

ACEC



AMERICAN COUNCIL OF ENGINEERING COMPANIES

P&O Summit 2019

Retaining Key Employees



Presented by:

Kenneth J. Hedlund, CPA, CGMA

Scott Sutton, CPA, CDA, MSA

Retaining Key Employees

- You're not alone!
- How do you retain your best and brightest?
- How do you develop future leaders and owners?

Long Term Incentive Plans (LTIP) Stock Appreciation Rights (SAR) Deferred Compensation Plan

- Attract, retain and reward top, key talent
- Complete flexibility in design (customize to meet goals / needs)
- ***FAR Considerations***
- In addition to compensation and cash bonuses (not a take away)
- First and foremost reward for key employees for their contributions
- Recognition of substantial contributions to the operations and financial success of the organization
- Provide additional financial security as an inducement to remain employed with the corporation

Example Simplistic Model

Discussion points

- Build in a vesting schedule (example 3 or 5 year rolling vesting)
- Some window of time identified to realize vested portion of benefit (i.e. year 4 or 6)
- But if separation, potential to leave an amount on the table
- Individuals continue to be a participant until account is distributed or forfeited in accordance with the plan
- Deferred value meaningful value to be effective (hard to define, based on individual circumstances)

Characteristics of and requirements for a deferred compensation plan

- Pre-determined criteria for participation (optional)
- Predominately a performance based plan (handling of annual change between participants can vary to design)
- Can have various levels of participation (A, B units, etc.)
- Complete flexibility in design
 - Funding Formula (stock value, annual profitability)
 - Vesting Terms
 - Payout Terms

Characteristics of and requirements for a deferred compensation plan

- Obligation accrued on balance sheet, impact financials and ratios
 - Impacts financials, cash if funded, accrued liability, net profit, and equity
 - Impacts ratios, working capital, debt to equity, profitability and others
 - Obligation will have short term and long term components
 - Can pro-rate and net present value obligation as earned
- Tax Considerations
 - Not deductible to Company or included in employee income until earned and paid for federal and state income tax
 - Special FICA / Medicare treatment when earned and not subject to substantial risk of forfeiture

Characteristics of and requirements for a deferred compensation plan

- Funding of obligation (optional but recommended)
- Consideration of use of Rabbi Trust
 - Allows participant “limited” input over investment of funds (careful, need to avoid constructive receipt)
 - Level of protection from creditor claims in ordinary course of business (not company bankruptcy)
- Subject to 409A regulations, tax code with detailed requirements, deferral elections, distributions, etc.
- Thorough preparation of documents to protect Company

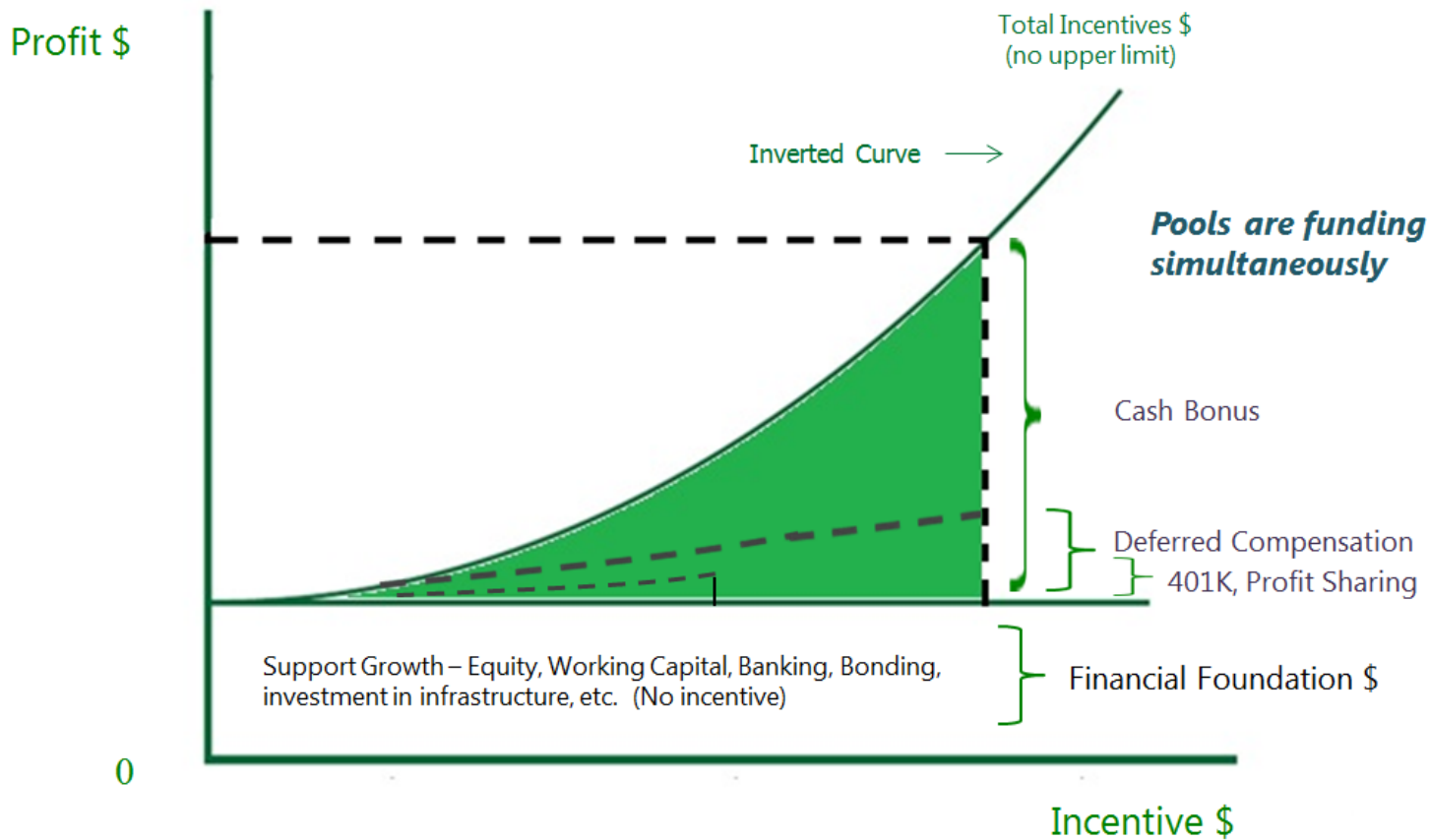
Characteristics of and requirements for a deferred compensation plan

- Attorney will draft documents
- Top Hat filings
- Recorded in board minutes and parameters defined
- Often clause that employee death or permanent disability will provide for immediate vesting and payment to employee or estate
- Often life insurance used for funding in case of death

Overhead Rate Considerations

- Effect of Deferred Compensation on your firm's overhead rate.

INCENTIVE FUNDING – FINANCIAL FOUNDATION



INCENTIVE FUNDING – FINANCIAL FOUNDATION

