the significance of succession planning
If you are like many other advisors in the financial services industry, you equate succession planning with retirement. Retirement, however, represents only one aspect in the need for you to develop a plan of your own. Every advisor should have a written emergency continuity plan.
introduction to succession planning

Studies show that only one out of three financial advisors has a succession plan in place for their practice. Furthermore, many of those who have developed a plan do not have it ready for implementation.

What would happen to your practice if something happened to you tomorrow? Would your clients be taken care of by a competent professional who shares your values and characteristics? Would your family or beneficiaries benefit from the hard work you employed during your career? What would happen to your valuable book of business?

Many advisors equate succession planning with retirement. But because retirement is still years away, or because they plan to continue working during their retirement years, succession planning often gets moved down on their priority list. As an advisor, it is important to realize that a succession plan is a critical part of continuity of your business and is essential to protecting your assets, clients, and beneficiaries.

The purpose of this course is two-fold. First, it will help you understand the need for you to develop your own succession plan and why you should start developing your plan right now—no matter how close retirement may be. Second, it will provide you with a brief overview of the key steps in the planning process, stimulating you to think about the details of your own plan.
As an advisor, you work diligently to help clients plan for their financial futures. It is equally important for you to plan the transition of ownership of your own financial practice. A succession plan will help ensure a smooth transition of your business in both expected and unexpected circumstances. A strong succession plan will include the long-term goal of retirement, but should also prepare for unexpected events and contingency planning.

**Benefits of a succession plan:**

- Build equity in your practice.
- Receive the highest possible value for your practice.
- Reduce the impact of estate taxes.
- Eliminate clients' fears of losing continuity of service for their assets.
- Make decisions before emotions take control.
- Set your own timeline for retirement.
- Create incentives for key employees by making them owners in your practice.
- Streamline the process of transitioning your business to a fellow advisor.

**start today**

**develop a contingency agreement**

An easy way to protect your clients and loved ones against the possibility of becoming disabled or experiencing an untimely death prior to creating a more detailed succession plan is to create a contingency agreement. When something unexpected happens, it is very difficult for your beneficiaries to be compensated for your practice when there is no contingency agreement in place. Broker-dealers are prohibited from paying commissions from your practice to unregistered persons. The lack of a contingency agreement also puts your clients in a position to be assigned an advisor who does not match your values or investment style.

A contingency agreement should be formed between two advisors with like practices, personalities, and styles. Identify a colleague who will work well with your clients in the event that you are unable to continue working with them. Once you have selected an advisor, develop the actual contingency agreement. This agreement simply states that, if something happens to either advisor, the surviving advisor will step in and take over the other's practice, buying it at a pre-determined price. The agreement can define a set dollar amount or outline valuation methods that would determine a fair price regardless of the number of clients or revenue being generated at the agreements execution. The agreement should be signed by both advisors and kept with each advisor's will. If possible, it is best to have the agreement reviewed by legal counsel.
A few keys in developing a successful succession plan

Plan ahead

Many advisors have a misconception about the length of time it takes to identify a suitable buyer for their practice. In addition to finding an advisor who aligns with your values and style, he or she also needs to agree on the transition method and valuation for your practice. Time is also needed to communicate with clients and execute the transition of the departing advisor.

Set clear goals before starting the process. Identify what is most important to you with regards to the new advisor and the details of your deal. It is impossible to choose the right successor or create a plan when you haven’t clearly defined what is important to you, your beneficiaries, and your clients. This is a critical first step in this very important process. It is also a good idea to define how you will spend your days immediately after leaving your practice. Don’t underestimate the emotional ties you may have to your business.

Remove emotion from the process. We all know that emotion can wreak havoc on our clients’ portfolios. Similarly, the emotional attachment you’ve developed to your practice can create a blind spot—and can prevent you from seeing what’s really best for you, your clients, and your beneficiaries. A great way to protect yourself against any rash, emotional decisions in the future is to seek advice from a trusted advisor, group, or professional consultant today.

Remain flexible. There is nothing wrong with waiting to move forward until the key terms you’ve defined for your plan are met. It is important to remember, however, that for any plan to come to fruition and work successfully, both advisors are going to need to be satisfied with the details of the agreement. In order to reach a final agreement, you may have to compromise on some of the finer points. As such, it is important for both parties to remain flexible throughout the process.

This course is intended to describe the significance of succession planning and help you begin the thought process that is necessary in developing a plan of your own. As you become better prepared to develop a specific plan for your financial practice, please review other SCF University level 500 courses as they become available.