CORIENT

PREPARING FOR YOUR RETIREMENT FROM THE COCA-COLA COMPANY

Financial Strategy Insights for Executives

Do you know the answers to these important questions?

- What can I do now with my The Coca-Cola Company (TCCC) compensation and benefits plans to ensure I will have enough to live comfortably in retirement?
- When is the best time to exercise my stock options?
- How much of my overall net worth should I have in TCCC common stock? Is this different while I'm working vs. retired?
- How do I properly diversify and invest my assets to protect my lifestyle during retirement?
- What payout schedule should I elect for my Deferred Compensation Plan?
- Should I choose the lump sum pension option or the monthly annuity?
- Are my Group Life Insurance, Pension Plan and 401(k) Plan beneficiary designations coordinated with my will and overall estate plan?

Corient specializes in helping busy professionals of The Coca-Cola Company build and maintain a financial strategy to address their retirement planning, college funding, investments, risk management, estate planning and philanthropic objectives. One of the most common themes we've heard when speaking with an executive or employee of TCCC who is still working can best be summed up in a quote: "I am so busy with my career and family life that I have no time to focus on my finances, let alone understand the details of how all of my Company plans work." Yet your personal finances are so critical to your future. It is the means to reach many of your life's goals such as paying for your children's college, retiring at age 60 and moving to the beach, or making a sizable contribution to your favorite charity. Achieving your financial goals is like putting together a puzzle; each piece must fit together in order to complete the whole picture. If you don't know whether the pieces of your financial puzzle fit together, we can help.

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Following are some highlights of how Corient approaches coordinating TCCC's compensation and benefits plans with a client's overall financial picture.

Puzzle Piece #1

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 TCCC common stock (in addition to your salary and bonus which covers your day-to-day living expenses). We are often asked, "How much of my net worth should I hold in a concentrated stock position?" Part of the answer depends on whether or not you have a share ownership requirement. In general, while holding many shares of TCCC common stock can create great wealth, as with any concentrated asset if the value goes in the wrong direction, this can result in unplanned lifestyle changes such as having to work longer, spending less in retirement, not having enough to pay for your child's out-of-state college expenses, etc. We typically recommend a client have enough diversified assets entering retirement 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.

With stock options, exercising first and then planning second is not the right order. Exercising options just because the stock price has recently rallied, or others in your department are "pulling the trigger" may not be the optimal plan. Since predicting future stock prices is impossible, you should run calculations or work with a professional to know at what stock price you need to exercise your options, in order to accomplish your financial goals.

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For the most part, using stock option proceeds to pay for college, save for retirement, pay off debt before retirement, or provide cash flow during the early years of retirement typically makes sense. In order to make wise decisions with your stock options, it is equally important to know what price the stock must stay above in order for you to stay financially secure, such as continuing to have enough for retirement. This bottom line price can provide peace of mind when deciding when and how much you should exercise, while not getting mentally "stuck" on whether you could have gotten one more dollar in stock price if you had just waited. Having a predetermined strategy for your stock options provides confidence and peace of mind.

For those executives on the restricted trading list, setting up a Rule 10b5-1 Stock Trading Plan during an open trading window is often a good move. It can allow you to take advantage of short- term market movements while reaching your financial goals—another reason why it is wise to run some calculations to know what stock price you need.

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 your Deferred Compensation Plan). If you have any chance of staying out of the top tax bracket when you exercise options, this also saves taxes on other parts of your financial picture such as tax on your brokerage account—dividends, interest and capital gains. 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 vs. the 22% federal tax withholding on your stock option exercises).

Furthermore, once your compensation exceeds $1 million, under current tax laws the federal withholding on stock options will be at the 37% tax rate.

If you are a Georgia resident, for example, and are thinking of moving to Florida after you retire to avoid paying state income taxes, that tax relief may not be applicable to all of your stock options. Georgia passed a law a few years ago stating that upon exercise, Georgia income taxes will be due for grants that vested from January 1, 2011 on, if you were working in Georgia during this time. Other states may have similar rules, so be sure to speak with a tax advisor to understand your state tax liabilities.

> If you intend to retire before age 60, be aware of which stock option grants you would forfeit.

For executives who intend to retire before age 60, be aware of which grants you would forfeit and what impact that has on your financial situation. Regardless of your retirement age, stock option income can cover a large portion of your cash flow needs in the early years of retirement, but since stock prices are not always predictable, your entire income plan should not consist solely of option proceeds. It is important to have a "Plan B."

Puzzle Piece #2

PSUs and RSUs

Performance Share Units (PSUs) and Restricted Stock Units (RSUs) are both a form of restricted stock. The PSUs are subject to business performance metrics over a three-year performance period. The number of shares you will ultimately receive is determined at the end of this three-year period. RSUs are not subject to business performance metrics—they will vest as long as you are employed with the company at the end of the three-year cycle (special provisions apply for severance). For each of these stock awards, the value of your final award is subject to the price Coca-Cola stock is trading at the day your stock is released to you.

Upon release the fair market value of the shares 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 or want to sell some of your released shares and set this cash aside for next April's tax return.

Remember, your holding period for capital gains tax purposes starts the day the shares are released to you and your cost basis is the fair market value on the day of the release. If you sell the shares right away, essentially no additional capital gain taxes would be due. If you sell the stock 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 3.8% Medicare surtax). Don't forget about state income taxes, too.

Holding the stock for more than 12 months (i.e. the following March), will allow any post-release date gain to be taxed at long-term capital gain rates—a top federal rate of 23.8%. For example, assume 1,000 shares are released to you in February, 2025 and the stock is trading at $68/share that day. This $68,000 will be included as compensation on your pay stub. Assume further that you wait until March, 2026 and sell the shares at $72/share. The $4 per share gain is taxed as a long-term capital gain.

Puzzle Piece #3

401(k) Plan and Supplemental 401(k) Plan

Between Stock Options, PSUs, RSUs, the 401(k) Plan and Supplemental 401(k) Plan, this is where most executives tend to accumulate large amounts of TCCC common stock. If you have run some numbers, evaluated NUA (see below), and determined that selling some of your Company stock is prudent, then diversifying inside your 401(k) Plan can be an easy and tax-efficient way to reduce your concentrated stock position. You do not pay capital gains tax when you sell Company stock inside your 401(k) Plan, but remember that selling Company stock inside your 401(k) Plan is subject to insider trading restrictions.

> For someone who has been investing in TCCC common stock in 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.

The Supplemental 401(k) Plan is different. It is funded only with Company contributions and is invested entirely in Company stock. Furthermore, you cannot sell Company stock in the Supplemental 401(k) Plan while you are working at the Company. This plan pays out to you in cash shortly following retirement or leaving the Company, so in essence it's a forced sale of Company stock. The value of this account is subject to tax the year the proceeds are distributed to you.

For someone who has been investing in TCCC common stock in 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. This strategy allows you to distribute some or all of your Company stock from your 401(k) Plan at retirement and pay long-term capital gains tax on any shares you sell. Ordinary income taxes will be due on the cost basis of the shares distributed, not on the fair market value of the shares. 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 TCCC common stock inside your 401(k) Plan.

In addition to investing in TCCC common stock, your 401(k) Plan offers a number of other investment choices which should be coordinated with your overall investment strategy. Typically the younger you are, the more equity mutual funds you should have since you are most likely in accumulation mode. As you approach retirement, adding in a few more bond or alternatives funds makes sense. Corient provides our clients with specific investment recommendations for their 401(k) Plan based upon their personal situation.

Finally, be sure you have an updated beneficiary designation on file with the plan provider, Transamerica. Since the payout and income tax ramifications of the 401(k) Plan and Supplemental 401(k) Plan are different, you may want a different beneficiary structure for each to optimize your estate plan. The key here is to make sure your beneficiary designations are properly coordinated and integrated with your overall estate plan.

Puzzle Piece #4

Deferred Compensation Plan

If you meet the eligibility requirements to participate in this non-qualified plan, you have the option to defer up to 80% of your annual base salary and 10-95% of your annual incentive award each year. This can be a powerful way to save for future goals and significantly reduce your current tax bill, especially in years you will have income from stock option exercises. Deferral elections are made in the fourth quarter during the open enrollment process along with when you'd like the money distributed to you. One of the common pitfalls we've seen with Deferred Compensation is having scattered distribution (payout) elections—some pay in a lump sum, some over five years beginning at retirement, some as scheduled distributions while you are still working, etc. In many cases with scheduled distributions, we find that executives don't actually need this money to pay out while they're still working. For example, you elected your 2025 Plan Year to pay out in 2031 when you expected to build a beach house. Perhaps you end up having other adequate assets to cover this cost, or you no longer want to have a second home. Therefore, there's no reason to take this money out of "savings" and pay taxes prematurely. But if you don't act fast enough, it may be too late to make a change.

> One of the common pitfalls we've seen with deferred compensation is having scattered payout elections.

Each year as you make a distribution election for retirement, it would make sense to have a cash flow strategy in place to know whether you should elect a lump sum, 10 year installments, etc. Without this your cash flow, especially in retirement, could be sporadic and haphazard. Perhaps you are retiring after age 60 and have enough projected stock option income for the first five years of retirement to cover your cash flow needs. If this is the case, you may not need your Deferred Compensation Plan paying out fully in those first five years.

There are a number of investment options to choose from with your Deferred Compensation Plan. TCCC common stock is not one of those options. Once again, this asset allocation should be coordinated with your overall investment game plan and rebalanced periodically. We provide our clients with specific investment recommendations based upon their unique financial situation.

Puzzle Piece #5

Pension Plan and Supplemental Pension Plan (SPP)

For many individuals pondering retirement, "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 retirement,
2. whether you are married, and
3. whether you have any other pensions or stable monthly income streams you can rely on. Figure out what percentage of your retirement income is coming from "you" (i.e. your portfolio, consulting income), vs. Social Security, vs. a company pension plan.

While the monthly pension annuity may be appropriate in some situations, it's important to consider that your purchasing power may significantly decline in retirement due to rising living costs. Therefore, you may 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, those who desire more flexibility, control over investments, and the potential to leave unused funds to heirs may want to consider the Lump Sum option. 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. You take control of your pension asset here.

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 not paid as a separate benefit.

Payments from the Supplemental Pension Plan (SPP) are different. If you separate from service on or after your earliest retirement eligible date, your SPP FAE Benefit ("Part A") will be paid out as an annuity and the Cash Balance Benefit ("Part B") is paid as a single lump sum, subject to income taxes. Payments from the SPP cannot be rolled into an IRA. When running retirement calculations, it's important to keep in mind the immediate taxation of the Cash Balance Benefit—the value shown on your statement is a before-tax number and will be reduced by income taxes upon payout.

Corient 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 in retirement is one of the largest puzzle pieces to address.

> It does not matter how sophisticated you get with your wills and trusts, all of those legal fees and time can be wasted if your beneficiary designations are not updated accordingly.

The Edge Pieces and Framing the Puzzle

We've just covered many pieces of your compensation and benefits plans that must be coordinated with your cash flow, income tax and retirement plan. Another important area of your financial planning impacted by your compensation and benefits plans is your estate plan. All employees of TCCC need a will, financial power of attorney and health care power of attorney. Many may need a trust or other more sophisticated strategies. It does not matter how fancy you get with your wills and trusts, all of those legal fees and time can be wasted if your beneficiary designations are not in line with the wishes you've laid out in your will/trusts. This includes beneficiaries for your Group Life Insurance, 401(k) Plan, Supplemental 401(k) Plan, Pension Plan, Deferred Compensation Plan, as well as assets held outside of TCCC. This is one area we rarely see people have buttoned up. And, in particular with the Supplemental Pension Plan, if you are single and you pass away while working, you must have a beneficiary on file in order for your heirs to receive a benefit.

Many associates of TCCC have the bulk of their life and disability insurance through their group coverage. It is very important that your life insurance is coordinated with your estate plan. One common question to address with your estate attorney is whether your life insurance policies should be in a trust. If the answer is yes, you must fill out the proper assignment and beneficiary change paperwork to actually transfer your group coverage into the trust. Additionally, don't assume the insurance coverage you have through work is enough. In some cases you may need to supplement your group insurance with an outside policy, or add different insurance such as long-term care, as part of your risk management plan. Next, for most associates it makes sense to elect the supplemental disability insurance coverage during open enrollment, especially if you are not financially independent yet and do need to keep working to meet your financial obligations. Corient does not sell insurance but instead, provides objective advice and analysis on this often confusing topic.

The Health Savings Account (HSA) is a good tool to take advantage of the "triple tax play" as an HSA is the only investment vehicle where it's pre-tax going in, tax-deferred while the money is in the account, and withdrawals are tax-free if used for qualified medical expenses. If you can build up this account and avoid using it for current medical expenses, this is a tax efficient strategy to help pay for higher medical expenses in retirement. There is also a list of investment options to choose from in your HSA plan which might make sense if you're trying to accumulate a large balance for retirement. Don't forget about the Company's contribution to your HSA each year—this is "free" money!

Next, we've seen many executives have insufficient liability insurance through their home/auto policies. If you were to become involved in litigation without proper protection, your balance sheet and possibly paycheck could be at risk. Have your home/auto/liability insurance plan reviewed every few years. It may save you money and more importantly, address potential gaps in your coverage.

Next, be sure to take advantage of TCCC's generous 2:1 charitable gift match. The maximum match is $20,000 per calendar year. So, if you contribute $10,000 of personal funds to a qualified charity this year, through The Coca-Cola Company Matching Gifts Program these funds can receive the maximum match of $20,000, for a total gift of $30,000! Plus, if you've held Company stock for a long time and you have a lot of built up gain in these shares, they could be great candidates for charitable giving. When stock is given to a charity, and the charity sells it, nobody pays capital gains tax on the sale.

> If you've held TCCC common stock for a long time and you have a lot of built up gain in these shares, they could be great candidates for charitable giving.

One strategy we use for many of our clients who are charitably inclined is a donor-advised fund—a sort of mini private foundation—to deposit appreciated assets into. With a donor-advised fund, you report the tax deduction in the year you deposit assets into it while being able to give out the money to qualified charities over time as you wish. Many assets can be transferred into this type of account such as stocks, mutual funds, bonds, cash, etc. The gifts out of the donor-advised fund qualify for TCCC's 2:1 match, assuming it's to a qualified charity and other provisions of the gift match rules apply. Given recent tax reform, this tool is much more valuable given itemized deduction limitations.

> Investments outside of your Company plans should be designed to complement, not contradict, the investments you have within your Company plans.

Finally, a solid 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. As such, the investments you have outside of Company plans should be designed to complement, not contradict, the investments you have within your Company plans.

At Corient, we seek to construct investment portfolios aligned to meet your goals and objectives. Our investment strategy utilizes an open architecture approach, centered on the design and implementation of globally diversified, multi-asset class portfolios that exhibit the risk and return characteristics appropriate for a client's specific situation. While no guarantee, this diversification of investments has been shown to reduce the volatility of returns, while seeking to enhance its ability to generate a "real return" (a positive return in excess of inflation) over the portfolio's time horizon. Through ongoing monitoring, evaluation, and periodic tactical shifts, 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 TCCC's compensation and benefits plans is important to making wise decisions, maximizing the options presented to you, and putting the pieces of the puzzle together into one coordinated strategy. Having a financial advisor who is knowledgeable and experienced with TCCC should provide you with more confidence and peace of mind and put you on the right path to achieving your financial goals.

Corient At-a-Glance

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