

Driving Agency Value Through Perpetuation: A Sample Incentive Plan

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A Perpetuation Stock Incentive Plan is a plan that could put an independent insurance agency on the right track.

The plan is a checklist for ownership criteria, a mechanism to mold shareholder attributes, a process for producers to acquire stock, and a vesting schedule to glue producers to the agency.

The example plan, below, assumes that an agency provides a stock bonus, subject to five-year vesting, equivalent to 30 percent of the value attributable to growth in a producer's book of business above a 15 percent net growth goal.

If the percentage shared with producers is crafted properly, the dollar increase in agency value achieved by the existing shareholders will more than offset the resulting percentage dilution in ownership.

To ensure that participants have some skin in the game, the plan calls for the recipient of the stock bonus to match the bonus with a purchase of stock from the agency. Those who forgo the stock bonuses will send a clear signal that they are not willing to buy out a primary shareholder when the day comes for a large ownership transfer.

Under the example plan, agents must meet ten objective and subjective criteria to be eligible.

Such a plan will not suffice as a complete perpetuation plan and may not be the most tax friendly. However, it does tie ownership to performance, provide a coherent definition of what it takes to become an owner, and can put an independent agency in a position to attract and retain the staff willing to take the risk to make perpetuation a reality.

The benefit of this plan is it takes the mystery out of a question on the minds of many agency principals: "Will our producers be willing to pull a dime out of their pocket when it is time for my buyout?"

Perpetuation Stock Incentive Plan

PSIP Goals:

1. Provide a method to test producer willingness and comfort with perpetuation debt
2. Provide a stock incentive mechanism for producers to increase net growth beyond 15% target
3. Provide management with a tool to attract, shape and retain quality production staff
4. Put producers in a position to drive stock ownership and personal net worth
5. Enhance production of new and existing producers to enhance agency value
6. Increase agency attractiveness to internal and external buyers by broadening employee ownership, enhancing growth and improving employee morale
7. Provide a checklist to illustrate the personality traits and performance required to become an owner

PSIP Plan:

1. Qualified producers receive a stock bonus equal to 30% of the value of the net growth in their book of business in excess of 15%
2. Bonus shares received will be subject to a five-year vesting
3. Producer will be responsible for the taxes associated with the stock bonus
4. Prerequisite to stock bonus; recipient to purchase an equivalent number of shares at appraised value
5. Agency will hold a note from eligible bonus recipients that purchase shares from the agency
6. Vested bonus shares will be held as collateral and released as debt is retired to the agency
7. To be eligible, a producer must attain the following performance criteria:

Objective Criteria

- a. 3+ years experience in industry
- b. 3+ years experience with agency
- c. Individually develop commission book of \$500,000
- d. Net new business production goal of 15% during prior year
- e. Attainment of cross-referral goals during the prior year
- f. At least one professional industry designation
- g. Involved in at least two community organizations
- h. Signed agreement with nonsolicitation language
- i. Satisfy employee survey-peer perception of leadership/management skills
- j. Achieve targeted receivables goal during the prior year

Subjective Criteria

- a. Ability to communicate with others in the agency
- b. Skills: new business, account handling, management, leadership
- c. Committed to the future of the industry
- d. The individual is a self-starter who regularly demonstrates initiative
- e. Personal confidence
- f. Ability to delegate
- g. Opinion of agency principals
- h. Positive attitude
- i. Demonstrated willingness to mentor younger producers
- j. Field underwriting that demonstrates diligence and integrity

Source: MarshBerry