Severance, inheritance called the new windfalls

By PETER MERRICK

In the late 1990s I had developed a specialty called early retirement, severance and pension wind-ups.

During that period, I had more than 1,000 one-on-one discovery interviews with ordinary people who were going through transitions. These were transitions caused by downsizing layoffs.

When I would present their financial severance package, I quickly realized there was never enough money in the world because they were hurt and unprepared. But the opportunity offered by a severance package might be just the breakthrough many people need to pursue the profession or vocation they have always aspired to, or to retire.

If your client's employment has just been terminated, his/her financial situation is a prime concern for their family and themselves. So right off the bat, your client needs to ensure that he/she has received the best severance package possible.

The questions clients have to be asked during these transition periods are:

- Does his/her lump sum severance reflect his/her years of service and the probability of securing similar employment?
- Are there provisions for medical and dental benefits, group life insurance conversion to a private policy?
- Is there an option to pension and group RRSP transfer, for retraining, counseling, job search and resume assistance?

Your client should never feel pressured into signing anything until he/she has sought legal advice on these issues. If your client is not sure they have been treated equitably, they should contact a lawyer.

MERRICK

A consulting fee is a small price to pay to make sure one has received what is owed. Clients who believe there is the slightest possibility of a forced a career change during the next year should get their financial house in order.

They should look at current and anticipated expenses such as mortgage, car and household insurance, college tuition and daycare.

They should be assessing their family wants and needs to strike a balance that will neither bleed them dry nor alter their lifestyle unnecessarily.

When your client has a firm employment situation, they should consider negotiating a line of credit with their bank to cover emergencies so they do not have just one month left of their money.

Clients should consider their personal situation and how they are going to take charge of their life. Their response will depend on their age, psychological readiness for change, the marketability of their knowledge and skills, the amount of savings they have, and perhaps how ready they are to retire.

Finally, they should think about discussing their options with a certified financial planner.

There are important factors to consider and a CFP can help make the most of their severance package by proposing tax savings and deferral strategies, recommending sources for legal advice and suggesting financial planning solutions that will ensure both they and their families have a financial bridge to take their next step.

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Affluent investors say they prefer their own counsel

TYRES

By PAUL TYRES

Accounting or wealth management firms that provide proactive, integrated financial advice will be well rewarded by their top clients and other affluent Canadians.

That is, to me, one of the key findings that consistently turns up in surveys of affluent Canadians conducted by Taddingstone Consulting Group since 2000. Accountants should take note.

This research confirms that those accountants who stick only to their traditional compliance work will fall short of their top clients' expectations and put these relationships at risk. Every business, accounting businesses included, must progress and provided value, as judged through the eyes of the client.

In the study, the affluent are predominantly male, with an average age of 61 and an average net worth of $3.2 million. Interestingly, very few of them fit the traditional stereotype of a successful entrepreneur.

More than 80 per cent of the sample had at least an undergraduate degree. Given their education, perhaps there is little wonder the affluent complain about poorly qualified financial advisors. Perhaps that is why they value the advice of their accountant now, more than ever.

The 2003 study found that the affluent are increasingly relying on themselves as their own primary advisor. In fact, the percentage of affluent advising themselves rose to 43 per cent, from 28 per cent in 2002.

The top three preferred advisors chosen by the affluent in order were themselves, their accountants and their full service brokers.

When asked how satisfied they were with their current advisor, almost half said they were dissatisfied and had a variety of complaints that included limited access to experts, too few meetings, poor execution of financial decisions and advisor ethics. While they didn't blame their full-service broker for the decline in the markets, they did feel there must be a better way.

Anecdotally, I have met many affluent Canadians in the past few years who don't really want the role of being their own primary financial advisor, since they value the advice of experts. However, they sure are open to a new and better approach.

Occupations that rate accountants as top advisors

Medical practitioners 82%
Financial services executives 64%
Business owners 58%
Executives 55%
Retirees 49%

While three quarters of the affluent believe that a planned approach to their financial affairs is important, half reported they have no financial plan at all. Affluent individuals who have a formal plan are more satisfied with their advisor than those who have no plan.

It has been my experience that planning remains a challenge to those in the financial services business. Advisors recognize the importance, but seem reluctant for whatever reason to devote the time required to fulfill the need.

The accountant has a decided information advantage over other advisors when it comes to financial planning. When accountants add the portfolio information to what they already know, they are in an ideal position to assist their clients proactively.

In the Taddingstone research, two out of three affluent Canadians named retirement needs and capital gains and losses as their main concerns affecting their investment decisions.

To me, this says that their current providers need to either substantially strengthen their expertise in the complex world of tax and retirement planning, or bring the expertise together, under one roof.

A retirement plan will typically show that the affluent will never use all their assets in their retirement. This logically points to the importance of proactive estate planning.

After many years in this business, I firmly believe one of the greatest values a financial advisor can bring to their affluent clients is getting them to create and execute an estate plan; especially if they are a private business owner.

Despite their efforts and promises, according to Taddingstone, the banks impress only half of their wealthy clients. Almost 70 per cent identify longstanding deficiencies in service and skill.

The reasons often cited are the commission-based structure still widely used by banks and their brokerage firm advisors and the lack of planning.

Experience has shown that the best way to properly serve clients and create a viable business in the process is to integrate accounting and financial services under one roof. Why? Because this model lends itself to being a quarterback for your best clients' overall financial matters.

It combines skills and information that are currently in silos that don't co-ordinate their services in the client's best interests.

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Report cites modest rise in adviser pay

Toronto

In the past two years, investment professionals with 10 or more years' experience received a 14-per-cent increase in overall median compensation (from $183,500 in 2003, to $210,000 in 2005), according to a survey by the CFA Institute and Russell Reynolds Associates.

The 2005 median total compensation for all Canadian-based professionals is $125,000, an increase of nine per cent over the 2003 median ($115,000). While the trend is positive, compensation rates are still off their 2001 peak—a familiar situation to investment professionals world wide.

"We continue to see a vibrant and competitive market for top investment management talent, particularly in the senior ranks," said Shawn Cooper, country manager, Russell Reynolds Associates and head of the Canadian financial services practice.

"Large public funds in Canada have started to compete with the private firms for talent; and while compensation levels are up significantly, so are their returns," Cooper added.

The results are part of the 2005 Global Investment Management Compensation Survey, a review of investment professionals conducted jointly by the CFA and global executive recruiting and assessment firm Russell Reynolds. The survey examines the compensation of portfolio managers, securities analysts, pension officers and other senior-level investment professionals at management/financial services organizations.

Similar to previous survey results, hedge fund professionals are still the top earners in Canada, with a median compensation of $235,000. Meanwhile, professionals at investment counseling and securities firms are next in line, earning $151,000 and $145,500 respectively, closely followed by pension plan sponsors at $140,000.

Of the 10 countries included in the study, the U.K. posted the highest 2005 median total compensation at $269,000, while Singapore posted the lowest, at $98,800. Industry professionals in Japan, Switzerland and the U.S. form a second tier, while those in Australia, Germany and South Africa form a third. Investment professionals in Singapore, Canada and Hong Kong earn far less then their peers in the other countries surveyed. (Still, Toronto investment professionals with 10 or more years' experience and in the top 10 per cent would rank after Australia, U.K., and the U.S. with median compensation of $625,000.)

Canadian investment professionals with the CFA designation out-earn their peers by 26 per cent (a median of $130,000 versus $103,500).