RSU’S AND STOCK OPTIONS – HOW DO THEY COMPARE?

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A lot of companies offer stock-based incentives and compensation to their employees, 62% of employees offering the options have said it consistently increases morale, incentivising employees to work hard in order to see the stocks they own, appreciate in value. We have prepared a brief guide to the pros and cons of RSU’s and Stock Options so that you can make an informed decision on which would be best if the choice is offered to you.

RESTRICTED STOCK UNITS

Restricted stock units, often shortened to **‘**RSUs’, are shares given to employees by their employer as a form of compensation or incentive. RSUs come at no initial cost to yourself, they do however need to be left to vest over a certain period. For example, if your company offers you 500 Shares on an RSU basis over 5 years, once that 5-year period is over, you will acquire the shares at no cost.

The problem arising with this basis means, you could be on year 4 of 5, another job opportunity comes up that you want to take, you have now invested 4 years vesting these stocks, but if you leave before they have full time vested, you will lose them all. This is not the only condition placed on the shares fully vesting and you may have to also meet other conditions. This could be performance-based or anything else the company wants you to achieve before you receive what is on offer.

Another common misconception is the wrongful understanding of no **Initial** cost. While it is correct, you are not monetarily paying for these shares, you will not receive all the proceeds from these shares. For example, if your company is giving you 100 shares after 2 years and they are valued at £20, the misconception is that you will receive £2,000. This is incorrect as RSUs, once vested, are subject to income tax and must be declared, so some of your shares would have already been sold and gone before you have seen the proceeds at all.

STOCK OPTIONS

Stock Options are also a form of compensation or incentive to employees. A stock option is a window of time that employers will grant to employees, to purchase stocks at a certain price. The goal is to offer a certain price and for the company to grow so that the actual market price is greater than the employee accessible price agreed upon. For example, you may be offered the option to purchase shares for £20 per share for 6 months, in that time, if the market price of these shares rises to £25, the employee can take advantage of this. However, if the price remains the same or falls below the employee accessible price, the stock option is rendered useless. If you wait too long, the stock option will expire, and you will not be able to purchase at the given price.

SUMMARY

To summarise, you have two incentivising strategies, both with benefits and drawbacks and both used to drive productivity and work toward a higher share price. Your choice between the two may be determined by your plans for the future, your financial position or your desire for choice. Either way, both options give a good opportunity for returns and should be taken advantage of if the chance arises.

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