

**Pilot Survey on the Incidence of Stock Options in Private Industry in 1999**  
**Fact Sheet**  
**October 11, 2000**

**Why did BLS conduct a survey of stock options incidence?**

BLS is committed to reflecting the most current compensation trends and practices in the National Compensation Survey (NCS) program. The NCS collects information on occupational earnings, compensation cost trends, and benefit incidence and detailed provisions. Because of the interest expressed by many BLS compensation data users and the media, NCS developed a plan to determine the incidence, provisions, and employer costs of stock option plans.

The plan has three separate phases. The first two phases focused on the incidence and provisions of stock option grants.

Phase 1, conducted in 1999, tested a mail questionnaire by obtaining plan incidence, provisions, and record keeping information from 100 companies known to have stock options. Results were published in the Winter 1999 issue of *Compensation and Working Conditions*, available on the BLS Internet site <http://stats.bls.gov/cbahome.htm>. Stock option plan data and survey information gathered in Phase 1 were applied to the design of the Phase 2 incidence and provisions questionnaire.

Phase 2 data collection commenced in February 2000 using a statistically-valid, national sample to identify the incidence and provisions of stock option grants made in 1999. Stock option incidence results from Phase 2 appear in a Bureau of Labor Statistics press release. Provision information from Phase 2 will be available in an article in an upcoming issue of *Compensation and Working Conditions*.

Phase 3 will focus on costing stock option grants. Our objectives will be to identify the data elements required for costing stock option grants and to test whether establishments can supply this information.

**What levels of incidence were found in the BLS survey, and how do they compare with those from other stock option incidence surveys?**

The BLS Pilot Survey on the Incidence of Stock Option in Private Industry, 1999 found that 1.7 percent of employees in the private nonfarm economy were offered stock option grants in 1999. On average, higher-paid workers were more likely to have received grants than lower-paid workers. About 2.4 percent of establishments offered stock options to at least one employee in 1999. Publicly-held establishments--establishments with stock traded on the open market--had a much higher incidence of stock option grants (22.1 percent) than other establishments.

BLS previously published data on the percent of workers eligible to receive stock options. The most recent data are from 1993-94 and cover full-time workers only. In 1993, fewer than one-half of one percent of full-time workers in private establishments with 100 workers or more were eligible to receive stock options; in 1994, fewer than one-half of one percent of full-time workers in private establishments with fewer than 100 workers were eligible to receive stock options.

Over the past few years, a number of stock option surveys have been conducted by various organizations; because methods vary so much between surveys, it can be difficult to compare survey results. Differences range from the breadth of survey coverage to the collection method

to the definitions of terms. To aid in comparisons, below are some key questions that may be asked about any stock option survey, followed by responses that pertain to the BLS survey.

### **1. What businesses were included in the survey?**

The BLS stock option survey was conducted using a sample of approximately 2,100 establishments, representing the private sector of the U.S. economy (excluding agriculture) as a whole. Names of survey respondents are held in the strictest confidence by BLS.

The sample was selected from all non-government establishments contained in the national database of unemployment insurance tax reporters, which is used to select most BLS establishment samples. The file for June 1998 was used, the most current available at the time of the selection.

An establishment is usually a business at a single physical location. Sometimes it consists of all the locations of a company within a geographic area, such as a county. The establishment may be the only one owned by a company – like a small, family-owned restaurant – or it may be one of several dozen owned all around the U.S. by a large manufacturing firm, for example. It could be owned by a company trading shares on a stock exchange, known as publicly-held. Alternatively, it could be privately-held.

Using statistical techniques, a nationally-representative sample was selected, taking into account the many geographic areas in which establishments could be located, as well as their industry and size (based on employment). As a result, establishments surveyed represent all geographic areas of the 50 states and the District of Columbia, all industries, and all sizes.

### **2. How was data collection conducted and how many establishments responded?**

BLS used a 20-question survey form to collect the stock option information. Establishments were generally contacted first by telephone, and the form was sent out if all the required information could not be obtained during the phone call.

About 77 percent of sampled establishments reported usable data. Another 16 percent of establishments in the survey gave BLS either incomplete or no data and were considered nonrespondents. Finally, about seven percent of establishments had either gone out-of-business or were determined to be out-of-scope for the survey (for example, out of the geographic area coded on the original database).

### **3. What time frame, employees, and types of equity compensation were covered by the survey?**

The BLS form only asked about employees who were actually granted stock options in the 1999 calendar year. Therefore, a worker who received a grant either before or after 1999, but not in 1999, would not be counted in the results. A worker who was eligible for a stock option grant in 1999, but was not actually granted any shares – because a profit goal was not met by the company, for example – would not be counted.

Also, a worker who could be classified as an owner, such as major stockholders who can influence an establishment's policy by virtue of their stock ownership – including high-level employees who own a significant share of company stock – would not be

included in the percent of employees granted stock options. (A question was asked about owners and stock options, and these data were tabulated separately.)

In order for an establishment to be identified as having stock options, it had to answer “yes” to the following question – “Did the establishment grant stock options to at least one employee, who was not an owner, during 1999?”

A separate question was asked about other types of equity compensation offered by the establishment. These included restricted stock and employee stock ownership plans, among others. Those results were not reflected in the percent of workers or establishments with stock options.

### **Is stock option incidence going to be tracked on a regular basis following the Phase 2 incidence test?**

Yes, stock option incidence levels are being tracked as an emerging benefit in the 2000 NCS incidence and provisions survey, which collects data for a variety of benefits.

### **Where can I obtain more information on the Pilot Survey on the Incidence of Stock Options in Private Industry in 1999?**

The two main sources of information on the Pilot Survey on the Incidence of Stock Options in Private Industry in 1999 are the BLS press release (which is located on the BLS web site at: <http://stats.bls.gov/comhome.htm>) and a forthcoming article in a future issue of the BLS publication *Compensation and Working Conditions* (which will be available on Internet via <http://stats.bls.gov/cbahome.htm>).

While the article will summarize the data contained in this news release, it will emphasize analysis of the plan provisions for those workers who received grants. Data are expected to be available for the following topics:

- Types of stock option grants offered in 1999 -- non-qualified stock options (NSO), incentive stock options (ISO), and Other
- Frequency of grant offers made in 1999 (one-time event vs. on-going plan)
- Primary factors for determining the number of shares granted in 1999 (equal size grants for all, individual performance, salary/pay grade, occupation type, other)
- Percentage of shares awarded (by salary categories) under grants in 1999
- Average number of years for full vesting of stock option grants offered in 1999
- Average number of years between the time the options were granted and option expiration
- Departments responsible for stock option plan record keeping (human resources, finance/accounting, legal, other department)
- Costing methods used for 1999 grants in its financial reports (Black-Scholes model/other financial model)
- Share allotment type used in fulfilling 1999 grants (buy back shares, set aside, new shares, other)

### **What will be collected in the Phase 3 costing of stock options test?**

Phase 3 will examine whether cost data can be collected for use in existing surveys. Determining stock option costs involves getting answers to a number of complex questions. These questions include whether to cost at the time of grant or exercise and

how to manage option repricing. Research is underway on stock option costing methods and their implications for NCS products.