Walk the Talk

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Planning for the Future of Your Practice

You encourage clients to carefully plan for their retirement. Are you following your own advice?

Business succession planning is a hot topic these days. There are many factors contributing to its popularity, ranging from the graying of the agent force to the threat of asset attrition when producers exit the business.

Whether you're hoping to retire in two years or two decades, it's important to understand what you want to do with your business – and how it can help you supplement your own retirement. It's also critical to understand how your business decisions now may affect your clients in the future. Your clients may be more willing to put their trust in you knowing that you are committed to helping them get dependable service and suitable advice. This guide will provide you with valuable insights and steps to help you formulate your own business succession plan.

Eye-opening insights.

The average age of an agent is 50.9, according to a recent study conducted by the research firm Cerulli.[1]

Yet it seems that succession planning is not a priority for many producers. In fact, over one-third of agents want to retire within the next decade, but a majority of them haven't taken the necessary steps to create a strategy to exit the business.[2]

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Nearly seven in 10 respondents to a National Underwriter's recent Independent Producer Research Study said they have not formulated a succession plan. Of these same respondents, approximately one in four noted they have no plans to create one.[3]

In an effort to retain client business when older producers exit, some insurance carriers, IMOs and broker-dealers have developed strategies to attract younger agents. These same organizations have also encouraged older producers to carefully plan for their own retirement and the succession of their business. As Kenton Shirk, associate director at Cerulli points out, independent channels are especially at risk "because they have the oldest advisors on average."[1]

Michael Paley, managing director of business development and relationship with Focus Financial Partners, helps advisers formulate succession plans. Citing a 2012 Cerulli study, Paley echoes this growing concern: "The volume of assets that require a continuity plan coupled with the number of advisers that don't have a strong continuity or succession plan in place is scary."[2]

Why should you develop a succession plan?

There are several reasons why you should consider building a business succession strategy. Three of the most important reasons include:

1. To protect your business.
2. To help ensure your clients are taken care of when you retire.
3. To maximize the value of your business – and your potential retirement income.

You've worked hard to build your practice. From prospecting to retirement income guidance, you most likely dedicated countless hours working to help your clients secure a better financial future. At some point, however, you will exit the business – either voluntarily or involuntarily. It may be difficult to acknowledge limitations as we age, and serious questions about the future may be challenging to address, but it's important to ask yourself how you see your business after you've retired. Do you want to protect what you've built and watch it continue to grow? Or, do you want to close shop completely when you retire? Answering these questions is essential as you plan for your future.

Another reason you should develop a succession plan is your clients. Whether these clients have put their trust in you for the past three months or 30 years, they've looked to you to help them build and protect their hard-earned retirement dollars. Mark Tibergien of Pershing Advisor Solutions explains the importance of succession planning in relation to clients. If there's no plan in place, "(agents) will be leaving the business, and chances are, they're going to be leaving their clients high and dry."[4]

Lastly, what are you doing to maximize your own assets – including your business – to help you achieve the retirement you want? You emphasize to your clients the importance of planning and preparing for retirement, but what steps are you taking to reach your own retirement goals? Consider how selling your practice may help you supplement your retirement future. As Tibergien emphasizes, "If you build a business to last, then you build a business to sell."[4]

Key points to consider.

If you think your business is profitable enough to sell, it's time to start thinking about who should take over the reigns. It's important to identify a trustworthy person who is the best fit for your practice. After all, this person will be serving your clients. You may want to sell to a tenured employee who has developed strong relationships with your clients. Or, you may have a family member who would be a good fit. Other options include selling to another agent or hiring a new producer you can train over time.

Another critical step involves valuing your business. As Brian D. Heckert points out in a LifeHealthPro article, there are two major factors associated with identifying the price of your business:

- Key considerations that need to be given to you as the selling agent, relative to the structure of the buyout.
- Potential continuations of contracts or benefits, such as trail commissions or a share of new commissions.[5]

Heckert emphasizes that the selling process should be easy to understand:

For example: one way to value a practice that has $100,000 of sellable, transferable net recurring revenue (NRR) would be to multiply NRR by a factor of 1.5 to 2.5, which is proprietary. For example, if you pay 2.5 times revenue and then pay it over 36 months, it has the ability to work as a cash flow. This is positive for the buyer and the seller. The seller can claim income as a sale of business and save self-employment taxes and overhead while potentially getting capital gains. The buyer is then able to spread 30 payments over 36 months, which reduces any problems with cash flow. If an agent had an NRR stream of $100,000 a year, the value of that practice could be anywhere from $150,000 to $250,000.[5]

Heckert adds that in addition to the business value, selling agents may also negotiate a transition period in which they receive a share in new commissions. After this term, they could keep their licensing and receive a commission split from new sales.[5]

What are the next steps?

However you value your business, you'll want to clearly identify expectations and roles in your succession plan. Unlike many agents who fail to plan ahead, you'll want to give yourself ample time to develop a formal strategy that reflects you, your practice, and how you want to see your business grow in the future. There may be several complications and challenges as a result of transitioning out of the business, so be proactive now instead of a few months before your exit. After all, your clients — and your retirement — are counting on you.

[1]Waddell, Melanie, "43% of advisors older than 55," LifeHealthPro, January 22, 2014, http://www.lifehealthpro.com/2014/01/22/43-of-advisors-older-than-55

[2]Hanson, Joyce, "One-third of advisers plan to exit business within a decade," Investment News, February 3, 2014, http://www.investmentnews.com/article/20140203/FREE/140209995?utm_source=indaily-20140203&utm_medium=in-newsletter&utm_campaign=investmentnews&utm_term=text (registration required)

[3]In Morford, Nichole, "3 reasons you need a succession plan – now," LifeHealthPro, November 6, 2013, http://www.lifehealthpro.com/2013/11/06/3-reasons-you-need-a-succession-plan-now#.Uu_KN9ECAYU.email

[4]Interview with Mark Bruno, "Many financial advisers failures at succession planning," InTV, June 13, 2011, http://www.investmentnews.com/section/video?playerType=INTV&bctid=991527606001

[5]Heckert, Brian D. "Ready to sell your practice? Here's how," LifeHealthPro, December 21, 2012, http://www.lifehealthpro.com/2012/12/21/ready-to-sell-your-practice-heres-how