CHAPTER 16:
FINANCIAL PLANNING PRACTICES

INTRODUCTION

At this point, you have worked through all the technical elements of financial planning. But we really haven't addressed the question of how a financial plan is constructed, what it comprises, and how it is put into practice. We had a look at the components of the financial plan in chapter 1, but that's really the extent of it.

So what is a financial plan? There is not one universally agreed upon structure for a financial plan, but the Financial Planning Standards Council (FPSC®) and the Institut québècois de planification financière do provide some useful guidance in their jointly produced document, Canadian Financial Planning: Definitions, Standards & Competencies. Pages 12-13 of that document provide definitions for Financial Planning, Financial Planner, and Financial Plan. The document can be accessed here: https://issuu.com/fpsc/docs/fpsc_definitions_en_web

There are some key takeaways from these definitions:

- Financial planning is an ongoing process, not a one-time transaction.
- Financial planning is multidisciplinary.
- The competencies required will vary from client to client and situation to situation.
- The financial planner must recognize their own limitations.
- Financial planning is personal and geared towards the client.
- Financial planners are beholden to their practice standards.
- The financial plan must include an action plan.

In this chapter, we will focus on the development of the financial plan. This will involve a look at the six components of the financial plan, as well as the fundamentals that tie it all together. We will examine some of the information that should be explored in each component, as well as some methods to present that information.

This chapter will cover:

- Some theory around human behaviour.
- What the components of the financial plan include.
- Best practices and research around successful implementation of financial planning recommendations.

Because the financial plan is intended to be a living document, some people will ask, "Why write a financial plan at all? What is the point of putting so much work into a document that is just going to change in a year or two?"

This is where we must have an understanding of what we are trying to accomplish with a financial plan. Certainly, everybody goes through unexpected events in the course of their ordinary lives. These unexpected events might be big, drastic events, like divorce, job loss, or serious illness. Or, they might be more routine, but still life-changing events, like a promotion at work, the birth of a child, or receiving an offer to buy one's business. In all cases, it is better to work from a known position, rather than having to figure everything out in potentially stressful circumstances. The written financial plan provides the known position.[1]

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[1] The economist John Maynard Keynes (whom we discussed briefly in chapter 2) is quoted as saying, "It is better to be roughly right than precisely wrong." The point is not to say that the client must have exactly $1,450,000 in an RRSP by time she retires. Instead, the point is to build a financial plan that shows the client how to save to accomplish her retirement objectives. The $1,450,000 figure will likely change several times, but it still provides a useful target for retirement savings.

This concept also applies to assumptions. It is almost certain that any assumptions that were made will be wrong at some point after the plan is written. By listing the assumptions that were used, the planner can adjust those assumptions when necessary.

For example, if a client has established their retirement objectives, and the planner has developed multi-year cash flow projections that indicate projected annual spending, rate of return and inflation assumptions, expected longevity, and other factors, then an adjustment to the plan can be made relatively easily. For example, a client who has a period of unemployment would be able to determine how long he could maintain living expenses before drastic measures (sale of assets, reductions in expenses) would have to be taken. On the other hand, with no financial plan in place, such an event could be very stressful, and might initiate poor decision-making.

In this sense, a financial plan is very much like a road map for a long road trip. We can map out the whole trip, but along the way, there will be unexpected events. Road closures, car trouble, or sightseeing opportunities may cause us to deviate. But having the original road map in hand will allow us to get back on track, or to figure out the effects of a deviation from the plan.

DECISION-MAKING AND HEURISTICS

Before delving into the actual creation of the financial plan, we must acknowledge that we are working with human beings. Human beings are, by nature, fallible, illogical, unreasonable, emotional creatures. If we always behaved rationally, then financial planning would be a much easier exercise. We could use mathematical models to do our retirement planning and asset allocation, put the correct amount of insurance in place, only spend what we make, and live our lives. However, this ignores how we address risk, spending, over-spending, saving, long-term planning, and a variety of other issues.

The study of decision-making is a relatively new field, as with much of the social sciences. Management schools and fighter pilot schools pioneered much of this research in the 1940s and 1950s. The early work in behavioural finance was done by two Israeli scientists, Daniel Kahneman and Amos Tversky, in the late 1960s and early 1970s.

The planner who wants to implement successful financial plans that will actually make a difference in clients' lives must understand how the client makes decisions. Getting to understand the client's decision-making will help the planner to generate financial plans that lead to successful implementation. The planner's own decision-making processes are also important. The planner should understand how she arrived at any given recommendation, and what caused her to dismiss other possible courses of action.

Heuristics[2] is a key concept in understanding decision-making. Heuristics refers to the various tools that we employ in making decisions. These are generally necessary tools; they provide us with the decision-making tools to deal with the vast majority of situations in our daily lives. Several examples of heuristics were described in chapter 10 in the section covering behavioural finance.

These heuristics might seem negative, but they are highly useful tools. Without them, every decision would be an exhaustive process. Instead, we should recognize that we employ them. Recognizing the heuristics and biases that affect our own decision-making can be useful in arriving at better decisions.

This is definitely a matter of easier said than done. Identifying one's own biases can be extremely difficult. There are means to accomplish this. Working in properly-functioning teams can reduce bias. Listening to opinions different from our own can help. Recognizing when one has made an assumption is a useful technique. We will consider some techniques for challenging our own decision-making in the next section of this chapter.

Many professionals only consider that their clients might have biases. This ignores the fact that we are all human, and all prone to bias. Just as the client might have a bias or be influenced by heuristics, so might the financial planner. The nature of prospecting and client selection often sees that planners end up working with clients with similar personalities to their own; this can amplify biases.

It can also be useful to recognize some decision-making processes. The financial planning process, as outlined in the previously mentioned Canadian Financial Planning: Definitions, Standards & Competencies, is an example of a decision-making process. There are others. Some common elements of decision-making processes include:

- **Establishing Goals.** What is the desired outcome? In many cases, figuring out where we want to end up is the greatest challenge. Goals might be established by discussing a vision for the future, or there might be concrete goals in place.

- **Information Gathering.** It's hard to figure out where we're going without knowing where we are. Information gathering should allow the planner to develop a robust picture of the client's circumstances.

[2] Heuristics are also known as rules-of-thumb

While it is likely that the planner might consider alternatives and recommendations while gathering information, a hallmark of a robust decision-making process is that each step is fully developed on its own.

- **Weighing Alternatives.** There are a number of methods for this, and this is one of the earliest elements of decision-making to be explored. As an example, Plato's Republic is, among other things, an examination of pros and cons of various types of government. Today, lists of pros and cons continues to be a method of weighing alternatives. We might also use a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis, which would be a bit more involved than a simple list of pros and cons. There are a number of other tools available, but they mostly stem from one of these two approaches.

- **Group Decision-Making.** Much is said today about the power of groups to come up with good decisions. Whether via consensus or majority rule, groups can be useful tools for decision-making. One advantage of group decision-making is that it forces those who are promoting one position or another to defend their position. A disadvantage is that there are several heuristic behaviours that are amplified in group settings.

- **Simulation.** Working through 'what-if' scenarios can help to determine the best course of action. This can be challenging, as the full set of consequences may not be obvious in a hypothetical situation. It's also important to consider the likelihood of the scenarios being considered.

- **Deciding.** It is important to strike a balance between doing the correct amount of analysis, or making decisions absent sufficient analysis, or being paralyzed by the available range of choices. Having a good process in place for the rest of the steps will increase the likelihood of making a good decision.
- **Taking Action.** All this is irrelevant if no action is taken. The planner may have to work with the client to make sure that the client actually carries out the recommendations provided in the plan. Some clients will be very proactive, and implement the necessary steps on their own. Others will take more work.

- **Post-Mortem.** Probably the least likely step in the process to take place is the post-mortem, or after-action review. In this step, we will look at the steps taken and the outcome, and determine whether the decision-making processes were carried out properly and achieved the best results. One way to accomplish this is by comparing the objectives to the outcomes – to what extent where those objectives achieved?

The financial planner should consider decision-making processes both in terms of the financial plans built with clients, and in terms of how the planner conducts his own business. If he is going to be producing financial plans, those plans should be supported by well-developed decision-making processes.

COMPARING STRATEGIES

It is not always obvious how to conduct the 'weighing alternatives' step. Some preparation can make a big difference here, and this is where the technical information learned in the previous 15 chapters will come in handy.

The planner will have gathered the client's objectives and determined the client's situation. The next thing to do is to consider some possible courses of action. For many problems, there might be a common list of available strategies for the planner to pick from. It might be useful for the planner to prepare some lists of available strategies in advance, and then pick through the ones that might be appropriate for a client.

An example of this type of list might look as follows:

Objective	Possible Strategy	Indicators	Contraindicators	Additional Considerations
Save for retirement	RRSP	• Earned Income • Paying taxes	• Over age 71	• Are there already registered savings in place?
	Spousal RRSP	• As above, and • Spouse has lower income	• Spouse over age 71	• As above
	TFSA	• Min age 18 • Registered savings	• US Person	• How does it impact govt benefits?

Objective	Possible Strategy	Indicators	Contraindicators	Additional Considerations
	Non-Registered Savings	• Already using registered plans	• Unused RRSP and TFSA room	• Can be tax-efficient
	CSV of a Life Insurance policy	• As above • Insurance need	• Potentially high cost of insurance	• Tax rules changing
	Workplace pension	• Set up by employer	• Small contributions	• Many different versions
	Leveraged Investing	• Good credit • Understands risk • Paying taxes	• Poor discipline • Cash flow concerns	• Only if additional risk/reward are required
Build an emergency fund	Open a HELOC	• Good credit • Home equity	• Poor discipline	• Adjust cash flow for additional interest expense in case of emergency
	Open an unsecured LOC	• Good credit • No home equity	• As above	• As above
	Use a High Interest Savings Account	• Can save regularly	• No disposable income	• How long will it take to accrue?
	Liquidate other assets	• Liquid assets available	• Assets needed for other goals	• Tax consequences? • Costs of disposition?

A planner could prepare a matrix like this to cover a variety of possible planning strategies. The specific contents of the matrix would be determined based on the types of clients that the planner typically deals with. The point of such a tool is only partly to present a list of options. The greater objective is to ensure that a decision-making process based on analysis takes place. By employing a tool like this, the planner allows herself the opportunity to work through each decision and make sure that the client is getting the best available advice.

Of course, the planner can arrive at a decision using only a matrix, and treat every decision as an analytical process. In the end, though, a decision arrived at without the client's input and feedback is not likely to be implemented successfully. The planner must consider the client's goals and values in building recommendations. In practice, the financial planner will often focus more on the qualitative aspects (attitudes, biases, and tendencies) more than the quantitative aspects of financial planning. Behavioural concerns, more often than not, are the major impediment to the successful implementation of financial planning recommendations.

The presentation of the plan should match the client's decision-making approach, attitudes, and biases. Some clients will prefer an executive summary, and won't read past the first page of a written document. Some clients might prefer a detailed plan with charts and tables. Some clients might not even refer to charts and tables, but they might lend a document credibility. Some clients might prefer a video brief of the steps to take in the planning process.

In some cases, it may also be possible to compare approaches based on mathematical outcomes. The planner can employ tools like the financial calculator, Excel, and financial planning software to arrive at projected values and rates of return. The likelihood of events can be determined by using actuarial tables or historical tables of investment performance. These quantitative factors can be useful in helping to build recommendations based on thorough analysis. We have done several examples of this, using the financial calculator, through this course.

FINANCIAL MANAGEMENT

When determining what courses of action are available to the client, the planner should consider the following items (and possibly more; this list is not exhaustive) in developing the financial management portion of the plan.

- Emergency Fund
- Debt Servicing Ratios
- Debt to Assets
- Realistic goals
- Budget
- Ability to borrow
- Short-term objectives
- Temporary adjustments
- Accessing savings
- Debt to Equity
- Long-term objectives
- Reliability of sources of income

- Receipt of an inheritance
- Medical expenses
- Lifestyle adjustments

The cash flow and personal net worth statements will generally be the most important documents in financial management. The planner should be able to recognize strengths and weaknesses in the client's financial position. Other documents will also be useful in assessing the client's position. For example, a planner might compile a table showing the impact of various liabilities on the client's credit rating. Presenting information this way could be a useful means of helping the client understand their financial situation. A proposed budget might be a useful document as well. It falls to the financial planner to determine how to best help the client understand and improve their financial position.

Much of financial management will focus on where the dollars to accomplish objectives come from, and where they go. It will be very difficult to accomplish any other portions of the plan if the financial management component is not in check.

INVESTMENT PLANNING

The client is likely to have a range of objectives that will only be realized years down the road. In order to accomplish these objectives, the planner will be able to recommend investment strategies. Some factors that should be explored when determining what investment strategies to employ include:

- Strategic Asset Allocation
- Tactical Asset Allocation
- Geographic Asset Allocation
- Asset Allocation by Sector
- Investment Philosophy
- Choice of Products
- Need for Guarantees
- Preservation of Capital
- Capital Appreciation
- Risk Tolerance
- Time Horizon
- Need for Income
- Tax Efficiency
- Liquidity
- Frequency of Rebalancing
- Use of Leverage
- Dollar Cost Averaging
- Automatic Reinvestment
- Stability of Income
- Ownership of Assets

A statement of invested assets can be a useful tool for identifying where a client might have strengths and opportunities with their investments. The Competency Profile provides some guidance in this area:

1.1 Gathers quantitative information	
1.105 Collects information to prepare a detailed statement of investment holdings	The CFP professional gathers information on the client's investment holdings. Key information includes the client's mix of assets, their market values and cost bases, their ownership, historical rates of return, maturity dates and beneficiary designations. Supporting documentation may include investment statements, transaction confirmations, income tax returns and assessments.
1.106 Determines the client's current asset allocation	The CFP professional determines the client's asset allocation for both registered and non-registered plans and the portfolio overall by determining the breakdown of cash, fixed income and equity investments, real estate and other specialized investments. The CFP professional also determines the currency of assets and in which accounts different asset types are held since each may have different tax treatments.

Based on sections 1.105 and 1.106, the planner might develop a table as follows:

Asset	Market Value	ACB	Account Type	Owner	5 Year Return	SD	Sharpe	Benef. Desig.	Asset Class			Geography	
									Cash	Fixed Income	Equity	Canadian	Foreign
Stock A	$14,000	$8,000	Non-Reg	Mike	5.2%	9.0%	51.1%	NA	$0	$0	$14,000	$14,000	$0
Mutual Fund B	$32,000	$0	RRSP	Mike	6.1%	7.2%	67.8%	Alicia	$800	$2,400	$28,800	$27,300	$4,700
ETF C	$16,000	$13,000	TFSA	Mike	6.8%	5.2%	75.6%	Alicia	$0	$0	$16,000	$16,000	$0
Bond D	$9,000	$0	RRSP	Mike	-3.0%	1.5%	-33.3%	Alicia	$0	$9,000	$0	$9,000	$0
Total	$71,000	Portfolio Averages			4.9%	6.4%	54.7%	Totals	$800	$11,400	$58,800	$66,300	$4,700
						Weighting in Portfolio			1.1%	16.1%	82.8%	93.4%	6.6%

This type of table allows the planner to quickly identify several items that might be of concern. For example, on this chart, the planner can identify:

- Value of Assets owned.
- Types of accounts used (and not used).
- Ownership of assets. (eg. are assets jointly owned, individually owned, held in trust, etc.)
- Some relevant historical rate of return should be used. In this case, a 5 year return has been chosen. A 10 year return might be preferable, but may not always be available. For this table, the weighted rate of return has been calculated at 4.9%.[3]
- Standard deviations for each investment are presented to help indicate the risk in the portfolio. This can help the planner identify changes in risk characteristics for the portfolio. This information would normally have to be obtained from a third-party source.
- Once the historical rate of return and standard deviations are available, the planner can calculate the Sharpe Ratio for each asset. (In this case, a risk-free return of 0.6% was assumed.) Seeing the Sharpe Ratio can, again, help the planner to determine the consequences of asset changes or rebalances. For example, if the client moves to a more equity-based position, and increases the expected return, but also reduces the Sharpe Ratio, the planner could use the change in Sharpe to identify and explain that the portfolio is now riskier.
- Identifying beneficiaries can help to identify missed opportunities, or potential problems that might arise around tax or estate planning.
- The Asset Class and Geography columns will help the planner to identify where the client is not properly diversified.

Other information might be relevant to the client's situation; this is just a starting point. The size and complexity of the portfolio, as well as the client's desired degree of involvement in asset management discussions, will help to determine how much information is relevant or useful.

For example, clients who invest in accounts other than just the RRSP should have some indication of the tax handling of assets. This will help to identify where tax efficiencies might not be properly explored. This concept is referred to as asset location.

More complex blocks of invested assets should identify sector weightings in addition to asset allocation. (This is a frequent source of concern for Canadian investors in particular, who often concentrate in 2 or 3 sectors (financial, communications, and energy minerals), and lack proper diversification as a result.)

INSURANCE AND RISK MANAGEMENT

Initially, the client may not have any express objectives around risk management. That does not reduce its importance; the planner should work with the client to make sure that risks are well understood and addressed.

- Life Insurance
- Auto Insurance
- Long Term Care Insurance
- Travel Insurance
- Term or Permanent Insurance Needs
- Joint Coverage
- Policy Loans
- Disability Insurance
- Homeowners Insurance
- Current Insurance Costs
- Group Benefits
- Insurance Needs Analysis
- Conversion Options
- Cash Values
- Tax Consequences
- Critical Illness Insurance
- Health and Dental
- Renewal Premiums
- Beneficiary Designations
- Product Selection
- Ownership
- Non-Forfeiture
- Non-Insurance Solutions

In order to help identify strengths and weaknesses in the client's risk management scenario, the planner might build a table of risk management. The format for such a table is described in the FPSC Competency Profile:

- [3] This is calculated by taking the sum of all the returns divided by the total assets held: (($14,000 x 5.2%) + ($32,000 x 6.1%) + ($16,000 x 6.8%) + ($9,000 x -3.0%)) ÷ $71,000 = 4.9%.

1.108 Collects details of the client's existing insurance coverage	The CFP professional gathers information on the client's insurance coverage. Key information includes the type of policy, ownership, amount of coverage, renewal date, premiums, cash values, tax status, beneficiary designations and integration of benefits with group and/or government insurance benefits. Supporting documentation may include contracts and statements for life, disability, health and property insurance policies.

A sample table including this information might appear as follows:

Coverage	Benefit	Premium	Renewal	Ownershi	Beneficiar	Offset?	Insurer
Term Life Insurance	$750,000	$95/mo	May 2021	Janice	Greg	None	InsureCo
Universal Life Insurai	$118,400	$110/mo	Permaner	Janice	Greg	None	InsureCo
Group LTD Coverage	$3000/mo	$140/mo	Annual	StaffCo	Janice	EI, CPP, WCB, Auto	DifferentCo
EI Benefits	$2250/mo	$72/mo	NA	Govt	Janice	CPP, WCB	Govt
CPP Disability	$1340/mo	$220/mo	NA	Govt	Janice	None	Govt
Workers Compensati	$3200/mo	NA	NA	Govt	Janice	CPP	Govt
Auto Policy	$2,000,000 (liability)	$130/mo	Feb 2017	Janice	NA	None	AnotherCo
Homeowners Policy	$570,000 (dwelling)	$1600/a	Feb 2017	Joint	NA	None	AnotherCo
	Total	$900.33/mo					

By using this table, the planner work with the client to identify:

- The amount of benefit available to manage any risk.
- The lack of benefit available to manage any risk.
- Potential budget opportunities. Is the client paying too much for some insurance? Is there too much insurance in place?
- Pending premium increases, based on renewal dates.
- Risks that the client has control of, and those where the client is counting on an employer or the government.
- When coverage might lapse or expire.

A risk management table of this nature will provide a valuable starting point as the planner analyses the need for and approach to various risk management problems.

RETIREMENT PLANNING

Building the retirement plan requires a substantial amount of assumptions. The assumptions used will be greater the farther from retirement the client is. As the client approaches retirement, there will be greater certainty available. There will be a great variety of factors to consider, but some of the more common considerations include:

- Timing of Withdrawals
- Taxation of Withdrawals
- Reduced Need for Income
- Age 65 or later for OAS
- Sales of Assets (eg. business or real estate)
- Government Benefits
- Need for Guarantees
- Health Care Expenses
- RRIF or Annuity
- LIRA unlocking
- Pension or LIRA
- Early or Late CPP
- Death of One Spouse
- Travel Plans
- Income Splitting
- Bridge Benefits
- Big Ticket Purchases

Much of retirement planning is going to start from the client's objectives. Establishing clear and well-defined objectives will help to build a solid retirement plan, even where those objectives shift over time. The key objective is likely the retirement date. Despite a general lack of planning for retirement, many clients will at least have a rough idea as to when they might want to retire. More difficult questions, such as whether retirement is a phased-in decision, or an absolute end to any sort of employment, will likely not be answered until the client is closer to, or even in, retirement.

Rather than using specific tables for retirement planning, much of the presentation and analysis of data will be based on adjustments of existing tables. The planner might, for example, build a projected cash flow statement for the retirement years. Such a statement is likely missing retirement income, but should incorporate government benefits, pensions, investment income, and other likely sources of retirement income. This is the focus of Chapter 14 of this course.

TAX PLANNING

Tax planning can be a very detailed or very basic component of the financial plan. For the self-employed, business owners, or those with substantial assets, the financial planner will almost certainly end up working with a dedicated tax advisor. For those with more basic tax situations, tax planning likely consists of a relatively small number of deductions and a few tax credits. The factors to consider in tax planning include:

- Tax Credits
- Tax Deductions
- Registered Plan Contributions
- Registered Plan Withdrawals
- Tax Free Savings Account
- Caregiver Credits
- Medical Expenses
- Deductibility of Interest
- Income Splitting
- Incorporation
- Taxable Income
- Spousal RRSP
- RESP
- Holding Companies
- Pension Splitting
- Family Trust
- Marginal Tax Rate
- Effective Tax Rate
- LCGE
- Principal Residence
- Cross-Border
- Taxable Benefits
- Tax-Free Benefits
- Private Health Services Plan
- Investment Income
- Deferred Tax Liability
- Charitable Contributions
- Tax at Death

In almost all cases, taxable income will be the most important factor. There are no specific statements required for tax planning, according to the FPSC Competency Profile. However, the client's Notice of Assessment will almost certainly form the basis for most tax planning – prior year's tax returns will yield the most information, if they are available.

It will also be helpful for the planner to compile a list of the client's basic tax considerations, many of which would be drawn from the list above. At the least, such a list should include marginal and effective tax rates, registered plan carry-forward room, and available deductions and credits. For clients with more complex assets, a list of the tax consequences of disposition of each asset will also be helpful.

ESTATE PLANNING AND LEGAL ASPECTS

As with retirement planning, the FPSC Competency Profile does not call for any specific documents to be prepared around estate planning. In Chapter 15, we covered the calculation of the projected value of the estate at death. There is a great variety of additional possible estate planning considerations. Some of them are:

- Wills and codicils
- Amendments to Wills
- Beneficiary Designations
- Heirs
- Executor / Estate Trustee
- Guardians for Children
- Inter Vivos Trusts
- Testamentary Trusts
- Living Wills
- Powers of Attorney
- Buy-Sell Agreements
- Incorporation
- Final Expenses
- Probate
- Alternate Testamentary Instruments
- Value of the Estate
- Foreign Ownership
- Family Relationships
- Legal Agreements in place
- Liability Concerns
- Marriage Contracts
- Joint Accounts with Right of Survivorship

Estate planning, as with risk management, will often not have much focus for the client – at least not until the retirement years. For that reason, it is imperative that the planner work through the broad set of considerations, and make sure that there are no estate planning or legal traps waiting to catch the client unawares.

FINANCIAL PLANNING FUNDAMENTALS

As the planner works through the six components (assuming this is a comprehensive financial plan), it is possible to lose sight of the big picture. The planner must consider how the components are interrelated. In some cases, such as with the RRSP (a retirement asset with tax implications for saving, plus the requirement for a proper asset allocation, as well as estate planning considerations) the interrelationships will be obvious. In other cases, the planner will have to dig a bit deeper to explore the relationships between various items.

For example, the planner might recommend that the client employ a line of credit as the primary emergency fund tool. This can work, but the planner should consider that, if the client becomes disabled and needs the emergency fund, that monthly expenses will increase, owing to additional interest expenses. This translates into an increased possible need for disability insurance. The period of disability would also result in reduced retirement savings, which may have an impact on the retirement plan, and possibly on the estate plan as well.

With any change or adjustment to the financial plan, the planner should consider how it affects the entire plan, not just the narrow area that the change or adjustment is designed to address.

The FPSC Competency Profile provides some useful considerations here, and simply applying the steps addressed in that document at the Collection, Analysis, and Recommendation stages will ensure that the plan acts as a coherent set of solutions, rather than a bunch of disparate approaches to seemingly unrelated problems.

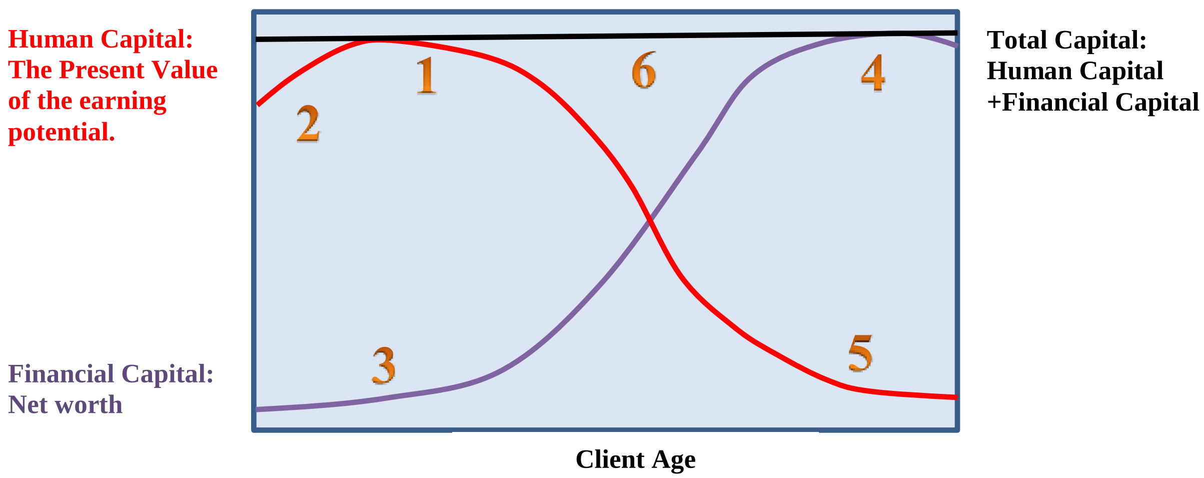
HUMAN CAPITAL APPROACH

Understanding what decisions to make in a given set of circumstances can be challenging. Planners with more experience at dealing with clients will often develop useful heuristics. Without experience and hard lessons learned, the newer planner might have a tough time developing an understanding of what recommendations match a particular set of circumstances.

Thankfully, there are academic models that can help develop this further. While these models are not replacements for years of experience, they can give the planner who uses them an advantage in making recommendations. The model that we are going to employ here is the human capital approach. Human capital theory was developed through the 1950s and 1960s by the economists Jacob Mincer, Theodore Schultz, and Gary Becker. It was originally a management model to explain companies' investments into their employees. It was adapted to personal finance use, primarily by Moshe Milevsky, Peng Chen, Roger Ibbotson, and Xingnong Zhu, in their 2005 paper, Human Capital, Asset Allocation, and Life Insurance. [4]

In this section, human capital will be employed to demonstrate many of the tenets of financial planning. By applying human capital, we will develop tools to make appropriate recommendations at the appropriate time. It should be recognized that human capital is not widely accepted in the academic world in the form that we will apply it here. It is relatively new, and there is still much debate as to whether this is a viable academic model.

A modified version of the human capital model is presented here:



[4] See Chen P, Ibbotson RG, Milevsky MA, & Zhu XK *Human Capital, Asset Allocation, and Life Insurance* (2005) Yale International Center for Finance

The three lines on the model represent:

- **Human Capital** (in red, from top left to bottom right): The present value of the income earning potential of the client at a given age.
- **Financial Capital** (in purple, from bottom left to top right): The net worth of the client at a given age.
- **Total Capital** (in black, across the top): The sum of the human capital and financial capital.

For the purposes of financial planning, there are several useful considerations to be drawn from this chart. See the corresponding numbers on the chart:

1. **Human Capital preservation.** At this stage, the client's entire amount of total capital is based on human capital. If this human capital is not preserved, the client's overall total capital will be substantially reduced. Financial assets will likely never have the opportunity to grow to the extent that they otherwise would. Some of the steps that will be taken to preserve human capital include:

    - **Life Insurance.** At this point, there is likely a large life insurance need. If the client dies prematurely, he likely leaves behind some people who were counting on the future earnings that he would have generated. The value of those future earnings will form the bulk of any insurance need. There will be much competition for whatever dollars are available, so term insurance will likely form the base of any insurance strategy. Any permanent insurance put in place at this time is likely related to asset preservation in the later years.

    - **Disability Insurance.** An injury or illness without proper insurance in place could devastate the ability to generate income. The client's need for disability insurance (and likely critical illness insurance, as well) will be based on the extent to which an injury or illness would reduce the value of human capital at this point. The need for disability insurance is likely to drop off as financial capital replaces human capital on the chart.

    - **Emergency Funds.** Because there is so little financial capital available at this stage, some emergency fund will be required in order to allow the client to overcome most unexpected financial challenges. The amount of emergency fund would be determined based on what events are most likely to befall the client, and the likely cost of those events.

2. **Human Capital enhancement.** Throughout the client's life, the total capital is a potentially variable number. Human capital can be increased; education would be one way to do so. A client who starts with post-secondary education at a young age generally has a higher amount of human capital than another person who does not. The amount of human capital can be increased through continuing education, as well as through a willingness and ability to relocate as opportunities arise. Some steps that can enhance human capital include:

    - **Education Funding.** Parents who want their children to have the best available opportunities will often build education funds (perhaps using an RESP) for those children. This is probably the single greatest boost to human capital in the early years. Even after that, it might make sense to have some dollars set aside for ongoing education opportunities.

    - **Contingency Planning.** If the client is not satisfied with income-earning potential, it might make sense to consider alternatives. Are there ways to boost income? Might opportunities come along? If so, are there funds available to take advantage of those opportunities?

    - **Starting a Business.** While this can be a risky venture, starting and growing a business is a means to increase human capital, and possibly financial capital as well. If the client is going to pursue this course of action, then tax planning, emergency fund planning, and contingency planning are all necessary.

3. **Lack of Financial Capital.** At a young age, the client will likely have very little in the way of financial assets. Over time, if the client manages his funds well, this can be adjusted. Failure to save and invest will

result in a lack of accumulation, reducing the overall capital. Some steps that should be considered when financial capital is low are:

- **Home Insurance.** It is likely that the first major financial purchase for the client will be a home. This asset should be protected, in the form of appropriate homeowners' insurance. Acquiring inadequate homeowners' insurance puts the largest financial asset at risk.

- **Budgeting.** Because nobody has an unlimited amount of cash flow, the available cash flow must be managed. The client who sets goals and budgets to meet those goals is more likely to accumulate financial capital.

- **Debt and Credit.** The acquisition of financial assets can be very expensive. Saving for long enough to make major purchases (house, car) can be prohibitive. The client who understands the appropriate use of debt will be able to acquire those assets without putting the rest of the financial plan at risk.

- **Investment Risk.** Investment risk tolerance is often associated with age and time horizon – the younger client has a greater ability to take on risk because they can wait longer for investments to pay off. The human capital approach takes a slightly different approach to investment risk. The philosophy here is that, at a young age, the vast majority of the client's capital is human, rather than financial. The consequences of a drop in financial capital are relatively minor, and, therefore, little needs to be done to protect the invested assets. This allows risk to be added with little concern for its impact on the financial plan.

  This is not to say that unlimited risk is permitted; risk must still be managed. Investment losses can create significant behavioural concerns. The client who experiences investment losses might be turned off of investing, causing harm to the financial plan in the long run.

4. **Financial Capital preservation.** Once the client has accumulated some financial capital, it should be, at least to some extent, preserved. At an older age, the majority of the client's capital is financial, rather than human. Just as the human capital must be preserved at a young age, the financial capital must be preserved at an older age. Some factors that must be considered here are:

   - **Investment Risk.** The bulk of capital is based on financial assets at this point. If those assets are depleted, it can be very challenging to replenish those assets. As such, the assets must be protected. This likely translates into reduced investment risk, so that capital is less at risk.

   - **Estate Needs.** The client may have goals that include leaving behind some estate, either to subsequent generations, or to a charitable cause. If there are estate goals, this might mean that tools such as permanent insurance need to be used to preserve that estate. The rate of spending, withdrawal rates, and tax consequences will all have an impact on the estate that is left behind.

5. **Lack of Human Capital.** An older client has likely depleted all their human capital and is now counting on their financial capital to sustain them. As such, the following should be considered in the financial plan:

   - **Income Generation.** Human capital is depleted substantially at this point, meaning that income-earning potential is far less. As a result, the client will be almost exclusively reliant on invested assets to generate capital. This reliance on assets could carry on for decades, which amplifies the need to preserve capital.

   - **Liquidity and Unexpected Events.** It can be impossible to prepare for the range of unexpected events. In the younger years, when human capital is available, it is generally easier to adjust to the unexpected. In the retirement years, this is less true. Assets may be tied up; credit is tougher to access; changes to income and spending may not be possible. Because of this, a portion of the financial capital should be left liquid. This acts as an asset preservation tool, because assets would not have to be sold at a loss to accommodate unexpected events.

An additional consideration here might be the addition of long-term care insurance and/or health insurance. These products can reduce the financial consequences of unexpected events, and preserve capital for other uses.

6. **Source of Capital.** While the amount of capital is important, the source can be equally important. The sources of capital that a client has access to might influence the following considerations:

   - **Business Structure.** A client who owns a small business likely has the majority of their financial and human capital tied up there. This may lead to additional constraints, such as credit challenges. As such, the business owner client should be taking extra caution to make sure that this already risky asset is not exposed to unnecessary risks. Proper insurance, buy-sell arrangements, creditor protection, and the structure of the business itself should all be considered as part of the financial plan.

   - **Negative Capital.** While it might seem a bit morbid or mercenary, there will be influences on the client's financial life that represent a drain. A requirement to take care of aging parents, for example, might present a source of negative capital.

   - **Diversification.** Where does the client's total capital originate from? Is it all from one source, or are there multiple sources? Is there more than one income earner in the household? Are there passive sources of income? Does the client have their employment income and invested assets all in the same place, as is common for employees who participate in stock purchase plans? As with other elements of the financial plan, risk can be reduced through effective diversification.

As we can see, the human capital model can be quite useful in determining what the financial planner should be considering at each stage. Of course, the client's objectives and values should always be a paramount consideration.

LIFE CYCLE APPROACH

An alternate, and more linear, approach to matching financial planning requirements to client circumstances, is the life cycle approach. This approach also developed out of economics models originating in the 1950s. In this case, the economists Franco Modigliani and Richard Brumberg developed a model to explain consumption decisions and saving behaviour. This model was originally applied to help construct models around retirement benefits – primarily the United States Social Security system.

Over time, it was adapted to financial planning, and is often used to explain saving and spending behaviour at various stages of life. The original model used two stages (pre-retirement and post-retirement), but many versions of this model use four or five stages. A typical application of the life cycle approach might work as follows:

- **Early Working.** During this period, the client is getting financially established. This period will typically be characterized by debt, consumer spending, and very little saving or investing. Financial literacy is likely low at this period as well. Clients who engage financial planners during this period are likely to end up far better off, but the motivation to seek financial advice at this point is low. Even when financial advice is sought, social media and do-it-yourself techniques will often be employed first.

- **Child-Rearing.** These years will usually have the most fixed and non-discretionary expenses. Mortgages, car financing, and the cost of raising children will be the greatest financial concerns at this stage. There likely won't be much disposable income, and the rate of savings will be low. The client is likely to start building net worth at this time, but mostly via home-equity and forced savings plans, such as group RRSPs.

- **Pre-Retirement.** The pre-retirement years will see the kids become financially independent and allow the client the highest rate of savings. Fixed expenses are likely to decline, and the debt load is likely to drop off as well. Discretionary spending can be quite high in these years, and balancing discretionary spending against savings can be a challenge. Spending in the pre-retirement years is going to give the best indications as to what spending in retirement will look like. Aggressive savers are likely to continue that behaviour in retirement, and big spenders are also not likely to change their behaviour.

- **Early Retirement.** The early retirement years are defined by good health and an abundance of free time. Discretionary spending is likely to be high, but this will be tempered somewhat by increased flexibility. Retirees don't have to take holidays in peak vacation periods; they can avail themselves of seniors' discount programs. This is when the client will have more control over the rate of spending, and will have to be careful to leave sufficient assets to deal with longevity risk.

- **Late Retirement.** The late retirement years are defined by declining health and energy. The client is likely to slow down, and the rate of spending is also likely to reduce. This will be offset in part by possible increased health care costs.

The life cycle approach can be useful for helping the client understand their position. It can help to keep goals realistic. For example, a client who gets divorced in their early 30s and starts over in the child-rearing years in their late 30s or early 40s might not expect to have the same level of savings as a client who is entering into the early retirement years at the same time. This might require adjustments around retirement planning expectations, for example.

KEY PERFORMANCE INDICATOR APPROACH

Many decision-making processes today are accompanied by Key Performance Indicators, or KPIs, which are a useful method of determining the extent to which the decisions made yielded positive results. KPIs are not much used in financial planning, but, given the amount of quantitative data available, the opportunity is there. The use of performance indicators is not restricted to quantitative data, either. It is possible to attach KPIs to qualitative data.

Some of this might come about as a direct result of client objectives. For example, a client might indicate that they have a need to generate $40,000 of annual after-tax income in retirement. On that basis, the financial planner might determine that investments of $910,000 are required, in order to sustain that level of income until projected mortality, and with the income levels adjusted for inflation.

If this client is currently age 38, and has investments worth $120,000, then the planner might set goals as follows:

Age	38	39	40	45	50	55	60	65
Desired Progress	$120,000	$149,259	$178,519	$324,815	$471,111	$617,407	$763,704	$910,000
Intended Retirement Age	65							
Target Savings	$910,000							
Starting Savings	$120,000							

Of course, this is a fairly basic type of projection, assuming linear growth, and a linear ability to save. It is probably not reflective of reality. The planner who has worked through a robust information collection and analysis with the client might produce more refined targets:

Age	38	39	40	45	50	55	60	65
Desired Progress	$120,000	$132,840	$146,772	$236,176	$359,408	$503,669	$692,466	$910,000
Intended Retirement Age	65							
Target Savings	$910,000							
Starting Savings	$120,000							
Investment Returns	8%	8%	8%	8%	5%	5%	5%	5%
Done Child-Rearing	49							
Monthly Savings	$250	$255	$260	$287	$622	$686	$758	$837
Inflation	2%							

This version of the projection uses much more data, and projects annual savings targets based on estimated investment returns, the ability to save, different savings rates before and after the kids are dependent, projected inflation, and other variables that will depend on the client scenario. This might present a more workable set of targets for the client to reach for each year. Further, if the client is not achieving these goals, then some adjustment to the plan can be incorporated at this point.

Target retirement savings is a relatively easy set of KPIs to establish. A creative planner who is trying to help the client achieve other goals can set other KPIs. For example, a client who has difficult with credit might have KPIs established for their GDS ratio or their Beacon Score. A client who has spending issues might have KPIs set for their percentage of household spending on certain discretionary items, such as dining out, or home electronics.

This will be a little tougher for qualitative factors, but is still possible. This might require a degree of ongoing client feedback. For example, the client who has not handled credit well might be asked to fill out a monthly survey. The questions might be as follows:

On a scale of 1(worst) to 10(best), rank the following:	
I have made responsible use of credit in the reporting period	
I understand my credit position and how I arrived here	
My credit is better than it was a year ago	

The planner might use a survey tool like Survey Monkey to solicit responses from their clients. Monthly or weekly responses might be solicited, because if this is only done at annual intervals, it will be very dependent on how the client feels on one particular day of the year, rather than being reflective of the client's overall attitude towards credit.

The planner might not choose to use KPIs, but some sort of measurement of progress in the financial planning process is appropriate, and probably necessary. This is addressed in the FPSC's Practice Standards, at the step "Discuss Implementation Actions, Responsibilities and Time Frames." Specifically, that step requires that the planner, "[s]tress the importance of a review and ongoing monitoring of the client's situation relative to his personal goals, needs and priorities periodically and as needed based on material changes in personal or external circumstances." [5]

MAKING RECOMMENDATIONS

This might seem like the easiest step in the financial planning process. The planner has collected and analyzed information, knows the client very well, and has prepared a set of well-founded recommendations. Those recommendations are likely to improve the client's financial position, and should be easy enough to implement in many cases.

Unfortunately, human beings will not always act in their own self-interest. In many cases, competing interests will take the client away from doing what is required. Procrastination, competing expenses, and a lack of understanding can all contribute to a failure to implement financial planning recommendations.

It is important, then, that the planner make recommendations that work. Best practices, combined with behavioural planning research, give us some idea about how to do this. The methods described in this section are designed for broad applicability, and will not always yield the best results. The client's culture and attitudes, along with the planner's approach, will have a notable impact on outcomes. It is incumbent on the planner to gather evidence about what works or does not work in her own practice.

The planner can use some tools and techniques to increase the likelihood that the plan is implemented. The first of these that we will examine is the Action Plan. The FPSC's Competency Profile gives us the following indication of what might go into an Action Plan:

3.002 Incorporates recommendations into action steps	The CFP professional includes all financial recommendations alongside specific action steps. Action steps may include a timetable for getting started, account references, persons and/or documentation required to assist and dates for completion.

A template for an action plan might look as follows:

[5] Canadian Financial Planning: Definitions, Standards & Competencies (pg 25)

Check when Completed	Priority	Item	Approx Cost	Start Date	Professional Contact
	High	**Consolidate consumer debts into one loan.**	$0	Within 3 mos.	FBC Bank
	High	**Acquire the correct amounts of life insurance on Brian's life.**	Increase premiums by $50/mo	Immed.	Insurance Agent
	Low	**Delaying CPP and OAS, each to age 67.**	$0	Age 60	With Financial Planner

Presenting the action plan might involve referencing the client's objectives, so that the client make a connection between what they set out to accomplish, and how this action item will help them to accomplish this. The planner might use an approach similar to the KPI approach again here, demonstrating how, on the client's current path, objectives might not be met. Then the plan might demonstrate how employing the suggested action items increases the likelihood of achieving the client's objectives. The Letter of Engagement should also help to motivate client behaviour. Best practices with Letters of Engagement include a statement of client responsibilities, which would include following through on agreed-upon courses of action.

Presenting a workable number of action items is important. If the planner presents an overwhelming set of action items the client might be frozen by the length or cost of the to-do list. The planner should consider that the financial planning process is ongoing, and that not every item necessarily represents an immediate priority. Getting the client to recognize the items that will have the greatest impact, or address the biggest risks, will likely lead to a successful implementation.

Presenting the Action Plan in a workable format will not necessarily lead to success, though. The planner and client must have some follow-up. Some methods to help establish success include:

- **Calendar Reminders.** Virtually everybody today uses some form of electronic calendar. The planner might provide the client with automated calendar reminders to ensure that they book appointments and engage in follow-up.

- **Behavioural Finance / Herd Mentality.** One of the primary motivational factors in getting people to take action is peer pressure.[6] The planner who can use this peer pressure positively can potentially influence client behaviour. Examples of ways to do this include conducting client seminars where clients share their success stories, or via social media. Tools like this must be carefully managed, as there is always the potential for any public forum to get out of control.

- **Incentives / Gamification.** Video games are an increasingly growing part of our culture, and video game designers are experts at designing rewards that have no intrinsic value, but command attention, effort, and even respect. The planner can learn from the video game industry in this regard. Are there incentives that can be used to encourage behaviours? How might a client respond if the planner presented them with a framed scroll indicating something like, "Credit Score of 750" or "Emergency Fund Level: Expert"? Perhaps not a scroll, but a novelty t-shirt or virtual badge (from a site such as www.openbadges.ca)? As with other techniques, this relies on the planner to know their client.

- **Disincentives.** While incentives can be useful, there is also evidence that disincentives or penalties can be effective motivators. Perhaps a planner who charges on a fee-for-service basis charges a higher hourly rate for clients who have not accomplished objectives, for example.

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[6] See, for example Bursztyn L, Ederer F, Ferman B, & Yuchtman N; *Understanding Peer Effects in Financial Decisions: Evidence from a Field Experiment* National Bureau of Economic Research (2012)

- **Public Recognition.** While there are risks with this (confidentiality and compliance concerns will be front and centre), with proper client consent, the planner might be able to employ some public recognition. This might consist of an acknowledgement on Facebook or Twitter ("congratulations to @JaneDoe, who has completed the first of her 7 financial planning objectives") or at a client event hosted by the planner. As with other techniques, the planner must consider his own practice, and the typical client that he deals with.

All the great financial planning concepts and strategies will be useless if the client does not follow up. While some of this is obviously incumbent on the client, the planner can take steps to positively influence client behaviour. The planner should develop processes and procedures in order to develop best practices to create successful client follow-through.

JOINT OR INDIVIDUAL ENGAGEMENTS

In most cases, it should be fairly obvious whether a client engagement will be individual (one client) or joint (more than one client). It will very rarely be appropriate to treat any client other than a couple (married or common-law) as a joint engagement. Business partners, and parents and children will almost universally be dealt with as separate engagements. From time to time, information sharing may be required, but that information sharing must be done in the context of the FPSC Standards of Professional Responsibility.

Rule of Conduct #21 deals with this explicitly, and requires that any information sharing be done only with the express, informed, written consent of the client. The planner may arrange joint meetings between parties who have overlapping interests, but must be careful to inform all parties in advance of the intended purpose of such a meeting.

When dealing with couples, most planners in most situations will treat the engagement as a joint engagement, dealing with the couple as one entity. There are, however, some circumstances in which it is more appropriate to deal with each member of the couple as two distinct individual engagements.

This is most likely to happen when there is a blended family, or just people on second or third (or more) marriages. That is not the only time that dealing with each of the couple separately will be necessary, though. In some cases, even a couple on a first marriage, with only children from that marriage, may have to be dealt with separately. This might be the case if, for example, one of them is the heir to a substantial fortune.

Another reason to deal with the two of them separately would be if they have conflicting objectives. It may be obvious early in the engagement that this is the case, or it may only become obvious after the planner has put in some work with them. One or two sets of conflicting objectives might be able to be hammered out via some sort of mediation, but if there are lots of conflicting objectives, and the couple cannot come to an agreement, then it may be necessary to treat them as if they are two separate individual engagements.

Where the planner will separate the parties in a couple out, it may be advisable that each of them deal with separate planners. Perhaps the original planner retains one of them and passes the other off to another planner. Again, the Rules of Conduct provide some guidance on how this can be done. Confidentiality is vital; the planner also has an obligation to hand over any information gathered to this point, as per Rule #13. Rule #11 requires that the planner provide sufficient notice that this relationship will be terminated. Treating engagements in this manner will help to reduce the Conflicts of Interest described at Rule #8 and #8.1.

Best practices around referrals generally include the provision of three possible service providers. The planner might have the names and contact information for three other potential planners, whom the client could now meet with to determine where an appropriate working relationship can be formed.

It is a relatively new practice to separate out relationships where there are potentially unresolvable conflicts. By adopting this practice, the planner puts the interests of the client first, and also reduces some of the potential compliance and confidentiality concerns that can cause challenges from a business perspective.

DEALING WITH OTHER PROFESSIONALS

The financial planning professional will have to recognize that there are times when issues beyond her own expertise will arise. Since the exact competencies of each financial planner will differ somewhat, this puts the onus on the planner to recognize these limitations. This is very explicitly called for in the FPSC Competency Profile:

PS. 105 Recognizes limits of competence and voluntarily seeks the counsel of and/ or defers to other professionals when appropriate	A CFP professional offers advice and planning services in those areas where he has the requisite knowledge, skills and abilities. A CFP professional knows the limits of his knowledge, and seeks the counsel of qualified professionals in areas where he does not have the necessary expertise.

There are numerous professionals with whom the financial planner might interact in the course of a typical financial planning engagement:

- **Accountant.**
- **Lawyer.**
- **Funeral Director.**
- **Long Term Care Facility Staff.**
- **Health Care Provider.**
- **Succession Planner.**
- **Actuary.**
- **Provincial Trustee and Guardian.**
- **Professional Trustee.**
- **Professional Executor.**
- **Real Estate Agent.**
- **Insurance Agent.**
- **Portfolio Manager.**
- **Investment Advisor.**
- **Mortgage Broker.**
- **Trustee in Bankruptcy.**
- **Credit Counsellor.**
- **Business Valuator.**

There may be others, but this would be a representative list. As with financial planners, the planner should recognize that not all professionals in other fields are the same. For example, lawyers have a broad range of specializations. Some lawyers will be very familiar with wills and estates; others might deal with tax issues; others yet might deal with incorporation. For each type of professional on this list, the planner should learn to identify the appropriate professional to deal with. Some factors to consider include:

- **Professional Designations.** Is the professional duly accredited? Do they belong to a professional association? Do they adhere to standards of professional responsibility? Many of these items can be confirmed by a visit to the web page of the professional association in question.

- **Specialization.** Is the professional a specialist in the field where help is required? Does that person cover a broad range of specializations, or are they narrowly focussed? Either approach might be appropriate, depending on the particular circumstances.

- **Commitment to Education.** Does the professional maintain their professional standing? If there are ongoing Continuing Education requirements, what does that person do to maintain their competency? If there are no formal requirements, what does that person do in the absence of formal requirements?

- **Fit with Client.** Will the professional be able to work with the client in question? Not all working relationships will be fruitful. The planner should recognize the types of professionals that are most likely to yield results from the client. Fit might be based on attitude, age, experience, ethnic community, approach to problem-solving, or other factors. For this reason, the planner should develop broad networks of professionals, recognizing that not all clients will always work well with any given professional.

- **Fit with Planner.** Is the planner able to work with the other professional? This does not necessarily mean that they always agree – this can be quite dangerous. Rather, are they able to cooperate in arriving at solutions for the client? Will they disagree where it's appropriate?

- **Cost.** As with most other goods and services, cost should not be the foremost concern. However, the client will have finite resources, and those must be managed responsibly. That being said, the cheapest professional is seldom the best. Instead, the planner should make sure that the costs of engaging a particular professional are well understood in advance.

The planner won't always be able to choose the team of professionals that the client will deal with. In many cases, the client will have a pre-existing team, and the planner will be expected to integrate with that team. It's important that the planner remember that those other team members likely have the client's trust already. Disagreements may arise, but the planner should consider that there are appropriate ways to handle such disagreements. Other professionals may not appreciate being challenged or made to look foolish in front of their long-standing clients.

The planner may be confronted with situations in which a professional is holding themselves out in a manner that is not appropriate to their qualifications. Again, these can be very sensitive issues. The planner should engage the other professional before bringing any concerns to the client. It's important to be direct, and make it clear that the client's well-being is the primary concern.

No one person will have all the skills to solve the entire set of financial concerns at hand. The financial planner will be an integral part of this team, and will often act as the point of contact for other professionals. Some financial planners consider themselves the quarterbacks of their client's financial management teams, dispatching the appropriate tasks to the appropriate professionals. This won't always be the case, but the planner is likely to have the broadest set of skills concerning personal finance.

HOW IT WORKS

Indira is a young professional, recently graduated from an engineering program at a major university. She has recently started her first professional job with a national engineering firm. As such, she decides that it is time to get her financial affairs in order. She approaches Simon, the older brother of a friend of hers from university. Simon is a financial planner, having recently obtained the CFP™ designation. After an introductory meeting, Simon and Indira agree to enter into a financial planning engagement.

Simon and Indira discuss financial planning objectives. Indira indicates that she would like to buy a condo in a lively urban neighbourhood, so that she can be active, live close to work, and not be too concerned about home maintenance issues. She has no immediate plans to get married or start a family. Travel and flexibility are important to her. Retirement seems a long ways off, and she has not given it much thought. She has a substantial student loan that will have to be paid off.

Based on these factors, Simon and Indira focus on cash flow management. Simon gets Indira saving towards a down payment, and also towards an emergency fund that would be suitable for a condo owner. They talk about budgeting, as Simon has seen young adults very quickly end up with large amounts of debt early in their working lives. Indira establishes a budget and downloads some budgeting software onto her phone. She doesn't want to be constrained by her budget, but she recognizes that following a budget will help provide financial security throughout her life. She and Simon discuss various budgeting techniques, and settle on a commitment by Indira that she will track her expenses against her income at the end of each month. Indira's student loan is also a concern, but the interest rate is manageable, and Simon and Indira can identify no reason to rush the repayment of this loan beyond its current schedule.

On the risk management side, they look at Indira's group benefits package, and find the long-term disability coverage lacking. As such, Simon recommends that Indira acquire a basic critical illness insurance policy as well as a top-up disability insurance policy, designed to complement the existing disability plan. Some life insurance is also acquired, to offset the risk that Indira becomes uninsurable between now and the time that she takes on a mortgage, and, eventually, starts a family.

Investment planning is a relatively simple component of Indira's plan at this point. Without a firm retirement target, Indira's savings are more about building a habit, as opposed to saving towards a specific goal. Simon recommends that Indira start a regular habit of saving, using the RRSP, due to her relatively high income. They work through a thorough examination of her risk tolerance. Again, this is more about getting Indira to develop good financial habits, as opposed to optimizing returns in Indira's portfolio.

Retirement planning is a minor concern at this point. Simon explains to Indira how CPP and OAS are likely to benefit her in retirement, and also shows her the value of the Defined Contribution pension plan that her employer has in place. He does some basic calculations to show the level of retirement income that these benefits are likely to produce. Indira sees the need for additional retirement savings, but she and Simon determine that this is a lower priority than a house, emergency fund, or her insurance needs at this time.

Tax planning is not terribly complex for Indira. She has never paid much tax, so she doesn't have any explicit tax planning objectives. Simon makes sure that she understands basic tax concepts, like marginal tax rates, deductions, and credits. As she is impacted by student loan interest and the RRSP deduction, Simon spends extra time on those concepts. They discuss the use of the Home Buyers Plan as part of Indira's plan to eventually purchase a home. In the background, Simon briefly explores the concept of incorporation for Indira, but finds that it is not feasible in her current employment situation.

As with tax planning, Indira has no explicit estate planning objectives. Simon recommends that she see a qualified lawyer to get a will done, but, more importantly, as a single person, to draft powers of attorney for property and health care. The selection of executor and power of attorney is challenging for Indira. She and Simon talk this through, and she commits to asking a cousin of hers with whom she is close, and who lives in the same city.

Simon builds a detailed action plan and provides it to Indira. She commits to follow it, and she and Simon book a follow-up meeting. Simon asks that Indira email his assistant each time that she makes progress towards any of her financial planning goals. He develops a progress tracker that provides a '% complete' indicator towards her action plan items, and has his assistant email her regular reports to indicate how far along she is at the end of each month. When she is 50% complete, Simon writes and mails her a personal card, congratulating her on her success. When she has completed her action plan, Simon presents her with a framed certificate of completion.

As Indira moves through her financial life, she and Simon meet regularly. A few years later, Indira is serious about getting married. This causes a shift in her financial plan, and she and Simon develop her financial plan around her spouse and her new lifestyle. As she has kids, the financial plan adjusts again, and so on. At each stage along the way, Simon works with her to understand her changing objectives, values, and attitudes. Her plan evolves with her.

The financial planning process will look different in each type of engagement. Some planners and clients will enter into comprehensive financial planning engagements. Other engagements will be more focussed on a particular problem. Some planners will be very involved in all aspects of their clients' lives, and others will have a more hands-off approach. It's important that the planner and client understand what this relationship will look like. Selecting clients who are a good fit for the planner will make a big difference.

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