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Choosing a Financial Planner

This publication questions your need for a financial planner, costs involved, explains financial plans, offers criteria for selecting a planner and offers suggestions on how to register complaints regarding a financial planner.

Kathy Prochaska-Cue, Extension Family Economics Specialist

A financial planner is not someone who tells you what to do with your money. A planner is someone who is a money coach, trained to draw up a financial game plan with your help and information, and who is there when advice is needed.

Do You Need a Financial Planner?

Financial planners are generalists who take a broad view of a financial situation and try to design an overall strategy to meet specific financial objectives. More two-income households, increasingly complex tax laws, financial deregulation, and a greater variety of saving and investment options have increased the number and difficulty of financial decisions. Today both middle- and upper-income families may have a need for a financial planner.

You might consult a financial planner where there is a major change in your life such as a new job, a raise, marriage, parenthood, divorce, widowhood, or substantial inheritance or other windfall. If you are within 30 years of retiring, a financial planner can help you plan for adequate retirement income.

Or, if your financial affairs seem generally disorganized and without direction, a financial planner can help you measure where you are now, help you decide where you want to be, and design a plan with options to meet your goals.

Not everyone needs a financial planner. If your will needs updating or if you are looking for a tax shelter, you may need a specialist, such as an attorney or an accountant, rather than a generalist.

If you have no discretionary income, you may need help with budgeting and money management skills. Financial planners work primarily with families who have some discretionary income for investment.

Generally, single persons with annual gross income over \$30,000 and married couples with income of \$40,000 or more may find a financial planner useful. If you earn \$100,000 or more, it is likely a

financial planner could help you coordinate the advice you already receive from your stockbroker, accountant, and/or attorney.

Cost Involved

As you consider the benefits of a financial planner, also consider the cost. Financial planners are paid in one of three ways: fee-only, commission-only, or a combination of fee and commission.

Fee-only planners charge a stated amount for a given level of plan, or they may charge by the hour for developing your financial plan. Financial planners who charge by **commission only** give free advice, and take commissions on the insurance and/or investments they sell you. The **fee-and-commission** approach combines both methods of payment such as fee for the financial plan, and if you choose to implement the plan with that person's products, a commission for the products sold.

In a fee-only practice, charges may be by the hour or a flat fee. A computer-generated plan with no personal consultation or continuing service may cost as much as \$150 or more. A custom-developed plan for a family with income between \$35,000 and \$65,000 may cost from \$750 to \$2,000.

Although the cost may seem high, financial planners who use the fee-only system believe their objectivity and lack of personal interest in any particular firm's products justify the higher price.

If you choose a commission-only planner, the cost may be similar to fee-only, but the charge will be less visible. Ask the financial planner how much commission you will pay on each product proposed to you.

A planner who is registered with the Securities and Exchange Commission (SEC) is required to give you information about commissions in writing. In the case of commission-only, you may find the title "financial planner" is a salesperson by another name. These people may be eager to direct your plan toward the products for which they receive the largest commission.

A combination of fee and commission is the most common method of charging for services. The commission allows the planner to lower the level of the fee, and the fee makes the "hard sell" somewhat less important. There is also the convenience of having the planner and the seller of the product within the same firm.

All three types of payment may also involve additional costs. An hourly fee or annual retainer is usually required for the planner to monitor and update the plan throughout the course of a year. Recommendations for trusts or wills will involve legal fees. Complex tax planning will result in accountant or tax consultant fees.

Financial Plans

If you need financial planning and are willing to pay for advice, what will you receive for your expenditure?

A planner will help you clearly define your financial goals into objectives and help you rank them in importance. Then, based on the information you provide during interviews and on questionnaires, the planner will compare your current situation with your objectives and goals. Usually, this is done by analyzing net worth, income and expenses, investments, assets, insurance coverage, tax liability, retirement income potential and estate planning needs.

The planner's primary task is to combine your present resources and objectives into a workable plan for reaching your long-term goals. A good plan is fairly short, concrete and clear about what you must do. It is shaped by your needs and objectives, contains a written list of assumptions made when drawing up the plan, identifies potential trouble areas, and highlights several alternatives for reaching each goal.

A personalized plan may take a month or so to complete.

Education and Certification

There are no state or federal regulations which govern the use of the title, financial planner. Anyone can use that title.

Most legitimate financial planners have one or more college degrees from various fields and have completed correspondence courses at one of these nonaccredited financial planning institutions:

The College for Financial Planning, located in Denver, Colorado, was founded in 1972. A curriculum considered the equivalent of 18 college credit hours includes courses in insurance, investments, taxes, employee benefits, retirement plans, and estate planning. Students must pass six exams to become Certified Financial Planners (CFP). **The American College** in Bryn Mawr, Pennsylvania, is a school for insurance professionals. Students first taken seven courses required for the Chartered Life Underwriter (CLU) designation. Then, if they wish to specialize in financial planning, they add courses in employee benefits, real estate, taxes, and case study technique to earn designation as a Chartered Financial Consultant (ChFC). Experienced planners may take advanced courses in areas such as pensions and estate planning.

Academic degrees in financial planning. A handful of universities such as Baylor, Brigham Young, Georgia State, and San Diego State award undergraduate degrees, and Golden Gate University's School of Financial Services in San Francisco offers a master's degree and an MBA in financial planning.

Experience counts a great deal in this area. Consider someone who has served an internship with an established financial planner. Training in accounting, law, insurance, and securities trading is also helpful, but be sure the person you choose has had at least some experience in total financial planning, not just work in a specialty area.

While financial planners are not regulated, other licenses hold them to certain standards. Having a broker's license in securities or real estate or being registered with the Securities and Exchange Commission are examples of such licenses and registrations.

Choosing a Planner

Start your hunt by asking friends and business associates for the names of planners they have worked with satisfactorily. Or, check with other financial advisers such as lawyers, accountants, or bankers.

You can also get names from referral services of the financial planning industry's major professional organizations: the International Association for Financial Planning, Two Concourse Parkway, Suite 800, Atlanta, GA 30328; the Institute of Certified Financial Planners, 3443 S. Galena, Suite 190, Denver, CO 80231; the International Association of Registered Financial Planners, 4127 W. Cypress St., Tampa, FL 33607; and the American Society of CLU, 270 Bryn Mawr Ave., Bryn Mawr, PA 19010.

For fee-only planners, consult the National Association of Personal Financial Advisors, Box 7833,

Chicago, IL 69680. These associations offer no guarantee that the names they supply will be those of the most experienced or compatible planners.

Schedule an initial interview, at no cost, with at least three of the names you collect. Ask the same questions of each and let them know you are interviewing other people.

As you interview potential financial planners, use this set of questions and add your own. Use the area to the right of the questions to record any comments you might have as your interview progresses. Compare the responses from the potential financial planners as you make your decision.

Questions you may ask include:

	#1	#2	#3
1. What education have you had in financial planning?	_____	_____	_____
2. How long have you been a financial planner?	_____	_____	_____
3. What was your occupation before you became a financial planner?	_____	_____	_____
4. What certificates and licenses do you have?	_____	_____	_____
5. To what professional organizations do you belong?	_____	_____	_____
6. What are your areas of expertise?	_____	_____	_____
7. What is your philosophy of investing?	_____	_____	_____
8. Will you be working closely with other professionals such as an attorney or an accountant? What are their names? Will they provide a professional reference?	_____	_____	_____
9. Would you work with my attorney or accountant?	_____	_____	_____
10. What clientele do you usually serve?	_____	_____	_____
11. How do you keep up with tax changes?	_____	_____	_____
12. May I have the names of clients willing to provide a reference for you?	_____	_____	_____
13. How long will the planning process take?	_____	_____	_____
14. Will you write my plan, or will you assign it to someone else?	_____	_____	_____
15. Will the plan be explained to me in person?	_____	_____	_____
16. May I see a sample plan for a			

client with a situation similar to mine?

17. What products and companies do you represent? Are you limited to these?

18. How do you charge for your services?

19. Is your fee for the plan only or does it include periodic review?

20. How will you inform me of new developments affecting my plan?

21. Will I be able to implement this plan with or without you?

Additional Questions:

Complaints About Financial Planners

If the person in question has a securities license, contact the Securities and Exchange Commission or if the planner is an attorney, contact the state bar association. The two major associations of financial planning professionals, the International Association of Financial Planning, and the Institute of Certified Financial Planners, both respond to complaints from consumers and investigate disputes involving their members. Addresses for these organizations appear earlier in this publication.

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