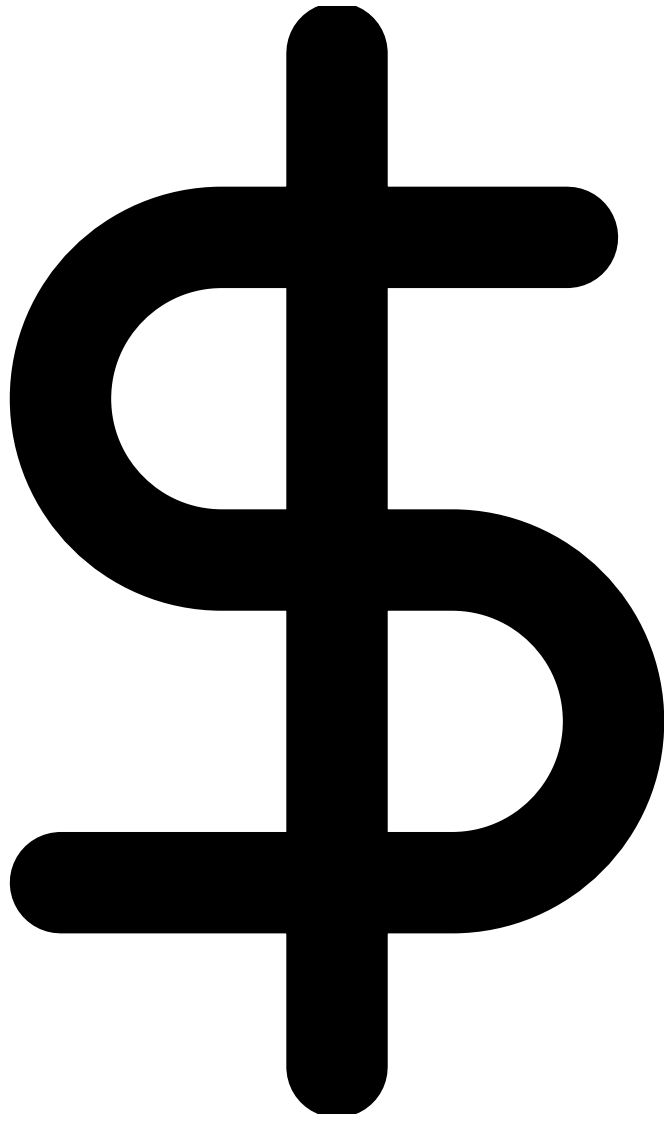
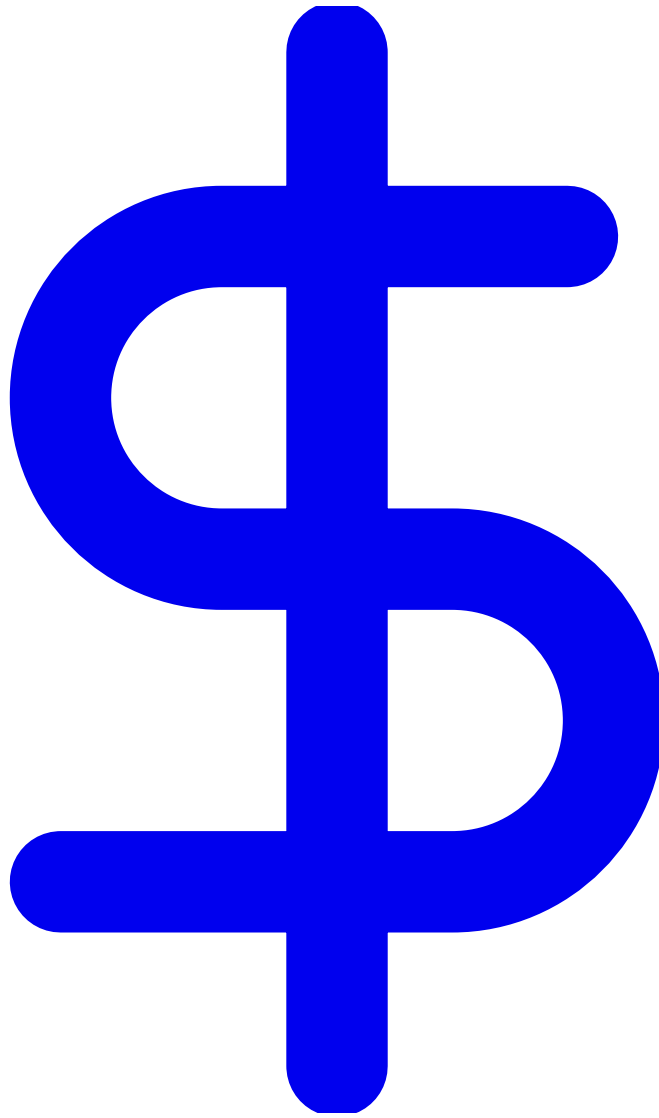






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Understanding Equity Compensation: RSUs, Options and Vesting Made Simple

By the [Salaryitis Editorial Team](#) · Reviewed against our [editorial standards](#) · 10 min read · Last reviewed 2026

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Understanding Equity Compensation: RSUs, Options and Vesting Made Simple

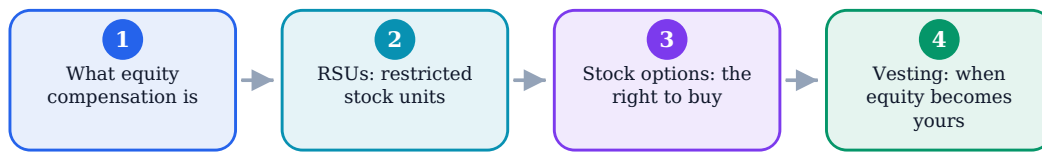


Figure: Understanding Equity Compensation: RSUs, Options and Vesting Made Simple

When an offer includes equity — a piece of ownership in the company — it can be exciting and confusing in equal measure. Terms like RSUs, stock options, vesting, and strike price get thrown around, and it's easy to either overvalue equity (imagining a life-changing windfall) or ignore it entirely because it seems too complex. Both mistakes can be costly.

This guide breaks down equity compensation in plain language so you can understand what you're being offered, how and when it becomes yours, and how to weigh it sensibly as part of your total pay. It's educational, not financial advice, but it will help you ask the right questions.

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What equity compensation is

Equity compensation means being paid, in part, with ownership in the company rather than only cash. The idea is to align your interests with the company's success: if the business does well and its value rises, your stake becomes worth more. It's especially common at startups and growth companies, which may offer generous equity to offset lower cash salaries.

The crucial thing to understand from the start is that equity is **uncertain**. Cash in your bank account is guaranteed; the future value of equity is not. It could become very valuable, worth little, or somewhere in between. Treating it as guaranteed money is the most common and dangerous mistake.

RSUs: restricted stock units

Restricted stock units are among the most straightforward forms of equity. An RSU is

essentially a promise to give you actual shares in the future, once they *vest* (become yours). You don't pay to receive vested RSUs — when they vest, you own the shares, and their value is simply the share price at that time.

Because you don't have to buy anything, RSUs can't go 'underwater' the way options can — vested RSUs always have some value as long as the shares are worth something. Their main variables are the vesting schedule and the share price when they vest. Note that vested RSUs are typically treated as taxable income, so factor that in.

Stock options: the right to buy

Stock options are different and a little more complex. An option gives you the *right to buy* shares at a fixed price — the **strike price** or exercise price — usually set at the value when the options are granted. If the company's share price rises above your strike price, you can buy at the lower fixed price and hold shares worth more. If the share price stays below your strike price, the options are 'underwater' and have no value to exercise.

So options are a bet on growth: they reward you only if the company's value rises above the strike price. This upside potential is why they're common at early-stage companies, but it also means options can end up worthless if the company doesn't grow as hoped.

Vesting: when equity becomes yours

You rarely get all your equity at once. A **vesting schedule** determines when it becomes yours, encouraging you to stay. A very common pattern is vesting over several years with a one-year 'cliff': nothing vests until you've been there a year, at which point a chunk vests at once, and the rest vests gradually thereafter (often monthly or quarterly).

If you leave before equity vests, you typically forfeit the unvested portion. This matters enormously when comparing offers: a large equity grant that vests over many years is worth far less to you if you don't expect to stay that long. Always look at how much vests, and when.

How to value equity in an offer

Valuing equity honestly is hard because so much depends on the future. A sensible approach is to value it conservatively and never rely on optimistic projections. Consider:

- The current, defensible value of the shares or the grant.
- The vesting schedule — how much you'll actually receive over your realistic tenure.
- The company's stage and risk: an established public company's shares are more predictable than an early startup's.
- **Dilution:** future funding rounds can reduce your percentage ownership.

Weigh the conservative value of equity alongside your guaranteed cash. If an offer leans heavily on equity with modest cash, make sure the cash alone meets your needs, treating the equity as potential upside rather than the foundation of your finances.

Questions to ask about an equity offer

Before accepting equity, get clear answers to key questions: What type of equity is it (RSUs, options, something else)? What is the vesting schedule and is there a cliff? What is the current valuation, and how was it determined? What happens to unvested and vested equity if I leave? Are there tax implications I should plan for? For significant amounts, it's wise to consult a qualified financial or tax professional — the details are consequential and personal.

Equity types compared

Type	What it is	Key consideration
RSUs	Shares granted, vest over time	Taxed as income at vesting
Stock options (ISOs/NSOs)	Right to buy at a set strike price	Value depends on share price vs strike
ESPP	Buy company stock at a discount	Often a low-risk benefit if available
Vesting schedule	When equity becomes yours	Common: 4 years with a 1-year cliff

This table is general educational information, not financial advice. Your situation may differ; consult a qualified professional.

Printable checklist

Print this page or save the PDF to keep these steps handy.

- ☐ What equity compensation is
- ☐ RSUs: restricted stock units
- ☐ Stock options: the right to buy
- ☐ Vesting: when equity becomes yours
- ☐ How to value equity in an offer
- ☐ Questions to ask about an equity offer
- ☐ Equity types compared
- ☐ Key Takeaways

Summary

Equity compensation gives you a stake in the company, most commonly through RSUs (shares that vest over time) or stock options (the right to buy shares at a set price). Vesting schedules control when equity becomes yours. Equity can be valuable but is uncertain, so weigh it conservatively alongside guaranteed cash rather than treating it as guaranteed money.

Key Takeaways

- Equity gives you partial ownership; its value depends on the company's future and isn't guaranteed.

- RSUs are shares that vest over time; stock options are the right to buy shares at a set price.
- Vesting schedules (often with a cliff) control when equity actually becomes yours.
- Value equity conservatively and understand it alongside your guaranteed cash pay.
- Ask about vesting, valuation, dilution and what happens if you leave — and seek professional advice for big decisions.

Frequently Asked Questions

Is equity compensation guaranteed money?

No. Equity's value depends on the company's future performance and can range from very valuable to worthless. Treat guaranteed cash as your foundation and equity as potential upside, not a certainty.

What's the difference between RSUs and stock options?

RSUs are shares you receive when they vest, with no purchase required — they always have some value if the shares do. Stock options are the right to buy shares at a fixed price, and only have value if the share price rises above that price.

What happens to my equity if I leave the company?

Typically you keep what has vested (subject to the rules for options, which may need to be exercised within a window) and forfeit what hasn't vested. Always check the specific terms, since they vary.

Related Guides

- [Salary vs Total Compensation](#)
- [How to Read a Job Offer](#)
- [Negotiating a Job Offer Salary](#)
- [The Complete Salary Negotiation Guide](#)
- [What Is a Good Salary?](#)

Further Reading

- [Investor.gov — general investing education](#)

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- [How to Handle a Pay Cut: Options, Rights and Next Steps](#)
- [Salary Benchmarking: How to Research What a Job Really Pays](#)
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