Financial Advisor Business Transition Trends

According to “The next generation of financial advisors” report by EY, the average age for a Financial Advisor in the U.S. is early 50s. The report also states that for every graduate of a financial planning college program who enters the industry, there are two advisors who just became eligible for Social Security benefits.¹

This supply and demand dynamic of Financial Advisors is estimated to be driving competition across the industry and client segments, impacting the margins of these businesses. Add to that, investors across all wealth tiers have more options for advice than ever before and use this leverage to drive greater value from that advice.

These projected shifts in the financial services industry prompted Alan Newman Research (ANR) and Wells Fargo Advisors Financial Network to undertake a research initiative in August 2017 that included a focus on trends of Financial Advisors’ business transition and retirement options. Participants in the study were from different Financial Advisor segments including wirehouse FAs, independent FA, and RIAs.

Wirehouse sunset agreements were seen in the report as a positive trend in the industry designed to increased client retention when an FA retires.

It was noted that sunset agreements were rare as recently as 15 years ago.

FAs from across the board indicated that numerous options for retirement existed if they were willing to consider both internal or external opportunities which might involve moving/switching firms, whether for the sole purpose of sunsetting or as a career move.

To become better educated, FA’s are turning toward:

- Third-party consulting service specializing in sunsetting arrangements (i.e., valuations, education on the process, matching service to locate FAs, etc.)
- Financial consultants/firms who provided expertise (i.e., timing and design of payout structure) and resources for financing the sale of the transitioning of FAs’ books of business

Case studies of sunsetting experiences by FA type relative to timing, scheduling, client retention rates and negotiations were also referenced as a possible resource by survey participants.

The U.S. Bureau of Labor Statistics projects the number of job openings for financial advisors will jump 27%, or 60,300 additional jobs, by 2022.
Statistics reported in “Deal structuring and succession trends for advisors” by the Succession Resource Group showed a rising trend towards internal succession planning. Deal volume for advisor purchasing a practice continues to increase, with demand remained strong. Advisors interested in purchasing a practice must understand how deals are typically structured. Many of these deals require down payments and many of them utilize external lending. FAs should begin to understand how bank lending can work for them is instrumental to getting a deal done.²

According to FP Transitions, the use of a formal merger process is also surging and provides another 4%-5% of the industry with a choice to “sell” or to join with a smaller practice(s) creating a larger practice that can provide succession resources and to provide a practice's clients and staff with a sustainable solution for years to come.

FP Transitions performs over 1,000 valuations of all types every year and states that over the past 10 years or so, more advisors are using a formal valuation to start their planning process and to guide their decisions from year to year as they navigate through the various planning strategies:

- **EXIT PLANS:** Most exit plans are structured as asset sales, but still generate long term capital-gains tax treatment to the seller when set up properly. Down payments range from 20% to 80% and may involve the use of bank financing. Transactions can be completed in as little as 90 days, not including post-closing client transition duties.

- **SUCCESSION PLANS:** The majority of succession plans are structured as a series of stock sales and require at least five years to prove beneficial, preferably one year or more for optimum results.³

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Value and deal structuring are always considerations in a well thought out succession plan; however, the real focus for most advisors is creating a plan that ensures their clients are well taken care of as they retire.

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**Taking Control of the Future of Your Business**

If you want to take control of your own financial future, preparing and executing a strategy to successfully transition your practice and ensure a positive experience for your clients is more than smart business. It’s a high-priority responsibility to your clients.

Wells Fargo Advisors Financial Network has developed a process that helps FAs who are retiring, moving their book of business or transitioning to a different firm make the changeover seamless for the Financial Advisors and their clients. WFAFN works with FAs to develop a personalized step-by-step plan based on their business mix, assets under management and staffing. This includes guidance on obtaining a business valuation as well as connecting advisors to strategic partners who assist in marketing, legal and healthcare, along with other services.

Whether a Financial Advisor is actively looking to transition their business through a merger or just starting to explore the possibility of retirement, there is value in starting to do groundwork now to take control of their financial future.

To learn more about the business transition and retirement options you have available for your practice, contact Wells Fargo Advisors Financial Network today at info@wfafinet.com or visit www.wfafinet.com.

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