FAMILY WEALTHREPORT
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When Partners Retire: Addressing Continuity In Independent Wealth Firms

By Harriet Davies

December 19, 2012

As the independent wealth management industry has flourished in recent years, new challenges have emerged. One is the retirement of the founding partners, and the potential problems of not dealing with this are twofold, says John Sensiba, managing partner at Sensiba San Filippo. It can create conflict over retirement for older staff and also frustrate younger staff who don't see a clear path to the top - which might mean losing the "A team."

The projected proportion of people 65 and older in the US is expected to climb to 19 per cent by 2030. The fact that individuals aren't prepared for this is well known; 75 per cent of Americans nearing retirement age in 2010 had less than $30,000 in their retirement accounts, according to the New York Times.

But is the world of partnerships – common in many private client industries – prepared? The short answer is no, according to Sensiba, who works specifically on this issue with firms to design plans. This is despite the fact that the next 10 years are expected to see more business transitions than the last 30 put together.

A "very small percentage is ready for it," he says, and this is mainly due to procrastination: the rabbit-in-the-headlights effects. But it's also because thinking of getting out of the business is not often "in the entrepreneurial mindset." "People aren't trained to think about the exit" because they are often "so focused on building a business," he says.

This can have serious consequences. "It's ultimately about the survival of the entity," says Sensiba: something that entrepreneurs care deeply about.

"A pretty frank conversation about reality"

Often, unrealistic pension plans are linked to unrealistic growth ambitions. The $100 million business started one year and bought by Google the next is about as likely as winning the lottery, says Sensiba, and in fact most buyers for professional services firms are internal. On this note, unfunded pension obligations are "simply not an attractive prospect for young employees to buy into."

In such cases, "a pretty frank conversation about reality" is required. Once unsustainable retirement plans are dismantled, then "conversations can begin about what is reasonable," he says, because "most of the time they do want something that is achievable."

For this, he brings partners into a boardroom together, with a white board and a marker, and demonstrates how and why current plans don't work. Mostly people might want do this a couple of years before retirement, he says, but ideally you'd do this at the formation stage. Essentially, the later you leave it the more likely you'll have to downgrade expectations.

"Having firms establish that early on goes a long way toward avoiding that anger and emotion…it greases the path to success," he says.

It's not an easy conversation. Sensiba has seen "airborne" coffee cups in his time, and acknowledges that it's "hugely personal for each shareholder."

"You try and identify those in the group who will have those issues," he says. "I've learned to address these things and identify the warning signs…to slow the conversation down and let it sink in."

But he maintains that having the conversation is essential. Moving to a fully-funded pension model is "absolutely" the thing to do, and is what his own firm (an LLP) has done. "It really does add enterprise value," he says.

Generous benefits post retirement that aren't funded essentially mean that the "younger group are paying a tax or tariff on their income."

This taps into a big theme in the independent wealth management space: succession, and with this the trend toward building value into the firm from a third-party point of view from day one.

"Provide the client with more than one point of contact."

In addition to addressing pension models, firms should be looking to reinforce the value of the firm versus its star performers. Not to discredit what excellent performers do, but the platform, brand and services provided by the firm need to be emphasized as well as one-on-one client relationships.

This starts with a team-based approach to clients. "Partners and shareholders are very territorial about their clients…change that structure, have a team approach," says Sensiba. "Provide the client with more than one point of contact."

Meanwhile, in terms of client transitions – bringing the client into the decision and communicating that someone new will be handling his or her business – takes a minimum of two years, he says. "It's a key issue in how professional service firms treat their clients."

Of course it's a two-sided coin. Handling the smooth retirement of partners at one end of the scale creates more incentives for new employees. How much younger/junior employees understand about retire-

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ment packages at their firms will depend on the culture of openness, but at least steps can be taken to ensure they know there's a path for them.

"The best firms have these paths to ownership/partnership on their intranet, with well-defined criteria. You are seeing more and more of that over the last decade," says Sensiba. "That's a fairly innocuous thing to do."

However, if older partners want to work for a long time – something the economic crisis has spurred on – younger employees may feel the upper echelons are "clogged up."

Of course, it's a delicate matter, and Sensiba believes it's one better handled on a case-by-case basis. He prefers active management of retirement over a strict retirement age, as productivity in later life – and indeed all stages of life – is hugely idiosyncratic. In his view, having a retirement age written into the partnership agreement means that, if someone has become unproductive three years before that, say, the view might be taken that "there's only another three years" left. Likewise, it may force people to leave when they're productive.

However, taking the defined process out makes this sensitive issue more personal.

"My personal philosophy is to follow the golden rule: I put myself in that situation. If I wasn't contributing, what would I want? I would want someone to come and tell me," says Sensiba. He says the key points are honesty and the opportunity to change behavior if possible.

Life after work

Another issue that crops up is what partners will do upon retirement; a common answer is to stay involved with the firm in an advisory or key-client role, for example. This can be effective, says Sensiba, and can reassure clients. However it comes back to the individual, so he is in favor of active management of this too, rather than strict policy.

He uses the analogy of a surgeon to demonstrate a potential pitfall of this strategy. If a surgeon were to retire and only operate 12 days per year, would you still want them operating on you?

"Are you keeping your skills up?" he says. "You have to make sure people are keeping their skills up" if they want to be involved in a significant way with the firm.

Sensiba's view is very much that of "the firm" first and foremost: what will ensure its sustainability? Partners' finances must be managed around that from a basis of what is realistic for the company. However, it's not because he doesn't value the people behind the company, in fact it's the very opposite. Addressing these challenges increases the chance of long-term profitability and creates a route to success for people joining the firm, thus ensuring it can continually attract the top talent, he explains.

At his own company graduates are hired and groomed for 10-15 years for leadership roles, because these skills can't be learned over night, he says. And they are quite separate from the technical skills that are also needed, and thus must be addressed explicitly.

His final advice on the matter? "The three most important things are people, people and people. And no matter what stage a firm is at…it's all about people and relationships."