FINANCIAL PLANNING

Don't wait for the client to ask for help

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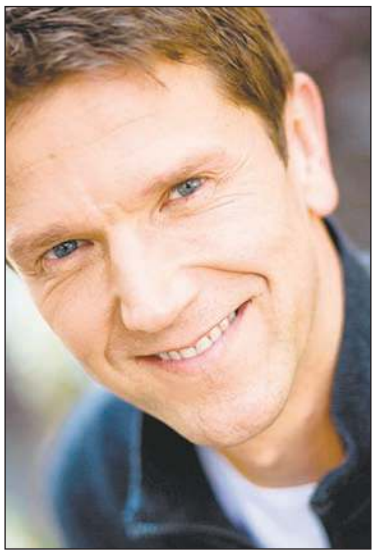
By KURT ROSENTRETER

In an era when some areas of public practice work are in decline, there has never been a greater need for personal financial planning expertise. That means there is a great opportunity waiting to be seized by accountants savvy enough to step up to the plate.



ROSENTRETER

Taking on financial planning and wealth management roles for their clients is the trend for accountants all around the world but it doesn't seem to be happening as fast in Canada as it is in places like the U.S., U.K. and Australia. Canada's accounting firms are woefully behind; they're not adding value for their clients through offering broader financial planning services and, in the process, missing out on an exciting and lucrative line of business.

For many accountants, while they have a broad range of related knowledge, the specifics of personal financial planning often remain a bit of a mystery to them. In fact, many accountants are not much better than the general public when it comes to running their own finances, which is a bit ironic given all of their training.

What accountants and their clients alike need to know is that everybody has goals, both financial and non-financial. Creating a financial plan helps a person organize finances around their goals to determine whether they are achievable and, if so, how to go about doing so.

The Financial Planners Standards Council defines financial planning as a process of understanding an individual's goals, collecting information around those goals, providing strategies and alternatives to address them, implementing that plan and then following up and making sure the person stays on track and rebalances their plan as necessary.

It's a process for making logical decisions to meet targets and it is applicable to all of the different areas of a person's finances, including areas like investment, taxes, retirement, the amount of insurance carried, whether the will is up to date, and the levels of debt carried.

A financial plan should be comprehensive and integrated because no one area of a person's finances stand alone. They all involve tradeoffs and integrated planning, given that the source of the money — usually the paycheque — has to be divided between all of the priorities, whether it's paying down a mortgage or for a child's post-secondary education or retirement funding.

To develop a financial plan, a person needs to start with a net worth summary that totals his or her assets, including bank accounts, investment accounts, pension plans and an estimate of the market worth of any real estate holdings. They then need to deduct any liabilities, such as credit card or line of credit debt and mortgages. The difference between those two numbers is that individual's net worth.

The other side of the equation is cash flow. That is the money coming in, whether it is salary or self-employment income, rental property income or investment earnings. That total, less annual income taxes paid on earnings, is cash flow.

Taken together, a person's net worth minus debt, and cash flow minus taxes, provide a complete picture of where they currently stand financially and marks a starting point for setting goals. Those goals needed to be sorted as short-term (under five years), medium-term (five to 15 years) and long-term (15 years-plus) so an individual and their advisor can then assess what strategies are needed to reach those financial goals over the specified periods of time.

Most people start financial planning on a piecemeal basis, and all sorts of events can prompt them to think about their finances. Possible trigger points include getting that first job, leaving home, marriage, having a baby, divorce or changing careers.

However, the vast majority of Canadians put no effort into proactive financial planning. They may fall into situations that require them to do things but very rarely do people on their own say: "It's time to sit down and consider my financial plan." Maybe 20 per cent of the public does that, while the rest are busy just focusing on their day-to-day lives.

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In some cases, they don't wake up until they're in their 50s, when they realize they're about a decade from retirement, their kids are going to university next fall and they're not debt-free yet. That's when they realize they don't have a plan. Even in the case of their savings, they basically just gave them to a broker and rubber-stamped whatever he or she said. They don't have a clue what's in their accounts or what fees they pay, even though they might be sophisticated white-collar professionals.

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That's where an educated accountant can make a big difference in the lives and well-being of their clients.

Given that personal financial planning is an extension from tax planning, it makes complete sense that accountants play a leading role in personal finance. An accountant is probably already the most trusted advisor relationship and has an in-depth perspective on the client's finances. As a bonus, an accountant's opinion is usually highly respected because, since they're paid on an hourly basis instead of being tied to commissions or trading, they are seen as impartial.

It's not uncommon for people to have their investments spread among several different kinds of financial advisors with no one on top of the big picture. Accountants can pull it all together, taking the statements from the various brokers and insurance agents and producing a consolidated viewpoint upon which to base decisions.

For an accountant, it's easy to transition a client relationship into financial planning by saying something along the lines of: "I know this much about you, your family and company, can we take a look at the big picture? Can I figure out the risk in your investment portfolio for you? I can assess your fees and returns to see how you did compared to others in the marketplace."

This sort of watchdog, second-opinion service provided by neutral and objective accountant is very valuable. Accountants have the mathematical, problem-solving and analytical expertise to provide huge value-added services for their clients.

Very few have ever been asked to write down and quantify their goals and develop timelines for achieving them, even though that's what their advisor should identify and focus on. If the investment advisor's role is simply buying the client products, talking about markets once a year and asking for more money, that's not proper financial planning. The value added comes when an advisor says something like: "I've gone over the numbers and your assets are $700,000 today. You need to get to $1.3 million by 62 so you can retire with $75,000 in annual after-cash income until you're 98."

That kind of mathematical calculation, made with conservative assumptions, provides clients with a target and a dashboard to see where they are towards achieving it. It turns the lights on for people and takes them far beyond how the markets are doing, which frankly is the easy part of all of this.

A combination of knowing the client, possessing analytical ability and knowledge of math is 80 per cent per cent of the value an advisor should deliver to clients. Yet many advisors, including accountants, don't offer this because clients don't know to ask for it.

Some accountants may need to top up their skill set with additional knowledge to, for example, increase their familiarity with insurance and investment products. But there are lots of courses available and with a reasonable amount of training — weeks or even days, not months — an accountant can quickly become a better watchdog for their clients.

It's easy for an accountant to quickly demonstrate they're worth paying for because they're on a client's side, know the client best and can grasp the full picture.

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