

Using Restricted Stock Units as an Employee Incentive

These days, identifying, recruiting, hiring, and keeping good employees is a challenge. For the savvy business, Restricted Stock Units (RSUs) can be a highly effective part of a compensation package, in both recruitment and retention. RSUs, when used properly, motivate people not only to sign with your company, and stay with your company, they also motivate people to work hard to help your business thrive.

Understanding Restricted Stock Units

RSUs provide an employee an interest in company stock. Companies issue RSUs to employees through a stock incentive plan, typically with vesting schedule. The vesting schedule is designed to motivate the employee to stay with the company for a certain period of time or achieve certain goals that help the business. However, unlike purchasing stock on the stock market, the stock issued as part of an RSU has no tangible value until the vesting plan is complete. Once vested, the RSU will be considered income to the employee. The company can withhold cash or in some cases a portion of the shares to pay income taxes as appropriate. The employee receives the balance of the shares, which they may keep or sell at their choosing.

How Companies Use RSUs to Motivate Employees

Using RSUs to Entice New Hires

One approach is offering new employees RSUs as part of a job offer. This makes the offer more attractive to the potential employee when comparing compensation packages, but also has the added value to the company of delayed benefit, which helps ensure better employee retention.

Imagine a company offers a compensation package which includes 500 RSUs in addition to the standard salary and benefits. If the company stock is worth \$20 per share, the RSUs' present day value is \$10,000. The company may choose to draft a five-year schedule for vesting. After each year of employment for the first five years, the employee receives 100 shares. Typically, if an employee leaves prior to the date the stock vests, they forfeit their RSUs.

Of course, the actual value of the stock may increase or decrease over time. If the stock appreciates, this provides employees an extra built-in incentive, and employers a built-in benefit that a standard salary and benefits package simply cannot provide. Employees are motivated to do their best, as when the company does well, they do well.

Using RSUs to Retain Current Employees

RSUs aren't just for new hires. For example, imagine your business is launching a new line of products. Imagine you wish to motivate employees to assist you in making the new line a success.

You may offer RSUs with vesting in line with performance metrics that you establish. Just as with a cash bonus, RSUs motivate employees to stay and remain dedicated to your business, rather than look for new employment. It also provides an incentive for helping the company succeed with their new projects.

Tax Consequences for RSUs

Employees are taxed when the stock vests, not when they are offered the RSUs. In addition, if the stock increases in value, there will be additional tax owed on this appreciation.

In addition to cash compensation, benefits and stock options, RSUs can be a powerful tool to recruit and incentivize employees.