Chapter 5

Should You Hire A Financial Planner?

Have you ever asked yourself the question, “Do I need a financial planner?” It may be more appropriate to ask: “Do I need only financial advisers or do I need a financial planner?” Everyone needs financial advisers sometime in life, but not everyone needs a financial planner.

What Is a Financial Planner?

A financial planner is a generalist who takes a broad view of your financial situation and designs an overall strategy that best helps you meet your financial objectives. A financial planner works with you to establish financial objectives and to meet your financial needs. Planners can also provide information on tax savings, insurance coverage, investment plans, and referrals for more complicated legal matters.

If you have a family, you have probably wondered about using a financial planner at some point. The need among families has developed because, overall, families today have greater assets. This is particularly true in families where both partners are employed. The number of decisions to be made and the complexity of those decisions are increasing. More complicated tax laws, banking deregulation, and a greater variety of saving and investment options can make a family’s financial decisions difficult.

A financial planner will not know the details of every aspect of family finances, but should have contacts with specialists in those areas. If you already have specialized financial advisers, a competent financial planner would be willing to work with them.

Finding and learning to work with the right financial planner can help you keep pace with the changing financial services available in the marketplace, as well as the changing economy. A professional can also help you and your family take control of your finances.

Do You Need a Financial Planner?

To help you decide whether to hire a financial planner, complete Worksheet 11. The more questions to which you answered “no,” the more strongly you may want to consider hiring a financial planner. If you answer “no” to any of the questions, consider talking to a financial planner.

Answering “no” to one or more questions does not mean that with some time and study, you couldn’t manage your own finances, but it would take some effort on your part.

Here are circumstances that will also impact your decision:

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

- If you have no discretionary income, (income that is not already committed to expenses) you may need help with budgeting and money management skills, rather than the services of a financial planner. Financial planners work primarily with families that have some discretionary income for investment.

Hiring a Financial Planner

If you hire a financial planner, be prepared to explain your current financial situation, your financial needs and goals, and the planning techniques you presently use. Also, become familiar with common financial planning terms and techniques. This will help you communicate with your planner. It is also a built-in safeguard for detecting whether you have hired a trustworthy planner.

Anyone can call himself or herself a financial planner. There are no state or federal regulations that govern the use of this title. In Minnesota, however, there is a regulation stating that people who identify themselves as financial planners must tell clients the types of products and services they sell and how they are paid.

Since financial planning is still a relatively new career field, it is common for financial planners to have had a previous, perhaps related, profession, including law, accounting, insurance, brokering, banking, or real estate.

Making an Informed Decision

Where do you begin to find a competent financial planner? Start by knowing the critical characteristics of good financial planners. Here are some things you will want to learn:

- credentials
- experience working in the financial field
- level and type of education
- how they are paid
- what is included in their plans
- professional memberships and certifications

WORKSHEET 11. DO YOU NEED A FINANCIAL PLANNER?

Read each question and check the appropriate response.

	YES	NO
1. Am I confident about making financial decisions?	________	________
2. Am I knowledgeable enough to begin my own long-range financial planning?	________	________
3. Do I know enough about my investment alternatives to work effectively toward my short-term and long-term objectives?	________	________
4. Do I expect my present income and investment approach to provide for my retirement years?	________	________
5. Am I comfortable with my level of debt?	________	________
6. Is my household income less than $50,000 a year?	________	________
7. Do I have enough time and knowledge to devote to analyzing my family’s financial situation?	________	________

TABLE 11. CREDENTIALS OF FINANCIAL PLANNERS

Institution	Academic Requirement	Designation*
College for Financial Planning Denver, CO www.cffp.edu	5-course program Pass two-day, 10-hour case-problem examination 3 years of work experience in the field with undergraduate degree; 5 years without the degree	Certified Financial Planner (CFP)
American College Bryn Mawr, PA www.theamericancollege.edu	9-course program (7 required core courses, 2 electives) 3 years full-time business experience	Chartered Financial Consultant (ChFC)

**Public programs of a sort also exist. The Securities and Exchange (SEC) Commission requires that anyone receiving money in return for investment advice must register with it. There is no educational requirement. The designation RIA, Registered Investment Adviser, can then be used.*

A financial planner who scores high in these areas is most likely to be a knowledgeable and competent planner.

Credentials
There are private programs that test and certify financial advisers and planners. When giving their credentials, financial advisers and planners often use initials such as CFP or ChFC. Table 11 lists the academic requirements corresponding to those initials.

People or firms that get paid to give advice about investing in securities generally must register with either the Securities and Exchange Commission (SEC) or the state securities agency where they have their principal place of business.

Some investment advisers employ representatives, the people who actually work with clients. In most cases, these people must be licensed or registered with the state in order to do business with you. So be sure to check them out with your state securities regulator.

You can find out how to get in touch with your state securities regulator through the North American Securities Administrator's Association. Their website is www.nasaa.org.

The Cost of Hiring a Financial Planner

Financial planners are paid by different methods, according to their business arrangements. Ask those you interview how they charge. Possibilities include:
1. An hourly rate
2. A flat fee for specific services, as agreed
3. A percentage of annual income or total assets
4. A commission on financial products you purchase
5. A fee that can be offset by commissions on investments made for you.

There are advantages and disadvantages with each type of compensation.

Planners Who Are Paid by Fee Only
Fee-only financial planners are usually more expensive, but they can be more objective, since their fee does not go up

These websites may help you locate a financial planner in your area:

1. *The Financial Planning Association- www.fpanet.org, phone: 800-322-4237*

2. *American Institute of Certified Public Accountants (AICPA)- www.aicpa.org, phone: 888-777-7077*

3. *National Association of Personal Financial Advisors (NAPFA)- www.napfa.org, phone: 847-483-5400*

or down according to whether you buy certain products. It can cost anywhere from $150 to $2,000 to hire this kind of financial planner, depending on your situation. If your planner charges a fee only, with no personal consultation or continuing service, the charge will be on the low end of the range. 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 this fee-only system claim their objectivity and lack of personal interest in any particular firm's products justify the higher price.

Planners Who Are Paid on Commission

If you choose a commissioned financial planner, the cost may be lower, or it may be similar but less visible to you. The cost may be less visible because it is often folded into the cost of products you are buying. The important thing is to ask your planner how much commission you will pay on each product proposed to you. An advantage commission-based planners claim is that they have more motivation to follow through and make sure you implement your plan.

However your financial planner is paid, check your bills to make sure you haven't been charged for something you did not agree to, such as phone calls added to a per-hour charge.

Gauging a Planner's Commitment

Since anyone can call himself or herself a financial planner, you will want to be sure the person you choose is committed to you and to the profession. Here are some pointers to help you make that determination.

1. Ask about their memberships in professional organizations, or the certifications they hold. Neither ensures competence but both indicate a measure of commitment by staying current in the field.

2. Ask how much time financial planners will spend with you and whether they are the ones who will write your plan. Planners usually spend three or four hours with most clients. Half of that time is spent in gathering facts and the rest in discussing the plan. All of this should happen before any selling takes place.

3. Ask them about the amount of communication they will have with you. Do they commit time to listening to your opinions and goals? Do they make recommendations and produce documentation for decisions made?

4. How clear are they about what will happen after you get your plan? Will the planner regularly review your progress? What will they charge to come back if your financial circumstances change?

Where to Find a Financial Planner

Be prepared to shop as carefully for a financial planner as you would for a new car. Ask friends, relatives, or business associates for recommendations. Check with instructors teaching personal finance at a local college or university. You may want to ask people you already hire in another capacity, such as an attorney or accountant, for a recommendation (though it may create an awkward situation if they recommend themselves for the job).

Start with at least three candidates. Before interviewing them, get a detailed statement of their fees and services, a résumé, and professional references, including past clients. Check with past clients before you interview.

Most good financial planners will see you for a half hour to an hour to be interviewed at little or no charge. Worksheet 12 has a list of questions you may want to ask in an interview.

Creating a Financial Plan

There are several steps to the financial planning process.

1. Gather data for your planner, including:

   - Names, addresses, birth dates, etc., of your partner and dependents
   - Names and phone numbers of your lawyer, accountant, and banker
   - A list of all bank accounts, stocks, bonds, and any other assets, along with the purchase date and current value of each
   - A description of all your financial commitments: how much money, for how long, and reason for the commitment
   - Copies of appraisals of property and other valuables
   - Salary records, recent tax returns, and your expectation of your (and if applicable, your partner's) future earnings
   - Your budget, including your fixed and variable expenses
   - Your retirement plans, regardless of your current age
   - A statement of your long- and short-term goals, including how much and whether you want to invest, and if so, what risk

2. Meet with your planner to review your financial situation and talk about your goals and objectives. A good planner will help you get specific by putting estimated costs and timelines to your goals.

3. Work with your planner to determine your financial trouble spots. Insurance, taxes, access to credit, investments, retirement income potential, and emergency funds should all be reviewed.

4. Once you have a plan that makes sense to you, get whatever help is appropriate from your financial planner to put the recommendations into effect.

5. Decide when you will review your plan to make sure it is still appropriate, or whether you need to alter it due to changing circumstances.

WORKSHEET 12. QUESTIONS TO ASK WHEN INTERVIEWING A FINANCIAL PLANNER

1. What is your professional training? What education do you have in financial planning? ____________

2. What was your occupation before you became a financial planner? ____________

3. What licenses do you hold? Are you registered with the SEC? ____________

4. How long have you been a financial planner? ____________

5. How do you keep up-to-date with developments in your field? ____________

6. Are your other clients in an income bracket similar to mine? ____________

7. Are your other clients in an age bracket similar to mine? ____________

8. What is your attitude toward financial risk? ____________

9. Do you keep in touch with your clients after you give them a plan? ____________

10. Will you inform me of new developments that affect my plan? If so, how? ____________

11. How often do you handle cases like mine? ____________

12. Will you actually do the work? May I meet the person who will be doing the work, if you will not do it directly? ____________

WORKSHEET 12. QUESTIONS TO ASK WHEN INTERVIEWING A FINANCIAL PLANNER

13 What references can you provide? ______________________________

____

14 How long will the work take? ______________________________

____

15 How do you charge for your work? ______________________________

____

16 Is your fee for the plan only, or does it include periodic review? ______________________________

____

17 What products, if any, do you sell?
Do you have a comprehensive range of products and companies from which to choose?

____

____

18 What companies, if any, do you represent? ______________________________

____

____

19 Is the analysis done entirely by a computer program or do you give it individual attention?
What kind of individual attention is provided?

____

____

20 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?

____

____

21 Would you work with my current attorney or accountant? ______________________________

____

22 Will I be able to implement this plan with or without you? ______________________________

____

____

Where to Find a Financial Planner

A good financial plan will be easily understood and very clear to you. Included in a good plan are these elements:

1. A statement of your total net worth
2. An analysis of where your money currently goes
3. A statement of your goals and risk tolerance to meet those goals
4. Recommendations for cash flow adjustments
5. Saving and investment recommendations
6. An analysis and recommendations regarding insurance
7. A tax analysis and recommendations
8. Retirement planning recommendations

Above all, a good financial plan is a plan you can live with. Without your commitment, no plan can succeed.

If you can make and follow good financial plans on your own, then you don't need a financial planner. If you are confused about money, cannot decide on goals and how to achieve them, or don't know how to get beyond living from paycheck to paycheck let alone saving for retirement, a good financial planner could be very helpful.