

Sudden Death, Succession and Continuity Fire Drills for Financial Advisor Practices

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How would your sudden death or disability impact your practice, clients and family?

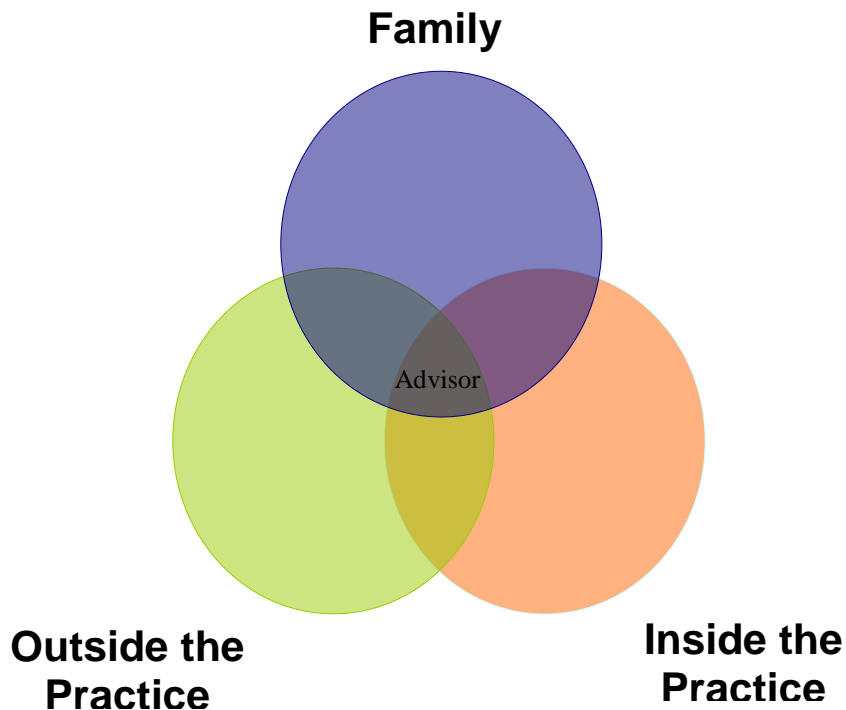


Figure 1 The impact of sudden advisor transition.

Sudden death, succession and continuity Fire Drills look at the impact of each financial advisor's sudden death, disability or eventual retirement on the practice and its clients, the advisor's family, and other outside stakeholders. In addition to the personal loss and grief that sudden death brings to a practice, the financial advisor's death or retirement also impacts the practice's strategic and marketing plans. One way to anticipate that impact is to review data, which are probably already available, in the context of a financial advisor's sudden death or retirement and also in the longer-term context of the practice's transition through succession and continuity needs. The potential loss of revenue and clients are risks that need to be managed. A practice does this in two ways: first, by gaining clarity about the individual

advisor’s clients and prospective clients, and about the practice’s needs and expectations, and second, by developing the capability to manage change constructively in all three of these stakeholder groups.

In a financial services or investment practice, as in any business, Fire Drills are strategically driven contingency plans that support the vision and mission of the practice. They usually involve some individual preparation before a facilitated retreat or workshop. Some financial advisors may find this process threatening or cold. Consequently, some practices choose to identify volunteers for the Fire Drill rather than subjecting every advisor to this scrutiny initially. It is important to respect the participants’ confidentiality. In preparation for the retreat, guidelines need to be created and agreed on for how individual data will be used or shared. If the practice declines to run this kind of Fire Drill as a group, individual advisors may still find using Fire Drills on their own to be helpful both personally and professionally.

A key part of gaining clarity from any Fire Drill process is gathering data. Using Table One as a point of departure, each financial advisor collects data to gain clarity about his or her own level of preparedness for sudden death, disability or retirement.

Impact of Sudden Death, Succession and Continuity on Practice	
For the last five years, each financial advisor’s percentage of total practice revenue or new client production by: <ul style="list-style-type: none"> • annual revenue generated by each advisor • annual number of new clients • annual percentage of total clients served by each financial advisor to practice’s total clients served (by number of clients and by assets managed or fees produced) • historical retention rate of clients when a advisor dies or departs suddenly • market growth potential in this advisor’s area of expertise in the next five years • percentage of new clients brought to the practice (rainmaker status) each year (by number of clients and by revenue produced) • Average revenue produced per client 	%
The practice’s succession and continuity options as gauged by: <ul style="list-style-type: none"> • the number of other financial and investment advisors and associates in the practice with this advisor’s expertise & reputation • prospective clients being developed • fire drills on sudden death and sudden departure of advisors every three years • a written transition (succession and continuity) plan for advisors that is reviewed every three years 	#
The practice’s transition (succession and continuity) options relating to licensing as gauged by: <ul style="list-style-type: none"> • Licenses held by advisor necessary for practice to operate (i.e. series 65 for Registered Investment Advisory practices, Series 6, 7, and 63 for commissions including variable insurance commissions and trails, principal’s licenses, etc.) • Commission trails (mutual funds, life insurance, annuities, pension plan products). • Fee-sharing or solicitation agreements that reference the advisor • Inclusion in the practices ADV part I and II or other regulatory documents. • Registration with state as agent for the corporation, LLC, or partnership. 	

Table One: Impact of Sudden Death, Succession and Continuity on Financial Practices

Once a practice's advisors gather the data suggested in Table One, it is helpful to generate as many questions as possible in the following three categories:

- Questions individual advisors or the practice can't answer because they don't have enough information;
- Questions individual advisors can answer that highlight the need for individual financial advisors or the practice to take corrective action;
- Questions whose answers individual advisors know but haven't shared with the practice or his/her family.

For example, the practice may identify that its lead advisor for high net worth families has no designated successor for his or her most important clients. In all likelihood, there are associates or other financial advisors who assist with these clients. A sampling of questions that might arise from this data point includes:

- What are the practice's existing policies or process for appointing successors when an advisor dies or leaves the practice? How has that process worked in the past vis-à-vis client retention and satisfaction? How and when are those policies made known to clients?
- Among those associates or other financial advisors who know and work with the client, what criteria would the practice use to identify a successor lead advisor quickly and effectively in order to retain and continue to serve effectively the client's needs?
- Among that group of financial advisors and associates, are there any whom the lead financial advisor is willing to mentor as a potential successor? Does the practice have policies and processes in place for mentoring?
- What happens if the lead advisor refuses to consider identifying or mentoring a successor?
- Once the practice gains clarity about the dangers and opportunities it faces based on the compiled and analyzed data, how will it act on the findings to strategically build strength and enhance capabilities within the practice to address the challenges of sudden death, succession and continuity? Will the managing advisor appoint a task force or committee to develop recommended action steps to the financial advisors? How long will that process take? How will recommendations be implemented and results measured?
- How do generational differences impact an advisor's or the practice's ability to design and implement a strategically driven transition process?¹

Like the cobbler whose children had no shoes, financial advisors may find that their own preparation for managing change needs review. The following tables assist with that kind of review. These are basic preparatory tools for advisors and their families to prepare for sudden death or disability. They help financial advisors and their families gain clarity about their needs and enhance the family's capability to manage the challenges that arise when a family member dies suddenly or becomes temporarily or permanently disabled.

¹ For a greater understanding of the impact of generational differences, see Gibson and Hartley's *The Dynamics of Aging Families* or the *Think Ahead CD for Advisors* at www.cambiopress.com.

Name: Family Checklist for a Financial Advisor’s Sudden Death or Disability	√
<ul style="list-style-type: none"> • current documents prepared, signed, updated within last three years and accessible by heirs and executor/PR: <ul style="list-style-type: none"> ○ last will and testament ○ accidental death and life insurance policies (autopsy required?) ○ loans to or from or guaranteed by deceased ○ pension and benefits plans (beneficiaries current?) ○ guardianship for minors ○ tax documents (personal, partnership, property and trust) ○ trusts and trustee information ○ insurance policies (life and disability income, annuities) available ○ up to date in-force illustrations for life insurance policies • investment portfolio <ul style="list-style-type: none"> ○ investment advisor’s known and accessible to heirs and executor/PR ○ original certificates, stocks, bonds and other documents in known place accessible to executor/PR ○ cost basis and purchase date for stocks and bonds documented and accessible to executor/PR ○ copies of most recent brokerage statements available • practice’s partnership (or other corporate, LLC) agreement and buy out plan known and accessible to executor/PR • practice’s most recent financial statements and audits • personal assets inventory <ul style="list-style-type: none"> ○ balance sheet showing all assets and liabilities ○ collections documented and appraised in last three years ○ real estate and vehicle titles accessible to executor ○ codicil to will regarding disposition of personal items to loved ones (pour-over to trust?) ○ one-year written cash flow/budget for surviving spouse, family and practice • funeral or memorial service wishes known to surviving family <ul style="list-style-type: none"> ○ announcement, attendees, flowers, music, speakers, prayers, etc. • obituary preferences known to surviving family <ul style="list-style-type: none"> ○ cities/newspapers, advisor journals; donation preferences • burial or cremation preferences known to surviving spouse or partnership and family <ul style="list-style-type: none"> ○ location of last remains, pre-purchased plan, etc. 	

Table Two: Family Checklist for a Financial Advisor’s Sudden Death

We live in a world inundated with data that constantly change. When an individual dies suddenly, it is enormously helpful to the surviving spouse or financial advisor, his or her children and the executor/personal representative to have a key to tracking vital information. Questions arise about immediate and long-term financial security, which family, colleagues and friends need in order to notify others of the death, the deceased’s wishes about a funeral or memorial service, and ultimately what documents and information are needed to settle the estate. The worst time to begin collecting and compiling such information is when a family and colleagues are grieving.

Name: SUDDEN DEATH INFORMATION TRACKING GRID² – Part One						
WHAT	Physical Location	Contact Name	Contact # & E-mail	Account #	Date Data Updated	Last Date of Contact
Bank Accounts						
Personal Checking						
Personal Savings						
Business Checking						
Business Savings						
IRAs						
CDs						
Credit Cards (identify automatic payments connected to cards)						
Funeral Documents						
Insurance Policies						
Last Will & Testament						
Living Will						
Loan Documents						
Business Line of Credit						
Home Equity Line of Credit						
Mortgages						
Personal Line of Credit						
Notes and Loans to Others						
Notes and Loans Guaranteed or Co-signed						
Passwords (E-Mail; Software, etc.)						
Property Deeds & Keys						
Copies of Brokerage Statements						
Safe Deposit Box Keys; Safe Combinations						
Stock & Bond Certificates						
Trust Documents						
Vehicle Documents & Keys						
Other						

Table Three (Part One): Sudden Death Information Tracking Grid

² Tables Three and Four are adapted from *Sudden Death; A Fire Drill for Building Strength and Flexibility in Families* and are used with permission of Cultivating Change® LLC.

Table Three has two sections. It provides two tracking grids to collect and update important data using a spreadsheet or another easily updated format. The grids shown are examples, meant to stimulate thought about what else might need to be included.

It is easy for personal and advisor contact information to become dated and inaccurate. It may be difficult for grieving family members to focus on sorting through all the names in one’s contact files. Family members may not know advisor colleagues and vice versa. The following grid is easy to construct as a spreadsheet and may be updated once a year or as needed.

Name:					
SUDDEN DEATH INFORMATION TRACKING GRID – Part Two					
WHO	Relationship	Phone & Facsimile	E-Mail	Mailing Address	Date Updated
Database: Family					
Parents					
Siblings					
Spouse					
Children					
Grandchildren					
Other					
Database: Community Organizations					
Friends & Colleagues					
Local Friends & Colleagues					
Out-of-Town Friends & Colleagues					
Advisor Associations					
Database: Trusted Advisors					
Attorneys					
Accountants					
Appraisers					
Bankers					
Brokers					
Executor/Personal Representative					
Financial Planner					
Insurance Agents					
Mortuary					
Spiritual Advisor (Minister, Priest, Rabbi,)					
Trustees					

Table Three (Part Two): Sudden Death Information Tracking Grid

Table Four gives financial advisors a way to frame their own personal and advisor legacy, which may include tangible and intangible elements. Legacy is a topic that concerns many of our clients, especially as individuals in late adulthood and mature family members approach estate planning and wealth transfer. How do they want to be remembered? What have they achieved? What have those achievements meant to them and to their family? How much

control do they want over the philanthropic gifts they make? Do they differentiate between the intangible legacy they leave and the tangible legacy of their donations and wealth? How will their intangible legacy be understood and passed on to future generations?

By considering these questions in their own lives, financial and investment advisors will experience the challenge that some of these questions pose. Exploring creative, thoughtful options in their own lives will benefit both their own families and the clients they serve.

Name:		
THE LEGACY YOU LEAVE		
Legacy Questions	Personal Legacy	Advisor Legacy
What does legacy mean to you? How have you communicated that to others?		
What tangible legacy will you leave? How have you safeguarded it?		
What do you need to do so that this tangible legacy gets passed on?		
What intangible legacy (vision, event or process) will you leave?		
What do you need to do so that this intangible legacy gets passed on?		

Table Four: The Legacy You Leave

When financial advisors participate in a Sudden Death, Succession and Continuity Fire Drill within the practice, the experience gives them insight into the potentially hidden sources of resistance to implementing a business client’s succession and continuity plan, and provides an opportunity to refine their approach to working with clients on family wealth transfer.

As the practice gains more clarity about the impact of sudden death and retirement on the practice’s wellbeing, its financial advisors may recognize the need to create detailed and specific policies, protocols and training programs to increase the practice’s capability to manage the impact of such changes. Retirement within the practice raises issues related to the perspectives, needs and expectations of retiring financial advisors as well as those of junior financial advisors and the practice’s clients regarding the transfer of responsibility for specific clients from one advisor to another. The practice’s financial security may be jeopardized if a strategically driven contingency plan is not designed and implemented to address the financial impact of a financial advisor’s departure, practice governance and role clarity and development issues for individual advisors and the practice.

The effectiveness of any Fire Drill depends on the participants’ willingness and ability to create and implement strategies to address the issues that surface as a result of the Fire Drill process. This includes not only the clear articulation of each strategy, but also the specific tasks and resources that will support its implementation.

Succession, Continuity and Sudden Death Fire Drills give the practice an opportunity to explore transition from many perspectives and in the context of a variety of triggers: the retirement of the current lead advisor, the sudden death or catastrophic illness of the current managing partner or designated successor, the career options and paths of other financial

advisors and associates. Fire Drills allow stakeholders to explore questions in both the short and long term and give participants a valuable window of opportunity to prepare for and cultivate change rather than reacting to it after the fact.

Taking Action

Even the best strategic plan will provide no benefits unless it is put into action. The Fire Drill questions should help you and your practice recognize the dangers related to sudden death, disability or retirement. The tables in this article help you identify and gather information that is important to your practice's long term success and survival. In the process of answering the questions and gathering the information you begin to map out a course of action that will result in greater confidence throughout your practice and client base. A lot of the implementation is just making sure that the right information is collected, kept up to date and readily available to the right people. You may find that you can manage the implementation of your plan on your own or you may require advisor facilitation, but in any event you need to create a task list, a timeline, and provide for accountability in the implementation of your strategy.

About the Authors

Bonnie B. Hartley, Ph.D., is President of Transition Dynamics Inc. She help entrepreneurial leaders who aspire to be great ancestors ensure their exceptional families and enterprises thrive from generation to generation. She is a member of Attorneys for Family-Held Enterprise (AFHE) and a past board member. She serves on the board of a private family foundation, and is a past board member and a current Fellow of Family Practice Institute (FFI). She is also a member of Psycho-Social Dynamics of Family Business (pdfb), a national think tank. Her handbooks *Unexpected Wealth* and *Sudden Death* were published in 2006. She has also co-authored two handbooks, *Dynamics of Aging Families* and *Health Care Issues of Aging Families*. She co-produced the Think Ahead CDs for Advisors and Families with Mike Hartley in 2009. She co-authored *Family Wealth Transition Planning*, published by Bloomberg Press in 2009. Bonnie speaks internationally on managing change, governance and leadership development.

Michael T. Hartley is the Chairman and Chief Executive Officer for Dale K. Ehrhart, Inc. and a principal of Transition Dynamics Inc. He frequently works as part of collegial teams that provide sophisticated estate, tax, and investment planning, as well as family office services to some of America's wealthiest families. In addition to his executive duties, Mr. Hartley is involved on a day to day basis with portfolio design and other forms of sophisticated investment planning. Mr. Hartley is a member of the Financial Planning Association, the National Committee on Planned Giving, The Family Practice Institute (FFI), where he served on the Board of Directors, and Attorneys for Family Held Enterprises (AFHE). He is co-author of the book *Master Plan: Integrating Your Financial Planning, Legal and Estate Planning and Life Planning*, a book intended to help families manage all three forms of wealth. Mike speaks internationally on investment topics, team systems and managing change.