

## **Finding A Win-Win**

*Advisers grapple with the conflicts inherent in their pay structures.*

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No matter how advisers are compensated, many agree that how they are paid paves the way for constant conflicts of interest, especially when determining what financial strategies best suits a client.

A recent question posted in the Financial Planning Interactive Investments Shop Talk room spurred planners to debate what aspects of their business could lead to such conflicts and what to do about them (to join the discussion, go to <http://www.financial-planning.com/wwwboard11/>).

Planners agreed that many strategies – using 529 college savings plans and other tax-qualified products, giving to charity, liquidating assets into cash and paying off debt – are all clearly beneficial to the client, but not to the adviser.

If asked the question, 'Should advisers be more concerned about making money or about client needs?', most planners would pick their clients.

"They're in a relationship business," said Scott McDuffee, spokesman for the Financial Planning Association. "Furthering relationships obviously relies on doing what's best for the audience they serve."

But not all conflicts are as easily identifiable as that question. Dan Moisand, a CFP licensee who serves on the CFP's Board of Practice Standards, said all compensation arrangements have potential flaws.

For fee-based advisers, any sort of gift funds or asset consumption results in lower assets under management and, therefore, in reduced fees. A potential conflict of interest will arise anytime a client moves assets away from the account, for whatever reason.

On the commission side, product peddling with an investment vehicle that yields a higher payout to the adviser but is nonrefundable for the client is a potential conflict, said Moisand, of the Optimum Financial Group in Melbourne, Fla.

He added even flat fees and hourly rates cause potential problems – the former is an incentive for the adviser to do the work as quickly as possible, and the latter is not conducive to long-

term relationships, as clients may hesitate to communicate with the adviser for fear of billing.

Some advisers use a fee-offset payment model. This is where they charge clients fees, but if commissions are made as well, they are subtracted from the fee, so both parties benefit.

"Ethically, it's a wonderful way to do it," said John Olsen, of Olsen Financial Group in St. Louis, Mo.

Unfortunately, some advisers, like Olsen, are faced with another hurdle in trying to balance their interests with their clients': The state of Missouri categorizes fee-offsets as "rebates" and deems them illegal.

Whatever structure they choose, planners agree that the best solution to fee conflicts is ensuring that clients understand how the planner benefits from that structure.

"The more I can educate them on financial planning, hopefully, they would appreciate more how I approach [the business]," said **Rich Winer**, an adviser in Woodland Hills, Calif. He sends out monthly newsletters to clients with industry updates.

Besides compensation models, specific financial strategies can cause payment conflict between clients and their advisers. Investing in insurance products, especially variable annuities, and paying off debt are just two examples.

Winer, a fee-based adviser who also takes commissions on insurance products, said he ensures every client's insurance needs are covered before he starts to discuss investments, "but not overcovered," he added.

Bill Mahoney, a fee-based planner at The Rise Co. in Oxford, Mass., said clients need to pay off debt and maximize their 401(k) and IRA contributions before investing. Although neither of these add to the assets that he manages, they are too important to bypass, he said.

While for many clients paying down debt and maximizing retirement plans are the first important steps to financial security, some planners admit there has to be a limit to how much advice they can give without pulling in assets.

"I have to do what's best for client," Olsen said. "[But] if it gets to the point where I'm giving away the store, I fire the client."

In addition, Joyce Cole, a CFP licensee in Keene Valley, N.Y., said gift trusts and any sort of charitable giving are potential conflict catalysts, but she still sees it as a necessary component in wealth management, due to tax advantages.

"Part of wealth is doing public purpose," said Cole, who requires a \$500,000 minimum in assets under management from her clients. "[And] part of my job is to have them spend their

money wisely."

--*Laurie Kulikowski*

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