

Restricted Stock Unit Roadmap

Attract, retain, and reward key talent with RSUs

Over the past two decades, Long-Term Incentive Plan (LTIP) design has evolved from a reliance primarily on stock options to a portfolio approach dominated by Restricted Stock Units and Performance Stock Units (n.b., this brochure will use “RSUs” to mean both Restricted Stock Units and Performance Stock Units). While the change was spurred by accounting changes in the treatment of stock options, which leveled the playing field with respect to the relative cost of various equity awards, recognition of the benefits of RSUs from the perspective of both executives and companies has underpinned the current dominance of RSUs.

This roadmap will provide you with a meaningful understanding of the potential advantages of RSUs, take a deeper dive into deferral and diversification, and illustrate the competitive edge and curated process when partnering with EBS.

As firms across industries and geographies continue to battle for key talent, our hope is that you consider augmenting your company’s arsenal by partnering with EBS to implement or improve your use of RSUs.

Potential Advantages of Deferral and Diversification

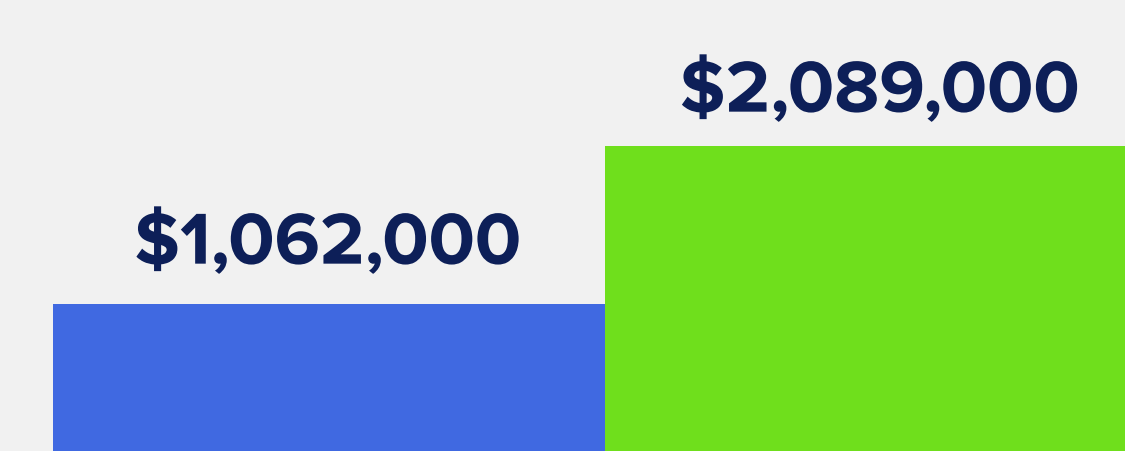
As a component of long-term incentive plans, RSUs provide potential advantages to both the plan sponsors and participants. With a growing number of companies offering RSUs, though, how can firms stand out?

Firms successfully seizing the spotlight are raising the stakes by allowing for the deferral and diversification of RSUs. The next page expands on the mechanics of **deferral** and **diversification**, but for now let’s consider the following potential advantages.

For Executives

- Delay of federal income taxes and potential reduction or even elimination of state income taxes
- Appreciation of 100% of RSUs after vesting by avoiding the initial loss of 40 – 45% of the RSUs to tax withholding upon vesting
- Reduction of exposure to the concentration of net worth through diversification
- Satisfying stock ownership guidelines more easily

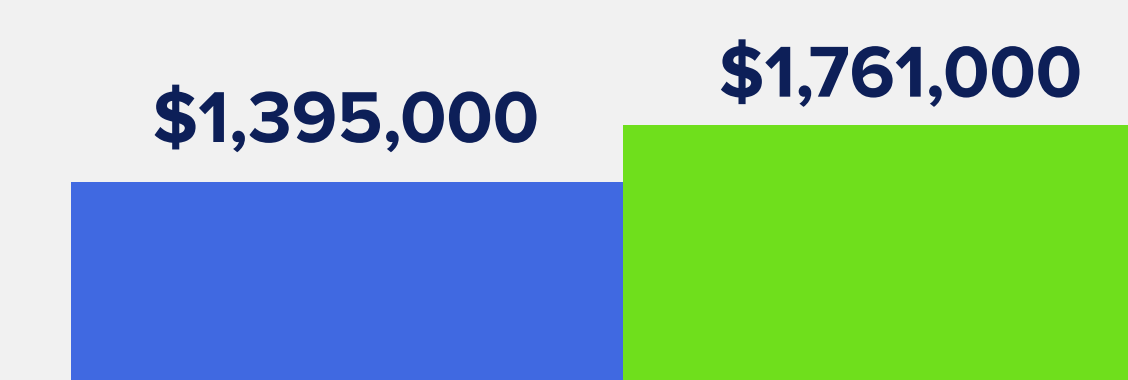
Account Balance at Retirement



Value of RSUs and Accumulated Dividends at Distribution

■ No Deferral ■ With Deferral

Total After Tax Income



Total After Tax Income for All Years

The above graphics illustrate potential benefit of deferral for a hypothetical grant of 55,000 RSUs to a 58-year-old executive who retires at age 65 and takes distributions over 10 years. Other assumptions include a 45% marginal tax rate, 4-year vesting, \$20.00 share price appreciating at 6%, and a dividend of \$.80 per share.

For Companies

- Ability to provide greater value to the executives at no additional cost
- Flexibility of plan design
- Simplified stock administration
- Competitive advantage in battle for talent

Ready to Pursue RSU Deferral?

We’re ready when you are. To get started on building your firm’s top talent enticements, reach out to info@ExecutiveBenefitSolutions.com.

Still Deciding? Keep Reading

For more information on how deferral and diversification work, as well as the unique tools and processes offered by EBS, keep reading or visit our [Restricted Stock Units landing page](#).

Deeper Dive: Deferral & Diversification

Perhaps the greatest advantage of Restricted Stock Units, the control of the timing of taxation, can easily become a burden if not treated appropriately. Whereas with stock options, executives typically have a 10-year window to exercise the options and trigger taxation, RSUs are subject to income tax upon vesting and delivery.

By implementing a new, or modifying an existing, nonqualified deferred compensation plan that permits the deferral and diversification of RSUs, executives can regain control over the timing of income taxation and enjoy increased flexibility in investment portfolio planning.

Deferral – How it Works

General Rule

- A deferral election must be made in the year before the year of grant (e.g., December 2023 for RSUs to be granted in 2024).
- A separate election is made for each vesting tranche including: the percentage of the RSUs granted to be deferred, the period of deferral (to retirement or to a specified date), and the form of benefit payments (in a lump sum or in installments).
- Note that the deferral election applies to income taxes (which are deferred until distribution) but not to FICA and Medicare taxes, which are due upon vesting.

Exceptions to the General Rule

- Short-Term Deferral: Under this exception, it is possible to make a deferral election at any time up to 12 months prior to the vesting date as long as the elected distribution date is at least 5 years after the originally scheduled distribution date (upon vesting). This exception is applicable to either time-vested or performance-vested RSUs.
- The ability to make a “Look-Back” election can be extremely valuable as it permits the deferral of RSUs that were granted in prior years but, with respect to which, the vesting date is still more than 12 months out.
- A second valuable exception to the general deferral election timing rule is for “performance-based compensation” as defined under Section 409A.
- This is a valuable exception to the year-before-the-year general rule, especially in the case of a multi-year performance period. For example, if a Performance Stock Unit performance period is 3 years, it may be possible to make a deferral election anytime up to a date that is at least 6 months before the end of the performance period, as long as the likelihood of earning the award is still uncertain as of that date.

Diversification – How it Works

- Building on the deferral option, diversification affords executives the chance to reallocate their accounts from the notional RSUs to any other notional fund offered under the company plan.
- An executive’s ability to diversify their account through reallocation is typically subject to certain timing restrictions. For example, the RSUs deferred must be held in the participant’s account for at least six months before diversification is permitted to ensure favorable accounting treatment as discussed more fully below. In addition, the ability to diversify through reallocation is typically restricted during quarterly and year-end blackout periods.



Distribution of Benefit – How it Works

Distribution at Retirement

- One key option is for participants to defer their RSU distribution until retirement, either as a lump sum or a fixed number of payments. Potential advantages of this option include retirement income and minimizing or avoiding state income tax (particularly in the case of executives who establish residence in a different state in retirement that has lower or no income tax).

Shorter-Term Deferral

- Many companies allow executives to elect distributions to occur while still working, prior to retirement (In-Service Accounts); if not already established, EBS can partner with firms and executives to ensure their Deferred Compensation Plans offer this opportunity.
- By leveraging the creation of In-Service Accounts through the use of shorter-term deferrals, executives can create a Restricted Stock Wealth Management Program (RS WMP). The steps to implementing an RS WMP include:
 - Defer all RSUs for the minimum period of time permissible under the company plan.
 - 12 months prior to their scheduled distribution, if not needed, re-defer them for an additional 5 years.
 - Repeat this process every year, until eventually five annual buckets of RSUs will continue to fill as time goes on, with access to the RSUs in the first bucket just over a year away if needed.
 - This structure provides flexibility in financial and tax planning to account for shorter-term goals (e.g., college tuition, real estate purchases) prior to retirement.

Considerations

The many advantages of the use of RSUs in comparison to other forms of equity awards do not come without some important considerations. However, in most cases, the enhancement in value of the LTIP through coordination with a state-of-the-art deferred compensation plan far outweighs any potential disadvantages, which include:

- Creditor risk inherent in a non-qualified deferred compensation plan
- Loss of the opportunity for a Section 83(b) election (which may be good or bad news)
- Lack of shareholder voting rights and actual payment of dividends (although dividend equivalents are often credited on vested and deferred shares)

Instituting an RSU deferral and diversification program requires expertise. Partnering with EBS affords the experience navigating the myriad technical considerations, addressed step-by-step in our Implementation Roadmap, including:

- Participant communication and technical support
- Accounting
- SEC reporting
- Stock plan administration
- Informal funding / hedging of the liability

EBS Tools & Process

RSUs represent a complex component of cutting-edge compensation packages. Many companies have taken the first step after learning about the potential advantages, only to be overwhelmed by the twists and turns on the path to RSUs. That's where EBS comes in.

Our expertise draws upon decades of industry experience, thoughtfully crafted tools (including EBS's full-service plan administration system, which utilizes cutting-edge, cloud-based technology to navigate the complexities of Section 409A compliance), and a proven process for implementation. From the earliest stages of determining how RSUs could work for you, including taking advantage of our personalized modeling tools and proxy analysis process, partnering with EBS means you'll have a dedicated team to navigate the complete course.

Implementation

While challenging conventional wisdom may seem an uncertain route, EBS has established a six-step Implementation Roadmap to usher our clients from concept to fully launched and supported offering. Read below for further information on the work EBS leads, with appropriate guidance from clients.

 **Implementation Roadmap**

1	Plan Design	<ul style="list-style-type: none"> → Establish plan objectives. → Review vesting and performance details, provide best practice data on grant deferral deadlines. → Advise on best practices regarding any existing plans and integration or development of equity deferral plan.
2	Participant Communication, Education, and Enrollment	<ul style="list-style-type: none"> → Develop participant communication and education plan. → Prepare plan enrollment videos and materials. → Offer one-on-one participant education.
3	Informal Funding	<ul style="list-style-type: none"> → Determine funding strategy and benefit security arrangements. → Implement funding vehicle and benefit security arrangements. → Establish asset/liability matching, monitoring, and reporting procedures.
4	Plan Documentation	<ul style="list-style-type: none"> → Provide detailed outline of plan provisions, work with attorneys to draft documents. → Review Rabbi trust documentation. → Prepare Department of Labor filing.
5	Technical Considerations	<ul style="list-style-type: none"> → Review accounting considerations with corporate accounting and finance. → Review Tax/409A compliance with corporate tax team and SEC reporting with SEC counsel. → Coordinate plan administration and transfers with stock plan administrator.
6	Ongoing Plan Administration and Technical Support	<ul style="list-style-type: none"> → Provide online system with detailed reporting for participants and sponsor. → Provide reporting on contributions and tax withholding, plan statements, and notifications in advance of key deferral dates. → Manage additions and terminations to census and provide ongoing technical support.

Next Steps

The flexibility of financial and tax planning offered by allowing the deferral and diversification of RSUs provides real value to executives and allows companies to enhance their total rewards packages at little to no cost.

The roadmap to RSUs may seem daunting to the untrained eye, though partnering with EBS sets you on a clear path forward. Whether you're ready to take the first step now or have additional questions, please reach out to info@ExecutiveBenefitSolutions.com or visit our [Restricted Stock Units](#) landing page.

Get In Touch

EBS-Boston

📍 75 Arlington St. Suite 500
Boston, MA 02116

📞 617.904.9444

Christopher Rich

Managing Director

✉ crich@ebs-boston.com

📞 339.221.0555

Chris Wyrzten

Managing Director

✉ cwyrzten@ebs-boston.com

📞 339.832.0510

Christopher W. Rich

Managing Director

✉ cwrch@ebs-boston.com

📞 508.228.0102

EBS-West

Ready to pursue RSUs?

📍 1902 Wright Place,
Suite 200
Carlsbad, CA 92008

📞 760.788.1321

William L. MacDonald

Managing Director

✉ wmacdonald@ebs-west.com

📞 760.340.4277

Don Curristan

Managing Director

✉ dcurristan@ebs-west.com

📞 760.788.1321

Trevor K. Lattin

Managing Director

✉ tlattin@ebs-west.com

📞 949.306.5617

National Plan Administration

📍 801 East Plano Parkway,
Suite 216
Plano, TX 75704

📞 972.422.8298

Bonnie Barnes

Vice President of Plan Administration

✉ bbarnes@ebs-boston.com