EBN EXECUTIVE BENEFITS NETWORK

in|sights

RETIREMENT PLANNING FOR BANK OWNERS AND KEY EXECUTIVES

April 2017

Prepared by:

Executive Benefits Network
833 East Michigan Street | Suite 1480
Milwaukee, WI 53202
Phone 414.431.3999
Fax 414.431.9689
ebn-design.com

PART 2:
RETIREMENT PLANNING FOR BANK OWNERS AND KEY EXECUTIVES

As Business Owners and Senior Leadership teams in the banking industry approach retirement, creating and developing the bank's succession plan is critical. Equally as important are the issues of retirement planning, estate planning and key employee retention. Stay with the Executive Benefits Network (EBN) as we take you through a three part series covering important topics including:

Part 1: Bank Succession Planning
Part 2: Retirement Planning for Business Owners and the Executive Leadership Team
Part 3: Employee Stock Ownership Plans (ESOP's)

The experts at EBN partner with banks to ensure that the topics listed above are discussed, explored and planned for. With EBN's guidance through this process, the end result is the development of a succession plan that the bank, its leaders, and regulators are comfortable with. In addition, bank leadership can retire with confidence.

The following are key topics that must be acknowledged and addressed to ensure successful retirement planning and a smooth succession transition.

I. Are you prepared for retirement?
   A. 2017 Retirement Averages & Statistics
   B. Bank Owner Consideration Statistics
   C. Are You Prepared to Face Retirement Risks?
   D. Suggested Retirement Income Vehicles

II. Are you prepared for a successor?
   A. Key Considerations
   B. Critical Decisions
   C. Case Study Scenario
   D. Case Study 1 - Poor Planning Execution
   E. Case Study 2 - Successful Planning
   F. Key Takeaways

> "With EBN's guidance through this process, the end result is the development of a succession plan that the bank, its leaders, and regulators are comfortable with."

I. INTRODUCTION

When retirement planning is ignored and not clearly communicated, even the most thorough succession plans will fall apart. Successful exit strategies require equal parts of retirement and succession planning. Unfortunately, this is the area of retirement planning that is far too often over-looked. Too many banks are forced to sell because of a lack of retirement planning foresight by Boards, CEO's and other senior leaders. In this Whitepaper, Executive Benefits Network (EBN) will provide some practical ways the bank can avoid a "forced sale scenario" and provide the Bank with the best options to maximize the value of the bank going forward.

How to be mindful of retirement and succession planning:

EBN believes that proper retirement income planning optimizes one's income and reduces financial and exit strategy risks. It also provides individual options as one enters retirement years. Two imperative questions to keep in mind throughout this Whitepaper: Are you truly prepared for retirement? If so, are you prepared for a successor?

> "Are you truly prepared for retirement? If so, are you prepared for a successor?"

II. ARE YOU PREPARED FOR RETIREMENT?

A. 2017 RETIREMENT 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%

B. Business Owner Consideration 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

> "67% of small business owners are expecting to retire within 10 years"

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

C. Are You Prepared to Face Retirement Risks?

The following issues are important factors that must be addressed to ensure a financially secure retirement.

01 Life Expectancy

Lifespans are increasing and you might outlive your retirement savings. EX: A couple age 65 has a 1 in 10 chance that one of them will live to age 100.

02 Market Unpredictability

S&P has averaged a 10% correction every 18 months since 1945. The market is unpredictable. Low and flat performance will greatly impact how long your savings last.

03 Inflation and Taxes

Your purchasing power will be reduced to half in just 18 years with an average inflation rate of 4%. In regards to taxation; when you begin making withdrawals money in tax-deferred accounts become subject to taxes.

04 Health Care

Over the past 20 years health care costs have risen between 6–8% each year. Medicare only covers a portion of your health care expenses and does not include dental, vision, and hearing costs.

05 Long-Term Care

Someone turning 65 years old has a 70% chance of needing long-term care in their lifetime. Medicare minimally covers this type of care.

06 Leave A Legacy

Spending assets can reduce financial legacy intended for family or charities. Planning now for what will be left behind for your legacy will allow for you to enjoy retirement.

R
I
S
K
S

Source: Northwestern Mutual "Mitigate The Six Risks Of Retirement" April 2017

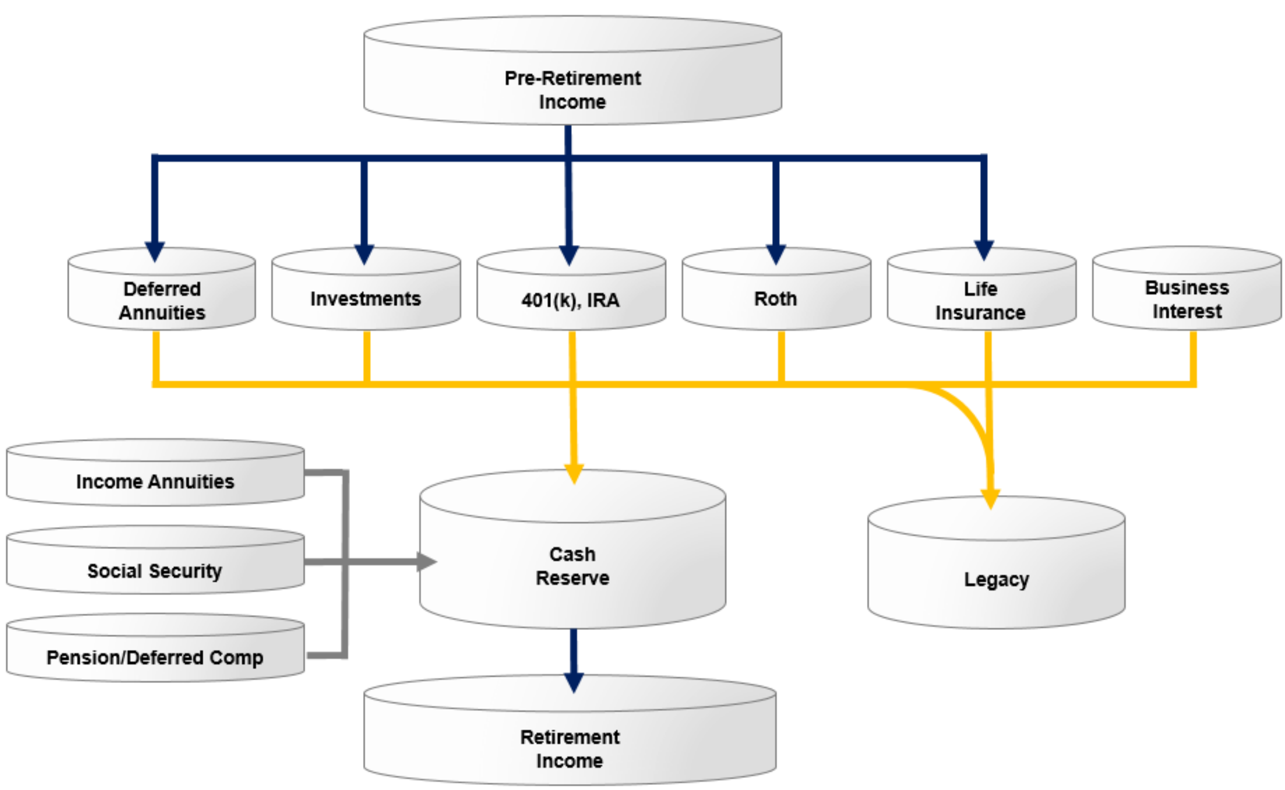
D. **Suggested Retirement Income Vehicles**

Now that we have identified the risks, let's review how to tackle these issues and decipher what options you have.

- Retirement income requires both planning and action. When strategizing for your retirement you should consider your goals, develop a personalized financial plan, implement your strategies, and annually review your plan.
- Financial professionals are a great resources for further education and to help with risk management, wealth accumulation, and retirement income preservation and distribution.
- Multiple retirement options provide flexibility and help minimize impact of market volatility, tax uncertainty and longevity.
- Have to determine what your business interest is it a source of income, capital or leaving a legacy?

This diagram shows the most commonly used personal financial planning strategies for generating successful retirement income

> "Creating flexibility and options helps an individual with market volatility, tax uncertainty, and longevity."



Source: Northwestern Mutual "5 Must-Do's When Saving For Retirement" January 2016

III. ARE YOU PREPARED FOR A SUCCESSOR?

A. KEY CONSIDERATIONS

As we discussed in our last Whitepaper *Bank Succession Planning: The Facts That Must Be Addressed*, a succession planning is when an organization has a plan in place for the unexpected in order to keep a company's operations running as smoothly as possible. The purpose of long-term succession planning is to create an ideal plan for the future that takes into account the organization's goals, culture and philosophy. This is a fluid plan that is affected by many factors and consists of many subtopics. However, the ultimate goal remains constant – a smooth and strong transition between the CEO and successor.

"the ultimate goal remains constant – a smooth and strong transition between the CEO and the successor."

It is crucial for senior management to identify potential internal candidates to fill key leaderships positions, as well as developing these talented people in a systematic way that will help them succeed in carrying out the bank's goals and objectives. Equally as important is to successfully retain the existing key officers while making them better performers, and the bank a better performing organization.

At the end of the day, once all of these important contingencies are addressed, the business owner must be in a financial position to step away from the business on his/her terms leaving the organization in the hands of the new senior leadership team and the board.

"the business owner must be in a financial position to step away from the business on his/her terms and leave the new senior leadership team and Board to the institution"

As stated on page 5, the retirement income bucket strategy will greatly assist in personal financial success which allows for smooth succession transitions and for executives to retire on their terms.

Retirement Income → Succession → Retire

B. Critical Decisions

According to The Wall Street Journal's "Is There Really a Retirement-Savings Crisis" article published on April 24, 2017, "based on data from the U.S. Federal Reserve's Survey of Consumer Finances… half of today's working-age households won't be able to maintain their preretirement standard of living in retirement. The reason is simple: We need more income because we are living longer and continue to retire relatively early." Adding to the difficulty, interest rates are at historic lows, pensions are quickly vanishing, 401(k)'s are most effective when a company auto enrolls their employees, and more. Yes, there is in fact a retirement-savings crisis.

> "because we are living longer and continue to retire relatively early… yes, there is a retirement-savings crisis."
>
> *-Wall Street Journal*

Again, without proper retirement income planning, a succession plan will not be successful. EBN believes that business owners must tackle the below discussion points so that contingencies are fully thought through and well-structured.

List of Critical Decisions:

1. **DATE:** Determine a desired retirement date.
2. **CONTROL:** Can you retire on time according to you retirement income? Should you give up control of the business? If so, how and to who?
3. **FINANCIAL SECURITY:** Discuss your mortality and morbidity - living too long, dying too soon, becoming disabled, etc.
4. **OBLIGATIONS:** Determine financial obligations including mortgages and personal guarantees.
5. **GOALS:** Define personal and professional goals - before and after retirement.
6. **PLANNING:** Retirement, succession, and legacy planning
7. **FAMILY**: Consider dealing with potential heirs. Determine if business should stay with family.
8. **QUALIFY:** Establish successor candidates. 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?

> "Once these conversation discussion points are considered, succession planning will be more effective and realistic."

Once these conversation discussion points are considered, succession planning will be more effective and realistic.

C. Case study Scenarios

Now that we have taken retirement planning and succession planning into account, we are going to explore two scenarios that a Bank could see.

MEET BOB:

- Age: 61
- Desired Retirement Age: 63
- Worked at Bank for 25 years
- Paid off his home mortgage
- Still 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 presumed to be his successor.

MEET DONNA:

- Age: 52
- Desired Retirement Age: 63
- Donna has worked at the Bank for 15 years with Bob and is Bob's #2 person
- Paid off her home mortgage
- Still has a mortgage on cottage
- Has investments - 401k, IRAs, and life insurance
- More specifics:
    - Donna wants 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

D. Case Study 1 - 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 age 63.
- Based on his modeling, Bob needs to work another 5 years, so he now expects to retire at age 68.
- Bob's succession and retirement plan have not been clearly articulated to the Board and his #2, Donna, at the Bank.
- 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 age 68.

How this impacts business:

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

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 anew successor proves difficult.
- Bob finally decides to sell the Bank at age 65.
- Because the Bank was not strategic, Bob was not able to maximize the sale price (more of a forced sale)

"Because the Bank was not strategic, 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

E. 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 has formally asked Donna to be his successor and Donna accepted the opportunity.
- Bank established Nonqualified Deferred Compensation Plan for Donna as an incentive to stay..
- Bob continues the development and training for Donna.
- Donna, in turn identified her “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 smooth transitions.
- The Bank is thriving and with no notable negative consequences.
- Current ownership structure remains intact.

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.

> “Proper retirement income planning and succession planning lead to smooth transitions”

F. Key Takeaways

Personal Retirement Planning

1. Work with a Financial Advisor do 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 a 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.

IV. CONCLUSION

Still wondering if you're 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.

Also, please join EBN as we dive into Part Three of Bank Succession Planning covering Employee Stock Ownership Plans (ESOP's). When selling a business, an owner should always understand what their long-term retirement goals are and how those plans may impact the business. Ultimately, the owners long-term goals will help shape whether to sell the business or if it should pass on to family members or other existing employees. EBN will educate you on how to properly prepare for ESOP's and how to maximize selling your business with this strategy.

"EBN specializes in Nonqualified Deferred Compensation Plans, Estate and Succession Plans, as well as comprehensive retirement planning for business owners."

Contact us & more information!

Visit www.ebn-design.com for more developing information on this topic!

For all comments and questions please contact David Fritz.
Office: (414) 431-9688. Email: dfritz@ebn-design.com

Subscribe To Our Newsletter

Sign up!

EBN Insights

http://ebn-design.com/resource-center/newsletter/

LinkedIn

Follow Us!

Executive Benefits Network – EBN

www.linkedin.com/company/executive-benefits-network-ebn/

About Executive Benefits Network - EBN:

As the leading industry advisor, EBN specializes in the customized design, administration, and informal financing of Nonqualified Executive Compensation and Benefit Plans (Deferred Compensation Plans) as well as the procurement of Bank Owned Life Insurance (BOLI) programs to attract, retain, and reward key executive talent. We emphasize the importance of education and build long-lasting relationships with clients, we can service in all 50 states, and we have access to the highest rated insurance companies in the nation. Lastly, we believe that no two companies are alike in their needs; therefore, customization of executive benefit and compensation plans is paramount to a successful program.

Executive Benefits Network

833 E. Michigan St. | Suite 1480
Milwaukee, WI 53202
Phone 414.431.3999
Fax 414.431.9689
www.ebn-design.com

About the Authors:

R. David Fritz Jr., CLU®
Managing Partner
dfritz@ebn-design.com
Office: (414) 431-9688

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.

Patrick J. Marget, JD, CPA, CFP®, CLU®
Managing Director
pmarget@ebn-design.com
Office: (414) 431-9681

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 as a senior accountant in audit for KPMG in the bank service area and 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 and is an active member in the State Bar of Wisconsin. He is a frequent speaker in industry meetings and seminars. He is a member of the Community Bankers of Iowa, Iowa Bankers Association and Wisconsin Bankers Association.