

Incentive Schemes Fit for purpose?

How can something so good end up so bad?

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About Per Erik Sørensen

On a personal level: Norwegian citizen. Married, father to Alexander, and grandfather to Magnus and Victor. Plays soccer every Friday night and can't imagine a life without skiing.

Education: MScBA from CBS and a number of Executive Programs in Europe

Career track: Management Consulting, Banking, Renewables, Shipping, Facility Management

Role in WTW: Chief of Staffs (Executive Board Member), Client Director, Practice Leader and **Equity Partner**

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees in more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

Can greed be good?

EVOLUTION

Even the most simple kind of organism will adjust towards strategies that improve its chance of being rewarded....

That's the basic in INCENTIVES

Greed

What's
in it for
me?

Personal Growth

What does it
take to get
me there?

Incentive Plans make a difference

...if leaders/managers don't mess it up



- *Improve business performance*
- *Increase focus on key objectives*
- *Improve motivation by strengthening the link between pay and performance (at an individual and/or team level).*
- *Let the employees share the destiny of owners/shareholders*
- *Encourage swift execution and change within the organization.*
- *Create the desired workplace culture by, e.g. rewarding teamwork and good attendance*

Incentives – What’s “new”?

"Performance Share Plans" are the most popular form of long term share award for senior executives of listed companies in the UK

Over the last 10 years Stock Options have lost their status as the default long term incentive: Why? Predictability!

UK Guidelines – the Remuneration Committee will need to explain how executive remuneration is **aligned to strategic achievements and the long-term success of the company**. There should also be evidence of engagement with shareholders on remuneration issues and the outcomes of those actions. The new Code will also require that **executive long-term incentives be subject to a vesting and holding period of at least five years** (instead of three). This is to promote a longer-term approach to pay policy and practice.

It has also become increasingly common over the same period for companies to make at least part of annual bonus awards to senior executives in the form of deferred shares.

Long term incentive plans and deferred bonus plans are similar in some respects as both involve free shares and are granted on basis of actual performance

Danish Legislation has changed a bit

Danish Act on Salaried Employees

Equity is Sexy – Cash is Cool

Cash

Cash/Stock
Based Profit
Sharing

Co-
investment
Plans

Deferred
Annual Bonus

Phantom
Shares

Performance
Unit
Plan/Long
Term Cash
Bonus

Equity

Stock Options

Restricted
Shares

Performance
Shares

Stock
Appreciation
Rights

Stock
Purchase
Plans

Total remuneration pay mix

Variable pay is a large element of target total remuneration for executives, constituting approximately half of the package at the CEO level. There is however a large spread from the variable elements constituting 70% of the package to only 10% at the CEO Level

Below the CEO level, the variable element has a lower weight in the package, accounting for 51% of target total remuneration for Executives reporting to CEO, 39% for Executives reporting to Level 2 and 32% for Executives reporting to Level 3.

More weight is placed on the long-term aspect of variable pay for the CEO / Executive Chairman level, with short-term and long-term variable pay typically equally weighted for roles at lower reporting levels.

Exhibit 5.1: Target total remuneration pay mix (LTI receivers)

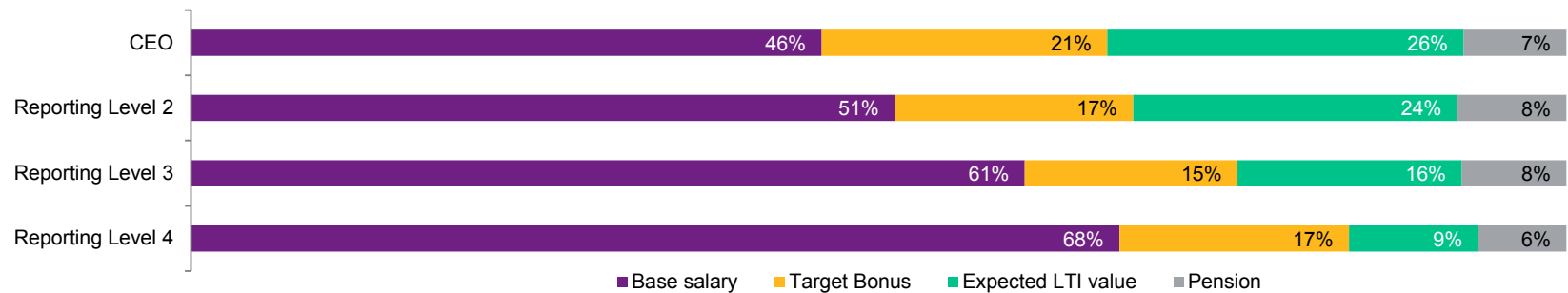
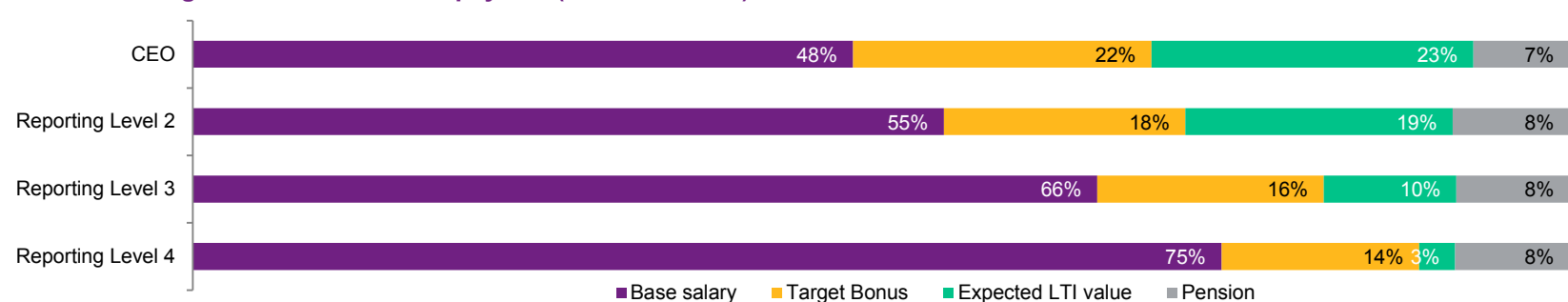


Exhibit 5.2: Target total remuneration pay mix (all incumbents)



Note: Denmark Executive Compensation Survey. Target total remuneration pay mix is calculated based on median incentive and pension levels for each reporting levels.

Long-Term Incentive – Eligibility

Roughly 80% of Reporting Level 1 and 2 are LTI eligible.

Exhibit 6.1: Expected values of long-term incentives

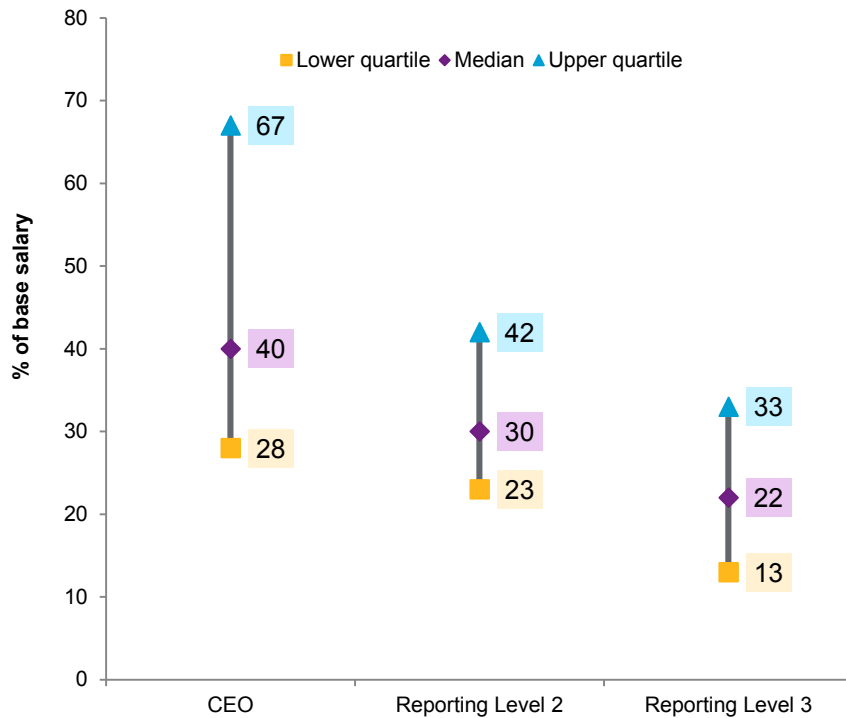
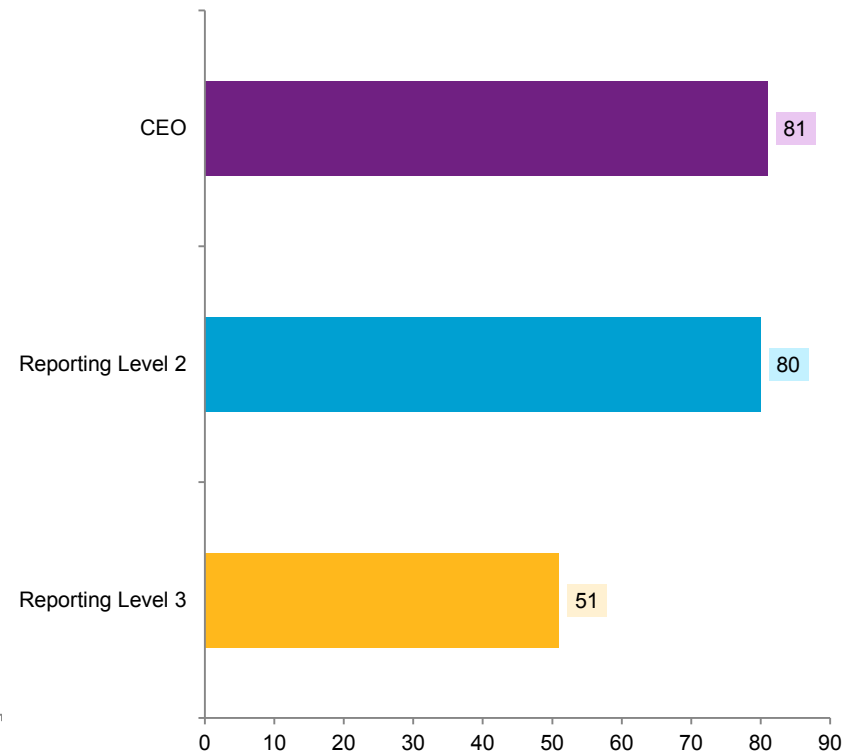


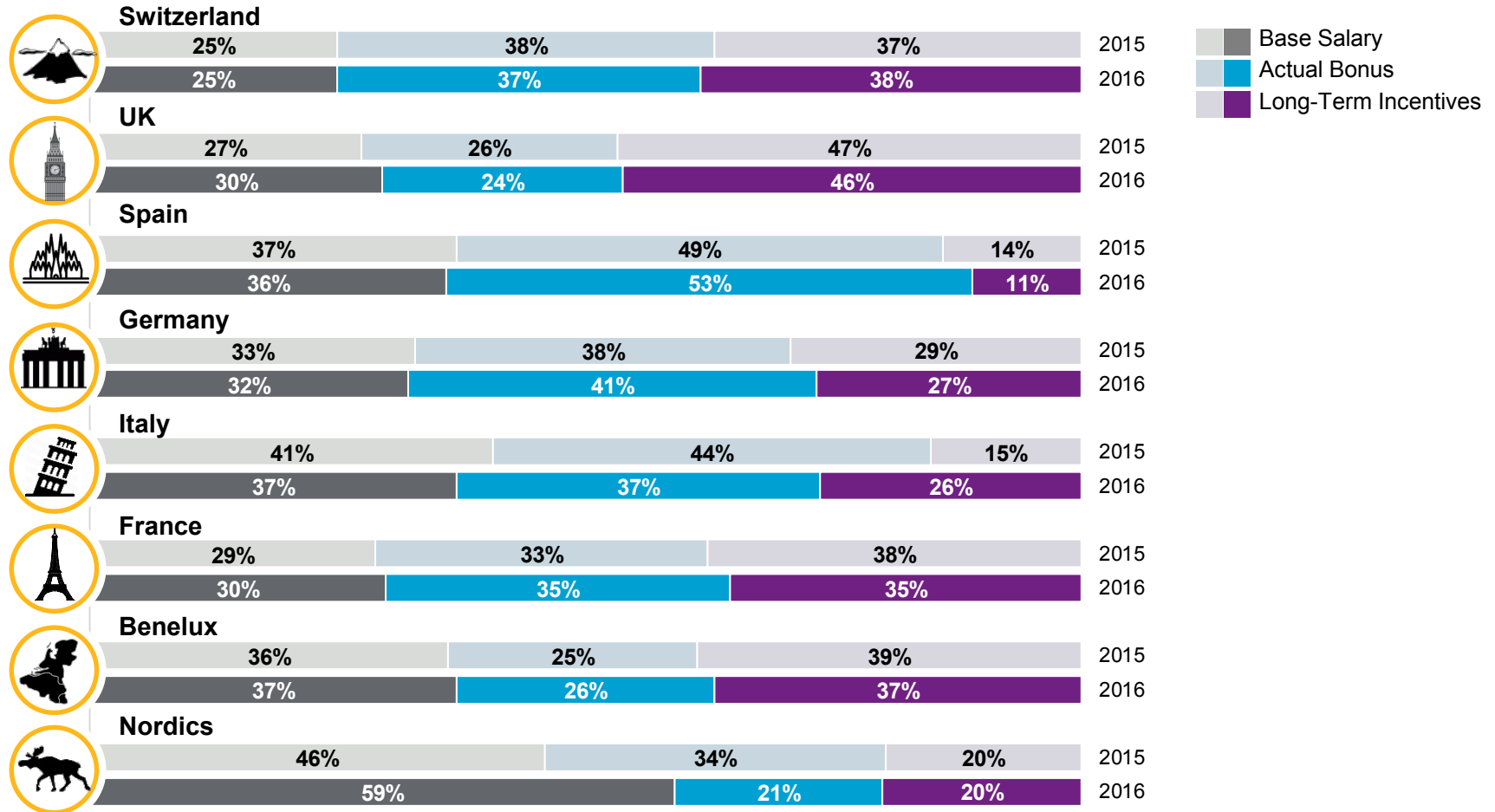
Exhibit 6.2: LTI Eligibility



Note: Denmark Executive Compensation Survey 2017

Be aware of Country Traditions

(CEO average pay mix by country)



Note: EUROTOP 100 CEO analysis by Willis Towers Watson.

Watch out for unintended tax fraud!

Global Programs administered by your Head Quarter can get you into trouble!

- **All rewards of a certain value are taxable!**
- **YOU are the ultimate responsible for reporting your income!**
- **Danish companies are obliged to report all programs, but sometimes your HR manager doesn't know what is hitting you!**
- **International companies are under surveillance...**

So stay close to your HR and/or C&B Manager, and make sure he/she can give you guidance on how to handle your incentives!