Stock-Based Compensation: Part 4

Who You Gonna Call?

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Happy New Year! And welcome back to those who have followed along with our first three installments. This installment will wrap up our series on stock-based compensation by highlighting two hypothetical families: one family who receives RSUs for a portion of their annual income and one who does not. The sections below illustrate how we customize plans for each client's specific situation, and they will also explain why a one-size-fits-all, off-the-shelf investment approach can—and often does--produce sub-optimal results. Although the simplicity of such plans may appear alluring, you will quickly discover that they fail to take into account critical differences, like pay structures and income tax issues—let alone the different timelines, goals, and family needs that differentiate every investor. By working with an advisor, especially one well-versed in RSUs and profit-sharing plans, like 103 Advisory Group, you can create a custom plan that properly factors in salient risks and optimizes your unique advantages.

Our goal for this series on stock-based compensation was two-fold 1.) to educate our readers about the unique benefits and vulnerabilities associated with stock-based compensation and 2.) to give you some big-picture guidelines to apply to your own RSU shares. Now, the next time you receive an alert that your restricted stock is vesting soon, you'll be better prepared to make decisions aligned with your financial planning objectives.

We also hope this series will show you why working with an advisor may improve your results and your peace of mind. It's ok if you're still unsure about taking that next step. We understand that hiring an advisor requires due diligence, and we are here to listen to your concerns and to help. Give us a call at 312-736-8567 or drop us an e-mail at jmariscalco@103advisory.com. We'd love to learn more about your situation.

Without further ado, say hello to the Stockton Family and the Salaree Family, neighbors and acquaintances. [Cue applause!]

The table below highlights the two families' respective annual incomes. As outlined in Table 1 below, their compensation buckets 1 and 2 (annual salary and annual cash bonus) are identical. However, the Stockton Family also receives a relatively large amount of company stock, but the Salaree Family does not. At $81,250, the Stockton Family's restricted company stock comprises 18.5% of their total annual pay, giving them a large and very valuable form of incentive compensation.

Table 1: Family Compensation Comparison

	Compensation Bucket 1		*Compensation Bucket 2*		*Compensation Bucket 3*		
	Annual Salary	Projected Income Growth	Annual Cash Bonus (% of Salary)	$ Amount	Restricted Stock Units (% of Salary)	$ Amount	Total Projected Compensation
The Stockton Family	$325,000	3%	10%	$32,500	25%	$81,250	$438,750
The Salaree Family	$325,000	3%	10%	$32,500	0%	$0	$357,500

The compensation table makes it clear that:

1. **The Salaree family's income is more stable**. Roughly 90% of their annual pay comes from a fixed salary. On the other hand, the Stocktons' fixed salary comprises less than 75% of their total projected compensation, which means their income is less reliable.
2. **The Stockton family's effective tax rate is likely higher** because RSUs vest as taxable income.
3. **The Stockton family's stock compensation brings them more investment risk**. Both families invest, but the Stocktons' equity risk is baked into their annual income while the Salaree family's is not.

For the sake of our illustration, let's assume that the Stockton family's restricted company stock comes from a large-cap growth company—a big corporation whose earnings are expected to grow at an above-average rate relative to the overall market.[1] Here are some examples of common growth stocks:[1]

Table 2: Short List of Current U.S. Larg Cap Growth Companies

Apple	Alphabet	Visa	Adobe
Microsoft	Broadcom	Mastercard	UnitedHealth Group
NVIDIA	Tesla	Salesforce	ServiceNow
Amazon	Eli Lilly	Oracle	Intuit
Meta Platforms	Netflix	Advanced Micro Devices	Costco

Some important details to note: The projections we'll use are intended to illustrate how different scenarios will affect a family's income and tax issues. For this hypothetical example, we make several assumptions that are typically true over time, but could (and do) fluctuate or change in the 'real world.' First, equity returns figures will ebb and flow over time, and growth stocks do not always generate returns that exceed those of the overall U.S. stock market, although this seems difficult to fathom today given that U.S Large Cap Growth stocks have outperformed the overall U.S. stock market for the previous 5-,10-, and 15-year intervals ending 12/31/2024.[2] Additionally, our projections assume that the Stocktons' RSU stock price will not change from the time the family receives it until the time their shares vest. It is highly unlikely that a stock's price won't change between the time it is granted and when it vests; in fact, it's probably impossible. However, this assumption simplifies the calculations so that you can better understand the impacts of these families' investment decisions. If you are interested in how an increase—or decrease—in the stock prices will affect these outcomes, please feel free to reach out; we're happy to spend more time on this topic.

In the sections ahead, we will examine several financial planning and investing topics that will differentiate the Stocktons' program from the Salarees'. Importantly, by the end of Part 4, you'll understand why the "one-size-fits-all" approach is probably not the best choice for the Stocktons. But let's begin with taxes and then move onto investment risks.

Income Tax Surprises!

Look again at Table 1: the Family Compensation Table. The first important task is to analyze the differences in the families' gross income, taxable income, and net income. These numbers will inform each family's expected net pay and cash flow, and they will also determine the unique structure of their investment programs. When thinking about your own situation, you should regularly review your own figures because you may be unpleasantly surprised by the difference between what your employer withholds and your actual year-end tax bill.

	Compensation Bucket 1		*Compensation Bucket 2*		*Compensation Bucket 3*		
	Annual Income	Projected Income Growth	Annual Cash Bonus (% of Salary)	$ Amount	Restricted Stock Units (% of Salary)	$ Amount	Total Projected Compensation
The Stockton Family	$325,000	3%	10%	$32,500	25%	$81,250	$438,750
The Salaree Family	$325,000	3%	10%	$32,500	0%	$0	$357,500

For income tax purposes, we assume that each family resides in Illinois but that neither family makes pre-tax 401(k) contributions. It might seem odd to leave out 401(k) contributions, but stick with us. We'll explain this in more detail in the following section. We also assume that both families' gross income (salary) is taxed at the 24% marginal income tax rate and that the year-end cash bonus and restricted stock unit (RSU) vesting is taxed at a flat 22%. Lastly, we estimate the additional Medicare tax withholding because each family is expected to earn more than $250,000 during the calendar year; this additional tax is 0.9%.

Table 3: Income and Tax Comparison

Compensation Comparison	**Annualized Gross Salary (est. 2025)**		
Paystub	**Stockton Family**	**Salaree Family**	**Difference**
Gross Income (Salary)	**$325,000**	**$325,000**	**$0**
Year-End Cash Bonus	**$32,500**	**$32,500**	**$0**
RSU Vesting	**$81,250**	**$0**	**$81,250**
Total Gross Income	**$438,750**	**$357,500**	**$81,250**
Pre-Tax Deductions (Retirement Account/401K)	$0	$0	**$0**
Taxable Income	**$438,750**	**$357,500**	**$81,250**
Withholding tax estimates			
Federal Income Tax	*$81,519*	*$63,644*	**$17,875**
Social Security Tax	*$10,918*	*$10,918*	**$0**
Medicare Tax	*$6,362*	*$5,184*	**$1,178**
Additional Medicare Tax	*$675*	*$675*	**$0**
IL State Income Tax	*$21,718*	*$17,696*	**$4,022**
Total Estimated Withholding Taxes	***$121,192***	***$98,117***	**$23,075**
Net Income	**$317,558**	**$259,383**	**$58,175**

Disclaimer
Hypothetical example. For illustrative purposes only.
Not intended as tax advice.

As you can see, the Stockton family's tax bill is roughly $23,100 more than the Salaree family's, due to the RSU shares. So, if the RSU vesting value is $81,250 but the Stocktons owe $23,100 more than the Salarees in taxes, the Stocktons' actual, after-tax stock value is roughly $58,200, only about 70% of the total vested amount. That's quite a hit! So much for my big stock payout!

This all seems straightforward, but some details might surprise you. Your W-2 includes **all** of the wages and compensation you earned for the year net of any pre-tax deferrals, such as 401(k) contributions, medical, dental, vision, flexible spending account (FSA) contributions, and health savings account

(HSA) contributions, to name a few. This income amount is reported in Box 1 of your W-2. Box 2 shows the amount of federal income tax withheld from your wages. W2 Box 5 is also important, it includes your Medicare wages, which has no income cap as it relates to the 1.45% tax associated with Medicare wages. Ever unpleasantly surprised to owe more money to the IRS than you had already paid? Stinks, right? Let's dig into how this can happen (and how you might avoid it).

To show this, we'll convert the annual pay stub analysis in Table 4 into a sample, condensed IRS Form 1040. Table 4 shows why the Stocktons owe nearly $3,500 more than the Salarees.

Table 4: Sample IRS 1040 Comparison

Sample, condensed IRS 1040

	Line 1a	**Total amount from Form(s) W-2, box 1**		**$438,750**	**$357,500**
	2a	Tax-exempt interest	2b Taxable interest		
	3a	Qualified dividends	3b Ordinary dividends		
	4a	IRA distributions	4b Taxable amount		
	7	Capital gain or (loss)			
	9	**This is your total income**		**$438,750**	**$357,500**
	10	Adjustments to income			
	11	**This is your adjusted gross income**		**$438,750**	**$357,500**
	12	Standard deduction or itemized deductions		$30,000	$30,000
	13	Qualified business income deduction			
	15	**This is your taxable income**		**$408,750**	**$327,500**
Tax					
	Line 16	Tax (see instructions)		$86,625	$65,262
	24	**This is your total tax**		**$86,625**	**$65,262**
	25	Federal income tax withheld from:			
	25a	**Form(s) W-2**		**$82,194**	**$64,319**
Amount You Owe	**37**			**$4,431**	**$943**

Disclaimer

Hypothetical example. For illustrative purposes only. Tax calculation includes both Ordinary Income Tax and Additional Medicare Tax; however,

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The Stocktons owe more taxes because their vesting RSUs significantly increase their annual taxable income, and that pushes the Stockton family **out of the 24% marginal income tax bracket and directly into the 32% tax bracket**. That's quite a jump! Below you can see the 2025 tax brackets. A taxable income of $408,750 is taxed at the 32% marginal bracket, but an income of $327,500 is taxed at the 24% marginal bracket. (Incidentally, this is the second largest income bracket jump (+8%) within the current tax code. The biggest jump is the 10% jump from the 12% bracket to the 22% bracket.)

TABLE 1 - Section 1(j)(2)(A) – Married Individuals Filing Joint Returns and Surviving Spouses

If Taxable Income Is:	**The Tax Is:**
Over $206,700 but not over $394,600	$35,302 plus 24% of the excess over $206,700
Over $394,600 but not over $501,050	$80,398 plus 32% of the excess over $394,600

Many families don't see this coming when they are granted RSUs. As shown in Table 4, federal income tax is withheld throughout the year, but not enough to cover the Stocktons' actual tax. This means that come April 15, the Stocktons will be writing a large check to the IRS. We know this tax stuff can be confusing so we've broken it down in greater detail in the table below.

A.) Tax Withheld During the Year

	Stockton Family	**Rate**	**Tax Calculation**	**Tax Withheld**
Gross Income (Salary)	**$325,000**	Marginal 24%, plus Addn'l Medicare Tax	=$35,302 + (**24%** x (($325,000 - $30,000) - $206,700)) + (0.90% x ($325,000 - $250,000))	$57,169
Year-End Cash Bonus	**$32,500**	Flat 22%	=$32,500 x .22	$7,150
RSU Vesting	**$81,250**	Flat 22%	=$81,250 x .22	$17,875
Total Gross Income	**$438,750**		**Total Tax Withholding**	**$82,194**

B.) Form 1040 Tax Filing

	With RSU Vesting	**Only Salary + Cash Bonus**	**Difference**
Total amount from Form(s) W-2, box 1	**$438,750**	**$357,500**	**$81,250**
Standard Deduction	**($30,000)**	**($30,000)**	
This is your taxable income	**$408,750**	**$327,500**	**$81,250**
Tax (see instructions)			
If Taxable Income is:	The Tax is:		
Over $206,700 but not over $394,600	=$35,302 + (**24%** x (Taxable Income - $206,700)) + (0.90% x (Taxable Income - $250,000))		
Over $394,600 but not over $501,050	=$80,398 + (**32%** x (Taxable Income - $394,600)) + (0.90% x (Taxable Income - $250,000))		
This is Your Total Tax	**$86,625**	**$65,262**	
This Was The Tax Withheld	**$82,194**	**$64,319**	
This is The Amount You Owe	**$4,431**	**$943**	
Difference Attributable to RSU Vesting $3,488			

Therefore, instead of keeping roughly $58,175 in unrestricted company stock, the amount is essentially reduced by another $3,488 ($4,431 minus $943) to $54,687, which is essentially two-thirds of the original amount granted! This is because their employer didn't withhold enough when their shares vested.

For this hypothetical illustration, we left some boxes blank and compressed others in the previous table because these items are beyond the scope of the series. However, such considerations are critical for building a successful financial plan and investing program. So, yes, there are even more reasons why the one-size-fits-all approach is not ideal—more than we can even dig into in this series. Due to such complexities, we utilize income tax planning software and collaborate with our clients' accountants to gain a comprehensive understanding of their financial situation.

One important detail is deferrals like pre-tax 401(k) contributions. As noted above, for our initial comparison, we assumed that neither family made pre-tax 401(k) contributions. That's because deferral contributions make sense for some individuals, but not others. However, if you'd like to understand how pre-tax contributions can affect your taxes, let's now assume one family member contributes as much as they can to their 401(k), or $23,500 for tax year 2025. These contributions would reduce both the Stocktons' and the Salarees' taxable wages to $415,250 and $334,000, respectively. Table 5 offers a sample condensed 1040 that reflects this assumption.

Table 5: The Impact of Deferring Income to Reduce Taxable Income

Sample, condensed IRS 1040

				Stockton Family	Salaree Family
Income					
		Total Gross Income from Pay Stub Analysis		**$438,750**	**$357,500**
		401(k) Contributions (Income Deduction)		**$23,500**	**$23,500**
		Total amount from Form(s) W-2, box 1		**$415,250**	**$334,000**
Line	**1a**	**Total amount from Form(s) W-2, box 1**		**$415,250**	**$334,000**
	2a	Tax-exempt interest	2b Taxable interest		
	3a	Qualified dividends	3b Ordinary dividends		
	4a	IRA distributions	4b Taxable amount		
	7	Capital gain or (loss)			
	9	**This is your total income**		**$415,250**	**$334,000**
	10	Adjustments to income			
	11	**This is your adjusted gross income**		**$415,250**	**$334,000**
	12	Standard deduction or itemized deductions	*standard*	$30,000	$30,000
	13	Qualified business income deduction			
	15	**This is your taxable income**		**$385,250**	**$304,000**
Tax					
Line	16	Tax (see instructions)		$79,853	$59,622
	24	**This is your total tax**		**$79,853**	**$59,622**
	25	Federal income tax withheld from:			
	25a		**Form(s) W-2**	**$76,554**	**$58,679**
Amount You Owe	**37**			**$3,299**	**$943**
	37 (taxes owed assuming no 401(k) deferral)			**$4,431**	**$943**

Disclaimer
Hypothetical example. For illustrative purposes only.
Not intended as tax advice. Please consult your accountant for specifics relating to your personal income tax return.

After making the maximum 401(k) contribution, the Stocktons decreased their overall federal tax bill by nearly $6,800 and the additional amount they owe by roughly 25% to $3,300—a tax savings of more than $1,100! But they will still owe money come tax time. However, their 401(k) contributions are enough to push them back down into the 24% marginal income tax bracket, instead of the 32% bracket. In contrast, the Salaree family's bracket remains unchanged. Here's another detailed look to outline the math.

The Impact of 401(k) Contributions

	Without 401(k) Contributions		With 401(k) Contributions		Change With v. Without	
	Stockton Family	Salaree Family	Stockton Family	Salaree Family	Stockton Family	Salaree Family
Total Gross Income from Pay Stub Analysis	**$438,750**	**$357,500**	**$438,750**	**$357,500**	$0	$0
401(k) Contributions (Income Deduction)	$0	$0	$23,500	$23,500	$23,500	$23,500
Total amount from Form(s) W-2, box 1	**$438,750**	**$357,500**	**$415,250**	**$334,000**	-$23,500	-$23,500
This is your total income	**$438,750**	**$357,500**	**$415,250**	**$334,000**	-$23,500	-$23,500
Standard deduction or itemized deductions	$30,000	$30,000	$30,000	$30,000	$0	$0
This is your taxable income	**$408,750**	**$327,500**	**$385,250**	**$304,000**	-$23,500	-$23,500
Marginal income tax bracket	**32%**	**24%**	**24%**	**24%**	-8.0%	0.0%
This is your total tax	$86,625	$65,262	$79,853	$59,622	-$6,772	-$5,640
Federal income tax withheld from: W2	$82,194	$64,319	$76,554	$58,679	-$5,640	-$5,640
This is the amount you owe	**$4,431**	**$943**	**$3,299**	**$943**	-$1,132	$0

Despite making the maximum 401(k) contributions, both families will still owe money because their employers didn't withhold enough from their pay. If you, like our hypothetical families, end up owing taxes, check whether your employer is using a 22% tax rate for your bonus and RSU withholding calculations. Although you are likely in a higher tax bracket, your employer does this because the IRS treats cash bonuses and restricted stock vesting as supplemental income, which has a mandatory tax rate of 22% when below $1,000,000. However, you might be able to update your elected withholding amounts with your human resources department. **A new payroll year is starting right now, so this is a good time to check your amounts!**

Now that we've looked at why you might owe additional money on your tax bill, let's compare our hypothetical families' investing plans. We're going to go beyond discussing potential returns and look closely at a critical factor that is often overlooked—investment risk.

Focus on Risk—Not Just Potential Returns

Many of our clients are surprised when they learn how much risk affects their wealth. To understand how risk might affect you, let's return to our hypothetical families. For the sake of this analysis, we assumed the following:

- Both families are roughly the same age and have been saving and investing a portion of their income for nearly five years.
- Each family maxed out their respective 401(k) contributions over the past five years and received a 5% employer match each year.
- Each family saved 50% of their annual cash bonus during each of the past five years.
- The Stocktons held their RSU shares (net of tax) from each stock grant that vested during each of the past five years and did not sell any RSU shares to rebalance into more diversified investments. For simplicity's sake, our planning analysis assumes their company stock has the same characteristics as the U.S. Large Cap Growth stock index.
- The planning horizon is the next five years.

We'll start with the Stocktons who have a set of accounts currently valued at $678,150, most of which is now concentrated in unrestricted company shares that regularly vested over the past five years. In this example, the Stocktons' restricted stock comprises nearly 60% of their total investment assets. Recall Parts 1 and 2 from this series, where we addressed how company stock can accumulate quickly when you're busy and make you vulnerable to emotional decision making? Look at how much these factors can actually affect a portfolio.

Table 6: Hypothetical Investment Accounts and Planned Annual Savings – The Stockton Family

Select Asset	Description	Owner	Current Value	Annual Additions
☑	Vested Company Stock (after-tax) Account ⓘ	Stockton Family	$402,500	$54,687
☑	Saved Bonus Money Account ⓘ	Stockton Family	$81,250	$16,250
☑	Company Sponsored 401(k) Plan ⓘ	Stockton Family	$194,400	$39,750
Total All Assets			$678,150	$110,687

With planned savings of roughly $111,000 per year, the Stocktons' savings rate [as a percentage of their gross annual income] is roughly 25%, which is quite good. Currently, a very large portion of the Stocktons' assets is invested in their unrestricted company stock. Let's compare the Stocktons' current allocation with an allocation that is less risky (i.e., split roughly equal between stocks and bonds).

Table 7: Stockton Family - Current Portfolio Versus Less Risky Portfolio

	Asset Mix					
Name	Cash	Bond	Stock	Alternative	Projected Return	Standard Deviation (Risk)
Current Portfolio	2%	15%	83%	0%	5.84%	13.21%
Company stock as % of portfolio			*59%*			
Balanced Risk Framework	0%	50%	45%	5%	4.90%	8.37%

Their current portfolio has considerably more stock exposure, making the portfolio riskier. In fact, the current allocation has a forward-looking return that is 20% higher **but carries nearly 60% more risk**. Recall from the last installment where we discussed the topic of risk/reward imbalance? This is exactly the situation the Stocktons are in. Sure, they might get a little extra return, but **they are much more susceptible to jeopardizing their wealth**.

Now let's examine a five-year savings and investment analysis that compares their current portfolio to a less risky portfolio. Table 8 on the following page outlines the details.

Table 8: The Combination of Savings, Risk, and Return

Stockton Family Savings and Investments Analysis

Current Portfolio Value	$678,150
Annual Planned Additions	$110,687
Time Frame (yrs)	5

Range of Possible Results

	Current Portfolio Hypothetical Value in 5 Years			Balanced Risk Framework Hypothetical Value in 5 Years		
	Future Dollars	Total Additions	Change in Portfolio Value	Future Dollars	Total Additions	Change in Portfolio Value
High Value:	$2,064,860	$553,435	$1,511,425	$1,787,939	$553,435	$1,234,504
Median Value:	$1,425,270	$553,435	$871,835	$1,419,143	$553,435	$865,708
Low Value:	$932,368	$553,435	$378,933	$1,094,502	$553,435	$541,067

The Stocktons are poised to save quite a lot of money over the next five years, nearly $553,000. Additionally, the high value for the current portfolio is roughly $2.0 million, the middle value is roughly $1.4 million, and the low value is roughly $930,000. For the less risky portfolio option, the high value is roughly $1.8 million, the middle value is roughly $1.4 million, and the low value is roughly $1.1 million. Wait, let's look at that again! The low value for the less risky portfolio is **greater than** the low value of the riskier portfolio. And the middle values are nearly the same?

This might seem surprising at first, but it is a classic trait of risky portfolios…Riskier portfolios have greater return dispersion between their best outcomes and their worst outcomes. So, even though their highest return estimate is more, that doesn't ensure that the portfolio value will always be greater than a more conservative option.

With these comparisons, the Stocktons can better understand how risk might affect their investment outcomes. They may not need to take on so much risk because: 1.) They're saving a lot of their hard-earned money and 2.) bad market outcomes may put them on a sub-optimal path, especially if their company stock doesn't generate the positive returns they anticipate.

Now, let's take a look at the Salaree family's current asset values and planned annual additions.

Table 9: Hypothetical Investment Accounts and Planned Annual Savings – The Salaree Family

Select Asset	Description	Owner	Current Value	Annual Additions	
☑	Company Sponsored 401(k) Plan ⓘ	Salaree Family	$194,400	$39,250	×
☑	Saved Bonus Money Account ⓘ	Salaree Family	$81,250	$16,250	×
Total All Assets			$275,650	$55,500	

Table 9 includes the same data we examined for the Stocktons. To simplify this illustration, we have assumed they have the same asset values and planned annual additions as the Stocktons. What's different is the amount of vested company stock and the planned annual additions from forward-looking RSU grants. At $55,500, the Salarees' savings rate is approximately 15.5% of their gross annual compensation, which is also a good savings level. Lastly, their investment allocation is consistent with an aggressive growth objective, meaning they invest a large amount of money in stocks.

In financial planning and investing, **needing to take risk** is often very different from **wanting to take risk**. In certain cases, the latter may unfortunately expose a family to unintended outcomes, such as a lower likelihood of success.

Table 10: The Family Portfolio Comparison – Stockton v. Salaree

		Asset Mix					
Family	Name	Cash	Bond	Stock	Alternative	Projected Return	Standard Deviation (Risk)
Stockton	Balanced Risk Framework	0%	50%	45%	5%	4.90%	8.37%
Salaree	Aggressive Risk Framework	0%	0%	90%	10%	6.73%	16.28%

The Salarees' overall investment program return is expected to be nearly 2% greater than the Stocktons', but their risk exposure is nearly **double**. Table 11 on the following page compares each family's respective outcomes based on their current asset totals, planned savings, and risk allocation.

Table 11: A Comparison of Savings, Risk, and Return

Family Comparison Savings and Investments Analysis

Stocktons				**Salarees**			
Current Portfolio Value	$678,150			Current Portfolio Value	$275,650		
Annual Planned Additions	$110,687			Annual Planned Additions	$55,500		
Time Frame (yrs)	5			Time Frame (yrs)	5		
Range of Possible Results				**Range of Possible Results**			
	Balanced Risk Framework Hypothetical Value in 5 Years				Aggressive Risk Framework Hypothetical Value in 5 Years		
	Future Dollars	Total Additions	Change in Portfolio Value		Future Dollars	Total Additions	Change in Portfolio Value
High Value:	$1,787,939	$553,435	$1,234,504	High Value:	$1,138,843	$277,500	$861,343
Median Value:	$1,419,143	$553,435	$865,708	Median Value:	$684,564	$277,500	$407,064
Low Value:	$1,094,502	$553,435	$541,067	Low Value:	$392,326	$277,500	$114,826

Look at the dramatic difference between a family who receives restricted company stock and one who does not. Now you can really see the pitfalls of a one-size-fits-all approach. True, the Stocktons will have to plan more thoughtfully for their tax bills. But their equity compensation affords them more options. After the Stocktons properly evaluate their risk-reward potential, outlined in Tables 7 and 8, they can better understand how a too-aggressive approach can undermine their success.

Before we put the bow on this series, let's turn to the most compelling and pressing question for most of our clients:

How much longer will the Salaree family have to work, compared to the Stocktons, in order to amass an almost equivalent median portfolio asset value?

The answer: they'll have to work a lot longer.

Table 13: How Valuable are RSUs? You Be the Judge.

Family Comparison Savings and Investments Analysis

Stocktons				**Salarees**			
Current Portfolio Value	$678,150			Current Portfolio Value	$275,650		
Annual Planned Additions	$110,687			Annual Planned Additions	$55,500		
Time Frame (yrs)	5			Time Frame (yrs)	12		
Range of Possible Results				**Range of Possible Results**			
	Balanced Risk Framework Hypothetical Value in 5 Years				Aggressive Risk Framework Hypothetical Value in 12 Years		
	Future Dollars	Total Additions	Change in Portfolio Value		Future Dollars	Total Additions	Change in Portfolio Value
High Value:	$1,787,939	$553,435	$1,234,504	High Value:	$3,150,979	$666,000	$2,484,979
Median Value:	$1,419,143	$553,435	$865,708	Median Value:	$1,434,912	$666,000	$768,912
Low Value:	$1,094,502	$553,435	$541,067	Low Value:	$649,554	$666,000	($16,446)

The Salarees would have to save for at least an additional seven more years (12 total!) and maintain an aggressive risk asset allocation to reach the Stocktons' projected median portfolio asset value. Although the blue boxes are nearly identical, notice the yellow shaded box with the red, negative dollar value. This shows, statistically speaking, that the Salarees could take all that risk with their hard-earned money and still not generate any positive gains above their total additions during that time. Although the Salarees may need to take on such risks to meet their goals, because of the Stocktons' equity compensation, the Stocktons will only have to assume roughly one-half of that risk and be willing to accept slightly less in return, and they will be in as good of a position as the Salarees—but many years sooner.

You may be wondering why we use five-year timeframes for our comparisons. After all, most boilerplate financial planning materials use 20-, 30-, or even 50-year timeframes. That's literally a lifetime—maybe more! We understand that you are busy working a demanding job, raising a loving family, and hustling between a million different activities…Trying to see more than five years in the future can feel impossible and exhausting! If you can't remember what you did this past weekend and haven't yet figured out what your family is having for dinner tonight, you know what I'm talking about!

A shorter time horizon helps you focus on what matters and keeps you motivated. We have years of experience working with clients in their 30s and 40s, and their five-year timeframes frequently include:

- Marriage--or possibly divorce
- One child…maybe two or three
- At least one new home purchase, possibly two
- New job
- New school
- New car(s)
- New dog
- Heck…maybe even a whole new city and state!

Sound familiar?

A lot can happen in short periods of time, so build your plan accordingly…That's what we do, anyway.

Thanks to those of you who have joined our RSU journey. We hope you learned a little more about this valuable form of stock-based compensation and are better equipped to customize your company's stock compensation to your advantage. So, the next time you receive an email with a subject title like this from your employer:

You'll have a better idea of what to do…or at a minimum who to call. For expert guidance on maximizing the benefits of your stock plan, please give us a call or drop us an e-mail. We spend each and every day helping clients build customized programs that seek to maximize their unique compensation programs.

For those who would like more information on any of the topics covered in this series, please give us a call at 312-736-8567 or email jmariscalco@103advisory.com. When you're ready, we're here to help.

P.S. Do you have friends or colleagues who also wrestle with how to handle their stock compensation? If so, please share this series with them. Below is a link to our website that you can copy and paste.
https://103advisory.com/our-thinking/

Disclosures

The material shown is for informational purposes only. Any opinions expressed are current only as of the time made and are subject to change without notice. This report may include estimates, projections, or other forward-looking statements; however, forward-looking statements are subject to numerous assumptions, risks, and uncertainties, and actual results may differ materially from those anticipated in forward-looking statements. As a practical matter, no entity is able to accurately and consistently predict future market activities.

Additionally, please be aware that past performance is not a guide to the future performance of any investment, and that the performance results and historical information provided displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Therefore, it should not be inferred that these results are indicative of the future performance of any strategy, index, fund, manager, or group of managers.

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Sources

1. iShares S&P 500 Growth ETF Fact Sheet as of 9/30/2024
    - https://www.ishares.com/us/literature/fact-sheet/ivw-ishares-s-p-500-growth-etf-fund-fact-sheet-en-us.pdf
2. Morningstar

Name	Ticker	Stock Industry/ Fund Category	% Total Return 5 Year	% Total Return 10 Year	% Total Return 15 Year
iShares S&P 500 Growth ETF	IVW	Large Growth	16.89	15.09	15.34
SPDR® S&P 500® ETF Trust	SPY	Large Blend	14.47	13.01	13.78

- Data as of 12/31/2024 and subject to change

3. MoneyGuide Pro
4. Holistiplan
5. Tax Bracket Table: IRS (https://www.irs.gov/pub/irs-drop/rp-24-40.pdf)