ESTEEM WEALTH partners

NORTHWESTERN MUTUAL PRIVATE CLIENT GROUP

P&G Executive Wealth Planning Case Study

ESTEEM WEALTH partners

118 years of experience

6 CERTIFIED FINANCIAL PLANNER™ (CFP®) professionals with extensive investment and insurance expertise

From the moment you connect with our team, we are committed to helping you achieve your financial and life goals. Just like life, your financial plan is ever changing. At Esteem Wealth Partners, our goal is to serve at the center of your financial world, giving you the peace of mind to focus on the things that matter most.

Strength and stability you can count on:

A++

AAA, Aaa, and AA+ maintaining the highest financial strength ratings of any life insurer from all major rating agencies during the pandemic[1]

Top 5

ranked among the top U.S. Independent Broker-Dealers[2]

160+

years strong through depressions, downturns, two world wars, and pandemics

[1] Among U.S. life insurers. Ratings are for The Northwestern Mutual Life Insurance Company and Northwestern Long Term Care Insurance Company, as of the most recent review and report by each rating agency. Ratings as of: 12/20 (Moody's Investors Service), 04/20 (A.M. Best Company), 08/20 (Fitch Ratings), 06/20 (S&P Global Ratings). Ratings are subject to change.

[2] Ranking for Northwestern Mutual Investment Services, LLC. Sources: Financial Advisor magazine and InvestmentNews, May 2020.

COMPREHENSIVE FINANCIAL PLANNING THROUGHOUT YOUR P&G CAREER

Esteem Wealth Partners has helped over 1,000 Procter & Gamble executives with their planning throughout the years. The following is a hypothetical example of one of our long-term P&G clients, who we will call "Sally." This example illustrates our team's success in helping P&G clients navigate financial decisions during their careers and into retirement. The personal financial needs and results of the clients shown in this report may not be representative of the experience of other clients. Also, working with a Northwestern Mutual financial representative or any other financial services provider is not a guarantee as to future investment success.

- Benefit Selection
- 401(k) Selection

- STAR Awards
- LTIP
- Bonuses
- Exercise Options
- Tax Planning*

- PST (NUA) Distributions
- Diversifying P&G Stock
- Charitable Giving Strategies
- Estate Planning
- Tax Bracket Management*

WE SPECIALIZE IN:

- **Tax**
- **Financial planning**
- **Insurance**
- **Investment**
- **Estate**

*Financial Representatives do not render tax advice. Consult with a tax professional for tax advice that is specific to your situation.

GETTING STARTED

GOALS, EDUCATION, & RETIREMENT ANALYSIS

Early in Sally's career, she was introduced to our firm by an existing client based on our expertise and experience working with P&G employees. Sally was interested in financial planning and investing for both college education and retirement. At the outset, our team ran a college and retirement analysis to give her a frame of reference of what it would take to achieve her goals. Ongoing in our relationship, we updated her college and retirement analysis every time we met to let her know where she stood. We have found that our clients consistently seeing the progress towards their goals is one of the most impactful things we do.

"We are drowning in information, while starving for wisdom." *— E.O. Smith*

BENEFITS ENROLLMENT PERIOD

Initially, we reviewed Sally's P&G benefits. Based on our experience, we illustrated the strengths and weaknesses of her available company benefits and provided insights on the PST and Savings Plan investment options. We provided ideas on cheaper and higher quality supplemental disability. In her case, Sally found it to be a better solution than using the supplemental disability offering in the P&G plan. Every October and on a regular ongoing basis we were available to meet and discuss potential changes to her group benefits.

When a Roth option was added to the Savings Plan, we illustrated that although the Roth option required paying tax at the time of contribution, distributions of long-term growth would be tax-free and provide opportunities for managing her tax bracket in retirement years. Given these advantages, we illustrated how many of our clients chose to allocate new Savings Plan contributions to the Roth option.

In addition to planning for retirement, we also recommended establishing an emergency fund and a near-term savings strategy for major purchases, allowing her to buy her first house. These resources also allowed flexibility in selecting options as her career progressed.

CLIMBING THE LADDER

“The best way to predict the future is to create it.” — Abraham Lincoln

COMPENSATION PACKAGES – STAR AWARD, LTIP & BONUSES

As Sally progressed to Bands 3 and 4 in her career, she relied upon our guidance in navigating the compensation packages, such as STAR Awards and the LTIP. After receiving the required cash in year one for her STAR Award, we worked with her on a yearly basis to determine the best choice of options or cash depending on the circumstances.

Within the LTIP plan, we similarly illustrated the benefits of selecting either stock options or RSUs based on current circumstances and outlook throughout Sally’s career. We illustrated that given Sally’s expected career length, her increasing financial security, and lack of near-term cash flow needs, the long-term growth potential of options outweighed the higher certainty of RSUs in her situation. We strive to get our clients to a full 10-year block of options, as we find this to be a powerful tool in achieving long-term financial success. In situations with children close to college age, RSUs may also be attractive due to cash flow.

EXERCISING YOUR STOCK OPTIONS — OPTIMIZATION STRATEGIES

By using multiple valuation methods, such as In-the Money (ITM) Value, Cash-Out Value, Black-Scholes/Time Values, and Forfeit Value, we were able to gain insight if the option had captured its maximum value.

- Stock Option Valuation
- Company Stock Holdings
- Investment Risk/Reward
- Financial Analysis & Ratios
- Personal Circumstances
- Tax Implications

OPTION ANALYSIS

GRANT ID	GRANT TYPE	EXPIRE DATE	EXERCISE PRICE	VESTED ITMV $	VESTED TV $	VaR VALUE	VaR RATIO	VESTED FOV $	INSIGHT RATIO
NQ 2/26/10	NQSO	2/26/2020	$60.28	$245,555	$2,805	$39,027	7.19%	$248,361	1.13%
NQ 2/28/11	NQSO	2/28/2021	$63.05	$409,180	$15,598	$64,789	24.07%	$424,778	3.67%
NQ 2/29/12	NQSO	2/28/2022	$67.52	$251,206	$18,730	$42,898	43.66%	$269,937	6.94%
NQ 2/28/13	NQSO	2/28/2023	$76.18	$200,597	$28,996	$40,398	71.78%	$229,593	12.63%
NQ 2/28/14	NQSO	2/28/2024	$78.66	$315,127	$65,041	$66,899	97.22%	$380,168	17.11%
NQ 2/28	NQSO	2/28/2025	$85.13	$252,248	$83,580	$62,358	134.03%	$335,828	24.89%
	NQSO	9/15/2025	$69.45	$25,914	$5,036	$4,581	109.93%	$30,950	16.27%
	NQSO	2/28/2026	$80.29	$331,703	$104,874	$73,016	143.63%	$436,578	24.02%
	NQSO	2/28/2027	$91.07	$ –	$ –	$ –	1000.00%	$ –	100.00%
				$2,031,532	$324,660	$393,966		$2,356,192	

Based on these metrics and outlook for the stock and overall market, we were able to provide guidance regarding a good time to exercise her options. Based on our analysis, Sally exercised at well-timed opportunities, maximizing the value of her stock option grants. At retirement, Sally continued to have a substantial portion of non-qualified stock options she could exercise over time to acquire P & G stock, and then be able to sell these blocks of P & G stock to produce her needed cash flow over a 10 year time frame. We continue to provide ongoing guidance across her portfolio.

Sally and our team engaged in multi-year planning in order to structure the exercise timing in the most tax efficient manner resulting in significant tax savings.

PREPARING FOR COLLEGE AND/OR PRIVATE SCHOOL TUITION

In addition to career related financial planning, we assisted Sally during her career in saving for her child's college education. Early on, we calculated the expected tuition at several public and private schools selected by her in order to show the necessary monthly contributions to fully fund a four-year degree based on expected tuition increases and inflation.

Based on the monthly goal and current cash flow, we established an Ohio-based 529 Plan with automatic monthly contributions. As an Ohio resident, this structure allowed Sally to take a state income tax deduction, strategically invest the money for the long-term, and withdraw the money tax-free for qualified college related expenses. To avoid overfunding the 529 Plan as college approached, we also coordinated contributions to her managed investment account to complement the 529 Plan assets. We also analyzed her stock option exercising strategy based on her college years' cash flow needs. As a result of the 529 Plan savings and option planning strategy, Sally funded her child's education in a tax and cost-effective manner.

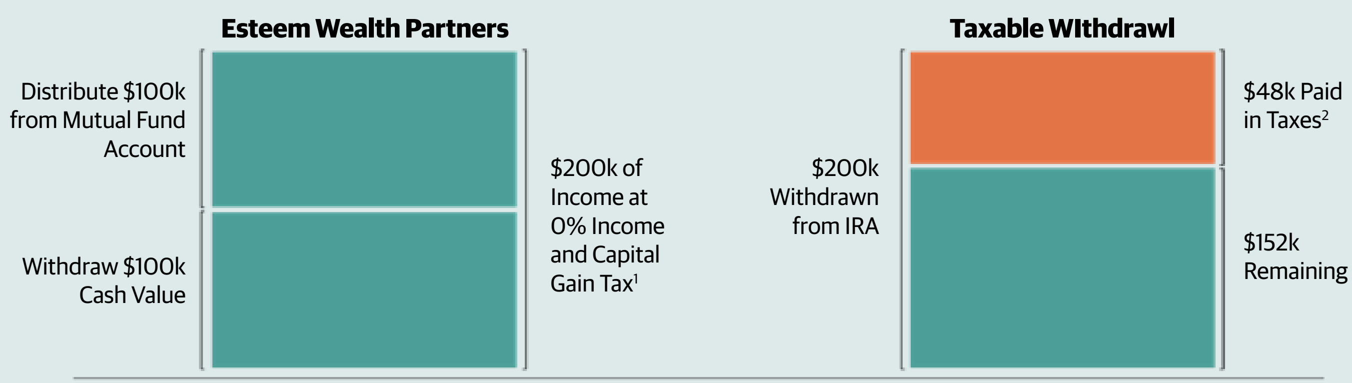
INSURANCE PLANNING STRATEGIES

Given Sally's compensation and need to protect her family, we worked with her to determine the correct amount of life insurance and disability income protection. Early on, we illustrated more competitive options within disability coverage. We also informed Sally on the advantages and disadvantages of term and permanent life insurance.

Based on our insurance expertise, we helped Sally implement an effective long-term strategy utilizing insurance to provide protection for her family, while building cash value over the long-term. By funding the policies with additional premium, Sally was able to fully capitalize on the tax efficient growth and dividends within the policy. Given the strength of this strategy and Sally's growing compensation, additional allocations over time enabled Sally to build considerable cash value, providing growth through non-guaranteed dividends and a liquid asset to complement her investment portfolio. While not guaranteed, the stability and consistent dividends of the cash value for this time period were especially beneficial during the financial crisis in 2008. We consider the cash value as a major component of her safer dollars. This allows us to be more aggressive with the remaining investment portfolio.

Once in retirement, Sally's substantial cash value provides a powerful tool in managing her tax bracket, resulting in significant tax savings and lower distributions from tax-qualified accounts. In Sally's situation, she retired in her late 50s and for 8 years lived off the earnings she received from selling off blocks of P&G stock that she had acquired from non-qualified stock option grants in her working years.. From age 65 until 72, she spent a combination of life insurance cash values1 and taxable mutual funds, creating 0% tax. In addition to tax savings, tax bracket management has produced other substantial advantages, such as lower Social Security tax and Medicare premiums.

At age 72, when Required Minimum Distributions from retirement accounts began, she distributed from a combination of IRAs, non-qualified accounts, and life insurance cash values. In certain years, she utilized the qualified charitable distribution rules and gave her RMDs directly to charity to report no income and there again managed her tax bracket.



[1]Utilizing the cash value through policy loans, surrenders, or cash withdrawals will reduce the death benefit; and may necessitate greater outlay than anticipated and/or result in an unexpected taxable event. Assumes a non-Modified Endowment Contract (MEC).

[2]FIFO accounting treatment allows withdrawal of basis of life insurance cash value to be taken out tax-free. With zero reportable taxable income in 2021, she was able to report 0% capital gains up to $104k.

[3]Tax calculation based on withdrawals after age 59½ at 24% federal tax rate and 5% state income tax rate. State and local tax treatment will vary.

TRANSITION TO "WHAT'S NEXT"

PROFIT SHARING TRUST (PST)

As Sally approached retirement, we began the process of preparing her for critical decisions regarding her PST assets. This included reviewing the advantages of various choices including staying in the Plan (Retirement Plus), taking a distribution by rolling the assets over into an IRA, or utilizing the Net Unrealized Appreciation (NUA) distribution method. Our team discussed the advantages and disadvantages of each strategy, including the PST structure and the preferred shares being great candidates for the NUA distribution method given the low-cost basis and ability to defer taxes on unrealized gains.

By illustrating the tax savings of the NUA approach and assisting in the timing and planning of her PST distributions, Sally was able to significantly reduce her tax liability by converting the tax from ordinary income rates to capital gains rates, thereby preserving a larger amount of her PST dollars for retirement income.

Our team also introduced the strategy of donating a portion of the preferred shares to her Donor Advised Fund,thereby allowing Sally to capture the full current market value of the preferred shares as a current year tax deduction, while eliminated the considerable capital gains tax on the preferred shares given their low $6.84 cost basis. Using this approach, Sally was able to fund her anticipated charitable donations for pennies on the dollar of what she would have paid out of pocket to make the same donations in cash. This is an example of our team leveraging planning strategies to maximize the value of Sally's retirement dollars.

	Using NUA	**Using NUA**	**Not Using NUA**
	Tax paid with outside assets	Tax paid with stock	IRA Rollover
Assumptions before distribution			
Value of employer stock	$625,563	$625,563	$625,563
Cost basis	$46,902	$46,902	$46,902
Net unrealized appreciation (NUA)	$578,661	$578,661	$578,661
Future account value before taxes			
Available to invest after distribution (value of employer stock minus total taxes on distributions)	$625,563	$607,591	$625,563
Years in the analysis	1	1	1
Assumed growth rate of account	7.00%	7.00%	7.00%
Future account value before taxes	$669,532	$650,123	$669,352
Initial distribution of stock			
Ordinary taxes on qualified plan distribution	($15,478)	($15,478)	n/a
Penalty taxes on qualified plan distribution	$0	$0	n/a
Tax on immediate sale of employer stock	n/a	($2,494)	n/a
Total taxes on distribution(s)	($15,478)	($17,972)	$0
Future account value after taxes			
Future account value before taxes	$669,352	$650,123	$669,352
Future ordinary income taxes at final sale	$0	$0	($187,419)
Future capital gains taxes at final sale	($93,368)	($90,685)	n/a
Opportunity cost of outside source of funds used to pay taxes	$0	$16,258	$16,258
Future account value after taxes	**$575,984**	**$575,696**	**$498,192**
Increase in wealth due to NUA treatment	**$77,793**	**$77,504**	

ADVISING ON TAX EFFICIENT CHARITABLE GIVING — DONOR ADVISED FUNDS

In order to minimize taxes and optimize her charitable giving, we established a personal Donor Advised Fund ("DAF") for Sally. This enabled Sally to transfer investments to the DAF, such as preferred shares as part of the NUA transaction at retirement and other highly-appreciated assets, thereby avoiding capital gains tax on the appreciation and allowing a full deduction for the contribution. This strategy enabled Sally to consolidate multiple years' worth of giving to coincide with high taxable years such as years with large or multiple option exercises. In the highest taxable year's leading into retirement, Sally consolidated 10-years' worth of anticipated giving through contributions to the DAF. Effectively, this strategy enabled Sally to reduce taxes in her highest tax bracket years, while allowing distributions in lower taxable retirement years.

Once established, Sally immediately used her DAF to make grants to her favorite charity and retained our firm to professionally manage the remainder of the DAF. The DAF is now available for future charitable gifts, eliminating the need to allocate from her retirement income. The DAF can also receive additional tax-deductible charitable contributions and has grown through a diversified investment strategy.

Donor Advised Fund Illustration

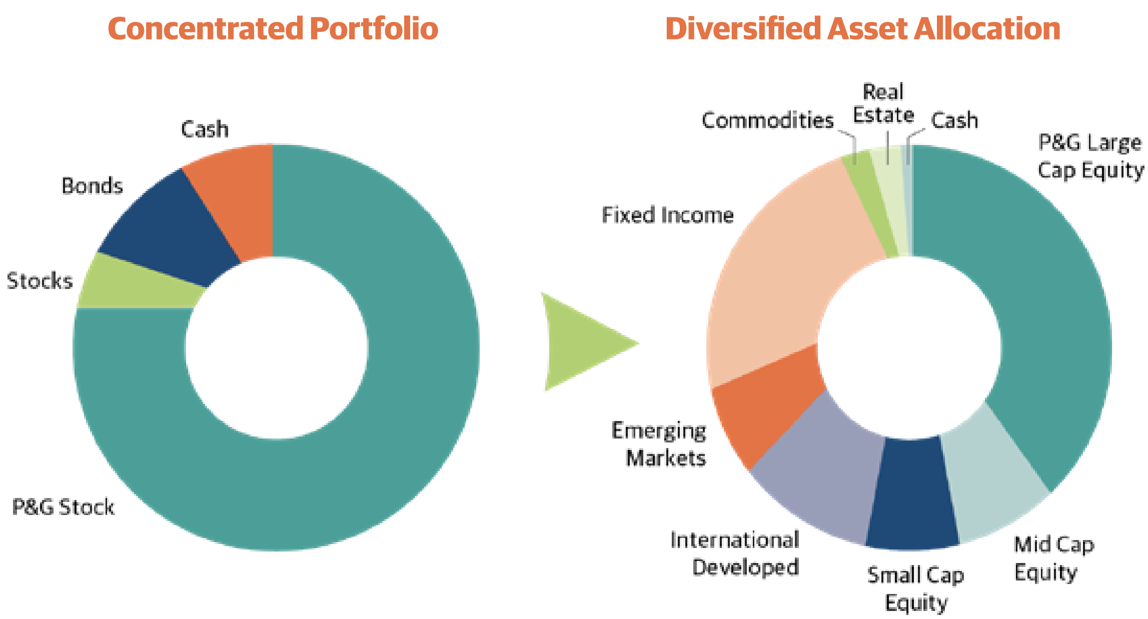
- Deductible in Year Made
- Additional Contributions can be made over time
- Gift highly appreciated assets eliminating capital gains that would have been made at sale

- Holds assets until distributed
- Can receive additional contributions
- Can now be invested in a diversified portfolio
- Must go to qualified charities when distributed

- Donations can be made in Year 1 or subsequent years
- No requirement to distribute every year
- Donations can be made to one or multiple charities over time

DIVERSIFIED INVESTMENT PORTFOLIO MANAGEMENT

Early on, we worked with Sally in setting up a plan and accounts for medium and long-term investments. By establishing an individual account in addition to retirement plan assets, she was able to accumulate wealth and invest in attractive asset classes and securities outside of her P&G stock, thereby avoiding an overly concentrated portfolio. By taking a holistic approach to her financial planning, we coordinate her investment strategy across her entire financial portfolio, finding complementary investments opportunistically allocated within taxable and tax-deferred accounts. As the cash value of her life insurance grew, we considered the stability and dividend component in structuring her overall asset allocation to fixed income. After the substantial decline in interest rates, this has proven effective given the higher policy dividends relative to low yields and interest rate risk within fixed income.



Sally relies on our ongoing investment recommendations utilizing the deep resources of our organization and top-tier investment capabilities targeted to her personal objectives and goals. By taking a long-term view, our team has also optimized the performance of her portfolio by maximizing tax efficiency, utilizing tax efficient investment vehicles such as ETFs and tax harvesting strategies.

The art is not in making money, but in keeping it. *— Proverb*

ALTERNATIVE INVESTMENTS

More recently, our team introduced Sally to alternative investment opportunities, including private equity to further diversify and enhance her portfolio. Sally's tolerance for illiquid investments combined with her status as a Qualified Purchaser* made her a good candidate for such product offerings. Our clients have access to top-tier alternative investment vehicles within private equity, private credit, private real estate, and hedge funds. Leveraging our parent company's extensive network and relationships provides access to top-tier alternative investment management opportunities.

*An individual or family-owned business not formed for the specific purpose of acquiring the interest in the fund that owns $5 million or more in investments.

iCapital NETWORK

CAIS

"After climbing the mountain, you can finally enjoy the view." — *Unknown*

POST RETIREMENT SELF-EMPLOYED TAX CONSIDERATIONS

After retiring, Sally was recently retained on a consulting basis based on her extensive experience. The consulting arrangement involves 1099 income, which is a new compensation structure for Sally. We shared our observations on issues related to self-employment income taxes and quarterly estimated tax payments and referred Sally to a tax professional. Additionally, we highlighted the availability of retirement accounts only available to self-employed individuals.

As a result, Sally is prepared for estimated tax filings, has a cash flow strategy for her new income, and can contribute up to a max of 25% of her income to a maximum of $58,000 (indexed for 2021) into a SEP IRA.

EFFECTIVELY MANAGING DISTRIBUTIONS & TAX BRACKET STRATEGIES IN RETIREMENT

"The best things in life are free, but sooner or later the government will find a way to tax them." *— Anonymous*

Early in the planning process we recommended utilizing the employer's Roth 401(k) option when it became available and building cash value within a whole life insurance policy. As a result, Sally now has opportunities to more effectively manage her tax bracket by taking distributions opportunistically from various accounts due to differing tax treatment. As shown in the earlier graph, our focus is to create as much tax favored assets as possible. As a result, we have some clients paying 0% tax on withdrawals in retirement.

The early adoption of this strategy now enables Sally to capitalize on the advance planning illustrated by our team. By coordinating withdrawals of tax-free dollars and taxable distributions, Sally also withdraws less from her qualified accounts in order to meet her post-tax income requirements, thereby preserving her retirement assets longer.

Having access to tax-free dollars is a powerful tool in providing pre-retirement liquidity and managing distributions and tax bracket in retirement. This also has a cascade effect, whereby a lower tax bracket can provide additional favorable treatment in areas such as capital gains taxes on investments, Medicare premiums, and Social Security benefits. Advance planning in this area unlocked substantial benefits in later years for our client.

It is important to note that to obtain these advantages, an individual needs to start the planning process as early as possible.

ESTATE PLANNING CONSIDERATIONS

Early on in our relationship, we worked with Sally in finding an attorney to set-up an initial will. Over time and with life changes, we provided guidance in keeping beneficiaries and wills up to date and to create a revocable trust for her minor child. This enabled her to work with her attorney to ensure her family was fully prepared in the event of her untimely death. Additionally, we coordinated her financial planning strategy and proactively kept her attorney up-to-date on issues during her career progression.

We also helped Sally set-up a Power of Attorney for her husband to access certain assets in the event of her incapacity and advised them regarding medical considerations due to concerns over COVID. In addition to the taxable benefits of the cash value, we illustrated the value of her insurance death benefit and our ability to immediately facilitate payment in the event of death.

As a result, her family has the peace of mind of knowing they are taken care of and have immediate access to accounts, resources, and a team to assist them. After experiencing firsthand the difficulties in the untimely death of a relative, Sally is grateful for the advance advice and "first-call" strategy we proposed so they have an immediate plan in the event of an unforeseen death or incapacitation.

"Philosophy teaches a man that he can't take it with him; taxes teach him he can't leave it behind either."
— Mignon McLaughlin

ESTEEM WEALTH partners

"We serve at the center of our clients' financial lives, creating peace of mind and freedom to pursue their passions and accomplish their life's goals."

The primary purpose of permanent life insurance is to provide a death benefit. Using permanent life insurance accumulated value to supplement retirement income will reduce the death benefit and may affect other aspects of the policy.

Stocks/Equities have greater potential for gains as well as greater potential for loss than bonds/fixed income investments. All investments carry some level of risk including the potential loss of all money invested. No investment strategy can guarantee a profit or protect against a loss. Past performance is no guarantee of future performance.

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Alternative investments are illiquid and generally subject to longer holding periods.

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