2 RETENTION

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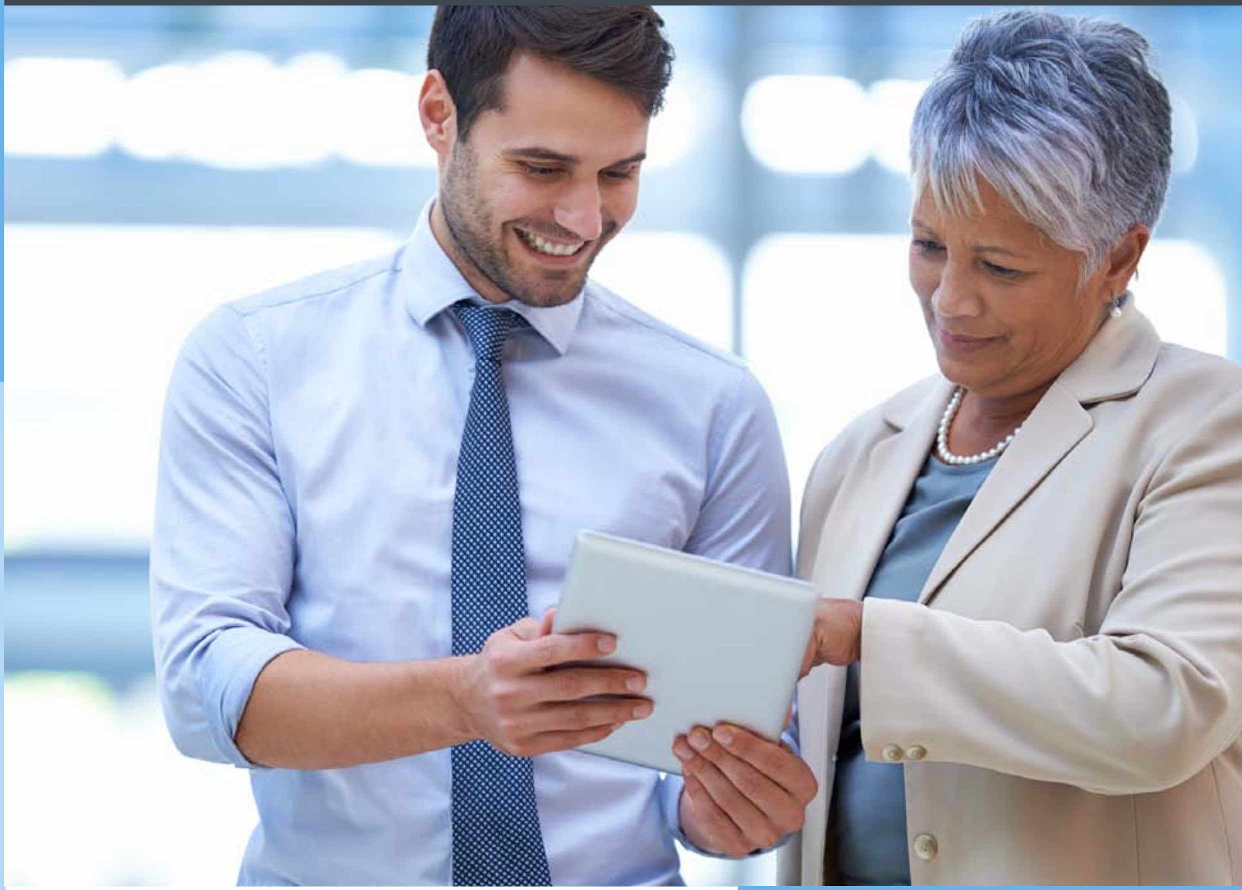
PRACTICAL IDEAS
FOR TODAY'S
FIELD LEADERS



Volume Three

Succession Planning as a Retention Tool

A Guide for the Financial Services and Insurance Industry

GAMA FOUNDATION
FOR EDUCATION + RESEARCH

Succession Planning as a Retention Tool

A Guide for the Financial Services and Insurance Industry

"Succession planning helps us retain younger advisors. It's very attractive for young advisors to know that if they work hard, do the right things, increase their knowledge and be team players, then there is an opportunity to be partnered with a more senior advisor. That will help them grow their businesses and income more quickly than if they did it on their own."

Tim Strellner, LUTCF
Strellner Agency Group

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About Us

The GAMA Foundation for Education and Research

The GAMA Foundation for Education and Research is a 501(c)(3) nonprofit organization dedicated to conducting and promoting research and education to enhance the profitability and productivity of field leaders in the financial services and insurance industry.

Since its creation in 1990, the GAMA Foundation has funded major studies on key leadership topics, including future trends for firms and advisors, attracting high-quality prospects, recruiting and selecting new advisors, launching new advisors, retaining successful advisors, mentoring and coaching practices, effective local marketing, building successful advisor teams, developing high-performing leadership teams, and launching new frontline (sales) managers.

Our Contributors

Succession Planning as a Retention Tool was made possible through the dedicated support of the GAMA Foundation's contributors. To contribute in support of our work, please visit us at www.gamafoundation.org or contact us at support@gamafoundation.org.

About this eBrief

The GAMA Foundation's eBriefs focus on essential business-building systems in agencies and firms. The strategies and best practices shared in this third eBrief of the three-volume retention series will help leaders:

- Understand how succession planning increases retention.
- Identify how different companies and firm leaders support succession planning.
- Develop a plan for supporting the succession planning process for their agents and advisors.
- Address common challenges in succession planning.

How We Collected Our Data

Our writer conducted in-depth interviews with 11 industry executives, all of whom have a proven record of creating succession plans in their organizations. In addition to personal interviews, the GAMA Foundation for Education and Research conducted an online survey to provide a snapshot of how top-performing leaders support advisors through the succession-planning process.

Terms Used in this eBrief

In addition to offering different lead products, industry segments often use different terminology to describe their business and their people (for example, "advisor" and "agent," "agency" and "firm"). In this eBrief, we most often use the terms advisor and firm. While you may use different terminology in your business, we encourage you to overlook the labels and titles and focus instead on the ideas and strategies shared by these leaders in the industry.

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Introduction

44%

Leaders who say that less than 2 percent of their agents and advisors within 10 years of retirement have a succession plan in place.

"The retention piece is huge. From my experience, advisors don't fail in our business because they can't do it or they don't believe in it or they don't like the industry. They fail because they don't have enough people to see. They fail because they're not making enough money. With this model, they are instantly plugged into a model that's working, that's generating opportunities and revenue."

—Travis J. Hart, LUTCF, Pacific Advisors

Succession planning may seem like an unlikely topic for an eBook on retention — in one, you are transitioning people out of the business, and in the other, you are working to keep them in it. But time and again, leaders in this study emphasized succession planning as a key component in their retention strategies.

This is an unprecedented time in history. Firms and agencies are responsible for protecting and growing more client assets than ever before, while fewer advisors are entering the financial services and insurance industry and fewer agencies and firms are training inexperienced producers. The survival of our industry depends on the smooth transition of agents' and advisors' hard-earned books of business to the next generation of producers. However, a study released in April 2018 revealed that 73 percent of financial advisors do not have a written succession plan in place. Of those who are within five years of retirement, 60 percent do not have a succession plan[1].

When no succession plan is in place, it puts companies, firms and agencies at risk of losing valuable client relationships. Nearly half of the field leaders in our study indicated that less than 2 percent of their advisors within 10 years of retirement have a succession plan in place.

Tim Strellner of Strellner Agency Group feels that succession planning is an obligation we have to our clients, the profession and our industry. "We promise our clients that we will always take care of them," he says. "So we should be planning for succession on a daily basis. It's a vital part of client service. None of us are going to be here forever to take care of clients. Succession planning is just part of the cycle."

[1] "Study: Succession Planning Remains a Challenge for Financial Advisers Due to Real and Perceived Personal and Business Obstacles," PR Newswire, April 25, 2018, https://www.prnewswire.com/news-releases/study-succession-planning-remains-a-challenge-for-financial-advisers-due-to-real-and-perceived-personal-and-business-obstacles-300636084.html.

The ideal situation is for a compatible successor to be in place in the senior advisor's practice years before retiring. By introducing the junior advisor to his or her clients and facilitating the transition over time, everyone wins:

- Clients are taken care of, and they have time to get acquainted with the junior advisor while the senior advisor they know and trust is still on board.
- Senior advisors can ease into retirement feeling confident that their clients are being taken care of.
- Junior advisors get a substantial boost by receiving an established book of business to service.
- Companies and firms retain clients' business.
- Companies and firms retain advisors who are groomed to become successors to senior advisors.

Succession Planning Benefits the Successor and the Senior Advisor

Travis Hart, president of Pacific Advisors, says succession planning bolsters the potential for new advisors to succeed in this business when they might not succeed on their own. "Succession planning aids in the retention of advisors because it gives a new advisor an opportunity to come into an existing system or model that usually has a proven track record of success in a specific market or type of strategy," he says. "It creates a lot more stability out of the gate. It also gives them the opportunity for all the upside that people are attracted to in our industry. They can bring in additional opportunities on their own, but they're not resting solely on just that one channel to drive revenue."

Travis adds that the built-in mentoring that is a natural part of succession-planning partnerships also helps agencies and firms retain newer advisors. "When somebody comes in as a solo advisor, this can be a very lonely business," he says. "Even though they are coming into the office and participating in training, they're on their own when they're out in the field and working with clients. When you are a part of that mentor relationship, somebody has been through what you're experiencing. They can totally relate to what you're going through, and that can be a motivator."

Succession planning also benefits senior advisors. They can share the workload during their remaining years in the business, giving them more time off to transition into retirement. And, it's an opportunity for them to learn from newer advisors, something that often keeps them energized during the transition period.

The significant benefits of succession planning are undeniable. In the pages that follow, industry leaders share their insights on a six-step process for creating effective succession plans that help retain both advisors and clients:

1. Address senior advisors' fear of letting go.
2. Start planning early.
3. Match senior advisors with compatible successors.
4. Coach advisors through the transition.
5. Formalize the agreement.
6. Transition clients to the successor.

1 Address Senior Advisors' Fear of Letting Go

47%

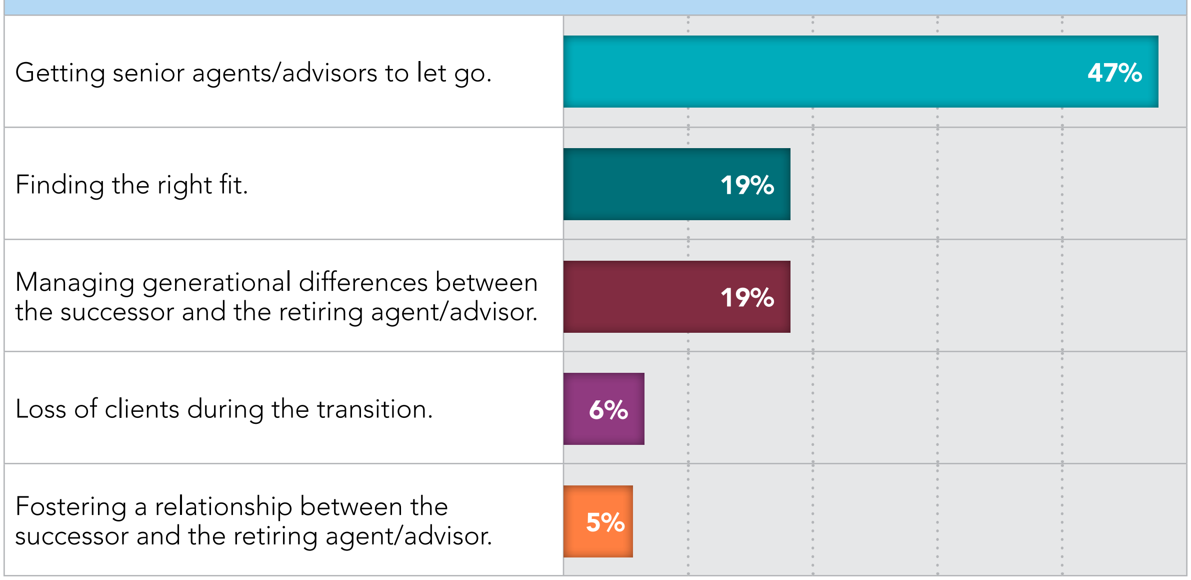
Leaders who say their biggest challenge is getting senior agents and advisors to let go of control.

> "We have an obligation to pursue succession planning because the intent was for us to be in this business to help others. We need to get senior advisors to recognize that to continue their legacies, they need to bring in younger advisors who can be there for their clients if they are no longer there."
>
> —Peter S. Novak, Charter Oak Insurance and Financial Services Company

The most common challenge industry leaders point to around succession planning is senior advisors' reluctance to relinquish control of their practices to someone else. It is extremely difficult for advisors to let go. Experienced leaders recommend a gradual transition process to help advisors overcome their reluctance.

FROM THE MEMBER SURVEY

What is the greatest challenge to successfully transition a practice from an exiting to a successor agent/advisor?



Encourage Senior Advisors to Think about the Next Phase of Life

As director of business development consulting for Thrivent Financial, Mark Dean regularly sees managers and advisors underestimate the emotional factor involved for advisors who have worked in the business for decades.

"People tend to start with the financial slice of this, which is an important part. But I think what most people underestimate is thinking ahead," he explains. "What are they going to do with their time when they leave the business? These people have been in the business for so long. This is their life. This is what they're committed to. This is what their passion is, and often, they don't have interests or causes they're passionate about outside the business."

While many senior advisors have thought about the financial aspect of retirement, very few have spent time thinking about the things that will motivate them once they retire. To help senior advisors overcome their uncertainty about the future, Mark and his team use a questionnaire to get advisors thinking about the next stage of their lives. They have them reflect on multiple dimensions of life, from work to community involvement, to hobbies and family. Mark encourages senior advisors to involve their spouses and other significant people in their lives in this process.

Reinforce Senior Advisors' Sense of Control

Paul Vignone is a retired managing partner for the Penn Mutual Life Insurance Company and now owns an independent firm. He says a large part of his role was to keep the process moving, especially with retiring producers who were reluctant to relinquish control of their practices to younger advisors. A strategy that was effective for him was to begin transitioning second-tier clients to the successor first.

"We would have that conversation about succession with the senior producer and then a follow-up. We met with them regularly to see what was happening," he recalls. "We had to sort of nudge some producers and say, 'OK, I know there are some A clients you want to maintain control over, so let's have your successor work with some of the B clients.' Once the younger advisors were working well with the B clients, the senior advisors saw that they were really not giving up control. They might be giving up some activities, but not control. Then we would start working on the A clients."

Michelle Hubert, agency manager with Farm Bureau Financial Services, says she learned early on the importance of letting senior advisors take the lead. "Early in my career, it was a difficult process because I tried to control it. I tried to orchestrate what should happen and when it should happen. When I made the switch to putting the veteran agent in the driver's seat and serving as more of a consultant with them, it changed everything because they feel more in control. Now they're on my team trying to help me."

Assume Responsibility for the Transition when Senior Advisors Cannot

Pete Novak, a general agent for more than 25 years, tells a story that demonstrates the unfortunate outcome that is possible when older advisors cannot accept the fact that they need to transition their businesses to younger advisors.

"It breaks my heart when I see this happening," he says. "When I was starting out, there was an elderly agent in our office who was very, very big in the industry and a top producer. He was the company's top agent in the 1980s and was the Agent of the Year. But he never was able to transition his block of business the way he should have. By the time he thought about it, it was too late — he had lost his accounts, and he became very agitated over it. He was in his 80s, and so were most of his clients. The company lost his entire book of business. Nothing was left."

Pete stresses that it is the field leader's responsibility to initiate and execute the succession-planning process. Pete is now 61, and he is in the process of transitioning his own practice to a younger advisor.

"I have a junior partner, and our roles have changed. He handles the day-to-day operations of the organization, and I'm doing what I like to do, which is recruiting and working with the senior advisors," Pete explains. "You have to coach individuals because when people have been running their businesses for their whole lives, you have to get them to recognize that it's OK to give up the control, as long as they have control over the things they want to do."

Checklist: Address Senior Advisors' Fear of Letting Go

- [ ] Talk with advisors about their concerns about leaving their practice and their clients.
- [ ] Work together to create a transition plan that reinforces advisors' sense of control and helps to address their concerns.
- [ ] Encourage advisors to think about how they will stay active in other aspects of their lives after retirement.
- [ ] Take responsibility for initiating the succession-planning discussion with advisors.

Questions to Consider

1. What strategies can you use to help advisors overcome their fear of letting go?

2. Are there advisors in your agency or firm who should be considering retirement now? How will you initiate the succession-planning discussion with them?

2

Start Planning Early

55%

Leaders who begin identifying a potential successor more than two years prior to the senior advisor's anticipated retirement.

"I think it's interesting that we're in a business where we help our clients with their planning, yet many of our advisors aren't planning for their own futures. According to a 2017 LIMRA study, 99 percent of clients believe their financial professional (FP) is prepared for an unplanned exit from the business. But the reality is that only half of FPs report that they are prepared.[2] We need to help close that gap between perception and reality and help advisors understand the importance of succession planning."

—Mark Dean, FIC LUTCF, Thrivent Financial

It's never too early to begin the succession-planning process. Of the leaders who responded to our survey, 56 percent say it takes 13 months to two years to find the right successor, and 46 percent say that, once they find the right successor, the transition takes another 13 months to two years. The length of time it takes to get a succession plan in place isn't the only consideration.

"Anything can happen at any time," says Tom Shoen, director of network office supervision at the Dodd Group. He recently conducted an email campaign to all advisors who have been in the business for at least five years or have at least 100 clients. "Even if they are in their 30s, it's never too early to get a plan in place." Tom reminds advisors this is also a great message they can share

[2] Donna B. Chaffin, M.B.A., FLMI, "Succession Planning Strategies: Helping Your Advisors Get Their Ducks in a Row," LIMRA, 2017.

with their clients. "They can say to their clients, 'I'm taking the same steps you are to protect my future.'" As a result of the campaign, the firm went from eight advisors with succession plans in place to 25, and Tom has set a goal to increase that number to 50 this year.

Determine if Succession Planning Will Be Mandatory or Encouraged

Most of the field leaders we interviewed said succession planning is strongly encouraged but not mandatory.

But for Bill Montague, director of development for New York Life Insurance Company, succession planning is so vital to retaining clients that he encourages a wider swath of advisors than just pre-retirees to build successor plans, and in some cases, it's mandatory.

"We encourage agents who are retiring, who are going into management, or leaving our agency for any reason to name a successor agent. We don't want their books of business just going to the four winds without having anybody assigned to service their clientele," Bill explains. "We particularly encourage our older, more experienced, more tenured agents to name a successor, even if they're not planning on retiring or leaving the business at any point soon."

Some of the New York Life company incentive programs require agents to have successor agents in place, particularly the higher-producing agents. "If something happened to them with no plan in place, the loss to the agency and company would be substantial," Bill says. "Succession planning is critical for the persistency of enforced business. If the successor agent does a good job of taking over the senior advisor's book of business and works it the way it should be done, it's critical in retaining clients."

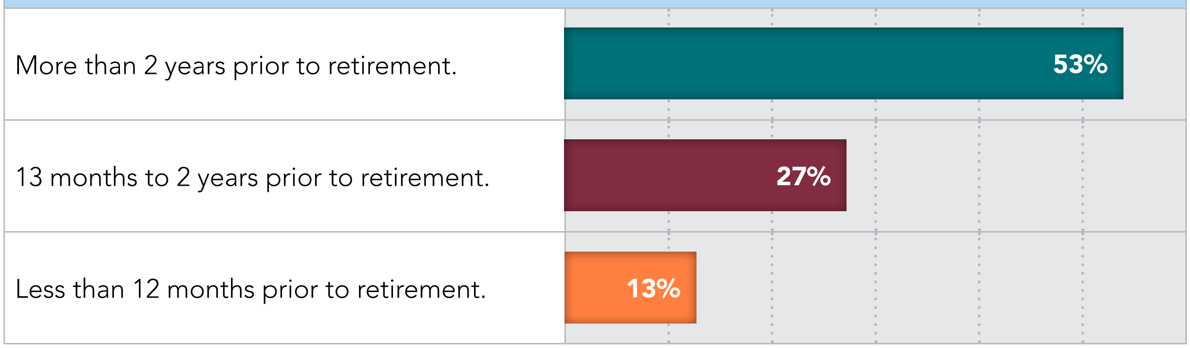
Plan for a Gradual Transition

Leaders in our study agree that most people underestimate the time it takes for a successful transition. The most successful relationships begin long before the senior advisor is slated to retire. Developing a successor relationship 10 to 15 years before retirement gives the senior advisor ample

time to develop a successor and feel comfortable with the level of service clients are receiving. And it gives clients time to become comfortable with and gain confidence in the successor. A gradual process lets the retiring advisor ease into the transition, taking more and more time away from the office, and then eventually retiring.

FROM THE MEMBER SURVEY

When do you first begin identifying potential successors for retiring agents/advisors?

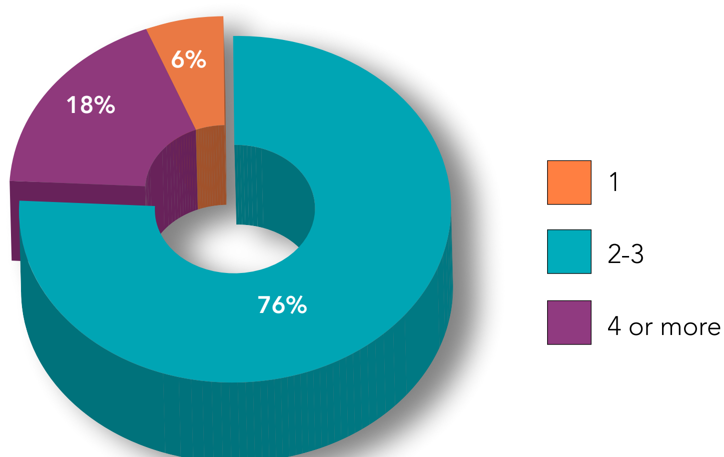


Allow Time for Partnerships That Don't Work Out

Another reason to begin the process well before the planned retirement date is that often the first successor candidate doesn't work out, and it can take months to discover that there's not a good match between the successor and senior advisor. An overwhelming number of leaders in the study indicated they bring in two to three successor candidates before finding the right fit.

FROM THE MEMBER SURVEY

How many successors do you bring into a practice before you find the right one?



Establish Trust So Senior Advisors Will Readily Share Their Plans with You

Michelle Hubert meets with her agents every quarter. At every meeting, she discusses what their goals are and what they're trying to accomplish. "They share with me when they plan to retire. Typically, I encourage them to give me at least three years' notice because it takes a long time to identify an agent and get him or her on board and established in the community," she says.

Michelle feels agents are willing to share that information with her because they know they can trust her with the process, to have their best interests at heart and to make great decisions for their clients going forward. They also trust that there's not going to be any negative aspect to the experience and that she's not going to shove them out the door.

"As a matter of fact, in most succession instances, I'm begging them to stay longer," Michelle says. "I have one agent right now who was going to retire at the end of last year. Then he moved it to the end of this year, and I'm encouraging him to move it to the end of next year. There's a new agent in his office, and they are working together brilliantly. We've already transitioned some of the business to the new agent, but they're having a ton of fun and really supporting each other well. Fortunately for everybody involved, the veteran agent isn't in a big hurry to finalize his retirement. That's ideal because the company, the clients and I are all getting the benefit of still having him on board."

FROM THE MEMBER SURVEY

Who typically initiates the conversation about succession planning?

Agency/firm leader proactively seeks out agents/advisors who are considering retirement.	37%
Agents/advisors approach agency/firm leader when they begin thinking about retirement.	23%
Agency/firm leader proactively seeks out agent/advisors who should be considering retirement.	17%

Checklist: Start Planning Early

- [ ] Determine potential retirement dates for your agents and advisors and mark your calendar to start discussions at the appropriate time.
- [ ] Start working now with advisors who are within five years of retirement.
- [ ] Be realistic about the time needed to find the right successor and allow time for a gradual transition.
- [ ] Include discussion of long-term plans in your meetings with agents and advisors. When the time comes, it will be easier to enter into a succession-planning discussion if you've been talking about the future all along.

Questions to Consider

1. How many of your agents or advisors are within 10 years of retirement? Five years? Three? What would you do if they all decided to retire within the next year or two? What would be the impact on your business and clients?

2. What criteria, besides age, will you use to identify agents or advisors to work with to get a succession plan in place?

3. Are you confident your agents and advisors feel comfortable discussing their retirement with you? What concerns might they have and how can you strengthen their trust in the process?

3

Match Senior Advisors with Successors

Top 3

Criteria for determining a good match between senior advisors and potential successors:

1. **Shared values.**
2. **Personality match.**
3. **Specific skills needed in the practice.**

"Our philosophy is that we want to keep a pipeline of advisors working with experienced advisors in their last five to ten working years. If we haven't already connected them with a potential successor, we will work to make sure that happens."

—Travis J. Hart, LUTCF, Pacific Advisors

Identify Potential Successors

Most leaders in our study look for successors among the ranks of producers already on board. But a large number hire new agents or advisors specifically for the successor role. Twenty-seven percent of the leaders responding to our survey indicated that successors are assigned by the company.

Almost all of the recruiting Michelle Hubert's team does is specifically for the purpose of succession. "We train the people we are bringing into our business and prepare them to work with agents who are going to be retiring," she says.

But Michelle offers a note of caution. "I try to be really careful how I position it because I never want to make guarantees that I can't deliver on. I do make sure that incoming agents know there's the potential to become successors. I talk to them about the fact that they can build agency business in two ways. They can either build it completely from scratch — and our supplemental contract is brilliant for helping them do that, or at some point, there might be a retirement in their neighborhood, and they could hold up their hand for consideration for that."

Michelle looks to the veteran agents to identify the right candidates for them to work with. "Often, they're meeting with potential new agents long before any decision making takes place. The best-case scenario is that I'll go into the community and work with that veteran agent to brainstorm some potential recruiting prospects," she explains. "We'll meet with centers of influence to talk to them about the fact that there's going to be a great opportunity for someone in their community. Often, those centers of influence will refer us to potential new agents, and we work that pipeline until we find somebody. For the last two succession plans I've executed, the retiring agent at least partially identified the newer agents."

Though not common, some agencies and firms include senior advisors' clients in helping to identify successors. They also use their referral-gathering process with centers of influence to ask specifically for recommendations for successor referrals. One leader includes clients in an informal "board of directors" that supports advisors looking for successors.

FROM THE MEMBER SURVEY

What are the top three characteristics of an ideal successor candidate?

Coachable.	53%
Strong commitment and work ethic.	33%
Relationship-building skills.	20%

Select the Successor

While leaders are most often the people identifying potential successors, it is the senior advisor who typically makes the final selection. Many leaders see this as an important step in setting the partnership up for success.

Pete Novak agrees. "I have found that 'arranged marriages' really don't work. What you need to do is to recruit people into your organization, make it vibrant and then engage in social activities to get your senior people and your younger people to get to know each other," he says. "In our offices, every quarter, any advisor who pays for $10,000 in commissions in one specific month gets to attend a dinner. That brings the veteran agents and some young agents who are doing some good things together. What we're trying to do is promote camaraderie. More importantly, in the back of my mind, what I'm trying to do is create succession plans."

That doesn't mean that leaders aren't involved in the final decision. Mark Dean believes managers should play an active role in matching senior advisors with successors. "I think the worst thing that can happen is for two advisors to agree on a succession plan, but the leader doesn't think it's a good match," he says. "The leader might know about some issues the senior advisor isn't aware of, such as risks around compliance issues or client-relations issues. If that happens, the leader has to provide support in a diplomatic and effective way that serves everyone's needs."

Checklist: Match Senior Advisors with Successors

- [ ] Determine the process for identifying and selecting successors.
- [ ] Identify criteria for selecting successors.
- [ ] Decide who will take responsibility for each of the tasks in the succession-planning process.
- [ ] Consider involving your centers of influence or clients in the process.

Questions to Consider

1. What do you believe are the most important characteristics of ideal successor candidates?

2. What do you believe are the most important criteria for selecting a successor?

3. How will you work with senior advisors to select their successors?

4

Coach Advisors through the Transition

Top 3

Activities to foster a successful transition:

1. **Ensure high levels of communication.**
2. **Act as coach/consultant throughout the process.**
3. **Ensure a smooth transition for clients.**

"Don't lose your place as a coach. Your job is to coach this along, not dictate it. If you dictate it, you're going to get yourself into a world of hurt. Always be open, honest and transparent on how everything works within the firm and on how the firm can support the incoming advisor. Most importantly, don't forget about all the years the existing advisor spent with your firm."

— Samuel L. Terrazzino, M.S.M., CFP LUTCF,
Financial Partners of Upstate New York

In some firms and agencies, the field leader serves as a facilitator in the succession-planning process and offers guidance when advisors need help. In other organizations, the manager plays a more hands-on role in executing the logistics of the plan.

Stay Engaged in the Process

Experienced leaders emphasize the importance of meeting regularly with senior advisors and their successors until they form a strong connection and build up momentum. Leaders use these meetings to foster relationships between senior and successor advisors and to ensure that roles, responsibilities and expectations are clear. They also use meetings as an opportunity to assess fit. Experienced leaders can often detect potential issues with compatibility early on, sometimes even before the advisors realize it isn't an ideal match.

Nathan Way, president and owner of Novity Wealth Solutions, has keen insight into the succession-planning process from the perspective of a field leader and a producer. He believes the field leader can play an important role in the process by coaching senior and junior advisors together and reminding them why they need each other.

"I find that some senior advisors are saying to the young advisors, 'You need this more than I do because I'm already established, and you're working my book of business.' I try to remind both advisors that they need each other equally. If a senior advisor is thinking about retiring or starting a succession plan, I can almost guarantee that his or her clients asked about it two or three years prior to that.

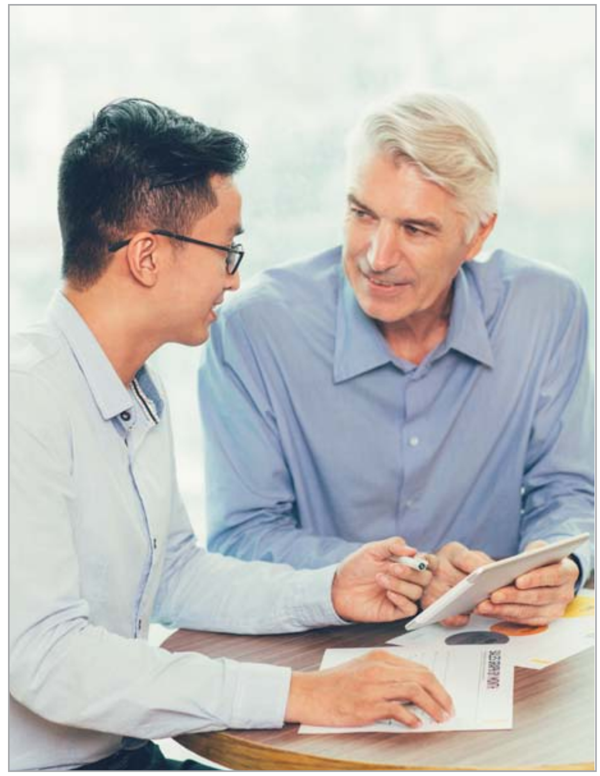
"I think the best thing managers can do to help push the succession plan along is make sure that they're touching base with the senior advisor who is looking to transition out. They need to know that practice, know what that senior advisor is expecting, and know where his or her area of focus is. Managers also need to get the junior advisors the training and the background they need so the senior advisors are not stopping production or stopping their practices to train someone new. It should be the manager's job to know the senior advisor's process and systems and to help train to that, as opposed to just training the junior advisor the way the manager might normally train someone," Nathan says.

Maintain Regular, Open Communication

Communication may be the most important aspect of succession planning. Forty percent of the leaders in our study identified high levels of communication as the most important activity for a successful transition.

Both senior and successor advisors will have concerns along the way and leaders play a key role in facilitating conversations. For example, senior advisors often have questions about how much freedom to give successors in working with clients early on. Leaders can work with both advisors to assess strengths, identify areas where development is needed and build out a plan.

It is also important for both advisors to discuss how they might handle potential issues that could arise. Talking about all the 'what ifs' that could go wrong before they do go wrong — and they will — saves everyone from surprises later on. Nathan Way recommends, "As advisors start thinking about succession planning, they and the managing partner need to start asking, 'If I were going to partner up with someone, what might go wrong? What might we argue about? What might come up?' They need to start discussing the partnership and say, 'Let's talk about what happens when we write a case and what our commission split's going to be like.'"



Sam Terrazzino, president of Financial Partners of Upstate New York, feels a leader's role in the succession-planning process is to listen and offer guidance. Every advisor is different, so every situation is different.

"I believe everybody is built differently. Everybody has different goals and objectives. Some people might have the same goals and objectives, but they have different personalities, so they're going to get there a different way," he says. "I'm a big believer in knowing who you're talking to and understanding what motivates them. Some people need to be challenged. Some people need to be led. And some people need a kick in the butt, quite honestly."

Sometimes succession plans don't work out as everyone hoped because, for example, an advisor fails to adhere to the contract everyone agreed on. When that happens, Sam says he must "play Switzerland" because he can't take anybody's side. "I try not to have one-off conversations. Whenever somebody starts questioning or complaining, my solution is always to get together as a team. I encourage everyone to try to figure this out collectively together."

Kelly Brion, a sales leader for State Farm, agrees that communication is the key to a smooth succession. "If there are any questions that are left unanswered, that can become a big obstacle to succession planning," she says. "Maintaining open dialogue with all parties throughout allows everyone to be informed and aware of the next steps in the process."

Checklist: Coach Advisors through the Transition

- [ ] Use real-life examples to stress the importance of succession-planning to advisors.
- [ ] Proactively facilitate conversations and provide guidance to advisors as they go through the process.
- [ ] Walk through different "What if?" scenarios with advisors to help them clarify roles, responsibilities and expectations during the transition.
- [ ] Stay neutral and unbiased when issues arise and work through them with advisors.

Questions to Consider

1. What do you believe is your responsibility in the succession-planning process? How engaged will you be and what will you do to facilitate the transition for senior advisors and their successors?

2. What are some "What if?" scenarios that senior advisors and their successors should work through to prevent issues later on?

5

Formalize the Agreement

32%

Leaders who use their standard agency/firm or team commission structure for splitting commissions between the retiring agent/advisor and his or her successor.

"Having a best-case agreement on file and formalized takes away any question about what will happen when an advisor retires. Once the partnership with the successor becomes more formal and we are pretty certain it's going to work, it takes a lot of pressure off the senior advisor."

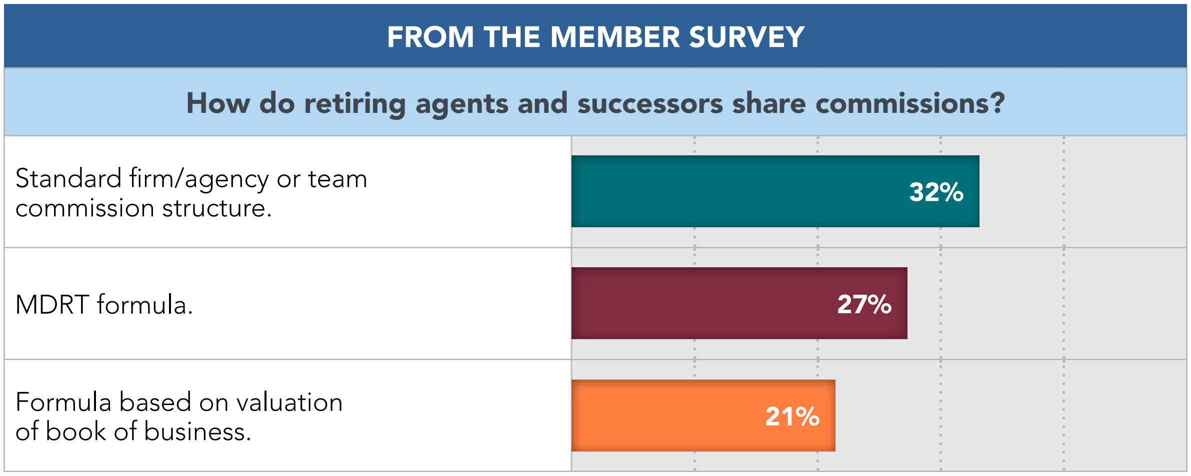
—Tim Strellner, LUTCF, Strellner Agency Group

Once everyone is confident that the senior advisor and successor are a compatible match and that the partnership is likely to succeed, it's important to formalize the agreement. Every detail of the agreement needs to be discussed until everyone agrees on the terms.

Decide How to Split Commissions

The way firms and agencies handle commissions in succession-planning arrangements varies widely. The situation and the advisors' preferences typically drive that decision. Among the leaders we surveyed, the top three strategies for determining commission splits are:

- A standard firm or team commission structure.
- A formula based on valuation of the business.
- The MDRT formula — 20 percent each for the following five tasks:
  1. Finding the prospect.
  2. Conducting the fact finder.
  3. Preparing the case.
  4. Closing the sale.
  5. Servicing the client.



Conduct a Valuation of the Practice

A critical part of any succession plan is valuation of the senior advisor's practice. Before negotiations begin, it's important for everyone involved to know the monetary value a reputable, unbiased valuation expert has placed on the practice. According to leaders in our study, the reality check of what the business is worth can often be the first stumbling block in the succession-planning process.

That's why many leaders choose to use a third party to conduct the valuation. One leader notes, "We have realized that we don't know all the strategies, and that's what they do all the time. We shouldn't be afraid to seek help from outside the walls of our own organizations."

Sam Terrazzino recommends that practice valuations be done every two years. "A lot of times, that value is based on assets under management. Obviously, given stock market fluctuations, that number changes. So, we could have a two-year run where the market does really well, a lot of new assets are coming in, and that practice is now worth more. Or we could have the opposite happen, where the market takes a downturn, we didn't bring as many assets in, and now that practice is worth less. So, we review it every two years. That's the best, easiest and cleanest — but not quickest — way to do it."

Don't forget there are two parties to the buy-sell agreement. Tom Shoen works with successors as well as senior advisors in the succession planning process. "One of the key questions in the process is, 'Can the successor afford to buy the practice?'" Tom discusses finance options with successors including options they may not have considered such as life insurance.

Document the Agreement

Paul Vignone has seen agreements handled three different ways. "Sometimes a boilerplate is used. Often, a letter of agreement goes along with the boilerplate because it might not include general understandings the experienced producer and the successor have agreed on.

"A second scenario is that the agreement can be provided by the experienced producer's attorney. It has to be approved by the home office to ensure that the books of business are properly transferred when the trigger event occurs. And third, sometimes the successor's attorney creates an agreement. Again, the home office has to make sure both parties cooperate and do the transfer when the trigger event occurs."

Some leaders suggest also including “worst-case” planning in the agreement. For example, including instructions should something happen to the senior advisor before the transition is complete.

Many home offices provide support as well as templates and forms for the succession plan agreement. These tools can be helpful in getting succession planning conversations started and in making sure the plan is fair and equitable.

Checklist: Formalize the Agreement

- [ ] **Decide how to split commissions during the transition.**
- [ ] **Determine the best option for conducting a valuation of the practice.**
- [ ] **Make sure that agreements follow company protocol, IRS rules and industry regulations.**

Questions to Consider

1. What resources are available to you and your advisors for documenting a formal succession agreement?

2. What will you do to ensure formal agreements are fair and equitable and follow rules and regulations?

6

Transition Clients to the Successor

83%

Leaders who say the senior advisor takes the lead in introducing successors to clients.

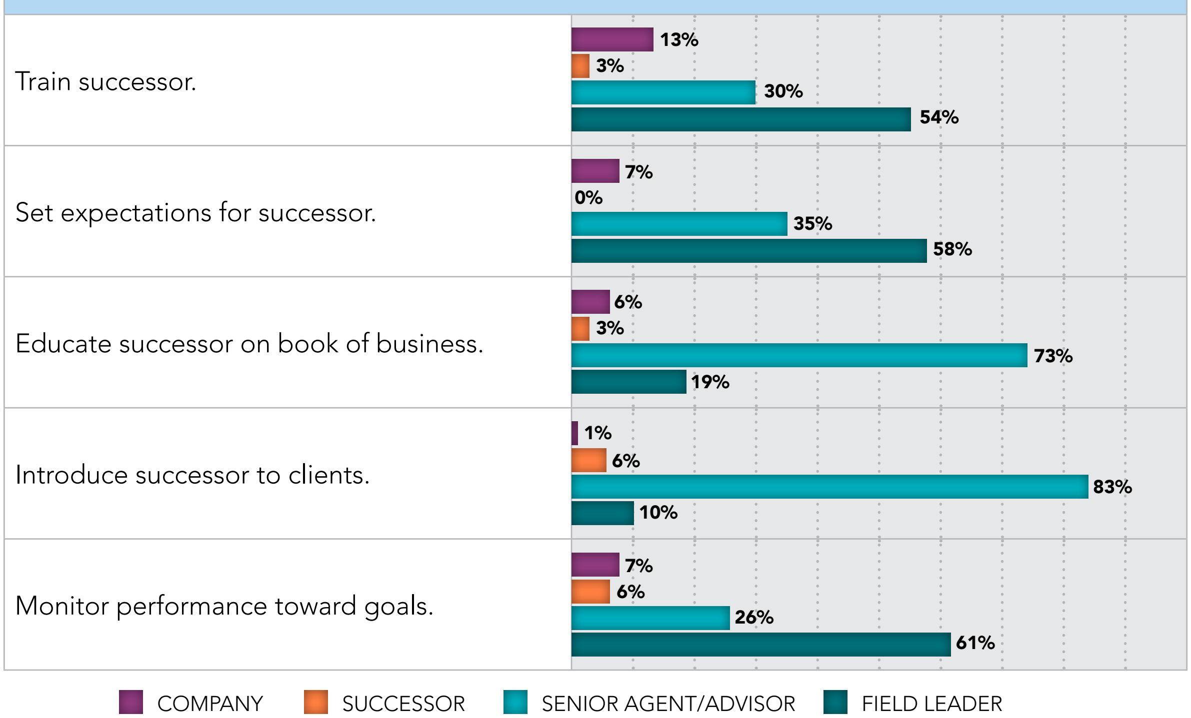
"The retiring agent did everything he could to make sure that things went smoothly for both the customers and the new agent. He participated in an open house with the new agent to endorse the agent personally and was very supportive throughout the years. This made for a great transition for both agents and the customers."

—Kelly Brion, CLU ChSNC, State Farm Insurance

While field leaders take the lead in setting expectations and monitoring performance of new advisors, it is the senior advisors who typically introduce successors to their clients.

FROM THE MEMBER SURVEY

Who has primary responsibility for the following tasks?



Introduce the Successor to Clients

Experienced leaders recommend that new advisors are first introduced as new members of the team rather than immediately introduced as successors. Because of the uncertainty involved in newly formed partnerships between retiring advisors and their successor candidates, it's best to announce the transition to clients only when everyone involved is reasonably certain that the partnership will be successful. This delayed announcement gives new advisors and senior advisors a chance to get comfortable working together and clients a chance to get to know new advisors before a formal announcement is made.

Letters of introduction are by far the most popular method for introducing successors to clients. However, many leaders recommend a combination of activities, especially if the transition will be executed over a period of several years. For example, the senior advisor might begin by sending a letter of introduction to clients, post social media announcements throughout the year, and then host a reception the following year.

FROM THE MEMBER SURVEY

What activities do you use to announce the transition to clients?

Letters of introduction.	59%
Personal introductions.	21%
Client reviews.	7%
Client events.	3%
Social media announcements.	1%

Consider the Adoption Approach

Along with reviewing the service model and client tier structure, joint work is the preferred method for familiarizing successors with clients. While joint work often starts with new advisors taking on second-tier clients, Ed Deutschlander, CEO of North Star Resource Group recommends a somewhat different approach — something he calls "adoption."

In his 2018 RAG study group white paper, "Adoption: Solving for the Retention, Practice Continuation, and Talent Shortage Challenge within the Financial Planning Profession," Ed explains that in a mentor/mentee relationship, the primary focus is on the mentee. But in adoption, the primary focus is on the senior advisor and his or her practice.[3]

[3] Edward G. Deutschlander, "Adoption: Solving for the Retention, Practice Continuation, and Talent Shortage Challenge within the Financial Planning Profession," white paper prepared under the auspices of the LIMRA RAG study group, 2018.

Traditionally, new advisors are brought in to manage "C" and "D" clients to free up the senior advisor's time to focus on "A" and "B" clients. According to Ed's study, the reality is that focusing on "C" and "D" clients has not been an effective way for jump-starting new advisors' careers.

In the successful practices Ed reviewed in his research, new advisors join senior advisors in working with their top-tier clients. Through this process, junior advisors learn to precisely model senior advisors' planning methodology, language and client experience. As a result, practice continuation and business succession plans often develop. It is a win-win situation for everyone: the clients, senior advisors and junior advisors.

Checklist: Transition Clients to the Successor

- [ ] **Develop a plan for training successors in the different aspects of the senior advisor's business.**
- [ ] **Determine a strategy for introducing the successor to clients.**
- [ ] **Develop a plan for transitioning client responsibilities to the successor.**

Questions to Consider

1. What concerns might the retiring advisor's clients have and how can you address them in the transition process?

2. How can you implement an adoption approach in your agency or firm?

Conclusion

Succession planning is a valuable strategy for retaining advisors, retaining clients, fostering growth, gaining introductions to current clients' children and reinforcing the firm's commitment to providing optimum service to clients.

When succession planning is undertaken well in advance of a senior advisor's retirement, senior advisors can begin transferring their books of business to their successors gradually. Because it is extremely difficult for most senior advisors to let go of the control they have experienced in their practices for years, sometimes decades, a gradual transition eases their reluctance to choose and develop successors.

Whether they serve as sounding boards or lead the succession-planning process, managers play a key role. Their leadership is vital in ensuring that senior advisors begin the process well before they plan to retire, are matched with compatible successors, receive coaching when needed, create and execute agreements that meet everyone's needs and transition clients to the successor in a smooth, gradual manner.

Resources

Field leaders who were interviewed for this eBrief and who participated in the survey recommended the following resources and organizations for insights into developing and executing successful succession plans.

Donna B. Chaffin, M.B.A., FLMI, *Succession Planning Strategies: Helping Your Advisors Get Their Ducks in a Row,* LIMRA, 2017.

Leigh Glenn, "Planning for Succession? 6 Steps to Consider When Creating Your Succession Plan," *GAMA International Journal*, November/December 2016.

David Grau, Sr., *Succession Planning for Financial Advisors: Building an Enduring Business, 2014.*

Donald A. McLaughlin, M.S.M., CLU® ChFC®, "First Steps in Succession Planning," *GAMA International Journal*, January/February 2009.

Smart Concepts Group, www.thescg.com.

FP Transitions, www.fptransitions.com.

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