



CIBC PRIVATE WEALTH

The financial side of retirement planning



Fulfill the promise of your ambitions

What's your vision for success? We've learned that success often means achieving a sense of satisfaction and joy about the use of your wealth for yourself, your family and causes you hold dear.

It also means having peace of mind about your financial affairs, trusting that your wealth advisor is managing the complexities of wealth ownership. Additionally, for some, it means that plans are in place to realize your vision for broader community impact and a lasting family legacy.

CIBC Private Wealth can be your partner for all of your investment, wealth planning and private banking needs. Our professionals are dedicated to delivering exceptional performance and service with an unwavering focus on you and your best interests.

We hope the information on the following pages will inspire you to articulate your own vision for your wealth. It would be our privilege to help you bring your ambitions to life.

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Finding your number:
What's your path to retirement



Finding your number

Retirement—many people consider it one of their most important goals. So, how do you get there in a financially successful way?

Retirement should be a major concern no matter what your stage of life. With all the troubling news—pension programs and the Social Security system in significant deficit, the standard retirement age growing past 65, and retirees needing more retirement income than ever as they live well into their 80s and 90s—it can feel overwhelming to try to estimate what your retirement needs will be.

There's good news, though. With appropriate preparation, you and your advisor can create an effective path to prepare you for retirement.

The first steps on the retirement path

While there are as many ways to calculate a successful retirement as there are individuals, one factor in that calculation is the same for everyone: the desire for financial independence. With that as your primary goal for retirement, the next step is to make a plan.

While that's easy to say, it can be complex to execute—determining the relevant variables can be a daunting task. To factor in the right information, consider these five key questions:

- Where am I in life?
- What are my expectations for retirement?
- How much do I need to save?
- How should I manage my retirement spending and income?
- What are my retirement savings options?

Where am I in life?

Your first consideration is your current stage of life and the responsibilities you have. Review the entire list of variables below and determine those that apply to you. Talk to your CIBC Private Wealth advisor about how these factors can affect your retirement needs calculation.

Considerations during your:

Twenties

- Learn about your job benefits, including the company-sponsored retirement program.
- Get into the habit of saving, for retirement and for a rainy day.
- If your employer doesn't offer a retirement program, open an IRA.
- Don't pay for benefits you don't need; for example, you may not need life insurance if you are single with no dependents.
- Establish credit in your name.

Thirties

- Put as much as you can into retirement savings.
- Open an IRA if you leave the workplace.

- Establish a college savings account if you have children.
- Try not to borrow from your retirement savings.
- Determine the best way to handle a retirement account if you change jobs.
- Create an estate plan.
- Consider how much life insurance you may need.

Forties

- Start focusing on retirement plans and establish a retirement savings goal.
- Continue to put as much as you can into retirement savings.
- Continue saving for college if you have children.
- Consider what type of college your child will attend and whether grants or scholarships are available.
- Talk with your aging parents about their healthcare and long-term care insurance needs.

Fifties

- Revisit your retirement plans and consider when you want to retire.
- Start crunching numbers to determine if your retirement savings goal is on target.
- Contribute the maximum amount allowed to your retirement plan.
- Take advantage of catch-up contributions if you're behind in your retirement savings.

Sixties

- Continue to make maximum and catch-up contributions to your retirement plan.
- Explore retirement savings distribution options with your CIBC Private Wealth advisor.
- Determine whether to roll over your 401(k) into an IRA.
- Establish a clear vision and plan for your retirement and begin the transition.
- Consider work options if you can't afford to retire or want to continue working.
- Apply for Medicare three months before turning 65.
- Explore options for meeting health care needs—such as employer-provided insurance, Medigap insurance and prescription drug coverage.
- Determine when you want to begin receiving Social Security; the earlier you begin receiving it, the lower the benefit.
- Talk with your children about your estate plan and healthcare planning.

Seventies

- Begin taking required minimum distributions from your retirement accounts at age 73 (age 75 for those born after 1959).
- Revisit your estate planning.
- Work with your CIBC Private Wealth advisor to make sure you're on an asset distribution track that will enable you to live out your life comfortably.

What else should I consider?

Anticipating and planning for major life events—expected or unexpected—can mean the difference between a successful retirement and one that just doesn't add up. Remember, your retirement needs will change over time.

Consider possibilities like these:

- Sending a grandchild to college
- Paying for assisted living or skilled nursing facility costs for yourself or a family member
- Buying a second home or recreational vehicle
- Experiencing disabling events and emergencies

You should factor the possibility of such events into your retirement calculation.

What are my expectations for retirement?

With life spans increasing, your retirement could last as long as your working career, which is why it's important to have a plan that identifies your personal objectives clearly.

How do you want to divide your time—and, more importantly, your accumulated assets—during retirement? Working on the garden of your dreams or working to make sure you have enough income? Buying a summer home or paying off your current mortgage? Playing golf or playing financial catch-up?

Whether your retirement goals include exotic vacations, sending your grandchildren to college or donating to charities, remember that many experts say you'll generally need about 70% of what you make now to maintain your current standard of living in retirement. That's why it's critical to identify the components of your dream retirement, so you and your CIBC Private Wealth advisor can invest your assets appropriately.

Sum it up

To get you started thinking about your retirement vision, use the following space to list your top five retirement objectives.

My top five retirement objectives:

- 1.
- 2.
- 3.
- 4.
- 5.

How much do I need to save?

The variables that influence each individual's retirement are unique. That's why no single number can equate to a successful retirement for everyone—there's only your number.

You'll need to consider several key factors to determine your number, including these:

- Current savings
- Risk tolerance
- Inflation
- Taxes
- Social Security benefits

Current savings: The closer you are to retirement, the more you'll need to save to make sure you have enough money to cover expenses. For example, if you're 10 years from retirement, your savings goal is \$3,000,000 and you have \$1,000,000 saved, you would need to invest an additional \$4,266 per month to make up the difference. With the same \$3,000,000 savings goal, 40 years until retirement and no savings, an \$859 monthly investment would equal the same amount.¹ Starting early is the best way to ensure you have the financial standing you want in retirement, but it's never too late to begin saving.

Risk tolerance: This is the most important factor to determine how you can arrive at retirement with the right amount of assets. Many people make the mistake of thinking they're more risk-tolerant than they actually are. For example, you might decide to start sky diving in retirement, but that kind of risk-taking behavior has little to do with your ability to tolerate financial risk.

While riskier investments have historically produced higher returns over time than less risky ones, recent market events have shown they also increase your probability of losing principal. With conservative investments, such as U.S. Treasury bonds, the opposite is true, and the lower return rates mean you must consider investing more money to be able to hit your retirement financial target.

Talk to your CIBC Private Wealth advisor about how much risk you're willing to take. Together, you can determine how much you need to save—and the appropriate investment vehicles in which to invest those savings—to cover your full retirement.

Inflation: With today's increasing life spans, you'll likely have a long retirement, so inflation could substantially deflate the value of your assets. Because inflation is always a factor to consider for the future, it's important to have an investment plan that can help your savings keep pace with inflation and not leave you with a fraction of what you'll need for retirement.

Taxes: Just because you retire doesn't mean the Internal Revenue Service (IRS) will be out of your life. Taxes will still subtract from the value of your retirement assets. You'll have to pay federal income taxes on any withdrawals you make from a tax-deferred account, such as a 401(k), and you'll have to pay any applicable property and state taxes.

Social Security benefits: Counting on Uncle Sam for the majority of your retirement dollars isn't the best idea—by the Social Security Administration's own admission—especially if your retirement is decades away. You should think of Social Security benefits as a supplement to personal savings because they likely won't provide enough income to fund your retirement.²

How should I manage my retirement spending and income?

Many people have an unbalanced retirement equation because they plan the best way to save for retirement without considering the best way to spend during retirement in order to make their savings last. Work with your CIBC Private Wealth advisor well in advance to make sure your plan is complete and to help make sure your savings last for your full retirement.

¹ This hypothetical example assumes an 8% annual return with monthly compounding and does not represent the results for any specific investment product or investor. Your actual return likely won't be consistent every year, and there is no guarantee of any specific rate of return.

² Status of the Social Security and Medicare Programs, ssa.gov, 2025.

Create a budget: You've already decided what you want from retirement. Now add up your anticipated essential expenses, such as food, healthcare and housing, and also consider your nonessential costs, such as vacations. Remember to earmark some savings for emergencies. Your budget will serve as a good starting point for deciding how much you'll need to withdraw each month after you retire.

Decide which assets to use first: No one likes paying taxes, so you may want to delay paying them as long as possible by using your taxable accounts first—those accounts that include assets in which you have invested after paying taxes on them. Typically, more savings can compound over time tax-free if you don't touch tax-deferred accounts until you have to do so. Once you turn age 73 (age 75 for those born after 1959), you're obligated to take required minimum distributions (RMDs)—age-based, IRS-specified dollar amounts—from your retirement accounts (except Roth IRAs). You should use RMDs before calculating any additional savings withdrawals.

Select a withdrawal method: There are basically two ways to withdraw assets from your retirement accounts: dollar-adjusted withdrawals and percentage withdrawals. With dollar-adjusted withdrawals, you take out an initial base amount and adjust it for inflation every year. Percentage withdrawals mean you remove a certain percentage of your portfolio's value each year.

Dollar-adjusted withdrawals will give you a more consistent, inflation-adjusted cash flow, but you run the risk of depleting your portfolio too quickly if markets experience a downturn.

Percentage withdrawals will fluctuate depending on your account balance, so you'll have to adjust your spending if your balance drops substantially from down markets or excessive early spending. The chart below illustrates the differences in withdrawal amounts and account balances using each method. The method you choose should take into account your own needs and circumstances.

Take RMDs: As mentioned, the IRS requires you to take RMDs from all your retirement accounts—except Roth IRAs—starting at age 73 (age 75 for those born after 1959). If you don't take the full, specified distribution, you may have to pay the 25% federal tax penalty on the remaining amount you should have taken; however, the penalty may be reduced to 10% if the missed RMD is corrected in a timely fashion. Plus, you'll still have to withdraw the total RMD amount and pay applicable taxes. RMDs should become part of your withdrawal strategy to help you avoid paying unnecessary penalties and get the most from your savings.

You must calculate RMDs separately for each retirement account, but you don't always have to take them separately. Your annual total RMD amount for 403(b) accounts and IRAs can come from one account, or you can take RMDs from each account separately. You can aggregate RMDs from IRAs or 403(b) plans, but not both.

Account for market downturns: No one likes to see their investment values drop. During the first few years of retirement, a bear market could significantly deplete your savings, especially if you plan to use the dollar-adjusted withdrawal method for distributions.

The order of returns—or the timing of positive or negative market returns—is important because the later a market downturn comes in your retirement, the longer your savings have had time to compound, so your portfolio is more likely to last through your retirement. Negative returns early on, coupled with withdrawals, will mean smaller savings balances will compound, increasing the likelihood that your retirement assets may run out before the end of your retirement.

You can handle a variable like market downturns by adapting to the conditions. If you haven't yet retired, you could delay retirement to increase savings, or you could decrease your spending if you're already retired. Working is another way to help add needed income. Talk with your CIBC Private Wealth advisor to make sure your decisions are appropriate in terms of how they affect your status in retirement.

And what if . . .?: Good question. As you know, life is full of ripple-effect events, and many of them affect your financial and retirement planning. So, no matter your age, talk with your advisor after these life-changing events:

- Marriage

- Birth or adoption
- Job loss or change
- Separation or divorce
- Business startup
- Death of your spouse or child
- Inheritance
- Disability for you or your spouse

Keep in mind that your financial, investment and estate planning needs change as your life changes. That's why it's important to work with your advisor and insurance and estate planning professionals throughout your life.

Withdrawal methods

The chart below illustrates the differences between the two withdrawal methods for the same account with an initial balance of \$3,000,000.

	Returns (%)	Dollar-Adjusted Withdrawals ¹ (\$)	Account Balance (\$)	Percentage Withdrawals ² (\$)	Account Balance (\$)
Initial	—	150,000	3,000,000	150,000	3,000,000
Year 1	8	156,000	3,078,000	153,900	3,078,000
Year 2	-5	162,240	2,775,900	138,895	2,777,895
Year 3	-6	168,730	2,456,840	124,033	2,480,660
Year 4	12	175,479	2,562,684	131,971	2,639,422
Year 5	0	182,498	2,387,205	125,373	2,507,451

¹ Dollar-adjusted withdrawals (5% of initial portfolio balance adjusted annually for 4% inflation).

² Percentage withdrawals (5% of portfolio balance).

Market returns during retirement

The chart below shows the effects of early market decline versus late market decline on an account with an initial balance of \$3,000,000 using the dollar-adjusted withdrawal method.¹

	Early Market Decline		Late Market Decline	
	Annual Return (%)	Portfolio Balance (\$)	Annual Return (%)	Portfolio Balance (\$)
Year 1	-12	2,560,800	8	3,142,800
Year 2	-10	2,220,480	8	3,293,136
Year 3	-5	2,016,979	8	3,451,455
Year 4	8	2,069,001	8	3,618,235
Year 5	8	2,120,811	8	3,793,984
Year 6	8	2,172,217	8	3,979,244
Year 7	8	2,223,005	8	4,174,594
Year 8	8	2,272,937	-12	3,569,421
Year 9	8	2,321,747	-10	3,101,625
Year 10	8	2,369,141	-5	2,824,850

This information is not intended as legal or tax advice. Investors should consult an attorney or tax advisor.

¹ This hypothetical example assumes an annual withdrawal of \$90,000 adjusted annually by 4% for inflation.



CIBC PRIVATE WEALTH

The financial side of retirement planning
Individual Retirement Accounts:
Making the right choice



Individual retirement accounts

Having an individual retirement account (IRA) sounds like a simple decision to do the right thing and add one more retirement planning option to your overall plan.

But there's more than just one plain-vanilla IRA—you have the option of choosing between the tax-deductible benefits of a **traditional IRA** or the tax-free earnings growth and withdrawals of a **Roth IRA**. Both are powerful saving tools, but to maximize the benefit of an IRA, you and your advisor should determine how one or both of these accounts can best fit within your retirement plan.

IRAs at a glance

	Traditional IRA	Roth IRA
Who is eligible?	Anyone with earned income. ³	Anyone with earned income that does not exceed these 2026 modified adjusted gross income (MAGI) limits: individuals—up to \$168,000, couples filing jointly - up to \$252,000 ⁴
Contributions	Maximum of \$7,500 (\$8,600 if age 50 or older) in 2026. May be tax-deductible. ⁵	Maximum of \$7,500 (\$8,600 if age 50 or older) in 2026. Not tax deductible.
Earnings	Tax-deferred.	Tax-free for those age 59½ and older with accounts that have been open for five or more years.
Withdrawals before age 59 ½	Deductible contributions and earnings taxed as ordinary income and subject to a 10% premature distribution penalty (exceptions may apply). ⁷	Contributions may be withdrawn at any time for any reason without taxes or penalties. ⁶ Earnings taxed as ordinary income and subject to a 10% premature distribution penalty (exceptions may apply). ⁷
Withdrawals after 59 ½	Deductible contributions and earnings taxed as ordinary income. Required minimum distributions (RMDs) upon reaching age 73 (age 75 for those born after 1959).	Contributions may be withdrawn at any time for any reason without taxes or penalties. ⁶ Earnings can be withdrawn after five years without taxes or penalties. ⁷ No RMDs.

This information is not intended as tax advice. Tax information is based on federal income tax law. State and local income tax laws may differ. Please consult your tax advisor about your particular situation.

³ Prior to January 1, 2020, an individual had to be under age 70 1/2 to contribute to a traditional IRA. The age limitation has been eliminated.

⁴ The ability to deduct contributions to an IRA or contribute directly to a Roth IRA is subject to certain phase-outs. For 2026, phase-out begins at MAGI of \$153,000 for individuals, \$242,000 for married, filing jointly, and caps out for married individuals filing separately once MAGI reaches \$10,000.

⁵ Deductibility depends on the IRA owner's and spouse's MAGI and whether the owner is covered by an employer-sponsored retirement plan.

⁶ Each distribution is considered to come first from contributions, then from earnings.

⁷ If the individual is at least age 59½, dies, is disabled or uses up \$10,000 of the account's earnings for a first-time home purchase. Additional exceptions may apply.

Traditional vs. Roth: The decision tree

As shown in the previous chart, traditional IRAs offer a tax-deferred method to save for retirement. Roth IRAs provide a tax-free income stream, but only after the contributions to them have been subject to income tax. As beneficial as tax-deferred retirement plans are, they do carry with them the specter of eventual taxation of earnings at ordinary income tax rates in the future, as distributions are made. However, if you are in a position to pay the income tax currently, you may be able to create a Roth IRA or convert or roll over an existing IRA or qualified plan to a Roth.

Not only do the assets within a Roth IRA grow free of income tax, but distributions from a Roth are generally not subject to income tax, either to be paid by the participant or by inheritors of the funds. Moreover, there is no requirement to take annual distributions as there is with a traditional IRA, which allows the assets to continue to grow tax-free if you don't need them to support your needs.

There are a number of ways to create a Roth IRA. You can:

1. Open a Roth account directly by contributing after-tax dollars
2. Contribute to an employer-sponsored Roth 401(k) or 403(b) plan if your employer has installed one
3. Convert your traditional IRA to a Roth IRA
4. Roll over your traditional qualified plan to a Roth IRA

Converting a traditional or rollover IRA to a Roth involves consideration of a number of factors:

1. Income taxes related to conversion

When you convert part or all of a traditional IRA to a Roth IRA, ordinary income taxes, and possibly the Medicare surtax (also known as the net investment income tax), are due on the amount converted in that tax year. This resulting tax liability can be a significant factor in determining how much, if any, of a Roth conversion is appropriate. Part of the analysis is understanding how you will pay the income taxes—cash on hand, sale of taxable assets or IRA assets. The more tax liability that is generated as part of the Roth conversion, the longer it can take for the Roth conversion to be a benefit as compared to paying taxes over time on withdrawals from a traditional IRA.

Paying income taxes now on converted assets, however, removes those tax amounts from your taxable estate, thereby reducing its size. Depending on your investment horizon, this may be an effective way to possibly reduce estate tax liability in the future.

2. Income tax rates

Since a Roth conversion triggers ordinary income, another important factor can be the income tax rate that applies to your taxable income today and the rate that may apply in the future (for you or your beneficiary). If your current tax rate is relatively high, then it may not be as beneficial to trigger a significant amount of ordinary income today. It is important to note that Roth conversions may take place over several years, so one option may be to convert portions of a traditional IRA to a Roth IRA only in those years, and up to those amounts, when a relatively low income tax rate applies.

3. Distributions

One of the key features of the Roth IRA is that there are no required minimum distributions (RMDs) during your lifetime. Not having to take RMDs offers more growth potential if you prefer to pass on assets instead of spending them in retirement. If you keep your traditional IRA, you will have to take RMDs beginning at age 73 (age 75 for those born after 1959), leaving you to pay income tax and possibly the Medicare surtax on the annual distributions and decreasing your investment. A Roth IRA conversion means paying taxes at one time, but the full value of your new Roth IRA is then positioned for potential future growth and eventual tax-free distribution to your beneficiaries.

It is important to note, however, that if you think you may need to access the converted assets within five years of the

conversion or while you are under 59 ½, then you may want to reconsider the amount being converted to a Roth IRA. While Roth IRA earnings can grow tax-free, and earnings can be withdrawn tax-free, this rule only applies if you hold the conversion contribution for at least five years and you are age 59 ½ or older. If you are younger than 59 ½, but the Roth IRA has been held for at least five years, the earnings may be withdrawn tax- and penalty-free only if the distribution meets one of the other qualified distribution criteria—death, disability or qualified first-time homebuyer expenses up to a \$10,000 limit. (See the Order of Distribution discussion below.)

4. Estate planning considerations

Traditional IRA assets that are passed to nonspousal beneficiaries, especially during their peak earning years, can result in a significant tax bill for these beneficiaries. If you anticipate having a sizable traditional IRA account balance upon your death, consider converting now to have the potential to provide your designated beneficiaries with tax-free access to a substantial sum of money. However, if you intend to use your IRA to benefit charity during your life or upon your death, a Roth conversion may be less valuable due to the tax-exempt status of charitable beneficiaries.

Your beneficiaries' withdrawal earnings are tax-free regardless of the age of your beneficiaries or the age of the deceased account owner, as long as the Roth IRA conversion assets have existed for at least five years. Spousal beneficiaries can elect to treat a Roth IRA as their own, but may not be able to withdraw earnings—tax- or penalty-free—until age 59 ½.

Order of distribution

Once a conversion to a Roth IRA has been made, there is a five-year period during which some part of a distribution may still be subject to tax. Tax-free distributions are referred to as “qualified distributions,” and the rules for determining whether a distribution is characterized as “qualified” are summarized below.

1. Regular contributions

These amounts are contributed after tax. Thus, for federal income tax purposes, distributions of annual Roth IRA contributions are free of federal income tax.

2. Conversion contributions

If an amount has been converted, income tax has already been paid on the amount converted, and it is treated on a “first in, first out” basis. However, if the assets are withdrawn before the five-year period, they are subject to the 10% premature distribution penalty tax unless an exception applies (see chart on the next page). The five-year period starts on January 1 of the year the conversion was made and is determined separately for each conversion contribution.

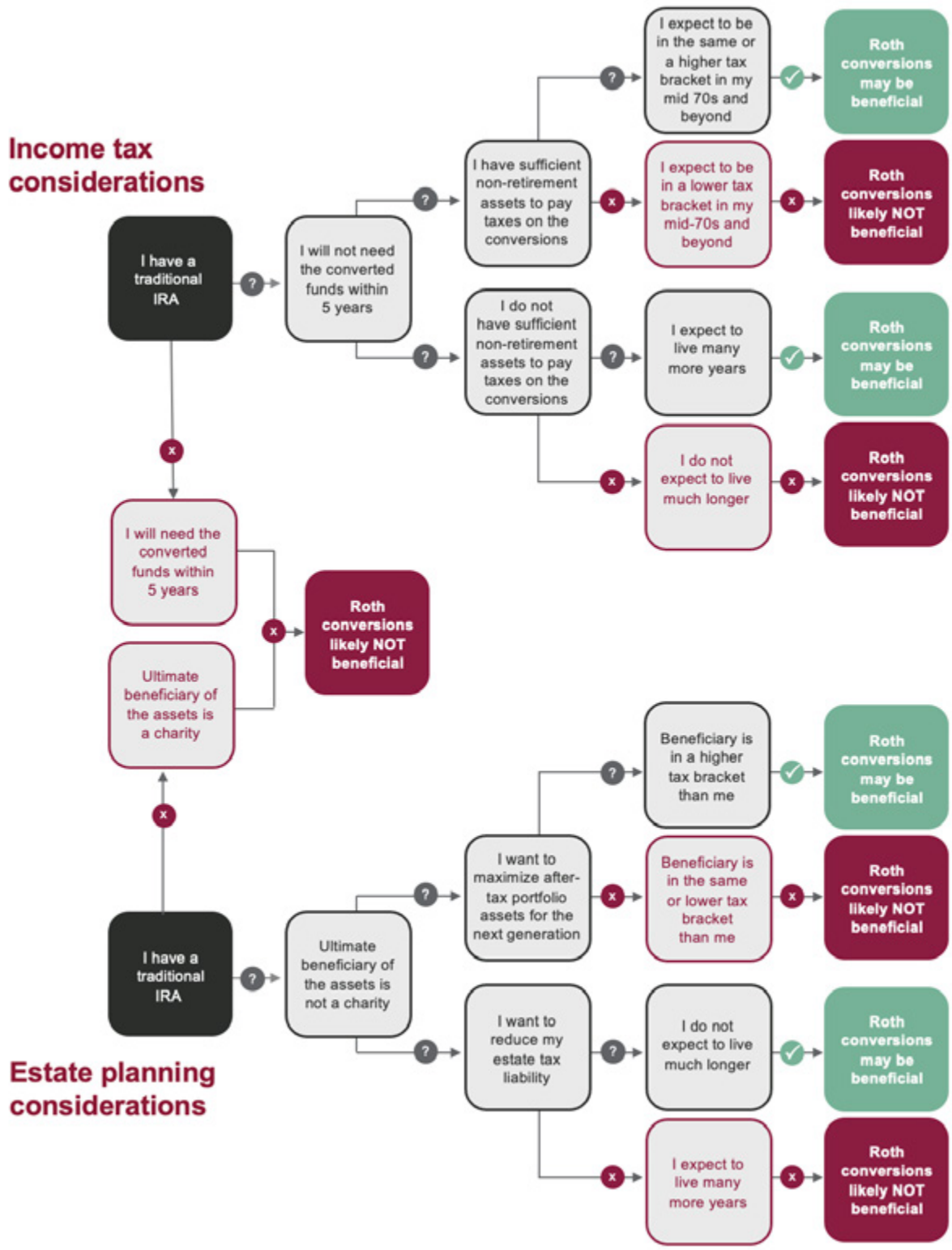
3. Earnings

The five-year period used for determining whether an amount is a “qualified distribution” starts with the year that the first valid contribution was made to the Roth IRA. A qualified distribution of earnings is subject to neither federal income tax nor penalties. In contrast, nonqualified distributions made before the end of the five-year period are taxable to the extent earnings are withdrawn. The five-year period for earnings starts on January 1 of the year the Roth IRA contribution was made.

Weighing the options

Whether the conversion of a traditional IRA to a Roth IRA is right for you involves a number of personal considerations that you should discuss with your advisors. The following decision tree with an income tax branch and an estate planning branch may help you decide: if you get a different result when working through each branch, you may need to decide which set of circumstances is more important to you.

Roth conversion decision tree



For illustrative purposes only.

The financial side of retirement planning
Executive compensation: What is really
your compensation package?



Executive compensation

Executive compensation: It's an alphabet soup of opportunities—ISOs, NQSOs, RSUs, RSSs, PSUs and NQDC plans. For many people, executive compensation can also be a tangled, and nuanced, web of considerations and decisions. What is the value proposition of my overall compensation? When will my equity compensation be taxed? Is it capital gains or ordinary income? What are the financial planning implications?

While people often are recruited to small, private startups with the carrot of wealth through equity (and many do see it pay off), other professionals and executives receive compensation beyond salary and benefits over years of service to a public company. Some of it is based on performance targets; some of it is constrained by strict legal requirements; some of it is subject to company-specific restrictions, such as blackout periods and lockups. All of it is subject to the need for clarity to cut through the complexity.

The total compensation package for our executive clients is a real management issue. They have these assets that look really great on paper, but the reality is that clients still have to fund their family's lifestyle, understand the compensation's future value, plan for how they'll use it for distant goals and understand the timing and nature of the tax consequences. It's really important for them to understand how the various pieces fit into their total wealth management plan and their goals for lifestyle, legacy and philanthropy.

Compensation for executives typically includes the foundation of annual salary, benefits, perks, an annual bonus as a reward for short-term results and a nonqualified deferred compensation plan that lets executives defer currently earned income to a future year. For many executives, a key part of their total package is the long-term equity incentive portion—for executives in public companies, it recognizes and rewards them for creating long-term shareholder value; for any executive, it serves as a retention tool.

Understanding types of equity compensation

Equity can be a very valuable part of your compensation because it gives you the opportunity to build significant wealth for the long term.

Each type of compensation has pros and cons relative to risk and return, taxes, vesting requirements and the impact on your total investment portfolio. Here's what you need to know about the three main types of equity compensation:

Restricted stock/restricted stock units/performance shares

What they are: Restricted stock is a pure grant of company stock—it's a classic "golden handcuff" in that you don't own the stock until all restrictions lapse. However, if the stock pays a dividend, those dividends typically are paid during the holding period, boosting annual income. You will receive the full value of company shares at vesting.

Restricted stock units (RSUs) are stock-based awards subject to vesting and transferability restrictions. They also may be payable in cash instead of stock. **Performance shares** generally vest only if a performance goal (company or individual, or both) is attained.

What you need to know: Two big questions people have about restricted stock are what the tax will be and when it must be paid. Despite the long and often complicated prospectus you may receive, there's no special tax advantage for this type of compensation, says Luke Bailey, partner with Clark Hill in Dallas.

"When restricted stock vests, it generally produces ordinary income," says Bailey. "It's just like a cash payment. Many public companies have an arrangement with their executives that tax obligations—federal income tax and Federal Insurance Contributions Act (FICA) tax—can be paid out of the shares themselves on the vesting date. Once shares are vested, any further appreciation in the value of the stock is taxed as capital gains."

Restricted stock generally carries less risk—the grant price is zero, and any value above that is compensation to you—so it does have downside protection. It also offers the same voting rights as regular stock. Can you make a gift of restricted stock? Yes—if the plan permits it. “But the income tax liability is still yours when the stock vests,” says Bailey.

Nonqualified stock options/stock appreciation rights

What it is: The nonqualified stock option (NQSO) is a type of stock option that doesn’t qualify for the special treatment accorded to incentive stock options (ISOs). NQSOs can be given to nonemployees such as directors and consultants.

What you need to know: Income from NQSOs is subject to ordinary income tax on the difference between the fair market value at time of exercise and the exercise price. In addition, NQSOs are subject to FICA withholding, unlike ISOs. There is no alternative minimum tax (AMT) risk, but they do carry the risk of a tax penalty under “golden parachute” situations. “If exercisability is accelerated in connection with a change in control of the company, certain tax penalties may apply,” says Bailey. “But generally, only a portion of the accelerated value is subject to these penalties.”

Incentive stock options

What they are: Incentive stock options (ISOs) can be granted only to employees, unlike nonqualified stock options. The value proposition for the executive is the appreciation of the stock’s value over its grant date value.

What you need to know: ISOs are taxed when you sell the stock. The increase in the value of the stock over the exercise price is subject to long-term capital gains tax if you don’t sell the stock until the later of two years from the grant date or one year from the exercise date. If either of those is not satisfied, the spread at exercise is ordinary income, and any amount over that will be capital gains. That also is the case if you work for a private company and wait to exercise your ISOs until a liquidity event—in that case, all appreciation will be taxed as ordinary income. “It’s important to know that the AMT may apply at the time of exercise, but any taxes paid can be treated as a refundable AMT credit in future years,” says Bailey. Unlike RSUs and NQSOs, ISOs can’t be used as a gift, as they carry a nonassignability provision.

Other considerations

Stock compensation is subject to complicated rules and restrictions. Companies often have guidelines on how much stock their executives must own (“ownership requirements”), even after shares vest, and restrictions on when it can be sold. Public company executives are subject to rules under Section 16 of the Securities Exchange Act of 1934, which require “insiders” (officers, directors and beneficial owners of more than 10% of a company’s stock) to file forms and follow rules on trading in their companies’ securities.

Sometimes executives elect to file a Section 83(b) election, which results in realizing the income at the time of the stock award rather than when the shares vest. “This is generally available only for restricted stock and generally advisable only if the stock has very low current value relative to its upside potential, such as the common stock of a startup,” says Bailey. “An 83(b) election marks the beginning of your capital gains holding period, rather than having that period begin when the shares vest. If you join a promising startup as a key hire, you might be willing to realize \$20,000 in income (for example) in the year you start, if you think the stock may be worth \$10 million down the road, because the stock’s value above the \$20,000 is going to be taxed at lower capital gains rates as long as you don’t sell it for a year. This is one of the situations where an 83(b) election makes good sense.”

The complex details of many types of executive compensation are a good reminder that all your compensation needs to be used intelligently to complete the total picture of your wealth, today and in the future.

The timing and the tax issues alone require careful analysis on how these will affect your situation when shares vest and you decide to sell. When you sell shares, the tax hit is immediate and real—it’s no longer a theoretical situation. Then the

question becomes what, if anything, you should do with the rest of the stock, a nondiversified asset that could represent a large part of your assets. For many of our clients in public companies, the decisions on their executive compensation are driven by predictable financial planning issues. We want to take as detailed a look as possible at long-term cash flow planning, even though much about the compensation will be unknown. It requires that we do a thorough analysis of the award agreements, vesting dates and option strike prices to help determine from both a diversification standpoint and a tax standpoint when it's best to exercise options and sell shares. The issue of diversification is often complicated by emotional ties to a company. Executives who envision or have already had a substantial career at a company continue to believe in it, both from an intellectual and an emotional perspective.

Bailey adds that it's extremely important to understand the risk of not being diversified if your company is a startup. "We know that the stock of a well-established company isn't likely to double overnight or go down to five cents. But if you're holding a lot of stock in a startup . . . well, that's where you're at greater risk of a sudden and rapid reversal of fortune."

Executive compensation is a mix of complicated decisions requiring expert advice from investment and tax professionals simultaneously. The strategy for making maximum use of it will likely evolve over the years as the executive builds wealth. In some cases, that can happen rapidly. It always requires us to think ahead early in the relationship to help clients meet their long-term goals. Understanding the complete picture also takes us and the client to a deeper layer of holistic wealth management—and that's always where we want to be.



CIBC PRIVATE WEALTH

The financial side of retirement planning
Social Security:
What you need to know



Social Security

If you are approaching the time to consider filing for Social Security benefits, there's plenty you need to know—and it's best to start your analysis early.

Deciding when to begin claiming Social Security benefits depends on each person's individual financial circumstances. Your decision should be coordinated carefully with your overall retirement income plan so that you make the best decision. Understanding the rules regarding Social Security payments is the first step in evaluating this important retirement income decision.

Full retirement age (FRA), also called "normal retirement age," is the age at which a person may first become entitled to full, or unreduced, retirement benefits. FRA was age 65 for many years, but that changed with provisions in the Social Security Amendments of 1983. Beginning with people born in 1938 or later, FRA gradually increases until it reaches age 67 for people born after 1959.

If your full retirement age is older than 65 (that is, you were born after 1937), you still will be able to take your benefits at age 62, but the reduction in your benefit amount will be greater than it is for people who were born before 1938.

Here's how it works if your FRA is 67

If you start your retirement benefits at age 62, your monthly benefit amount is reduced by about 30%. The reduction for starting benefits at age . . .

- 63 is about 25%.
- 64 is about 20%.
- 65 is about 13.3%.
- 66 is about 6.7%.

If you start receiving a spouse's benefits at age 62, your monthly benefit amount is reduced to about 32.5% of the amount your spouse would receive if his or her benefits started at full retirement age. (The reduction is about 67.5%.) The reduction for starting benefits as a spouse at age . . .

- 63 is about 65%.
- 64 is about 62.5%.
- 65 is about 58.3%.
- 66 is about 54.2%.
- 67 is 50% (the maximum benefit amount).

Age to receive full social security benefits

Year of birth	Full retirement age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months

Year of birth	Full retirement age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Source: Social Security Administration.

Delaying your benefits

If you don't want to begin receiving benefits at your FRA, you can delay them—which may result in larger benefits. With delayed retirement credits, you can receive your largest benefit by claiming at age 70. The annual delayed retirement credit percentage varies from 3% to 8% by year of birth, as shown in the table below. You can compute the effect of claiming your benefits before or after your FRA by using a calculator on the Social Security website, https://ssa.gov/OACT/quickcalc/early_late.html#late.

Delayed retirement credit

Year of birth	Credit per year
1917-24	3.0%
1925-26	3.5%
1927-28	4.0%
1929-30	4.5%
1931-32	5.0%
1933-34	5.5%
1935-36	6.0%
1937-38	6.5%
1939-40	7.0%
1941-42	7.5%
1943 and later	8.0%

NOTE: If you were born on January 1 of any year, refer to the credit percentage for the previous year.

Source: Social Security Administration.

Working and receiving benefits

If you draw benefits while you are working, your earnings will reduce your benefit amount until you reach your full retirement age. After you reach full retirement age, your benefit amount is recalculated to leave out the months when benefits were reduced as a result of your excess earnings, which can translate into higher payments in the future.

The reduction in benefits while you are working and drawing Social Security benefits simultaneously is calculated as follows:

- If you are under full retirement age for the entire year, \$1 is deducted from your benefit payments for every \$2 you earn above the annual limit. For 2026, that limit is \$24,480.

- In the year you reach full retirement age, \$1 in benefits is deducted for every \$3 you earn above \$65,160 (in 2026), but only earnings before the month you reach your full retirement age are counted.
- Starting with the month you reach full retirement age and thereafter, you can receive your benefits with no limit on your earnings.

Example: Mary is under full retirement age throughout 2026. She is eligible for \$800 in monthly benefits (\$9,600 annually). She works and earns \$26,480 during the year (\$2,000 over the \$24,480 limit). Her Social Security benefits are reduced by \$1,000 (\$1 for every \$2 she earned over the limit).

Income taxation of benefits

When making your decision on when to take Social Security benefits, keep in mind that benefits may be taxable. If you receive Social Security benefits during a year, you will receive a Form SSA-1099, which shows the total amount of benefits. Generally, if Social Security benefits are your only income, your benefits are not taxable. If you receive income from other sources, your benefits will not be taxed unless your modified adjusted gross income (MAGI) is more than the base amount for your filing status.

You can determine whether some of your benefits may be taxable by adding one-half of the total Social Security benefits you receive to all your other income, including any tax-exempt interest and other exclusions from income. Then, compare this total to the base amount for your filing status. If the total is more than your base amount, some of your benefits may be taxable.

If your MAGI exceeds the base-level thresholds, 50% of any excess over the threshold is taxable. If your MAGI exceeds the additional threshold, 85% of the excess over the second threshold is taxable.

Taxable social security benefits

The threshold amounts are:		
Filing status	Base	Additional
Single	\$25,000	\$34,000
Head of Household	\$25,000	\$34,000
Married Filing Jointly	\$32,000	\$44,000
Married Filing Separately⁸	Please see footnote below	Please see footnote below

Source: IRS.gov.

Other considerations

A variety of circumstances can come into play when you decide whether or not to take a lower benefit sooner or a higher benefit later.

Life expectancy: If you are in good health with a long life expectancy based on your family history, it may make sense to delay receiving Social Security benefits so that you can maximize the benefit amount you will receive later in life, as well as the cumulative lifetime benefits you receive if you live a longer life. The Social Security Administration has several calculators on its website to help estimate benefits and calculate the crossover age.

Health: Conversely, if you are in poor health and/or are unable to work, you may need to start receiving benefits early to help meet living expenses and/or medical costs.

⁸ Per IRS Code section 86(c)(2), married couples who file separate tax returns have different rules for computing the taxable portion of their Social Security benefits depending on whether they live with their spouse during the year. For married couples who live in the same household at any time during the year, their base amount is zero. Up to 85% of their benefits will be subject to tax. If a married couple lives apart from each other for the entire year, they can use a base amount of \$25,000 and the additional income amount of \$34,000 for computing the taxable portion of their benefits. More information on taxation of Social Security benefits is available in IRS Publication 915.

Other income: If you are able and willing to continue working until full retirement age or your other income will meet your cash flow needs, waiting until at least full retirement age to receive benefits probably makes sense. Another factor may be how reliant you are on your investment portfolio to cover living expenses. If you and your advisor determine that your annual draw from your investments is getting too large to be sustainable, claiming Social Security benefits can reduce the need to access those investments and allow them to grow.

Marital status: If you are married, how and when you decide to claim Social Security benefits can affect your and your spouse's benefits. For example, spouses generally are eligible to claim a Social Security benefit that is equal to the greater of their own benefit (based on work history and income) or up to one-half of their spouse's FRA benefit. This spousal benefit, however, only becomes available when the spouse with the higher earnings record claims their own retirement benefit. Once the spousal benefit is available, the amount of such benefit will be determined based on the age of the spouse claiming the benefit. If the spouse claims their spousal benefit prior to their own FRA, the spousal benefit is reduced.

There are many nuances to claiming Social Security, and it's important to review your situation with your advisor.

The content of this document references information from ssa.gov and irs.gov.

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