Are you receiving a severance package from Coca-Cola?

Top 10 steps to get prepared for executives and associates

Brightworth®

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Now is the time to get your finances in order.

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Here are the most common questions we hear from clients after learning they will receive a severance package:

- Will I be financially secure for the rest of my life, or do I have to find another job? What strategies will help minimize the tax impact of receiving a lump sum severance?
- How long do I have to exercise my options? Do I get to keep my PSUs and Performance Cash?
- Should I rollover my 401(k) to an IRA, or leave it where it is?
- Do I have the ability to postpone my Deferred Compensation Plan payments? Should I elect to begin my pension benefits now, or wait?
- What is the best plan for my life, disability, and health insurance needs?
- Are there other areas of my finances that will be positively or negatively impacted by this transition?

If you might receive a severance package soon, you probably have financial questions that need timely answers. This paper will address ten key areas that you'll need to be prepared for during a job transition period.

#1: Severance

The severance plan calls for a lump sum, one-time payment to be made in approximately one or two payroll periods following your termination date. Lump sum severance ranges from 12 weeks to 104 weeks of your base salary, depending upon your position and/ or years of service upon termination. The lump sum severance payment is subject to ordinary income tax, and you cannot defer any of this payment into your 401(k) plan or Deferred Compensation Plan as it is paid following your termination date. In many cases this large payment can bump you into a higher tax bracket the year it is received, so even though income taxes will be withheld from your severance check, it may not be enough to cover your personal tax liability on that lump sum.

Naturally, one question to consider is: What can be done to minimize the income tax impact of receiving this large cash payment? Depending upon how far in advance you can prepare, there are several strategies that should be considered. We will discuss these income tax reduction strategies throughout this paper.

While a lump sum severance payment may feel like a "windfall," it's important to have a plan for this cash. You may be in a position to save and invest it for your future, or you may want to hold it in cash until your future cash flow needs are more clear. It may also be an opportunity to enhance your children's college savings accounts, pay down debt, or build a nice cash reserve as part of your investment and withdrawal strategy during retirement. If you don't have a plan for this cash, the "windfall" could quickly disappear.

> *Even though income taxes will be withheld from your severance check, it may not be enough to cover your personal tax liability on that lump sum.*

We assume throughout this paper that "job elimination" meets Coca-Cola's definition of involuntary loss of employment. Further, we assume you are under age 60 (when other retirement provisions may apply to your stock options, PSUs, GSUs, and RSUs for example). You may have special circumstances that apply to your specific situation. This paper is meant to address the planning strategies that Coca-Cola executives and associates need to consider when receiving a severance package.

#2: 401(k) plan

Once you learn your job is being eliminated, one of the first items to address is to ensure you maximum fund your 401(k) plan prior to your actual termination date. The 401(k) deferrals are made on a pre-tax basis, and this tax savings will be valuable in your final year of employment, especially given the lump sum severance payment.

For example, let's say your termination date is December 31, 2020 and there will be five pay periods prior to your termination date. You may need to adjust your 401(k) contribution percentage so that the IRS maximum of $19,500 is deferred into your 401(k) plan prior to your termination date. If you are age 50 or older in the year of termination, you should also fund the "catch-up contribution" of $6,500 before you terminate employment. This election is a flat dollar amount per pay period and you can adjust your election on the 401(k) website. Even if you do secure another job later that year, you'll at least know you already took full advantage of this pre-tax deferral opportunity.

Upon termination you have a few options with your qualified 401(k) plan. First, you can leave your account where it is. Your balance will continue to be invested as you've directed from the list of available investment options, and it will continue to grow on a tax-deferred basis. You can still access your account balance on the 401(k) website (www.trsretire.com/webportal/cocacola/). Withdrawals are not required until you are age 72 when the IRS required minimum distribution rules apply.

If you are between the ages of 55 and 59½ when you terminate employment with Coca-Cola, and you think you may need to take a withdrawal from your 401(k) plan before you are 60 years old, you may want to leave all or a portion of your balance in the 401(k) plan. There is a special rule that applies to 401(k) withdrawals where you can avoid the 10% early withdrawal penalty (that generally applies to distributions from retirement accounts prior to age 59½) if you are at least 55 years old in the year you separate from service. We have advised some clients over the years to leave a portion of their 401(k) balance in the company's 401(k) plan until they are age 59½, when the 10% early withdrawal penalty would no longer apply to any retirement account.

Next, you also have the option to rollover your 401(k) balance to another employer's plan or to an IRA. You can transfer the shares of your company stock from your 401(k) account directly into an IRA. Otherwise, upon instructing TransAmerica that you would like to commence a rollover of your 401(k) account to an IRA, TransAmerica will liquidate your holdings and mail you one or two checks. The first check represents your "pre-tax" balance. You will want this check payable to your IRA custodian. This check should absolutely not be deposited into your personal bank account. Forward this check directly to your financial advisor or your IRA custodian. The second check represents any "after-tax contributions" which are the dollars you already paid taxes on over the years, and then deposited into your 401(k) from your paycheck. (Note: after-tax contributions are no longer allowed in Coca-Cola's 401(k) plan). Typically clients deposit this after-tax check into their Roth IRA but you can also receive it in cash and deposit it into your personal bank account. At Brightworth we provide our clients with investment and planning advice on their 401(k) based on their unique situation.

If you have a lot of Coca-Cola stock in your 401(k) plan, you need to carefully consider your rollover strategy. It could save you taxes!

For someone who has been investing in Coca-Cola stock inside their 401(k) plan for a very long time and has low "cost basis" shares, a tax strategy known as Net Unrealized Appreciation (NUA) may be beneficial. If it's the right scenario, NUA could save you thousands of dollars in income tax. With this strategy you are able to transfer some or all of your company stock in your 401(k) plan to a brokerage account at termination, and then sell the shares in the brokerage account, paying long-term capital gain tax rates. Ordinary income taxes will be due on the cost basis of the shares distributed out of the 401(k) plan, not the fair market value of those shares. Plus, if you are charitably inclined and incorporate a gift of shares to charity in the year of this transaction, you could greatly minimize the overall tax impact. It is important to consult an expert before proceeding as there are many requirements for this to work properly. NUA should be evaluated before diversifying large amounts of Coca-Cola stock inside your 401(k) plan, or before initiating a rollover to another retirement account.

Finally, a beneficiary should be named on your 401(k) account, which is an important part of everyone's estate planning. If you rollover your 401(k) plan to another retirement account following termination, you will need to make sure your new beneficiary designations are properly coordinated and integrated with your overall estate plan.

#3: Supplemental 401(k) plan

The Supplemental 401(k) plan is different from the qualified 401(k) plan. It is a non- qualified plan and is funded only with company contributions. It is invested entirely in company stock. For most executives and associates, this plan pays out to you in cash about three months following termination, so in essence it's a forced sale of company stock. The value of this account is subject to ordinary income tax the year the proceeds are distributed to you, and some income tax will be withheld from this distribution. Again, it may not be enough to cover your personal tax liability on the payout of this plan that year.

The Supplemental 401(k) plan is paid out following termination and is subject to tax. You cannot defer the tax by rolling it over into an IRA.

If you also have an accrued benefit in the Supplemental Pension Plan (SPP), the one-time up-front FICA taxes that are due on the present value of the SPP benefit are withheld from your Supplemental Pension Plan cash balance payout in addition to the above income taxes. You may have already paid a portion of this FICA starting in 2017 on prior balances. Keep this in mind when factoring in your available cash flow following your termination date.

Since the payout and income tax ramifications of the 401(k) plan and Supplemental 401(k) plan are different, you may have had a different beneficiary structure for each to optimize your estate plan. Also, you may have been counting on the Supplemental 401(k) plan balance to fund a trust for estate planning reasons in the event of your death. Since this account will be fully paid out following termination, it could affect your estate transfer intentions.

#4: Stock options

The gain in your stock options may be the largest asset on your balance sheet. This also means a large part of your overall net worth is tied to Coca-Cola stock. We are often asked, "How much of my net worth should I hold in a concentrated stock position?" We typically recommend a client have enough diversified assets by the time they are entering the "withdrawal phase" of their life to cover their core living expenses and taxes. Above this core level, concentration in a single stock position does not pose as much risk to your financial strategy. We recommend always having a predetermined strategy for your stock options as it can provide confidence and peace of mind.

This exercise strategy will likely need to change once you learn your job is being eliminated, as your time frame to exercise is shortened.

When it comes to the severance package, treatment for stock options that have been held for at least 12 months from grant date depends on the year in which they were granted. Stock options held for less than 12 months from grant date will be forfeited.

For options granted in 2012 and prior, if you are age 60 or older with at least 10 years of service, then your stock options become immediately vested and maintain the original expiration date. All others must exercise vested options within six months, and unvested options will be forfeited.

For options granted in 2013 and after, if you are at least age 50 with at least 10 years of service upon involuntary separation, the options continue to vest over the next four years. They must be exercised by the earlier of their original expiration date, or four years following your separation date. If you are age 60 or older with at least 10 years of service, then your stock options become immediately vested and maintain the original expiration date. All others must exercise vested options within six months, and unvested options will be forfeited.

Determine what stock price you need to exercise your option at in order to accomplish your financial goals, especially if you now have only six months or four years until they expire.

Since stock option proceeds are subject to ordinary income tax upon exercise, part of your exercise strategy should include income tax planning. For example, perhaps you can exercise a portion of your options this year while staying just under the top marginal tax rate. (For some this means you are already deferring a lot of income into the Deferred Compensation Plan prior to termination). If you have any chance of staying out of the top tax bracket when you exercise options, especially in the year you receive the lump sum severance, this also saves taxes on other parts of your financial picture such as dividends, interest and capital gains from your brokerage accounts. Also, don't forget that if you are in a federal tax bracket above 22%, you'll want to hold back some cash from your option proceeds to pay for the additional tax due (i.e., being in the 37% federal bracket versus the 22% federal tax withholding on your stock option exercises). Once your compensation exceeds $1 million, under current tax laws the federal withholding on stock options will be at the 37% tax rate.

Regardless of your age at termination, stock option income can play a significant role in your wealth accumulation and cash flow strategy. It's important to have a plan in place especially if you have a limited window to exercise your options.

#5: PSUs, GSUs, and RSUs

Performance Share Units (PSUs), Growth Share Units (GSUs), and Restricted Stock Units (RSUs) are forms of restricted stock. Under the severance program, if you qualify, you may receive a pro-rated number of PSUs, GSUs, and RSUs.

For PSUs and GSUs, if you are at least age 50 with at least 10 years of service upon involuntary separation, you qualify to receive a prorated PSU or GSU award based on months of service during the performance period. Company performance metrics must still be met in order for PSU and GSU awards to pay out. If you are age 60 or older with at least 10 years of service, your award will not be prorated, but the regular performance period continues and your final award will be determined based on achieving performance criteria. All others will forfeit PSUs and GSUs that have not yet been released. In all cases, PSUs and GSUs held less than 12 months will be forfeited.

RSU treatment depends on the type of RSU award received. For RSUs received through a Growth Transition Award or Emerging Talent Retention Award, all unvested RSUs will be forfeited regardless of your age and years of service.

For RSUs received through an annual LTI award, treatment depends on the year granted, your age and years of service. For RSU LTI awards granted before 2020, if you are at least age 50 with at least 10 years of service, then unvested awards will continue to vest per the original vesting terms. If you are age 60 or older with at least 10 years of service, then unvested awards become immediately vested and will be released per the award agreement. All others will forfeit unvested RSUs. In all cases, RSUs held less than 12 months will be forfeited.

For RSU LTI awards granted 2020 and after, if you are at least age 50 with at least 10 years of service, then unvested awards will be prorated based on months of service during the vesting period. The shares will be released on the original release date. If you are age 60 or older with at least 10 years of service, then unvested awards held at least 12 months become immediately vested and will be released per the award agreement. All others will forfeit unvested RSU LTI awards. In all cases, RSUs held less than 12 months will be forfeited.

After the end of the three-year performance/vesting period, the number of shares you will receive is determined. Upon release, the fair market value of the award is taxed as ordinary income and is reported on your pay stub. Some shares are held back to cover the tax liability, but as with stock options, the 22% federal tax withholding may not be enough for your particular situation. So, you may need to set extra cash aside to prepare for the additional taxes due.

The timing of the Deferred Compensation Plan payouts may be drastically different than what you were expecting.

Remember, your holding period for capital gains tax purposes on your PSUs, GSUs, and RSUs starts the day the shares are released to you and your cost basis is the fair market value when the shares are released. If you sell the shares right away, essentially no additional capital gain taxes would be due. If you sell the shares within 12 months of release, any post-release date gain will be taxed as a short-term capital gain at your top marginal tax bracket (as high as 40.8% for federal tax including the current 3.8% Medicare surtax). And don't forget about state income taxes.

#6: Deferred Compensation Plan

If you met the eligibility requirements to participate in this non-qualified plan, you were able to defer up to 80% of your annual base salary and 95% of your annual incentive award each year. This account may represent a significant number on your balance sheet.

Once you learn your job is being eliminated, it's important to determine how much of your income will be going into the Deferred Compensation Plan the year of your termination. You'll likely find that deferring a lot of income into the Deferred Compensation Plan is an ideal income tax reduction strategy that year. However, since deferral elections are made each fall during the open enrollment process, you may not have the ability to adjust your deferral strategy if your job is being eliminated shortly. Since you had to elect a year in advance how your bonus would be deferred, you may also not have any flexibility to adjust how much of your bonus is paid out, versus deferred, in the year you separate from service.

The timing of the Deferred Compensation Plan payouts may be drastically different than what you were expecting, depending upon your age at termination. If you are less than age 50, or less than age 55 with fewer than 5 years of service when you separate from service, your entire Deferred Compensation Plan will be paid out in a lump sum the February following your termination date, and it is fully subject to ordinary income taxes. There is no ability to change this. You could easily see 40% or more of your account balance eroded due to income taxes.

If you are at least age 50 with 5 years of service, or age 55 with any years of service, your plan will pay out according to your distribution elections on file. The distribution options upon termination are lump sum or in 5, 10, or 15 year installments. If you are not currently satisfied with your distribution elections on file (i.e. you now think a 10 year installment will be better than a lump sum payout), you may or may not be able to change your election.

Timing is of the essence! You must be employed at least 12 months following the date you submit a payout election change in order for the change to be effective. Also, you may not change any distribution election once you've been notified that you will be separating from service. Finally, making a change to post-2004 plan years has some restrictions and delays associated with how soon you can actually get the money, so don't overlook this in your planning.

There are a number of investment options to choose from in the Deferred Compensation Plan. Coca-Cola stock is not one of those options. This asset allocation should be coordinated with your overall cash flow and investment game plan. If a balance will remain in the plan for several years, it should be rebalanced periodically. We provide our clients with specific investment recommendations based upon their unique financial situation.

#7: Pension Plan and Supplemental Pension Plan (SPP)

For many individuals separating from service, "What pension option should I elect?" is often the primary question they ask us regarding the qualified pension plan. "Should I take the lump sum?" "The monthly annuity seems stable, but what about inflation?" While the answer does depend upon each person's particular situation, there are a number of factors to consider such as: 1) your age and health at termination, 2) whether you are married, 3) whether you have any other pensions or stable monthly income streams, 4) if you plan to go back to work, and 5) how soon you will need to start living off of your retirement assets. If you are under age 65, you can defer making a distribution election until a later date. Finally, figure out what percentage of your future retirement income is coming from "you" (i.e. your portfolio, consulting income), versus Social Security, versus a company pension plan, as this can help you make a decision.

Inflation is a major consideration when planning for your retirement and it's likely that your purchasing power will decline over the years if you take the monthly pension. If you take the monthly annuity, you'll need more growth on your investment portfolio during retirement so you can withdraw larger amounts each year and preserve your inflation-adjusted standard of living.

Furthermore, associates with significant liquid assets may want to look at other pension options such as a lump sum from the pension plan. In cases where a lump sum makes sense, the proceeds can be rolled over directly to an IRA, deferring the taxes on the lump sum for years to come. Or, if you are planning to go back to work and have several years to invest and grow your lump sum pension in an IRA, electing the lump sum distribution option may be the right choice for you. The lump sum, if not entirely spent during your (and/or your spouse's) lifetime, can be passed down to the next generation which can be an attractive feature.

Finally, don't forget about Temporary Income which pays a small monthly benefit until you are age 62 (for those who qualify). No survivor benefit is available. If you elect the lump sum option from the pension plan, the present value of Temporary Income is included in your lump sum calculation and is not paid as a separate benefit.

Payments from the Supplemental Pension Plan (SPP) are different than the qualified pension plan. If you separate from service on or after your earliest retirement date, your SPP FAE benefit ("Part A") will be paid out as an annuity as of the first month following the month of retirement. The cash balance benefit ("Part B") will be paid as a single lump sum approximately six months following termination. Both are subject to income taxes. Payments from the SPP cannot be rolled into an IRA. If you separate from service before your earliest retirement date, the SPP balances will be paid in a lump sum approximately six months following termination. When running financial calculations, it's important to keep in mind the immediate taxation of any lump sum payments from the SPP – the value shown on your statement is a before-tax number and will be eroded by income taxes upon payout.

Brightworth has helped a number of people make wise choices with their pension payout elections. Having a clear picture of how your pension coordinates with your overall cash flow and investment strategy is one of the "large rocks" to address.

#8 Debt

Now is the time to look at your outstanding debts. If you currently have a mortgage, it might make sense for you to look into refinancing while you still have a paycheck. Interest rates are currently low, and your cash flow may be changing after you leave Coca-Cola. Also, consider whether it makes sense to pay off your mortgage, credit cards or any other debts when you receive your severance payment. This can lower your fixed monthly expenses which gives more financial flexibility to your years ahead.

#9 Insurance

As a fee-only firm, Brightworth does not sell insurance products. However, insurance planning is an important component of our clients' overall financial strategy. We have found over the years many associates of Coca-Cola have the bulk of their health, life, and disability insurance through their group plans. When you are no longer actively employed, these benefits change. For our clients, we look at whether they are eligible for retiree medical coverage following their termination of employment and if not, whether going on COBRA is the best short-term solution. Researching individual or family medical health plans is usually wise to compare costs and coverages, especially if you continue working but as a consultant or at a smaller sized company.

For life insurance, you need to evaluate how much coverage you should maintain, for how long, and what the cost is to convert your group coverage to an individual policy versus getting a new policy elsewhere. If you qualify as a retiree, your core life insurance will continue at no cost to you. You can also continue your supplemental life insurance whether or not you were retirement eligible upon your separation date. In general, having some of your life insurance coverage outside of your employer is beneficial should a life event such as job elimination occur, as this is one less obstacle to face. Also, keeping group life insurance policies can become cost prohibitive over time. Make sure your beneficiary designation is updated for any new life insurance policies you secure following termination, and if you do plan to apply for outside coverage, make sure you are insurable before canceling any existing coverage.

Your disability insurance ends once you are no longer employed by Coca-Cola. Individual coverage is typically expensive and may be hard to qualify for, so if you need to keep working, finding a job with good benefits has its advantages.

If you have funds in the Health Savings Account (HSA) through Optum Bank, this account can stay there. You do not forfeit the funds in this account. You can also roll it over to a different HSA in the future if that makes sense for your situation. Remember to name a beneficiary on your HSA account too.

Insurance planning is another important element to consider if you learn your job is being eliminated, and can be more stressful especially if you've experienced any health issues in the recent past. This is an area we are happy to help our clients navigate through, working closely with their insurance agent or one that we trust. Brightworth has a relationship with an independent health insurance consulting firm who helps our clients navigate this important decision.

#10: Investment strategy

Finally, a sound investment strategy is the cornerstone to building and preserving wealth. It should be designed to meet your specific cash flow needs, time horizon, growth requirements, tax objectives, and risk tolerance. Successful investing requires a long-term perspective and discipline to avoid making short-term emotional mistakes. Having a coordinated and comprehensive strategic asset allocation is the foundation for your entire portfolio.

When you are no longer actively employed at Coca-Cola, your health, life, and disability insurance plans need to be updated.

As an active associate of Coca-Cola, it could be that your entire investment strategy has been determined based upon the available funds in the 401(k) plan and Deferred Compensation Plan. Once employment ends, your investment strategy could transition into a portfolio 100% outside of the company's offerings. Having flexibility with your investment options is good, but can be overwhelming at first given all of the other questions you're needing to answer once you learn your job is being eliminated. You may suddenly be in a position where you are in "withdrawal mode" after spending 20 or 30 years in "accumulation mode." This requires a different investment strategy, perhaps one with more bonds, cash or alternatives. Or, you may need to live off your investments for a short period of time until you secure another job. Determining how to adjust your investment mix, what account to draw from first, and how to minimize the tax implications of each withdrawal is critical during this transition period.

Brightworth provides investment management services to our clients using sound investment disciplines with customized, innovative planning. The core of this system, our Global Investment Solution, is a portfolio of carefully selected investments designed to enhance wealth while protecting capital over the long term. Through ongoing monitoring and evaluation, periodic tactical shifts, and flexible managers, we are able to take advantage of opportunities and manage risks in the near term for
our clients.

Conclusion

Understanding the "ins and outs" of Coca-Cola's compensation and benefits plans, including severance provisions, is important to making wise decisions with the options presented to you. Our team has helped a number of Coca-Cola executives and associates through the severance process. We understand all of these details can be overwhelming at first, but rest assured, you do not need to figure this all out by yourself. Brightworth will develop a personal strategy for you to help ensure you are prepared to take full advantage of your severance package, and most importantly, have a clear understanding of the impact on your overall financial well-being.

If there is any error or inconsistency between this document and the official company plan documents, your company plan documents will govern.

Who Is Brightworth?

Brightworth is a nationally recognized, fee-only wealth management firm with offices in Atlanta, GA and Charlotte, NC. The wealth advisors at Brightworth have deep expertise across the financial disciplines, allowing us to provide ongoing, comprehensive financial advice to families across the country.

This information is provided as a guide to assist you in your financial planning. The examples are provided for illustrative purposes only and are not intended to be specific financial planning recommendations or tax advice. Please consult with a professional for specific questions regarding your particular situation.

Brightworth®

3344 Peachtree Road NE, Suite 2000 | Atlanta, Georgia 30326 | 404.760.9000

brightworth.com