Outlook for the Future of the Financial Planning Industry

How technology and baby boomers are changing the financial planning industry

Over the last few years, financial planners have dealt with various economic factors, from historically low mortgage rates to record inflation. However, as the pandemic dust continues to settle, several emerging trends will impact the industry for the foreseeable future. This white paper provides a detailed look at where the industry is today and what financial planners need to know to increase their customer base, revenue, and profits moving forward.

Introduction

The biggest challenge for financial planners over the last 26 months has been keeping up with the unprecedented changes to key economic factors impacting their clients' assets and portfolios. For example, while property values continued to increase, the unemployment rate more than doubled[1] and mortgage rates tripled[2].As a result of this economic storm, many planners and advisors went into a batten-down-the-hatches mode, with a primary focus on asset protection until the economic forecast improved[3].

Macroeconomic factors improved dramatically over the last six months; the industry not only survived the 100-year economic storm but also saw three distinct trends emerge from the pandemic fallout, with the potential to affect financial planning management and growth strategies moving forward.

Financial technologies have ushered in new automated financial planning services to make industry services more accessible and usable, lowering barriers to increase consumer awareness and participation.

Rising returns[3] attract more prospects for financial planning and advisory services. As the consumer demand for planning services increases, new operators will continue entering the industry.

Baby boomers make up the most significant number of households earning more than $100K annually[4]. In addition, they're responsible for one of the largest wealth transfers as more boomers reach retirement age each year.

Before discussing how these trends will change the financial planning industry over the next five years, let's break down the numbers and see where the industry is today with products, services, and revenue.

(1) www.macrotrends.net/countries/USA/united-states/unemployment-rate
(2) https://tradingeconomics.com/united-states/30-year-mortgage-rate
(3) US INDUSTRY (NAICS) REPORT 52393 / FINANCE AND INSURANCE Financial Planning & Advice in the US Report by: Kush Patel | October 2021
(4) www.prb.org/resources/fact-sheet-aging-in-the-united-states/

The current financial planning industry

Companies in the industry provide fee-based financial planning, wealth management, and financial advice for their individual and business clients via a written financial plan. Typical services include portfolio management, brokerage services, retirement planning, asset protection, investment consulting, and trust management.

Hedge funds, discount brokers, mutual fund companies, and insurance brokers are excluded from this white paper because they provide services outside the context of a written financial plan.

Financial planning industry overview[3]

Segment	Amount	16-21 Growth	22-27 Growth
Revenue	$56.9 Billion	3.6%	3.3%
Profit	$10.6 Billion	0.3%	5.6%
Wages	$17.3 Billion	1.4%	3.7%
Companies	141,000	6.8%	5.1%
Employees	231,000	4.3%	3.9%

From 2016-21, the industry grew across all categories except for profit. The meager 0.3% increase pushed the industry profit margin to 18.7% through the end of 2021. Based on projected consumer demand and increased disposable income, profit margins could hit 24.3% by the close of 2027[3].

The chart above also shows that most provider companies operate with fewer than two employees in the financial planning and advice industry. As a result, revenue will continue to increase at virtually the same rate as the previous five-year period, and by 2027, industry revenue will reach $58.7 billion[3].

Despite the increased revenue, the number of new companies entering the market is expected to drop from nearly 9,600 to 7,100 yearly. And the number of new employees could decline from almost 10,000 to just over 9,000 new positions[3]. Companies can expect to pay higher wages to retain key staff or attract skilled workers to fill job vacancies during this time.

Company[3]	Market	Revenue	Profit
Ameriprise Financial Inc	12.7%	$7.2 Billion	$1.8 Billion
Raymond James Financial Inc	11.9%	$6.8 Billion	$992.7 Million
Other companies	75.4%	$42.9 Billion	$7.7 Billion

Over three-quarters of the industry's revenue is generated by "other companies" and includes sole proprietors and LLCs. These providers typically focus on a localized geographical area, providing products and services tailored to local businesses and individual needs.

(3) US INDUSTRY (NAICS) REPORT 52393 / FINANCE AND INSURANCE Financial Planning & Advice in the US
Report by: Kush Patel | October 2021

Products & services segmentation[3]

Service	% of Revenue
Personal planning/investment	38.6%
Financial management consulting	28.0%
Other	23.0%
Brokering and dealing	8.6%
Trust services	1.8%

The pandemic fallout highlighted the importance of financial planning and asset protection for individuals and families. As a result, the industry's largest segment is consumer-focused services, including retirement planning, educational savings, personal investments, and portfolio management.

Financial consulting services for businesses and governments typically include pension fund investments, portfolio and risk management, tax planning, and debt analysis.

Other services include insurance plans such as disability and long-term care insurance products, real estate analysis, cost segregation, and lease or purchase agreements.

Market segmentation[3]

With only two types of customers, businesses and governments make up 59.6% of industry customers, while individuals and households account for the remaining 40.4% of the market.

(3) US INDUSTRY (NAICS) REPORT 52393 / FINANCE AND INSURANCE Financial Planning & Advice in the US Report by: Kush Patel | October 2021

Beyond the here and now: Trends shaping the future

Thanks to the economic storm created by the pandemic, the importance of financial planning and asset protection are top of mind for businesses and individuals. Inflation and interest rates will remain the dark clouds in the otherwise favorable economic forecast.

Increasing profit margins and disposable incomes will help fuel a $2 billion increase in industry revenue through 2027. But companies leveraging these emerging industry trends will have a significant advantage over those financial planners and advisors who go back to a business-as-usual mindset.

1 Financial technology

The industry-wide transition to remote meetings created challenges and benefits for financial advisors. A big challenge was finding a reliable yet easy-to-use video conferencing platform for employees and customers.

Popular options include Google, Microsoft, and Cisco products, but according to Zippia[5], Zoom remains the most popular platform posting a 326% revenue increase between 2020 and 2021.

Remote working is here to stay, as the number of global remote workers has increased from 5.7% in 2019 to 17.9% in 2020. Even with the pandemic over, remote workers made up 16% of the global workforce in 20225. However, many financial advisors are abandoning the video option and returning to the old tech standards of in-person meetings, phone, email, and SMS to communicate with prospects and clients again.

With the remote capabilities now in place, companies can easily connect with prospects across the state, country, or the other side of the globe, and they would do well to continue offering this service. Video conferencing also allows companies to strengthen staff expertise and diversity while growing their customer base in new and existing markets.

As a result of the video conferencing boom, Shashin Shah, CFP®, a Managing Director at SFMG Wealth Advisors[6], says, “advice is now transportable.” If the customer is unhappy with their current financial planning services, they’re no longer limited by geographic location when searching for a new financial planner.

2 Residential market demands

For many, the pandemic spotlighted the importance of having a financial plan should the worst ever happen (again). Consumer demand for financial planning services will continue to grow for several reasons.

+ Businesses and individuals want to create, review, or update contingency plans to protect their real estate investments as property values continue upward.
+ The disposable income rate has seen overall improvement[7]. As a result, businesses and consumers now have more money to spend on financial planning services.
+ The unemployment rate continued a downward trend from a high of 8.05% in 2020 to 5.46% in 2021, down to January 2023’s rate of 3.7%[1]
+ As the demand for financial services increases, new operators will enter the industry at a slightly lower rate than in the 2016-21 period[3].

(1) www.macrotrends.net/countries/USA/united-states/unemployment-rate
(5) www.zippia.com/advice/zoom-meeting-statistics/
(6) www.cfp.net/knowledge/industry-insights/2021/01/2021-financial-planning-forecast-industry-trends-to-consider--for-the-upcoming-year
(7) /www.statista.com/statistics/216773/monthly-percentage-of-change-in-the-disposable-personal-income-in-the-us/

- Still, commoditization remains a legitimate industry concern8 and could limit short-term revenue and profit increases in specific markets. Stock trades cost a fraction of what they did 10 years ago, with many companies now providing the service for free.
- Index investing continues expanding, and free software can now perform the most sophisticated and complex financial planning projections.

As the Small Business Chronicle[8] reported, "Today, consumers are more empowered to find information on their own about investments and financial planning. Online information is readily at hand regarding financial instruments, market trends and even reviews of financial and advisory firms. Aggregated account summaries are available online and via apps that provide a broad overview and analysis of a consumer's financial situation. Planners must remain technologically relevant to meet client expectations."

Financial planners and advisors must find creative ways to add genuine value to their products and services to avoid similar pricing pressures in the future.

3 The baby boomer effect

While many are familiar with the term baby boomer, the chart below breaks down the U.S. population by generation.

Generation	Birth years	% of population	Number
The Greatest Generation	1901-1924	0.26%	863,200
The Silent Generation	1925-1945	5.76%	19,123,200
Baby Boomer Generation	1946-1964	21.16%	70,251,200
Generation X	1965-1979	19.83%	65,835,600
Millennials (Gen Y)	1980-2012	21.75%	72,210,000
Gen Alpha	2013-2025	20.67%	68,624,400

Baby boomers are critical to the financial planning industry. A recent report by The Population Research Bureau[4] explains why baby boomers have more households earning over $100K than any other age group.

The average U.S. life expectancy increased from 68 years in 1950 to 78.6 years in 2017, primarily due to improved medical screening, treatment options, access to medical information via the internet, and new medications.

Older adults are working longer. In 2018 only 24% of men and 16% of women in the workforce were 65 or older. Projections for 2026 have those rates increasing to 26% and 18%, respectively.

The number of Americans ages 65 and older will climb from 52 million in 2018 to 95 million by 2060. As a result, the 65-and-older age group's share of the total population will rise from 16% to 23%.

Boomers will be responsible for one of the most significant wealth transfers in U.S. history as they move from paying into social security and other retirement plans to collecting monthly stipend payments. In short, boomers will continue to drive demand for financial planners and advisors for the next decade- until more Gen Xers and Millennials get closer to retirement age.

If you're looking to scale your business, increase sales, or find more customers for your financial planning services, learn how BBB Accreditation can help you meet and exceed those goals and much more.

(4) www.prb.org/resources/fact-sheet-aging-in-the-united-states/
(8) smallbusiness.chron.com/human-resource-needs-evolving-financial-sector-59988.html

How to build a loyal customer base

Create a Customer-First Mentality

With limited face-to-face interactions, it's important to step up your customer service game. Make time for your customers by maintaining transparency, communicating consistently, and answering questions.

Personalize Your Communication

A Segment survey found that 71 percent of consumers get frustrated by impersonal encounters by companies. Earn your customer loyalty by building and delivering an authentic, personalized experience.

Start a Community

With social media abundant, Entrepreneur recommends creating an online community that encourages customer engagement and user-generated content, such as final product photos taken and shared by customers.

Respond to Reviews and Complaints

Whether it's a one-star rant or a five-star cheer, it's up to the business to respond positively and openly. Choosing to answer each review promptly and kindly can increase trust in your brand.

Honor Promises

Whether there are supply issues, price quotes, or unforeseen mistakes, work to keep the line of communication open with customers. By honoring promises and operating with transparency, you're building trust.

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Source: IABBB Research, 2022, Survey of BBB Accredited Businesses

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Source: IABBB Research, 2022

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