

# FINANCIAL PLANNING GUIDE FOR SENIOR EXECUTIVES: MANAGING RSUS

This guide is for information purposes and doesn't constitute financial advice, which should be based on your individual circumstances. Cover will stop on insurance products if premium payments are not maintained. Pension reliefs from taxation are subject to change and their value depends on your individual circumstances. Should you need financial advice you should speak to a trusted financial adviser (like us). Please be aware that investments can fall as well as rise in value, and past performance is not a guide to future performance.

- An investment in a Stocks & Shares ISA will not provide the same security of capital associated with a Cash ISA.
- Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.
- The taxation of the investment is dependent on the individual circumstance of each investor, and may be subject to change in the future



RSUs are a popular form of equity compensation for senior executives. They offer big benefits and special challenges. This guide will help you understand RSUs. It covers the need to diversify, the tax benefits of selling shares when they vest and the effect of RSU vesting on your pension allowance. We will also explain why RSUs are crucial to your financial planning and the benefits of a well-structured plan.

## WHAT ARE RESTRICTED STOCK UNITS?

RSUs are a form of stock-based compensation. In them, an employer promises to give an employee a set number of shares of the company's stock in the future. But, this is subject to certain conditions. Unlike stock options, RSUs do not require the employee to purchase the shares.

### WHAT IS VESTING?

Vesting is the process through which an employee earns the right to get their RSUs. They get them gradually over time. Vesting can be tied to the duration of employment or achieving performance targets. Common vesting structures include cliff vesting. In cliff vesting, all RSUs vest at once after a set period. Graded vesting, in contrast, sees RSUs vest incrementally over many years.

### THE IMPORTANCE OF RSUS IN FINANCIAL PLANNING

RSUs can be a big part of an executive's pay and greatly boost your finances. Properly managing RSUs is essential for several reasons. RSUs can be a big part of your pay packet, meaning they can be a long-term driver of building wealth. Upon vesting, you can sell RSUs and use the proceeds to add to your income, helping you live the life you want. RSUs can provide funds for future goals, like retirement, education, or big purchases. Effective planning around RSUs can help reduce tax liabilities.



## Why Diversification is Crucial

Concentrating much of your wealth in one company's stock can be risky. If the company has money problems or its stock price falls, your wealth can be hit hard. Diversification reduces this risk. It spreads your investments across different types and areas.

### Steps to Diversify

- » 1. Assess Your Current Holdings. Review your portfolio to see how much you are exposed to your company's stock.
- » 2. Develop a Diversification Strategy. Spread your investments across various asset types and companies.
- » 3. Monitor your portfolio closely to maintain desired diversification levels consistently.

## TAX ADVANTAGES OF SELLING RSUS UPON VESTING

In the UK, RSUs are often taxed as income when they vest. The tax is based on the shares' market value at that time. This creates a taxable event. You may owe income tax and National Insurance.

### Benefits of Selling RSUs Upon Vesting

- » 1. Companies often withhold some shares to cover tax liabilities when RSUs vest. Selling shares immediately can help ensure you have enough funds to cover any taxes due.
- » 2. By selling RSUs immediately when they vest you reduce gains, the proceeds can then be invested into a tax efficient vehicle like an ISA where there would be no tax to pay on future gains.
- » 3. When you reinvest you can take advantage of a diversified portfolio. This will ensure align with your broader financial objectives and reduce your risk.

## IMPACT OF RSU VESTING ON YOUR PENSION ANNUAL ALLOWANCE

The pension annual allowance is the maximum amount that can be contributed to your pension each year without incurring a tax charge. For the tax year 2023/24, the standard annual allowance is £60,000, but this can be tapered down for high earners.

### How RSUs Affect Your Pension Allowance

- » Vested RSUs have value when they vest. This value is taxable income in the year of vesting. It can raise your total income and affect your annual allowance.
- » Your adjusted income includes salary, bonuses, and the value of vested RSUs. If it exceeds £260,000, your annual allowance may be reduced. It could drop to a minimum of £10,000 limiting how much you can pay into pensions.

### Managing the Impact

- » 1. Monitor Vesting Schedules. Keep track of your RSU vesting schedule. This will help you predict increases in your taxable income.
- » 2. Plan Pension Contributions. Coordinate your pension with RSU vesting timing. This can help stop you from breaching the annual allowance.
- » 3. If you are impacted by a reduced pension allowance you need to ensure you are managing the tax implications depending on level of company contributions.



## CREATING A FINANCIAL PLAN FOR RSUS

- » 1. Set Your Goals. Define your short-term and long-term objectives. These could be for stopping work, buying a home, or funding education.
- » 2. Evaluate Your Risk Tolerance. Understand your comfort with risk. This will help you pick the right diversification strategy.
- » 3. Work with a Financial Planner to create a plan that considers your RSUs and how they can help you achieve your goals.
- » 4. Review and adjust regularly. Keep updating your plan. Make changes as needed to stay on track with your goals.



## BENEFITS OF HAVING A PLAN

- » A plan lets you manage your RSUs proactively. It ensures they align with your goals.
- » Diversification and regular reviews lower the risks. The risks come from holding a large portion of your wealth in one company.
- » Planning for the vesting and selling of RSUs can minimise taxes and maximise after-tax returns.
- » A comprehensive plan enhances your financial security, providing peace of mind and confidence in your financial future.



## CONCLUSION

RSUs are a valuable component of your compensation as a UK senior executive, and managing them effectively is crucial for long-term financial success. By understanding the importance of diversification, the tax advantages of selling shares upon vesting, and the impact on your pension annual allowance, you can optimise the value of your RSUs and achieve your financial goals. For personalised advice and assistance, consider working with a financial planner who can help tailor a plan to your specific needs and circumstances.