
Seven Key Findings From Aon's Board of Directors Compensation Trends Report

Insights from Aon's annual S&P 1500 Board of Directors Compensation Trends report reveal new board of director diversity, compensation and equity trends taking shape as corporate governance scrutiny from regulatory actors intensifies.

Corporate governance decisions fell under greater scrutiny as boards of directors reacted to disruption from the coronavirus (COVID-19) pandemic and the Great Resignation.

Investors, shareholders and regulatory institutions are increasingly interested in the governance decisions made by boards and executive management, including changes to compensation, equity and board composition. Indeed, in our recent article, "[Companies Can Improve Proxy Disclosure and Shareholder Engagement by Focusing on These Four Topics](#)," we highlight the ways boards are starting to oversee and be accountable for human capital management.

Aon's recent analysis of board and committee pay and composition of the S&P 1500 identifies new trends that took shape amid recent widespread business disruption and greater scrutiny of corporate governance practices. Here are seven key findings from our latest report.

#1: The number of women on boards increases amid greater focus on boardroom diversity.

Progress has been slow, but more women sit on corporate boards today than in the past. More than a quarter of board members at all companies, 27 percent, are women. Almost all companies that have 10 or more members on their board, 96 percent, have two or more women as directors, and one-third of the companies that have five or fewer board members have two or more women as directors—indicating that progress is being made towards gender representation at both large and small boards.

There are more S&P 500 and midcap 400 companies that have three, four or more women than in previous years, while fewer of the same companies have only one or two women on their boards.¹ More than 11 percent of S&P 500 companies have more than four women as board members, or more than four times as many as those reported in 2016.²

#2: Total board compensation grows modestly.

¹ "Report: Disclosure of US Board Diversity Soars; Boards Increase Gender Diversity Faster than Racial and Ethnic Diversity." Webpage, October 19, 2021. <https://www.conference-board.org/press/board-diversity-disclosure#:~:text=Companies%20are%20disclosing%20the%20racial,ESG%20data%20analytics%20firm%20ESGAUGE>.

² Conference Board, "Report: Disclosure of US Board Diversity."

Director compensation rose by 5 percent year over year. Median total board compensation, including cash retainers, meeting fees and equity, went up 2 percent. Small and mid-cap companies drove the increase. Life sciences companies reported the highest median compensation, while financial companies reported the lowest. Equity awards are the largest portion of board member pay mix at 60 percent, while meeting fees are the lowest at 7 percent.

#3: Cash retainers payments soar alongside popularity.

Annual cash retainers are the most common method of compensation for independent directors, with 84 percent of all companies using this form of payment. That's up from 81 percent year over year.

The median retainer went up by 5.3 percent year over year. Cash retainers vary among company size and industry. Utility companies provide the highest median cash retainers, while technology and life sciences companies have the lowest as they tend to favor equity awards.

A small number of companies, 15 percent, pay meeting fees in addition to a retainer. The use of meeting fees ranges among company types and industries. For example, large-cap companies are the least likely to offer meeting fees, with only 13 percent of companies doing so. Industries most likely to provide meeting fees include service followed by manufacturing, retail and utilities, while life sciences and technology industries are the least likely.

#4: Equity awards are on the rise.

Almost all companies, 96 percent, provide annual equity awards. Initial awards are provided by 14 percent of companies to help bolster stock ownership upon election to the board. Median equity awards at all companies rose by 4 percent. Small-cap company equity rose by 5 percent, mid cap by 13 percent and large cap by 8 percent—significant increases taking into account year over year adjustments.

Like cash retainers, equity awards are higher among larger companies. The life sciences industry has the highest median value of equity, while the financial industry has the lowest median value.

#5: Non-executive chairs are more prevalent and paid more.

The number of non-executive chairs and vice chairs at all companies increased by 1 and 2 percent year over year, respectively. Non-executive chairs are now more prevalent, while executive chairs and lead independent directors decreased by 1 and 3 percent, respectively.

Non-executive chairs are generally paid more than independent lead directors due to heightened responsibilities. These chairs were compensated at a total median of \$384,500 by large-cap companies compared to \$270,000 by small-cap companies both of which have decreased year over year.

Lead independent directors were compensated at a total median of \$295,000 by large-cap companies compared to \$196,161 by small-cap companies with only large-cap companies decreasing total compensation year over year.

#6: Pay to Audit and Nominating and Governance members increases.

Median committee fees from all committees are up by 2.56 percent year over year.

For audit members, the median total fee is the highest among committees at \$12,000, a 2.13 percent year over year increase which reflects the prioritized scope of responsibility of the committee. Large-cap companies continue to pay the highest total committee compensation at \$13,500 which has decreased from \$14,000 year over year.

For nominating and governance members, the median total pay is \$7,500 which is a slight increase from \$7,000 year over year. Large cap retail, consumer goods, service and financial companies offer this pay. The median total pay for compensation members remains unchanged at \$10,000 year over year. Large-cap technology, life sciences, service, retail and financial companies all offer \$10,000.

#7: The number of board meetings balloons.

It is no surprise boards are meeting more frequently given the business disruptions companies have recently experienced. The number of board meetings went up 13 percent year over year. More than a quarter of S&P companies, 31 percent, held more than 11 meetings which is almost double the 18 percent of companies that held the same number of meetings the previous year.

When the COVID-19 pandemic surged many companies conducted meetings remotely—a trend that continued given 65 percent of shareholder meetings were virtual.³ As dates are set for 2022 shareholder meetings it remains to be seen how many companies will hold in-person events given the recent and rapid decline of the spread of the Omicron variant throughout the U.S.

Next Steps

As investors and regulators demand greater transparency of corporate governance programs, it is increasingly important for companies to assess the way the board is structured and paid to ensure effective oversight and prevent any red flags from investors or activists.

Aon's annual S&P 1500 Board of Directors Compensation Trends report is complimentary for CG Pro subscribers. To learn more about CG Pro or our other data tools and advisory services, please visit rewards.aon.com/cgpro or write to humancapital@aon.com.

³ Nina Trentmann, "Omicron Pushes Some Companies Back to Virtual Shareholder Meetings," The Wall Street Journal, January 27, 2022. <https://www.wsj.com/articles/omicron-pushes-some-companies-back-to-virtual-shareholder-meetings-11643279402>.

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