# The Importance of Contingency Planning

Originally Published By Cheryl Munk, Registered Rep. – The Next Move

Fred Schaard's overseas vacation during the fall of 2008 was a far cry from what he had envisioned. Instead of relaxing, he spent the bulk of his time trying—often unsuccessfully—to communicate with jittery clients amid widespread panic in the stock market.

But there is one thing his experience taught him: "It was a wake-up call for me that I had to get serious about contingency planning," says Schaard, managing principal and president of Rehmann Financial, a financial services firm in Lansing, Mich., that offers advisory, financial planning and retirement plan services.

"The ability to service clients, whether I'm dead or simply on vacation, felt like one and the same," he says.

Contingency plans are usually one- or two-page documents that outline an action plan in case something (e.g., an unexpected death, sickness or disability) happens to an advisor. Unlike succession planning, which is geared more toward advisors five to seven years from retirement, contingency planning is something all advisors should do, regardless of their age or the size of their business. If you want something that will actually carry on after you die, that your spouse and heirs can benefit from, and where your clients will be taken care of, you have to be prepared for the unexpected.

Although planning for the worst case scenario is important, many advisors simply don't do it. "It's kind of like people with wills and trusts. They put it off because they don't want to think about it," Schaard says.

Indeed, it's not something to put on the back burner. "As soon as they are able to find a suitable continuity partner, they should definitely start moving through the process," says **Aaron Jackman**, an analyst with **ECHELON Partners**, an investment banking and consulting firm for the wealth management industry.

**The contingency planning process**

The process, Jackman says, should include talking to investment bankers who can help you define your needs and goals and help you understand what your business is worth. You should also consult an attorney to help you craft the agreement and possibly an accountant to help with the tax ramifications, he says.

The agreement you make doesn't have to be complicated and can be changed, says John Hyland, founding partner of Morristown Financial Group, Morristown, N.J., which is LPL Financial's largest branch. Many advisors in his practice, for example, use a simple document that's approved by LPL and The Financial Industry Regulatory Authority, which helps protect their interests in the event the unexpected happens. "It's a very simple document and it's easy to put in place. It's something that advisors should do now. They can always revisit it," Hyland says. **Craft a plan that works for you**

There are many ways to go about forming a contingency plan. However, make sure you have your firm's blessing, whatever type of arrangement you pursue. Also, keep in mind that if you are at a broker/dealer, any agreement you make has to be with someone at the same firm.

If you work at an RIA, you have more latitude. For example, you could arrange with a junior member or members of your staff to take over if something were to happen to you. That's what Schaard of Rehmann Financial did shortly after his vacation fiasco. He hired two junior advisors to work with him, and they now have a formal agreement in place which says that, in case of his death or disability, they will take over the servicing of his clients.

However, if you are going to work with a junior partner, make sure that clients view the person as your equal and not a subordinate, or they probably won't work with him or her in the event of your death, say industry experts.

You also could form a buy/sell agreement with another like-minded advisor outside your firm, or with a larger institution that's willing to step in if you're no longer able to conduct business. For example, Mark J. Snyder, president of Mark J. Snyder Financial Services in Medford, L.I., has an agreement with two financial advisor friends who are also part of the Royal Alliance network and run similar practices.

Regardless of your age, clients will feel more comfortable knowing you have a plan, so they shouldn't be afraid to tell them. Clients also will be more likely to transfer their accounts to your chosen successor if they are aware of him or her in advance. Make sure your client agreements allow for the transfer of personal data to this individual in the event of your death.

### Seek protection, not necessarily perfection

To be sure, contingency agreements are relatively easy to change, so don't get bogged down in details. The goal simply should be to put something in place to make sure you're protecting your loved ones and to make sure you get the fair value for your business. "If I get hit by a bus tomorrow and I have nothing in place, it's essentially gone," says Hyland of Morristown Financial.

It's also important to review your contingency plans periodically—once a year is a good target—to make sure they still reflect what's best for you, your family and your clients. Also, make sure that your spouse is aware of the agreement and understands how it works, so there are no gaping holes if something were to happen to you.

## About ECHELON Partners

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

**Daniel Seivert**

Managing Director

dseivert@echelon-group.com