

Testimony

of

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before

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on

“Executive Pay and the Role of the Compensation

Consultant”

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Introduction

Chairman Waxman, Ranking Member Davis, and Members of the Committee, my name is Michael J. Powers. I am the Hewitt Associates Global Practice Leader for Executive Compensation and Corporate Governance Consulting. Thank you for the opportunity to appear before the Committee today on this important subject. In accordance with the Committee's request, today I will discuss Hewitt's role as an executive compensation consultant and describe the policies we follow to provide advice on executive compensation to our clients.

We respect the Committee's concern in addressing perceived and potential conflicts of interest that may arise from the engagement of an executive compensation consultant. In recent years, corporate scandals and volatile company performance have generated shareholder dissatisfaction with the current pay practices of some public companies, intensifying the spotlight on senior executives, their compensation packages and those who are involved in determining those packages. These circumstances and the resulting media attention and regulatory scrutiny have contributed to the ongoing evolution in corporate governance, and in how consultancy services are provided to management, Compensation Committees, and Boards of Directors.

Hewitt Associates has more than a 65-year tradition of providing innovative, value-driven solutions to help our clients around the world address their complex human capital challenges. Hewitt's executive compensation consulting services play an important role in our portfolio of Human Resources disciplines. Today, we have approximately 23,000 employees in 33 countries who deliver Human Resources solutions and services that help our clients reach their business objectives. Our leadership, reputation, capabilities and relationships set the benchmark in our industry.

Hewitt has provided executive compensation consulting services to a wide range of companies – large and small, public and private – for nearly thirty years. Hundreds of companies and their boards choose to work with us because of our integrity, experience, professionalism, objectivity and access to a global array of market data and specialist resources.

The Compensation Process

Today's successful companies need talented, effective and motivated leaders. Among the most important and complex responsibilities of a company's Board of Directors is the approval of executive pay programs that both attract and retain strong leaders.

In most public companies, a Board's Compensation Committee establishes compensation philosophies specific to their organization. In our experience, sound compensation philosophies align executive pay with shareholder interests, reward the achievement of financial or strategic results, meet certain competitive standards within the company's specific labor market, and attract and retain the talent needed to lead the company. These philosophies and the resulting programs that support them are unique to the business strategies of each organization.

Determining executive pay is a complex undertaking whereby Compensation Committees often review a variety of information and seek perspectives from a variety of disciplines when applying that philosophy to make sound executive pay decisions. This might include data on what and how other peer organizations pay, the company's recent or long-term financial performance, the returns generated for shareholders, the company's prospective leadership needs, and the demand for talent in their industry. In reaching conclusions, effective Compensation Committees exercise business judgment based on the information they review, the

perspectives provided by management or third parties, and the individual perspectives of each Committee member.

Hewitt's Executive Compensation Services

Hewitt delivers a broad array of services in the area of benefits and compensation for senior executives.

As an executive compensation consultant, Hewitt provides competitive market data and perspectives that help companies and their governing bodies make informed business judgments around executive pay. Companies or their Compensation Committees may engage us to help in a variety of ways, including:

- Development and articulation of compensation philosophies and strategies.
- Design of compensation programs aligned with the company's business strategy, especially short- and long-term incentive plans.
- Evaluation of compensation components or the total compensation provided by similarly situated peer companies, for senior executive positions. In fact, providing high-quality, global competitive market data on executive compensation is a significant part of our business.
- Assessments of absolute and relative company performance against company goals, competitive industry norms, and shareholder expectations.
- Review of technical issues associated with executive compensation programs, including new or pending regulations, tax and accounting treatment, and SEC disclosure requirements.
- Suggestions on process and protocol to enhance Committee governance and oversight.

- Participation in Compensation Committee meetings where decisions on executive pay are made, including executive sessions where management is not present.

Providing this range of services requires experience and expertise in many related disciplines. Our Compensation Committee clients oversee the development, assessment, reward and succession of key leadership positions. The compensation programs they manage cover multiple components, such as base salary, annual incentives, long-term incentives, and retirement and financial security programs. By working with a multi-service consulting firm, Hewitt's Compensation Committee clients have access to perhaps the broadest array of global resources, comprehensive market data, and design and technical experts available across these diverse and complex fields.

However, our information and perspectives are but one of many sources that a board's Compensation Committee may draw from to meet their fiduciary obligation to make appropriate pay decisions. Committees may periodically seek input from senior management, inside counsel, outside counsel, executive recruiters, or other management consultants as part of this process. It is important to note that companies and their boards do not always ask for our counsel and they are not required to follow our suggestions or recommendations, or those of other advisors.

In our experience Compensation Committees understand the importance of their oversight responsibility on executive pay. Today they are more focused than ever on due diligence, the duties of care and good faith to the organization and its core stakeholders, and on meeting the myriad requirements of the SEC, stock exchanges, and other federal and state laws.

Independent and Objective Advice

Hewitt takes very seriously its obligation to provide sound, objective, and informed advice to our clients. Companies and Boards of Directors engage our services because of our strong and longstanding reputation for quality and objectivity. Compromising independence in any of our consulting services would both contradict our values and jeopardize our reputation.

While we recognize that the potential for conflicts of interest can be found in any professional services firm, Hewitt employs a number of practices and procedures to ensure independence in our executive compensation services. These safeguards have evolved over time, and we regularly adopt new ones as corporate governance and regulatory standards continue to change in an ongoing process of establishing and improving best practices.

We segregate Hewitt services associated with executive compensation consulting into a single, separate business unit within Hewitt. As part of that structure, our executive compensation consultants are paid solely based on the results of the executive compensation business unit, and not based on the performance of any other business unit or any other aspect of Hewitt's performance. Executive compensation consultants are not eligible for Hewitt equity awards. We also proactively provide summary disclosures to Compensation Committee clients of all of Hewitt's services to the company.

These additional safeguards supplement our long-standing and recognized Best Practices which include:

- Establishing engagement agreements directly with our Compensation Committee clients that specify our role and responsibilities as Committee advisor and that are distinct from agreements for our other services.

- Adhering to strict internal and external confidentiality requirements regarding client information and Hewitt’s strong code of conduct, including public disclosure and discussion of client-specific information.
- Enforcing a strict policy against a Hewitt employee’s direct investment in the client organizations they serve.
- Maintaining separate account management. Our large multi-service clients are managed by professional account executives who are not involved in the provision of consulting services to the client’s Board of Directors.
- Following additional safeguards and policies as appropriate to satisfy individual client requests or needs and governance practices.

In our experience, most Compensation Committees have both thoroughly and regularly reviewed perceived and potential conflicts of interest issues and have arrived at informed conclusions tailored to their unique situations. We respect that some boards have chosen to require exclusive relationships with their executive compensation consultants. Other boards have taken different approaches to ensure they are receiving high-quality independent advice – including evaluating the advice given, monitoring fees paid, restricting the provision of broader services, use of a “two-consultant” model, or employing other oversight procedures. We have proactively discussed these approaches with clients and will continue to help them evaluate the best course of action based on their unique circumstances.

Our Active Role in Governance

We have both supported and contributed to the goals of the SEC’s new executive compensation disclosure requirements to better inform shareholders about the scope of executive

pay packages. Public companies must now identify their compensation advisor, who engaged the consultant, the nature and scope of the assignment, and the direction given to the consultant. In fact, the SEC referenced numerous Hewitt contributions to the new disclosure requirements in its release of the final rules. We believe these new rules are having a significant positive effect and we are providing additional input to both the SEC and our clients.

We also regularly provide input to large institutional investors and their advisors to help them understand the compensation process and develop effective means to evaluate complex executive compensation issues.

Our consultants also write frequently and serve as speakers to industry groups on suggested Compensation Committee best practices for exercising sound governance and compensation program oversight.

Important Differences from Independent Audit Services

Recent corporate governance initiatives have resulted in the limitation of additional services that independent auditors of public companies can provide to audit clients, due to perceived conflicts of interest. While some may draw parallels between the roles of independent auditors and compensation consultants; in our view, there are important differences in the services we provide as compensation consultants.

- Auditors certify that financial disclosures are complete and accurate, and meet specific standards set forth by the Financial Accounting Standards Board (FASB) and other standard-setting bodies. Investors and lenders rely on this information in making investment and capital allocation decisions. In contrast, there is no corollary for executive

compensation consultants. Compensation consultants do not make public certifications about executive pay that are relied upon by investors, lenders or other third-parties.

- Prior to the required filing of its financial statements with the SEC, a public company must obtain certification from its independent auditor that the financial statements have been prepared in accordance with applicable accounting and auditing standards. Any material disagreement between a company and its auditor may result in the issuance of an adverse opinion by the auditor or, if necessary, the auditor's resignation and the public disclosure of the points of disagreement. Conversely, Compensation Committees are not obligated to agree with our analyses, adopt our recommendations or follow our advice. The Compensation Committee exercises its own independent judgment, and sometimes uses more than one compensation consulting firm. Compensation consultants like Hewitt represent an outside perspective with no vote or veto power on the ultimate actions taken.

While we view the legal and functional roles of auditors and compensation consultants to be very different we have embraced several of the safeguards employed in that context. These include reporting directly to the Compensation Committee; eliminating incentives to cross-sell services; disclosing to the Compensation Committee other services provided to the company; and pre-approval of future services, if required by the Compensation Committee. We believe these steps to be an appropriate response to help Compensation Committees to evaluate any perceived conflict.

The Foundation to Exercise Independence

In our experience, the large majority of Compensation Committees for public companies manage sound and transparent executive compensation programs. We believe the services Hewitt provides help these companies meet their high standards of governance and oversight.

We believe executive pay levels are driven primarily by global market forces. A relatively small talent pool exists of the men and women who are capable of effectively leading and managing complex global organizations. Companies worldwide are bidding for the services of this cadre of talented executives and the “war for talent” is only expected to intensify in the coming years.

We do not believe, and have seen no empirical data supporting the notion that the executives at companies where Compensation Committees have engaged multi-service firms such as Hewitt are paid consistently more or less than executives at companies where Compensation Committees have engaged single-service firms.

As a company with more than 3,000 active client relationships for a broad range of Human Resources consulting and administrative services and \$3 billion in revenue, our consultants have the freedom to provide completely independent advice without any concern for the viability of our business. We alert our clients that we fully expect that they may not always agree with our opinions or perspective, and we believe our Compensation Committee clients both expect and respect that position.

We are committed to our clients and believe we have earned our leadership position as a human resources services firm, and in the executive compensation business because of the quality of our work and the objectivity of our counsel. Having a strong executive compensation consulting practice is an important component of Hewitt’s total Human Resources solutions

strategy. We receive positive feedback regarding the quality of our work and the objectivity of our advice from both our Compensation Committee clients and our management clients. We employ appropriate safeguards to ensure the quality and independence of our advice, and our consulting professionals carry out their responsibilities with the highest level of commitment and integrity.

We are proud of our role in promoting strong corporate governance practices and helping our clients effectively manage their pay programs.

Thank you again for the opportunity to present our views today on these important issues.