

# UBS Participant Voice

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Employee attitudes and behavior about equity compensation

4Q 2013

# The UBS Equity Award Value Index™

Introducing a groundbreaking tool  
for measuring how participants perceive  
the value of their equity compensation

# Do employees value equity awards?

Each year companies grant more than \$110 billion in equity to certain employees for their equity compensation programs.\* However, employers typically wonder if their employees truly value these awards. We set out to discover how participants from a cross-section of companies, industries and service providers feel about equity compensation, and learned that certain variables drive their perceptions of value. These variables include the role the award plays in building wealth and the context in which participants put the awards in relation to their broader financial plan. The value participants derive from their equity compensation can now be measured by using the UBS Equity Award Value Index.<sup>TM</sup>

When it comes to perceiving value, participants' vesting experience certainly matters. There are three critical "tipping points" of experience:



**≥ 6 vestings:** The equity is viewed as a way to build wealth.



**3 – 5 vestings:** The equity is viewed as a paycheck supplement.



**< 3 vestings:** The equity is viewed as a lottery ticket.

Participant behavior, demographics and need for education and advice about their equity compensation vary significantly by the three levels of vesting experience as well.

*UBS Participant Voice is a semi-annual survey conducted among equity plan participants to generate insights employers can use to help participants maximize the value they receive from their equity compensation. For this inaugural edition, 579 plan participants completed the online survey, which included questions on perceptions, engagement and behaviors related to their equity compensation, as well as broader questions about their economic outlooks and financial concerns. The respondents represent a cross-section of companies, industries and service providers.*

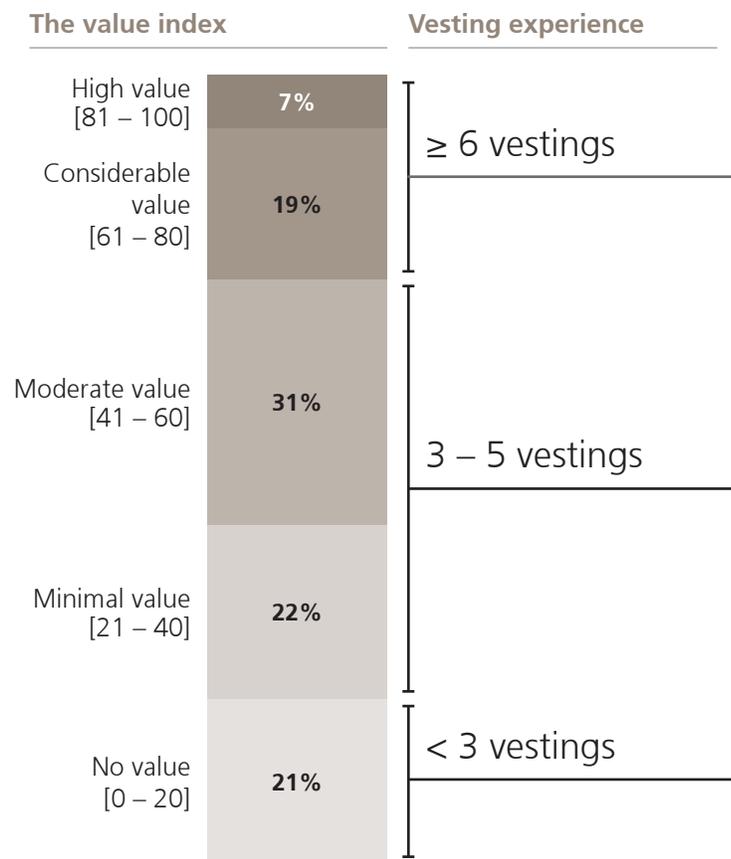
\* Equilar, Inc. Based on 2,885 companies in the Russell 3000 that have fiscal year-ends of July 31, 2012 or more recent, and valued the grant-date fair value of options, stock appreciation rights, restricted stock and stock unit awards granted by companies during the most recent fiscal year. All information was pulled from the 10-K and was calculated using company disclosed figures for grant-date fair value.

# The UBS Equity Award Value Index

The UBS Equity Award Value Index incorporates five critical variables to measure the value participants place on their equity awards on a scale of 0-100. These variables are:

1. Views of equity compensation: way to build wealth, paycheck supplement or lottery ticket
2. Importance in taking current job
3. Importance for staying at current job
4. Importance in accumulating wealth/savings
5. Incorporating equity compensation into long-term financial planning

While 26% see their awards as having high or considerable value, 21% derive no value from their awards.



Those equity plan participants who have experienced more vestings are more likely to score higher on the Value Index.

# Value Index variables

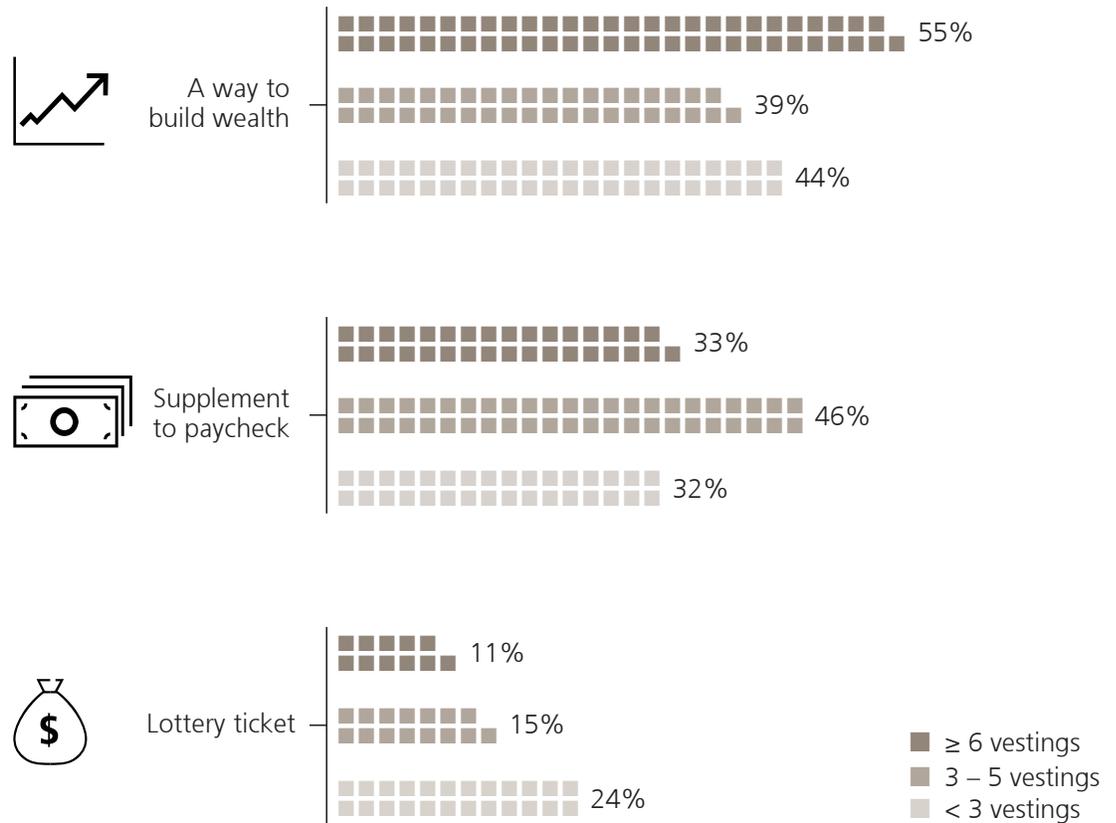
## 1

### View of equity compensation

When asked how they view their equity compensation, nearly half of participants (47%) see it as a way to build wealth. However, one out of five view their award as a “lottery ticket,” largely devoid of meaningful value. Vesting experience plays a significant role in the view of equity compensation: A majority of those who have experienced six or more vestings consider equity as a way to build wealth. Participants represent a cross-section of companies, industries and service providers.

#### Experience with equity compensation drives how participants view it

**Question:** “How do you view the stock compensation you receive from your company?”



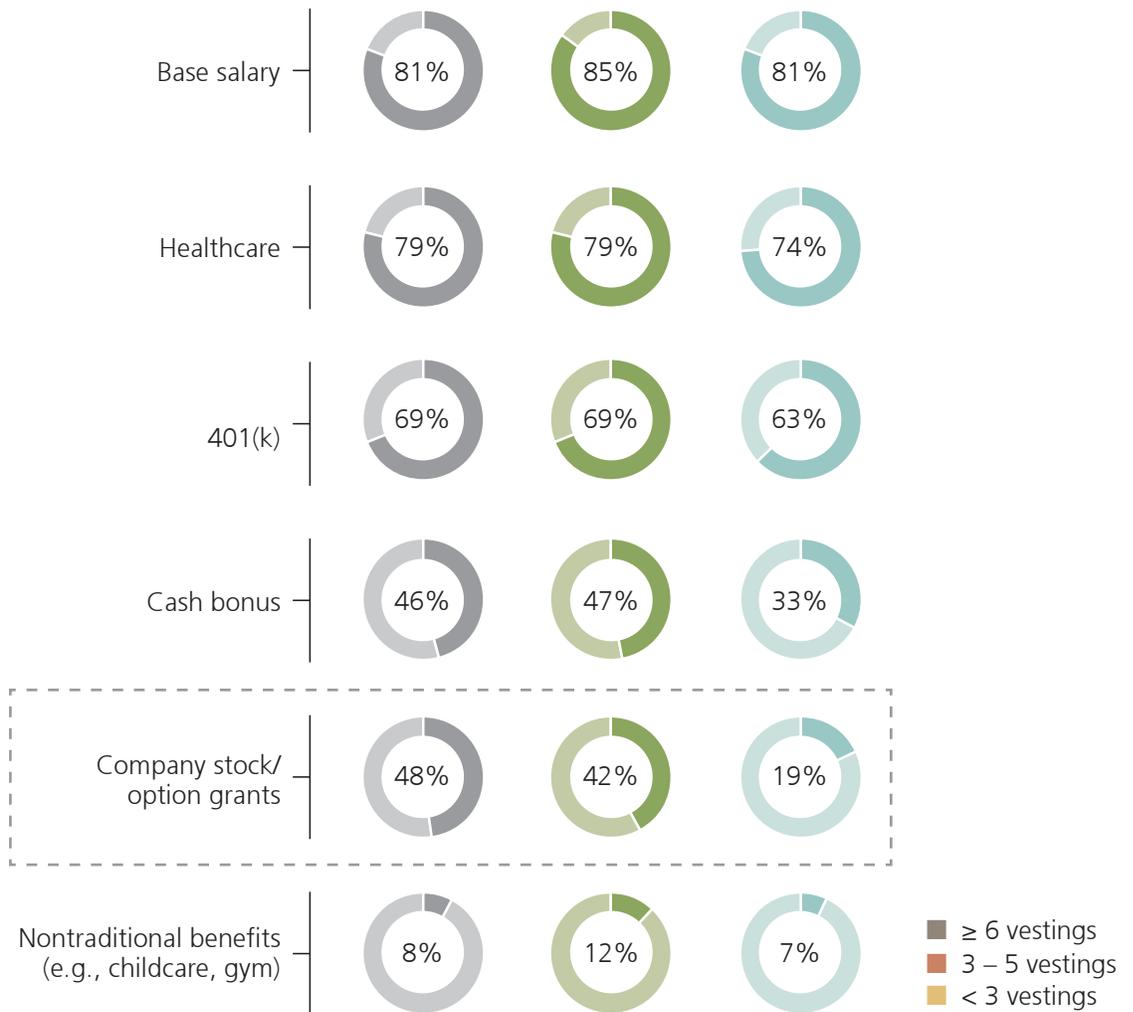
# 2

## Importance in taking a job

Employers often view equity awards as one important way to attract talent. However, it is important to note that employees need to have had vesting experiences in order to view equity as an important factor in taking a job. While equity awards do not come close to rivaling either base salary or healthcare benefits, those participants who have experienced six or more vestings view equity awards as being equally as attractive as a cash bonus.

### Experience with equity compensation drives how important a factor it is in taking a job

**Question:** "When you took your current job, how important of a factor was each of the following?" (Percentage shown: "extremely" or "very important")



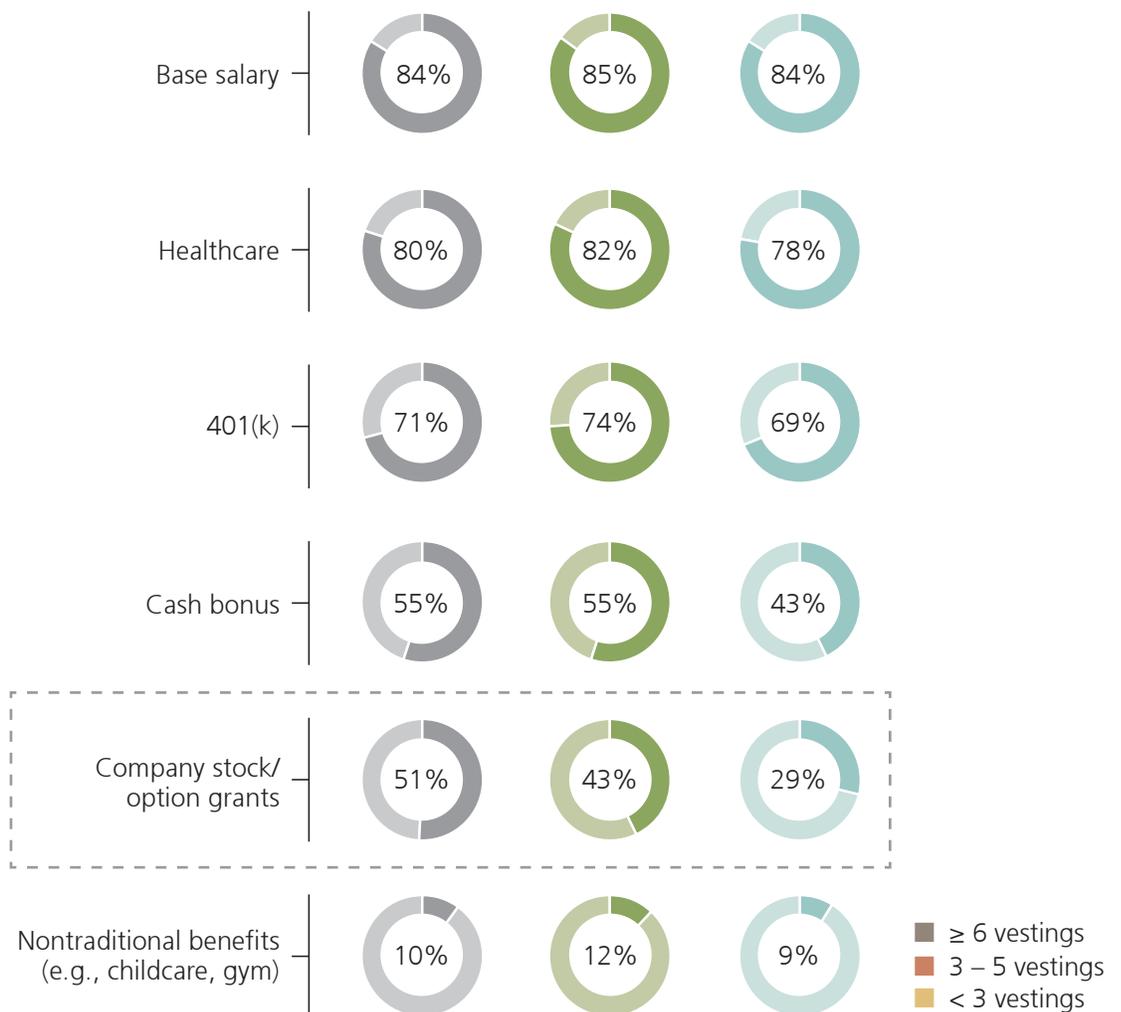
# 3

## Importance for staying in a job

Again, nothing rivals base salary or healthcare benefits as motivators for remaining in a job. Equity awards do not seem to be the “golden handcuffs” that keep employees tied to their employers, since even those with six or more vestings view the cash bonus as slightly more important than equity awards (55% vs. 51%). This may be due, in part, to prospective employers “buying out” unvested equity. We do expect healthcare benefits will remain a significant factor in retention, given an aging population and boomers’ desires to keep working during the “*Transition*” phase of retirement. Please refer to the 4Q 2013 issue of *UBS Investor Watch* ([ubs.com/us/en/wealth/misc/investor-watch.html](http://ubs.com/us/en/wealth/misc/investor-watch.html)) for more information about the three phases of retirement.

### Experience with equity compensation drives how important a factor it is in staying at a job

**Question:** “How important are these factors for staying at your job (even if you don’t like it)?”  
 (Percentage shown: “extremely” or “very important”)



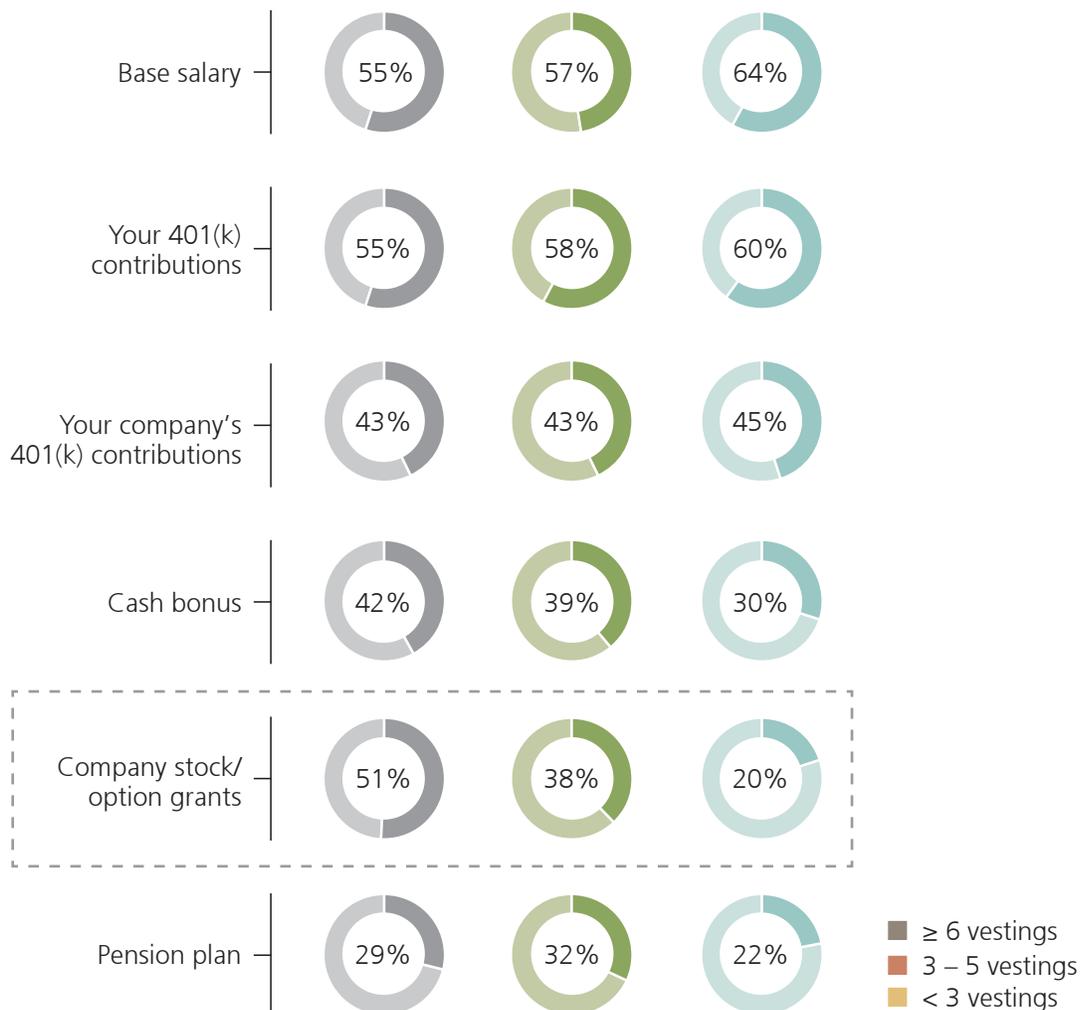
# 4

## Importance in accumulating wealth

When comparing equity compensation to other factors, including base salary and 401(k) contributions, equity compensation pales as a factor in the ability to accumulate savings and wealth for most equity plan participants. However, for those who have six or more vesting experiences, equity awards are seen as rivaling salary and 401(k) contributions as ways to accumulate wealth. This is likely due to more experienced participants receiving larger awards over time, as well as seeing the growth potential of their company stock.

### Experienced participants view equity grants as highly important for wealth accumulation

**Question:** "How big of a factor has each of the following been for your ability to accumulate savings/wealth over time?" (Percentage shown: "very important factor")



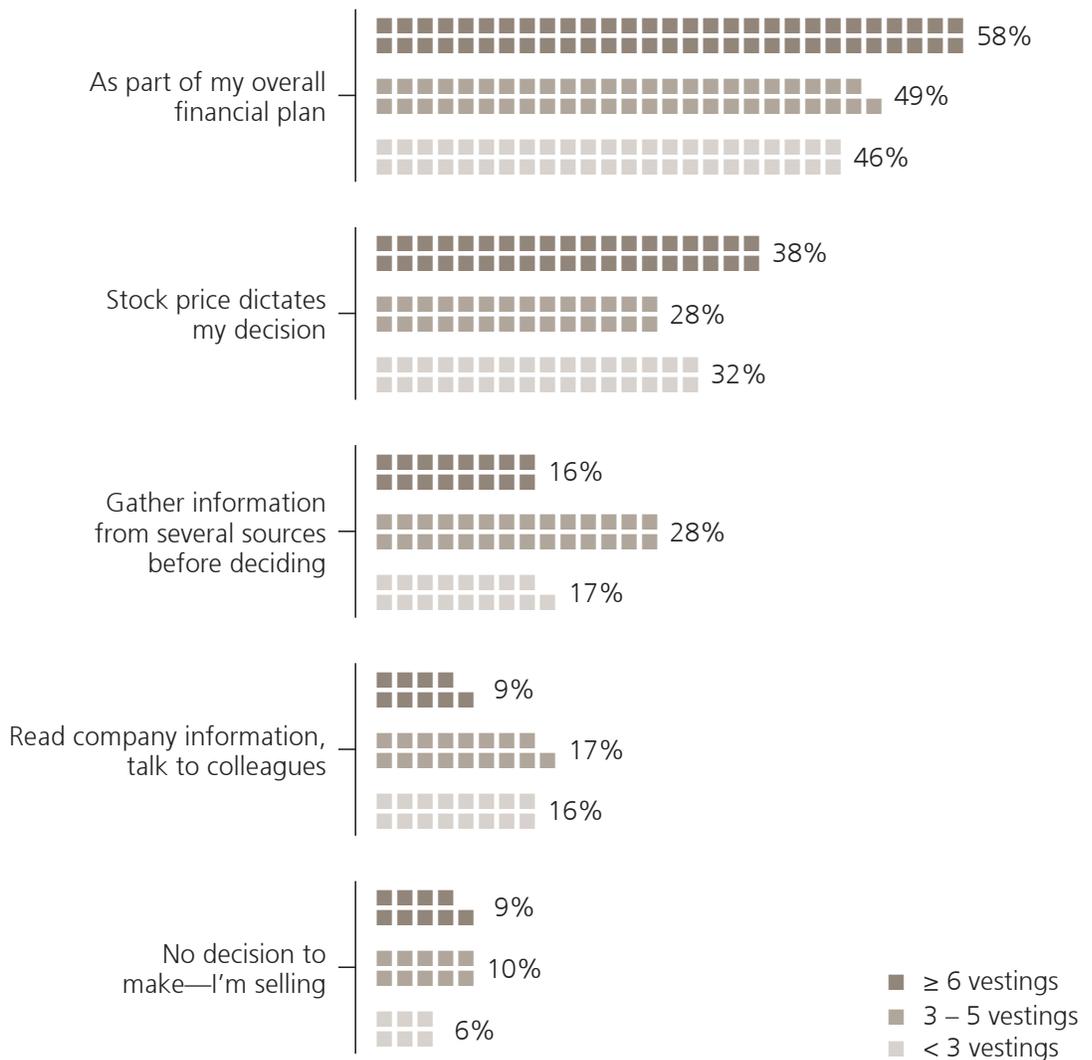
# 5

## Incorporating equity into long-term financial planning

When looking at how equity plan participants make decisions about their equity compensation, they are, first and foremost, putting their awards within the context of a long-term financial plan. This is true for all vesting experience levels. Stock price clearly matters, of course, but there does seem to be an understanding that equity awards need to be incorporated into a broader financial plan.

### Experienced participants more likely to make decisions regarding equity compensation within the context of a financial plan

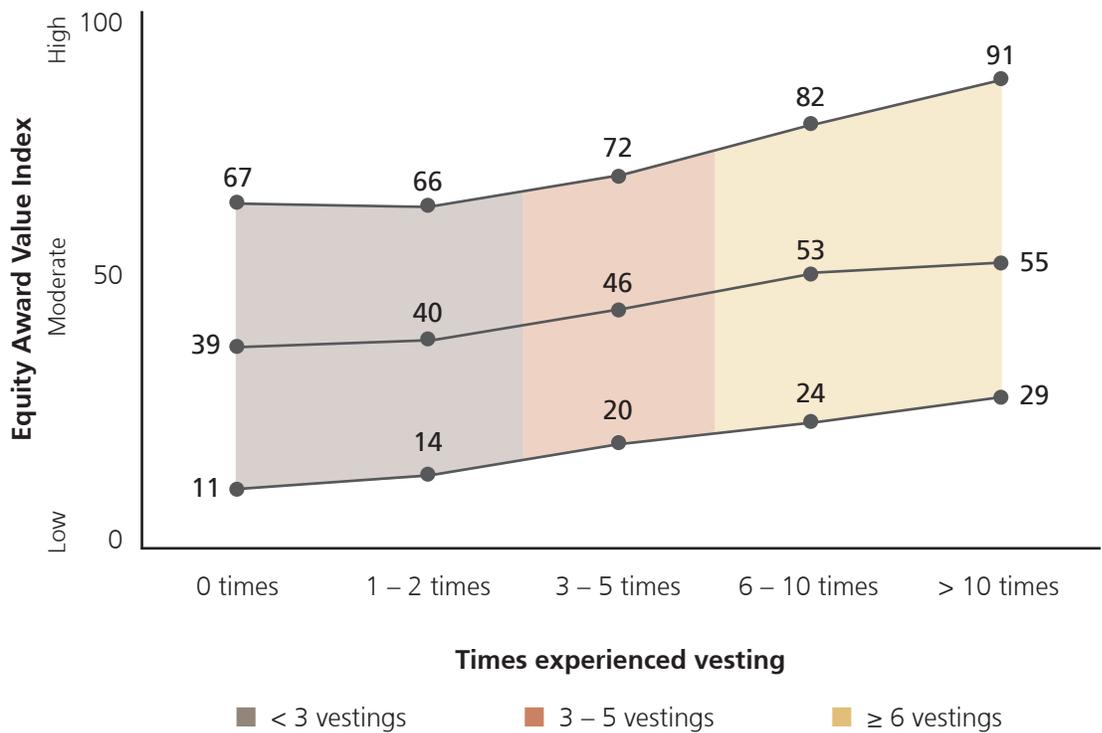
**Question:** “Which of the following best describes the manner in which you make decisions regarding your equity compensation?”



# The experience/value curve

As we've seen, vesting experience plays a significant role in the five variables that drive the perception of value. We can say with certainty that the more experience equity plan participants have with their awards, the more they value them. Plotting the Value Index score against vesting experience results in a noticeable curve, demonstrating that three to five vestings are pivotal, as a significant increase in perceived value occurs at this point.

## Equity Award Value Index score increases with participants' experience levels



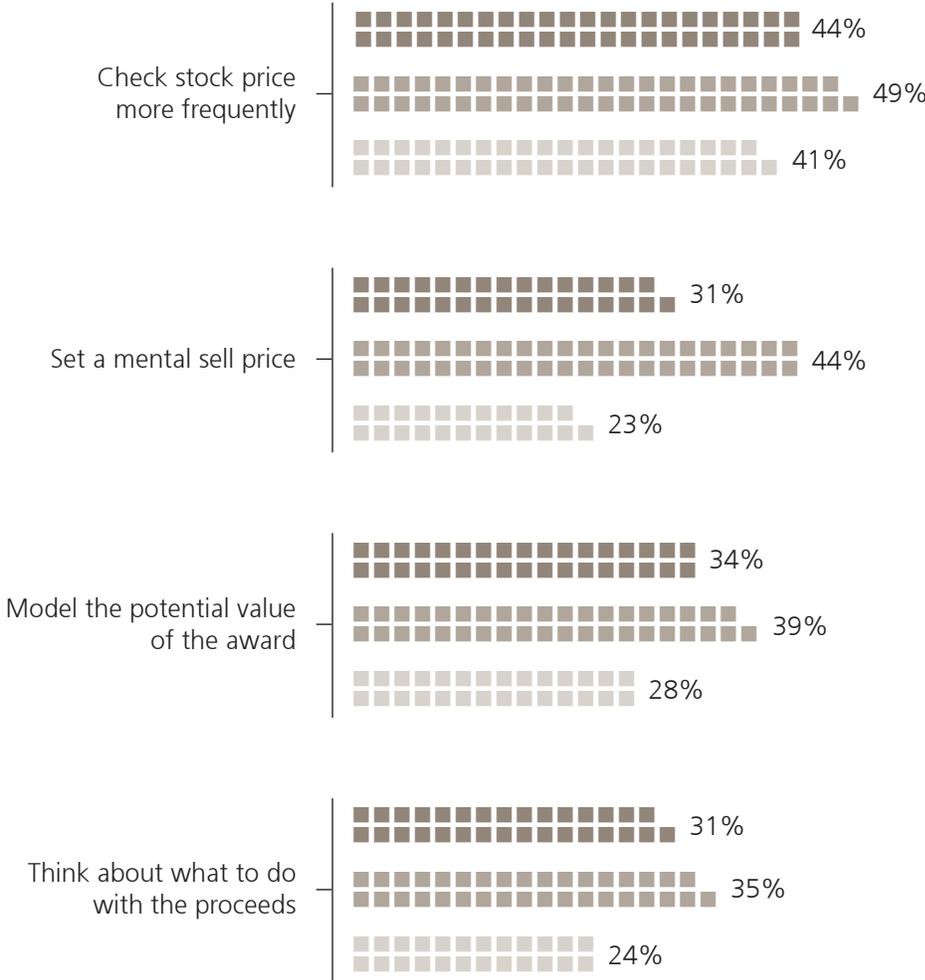
Among all participants, the average index score is 45, with two out of three participants scoring between 18 and 72. However, among participants with no vesting experiences, the average index score is only 39, with two out of three participants scoring between 11 and 67. Among participants with more than 10 vesting experiences, the average index score is 55, with two out of three participants scoring between 29 and 91. Value increases most significantly between three and six vestings.

# Experience drives engagement

Participants with three to five vesting experiences are the most engaged with their awards from the day they receive their grants up to one month prior to vesting. This group is frequently checking the stock price (49%) and planning for what to do on vesting day: setting a mental sell price (44%), modeling the potential value of the award (39%) and thinking about what to do with the proceeds (35%).

**Participants whose grants have vested 3 – 5 times are most likely to be engaged prior to vesting**

**Question:** “What do you do on the day you receive your stock grant? One month prior to vesting? Six months before vesting?” (Percentages shown represent having done at any of the three given time periods).



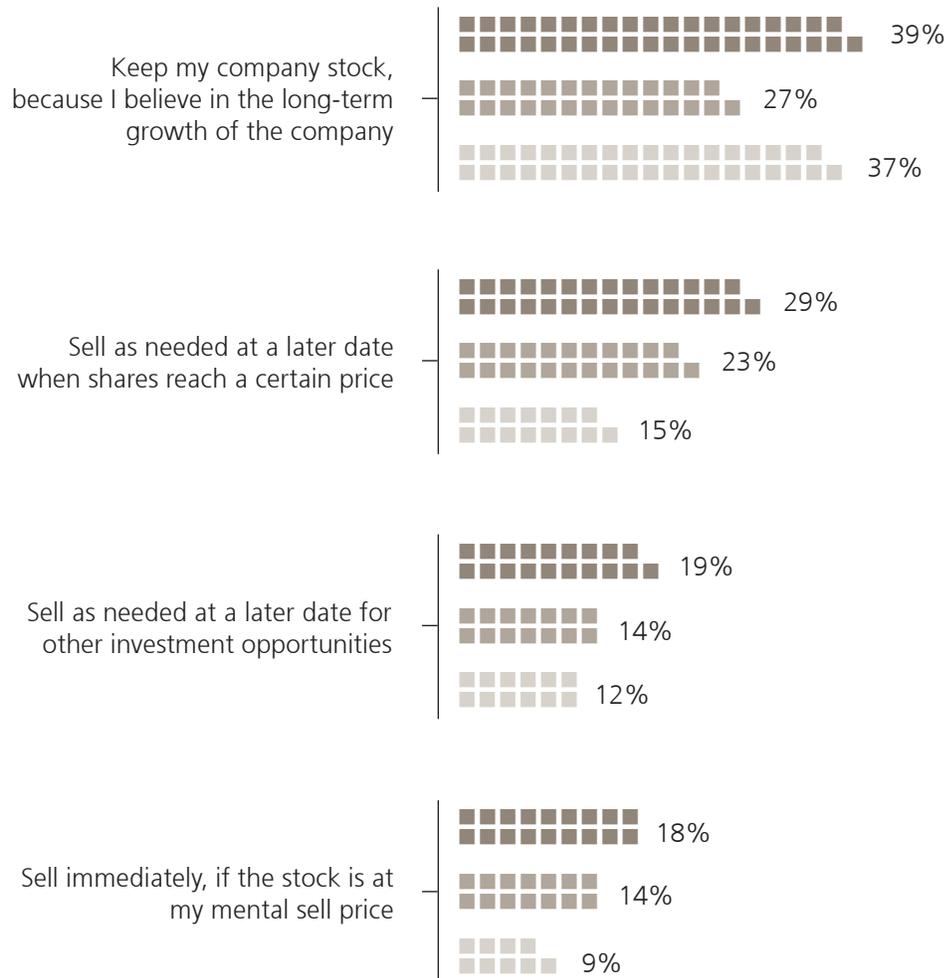


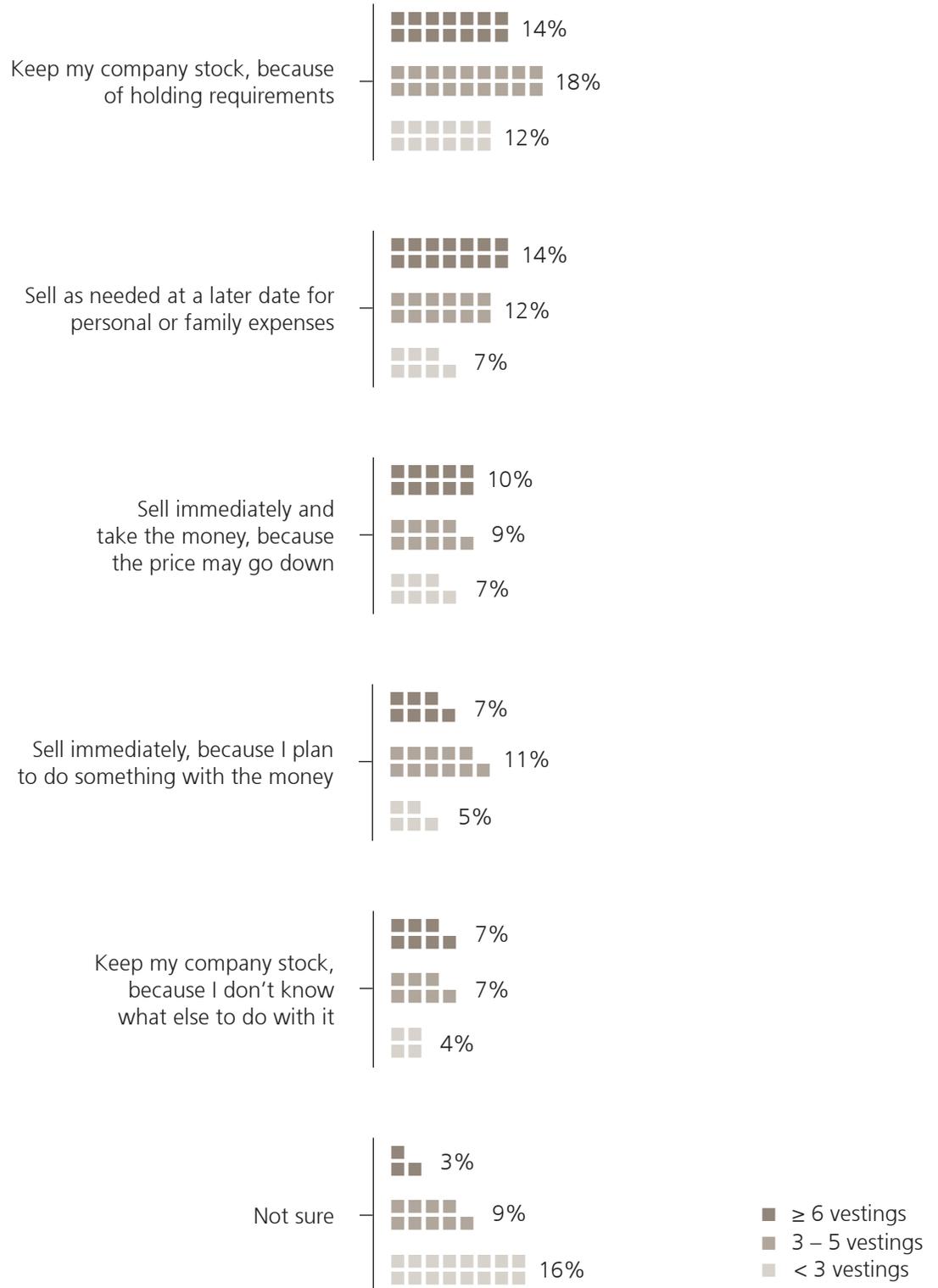
# Experience drives activity

Once shares have vested or options are “in the money,” all experience levels seem to have belief in the long-term growth potential of their company. However, those with six or more vesting experiences are more likely to take action when the stock is at their mental sell price. In addition, as a result of lack of experience, those participants with fewer than three vesting experiences are significantly more likely to be unsure of their plans post-vesting.

## Activity post-vesting is highest among participants who have experienced ≥ 6 times vesting

**Question:** “Have you had shares vest or options “in the money” within the past year? (Yes/No). [If Yes] What did you do? [If No] What do think you would do?” (Steps taken once grants have vested/options are “in the money”)





# A closer look at participant types

We have seen that the experience participants have with equity compensation has a significant impact on how engaged they are with awards and what they do with them. Here we explore the characteristics of the three participant types in more detail. These participants represent a cross-section of companies, industries and service providers.



## ≥ 6 vestings

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**Perceived value: Wealth building.** Participants with more vesting experience are also more confident in their decision-making about their equity compensation, as well as financial decisions overall. They feel optimistic about their financial situations and are highly prepared for retirement.



## 3 – 5 vestings

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**Perceived value: Paycheck supplement.** Participants who have experienced three to five vestings appear aware of the potential that their equity awards have, although they remain unsure how to maximize that potential. They are also keenly aware and concerned about the impact of market volatility on their equity compensation. As a result, these participants are seeking information from a wide variety of sources and are open to receiving guidance.



## < 3 vestings

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**Perceived value: Lottery ticket.** Taking into consideration multiple data points, a profile emerges for participants who have experienced fewer than three equity award vestings. Overall, they are less confident about equity compensation decisions, as well as broader financial decisions, which speaks to a need for basic education.



Attitude about financial situation



Level of financial knowledge



Interaction with financial advisor



Retirement preparedness



Financial concerns

Feel "excellent" or "very good" about their financial situations

High level of financial knowledge

Manage their finances on their own

Use advisor to validate decisions

Most prepared in terms of retirement planning

Have the most investable assets

Worry about missing out on market gains

Feel "very good" or "good" about their financial situations

Moderate level of financial knowledge

Receive advice from their advisors on company stock holdings

Use advisor to make decisions together

Somewhat prepared in terms of retirement planning

Worry about the economy and the markets affecting their compensation

Less optimistic about US economy short-term (6 mos.)

Feel "good" or "fair" about their financial situations

Lower level of financial knowledge

Follow advice from their advisors

Less confident about achieving financial goals

Focus on avoiding losses

Least prepared in terms of retirement planning

Have the fewest investable assets

Worry about being able to retire when they would like

Worry about long-term care

### **About UBS Workplace Wealth Solutions**

UBS Workplace Wealth Solutions collaborates with corporate clients to deliver customized solutions across a range of programs for the workplace, including financial wellness, retirement, equity plans and institutional consulting. We currently provide more than 10,000 employers and their 2 million employees in over 150 countries with access to financial knowledge, benefits programs that prepare them for retirement, and an integrated experience that combines the right mix of people and technology. We work side-by-side with our clients so that everyone feels rewarded at work and optimistic about realizing their long-term financial goals.

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