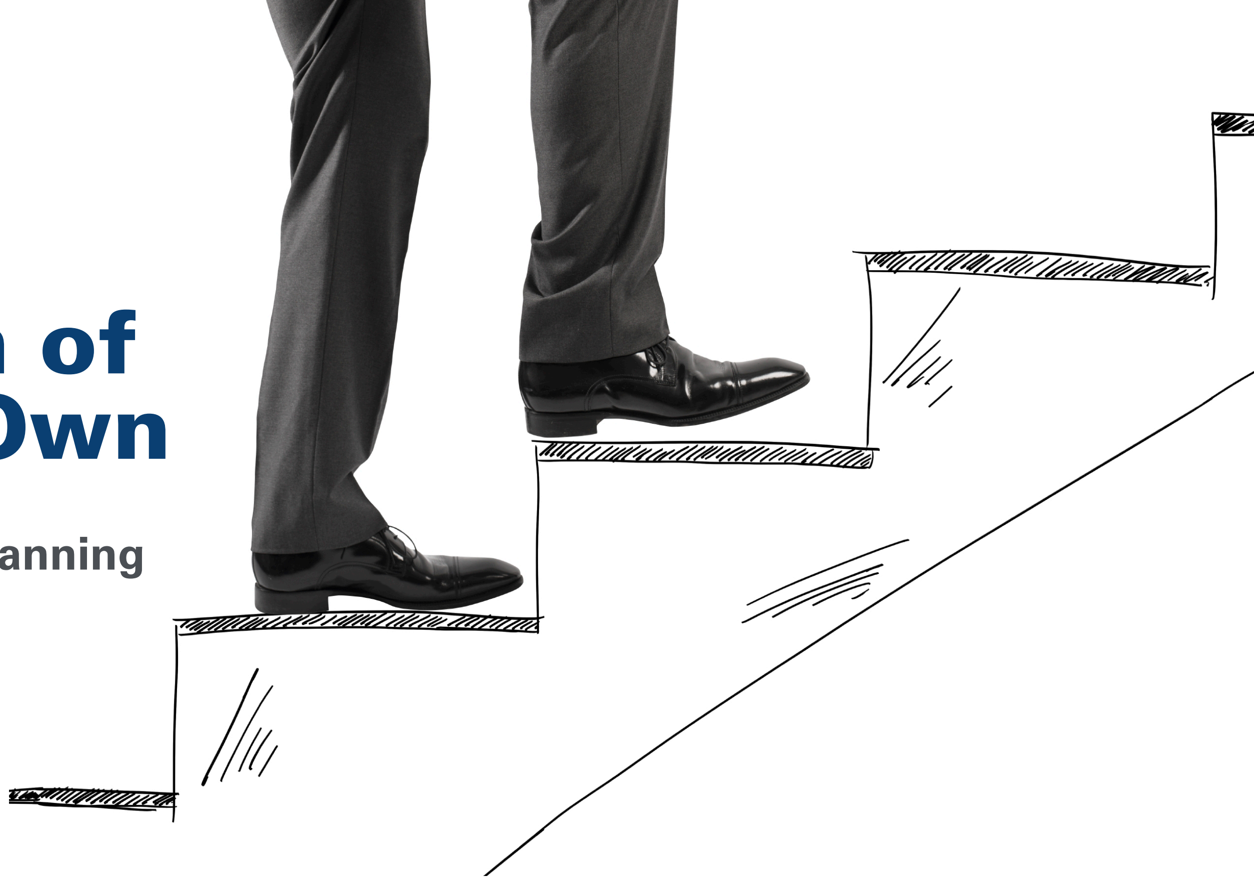

A Plan of Your Own

Insights to Succession Planning

LPL Financial

Executive Summary

In the next decade, a fifth of today's financial advisors are expected to retire.[1] Despite this demographic backdrop, only a fraction of these advisors have completed their succession plans. Without a plan for a handover, advisors run the risk of alienating clients and limit their options when they are ready to retire and sell their practice.

To understand how financial advisors view succession planning, what motivates some and what holds others back, LPL and SourceMedia Research, surveyed 213 financial advisors who are either owners or partners of their firms in May 2014. Only 19 percent of respondents have completed a succession plan, and we call these advisors the Finishers.

This white paper explores the key differences between the Finishers and other financial advisors who have not yet completed a plan. How they tackled obstacles serves as a guide for other advisors who are not as far along. An expert in the field of succession planning weighs in to offer concrete steps for implementing a successful handover. Finally, a case study showcases how one financial advisor put his succession plan into practice.

Needing Your Own Plan

It is the great irony of our industry that a profession that seeks to help others plan for the future sometimes ignores its own planning needs. That's troubling in and of itself, but all the more startling given the industry's graying demographics; close to half of all financial advisors are over 50 years old and approaching retirement.[2]

Your own financial security and that of your family's depends on thoughtful succession planning, but it is also vital to your clients. They want to know your plan for them when you retire and be assured of a smooth transition.

---

[1] www.accenture.com/SiteCollectionDocuments/PDF/Accenture-CM-AWAMS-POV-Advisor-Succession-Planning-Final-Mar2013-web.pdf (Page 6)

[2] *Advisor Metrics 2013:Understanding and Addressing a More Sophisticated Population, Cerulli,* January 2014.

To understand why advisors fail to plan, LPL and SourceMedia Research segmented financial advisors based on how far they had gotten in the succession planning process. Along with the Finishers, the survey identified three other types of advisors.

- Strugglers: 29 percent of advisors have started their succession planning process, but are encountering difficulties implementing it.
- Procrastinators: 32 percent of financial advisors have put off the task of succession planning, even though they believe it is important.
- Avoiders: 20 percent of advisors do not want to deal with succession planning at all and they have not taken any steps toward getting it done.

"It's one of those things you know you need to do but don't want to deal with."
—Survey respondent categorized as an Avoider

The Advisors: Who Are They?

The data revealed important differences among the advisors and how they run their practices. The survey showed that the groups differ by age, production and how well they understand their succession planning options. As expected, Finishers and Strugglers tended to be older than the general advisor population. They also had a better handle on the succession planning process. Further, the survey pinpointed specific challenges that each of the segments faced in seeing their succession planning to completion. The table below summarizes the overall survey findings by segment.

	Finishers	**Strugglers**	**Procrastinators**	**Avoiders**
Proportion	**19%**	**29%**	**32%**	**20%**
Succession Planning Stage	Completed/finalized	In development	Not started	No strategy
Generation/Age	Baby Boomers and older	Gen Xers	Gen Xers and Baby Boomers	Gen Xers
Succession Planning Knowledge	High (85% understand their firms' options very well and 15% understand them somewhat well)	Moderate to High (31% understand their firms' options very well and 65% understand them somewhat well)	Moderate (22% understand their firms' options very well and 71% understand them somewhat well)	Little (0% understand their firms' options very well, 24% understand them somewhat well and 60% understand them very little)
AUM $100 million+	29%	28%	10%	2%
Production $1 million+	22%	16%	9%	5%
Plan Communications	Widely communicated (i.e., to partners, successors, employees and clients)	Mostly internally communicated (i.e., to partners, successors and employees)	Little to no communications to anyone	N/A
Tools/Support Needs	Increasing business value; coaching a successor; developing an internal transition plan	Coaching a successor; developing an internal transition plan	Emergency contingency planning; coaching a successor; finding a purchaser	Practice valuation; improving business; finding a purchaser; emergency contingency planning; structuring a plan

Data Source: SourceMedia Research, May 2014

It’s Not Too Late: Diving Into Succession Planning

Succession planning is hard work. Even the Finishers had to find their own way, and their path to succession planning was paved with obstacles as well. “These advisors realize that the responsibility of the succession plan rests squarely on their shoulders,” says Dan Valente, VP, Strategic Business Solutions at LPL Financial.

Given the right resources and support, Strugglers, Procrastinators and Avoiders can get on the right track too. Below are a few of the most common obstacles that the survey respondents identified and ways to overcome them.

Coaching and grooming a successor: “Finding the ‘one’ to succeed an owner is arguably the most time consuming and challenging of tasks,” says Valente. Advisors must enter the process armed with patience as the process can take years, if not decades, and there may be several false starts.

Above all, advisors should pay attention to fit, says Valente. Clients want a smooth transition with an advisor who holds a similar planning and investment philosophy. That’s why it’s often best to look internally first. The people who already work in your organization are the most likely to share your vision for the business and client service.

Structuring an internal transition plan: An internal succession plan can be time consuming, and possibly take longer than selling externally. However, it is time well spent and you have the potential to receive a higher payout.

An internal succession plan lays out how you will integrate a successor into the day-to-day operations. Successors may know one aspect of the business, but lack client facing skills and investment management knowledge. These would-be successors may also need additional education and licensure, and that training takes time. And it may take some clients time to warm up to them. Slowly integrating this person into client meetings and day-to-day activities where they can gradually take on more and more responsibilities will make for a smooth transition.

Emergency contingency plan: The Procrastinators and Avoiders were more likely to believe that in the case of an unexpected event that would cause them to exit the business, they would sell their practice to another financial advisor. Unfortunately, this may not be realistic.

A firm may not be ready for sale at the time of an unexpected event that causes its founder to leave the business if there is no succession plan in place. By starting their succession planning early, advisors can avoid the risk of rushing into a less-than-optimal sale.

At the very minimum, advisors need to draft a contingency plan and that plan needs to be communicated to clients and employees. “Most often, the administrative assistant is the best person to step into an emergency role,” says Valente. Aside from the you, this is the person who has the most contact with clients, and clients will need continuity in the wake of such an event. Even if the administrative assistant will not ultimately assume the role of the financial advisor, that person can help ease client concerns in the short-term.

Increasing firm value: Advisors naturally want to present their firms in the best possible light to potential buyers to realize the highest valuation. When a succession plan is started early, there is ample opportunity to build firm value. Many valuation drivers, like client retention programs, investing in technology and operations, recruiting younger clients, are multi-year endeavors. With enough time, you can identify areas that need improvement and achieve the highest valuation.

> “These advisors realize that the responsibility of the succession plan rests squarely on their shoulders.”
> —Dan Valente

Time is of the essence. "Starting at around age 50, advisors' practices tend to plateau and after 50 their production may begin to decline," Valente explains. "You may get much less than if you had structured a long-term succession plan earlier."

Finding a buyer: You must decide whether you wish to pursue the longer, more arduous route of grooming an internal successor or opt for an external sale. A number of firms specialize in connecting buyers and sellers, valuing the practice and then structuring the conditions of the deal. The earlier you start, the better positioned you are to get the most favorable terms, both in price and deal structure.

Ask for Help

According to the survey, only a minority (32 percent) of financial advisors worked with their broker-dealer or custodian to implement their succession plan.[3] Just 17 percent of the Finishers got assistance from these sources. They are overlooking an important source of information and resources.

At LPL Financial, we have the resources and support to help you move past your succession planning challenges. LPL Financial's Strategic Business Solutions group works with advisors like you who are ready to implement their succession plan. Of course, it is each advisor's decision whether to sell their practice to someone within their own organization or opt for a merger with an outside buyer. LPL can help you evaluate all options.

If you choose an internal succession plan, you can work with LPL to identify the right people and groom them. Alternately, LPL can connect you with other LPL firms looking to expand through a merger or acquisition.

Conclusion

When you break it down into manageable, easy to implement components and give yourself plenty of time to work through any issues that arise, succession planning does not need to be daunting. Working on it methodically can ease client concerns, mitigate risk and ensure a seamless and stress-free exit from the business. You have many resources to turn to for advice, but learning from peers, especially the ones who have successfully seen the process to completion, is a great place to start. Those advisors who are currently struggling to give shape to their succession plan can also turn to their broker-dealer for assistance. LPL offers the necessary support and resources to help you at each step along the way.

[3] *Financial Advisor Succession Planning Research Study,* page 8, SourceMedia Research

Case Study

David Deutsch, CFP®, Honolulu, Hawaii

As a New York native living in Hawaii, David Deutsch always welcomed the opportunity to travel to the mainland and beyond. The only problem was that as a sole practitioner, Deutsch couldn't afford to be away for too long. "There were always fires to put out when I got back," he said.

He started the search for an associate in 1990. Over the next decade, he brought in five, but not one had the "spark." The sixth associate–Brian Chang–did. Chang started as an administrative assistant in 2000 and quickly proved that he could service clients in Deutsch's absence. He also demonstrated the business chops to run a successful practice.

"We had complementary objectives," Chang says. "David wanted more freedom and time, and since I was just starting off, time was what I could donate."

A free personal finance seminar at a community college has long been the financial planning practice's main marketing tool. A few times a month, Deutsch would give a three-hour, three-part financial planning presentation. The majority of his clients came from those workshops. As Chang's capabilities grew, Deutsch allowed him to lead more of those workshops until he was leading them all. The new clients that signed on became Chang's.

As his production increased, Deutsch moved Chang from salary to commission and gave him equity. "More and more [David] was in the office less and less, and I was servicing his clients," Chang says.

In 2012, Deutsch transitioned all the clients to his young associate, and by 2013 he was retired and free to travel the world with his wife, Ronnie. Working closely with LPL, Deutsch structured the deal as a seven-year payout and remains an employee. The deal lets him avoid taking required minimum distributions from his individual retirement accounts and stay on the firm's health care plan. Stretching out the buyout has benefits for Chang too: he didn't need to come up with a lump sum all at once.

How to run a successful financial planning business is not the only thing Chang learned from his mentor. At 38, Chang has started his own succession planning because he wants to retire in his early 50s. A young advisor in the firm is now moving through the same steps as Chang did more than a decade before in preparation for that succession plan. "You can't just turn on a switch and sell the business to somebody else," says Chang. "You have to work with a successor for a long time."

"You can't just turn on a switch and sell the business to somebody else."

—Brian Chang

About LPL