Retirement Income
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Building – and Selling – a Retirement Income Practice

By Editor Test *Sat, Jun 30, 2012*

"I came from the commission world and now have a retirement income planning practice that I have just signed an agreement to sell. If I were still doing commission-only products, my practice value would be significantly less," writes our guest columnist.

Many of us grew up in the commission world. We established our business overhead and our budgets at home around first-year commissions. Industry awards and educational conventions have always been based on first-year commissions.

Now a plethora of products are available that pay an advisory fee on an annual basis. In many situations these products are better suited for our clients as they enter into retirement. They are more liquid, sometimes better diversified, and in most cases have lower management and administrative fees.

Additionally, the recurring revenue they generate creates value in an advisor's practice, making practice transitions profitable for both the advisors selling their practices as well as the advisors making the purchase. The stress of always wondering "where is my next sale coming from" gets less and less as my assets under management grow.

If all my business and personal needs were met without ever having to sell another product or prospect for a new client, it would be the ideal practice. Yet, I wish I had a dollar for every advisor who has told me they are going to become a "fee only" advisor and six months later they abandon the game.

Why? Because they can't live on 80% less income while they wait for the assets under management to grow. Nor, in many cases, can they move existing business into an advisory fee format due to regulatory restrictions or penalties that their clients would incur if the existing block were moved.

Sadly, sometimes the result is falling back into our old way of doing things and perhaps not always doing what is best for the client. What is the answer? It's not as if there's a $20 million account waiting outside your door that you can put into a 1% advisory fee account that will now give you $200,000 of annual income. There is no "quick fix."

Personally, I came from that commission world and now have a retirement income planning practice that I have just signed an agreement to sell. The sale will take place in June of 2014 for close to $1 million. If I were still doing commission-only products, my practice value would be significantly less…about 75% less.

When I first designed the Income for Life strategy in 1984 it was specifically to create a strategy for my retiring clients. At the time, I gave no thought to the ultimate impact it might have on my personal retirement plan. While training advisors for the past 10 years it has become apparent that a segmented or "bucket" strategy for producing retirement income is the ideal solution for both the retiree and the advisor trying to transition to the fee-based world.

Without going into a lot of detail, the basis of a segmented strategy is that the income needs for the first 10 years are provided from guaranteed, fixed products. The 10-year-and-longer money is invested in equity portfolios that align with the client's risk tolerance. The result is an income model that is funded with both commissionable and advisory fee products (the typical mix is about 50/50). Also, the typical sale is usually two to three times larger than a more transactional commission sale.

The result is that the advisor's current income needs are being met while the fee-based, AUM money quietly builds over the next 10 to 15 years. At the end of 15 years, the AUM money will generate as much recurring revenue for the advisor as the combination of commissions and fees did at the beginning.

For the advisor who intends to work for at least another 15 years, this business plan creates an income stream that meets current needs and creates recurring revenue that can be sold to a transition partner down the line for a two-to- three times multiple. The advisor can personally finance the purchase of his or her practice and create five to 10 years of retirement income that is primarily taxed as a capital gain.

Everyone wins. The client has a reliable income stream from a variety of products that meet their liquidity and investment goals, as well as ongoing service and advice. The advisor has made the transition gradually to the fee world with little or no financial sacrifice. The young advisor has a great opportunity to purchase a profitable practice without having to go through all the early pains and failures of building one.