

Key Employee Planning

THIS WHITEPAPER EXPLORES:

Key employee planning strategies designed to align employee incentives with organizational goals, ultimately driving meaningful financial benefits for both parties. We'll outline our structured planning process to create a successful key employee process.



What is Key Employee Planning?

Key employee planning strategies designed to align employee incentives with organizational goals, ultimately driving meaningful financial benefits for both parties. We'll outline our structured planning process to create a key employee process that includes clarifying objectives, gathering financial and employee insights, and developing financial models to ensure the plan is effective across various economic scenarios.

Process Summary

The purpose of creating an employee process plan is to increase the probability of retaining key employees and creating additional incentives to increase productivity. In designing the plan, it's important to take into account the possibility of other participants joining at a later date or using this as a potential recruitment tool.

Steps in Planning

Step One:

The first step in creating a key employee planning process is to begin with clarifying your objectives. This will enable us to gain a deeper understanding of your company, its financial and operational development, and where it is heading.

Step Two:

If appropriate, we'll seek input from your current Chief Financial Officer or Controller to gain a more detailed understanding of the financial workings of the company, the critical numbers, the trends, and the future.



Step Three:

Financial Models. These will be assumptive projections based on the operating history of the company and input from you and your financial team. We will create a minimum of three models representing different financial results:

- A. A base case that represents a reasonable projection of future performance.
- B. A better than base case that projects the potential upside.
- C. A worse than base case that projects the potential downside.

As designed, the plan will need to work in all three economic scenarios. It needs to work for both the company (cost) and for the participants (benefits).

Step Four:

We will use the models to identify and test alternative designs and solutions.

As the testing progresses, we will discuss the results with you and tentatively define the solution or combination of solutions that will best fit your needs.

Step Five:

Once a probable solution has been selected, we will hold candid conversation with identified participants.

This approach will not only create additional insight into how the plan might work, but it will also clearly communicate to the participants that the work is well underway and that their input is important to that effort. This increases the amount of buy-in to the plan itself.

At the beginning of each conversation, we will tell the participants that candor is important and that anything they say to us they want held in confidence will be respected. We will report

back to you with detailed notes on each conversation with the exception of any items identified as confidential by the participants.

Step Six:

In this step, we can make a final decision on the structure and the details of the plan. Once that decision is made, we will work with your attorney (or recommend an attorney) to draw the necessary legal papers and potentially modify the decision based on the attorney's experience and considerations.

It's important to note that the code that applies to deferred compensation plans is very convoluted. Consequently, you will want to use an attorney who is intimate with Code Section 409(A). As part of this effort, there will be a detailed review of employment, non-compete, non-solicitation, and confidentiality agreements.

Step Seven:

The rollout meeting. Coldstream Capital Partners will prepare materials for the meeting to discuss the details of the plan and its impact on the participants. Typically, the preparations consist of an individualized package that includes the following:

- An outlined explanation of the plan.
- The specific amount of the initial grant that is being made to each individual participant.
- The amount of benefit everyone would realize under different economic results. We use the models in their three iterations to help the individual understand that the increase in enterprise value is critical to the value of their benefit.
- Copies of the formal legal agreement that will need to be executed by the employee following the employee's review with their legal counsel.

Step Eight:

Annual administration and the updating of benefit statements. Most clients rely on Coldstream Capital Partners in the early years to create the templates, and the company itself then assumes the responsibility for preparing these statements year after year. Annual meetings to update the participants on the benefits and remind them of how the plan works are essential to the effectiveness of the plan.

Contact Us

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