

The View from Level VII™

EXECUTIVE COMPENSATION & BENEFITS

What is More Important than Your Health?

We all know that we should have an annual medical check-up. But do we do it? Many of us — for a variety of reasons, or excuses! — do not actually get around to taking the action as often as we should. Executive Compensation & Benefits in private and public companies needs the same attention. Yes, an annual Executive Compensation and Benefits check-up.

The checklist of items for annual review should include: Base salaries, annual or short-term incentive/bonus plan, long-term incentive plans; nonqualified retirement and welfare benefits. Periodically this list should be extended to include: Employment Agreements/Contracts and Change in Control (“Golden Parachute”) Agreement s.

Not unlike your physical check-up, your benefits check-up should be carried out by a proven qualified professional. And just like your medical checkup, timely identification of a problem will usually mean corrective action can be taken before it’s too late. If your Compensation and Benfits arrangements are not reviewed professionally each year, your company could suddenly catch more than influenza. The outstanding President, CFO, VP Sales/Marketing, VP Engineering, VP Technology or VP HR could leave for better opportunities – all because the incumbent did not have competitive conditions.

To avoid this situation, book your check-up right now. There is not better time than the beginning of the New Year...the fiscal new year for most!

Harman & Associates with its fortune 500 background, has extensive national and international experience in executive compensation planning for private and public companies. **Weir Financial Resources, LLC** is a financial advisory firm offering information, ideas and solutions in Executive Benefits, Business Succession and Private Wealth Planning.

Ray Harman & Jonathan Weir, JD
Harman & Associates and Weir Financial Resources, LLC

PRIVATE WEALTH PLANNING

New Year Cash Rewards - Employee Stock Option Opportunities

As the 2003 tax year ends and the tax year for 2004 begins, we find ourselves confronted with an ever changing landscape of rules, exceptions to rules and relatively straight forward items that become complicated upon application. A key area of planning at the end of one tax year and the beginnir g of another tax year involves Employee Stock Option (ESO) planning. As the clock strikes midnight on December 31st, certain planning opportunities disappear.

I am hopeful that the simple strategies identified below will help you frame the issues and make more informed and optimal ESO decisions. As always, be sure to seek professional advice before acting on any of the concepts presented and remember that **Weir Financial Resources** is always available to assist in quantifying your planning alternatives. Several ESO planning strategies that warrant consideration are as follows:

- Exercise ISO’s to the Alternative Minimum Tax (AMT) limit. If your regular Federal Income Tax exceeds your AMT, you may have an opportunity to exercise ISO without triggering AMT exposure.
- “Mature” ISO shares, (i.e., that have met he holding period) can possibly be sold triggering an AMT deduction. This provides the opportunity to exercise more ISO’s “tax free”.
- Exercised ISO’s that are dropping in value, may warrant elimination of your position within 12 months through a disqualifying disposition. Carrying out this transaction within one tax year would eliminate being subject to AMT in the current tax year and ordinary income tax upon sale in the following tax year.
- A pre-yearend assessment of AMT or regular tax liability is always helpful in making decisions on charitable deductions and tax payments. Since certain deductions are not available under the AMT method, managing deductions and payments becomes important.

While some of the above referenced strategies may not be applicable this year, it is most important to establish strategies for “next year” and future years. Essentially, when it comes to ESOs, it is all about being well informed, properly positioned, and providing yourself with alternatives.

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In this and/or future issues you will find short, yet meaningful articles on:

- Human Resources
- Risk Management
- Executive Compensation
- Executive Benefits
- Employee Benefits
- Private Wealth Planning

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HUMAN RESOURCES

OSHA Violations—Would you make the list?

In scanning the list of violations just issued by OSHA, the most frequently cited standard for **General Industry** for fiscal year 2003 came as no surprise. It's apparent from the list that OSHA is serious about enforcing its General Industry standards. Many of the businesses we are in contact with are unaware of some of the programs they need to comply with. The top 10 most violated standards in General Industry were:

1. **Hazard Communication** with 7,009 violations and \$1,327,425 in penalties. This was up from 6,951 violations in fiscal year 2002, which had \$1.24 million in adjusted penalties.
2. **Control of Hazardous Energy, Lockout/Tagout** moves up a slot with 4,681 violations and \$4,209,707 in penalties.
3. **Respiratory Protection** was down one place from last year with 4,130 violations and \$1,216,059 in penalties.
4. **General Requirements for Machines** had 3,495 violations and \$3,783,595 in penalties and switched places with:
5. **Electrical: Wiring Methods, Components, and Equipment for General Use** with 3,211 violations and \$1,312,460 in penalties.
6. **Powered Industrial Trucks** 2,858 violations and \$1,788,139 in penalties.
7. **Bloodborne Pathogens** up from 9th place, with 2,508 violations and \$1,272,355 in penalties.
8. **Electrical Systems Design** with 2,303 violations and \$1,293,720 in penalties.
9. **Mechanical Power-Transmission Apparatus** 2,281 violations and \$114,9325 in penalties.
10. **Personal Protective Equipment General Requirements** with 1,883 violations and \$1,313,152 in penalties.

If you're uncertain as to the requirements for your industry feel free to contact us or contact OSHA directly.

HR Professional Consultants, Inc. offers human resource services and outsourcing for businesses of various sizes.

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EMPLOYEE BENEFITS

Long Term Disability Protection

Due to adverse claims experience, carriers are raising rates and cutting benefits. Claimants are complaining that their benefits are not being paid fairly, or for appropriate benefits durations. As a result of this (unhappy) marketplace climate, you may want to ask the following questions regarding your Group Long-Term Disability Benefits Plan.:

- Are the premium rates competitive in the marketplace?
- Are the benefits levels appropriate, based on current earnings?
- Are definitions of "disability" clearly understood (and are the definitions appropriate)?
- Should different employee groups have unique benefits levels and definitions of disability?
- Are benefits waiting periods (deductibles) reasonable and cost effective?
- Have Short-Term and Long-Term Disability Benefits Plans been properly coordinated to achieve maximum value?
- If the benefits currently are taxable to claimants, have options been explored to deliver tax-free benefits?
- Are group benefits properly coordinated with individual policy benefits?
- Are appropriate "return to work" incentives included in the current plan?
- Is the current carrier making appropriate claim decisions, as viewed by claimants and the employer?
- Are employee contributions being used effectively, if required?
- Should employee contributions be required if the employer is currently paying 100% of plan costs?
- Is the plan communicated effectively?

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