INSIGHTS | PERSPECTIVES ON WEALTH MANAGEMENT

Now It's Your Turn:

Succession Planning for Financial Advisors

CUNA Brokerage Services, Inc.

Overview

You've spent a career helping clients prepare for retirement. But what about your own?

Most financial advisors know that an unofficial part of their interactions with clients is playing the role of part-time psychologist. With clients young and old, extremely wealthy or just getting started, few would disagree that advisors manage emotions as much as they manage money. The fact that feelings and finances are deeply intertwined is often what powers the need for sound decision-making and an objective third-party advocate.

And yet, as advisors dispense rational advice and careful planning, it's simply not as easy as it sounds. Exhibit A: An advisor's own retirement. With years — if not decades — of strong client relationships, friendships both professional and personal and the camaraderie of the profession, the matter of an advisor's own retirement is a particularly impactful event for everyone involved. Through a sense of deep responsibility, retiring advisors know their eventual departure will have financial and emotional effects on many people.

Industry-wide, the shockwaves are forthcoming:

- More than a third of financial advisors are planning to leave the business over the next 10 years.
- More than $2.3 *trillion* in assets are managed by advisors who are 60 and older.
- Less than 25% of these advisors have any sort of succession plan in place.[1]

Without a succession plan, not only do advisors leave clients feeling vulnerable, they also miss potentially beneficial opportunities. But when handled with thought and foresight, an advisor's retirement can maintain a lifelong professional reputation, do right by clients and colleagues, and even generate post-retirement income. Indeed, this enviable position is a rarity within the American workforce.

[1]HANSON, JOYCE. INVESTMENTNEWS.COM. "*ONE-THIRD OF ADVISORS PLAN TO EXIT BUSINESS WITHIN A DECADE*". FEBRUARY 3, 2014. WEB. AUGUST 1, 2016. HTTP://WWW.INVESTMENTNEWS.COM/ARTICLE/20140203/FREE/140209995/ONE-THIRD-OF-ADVISERS-PLAN-TO-EXIT-BUSINESS-WITHIN-A-DECADE.

Beyond the Gold Watch

For most people, the close of a professional career can happen within a relatively short timeframe. Decisions about workplace retirement (some voluntarily, some involuntarily) are typically made over a series of months and the wheels are set in motion. Retirement parties, departmental potlucks and parting gifts notwithstanding, a successor is named or the position is redefined. The retiree — despite a long work history, considerable experience, wisdom and insight — likely has very little influence over his or her professional legacy, successor or even the timing of the transition. It's the typical "gold watch" event: At a specific point in time, the milestone is marked…and that's it. The door closes.

Contrast this with the potential retirement experience of a financial advisor. Since advisors function more like independent business owners, they build relationships over time that can become particularly deep. With each visit and interaction, successful advisors find true satisfaction not so much in managing investments for their clients, but in cultivating the relationships. They see the excitement of a young couple buying a house. They watch their clients' children grow up and begin their adult lives. They see their communities grow. They cherish the success stories.

And that sets the stage for emotions and finances to become nearly inseparable once again, as most successful advisors know their livelihoods are based on the *quality* and not just the *quantity* of relationships. Therefore, the career transition for financial advisors can be more emotionally far-reaching and financially impactful to many people.

This calls for a plan far more personal than a typical corporate retirement. With effective succession planning, advisors have the ability to ensure their relationships can continue and their practices will be profitable not only as they transition, but well into retirement.

Some advisors opt for a de-personalized approach that merely involves selling a book of business. Others, especially those who have emotionally invested in their practices and clients, take a very personal approach. They craft a plan that involves selecting a successor who can best take care of their clients, provides a transition period, and even allows them to serve certain clients through retirement.

YOU'VE SPENT YOUR CAREER HELPING OTHERS MANAGE THEIR MONEY AND MAKE THOUGHTFUL PLANS SO THEY CAN LIVE THE LIFE THEY WANT IN RETIREMENT. BE SURE YOU CAN DO THE SAME.

These approaches yield dramatically different results. The first essentially amounts to a transaction that severs relationships. The other is a transfer of trust that comes with potential for residuals, continued relationships and a true legacy.

While succession planning for your practice may not be top-of-mind, it's important to begin to formulate some general ideas and plans. Is there someone poised to take over your clients when you decide to retire? Has that person been identified? Does that process need to start? What might some rough timelines look like?

You'd Tell Your Clients to Start Planning Now. You Should Do the Same.

Ironically, many advisors have spent little time planning for the transition out of their income-generating years. Sure, they may have maintained their own healthy portfolios, but perhaps they've never considered the logistics of a retirement transition that prevents a loss of clients and manages the overall emotional impact.

An advantage of enacting a thoughtful succession plan is that when an advisor's clients know they will be taken care of, profitability remains — throughout and even after the transition.

AS BLUE OCEAN GLOBAL WEALTH STATES:

A well-orchestrated succession plan should expect 90% client retention, and even enhanced production, if executed properly. Advisors who share long and deep relationships with their clients may want to consider a proactive approach to educating their clients about their plan for taking care of them, knowing that the advisor will not be around forever. Even highlighting the importance and merit of a contingency plan in the event of the advisor's sudden death is well received. Clients may secretly worry and discuss their own plan for their advisor's sudden departure, and wealth managers can take advantage of this obvious, but potentially disastrous, concern by ensuring that their clients will always receive the very best advice the industry has to offer.[2]

When clients know their advisor's plan for transition to retirement, their confidence in the relationship — as well as a new relationship with the advisor's successor — is much more likely. Conversely, if an advisor is nearing a perceived "retirement-friendly" age and clients are left in the dark about the future, a clear message is sent: *Seek alternatives now and find a new advisor.*

That's precisely why having a clearly defined succession plan helps ensure advisors maintain both business and personal relationships as they transition. Maintaining this value, defined by actual dollars as well as goodwill, is the key to a successful and distinguished retirement. On the other hand, some advisors choose to wind down their practices as they age, gradually losing clients until none remains. The result is the total elimination of relationships and any potential profit in selling or transitioning out of the practice.

[2]BLUE OCEAN GLOBAL WEALTH. BLUEOCEANGLOBALWEALTH.COM. *THE CASE FOR SUCCESSION PLANNING*. WEB. JUNE 30, 2017
HTTPS://WWW.BLUEOCEANGLOBALWEALTH.COM/PDF/THE-CASE-FOR-SUCCESION-PLANNING.PDF

How Long Does it Take?

According to CNBC's Andrew Osterland, succession planning – when done right – can take anywhere from five to 10 years.[3] That's a long lead time, even in an industry that routinely advocates for long-term goals and viewpoints.

While day-to-day work continues, it can take time to create a clearly defined retirement transition and how a book of business may fare. Consider these important elements:

- Understanding what the advisor ultimately wants in retirement, both from a personal and client perspective
- Finding a successor who fits and complements the existing business
- Having a book segmentation strategy
- Implementing a client communication strategy (current, prior to transition, and post-transition)
- Aligning with the financial institution (if applicable) during the planning phase, as the advisor's succession plan will necessarily impact their reputation and daily operations
- Drafting a formal, written contract

[3]OSTERLAND, ANDREW. CNBC.COM. "*PASSING THE BATON, STEP BY STEP.*" MAY 2014. WEB. JUNE 28, 2016. HTTP://WWW.CNBC.COM/2014/05/01/PASSING-THE-BATON-STEP-BY-STEP.HTML.

Steps to a Succession Plan

- DECIDE WHAT YOU WANT.
- FIND A SUCCESSOR THAT FITS YOUR BUSINESS.
- HAVE A SEGMENTATION STRATEGY.
- ALIGN WITH YOUR INSTITUTION.
- CREATE A FORMAL, WRITTEN CONTRACT.
- IMPLEMENT A CLIENT COMMUNICATION STRATEGY.
- LEARN TO LET GO.

STEP 1: Decide what you want.

Not everyone feels comfortable with a "hard stop" to a long career built on countless relationships. Consider: Do you want to continue to work part-time for a few years and ease out of the business? Do you want to announce your intentions far in advance, sign your last form on December 31 and walk out the door into a new year with no commitments? Or are there select clients you'd like to personally oversee?

Just as you encourage your clients to visualize many different retirement options and scenarios, you should start thinking about what you want your life to look like once you step out of your career as a financial advisor. This can take a lot of time, consideration and soul-searching. Once you arrive at a solid (but perhaps not finalized) picture of your life in retirement, you can begin deciding on the timelines of putting your plans in place.

"YOU SHOULD START THINKING ABOUT WHAT YOU WANT LIFE TO LOOK LIKE ONCE YOU STEP OUT OF YOUR CAREER AS A FINANCIAL ADVISOR."

STEP 2: Find a successor that fits your business.

After you know what your transition might look like, it's time to begin the search for a successor. From the potential successor's standpoint, there are many pros and cons. Whether you look outside the firm or gradually hand off to a junior advisor ready for full responsibility, give yourself plenty of time. It can take a while to find the right person, verify the fit, and ensure all the various transitions are handled with confidence.

When hiring, seek out someone who has a similar advising style and even similar demeanor to yours. He or she will likely serve your clients in similar ways, making the transition easier. It can even make onboarding both quicker and smoother for your successor, as transitioning into your business will be more graceful. This approach — matching similar styles, demeanors and philosophies — can lead to lower attrition. Plan to spend at least six to 12 months on this critical step. Then, when you have your successor identified and in general agreement with your intentions, you can start drafting a formal plan.

STEP 3: Have a book segmentation strategy.

Presumably, you have already segmented your customers into groups based on their service needs, potential and profitability. Decide how you will begin to transition these groups to your successor. It's important to think about what will help the long-term success of your firm, so a strategy that helps your successor begin to drive business and prove his or her abilities to your clients is important. Focus on developing rapport with your clients as you make introductions and review the types of service they require.

Having a long-term book segmentation strategy can also be helpful if you plan to continue some level of work in retirement. Do you have a select few clients you want to keep working with? Perhaps there is a particular type of client that you wouldn't mind continuing to see on occasion. Regardless, it's important to discuss a book segmentation strategy with your successor early on and understand how the transition will be mutually beneficial.

STEP 4: Align with your institution.

Be sure to discuss your transition plan with your financial institution's leadership. Your choice of a successor, the possible timeline, the communication approach and anticipated impact on clients all reflect back on your institution as well as your practice within it. Getting the institution's leadership input on how your succession plan will unfold can help maintain the health of your practice in both the short and long term.

STEP 5: Create a formal, written contract.

As your thoughts and plans begin to take shape, it's vital that all the verbal agreements and informal arrangements become part of a formal written contract. Not only does this offer clarity and a solid understanding for all parties, but it can also serve as a blueprint for your succession plan. It's best to work with a neutral third party, preferably a legal professional, to make sure that you and your potential successor are on the same page, and to account for any deviation in the plan in the future based on economic circumstances or income variances. Eliminating ambiguity is essential at this stage, as clarity is the foundation for solid agreements. CNBC's Osterland suggests that agreements should still maintain flexibility and allow both parties to come back at a later date and adjust for elements they might not have thought about in the beginning. [3]

[3] OSTERLAND, ANDREW. CNBC.COM. "*PASSING THE BATON, STEP BY STEP*." MAY 2014. WEB. JUNE 28, 2016. HTTP://WWW.CNBC.COM/2014/05/01/PASSING-THE-BATON-STEP-BY-STEP.HTML.

STEP 6: Implement a client communication strategy.

How will you communicate your transition to your clients? What should they know, and when? Having a systematic strategy helps avoid uncertainty and confusion, and it can also help make sure you haven't left any of your clients out of the loop. Generally, the earlier you can let them know of your plans the better. They'll also want to know specific details about timelines and next steps. With a straightforward approach, you can successfully communicate this information and build opportunities to introduce and familiarize your clients with your successor.

A basic framework for a communications strategy could include these steps:

- Decide on the most appropriate channel of communication. For example, you might choose to send an email to some clients or a letter to others, depending on their relationship with you. Later, you might even choose to post announcements and updates about your transition on social media, a website or a blog. It may help to give your clients a survey or questionnaire asking them how they prefer to receive information about your transition plans and group them according to their preferences.

- Send an initial announcement communication that outlines your succession plan and invite everyone to meet your successor. Reassure them that you have chosen your successor with their interests in mind, and perhaps suggest they visit your successor's LinkedIn page to learn more about him/her and examine his/her credentials.

- Mention your plans again in face-to-face client meetings and have your successor introduce him/herself to each client at every opportunity. Perhaps begin by having your successor sit in on some of your advising sessions for introductions and observation.

- Schedule and announce a meet-and-greet in your office and invite clients to attend. Perhaps you and your successor could give short presentations on a particular topic to offer a greater incentive for clients to come and give them a sense of your successor's expertise and approach.

- Send occasional updates (emails/letters/posts) about how your transition is progressing. To continue building familiarity and trust, images or videos of your successor may also be helpful.

- When you ultimately depart, send out a farewell letter/email and express your gratitude for your clients' continued trust. Describe your assessment of the work your successor has been doing as clients have been transitioning to him/her. Express your confidence.

STEP 7: Learn to let go.

Over years of service, some clients are like family members. Indeed, it can be difficult to leave those relationships as you move to retirement.

"Relationships are the rewarding part of the industry," says David Foster, Vice President, Wealth Management, at CUNA Brokerage Services, Inc (CBSI). "The relationships that advisors create with their clients are very real and very substantial. Most advisors really struggle with the retirement decision because they think 'Who is going to take care of my clients?'"[4] The upcoming void of interaction can be substantial.

However, if you have approached succession planning with good judgment and the intention of guiding smooth transitions, that last official walk out the door will be much easier. Your clients will be in good hands and your legacy won't fade away.

[4] FOSTER, DAVID. PERSONAL INTERVIEW. AUGUST 8, 2016.

Leaving a Legacy Begins with a *Clients-First* Perspective

The financial industry is facing a potential shortfall of more than 200,000 advisors by the year 2022.[5] In 2017, that prediction is looming even closer, and current advisors — especially those within 15 years of leaving their practice — have the difficult job of finding someone suitable to take over their practices. If advisors do not make it a priority to recruit and train new advisors in the interim, the basic supply-and-demand economics of an industry shortage could make retirement a complicated task. Conversely, according to tenured CUNA Brokerage Services advisor Juanita McCormick, retiring without a plan in place is simply not an option.

"I think we owe it to our clients to be there for them — we tell them that we will be," says McCormick. "If one day we up and say, 'Oh, by the way, I'm retiring, good luck,' then we didn't really honor our word."[6]

McCormick isn't alone in urging advisors to carefully plan their exits. The sentiment echoes across the country, with many senior advisors emphasizing just how important it is to get the right person and the right plan in place before retirement.

"If an advisor is going to retire, one of the most important things they can do is take their time and make sure the person replacing them is the right fit," says Jessica Aquiler, financial advisor with CUNA Brokerage Services in Pennsylvania.[7] Aquiler recently took over a practice from a colleague, a transition that will take approximately three years from start to finish. She said that a transition like this could potentially be shortened to 18 months, but would caution anyone against speeding it up beyond that.

Aquiler appreciates the amount of time she had with Emmor Boslet, the senior advisor who selected her as successor. She notes that Boslet passed along valuable client information, tips, advice and insight in the time they were working together.

[5]BUTCHER, DAN. "*WHAT'S THE PROBLEM WITH SUCCESSION PLANNING FOR FINANCIAL ADVISORS?*" EFINANCIAL CAREERS. JANUARY 4, 2016. WEB. MARCH 20, 2017. HTTP://NEWS.EFINANCIALCAREERS.COM/US-EN/230242/WEALTH-MANAGEMENT-FINANCIAL-ADVISERS/
[6]MCCORMICK, JUANITA. PERSONAL INTERVIEW. JUNE 30, 2016.
[7]AQUILER, JESSICA. PERSONAL INTERVIEW. JUNE 29, 2016.

"Emmor had been looking for a replacement for about a year," says Aquiler. The two of them connected through a mutual friend, someone who knew that they would work well together. Over the course of a year and a half, Boslet and Aquiler held joint appointments with almost all of Boslet's current clients, allowing Aquiler to meet everyone before Boslet signed out for good.

Boslet continues part-time work a few days a week, helps make the transition as smooth as possible, and gives Aquiler those irreplaceable tidbits about clients as they go along. She offers tips like what not to talk about, how firm or gentle to be in recommendations, and even which clients tend to make poor decisions and thus need some extra coaching. "Trust is such a fragile thing," Aquiler says. "That's what you need so much time to do, to build trust with the client."

The knowledge transfer also contributes to the continued success of the firm. "She gives me all this inside stuff," says Aquiler. "I think that's absolutely priceless to my caring for the business that she started."

In having their transition span a couple of years, Aquiler and Boslet have been able to communicate openly and clearly about the change, keeping everyone on the same page and letting clients know that there will be no lapse in service or commitment to their portfolios. "It was a very transparent transition," says Aquiler. "It wasn't something any of Emmor's clients were surprised about. I think that has been very, very instrumental in the success of this."

The benefit to the retiring advisor is that she knows her clients are in capable hands after having served them for so long. This knowledge, combined with the current healthy state of the practice, is the basis for a strong professional legacy and a fulfilling retirement.

A CUNA Brokerage Services Solution

Over the last several years, CUNA Brokerage Services, Inc. (CBSI) has carefully evaluated the issue of advisor succession. A program has been developed to help define how advisors can successfully exit their roles and transition to retirement — purposefully and beneficially.

The program focuses on member retention at the financial institution level, but also recognizes the immense amount of goodwill that the advisor has created throughout years of service. In making the transition smooth, the CBSI program helps create a stable environment for clients, advisors and the institution.

Advisor Retirement Program Options

Full-Time Retirement

- De-register securities registrations
- 3-year earn-in and earn-out
- 6-month advisor overlap

Part-Time Retirement

- Keep securities registrations
- Become part-time contract employee
- 6-month advisor overlap

The program focuses on two different retirement options: Full-time and part-time.

1. In the Full Retirement plan, the retiring agent agrees to de-register the securities licenses he or she holds with CUNA Mutual Group and not re-register them elsewhere. There is a three-year earn-in and earn-out process, where the incoming advisor starts to gradually earn in to the business while the outgoing advisor earns out over the same course of time. There is at least a six-month overlap between the current and new advisor, allowing the new advisor to be brought into the practice and meet the portfolio holders before the current advisor leaves. After the training period, the outgoing advisor fully retires and continues to earn an income stream from the book for three years, allowing a gradual phase out.

For a new advisor, this can be a significant advantage, as an existing book of business means starting to earn commissions from the start. For the retiring advisor, it means continuing to earn a portion of their income for the first three years of retirement. In many ways, this model represents a thank-you for years of service and the business brought to the financial institution.

2. The second option is part-time retirement. With this option, advisors elect to forgo their employee benefits and 401(k) match and become a contract employee. They work just a few days a week and only with a portion of the existing book of business. This allows them to continue serving their clients but on a less-demanding schedule. It also helps them slowly ease out of their careers and avoid a hard stop after a long tenure of service. With this option, a new advisor comes into the business and starts to serve clients more and more over a six-month period. During that time, he or she begins to take over a large portion of the original advisor's book and manage it.

According to Foster, both programs are four-way wins for the advisor, clients, the financial institution and CBSI. "It's really about stability for the financial institution and for CBSI as a partner, but it's equally important for an advisor's retirement process and maintaining good member experiences," he says.

A large number of CBSI advisors operate their practices in credit unions, where the culture is uniquely welcoming and friendly to clients and co-workers. Because of this family-like atmosphere, a transition to retirement can be procedurally defined, but emotionally difficult.

One CBSI advisor, already taking advantage of the new succession program, has continued part-time at her financial institution. "She wanted to wind down," says Foster. "She couldn't work with all of her clients, but she didn't want to leave them behind quite yet, either. Working parttime allows her to stay in touch and say goodbye with an extended timeline — and feel really good about the process." It seems to be working out well.

"The credit union is pleased, the members are pleased and the incoming advisor is pleased," says Foster.

SUCCESSION PLANNING STARTS WITH A NEW HIRE

Advisors should be doing all they can to help transition their clients to a new advisor well before their own retirement date approaches. Formulating and initiating a plan isn't easy, but a broker-dealer like CUNA Brokerage Services, for example, offers specific planning assistance. With this plan, working in tandem with the broker-dealer or financial institution, the process of hiring a new advisor can begin. It's important to consider traits in a new advisor that will lend themselves to working closely with age groups nearing retirement.

- Hire people who make relationship-building a priority — emphasize this in the interview process and make sure new hires understand how important it is.
- Seek out employees who are focused on the long-term goals of the business and not just the short-term goals of their own careers.
- Provide advisors with the tools they need to network with and train the next generation of advisors.
- Hire advisors who will relate well to the next generation of investors — make sure new hires are diverse in background and specialty.
- Empower advisors to attend conferences that help them learn more about leaving their own legacy while properly concluding relationships with successors, clients and financial institutions.

Plan, plan, plan

"We are constantly telling our clients, 'You need to plan, you need to plan, you need to plan.' We need to practice what we preach," says McCormick. "It's the most honest and professional thing we can do."

For Aquiler, leaving a legacy — possibly modeled after the one left by Boslet — is important. "Emmor has really built a business and a client base here that trusts her. This is the legacy I want to leave too, and I know I've got to do it the right way," Aquiler says.

The key is initiating a plan. The sooner an advisor outlines a transition and puts it into practice, the less disruptive the event will be for clients and the institution. Perhaps the ultimate takeaway for effective succession planning is simply this: Just as advisors continually urge clients to carefully plan and consider the many aspects of retirement, it's time for advisors to take their own advice.

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