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EXECUTIVE COMPENSATION:

How to Get the Best Package for You

Are you being paid what you're worth? If you're a top executive, it might not be easy to tell. That's because executive compensation packages can include everything from salary to stock options to long-term incentive plans.

While earning positions of leadership can be exciting, it's important to fully understand the elements of your comp package and its value as a whole. That's especially true if you're being offered a promotion or a new position: Being able to understand how your offer stacks up against what you have now is key to securing the compensation you deserve. Let's look at some common elements of executive comp plans and keys to judging offers.

Understanding Executive Compensation

Businesses combine executive compensation elements to balance their goals of attracting and retaining talent and motivating performance. They use elements from base salary to "golden handcuff"-type vehicles to create the closest possible alignment between the interests of the business and those of its executives. Executive packages commonly include:

- **Base salary:** A foundation of total compensation, base salary provides financial stability and reflects the executive's skills and experience.
- **Stock options:** Stock options grant executives the right to buy company shares at a predetermined, fixed price. If the price increases, it essentially provides an opportunity to purchase stock at a discount. They're designed to incentivize long-term performance and align executives' and shareholders' interests. The key is knowing when and how to exercise options, which can be complex.

- **Annual bonuses/incentives:** A type of performance-based compensation program, annual bonuses reward executives for meeting or exceeding specific short-term financial or operational goals.
- **Long-term incentive plans:** So-called LTIPs reward executives for meeting or beating long-term performance goals. While they can be lucrative, LTIPs' vesting schedules and potential payouts incentivize executives to remain with the company long term.
- **Executive deferred compensation plans:** Deferring a portion of their pay, often until retirement, enables executives to defer taxes until a time when they may be in a lower tax bracket.
- **Restricted stock units:** RSUs are awards that compensate executives based on the value of company stock, generally when they vest. Like other types of long-term incentives and deferred comp plans, they can offer significant monetary value in return for loyalty. The key is understanding their vesting period; for example, 25% of a RSU award might vest a year after it's granted, with the rest of the award vesting in increments over the following three years.

Evaluating Your Compensation Package

Compensation packages can be difficult to evaluate not only because of their complexity, but also because of the difficulty weighing long-term financial benefits versus more immediate ones as well as the trade-off between career mobility and the rewards of patience and loyalty. Your wealth advisor can support your decision-making process in a number of ways. Running financial scenarios to show how much long-term wealth might be created by prioritizing stock options versus base salary is just one example.

Working with attorneys and CPAs if needed, your wealth team can lay out everything from the tax consequences of exercising stock options to the implications on deferred income of leaving the company early. If you're fielding an offer, they can conduct a side-by-side comparison of your current and prospective packages. At a moment when eagerness may cloud your judgment, your team can help remove emotions from your decision-making process.

Knowledge Is Power

Understanding various types of compensation enables executives to evaluate packages, but the same package may not be equally suited to different executives. Remember that any offer must align with your unique financial needs and goals. If you're focused on building long-term wealth, a package that is skewed toward salary may not be a fit. Or perhaps the long-term incentives of a package fail to compensate for a relatively small base salary.

Allow for a Give and Take

If you're confident in your value to an employer, don't be afraid to propose alternative compensation structures. For example, if the value of an initial offer seems low, you might propose performance-based incentives or a salary review after specific goals have been achieved. Indicating that you know your worth, while demonstrating flexibility, can help create a mutually beneficial outcome for executive and employer alike. Your wealth management team is here for you throughout the process.

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