RIAs Continue To Lack Succession Plan

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Consultants, custodians and other experts have been beating advisors over the head for years with the idea that they need to plan for the future of their practices.

The advice isn't sinking in, according to results of a new TD Ameritrade Institutional study published Tuesday.

Of the 500 registered investment advisors surveyed by the Jersey City, N.J.-based custodian, 57% do not have a formal succession plan; 39% reported they do and 4% say they are developing one.

There are plenty of good reasons to have a succession plan, including protecting your clients in the long-term and satisfying them in the short-term, increasing the value of your firm, and planning for your own economic security in the long-term.

Hitting roadblocks

After years of attending seminars, most advisors understand all that but they are hitting roadblocks to creating them, according to the study, which identified three of them:

- no clear successor identified – 42%
- not believing a succession plan is important early in a career – 32%;
- and lack of time to develop a plan — 20%, according to the survey.

Mark Hurley, CEO of Fiduciary Network LLC of Dallas, Texas, posited one more factor:

"Any of this kind of stuff involves change and the typical wealth manager has a good life," he says. "It may only be Liechtenstein but it's good to be king."

Schwab and TD are ramping up their efforts again to get advisors over the hump — in response to the RIAs telling them that succession planning is one of their major worries.

Boot camps sell out

TD is rolling out a number of tools aimed at facilitating the process.

Schwab is finding success with a 2-day boot camp it has created and runs on occasion. A measure of its demand is that it typically sells out and it's one of the few such specialized events that Schwab charges for and advisors happily pay. The fee is typically $1,300 to $1,800 depending on how early you sign up.

That 61% of advisors had no succession plan did not surprise David DeVoe director of mergers and acquisitions in the strategic client group at Schwab Advisor Services who says that his company did a similar survey and got similarly dismal results a few years ago.

For the past seven years Schwab has poured resources into building a succession planning program but many RIAs – so good at planning for clients – are still like the proverbial cobbler's kids wearing no shoes.

"The numbers have slowly crept up in terms of advisors that have these plans in place but we still see situations where folks don't – and one to several times a year we see a distress sale situation" that results largely from having no contingency plan in place, he says.

Distress sales

The problem with distress sales is that they can result in selling for a lower price to a less desirable buyer.

Most advisors seek a successor and hope to pass their practices on intact. Of the 39% with a succession plan, nearly half expect to appoint a successor to take over their business. Some 18% plan to sell the practice and exit the business or merge with another firm. Twenty-nine percent have not decided what type of succession option they will implement, according to the TD survey.

The top five reasons advisors gave in the TD survey for having a formal succession plan included:

- supporting the long term viability of the firm – 57%;
- satisfying client expectations that a succession plan is in place – 52%;
- providing a smooth transition into retirement – 36%;
- providing continuity for employees – 36%;
- and enhancing the valuation of the firm — 32%.

As discouraging as the study results are, the reality may be even worse, according to **Daniel Seivert**, CEO of **ECHELON Partners** of Manhattan Beach, Calif., an investment bank that handles RIA transactions.

"To infer that 39% of the industry has succession plans begs the question of what those respondents believe are adequate plans," he says. "The number of those that have comprehensively and effectively taken the appropriate steps is likely in the low single digits. There are a few 'just add water solutions' out there that are easy, inexpensive and likely not very appropriate."

RIAs can't afford to wait, says Mike Watson of TD Ameritrade.

Farm system of successors

"There is some urgency for advisors to develop a succession plan. This is due to the fact that the average age for advisors is over 50 and it can take 5-10 years to put a plan in place and groom a successor," he says.

Watson adds: "Most advisors would prefer an internal transition over selling their firm to an outsider. However, the survey also indicates that the number one reason for a lack of succession plan is no candidates. Advisors need to do more to develop their farm system."

Though succession plans are forward-looking, they can have profound effects on a practice in the here and now, according to DeVoe.

"We've seen clients make a move if they don't see a succession plan in place," he says.

Losing big clients

DeVoe gives the example of one advisor with $350 million of assets under management who had two clients – each with about $10 million of assets – come to him and say that they were moving their assets to another firm. The reason: they weren't comfortable having their assets tied up with an RIA that was, in effect, a sole practitioner. Age was not a factor. The RIA was only 39.

It can take between two and 20 years to migrate management responsibilities and ownership to future principals, he adds.

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