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# Succession Planning: The Facts that Must be Addressed

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## Succession Planning

As the Senior Leadership teams approach retirement, creating and developing the company's succession plan is critical. Equally as important are the issues of retirement planning, estate planning and key employee retention.

The experts of (EBN) partner with companies to ensure that retirement is discussed, explored and planned for. With EBN's guidance through this process, the end result is the development of a succession plan that the company, its leaders, and regulators are comfortable with.

The following are key topics that must be acknowledged and addressed to ensure a smooth transition and future viability of the company.

- I. Short Term Succession
  - Preparing for the unexpected and emergency situations
- II. Long Term Succession
  - An ideal plan for the future encompassing the organization's long-term goals
- III. Management Succession
  - Identify Key People
  - Management Retention
  - Development of Future Leaders
- IV. Shareholder Succession
  - Liquidity for buyouts
  - List of potential new shareholders
- V. Board Succession
  - Criteria for Board tenure
  - List of potential new Board members

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***“To ensure your company passes to the next owner, it is important to begin planning now.”***

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## I. Short-Term Succession

The purpose of short-term succession planning is to have a plan in place for the unexpected in order to keep the company's operations running as smoothly as possible.

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 company?
- Who would the person or persons be that would assume the executive's position in the near-term while being mindful of the company'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?

It is critical to build a deep and strong bench to provide the company solutions for when short-term situations require immediate actions. It is never too early to begin to develop your bench, and to continue to provide the depth, skills, and training these future leaders may require. The company must "practice what it preaches" and do the same evaluation internally.

## II. Long-Term Succession

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 (some of which are mentioned later). The ultimate goal, however, remains constant – 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?
- Would it be better to hire younger talent or someone more experienced? How will this affect the culture of the company - good or bad?
- Who will mentor the team of future leaders and should the organization look to the outside for support?
- How long should the transition period be?

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***"It is never too early to begin to develop your bench."***

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## II. Long-Term Succession (continued)

One of the most critical decisions a Board must make is picking the right candidate or candidates. A wrong selection can ruin the culture of the company and affect customer retention. Additionally, it is important for the company leadership and the Board to chart the future course the company will take in its community and within the competitive landscape. The most important thing the Board can do is to paint a vision that the staff can buy into and support across the organization.

## III. Management Succession

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

Key Considerations:

- Key People
  - Who are the company'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, 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 company.
  - What are the gaps in the existing plan(s)? What do the various generations of talented employees want that is different?
  - Are the talent and compensation aligned?
- Development of Future Leaders
  - Who are the company's future leaders? Are they at the company now or does the company need to look outside for talent?
  - What training, development and mentorship is being provided?
  - How will they be incentivized financially?

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***"Companies that promote from within often outperform those that recruit outsiders."***

***- Indiana University & A.T. Kearney***

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### III. Management Succession (continued)

Clearly, your key people must be compensated differently to ensure their long-term continued employment. Utilizing incentive-based retention plans or traditional Supplemental Executive Retirement Plans (SERPs) are the most common forms of financially tying key executives to the organization. It is not uncommon to see multiple plan designs within a single organization to meet the needs of the different levels of responsibility. This is an important area that cannot be ignored.

Too often Boards and company leadership teams will say that people work at their company because of the culture, and they do not want to work in another setting. That may work for many employees, but when a good competitor comes calling with the right amount of compensation offered, do not expect your best talent to stay just based on your culture.

### IV. Shareholder Succession

It is critical to discuss how aging shareholders or the next generation who may not be interested in the company, who are going to be cashed out and how new shareholders are going to be brought in.

Key Considerations:

- How is the company structured?
- Does the company have the ability and obligation to buy-out large shareholders?
- Who would be potential new shareholders? Are they needed/wanted?
- For family and private companies:
  - Who in the next generation will be involved in the company?
  - Will everyone in the next generation obtain ownership? (*Objective: Transferring the **right property** (i.e., 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 company, 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.

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***“It can cost up to 65% more to hire an outsider, while 40% of those leaders last just two years.”***

***- Indiana University & A.T. Kearney***

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## IV. Shareholder Succession (Continued)

Key Considerations:

- Does the company 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 company or the holding company to provide the required liquidity in the event of a key shareholder's death?

Regardless of the type of ownership, communicating with your shareholders as to the company's approach to shareholder liquidity and the disposition of stock will be one of the most important factors and maximizing the value of the stock upon a transfer. Communication with the shareholders on a regular basis takes away any uncertainty and keeps the shareholders supporting the organization. This is critical if a company sale or merger is contemplated.

## V. Board Succession

The Board of Directors needs to be comprised of the right people to reflect the strategic priorities of the shareholders. As the company's long-term succession planning develops, it is important to ensure that the Board composition is in alignment.

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 company need?
- Who would be potential new Board members?
- What is the criteria for Board tenure?
  - Desirable qualities and skills
  - Age limits
  - Term limits

Each community has leaders who can provide the company with unique skill sets that will provide depth to the company management team and making key critical strategic decisions. It is often hard to say goodbye to a long-time Board member who has been a loyal backer of the company; however, if the skill sets do not match the company's needs, it is best to move forward.

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***“Communicating your plan is key - a plan no one knows about is no good.”***

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## Conclusion

The area of retirement planning for the owners and the executive leadership team are often over-looked. Too many banks are forced to sell because of a lack of retirement planning foresight by Boards, CEOs and other senior leaders. EBN provides some practical ways the bank can avoid this "forced sale scenario" and provide the bank with the best options to maximize the value of the bank going forward.

## 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) and Corporate Owned Life Insurance (COLI) programs to attract, retain, and reward key executive talent. We emphasize the importance of education and build long-lasting relationships with clients in all 50 states, and we have access to the highest rated insurance companies in the nation.

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