

## Case Study

### An Attorney with Company Stock and Stock Options

Some clients work extremely hard in their careers, and in the end, they are compensated for their efforts and company commitment. A knowledgeable, dedicated Financial Advisor helps such clients make the right decisions at the beginning of retirement, which allows them to have an enjoyable life.

#### Background

Our client was the retired chief patent attorney who worked for a Fortune 100 international oil company. The client was well rewarded during his career and earned \$7 million of qualified and non-qualified stock options. The client also had \$4 million of pension and 401(k) holdings of which \$2 million was company stock.

#### The Client's Goals and Our Solutions

The client sought guidance for a customized financial plan focused specifically on the tax treatment of concentrated stock both inside and outside of the corporate retirement plan. Comprehensive strategies to diversify those holdings and create a stable income stream for retirement were also needed.

| Client's Goals                                                                                                          | Our Solutions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| <b>Dealing with Company Stock</b><br>The client wanted to know the best way to handle and distribute his company stock. | The client accumulated company stock in his employer 401(k) plan that had a very low cost basis at purchase. We conducted a <b>retirement plan distribution calculation</b> to consider distributing some of these company stock shares as <b>Net Unrealized Appreciation (NUA)</b> . Based on the client's current and potential future tax situation, we distributed the lowest cost basis shares through NUA and re-titled the ownership of these shares to maximize the federal estate exemption. This strategy enabled the client to take a larger portion of the 401(k) money that would normally be taxed at ordinary income tax rates upon distribution, and instead, pay ordinary income taxes on the total cost of the shares, while being taxed at capital gains rates on the gain of the stock.                                                                                                                                                                                                 |
| <b>Handling Stock Options</b><br>The client was looking at how to get the best return on his accumulated stock options  | The client was faced with decisions on how to handle his company stock options, both <b>incentive stock options (ISO)</b> and <b>non-qualified stock options (NSO)</b> , at retirement. Because of the preferential tax treatment of ISOs, we determined that the client should exercise those options before they would convert to non-qualified stock options. To secure the capital needed to exercise those incentive stock options, we structured a <b>Liquidity Access Line (LAL)</b> on the client's portfolio, which enabled him to borrow against his securities. We then setup a covered call strategy on the shares he owned that were not from exercising stock options to generate some income from writing call options. Based on the income from writing the covered calls, the dividends paid by company stock, exercising some of the non-qualified stock options, and the interest/dividends paid by the remaining portfolio, we were able to pay down the loan over a three year period. |
| <b>Estate Planning</b><br>The client wanted to leave some of his wealth to charities.                                   | We helped set up a <b>charitable remainder trust (CRT)</b> because the client had a secondary goal of leaving assets to a charity. The CRT provides income, helps diversify the concentrated position, and will leave assets to charitable interests.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

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