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Growing Need for Succession Planning Guidance Among Advisors Requires Personal Firm Involvement

Not only are investors getting older, but their wealth managers are growing older with them.

The Challenge Facing Our Industry

Firms need to address not only the wealth transfer of assets from generation to generation of families but also the wealth-management transfer from generation to generation of advisors, bolstered by various resources that include personal interaction along the way.

"The average age of financial advisors in the United States is 56, according to a 2023 study by J.D. Power. About one-fifth of U.S. advisors (20 percent) say they are five years away from retirement, or fewer." (Excerpt from "Everyone Wins When You Have a Succession Plan" by Scott Danner. Forbes.com, Jan. 29, 2024.)

Yet, not all advisors are leaving the industry because they are getting older.

"The American College of Financial Services estimates that over the next decade,10,000+ advisors per year will leave the industry for reasons other than retirement." (Excerpt from "The Profession Has Failed Past Entrants," WealthManagement.com, Nov. 12, 2024.)

The question then becomes: In the next 10 years, how many more advisors will have left the industry due to retirement or other reasons? And how much industry knowledge will have been lost?

Why is this happening?

Industry Changing

Further complicating matters, the wealth-management industry has changed in the following ways:

- No defined career path other than producing advisor
- Not everyone is cut out to be a producing, primary advisor
- Not everyone is a fast starter and has a network of friends, family, or colleagues who can or are willing to invest $300,000-$500,000. (Isn't that the going minimum requirement to get paid at some firms?) Yet, how many of your million-dollar clients started by investing $50,000 with you?
- The old way of building a book doesn't work in today's world; the rules and regulations have changed. (There have been over 3,500 new regulations since 1992, and there is a reason for each one of them.) How many new investment products have been

introduced to our industry over that same time? It is no longer just stocks, bonds, mutual funds and annuities.

- Technology has advanced exponentially. It takes more time to learn the tools of this profession. The compensation, training and support no longer exist at most firms for slow-and-steady starts. What used to be allocated months for learning and role-play with coaching feedback is now consolidated into weeks. Some firms have stopped training new advisors to focus on recruiting established advisors. "It's less expensive to acquire an established advisor with existing clients than it is to train a new advisor" is an often-repeated phrase used by some firms when determining headcount growth plans.

- When it's time for a transition, retiring and acquiring advisors may get (at most) a "CLICK HERE" to find information from their firm about the next steps. There are many offers to value your business based on assets and revenue, but who is available to help you communicate with your clients and move the relationships? It may seem like it's just a push of a button to move accounts and assets. However:

  o One introduction, one letter, one phone call do not establish a client relationship with the next advisor.

  o That's not how you got the account. That's not how you earned their trust, and for many investment beneficiaries, it's that lack of trust that leads them to find an advisor other than their parents' advisor.

It's about Relationships

Transition services need to go beyond valuing and moving assets and accounts. They also must focus on the client and their relationship with their advisor.

Firms must provide resources to both sides of the transition. At Benjamin F. Edwards, it's not just a department that supports succession planning. It's an entire company. And it starts at the top. With a legacy approaching 140 years, it is transitioning to its sixth generation with the addition of Ben Edwards V, who recently joined from Goldman Sachs and has been named to the Executive Committee and as Assistant Director of Branches.

'I'm Too Young to Worry about Retiring'

If you think you are too young to consider stepping away from your business, consider the other life events that could take you away from your clients: death, disability, or a circumstance involving a loved one. You wouldn't let a business-owner client exist in your practice without strongly encouraging them to have a business-continuity plan. It's only logical you follow your own advice as a business owner and make sure you have a contingency plan in place.

'My Plan Is My Team'

You may say, "I'm on a team. It's taken care of." That may be true as it relates to passing on your clients and accounts to another team member. However, what does your family get? "I've got insurance." That's great. So, are you OK with nothing coming from the business you have built for the past two or three decades? No judgment, just a question. Who communicates with your clients about what transpires if something were to happen to you? What preparations have you made to take care of your staff? If the acquiring advisor already has an assistant, will they also keep your assistant?

Resources You Should Expect from Your Firm

Your firm should partner with you to be a resource for these types of questions and others to help you craft a continuity plan that fits your situation and circumstances. Advisors should not be left to figure this out for themselves.

For the retiring advisor, this may be the first and only time you will have to go through this process. You want to make sure it goes smoothly and that you find the right person to introduce to your clients.

Successfully Finding Your Successor

Finding your successor is on the same level as making an investment recommendation to your clients. You want your clients to recognize your due diligence in finding a suitable advisor replacement who will care for their wealth-management needs as much, if not more, than you. From the preparation standpoint, firms must expand their resources. Edwards has a wide variety of services and continues to grow its arsenal of offerings ranging from:

- Videos of advisors sharing their transition best practices
- Next Generation-successor profiling worksheets
- A client-communications and messaging library
- A how-to playbook for onboarding and integrating a successor within your practice
- A coach who will partner with you, the advisor, to implement these steps
- Valuation services, not just to assess where you are now, but also to help you grow to where you would like the value to be in the future
- Coaching resources on preparing your "house" for sale

Acquiring Advisors' Support

For the acquiring advisor, some firms may finance your acquisition at no cost to you. However, they should also partner with you in developing a customized strategy for integrating your newly acquired relationships into your existing practice.

Acquiring advisors, ideally, should have access to:

- Videos of other FAs sharing their best practices and how they overcame challenges
- Access to FAQs by topic (no more scrolling to find your question)
- A communications library built from the best practices of successful advisors
- Timeline templates you can customize to your situation
- Instant link resources to people who support you in various areas for:
    - o Advisory conversion conversations (where suitable)
    - o Annuity-review services of the practice to be acquired
    - o Brokerage portfolio review, CUSIP clean-up, concentrated position support and tax-loss harvesting opportunities (where suitable)
    - o Financial planning screening opportunity services
    - o Next-Generation beneficiary service offerings

Questions to Ask When Thinking about Retiring

If you are thinking of retiring and either exploring with your firm or other firms about available succession-planning resources, here are five questions you should consider asking:

1. How will you support me beyond just online resources?

2. What freedom do I have in negotiating the sale of my business?

3. What would happen to my recruiting transition loan if something were to happen to me before it is paid off or if I retire before it is paid off (e.g., death/disability)?

4. How can you help me find a successor?

5. What resources are available to help me value my practice (or build to a future value) to negotiate a deal with my successor?

Questions to Ask if Considering Acquiring a Practice

If you are thinking of acquiring a practice, either within your firm or recruiting an external advisor, these are five recommended questions to ask:

1. How will you support my purchase?

2. How will you support me in transitioning the acquired practice beyond just online resources?

3. How do I find a potential retiring advisor?

4. What freedom do I have in negotiating the purchase of a practice?

5. What resources are available to help me establish the value of a potential practice acquisition?

One last bit of advice: "Before you think of the dollars and cents, think about 'Does it make sense?'"

Scott A. Critchfield, CFP®, Manager of Advisor Development and Succession at Benjamin F. Edwards, leads a team with more than 70 years of industry experience partnering with advisors in supporting their clients. Scott has worked with over 15,000 advisors and collaborated with over 900 advisors and independent business owners on their transition planning. Several thousand more have partnered with him for insights and direction on their business-continuity planning.

He can be reached at 314-332-2339 or scott.critchfield@benjaminfedwards.com.

If you would like more information about Advisor opportunities at Benjamin F. Edwards, please contact us at branchdevelopment@benjaminfedwards.com.