Why Use a Financial Planner?

Typical family finances are not rocket science… live within your means, pay down high-interest debt, save for a rainy day, and so on. However, *financial planning* can encompass a wide gamut of services, from the basic (If I pay an extra $500 a month on my mortgage, how much sooner will it be paid off?) to the extremely complex (How do we structure a multigenerational financial plan to meet the unique goals of our family, while working within the constraints of trust, tax, and other regulations?)

As one gets older—and hopefully wealthier!— financial goals and opportunities typically become more complex. Many people find that hiring a financial planner at some point saves them time and worry and is well worth the cost.

Even for less complex situations, people may well benefit from the objective and dispassionate advice of a third-party expert. Financial planners can help clients remain disciplined in their financial strategies. Planners can serve as buffers against rash moves and as prodders against procrastination. A good financial planner will also have the knowledge to anticipate and help clients avoid many financial pitfalls before they occur.

What about robo-advisors?

So-called "robo advisors" are gaining popularity, and while some people are perfectly comfortable getting advice from a computer program, many prefer one-on-one interaction with a human. And though robo-advisors are becoming increasingly sophisticated, they lack the nuanced understanding that comes from a long-term relationship with a live professional. For this article, we will assume the use of a human planner.

Important considerations

"Financial planner" is a generic term that anyone can use; its use requires no expertise or qualifications. Some important considerations when selecting a financial planner include the following:

Competence In addition to years of experience in the field, a professional's credentials are an important indicator of his area of expertise and dedication to his profession. There are myriad designations, but the following are the most applicable to financial planning.

- A Certified Financial Planner™ (CFP®) designation is generally considered the gold standard for financial planners. A CFP® professional has undergone an exhaustive, broad-based financial planning curriculum, a rigorous, two-day comprehensive exam, and has at least three years of experience. In addition, a CFP® designation requires ongoing continuing education and CFP® certificants are required to adhere to a strict set of ethical and professional standards.

- Chartered Financial Consultants (ChFC®) have taken a broad-based financial planning curriculum and have passed exams in each of seven core areas and two elective areas. In addition, three years of experience are required. Unlike the CFP® designation, the ChFC® does not require a comprehensive final exam. Like the CFP® designation, the ChFC® designation requires ongoing continuing education.

- The Personal Financial Specialist (PFS) designation is offered by the American Institute of Certified Public Accountants as an "add-on" certification for CPAs who want to broaden their services into financial planning. It requires two years of personal financial planning experience and adherence to a set of ethical and professional standards. Because a PFS is also a CPA, this may be a good choice for clients who also need in-depth tax or accounting expertise.

- The Chartered Financial Analyst® (CFA®) designation is the most prestigious certification for investment professionals. It requires three years of coursework and a difficult board exam, as well as four years of professional experience. A CFA designation indicates expertise in investments, but not necessarily in other areas of personal finance. This designation may be a good choice for clients whose needs are primarily investment-related.

- A Chartered Life Underwriter® (CLU®) has expertise in life insurance and has taken some of the same coursework required for the CFP® designation. Many CFP® professionals also earn this designation, and the combination of a CFP® and a CLU® may be a good choice for clients needing specific life insurance expertise.

Personality The financial planning relationship can delve into some of the most personal aspects of a client's life. So beyond simple competence, the financial planner's personality, outlook, and communication style need to instill a level of comfort with the client. In a nutshell, the client needs to like and trust his financial planner. Many clients find they work best with a planner of approximately similar age, and some clients have a definite gender preference. Neither of these aspects have anything to do with a planner's competence, but they may have everything to do with the quality of the relationship.

Compensation Financial planners, like most financial professionals, are generally paid in two ways: commissions and/or fees. Commissions are earned by selling products, such as life insurance or securities to clients, while fees can be based on assets under management , hourly rates, or flat fees for services. While there are pros and cons to each fee arrangement, fee-only planners are generally considered to have fewer conflicts of interest than commission-based planners, and fee-only planners are typically held to a fiduciary standard (see below.) At any rate, a client should expect a financial planner to disclose exactly how his compensation is structured.

Fiduciary Standard There are two broad standards of care in the financial industry: the *fiduciary standard* and the *suitability standard*. Fiduciaries are legally and ethically bound to uphold their clients' best interest in everything they do. They are required to explicitly disclose any potential conflicts of interest, to monitor clients' investments and financial plans on an ongoing basis and recommend changes as appropriate, and in all other ways to put clients' interests above their own. The suitability standard, however, has no such requirement. So long as an investment recommendation meets a client's stated needs or objectives, it meets the suitability standard. The fact that there may be less-expensive or objectively superior alternatives does not impact suitability. Neither is there a requirement to monitor a client's changing needs.

It should be apparent that a fiduciary is strongly preferable to a non-fiduciary. A fiduciary must put his client's care ahead of his own firm's interests, while a non-fiduciary is held to a lower standard. CFP®, ChFC®, and PFS certificants are bound by fiduciary standards, as are corporate and individual trustees and firms licensed as Registered Investment Advisers (RIAs).

The U.S. Department of Labor (DOL) has worked for a number of years to implement regulations imposing the fiduciary standard on anyone working with retirement plans or IRAs. The DOL Fiduciary Rule was enacted under President Obama and was scheduled to take effect April 10, 2017. However, its implementation has been delayed and is currently scheduled to begin June 9, 2017. If implemented, the DOL Fiduciary Rule will mean far-reaching changes in the brokerage, insurance, and other commission-based industries, and it will give their clients the benefit of a fiduciary standard of care.

About Argent

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