Congratulations, you’ve been granted Restricted Stock Units (RSUs) and they are about to vest. This can be a significant financial opportunity for you and your family, but it also calls for important tax-management and investment decisions if you want to make the most of the benefits they provide.

If you’re asking yourself, “What the heck is an RSU?” then you probably don’t have any, and don’t need to worry about them further. But for the record, RSUs are one way that companies can reward their employees in lieu of, or in addition to, a cash raise. As the name implies, it’s the gift of company stock, but with strings attached. The “gift” is really more like an IOU, because RSUs are typically subject to a vesting period or distribution schedule that outlines when you’ll actually receive your shares. When they do vest according to their prescribed schedule, you’ll be subject to income taxes on the share value at that time. That’s true whether you choose to use the proceeds to buy back more company stock, augment your personal investments or splurge on a nifty new home entertainment system.

When I’m counseling investors about their vested RSUs, I usually suggest that they opt for a Same Day Sale, and that they invest the proceeds as part of their personal portfolio, allocating it according to the well-crafted plan they’ve described in their Investment Policy Statement (IPS).

Let me explain why this is my usual recommendation.

**Taxing and Owning RSUs**

As your RSUs vest, you need to make decisions about how to pay for the taxes due, and what to do with the vested stocks. Unlike non-qualified stock options that are taxed when you exercise them, RSUs are taxed when they vest (which is an event you have no control over; they vest when they vest). At that time, you have three choices for how to pay the taxes and how long to continue holding the stock:
1. **Same Day Sale.** This is the simplest option. On the vesting date, you sell everything. After subtracting for tax withholding, you end up with net cash from the proceeds to invest or spend. All else being equal, this sort of “found money” offers a relatively painless way for you to make progress toward your life and financial goals, so we typically suggest investing it rather than spending it.

2. **Sell to Cover.** If you choose this option, the plan will sell just enough shares to cover the tax withholding. You keep the remaining shares, and you can hold, sell or gift them on your own, whenever you choose. This strategy entails heightened risk, as your labor capital and personal capital remain conjoined. If your company falls on hard times, your career and your share values can take simultaneous dives. Just as it’s wise to take money off the proverbial table after it’s been “won,” it usually makes sense to diversify your personal and professional capital risks whenever possible.

3. **Cash Transfer.** For this option, you come up with extra cash out of pocket to cover the taxes due, and you keep all the shares that have vested. As with the Sell to Cover choice, you can hold, sell or gift your vested shares, again whenever you want. However, it also comes with the same capital risk considerations.

**An Illustration in Action**

Let’s walk through an example and look at the math. Say you have 1,000 shares that are worth $50 per share on the vesting date, and that your tax rate is 40 percent for state and federal income taxes.

1. **Same Day Sale.** You will pay $20,000 in state and federal taxes. You will own no vested shares and be left with $30,000 in cash to invest.

2. **Sell to Cover.** You will pay $20,000 in taxes. You will own 600 vested shares currently valued at $30,000 and hold no cash to invest (until you sell those shares).

3. **Cash Transfer.** You will pay $20,000 in taxes out of your own pocket. You will own 1,000 vested shares currently valued at $50,000 and hold no cash to invest.

**Company Stock Considerations**

Continuing with our example, here are some additional questions to consider as you think through what to do with your vested RSUs:

**Would you buy some of your company’s stock today?** If you select the Sell to Cover option, you are basically doing the same thing as if you chose a Same Day Sale and then immediately used the proceeds to buy 600 shares of your company’s stock on the open market. Ask yourself this: Would you have bought those shares outright if you had not received them as RSUs? If the answer is “probably not,” then reason should dictate that you may be better off investing the cash elsewhere, according to your overall investment plan.

**Would you buy even more of your company’s stock today?** Similarly, if you chose the Cash Transfer approach, that’s the equivalent of buying 600 shares of company stock today with the after-tax proceeds from the vested RSUs, plus adding $20,000 of your own money to buy 400 more.
Is there something magic about RSU stock? If you find your employer’s stock attractive, remember that you can buy as many shares as you’d like at any time on the open market. You don’t have to buy shares on the RSU vesting date or in the exact number prescribed by this event. Again, don’t let the convenience of, or an emotional attachment to, vested RSUs lull you into buying more shares of your employer’s stock than you would otherwise choose to hold (which could be none).

Let Evidence-Based Investing Be Your Guide

Maybe you’re still not convinced about the wisdom of cashing out of that company stock. I understand. I really do. You’ve worked hard to contribute to your company’s growth, and it may feel as if you are giving up on more growth to come. You may also be emotionally attached to those shares, perhaps feeling that they represent your personal stake in the company’s future. It’s this sort of admirable, on-the-job loyalty that probably has contributed to your professional success to begin with.

While many people will empathize with these feelings, as an objective advisor I’m obligated to remind you that emotion-based investing is typically an ill-advised strategy for achieving your family’s most important financial interests. And while your career may be (should be) extremely important, your family’s overall wealth and well-being is important, too.

In short, your personal wealth management deserves rational, evidence-based financial decision-making. But here is where it gets tricky: What is perfectly rational in your career decisions doesn’t necessarily translate into what’s rational for your personal wealth. Your career may depend on doing all that you can to ensure your company continues to thrive, so you can thrive along with it. Your personal wealth depends on doing all that you can to wisely invest the income you’ve already earned, so that, come what may, you can always work because you want to – never because you have to.

Consider working with a fiduciary wealth advisor to help position your restricted stock options and other resources accordingly. The next step is yours.

About Michael Evans, Founder, The Cogent Advisor, Chicago, IL

Michael J. Evans is founder of The Cogent Advisor, an independent member of the BAM ALLIANCE. Prior to founding The Cogent Advisor, Michael was a veteran commodities trader on the Chicago Mercantile Exchange for more than 20 years. He remains a proud member of the exchange.

Michael currently serves on the DePaul University College of Commerce Finance Advisory Board as well as the Lane Tech Alumni Association and The Irish Fellowship Club of Chicago. He holds a bachelor’s degree from the DePaul University College of Commerce and completed the graduate certificate program in Financial Planning at DePaul.