Anatomy of a Offer Letter

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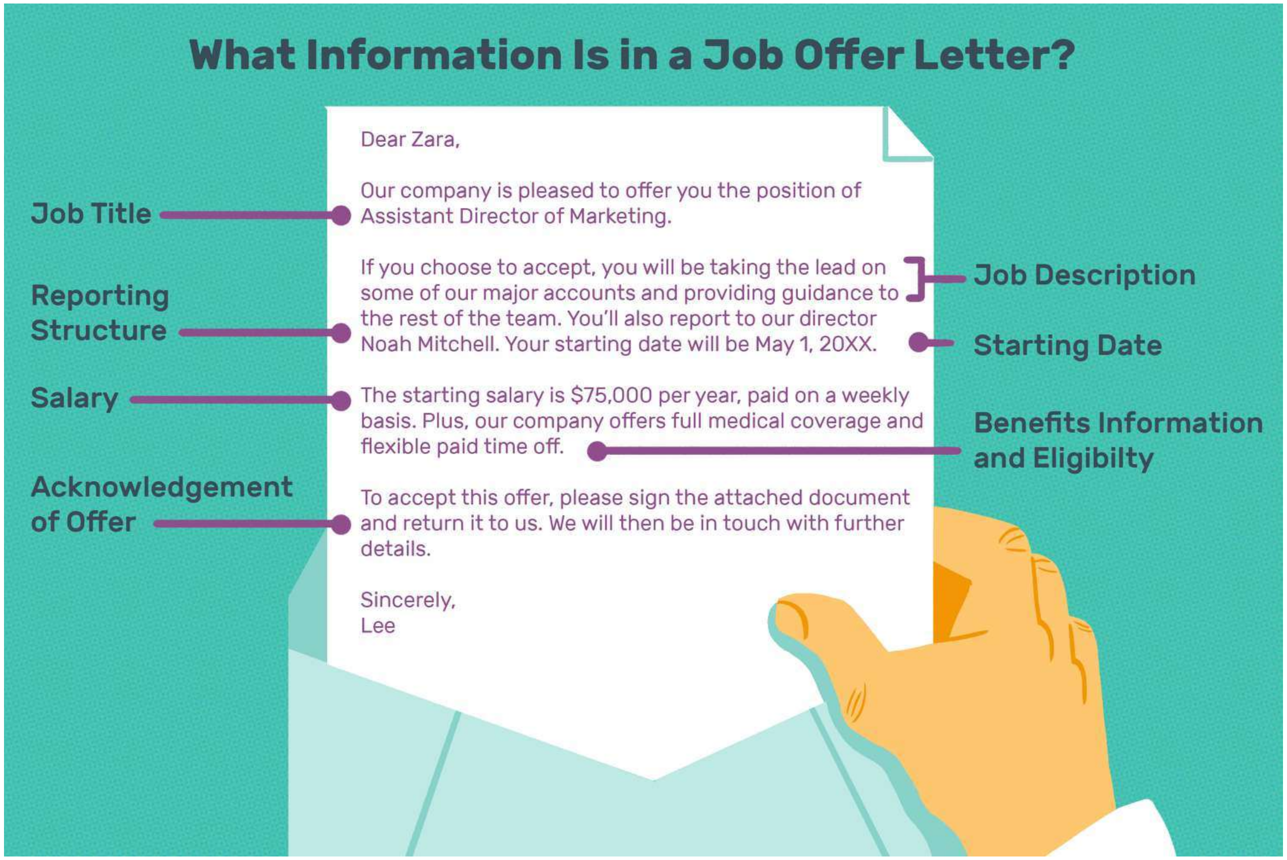
What is an offer letter?

- An offer letter is a formal document that an employer sends to a job candidate that outlines the terms and conditions of their employment.

- It is important to read the entire job offer carefully, not just the salary, and consider how this job aligns with your career goals and values.

Components of an offer letter



The Balance - Theresa Chiechi

The next few slides will show a sample offer letter. The later slides will break each section down and give things to consider.

This company is a small start-up (2-10 employees) based in CA in a large metro area/ bio hub, offer was made Spring 2024 for a Scientist I role for someone right out of PhD training.

SALARY

Your salary will be $93,000 annually, paid in accordance with the Company's payroll procedures.

VARIABLE COMPENSATION

In addition to your base salary, you will be eligible to receive an annual discretionary bonus. Any bonus paid will be at the discretion of the Board of Directors. The bonus will be contingent on the Company's overall performance and your personal goals being met. Specific individual goals shall be developed within 90 days of your employment. The company reserves the right to amend or withdraw the bonus, at its discretion.

You will be also eligible to receive a discretionary payment through the Company's 401K Plan, contingent on the Company's overall performance and your personal goals being met. The Company reserves the right to amend such plan, at its discretion. In addition, the Company contribute a non-discretional 3% to your 401K Plan (Safe Harbor).

STOCK OPTION

You shall receive 2500 shares of the Company stocks. Option price set at $4.5/share. Vesting will be according to the following schedule: Vesting will be according to the following schedule: 0% on the one-year anniversary of the Date of Grant; 40% of the shares granted on the second anniversary of the Date of Grant; and, 20% of the shares granted on each of the third, fourth and fifth anniversary of the Date of Grant. If the Company has a liquidation event within one year of employment, then 10% vested; if liquidation between 1 and 2 years, then 40%, if between 2 and 3 years then 70%, if liquidation after 3 years, then 100% vested. In order for any unvested options to vest, you must be an employee of the Company in good standing and reach terms that would complete the vesting. The option shall be subject to all the terms and conditions of the Employee Stock Option Plan adopted by the Company.

PAID TIME OFF

Three weeks PTO and eight paid holidays. Details refer to the Company Employee’s Handbook.

HEALTH INSURANCE

Company sponsored group medical and dental/vision health coverage will be provided consistent with the Company health insurance benefits plan in place. The complete terms of the plans and policies referenced to in this letter are set forth in their respective documents, which are maintained by the Company. The Company reserves the right to amend or terminate any of these plans, programs or policies at any time, in its sole discretion. In the event of any difference between this offer letter and the provisions of the respective plan, program or policy document, the respective document will govern.

EMPLOYEMENT STATUS

“At Will” Employment. Nothing herein shall be construed to alter your status as an “At-Will” employee. Your employment can terminate, with or without cause, and with or without notice, at any time, at your option or the Company’s option, and the Company can terminate or change all other terms and conditions of your employment, with or without cause, and with or without notice, at any time. This at-will relationship will remain in effect throughout your employment with the Company. The Company’s policy specifies that the first 90 days be considered as an introductory or probation period. If things do not go as planned, both parties should first engage a candid discussion to find a mutually beneficial path to resolve issues.

IP and TECHNOLOGY:

All intellectual property and technology developed by you as a result of projects pursued by the Company while employed by the Company shall belong to the Company and You shall sign all papers necessary to effectuate ownership in all intellectual property pursuant to this provision in the Company and provide any assistance necessary to obtain any patent or other protection for the intellectual property.

Breaking down an offer letter

Paid time off (PTO)

Types of PTO:

- Vacation days, sick days, personal days, holidays, bereavement, parental leave
- Some companies offer unlimited PTO
  - Important to understand the company's culture and expectations around unlimited PTO.
  - Unlimited PTO typically isn't paid out upon leaving the company, unlike accrued PTO.

Types of PTO policies:

- **Set number of days:** you earn a set number of PTO days per year.
- **Accrued time off:** earn PTO based on the number of hours you've worked.
- **Rollover allowances:** some companies allow unused PTO to be used from one year to the next.

Things to consider:

- How quickly do you accrue PTO days?
- Are company holidays are included in the PTO?
- Can PTO be carried over?
- Are there any times of the year when you cannot take PTO?
- How does this PTO package compare to similar roles within the industry?

Bonuses

Why bonuses matter:

- Bonuses are additional incentives on top of the regular salary that aim to increase productivity and enhance employee retention. They can sometimes be used to provide regular feedback on an employee's progress and to help them stay motivated or adjust if needed.

Things to consider:

- When is the bonus typically paid out? At the time of signing, annually, or after a certain number of years working for a company – this is something important to keep in mind if you plan to leave a job after a short time, you don't want to leave money on the table!
- Ensure bonus structure is transparent with clear guidelines on how the bonuses are earned and distributed. Have all of this in writing.
- Bonuses are likely subject to tax.
- Consider whether the bonuses are going to create an unhealthy pressure or competition between employees in order to reach certain goals to obtain bonuses.

Types of bonuses

- **Sign-on bonus** – a payout guaranteed when starting a new job. Could be used to incentivize often to accept a new position or to fill a high turnover position.
- **Annual bonus** – sometimes given out after a successful year. Some companies have guaranteed annual bonuses, but amount might vary from year to year. Other companies only distribute after a particularly successful year.
- **Performance/milestone bonus** – tied directly to the employee's work performance. Often given for reaching certain milestones or goals.
- **Retention bonus** – bonuses that are earned after staying with a company for a certain amount of time.
- **Referral bonus** – given to an employee who recruits a new employee to join the organization.

Types of bonuses (cont.)

- **Holiday bonus** – some companies provide a bonus around the end of the year, usually based on a percentage of the employee’s annual pay. Some companies may give gifts instead of monetary compensation.
- **Non-cash bonus** – any reward or prize that isn’t of monetary value, such as a parking spot.
- **Spot bonus** – often given by manager to reward employees who demonstrate a particular value, often in the range of $50-$100.
- **Profit sharing** – the company distributes a certain percentage of the company’s quarterly or annual profits, usually based on the employee’s annual salary. Some offer shares of profit as cash payouts, other companies may contribute towards a retirement plan.
- **Stock options** – allow employees to have ownership in the company. See stock option slides for more details.

Insurance – things to consider

- Is there a waiting period before your health insurance starts when you begin a new job? Some companies begin coverage on day one, others have a waiting period usually between 30 to 90 days from your start date.
- Can family members (spouse, children, or dependents) be added to your plan? What are the requirements and additional costs for including them?
- Does the insurance plan cover prescription medications, and what are the costs for medications you regularly take?
- Are there added benefits to the insurance plan such as wellness programs?
- Inquire about paternity leave polices, if applicable.
- Does the insurance plan cover mental health expenses including therapy, counseling, and psychiatry?
- If you are switching from another plan, is there a gap between your previous coverage and your new coverage with the company?
- Is there an open enrollment period? Can you make changes to your insurance later or are you locked into your choices for a certain period?

Common insurance terminology

- **Premium** – the amount you pay for your health insurance every month, regardless whether you use the medical service or not.
- **Co-pays** – a fixed amount you pay for a covered health care service, usually at the time of service (e.g., a $25 copay for each doctor’s visit).
- **Deductible** – the amount you must pay out of pocket for covered health services before your insurance begins to pay.
- **Co-insurance** – the percentage of cost you pay for covered healthcare after you’ve met your deductible (e.g., if your co-insurance is 20%, you pay 20% of the cost and your insurance pays 80%).
- **Network** – a group of doctors, hospitals, and other healthcare providers that have contracted with an insurance company to provide services at reduced rates.
- **Out-of-network** – healthcare providers or services that are not part of the insurance plan’s network. These often come with higher costs.

Common types of medical insurance

Preferred Provider Organization (PPO):

- Most common type of plan.
- Covers in-network and out-of-network providers; however, out-of-network providers will be more expensive.
- Does not require employees to select a primary care provider (PCP) and generally, doesn't require a referral to see a specialist.
- Typically has a higher premium, deductibles, and co-pays than HMO and POS due to flexibility and out-of-network coverage.

Point-of-Service plan (POS):

- Covers both in-network and out-of-network care, but out-of-network care is more expensive.
- Sometimes requires PCP before receiving medical care and sometimes requires referral from PCP to see a specialist.
- May have higher deductibles, but typically has lower premiums and co-pays compared to PPOs.

Health maintenance organization (HMO):

- Only covers in-network care, except emergencies. No coverage for out-of-network providers.
- Requires PCP before receiving medical care and requires referral from PCP to see a specialist.
- Typically, lower cost for deductibles, premiums, and co-pays than PPO, POS, and EPOs, but this comes with less flexibility.

Exclusive Provider Organization (EPO):

- Only covers in-network care. No coverage for out-of-network providers.
- Does not require a PCP and does not require referral to see specialist.
- May have higher deductibles, but typically has lower premiums and co-pays compared to PPOs.

https://www.peoplekeep.com/blog/common-types-of-health-insurance-plans#:~:text=Some%20popular%20health%20insurance%20policy,Exclusive%20provider%20organization%20(EPO)%20plans

Understanding health accounts

Health Reimbursement Account (HRA):

- Funded only by your employer, employees cannot contribute to their own funds.
- Used to reimburse employees for qualified medical expenses including monthly premiums, co-pays, and deductibles.
- Funds cannot accrue interest.
- Unused funds may or not be rolled over at the end of the year.

Health Savings Account (HSA):

- Both employer and employee can contribute to the account.
- Used to save pre-tax money for upcoming health expenses at any point in the future.
- Contributions are tax-deductible, grow tax free, and can be withdrawn tax free on qualified medical expenses.
- Unused funds are typically rolled over each year and can grown indefinity.

Flexible Spending Account (FSA):

- Both employer and employee can contribute to the account.
- Used to save pre-tax money for upcoming health expenses this year.
- Funds cannot accrue interest.
- Any funds unused are usually lost by the end of the year.

Vesting

What is Vesting?

- Vesting refers to the process of gaining ownership of an asset over time. This could include retirement plans, stock options, or property. It is a way to reward employees for long-term commitment and incentivize them to stay with the company.
- **Cliff vesting schedule** gives the employee ownership of 100% of the employer's contributions after a certain number of years. Typically, within 3-5 years.
- **Graded vesting schedule** gives the employee ownership of a percentage of the employer's contribution each year. Typically, over the course of 3-7 years.

Why Vesting Matters:

- Understanding the vesting schedule is important to effectively plan for your retirement.
- The money you contribute to your retirement plan from your paycheck is always considered fully vested, regardless of your employment status.
- If you terminate your employment before being fully vested, you may forfeit all or a portion of the unvested funds.

https://www.investopedia.com/terms/v/vesting.asp

Retirement plans

Retirement plans ensure that you have a source of income when you're no longer working. Many employers match a portion of your contributions to a retirement plan, such as a 401(k). This is essentially free money that helps accelerate your savings. Not participating in this match is like leaving money on the table. The earlier you start saving for retirement, the more time your money has to compound, increasing your wealth exponentially over the long term.

Things to consider:

- Is there a waiting period before you are eligible to participate in the retirement plan?
- When does the company begin to match your contributions? Immediately or after a certain time of employment?
- What is the percentage the company will match? (e.g. the company might match up to 5% of your total salary)
- How often are the company’s contributions made (annually, quarterly)?
- What are the limits to how much you can contribute each year based on your plan?
- Are you able to withdraw money from the account in the event of a hardship? Are there penalties?
- What happens to the retirement plan if you leave the company? Can you roll it over to another plan or will you need to take it as a lump sum?

Retirement plans (cont.)

These are some of the most common retirement plans available. Each type has its own rules, tax implications, and contribution limits, so it's important to understand the specifics for your situation!

401(k)

- Offered by private-sector employers.
- Employees contribute through payroll deductions and employers may match contributions.
- Employee contributions are made before taxes, reducing taxable income.
- Investments are grown without being taxed until withdrawals are made (typically after the age of 59½).
- IRS sets annual contribution limits.
- Can be rolled over to a new employer's 401(k) or into an IRA when changing jobs.

403(b)

- Similar to a 401(k), but for employees of nonprofit organizations, schools, and some government organizations.

Individual Retirement Account (IRA)

- Opened by an individual, not through an employer.
- Traditional IRA: Contributions may be tax-deductible, and earnings grow tax-deferred. Taxes are paid upon withdrawal.
- Roth IRA: Contributions are made with after-tax dollars, but withdrawals are tax-free in retirement if certain conditions are met.

As a grad student or postdoc, you can open an IRA now and start contributing!

Retirement plans (cont.)

These are some of the most common retirement plans available. Each type has its own rules, tax implications, and contribution limits, so it's important to understand the specifics for your situation!

Simplified Employee Pension (SEP) IRA

- Used by small business owners and self-employed individuals.
- Employers contribute to SEP IRA on behalf of employees, employees cannot contribute.
- Contributions grow tax-free until withdrawal.
- There are higher contribution limits compared to traditional IRA plans.
- Contributions are discretionary, and employers are not required to contribute every year.

Savings Incentive Match Plan for Employees (SIMPLE) IRA

- Designed for small businesses with less than 100 employees.
- Employer and employees contribute, but the employer must match employee contributions or make fixed contribution.
- Lower contribution limits compared to 401(k) plans.
- Contributions grow tax free until withdrawal.

Pension Plan

- An employer guarantees a specific retirement benefit based on a salary history and years of service.
- Provides retirees with a fixed monthly income for life, regardless of investment performance.
- The employer is responsible for funding the plan and managing the investments.
- More commonly found in government and public sector jobs.

Stock options

Stock options give employees the right (but not the obligation) to buy a company's stock at a predetermined price (called the **exercise price** or **strike price**) within a specified period of time. They are often used as a form of compensation or incentive for employees.

Key terms to understand:

- Grant Date: The date when the options are issued to the employee.
- Exercise Price (Strike Price): The price at which the employee can buy the stock in the future, typically set at the market value on the grant date.
- Vesting Period: A period during which the employee must wait before exercising the options. This could be based on a time frame or performance goals.
- Expiration Date: The date by which the employee must exercise the options before they expire. Typically 10 years from the grant date.
- Market Price vs. Exercise Price: Employees can benefit if the company's stock price rises above the exercise price. For example, if the stock is granted at $10 per share and the stock price increases to $30, the employee can purchase shares for $10 and sell at $30, resulting in a $20 profit per share.

https://www.investopedia.com/terms/e/eso.asp
https://carta.com/learn/equity/stock-options/

Stock options (cont.)

Benefits of Stock Options:

- Employees can benefit from stock price increases.
- Helps align employee incentives with company success (employees benefit if the company does well).
- The vesting period encourages employees to stay with the company longer to realize the value of their options.

Risks of Stock Options:

- If the company's stock price does not increase above the exercise price, the options may become worthless (out of the money).
- If the options are not exercised by the expiration date, they are lost.
- Stock options can create tax liabilities, especially if the stock appreciates significantly.

Other things to consider:

- ESOs can only be sold after the vesting period is complete or specific conditions met such as leaving the company, retirement, or becoming disabled.
- When you sell ESO shares, you will likely be taxed on capital gains, which can vary depending on how long you held the shares.
- Educate yourself on potential exit strategies (when business owners or investors sell or transfer ownership of a business). Common exit strategies include mergers & acquisitions, initial public offerings (IPOs), and management buyouts.

https://www.investopedia.com/terms/e/eso.asp
https://carta.com/learn/equity/stock-options/

Understand agreements you may be asked to sign.

- **Non-compete agreement:** restrict employees from working for competitors or starting their own business after their employment ends. Consider if this could impact your future employment options.

- **Non-disclosure agreement:** protect confidential information, trade secrets, and proprietary knowledge. NDAs don't restrict employees from working for competitors or starting their own business.

Additional offer letter considerations

- Additional considerations:
  - Cost of living calculator, Commute cost calculator, Income tax calculator
    - Some companies may help with relocation expenses.
  - Understand the company's policies on overtime, flexible work hours, and potential work from home options.
  - Consider whether there are opportunities for growth and advancement.
    - Does the company have clear paths for promotions, skill development, or lateral moves within the organization?

- Red Flags to Watch For:
  - Ambiguous job title
  - Unclear compensation or benefit details
  - Salary or bonus not matching what was discussed
  - No details on work hours or flexibility
  - No clear vesting schedule
  - Unreasonable expectations or demands
  - Hidden fees or costs (i.e., equipment or training fees)