# Figuring Execs' Pensions Takes Advanced Math

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Executive-pay compilations like the one on page 9 contain some stunningly high numbers, but two Harvard professors say they underestimate what many bosses really make.

To be sure, company disclosure documents make it easy to add up a chief executive's salary, bonus, free stock grants and other perks. One can use a widely accepted formula like Black-Scholes to put a value on stock options, too.

But many executives get another big benefit, the company pension, that's hard to value. Sometimes, it's impossible to value until the executive actually retires.

In a paper published in March, Lucian Bebchuk and Robert Jackson of the Harvard Law School studied a sample of large-company CEOs who left their jobs during 2003 and the first half of 2004. They waded through the opaque disclosure documents and attempted to put a value on this benefit.

The numbers they came up with are stunning in their own right. The average departing CEO has earned a pension of $1.1 million a year, for an actuarial value of $15.1 million. (Think of the actuarial value as the amount the CEO would get if he were able to swap the stream of annual payments for a lump sum, the way a lottery winner can.)

The pension turns out to be worth three times as much as the salary the CEO earned during his or her entire tenure at the top. And it amounts to 44 percent of total compensation, including stock options.

Former Boeing Chief Executive Phil Condit, one of the executives in the study, quit in 2003 with a pension that Bebchuk and Jackson estimate was worth $16.4 million. That's nearly 36 percent of the total compensation that he earned during seven-plus years at the helm.

Compared with a hot-button issue like stock options, executive pensions rarely get much scrutiny. That's mostly because they're so hard to understand.

J. Patrick Mulcahy announced last year, for example, that he would retire in January as chief executive of Energizer Corp. The company's proxy statement, issued in December, never says directly what his pension will be. The best one can do is to look up his recent earnings, find the sentence that credits him with 36 years of service and then consult a lengthy pension table. (My best estimate is that he'll get close to $1 million a year.)

Wouldn't it be nice if, instead, each year's disclosures included a forthright accounting of pension values?

Indeed, Bebchuk and Jackson report, "Executive pension plans have sometimes been marketed specifically as ways to increase compensation 'off the radar screen of shareholders.'"

In other words, why invite scrutiny of a fat pay package when you can stuff goodies into a pension plan that those pesky shareholders won't be able to understand?

Pension plans are so rich, the professors say, that they raise doubts about whether executives are really being paid for performance.

Defenders of big pay packages like to note that most of the money is at risk. Salary accounts for only one-sixth of the typical executive's pay, and stock options and bonuses can be wiped out in a bad year.

But when you add in pensions, the portion of total compensation that's guaranteed rises from 16 percent to 39 percent. That sounds less like pay for performance and more like pay for putting in time.

The pension, then, has become a stealth weapon for chummy boards that want to make sure they're pampering their CEOs. And shareholders usually are none the wiser.

I'm not suggesting a ban or limit on CEO pensions. That isn't the point. But if the Securities and Exchange Commission would require clearer disclosure of how much they're worth, I'll bet that many of them would go away.