Our Updated Stock Option Survey

Stock options have been an important component of executive compensation for decades. An estimated 32 million employees participate in some form of equity ownership, according to the National Center of Employee Ownership. This includes employer stock held in a stock purchase plan, 401(k), ESOP, as well as equity awards. While stock options remain a relatively common long-term incentive award, they no longer are the primary award made to executives and relatively few companies grant them to a broader base of employees.

Despite their decreased utilization, stock options or stock appreciation rights (“SARs”) continue to be part of the incentive pay package at many public companies. Just under 50% of all companies for which Ayco provides financial planning or financial education services currently grant stock options, although this is significantly less than the percentage that granted options nearly ten years ago, as illustrated below.

Approximately 10% of our survey group has ceased granting stock options within the past three years. In addition, options now make up a smaller share of the total long-term incentive award at those companies which continue to issue them. They have been replaced primarily by performance shares, performance units and restricted stock units (see our March 2017 Digest for the current mix of long-term incentive awards). Some have now suggested that future stock option grants to CEOs may decrease due to the new CEO Pay Ratio disclosures and to Named Executive Officers due to the elimination of the performance exception under IRC§162(m). This is something we will continue to watch.

We have been monitoring the design of stock option plans for over 20 years. The following is our updated informal survey of the percentage of a total long-term incentive award that stock options play at Ayco corporate partners currently compared to similar awards made five and ten years ago.

![Stock Options/SARs as Percentage of Annual Long-Term Award](image-url)
Early History of Stock Options
Employee stock options were created in the early-to-mid 20th century as a means of giving managers a stake in family controlled businesses and an incentive to help grow the value of the company. Relatively few executives received these awards (until the 1980s) and they represented a relatively small portion of total pay. In 1980, the average stock option grant represented less than 20% of the direct pay made to the CEOs at large U.S. companies, per the National Bureau of Economic Research.

As far as their tax treatment, the Revenue Act of 1950 provided that any gain realized on what were initially called “restricted stock options” would not be taxed upon exercise, but rather, only upon sale of the stock. These were the predecessor of what we now know as incentive stock options (“ISOs”). During the 1960s, the concept of nonqualified stock options taxable at exercise developed. By the late 1960s and through the early 1980s, stock market growth slowed and restricted stock was perceived as being less risky and more valuable as an equity-based award at many companies.

Then, in the late 1980s and through the 1990s the stock market and many companies’ stock prices increased significantly and the utilization of stock options took off. Grants typically were made annually. Some companies began making special one-time grants in certain circumstances. This period also saw the birth of the technology industry, which initiated a more egalitarian pay policy of awarding stock options to many more, or even all, employees. This allowed a start-up or pre-IPO company to retain cash and provide the possibility of significant wealth – but, of course, with some risk. Stock options became the most popular long-term incentive award and it is estimated that stock options constituted 75% of long-term equity awards by the end of the 20th century.

The market downturn in 2000-2002, the tech bubble, and the financial crisis of 2007/08 led to a significant decline in the use of stock options in the first decade of the 21st Century. The Financial Accounting Standards Board, after nearly a decade of consideration, finally changed the accounting rules for stock options in 2006. They usually had no accounting exposure previously – which was a significant incentive for many companies to utilize stock options – with no cost on the balance sheet while still obtaining a corporate tax deduction when NQ options were exercised.

A number of companies even allowed executives to exchange underwater options for a vastly smaller number of full-value shares. Approximately ten years ago, we saw the growth of performance shares and units which used a different performance metric than only share price appreciation. This coincided with the growing influence of proxy advisors like Institutional Shareholder Services (ISS) and their influence on executive-pay practices. So, while stock options remain a piece of the long-term incentive pie today, they are a decreasing slice.

Option Term
Historically, companies have issued stock options with a term of ten years. That is, an employee could decide when to exercise the option at any time after vesting until it expired – assuming active employment continues. By the mid-1990s, we began to see a few companies extend the term of the option to 15 and even 20 years. (Only ISOs cannot have a term of more than ten years).

Primarily as a result of accounting changes that occurred just over ten years ago, we started to see some companies shorten the term of new grants. Among our survey group, nearly 10% now grant options with a term of less than ten years. Of these, the shortest term is 5 years (3 companies), the longest is 8 years (3 companies), and the most common term is 7 years (18 companies). Interestingly, companies with shorter exercise periods generally do not change or reduce vesting periods. We have also seen a few companies return to a 10-year term for new grants.

Grant Date
Companies generally grant options once a year following approval by the Compensation Committee of the Board. Large companies may make special or off-cycle grants to new hires, or as special retention awards, or for key promotions. Here is the month in which a large cross-section of our survey group granted options in 2017/2018:

| Jan. | 11% | May | 5% | Sept. | 1% |
| Feb. | 38% | June | 3% | Oct. | 1% |
| March | 18% | July | -- | Nov. | 8% |
| April | 8% | Aug. | 2% | Dec. | 5% |

Vesting Schedule
A vesting schedule determines when some or all of the awarded stock options may first be exercised. This can act as a retention device. Most companies still impose only a time-based vesting schedule for their stock option and SAR grants. In most cases, options may not be exercised for at
least one year from grant (88% of our group). While 3% begin vesting two years from grant, and the remaining 9% begin vesting three years or more after grant. The longest initial vesting period we saw was five years from the year of grant. Less than 2% have a monthly vesting pattern.

Vesting schedules have not changed significantly over the past 10 years. The following indicates the vesting schedule for the most recent grants:

<table>
<thead>
<tr>
<th>Vesting Schedule</th>
<th>% of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>33% Per Year Over 3 Years</td>
<td>47%</td>
</tr>
<tr>
<td>25% Per Year Over 4 Years</td>
<td>32%</td>
</tr>
<tr>
<td>20% Per Year Over 5 Years</td>
<td>3%</td>
</tr>
<tr>
<td>Unequal Pattern Over 3-5 Years</td>
<td>7%</td>
</tr>
<tr>
<td>100% Vesting at End of Year 1 or 2</td>
<td>2%</td>
</tr>
<tr>
<td>100% Vesting at End of Year 3</td>
<td>6%</td>
</tr>
<tr>
<td>100% Vesting at End of Year 5</td>
<td>1%</td>
</tr>
<tr>
<td>Other Schedule</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

**Performance Vesting** - Performance vesting features are utilized more commonly with restricted stock and restricted stock unit awards than stock options. We still do see a number of companies allow for the acceleration in vesting upon meeting a performance target or require that defined performance measures be achieved for the options to vest. Just over 5% of our survey group have a performance requirement to vest a portion of one or more grants made over the past three years. In some cases, only the CEO or the most senior executives have options with performance targets, or they are included in a special retention grant to a key performer. Typical targets include a minimum share price appreciation, total shareholder return, or when designated financial targets are achieved.

**Acceleration In Vesting** - In the event of a retirement, death or disability, most plans provide for an acceleration in vesting, a continuation in the normal vesting schedule, or give the committee administering the plan discretion to accelerate or continue vesting. We found that just over 10% of the survey group provide for a continuation in vesting and 40% provided for the acceleration of vesting in the event of retirement. This figure increases to over 62% in the event of an optionee's death. The overwhelming majority of plans provide for an acceleration in vesting in the event of a change in control (“CIC”). Many companies have recently reviewed and modified their CIC practices (primarily due to recommendations of ISS and Glass Lewis) and we are seeing more companies adopting a “double-trigger” requirement for the acceleration in vesting of options in this situation.

**Exercise Periods Upon Termination of Employment**

The following charts reflect the period to exercise vested options following termination of employment:

**Retirement**: Termination due to retirement typically allows an option-holder a longer post-separation exercise period than termination for other reasons. A generation ago, when many companies maintained a pension plan, the definition of retirement usually was based on when an employee was eligible to leave and receive immediate pension benefits. Now, the definition of retirement eligibility needs to be specified in the stock option plan document or award agreements. The most common definition in the plans we reviewed is age 55 with 10 years of service; but over half of the companies in our sample survey group use a different definition. We counted 10 companies that provide a longer period to exercise options following normal retirement age than in the event of early retirement. Here are the periods to exercise that cannot extend beyond the normal expiration date of the option award:

**Death**: The following are the periods available to exercise options following the death of an optionee by either the designated beneficiary or by the estate:

### Period To Exercise After Retirement

- **Remainder of Term**: 37%
- **Five Years**: 27%
- **Four-Three Years**: 17%
- **Two-One Years**: 10%
- **Less than One Year**: 9%

### Period To Exercise After Death

- **Remainder of Term**: 18%
- **Five Years**: 17%
- **Four-Three Years**: 20%
- **Two Years**: 5%
- **One Year**: 36%
- **Less than One Year**: 4%
Voluntary/Involuntary Termination: In the event that an employee voluntarily terminates (without “good reason”) or is involuntarily terminated by the company without cause prior to eligibility for retirement, a slight majority of companies allow executives to exercise vested options for a limited period of time. Virtually all companies will immediately cancel options in the event that an employee is terminated for cause.

<table>
<thead>
<tr>
<th>Period To Exercise</th>
<th>Involuntary Termination</th>
<th>Voluntary Termination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Longer than One Year</td>
<td>6%</td>
<td>-0%</td>
</tr>
<tr>
<td>One Year</td>
<td>9%</td>
<td>-0%</td>
</tr>
<tr>
<td>Six Months</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Three Months</td>
<td>61%</td>
<td>45%</td>
</tr>
<tr>
<td>One or Two Months</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Forfeited</td>
<td>7%</td>
<td>39%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Retention After Exercise: We are continuing to see more companies require senior executives to retain stock acquired as compensation (stock options, restricted stock, and performance awards payable in stock) for some period of time after acquisition. Currently, 40% of our survey group has such a retention requirement for options exercised by executives who have not met share ownership guidelines. Additionally, 5% of the survey group require senior executives to retain the shares for a defined period of time or until retirement (for data on share ownership guidelines and retention requirements, see the March 2018 Digest).

Other Design Features
Stock option plans are not plain vanilla in design. Here is a look at current features and those we noted 15 years ago:

<table>
<thead>
<tr>
<th>Grant or Feature</th>
<th>% of Companies (2017/18)</th>
<th>% of Companies (2003/04)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentive Stock Options (ISOs)</td>
<td>10%</td>
<td>22%</td>
</tr>
<tr>
<td>Stock Appreciation Rights (SARs)</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>Market Stock Units (MSUs)</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Transferable For Estate Planning</td>
<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>Net Settlement Exercise Procedure</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Non-Compete/Clawback Clause</td>
<td>65%</td>
<td>12%</td>
</tr>
<tr>
<td>Beneficiary Designation Permitted</td>
<td>35%</td>
<td>25%</td>
</tr>
<tr>
<td>Reload Feature (new grants)</td>
<td>0%</td>
<td>21%</td>
</tr>
<tr>
<td>Allow Deferral of Option Gains</td>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td>Equity Choice Program</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Double-Trigger Accelerated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vesting at CIC</td>
<td>72%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Market stock units are an amalgam of stock options and RSUs that provide the potential for upside growth along with some protection in the event of stock price drop. They have been adopted by a small number of companies, although one company in our database granted them for several years and then eliminated them. Reload options have virtually disappeared for awards made after 2006, primarily due to accounting rule changes. In contrast, SARs have become much more popular. They can reduce the administrative cost of an option program, result in fewer shares issued, and encourage retention of stock after exercise. One company even allows eligible employees to exchange up to 100% of their annual bonus for SARs.

A “net exercise” procedure can achieve similar results. Essentially, it allows an individual to exercise an option without tendering cash or shares to the company. The individual then receives the “net” shares, similar to a cashless exercise for stock, but without the expense and administrative hassle of utilizing a broker. We expect this exercise procedure to continue to draw interest.

One design feature seen in the plans of a few foreign owned companies is a cap on the maximum gain permitted under an option grant. This might be 150% or 200% of the grant price. Another interesting feature we have seen in a small number of plans is an automatic exercise provision. It provides that all vested “in the money” options automatically will be exercised on the last trading day of the exercise period. This feature could address the recipient’s failure to exercise valuable options, as well as the problem inherent in a blackout of an executive’s stock transactions.

Tax Withholding and Reporting Rules
Income associated with the exercise of a NQ option by an employee (or former employee) is considered supplemental wages subject to the current 22% federal flat withholding rate, unless total supplemental wages exceeds $1M, when it jumps to the highest federal rate. Under revised accounting rules, employers may allow employees to elect to have up to the maximum tax rate (federal, state, and FICA) withheld in shares. No tax or FICA withholding is required upon the exercise or disqualifying disposition of an incentive stock option (ISO).

Interesting Railroad Litigation – The U.S. Supreme Court has been asked whether the spread upon the exercise of nonqualified stock options by a railroad employee should be considered compensation under the Railroad Retirement Tax Act (RRTA). RRTA taxes go toward funding a retirement program for railroad employees. RRTA compensation
includes any form of “money remuneration” paid. Several railroads, including BNSF, CSX, and Canadian National have sued for RRTA tax refunds claiming that stock option gains are not the same as money (basically since money only is received upon a sale of the stock). Three federal appeals courts have ruled in favor of the IRS that it should be considered compensation subject to this tax. However, last year the 8th Circuit Court of Appeals sided with Union Pacific Railroad that stock option income is not subject to the RRTA. The Supreme Ct. indicated it will review this matter. Expectations are that they will uphold the position taken previously by three federal appeals courts that stock option gains are treated as compensation for RRTA purposes.

**Basis Reporting** - Under the current rules, which apply to equity awards granted or acquired after 2013, the basis reported on Form 1099-B when stock is sold should not include the “spread” or compensation element reported on Form W-2, but only the exercise cost. At sale, this exercise cost amount, plus the compensation element reported on Form W-2, is to be reported on Form 8949 filed with the individual’s tax return to calculate any gain or loss on sale.

**State Tax Reporting** - The state tax reporting and tax withholding requirements for stock option income can be confusing for employers with employees who travel to states other than their regular work location. The amounts subject to taxation and how this is determined can, and do, vary by state. A majority of the 41 states with a state income tax could tax nonresidents who work in the state on their stock option income, as well as other compensation. From the employer’s perspective, the state tax withholding rules are even more complex (see our September 2017 Digest article on The Conundrum of Road Warriors).

**Foreign Stock Reporting** – A stock option with respect to a foreign company’s stock is to be reported by a U.S. taxpayer in the year of grant on Form 8938 as a Specified Foreign Financial Asset. It generally would not be taxable until exercise. NQ options held by insiders at any time during a 12-month period before a U.S. company “inverts” into a foreign corporation are potentially subject to a 15% excise tax under new anti-inversion rules.

**SEC Form 4 Reporting** – Section 16 Insiders (executive officers and directors) are subject to reporting timely the grant of an option or SAR, its exercise, and any sale of stock associated with the option on Form 4. However, the grant and exercise are not considered a matchable purchase in almost all situations, so will not create a risk of a short-swing profit violation under SEC §16(b).

Most public companies have written compliance policies for §16 insiders. These may require that insiders only exercise options or sell company stock during an open window.

**Advantages Of Stock Options**

Stock options can be viewed as a pay-for-performance vehicle, at least if the desired performance measure is only stock price appreciation. However, the shareholder vote advisor, ISS, has indicated that it doesn’t consider stock options to be a performance-based form of pay. This has been part of the reason more companies have replaced stock options with other performance-based long term awards. (For data on the current mix of long-term incentive awards, see the March 2017 Digest).

Some have suggested that utilizing stock options can induce excessive risk-taking because there is no downside exposure. Thus, the greater the growth in share price the greater the reward. Offsetting this are share ownership requirements that typically do not count unexercised options, as well as stock retention requirements.

Advantages and differences between stock options compared to other long-term awards include:

- Options are easier to understand than performance-based awards, but valuing both can be a challenge.
- Options provide greater leverage when share price climbs; employee typically will receive 2-3 or more options compared to one share of restricted stock.
- Timing of exercise (and associated income recognition) is controlled by the employee.
- Employee generally has choice in method of exercise: cash, stock swap, cashless exercise.
- Income taxation deferred until exercise (NQ) or possibly, until sale (ISO).
- If ISOs are granted, the employee has an opportunity to only be taxed at capital gain rates with FICA taxation avoided by both the employer and employee.
- Most options granted prior to 2018 generally are exempt from $1M limitation on corporate tax deduction under IRC §162(m), but the general performance-based exception has now been eliminated.
- Accounting rules (ASC 718) require companies to account for options based on the expected period until exercise by employee as opposed to their full term.
- Options are not subject to §409A as long as granted at fair market value and not subject to deferral of gains.
A New Employer Credit for Paid Family and Medical Leave

The U.S. has been the only industrial nation in the world without universal paid family leave for workers. However, the Tax Cuts & Jobs Act created a new general business credit based on the wages paid to employees who qualify for family and medical leave, subject to certain conditions. The idea behind this new provision was to incentivize employers to voluntarily offer paid family and medical leave to their employees. The Family and Medical Leave Act of 1993 requires companies with 50 or more employees within a 75-mile radius to offer up to 12 weeks of unpaid leave. A number of states have enacted their own laws that require paid family leave in certain circumstances.

In order to claim this credit, an employer must have a written policy in place that provides at least two weeks of paid leave annually to all qualifying full-time employees (pro-rated for employees who work part-time). A qualifying employee is considered anyone employed by that employer for at least one year and who, for the prior year, had compensation less than 60% of the highly compensated employee (HCE) threshold. For this year, the credit is available for employees who earned $72,000 or less in 2017. The paid leave amount must be not less than 50% of the wages normally paid to the employee. While an employer could make these payments in lieu of regular pay for any period of time (a minimum of two weeks), the credit is only available for up to 12 weeks of paid leave per year.

The IRS issued guidance addressing this new tax credit last month. For purposes of this credit, the following qualify for payment of paid leave under this new law:

- Birth of an employee’s child or to care for the child
- Care for an adopted child or one in foster care
- Care for a spouse, child, or parent with a serious health condition
- A serious health condition which makes the employee unable to perform the functions of his/her position
- Any qualifying exigency due to a family member or parent being on active duty in the armed forces abroad or to care for an armed forces member who is related

The amount of the credit is a percentage of the wages paid to the employee while on leave for up to 12 weeks per year. The minimum percentage is 12.5% and this is increased by 0.25% for each percentage by which the amount paid exceeds 50% of the employee’s wages, up to a credit maximum of 25%. However, an employer is required to reduce its corporate deduction for wages paid by the amount of the credit. That is, an employer cannot get both a deduction and credit for the same amount paid. (As an example, if an employer pays an eligible employee $5,000 of paid leave for which the employer receives a credit equal to $1,250, the employer must reduce the deduction it takes for the wages paid to the employee by $1,250).

This new credit is effective beginning this year but will expire at the end of 2019, unless extended by Congress. As importantly, any paid leave required by state or local law is not considered in determining the amount of employer-provided paid FMLA. The IRS has indicated that it intends to provide additional guidance in the future concerning the credit including when an employer’s written policy on paid leave must be in place, how this new leave relates to an employer’s existing paid leave, the impact of any state or local leave requirements and certain other aspects of the new law.

Employers are not required to offer this paid leave, but it is expected that most will review whether it should be added to any existing paid or unpaid leave.

CEO Pay Ratios Are Now Out – But What Do They Really Show?

CEO pay was up significantly at many companies last year, fueled in large part by equity awards associated with stock market gains. According to a Wall Street Journal summary on CEO pay among the largest U.S. companies, the median pay for the CEOs was $11.6 million in 2017. It seems clear that CEO pay has grown significantly faster in recent decades compared to the pay of a typical worker for the company.

For some perspective, it is estimated that the ratio of a CEO’s pay to that of an average worker at the company was around 20:1 in 1965, 59:1 in 1989 and 123:1 in 1995. According to the Economic Policy Institute Report, CEO pay in the U.S. peaked in 2000 averaging $20.7 million (in 2016 dollars), which would have been 376 times the pay of the average worker.

This is the first year that U.S. public companies are required to disclose the ratio of the annual total compensation of the company’s CEO to the annual total compensation of the company’s “median employee” as required under the Dodd-Frank Wall Street Reform and Consumer Protection Act.
We’ve now had an opportunity to review the pay ratio data as disclosed in 2018 proxy statements for 250 companies that have an Ayco relationship. We thought we would provide to you a brief summary of this data and comment what this statistic may or may not mean.

- **Median Employee Pay** - Companies have some flexibility in calculating the pay of their median employee to be used in the ratio. Included in this calculation are part-time employees, seasonal employees, temporary employees, furloughed employees, along with all full-time employees (other than the CEO). Companies may annualize the pay of a full-time employee who did not work for the whole year, but may not do this for temporary or seasonal employees.

Companies may exclude certain of their employees from this calculation, including those added following a merger or acquisition. In addition, foreign employees may be excluded in those countries where there are relatively few employees and where the total number of foreign workers is less than 5% of all company employees. Also exempt are those located in countries with data privacy rules – although, there are several requirements for this exclusion to apply.

SEC guidance does not require that a company report any identifying features of the median employee; however, companies may voluntarily disclose how the number was determined, as well as which foreign employees are excluded from the calculation. We saw this commonly disclosed in 2018 proxies.

In determining the pay, companies may rely on what is called a “consistently applied compensation measure” (CACM), which could entail total cash compensation, total cash and equity-based compensation, or taxable income as reported on Form W-2. In contrast, the pay of the CEO generally will be based on the amount reported in the Summary Compensation Table of the company’s proxy statement. This generally will include the full grant date value of equity that may vest and be paid over future performance years.

Special circumstances can lead to a company providing alternate pay ratios along with a rationale, such as a one-time grant of equity, a significant nonqualified pension or deferred compensation enhancement for the CEO. (We saw a handful of companies do exactly this in their initial 2018 disclosure).

A company may use a statistical sampling methodology instead of having to determine the actual pay of every employee. This would need to be disclosed. Companies also have flexibility whether to include the value of health and welfare benefits in determining the pay of the median employee.

Companies may select any measuring date within the last three months of the company’s fiscal year as their measuring date to determine median pay.

- **How Often is this Calculation Required?** - This is the first year that companies are required to make this calculation – although, a number of companies reported the ratio in their 2017 proxy. While CEO pay likely will change each year, the median employee pay does not need to be recalculated each year. Companies only have to re-determine this once every three years, assuming the same person is considered the median employee and the pay structure remains relatively stable. However, a company may recalculate the median employee pay if it were to change dramatically.

- **California’s Proposed Legislation** - A bill has been introduced into the California State Senate which would increase corporate taxes for public companies in the state with pay ratios that exceed 300:1. In addition, the state tax rate would increase by an additional 50% if such a company reduces its U.S. full-time workforce by 10% or more during the previous year. The California pay ratio calculation also would be slightly different than the federal rule. Certain companies would be excluded from this proposed law, including banks and financial institutions subject to different tax rules.

Several other states, including CT, IL, MA, MN and RI have introduced legislation which would impose fees or additional taxes for companies based on their pay ratio. However, the chances of these proposals being enacted remain somewhat remote. Portland, OR has passed a local law that will impose a surtax on companies located in the city that have a pay ratio of more than 100:1, with the highest one being a 25% increase in their business licensing fee if the ratio is greater than 250:1.

- **What Does it All Mean?** - The numbers are all over the map. Companies with a significant number of part-time employees or with a greater portion of their workforce in lower paying countries will likely have significantly greater pay ratios. This can lead to alternative disclosures.
Although there had been a push last year to have the SEC eliminate this requirement, that did not happen. Because this is public information, it likely will be reported and explained, especially by those with higher ratios. We are also likely to see comparisons in industry groups. Whether it leads to greater or lesser CEO pay in the future remains to be seen.

Here’s a brief summary of some of the data we collected in reviewing the pay ratios of 250 Ayco corporate partners taken from 2018 proxy statements:

<table>
<thead>
<tr>
<th>Median Employee Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $25K</td>
</tr>
<tr>
<td>8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CEO Pay Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 100:1</td>
</tr>
<tr>
<td>30%</td>
</tr>
</tbody>
</table>

**Did You Know...**

- The IRS has reversed its position regarding the maximum family-coverage contribution amount to a health savings account (HSA) for 2018. There will **NOT** be a $50 reduction as previously indicated due to a change in the cost-of-living adjustment formula. Instead, this limit would remain at $6,900. The individual maximum will remain at $3,450.
- The SEC has now released their initial proposal on fiduciary investment advice, perhaps precipitated by the federal court decision to table the DOL’s fiduciary proposed rule. The SEC’s Regulation Best Interest would require broker-dealers to act in the best interests of a retail customer. Registered investment advisors would be subject to slightly different rules. The proposed rule would apply to both retirement plan accounts and non-retirement investments. When this could become effective remains uncertain.
- States with paid family leave requirements (for other than small companies) include CA, NJ, NY, RI, WA and D.C. States with mandatory paid sick leave laws include AZ, CA, CT, MA, OR, RI, VT and WA.

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