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The Next Generation of Advisers (and the Problem with Uncovering Them)

By Ed McCarthy

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Where will the next generation of CFP certificants come from? It's not just an academic question.

Surveys conducted by the Denver-based Certified Financial Planner Board of Standards (CFP Board) reveal that as of October 2004, approximately 44% of the CFP certificants in the United States are age 50 or older. Although some of those advisers will work to an advanced age, it is likely that many are already contemplating retirement and the challenge of business transition, which means they will need qualified successors at their firms. At the same time, an aging U.S. population is increasing demand for financial planners. Lance Ritchlin, senior editor at the CFP Board, notes that 77 million baby boomers are approaching retirement, while employers continue to shift responsibility for retirement saving to their employees. This need for self-directed saving will likely increase the need for qualified planners.

Meeting the demand for new CFPs is a supply challenge; keeping them in the financial planning profession is a demand problem. On the supply side, the number of U.S.-based certificants has grown steadily in recent years. As of Oct. 31, 2004, almost 46,000 certificants were registered with the CFP Board, up from approximately 30,000 at year-end 1996. (See "Getting the Sheepskin" below.)



The growth rate is likely to increase in coming years, with the additional growth coming from several sources. First, the number of CFP Board-registered educational programs has more than tripled since 1997. (These are education programs that register with the board based on various criteria.) According to Ritchlin, 310 programs are registered today at 191 regionally accredited colleges and universities versus 97 in 1997. Many institutions offer programs at multiple levels, including certificate, undergraduate, master's, or Ph.D. As more of these programs' graduates complete the CFP Board's three-year experience requirement, they will become an important source of new certificants.

"Anecdotally, we used to see mostly career-changers or people from other areas of financial services expressing interest in the CFP certification," Ritchlin says. "We still get many of those people, but we're seeing a slight shift toward young people pursuing financial planning as their first and primary career. This might be partly due to the huge increase in the number of colleges and universities offering financial-planning education."

Directors at board-registered college and university programs confirm the growing interest in financial-planning degrees. Texas Tech University in Lubbock, Texas, has one of the oldest personal financial-planning degree-granting programs in the country. The department offers undergraduate, master's, and Ph.D. degrees. Approximately 400 students have earned degrees in financial planning from the school since 1987, and according to Vickie Hampton, a professor and the program coordinator, 213 undergraduates, 55 master's students, and 17 Ph.D. students are currently enrolled.

Numerous large financial services firms have also started encouraging their adviser-employees to earn the CFP certificate. Although the CFP Board declined to provide firm-specific details, the trend is unmistakable. Merrill Lynch, for example, had more than 1,100 CFPs among its financial advisers in 2002. Charlotte, N.C.-based Wachovia Corp. has 138 CFPs among its advisers, with an additional 188 enrolled in the education program.

According to Sandy Deem, a spokesperson for Wachovia corporate communications, the CFP credential is an integral part of the firm's wealth-management practice. "Wachovia Wealth Management developed a three-year strategic plan in 2002, which included as one of its major platforms a vision to move its relationship managers from a 'banking-centric' focus to a 'planning-centric' focus," Deem says. "Senior management believed that a change in culture and sales-management focus was critical to helping the company become a holistic wealth-management provider that could serve all of the client's financial needs. It's clear that the CFP designation has considerable clout in the market, when you consider how many of the top advisers in the field--such as those selected for the *Robb Report's* Worth top adviser list--have earned their CFP."

Jeff Rattiner, president of Centennial, Colo.-based Rattiner's Financial Planning Fast Track, concurs that financial services firms are an increasingly important source of new CFPs. His firm provides intensive training for the CFP certification exam, and has prepped more than 1,000 students since 1997. Some students attend the training program in Denver, but Rattiner also offers the course on-site to employees of financial services firms. "We have seen an enrollment increase," he says. "We've done programs in-house with some of the biggest broker-dealers, banks, and insurance companies in the country."

Even if there is sufficient growth in the number of CFP certificants, the question of demand is still open: Where will CFPs who are new to financial services---career-changers and those who are coming from college-degree programs--find employment? There is no shortage of sales jobs with organizations that use financial planning as a loss leader for business development, but those positions frequently lack appeal as a career path for newly minted CFPs.

Michael Kitces, a CFP and director of financial planning for the Pinnacle Advisory Group in Columbia, Md., serves on the Financial Planning Association's (FPA) Career Development Strategic Committee, and he is also a co-founder of NexGen, a group of young planners addressing the issues that affect their generation of planners. Kitces says that many new planners are frustrated by the employment options they encounter.

"I think a lot of us are hoping to see more firms that have some level of staff infrastructure already start developing genuine career tracks for financial planning," he says. "These are positions where someone-right from the start-is on a financial-planning career track instead of working as an insurance agent or registered representative who might make a career shift later. What we're finding is that trying to start directly in financial planning in a wirehouse or insurance company doesn't really work very well. For these firms to spend a great deal of time and effort teaching someone all of the tremendous scope of knowledge needed to be a financial planner is, unfortunately, far too large of an investment in training when their retention rates are so low."

Several other observers echoed Kitces's point about the lack of clearly defined career paths for new planners. Jonathan Guyton, a CFP and a principal with Cornerstone Wealth Advisors in Edina, Minn., agrees that too few planning firms offer career paths like those found in accounting and law firms, but he sees improvement.

"Five to 10 years ago there were maybe 100 planning firms in the country that were structured in a way to hire somebody in a full-time, professional, salary-based position where there was no production or sales requirement," he says. "My sense today is that number is probably more like 400 to 500 firms."

That's still a relatively small number, but Guyton notes that it took other professions, such as law, many years to evolve to the point where the junior-associate model was the norm. In the meantime, says Guyton, a former FPA board member and head of the association's Career Development Strategic Committee, the FPA offers several career-development programs to assist new planners. (See "FPA Career Development Programs" below.)



The entrepreneurial nature of many financial-planning businesses is one reason that a career path hasn't developed at many small and midsize firms. This is particularly true of fee-only firms, but that model is evolving toward larger firms in a growing number of cases, according to Jamie Milne, chairman of the National Association of Personal Financial Advisors (NAPFA) and owner of Milne Financial

Planning in Barre, Vt.

"We're aware that for the newer planner coming into the industry, it is very difficult to find employment within the fee-only industry," he says. "Many NAPFA members are in smaller shops that have one or two planners. Having said that, though, there has been a lot of informal discussion where larger firms and their needs are being discussed. We're asking if there is a way for us as an organization to better meet those members' needs as many in the industry seemingly want to increase the size of their firms."

If growth is a key ingredient in creating positions for new planners, then Austin Asset Management Company in Austin, Texas, has mastered the formula. The fee-only firm has grown from three employees in 1996 to seven CFPs and five support staff. According to W. Eric Hehman, a CFP and the firm's managing partner, that growth has resulted from a strategy of hiring new planners.

"We decided to build a platform into which we could plug CFPs or CFP candidates as interns or paraplanners so they could become associates in our firm eventually," he says. "For the last eight years, we've added a new person every 12 to 18 months, based on the number of clients we have coming in and the number of clients that those planners can support."

Hehman and John Henry McDonald, another of the firm's CFPs, serve as Austin's marketing team. One of their primary roles is to generate the new business that supports the salaried planners and staff. The firm's internship program offers full-time employment. During that period, Austin Asset Management Co. pays the interns' educational expenses as they prepare for the CFP exam. Interns who pass the CFP exam and fulfill the experience requirement are offered positions as associates.

The model has worked: Hehman reports that every new intern or paraplanner who has joined the firm is still with them. "We finally have enough work to have two interns on staggered terms," Hehman says. "One intern took the CFP exam recently last week and the other one probably won't take it for another 12 to 15 months. When the first intern becomes an associate, we'll hire another person to create another 15-to-18-month gap between the interns."

Austin's model illustrates an important point: The expense of adding salaried staff requires revenue growth, but owners of smaller fee-only and fee-based firms often prefer to stay small. In addition, as Kitces notes, many firms are hesitant to incur the expense of hiring and training new planners at competitive salaries. Consequently, career-changers and new planners find that most entry-level positions have some sort of sales-production requirements.

"There are very few business models right now that allow people who are just graduating from college with a degree, for example, to get three to five years of apprenticeship," says FPA President-elect Jim Barnash, CFP and an adviser with Lincoln Financial Group in Chicago. "In the interim, one of the quickest ways to get yourself launched would be through a more traditional environment of the insurance company, broker-dealer, or wirehouse."

Barnash has 27 years experience in financial-services sales, and he believes that these traditional environments can teach new planners the critical skills of finding prospects and turning them into clients. New planners face a challenge, he says: Where do they see themselves fitting into the profession? "There will always be the need for someone who is going to be the rainmaker," he says.

"Every firm needs someone who can attract prospects to the firm and has the ability and the personality to help those people become clients of the firm. There is also a need for staff who keep clients with the firm once they are on board," Barnash explains. "And there are the technicians, who would rather spend less time with people and more time behind the scenes crunching the numbers, doing the research, putting the documents together for presentation, and so on."

Barnash adds that the challenge right now is that for those latter two categories. "There is not a great demand because in many firms, the lead planner handles all three roles. Perhaps they share some of that work in a partnership, but there simply aren't as many opportunities right now in the profession for those who don't want to be the rainmakers."

If Barnash's analysis is correct, the financial services firms that require some form of production will continue to hire the most new planners for the foreseeable future. So where are those firms finding their planners? The methods vary. American Express Financial Advisors (AEFA) has more than 10,500 financial advisers, making the company one of the largest employers in financial services.

According to Teresa A. Hanratty, a CFP and senior vice president of AEFA's U.S. Advisor Group in Minneapolis, the company has the largest number of CFPs in the industry. In a typical year, approximately 70% of the company's new hires have no prior experience in financial services, but that percentage is flexible.

"We've been growing our staff by about 3% a year for the last few years," Hanratty says. "The mix of new associates has shifted from almost exclusively novice to more of an emphasis on hiring experienced advisers, but that group is still less than 50%."

AEFA actively recruits recent graduates from financial-planning degree programs. Each year the company sponsors the American Express Financial Planning Invitational in partnership with the CFP Board. Students compete in a case-study analysis, and the finalists are brought to Minneapolis. Hanratty says that AEFA has hired contest participants for corporate and financial adviser positions. "We think that's a terrific way to help build the next generation of advisers," she says. "We think it's a terrific give-back to the communities, and clearly a recruiting opportunity for us."

Seventy percent of AEFA's advisers are independent contractor franchisees; the remainder are employees. AEFA has developed business transition programs for the independent contractors. One such program pairs new hires in an "associate financial adviser" arrangement with experienced contractor-advisers who are contemplating retirement. This is a multiyear arrangement, during which the new planner works with the experienced adviser with the goal of buying the practice. Although this is a relatively new source of hires, Hanratty reports that it has been highly successful.

In contrast to AEFA's approach, Atlanta-based FSC Securities Corp. focuses its recruiting on experienced advisers. A member of the AIG Advisor Group, FSC currently has about 1,500 independent contractor financial advisers, of whom approximately 1,000 hold the CFP designation.

Joby Gruber, the company's CEO, says that FSC's new associates come from several sources, including CPA firms, insurance companies, and other independent broker-dealers. Wirehouses and regional brokerage firms are two other important sources.

"That's probably going to continue as the biggest source for us," Gruber says. "You have the wirehouses that over the years had a relatively strong hold on their producers. Those producers are now recognizing that a name like AIG, which is our parent company, carries as much weight within the industry as any other wire-house name out there has historically."

Allison Couch, FSC's director of regional business management, reports that brokers making the transition from the wirehouses generally have solid financial-planning skills. She has found that the wirehouses traditionally have trained their representatives well in sales and technical skills, but many of the reps lack required business management experience.

"Where they've been lacking is where we step in," she says. "We focus on how to be a business owner. There's a big step between knowing how to sell a product, knowing how to manage a client's portfolio, and then knowing how to manage your business, which is what you do when you become an independent contractor."

Hiring experiences at several other broker-dealers in the AIG Advisor Group have been similar to FSC's. According to Chris Radford, senior vice president, national sales for AIG's Sentra Securities, Spelman & Co., and SunAmerica Securities, the group is seeing a large number of advisers coming from the wirehouses and regional firms. AIG also recognizes the value of the CFP certification in recruiting advisers, Radford says. "We offer specific paths for them if they want to pursue the CFP designation."

Anecdotal evidence indicates that three distinct groups will comprise the majority of new CFPs for the foreseeable future: career-changers, employees at financial services firms, and financial planning degree students. Given the increased emphasis on certification among financial services firms and the growth of degree-granting programs, it is likely the latter two groups will produce a greater share of certificants within the next 10 years. Career-changers and students, particularly those who lack financial services work experience, will continue to face a shortage of opportunities based on the junior-associate model until more fee-only and fee-based planners decide to expand their operations.

But Jim Barnash believes that new career tracks that are genuinely planning-centric will start to open soon in the larger financial services firms. "There will be more growth in planning among the insurance companies, the independent contractor broker-dealers, and the wirehouses," he says. "We're seeing that already--the organization with the second-largest number of CFPs is Merrill Lynch. Three years ago, that would have been Lincoln Financial Advisors, the firm I work for. Merrill Lynch is making a concentrated effort--they understand the direction of the future of the financial services industry. I think that once you have CFP practitioners in the company, they will want to do planning, and those organizations will have to find ways to accommodate them."

UNCOVERED: Next-Generation Adviser

Name: Michael E. Kitces

Firm: Pinnacle Advisory Group

Age: 27

Previous positions: Insurance agent and registered representative; client service manager

Received CFP: July 2003

Has the certificate made a difference in your career? For me, the CFP certificate was about acquiring a base of understanding about financial planning that I could use to further expand my knowledge as a technical expert. It has been extremely helpful in providing a critical foundation to build upon with future studies.

Were there any topics not covered in your CFP education? I wish it had given me a better understanding of the career tracks that are available in the field. Although the CFP curriculum is obviously intended to focus on technical knowledge, as a profession we are lacking in the clear definition of career tracks--particularly non-practitioner ones, such as back-office experts.

Has it been harder than you expected to get started in the business?

It certainly has been different than I anticipated. It took me several years simply to find the track in the financial planning profession that was right for me.

UNCOVERED: Next-Generation Adviser

Name: Steve Blankenship

Title and Firm: Founder and principal, Heritage Financial Planning

Age: 30

Previous positions: Financial planning specialist, State Farm

Received CFP: November 2001

Has the certificate made a difference in your career? Absolutely. It has created credibility that no amount of experience could match. Advisers who are CFP-licensed are sought out by the public. More often than not, the CFP license is a litmus test that many people use when searching for a financial adviser.

Were there any topics not covered in your CFP education?

The only topic that was not covered was an evaluation of different retirement plan projection methods. Many planners still use static models which assume a level rate of return when making retirement projections. This can greatly overstate the confidence level of retirement projections.

Has it been harder than you expected to get started in the business? Yes and no. I graduated with a degree in Financial Services and Planning from Baylor University and there was no shortage of brokerage or insurance companies willing to take a shot on a young graduate with such a relevant educational background. I wanted to work on more complex cases and focus on the actual planning aspect as opposed to the sales side of the business, so finding a larger firm that could afford to hire a junior planner took time. Finally, after about a year on the sales side, I got my big break with a Big Six (now Big Four) accounting firm to work in their Wealth Management Group. This laid the groundwork for my career going forward.

UNCOVERED: Next-Generation Adviser

Name: Eve Kaplan

Firm: Kaplan Financial Advisors LLC

Age: 50

Previous positions: Equities Manager, S&P MMS (Singapore), 1998-2001; principal, Money Works (a fee-only financial planning firm for expatriates in Singapore), 1997-1998

Received CFP: September 2004

Has the certificate made a difference in your career?

Definitely. Some clients are aware of the CFP designation but probably the biggest benefit is having a relevant credential when meeting peers.

Were there any topics not covered in your CFP education? Portfolio construction and monitoring issues. I worked for a number of years as an institutional portfolio manager but portfolio construction and monitoring for individual clients are vastly different from managing large institutional accounts.

Has it been harder than you expected to get started in business?

Yes. I joined the Garrett Planning Network in February 2004 and have benefited from the templates, resources, and collective wisdom of its members. Nevertheless, it took me a good seven months of set-up work before I could open my practice to clients. It will take me many more months to reach meaningful income levels-despite the long hours I put in. I deal with the typical issues that dog any self-employed individual.

Ed McCarthy is a freelance writer in Warwick, R.I.



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