

Money101: Hiring Financial Help

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Top things to know

1. Anyone can call himself a planner.

To avoid amateurs, hire a planner who's earned special credentials (such as a Certified Financial Planner or Personal Financial Specialist designation) by meeting training standards or having a certain level of experience.

2. Planning is more than investing.

Not all planners offer comprehensive services. Some just give investment advice or focus on one aspect of planning, such as insurance or taxes.

3. Expand your choices.

When hiring a planner, interview at least three pros to find the one who can deliver the services you need and who's compatible with your style.

4. Personal references are a good place to start - but not the last stop.

A reference from a friend or family member is a great way to search for a financial planner. But make sure you've got similar needs as the person who's giving the referral. Go to groups like the Certified Financial Planner Board of Standards and the Financial Planning Association for additional references.

5. Understand how your planner is getting paid.

The three most common set-ups are: Fee-only, fee-based, and commission-based. Fee-only planners don't get commissions for the products they sell - fees are for the advice they give. Fee-based planners may receive commission on some products they sell, but most of their money comes from a fee you pay them. Commission-based planners are paid by the companies whose products they sell.

6. Check credentials.

Check to see if a planner's record is tarnished by disciplinary problems or complaints. Groups that award credentials or state agencies keep tabs on planners and can provide help.

7. Get references.

Ask a planner for two or more of his clients - then follow up and call to find out how a planner performs in specific circumstances, such as during a financial crisis.

8. Express yourself.

The quality of a planner's advice is correlated to how well he or she knows you. Make sure a planner asks questions about your finances, goals, risk tolerance and philosophy. If they don't ask, they probably aren't paying adequate attention.

9. Know what they're selling.

Find out what financial products a planner sells and how much he or his firm earns for making a sale. Be wary of planners who push one product - say, one family of mutual funds or one kind of insurance - as they may not give you the unbiased or comprehensive advice you need.

10. Know yourself.

The best planner will take his cues from you. Before you hire someone, identify the financial goals you want to meet, your assets and liabilities, your risk tolerance, and investment style. Are you self-directed or do you want specialized help?

Let's face it: making financial decisions is hard. There's a lot you can figure out on your own, but we can all use help when it comes to something as important as how to save, invest and plan for the future.

Nevertheless, few American households use a personal financial planner. Why not? Chalk it up to confusion and fear. After all, it can be daunting to entrust your financial future to a stranger. And it's tough knowing where to turn for help because a changing marketplace has blurred the line between the likes of insurance salesmen and your stockbroker. In fact, these days everyone - from law firms to tax planners, mutual fund families, and brokerages - is competing hard to manage your money.

What's more, because there are no state or federal regulations for the planning industry, anyone can call himself a financial planner. As a result, you'll want to hire a planner who's earned credentials, such as a Certified Financial Planner (CFP) or a Personal Financial Specialist (PFS).

The credentials are awarded only to those advisers who've demonstrated a certain degree of knowledge and experience - and who've passed exams covering major planning subjects. For example, to earn the CFP credential, a planner must pass an exam that tests knowledge of insurance, investment planning, tax planning, retirement planning, employee benefits, and estate planning.

Because qualified planners are trained to deal with myriad personal financial topics, they can help you set financial goals and priorities, then recommend specific steps to meet them. This means they may give advice on how you should allocate your investments, what kind of insurance you really need and explain how certain moves may affect your taxes or estate.

It's then up to you to decide if you want to follow that advice. A good planner will also recommend when you need more specialized help, say, working with a trusts and estates attorney who can help protect assets in a family businesses.

A roundup of the different types of help available:

GENERAL

Credential: CFP (Certified Financial Planner)

What they do: Roughly 53,000 CFPs nationwide provide financial planning and advice on topics from retirement planning, investments, tax and estate planning, and insurance needs.

Requirements: Pass college-level courses in topics including retirement planning, estate planning, tax planning, investment analysis, and employee benefits. Then pass a two-day, 10-

hour exam. Planners must also have a bachelor's degree and a minimum of three years of professional experience working with clients. If they have no degree, planners must have five years of experience. Starting in 2007, a bachelor's degree is required for new applicants.

Credential: CPA/PFS (Certified Public Accountant/Personal Financial Specialist)

What they do: Provide overall financial planning with an emphasis on taxes and accounting.

Requirements: The PFS credential is given to CPAs who have a certain level of professional experience and are members of the American Institute of Certified Public Accountants.

A CPA must have practiced a minimum of 1,400 hours of financial planning over a five-year period prior to applying for the PFS exam, which covers risk management, retirement planning, investment planning, goal setting, tax planning, and estate planning.

The 3,800 CPAs nationwide who've earned the PFS title must submit client references and reapply for the PFS credential every three years.

INVESTMENT PLANNING

Credential: IA or RIA (Investment Adviser or Registered Investment Adviser)

What they do: As the name suggests, an IA advises clients about securities. Note: A financial planner or broker may be an investment adviser but not all investment advisers are planners or brokers.

Requirements: Investment advisers who manage at least \$25 million must register with the Securities and Exchange Commission (http://www.adviserinfo.sec.gov/IAPD/Content/lapdMain/iapd_SiteMap.aspx).

IAs who manage less than \$25 million have to register with their state securities agency. To find your agency, check the Investment Adviser Registration Depository or ask to see your adviser's "Form ADV." This is the registration form that he or she must file with the SEC or his state. This two-part form lists complaints, disciplinary actions, the adviser's education, employment history, fees, and investment strategies.

Title: Broker

What they do: Brokers are paid to trade securities on behalf of customers. Note: This is different than giving investment advice, though some brokers may also be registered investment advisers. Some firms may call a broker different titles such as an "account executives" or a "registered representative," and some brokers may specialize in one type of investment.

Requirements: Before they can buy or sell securities for clients, brokers must pass exams on trading procedures by the National Association of Securities Dealers, such as the Series 7 in general securities or Series 6 in variable annuities and mutual funds. Brokers must register with the NASD, so before you do business with one, check his or her background by calling the NASD's Central Registration Depository at 800-289-9999.

Credential: CFA (Chartered Financial Analyst)

What they do: CFAs are generally portfolio managers and analysts for institutional clients, such as banks or mutual funds. But some of the nation's 50,000 CFAs advise wealthy individuals or families who have sophisticated investment needs.

Requirements: Candidates must take three, six-hour exams in three years covering financial accounting, debt, equity analysis, and portfolio management. They must also have at least four years of professional experience in investments. To keep a CFA status current, a CFA must re-sign an ethics pledge each year.

Credential: CIMC (Certified Investment Management Consultant)

What they do: Advise high-net worth private clients on investments, although a few CIMCs advise institutional clients such as pension funds or trusts.

Requirements: Consultants have passed two, two-hour exams on topics like risk management, performance measurement, development of investor policy statement, and asset allocation. They must also have three years of professional experience as financial advisers. The program is no longer offered, but those who have received the certification can maintain their designation by taking 40 hours of continuing education over a running 24-month period.

Credential: CFS (Certified Fund Specialist)

What they do: Planners advise clients on mutual funds, and may buy and sell funds for clients if they have the broker license from the NASD. Some CFS holders provide general financial planning services for clients as well.

Requirements: Candidates must pass three multiple-choice exams covering the use of mutual funds as well as annuities and financial planning. They must sign a code of ethics before they can use the CFS credential. To keep the CFS status, a designee must take 15 hours of classes reported once every two years.

TAX PLANNING

License: CPA (Certified Public Accountant)

What they do: Those CPAs who specialize in taxes can help clients with tax planning and preparation. (Some CPAs may not deal with tax planning but instead focus on audits or accounting.) Unlike some other tax advisers, CPAs are authorized to represent clients before the IRS.

Requirements: Candidates must pass the rigorous Uniform CPA Examination. A CPA also must be licensed by the board of accountancy in the state where he or she works.

License: EA (Enrolled Agent)

What they do: Enrolled Agents are licensed by the IRS to represent clients before the agency during audits, hearings, or collection procedures. An EA may also provide tax-planning advice and tax-preparation services.

Requirements: Candidates must take a computer-based exam on major points of tax law, including income-, corporate-, estate-, and gift-taxes. Former IRS employees may qualify for an

EA license without taking the test if they have worked five years at the agency in a position requiring relevant tax experience. All EA candidates must pass a background check by the IRS.

Talk to experts and they'll tell you to interview at least three financial planners before hiring the one who will, presumably, help guide you to success and riches.

Of course, the thought of tracking down one prospective planner, much less three, can be daunting. How are you supposed to find them? Sure, plenty of people advertise planning services on, oh, subway car advertisements or in the phone book. But let's face it, responding to these come-ons doesn't sound exactly prudent.

That's why references from friends and colleagues are a valuable way to start your search. After all, if your sister-in-law can vouch that she's had five years of great experience with a planner, then by all means, follow up on the referral. But you also have to be careful that you have similar financial needs as the person who gives you a recommendation.

If you and your spouse are saving for your first home, for example, you probably shouldn't hire a planner whose typical client is worth millions. You may be able to get good advice, but you'll likely end up paying fat fees to obtain it, and you can count on being less of a priority to your adviser than his wealthier clients.

That's why you should turn to groups who certify planners with special credentials or certifications. While no credential or license can provide a 100 percent guarantee against fraud or incompetence, they do provide good assurance that you'll work with an expert who's trained and reputable. That's because many industry groups will strip a planner of a credential if that person fails to do business in a professional, ethical manner.

Moreover, some groups require advisers to reapply for credentials by demonstrating that they've kept current with relevant planning issues. If you've obtained professional references from friends or co-workers, use planning groups to check up on these referrals.

If you have no idea how to find a planner, or you need a few more candidates to interview, start with the Financial Planning Association (800-322-4237), which lets you search for planners by location or specialty. Look at your search results and seek out financial planners who have a CFP (Certified Financial Planner) credential from the Certified Financial Planner Board of Standards.

At that point, your job is half done. The Financial Planning Association does not verify credentials; it just lists planners. You'll next have to verify a planner's CFP status and background with the CFP Board of Standards.

Another option? Look for a Certified Public Accountant who's earned the Personal Financial Specialist credential (CPA/PFS) from the American Institute of Certified Public Accountants. You'll get a double dose of assurance that you're hiring a trustworthy pro. CPAs must be licensed by the state they work in, so you can check their records to see if they've had complaints or disciplinary actions filed against them. (The National Association of State Boards of Accountancy can put you in touch with officials in your state.)

Of course, being a CPA doesn't necessarily make someone a planning whiz, which is why you should look for the PFS credential, too. In order to earn it, an accountant must pass the AICPA exam covering major planning aspects from retirement planning to risk management, sign an ethics pledge, have a minimum amount of professional experience and keep current with tax and planning issues.

Finally, be aware that training, credentials, and professional reputation only go so far. Ultimately you've got to feel comfortable with your financial adviser, and no reference or degree can tell you if a planner is right for you. For that, you've got to meet her face-to-face and ask the right questions.

It doesn't matter if you're in the market for a new car or a pound of tomatoes. If you're smart, you inspect the merchandise before you buy it. The same goes for hiring people.

Ideally, you've got the names of planners who've been referred to you by a personal contact or from professional groups. Now's the time to make the final call, and the best way to do that is during a face-to-face interview. Many advisers give initial meetings without charging a fee, so this shouldn't cost you anything but time. Now, to make sure that's not wasted, here's what to ask:

1. What do you charge and what method do you use to get paid?

Planners use different methods to bill clients. You can choose between fee-only, fee-based, and commissioned planners. Either way, you should know exactly what you're getting yourself into. Fee-only planners, for example, may charge flat rates or an annual retainer. Sometimes they bill by the hour or charge a percentage - usually 1 to 2 percent - of a client's assets.

2. What are your credentials?

A planner can point to a college or grad-school diploma. But does he really know about retirement and tax planning? Can he help you determine how much insurance you need while suggesting the best way to fund your teenager's college education?

That's where credentials come in. Many special designations are awarded to men and women who have trained for and passed exams on major points of financial planning. Find out what a planner had to do to earn her credentials and who awarded them.

3. How much experience do you have?

The key here is relevant experience. A planner may have decades worth of experience catering to the rich - helping set up tax-saving trusts for spoiled grandchildren, for example. But if you have simpler needs, like planning for retirement and saving for a first home, you want someone who has plenty of experience in those areas. A good way to find out if someone has relevant experience is by asking a planner to describe his or her typical client.

4. What planning services do you provide and how often do you see your clients?

There's a big difference between tax planning and tax preparation. Ditto for insurance planning and retirement planning. Needless to say, you should know what services you'll get from any one planner - then make sure they mesh with the kind of help you want.

"So often people call themselves a financial planner but all they do is manage your money," says Dee Lee, a CFP from Harvard, Mass., and author of "Let's Talk Money." "So what you want to know is, are they going to look at your financial life in detail? Will they review your insurance needs and your retirement needs?"

5. Does your planning include specific recommendations for investments or other products?

It doesn't matter if your planner makes money by commissions or is fee-only. Find out ahead of time if you'll get specific hand-holding or more general directions. Depending on how self-directed you are, you may want someone who's going to tell you exactly what kind of insurance to get, how much to purchase, and where to buy it. On the other hand, you may feel more confident with say, your ability to pick mutual funds, and not want any input in that department.

6. What are you selling and who's paying your commissions?

It's not just enough to know whether or not a planner earns commissions. You should know specifically how much he makes from various products he sells and/or recommends. For example, is this person going to get more from selling annuities than bonds? If you have a clear understanding of how a planner earns his living, you can determine if you're getting advice that's in your best interest.

7. Can I get references from other clients?

If possible, get two or more references, ideally from longtime clients. When following up with references, focus on specifics: How helpful was the planner when someone had to handle a financial crisis, such as a death in the family or a big investment loss? Is it easy to get appointments?

8. Do you have any questions for me?

It's fairly obvious that there's a correlation between how well an adviser understands your needs and the quality of the advice you get. That said, it's important that your planner asks the kinds of questions to help you meet your goals, even the ones you haven't thought to identify.

"They should be asking questions like 'Tell me about your parents?'" says Lee. "You may have a child who's going to college in 10 years, but what if your mother is 70 years old? Will you be financially responsible for her when you're paying school costs? If so, they should talk about looking into buying your mother long-term care insurance to pay for her care. A planner should be looking at your total picture."

The first priority when it comes to getting financial help: You should feel comfortable with your financial planner, and confident that he or she understands your needs.

A close second: You're comfortable with the cost of the help.

Generally, you face three basic billing structures:

Fee-Only Planners are paid only for the advice they give. They do not earn commissions by selling financial products such as life insurance or mutual funds.

Fee-Based Planners earn fees from advice and they make commissions on some of the products they sell.

Commission-Based Planners make money from the products they sell.

There are a couple of key advantages to going the fee-only route. First, you don't have to worry that your planner is making a recommendation to generate fees. Second, you get a better idea of

how much you'll be paying for advice. That's not to say, however, that there aren't differences in how fee-only planners bill clients.

Some fee-only planners charge a percentage of a client's assets, and individuals who hire them tend to spend the most of all - typically about \$1,600 per year. Planners generally charge 1 to 2 percent of clients' assets.

There are potential perks and pitfalls to hiring someone whose paycheck depends on what you're worth. On one hand, they have great incentive for you to make a lot of money.

On the other hand, the setup gives them an incentive to urge you to invest rather than pay off a mortgage or other debt. These planners tend to pay attention to assets under their direct management rather than a client's entire financial situation.

"Money managers will almost universally not pay attention to your 401(k) at work," says Gary Schatsky, past chairman of the National Association of Personal Financial Advisers, which represents fee-only planners.

Some fee-only planners charge an annual retainer or a flat fee. Individuals who pay flat fees tend to have the lowest costs of all, spending an average of \$500 per year or so, according to Forrester Research. If you plan on seeing a planner often, an annual retainer may be less expensive in the long run.

Other fee-only planners charge hourly rates. These days, planners' hourly rates average \$120. Is that a lot? Depends on how much of your money the planner is overseeing. In any event, always get an estimate of the total hours you'll be billed before you hire a planner who bills by the hour, says Doug Nogami, assistant director of communications at the Certified Financial Planner Board of Standards.

You can find fee-based planners through the National Association of Personal Financial Advisers. Search under the consumer link at the NAPFA web site or call 800-366-2732. You also can check for Certified Financial Planners, some of whom are fee-only, at the Financial Planning Association's web site.