

MAXIMIZING YOUR MICROSOFT DEFERRED COMP

FOR LEVEL 67+
EMPLOYEES

**WE WILL START
SOON!**



MAXIMIZING YOUR MICROSOFT DEFERRED COMP

FOR LEVEL 67+
EMPLOYEES



TRIVIA TIME

Which version of Microsoft Windows was the first to introduce the Start button?

YEAR-END TAX PLANNING FOR MICROSOFT EMPLOYEES

SPEAKERS:



ISAAC PRESLEY, CFA®
CEO
PORTLAND, OR



KELSEY STORSVED
OPERATIONS MANAGER
RICHMOND, VA

WE WILL COVER

- Microsoft's DCP Program Specifics
- The Three Main Questions:
 - The Risk
 - The Tax Benefits
 - Making Your Elections

POLL TIME

Have you participated in the Deferred Compensation Plan before?

DCP OVERVIEW

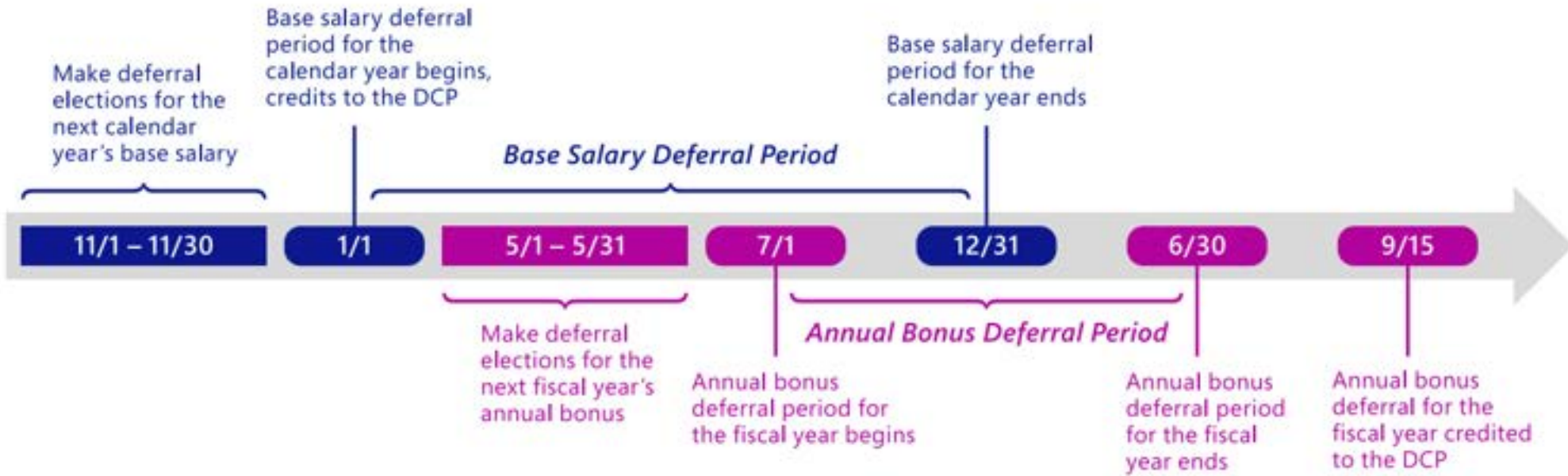
DEFERRED COMPENSATION OVERVIEW

- ✓ REDUCE TAXES TODAY
- ✓ TAX-DEFERRED GROWTH
- ✓ UNFUNDED LIABILITY

DCP

ENROLLMENT WINDOWS

Open enrollment:	Deferral elections:
May	Up to 100% of annual bonus earned for the following fiscal year
November	Up to 75% of base salary earned in the following calendar year



DCP DETAILS

EMPLOYEES LEVELS 67 OR HIGHER

Contributions	Salary	Annual Bonus	New Hire Deferrals
	1-75% of Base Pay	1-100% of Annual Bonus	Up to 90% (if made prior to hire date)
Distributions	While Employed ("In Service")	After Employment Ends	
	<ul style="list-style-type: none">✓ Paid in year selected✓ Must defer for 12 months	<ul style="list-style-type: none">✓ At termination per schedule	
	<ul style="list-style-type: none"><input type="checkbox"/> Lump Sum<input type="checkbox"/> 3 to 15-year annual installments	<ul style="list-style-type: none"><input type="checkbox"/> Lump Sum<input type="checkbox"/> 3 to 15-year annual installments	
Changes	Irrevocable Elections What you CAN'T Change	Partially Modifiable Elections What you MAY be able to change	Modifiable Elections What you CAN change
	<ul style="list-style-type: none">✓ How much you contribute✓ Type of pay deferred (salary or bonus)✓ Distribution election: Lump sum vs. installments✓ In-Service vs. Post-Employment distribution elections	<ul style="list-style-type: none">✓ Distribution timing: May re-defer if extending by five years and do 12 months prior to distribution start date	<ul style="list-style-type: none">✓ Investment allocation✓ Your Beneficiaries

QUESTION #1

HOW MUCH RISK?



COMPANY SPECIFIC RISK

Base Rates:

How likely is a publicly traded company to file for bankruptcy?

2%

Roughly 2% of public companies file bankruptcy each year.

Magnitude of Loss:

What happens in the event of a bankruptcy?

Some Examples:

CIT Group – November 2009 Chapter 11 bankruptcy. Executive benefits including deferred compensation plans survived intact.

Eastman Kodak – January 2012 Chapter 11 bankruptcy. Executive Deferred Compensation plan paid out only 4-5% of the balance (although executives were given shares in the newly issued stock). Those below the executive level were largely made whole along with other creditors.

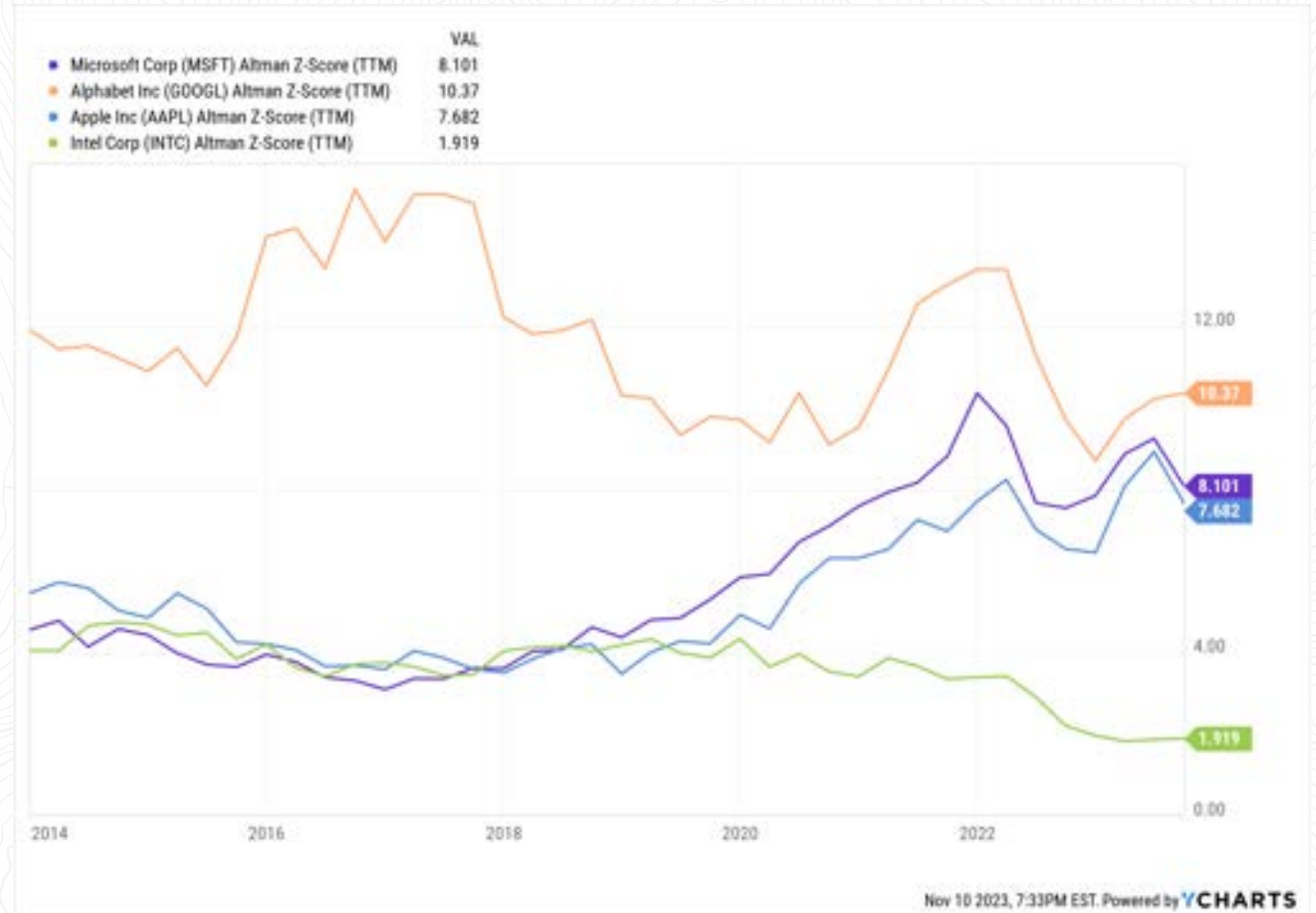
GM – June 2009 Chapter 11 bankruptcy. Participants received a two-third "haircut" of any benefits in excess of \$100,000 annual distributions.

Nortel Networks – June 2009 Chapter 7 bankruptcy. Participants recovered 97% of the funds in their deferred compensation accounts on the day of bankruptcy.

COMPANY SPECIFIC RISK

The higher the score, the better:

- ✓ The "Safe Zone" is a score of 3 or higher
- ✓ The "Grey Zone" is a score between 1.81 and 2.99
- ✓ The "Distress Zone" is a score of less than 1.81



PERSONAL RISK FACTORS

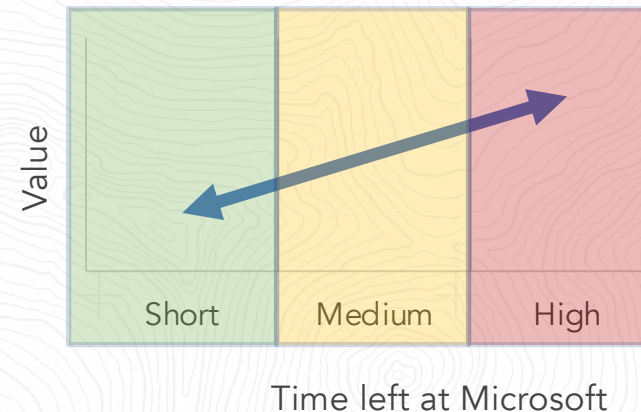
✓ TOTAL MICROSOFT EXPOSURE

□ DCP balance + Market Value of Microsoft Stock = \$ _____

✓ DCP AS % OF NET WORTH

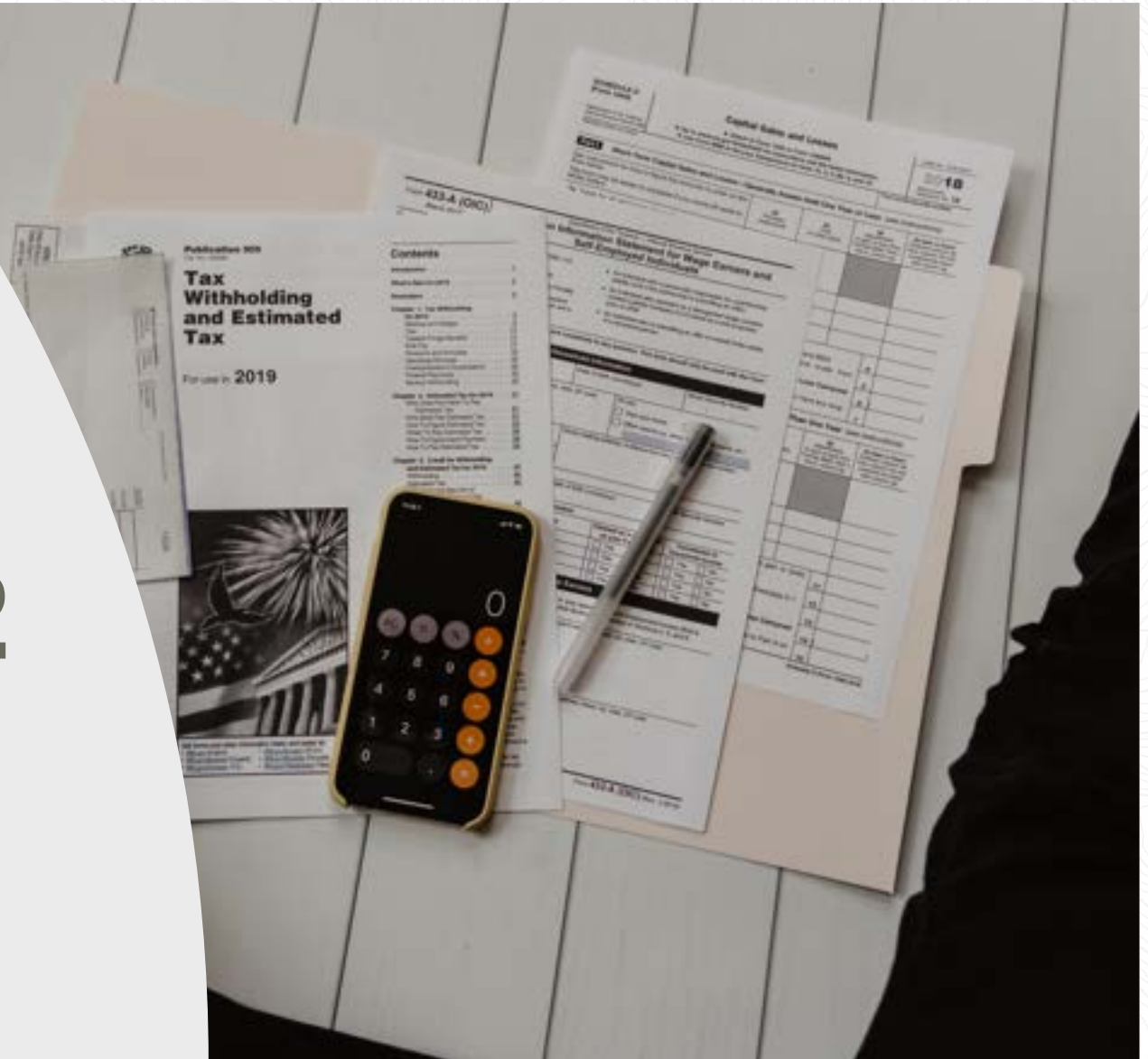
□ DCP balance / Total Net Worth = _____%

✓ DISTRIBUTION TIMELINE



QUESTION #2

WHAT ARE THE TAX BENEFITS?



POTENTIAL TAX BENEFITS

✓ TAX RATE BENEFITS

✓ TAX DEFERRAL BENEFITS

TAX IMPACT ANALYSIS

Inputs	
Years Deferred	15
Income Tax	32.00%
Pre-Tax Return*	7.54%
After-Tax Return**	5.97%
Income Tax Year 15	24.00%

	SCENARIO 1		SCENARIO 2		SCENARIO 3	
	Tax-Deferred	Taxable	Tax-Deferred	Taxable	Tax-Deferred	Taxable
Total Salary Deferral	\$12,500		\$20,000		\$35,000	
Income Tax Saved Year 1	\$4,000		\$6,400		\$11,200	
Net Investable Amount	\$12,500	\$8,500	\$20,000	\$13,600	\$35,000	\$23,800
Account Balance	\$37,193	\$20,284	\$59,509	\$32,455	\$104,140	\$56,796
Tax on liquidation (lump sum)	\$8,926	\$0	\$14,282	\$0	\$24,994	\$0
After-tax value	\$28,267	\$20,284	\$45,227	\$32,455	\$79,147	\$56,796
Total Benefit Post-Liquidation	\$7,982		\$12,772		\$22,350	
Total Benefit as % of amount deferred	63.9%		63.9%		63.9%	

* Pre-tax return using the Vanguard 2035 Target Date Retirement Fund (VTTHX) via Morningstar. 15 year period ending Sept. 30, 2021

** After-tax return using the Vanguard 2035 Target Date Retirement Fund (VTTHX) via Morningstar. 15 year period ending Sept. 30, 2021.



QUESTION #3

MAKING THE ELECTIONS



Photo via Mr Bimsky on Unsplash

HOW MUCH TO DEFER

✓ FULLY FUND 401(K), IRA, HSA

✓ THREE KEY QUESTIONS

1. How risky do you perceive Microsoft to be now and in another 10-15 years?
2. How much risk do you have individually tied to Microsoft?
3. How much can you afford to defer from a cash flow perspective?

PLANNING OPPORTUNITY:

Combine 2 & 3. Sell Microsoft stock to fund DCP contributions.

DCP DISTRIBUTION OPTIONS

Distributions

While Employed ("In Service")

- ✓ Paid in year selected
- ✓ Must defer for 12 months

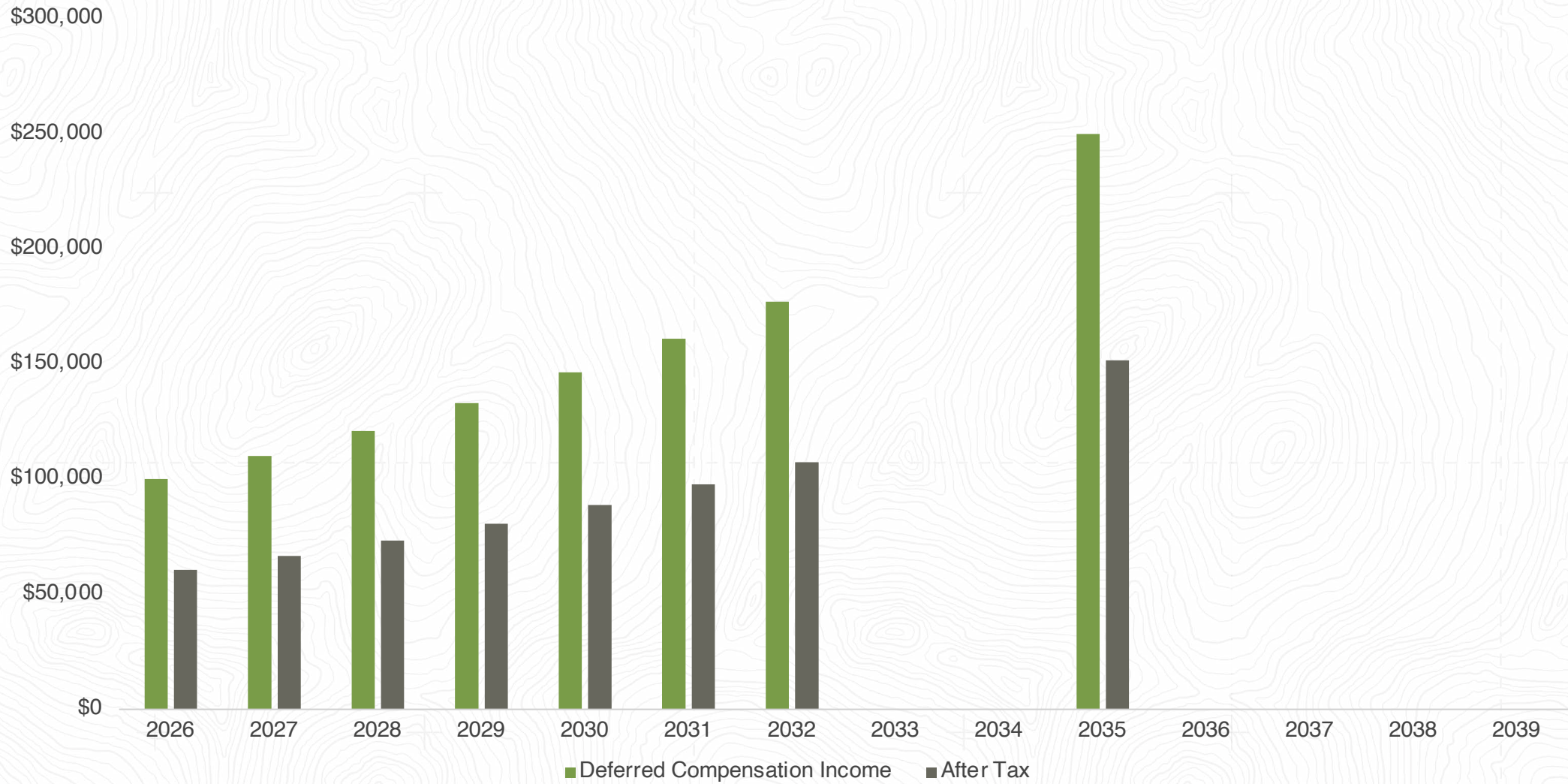
After Employment Ends

- ✓ At termination per schedule

- Lump Sum
- 3 to 15-year annual installments

- Lump Sum
- 3 to 15-year annual installments

DISTRIBUTION TIMELINE



POLL TIME

On a Scale of 1-5, how confident are you that you're maximizing the benefit of your DCP benefit?

CONCLUSION: MAKING YOUR DCP ELECTIONS

- ❑ **ASSESS YOUR RISK IN MICROSOFT**
- ❑ **CALCULATE POTENTIAL TAX SAVINGS**
- ❑ **DETERMINE HOW MUCH YOU CAN FUND & SOURCES OF FUNDING**
- ❑ **TYPICALLY, DEFER AS LONG AS POSSIBLE**

POLL TIME

Overall, how would you rate this webinar?

POLL TIME

Would you like to schedule a personal assessment?

QUESTIONS



THANK YOU



DISCLOSURES

This webinar is provided for educational and informational purposes only and is not to be considered personal investment, tax, or legal advice. Our financial planning process includes investment recommendations and provides tax guidance, but it is not meant to represent formal tax advice. Please consult with your tax, legal and financial advisors before engaging in any transactions.

Information obtained herein is from sources that are believed to be reliable. However, such information is subject to change and is not independently verified. Please check with your HR Generalist for the most up-to-date plan information.

Cordant, Inc. ("Cordant") is a registered investment advisor. Even though many of our clients are current and former Microsoft employees, we are not suggesting that Cordant is affiliated, associated, or endorsed by Microsoft.