Certification Pains Face Those Doing Financial Plans

by Kathy Chu

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For those thinking about getting certified as a financial planner, the barriers have gotten a little higher.

That's because the industry is rapidly changing, and planners these days can't focus on tax and income issues alone. They also need to understand the importance of debt management planning liability, emergency-fund reserves and statistical modeling -- issues that are becoming an integral part of the planning process as baby boomers age.

So, for the broker, investment advisers, attorneys and accountants who may be thinking of adding CFP titles to their names, take note: These topics are getting more emphasis on the certification exam, a two-day, 10-hour test administered three times a year by the CFP Board of Standards, a professional regulation organization in Denver. Also, these issues are carrying more weight at accredited financial-planning programs at 142 U.S. universities, according to the board.

It's a reminder to professional planners to keep abreast of these changes and to incorporate them into their businesses to adequately address clients' needs.

Changes to the CFP exam are based on information culled from an industry job analysis conducted every few years, according to Lance Ritchlin, a spokesman for the Board of Standards, which own the CFP mark. Data from the most recent survey, in 1999, provided the basis for reworking the coming July exam.

The test -- which has been compared in difficulty to the legal profession's bar exam -- is drawing more applicants in recent years amid rising demand for financial-planing services. The CFP designation is considered the gold standard in an industry that attracts brokers and attorneys and that features designations such as chartered financial analyst and personal financial specialist.

Last year, the CFP exam was administered 5,360 times to first-time and repeat applicants, according to Mr. Ritchlin. That's a 17% rise from four years ago, when 4,591 tests were given.

"Getting the CFP mark is a kind of hurdle," said John Stelman, a certified financial planner in Lake Orion, Mich. "It's not necessarily making you any smarter, but it proves that you're willing to step up to the plate and do something that sets yourself apart."

Debt, including home-equity loans, bankruptcy and consumer-protection laws, is getting more emphasis on the test these days because baby boomers are much more likely than their parents to rack up high levels of debt and have multiple credit cards.

The average consumer between 40 and 65 years old had about $16,000 in unsecured debt in 2001, a 7% rise from just three years before, according the Amerix, a Columbia, Md., company that provides technology to nonprofit credit-counseling agencies. The ratio of unsecured debt to income was at 50% last year, compared with 44% in 1998. The data are based on the profiles of clients who call credit-counseling agencies serviced by Amerix.

Also, more questions on the CFP exam are not based on planners' liability, as the industry is increasingly held responsible for advise and investment management in a depressed market.

This makes it crucial that financial planners know their vulnerabilities and protect themselves by putting recommendations in writing when possible.

Total complaints against CFPs, brokers, attorneys and accountants, among other professionals rose about 70% in the latest 12 months, estimates the Financial Advisors Legal Association, a Las Vegas company that offers litigation prevention and defense services.

Exact number weren't available, but complaints last year were in the thousands, said Jerry Reiter, Financial Advisors chief executive. The company's estimate is based on limited industry data and information culled from its own membership base, which includes CFPs, certified public accountants, brokers and attorneys, among other professionals.

"Clients tell their planners things they don't even tell their spouse," said Mr. Reiter. "That's why financial advisers are the No. 1 litigious target nowadays. When the client feels that trust is broker, it's a very emotional issue."

Also, emergency-fund reserves are becoming more important as companies announce layoffs and the economy continues to stumble, but many families don't have one, according to the Financial Planning Association in Atlanta.

FPA suggest keeping three to six months of living expenses in an emergency fund such as a savings or money-market account, to cover basics, including shelter, food, transportation, medical and life insurance -- in case of job loss or family illness.

As baby boomers age and nursing-home costs rise, long-term care insurance and retirement planning are also growing concerns.

Because of this, quantitative, software-based analyses of clients' financial conditions are gaining popularity. Some of these simulations are used by financial planners to project whether clients will have enough money for retirement.

"There seems to be a disconnect between how much people will need and how much They think they'll need," said Mr. Ritchlin of the CFP Board. "Because of this, people are looking for any tool that will help them manage things."