

### 3 Financial Planning Considerations for Executives

1. An In-Service 401(k) distribution to a Self-Directed IRA is something to keep in mind for clients whose only asset or major holding is their 401(k). More often than not, fund selection within a 401(k) is very limited and most do not have other investments outside of equities or bonds (such as long/short equity funds). Furthermore, most clients only look at their 401(k) allocations once or twice a year and do not have the time to manage their accounts. For those who fit this profile, they may want to consider an in-service distribution to an IRA, assuming the 401(k) plan allows it. The key advantage is increased investment selection within an IRA and professional help if they hire an advisor to oversee the IRA.

2. For executives with restricted stock, now could be a good time to make the 83(b) election. The election means they pay tax now on stock that vests later. The advantage is the clock starts ticking immediately on the long term gains rate. Meaning when the stock vests – say 3 years later as an example – and the client wants to sell the stock, they can do so at the long term gains rate which is typically lower than the ordinary income tax rate. The election is especially attractive now given two reasons: 1. Stock prices have come off considerably at the time of this writing and it's not unreasonable to think the price will appreciate by the time the stock vests 2. Current income taxes expire in 2013 and rates can certainly be higher - not to mention the .9% Medicare tax increase on wages and salaries set to begin in 2013. The election is not without its disadvantages – namely if they forfeit the restricted stock by say leaving the company they would have paid tax on stock they do not own - but conservative investors can choose a partial election if they want to participate to some degree but not with all of their restricted stock.

3. Hedging company stock and/or options is an important consideration. Executives are exposed to a substantial amount of company risk – given their income, bonus, vested stock, and future stock vesting. Writing or selling call options on vested company stock is one way to potentially hedge against future price decreases, assuming you are ok with the stock being called away. The income from the call option can also help the total return of the stock. For those with stock options that vest in the future, buying a long term put option or writing a long term call option that matches up to the vesting date of the option is worth considering.

*Disclaimers: Recommendations expressed may not be suitable for all individuals. You should not rely exclusively on the information in this presentation. Independent research of the risks involved should be conducted. Consult your financial advisor prior to investing. Options may expire worthless. Options are speculative investments. Additional information can be found at: <http://www.optionsclearing.com/about/publications/character-risks.jsp> Additional tax consequences and age limitations may affect your ability to withdraw or rollover funds. The plan document and current tax laws and regulations will govern in case of a discrepancy. Be sure you understand the tax consequences and your plan's rules for distributions before you initiate a distribution. Consult your tax adviser regarding tax treatment before making a rollover, conversion, or distribution.*

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