Comprehensive Wealth Management for Corporate Executives

INTRODUCTION

As a successful corporate executive, you face unique challenges. Your personal wealth is linked inextricably to the fortunes of your company. Your investment portfolio may be heavily weighted with employer stock and stock options that are subject to rules of which you may not be aware. You probably spend so much time at work that you have little left over to focus on securing your financial future.

Morgan Stanley and its affiliates offer services expressly designed for executives like you. Your Financial Advisor is your link to extensive resources that can help you make more informed choices and manage your wealth more effectively. You’ll gain a greater understanding of the risks, as well as the rewards, of employer stock ownership and the need to integrate your corporate benefits with the rest of your overall wealth plan. As one of the world’s most respected financial services firms, we stand ready to provide you with solutions that extend far beyond your investment portfolio to encompass numerous aspects of your financial life.
A Comprehensive Approach to Wealth Management

Your Financial Advisor employs a client-focused process that integrates your corporate holdings and benefits with other aspects of your finances. Specifically, you can count on him or her to work closely with you in the following manner:

Step 1
**DISCOVER:** Our relationship begins with a thorough understanding of you — your needs, your lifestyle and family, and your goals for the future. We take inventory of your employer holdings and benefit programs, as well as other investments and liabilities, and we ask you about your objectives, risk tolerance, tax concerns, liquidity needs, time horizon and other circumstances that might impact your strategy.

Step 2
**CREATE:** We work with you to develop a road map to help you achieve and protect the outcomes you envision. Central to our process is our LifeView® suite of tools, which enables us to formulate and stress-test tangible recommendations for helping to meet retirement expenses, protecting your wealth from the potential impact of health care expenses, transferring wealth to your heirs and achieving other important objectives.

Step 3
**ACT:** Next, we can help you implement investment, retirement, trust services, cash management and identify potential lending solutions and insurance solutions suited to your needs. And if appropriate, we plan and implement the exercise of incentive and/or non-qualified stock options, as well as the sale of eligible restricted or control securities. Most important, we help integrate your company equity holdings into your overall financial strategy including incentive and non-qualified stock options, control and restricted stock, restricted stock awards and units, performance awards and employee stock purchase plan shares.

Step 4
**ADJUST:** Achieving your goals requires vigilance and flexibility. We help you monitor your progress and make adjustments as you approach retirement, consider changing jobs or undergo life events that require reprioritization.
The Morgan Stanley Advantage

Morgan Stanley offers a variety of proprietary capabilities that can make a difference in your ability to achieve your most important financial goals:

**LifeView™**
Using our suite of tools, your Financial Advisor can create your personal road map to help you achieve and protect your goals — a framework that makes the connection between your life goals and your financial resources, and provides a baseline for future discussions. LifeView helps your Financial Advisor to:
- Analyze your current investments and financial situation, including executive compensation
- Review and prioritize your goals for:
  - Retirement
  - Education funding
  - Major purchases
  - Philanthropic goals
- Protect your goals
- Develop wealth transfer strategies

**OneView**
Banking relationships, brokerage accounts, trusts, insurance — most people pursue their objectives with strategies developed at different times by different advisors at different financial institutions. With OneView, Morgan Stanley's account data aggregation tool, you gain immediate access to your enrolled accounts, no matter where they're maintained, and all your financial activities, regardless of where you conduct them.

OneView can consolidate all of your financial information in one convenient location, with daily valuation and direct mapping to your LifeView™ financial goal analysis or financial plan. It provides you with an overview of the assets and liabilities you enrolled in OneView, and it helps you and your Financial Advisor uncover risks and opportunities you might never have known about otherwise. With perspective on both sides of your personal balance sheet, you’ll gain greater insight into whether strategies are truly working together or at cross purposes.

**Morgan Stanley’s Wealth Planning Centers**
Designed specifically for high net worth clients, Morgan Stanley Wealth Planning Centers provide valuable ideas and tailored solutions to help you preserve wealth. We work closely with experienced Planning Directors — many of whom are former practicing trust and estate attorneys — to bring your personal, financial and community goals into sharp focus. They can also work closely with your tax, legal and other professional advisors to help you design strategic and tactical strategies to help reach both your short- and long-term goals.

**Consulting Group**
Morgan Stanley has a long tradition of serving clients, from the individual investor to larger institutions, providing each with appropriate investment consulting advice and services. The firm’s Consulting Group uses a disciplined four-step investment advisory process that begins and ends with each client. It is a method designed to help you reach your investment objectives, maintain a diversified portfolio and manage your exposure to risk. Your Financial Advisor will help you:
- Set Your Financial Objectives
- Define an Investment Strategy
- Evaluate and Select Investments
- Perform a Periodic Review of your Allocation and Investment Strategy

To help you meet your investment needs, Consulting Group’s programs draw on the global resources of Morgan Stanley; offering guidance in asset allocation, choosing a professional asset manager, selecting complementary investment products and managing complex account structures effectively. As part of entering into an advisory relationship with your Financial Advisor, you have access to:
- Asset Allocation as a way to help you manage risk and achieve your long-term goals. The Morgan Stanley Wealth Management Global Investment Committee (GIC) applies the findings of its analysis teams across a range of assets to provide input for Consulting Group’s asset allocation models that are calibrated to a range of risk levels and can be adjusted as markets move.
- Investment manager analysis to help you choose asset managers for your portfolio. The Global Investment Manager Analysis team consists of professionals experienced in evaluating more than 1,300 traditional and alternative-strategy investment products, including separately managed accounts, mutual funds and exchange-traded funds.
- Investment Selection of complementary products for your portfolio. Your Financial Advisor will work with you to select investments that are optimally aligned with your investment objectives and risk tolerance.
- Ongoing Review Process of your portfolio for account rebalancing, updating your asset allocation, synchronizing portfolio construction or other services to be more in line with your investment strategy.
- Holistic Advice that seeks to expand the ways your Financial Advisor can help you define, pursue and meet your financial objectives.

No two individual investors are alike, however similar their financial, professional and personal characteristics may appear. Each investor brings a unique set of financial goals, time horizon and tolerance for risk to the investment process. When you invest through Consulting Group’s investment advisory programs, you gain access to a range of services backed by the extensive manager analysis capabilities, intellectual capital and global reach of Morgan Stanley.
Meeting Your Most Important Goals

With the support of experienced Morgan Stanley professionals in such disciplines as estate planning, philanthropic giving and liability management, you can create and implement strategies to:

Retire as Anticipated
Most successful executives never really retire. They go on to pursue new passions, serve on boards or maybe participate in entrepreneurial ventures. Often, however, retirement brings new financial challenges. Instead of accumulating assets, they must now focus on preserving them and generating income to sustain them for the rest of their lives. Instead of simply managing market risk, you must now also consider longevity risk—the possibility of outliving your assets—and unforeseen health care expenses.

At Morgan Stanley, we are committed to helping executives understand the new challenges they face and how to meet those challenges successfully. Our team provides such services as:

- Extensive cash flow analyses to help you estimate retirement expenses and determine whether you can meet them with existing resources.
- Customized retirement income strategies to meet day-to-day expenses and major acquisition objectives.
- Personalized recommendations for managing longevity, inflation, market and health care cost risk.

Transfer Wealth and Leave a Meaningful Legacy
Your estate is about more than money and taxes. It also includes your values and what else you hope to leave behind. Planning for your estate and legacy is important for you and for future generations of your family. This can help ensure the financial security of your children, while taking into account their dreams while establishing goals for the disposition of your wealth and mitigating estate taxes. Working with your Financial Advisor and your attorney, you can create a plan that helps protect and provide for your family’s future. Your Financial Advisor can provide you with access to Morgan Stanley Planning Directors who are available to collaborate with your attorney, accountant and other advisors in developing strategies to minimize estate tax which can enable you to retire as anticipated. In addition, your wealth plan may include trusts (see sidebar), beneficiary designations and lifetime giving programs that enable you to maximize gifts to heirs and charitable organizations, minimize family conflicts, ensure your assets are used as you intend and provide for heirs who don’t have the experience or inclination to manage assets.

Protect Your Family
One technique used by some executives is Survivorship Life Insurance which insures two or more people, pays a death benefit only on the last death and allows for a lower premium than an individual policy. Survivorship policies could be used to help couples provide for their children or to help pay for estate taxes. Annual gifts can be made to an irrevocable life insurance trust which owns the policy to pay the premiums of the policy while keeping the proceeds out of the donor’s estate. Insurance specialists are available to consult with executives about protecting themselves and their families from:

- The financial impact of premature death
- Unforeseen long-term care expenses
- The possibility of liquidating real estate or other illiquid assets to meet estate tax liability

Morgan Stanley maintains relationships with a number of well-known insurance companies to provide you with impartial, cost-effective solutions for your protection needs.

Fulfill Your Philanthropic Aspirations
Supporting charitable organizations can be surprisingly challenging—particularly when that support involves
substantial contributions of stock, real estate and other complex assets. To assist executives and their families with these issues, we offer access to Morgan Stanley professionals who can help you assess your philanthropic goals and determine how best to achieve them. This may involve creating a philanthropic mission statement, researching various charities and helping children and grandchildren develop the leadership skills necessary to serve on a nonprofit board or run a family foundation. You can be assured that whatever philanthropic strategy you choose will be implemented within the context of your overall wealth management and estate planning strategy.

**Meet Investment Objectives**

Morgan Stanley Wealth Management’s Global Investment Committee plays a key role in our portfolio construction efforts. Responsible for generating macro investment themes, the Committee is composed of seasoned investment professionals from the firm’s wealth management and institutional businesses. Every Committee member offers extensive expertise that spans the global spectrum of asset classes and strategies.

To determine the investment outlook for our wealth management clients, the Committee draws on the best minds within Morgan Stanley plus third-party market experts. They monitor developing economic and market conditions, review tactical outlooks, recommend asset class weightings, as well as produce a suite of strategy, analysis, commentary and other reports and broadcasts.

Gifting Employer Stock Now Can Reduce Estate Tax Later

You’ve acquired a substantial position in your employer’s stock and will continue to accumulate shares until you retire. If you’re planning on leaving part of your holdings to loved ones someday, you might want to consider giving them away while you’re still alive. Not only will you remove the shares from your taxable estate, but you’ll also remove any future appreciation experienced by those shares.

Currently, you can make annual gifts of up to $14,000 a year to each of your children, grandchildren or any other person you wish without incurring gift tax. In addition, you can take advantage of a $5.43 million in 2015 federal lifetime gift tax exemption when you wish to make gifts above that amount, or double that amount if you are married. Beyond your lifetime exemption, you might consider a number of sophisticated strategies involving trusts that offer the ability to:

- Remove shares and/or future appreciation from your estate
- Possibly benefit from income generated by your shares while you are still alive
- Transfer shares to beneficiaries with no estate tax

Trust candidates include Grantor Retained Annuity Trusts (GRATs), Charitable Remainder Trusts (CRTs) and Charitable Lead Annuity Trusts (CLATs). GRATs, in particular, have proven popular with executives who wish to transfer shares to family members, not charitable organizations. They also enable you to receive income generated by those shares while you are still alive.
Helping You Maximize Your Equity Compensation

Restricted stock and stock option grants are potentially valuable perks that can go a long way toward increasing your financial security.

At the same time, however, they are exceedingly complex and failure to understand how they work and what you must do to take full advantage of them can prove detrimental to your financial security.

At Morgan Stanley, we have a deep understanding of equity compensation that can help you make the most of your holdings. Some of the issues we can help you address include:

Understanding Your Equity Awards
Your employer is required to detail every aspect of its equity compensation plans, but you are responsible for knowing the rules. Often, the rules are complex and the plans are not clear. What happens to your equity awards should you decide to retire or leave your job for another employer? If you own performance shares, how does the plan work and what is your payout if performance goals are met? Equally important, what happens if goals are not met? Do you understand the differences between nonqualified options and incentive stock options? What about restricted stock and restricted stock units? At Morgan Stanley, we can help you answer these questions and equally important, ask the right questions before making any decision that might be irrevocable.

Company Stock Trading Capabilities
As a senior executive, you may be subject to:
• RULE 144, which governs the sale of control or restricted stock.
• SECTION 16 FILING OBLIGATIONS, which disclose any changes in beneficial ownership to the SEC.
• INSIDER TRADING POLICIES, aside from SEC resale regulations you may be subject to your own company’s restrictions on sales or other liquidity strategies.

With Morgan Stanley’s platform, you gain access to seasoned professionals who are available to help you maximize the value of your holdings, while remaining in compliance with applicable regulations and market practices. These services can prove especially beneficial when you’re faced with narrow trading windows and the challenge of liquidating thinly traded stock positions.

Complying With Other SEC Regulations
Restricted stock may be an important component of your overall wealth, so it’s critical that you understand how these holdings are taxed before you decide to sell them. In addition, restricted stock shareholders are subject to SEC regulations that can limit the amount of shares you can sell, enforce a holding period before you can sell them and require documentation when making transactions.

If you own restricted stock, you can look to us for assistance in understanding the tax ramifications of any transaction you might be contemplating. In addition, Morgan Stanley provides you with access to comprehensive services that can help you comply with SEC Rule 144 when selling restricted, control or shelf-registered securities. These services include due diligence, form filings and interaction with transfer agents, as well as trading assistance to ensure that trades are executed in a timely and efficient manner.

Increasing Your Liquidity
As a senior executive, you may be subject to corporate blackout periods during which you are not allowed to sell your company’s stock. Even when blackout periods are not in effect, you may find yourself hesitant to sell stock for fear of appearing disloyal or triggering signals associated with insider transactions.

We can show you how a 10b5-1 trading plan can help you sell or acquire employer shares. The plan may protect you against claims of insider trading, while enabling you to dispose of shares and diversify your portfolio. Or, if you wish, you can purchase shares on a pre-scheduled basis and add to your company stock position.

Many clients with control or restricted stock may not be allowed to readily sell their securities. But that doesn’t mean these assets need to stay idle. In fact, a securities-based loan against your eligible restricted or control stock positions as collateral can
put these assets to work for you—by financing a particular purchase, generating cash flow for taxes and other obligations, or raising capital to pursue investment opportunities.2

Deferring Compensation
Executives who are offered participation in a nonqualified deferred compensation plan have a number of critical choices to make:
• Should you participate and, if so, how much can you afford to defer, given current and projected future expenses?
• Does the plan allow for periodic distributions that can be taken strategically—when a child enters college, for example—or are funds tied up until retirement?
• Does the plan offer a fixed return each year or are investment options available?
• When should distributions be taken to minimize tax erosion?

Although rolling your retirement assets over to an IRA may typically be a sound strategy (allowing you to continue accumulating assets on a tax-deferred basis), it may not be the most appropriate strategy in your particular situation. For example, it may not make sense to rollover with the rest of your assets the shares of employer stock that you’ve acquired in your retirement plan. If you rollover employer stock into an IRA (or another eligible retirement plan), you will be taxed at ordinary income tax rates when you eventually receive distributions from the IRA attributable to such employer stock and will not be eligible for the favorable tax treatment that may have been available to you if you received an in-kind distribution of such employer stock from your former employer’s plan. In other words, you could lose a significant percentage of your holdings due to taxes, depending on your individual tax rate.

We’ve helped executives avoid unnecessary tax erosion by a strategy that we call Net Unrealized Appreciation (NUA):
• You roll over only nonemployer stock assets to an IRA (or another eligible retirement plan). You arrange for a distribution of your stock to a taxable account. Assuming certain requirements are met at the time of the in-kind distribution of the employer stock, you will be required to pay income tax on your cost basis—the price of the shares when you acquired them under your former employer’s plan.
• A qualified plan distribution of “employer securities” may be eligible for favorable tax treatment if certain conditions apply. If your stock in your former employer’s plan has appreciated in value from the time you acquired it until the date it is distributed from your former employer’s plan, that gain is considered Net Unrealized Appreciation (NUA) and is not taxable at the time of the distribution from your former employer’s plan. The cost basis of the stock (i.e., what you paid for the stock in the plan) is taxed as ordinary income in the year the distribution is received. When you sell the employer stock, the sale is taxed as capital gains on the NUA. If you roll over the stock to an IRA you lose the ability to apply this special tax treatment to your employer securities—NUA is not permitted in IRAs.
• When you eventually sell your stock, you will be taxed on NUA at long-term capital gains tax rates, which is typically 20%. Any appreciation occurring after the stock is distributed from your former employer’s plan will be taxed when you sell the stock as either short-term or long-term capital gains, depending on how long you held the stock after it was distributed from the plan.

While this strategy is complex and may not necessarily apply to every executive, it is an example of how we help our clients protect their hard-earned money from forces like unnecessary taxation and market decline.
Wealth Management Is What We Do

Morgan Stanley is one of the world’s largest, most respected wealth management firms. Since 1935, we’ve been a reliable partner for individuals, families, businesses and institutions.

Investment excellence is our guiding theme. It’s the benchmark that shapes every service we provide as we help you envision your goals and achieve measurable success. Contact a Morgan Stanley Financial Advisor for a complimentary consultation. He or she is your link to the extensive resources that can help you meet the challenges standing between you and your ultimate financial objectives.

1 Morgan Stanley Smith Barney LLC (“Morgan Stanley”) and its affiliates and their employees (including Financial Advisors and Private Wealth Advisors) are not in the business of providing tax or legal advice. Individuals should consult their personal tax advisor or attorney for matters involving taxation and tax planning and their attorney for matters involving personal trusts and estate planning.

2 Borrowing against securities may not be suitable for everyone. You should be aware that securities-based loans involve a high degree of risk and that market conditions can magnify any potential for loss. Most importantly, you need to understand that: (1) Sufficient collateral must be maintained to support your loan(s) and to take future advances; (2) You may have to deposit additional cash or eligible securities on short notice; (3) Some or all of your securities may be sold without prior notice in order to maintain account equity at required maintenance levels. You will not be entitled to choose the securities that will be sold. These actions may interrupt your long-term investment strategy and may result in adverse tax consequences or in additional fees being assessed; (4) Morgan Stanley Bank, N.A., Morgan Stanley Private Bank, National Association or Morgan Stanley Smith Barney LLC (collectively referred to as “Morgan Stanley”) reserves the right not to fund any advance request due to insufficient collateral or for any other reason except for any portion of a securities-based loan that is identified as a committed facility; (5) Morgan Stanley reserves the right to call securities-based loans at any time and for any reason. With the exception of a margin loan, the proceeds from securities-based loan products may not be used to purchase, trade, or carry margin stock (or securities, with respect to Express CreditLine); repay margin debt that was used to purchase, trade or carry margin stock (or securities, with respect to Express CreditLine); and cannot be deposited into a Morgan Stanley Smith Barney LLC or another brokerage account.

3 Insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC’s licensed insurance agency affiliates. A minimum of $5 million investable assets or $10 million net worth.

4 Although they may be admitted attorneys, Planning Directors and other Wealth Planning Center personnel holding legal degrees are acting purely in an advisory capacity. They are not Morgan Stanley attorneys. They do not provide tax or legal advice, and are not “fiduciaries” (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in a written agreement with Morgan Stanley. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.

5 In Consulting Group’s advisory programs, alternative investments are limited to US-registered mutual funds, separate account strategies and exchange-traded funds (ETFs) that seek to pursue alternative investment strategies or returns utilizing publicly traded securities. Investment products in this category may employ various investment strategies and techniques for both hedging and more speculative purposes such as short-selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative investments are not suitable for all investors.

6 Each of the options offers advantages and disadvantages, depending on your particular facts and circumstances (including your financial needs and your particular goals and objectives). The decision of which option to select is a complicated one and must take into consideration your total financial picture. To reach an informed decision, you should discuss the matter with your own independent legal and tax advisor and carefully consider and compare the differences in your options, including the available investment options, the fees and expenses associated with each, the services provided, the credit protection provided under applicable law, the distribution rules (e.g., differences in required minimum distribution rules and the exceptions to the 10% penalty tax on early distributions), and, if you hold appreciated employer stock in your current plan, the differences in the tax treatment of such stock under each option. Of course, other considerations may apply to your specific situation and the importance of any particular factor will depend upon your needs and circumstances.

Morgan Stanley Wealth Management offers a wide array of brokerage and advisory services to its clients, each of which may create a different type of relationship with different obligations to you. Please visit us at www.morganstanleyindividual.com or consult with your Financial Advisor to understand these differences.

Morgan Stanley Smith Barney LLC is a registered Broker/Dealer, Member SIPC, and not a bank. Where appropriate, Morgan Stanley Smith Barney LLC has entered into arrangements with banks and other third parties to assist in offering certain banking related products and services. Investment services are offered through Morgan Stanley Smith Barney LLC. Unless specifically disclosed in writing, investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by, a bank and involve investment risks, including possible loss of principal amount invested.

About Morgan Stanley

Morgan Stanley (NYSE: MS) is a leading global financial services firm providing investment banking, securities, investment management and wealth management services. With offices in more than 43 countries, the firm’s employees serve clients worldwide including corporations, governments, institutions and individuals. For more information, visit www.morganstanley.com.

Morgan Stanley Wealth Management is Comprised Of:

• More than 16,000 Financial Advisors
• 600+ branches
• About $2 trillion in assets under management

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