Meeting the financial planning challenges of the future

Top financial planners discuss strategies for retirement, health care costs, and competing with robo-advisers.

By Courtney L. Vien
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To be successful today, CPA personal financial planners must be prepared for many challenges. Increased longevity and rising health care costs have made the creation of strong retirement plans both trickier and more essential. Demand for financial planning services is growing at the same time many advisers themselves are nearing retirement with too few young CPAs to succeed them. And the growing sophistication of robo-advisers has created pricing pressure.

To gain insight into the creative strategies and the interpersonal finesse financial planners have used to meet these challenges, the *JofA* spoke with four leading CPAs in the specialty. They shared their thoughts and their firms' methods for coping with lengthy retirements, health care costs, clients with dementia, succession planning, and the rise of robo-advisers. The participants included **Jean-Luc Bourdon, CPA/PFS**, principal and wealth management practitioner, BrightPath Wealth Planning LLC; **Michael Goodman, CPA/PFS**, president and financial planner/investment adviser, Wealthstream Advisors Inc.; **Lori Luck, CPA/PFS**, president/shareholder and financial planner, CLS Financial Advisors Inc.; and **James Shambo, CPA/PFS**, president, Lifetime Planning Concepts Inc. An edited version of their discussion follows.

Robo-advisers are becoming more prevalent—Schwab has even launched a no-fee one. How big a threat are robo-advisers to PFP firms?

Goodman: I do think that the robo-advisers have created pricing pressure in this industry. There's no doubt about it. Clients are generally more sensitive to fees than they have been in the past. You definitely need to make sure that you give your clients value for the fees that they pay.

Bourdon: I find it interesting that CPAs have already seen a similar situation with consumer tax software like TurboTax. What this did is pushed CPAs away from transactional relationships and towards deeper relationships with their clients. Personal financial planning integrates various aspects of clients' lives: tax, estate planning, retirement, investments, risk management, education planning, and so forth. Robo-advisers are limited to automating some aspects of investment management and simply can't provide personalized integrative planning.

Shambo: CPAs have done personal financial planning for over 100 years—we just haven't called it that for that long. And we have these deep roots and relationships with clients, which is something that a lot of people don't realize. And you cannot replace a relationship with a robo-adviser.

During the recession in 2008, a lot of CPA financial advisers didn't wait for the clients to call them. They were calling every client as soon as they heard about the downturn to find out if they were handling it OK. Clients are not going to get those calls from a robo-adviser, and they're not going to get the hand-holding they may need during certain life events. I've had clients cry in my office. It's not unusual for that to happen in really stressful times. Relationship is a key issue here, and developing, fostering, and nurturing that relationship is the best way you can protect yourself against this new technology.

That said, firms should consider cultivating relationships with young clients who use robo-advisers, to act as their sounding board and to assist them when they're experiencing life-changing events. By being on the Millennials' radar screen when they are building portfolios, firms will likely be the first adviser the Millennial will consider when issues arise that require one-on-one attention. If I was starting a practice today, I would put integrating robo-advisers with firm-integrated solutions at the top of my list of new services.

With longevity increasing, many Americans now fear that they'll outlive their savings. What are some strategies your firm uses to help ensure your clients won't run out of money during retirement?

Shambo: One thing we do is to make very long-term projections. When I first started doing financial planning, we all did 30-year projections of how much money clients would need in retirement. Today, it's probably much more realistic to be looking at 40-year projections or projections based on life expectancy. (I prefer the former, because you can run quite short by using the life-expectancy table.)

To help ensure clients' money will last, I would consider adding cash flow products to relieve the burden on the portfolio. The one I'm most excited about is the single premium immediate annuity, but advisers should also consider stand-alone living benefit programs where money managers and insurers team up to provide guaranteed payments without losing control of the client funds, or managed payout funds that don't have guarantees but offer a fund-of-funds approach to managing cash flows. Another thing I do is review their overall asset allocation between growth and income and assess how much volatility they can deal with.

Goodman: Demonstrating to clients how they can impact their own future by showing them how the variables affect the cash flow plan is very empowering for them. Clients

optimize it. Another resource is a longevity annuity, which typically comes into play well into the retirement years. It's also important to look at a retirement plan under various longevity scenarios. For example, in certain situations, a retirement plan is more precarious if one spouse dies early and leaves a survivor for an extended period of time.

CPAs can also help clients evaluate home equity as a longevity safety net. We get to a point where many clients do face running out of money, and it's important to address the question of what to do then. Selling the home or taking a reverse mortgage to utilize home equity can be one answer. Overall, I encourage clients to create scalable plans that they can change as they move through their lifespan, and scale back when needed.

How does your firm help clients prepare for high health care costs during old age?

Bourdon: Generations ago, health care wasn't as much of a financial risk as it is now. The progress we've made in medicine and advances in life expectancy make it a fairly new problem. So having the long-term-care conversation with clients is really essential. It's relevant for people who need insurance coverage because they can't afford to pay for long-term care, but it's important for wealthier individuals as well, because it facilitates whatever they plan to do with their money, whether they want to give it away or spend it. Taking the risk of long-term care out of their situation and moving to an insurer allows clients to have a more predictable plan, and it allows us to use less of a cushion.

Luck: One strategy we use is to target a pool of money equivalent to what the health care cost might be over a 30- or 40-year retirement—anywhere from $220,000 to $270,000. When we make projections, we also assume there will be a higher inflation rate on their current health care costs when they retire. We recommend long-term-care insurance quite a bit in cases where a portion of clients' long-term-care needs are not self-insured, to try to cover at least part of a catastrophic event.

Shambo: We try to identify clients' potential health care spending ahead of time by looking at their current chronic conditions when they come to us. Obviously, those who have two or three chronic health issues when they're still in their 50s are going to have substantially higher health care costs during their lifetime. I also always encourage clients to make sure they have a Medigap policy in addition to the traditional Medicare A and B, and maybe even D for drug coverage. To cover the extreme costs of long-term care, I urge clients to buy long-term-care policies with a five-year minimum benefit period, before age 55. Buying one of the newer hybrid annuity/long-term-care or life insurance/long-term-care policies may make sense for those who feel traditional long-term-care policies are too expensive.

Dementia rates are on the rise, and they're expected to skyrocket in the near future. What can firms do to help clients with dementia and their families?

Luck: Math skills and understanding money is one of the first things to suffer when someone has dementia. That's another reason financial planners may be one of the first people to notice the signs.

waiver to contact family or friends

Shambo: I ask my clients to sign a waiver that allows me to contact their selected designees—typically, their most dependable child—about their health care plan in the event I start seeing symptoms of dementia or things that give me concern. Financial planners see their clients a lot more than, say, attorneys do, and we may be the first person to see some signs of faltering. So I want to feel that I have the authority to contact a trusted person in their family, who could then take the next step of having diagnostic procedures.

Do you know how to spot?

It's also critical, when people are starting to show signs of dementia, to make sure that they review and update all key documents, like their will, their living will, and their durable and health care power of attorney, while they still have the capacity. That way, we're not dealing with these things without adequate legal authority to take care of them when it's a little too late.

It's also a good idea to start shopping for housing options as soon as those signs occur because, again, it will be a little too late if we wait too long to have the client help make choices about the future housing options that are available to them.

Bourdon: It's also important for firms to have a written plan to identify senior financial abuse, one that includes a list of red flags to talk about with the other members of the client's "tribe": their family, friends, and advisers. This plan should also detail how firm members should respond to concerns about senior financial abuse—whether they should call adult protective services, for example. CPAs need to know whether they are mandated reporters in their state.

Financial Advisor or CPA as mandated Reporter

Firms can also coach CPAs on how to be sensitive to dementia—for example, to make sure they continue to involve the client in conversations, even if the client can't remember the conversation after several minutes. I provide clients with dementia a pen and paper so that they can take notes and still feel a part of their own planning.

Recruitment and retention of younger CPAs is a professionwide concern right now. What are some things PFP firms can do to persuade young CPAs to adopt the PFP specialty?

Luck: People in our field are getting older. We have to get out and talk to colleges and younger CPAs about our career path so that we have a pool of people to move into our field.

Goodman: Something that I've been doing is reaching out to schools in our area and offering students who are curious about financial planning to come spend half a day in our office and get a feel for what goes on. So one thing firms can do is have the younger people in your organization—not the old men like me—show students around the office and give them a feel for it to whet their appetite.

Luck: Another suggestion: If you're associated with a tax practice, there may be young people in your tax department who have an interest in financial planning. They may have dealt with financial planning issues like helping clients determine how much they should contribute to their retirement plans in order to reduce their income tax burden. If these kinds of situations have sparked their interest in helping clients make better financial choices, then they'd likely be a good candidate for financial planning.

What can PFP firms do to retain young CPAs?

Bourdon: Employees today are more focused on the here and now than on elusive long-term rewards. I think younger CPAs are looking for more than just a job. They're looking for the life they want in terms of immediate lifestyle and professional growth. We need to enrich jobs to make sure that they tangibly provide those opportunities. Rethinking the pyramid organizational structure—for example, taking a team approach and involving young CPAs in client meetings—is also important to retaining younger people.

Goodman: Showing young employees that you are invested in their development is key. An example of this is taking them to conferences regardless of how young they are.

About the author

Courtney L. Vien is a *JofA* associate editor. To comment on this article or to suggest an idea for another article, contact her at cvien@aicpa.org (mailto:cvien@aicpa.org) or 919-402-4125.