STABLER
WEALTH MANAGEMENT

Achieving Financial Freedom at Microsoft

Strategies to get the most out of your Microsoft benefits.

Overview

As a Microsoft employee you are presented with a wide range of financial benefits, which if utilized correctly can help you on your path toward achieving your financial freedom. As a firm that works with many Microsoft professionals, one of our main focuses at Stabler Wealth Management is to create a personalized financial plan designed to help you get the most out of your employer benefits. This potentially increases your total compensation from Microsoft, getting you closer to your financial goals. For many Microsoft professionals, this can mean an accelerated path to financial freedom.

In this document we outline each of the key financial benefits that Microsoft offers and strategies for how to best maximize them. This document is intended to serve as a map to understanding these benefits.

From our experience, many Microsoft professionals achieve the most success by working with a financial guide that specializes in navigating these benefits. If you wish to review your personal financial plan with one of our Certified Financial Planners, please contact us. We are here to help you get the most out of your benefits and work toward your own financial freedom.

Let's Dive In!

When looking at your total compensation from Microsoft there is a lot to figure in. Beyond your salary and bonus, a significant portion of pay is commonly in the form of stock awards. Furthermore, while receiving less attention, Microsoft employees can tap into additional compensation each year by taking advantage of the various financial benefits made available. The following sections review each of these financial benefit areas and presents strategies for how to best maximize them.

1 The Microsoft 401(k) Program

Microsoft offers a 50% match on employee contributions to the 401(k). For 2023 this match totals up to $11,250 that Microsoft will contribute. *This is free money!* We encourage Microsoft employees to first max out their 401(k) contributions to both build up their retirement portfolio in a tax advantaged matter, as well as achieve this match. For 2023, you can put $22,500 in to a traditional 401(k) and if you are age 50 or above you can put in an additional $7,500. Note, Microsoft's 50% match does not apply to this additional age 50 catch-up contribution.

In addition to a traditional pre-tax 401(k), **Microsoft also offer the Roth 401(k) option.** The way the Roth works is while your contributions are not deducted from your taxable income up front (you don't save taxes today), *all the growth in the Roth occurs tax-free!* Depending on your income level and tax picture this can be a strong option.

It doesn't stop there… Microsoft is one of few companies that offer an after-tax 401(k) as well, aka **the Mega Backdoor Roth.** For 2023 this *allows you to contribute an additional $32,250* into the after-tax character of your 401(k) which Microsoft will then immediately convert to Roth without tax. This has the effect of adding significant contributions to your Roth account, which can be a retirement planning game changer. Microsoft doesn't match your after-tax contributions, though this is still a very powerful strategy.

Your 401(k) is a significant piece of your portfolio as you plan for retirement, and therefore it is important that it is invested appropriately for your personal goals. Make sure your investments align with your overall financial plan and time horizons. *By being intentional with the type of investments to hold in which of your accounts, you can potentially reduce your lifetime taxes and get more out of your wealth.* At Stabler Wealth Management we first establish an overarching financial strategy specific to your situation and goals. From there we help you implement a plan to minimize taxes and match your liquidity needs.

2 Your RSU Stock Awards (Restricted Stock Units)

As a Microsoft professional, RSU stock awards (restricted stock units) are a significant component of your compensation. Therefore, it is important to ensure these are managed in the most effective way possible. Stock is awarded at hire as well as annually as a component of your continuing compensation. Stock awarded at hire typically vests over four years, and **ongoing stock awards vest over five years.** When stock units vest, they are worth the number of shares multiplied by the current share price. **The vest value is taxed as ordinary income,** whether you sell the shares or not. Microsoft automatically withholds 22% of the vested share amount for federal taxes.

Once these shares vest, it is the equivalent of receiving a cash bonus that is used to purchase stock shares, meaning if you cash out the shares there would be no additional tax impact versus holding them. Therefore, by keeping your vested stock shares *it is the equivalent of receiving a cash bonus and deciding to purchase Microsoft stock with all of it.* While it is reasonable to hold some Microsoft stock as a part of your financial plan, it is important to be intentional on what that amount is and where the most efficient place is to hold it (see section on the Microsoft ESPP). Furthermore, as an employee of Microsoft you already have a lot of skin in the game related to the success of Microsoft. In addition to reliance of your paycheck, you need to make sure you are not overly exposed in your investment portfolio as well.

It is important to plan for the taxes related to these stock vests. *In most cases the 22% Microsoft withholds for taxes is not adequate for the tax bracket that many Microsoft professionals are in.* We want to make sure to build a comfortable and efficient tax payment plan around your stock awards to make sure you don't have a surprise from Uncle Sam come tax season. *We do this for the professionals we work with by establishing an annual tax projection* and scheduling estimated tax payments or adjusted paycheck tax withholding as appropriate.

Of important note, we are not suggesting that you fire sale all your existing Microsoft stock that has vested. The growth in the stock since vest date does result in tax consequences if you sell those shares. What we do suggest is to *view your future stock vests as a cash bonus.* For your existing Microsoft stock holding, we encourage you to meet with one of our Certified Financial Planners to review a tax efficient plan that is specific to your situation. There may even be an opportunity to achieve tax savings by selling shares at a capital loss and reinvesting in more diversified investments. *This strategy is called tax loss harvesting.*

Microsoft's 55 and 15 Rule provides for another planning opportunity when establishing a liquidation plan for your stock awards. *If you are of the age of 55 and have 15 years of service at Microsoft, upon separation from Microsoft your unvested stock shares will be honored and continue to vest over the next four years.* If you do not have 15 years of service at Microsoft, you would have to wait until age 65 to keep your unvested shares when leaving the company. This wrinkle makes 55 a key age for many Microsoft employees that are planning their retirement date. One unintended consequence of maintaining this unvested stock is it may result in a sizable amount of retirement income in the early years of retirement. Therefore, it is important to plan other financial decisions such as Deferred Compensation Plan distribution schedules with this consideration in mind. **At Stabler Wealth Management we build a retirement income map for the professionals we work with.** This provides for income in retirement while saving on taxes.

3 The Microsoft ESPP (Employee Stock Purchase Plan)

Another significant financial benefit that Microsoft offers is the ability to participate in the company ESPP (employee stock purchase plan). **This allows Microsoft employees to contribute up to 15% of their salary each year (up to a maximum $25,000) to purchase Microsoft stock. The stock purchases are made at a 10% price discount.** As we commented in the 401(k) section, *where your company is offering you free money, we highly suggest taking it!* One strategy is to first maximize the 401(k) match, as purchasing Microsoft stock through the ESPP does of course come with risk tied to the performance of the stock during the holding period.

Because of this embedded price discount, *the ESPP is an ideal place to hold your Microsoft stock.* At the time of acquisition there is already an embedded taxable gain from your purchase price to current value, making it more tax efficient to sell your RSU vests and hold your ESPP purchases when deciding between the two. Furthermore, the contribution limit of $25,000 a year lines up with a more appropriate holding size of Microsoft stock. When you do sell shares of Microsoft stock acquired through the ESPP, have a strategy to minimize the tax burden. *If you hold your ESPP shares for at least two years from the initial offering period and at least one year from when you purchased the stock shares, you receive the more favorable capital gain tax treatment.*

4 Health Savings Account vs. Flexible Spending Account

We would be amiss to not mention the Health Savings Account (HSA). While the HSA contribution limit is small in stature, it sure packs a big punch. *The HSA brings the best of both worlds - like a traditional 401(k) any contribution amounts reduce your taxable income. Additionally, like a Roth any growth in the HSA is tax free as long as used for qualified medical expenses.* You will have plenty of opportunity to use this account, as even health insurance premiums qualify. Microsoft does make an annual contribution to your HSA, however you do need to select the Health Savings Plan healthcare option to qualify (this is a high deductible low out of pocket plan). If you do qualify, you can additionally contribute to meet the 2023 total contribution limits of $3,850 if on an individual plan or $7,750 for a family plan. If you are age 55 or above, you can contribute an additional $1,000. Keep in mind these contribution limits include both what you and Microsoft put in.

While the HSA is a nice feature, we do suggest first selecting the best health plan for you and your family based on your own health plan needs. If that plan happens to be the HSA eligible health savings plan, great news. Of additional note, we commonly see this account misused. Instead of viewing your HSA as a bank account for ongoing healthcare expenses, *it is most effective to treat as a long-term investment growth account.* That way you can invest the HSA to enjoy the tax-free appreciation that can then cover many of your medical expenses in retirement.

Microsoft additionally offers a Flexible Spending Account (FSA) option, which similarly allows you to set aside pre-tax dollars. The FSA also permits before tax contributions, however the contribution limit is lower ($3,050 an individual or $5,000 a family), and limits the carryover of unused funds to the next year.

5 Life and Disability Insurance Benefits

While insurance doesn't often receive the same attention as other areas of financial planning, in many cases it can be the most critical component. For example, if your family is reliant on your income (e.g., to support children or pay a mortgage) it could be catastrophic to lose your income, either as the result of death or more commonly disability. Microsoft does offer both life and disability insurance benefits for employees. **Microsoft provides life insurance coverage in the amount of 2X your annual salary.** Additionally, Microsoft offers the ability to purchase additional coverage for up to 10X your salary, capped out at $2.5 million. Microsoft also offers the ability to purchase a limited amount of life insurance coverage for your spouse and dependent children. The cost of the life insurance is based on your age and may require evidence of insurability (if you elect to increase your coverage by more than 1X your base pay during the annual enrollment period or by any amount over $750,000).

It is important to note that the base *life insurance offered by Microsoft is not portable and does not go with you if you leave the company.* If you purchase additional life insurance through Microsoft it may be able to be converted over to an individual policy. Therefore, you may consider purchasing outside insurance to supplement the free amount that Microsoft provides. For protecting against an unexpected death, we generally favor cost effective term life insurance for protection. In certain instances, permanent life insurance can make sense, however this is typically for tax efficient wealth transfer strategies.

For long-term disability insurance, Microsoft provides coverage in the amount of 60% of your salary and bonus, up to a maximum of $15,000 a month. Microsoft also offers short-term disability insurance that covers a higher payout amount of 75-100% of your salary and bonus for up to approximately 6 months. *An important consideration here is that this disability coverage does not apply to stock awards compensation.* Therefore, when considering your total compensation, it may be significantly smaller percentage of coverage that you are receiving. Like life insurance, in certain situations it may be prudent to supplement Microsoft's disability policy with an additional disability insurance policy.

6 Charitable Giving Strategies

Microsoft offers is a **dollar-for-dollar match on employee donations to public charities of up to $15,000 per a calendar year.** This is a powerful way to amplify the impact of your donations to the charities you support. Furthermore, Microsoft will match your volunteer time at an amount of $25 an hour. The dollar-for-dollar match applies to US tax-exempt 501(c)(3) or international equivalent public charities, however *it does not apply to contributions made to Donor Advised Funds (DAFs).*

Donor Advised Funds can be a great tool for gifts in excess of $15,000 per a calendar year or after separation/retirement from Microsoft. In addition to providing charitable good, DAFs can further reduce your income taxes while also avoiding tax on highly appreciated shares of stock. *Contact our office to look in to how a DAF may fit in to your charitable plan.*

7 Microsoft's Deferred Compensation Plan

Microsoft offers a Deferred Compensation Plan (DCP) for employees level 67 and above. While not for everyone, the DCP can be useful in certain instances. In most cases we view the previously mentioned strategies (401k & Mega Backdoor Roth, ESPP, HSA) to be a better choice for the following reasons. 1) The DCP is less flexible in the ability to access your funds from both an income and tax planning perspective. 2) The funds contributed to the DCP are less secure, and subject to creditor risk. This means if Microsoft were to face financial issues down the road, your DCP account can be at risk. As a Fortune 100 company this outcome is unlikely, although the same was thought of Enron and Chrysler before they faced bankruptcy.

The gist of the DCP is you can make tax-deferred contributions, similar to a traditional 401(k). Any funds you contribute are not taxed as income today, grow tax deferred, then are taxable when withdrawn in the future. *You can contribute to your DCP through your bonus (up to 100%) and salary (up to 75%).*

Each year there is an enrollment period to elect whether you want to participate in the DCP for the following year. Bonus DCP elections are made in May and salary DCP elections in November. When making the election you decide how the distributions from your DCP will occur. This includes when you want the distributions to begin (the year / month or at termination) and whether you want to receive as a lump sum or spread out over 3 to 15 years. In the event of death or disability your DCP balance is paid out to your beneficiary as a lump sum **(important to have a plan here as can be a sizable tax event for your family).**

One nice feature Microsoft offers is the ability to push back the distribution date from what you initially selected, as long as you're extending it at least 5 years. This decision must be made more than one year prior to the distribution date. *For the Microsoft professionals we work with we evaluate whether preferable to select a shorter distribution timeline with the ability to extend out in the future.*

While these DCP contributions have a lot of hair, there are certain instances where they can make sense. For example, if you are in a much higher tax bracket now than where you expect to be in retirement *(it is expected the Federal tax rates will increase starting in 2026).* If you live in a state with income tax and plan to move to a state without income tax, this is another example where it can make sense to contribute to a DCP. Furthermore, if you are retiring or semi-retiring before the age of 59.5, this may provide a mechanism to achieve retirement income without an early withdrawal penalty from an IRA account (there are strategies we can use to avoid this penalty however, such as the age 55 401(k) withdrawal rule). **These DCP strategies are something we can review with you specific to your personal situation.**

8 Important Dates to Plan Around

In creating a plan to maximize your employer benefits, here is a helpful overview of the key dates to be aware of.

First Quarter

- Review your contributions to your 401(k) and ESPP for the year ahead.
- If eligible for a backdoor Roth IRA, you have until the April tax filing deadline to fund for the prior year.
- Action plan for February vest of stock awards.

Second Quarter

- Update tax projections for current year upon completion of prior year taxes.
- In month of May make your deferred compensation election for next year's cash bonus (Level 67 and above are eligible)
- Action plan for May vest of stock awards.

Third Quarter

- Review how tracking on 401(k) and ESPP contributions to max out your benefit.
- Receipt of annual cash bonus as well as new stock awards schedule.
- Action plan for August vest of stock awards.

Fourth Quarter

- Review your health care and insurance elections for the November open enrollment period.
- In month of November make your deferred compensation election for next year's salary compensation (Level 67 and above are eligible)
- Look at November or December pay stub to review taxes withheld vs. anticipated amount due. You have until mid-January to make an estimated tax payment for the year to avoid penalty (if unsure here, our office can review with you the 110% rule).
- Action plan for November vest of stock awards.

Achieving Financial Freedom at Microsoft

Summary

We hope you find this in-depth map helpful in understanding your Microsoft benefits. If done correctly, the additional benefits your obtain will help the growth of your wealth and move you towards your financial freedom.

The good news is you do not need to go on this journey alone. At Stabler Wealth Management our team of Certified Financial Planners are knowledgeable in Microsoft Benefits. We encourage you to meet with us and see if we are the right fit to navigate you on your journey. *With the expansion of the Perks+ program, Microsoft will reimburse you up to $1,500 per year for wellness-related expenses including working with a financial planner.*

Contact us to schedule a no cost consultation with one of our Certified Financial Planners.
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Please tune in to our website blog (www.stablerwealthmanagement.com), YouTube channel and LinkedIn page to receive our latest financial planning updates for Microsoft professionals.