

# Negotiating Through Long-Term Incentives: The RSU "Problem"



A number of years ago the US tax law changed and required companies to expense stock options granted to their executives. The consequence of this, in addition to stock prices which were becoming more unpredictable, was that companies moved away from stock options as a long-term incentive. Today, most of our major clients use Restricted Shares (RSUs) or a combination of RSUs, Performance Shares (PSUs) and cash.

From a company perspective, this has improved the retention of executives – the executives see real value in RSUs and

PSUs and so are not willing to leave unvested value “on the table” if they are recruited away. The company recruiting the talent is faced with a real financial problem – making up for unvested value – this value can be significant. For example, let’s say an executive with a base salary of \$300,000 normally is granted at 50 percent of their base salary in long-term incentives which vests at three years. The vesting period is such that at any one time, \$450,000 would be left behind if the executive departed the company.

Thus, the RSU “problem” has started to become a real issue in recruiting. Companies like the retention aspects that the RSUs provide, but don’t like the cost of making up for them when recruiting.

**Our advice to executives:**

The earnings you will receive from an accelerated career path should help offset some of the losses in money left behind, if the company recruiting does not fully make up for the loss.

**Our advice to companies:**

Have a philosophy behind the amount you are willing to make up. For example, some companies will only make the candidate whole on two year’s worth of unvested long-term. Others make-up fully the amount left behind, but use offsetting RSUs or a mix of cash and RSUs. We find that when a company is reasonable and has a rationale behind their make-up of LTI it is better accepted by the candidate.