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Changing Attitudes toward Executive Perquisites: Indications from TARP

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Abstract: This paper examines what happened to Chief Executive Officer (CEO) monetary and nonmonetary compensation at Standard & Poors (S&P) 500 firms in the years surrounding the 2008 financial crisis and in the context of the Troubled Asset Relief Program (TARP) legislation. We use novel data on executive perks at S&P 500 firms from 2006 to 2012. Overall, the results are consistent with lasting impact on nonmonetary compensation and temporary impact on monetary compensation.

Key words: perks; perquisites; TARP; executive compensation
JEL codes: C78, J33, G30

1. Introduction

The financial crisis and TARP legislation provide an interesting opportunity to evaluate what happened to CEO compensation during this period of uncertainty. We investigate the extent to which financial crisis and governance intervention changed corporate compensation practices by examining time trends in both monetary compensation (wage) and nonmonetary compensation (perquisites or perks). There is pervasive blame for the crisis on excessive risk-taking by executives at financial institutions — the common argument being the structure of compensation plans incented these executives to embrace risks (Kirkpatrick, 2009). It has long been a practice of compensation committees of company boards of directors to structure pay packages with the express purpose of minimizing agency conflict by aligning interests of top executives and shareholders (Faulkender & Yang, 2010). Yet, it is these very compensation plans that became the subject of heated criticism. Calls for reform of executive compensation are widespread in academic, political, and public circles, and are coincident with a dramatic increase in executive compensation since the 1980s (e.g., Murphy, 1999; Hall & Murphy, 2003).

Compensation at firms that received government support (TARP firms) was markedly different from that at firms that did not (nonTARP firms) in the years surrounding the financial crisis. The financial crisis had a much greater impact on CEO compensation at TARP firms, and the effects lingered. The magnitude and persistence of perk reductions at TARP firms suggest that this change has a degree of permanence.

On October 3, 2008, the Emergency Economic Stabilization Act (EESA) established the Troubled Assets Relief Program (TARP) as the US Government's effort to calm panic in the financial sector and, by extension, the overall economy. TARP contained initiatives that fell into six different categories. Under the *Executive Compensation Program*, TARP recipients became subject to executive compensation restrictions while they had

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outstanding TARP obligations. The TARP legislation included compensation restrictions because of political and public concern about using taxpayer money to bailout firms that had excessive compensation schemes. For example, Andrews and Bajaj (2009) quote President Obama, "For top executives to award themselves these kinds of compensation packages in the midst of this economic crisis is not only in bad taste — it's a bad strategy — and I will not tolerate it as President. We're going to be demanding some restraint in exchange for federal aid — so that when firms seek new federal dollars, we won't find them up to the same old tricks." Government support acted as a trigger to expand the debate on CEO pay because the legislation made support contingent on compensation restrictions.

This paper makes the following contributions. First, we extend the literature on executive compensation by investigating what happened to CEO wage and perks at S&P 500 firms in the years surrounding the 2008 financial crisis. While there is a large literature investigating the determinants of executive compensation and the rapid and large increase in CEO pay over the past 40 years (e.g., Gabaix & Landier, 2008, Murphy & Zabojnik, 2007, Lazear, 2003, and Hall & Murphy, 2003), there has been little inquiry into the impact of financial crisis and government intervention on monetary and nonmonetary compensation. Second, we contribute to the discussion of perks as excess by presenting results obtained from a novel data set of perk compensation at S&P 500 firms. The two arguments related to the prevalence of executive perks are agency theory in which perks are the result of weak corporate governance that allows CEOs to divert corporate resources for personal gain (e.g., Jensen & Meckling, 1976, and Bebchuk & Fried, 2004) and the optimal contracting hypothesis which argues that perks could be a cost effective way to enhance executive productivity and should be part of optimal executive compensation packages (e.g., Fama, 1980; Rosen, 1986; Henderson & Spindler, 2005). The availability of data is a constraint when studying perk compensation. Execucomp does not provide detailed perk information and the existing literature on perks relies on limited data. Our results come from manually collected information on executive perks from public disclosures contained in the proxy statements that S&P 500 companies filed with the SEC between January 1, 2007 and December 31, 2013.

Perks behaved differently than wage during this period. Amongst S&P 500 firms, those that received government support through TARP had higher executive wages and perks prior to the crisis. Overall in subsequent years, the wage gap narrowed and perk gap reversed. Our results cast doubt on the ability of TARP legislation to effect meaningful, lasting compensation reform.

2. Background

2.1 Legislation

The US Department of the Treasury website is the primary source for details in this section (TARP Programs, 2016). TARP was the Treasury Department's response to restore liquidity and calm as the US stock market rapidly deteriorated in the wake of the bankruptcy of investment bank Lehman Brothers. TARP initiatives fell into six different categories: Bank Investment Programs, Investment in AIG, Auto Industry, Executive Compensation, Credit Market Programs, and Housing. The purpose of Bank Investment Programs was to stabilize the US banking system during the financial crisis and was, by far, the largest of the TARP initiatives in terms of public funding. Because of the enormous risk to the financial system posed by credit default swap positions held by American International Group, the US Treasury Department created the distinct initiative, Investment in AIG. Auto Industry involved major equity investments in General Motors and Chrysler because of the risk to the overall economy and the potential harm to a wide cross section of citizens that would result from the collapse of domestic automobile manufacturing.

Table 1 provides a summary of S&P 500 firms that received government support under TARP. In total, thirty-four S&P 500 firms (mostly finance and insurance companies) received TARP funding. While more than half are commercial banks, the group is not homogenous and also includes federal and federally-sponsored credit agencies, personal credit institutions, finance lessors, finance services, security brokers and dealers, investment advisors, life insurers, fire, marine, and casualty insurers, and automobile manufacturers.

Table 1 Sample Firms Receiving Government Support Under the Troubled Asset Relief Program (TARP)

The data source for this table is publicly available information from the U.S. Department of the Treasury (TARP Reports, 2014). All values are USD millions.

Company Name	Funding Received	Date Received	Payment Status	Date Repaid	Profit to US government
American Express Co	$3,389	9-Jan-09	Full	9-Jun-09	$414.4
American International Group	$67,800	25-Nov-08	Full	14-Dec-12	$5,030.0
Bank of America Corp	$45,000	28-Oct-08	Full	9-Dec-09	$4,570.0
Bank of New York Mellon Corp	$3,000	28-Oct-08	Full	9-Jun-09	$231.4
BB&T Corp	$3,134	14-Nov-08	Full	9-Jun-09	$159.7
Blackrock Inc	$1,580	2-Oct-09	Full	18-Oct-12	$436.0
Capital One Financial Corp	$3,555	14-Nov-08	Full	9-Jun-09	$251.7
CIT Group Inc	$2,330	31-Dec-08	None		$0.0
Citigroup Inc	$45,000	28-Oct-08	Full	6-Dec-10	$13,400.0
Comerica Inc	$2,250	14-Nov-08	Full	17-Mar-10	$322.0
Discover Financial Services Inc	$1,225	13-Mar-09	Full	21-Apr-10	$239.7
Fannie Mae	$116,100	31-Mar-09	Partial		$0.0
Fifth Third Bancorp	$3,408	31-Dec-08	Full	2-Feb-11	$593.4
First Horizon National Corp	$867	14-Nov-08	Full	22-Dec-10	$170.9
General Motors	$50,700	29-Dec-08	Partial		$0.0
Goldman Sachs Group Inc	$10,000	28-Oct-08	Full	9-Jun-09	$1,420.0
Hartford Financial Services	$3,400	26-Jun-09	Full	31-Mar-10	$814.4
Huntington Bancshares	$1,398	14-Nov-08	Full	22-Dec-10	$196.3
Invesco Ltd	$16,000	30-Sep-09	Full	29-Mar-12	$576.8
JPMorgan Chase & Co	$25,000	28-Oct-08	Full	6-Jun-09	$1,730.0
Keycorp	$2,500	14-Nov-08	Full	30-Mar-11	$367.2
Lincoln National Corp	$950	10-Jul-09	Full	30-Jun-10	$259.9
M & T Bank Corp	$600	23-Dec-08	Full	17-Aug-12	$100.5
Marshall & Ilsley Corp	$1,715	14-Nov-08	Full	5-Jul-11	$229.8
Morgan Stanley	$10,000	28-Oct-08	Full	9-Jun-09	$1,270.0
Northern Trust Corp	$1,576	14-Nov-08	Full	9-Jun-09	$133.6
PNC Financial Services Group Inc	$7,579	31-Dec-08	Full	10-Feb-10	$741.3
Regions Financial Corp	$3,500	14-Nov-08	Full	4-Apr-12	$638.1
State Street Corp	$2,000	28-Oct-08	Full	9-Jun-09	$123.6
Suntrust Banks Inc	$4,850	14-Nov-08	Full	30-Mar-11	$527.3
Synovus Financial Corp	$968	19-Dec-08	Full	26-Jul-13	$223.0
U S Bancorp	$6,599	14-Nov-08	Full	9-Jun-09	$334.2
Wells Fargo & Co	$25,000	28-Oct-08	Full	23-Dec-09	$2,280.0
Zions Bancorporation	$1,400	14-Nov-08	Full	26-Sep-12	$253.0

Under the Executive Compensation Program, all TARP recipients became subject to restrictions on executive compensation while they had outstanding obligations under TARP. In the initial 2008 legislation, EESA specified executive compensation standards for certain TARP participants that prohibited new golden parachute agreements in the event of involuntary termination and limited golden parachutes to 300% of average taxable compensation of past five years, reduced the IRS tax deductibility limit from $1,000,000 to $500,000, placed "limits on compensation that exclude incentives for senior executive officers of a financial institution to take unnecessary and excessive risks that threaten the value of the financial institution" (H.R. 1424 — 110th Congress: Emergency Economic Stabilization Act of 2008, p. 13), and established "a provision for the recovery by the financial institution of any bonus or incentive compensation paid to a senior executive officer based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate" (H.R. 1424 — 110th Congress: Emergency Economic Stabilization Act of 2008, p. 13) which significantly expanded clawbacks introduced in the Sarbanes-Oxley legislation of 2002. In the wake of public outrage of 2009 bonus payments, the American Recovery and Reinvestment Act of 2009 strengthened the restrictions on executive compensation at firms that had outstanding TARP obligations. The legislation particularly targeted compensation contracts that included:

1) significant cash bonuses with pay-off based on performance, since these payouts were rarely clawed back when performance subsequently fell
2) provisions for annual sale of stocks and options, since large net cash withdrawals in the years preceding the crash were consistent with an incentive for short-term performance manipulation to maximize the amount withdrawn
3) option grants since the asymmetrical payoff of options encourage risk-taking behavior.

Compensation restrictions associated with TARP included: bonuses limited to 33% of total compensation (payable in restricted stock only) subject to clawback provisions; prohibition of severance and change in control payments for named executive officers; enhanced disclosure of perks in the context of a requirement for firms to adopt a luxury expenditure policy; prohibition of tax gross-ups; annual non-binding "say on pay" shareholder vote; and independent compensation committees (Core & Guay, 2010).

3. Data and Results

3.1 Data

The source of data on executive compensation originates with public disclosures contained in proxy statements that S&P 500 companies filed with the Securities and Exchange Commission (SEC) between January 1, 2007 and December 31, 2013 available from the SEC Edgar database (EDGAR|Company Filings, 2014). These proxy statements were all subject to the SEC disclosure rules that came into effect on December 15, 2006. The SEC specifies the elements of executive compensation that companies must report in separate columns (designated by lower case letters) in the summary compensation table of the proxy statement: (c) *salary*, (d) *bonus*, (e) *stock awards*, (f) *option awards*, (g) *non-equity incentive plan compensation*, (h) *change in pension value and nonqualified deferred compensation earnings*, (i) *all other compensation*, and (j) *total*. The SEC defines *all other compensation* as executive compensation not otherwise included in columns (c) though (h), and specifies two categories of *all other compensation*: *perquisites and other personal benefits* and *additional all other compensation*.

The first category, *perquisites and other personal benefits,* includes, but is not limited to, club memberships, financial or tax advice, personal travel, personal use of company property, housing, relocation and other living expenses, security, and discounts on company products or services (SEC Release No. 33-8732A, p.77). This category represents nonmonetary compensation. We manually collected compensation information in the summary compensation table and detailed information for *perquisites and other personal benefits* for CEOs at S&P 500 companies, and then supplemented this hand collected data with company financial statement information from Compustat. The final merged dataset has 3,529 observations on 964 CEOs from 624 firms. The number of firms exceeds 500 because of changes to the composition of the S&P 500 over time. We winsorize all variables at the top and bottom one percent.

We define *wage* as the sum of salary, bonus, stock awards, option awards, non-equity incentive plan compensation, and change in pension value and nonqualified deferred compensation earnings reported in SEC proxy filings. This is our benchmark measure of total monetary compensation. We define p*erks* as the amount reported as perquisites and other personal benefits — this is the measure of nonmonetary compensation.

3.2 Results

We define *TARP firms* as the 34 sample firms that received TARP funding at some time during the sample period and *nonTARP firms* as S&P 500 firms that did not receive government support through TARP. Table 2 presents summary statistics of firm characteristics for TARP and nonTARP firms as indicated. Given that the sample pool is the S&P 500, the firms in the data set are large and profitable. Compared to nonTARP firms, TARP firms are larger (i.e., sales of $31.5 billion vs. $15.1 billion, total assets of $296.5 billion vs. $28.7 billion, and number of employees of 59,241 vs. 39,765), with higher free cash flows, $4.9 billion vs. $1.2 billion, and better governance, E index of 2.4 vs. 2.7. However, TARP firms are less profitable, with return on equity of 13.1% vs. 14.0% and return on assets of 0.9% vs. 5.8%, and lower growth, with sales growth of 4.8% vs. 6.9% and market-to-book ratio of 1.4 vs. 3.2. Although all of the firm characteristics are right skewed, the respective lower median values demonstrate the same patterns as the means.

Table 2 summarizes sample firm characteristic statistics. The sample includes S&P 500 firms between January 1, 2006 and December 31, 2013. Columns present data for TARP firms (that received government support through the Troubled Asset Relief Program, TARP), nonTARP firms (that did not receive government support through TARP) as indicated. *Market Value* is book value of debt plus market value of equity. *Return on Assets* is net income divided by total assets. *Return on Equity* is net income divided by total equity. *Stock Return* is year end share price plus all per share dividend payments during the year all divided by prior year end share price. *Market to Book Ratio* is market value of equity divided by book value of equity. *Free Cash Flow* is net income plus depreciation & amortization plus interest after tax minus the increase in working capital minus capital expenditures. *E Index* is the entrencement index (governance) defined in Bebchuk, Cohen, and Ferrel (2009).

Table 3 summarizes wage information for CEOs at TARP and nonTARP firms in the years surrounding the financial crisis. Compared to nonTARP firms, CEO wages are higher at TARP firms prior to the financial crisis. TARP firm CEO wages demonstrate a pronounced decrease during the years surrounding the financial crisis. For example, mean (median) wage decreases from $15.9 million ($17.0 million) in 2006 to $6.3 million ($5.1 million) in 2009 — 39.7% (29.9%) of 2006 levels — before rebounding to $11.1 million ($10.5 million) in 2012 — 70.2% (62.8%) of 2006 levels. In contrast, nonTARP firm CEO wage decreases modestly during the crises before reaching new highs. For example, mean (median) CEO wage goes from $9.4 million ($7.7 million) in 2006 to $9.2 million ($7.6 million) in 2008 — 98.2% (98.0%) of pre-crisis levels — then to $10.6 million ($9.1 million) in 2012 — 113% (119%) of pre-crisis levels.

Table 2 Summary Statistics of Firm Characteristics

	TARP Firms			nonTARP Firms		
	Obs	Mean (Median)	Std Dev	Obs	Mean (Median)	Std Dev
Employees	289	59,241 (26,467)	81,792	4326	39,765 (16,800)	61,557
Net Sales ($millions)	289	31,474 (10,314)	42,023	4326	15,081 (6,674)	23,623
Total Assets ($millions)	289	296,532 (153,337)	306,850	4326	28,703 (10,164)	74,122
Market Value ($millions)	289	155,385 (44,325)	218,216	4326	29,342 (12,605)	59,246
Return on Assets	289	0.9% (0.9%)	5.5%	4326	5.8% (5.5%)	7.5%
Return on Equity	289	13.1% (9.3%)	39.0%	4326	14.0% (14.3%)	38.2%
Sales Growth	289	4.8% (2.0%)	23.1%	4326	6.9% (5.7%)	18.3%
Stock Return	289	7.5% (10.6%)	44.6%	4326	11.0% (9.7%)	40.0%
Market to Book Ratio	289	1.4 (1.2)	1.0	4326	3.2 (2.4)	3.9
Free Cash Flow ($millions)	289	4,909 (1,598)	7,452	4326	1,183 (430)	3,106
E Index	205	1.9 (2)	1.5	3239	2.7 (3)	1.5

Table 3 presents summary statistics for CEO wage ($000s) at S&P 500 companies as disclosed in SEC filings between January 1, 2006 and December 31, 2013. Columns present data for CEOs at TARP firms (that received TARP funding at some time during the sample period) and nonTARP firms (that did not receive government support through TARP) as indicated.

Table 3 Summary Wage Information for S&P 500 CEOs

	TARP Firms		nonTARP Firms	
Year	Mean (Median)	Std Dev	Mean (Median)	Std Dev
2006	15,855 (16,966)	9,551	9,417 (7,719)	6,832
2007	11.956 (10,156)	9,195	9,724 (7,918)	6,871
2008	7,356 (5,097)	6,937	9,248 (7,563)	6,318
2009	6,297 (5,065)	5,396	9,274 (7,991)	6,092
2010	9,972 (10,148)	6,252	10,192 (8,884)	6,417
2011	11,010 (9,559)	5,886	10,521 (9,129)	6,601
2012	11,136 (10,533)	6,121	10,596 (9,149)	6,407

Table 4 summarizes CEO perks at TARP and nonTARP firms. Compared to nonTARP firms, perks are higher at TARP firms prior to the financial crisis. Overall, TARP firm perks decrease substantially by 2009 and remain at lower levels over the remaining period. For example, mean (median) CEO perks at TARP firms decrease from $149,064 ($67,207) in 2006 to $74,254 ($27,812) in 2009 to $76,346 ($26,422) in 2012 — 51.2% (39.3%) of 2006 levels. At nonTARP firms, CEO perks decrease (modestly) over the sample period; mean (median) perks are $89,886 ($32,760) in 2006 and $84,756 ($29,585) in 2012 — 94.3% (90.3%) of 2006 levels. Despite being a small proportion of executive compensation (typically less than 1% of wage), perks may foster behaviors that make them psychologically important to executives (e.g., Hirsch, 1976; Rajan & Wulf, 2006) or to shareholders, politicians, and the public in general. We are expressly interested why the behavior of this small, but unique, form of compensation is different from wage.

Table 4 presents summary statistics for CEO perks at S&P 500 companies as disclosed in SEC filings between January 1, 2006 and December 31, 2013. Columns present data for CEOs at TARP firms (that that received TARP funding at some time during the sample period) and nonTARP firms (that did not receive government support through TARP) firms as indicated.

Table 4 Summary Perk Information for S&P 500 CEOs

	TARP Firms		nonTARP Firms	
Year	Mean (Median)	Std Dev	Mean (Median)	Std Dev
2006	149,064 (67,207)	158,091	89,886 (32,760)	127,633
2007	121,797 (47,822)	146,505	87,004 (30,369)	128,461
2008	118,017 (63,194)	127,772	93,066 (34,742)	131,712
2009	74,254 (27,812)	106,317	87,791 (37,870)	117,470
2010	79,642 (24,390)	129,386	85,257 (32,791)	120,497
2011	75,463 (27,701)	117,786	87,811 (33,528)	125,292
2012	76,346 (26,422)	115,009	84,756 (29,585)	124,506

To confirm that the changes in CEO perks and wages are statistically significant, Table 5 presents regression results for CEO compensation based on the following equation: $Ln(Compensation_{it}) = \alpha_c + \mathbf{W}'\boldsymbol{\beta}_C + \mathbf{Z}'_{it-1}\boldsymbol{\varphi}_C + u_j^c + \varepsilon_{it}^c$, where the dependent variable, is the natural logarithm of CEO i's compensation in year t and compensation is either wage (columns 1 and 2) or perks (columns 3 and 4). Z_{it-1} is a vector of control variables including ln(Market Value_{t-1}), Market to Book Ratio_{t-1}, Stock Return_t, Stock Return_{t-1}, Return on Assets_t, Return on Assets_{t-1}, Free Cash Flow Ratio_{t-1}, Sales Growth_{t-1}, ln(Tenure_t), and Female. u_j^c is industry j's fixed effect based on 3 digit SIC code. **W** is a vector of year dummy variables for 2007 to 2012. β_1 to β_6 represent the differences in CEO compensation at firms in 2007 to 2012, respectively, compared to 2006. In the wage regression of column (1), the significant positive and increasing β coefficients for the 2008 to 2012 dummies confirm overall increasing wage at nonTARP firms. Given that the sample average nonTARP CEO 2006 wage was $9.42 million, the 2008 (2012) dummy coefficient of 0.102 (0.229) suggest that 2008 (2012) nonTARP average CEO wage increased to $10.4 million ($11.8 million) — a 10.7% (25.7%) increase over 2006 levels. In contrast, CEO wage at TARP firms decreased significantly prior to the implementation of TARP in response to the financial crisis, and did not recover toward 2006 levels until 2010. In the wage regression of column (2), the significant negative and large coefficients for the 2007 to 2009 dummies, confirm large wage decreases at TARP firms in the years surrounding the financial crisis. For example, given that the sample average TARP CEO 2006 wage was $15.9 million, the 2008 dummy coefficient of -0.627 suggests that 2008 TARP average CEO wage decreased to $8.5 million — i.e., to 53.4% of 2006 levels. The coefficients for 2010, 2011 and 2012 are not significant, indicating a return to 2006 levels by 2010.

In the perk regression of column (3), the significant positive coefficient for the 2009 dummy indicates higher levels of perks at nonTARP firms in 2009 — there is no indication of a particular trend. In contrast, CEO perks at TARP firms decreased significantly starting in 2009 and remained at very low levels compared to 2006 for the remainder of the sample period. In the perks regression of column (4), the significant negative and large coefficients for the 2009 to 2012 dummies, confirm large and lasting decreases in perks at TARP firms. Given that the sample average TARP CEO 2006 perks were $149,064, the 2009 (2012) dummy coefficient of -1.041 (-1.522) suggest that 2009 (2012) TARP average CEO perks decreased to $52,634 ($62,537) — i.e., to 35.3% (21.8%) of 2006 levels.

Table 5 reports the changes in CEO wage and perk compensation over time. The dependent variable in columns 1&2 (3&4) is CEO logarithmic wage (perks). The coefficients for the year dummy variables indicate the level of CEO wage or perks in that year relative to 2006. All regressions control for industry fixed effects. Cluster-robust standard errors are in parentheses with clustering at firm level.

Table 5 Changes in CEO Compensation at S&P 500 Firms in the Years Surrounding the Financial Crisis

	(1) nonTARP Ln ($Wage_t$)	(2) TARP Ln ($Wage_t$)	(3) nonTARP Ln ($Perk_t$)	(4) TARP Ln ($Perk_t$)
2007 Dummy	0.056	-0.607**	-0.159	-0.584
	(0.048)	(0.261)	(0.287)	(0.918)
2008 Dummy	0.102**	-0.627**	-0.011	-0.491
	(0.050)	(0.286)	(0.300)	(1.007)
2009 Dummy	0.114**	-0.462**	0.685**	-1.041**
	(0.051)	(0.301)	(0.310)	(1.058)
2010 Dummy	0.140***	-0.123	0.447	-1.627**
	(0.051)	(0.289)	(0.308)	(1.019)
2011 Dummy	0.175***	0.137	0.223	-1.996**
	(0.048)	(0.287)	(0.287)	(1.009)
2012 Dummy	0.229***	0.299	0.396	-1.522**
	(0.050)	(0.292)	(0.302)	(1.029)
Constant	13.668***	11.254***	5.893	10.037***
	(0.737)	(0.874)	(4.450)	(3.077)
Industry Fixed Effects and Control Variables	Y	Y	Y	Y
Observations	3,305	225	3,305	225
R-squared	0.332	0.349	0.233	0.310

***, **, * indicate significance level at 1%, 5% and 10% level respectively.

4. Examples of the Changing Attitudes Toward Executive Perks

To illustrate the changing attitudes towards perks in an environment of increased public scrutiny, we summarize how perk programs evolved at two sample firms — General Motors and Wells Fargo. The details come directly from the compensation discussion and analysis and notes to the summary compensation table included in SEC filed proxy statements.

4.1 Perks at General Motors

Regarding perks and other personal benefits, the 2006 General Motors proxy statement states (General Motors Corporation SEC Schedule 14A, Definitive Proxy Statement for 2006, p. 27):

> A limited number of additional benefits are provided for executives as part of the total compensation package because we believe that it is customary to provide these benefits or otherwise in our interest to do so. The compensation associated with these programs is included in *All Other Compensation*.

The attitude toward perks is that they are an expected element of overall compensation, but have the potential to provide value to the firm as well as to the executive. Although described as limited, GM had the following (generous) perk policies (General Motors Corporation SEC Schedule 14A, Definitive Proxy Statement for 2006, pp. 28-29):

> Corporate Aircraft — With the approval of the Chairman and CEO, the Corporation's aircraft may be used by members of the Senior Leadership Group for business purposes. This provides for a more efficient use of their time given the greater possibility of direct flights and improved flight times than are available commercially. It also provides a more secure traveling environment where sensitive GM business issues may be discussed and enhances personal safety. A spouse may accompany the executive on the aircraft when the executive is traveling for business purposes and imputed income is assessed to the executive with taxes thereon reimbursed by the Corporation if the spouse's participation is required for business purposes. The Executive Compensation Committee annually reviews all corporate aircraft usage by the Named Executive Officers. As part of a comprehensive security study, certain Named Executive Officers are encouraged to use the corporate aircraft for personal travel….
>
> Security Systems and Services — As part of the Corporation's comprehensive security study, residential security systems and services have been implemented for Messrs. Wagoner, Henderson, Lutz, Gottschalk, and Devine.
>
> Executive Company Vehicle Program — The Corporation maintains a program that provides all executives, including the Named Executive Officers, with a GM vehicle of their choice. This program is not mandatory. Executives electing to participate in the program are asked to evaluate the vehicles they drive, thus providing feedback about our products. Participants are required to pay a monthly administration fee of $150 and are charged with imputed income based on the value of the vehicle they choose to drive. Executives are reimbursed for taxes on this income, subject to a maximum vehicle value. Beyond this maximum amount, taxes assessed on imputed income are the responsibility of the executive. In addition, participants are also required to purchase or lease at least one GM vehicle every four years….
>
> Executive Health Evaluation — The Corporation provides a routine medical exam for all U.S. executives which we believe is in the best interests of the organization in that executives are able to contribute to their maximum potential, and unanticipated medical concerns are minimized by early detection and prevention.
>
> Financial Counseling — The Corporation provides a taxable allowance to all senior U.S. executives for financial counseling and estate planning services. This program does not include tax preparation services.
>
> GM Matching Contributions Program — All active GM employees in the U.S. may participate in a matching contributions program to accredited four-year colleges, universities, and community colleges in which all eligible contributions are matched on a dollar-for-dollar basis up to $5,000 annually.

By 2010, the treatment of and attitude toward executive perks at General Motors was very different (General Motors Corporation SEC Schedule 14A, Definitive Proxy Statement for 2010, pp. 33, 34, and 38).

> The Special Master[1] determined that no more than $25,000 in total "other" compensation and perquisites may be provided to NEOs, absent exceptional circumstances for good cause shown. Payments related to expatriate assignments are not included in this total…. The Special Master and TARP regulations require additional limitations which cause our programs to exclude what market-based surveys indicate are competitive practices….
>
> Luxury Expense Policy
>
> As required by TARP regulations, we have adopted a luxury expense policy and posted it on our website www.gm.com/investors, under "Corporate Governance" and then "General Motors Expense Policy". The policy's governing principles establish expectations for every business expense, embodying the integrity and values that promote the best interests of the enterprise. Luxury or excessive expenditures are not reimbursable by GM under the policy. Such expenditures may include, but are not limited to expenditures on entertainment or events, office and facility renovations, aviation, transportation services, or other activities or events that are not reasonable expenditures for staff development, performance incentives, or other similar measures conducted in the ordinary course of business operations….We do not maintain any private passenger aircraft or any interest in such aircraft, or private passenger aircraft leases.

We also note that the 2011 policies with respect to perquisites and other personal benefits were almost identical to those in 2010. In response to the directives of the Special Master, GM cut perks to what it considered to be below-competitive levels. Not only did GM stop personal use of corporate aircraft, they eliminated the jets altogether. Auto industry executives encountered severe public and political backlash for using corporate jets to travel to Congressional hearings on November 19, 2008 seeking government bailout funds to prevent collapse in the US auto sector (e.g., Schwartz, 2008).

The shift in attitudes toward perks had a large impact on perk consumption at GM. In 2006, CEO G.R. (Rick) Wagoner Jr. received perks valued at $361,058 consisting of personal use of company aircraft ($51,941), security ($284,523)[2], and other ($24,594), including company vehicle program, executive health evaluations, financial counseling and estate planning services. In 2010 (2011), CEO Daniel F. Akerson received $17,264 ($23,809) in perks, consisting of $6,740 ($276) for security and $10,524 ($23,533) under the executive company vehicle program and for car and driver services. Between 2006 and 2010 (2011), CEO perks decreased by 95% (93%).

4.2 Perks at Wells Fargo

As a second example, we highlight the changes in perk paying practices at Wells Fargo. Regarding perks and other compensation (Wells Fargo and Company SEC Schedule 14A, Definitive Proxy Statement for 2006, p. 50):

> Perquisites are intentionally limited and may include a car allowance, paid parking, financial planning, social club dues, home security systems, and benefits under a Relocation Program for team members who relocate at our request. In lieu of a car allowance, under our security policy for our Chairman and CEO, we provide a car and driver to Mr. Kovacevich that he uses primarily for business and occasionally for commuting from his home to his office or to outside events. Providing this service allows Mr. Kovacevich while in transit to work safely and have confidential telephone conversations undisturbed, and thus provides a benefit to the Company that more than offsets the relatively modest incremental cost for his non-business use of a car and driver over the past year.

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[1] The Secretary of the Treasury established the Office of the Special Master to monitor and regulate executive compensation at firms receiving exceptional assistance under TARP.

[2] The costs include installation and monitoring of security systems and staffing expenses for personal protection (including chauffeured vehicles for business-related functions).

In 2006, the attitude projected toward perks is that they are limited (although nontrivial) and reflect a cost of doing business (e.g., relocation at company request), or provide common value (e.g., the firm benefits from increased CEO productivity and safety related to car and driver services). The 2010 proxy statement indicates that the level of restraint at Wells Fargo had increased — the firm had eliminated most perks. Note, however, that the company continued to provide car and driver services because of the perceived benefit (Wells Fargo and Company SEC Schedule 14A, Definitive Proxy Statement for 2010, p. 71).

> The HRC[3] has intentionally limited perquisites to executive officers and in 2010 continued to reduce or eliminate almost all executive perquisite programs. We have eliminated executive perquisites providing for relocation-related home purchase expenses and reimbursements for financial planning services, automobile allowance, club dues, parking, and home security systems. For security or business convenience, we provide a car and driver to Mr. Stumpf,… primarily for business travel and occasionally for commuting.

In 2006, CEO Richard M. Kovacevich (COO John G. Stumpf) received total perks of $64,969 ($104,499) consisting of $47,506 ($47,776) for security systems at their primary and second homes, $0 ($27,000) for relocation expenses, and $17,463 ($29,723) for other perks, including financial planning, car allowance, parking, social club dues, and car and driver services. In 2010, CEO John G. Stumpf received $13,831 in perks, consisting of financial planning, home security, and car and driver services. Stumpf's 2010 perks were 79% less than 2006 CEO perks, and 87% less than his own 2006 perks. From a 2006 self-described attitude of restraint, Wells Fargo became much more frugal by 2010. Moreover, the company committed to further reductions in perks beyond 2010 (Wells Fargo and Company SEC Schedule 14A, Definitive Proxy Statement for 2010, p. 77) — "the Company terminated the executive financial planning program and reimbursement of home security expenses."

5. Conclusions

The financial crisis and TARP legislation provide an interesting opportunity to evaluate what happened to executive compensation at S&P 500 firms during this period. Compensation practices at TARP and nonTARP firms were markedly different in the years surrounding the financial crisis, and CEO wage and perks behaved differently. The financial crisis had a much greater impact on CEO compensation at TARP firms, and the effects lingered. By the end of the crisis, the wage and perk gap between TARP and nonTARP firms narrowed (reversed). The magnitude and persistence of perk reductions at TARP firms suggest that this change has a degree of permanence.

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