Graceful exit

Deferred baby boomers in sole practice and small firms are those who are most vulnerable to the perils of planning for retirement, as Keith Underwood explains

Your retirement is likely to be the most important decision you make in your career. The considerations you need to take into account are wide-ranging and include personal finance, job satisfaction, whether suitable succession for the firm is in place, and the hobbies and other active interests you have to occupy you in your retirement.

Many accountants tend to feel they are immortal, and a number are reluctant to address retirement. Any thoughts about retirement are usually fairly cursory until an event makes the decision essential or at least more compelling – such as ill health or health issues within the family.

In larger firms there are often fixed retirement ages, offering a focus from the day you join through to the day you leave, with perhaps some alternatives around performing as a consultant at the end of your profit-sharing career as a partner.

There are also 'entrepreneurial accountants', who reject the premise of working with a single firm and climbing the ladder from trainee to partner in favour of a 'build and sell model' that they may replicate many times during their career. Entrepreneurial accountants may be thin on the ground but they do exist, and they usually decide for themselves their career exit and retirement.

Deferred baby boomers – who will now be aged between 65 and 72 – are still around in numbers, and it is here where the issues lie for small practices – from sole practitioners to four-partner firms.

The warning signs

There are often warning signs that partners in small firms are beginning to wind down. A reluctance to adopt new compliance and regulatory procedures or to plan for internal and client-facing IT changes can be clear indications that retirement might be due. The government's goal of making tax digital is another reason many deferred baby boomers cite for deciding to retire.

Partners who are planning to exit their practice would do well to address the following questions:

* Are you enjoying what you are doing?
* How can you replace the profit share/salary you are currently enjoying?
* What do you propose to do after you retire?
* Does your retirement fall in line with that of your partner or family?

The answers we receive when we put these questions to clients have often not been thought through, even though the original brief may have been 'I would like to retire in six months' time'.

If you are in a four-plus partner firm, the partnership/shareholder agreements are usually flexible, so the ability to retire early or late can be accommodated. But the question of succession is often not considered until too late, which leaves the practice with little alternative but to sell to or merge with a larger practice. Succession planning in these firms is therefore hugely important.

There are big differences between the successor and sale options in terms of preparation, execution and timing.

> There are considerations around whether the value of the business will provide sufficient funds to cover a long retirement

* Handing over to a successor is a process that may take as long as four years and involve outside recruitment or an internal management buyout.
* Selling the business may require a looser ongoing relationship for a period, bedding in clients and addressing the careers of the staff.

Planning for a succession or retirement is as important as the strategic development of the business. In fact, a retirement is usually more critical, individuals who are sole practitioners up to those in four-partner practices often have a personal responsibility, specialisation or client group.

Clients' perspectives are useful for the planning process. Depending on the size of the practice, these can probably be determined quite easily within the framework of surveys and reviews that would be undertaken as part of the planning prior to exit.

Even if you are a sole practitioner, all your clients need to understand that you are a custodian of the business and provide services on the basis of a particular ethos, and cultural and technical 'style' that meets their needs. It is important that this style is replicated by your successor. In the case of multiple sole practitioners working under a single brand, style replication can present a challenge. Additional problems arise with client loyalty and expectations. If an awareness of the transitional nature of client relationships is explained, the trauma of the change can be reduced.

Prepare to relax

The psychology of preparing yourself for retirement is an interesting one. Career stage and age are often critical. Some retirees want to leave the keys on the table and exit. Others decide at a younger age to sell to a larger practice and use their passion and skill to work with the purchaser in attaining the acquirer's goals over a consultancy period of two to three years. This can often be attractive to a larger firm acquiring your business.

The question of home life, hobbies and how you are going to occupy your time in the future is critical and should be discussed with all the stakeholders, including those at home.

There are many examples of retirees dying shortly after retirement or reluctant retirees who find themselves playing golf or going on a cruise or pursuing other interests for which they might be unprepared after an abrupt switch from a hectic work routine that has lasted anything from 30 to 50 years. Getting into the right mindset can be a greater challenge than continuing as an accountant.

Preparation is therefore key. Some form of planning with full input from your co-partners is essential to make a smooth transition to retirement, which could easily stretch from 20 to 30 years.

Financial factors

The financial aspects of retirement are decisive. It is interesting that retirements are being driven by the financials rather than job satisfaction. The appreciation that the income from an investment in an accountancy firm can bring far greater rewards than can be achieved by investing the funds in, say, property is a salient point that keeps many accountants working well beyond the normal retirement age.

In smaller firms where goodwill is possibly realisable there are also considerations as to whether the realised value of the business is going to provide sufficient funds to cover a long retirement. Many retiring accountants still seem to be expecting the capital generated by selling the practice or their equity in it to fund their retirement. All should be aware that realisable values are trending downwards, with some significant differences in valuations for practices in different parts of the UK.

A matrix of retirement considerations need to be evaluated to determine the best retirement date. Balancing the issues covered in this article set alongside changes in regulation and IT will give any practitioner a steer in taking the first steps in planning their retirement. ■

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