Understanding Microsoft Executive Compensation

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Microsoft employees have many opportunities to defer their current income, save on taxes, and set up future retirement goals. Make sure you understand the various components of your benefits package, so you are taking care of your current cash flow needs while planning for future objectives. Reach out to your wealth consultant to review how decisions you make today regarding your compensation will impact your long-term goals. Contact our team to learn more about how we work with Microsoft employees.

Stock Awards - Restricted Stock Units (RSUs)

RSUs are a major portion of many Microsoft employee's compensation packages. These are often granted at the date of hire and then in August ongoing, and vest quarterly in February, May, August, and November. RSUs are not taxed until the vest, at which time the value of the stock is included as ordinary income and taxed at your income rate. Default withholding is typically set at 22%, but this can be adjusted. Review with a tax professional to make sure you are withholding the correct amount.

If the stock is held for over one year after they vest any gains on the sale are subject to preferential capital gains taxes at rates, which range from 0-20%. If sold before with a holding period under 366 days any gains on the stock will be included as taxable income, where rates range from 0-37%.

Many employees sell their RSUs to fund their cash flow needs. For those who do not sell, it is important to review your overall asset allocation and financial plan as shares vest. Often employees become overconcentrated in Microsoft stock if they do not have a plan in place to sell shares, manage taxes, and diversify over time. Review with our planning team if you have questions about asset allocation.

Deferred Compensation (DCP)

Deferred compensation is available for qualifying employees’ 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. There are two enrollment periods each year, the first in May which refers to the September bonus, and November which refers to the base salary deferral for the following year. Employees elect the payout at the time of deferral and can choose to elect one lump sum or spread out over 15 years. You can change the withdrawal date if your retirement plans change, but you can only push back 5 years and it must be at least one year out from when you were scheduled to start withdrawals. The deferred funds can be invested similarly to the 401(k) plan. Make sure you are fully funding other tax-advantaged accounts such as 401(k) and HSA before funding a DCP.

The main benefit of the DCP is it reduces current taxable income. Withdrawals in retirement are taxable, so make sure to review within the context of your financial plan as it can make a substantial impact on your cash flow and taxes in retirement. Understand the impact on your current cash flow as well as cash flow in retirement, including Social Security, pensions, retirement plan distributions, and any other income you may have. Also consider the age 55 and 15-year rule when your stock grants vest when you leave the company, as this is also a significant tax event.

Employee Stock Purchase Plan (ESPP)

ESPPs allow employees to withhold up to 15% of income to buy additional MSFT shares at a 10% discount to current market value. Some questions to ask before participating in the ESPP program are:

- Have I maxed out my 401(k), HSA, mega backdoor Roth, and DCP program (if eligible)? We recommend taking advantage of these programs first.
- Am I overly concentrated in MSFT stock?
- Is now a good time to buy additional shares of MSFT or am I better served diversifying into other areas of the market?

Equity Compensation Considerations

- Review how your various equity compensation benefits coordinate with each other. Review your financial plan and asset allocation regularly to determine how much stock should be sold and kept to align with your long-term goals. A tax advisor can help create a liquidation strategy to manage taxes.
- Review your 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.

Other 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. These 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) on top of the $23,000 maximum employee contribution plus a $11,500 employer match. An additional $34,500 can be contributed to the 401(k) via after-tax Roth contribution. These funds do not qualify for a tax deferral, but rather the funds grow tax-deferred and can be withdrawn tax-free in retirement. This is a powerful tool as it gives high-income earners access to save a large amount into Roth accounts, which can significantly reduce taxes in retirement.
- **Health Savings Account (HSAs)** - HSAs are one of the most tax-advantaged accounts individuals can contribute to, with contributions tax-deferred and qualified distributions for medical expenses as tax-free. The benefits are utilized to the greatest potential when invested for the long term, as these funds can be used for medical expenses in retirement. To qualify you must be enrolled in a high-deductible health plan (HDHP), and individuals can contribute $4,150 in 2024 (with a $1,000 catch-up contribution for those over age 55).
- **Health Care Flexible Spending Account (FSA)** - FSAs allow pre-tax deferral for medical expenses to be used over the calendar year for those employees not participating in HSAs. The maximum contribution for 2024 is $3,200.
- **Dependent Care FSAs** - An additional $5,000 per year can be contributed to a tax-deferred account to pay for certain child care expenses and other expenses for dependents in your household.

- **Life Insurance** - Microsoft offers term life insurance up to 3x annual base salary, with the option to buy coverage up to 10x salary. These typically do not require health exams, depending on the benefit amount. For many, the 3x base salary coverage may not be enough to cover insurance needs and the additional coverage is only in force while employed with Microsoft, so review with our planning team to ensure there is adequate coverage.

Explore Our Private Wealth Page

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