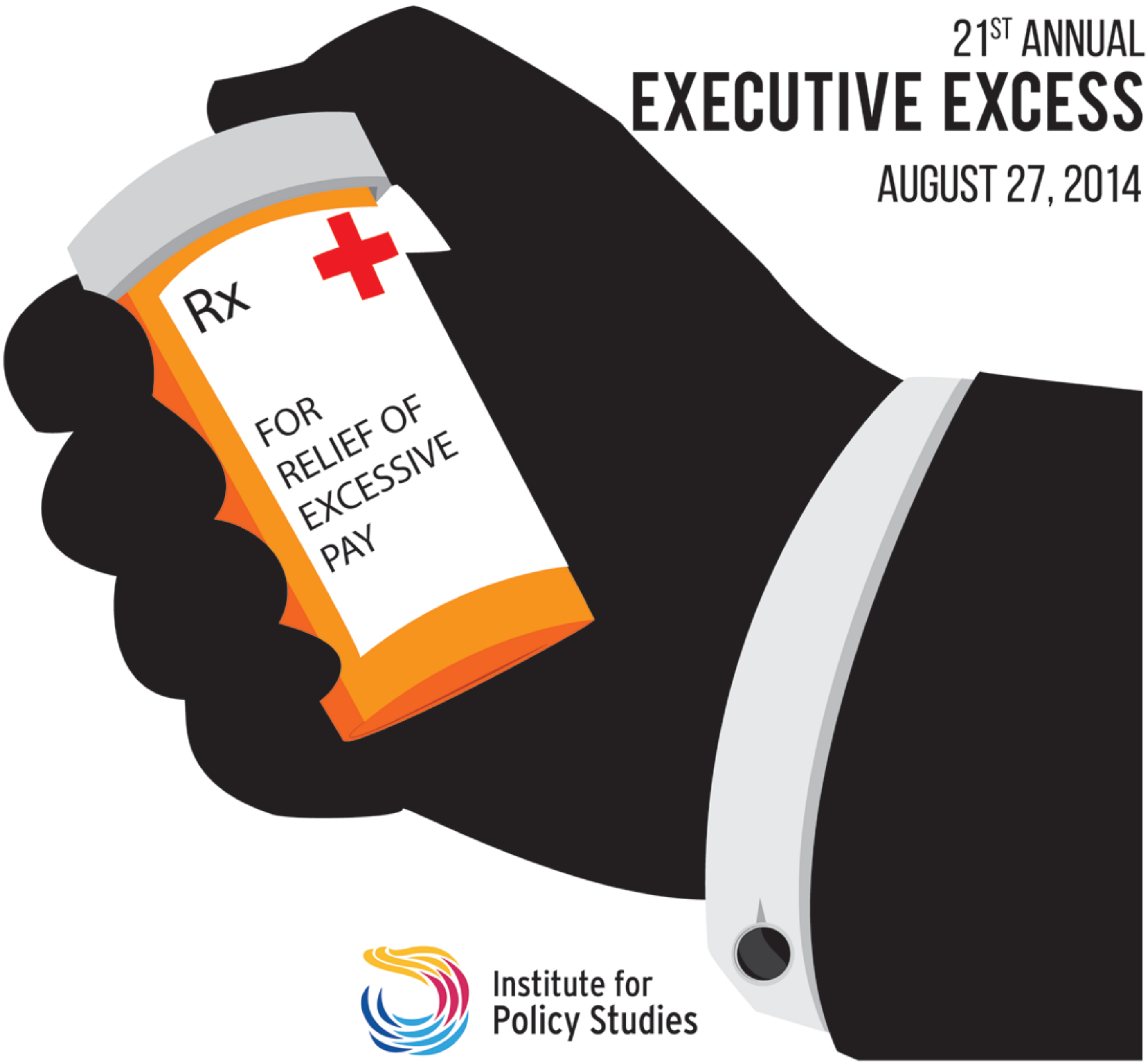
THE OBAMACARE PRESCRIPTION FOR BLOATED CEO PAY

21ST ANNUAL

EXECUTIVE EXCESS

AUGUST 27, 2014



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The **Institute for Policy Studies** (www.IPS-dc.org) is a 50-year-old multi-issue research center that has conducted path-breaking research on executive compensation for more than 20 years.

The IPS website http://inequality.org/ is a portal into all things related to the income and wealth gaps that so divide us, in the United States and throughout the world**. Twitter: @inequalityorg**

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Key findings

Obamacare reduced taxpayer subsidies for executive pay

Under the current federal tax code, the more corporations pay their top executives, the less they pay Uncle Sam. The 2010 Affordable Care Act — "Obamacare" — took an important step towards ending this perverse subsidy. Obamacare imposed a strict $500,000 limit on the tax deductibility of health insurance executive pay, starting in 2013.

- Our analysis of this virtually unknown Obamacare reform, the first such analysis ever conducted, has found that the **new deductibility limits generated at least $72 million in additional public revenue last year from America's 10 largest publicly held health insurance companies**.
- This $72 million in savings from **limiting pay-related deductions for just 57 executives is the equivalent of the cost of dental insurance for 262,000 Americans** or the average annual health insurance plan deductible for 28,000 people.
- Health insurer executive pay levels did not decline in 2013, but **the share of executive compensation that top health insurers could claim as deductible dropped from 96 percent in 2012 to 27 percent**. On average, these 10 corporations owed an extra $1.3 million in taxes per executive.
- One major American health insurer, **WellPoint, lowered its 2013 corporate tax bill by more than $1.5 million by accelerating the vesting of executive stock awards**, a maneuver that made these awards taxable on December 10, 2012, just days before the Obamacare deductibility reform took effect. Meanwhile, thanks largely to the Affordable Care Act, WellPoint has gained 1.6 million new customers since last year.

More taxpayer savings to come

- The $72 million tax increase for the top 10 health insurers last year reflects only a small share of the benefits to average taxpayers. One reason: Most health insurer executive stock options exercised in 2013 were exempted from the new deductibility limits because they pre-dated Obamacare. **In the future, the benefits from deductibility reform for average taxpayers will be even greater**.
- There is growing support in the U.S. Congress to apply the Obamacare executive pay provision to all major U.S. corporations. This would **save taxpayers $50 billion over the next 10 years while encouraging more reasonable executive pay levels**.

Introduction

A 685-page academic tome about inequality rides the top of the bestseller lists.[1] A long-shot candidate makes inequality the central focus of his election campaign and becomes the surprise mayor of America's largest city. Standard & Poors adds to the chorus of voices blaming our slow economic recovery on widening income gaps. And poll after poll shows an American people deeply concerned about economic unfairness.

Americans may be worrying about inequality more than ever. Yet the single phenomenon that most visibly symbolizes that inequality — excessive CEO compensation — continues to rise and leaves us ever more unequal. With financial markets surging, executive bonuses are bulging while worker pay continues to stagnate.

But we do see a glimmer of light at the end of the tunnel — and from a most unlikely source: Obamacare.

In 2013, the Affordable Care Act's first year in full effect, a virtually unknown executive pay tax provision in the Obamacare legislation saved America's taxpayers tens of millions of dollars. In the years ahead, this provision will save hundreds of millions more.

The even bigger story: If the Obamacare executive pay tax provision applied to all major U.S. corporations, not just to health insurers, U.S. taxpayers would save $50 billion over the next 10 years — and deliver a major blow against CEO compensation business as usual.

The Obamacare executive pay reform

The legislation widely known as Obamacare, the 2010 Affordable Care Act, enormously expands the ranks of Americans able to afford health insurance. The lawmakers who backed Obamacare saw great promise in this expansion. They saw potential peril as well. They worried that health insurance executives might profiteer from their newly expanded customer base and line their own pockets instead of lowering rates and improving services.

"Consumers across America," as Senator Tom Harkin from Iowa put it, "should know that when they pay their hard-earned dollars to cover the soaring cost of premiums, they are not just chipping in to pay for the CEOs' next new yacht."

To stop "irresponsible tax breaks for millionaire health insurance executives," lawmakers plugged into the final Obamacare legislation a provision that tightens existing federal limits on how much executive pay corporations can deduct off their corporate income taxes.

These existing limits had come into effect in 1993, amid an earlier wave of public outrage over runaway executive pay. The congressional response to that outrage: a revision in federal tax code Section 162(m) that capped the total executive pay corporations could deduct off their taxes at no more than $1 million for each of their top four executives. Firms would still be free to pay their executives however much they wanted. But average American taxpayers would no longer pick up the tab for oversized paychecks.

At least in theory. In reality, the 1993 tax deductibility cap came with a huge loophole — an exception for so-called "performance pay" — that has essentially rendered the cap meaningless. Thanks to this loophole, corporations can simply declare the stock rewards they lavish on executives "performance-based" and then go on to deduct the many millions involved as a basic business expense.

Why did Congress insert the "performance pay" loophole?

The enactment of Section 162(m) in the early 1990s coincided with a tremendous growth spurt in America's hi-tech sector. Many of this sector's most promising new "start-ups" lacked the cash they needed to lure seasoned executives. These firms relied heavily on stock options instead, and policymakers argued that we needed the "performance pay" loophole to protect these infant industries.

Other business leaders watched closely as option-powered hi-tech executive pay packages soon started ballooning in a rising stock market. These other executives, naturally enough, demanded similarly massive stock and options grants. By the time the Internet bubble burst in the early 2000s, norms for executive compensation — in hi-tech and throughout the corporate world — had ratcheted up into the pay stratosphere.

The equity-based "performance pay" driving these new norms has become a powerful incentive for reckless executive behaviors that jack up share prices — and resulting executive rewards — in the short term and undermine corporate health and prospects for the long term. The perverse incentives that over-compensation generates can even place our entire economy at risk, as happened in the 2008 financial collapse.

Performance-based stock rewards have also proved to be easily manipulated. A Bloomberg investigation has revealed, for example, that CEOs at 63 S&P 500 companies won "performance pay" increases in 2012 at the same time their corporate share returns were underperforming their index peers. A recent Arthur J. Gallagher & Company paper found similar disconnects between performance pay and corporate performance.

The Affordable Care Act recognizes this sorry 20-year history. The legislation eliminates the exception for "performance-based" pay for health insurers. Obamacare also lowers the deductibility cap from $1 million to $500,000 per executive per year and extends the cap from just four top officers to everyone on health insurer payrolls. [2]

By closing a tax loophole that benefits only a handful of individuals, the Affordable Care Act aims to encourage more rational executive pay levels — or at least to increase corporate contributions to the tax base needed to support national infrastructure and vital public services. The nonpartisan Joint Committee on Taxation predicted, before the Affordable Care Act's passage, that these reforms would generate $100 million in additional tax revenue per year.

Key points of the Obamacare executive pay reform

For major health insurance companies, the law:

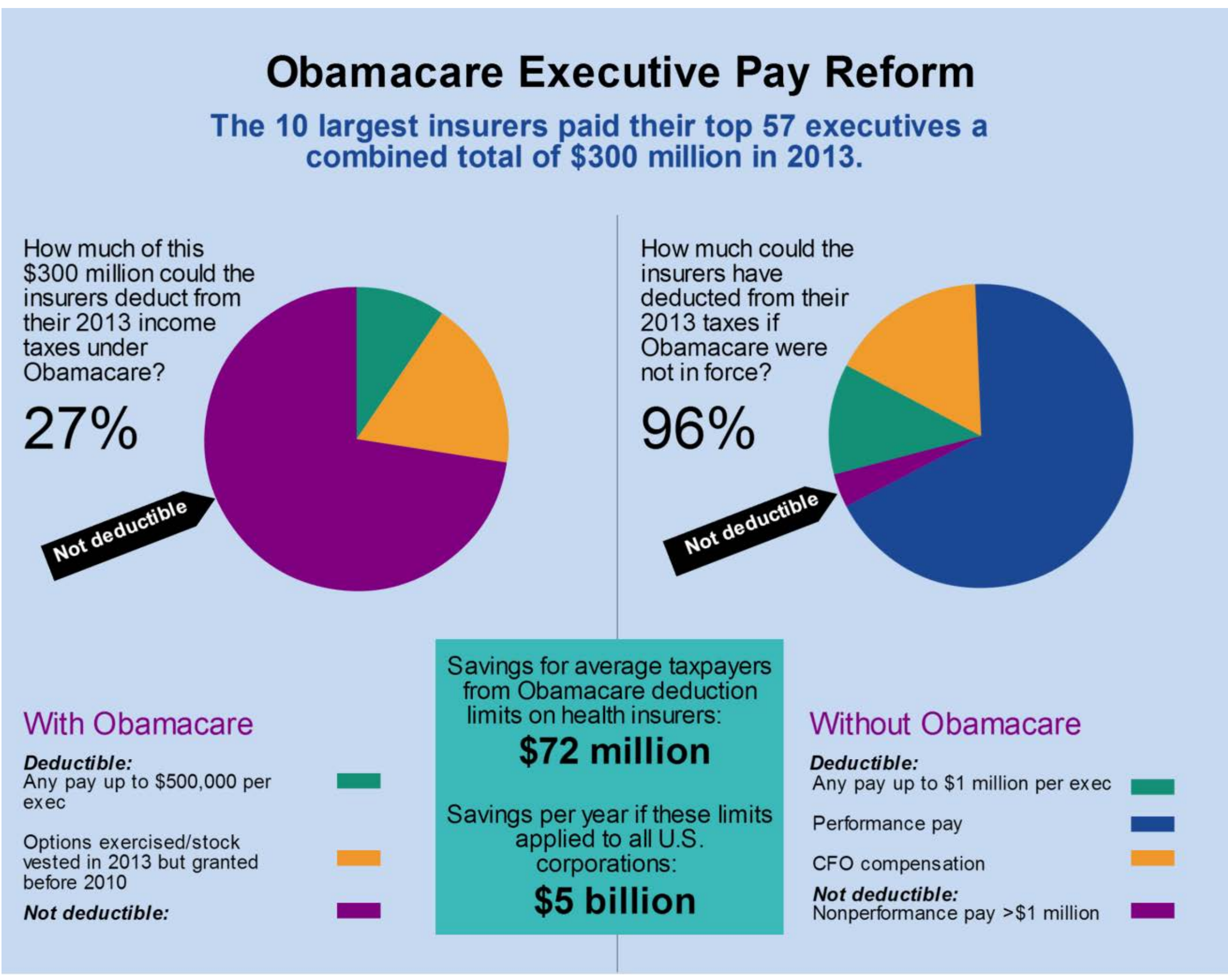
- lowers the cap on the deductibility of executive compensation from federal corporate income taxes from $1 million to $500,000 per executive per year
- eliminates an exception from the cap for stock options and other "performance-based" pay
- extends the cap to all employees of the firm. Previously, the cap applied only to four executives (the CEO and next three highest-paid officers, excluding the CFO)

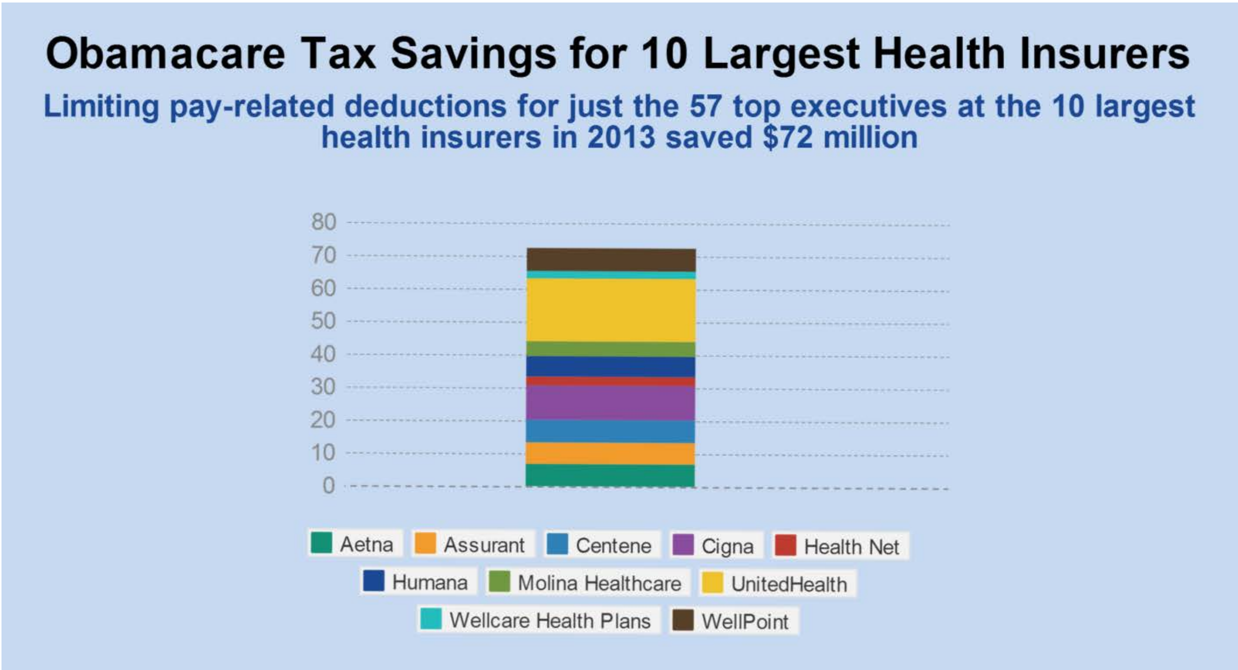
Impact on the top 10 health insurers

We have analyzed in this study the first-year impact of the Affordable Care Act's executive pay deductibility provision on our nation's 10 largest publicly held health insurance companies. The analysis is based on the executive pay data corporations must annually disclose to the Securities and Exchange Commission for their CEO, CFO, and next three highest-paid officers. Our research actually examined the pay records of 57 health insurer executives in all, since turnover has some firms reporting on more than five executives in a single year.

In 2013, the 10 health insurance corporations we analyzed paid their top executives a total of nearly $300 million in taxable compensation. If the Affordable Care Act had *not* been in force last year, these corporations could have claimed as much as 96 percent of this compensation — $289 million — as deductible "performance" pay.

Obamacare's deductibility limits made that claim impossible. America's 10 largest health insurers could last year claim only 27 percent of their executive compensation as deductible. They lost, in effect, $207 million in deductions, a loss that translates into a taxpayer savings of an estimated $72 million (see Appendix 1 for details).





In the best of all possible worlds, tighter restrictions on executive pay deductibility would encourage corporate boards to see the light and reduce executive pay to more reasonable levels. The Affordable Care Act's deductibility limits have not yet had this effect. America's 10 largest health insurers continue to overpay their top executives.

These firms last year awarded their top five executives average total compensation of $5.4 million, including the value of stock and options grants. That's up from $5.1 million in 2012, or 2.7 percent in real terms.

Why are corporate boards willing to pay more in taxes to protect oversized executive paychecks? Board members may fear their "top talent" would depart for greener pastures in other sectors if executive pay in the health insurance industry dipped. Congress, of course, could easily address this worry by extending the Affordable Care Act deductibility limits to all corporations.

In the meantime, health insurer corporate boards can expect more scrutiny of executive pay packages, as shareholders realize how much bloated pay for a few individuals is raising their corporate tax burden.

Tradeoffs

The $72 million in 2013 savings from limiting pay-related tax deductions for just 57 executives of the 10 largest insurance firms equals enough to cover the cost of:

- dental insurance (typical Affordable Care Act Silver plan) for 262,000 people for a year
- the average annual deductible for ACA Silver plans for 28,000 people

Company-specific examples

UNITEDHEALTH

2013's biggest executive pay-related tax increase

No health insurer last year paid out more in executive pay — and increased corporate taxes under Obamacare's new deductibility limits — than UnitedHealth. In total, the Affordable Care Act's deductibility reform boosted the company's IRS bill by about $19 million.

UnitedHealth CEO Stephen J. Hemsley took in $28 million in 2013 compensation that UnitedHealth could have claimed as fully deductible if Obamacare were not in force. Under the new rules, only $17 million of his compensation counted as deductible.

Hemsley pocketed another $10 million in earnings from options exercised and stock vested in 2013 not subject to the new deductibility limits because the grants pre-dated Obamacare. He is currently sitting on outstanding equity awards with a combined value of $21 million, dollars that will eventually be subject to the Affordable Care Act deductibility limits.[3]

UnitedHealth, the nation's largest insurer, is forecasting huge windfalls as a result of Obamacare subsidies. The firm is on track to increase its Medicaid insurance enrollment by 800,000 by the end of 2014, mostly in states that have agreed to expand Medicaid benefits for the poor under the Affordable Care Act.

WELLPOINT

Gaming the Obamacare system

Of America's 10 largest health insurers, only WellPoint openly skirted the Affordable Care Act deductibility reform by accelerating the vesting of executive stock awards scheduled to vest in 2013. This tax dodge made the awards taxable on December 10, 2012, just days before the Obamacare reform took effect and lowered WellPoint's tax bill by more than $1.5 million.[4]

The company's proxy statement explains that the executive compensation committee of the WellPoint board "determined that the value of this tax deduction outweighed requiring an additional eighty days of service to secure vesting."

WellPoint has been using other accounting maneuvers to avoid Obamacare-related costs. In 2010, the firm informed investors that it was re-labeling some administrative costs as "medical care" to more easily meet Affordable Care Act requirements that insurers must spend a certain percentage of customer premiums on medical care. The minimum required: 80 percent in the individual insurance market and 85 percent in the employer/group market.

While going to great lengths to avoid the parts of Obamacare they do not care for, WellPoint officials have also been proudly announcing the windfalls they are reaping off the Affordable Care Act. In March 2014, after a surge of previously uninsured Americans signed up for subsidized health insurance, the company raised its earnings forecast by 20 cents per share. On July 30, WellPoint announced an increase in medical enrollments from 35.7 million to 37.3 million.

MOLINA HEALTHCARE

Taxpayers no longer subsidizing both customers and executive pay

Molina Healthcare specializes in providing government-funded health services, including Medicaid programs in 10 states. Started by emergency room physician C. David Molina in 1980, the firm is now run by two Molina sons and a daughter who have turned health services for the poor into an extremely lucrative business.

In 2013, CEO Joseph Molina took in a little over $1 million in salary, $1.3 million in performance bonuses, and more than $3 million in vested stock. Under the pre-Obamacare tax rules, if the stock grant had been structured to qualify as "performance pay," the company could have deducted as much as $5.3 million from its federal income taxes for the expense of Molina's CEO compensation, more than 10 times the maximum of $500,000 the company can deduct for his pay under the Afforable Care Act.

In the first two quarters of 2014, Molina's Medicaid customer base increased by approximately 230,000, thanks to Obamacare's expansion of health insurance for lower-income Americans.

Future taxpayer savings from Obamacare executive pay reform

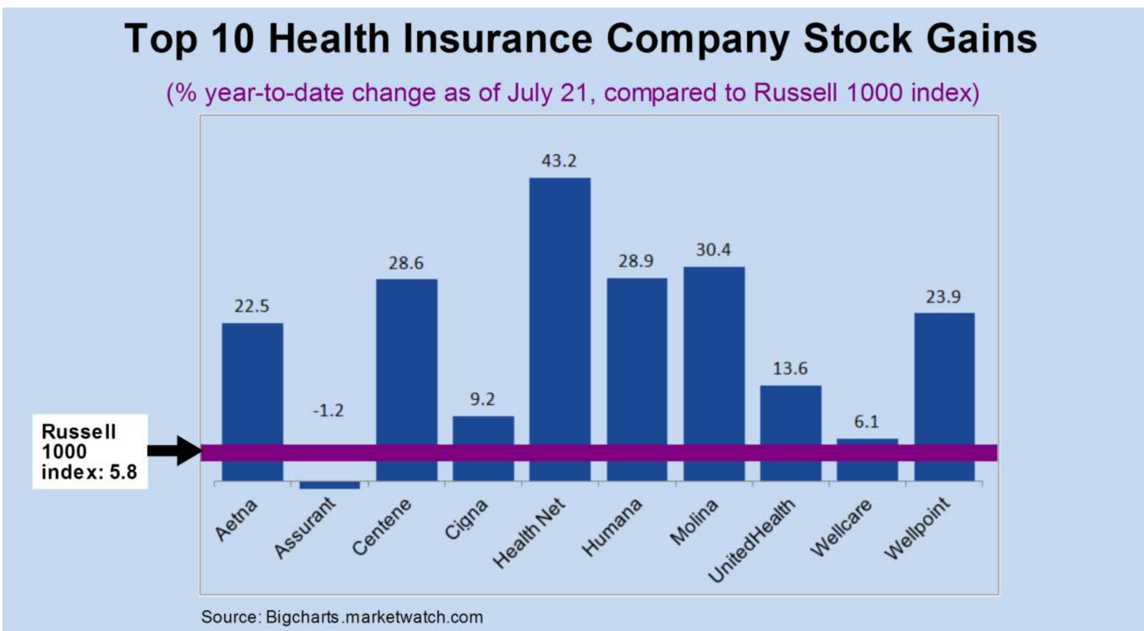
The *actual* total taxpayer savings from Obamacare's changes in executive pay deductibility amounted to much more in 2013 than the $72 million discussed above — and will be even greater in years to come — for a number of reasons. Among them:

1. **All employees covered.** The Affordable Care Act reform applies to all employees, not just the top five executives whose compensation health insurers must now publicly disclose. Many more than five executives at major health insurance firms make over $500,000 per year, the current Obamacare deductibility limit. At UnitedHealth, the firm's three highest-paid executives, besides the CEO and CFO, all hold the title of executive vice president. Each of these vice presidents made considerably more than $500,000 *in salary alone* last year. UnitedHealth has an additional 10 executive or senior VPs within its management ranks who figure to be near the same pay range. Other firms in our survey have similar structures. For example, WellPoint has seven executive VPs, Aetna has 10, Cigna has eight executive VPs and Presidents, and Humana has 11 executive or senior VPs.

2. **Grandfathered stock options.** The new Obamacare deduction limits only apply to equity-based compensation granted after January 1, 2010. Only 10 of the 57 executives surveyed exercised options in 2013 that had been granted after this date. The executives in our survey collected stock option grants worth about $66 million between 2010-2012 that they have not yet exercised. These options, once exercised in coming years, will generate an estimated $23 million in tax revenue.[5]

3. **WellPoint tax dodging.** As detailed elsewhere, this firm last year reduced the taxpayer savings from executive pay deductibility reform by accelerating the vesting of executive stock awards to December 10, 2012, just days before the Obamacare reform took effect. That lowered the company's tax bill by more than $1.5 million.

4. **More profits to come.** Millions of previously uninsured Americans will be gaining access to health insurance coverage over the years ahead, as Obamacare becomes more rooted in the health care system. This continuing expansion of America's insured population will likely boost insurance company share prices, and that increase will boost the value of executive stock and options awards. Nine of the 10 firms surveyed have experienced stock gains this year that exceed the Russell 1000 average (as of July 21).



Building on Obamacare to slice taxpayer subsidies for CEO pay

On July 16, House Democrats unveiled a "100-Day Action Plan" that called for reducing the tax deductibility of executive pay at corporations that are not raising workers' wages. This rates as just the latest move to extend Obamacare's deductibility rules to all corporations.

Sen. Jack Reed (D-RI) and Sen. Richard Blumenthal (D-CT) had earlier introduced the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act (S. 1476), legislation that would keep the $1 million deductibility cap but remove the "performance pay" loophole and cover all employees of a corporation. Rep. Lloyd Doggett (D-TX) has introduced a companion bill (H.R. 3970) in the U.S. House of Representatives. These bills would save taxpayers $50 billion over 10 years. Senate Budget Committee Chair Patty Murray (D-WA) has introduced a similar bill (S. 2162) that would use the stricter deductibility limits to pay for expanding the Earned Income Tax Credit.

The notion of limiting executive pay deductibility even enjoys some bipartisan support. Rep. Dave Camp (R-MI), chairman of the House Ways and Means Committee, has produced a tax reform plan that would end taxpayer subsidies for a company's top executive officers and generate $12 billion over 10 years.

> 63 percent of Americans say they want to "Prevent corporations from avoiding taxes when they award their executives millions of dollars in stock options." — Hart Research Associates

Applying deductibility caps only on health insurance firms, all these reform proposals recognize, really makes no sense. Health insurers, after all, are hardly the only large U.S. corporations to enjoy taxpayer subsidies. Indeed, almost every large corporation in the United States draws one form or another of subsidy. And the benefits from Obamacare do not even flow solely to health insurers, as Senate Republicans noted during debate over the deductibility reform in 2009. They pointed specifically to the huge windfalls expected to accrue to the pharmaceutical industry and insinuated that Democrats were merely punishing the insurance industry for lobbying against Obamacare.

Strict limits on the deductibility of executive pay could be an even more socially potent force for reining in executive pay excess if tied to CEO-worker pay ratios. Rep. Barbara Lee (D-CA), for instance, has introduced a bill, the Income Equity Act (H.R. 199), that would deny all firms tax deductions on any executive pay that runs over 25 times the pay of a firm's lowest-paid employee or $500,000, whichever runs higher.

The Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in 2010 includes a provision that mandates the annual corporate disclosure of CEO-median worker pay ratios. Final Securities and Exchange Commission regulations that would enable the implementation of this mandate will likely appear this fall. This annual disclosure, once in place, will make tying executive pay deductibility to internal corporate pay ratios considerably easier to implement and oversee.

Executive pay reform scorecard

Our annual Executive Pay Reform Scorecard evaluates an extensive list of creative and practical proposals for reining in excessive executive compensation. Proposed reforms to expand Obamacare-style limits on the tax deductibility of executive pay are detailed on p. 10. Two additional pending reforms strike us as particularly urgent:

1. **CEO-worker pay ratio disclosure:** Four years after President Barack Obama signed the Dodd-Frank legislation, the SEC still has not implemented this commonsense transparency measure. The reform would discourage both large pay disparities that can lower employee morale and productivity and excessive executive pay that can encourage excessively risky behavior.

2. **Pay restrictions on executives of large financial institutions**: Within nine months of the enactment of the 2010 Dodd-Frank law, regulators were supposed to have issued guidelines that prohibit large financial institutions from granting incentive-based compensation that "encourages inappropriate risks." Regulators are still dragging their feet on this modest reform.

Principles for a Better CEO Pay System

This Executive Pay Reform Scorecard covers proposals that have been either introduced in the U.S. Congress or enacted into law in recent years, as well as other promising reform approaches either proposed or put into place elsewhere in the world. We have based our pay reform rating system in this scorecard on the following five principles that advance economic fairness and stability in executive pay policy and practice.

1. Encourage narrower CEO-worker pay gaps.

Extreme pay gaps — situations where top executives regularly take home hundreds of times more in compensation than average employees — run counter to basic principles of fairness while endangering enterprise effectiveness. Management guru Peter Drucker believed that the ratio of pay between worker and executive can run no higher than 20-to-1 without damaging company morale and productivity. Researchers have documented that Information-Age enterprises operate more effectively when they tap into — and reward — the creative contributions of employees at *all* levels.[6]

2. Eliminate taxpayer subsidies for excessive executive pay.

Ordinary taxpayers should not have to foot the bill for excessive executive compensation. And yet they do. Government contracts and subsidies routinely make mega millionaires out of corporate executives. And all chief executives benefit from the tax provision that lets corporations deduct unlimited amounts from their income taxes for the expense of executive pay.

3. Encourage reasonable limits on total compensation.

The greater the annual reward an executive can receive, the greater the temptation to make reckless decisions that generate short-term earnings at the expense of long-term corporate health. Government policies can encourage more reasonable compensation levels without micromanaging pay levels at individual firms.

4. Bolster accountability to shareholders.

On paper, the corporate boards that determine executive pay must answer to shareholders. Recent reforms have made some progress toward forcing corporate boards to justify to shareholders the compensation they award to executives.

5. Extend accountability to broader stakeholder groups.

Executive pay practices, as the 2008 financial crisis vividly demonstrated, impact far more people than shareholders. Effective pay reforms need to encourage management decisions that take into account the interests of all corporate stakeholders, including the consumers, employees, and communities where corporations operate.

In the tables that follow, we grade each reform by assigning a rating for each of these five principles.

Ratings

1 = Represents a small step toward achieving the principle

2 = Represents substantial progress

3 = Represents major progress

4 = Achieves the principle

Passed / recently enacted through statute or regulation

Reform	Description and Status	Significance	Progress Ratings: CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Disclosure								
CEO-worker pay ratio	The Dodd-Frank financial reform law (Sec. 953b) requires all U.S. corporations to compute and report the median annual total compensation of their employees, excluding the CEO, and reveal the ratio between CEO and employee pay. In the face of fierce corporate lobbying to water down the provision, the SEC finally issued a strong proposed rule in September 2013 and final regulations are expected in October 2014.	This provision, if actually implemented, would for the first time ever require major U.S. firms to reveal how much they value the contributions of all employees, not just top executives. Enterprises operate more effectively when they tap the creativity of all who labor within them. This provision could boost efforts (see **Pending**) to limit pay excess via tax and procurement policies that leverage the public purse.	2		2	1	2	7
Pay versus performance	The Dodd-Frank financial reform law (Sec. 953a) requires all U.S. corporations to disclose the relationship between executive pay and corporate financial performance, including changes in share prices over the previous year. SEC action on this provision has been delayed.	This requirement places too much emphasis on short-term, narrowly defined performance criteria and does little to advance long-term investor or stakeholder interests. However, this debate is worth monitoring, as some corporate lobby groups are using it to call for changes that would result in less information in the summary compensation table of proxy statements.				1		1
Employee and director hedging	The Dodd-Frank financial reform law (Sec. 955) requires firms to disclose whether they have a policy on hedging by employees or directors. SEC action on this provision has been delayed.	Top executives use hedging contracts to bet against their own firm's success. This means they win no matter the cost to the company and community. But merely requiring disclosure may not end this practice.				1	1	2
Government contractor pay	The 2008 Government Funding Transparency Act requires government contractors and subcontractors to annually disclose the names and total pay of their five top-paid officers. The rule applies to companies that earn at least 80% of their revenue from federal contracts, grants, and loans and that have received $25 million in fed funding the previous year.	This reform expands executive pay reporting requirements that already apply to publicly held companies to privately held firms that rely heavily on federal contracts. Helping taxpayers see how much of their money is filling the pockets of the executives who run businesses with big federal contracts could expedite procurement reforms that encourage more reasonable pay.		2	1		1	4

Reform	Description and Status	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Governance								
Shareholder 'Say on Pay'	The Dodd-Frank financial reform law (Sec. 951) requires firms to provide shareholders the right to a nonbinding vote on the compensation of executives. Dodd-Frank also requires an advisory vote regarding compensation arrangements ("golden parachutes") that are triggered by a merger or acquisition.	Pay proposals failed to receive a majority of shareholder support at 72 companies this year, up slightly from 54 last year. The biggest impact of the law is that it has encouraged the majority of companies to consult with shareholders before the vote and has encouraged some companies to make positive changes in their executive pay practices. But it has not resulted in lower total executive pay in the United States or in European nations where "say on pay" mandates have been on the books for over a decade.	1		1	2		4
Proxy access	The Dodd-Frank financial reform law (Sec. 972) gives the SEC the authority to adopt rules allowing shareholders to place candidates on the ballots for board of director elections. But this authority was overturned in 2011 on cost-benefit grounds. And corporate lobby groups are threatening to file similar lawsuits against other proposed regulations. Americans for Financial Reform notes that "this legal threat is creating a serious chilling effect on regulators' implementation of new Dodd-Frank rules."	If these rules are ever implemented, institutional investors will have a greater capacity to challenge incumbents and incumbents may become more attentive to broader perspectives on executive compensation.	1		1	4		6
Compensation committee and consultant independence	The Dodd-Frank financial reform law (Sec. 952) requires securities exchanges to set listing standards related to the independence of board compensation committees and their advisers. The SEC adopted rules designed to implement Section 952 in June 2012.[7]	Unfortunately, the SEC's ruling will have limited impact. The SEC ignored recommendations to bar stock exchanges from listing companies that do not have compensation committees and failed to give guidance to the exchanges on defining "independence."[8] Legal analyst J. Robert Brown Jr. argues that the rule may actually provide an incentive for companies to avoid creating compensation panels, a move that could give CEOs a greater say in the hiring of pay consultants.			1	2		3

Reform	Description and Status	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Tax Policy								
Cap on the deductibility of executive pay packages in the health insurance industry	Since 1993, all U.S. companies have been subject to a $1 million cap on the tax deductibility of executive pay, but this cap comes with a giant loophole that exempts "performance-based" pay. The Affordable Care Act eliminated this loophole for the health insurance industry and lowered the cap to $500,000, starting in 2013.[9] A similar rule for TARP recipients applied only to top executives. This provision covers all firm employees.	This rule, while applying only to health insurance companies, does set a valuable precedent for reducing taxpayer subsidies for excessive executive pay and provides an incentive for lowering overall CEO compensation. This provision could encourage the adoption of proposals noted below to cap the tax deductibility of executive pay at all U.S. firms.	1	3	1			5
Other								
Pay restrictions on executives of large financial institutions	The Dodd-Frank financial reform law (Sec. 956) prohibits large financial institutions from granting incentive-based compensation that "encourages inappropriate risks." After issuing a quite weak initial proposal in 2011, regulators have still not produced a final rule for this provision.	The jury remains out. Members of the Executive Compensation Task Force of Americans for Financial Reform have made numerous recommendations that would increase the impact but were ignored in the regulators' proposal. These include: • Prohibiting stock options, since they can encourage excessive risk-taking. • Extending deferral of 75% of bonuses from three to five years. • Applying rules to any employee who could put the firm at substantial risk.[10] Given strong Wall Street pressure, the already weak proposed regulations may be further watered down.[11]						?
Clawbacks	The Dodd-Frank law (Sec. 954) requires executives to repay compensation gained as a result of erroneous data in financial statements. Executives must repay "excess" incentive compensation received during the three-year period preceding an accounting restatement. SEC action on this provision has been delayed.	This rule takes an important step toward ensuring that executives do not get to keep pay based on unachieved performance goals. Previous clawback provisions in the Sarbanes-Oxley law only apply to restatements resulting from misconduct. The Dodd-Frank rule, unfortunately, applies only to top execs, leaving high-bonus traders off the hook.			1	2	1	4

Reform	Description	Significance	Progress ratings: CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	stakeholders	Total
Federal Reserve guidance on incentive compensation	In 2010, the Fed released guidelines on financial firm incentive pay. Unlike the European Union (see below), the Fed does not require firms to impose standard formulas for bonus payouts or to set compliance deadlines. Instead, the Fed's general principles encourage longer-term performance and avoid undue risks for the firm or financial system.	Given the vagueness of the guidelines and the confidentiality of the Federal Reserve's reviews of company compliance, evaluating the impact of this guidance on actual pay practices will be next to impossible.						0
Limiting the executive compensation that contractors can bill the federal government	Every year, the Office of Management and Budget establishes a maximum benchmark for contractor compensation. A budget deal approved in December 2013 lowered the cap from $952,000 to $487,000 per executive.	This reform is a positive step towards reducing taxpayer subsidies for executive pay. But it only limits the executive pay a company can directly bill the government for reimbursement. It does not curb windfalls that government contracts generate for top executives.	1	3	1		1	6
Proposed / introduced in the U.S. Congress								
Tax and Procurement Policy								
Ending the preferential capital gains treatment of carried interest	Under current law, hedge and private equity fund managers pay taxes at a 15% capital gains rate on the profit share — "carried interest" — they get paid to manage investment funds, rather than the 35% rate they would pay under normal tax schedules. In 2007, a House proposaql, H.R. 3996, that d efined "carried interest" as ordinary income died in the Senate. A fix is included in the President's FY2015 budget.	Closing the carried interest loophole would address the most extreme example of Wall Street privilege.	1	4	3			8
Limiting the deductibility of executive compensation	In 1993 Congress set a $1 million cap on the individual executive pay corporations could deduct from their income taxes. But that cap did not apply to "performance-based" pay, including stock options and other "incentive" pay. The numerous bills to close this loophole are described on p. 10.	A meaningful tax deductibility cap would eliminate a perverse incentive for excessive compensation.. The Joint Committee on Taxation estimates that eliminating this loophole would generate $50 billion in revenue over 10 years.	2	4	2		1	9

Reform	Description	Significance	Progress ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	stakeholders	Total
Ending the stock option accounting double standard	Current accounting rules value stock options on their grant date, while the tax code values stock options on the day that executives cash them in, often a much higher figure. Senators Carl Levin (D-Mich.) and Sherrod Brown (D-Ohio) have included a provision in the Cut Unjustified Tax Loopholes Act (S.268) that would require the corporate tax deduction for stock option compensation to be not greater than the stock option book expense shown on a corporation's financial statement.	Under current rules, companies can lower their tax bill by claiming deductions for options that are much higher than the option value they report in their financial statements. This tax incentive encourages corporate boards to hand executives huge stock option windfalls. The Joint Committee on Taxation has estimated that ending this tax break would raise $24.6 billion over 10 years.	1	3	1			5
Limiting deferred compensa-tion	Most CEOs at large companies now legally shield unlimited amounts of compensation from taxes through special deferred accounts set up by their employers. By contrast, ordinary taxpayers face strict limits on how much income they can defer from taxes via 401(k) plans. In 2007, the Senate passed a minimum wage bill that would have limited annual executive pay deferrals to $1 million, but the provision was dropped in conference committee.	These special deferred compensation plans cost U.S. taxpayers an estimated $80.6 million per year. Beyond that, these plans widen the divide between CEOs and ordinary workers, whose pension benefits have declined significantly at most firms.[12]	2	1	1			4
Leveraging federal pro-curement dollars to discourage excessive executive compensa-tion	The Patriot Corporations Act (H.R. 929) would extend tax breaks and federal contracting preferences to companies that meet good behavior benchmarks, including not compensating any executive at more than 100 times the income of the company's lowest-paid worker. At the state level, the Rhode Island state Senate passed a bill in June that would give companies with narrow CEO-worker pay gaps an edge in competing for state contracts.	By law, the U.S. government denies contracts to companies that discriminate, in their employment practices, on race or gender. This public policy clearly states that our tax dollars should not subsidize racial or gender inequality. In a similar way, this reform would tap the power of the public purse to discourage extreme economic inequality.	2	3	2		3	10
Progressive taxation	Executive pay can be affected indirectly through reforms that tax income in top brackets at high rates. A number of proposals before Congress are designed to ensure the ultra rich pay their fair share.	As we saw during the quarter century after World War II, steeply graduated progressive taxation can serve as a significant disincentive for excessive executive compensation.	2	4	1			7

Promising / not yet before Congress

Reform	Description	Significance	Progress ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Banker bonus limits	New EU rules introduced this year limit banker bonuses to no more than annual salary, or up to 200% of annual salary with shareholder approval. The cap applies to bankers in non-EU banks located in the EU, as well as senior staff (including Americans) working for EU-based banks anywhere in the world. The rule covers every kind of bonus, including so-called long-term incentive plans. The Dutch government has introduced even tougher legislation that would lower the 100% cap on "variable" pay to just 20% of basic salary.	This reform does not set a numerical limit on pay, but limits total compensation to no more than the amount of executive salary. Bonus pay typically runs up to 10 times salary payouts. This approach also helps counter the "bonus culture" that encourages high-risk investing. In its first year in force, there have been concerns that some banks are circumventing the rules, for example by maintaining overall pay levels by granting increased "allowances" and raising base salaries.	3		3	2	2	10
Signing and merger bonus ban	In 2013, Swiss voters adopted a national ballot initiative that, among other provisions, prohibits executive sign-on and merger bonuses. The bans will likely go into effect in 2015.	"Golden hellos" have become increasingly commonplace and merger bonuses give executives a powerful incentive to wheel and deal instead of working to build enterprises fit for long-term success.	3		3	2	2	10
'Skin in the game' mandate	All new top executives, under a proposal from veteran investment adviser Vincent Panvini, would be required to place a significant share of their own financial assets in escrow for five or ten years. If a CEO's company lost value over that time, the CEO would forfeit money from that escrow.	Small business entrepreneurs seldom behave recklessly because they typically have their own personal wealth tied up in their business. This proposal aims to give corporate executives a similar incentive for responsible behavior.				3	3	6
Strict caps on executive compensa-tion for bailout firms — before the next crisis	In 2009, the Senate approved an amendment to the stimulus bill that would have capped total pay for employees of bailout companies at $400,000, the salary of the U.S. President. Such a restriction could be enacted today for application in the event of future bailouts. The EU enacted similar rules in 2014. Bailed out banks now have to cap their executive pay at no more than 15 times the national average salary or 10 times the wage of the average worker at the bank.	This restriction could have an important preventive effect. Given a clear warning about the consequences for their own paychecks, executives might think twice about taking actions that endanger their own future — and ours.	3	3	3	3	3	15

Reform	Description and Status	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
A CEO pay limit for firms in bankruptcy	The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (Sec. 331) prohibits companies in bankruptcy from giving executives any “retention” bonus or severance pay that runs over ten times the average bonus or severance awarded to regular employees in the previous year. This legislation could be strengthened by closing a loophole that exempts “performance-based pay.”	This reform would help end the unjust practice whereby executives, after declaring bankruptcy and eliminating workers’ jobs and pensions, then turn around and pocket millions in severance.	2			2	1	5
CEO pay limits at public-funded institutions	A 2013 New York State executive order prohibits service providers that annually average over $500,000 in state support and receive at least 30% of their annual in-state revenue from state funds from using more than $199,000 in state funds to pay individual executive compensation. A state court decision to strike the order is being appealed. Unions pushed ballot initiatives in both Massachusetts and Rhode Island in 2014 aimed at limiting CEO pay at hospitals that receive taxpayer subsidies. In both cases, the unions withdrew the initiatives after popular support helped them win concessions on other labor-related demands.	Moves like these help redefine what society at large considers a responsible level of executive compensation. If the New York rule withstands the legal challenges, state agencies will be able to use revenue from non-taxpayer sources to boost pay over $200,000, but must first file a waiver to gain approval.	3	4	4		2	13
Overall CEO pay limit	A massive corporate ad blitz was needed to block Swiss voters from passing a popular initiative to limit executive compensation to no more than 12 times worker pay last year. Egypt has put into effect a pay cap that limits paychecks for top public sector executives to 35 times the new-hire pay for higher ed grads. Labor groups want a maximum wage set at 15 times the minimum wage — and want this maximum applied to executive slots in both the public and private sectors.	Current pay ratios at major firms in Switzerland are running neat 100 to 1. As late as the 1990s, the Swiss corporate pay gap only averaged 14 times. Publicly owned companies in Egypt currently employ about 835,000 employees, with another 5.8 million Egyptians working in public administration.	4		4	3	3	14

Reform	Description and Status	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Corporate board diversity	At least a dozen EU countries require firms above a certain size to include worker representatives on their boards.	Just as investment portfolio diversity decreases risk and improves overall performance, corporate board diversity could have the same impact. European executive pay over the recent decades has consistently run at much lower levels than U.S. executive pay.					3	3
'Say on Pay' with teeth	The UK now requires public companies to give shareholders a binding vote on compensation every three years. Michel Barnier, the EU's internal markets commissioner, is proposing that shareholders also have the power to vote on the ratio between the lowest and highest-paid employees in the company. In 2011, Australia gave shareholders the power to remove directors if a company's executive pay report gets a "no" vote from 25% of shareholders or more at two consecutive annual meetings. Dean Baker of the Center for Economic and Policy Research has proposed that corporate directors have their compensation denied if a CEO pay package they have approve fails to gain a majority in a "say on pay" vote.	Policies like these give shareholders much more power than they received through the purely advisory "Say on Pay" rules in the United States. Four U.S. companies whose shareholders rejected a pay plan in 2011 received a second no vote in 2012, and yet the firms still have no legal obligation to alter the pay packages.	2		2	5		9
Pay ratio limit	French President François Hollande has capped executive pay at firms where the government owns a majority stake at 450,000 euros, or essentially 20 times the minimum wage. In the United States, veteran management consultant Douglas Smith has called for a similar pay ratio limit on firms receiving taxpayer funds." Amalgamated Transit Union president Lawrence Hanley, a member of the AFL-CIO Executive Board, has proposed for a "maximum wage law" that would limit executive pay to a "specific multiple" of the wage earned by their lowest-paid employees.	Corporate salary differentials near 10 and 20:1 have been commonplace in Japan and some European nations for many years. A government could step toward mandating such a limit by denying government contracts, tax breaks, or subsidies to any corporations that compensate executives above a set ratio of worker pay.	4	4	4		1	13

Reform	Description and Status	Significance	Progress Ratings					
			CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Corporate tax penalty on excessive executive pay	France has introduced a special corporate tax equal to 75% of any individual executive compensation they pay out over 1 million euros, about $1.3 million. This year the California state Senate came close to passing a law that would tie the corporate tax rate to a firm's CEO-worker pay gap — the wider the gap, the higher its rate. A majority of senators voted in favor of the bill, but a two-thirds majority was required for passage.	French President Hollande advanced this proposal after the French high court struck down, on technical grounds, an earlier proposal that would have set a new 75% top personal tax rate.	4	4	4	3	3	18
Abolish executive performance pay	Michael Dorff of the Southwestern Law School, author of the newly published University of California Press book, *Indispensable and Other Myths: The True Story of CEO Pay*, is proposing the abolition of CEO "performance pay."	At best, stock options and other performance-pay incentives have CEOs thinking more about their own personal rewards than long-term enterprise sustainability. At their worst, "pay for performance" deals encourage criminal behavior.	4		4	3	3	14
Allow tax deductions for incentive pay only if they share incentive rewards broadly within the enterprise	Richard Freeman and Douglas Kruse of Harvard University and Joseph Blasi of Rutgers University propose that Congress only allow tax deductions for executive incentives when corporations award as much incentive pay "to the bottom 80% of their workforce as they do to the top 5%."	Tax deductions for stock option deductions have now reached rather staggering levels. Using figures from Standard & Poor's ExecuComp database, Freeman, Kruse, and Blasi compute that these deductions averaged over $50 billion a year from 2001 to 2007. This proposal would give major corporations a significant financial incentive to end top-heavy reward distributions.	2	3	2			7

Appendix 1: Obamacare Taxpayer Savings from Top 10 Health Insurance Companies

	2013 Executive Compensation						ACA TAXPAYER BENEFITS	
	DEDUCTIBLE WITHOUT ACA			DEDUCTIBLE UNDER ACA				
Executive*	Non-performance pay up to $1 mill	Perform-ance pay	Total deduct-ible if ACA were not in force	Limit on deduct-ibility	Options exercised and stock vested in 2013 but granted before 2010	Total deduct-ible under ACA	Difference in allowable deductions resulting from ACA reform	ACA tax-payer benefit (based on 35% tax rate)
AETNA								
Mark T. Bertolini	**1,000**	**6,985**	**7,985**	**500**	**4,521**	**5,021**	**2,964**	**1,037**
Shawn M. Guertin	*n/a*	*n/a*	*3,335*	*500*	*0*	*500*	*2,835*	*992*
Joseph M. Zubretsky	929	5,973	6,902	500	234	734	6,168	2,159
Karen S. Rohan	696	2,020	2,716	500	0	500	2,216	775
Kristi Ann Matus	1,000	682	1,682	500	0	500	1,182	414
Margaret M. McCarthy	796	6,910	7,706	500	4,064	4,564	3,142	1,100
William James Casazza	542	4,502	5,043	500	3,752	4,252	792	277
ASSURANT								
Robert B. Pollock	**1,000**	**9,090**	**10,090**	**500**	**3,055**	**3,555**	**6,536**	**2,287**
Michael John Peninger	*n/a*	*n/a*	*4,454*	*500*	*1,017*	*1,517*	*2,937*	*1,028*
Alan B. Colberg	644	1,193	1,837	500	0	500	1,337	468
Christopher J. Pagano	684	2,106	2,790	500	0	500	2,290	802
Gene E. Mergelmeyer	740	5,339	6,079	500	0	500	5,579	1,953
CENTENE								
Michael F. Neidorff	**1,000**	**17,851**	**18,851**	**500**	**4,691**	**5,191**	**13,660**	**4,781**
William N. Scheffel	*n/a*	*n/a*	*2,499*	*500*	*0*	*500*	*1,999*	*699*
Carol E. Goldman	544	1,297	1,842	500	0	500	1,342	470
Jesse N. Hunter	612	1,961	2,573	500	208	708	1,865	653
K. Rone Baldwin	471	749	1,220	500	0	500	720	252
CIGNA								
David M. Cordani	**1,000**	**16,574**	**17,574**	**500**	**3,251**	**3,751**	**13,823**	**4,838**
Ralph J. Nicoletti	*n/a*	*n/a*	*2,909*	*500*	*0*	*500*	*2,409*	*843*
Thomas A. McCarthy	*n/a*	*n/a*	*3,871*	*500*	*981*	*1,481*	*2,390*	*836*
Herbert A. Fritch	1,000	3,202	4,202	500	0	500	3,702	1,296
Matthew G. Manders	618	6,672	7,290	500	1,171	1,671	5,619	1,967
Nicole Susan Jones	577	1,831	2,407	500	0	500	1,907	668
HEALTH NET								
Jay M. Gellert	**1,000**	**4,083**	**5,083**	**500**	**943**	**1,443**	**3,640**	**1,274**
Joseph C. Capezza	*n/a*	*n/a*	*1,367*	*500*	*0*	*500*	*867*	*303*
James E. Woys	774	1,719	2,493	500	239	739	1,754	614
Scott D. Law	501	560	1,062	500	0	500	562	197
Steven D. Tough	588	789	1,377	500	0	500	877	307

	2013 Executive Compensation						ACA TAXPAYER BENEFITS	
	DEDUCTIBLE WITHOUT ACA			DEDUCTIBLE UNDER ACA				
Executive*	Non-performance pay up to $1 mill	Perfor-mance pay	Total deduct-ible if ACA were not in force	Limit on deduct-ibility	Options exercised and stock vested in 2013 but granted before 2010	Total deduct-ible under ACA	Difference in allowable deductions resulting from ACA reform	ACA tax-payer benefit (based on 35% tax rate)
HUMANA								
Bruce D. Broussard	**1,000**	**6,270**	**7,270**	**500**	**0**	**500**	**6,770**	**2,369**
James H. Bloem	*n/a*	*n/a*	*4,876*	*500*	*975*	*1,475*	*3,401*	*1,190*
James E. Murray	968	5,327	6,295	500	481	981	5,314	1,860
Jody L. Bilney	1,000	530	1,530	500	0	500	1,030	361
Timothy S. Huval	1,000	757	1,757	500	0	500	1,257	440
MOLINA HEALTHCARE								
Joseph Mario Molina	**1,000**	**4,352**	**5,352**	**500**	**0**	**500**	**4,852**	**1,698**
John C. Molina	*n/a*	*n/a*	*3,861*	*500*	*0*	*500*	*3,361*	*1,176*
Jeff D. Barlow	457	1,108	1,565	500	0	500	1,065	373
Joseph W. White	527	1,474	2,001	500	0	500	1,501	525
Terry P. Bayer	658	1,930	2,587	500	0	500	2,087	731
UNITEDHEALTH								
Stephen J. Hemsley	**1,000**	**26,666**	**27,666**	**500**	**10,284**	**10,784**	**16,881**	**5,909**
David S. Wichmann	*n/a*	*n/a*	*12,644*	*500*	*536*	*1,036*	*11,607*	*4,063*
Gail Koziara Boudreaux	1,000	12,552	13,552	500	1,236	1,736	11,817	4,136
Larry C. Renfro	943	13,837	14,780	500	1,486	1,986	12,793	4,478
Marianne D. Short	1,000	990	1,990	500	0	500	1,490	522
WELLCARE HEALTH PLANS								
Alexander Cunningham	**1,000**	**4,022**	**5,022**	**500**	**1,223**	**1,723**	**3,299**	**1,155**
Thomas L. Tran	*n/a*	*n/a*	*3,470*	*500*	*1,819*	*2,319*	*1,151*	*403*
Blair W. Todt	423	285	708	500	0	500	208	73
Daniel R. Paquin	587	58	646	500	0	500	146	51
David J. Gallitano	672	116	788	500	0	500	288	101
Lawrence D. Anderson	331	202	533	500	0	500	33	11
Lisa G. Iglesias	406	377	783	500	0	500	283	99
Walter W. Cooper	483	1,052	1,536	500	0	500	1,036	362
WELLPOINT								
Joseph R. Swedish	**1,000**	**2,511**	**3,511**	**500**	**0**	**500**	**3,011**	**1,054**
Wayne S. Deveydt	*n/a*	*n/a*	*6,649*	*500*	*1,991*	*2,491*	*4,158*	*1,455*
Gloria M. McCarthy	748	3,195	3,944	500	2,027	2,527	1,417	496
John Cannon, III	918	6,683	7,601	500	2,425	2,925	4,676	1,637
Kenneth R. Goulet	827	2,176	3,004	500	1,249	1,749	1,255	439
Richard C. Zoretic	660	5,199	5,858	500	0	500	5,358	1,875
TOTAL	**35,325**	**203,757**	**289,016**	**28,500**	**53,859**	**82,359**	**206,657**	**72,330**
AVERAGE								**1,269**

*CEOs are in bold, followed by CFOs in italics. Before the ACA, the deductibility cap did not apply to CFO compensation.

Appendix 2: Sources and methodology

Sources: Institute for Policy Studies calculations based on proxy statements and Form 4 reports filed by the corporations with the U.S. Securities and Exchange Commission. Detailed methodology below is based on IRS "Proposed Rulemaking: The $500,000 Deduction Limitation for Remuneration Provided by Certain Health Insurance Providers" REG-106796-12.

Methodology details:

DEDUCTIBLE WITHOUT ACA

These columns tally up the maximum amount that corporations could have claimed as deductible if the ACA were not in force.

Non-performance pay up to $1 million: Internal Revenue Code Section 162(m) imposes a $1 million deduction limit for compensation to a company's CEO and its three other highest-paid executive officers (excluding the CFO), unless the compensation is "performance-based" and provided under a plan that has been approved by the shareholders. Salary, perks (listed as "all other compensation" in the summary compensation table of proxy statements), and bonuses that are not tied to performance criteria are included here.

Performance pay components:

Value realized from the exercise of stock options: We included the value of options exercised, rather than the estimated value of a stock options grant, since options are not taxable until an executive exercises them.

Value realized from vested stock: Like stock options, stock grants are not taxable in the year they are granted, but rather when they vest (i.e., become the possession of the executive). Unlike stock options, stock grants are considered "performance-based" under 162(m) only when tied to specific performance benchmarks approved by shareholders. Since these insurance companies had the option of structuring stock grants to be performance-based (but no longer had the tax incentive to do so under the ACA), we included all vested stock as potentially deductible "performance pay."

Performance-based bonuses: This includes compensation reported in the "non-equity incentive plan" column of the summary compensation table. In addition, we included amounts in the "bonus" column that were tied to detailed performance criteria. This was the case for two companies – Centene and Molina. When bonuses were not performance-based, such as signing bonuses, we did not include them.

DEDUCTIBLE UNDER ACA

Limit on deductibility: The Affordable Care Act amended the tax code through Section 162(m)(6) to set a $500,000 limit on compensation deductions for all employees of health insurance providers. The law applies to firms that receive at least 25 percent of their gross premiums from providing "minimum essential coverage" (the type needed to meet individual responsibility requirements under the ACA.) The new limits apply to tax years beginning Jan. 1, 2013, but they also apply to compensation for services provided after 2009 that is received by the employee in 2013 or later. The new rules also eliminate exceptions from the cap for commissions and performance-based compensation.

Options exercised and stock vested in 2013 but granted before 2010: As noted above, options and stock awards granted before 2010 are grandfathered (i.e., the new deductibility limits do not apply). We used Form 4 reports to determine the grant dates of stock options exercised in 2013 and included as deductible only those that were granted before January 1, 2010. With regard to performance stock awards that vested in 2013, nine of the companies had three-year vesting schedules and so the ACA deductibility limits applied to all of these amounts. In the one exception, UnitedHealth, some of the stock vested in 2013 had been granted in 2009. These grandfathered amounts were added to the compensation considered deductible.

ACA TAXPAYER BENEFITS

Difference in allowable deductions resulting from ACA reform: This is simply the difference between the maximum potential deductions that the firms could've claimed if the ACA were not in effect and the allowable deductions under this new law.

ACA taxpayer benefit: To compute the estimated additional revenues generated by the ACA's tighter limits on the deductibility of executive pay, we applied the federal corporate tax rate of 35 percent to the difference in allowable deductions resulting from the ACA reform.

Endnotes

[1] Thomas Piketty, *Capital in the Twenty-First Century* (Belknap Press: March 10, 2014).

[2] The 1993 reform (Section 162(m) of the tax code), applies only to the CEO and three other highest-paid executive officers, excluding the CFO.

[3] IPS calculations based on figures from UnitedHealth proxy statements for stock and options awards granted after 2009.

[4] WellPoint accelerated the vesting of stock granted in March 2012 so that it would vest on Dec. 10, 2012 instead of March 1, 2013. According to the WellPoint proxy filed in 2013, the 2012 stock awards consisted of a total of 75,547 shares for the five named executive officers. Upon vesting, we calculated that they realized a gain of an estimated $4,397,591 (based on the closing market value of WellPoint shares on Dec. 10, 2012 of $58.21). If the ACA deductibility limits had applied to this compensation, it would've raised the firm's tax bill by $1,539,157.

[5] Calculated by IPS based on total reported estimated value of options grants in proxy statements for 2010-2012 ($77,016,390), less the amount of options awarded during these years that were exercised in 2013 ($11,276,000).

[6] For a review of the literature, check "The Ineffective Enterprise," a discussion that appears in Sam Pizzigati, *Greed and Good: Understanding and Overcoming the Inequality that Limits Our Lives* (New York: Apex Press, 2004). http://www.greedandgood.org/NewToRead.html.

[7] Securities and Exchange Commission, "Listing Standards for Compensation Committees," July 27, 2012. http://www.sec.gov/rules/final/2012/33-9330.pdf

[8] Daniel F. Pedrotty, "Re: Listing Standards for Compensation Committees (File No. S7-13-11)," *American* Federation of Labor and Congress of Industrial Organizations, May 19, 2011. http://www.sec.gov/comments/s7-13-11/s71311-47.pdf

[9] See Section 9014 of the Health Care and Education Reconciliation Act of 2010.

[10] See: Daniel F. Pedrotty, "Letter to Robert E. Feldman & Elizabeth M. Murphy," AFL-CIO, May 31, 2011. http://www.aflcio.org/corporatewatch/capital/upload/AFL-CIO-comment-letter-on-incentive-based-compensation-arrangements.pdf. www.citizen.org/documents/Just-Not-Us.pdf*, and* Americans for Financial Reform, "Re: Incentive-Based Compensation Arrangements," May 31, 2011. http://ourfinancialsecurity.org/blogs/wp-content/ourfinancialsecurity.org/uploads/2011/06/AFR-956-5-31-111.pdf and Bartlett Naylor and David Arkush, "Re: Incentive-Based Compensation Arrangements, Rin-3064-AD56," Public Citizen, May 31, 2011. http://www.citizen.org/documents/Public-Citizen-Comments-SEC-956.pdf

[11] Public Citizen, "Just Not Us," July 2011. *www.citizen.org/documents/Just-Not-Us.pdf*

[12] Lori Montgomery and Jeffrey H. Birnbaum, "Senate Panel Limits Pay Deferrals for Executives," *Washington Post*, January 18, 2007. http://www.washingtonpost.com/wp-dyn/content/article/2007/01/17/AR2007011701071.html Note: We divided the 10-year projected revenue by 10 to obtain an annual cost to taxpayers.