



Long Term Incentive Plans For Employees

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ARE YOU FINANCIALLY SECURE?

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 team 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 as the 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.

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.

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



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Are You Financially Secure?

At Mulcahy & Co we are in a unique position to provide the expert advice and solutions of accounting, financial planning, lending, legal and information technology all under the one roof. This makes a normally complicated process seamless to help you on your way to becoming financially secure.

WHAT DOES BEING FINANCIALLY SECURE MEAN?

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

1. **Goals & objectives**
2. **Estate plan**
3. **Risk plan**
4. **Asset protection plan**
5. **Taxation plan**
6. **Debt plan**
7. **Retirement plan**
8. **Business plan**
9. **Superannuation plan**
10. **Investment plan**

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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 **03 5330 7200** or email info@mulcahy.com.au

