PODCAST PRESENTATION

HOW FINANCIAL PLANNING CAN MAKE THE MOST OF A LIQUIDITY EVENT

HOST: Thank you for joining us for this podcast on "How Financial Planning Can Make the Most of a Liquidity Event," hosted by Northern Trust. This episode will cover key financial planning strategies you can use when confronted with new wealth or sudden liquidity.

In today's environment of increasing merger and consolidation activity, these strategies should be very useful for corporate executives and business owners as they consider both short-term and long-term plans.

My name is Tim Hermeling, director of product marketing at Northern Trust. I will host our discussion today. Joining me is Gregg Yaeger, senior vice president and director of Northern Trust's Financial Consulting Group. Gregg has 18 years of experience in the financial services industry, working with CEOs, other senior executives and high-net-worth individuals to develop holistic wealth management plans. These plans take into account cash flow needs, retirement plans, investments, insurance, income tax, stock options, single-stock concentrations and more.

Please understand that the strategies discussed during this podcast are not intended to be legal, tax or financial advice. As always, you should contact your attorney, tax professional and/or other financial advisors to review the strategies in light of your specific situation.

Welcome, Gregg.

GREGG YAEGER: Thank you, Tim. Glad to be here. I appreciate the opportunity to share with our listeners valuable information on financial planning.

HOST: Gregg, with all the merger and acquisition activity going on, many people face new liquidity. Can you start by telling us how financial planning can help them make the most of their money?

GREGG: Sure, first let me begin by describing what a liquidity event is. This happens when there is a significant change in one's financial situation due to the sale of an illiquid asset or a sudden infusion of wealth. Some examples are: cash received from merger transactions, sale of a business, cashing out significant stock options, sale of a property, a divorce settlement, winning a lawsuit, or my favorite, winning the lottery.

Once an individual is aware of or anticipates a liquidity event, the process of financial planning helps an individual put their financial issues in context. Since individuals are often thrust into unfamiliar territory, the financial planning process provides them with a sense of calmness about the financial decisions they need to make. Lastly, a financial plan can provide the framework to help them achieve their long-term goals.

HOST: There are so many aspects to financial planning. Where can people begin?

GREGG: People should begin by setting a financial goal. A liquidity event will often allow for more flexibility in setting those goals. Individuals should avoid making decisions impulsively. Before making a financial decision that can have long-term effects, an individual should consider what their goals are. Examples of some goals could include:

- Managing debt prudently or paying down high interest rate debt,
- Saving for retirement,
- Investing their portfolio in a more disciplined manner,
- Paying for college education for children or grandchildren,
- Contributing more time or money to charity,
- Maintaining appropriate insurance coverage to protect you and your family, and
- Minimizing income and transfer taxes.

HOST: Once you have established your goals, what should you do next?

GREGG: The next thing you should do is to evaluate your current situation. What I mean by that is to take an accounting of your current assets and liabilities and assessing your income sources and determining what your expenses are.

When a liquidity event occurs, there are three key areas to focus on:

- Cash flow and retirement,
- Taxes and
- Investments.

This is a good time to re-assess what you have done so far. A liquidity event will allow you to reflect on the positive financial decisions you have made thus far and to avoid repeating poor financial decisions. However, don't feel like you have to take action right away. You can certainly hold your cash in a short-term vehicle while you are evaluating long-term options. An example might be holding it in a CD or a money market.

HOST: Gregg, will you elaborate on your first comment, cash-flow and retirement planning?

GREGG: A liquidity event will often increase your net worth. Therefore, an individual might alter their plans after re-assessing their situation. The liquidity event may allow a person to retire a bit earlier. Also, an individual may decide to upgrade their car or home. Alternatively, some may also increase their spending with an enhanced lifestyle. That would affect their cash flow needs.

HOST: What should people know about taxes?

GREGG: With a liquidity event, you may find yourself in a new tax bracket. Regardless of that tax bracket, you should talk to your accountant about strategies for reducing taxes and meeting tax liabilities. One main thing to review is a safe harbor for withholding. One needs to withhold at least 100% of last year's liability. It's 110% if your adjusted gross income exceeds $150,000 for joint filers. Or it should be 90% of this year's liability. We want you to avoid surprises when your tax filing is done in April.

HOST: What about investments?

GREGG: The key to any investment strategy is the appropriate asset allocation. A liquidity event allows you to re-evaluate your investment strategy. The first question to ask is: what is your current mix of assets? A good portfolio is one that is spread among a variety of asset classes that are not highly correlated. That means selecting asset classes that do not move in line with each other. For example, if one asset class goes up by 8% and another by 7%, those asset classes would be highly correlated. A portfolio of multiple asset classes could include cash, bonds, equities (both domestic and international), as well as others such as private equity, hedge funds and real estate. This is also a good opportunity to align yourself with an investment advisor.

HOST: Thanks, Gregg. These are valuable considerations to think about when people face new liquidity. Is there anything else our listeners should know about?

GREGG: Beyond the three key items I mentioned (cash flow, taxes and investments), there are many other aspects of financial planning. This may be a good time to address insurance and estate planning, too, bringing in those professionals as needed. Those areas could include a life insurance review or a disability insurance review, as well as looking at your personal liability. Lastly, this is a great opportunity to make sure your wills and trusts are up to date.

HOST: Thanks for joining us, Gregg.

GREGG: It's been my pleasure, Tim.

HOST: And thank you for joining us for this podcast episode on "How Financial Planning Can Make the Most of a Liquidity Event." For more information on this topic, please visit our website at northerntrust.com. For professional advisors, we have additional information available on our dedicated advisors' website which is northerntrust.com/wealthadvisor.

Northern Trust

Q19519 (09/07)