 2013 compensation and gained

another \$95 million from vested shares and exercising stock options. MDC also hiked his salary 6% to \$1.85 million for 2014.

Some companies, such as private label food marketer Treehouse Foods, truck parts maker Meritor and building materials supplier Louisiana-Pacific, provide allowances because cash payouts are easier to dole out than other perks.

Transportation parts supplier Dana Corp, which provides \$50,000 a year to CEO Roger Wood, says cash allowances are less "administratively burdensome" and are part of a competitive pay package "which assists in recruiting and retaining talented executives from other companies that offer similar benefits."

Allowances are part of more elaborate perk plans at other companies.

Ameriprise Financial CEO James Cracchiolo gets a \$35,000 annual allowance on top of about \$300,000 in other freebies, including personal use of corporate aircraft, home security, a chauffeured car and income tax reimbursements. Cracchiolo's 2013 pay was valued at about \$19 million, and he gained another \$79.5 million from vested shares and exercised stock options.

American Express CEO Ken Chenault — another \$35,000 allowance CEO — gained \$39.7 million from vested shares and stock options, on top of \$21.3 million in compensation. The company also picked up \$19,850 in travel benefits, \$32,600 for home security, \$18,840 in personal travel security, \$193,675 for use of corporate aircraft and nearly \$14,000 in other benefits. Perks "support our objective to attract and retain talent for key positions," says American Express. Chenault, 62, has been with the company since 1981 and CEO since 2001.

Mastercard says CEO Ajay Banga's \$45,000 annual year allowance is in lieu of perks. But the credit card giant paid out \$63,000 last year for a car lease, on top of compensation valued at about \$12 million. Banga gained another \$16.4 million from vested shares and stock options. Harley-Davidson also says CEO Keith Wandell's \$29,000 allowance also comes in lieu of other benefits. But the motorcycle king revved up Wandell's \$11 million 2013 compensation package with \$15,000 for financial services and \$11,000 for income tax reimbursements.

Like Dana Corp., many companies insist that executive allowances, among other perks, are essential components of executive compensation. Lorillard, which boosted Kessler's compensation by about 20% to \$10.5 million in 2013, says its 50% enhancement to Kessler's aircraft allowance this year provides "a valuable retention benefit."

Gap CEO Glenn Murphy, who received 2013 compensation worth \$18.7 million and gained \$62.7 million from vested shares and exercising stock options, gets an annual allowance of up to \$75,000 for financial planning services, "given the unique complexity of his financial arrangements," Gap says.

The executive allowance comes under many names. Medtronic's executive "business allowance" ranges up to \$40,000 a year, while Navistar's "flexible perquisite allowance" tops out at \$42,250. At medical products supplier C.R. Bard, the "executive choice plan" provides CEO Tim Ring \$65,000 a year. Verint System's "professional advice allowance" provides CEO Dan Bodner

\$40,000 a year. That's on top of a \$13,500 car and gas allowance, \$7,500 in supplemental life insurance and 2014 fiscal year compensation valued at about \$8.7 million. Bodner gained another \$4.8 million from vested shares and stock options.

Dr Pepper Snapple Group's "executive service allowance" provides CEO Larry Young \$24,000 a year. The beverage marketer valued Young's 2013 compensation at about \$9 million and said he gained \$6.2 million from vested shares and stock options gains. Jack in the Box, like other companies, simply refers to the annual \$66,500 provided bi-weekly to CEO Linda Lang as a cash perquisite allowance.

Other executive allowances are designed to cover products and apparel.

Paul Murry, who received \$6.3 million in 2013 as head of PVH's Calvin Klein apparel division, gets a clothing allowance - more than \$20,000 in each of the past three years. Recreational products maker Brunswick provides execs up to \$30,000 annually to "encourage the use of Brunswick products to enhance understanding and appreciation of Brunswick's business and identify product and business development opportunities."

Brunswick CEO Dustan McCoy received about \$8.5 million in compensation last year and gained \$56 million from vested shares and exercising stock options. Brunswick directors, paid \$180,000 annual retainers, get the same \$30,000 annual allowance. Among directors taking advantage: Nolan Archibald, who received about \$84 million in 2013, his last year as chairman of tool and hardware maker Stanley Black & Decker.

Vail Resorts also provides allowances to senior execs and directors. Directors get \$40,000 annually for discretionary use at company resorts and ski schools — on top of annual retainers and stock worth \$171,000. CEO Rob Katz, who received 2013 compensation worth almost \$4.9 million, gets a \$70,000 allowance.

Vail says allowances "incentivize executives to use the company services in order to help them in their performance by allowing them to evaluate our resorts and services based on first-hand knowledge."

However they're characterized, allowances should be eliminated, critics say.

"A cash allowance is the kind of thing a 7-year-old gets for doing his chores," say John Shea, head of governance firm Proxy Mosaic. "These are adults. There's no good reason for allowances to be part of their compensation."