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As retirement beckons, accountants look to keep firms alive

Succession planning takes on more importance as partners age, but many fail to heed their own advice

MARK ANDERSON | STAFF WRITER

Thom Gilbert has backups for each of his firm's partners. "If I hit the lottery or get hit by a bus the firm will continue without me, because I won't be coming in the next day," he said.

NOEL NEUBURGER
SACRAMENTO BUSINESS JOURNAL

Many accountants, thinking of the tax consequences, urge their business clients to have succession plans. With a retirement surge expected in the accounting industry, it's a good time for them to heed their own advice.

Some accounting firms have detailed plans to bring up younger partners or apprentices. Some accountants sell off their book of business to retire. And some practices with no succession plan simply unravel, leaving clients scrambling for their records — and a new accountant.

Succession planning is emerging as an important topic in the accounting industry as a large number of certified public accountants are nearing retirement age, said Bill Spaniel, spokesman with the San Mateo-based California Society of CPAs.

Forget retirement, said Wayne Pinnell, managing partner with Haskell & White LLP in Irvine, it's important for CPAs to have a plan all the time.

His firm went through a fast management transition in 2004 when the founding partner suddenly became ill and died a year later.

"We worked through it, but it was difficult," he said.

Since that episode, the company constantly makes contingencies for planned — and unplanned — vacancies. Currently, one partner is planning to retire in a year or two. As a result, the firm has had a CPA backing up and working with that partner for the past three years.

"If you don't have the folks behind you to take over, you start losing momentum and then you have no choice but to sell," he said.

Pinnell speaks publicly about the need for succession planning and said he often gets the attention of the white-haired executives in the room by pointing out that the founder of his firm died at age 53.

Haskell & White is so concerned about continuity of the business, which has been around since 1988, that no more than two partners at a time are allowed on the same plane.

While accountants urge their clients to have succession plans long before they are suspected to be needed, not all accountants follow their own advice, said Mark Fowler, a CPA and certified management consultant who works in corporate re-engineering, specializing in accounting firms.

He estimates only about 20 percent of accounting firms have current succession plans or continuation agreements. He said

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he was in a meeting with five partners in a Southern California firm last week where the plan, drawn up in 2003, was pretty much irrelevant today, now that all the partners are looking to retire.

The lack of planning is more prevalent in smaller shops and sole proprietors, Fowler said.

To some extent, considering a succession plan is akin to facing mortality, and a lot of people avoid the entire issue, Pinnell said.

That's especially true in a sole proprietorship, in which the accountants often don't want to retire because the business is such a large part of their lives, Fowler said.

"This business represents their friends and clients — people they've been talking to for 20 or 30 years," Fowler said, adding that retirement is not an end. Rather it can be a step, he said.

People do not have to retire outright, Fowler said. "They have so much value to add, from business consulting to litigation support. There is a lot they can do without being full time" that maintains value or adds value to their former practice.

WAITING FOR BETTER TIMES TO RETIRE

The poor economy, loss of paper wealth and housing value has had an effect on the accounting industry, said Ken Macias, founder of Macias Gini & O'Connell LLP. People who might have wanted to retire earlier have had to stay on longer as a result of the declines in their 401(k), their home value and stock market.

"I don't know of a single CPA that has a defined pension benefit plan like the government," Macias said. "We all took hits in our investments."

For larger firms, there is an opportunity for growth in picking up the business of smaller firms. Macias' firm has acquired at least seven firms over the years on its way to becoming one the 100 largest firms in the country.

"There is a lot of opportunity out there," Macias said, adding that the past several mergers his firm has done were the result of the partners wanting to retire.

The large international "Big Four" accounting firms set the trend in the industry, and they generally require their partners to retire by age 60 or 62.

At a small firm or a sole proprietor, retirement age depends on how long they want to stay engaged and stay in the business," Macias said. "There are studies that show if you stay engaged, you live longer."

To be able to keep a firm relevant and growing, it is important to have a management structure and a management team in place. But that team also needs a continuity plan, said Thomas Gilbert, managing partner with Gilbert Associates Inc. in Sacramento.

Gilbert said he has seen what happens when a firm suddenly closes without some kind of contingency plan, and it creates a difficult situation for the clients.

"Sole practitioners can set up a continuity agreement with another sole practitioner or another firm," Gilbert said. "From a practices continuity standpoint, it is a responsibility of the CPA to have a plan. For any firm it is just following good business practices to have a succession plan."

For sole proprieters, 'this business represents their friends and clients — people they've been talking to for 20 or 30 years.'

Mark Fowler
CPA, certified management consultant

Gilbert's partners are each in charge of five different subsets, and each has secondary partners behind them, he said.

"If I hit the lottery or get hit by a bus the firm will continue without me, because I won't be coming in the next day," he said.

At a smaller firm, it can be a hardship if one partner leaves suddenly, Fowler said. "The other partners can try to pick up the extra work, but they do that at the risk of not serving their own clients."

SELLING OUT

There are myriad ways for an accountant to retire. They can sell the practice. They can bring in an apprentice and transition the business or they can just wind it down.

The way to get the most money for a practice is to sell it, said Roy Braatz, an accountancy broker with Accounting Practice Sales, based in Dallas. Braatz lives in Auburn and handles California transactions.

He's sold practices with net annual grosses ranging from $100,000 to $1.8 million. Sales range from a relatively simple sole proprietorship to having a new partner join a practice by buying out another partner.

"I have sold hundreds of these and looked at the financials for thousands of firms, and they are all different," Braatz said. Some people charge $50 for an IRS 1040 return while others charge $1,500 for the same thing.

About half the transactions are purchases by practices looking to grow. The other half are by professionals in their 40s who want to leave a major or regional firm and start their own business, Braatz said.

In most cases, the new purchaser grosses more in the year following the sale than the seller had before the sale, he said. "The new people starting out are just more motivated, and the people who were selling were trying to retire."

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