

# *United States Senate Committee on Finance*

For Immediate Release

Wednesday, Oct. 18, 2006

## Grassley, Baucus Press for Details of UnitedHealth CEO's Exit Compensation Package Amid Stock Options Backdating Scandal

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, today asked the UnitedHealth Group a series of questions to gauge the appropriateness of a reported \$1.1 billion exit compensation package for the company's chief executive officer amid allegations of a stock options backdating scandal.

“You can't pick up a newspaper these days without reading about corporate stock options backdating,” Grassley said. “The UnitedHealth situation is the most disturbing yet. The news reports make it sound like the CEO had the board of directors over a barrel and helped himself to whatever he could get, even with the taint of stock options backdating allegations against him. I want to know how a top executive can lose his job for allegedly defrauding his company's own investors, but still get rewarded with a billion dollars for doing it. Congress has a duty to the taxpayers to find out what happened at UnitedHealth, and figure out what to do to stop this flood of backdating scandals.”

Baucus said, “It's unfortunate that some of our nation's executives appear to be gaming the law to avoid paying their fair share of taxes on stock options and other benefits. Just as in the Enron case, we need to understand how and why abuses may have occurred, in order to craft responsible legislation and slow this trend.”

In September, the committee convened a hearing to hear from the Justice Department, the Securities and Exchange Commission, and the Internal Revenue Service about how they are responding to stock options backdating and what Congress can do to aid their efforts. The hearing also featured testimony from experts on whether the federal tax treatment of executive compensation is working as intended to discourage excessive executive compensation.

The text of the Grassley-Baucus letter to UnitedHealth Group officials follows here. The same letter went to three different officials.

October 18, 2006

Mr. James A. Johnson  
Chairman, Compensation and Human Resources Committee  
ATTN: Janis Leafgren  
UnitedHealth Group  
9900 Bren Road East  
Mail Stop MN008-T010  
Minnetonka, MN 55343

Dear Mr. Johnson:

We would like assistance from you in providing information to us and our staff regarding the facts and circumstances of the recent departure of Dr. William McGuire, UnitedHealth's former CEO and Chairman. We are concerned by recent press reports that Dr. McGuire may have received a compensation package upon his separation of approximately \$1.1 billion in spite of allegations that he had been actively involved and benefited from an options backdating scheme at UnitedHealth.

Various forms of compensation are provided favorable treatment under the tax code, including stock options, deferred compensation arrangements, and health care and other employee benefits. As Chairman and Ranking Member of the Finance Committee, it is our responsibility to oversee these compensation programs and our federal tax and benefits laws related thereto. To assist the Finance Committee in its review of Dr. McGuire's compensation and actions of UnitedHealth employees, its board members, and outside parties, we request the following:

- a. Provide copies of Dr. McGuire's employment contract, deferred compensation and severance plans and any other compensation arrangements, including expense reimbursements.
- b. Provide all material, discussion, legal opinions, compensation studies and analysis or other related items used by the UnitedHealth board, compensation committee or other relevant governing body when making its decisions regarding Dr. McGuire's employment contract, deferred compensation and severance plans and any other compensation arrangements, including expense reimbursements and any "gross-ups" paid to Dr. McGuire for federal or State and local taxes owed by Dr. McGuire. Provide all material with respect to these items, including but not limited to copies of minutes of meetings from UnitedHealth's board, compensation committee or other relevant governing body as well as resolutions or written actions regarding such transactions. Provide a copy of any settlement agreement or release of claims entered into with Dr. McGuire and explain how any amounts paid under such agreement were determined.
- c. Provide a list of any and all employee benefits which Dr. McGuire will continue to receive and company property or resources to which Dr. McGuire will continue to have access.
- d. Identify consultants, accountants, lawyers and or other outside advisors used with respect to the items requested in "a" and "b" above, and include names, addresses and total fees paid.
- e. Provide copies of any conflicts of interest or similar policies. Explain whether such policies were followed and enforced with respect to Dr. McGuire. Please explain what, if any, changes to these policies United Health is considering.
- f. Explain what steps are being taken to remedy the various failures to maintain "[a]n appropriate tone at the top, adequate controls and discipline over the options granting process, and management transparency with the Board and its committees on executive compensation matters" as detailed in the *Report of Wilmer Cutler Pickering Hale and Dorr to the Special Committee of the Board of Directors of United Health Group, Inc.*.
- g. Provide the amount of federal tax deductions claimed by UnitedHealth with respect to

compensation paid to Dr. McGuire since 1994. Provide the amount of such deductible compensation that has been “performance-based” and what criteria or metrics were used to determine if compensation was deemed “performance-based.”

h. Provide a description of all non-qualified deferred compensation arrangements sponsored by UnitedHealth and who is covered by such arrangements. Provide a description of all qualified retirement plans and who is covered by such plans.

i. Explain how UnitedHealth and its board has complied with its State law fiduciary duties in its actions regarding the hiring, retention, compensation of, and termination of Dr. McGuire.

Thank you for your time and assistance. Please provide the answers to these questions by November 9, 2006.

Sincerely,

Charles E. Grassley Max Baucus  
Chairman Ranking Member

CC: The Honorable Alberto R. Gonzales, U.S. Department of Justice  
The Honorable Mark Everson, Internal Revenue Service  
The Honorable Christopher Cox, U.S. Securities and Exchange Commission

October 18, 2006

Mr. Stephen J. Hemsley  
President and Chief Operating Officer  
ATTN: Janis Leafgren  
UnitedHealth Group  
9900 Bren Road East  
Mail Stop MN008-T010  
Minnetonka, MN 55343

Dear Mr. Hemsley:

We would like assistance from you in providing information to us and our staff regarding the facts and circumstances of the recent departure of Dr. William McGuire, UnitedHealth’s former CEO and Chairman. We are concerned by recent press reports that Dr. McGuire may have received a compensation package upon his separation of approximately \$1.1 billion in spite of allegations that he had been actively involved and benefited from an options backdating scheme at UnitedHealth.

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- c. Provide a list of any and all employee benefits which Dr. McGuire will continue to receive and company property or resources to which Dr. McGuire will continue to have access.
- d. Identify consultants, accountants, lawyers and or other outside advisors used with respect to the items requested in "a" and "b" above, and include names, addresses and total fees paid.
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Chairman

Max Baucus  
Ranking Member

CC: The Honorable Alberto R. Gonzales, U.S. Department of Justice  
The Honorable Mark Everson, Internal Revenue Service  
The Honorable Christopher Cox, U.S. Securities and Exchange Commission

October 18, 2006

Mr. Richard T. Burke  
Non-executive Chairman  
ATTN: Janis Leafgren  
UnitedHealth Group  
9900 Bren Road East  
Mail Stop MN008-T010  
Minnetonka, MN 55343

Dear Mr. Burke:

We would like assistance from you in providing information to us and our staff regarding the facts and circumstances of the recent departure of Dr. William McGuire, UnitedHealth's former CEO and Chairman. We are concerned by recent press reports that Dr. McGuire may have received a compensation package upon his separation of approximately \$1.1 billion in spite of allegations that he had been actively involved and benefited from an options backdating scheme at UnitedHealth.

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