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Executive Pension Gains Expand Proxy Tables

Theo Francis and Andrew Ackerman | Mar. 25, 2015

Pension gains are swelling executive pay figures this year. Whether that matters to investors depends on who you ask. Some companies are downplaying the gains in the proxy tables mandated by the Securities and Exchange Commission. At least seven major companies, including General Electric , Lockheed Martin and United Technologies , have supplemented the standard table with a column omitting pension gains altogether.

GE and Lockheed said their goal isn't to obfuscate, but to clarify what they actually meant to pay their executives. United Technologies declined to comment. The pension changes don't typically reflect intentional sweeteners. Moreover, they show up in executive pay in an inconsistent way. Increases in the benefit's value show up each year, but if the value declines—with rising interest rates, for example—it doesn't reduce executive pay figures.

Others warn that tinkering with the table—explicitly designed to be consistent across companies and industries—is a slippery slope and risks muddying an otherwise standardized disclosure. Indeed, the SEC established a uniform compensation table precisely so investors could compare pay across companies, says Avrohom Kess, who heads the public-company practice at law firm Simpson Thacher & Bartlett LLP. He has advised clients not to tinker with the table.

"They wanted people to be able to say, yes, everything's calculated exactly the same way, and you don't have to wade through these arcane detailed disclosures to know exactly what it is," Kess said.

Proxy-advisory firm Institutional Shareholder Services says modified compensation tables could confuse investors. "Such an approach may disturb shareholders who rely on the SEC disclosure rules to develop expectations about what they will see and where they will see it, which can be critically important to institutional investors who own thousands of stocks," says Carol Bowie, head of Americas research at ISS.

A proxy adviser takes into account pensions when analyzing executive pay and considers whether year-to-year shifts in an executive's total pension benefits raise any red flags, she said. SEC staff who monitor company proxy filings have noted the additional columns, but don't believe they mislead investors, according to people familiar with their thinking.

"There's no outright ban or prohibition on an additional column," one of the people said.

Moreover, some investors do prefer to exclude pension gains when analyzing compensation. Unlike other elements of pay, the gains aren't set each year by a board compensation committee, said Aeisha Mastagni, an investment officer at the California State Teachers' Retirement System. The system, which manages $191 billion in investments, instead looks at elements of compensation more closely tied to performance and board intent, such as salary, annual bonus and equity awards.

Still, corporate directors do choose how they want to compensate executives when authorizing pension benefits, and companies are on the hook for those commitments.

"These represent real compensation choices," said Rosanna Weaver, who analyzes executive pay for As You Sow, a shareholder activist group focusing on environmental and social issues. Pensions remain "a critical component of looking at the overall compensation plan and the directors that approved those plans," she said.