BOSTON HARBOR
WEALTH ADVISORS

What's the Right Succession Plan for You?

Understand the industry's shifting landscape to determine if you should remain as an employee advisor or make a move to independence.

The Advisor Migration
In the early 2000s, roughly 60% of advisors aligned as W2 employees, but now we see that number has flipped. Today, approximately 60% of advisors are independent due to various factors. Veteran financial advisors have become more attracted to the equity they can earn from their practice, the potential to sell their practice, and the open architecture to their succession planning approach, among many other reasons.

Understandably, with this uptick in advisors moving to the independent model, employers like wirehouse and regional firms have set up measures to make it more difficult for advisors to move from their employer. Some firms offer "retirement" or "sunset" opportunities. However, companies design the retirement parameters and outline the succession plan based on strict parameters they have outlined. The same goes for the value of the business – it's determined by the company, not by the fair market value. Instead, the company is looking at the costs of transitioning the business and the amount the company deems appropriate for the advisor to receive.

Employee Succession Plans
Company agendas are deeply embedded in the succession planning options they make available to their advisors. There are also numerous hoops for advisors to jump through which are driven by corporate agendas. Some of these restraints include:

- Employee succession plans payout at 30-50% of the fair market value.
- Income to an advisor is taxable as ordinary income not as a capital gain.
- The company can modify eligibility at any time.
- The firm controls ongoing advisor involvement.
- The company can adjust the parameters at any time.

While the disadvantages to an employee succession plan can be overwhelming, there are some benefits in staying where you are:

- There is no need to move – fewer steps are involved in your retirement planning process.
- Successors are down the hall – there is convenience in having existing relationships with the advisor(s) who will take over your business who are already employed by the same company.

Independent Succession Plans
With independence comes increased autonomy, but it also means a considerable responsibility when determining the best track for you. You can likely expect many benefits

if you are an employee transitioning to the independent world. These benefits include:

- Fair market value pricing – the current supply and demand curves drive the price for your business.
- Right to sell *how* and *when* you see fit – you create the terms based on your timeline and comfort level.
- Business sale per IRS codes – the sale comes down to you selling your entity without additional factors at play. This can allow you to benefit from capital gains tax rates for the sale of your business.
- Determine all terms and conditions – you decide what is most vital for you to make the transition as smooth as possible.

There is a great deal of flexibility when moving to an independent structure. That said, there are a couple of drawbacks that we have identified which are crucial to keep in mind while you are making this decision.

- Moving your practice –the reality is that there will be a transition period when you must put in the time and effort to move your practice.
- Identifying a future successor – it's important to find who will take over your business, but thankfully you are not alone. Many resources are available to help you find a successor and guide you through the process to ensure you find the best match for you.

Typical Parameters for Independent Succession Plans

There is a lot of information about what you should expect. It can be overwhelming with the wealth of information available – sometimes conflicting information – as you navigate through the decision. We've boiled down what you can expect when moving. Keep in mind that factors will vary depending on your practice.

- Valuations: ~2-3X gross revenue of your practice
- Upfront money paid at closing with contingent backend payments
- Limited continencies or parameters
- You control your engagement and involvement in the practice over time
- Sell your business in pieces or stages over time to allow you to go at your pace.

Next Steps

We understand that the succession planning process can be overwhelming without sound guidance from an experienced team. Boston Harbor Wealth Advisors is committed to creating flexible and robust succession plans for advisors like you. We are happy to provide guidance in any way possible, whether it's being a partner, an advocate, matching you with a potential business, connecting you with buyer's networks or search firms, etc.

If you are interested in learning more about developing a succession plan, please contact Matt Davis, CEO, Boston Harbor Wealth Advisors, at matt.davis@bhwawealth.com

Any opinions are those of Matt Davis and not necessarily those of Raymond James. Expressions of opinion are as of this date and are subject to change without notice.