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Business
Report

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How top executives can coast into retirement

GUEST OPINION

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As a well-paid corporate executive, you might think that shifting into retirement will be a breeze.

But even with enough money to retire, there are some concerns facing corporate execs, which can turn that calm breeze into choppy gusts. For a smoother ride, be prepared to do some planning two to three years before you retire.

One of the biggest issues for a corporate executive is figuring out what to do with your large position in the company stock or company stock options. Just like any other stock, owning a large position in a single stock is risky business. It leaves you with an unbalanced portfolio and subject to wild swings.

Look at the standard deviation of your portfolio with and without the large position in the company stock. There are techniques to hedge your large position by using stock options and equity collars. These methods can become complicated and usually require the assistance of an investment professional and accountant.

Company stock options such as incentive stock options or non-qualified stock options are even more risky because of the leverage factor.

To explain the leverage factor, we will look at an example.

Suppose you own 1,000 stock options that are vested, and the option price is $20 per share with a current stock price of $40. When the stock price is $40, your options are worth $20,000. Suppose the stock drops $10 per share overnight — a gap opening where the stock trades at $40 the previous day, bad news comes out and the first trade the next day is $30 — the value of your options are now worth $10,000, which is equal to a 50 percent drop.

If you owned 500 shares outright at $40 per share, your investment would be worth $20,000, but if the stock dropped to $30 per share, your investment would be worth $15,000, or a drop of 25 percent. You can see how the same $10 drop magnifies the dollar drop and percentage drop in the option example versus the stock example.

Looking at your entire investment portfolio, you should create a plan to diversify your large position two to three years before you retire so that when the time comes to retire, your plans are not derailed because the stock has dropped. Coordinate your plan to diversify with your wealth adviser, accountant and your company's compliance department. All corporate executives are passionate about their company stock, but people in general are talking about different stocks, which collectively make up the market as a whole.

Another topic is how to make the seamless transition to retirement. In other words, how will you create your "paycheck" in retirement?

The first thing you should do is begin to consolidate your assets so everything isn't scattered. Next, figure out how much you need in retirement, and make sure your "withdrawal" rate is reasonable. Create a diversified portfolio that will provide the sustainable withdrawal rate. Coordinate with your wealth adviser and accountant to design a plan to withdraw money from your different accounts on a tax-efficient basis. Rebalance your portfolio as you periodically withdraw your money.

Financial issues aside, possibly the hardest question to answer for corporate executives is what do to with your free time? Frequently, your job has become your identity. In the Major League Baseball playoffs, the slogan is "I live for this." We saw it last year at Coors Field during the playoffs.

What do you live for? Why do you work and earn money? This is something you should begin thinking about two to three years before you retire.

Finally, know that it is possible to create a sustainable, enjoyable retirement.

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