CASE STUDY

Creating a 10B5-1 Plan

SEPTEMBER 2021

LRVS ADVISORY GROUP

The Client

A couple in their mid-30's, both work for small biotech companies in the greater Boston area. The husband and wife duo both max out their 401(k) and save monthly for retirement and their child's college fund.

Combined, the couple makes a total of $440,000 per year. While the wife works for a company that went public before she accepted her role, the husband works for a company that went public with an IPO while he was an employee there, and he was granted a hefty amount of stock prior to the Initial Public Offering (pre-IPO).

Due to the husband's role in the biotech firm and information he is privy to, he is required to sign a contract that only allows him to trade his stock during certain times of the year.

$440K
Household Income

70%
Concentrated Position

$1 MIL
Vested Option Value

32%
Current Marginal Tax Bracket

15%
Federal Long Term Capital Gains Rate

5%
State Long Term Capital Gains Rate

28%
Alternative Minimum Potential Tax Flat Rate

The Dilemma

Granted a bunch of stock pre-IPO for a company that exceeds expectations in the stock price sounds great, right? Yes, however, with all that newfound money comes the potential for significantly higher tax consequences. Non-Qualified Options (NQO) or Incentive Stock Options (ISO) liquidated immediately trigger income tax versus a more favorable long-term Capital Gains tax.

Along with the potential tax implications, around 70% of the client's overall portfolio was in the husband's company's stock, creating a lack of diversification and increasing risk in the portfolio. Lastly, because of his role and insider knowledge the client must utilize an executive trading plan or 10B5-1 plan to dispose of his options.

A 10B5-1 plan allows employees to structure their sales in a few ways, but most commonly as a pre-determined prices and points in time utilizing Limit Orders and target dates typically around the stock's vesting schedule and client's tax bracket.

The Approach

To minimize the tax burden and avoid ordinary income tax on the ISO's the client was granted prior to the Initial Public Offering (pre-IPO) LRVS Advisory Group took a three-step approach. First, the advisor requested pre-clearance to trade Employee Stock Purchasing Plan (ESPP), vested Restricted Stock Units (RSU) and Non-Qualified Options, which is money that has either already been taxed at income rates or would be regardless of the action taken.

The advisor then traded enough shares to exercise and purchase the Incentive Stock Options (ISO) at a low price compared to what the stock was valued at, this also needed pre-clearance to buy. Once the client owned the shares, originating as ISO's bought at the low price, the

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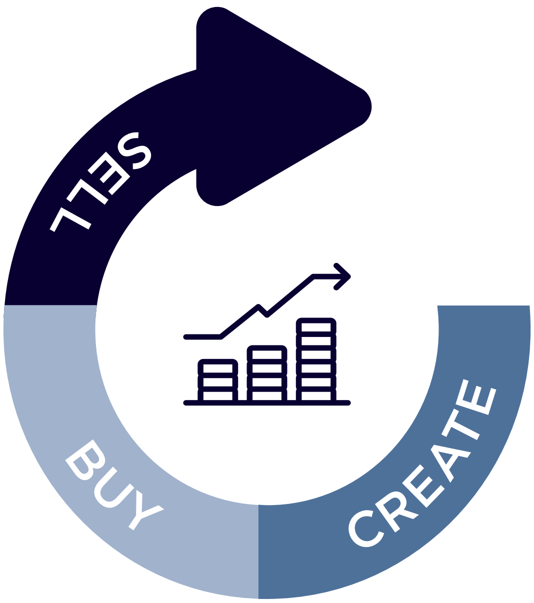
10B5-1 PLAN AUTOMATION



advisor implemented a 10B5-1 plan to begin selling 12 months from our purchase date.

By properly designing a 10B5-1 plan LRVS can ensure that the client utilizes incentive stock options to create qualifying dispositions and potentially only pay long-term capital gains tax versus ordinary income tax. In addition to the 10B5-1 plan, the advisor began diversifying the client's overall portfolio to reduce the concentrated stock position – more diversification in his portfolio will continue to occur as the stock plan hits target prices. The team opened a college savings account for his child to separate where that money would be coming from. Lastly, the client began saving into a cash value life insurance policy to create a potential tax-free savings vehicle.*

The Outcome

By carefully and properly designing a 10B5-1 plan, the client potentially will save a significant amount in taxes throughout the execution of the plan. With the changes the advisor made to the couples 401(K) plans, the couple has confidence in their savings goals. The LRVS Advisory Group will continue to reevaluate their 401(K) plans, stock plans, and outside investments to ensure we are unleashing the potential and maximizing growth while minimizing risk. It is important to note, while being subject to Alternative Minimum Tax (AMT), the advisor was still able to potentially save the client a significant amount in taxes utilizing our strategy

Lastly,by investing in an indexed universal life insurance policy, the couple created a potential tax-free savings vehicle* for retirement either for an unforeseen expense or for planned income. These strategies combined will provide these clients a custom direction for reaching their goals.

Talking to a financial professional about all of your retirement assets is the first step toward creating a simplified, consolidated and advanced financial plan.

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*Proceeds from a life insurance policy are generally tax free as per section 7702 of the US tax code. Past performance does not guarantee future results and your results will vary.

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