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Succession planning for your portfolio

Transition from business-derived income to retirement income

Many business owners want their legacy to continue. Unfortunately, according to BDO Canada, only one-third of family-owned businesses survive the transition to second generation, with just a third of these getting to the next - a mere 1 in 10 chance of the business surviving for three generations. Often, the reason is insufficient planning.

Similarly there is insufficient planning for the personal financial management that follows the transition from a business-derived income to a retirement income. While division of the estate may be thought out, often the management of retirement income is not.

When the business owner moves from work into retirement, there will be portfolio considerations beyond the generation of investment income. These include, but are not limited to, such things as cost-effective withdrawals from tax-deferred accounts, various clawbacks, different risk assessments, and income related to the ongoing business. An advisor needs the right skill set to handle these new challenges.

When first saving for retirement, investors often choose an advisor of a similar age because they feel that the advisor can better relate to their life circumstances. While this may work well during growth years, it can lead to problems as retirement approaches. Advisors of the same age might be mapping their own retirements and planning to

exit the investment industry. Whether that is good or bad depends on the advisor.

Some retiring advisors will transition their business to younger advisors or associates. They carefully choose successors who will best serve their clients, and work closely with them to ensure they are a good fit in terms of business and investment philosophies. Some advisors introduce their successors to clients and start the transition process early.

Other advisors may not be as caring or thorough, choosing instead to sell their book of client business to the highest bidder. Whether the transition is thoughtful or not, the retiree must make certain that the new advisor is the right match, with a clear understanding of retirement goals, and can provide a written Investment Policy Statement detailing how the portfolio will be managed.

A good advisor will also perform a critical role beyond management of the retirement portfolio. It is to lessen the business owner's worry about the difficult issue of assets surviving generational transfers. It is a very important topic that typically does not receive enough discussion. Too often advisors focus on getting the assets ready for transfer but do not prepare the inheritors for handling the newly acquired wealth.

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It is a process that involves sensitive communications between the advisor and the family members, made more delicate as shortcomings are identified. That may be why some advisors choose to avoid such conversations. However, the better advisors see it as their duty to prepare clients' families by identifying and rectifying any weaknesses prior to transition. The trust that is built by the process benefits all.

A business owner wants to prevent the family fortune going from shirtsleeves to shirtsleeves in three generations. Succession plans, whether business or personal, help ensure that legacies continue. That planning takes time but it is time well spent.

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