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APRIL 27, 2005

COMMENTARY

By Louis Lavelle and Ronald Grover

## Exec Perks: An Ugly Picture Emerges

The SEC's tougher stance on disclosure lifts the lid on giveaways, such as extra money for living at home, that highly paid bigwigs receive

Executive perks have always occupied a special place in Corporate America -- largely hidden from view. Unlike information about salaries, bonuses, and stock options, which is readily available, details about executive perks have usually been skimpy at best and, for the most part, consigned to footnotes in the company proxy.

But thanks to reforms by the Securities & Exchange Commission, that's starting to change. Companies are being prodded to disclose more perks -- and in more detail -- than ever before. And the picture isn't pretty.

In mid-April, Viacom ([VIA](#)) revealed that it was reimbursing two top executives, co-Presidents Leslie Moonves and Thomas Freston, for sleeping in their own homes while in New York and Los Angeles on business. Morgan Stanley ([MWD](#)) has disclosed the payments that would be due to embattled CEO Philip Purcell if he were to leave the company because of a change in control -- an eye-popping \$63 million. And security company Brinks ([BCO](#)) now says its CEO, Michael Dan, gets a lot of things it never disclosed before, including use of the company plane, club dues, tax services, a security system for his home, and even a physical exam -- perks valued at about \$14,000.

**"THE DAM BROKE."** The reason for the sudden openness on the subject: The SEC's tough new stance on disclosure. In September, the agency issued a cease-and-desist order to General Electric ([GE](#)), saying its disclosure of the perks former CEO John Welch Jr. would receive in retirement violated reporting rules. GE neither admitted nor denied wrongdoing.

A month later, Alan Beller, director of the SEC's division of corporate finance, came down hard on companies that practice "opaque or unhelpful" disclosure. The effect was immediate: Pay researcher Equilar estimates that a third of all companies have made "significant" improvements to their compensation disclosures, especially on perks. And shareholder activists find what's being revealed downright shocking.

"The dam broke this season," says Patrick McGurn, senior vice-president of proxy adviser Institutional Shareholder Services. "The resulting floodwaters show that abuse is rampant."

**"IT'S JUST PLAIN UNSEEMLY."** It's hard to imagine a giveaway more over the top than the one Moonves and Freston receive at Viacom. Moonves, who lives in Los Angeles, owns a home in New York. When he stays at that home while traveling on business, he's reimbursed -- to the tune of \$105,000 in 2004. Likewise, Freston -- who lives in New York and owns a home in Los Angeles -- was reimbursed \$43,100 for staying at his L.A. domicile last year. Both executives earned about \$20 million apiece in 2004. The company declined to comment.

That handout may be especially shameless, but Moonves and Freston are hardly the only execs who get their companies to help pay their housing costs. Rather than pick up the tab for a hotel, Time Warner ([TWX](#)) pays CEO Richard Parsons a \$4,000 monthly housing allowance -- plus \$365 for utilities -- for an apartment in Los Angeles. The company describes the payments as "a valid business expense," citing benefits that include convenience,

security, and keeping business transactions confidential.

At Walt Disney ([DIS](#)), the company this year reported that outgoing CEO Michael Eisner has received a \$10,000-a-month allowance toward maintenance of his apartment in New York City, where he travels frequently on business. Disney says the payment is less than it would fork out if Eisner were staying at hotels. But critics contend that such allowances are a way to funnel additional cash to executives who are already extremely well compensated.

"When someone is paid that much money, one would assume that you can pay for your own home," says Charles Elson, a corporate-governance expert at the University of Delaware. "It's just plain unseemly."

**PAYING HIS DUES.** The newly disclosed perks don't end at housing allowances. Some big favorites of the corner-office set include personal use of the company plane, financial counseling and tax-preparation services, and "gross-up" payments that reimburse execs for the taxes they pay on many of their perks.

Leonard Schaeffer, the chairman of WellPoint ([WLP](#)), stepped down as CEO on Jan. 31 with a severance package estimated at \$120 million -- but apparently that wasn't enough. The company also gave him a mind-boggling array of retirement benefits, including four years of medical benefits, three club memberships, and title to a car.

Says Paul Hodgson, senior research associate with governance-watchdog group The Corporate Library: "It seems to me someone who just received \$120 million can probably take care of their own country-club dues without any help from stockholders."

WellPoint says \$68.5 million of Schaeffer's benefits come from 19 years of "guiding a company that went from nearly insolvent [to] one of the most successful and admired health-care companies in the industry." Moreover, the business says it has routinely reported elements of Schaeffer's agreement over the last eight years.

**RISING ANGER?** The downside risk to disclosure is that it provides executives who are negotiating employment contracts with the detailed information they need to demand even more goodies, resulting in a "keeping up with the Joneses" effect. But that may not happen this time around. Directors who set pay are under intense pressure to keep pay and benefits down.

At Cendant ([CD](#)), for example, the American Federation of State County & Municipal Employees (AFSCME) is withholding its support for the head of the board's compensation committee, Robert Smith, citing CEO Henry Silverman's high pay and perks. Among them: The \$165,000 reimbursement Silverman received for legal fees in connection with his contract negotiations.

Granted, if the new and more detailed disclosures tell investors anything, it's that the era of the imperial CEO is far from over. But if the disclosures anger shareholders, campaigns like AFSCME's could gain momentum and put additional pressure on boards to rein in executive perks.

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