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BANNER YEAR FOR CANADA'S CEOs Record High Pay Increase

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Banner Year for Canada's CEOs: Record High Pay Increase

IN WHAT MAY BE the last hurrah for Canada's best paid 100 CEOs — at least for this cycle — their collective compensation for 2007 peaked at a new record high, one billion dollars.

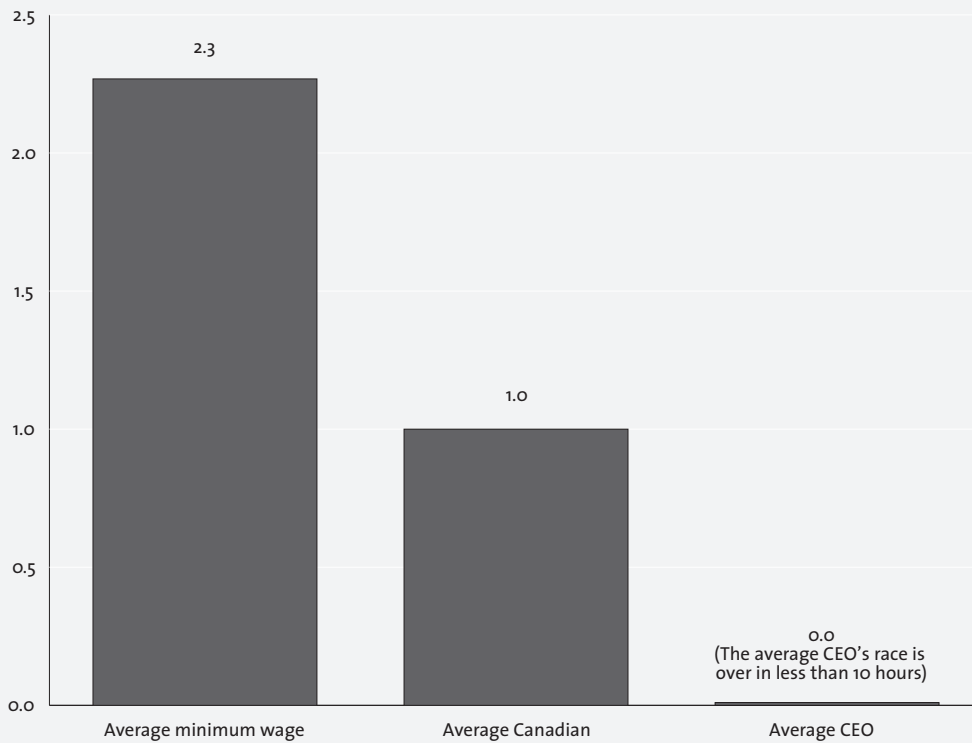
Compared with ordinary Canadians who haven't even had a first hurrah in 30 years due to stagnant average wages, the economic downturn shaking Canada's foundations promises to hit the masses far harder than the best paid 100 CEOs. They have enjoyed a decade of record pay hikes and will enjoy a softer cushion if they stumble from their lofty heights in the New Year.

The 100 highest paid CEOs of Canadian publicly traded corporations received an average of \$10,408,054 in total compensation in 2007.¹ Many of the top 100 include Canada's big bank CEOs, who recently received billions in federal government bailout money to purchase mortgage loans, and energy CEOs who, until recently, were surfing the big wave of crude oil price increases.

Average pay for the top 100 CEOs was up 22% from its \$8.5 million average in 2006. In contrast, average Canadian earnings rose by only 3.2% — the best increase in the past five years, but a small fraction of the CEOs' pay hike and barely keeping up with inflation.

Thanks to their compensation increase, Canada's highest paid 100 CEOs pocketed the average Canadian's annual pay of \$40,237 by 9:04 a.m. January 2 — faster than last year, when it the same calculation took them till and 9:45 a.m. to rack up the average Canadian income.

CHART 1 Racing for Canada's Average Employment Income
How many years?



That is not a typo. If you work on January 2, by the time your computer has finished booting up on your first day back after the New Year's holiday, the average CEO would have already banked what took the average Canadian worker an entire year's worth of work to earn.

If you made what most would consider a substantial salary — say, the \$100,000 a year that gets you onto the so-called sunshine list in some provinces — the highest paid 100 CEOs would have pocketed your annual earnings by the end of lunch hour on January 5. Three minutes past one, to be precise.

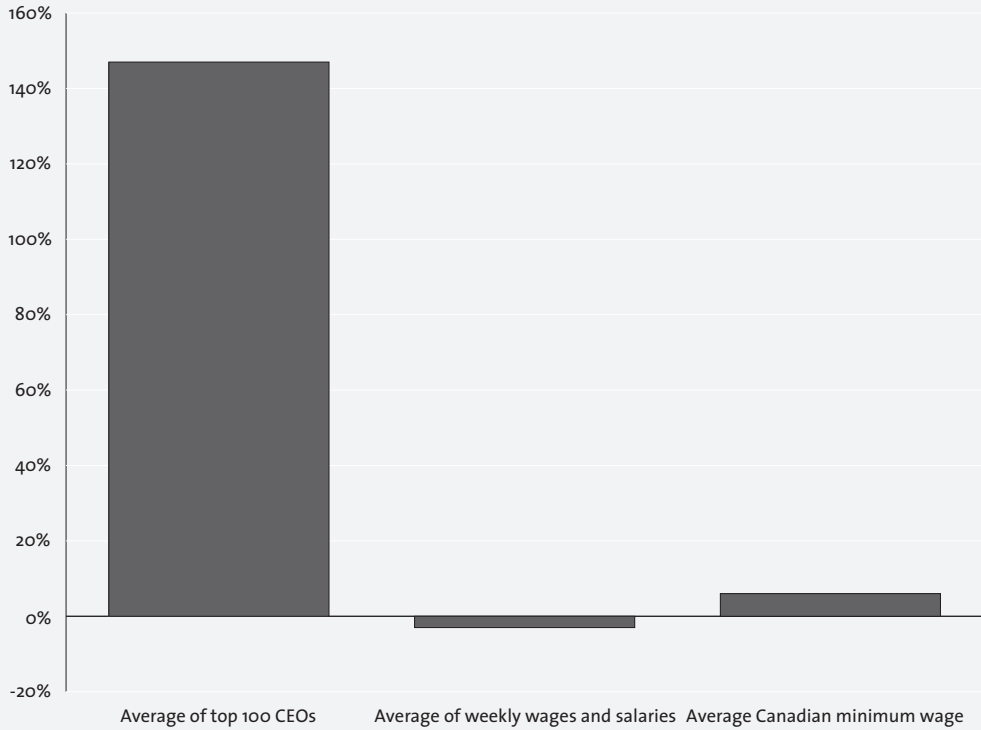
It's worse for minimum wage earners: By just after noon on New Year's Day, the highest paid 100 CEOs would have pocketed what takes the average minimum wage earner the entire year to earn.

Data on Canadian CEO pay have only been readily available since the mid-1990s, but even over that relatively short period, the growth in CEO compensation relative to average wages has been substantial.

In 1995, the *Globe and Mail* reported the average total compensation of the 50 highest paid executives in Canada at \$2.66 million, which worked out to just over 85 times the pay of the average worker.²

Just three years later in 1998, the average of the top 100 CEOs received total compensation at a rate of 104 times that of the average worker.

CHART 2 Inflation Protection?
 % change in employment earnings after adjusting for inflation, 1998 to 2007



In 2007, the average CEO took home 259 times the pay of the average worker. For the record, the “apples to apples” comparison of “top 50” to “top 50” between 1995 and 2007 shows the multiple increasing from 85 times average pay in 1995 to 398 times.

Things have certainly changed since 1960, when then General Motors CEO George Romney (father of investment banker, former Massachusetts Governor and one-time Presidential candidate Mitt Romney) turned down a \$100,000 bonus, kept his salary at \$225,000 a year and declared that no executive should be paid more than 25 times the factory wage.

The chart above shows the percentage change in the total compensation of Canada’s highest paid 100 CEOs, after adjusting for inflation, compared with the inflation-adjusted change in average weekly wages and salaries and the average Canadian minimum wage.

To put these incomes into perspective, consider that Canada’s highest paid 89 CEOs pocket in a year what’s equivalent to the total employment income of everyone in the Brandon, Manitoba Census Area.

Table 1 shows the corresponding numbers for other Canadian urban areas.

TABLE 1 Number of CEOs Needed to Match Total Employment Income of Selected Canadian Urban Areas

	2006 census population	Top CEOs to match total earnings
Corner Brook	20,083	17
Summerside	32,174	7
Truro	45,077	41
Edmonston	16,643	12
Shawinigan	56,434	53
Cornwall	45,965	77
Brandon	41,511	89
Prince Albert	40,766	42
Camrose	15,620	12
Penticton	35,944	50
Whitehorse	22,898	35
Yellowknife	18,700	45
Nunavut	29,474	25

The top 17 CEOs pocket the equivalent of the total employment earnings of the Corner Brook Census Area. The top 25 CEOs pocket the equivalent of the total income of Nunavut.

With the average top 100 CEOs' income, you could pay the \$235,400 list price for 44 top-of-the-line Porsche GT2 cars, and still have over \$50,000 left for gas.

Or you could pay cash for a \$2 million condo in one of Canada's major cities — and still have enough left to buy one for each of your kids.

A NEW REALITY

More than half — 55% — of the top 100 CEOs' total compensation came from the net proceeds from cashing in stock options. That's important to CEOs because that part of their total compensation is taxed as if it were a capital gain — at half the regular income tax rates paid on wage and salary income.³

Unfortunately for Canada's CEOs, however, the party may be coming to an end. 2008 was the year of the CEO, and not in a good way. Canada was a nice quiet place for a CEO to preside. The United States was anything but quiet. Even before the credit crunch wreaked its havoc on global financial markets, CEO pay was regularly in the headlines, with media organizations like the *Wall Street Journal* and *Busi-*

ness Week calling attention to high CEO pay packages and decrying the lucrative severance packages many were paid as their companies went down the tubes. Study after study undermined the claim that stratospheric pay had anything to do with the performance of the company. Boards of directors' compensation policies came under closer public scrutiny.

During the credit crunch, the pressure on CEOs increased. Congress threatened to prevent any of its bailout funds to be used for CEO bonuses. The CEOs of the Detroit Three got a rough ride on both of their visits to Washington.

On the substantive front, stock options are becoming a lot less interesting as a pay option for CEOs, as literally millions of dollars of tantalizingly close-at-hand windfalls have become essentially worthless in a few short months.

It's only a matter of time before this new reality takes root in Canada.

Top CEO listing

Rank	Name	Company	Base Salary	Total
1	Michael Lazaridis	Research in Motion Ltd.	1,119,952	51,515,518
2	Gordon Nixon	Royal Bank of Canada	1,400,000	44,270,084
3	Robert A. Milton	ACE Aviation Holdings Inc	1,210,000	42,928,122
4	James Balsillie	Research in Motion Ltd.	1,119,952	32,053,959
5	Paul Desmarais Jr.	Power Corp. of Canada	961,000	29,292,829
6	André Desmarais	Power Corp. of Canada	961,000	28,675,763
7	Bruce Flatt	Brookfield Asset Management Inc.	395,864	27,164,707
8	J. M. Lipton	Nova Chemicals Corp	1,289,738	25,639,972
9	Raymond McFeetors	Great-West Lifeco Inc.	1,591,666	24,759,648
10	William Doyle	Potash Corp. of Saskatchewan	1,117,773	24,020,161
11	James Buckee	Talisman Energy Inc.	1,056,343	21,764,501
12	Charles Fischer	Nexen Inc.	1,275,000	20,492,640
13	Michael Wilson	Agrium Inc.	1,191,696	19,783,195
14	Donald Stewart	Sun Life Financial Inc.	1,100,000	19,535,510
15	Richard George	Suncor Energy Inc.	1,211,154	18,264,513
16	Ian W. Delaney	Sherritt International Corp	750,000	17,744,953
17	Ron Brenneman	Petro-Canada	1,240,577	17,684,375
18	Peter Marrone	Yamana Gold Inc.	900,000	17,381,267
19	Richard Waugh	Bank of Nova Scotia	1,000,000	16,004,233
20	Dominic D'Alessandro	Manulife Financial Corp.	1,276,004	14,715,681
21	John Lau	Husky Energy Inc.	1,343,750	14,251,958
22	Tim Hearn	Imperial Oil Ltd.	1,200,000	13,380,227

Rank	Name	Company	Base Salary	Total
23	Siegfried Wolf	Magna International Inc.	107,478	13,359,110
24	Hunter Harrison	Canadian National Railway Co.	1,719,650	13,322,045
25	Tye Burt	Kinross Gold Corp.	979,983	13,200,601
26	Gerald Schwartz	Onex Corp.	757,510	12,621,993
27	Donald Walker	Magna International Inc.	118,763	12,105,897
28	Jean Claude Gandur	Addax Petroleum Corp.	357,840	11,190,781
29	Gregory Wilkins	Barrick Gold Corp.	1,590,972	10,269,550
30	Dr. Rui Feng	Silvercorp Metals Inc	279,412	10,169,212
31	Robert Brown	CAE Inc. FY end March 08	1,030,000	10,141,957
32	Edmund Clark	Toronto-Dominion Bank	1,500,000	9,840,466
33	Richard Harrington	Thomson Reuters Corp.	1,553,762	9,676,404
34	Kevin McArthur	Goldcorp Inc.	1,000,000	9,647,602
35	Gerald Grandey	Cameco Corp.	950,000	9,500,865
36	Jacques Lamarre	SNC-Lavalin Group Inc.	975,000	9,076,920
37	M.H. McCain	Maple Leaf Foods Inc	920,769	8,551,534
38	Steve Laut	Canadian Natural Resources Ltd.	550,000	8,278,031
39	Arthur Millholland	Oilexco Inc.	590,185	8,123,573
40	Colin K Benner	Lundin Mining Corp	500,000	8,041,232
41	William Downe	Bank of Montreal	964,245	8,008,707
42	Stephen Snyder	TransAlta Corp.	931,250	7,461,700
43	Darren Entwistle	TELUS Corp.	1,225,000	7,440,557
44	John M Cassaday	Corus Entertainment Inc	800,000	7,427,237
45	Jurgen Schreiber	Shoppers Drug Mart Corp.	1,200,000	7,147,083
46	Gerald M. Soloway	Home Capital Group Inc	500,000	6,928,000
47	William Holland	CI Financial Income Fund	625,000	6,803,141
48	Robert A Quartermain	Silver Standard Resources Inc	375,000	6,744,145
49	Mike Zafirovski	Nortel Networks Corp.	1,368,133	6,715,734
50	Jim Shaw	Shaw Communications Inc.	1,500,000	6,709,219
51	Randall Eresman	EnCana Corp.	1,250,000	6,681,299
52	Nadir Mohamed	Rogers Communications Inc.	816,692	6,623,705
53	Philip Pascall	First Quantum Minerals Ltd.	752,347	6,568,715
54	Harold Kvisle	TransCanada Corp.	1,175,001	6,361,416
55	Edward Sonshine	RioCan REIT	900,000	6,350,220
56	E. Peter Farmer	Denison Mines Corp	372,128	6,052,510
57	Marc Tellier	Yellow Pages Income Fund	775,000	6,037,685
58	Richard Ross	Inmet Mining Corp.	700,000	6,034,119
59	Mario Longhi	Gerdau Ameristeel Corp.	721,010	5,923,978
60	Craig Williams	Equinox Minerals Ltd	465,730	5,908,709
61	Bruce Aitken	Methanex Corp.	1,005,750	5,880,560
62	Murray Cobbe	Trican Well Service Ltd.	300,000	5,869,588
63	S. Defalco	MDS Inc	804,417	5,846,382

Rank	Name	Company	Base Salary	Total
64	Kevin M. Sullivan	GMP Capital Trust	500,000	5,791,969
65	Pierre Lessard	Metro Inc.	777,267	5,759,987
66	Douglas Whitehead	Finning International Inc.	960,000	5,756,673
67	Thomas Gauld	Canadian Tire Corp.	1,027,500	5,571,613
68	Ned Goodman	Dundee Corp	795,000	5,387,200
69	Edward M. Siegel Jr.	Russel Metals Inc	591,774	5,289,865
70	Aristides M.S. Kaplanis	Teranet Income Fund	584,742	5,275,356
71	Craig H. Muhlhauser	Celestica Inc	750,000	5,222,663
72	Laurent Beaudoin	Bombardier Inc.		5,090,703
73	Jeffrey Orr	Power Financial Corp.	2,678,000	5,068,750
74	Lorenzo Donadeo	Vermilion Energy Trust	333,333	5,013,784
75	Pierre Peladeau	Quebecor Inc	1,425,000	5,000,000
76	Neal J Freeman	Uranium One Inc	590,000	4,852,933
77	Jean-Marc Eustache	Transat AT Inc	730,000	4,792,810
78	Louis Audet	Cogeco Cable Inc	675,000	4,786,903
79	Claude Dussault {Dagger}	ING Canada Inc.	525,000	4,688,634
80	Peter R. Jones	HudBay Minerals Inc	648,000	4,385,434
81	Clayton H. Riddell	Paramount Resources Ltd	434,500	4,309,400
82	Patrick Daniel	Enbridge Inc.	1,106,250	4,130,437
83	Allen Chan	Sino-Forest Corp.	68,893	4,052,639
84	Larry M. Pollock	Canadian Western Bank	475,000	3,991,292
85	Rupert Duchesne	Groupe Aeroplan Inc.	506,340	3,964,077
86	Stephen Wetmore	Bell Aliant Regional Com. Income Fund	900,000	3,936,947
87	Douglas J. P. Squires	Biovail Corp	766,415	3,863,264
88	Paul Wright	Eldorado Gold Corp.	510,000	3,832,323
89	Michael Sabia	BCE Inc.	1,250,000	3,760,211
90	Alain Bedard	TransForce Inc	875,000	3,704,593
91	David W. Cornhill	AltaGas Income Trust	535,000	3,646,203
92	Donald Lindsay	Teck Cominco Ltd.	1,100,000	3,631,997
93	Stanley Marshall	Fortis Inc.	725,000	3,560,577
94	William J.F. Roach	UTS Energy Corp	500,000	3,541,048
95	Paul House	Tim Hortons Inc.	602,114	3,461,426
96	Ellis Jacob	Cineplex Galaxy Income Fund	776,250	3,395,915
97	Mark Ram	Northbridge Financial Corp	650,000	3,169,000
98	Richard P. Clark	Red Back Mining Inc		3,096,250
99	Pierre Blouin	Manitoba Telecom Services Inc.	750,000	3,085,533
100	Mayo M. Schmidt	Viterra Inc	1,005,625	2,970,946

Note: For Rogers Communications, the compensation of the 2nd highest-paid executive in 2007 has been substituted for that of the late Ted Rogers.

Notes on data and methodology

DATA FOR CEO SALARIES are extracted from the disclosures contained in the proxy circulars prepared by corporations in advance of their annual meetings. Proxy circulars were obtained either from the Canadian corporate information databank, SEDAR, or directly from the websites of the corporations themselves.

Our measure of CEO total compensation is intended to capture all income received during the year. The data include salary, annual bonuses, perquisites reported as “other compensation”, payouts during the year from long-term incentive plans, net proceeds of stock options exercised during the year and the value of stock grants (both restricted and unrestricted) during the year. Our measure does not capture the accrual of entitlements which may or may not be realized in the future. Accordingly, it does not include stock options granted during the year or the accrual of benefits under defined benefit pension plans.

An alternative approach would be to base the analysis on the rate of accrual of compensation, regardless of when it is actually paid or the benefit actually received. Unfortunately, the accounting rules applicable to fiscal years ending in 2007 did not mandate presentation of compensation accrual on a uniform and consistent basis across all reporting corporations. Accordingly, we have adopted the generally accepted approach used, among others, in the summaries produced by the Globe and Mail and the National Post, in presenting current year income realized regardless of the year of accrual.

Beginning with fiscal years ending on or after 31 December 2008 new rules established by the Canadian Securities Administrators (CSA) will require Canadian

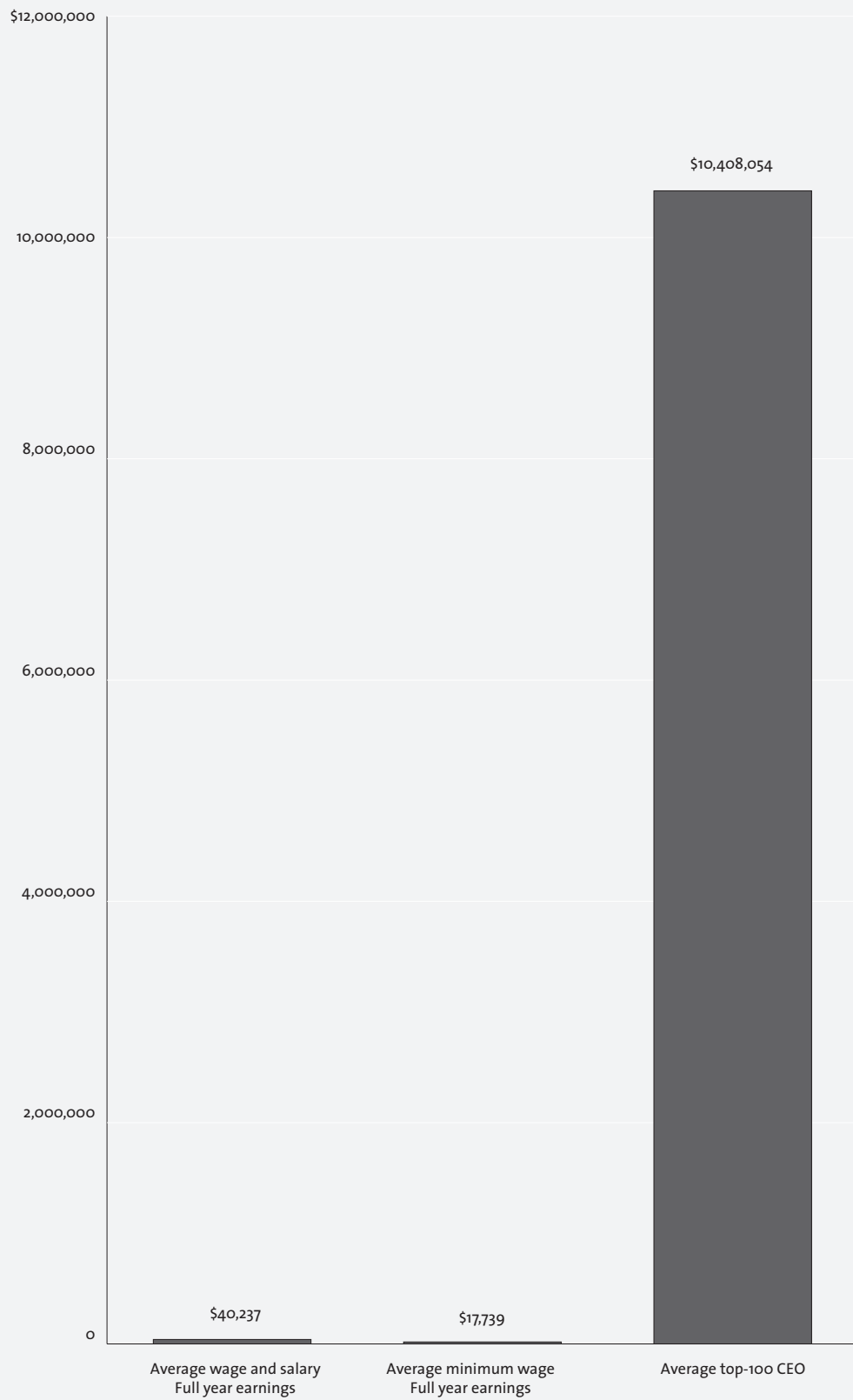
corporations to report more comprehensively and more consistently on executive compensation.

These changes will address most, if not all, of the inconsistencies in reporting that complicate the measurement of CEO total compensation.

APPENDIX 3

Canada's Top Paid CEOs and the Rest of Us

CHART 3 Canada's Top Paid CEOs and the Rest of Us



Notes

1 Data for CEO compensation are extracted from the shareholder Proxy Circulars of Canadian corporations listed on the Toronto Stock Exchange (TSX). The CEOs listed are the 100 with the highest total compensation among the CEOs of the 243 companies included in the S&P/TSX Composite Index. See Appendix I for a description of the methodology.

2 Globe and Mail *Report on Business Magazine*, July 1996.

3 The broad outlines of Canada's approach to the taxation of capital gains was part of the 1972 tax reform initiative. Gains from options were included in the definition of capital gains for the first time as part of the same tax reform package. There are three broad rationales for special treatment of capital gains in the income tax system: to maintain a reasonable relationship between the taxation of income from capital in the form of dividends and of income from capital in the form of capital gains; as a rough justice offset for the impact of general inflation on asset values; and, along with tax deductibility of capital losses, to encourage risk-taking. In light of these rationales, the treatment of stock options as capital gains is, to say the least, difficult to explain or justify. Stock options are not a substitute for dividend income; they are a substitute for wage and salary income. Inflation is not a relevant consideration, since the asset is not actually acquired by the option beneficiary until it is exercised. And an option holder has no down-side risk, since his or her recourse to a decline in asset values is simply not to exercise the option. This benefit is worth hundreds of million. At a typical top marginal tax rate (provincial and federal combined) of 46%, the tax benefit is worth 23% of the options proceeds. For the top 100 executives on our list, the value of this subsidy from Canadian taxpayers as a group is more than \$125 million. Interestingly, the value of this benefit to the top 100 executives as a group accounts for 12% of the Federal Department of Finance's estimated value for this provision for 2007 for the entire country. (Tax Expenditures and Evaluations, Department of Finance, Canada, November 2008)