the FOUR BUILDING BLOCKS *of* FINANCIAL WELLNESS

a step-by-step guide
for senior executives >>>>>>

Executive Wealth Planning

Corporate executives have a reputation of being some of the most successful people in the business world. Other professionals look up to you, envy you — and hope that they, too, have what it takes to one day reach the same summit.

Yet, despite that apparent success, most senior executives wrestle with a voice inside their heads. That voice tells them they've missed an opportunity, made a mistake, or left something on the table.

And for many professionals in your position, this uncertainty is directly related to personal finance.

HERE'S THE UNCOMFORTABLE TRUTH. >>>>>>

Deciphering the complexity of your financial world is a full-time job.

Take the nuance of tax planning strategies, the wide range of choices related to equity compensation, and the fine print behind non-qualified deferred comp options. Multiply that by the uncertainty of the stock market or an unforeseen geopolitical event — and it's enough to keep anyone second-guessing their choices.

But even if we set the technical complexity aside, there would still be a big risk and potential problem looming on the horizon.

Right now, your family's financial future is inseparable from your company's future.

Yes, you are proud of what you're building — and confident in your ability to shape the company's future. But on any given day, you are just one corporate scandal or bear market away from watching your personal balance sheet unravel. Diversification is the name of the game — but how do you accomplish it when so much of your compensation must come in the form of equity?

The answer is, you must build a financial plan that will stand on its own — no matter what happens to your company.

Below are the four building blocks of financial independence
that executives must put into place in order to build wealth, take care of their families, and ensure their financial goals are properly funded.

one

MAXIMIZE *your* COMPENSATION PACKAGE

What's "normal" in the world of executive compensation?

The answer evolves dynamically with changes in the tax and legal environment.

A recent example is the Tax Cuts and Jobs Act of 2017. Along with many other significant changes, the Act eliminated the performance-based compensation exceptions that had been in place for two decades. With the new rules in place, any compensation in excess of $1M per executive employee per year is no longer deductible.

That change has forced companies to shift executive compensation structures to lean more heavily on deferred comp and stock options.

What does that mean for you? >>>>>>

Increased pressure to make sense of fixed and variable compensation, equity incentives, flex spending accounts, non-qualified deferred compensation, and much more.

Each component has different tax consequences, risk factors, and vesting restrictions. So, it is ever-critical to really understand your compensation package — and to make smart choices with what you get.

Three questions to get you started

1 *What are the vesting and expiration periods related to your stock options and restricted stock?*

Stock options and restricted stock often come with requirements to hold them for a certain period of time — or to sell them within a specific time window. The value of these instruments is tied to the company's stock price. A market-wide swing (or a company-specific price dip) can render certain equity compensation awards all but worthless.

2 *Are you subject to blackout periods?*

Blackout periods are stretches of time (usually leading up to earnings releases or other important corporate communications) when you are prohibited from selling your equity shares. In effect, blackout periods put a further choke on your allowable exercise period — and limit your ability to turn your shares into cash. This is why executives need to invest time and energy into liquidity and cash-flow planning!

3 *What choice do you have in setting deferral and payout periods?*

A non-qualified deferred compensation (NQDC) arrangement allows you a certain amount of leeway in determining how much of your pay should be deferred. You can also choose the future date when that chunk of your compensation will become available.

The challenge is that you must decide on your deferral amount a year ahead of time (i.e. by the end of 2024, you must select your NQDC amount for 20235). And for choosing when the money becomes available, you must look years or even decades into the future.

Deferred compensation can be a powerful tax-planning tool. In exchange, you must give up a measure of flexibility, liquidity, and control. Evaluate your NQDC plan participation carefully. And remember: there is a chance that payments might be triggered mid-career, which would set off a high tax bill.

MANAGE RISK

two

Corporate executives face unique risks that regular employees don't have to deal with.

The most obvious place to start is investment risk and concentration.

Chances are, a lot of your wealth is in the form of company stock. You may even feel great about it. After all, investing in company stock incentivizes you to perform at your best. Or, you may feel disloyal if you don't invest a large part of your assets in your company.

However, tying most or all of your personal fortunes to the performance of your company is downright dangerous. It is extremely difficult to preserve wealth while holding concentrated equity positions. In this age of 24-hour access and Social Media, corporate reputations that took decades to build can fall quickly. From labor disputes to allegations of financial wrongdoing or product recalls, internal matters can become spin and public knowledge in a matter of seconds. And even if your company can avoid scandal, for many executives the stock price never "hits" their target goals. That means their wealth remains purely hypothetical.

And so, you must train yourself to see diversification as a critical component of your family's long-term financial security — not as a sign of disloyalty, lack of ambition, or insecurity.

How do you introduce diversification to your portfolio?

The obvious answer is to sell off your company stock.

But your company may require you to hold the stock for a certain length of time. You may be limited in when you are allowed to sell. And even if you aren't bound by such rules, you could face unwanted tax consequences — unless the sale is carefully planned and timed.

Here are a few strategies to consider.

1. **An exchange fund can accept concentrated stock positions in exchange for shares of the fund itself.** That would effectively "convert" your concentrated equity into equity spread across many different companies and industries. This strategy can solve the diversification issue — and potentially avoid negative tax consequences, since you're not selling shares. The downside is that exchange funds usually have a seven-year lock-up period in order to defer taxes. So, your maneuverability during the lock-up period may be limited.

2. **A sell-off strategy can shepherd you through selling shares** at certain predetermined price triggers or time intervals. When done correctly, this approach can help you avoid a big one-time tax bill.

3. **Consider donating your company stock to charity.** This strategy is only relevant if you and your family have no personal need of those shares now, and don't anticipate needing them in the future. There are at least two levels of benefit you stand to gain by donating shares. One, you get to support a meaningful cause. Two, you receive a charitable deduction that can lower your income taxes.

Next, there are regulatory risks >>>>>>>

*For example, **you are required to disclose every purchase or sale of company stock** — making each transaction visible to others inside and outside your organization.*

As a corporate executive, you are considered a company insider.

That means you must balance all your investment decisions

(not just those involving company stock) against many regulatory requirements.

Although insider trading rules seem clear enough at the surface level, their real-life applications are sometimes less certain. In this area of the law, the line between a lucky coincidence and a felony can get quite blurry. So, it is critical to work with a trusted financial advisor and an attorney to make sure you stay clear of even an accidental violation.

Finally, there are legal risks.

Everyone makes mistakes. As a corporate executive, you are vulnerable to lawsuits for alleged or actual errors, omissions, or breaches of duty. After the fallout of Enron and Worldcom, the web of regulations for companies and executives alike has grown to astounding dimensions. As regulations and liabilities have expanded, so has the speed with which corporate and personal decisions can become public knowledge.

Large companies are well aware of those risks. That's why Directors and Officers (D&O) insurance is a standard part of your compensation package. However, not just any D&O policy will do. It takes a properly scoped and tailored policy to protect the company — and to help you sleep better at night. This is a highly technical and complex area of the law, with specifics that vary by state of incorporation and with the circumstances of each senior executive. If you have not had an attorney review the D&O policy that you are relying on, now is the time to do it.

three

PLAN FOR *and minimize* TAXES

It's no secret that individuals with similar incomes can pay vastly different amounts in taxes.

Your tax liability for any given year is shaped by specific decisions you make in regards to your compensation, as well as by the advice from your tax accountant and your personal preference. For many executives, whether at a midpoint in their career or close to retirement, taxes are (or will become) one of the largest expenses. So, there is significant value in approaching them strategically.

The good news is...

High net worth professionals and senior executives are fortunate to have access to good tax advice — and a broad range of tax optimization strategies. The key is to start with a complete understanding of the "big picture" — and to remain responsive to life and tax changes.

One common mistake made by executives is neglecting the hierarchy of tax-advantaged savings accounts. Many executives make their contributions to various savings accounts in a certain order — based on how they've always done it. That approach overlooks the fact that their personal financial situation has changed in the last decade. What's worse, it prevents them from taking full advantage of tax saving opportunities that are unique to their income bracket.

Here's what you need to know about the tax hierarchy of savings accounts.

The most tax-advantaged account is the Health Savings Account (HSA).

Contributions are tax-deductible. Account growth is tax-free. Withdrawals for permitted purposes (such as paying for qualified medical expenses, today or after your retire) are also tax-free. So, those who are eligible to use an HSA receive a triple tax benefit. HSA contribution limits for 2022 are $3,650 for an individual and $7,300 for a family.

The next tax-advantaged group of accounts includes 401(k) accounts, traditional IRAs, Roth IRAs, and 529 plans.

Traditional 401(k) and IRA accounts offer tax savings at contribution time. Any growth in the accounts is tax-free. However, you will have to pay taxes when you withdraw the money later. Roth IRAs and 529 plans are a little different: contributions are made from post-tax dollars (i.e. you pay taxes today), growth in the account is tax-free, and distributions for qualified purposes are also tax-free.

Contribution limits for 2024

>> *401(k)*

$23,000 per individual. For those aged 50 and older, there's also the catch-up contribution of $7,500.

>> *Traditional and Roth IRA*

$7,000 per individual. For those aged 50 and older, there's also the catch-up contribution of $1,000.

>> *529 Plan*

Contributions to a 529 plan are considered gifts for tax purposes. The annual tax-consequence-free gift limit is now $17,000 per giver/recipient combination. In other words, if you have 2 kids, then you can contribute up to $34,000 (or $68,000 if your spouse also contributes). There are no annual contribution limits set by 529 plans, but the balance in the acåcount cannot exceed the expected cost of the recipient's education. Limits vary by state.

Back-Door Roth contribution strategy may also be an option for you. However, it's important to understand the technical details, timing, and other restrictions that go along with this strategy. Be sure to work with a qualified financial planner.

Employee stock purchase plans can allow participants to buy company stock at a discount and can, if used strategically, offer tax advantages as well.

Finally, there are taxable brokerage accounts that are least tax-advantaged on this list.

As demonstrated above, not all accounts are created equal. By optimizing the order of your contributions, you can make progress towards meeting your goals — and save significant money every year by managing your tax liability.

four

PLAN *for the* NEEDS *of* OTHERS

Corporate executives regardless of their age and health face complex issues when creating an estate plan. An appropriate strategy can help reduce the sting of significant tax consequences for you and your heirs.

One way to reduce your heirs' tax burden when your estate is settled is to gift your stock options to them now. These fall under the annual gift tax exclusion of $17,000 per person for individuals and $34,000 for married couples. However, this strategy only works if your options are transferable. In most cases, you also must be fully vested. You'll want to check if your employer has any restrictions on when the recipient may exercise the options.

If you're like most people, you probably have a few charitable causes that are close to your heart.

There are a few options for maximizing your philanthropic impact within your estate plan:

***A donor-advised fund (DAF)** holds your assets while you decide which charities to support and when to donate to them. When you put money into a DAF, you get a charitable tax deduction for the year the deposit was made.*

***A charitable remainder trust** is an account in which you deposit assets. You appoint a trustee to invest those assets in income-producing vehicles, which you can use as supplemental retirement income. Any assets left in the account after your death are donated to charity.*

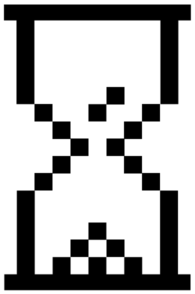
***A qualified charitable donation (QCD)** allows you to donate all or part of your annual required minimum distribution from your retirement plan (up to $105,000) to a 501(c)(3) charity. You pay no taxes on QCDs. They also don't count toward the maximum charitable deduction if you itemize.*

***Donating real estate** is another option. It helps charities because they don't have to pay capital gains tax on the proceeds of the sale of the property. It helps you because the full fair market value of the real estate (based on a qualified appraisal) may be deducted from your income taxes.*

The bottom line is simple. You are in a unique position to take care of others, whether through your children's 529 plans, careful estate planning, and/or gifting. However, you must ensure that your decisions are strategically aligned with your goals — and supported by professionals who can put those strategies into action.

THE NEXT STEPS FOR BUILDING YOUR FINANCIAL INDEPENDENCE

Financial independence doesn't happen by accident. It gets built through diligent work, smart risk-taking, and sound advice from professionals who have your best interests in mind.



At work, you spend your days doing what's best for the company. In many ways, your fortunes are tied together. That link fuels your hard work and dedication. But it's critically important to make sure that your fortunes can stand on their own, as well.

There are many factors working in your favor. You have a deep knowledge of your industry and a strong network. You have demonstrated your ability to make good decisions, take calculated risks, and persevere through difficult times.

However, there is one major factor that has always been (and will continue to be) against you. **That factor is ... time.**

You have very limited time to focus on your personal financial strategy and planning.

The time horizon related to your career is also limited, even if you are feeling like you are in your prime right now. Between mandatory retirement, sudden leadership changes that can upset company hierarchy and force you out, and other reasons to change employment — from a lucrative offer elsewhere to a health problem — your time in this seat is going to end. And, for some executives, that endpoint is involuntary and outside of their control.

So, you owe it to yourself and to your family to make sure that your financial plans are antifragile.

And the best way to do that is to work with an experienced fiduciary advisor.

Call us at Executive Wealth Planning to get started with a complimentary Benefits X-Ray session. Work with an expert to make sure that you are getting the most out of your executive compensation. **Call us at (303) 356-1668 or visit executivewealthplanning.com. Schedule your Benefits X-Ray today.**

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Exchange-traded funds are sold only by prospectus. Please consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the investment company, can be obtained from your financial professional at [phone number or address]. Be sure to read the prospectus carefully before deciding whether to invest.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

All investing involves risk, including the possible loss of principal. There is no assurance that any investment strategy will be successful.

Distributions from traditional IRA's and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59 ½, may be subject to an additional 10% IRS tax penalty.

Investors should consider the investment objectives, risks, charges and expenses associated with municipal fund securities before investing. This information is found in the issuer's official statement and should be read carefully before investing.
Investors should also consider whether the investor's or beneficiary's home state offers any state tax or other benefits available only from that state's 529 Plan. Any state-based benefit should be one of many appropriately weighted factors in making an investment decision. The investor should consult their financial or tax advisor before investment in any state's 529 Plan.

Generally, a donor advised fund is a separately identified fund or account that is maintained and operated by a section 501(c)(3) organization, which is called a sponsoring organization. Each account is composed of contributions made by individual donors. Once the donor makes the contribution, the organization has legal control over it. However, the donor, or the donor's representative, retains advisory privileges with respect to the distribution of funds and the investment of assets in the account. Donors take a tax deduction for all contributions at the time they are made, even though the money may not be dispersed to a charity until much later.

Charitable Remainder Trusts are used to develop a vehicle for donations to a favorite charity, which also allows for the reduction of income taxes through a charitable deduction and favorable tax treatment at the date of the gift by non-recognition of built-in capital gains.
The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional before implementing such strategies.

The return and principal value of stocks fluctuate with changes in market conditions. Shares when sold may be worth more or less than their original cost.

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