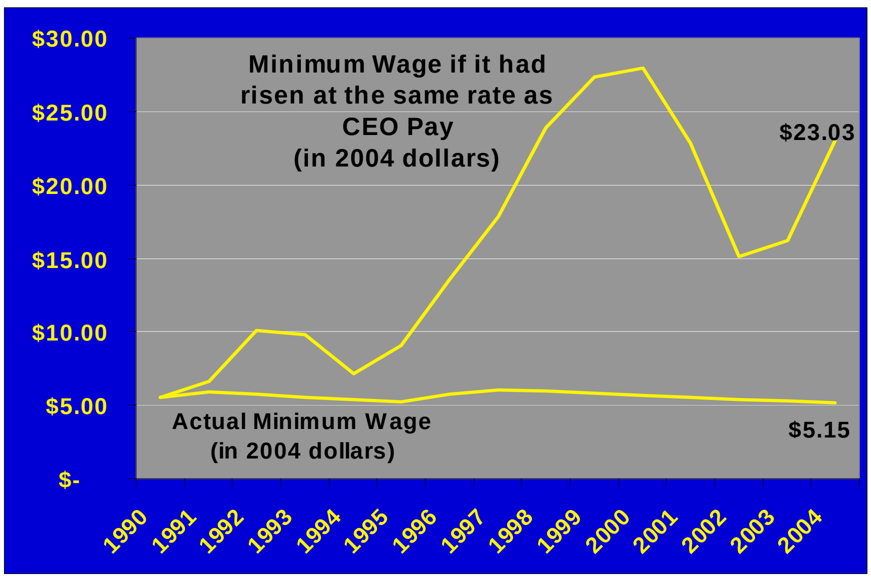
RUNAWAY EXECUTIVE PAY...



(United for a Fair Economy, Executive Excess, 2005)

...While Families Work Harder For Less

Rep. George Miller (D-CA), Senior Democrat,
House Committee on Education and the Workforce
http://edworkforce.house.gov/democrats/

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RUNAWAY EXECUTIVE PAY...
...WHILE FAMILIES WORK HARDER FOR LESS

"A journalist worked out that it would take someone on the U.S. minimum wage around 11,000 years to earn the $109 million banked last year by Yahoo chief Terry Semel."

– *Guardian*, 8/4/2005

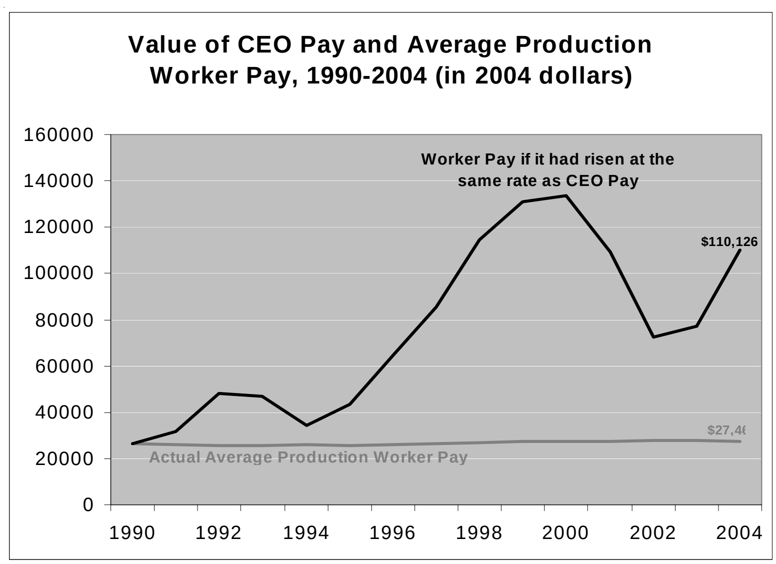
<u>WORKER WAGES STAGNATE WHILE CEO PAY SKYROCKETS</u>

Worker Productivity on the Rise. In the third quarter of 2005, U.S. workers' productivity exceeded expectations. Thanks to hard-working Americans, the non-farm business sector's productivity rose at an annual rate of 4.7 percent. As a result, the cost of producing a single unit of output dropped by 1 percent. The news surprised economists. This far into a "recovery," workers' wages should be rising with a shrinking pool of the unemployed, making it more difficult for companies to squeeze more output from their workers. Not so in the Bush economy. *(New York Times*, 12/7/2005.)

Worker Wages Stagnant or Falling. Wages have been essentially stagnant throughout the recovery from the 2001 recession. In the same quarter that saw such high productivity gains this year, workers' wages rose at an annual rate of just 3.7 percent. But, when adjusted for inflation, their real wages actually dropped by 1.4 percent. <u>In fact, while corporate profits have increased by 52 percent since 2001, the median weekly earnings of full-time workers have fallen by 0.6 percent in the same time period.</u> (*Houston Chronicle*, 12/6/2005)

CEO Pay in Overdrive. At least one group of people is riding high in the Bush economy: the CEOs. Executive pay in the United States is in overdrive. According to Forbes magazine, Fortune 500 CEOs received an aggregate 54 percent pay raise in 2004. Together, they collected $5.1 billion in compensation in 2004, compared to $3.3 billion in 2003. While workers have increased their productivity, the gains have ended up in CEOs' bank accounts, not in workers' paychecks. (*Forbes*, 5/9/2005)

A Stark Imbalance between Worker and CEO Pay. The imbalance in CEO and worker pay is striking.



(United for a Fair Economy, Executive Excess, 2005)

(EPI, Economic Snapshot, 1/19/2005; *Forbes*, 5/9/2005)

Half of all CEOs in the United States made more than $14 million in total compensation last year – which is 1,359 times the minimum wage, and 500 times the amount the average American earns. If the minimum wage had increased as much as CEO pay since 1990, it would be $23.03 per hour. (United for a Fair Economy, Executive Excess, 2005)

EVEN SHAREHOLDERS ARE WORRIED ABOUT RUNAWAY CEO PAY

U.S. CEO Pay Outstrips the Rest of the World. Some argue that without such exorbitant compensation rates, it would be impossible for corporations to attract the kind of talent needed to run companies. In reality, CEO pay in the United States is markedly higher than in any other industrialized nation. Indeed, the United States leaves all other advanced countries in the dust when it comes to the disparity between CEO and worker pay.

CEO Pay In Advanced Countries, 1988-2003 (in 2003 dollars)

	CEO compensation			
	($000)		Percent change	Ratio of CEO to worker
Country	1988	2003	1988-2003	Pay, 2003*
Australia	170,336	694,638	308%	22.1
Belgium	361,591	697,030	93%	16.0
Canada	398,946	889,898	123%	24.5
France	381,015	735,363	93%	17.2
Germany	388,486	954,726	146%	21.3
Italy	322,743	841,520	161%	23.7
Japan	473,655	456,937	-4%	9.5
Netherlands	373,545	675,062	81%	18.3
New Zealand		449,414		19.5
Spain	331,708	620,080	87%	21.8
Sweden	221,138	700,290	217%	17.6
Switzerland	481,125	1,190,567	147%	19.8
United Kingdom	427,335	830,223	94%	27.9
United States	**759,043**	**2,249,080**	**196%**	**44.0**
Non-U.S. Average	360,969	748,904	129%	19.9

* Ratio of CEO compensation to the compensation of manufacturing produ

(Source: Economic Policy Institute, State of Working America, 2004/2005)

Even Business Is Worried. The disparity is troubling to more than just worker advocates. Now, stories of excessive CEO pay are gracing the pages of business press publications like *Fortune, Forbes, The Economist, and MSN money*, to name a few. As executive pay spirals out of control, it becomes increasingly damaging to the health of companies, shareholders, workers, and the broader economy. A recent Moody's study shows a direct correlation between excessive executive compensation and credit default risk and downgrades in credit ratings. (*Compliance Week*, 8/9/2005)

Executives Reap Big Bonuses While Cutting Workers' Pay and Benefits. Many CEOs grab as much as they can even while driving their company – or just their workers' pensions – off the cliff and into bankruptcy. For example, just prior to filing for bankruptcy, Delphi enhanced severance packages for 21 executives, which could amount to $145 million in extra obligations for the company. Meanwhile, Delphi's CEO Steve Miller has proposed cutting workers' pay from $25-$27 per hour to just $9.50-$10.50 per hour, along with drastic reductions in health benefits. (Bankruptcy court filing by UAW, 11/5/2004; *Detroit Free Press*, 11/8/2005)

EXECUTIVES CUT WORKER BENEFITS WHILE HIDING THEIR OWN EXCESSES

Executives Underfund and Terminate Worker Pensions While Enhancing Their Own. Enhancing executive compensation packages just before filing bankruptcy and cutting worker pay and benefits has become far too prevalent for U.S. CEOs in recent years, particularly when it comes to pensions. Ironically, workers have no control over how their single-employer pension plans are funded, invested, and maintained, while the corporate officers do. Yet when CEOs decide to underfund a company's pension plan or terminate the plan altogether, workers feel all the pain, while CEOs reap ever-bigger bonuses.

EXECUTIVE EXCESS IN THE FACE OF WORKER PENSION CUTS

- **United Air Lines**. Three months before United Air Lines filed for bankruptcy in 2002, the company placed $4.5 million in a special, bankruptcy-protected trust for CEO Glen Tilton. Last year, the company began moving to terminate all of its worker pension plans, a move which the Pension Benefit Guaranty Corporation (PBGC) – with a $23 billion deficit – initially opposed. In the meantime, while the top eight executives publicly took a 15% salary cut on January 1, 2005, the CEO had already collected $3 million from his special trusts. In late April 2005, United and the PBGC reached a deal to allow the company to terminate all of its workers' defined benefit plans – some $9.8 billion in unfunded liabilities – dumping the plans onto the PBGC, which is picking up about $6.6 billion of those liabilities. Workers will lose $3.3 billion in promised benefits as a result of the United-PBGC deal. Source: *Fortune*, 4/28/2003; PBGC, 4/22/2005.

- **US Airways**. In 2002, CEO Stephen Wolf took his pension in a lump sum of $15 million (calculated with 24 years of service Wolf never performed), just six months before the company filed for Chapter 11 bankruptcy. The bankruptcy resulted in the termination of the pilots' pension plan, along with other major worker concessions. Source: *Fortune*, 4/28/2003; *Reuters*, 10/1/2004.

- **Delta**. While Delta pilots agreed to a 32.5% pay cut and a five-year wage freeze to help the airline avoid bankruptcy last year, Delta, in turn, gave six of its top officers 1.9 million stock options. In December 2004, the pilots' pension plan was frozen and replaced with a 401(k). Source: *Careerjournal.com*, 2/2/2005.

A Disturbing Pattern.
Studies reveal a disturbing pattern of embarrassingly exorbitant CEO retirement plans in the face of horribly underfunded worker pension plans at some of the nation's largest companies. For example, while IBM's worker pension plan is $7.38 billion underfunded, IBM's CEO has a $4.1 million annual pension. Pfizer's worker pension plan is $2.98 billion underfunded, even while Pfizer's CEO has a $6.5 million annual pension.

Delta's worker pension plan has a $5.3 billion hole, yet Delta's former CEO walked away with $23.5 million in compensation over three years before he left the company two years ago. According to Standard and Poor's, the 20 companies with the most underfunded plans spent $1.9 billion on their executives in the last three years. (*MSN Money*, 6/22/2005)

Company Name	Pension underfunding (billions)	CEO pay, past three years* (millions)	Total executive pay** (millions)	Total as a percentage of underfunding
Ford (F, news, msgs)	$12.31	$53.2	$105.5	0.9%
Exxon Mobil (XOM, news, msgs)	11.5	91.9	196.2	1.7%
General Motors (GM, news, msgs)	7.53	40.7	104	1.4%
IBM (IBM, news, msgs)	7.38	55.9	112.6	1.5%
Delta Air Lines (DAL, news, msgs)	5.3	23.4	58	1.1%
Lockheed Martin (LMT, news, msgs)	4.88	54.4	140.7	2.9%
Delphi (DPH, news, msgs)	3.98	23.9	58.6	1.5%
Boeing (BA, news, msgs)	3.80	8	33.9	0.9%
Raytheon (RTN, news, msgs)	3.64	21.3	45.8	1.3%
DuPont (DD, news, msgs)	3.51	21.3	50.8	1.4%
United Technologies (UTX, news, msgs)	3.14	37.9	73.3	2.3%
Goodyear (GT, news, msgs)	3.12	9.6	22	0.7%
Pfizer (PFE, news, msgs)	2.98	62.7	137.6	4.6%
Dow Chemical (DOW, news, msgs)	2.8	27	60.1	2.1%
Excelon (EXC, news, msgs)	2.76	27.2	81.9	3%
Procter & Gamble (PG, news, msgs)	2.35	61.3	132.7	5.6%
ConocoPhillips (COP, news, msgs)	2.18	79.8	203	9.3%
Hewlett-Packard (HPQ, news, msgs)	2.09	31.2	98.2	4.7%
Altria (MO, news, msgs)	2.05	50	121.9	5.9%
Alcoa (AA, news, msgs)	1.95	45.9	72.9	3.7%

*Includes salary, bonus, restricted stock grants, "other" compensation and S&P estimate of the value of options at the time they were granted, using the Black Scholes model.
**Top five executives
Source: Standard & Poor's
(MSN Money, 6/22/2005)

A 2003 Executive Excess report by United for a Fair Economy found that the median pay for executives at the 30 companies with the most underfunded pension plans in 2002 was $5.9 million, or 59 percent higher than the median pay for executives at the typical large company. These 30 companies had a combined $131 billion pension deficit in 2002, but paid their executives a combined $352 million. (United for a Fair Economy, Executive Excess, 2003)

Secret Executive Pensions Hide Tens of Millions in Extra Compensation. Worse still, the bulk of CEO pay – in the form of "secret" or "stealth" pensions – is not well disclosed, if disclosed at all. For example, Black and Decker's CEO earned $27.5 million in salary and bonuses over the 2002-2004 period. Completely missing from the company's proxy, however, is the CEO's $38.3 million retirement plan. In 2004, Wachovia left out of its proxy the $45.1 million retirement plan for its CEO. Home Depot's proxy does not mention its CEO's $33 million pension. Current law does not require such specific disclosure, so hiding the deferred compensation has become par for the course in Corporate America. While shareholders may attempt to tie CEO pay to performance or may want to shy away from stocks at companies with excessive executive pay, they never see these hidden compensation packages. (*MSN Money*, 9/28/2005)

PROTECTING WORKERS AND SHAREHOLDERS

Congressional Response. Congressional Democrats have been pushing to shine a light on runaway executive pay and provide fairer treatment between CEO pensions and worker pensions. In 2005, two major bills have been introduced on the subject.

Pension Fairness and Full Disclosure Act. In May, Representative George Miller (D-CA) introduced the Pension Fairness and Full Disclosure Act, which would tie the fate of CEOs' pensions to the fate of the worker pensions they control.

Under H.R. 2233, executives would not be able to reward themselves with higher deferred compensation benefits whenever their rank-and-file plan is less than 75 percent funded or whenever they terminate a rank-and-file plan in bankruptcy or unfairly cut older workers' benefits in a cash balance conversion of the rank-and-file plan. It would also require full disclosure of executive compensation packages whenever benefit cuts are proposed for workers.

Protection Against Executive Compensation Abuse Act. In November, Representative Barney Frank (D-MA) introduced the Protection Against Executive Compensation Abuse Act to open up the books on executive compensation. Under H.R. 4291, executive compensation plans would have to be disclosed in full, including the often hidden items like personal use of corporate jets and the performance measures that are used to determine the compensation. It would swing open the doors of the corporate board room clubhouse and require shareholder approval for these compensation plans, particularly for golden parachutes often awarded in mergers.

Increasing the Minimum Wage. In May of 2005 Representative George Miller and his democratic colleagues introduced H.R. 2429, which would raise the minimum wage from its current level of $5.15 up to $7.25 an hour over the next 26 months. The average full-time, full-year worker would see an annual raise of $1,500 per year. Senator Kennedy and his democratic colleagues in the Senate have introduced S. 1062, a companion measure