

# MANAGING PERSONAL WEALTH AS A CORPORATE EXECUTIVE

## STEPS TO TAKE AT EACH STAGE OF THE JOURNEY

Corporate executives face innumerable challenges at the helm of a company – maintaining stock value, embracing innovation and weathering public scrutiny. Yet an executive's biggest challenge is arguably navigating these corporate complexities while simultaneously staying focused on achieving their personal wealth goals.

What should you do when you are highly engaged at work, at home and in your community, with time being your scarcest and most sacred resource? Not only do you face time constraints but as a corporate executive your personal financial well-being is highly dependent on company performance. While there is no single wealth planning blueprint for executives, there are common recurring themes you will encounter on the path of your unique journey. Without proper guidance, an unintentional oversight may result in the loss of financial opportunities and jeopardize your wealth creation and preservation.

This *Wealth Planning Insights* frames the journey and addresses the issues encountered from early-stage wealth accumulation to mid-career wealth concentration to, eventually, career and wealth transition. Begin with the end in mind, make the most of current opportunities and be prepared for potential disruptions along the way. With mindful planning, you can confidently manage and sustain wealth to realize your ultimate goals.

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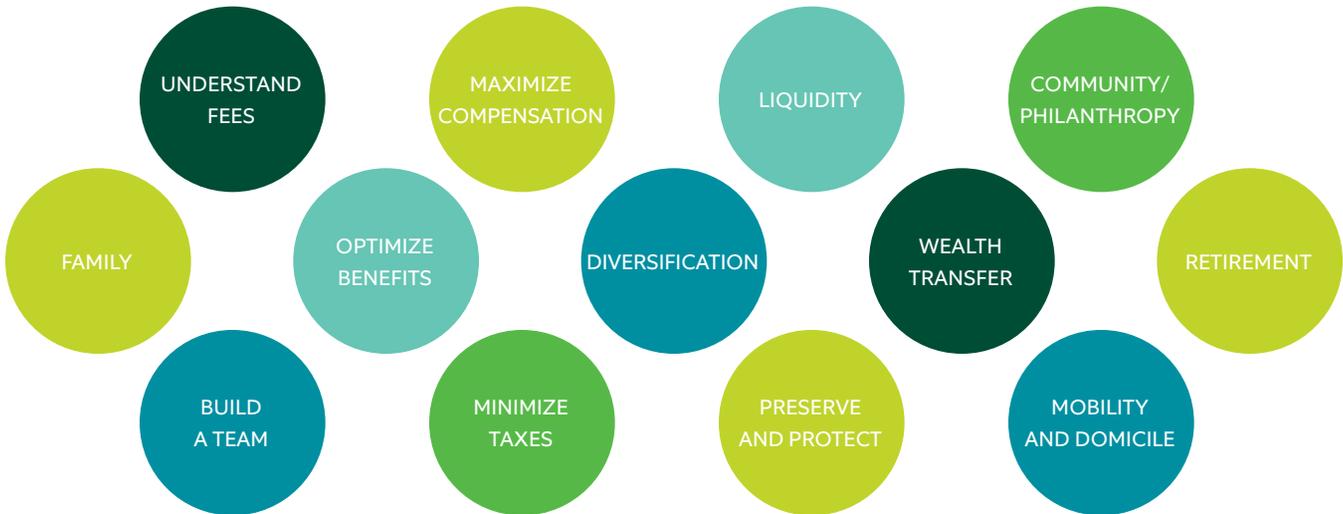
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*This Wealth Planning Insights is one of multiple Northern Trust Wealth Management resources dedicated to the distinct wealth planning and management challenges and opportunities of corporate executives.*

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## THE CORPORATE EXECUTIVE JOURNEY

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BEGIN WITH THE END IN MIND

MAKE THE MOST OF CURRENT OPPORTUNITIES

BE PREPARED FOR POTENTIAL DISRUPTIONS

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### WHO IS THE CORPORATE EXECUTIVE?

Our focus is on the senior-level executives of a company who are leaders directly responsible for company strategy, day-to-day operations and profitability — the “C-suite.” Common titles include chief executive officer, president, executive vice president and managing director.

Despite titles, rank and responsibility, what really sets this group apart is their complex compensation paradigm, which commonly includes:

- a formal employment agreement
- base salary considerably higher than other employees
- compensation partly dependent on the achievement of specific goals and standards
- equity or equity-based rights
- extensive benefits packages

## ACCUMULATION PHASE

### FOCUSED PLANNING TO MAXIMIZE WEALTH

Common Concerns	Key Considerations
<b>Managing complexities</b>	<b>Attack the complexity.</b> Decide how you will manage your finances. Will you completely assign wealth planning and management to a third-party advisor, actively collaborate with advisors or perhaps self-manage?
<b>Overcoming time constraints</b>	<b>Be intentional in your personal wealth planning.</b> Rather than focus narrowly on an investment strategy or final number, take the time to establish your ultimate goal and then develop a wealth plan that will position you to meet your goal. Over time, commit to regularly measure progress and be prepared to incorporate new strategies when the unexpected occurs.
<b>Lack of clearly defined personal financial goals</b>	<b>Define financial success.</b> What does financial success mean to you? It may include return on time invested, your ability to meet unexpected needs, the ability to impact change through charitable giving or a combination of these and other benchmarks.

During the early accumulation phase your priority is to amass wealth and assets for long-term financial independence. Here, one of the most important components is planning, which encourages you to define meaningful goals and motivates you to effectively accomplish them.

#### BUILD A TEAM

Serving as an executive leader with a high level of professional responsibility presents a unique opportunity to acquire substantial wealth. Effectively managing this wealth requires enhanced support to identify personal wealth planning and management solutions and assist with effective execution.

Begin at home. If you have a partner, consider what level of engagement and influence each of you will have in shared decision-making related to ongoing wealth planning and investment management. As you cultivate a path to engagement, thoughtfully reflect on and honestly assess each of your individual strengths and interests. At a minimum, provide for a base line of common understanding of household finances and communicate regularly as your financial circumstances evolve.

Next, consider your allies at work. Know who the experienced points of contact are in human resources. Utilize resources provided by your company, including any company-offered stipend for financial and estate planning. As your

relationships allow, seek advice from your predecessor and other executives at your level. You may be surprised to discover the nuances of the many lessons learned by others similarly situated and the best practices they employ.

To complete your team, seek comprehensive counsel from capable legal, tax, insurance and wealth advisors. This is by no means a suggestion that you abdicate control of your financial destiny to third-parties, but embrace the true value qualified advisors offer to optimize wealth planning and management. Although crucial to any plan for long-term financial independence, sound advice can be particularly beneficial for you as an executive.

Oftentimes, the initial concern is fees. While it is essential to understand how your advisors will be compensated, fees should not be the deciding factor in the selection of your advisors. Instead, consider a three-prong approach to evaluate their expertise, experience and empathy.

- **Expertise.** Research, vet and interview multiple advisors. Learn about the licenses and credentials they possess to determine whether they have the requisite expertise necessary to provide the quality advice you require.
- **Experience.** As an executive, you require an advisor who can offer customized solutions for your complex financial situation to protect your hard-earned money. Ensure your advisor has extensive knowledge and experience with the distinct characteristics of your executive compensation. Deferred compensation, section 83(b) elections, option tracking and rule 10b5-1 plans should be familiar concepts to the advisor you choose.
- **Empathy.** Understanding is essential. Your advisor should undertake a holistic approach to support the realization of your personal fulfillment as you strive to accomplish your life goals. Your advisor's cadence, their communication, their strategy and their approach should be compatible with you and, if you have a partner, your partner. Match and fit matter.

## MAXIMIZE COMPENSATION

Remember the adage of beginning with the end in mind? The starting point for maximizing compensation is not creation of a detailed inventory of the many elements of your compensation and a stock plan schedule (although they will come). Rather, the cornerstone is the employment agreement. Ultimately, the employment agreement defines the scope and nature of your relationship with the company from the company's perspective. Before executing an agreement that will influence your level of financial success, determine whether it aligns with your goals, vision and needs. In our ever-evolving world, consider the assurances you require in the event of change of corporate control or in the unfortunate event of severance. And with volatile markets looming, contemplate how comfortable you are with the implications of the performance incentive plan and whether metrics are impacted more by individual efforts or by market conditions. Explore a full spectrum of potential outcomes of "what if" scenarios and analyze the ripple effect to you, your portfolio and your family.

You have significant influence in the negotiation of your employment agreement as an executive. Think through your defined goals and how they will be reflected in the terms and provisions of your employment agreement from the outset. Prioritize being proactive in leading the discussion regarding the structure of your employment agreement, rather than reactive and executing what your company presents to you. Advocate and negotiate for the protections and incentives you believe will provide the level of comfort you need. However, be mindful of the level of negotiation that is appropriate. A junior executive in a large publicly traded company will have far less negotiating power than a senior executive being courted to spur growth at a private company on the verge of an IPO. Take a sensible approach and accept that a certain amount of compromise will be required.

## CONCENTRATION PHASE

### MANAGING STOCK OWNERSHIP REQUIREMENTS

Common Concerns	Key Considerations
<b>Concentrated positions in company stock and equity</b>	<b>Embrace the complexities of corporate stock ownership.</b> Understand the nuances and requirements of company stock ownership guidelines. Although your portfolio may primarily consist of company stock and options, seek strategies to access liquidity and be mindful to integrate your executive compensation with your overall wealth plan.
<b>Lack of liquidity</b>	<b>Actively manage stock ownership.</b> Maintain a current schedule of all shares acquired or awarded that details date, basis, holding requirements, SEC disposition rules and company guidelines.
<b>Disruptive life events</b>	<b>Be loyal, but not blind.</b> As you become more concentrated, do not lose sight that your company stock holdings may be the most efficient and effective means of raising capital for diversification.

### SURVIVE THE LIQUIDITY CRUSH

Upon reaching the C-suite, Champagne may remain uncorked. The celebration will likely be postponed until you can determine how to meet the stock ownership requirements for your position. Although exercisable options may be plentiful, oftentimes there are insufficient cash reserves to satisfy the exercise price of the option and the tax liability on the compensation element. Likewise, despite being worth millions on paper, due to the restrictions surrounding equity-linked compensation you may find that you lack cash for discretionary expenses such as a vacation home, education funding or a child's wedding.

While you are able to enjoy potential growth without risking personal capital waiting for deferred compensation to vest or before exercising options, dedicate time to plan how you will raise capital or borrow money during the time when the majority of wealth is illiquid or equity-incentive compensation is not yet realized. During your highest earning years, maximize the many savings opportunities available to you so as to lessen your dependency on the potential value of your company stock ownership. Your company-sponsored qualified retirement plan may serve as the foundation, but utilize your base compensation and incentive bonus awards to fund supplemental plans.

### **MANAGE SINGLE STOCK EXPOSURE**

With the many forms of company stock ownership available to you, devote time to understand the unique features of each equity instrument, transfer limitations, and, of course, tax attributes. Company stock ownership simultaneously creates wealth and satisfies holding requirements. Your stock ownership may be the most effective manner by which to raise capital for diversification. As you become more concentrated, resist the urge to retain stock out of perceived loyalty or emotionally driven reasons. Balance the risks and rewards of company stock ownership in conjunction with your goals, and employ techniques to manage risks.

- Along with your advisor, actively monitor equity-linked compensation, paying special attention to the date acquired, vesting schedules and expiration terms. Doing so will optimize the benefits of your equity awards while concurrently mitigating risk and increasing liquidity.
- If you are prohibited from selling your company stock or not quite ready to divest, protect against downside risk. Devise a risk reduction strategy while retaining ownership of your company stock.
- Work with your advisor to develop strategies in light of disposition restrictions. Take advantage of systematic option exercises, private company stock sales and rule 10b5-1 plans.
- Take stock of the characteristics of your company and its industry. Be mindful that your company stock ownership holdings may be high risk while potentially providing high reward. In contrast, your strategy will likely change if your company is long-established serving an industry with less risk.

## TRANSITION PHASE

### PREPARING FOR WHAT'S NEXT

Common Concerns	Key Considerations
<b>Asset preservation</b>	<b>Prepare for a mind shift.</b> Evolve from accumulation to preservation of assets and directly face the new challenges of leaving the formal workplace.
<b>Longevity risk</b>	<b>Assess current and future cash needs.</b> Conduct a cash flow analysis to determine how much cash you require for your desired lifestyle and to be prepared for the unexpected — from outliving your assets to unanticipated health care expenses.
<b>Wealth transfer</b>	<b>Your life, your legacy.</b> Plan for the transfer of your wealth to your family and for the fulfillment of your charitable aspirations.

At this turning point, reflect on what the next chapter of life will look like. Although the prestige and perks that accompany being an executive will fade, it is unlikely that you will ever fully retire. You may direct your talents and energy toward a new business endeavor or commit to meaningful public service. For this reason, you must determine how much of your wealth you will retain for your needs before securing your family for future generations or satisfying your philanthropic aspirations. Sufficiently analyze cash reserves, the growth potential of your assets and sources of income to assess whether you will be able to fund your desired lifestyle.

### EXECUTE YOUR EXIT STRATEGY

When you retire you will have a stockpile of company shares acquired through the many equity instruments offered during your career. Before your retirement date, devise an integrated diversification plan to strategically reduce your wealth dependence on your company stock. Revisit your wealth plan to evaluate grants that have not yet vested or been exercised. Determine if they will be forfeited, continue to vest or whether the company will permit acceleration of your vesting schedule in light of your separation. Simultaneously, incorporate dates to exercise options and sell stock along with price targets. Doing so will provide the best opportunity to maximize equity-linked compensation, mitigate the risk of your concentrated position and allow you to gradually put your company stock back into the market.

## DETERMINE YOUR WEALTH TRANSFER IMPACT

Once you decide how much of your wealth you will reserve to maintain your lifestyle for your lifetime, determine how, when and what you will transfer to provide for your family and to fund your philanthropic legacy. Wealth transfer is as much about what we value as it is about the value of what we have. What impact do you desire the wealth you have accumulated to have for the generations to come?

Effective wealth transfer planning begins early and plans grow and evolve as life happens. Wills, trusts, powers of attorney — begin with the basics early and transition to more sophisticated planning over time to minimize taxes, protect assets and maximize impact. Given the diversity of your assets — cash, stock, real estate and valuable collections — you have many choices. Working with your advisors, you can create an estate plan to benefit the beneficiaries you choose in the manner you decide.

## CONCLUSION

As you navigate the complex phases of your journey you will undoubtedly encounter challenges and opportunities. Some you will anticipate, some you may not. Anchor yourself in a well-defined financial wealth plan based on your lifelong goals, execute with capable advisors and be assured that you have laid the groundwork and taken the necessary steps for success.

### FOR MORE INFORMATION

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