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工商管理经典英文版·人力资源管理系列

# The Complete Guide to Executive Compensation

## 经理人薪酬完全手册

布鲁斯·R. 埃利戈 (Bruce R. Ellig) / 著

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清华大学出版社  
北京

by Bruce R. Ellig

The Complete Guide to Executive Compensation

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21世纪的人类社会正处于一个前所未有、复杂多变的环境之中，企业的生存方式和发展模式也随之改变。中国企业面临着以下严峻的挑战：

**全球化的冲击。**中国经过10多年的努力，终于加入了WTO，全面融入了全球化的经济体系。但是随之而来的问题是，中国企业不得不面对强大的外国企业的挑战，包括市场挤压和人才争夺等等，这就促使中国的企业必须具有全球化的意识，从更高的视角制定和实施企业发展战略。

**高科技的发展。**高科技的发展，一方面提高了企业生产与服务的质量和效率，降低了企业成本；但另一方面，由于技术可模仿性的增强，也加剧了企业之间的竞争。

**知识资本的地位显著提高。**伴随着全球化趋势的加剧，以及科技日新月异的发展，知识资本逐渐取代了财物资本而上升到企业战略性资源的地位，成为企业价值增值的主要源泉。所以，能否吸引、获得、培训和激励员工，尤其是知识型员工，对于企业能否赢得竞争优势至关重要。

在这种大环境下，现代人力资源开发与管理也逐渐显现出新的特点：

1. 人力资源管理是企业战略的重要组成部分，是建立和保持企业核心竞争力的关键。从高层领导到中低层管理者，都必须对企业的人力资源管理负责，而不仅仅是由企业人力资源部门人员唱“独角戏”。

2. 现代人力资源管理强调员工对企业的重要性，人力资源既然是资源，就

需要经营。企业应该以一种全新的视角看待员工，要按照营销的思维开发组织中的人力资源，即站在员工需求的角度，通过提供令员工满意的职业生涯规划 and 人力资源产品与服务，来吸引、保留、激励和开发企业所需要的各层次人才。

3. 21世纪人力资源管理的核心是如何通过价值链的管理，来实现人力资本价值的增值。而价值链的设计和实施，就是对人才进行激励和开发的创新过程。

为了应对知识经济带来的以上挑战，我国的企业必须借鉴国外先进的企业管理理论和实践经验，尤其是人力资源管理领域的丰富经验。为此，我们与国际著名的汤姆森学习集团、麦格劳·希尔教育出版公司合作，引进出版了这套国外人力资源管理领域的经典丛书，以期能够为中国的的教育和企业的人力资源管理实践，提供最前沿的管理理念、最实用的技能和方法，以及最具操作性的案例，从而全面提升我国人力资源管理研究和实践的水平以及企业的竞争力。

在本丛书版本的甄选过程中，我们本着重视结构、宁缺毋滥、参考世界著名商学院人力资源管理专业设置和教材选用情况，以及对中国企业具有实用性的原则，重点确定了一批内容新、国外采用量大、操作性强的优秀教材。本套丛书覆盖了人力资源开发与管理各重要领域的最新研究成果，并汇集了世界各国企业在人力资源开发与管理方面的大量优秀案例，包括《战略人力资源》、《人力资源开发》、《人力资源甄选》、《职业生涯管理》、《薪酬手册》和《经理人薪酬完全手册》等。

本丛书的读者包括：全国各工商管理院校教师与高年级本科生、研究生、MBA、各企业和事业单位高中级管理者、人力资源管理研究者、咨询机构人员和管理培训人员，以及对人力资源管理感兴趣的广大社会自学者。

希望我们这套丛书能为中国企业形成“以人为本”的管理文化，全面提升企业竞争力做出应有的贡献。

和君创业·闻洁工作室

2003年3月



## Preface

**T**his book is somewhat immodestly titled *The Complete Guide to Executive Compensation*, for that was its objective from the beginning. It is to be a book that compensation professionals, members of management, and directors of the boards can use to find useful information for understanding the issues involved in coming up with a sound executive compensation package that effectively blends salary, benefits, perquisites, short-term, and long-term incentive, while taking into account government regulations, tax law, organization and executive needs, and the rewarding of performance.

I was fortunate to have input and suggestions from a number of outstanding people who are listed in the acknowledgments. While I have made every attempt to be accurate and current, it is important to realize this is not a book that professes to provide expert information on accounting, SEC, tax, or other professional service matters. For that, you need to seek appropriate counsel. Nevertheless, I believe the material in this book provides a good understanding of most executive compensation issues and will help you formulate good questions for those discussions.

While I've made every attempt to avoid errors in this book, I regret if any exist. I am very interested in comments and suggestions that will make the next edition more useful and come closer to really becoming the complete guide to executive compensation. Send these to me in care of the publisher at Two Penn Plaza, New York, NY 10121.

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First, and foremost I wish to thank three people without whom this book would never have happened: my editor, Mary Glenn, for her faith in me from the very beginning and helpful assistance all along the way, Cathy Catalano who, with her wordprocessing skills, converted my illegible scribbles into an electronic manuscript, and, once the book was written, John Woods and his team at CWL Publishing Enterprises, who turned it into the book you now hold.

A special thank you to the following for their thoughtful comments and suggestions: Larry Bickford (SEC), Bob Birdsell (life insurance), Peter Chingos and Fred Cook (long-term incentives), and Wally Nichols (performance management). Thank you also to the following for input on the history of executive compensation: Larry Bickford, Lou Cheek, Peter Chingos, Fred Cook, Bud Crystal, Mike Davis, Ed Goff, Tim Haigh, Vic Iannuzzi, Les Jackson, Ira Kay, Jim Kuhns, Greg Lau, Fred Meuter, Pearl Meyer, Wally Nichols, Alan Ritchie, Sandra Sussman, Nat Winstanley, and Gordon Wolf.

And thank you also to John England for encouraging me to do this book by updating my earlier book on executive compensation.

Several people were very helpful to me early in my career, one that resulted in a strong passion for the field of compensation. They include: the late Professor Alton Johnson, who got me interested in the field of compensation while at the University of Wisconsin, the late Bill Stuart, who hired me at Pfizer and lived the values of business partner and employee champion, the late Don Lum who followed Stuart as Vice President, Personnel and was my boss and big supporter while there, Chairman and CEO Ed Pratt, who gave me the top HR job at Pfizer (the third in the company's history) and made it enjoyable while demanding, and Bill Steere, who continued to make my job challenging and very rewarding.

Thank you all!

And while Brucell and other proper names in the book are fictitious some bear a striking similarity to members of my family.

第1章 高级经理人薪酬概述	1
第2章 绩效测量和标准	34
第3章 现期薪酬和延期薪酬	66
第4章 利害关系人	86
第5章 薪资	138
第6章 员工福利与津贴	193
第7章 短期激励	301
第8章 长期激励	354
第9章 设计与沟通	461
第10章 董事会委员会	500
第11章 回顾与前瞻	540
附录1 法律节选	551
附录2 国内税收规范节选	560
附录3 税收裁决节选	566
附录4 证券交易法节选	569
附录5 会计解释节选	571
索引	577





# Contents

1. Executive Compensation Framework	1
2. Performance Measurements and Standards	34
3. Current versus Deferred Compensation	66
4. The Stakeholders	86
5. Salary	138
6. Employee Benefits and Perquisites	193
7. Short-Term Incentives	301
8. Long-Term Incentives	354
9. Design and Communication Considerations	461
10. Board of Directors	500
11. Looking Back and Looking Ahead	540
Appendix A. Selected Laws	551
Appendix B. Selected Internal Revenue Code Sections	560
Appendix C. Selected Revenue Rulings	566
Appendix D. Selected SEC Actions	569
Appendix E. Selected Accounting Interpretations	571
Index	577



## Chapter 1

# Executive Compensation Framework

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**A**s the title of this book suggests, this is a handbook or reference tool on executive compensation. You can read it cover to cover, chapter by chapter, or access it selectively for definitions and examples of various programs. It is intended to be useful to several different audiences: executives, approvers of executive compensation programs, designers, and administrators of executive pay delivery systems, and those who write and report on executive pay. Each group will understandably have a different degree of interest as well as different perspectives.

*Executives*, as the recipients of pay plans, will find this book useful both in describing what they don't have and for reviewing plans in which they participate. *Approvers* of executive pay plans will not only find valuable definitions and descriptions of various type plans, but also useful insight as to the conditions under which they might be used. Thus, this book offers independent input to that provided by the recommenders of the pay plan. Hopefully, *designers* and *administrators* will find details and examples that will trigger their own creativity; and for those who *report* about executive pay plans, this book will not only provide useful background, but also help form a better understanding of the topic.

Having defined how various readers will find the book useful, it is important to indicate what the book does not purport to do. Specifically, you should not rely on accounting, tax, Securities Exchange Commission, or other potentially legally binding statements in this book. Seek appropriate professional counsel for such guidance. The statements made in this book are offered as illustrations to help readers understand principles and practices. You should consult with appropriate counsel before making any binding decisions.

## WHO IS AN EXECUTIVE?

For the purposes of this book, it is important first to define the *executive* I will be covering. My definition of executive is not that provided by the Fair Labor Standards Act, which exempts from overtime pay those supervising at least two full-time subordinates in a position customarily requiring the exercise of independent judgment and discretion. We can define executive by one of six methods: salary, job grade, key position, job title, reporting relationship (organization level), or a combination of two or more of these methods.

### Salary

Using salary to identify eligibility is fairly simple, once the appropriate salary level is identified; however, it has several drawbacks. First, it gives a false degree of finiteness to eligibility, for example, \$100,000 and up “yes” vs. \$99,999 and below “no.” Second, considerable pressure will be exerted to move people above the magic cutoff. Third, the cutoff must be adjusted annually in relation to compensation adjustments; otherwise, the size of eligible candidates will continually increase.

### Job Grade

The use of *job grade* to determine who is an executive—like salary—also has a misleading degree of precision. The rationale is simple: the value of a job to the organization was already determined when each job was placed in a job grade. The approach is superior to use of salary in that it relates to the job, not to the person's earnings. However, it places a similar pressure on the compensation program—pressure to upgrade positions into the eligible group.

### Key Position

Using the *key position* approach means examining each job for appropriateness (e.g., only those positions with “bottom-line” responsibility). Or it may be restricted to include only corporate officers or *insiders* as defined by the SEC. Administratively, this practice has two drawbacks. First, it is possible that two jobs in the same job grade will be treated differently. Second, it will be necessary to review the list of eligible candidates on almost an annual basis for appropriate additions and deletions. This approach is generally more prevalent among smaller organization than larger ones. When used, it normally results in staff jobs being included.

### Job Title

Eligible candidates could be determined by job title (e.g., vice presidents and above). The problem with this method is that the lowest-level vice president may have less responsibility than the highest-level director. It also raises the issue of organizational comparisons. For example, are divisional vice presidents as important as corporate vice presidents? Or even, are vice presidents in Division A as important as vice presidents in Division B? This might lead to a multi-tiered job title list as shown in Table 1-1.

### Reporting Relationship

*Reporting relationships* are used by some to determine who is an executive (e.g., the top three organization levels in the company). The problem is the inclusion of “executive assistants” and “assistants to” whose degree of importance to the position is better represented by their job grade than their organization level.

Organizational Unit	Title
Corporate Office	Vice President and up
Group	Executive Vice President and up
Division	President

**Table 1-1.** Example eligible executive titles by organizational unit

### Combinations

Because each of these five approaches has one or more disadvantages or shortcomings, the best approach may be a combination of two or more definitions. For example, using the definition of anyone in Grade X or higher within the top three levels of the organization takes pressure off job re-grading and the need to include "assistants" and "assistants to."

### HOW MANY ARE EXECUTIVES?

For many, an executive is probably an individual in the highest-paid two to three percent of the company's total employee population or the highest-paid five percent of the exempt portion of the workforce. However, these percentages are only rough guidelines. The percentages would probably be lower in centralized companies and higher in decentralized organizations. The relative percentage of executives to the company's total employment is compared and contrasted with size and type of organization in Table 1-2.

One might expect a higher percentage of executives in a capital-intensive than a people-intensive organization because equipment rather than people dominate the lower levels of the organization. In people-intensive companies, decision-making has to be pushed further down in the organization; otherwise, the company will be a slow plodding bureaucracy.

Revenue Size	Company Structure	
	Centralized	Decentralized
Large	Low	Moderate
Small	Moderate	High

**Table 1-2.** Percentage of executives to total employment relative to revenue and structure

Table 1-3 is a generalization contrasting the percentage of executives to total employment in centralized and decentralized capital-intensive and people-intensive organizations. As one would expect, the lowest percentage would be found in centralized, people-intensive organizations (i.e., large workforces but all major decisions made by a handful of executives at the top of the organization). Whereas a decentralized, people-intensive organization would have a moderate percentage of executives relative to total employment because executive decision-makers would be at all levels, with a relatively small workforce. With a centralized, capital-intensive organization, there would be fewer executives and, therefore, a moderate ratio. Moving from a people-intensive to a capital-intensive organization, the number of executives decreases more slowly than the non-executive population. The reverse is also true in moving from a capital-intensive to a peo-



	Capital-Intensive	People-Intensive
Centralized	Moderate	Low
Decentralized	High	Moderate

**Table 1-3.** Percentage of executives in centralized and decentralized vs. capital-intensive and people intensive organizations

ple-intensive organization. This generalization will not apply in many situations because of the various definitions used for executives—some being more liberal than others. Nonetheless, capital-intensive vs. people-intensive is a factor in determining the weighting of executives to non-executives in an organization.

## WHAT IS COMPENSATION?

### Extrinsic vs. Intrinsic Compensation

It may be easier to think of pay as a form of extrinsic compensation while work environment, type of work, learning, developmental opportunities, and extent of recognition form intrinsic compensation—often called psychic income. Other forms of intrinsic compensation include autonomy and power. Combined, extrinsic and intrinsic compensation constitute the total reward structure.

Organizations that are visibly successful may be providing some intrinsic compensation to their executives (i.e., a pride in membership). Since such organizations usually pay at least competitively, the intrinsic pay reinforces the retention capability of direct pay. Conversely, less successful organizations, which may be unable to afford fully competitive pay, place additional pressure on the pay package since intrinsic compensation may actually be low to negative and must be offset to retain the individual.

As shown in Figure 1-1, all jobs have a combination of intrinsic and extrinsic compensation. I believe that to the extent the job does not have a desired level of intrinsic compensation, an offsetting level of extrinsic compensation is required. This could explain why garbage collectors earn almost as much pay as some college professors. No one will ever mistake garbage collecting for a job with high levels of intrinsic compensation. Conversely, the intrinsic appeal of being a college professor or a prominent politician (e.g., U.S. senator) explains why the extrinsic pay in these professions seems low as compared with other jobs.

Executives are somewhere in the middle of the curve, either shedding intrinsic needs due to positive pay-performance situations (e.g., for-profit sector) or increasing searches for high intrinsic compensation because the direct pay-performance link is not sufficiently strong (e.g., non-profit sector). In addition to seeking a position that has sufficient extrinsic compensation to meet ego and other needs, most are looking for work that is high in intrinsic compensation—personally meaningful and satisfying. Executives more than others in the corporation usually have sufficient flexibility in organizational issues to be able to organize their work, at least in part, to meet their intrinsic needs; however, their accountability may be in areas of low interest. The emphasis in this book is on extrinsic compensation, although even extrinsic pay has intrinsic aspects.

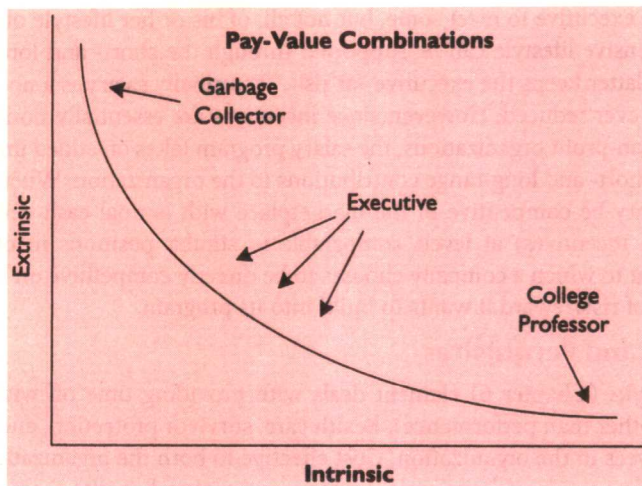


Figure 1-1. Extrinsic vs. intrinsic pay

### The Compensation Elements

There are five basic compensation elements: salary, employee benefits, short-term incentives, long-term incentives, and perquisites. As shown in Figure 1-2, only salary and employee benefits are a factor at the lower portion of most organizations; however, all five are present at the CEO level—each of the other three being phased in at different points in the organization.

### Salary

The objective of the salary element (Chapter 5) is to reflect extent of experience and sustained level of performance for a job of a particular level in importance to the organization. Many times it is also the basis on which the other four elements are determined. Salary is the income level

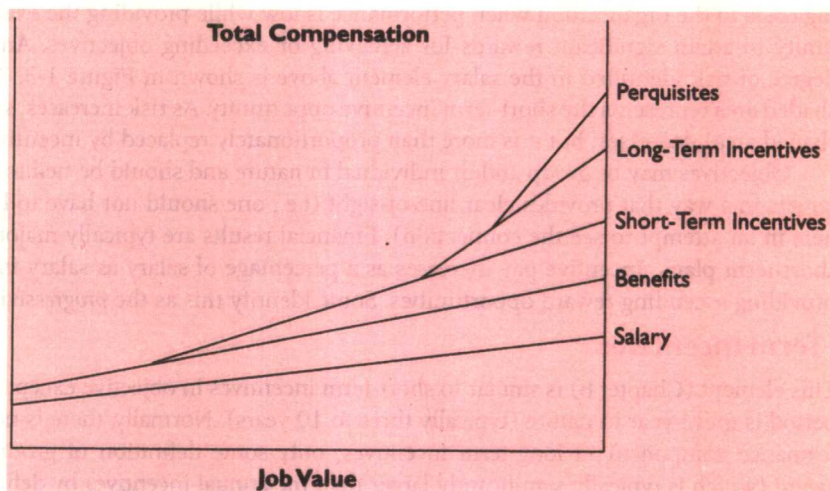


Figure 1-2. Total compensation (five element curves)

that will allow the executive to meet some, but not all, of his or her lifestyle objectives. A more extensive and expensive lifestyle can be supported through the short- and long-term incentive plan payouts. The latter keeps the executive "at risk." Essentially salary is a no-risk form of pay since it is rarely if ever reduced. However, since incentives are essentially nonexistent in some industries and in non-profit organizations, the salary program takes on added importance in adequately reflecting short- and long-range contributions to the organization. When this is true, it is important that salary be competitive in the marketplace with annual cash compensation (i.e., salary plus annual incentives) at levels comparable to similar positions in other companies. However, the extent to which a company chooses to be directly competitive on salaries is a function of the degree of risk/reward it wants to build into its program.

### Employee Benefits and Perquisites

The *employee benefits* (Chapter 6) element deals with providing time off with pay, employee services, awards (other than performance), health care, survivor protection, and retirement coverage to all employees in the organization. Cost effective to both the organization and the executive because of economies of large-scale coverage, employee benefits meet many needs the executive otherwise would have to pay for from his or her own pocket. The extent of coverage is typically determined by years of service and/or level of pay. Also covered in Chapter 6 are *perquisites*, namely, employee benefits that are designed only to apply to executives and, therefore, also called *executive benefits*. In some instances, they merely supplement employee benefit coverage (often that limited by law), in other instances, they provide coverage that does not exist in the employee benefit program. Some executive benefits take the form of intrinsic or psychic income (e.g., a large, well-furnished office).

### Short-Term Incentives

Short-term incentives (Chapter 7) are designed to include both downside risk and upside potential, rewarding the extent of accomplishment of a short (normally, yearly) target. Typically, the amount of payment goes up and down each year in relation to performance, thereby lowering costs to the organization when performance is low while providing the executive an opportunity to attain significant rewards for achieving or exceeding objectives. An example of the degree of risk identified in the salary element above is shown in Figure 1-3. The more darkly shaded area represents the short-term incentive opportunity. As risk increases, salary (the lighter shaded area) decreases, but it is more than proportionately replaced by incentive opportunities.

Objectives may be group and/or individual in nature and should be tied to annual business targets in a way that provides clear line-of-sight (i.e., one should not have to look around corners in an attempt to see the connection). Financial results are typically major components of short-term plans. Incentive pay increases as a percentage of salary as salary increases, thereby providing ascending reward opportunities. Some identify this as the *progressivity principle*.

### Long-Term Incentives

This element (Chapter 8) is similar to short-term incentives in objective except the performance period is multi-year in nature (typically three to 10 years). Normally, there is no individual performance component in long-term incentives, only some definition of group. The incentive award (which is typically significantly larger than the annual incentive) by definition means the executive has a portion of pay placed "at risk" with degree of attainment of business objectives.



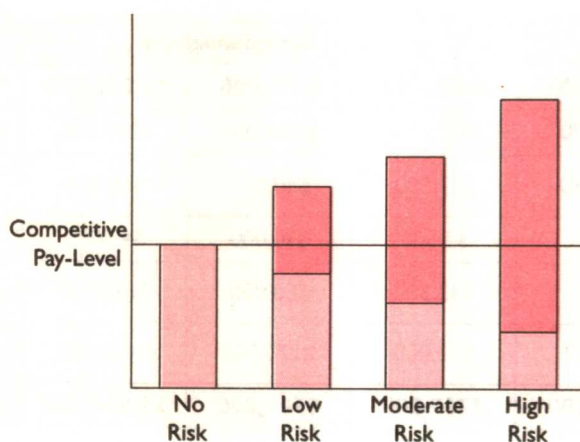


Figure 1-3. Risk/reward relationship to market data

Not meeting the expected target calls for no payment or a low payment—a form of punishment short of termination of employment. The multi-year nature of long-term incentives provides some holding power over the executive if the payout will be significant later on. The progressivity principle defined in short-term incentives also applies here. Pay is typically based on shareholder value and/or financial performance of the defined unit (e.g., company, sector, or division).

### Combinations

As depicted in Figure 1-2, but perhaps more clearly in Table 1-4, these elements of compensation take on different emphasis at different pay levels in the organization.

For example, salary might be 75 percent of total compensation at the \$100,000 level but only 20 percent at the \$5-million level. Conversely, long-term incentives might only be 2 percent at \$100,000 total pay but 50 percent at the \$5-million level. Table 1-5 converts these percentages to dollars. Thus, at the \$500,000 total-pay level, the 40 percent salary shown in Table 1-4 reflects \$200,000 as reported in Table 1-5.

Element	Total Compensation				
	\$100,000	\$250,000	\$500,000	\$1,000,000	\$5,000,000
Salary	75.0%	55.0%	40.0%	30.0%	20.0%
Employee Benefits	15.0%	11.0%	8.0%	6.0%	4.0%
Perquisites	—	1.0%	2.0%	4.0%	6.0%
Short-Term Incentives	8.0%	13.0%	16.0%	18.0%	20.0%
Long-Term Incentives	2.0%	20.0%	34.0%	42.0%	50.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Table 1-4. Possible compensation distribution (total pay = 100%)



	Total Compensation				
Element	\$100,000	\$250,000	\$500,000	\$1,000,000	\$5,000,000
Salary	\$75,000	\$137,500	\$200,000	\$300,000	\$1,000,000
Employee Benefits	\$15,000	\$27,500	\$40,000	\$60,000	\$200,000
Perquisites	—	\$2,500	\$10,000	\$40,000	\$300,000
Short-Term Incentives	\$8,000	\$32,500	\$80,000	\$180,000	\$1,000,000
Long-Term Incentives	\$2,000	\$50,000	\$170,000	\$420,000	\$2,500,000
<b>Total</b>	<b>\$100,000</b>	<b>\$250,000</b>	<b>\$500,000</b>	<b>\$1,000,000</b>	<b>\$5,000,000</b>

**Table 1-5.** Possible compensation distribution in dollars

At higher levels of total compensation, decreasing emphasis is applied to salary and benefits, whereas an increasing emphasis is given to short-term incentives, long-term incentives, and perquisites. The reason for the decreasing emphasis on salary at the expense of short- and long-term incentives is that it is more advantageous to the company to relate reward to performance, and, in some cases, it is more advantageous to the individual to receive the reward in a form other than cash.

The limitations imposed in many benefit plans (e.g., maximum pension) and the non-income-related programs (e.g., medical and dental insurance) account for the decrease in benefits as a percentage of total compensation as that figure grows. In many situations, however, this decrease is offset by perquisites (e.g., chauffeured car, financial counseling, and supplementary pensions).

One further variation of the relationship is shown in Table 1-6. There all elements are expressed as a percentage of salary.

Employee benefits are often expressed as a percentage of salary; however, this is frequently

	Total Compensation				
Element	\$100,000	\$250,000	\$500,000	\$1,000,000	\$5,000,000
Salary	100%	100%	100%	100%	100%
Employee Benefits	20.0%	20.0%	20.0%	20.0%	20.0%
Perquisites	—	1.8%	5.0%	13.3%	30.0%
Short-Term Incentives	10.7%	23.6%	40.0%	60.0%	100.0%
Long-Term Incentives	2.7%	36.4%	85.0%	140.0%	250.0%
<b>Total</b>	<b>133.4%</b>	<b>181.8%</b>	<b>250%</b>	<b>333.3%</b>	<b>500%</b>

**Table 1-6.** Percentage relationship of elements to salary