



18<sup>TH</sup> ANNUAL CONFERENCE

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## Keeping Your Grant Practices Fresh for Your Millennial Workforce

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# Agenda

- Determining Equity Compensation Goals
- Analyzing Plan Design Impact
- Case Study – Yahoo! Inc.
- Case Study – Amazon
- Attracting and Educating Employees
- Lessons Learned



# Determining Equity Compensation Goals

Equity compensation, whether in the form of stock options, restricted stock or units (“RSUs”), or performance shares, is intended to allow the company a way to:

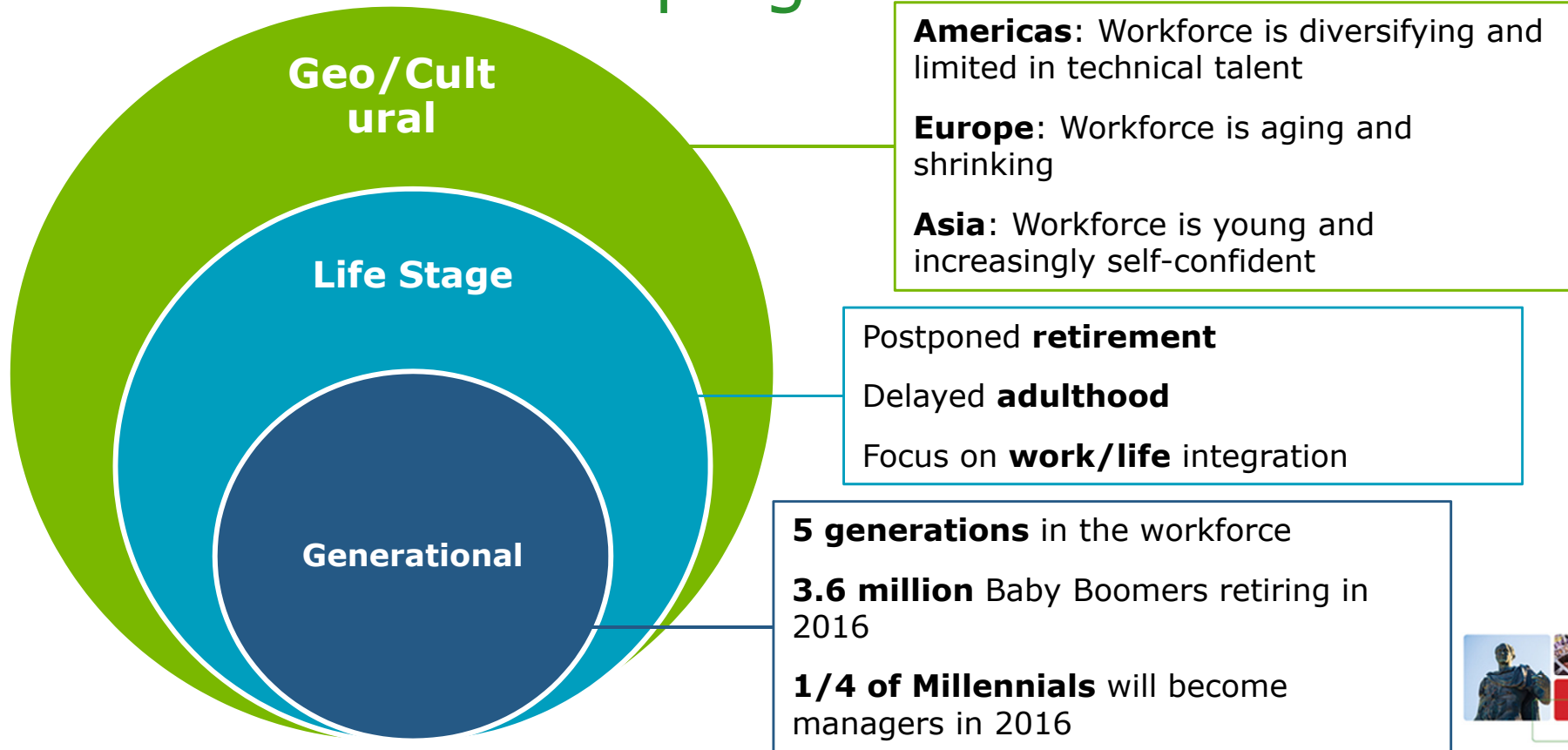
- Provide non-cash compensation to employees
- Encourage employee retention and loyalty
- Align the interests of shareholders and employees

The overall strategy that a company follows to deliver equity compensation includes a number of key variables:

- Individual pay mix consisting of cash and equity
- Overall company overhang and equity usage
- Grant frequency
- Participation
- New-hire grant levels
- Equity vehicle mix
- Vesting length and frequency ← Hint: We are going to be talking about this one. A lot.



# Macro Trends Shaping the Talent Discussion



Source: Aon's People Trends 2016: What HR Will Be Thinking About in the New Year, January 2016

# What Do They Want Out of Life?

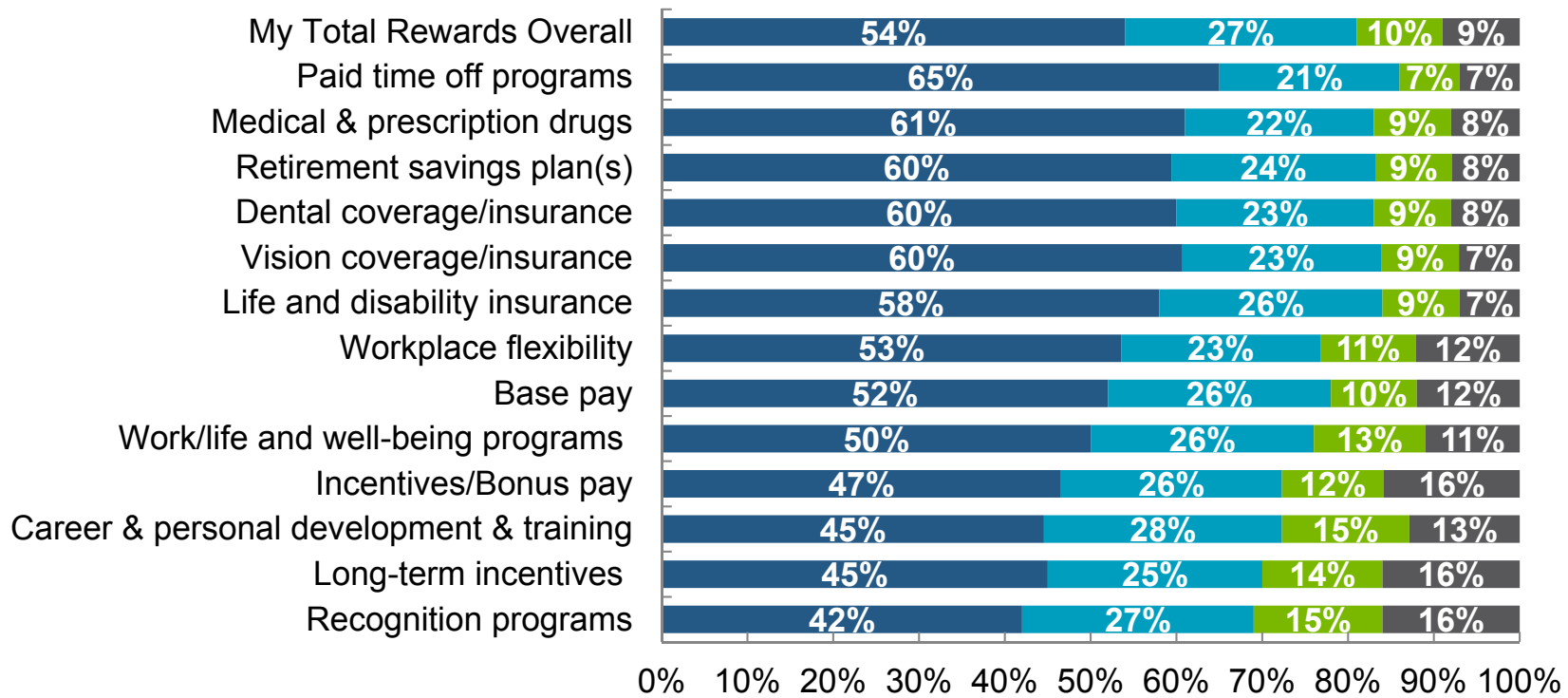
How Millennials Would Prioritize Their Lives	
Priority	Percentage picked as a first choice
To spend time with my family	60%
To grow and learn new things	52%
To live a long and healthy life	43%
To have a successful career	38%
To work for the betterment of society	33%
To have time to enjoy my hobbies	24%
To have many good friends	21%
To be wealthy	13%



Source: *Understanding a Misunderstood Generation*, Harvard Business Review, February 23, 2015; data shown is representative of Millennials in North America

# Are Total Rewards Meeting Their Needs?

■ Strongly Agree/Agree    
 ■ Slightly Agree    
 ■ Slightly Disagree    
 ■ Disagree/Strongly Disagree



Source: Aon Hewitt's 2016 *Inside the Employee Mindset Report*

# Analyzing Stock Plan Assets

**Average Balance by Age**



Source: Equity Edge Online<sup>®</sup> active Employee Stock Purchase Plans as of December 31, 2015; Stock plans administered by E\*TRADE Financial Corporate Services, Inc. as of December 31, 2015

# Case Study – Yahoo!

## **PRIMARILY RSUS & PSUS**

New Hire Awards – Broad-based

- Quarterly grants
- 25% cliff then monthly vesting
- Vest commencement from Hire Date

Annual Awards – Top Performance Focused

- Monthly vest from grant date
- Targeted to towards top talent

Program Objectives

- Remain competitive under equity constraints
- Frequent vesting to increase engagement
- Create shorter term carrots





# Case Study – Yahoo!

## **PROS & CONS OF COMP APPROACH**

### PROS

- High employee engagement; frequent vest dates
- Vesting creates a carrot just around the corner
- Very employee friendly

### CONS

- One solution doesn't fit all sizes
- Multiple tax lots for cost basis reporting
- Vesting from hire = daily vesting processing

### KEY MILLENNIAL CHALLENGES

- Compensation no longer confidential
- Educating in Tweets
- Mobile or “No Go”



# Case Study – Amazon

## **EQUITY COMPENSATION PLAN DESIGN**

### Compensation Philosophy:

We believe that a fundamental measure of our success will be the shareholder value we create over the long term. As a result, we may make decisions and weigh tradeoffs differently than some companies. For example, under our compensation philosophy, we have prioritized stock-based compensation that vests over an extended period of time. In addition, we believe granting stock-based compensation to employees at all levels across the Company results in motivated, customer-centric people who think and act like owners because they are owners.

### Types of Awards: Broad-based, Time-based RSUs

- New Hire Awards
- Annual Awards
- Promotion Awards



# Case Study – Amazon

## **PROS & CONS OF COMP APPROACH**

### PROS

- High employee engagement
- Employees will have multiple RSU awards that vest over many years
- Provide a greater amount of potential compensation in later years than the current year

### CONS

- Large portion of employee's total compensation; cash flow can be a challenge

### KEY MILLENNIAL CHALLENGES

- Understanding Amazon's Total Compensation Approach
- How performance correlates (or does not) to this approach
- How are we helping them with their long term goals



# Attaining, Retaining and Educating Employees

In order to understand how to attract, retain and educate millennial employees, we must first understand:

- How do the Millennials fit within the macro trends shaping the talent discussion?
- What do the Millennials tell us that they want out of life?
- Is what we are giving them meeting their needs?
  
- The next logical step some companies are exploring is employee choice.



# Choice

## **MANY COMPANIES ARE CONSIDERING TAKING THE NEXT STEP OF OFFERING CHOICE**

One way to bridge the difference in goals and desires of the different generations in the workplace is to offer choices regarding:

- Combination of stock options versus RSUs
- Length and frequency of vesting schedules

The process of adding employee choice is not an easy one, and serious consideration should be given to:

- Will these choices can be done via annual enrollment?
- Is it an all-or-nothing choice? Or are bumpers in place to protect employees?
- Will these choices be available to all global participants or just a target group?
- There are numerous legal issues that may arise and should be discussed/ vetted up-front.
- How should “fair” equivalencies be used to determine how many different awards of different types are offered?



# Lessons Learned

## **UNDERSTAND YOUR EQUITY COMPENSATION GOALS**

- Recruitment vs. Retention vs. Stock Ownership
- Broad-based vs. Targeted Granting Practices

## **UNDERSTAND YOUR EMPLOYEE POPULATION**

- Geographical, Cultural, Age Differences
- Education & Preferred Communication Channels
- Sophisticated vs. Inexperienced Investors

## **WORK TO BALANCE CREATIVITY WITH EASE OF ADMINISTRATION, WHERE POSSIBLE**

- Utilize system functionality and automation to support larger population and/or more frequent events
- Standardize where possible to avoid exception-based processes
- Explore alternatives such as choice to help you stay on the cutting edge of Equity Compensation



# Questions?

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# Thank You

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