

## House Dems Look at Conflicts Behind CEOs' Fat Pay

by [Mike Hall](#), Dec 5, 2007

Talk about an inside job. It's little wonder that [CEO pay](#) continues to soar when the consulting firms many corporations hire to determine executive pay levels also earn millions of dollars for handling other consulting work for the same company. After all, why tick off the top honcho of the company that signs your checks?

This morning, the U.S. House Committee on Oversight and Government Reform explored the role that "conflicted consultants" play in fueling the soaring CEO pay rocket. Says committee chairman Henry Waxman (D-Calif.):

Last year, 113 Fortune 250 companies retained conflicted consultants. These consultants typically receive \$200,000 to advise the company about executive pay—and over \$2 million to provide others services, like benefit administration, to the company.

Consultants who are paid millions of dollars by a corporate CEO won't provide objective advice to the board. They know what the CEO wants to hear and they know what will happen to their lucrative contracts if they don't say it.

How much are [CEOs raking in](#)? A CEO at a Standard and Poor's 500 company on average received \$14.8 million last year—a 9.4 percent pay raise over 2005. In the [past decade](#), CEO pay has jumped an average of 45 percent, while workers' wages squeaked ahead by 7 percent. Waxman notes that CEOs of the nation's largest companies now are paid 600 times more than what the average worker earns. Not to mention the \$100 million-plus "[Golden Parachutes](#)" that many top execs get when they retire.

Many of the CEOs reeling in these multimillion dollar pay packages don't steer their firms to big profits, but to big losses—yet their pay packages increase. Dan Pedrotty, director of the AFL-CIO's [Office of Investment](#), told the committee today:

Companies that use compensation consultants tend to pay their CEOs higher salaries without getting better performance.

Consider the role that Hewitt Associates played as the compensation consultant for Verizon. CEO Ivan Seidenberg received \$19.4 million in salary, bonus, restricted stock and other compensation in 2005, 48 percent higher than what he earned the previous year, while its stock fell 26 percent and earnings fell 5.5 percent. A *New York Times* article in April 2006 reported that Hewitt also received more than half a billion dollars in fees from Verizon since 1997 for employee benefit and HR services to the company.

In May, 46 percent of Verizon shareholders voted for a proposal by the Communication Workers of America ([CWA](#)) calling on the company to disclose any relationships that could compromise any compensation consultants' independence. After months of stalling, Verizon announced Nov. 1 it [would abide](#) by the shareholders' proposal.

Many of these conflicted compensation consultants are flying under shareholder radar. A [report](#) by the oversight committee staff finds in 2006, over two-thirds of the Fortune 250 companies that hired compensation consultants with conflicts of interest did not disclose the conflicts in their SEC [Security and Exchange Commission] filings. In 30 instances, the companies informed shareholders that the compensation consultants were “independent,” when in fact they were being paid to provide other services to the company.

The committee report also finds that the tighter the relationship between the compensation consultant and the company, the faster and higher CEO pay rises.

In 2006, the median CEO salary of the Fortune 250 companies that hired compensation consultants with the largest conflicts of interest was 67 percent higher than the median CEO salary of the companies that did not use conflicted consultants. Over the period between 2002 and 2006, the Fortune 250 companies that hired compensation consultants with the largest conflicts increased CEO pay over twice as fast as the companies that did not use conflicted consultants.

Earlier this year, the AFL-CIO, along with a group of investors, sent a letter to the heads of compensation committees of the 25 largest U.S. companies, asking for an end to the practice of board-hired comp consultants also doing work for company management.

Pedrotty said that while it was encouraging that Verizon and some other firms are adopting rules to strengthen consultant independence, more must be done.

The types of consulting work that consultants perform should be limited to their role as advisors to the compensation committee. As a first step, the SEC should require that companies disclose the total amount paid to consultants and the amount paid for executive compensation advice provided to the board of directors.

While disclosure is an important first step, investors ultimately need the tools to hold consultants accountable. Given the scope of conflicts and the central role of consultants in “pay for failure,” we believe an up or down vote on the company’s compensation consultant, in any context where a conflict existed, would be appropriate.

For more on CEO pay, visit the AFL-CIO [Executive PayWatch](#) website

# You've Been Comcasted!!!

**Brian L. Roberts**  
**Chief Executive Officer**  
**Comcast Corporation**

The proxy statement for Comcast Corporation uses the new SEC executive compensation rules.

In 2006, Brian L. Roberts raked in **\$26,001,696** in total compensation according to the SEC. However, according to the AFL-CIO's calculation method\*, he raked in **\$27,858,900** in total 2006 compensation.

## **How You Compare, to Your CEO, Brian Roberts, if you earn \$50,000 per year in total compensation at Comcast...**

Brian L. Roberts's compensation could support 520 workers earning your salary, using the SEC Total\*. Brian L. Roberts's compensation could support 557 workers earning your salary, using the AFL-CIO Total\*.



You would have to work 520 years to equal Brian L. Roberts's 2006 compensation, using the SEC Total. You would have to work 557 years, according to the AFL-CIO Total.