MAKE THE MOST OF YOUR

MICROSOFT DEFERRED COMPENSATION

BENEFIT

2023

AVIER
WEALTH ADVISORS

AVIERADVISORS.COM

MAXIMIZE YOUR MICROSOFT DCP BENEFIT FROM THE START

The Microsoft Deferred Compensation Plan (DCP) is an exclusive benefit for employees who are Level 67 and higher.

Deferred Compensation is an opportunity to save and invest dollars on a pre-tax basis, similar to your 401(k).

DCP is a powerful benefit but very complex to manage. Our team works with many of your Microsoft colleagues to help them build a long-term plan that maximizes their Deferred Comp benefit alongside the many other employee benefits available.

In this overview we will cover the following:

- **WHEN CAN YOU ENROLL IN DCP?**
- **WHAT ARE THE KEY DIFFERENCES BETWEEN DCP AND YOUR 401(K)?**
- **HOW MUCH INCOME SHOULD YOU DEFER?**
- **CAN DCP HELP REDUCE YOUR TAX BILL?**
- **WILL YOU HAVE ENOUGH CASH FOR LIVING EXPENSES?**
- **WHAT INVESTMENT OPTIONS ARE AVAILABLE WITHIN DCP?**
- **HOW DO YOU SET YOUR DCP DISTRIBUTIONS?**

WHEN CAN YOU ENROLL IN DCP?

There are only two times a year to enroll in this benefit.

May 1 - 31

Elect to defer up to 100% of next September's bonus

November 1 - 30

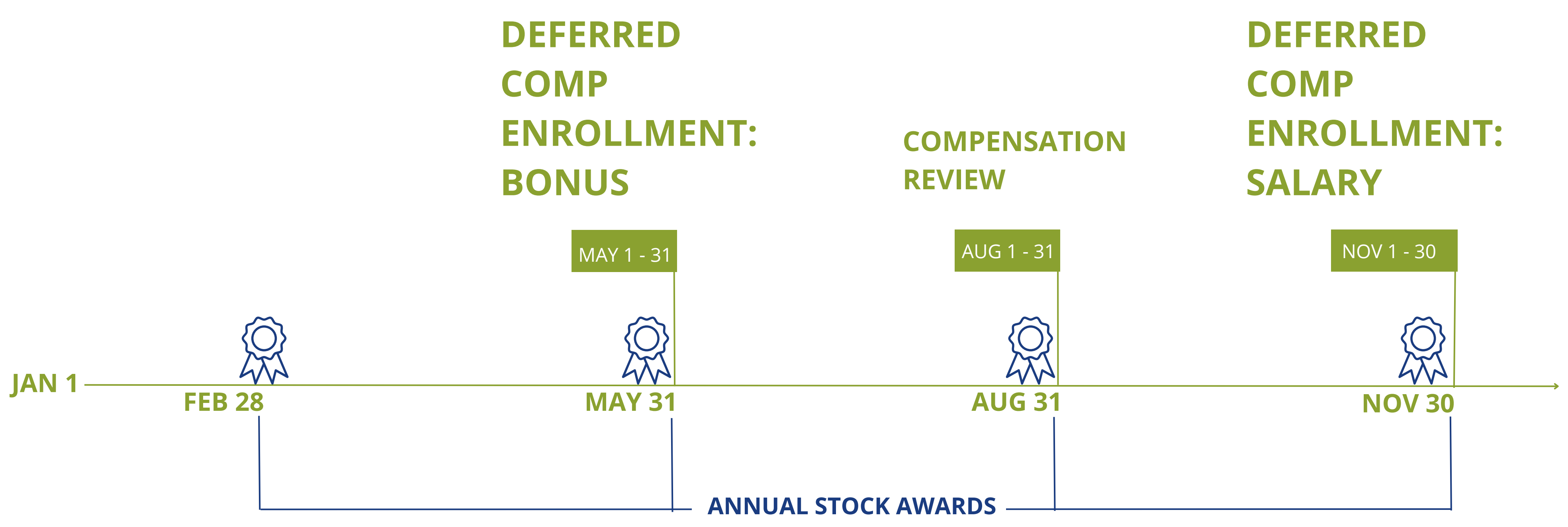
Elect to defer up to 75% of next year's salary

You'll want to pay careful attention to the deadlines to ensure you don't miss the enrollment window.

Bonus Deferrals
When you defer your bonus income, it will come from income earned during the annual bonus period, which is July 1st through June 30th of the following year. The deferred income from your annual bonus is credited to your account annually on September 15th.

Salary deferrals
Salary deferrals will start on January 1st and end on December 31st of the same calendar year.

Deferred Compensation Enrollment Timeline



WHAT ARE KEY DIFFERENCES BETWEEN DCP AND YOUR 401(K)?

Like your 401(k), the Microsoft DCP is a vehicle to help defer taxable income and reduce current tax liabilities.

The income you defer is invested over time and disbursed in retirement when you are in a lower tax bracket.

With that being said, there are some key differences you should be aware of:

ACTION	401(k)	DEFERRED COMP
DECISION TO CONTRIBUTE	Able to contribute any time.	There are only 2 enrollment periods a year, May and November.
CHANGE YOUR DECISION	Contribution changes can be made at any time.	Deferrals are irrevocable once the enrollment period ends.
CONSUMER PROTECTION	Money invested is governed by a federal law known as ERISA.	If Microsoft were to go bankrupt, the funds in your DCP are an unsecured liability of the company.
PAY OUT FUNDS	Able to receive funds at any time.	Must set DCP distributions at the time you make your election. Changes are restricted to 5-year re-deferral rule.
CONTRIBUTION LIMITS	In 2023 you can contribute: $22,500 if you are under 50 $30,000 if you are 50 or older.	Defer up to 75% of next year's salary. Defer up to 100% of next September's cash bonus.

HOW MUCH INCOME SHOULD YOU DEFER?

Once your tax-advantaged accounts are fully funded, the decision on how much to defer into DCP will be more clear.

You will want to make sure you are fully funding all of your other tax-advantaged accounts (401(k), HSA, Mega Backdoor Roth) before deferring any of your income with the Deferred Compensation Plan.

It is important to note that your 401(k) contribution percentage is based on the net salary/bonus you receive after the deferral is elected.

Since you can only contribute up to 65% of your compensation to the 401(k) plan, it is possible to defer too much into DCP to the extent you are not able to maximize the 401(k). You will want to make sure you are factoring this in when you make your DCP election.

CAN DCP HELP REDUCE YOUR TAX BILL?

Your compensation at Microsoft will come from your salary, cash bonuses, and stock awards.

You have no control over when your shares vest – and when that happens, taxes are due. This can mean a considerable increase to your annual tax bill.

You can control the percentage of salary and cash bonus that is taxed each year through DCP. It allows you to defer this compensation to a later date when your tax rate is lower.

To better illustrate the tax-reducing benefits of DCP, we will walk through an example. In this scenario, our example employee has the following income sources:

- Salary: $250,000
- Cash bonus: $112,500
- Vesting Microsoft stock: $400,000

If our example employee were to receive all this income in a single year, their marginal dollars will be taxed in the highest bracket. It could cause them to pay a projected tax bill of $200,000-$250,000. However, when our example employee decides to defer some of this compensation, they can lower their overall tax bill significantly.

Our example employee decides to max out their 401(k) for the year, contributing $22,500, lowering their tax bill by approximately $7,000 – this is just a mere dent in the overall tax bill. Our employee also decides to defer $150,000 between salary and cash bonus. This is where they realize the true benefit of DCP.

By deferring $150,000, our example employee reduced their yearly compensation dramatically and pays approximately $55,000 less in taxes per year.*

*This calculation is based on "married filing jointly" If you file your taxes as an individual, the amount would be more.

WILL YOU HAVE ENOUGH CASH FOR LIVING EXPENSES?

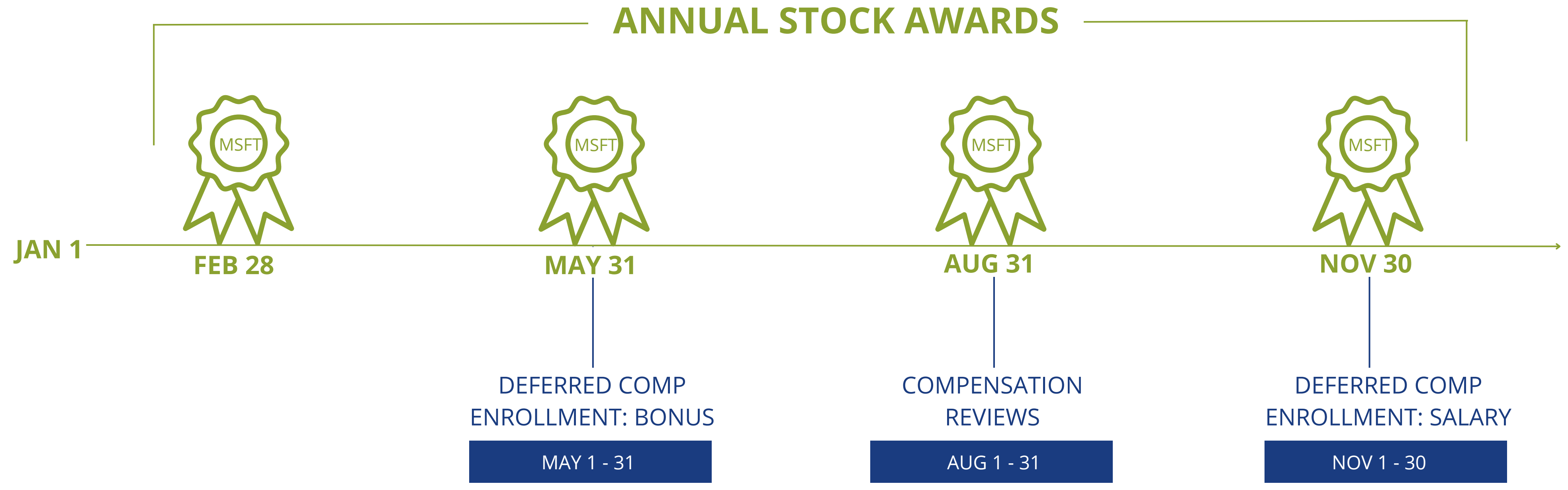
Restricted Stock Units (RSUs) vest multiple times per year and typically vary in amount each vest.

As your RSUs begin to vest, they are treated as income and are taxed, even if you don’t sell them when they vest.

We recommend you sell these shares as they vest and use the proceeds to help fund your cash-flow. There are a couple of reasons we encourage this strategy:

- You can use the proceeds to supplement your reduced income stream because of the income and cash bonuses you are deferring.
- Your deferrals can be invested in diversified investments, so rather than keeping your money tied up in Microsoft stock, you can reduce your concentration risk and diversify your portfolio exposure.

Vesting Timeline



WHAT INVESTMENT OPTIONS ARE AVAILABLE WITHIN DCP?

There are 24 different investment options with DCP; the options are very similar to what you have with your 401(k).

You will select your investment allocation at the time you make the deferral.

This will happen either in May when you decide how much of your bonus to defer or in November when you decided how much salary to defer. You can make changes to how your dollars are invested at any time.

You have some flexibility when deciding how to invest your dollars. You don't have to use the same investment allocation for every election. For example, if you have a deferral set to pay out 15 years from now and another to pay out in 2 years, you may want to consider allocating each deferral differently. This is not something we see happen a lot.

In our opinion the investment options within DCP are more robust than what you will find within your 401(k). The BrokerageLink option is not available within DCP.

*The dollars that you defer are not **actually** invested into the funds that you choose – Instead, Microsoft tracks the performance of your selected investment options and assumes the risk to pay out your contributions and the assumed earnings.*

HOW DO YOU SET YOUR DCP DISTRIBUTIONS?

Deferred Compensation is different than a 401(k) where you're able to withdraw money early (with penalty) or wait until retirement to withdraw funds until they are depleted.

DCP requires more advanced planning to ensure your money comes out on time, at the right time, and in amounts that make sense for you.

For each deferral (each year that you defer salary/bonus), you must decide when you want to start receiving your money and over what time frame. Typically, you choose either a lump sum or to receive it over a 3-15-year period.

As money is distributed, you are taxed, so it's important that you consider how much taxes you're willing to pay each year after your withdrawal begins.

For example, if you decide to defer a portion of your 2023 salary, you need to decide now what year you will start receiving those funds and for how long. You may be planning to retire at 65 - you can choose to receive the entirety of this year's deferred comp at that time. You may also choose to break that payment up over the course of a few years.

Let's say you're getting close to 65 and decide you want to keep working for a few more years. You can change your withdrawal date; however, the minimum time you must move the payout back is 5 years.

It is essential to plan ahead and to review your plan often. You want to ensure it's still working for you and aligned with your goals, as any re-deferral must occur more than 12 months prior to the payout.

Other important tax planning considerations for your DCP distributions include factoring in future sources of income such as Social Security and required minimum distributions (RMDs).

Depending upon your situation and tenure at Microsoft, you could be impacted by Microsoft's 55/15 rule during the first 4 years of your retirement.

This rule applies to employees who are 55 years old with 15 years of service at the company (or are age 65). When you meet these criteria, all stock grants more than one year old will continue to vest, even if you leave the company.

SHOULD YOU ENROLL IN THE MICROSOFT DEFERRED COMPENSATION PLAN?

As a Microsoft Level 67+ employee, you have access to a valuable benefit that can significantly reduce your tax bill - the Deferred Compensation Plan.

Managing DCP correctly can be overwhelming, and mistakes can be challenging to correct. Our team is here to help you navigate the complexities of DCP and ensure you're fully optimizing your Microsoft benefits.

MEET THE AUTHORS

Aaren Strand, CFP®
Lead Advisor | Director of Financial Planning

Aaren has over a decade of experience working with high net-worth families helping them align their financial and personal goals. She is able to explain and navigate complex financial situations in a way that helps families clearly see the path they are on and feel confident about their financial future. In her role as the Director of Financial Planning she combines her passion for serving families with her vision to develop a team focused on the principles of financial planning.

Nick Wright, CFA, CFP®
Lead Advisor | Partner

Nick has years of experience helping high net-worth technology employees leverage their complex compensation and benefit packages. He enjoys helping people build a long-term financial plan that is aligned with their goals. Nick has published several blogs and videos on how to utilize Microsoft benefits.

ABOUT AVIER WEALTH ADVISORS

Financial Advising Tailored for Your Career and Goals

Your financial success is a journey we take together. It is our mission to guide you through every step of the process while building a personalized plan, aligned with your goals. We are here to celebrate your successes and to help you navigate any challenges that may arise.

With our commitment to honest and transparent communication, you can trust that your interests always come first. As fee-only fiduciaries, we minimize conflicts of interest so that we can focus solely on what matters most to you.

AVIER

Interested in working with Avier?
Get in touch: info@avieradvisors.com

avieradvisors.com/microsoft

Subscribe to our channel

Let's connect.

Bellevue Office
10655 NE 4th Street, Suite 500
Bellevue, WA 98004
Phone: (425) 467-1011

Lake Oswego Office
5200 Meadows Road
Lake Oswego, OR 97035
Phone: (503) 726-0374