



THE TELARRAY GUIDE TO EXECUTIVE COMPENSATION

**When getting it right matters
most, ask the experts.**

By Gene Gard

TELARRAYADVISORS.COM

Success at a large public company is elusive. Your ascent toward the C-suite has likely involved a mix of technical competence, human insight, the psychology of managing people up and down the chain, and plain old hard work.

The responsibilities are tremendous—a single division of an average public company today can command resources and touch lives in ways that were unfathomable just a century or two ago.

The rewards can be tremendous, as well. At a certain point our clients lift their head up and realize they are making more money than they ever imagined possible. At the same time, the way they get paid and the choices they must make have never been more complex and have extreme financial and tax implications.

With great rewards come great responsibilities, and most highly compensated executives simply don't have the time to research the optimal decisions in this complex world they now inhabit.

That's where we can help.

The DIY advice you've seen on the internet for managing your financial picture is not written for you. The stakes are too high to trust these critical decisions to anyone who is not an expert. At Telarray, we understand these complex compensation structures. More importantly, we have decades of experience handling these matters for executives all the way up to the CEO level.

In the high-stakes world of executive compensation plans, your elections and decisions have to be right—the first time and every time. There's too much at risk and too many things to leave on the table to make snap decisions or leave default elections without serious evaluation.

YOUR PLAN BASICS

Each company's plan is different, but there are several typical categories we see again and again:

Base Salary

This is the cash paid through the year to you as income. As executives rise through the ranks, base becomes a smaller and smaller part of overall pay.

Performance Based Annual Incentive

This is a short-term incentive, often cash, awarded based on achievement of short-term goals, generally over a year or less. Ideally, this kind of pay can be used to invest or reach other strategic goals rather than support lifestyle spending.

Performance-Based, Long-Term Incentive

This is usually the biggest part of executive pay, and is often based on a 3–5 year horizon in the form of stock, options, or restricted stock in some form. Usually this is based on metrics friendly to shareholders, and might pay out on different tiers depending on achievement.

We understand that there's a universal push-pull here. On one hand, you want to own stock to support and benefit from the company's success (that you help create!). On the other hand, the concentrated risk of relying on one company for both employment and investment portfolio performance is risky. Some of our most—and least—successful clients got their results by overweighting their company's stock. Telarray can help you balance these competing goals and determine how to work with the inevitably concentrated company stock position in your portfolio.

Benefits

For you, these benefits go far beyond typical health and dental. Things like severance plans and life insurance can become very meaningful at high levels. Some companies offer the benefit of deferred compensation or “restoration plans,” designed to work around IRS limits to benefits. Other benefits might include travel, security, and access to corporate fleets. We also make sure that you don’t overlook anything, such as allowances for various professional services that might be very generous but are not often used.

Telarray is either already familiar with your corporate compensation plan or can quickly get up to speed with review of just a few documents. To paraphrase Mark Twain, all plans are different, but most do rhyme.

NEW RESPONSIBILITIES = NEW DECISIONS

New rewards come with new responsibilities. We all know the IRS is not to be trifled with, but for you, the SEC is a no-nonsense regulator.

Becoming a Section 16 filer is a meaningful honor and accomplishment. A mistake (besides being embarrassing for you and your company) means the SEC will come knocking on your door, causing financial *and* professional problems. **Our clients rely on us simply to handle this for them, which turns stock awards, exercises and sales from something to dread into something to look forward to.**

Your company also is becoming much more involved in your life through various regulations and requirements, both internal and external. You

probably have dedicated service from an in-house executive compensation representative, which can be a tremendous resource. However, like the rest of HR, that person represents the interests of the company first and foremost. The representative might be able to tell you what elections seem to be in your best interest, or “what everyone else does,” but at the end of the day, they can’t possibly know the nuances of your situation to give consistently reliable advice.

Telarray has experience coordinating the challenges of these rules and regulations, both from the government and your company itself. The process of managing your pay and elections can turn from something to dread to something to look forward to with Telarray on your side.

A few things to think about:

Required holdings – Does your company require you to hold a certain number of shares of company stock? Do you have a plan to manage this?

Trading your stock – You probably want a large position in your company stock to support the cause you believe in and work towards so diligently. At the same time, your career risk is fully entwined with your company, so should your investment portfolio also be all-in on company stock? Do you have a plan to prudently diversify and manage these competing goals over time?

Trading other stock – Due to the nature of your work, are you restricted from trading stock of your customers or suppliers? Do you have a plan to manage this?

Lifestyle and Retirement Decisions

As a senior executive, your time has become much more valuable. You likely are considering goods and services and even real estate you never would have considered before—for convenience, privacy, and to enjoy your limited free time to the extent possible.

When you were young, you probably hoped to have the money to do the things you loved. Now, you probably have the money, but don't have the time.

We know that, ultimately, financial planning at your level comes down to time. On one hand, you probably have a vision of your career that could lead to continued success, maybe all the way to the top. On the other hand, you probably have a vision of your retirement that starts sooner rather than later.

At this point, the question really comes down to how to apply your resources against time. The question is no longer whether or not you can afford the big purchase, like a vacation home. Would you rather buy that vacation home now, or retire two years earlier?

Using Telarray's proprietary planning tools, these questions can move from the theoretical to the real. For you, the question has become: "How much do I enjoy my work, and how can I use my resources to make my transition on my terms?" In that context, every decision is important, and the question is not simply whether you can afford it anymore.

Tax and Estate Planning

When you're young, life might be tough but tax planning is easy: Usually, it involved filing 1040-EZs, and your financial plan might have been as simple as "fund your Roth IRA and don't buy that new car."

As your career grows, though, the idea of tax optimization expands into a list, then a flow chart, and eventually to a completely bespoke plan unique to you. Decisions get more complicated, and so do the consequences of a mistake.

The importance of estate planning also comes into focus as age and assets advance. Especially as you move into a higher wealth level, the right estate planning strategy can have tremendous impact on the outcomes for surviving spouses, children, grandchildren, and charitable legacies. Unlike some pursuits, there really is no intuition or instinct that drives these decisions. The only way to make sure nothing is left on the table is to rely on experts.

Telarray has a great deal of experience in this realm, and has external experts we work with constantly to develop and implement the best ideas for our clients.

One thing that makes us unique is that we have insurance expertise—but don't sell insurance. This means we can prudently advise you how to incorporate insurance for your benefit, with no conflict of interest. This often becomes an important element of estate planning.

We will help you find tax-efficient ways to approach your estate planning to meet generational and charitable goals that even can provide income to you during your life.

The time is now to consider these issues, and Telarray stands ready to guide you through the noise to the best possible plan for you.

Investing Your Assets

They're important to get right, but the decisions you make about lifestyle, taxes, estate planning and retirement goals can be approached with some certainty. With investments, it's much harder to know you're on the right track, and no solution is guaranteed to be perfect.

In the beginning, there were only stockbrokers, and many wealth management firms are still stuck in that paradigm. In the inevitable sports analogy, they will convince you that their investment choices are the quarterback or coach that will lead you to victory.

Our view is that the investment portfolio is actually much more like the strength and conditioning coach. It is a crucial underpinning of any winning team, but on its own won't win a championship.

A team won't lose a game because a linebacker didn't bench their PR that week, just as the short-term performance of your portfolio against an index over one day, month or even year doesn't really matter. **What matters is having a solid investment plan *that you can stick with in the good years and bad.***

Private equity, hedge funds, and alternative investments are notably absent from Telarray portfolios. We are not financial Luddites—we are completely open to an alternative investment likely to outperform sufficiently to overcome all the shortcomings. We simply haven't found any that fit the bill. Most hedge funds and alternative investments are *affinity traps*—they may give you something to talk about at cocktail parties but only serve to enrich the fund managers at your expense.

“Everything should be made as simple as possible, but no simpler.”

—Albert Einstein

As an investor, you might have a few choices:

Choice A: Time the market. This is what unsophisticated clients of planning firms think their advisor should be doing. The truth is nobody in the world has shown consistent ability to win in all markets, and the act of chasing performance will permanently impair your capital over time.

Choice B: Beat the market. Once investors realize market timing doesn't work, they often consider pure market-cap weighted indexing. This isn't as easy as it sounds, as you still have to decide what indices to track at an overall asset allocation. We like to show our prospective clients the problems with an all S&P portfolio. To paraphrase Einstein, many indexing approaches are too simple.

Choice C, the Telarray approach: Beat the market without outguessing the market. Choice B is not terrible, but Choice C can give you an edge. Based on decades of academic research and data, it's clear that certain factors tend to lead to long-term outperformance in the markets. **There are no guarantees, but we believe our approach to investing has and will continue to reward our patient clients with long term outperformance.** There will be periods of underperformance, but even averaging 1–2% a year improvement over the alternative can have huge benefits to your outcome.

WHAT REALLY MATTERS IN THE END

In the end, the greatest value we provide is peace of mind.

If you're like our other senior executives we work with, you probably have serious difficulty finding time to go to the dentist, let alone figuring out if you're optimizing your financial life. Here are some of the questions you might be asking:

- Am I making all the prudent elections and decisions someone in my position would be making? Am I leaving anything on the table?
- Based on my plans for retirement, spending, and giving, am I going to be OK? How much margin of safety do I have?
- The grind is wearing me down. How much longer do I need to work?
- What levers do I have available to change my trajectory?

Telarray has worked with executives like you through all phases of life, from the first quarterly tax payment all the way to life insurance payouts to your beneficiaries.

The answers to these questions aren't simple, and are different for every family. But we have built our firm by answering those questions successfully for our clients, and we hope to answer them for you, too.

We look forward to working with you.



About Gene Gard

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