



Regions Wealth Podcast

Episode #47

Financial Planning Considerations for Business Executives

Executives face busy work schedules and numerous demands on their time, making it difficult for many to address their personal financial needs. And while most executive compensation packages provide a unique opportunity to build long-term wealth, having financial guidance that's strategic, smart, and customized is essential to success. In this episode of Regions Wealth Podcast, Private Wealth Planner Bill Scofield joins us to discuss wealth management considerations for executives, from unique tax considerations to legacy planning.

SME: Bill Scofield, Private Wealth Planner/Wealth Planning Program Administrator

Episode Transcript

Sarah Fister Gale, Host:

Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host Sarah Fister Gale.

Executives face busy work schedules and numerous demands, leaving many with limited time to address their personal financial needs. And while most executive compensation packages provide a unique opportunity to build long-term wealth, having financial guidance that's strategic, smart, and customized is essential to success.

Joining me remotely is Bill Scofield. He's a private wealth planner and wealth planning program administrator at Regions Bank. Bill, Thanks for joining me today.

Bill Scofield, Private Wealth Planner:

Well, thank you for having me on.

Sarah:

Absolutely. So Bill, in this episode of Regions Wealth Podcast, we're discussing wealth planning considerations for executives. We've taken some frequently asked questions and developed a character who needs your help. Let's listen.



Jim:

“Pleasure to meet you. I’m Jim, and I’d like to get your thoughts on wealth management needs for someone in my position. I’m an executive at a publicly-traded company — I suppose should note, this is a fairly new role for me. My financial picture has changed quite significantly, and while I know my current approach to financial planning must evolve, I’ve yet to find the time to address it.

At present, I’m engaging the support of an investment advisor, a CPA, and an attorney, while my wife handles the remainder of our financial planning needs. While this approach was sufficient for many years, moving into an executive-level role has introduced new complexities, particularly in regards to my compensation structure.”

Sarah:

So as a private wealth planner, what are some common concerns raised by executives?

Bill:

Jim mentioned one right out the bat and that's finding the time to actually work on his personal finances. We find that most executives are incredibly busy and just can't get around to doing what they need to do to create the financial roadmap for their own success. So they delegate it, often to a spouse as Jim has done here. But that spouse has to be pretty financially savvy as the executive's financial picture can be quite complicated. And because they're busy and have very complicated situations, they also worry about missed opportunities, missed deadlines, things like expiration dates on stock options, for example, and they worry they're not getting the best advice.

Sarah:

It's interesting to me that while executives are so successful at helping businesses with their financial needs, it sounds like taking care of their own financial needs can be a challenge. Is this a common problem?

Bill:

It definitely is. I. We see that quite a bit. They're incredibly busy. Their demands on their time don't leave them time to develop the plan they need to have a great retirement, great financial life and success.

Sarah:

So how does wealth planning for executives differ from the average individual?



Bill:

Well, I would say the biggest difference is the non-traditional compensation that executives get. And it has to be managed a little differently. It often includes stock related compensation. Things like stock options and restricted stock. And most executives tend to build fairly large deferred compensation accounts. Then when they look towards retirement, how the company stock performs has a big effect on their wealth plan and their future success.

Sarah:

So Jim mentions that he works at a publicly traded company. Let's assume he's a C-suite executive. Does that create additional complexity?

Bill:

You know, it really does, and C-suite roles, those executives, their percentage of compensation from stock plans is even higher. A lot of those executive positions have a requirement to keep a certain percentage of ownership stake in the company which tends to increase their concentration risk. C-suite executives are most likely classified as insiders. So they have restrictions on when they can sell their stock and they have to report purchases and sales of stock to the SEC. These senior executives, the C-suite folks are building even more wealth, not only to manage and protect, but also to pass on.

Sarah:

So if an executive is retiring, does that affect when and if they can sell those stock options?

Bill:

Yes, it does. Most companies will have a policy on the length of time once they leave the company that an executive has to exercise their options. They generally give them a grace period of some time so that they can make that decision, and aren't forced to make the decision by their date of retirement.

Sarah:

So Bill, in the next part of his story, Jim gets into the nuances of his compensation plan. There's going to be a lot of ground to cover.

Bill:

I'm ready to go.

Sarah:

Great! Let's listen.

Jim:



“In my previous role, my compensation package included a robust bonus structure and minimal amount of stock, supplemented by other fairly run-of-the-mill benefits. However, now roughly 40% of my compensation comes in the form of stock. In addition, I’ve been granted access to a deferred compensation plan and a variety of fringe benefits.

My close friend and attorney Janet—whose client roster includes a number of high-profile executives—has strongly advised me to engage the support of a wealth management professional to oversee the nuances of my finances. She’s raised some extremely valid concerns, from tax implications to concentration risk to legacy planning.

With this in mind, I’d like to know more about what potential challenges I should be aware of, and what sort of support I might need moving forward.”

Sarah:

So Bill, Jim mentions that 40% of his compensation comes in the form of stock. What challenges does this present and what planning consideration should come into play?

Bill:

Well, you know, Sarah, that's a very good question. The biggest challenge is now he has a non-cash component. Whereas before he was reliant mostly on his salary and his bonus structure. Now he's got to work through a non-cash portion of his compensation and that introduces complexities regarding making sure he's meeting his current income needs and looking at spending habits to make sure the cash compensation he's getting is meeting what his current financial needs are.

I would say also the performance of the stock can be very important to the compensation. Depending on the type of stock compensation he has, new complexities come into play. The values of some type of stock compensation may be impacted if the stock price falls. So some forms of compensation may not be valuable or may have no value if the stock price falls to a certain level.

So he needs to do some planning, especially with regard to taxes. When some stock vest and that vesting is when he has the right to actually take possession of the stock, sometimes there are immediate tax consequences and sometimes not. There are also different considerations of how he might pay the taxes when he gets the stock. Some individuals choose to pay those taxes out of their pocket, others might sell some of the stock to cover and pay for the taxes that are due.

Sarah:

Shifting gears a bit, Jim mentions that he’s been granted access to a deferred compensation



plan. Are there any benefits or considerations he should be aware of before taking part in this plan?

Bill:

Well, there are really a couple of really key benefits, and it has to do with income tax deferral. So deferred compensation plans allow executives to have immediate savings on their taxes by deferring the income and therefore the taxes to a future date. This is a very important consideration and because it's deferred and they don't have that in their current cash flow, they need to continue to think carefully about their existing expenses and not defer anymore than necessary. With these plans, when funds are deducted from an executive's pay, it's generally placed into an account and invested for growth potential. So second big benefit would be tax deferred growth. And this produces another consideration: the performance of those investments. So executives need to be careful of the investments they choose in their tax defer comp accounts to make sure they fit in with their overall asset allocation.

Executives really need to look into the future and determine the best strategy for how the deferred compensation will be distributed to them. They need to make an election before the deferral actually starts of how they're going to the money in the future. Will it be distributed over a period of time, or do they make the election to actually have it paid out to them in a lump sum?

And so that brings up taxes on that income. So whenever that income is paid out to them, income taxes will be due. And this is particularly important to plan for, especially if they choose a lump sum benefit. And I would say lastly, most deferred compensation plans aren't guaranteed by the company or any other entity. So there's some risk. You know, should a company come on hard times, creditors may be able to get those funds. While it's not common and rarely seen, it's important to be aware of the fact that it may happen.

Sarah:

So you mentioned the lump sum versus paying out over a period of time. How do you decide between those two things? It sounds like the upfront taxes are a lot, but maybe it's lower risk?

Bill:

I think those are two ways to look at it. And if the executive is working with a wealth planner who can help them do some modeling and projections about how their taxes may look if they choose over time or as a lump sum, that could be a great way to decide how much and when. Generally it's paid out once, when the executive leaves the company. And so knowing that they still have an account with their former employer, that they're being paid out on may be concerning, because again, as I said, these accounts are not guaranteed.

And then just thinking about what their future tax brackets may be. If they go all the way to retirement, their brackets may be much lower given the fact they're not fully employed at a high income level. So, looking ahead to what their future brackets could be, knowing what



their future income could be when they retire might be a factor they would use to choose a lump sum or some payment over a period of time.

Sarah:

So if Jim decided to move to a new company in the future, are there any factors he'd need to consider before making career moves, particularly given the nature of his benefits?

Bill:

Yeah, there really are a couple of factors that I think Jim should consider. The first would be deadlines related to his stock compensation, especially things like vesting dates. He needs to keep those dates in mind and if possible, take them into account in deciding when he times his move to his new company. He wants to make sure he maximizes what's available to him from his current employer. The second would be to understand what he's giving up with the stock compensation he has that is not yet fully available to him at his current employer.

At Regions, we work with some executives to calculate something called the forfeiture value of what that executive is entitled to in stock compensation if that executive were to stay. Then the executive can be fully aware of exactly what they're giving up by leaving that company and then again, how he gets his deferred compensation paid out, he should be mindful of that. There might be differences between retirement or actually leaving the company to go to another position.

Sarah:

Jim's attorney mentioned concentration risk. Can you define this term and explain why executives are particularly susceptible?

Bill:

I sure can. So concentration risk is the equivalent of putting all your eggs in one basket. Everything goes down together if you've got everything in one basket. And this occurs when either you don't have a diversified portfolio with different types of investments or someone's reliant on a group of assets that all act together based on economic or market forces or when somebody relies on just one entity in their portfolio. So for executives, they get a lot of stock for their compensation and so they tend to accumulate this. Company stock is often available in their 401(k) plan. So they may have company stock in there as an investment and for C-suite executives, they may again be required to own a certain percentage of stock in the company based on their position. So, you know, these executives are less likely to have a well diversified portfolio and they're overly reliant on the performance of their company for their financial success, particularly, you know, retirement. It can be a real risk.

Sarah:

So how do you work with clients to address that concentration risk?



Bill:

You know, as I've worked with some of the clients here that I've had at Regions, we really focus on diversification and making sure we mitigate concentration risk by spreading their investments out. We also look at their goals and objectives and we work to find out if our clients are taking more risk than they need in their investment portfolio overall. And when necessary, we work to take unnecessary risk off the table.

Now to facilitate diversification, we walk through different liquidation strategies for the concentrated stock position - how to reduce it, how to sell those shares. But planning around capital gains is a big factor with regard to that. There are also some types of investments that we can use in their investment portfolio to protect the downside risk. And I think all of this really involves a higher level of investment planning for these executives.

Sarah:

Interesting. And, you've mentioned taxes now a couple of times. Are there any other tax considerations that executives like Jim should be mindful of?

Bill:

Well, Sarah, we really have talked a lot about taxes today. It does drive a lot of the decisions for executives. They tend to be highly compensated individuals and that compensation is very complex. I think some of the other items that might be things to think of with regard to taxes would be the taxability of their fringe benefits. Things like moving allowances or car allowances or cell phone allowances, club memberships and things like that.

Sarah:

And what about estate planning? How important is it for Jim to engage in estate planning as part of this process?

Bill:

Well, that's a really good question. Estate planning is essential for everyone. So, whether the person's an executive or not, estate planning is a key part of an overall financial plan. But for executives, it can be very important because they tend to build a lot of wealth. And again, particularly with executives with stock in their highly successful companies, and at some point that wealth needs to be passed on.

So executives have a lot to think about in terms of who they want to pass that along to such as family or charities. And they also need to think through how they want to pass their wealth along and the timing of when their heirs receive the wealth and how it is to be distributed.

So a good estate planning attorney can walk through the different techniques that can be used to do this. That estate planning attorney can really help them create a plan to ensure their wealth for their loved ones is protected and distributed in the manner that the executive



wants. So, Executives, because they're highly compensated, and because they accumulate a lot of wealth, they may need to consider any estate taxes on their death. So will the executives estate be subject to estate tax when they die.

And there are certain estate tax reduction strategies that estate planning attorneys can use to help make sure that the family is not paying anymore in estate taxes than they need to and they're taking advantage of the techniques that are used to reduce those. And, a lot of executives think a lot about their legacy. What kind of personal values do they want to pass on to their loved ones, as well as how would they like to benefit the community overall, and the community impact they might want to have with the wealth they've been able to accumulate.

Sarah:

So Bill, you've mentioned a lot of different people who can support Jim as he makes his financial plan. What sort of professional support should an executive have when planning their financial future?

Bill:

So far Jim has done a great job with his core group. He's engaged the support of a tax professional since being an executive can make taxes incredibly complicated and challenging, having a great CPA is essential. Having an attorney is also important, particularly an estate planning attorney to make sure his estate plan accomplishes what he wants it to. A C-suite exec might also want to have a securities attorney on speed dial to address any reporting requirements of being an SEC insider or issues related to that. Definitely an investment advisor to provide investment advice and to oversee Jim's investments.

It's also important to have a good banker who can help ensure that the executive has access to credit when they need credit, as well as any other banking products and things for cash management, like checking, savings, money market accounts, and so on. And then lastly, you've got several different types of professionals on the team, and it really helps to have someone to coordinate those, kind of like a quarterback, so to speak, to make sure everybody's working together. So having someone to make sure everything's working smoothly is very helpful to have on the team.

Sarah:

So Bill, I know you work with a lot of clients like Jim. When it comes to working with executives, what sets Regions apart?

Bill:

Sarah, one of the things that sets Regions apart is that we work to focus on our clients' goals and objectives before we offer solutions. We don't wanna make presumptions. We don't wanna jump to conclusions. We wanna listen to our clients and get to know them and where they want to go before we offer solutions. At Regions, we use a team based approach led by a wealth advisor who acts as the coordinator. Now, when we identify solutions for our clients,



we have a planning based relationship. So after getting a look at the executives' entire financial picture, we then use our technology platform to create scenarios, to model different types of possibilities, and we stress test the results. This helps our clients make informed decisions. And finally, when it comes time to actually implement those recommendations, our team has access to a variety of products and services to help the clients and the executives achieve their goals.

Sarah:

So it's like a one stop shop for wealth planning?

Bill:

At Regions, we work with the executives' outside professionals, such as attorneys and CPAs since we don't render that type of advice, and our wealth advisor is there to bring all of those together to make sure that we're meeting the needs of our clients, especially our corporate executives.

Sarah:

Wonderful. So Bill, at the end of these discussions, we like to ask our guests to offer some key takeaways. So what key takeaways would you offer executives about planning their own financial future?

Bill:

You know, Sarah, I think I might sum it up with three points. First, you gotta have a great advisory team. There's no replacement for expertise. Each person on the team has their own expertise and having them together covers all the bases. Executives should really work with someone who has the tools to create a full roadmap of how the executive and their family will reach their financial and life goals and will follow along with you along the journey. I would say secondly, to be cognizant of the details of the compensation plan. You know, making sure that the choices and decisions regarding stock compensation or deferred compensation, that they're looking both at the current situation and future situations. Dates, and milestones, tax impact and things of that nature and addressing concentration risk. And then I think, thirdly, I think the key takeaway is everybody's gotta have an estate plan. Making sure that an estate plan is up to date and addresses the way the executive and the family would like to preserve, protect, and distribute their wealth is the last step of making sure everything's tied together so that executives can be very comfortable, confident that they have the plan in place so that they can then focus on the work they do for their companies, for their employers and for the shareholders they represent in their company.

Sarah:

Wonderful. Bill, thank you so much for this conversation today. I think you've offered our listeners some great insights.



Bill:

Well, thank you for having me on. It's been a pleasure and I look forward to speaking with you again.

Sarah:

I do as well. That was Bill Scofield. He's a private wealth planner and wealth planning program administrator at Regions Bank.

And thank you for joining us today. In the next episode of Regions Wealth Podcast, Regional Fiduciary Manager Mark Hammond will be joining us to discuss capital gains taxes — a topic that's come up quite a bit in today's episode. For more on this and other wealth management topics, visit regions.com/wealthpodcast.

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