

THE FINANCIAL PLANNING PROCESS (300-1)

Obj 1-1. FINANCIAL PLANNING is the process of

1. determining a client's financial goals *and*
2. developing a plan to meet those goals.

THE SIX STEPS IN THE FINANCIAL PLANNING PROCESS:

1. **Establish a good client-planner relationship**--Build a relationship with the client.
Explain the services provided and the planning process.
Disclose background information, conflicts of interest, and the method and source of compensation.
Define the parties' responsibilities for plan implementation.
2. **Gather data and determine the client's goals**--Identify the client's assets and liabilities.
Gather documents.
Determine the client's
 - a. **financial risk tolerance** (psychological willingness to expose financial assets to the chance of financial loss for the chance of financial gain);
 - b. needs, hopes, and fears;
 - c. financial and nonfinancial goals;
 - d. priorities; *and*
 - e. values.Use a **fact-finder form** to compile quantitative and qualitative information.
3. **Analyze and evaluate the data**--Evaluate strengths and weaknesses in the client's current financial position relative to the client's ability to attain his goals. Revise goals if needed.
4. **Develop and present a financial plan**--Design a detailed, client-specific plan with alternative methods for meeting the client's goals. Consult with outside professionals as needed.
Present the plan and review it with the client.
5. **Implement the plan**--Motivate and help the client implement the recommendations.
Use outside professionals as needed.
6. **Monitor the plan**-- Evaluate the plan's performance.
Review changes in laws, economic conditions, and the client's circumstances.
Recommend any needed changes.

Obj 1-2. THREE APPROACHES TO FINANCIAL PLANNING:

1. **Single-purpose view--Financial planning** involves selling a single financial product to a client to solve a single financial need identified as part of a plan developed by the financial planning process.
2. **Multiple-purpose view--Financial planning addresses at least a large part of one (or more) of these categories of financial needs:** insurance planning and risk management, employee benefits planning, investment planning, tax planning, retirement planning, *and/or* estate planning *if* the planner uses the financial planning process with clients.
3. **Comprehensive view--Financial planning** addresses *all* aspects of the client's financial situation and plans strategies to meet *all* the client's financial needs and objectives.
A comprehensive plan typically requires a team of specialists to provide the wide range of expertise needed.
A comprehensive plan should *always* be given to the client as a written report.
In its purest form, comprehensive planning is provided on a fee-for-service basis with no commissions *and* is performed all at once in a single planning session.
Comprehensive financial planning has been available to most middle-class Americans only in the past 30 to 35 years.

FINANCIAL PLANNING AREAS OF SPECIALIZATION--According to a 1999 survey by the CFP Board of Standards, financial planners provide these following services:

1. Investment planning/advice--90% of those surveyed.
2. Pension/retirement planning--87%.
3. Comprehensive planning--73%.
4. Estate planning--73%.
5. Portfolio management--67%.
6. Income tax planning--60%.
7. Insurance planning--59%.
8. Education planning--55%.
9. Elder/long-term care planning--46%.
10. Closely-held business planning--37%.
11. Financial planning employee education--31%.
12. Income tax preparation--25%.
13. Divorce planning--19%.

Obj 1-3. A COMPREHENSIVE FINANCIAL PLAN should address

1. general financial planning principles,
2. insurance planning and risk management,
3. employee benefits planning,
4. investment planning,
5. income tax planning,
6. retirement planning, *and*
7. estate planning.

Obj 1-4. LIFE-CYCLE FINANCIAL PLANNING occurs when an advisor performs financial planning services throughout a client's entire financial life cycle.

The five phases in the financial life cycle:

1. **Early career phase**--encompasses the time between entry into the work force and age 35. Clients are concerned about accumulating funds to buy a home and, possibly, saving for their children's educations. Budget constraints limit retirement planning.
2. **Career development phase**--occurs between ages 35 and 50. Career development is marked by career growth, upward mobility, and increased income. Clients both accumulate and spend funds for children's educations. Clients become increasingly concerned about retirement planning.
3. **Peak accumulation phase**--occurs as the client approaches maximum earnings and has the best chance to accumulate assets. In this phase, most clients begin reducing investment risk as they shift their portfolios toward income production for retirement.
4. **Preretirement period**--occurs during the 3 to 5 years before planned retirement. Clients further restructure their portfolios to reduce risk and to enhance income.
5. **Retirement**--is the final phase. Clients' portfolio allocations emphasize reduced risk.

Obj 1-5. HOW TO STRUCTURE A COMPREHENSIVE FINANCIAL PLAN BASED ON THE STEPS IN THE FINANCIAL PLANNING PROCESS:

1. **Define roles**--Assign duties for plan implementation. Specify the method of compensation.
2. **State the client's goals**--List each specific goal and indicate its priority and time frame. Define the client's current personal and financial situations.
3. **Identify obstacles**--List any problems the client might encounter in attaining each goal.
4. **Define the plan**--List the recommended services, products, and strategies for attaining the goals.
5. **Recommend actions**--State the steps for implementing the proposal for attaining the goals.

Obj 1-6. **THE FINANCIAL PLANNING PYRAMID** develops a comprehensive financial plan over time. **The planner prioritizes goals by dividing them into three levels:**

1. **Stage 1**--is the foundation of the pyramid.
Stage 1 goals protect the client against uncertainty, typically via emergency savings, insurance, and a valid will.
2. **Stage 2**--is the middle of the pyramid.
Stage 2 goals focus on accumulating wealth, primarily through investment.
3. **Stage 3**--is the tip of the pyramid.
Stage 3 goals address managing retirement assets and creating an estate plan.

Obj 1-7. **TRENDS THAT CREATE OPPORTUNITIES FOR FINANCIAL PLANNERS:**

1. **A rising median age**--results in more clients who need retirement planning and help planning college planning.
The median age in the US has risen more than seven years in the past three decades!
The baby-boom generation (born from 1946 to 1964) constitutes about 30% of the US population.
Baby boomers are known as the **sandwich generation** because many boomers try to fund their children's educations *and* support their aging parents, [*while they fund their own retirements*].
2. **An increasing number of two-income families**--which tend to have higher incomes and to have less time to manage their own finances.
3. **Volatile economic conditions**--typically create uncertainty and create greater demand for professional help with financial planning services.
The past 40 years have seen significant fluctuations in
 - a. **the Consumer Price Index (CPI)** (measures the change in consumer purchasing power due to price inflation or deflation),
 - b. **the prime interest rate** (is the rate banks charge on small business loans), *and*
 - c. **the Standard + Poor's 500 Index** (measures changes in stock market conditions based on the performance of 500 widely-held stocks).During fluctuating economies, financial advisers must continuously monitor investment portfolios and adjust plans to reflect changed circumstances.
4. **Technological advances**--result in new financial products, making it easier for advisers to tailor those products to meet client needs *and* to analyze product performance.

Obj 1-8. **THE TOP TEN GOALS OF CLIENTS WHO USE FINANCIAL PLANNERS:**

1. Building a retirement fund--82% of those surveyed.
2. Buying/renovating a home--41%.
3. Building an emergency fund--40%.
4. Managing/reducing debt--34%.
5. Traveling/vacationing--34%.
6. Building a college fund--32%.
7. Accumulating capital--31%.
8. Providing insurance protection--29%.
9. Sheltering income from taxes--26%.
10. Generating current income--25%.

[2004 Consumer Survey by the CFP Board of Standards]

THREE MAJOR OBSTACLES TO ATTAINING FINANCIAL GOALS:

1. The tendency to procrastinate.
2. The tendency to live beyond one's means.
3. The lack of financial knowledge.

FINANCIAL PLANNING NEEDS OF SPECIFIC GROUPS:

1. **Up-and-coming group**--consists of consumers aged 20 to 39.
28% of group members have a written financial plan.
This up-and-coming group
 - a. is the most risk-tolerant *and*
 - b. is the most likely to use the Internet and financial software.**Financial planning for this group focuses on** preparing for retirement, managing debt, building college funds, building emergency funds, *and* saving for a home.
2. **Mid-life group**--consists of consumers aged 40-54.
39% of group members have a written financial plan.
This mid-life group
 - a. has the highest amount of household income,
 - b. has low to moderate risk tolerance, *and*
 - c. is the most likely to emphasize retirement planning.**Financial planning for this group focuses on** preparing for retirement, building an emergency fund, financing college, managing debt, vacation/travel, *and* reducing income tax.
3. **Retirement cusp**--consists of consumers aged 55 to 69.
47% of group members have a written financial plan.
This retirement cusp group
 - a. has the highest net worth,
 - b. has the lowest risk tolerance, *and*
 - c. is the most likely use a financial adviser.**Financial planning for this group focuses on** preparing for retirement, vacation/travel, accumulating capital, generating income, reducing income taxes, financing future medical costs, *and* building an emergency fund.

[2004 Consumer Survey by the CFP Board of Standards]

SPECIAL CONCERNS OF BABY BOOMERS:

1. **During retirement,**
 - a. more than 34% of baby boomers will be financially responsible for parents *or* children,
 - b. 7% of baby boomers will be financially responsible for *both* parents *and* children,
 - c. 20% will pay college tuition for their child(ren), *and*
 - d. more than 70% of baby boomers expect to continue working.
2. Baby boomers are poorly prepared for retirement.
Survey respondents had saved only an average of 12% of the total amount needed to meet basic needs during retirement.
3. Most baby boomers grossly *underestimate* the predicted increases in the cost of living over the next 20 years.

[2001 study by the Allstate Corporation]