



Thrivent

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Stock Plans: The Employee Perspective

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What is it?

A stock plan is a form of employee compensation that provides you with either stock or an amount of cash that is based on the performance of your employer's stock. There are numerous types of stock plans that your employer can offer, including employee stock ownership plans (ESOPs), restricted stock plans, stock appreciation rights plans, nonqualified stock option plans, and employee stock purchase plans.

Employee stock ownership plan (ESOP)/stock bonus plan

A stock bonus plan is an employer-sponsored retirement plan similar to a profit-sharing plan that provides you with benefits in the form of company stock. The most common type of stock bonus plan is the ESOP. An ESOP generally requires your employer to establish a trust and either contribute shares of company stock or cash contributions to the trust on your behalf. If your employer makes cash contributions, the trust fiduciary then uses the contributions that accumulate within the trust to purchase your employer's stock. The trust fiduciary must also set up accounts within the trust for each participating employee. Once the employee accounts are set up, the trust fiduciary allocates your employer's stock among the various accounts according to a preestablished formula. As your length of service with your employer increases, you acquire rights (known as vesting) to the shares within your individual account. Generally, you must be 100 percent vested within a certain time period (usually within seven years). Once you receive an actual distribution of the shares, you can choose to either hold or sell the stock. If the stock isn't publicly traded, you have the right to sell your company a specified number of shares before a specified date (also known as a put option).

Tip: Normally, you must be a full-time employee over the age of 21 in order to participate in an ESOP.

Restricted stock plan

Under a restricted stock plan, your employer transfers shares of his or her company's stock to you, usually at little or no cost, subject to certain restrictions or limitations. The restrictions will call for the shares of stock to be subject to a risk of forfeiture if you fail to fulfill the terms of the restricted stock program. As owner of the stock, you have voting and dividend rights. However, you won't have the right to sell or transfer the shares until the stock becomes unrestricted (substantially vests).

Stock appreciation rights (SARs)

Your employer can provide you with a benefit that is tied in with a company's success without relinquishing stock ownership by offering you stock appreciation rights (SARs). SARs provide you with compensation (usually paid in cash or stock) that equals the difference between the value of the stock when your employer grants the SARs and the value of the stock when you exercise the SARs.

Stock options

A stock option is a written offer from your employer to sell you stock at a specified price within a specific time period. Stock options can be a valuable form of additional compensation, since they provide you with the benefits of company ownership along with potential tax benefits. When your employer offers you stock options, those options are typically granted at the stock's fair market value on the date of the grant. That price is locked in, meaning you have the right to buy the stock at that price (regardless of fluctuations in the stock's market value) once you become vested in the options. If you become vested in the options and the stock has appreciated in value from the grant date, you have the opportunity to profit. You can purchase the shares at the lower option price and then turn around and sell them at the stock's current fair market value.

There are two types of stock options that your employer can offer you: incentive stock options (ISO) and nonqualified stock options (NQSO), also known as nonstatutory stock options. Unlike an incentive stock option (ISO), which must meet certain IRS requirements in order to achieve its tax-favored status, a nonqualified stock option (NQSO) is a stock option that either doesn't meet statutory requirements or specifically states that it's an NQSO.

Employee stock purchase plan

An employee stock purchase plan allows you to purchase a specific amount of company stock at a specific price (usually at a discount from the stock's fair market value). Usually, funds are withdrawn from your salary and accumulate in an account from which you can make the stock purchases.

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