Morgan Stanley

Do You Understand Your Equity Award Plan?

Many employers include some type of equity plan as part of their employee benefit package. The attraction is in the opportunity to earn more, although that prospect doesn't come without challenges. Each type of plan has differing risks, vesting rules and tax consequences. Risks may be mitigated and opportunities enhanced, including tax planning, with good planning guidance.

Understanding Your Equity Award Plan

Your plan holdings may include options or stock-based compensation. With options, you are granted rights to purchase shares of the company stock at a pre-established price. With stock-based compensation, you are granted the company stock, subject to vesting requirements.

TYPES OF EQUITY AWARDS:

NON-QUALIFIED STOCK OPTIONS (NQSO)	• Allow employees to buy company stock at a predetermined price, usually lower than future market prices, within a set time frame
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 favourable 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 with no purchase or exercise cost

Overview

Two Concepts Empower Employee Equity Award Plans

Over the past 30 years, real wages have increased by about 1% per year on average[1], while the stock market has historically returned an annualized average of around 10% before inflation[2]. Then there are the potential tax planning opportunities.

ENHANCE YOUR OPPORTUNITY THROUGH PROPER PLANNING

Equity awards are governed by a complex set of rules requiring both advance and ongoing planning:

- **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 affected 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 affected by the strike prices and time to maturity, among other factors.

Keeping all the above in focus can help make your equity award work toward your larger goals.

How We Can Help

Your Morgan Stanley Financial Advisor can provide a complete view of your total wealth that includes your equity plan—helping you understand your plan's complexities while helping to optimize benefits tailored to your specific needs.

Of significant value is the Morgan Stanley Equity Award Analysis Tool. It empowers your Financial Advisor with insightful evaluation of appropriate strategies and their hypothetical tax, cash flow and risk implications.

To learn more, contact a member of your Morgan Stanley team.

Making Your Equity Award Work Toward Your Larger Goals

1) 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/