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Poll: Industry CEOs Are Overpaid

By Gregory Shulas April 27, 2011

The gap between CEO pay and the average fund worker's compensation is too extreme, feeding into an industry sentiment that fund chief executives are overpaid. That's according to *Ignites* poll respondents.

Roughly 76%, or 323 voters, said that CEOs in the mutual fund space are being compensated too richly. That made it the top opinion expressed in an *Ignites* poll asking readers whether CEO compensation is getting out of control in the industry.

The majority group consisted of 59% who said that the pay ratio between top executives and the average industry worker is too wide, and 17% who feel that large seven-figure payouts send the wrong message to shareholders.

In contrast, 25%, or 104 voters, believe the pay packages industry CEOs receive are fair. The minority group consisted of 17% of voters who said the vast majority of CEOs are being paid in a reasonable manner, and 8% who reject any limits on what a CEO can earn.

Pay packages for CEOs increased by an average of 32% in 2010, regulatory filings show, *Ignites* reported. Mario Gabelli stands out as one of the top-paid industry executives, commanding a $56.61 million payday in 2010, representing a nearly 30% annual increase.

Meanwhile, **Eaton Vance**'s Thomas Faust earned an $8.8 million 2010 package (an 85% increase), and Larry Zimpleman, CEO of **Principal Financial Group**, garnered $8.25 million in annual compensation (a 68% increase). Additionally, Martin Cohen and Robert Steers, co-CEOs of **Cohen & Steers**, each received payouts valued at $2.32 million, an increase of 197% compared with the previous year.

Mercer E. Bullard, associate professor of law at the **University of Mississippi** and a mutual fund governance expert, says Gabelli's compensation should be looked at separately because a significant percentage of his earnings came from returns generated by capital that he personally invested in his own publicly traded company.

Scrutiny is needed in cases where executives collect high eight- or seven-figure payouts during times when their firms performed poorly, he says. The more than $75 million that former **Putnam Investments** CEO Lawrence Lasser received after leaving the firm amid the market-timing scandal is a good example of how an executive can be overpaid for services rendered, Bullard adds.

From a fund shareholder perspective, the compensation that is awarded to portfolio managers, as opposed to C-level executives, typically is more important, he says. It's crucial that these investment executives be compensated for their portfolios' performance. Further, portfolio managers must have a personal stake in their mutual funds, excluding cases where the fund invests in esoteric asset classes, Bullard says.

Niels Holch, executive director of the **Coalition of Mutual Fund Investors**, says that despite widespread resentment at oversize executive payouts, it would be unwise to regulate such compensation arrangements.

"It is very hard to regulate executive compensation. Ultimately boards of directors are responsible for setting pay for CEOs, and the government should not micromanage that responsibility," Holch says.

Instead, boards at investment companies should set a tone that emphasizes fair and reasonable pay packages that are based on performance and are fully transparent, he says.

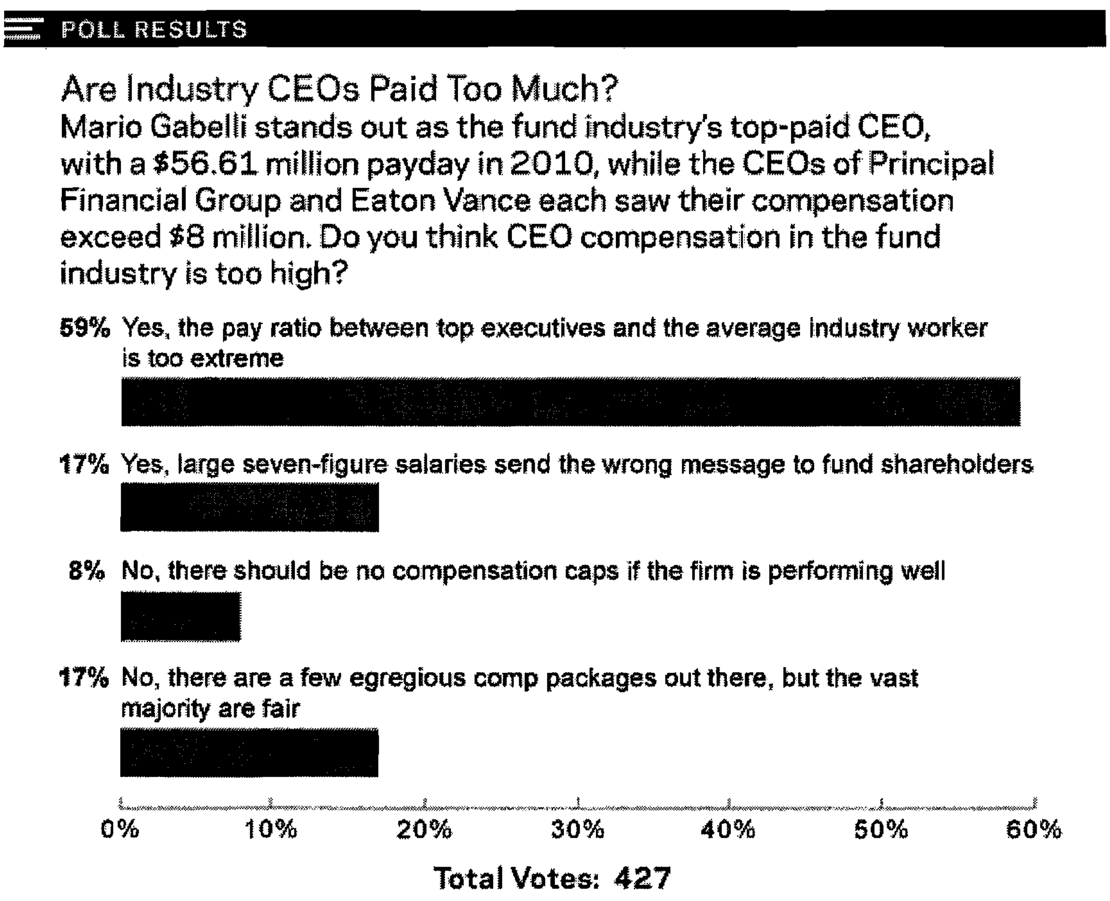
"Having tone at the top is very important," Holch says, adding that he agrees that oversize executive pay arrangements send the wrong message to shareholders.

In many cases, the CEO receives a much higher compensation for well-defined reasons, says William Donnelly, managing consultant at **Val Executive Resources Group**.

"The high compensation levels that CEOs receive compared to the average worker often reflect how the CEO is charged with a specific mandate, such as building a new business line or restructuring an existing organization," Donnelly says. "It is typically a big job with a defined time frame, so compensation has to be factored into the equation."

Precisely 427 *Ignites* readers had participated in the survey as of 3 p.m. Tuesday.

The poll is an unscientific sampling of *Ignites* subscribers. Participants voted only once and were self-selected. *Ignites*'s audience consists of money managers, service providers and financial advisors.



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