Weatherby & Associates, PC

Counselors at Law

Helping Families Preserve and Protect Assets and Values

Volume 7, Issue 5 *May 2012*

Upcoming Events & Seminars

:

Don't Go Broke in a Nursing Home
3 Dates To Choose From
Seating is Limited!

June 5, 2012
West Hartford, CT
2:00pm - 4:00pm
Click Here To Register

June 6, 2012
Farmington, CT
10:00am - 12:30pm
Click Here To Register
or
3:00pm - 6:00pm
Click Here To Register

June 7, 2012

Brought to you by Weatherby & Associates, PC

From Henry C Weatherby

Weatherby & Associates, PC

Rocky Hill, CT
10:00am - 1:00pm
Click Here To Register

or

Call 860-769-6938 to reserve your seats!

VA Benefits

May 22, 2012
The Lodge at Cold Spring, Rocky Hill, CT
2:30pm - 4:00pm
Click here to register!
or
5:30pm - 7:30pm
Click here to register!

or

Call 860-769-6938

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Our firm focuses our practice on Estate Planning, Business Planning, Trust Administration, Probate, Elder Law and Life Care Planning. We help families preserve and protect assets and values; we help business owners maximize their businesses' value.

Understanding Practice/Business Transition Planning

A large part of many financial service professionals' practices is helping clients with business succession planning. Yet only 29% of these professionals have created a formal practice transition plan for their own businesses.

In this edition of *The Wealth Counselor*, we will look at some of the steps involved in transition planning for a financial service practice, including when and how to get started, valuing the practice/business, and the timetable to consider.

This is a topic of particular interest and benefit to all financial advisors and other professionals who work with, and can assist in transition planning for, financial advisors. In addition, the general concepts presented here easily can be adapted to other estate planning professionals who need to consider their own practice/business transition planning.

What Is Practice/Business Transfer Planning?

Practice/business transfer planning for the financial advisor creates an orderly transition of the advisor's "book of business," clients and

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▶You have received this newsletter because I believe you will find its content valuable, and I hope that it will help you to provide better service to your clients. Please feel free to contact me if you have any questions about this or any matters relating to estate or wealth planning.

Check out our NEW e-courses!
Get help navigating the Elder Care Journey with our special series of reports:

▶How can I get help paying for a nursing home or long term care without losing it all? Learn more at **www.learnmedicaid.com/weatherby**

▶Veterans 65 or older may qualify for a benefit of $24,239 annually to pay for in-home help, assisted living, or nursing home care. Simply visit **www.wartimeveteran.com/weatherby** to find out more

▶I have a loved one with Alzheimer's, and I need caregiving help. How do I make sure my loved one is well taken care of, and that they don't lose their home or life savings? Discover the secrets at **www.ConnecticutMemoryLawye**

multidisciplinary relationships to an approved eligible buyer.

If the advisor’s children are not interested in or are not the right choice to take over the business, it will be necessary to recruit and develop an individual with characteristics similar to the advisor to be the advisor’s successor.

Much will depend on the contract the advisor has with the primary companies he/she deals through or represents. Is the advisor an independent? Is he/she a captive with outside privileges? Is he/she restricted to one carrier only? If that is the case, the selling and buying advisors’ agreements with that carrier must all be aligned; usually, the carrier will want to approve the buyer and the selling process (but not the selling price).

Why this Planning Is Important

Often the advisor does not have a vision of “life after practice” or what might happen to his/her family, employees and clients should he/she become disabled and unable to work, retire or die suddenly. Advisors counsel clients on these issues nearly every day, but rarely take the time to think about the issues for themselves. Succession planning is just as important for the advisors as it is for clients.

Consider the clients with whom the advisor has developed close relationships over the years. Who would service them if/when something happens to their advisor? Will they have to call an 800 number and talk to someone who doesn’t know them at all? Will they be “assigned” to someone they don’t know? Ongoing continuous service leads to a continued relationship; LIMRA studies indicate clients buy financial products seven times during their lifetime, based on life cycles and style changes. These relationships are important not just to the existing advisor, but also to a younger advisor coming into the profession.

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▶I'm a healthy, vigorous senior who's looking to plan the right way so my spouse and I can have peace of mind. Find out how at **www.learnestateplans.com/weatherby**

Also, the selling advisor has poured his/her life into building the practice, with an investment of blood, sweat and tears over many years. Many client and professional relationships have been developed during this time. Properly introducing and integrating the buying advisor into the practice can help to preserve these relationships and lead to a faster and more efficient professional career penetration for the buying advisor. The selling advisor should prepare marketing materials that the new person can use immediately to clearly identify the buying advisor as a part of the team.

Planning ahead for this transfer has advantages for all who are affected: the advisors, spouses and families, clients, staff, business associates, and the companies (carriers) with whom the advisor works. Everyone wins when planning for continued service to existing clients.

Planning Tip: According to a LIMRA advisor retirement study, advisors are getting older - the average U.S. life insurance agent's age is 52, while the average U.S. worker's age is 37. Fewer new advisors are coming into this profession, so the pool of potential buyers is shrinking. The time to start planning is now, even if the advisor doesn't plan to retire for several more years.

Strategy and Preparation

The advisor will need to evaluate strategic alternatives and various selling strategies that are available. There is no one-size-fits-all solution that will work for every situation.

There may also need to be some emotional preparation. For example, it will be necessary to share some revenue with the new advisor, and it is difficult for some successful producers to give up any of the income they have worked for years to build. But with no planning, the surviving spouse (who may not be licensed) would become involved in a crisis management situation, trying to affect a practice transfer after the advisor's death. It is much better to start preparing five to six years ahead of the target retirement date.

Planning Tip: Putting the transition strategy into writing will make the process more real than just thinking or talking about it and will help keep everyone on track.

Finding a Match

It is critical that the buyer is someone whose personality works with the seller's and that they share the same values, beliefs, priorities, characteristics and focus. If there are no family members to recruit, prospective buyers often can be found through local meetings of professional groups. Engage in preliminary discussions with these prospects, not so much for the possibility of acquiring the business, but more of character and professional development. Evaluate candidates by getting to know both the potential buyer and his/her spouse. It can be very helpful for the selling advisor's spouse and/or another trusted advisor to assist with this part of the process and to have several meetings over time.

When the decision has been made to bring this potential buyer into the office, the advisor will need to prepare to mentor him/her according to the "whole person" concept. Not only may the new associate need to learn prospecting, sales techniques, how to set appointments and manage work time, but he/she may also need to learn how to balance work, family, church, learning the business and perhaps even learning an entirely new profession. Plus, this concept will give the advisor the best chance of deciding if the potential buyer is really the right choice.

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Communicate with clients via a letter of introduction of the new associate, letting them know that he/she is now on board and can assist them in the event something happens to the existing advisor. The new associate should be personally introduced to clients on reviews and appointments, explaining his/her role.

The selling advisor must have the correct mindset of give and take, and realize that the time it takes to mentor the new associate is an investment in the transition process. This relationship is a top priority.

Planning Tip: The buyout should not be mentioned too early. The selling advisor will want to take time to develop the new associate and make sure the buyout is right for both of them.

The Deal Structure

Conduct a practice valuation to make sure the selling price is fair to both the buyer and the seller. There are general rules of thumb for valuing different sorts of practices, but they are just that - general. Every business is unique and the owner is typically not objective in determining its value. That's why it is a good idea to get an objective opinion of value from a professional business valuator. The purchase price can then be negotiated from a position of knowledge, and terms and structure can be discussed and resolved.

Planning Tip: Consideration should be given to whether this is a practice transfer or a business transfer. A practice is defined as a sole producer driving all revenue. A business is defined as having multiple value drivers in the practice (associate producers, CPA alliances, product specialists) supporting revenue. If there is enough time (eight to ten years), consider adding value drivers now and build for the future.

Closing and Implementation

Once the deal has been structured, each side should do their due diligence. An attorney should prepare the purchase agreement. It should include a unilateral buy/sell agreement with its performance secured by life and disability insurance on the buying advisor and its value secured by life and disability insurance on the selling advisor. Once all agreement elements are in place, close the deal and begin to implement the process.

Planning Tip: Most banks will not finance this kind of sale because there is no guarantee that clients will stay, and the existing revenue stream could decrease. It is more likely that the seller will need to finance the sale, structure an installment note, and be prepared to get back in the business to protect the investment if that becomes necessary.

Planning Tip: It can be very helpful for the selling advisor to stay on for another year or so to ensure a smooth and successful transition.

Conclusion

While most estate planning professionals are quite familiar with helping their clients with succession planning, many do not have transition plans of their own. Much of this newsletter has been written from the financial advisor/agent perspective; however, the general concept can easily apply to other disciplines within the community of estate planning advisors.

The best time to start planning for a practice transfer is a minimum of five years before a potential transfer. Since none of us knows when we will die or become disabled, that means now. Start writing a plan. Define a planned transfer date. Time permitting, add value drivers for additional revenue now and for the future. Follow and modify the plan as needed. The financial risks of death or disability of the seller or buyer can be hedged by a buy/sell agreement funded with life and disability insurance. And finally, use the multidisciplinary approach (attorney, valuator, financial advisor, CPA) that we recommend for our own clients.

To comply with the U.S. Treasury regulations, we must inform you that (i) any U.S. federal tax advice contained in this newsletter was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding U.S. federal tax penalties that may be imposed on such person and (ii) each taxpayer should seek advice from their tax adviser based on the taxpayer's particular circumstances.

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