# Fairport's Five

## Tips for Executives Considering a Transition

Transitions are unavoidable in life, but we often view them with trepidation. This fear can motivate us to avoid change and miss opportunities. The reality is that transitions can open doors into exciting new chapters. Being prepared to welcome those transitions with grace is simple if you arm yourself with the necessary information by asking the right questions.

Fairport Partner Emily Shacklett recently teamed up with Ann-Marie Ahern of McCarthy, Lebit, Crystal & Liffman to present on the topic of negotiating executive compensation and benefits. Whether you are changing careers, interviewing with a new company or entering retirement, we have synthesized that presentation into five valuable tips for avoiding common pitfalls as you prepare for your inevitable transition:

### BUILD THE RIGHT TEAM OF ADVISORS TO USHER YOU THROUGH THE TRANSITION

Negotiating career changes and preparing for retirement are two of the most important decisions you will make during your lifetime. Having objective advisors to assist you in asking the right questions, identifying issues and negotiating on your own behalf is critical. As you build an advisory team, consider the following experts:

1. An attorney with a specialty in the legal aspects of employee compensation and benefits
2. A wealth manager who can assist in comparing/analyzing the financial aspects of a package as it relates to your overall personal and family financial goals and risk management needs
3. A CPA who understands your tax situation and how you will be impacted from a tax perspective

### KNOW WHAT YOU ARE GIVING UP WHEN YOU WALK AWAY

Whether you leave for a new job or choose to retire, watch out for benefits that are subject to forfeiture or pro-ration. Executive compensation plans are complicated with provisions varying from year to year. Don't make assumptions and get taken by surprise. If you know what you are forfeiting in advance, you can plan for it in your retirement cash flow or negotiate with your new employer to receive a signing bonus or an equity grant to offset the loss. Here are some benefits that could be lost or reduced when walking away:

1. Unvested restricted share grants
2. Unvested or unexercised stock options
3. Unvested pensions or company match dollars
4. Signing or retention bonuses
5. Reimbursement for relocation, education, etc.



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## UNDERSTAND YOUR TOTAL COMPENSATION PACKAGE

Compensation is not just about base salary. As a matter of fact, in many instances that is the smallest piece of the compensation pie. When you are considering a new position(s), create a one page comparison of total compensation for your current position versus the opportunities. Your spreadsheet might include:

1. Base salary – amount, frequency of increases and average percentage of increases
2. Bonus compensation – structure, measurements and average amount/percentage
3. Equity grants – What types of programs are you eligible for and when/how do you vest in those benefits?
4. Retirement benefits – Are you eligible to participate in a pension and what is the company match? When are you eligible to participate in the 401k and what is the company match?
5. Other benefits that might fly under the radar but can have a big impact: medical and dental coverage, life and disability insurance, parking and auto allowances, memberships and dues, development and education.

## NEGOTIATE THE EXIT PACKAGE ON YOUR WAY IN

This may seem counterintuitive like anticipating a divorce before you walk down the aisle, but your negotiating power is strongest at this stage. While you are still in the courting stage with your new employer, consider the following which could be opportunities for negotiating more favorable terms:

1. Are you employed at-will or is there a contract for some period of time?
2. Are you eligible for severance pay and if so, for how long and in what amount?
3. Are you subject to a non-compete or non-solicitation agreement and what are the terms?
4. When you retire, what benefits are subject to forfeiture or pro-ration?

## DON'T FORGET TO CONSIDER THE TAX IMPLICATIONS

It won't come as a surprise to most of you that federal tax is taking a bigger bite out of your compensation than it did in years past:

1. The highest marginal bracket is back up to 39.6%
2. Capital gains rates for the highest marginal brackets have increased to 20%
3. Many are being subjected to the new 3.8% Medicare surtax
4. Phase-outs are back in play
5. AMT is always lurking around the corner

It is critical to understand the varying tax implications of retirement, negotiating compensation packages or making decisions about equity-based compensation. If you are an executive facing these issues, contact a member of your Fairport team to start planning a long term strategy to help you achieve the most beneficial tax outcome possible. Not yet a Fairport client? Call Emily Shacklett at (216) 431-2738 to learn how Fairport makes a difference for executives in transition.