CPA
Practice Advisor

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Question from a Reader: What are your thoughts on partners wanting to work for the firm in a non-partner role after they retire, who continue to control "their" clients while receiving deferred compensation and a salary for their work?

Response: The root of the answer to your question is the expression: "No transition…no goodwill." This means that retired partners should not have the inalienable right to deferred comp without actively and effectively transitioning

agreeing to this one-sided and thus, dangerous arrangement.

The Typical Arrangement

- The partner gives notice, which these days, is 18-24 months prior to retirement.
- During the notice period, the partner actively and effectively transitions clients.
- Ideally, the firm has in place a written client transition policy, which is closely monitored by the firm's management. Assigning clients is primarily a firm decision, not a decision of the partner, though the partner can make suggestions.
- Partner retires on an agreed-upon retirement date.
- If partners wish to continue working, it is at the firm's annual discretion. The firm decides how much they work, what work they perform for which clients, and what their comp will be.
- Comp for retiring partners is usually decided on a case by case basis, and is commonly 35-40% of the collected billable time (hours x rate) worked by the partner. The partner is eligible to earn the same commissions for bringing in business as the firm offers its staff. It's very unusual for retired partners to be compensated for non-billable time.

Conclusion

The main reason for making deferred comp payments to retired partners is to "acquire" their clients. If a firm knew for sure that they would lose the clients of a retiree, I doubt that deferred comp payments would be made. Failing to transition clients in a retirement scenario means that the firm gets nothing in exchange for the payments, which is neither a fair nor reasonable arrangement.

Paying deferred compensation to a "retired partner" who continues to control clients and opts out of client transition is the CPA firm equivalent to "double-dipping." No one likes double-dippers.

Crafting a buyout plan that is fair to all parties – the retiring partner *and* the firm –

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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