When Is It Time to Hire a Financial Planner?

In a financially complex world, the planning process can be lifelong.

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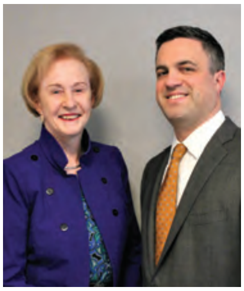

WHY WORK WITH A FINANCIAL PLANNER?

Each month in this column we typically focus on specific planning concepts for reducing taxes, funding college, legacy planning or other techniques to better organize your financial life.

Every five years or so we like to step back and review with you what a financial planner is, why you might want to work with a financial planner and how to select one.

If you're reading this, you're probably a do-it-yourselfer by nature. But many of us reach a point in our lives when work, family or other "real life" demands monopolize our time. In addition, as changes to the tax code, retirement plan regulations, and tools for planning and investing proliferate, the task of managing your financial life grows more complex every year. It makes sense that as these complexities and demands on our time build up, we turn to a professional to help navigate these challenges and make sure we stay on the right path.

When Alex started in the investment business more than 50 years ago, she started as a stockbroker working for a regional New York Stock Exchange firm. At that time, the term financial planner didn't exist. There was no regulation, no certification, no ethical standards. Today we have all of these as part of a thriving industry with accomplished planners nationwide. Yet often we find that some people are still confused about what's involved in the financial planning process.

WHAT DOES A FINANCIAL PLANNER DO?

It's common to see the term "financial planner" confused with the term "financial adviser." The primary function of a financial adviser/investment manager is to manage your portfolio of investments. In contrast, financial planners take a comprehensive approach, looking at your total financial picture, including cash flow, debt, taxes, estate planning, health care, insurance, goals, family situation and more. In addition, many planners will also help you manage your investments if you wish once your overall financial situation has been established and your goals have been defined.

A good planner will help you articulate your financial goals, prioritize them and then formulate a plan to help achieve your goals on an ongoing basis. Until 2015, this plan was most commonly delivered in written form, after a series of in-person meetings to discuss goals, gather data and review the plan's assumptions.

As technology has improved, more and more planning is done virtually, via video chat and online planning software. This allows the plan to be adjusted as your circumstances change and enables you to more easily collaborate with your planner on any decisions that need to be made. While all of this can be done virtually, we still are somewhat old-fashioned and think it's good to meet with your planner in person periodically. These meetings help build trust and rapport and make communication easier, and you will be on the same page from the outset.

WHEN WOULD YOU HIRE A FINANCIAL PLANNER?

Often the motivation for seeking the services of a financial planner is a life event. The most common one is preparing for retirement. You might want to retire at a certain age, but don't know whether you can afford to do so. Other motivating events include: the death of a spouse, an inheritance, a job change, the birth of a child, a marriage or a divorce.

However, planning doesn't have to be caused by a big event. All of our time is precious, and for many there is great value in paying a financial planner to oversee your financial life, so that your time is freed up to spend on the things that are most important to you. Less time spent budgeting or calculating your retirement plan contribution means more time for family, friends, travel or passion projects.

WHAT'S INVOLVED IN THE FINANCIAL PLANNING PROCESS?

Working with a financial planner requires time and effort on your part as well as that of the planner's. Typically, you will start with an introductory meeting and be given a financial data questionnaire. In many cases this will be via an online planning portal accessible to you and your planner, which allows you to enter this data online, upload documents and link accounts. There may also be a paper questionnaire that covers data and documents not easily captured online.

The next step is for you — and your partner if you have one — to sit down with the planner and define and prioritize your short- and long-term financial goals. Sometimes during this meeting, a couple may find out to their mutual surprise that they have different priorities! The planner will also work to determine your risk tolerance, which also often can differ between two people.

After this initial meeting, the planner prepares a financial plan that would include a balance sheet, a taxable income and cash flow statement for the current year and a projection of what income, expenses and taxes will look like in the future. If you are exploring different scenarios for a job change, retirement date, potential move or big expense, the plan will explore those scenarios and highlight the change in projected outcomes.

Depending on your age, this projection could be as long as 50 years. A comprehensive plan should include a review of your current investments, estate-planning documents and insurance coverage. Based on this information, the planner will make recommendations for any necessary changes.

If you plan to pay for college education for children/grandchildren, these cost estimates would be included. Finally, there will be recommendations for actions you should take to achieve your stated financial goals.

Once the plan is ready, the planner will meet with you to walk through it, answer questions and make adjustments to make sure the plan meets your needs. From there the planner will help you implement the plan's recommendations. These may be items you do yourself (like increasing retirement plan contributions), as well as items like insurance or estate plan reviews that involve a referral to a trusted professional.

Once the initial financial plan has been created, it should be reviewed regularly to account for changes in the economy, tax laws and your own situation. Financial-planning technology has made significant strides over the past several years. Now more than ever the financial plan is a living document. If you went through a planning process 10 years ago, the experience will be different today.

WHAT DOES A FINANCIAL PLAN COST?

It depends on how complex your situation is. You might have a very complicated situation or one that's relatively simple. Most planners will give you an initial free consultation and based on that initial meeting will estimate what the plan will cost prior to starting the client engagement. Some planners charge a flat fee based on the amount of worked involved in the plan. Some charge an hourly rate, while others operate on an annual subscription or retainer model. We have seen everything from simple plans that cost around $1,000 up to very complex plans that were more than $10,000.

WHY CAN'T I DO THIS MYSELF?

You can do some of it yourself. There are apps and software that can be helpful to you, particularly for retirement and college planning. Certainly, doing this is better than not doing anything. But software can only take you so far.

There are myriad decisions over the course of your life that may require an independent objective opinion. Some examples are decisions like who should be the executor of your estate, how and when to make gifts tax efficiently to assist family members, or how to deal with changes to tax laws. If based on your current situation the planner projects that you can't retire at 55 as you wanted to, what do you do? If you can retire earlier than expected, have you thought about how you'll spend your time (and money)? This is where a trusted planner can walk through various scenarios, help you make changes to your lifestyle, investments or timeline, and put you in position to achieve your goals.

In addition, a planner can provide you with advice based on experience working with other clients who are in similar circumstances. For example, spouses may disagree about financial matters. One may think leaving money to their children is more important than traveling, while the other may think the opposite. In these instances, the planner can discuss the pros and cons of each and help the couple find a compromise — something a machine can't do.

CONCLUSION

Of course, we're biased. As financial planners we have seen successful long-term results and think everyone can benefit from receiving financial planning advice at all stages of their adult life. When you're young, it may seem like there's not much to discuss, but a common refrain we hear from our older clients is, "I wish I had sought advice sooner."

Typically, in your younger years, you would discuss how to budget, what insurance coverage you needed and how to invest your retirement assets. As you get older, you need advice about what size house you can afford, the type of mortgage you should take out and how to plan for the education of your children. Once you've accumulated some assets, you can start focusing on retirement planning. Finally, after you retire you might focus more on your legacy and planning for the next generation.

Financial planning is a lifelong process. Having a professional financial planner partner as you move through life should make it easier to do so successfully. The independent advice a trusted financial planner can provide should help you achieve your goals, lead the life you want to live and leave a legacy for future generations.

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