Recent Executive Compensation and Benefits Trends & Client Perspectives

Aon Hewitt

April 18, 2013
Think Tank Webinar Series

- April 18: Executive Compensation and Benefits
- May 16: Engaging Employees through Technology and Communications Strategies
- June 20: Wellness in Action
- July 18: Alternative Investment Strategies to Improve Returns and Lower Risk
- August 15: Compensation Trends and Planning
- September 19: HR Technology Best Practices
- October 17: Retirement Trends
- October 24: Communication Trends in Retirement
- November 21: Global Benefits Hot Topics
- December 19: HR Effectiveness, Talent and Leadership
Agenda for Today’s Webinar

- Executive Compensation Trends
  - Preview of Highlights from Aon Hewitt’s *2013 Hot Topics in Executive Compensation Survey*
  - Anecdotal 2013 consulting and how clients addressing change
- Executive Benefit Trends
- Bank of the West Perspectives
- Q&A Session
Your Aon Hewitt Presenters and Client Guests

Moderator

Scott Beeber
West Region Market Leader

Guest Speakers

Leslie Yotsuya
Senior Vice President and Compensation and Benefits Manager
Bank of the West

Lynne Akasaka-Riek
Vice President and Executive Compensation Manager
Bank of the West

Executive Benefits

Mark Merlotti
Senior Vice President, Aon Hewitt Executive Benefits

Executive Compensation

Mark “Kaz” Kazmierowski
West Region Executive Compensation Lead
Think Tank Webinar Series

Mark “Kaz” Kazmierowski, Aon Hewitt
West Region Executive Compensation Lead
Executive Compensation—Overview

- AH Executive Compensation practice—global capabilities, resources, proprietary data
- Preview of 2013 Hot Topics in Executive Compensation Survey
- Changes/Issues our clients facing in 2013
- Practical applications of trends
Executive Compensation: Merit Increase Pools & Short-Term Incentives

Salary Merit Increase Pools

- Historically 3.0-5.0%
- Companies, across all industries, expecting 3.0% for 2013

<table>
<thead>
<tr>
<th>Executive Merit Budgets: 2013 vs. 2012</th>
<th>Senior Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected to be higher</td>
<td>20.0%</td>
</tr>
<tr>
<td>Expected to be lower</td>
<td>15.0%</td>
</tr>
<tr>
<td>Expected to be about the same</td>
<td>65.0%</td>
</tr>
<tr>
<td>2013 Median Salary Increase</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

Short-Term Incentives

- Target bonus percentages—status quo
- Refinement of performance measures or small adjustments
- Companies reporting expected 2012 payout to be around Target levels
Executive Compensation: Long-Term Incentives (LTI)—Setting Guidelines and Values

Overriding Area of Focus from Survey

- 60% report LTI will be a key area of focus in 2013

Setting LTI Guidelines

<table>
<thead>
<tr>
<th>Determine Annual LTI Grants</th>
<th>Senior Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target a fixed number of shares</td>
<td>9%</td>
</tr>
<tr>
<td>Target a specific dollar value</td>
<td>34%</td>
</tr>
<tr>
<td>Target a specific % of an executive’s base salary</td>
<td>31%</td>
</tr>
<tr>
<td>Based on market data for their specific position</td>
<td>25%</td>
</tr>
</tbody>
</table>

- Recommend using burn rate, targeted market values, and historical guideline lookback

2013 LTI Executive Values

- 60% of companies expect LTI target values to be similar to 2012
  - 5-year increase in executive LTI values ~30.0%
  - 2011 to 2012 increase was 6% – 10%
Executive Compensation—LTI Type & Value Mix

Number of LTI Vehicles

- 20%: One Vehicle
- 40%: Two Vehicles
- 40%: Three Vehicles

<table>
<thead>
<tr>
<th>Equity Mix</th>
<th>Prevalence</th>
<th>LTI $ Value Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options Only</td>
<td>9%</td>
<td>100%</td>
</tr>
<tr>
<td>RS/Us Only</td>
<td>8%</td>
<td>100%</td>
</tr>
<tr>
<td>PS/Us Only</td>
<td>16%</td>
<td>100%</td>
</tr>
<tr>
<td>Option + PS/Us</td>
<td>16%</td>
<td>45%/55%</td>
</tr>
<tr>
<td>RS/Us + PS/Us</td>
<td>14%</td>
<td>42%/58%</td>
</tr>
<tr>
<td>Option, RS/Us, PS/Us</td>
<td>19%</td>
<td>33%/28%/39%</td>
</tr>
<tr>
<td>Other</td>
<td>12%</td>
<td>--</td>
</tr>
</tbody>
</table>
Executive Compensation—LTI Shifting Mix

5-Year LTI Mix Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>CEO</th>
<th>Chief Function Head</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>31%</td>
<td>18%</td>
</tr>
<tr>
<td>2009</td>
<td>34%</td>
<td>22%</td>
</tr>
<tr>
<td>2011</td>
<td>40%</td>
<td>16%</td>
</tr>
<tr>
<td>2012</td>
<td>53%</td>
<td>21%</td>
</tr>
</tbody>
</table>

- **Options/SARs**: 51%, 44%, 44%, 21%, 50%, 45%, 40%, 24%
- **Stock/Units**: 18%, 22%, 16%, 18%, 19%, 21%, 22%, 19%
- **Performance Stock/Units**: 32%, 35%, 41%, 54%
Ownership Requirements and Clawbacks

- Ownership guidelines typically: CEO 5×; E/SVP 2-3×; VP 1× (base salary)
  - Multiple of salary (70%+) over fixed share requirement
- Clawbacks and hedging polices—Dodd Frank
  - Best practice, “good governance,” and risk mitigator

<table>
<thead>
<tr>
<th>Governance Policies in Place for Executives</th>
<th>Senior Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>No polices (as listed below)</td>
<td>29%</td>
</tr>
<tr>
<td>Stock Ownership Guidelines</td>
<td>62%</td>
</tr>
<tr>
<td>Anti-Hedging Policies</td>
<td>45%</td>
</tr>
<tr>
<td>Recoupment Policy—Short-Term Incentives</td>
<td>41%</td>
</tr>
<tr>
<td>Recoupment Policy—Long-Term Incentives</td>
<td>43%</td>
</tr>
<tr>
<td>Holding periods for earned (vested) equity</td>
<td>22%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Actions Triggering Recoupment or Forfeiture/Reduction of Awards</th>
<th>Senior Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Violation of non-compete/confidentiality agreements</td>
<td>53%</td>
</tr>
<tr>
<td>Misappropriation/Misstatement of company assets or financial measures</td>
<td>91%</td>
</tr>
</tbody>
</table>
Executive Compensation—Key Take-Aways for 2013

- Focus on fine tuning executive pay programs
- Heightened focus on retention, degree of pay for performance, and alignment to shareholder value creation (50%+ responses)
- LTI program design continues to change due to internal and external pressures—type and mix continue to be primary focus
- “Reasonableness” and linkage to shareholder value are key
- Executives focused on “realized” pay not just target values
- In terms of equity plan, talk to your stakeholders to ensure approval of new share pools
  - 30% of companies talking about pay related issues; 70% of those reporting discussions helpful
- Monitor key legislative changes
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Mark Merlotti, Aon Hewitt
Senior Vice President, Aon Hewitt Executive Benefits
General Trends in Executive Benefits

- Parity/Restoration
- Increased desire for tax savings
Retirement

- Deferred compensation is increasing
- Roughly 50% of sponsors restore company contributions
- More flexibility in plan design
- Focus on replacement ratios
Protection

- Disability replacement on total compensation
- Life insurance limits
Expense Control

- Design based features
- Voluntary plans
- Financial management of nonqualified P&L impact
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Leslie Yotsuya, Bank of the West
Senior Vice President and Compensation and Benefits Manager

Lynne Akasaka-Riek, Bank of the West
Vice President and Executive Compensation Manager
Retirement Benefit Parity

New key executives had a shortfall in their retirement benefits due to a frozen DB SERP. The bank did not want to reintroduce the volatility of a DB SERP. However, retirement benefits were an important part of a benefits package to attract and retain key executives.
Retirement Benefit Parity

The banked balanced peer data, replacement ratio studies, and budget constraints to develop a DC SERP that reduced financial volatility, could easily be budgeted, tied to performance, and provided a vesting schedule to help with retention.
High Earners Come Up Short for Their Life & Disability Benefits

The group plan caps left many key executives under insured for their life and disability benefits even with high group plan caps. The overall quality of their benefits are a key attraction and retention tool but the bank did not want to submit key executives to financial or medical underwriting to obtain more coverage.
High Earners Come Up Short for Their Life & Disability Benefits

The bank marketed their plans to carriers specializing in life and disability coverage for executives and was able to:

- Increase the disability coverage by 40% and double the life coverage amounts without underwriting
- Provide a better quality benefit with little additional benefit spend
- Create visibility on the enhanced benefits with minimal time investment from H/R
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