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Instructions for Severance Worksheet **(for point system ER calculations)**

The *GILLETTE COMPANY SEVERANCE PLAN FOR EXEMPT EMPLOYEES* provides a severance package of up to 94 weeks of pay in the event of a “Change of Control.” Employees who receive this package used to have the option to take the severance as weekly pay, (in which case they can continue to receive active employee Benefits) or as a Lump Sum. Beginning in 2006, Severance Pay can no longer be taken as a Lump Sum. This eliminates the possibility of altering the flow of payments in order to minimize Income Taxes. Severance Pay taken after January 1, 2006 can only be taken as weekly pay.

Irrespective of this Severance Pay, a retiree eligible for an Early Retirement Pension can begin to receive payments at any time. This raises the question of exactly when is the best time to start your Pension. Since Pension payments are monthly income for life, with no residual, Pension payments foregone will be forever lost. However, the Employee will receive Age and Service credits towards a larger Pension, during the period of waiting. (Some employees qualify for ER Pensions by age, and not points. This worksheet is not designed to analyze AGE based ER Pension decisions) The purpose of this worksheet is to get an idea how long it will take to get paid back for this foregone Pension through receiving larger payments in the future.

What do I need to know?

At the top of the worksheet are boxes with the information you will need. This includes your Release Date, the Pension you would receive if you started it right away, and estimate of any Unemployment Compensation you may get.

There is a box for the difference in Medical Insurance costs. This would apply if you were required to start your Retiree Medical at the same time as your Pension. Although Gillette pays for your Retiree Medical for some period of time after retirement, you subsequently pay for the entire premium from your Medical ESOP and your Pension check. Therefore, staying on active Medical delays the start of these withdrawals and saves these funds for you. If you can stay on the active Medical Insurance after you begin your Pension payments, this “offset” doesn’t apply.

Unemployment Insurance was collected by prior Early Retirees, but this time it will depend on Proctor and Gamble's position with the DUA. It would be advisable to get a reading on the position they will take in this instance. Regardless, once your Pension begins, Unemployment will cease. DUA will be able to give you an estimate of your weekly payment, but in most cases, it will be limited to the maximum of \$528. (For information on Massachusetts Unemployment Insurance, please see the link to DETMA on our "Helpful Links" page)

The most difficult part of the analysis had to do with figuring the tax effects taking a lump sum for part of your Severance. With the elimination of the "Lump Sum" option for any part of your Severance Pay, beginning in 2006, these calculations are meaningless. Severance cannot be lumped into one year or the other.

What are the "EVENTS?"

The analysis you will be doing hinges around specific dates. You should know what your Pension will be on your release date. Thereafter, your Pension will increase in one of two ways. If you qualify for Early Retirement based on 80 points, you will get a point for your Birthday and another point on or about the next April 1st. (This corresponds to 500 hours, and another year of service) These points determine the additional credit you receive towards bigger Pension payments at a rate of about 1.5% each, according to the early retirement discounts in the Gillette Retirement Plan.

If you qualify for Early Retirement based on Age 55 and 10 years of service, your Pension will increase at a rate of 3% per year, in monthly increments.

What do I do?

First, determine what your Pension is on your Release Date, and calculate what it will be as of your next Birthday and April 1st.

Then, identify the next "EVENT", let's say it's your Birthday, and write that above the first EVENT column. Going down the column, enter the total lost pension (monthly payment times the number of months you are delaying starting your Pension in order to receive weekly Severance until your next Birthday). Then, offset these losses by 4.33 weeks of Unemployment for each month of delay (if you determine you will get it. Then deduct the difference between what you pay for Active Medical Insurance, vs. the entire Premium for Retiree Medical, (if you're force to start Retiree Medical) for the months you delay. This is your total cost of waiting.

Plug in the additional Pension you will have earned for a total additional monthly benefit. Divide into the cost of waiting, and you will have an idea of how long it will take before you break even.

If this Break Even period is acceptable to you, go on to the next event. (For example; next April 1st) Repeat the process, and see what the next break even period is. At some

point, the cost of delaying your Pension payments will be too high to recover in a reasonable period of time, and that's when you opt for to start the Pension.

What's next?

Once you decide, it's time to minimize your taxes by maximizing your Match, decide what to do with your Company Stock and your stock options, and set up your Pension withholding. Finally, you must address Investment Risk and Return of your Savings Account, and establish your Retirement Income Strategy, Estate Plans and review your Life and Long Term Care Insurance. We will be doing an example of The Severance Worksheet, and discussing some of these other issues at our upcoming seminar series for Gillette Early Retirees. Check back, e-mail us, or give us a call to get on the list.

- These worksheets alone do not constitute a complete Financial Plan. Please consider all aspects of your situation with competent tax, financial and legal counsel before making any decision to leave employment. Polaris Advisors, LLC is not responsible for any use or misuse of these tools by persons who have not contracted with Polaris Advisors, LLC for Financial Planning Services.