Succession Planning
Thoughts and Strategies

A Discussion with Moe Allain, RMA®, CPWA®, AAMS®; Dana Anspach, CFP®, RMA®, and Tom Morris, CFP®, RMA®
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Despite the generational change underway, the average age for financial advisors has climbed to 57, according to the 2022 J.D. Power U.S. Financial Advisor Satisfaction Study released July 6, 2022. According to a new Cerulli Associates study, reported in Financial Advisor on June 13, 2022, more than one-third of financial advisors are expecting to retire over the next decade. These same advisors control more than $10 trillion in assets, yet only one in four has any idea what their succession plan will be. No regulations require advisors to have succession or business continuity plans, but most advisors recognize that the lack of such plans causes their practices to be highly perishable assets. In the following discussion, Investments & Wealth Monitor takes you behind the scenes to uncover succession-planning thoughts and strategies from successful institute-member advisors.

Moe Allain, RMA®, CPWA®, AAMS®, is a vice president with Baird Retirement Management. He is co-chair with Roger Mussa of the Institute’s RMA Commission and a member of the Investments & Wealth Monitor editorial advisory board.

Dana Anspach, CFP®, RMA®, is founder and chief executive officer of Sensible Money, LLC, a fee-only registered investment advisory firm that specializes in aligning client finances for the transition out of the work force. She is author of the lecture series “How to Plan for the Perfect Retirement” and the books Control Your Retirement Destiny and Social Security Sense. Anspach serves on the Institute’s RMA Commission.

Tom Morris, CFP®, RMA®, is a wealth management advisor with Northwestern Mutual, where his small team uses its deep expertise to help clients plan and pay for a joyful retirement. Morris’s team members attend 20-30 educational conferences a year and they have 16 designations among themselves, including three RMA certificants, three CFP professionals, and one CIMA® certificant. The team supports Alex’s Lemonade Stand Foundation, a pediatric cancer charity, through regular fundraisers.

Allain: When thinking through succession planning for a practice, what do you believe is the most difficult aspect to think through?

Anspach: The most important piece is getting clear on what you want. If your goal is to maximize firm value, selling to an outside party at retirement may be the best option. If your goal is to create a firm that lives on, internal succession options work well but may come with lower value coming back to the founder.

Morris: The question I ask my business clients is: “What do you want the outcome to be 10 years after succession?”

My goal is to maximize the value received by clients long after I have stepped down from daily operations of the firm. This view creates a culture of investing for the long term—both for my clients and for my successors. It does not mean that the founder will receive the highest financial value at the point of transition.

Allain: Do either of you have a formal document or succession plan currently in place? If so, what are the main ingredients to that formal plan? Who has a copy of this document?

Morris: Yes, we have both formal legal documents and informal guiding principles. The formal documents are in the hands of each partner, an external facilitator, and on file with the management advisor with Northwestern Mutual, where his small team uses its deep expertise to help clients plan and pay for a joyful retirement. Morris’s team members attend 20-30 educational conferences a year and they have 16 designations among themselves, including three RMA certificants, three CFP professionals, and one CIMA® certificant. The team supports Alex’s Lemonade Stand Foundation, a pediatric cancer charity, through regular fundraisers.

Anspach: We have a formal succession plan and a leadership team. The document and plan are in a folder that four of us have access to. We have a plan for whom to contact and what to do if something were to happen to me, the founder.

Allain: How important is it to choose the appropriate successor(s) for your business? Where do skill set (avoiding over-lap), personality (same or different), experience, and diversity fit in to the equation?

Anspach: A founder often wears multiple hats and has a diverse skill set. If you
are a growing firm, you are likely looking for several people to lead the firm on, each who will replace one particular skill set of the founder. You must accept that not everyone will do things the way you will, but they can be just as successful doing it their way.

**Morris:** It is of utmost importance to choose appropriate successors. There has to be very clear alignment of vision and values. We look to diversity as a key ingredient to both our success and succession plan. Diversity takes many forms. There are the popular and more obvious forms: gender, ages, ethnicity, etc. For example, we have seven languages spoken on our team of nine. More importantly, we value differences in perspectives and approaches, and we appreciate novel viewpoints. A team member voluntarily shared that even if her perspective did not make it to implementation, she knew that it was heard, valued, and respected.

**Allain:** Are there costs associated with having a succession plan? If so, can you describe those costs for your practice?

**Morris:** There are potentially lots of costs. Costs can vary from tens of hours for a very simple written plan to thousands of hours for more complex plans with many partners. A very large part of the cost is determined by the scope of the desired outcome. For example, if your plan incorporates a much younger successor, the individual likely will need leadership development as well as technical skill-set development.

**Anspach:** We experienced costs for hiring consulting firms and attorneys, as well as a substantial investment of time. The estimated hard costs run about $10,000.

**Allain:** Are you concerned that your successors may not take care of your clients the way you took care of your clients? Put another way, are you worried that your legacy won’t leave your stamp on the new business? Please elaborate.

**Anspach:** No. We have designed firm-level processes that everyone uses. I want the clients to be taken care of. Each person does it differently. When there is a values alignment, in that they care about the client, I have confidence they will do it well, even if they may have stylistic differences.

**Morris:** No. My confidence relates to shared vision and values. In a perfect succession plan, our clients would not notice that the founder no longer is coming to meetings. I still plan to come to client events (at least as a client).

**Allain:** In your opinion, is there a right age, or number of years in the business, that make it the right time to begin succession planning conversations?

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**Morris:** I don’t think it is related to age or seniority. Ideally, you would have a succession plan when you get your first long-term client. I just saw a video about a successful younger advisor whose only partner retired, and then he—the younger partner—was diagnosed with cancer. He had no succession plan, and he had to transfer his clients to another firm. I wonder how they all felt. Clearly it would have worked out better with a little bit of thoughtful, advanced planning.

**Anspach:** An ideal plan would begin 10 years before the founder’s desired exit. I began my plan 20 years out.

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**Anspach:** It may take trial and error. The first set of planners that I thought would turn into successors are no longer with my firm. The second set, however, became partners. I learned what I did right, what I did wrong, and what I was looking for, and tried again. Working together for several years gives you first-hand insight into character and values and you must be willing to move on if either party feels it is not the right fit. Have the tough conversations ahead of time about what ownership means and who will do what. Have honest conversations about what you are afraid of, or play out worst-case scenarios to discuss what you each think would be fair under various circumstances. Talk about how to hold each other accountable and what to do if one person doesn’t get their part done. If you can successfully talk through these items ahead of time, then there are better odds you have found someone who will be both responsible and accountable.

**Morris:** Finding successors with compatible values is difficult, and I’ve had more than my fair share of dead ends, wrong turns, and learning moments along the way. Trying to do it with an impending transition and close to a deadline could seem impossible. I have been lucky to find a couple of talented successors who drive both themselves and me to become better every day. They often tell me I give them too much responsibility. I remind them it will be their firm and they need the experience of making lots of decisions, large and small, both good and bad, so they can gain experience and wisdom before the founder is out the door.

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