Equity 101

When talking about total compensation packages within Medical Affairs, there are several pieces to that puzzle. Below is a more in-depth break down specifically on equity, an exciting variable and also an often under-rated compensation component.

What is Equity?

Equity, or stock, is another way for companies to compensate a candidate by offering ownership of an asset of value. Equity represents the value that would be returned to a company's shareholder (you) if the assets were liquidated. It's a stake in the company essentially.

Equity is oftentimes referred to as stock, especially when it comes to investing. Companies will award candidates stock commonly with offers and/or annually around bonus time.

There are many different types of stock, but the two most common offered by employers are Stock Options and/or Restricted Stock Units (RSUs).

RSUs vs. Stock Options

Restricted Stock Units (RSUs) are typically the preferred equity over stock options. There are several reasons for this, the biggest one being that RSUs are basically free to you. You do not need to purchase them after they have vested; they are awarded at no cost. Stock options on the other hand, you do need to purchase at a determined price after the vesting schedule. They still can be extremely valuable, especially if the strike price on the day you were given them is lower than when you go to sell them.

Example 1 - RSUs

Offer: 1,000 RSUs ($50 strike price day of) with a 4-year vesting schedule.

Year 1 Earnings 250 RSUs $100 strike price = $25,000	**Year 2 Earnings** 250 RSUs $80 strike price = $20,000	**Year 3 Earnings** 250 RSUs $20 strike price = $5,000	**Year 4 Earnings** 250 RSUs $120 strike price = $30,000

Total compensation (pre-tax) on equity: $80,000 over a 4-year period.

Example 2 – Stock Options

Offer: 1,000 Stock Options ($50 strike price day of award) with a 4-year vesting schedule.

Year 1 Earnings	Year 2 Earnings	Year 3 Earnings	Year 4 Earnings
250 Options $100 trading price - $50 strike price = $12,500	250 Options $80 trading price - $50 strike price = $7,500	250 Options $20 trading price - $50 strike price = -$7,500 **Under water*	250 Options $120 trading price - $50 strike price = $17,500

Total compensation (pre-tax) on equity: $37,500 over a 4-year period.

In terms of taxes, RSUs get taxed as regular income when they are vested whereas stock options get taxed at the time the options were exercised.

Keep in mind any stock can end up "under water" (the price at vesting is less than the original strike price when they were awarded to you). This will always be risk associated with equity, but it can also prove to be extremely lucrative.

Terms to Know

Assets – Items of ownership that can be converted to cash.

Liabilities – Debts or obligations the company owes resulting from past transactions.

Market Value – The amount for which something can be sold on a given market.

Strike Price – Set price of the stock options when given by the employer.

ESPP – Employee Stock Purchase Plan is oftentimes a benefit given to employees, but not required. It is a company-wide program where employees have the option to buy additional stock at a discounted set price.

Vesting Schedule – A predetermined amount of time (months, years) that you must wait before you are able to access your stock. After that amount of time, you are then able to either keep or sell your stock. Companies oftentimes include this to help incentivize tenure.