IPSA Guide to LTIPs

LONG TERM INCENTIVE PLANS – AN INTRODUCTION

What is a Long Term Incentive Plan (LTIP)

An LTIP grants units of stock conditionally to participants within the plan. This grant is conditional, as the stock will only be transferred to the participant when certain performance conditions have been achieved, usually after three years.

Objectives of an LTIP

To motivate personal and business performance, to ensure that specified performance conditions are achieved, and conditional units are released to the participant. In addition, an LTIP increases stock ownership levels in an organisation, underscoring the link between employees and the ultimate performance of the business.

How do LTIPs work?

LTIPs generally have performance conditions, which must be achieved prior to the conditional units of stock being transferred to the participant. One of the more common performance conditions is the companies Total Shareholder' Return (TSR) performance over a specified period, again, usually three years. LTIPs of this nature often include a secondary performance condition which measures the company's financial performance relative to a comparator peer group. The objective here is typically to realise a high level of performance relative to this peer group and the extent to which the LTIP will vest, or pay out, will depend on the comparative performance level.

After the expiry of the performance period, and depending on the extent to which the secondary performance criteria have been met, the LTIP will vest and the underlying shares are transferred to the participant. In the event of performance conditions not being met during the performance period, some or all of the conditional grant of stock lapses.

Tax Implications as of 1st September 2013

There are no personal tax implications when a participant is granted conditional units of stock, however, when the LTIP vests, the participant is liable to income tax, universal social charge and employee PRSI on the current market value of the stock released to them. The tax is deducted through the PAYE system. If stock released under an LTIP is immediately disposed of at vesting, there are generally no further issues to consider. However, if an employee chooses to retain the stock and disposes of them at some later date, the capital gain/loss will be subject to the normal capital gains tax rules.

Regulatory & Listing Requirements

As an LTIP involves company stock, which is usually traded on a stock exchange, there are a number of regulatory and listing requirements, which must be met prior to its introduction.

Example

Employee is granted 10,000 conditional units of stock in June 2010.

After three years, the performance conditions have been achieved as to 75%, and thus 7,500 units of stock are transferred to the participant. The value of the stock transferred, is dependent on the stock price, at the time

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