
EBN WEBINAR:

PART 2:

RETIREMENT PLANNING FOR BANK OWNERS AND KEY EXECUTIVES

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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.

RETIREMENT PLANNING OUTLINE

- Are you prepared for retirement?
 - Key Considerations
 - Averages & Statistics
 - Are You Prepared to Face Retirement Risks?
 - Suggested Retirement Income Vehicles
- Are you prepared for a successor?
 - Key Considerations
 - Critical Decisions
 - Case Study 1 - Poor Planning Execution
 - Case Study 2 - Successful Planning
- Conclusion

POLL QUESTION #1

- Do you have a well thought-out retirement plan?

ARE YOU PREPARED FOR RETIREMENT?

Goal: Proper retirement planning allows for a smooth exit strategy

■ KEY CONSIDERATIONS:

- When retirement planning is ignored and not clearly communicated succession plans fall apart.
- Successful exit strategies are equal parts retirement and succession planning.
- What does proper retirement planning entail?
- Are you prepared for retirement planning?
- If so, are you prepared for a successor?



2017 AVERAGES & STATISTICS

- **Avg. Retirement age:** 63
- **Avg. Male life expectancy:** 84.3
- **Avg. Female life expectancy:** 86.6
- **Avg. Healthcare:** Out of pocket cost for 20 years per couple is \$220,000
- **Pension:** 32% of retirees have a pension and this number will continue to trend downward
- **Assets:** 63% of retirees rely on assets for retirement income
- **Retirement Confidence:**
 - American's anxious about retirement income: 74%
 - American's confident about retirement income: 21%

Source: Northwestern Mutual, Forbes, SSA, Fox Business, & Benefits Pro

2017 AVERAGES & STATISTICS

■ BUSINESS OWNER STATISTICS

- 67% of small business owners are expecting to retire within 10 years
- 70% of small business owners do not have a succession plan
- 30% of family businesses pass successfully to the second generation
- 10% of family businesses pass successfully to the third generation

Source: Northwestern Mutual, Forbes, SSA, Fox Business, & Benefits Pro

ARE YOU PREPARED FOR RETIREMENT RISKS?

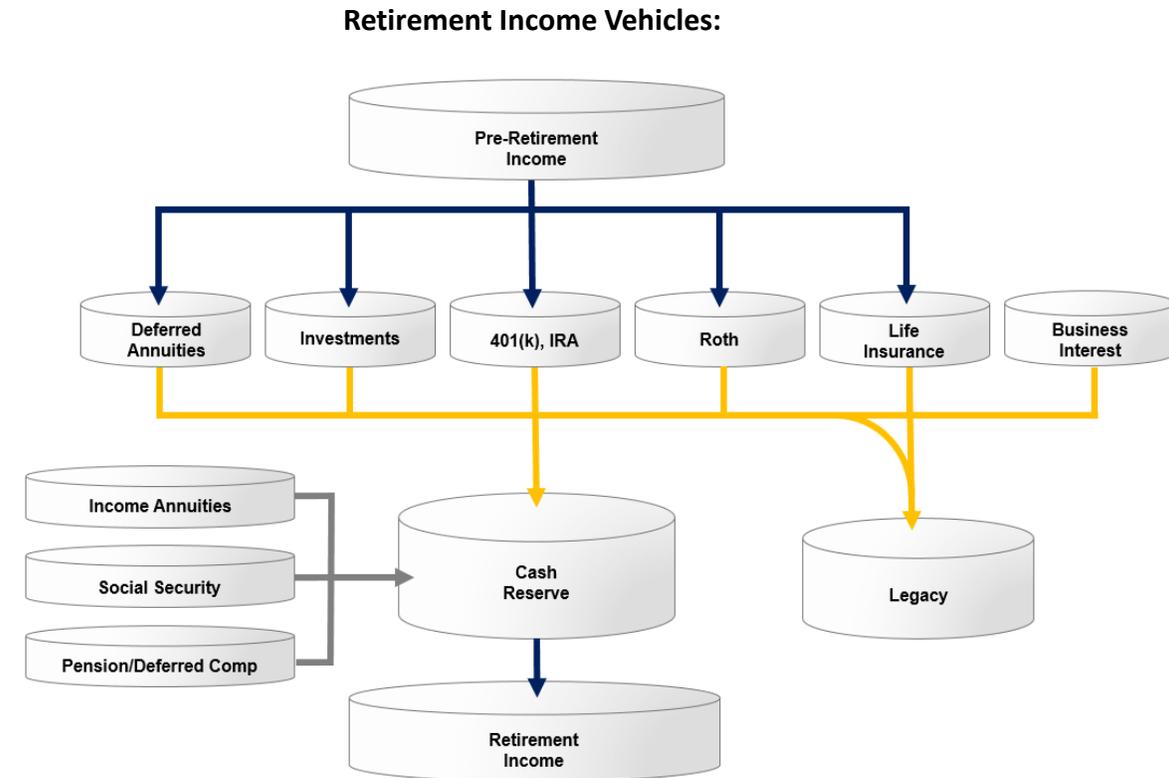
- Risks are important factors that must be addressed to ensure a financially secure retirement.
- **EXAMPLES:**
 - A couple, age 65, has a 1 in 10 chance that one of them will live to age 100
 - Over the past 20 years health care costs have risen 6-8% each year
 - S&P has averaged a 10% correction every 18 months since 1945



SUGGESTED RETIREMENT INCOME VEHICLES

Goal: Tackle risks and evaluate options

- Retirement income requires planning and action. Financial professionals are great resources to assist.
- Consider your goals, a personal financial plan, strategies, and an annual review of your plan.
- Multiple retirement options provide flexibility and help minimize impact of market volatility, tax uncertainty, and longevity.
- Business Interest - source of income, capital, or legacy?



POLL QUESTION #2

- Does your bank have a formal succession plan that has been properly communicated?

ARE YOU PREPARED FOR A SUCCESSOR?

Goal: Ensure a proper retirement plan for a smooth exit strategy

■ KEY CONSIDERATIONS:

- What does succession planning entail?
 - Identify successor candidates
 - Development of successor
 - Retain key talent
 - Short-term contingency planning
- Business owners must be in a financial position to step away from the business on their own terms and leave the organization in the hands of new leadership and board

Retirement Income → Succession → Retire



CRITICAL DECISIONS

Goal: Discussion to ensure contingencies are fully thought through and structured

- **DISCUSSION POINTS AFFECTING AN EXIT PLAN:**

1. **DATE:** Determine a desired retirement date.
2. **CONTROL:** Can you retire on time according to your retirement savings? Should you give up control of the Bank? If so, how and to who?
3. **FINANCIAL SECURITY:** Discuss your mortality and morbidity, such as living too long, dying too soon, becoming disabled, etc.
4. **OBLIGATIONS:** Determine financial obligations including mortgages.
5. **GOALS:** Define personal and professional goals. (Pre & Post Retirement)

CRITICAL DECISIONS (CONTINUED)

Goal: Discussion to ensure contingencies are fully thought through and structured

6. **PLANNING:** Retirement, succession, and legacy planning.
7. **FAMILY:** Consider dealing with potential heirs. Determine if the Bank should stay with family.
8. **QUALIFY:** Establish successor candidates and select one. Determine the amount of time needed to do this including their training.
9. **POST RETIREMENT:** Consider fears and a game plan on what to do in retirement.
10. **GOLDEN HANDCUFFS:** What incentive plans need to be in place to attract, reward, and retain executives? What are timeframes for establishing these plans?

MEET BOB - CHIEF EXECUTIVE OFFICER & OWNER

- Age: 61
- Desired Retirement Age: 63
- Has worked at the Bank for 25 years
- Paid off his home mortgage
- Has a mortgage on second warm weather house
- Has investments - 401(k), IRA's, and life insurance
- Limited retirement income based on his assets and lack of liquidity of his Bank stock
- Donna (age: 52) works directly for Bob as his #2 and has been presumed to be his successor

MEET DONNA - BANK EXECUTIVE

- Age: 52
- Desired Retirement Age: 63
- Donna has worked at the Bank for 15 years with Bob and is Bob's #2 person
- Has investments - 401k, IRAs, and life insurance
- More specifics:
 - Donna would like to become the CEO of the Bank and hopes that the Board selects her as his successor; however, official communication has not happened yet
 - Donna was recently approached by another Bank searching for its CEO successor
 - Donna has been working with a Financial Advisor to provide retirement income options

CASE STUDY I

Poor Planning Execution

■ Situation:

- Bob has done **very limited retirement planning** and never sat down with a Financial Advisor to model what retirement looks like for him.
- After speaking to a Financial Advisor, Bob realizes he **cannot retire** at 63.
- Based on his modeling, Bob needs to **work another 5 years**, so he now expects to retire at 68.
- Bob's succession and retirement plan and impending changes, **have not been** clearly articulated to the Board and his #2, Donna.
- Bob must decide if he wants **to pursue to sell** the Bank to retire earlier or **formally ask** Donna to be his successor and retire at 68.

■ How this impacts business:

- Quickly liquidating assets and changing ownership impacts every employee.
- Bob may not receive maximum market value for the Bank.
- Bob loses control of the Bank.
- Depending on how the sale and transition are handled, employees, customers, and investors might lose trust in the sold Bank.

CASE STUDY I (CONTINUED)

Poor Planning Execution

■ Results:

- Donna ends up leaving for a better opportunity to be CEO of another Bank due to Bob's uncertainty related to his retirement.
- The Bank does not have someone that could be a successor to Bob right now, and attracting a new successor proves difficult.
- Bob finally decides to sell the Bank at age 65.
- Because the Bank was not prepared, Bob was not able to maximize the sale price (more of a forced sale).

■ How it impacts Bob's retirement and his successor:

- "Coulda, woulda, shoulda" -Bob

CASE STUDY 2

Successful Planning

■ Situation:

- Bob **has been** planning for retirement for many years.
- Bob has been working with a Financial Advisor and it was **confirmed** that he **can retire** at age 63 based on his well diversified retirement portfolio.
- Bob has **communicated** his retirement and succession plan to the Board.
- Bob and the Board have **formally asked** Donna to be his successor and Donna accepted the opportunity.
- Bank established a Nonqualified Deferred Compensation Plan for Donna as an **incentive** to stay.
- Bob **continues** the development and training for Donna.
- Donna, in turn **identified** her potential “bench” successors behind her and began **developing** these individuals.

■ How this impacts business:

- Provides clarity to employees and customers.
- Proper retirement income planning and succession planning lead to a smooth transition.
- The Bank is thriving and with no notable negative consequences.
- Current ownership structure remains intact.

CASE STUDY 2 (CONTINUED)

Successful Planning

■ Results:

- Bob retires on time at age 63.
- Donna is the new Bank CEO and is on schedule to retire at age 63.
- The Board has identified Donna's successors.
- The Bank establishes a nonqualified benefits plan for her management team.

■ How it impacts Bob's retirement and his successor:

- Bob was able to continue to own his bank stock which appreciated in value due to the bank's continued viability in its marketplace.
- Bob's legacy remains intact.
- Donna is now a well-respected Bank CEO and she is looking forward to her financial success.

KEY TAKEAWAYS

- **PERSONAL RETIREMENT PLANNING:**

1. Work with a Financial Advisor to develop a comprehensive financial plan in order to maximize retirement income opportunities.
2. Save prudently outside of the business and in addition to Bank stock.

- **BANK SUCCESSION PLANNING:**

1. Communicate retirement and succession plan to Board.
2. Define potential internal and external pool of candidates.
3. Assign administrative responsibilities and train successor accordingly for smooth transition.
4. Lock in successor and other members of the management team by creating Nonqualified Deferred Compensation Plans.

CONCLUSION

- Still wondering if you are prepared for your retirement and your exit strategy? Please let EBN know if we can be of any assistance.
- EBN specializes in Nonqualified Deferred Compensation Plans, Estate and Succession Plans, as well as comprehensive retirement planning for business owners.
- This is Part Two 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 and the 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

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