PROCU 2019 Conference

The Evolving Advisor Role – Second Story Advisors and Succession Planning

KEHRER BIELAN
RESEARCH & CONSULTING

Second Story Advisors

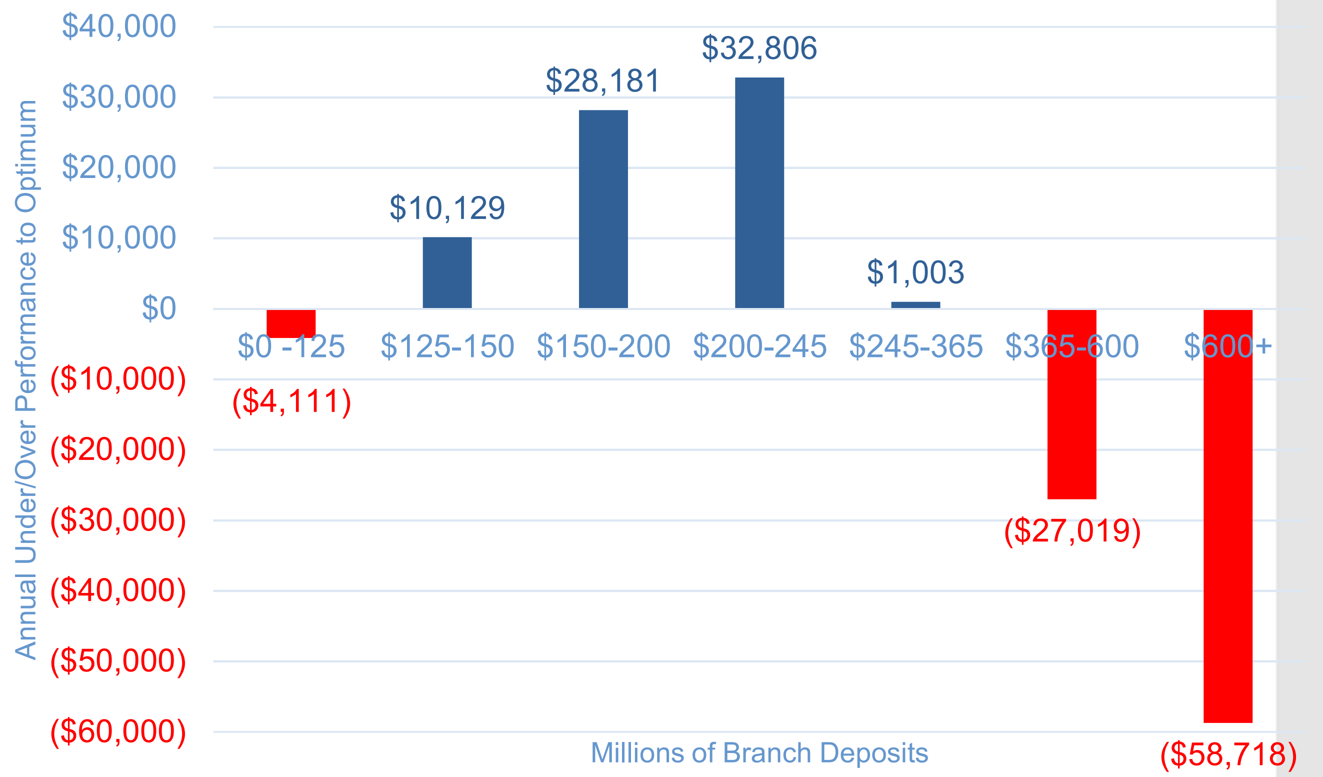
Studies Referenced

- **LPL Sponsored - Optimizing Territory and Book Sizes**
- **LPL Sponsored - Developing a Second Story Advisor Model**
- **Kehrer Bielan – Advisor Succession Planning: Retirement Transition Packages**

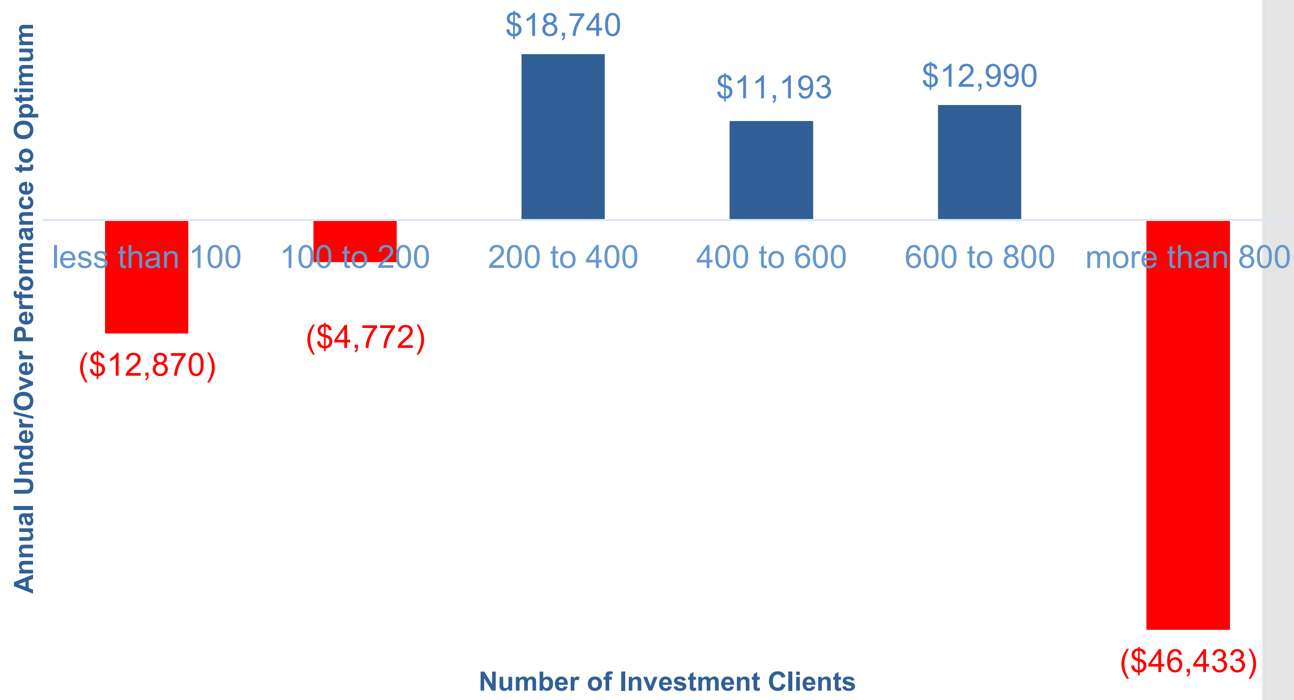
Why Second Story?

- Allows firm to staff beyond branch constraints by adding incremental advisors to backfill open territories
- Increases retention of the best branch advisors by offering a role that appeals to advisors in the prime of their career
- Provides a role with a career path when recruiting in new branch advisors
- Expands the recruiting market by enabling firms to directly recruit in experienced advisors that would not have been interested in a branch role in the past
- Provides better leverage of a shrinking number of referrals
- Enables referrals from financial institution areas that traditionally haven’t had assigned coverage by aligning the second story advisor to areas like commercial, personal trust and the executive floor

Advisor Performance by Size of Branch Territory

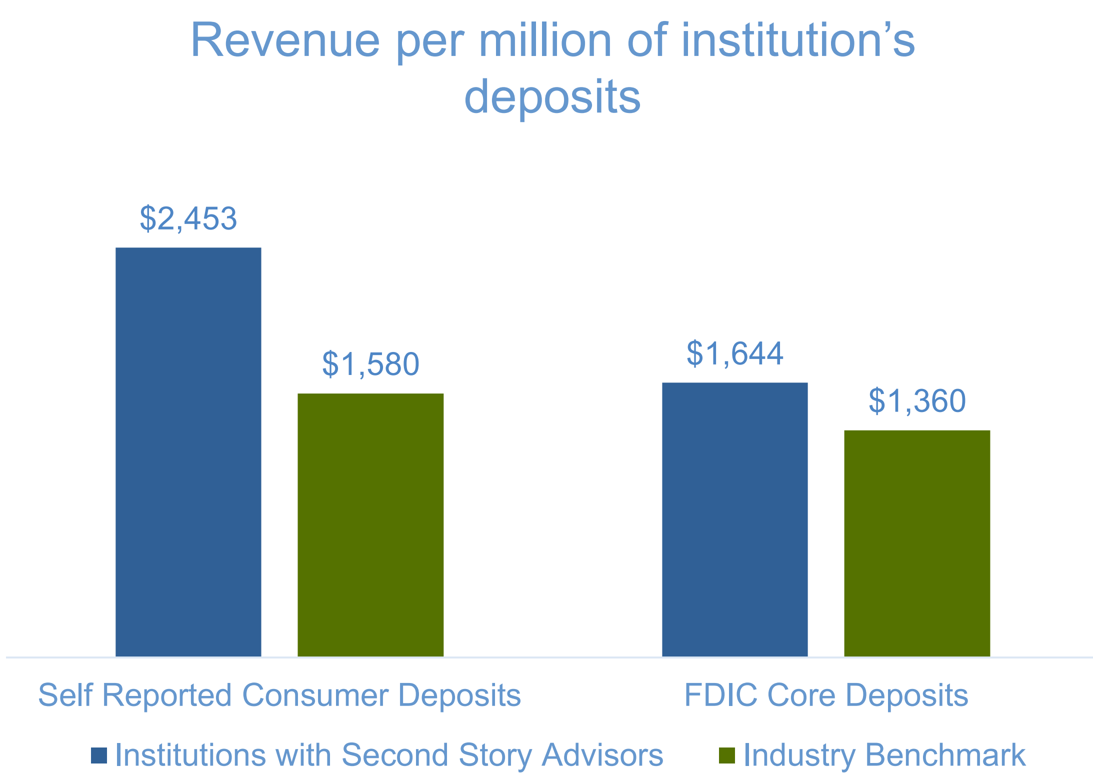


Advisor Performance by Number of Investment Clients

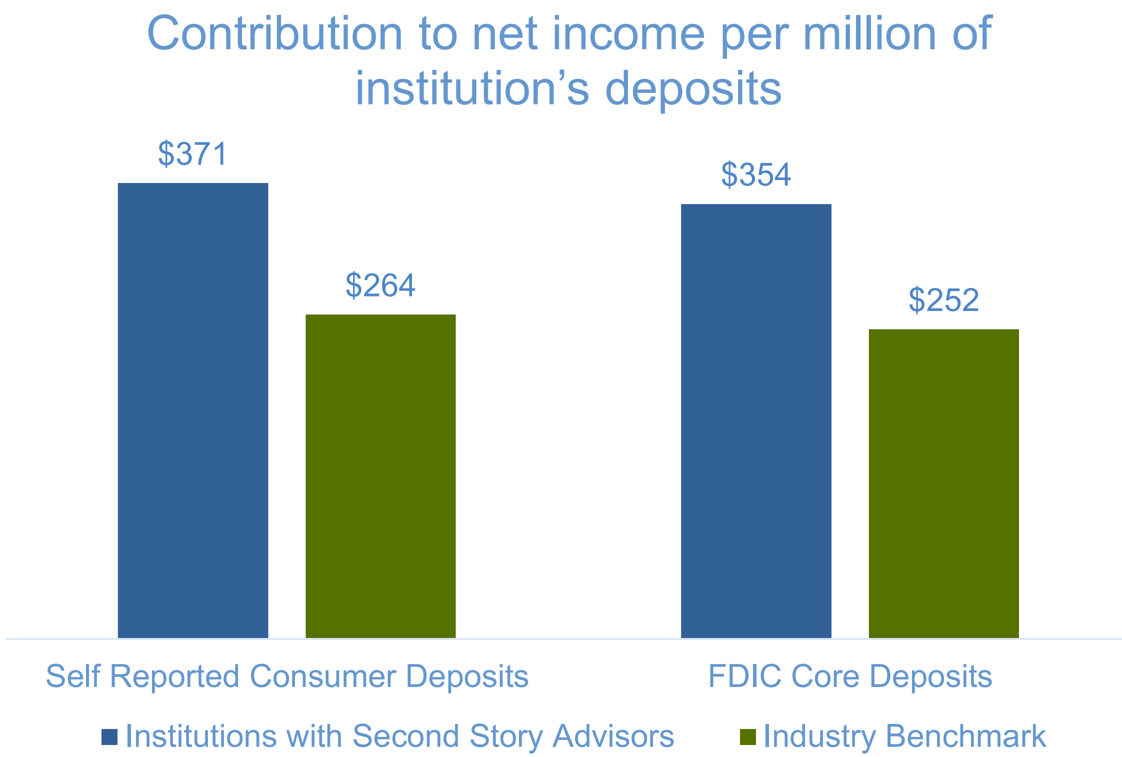


KEHRER BIELAN RESEARCH & CONSULTING

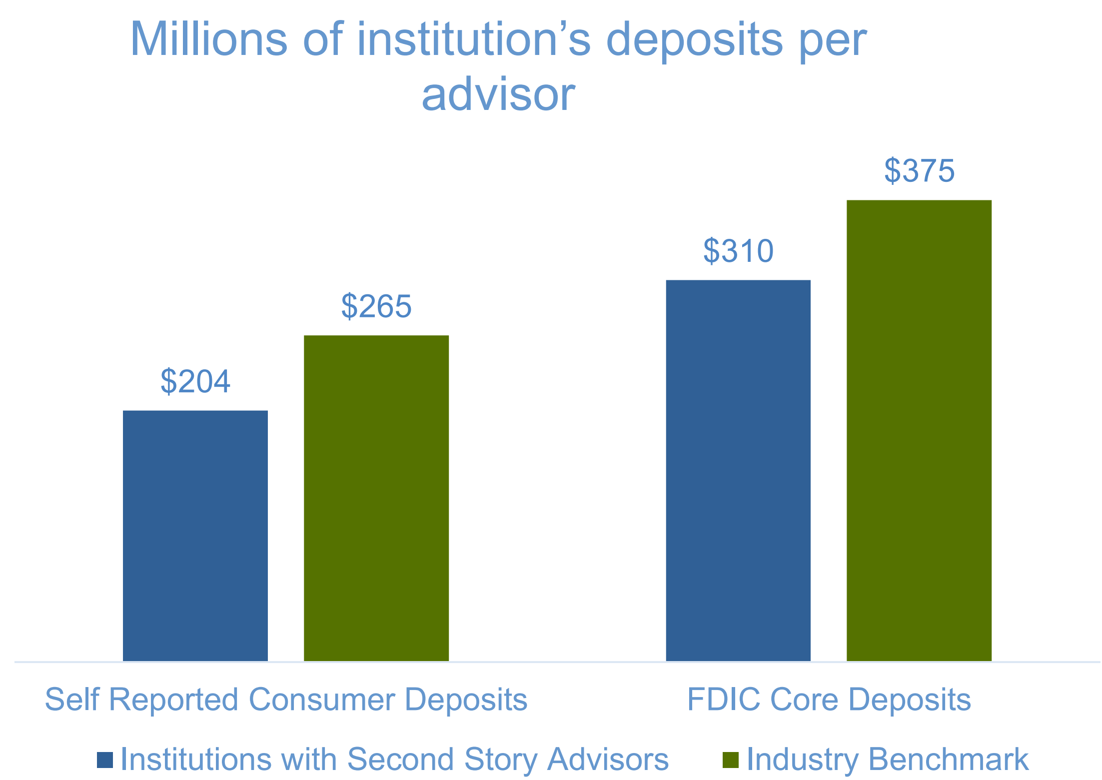
Revenue Penetration of Deposits



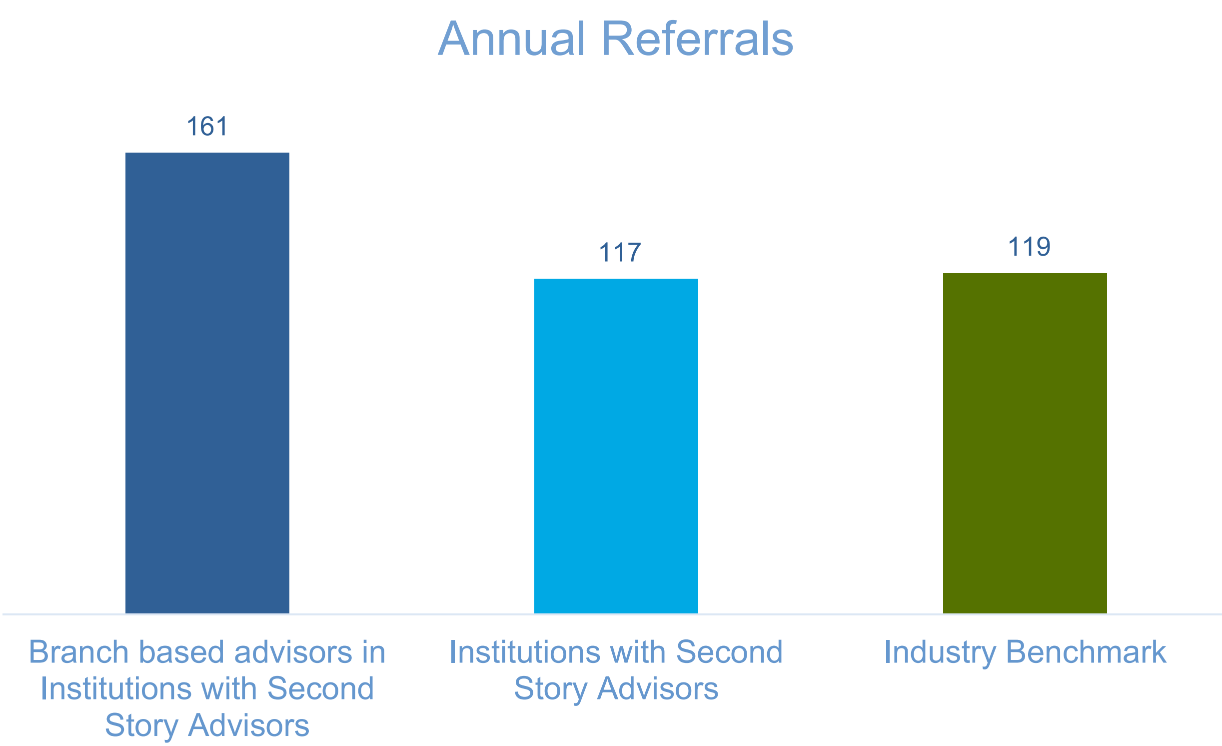
Profit Penetration of Deposits



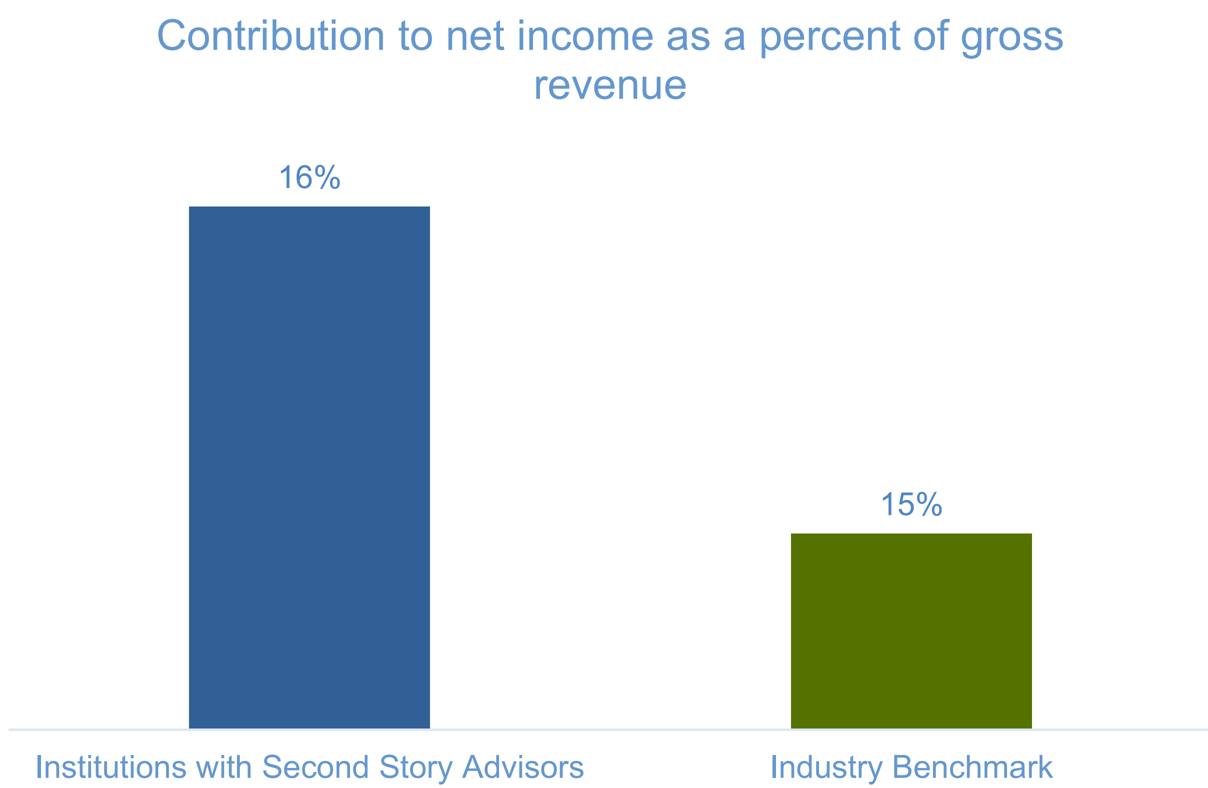
Advisor Coverage



Branch Referrals Per Year Per Advisor

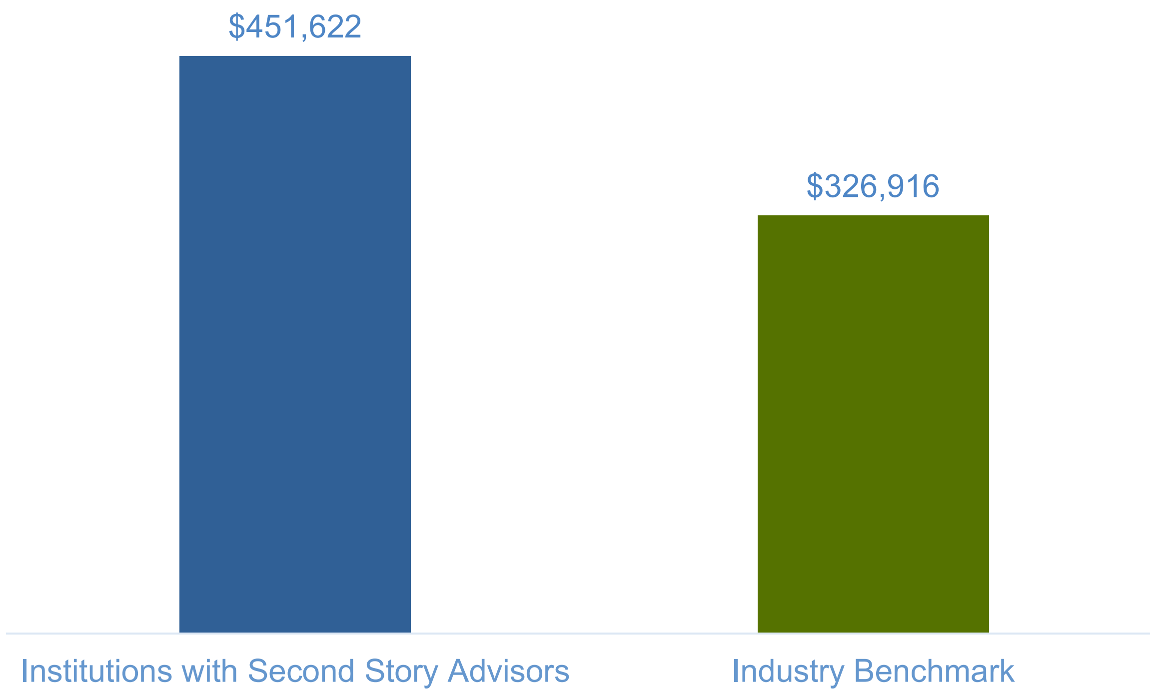


Profit Margin

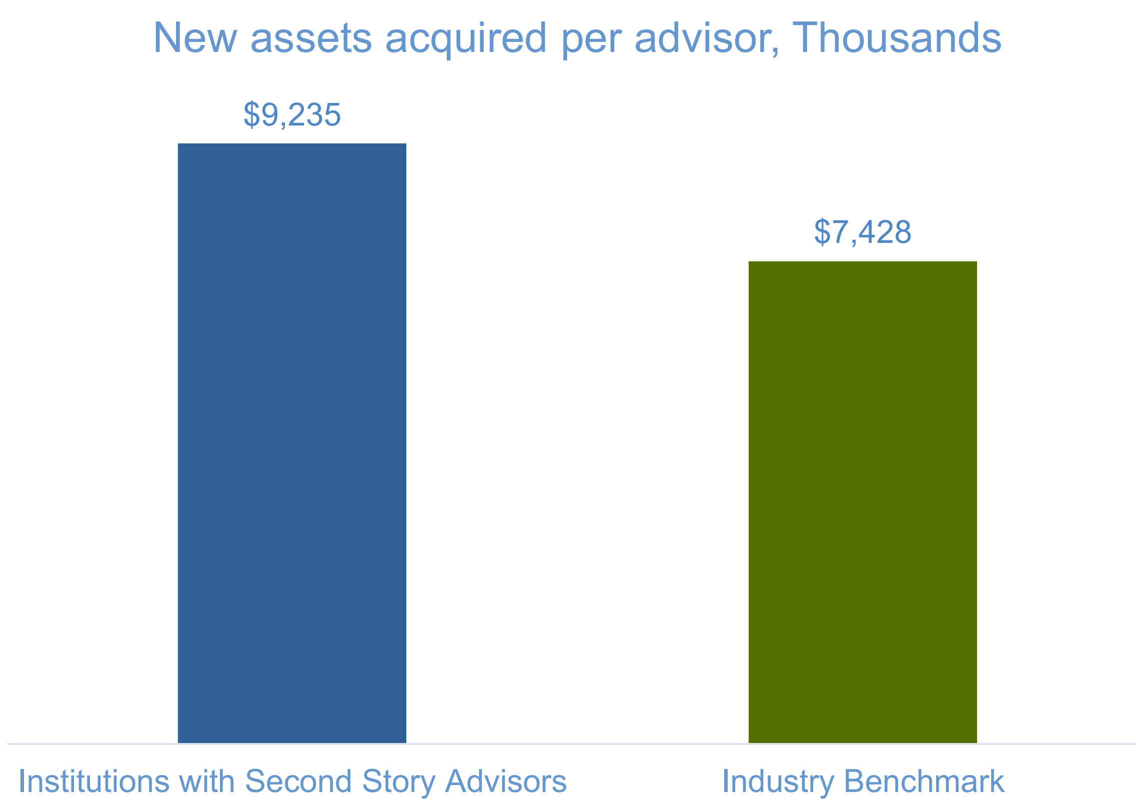


Annual Production

Advisor produced gross revenue per advisor



Asset Acquisition

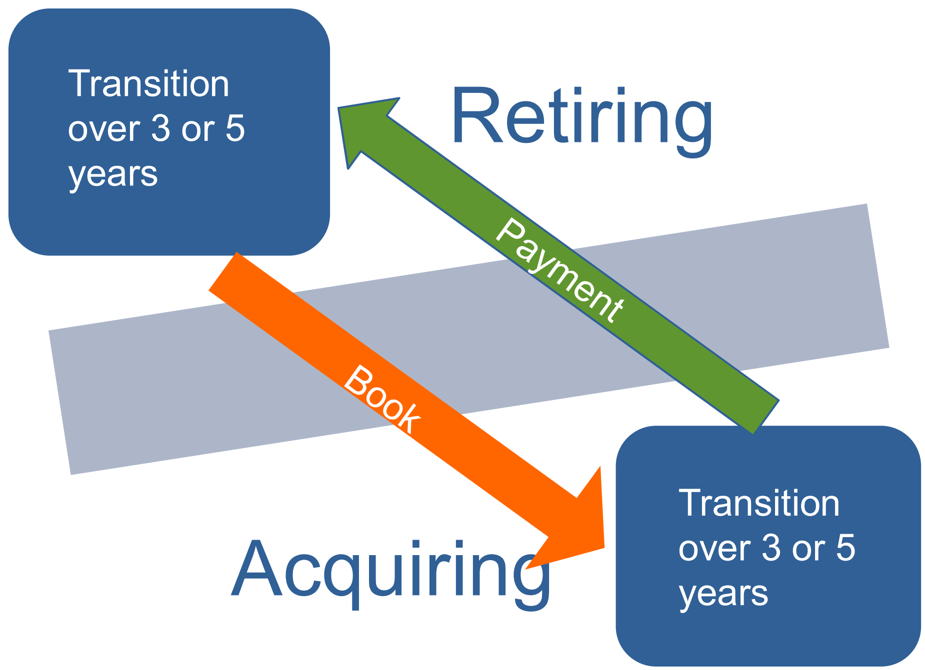


Succession Planning

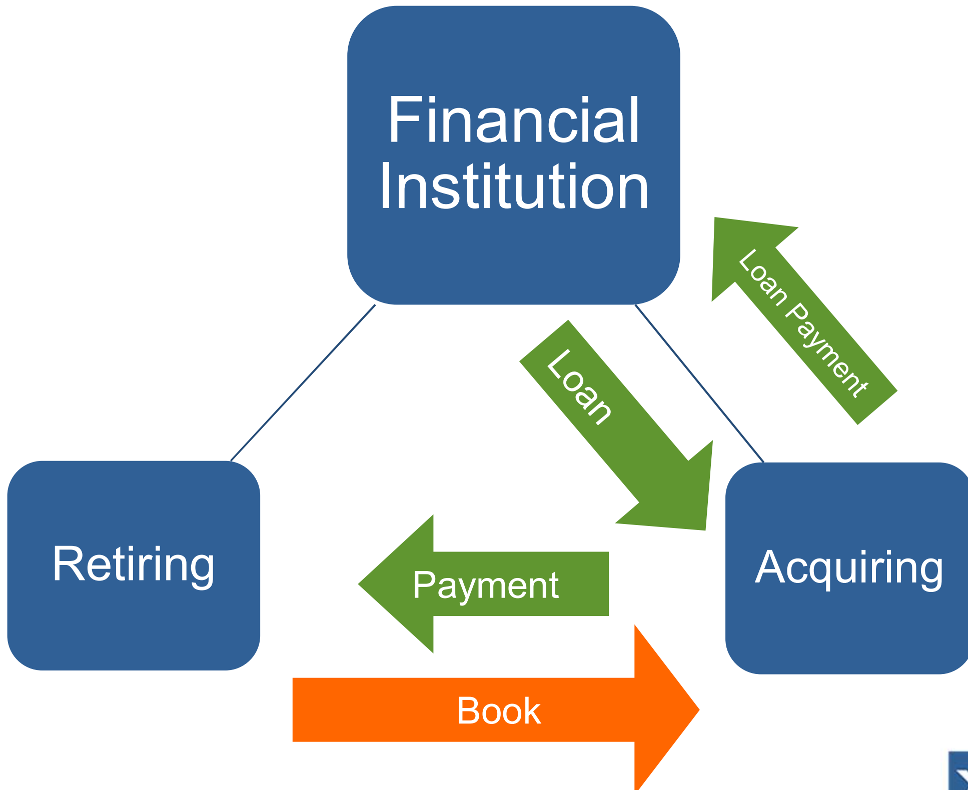
Deal Structures

Retiring/Acquiring Partnership	Sale and Loan	Purchase and Distribution
Advisors split revenue between the retiring and acquiring advisors over a set number of years	Retiring advisor receives payment, acquiring advisor has loan from financial institution and uses future commission for loan repayment	Financial institution or OSJ purchases the book from the retiring advisor and distributes it to a single or multiple advisors who receive a lower payout on the business
• This the the most common structure since it removes the firm from financial risk in the transaction	• Most typical in wire-houses and for larger books where the retiring advisor can command a guaranteed payment	• Used in a market where there isn't a replacement advisor readily available or book needs to be divided
• Positive: All parties are aligned as is to the benefit of the retiring advisor, acquiring advisor and firm for the transition to be successful	• Positive: Competitive, guaranteed payment amount and sale amount uniquely calculated for the retiring advisor	• Positive: The financial institution or OSJ can distribute the book to multiple advisors and at a low enough payout for a positive return
• Negative: There is financial uncertainty since the exact amounts of future payments are unknown and retiring advisor doesn't receive revenue up-front	• Negative: Retiring advisor has no financial involvement in success or ongoing business, and financial institution has outstanding loan risk	• Negative: Financial institution or OSJ have to finance the book so have return risk and cash flow outlay

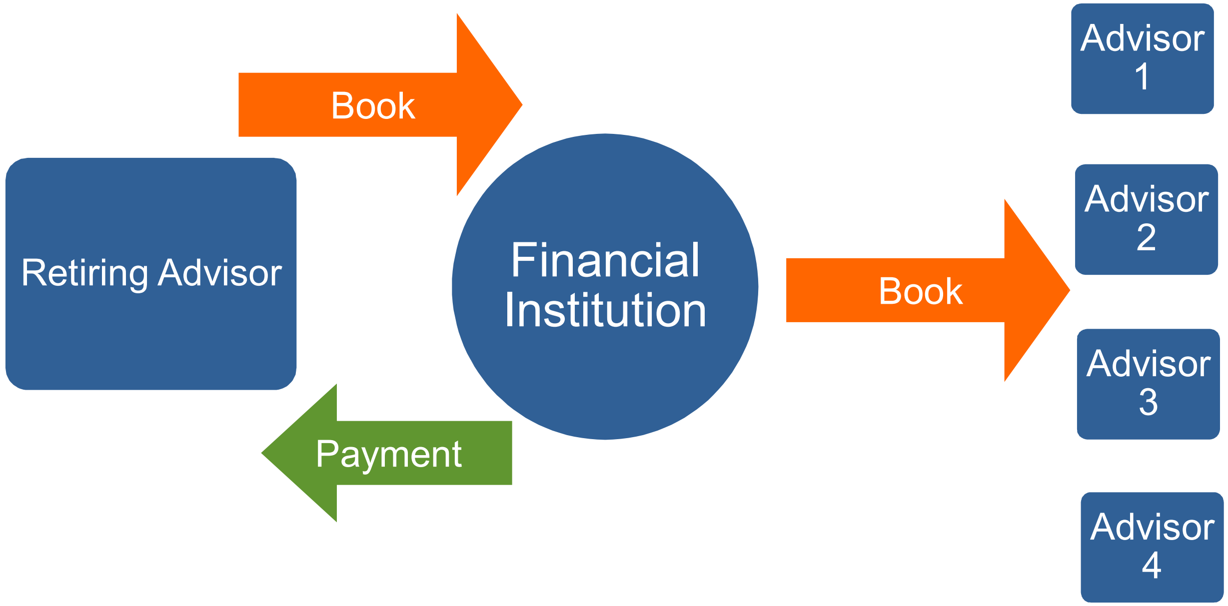
Retiring and Acquiring Partnership



Sale and Loan



Purchase and Distribution



Other Considerations

- There is an advantage to putting the transition plan in place before advisors are ready to retire so they know what the future holds and don't feel the need to shop their book
- Any firm that has lost a long-term advisor just prior to retirement knows how financially costly and how long it takes to replicate that lost business
- Understand that by putting these activities in place a firm accepts that it is reinforcing to advisors a contentious concept that the book is theirs, to an extent that some firms have declined to establish these programs simply to protect their positioning as the owner of the client
- There is great benefit in the retiring advisor being invested in the selection and training of the acquiring advisor when choosing a model
- For newly hired advisors, there is a significant advantage to receiving a retiring advisor's book and worth the financial investment they make, especially when compared to the length of time it would take to equal those assets and revenue on their own
- As important as financial considerations are to the transition, the attitude, cooperation and overall alignment of the retiring and acquiring advisor will make or break the program

The Evolving Advisor Role

Referrals for Revenue

- Work the branch for referrals
- Meet immediate investment needs
- Sell investment recommendation
- Revenue focus
- Close the sale
- Measure success in volume

Trusted Advisor

- Build targeted relationships
- Provide holistic advice
- Sell full product spectrum and advisory business
- Profile and planning focus
- Value is advice
- Measure success in assets

KEHRER BIELAN RESEARCH & CONSULTING

Appendix

Retiring/Acquiring Partnership

- Future production is contractually split between the retiring and acquiring advisor over 3 to 5 years
- Retiring advisor must be available to help in client meetings and annual reviews as needed to help maintain the relationship
- Typically, 1 year working overlap but sometimes no overlap and other times an overlap for more than 1 year
- All production (post split) is booked at the respective retiring and acquiring advisor's grid rate
- Typical splits are:

	Acquiring Advisor	Retiring Advisor
Year 1	30%	70%
Year 2	40%	60%
Year 3	50%	50%
Year 4	60%	40%
Year 5	70%	30%
Year 6	100%	

	Acquiring Advisor	Retiring Advisor
Year 1	25%	75%
Year 2	50%	50%
Year 3	75%	25%

* For compliance reasons, some firms have calculated the split based on account assets

Sale and Loan

- An agreed upon amount is determined between the retiring and acquiring advisors with firm guidance and approval and a private transaction occurs between the two
- Book values vary greatly, with recurring revenue getting a premium of up to 2X revenue and commission revenue getting a discount of down to ½ revenue
- The retiring advisor receives the total amount through borrowed money upon departure, or half at announcement and half upon completion of the overlap period
- There is likely a non-solicitation agreement in place
- The acquiring advisor has a personal loan with the financial institution structured with a term that enables the production on the acquired business to adequately cover the loan principal and interest
- Production (post split) is booked at the acquiring advisor's grid rate

Purchase and Distribution

- An agreed upon amount is determined between the retiring advisor and financial institution or OSJ, with the financial institution or OSJ buying the book
- Book values vary greatly, with recurring revenue getting a premium of up to 2X revenue and commission revenue getting a discount of down to ½ revenue
- Small accounts or commission accounts may not be included in the pricing since without an immediate replacement advisor that business is worth very little, those relationships maybe lost in the advisor transition or the financial institution may only want to buy a recurring revenue stream
- The retiring advisor receives the total amount upon departure, likely with a non-solicitation agreement in place
- The firm distributes the accounts to one or multiple advisors under a separate rep number and pays commission on those accounts at a lower rate for a fixed period, Ex. Three years at 20%, to recoup the payment to the retiring advisor

Financial Summary

For an advisor transitioning with $500,000 in annual production, the totals below reflect the impact to each party after five years of retirement:

- The three models provide competitive alternatives to changing firms
- The differences in models is how many parties are involved, timing of payments and who finances the transaction, leading to slightly different amounts
- They all attempt to accomplish the same objective of a payment that is attractive to the retiring advisor while still providing benefit to the acquiring advisor, firm and OSJ
- See the available excel file: “Transition Financial Comparison” for details

Financial Summary

Advisor Changes Firms

		Retiring
Net Total	$	375,000

Retiring/Acquiring Partnership

		Acquiring		Retiring
Net Total	$	437,500	$	437,500

Sale and Loan

		Acquiring		Retiring
Net Total	$	399,800	$	400,000

Purchase and Distribution

		Acquiring		Retiring		Firm
Net Total	$	375,000	$	237,500	$	(889)

Kehrer Bielan Research & Consulting

Kehrer Bielan Research & Consulting

510 Meadowmont Village Circle, Suite 229

Chapel Hill, NC 27517

www.kehrerbielan.com