Imagine if you handed me $85 and in return, I handed you back $100. Fair deal, right?

This situation describes the fundamentals of an employee stock purchase plan (ESPP). An ESPP is a company-run benefits program in which participating employees can purchase company stock at a discounted price. Employees elect payroll deductions – often up to 15% of gross salary – to be used for the quarterly or biannual discounted purchase of company stock.

Awarded shares vest immediately and are fully liquid.

A recent planning client, however, was not taking complete advantage of their ESPP benefit. Think of them as a diligent, motivated saver – but with room to improve. Our strategy now looks like this:

(1) Maximize your ESPP benefit
(2) Immediately sell those company stock awards at the quarterly or biannual purchase dates
(3) Use the proceeds to fund outside investment accounts we help manage

You could say this approach supercharges the client's return expectations out of the gate – remember, you hand me $85 and in return, I hand you back $100. The dollars will ultimately reside in a well-diversified portfolio of low-cost index funds. Only now, the dollars take an enhanced, scenic route through an employer stock purchase plan.

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