

UBS Participant Voice

Employee attitudes and behaviors toward equity plans

Issue 2

“Show me
the value”

Three steps to help employees
get the most from your equity plan.

Making equity a more important benefit for your employees

When companies provide equity awards, it obligates their employees to participate in the markets—whether they like it or not. But some companies may not realize that since the financial crisis, investors are significantly more skeptical of the markets. This ultimately affects how participants perceive the value of equity plans. The UBS Equity Award Value Index, launched in 2013, shows that only two out of five participants rate their awards as having considerable or high value.

So what can companies do to positively influence how participants value their equity? Participants from a wide variety of companies, countries and service providers tell us that there are three critical steps that companies can take.

Three key steps

1. **Drive a strong culture** that reinforces the company's growth potential
2. **Ensure your plan design is straightforward** for easy engagement
3. **Deliver education and personalized advice** that puts equity compensation in the context of a participant's overall financial picture

While these steps can help participants of all ages, they are **particularly important to employees approaching retirement**. This group instinctively knows that 401(k) savings and social security may not be enough to finance both lifestyle and potential healthcare expenses. Participants become significantly more engaged with their awards within three years of retirement, making this a critical juncture for employers. They can encourage participants to consider equity holdings, along with retirement savings and outside assets, when determining the right time to retire and how to manage finances in retirement.

UBS Participant Voice is an industry-wide online survey of 1,176 employee equity plan participants. *It is designed to generate insights employers can use to help participants maximize the value they receive from their equity. The respondents represent a cross section of companies, industries and service providers. Statistical data referenced is derived from the results of the 3Q 2014 survey.*

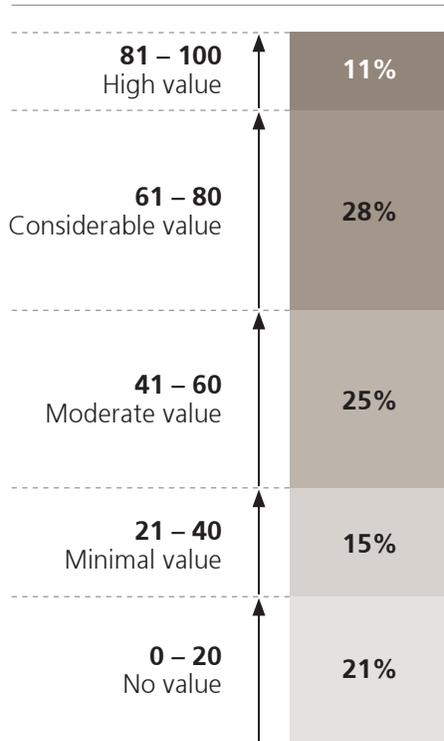
The UBS Equity Award Value Index

Each year companies grant more than \$110 billion in equity to certain employees, clearly a sizable expense.* However, employers typically wonder if their employees truly value these awards and take advantage of the opportunity to help build their long-term wealth through company equity plans. In our inaugural *UBS Participant Voice* (4Q 2013), we introduced the UBS Equity Award Value Index for measuring how participants perceive the value of their equity awards. Our research indicates that employers are right to have these concerns, as only two out of five employees place significant value on the equity awards they receive, leaving three out of five who do not.

Index score increases when companies take three key steps

The good news is that there are three important steps that companies can take to help their employees understand the value of their equity plans: 1) drive a strong culture, 2) ensure your plan design is straightforward for easy engagement, and 3) deliver education and personalized advice. When companies perform highly in these three areas, employees place considerable value on their equity awards. In contrast, when companies perform poorly in these three areas, employees place minimal value on the awards they receive.

The value index



Providing employees with a strong culture, straightforward plan design and effective education/advice increases the value they place on their equity awards, and results in higher Value Index scores.

The UBS Equity Award Value Index measures how participants perceive the value of their equity awards. The Index incorporates five critical variables and operates on a scale of 0 – 100. These variables are: 1) views of employee equity plans: ways to build wealth, paycheck supplement or lottery ticket; 2) importance in accepting current job; 3) importance for staying at current job; 4) importance in accumulating wealth/savings; and 5) integration of equity awards into long-term financial planning.

* 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.

These three steps can improve how employees feel about their equity awards

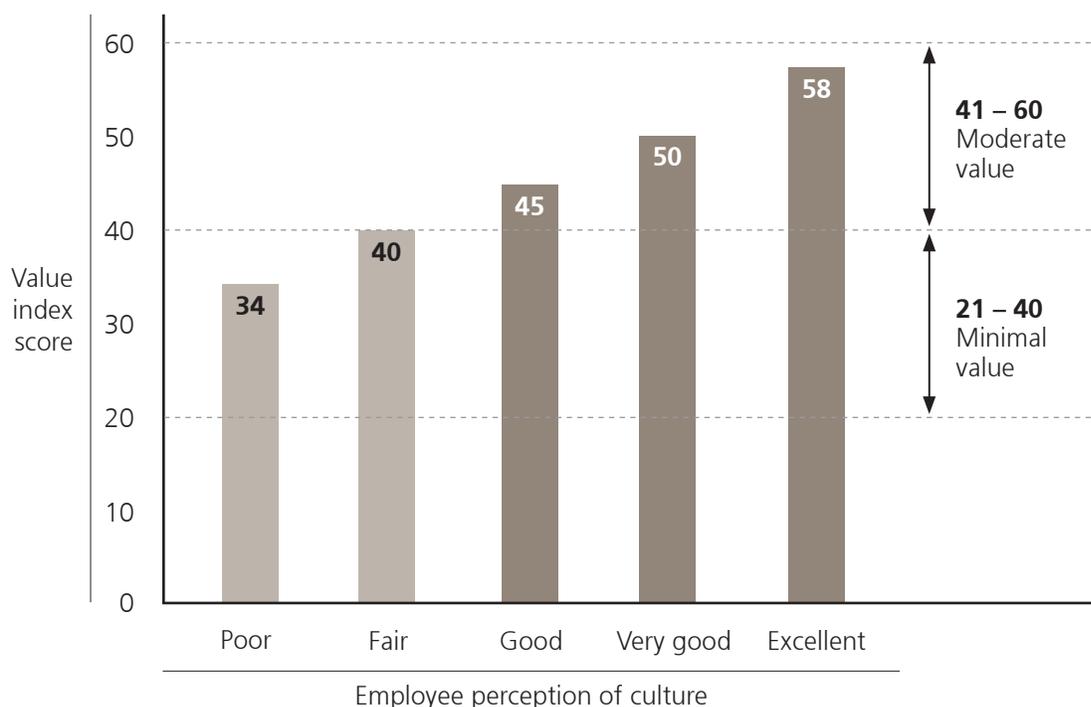
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Drive a strong culture

Creating a strong culture is one of the most effective ways of improving employee perceptions of equity awards. **Participants who believe their firm has a strong culture, place much more value on their equity awards**, compared to participants who do not rate their firm's culture highly. As culture rating improves, the Equity Award Value Index score increases from 34 to 58.

Culture drives equity award value perception

Question: "How would you rate the culture at the company you work for?"



About the charts

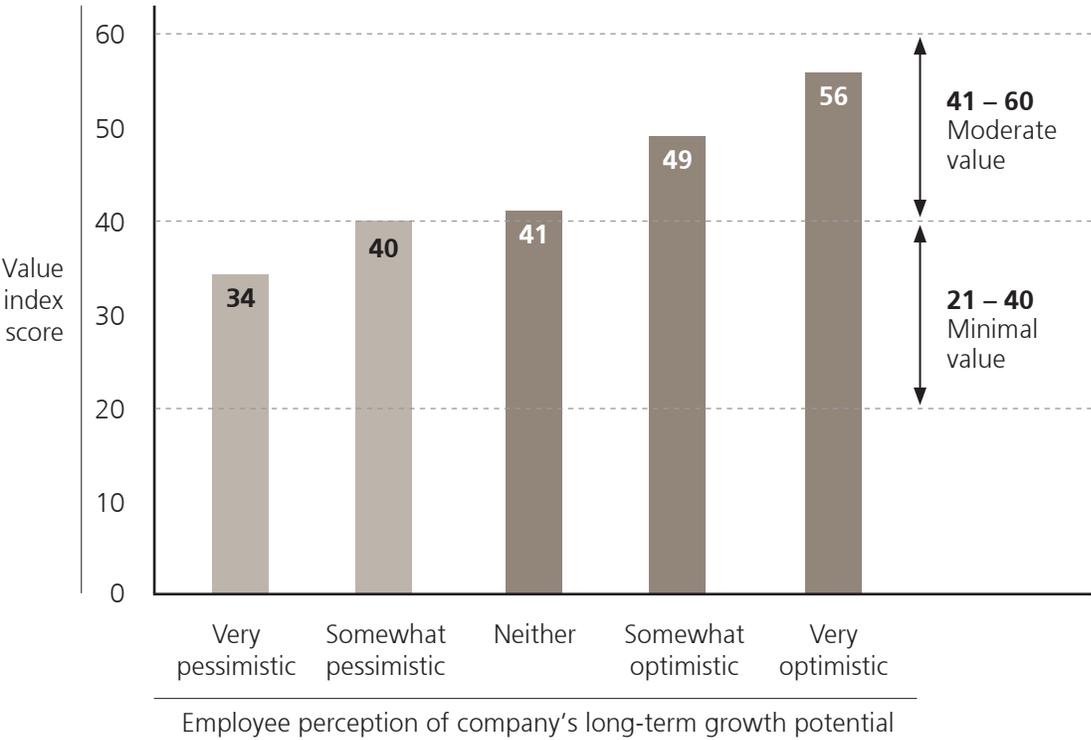
The charts in this report use Equity Award Value Index scores (1 – 100) to indicate the value that participants place on their equity awards. For example, if a chart shows a Value Index score of 34, it means that those participants place minimal value on their equity awards.

How does your industry and geographic region stack up? Turn to page 15 to find out.

Strong culture also correlates with optimism about a company’s future. Only 26% of participants who rate their culture as poor, view their company’s future optimistically. However, if the culture is considered excellent, 91% take an optimistic view of their company’s future. **Therefore, fostering a strong company culture significantly improves long-term belief in the company, and leads to greater perceived value of equity awards.** As optimism ratings improve, the Equity Award Value Index score increases from 34 to 56.

Optimism about a company’s future drives equity award value perception

Question: “How would you describe your perception of the long-term growth potential of the company you work for?”



Each company has its own unique culture, which can be actively evolved with a concerted, sustained effort. This usually involves influencing such company attributes as financial stability, strategic partnerships, learning practices, employee recognition, company performance and informal personal networks.

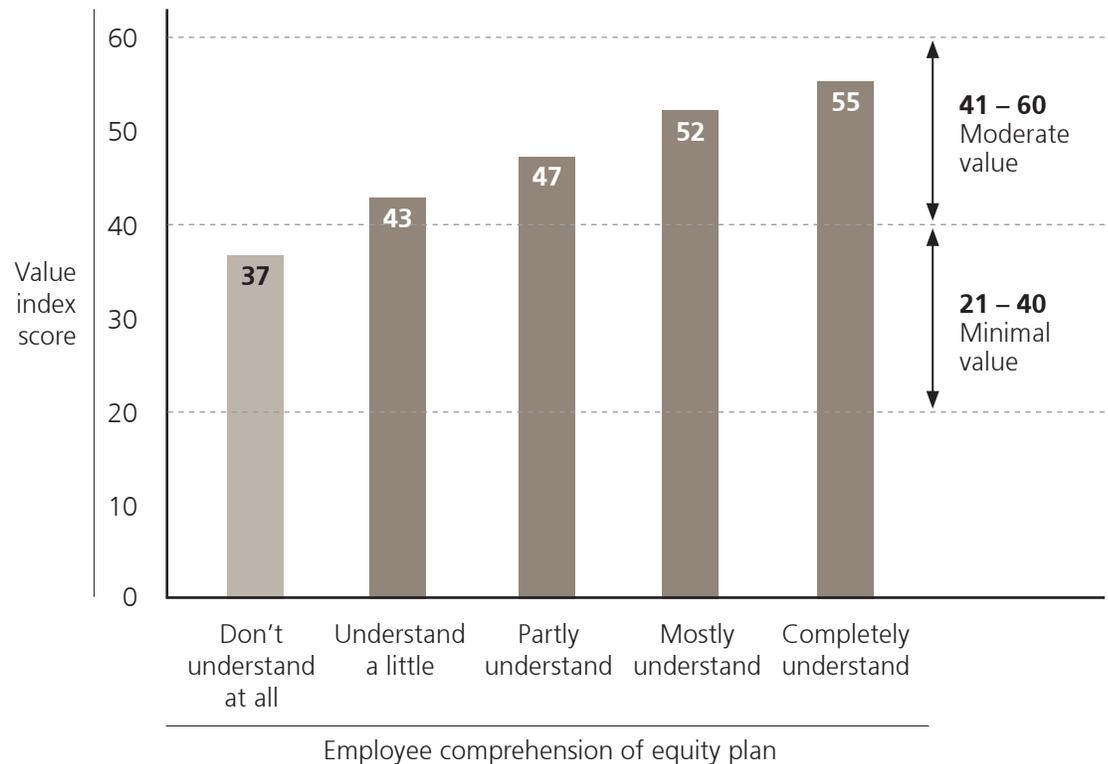
2

Ensure your plan is straightforward for easy engagement

Participants who have a clear understanding of how their equity plan works place much more value on their equity awards, and having a simple plan helps. As comprehension ratings improve, the Equity Award Value Index score increases from 37 to 55.

Plan comprehension improves value perception

Question: "How well do you feel you understand the details of the equity compensation you receive from your firm?"



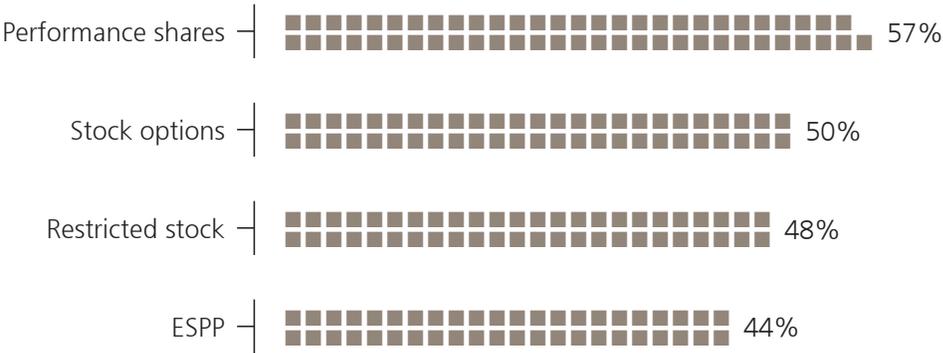
Having a simpler plan aids comprehension: Of those who don't consider their equity plan complex, 74% say they understand it, compared to 53% of those who consider the plan "somewhat" complex. Comprehension dips to only 46% among those who consider the plan "very" or "extremely" complex.

Companies should also keep in mind that plan complexity varies by plan type: Plans that are more complex require greater clarification for participants. Employee Stock Purchase Plans (ESPPs) are seen as least complex, while performance share plans are seen as most complex.

This is not very surprising since ESPPs are one of the oldest types of plans, and employees voluntarily participate, which may account for participants' perception that these plans are less complex. Performance share plans are the newest type of plans and have varying calculations and configurations, so participants tend to see these plans as more complex.

Level of complexity differs by plan type

Question: "How complex is the equity compensation plan(s) at your company?" (Percentages show those who answered at least "somewhat complex.")



In general, providing information about the plan helps with plan comprehension: Among those who recall receiving information, 64% understand the plan, compared to only 35% among those who do not recall receiving information.

As existing plans evolve or new plans are introduced, it is important that companies invest the time in a clear communication strategy to ensure participants understand the changes or the new plan. This will help to minimize any confusion and increase the value for participants.

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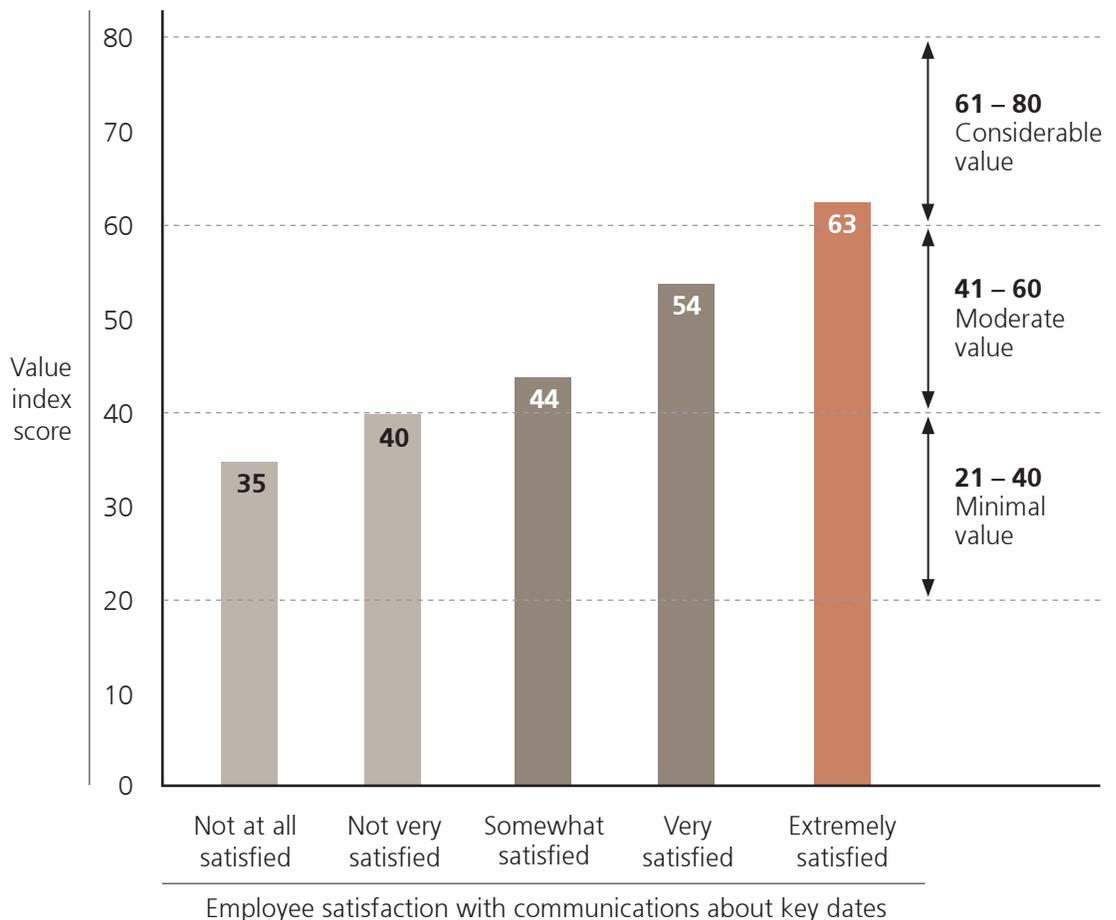
Deliver education and personalized advice

Education and personalized advice have a strong impact on how much participants value their equity awards, particularly when placed in the context of a participant's overall financial picture. When companies provide education, it improves value perceptions, and the Value Index score increases from 46 to 54. When the company provides access to personalized advice, there is an even greater lift—the Value Index score increases from 45 to 58. With no education or personalized advice, the Value Index score is only 39 on average. The benefits to participants are similar whether resources are provided by the employer or the plan provider.

Communications about key plan dates (e.g., shares vesting, open windows for transactions, etc.) are particularly important factors for driving equity award value perceptions. As satisfaction ratings improve, the Equity Award Value Index score increases from 35 to 63.

Communication about key dates drives equity award value perception

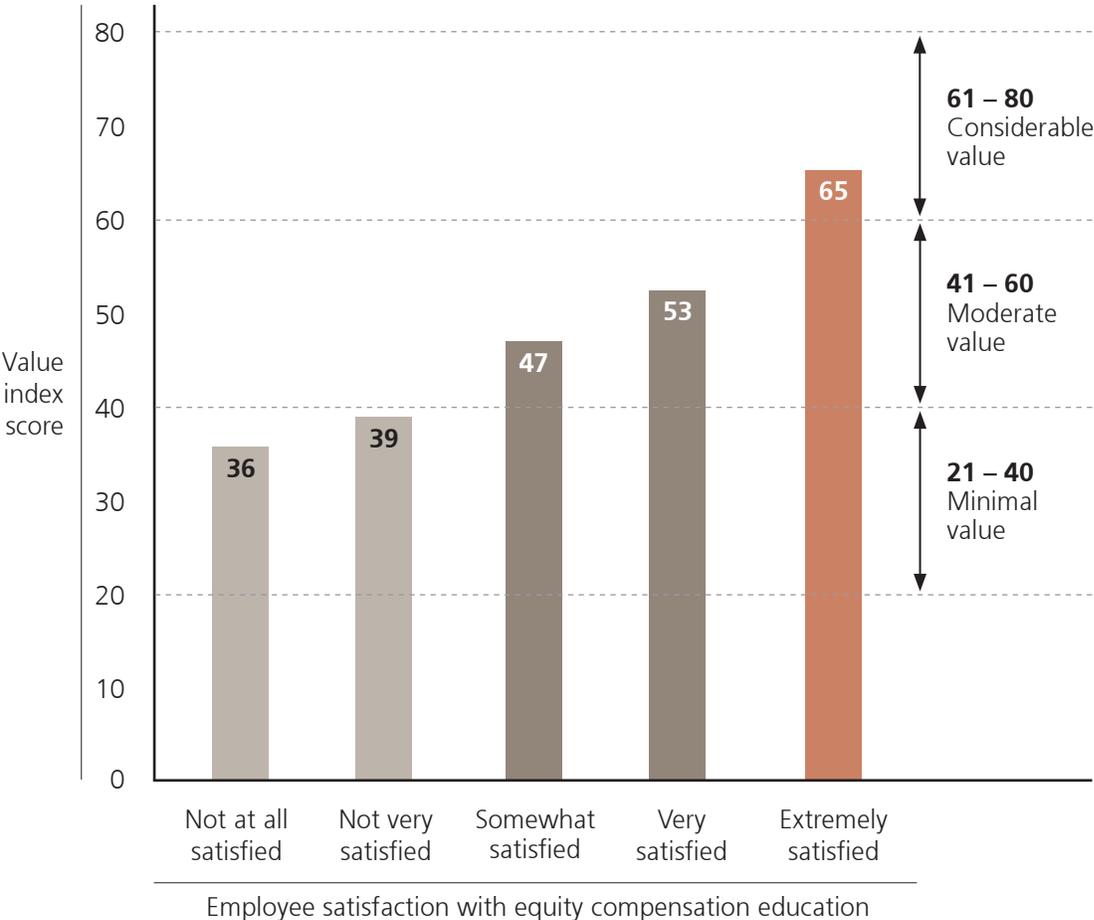
Question: "How satisfied are you with communications from the firm about key dates (e.g., shares vesting, open windows for transactions, etc.)?"



Beyond simply being provided with educational resources, **participants' satisfaction with the education also has a major impact on how much they value their awards.** Participants are more satisfied with education that covers topics such as tax considerations for equity awards, and the implications of holding concentrated stock positions. As satisfaction with education improves, the Equity Award Value Index increases from 36 to 65.

Education about equity compensation drives equity award value perception

Question: "How satisfied are you with education provided about equity compensation from the firm?"



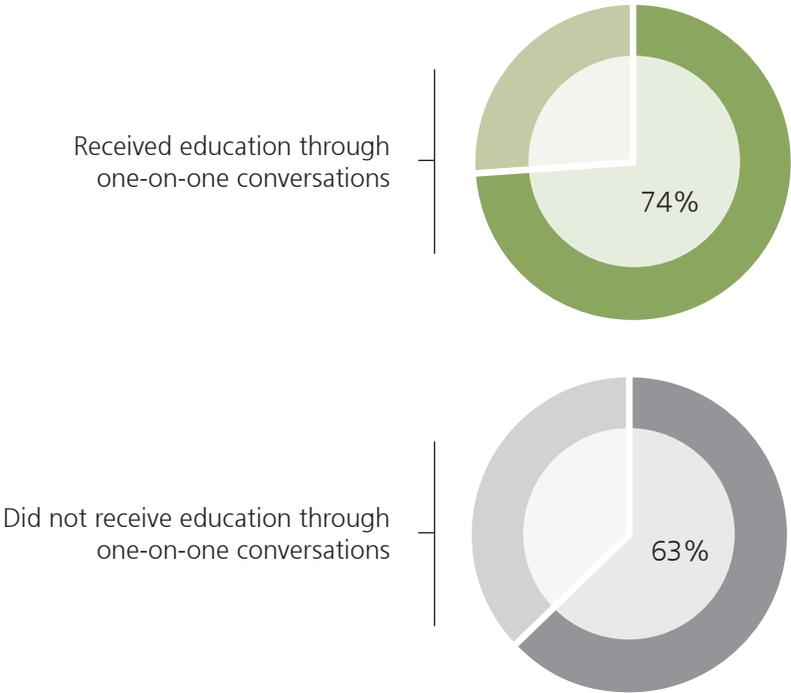
For global participants,* regionally tailored communications also improve plan comprehension and value perception. 68% of global participants who think the communications are tailored to them as non-US employees, understand the plan well, compared to only 46% of those who do not feel communications are tailored for them. Global participants who receive tailored communications also tend to value their equity comp more (51 vs. 45 on the Index).

* Global participants include only employees who work for US-based companies.

Assessing each method, education through one-on-one conversations is the highest driver of satisfaction with education. Education through group meetings and online forums currently leads to less satisfaction. However, this may stem from the presentation of the materials (sometimes too generic) rather than an indication that these methods cannot be used effectively.

Participants who receive education through one-on-one channels are most satisfied

Question: *“How satisfied are you with education provided about equity compensation by your company?” (Percentages show those who responded “extremely” or “very” satisfied.)*



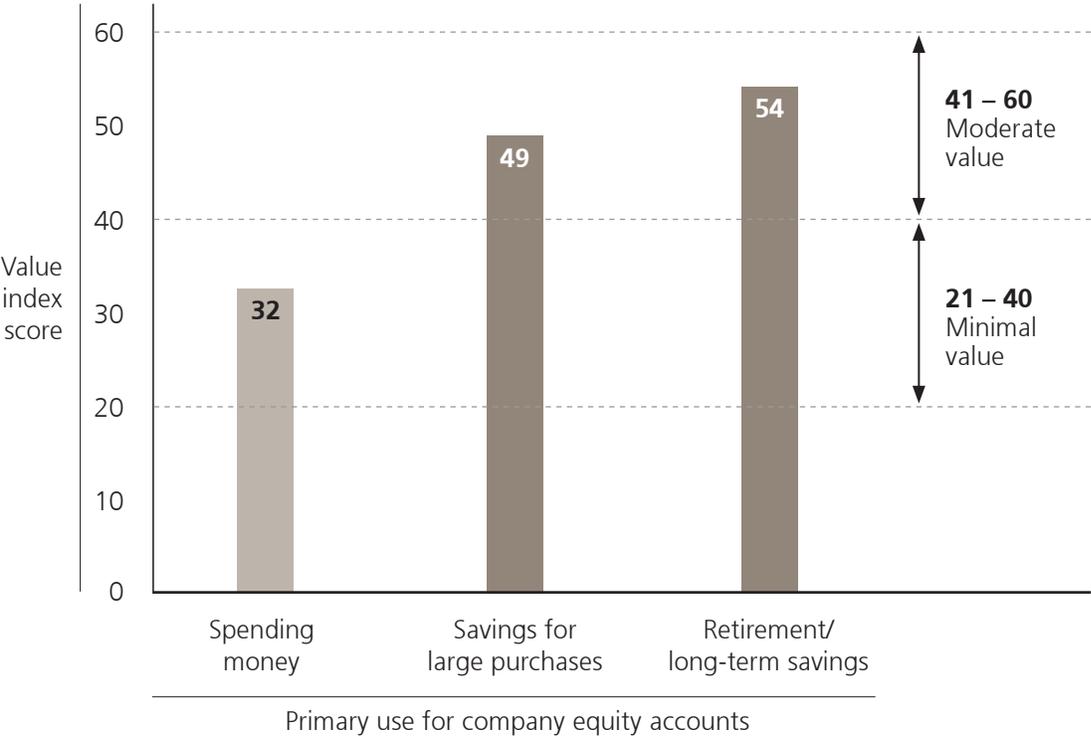
Providing participants with information on how the equity plan works is not enough on its own. That is because, for participants, equity awards are a form of participating in the markets, so participants may also need education and advice on managing their equity awards along with their other investments.

When participants view equity as part of a long-term plan and make decisions about equity based on that plan, they perceive more value in their awards. Thus, communication and education should contextualize equity awards within the overall long-term financial picture. Participants who make decisions about vested equity holdings based on their long-term plans, value their awards more than those who take a short-term view and make decisions based on the current stock price.

Part of taking a long-term view with equity awards is planning to use it for savings rather than spending it. Not surprisingly, participants who view their equity as long-term savings value it more than those who view it as a source of income for large purchases, and much more than those who view it as spending money.

Viewing equity as part of a long-term plan improves value perception

Question: "What do you primarily use your company equity accounts for?"



Investor sentiment has changed

In order to contextualize equity awards in a participant’s overall financial life, it is important to understand investor sentiment. Since the financial crisis, perceptions of long-term investing have fundamentally changed. The majority of participants are more skeptical about financial markets and long-term investing, and have become more involved with managing their investments.

Post-crisis investors are more skeptical and involved

Question: “How have the following changed compared to before the financial crisis:
– Your overall view on financial markets and long-term investing?
– Your involvement in managing your investments?”



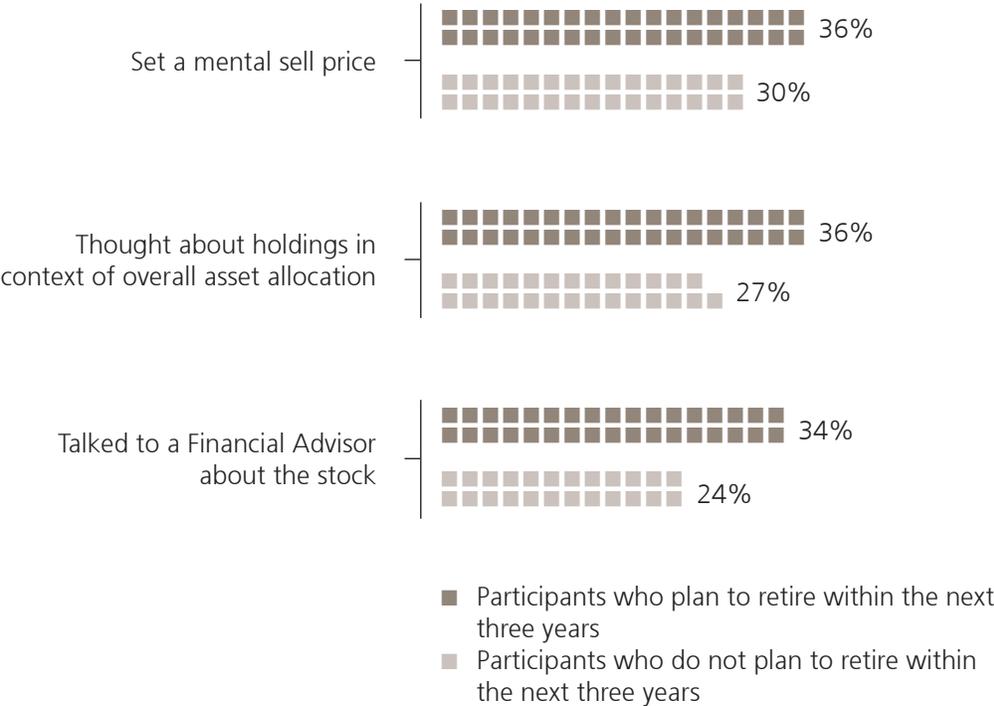
The timeframe for long-term investing has become shorter. Prior to the crisis, 44% of participants considered the timeframe for a long-term investment to be 10 years or more. Now only 30% of participants consider the timeframe for a long-term investment to be greater than 10 years. For long-term investments in general, 30% of participants pick an investment and stick with it; down from 45% before the financial crisis.

Retirement as a critical juncture

As participants approach retirement they become more engaged, seeing their equity as an important component of their future retirement security. 33% of those nearing retirement say they've become more engaged with their company stock, while 10% say they've become less engaged.

Participants close to retirement become more engaged with their equity awards

Question: "Please think about the most recent time you had company stock holdings that vested or you had stock options that were 'in the money.' Which of the following did you do?"



Among participants nearing retirement, those who expect to use equity awards for "must haves" in retirement value their equity awards much more than participants who expect to use it for "want to haves" (66 vs. 47).

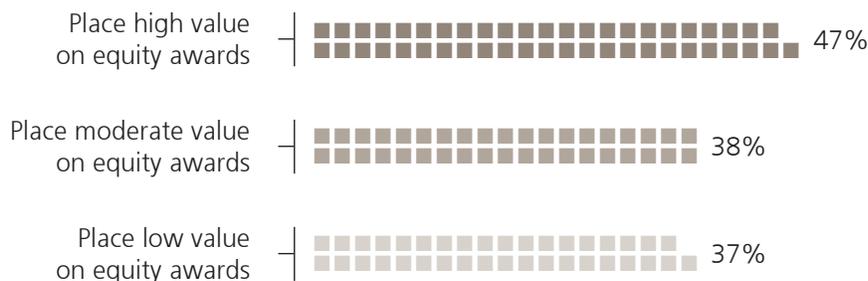
It is critical that participants understand the impact that retiring has on their equity awards. At retirement, equity awards can oftentimes be accelerated or forfeited. Therefore, it is critical to reach participants about the best ways to manage their equity before they make the decision to retire.

Impact of value perception on financial confidence

While companies obviously benefit when their employees value the equity they receive—it helps attract and retain talent—equity also benefits the participants themselves. Participants who place a high value on their equity awards feel better about their overall financial situations and more confident about achieving their goals. This makes sense, because these participants are thinking about and using their awards directly toward their long-term goals. This pattern holds across wealth levels.

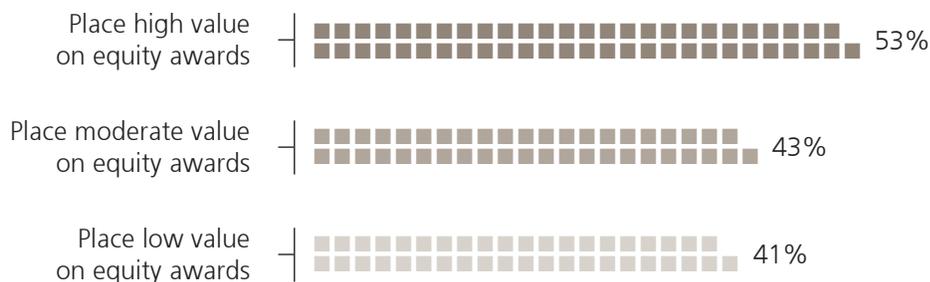
Participants who place a high value on their equity awards feel better about their overall financial situation

Question: “How do you feel about your overall financial situation today?” (Percentages show those who answered “excellent” or “very good.”)



Participants who value their equity awards highly feel more confident about achieving financial objectives

Question: “How confident are you today that you will be able to achieve your financial objectives for the future?” (Percentages show those who answered “highly confident.”)



Equity award value perception across industries and geographic regions

Participants from different industries tend to place a different value on their equity awards. For example, technology sector participants have the lowest Equity Award Value Index score at 44. While technology sector participants feel optimistic about the long-term potential of their industry, they are less certain about their own company's long-term prospects, perhaps due to the rapidly changing nature of the technology sector. Additionally, tech employees tend to switch companies more often, undermining a long-term view on equity awards. On the higher side of the spectrum, participants who work in healthcare and finance both have much higher Equity Award Value Index scores of 52.

Equity award value perception also differs for global participants.* Participants in Europe had a slightly lower Index score than participants in other regions, likely due to higher taxes.

Average Value Index scores by industry	Average Value Index scores by region
49 Overall	49 Overall
52 Financial Services	52 Latin America
52 Healthcare	51 United States
51 Manufacturing	47 Asia
47 Retail	46 Europe
46 Media/Entertainment	
44 Technology	

* Global participants include only employees who work for US-based companies.

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* Group Five Stock Plan Administration Satisfaction Study, 2014, 2013 and 2012.

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