



Incentive Pay Practices Study 2026

In partnership with Compensation Advisory Partners

Glossary of Terms

You may find the following definitions to be helpful in completing this survey.

Incentive compensation includes all variable rewards for performance or achievement of short-term or long-term goals. These plans are designed to stimulate employee performance and reward the accomplishment of specific results. Rewards usually are tied to expected results identified at the beginning of the performance cycle. The plans can be individual, group, companywide or a combination of any of these. For the purposes of this study, Sales Incentive Plans (e.g. commission plans, sales bonuses, SPIFFs) are not included.

Short-term incentives (STI) are rewards that are based on the attainment of short-term results of 12 months or less (e.g., revenue, net income, project completion). In many organizations STI is synonymous with Annual Incentive Plan (AIP), but STI may also include other types of incentives and bonuses based on performance within a one-year period or less. For purposes of this study, it does not include Sales Incentive Plans (e.g. commission plans, sales bonuses, SPIFFs).

Long-term incentives (LTI) are incentives that require sustained performance of the firm or employee service for a period longer than one fiscal year, which promote long-term retention and alignment with shareholder interests. They include various incentive vehicles, such as real equity (restricted stock/restricted stock units, stock options), phantom equity, profits interests, long-term cash incentive plans and non-qualified deferred compensation.

This survey refers to the following employee groups:

CEO (highest-ranking executive of the organization regardless of actual title)

Direct reports of the CEO (direct reports to the CEO or highest-ranking executive)

Other executives/officers (most senior leaders who don't report directly to the CEO or highest-ranking executive; often VPs)

Managers/supervisors (all other management)



Salaried professionals (salaried professional staff who are not people managers and perform specialized, professional, or technical work as individual contributors)

Hourly workers (workers paid on an hourly basis; in the U.S. non-exempt hourly and salaried workers should be included in this category)

Short-Term Incentives

Annual incentive plan (AIP): A pay plan that is designed to reward the accomplishment of specific results. Rewards usually are tied to expected results identified at the beginning of the performance cycle. In contrast to discretionary bonus plans, they are not primarily discretionary but may have a discretionary component. For the purposes of this study, Sales Incentive Plans (e.g. commission plans, sales bonuses, SPIFFs) are not included.

Discretionary bonus plan: A bonus in which management determines the size of the bonus pool and the amounts to be allocated to specific individuals after a performance period. This type of plan has no predetermined formula or promises, and the bonus pool and individual bonus amounts are not guaranteed.

Project/milestone bonus plan: A form of additional compensation paid to an employee or department as a reward for achieving a specific project or achieving a defined milestone(s) on time, within scope, or according to performance criteria.

Profit-sharing plan: A plan providing for employee participation in the profits of an organization. The plan normally includes a predetermined and defined formula for allocating profit shares among participants, and for distributing funds accumulated under the plan. However, some plans are discretionary. Funds may be distributed in cash, deferred as a qualified retirement program or distributed in a cash/deferred combination.

Gainsharing plan: Any one of a number of incentive programs designed to share the results of productivity gains with employees as a group.

Team/small-group incentives: Any incentive program that focuses on the performance of a small group, usually a work team. These programs are most useful when measurable output is the result of group effort and individual contributions are difficult to separate from the group effort.

Spot awards: Spot awards recognize special contributions as they occur for a specific project or task. Spot awards are generally for a special contribution accomplished over a relatively short time period.

Retention bonus plan: A payment or reward outside of an employee's regular salary that is offered as an incentive to keep a key employee on the job for a specified period of time during a particularly crucial business event, like a merger or acquisition, or during a crucial production period.



Long-Term Incentives

Stock options: A contractual right granted by the company to purchase shares of the company's stock at a specified price (the exercise price) for a specified period of time.

Restricted stock/restricted stock units (RSU): Grants of shares or unit value of the company's stock subject to restrictions on sale and risk of forfeiture until vesting requirements are met. After vesting requirements are met, the company distributes shares or the cash equivalent of the number of shares used to value the unit.

Phantom stock: A type of incentive grant in which the recipient is not issued actual shares of stock on the grant date, but receives an account credited with a certain number of hypothetical shares. The value of the account increases or decreases over time based on the appreciation or depreciation of the stock price and the crediting of phantom dividends. Payout may be settled in cash or stock.

Stock appreciation right (SAR): A contractual right that allows an individual to receive cash or stock of a value equal to the appreciation of the stock from grant date to the date the SAR is exercised.

Long-term cash plans: Cash awards where payment is contingent on performance as measured against predetermined financial or strategic objectives over multiple years. Typical incentive periods are three to five years.

Performance shares/units: Grants of shares or unit value of the company's stock for which payment is contingent on performance as measured against predetermined objectives over multiple years. The value paid fluctuates with stock price changes and the number of shares or units earned based on performance against objectives. Payout may be settled in cash or stock.

Nonqualified deferred compensation: An elective or non-elective plan or agreement between an employer and an employee to pay the employee compensation in the future.

Other Terms

Clawback policy: A provision in which incentives already paid must be returned to the employer or the firm.