

An Executive's Guide to Retirement

Hundreds of executives retire year after year. If you ask any of these former leaders, they'd likely explain that the succession process is a well-planned one. However, no matter how ready your soon-to-be former team is, there's almost always one major component missing from these plans: what the next phase of your own life looks like.

As you plan for your own future, this guide will help you break down five important considerations:

- Planning for the lifestyle you want.
- Anticipating health care costs.
- Contributing to a deferred compensation plan.
- Exercising your stock options.
- Using your 401(k)

Take the time to understand what *you* want

Retirement looks different for everyone. However, given your career track, it's likely that after a few rounds at the golf course you'll be itching for something that puts all of your experience to good use.

On average, executives step down at age 62, as found by the Harvard Business Review. While only a handful take on another job at this point in their lives, HBR also reported that almost all former leaders are contributing to the U.S. economy in several different ways:

- 1 out of 4 Fortune 500 CEOs become active in private equity.
- 1 out of 2 assume leadership positions at nonprofit organizations.
- 2 out of 3 serve on public boards.



Additionally, many former executives teach within their field of expertise, and some even write books about what they learned over the course of their careers.

Before you formalize your retirement, take the time to sit down and consider what's important to you. Ask yourself what you would like to make happen in the next stage of your life. Whether that's actively working on a board, promoting a charitable cause, or spending time with family, having a clear roadmap can help you better understand your unique financial situation.

Plan for health care costs

Currently, Medicare eligibility starts at age 65, with some exceptions being made for specific conditions. However, if you and your spouse have both retired prior to becoming eligible, you have several options available to you to cover any surprise health-related expenses in the meantime:

- **COBRA:** Before retiring, speak with your company's HR department. You may be able to continue your existing coverage for up to 18 months under the Consolidated Omnibus Budget Reconciliation Act.
- **Exchange-based plans:** As of today, the Affordable Care Act allows retirees to purchase federal or state insurance outside of the standard enrollment period
- **Health savings account (HSA):** Purchasing a high-deductible health plan and opening a HSA can help you access lower premiums over time.

Health-related expenses can often creep up when you least expect them, and CNBC has reported that on average, a 65-year-old couple in good health should expect to pay \$387,644 to health care throughout retirement.

Contribute to an executive deferred compensation plan

Are you maxing out your 401(k) contributions and still have funds left over? If you answered yes as a high-income earner, an executive deferred compensation plan may make the most sense for you.

Through this unique type of compensation plan, your employer defers part of your income so that taxes are only paid on it later down the road once you begin withdrawing from it. This strategy can help you to retain more wealth over time and remain in a lower tax bracket during retirement.

Before you begin making contributions to your plan, you'll need to estimate your intended retirement date. Given the complex factors that go into this decision, working with a financial advisor might be the best way to determine the right timeline for you.

Exercising your stock options

In addition to standard stock options, as an executive you also likely received Incentive Stock Options (ISOs) which fall under specialized tax considerations. Although ISOs can serve as a valuable source of income during retirement, there are tax implications you should be aware of.

With ISOs, you only report the taxable income when you sell the stock. However, while you don't have to worry about taxes prior to selling, the difference between the grant price you pay and the fair market value when you exercise may trigger what's known as the alternative minimum tax. This will make you ineligible for income exemptions intended for low- and middle-income earners.

To determine the best time to sell your options, you may want to consider contacting a certified financial planner professional.

Using your 401(k)

If you're retiring at the age of 59-and-a-half years or older, you can start taking withdrawals from your 401(k) without triggering the early withdrawal penalty. Just remember, you'll owe income tax on each distribution from a traditional 401(k).

Additionally, there are *some* exceptions for those who leave their company at the age of 55. However if those funds have been rolled over into an IRA, you'll still be required to wait to avoid the 10% withdrawal penalty.

As you begin to plan your retirement and assess your 401(k), U.S. News outlined some key steps when it comes to building your long-term financial strategy:



Manage your costs

Be sure to go through any of the administrative or investment costs associated with your unique retirement plan. If the fees are relatively high, you can try moving your money into a low cost fund with the plan, or look toward a more reasonable IRA.

Assess your investment options

Most 401(k) plans have a limited investment selection. If you're happy with the investments that are provided, there's no reason to switch. However, IRAs have a wider selection of investment options than 401(k) plans. The standard 401(k) plan might have a few dozen funds, while an IRA can provide thousands of investment choices. That includes individual securities, mutual funds, bonds and exchange-traded funds.

Consider rolling over to an IRA

It can be difficult to manage and track your retirement investments. When you have multiple income sources, it only gets harder. Consolidating your retirement accounts by rolling your savings into a single IRA can simplify your financial planning.



Looking ahead to your retirement

As an executive, you have two jobs to complete before you pass the torch to the next in line: preparing the company and, maybe even more importantly, preparing yourself.

No matter which path your retirement leads you down, there's one major question you'll need to answer before leaving the board room for the last time: Do you have enough savings to retire comfortably? Depending on your assets, income sources and the benefit package you may receive from your company, finding the answer to this question may be a little more complex.

A certified financial planner professional can help you navigate the process to try to ensure your post-retirement experience is just as fulfilling as your career before.

ABOUT STEVE DECESARE

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One of Philadelphia's leading retirement transition specialist, Steve DeCesare, CFP®, is a second-generation financial planner who has spent the last decade of his career helping professionals transition into retirement with financial confidence.

His multi-disciplinary planning approach works to ensure that the investment, income, tax and estate strategies are in place to achieve each of his client's financial and lifestyle goals for retirement. Steve specializes in offering guidance to corporate employees regarding their company sponsored retirement plans such as 401(k)s and pensions. He also advises on rollovers to and investment decisions within Individual Retirement Accounts (IRAs). Additionally, he helps employees who are facing workplace transition with the critical decisions and financial plan adjustments that need to be made to help ensure a smooth progression of their financial life as they enter into their next job or retirement.



Steve is a CERTIFIED FINANCIAL PLANNER™ professional and Investment Advisor Representative of DeCesare Retirement Specialists a Registered Investment Advisor. He is also life and health insurance licensed in the states of New Jersey and Pennsylvania. Steve is a member of the Financial Planning Association (FPA) and a recipient of the 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021 Five Star Wealth Manager Award. As a financial resource, Steve has been quoted in numerous media outlets including *USA Today*, *Money*, *The Washington Post*, *The Wall Street Journal* and *Bankrate.com*.

We invite you to call DeCesare Retirement Specialists at 856.235.3830 to schedule a no-obligation, complimentary consultation to explore options for your current financial and retirement plan.