

CAPintel // October 21, 2026

Long-term Incentive Plans – Payouts and Performance Alignment

- By Mike Bonner and Melissa Burek
- Noah Rosenblatt and Gray Broaddus provided research assistance

Setting appropriate long-term performance goals is one of the key challenges facing management teams and compensation committees. Goals should be achievable enough to motivate achievement of the company's objectives and rigorous enough to ensure executives earn above target payouts only for strong performance. Because long-term performance plans represent the largest portion of pay for the most senior executives, the degree to which committees achieve this balance can meaningfully impact the value executives realize from their compensation programs and the alignment of pay outcomes with the shareholder experience.

CAP analyzed payouts from long-term performance plans over a 10-year period for 100 large U.S. public companies across 11 industries. Our goal is to assess payout patterns across market cycles, understand the impact that relative total shareholder return (TSR) metrics have on payout patterns, and give management teams and compensation committees a "rule of thumb" for evaluating the degree of stretch in long-term performance goals.

NEW YORK

1180 Avenue of the Americas, 22nd Floor
New York, NY 10036
+1 (212) 921-9350
www.cappartners.com

CHICAGO

200 S Wacker Drive
Suite 3100
Chicago, IL 60606
+1 (312) 702-0307

LOS ANGELES

2945 Townsgate Road
Suite 200
Westlake Village, CA 91361
+1 (310) 426-2340

SEATTLE

500 108th Ave NE
Unit 1100
Bellevue, WA 98004
+1 (206) 246-2195

Key Takeaways

1. Based on our analysis of long-term incentive payouts over a 10-year period, the degree of difficulty, or “stretch” embedded in long-term performance goals translates to a 95% chance of achieving at least Threshold performance, a 70% chance of achieving at least Target performance, and a 20% chance of achieving Maximum performance, suggesting performance goals balance achievability at Threshold and Target with significant “stretch” at Maximum.
2. Funding on relative TSR metrics tends to be more evenly distributed while funding on financial metrics tends to skew toward target and above. This reflects the different roles the metrics play with financial metrics having clearer line-of-sight for plan participants and relative TSR being more of an outcome metric tied to the shareholder experience.
3. Long-term performance plans have generally been effective at aligning pay and performance as the top performers in each cycle consistently paid above target at a higher rate than the broader sample.

Summary of Findings

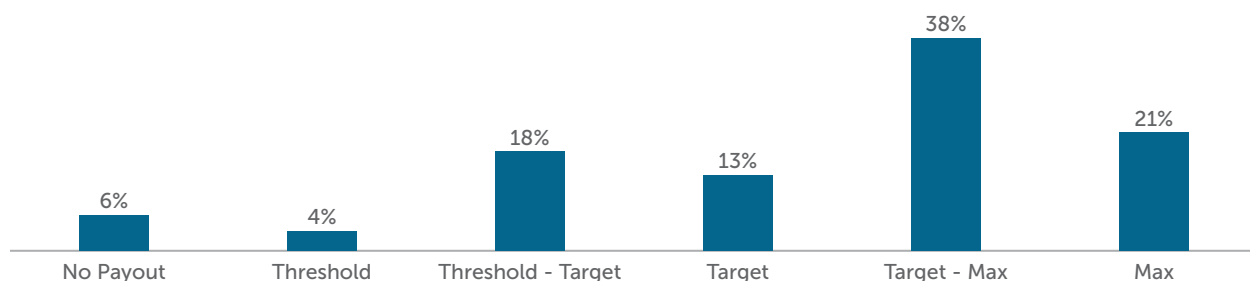
Overall Payout Distribution and Trends

Based on CAP’s analysis of long-term incentive payouts for performance cycles that ended in 2015-2024, the degree of “stretch” embedded in long-term performance goals translated to:

- A 95% chance of achieving at least Threshold performance
- A 70% chance of achieving at least Target performance
- A 20% chance of achieving Maximum performance

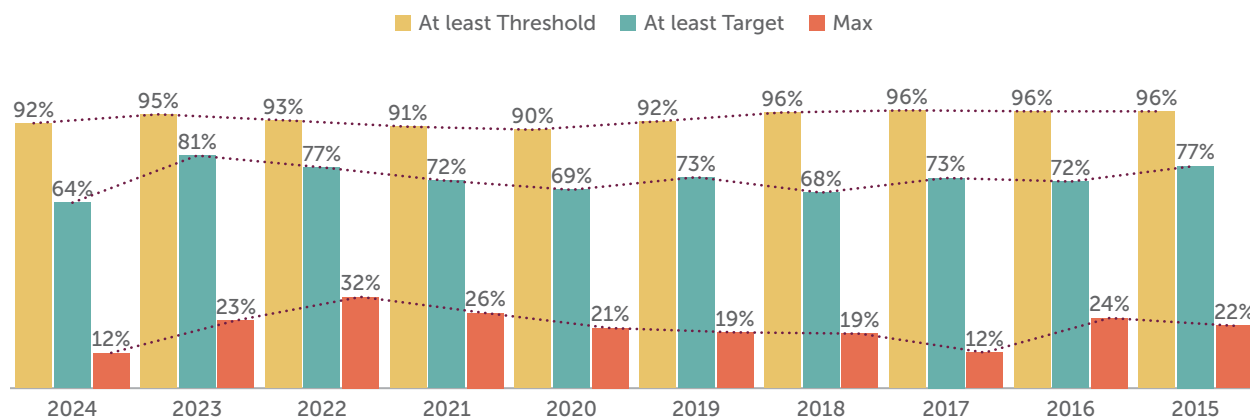
This distribution indicates that plans generally balance achievability of Threshold and Target goals with significant “stretch” required to achieve the Maximum goal.

10-Year Average Payout Distribution



Payout distributions have been generally consistent in each year of the 10-year period, indicating that plans have delivered relatively stable outcomes across market cycles. Outlier years tend to be explained by significant macroeconomic events. For example, more companies paid 0% for performance periods that ended in 2020 and 2021, for which goals were set in 2018 and 2019, than in any other period likely due to the unexpected negative impact of COVID-19 on many businesses. Conversely, more companies paid at target or above for the performance period that ended in 2023, for which goals were set in early 2021, due to the faster than expected recovery.

Annual Payout Distributions



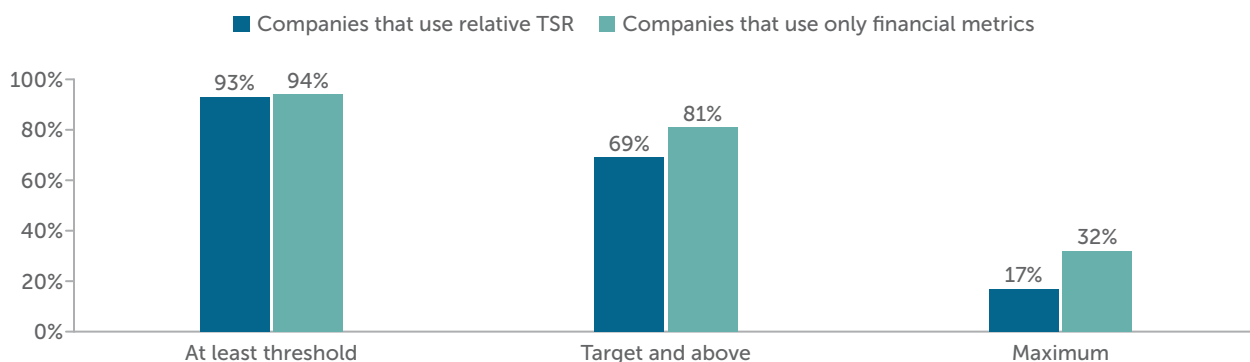
Median payouts were above target for each performance period. 25th percentile payouts were below target for all performance periods except for the period ending in 2023 where the 25th percentile payout was 100% of target.

	Payout as a Percentage of Target - Summary Statistics by Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
75th Percentile	150%	167%	175%	168%	152%	150%	150%	150%	150%	150%
Median	114%	139%	126%	134%	109%	114%	116%	116%	119%	133%
25th Percentile	73%	100%	94%	87%	66%	90%	79%	86%	88%	95%

How do Relative TSR Metrics Impact Payout Patterns?

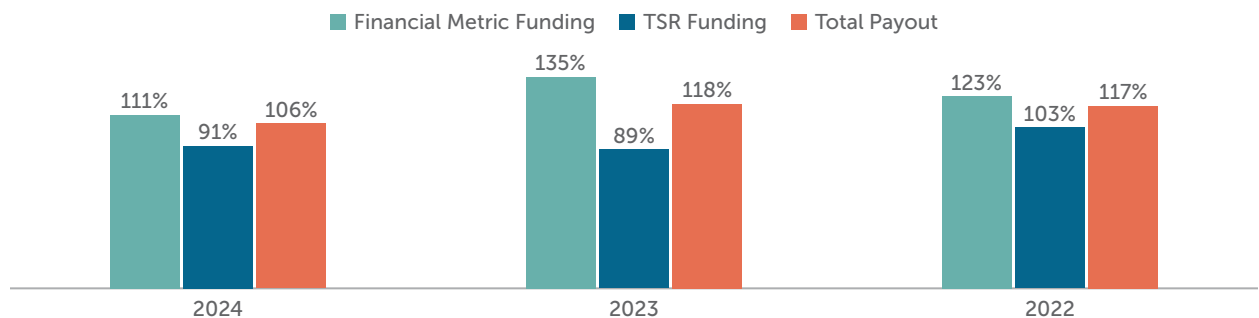
In addition to reviewing payout patterns for the entire 100 company sample, CAP compared payout patterns for companies that use relative TSR as a metric to payout patterns for companies that use only financial and strategic metrics over a three-year period. Among both groups, 90-95% of companies made LTIP payouts in each of the three years. Companies that use only financial or strategic metrics, however, paid out at maximum nearly twice as often as those that use relative TSR.

Payout Distribution Among Companies that Use Relative TSR vs. Companies that Use Only Financial Metrics



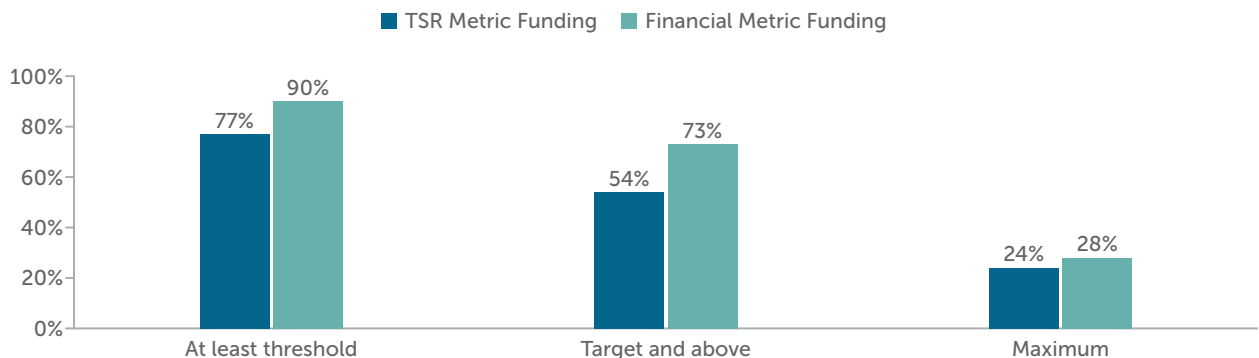
CAP also reviewed how relative TSR metrics funded as a percentage of target relative to financial metrics for companies that use both a weighted relative TSR metric and at least one weighted financial metric. Based on this review, CAP found that financial metrics funded higher than relative TSR metrics, on average, in each of the three years reviewed.

Average Funding on Relative TSR vs. Financial Metrics Among Companies with Weighted Relative TSR and Financial Metrics



This relationship is driven by the more even distribution of funding on relative TSR metrics versus financial metrics. Financial metrics skew toward target and above funding. As seen in the chart below, relative TSR funds at target and above approximately as often as it funds below target, and funds at 0% of target as often as it funds at maximum, creating variability that aligns with the shareholder experience. Financial metrics, on the other hand, fund at target and above 73% of the time and at 0% of target only 10% of the time, on average. Importantly, financial metrics fund at maximum approximately as often as relative TSR. This dynamic supports the finding that long-term financial goals generally balance achievability at Threshold and Target with significant “stretch” at Maximum.

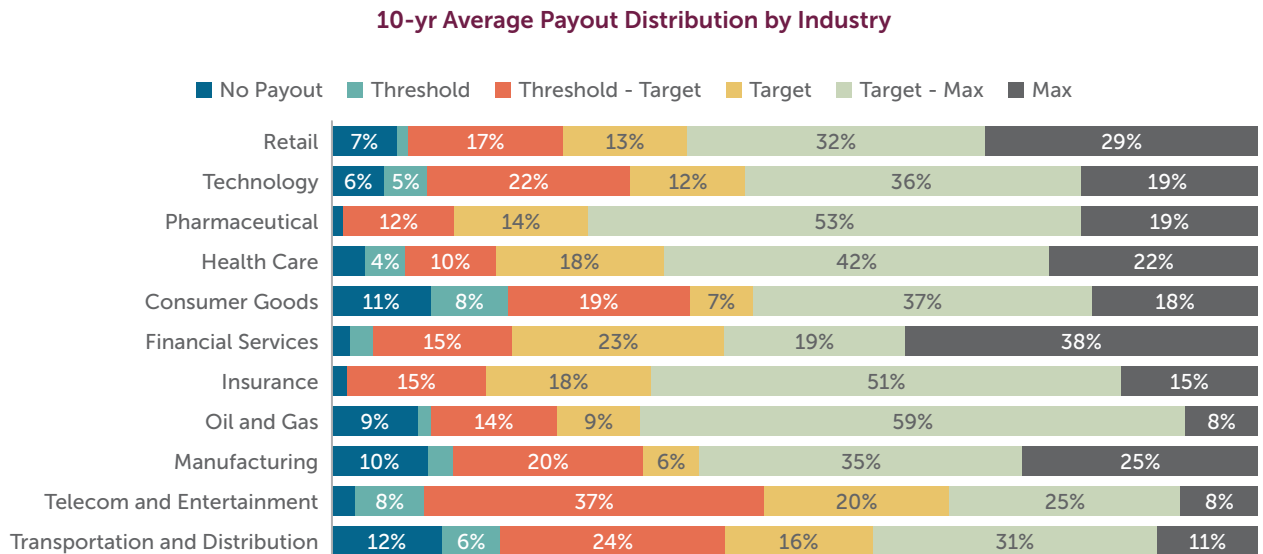
Relative TSR vs. Financial Metric Funding Distribution Among Companies with Weighted TSR and Financial Metrics



Payout Distribution by Industry

Our study found that LTIP payout outcomes vary meaningfully by industry. While the full sample paid at or above target 70% of the time on average over the 10-year period, certain industries paid above target far more often, while others had a more even split between above and below target payouts. These differences are attributable in part to industry performance and in part to long-term incentive design and goal-setting practices in each industry. For example, companies in the Health Care industry saw the greatest 10-year top line and earnings growth of any of the industries in our study and paid at target or above 83% of the time, on average.

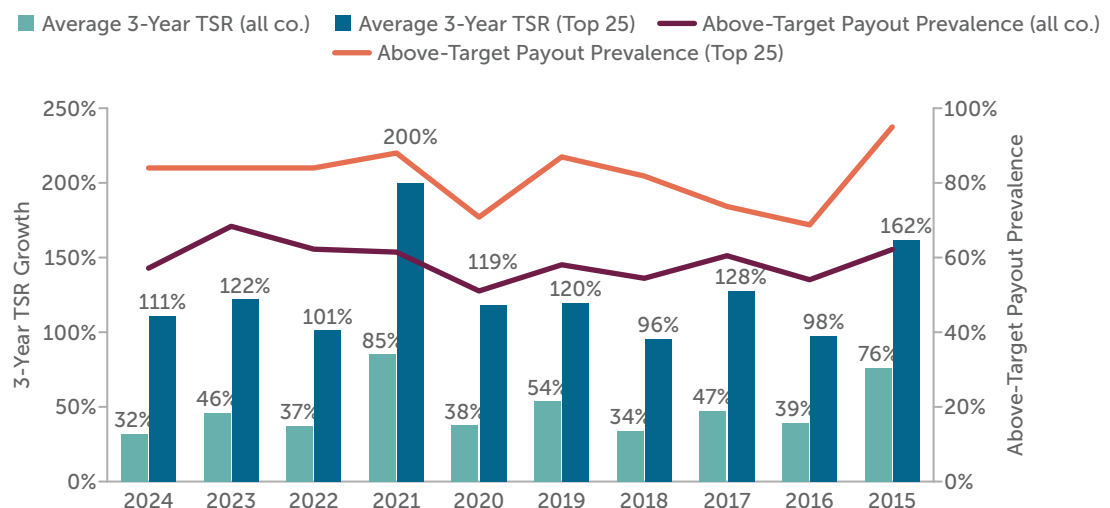
Payouts for each industry are shown in the following chart:



Alignment Between Long-term Performance Plan Payouts and Performance

CAP reviewed TSR performance for each three-year period relative to the percentage of companies that paid above target to assess the directional alignment of long-term performance plan payouts with TSR. CAP reviewed this relationship for two groups: the entire 100 company sample and a subset of the top 25 TSR performers in each three-year cycle. Based on this analysis, as shown in the chart below, the strongest performers in each cycle consistently paid above target at a higher rate than the broader sample, regardless of how their plans were designed.

3-Year TSR and Above-Target Payout Prevalence: Top 25 TSR Companies Each Period vs. All Companies



Looking Ahead

In recent years, Norges Bank Investment Management has questioned the effectiveness of performance share units (PSUs), criticizing them as being too complex, not sufficiently long-term, and too expensive. Additionally, in 2026, Institutional Shareholder Services (ISS) added flexibility to its compensation policy, expressing an openness to long-vesting restricted stock units (RSUs) in place of PSUs. This discourse may have compensation committee members reasonably asking if their PSU programs have been effective.

Our findings suggest that, in many cases, they have. Long-term performance plans have balanced achievability at threshold and target with significant “stretch” at maximum. Companies achieved at least Threshold performance 95% of the time, at least Target performance 70% of the time, and Maximum performance only 20% of the time. Our findings also suggest that plans have generally tied pay outcomes to performance, as companies with the strongest TSR performance in each cycle consistently paid above Target at a higher rate than the broader sample.

While the debate around the effectiveness of PSUs may continue, we do not expect companies to move away from them. Instead, we expect management teams and compensation committees to continue to assess and refine their PSU programs to enhance effectiveness. This often includes modifying the weighting in the long-term incentive plan, overall metric selection, the role of relative TSR, and the rigor of their performance goals to ensure they continue to balance achievability with “stretch” and align pay outcomes with performance over the long term.

Methodology

CAP analyzed long-term performance plan outcomes across 10 performance periods from 2015 through 2024. Payouts were grouped into six categories based on their relationship to threshold, target, and maximum performance levels:

Payout Category	Payout Range
Maximum	10% below Maximum to Maximum
Above Target	10% above Target to 10% below Max
Target	+/-10% of Target
Below Target	10% above Threshold to 10% below Target
Threshold	Up to 10% above Threshold
No Payout	0% Payout

To classify payouts consistently, we applied a +/- 10% collar around key payout levels. This helps account for small differences near threshold, target, and maximum, so payouts close to those levels are grouped together rather than treated as separate outcomes. For example, payouts within 10% of target were classified as “Target.” This approach provides a clearer view of the overall payout distribution.