

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

Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

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 average¹, while the stock market has historically returned an annualized average of around 10% before inflation²

...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.

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.

A thumbnail image of a report titled 'Equity Award Analysis' prepared for 'CLIENT SMITH' on June 16, 2020. The report is from the 'Rookes Service Team' in Tampa, FL. The Morgan Stanley logo and 'AT WORK' tagline are visible at the top. The report is described as a 'Toolkit' for integrating employee stock and options into a larger goals plan.

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Money Market Funds: You could lose money in money market funds. Although government money market funds (defined as investing 99.5% of total assets in cash and/or securities backed by the U.S. government) and retail funds (defined as money market funds open to natural person investors only) seek to preserve value at \$1.00 per share, they cannot guarantee doing so. The price of other money market funds will fluctuate, and when you sell shares they may be worth more or less than originally paid. Money market funds may impose a fee upon sale or temporarily suspend sales if liquidity falls below required minimums. During suspensions, shares would not be available for purchases, withdrawals, check writing or ATM debits. A money market fund investment is not insured or guaranteed by the Federal Deposit Insurance Corporation or other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund and investors should not expect that the sponsor will provide financial support to the Fund at any time.

Investing in **Commodities:** Commodity prices may be affected by factors such as supply and demand, government policies, domestic or international political and economic events (including war or terrorism), changes in interest and exchange rates, trading activity in commodities and related contracts, pestilence, technological developments, weather, price volatility, and liquidity constraints. Physical precious metals are speculative, non-regulated products that may experience short- and long-term price volatility. Precious metals do not make interest or dividend payments and therefore may not be appropriate for investors who require current income. Precious metals must be stored, which may impose additional costs on investors.

Master Limited Partnerships (MLPs): Investments in MLPs are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity price fluctuations, supply

and demand imbalances, resource depletion and exploration risk. MLPs also carry interest rate risk and may underperform in rising interest rate environments. In addition, MLP funds accrue deferred income taxes on net operating gains and capital appreciation; as a result their after-tax performance could differ significantly from that of its underlying assets.

Exchange Funds are private placement vehicles that enable holders of concentrated single-stock positions to exchange those stocks for a diversified portfolio. Investors may benefit from greater diversification.

Alternative investments are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They are appropriate only for eligible, long-term investors willing to forgo liquidity and put capital at risk for an indefinite period. They are often illiquid, may employ leverage, short-selling, or other speculative practices that increase volatility and risk of loss, and may require large minimum investments and initial lock-ups. Alternative investments may also involve complex tax structures, tax-inefficient investing, and delays in distributing important tax documents. Clients should consult their own tax and legal advisors, as Morgan Stanley Wealth Management does not provide tax or legal advice. They also typically carry higher fees and expenses than traditional investments, which can reduce overall returns.

Sector investments, due to their narrow focus, tend to be more volatile than broadly diversified investments. **Non-diversified portfolios:** Portfolios that hold a concentrated number of securities may experience greater overall declines when those securities lose value compared with more diversified portfolios. Portfolios that invest heavily in one or a few industry sectors are more vulnerable to price fluctuations than those diversified across a wider range of sectors.

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