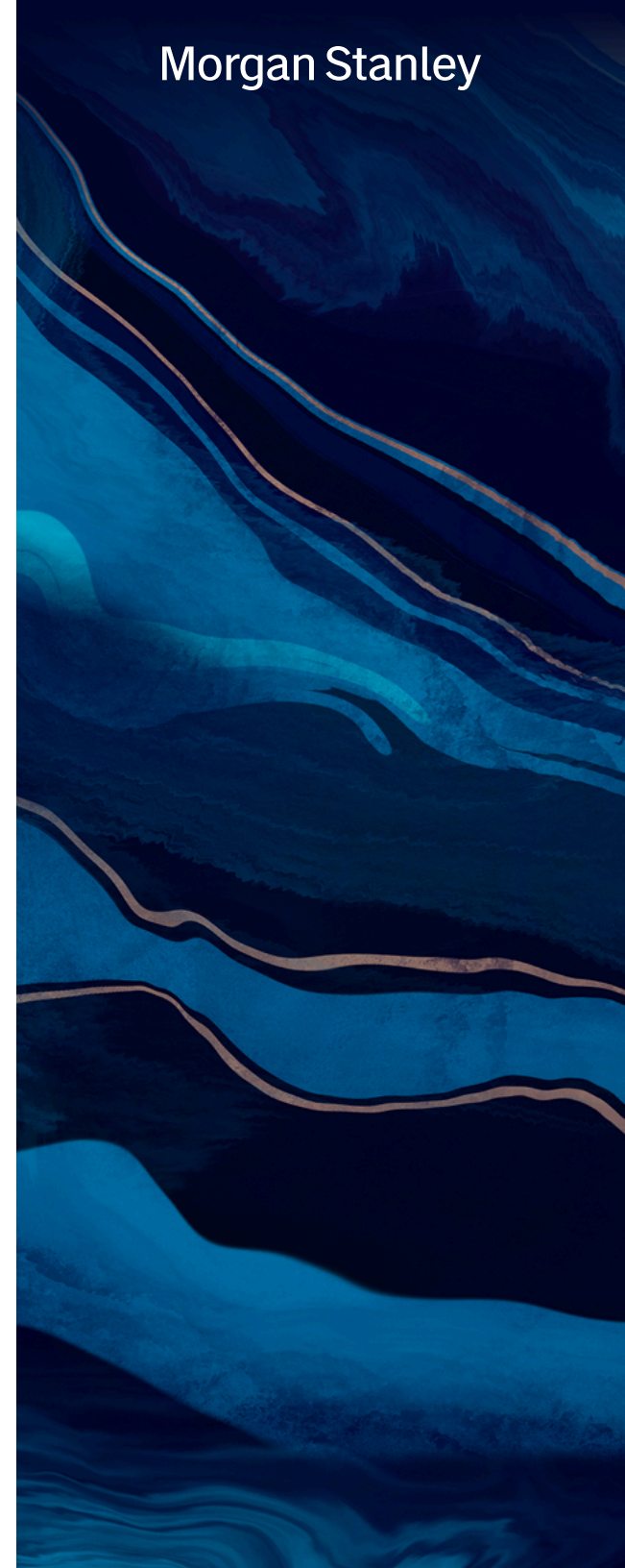


# Equity Compensation



# What Types of Equity Plans Does Your Employer Offer?

Your Compensation Package May Include an Equity Plan. These Can Take Various Forms.

## TYPES OF HOLDINGS

There Are Various Types of Equity Awards That Your Employer Can Offer, Including ...



**NONQUALIFIED  
STOCK OPTIONS  
(NQSO)**



**INCENTIVE STOCK  
OPTIONS (ISO)**



**RESTRICTED STOCK  
UNITS (RSU) AND  
AWARDS (RSA)**



**PERFORMANCE  
STOCK UNITS (PSU)  
AND AWARDS (PSA)**

## VESTED VS UNVESTED



### VESTED OPTIONS

Rights to purchase shares of the company stock at a pre-established price



### UNVESTED OPTIONS

Future rights to purchase shares of the company at a pre-established price

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# Do You Understand Your Equity Award?

Different Risks, Vesting Rules and Tax Consequences.



## UNDERSTANDING YOUR BENEFITS

The various types of equity awards have different rules and implications. Your Financial Advisor can help you understand them and help optimize their benefits

### NONQUALIFIED STOCK OPTIONS (NQSO)

- Allow employees to buy company stock at a predetermined price, usually lower than future market prices, within a set timeframe

### QUALIFIED INCENTIVE STOCK OPTIONS (ISO)

- Allow employees to buy company stock at a predetermined price, usually lower than future market prices, within a set time frame
- Potentially more favorable tax treatment than NQSOs
- Other limits apply

### RESTRICTED STOCK UNITS (RSU) AND AWARDS (RSA)

- Give employees a direct interest as soon as they are vested, without them needing to exercise options
- Vesting requirements met by passage of time or by performance, with no purchase or exercise cost

### PERFORMANCE STOCK UNITS (PSU) AND AWARDS (PSA)

- Similar to RSUs and RSAs but the payout of shares relies on company performance
- Both vest and deliver shares upon meeting performance targets within a predetermined “performance period”
- At the end of performance period, the payout is determined based on the achievement of performance goals. Shares are delivered once vesting requirements are met.

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# Equity Awards Can Have Complex Implications

Employee Stock and Options Can Offer Opportunities, but also a Significant Level of Risk and Complexity.

## OPPORTUNITIES TO EARN MORE...

Over the last 30 years, real wages have increased by about 1% a year on average<sup>1</sup>, while the stock market has historically returned an annualized average of around 10% before inflation<sup>2</sup>

## ...BUT IT PAYS TO PLAN AHEAD

Nevertheless, equity awards are governed by a complex set of rules that requires planning ahead



### TAX IMPLICATIONS

Equity awards can lift you into a higher tax bracket, while the tax consequences of some equity awards are determined by how long you hold the shares after exercise or vest



### LIQUIDITY

Your liquidity may be impacted by option grants. A holistic plan needs to balance your short and long-term expenses while keeping a focus on your financial goals



### ASSET DIVERSIFICATION

Equity awards impact asset diversification across your entire portfolio. Moreover, a portfolio of option grants may have greater volatility than an equivalent portfolio of stocks. You may wish to reduce concentration risk by exercising option grants or selling the acquired stock. The optimal order of liquidation will be impacted by the strike prices and time to maturity, among other factors.

1. "Using the PCE [personal consumption expenditures price index], the wages of a typical worker have increased by 32% over the past three decades."

<https://www.bloomberg.com/opinion/articles/2019-05-15/wage-stagnation-was-mostly-a-myth>

2. <https://www.nerdwallet.com/blog/investing/average-stock-market-return/> (2023)

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# Key Benefits of Equity Award Analysis

The Morgan Stanley Equity Award Analysis Tool Empowers Your Financial Advisor to Help with Enhanced Advice Related to Appropriate Strategies and their Hypothetical Tax, Cash Flow and Risk Implications.



## EQUITY AWARD ANALYSIS HELPS YOU ANSWER QUESTIONS LIKE

- What is the hypothetical value of my holdings?
- How do I assess the risk of my options?
- What actions can I take regarding my employee stock and options holdings?
- If I were to liquidate my options, which options should I liquidate first?



## EFFICIENCY THROUGH TECHNOLOGY

- With Equity Award Analysis your Financial Advisor has easy access to powerful analytics that enable analysis results within seconds. Equity Award Analysis automatically sources public and private company data such as stock price, volatility and dividend yield. All while offering you informative reports with detailed explanation of potential strategies and their implications.



## POTENTIALLY BETTER OUTCOMES

- Equity Award Analysis empowers your Financial Advisor to estimate hypothetical values, evaluate potential strategies and make informed recommendations that can be integrated with your overall goals plan. For example, its analysis function allows your FA to instantly compare up to eight approaches with different exercise and sell strategies.

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# Integration With Your Goals

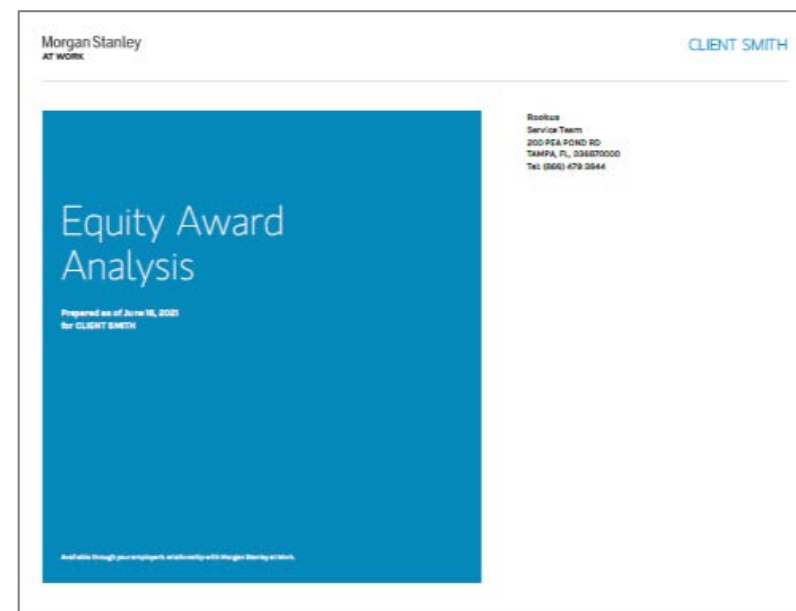
A Complete View of Your Total Wealth That Includes Your Equity Plan.



**MAKING YOUR EQUITY  
AWARD WORK TOWARD  
YOUR LARGER GOALS**

Your employee stock and options can be a significant part of the wealth you've built over time to help meet the goals that matter to you. Converting that wealth to enable your dreams is often complex, and options can add another element of complexity due to their varying tax implications and vesting rules.

By integrating Equity Award Analysis with your goals plan, we can help you gain a comprehensive view of your total wealth to help ensure all of it is working most efficiently toward your goals.



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