

A Long Term Incentive Plan (LTIP) can be a great way to reward and retain key employees while avoiding the complications of sharing equity. By tying the amount you deposit in the LTIP to an employee’s annual bonus, you are potentially doubling the rewards that an employee earns for their individual contribution – a significant factor in the satisfaction and loyalty of high performance employees. The following is intended as an example. Before implementing an LTIP for your business, seek the advice of a lawyer who knows employment law in your jurisdiction.

“Each year, you will be given an annual cash bonus based on goals the company sets out for you. This annual cash bonus will be paid within 60 days of the calendar year end. In addition, an amount equal to your cash bonus will also be earmarked for you in a Long Term Incentive Plan (LTIP). Upon the third anniversary of the creation of the Long Term Incentive Plan, and every year thereafter, you will be entitled to withdraw one third of the plan’s total balance.”

The chart below provides an example intended for illustrative purposes only:

	Year 1	Year 2	Year 3	Year 4
Annual LTIP deposit	\$8,000	\$6,000	\$12,000	\$14,000
Total balance in LTIP	\$8,000	\$14,000	\$26,000	\$31,420
Total cash eligible to be withdrawn	0	0	\$8,580	\$10,368