

Financial Planning

Inside Osaic's plans for Lincoln's wealth business after the \$700M deal

By [Tobias Salinger](#)

December 20, 2023 EST 8 Min Read

Osaic's latest giant deal [to acquire the wealth management business of Lincoln Financial Group](#) will spin another insurance company out of a rapidly consolidating — yet growing — industry.

Phoenix-based Osaic, the private equity-backed firm formerly known as Advisor Group, secured an agreement to purchase Radnor, Pennsylvania-based Lincoln Financial's wealth arms — Lincoln Financial Advisors and Lincoln Financial Securities — at a price of \$700 million in “capital benefit” upon the expected close in the first half of 2024, the firms said last week. As only the most recent insurance firm to follow a long line of and onetime Osaic parent AIG that have sold companies like Securian Financial Group their wealth businesses, Lincoln has been on a self-described “rebuilding” plan amid its removal from the S&P 500 index earlier this year.

The influx of about 1,450 financial advisors with \$38 billion in assets under management and another \$71 billion under advisement poses complications to Osaic's debt levels and advisor retention strategy as the firm goes through its own restructuring from eight brokerages into one. Rivals are peeling off teams of advisors who say they got fed up with declining service and attention from the corporate office, and Moody's Investors Service put Osaic's parent on review for a potential credit downgrade after the Lincoln announcement.

Osaic has “a lot of work to do” roughly halfway through what is “a transformation of our relationship model while we're getting larger,” CEO Jamie Price acknowledged in an interview. The firm is investing more resources into managing its relationships with more than 10,500 advisors across Osaic by “sub-segmenting them” into groups such as independent registered investment advisory firms, solo practices or large branches in a similar way to how consumer-facing companies classify potential customers, Price said.

“That is exactly how we have been thinking about our relationship management efforts in the field,” he said. “It's less about scale and size and more about, how do you actually bring value to the advisors in the unique way they do business, but do it in a scaled way?”

Price said the company hasn't made any announcements about whether the incoming Lincoln advisors will get retention bonuses but pledged that Osaic is working with the sellers on that question and will have “more to say about that later.” Osaic also has yet to set an exact timeline for the transition of Lincoln's advisors to Osaic, although Price noted that would come at

some point after the regulatory approvals for the deal and the date of the close.

Lincoln's rebuilding plans

Lincoln has been "one of the top providers of protection products on our platform" for years, and the fact that it and Osaic use Fidelity Investments' National Financial Services as a custody and clearing firm means that there will be "little or no repapering at all" for advisors and clients in the migration, Price said.

"They have always had a really good reputation in the industry. ... They are heavy advisory, heavy financial planning, and yet still do estate planning and protection as well," he said. "It made for an easy transition for advisors — that's the second hurdle that we always have to think about."

Representatives for Lincoln declined to comment on whether there will be retention bonuses, with spokeswoman Sarah Boxler saying in an email that the company considers personal compensation to be private information. About 500 corporate employees will move to Osaic, without any job losses associated with the deal, she noted.

David Berkowitz, the head of Lincoln Financial Advisors and president of its wealth business, will stay in a leadership position through the close, Boxler noted.

"David does plan to retire in 2024, and Lincoln had already been preparing for David's upcoming retirement with a succession planning process that involved working closely with his immediate

leadership team," Boxler said. "The plan is for [Chief Operating Officer and Head of Wealth Management] Ed Walters to transition into a leadership role as David retires."

The firm will send "negative consent letters" to clients informing them of the transaction, but they "should not experience any immediate changes or disruptions," Boxler said. Following the close, they'll start to see new branding on account statements and other materials.

"Lincoln entered into an agreement with Osaic because the transaction enables Lincoln to continue to focus on growing our individual insurance solutions and workplace solutions businesses and leveraging our core strengths, including our distribution leadership and strong brand, to deliver future value for all of our stakeholders," Boxler said.

The company and other life insurance carriers struggled during the pandemic from the uptick in deaths, and Lincoln faced other losses stemming from holding tens of millions of dollars in Silicon Valley Bank's unsecured debt and changes to its statistical assumptions about certain annuities, according to an analysis in September by investing website The Motley Fool. The proceeds from the Osaic deal will "primarily" go toward boosting the firm's risk-based capital ratio, with a portion helping to reduce Lincoln's debt leverage and no expected impact to cash flow or earnings, according to the firm's announcement last week.

"We entered 2023 with a clear focus on taking actions to support rebuilding our capital position and delivering long-term

profitable growth,” Lincoln CEO Ellen Cooper said in prepared remarks on the firm’s third-quarter earnings call last month. “We have a powerful franchise, trusted brand, distribution leadership and broad diversified product solutions across our four businesses. These elements serve as a solid foundation as we reposition the company to deliver increasing value to our shareholders. While our third quarter results fell short of our expectations; I firmly believe we are continuing to make good progress on improving the underlying strength of the business, taking the necessary steps to repair the balance sheet and evaluating additional actions to further accelerate our path to recovery.”

Industry experts’ views

Lincoln “supports an ecosystem of networking” among its advisors, whom the company has encouraged to provide planning services through resources such as the comprehensive tools from its National Planning Institute, according to Simon Hoyle, the former director of business development for the Securities Service Network.

Osaic purchased that firm in 2020 as part of its last mega-acquisition for the Ladenburg Thalmann network. Hoyle has since launched [RIA Choice](#), a recruiting firm for independent brokerages and RIAs. Stay bonuses would be “smartly offered and need to be agreed upon by advisors well before the actual transition,” especially to avoid departures by the top advisors at the firm operating as centers of influence among their peers, Hoyle said in an email. “When companies are in mega-growth mode like this, private equity ownership can feel even more corporate to their

independent advisors who’ve enjoyed smaller communities and close relationships, but with big firm backing and resources,” he said. “Tucking into a huge firm can dilute relationships. And repeated broker-dealer purchases, while significant internal operational overhauls are in progress, don’t feel as friendly, especially when consolidation impacts seasoned home-office staff.”

Firms like Osaic, Cetera Financial Group and Atria Wealth Solutions are deploying substantial private equity capital toward economies of scale in response to rising expenses in areas like technology and regulation, according to Brian Lauzon, a managing director with Boston-based investment bank and transaction advisory firm Colchester Partners.

The Osaic-Lincoln deal “struck me as continued consolidation in a market that has very low margins,” he said. “The definition of ‘large’ is being redefined all the time.”

Profits margins at independent brokerages and RIA custody firms “are razor-thin,” according to John Furey, managing partner of consulting and deal advisory firm Advisor Growth Strategies.

“Clearly this a capability and distribution play. Lincoln has an army of registered representatives, and Osaic is consolidating broker dealers. I see this as a clear indication of building one of the largest integrated wealth platforms in the U.S.,” Furey said in an email. “To better compete with RIAs, independent brokerage platforms will need to deliver far better technology and practice support to their advisors. Smaller

independent brokerages will continue to be consolidated or simply shutter.”

Interestingly, the news reports from earlier this month that Osaic owner Reverence Capital Partners is soliciting offers of up to \$2.5 billion for a 20% stake in the firm are citing roughly the same price tag for the entire firm that circulated when Reverence purchased Advisor Group in 2019, Hoyle pointed out.

“By selling off just 20% at their asking price, they will break even, and anything more could be profit,” he said. “So, financially, it would be hard to argue this wasn’t an effective strategy. But for some advisors, the changes feel more like a rolling wheel. Osaic is in the midst of consolidating all their BDs into one — the Osaic brand — and will be onboarding many of Lincoln Financial’s 1,400 advisors.

“Some Osaic advisors feel headquarters had unfinished house chores to do before fishing again. PE’s ability to generate shiny returns may be shrinking; potential profits are likely lower over time as previous buyers harvested the lowest hanging fruit,” Hoyle added.

Review for credit downgrade

Moody’s is reviewing “the planned acquisition’s possible negative effect on Osaic’s financial profile,” according to a Dec. 18 note by analyst Gabriel Hack. The stated capital benefit to Lincoln of \$700 million implies that “the purchase price paid by Osaic will be at least that amount and likely higher,” he wrote. The acquisition might require the firm to issue more debt notes for financing on top of its existing cash on hand from another raise this year. “A new debt issuance could lead to a worsening in Osaic’s interest coverage and debt leverage that could adversely affect its financial profile,” Hack wrote. “Increased scale and the possible synergies that could exist from the transaction may provide credit benefits.”

For his part, Price said he’s “not worried about our financial modeling at all,” praising Reverence as “very, very good stewards” of the firm and noting that there are many divergent views on whether it’s better to be a private company or a publicly traded one.

“We could argue that all day long,” Price said. “I, quite frankly, like the fact right now that we’re not public. We have much more flexibility in our capital structure because of it.”