



2024 Equity Incentives Design Survey— Executive summary

Presented by the National Association of
Stock Plan Professionals and Deloitte Tax LLP

Contents

Executive summary

Introduction and methodology	02
Guidelines for the 2024 survey	02
Respondent demographics	03
Highlights of the 2024 Survey	03
Time-based full value awards	04
Performance-based awards	04
Time-based stock options and stock appreciation rights	05

Executive summary

Introduction and methodology

The 2024 Equity Incentives Design Survey provides an in-depth look at global equity compensation design practices of companies that provide stock-based compensation to employees.

The survey includes more than 100 questions covering six areas and is one of the most comprehensive of its kind:

- Participant profile
- Plan design
- Time-based full value awards
- Performance-based awards
- Time-based stock options (SOs) and stock appreciation rights (SARs)
- Country-specific questions

The 2024 Equity Incentives Design Survey was developed jointly by the National Association of Stock Plan Professionals (NASPP) and Deloitte Tax LLP (Deloitte Tax) and administered from March 2024 to May 2024 by Deloitte Tax.

This survey is part of a trio of surveys that examine trends in the design and administration of global equity compensation, including full value awards, stock options and SARs, and ESPPs. This survey series is one of the most extensive sources for benchmarking equity compensation programs, providing data that is relevant to both issuers and practitioners. The next survey in the series will cover administration of global equity programs and will be released in 2025.

Guidelines for the 2024 survey include:

- Only public companies that offer equity compensation to employees are eligible to participate in the survey.
- Participants must have completed at least two sections of the survey to be included in the report. Multiple responses from the same company were eliminated; each company is represented in the data only once.
- We received 361 responses during the survey period (March 2024 to May 2024).
- The total number of companies that responded to each question is represented.
- Due to rounding, the total percentage of companies may not add up to exactly 100 percent for some questions.
- For some of the questions, we report the data by industry group or other demographic data (for example, number of employees).

Customized cuts of the data

Deloitte Tax will make special cuts of the results available for an additional fee. If you are interested in your own customized cut of the data, please contact LaRee Golke at lgolke@deloitte.com or Megan Lazarek at mlazarek@deloitte.com.

Respondent demographics

Participant responses reflect the most recent trends in stock plans offered by companies surveyed. Survey respondents represent a wide variety of industries, regions, and company sizes (by revenue, market capitalization, and number of employees). In this year's survey, 64 percent of respondents are non high-technology companies and 36 percent are high-technology companies (including biotech and life sciences companies).

The five largest industries represented in the survey were technology services (11 percent), financial services (9 percent), biotechnology/life sciences/chemicals (8 percent), durable goods manufacturing (8 percent), and retail/wholesale (8 percent). All survey participants are publicly traded companies and a majority are listed on the New York Stock Exchange (59 percent).

Over 90 percent of respondents are headquartered in the United States. Eighty-eight percent of respondents have employees who are located outside of their headquarters country/jurisdiction. The top five countries in which respondents' employees are located are the United States (99 percent), Canada (80 percent), the United Kingdom (79 percent), Germany (67 percent), and Australia (65 percent).

Highlights of the 2024 Survey

Time-based full value awards have continued to surpass stock options/SARs in prevalence. Looking at the types of awards granted to employees, 99 percent of respondents grant time-based full value awards and 91 percent grant performance-based awards, while only 41 percent grant time-based stock options/SARs. Over half of respondents offer an employee stock purchase plan.

At the CEO, CFO, and other named executive officer level, 91 percent of respondents grant time-based full value awards, 90 percent grant performance-based awards, and 38 percent grant time-based stock options/SARs. However, for employees below the senior management level, the prevalence of performance-based awards declines sharply, while the prevalence of time-based full value awards remains higher for middle management and junior management/other exempt employees.

For example, only 14 percent of respondents grant performance-based awards to middle managers whereas 86 percent grant time-based full value awards. It is not common for grants of any type to be issued to general workforce/nonexempt employees, but where companies do issue grants at this level, time-based full value awards (28 percent of respondents) are far more common than stock options/SARs (3 percent) and performance-based awards (1 percent).

High-technology companies are more likely to grant time-based full value awards to their general workforce/non-exempt employees than non-technology companies (59 percent vs. 11 percent, respectively). At this employee rank, however, even high-technology companies are unlikely to grant performance-based awards (2 percent) or stock options/SARs (6 percent).

For CEO, CFO, and other named executive officers, a combination of time-based full value awards and performance-based awards is most commonly used (50 to 51 percent of respondents, depending on executive rank) followed by a combination of all 3 vehicles (19 to 21 percent). For middle management and below, only one vehicle is typically used (77 to 95 percent of respondents that grant equity at these ranks), most often time-based full value awards.

A large majority (97 percent) of respondents who have employees outside their headquarters country/jurisdiction grant equity to those employees. Most of these respondents utilize the main equity plan used for the headquarters country/jurisdiction to grant awards rather than modified or separate plans.

About one-fifth of respondents adjust grant sizes outside the headquarters country/jurisdiction for time-based full value awards and time-based stock options/SARs, while closer to half adjust grant sizes for performance-based awards. Pay practices for employees by jurisdiction, relative wage levels, and job descriptions/levels are the three most prevalent criteria for adjusting grant sizes.

For equity vesting in connection with a change in control transaction, approximately 61 percent of respondents report a double-trigger requirement compared to roughly 17 percent of respondents using a single-trigger requirement.

Time-based full value awards

Use of time-based full value awards is near universal among survey respondents and increased to 99 percent this year, up from 94 percent in the 2021 survey and 92 percent in the 2019 survey. Among respondents that grant full value awards, 92 percent do so in the form of restricted stock units (up from 91 percent in 2021, 84 percent in 2019, and 77 percent in 2013), while only 14 percent grant restricted stock (down from 18 percent in 2021, 26 percent in 2019, and 44 percent in 2013).

All awards (new hire, ongoing, and retention) are most commonly subject to annual vesting, in which awards vest in annual increments (61 percent, 63 percent, 50 percent, respectively). The most common vesting period is three years (55 to 62 percent), followed by four years (26 to 34 percent). Similar to our 2021 and 2019 surveys, the majority of companies surveyed (80 percent) do not allow deferrals of restricted stock units. In other words, once restricted stock units (“RSUs”) vest, they are settled in shares and award holders are not able to defer the right to recognize income on their awards.

Practices are split between not paying out awards after retirement (35 percent) and continuing vesting after retirement (24 percent). When awards are paid out to retirees, respondents are almost twice as likely to pay out awards in full as they are to provide a pro rata payout. In the case of death or disability, the prevalent practice is to pay out awards (78 percent in the event of death and 73 percent for disability). Acceleration of vesting is most common (69 percent in the event of death and 58 percent upon termination due to disability). In the case of both death and disability, respondents are four times as likely to pay out awards in full as they are to provide a pro rata payout.

It is common for dividend-paying companies to also pay dividends and equivalents on restricted stock (90 percent of respondents) and restricted stock units (73 percent of respondents). In most cases, dividends/equivalents are paid out with the underlying award.

Performance-based awards

The prevalence of performance-based awards (performance shares, performance cash, and performance stock options/SARs) has slightly increased compared to the 2021 survey results: 91 percent (87 percent in 2021) of companies surveyed currently have a plan that provides for the grant of performance-based awards. The technology industry lags other industries in the use of performance-based awards: only 84 percent of both

computer-related and other technology companies currently grant performance-based awards, compared to 98 percent of manufacturing companies and financial/insurance companies, 90 percent of entertainment/shopping companies, and 95 percent of other non-technology companies.

Three years continues to be the most common length of the performance period, which is consistent with prior surveys. It is also common for companies to grant performance-based awards with overlapping performance periods as reported by 73 percent of respondents.

Seventy-six percent of companies surveyed use two or more performance metrics to determine award payouts, up from 74 percent in 2021. This year, value metrics are the most common category of metrics used in performance plans (75 percent), consistent with 2021. Sixty-four percent of companies use total shareholder return, up three percentage points from 2021. Following total shareholder return, revenue is the second most commonly used metric at 31 percent of overall respondents, followed by earnings per share (EPS) representing 23 percent of respondents.

Well over 90 percent of companies measure performance at the corporate level only. At over 60 percent of companies, vesting in long-term incentive awards is tied to different metrics than those used in the company's annual incentive plan.

The most typical payout for minimum performance is between 41%–60% of target (58 percent of respondents). For another 19 percent of respondents, the minimum payout is between 21%–40% of target.

At 75 percent of companies, the maximum payout is within 151%–200% of target. For another 14 percent of respondents, the maximum payout is between 101%–150% of target.

Seventy-four percent of respondents provide for automatic or discretionary vesting of all or a portion of performance-based awards in the event of normal retirement. However, in most cases (64 percent, consistent with 2021, 65 percent), performance-based awards are paid in full or on a pro rata basis at the end of the performance period based on actual performance. Eighty-three percent of respondents provide for automatic or discretionary vesting of all or a portion of performance-based awards due to disability and 87 percent due to death.

Time-based stock options and stock appreciation rights

The 2021 survey resumed the declining prevalence of time-based stock option or stock appreciation rights after a brief increase in 2019. This year's results continue the declining prevalence from 47 percent in 2021 to 41 percent.

The most common form of vesting is graded vesting (95 percent for new hire grants, 97 percent for ongoing grants, and 84 percent for retention grants), for which the most common vesting period is three years (42–46 percent) or four years (43–52 percent). Annual vesting increments are most common for awards that are subject to graded vesting (62–74 percent of respondents that utilize graded vesting).

Over half (60 percent) of respondents provide for accelerated or continued vesting of all or a portion of stock options/SARs in

the event of normal retirement. Practices vary considerably with respect to the length of time retirees have to exercise options/SARs: 40 percent of respondents allow retirees the full remaining term, 27 percent allow retirees only three months, 11 percent allow five years, 5 percent allow three years, and 7 percent allow retirees only one year to exercise their options/SARs.

It is also common for vesting of stock options/SARs to be accelerated or continued upon disability (68 percent) or death (72 percent). In both circumstances, acceleration of vesting is more common than continued vesting and full payouts are more common than pro rata payouts. In the event of death or disability, options/SARs are most commonly exercisable for one year (just over 40 percent of respondents) or the full remaining term (just over 25 percent of respondents).



About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte Network"), is, by means of this communication, rendering professional advice or services. Before making any decisions or taking any action that may affect your finances, or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

About the NASPP

The NASPP is the leading membership association devoted to meeting the needs of stock plan professionals. We have nearly 6,000 members whose responsibilities relate, directly or indirectly, to stock plan design and administration. The NASPP provides our members with education and networking opportunities through our website, publications, annual conference, and our local chapters. Visit www.naspp.com to learn more about the NASPP.