

Tips for Teens

The Offense and Defense of Financial Planning Know Who's Calling the Plays

By E. Dennis Zahrbock



We come across many clients who ask us to identify the differences between financial professionals, what their titles mean, and the fields of expertise for each. Most of our new clients come to us from either Investment Professionals or from Insurance Professionals, and this article's goal is to define the three options of professionals in the financial advice marketplace.

1. Investment Professional: this is a person commonly referred to as a broker, registered representative or registered investment adviser. People in this profession study the "offense" side of financial planning. In other words, they are trained and have knowledge in investment products that are used for creating wealth. Over the past couple of decades, they have added knowledge about the "defensive" side of financial planning, meaning they have obtained licensing for insurance-based products. It is my experience that leads to the following two conclusions about this group:

a. They learn and know a great deal about offense-style products, and their general claim to fame is investment results. There is nothing wrong with wanting investment results, but a consumer needs to know that this group of professionals may have limited knowledge in tax and long-term uses of financial assets. Another way of saying this is "this group is often concerned about maximizing your investment returns based on the risk you are willing to take, but they are not responsible if you withdraw more than you should and run out of money some day." Tax issues are your issues, and you and your tax adviser need to know the effect on the investments you make. This particular group is often thought of by the public as "financial planners" and, because no law forbids it, many in this group actually place the title "Financial Advisor" on their business card.

b. Their defensive skills are usually very weak as they prefer "single purpose" products (just like

most of the offensive products)...thus they generally believe that term insurance is the best insurance for almost all people.

2. Insurance Professional: if there was ever a set of products that should not be named insurance, it would be Life Insurance and Annuities. Both of these products are offered by the insurance industry and are thus classified as insurance. The reason I think they should not be labeled "insurance" is that they are not like homeowners insurance, car insurance, health insurance, etc. In each of these types of insurances, you are insured against a "potential loss," which means that essentially you are hedging your offense by acquiring some defense. On the other hand, Life Insurance and Annuities are protecting "certain loss" (as opposed to potential loss), as everyone has the risk of living too long and everyone ultimately dies. Insurance Professionals, in my opinion, have much more rigid training as the products they sell are often multi-purpose. Insurance products are much more complex than investment products, and many of them have many combinations of purported benefits. Insurance Professionals are generally much more knowledgeable about tax issues as this knowledge is essential to the use of their products. They are generally less knowledgeable about investment issues. Like Investment



Professionals, they have only added the offense to their repertoire in the past 20-30 years. Many insurance companies employ agents that represent themselves as “financial advisors” but almost always the solution to someone’s financial issues is an insurance-based policy that provides multi-purpose benefits.

3. Financial Planning Professional: this is the person that has taken the time and expense to go beyond merely being an Investment Professional or an Insurance Professional. The true professionals have taken the time to obtain a Certified Financial Planner (CFP) designation by passing a series of exams covering retirement planning, estate planning, tax planning, charitable planning, investment planning, insurance planning, education planning, and more. They then sit for a national exam, much like the CPA world, that takes six hours to complete with an approximate failure rate of 50%. The CFP designation originated in the Investment Community, so the knowledge of insurance products in the CFP curriculum is basic. The CFP who takes the time to obtain a Chartered Life Underwriter (CLU) degree learns the origins of insurance, how underwriting risk is defined, and how a multi-purpose product is actually built. It is this extra knowledge that the CLU obtains that really helps the client understand how defensive products generally need to be included in their comprehensive financial plan.

Once a person obtains a CLU (from the American College in Bryn Mawr) it is a matter of taking three to four extra courses to obtain a ChFC. In my opinion, the ChFC and the CFP prove similar knowledge in the marketplace – they are simply offered by two competing financial colleges. The CFP has better brand recognition by the public and thus may be considered a better degree to some, but the true knowledge of the professional that obtains one or both is often the same. The real difference between an Investment Professional, an Insurance Professional and a Financial Planning Professional is that the latter has equal or similar knowledge to both the Investment Professional and the Insurance Professional and adds the planning techniques that provide comfort to the client with the “total financial” picture. They are the only one of the three that helps plan for the expected with a constant eye on the unexpected. By that I mean they watch the tax issues, they watch the estate issues, they watch the charitable issues, and they attend meeting after meeting each year to remain current on all of the new ideas that are taking place in the financial industry.

The main point is that you need to be able to have full confidence in a financial professional that you trust. Get to know that person well – because you need to know that you and your investments are in the right hands.

QUIZ

1. Professionals on the “offense” side of training have knowledge in investment products that are used for creating wealth.

TRUE FALSE

2. Investment products are much more complex than insurance products.

TRUE FALSE

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3. “Life Insurance and Annuities” accurately describes a set of products very similar to homeowners insurance, car insurance, and health insurance.

TRUE FALSE

4. The real difference between an Investment Professional, an Insurance Professional and a Financial Planning Professional is that the latter has equal or similar knowledge and adds the planning techniques that provide comfort to the client with the “total financial” picture.

TRUE FALSE

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