

One View on the Future of Financial Planning

by David J. Drucker

We all have our opinions, and we don't hesitate to opine on just about any subject. But some opinions are particularly insightful.

While pondering the future of the financial advisory industry, I decided to ask George Kinder what he thinks. Whether or not you use any "life planning" concepts or tools with your own clients, it would be difficult to dismiss Kinder's work as less than a major force in shaping the industry's best practices over the last decade.

As a foundation for his futurist views, Kinder notes three major past movements that must be acknowledged as part of the process of divining the future. Those industry accomplishments, says Kinder are, first, the 1970s movement toward the adoption of the CFP designation as a universal indicator of basic training, competency, and professionalism; the fee-only movement of the 1980s that is still influencing most advisors to move from commission to fee compensation; and life planning, which began in 1990s and continues to influence how independent advisors practice today.

"Of the three, the most institutionalized is the adoption of the CFP, but all three are critical when we look to the past as a guide to the future," Kinder said. "I've been all over the world [observing planners] and I think this structure is the same everywhere, with slight differences." The new advisory model that will emerge from this latest banking crisis and recession, he added, will bear global similarities.

This model--or organizational structure--will be much healthier for the industry than those we've seen in the past, Kinder said, and it will address four critical issues.

"First we have to look at how we can be seen as a profession that--without question--has the highest reputation for integrity of

any profession in the world," he said. "We deal with the whole life of the person or family we work with. When will we take this calling so seriously that we simply won't stand for anything but this reputation? We may all think we're doing a great, ethical job, but if the press and consumers and regulators don't see it that way, then we've still got a problem. Appearance and reality must be one."

The second issue is freedom. "What we've discovered in life planning is astonishing: we deliver to clients that final layer of freedom in their lives that they couldn't imagine occurring through financial planning. And, with that delivery comes a whole new understanding of the profession and its benefits to consumers." In concert with the second issue is the third issue--the realization that financial planning really is a relationship-based business. "You must have the necessary skills to create the highest-quality relationships," Kinder said. "In the past, advisors were trained in how to sell products. But the only sale we should be interested in now is the sale of freedom."

And the fourth issue is accessibility--or how do we deliver freedom to everyone? "The only person who has really addressed this thoughtfully is Sheryl Garrett (founder of the Garrett Planning Network, the mission of which is to train advisors in profitably serving the middle class). Without delivering freedom to everyone, we don't have integrity as a profession. We'll be viewed as elitist... as part of the problem, not the solution." And, he added, people will continue to question why we have former heads of Goldman Sachs (Henry Paulson) creating industry rules when these organizations are dedicated to sales. "We need an industry structure that reaches all the way down. We're on the verge of getting this, and it's a global undertaking."

Of course, these four issues are interrelated.

"Here's how they link -- in my view," Kinder said. "Without the highest reputation for integrity, clients won't trust us. If clients don't trust us, then we can't deliver freedom because they're not going to open up and share with us how they really want to live. If they don't open up, then we can't show them how money makes that happen. Not opening up means not trusting and, without trust, we won't get the relationship we need. And finally, accessibility is a huge integrity issue because, if we're viewed as elitist, we also can't deliver freedom, nor can we have a reputation for integrity."

To further make his point, Kinder recalls a forum he witnessed at the 2008 FPA meeting in Boston. "There were four or five people on this forum for people interested in global issues, and there were many non-U.S. participants in the audience. What was interesting to me were the passionate, earnest young advisors asking [panel members] how to shift to a fee-only model. A fellow from Australia said, 'We all know that if you have integrity inside your heart and if you work in a fiduciary way, you'll deliver the same quality plan as a fee-only planner. Yet, when clients come into our office and we tell them we have no ties to any products whatsoever, they breath a huge sigh of relief and [you can almost hear them say] hallelujah, thank God, we've finally arrived!'"

"So the point," Kinder said, "is that integrity isn't just about fees, but about where that huge sigh of relief comes from. The FPA is concentrating on planners being fiduciaries, but does that go far enough to change the

perception of consumers, the press, and regulators?"

He cited England as an example. "In England, the fee-only movement is so tiny that an emphasis on fiduciary [practices] may really work by itself. As for the U.S., though, when I talk to NAPFA friends who've been on the sell side, they question whether transparency, or fiduciary, is enough. And why shouldn't we seek integrity--get that sigh of relief from the consumer--as rapidly as possible? We're in a crisis now and need a new business model. Hundreds of thousands of people are getting laid off in this economy, so isn't this an ideal time to give the consumer what he or she wants? In a study Citibank did about RIAs recently, it talks about how Smith Barney is losing business to independent financial advisors who are fee-based or fee-transparent. So, it's known this movement is occurring, and one of the things we're seeing in New York and London -- the world's two financial capitals--is the collapse of the sell side. So it strikes me that it's an enormous time of opportunity for making transitions," he said.

Focusing in on freedom--and the delivery of it through life planning--I asked Kinder for a status report: how rapidly is life planning being absorbed into mainstream financial planning?

"I think there were five out of six recent presidents of FPA who were students of mine, so what's happened is the FPA retreats have been filled with life planning topics in recent years. The FPA's big, annual conference has, for years, included relationship-building themes, and you have many people out there delivering training of relationships skills. So there's no question life planning is a [major force]."

Kinder said that if you describe life planning to most advisors, they respond, "We're doing that."

"They might not call themselves life planners, but they say it's part of their business model. Of course, we believe we deliver the Lexus of training because we deliver something systematic: a structured process of inquiry that creates a profound relationship between the client and advisor, an enormous bond of trust and, ultimately, freedom for the client. There's no question everyone's taking programs to build these skills so, yes, life planning is expanding rapidly," he said. Kinder added that the

Kinder Institute of Life Planning is talking to major corporations in many foreign countries about his programs. "We're seeing a huge interest, and our business has about doubled in the last year."

Why is the whole matter of your client achieving true freedom so important? You may not intuit the answer if you haven't had some life planning training. "We ask three specific questions of each client to find out what their ideal life would look like," Kinder said. "If they're living a life different from their ideal, then they're experiencing a lack of freedom that potentially imperils their work, family lives and personal lives. The kinds of ideals clients commonly mention, says Kinder, include family, relationships, opportunities for creativity, or giving back in the community. "What happens is that, when we deliver on these ideals [i.e., show clients how they can use their financial resources to get the freedom they want], we reach a depth with them that goes much further than just telling them when they can retire or whether they can afford a second home. And when we, as advisors, make sure these deeper issues are really being addressed, the business model that incorporates these life planning processes becomes enormously compelling vis-a-vis the business model most of us are used to."

So the client must perceive the highest level of integrity in our profession, and life planning is one skill-set that furthers that impression. "The question for the profession is why can't we achieve that high level of integrity by delivering real freedom, and not just to the wealthy, but to all?" Some might say the life planning process is too labor-intensive to deliver to less affluent clients. But Garrett members like Kathryn Nusbaum of Middle America Planning in Pittsburgh have figured it out. So can you, Kinder would add.

"In other words, the life planning process can be streamlined. If a middle-income person gets someone on their side thinking about what they need for freedom, these clients can move rapidly toward their most passionate life," he said.

How will the move to a business model that incorporates life planning occur?

"When I was growing up as a boy, I earned my first dollars with a paper route. Early in the mornings, no one would be up, everything would be still, and it was a

great time for me to wander in my mind," he said. "One of the fear fantasies that would come up is what would I do if my parents died? How would I handle things like paying the bills? I'd think, 'Maybe the house is worth something, or maybe my dad has some savings ... but where would I go for help? My first thought was I'd go to Merrill Lynch. At that time, Merrill's image--for me--was that of financial probity, a pillar of financial stability, staffed with people who genuinely cared about their clients. There would be no question that I'd get good advice, and that it would be available to me [even without a lot of resources]."

Kinder said that he now knows how naive his fantasy was. "It's time for a new business model and the crisis we're now in is giving us the opportunity to make it happen. We know advisors must have a CFP or other professional designation the consumer can trust. They must not engender suspicion about sales. They must be dedicated to client service, and the client must know the advisor's primary concern is helping them express their freedom. It's time. This is something that's doable in every town of decent size in the next 10 years--to have that appear--to have consumers know where they can go to get freedom."

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