S^4 Program Planning Guide

Sponsored Supplemental Savings Solution

ALVAREZ & MARSAL EXECUTIVE COMPENSATION AND BENEFITS

ALVAREZ & MARSAL

INTRODUCTION

People are living longer and retiring to more active lifestyles that require substantial funds to maintain. While the income from social security, employer-provided retirement plans and personal savings may be sufficient income for many to maintain pre-retirement lifestyles, the same rarely holds true for highly-compensated individuals. For executives and professionals, the relatively modest amount paid by social security, as well as the IRS limitations on qualified defined contribution retirement plans, such as 401(k) and profit-sharing plans, and benefits payable from defined benefit plans, such as pension or cash-balance plans, means that these plans alone may not support the desired post-retirement lifestyle.

INTRODUCTION Continued

For example, a participant in a 401(k) plan can contribute a maximum of $17,500 ($23,000 if age 50 or older) for 2014. However, annual employer "discrimination testing" can lower the contribution limit, and in some cases, the employer will "refund" previously contributed amounts to highly-compensated individuals at year-end.

Some employers provide highly-compensated executives or professionals with supplemental, nonqualified retirement and deferred compensation plans to help fill the retirement income "gap." These plans are "unfunded," and the employer assets intended to pay the benefits are subject to the claims of the employer-sponsor's creditors in the event of bankruptcy. The 2008-2009 economic crisis caused significant angst to executives who were participants in nonqualified plans.

Moreover, payments from IRS qualified and nonqualified retirement plans are subject to limitations on the timing of distributions and upon distribution are taxable at ordinary income rates. The current highest federal income tax rate of 39.6% is quite modest by historical standards (the rate was 90% in the 1950s and 70% in the 1970s) and there is no guarantee that the current rate will continue unchanged. It also seems likely that changes affecting highly-compensated individuals will be rate increases, thereby reducing the after-tax value of savings. For example, in 2014, Congress imposed a net investment income tax (NIIT), which adds a 3.8% tax on passive income received by highly-compensated individuals, trusts and estates.

In light of this environment, Alvarez & Marsal Executive Compensation and Benefits developed the **S^4 Program** to provide an additional tax-advantaged savings option for highly-compensated executives and professionals. The **S^4 Program**:

- Has no contribution limits, age restrictions, or early distribution penalties;
- Is not subject to IRC §409A restrictions on traditional nonqualified plans;
- Is fully portable; participants can continue to make contributions even after separation of service from the employer-sponsor;
- Is not subject to the claims of the employer-sponsor's creditors;
- Provides for asset growth based on selected market indexes with upside growth potential and downside protection;
- Allows gains to accumulate tax-deferred and assets distributed on a non-taxable basis;
- With proper planning, provides income tax-free life insurance and can be designed to provide estate tax-free death benefits.

There are three phases associated with planning for retirement income:

1. The Contribution phase – Individuals must decide whether to contribute pre-tax or after-tax dollars (or some combination) into their savings vehicles;

2. The Accumulation phase – In this phase, the most advantageous savings vehicle would be one that offered tax-deferred growth;

3. The Distribution phase – “It’s not how much you make; it’s how much you keep.” Therefore, non-taxable income is more valuable than taxable income.

For example, using today’s top federal tax rates, a contribution of $10,000 per year over 20 years, growing at 6.5% per year -

- With no taxes assessed on the growth accumulates to $413,490
- With the growth taxed each year as capital gains accumulates to $355,298
- With the growth taxed each year as ordinary income accumulates to $306,204

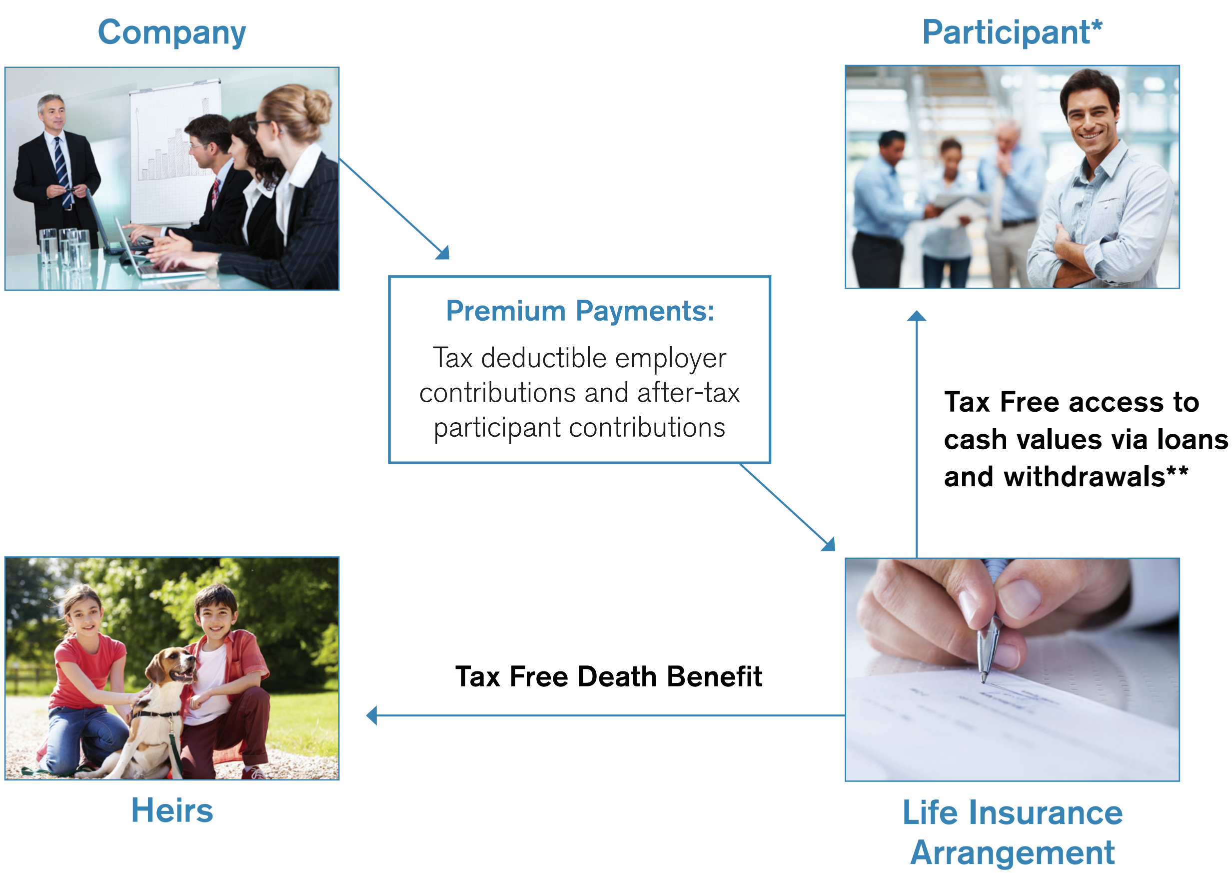
Retirement income diversification and the tax impact of various savings vehicles:

- Distributions taxable as **ordinary income** – savings bonds, employer sponsored 401(k) and other qualified and nonqualified retirement plans, IRAs.
- Taxed as **capital gains** – real estate, long-term stocks, mutual funds
- **Non-taxable** – tax-free bonds, Roth IRAs, Roth 401(k), the **S^4 Program**

HOW DOES THE S^4 PROGRAM WORK?

The **S^4 Program** is an employer-sponsored program (not generally available in the individual retail marketplace) that is designed to be individually-owned by eligible highly-compensated executives and professionals. The Program is funded by a specially designed, executive-priced indexed universal life (IUL) insurance program, which allows for asset accumulation in a tax- advantaged, efficient manner. This program provides high early cash value relative to the contributions (premiums) paid into the policy, with no surrender charges.

The focus of the policy design is on cash-accumulation. Therefore, it is managed to provide the lowest life insurance cost and to meet the Internal Revenue Code (§7702) definition of life insurance. The amount of life insurance death benefit will vary from year to year, dependent on the insured's age, cash value, and contributions.



* Participant is the policy owner and also the insured.

** Policy loans accrue interest. Loans and withdrawals reduce the net death benefit and net cash value.

Each S^4 Program is customized to meet specific employer-sponsor objectives

The following example illustrates a defined contribution plan design (referred to as a "5/5/5" design):

- The Sponsor agrees to a fixed contribution of 5% of salary (as defined by the Plan) for each eligible Participant, whether or not the Participant contributes to the Program. These contributions are taxable to the Participant.
- The Sponsor further agrees to "match" the Participant's voluntary contribution up to 5% of that Participant's salary. These Sponsor matching contributions are also taxable to the Participant.

This policy is designed to receive "after-tax" contributions (premiums) and allocate those contributions to one or more selected major market indexes, such as the S&P 500, the performance of which will determine the periodic interest credited to the policy cash values. The actual performance of the index will be subject to a "cap" (currently about 12%) and a "floor" of not less than 0%. Therefore, during each interest crediting period, a Participant will be credited up to 12% if the index's actual return is12% or greater during an interest crediting period, but also will not suffer any loss if the index's return for the period is negative.

Assumptions used in generating the following hypothetical projections*:

- Participant enters Program at age 45 with a salary of $250,000, retires at age 65, and dies at age 85.
- Sponsor's annual contributions are $25,000; Participant's annual contributions are $12,500, so combined annual contributions (premiums) are $37,500 continuing for 20 years, for a cumulative total of $750,000.
- The index strategy crediting rate generates a 6.5% annual return, net of insurance charges.
- Distributions are taken in the form of withdrawals of cash values and/or policy loans.

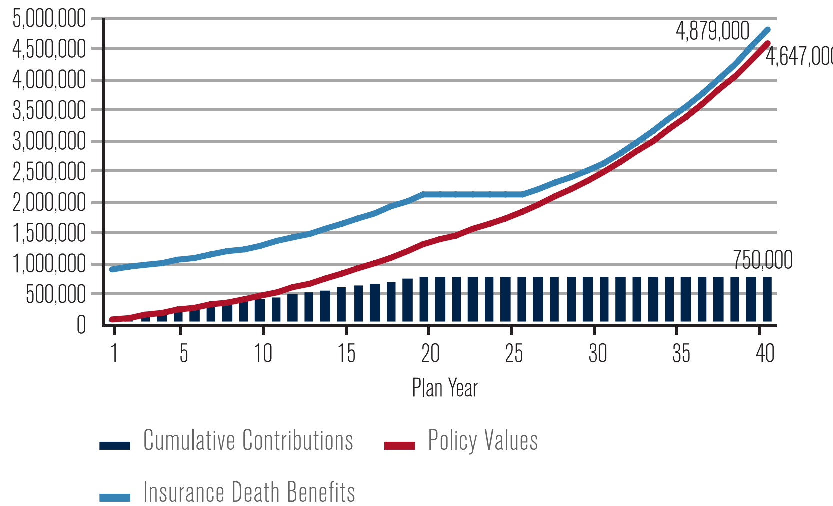
* The hypothetical IUL policy projections on the following page are intended for informational purposes only and to illustrate the conceptual working of an IUL policy under the assumptions noted. These projections are representative of the types of executive designed IUL policies available from several major life insurance companies. Nothing therein should be construed as legal or tax advice and it is not intended to replace the advice of a qualified attorney, tax advisor, or plan provider. Individuals are encouraged to seek the advice of their own financial advisor(s).

CHOOSING AMONG DISTRIBUTION ALTERNATIVES

Program Values Assuming No Policy Distributions

- No distributions are taken from the policy at any time.
- At age 85 the cash value will have accumulated to $4.6 million, and the amount received by beneficiaries upon death at age 85 is approximately $4.9 million.

Total Contributions	$ 0.75 million
Cumulative Lifetime Distributions	$ 0.00
Net Death Benefit	$ 4.88 million
Total Program Value	$ 4.88 million

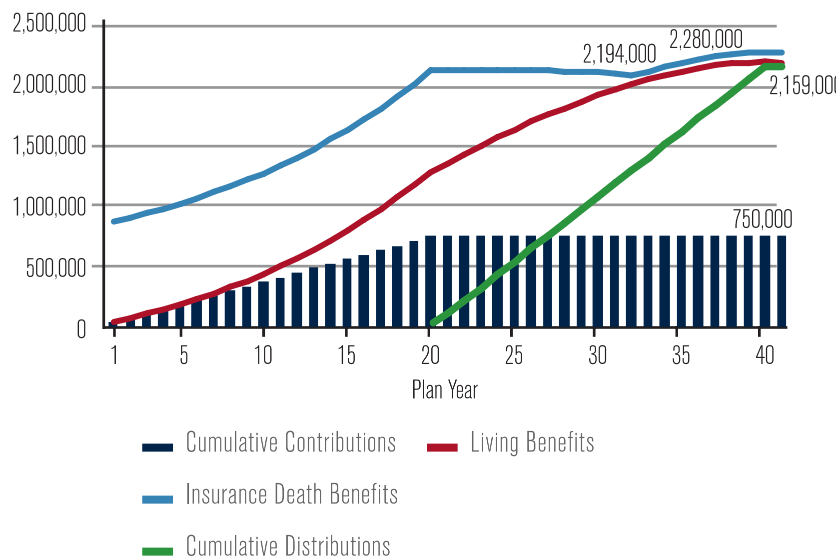


Program Values Assuming Optimal Policy Distributions

- Distributions of about $108,000 are taken each year from the policy, for cumulative tax-free distributions of almost $2.2 million by age 85.
- At age 85 the remaining (after distributions) cash value is about $35,000, and the amount received by beneficiaries upon death at age 85 is approximately $125,000, so the total value of the Program is approximately $2.3 million.

Total Contributions	$ 0.75 million
Cumulative Lifetime Distributions	$ 2.16 million
Net Death Benefit	$ 0.12 million
Total Program Value	$ 2.28 million

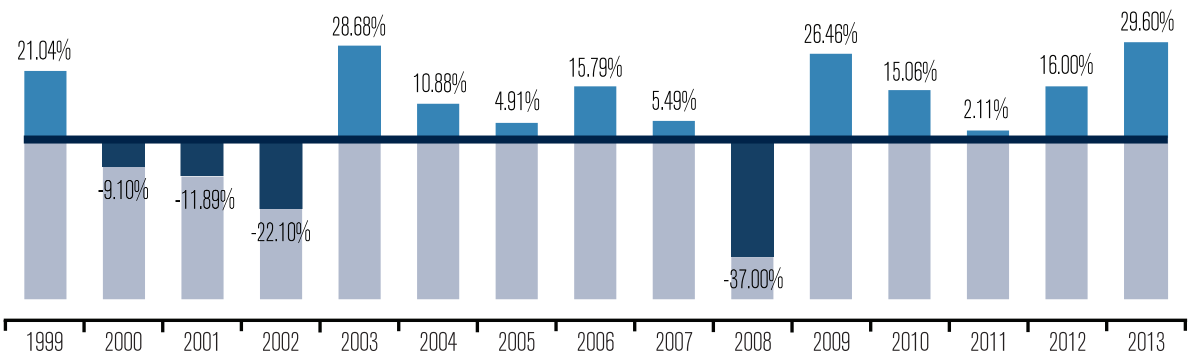
Electing to receive policy distributions during lifetime results in cash being made available earlier, although the total amount received will be reduced.



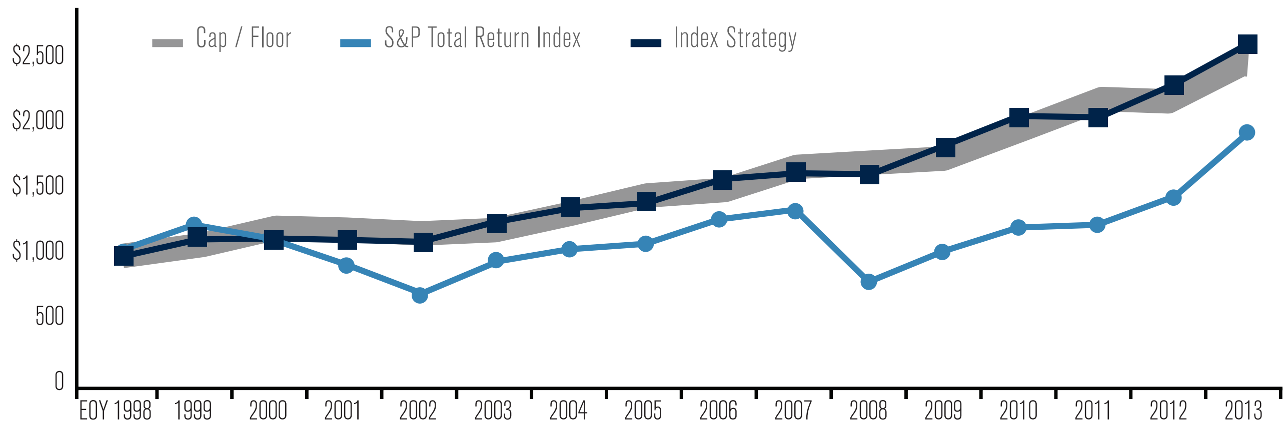
THE INDEX CREDITING STRATEGY

The Index Strategy available through the **S⁴ Program** provides market-linked interest crediting to account values, while providing protection from the downside risk inherent in investing. The charts below compare the S&P 500 Total Return and the Index Strategy, and show how the growth of $1,000 would have occurred had the investment been tied to the performance of either method throughout the last 15 calendar years.

S&P 500 Total Return Annual Change 1999 - 2013



Hypothetical Value of $1,000 1999 - 2013



The value of the downside protection within the Index Strategy is highlighted above. In this example, without the index strategy the four loss years of 2000, 2001, 2002, and 2008 offset 11 years of market gains. The Index Strategy would have protected against the impact of these loss years.

This hypothetical example is for illustrative purposes only and does not reflect the performance of an actual account value. The performance shown does not include any taxes, policy fees or charges, nor any investment fund management expenses or transaction fees. The Index Strategy does not include gains from dividends while the S&P Total Return assumes dividend income is reinvested into the index. Past performance is no guarantee of future results. The indexed strategy is shown based on a growth cap of 12% and floor of 0%. The cap and floor rates are typically subject to change at an insurance carrier's discretion based, in part, on the current market environment.

FREQUENTLY ASKED QUESTIONS ABOUT THE S4 PROGRAM:

1. How are the Sponsor's contributions treated for income tax purposes by the Participant?

Any fixed or matching Sponsor contributions made on the Participant's behalf are imputed to him / her for federal and state income and employment tax purposes and are taxable as additional income. The cost to the Participant will be the taxes paid on the imputed income.

2. How does the S4 Program policy accumulate money tax-deferred?

Earnings in a life insurance policy are not subject to income tax as they accumulate (IRC §72(a)).

3. How does the S4 Program provide for tax free distributions?

Typically, the Participant will first take tax-free withdrawals up to his / her tax basis (IRC §72(e)(5)(a),(c)). The Participant's tax basis (also referred to as "investment in the policy" or "principal") will generally include both the Sponsor and Participant contributions. If the Participant exhausts his / her basis, the Participant will generally then take non-recourse policy loans, which are not subject to tax when made. These loans need not be paid back during the Participant's lifetime, and the loan balance will be automatically settled from the policy's tax-free life insurance proceeds upon the insured Participant's death. While interest accrues on these loans, interest is simultaneously credited to the Participant's account in the policy at 95% or more of the interest charged to him / her for the first 5 or 10 years and 100% of the loan interest rate after the 5th or 10th policy year resulting in a zero net cost, referred to as a "wash loan." Policy withdrawals and loans reduce the policy's net cash value and net death benefit, but the Participant has realized the offsetting value of the tax-free distributions during his / her lifetime.

4. What happens to the S4 Program policy if the Participant's employment is terminated (for any reason) with the Sponsor?

The Participant owns the policy and can continue to pay premiums and receive benefits on the same terms. The only difference is that the Sponsor's fixed and matching contributions will not continue after the Participant's separation from service. When the Participant dies, his / her designated beneficiaries will receive the life insurance death benefit tax-free.

5. Does the S4 Program require the Participant to make the voluntary contribution every year?

No. The policy is flexible as to when and if future premiums are paid. However, like any retirement program, the financial performance of the policy varies with contributions, fees and charges associated with the underlying insurance policy.

6. Can the Participant increase his / her voluntary contribution to the S4 Program?

For the initial enrollment, voluntary contributions are limited to the basic Plan design (e.g., 5% limit). Once enrolled, additional contributions can be accommodated, but may require medical evidence of insurability for the added amount of life insurance coverage associated with the contribution.

7. Since the S^4 Program includes life insurance coverage, does the Participant have to meet the insurer's health standards to have the policy issued?

The **S^4 Program** is structured so that Participation is underwritten on a "guaranteed issue" (GI) basis, i.e., no medical or financial evidence required. The Participant will have to sign a "consent to be insured" form and answer a few questions similar to –

- "Have you been actively at work for the past three months?" If the answer is "No" the carrier may defer policy eligibility until the Participant has returned to work for three months.
- "Have you used nicotine or tobacco in the past 12 months?" If the answer is "Yes" the carrier may add additional insurance charges to the policy expenses.

8. What interest is credited to a Participant's account under the S^4 Program?

The value of the account will be based on the performance of a market index selected by the Participant, and the interest credited to the account based on the performance of that index, subject to a maximum "cap" (around 12%) in any interest crediting period. The account will not be charged with any losses the index suffers over any interest crediting period. The amount credited does not include any dividends credited to the stocks held in that index.

9. Will the Program affect my other employer-sponsored benefits?

No. The Program is supplemental to any other benefits the Participant may receive.

10. Is there a minimum age requirement before the Participant can take a distribution from the S^4 Program™?

No. Each Participant can decide the timing and amount of distributions, and there is no penalty for distributions.

11. Is there an age when the Participant must take distributions from the S^4 Program?

No. Each Participant can decide the timing and amount of distributions, as desired, or allow the assets to continue to accumulate throughout his / her lifetime. Distributions will reduce the policy cash value and death benefit.

12. Can the Participant change his / her beneficiaries for the life insurance death benefit?

Yes, changes to the designated policy beneficiary or beneficiaries can be initiated by the Participant at any time by completing a Beneficiary Designation form, which will be posted on the dedicated website where the Participant can access his / her account information at any time.

13. Does every employee of the Sponsor qualify for participation in the S^4 Program?

No, this is a selective program designed for highly-compensated executives or professionals only. Since the Program must be sponsored by an employer, the Sponsor selects those executives who are eligible to participate.

14. What are some of the concerns associated with the S^4 Program that the Participant should consider?

It is important that a Participant consult his / her professional financial advisor(s) to determine the best strategy for participating in the Program. It is also important to remember that the Program uses a life insurance product as the funding mechanism. Perhaps, the most potentially significant risk is if the Participant allows the policy to lapse prior to the policy's maturity at his / her death, as this can trigger adverse tax consequences.

15. Will participation in the S^4 Program affect a Participant's ability to purchase other life insurance coverage?

Possibly. Because the Participant controls the **S^4 Program** life insurance policy, it may impact the total amount of additional insurance he / she can purchase outside the Program. Life insurance companies generally will not allow individuals to be "over-insured."

16. How does the S^4 Program compare to a 401(k) plan?

With the **S^4 Program**, the Participant can contribute after-tax money in addition to money contributed by the Sponsor on his / her behalf, to a specially tailored life insurance policy he / she owns and can receive tax-free distributions from the policy. In a 401(k) plan, contributions are pre-tax but the total amount is subject to federal or state income taxation when distributed. The amounts held in both of these vehicles are protected from the employer's creditors.

However, highly-compensated employees are limited to how much they can contribute to 401(k) plans, thereby, limiting their ability to accumulate assets.

There are no legal limits on how much a Participant can contribute to the **S^4 Program** so accumulation goals are more achievable.

The **S^4 Program** provides the Participant with life insurance, and most 401(k) plans do not.

Unlike qualified plans, the Participant does not have to wait until he / she is near retirement age to begin receiving distributions without penalty, as the **S^4 Program** has no age restrictions on the distribution of funds, nor is there any mandatory distribution required upon attaining age 70½.

17. How does an eligible employee enroll in the S^4 Program?

As part of the enrollment process, each Participant will be given individual instructions for logging onto the secure **S^4 Program** website. Pre-filled-out enrollment forms, Program options for personal elections and applicable insurance illustrations will be available at the Participant's personal log-in site. Enrollment can be accomplished efficiently at the Participant's convenience.

18. How does a Participant access policy values and deal with other administrative issues (change beneficiary, make withdrawals, borrow, etc.) in the S^4 Program?

Each Participant will be able to take all such actions at any time on the **S^4 Program** website.

DEMO

Customized five-minute enrollment video:

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PROBLEM SOLVING.
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Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to activate change and achieve results.

Privately-held since 1983, A&M is a leading global professional services firm that delivers performance improvement, turnaround management and business advisory services to organizations seeking to transform operations, catapult growth and accelerate results through decisive action. Our senior professionals are experienced operators, world-class consultants and industry veterans who draw upon the firm's restructuring heritage to help leaders turn change into a strategic business asset, manage risk and unlock value at every stage.

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