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Making a plan for your equity compensation



Key takeaways

- Equity compensation can become a meaningful part of your wealth, but its value depends on your broader financial goals.
- A clear plan can help you decide when to hold, sell or diversify your company shares as they vest.
- Concentration risk can grow quietly as new shares are added, making it important to understand your overall exposure.
- Q4 is a useful time to review upcoming vesting events, taxes and other decisions that may require action before year-end.

Equity can be an important part of your compensation, but managing it is about more than the individual awards you receive.

For many professionals, equity compensation builds over time. Shares vest, options become available to exercise and new awards are granted. As your awards accumulate, so do the decisions around them, including how much company stock to hold, when to sell and how your tax situation may affect those choices.

Q4 can be a useful time to step back and review what you've received, what has vested or become available to exercise and what may be coming next. Seeing the whole picture can help you identify the decisions ahead and consider how your equity fits into your broader financial strategy.

Start with what you are trying to accomplish

Rather than start by deciding whether to sell your shares, take a moment to understand what your goals are and how your equity can play a role in them.

Maybe you want to save for a down payment, fund education expenses or grow your retirement fund. You may also want to build wealth without tying too much of your financial future to your current employer.

Determining where your equity will go can help clarify how much company stock you need to keep and how much you may want to sell as it vests. This is also where equity compensation becomes part of a broader plan. Your salary, cash savings, retirement accounts, other investments and near-term goals all matter when deciding how much company stock you can reasonably hold.

Understand your concentration risk

A common challenge with equity compensation is that concentration can build gradually.

Consider a household with $1 million of investable assets, including $300,000 in shares of the primary breadwinner's employer. 30% of their investable assets are tied to a single company. Employer stock can also create another layer of concentration, where income and investments both depend on the same company. If the company struggles, you could potentially face a decline in the value of your shares while your job or compensation is affected.

A higher concentration in one company may be intentional, but it's important to understand how that exposure fits into your overall financial picture. As additional shares vest, ask yourself:

- What percentage of my household's investable assets is tied to my employer?
- How would a significant decline in the stock affect our broader goals?
- If we were to sell some shares, what would we do with the proceeds?

Looking at these questions before a vesting date can help you make a proactive decision.

Don't overlook the tax and planning implications

The tax impact of equity compensation can vary depending on the type of award and what you do with it. Vesting, exercising an option and selling shares can each have different tax implications, so it's important to understand what's happening to your award and when.

Consider reviewing:

- Equity awards scheduled to vest or become exercisable
- Shares you already hold
- Potential tax withholding or payments related to your awards
- Capital gains or losses from shares you've sold
- How exercising options or selling shares could affect your current and future income taxes

A large vesting event may also change how much cash you want available for other goals or increase the portion of your wealth tied to one company. If you expect a large vesting or exercise event before year-end, consider whether you'll need additional cash available for taxes or other expenses.

Looking at these implications holistically can help you make decisions about your equity compensation as part of your broader financial plan.

Create a plan for vested shares

Once you understand your goals, your existing exposure and the tax considerations, you can create a plan for what happens when new shares vest.

Your plan could include a target percentage of company stock, a decision to sell shares as they vest or a rule for directing proceeds toward specific goals. You might also decide to retain shares only when doing so keeps your overall exposure within a range that fits your plan.

The right approach will depend on your goals, risk tolerance, tax situation and existing exposure, and it may evolve as those factors change. Having a plan in place can help you make decisions consistently rather than reacting to what happens with the stock.

Put your equity compensation in context

Your equity strategy doesn't have to be permanent. As your compensation changes, new awards vest and your financial priorities evolve, the approach that made sense a few years ago may no longer fit.

A year-end review can give you an opportunity to revisit your plan before the next round of vesting events and other decisions arrive. Your advisor can help you evaluate your equity compensation alongside your other financial priorities and adjust as your career and goals change.



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