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Financial Planning: The Emergence of a Profession

Tremendous Potential

By Charles D. Gulley

Approximately 20 years ago the practice of personal financial planning was a mere concept in the minds of certain individuals. In the early 1960's and prior years financial planning was provided by practitioners who were motivated by potential sales of a single product. The conception of the client's goals was singular and unrelated. Various professionals were given a portion of the process. For example, investment brokers were given a segment, bankers another segment, accountants, attorneys and insurance agents still another separate piece of the total plan. With this arrangement each professional independently made recommendations, so frequently no one coordinated the client's total planning process. Personal financial planning has advanced to the point that today, in 1986, it is recognized as an emerging profession in the financial services industry.

The Financial Planning Process

Dale S. Johnson of the American College defines the process: "Comprehensive financial planning involves thorough collection and impartial analysis of information on the factual

and effective dimensions of a person's or family's total financial situation; the identification of needs; the establishment of specific financial goals; and the formulation, implementation, and continuous monitoring of a comprehensive plan to achieve them."

People must make decisions. Goals must be established that will satisfy their needs, and behavior patterns must be selected that have the greatest likelihood of accomplishing the goals.

The consumer, in today's market place, is confronted with multiple vendors of financial services such as the following:

- Bank trust services
- Accountants
- Investment advisors
- Attorneys (wills, trusts, business agreements)
- Commercial banking (checking, savings, CDs)
- Pension, profit sharing plans
- Home mortgaging
- Life insurance agents
- Property and Liability insurance agent
- Tax preparers

- Mutual Fund salesmen
- Visa, Mastercard, American Express
- Request for charitable donations, bequests
- Friends and relatives offering free advice

The individual may be bewildered by information provided from such diverse sources. The confusion intensifies when the consumer attempts to do something about his financial needs and problems and discovers:

- Each of these providers operates independently of the others.
- Each offers his own expertise or products for an isolated need or problem that is unrelated to the consumer's overall financial condition.
- Each considers himself the professional in whom the client should place his confidence and trust.

Assume that an individual has determined that a selected planning process is needed. The complexity of the situation is recognized. Comprehensive financial planning is designed to relieve the pressure on the individual and specialists involved and place it on the financial planner. The planner must have a broad knowledge of the whole financial services industry and its available products and services, a coordinated delivery system and a commitment to serve the client's interests first.

Thus the three essential characteristics of financial planning as a process are:

1. It is comprehensive — it encompasses the client's whole personal and financial situation to the extent it can be established through counseling.
2. It is client oriented and addresses client needs.
3. Its aim is to produce a plan tailored for the individual client that provides an integrated, coordinated system for managing financial resources, enabling the client to assume responsibility and control over his financial condition, and permitting the client to aim for realistic goals and objectives.

The process involves the following steps:

1. Contact individual client or groups for precounseling.
2. Gather complete client information; determine who he/she is, where he/she is, where he/she wants to be, where he/she can be.

3. Develop a financial plan that moves client forward to where he/she wants to be.
4. Present completed financial plan to client with specific implementation schedule.
5. Administer plan.
6. Review plan periodically to evaluate and measure performance.
7. If unacceptable, revise objectives and plan.

Comprehensive financial planning can be viewed as the process that integrates and coordinates the expertise of specialized professionals in financial services for benefit of the client. In this *team approach* to the client's interest each specialization assumes a definable and specific role in relation to the client's overall objectives. The consultative advice and service and product implementation are more professional because they are directed toward satisfying needs and attaining objectives that have been clearly and comprehensively determined in the counseling sessions by the financial planners.

A hypothetical situation can demonstrate the need for a team approach. Assume the data gathering and analysis steps have revealed that the client, a family unit, needs:

- Significant and in-depth analysis and planning in stock portfolio and other investments.
- An analysis of how business interests can best serve personal financial planning objectives.
- A program for funding the college educations of three children.
- New wills for both spouses.
- The structuring of two different trusts for the benefit of members of the family.
- Business interest advisory services concerning business valuation and ultimate transfer of business interests to the children.
- Life and disability income protection and possibly life insurance funding of transfer plans for the business interests.

Seldom is one individual capable of knowing and implementing everything about financial planning and investing. Not many people are knowledgeable in the area of taxes, tax shelters, real estate, oil and gas, insurance, stocks, mutual funds, retirement planning, estate planning and the law. To pro-

vide a comprehensive plan and complete service to a client, the service-oriented (as opposed to a product-oriented) planner needs to take a team approach.

The question of objectivity must be addressed. A product oriented firm, e.g., a brokerage house, may put together a CPA, an insurance agent, an attorney, and a tax expert in an office to coordinate a client's complete financial plan. When a brokerage house puts a team of professionals together, these professionals may have an incentive to work separately because of the commissions they may receive. One solution may be to pay a salary to these professionals. Then they would be free to work together in the best interest of the client.

This is not to take the position that product oriented firms cannot do an excellent job of financial planning. Diverse firms within the financial community have identified financial planning as a separate entity with a promising role in the future. However, they must not retain a sales philosophy that is inherently in conflict with the service philosophy that should be foremost in objective financial planning.

Professional Organization and Designations

The present financial planning profession had its beginnings in the late 1960's and early 1970's. The International Association for Financial Planning and the College of Financial Planning were formed. The profession is currently going through a growth stage while reaching for maturity. Literature concerning the profession is being rapidly developed. Professional certification and formal academic programs are being advanced.

The International Association for Financial Planning (IAFP) was founded in 1969 as part of the Society for Financial Counseling. This nonprofit organization is the oldest and largest organization representing the comprehensive planning community. The Association's philosophy, mission and Code of Professional Ethics demand continuing education, a unified approach to the service of the client's financial needs, a dialogue among the professions and the maintenance of a high level of professional ethics. The IAFP membership represents many financial planning disciplines.

CPAs formulate comprehensive, personalized financial plans for clients that include living, retirement and estate planning.

Members include registered investment advisors, stockbrokers, insurance agents and brokers, bankers, realtors, CPAs, attorneys, educators, financial writers and publishers. This list presents a clear picture of the diverse nature of the financial planning community. The organization stands ready to provide potential clients with the names of available financial planners who have exhibited evidence of their experience and qualifications.

The College of Financial Planning in Denver, Colorado offers the Certified Financial Planner (CFP) designation program. This is the oldest and probably best known program of its kind. The program has been improved progressively since its beginning in 1972. The objectives of the College are to provide training to persons who are or will be offering financial counseling, investment and risk management advice, counseling related to retirement, tax or estate planning, or general personal financial planning and implementation.

The CFP program consists of six separate parts: introduction to financial planning, risk management, investments, tax planning and management, employee benefits and retirement planning, and estate planning.

In addition to successfully completing written examinations covering the above listed subjects, candidates must meet education, experience and ethical requirements. Over 6,000 candidates have completed the CFP program and over 19,000 candidates are enrolled and actively pursuing the designation.

In response to changes in the financial services community, the American College Board of Trustees, in 1981, officially broadened the aim of their Col-

lege by introducing additional courses and programs. The College, located in Bryn Mawr, Pennsylvania, now offers the Chartered Financial Consultant (ChFC) designation.

The ChFC program requires the completion of ten courses. The following subjects are included:

- Financial Services: Environment and Professions
- Income Taxation
- Economics
- Financial Statements Analysis/Individual Insurance Benefits
- Employee Benefits
- Investments
- Wealth Accumulation Planning
- Estate and Gift Tax Planning
- Planning for Business Owners and Professionals
- Financial and Estate Planning Applications

After the educational requirements have been met for the designation, a comprehensive review of the candidate's experience, business practices and professional ethics is conducted by the Certification Board of the Board of Trustees.

National Applications

Accounting Firms — Using profiles of the Big Eight accounting firms, a pattern can be established as to how the firms are approaching financial planning. Directors of financial planning, usually partners, have been designated on the national level and planning directors have been appointed in each of the local offices. An increasing proportion of their work is in the financial planning field. Young CPAs are being recruited and trained in the specialty and older individuals are being updated. The planners formulate comprehensive, personalized financial plans for clients that include living, retirement and estate planning. Annual follow-up contacts are made with clients. By developing planners through education and making these experts more productive, the firms hope to stay ahead in this growth area. The planning services are a standard fee-only comprehensive practice, involving all stages of the planning process. Implementation is pushed by forging liaisons with outside advisors.

Banks — The challenge facing banks is to convert bank branches from their traditional deposit-gathering

Some accounting firms are creating a separate department for personal financial planning headed by one or two partners of the firm.

role into distribution centers for the new financial services. For some banks, this begins with a new emphasis on marketing already-developed trust department expertise in the much broader market of fee-only financial planning. Examination of profiles from banking giants shows that vice-presidents are being placed in charge of financial planning departments. Staffs of professionals including tax lawyers, CPAs, CLUs and other non-bankers are being assembled. Thus the team approach is evident in this section of the financial empire. The programs are generally operated on a fee basis with no constraints on product selection.

Investment Brokers — Major national securities firms have recognized the areas of concern as those of tax guidance, insurance, investments, education and retirement funding and estate planning. Planning departments have been created utilizing questionnaires and interviews for personal data collection. The departments formulate comprehensive, personalized financial plans for clients. The companies are using a sales and educational effort encompassing basic intermediate and advanced levels of accomplishment directed at assisting their account executives in the transition to professional financial planning consultants. The firms are determined to prepare high quality plans and to provide the necessary counseling to execute the plans. Primarily the services are fee-only, since the plans can be purchased for a fee with no further obligation to have the investment firm implement the plan. The potential conflict of interest is recognized if the firm does both the planning and implementation. Special efforts are made to guard against this potential.

Insurance Companies — Over the past decade insurance executives have sized up the modern world of financial services and introduced a number of competitive new products. One of these is financial planning. Selected agents who have shown a strong interest in planning are given a challenging formal training. The training involves both company conducted classes and funding acquisitions of ChFCs and CFPs. After completing the qualification and certification programs, agents begin data collection and offer product guidance. The planning is applicable to anyone and can be as simple or as complex as each situation requires. The process will have independence from product sales to preserve credibility and objectivity. Fee structures have not been fully developed but the fees will probably range from \$500 to \$1,000. Home office specialists will help with special client situations.

Independent Planners — Over the past 12 to 15 years financial planners have pioneered what is essentially a new industry. The client-centered investment service market promises to become one of America's premier growth industries in the 1980's and beyond. Estimates of the current market size range from \$10 billion to over \$50 billion in investment dollars, and few observers believe the still growing profession has more than scratched the surface. As we have seen the giants are moving into this field. At the same time other companies are beginning to view the independent financial planner as the bridge for the growing volume of investment dollars. As the financial planning profession enters a new and more competitive phase of market development, the planning firms are relying on the old fashioned entrepreneurial advantages of personal style, clean and objective management, flexibility and close touch with the client. Also by going to outside experts, a planner gets the benefits of broadly based knowledge which the consultant professional obtains by working with a large and diverse clientele. Single planner firms usually grow by division with the founder training and then elevating a protege to associate status. This process can lead to a large firm with large-firm problems. Therefore, more and more financial planners are moving from a proprietorship mode of operations to a corporate structure that

offers more time to serve more clients through the support of salaried personnel.

This market will continue to grow during this transition period and planners will determine how to set up an enduring practice. As they face the new increased competition, potentially higher profits and larger and more demanding customer bases, planners will have to devote more and more of their creativity to planning their own practices. They will increasingly be playing for higher stakes and they will have a chance to win.

Community Applications

Interviews were conducted with some local financial professionals to explore the level with which personal financial planning has penetrated the community. While not exhaustive, the results do give an indication of the level of participation.

Two large CPA firms were contacted. One acknowledged that financial planning is a topic that many people are talking about, but in their firm the idea is in a conceptual stage. The firm is making an effort to get some staff member designated as Certified Financial Planners. The partner interviewed considers CPAs to be the best qualified to serve as captain of the team. One approach being considered is to create a separate department for personal financial planning headed by one or two partners of the firm. A change would be that the department would offer ideas — selling services. The initial plan would probably involve a program based on an hourly charge for service, eventually going to a fee basis. A recognized need exists to market the services.

The second firm was in a somewhat similar position, with departmentalization being considered as a long-term goal. CFPs are currently being trained with two programs under consideration for development. The first would be comprehensive financial planning, which would involve studying and projecting the client's entire financial life style. The second program would maintain specialty areas and involve recommending specific courses of action, e.g., handling cash flow problems, tax considerations and decisions to buy various investment vehicles.

A trust officer of a large state-wide bank stated that all the bank's trust

people were aware of the concept, process and components of financial planning. Two staff officers are pursuing the designation of Chartered Financial Consultant (ChFC). The bank is contemplating establishment of a financial planning division in its trust department. Two approaches are being considered, the first would be to provide financial planning services for the bank's customers, with the purpose of keeping customers and deposits. The question is whether or not the cost of the new service would outweigh the account value. The second would be to establish a separate profit center operating on a fee basis.

The City of Montgomery, Alabama with an estimated population of 183,500, presently has three firms that operate as independent financial planners. A principal of one of the companies stated his firm is three years old. The planning concept is working well for the benefit of clients and the benefits are substantial. The team approach is being utilized, with the planners working specifically with CPAs and attorneys. In-house investment and insurance services are provided. The principals are Certified Financial Planners registered with the SEC as investment advisors and with the National Association of Security Dealers (NASD). The charge for the service is



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typically in the form of an annual retainer. However some services are provided on a fee basis with others on a fee plus commission basis. It is felt that while the profession locally is not yet large the potential is tremendous.

Conclusion

The financial services professional of tomorrow will change in a number of ways. First, the planners will have to become better acclimated and more comfortable with using technology. The practitioner will have to get used to dealing with clients in new and different ways. The planner will have an almost limitless amount of information about customers, their portfolio of securities, cash positions, current financial obligations, insurance coverages, real estate holdings, legal documents, and their plans and dreams of the future. The planner will have a large quantity of information about the total financial market and its related products. In addition to knowing how to access this data, the planner must know how to sift through the information to determine which will be of the greatest value to the clients. A thorough knowledge of the products available and an ability to compare the advantages and disadvantages of each will be essential for the planner to be in a position to provide high quality advice and guidance to the client. The quality of service provided should improve and the profession should become stronger, create trust, and establish recognition — thus providing a base for continuing growth.Ω

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