

Financial Planning Services & Standards of Care

Presentation for
FACS Teachers --
Financial Planning Update

Sources: CFP Board, CFA Institute, &
Goetz, Chatterjee, & Cude (2014).

Journal of Financial Planning:

Suitability versus Fiduciary Standard

The perceived impacts of changing one's standard of care

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One

Financial Planning Defined

Financial Planning: What Is It?

- Financial planning is the long-term process of wisely managing your finances so you can achieve your goals and dreams, while at the same time negotiating the financial barriers that inevitably arise in every stage of life.
- Financial planning is a *process*, not a product.
- Financial planners help clients navigate through the financial marketplace
 - Cash flow and net worth planning
 - Taxes
 - Insurance
 - Retirement
 - Estate
 - Investments

Process of Creating a Financial Plan

- **Step 1**
- Establish Goals
- **Step 2**
- Gather Data
- **Step 3**
- Analyze & Evaluate Your Financial Status
- **Step 4**
- Develop a Plan
- **Step 5**
- Implement the Plan
- **Step 6**
- Monitor the Plan & Make Ongoing Adjustments

What is Financial Planning?

- **Alexey Bulankov CFP®, ChFC, EA** Redwood Shores, CA

The critical difference lies in the distinction of information vs. advice. In the information age the information is readily available from multiple sources. A financial advisor's job is to distill the wealth of information through the filter of his or her experience to present you with advice that is actionable, relevant, saves you time and makes you money in the long haul.

The Need for Financial Planning Services

Befriending Your Future Self: Saving and Investing

Boomer Expectations for Retirement (2014)

- ❖ The percentage of Boomers who are confident they will have enough money to live comfortably throughout their retirement years has dropped from 37% in 2011 to 33% in 2014.
- ❖ During the past year, a quarter of not-yet-retired Boomers postponed their plans to retire.
- ❖ During past year, 20% of Boomers reported experiencing difficulties with paying the rent or mortgage; 21% indicated they stopped contributing to their retirement plans; and 10% said they prematurely withdrew assets from a retirement plan; 20% of baby boomers haven't saved anything at all.

Source: The IRI 2014 study is based on a survey of 800 Americans aged 51 to 67.

The Need for Financial Planning Services

Boomer Expectations for Retirement (2014)

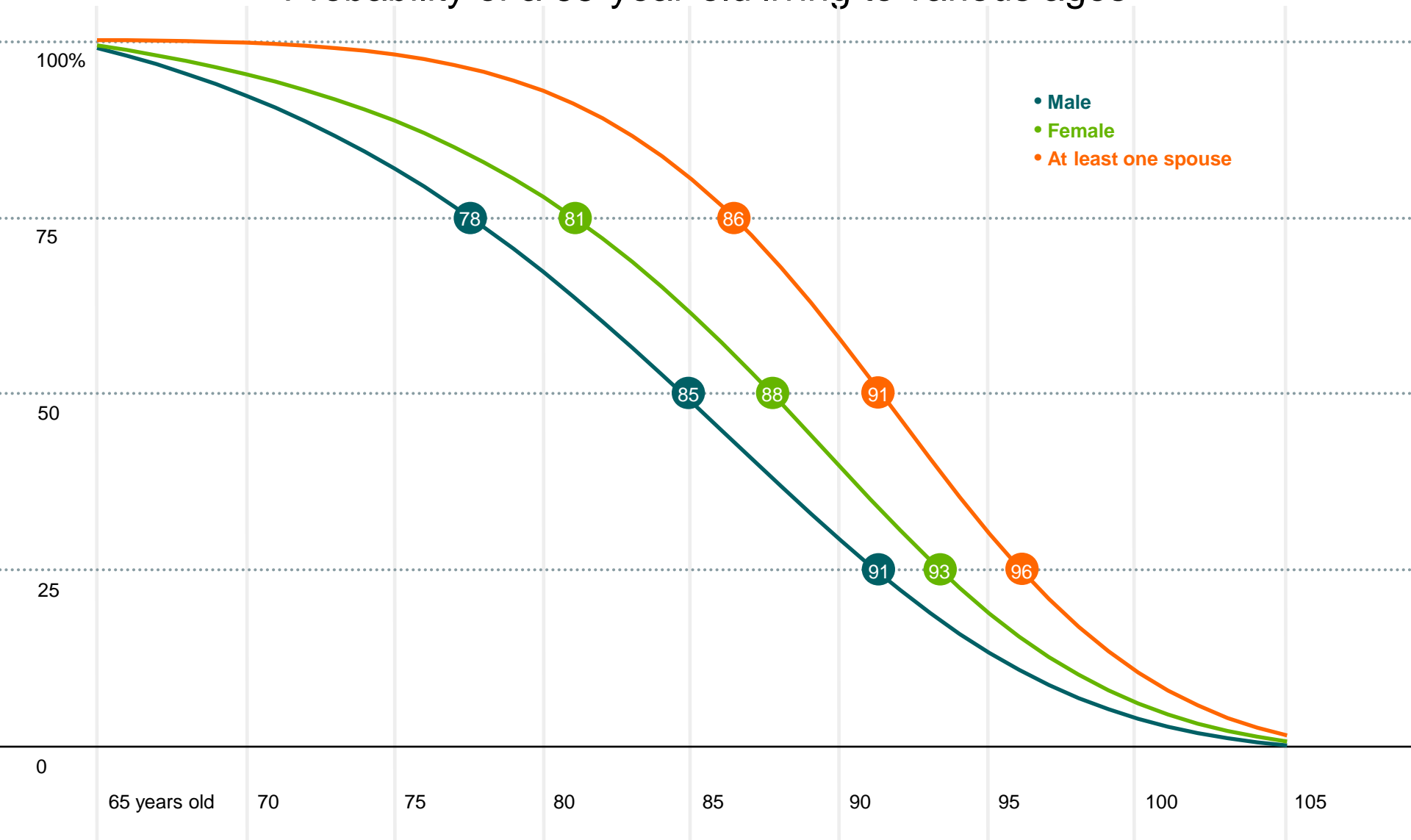
The survey also highlights the extent to which boomers might have an unrealistic expectation of their retirement picture.

40% of those polled who have no private pension and less than \$250,000 saved believe that they will be able to cover their basic needs and medical expenses, while still having money left over for travel and other leisure activities.

Americans tend to overestimate the power of a bucket of savings and the income that it can create, and they tend to overestimate their longevity.

Retirees Should Plan for a Long Retirement

Probability of a 65-year-old living to various ages



The Time Value of Money

A dollar saved today is worth much more than a dollar saved in the future



WHY?

Sources of Retirement Income

Guaranteed Income

- TRS and/or other pension
- Social Security
- Immediate Income Annuities

Other Income

- Part-time employment
- Inheritances
- Home equity - Downsizing
- Reverse Mortgages

Investment Income

- ORP
- 401(k) Plans
- 403(b) Plans
- 457 Plans
- Other retirement plans
- IRAs
- Taxable accounts (Individual or Joint)

Befriending Your Future Self

- What type of income would you generate based on what you've saved and what you're on a trajectory to save?
 - Tax-advantaged saving opportunity at UGA
 - 403(b)
 - 457(b)
 - IRA – Roth (post-tax) or Traditional (pre-tax)
 - SIMPLE/SEP IRA (pre-tax savings for consulting work)
-

Investment Strategies: Best to Worst

1. Human Capital
(e.g., education/expertise/entrepreneurship)

1. Stock Market

2. Real Estate

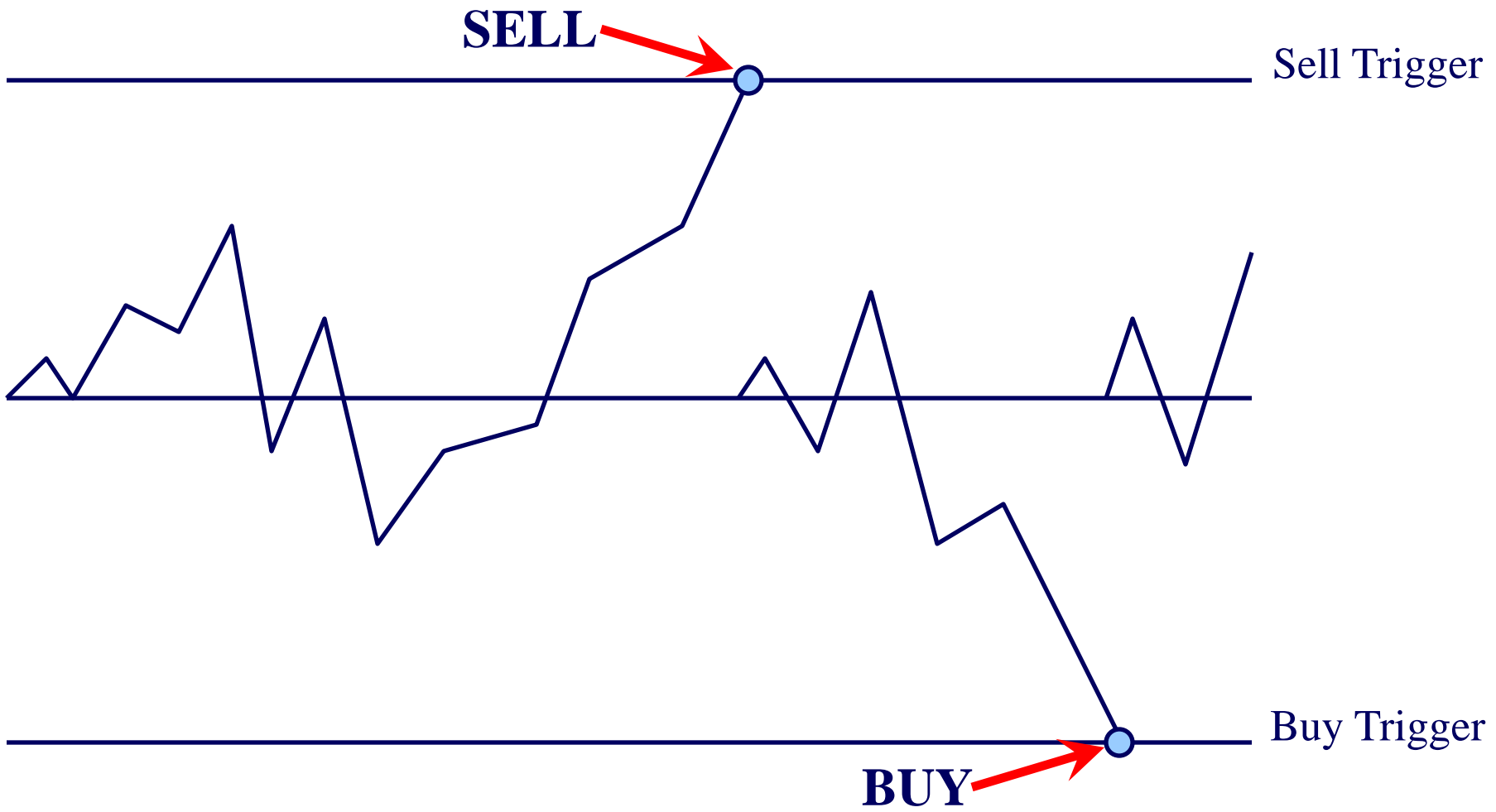
3. Bond Market

4. <Cash>

5. <Vegas>

6. <Lottery>

Effect of Rebalancing



Befriending Your Future Self – living below your means

How to motivate oneself to save more:

- Have a written financial plan and/or hire a professional financial planner
- Automate savings
- Create an Age-Progressed Image of Yourself
 - [Aging Booth](#)
 - [Merrill Edge](#)
- Write a letter as your future self.
 - What does your life look like on a daily basis?
 - Where do you live and what is the quality of your life?
 - How do you feel about yourself? What are you most proud of?
 - What are the experiences that you have had that have added the most value to your life?

Source: *HuffingtonPost* (Tempesta, 2014)

Two

Financial Planning in Practice

Financial Planning in Practice

- Sales vs. Financial Advice vs. Financial Planning
 - The Brokerage and Banking worlds
 - Product Sales
-

What is financial planning?

Financial Planning

- Long-term *process* of wisely managing finances so one can achieve goals
 - Investment Management
 - Retirement Planning
 - Cash Flow Planning
 - Estate and Tax Planning
 - Risk Management & Insurance

Financial Counseling

- Short-term process of increasing financial stability and improving financial behaviors
 - Changing Financial Behaviors
 - Debt Management and Prioritization
 - Budgeting, Saving, Investing
 - Building Positive Credit History

Financial Therapy

- Integration of cognitive, emotional, behavioral, relational, and economic aspects that promote financial health and wellbeing; utilizing therapeutic interventions to improve financial health and overall wellbeing
 - Family Financial Socialization
 - Money Scripts / Attitudes
 - Financial Trauma
 - Holistic and Systemic View of Financial Wellbeing

University of Georgia

An Innovative Financial Planning Service Model:
The ASPIRE Clinic

www.aspireclinic.org

(706) 542-4486



Multidisciplinary Service-Teaching-Research Clinic

- Our services for both the university community and Greater Athens area include:
 - **Financial planning and counseling**
 - **Legal problem solving services**
 - **Individual, couple and family therapy**
 - **Nutritional education**
- These services are offered both independently of each other, and as integrated services, such that an individual, couple or family could work with any combination of service providers.



Three

Legal Standards of Care for Advisors

Loose Regulation of Titles

- Financial Advisor
- Financial Planner
- Wealth Advisor
- Wealth Manager
- Financial Counselor
- Financial Coach
- Financial Consultant

Loose Regulation of Financial Planning

- Over 200 professional designations
 - *Wall Street Journal*
- Lack of Educational Requirements
- Ponzi Schemes and criminal activity
- A developing profession

Four

Fiduciary vs. Suitability Standards of Care

Current Regulatory Environment

- The Fiduciary Standard
 - The Suitability Standard
 - [The Battle in Washington](#)
-

Registration Model and Standard of Care

Suitability Standard (FINRA regulated)

- Registered representative working as an employee for a broker-dealer
- Registered representative working as an independent adviser affiliated with a broker-dealer
- Registered representative working for a bank, credit union or savings & loan

Suitability and Fiduciary Standard depending on service provided (FINRA and SEC regulated)

- Dually registered adviser (registered w/FINRA as a registered rep + IAR registration w/SEC)

Fiduciary Standard (SEC/State regulated)

- Independent IAR/RIA (i.e. investment advisor representative/registered investment advisor)

Neither Fiduciary or Suitability (not regulated)

- Unregistered planner/adviser

Standards of Care in the Financial Advisory World

- **Fiduciary Standard of Care** – Investment Advisor Representatives with Registered Investment Advisors (RIA)
 - *Legally must recommend what is in clients' best interest*
- **Suitability Standard of Care** – Registered Representatives with Broker / Dealers
 - *Legally must recommend what is appropriate (but not necessarily what is best for the client)*
- **Ask Financial Planner/Advisor to sign a Fiduciary Oath** (i.e., statement verifying all recommendations will be in the best interest of client with full disclosure of any fees or conflicts of interest).
 - Example of Fiduciary Oath
 - NAPFA.org
 - Wall Street Journal article

Five

Consumers Access to Fiduciary Advisors

Overconfidence & Emotions

Research shows majority individual investors underperform market.

Investors in mutual funds generally underperform mutual funds.

- Confirmation Bias and Overconfidence
-

Popular Media & Wall Street Firms

In Barron's Outlook edition comes in December, all 12 leading strategists and investment managers from the major Wall Street firms disclosed their predictions.

For them to achieve these positions, they have to be some of the smartest people on Wall Street, if not the world.

Popular Media & Wall Street Firms

Then again, let me include a couple of lines from *Barron's Outlook 2008*:

“Wall Street strategists remain bullish about stocks, despite their tepid forecasts for the US economy”.

“Indeed, the dozen seers we’ve surveyed all have penciled in higher stock prices in 2008, although their estimated gains vary widely, from 3% to 18%. On average, the group sees the S&P 500 at 1,640 by the end of the year, or about 10% higher than the recent 1486”

The S&P 500 closed 2008 at 903. If you include the average 10% prediction, they were only off about 47%.

Finding Professional Help

- Research shows those who use certified financial professionals have greater wealth accumulation.
- Research has shown that those who use an advisor are more than twice as likely as those who do not to consider themselves on track or ahead of schedule in planning for retirement (*Insured Retirement Institute, 2014*).
- That same research, however, has shown that many Americans don't know where to start or how to begin

Consumers Finding the *Right* Help

Professional Financial Planners - NAPFA.org

- Fiduciary Requirements
 - *(ask your advisor to sign a fiduciary oath that they will always recommend what is in your best interest)*
 - Say “no” to the Big Banks and Brokerage Houses
 - Say “yes” to Independent Firms and the Fiduciary Standard of Care
- Credentials
 - Certified Financial Planner®
 - Certified Retirement Counselor®
 - Accredited Financial Counselor®
- Education
 - University degrees in Financial Planning
- Business Model
 - Consumers understanding exactly how their financial advisor is paid
 - Fees vs. Commission

Questions

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