

# Long Term Incentive Plans For Employees



## Introduction

Minimise business risk by retaining key employees with a long term incentive plan – an important step to becoming financially secure.

A long term incentive plan (LTIP) can be a great way of rewarding and retaining key tea members whilst avoiding the need to share equity in the business.

Many businesses are faced with the worry of losing a key team member. Such a loss is costly. These is not only the cost of retaining a new employee but also the unmeasurable loss of years of business experience, specific knowledge and ability to pass that knowledge to future employees.

In these situations many businesses look to 'lock in' the key person by offering them a share in the business. This is not necessarily the wrong thing to do, but transferring ownership and effectively going into business with another person should only happen for the right reasons.

The long term implication of having another owner needs to be worked through and understand before making such a decision.

A long term incentive plan is another option to reward key team members and encourage loyalty in the business.

If the employee achieves the requirements and is therefore eligible for the bonus, the bonus amount is paid into the business's bonus bank account (alternatively a provision for the bonus is made).

The employee would be eligible to access funds after a set amount of time (say 3 years) at a maximum percentage per year (say 30%). If the employee leaves, the balance is not payable. Following is an example of an employee that has the ability to receive a bonus of \$5,400 per year.

	Year 1	Year 2	Year 3	Year 4	Year 5
Annual LTIP Deposit	\$5,400	\$5,400	\$5,400	(bonus not achieved)	\$5,400
Total LTIP Balance	\$5,400	\$10,800	\$16,200	\$11,340	\$16,740
Less Total Cash Eligible to Withdraw (30%)	\$0	\$0	\$4,860	\$0	\$5,022
Remaining LTIP Balance	\$5,400	\$10,800	\$11,340	\$11,340	\$11,718



## How: Can a 'Long Term Incentive Plan' Work?

The business would clearly set out the specific conditions and/or requirements that need to be met and/or performs by the employee within the year to qualify for payment into the long term incentive plan. These requirements would be reviewed annually.

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## THE FOLLOWING POINTS NEED TO BE TAKEN INTO ACCOUNT WHEN ESTABLISHING AND IMPLEMENTING A LONG TERM INCENTIVE PLAN

- Establishment of a minimum period of service before the employees are eligible for the 'long term incentive plan'
- Setting the eligibility criteria for the employee. This needs to be clear and concise.
- Establishment of the 'long term incentive plan' rules.

### FOR EXAMPLE

- Will the plan be based per calendar or financial year
- Access term, e.g. 3 years
- Access percentage, e.g. 30%
- Access requirements, e.g. In access year employee must have achieved requirements to receive a bonus.
- When and how amount is paid, e.g. within 90 days of end of financial year.
- No right to amount payable if employment finishes.

- Superannuation, work cover and taxation implications.
- Cash flow implications for the business.
- Management of 'long term incentive plan' potential liability in the business
- Preparation of the necessary legal requirements.
- Consideration of any applicable employment law, awards, etc.

### SUMMARY

Your team is an essential part of your business and therefore an essential part of you achieving financial security. It can be an advantage to provide an incentive for performance and reward for loyalty. The 'long term incentive plan' is one option available to deliver this.

**To discuss this strategy with us further and consider how it can form part of your plan to achieve financial security, please contact us on 1300 204 781 or email [info@mgroup.partners](mailto:info@mgroup.partners)**

## FS360 - What does being financially secure mean?

It means assessing your personal and business goals and developing a plan to achieve these.

We have identified 12 key areas to help you become financially secure:

1. Goals & objectives
2. Estate plan
3. Risk plan
4. Asset protection plan
5. Taxation plan
6. Debt plan
7. Retirement and succession plan
8. Business plan
9. IT Plan
10. Marketing Plan
11. Superannuation plan
12. Investment plan

Setting goals and objectives and having strategies to achieve these is an essential element of becoming financially secure. Once you know what you are aiming to achieve and how you are going to get there, we then need to make sure you have a strong foundation in place to protect you, your family and other investments.

A strong foundation needs an estate plan, risk, plan, asset protection plan, taxation plan and debt plan. With the foundations in place we can then work on the strategies to achieve your goals and objectives. It may seem out of order that we have the retirement and succession plan at number 7 rather than 12. It is important that this is considered early and a plan is put in place. This assists to plan for this financially as well as keeping the communication lines open on the topic.

