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PERFORMANCE BONUSES FOR HEADS OR NOT?

Posted on November 24, 2016

Thousands of boards worldwide have retained Littleford & Associates to benchmark head/director compensation since 1983. We help to assess the market replacement costs for sitting heads, the likely package to attract new heads, and the retention and retirement options for long-serving and valued heads.

Many board chairs and search chairs who contact us ask about including performance related elements in either a contract for a new head or a renewal. Some of the factors to consider are the following:

1. Has the head experienced a performance related bonus in the past and is the head comfortable with it?
2. Is the performance bonus intended to be a reward or as incentive or both?
3. Can the board agree upon a specific and reasonable number of bonus criteria that the head will find fair?
4. Will the head feel that he/she must earn 100% of the bonus every year or he or she will not feel valued? What kind of expectations is the board creating?
5. Does the head feel that he or she already works 100%+ and wonders how it will be possible to meet a specific set of goals and earn performance money?
6. How large should the bonus be in order to be meaningful?
7. Will the bonus be paid as part of a 457(f) deferred compensation plan, in cash or possibly divided between the two?
8. Does the head believe that the board members entrusted with this decision are supportive?

Nevertheless, more than 50% of all of our client schools worldwide offer some sort of bonus option. In some cases, it is regular and expected and is just called a "bonus", and in other cases, it is really tied to specific goals. More international than US schools also give resigning or retention bonuses, the latter serving as a "golden handcuffs" tool.

We assisted a Board compensation committee in creating a bonus plan that gives the Head a guaranteed deferred compensation payment plus she is eligible for an additional payment to the 457(f) plan contingent upon meeting certain goals. This concept potentially grows the Head's



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retirement asset. This was one of the Committee's main objectives.

Structuring bonus incentives has become more common practice. Boards and compensation committees should consider carefully how to structure such plans and take into account their tax implications.