



Preserving Your **[Stock]** Options If You Are Laid Off

Introduction



Employee stock options have increasingly become a piece of total compensation over the last few years, particularly for people employed in high-growth industries such as technology-related sectors. But what happens if a slowing growth picture results in your firm downsizing?

With all the other things to worry about when your primary source of income goes away, the stock options that you thought would fuel future wealth may take a backseat. However, you must understand how your stock options may be affected if your employment with your company ends.

[Read more in the guide](#)



Are Your Options Vested, Unvested, or Both?

VESTED

If you have vested options, you retain them after termination.

They usually must be exercised within three months after employment stops. You may have been given a severance package that includes benefits, including salary and health insurance, that continue for months or even a year. Your severance package may also include extending the period during which options may be exercised.

Take a careful look at the expiration dates on your options, and be sure to have a plan in place.



UNVESTED

Options that haven't vested yet usually aren't retained by the employee.

However, in the case of a layoff, companies may accelerate your vesting schedule. Additionally, if your employment or connection with the company continues, for example, as a contract employee, this may preserve your unvested options.

You'll need to check your plan agreement carefully.



What Kind of Stock Options Do You Have?

Non-Qualified Stock Options



These options provide the right to buy a pre-set number of company shares at a pre-set price.

The idea is that the stock will go up in value, and the employee will reap the difference by selling the shares.



Taxes must be paid when the options are exercised (the shares are purchased) on the “bargain element,” the amount of the difference between the exercise price and the fair market value of the stock.



NSOs are taxed as ordinary income. NSOs may often be exercised more than 90 days after termination, and in some cases, you may keep the right to exercise for a very long period. Your plan agreement will have details.

Incentive Stock Options



Incentive stock options (ISOs) provide the right to buy shares at a discounted price and to delay taxes on the shares until they are sold.

ISOs can provide tax benefits because they enable employees to convert part or all the potential stock earnings into capital gains if they hold on to the stock for a certain period.



The IRS rules on ISOs provide up to 90 days post-termination for vested ISOs to be exercised. An employer may decide in the plan agreement to allow more time for exercise after a termination.



However, after 90 days, the IRS rules go into effect, and the special tax treatment is lost. The ISOs effectively become NSOs.



Restricted Stock Options

Restricted stock shares that have vested are unaffected by termination, and employees maintain the right to them. Restricted stock that is unvested at termination is usually lost.

IS EXERCISING WORTH IT?

As we've seen above, termination may mean that your timeline for executing your options is accelerated. This brings a lot of issues:

- How will you pay for the shares? Is taking out a loan feasible?
- Changes to taxes, including the potential for large liabilities or even penalties
- What's the outlook for your company?

Don't cut things that directly relate to your mental and physical health, unless you can find a less-expensive substitute. You'll have more time now, so hiking, running, etc. may be a good replacement for a gym membership.

Working with a Professional Can Preserve Your Wealth

Equity compensation can still be a source of future wealth after the termination of employment, but the change of your status will definitely complicate things. You'll want to speak to a tax professional and a financial advisor that can help you make good decisions for your long-term financial health.



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Please contact us at www.Seva.Wealth.com, Lisa.McCann@Seva-Wealth.com, or 720-985-8930 to explore financial planning and discuss how this information may apply to your personal financial circumstances.

Schedule a Meeting Today!

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