

A man and a woman in business attire are looking at a tablet together. The man, on the left, has grey hair and a beard, wearing a dark suit and a blue striped tie. The woman, on the right, has dark hair and is smiling, wearing a dark blazer over a light blue shirt. They are both looking down at a tablet held by the man. The background is a bright, out-of-focus office interior.

Succession Planning Guide

All great leaders plan and prepare for their inevitable succession. This guide will help you better understand what elements to think about when determining the need for...and developing a succession plan.

What you need to know about continuity/succession plans

When it comes to planning, there are two circumstances to plan for – continuity planning and succession planning.

- **What is a continuity plan?**

A continuity plan outlines how you would continue your agency operations in the event it's impacted by various types and levels of disaster. It helps to outline how the agency/agent will get back to business as usual as soon as possible. The plan should also take into account how the agency would run if a key individual(s) is impacted by a catastrophic injury or death.

- **What is a succession plan?**

A succession plan helps a business owner identify and develop internal people with the potential to fill key business leadership roles in the agency... whether planned or not. It helps prepare employees to assume these roles as they become available. Succession planning is a continuous process for future generations as well.

Why do I need a plan?

You are not invincible. The more important your history, expertise, vision, passion and planning ability are to your business, the more necessary it is for you to answer this one simple question: "What would happen to my business if I permanently left my role (for whatever reason) tomorrow?" If this question concerns you, review this guide and begin the planning process.

Additional reasons to create a plan now include:

- It helps the GA/manager and/or agent realize the value of a lifetime of work.
- It makes it easier to recruit next-generation talent to grow your business.
- It is a great way to preserve and protect what you've built.

Examples of people without a plan at time of death

Scenario 1:

A senior agent who had been with Ameritas for several years passed away. He had an agreement to sell his block of business to a partner. This agreement was never shared with the home office. The home office was also unaware of who he would like the beneficiary to be for the vested compensation.

Outcome: The vested compensation was held by the home office for several months while Ameritas waited for legal proof (agreement) of who the beneficiary should be for the vested compensation. In addition, the business was not transferred to his partner for several months, which caused the policyholders to look elsewhere for service since an agent wasn't assigned.

If a plan was in place: If the home office would have had the legal agreement for the partner to purchase the business initially, within a reasonable time frame, the beneficiary would have been set up to receive the vested compensation and the partner would have had access to the policy holder information. This would have created a smooth transition and consistency for the clients in addition to immediate compensation for the beneficiary.

Scenario 2:

A younger agent who died suddenly had no plan on file at the home office. The agent was not housed in the agency, but in a different office creating difficulty for the agency to access the files and service his clients.

Outcome: The agent's family wanted to go one direction with the business, but the agency wanted to take it another. The widow needed to receive the vested compensation as the beneficiary, but no form was on file. The business suffered considerable disruption as the situation was sorted out. There was a delay in the widow receiving vested commissions. The policy holders experienced disruption as the situation was sorted out.

If a plan was in place: The agent would have had more control over what happened to his business and policy holders. The widow would have received vested commissions much quicker.

Scenario 3:

An agency manager died suddenly leaving several agents, including his son, in the agency.

Outcome: The home office worked with the son to try to create a managerial opportunity for him in the agency. He was not prepared and had not discussed managing the agency with his father prior to his death. He was not sure what he wanted to do, but due to his father's death and no plan he did not have much of a choice. The agency struggled for a year while both the son and the home office tried to hold on to the legacy. Within two years, the agency folded due to lack of leadership.

If a plan was in place: It would have been identified that the son needed management training if he was going to someday take on the agency. A contingency plan could have been in place while he was being trained or a secondary person named to take over the management if the son was not up to the task. The clients and the agents suffered as the agency failed.

Scenario 4:

An AIC and AAS financial professional builds up a \$200,000 gross dealer concessions block of business over a 10-year period as a sole proprietor. The financial professional dies without a plan to transfer/sell his business to another financial professional.

Outcome: AIC and AAS considered the business as orphan business and retained the revenue or transferred to other financial professionals. The financial professional's beneficiary did not receive anything.

If a plan was in place with another financial professional: The beneficiary would have received the value of the business from the buyer.

What is the cost of developing a succession plan?

- The **opportunity cost** to both the buyer and the seller is time – spending an extensive amount on the succession planning process.
- The **actual costs** include additional staff, outside attorney, CPA, valuation expert and other consultants needed on both the sell and buy side of the succession planning.

- The **actual cost** of the transaction for the buyer. Financing options vary. Here are a few of the ways:
 - 100% upfront payments – Paid out of buyer's own resources or a loan from a bank.
 - Paid from revenues over a period of time – Buyer pays the purchase price out of the additional revenue he receives from the transaction.
 - Partial upfront payments with the rest paid out over time. This is a combination of the two bullets above.

I want to begin. What do I need to focus on first?

- The past three year's profit-and-loss statements and balance sheets.
- Have your practice formally valued by someone such as a valuation firm, CPA, etc.
- Benchmark key operational data such as revenue, expense (i.e. staffing, space)
- Define the goals for your business and your succession plan.
- Establish a timeframe for the development of a succession plan.
- Review and complete the [Ameritas Succession Planning Seller Checklist \(UN 2101\)](#) located on Producer Workbench.

What are the components of a succession/continuity plan?

- Identify and define the five "D" triggering events.
 - Death
 - Disability
 - Divorce
 - Disaster
 - Dissolution
- Provide for a valuation method.
- Provide for reasonable payment terms to the seller.
- Determine who the buyer will be.
- Provide for an orderly sale of the business.
- Provide for funding through life insurance or lump sum disability income insurance if possible.
- Provide the plan to the continuity partner and others as applicable, so everyone is aware of how the plan can be put into place at a moment's notice.

Succession/continuity plan do's and don'ts

- **Do** take the time to do the math on the appropriate value to make sure the business can continue. Don't guess.
- **Do** value your business each year and review your agreement.
- **Do** understand the definition of disability in your agreement.
- **Do** take the time to learn your options for possible other parties for your plan and best strategies.
- **Do** make sure the agreement addresses what happens in the event of the involuntary departure of one of the owners.
- **Don't** use one year of financials or less to value the business. A good benchmark is at least three years.
- **Don't** settle for a plan that is slightly better than nothing.

The selling process

The seller needs to get a business valuation of the practice. Once the seller knows the valuation and has a potential buyer, they can discuss the structure of the deal (lump sum vs installments, buy sell agreement, need of financing options or out of revenue.)

Solution providers available

- **Succession Resource Group**
Succession Resource Group (SRG) is a succession planning consulting firm dedicated to helping financial professionals. They provide turnkey acquisition support, assistance with creating contingency plans, and personalized succession/exit strategies. Services include appraisals or full business valuations, buyer/seller matchmaking, forming an entity like an LLC, establishing employment agreements and more.

- **FP Transitions**

FP Transitions is the wealth management industry's only end-to-end consulting firm dedicated to helping financial professionals identify, build and realize their business' value. Since 1999, financial professionals have turned to FP Transitions for guidance in continuity planning, succession planning, M&A and consulting towards optimal business operations.

- **Marshall & Stevens**

Having a business valuation for your business is a crucial first step in assuring the survivability of your business. A business valuation by Marshall & Stevens, a recognized leader in business valuation services throughout the world, will give you a professionally and independently generated calculation based on the American Society of Appraisers standards. They don't just input data, they work to interpret the data to provide a meaningful valuation. Ameritas is the only life insurance company that has a contractual relationship with Marshall & Stevens to provide this valuable service to business owners.

If you're using Marshall & Stevens to assist your business owner clients, a complimentary calculation of value may be available for your own business needs. For more information, contact the Ameritas Advanced Planning team at 800-319-6903 option 2 or email advancedplanning@ameritas.com.

To learn more about each of these solution providers, visit [Producer Workbench](#).

Operations logistics

Contract rights

You should understand your contract rights and the nature of the different elements of compensation. Contact your GA or your Ameritas regional vice president to make sure you understand your contractual rights and the treatment of the different types of agreements.

What is triggered

If producer dies:

The surviving spouse or family member should contact the GA/manager who will coordinate with field relations at the home office to determine if any vested compensation is due the beneficiary.

If Ameritas doesn't have a beneficiary form on file, the home office will reach out to the GA/manager who will coordinate with the agent's family to obtain the following:

- Legal documentation (i.e. Letters of Testamentary or a Last Will and Testament) naming the individual beneficiary or the administrator of the estate.
- W-9 completed with the social security number for an individual beneficiary or an estate tax ID number for the administrator of the estate.
- Mailing address of beneficiary.
- Date of agent's death.
- Completed Direct Deposit Form for beneficiary.

Note: Ameritas has to do the last two steps regardless of whether it has the beneficiary form on file or not. It is typically the absence of the first bullet that would slow down the process. So, having an existing beneficiary form on file allows for a more expedited process of getting money to the beneficiary when vested compensation is due.

If manager dies:

The surviving spouse or business partner should contact field relations at the home office, who will determine if any vested compensation is due the beneficiary and coordinate with agency and advisor distribution on next steps.

Process to transition block of business

The guidelines for an agent or an agency to transition/transfer a block/book of business appear below. These guidelines would:

- Form the basis for the "seller" to create and agree to a succession plan with a "buyer."
- Be applicable to voluntary and involuntary transitions as long as Ameritas, AIC/AAS or its successor companies have received and accepted the succession plan prior to the transition date.

All transitions are subject to the buyer having a valid contract with Ameritas, a license in good standing and approved by Ameritas and/or AIC/AAS.

Responsibilities of the parties appear below:

- Home Office Responsibilities
 - Home office will provide seller with the template of data and supporting documentation needed to proceed with the succession planning.
 - Home office must approve the succession planning contract amendment agreement(s) - UN 5677 and/or AIC 1038.
 - Buyer must qualify for an Ameritas agent or agency contract.
 - Ameritas and/or AIC/AAS provides definition of revenues that can be transferred from buyer to seller.
 - If requested by potential seller, Ameritas and/or AIC/AAS will notify the Ameritas field force of the opportunity.
- Seller Responsibilities:
 - Find the "buyer" to transition.
 - Provide executed succession planning contract amendment agreement(s) (including spousal agreements) to home office for review and approval.
 - Provide Ameritas and/or AIC/AAS with approval to transfer block of business to buyer.
- Buyer Responsibilities:
 - Have a valid Ameritas and/or AIC/AAS contract and be in good standing with the company.
 - Review AIC/AAS Representative Change Process and Procedures (AIC 1429) to understand the steps to transition business from seller to buyer.
 - Be approved as buyer by Ameritas and/or AIC/AAS.

Need help?

For assistance with continuity and succession planning questions, contact the Ameritas practice management team at 800-319-6903 option 3 or email practicemgtdev@ameritas.com.





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