STABLER

WEALTH MANAGEMENT

Financial Guide for Microsoft Professionals

Strategies to Get the Most Out of Your Benefits

2026 Version

Updated with the 2026 Voluntary Retirement Program and layoff packages

Stabler Wealth Management

stablerwealthmanagement.com | (425) 646-6327

What's New in This Version

- **Catch-up contributions must now be Roth** if your prior-year Microsoft wages were more than $150,000 (Section I)
- **Company-paid life insurance increased to 3x base pay** (Section VIII)
- **The Dependent Care FSA limit rose to $7,500, up from $5,000** (Section V)
- **A new section on workforce changes:** what the 2026 Voluntary Retirement Program and recent layoff packages have included, and how unemployment benefits work in Washington (Section IX)
- **Contribution limits increased across the board:** 401(k) $24,500, catch-up $8,000, Mega Backdoor Roth $35,250, HSA $4,400 individual / $8,750 family

Overview

As a Microsoft employee, one of the most valuable pieces of your compensation is your benefits package. Used well, these benefits can add meaningfully to what you take home, reduce your lifetime tax bill, and move up the date when work becomes optional.

In this guide, we walk through each of Microsoft's key financial benefits and the strategies we use with clients to get the most out of them, along with the 2026 updates summarized above.

At Stabler Wealth Management, we specialize in financial planning for Microsoft professionals. If you would like to review your own situation, we are happy to help.

I. The Microsoft 401(k) Plan

Microsoft offers a generous 401(k) plan match. For 2026, you can contribute up to $24,500 to your 401(k), with an additional $8,000 catch-up contribution if you are 50 or older. Microsoft matches 50% of your contributions up to the standard IRS limit, resulting in up to $12,250 in free money annually. The match only applies to the first $24,500, not to catch-up contributions.

There is also a larger catch-up for one narrow age band. If you turn 60, 61, 62, or 63 during the year, you can contribute $11,250 instead of the standard $8,000. Note that this is an age band, not a permanent step up: once you turn 64, your catch-up returns to the standard amount.

New for 2026: if your prior-year FICA wages from Microsoft (W-2 Box 3) were more than $150,000, the IRS now requires all catch-up contributions, including the larger 60 to 63 version, to be made as Roth. You lose the up-front deduction on those dollars, but they grow and come out tax-free. For most high earners this is a change to plan around, not a setback, and it pairs well with the Roth strategies below.

You can contribute to either a Traditional (pre-tax) 401(k) or a Roth 401(k). Traditional contributions reduce your taxable income today, while Roth contributions grow tax-free and can be withdrawn tax-free in retirement. Many professionals benefit from a mix of both, and the right split depends on your current bracket, your expected retirement income, and your early-retirement healthcare strategy.

Beyond contributions, proper investment selection and coordination with your broader plan are critical. Your 401(k) is a key component of your retirement plan; let's make sure it is working as hard as you are.

- **2026 employee contribution limit:** $24,500, plus $8,000 catch-up at 50+, or $11,250 if you turn 60 to 63 this year
- **Microsoft employer match:** 50% of your contributions up to the standard IRS limit, up to $12,250
- **Be intentional with Roth vs. pre-tax contributions** depending on your future tax outlook

II. Mega Backdoor Roth: A Retirement Game Changer

Perhaps the most overlooked opportunity within Microsoft's benefits is the Mega Backdoor Roth. Beyond your regular contributions, the plan lets you add after-tax dollars to your 401(k) and immediately convert them to Roth, creating a powerful opportunity for tax-free retirement growth.

How much room you have depends on what else has gone into the plan. The IRS caps total 2026 contributions from all sources at $72,000. If you max your own $24,500 and receive the full $12,250 match, that leaves $35,250 for after-tax contributions. Contribute less to the 401(k) and the after-tax room changes accordingly, so the figure is a ceiling to calculate against rather than a flat number that applies to everyone.

Unlike standard Roth IRAs, which have income limits and low annual caps, the Mega Backdoor Roth allows high earners to rapidly build a large Roth bucket. These contributions are not matched by Microsoft, but their long-term tax advantages make them one of the most valuable planning tools available.

This strategy is especially impactful for professionals who want to build flexibility for early retirement health insurance planning, Medicare premium control, or early retirement withdrawals. As we cover in the health insurance section, a large Roth reserve is what lets you control your taxable income in the years you need it most.

- **2026 total plan limit:** $72,000 from all sources, which leaves up to $35,250 in after-tax contributions once you max your deferral and match
- **Funds convert immediately to Roth,** with no tax on growth or qualified withdrawals
- **Use this tool to diversify tax treatment** and build your Roth reserve faster.

III. Your RSU Stock Awards (Restricted Stock Units)

RSUs (Restricted Stock Units) are a major part of your total compensation. For many Microsoft professionals, stock awards make up a significant portion of their annual income. These awards typically vest quarterly over up to five years and are taxed as ordinary income when they vest. Microsoft typically withholds 22% for federal taxes by default, far less than the marginal rate for many employees.

Once your RSUs vest, you can hold or sell them. However, holding the shares is equivalent to reinvesting a cash bonus entirely into Microsoft stock. While it is reasonable to maintain some company exposure, many professionals already have substantial concentration between salary, RSUs, and ESPP. The market volatility of the past year has been a live reminder of what concentration risk looks like in practice.

A disciplined, tax-aware plan is essential. We often recommend treating RSUs like cash bonuses: sell upon vesting, fund your financial goals, and invest the rest in a diversified portfolio, with the timing and lot selection coordinated to maximize the tax advantages available to you.

55 and 15 Rule: Preserve Unvested RSUs in Retirement

Microsoft's 55 and 15 Rule offers a unique and valuable planning opportunity for long-tenured professionals. If you are at least 55 years old and have 15 or more consecutive years of service as a full-time employee, eligible unvested RSUs may continue to vest even after you leave the company. Awards generally must have been granted at least one year before your separation to qualify, and Special Stock Awards (SSAs) may follow different rules, so review each award agreement and confirm your eligibility with Microsoft. This rule can significantly influence the optimal timing of your retirement or career change, unlocking tens or even hundreds of thousands of dollars in post-employment equity.

- **Create a tax projection** to avoid underpayment penalties due to RSU income
- **Consider systematic selling strategies** to reduce concentration risk
- **The 55 and 15 rule** can preserve eligible unvested equity and boost early retirement income

IV. The Microsoft ESPP (Employee Stock Purchase Plan)

Microsoft's ESPP allows you to purchase company stock at a 10% discount, contributing up to 15% of salary or $25,000 annually. That is a built-in double-digit gain on the date of purchase. As a result, the ESPP is our preferred vehicle to achieve your Microsoft stock exposure.

The shares are yours once purchased, and the plan does not force you to hold them. What holding changes is the tax treatment. If you hold at least one year from the purchase date and two years from the start of the offering period, the sale becomes a qualifying disposition and more of your gain is taxed at long-term capital gains rates instead of as ordinary income. Sell sooner and the discount is taxed as ordinary income.

That tax benefit is real, and it has to be weighed against concentration risk, because ESPP shares add to what may already be sizable Microsoft exposure. If you are harvesting losses in your Microsoft position, coordinate sales around ESPP purchase dates and RSU vests to avoid wash-sale complications.

- **ESPP contributions capped at $25,000 per year** with a 10% discount
- **Holding one year from purchase and two years from the offering date** improves the tax treatment, but weigh that against your overall Microsoft exposure

V. Health Savings Account vs. Flexible Spending Account

If you elect the Microsoft Health Savings Plan, you can access a Health Savings Account (HSA), one of the most tax-efficient accounts available. For 2026, the combined employee plus employer contribution limits are $4,400 for individual coverage and $8,750 for family coverage, and those age 55 or older can contribute an additional $1,000.

Microsoft also contributes directly to your HSA. The amount depends on your level and your coverage tier, and it is deposited in two equal installments in January and July. Check your enrollment materials

for your level's contribution amount, and remember that Microsoft's money counts toward the combined IRS maximum above.

The HSA offers a rare triple tax benefit: contributions are tax-deductible, growth is tax-free, and withdrawals for qualified medical expenses are also tax-free. Used strategically, it can act as a supplemental retirement account.

In many cases, we recommend investing your HSA balance for long-term growth and paying for current medical costs out-of-pocket. This allows the account to grow and be used later for Medicare premiums and other retirement health expenses.

- **2026 HSA limits:** $4,400 individual / $8,750 family (+$1,000 if 55+), including Microsoft's contribution
- **Use the HSA as a retirement investment vehicle,** not just a checking account for current medical bills

Flexible Spending Accounts, and How They Interact With the HSA

This is where people get tripped up, so it is worth being precise. You cannot contribute to an HSA and a general purpose Healthcare FSA in the same year, because the general purpose FSA counts as disqualifying coverage under IRS rules. It is one or the other.

If you are on the Health Savings Plan, the version available to you is the Limited Purpose FSA, which covers dental and vision costs and pairs with your HSA without disqualifying it. The Dependent Care FSA is a separate account for childcare and elder care, and it works alongside either choice.

For 2026, the Healthcare FSA limit is $3,300, and FSAs remain use-it-or-lose-it: you can carry over only $660 to the following year, and unused balances are generally lost if you separate from Microsoft. Given those limitations, we view the HSA as the preferable vehicle where you have the choice, and suggest using an FSA for predictable near-term expenses.

New for 2026: the Dependent Care FSA limit increased to $7,500, up from $5,000. That $5,000 cap had been in place since 1986, so this is a rare and meaningful change for families paying for childcare or elder care. The limit is $3,750 if you are married filing separately.

VI. Microsoft's Deferred Compensation Plan

For Level 67 and above, Microsoft offers a Deferred Compensation Plan (DCP). This plan allows you to defer up to 75% of your salary and up to 100% of your bonus. Contributions are tax-deferred and grow without taxes until distributed, but there are tradeoffs.

Unlike 401(k) assets, DCP funds are unsecured and subject to Microsoft's creditor risk. You must also choose a distribution schedule at the time of deferral, typically beginning at separation or in a specified year, spread over 3 to 15 years. Distributions are taxed as ordinary income, and elections are irrevocable once the enrollment window closes.

This plan may make sense if you expect to be in a lower tax bracket in retirement or plan to move to a no-income-tax state. We also evaluate it when bridging early retirement income before age 59½. Given the workforce changes of the past two years, we now also stress-test DCP elections against an earlier-than-planned separation.

- **DCP is subject to creditor risk;** the balance is not protected like 401(k) assets
- **Elections are made annually:** May for the following September's bonus, November for next year's salary
- **Plan distributions to complement other income sources** and minimize tax spikes

VII. Health Insurance Overview

Microsoft offers several health plan options, each with different structures and tradeoffs. Choosing the right one is crucial not only for managing annual medical expenses but also for long-term tax and financial planning. In 2026, employees can choose from the Health Savings Plan (HSA-compatible, through Premera), the Health Connect Plan (Premera, for King and Snohomish County residents), the Surest Plan, and Kaiser plans in certain regions.

The Health Savings Plan features higher deductibles but lower premiums, and it enables access to an HSA, offering unmatched long-term tax benefits. The Health Connect Plan offers lower deductibles and more predictable costs, but without HSA eligibility. The Surest Plan provides upfront pricing with no deductibles and simplified copays for many services. Choosing the best fit depends on your family's expected healthcare usage, financial goals, and tax situation.

Employees retiring early should be aware that Microsoft does not offer a retiree health insurance plan to bridge coverage until Medicare eligibility at age 65. You will be eligible for COBRA coverage for up to 18 months after separation. If you leave through the Voluntary Retirement Program or a layoff, your coverage looks different from standard COBRA, and Section IX covers what recent packages have included.

This is also where your Roth strategy earns its keep. Before age 65, the cost of bridge coverage often depends on your taxable income, because marketplace premium subsidies are calculated from it. Retirees who can draw spending money from a Roth reserve keep their taxable income low in exactly the years it matters most, which can reduce healthcare costs by thousands of dollars per year. At Stabler Wealth Management, we have strategies to help you bridge the gap to Medicare, and we would be happy to review these options with you.

VIII. Life and Disability Insurance Benefits

While often overlooked, insurance is foundational to a sound financial plan. For 2026, Microsoft provides employee life insurance equal to three times your annual base pay. You can elect coverage of up to 10 times your base pay, capped at $4 million, and elections up to $750,000 require no evidence of insurability. That no-underwriting window is a valuable and underused feature, especially for anyone whose health would make individual coverage expensive. Note that the value of Microsoft-paid coverage above $50,000 shows up as a small amount of imputed taxable income, and this coverage does not automatically carry over if you leave the company.

Microsoft also offers short- and long-term disability coverage. Short-term disability runs up to 26 weeks and pays 100% of base pay for the first 8 weeks, then 75% from week 9 through week 26, after a five-day elimination period. Company-paid long-term disability then covers 60% of pre-disability earnings, up to $15,000 per month. The MetLife supplemental LTD option lets you insure a larger share of your real compensation, with coverage up to $20,000 per month after a 180-day elimination period.

We recommend reviewing your coverage annually and considering supplemental policies if your family relies heavily on your full compensation, which at Microsoft often means far more than base salary. Portable term life insurance is often more flexible and cost-effective over time.

- **2026 change:** company-paid life insurance is three times base pay
- **Coverage electable up to 10x base pay ($4 million cap);** no evidence of insurability required up to $750,000
- **Disability benefits are based on base pay,** so bonus and stock income are largely unprotected without supplemental coverage

IX. Workforce Changes: What Recent Separation Packages Have Included

Microsoft has made significant workforce changes over the past two years, including the company's first-ever Voluntary Retirement Program (VRP) in spring 2026 and continued layoff rounds, with the company indicating that more changes are ahead. We include this section not to predict what comes next, but because knowing what these packages contain helps you plan from a position of strength, whatever your intentions.

The 2026 Voluntary Retirement Program

The VRP was offered to U.S. employees at senior director level and below whose age plus years of service totaled at least 70. The package included:

- **Cash severance of 8 to 39 weeks of base pay,** depending on level and tenure, paid as a taxable lump sum
- **Healthcare in three phases:** fully subsidized coverage in Year 1, COBRA at your cost for months 13 to 18, and extended coverage at COBRA rates through month 60 (ending early if Medicare eligible)
- **Continued stock vesting in tiers:** 6 months standard, 12 months for those with 25+ years of service, and full-schedule vesting for those qualifying under the 55 and 15 rule

Special Stock Awards (SSAs) did not automatically qualify for continued vesting and required review of each award agreement.

Layoff Severance Packages

Terms vary by level and by round, and your own separation agreement is the only version that matters. In the July 2026 round, the plan covering levels 65 to 67 worked like this:

- **Cash severance:** 2 weeks of base pay for every 6 months of service, with a 60-day minimum and a 39-week cap. Employees below level 65 have reportedly received one week per six months of service.
- **The paid notice period reduces that cash.** Employees received roughly 60 days of notice during which they stayed on payroll without working. Those paid weeks are subtracted from the severance total, so the lump sum arrives smaller than the formula alone suggests. The reduction cannot bring you below 4 weeks of base pay.

- **Stock:** unvested RSUs continued vesting for 6 months, extended to 12 months at 25 years of service or within a year of reaching it. This stops if you accept another Microsoft role before your termination date.
- **Healthcare:** COBRA runs up to 18 months, with Microsoft paying the first 6 months of premiums for those who signed the agreement.
- **Declining a comparable role forfeits severance.** If you are weighing a redeployment offer against a package, ask HR in writing whether the role is considered comparable before you decide.

Unemployment Benefits: Worth a Look

Most people write off unemployment benefits too quickly, and it is worth understanding what is available.

Every state runs its own program. In Washington, under the rules in effect as of this version, benefits can run up to 26 weeks and reach roughly $5,200 a month, which is meaningful money during a transition.

Here is the part that surprises people: taking a voluntary package does not automatically disqualify you. A 2026 change to Washington law treats volunteering for an announced workforce reduction as a layoff rather than as quitting. Whether the Microsoft VRP fits that definition has not been settled, and the state decides claim by claim based on your separation paperwork. There is a reasonable case, applying costs very little, and denials can be appealed.

Two honest caveats. Benefits require you to be able to work, available for work, and actively looking, with job search activities logged each week, so this is not for anyone who is fully retiring. And benefits are taxable income arriving in what is often an already high-income year, so plan for the tax rather than being surprised by it.

The planning takeaway for this whole section: every piece of these packages, from cash timing to vesting to healthcare, maps back to a section of this guide. Professionals who already know their number, their concentration plan, and their healthcare bridge can evaluate any offer in days rather than scrambling against a deadline.

Important Dates to Plan Around

Q1	Review your 401(k), HSA, and ESPP elections for the year ahead. If you are 50 or older, confirm your catch-up contributions are set up as Roth. Fund prior-year Backdoor Roth IRAs before the April tax deadline. February RSU vest: check withholding and your diversification plan.
Q2	Update tax projections using last year's return. Level 67+: make your DCP bonus election in May. May RSU vest: same check as February.

Q3	Check your pace toward maxing the 401(k), ESPP, and Mega Backdoor Roth. Review your total Microsoft stock exposure and upcoming grants. August RSU vest, and plan ahead for the September cash bonus.
Q4	Open enrollment: health plan, FSA elections, insurance coverage. Level 67+: make your DCP salary election in November. Review withholding and make a Q4 estimated payment if needed. November RSU vest: last chance to act before year end.

How to Get Started

If you would like help putting any of this to work, the easiest first step is to book a no-cost conversation with one of our Certified Financial Planners. You can schedule directly at stablerwealthmanagement.com, or reach out to us at team@stablerwm.com or (425) 646-6327.

We will look at your compensation, stock awards, tax situation, and goals together, and give you a clear picture of where you stand and what to prioritize.

One more thing worth knowing: Microsoft reimburses employees up to $1,500 annually through its Perks+ program, which many employees use toward financial planning. It is an underused benefit and can offset much of the cost of professional guidance.

Our website also has additional planning insights and video guides tailored to Microsoft professionals.

This material is for general information only and is not intended to provide specific advice or recommendations for any individual. Benefit provisions summarized here are based on Microsoft's 2026 plan documents and are subject to change; your plan documents govern. Unemployment benefit rules and amounts change; confirm current requirements with the Washington Employment Security Department. No strategy assures success or protects against loss. Stabler Wealth Management and LPL Financial are not affiliated with or endorsed by Microsoft.

Securities and Advisory services are offered through LPL Financial, a registered investment advisor. Member FINRA/SIPC. Stabler Wealth Management is not registered as a broker-dealer or investment advisor.