



Perpetuation Planning

DE-RISKING YOUR AGENCY





70%

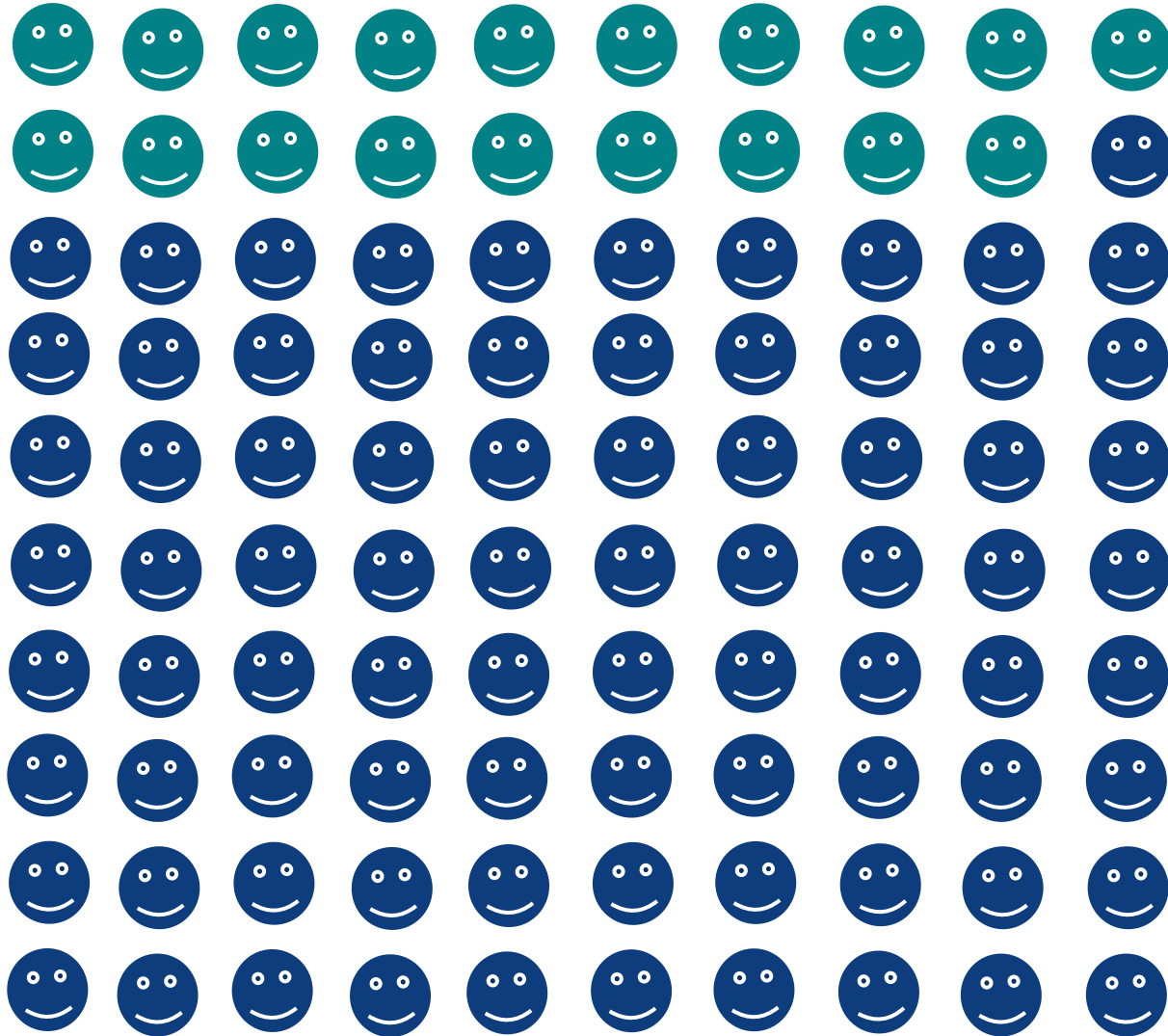
**of all agencies have a
single owner**

#1

**risk inside an agency is
having no plan**



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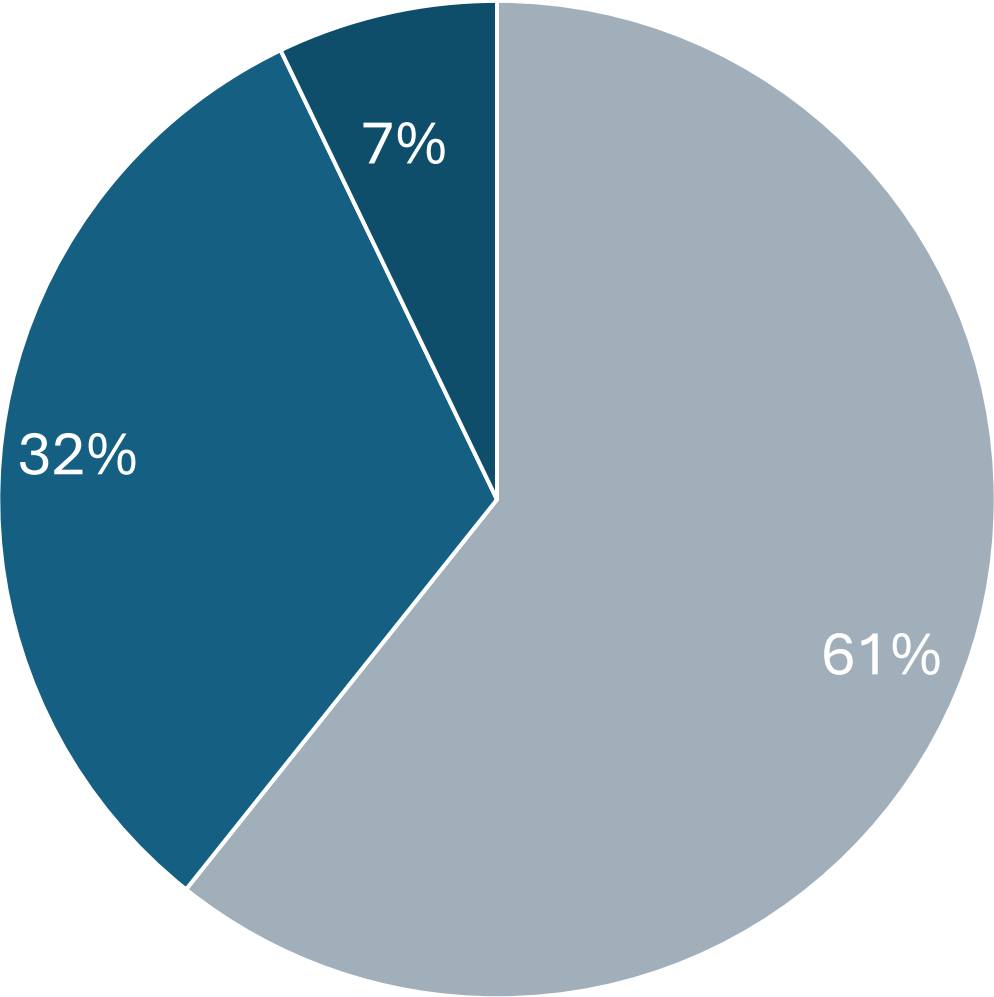
93%

Do NOT
have a written
perpetuation plan

Agency Universe 2022: 89% have
some type of a tool or plan in place



ISU ATP Agencies Perpetuation Plans



■ No ■ Yes ■ Yes, but it is out of date

Common Reasons why agency owners DO NOT have a plan

- Time
- Fear
- No candidates
- Not ready to leave yet
- It is overwhelming to think about

Reasons to have an internal transition plan

- **Mitigate risk in an agency** – sudden unexpected events
- **Plan for the future** - systematic transitions
- **Attract and retain talent** – one of the best advantages in our industry. You can incent high performers that display owner abilities
- **Increase the value of your agency**

Discussion Topic

Perpetuation Plan Highlights

Activity Break

Disaster Preparedness Checklist

Use this checklist to identify the critical documents, contacts, and access points someone would need if you were unexpectedly unavailable.

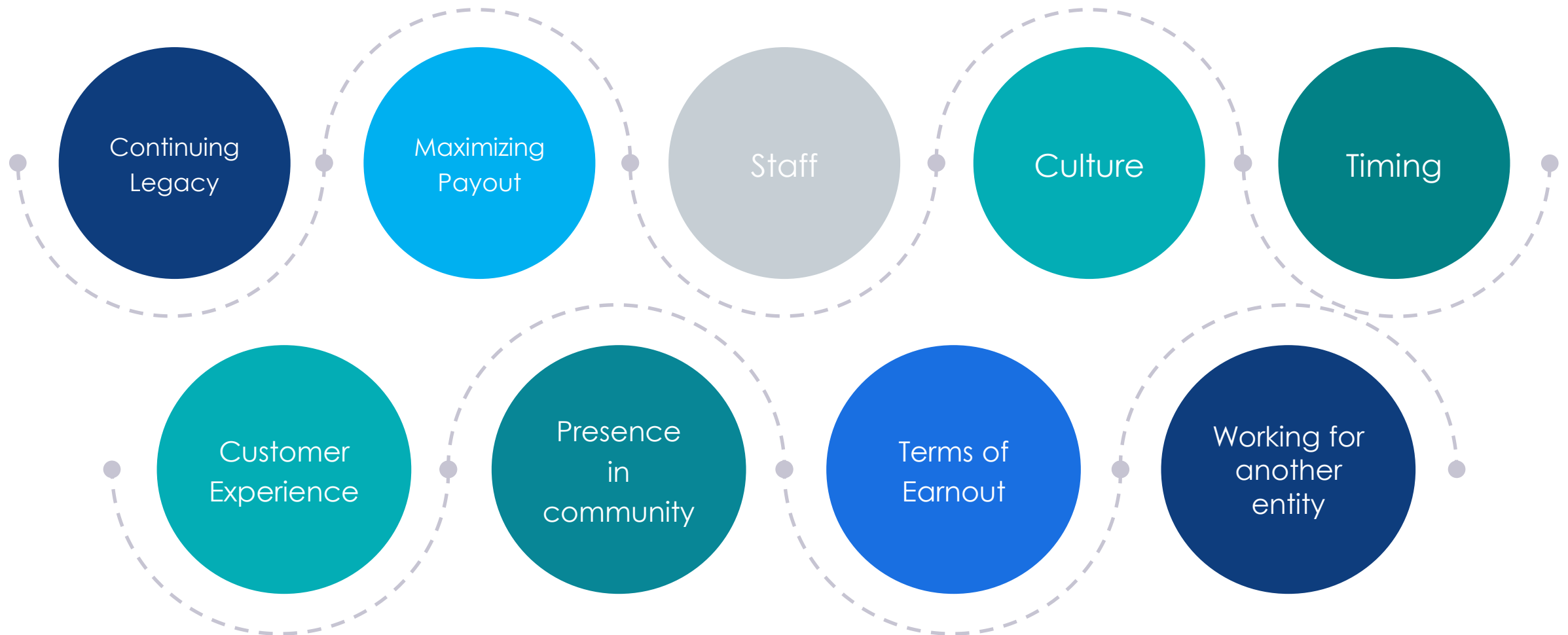
Check off what you already have in place and note where improvements are needed.

A silhouette of a person in a contemplative pose, with their hand resting on their chin, set against a warm, golden sunset background. The person is looking towards the right, and the sun is visible as a bright glow on the horizon to the left.

Step #1

Define what is most important to you!

Decision: What matters most?





Questions to Consider – Discussion

- Timing
- Ongoing involvement
- Time to Mentor
- Willingness & Ability of Potential Successor
- Need to Hire/Replace
- Contribution prior to ownership
- Partner Timing & Expectations



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Step #2 Get Informed

Fair Market Valuation

It's not just a number.



Benchmarks for your agency



Understand the factors driving your Fair Market Value



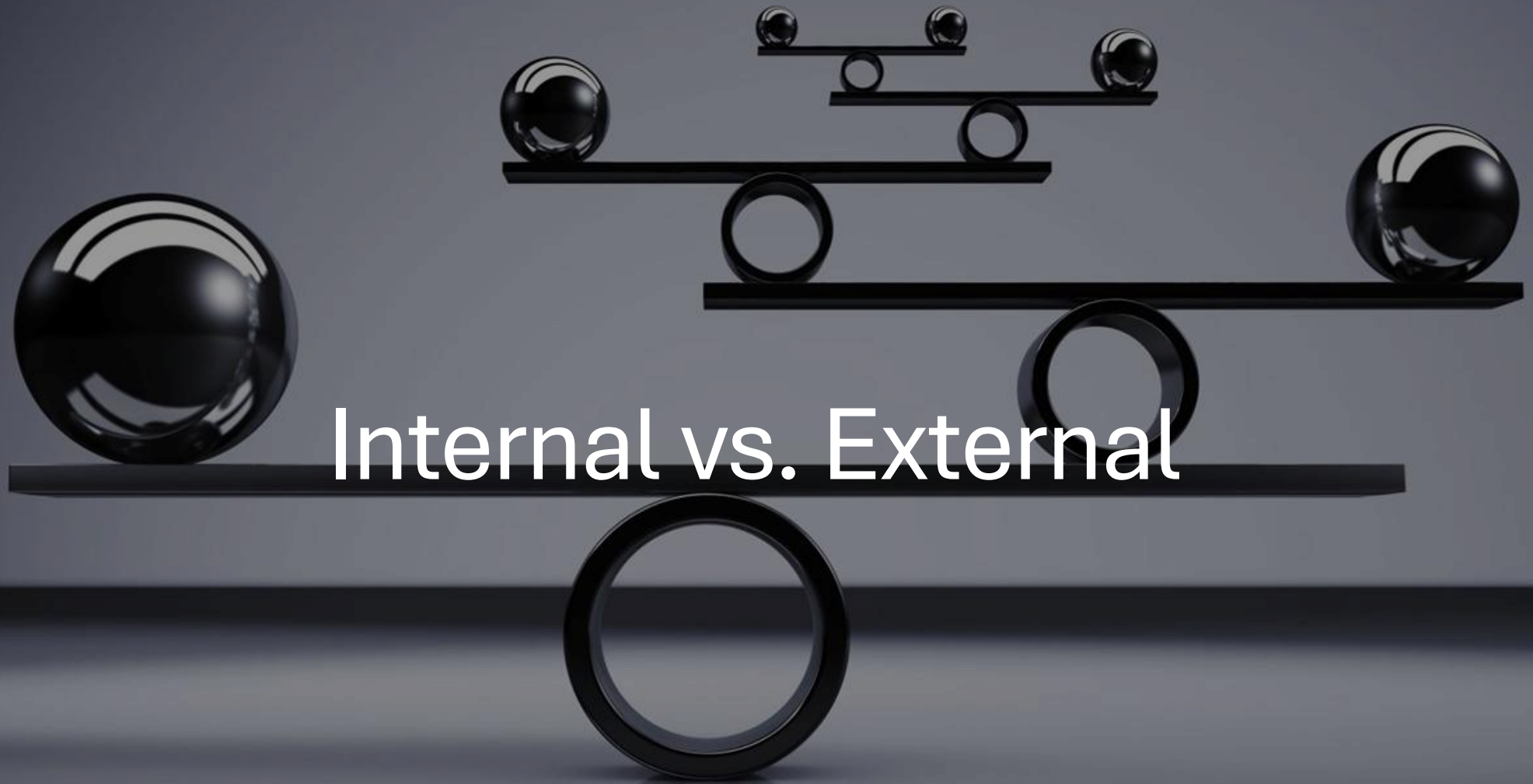
Identify your Risk Factors



Identify the actions you can take to improve your value.



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Internal vs. External

Step #2 – Communicate

WHEN?

WHO?

WHAT?

WHERE?

HOW?



Identify Players in an Internal Transition or External Process?

- Partners
- Potential Successors
- Key Employees
- Key Partners and Contacts
- Resources to assist in the event of a sudden unexpected life event
- Compensation



Questions Current Agency Owners

- Do all owners share the same desire to perpetuate?
- Do agency owners understand and appreciate the personal goals of each owner, including their plans for retirement?
- Candidates
 - Have you defined the criteria for your successors
- Financial
 - Can you afford to retire?
 - Continued income?
- Timing



Activity Break

Owner Dependency Risk Assessment

Score each item from 1 to 5
(1 = High Risk, 5 = Low Risk).

This assessment helps you identify where your agency relies too heavily on the owner and where you can begin building independence.



Eligibility

- Performance and size of book
- Experience in agency
- Aptitude and temperament for leading a team
- Testing for skills needed to be a business owner
- Ability of current owners to work with future owners as partners



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Incoming Owners Questions To Consider

- Goals in the next 3-5 years
- In what areas would you like to take on additional responsibilities?
 - Management
 - Production
 - Other
- Given your current responsibilities, will you be able to take on additional responsibilities?
- How would you transition your current duties to enable you to accept additional responsibilities?
- Do you want to increase ownership / become an owner?
- Willingness to take on personal debt?



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Activity Break

Successor Matrix Questionnaire

Think about the key people your agency depends on whether they're formal leaders or not.

Use the questions provided to identify who's in place, who might be missing, and how prepared your team is for the future.

Factors Impacting Internal Sale Model

- Current Owner Compensation
- Benefits & Perks
- Ongoing involvement and compensation
- New Owner Compensation
- Hiring Needs
- Change management
- Price expectations
- Bank Loan/Owner Financing
- Deal Structure/Time
- Gifting/Discounts



A photograph of two women sitting at a wooden desk in a modern office setting. The woman on the left has long white hair and is wearing a dark blue button-down shirt. The woman on the right has dark hair and is wearing glasses, an orange turtleneck, and a black leather jacket. They are both looking at a laptop screen and a document on the desk. The background shows large windows and a modern interior.

Transition Topics

- **Leadership**
 - Who will lead the agency?
- **Customer Relationships**
- **Carrier Relationships**
- **Communication Plan**
 - How will the transition be explained to current customers & staff?



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THINGS THE POTENTIAL OWNER SHOULD DO

- Communicate
- Learn about the business
- Are they ready?
 - Financial
 - Personal
 - Professional
- Timing
- Cultural Fit
- Seek out advice





Step #3 - Build your Team



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What will they need to know?

- Logins & Passwords
- Key functions & responsibilities
- Contacts for Carriers, Banks, Advisors
- Resources available to assist your family & team in the event of a sudden unexpected life event

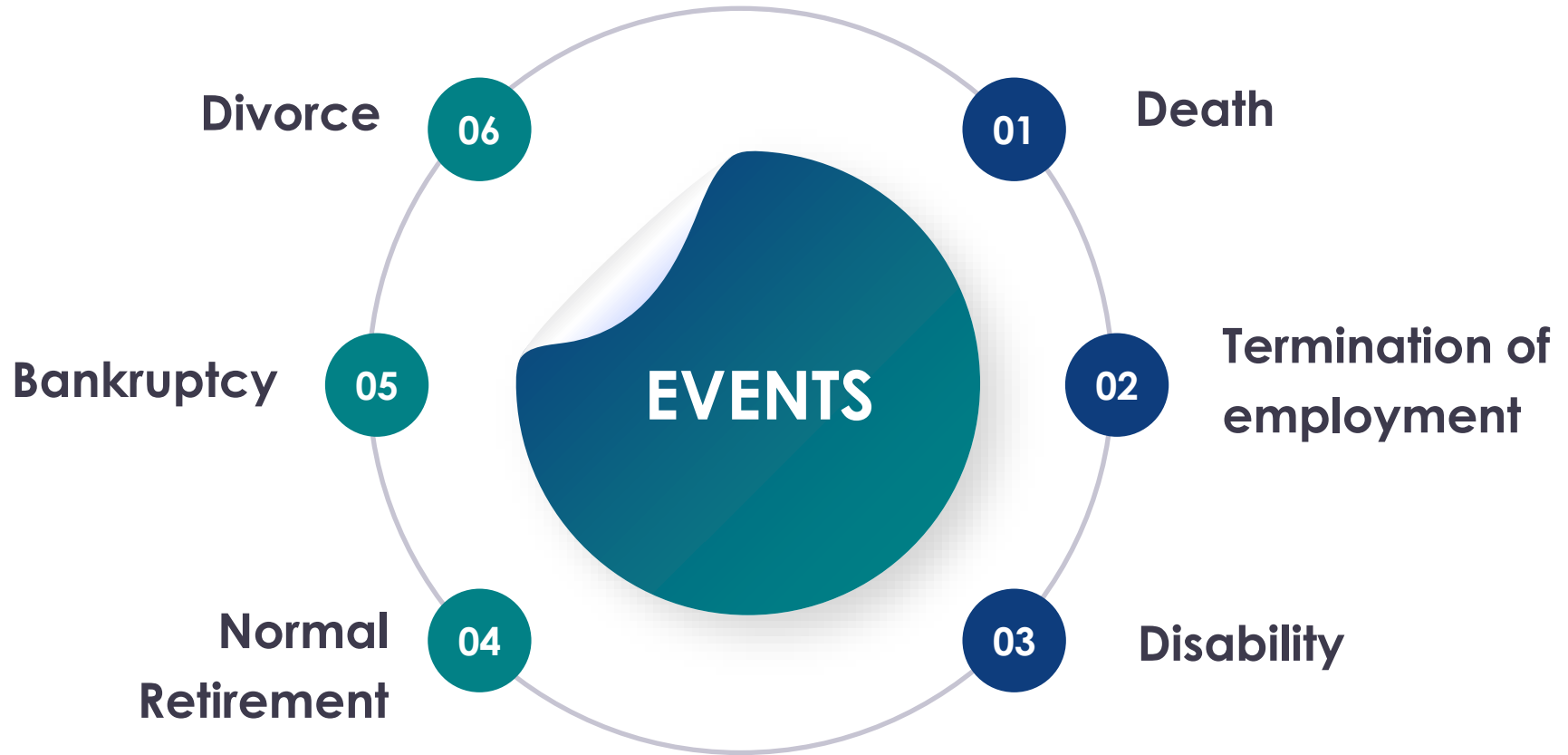


Contingency Buy-Sell Agreement



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Consider the Triggering Events





Define the funding sources?

Cash & Investments

Life Insurance

Disability Coverage

Line of Credit

Loan – owner held vs. bank





Common Mistakes

- Waiting too long
- Unrealistic Price
- Lack of communication
- Unrealistic expectations
 - current and next generation
- Not willing to invest in expertise & go it alone
 - (legal, financial or valuation)
- Inadequate Documentation



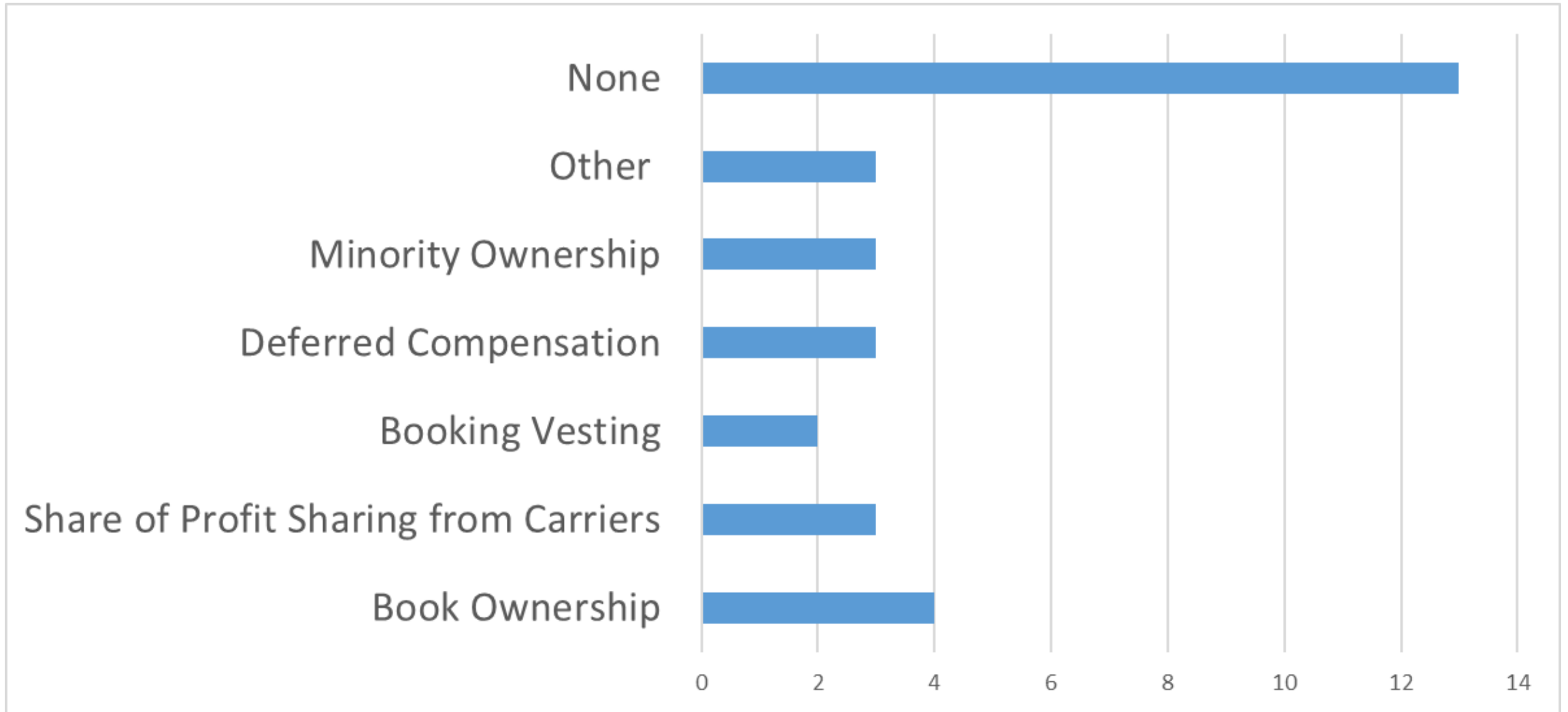
Best way to Prepare

- Time is either your friend or enemy
- Planning puts you in control
- Knowledge prevents panic
- Seek out advice
- Review your plan regularly

A dark blue background featuring a faint, stylized image of a magnifying glass. The magnifying glass is positioned diagonally, with its handle extending from the bottom left towards the center and its lens focused on the text. The text is white and reads "Building Incentive Programs".

Building Incentive Programs

Group Current Incentive Strategy



People

your biggest asset

- Compensation Structure
- Benefits
- Employee & Producer Contracts
- W-2 vs. 1099
- Producer-owned Books
- Pathway to ownership



1099 Definition

The biggest distinction between a W-2 employee and 1099 worker is the amount of control you have over them. **With a W-2 employee, you have the right to direct the work being performed.** That means giving instruction and providing the tools, training, and equipment to complete the work. You also set their hours and schedules.

Conversely, the general rule is that a **worker is an independent contractor if you have the right to control only the result of the work, not what will be done, how, or when.** As a result, 1099 contractors use their own methods and tools for completing work. Even though they may work for a specific project or period, they do it on their own schedule. **And they can provide similar services to other businesses** and can accept or turn down work opportunities as they wish.

- **Behavioral Control:** Do you have the right to control what the worker does and how? If so, they're likely an employee. If, on the other hand, the worker has freedom and discretion in performing the work, they're probably a contractor.
- **Financial Control:** Do you control the business aspects of the worker's job, like how they're paid and whether expenses are reimbursed? If the answer's yes, they are more likely an employee. But if the worker incurs their own expenses, that points more to a contractor arrangement.
- **Relationship:** Does your company have an ongoing relationship with the worker and are there benefits? If you answer yes to this, then you probably have an employee. Ditto if the work performed is a key aspect of your business.

Common Incentive Structures

- Producer-Owned Books
- Stock/Ownership
- Deferred Comp
- Phantom Stock



Considerations to Select the right incentive option

- What is the purpose?
- What behaviors are you trying to incentivize?
- Who is eligible? – current & future positions
- What % of the company will be reserved for the plan?
- Will participants receive base value or only the growth over the base value?
- Is the potential payout in line with the company's compensation and business objectives over the same time-period?
- Frequency of grants
- Vesting Schedule and triggers – death, disability, retirement, etc.
- Valuation method – formula or valuation
- Timing for cash payouts – and mechanism (lump payments or installments)
- Does it include profit-sharing rights?

| | Stock | Phantom Stock | Compensation Incentive | Book Ownership |
|--------------|--|---|---|---|
| Reward | Past, current & future performance NO retention component | Past, current & future performance YES retention component | Past, current & future performance YES retention component | Past, current & future performance YES retention component |
| Eligibility | Anyone | ERISA limit to “select group of management or highly compensated” | Anyone | Anyone |
| Compensation | Not deferred comp | Non-qualified deferred comp subject to 409A | Can have deferred component. | Compensation based on exit. |
| Grant/Award | Set # Shares | | | |
| Dilution | Will dilute owners, may not impact voting rights | None | None | Will dilute overall ownership in valuation and sale |
| Funding | Not Applicable | No requirement to fund at inception | Based on defined Agreement | No requirement to fund at inception |
| Vesting | Does not apply | Can use to incent ongoing employment | Can use to incent ongoing employment | Determined by exit clause |

| | Stock | Phantom Stock | Compensation Incentive | Book Ownership |
|----------------------|---|---|--|------------------|
| Forfeiture | Can not require – must be defined in a triggering event | Can impact the vested or entire amount | Can impact the entire amount based on contract | Not applicable |
| Income Tax | Upon receipt of award | Upon payment | Upon payment | Upon payment |
| Social Security Tax | When shares are awarded, and employee recognizes compensation | When earned and not subject to forfeiture | Upon payment | |
| Payment | At the discretion of the company owners | Triggering event | Per Contract | Upon Exit |
| Company Deduction | Upon award | When paid | Not Applicable | Not applicable |
| Governance | Need review and amend current articles of Incorporation and By-Laws | None | None | None |
| Other Considerations | One Time and relatively simple | Ongoing administration | Simple agreement | Simple agreement |



Things to Consider

- Purpose
- Eligibility
- Incentive
- Tax implications
- Funding
- Flexibility
- Dilution of existing shareholders
- Transferability
- Cost
- Requirements to setup/maintain
- Agency Ownership & Value

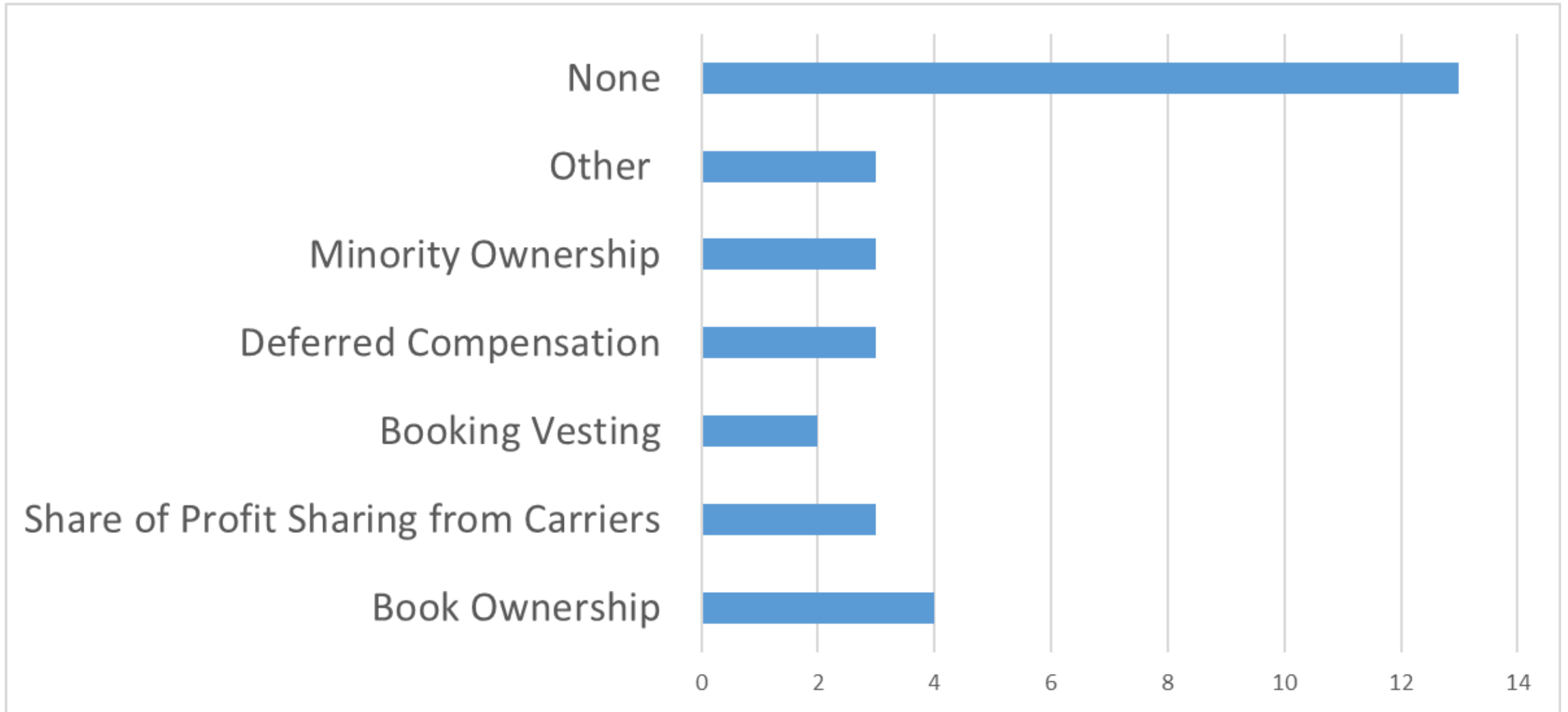
Activity Break

Incentive Strategy Brainstorm

Now that you've identified your key people, brainstorm what would motivate them to stay, grow, or take on more responsibility.

Use the prompts to explore financial, cultural, or career incentives that fit your agency.

Group Current Incentive Strategy



Discussion Topic

Incentive Strategy Brainstorm

- What incentive programs have you put in place?
- What's worked? What hasn't worked?
- Do you have different incentive programs for producers, service & admin? How do they differ?

Activity Break

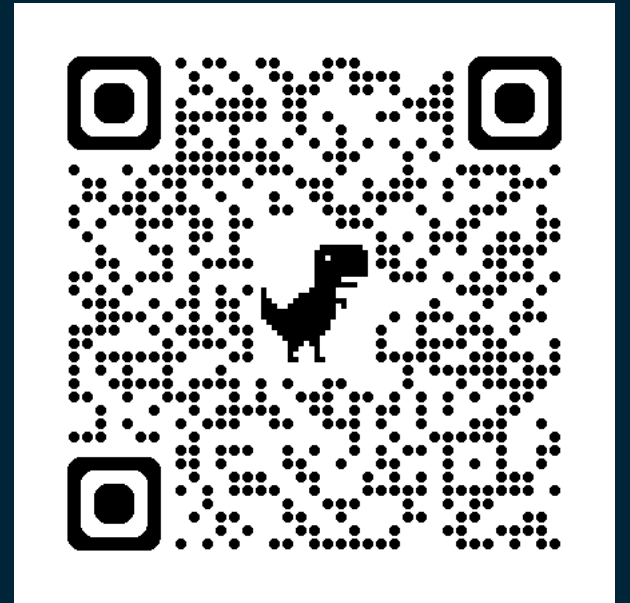
Perpetuation Action Plan

Use this worksheet to reflect on today's activities and outline your next steps.

Summarize key risks, gaps, and opportunities, then commit to 2–3 actions you'll take in the next 90 days.

Thank You!

- Key Terms for a Buy-Sell Agreement
- Perpetuation Questionnaire
- Due Diligence Checklist
- Checklist of Considerations for Acquisitions
- Valuation Metrics
- Calculating EBITDA
- Value Drivers



Upcoming Meetings Reminder:

- May 8th from 2-4pm
- June 17th from 2-4pm

