RETIREMENT OPTIONS FOR FINANCIAL ADVISORS
Does Retire-in-place mean Rest in Peace?

There's a lot being said about the future of the wealth management business with the current wave of advisors on the cusp of retirement – with only a limited population of up-and-coming advisors to fill their shoes. There's much to be concerned about, and rightly so. But what if you're one of those advisors with retirement on the horizon. Your immediate concern is: what's the best path forward as you transition from your practice to your retirement?

Just as you've been counseling your clients all these years, you need to consider what matters most to you, in order to identify the option that will serve you best.

If your top priority is simplicity – meaning, you just want the transition to be easy and straightforward – then you should stick with the obvious choice of "retiring in place." Most financial services companies offer "sunset programs" for their retiring advisors. There's the Client Transition Program (CTP) at Merrill, the Aspiring Legacy Financial Advisor (ALFA) program at UBS, and what used to be called the Former Advisor Program (FAP) at Morgan Stanley. Each of these programs is slightly different, but they're all designed to accomplish the same objective for the company: to retain the client relationships that you built over your career.

When you're considering the retire-in-place option, it's critical that you study your company's program and take a close look at how the risk will be distributed between the company and you, as well as with the advisors – your team – who would likely inherit your book.

Some programs expect you to continue to work, assisting in the transition over several years. In that case, your payout is going to include compensation you would have earned any way. That's just one example of why you should speak to a qualified consultant who could offer unbiased advice before you commit to the retire-in-place option.

Most advisors who opt for this path feel, frankly, exhausted, and are eager to put their careers behind them. It's not a bad plan then, and the biggest benefit is that this type of program is easy.
But the payoff of that "convenience" factor needs to offset a few negative factors:

- The terms of the exit are dictated by the company not by you.
- The price is often well below the current market.
- The payment may not be fixed or guaranteed.
- Proceeds are treated as ordinary income for tax purposes.
- And rarely is there an option to retain an ownership percentage, which could be seen as a well-deserved sweetener for building a book of business over a successful career.

Of course, a retiring advisor is likely to look beyond themselves and consider the transition's impact on the inheriting team of advisors. In most cases, these are partners and younger advisors personally selected and mentored by the retiring advisor; they typically have very strong personal bonds. So the retire-in-place option should be examined for the impact on the team as well, as they're the ones who will ultimately "foot the bill" of the transition.

While the retiring advisor can expect to earn 1x to 2.7x their trailing 12-month production, the inheriting team pays back the company anywhere from 50% to 100% of the transaction price, out of cash flow over a five- to ten-year period. This is part of the company's relatively inexpensive, low risk strategy for easing the retiring advisor out of the business while completely retaining the book of business. Knowing that an advisor who announces they will enter a retire-in-place program will get paid out over five years and the team will be required to cover those payments for years afterwards often results in a conflict of interest. Exacerbating the situation for the team is the reality that they will be locked in at the company for a much longer period – and with little hope of leaving with their clients.

Like many things in life, the easiest path is not always the best, or at a minimum, it requires sacrifices. Not every advisor is willing to sacrifice the value of their payout – or of their relationship with their team. Those advisors look at other options, beyond retire-in-place. And while those options require more work and energy, they do speak to the very spirit that drove these advisors to be successful in the first place – the spirit that put the best interests of others first.

At Sanctuary Wealth, we have built a national community of entrepreneurial advisors who instinctively put their clients first. There are ample opportunities among our network of independent firms for acquisitions and retained ownership situations. Every day, we get to speak with advisors looking for the right path for retirement.

I'd welcome the opportunity to share with you the advantages of our platform and the benefits of an exit strategy that provides a smart solution for you, your team and your clients.

Partnered independence from Sanctuary Wealth.