



Profit Sharing Plan Design Process Step Notes

Profit-Sharing Plan Overview: A Profit-Sharing based incentive plan provides direct or indirect payments to employees that depend on company's profitability in addition to employees' salary. Distributions are based on the profits of the organization.

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/Profit-Sharing 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 Profit-Sharing 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 Profit-Sharing plan structure.
 - b. Determine financial metric for the plan and how many levels of achievement with the financial metric the client desires.
 - c. Determine payout percent awards for each level of financial metric achievement.
 - d. Determine if eligible percent of pay will be the same for all or different by employee level.
 - e. Confirm the plan will pay annually.
2. Determine the financial metric for the plan that will be utilized to determine the plan's performance.
3. Next, decide the minimum financial metric that must be achieved for the plan to pay.
 - a. Subsequent financial metric levels should then be established depending on how many achievement levels the client desires.
4. Refer to the sample Profit Sharing Plan Structure illustrated below.



COMPANY NAME
SAMPLE PROFIT SHARING BASED
INCENTIVE COMPENSATION PLAN

Actual Net Income to Budget	Payout Percent
Less than or equal to 10%	0%
Exceeds by 10.01 to 15%	2%
Exceeds by 15.01 to 20%	3%
Exceeds by 20.01 to 25%	4%
Exceeds by 25.01%+	5%

Example Year-End Calculation:

Payout of 3% is earned x \$35,000 employee earnings = \$1,050 Bonus Payment

5. Payouts for this plan will be completed annually by taking the performance earned times the employee's annual salary. The client may want to include overtime earnings in their salary definition. If the client does not include overtime in the salary definition, they may have to recalculate an additional overtime payment based on the profit-sharing payment. The client should be advised to consult with their payroll department and a labor law attorney to determine how salary will be defined.
6. A Profit-Sharing plan is typically designed that the payout percentage is the same for all employees, e.g., 3% achievement, 4% achievement, etc.
 - a. The payout percentage can vary by employee group type; however, this is not common in this type of plan.
7. A Profit-Sharing plan always pays annually as it is based on a full fiscal year of results.
8. 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 Profit-Sharing 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 and leave. Typically have a state disability law.	
Payment Review	Employees responsible for reviewing and approving their bonus payments. If bonus is received, an employee calculation for the following day period by the employer 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 Profit-Sharing 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 Profit-Sharing Blank Census Template. A completed Profit-Sharing 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 Profit-Sharing 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 Profit-Sharing 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 “Profit Sharing 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 Profit-Sharing Completed Census template into a Profit-Sharing Plan Blank Cost Modeling template. *(Refer to Plan Costing Template folder.)*
4. Next, enter the payout percentage levels for each financial metric across the top of the spreadsheet.
 - a. This information will be obtained from the Profit-Sharing Structure template that was agreed upon by the client *(Step1)*.
5. Payouts are computed by taking the company performance earned times the employee’s defined annual salary. You will need to 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 = \$35,000.00

Profit-Sharing Achievement Target = 2%

Bonus earned = \$700.00

$(\$35,000 \times 2\% = \$700.00 \text{ Bonus Payment})$



6. Next, sum the totals of payouts at the various levels.
 - a. Confirm the formulas at the bottom of the spreadsheet are calculating correctly.
7. Below is an example of a completed Profit-Sharing plan cost modeling. (*Example can be found in the Plan Costing Template folder.*)

Company Name - Profit Sharing Modeling - Date xx.xx.xx

Note: Financial Metric and Profit Sharing Percentage Payout to come from Plan Design.

EE Name	Position Title	Annual Base Salary as of xx.xx.xx	Actual Net Income to Budget				
			= 10%	10.01 - 15.0%	15.01 - 20.0%	20.01 - 25.0%	25.01+%
			Payout Percent				
			0.0%	2.0%	3.0%	4.0%	5.0%
Employee A	Position A	\$36,400.00	\$0.00	\$1,274.00	\$1,456.00	\$1,638.00	\$1,820.00
Employee B	Position B	\$35,360.00	\$0.00	\$1,237.60	\$1,414.40	\$1,591.20	\$1,768.00
Employee C	Position C	\$42,640.00	\$0.00	\$1,492.40	\$1,705.60	\$1,918.80	\$2,132.00
Employee D	Position D	\$37,440.00	\$0.00	\$1,310.40	\$1,497.60	\$1,683.60	\$1,872.00
Employee E	Position E	\$65,000.00	\$0.00	\$2,275.00	\$2,600.00	\$2,925.00	\$3,250.00
Employee F	Position F	\$41,600.00	\$0.00	\$1,456.00	\$1,664.00	\$1,872.00	\$2,080.00
Employee T		\$880.00	\$0.00	\$1,528.80	\$1,747.20	\$1,965.60	\$2,184.00
Employee U		\$900.00	\$0.00	\$1,092.00	\$1,248.00	\$1,404.00	\$1,560.00
Employee V		\$440.00	\$0.00	\$1,310.40	\$1,497.60	\$1,683.60	\$1,872.00
Employee W		\$500.12	\$0.00	\$1,487.50	\$1,700.00	\$1,912.51	\$2,125.01
Employee X		\$440.00	\$0.00	\$1,310.40	\$1,497.60	\$1,684.80	\$1,872.00
Employee Y	Position Y	\$31,200.00	\$0.00	\$1,092.00	\$1,248.00	\$1,404.00	\$1,560.00
Employee Z	Position Z	\$41,600.00	\$0.00	\$1,456.00	\$1,664.00	\$1,872.00	\$2,080.00
SUB-TOTALS		\$1,047,967	\$0	\$36,679	\$41,919	\$47,159	\$52,398

Sum totals illustrating costs at various payouts levels.

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 is 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
PROFIT-SHARING PLAN DEVELOPMENT MODULE RESOURCES**

