Is your financial planner getting rich at your expense?

Not understanding how your money adviser gets paid could cost you handsomely

Published: August 27, 2015

Illustration: Sebastien Thibault

A recent decision in a lengthy legal case involving two certified financial planners was hailed as a victory for consumers.

A husband and wife, Jeffrey and Kimberly Camarda of Fleming Island, Fla., had been marketing themselves as “fee-only” financial planners, a term for those who charge clients a fixed rate for their services and don’t earn commissions or bonuses when recommending financial products. But that wasn’t true, according to the Certified Financial Planner Board of Standards, which filed a disciplinary action against the pair. It claimed that the Camardas were selling insurance products from which they earned commissions, misrepresenting their compensation method, a violation of CFP Board rules. Then the couple sued the board, saying they were unfairly disciplined. But in July, a judge dismissed their lawsuit.

“Some advisers use ‘fee-only’ for marketing purposes instead of as a pledge to their clients,” says Eleanor Blayney, a consumer advocate on the board. There’s no way to tell just how many financial advisers misrepresent how they’re compensated, she adds. What’s clear is how much working with the wrong kind of adviser can cost you. A study from the White House by the Council of Economic Advisers, published in February, estimated that financial advisers who have conflicts of interest cause $17 billion in losses every year to Americans, many of them in working and middle-class families. And that’s just for those who are using IRAs to save for retirement.

Part of the problem is that there’s no governmental regulatory body that polices all financial planners. Investment advisers and brokers who sell bonds, stocks, and other financial products must be registered with the Securities and Exchange Commission or in some cases with state regulators. There’s no such oversight for financial planners, who help clients with retirement planning, estate planning, saving for college, and other matters.

The CFP Board, however, will investigate complaints it receives or violations the organization uncovers itself. It can suspend or revoke the use of the certified financial planner designation,but it can’t stop financial planners from giving advice.

The best line of defense against unscrupulous planners is to educate yourself. That can be confusing at first, because there are more than 150 designations for financial service professionals. But many of the titles are dubious; they can be earned after just a few hours of study and an open-book test. Adding to the confusion is that many suspect designations sound similar to legitimate ones.

We recommend using financial planners who have the CFP designation. That indicates that she has passed a comprehensive certification examination provided by the board, has at least three years of financial-planning experience, and is committed to continuing education in financial concerns.

It’s also important to make sure you understand how the financial planner you select is compensated. Not all CFPs are fee-only; some are paid by commission or a combination of fees and commission. The CFP Board requires only that planners make it clear to clients how they’re compensated.

We recommend fee-only advisers because they offer the most protection from inherent conflicts of interest. They charge a flat fee, an hourly rate, or a percentage of assets under management, usually about 1 percent.

To start your search for a fee-only adviser, go to the following websites:

- **CFP Board.** You’ll find a directory of financial advisers who hold the CFP designation along with information on how they’re compensated. You can also find out whether an adviser is in good standing and whether the CFP Board has ever brought a disciplinary action against him or her.
- **National Association of Personal Financial Advisors.** Members of this professional group, many of whom are CFPs, adhere to a strict fee-only standard. They can’t accept compensation in any form from any source other than their clients. For those who advise on investments, NAPFA reviews a form they must file with the SEC ensuring that they haven’t started to accept commissions and are still fee-only advisers.
- **Garrett Planning Network.** This national network of financial advisers includes only fee-only planners who charge for advice by the hour. They’re especially good at helping clients with smaller projects, such as determining how much life insurance they need or whether it makes sense to refinance a mortgage. Most of the organization’s members are CFPs.

Of course, just because an adviser is listed with one of those networks is no guarantee of honesty. It’s your responsibility to have ongoing discussions with the one you choose about fees and how they’re calculated. If she charges you on an hourly basis, for example, ask her to put in writing how many hours it will take to finish a project and what the total cost will be. Also take note if your adviser starts to recommend financial products from which she could earn a commission. If she refers you to an attorney, accountant, insurance professional, or a mortgage adviser, also ask if she earns referral fees for doing so. In the end, most financial planners are ethical. But savvy consumers can reassure themselves by paying close attention.