

# Is Your Job Secure?

How to Protect Yourself from a Slowdown in the  
Pharmaceutical and Biotech Industries ~

*Taking the Research and Development Out of Wealth Management*

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**A** *vested Interest*  
WEALTH MANAGEMENT

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## Introduction: Surviving the Slowdown

The Wall Street meltdown has affected almost every sector of the U.S. economy and, indeed, the world economy. Even industries with excellent long-term potential, such as pharmaceuticals and biotech, are not immune from the macroeconomic winds.

For executives, in pharmaceuticals and biotech, these are anxious times. Formerly high-flying companies are struggling. R&D money is scarce. Pharmaceutical and Biotech companies are looking for methods to penetrate their market other than simply sending sales representatives to meet with doctors. Companies are trying to become more efficient and cost effective with R&D, as well as sales and marketing. According to Tufts Center for Drug Development (TUCDD) the cost of developing a new drug, including the failures, is \$1.24 billion. According to Ken Kaitin, Director of TUCDD, “the companies that are most successful to adapting attribute their performance to IT and pride themselves in being a global pharmaceutical company.” Kaitin continues, “The landscape has changed the influence is mid-pharma.” With the FDA under more scrutiny, drug approvals are likely to become even slower. Bonuses are down, and layoffs loom. At more than a few companies, executive-level staffing has been pared back, too.

Executives have to balance many factors today. They have to steer their companies in the right direction, which requires keeping an eye out for current cash-flow needs and also making investments for long-term competitiveness. They have to keep top talent onboard and committed for the long term, even if incentives such as stock options appear likely to be underwater for a while. Executives know that the financial risks inherent in developing new medical treatments have become even greater at a time when the U.S. is in a recession.

On a personal basis, the task for executives is just as challenging. Pharma and Biotech executives have to consider the fact that their divisions might bear the brunt of corporate cutbacks. More severely, their companies might not survive the recession. Mergers, acquisitions, cross-border alliances, downsizing—these developments are likely to occur at a rapid pace.

Executives feel tremendous responsibility for everyone else on their team and in their company. This loyalty and concern is important, and one reason why executives have risen to the top. However, the downside of this focus on others is that executives often don't think about their own interests until it's too late. It's not unusual for an executive to be “blindsided” by losing his or her job because of a total focus on the big picture and everyone else's jobs.

During any time, a lack of attention to personal finances and career path can create substantial problems. During a time of economic turmoil, the consequences can be especially severe. However, Pharma and Biotech executives need to wake up to the reality that their industries are struggling along with the rest of the U.S. and world economy. Senior executives have a tendency to think their job is ok despite what is happening within their industry or individual company. The truth is that losing a job has a way of focusing the mind. That focus is needed, right now.

Fortunately, executives are well-positioned to weather the storm. With high incomes, excellent credentials, and extensive peer networks, executives are more able than most to adjust. Corporate restructurings can even be moments of unexpected opportunity. However, job loss is never easy. It's important to be prepared, rather than assuming that a job will always be secure.

This White Paper provides a roadmap for pharmaceutical and biotech executives to prepare for a changed business environment. This paper reviews many of the key career and financial issues that an executive

might face, and how those issues can be addressed. Whether an executive's career path continues on a steady upward trajectory or whether the recession creates a bump in the road, a smart executive will be prepared. The lessons for an executive's personal finances are no different than the lessons in the corporate suite: Understand the rules, invest for the future, and be prepared for surprises.

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## Pharma and Biotech During Tough Times

Although the U.S. is in a recession, some business sectors are more insulated from troubles than others. It's fair to say that the pharmaceutical and biotech industries are not going to collapse in the way that the mortgage industry did in 2007 and the banking and auto industries did in 2008. Demand for healthcare from an aging population is growing, and pharma and biotech are delivering targeted solutions. They are poised to become even more important to the economy in the future than they are today.

Yet, indications are that growth in both industries is being affected by the recession and other economic trends. Ernst & Young reported that biotech industry revenues and venture capital investment were at record levels in 2007, but that venture capital fell substantially in the first half of 2008 (even before the credit crunch on Wall Street). In a report in mid-2008, E&Y had this to say about the near-term outlook in the U.S., Europe, and Asia: “With the rate of sales growth and pipeline productivity for the big pharma companies slowing and pricing pressures intensifying from generic competition, customer consolidation and government health authorities' cost-containment policies, the big pharma business model and stock prices are under siege.”

It makes sense that venture capitalists have pulled in the reins right now for unproven drugs. But pharmaceutical companies report that they are having difficulty with established products, too. For example, university hospitals have changed their conflict-of-interest policies and, in some cases, now do not allow pharma sales reps to make informational presentations that could be interpreted by outsiders as “marketing” programs.

In this challenging environment, executives operating in these industries must think about their careers, as well as the welfare of their companies. Every corporate leader should be asking if his or her unit is producing cash for the company, and whether the department is central to the company's mission and long-term growth. Executives who are heading divisions or departments that are on the periphery of a company's strategic objectives might find their budgets cut or even eliminated in a slow-growth or no-growth environment.

A Vested Interest Wealth Management, a wealth management firm in New York City, conducted a survey of more than 40 pharma and biotech executives in 2008. The executives were asked about their companies

and their careers. Is growth slowing -- and in which areas? Are executives concerned for their jobs? What are they doing about it?

The dominant theme to emerge from the survey is that pharma and biotech executives are feeling more pressure than ever before. The pressure is coming from the boardroom, but also from the relentless pace of the industries today. That pace is putting such demands on executives that they can't think ahead about their own personal needs, and thus they are not ready for a potential job loss. As one respondent to the survey said about his lack of financial planning... "Companies are outsourcing more and more, [so I am] on conference calls at 9:30, 10:00 PM talking to Japan or India." When does he have time for himself, his career, and his family?

Here are direct quotes from industry executives about the impact of the economic downturn and how it is affecting them:

### **Slow Growth**

- "Biotech and pharmaceutical companies of all sizes are struggling now."
- "A lot of companies don't have infrastructure needed to grow."
- "Layoffs started a few years ago and will continue for the next 5-10 years."
- "The most challenging business climate I have seen in my career."
- "Pricing pressures [on drugs] is our worst nightmare."

### **High Pressure**

- "The days of companies throwing money at a candidate have come and gone."
- "If your compensation requirements are not in their budget, they will not talk to you."
- "Executives are under more pressure than ever. There is a higher speed of change and very little time for social activities."
- "I see tons of documents to review, and e-mails kill my spare time in the office. Corporate life is tougher now than 10 years ago."

### **Rapid Change**

- "Being at a company for a lot of years is not a plus on your resume. It may show that you are inadaptable."
- "Prepare for the worst, and hope for the best."
- "Staying on top of the technology is more important than ever."
- "Our company wants executives who also have Project Manager designations."
- "During a recession, you see more new businesses forming."
- "There's a lot more pressure to manage innovation without increasing costs."
- "People have to be prepared to reinvent themselves."
- "Patent reform is causing a lot of worry."

### **New Horizons**

- "My biotech company might be bought out. Am I willing to relocate?"
- "My stock options are underwater. What happens to the options if I leave my company?"

- “It might be time for me to leave biotech. Can my skills and contacts transfer into venture capital or a consulting to the industry?”

Do those comments sound familiar? If so, it might be time to analyze your career path and to get your financial house in order. Now is the time to ensure a stable foundation so that you can make long-term, strategic decisions, rather than being caught by surprise.

The words of executives in the survey reflect the experiences of high producers, leaders, innovators. For these people, personal identification comes through their companies and their achievements on the job. They are not prepared for an abrupt change caused by a corporate downsizing or merger. They can't imagine losing a job or having to transition to another company. But it could happen.

Job counselors say that executives are never prepared for losing a job. But the feelings of helplessness, anger, and stress can be greatly reduced if a solid financial plan is in place.

## Getting Your Financial House in Shape

Fortunately for senior executives, having a substantial income greatly eases the challenges of getting prepared for a possible layoff or job change. However, a surprising number of high-income earners are living paycheck-to-paycheck. For executives who are financially stretched or over-committed, it's especially important to act now—well in advance of an unexpected event. The majority of executives know about and are receptive to wealth management services. However the question remains, “What will they do about it?”

A Vested Interest Wealth Management recommends a few key steps:

1. Set up an emergency fund. Executives should have at least six months of living expenses in liquid assets, such as checking accounts, savings accounts, and money market accounts. In the current economic environment, having a year's worth of living expenses in an emergency fund would be a much better idea.
2. Understand cash flow needs. When large paychecks are coming regularly, it's easy to lose track of how much money is flowing out each month. Over time, many of us incur financial obligations for services that we don't use (or, at least, are not priorities). Take a look at expenses, and differentiate between those that are essential and those that are optional. By the way, identifying optional expenses does not mean that they have to be eliminated—it just creates a plan for economizing, if necessary.
3. Compare cash flow to net worth. Many pharma and biotech executives have been fortunate to accumulate significant stock positions in their companies. In the past, they have sold shares when they wanted to make a major purchase (vacation home, boat, club membership fee) or encountered a big financial obligation (private school or college tuition). In other words, their regular cash flow could not support the debt service, even though they were high-net-worth individuals. However, in the current environment, stock holdings won't go as far. A reassessment of net worth, in combination with cash flow, is necessary.
4. Get a snapshot of progress towards long-term financial goals. While some executives might be living beyond their means, many others have set aside considerable sums of money, even at a fairly young age. Many executives are actually surprised at their level of wealth—when retirement

plans, pensions, stock options, property, and other investments are combined. Now is an excellent time to take a look at your full financial picture and assess if you are “on track,” or if you are not on a path towards reaching your financial goals.

5. Diversify investments. Stock awards and options are among the most common ways to reward and incentivize biotech and pharma executives. However, investment portfolios that contain too much of one stock are vulnerable\*. As the rapid collapse of well-known financial companies demonstrated in 2008, there’s no such thing as guaranteed investment. The smartest thing to do is to build a diversified investment portfolio with a professional advisor, and to have that advisor adjust the portfolio when necessary. (\* Footnote -- By the way, having all your wealth tied up in three different pharmaceutical firms isn’t diversification, either. True diversification includes having investments across different industries, as well as having a mix of higher- and lower-risk investments, international investments, and more.)
6. Pay back any funds borrowed from a 401(k) plan. In the past few years, employers have been permitted by the Internal Revenue Service to make it easier for individuals to borrow against their 401(k) plans. Many executives have financed down payments on property, to meet private school or college tuition obligations, or supported other expenditures with 401(k) borrowing. However, funds borrowed from a 401(k) must be paid off within 90 days of leaving employment, or the borrowing will be treated as an early distribution from the plan. Early distributions will incur both income tax at the recipient’s tax rate and also a 10% penalty—a deadly combination at a time when income and bonuses are reduced.
7. Learn about an employer’s executive severance offerings. Every company has a different severance package, and these can often be designed to meet an executive’s needs. Start with the basics: What is a typical executive severance payment, and how is it calculated? Do the severance rules include “lockups” or delays related to stock holdings and options? How long does the firm pay for health insurance? What about life insurance or disability insurance? What would insurance cost if you need to pay for them, or had to share the cost after leaving? Are job outplacement services offered? Also, think about what arrangement works best for you—and be prepared to ask for it.
8. Find out about your spouse’s employment benefits. For executives with a working spouse, health care coverage (as well as income) can ease the transition to another job. There are costs effective alternatives to Consolidated Omnibus Budget Reconciliation Act (COBRA) for medical insurance such as: joining a state plan or joining an association that offers health coverage to their members (such as the National Association for Female Executives). Unfortunately, for the approximately 30% of executives whose spouses do not work, the financial burden of a job loss is even greater.

It can take a great deal of time and expertise to come up with the answers to the issues outlined above. Few executives have time to work on those details when they are engaged in managing their companies. Therefore, the solution for many executives is to work with an independent wealth manager.

Independent wealth managers work one-on-one with executives to develop long-term financial plans that ensure that executives are prepared. One executive in the survey, who is a client with A Vested Interest Wealth Management, reported that most of his colleagues “have a basic financial plan, but do not have custom-tailored wealth management solutions.”

The process begins by assessing an executive's personal and financial goals, and looking at an executive's income and net worth to see how those goals can be met. With the baseline plan developed, the wealth manager and executive can compare scenarios and optimize decisions as circumstances change over time. Should the executive cash-in company stock or options, and how much and when? Is the investment portfolio too risky, or perhaps not aggressive enough? What is the most tax-efficient way to purchase an investment property or to save for a child's college education? Is a severance package with a single, lump-sum a better deal than one that is received as a series of regularly scheduled payments over two years? Does an annuity make sense to secure a lifetime stream of income? If you are fortunate to be hired by a new company quickly, will they be replacing your lost equity compensation, bonus and stock options? These questions and many more, will arise.

## Prepare for the Possibility of Losing Your Job

There are a few recommendations a wealth manager may make, depending on the situation. According to Mark D. Risk, an employment lawyer focusing on executive contracts and severance agreement "Review all your benefits and make sure what your company has entered on their system is correct and what you are entitled to." Pay attention to details such as length of service, personal and vacation day accumulation, restricted stock and stock options, split dollar policies, Supplemental Executive Retirement (SERP) plans, deferred compensation, base salary and bonuses.

### ***If You Lose Your Job***

Executives rely on wealth managers to help them develop financial plans that encompass many issues, including retirement, health care, charitable legacies, and estate planning. In most cases, these are long-term decisions that can be anticipated years in advance. But having the financial plan in place is just as crucial for when situations change quickly, dramatically and unexpectedly—such as a job loss. Here's how a wealth manager might work with a client who is facing a corporate downsizing.

## Preparing Yourself for Job Loss

Executives need to be attuned to what is going on around them and how it will affect their career. Where is the organization going? What will the restructuring look like? If your department is getting restructured, it is a good time to think about making a job transition. If you are concerned, start job searching.

According to Anita Attridge, a career coach with The Five O'Clock Club focusing on Pharmaceutical and Biotech Executives, you should hope for the best and plan for the worst. She offers the following suggestions:

- Update your resume. Weigh your options. Think about if you would like to retire early or pursue another career. Reflect on your strengths and passions and target jobs based on those interests.
- Investigate. Are your skills transferable? Do you need to update your skills? According to Anita, "it is a skills issue." You may want to hire a career coach so you don't have to learn by trial and error.
- Contact search firms that specialize in your job and industry. But you need to realize that only 10% of jobs come from search firms. Search firms work for the companies, not for you.
- Senior executives need to realize they do not have as much competition per job; however there are fewer jobs.
- Do not spend too much time sending out resumes using the Internet. HR Executives can receive up to 1,000 Resumes per job. If you send out resumes online it is like playing the lottery; there is no guarantee it will ever get read.
- Network with colleagues; start with your colleague's peers on LinkedIn following this approach:
  - ♦ If there is someone you would like to contact, start by sending the individual a letter with 2 or 3 issues you would like to discuss with them.
  - ♦ Follow up with a phone call and try to learn about their organization and what the challenges are for people employed there. Set up a meeting to get to know each other. This is important because 80% of jobs are obtained from networking or people you directly contacted.

## ***Additional counsel***

A wealth manager may suggest an executive have a labor lawyer review any signed agreements made with the company, including a severance package. The lawyer can determine if there are areas of negotiation such as: the executive is just shy of early retirement eligibility, is close to being vested in the company pension, or is close to a vesting date for stock options or restricted stock.

It is also highly recommended that an executive have a CPA or tax attorney look over tax implications of IRS Legislation 409A, which can have severe implications on severance packages.

\*See Appendix XI: Case Study of 409A

### **Dealing with the Stress of Job Loss**

According to Dr. Gaby Cora, a Psychiatrist focusing on Executive Stress and a former employee at Pfizer: Senior people need to realize that normally putting themselves first is not a priority. This one time their career development depends on it. Pharmaceutical Executives are very focused people; however in today's environment they are afraid of losing it all. Retirement may not be as near as they thought because of stock market performance and many spend more than they actually have coming in earnings. They need to make sure they invest on a regular basis. Uncertainty is causing them a lot of anxiety; they may have to lay off employees – never a pleasant thought.

Dr. Cora says that Executives tend to have high self-esteem and have producing and performing qualities. But executives tend to see themselves through their work. They have dedicated their life to their company. It is tough for them to make adjustments when they are expecting to retire from a particular company, especially if their personality fits into the culture of the company. For any executive that is with a company for 10 or more years, it is difficult for them to make a transition.

According to Anita Attridge, a career coach focusing on Pharmaceutical and Biotech Executives, the biggest risk of failure at a new company for an executive is that they will fail to adapt to the new culture. Ms. Attridge thinks the most important consideration for an executive during these uncertain times is “where does the Executive stand politically within the organization, especially if there is new management? At some point the Executive needs to get realistic; if they don't have strong backing, they need to look at what's out there.”

***The severance package.*** The executive's first priority is the severance package. As noted above, companies develop unique packages that are tailored to the specific needs of senior executives. The severance package could include the following:

- Income
- Bonuses
- Deferred compensation
- Equity compensation
- Pension
- Insurance (health, disability, long-term care, life)
- Job counseling/job search

The wealth manager will assess each element of the severance package and any alternatives that have been offered. Often, wealth managers who have several clients in the same industry are in a position to understand if a severance package is inadequate or generous, when compared with others.\* For example, a package might include the offer of 2x annual salary and bonus, plus an acceleration of the “vesting” of stock options. How does that compare to the standards in the industry, or to firms in the region? The wealth manager often can provide the answer. (\*Footnote: Many companies provide wealth management services to their executives as part of their compensation packages and severance packages. These services are valuable. However, they are typically focused only on the company’s benefits package. An independent wealth manager is in a better position to look at the broad picture of the fairness of compensation and severance, as well as to fit that package into an executive’s comprehensive financial plan.)

A wealth manager also will look at the benefits an executive enjoyed and will help suggest which ones are best to retain through a severance package. Each situation is unique, and different factors influence the decision. Maximizing the benefits for an older executive requires a different strategy than for a mid-career executive. Also, an executive who has already built a substantial cash reserve is in a better position to take severance benefits over a longer period of time (which probably has tax advantages). And a severance package will likely affect the tax obligation of an executive, so a wealth manager will work with an executive’s tax advisor to assure that taxes are properly accounted for.

Many companies provide pensions for their executives. These are “guaranteed” payments for the executive after retirement. However, nothing in this world is guaranteed, as problems on Wall Street showed in 2008. Pensions are only as strong as the company that is providing them, so for executives who are leaving struggling employers, a judgment must be made about the likelihood of that pension continuing for years or decades. A wealth manager will run calculations that enable an executive to compare the choice of getting a pension paid over a period of years with a much smaller payment that is received much sooner. When interest rates are high, pensions are often attractive because they are calculated on figures from the Department of Labor; however, when interest rates are low, it often makes more sense to take a lump-sum payment and invest it in a diversified retirement account.

***Beyond the severance package.*** Beyond the severance package, executives typically must think about the assets they have accumulated in their company’s 401(k) plan. For senior executives, this can be a seven-figure sum and can represent a large portion of their retirement assets. A departing employee has the option of leaving funds in the company’s 401(k) or shifting it to an Individual Retirement Account (IRA).

Owning large blocks of company stock can create tax obligations. If those stocks were purchased very inexpensively and the value of the company’s stock has increased substantially, the low “cost basis” of those shares would result in an immense tax bill if they are sold. A wealth manager can help an executive shift those shares into a taxable account outside a 401(k), while minimizing taxes to take advantage of long-term capital gains rates.

Most wealth managers recommend shifting to an IRA because they provide more flexibility in investment choices and usually at lower costs. The 401(k) made sense when an employer was matching some or all of an employee’s contribution, but without that match, 401(k) plans are rarely the best deal. However, it is possible 401(k) assets could be frozen for a while if a company is changing a 401k administrator; such as what happened to employees and executives at Enron. This is one of the reasons that a 6-12 month cash emergency fund is so important.

Wealth managers also can help with non-financial issues. For example, some wealth managers specialize in working with executives in specific industries. This occurs because wealth managers get most of their business through referrals, and people typically refer business colleagues, as well as friends, neighbors, and family. As a result, wealth managers often become informal job counselors, too. They know something about the business prospects in an industry because they are working with many executives in that field. They have contacts whom can help an unemployed executive find another opportunity. Don't hesitate to speak with your wealth manager about your career.

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## **An executive who has a financial plan in place will know if he or she is in a position to retire.**

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### **Should You Retire?**

For some executives, the emotional aspect of losing a job is more difficult than the financial aspect. A wealth manager is not a counselor or psychologist, but he or she often knows professionals who work with executives who are having difficulties during transitions. In some situations, executives have said that their job loss was a net benefit because it changed their outlook about their career options.

With demanding careers, executives have little time to consider issues in the distant future, such as retirement. With so much focus on running their departments, divisions and companies, who has time to think about the future?

But a downsizing is an opportunity to think outside the corporation. For many executives, it's an eye-opening experience and a chance to do something new. An executive who has a financial plan in place will know if he or she is in a position to retire, or to take a job at a significantly lower level of compensation.

When it comes to retirement, there is a major psychological component, of course. Are you ready emotionally to retire? What would you do with your immense increase in free time? Would you be happy doing that for a year, five years, or ten years? How about 40 years? Remember that the average male who is age 55 today can expect to live to be nearly 95, and the average female can expect to live to slightly more than 100. That's a lot of time to fill with golf, tennis, and boating.

Many executives look at retirement as a chance to start a new career and to share the skills and knowledge they have acquired with others. Some executives are interested in becoming teachers or mentors. Other executives join the board of a major non-profit in their area and help that group tap into corporate expertise. Other executives start small businesses or turn hobbies into part-time employment.

Regardless of the decision, having a well-organized financial plan is a crucial component to feeling comfortable with the choice. That's where a wealth manager has an impact.

### **Hire a Professional**

Many executives use accountants to prepare their taxes and to handle their financial affairs. They have invested a great deal of trust in the relationship with their accountants. Their accountants handle difficult

and complex tasks, and they provide excellent service and advice about tax-minimization strategies and related matters.

However, there's more to financial security than taxes. Accountants rarely see the full financial picture—because they are not trained to do so. They are focused on year-to-year tax issues, rather than the long-term strategy that will maximize an executive's financial security. That's the job of a wealth manager.

A wealth manager who works with executives brings a great deal of knowledge to the table. The wealth manager can help with:

1. **Executive Compensation.** These can include options, restricted stock, restricted stock units, split-dollar plan, SERPs, life insurance, disability and long-term care insurance, rabbi trusts and secular trusts, and different payment options for benefits. It also includes complying with Section 409A rules from the IRS about deferred compensation.\* (\* Footnote. Section 409A came into effect in 2005, covering accounting for executive deferred compensation, including severance packages. Failure to comply with the rules will generate a 20% federal tax penalty, in addition to back taxes. For this reason, wealth managers work in conjunction with CPAs to get correct calculations for Section 409A taxes.)
2. **Taxes.** Some wealth managers are CPAs, but even wealth managers who are not trained as accountants have learned about the tax impact of different forms of compensation. They can advise clients about the tax impact of choosing one benefit or another from an employer.
3. **Financial Planning.** This is the heart of the matter. It includes cash flow analysis, net worth analysis, retirement planning, and estate planning.
4. **Investments.** Wealth managers invest their client's money and/or oversee investment management with other professionals. These investments are designed to reflect an executive's tolerance for risk, while trying to help him or her reach long-term financial goals.
5. **Hedging strategies.** Because many executives have concentrations in corporate stock that are locked up for years, wealth managers can implement hedging strategies that reduce the impact of falling stock prices on those holdings. One executive in the A Vested Wealth Management Survey noted: "An enormous part of compensation is tied to company performance. The question is how to hedge it. The weakening or strengthening of the dollar can hurt our company's stock, depending in what markets we are in."
6. **Stock Options Planning.** Many factors come into play, especially when an executive is considering leaving his corporation:
  - **Forfeiture amount** – How much is being left on the table by walking away from the company?
  - **Grant value** – A small change in the price of the company's stock can increase a stock grant's value substantially.
  - **Market value** – What does the market value of the stock need to be for an executive's financial goals to be achieved?
  - **Concentration and diversification** – Holdings in company stock as a percentage of liquid assets (and whether the holdings should be diversified).
  - **Insight Ratio** – Showing the remaining theoretical potential of each option grant.
  - **Cash-Out Value** – The amount of money an executive would ultimately receive by cashing-out stock and pay taxes.
  - **Black-Scholes Analysis** – To calculate the value of stock options.

The wealth manager has another very important role. He or she brings together a team of professionals who will look after all of the complicated, interrelated financial issues. This will include the executive's CPA, but it will expand the circle to add an estate planning attorney, insurance agent, personal banker, and others. This network of highly competent professionals generates quick, accurate analysis so that the executive can move ahead with important decisions.

Also, an executive who is leaving his company might also need support to find that next career move. A wealth manager can line up professionals who can help to update a resume, provide career counseling, conduct head-hunting, and analyze the offer in an employment contract. For executives who are moving in order to take a new job, a wealth manager can find relocation specialists, mortgage bankers, and realtors.

## What a Wealth Manager Does for You

It's one thing for a wealth manager to say that he or she has particular skills. But it's another thing to understand how those skills can be put to use for your benefit. The survey by A Vested Interest revealed these results from pharma and biotech executives who already are working with wealth managers:

- “Frees up my time by working on planning the future I desire.”
- “Discovery Interview for me and my spouse helped us determine our needs, values, and goals.”
- “Determined [our] cash flow and figured out what the best alternatives were...keeping in mind what we know about my budget, outstanding debt, etc.”
- “Determined the concentration in [my] company stock and how much of it I can control. Evaluated restricted stock and options.”
- “What's a good exit strategy for my company stock holdings...and when would it make sense to do it.”
- “Evaluated hedging strategies to counteract concentration in my company's stock.”
- “Helped to maximize executive benefits for [my] spouse in the event I pre-decease.”
- “Explained my choices in the way benefits would be paid, and identified which set of alternatives made the most sense for me.”
- “Should I keep my group life insurance and disability coverage when I leave the company?”
- “Brought in a team of experts to brainstorm solutions [and] alternatives that were comfortable to me.”

With their personal finances in trusted hands, the executives express relief that they can concentrate on what they need to do for their companies and what they want to do in their lives. A Vested Interest Wealth Management calls it “taking the research and development out of wealth management.”

## How to Find a Wealth Manager

Choosing a wealth manager is a personal decision. It is based on your assessment of a manager's credentials and services, but it's also based on whom you feel you can trust. Comfort level matters a great deal. You will be working with your wealth manager on very sensitive issues that affect your life, and the life of your family (maybe even extended family).

To begin, you should expect a wealth manager to:

- Have at least 10 years experience as a financial service professional. There's no substitute for experience in this business, as you need to work with someone who has seen the market's ups and downs and has a proven track record.
- Have a network of strategic alliances with other professionals, such as lawyers, CPAs, and insurance experts. Think of the wealth manager as the leader of a team of people working for you.
- Specialize in working with executives. The needs of executives are unique. In particular, the wealth manager should have a demonstrated background in handling executive compensation issues.
- Limit the number of clients he or she works with. You should be able to expect personal attention to your unique situation.

**Referrals.** Begin your search for a wealth manager by speaking with friends and colleagues. Find out if they are working with an advisor, and if they are satisfied with their selection. There's no substitute for a good referral.

Then, go to that wealth manager's website and look at his or her credentials. Is this person a Certified Financial Planner™? Has this person earned additional accreditation in executive compensation issues, or can he/she demonstrate experience in that area? Does the firm have a team of experts who can oversee your needs? Is the firm affiliated with a larger firm—and what's the reputation of that firm, too?

**Website.** If you are satisfied with what you read online, contact the firm and ask for an initial appointment. You will likely be asked a few questions on the phone so that the firm can determine whether you are likely to be a good "fit" with its services. You might be asked to fill out a basic questionnaire prior to the first meeting so that the wealth manager can start that meeting efficiently and even ask a few specific questions about your needs and goals.

**Discovery Meeting.** Your first meeting is usually held at no charge, and it will last 1-2 hours. (Some wealth managers charge a fee for the first meeting as a way to discourage people who are not serious about taking control of their financial futures. Charging a fee for the initial consultation is considered appropriate practice in the industry.) You can come to that meeting with your own agenda, just as the wealth manager will be intending to learn more about you.

Think of this first meeting as the Discovery Meeting. It's a time for you and the wealth manager to get to know each other and to exchange information that can start a long-term relationship. The wealth manager will speak with you about your personal and financial goals, as well as your values and relationships.

You can ask the wealth manager about how he or she conducts business. You have to feel comfortable with the wealth manager because you are discussing personal information in great detail. Voice your concerns, as well as your hopes and goals. Get a sense of whether that wealth manager is listening to you.

\*See Appendix XI: Questions to ask at a Discovery Meeting

**Information Gathering.** You will leave that first meeting with a checklist of information that you need to provide to the wealth manager. It's possible that it will take you several weeks to compile this information. It can be a tiresome task. But it's a necessary step in the process. That information will form the foundation of the unique comprehensive financial plan and advanced wealth management planning services provided to you.

If you have questions while pulling together the information, contact your wealth manager. Discuss the new issues that have emerged. It's the perfect way to decide if this manager is the right "fit" for you.

**Initial Analysis.** After you have provided the necessary information, the wealth manager will produce an analysis of your current financial situation and ideas about how you can move towards your long-term goals. Producing the analysis will take several weeks or more, depending on the complexity of your finances and your goals.

**Following Meetings.** The analysis will be the basis for your second in-person meeting, at which those findings will be presented and discussed. You are encouraged to ask many questions at this meeting, and to explore alternatives that the wealth manager suggests. You will leave that meeting with the analysis and alternative scenarios in-hand.

A few weeks after the second meeting, you will have a third meeting with the wealth manager. You will have had the time to review the wealth manager's suggestions and to modify your own ideas. At this third meeting, you will decide whether to put some or all of the recommendations into action and to start implementation of your plan.

Follow-up meetings will occur on a regular basis. These will address other areas of executive life—such as tax-efficient strategies to pay off debt, evaluation of different compensation packages (or severance packages), stock issues, tax strategies, risk mitigation through long-term care insurance and annuity planning, wealth transfer, and more. If your circumstances change due to an employment change (or due to anything else), additional meetings will be promptly scheduled.

## In Conclusion

A life change such as losing a job can be an emotional challenge, especially for an executive who has devoted countless hours to managing and building a company. Losing that corporate and professional identity can leave an executive feeling overwhelmed, as well as putting new financial pressures on a his or her household. When a severance package is offered, the executive is often so surprised by the situation that he accepts it without understanding whether it is a reasonable or fair arrangement, or whether it meets his needs. The result is that the financial challenges of losing a job are compounded.

The answer is to be prepared for employment change, especially in the current economic climate. Being prepared starts by having a good understanding of your current financial security. It requires having a comprehensive financial plan that incorporates information about your income, employer stock holdings and other investments, financial obligations, and so on—all in the context of your long-term financial and personal goals. And it requires having a person you can trust—an expert who knows your unique situation—who is advising you.

Executives rely on independent wealth manager to help them build and implement those comprehensive financial plans. The wealth manager acts as the "personal CFO" for an executive, watching out for opportunities and risks at all times.

The result is that executives can concentrate on what they need to do for their companies and what they want to do in their lives.

## About the Author



Chanie Schwartz is a wealth manager with Securities America Advisors and founder of A Vested Interest Wealth Management located in New York City. She works closely with a select group of successful executives to help them achieve financial independence so that they can spend more time doing the things they love with the people they love.

After graduating cum laude from Brooklyn College with Bachelors of Science degrees in Business, Management and Finance, Chanie spent over eight years at Morgan Stanley. She successfully completed the demanding requirements to become a CERTIFIED FINANCIAL PLANNER™ professional through the Certified Financial Planner Board of Standards, Inc. Earning and maintaining the right to use the CFP® mark means that Chanie has passed a rigorous certification examination and continues to meet the CFP Board of Standard's specific education, experience and ethical requirements.

## About A Vested Interest Wealth Management

Wealth management is a strategy that encompasses advanced planning, investment consulting and relationship management. Advance planning includes asset protection, wealth enhancement, wealth transfer, and charitable giving. By providing the knowledge and confidence busy executives need, but don't have time for, we help take the guesswork out of making prudent financial decisions.

At A Vested Interest, we take clients through a discovery process to learn about your family, values, assets, advisors, processes, interests, and goals. We then assemble and consult with a team of knowledgeable professionals from key areas of expertise in order to propose a sound financial program uniquely tailored for you.

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### Disclosure

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# Appendix X

## Case Study of 409A:

John, an Executive Vice President with a large biotech firm that recently went public, had shares of stock in the firm prior to its going public. Upon the company going public the shares of stock converted to restricted stock and Restricted Stock Units. The Biotech firm offered John early retirement shortly after the company went public. John purchased \$1 million in company shares pre-IPO which was subject to a 6 month lock up period. The Restricted stock that converted from shares in the private company had the following vesting schedules: 40% vesting after one year, 40% vesting after 2 years with the remainder vesting 10 years after.

John's wife, Mary Lou, was a home maker reliant on John's income. She became concerned because of a number of friends had become widowed in the last 2 years and informed Mary Lou that "she should do herself a favor and become more involved in financial decisions and more educated on financial matters". This was on top of a lot of decisions that had to be made about their future.

John's company offered him a very generous severance package of two years salary plus bonus paid over 2 years. John and Mary Lou became aware of 409A issues after their wealth manager suggested having both an employment lawyer and a CPA review the severance agreement for 409A among other issues. It turned out that there would be a dry spell in salary and bonus severance for 6 months and cash flow needs would have to be planned accordingly. In addition, much of John's reliable incoming cash flow would be tied up due to IPO lock up period, restricted stock vesting and a dry spell with no severance for a six month period.

John and Mary Lou had two kids in college, one child getting married the following year, and they did not want to change their standard of living. In addition, John and Mary Lou needed revisions to their estate plan because their net worth had quadrupled overnight with the IPO.

# Appendix XI

## ***Questions to ask at a Discovery Meeting***

### **Style**

- ♦ How often will we meet face-to-face?
- ♦ How often will I hear from you either by e-mail or phone?
- ♦ What if I want to contact you with a question? Do we work by e-mail, phone, or face-to-face?

### **Investing**

- ♦ What is your basic investment philosophy? Are you an active manager (who tries to beat market indexes), or are you a passive manager?
- ♦ Do you invest in individual equities, or do you invest primarily through mutual funds and exchange-traded funds?

### **Fees**

- ♦ How are you compensated? Commissions, fees, or a combination? Do you have a minimum quarterly or annual retainer?
- ♦ What about if you refer me to an insurance agent or a mortgage broker? Do you get a referral fee?

### **Specialties**

- ♦ I have a specific need for (fill in the blank – caring for elderly parents, selling my business in about 5 years, advice on whether to make another country my primary residence, etc.). How would you handle that?

### **General**

- ♦ How many wealth managers in your firm? How many support staff, and what do they do? How many clients does a wealth manager serve?
- ♦ What's the most important thing you will do for me?