# Top Execs' Generous Pay Puzzles Investors

## Push Seems Likely for Full Disclosure in Compensation Reports

*Reuters*
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U.S. executives are reaping another year of abundant pay, and the rich rewards are likely to stir demands for greater disclosure on how and why heads of companies are compensated.

Executive pay, a perennial point of friction between management and investors, went unaddressed in the huge regulatory reaction to Enron and other corporate wipeouts.

Overall, pay at the top largely enjoys immunity to scandal and is often disconnected from broader trends in the market and economy. Even so, in recent weeks there has been a growing call for at least more transparency in compensation reports.

"Of all the corporate-governance issues, this attracts the most attention because . . . there has been very little progress," said Lucian Bebchuck, Harvard Law professor and co-author of the new book "Pay Without Performance, the Unfulfilled Promise of Executive Compensation."

The most immediate fix, according to Bebchuck and others awaiting final 2004 compensation tallies in annual reports sent to shareholders in the spring, is complete disclosure of all elements of pay, written in plain English.

Currently, investors are left scratching their heads over key elements of remuneration, such as the value of deferred compensation and pension plans.

And determining the value of equity-based pay over time often requires painstaking reconstruction of multiple transactions spread out over numerous reports.

"It is an area where executives are especially reluctant to make concessions," Bebchuck said. "Ditto for shareholder access to the (proxy) ballot. These are issues that are the most fundamental to management power and managerial benefits."

Consider some of the latest pay figures available. CEO salaries are up 4.1 percent to a median $908,000 at companies with fiscal years that ended in the first half of 2004, according to Equilar Inc., a compensation-analysis firm. Bonuses in this group have risen by a third from last year to a median $975,000.

The median $1.9 million in cash, or base salary plus bonus, rose from $1.65 million in 2003, according to Equilar's study of 68 of the Standard & Poor's 500 companies.

In the firm's comparable study one year ago, 2003 base salary increased 4.3 percent from $850,000 in 2002, and there was 26 percent jump in the median bonus, to $605,000 from $480,000.

In the long-term pay category, composed of stock-option grants, restricted stock awards and long-term incentive plan payouts, the latest Equilar figures show a gain of 10 percent to a median $5.1 million from $4.7 million last year.

Over the longer term, CEOs earned a median salary of $821,000 five years ago, according to data from Mercer, the consulting unit of Marsh & McLennan Cos. Overall pay in 1999, which adds in value of bonus, equity-based and long-term rewards, was nearly $5 million. By last year, that amount grew by $1.2 million to $6.2 million.

In 1994, the overall value was $2.5 million, about half in cash and half in equity.

Since then, the mix has evolved away from cash, which now accounts for about one-third of the total. With equity making up the remaining two-thirds, it has become harder to determine what comes out of the corporate purse for the CEO.

"It is a question of who is going to step up and lead the changes" in disclosure, said Brian Foley, a compensation consultant in White Plains, New York.

Alan Beller, head of the Securities and Exchange Commission's corporate finance division, said recently that the agency is considering new rules that would require greater disclosure, particularly in the area of perks.

Compensation committees of the board also could be required to reveal more about their operations and policies.

"I don't think anyone is looking for every last detail," Foley said. "But there are substantial dollars that are unreported, and it is about time that people took a more constructive approach."

As the calls for greater disclosure grow louder, executive pay has become an anomaly in an era permanently identified with the most significant rewrite of corporate rules since the aftermath of the 1929 stock market crash.

Today's brightest legal and financial thinkers, including billionaire investor Warren Buffett, agree that the best indicator of corporate behavior is executive pay. While the regulatory reaction to Enron, WorldCom, Adelphia and other costly scandals has addressed most corporate deceit, pay – the corporate governance litmus test – continues to irk investors.

"Executive compensation is a good proxy for the level of accountability in the system," said Harvard professor Bebchuck. "The interests of executives here are very strong. Making concession on compensation is much more painful than concessions on other dimensions. They still remain insufficiently accountable."