Securing the Future of Your Practice

We heard loud and clear from advisors, 'We need help. We know what to do for our clients, but we're not sure what to do for our own retirement planning.'

— Sheila Cuffari-Agasi, United Planners' vice president of partner development

A strategy for efficient succession planning

If you're like most advisors, you do a great job planning for your clients, but you haven't given much thought to what will happen to your practice when you retire, or if you don't make it back to the office from lunch one day. You're not alone: Some 93% of advisors don't have a legally binding contract in place for their succession. Some advisors are so busy growing their practices that they haven't taken time to focus on an emergency or planned exit strategy. Others simply love working with clients and don't ever want to stop.

For the sake of your clients, family and yourself, you shouldn't put off these preparations much longer: The average advisor is 55 years old, and crafting a formal, written succession plan is essential to preserving the value of an advisor's practice. "The reason to start early and be diligent in the succession planning process is that it's right for the clients, and it's right for the advisors and their families," says Dave Shindel, president of United Planners. "The longer the transition period between you and your successor, the greater the trust factor with both clients and family."

Yet advisors who start working on a succession plan often are derailed by common challenges that arise during the process. For instance, it can be difficult to find a like-minded and trustworthy successor. Also, the process of valuing the practice and drawing up legally binding documents can be cumbersome and expensive.

In response, United Planners has taken lessons learned over years helping advisors develop their own transition strategies to provide these guidelines for a successful succession planning process. "We heard loud and clear from advisors, 'We need help. We know what to do for our clients, but we're not sure what to do for our own retirement planning,'" says Sheila Cuffari-Agasi, United Planners' vice president of partner development.

Choosing a transition strategy

The first step is to envision your preferred exit strategy so you can define a succession plan that gets you to that goal. Even if you never want to retire, you must consider the possibility that age and ailments could someday make it difficult to continue advising clients.

UNITED PLANNERS
FINANCIAL SERVICES

> **All advisors need, at the very least, a continuity plan that establishes a licensed, qualified, short-term successor to handle your clients in the event of your sudden death or disability.**

FINRA Rule IM-2420-2 states clearly that payments of compensation otherwise due a registered representative to the widows or other beneficiaries would not be deemed in violation of Association Rules, provided a bona fide contract calls for such payments.

"As I get older I may kid myself that I'll have the same level of energy as I had before, but I have to anticipate a worst-case scenario when I might become disabled, get dementia or simply lose interest," says Dennis Loehr, founder of APD Financial, who recently developed a continuity and succession plan for his California-based RIA. "You just don't know what will happen." (For more on Loehr's succession planning story, see the case study on APD Financial on page 5.)

All advisors need, at the very least, a continuity plan that establishes a licensed, qualified, short-term successor to handle your clients in the event of your sudden death or disability. But to identify your goals for long-term succession planning, Cuffari-Agasi recommends asking yourself several questions about the future, such as:

- What happens to your family's income if you experience a disability or suddenly die?
- Do you ever see yourself spending less time in the office–or not at all?
- Have you made promises to your family about retiring or reducing your workload?
- Is it feasible to hand off some clients to another advisor so you can focus on a handful of your most important relationships?
- If you would like to retire, what's your timeframe for stepping away from the business?

The answers to those questions will help you identify transition options. For example, you might choose a partial succession that lets you continue working with clients while handing off most management duties to a successor. Or, you can pursue a full-scale transition plan that allows you to hand over all aspects of the practice to a successor. Alternatively, you may simply choose to execute a continuity plan that provides an income to your family during what will likely be the most overwhelming time of their lives.

It can help to discuss your options with someone familiar with the advisory industry. For example, United Planners provides succession planning coaches to participants in its Legacy, Exit & Acquisition Planning Strategies (LEAPS) program. (For more on the LEAPS program, see the sidebar on page 5). These coaches can review the details of a practice and an advisor's transition goals to suggest additional options and discuss how market conditions might affect those plans.

Finding the right successor

Choosing a successor is often the most difficult part of the process. Reason: Advisors want to place their clients with someone who holds the same values, standards and planning approach. You've worked your entire life to build success, and you certainly don't want to hand over the reins to someone who doesn't value your efforts, process, clients or success. You may be less selective about a potential successor for short-term continuity planning purposes. The most important components include finding an advisor who has the proper licensing and experience to help your clients handle the transition after your death or disability, and who also has the wherewithal and ethics to honor the payment agreement while retaining your clients. There are several ways to identify a good candidate for your long-term succession plan.

Looking for a potential successor in-house is a good first step. A partner, junior advisor or family member with experience in the industry may be suitable. If you don't already have a successor in-house, ask yourself if you are willing (or have the time) to find a younger advisor to train.

Mentoring a younger advisor can be one of the most successful transition strategies for advisors whose exit date is at least five years out. Not only can you teach an advisor your planning approach, you can give your clients time to get comfortable with your successor. Bringing on younger advisors also can help grow your practice by attracting new, younger clients, or pro-

The goal of the valuation process is not just to figure out the value of the practice—the goal is to do something about the value.

— David Grau Jr., president and CEO of Succession Resource Group

viding an element of technology that may help retain client assets transferring to the younger generation from their parents.

If you would rather sell your practice to an experienced successor, start by listing the basic characteristics you want that person to have in terms of experience, education, licensing and designations, and types of services they offer. Search for potential successors who meet those criteria within your professional networks, or by working with your Broker-Dealer, Third-Party Money Manager, custodian, a business broker/recruiter or M&A consultant who can market your business and qualify/screen successor candidates based on your criteria.

Select a short list of candidates and determine whether they line up with your personality, values and client-care approach. For example, if you take an educational approach with clients, you'll want a successor who does so as well. Plan a series of meetings to get to know each other, and discuss hypothetical planning challenges or specific client situations you faced to learn how a potential successor would address those issues. Also, consider meeting several of their clients to discuss communication style and planning approach. Using a system such as the KOLBE or Strengths Finder test can help identify whether you'll be a good long-term match.

An alternative to conducting the search yourself is to work with the LEAPS program's Successor Search Solutions. Participants receive a customized marketing letter describing their practice and the succession opportunity, which United Planners (UP) can send to as many as 1,200 advisors within a 15 to 50-mile radius of your practice. Then, UP succession planning coaches can pre-qualify leads from among those responses to narrow down a list of potential successors.

"Sending out 1,200 letters in an area generates a lot of candidates with different experience levels and different timelines," says Scott O'Keeffe, a UP succession planning coach. "The response helps you discover succession options you never thought about."

Registering for the successor search network also can help younger advisors looking to start or grow their own practice. "There are many advisors looking to grow through acquisition, and many advisors coming up to their retirement," says Shindel. "We're tapped into those situations and can structure a win-win transition for both sides."

Valuing your practice

It's essential to hire a professional business valuator to determine what your practice is worth at the start of your planning process. That way, you can focus on boosting the value of your practice before you retire, transfer or sell your business, if necessary. "The goal of the valuation process is not just to figure out the value of the practice–the goal is to do something about the value," says David Grau Jr., president and CEO of Succession Resource Group (SRG), a consulting firm that specializes in transition planning for financial advisory firms.

Grau cautions that most practices start to decline in value as advisors near retirement age because they are working less, the clients are getting older, and the advisor isn't focused on the growth of their most valuable asset–their businesses. What's more, older advisors tend to have aging client bases that are drawing down assets, which can result in declining revenues.

A formal valuation can help identify changes that either reverse that trend, or highlight the value that remains in your practice. For example, several years before retiring in 2012, Clyde Edwards began preparing his Ellijay, Ga.-based practice by selling off his insurance business and cafeteria compensation programs. That left just his fee-based investment advisory practice and its recurring revenue stream, which was more attractive to buyers. "I reviewed everything I was doing and removed everything that wasn't a good, saleable program," says Edwards. (For more on Edwards' succession plan, read the Edwards Financial case study on page 6.)

UNITED PLANNERS
FINANCIAL SERVICES

> If you don't tell clients what your contingency or succession plan is, there will come a time when they're sitting down for dinner wondering what will happen to their money if something happens to you.
>
> — Scott O'Keeffe, United Planners succession planning coach

Although it can take some time to collect the data needed for a business valuation–such as details on all sources of revenue–the benefits are worth that effort. United Planners has streamlined that process by partnering with SRG to provide valuation services through the LEAPS program. Because UP already has information on file about affiliated advisors' practices, they can automatically fill out roughly 75% of the questionnaire used to start the valuation process.

Establishing paperwork and a timetable

Once you've developed a transition plan and identified a successor, formalize that strategy with a contract that lists the valuation method, terms and timeline for the deal. Pricing is based on the value of your practice, but it's also tied to the terms of the deal. For example, sellers who prefer a lump-sum cash buyout might have to accept a lower price than sellers willing to accept a staged buyout over four or five years.

Document these terms–including the interest rate on a promissory note for a multi-year buyout, and provisions for failure to make those payments–before beginning the transition process. The contract also should specify a timeline for key phases of the transition process, including mentoring successors or helping transition clients. The minimum timetable for a succession plan is typically 12 to 18 months, says Grau, to give both parties enough time to assess whether the match makes sense and to maximize client retention.

Consider bringing in a third party with experience in financial advisory sales to help negotiate these terms and formalize documentation. For example, UP's succession coaches and SRG's David Grau can offer suggestions on how to structure deals based on their experience assisting similar transition strategies. They also can act as mediators to keep negotiations flowing smoothly.

Be prepared to share those plans with clients as soon as you have a contingency or succession strategy in place, but not before. Simply informing them that you've made provisions for the future alleviates any anxiety that clients may have about their own long-term financial security.

"If you don't tell clients what your contingency or succession plan is, there will come a time when they're sitting down for dinner wondering what will happen to their money if something happens to you," says UP's O'Keeffe.

Then, you can begin building relationships between your clients and your successor. Consider hosting dinners or other events to introduce clients to your successor, and plan to meet jointly with your clients for at least a year prior to an actual planned transition. These meetings will help clients get comfortable with the new arrangement, but they also will present an opportunity to watch your successor in action and ensure that he or she upholds the values and standards of service that you expect. Alternatively, for a continuity plan arrangement, inviting your successor to client appreciation events or an annual party where he/she is introduced to the clients in a group format is sufficient. Additionally, a letter approved by your compliance department should be sent to all clients with the contact information for your successor with an introduction and a high-level overview of your plan.

By spending the time carefully envisioning your transfer strategy, choosing a successor and building a well-conceived succession plan, you're more likely to create a smooth transition that helps your practice retain as many clients as possible. That way, you can adjust to retirement or a reduced role confident that you've protected your practice, your clients, your family and yourself. Having at least a continuity plan in place will help you sleep at night knowing your clients will be taken care of and your family will receive an income stream once you're gone–effectively leaving a portion of your own legacy behind. ■

United Planners Financial Services

A Look at the LEAPS program

United Planners created the LEAPS program to make it easier for advisors to develop contingency plans and/or long-term succession strategies that protect their clients and their families. Key benefits include:

- **Succession coaches.** Participants can receive one-on-one consulting from an experienced succession planner at every step of the process.
- **Successor search solutions.** UP helps market your practice to a network of potential successors and offers prequalification of leads to help find the best match.
- **Business valuation.** UP has partnered with Succession Resource Group to streamline the data-gathering process required to analyze how much your practice is worth.
- **Succession blueprint.** Advisors receive documentation outlining all details of the transition, including price, terms and timeline, written by the experts from Succession Planning Coaches.
- **Low cost.** Service packages range from $250 to $2,500, and a la carte pricing includes a business valuation for $300 or a complete succession plan from $1,750—roughly 50% less than the typical cost.

These services are offered to advisors affiliated with UP because all associated with UP care wholeheartedly for the families of the advisors, as well as the clients and families of those served by those affiliated with UP. After all, advisors look out for their clients; someone should be looking out for the advisor. United Planners is pleased to offer these services.

Case Study: APD Financial

Dennis Loehr remembers the exact date he began thinking about his succession plan: December 16, 2011. That day, a tax planning associate who worked in his RIA died suddenly, leaving no contingency plan in place for his clients, and without allowing payments from the assets to transfer to his beneficiaries.

Loehr, founder of APD Financial in Torrance, Calif., has been a financial advisor since the early 1980s and says he doesn't ever want to retire. But after inheriting 100 of his deceased associate's clients and spending six months building relationships with individuals who never expected to be working with him, he pledged to protect his own clients from a similar experience. "I became aware that, if nothing else, I needed someone to do a valuation of my business and come up with a death and disability contingency plan," he says.

In 2012, Loehr asked Sheila Cuffari-Agasi for help finding a qualified successor. She immediately thought of Dave Penniall, CFP, president and founder of Penniall & Associates in Pasadena, Calif., who had asked to be included in the LEAPS program network of potential successors. "I had made it clear we wanted to continue growing organically, as well as through acquisition and transition or succession planning," says Penniall.

Loehr and Penniall began discussing a contingency plan, but discovered similarities in their personalities and investment philosophies that made them consider longer-term succession options. Although Loehr wasn't keen on retiring, he was interested in ceding some of the responsibilities of owning a practice. Penniall was looking for advisors who wanted to stay in the business, help grow Penniall & Associates, and gradually prepare their own clients for the transition.

Working with Cuffari-Agasi and David Grau of Succession Resource Group, the two advisors created a plan for Loehr to join Penniall & Associates for one year on a trial basis, sharing resources and staff. If both parties are still interested in the deal at the end of the year, Loehr will sell his book of business to Penniall & Associates over a four-year period starting in 2014. However, Loehr will stay on as a representative under Penniall and continue working with his clients for as long as he wants. "I'm 70 years old and I love what I'm doing, but now I'm going to be affiliated with a larger group," says Loehr. "I've told my clients that I'm only making a technical change in the way I do business, and that I'm always going to be there for them." ■

About United Planners

United Planners (UP) is a Registered Investment Advisor (RIA) and full-service Independent Broker-Dealer uniquely structured as a Limited Partnership. Representatives enjoy association with a stellar organization and rave about the culture, flexibility and true independence they experience beginning day one. High payouts, profit sharing, technology, service, marketing support and RIA flexibility (including the support of Independent RIA's) are among some of the most favored features.

UP has established strategic relationships with open architecture service providers within the ERISA market giving our Advisors the capabilities and tools to manage and grow their practice while adhering to our high Fiduciary Standards.

Gather UP info by calling Partner Development at: 800-966-8737

Case Study: Edwards Financial

Clyde Edwards was approaching his 80s and looking to wind down his 40-year financial planning career to spend more time with his retired wife. He planned a gradual transition, first selling off the insurance and other portions of his business. However, when he was ready to choose a successor for his investment advisory practice, the process stalled.

There wasn't a good candidate in his small town of Ellijay, Ga., and his $13 million book of business wasn't quite large enough to attract new advisors to the town. He spent more than two years searching for a successor but turned down most of the prospects he found. "It was quite a problem finding someone I was comfortable with," says Edwards. "I've had some people with me for 40 years and I didn't want to place them with anyone that might take advantage of them."

Then in 2010, United Planners' Sheila Cuffari-Agasi told Edwards about GER Loftin Wealth Advisors, a UP practice in Atlanta that had recently merged two practices, bought a third and was looking for additional growth opportunities. "We want to be the go-to guys for advisors at UP looking to sell their practices," says James Loftin, CEO of GER Loftin Wealth Advisors.

Cuffari-Agasi believed that Loftin and his partner George Rall shared Edwards' approach to client care, so the three men spent several months having informal meetings over coffee and visiting each other's offices in Atlanta and Ellijay. As the men became comfortable with each other, Edwards suggested working side-by-side for a year. "I wanted to see if they operated the way they said they did," he says.

With help from Cuffari-Agasi and Succession Resource Group's David Grau Jr., the advisors negotiated a three-year buyout that would take effect if all parties were comfortable after the year-long trial period. Within eight months of working together, Edwards was confident he'd selected the right successors. They signed the contract and began the transition in 2012, hosting dinners where Loftin and Rall could meet Edwards' clients and spending several months meeting each client individually.

Today, only two of Edwards' clients have left GER Loftin, making Edwards feel even more confident about his decision to retire. "I'm very pleased with the way things have gone and my clients are pleased too," says Edwards. "They said, 'Clyde, you've helped us retire; now it's time for us to help you retire.'" ■