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Financial Planning

SO WHERE DOES THE LITTLE GUY TURN?

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You just started saving for retirement and you want to make sure you're on track. Or you have a small portfolio of investments and you wonder if you're taking the appropriate amount of risk.

Surely, with all the financial planners out there these days, it shouldn't be hard to find someone to give you objective advice.

It shouldn't be, but it often is.

The vast majority of financial planners--seven out of 10, according to a 1997 survey by the National Endowment for Financial Education--accept commissions for the investments and insurance they recommend. While commissions are not an automatic sign of bias, many consumers are rightly concerned about the possibility of being steered to investments that benefit the planner's pocketbook more than their own.

Most planners who do not accept commissions, however, make the bulk of their incomes not from upfront fees but from ongoing management charges for investing a client's money. These charges typically range from 1% to 2% of the client's portfolio annually. For that, the planner will select and monitor investments and generally provide advice on other personal financial issues.

Critics say these fees can be a built-in conflict of interest, since the planner has an incentive to control as much of your money as possible. At the worst, that could mean encouraging you to sell or avoid other investment options--such as your 401(k) at work--in favor of investing with the planner.

In fact, just finding a fee-only planner who is willing to exchange advice for a flat or hourly rate can be difficult.

"I think a lot of consumers are misinformed about the meaning of fee-only. They believe that it means 'hourly,' " said Brent Kessel, a fee-only financial planner in Santa Monica.

What the term really means is that the planner is compensated solely by fees paid by clients, according to the National Assn. of Personal Financial Advisors, which holds the trademark on the term "fee-only." These planners are prohibited from accepting commissions and fees from any other party, including mutual fund companies, brokerages, insurance companies or other financial professionals.

Fewer than 600 planners belong to the fee-only organization, compared with more than 15,000 who belong to the Institute of Certified Financial Planners and the 19,000 who claim membership in the International Assn. for Financial Planning--two organizations that represent commission-based planners as well as those who charge only client fees.

No one keeps reliable statistics on how many fee-only planners charge only flat or hourly rates. But Robert Veres, who publishes a newsletter for financial planners called "Inside Information," found such practices rare enough that last year he wrote a feature about one in Overland Park, Kan.

That planner, Sheryl Garrett, runs her practice like a dentist's office, charging $ 120 an hour and eschewing ongoing relationships with clients. Garrett knows of no other practices like hers, and says about half her business is referrals from other planners who don't want to take on smaller accounts.

"There's a huge need for this," Garrett said. "Over 90% of the people I talk to need this kind of service occasionally" rather than ongoing financial management.

More typically, fee-only planners charge $ 1,200 or more for a comprehensive financial plan, plus a yearly management fee of 0.5% to 2% of the client's portfolio. Some planners charge a monthly, quarterly or yearly "retainer" fee in addition to or in lieu of the percentage fee. Like an attorney on retainer, the planner is available for consultation on any financial issue that arises during the year.

Kessel, the Santa Monica planner, said he used to offer ongoing investment advice for an hourly fee but was discouraged by the results. Many hourly clients failed to take action and some returned with the same problems, he said.

"I've decided that it is better for the clients and for me to insist on longer-term relationships," Kessel said.

Kessel said he still offers two- to three-hour sessions for $ 500, as well as free half-hour sessions to potential clients who are considering using his firm on a long-term basis. After the initial session, he expects clients to sign up for a comprehensive plan and asset management--or to find another planner.

Many fee-only financial planners say dispensing advice on an hourly basis is not profitable--or even good financial planning.

Comprehensive financial planning--taking a close look at all aspects of a client's investment, insurance, spending, tax, retirement and estate planning situations--requires far more time and research than most clients are willing to pay for, many planners say.

Planning services are a "loss leader" for many firms, intended largely as a way to attract investment management clients and to make sure they get appropriate advice, said Gary Schatzky, an attorney and fee-only planner who was recently elected NAPFA's chairman.

These planners pride themselves on providing truly personalized plans--not the "cookie cutter" versions offered by brokerages and other large financial firms, Schatzky said.

However, some planners say increasingly sophisticated software allows them to provide somewhat customized financial planning for a more affordable fee.

Nancy Langdon Jones, a certified financial planner in Upland, uses a program called FPlan to help her craft financial plans and spot potential problem areas for middle-income clients. If the client is willing to fill out a comprehensive work sheet in advance--rather than pay Jones to interview them and sort through their papers--Jones will charge a flat $ 500 fee for the resulting plan.

"It's very rewarding to feel I've helped," said Jones, who manages about $ 20 million in investments for clients. "The $ 500 makes it affordable--and by paying something, the client takes it seriously. If something important is discovered that needs attention, we go to an hourly rate from there."

The largest barrier for people with small accounts, however, may not be the fees charged.

The most successful financial planners typically impose investment minimums. In other words, they usually won't even see clients who do not have $ 250,000 or more to invest with them.

Victoria Collins, an Irvine certified financial planner and author of money books, has raised her minimum from $ 200,000 to $ 500,000 as her firm's fame has grown.

Collins said she needs a filter to avoid being overwhelmed by new customers.

"More and more people were signing on to become clients, and I did not want to compromise service to any of my existing clients," Collins said.

The shortage of fee-only planners willing to take on middle- and low-income customers has prompted NAPFA to encourage its members to do more pro bono work, said NAPFA's Schatzky.

"I feel for people" with small accounts, Schatzky said. "There aren't enough competent people to help low- and middle-income folks with serious financial problems."

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Financial Planning Credentials

When discussing with your planner how he or she is paid for helping you, it will be helpful to understand the variety of credentials that are offered to financial planners and tax advisors. The most respected designations--those that require the most preparation and knowledge and the highest ethical standards--are the CFA, CFP, ChFC, CPA and PFS.

ATA or ATP: Accredited tax advisors or accredited tax preparers have completed the College for Financial Planning's Accredited Tax Preparer Program and passed an exam administered by the Accreditation Council for Accountancy on Taxation.

CFA: Chartered financial analysts must pass a rigorous, three-level test on investment analysis, economics, portfolio theory, accounting, corporate finance and other topics that is administered by the Financial Analysts Federation. CFAs also must demonstrate expertise in a specialized area of investments.

CFP: Certified financial planners must meet experience and education requirements and pass a 10-hour exam.

CFS: Certified fund specialists have completed a 60-hour self-study course and passed an examination on mutual fund investing administered by the Institute of Business & Finance in La Jolla.

ChFC: Chartered financial consultants are typically insurance agents who have passed college-level courses in financial planning.

CPA: Certified public accountants are tax specialists who must have a college degree, pass a strict national exam and keep current on changes in tax law.

CLU: Chartered life underwriters have the highest professional designation for life insurance agents and must meet extensive experience and education requirements in the life insurance industry.

CMFC: Chartered mutual fund consultants have completed a 72-hour self-study course on mutual funds. The program is administered by the College for Financial Planning and the Investment Company Institute.

EA: Enrolled agents are tax preparers who either worked for the IRS for at least five years or passed a two-day test on federal tax law.

PFS: Personal financial specialists are CPAs who have met education and experience requirements and passed a comprehensive exam on financial planning.

RIA: The designation simply means they have registered with the Securities and Exchange Commission and paid a registration fee.