Executive compensation in 2025 and beyond: Key considerations moving forward

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For most employees, compensation is straightforward — they receive a check every pay period and the only difference between employees is the number of digits on the check. In addition to salary, employees may be entitled to a benefits package and bonuses. Simple.

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The situation becomes more complicated, but also more interesting, for an individual who is at the absolute top of the organization's corporate ladder — the CEO. A CEO gets paid very differently from average employees (and even differently from high-level employees). A CEO compensation package typically involves, at the very least, salary, bonus, equity in the company and special provisions (e.g., severance). While every company's situation is different, there are several key factors that executives, boards and/or other decision-makers (including those at private companies) should take into account when designing a CEO's compensation package:

- **Company buy-in:** It is essential to get buy-in from shareholders, directors and, in some cases, employees to ensure approval of a hefty CEO compensation package. One useful way to achieve company buy-in is to incentivize employees on similar terms — achieving milestones provides for increased compensation, be it through bonuses or opportunities to purchase equity. The effects of not getting company buy-in can be drastic, as dissatisfied or disgruntled shareholders, directors or employees can scuttle the entire package.
- **Legitimate negotiation process:** Ideally, the board and the CEO should have a good-faith back-and-forth to decide on an appropriate compensation package.
- **Milestones should not be automatic:** For CEOs, a long-term bonus structure (in cash, options or option-like instruments) is based on achieving certain performance metrics, often over the course of several years. A compensation package should aim to set balanced milestones that are neither automatic nor impossible.
- **Adherence to corporate governance standards:** Good corporate housekeeping, including transparent disclosure detailing risks vs. rewards, is important for documentation and approval, especially for smaller companies that operate in a more ad-hoc fashion.
- **Nonqualified deferred compensation:** Nonqualified deferred compensation is considerably more flexible than qualified retirement plans and, depending on structure, may allow high earners to defer significant sums.
- **Reliance on advisors:** Lawyers, accountants, actuaries and financial planners can often provide experience-driven advice that combines creativity with sound financial planning and adherence to applicable law.
- **CEO-only perks:** While use of corporate jets and key-man insurance has fallen out of favor, CEO-only perks, such as premium health insurance covered by the company or business-class travel, are becoming increasingly important in executive compensation design.
- **Forum and the role of courts:** Despite Delaware's preeminence in corporate law, other jurisdictions may provide results that are more CEO-friendly. Additionally, judges may use their power to strike other shareholder-approved compensation packages. Taking into account the aforementioned factors can be vital to ensure that compensation packages remain approved and unchallenged.

Recent trends should serve as valuable lessons for companies, executives and boards alike. It will be essential to reflect on these principles and implement the necessary changes so companies may achieve their goals in crafting executive compensation packages in the new year.

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