



Understanding Your Stock Options and Introduction to Advisory Resources

Types of Stock Compensation

1. Restricted Stock Units (RSU)

2. Restricted Stock Awards (RSA)

3. Stock Options

- Non-qualified
- Incentive Stock Options (ISOs)

Restricted Stock Units

Restricted stock units (RSU) are stock-based compensation awarded to employees.

The RSU will “vest” over a predetermined amount of time, at which point you can access the stock to do as you wish.

Vesting

Vesting is the process of earning an asset.

Companies use vesting to incentivize employees to stay with the company longer and eventually earn a reward for their loyalty.

A four-year time-based vesting schedule is common, *but this can vary*.

The nice thing about RSUs is you do not need to purchase them. They are awarded to you at no cost. You only need to wait for them to vest before they're accessible to cash out, trade, or keep.

RSU Vesting Timeline

Grant Date

- 100 shares granted.
- 4-yr vesting period starts.
- No tax due

AUG 2022

Year 1

- 25 shares vest.
- 25 shares at \$10/share
- \$250 subject to ordinary income.

AUG 2023

Year 2

- 25 shares vest.
- 25 shares at \$15/share
- \$375 subject to ordinary income.

AUG 2024

Year 3

- 25 shares vest.
- 25 shares at \$20/share
- \$500 subject to ordinary income.

AUG 2025

Year 4

- 25 shares vest.
- 25 shares at \$5/share
- \$125 subject to ordinary income.

AUG 2026

ONE^o

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Source: <https://onedegreeadvisors.com/2022/05/rsu-taxation-how-to-reduce-your-rsu-tax-bill-2022/>

How Are RSUs Taxed?

- The key thing to keep in mind with RSUs and taxes is that you pay ordinary income tax when your shares vest.
- For example, let's say your RSUs had a fair market value of \$10 when they were granted. Because you did not actually receive any shares when the RSUs were granted, you are not responsible for paying taxes on that \$10.
- Therefore, the taxable gain is \$0 on the grant date.
- Instead, you will pay **ordinary income tax** on the full fair market value when your RSUs **vest**. You'll pay taxes on their value on the vesting date. So, if they're now worth \$15, you'll pay taxes on that amount, not the grant amount of \$10.

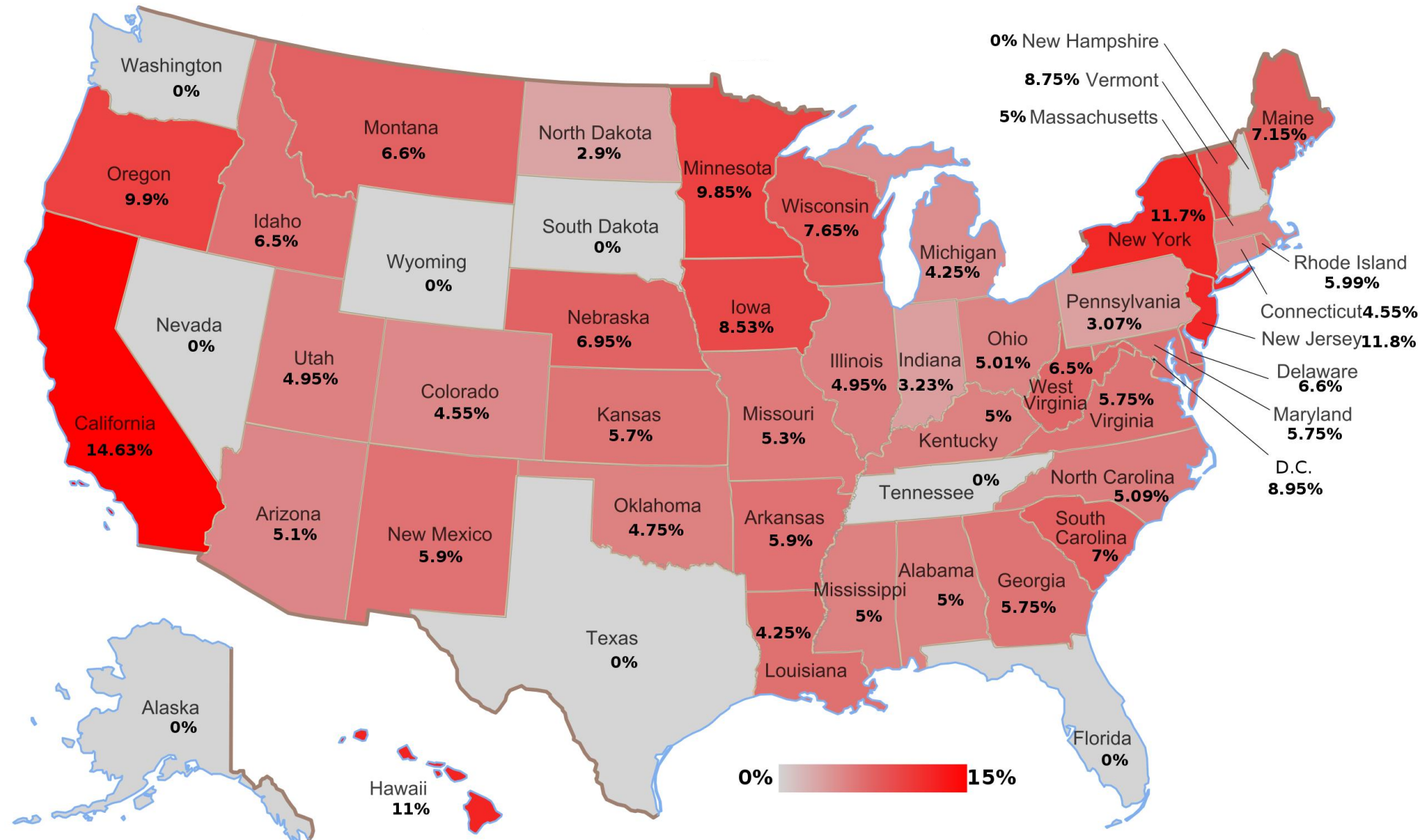


Ordinary Income Tax Rates (Federal)

Taxable Income Brackets for 2023 Ordinary Income Tax Rates		
Marginal Tax Rate	Married-Joint	Single
10%	\$0 - \$22,000	\$0 - \$11,000
12%	\$22,001 - \$89,450	\$11,001 - \$44,725
22%	\$89,451 - \$190,750	\$44,726 - \$95,375
24%	\$190,751 - \$364,200	\$95,376 - \$182,100
32%	\$364,201 - \$462,500	\$182,101 - \$231,250
35%	\$462,501 - \$693,750	\$231,251 - \$578,125
37%	Over \$693,751	Over \$578,126

**Plus state, local, Medicare and social security tax, depending on which state you live in and how much income*

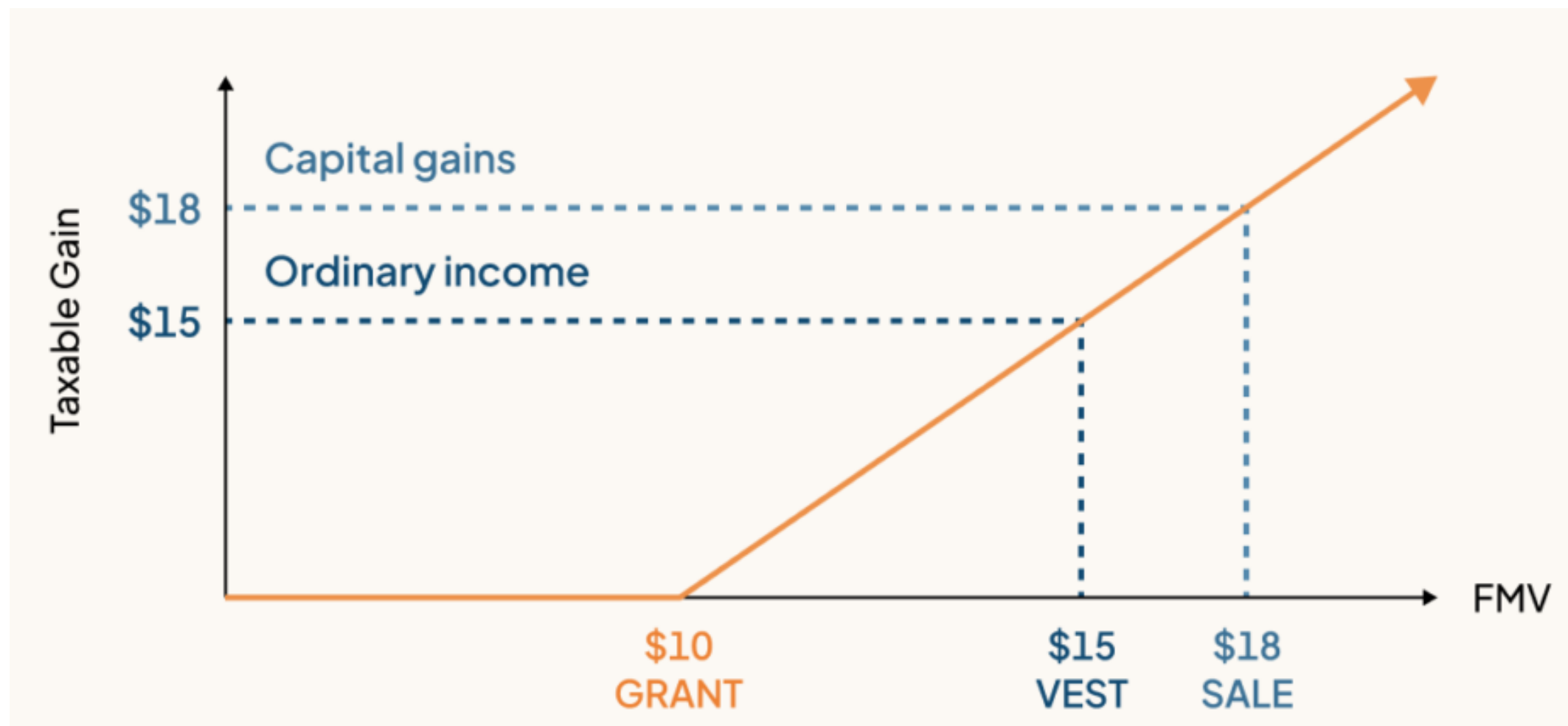
Top State Marginal Individual Income Tax Rate (2022)



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Source: https://en.wikipedia.org/wiki/State_income_tax

RSU Taxes



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Source: <https://carta.com/blog/breaking-down-rsas-and-rsus/>

Capital Gains Taxes

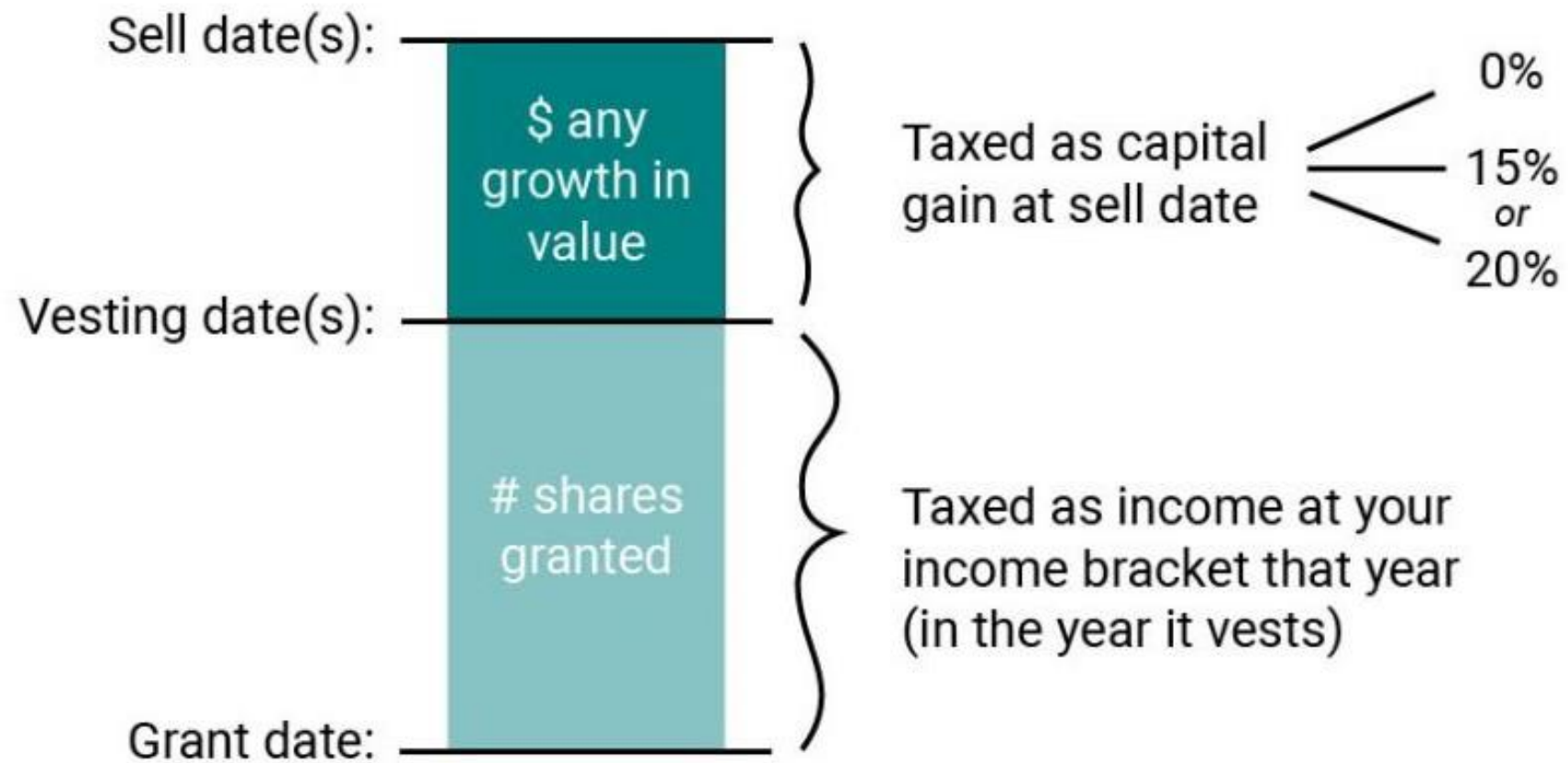
Federal Capital Gains Tax

- <1 Year = short term capital gains taxes: ordinary income taxes
- >1 Year = long term capital gains taxes (0%, 15%, 20%)

State Capital Gains Tax

- Depends on your state and income amount

RSU Taxes – Long Term Capital Gain (>1 Year)



Long Term Capital Gains Tax Rates (>1 Year) (Federal)

Tax Rate	Single	Married
0%	\$0 - \$44,625	\$0 - \$89,250
15%	\$44,626 - \$492,300	\$89,251 - \$553,850
20%	\$492,301+	\$553,851+

**Plus state tax taxes, depending on which state you live in*

**Could be subject to additional 3.8% Medicare surtax*

**Consult with a qualified tax professional for tax advice*

RSU Tax Summary

RSU Tax Treatment

KEY DATES



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Source: <https://www.cordantwealth.com/a-tech-employees-guide-to-rsus/>

Tax Withholding

E*TRADE automatically withholds taxes – default statutory rates

Consult with a tax professional to make sure you are on the same page

RSU Selling Strategy Options



Sell all Shares ASAP

Sell a Portion and Keep a Portion

Hold onto Your Shares

Differences Between an RSA and an RSU

	Restricted stock awards (RSAs)	Restricted stock units (RSUs)
Stage of company	Very early stage, low FMV	Later stage, mature companies, high FMV
Price to purchase	Typically FMV, but can be in cash or as compensation for services	Typically no cost, but the recipient needs to pay tax withholding*
Issued	Shares issued at grant (subject to the satisfaction of any purchase price requirements); the company maintains a repurchase right until the shares are fully vested	Shares issued upon settlement (usually, but not always, correlated with vesting)
Vesting	Usually time-based and/or milestone vesting conditions	Can have standard time-based and/or milestone vesting or an additional required event for vesting, e.g. the company going public or getting acquired (“double-trigger”)**
Section 83(b) election	Must be filed if the shares are subject to vesting	Is not applicable
Termination	Unvested shares will be repurchased by the company	Unvested RSUs are forfeited back to the company immediately
Tax status	Help maximize capital gains; Taxed as ordinary income if not purchased in cash at FMV	Taxed mostly as ordinary income when settled

*Employers are required to withhold 22% for federal income taxes on the first \$1M in supplemental income for employees, and 37% of any amount exceeding \$1M. Your RSUs are taxed as supplemental income.

**This differs from double-trigger acceleration for early-stage company equity

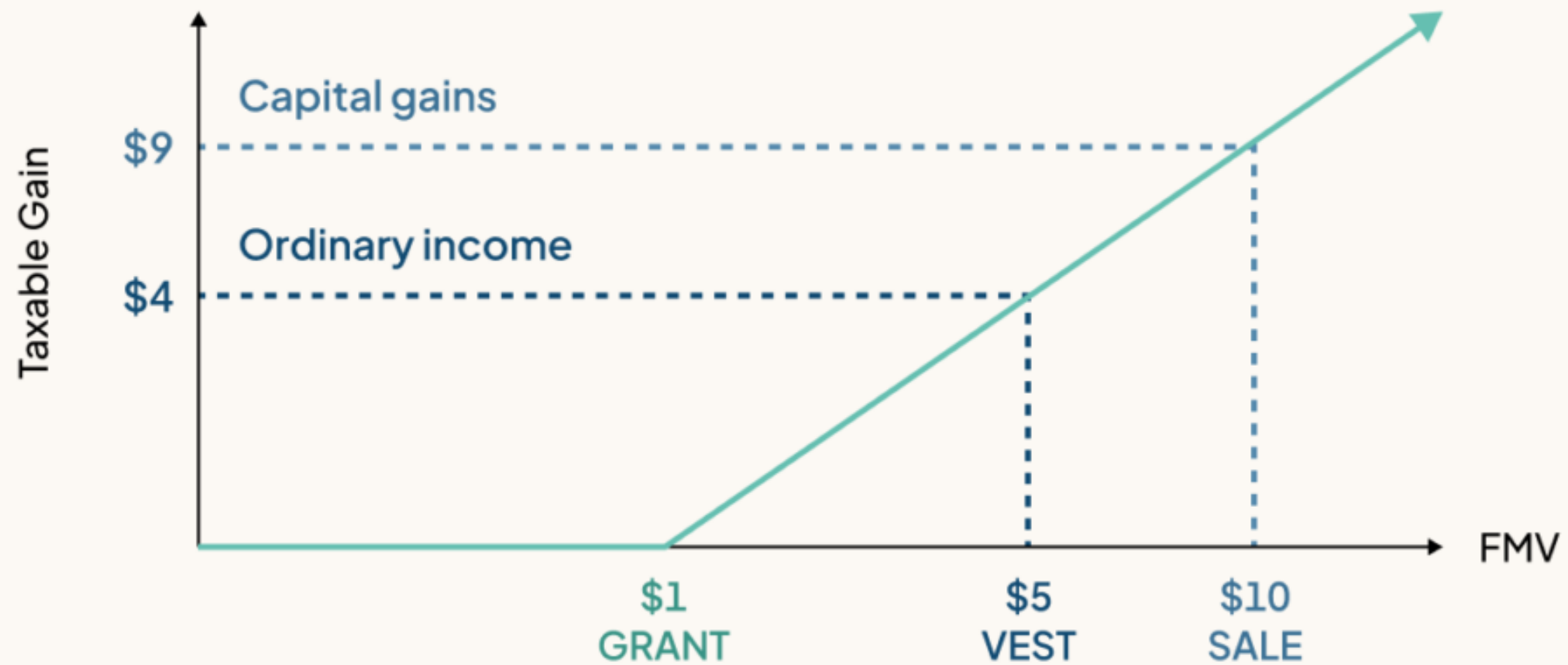
ACR# 6134370 12/23 Source: <https://carta.com/blog/breaking-down-rsas-and-rsus/>

83(b) Election

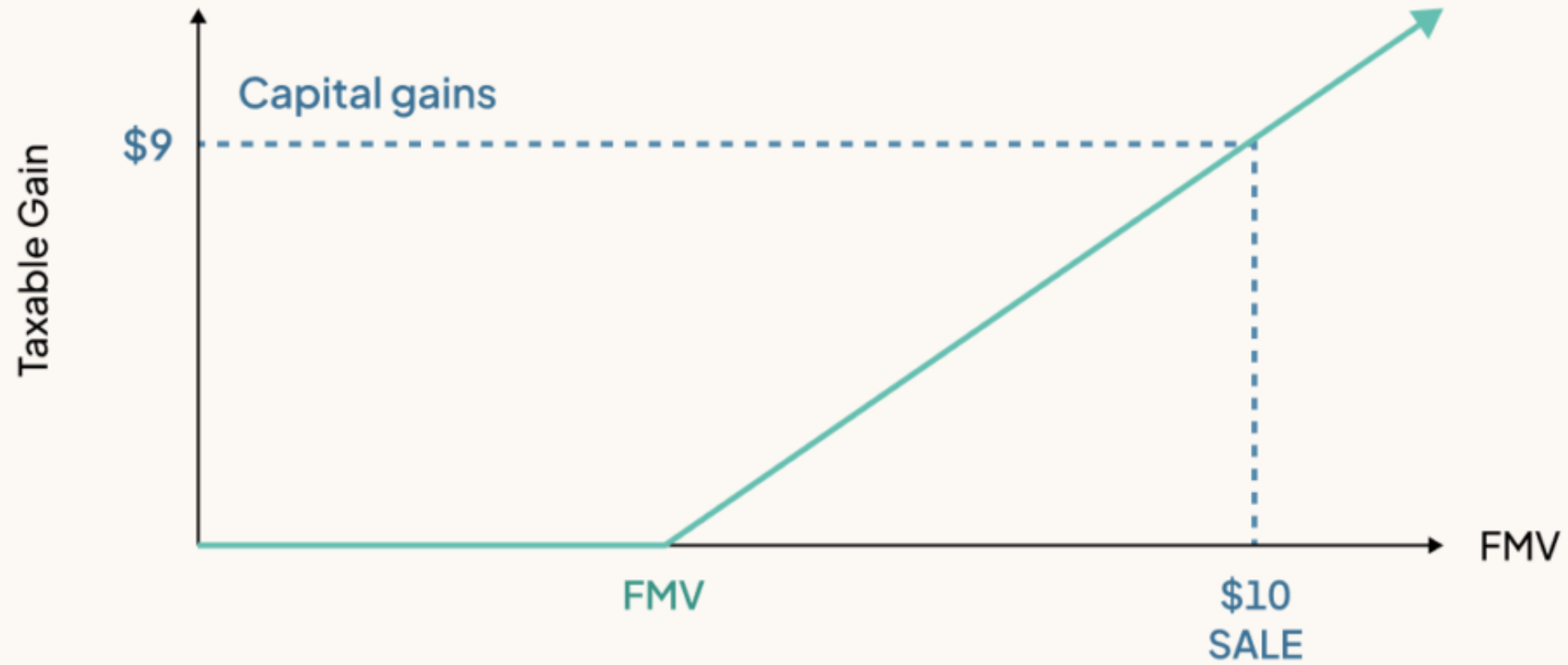
The 83(b) election is a provision under the Internal Revenue Code (IRC) that gives an employee, or startup founder, the option to **pay taxes on** the total fair market value of restricted stock at the time of granting.

It's important to note that there is a 30-day deadline from the grant date to file an 83(b) election. After this window passes you will not be able to file the election.

RSA with no 83(b) election



RSA with 83(b) election





When is it Detrimental to File 83(b) Election?

If an individual has filed an 83(b) election to the IRS and the value of the equity drops or the company declares bankruptcy, they might have paid excessive taxes for shares that are worth less or have no value. Regrettably, the IRS doesn't permit claims for overpaid taxes made under the 83(b) election.

Similarly, if an employee departs from the company before completing the vesting period, opting for the 83(b) election could result in a disadvantage because taxes would have been paid for shares that won't be received. Furthermore, if the reported income is substantial at the time of stock allocation, pursuing an 83(b) election might not be advantageous.

What is a Blackout Period?

A blackout period in financial markets is a period of time when certain people—either executives, employees, or both—are prohibited from buying or selling shares in their company or making changes to their pension plan investments.



Rule 10b5-1

Rule 10b5-1, established by the Securities and Exchange Commission (SEC) in 2000, allows insiders of publicly-traded corporations to set up a trading plan for selling stocks they own.

- Rule 10b5-1 allows company insiders to set up a predetermined plan to sell company stocks in accordance with insider trading laws.
- The price, amount, and sales dates must be specified in advance and determined by a formula or metrics.
- Both the seller and the broker making the sales must not have access to any material nonpublic information (MNPI).

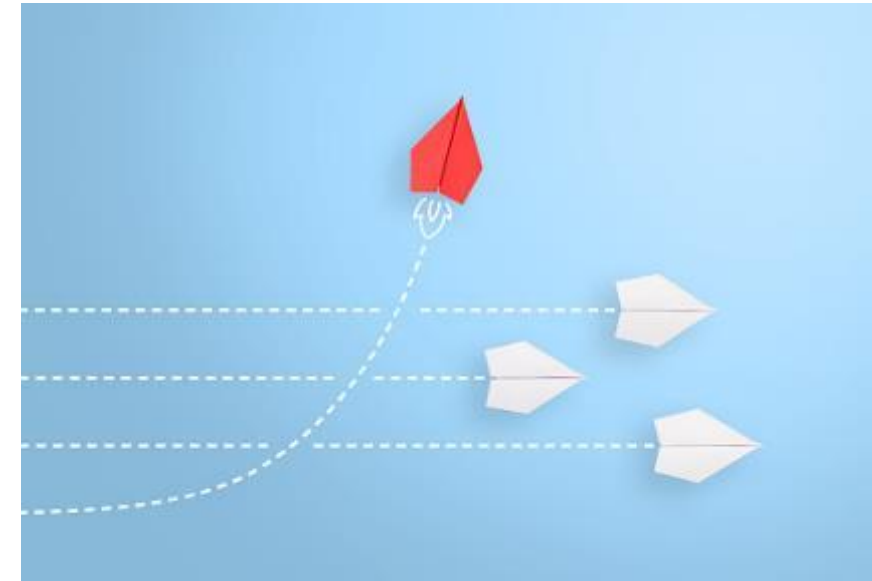
Financial Planning/Asset Allocation

Everyone's financial circumstances and comfort with risk vary. Due to this diversity, it's crucial to acknowledge that what works for one person may not be suitable for another.

Seek guidance from a financial advisor and/or a tax professional. These professionals can offer personalized insights and tailored strategies that align with your unique situation and the needs of your family. Collaborating with them allows for a comprehensive review of potential approaches, may ensure that the chosen strategies are not only suitable but may also be optimized for your specific financial goals and circumstances.

About [FIRM]

- Investment due diligence
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 - Enrollment/re-enrollment
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- Newsletters and updates



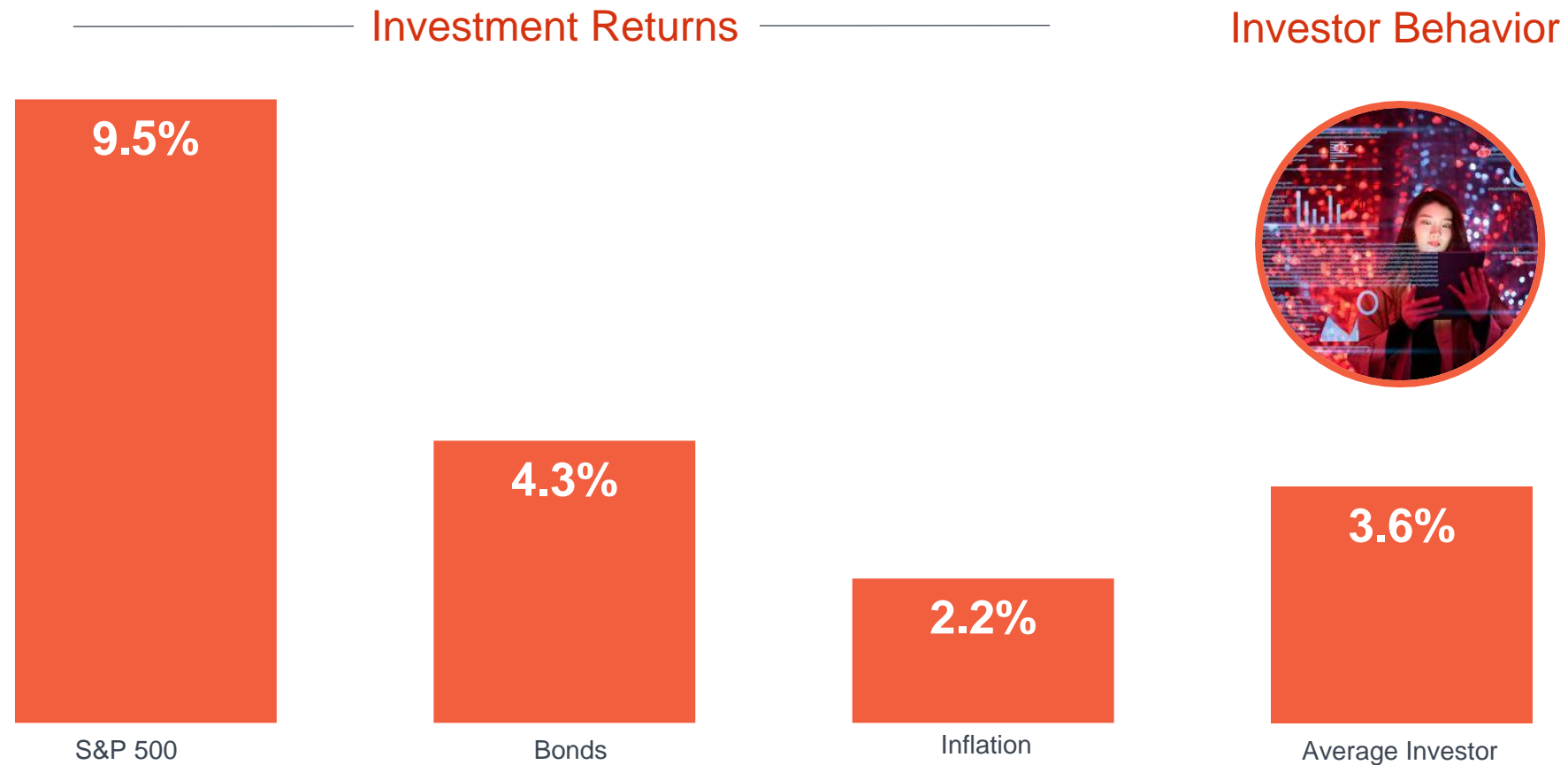
Participant Investment Guidance

[PHONE]
[EMAIL]

“Helping create ongoing successful retirement plan experiences for employers and employees”

What has the greatest impact on investment results?

20-Year Annualized Returns % (2002-2021)



Source: Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) Dalbar Inc., MSCI, NAREIT, Russell.

Indices used are as follows: REITs, NAREIT Equity REIT Index, Small Cap Russell 2000, EM Equity; MSCI EM, DM Equity: MSCI EAFE, Commodity; Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Bonds: Bloomberg U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Cash: Bloomberg 1-3m Treasury, Inflation: CPI. *60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg U.S. Aggregate Index.

The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.

Guide to the Markets – U.S. Data are as of June 30, 2022. ACR# 6134370 12/23

Do It Myself – Diversified Portfolio

ASSET CLASS RETURNS

The following chart exhibits the volatility of asset class returns from year to year by ranking indices in order of performance, highlighting the importance of diversification.

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD
Global REIT 23.73	Sm Growth 43.30	Global REIT 22.81	Large Growth 5.67	Sm Value 31.74	Large Growth 30.21	Cash 1.87	Large Growth 36.39	Large Growth 38.49	Global REIT 32.50	Commodities 16.09	Large Growth 24.98
Sm Value 18.05	Sm Value 34.52	Large Value 13.45	Global REIT 0.59	Large Value 17.34	International 27.19	Fixed Income 0.01	Sm Growth 28.48	Sm Growth 34.63	Sm Value 28.27	Cash 1.46	Balanced 5.49
Large Value 17.51	Large Growth 33.48	Large Growth 13.05	Fixed Income 0.55	Commodities 11.77	Sm Growth 22.17	Large Growth -1.51	Large Value 26.54	Balanced 14.24	Large Growth 27.60	Large Value -7.54	International 5.34
International 16.83	Large Value 32.53	Balanced 6.58	Cash 0.05	Sm Growth 11.32	Balanced 14.95	Balanced -4.77	Global REIT 24.49	International 10.65	Commodities 27.11	Fixed Income -13.01	Sm Growth 5.24
Large Growth 15.26	International 15.29	Fixed Income 5.97	Balanced -0.49	Balanced 7.18	Large Value 13.66	Global REIT -4.77	Sm Value 22.39	Fixed Income 7.51	Large Value 25.16	Sm Value -14.48	Cash 3.60
Sm Growth 14.59	Balanced 14.78	Sm Growth 5.60	Sm Growth -1.38	Large Growth 7.08	Global REIT 8.63	Large Value -8.27	International 21.51	Sm Value 4.63	Balanced 10.75	Balanced -15.80	Large Value 1.79
Balanced 11.74	Global REIT 2.81	Sm Value 4.22	Large Value -3.83	Global REIT 6.90	Sm Value 7.84	Sm Growth -9.31	Balanced 20.11	Large Value 2.80	International 7.82	International -16.00	Sm Value -0.53
Fixed Income 4.22	Cash 0.07	Cash 0.03	International -5.66	International 4.50	Fixed Income 3.54	Commodities -11.25	Fixed Income 8.72	Cash 0.67	Sm Growth 2.83	Global REIT -23.60	Fixed Income -1.21
Cash 0.11	Fixed Income -2.02	International -3.87	Sm Value -7.47	Fixed Income 2.65	Commodities 1.70	Sm Value -12.86	Commodities 7.69	Commodities -3.12	Cash 0.05	Sm Growth -26.36	Commodities -3.44
Commodities -1.06	Commodities -9.52	Commodities -17.01	Commodities -24.66	Cash 0.33	Cash 0.86	International -14.20	Cash 2.28	Global REIT -8.11	Fixed Income -1.54	Large Growth -29.14	Global REIT -3.69

 Large Value (Russell 1000 Value)	 Small Growth (Russell 2000 Growth)	 Global REIT (S&P Global REIT)
 Large Growth (Russell 1000 Growth)	 International (MSCI ACWI ex-US)	 Commodities (Bloomberg Commodities)
 Small Value (Russell 2000 Value)	 Fixed Income (Bloomberg Barclays Agg)	 Cash (Merrill Lynch 3-Mo T-Bill)
 Balanced (40% Russell 3000, 40% Bloomberg Barclays's U.S. Aggregate, 20% MSCI ACWI ex US)		

Chart Source: MPI, Q3 2023; ACR# 6134370 12/23

Do It For Me (Time-Based)

Choose your investment strategy based on your current age

What is your current age?

When will you be 65? 67?

What year will that be?

Fund Menu

U.S. DOMESTIC STOCK FUNDS

[Insert Funds]

Fund Menu

INTERNATIONAL	CORE FIXED INCOME
[Insert Funds]	[Insert Funds]
CASH ALTERNATVIES	ASSET ALLOCATION PORTFOLIOS
[Insert Funds]	[Insert Funds]

Stock Options

- What is a Stock Option?
- Stock options represent **the right** (not requirement) to:
 1. Buy stock (“exercise”)
 2. For a fixed price (“exercise price” or “strike price”)
 3. During a fixed period of time
 - Subject to vesting schedule
- There are two types of stock options: Incentive Stock Options (ISOs), and Non-Qualified Stock Options.



Key Terms

Grant Date

The date a company grants the options to the employee.

Vesting Date

The date when the employee is eligible to exercise a specific number of options.

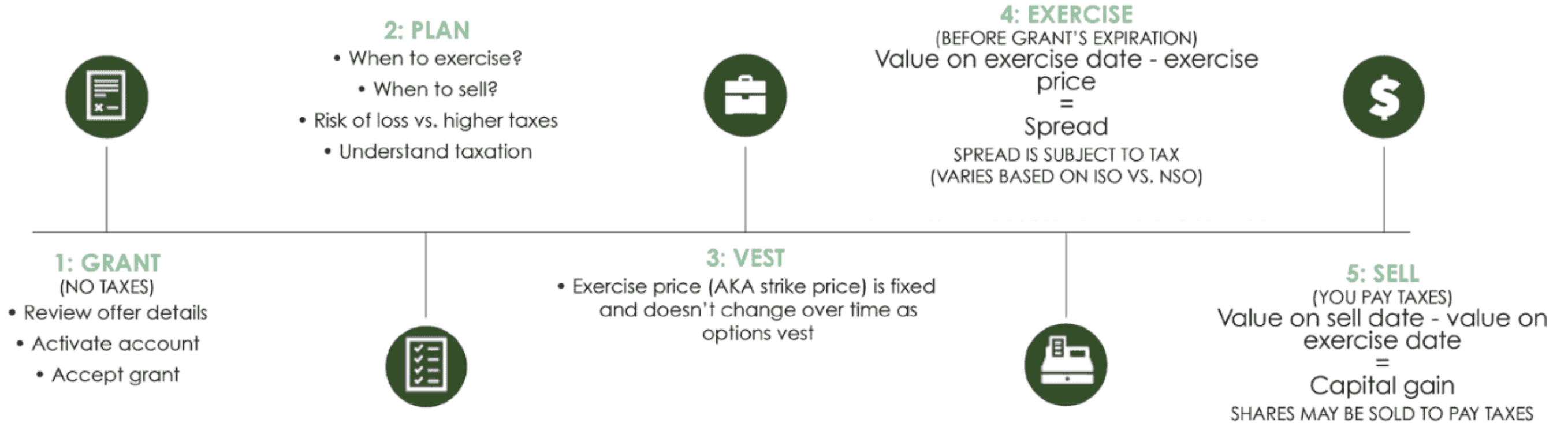
Exercise Price

The price at which the employee is eligible to purchase shares, once options are vested.

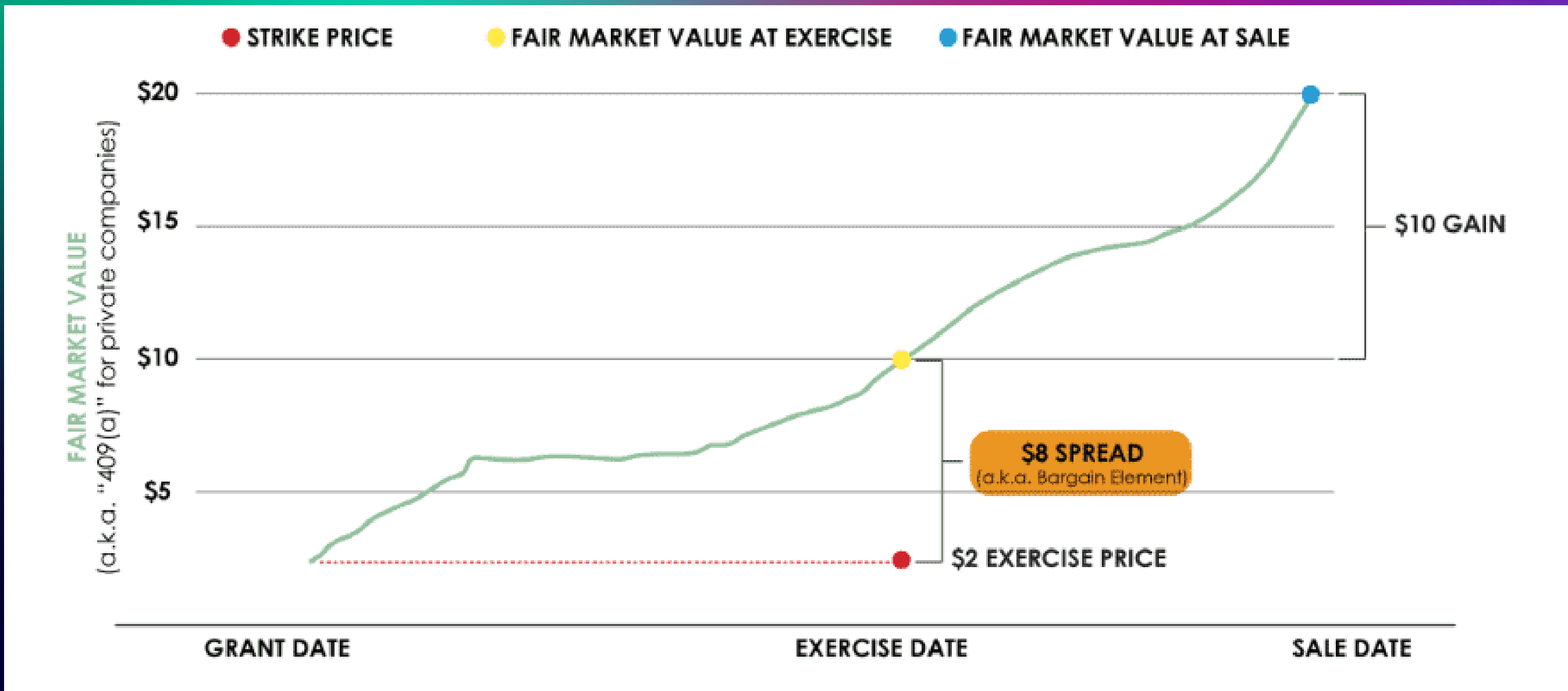
Expiration

The date after which the employee can no longer exercise the options. Typically, no longer than 10 years from the grant date, or 90 days from when you leave the company.

Stock Option Timeline



Non-Qualified Stock Option: Taxes at Exercise



ACR# 6134370 12/23 Source: <https://blog.myrawealth.com/insights/8-tips-if-youre-being-compensated-with-incentive-stock-options-isos>

Taxes at Exercise: Spread (“Bargain Element”)

You’ve decided to buy your company stock (exercise your stock options) for the fixed price in your grant agreement (strike price).

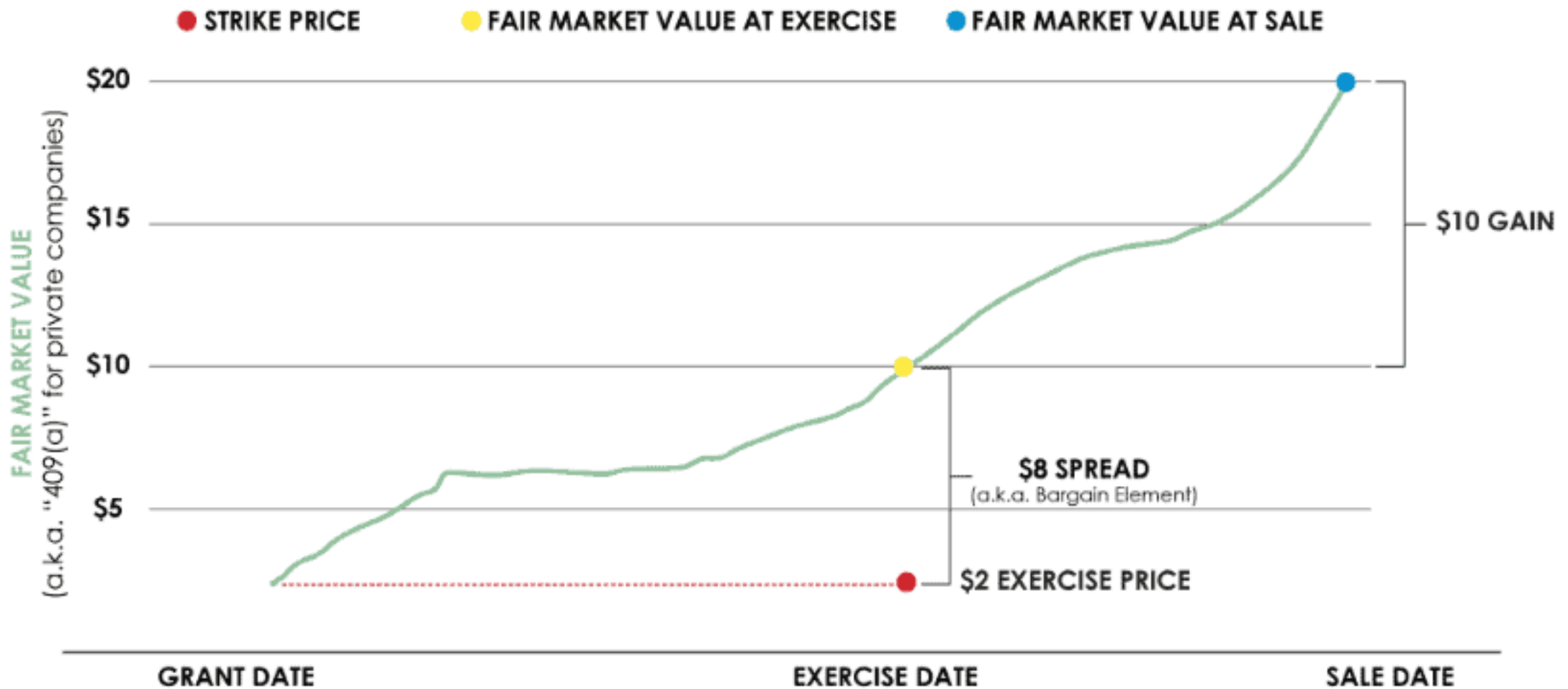
The spread between: (a) the stock price on the exercise date, and (b) the strike price, is also known as the bargain element.

And the bargain element is subject to a variety of taxes:

- **Ordinary Income tax:** (both federal and state) The bargain element will be included as wages on your W-2
- **Payroll taxes:** Medicare, Social Security, and state

Non-Qualified Stock Option: Taxes at Sale

In this illustration, you paid \$2 for stock that's worth \$10. The share price at exercise minus the exercise price (a.k.a. strike price) equals the \$8 bargain element.



Capital Gains Taxes

Your profit is \$10. This \$10 per share profit is capital gain.

Federal Capital Gains Tax

- <1 Year = short term capital gains taxes: ordinary income taxes
- >1 Year = long term capital gains taxes (0%, 15%, 20%)

State Capital Gains Tax – depends on your state and income amount.

Incentive Stock Option: Taxes at Exercise



ISO Taxes at Exercise

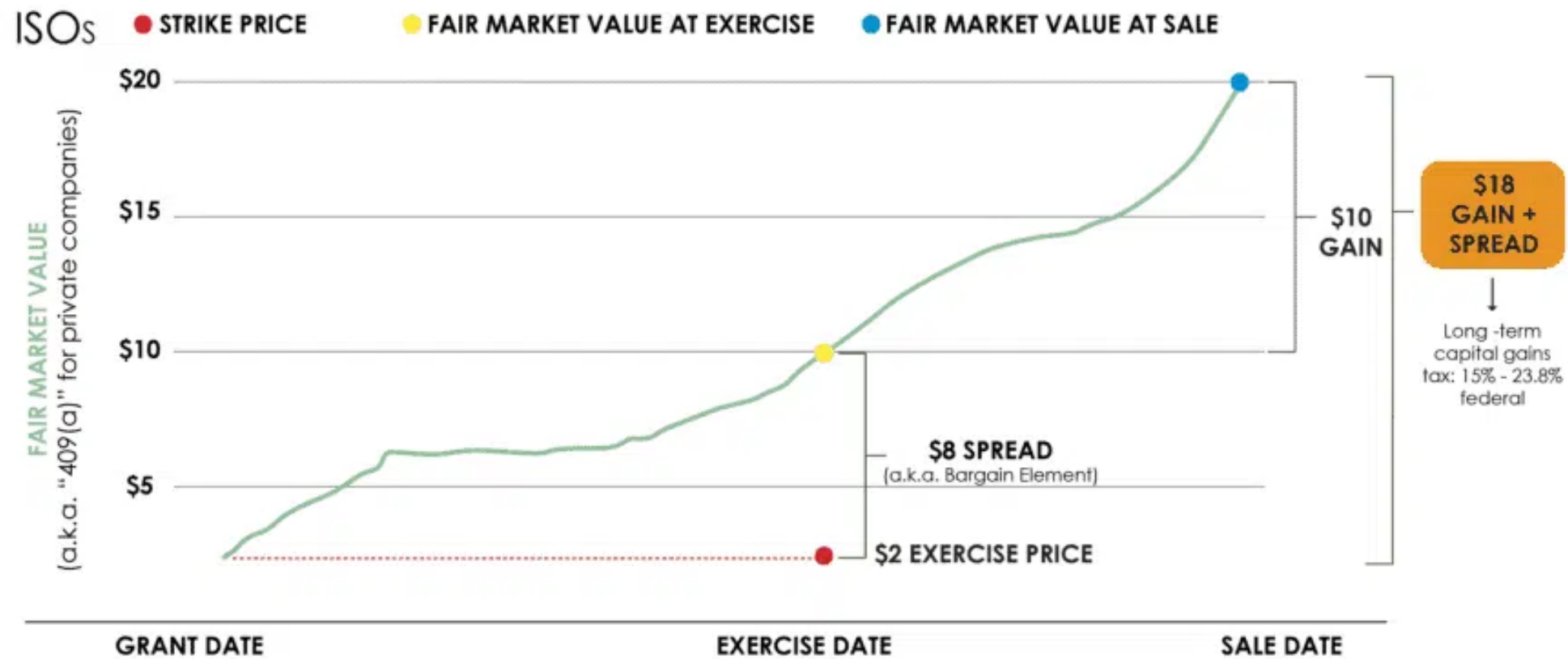
- No ordinary income tax due
- Bargain element *may* subject to AMT (Alternative Minimum Tax)



Incentive Stock Option: Taxes at Sale

To convert the entire \$18 into long-term capital gains, you must meet two holding periods. The sale date of the ISO shares must be:

- At least two years from the ISO grant date
- At least one year from the exercise date

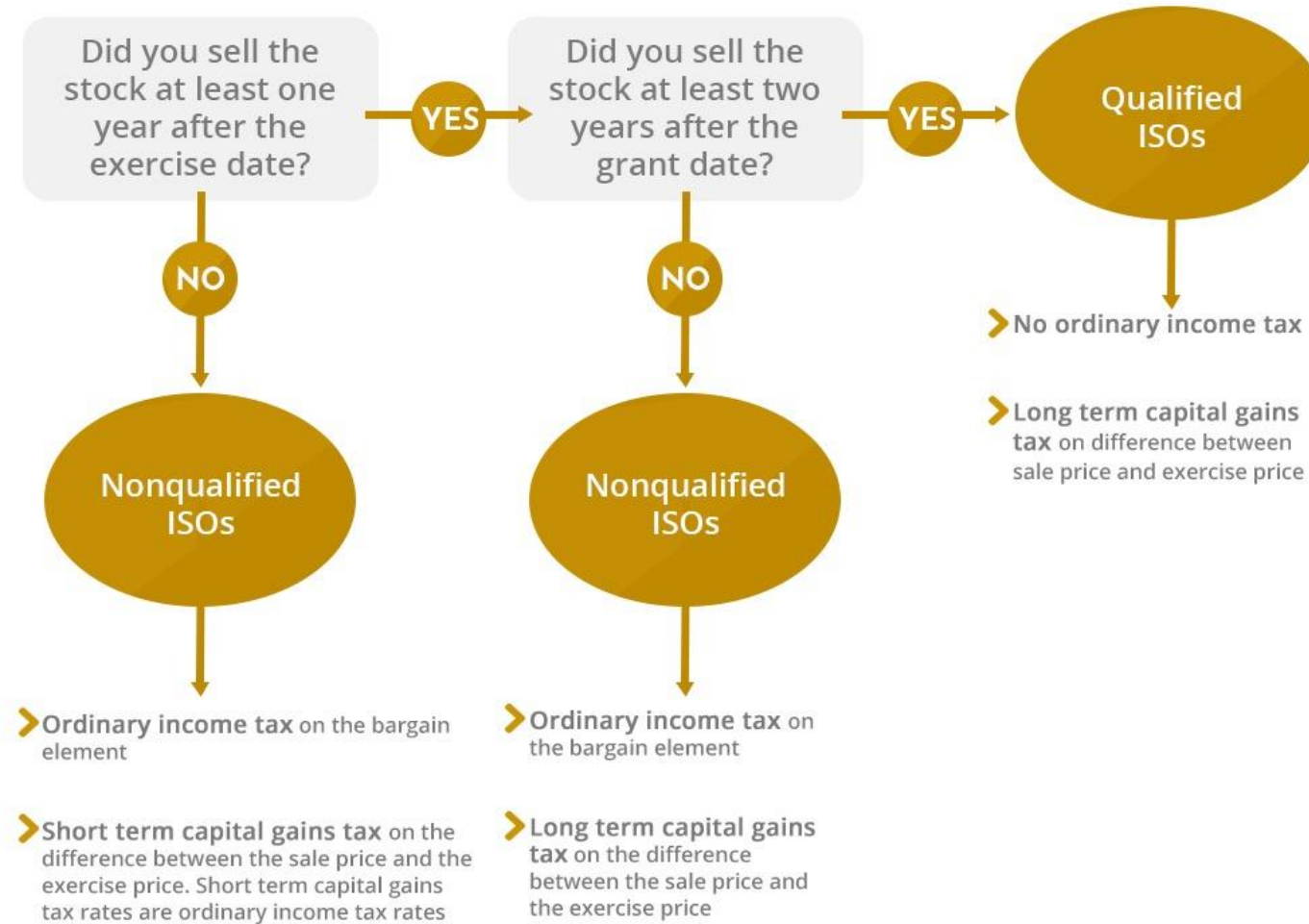


How to Exercise Stock Options

Once you are ready to exercise your options, you typically have several ways of doing so:

1. **Cash Payment:** You can come up with the cash to exercise the options. This would include covering any costs to acquire the stock.
2. **Cashless Exercise:** Some employers allow you to exercise your options, and your employer sells just enough of the stock to cover the costs you incurred to acquire the stock.
3. **You can sell all the shares** you exercise at the going market price, which means you won't have any ongoing exposure to any stock price volatility, and you won't have to come up with the upfront cash for any transaction costs when you exercise.

TAXATION OF INCENTIVE STOCK OPTIONS AFTER EXERCISE



Bargain element: the difference between market price at exercise and exercise price

Grant date: the date your employer issues the ISOs

Exercise date: the date at which you can buy the shares in your company

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Other Benefits

Employee Stock Purchase Plan (ESPP) – employees can purchase company stock at a discount

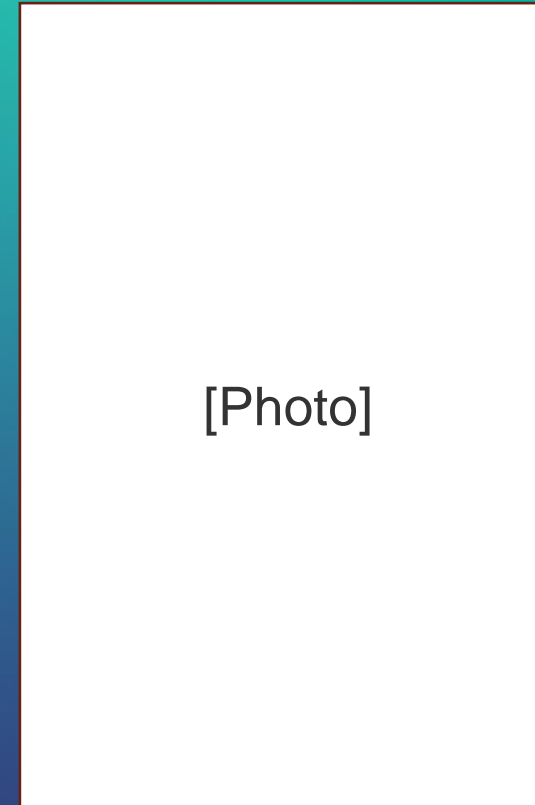
- The purchase price for each share purchased under each Option (the “Option Price”) will be eighty-five percent (85%) of the Fair Market Value of the Common Stock on the Offering Date or the Exercise Date, whichever is less
- You may authorize payroll deductions or other contributions up to a maximum of 15% of your compensation for each pay period. The minimum is 1% per pay period.
- Payroll deductions are made on an after-tax basis

Co-Invest

Questions?

Contact us!

Schedule a meeting with your
personal financial professional



[NAME]
[TITLE]
[PHONE]
[EMAIL]

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