

# AdvantEdge

## A LEGISLATIVE & TECHNICAL UPDATE FOR OUR CLIENTS

### SEC Votes to Adopt Changes to Proxy Disclosure Requirements— Pension Plan Information Included Among Required Disclosure Items

The Securities and Exchange Commission recently voted to adopt changes to its rules regarding proxy disclosure for executive compensation. These changes, which are effective for fiscal years ending after December 15, 2006, also affect disclosure in annual reports and registration statements.

The pension-related items in the SEC release are a small, but very important, part of the total required disclosure.\* Accordingly, Pentegra's newsletter focuses on these pension-related disclosure items and how we can work with you to provide the information you need in order to prepare your disclosure.

The pension-related items which will need to be disclosed for the named executives include:

- The Change in Pension Value since the last fiscal year-end;
- certain Nonqualified Deferred Compensation Earnings;
- a Pension Benefits Table, which displays the present value of the accrued benefit, separately for each plan;
- a Nonqualified Deferred Compensation Table, which presents contributions, earnings, and balance information;
- the Change in Pension Value and certain Nonqualified Deferred Compensation Earnings for Director Plans;
- narrative descriptions which explain and expand upon the material disclosed in the Tables; and
- narrative descriptions of the benefits available at resignation, severance, retirement, or other termination.

### How Pentegra Can Help

Upon request, Pentegra will provide you with the present value of the accumulated benefits for each designated executive for each plan that we administer (column (d) of the Pension Benefits Table), as well as the change in this present value (½ of column (h) in the Summary Compensation Table). In addition, for any plans which Pentegra administers, we can provide:

- the Excess Nonqualified Earnings (the other ½ of column (h) of the Summary Compensation Table);
- the Pension Benefits Table;
- the Nonqualified Deferred Compensation Table;
- the Change in Pension Value and Nonqualified Deferred Compensation Earnings (column (f)) for Directors; and
- the relevant portions of the narratives for the Tables (note, no pension narrative is required for the Summary Compensation Table).

In addition, Pentegra can help you understand the pension-related provisions of the disclosure requirements.

### Fees

We still are analyzing the disclosure requirements, in particular the level of detail needed for the narratives. Our fees will be based on the expected amount of time needed to prepare the items requested, which in turn will be based on the number of executives and whether you would like us to prepare the narratives, tables, or other items.

### Conclusion

Pentegra is ready and available to assist you in meeting your SEC Proxy Disclosure requirements. Please contact Rich Rausser, Vice President, Consulting Services, at [rtausser@pentegra.com](mailto:rtausser@pentegra.com), or Jeff Kissel, Chief Actuary, at [jkissel@pentegra.com](mailto:jkissel@pentegra.com), or call us at 800-872-3473, to let us know how we can help you.

\* To view the entire official SEC press release (all 438 pages!), please visit <http://www.sec.gov/rules/final/2006/33-8732a.pdf>

# Technical Details of the Pension-Related Requirements of the SEC Proxy Disclosure

## Summary Compensation Table

### Column (h)--Change in Pension Value and Nonqualified Deferred Compensation Earnings

A key element of the disclosure is the Summary Compensation Table, which displays the components of compensation for the following named executive officers: the principal executive officer, the principal financial officer, and the three other highest paid executive officers. In addition, the Directors Compensation Table requires similar information for any paid Directors. In some instances, compensation information may need to be disclosed for 1-3 additional employees if their compensation exceeds that of any of the above executive officers.

One of the elements of the Summary Compensation Table is the Change in Pension Value, which measures the annual change in the actuarial present value of accumulated pension benefits. The disclosure rules require that this measurement use the same assumptions as for financial statement disclosure, except that retirement must be assumed to take place at the earliest unreduced retirement age.

Another item required to be disclosed in the Summary Compensation Table as an item of compensation is the Above-market or Preferential Earnings on Nonqualified Deferred Compensation. Earnings are included here to the extent that interest exceeds 120% of the regularly published federal long-term interest rate, or dividends exceed the dividend rate on the company's common stock.

## Pension Benefits Table

To present the value of pension benefits, companies must prepare a Pension Benefits Table, which displays the following items for each of the named executives:

- years of credited service;
- present value of accumulated benefits (using same assumptions as in Summary Compensation Table); and
- payments made during the last fiscal year.

Results must be shown separately for each pension plan. Note that the present value must be shown, even if the plan does not offer a lump sum payout option.

The Pension Benefits Table must be followed by a narrative description of material factors necessary to understand each plan disclosed in the Table. Examples cited by the SEC include:

- the material terms and conditions of benefits available under the plan, including the plan's retirement benefit formula and eligibility standards, and early retirement arrangements;
- the valuation method and material assumptions used;
- the specific elements of compensation, such as salary and various forms of bonus, included in applying the benefit formula, identifying each element; and
- the different purposes for each plan, if an executive participates in multiple plans.

### PENSION BENEFITS TABLE

| Name<br>(a) | Plan Name<br>(b) | Number of Years<br>Credited Service<br>(c) | Present Value of<br>Accumulated Benefit<br>(d) | Payments During<br>Last Fiscal Year<br>(e) |
|-------------|------------------|--|--|--|
| PEO         |                  |  |  |  |
| PFO         |                  |  |  |  |
| A           |                  |  |  |  |
| B           |                  |  |  |  |
| C           |                  |  |  |  |

## Nonqualified Deferred Compensation Table

Another new table, the Nonqualified Deferred Compensation Table, discloses all deferred compensation elements that the company is required to pay to the named executives, including contributions and earnings (all earnings, not just the excess earnings captured in the Summary Compensation Table). Account balances and aggregate withdrawals/distributions also are included in the required disclosure.

As with the Pension Benefits Table, the Nonqualified Deferred Compensation Table must be followed by a narrative description of material factors. Examples of such factors, as presented by the SEC, include:

- the type(s) of compensation permitted to be deferred;
- the approach to calculating interest or other plan earnings; and
- material terms with respect to payouts, withdrawals, and other distributions.

### NONQUALIFIED DEFERRED COMPENSATION TABLE

| Name | Executive Contributions in Last FY | Registrant Contributions in Last FY | Aggregate Earnings in Last FY | Aggregate Withdrawals/Distributions | Aggregate Balance at Last FYE |
|------|------------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|
| (a)  | (b)                                | (c)                                 | (d)                           | (e)                                 | (f)                           |
| PEO  |                                    |                                     |                               |                                     |                               |
| PFO  |                                    |                                     |                               |                                     |                               |
| A    |                                    |                                     |                               |                                     |                               |
| B    |                                    |                                     |                               |                                     |                               |
| C    |                                    |                                     |                               |                                     |                               |

## Other Potential Post-Employment Payments

Companies are required to provide narrative disclosures of arrangements that provide for payments upon resignation, severance, termination, retirement, or change in control of the company. The disclosures must include the estimated payments and benefits that would be provided in each circumstance, and how the benefits are determined. Disclosure is not needed for benefits which do not discriminate in favor of executive officers and are available generally to all salaried employees.

## Director Compensation

In those instances where Directors compensation includes any pension benefits or nonqualified deferred compensation, the value of these amounts must be disclosed in the Directors Compensation Table. The calculations required for this table are the same as those required for the Summary Compensation Table.

Our difference is your advantage



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