



Net Income Plan Design Process Step Notes

Net Income Plan Overview: A Net Income based incentive plan is typically used in smaller organizations with a sole owner or just a few joint owners. It provides funds returned to the Company for future growth, dividend payments to the owner(s), and incentive payments for employees.

All relevant email templates, meeting agendas, module training, plan costing templates and plan document templates mentioned throughout this document are assessable by using the “Quick Links” under the Incentive/Bonus Plan Development Modules Resources/Net Income Plan Development Module Resources. See Attachment A.

Step 1 – Planning Phase: (Phase II on the ICP Development Process Collateral sheet). This is the first step in creating the actual structure of the incentive plan chosen by the client and is known as the Planning Phase. Send email #2 “Incentive Plan Option Selected”. To facilitate this phase of the project, schedule a meeting with the client and use the Incentive Compensation Plan Project Meeting Agenda #2. (*Refer to Meeting Agenda Template folder.*) Use the structure template for the Net Income Plan and begin to tailor the plan for the client.

1. Meeting Agenda #2: During this meeting, the following items will be discussed.
 - a. Discuss Net Income plan structure.
 - b. Determine how many levels of Net Income achievement is desired.
 - c. Determine what percentages will be assigned to Back to Company, Dividends and Incentives.
 - d. Determine what Net Income dollars will be assigned to the various levels of achievement.
 - e. Determine eligible percent of pay for each achievement level of Net Income.
 - f. Confirm the plan will pay annually.
2. Determine how many levels of achievement with Net Income the client desires, e.g., Target, Stretch, Outstanding.
3. Next, decide what weighting will be assigned to Back to Company, Dividends, and Incentives. All weightings should total 100%.
4. Determine what the actual Net Income dollars will be assigned to the various levels of achievement determined in #2 above.
5. Determine eligible percent of pay for each achievement level of Net Income.
6. Calculate the Back to Company, Dividends, and Incentive dollars that will correspond to each level of achievement based on Net Income dollars and weightings.
7. Refer to the sample Net Income Structure illustrated below.



COMPANY NAME
SAMPLE NET INCOME SHARING
INCENTIVE COMPENSATION PLAN

	Target	Stretch	Outstanding
Net Income	\$500,000	\$1,000,000	\$1,500,000
1/3rd (33% Back to Company)	\$165,000	\$330,000	\$495,000
1/3rd (34% to Dividends)	\$170,000	\$340,000	\$510,000
1/3rd (33% to Incentives)	\$165,000	\$330,000	\$495,000
Funds Payout as % of Employee Salary	5%	10%	15%

1. Can make percentages whatever is desired between three categories.
2. Need to model eligible employee salaries to see what percent the incentive dollars amount would fund.

8. A Net Income plan is typically designed that the payout percentage is the same for all employees, e.g., Target = 5%; Stretch = 10%, etc.
 - a. The payout percentage can vary by employee group type; however, this is not common in this type of plan.
9. A Net Income plan always pays annually as it is based on a full fiscal year of results.
10. Once the incentive plan structure has been completed, shared with the client, and approved, send email #3 "Incentive Compensation Structure Completed".
 - a. If still finalizing the structure, send the email when the structure is complete.

Step 2: Terms and Conditions Template: All incentive plans have a document which outlines the terms and conditions of the plan. The Terms and Conditions document has areas requiring decisions relative to plan administration. *(Refer to Plan Documents Template folder.)*

1. Schedule another meeting with the client. To facilitate this step in the project, use the Incentive Compensation Plan Project Meetings Agenda #3. *(Refer to Meeting Agenda Template folder.)*
 - a. Prior to the meeting, create and send a draft of the Terms and Conditions document to the client along with the meeting agenda.
 - b. The consultant should make comments and/or recommendations based on their working knowledge of the client.
 - c. The template has a place for the consultant to document company decisions made during this meeting. *(Refer to Plan Documents Template folder for template.)*
2. Meeting Agenda #3: During this meeting, the following items will be discussed.



- a. Discuss terms and conditions (previously sent) and gather feedback. Once the terms and conditions are finalized, a bonus plan document will be written.
 - b. Discuss and gather information to model the cost of the plan.
3. The Terms and Conditions topics to be discussed and decided upon are as follows.
 - a. Eligibility: Who is eligible to participate in the plan? Date of effective date of responsibility or if hired by a certain point in year?
 - b. Corporate Policies: Any there any corporate policies that must be followed, i.e., Code of Business Conduct, quality, etc.?
 - c. Terminations: If an employee resigns or is terminated, is the employee eligible for a prorated payment? Prorated payment for monthly or quarterly factors? Annual factors not paid unless employed on December 31 or fiscal year-end or at pay-out time?
 - d. Disability: Is eligibility maintained when on an approved leave?
 - e. Payment Review: Are employees responsible for reviewing and confirming the accuracy of their bonus payments? If so, does the company want a payment responsibility clause? For example, "Within XX days after a payout is received, an employee can bring forward any discrepancies in calculation for consideration. After the XX-day period following receipt of a payout, if the employee or the company does not bring forward any issues and/or concerns, the calculation and payment are considered final."
 - f. Plan Modifications: Will the company have a statement that the company reserves the right to interpret the provisions of any Incentive Compensation Plan, and to amend, suspend or terminate any plan at any time without notice?
 - g. Below is an example of the Net Income plan Terms & Conditions Review and Decisions document.



Area	Comment and Recommendation	Company Name Decision
Eligibility	Eligible to participate on effective date of responsibility or if hired by a certain point in year?	
Corporate Policies	Any corporate policies that must be followed – i.e. Code of Business Conduct, Quality, etc?	
Terminations	December 31 or fiscal year-end or at pay-out time?	
Disability	Eligibility may vary by state. Employees have a state disability law. Typically, the company is responsible for their bonus when they are on leave. Typically, the company is responsible for their bonus when they are on leave.	
Payment Review	Employees should be reviewing and approving their bonus calculations. Following the review, the employee calculation for the bonus is final. If the employee calculation is not approved by the employee, the bonus payment are considered final.	
Plan Modifications	Will have a statement that the company reserves the right to interpret the provisions of this Profit-Sharing Plan, and to amend, suspend or terminate any plan at any time without notice.	

Company decisions should be discussed and entered in the spaced provided.

4. Share with the client a plan document will be written once the terms and conditions of the plan are finalized.
5. The last agenda item is to gather information needed to cost model the plan. (Refer to Step 4 for detailed information on Financial Modeling.)
 - a. Provide the client with the Net Income Blank Census Template. (Refer to Plan Costing Template folder.) The census should contain the employees name, position title and annual salary (as of specified date) of all incentive plan participants.
 - b. Ask the client to complete the template and return to the Consultant.
 - c. Below is an illustration of a Net Income Blank Census Template. A completed Net Income Census Template can be found in the Plan Costing Templates Folder.



Company Name - Census Data - XX.XX.XX

EE Name	Position Title	Annual Base Salary as of xx.xx.xx
		\$0.00
		\$0.00
		\$0.00
		\$0.00
		\$0.00
		\$0.00
		\$0.00



6. Send email #4” “Terms and Conditions Determined” once all decisions have been made and agreed upon by the client. *(Refer to Email Templates folder.)*

Step 3 – Building Phase: (Phase III on the Incentive Compensation Plan Development Process Collateral sheet) Draft Plan Document: Throughout the incentive compensation design process, the consultant has obtained the necessary concepts, plan design elements and terms and conditions needed to prepare the plan document.

1. At this point in the process, the consultant should prepare a draft of the plan document using the Net Income Plan Document template. *(Refer to Plan Documents Template folder.)*
2. Finalize any incomplete items.
3. Customize the plan document to the Client.
 - a. Add Client logo, Client Name throughout the document, adjust plan definitions if needed, customize plan eligibility, objectives, award targets, performance assessment award calculation, and terms and conditions as agreed upon by the client for their Net Income plan.
4. A draft of the plan document will be sent to the client in Step 5 with along with Meeting Agenda #4. *(Refer to Meeting Agenda Template folder.)*

Step 4 – Testing Phase: (Phase IV on the ICP Development Process Collateral sheet) Financial impact / Cost Modeling: Modeling the cost to implement the proposed incentive plan is critical to its’ success.

1. Modeling needs to be conducted at all plan performance achievement levels. *(Use Excel template titled “Net Income Plan Cost Modeling Blank Template” template; refer to Plan Costing Template folder.)*
2. The consultant will typically perform the cost modeling activity.
3. Copy and paste the three columns of employee data *(EE Name, Position Title and Annual Base Salary as of XX.XX.XX)* from the Net Income Completed Census template into a Net Income Plan Blank Cost Modeling template. *(Refer to Plan Costing Template folder.)*
4. Next, enter the payout percentage levels for each Net Income performance level across the top of the spreadsheet.
 - a. This information will be obtained from the Net Income Structure template that was agreed upon by the client *(Step1)*.
5. Payouts are computed by taking the employee's defined annual salary and multiplying that by the payout percentage. Create formulas in the spreadsheet to calculate payouts at the various achievement targets. **Payout formulas will need to be modeled in accordance with the plan’s design.**

Example:

Annual salary of plan participant = \$45,000.00

Net Income Achievement Target = 5%

Bonus earned = \$2,250.00

$(\$45,000 \times 5\% = \$2,250.00 \text{ Bonus Payment})$



6. Next, sum the totals of payouts at the various levels.
 - a. Confirm the formulas at the bottom of the spreadsheet are calculating correctly.
 - b. Ensure that the sub-totals by the levels of achievement do not exceed the dollars for incentives on the structure.
 - c. Payout percentage levels may need to be adjusted not to exceed the available dollars for incentives or payout percentage levels may be increased if dollars are still available.
7. Below is an example of a completed Net Income plan cost modeling. *(Example can be found in the Plan Costing Template folder.)*

Company Name - Net Income Plan Modeling - Date xx.xx.xx

EE Name	Position Title	Annual Base Salary as of xx.xx.xx	Net Income		
			Target	Stretch	Outstanding
			Payout Percent		
			5.0%	10.0%	15.0%
Employee A	Position A	\$36,400.00	\$1,820.00	\$3,640.00	\$5,460.00
Employee B	Position B	\$35,360.00	\$1,768.00	\$3,536.00	\$5,304.00
Employee C	Position C	\$42,640.00	\$2,132.00	\$4,264.00	\$6,396.00
Employee D	Position D	\$37,440.00	\$1,872.00	\$3,744.00	\$5,616.00
Employee E	Sum totals illustrating costs at various payouts levels.	\$65,000.00	\$3,250.00	\$6,500.00	\$9,750.00
Employee F		\$41,600.00	\$2,080.00	\$4,160.00	\$6,240.00
Employee G		\$41,600.00	\$2,080.00	\$4,160.00	\$6,240.00
Employee H		\$37,440.00	\$1,872.00	\$3,744.00	\$5,616.00
Employee I		Position I	\$36,400.00	\$1,820.00	\$3,640.00
Employee W	Position W	\$42,500.12	\$2,125.01	\$4,250.02	\$6,375.03
Employee X	Position X	\$37,440.00	\$1,872.00	\$3,744.00	\$5,616.00
Employee Y	Position Y	\$31,200.00	\$1,560.00	\$3,120.00	\$4,680.00
Employee Z	Position Z	\$41,600.00	\$2,080.00	\$4,160.00	\$6,240.00
SUB-TOTALS		\$1,047,967	\$52,398	\$104,797	\$157,195

Enter a formula that will calculate the bonus amount for each plan participant.

Step 5 – Review of Costs Modeling and Plan Document: This next step in the project involves ensuring the organization can afford to implement the incentive plan, review of the financial modeling of plan costs, finalizing the plan design, and making any revisions to the plan document.

1. Schedule a meeting with the client to discuss the results of the financial modeling.
 - a. Prior to the meeting, send a copy of the completed cost modeling spreadsheet as a PDF file or as an excel file *(with all formulas removed)* and the draft plan document along with the Meeting Agenda #4 *(Refer to Meeting Agenda Templates folder.)*
2. Meeting Agenda #4: During this meeting, the following items will be discussed.
 - a. Review cost modeling. Are any changes needed?
 - b. Review of the “draft” plan document.



3. Conduct the meeting.
 - a. Is the client comfortable with the plan costs?
 - b. If the client approves the cost modeling, send email #5 "Plan Costing Completed" after the meeting. (*Refer to the Email Templates folder.*)
 - c. If no, move to Step 6: Revision of Plan Costing.
4. Review the draft plan document with the client and discuss any concerns or requested revisions to the plan document.

Step 6: Revision of Plan Costing: Based on the cost modeling meeting, the client may find that the plan costs are more than anticipated.

1. If this occurs, modify the eligible achievement percentages of pay by the amount the client feels are affordable.
2. Revise the cost modeling spreadsheet based on the plan modifications.
3. Send a revised cost modeling copy to the client.
4. Continue modeling the plan costs until such time the client gains alignment.
 - a. Once the final cost modeling is completed and approved by the client, send email #5 "Plan Costing Completed". (*Refer to Email Templates folder.*)

Step 7 – Finalization Phase (*Phase V on the Incentive Compensation Plan Development Process Collateral sheet*) Finalization of Plan Document and

Resolution of Outstanding Issues: After you have made changes to the draft plan document from meeting #4 (*Step 5; #4*), schedule the final meeting with the client with the purpose of gaining alignment on the final plan document.

1. Prior to the meeting send Meeting Agenda #5 (*Refer to Meeting Agenda Templates folder*) along with the final plan document.
2. Meeting Agenda #5: During this meeting, the following items will be discussed.
 - a. Review final plan document.
 - b. Wrap-up any outstanding issues.
3. This meeting serves as the "final walk-through" for the plan document and to wrap up any outstanding issues.
4. During this meeting, ask the client if there are any outstanding issues.
 - a. Discuss and resolve any issues.
5. Once the plan document is complete and finalized, and all outstanding issues relative to the plan have been resolved, send email #6 "Plan Document Completed". (*Refer to Email Templates folder.*)

Step 8 – Final Step of the Project: Once all documents have been completed, sent to client, and all outstanding issues are resolved and finalized, send the Final Email "All Deliverables Completed". (*Refer to Email Templates folder.*)



ATTACHMENT A

**INCENTIVE / BONUS PLAN DEVELOPMENT MODULE RESOURCES
NET INCOME PLAN DEVELOPMENT MODULE RESOURCES**

