The Financial Planning Process

Overview

Financial planning is the setting and implementation of goals for the utilization of one's money. "Financial planning" is not a product or a service but a series of interrelated activities that a client engages in on a continuing basis.

The goal of the financial planning process is to create a financial plan which will serve as the framework for organizing the components of a client's financial situation. A financial plan helps the client to focus on his or her goals and to understand what needs to be done to achieve those goals.

The financial plan also helps the client to balance competing financial priorities. For example, saving for one financial goal such as a child's college education may impact another financial goal such as saving for retirement. Once the client is aware of competing goals, he or she can prioritize those goals, implement specific financial planning strategies, and select suitable products and/or services to help them achieve those goals.

Financial planning is appropriate when a client has ongoing, current, and/or future financial goals they wish to achieve and need to determine the strategies necessary to successfully attain those goals.

Description

In working through the financial planning process, the following financial planning concepts will be addressed if appropriate to the client's situation:

- Cash Flow Management
- Retirement Planning
- Education Planning
- Investment Planning
- Insurance and Risk Management Planning
- Tax Planning
- Estate Planning
- Business Planning
- Charitable Planning

A client may need to concentrate on certain areas at different points in the client's life, but all areas that apply to the client's situation should be addressed in the development of the financial plan. In addition to the above major categories, there may be special circumstances in the client's life that may arise over the course of time that the financial planner can assist with. Examples might be selling and/or buying a home, changes in employment, divorce, early retirement or severance package offers, a terminal illness, special needs of a dependent, early retirement, or death of a spouse.

Logistics

It is apparent from the above list that the financial planning process involves several different areas of expertise which require in-depth knowledge, education, and experience. Consequently, there will most likely be a financial planning team who will be involved at various points in the process.

Typically one financial professional will initiate the process and then coordinate with the other members of the team when appropriate. Other professionals on the financial planning team may include a CPA, a tax attorney, an estate planning attorney, a life (and other) insurance professional, and an investment advisor.

The primary role of the financial planning professional is to work closely with the client throughout the financial planning process. The steps in the process are to:

- Define, establish, and prioritize the client's goals and objectives.
- Gather the client's data and background information.
- Analyze and evaluate the client's current financial situation.
- Develop a financial plan.
- Outline and educate the client about the strategies that are designed to help implement the plan.
- Help implement the plan.
- Monitor the plan on a regular basis and make adjustments as needed.

Goals and objectives need to be clearly defined and understood by everyone who is involved with the client in the financial planning process. It is highly recommended that both husband and wife meet together with the financial planner at the goals and objectives meeting since they may have "joint" goals as well as individual goals, some of which they may be unaware that their partner has. Since it is critical that both spouses or partners participate in all meetings with the financial planning professional if possible, throughout the remainder of this article "client" will refer to both husband and wife (or domestic partners), if appropriate.

Financial objectives should be stated in quantitative, measurable terms for two reasons. If the particular goal is stated in numerical terms, the progress made over time towards achieving the goal can be periodically measured. Also, by stating the goal in quantitative terms, the client and the financial planner will know when the particular goal has been accomplished.

In addition, the client's goals and objectives should have a time dimension associated with them. When a goal needs to be achieved is critical in measuring the progress towards that goal. Some goals may have a long time frame, such as retirement, or a short time frame, such as getting control of a negative cash flow situation. Some goals such as education planning may have various time frames, depending upon the current ages of the children.

Once all of the goals have been identified, they need to be ranked in order of priority since various objectives generally will compete for the client's limited financial resources. Critical short-term goals may need to be satisfied before long-term goals can be addressed.

Gather the Client's Data and Background Information

The next step is for the financial planning professional to have a comprehensive data gathering meeting with the client. The financial planning professional will utilize a personal financial planning questionnaire or "fact finder" to gather the needed information. In addition, providing a documents check list to the client is very helpful in their process of gathering the needed documents. Examples of documents the financial planning professional will need are a personal balance sheet, expense detail, bank statements, brokerage statements, mortgage notes and other loan documents, car leases or loans, all types of insurance declaration pages or in-force policy statements, credit card statements, employee benefits, last 2 years' tax returns (income, gift, and estate, if applicable), estate planning documents, business planning documents and any other legal agreements.

Analyze and Evaluate the Client's Current Financial Situation

Once the client's information and documents have been gathered, the financial planning professional can compile personal financial planning statements that will show the client's current financial situation – a "financial snapshot" of sorts.

A personal Balance Sheet or Net Worth Statement will show the values of the client's current assets and liabilities. A current Income Statement will reflect the amounts and various sources of income and the expenses that the client has. A projected year-by-year Cash Flow Analysis could be prepared, based upon the current sources of income and expenses, factoring in inflation and any known future planned outlays (e.g., college education, retirement income, vacation home, etc).

The year-by-year Cash Flow Analysis projection can reveal whether or not the client has a positive or negative cash flow and how that affects their portfolio over the course of time. By having the client begin to track/record their expenses, the professional can help the client decrease or eliminate unnecessary expenses, uncover possible spending pattern problems, and make better use of their income sources.

Develop a Coordinated Financial Plan

In general, a financial plan has numerous components that will address most of the financial planning concepts mentioned earlier in the Description section of this article as they apply to the client's situation. In the plan, the financial planning professional will recommend strategies the client should consider if they wish to achieve the financial goals that they have previously established and prioritized in the financial planning process. For example, specific savings amounts needed to reach certain goals of the client such as retirement or education planning will be part of the plan. If an investment program is called for, the plan will identify appropriate financial instruments that will meet the client's specific objectives. In addition, the plan should include the budgeting of income and expenditures in the short term as well as a projection of future activity. Recommendations regarding insurance coverages also will be included. Recommendations in the areas of estate, tax, business, and/or charitable planning also will be addressed if applicable to the client's situation.

Educate the Client about Implementation Strategies

When the financial planning professional recommends strategies to a client, it is equally critical that he or she educate the client about the strategy. If the client does not understand how a recommended strategy works or why it is being recommended, the client is far less likely to follow through with the strategy over the course of time. This educational process will continue throughout the financial planning engagement as new strategies are recommended in response to changes in the client's situation, the market, and other influential factors that affect the client.

Implement the Financial Plan

Implementation of the plan will include initiating strategies that involve some, if not all, of the financial planning concepts listed in the Description section of this article.

With numerous areas involved, a successful implementation of the financial plan requires effective interaction among all the members of the financial planning team. The financial planning professional will most likely serve as the quarterback of the team, being the one person who coordinates all of the team's efforts and monitors and keeps the implementation of the financial plan on schedule.

Monitor the Plan on a Regular Basis and Make Adjustments as Needed

The financial planning professional also will monitor the plan on a regular basis to make certain personal, financial, market, or any other changes that affect the plan or the client are addressed and that adjustments to the plan are made. Over time, the client's objectives may change and require modifications to the recommended strategies.

The financial plan also can be reviewed on an annual basis, though the client's individual circumstances may require more frequent review meetings.

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