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# Financial Planners
# *Do You Need One?*

Not too many years ago,financial planners were a small group of professionals serving only wealthy individuals. Today a much larger group of planners serves both middle- and upper-income families. Financial planners are generalists who take a broad view of your financial situation and try to design an overall strategy to help you meet your financial objectives.

The profession of financial planning has evolved because assets of many families have increased. This is particularly true in families where both husband and wife are employed. Increasingly complex tax laws, banking deregulation, and a greater variety of savings and investment options have also increased the number and difficulty of a family's financial decisions.

"Average Americans now have to handle the sort of problems that once were the exclusive domain of the rich," says William Anthes, president of the College for Financial Planning in Denver.

You might consult a financial planner when there is a major change in your life: 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.

If your financial affairs seem generally disorganized and without direction, a financial planner can help you measure where you are now, 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 that have some discretionary income for investment.

Single persons with annual gross income over $25,000 and married couples with income of $35,000 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

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 securities they sell you. The fee-and-commission approach combines both methods of payment.

In a fee-only practice, a computer-generated plan with no personal consultation or continuing service may cost $150. A custom-developed plan



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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 this 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 financial 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 that the title "financial planner" is a salesperson by another name.

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 compensation may also involve additional costs. Recommendations for trusts or wills will involve attorney 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? How does the financial planning process work?

First, the planner will help you clearly define your financial objectives and rank them in importance. *You'll* need to decide *your* objectives: Are you primarily concerned about money for the children's college education, adequate retirement income, income in case you're disabled, or funds enough for a vacation in an exotic place every year?

Next, based on information you provide during interviews and on questionnaires, the planner will compare your current situation with your objectives. This usually includes analyzing your net worth, income and expenses, investments, insurance coverage, tax liability, retirement income potential, and estate planning needs.

It is important that you provide complete and accurate financial records to calculate your income and expenses and your net worth. Some questionnaires are long, but the more information the planner has about you, the better the recommendations can be tailored to your needs.

The planner's primary task is to combine your present resources and objectives into a workable plan for reaching your long-range goals. According to an article in *Money* magazine (see "For more information," page 5), a good plan has six major characteristics:

1. The plan is *short*—specific recommendations are more useful than a lot of pages.
2. The plan is *concrete*—it is clear what you should do to put the plan into action.
3. The plan is *molded to your needs*. Planners should consider your goals sacred (if not, it may be because they can personally benefit by steering you toward some particular type of investment).
4. There should be a *written list of the assumptions* made concerning your tax bracket, your tolerance for risk, the rate of return assumed on investments, and the rate of inflation.
5. The plan should *identify trouble spots* such as excessive life insurance, an out-of-date will, or inadequate disability insurance.
6. The plan should *identify several alternatives* for reaching each goal. For example, if you need to reduce the bite of taxes, the plan should identify several tax shelters as well as other tax-saving methods such as shifting income to children and deferring compensation.

The planning may take several meetings, over a month or more, before a plan is developed and accepted. Developing the plan does not complete the process. Although making the plan work is ultimately your responsibility, a financial planner can help coordinate your actions with your attorney, accountant, or insurance agent. And you and the planner will want to make provisions for periodic update and review.

The financial planner has certain responsibilities to you the client, but there are limits. Good financial planners do not take control of your financial life—they do not balance your checkbook, keep you from overspending, tell you what your goals should be, or keep track of your daily expenditures.

In general, the planner is neither your conscience nor your disciplinarian. You must make your plan work.



# Education and certification

Anyone can call himself or herself a financial planner. There are no state or Federal regulations that govern the use of this title. Since financial planning is a recent career field, it is common for individuals to have engaged in another profession before becoming a financial planner.

Lawyers, accountants, insurance agents, brokers, bankers, and real estate agents all participate in financial planning. But how can you tell when you are dealing with a "real" financial planner, someone trained to take an overview of all of your financial needs?

If you study the information about the financial planner's education, certification, professional memberships, and experience, you can improve your chances of finding a knowledgeable and competent person.

Most financial planners have one or more college degrees from a variety of fields and have completed correspondence courses at one of three nonaccredited financial planning institutions:

- The College for Financial Planning, located in Denver, Colorado, was founded in 1972. As of June 1984, 7,000 people had completed the course work required to become Certified Financial Planners (CFP). The curriculum is considered the equivalent of 18 college credit hours. It includes courses in insurance, investments, taxes, employee benefits, retirement plans, and estate planning. Students must pass a set of exams to earn the CFP designation.
- The American College in Bryn Mawr, Pennsylvania, is a school for insurance professionals. Students first take seven courses required for the Chartered Life Underwriter (CLU) designation, the insurance business designation. 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). The first class of 2,000 ChFC's graduated in 1982.
- The National Graduate Trust School, operated in Chicago by the American Bankers Association Trust Division, began a program in 1983 to designate their new or past graduates as Certified Financial Counselors (CFC). A CFC applicant studies 1 week and completes an examination. The next year, after another week of study and successful completion of another examination, the applicant is a CFC.

Designations of CFP, ChFC, or CFC do not necessarily insure competence, but they do indicate a commitment to study in the area of financial planning.

Like certification, professional organization membership does not testify to a planner's ability, but it does show a desire to keep current. The International Association for Financial Planning (IAFP) has a membership of 21,000. Anyone actively involved in the financial services industry is eligible for membership.

The Registry of Financial Planning Practitioners, a subgroup of the IAFP, identifies individuals who practice total financial planning and who meet minimum standards and qualifications.

Registry admission requirements cover education (holding a CFP, ChFC, or CPA designation or a degree in business or financial planning), experience (a minimum of 3 years), practice (following the six-step total financial planning process), and knowledge (completing a comprehensive examination and 60 hours of continuing education every 2 years).

For the names of financial planners in your area (both those on the registry and others), write IAFP, Suite 120-C, 5775 Peachtree Dunwoody Road, Atlanta, GA 30342, or phone (404) 252-9600.

The 17,000 members of the Institute of Certified Financial Planners (ICFP) are working toward, or have completed, their CFP designation. Members must take at least 30 hours of continuing education each year.

For a list of practicing CFP's in your area, write to the Institute of Certified Financial Planners, 3443 S. Galena, Suite 190, Denver, CO 80231, or phone (303) 751-7600.

If you are interested in working with a fee-only planner, the National Association of Personal Financial Advisers can help you locate one. The address is 8140 Knue Road, Suite 110, Indianapolis, IN 46250.

Experience counts a great deal in this field. 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 your financial planner has had at least some experience in total financial planning, not just work in a specialty area.





# Selecting a financial planner

Referral services are only one way to locate a financial planner. Ask friends or business associates for a recommendation. Check with instructors teaching home economics or business courses at a local college or university for references to financial planners practicing in your area.

Ask your attorney or accountant to recommend a financial planner, but remember that they may think *they* are the best choice for your financial planning.

Some financial planners give free seminars, where you may gain an impression of their style and expertise. The services of a financial planner may be available to you through your bank, credit union, or employer.

Shop for a financial planner as carefully as you shop for a place to live. Interview several potential planners, request a short meeting, and be prepared to ask questions.

These suggestions will help you consider what you need to know:

- What education do you have in financial planning?
- How long have you been a financial planner?
- What was your occupation before you became a financial planner?
- Do you have certification for financial planning? To what professional associations do you belong?
- What are your areas of expertise?
- Will you be working closely with other professionals such as an attorney or an accountant? What are their names? Will they provide you with a professional reference?
- Would you work with my attorney or accountant?
- What clientele do you usually serve?
- May I have the names of clients willing to provide a reference for you?
- How long will the planning process take?
- Will you write my plan, or will you assign it to someone else?
- Will the plan be explained to me in person?
- May I see a sample plan for a client with a situation similar to mine?
- Do you have a comprehensive range of products and companies from which to choose?
- How do you charge for your services?
- Is your fee for the plan only, or does it include periodic review?
- How will you inform me of new developments affecting my plan?
- Will I be able to implement this plan with or without you?

# On your own

Out of financial necessity or for challenge, you may prefer to do your own financial planning. There are books to help you. Gathering your records and filling out questionnaires is an activity you do mostly on your own, and you can do the necessary figuring with a pocket calculator.

Begin by examining net worth, net income, and your level of spending on fixed and variable expenses. Then, evaluate your priorities; set short-, intermediate-, and long-term goals; and put some price tags on these objectives.

As you develop your plan, be sure to look for five common trouble spots:

1. out-of-date will,
2. inadequate household insurance,
3. inadequate disability insurance,
4. overspending on life insurance, and
5. erratic investing.

Next, plan a budget, based on your priorities, that allows you to save some money every month. With these savings, you can begin to reach long-term goals, or you can spend some of it to hire a financial planner.

Either way, financial planning should help you to match your resources to your needs and provide a sense of control over your financial future.

# For more information

## Articles


O'Toole, P., "Picking the Right Financial Planner," *Money,* March 1984, pages 131-138.

Wantuck, M. M., "A New Look in Financial Planning," *Nation's Business,* April 1984, pages 26-28.

"Where to Go For Financial Advice and Planning," *U.S. News and World Report,* June 4, 1984, pages 56-60.


## Books


Bailard, T. E., D. L. Biehl, and R. W. Kaiser, *Personal Money Management* (Chicago: Science Research Associates, 1983). The introductory chapter discusses money as a motivating force, strategies for being your own manager, and alternative methods of personal financial management. Other chapters include budgeting, record keeping, borrowing and banking, mutual funds, and fixed dollar investments.

Hallman, G. V., and J. S. Rosenbloom, *Personal Financial Planning* (Hightstown, NJ: McGraw-Hill, 1983). Provides a checklist for decision-making and worksheets for calculating your family income, insurance coverage, investments, taxes, and estate and retirement planning.

Hardy, C. C., *Your Money and Your Life* (New York: Amacom, 1982). Includes information on choosing your advisers—attorneys, accountants, insurance agents, stockbrokers, financial planners, and even advisers who help you select advisers.


## Bibliography


*Financial Planning Bibliography,* 1983 (free from College for Financial Planning, 9725 E. Hampden Ave., Denver, CO 80231). A list of selected books and reference materials dealing with investments, tax planning, employee benefits, retirement and estate planning, risk management, and financial planning.


## OSU Extension publications


*Financial Planning: How to Prepare an Income/Expense Statement,* Oregon State University Extension Service Circular 1229 (Corvallis; in press, 1985). Calculating and interpreting the statement; forms to use in preparing your own.

*Financial Planning: How to Prepare a Net Worth Statement,* Oregon State University Extension Service Circular 1230 (Corvallis; in press, 1985). Calculating and interpreting the statement; forms to use in preparing your own.

*Your Will,* Oregon State University Extension Service Bulletin 839 (Corvallis, 1982). This helps you decide if you need a will, and it explains how property passes at death, when there is or is not a will. Single copy 25¢ plus 25¢ postage; order from Bulletin Service, OSU, Corvallis 97331.

*Your Money Matters,* Oregon State University Extension Service publication EM 8274 (Corvallis, 1984). A series of four letters on budgeting, credit, insurance, and savings; basic information for the beginner in money management. Available at no charge, by arrangement with your local office of the OSU Extension Service.

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