



## Executive Retirement Benefits – A Moving Target

**A review of the numerous economic, political, regulatory, and structural forces that are impacting the design of traditional SERPs**

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# Background





# Overview

- Why companies have provided SERPs
  - Equity/fairness
    - Qualified Plan limits on pay and benefits
    - Social Security is limited
    - Accelerated change in pay status
  - Retention
    - Ties key executives to company ("golden handcuffs")
    - Transition planning
  - Reward for service
  - Recruitment – particularly mid-career hires



# Defined Contribution SERPs

- Notional accounts
- May allow theoretical investment allocations
- 401(k) Wrap Plans have become common – deferred compensation plan
  - Continue match on pay above 401(a)(17) limit (\$245K in 2010)
- Targeted Annual "Contribution" – Excess Plan
  - Percentage of pay or annual dollar amount, which can vary by age, service and grade
  - Designed to meet some replacement target

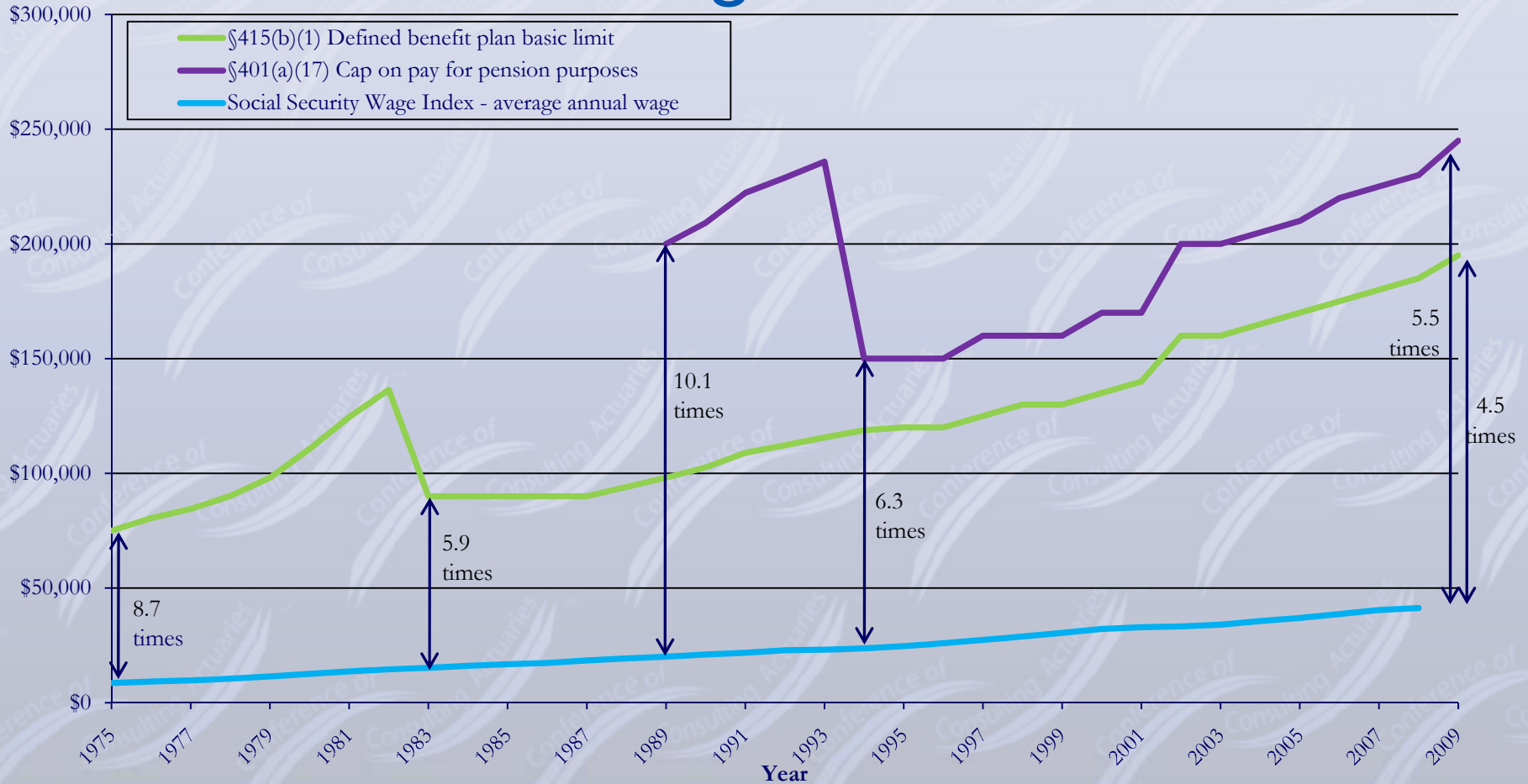


# Defined Benefit SERPs

- Requires FAS accounting
- "Excess" Plan/Top Hat
  - Same formula as DB plan
  - Can cover wide group
- Targeted Executive Plan – our focus today
  - Target replacement percentage – 50-65% of Final Pay over targeted service period
  - Offset by other sources of retirement
  - Often have early retirement age

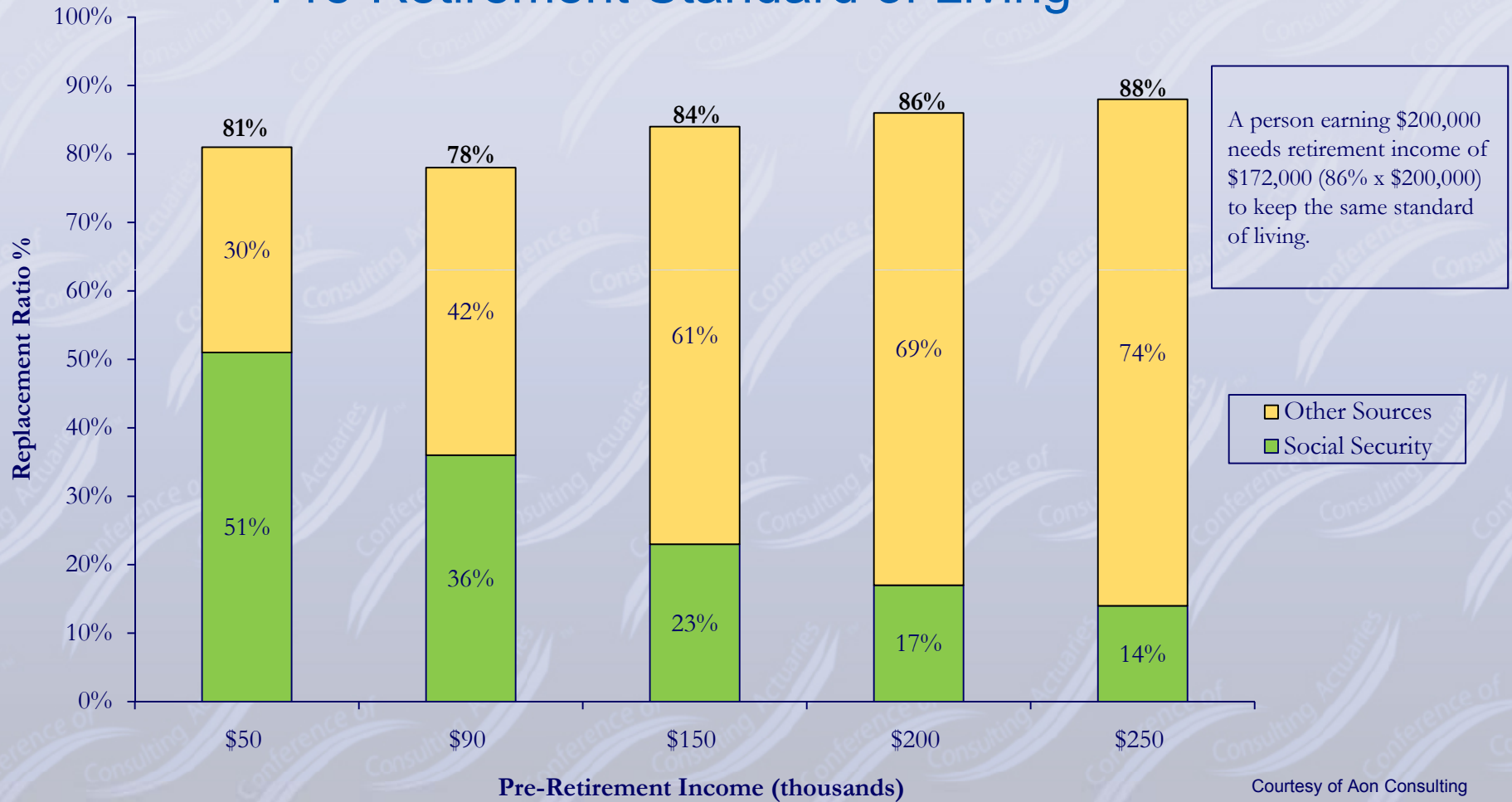


# Qualified Plan Limits vs. Average National Wage





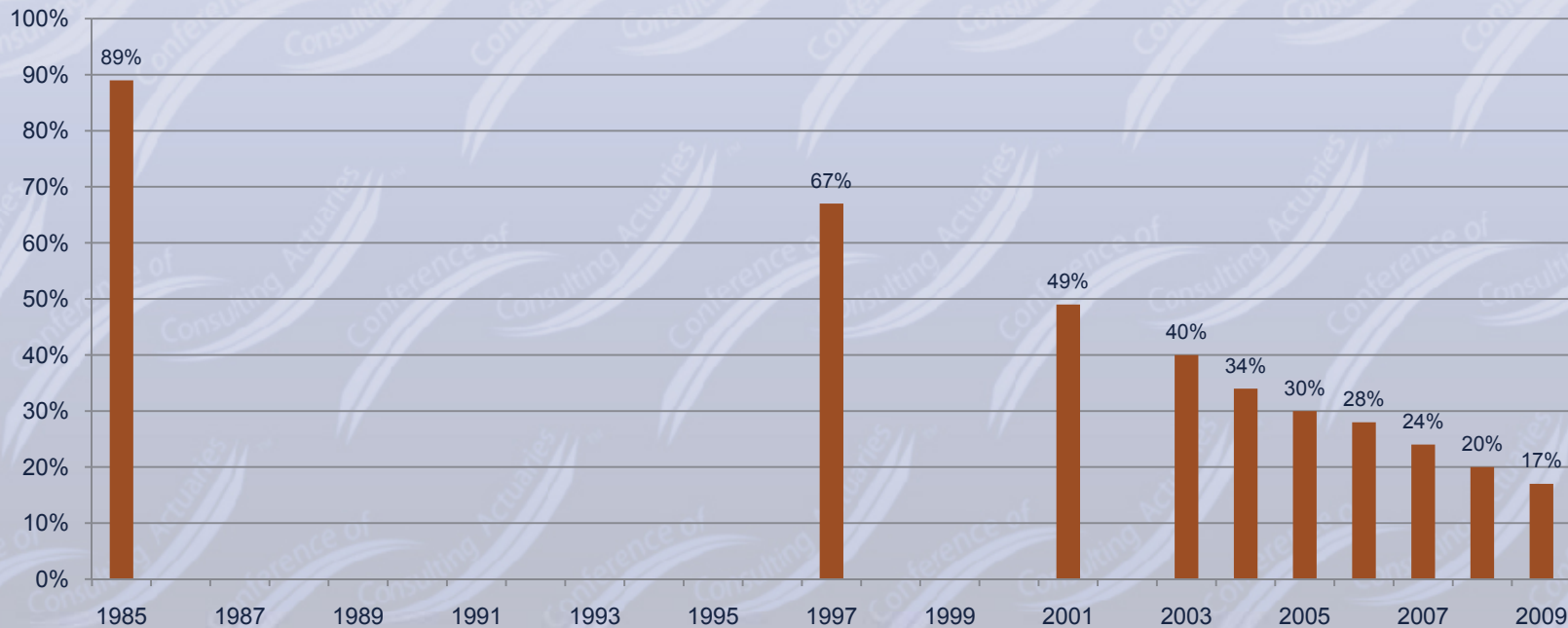
## Replacement Ratios Needed to Maintain the Pre-Retirement Standard of Living





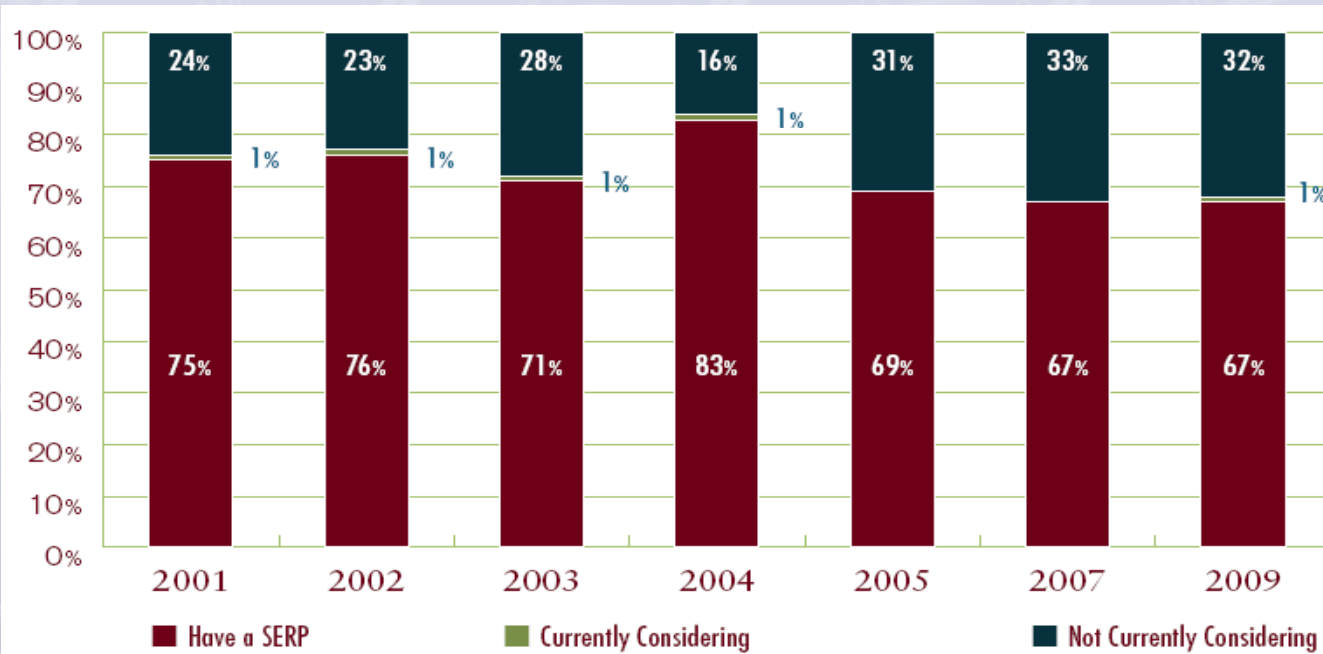
# SERP Trends

- DB SERPs have been steadily declining in prevalence in over the last 25 years
  - According to a 2010 Towers Watson study of *Fortune* 100 companies, traditional defined benefit ("DB") retirement plans have decreased in prevalence from 89% in 1985 to 17% now





# SERP Prevalence



### SERP PREVALENCE (2009)

Up to \$2.5 Billion in Annual Revenue	Above \$2.5 Billion in Annual Revenue	All Financial Institutions	All Surveyed Companies
57%	66%	89%	67%

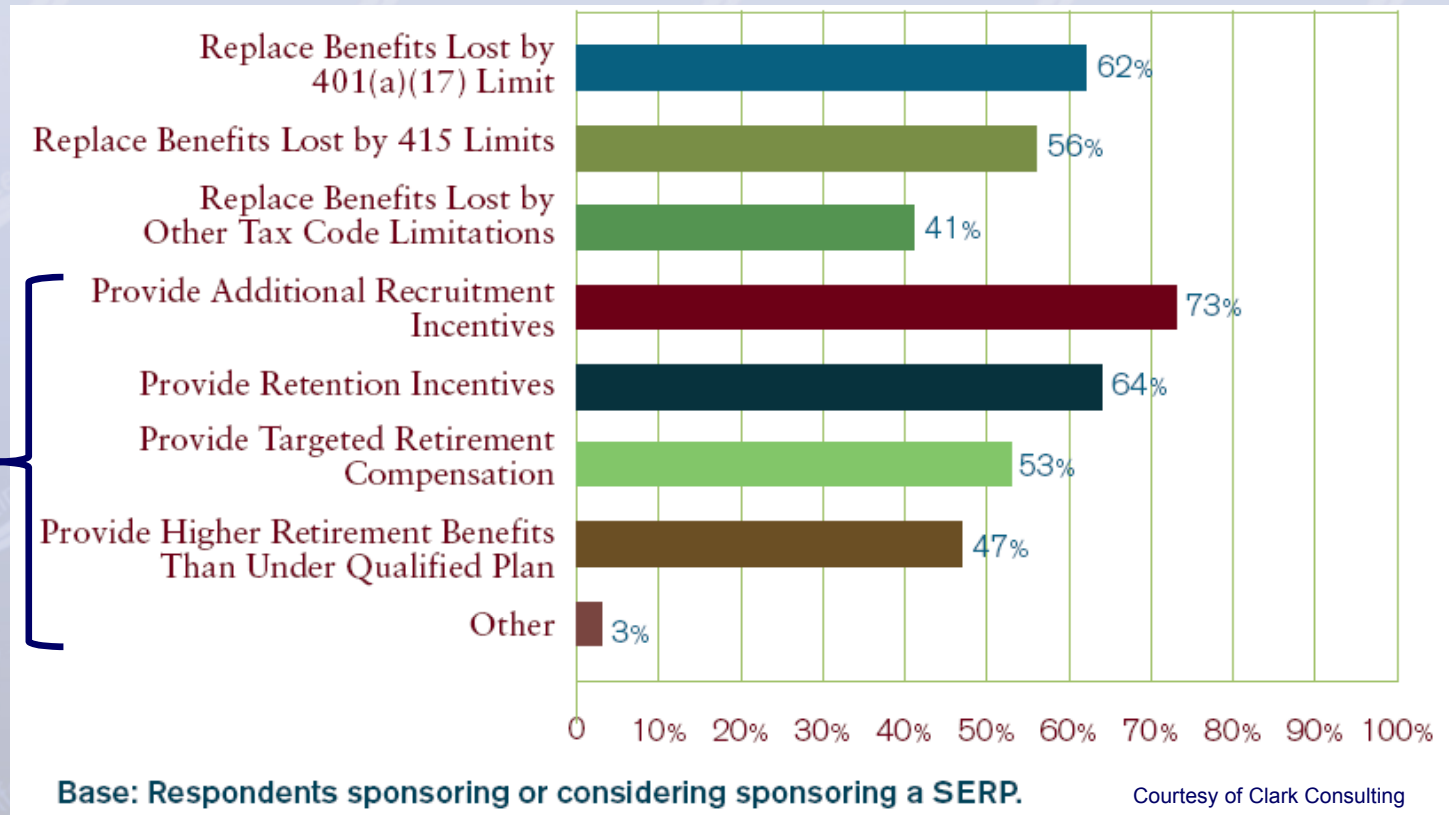
Base: Survey Respondents.

Courtesy of Clark Consulting

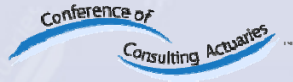




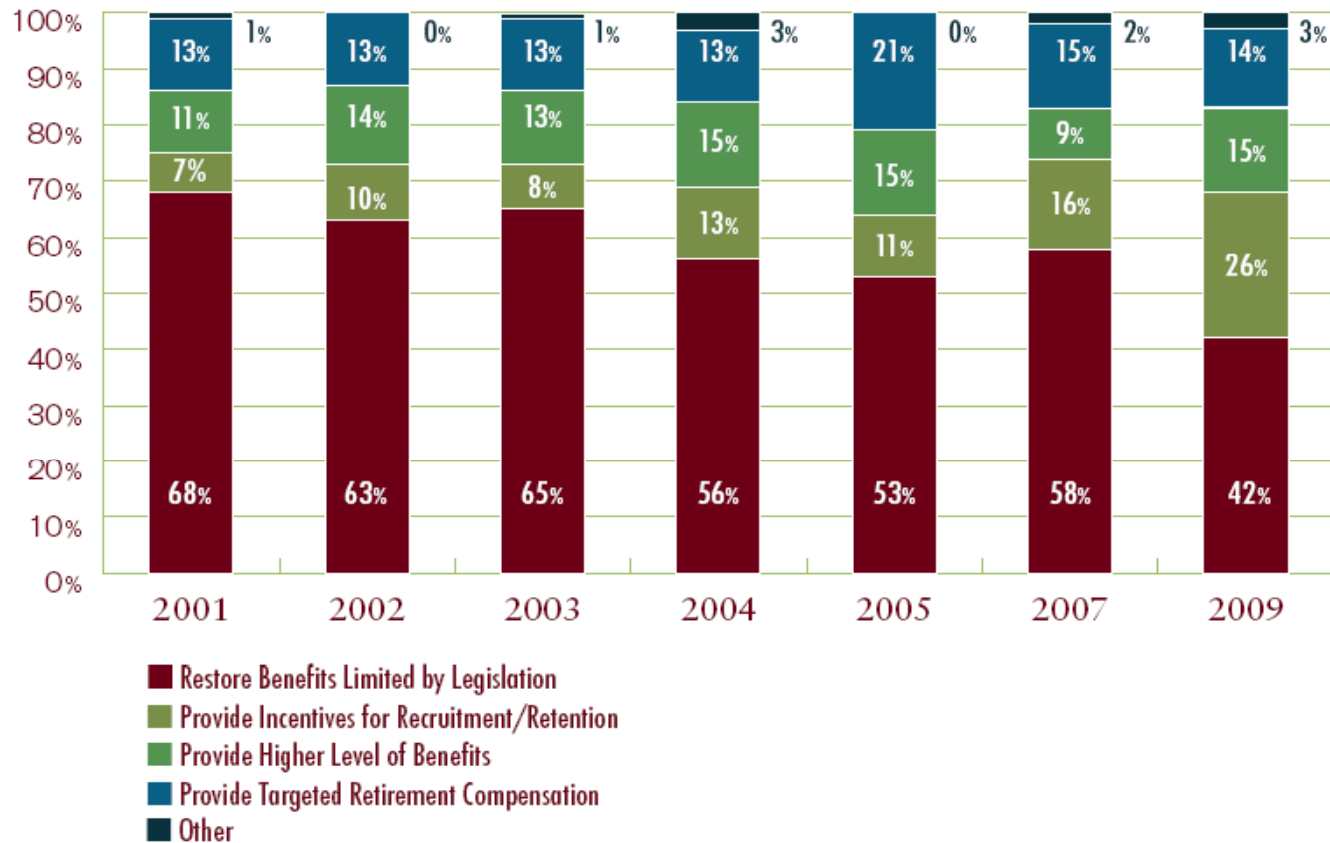
# Reasons for Implementing a SERP



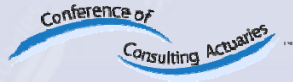
Likely to be questioned by shareholders.



# Primary Reason for Implementing a SERP



Base: Respondents sponsoring or considering sponsoring a SERP. Courtesy of Clark Consulting



# Arguments For and Against SERPs

Reasons for Providing SERPs	Possible Shareholder Response
Retention Incentives (Golden Handcuffs)	<ul style="list-style-type: none"> <li>• Unvested equity awards already provide for retention.                             <ul style="list-style-type: none"> <li>• Typical 3 to 4 year equity vesting schedule translates into substantial value that'd be forfeited by executives upon voluntary termination.</li> </ul> </li> <li>• Equity is the preferred pay vehicle to aid retention due to shareholder alignment.</li> <li>• With prevalence of SERPs on the decline executives will find it harder to find alternative employment opportunities offering a SERP.</li> <li>• SERPs are not an insurmountable obstacle to executives leaving, can be bought out by prospective employer.</li> <li>• In a mobile job market, average tenure for top executives is relatively short and may still be dropping.</li> <li>• Pay-for-performance disconnect.</li> </ul>
Recruitment Incentives	<ul style="list-style-type: none"> <li>• Succession planning (CEO's and Board's responsibility) should reduce the need for outside hires at top executive level.</li> <li>• Recruitment incentives can be provided through:                             <ul style="list-style-type: none"> <li>• performance based pay, and</li> <li>• without entangling the company in long-term post-termination arrangements</li> </ul> </li> <li>• Pay-for-performance disconnect.</li> <li>• If the SERP is a deal breaker, is the identified candidate really the only and best alternative?</li> <li>• With prevalence of SERPs on the decline, companies without a SERP should be at less of a disadvantage vis-à-vis the market.</li> </ul>
Provide for Retirement Security	<ul style="list-style-type: none"> <li>• If company performance is up to par, executives will earn enough to be able to provide for their own retirement security.</li> <li>• Why is ensuring retirement security the company's responsibility?</li> <li>• Executive pay is high enough to provide for retirement security without company involvement.</li> <li>• How do shareholders benefit from this?</li> </ul>





# Forces Acting on SERPs

- *Multitude of external factors result in significant headwinds for SERPs:*

Increasing Democratization of Outside Director Election Process:

- Majority voting rapidly becoming the norm
- Shareholder proxy access (to be proposed by the SEC)

Shareholder Activism and Engagement Between the Board and Large Shareholders

Institutional Investor Advocacy Groups: Council of Institutional Investors, Interfaith Center on Corporate Responsibility, and others.

Voting Policies of Proxy Advisory Firms: RiskMetrics (most influential), Glass Lewis, Proxy Governance, etc.

Emerging Factor - Wall Street Reform Act (in effect for 2011 Proxy Season):

- Say-on-Pay requirement
- Pay-for-Performance Disclosure (pending)
- CEO compensation relative to median compensation for all other employees (pending)

Proxy Disclosure Regime:

- CD&A disclosure of what each pay element is designed to reward, how it fits in with other compensation elements, why the company chose to provide it, etc.
- Pension Benefits Table
- Payments Upon Termination Table

Executive Pay Paradigm Shift:

- Then: Compensation and perquisites as a status symbol
- Now: Pay-for-Performance
- Then: Hire "star" CEOs externally
- Now: Succession planning is an important Board function

IRC 409(A):

- Stricter election rules
- Forced review of plan design
- Distribution trigger limitations
- Non-compliance penalties

Executive (and Broad) Labor Market Changes:

- Then: Common to stay with one company for the duration of one's career
- Now: Average CEO tenure at US companies is less than 6 years (University of Chicago – Kaplan & Minton)





# External Optics of SERPs





# SERPs - A Checkered History

- Perhaps due to “guilt-by-association”, executive pensions have become associated with playing a role in numerous “pay-for-failure” examples during the last decade
- In each of the notable cases listed below, a sizable SERP payout constituted a significant portion of termination benefits
  - Dick Grasso (NYSE) in 2003 – CEO of a \$1 billion non-profit organization received a \$52M SERP benefit
  - Franklin Raynes – Fannie Mae, left in the middle of an accounting scandal
  - Bob Nardelli – Home Depot, dismissed for performance reasons
  - Henry McKinnell – Pfizer, left during a period of a declining stock price
  - Financial firm CEOs during the current financial crisis:
    - Chuck Prince - CitiBank
    - Stan O’Neal - Merrill Lynch
    - Kenneth Lewis – Bank of America
    - Angelo Mozillo – Countrywide (acquired by Bank of America), currently facing shareholder lawsuits
  - Rick Wagoner – General Motors, left after company bankruptcy and government bailouts
- And the list goes on...
  - Due to the negative external optics and reputational damage often associated with SERPs, compensation committees have been cooling to the idea of continuing with SERP programs

} Accepted TARP Funds. Without taxpayer “largess” faced bankruptcy (Lehman) with SERPs subject to creditor claims



## RiskMetrics and Other Powerful External Constituents Preach Restraint With Regard to SERPs

- **RiskMetrics Group** (by far and away the most influential proxy advisor) policies on SERPs:
  - Generally vote FOR shareholder proposals requesting to **put extraordinary benefits contained in SERP agreements to a shareholder vote** unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans.
  - Generally vote FOR shareholder proposals requesting to **limit the executive benefits provided under** the company's supplemental executive retirement plan (**SERP**) by limiting covered compensation to a senior executive's annual salary and excluding of all incentive or bonus pay from the plan's definition of covered compensation used to establish such benefits.
  - Poor pay practices (may result in WITHOLD voting recommendation for directors and the CEO):
    - Egregious pension/SERP (supplemental executive retirement plan) payouts, which may include additional years of service not worked or inclusion of performance-based equity awards in the pension calculation
- **AFL-CIO**
  - In general, the voting fiduciary should oppose the provision of any perquisite or benefit to executives that exceeds what is generally offered to other company employees. From a shareholder perspective, **the cost of these executive entitlements would be better allocated to performance-based forms of executive compensation**
- **TIAA-CREF**
  - SERPs may be used to supplement "qualified" pension entitlements, but **should be reasonable and should not enhance retirement benefits excessively**. When designing SERPs, compensation committees should consider the value of SERP programs as part of an executive's total compensation package. They should also be sensitive to issues of internal pay equity.



# Mutual Fund Industry View of SERPs

- Although disclosure of mutual fund voting policies is not uniform, the policies of funds providing such information seem to track with RiskMetrics and other large pension fund managers:
  - **Goldman Sachs**
    - Generally vote FOR shareholder proposals that call for a shareholder vote on **extraordinary benefits** contained in Supplemental Executive Retirement Plans (SERPs).
  - **BlackRock**
    - BlackRock may support shareholder proposals requesting to put **extraordinary benefits** contained in Supplemental Executive Retirement Plans ("SERP") agreements to a shareholder vote unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans.
  - In many cases DB SERPs are **extraordinary benefits** by definition
    - Not available to rank and file
    - Frequently recognizes incentive pay in benefit accrual
    - High accrual rates



# SERPs and Pay-for-Performance

- One of the key concepts to have emerged over the last decade in the executive pay arena is pay-for-performance
  - Year-to-year executive pay variations are directionally aligned with shareholder returns
  - Ideally, in years of lagging stock performance value of executive equity awards declines and bonus plans pay out below target, if at all
    - Other than a relatively modest base salary, executives would see relatively little other compensation in a year of poor shareholder returns
- SERPs act to upset this construct
  - Accrue additional pension amounts due to salary alone, helping to ease the financial pain of a bad year
    - Weakens directional alignment of executive pay and shareholder returns
  - Depending on magnitude of accruals may act as an additional, "stealth" element of pay
    - When executive pay is benchmarked, usually only the direct elements are compared (base, bonus, LTI)
    - Pension benchmarking is either not done, or done separately
    - Net result is that the Compensation Committee delivers a higher percentile total compensation than intended



# SERPs and Pay-for-Performance

- Accrual may be structured in a number of ways most of which weaken the pay-for-performance connection:
  - Based on years of highest combined base pay and possibly bonus
    - Bad years may have no impact on final benefit value
  - Based on salary alone
    - Typically higher accrual rates than those based on salary and bonus
- Additional years of age and service credits granted for new hires to buy out unvested SERPs at prior employers
- Potential source of embarrassment for the Board if CEO has accumulated a large pension amount during a time of poor corporate performance
  - Usually picked up by the media upon CEO's termination (OmniCare in August 2010 is the latest example)
  - Although accrued value is disclosed annually in proxy, the media only picks this up when there is a more of a "news worthy" story around this
    - History of below par performance coupled with acrimonious departure



# SERP Enhancement Upon Change-in-Control

- Companies with SERP programs often enhance the benefit upon a change-in-control (CIC) related termination
  - Amount of additional benefit typically calculated by granting additional years of age and/or service credits equal to the severance multiple
    - A severance multiple of 3X (base and typically bonus) results in 3 years of additional age and service credits in the SERP
    - Value of accrued benefit also deemed vested (vesting acceleration) upon a change-in-control, if unvested prior to the CIC
  - Value of additional age and service credit, and accelerated vesting benefit disclosed annually in proxy
    - Often constitutes a significant percentage of overall CIC benefits
  - Additional CIC related SERP costs inflate golden parachute excise tax gross-ups under IRC 280(g) (for companies that have this provision)
    - Excise tax gross-ups are another externally unpopular provision
    - Provided the excise tax threshold is tripped prior to providing a SERP benefit, each dollar of incremental SERP benefit costs ends up costing companies approximately \$2.50 to \$3.00 in gross-up costs (exact ratio varies based on the state income tax rate)



# SERPs - Proxy Disclosure





# Proxy Disclosure of SERP Benefits – Current Requirements

- Under the current proxy rules companies must disclose the rationale behind SERP benefits and quantify the value to the participants:
  - Companies provide a qualitative description of the SERP benefit in the CD&A section of the proxy
    - Detailed rationale should describe what the program is designed to reward, how it relates to and is affected by other pay elements, critical design elements, and
    - Anything else the company feels is pertinent for shareholders to know about the program
- Increase in value of the SERP during the three most recent fiscal years is reported in the **"Change in Pension Value and NQDC Earnings"** column of the Summary Compensation Table
  - Valuation assumptions disclosed in footnotes
- Pension benefits table must disclose the following:
  - Number of years of credited service
  - Present value of accumulated benefit – the place to look for total "walk-away" SERP value
    - Valuation assumptions typically provided in a footnote, more detailed plan description in a paragraph that follows the table
  - Payments during last fiscal year



# Proxy Disclosure of SERP Benefits – Current Requirements

- Potential Payments Upon Termination Events
  - Value of SERP benefit (enhancement) shown upon every applicable termination event in tabular format
    - Death or Disability
    - Involuntary Termination for Good Reason
    - Involuntary Termination for Cause/Not for Cause
    - Termination following a Change-in-Control (most often provides the largest enhancement)
  - Description of the impact of each termination event upon each type of benefit provided, including retirement



# New Proxy Disclosure Requirements Affecting SERPs

- Additional executive compensation proxy disclosure requirements may be in effect starting with the 2011 proxy season
  - Legislated by Dodd-Frank Wall Street Reform and Consumer Protection Act
- Mechanics of the new disclosure requirements are to be finalized by the SEC, and will include the following:
  - Relationship between executive compensation and the financial performance of the company (as measured by stock price changes and dividends)
    - Since SERPs are not performance-based vehicles, this comparison will be more difficult for companies with SERPs – more executive pay for each dollar of shareholder return
  - The median of the annual total compensation of all employees, except the CEO
  - The annual total compensation of the CEO (CEO Annual Compensation); and
  - The **ratio** of the Median Employee Annual Compensation to the CEO Annual Compensation.
    - **Total compensation** is defined as it is for purposes of the Total Compensation column in the Summary Compensation Table
      - Since the CEO is one of the few employees with a SERP, the SERP will increase the ratio of CEO to median employee pay
- While none of the new disclosure requirements spell the end of the SERPs, they are likely to result in worse optics for companies with SERPs versus those without.



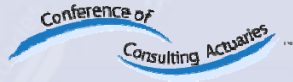
# IRC 409A Impact on SERP





# IRC 409A Impact on SERPs

- Main thrust of IRC 409A was to prevent the perceived abuses of deferred compensation arrangements (officially), also happens to have potential to be a “revenue” enhancing measure
  - Alleged abuses related to election timing and distribution timing
- The new law applied to a broader set of compensation plans than pure deferred comp type arrangements
- Main provisions of 409A require timely documentation of amounts to defer and time/manner of payments
  - Payments may not be accelerated except for certain acceleration triggers
- IRC 409A dramatically increased administration complexity
  - Resulted in a sizable increase in the number of companies outsourcing the administration of their deferred compensation plans
  - Clark survey showed decline in in-house administration from 44% in 2005 to 32% in 2009 with the same increase in the use of 3<sup>rd</sup> parties
- Penalties for non-compliance are stiff
  - 20% penalty for amounts subject to 409A plus penalties at underpayment rate + 1%, resulting in effectively confiscatory rates
- The additional complexity and significantly reduced flexibility mandated under 409A likely affected SERP prevalence at the margin
  - Value to executives reduced by decreasing flexibility with regard to election timing, payment triggers, amounts, etc.
  - Cost to companies of administering greatly increased



# How Shareholders May Voice Their Concerns





# Shareholder Tools of Engagement

- Due to the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as reforms that preceded it, shareholders have now acquired a broad array of favorable provisions enabling them to meaningfully influence Board decisions with regard to virtually every aspect of executive pay, including SERPs:
  - The following changes preceded the Dodd-Frank Wall Street Reform and Consumer Protection Act
    - Gradual shift to declassified boards – directors face annual elections instead of every two or three years
    - Majority voting standards – directors have to be elected with a majority of votes FOR their candidacy
      - Under the prior standard known as plurality directors could reelected by receiving the most votes out of the candidates running for that particular seat
        - When running unopposed (virtually in every case) can be reelected with as little as one FOR vote
    - The rise of the activist investor class targeting underperforming companies, seeking to unlock “trapped” value
      - Frequently seeking board seats to influence the agenda
      - Executive pay not necessarily the focus, but can become “collateral” damage with an actual owner on the Board
    - Companies proactively adopting non-binding Say-on-Pay provisions ahead of the legislation by Dodd-Frank



# Shareholder Tools of Engagement, Contd.

- Increase in non-binding shareholder proposals included in proxies
  - Although SERPs are rarely the focus, lets directors know that executive compensation is under a microscope
- Direct engagement between the Board and shareholders becoming more common and routine, e.g. Pfizer's shareholder forum
- On July 21, 2010, Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law legislating the following requirements, that further tilt the balance of power towards shareholders:
  - A nonbinding shareholder vote on the compensation of executives as disclosed in the proxy ("say on pay vote") at least once every 3 years
  - A nonbinding shareholder vote on the frequency of the say on pay vote at least once every 6 years
  - Eliminates broker votes on director elections, executive compensation, or any other significant matter, as determined by the Securities and Exchange Commission (SEC), for uninstructed shares held by beneficial owners
  - Instructed SEC to issue rules governing proxy access



# Say on Pay Provisions and Golden Parachute Votes

## Say-on-Pay Provisions

- Separate shareholder vote in proxy at least once every 3 years to approve the compensation of executives as disclosed in the proxy (CD&A, tabular and narrative disclosures)
- Separate shareholder vote in proxy at least once every 6 years to determine whether shareholder vote on compensation will occur every 1, 2, or 3 years
- Both the shareholder say on pay vote and the say on pay frequency vote are not binding on the company or the company's board of directors
  - Theoretically, companies can decide on the frequency they'd like to utilize
  - Practically, if a company chooses a frequency other than what shareholders vote for, could be in for some shareholder attention
  - Similarly, ignoring a negative say on pay vote is likely to cause greater shareholder scrutiny/action
- Institutional shareholders will be required to disclose their votes on say on pay and say on pay frequency

## Golden Parachute Approval

- In any proxy for a meeting where shareholders will be asked to approve an acquisition, merger, consolidation, or proposed sale or other disposition of all or substantially all the assets of an issuer (CIC), the following must be disclosed and a separate, nonbinding shareholder vote must be held to approve:
  - Any agreements or understandings with named executive officers concerning any type of compensation that is based on or otherwise relates to the acquisition, merger, consolidation, sale, or other disposition of all or substantially all the assets of the issuer ("CIC Compensation")
  - The aggregate total of all such compensation that may (and the conditions upon which it may) be paid or become payable to or on behalf of such executive officer



# Broker Voting

- Before Dodd-Frank retail shareholders who didn't vote their proxy (majority) had their votes cast automatically in support of management's recommendation
  - At companies with a sizable retail shareholder base tilted the odds in favor of the issuer on matters such as director elections, and various types of shareholder and management proposals
  - Analogous to automatically casting votes in favor of the party in power for those voters who chose not to cast a vote
    - Silence indicates agreement
- Dodd-Frank prohibits brokers from voting securities unless the beneficial owner has instructed the broker how to vote the proxy on the following matters:
  - Election of directors;
  - Executive compensation; or
  - Any other significant matter, as determined by the SEC.
- This provision will apply to the new mandatory say on pay votes regarding executive compensation, which will have a negative impact on vote outcomes and likely will force companies to evaluate whether a proxy solicitation campaign targeted at retail beneficial owners is warranted
- Likely will increase the influence of proxy advisory firms as the broker votes are not counted on the above issues



# Proxy Access

- Dodd-Frank instructed the SEC to issue rules on proxy access:
  - Requires: (1) companies to include a shareholder nominee to serve on the board of directors, and (2) companies to follow a certain procedure with respect to the solicitation of proxies.
    - Instructed the SEC to issue rules permitting shareholders to use proxy solicitation materials supplied by an issuer for the purpose of nominating directors, under such terms and conditions as the SEC determines are "in the interests of shareholders and for the protection of investors."
  - Proxy access has been a lightning rod for the SEC. The SEC has been reviewing this topic for several years and has stopped short of implementing this in the past.
- SEC finally released the rules on August 25<sup>th</sup>:
  - Threshold for access is set at 3% ownership maintained for at least 3 years
    - Shareholders may aggregate their holdings to satisfy the 3% ownership threshold
  - Shareholders may nominate up to 25% of the directors, but at least one director if the Board is made up of less than four members
  - Shareholder group(s) with the largest ownership stake have priority
  - Shareholders have to disclaim intent to effect a change-in-control or gain a greater number of seats than stipulated in the rule



## What's Next

- Rich SERPs will continue to be scrutinized
- Top Hat designs will be maintained DB/DC
- Ability to defer compensation directly or indirectly will continue to be valued by executives
- DC style designs likely to prevail





# Are Performance Based SERPs the Answer?

- Pay-for-performance concerns in recent years resulted in increased interest in performance-based SERPs as a way of addressing shareholder concerns with the traditional DB SERPs
- Relatively simple concept – DC plan with company contributions (if any) based on corporate performance

Pros	Cons
<ul style="list-style-type: none"> <li>• Addresses pay-for-performance concerns</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder alignment already addressed through annual incentive plans and equity awards</li> </ul>
<ul style="list-style-type: none"> <li>• Increased retention if contributions are unvested</li> </ul>	<ul style="list-style-type: none"> <li>• Retention addressed through multiple year's worth of unvested equity awards                             <ul style="list-style-type: none"> <li>• May be improved further through extending vesting periods</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• Improved retirement security</li> </ul>	<ul style="list-style-type: none"> <li>• Retirement needs can be funded by direct elements of pay (base, bonus, LTI)</li> <li>• Modest annual awards of "career shares" may be a superior construct                             <ul style="list-style-type: none"> <li>• No need for goal-setting</li> <li>• Shareholder alignment</li> <li>• May be perceived as more transparent than performance-based SERP</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>• Compensation committees already struggle with selecting metrics and setting performance targets for both annual and long-term incentive plans</li> <li>• Compensation Committees may be tempted to default to metrics used by annual or long-term performance plans                             <ul style="list-style-type: none"> <li>• This approach risks creating external optics of a supercharged annual or long-term performance plan due to paying twice for the same performance</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>• May result in disconnect between intended and actual total pay positioning relative to market                             <ul style="list-style-type: none"> <li>• Due to the benchmarking only the direct elements of pay</li> </ul> </li> </ul>



# Tax Rates – Historical Perspectives



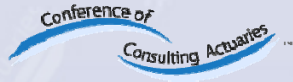


# "History Does Not Repeat Itself, But It Does Rhyme"

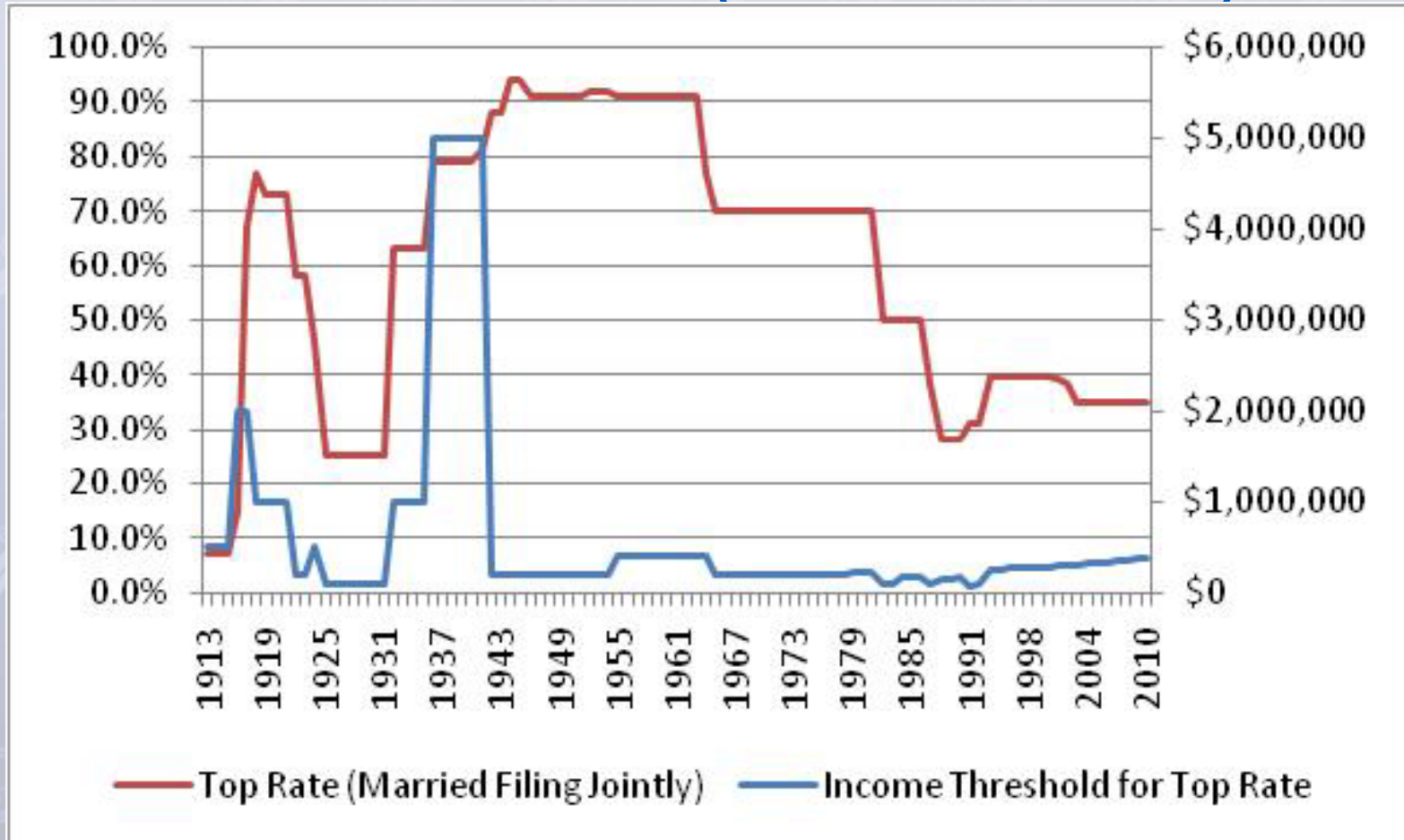
- SERPs are generally believed to be a tax efficient compensation vehicle
  - This belief has become conventional wisdom and is rarely questioned
    - Supported by reversion to mean arguments
    - Which mean? A long enough historical frame of reference is crucial - time spent in retirement is often measured in decades
  - Tax efficiency concept is based on the premise that in retirement executives will have a lower tax rate than during their working years as they'll spend less and will therefore need less income
    - That assumption hinges on tax rates remaining stable
- Current tax rates are close to multi-decade lows
- Relative stability of top marginal tax rate is a relatively new phenomenon
  - In 1981 top marginal federal tax rate was 70%, applied to income in excess of \$215,400<sup>1</sup>
  - In 1982 top marginal federal tax rate was 50%, applied to income in excess of \$85,600<sup>1</sup>
- President Obama's Deficit commission due to issue a report in December...

<sup>1</sup> Source: Tax Foundation





# History of Tax Rates in the United States (1913 – 2010)





# Case Study





## Case Study - Current SERP

- The existing SERP was implemented in 1994
  - The SERP been revised several times through the years
  - Strong source of retirement income following a long career
  - Effective as an incentive for executives to remain
- The basic design of the SERP is as follows:
  - Payment of a specified percentage of final average earnings ("FAE"), determined as follows:
    - 1.15% for each year of service before becoming a SERP participant
    - PLUS, 2.5% for each year of service after becoming a SERP participant
    - OFFSET BY benefits payable under tax-qualified retirement plans
    - No cap on service or the pay replacement formula
  - The determination of FAE includes all bonuses



# Case Study - Observations on SERP

- Among the 15 peer companies
  - Only three (20%) continue to maintain a traditional DB retirement program
  - Six of the peers (30%) offer top executives some sort of supplemental retirement income program (which includes some companies that provide supplemental benefits even if no underlying tax-qualified DB retirement income exists)
  - All of the peer companies maintain a tax-qualified defined contribution ("DC") retirement plan, typically allowing employee contributions and some company matching contributions
  - Nearly all of the peers provide executives with restoration of DC plan contributions that are limited under ERISA



# Case Study - Proposed Prospective SERP Design

- Overarching principles:
  - Lock-in values accrued to-date under current design -- no reductions in existing SERP accruals
  - Provide for additional value accrual above current PV, but at moderated growth trajectory
  - Aim for competitive target values for age-55 and age-62 retirement
  - Resulting retirement values would exceed median SERP levels, but would pare liabilities below the trajectory of the current design
  - *Run parallel calculation assuming median design for full life of your SERP – if this results in a greater PV at retirement, you would receive this higher value*



# Case Study - Proposed Prospective SERP Design, Contd.

- Prospective design changes
  - Future accruals would build at the same rate as the current tax-qualified pension plan (1.15%)
  - Prospective earnings would include base pay and "normal" annual bonus only (i.e., the portion of the current bonus that is guaranteed under your employment agreement)
  - Apply early retirement factor that is more reflective of median practice: 0.65 rather than current 0.72 factor
  - Offset SERP payments by Social Security
  - Change the PV lump sum factor to be consistent with the current pension plan basis (the SERP uses the 30-year Treasury rate, whereas the pension plan uses a blended Treasury rate and corporate bond rate)