Protecting the Downside Risk of Nonqualified Deferred Compensation

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Substantial Wealth in Deferred Compensation

CEO in 2014	Company	Total deferred compensation
David C. Novak	YUM Brands	$232,612,208
Richard B. Handler	Leucadia National	$201,130,237
Glenn M. Renwick	Progressive	$150,313,667
David M. Cote	Honeywell	$113,231,240
Michael F. Neidorff	Centene	$110,078,703
Brian L. Roberts	Comcast	$96,641,079
Larry J. Merlo	CVS Health	$88,627,753
C. Douglas McMillon	Walmart	$65,678,164
A.G. Lafley	Procter & Gamble	$63,653,604
John P. Wiehoff	CH Robinson Worldwide	$63,302,121

Source: Center for Effective Government/Institute for Policy Studies

NQDC Tax Benefits (Tax Deferral Only)

	No NQDC	NQDC Payments Over 10 Years
Pre-Tax	$1,000,000	$186,628 X 10 Years
After-Tax	$ 600,000	$111,977 X 10 Years
After-Tax Total After 10 Years in Retirement	$1,187,765	$1,356,941

Tax Deferral Benefits can be significant even without lower tax rates in retirement

Assumes a deferral of $1,000,000 5 years before retirement
Assumes 40% tax rate while working and 40% tax rate in retirement
Assumes 7% pretax rate of return on investments

NQDC Tax Benefits (Tax Arbitrage *and* Deferral)

	No NQDC	NQDC Payments Over 10 Years
Pre-Tax	$1,000,000	$186,628 X 10 Years
After-Tax	$ 600,000	$141,837 X 10 Years
After-Tax Total After 10 Years in Retirement	$1,187,765	$1,810,887

Tax Arbitrage & Deferral Benefits can be very substantial assuming a lower tax rate in retirement

Assumes a deferral of $1,000,000 5 years before retirement
Assumes 40% tax rate while working and 24% tax rate in retirement
Assumes 7% pretax rate of return on investments

Biggest Risk: Corporate Bankruptcy

Participants' Rights Unsecured. The right of a Participant, or any Spouse or Beneficiary, to receive a distribution under this Plan shall be an unsecured claim against the general assets of the Corporation. Neither the Participant nor his or her beneficiaries shall have any right to enter against any specific assets of the Corporation. The Participants shall have the status of general unsecured creditors to the Corporation. This Plan constitutes a mere promise by the Corporation to make benefit payments in the future.

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NQDC = Concentrated Exposure to Credit Risk

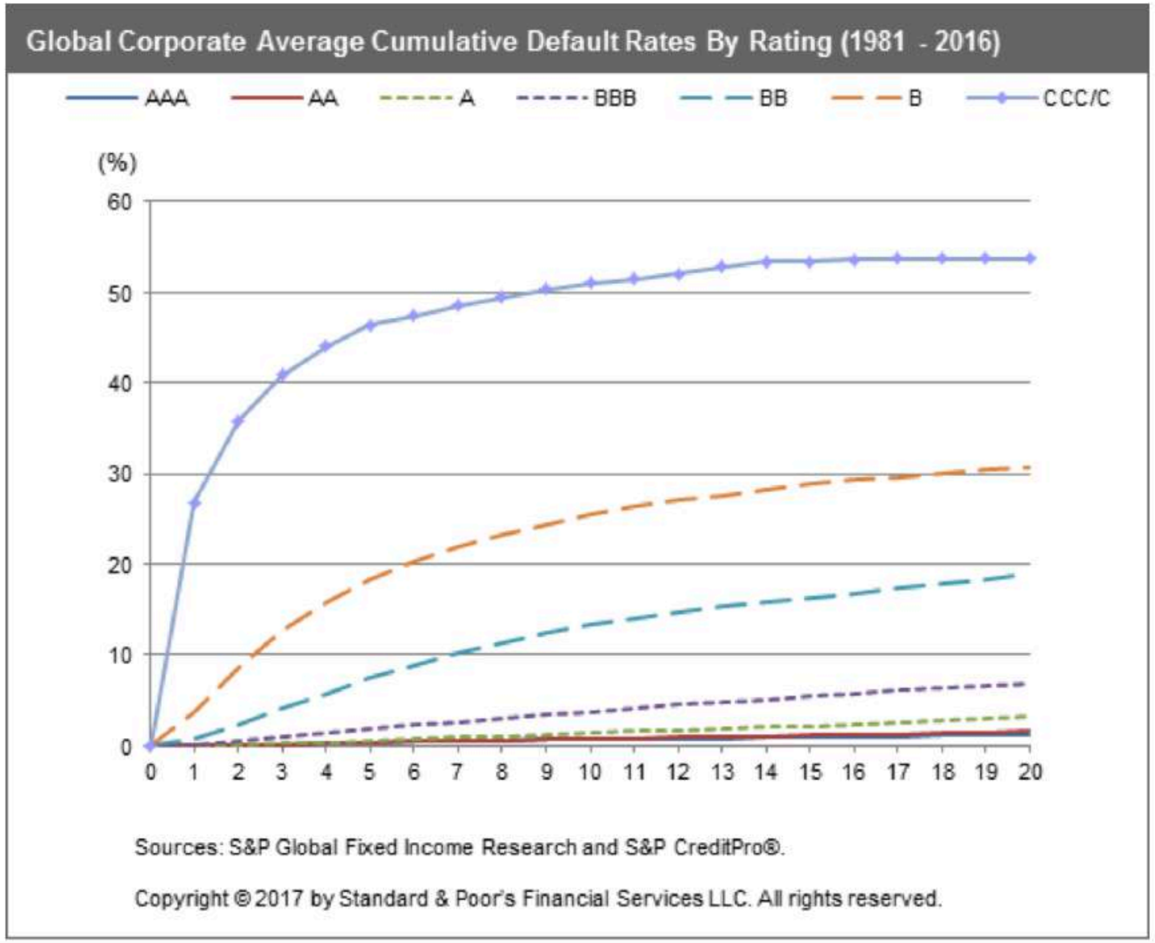
Credit Rating Scales by Agency, Long-Term

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
	C	C	
C	D	D	In default
/			
/			

"Junk"

WOLFSTREET.com

Default, Transition, and Recovery:
2016 Annual Global Corporate Default Study And Rating Transitions



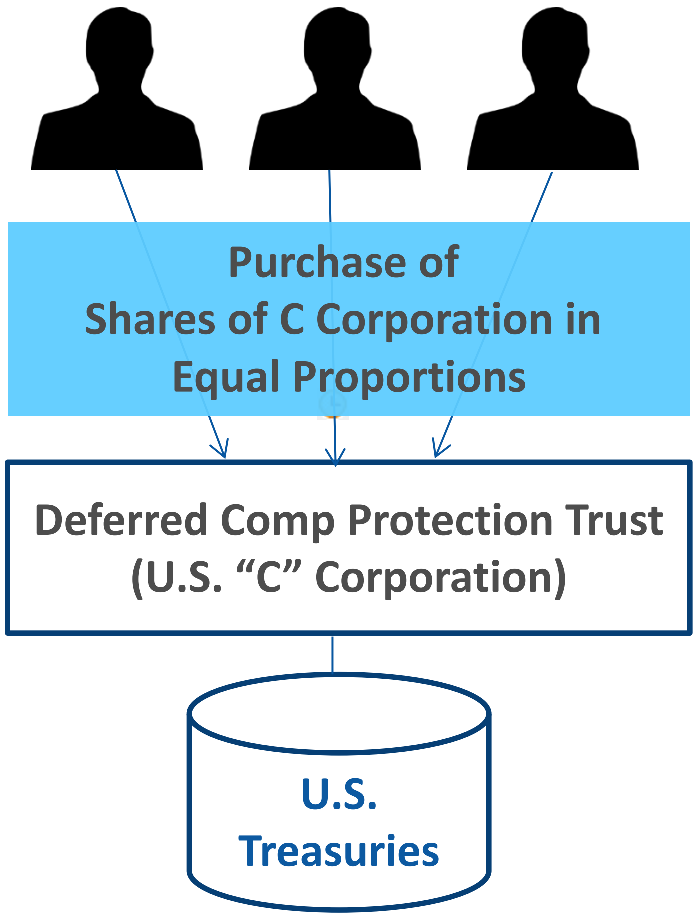
IRS Private Letter Ruling 9344038

"A company maintains a supplemental executive retirement plan under which participants have only an unsecured promise to receive deferred compensation. Independently of the sponsoring company, a participant negotiated with an insurance company for a policy to further protect the deferred compensation benefits payable to the participant under the plan….

"The Service has ruled that the issuance of the policy will not cause the deferred compensation to be included in the participant's income until paid or made available."

Mechanics of a Deferred Comp Protection Trust

20 Holders of Large NQDC Balances



Formation of a Deferred Comp Protection Trust

- Each investor holds at least $500,000 of NQDC sponsored by a single company
- Each NQDC sponsor is different – and in a different industry
- Each investor invests $25,000 in the Deferred Comp Protection Trust
- The Deferred Comp Protection Trust has a fixed life of 5 or 10 years
- The Deferred Comp Protection Trust buys 5- or 10-Year Treasury securities with the capital contributions
- The Deferred Comp Protection Trust provides a payout based on the number of bankruptcies of NQDC sponsors

Simple Cost of Protecting Deferred Comp

<u>**Example Payouts**</u>

Zero Bankruptcies

$25,000 Invested

$25,000 Returned

One Bankruptcy

$25,000 Invested

$500,000 Returned

Two Bankruptcies

$25,000 Invested

$250,000 Returned (*2)

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