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PERRIN**

HR SERVICES

Talking Points: Accumulated Wealth

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Background

- Historically, attention was paid primarily to the expected value of equity grants in a given year
 - Focus was on determining competitive value
 - Initially, equity grants were not significant, so accumulated value was modest
- Equity grants have been at a significant level for 10+ years, translating to sizeable accumulated values
- Minimal attention has been paid to the realized or accumulated value associated with vested equity grants, or potential for value going forward
 - Viewed as not that relevant, since grants were already made and had limited retention value
- It is important that ongoing pay decisions be made within the context of total rewards, as well as performance

Approaches

- The total value of equity grants can be assessed several ways; three potential analyses include:
 - Gains from past equity grants: What value has an individual realized from past equity grants?
 - Current value of outstanding equity: What is the current value of outstanding equity awards?
 - Future wealth potential: What might the value of all wealth creation opportunities be at retirement?
- Performance, both at a Company and individual level, need to be considered in assessing accumulated pay
- These analyses provide decision-quality inputs into how the pay program has worked in the past, and consideration of appropriate grant levels going forward

Gains From Past Equity Grants

- The table below shows the value of exercised stock options, vested restricted shares and earned performance shares (valued at vesting)
- This chart illustrates the actual value realized through company-provided equity grants

Name	Options Exercised Since Hire	Total Pre-Tax Gain From Options	Restricted Shares Since Hire	Value of Restricted Shares @ Vesting	Earned Performance Shares	Value of Performance Shares When Earned	Total Value of Equity Grants
Executive A	240,323	\$5,776,020	0	\$0	100,000	2,033,320	\$7,809,340
Executive B	425,500	\$9,000,753	0	\$0	175,000	3,605,480	\$12,606,233
Executive C	55,850	\$2,643,071	0	\$0	20,000	475,425	\$3,118,496
Executive D	15,000	\$652,998	0	\$0	0	\$0	\$652,998

Gains From Past Equity Grants (cont'd)

- Important items to consider include:
 - Individual's exercise and hold behavior
 - Individual and Company performance
 - Individual's tenure with the Company
 - Mix between different grant types
- Past grants typically have little ongoing retention or incentive value (other than on shares retained)
 - Retention value is a key attribute of equity grants

Current Value of Outstanding Equity

- The table below shows the current value of all outstanding equity awards and the leverage inherent in outstanding grants
- As shown, each \$1 change in stock price can have a significant impact on the accumulated value of outstanding awards
- Restricted shares will retain leverage at all stock prices, while options will only have leverage at prices above the exercise price

Name		Current Option Holdings	Weighted Avg. Exercise Price	Unvested Restricted Shares	Owned Shares	Total Stock Holdings	Current Value at \$42.00	Leverage - Gain on \$1 Stock Price Increase
Executive A	<i>Vested</i>	87,010	\$25.67	0				
	<i>Unvested</i>	41,667	\$38.09	0				
	Total	128,677	\$29.69	0	13,742	142,419	\$2,160,701	\$142,419
Executive B	<i>Vested</i>	55,199	\$19.95	0				
	<i>Unvested</i>	15,001	\$38.52	0				
	Total	70,200	\$23.92	0	0	70,200	\$1,269,462	\$70,200
Executive C	<i>Vested</i>	73,899	\$22.34	0				
	<i>Unvested</i>	25,001	\$38.52	2,000				
	Total	98,900	\$26.43	2,000	1,778	102,678	\$1,698,808	\$102,678
Executive D	<i>Vested</i>	7,666	\$43.90	0				
	<i>Unvested</i>	32,001	\$37.53	5,500				
	Total	39,667	\$38.76	5,500	0	45,167	\$359,637	\$45,167

Current Value of Outstanding Equity (cont'd)

- Important items to consider include:
 - Mix of vested and unvested awards
 - Source of owned shares
 - Recent and anticipated performance
 - Anticipated remaining tenure (i.e., retirement eligible?)

Future Wealth Potential

- The table below shows the anticipated future value of current holdings and expected equity grants, along with anticipated retirement benefits
- This analysis provides a total projected wealth creation scenario and illustrates the relative value of equity grants and retirement benefits
 - The findings of this and the proceeding analyses often produce an “ah ha” moment for the Compensation Committee

Name	Estimated Value at Retirement			Total
	Current Equity Holdings ¹	Future LTI Grants ²	Retirement Benefits ³	
Executive A	\$18.5	\$16.7	\$4.0	\$39.2
Executive B	\$21.9	\$59.7	\$3.2	\$84.9
Executive C	\$19.4	\$64.8	\$3.3	\$87.5
Executive D	\$4.5	\$6.7	\$2.9	\$14.1

Estimated future values are shown in millions

1. Current holdings includes shares owned outright, vested and unvested stock options and restricted shares as of 1/1/06
2. Assumes annual 3% per year growth in the expected value of LTI grants and current LTI grant practices continue
3. Retirement benefits assume lump sum present value at retirement date

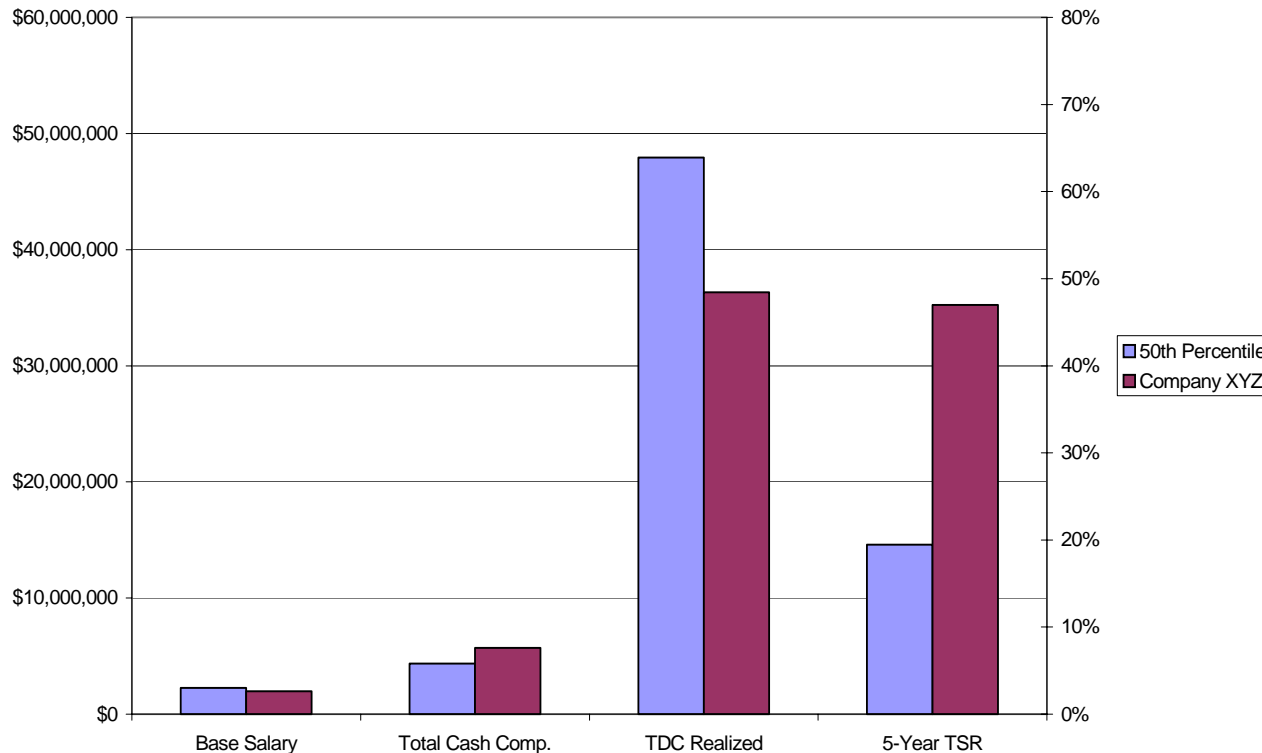
Future Wealth Potential (cont'd)

- Important items to consider include:
 - Definition and details of retirement plans
 - Performance
 - Tenure (past and future)
 - Past exercise and sell behavior

Alternative View: Realizable Wealth vs. Performance

- The prior slides looked at value realized or future projected value
- Another way to assess pay is to compare value that could be realized based on accumulated grants to actual performance of the company

Total Wealth Creation Analysis
Company XYZ vs. Peers
2000 - 2004



Alternative View: Realizable Wealth vs. Performance (cont'd)

- This type of analysis focuses on the potential value of past grants, normalizing for actual exercise behavior
- It provides an assessment of the structure of pay programs that too often focus only on the expected value of grants (i.e., Black-Scholes value)
 - Analysis shows if pay targets, relative to performance, are actually being met
 - Desired outcome would be for the positioning (e.g., 50th percentile) of realizable pay to equate to the appropriate performance level (e.g., 50th percentile)

Action Items

- Consider accumulated and future projected wealth in ongoing pay decisions
- Apply judgment, taking into account decision quality information; there is no single right answer
- Don't look at the expected value of grants in isolation; consider realizable value and performance
- Take a total rewards perspective (including all forms of compensation)
- Think through the implications of the findings; avoid one-size-fits-all solutions