BUSINESSDIMENSIONS

FINANCIAL STRATEGIES FOR THE ENTREPRENEUR

Recruiting and retaining top talent

How offering stock, RSUs and deferred compensation plans can help

Did you know that in 2021, half of employees under the age of 35 rated equity compensation as “important” when thinking about switching jobs? And that restricted stock units (RSUs) have now become the most common type of this kind of equity compensation? As a business owner, offering stock is becoming a must-have on the list of things to offer potential new employees, as well as in retaining valuable team members. Here’s what to consider.

WHAT’S EQUITY COMPENSATION?

First, equity compensation is not a cash vehicle. As a business owner, you outlay no cash to offer this incentive or compensation. This can be an upside for startups that may be cash-strapped. You may want to put cash into another part of the company, like a new growth initiative or capital expenditure that will improve your position long term, but need to entice talented staff to stay the course while the yields of your investments take shape.

TYPES OF EQUITY COMPENSATION

There are performance shares, stock options and RSUs. Performance shares are awarded in conjunction with meeting benchmarks or performance targets. They are a great way to incentivize or sweeten the deal with executives who have specific metrics to meet, and can supplement cash incentives or be used on their own.

Regular stock options are regular shares of your stock that have an agreed upon “strike price.” You set a purchase price in advance, and your employee has the option to exercise that right at any time to buy stock. These require a vesting period so that employees are incentivized to stay with your company longer term.

Among 325 companies that were surveyed, 72% used RSUs in their executive compensation programs. RSUs usually have a vesting schedule, but as soon as they vest, employees can do whatever they like with them – just as if they bought them like any other stock.

QUICK OVERVIEW

Stock options

- Employees don’t have to exercise the right to buy the shares
- Encourages employees to stick with a company for a longer term with a vesting schedule

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Recruit and retain (cont.)

- Negotiating an optimal strike price keeps employees engaged
- Employees can sell or transfer the stock when they purchase the stock at vesting time
- You can build in an expiration date so that the stock has to be purchased by a certain point in time

RSUs

- Less risk for employees
- RSUs are always worth something – no strike price to consider
- Most used type of equity compensation
- Worth full value at time of vesting
- Don't have to pay dividends during vesting period
- Save on costs around custody and proxy voting

Performance shares

- Granted when a milestone is met
- Great to incentivize employees as an add-on or standalone
- Usually are not outright shares of stock
- Link stock to long-term performance of company
- Create strong alignment between employees and the performance of the company
- Investor-friendly

DEFERRED COMPENSATION

Deferred compensation is another way to entice executives. Simply put, part of your employee's pay is held now for disbursement later. If highly compensated and over 50, an employee can take maximum catch-up contributions and substantially reduce their tax burden. Income tax is also deferred for the employee until compensation is paid out – which could be when they retire. If they're in a lower tax bracket at retirement, they can potentially save on taxes.

BENEFITS

- Another tool in the executive compensation toolbox
- Can result in tax savings for the employee
- Can incentivize highly compensated employees

As with all types of compensation packages, there is no one-size-fits-all. Determine your goals, evaluate your options and talk to your advisor about structuring the right plans for your company. ■

WORK THE PERKS

Here are a few other perks some of the big guys offer. While these may not be applicable to your business, they might spark some ideas in this tight labor market.

"Unlimited" vacation days

Netflix, Oracle and LinkedIn are just a few that offer unlimited vacation days. While it may evoke visions of employees slacking off, the opposite is true. Employees remain accountable to company goals as they are still assessed on meeting their performance targets.

Focus on family – and furry friends

With the "Great Resignation" in the wake of COVID-19 in 2021, more people started to reassess priorities. Family, friends and, yes, even the furry ones began to take center stage. When you think about perks, think about how they could extend to your workforce's entire family – from dependents to pups. We're talking childcare, online camps; pet care or pet health insurance; bring your child, grandma or pet to work days – even if it's just on Zoom; elder care support, activities or meal services; fun meals and recipes the whole family can cook together; and mental health resources. All of these can make your employees feel like you care and could increase loyalty.

Wellness

Maintaining self-care, mental health and fitness has become more of a challenge with employees working from home over the past two years. Company-sponsored Zoom yoga or HIIT workouts, self-care boxes filled with anything from healthy snacks to luxurious hand lotion that are shipped to your staff's homes, and offering mental health resources through an employee assistance program or other service all go a long way toward letting employees know you see them and hear them. Financial wellness programs, too, could help elevate your company's benefit offering.

NEXT STEPS

As you can see, recruiting and retention strategies take some thought and planning. Here are some things to think about for 2022.

- Take a look at your compensation packages – are they in line with the current market?
- Consider adding nonmonetary perks like flex time or flexible vacation days.
- Talk to your advisor about different compensation options.

Sources: vlplawgroup.com; forbes.com; HBR.org; eqapplied.com; indeed.com; investopedia.com; execcomp.org; foley.com

Taking your seat at the table

Get to know the responsibilities of joining a board

Perhaps you're a longtime supporter of a favored community organization and are interested in taking your involvement to the next level by joining its board of directors. Or maybe you've already been approached to join but aren't sure what will be expected of you in terms of time, money and other commitments. As with many great opportunities, serving on a board means taking on some responsibility too. Here's what to think about when getting started.

YOUR TIME

Most boards hold seven meetings a year, at about two to four hours each, according to BoardSource. On average, members serve two terms of three years each, and in general the position is unpaid.

YOUR REPUTATION

If you have a direct financial relationship to the nonprofit (such as being its landlord or legal counsel), serving can pose a conflict of interest risk. Board members must put the interests of the organization before their own.

YOUR FINANCIAL SUPPORT

According to BoardSource, it's recommended for boards to set a range or a minimum amount for each member to give, often generously. Board members may also be expected to provide names of potential donors and to meet with them to procure donations.

YOUR EXPERTISE

Responsibilities can include fundraising, advocacy, community-building and outreach. Will your skill set help the institution raise funds or operate more efficiently?

WORTH CONSIDERING

IS IT A FIT?

Serving on a board should be a positive experience. Make sure your values align with those of the organization, as well as those of existing board members.

ABOVE BOARD

You'll officially be a steward of the organization's resources and assets. If a nonprofit doesn't pay enough in payroll taxes for its employees, for example, the IRS can hold the board negligent. To guard against this risk, ask about the group's liability insurance and possibly secure your own as well.

POTENTIAL PERKS

Serving on a board comes with benefits. You can gain greater leverage to support a mission you care about, network with professionals and like-minded individuals and establish yourself as a leader in your community or field.

No matter how you choose to give, make sure the time, financial commitment and benefits are a match for your current bandwidth. ■

NEXT STEPS

Serving on a board can be a great way to contribute to your favorite cause – but make sure the time and investment work for you. Here are some ideas to get started.

- Research organizations you believe in or already donate to. Is there an opportunity to get more involved?
- Tap into your advisor as a sounding board. As members of the community, they might have some good insight to share.
- Take a look at the amount of time you might have to share with an organization. Would it be better to donate in some other way?

Sources: boardnetUSA.com; forbes.com; boardeffect.com; thebalance.com; BoardSource, "Leading with Intent"

Proactive asset protection

Personal assets deserve the same protection as your business

Along with the rewards of business ownership come risks – including risks to personal assets should action be brought against your business. Insurances, diversification, smart management and good hiring are ways to protect your professional assets, but it's imperative to learn how to protect your personal assets.

DIVERSIFY YOUR LEGAL INSTRUMENTS

Begin by separating your personal world from your professional one by making your business a standalone company. This includes choosing the type of entity your business will be; it matters.

Though popular, sole proprietorships and general partnerships leave owners liable for any company debts, judgments and lawsuits, and creditors can lay claim to both personal and business assets. For more rigorous protection of personal assets, consider the primary benefits of an S or C corporation or a limited liability company (LLC). In an S corporation, shareholders can be held liable only for the money they invest in the business, and creditors are unable to seize personal assets in the event of a lawsuit or other loss. In a C corporation or LLC, there is limited legal liability for directors, officers, workers and shareholders.

All corporate documents should be created by a qualified attorney and kept readily available. Annual maintenance includes paying the required fees to the state, holding mandatory meetings and keeping minutes. Maintain separate financial accounts for your personal life and business and use the company name on corporate documents.

ADD ANOTHER LAYER

If your corporation owns property, you can add a second layer of separation between your personal assets and anyone seeking damages from an injury that occurs on the property by having the property owned by a separate LLC. Make sure the entity has a written procedure in place for fixing hazards when identified. Consult an attorney to determine if a strategy like this is right for you.

INSURANCE IS A MUST

Rather than targeting the assets of the business, someone seeking damages can pursue the money available through insurance. Purchase the right amount and kind of insurance – type varies depending on whether you rent property, own a rental property, or operate a professional practice or retail space. A knowledgeable insurance agent can advise you on what you need and help you reassess your needs annually.

Once established, maintain your strategy to provide years of protection while you grow your business. ■

NEXT STEPS

Protecting your assets is just as important as protecting your business – especially when *you* are the business. Some things to think about:

- Decide what business structure works best to protect you from actions against your business.
- Ask your advisor about an owners-only 401(k) as these vehicles can prevent loss of retirement savings in the event of a lawsuit to your business.
- Talk to an insurance agent to make sure you have the right amount and types of coverage.

Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional.