PacificCPE

COURSE
40851A

# The Evolving Financial Planning Profession

Financial planning is changing fast, and staying ahead means understanding where the profession is headed. This chapter-based course examines key expectations for change shaping today's financial planning landscape. Whether you're a CPA looking to expand into advisory services or a tax professional seeking broader context for client conversations, this course provides a grounded look at the forces reshaping the profession and what they mean for your practice and your clients.

CREDIT HOURS 2 | FIELD OF STUDY BUSINESS | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

## Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

## Course Objectives

- Recognize the term used to describe the process of pursuing an individual's life goals through the proper management of their resources.

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# Chapter 1: TODAY'S FINANCIAL PLANNING PROFESSION

*Chapter Objective*

**After completing this chapter, you should be able to:**

- Recognize the term used to describe the process of pursuing an individual's life goals through the proper management of their resources.

**OVERVIEW**

Today's financial planning profession is very different from the profession of the past. To put it into perspective from a TV commercial, "This is not your father's Oldsmobile!" The main reason for this is the world is changing rapidly. Probably too rapidly for most. Just look at the past year and notice the added stress, concern, and uncertainty many of our clients, friends, and family members have had with their financial portfolios, as well as other critical aspects that need to be addressed and thought out well, and ultimately put into motion so our clients have a legitimate chance of making their financial lives better going forward. In fact, probably one of the best things that is happening in these uncertain times is that many people who have not put in the time to manage their financial affairs are finally realizing the significance of being well prepared going forward.

So, the question becomes, how can you effectively plan to maintain your edge in this unique profession while managing your clients' expectations from the get-go? It's not a straight shot for your clients. Planners have to be forthright in their discussions with clients, which is no easy task. We will cover all aspects of making these objectives happen.

You will need to make changes to your practices to cover the new norm. The 2020s will certainly take our practices to the next level. The uncertainty that will exist going forward as well as the technological advances will tend to affect how we go about planning. Guidance will be provided for those planners looking to advance their practices to the next level, and for those individuals looking to becoming involved for the first time, through the development of a practical work program for entering a rich and rewarding profession in a no-nonsense manner.

This profession is all about "give-backs" and truly making a difference. If your practice is properly positioned to take advantage of helping others in a wonderful and rewarding manner, and you have the mantra necessary to better enlighten your clients' financial lives, then this course is for you.

As with any business, it is essential to build your infrastructure properly. Defining who you are, what business you are in, working in a large or niche firm, and becoming a generalist or a specialist are all important pieces of the infrastructure. Establishing a solid approach to gaining the overall

critical knowledge and how to relate that information to clients in a win-win manner are the keys. At any age or at any stage in your practice, arming yourself with the proper background and training is essential. The designation of choice for most advisors is attaining the CERTIFIED FINANCIAL PLANNER™ (CFP®) certification. Whether or not you are currently employed in this field, you need to carefully think through what's essential for you to pursue going forward.

For those of you already in the field, it is important to look at your existing practice to decide which way to take it during this decade. For those advisors who want to specialize in their field(s) of choice, or for those individuals looking to enter the profession, it is important to be specific as to what you are looking to accomplish. With the changes surrounding our profession, this re-evaluation is key to helping our clients become better financially prepared and in continuing to expand our practices going forward.

For those of you looking to enter the profession or those who have recently done so, working at some of the larger firms in various functions – such as in generalist, specialist, back office assistant, or sales capacities, in niche practices, with advisory or ancillary responsibilities, or other realms of the profession – is a good starting point to gain an understanding of what is necessary. I am an advocate of learning on someone else's nickel. Acquiring a strong foundation and proper infrastructure to set up your practice is necessary to shorten the learning curve and to be productive from the get-go. Internships and mentorships are excellent ways of learning some valuable habits and insights from true professionals, especially when starting out. It's now time to take your valuable experience to an even higher level.

**FINANCIAL PLANNER VS. FINANCIAL ADVISOR**

Let's start by making a key distinction between individuals working as a financial planner and as a financial advisor. Many times, these terms are used interchangeably. While there may be similarities between these jobs, there are some key differences. A financial planner is a professional who helps companies and individuals create a program to meet long-term financial goals and objectives, whereas financial advisor is generally a broader term for those individuals who help manage client money, including investments and other financial accounts.

A financial planner generally looks at the entire client picture as it relates to the various stages in life to help in the development and monitoring of a personalized financial plan. The plan incorporates many important general aspects for the client's well-being, including understanding client issues, dissecting the critical exposures, and recommending solutions and guidelines when dealing with many core subject areas, such as risk management and insurance planning, investment planning, income tax planning, education planning, retirement and employee benefits planning, estate planning, and many niche topics specific to certain client issues. While many financial planners do manage money for clients, as well as sell appropriate products and services for clients,

they tend to integrate the above issues from both a monetary and behavioral platform to incorporate the necessities in each.

There are many services to which financial planners can subscribe to help them acquire the appropriate information for servicing their clients. They are all categorized by specialty. Many of the leading industrywide publications do annual comparisons to see what the differences are in the marketplace. But more on this later.

I have taught the education courses for eligibility to take the CFP® Certification Examination nationally for over 30 years, mainly through my Financial Planning Fast Track®, Inc. program. Constant feedback I receive is that the students are taught to gather information from the client and either transfer that data to another area of the company or enter it themselves into a software program, essentially acting as data gatherers. The thrust of this action is being pinpointed mainly for investment results and decisions when in fact the entire gamut of planning issues needs to come under focus first. Investment results are important, but they represent part of the overall picture and landscape.

This course will take you through the proper way to approach this profession. In addition to guidance from the author, many industry movers and shakers were interviewed for this course and their interpretations of what is needed to prepare and be successful during this next decade are incorporated throughout. Supplemental materials have also been included.

**WHAT ARE THE "EXPECTATIONS FOR CHANGE" IN OUR PROFESSION?**

Change is inevitable. Throughout life, things change. Progress represents change. We need to embrace it and learn from the past. Know where you are coming from and where you are going. The model for how we dispense advice has been rapidly changing.

"In today's world, you need to show clients value beyond a doubt. With complexity of needs, people want a singular experience that is powerful," says Ron Carson, Founder and CEO, Co-Chief Investment Strategist, Carson Wealth, Omaha, NE.

"Planners who will succeed in our profession have the genuine desire to give back to it. Part of the reason is that we need to expand the cadre of high-quality financial planners. Demand is enormous while supply is constrained. We need to greatly expand the size of supply," says Tim Kochis, Chief Executive Officer of Kochis Global, San Francisco. We are sitting on a goldmine, both in terms of what we can help our clients accomplish and in the overall good we can bring to society.

*Rattiner's Baker's Dozen: "Expectations for Change" in Our Profession*

1. Financial Planning as a "Profession"
2. Landscape
3. Developing Human Capital: Training and Recruiting Techniques for Entering the Profession
4. Specific Ideas for Growing Your Skill Set in Our Profession
5. Compensation
6. Technology
7. Growth and Entry into Our Profession: Buy vs. Build
8. Change in Regulation
9. Holistic Financial Planning
10. Changing of the Guards: The Expanded Family Base and Addressing Additional Needs
11. Planner Approach: "Cause vs. Effect"
12. Behavior Patterns: Making Sure the Client "Gets" It
13. Communication and People Skills

**FINANCIAL PLANNING AS A "PROFESSION"**

In our landscape, financial markets struggle with how we pay for the advice we are getting and are looking to continue revamping, as stated earlier. Based on that scenario, we can make the argument that perhaps we are not a profession, says Nathan Harness, Ph.D., CFP® TD Ameritrade Director of Financial Planning, Texas A&M University, College Station, TX. There should be a sense of unity in our profession that forms the future, perhaps, rather than a loose band of individuals. As a profession, we need to consider revenue generation around our consultative service, not just the products our advice entails. This more closely aligns with other professions, such as medical, legal, and accounting. Based on where things stand today, being subject to additional regulation down the road may occur on a state level.

"Firms will continue to shift from brokerage firms to RIAs [registered investment advisors] and even mega RIAs, with extreme aggregation and core revenue from products and services being the driving forces," says Michael E. Kitces, MSFS, MTAX, CFP®, CLU, ChFC, RHU, REBC, CASL, Publisher, Nerd's Eye View blog. Kitces asserts that the legitimate distinctive purpose of broker/dealers who were in the business of capital formation was synonymous with broker/dealers who were in the business of providing investment advice. He says, "Years ago for the typical advisor, the adage was that I represented a company with better products than your company."

"History has shown us that many clients were burned from stockbrokers in the 1980s. It was cool to be a broker at that time," says Carson. He goes on to say that too many scandals plagued the industry, and many of us know someone who was ultimately burned by a financial person back then. The profession has shifted a lot since.

Tom L. Potts, Professor of Finance, Department of Finance, Insurance and Real Estate, Hankamer School of Business, Baylor University, Waco, TX, sums it up as we all have over the years. "When we all start out, you eat what you kill!" Historically, if we broke down the past into two stages, stage 1 translated to our value for the client as our product that we provided, while stage 2 transformed historically into the value/knowledge approach for our clients.

Derek R. Lawson, Ph.D., CFP®, is Assistant Professor, Personal Financial Planning at Kansas State University, and Partner and Financial Planner at Priority Financial Partners, Manhattan, KS. He has seen his students wanting to climb the corporate ladder. Many found out after joining a firm that it was too small, with little room to grow. Lawson says, "The industry has traditionally been set up for maximum efficiency and used a 'plug and play' model for firmwide advisors."

We need to know where we came from in order to know which direction to take going forward. In order to understand today's financial planning profession, let's take a quick look at how the industry originated, up to where we are today. Tom Wauschauer, long-time chair of the Finance Department for San Diego State University, divided the past into three categories: Maverick era, Marketing era, and Professional era.

Planners were discontent during the initial Maverick era. Securities and insurance firms, which originated mainly for the sale of limited investment and insurance products and advice, participated in these arenas by acting as company agents.

The Marketing era showcased big financial firms, which were based on prospect lists provided to the companies for the purpose of selling products and services to advisors' friends and family, with the promise of teaching financial planning to the advisor along the way. Meetings would be held annually or sometimes more frequently to help the client stay on track. Other undue influencers, such as family, friends, and surroundings, quite often kept the planner off track.

"The financial planning profession needs to continue to evolve into a true profession, like other high- profile professions have done historically over time, moving from a product orientation and customer mentality into a disciplined wealth management approach with a client mentality," says Potts. The different disciplines need to be coordinated and worked on together.

"Our business will stay a relationship business, it's not going to change," says Bill Carter, CFP®, ChFC, CLU, Chief Executive Officer, Carter Financial Management, Dallas, TX.

"Many firms in the financial planning profession follow the accounting profession model using a planning- centric firm model with a differential in price," says Harness. Advisors can enter these

firms and progress along the traditional channel just as in the accounting firms. The setup includes partners, managers, senior staff, junior staff, and support staff. Many advisors have begun copying this model to parallel the accounting profession model. As the industry embraces greater planning sophistication and technical proficiency, it would be worthwhile to copy the accounting model of five years of college and 150 hours to graduate, says Harness.

The future of the profession will center around teaching appropriate skill sets designed to enable students to become engaged in thinking critically and analytically, and in applying those skill sets for all types of clients. Having a mentor work with you is the quickest and most efficient way of learning what you need to become a successful financial planner. The ideal move for someone entering the profession may be to take a position to get your foot in the door to learn those skills. Essentially, learning and demonstrating the appropriate skill sets now could ultimately lead to working through succession issues later on (more about that later). It's a great sure-fire path for getting into and benefiting from a strong system.

Another example is to have NexGen planners work with their peers and with all generations. "Don't limit yourselves in working only with NexGen clients. This type of cookie-cutter training does not enable the NexGen planner to feel comfortable working with clients perhaps twice the planner's age. There are many others who desperately need your help," says Potts.

**LANDSCAPE**

The Professional era, where the profession is today, is built around the fiduciary standard, which encompassed doing the type of work exclusively and primarily that is in the client's best interests. Where it could go may depend on legislation that could be brought on board by the federal government or the states. There seems to be a potential conflict of interest between what the financial services industry wants and what the government wants.

"Going forward, we will see a change and influx from the old guard to the new guard and that will create tension," says Alan Moore, CEO and Co-Founder, www.xyplanningnetwork.com. Moore states that we will see a shift to younger and more diverse business models designed to work with younger clients. A monthly subscription model will gain prominence. Younger planners will prefer to work with their peers vs. an older clientele. Moore had a great quote: "Thirty years ago in our business a phenomenal salesperson could sell water to a drowning person. The goal is to help people by building relationships vs. transactional sales."

Grow big and systematize! Big firms will continue to do that and set the standards for the industry, says Moore. Big firms are desperate to develop young talent. We need acceptable models for ways of practice that will help us develop proper career paths for the industry. An algorithm cannot replace what we do. However, we need to use technology appropriate for scale. This area will continue to grow.

Many of the situations today are causing a change in cash flow alignment. "What you'll see when we start shifting away from being retirement centric is becoming focused and aligning with cash flow and spending advice that is aligned to personal life goals. It will emphasize the will to live until we can't," says Kitces. It will be much more powerful and impactful. We won't be able to help the client who doesn't know where their money is going. We won't need product knowledge but rather advice knowledge. Our competencies have been built around products we used to sell.

"Jobs will continue to be had through the big firms because that's where the jobs are. But there is no annihilation of mom-and-pop shops because the bar to entry is low, which could make it hard to find someone to trust," says Sheryl Garrett, of Garrett Planning Network, Inc., Eureka Springs, AR. The shift into holistic planning (discussed below) will enable you to be surrounded by a team of financial advisors which supports the jobs and infrastructure needed to train well. This shift away from the sales mentality and toward advice jobs has been long overdue.

"Probably the biggest shift we will see is the changing focus for planners going forward to financial planning from investment management," says Carolyn McClanahan, M.D., CFP® of Life Planning Partners, Inc., Jacksonville, FL.

If advisors do not align with a broker/dealer, they will still need a support structure. There are companies that provide advisors with a shared infrastructure, essentially replicating broker/dealers without products from an advice standpoint. This trend could drive a shift from brokers to RIAs.

A valuable advisor helps people fight the system, says McClanahan. Big organizations, custodians, and insurance companies are designed primarily to make money while not necessarily helping the client. The financial planner needs to act as the go-between. It's important to talk directly with the client to understand their problems as opposed to helping clients do things online and perhaps not fully understanding the client's problem. The issue could be hampered for some since our industry is built on how we get paid for the services we provide.

"The future of our industry will look like this, a collection of fewer large national and international firms, and most will operate as smaller firms which are independent entrepreneurs, where they can do things their own way," says Kochis. Custodians will continue to support small operations. Middle-size firms will grow in both directions where they merge and take equity in the merged firm. Firms will be reorganizing, where competition will be a driver for developing strong client relationships.

Harness adds, "This will help differentiate large wirehouses and mega-RIAs, which still control the majority of assets, from looking similar to each other going forward, based on the services provided and their revenue sources."

Evan T. Beach, CFP®, AWMA®, of Campbell Wealth Management, Alexandria, VA, believes a massive consolidation has already started in our industry and will continue. As Harness stated earlier, he views the industry as looking and growing more like the CPA (certified public accountant) industry.