

Financial Counseling and Planning: Similarities and Distinctions

Virginia B. Langrehr⁽¹⁾

This paper reviews the differences between financial counseling and financial planning. A model is proposed for determining the client markets for financial counseling and planning. Distinctions in professional services provided and knowledge needed are discussed. The paper concludes that some similarity exists between financial counseling and planning and recommends that some overlap in the curriculum and certification requirements of these professionals be maintained.

KEY WORDS: *counseling, planning, certification, education*

Establishing academic training, professional standards, and criteria for certification in the area of financial counseling requires that financial counseling be differentiated from financial planning. Those attending the 1983 Consortium on Financial Counseling and Planning attempted to define similarities and differences between financial counseling and financial planning. Those selecting a name for the Association for Financial Counseling and Planning Education (AFCPE) in 1984 wanted both counseling and planning in the title of the organization. Clearly to members enough difference existed that the use of both counseling and planning was important in defining the organization and its purpose.

Professional Differences

Mason and Poduska (1983, 1986) conclude that significant differences exist between financial counseling and financial planning. They say those who are in precarious financial situations and are struggling to remain solvent should seek the help of a financial counselor. Those individuals wishing to achieve longer term financial objectives need the professional skills of a financial planner. McNamara (1985) distinguishes between financial and credit counseling. "Financial counseling is a holistic approach, teaching individuals new skills for managing their finances. Credit counseling is crisis intervention dealing primarily with credit problems." Alternatively, Williams (1984) using the term financial advising states that it encompasses both counseling and planning that involve similar processes.

The definition of financial planning developed by the Registry of Financial Planning Practitioners® (1988) states "Comprehensive Financial Planning is a client-oriented process focusing on all the psychological and financial factors which may have an impact on the client's financial goals and objectives." Six activities make up the steps of the comprehensive financial planning process. These activities include collecting and assessing all relevant personal and financial data; identifying financial and personal goals and objectives; identifying financial problems; providing a written financial plan; implementing the plan as requested by the client; and periodically reviewing and revising the plan.

In summary, both financial counselors and financial planners work with individuals seeking help with personal financial management. Both define the role of the counselor/planner broadly enough to cover almost any aspect of personal financial management. Both take a holistic approach to working with individuals to maximize personal financial success. Thus there are many similarities in the processes and objectives of financial counselors and planners. What are the differences?

Market Segmentation

One approach to determining differences is the comparison of client economic potential. Mason and Poduska (1986) use net worth and income position to distinguish between clients. This differentiation emphasizes that the planner provides a client with financial advice related to wealth accumulation. The counselor helps the client make more rational financial decisions in relation to a financial crisis. In actual practice few planners accept clients below a given income or net worth level (Reichbach, 1989). Also, many households that are not in a precarious financial situation want and seek assistance with financial decision making not related to wealth accumulation (O'Neill, 1989). Are these clients unserved? Or, are they served by both financial counselors and planners?

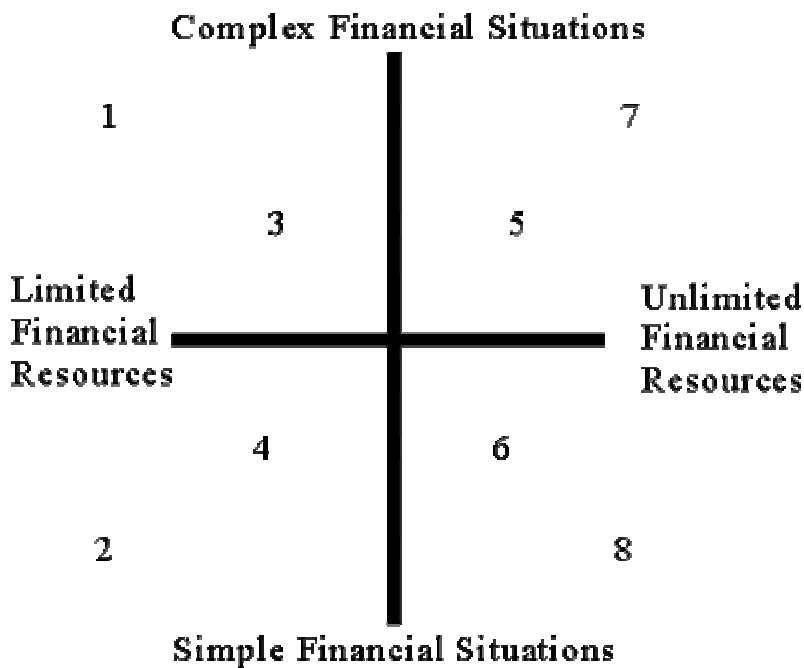
Approaching the issue from a different perspective may give further insight. The market for financial services advisors can be mapped in two dimensions: complexity of the financial situation and amount of financial resources (Figure 1). First let us examine financial complexity.

Financial Complexity

Complexity of financial situations of households varies with the interaction of several factors. These factors include household composition, psychological disposition toward resource management, regulatory environment, risk factors, economic conditions, and personal history. As household composition changes so does the complexity of financial decisions (Edmondson & Pasley, 1989; Feldman, 1985; Gurney, 1988). For example these authors suggest that single parent households, remarried families, unmarried partners, and other living arrangements complicate the financial decisions of the households.

Figure 1

Markets for financial advisory services by amount of financial resources and complexity of financial situation.



Also the psychological makeup of the individual decision maker significantly affects the complexity of the financial management process. Those displaying dysfunctional financial behaviors can quickly change the economic condition of a household (Gurney, 1988; Feldman, 1985). Some examples of dysfunctional behaviors are excessive use of money to maintain power or control over others, to buy love or belonging, or to hoard money due to fear.

Dysfunctional behavior was exhibited by the individual who sent flowers to every member of a community theater cast on opening night when no money was available to buy groceries to feed a family of six. This person later paid the florist bill because he or she didn't want the owner to think he or she was a "deadbeat." On the same day the city shut off utilities to the house for lack of payment. Differentiation between clients of planners and counselors based on dysfunctional behavior thus has intrinsic appeal. Yet planners also report that some of their clients show dysfunctional financial behavior (Gurney, 1988), such as an individual who stored his or her life savings in grocery bags in a safe deposit box.

The extent to which the regulatory environment affects households varies by regulation. All households with income are affected by the federal tax code. Some have more complex decisions to face because of the code. For example, the calculation of the child care credit or the calculation of the minimum tax complicate the calculation of the tax return and call for more complex financial decisions. Family support requirements, estate transfer regulations and other state and local regulations complicate the financial decision making process of the household.

Risk factors affecting households also complicate the financial situation. Risks involving income, assets, investments, jobs, health, life, disability, property, and liability must be dealt with by households with divergent financial resources.

Economic factors affect both employment opportunities and investment opportunities. Examples of increased decision complexity resulting from economic conditions include job selection, which may require relocation of the household, and choice of the number of children to bear, which may affect the selection of employment opportunities of men and women.

Personal history, encompassing knowledge and experience, may determine the degree to which an individual views a situation as manageable. Those accustomed to a particular financial problem may be comfortable living with the problem. Individuals may choose to live with the problem rather than correct it because of a comfort level with the known. For instance, consider an individual who believed that she did not need to make a monthly utility payment because the utility company had always accepted late payments. The utility had sent letters saying she was in danger of having her power disconnected. Because she routinely received the letters the client thought that no action would be taken. She expected the utility to accept her established pattern of irregular payments. Conversely, a client missing his or her first payment with a company may feel utter despair and great urgency to rectify what he or she perceives as a major problem.

Financial situations thus can range on this dimension from simple to complex depending on the number of factors a household must consider and the complexity of each factor. These may be characterized by few household members, functional financial decision processes, constant and easy to control sources of income, straightforward tax calculations, limited risk exposure, limited asset diversity, and few concerns with asset distribution on death. Conversely they may be characterized by complexity due to any combination of factors. These include but are not limited to multiple sources and types of income, remarried family composition, dysfunctional financial decision making behavior, complicated tax considerations, extensive risk exposure, and accumulation of highly regulated assets with intricate distribution requirements at death.

Financial Resources

Another attribute necessary for differentiating financial advisory markets is that of personal financial resource availability. Financial resource availability may be measured along a second dimension. One end of the dimension is anchored by the client with limited financial resources as measured by accumulated assets or current income. The other end of the dimension is anchored by the client who has abundant financial resources in terms of assets accumulated or current income. Here we are measuring actual resource availability and not client perception of the amount available. Client perceptions are associated with complexity and are thus accounted for on that dimension. Most people have no problem accepting that the counselor's client for the most part is the limited resource client and that the planner's client usually is identified with the unlimited resources end of the spectrum. The middle segment of this dimension consists of many clients who are not readily identified as clients of either planners or counselors. However, this may be the largest segment of the market for financial services. Most would agree that this market segment needs financial service advisors, but whether this advice is provided by a financial counselor or financial planner is arguable.

Complexity and Resources Considered Together

Often it is assumed that the individual with accumulated assets or abundant current income has a complex financial situation. Conversely it is frequently assumed that the financial situation for limited resource individuals is simplistic. As was shown in the examples above, the complexity of an individual's situation is not just a factor of the amount of resources available. Conversely wealth accumulation or availability of excess funds does not necessarily result in a complicated financial situation (Duncan, 1984; Riche, 1989).

Figure 1 shows a suggested map for the markets for financial advisory services. The map is divided into four quadrants. Points shown by numbers on the map are a few of the possible client positions in relation to their financial resources available and the complexity of their financial situation. Note that all of the blank spaces on the map are possible points where a particular client may exist. Those shown are for illustrative purposes only.

Clients located in the upper and lower left hand quadrants (positions 1 and 2) are those who have limited income and few or no assets available. Noting the difference between clients at positions 1 and 2 helps clarify the distinction between the two dimensions. At both positions the financial resources are limited but the situation may range from the simple to the complex. Individuals at position 1 have a low level of resources but have complex financial situations. These clients have complex financial problems possibly associated with retaining ownership of a home secured with a mortgage. Their situation is often compounded by economic conditions such as employment layoff, dissolved relationships, and dysfunctional financial behavior. At least in the short term, financial resources are inadequate. Home ownership counseling under The Housing and Urban Development Act provides services for some clients at position 1. Strategies for saving the home from foreclosure including developing a basic budget for the household.

Position 2 represents the individual with limited resources and low complexity, possibly a university student. A university financial aide counselor may offer advice on budgeting for school costs. Between points 2 and 1, moving up the scale in complexity, a social services case worker may provide information ranging from application assistance through basic budgeting help to a welfare recipient, or they may provide crisis intervention in protecting life sustaining resources such as food and shelter. The problem may be straightforward, if not, as it becomes more complex it would move up toward position 1 on the map.

Biehl (1984) suggested that the greatest growth in demand for financial services in the coming decade would be from individuals in the middle of the financial resources dimension. These market segments are composed of individuals seeking information on a variety of topics depending upon the complexity of their situation and their resources available. At the simplistic end (positions 4 and 6) they may only ask for budgeting advice. As their situation becomes more complex (positions 3 and 5), where resources are adequate, they seek advice on saving, selecting between employer benefit choices, using credit for consumer purchases, home financing, tax planning techniques, selecting insurance, funding retirement, and planning for needs of survivors.

Another government counselor frequently serving clients at or near position 3 is the VISA tax counselor. These clients are expected to have somewhat limited income and generally have somewhat simple tax computations. Still, complexity of the tax problem varies widely among clients. For example, one counselor worked with an unemployed couple who through lack of knowledge and fear was living in their car while leaving their children with relatives. The husband had made a good income approximately four years before seeing the tax advisor. That year he was unable to pay his full tax liability by April 15. He chose not to file although he knew it was illegal. Then he became afraid to work because he thought the IRS would jail him. The couple had made an error in computing their original tax liability and would not have owed additional taxes for that year. The VISA counselor helped the client file the proper tax forms. He worked out an arrangement enabling the client to settle the tax claim. This allowed the client to return to work, and reunite the family.

Financial Assistance Program counselors with the armed services may serve clients across a broad spectrum of financial resources and financial complexity. A military counselor began by working with the new inductees teaching basic money management and credit use. These clients would be at positions 3 or 4 on the map. Within a few years this counselor was providing more advanced programming including investment advising and

retirement planning for higher ranking and better paid military personnel. These clients, having greater resources, would be at positions 5 or 6 on the map (T. Searle, personal communication, September 25, 1989).

Another example at positions 5 and 6 is a New Jersey Cooperative Extension program developed by Barbara O'Neill (1989). O'Neill feels that it is a myth that financial planning is just for "rich people." She states, "While financial planning is often thought of as something you do after you have accumulated a lot of money, it should be viewed as something you do to accumulate money." (O'Neill, 1989).

At the extreme right hand side of this dimension are clients with accumulated wealth and/or high income. The individual at position 7 has a resource base that provides for wealth accumulation while the client's situation is complex. Here one might find the executive with a large income and highly valued accumulated assets. The complexity of the situation may be associated with family dissension over the meaning of money, family support payments, property ownership laws, estate transfer techniques, maximizing retirement planning strategies, and associated tax consequences. The client at position 7 clearly can be classified as the "ideal" planning client. Rather than teaching basic budgeting the advisor more often discusses cash flow management with this client.

The client at position 8 has highly valued accumulated assets or income but has a somewhat simple situation. The single retired individual living on income from a trust that ends on his/her death may have few financial decisions to make. A court appointed trustee may be responsible for any investment decisions that are made regarding the trust. Frequently the person seeks help in budgeting the trust income to maximize his or her level of living but does not want or need investment advice. Some planners would identify this person as an appropriate client, others would not. Some Cooperative Extension programs would provide the services appropriate for this client's needs.

Table 1 summarizes the previous discussion. For each client type illustrated in Figure 1 the advisor activities most likely sought and the knowledge needed by the advisor to serve the client are given.

Table 1.

Advisor types and knowledge required by client characteristics

Client Type	Financial Situation	Financial Resources	Advisor Activities	Knowledge Required
1	Complex	Limited	Complex counseling, Intervention, Negotiation, Education	Budgeting, Tax, Risk, Debt management, Public assistance programs, Community resources, Education Funding, Employee benefits
2	Simplistic	Limited	Education	Budgeting, Consumer buying
3	Complex	Adequate	Complex counseling, Intervention, Negotiation, Education	Budgeting, Tax, Risk, Debt management, Education Funding, Employee benefits, Consumer buying, Community resources
4	Simplistic	Adequate	Education	Budgeting, Consumer buying
5	Complex	Adequate	Complex counseling, Education, Implementation	Budgeting, Tax, Risk, Debt management, Estate, Investments, Employee benefits, Education funding, Retirement planning
6	Simplistic	Adequate	Education	Budgeting, Consumer buying
7	Complex	Plentiful	Advising, Counseling,	Cash flow management, Tax, Risk, Leverage,

			Education, Implementation	Investments, Retirement, Compensation planning, Professional practice planning, Estate planning
8	Simplistic	Plentiful	Education	Cash flow management

Thus, clear distinctions are not always possible when trying to distinguish between the client of the financial counselor and the financial planner. Why do we need to make such a distinction? As the Association for Financial Counseling and Planning Education moves forward with plans to certify financial counselors, it becomes desirable to identify the extent to which the certification of counselors differs from that of planners.

The planner working with clients in the upper income brackets needs to be familiar with financial problems unique to upper income clients. Detailed knowledge of more sophisticated investment techniques, tax shelter strategies, and risk management alternatives are necessary. At this highest level of income/asset accumulation and financial complexity, multiple advisors including the planner, tax specialist, insurance specialist, investment specialist, lawyer, and perhaps other specialist need to work as a team to maximize management of the client's financial position.

Similarly, those working with clients in the lower income groups have different informational needs. These counselors must have a thorough knowledge of federal, state, and local human services regulations. They must be familiar with sound risk management techniques and able to evaluate their clients' risk exposure and help their clients identify appropriate ways of protecting against losses. They must be familiar with federal, state, and local taxes so that they can help clients take advantage of tax benefits while retaining for their personal use as many dollars as possible. The financial counselor working with clients who have lower financial resources will need to work with a team of advisors in maximizing the client's financial situation. Involved may be one or more social case workers, legal aid advisors, private business ombudsmen (i.e., the utility company), and others who may help solve specific needs (i.e., maintaining heat during winter months, etc.) of the client's household.

For financial management professionals working with the extension service, armed forces, and employer assistance programs the counselor's/planner's knowledge base needs to be much broader, spanning most of the two dimensions. Clearly these professionals may choose to limit their services to a specifically identified market segment. But it is likely that these individuals are going to serve multiple markets ranging from the lower income and asset clients with simple to complex problems all the way to upper income and asset clients with problems of varying complexity. The large middle sector is the one most professionals are going to serve.

Existing Certification Programs

The International Board of Standards and Practices for Certified Financial Planners, Inc. (IBCFP) has established requirements for certifying financial planners. IBCFP certification requirements cover four areas: education, examination, experience, and ethics. IBCFP registers programs of educational institutions providing a course of study meeting the education requirements (IBCFP, 1990).

The consumer credit counseling certification program offered through the National Foundation for Consumer Credit certifies those working in affiliated consumer credit counseling programs. This certification program has had limited success with practitioners.

Financial counseling does not have a board of examiners or standards. Recognizing the need for certification of practitioners beyond financial planners and credit counselors AFCPE has taken a leadership role in establishing a model curriculum. It continues to work toward the establishment of a certification program that will establish standards for minimum education requirements for practitioners calling themselves financial counselors.

Conclusions

Given the above discussion it would appear that both planners and counselors must have some depth of knowledge in all areas of personal finance including budgeting, taxes, risk management, investments, employee benefits, retirement planning, and estate transfer concepts. Communication skills are not the only counseling skills needed by both planners and counselors if they are to deal successfully with the diverse interpersonal problems associated with the financial decisions of clients. These professionals need to know the motivation and psychological importance of money decisions to individuals.

Because of the diversity of the markets served by these professionals, a comprehensive certification program that insures the professional is exposed to solving the complex financial problems of clients is needed. Both counselors and planners need some knowledge of wealth accumulation and retention while planners and counselors also need to know techniques for money management. Counselors may have more information on money management while planners have more depth in wealth accumulation. But, both have some knowledge in both areas. Finally, both counselor and planners need skill in using psychological counseling techniques. Clients of both groups require skilled advisors adept at uncovering the true needs and desires of their clients. Because of the extensive overlap of the knowledge base of professionals working with individuals along these two dimensions, it seems logical that some overlap will occur in the education and certification process. The 1988 AFCPE Model was a first attempt to pull together the curriculum necessary to successfully preparing the individual that provides financial counseling and financial planning. Much of that curriculum is designed to prepare professionals who serve the middle section of the client markets defined in this paper.

Because there is no clear definition of the professional financial counselor it is likely that certification standards will be developed for credit counselors rather than for financial counselors. This is true because credit counselors have been practicing for a number of years. AFCPE needs to make sure that if it develops a certification program it clearly distinguishes between certifying financial counselors and credit counselors.

References

Biehl, L. (1984, October). *Inside look at the financial planning industry*. Paper presented at the meeting of the Financial Counseling Consortium, Family Environment Dept., Iowa State University, Ames, IA.

Duncan, G. (1984). *Years of Poverty, Years of Plenty*. (pp. 40-43). Ann Arbor, MI: Survey Research Center, Institute for Social Research, The University of Michigan.

Edmondson, M. E., & Pasley, K. (1989). Financial management and remarriage: A comparison of males' and females' attitudes and behaviors. In I. F. Beutler (Ed.). *Proceedings of the Seventh Annual Conference of the Association for Financial Counseling and Planning Education*, 118-120.

Feldman, F. E. (1985). Enhancing career competence--Know your client: The family in today's world. In G. Langrehr (Ed.). *Proceedings of the Third Annual Conference of the Association for Financial Counseling and Planning Education*, 31-42.

Gurney, K. (1988). *Your money personality: What it is and how you can profit from it*. New York: Doubleday.

IBCFP (1990). *General Information Booklet CFP*. Englewood, CO: Author.

Mason, J. and Poduska, B. (1983). Financial planner or financial counselor: The differences are significant. *Proceedings of the Financial Counseling and Planning Consortium*, 4-11.

Mason, J. and Poduska, B. (1986). Financial planner or financial counselor: The differences are significant. *The Journal of Consumer Affairs* 20(1) 142-147.

McNamara, J. E. (1985). Professionalism in an emerging field: A financial counselor's view. In G. Langrehr (Ed.), *Proceedings of the Third Annual Conference of the Association for Financial Counseling and Planning Education*, 55-59.

O'Neill, B. (1989). *Motivating adults to improve their finances: Six teaching methods that work*. Paper presented at the Seventh Annual Conference of the Association for Financial Counseling and Planning Education.

Reichbach, G. (1989). *Professional financial planners: Coming of age*. Paper presented at the Seventh Annual Conference of the Association for Financial Counseling and Planning Education.

The Registry of Financial Planning Practitioners. (1988). *Directory of Registry Financial Planners*. Atlanta, GA: International Association for Financial Planning.

Riche, M. F. (1989, July). Demographics for the 1990's the new VALS psychographic system could be a boon to marketers and advertisers in the 1990s. *American Demographics*, pp. 24-26, 30-31, 53-54.

Williams, F. L. (1984). A typology of financial advising. *Proceedings of the Financial Counseling and Planning Consortium*, 82-89.

¹Virginia B. Langrehr is Associate Professor of Marketing, College of Business Administration, Valparaiso University, Valparaiso, IN 46383.

Appreciation is expressed to: Frederick W. Langrehr, Carl Hall, and Ken Doyle for their critiques and comments on early drafts of this paper.