

FINANCIAL PLANNING FOR LIFE

If the term “financial planners” evokes visions of equities and equity mutual funds—selected to implement financial plans they developed for clients in accordance with their investment goals and tolerance for investment risk—it should not be surprising.

Equity Ownership in America, 2005, a study recently released by the Investment Company Institute and the Securities Industry Association, found that more than 75 percent of the millions who own equities and equity funds outside employer plans bought them through financial planners and other professional financial advisers.

But financial plans leading to ownership of portfolios of equities and equity funds are hardly planners’ only services. They not only have delved increasingly into areas beyond investment advice, they also have met clients’ needs for more of their life goals, giving rise to the concept of financial life planning.

Some may think that financial planning is a one dimensional process involving technical skills, such as Monte Carlo projections, retirement income calculations, investment analyses and asset allocation. But with financial life planning, planners may ask questions like, “If you could live your ‘ideal calendar,’ what activities would be on that calendar?” Questions like this get more to the heart of really good financial planning and its natural extension... ‘life planning.’

The underlying premise is self-evident: people have different goals during different stages of their lives and may not have the confidence—or the necessary time—to deal with them on their own. Life planning is also about raising a person’s awareness of the things they do daily, which they may do automatically, which really should involve choices. By helping people think outside the box of their daily assumptions and helping them identify choices, life planning helps them get more from their financial resources. The roles of financial life planners, as they see them, are essentially to help clients to do at least four things:

- When initially formulating plans, define and rank clients’ goals at each stage
- Identify what the goals require of them as they approach each stage
- Implement plans by advising clients on managing their affairs to realize goals
- Monitoring implementation and changes in clients’ circumstances to modify plans, goals, and goals’ requirements as necessary.

The number of stages into which clients’ lives are divided will, of course, vary based on a number of factors such as the ages at which plans are initiated, the paths which careers take, and the career vs. leisure activity decisions made along the way.

A few examples will illustrate the types of life stages that people experience and the types of goals associated with them:

Start of career

- Analyses on which to base a choice of employer when lucky enough to be faced with more than one job offer. Of note, the job offer analysis may well be a financial one only, which in life planning would be part of it. A life planner might dig deeper to find out lifestyle requirements of different jobs, longer range opportunity and wealth building opportunity. They might even ask the question, “Which one would you love?” It’s not that the planner is trying to become a career counselor, but rather to help a person make good choices towards a more rewarding and secure life.
- Budgeting to provide for both paying off student loans and contributing to employers’ tax-deferred savings or retirement plans as soon as eligible.
- Choices among employer plan options.

Marriage

- Economic considerations associated with decision as to whether both spouses will have jobs.
- Choice of residence, factoring in economics of renting vs. buying.
- Integration of investment portfolios beyond employer plans (if any).
- Optimizing taxes on investments and other income sources to maximize after-tax income (including handling of capital gains and losses).
- Obtaining appropriate life insurance coverage.
- Revision of wills.
- Initiating savings for college if children are in the future.

Mid to Late Careers

- Adjust portfolio and employer plan's asset allocation.
- Advise—and, if necessary, oversee—parents with respect to their retirement assets and residence.
- Acquisition of retirement cottage, factoring in economic considerations such as estate taxes.

End of Careers

- Early vs. “normal” retirement.
- Decisions regarding Social Security.
- Need of long-term care insurance.
- Updating wills, including provisions for universities and other nonprofits.

These are just a few of the functions performed in financial life planning. A financial life planner will explore much more deeply with his or her clients those personal characteristics that influence their financial choices, including fears, dreams, family circumstances, work-life balance, values and volunteer commitments.

Once the financial life planner has explored the above (and more), a financial plan can be designed within the context of life stages that reflects what is most meaningful in the client's life and how they define true wealth.