PART FOUR: ISSUES RELATING TO COMPENSATION

I. INTRODUCTION TO COMPENSATION-RELATED ISSUES

A. Overview of Issues Relating to Compensation

In general

The compensation arrangements of Enron have received considerable media attention in the aftermath of the Enron bankruptcy.

Some of this attention has focused on the broad-based retirement plans maintained by Enron that receive special tax benefits ("qualified retirement plans"). The decline of Enron's stock price and Enron's subsequent bankruptcy has affected the benefits that Enron employees are or may be entitled to under the Enron qualified retirement plans. Much of the media attention regarding the effect of the bankruptcy on employees' benefits relates to the significant plan holdings in Enron stock, particularly in the Enron ESOP and the Enron Savings Plan.[1179] For many Enron employees, the benefits provided under the Enron qualified retirement plans may have been the individual's primary source of retirement income.

Attention has also focused on the overall compensation arrangements of Enron, particularly the magnitude and forms of compensation provided to executives. This Part Four addresses both of these aspects of Enron's compensation arrangements. Issues relating to the qualified retirement plans are discussed first.[1180]

Enron qualified plans

During the period covered by the Joint Committee staff review, Enron maintained three main qualified retirement plans: the Enron Corp. Employee Stock Ownership Plan (the "Enron ESOP"); the Enron Corp. Retirement Plan (the "Enron Retirement Plan"), which was modified and renamed the Enron Corp. Cash Balance Plan (the "Enron Cash Balance Plan"); and the Enron Corp. Savings Plan (the "Enron Savings Plan").

The discussion relating to Enron qualified retirement plans begins with an overview of present law relating to qualified retirement plans generally, with particular attention paid to the rules relating to the types of qualified retirement plans maintained by Enron.[1181] This is followed

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[1179] Enron stock represented 62 percent of Savings Plan at the end of 2000. 2000 SEC Form 11-K of the Enron Savings Plan.

[1180] Qualified retirement plan issues are discussed in Part II, and other compensation-related issues are discussed in Part III of this Part Four.

[1181] *See* Part II.A., below. All cross references within this Part Four refer to this Part Four unless otherwise indicated.

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by a description of each of the qualified retirement plans maintained by Enron, both currently and historically.[1182]

Certain specific issues relating to the qualified plans, and their impact on retirement benefits of Enron employees are addressed in detail, including a description of relevant present law, factual background, and a discussion of tax and other issues. The specific qualified plan issues addressed in this manner are: (1) the phase out of the ESOP offset under the Enron Retirement Plan; (2) the conversion of the Enron Retirement Plan into the Enron Cash Balance Plan; (3) investment of the ESOP in Enron stock; (4) a change in recordkeeper under the Enron Savings Plan shortly before the bankruptcy that resulted in a blackout period during which investment changes could not be made, including selling Enron stock; (5) investments under the Enron Savings Plan; and (6) a claim made by a former Enron employee that benefit funds were allegedly misused by Enron.[1183]

Other compensation-related issues

Part III of this Part Four discusses Enron's general compensation structure and arrangements. The section begins with a general overview of compensation of Enron, including philosophies and tools used in determining how compensation for Enron employees would be structured.[1184] This is followed with an overview of executive compensation, including a general discussion of Enron's executive compensation structure and philosophy, as well as a description of particular executive compensation arrangements.[1185] The principal forms of compensation used by Enron are discussed in detail.

The section concludes with a detailed analysis of certain compensation arrangements, including a description of present law, factual background, and a discussion of issues. These issues were chosen for discussion based on a variety of factors, including the prevalence of use of the arrangement, the media and other attention the arrangement has received, and potential tax issues. The matters addressed in this manner are: (1) Enron's nonqualified deferred compensation arrangements; (2) stock-based compensation (3) employee loans; (4) the purchase by Enron of annuity contracts from Kenneth L. Lay and his wife; (5) split-dollar life insurance arrangements; and (6) the application of the $1 million limitation on the employer deduction for certain executive compensation.[1186]

[1182] *See* Part II.B., below.

[1183] *See* Part II.C., below.

[1184] *See* Part III.A., below.

[1185] *See* Part III.B., below.

[1186] *See* Part III.C., below.