
EBN WEBINAR:

PART I:

BANK SUCCESSION PLANNING

THE FACTS THAT MUST BE ADDRESSED

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MILWAUKEE, WI

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David is the Co-Founder of Executive Benefits Network and a 32-year veteran of the financial services industry. David is a frequent speaker across the banking industry as an expert in the area of Nonqualified executive benefit plans and Bank Owned Life Insurance programs. David is the Vice Chairman of The American College Foundation, member of the AALU Nonqualified Plan Committee, Trustee of the Village of River Hills, board member of the Milwaukee Country Club and Past-President of the Milwaukee Winter Club Youth Hockey Organization. He is a member of the Indiana Bankers Association, Wisconsin Bankers Association, Bank Holding Company Association, the Society of Financial Service Professionals and the MDRT Association's Court of the Table.



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Pat is a Co-Owner and Managing Director of Executive Benefits Network and a 17-year veteran of the financial services industry. Prior to entering the financial services industry, Pat worked for three years as a senior accountant in audit for KPMG in the bank service area and for five years as an attorney for Michael Best & Friedrich LLP where he concentrated on general corporate and securities law. Pat's career focus is in the BOLI/COLI marketplace, as well designing creative strategies for executive compensation planning, business succession planning and estate planning. Pat is a shareholder and Director of a bank in Iowa. He is a frequent speaker in industry meetings and seminars. He is a member of the Wisconsin Bankers Association, Iowa Bankers Association and Community Bankers of Iowa.

BANK SUCCESSION PLANNING OUTLINE

- Short Term Succession
 - Preparing for the unexpected and emergency situations
- Long Term Succession
 - An ideal plan for the future encompassing the organization's long term goals
 - A fluid plan to provide a smooth and strong transition
- Management Succession
 - Identify Key People
 - Management Retention
 - Development of Future Leaders
- Shareholder Succession
 - Liquidity for buyouts
 - List of potential new shareholders
- Board Succession
 - Criteria for Board tenure
 - Creating and vetting list of potential new Board members



SHORT-TERM SUCCESSION

Goal: Preparing for the unexpected and emergency situations

■ Key Considerations:

- What if an executive suddenly leaves the organization, is unable to work or passes away?
- What if something happened to a pivotal person in the day-to-day operations (non-Executive) of the bank?
- Who would the person or persons be that would assume the executive's position in the near term while being mindful of the bank's long-term goals?
- Have *you* run a *lifeboat* drill?
- Is Key Person Insurance necessary to provide working capital to recruit a new executive and subsidize the earnings hit?

LONG-TERM SUCCESSION

Goal: A fluid plan to provide a smooth and strong transition

■ Key Considerations:

- What key executive roles are likely to turnover in the next 3-5 years?
- Is it better to “promote from within” or bring in outside talent?
 - “It can cost up to 65% more to hire on an outsider, while 40% of those leaders last just 2 years.”
- Indiana University and A.T. Kearney
- Would it be better to hire younger talent or someone more experienced? How will this affect the culture of the bank - good or bad?
- Who will mentor the team of future leaders? Should the organization look to the outside for support?
- How long should the transition period be?



MANAGEMENT SUCCESSION

Goal: Developing and retaining key officers and employees

■ Key Considerations:

• Key People

- Who are the bank's current key people?
- What would happen in the event of death, disability or unexpected departure?

• Management Retention

- What incentive and retention plans are in place now?
 - Cash/incentive bonuses, profit sharing, qualified retirement plans, long-term and short-term deferred compensation, restricted stock, stock options, stock appreciation rights, phantom stock
 - “Golden Handcuff Plans” – necessary for those critical to the success of the Bank

MANAGEMENT SUCCESSION (CONTINUED)

■ Key Considerations (continued):

• Management Retention

- What are the gaps in the existing plan(s)? What do the various generations of talented employees want that is different from the norm?
 - Baby Boomers
 - Generation X
 - Millennials
- Are talent and compensation aligned?



• Development of Future Leaders

- Who are the bank's future leaders? Are they at the bank now or does the bank need to look outside for talent?
- What training, development and mentorship programs are being provided?
- How will they be incentivized financially?

SHAREHOLDER SUCCESSION

Goal: Strategic and tax efficient transition of ownership

■ Key Considerations:

- How is the bank ownership structured?
- Does the bank have the ability and obligation to buy-out large shareholders?
- Who would be potential new shareholders? Are they needed/wanted?
- For family and closely-held banks:
 - Who in the next generation will be involved in the bank?
 - Will everyone in the next generation obtain ownership? (*Objective: Transferring the **right property** (i.e., bank stock) to the **right people** (actives? inactives?) at the **right time**.)*)
 - How is ownership transitioned in the most tax-friendly way? The more successful the bank, the more that estate taxes can be an obstacle.
 - Do existing shareholders feel secure in their retirement planning?
 - Poor retirement planning can get in the way of effective shareholder succession.

SHAREHOLDER SUCCESSION (CONTINUED)

- Key Considerations (continued):
 - Does the bank need to explore the idea of an Employee Stock Ownership Plan (ESOP) to create liquidity, motivate employees, and remain locally owned?
 - Should stock liquidity insurance be used and funded by the bank or bank holding company to provide the required liquidity in the event of a key shareholder's death?



BOARD SUCCESSION

Goal: Board composition in alignment with shareholders' strategic priorities

■ Key Considerations:

- What is the ideal Board size and composition?
 - Do Directors need to be added or eliminated?
 - Has diversity been adequately addressed?
- What skill sets does the bank need?
- Who would be potential new Board members?
- What is the criteria for Board tenure?
 - Desirable qualities and skills
 - Age limits
 - Term limits



CONCLUSIONS

- Best practices call for all aspects of succession planning to be in a written plan that Management and Directors can refer to at critical times in the bank's existence.
- Regulatory Feedback: most banks have only touched on several of these issues, but few have a formulized, written plan.
- This is Part One of a three part series on this topic, please stay with EBN as we cover the following topics:
 - Part 1: Bank Succession Planning
 - Part 2: Retirement Planning for the Owners or Executive Leadership Team
 - Part 3: Employee Stock Ownership Plans (ESOP's)

THANK YOU!

- Thank you for joining us today!
- Q & A session!
- To receive a copy of this presentation, please contact Liz Wendorf at ewendorf@ebn-design.com



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EXECUTIVE BENEFITS NETWORK

Executive Benefits Network (EBN) specializes in the design, administration and informal financing of nonqualified executive compensation and benefit plans, as well as the procurement of Bank Owned Life Insurance (BOLI) programs.

