

Is Mindset the Greatest Obstacle to Succession Planning?





Only 27 percent of advisers report having a plan to transition their businesses once they no longer want to work full time.

Very few advisers report having a formal transition, succession or business continuity plan. And while there may be some irony in that fact, given that advisers help clients plan for the future, it is no surprise.

According to a study conducted recently by the Financial Planning Association (FPA), only 27 percent of advisers report having a plan to transition their businesses once they no longer want to work full time. That number has changed little in the three years since FPA last asked this question of the profession.

In 2018, FPA partnered with Janus Henderson Investors to conduct new research that went deeper on the question of succession planning, examining what gets in the way of formal planning and how to take action. An initial report providing a detailed look at the results was released in April 2018. This is the first of two white papers that will go deeper into the results and focus on the actions that advisers can take moving forward.

Note that for the purposes of this white paper, the term “succession plan” includes any formal plan to transition a business, which respondents may also refer to as a transition or business continuity plan.

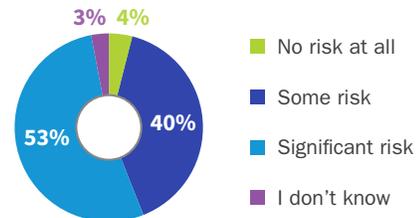
The Risk

While it's easy to go straight to the mechanics of *how* to create a succession plan, the question is raised if the low incidence of plans is a problem worth solving. Is it really a problem that so few advisers have a formal plan? The short answer is “yes”.

In addition to the potential that it is likely a perceived risk for both team members and clients, it's also a perceived risk for advisers. **Ninety-three percent** of advisers say there are risks associated with not having a succession plan.

Among those advisers who don't have a formal succession plan, **97 percent** say that creating one is in their future.

Do you see any potential risks associated with not having a succession plan?



Ninety-three percent of advisers say there are risks associated with not having a succession plan.



The Benefits

We know the benefits of having a succession plan are real. Advisers with a succession plan not only feel more clear and confident about the future, they are more likely to be on track to reach their goals.

Increased Clarity

Only **11 percent** of advisers say they are absolutely clear (a five out of five) about their own plans for retirement. A further **29 percent** give clarity a four out of five. Yet, the impact of having a succession plan is significant. **Sixty-one percent** of those with a succession plan rate clarity as a four or five out of five, dropping to just **25 percent** for those without a plan.

How would you rate the clarity of your own plans for retirement?



	With a plan	Without a plan	
	5%	12%	1 - No plans at all
	8%	25%	2
	26%	39%	3
	39%	21%	4
	22%	4%	5 - Absolutely clear on my plans

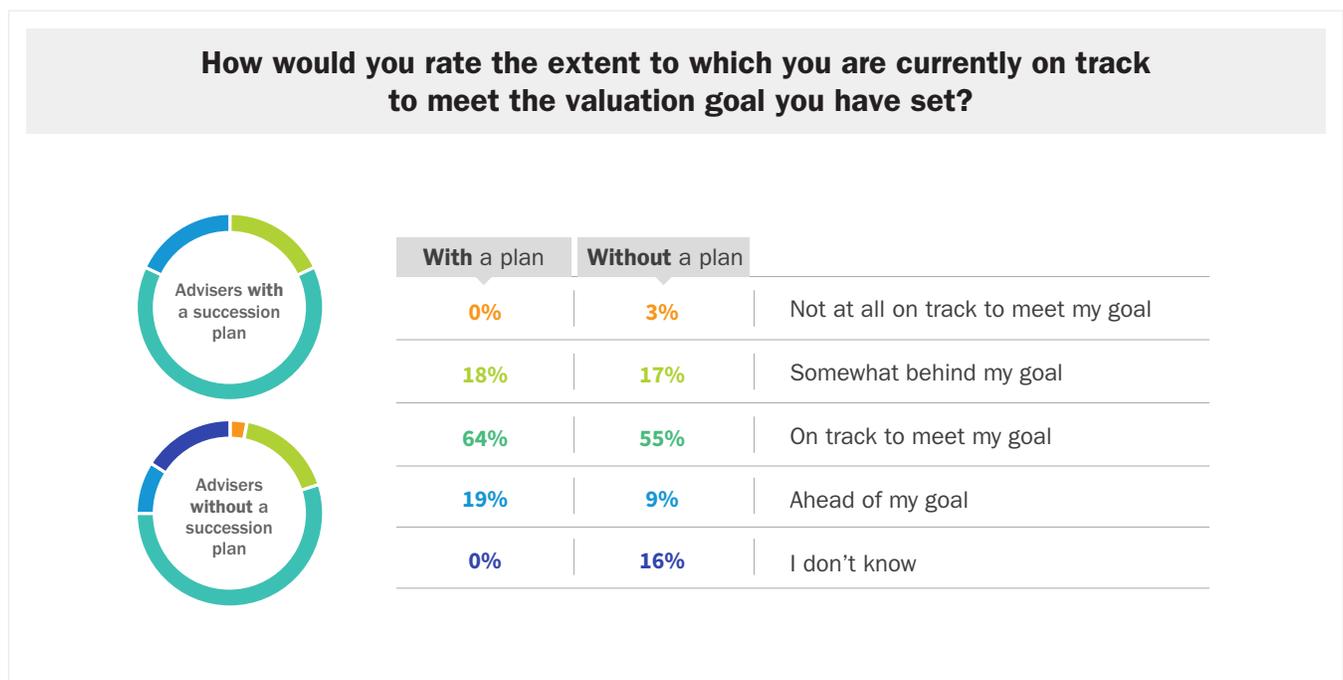
Increased Confidence

Twenty-eight percent of advisers say they feel very prepared to transition/sell their business when the time comes to do so. A further 34 percent say they are somewhat prepared. Once again, having a succession plan impacts those numbers significantly. Ninety-two percent of advisers, who have a succession plan, feel somewhat or very prepared for transition. That number drops to 41 percent for those without a plan.



Better Progress

Sixty-one percent of advisers say they have estimated the value of their business at the time of retirement or transition. Those with a succession plan are more optimistic about achieving those goals with 83 percent saying they are on track or ahead of their goal. That drops to 61 percent for those without a plan.



What is the Perceived Problem?

With the incidence of plans low and the perceived risk high, we wanted to understand why this was the case. When asked what is getting in the way, **51 percent** of advisers say the biggest obstacle is finding the right successor.

However, personal concerns are a close second when it comes to perceived challenges, which include such things as views about their own retirement or the tight connection between a business and one's identity. **Twenty-two percent** say such personal issues are the biggest challenge, with another **19 percent** ranking these issues in second place, ahead of issues related to building value in the business or the mechanics of creating a plan.

Digging Deeper on the Personal Side of Retirement

It's clear, from the data, that there are personal obstacles that get in the way of creating a succession plan. Those issues are best described as an ambivalence, on the part of advisers toward their own retirement, issues that are likely similar for any entrepreneur.

These issues, of course, are no different than they are for the clients with whom advisers work, nor is the plan forward. That plan demands advisers assess where they are today, acknowledge any lurking concerns and then get clear on the plan for the future.

When thinking about plans for retirement, advisers are most likely to consider how they will spend their time (**62 percent**), followed by where they will live and the timing of retirement.

That plan demands advisers assess where they are today, acknowledge any lurking concerns and then get clear on the plan for the future.

Which, if any, of the following are concerns today, were in the past or may be in the future?

I worry about whether I will feel fulfilled in retirement.



This is a concern today



This isn't a concern now but might be in the future

I'm not sure what I will do with my time once retired.



This is a concern today



This isn't a concern now but might be in the future

I have a hard time thinking about moving on from my business.



This is a concern today



This isn't a concern now but might be in the future

I worry that my business will not be as successful if I'm not there.



This is a concern today



This isn't a concern now but might be in the future

I'm concerned that my identity is very tied up with my business.



This is a concern today



This isn't a concern now but might be in the future

My business is ready for succession, but I'm not sure if I am personally ready.



This is a concern today



This isn't a concern now but might be in the future

I'm concerned that I won't be able to afford the lifestyle I want in retirement.



This is a concern today



This isn't a concern now but might be in the future

**Which aspects of your retirement have you considered/planned at this stage?
Please select all that apply.**



How I will spend my time
(e.g., hobbies, charitable
work, paid work)



Where I will live



Timing of retirement



I have made no plans
for my retirement

When thinking about how their time in retirement will be spent, advisers are thinking primarily about travel, hobbies and health goals.

**You indicated you have planned how you will spend your time. Which, if any,
of the following have you specifically planned? Please select all that apply.**



Travel



Health goals
(e.g., fitness regimen)



Hobbies



Charitable work



Work (e.g., consulting, investing
in businesses, boards)



Learning
(e.g., courses, books, etc.)

According to the research, a majority of advisers are planning to do paid or unpaid work once they have transitioned the business. Sixteen percent say they will do no work and another 20 percent aren't sure.

**Once you have retired/transitioned from your business, which of the following
best describes your plans? Please select all that apply**



I will continue to do paid work in this industry



I will do unpaid/voluntary work



I will continue to do paid work outside this industry

For the roughly half of advisers who plan to do paid work, most plan on working within a financial advisory firm (46%) and some plan on starting an unrelated business (18%). Thirty-eight percent aren't sure what that paid work will look like.

Which of the following describes how much time you plan to invest in paid work upon retiring from the business?



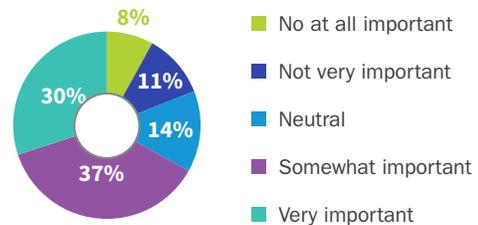
	Paid Work	Unpaid/ Voluntary work	
	57%	50%	<20 hours per week
	32%	17%	20 to 34 hours per week
	3%	2%	35 hours or more a week
	7%	27%	Occasional work
	2%	5%	I don't know

Most advisers plan on keeping work (whether paid or voluntary) to fewer than 20 hours a week; however, a third plan on investing more time.

On the issue of defining the role that work will play in life after transition, we know that specificity matters. **Sixty-seven percent** of advisers say that having clear plans for paid or unpaid work will help to make the transition to retirement easier.

The data makes it clear that personal concerns or issues related to one's own retirement may be a significant obstacle in planning for the future. **The question, of course, is how do you begin to move forward despite the potential obstacles?**

How important do you believe your plans to do paid or unpaid work will be in helping you make the transition to retirement?



Summary

The data seems clear. Despite a low percentage of advisers having a plan in place, there is perceived risk. Those who have taken action enjoy greater confidence, clarity and are making more progress toward their goals. It is also clear that we need to look deeper to understand what is getting in the way. It's not only about finding the right successor, but understanding your own views about retirement and the future of your business. Without directly addressing any lurking concerns, you may push the process off in the future to the detriment of the business and your clients.

On the following pages you'll find an action plan that is designed to help you assess where you are today, clarify your goals for the future and set goals to take meaningful action.



Action Plan

1. Get real on the risks and benefits

To start, take stock of where you are today as it relates to your own plan for transition.

How would you rate the clarity of your own plans for retirement?

- 1 - No plans at all
- 2
- 3
- 4
- 5 - Absolutely clear on my plans

How prepared do you feel to sell/transition your business when the time comes to do so?

- Not at all prepared
- Not very prepared
- Neutral
- Somewhat prepared
- Very prepared

How would you rate the extent to which you are currently on track to meet the valuation goal you have set?

- Not at all on track to meet my goal
- Somewhat behind my goal
- On track to meet my goal
- Ahead of my goal
- I don't know

What are the real or perceived risks of not having a formal succession plan in place for:

You?:

Your team?:

Your clients?:

What are the real or perceived benefits of having a plan in place for:

You?:

Your team?:

Your clients?:

If you do not have a formal plan in place to transition your business, consider the potential implications for yourself, your team and your clients.

What do your responses to the above questions tell you about the need for a transition or succession plan?

2. Take stock of where you are today

Which, if any, of the following are concerns today, were in the past or may be in the future?

	This is a concern today	This isn't a concern now but might be in the future	This is not a concern now and is unlikely to be in the future	Notes
I worry about whether I will feel fulfilled in retirement				
I'm not sure what I will do with my time once retired				
I have a hard time thinking about moving on from my business				
I worry that my business will not be as successful if I'm not there				
My identity is very tied up with my business				
My business is ready for succession, but I'm not sure if I am personally ready				
I'm concerned that I won't be able to afford the lifestyle I want in retirement				

Respond to the following questions to help you identify potential obstacles or to acknowledge the thoughts and feelings that may be getting in your way

Are there other concerns that were not identified in the previous question?

Do you think any of these issues – or other issues related to your views on your own retirement – could be getting in the way of creating a succession plan?

Based on your responses on the above, what specific issues do you think you need to address?

Who can help you tackle those issues? (A spouse? A colleague? A consultant?)

3. Craft a clear vision

To help you think about your vision for the future of the business, we enlisted three experts who offered the following questions for you to consider.

Michael Futterman, *Assistant Vice President, Janus Henderson Labs™*

What do I want for myself?

What do I want for my clients?

Where am I willing to compromise?

David Grau Sr., J.D., *Founder and President of FP Transitions*

What is your answer when a client asks, “What happens to me if something happens to you?”

What does “retirement” mean to you?

Can you live without the income, benefits and other rewards provided by your work?

Michael Shockley, *Managing Director, RGT Wealth Advisors*

Do I follow the same advice that I give my clients about retirement and business succession? If not, why?

Do I envision retirement/business succession happening quickly or over several years?

Do I have successors in mind for my business or can they be developed?

Am I willing to bring others to the table and relinquish some control of my business as a means of developing a succession plan?

4. Get specific about your plan

Consider your response to the following questions and begin to fill in the gaps, where you feel it is important to do so.

Which aspects of your retirement have you considered/planned at this stage or would you like to plan?

Timing of retirement

How I will spend my time (e.g., hobbies, charitable work, paid work)

Where I will live

Notes

Which, if any, of the following have you specifically planned?

Hobbies

Travel

Charitable work

Learning (e.g., courses, books, etc.)

Work (e.g., consulting, investing in businesses, boards)

Health goals (e.g., fitness regimen)

Notes

Once you have retired/transitioned from your business, which of the following best describes your plans?

- I will continue to do paid work in this industry
- I will continue to do paid work outside this industry
- I will do unpaid/voluntary work

How much time do you plan to devote to paid or unpaid work after you transition the business?

- < 20 hours per week
- 20 - 34 hours per week
- 35 hours or more a week
- Occasional work
- I don't know

What kind of paid work would you like to do?

What kind of unpaid work would you like to do?

5. Set a clear goal to create your transition plan

Based on the questions you have answered, what actions do you need to take in order to formalize your transition plan or to remove the obstacles to creating that plan?

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____



Get the full **Succession Challenge 2018: Why Financial Advisers are Failing to Plan for the Inevitable** report to review all of the research findings from FPA and Janus Henderson Advisors.

www.OneFPA.org/2018SuccessionChallenge

Michael Futterman is director of Janus Henderson Labs™ where he is involved in research and curriculum development for professional development programs. He is a frequent speaker and coach to adviser and client audiences.

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