



IT'S YOUR LIFE

Stay Bonuses: Incentives to Help Retain Key Employees After a Business Owner's Death

The unexpected loss of an owner is a big shock to a business. The sudden change can cause a ripple effect that threatens the entire organization. Some forethought might help avoid uncertainty in business succession while satisfying the owner's wishes.

Take the following example:

Bob is the third generation to run his family business. His son and daughter, who he hopes will be the fourth generation, are active in the business, but neither have all the necessary skills to take over and successfully run the business if Bob should die suddenly. There are three key employees who could keep the business successful until the children are ready to take over. The employees know Bob wants his children to take over and have no designs on ownership themselves.

Bob is concerned that they might not want to stay if he dies.

Bob has key person life insurance coverage on himself to provide cash flow to cover debt and some money to compensate for his loss, as long as his key employees stay with the business. However, he is concerned that this might not be enough to retain his valuable employees.

Bob may consider a Stay Bonus program, a prearranged plan with funding that rewards key employees for toughing it out in the first years after losing the owner. With such a program, Bob would prearrange funding (usually with a life insurance policy) so that, if they keep the business running profitably, the business could give them each a bonus after a specified period of time. The terms of the bonuses — amounts, timing, conditions, etc. — can be customized to fit Bob's circumstances and requirements. He chooses whether to discuss this contingency plan with key employees. If not, a designated person, such as his attorney, could discuss the plan immediately after Bob's death to determine if they are willing to stay. If the Stay Bonus program is not needed, the accumulated values in the policy may be used as a retirement exit bonus for the business owner.

Think of a Stay Bonus program as a disaster recovery plan for management. It helps employees refocus, forms a common bond, and provides a protective barrier against recruiters. It demonstrates, at a critical time after a loss, how much a business owner values and appreciates team members.

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