How to Get More Out of Your Microsoft Executive Compensation

Take Our Compatibility Survey

Microsoft offers employees numerous ways to defer income, save on taxes, and plan for retirement. Understanding the various components of your benefits package is crucial to balancing current cash flow needs with future financial goals. Our wealth consultants are ready to assist you in navigating these benefits and understanding how today's decisions will impact your long-term objectives. Reach out to us to discover how we support Microsoft employees.

Stock Awards - Restricted Stock Units (RSUs)

RSUs are a significant part of many Microsoft employees' compensation. Typically granted at hiring and annually in August, RSUs vest quarterly in February, May, August, and November. You aren't taxed on RSUs until they vest. At vesting, the stock's value becomes taxable income and is taxed at your ordinary income rate. Default withholding is usually 22%, but this can be adjusted. Consult with a tax professional to ensure accurate withholding.

Holding RSUs for over a year after they vest subjects any sale gains to capital gains taxes, which range from 0% to 20%. If sold within 366 days of vesting, gains are taxed as ordinary income, with rates from 0% to 37%.

Many employees sell their RSUs to meet cash flow needs. If you don't, it's essential to regularly review your asset allocation and financial plan as shares vest. Without a plan to sell shares, manage taxes, and diversify over time, you risk becoming over-concentrated in Microsoft stock. Our planning team can help if you have questions about asset allocation.

Deferred Compensation (DCP)

Deferred compensation is available for eligible employees at level 67 and above. DCPs allow employees to defer a portion of their income pre-tax, up to 100% of their bonus and 75% of their base salary. Enrollment periods are in May for the September bonus and in November for the following year's base salary deferral. Employees select the payout schedule at the time of deferral, choosing between a lump sum or installments over up to 15 years. Withdrawals can be deferred by up to five years but must be scheduled at least a year from the initial date. Deferred funds can be invested similarly to the 401(k) plan. Ensure you fully fund other tax-advantaged accounts like 401(k) and HSA before contributing to a DCP.

The primary benefit of the DCP is reducing current taxable income. Withdrawals in retirement are taxable, so consider this in your financial plan, as it can substantially impact retirement cash flow and taxes. Understand the effect on your current and future income, including Social Security, pensions, and retirement plan distributions. Also, consider the age 55 and 15-year rule for stock grants vesting upon leaving the company, a significant tax event.

Employee Stock Purchase Plan (ESPP)

The ESPP allows employees to withhold up to 15% of income to buy additional Microsoft shares at a 10% discount to market value. Consider these questions before participating:

- Have I maximized my 401(k), HSA, mega backdoor Roth, and DCP program (if eligible)? Prioritize these programs.

- Am I overly concentrated in Microsoft stock?
- Is it a good time to buy more Microsoft shares, or should I diversify?

Equity Compensation Considerations

Regularly review how your equity compensation benefits work together. Evaluate your financial plan and asset allocation to determine how much stock to sell and keep aligned with your long-term goals. A tax advisor can help develop a liquidation strategy to manage taxes. Be mindful of holding periods and tax implications before selling stock. For those charitably inclined, gifting appreciated stock can be a tax-efficient way to give, either directly or through a donor-advised fund.

Additional Benefits

- **401(k) Plan Employer Match:** Employees can contribute $23,000 to their 401(k) in 2024, with an additional $7,500 catch-up contribution for those 50 and older. Contributions can be directed to tax-deferred or Roth accounts. Microsoft matches 50% of employee contributions.
- **Mega Backdoor Roth:** Employees can convert after-tax dollars to their 401(k) beyond the $23,000 maximum employee contribution plus an $11,500 employer match. An additional $34,500 can be contributed via after-tax Roth contribution. These funds grow tax-deferred and can be withdrawn tax-free in retirement, offering a powerful tool for high-income earners to save significantly in Roth accounts, reducing taxes in retirement.
- **Health Savings Account (HSAs):** HSAs offer tax-deferred contributions and tax-free withdrawals for qualified medical expenses. In 2024, individuals can contribute $4,150 (with a $1,000 catch-up contribution for those over age 55). HSAs are most beneficial when invested long-term for covering retirement medical expenses. To qualify, you must be enrolled in a high-deductible health plan (HDHP).
- **Health Care Flexible Spending Account (FSA):** FSAs allow pre-tax deferrals for medical expenses within the calendar year for employees not participating in HSAs. The maximum contribution for 2024 is $3,200.
- **Dependent Care FSAs:** Contribute up to $5,000 per year to a tax-deferred account for certain childcare and other dependent expenses.
- **Life Insurance:** Microsoft offers term life insurance up to 3x annual base salary, with the option to buy coverage up to 10x salary, typically without health exams depending on the benefit amount. For many, the 3x base salary coverage may not be sufficient, and additional coverage is only in force while employed with Microsoft. Review with our planning team to ensure adequate coverage.

For personalized advice on maximizing your benefits and managing your financial future, connect with our team.

Explore Our Private Wealth Page

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