THE IMPORTANCE OF CONTINUITY PLANNING

Financial advisors spend much needed time building solid disaster plans for their clients, typically providing solutions to cover the possibilities of an untimely death or disability. These plans are vital in the ongoing success of a family or business. So why do the majority of financial advisors fail to create similar plans for their own businesses? According to a 2018 Financial Planning Association study,[1] only 27 percent of financial advisors have a formally documented plan in place. Before we discuss the reasons behind low adoption rates or the steps needed to correct this, let's review the difference between a continuity plan and a succession plan and why the continuity plan should be addressed first.

A continuity plan is created to offset an unexpected, triggering event such as a death or disability while a succession plan is period specific; for example, a retiring advisor plans to sell their business on a specific date for a specific price. While a succession plan is orderly, the purpose of a continuity plan is to guard against the unexpected and to provide order against disruption during the normal course of business. Putting a continuity plan in place as soon as possible is vitally important because of the protection it provides to your practice.

Whether planning for the unknown of continuity or an orderly succession, the reasons for a lack of a plan vary; however, regardless of the reason, the outcome is the same: leaving your clients, family, and business open to unneeded and unwanted chaos during an already trying time.

In every continuity plan, one advisor, the seller, is protecting their business in the event of their death or disability. A second advisor, known as the buyer, is agreeing to step in to take over the business and compensate the seller's family or estate. The following are key items for each party to consider when creating their continuity plan and prior to entering into an agreement.

1 CREATE A BUSINESS CONTINUITY PLAN

For the seller, the first document to create and have on file is a Business Continuity Plan (BCP). The BCP outlines items like contact information for landlords and technology support, but also typically contains a copy of the operations manual as well as employee agreements and key vendor relationships. Think of it as an instruction manual the seller is providing the buyer to set them up for the greatest chance at success. Part of the process to further the chances of success is discussing with staff the importance of their role and responsibilities in the business, should the unfortunate occur.

2 SELECT A BUYER

The next important step as a seller is to select a buyer, also known as a continuity partner. The one rule that rules them all is; culture counts and values matter most. In selecting a buyer, a seller must think about what makes their office, or how they work with clients, unique. For the greatest likelihood of success, it is important that the buyer fits well with the seller's culture. Additional questions to address include:

- Can the buyer afford the cost of purchasing the practice or do they have access to financing?
- Is geography a factor? Does the buyer need to reside in the same location?
- How do clients expect meetings to take place? Is virtual a solution? Do they expect an office or at home meeting?
- Do the buyer and seller have similar beliefs surrounding financial planning or insurance products? Do the buyer and seller have similar investment management philosophies?
- Is the buyer properly licensed with the states, FINRA or SEC, or with the appropriate product companies?

3 CREATE A FORMAL CONTINUITY DOCUMENT

Once the continuity partnership has been agreed to in principal, the next step is to create a formal continuity document. This document is the primary way the buyer and seller outline their respective duties and provide appropriate legal protections. It outlines the events that trigger a sale of the business, how the sale price is determined, the method of payment, and any provisions that guard against the loss of client accounts, commonly referred to as a claw back. The claw back in a continuity plan is an important item for consideration as it provides an adjustment to the purchase price should any clients leave the practice. Due to its complex nature, it is important the creation of the agreement is completed by a person knowledgeable and versed in continuity and succession planning.

4 COMMUNICATE

Now that the continuity plan is official, the final and most important step must happen: communication. For the seller to see the greatest value pass on to their estate and to provide the greatest likelihood of putting their clients' minds at ease, communicating with the affected parties is paramount. It is important to once again communicate with key staff members about the plan in terms of who will step in as the buyer and what the staff members' roles will be in the event of a tragedy. It is equally important to communicate with the clients. As an independent financial advisor and business owner, the seller's clients want to know their financial futures are safe and that their best interest is in mind, not only in planning for their financial future but also in the ability to provide continuity to their financial journey should the unforeseen become an unfortunate reality.

As an industry, we have slowly strayed off course and have ignored our own advice when it comes to planning for the future. The opportunity to get back on track is not difficult. With a few simple steps, financial advisors can confidently tell their clients they have put safeguards in place against the unknown. If you haven't started those conversations, begin them today. Start the process of establishing a continuity plan and providing piece of mind to your clients and family.

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[1]Financial Planning Association, "The Succession Challenge 2018"

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