CPA Practice Advisor



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Marc Rosenberg • Oct. 14, 2014


When partners retire, it goes without saying that they want to cash in their share of the firm's value. But they want to do this in a way that enables the firm to continue as a successful, viable entity. This is accomplished by creating a partner retirement/buyout plan.

How deferred compensation will be treated is a topic every well-crafted plan must



the reduced valuation. One has been a deliberate effort by firms to be more conservative, thus making the plan appear more affordable to new partners.
2. **Computing the amount of an *individual* partner's interest in the goodwill.** The Multiple of Compensation method is by far the most popular system. Common example: The plan provides for goodwill benefits of 3 times compensation. If the compensation of a retiring partner averages $300,000 towards the end of his tenure as an owner, he is paid $900,000 over a period of years. The multiple is often selected to net an overall goodwill valuation that the firm desires. Other commons systems are: (a) AAV system, which provides for partners to share in the goodwill value of the firm's as its revenues increase, and (b) Book of business system, which provides for goodwill benefits to be linked directly to the size of one's client base. Larger and/or more sophisticated firms shy away from the book of business method because it is inconsistent with the "one-firm" concept.
3. **Reductions** that factor in non-traditional services that will leave when the partner retires (examples include business valuations and litigation support).
4. **Reductions** that are essentially penalties for failing to provide the proper notice of intent to retire (most firms require one to two year's notice) and/or failure to proactively transition clients to other firm members.
5. **Vesting**. Almost all firms provide for vesting of goodwill benefits. Two types of vesting are quite common: Years-as-a-partner based, usually 10-20 years, and age-based, which requires a partner to reach a certain age, usually at least 60, before benefits are fully vested. Most firms provide for both types of vesting simultaneously. Firms don't want to allow for a situation in which a partner can become fully vested at a relatively young age, say 55 or earlier. Firms like to structure the vesting schedule to encourage partners to stay around for the long haul.

6. **Payout term.** The vast majority of firms pay out goodwill over 10 years. A



unlikely that the partners will tolerate this, and they will want to make the retirement benefits less lucrative to make the math work.

The 8 items above just touch the surface on how a proper partner retirement plan works. In actuality, there are roughly 27 provisions in a well-written plan. Our new monograph, **CPA Firm Partner Retirement/Buyout Plans** details these provisions as well as provides guidance to the many nuances involved in crafting a plan that puts a smile on the faces of older partners as well as younger ones who will be signing the retirement checks.

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*Marc Rosenberg is a nationally known consultant, author and speaker on CPA firm management, strategy and partner issues. President of his own Chicago-based consulting firm, The Rosenberg Associates, he is founder of the most authoritative annual survey of mid-sized CPA firm performance statistics in the country, The Rosenberg Survey. He has consulted with hundreds of firms throughout his 20+ year consulting career. He shares his expertise regularly on The Marc Rosenberg Blog.*

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