Corporate Executive Wealth Transformation

Investment Advisor & Wealth Managers for Corporate Executives

Corporate executive total compensation is complex, multi-dimensional and often not appreciated nor optimized. The components of an executive's total compensation include salary, annual cash incentive or bonus, long-term incentives, including stock option and restricted stock, retirement plans, deferred compensation, health and other benefits and concierge-style perquisites. Each element of non-cash compensation is subject to complex and interacting tax laws, regulatory requirements, accounting procedures and investment principles. This discussion highlights the primary phases of corporate executive profiles, an overview of the tax and investment issues involved and the opportunities to maximize and optimize long-term wealth creation and preservation.

One way to think about typical executive profiles is to focus on three elements that impact financial planning and investment goals and objectives:

- Wealth accumulation needs and behaviors
- Executive compensation and financial asset status
- Strategies to optimize wealth creation and preservation

As corporate executives evolve through the executive compensation success cycle their wealth is transformed from the accumulation stage to the preservation and distribution phases. Each step of the transition has unique issues and challenges that determine the optimum investment and financial strategy at any one point in time. Within this context, following is an analysis of four of the most common client profiles we work with at the MDE Group.

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EMERGING HIGH PERFORMANCE EXECUTIVES

Our corporate executive clients typically begin to engage our wealth management services when their net worth is approximately in the range of $1,000,000 to $3,000,000. At this point in their career, they have been identified by their companies as "emerging, high performance executives". During this period they are spending most of their salaries and receiving large grants of unvested long-term incentives, including stock options and restricted stock. From a financial planning perspective they are over concentrated in employer stock, relatively illiquid and compounding on a tax deferred basis, substantial net worth.

At this stage, leverage and income tax deferral provide the best opportunities to optimize compensation. Stock options are analogous to an interest free loan of employer stock providing the executive with high multiples of tax deferred wealth accumulation for every year the stock increases in value. Later in the option grant cycle, the executive puts more of their "in-the-money" profit at risk and there are optimal times to exercise when managing the overall portfolio. Our advisors work with the executive to determine which stock options to exercise first and which to defer for optimal leverage. Hedging the concentrated position in employer stock, when allowed and not cost prohibitive, is also a key consideration as the executive may be unvested in his shares and subject to key executive ownership guidelines, program lock-ups and SEC restrictions on selling.

PEAK ACHIEVEMENT LEADERSHIP EXECUTIVES

These individuals are maximizing the potential of their total executive compensation. At this stage, employer stock and other forms of long-term incentives far exceed their cash compensation but usually their diversified assets have also grown as a percentage of total net worth. Salaries are large enough to cover annual cash-flow requirements so annual incentives and bonuses can be deferred and invested in non-employer stock indexes and uncorrelated asset classes. These top level executives are typically still over concentrated in employer stock but they are now vested, more liquid and have diversified into value/income/global equity portfolios and uncorrelated alternative investments. Performance shares and stock appreciation rights are usually cash-based which helps to offset their employer stock position. Retirement and deferred compensation values are still compounding on a tax deferred basis and significant liquidity events are not uncommon resulting from mergers, acquisitions, spin-offs, IPO's and golden parachutes. Independent investment advisory, wealth management coordination and "Family Office" services are critical to supplement traditional company

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advisors such as internal human resource groups and independent executive compensation consultants to management.

TRANSITION EXECUTIVES

These individuals are in the midst of corporate structural change. Corporate executives that are changing companies are obviously focused on reassessing their total executive compensation and the options involved in leaving a corporation and assessing a new situation. Transition executives almost always seek comprehensive and sophisticated wealth advisory services during these volatile times in their careers. Wealth Advisors need to be skilled in executive compensation contract negotiation, assessment of new company program potential, optimization strategies for existing, expiring and forfeited company stock incentive programs, “golden-parachute” and severance pay calculations and tax implications, retirement plan and deferred compensation roll-over strategies, liquidity needs during the transition, life and health insurance choices, estate planning implications and general investment portfolio reassessment and diversification goals and objectives.

POST-CAREER EXECUTIVES

These individuals have eclectic needs and interests and a typical profile is nearly impossible to define. Some former “C-Suite” executives are still very active with Boards of Directors, charitable & philanthropic organizations, academia, private investments and equity ventures. Others enjoy the serenity of their extended families, travel and increasingly sophisticated leisure activities. Their investment portfolios are highly diverse but usually have evolved towards tax-advantaged fixed income, value and dividend-bias global equities and alternative investments including hedge funds, private equity and real estate. Retirement plans and non-qualified deferred compensation programs are deferred as long as possible, however, required minimum distributions can force the taxable payouts to begin, without sophisticated retirement deferral techniques. Estate planning strategies are front-and-center and sophisticated gifting and “freezing” structures are implemented including the transfer of low-basis assets like employer stock and real estate to family limited partnerships, grantor retained annuity trusts, qualified personal residence trusts and charitable remainder arrangements.

MDE has worked with over 50 major public companies over the years to provide innovative wealth management planning and investment advisory services.

CORPORATE EXECUTIVE FINANCIAL COUNSELING

Corporate Executive Financial Counseling is a specialty within the broad and diverse profession of general investment advisory and wealth management. Human Resource functions have recognized this specialty for many years and often provide subsidized financial planning to top executives as an executive perquisite. Our firm has worked with over 50 major public companies over the years to provide innovative wealth management planning and investment advisory services. Firms who successfully provide this expertise have many years of experience with corporate executive clients at all phases of the wealth transformation process and are staffed with investment advisors, tax and estate planning lawyers, certified public accountants, financial planners, risk managers, economists and executive total compensation consultants. Clients and their extended families are usually served by a dedicated team lead by a lead wealth strategist who coordinates the delivery of the multiple professional disciplines required to maximize corporate executive wealth. A “multi-family-office” structure and “open-architecture” platform is usually the favored business model in order to provide objective, fee-only counseling service in combination with the institutional scale required to negotiate lower investment management, transaction, custody and trust fees on behalf of numerous clients and substantial assets under management.

In the final analysis, corporate executive wealth management is a sophisticated and specialized professional expertise requiring a highly experienced and diverse financial counseling and investment advisory team. Executives and their Human Resource Groups are well advised to carefully research the various service providers and make sure executive total compensation wealth management is a core service being provided to a broad group of clients in various stages of executive wealth transformation. With the demands of their corporate responsibilities, executive clients have very limited time to manage their personal wealth and they are accustomed to prompt, personal and “high touch” client service. Technical expertise for investment and tax strategies is expected, but holistic coordination, innovative investment options, implementation experience and client-focused reporting and analysis will differentiate the various providers of these customized services.

The MDE Group
465 South Street
Morristown, NJ 07960
Office: (973) 206-7100
Fax: (973) 206-7101
www.mdegroup.com