

FOUNDATIONS PHASE

Pool design over time: handling joiners, leavers, and mid-life additions

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A MIP pool sized at closing is rarely still the same pool five years later. People join, people leave, the company raises more equity, and the cap table moves with every one of those events. None of it is dramatic in the moment. All of it matters at exit.

This article is about the part of a management incentive plan that gets the least attention and causes the most trouble: what happens to the pool during the holding period. Not the design at entry, not the waterfall at exit, the years in between, when the programme is supposed to just run.

In practice, "just running" is where most programmes quietly drift out of shape. Vesting accrues. A senior hire joins. Someone leaves under disputed circumstances. The company makes an add-on acquisition and brings new managers into the plan. Each event changes the cap table. Each event needs to be recorded accurately, at the right value, against the right terms. And in many programmes, nobody is clearly responsible for making sure that happens.

What follows is how the moving parts actually work, vesting, the warehouse structure, leavers, joiners, and why the administration of all this is harder, and more consequential, than most teams expect when they start.

Vesting: the time dimension of the pool

Vesting determines how much of a participant's allocation belongs to them economically as time passes. It is the mechanism that ties the incentive to continued contribution, leave early, and you typically forfeit the unvested portion.

In our experience, the common structures look like this:

- Four or five-year linear vesting, accruing on a set frequency, usually quarterly, sometimes annually, with a one-year cliff before any vesting begins.

- Accelerated vesting on a liquidity event, so that an exit before the vesting schedule completes does not leave participants stranded with a large unvested balance. The whole point of the programme is to reward the outcome; accelerated vesting aligns the schedule with the event that actually matters.

The mechanics are straightforward to describe. They are less straightforward to administer, because of a subtlety that catches many programmes out.

THE GAP BETWEEN GRANT AND ISSUANCE

There is often a meaningful gap between when an allocation is granted, agreed in principle, documented in a commitment, and when the instruments are actually issued or transferred to the participant. The two are not the same event, and they can be weeks or months apart.

This makes one question more important than it first appears: what, precisely, marks the start of vesting? Is it the grant date? The issuance date? A separately defined commencement date tied to employment start or deal completion? If the documentation is ambiguous, or if the administration does not track the chosen date consistently, the vested balance for every participant becomes uncertain, and that uncertainty compounds across dozens of people over several years.

The single most useful discipline in vesting administration is to define the vesting commencement date unambiguously at the outset, and to record it consistently for every participant. It sounds trivial. It is the difference between a clean vested-balance calculation and a reconstruction exercise years later.

The warehouse structure: how the pool is actually held

Most programmes do not allocate the full pool to individuals on day one. Instead, the entire pool is issued into a warehouse at inception, a holding structure that owns the unallocated instruments. Participants then receive their allocation out of the warehouse only when they join the plan, and the instruments are transferred to them at the market value applicable at that moment. When a participant leaves, their relevant instruments return to the warehouse, ready to be re-allocated.

The diagram below shows the flow.

The elegance of the structure is also its demand: it only works as a clean, reconcilable system if every transfer in and out is recorded accurately, at the right value, against the right terms, at the time it happens. Get behind on that, and the warehouse stops being a source of truth and becomes a puzzle to be solved later.

Leavers: where the terms meet reality

When a participant leaves, what happens to their instruments depends on their leaver classification, good, early, or bad, and on the specific terms of the programme. In theory this is a clean lookup. In practice it is one of the more contested moments in the life of a MIP.

CLASSIFICATION IS OFTEN DISPUTED

Where a departure is voluntary and amicable, classification is usually straightforward. Where it is involuntary, it is not infrequently contested. The classification determines the repurchase price, and that price can differ materially between categories, so there is real money at stake, and both sides know it. The boundary between a good leaver and an early leaver, or between an early leaver and a bad leaver, is rarely as crisp in a real separation as the base definitions suggest. The base definitions and their pricing consequences are set out in the first article of this series, [What is a management incentive plan?](#) →

WHAT ACTUALLY HAPPENS TO THE SHARES

The treatment depends on the terms and on the circumstances, including how the business is performing and the broader economic environment. A few patterns hold:

- In an upward trajectory, there is always an incentive for the PE fund manager to repurchase. Leaving upside in the hands of someone who has departed means giving away value that could otherwise return to the remaining participants and the fund. So in a healthy business, repurchase is the norm.
- The repurchase price is a function of terms, leverage, and seniority. A senior leaver with negotiating leverage may secure better treatment than the base terms imply. Junior participants typically have less room. The outcome is partly mechanical, partly negotiated.
- Repurchased instruments return to the warehouse, where they become available for re-allocation to new or existing participants.

IT TAKES LONGER THAN PEOPLE EXPECT

A repurchase is not instantaneous. Depending on the jurisdiction, and the legal formalities that come with it, and on the organisation's own processes, settling a repurchase can take several months. That lag is itself a source of administrative drift: between the departure and the settlement, the cap table is in an interim state that needs to be tracked accurately, not assumed.

Joiners: more movement than you planned for

How often new participants join during the hold depends entirely on the policy, the circumstances, and the business. In an active buy-and-build, there is significant movement, each acquisition can bring new managers who need to be brought into the plan. But the broader point holds across deal types: there is generally more inflow and outflow than teams anticipate at the outset, particularly for those doing this for the first time.

Where the new allocation comes from, the existing pool, a proportional issuance, a pre-reserved top-up, or the fund manager alone, is a separate design question with real consequences for who bears the dilution. We set out the four practical methods in a companion article in this series: [Beyond MIP vs MEP, terminology and sizing](#) →

THE TERMS STAY THE SAME; THE PRICE MOVES

New joiners typically come in on the same terms as existing participants, and the programme aims to keep everyone as far as possible *pari passu*. What changes is the price. Allocations are generally made at the prevailing market value at the time of joining, because allocating at anything below market value can create tax consequences for the participant. So a manager joining in year three pays the year-three value, not the original entry price, which is simply the cost of joining a programme that has, hopefully, appreciated.

WHAT IT MEANS FOR THE JOINER

For an ordinary participant, joining mid-hold is not particularly onerous in itself, though the upside may be more limited than for a day-one participant, depending on the valuation at the time and the period remaining until a likely exit. The more senior the joiner, the more negotiable the package.

One practical feature worth knowing: a significant portion of the required investment can often be financed by a loan, in the region of 65 to 75 per cent of the contribution, depending on the tax framework and the company's willingness to extend a loan. This lowers the cash barrier to participation and is a routine part of how programmes are structured, though the precise terms depend on the jurisdiction.

The most common misconception we encounter: teams underestimate how many joiners and leavers there will be over the hold, especially if they have not run a programme before. The pool is not a static allocation made once at closing. It is a living structure that moves with every hire, every departure, and every acquisition.

Keeping the cap table accurate: where it goes wrong

When we are brought into a new programme, the state of the administration tells a story. Early on, when a first allocation round is about to happen or has just happened, things are usually in good shape. Increasingly, programmes are also run on purpose-built platforms rather than spreadsheets, which helps considerably. But a great many programmes are still administered in Excel, and that is where the drift tends to begin.

THE MOST COMMON ERRORS

The errors we see most often are not exotic. They are mundane, and they accumulate:

- Amounts and instrument counts that are not quite right. Sometimes the discrepancy is in the rounding or the settlement of a transaction; sometimes it is a simple error that crept in through imperfect version control.
- Version-control failures. Multiple copies of the same spreadsheet, edited by different people at different times, with no single authoritative version. This is the single most common root cause of cap-table drift in spreadsheet-run programmes.
- Events recorded late, or not at all. A leaver whose repurchase is pending, a joiner not yet entered, an equity round not yet reflected, any event that changes the cap table is an opportunity for the record to fall out of sync.

WHY A PURPOSE-BUILT PLATFORM HELPS

Where a programme is run on dedicated software rather than spreadsheets, several of these failure modes simply disappear. A single authoritative record replaces competing spreadsheet versions. An audit trail captures who changed what and when. Calculations, vesting balances, repurchase amounts, are automated rather than re-keyed. Documents and the cap table live in one place. None of this removes the need for someone who understands the programme to run it, but it removes a whole category of avoidable error.

That said, the right answer is not "always use a platform." It is to have a single source of truth, a disciplined process for recording every event as it happens, and a clear owner. A platform makes that easier; it does not make it automatic.

HOW LONG IT TAKES TO FIX A NEGLECTED RECORD

There is no general number for how long it takes to bring a neglected administration back to accuracy, it depends entirely on how long it has been allowed to drift. The work is essentially backtracking: reconstructing every event that changed the cap table, in order, and verifying the resulting position. The longer the period of neglect, the longer the reconstruction. A programme left unattended for years is not a quick clean-up; it is a forensic exercise.

An honest opinion: the shares never go missing, the truth does

It is tempting to think of a neglected MIP as one where shares have somehow been lost. That is not what happens. Shares cannot go missing, there is always an owner. Every instrument sits somewhere: with a participant, in the warehouse, with the company. The legal position exists whether or not anyone is tracking it.

What goes missing is the administrative truth, the accurate, current, reconciled record of who holds what, vested to what extent, on what terms. And here is the uncomfortable part: that truth does not disappear quietly and stay gone. It has to be reconstructed. The only question is when, and under what conditions.

In our experience, the answer is almost always the same. The reconstruction happens at the worst possible moment, in the run-up to an exit, under time pressure, during due diligence, when the buyer's advisers are asking precise questions and the answers need to be exact. The work that could have been done calmly, a few hours at a time, across the holding period, instead lands all at once, at the point of maximum stress.

The reason this happens so consistently is that, during the hold, nobody clearly owns the MIP administration. It can sit with the CFO, the general counsel, the CHRO, the company secretary, or some combination of them. In practice it often sits with no one in particular, it is a low-priority, faintly tedious task that loses out to more urgent work, until the moment it becomes the most urgent work of all.

This is not a failure of competence. The people involved are capable; they are simply busy, and the task lacks a natural owner with the time and the specific knowledge to keep it current. That gap, between "everyone could do it" and "no one is responsible for it", is precisely where programmes drift.

What it costs at exit

The cost of a neglected programme is rarely a dramatic, headline failure. The deal does not usually collapse because of MIP administration. The cost is more insidious than that.

It is, first, a great deal of work, backtracking, reconstructing, verifying, compressed into the exit window. That work translates into delay and higher cost: more adviser hours, more management time, at exactly the moment those are most scarce.

More importantly, it costs momentum. An exit process has its own tempo, and the organisation is already under strain carrying it. Forcing the same organisation to simultaneously reconstruct years of MIP administration puts it under additional pressure precisely when it can least absorb it. You are not just adding work, you are adding it to a system that is already stretched, which makes everything else harder too.

The deal risk from poor MIP administration is usually modest, but the cost in time, money, and momentum is real, and it arrives at the worst moment. The honest summary: doing it properly takes more time and more resources than teams expect, and doing it late costs more than doing it throughout.

What this means in practice

FOR FUND MANAGERS

Plan for more movement than you expect. Joiners and leavers over a five-year hold will likely outnumber your day-one assumptions, particularly in a buy-and-build. The pool is a living structure, not a one-time allocation.

Assign an owner from day one. The single most effective intervention is to make someone clearly responsible for keeping the administration current, and to give them the time and the knowledge to do it. "Everyone could do it" reliably becomes "no one does it."

Keep it current, not perfect-in-arrears. A few hours of disciplined administration each quarter is cheaper, in every sense, than a reconstruction exercise in the exit window.

FOR CFOS AND MANAGEMENT TEAMS

Define the vesting commencement date unambiguously, and record it consistently. The gap between grant and issuance is where vested-balance uncertainty begins.

Record every event at the time it happens, at the right value. Leavers, joiners, equity rounds, each changes the cap table, and each is an opportunity for the record to drift if not captured promptly and at market value.

Maintain a single source of truth. Whether that is a purpose-built platform or a rigorously controlled single record, the goal is the same: one authoritative version, an audit trail, and no competing spreadsheets.

One last thought

A management incentive plan is not a document you sign at closing and revisit at exit. It is a structure that lives through the entire hold, changing shape with every hire, every departure, and every acquisition. The instruments will always have an owner. Whether the record of those instruments is accurate, current, and ready when it matters is a choice, and one that is made not at exit, but quietly, every quarter, throughout the years in between.

The programmes that are easy to exit are the ones that were never allowed to drift. That is not luck. It is ownership, discipline, and a single source of truth, maintained throughout. That is the work we do at MIP Desk.

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