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EXECUTIVE GUIDE TO:

MAKING THE RIGHT **COMPENSATION DECISIONS**

Are you making the right decisions to secure your family's financial future?

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As a busy executive with significant leadership and management responsibilities, you may be so focused on day-to-day business that you only occasionally evaluate your own long-term financial situation. However, it's important to plan today to potentially avoid costly mistakes that could threaten your family's financial security in the future.

When making compensation decisions, there are many important factors to consider beyond your annual salary and bonus. Following are several areas to keep in mind as you work to maximize the compensation available to you and avoid common planning mistakes that could prove costly:

- Maximizing your 401(k)
- Nonqualified plans
- Stock options and restricted stock
- Beneficiary designations

Maximizing Your 401(k) Plan

Most employees today are familiar with the benefits of contributing to a 401(k) plan, including the potential to receive employer matching contributions. However, a mistake executives sometimes make is maxing out their contributions too early in the plan year by selecting a high 401(k) contribution rate.

For example, an executive under age 50 in 2016 who makes $20,000 per month elects to contribute 20%, or $4,000 per month to his/her 401(k), with a 5% employer matching contribution. This individual reaches the IRS annual contribution limit of $18,000 in May and, because he/she can no longer contribute for the year, he/she misses out on company matching contributions through the end of the year. By maxing out early, the executive receives a total employer matching contribution of $4,375 for the year, versus $12,000 if he/she had started the year contributing 7% instead of 20%.

Other factors to consider in maximizing your 401(k) plan include:

- Keeping an eye on the amount of company stock in your 401(k) plan in relation to your overall asset allocation to ensure you are not overly concentrated within a single sector.
- Considering a rollover of any previous 401(k) balances into a traditional IRA in order to potentially cut down on expenses and widen the universe of available investments. There are some situations when rolling over to an IRA do not make sense, so be sure to consult with your wealth advisor.
- Understanding your 401(k) withdrawal/distribution options and how your taxes may be impacted.
- Being aware of hidden costs within your 401(k).

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Non-Qualified Plans

In contrast to your 401(k), which is considered "qualified" for certain IRS tax benefits and is covered by ERISA (Employee Retirement Income Security Act of 1974), a nonqualified plan falls outside of ERISA guidelines and is designed by employers to compensate key executives and highly paid employees.

A deferred compensation, or supplemental, plan has specific provisions, including the requirement that an employee make an annual election as to how much current compensation to defer and when to begin withdrawals. These elections are typically irrevocable, so it's important to understand the risks and benefits of each option prior to making an election.

Stock options and restricted stock

Today, there is increased scrutiny of the relationship between executive compensation and company performance on the part of the public, shareholders and the press. Consequently, in an effort to spur executive and, therefore, company performance (and to take the spotlight off salaries and cash bonuses), employers are increasingly offering diversified compensation packages, including stock options and restricted. These instruments provide a secondary benefit of helping improve executive retention.

Beneficiary designation

Choosing beneficiaries for retirement accounts, and keeping those designations up to date, is an area of great neglect for many executives. Beneficiary designations on retirement accounts supersede your will without having to go through probate. Naming your spouse, children and grandchildren as beneficiaries on your retirement account can be an efficient way to deliver a tax-deferred income stream to them. However, if you neglect to update your beneficiaries after a divorce or the birth of a new child, your loved ones may pay the price.

By putting in some effort to plan today, and keeping up on that plan ongoing, you may be better able to maximize your income and better prepare for the future. Contact your wealth advisor for valuable insight that can help put you on the right path toward achieving your long-term goals.

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