



## **What you should know about Financial Planning**

The Financial Planning Process  
and its benefits

You may have come across the term “financial planning” and wondered what it means. You may have decided to start your own financial plan but you’re not sure how. Or you may feel it’s time you went to a financial planner for some professional advice. Whatever your situation, the following information can help you decide what’s right for you.

This brochure explains financial planning and its benefits. It describes what you should expect and highlights the importance of your role in the financial planning process. The answers to some common questions about financial planning are also provided.

## What is Financial Planning?

Financial planning is the process of meeting your life goals through the proper management of your finances. Life goals can include buying a home, saving for your child's education, planning for retirement or estate planning.

The financial planning process consists of six steps that help you take a "big picture" look at where you are financially. Using these six steps, you can work out where you are now, what you may need in the future and what you must do to reach your goals.

The process involves gathering relevant financial information, setting life goals, examining your current financial status and coming up with a strategy or plan for how you can meet your goals given your current situation and future plans.

## The Benefits of Financial Planning

Financial planning provides direction and meaning to your financial decisions. It allows you to understand how each financial decision you make affects other areas of your finances. For example, buying a particular investment product might help you pay off your mortgage faster or it might delay your retirement significantly. By viewing each financial decision as part of a whole, you can consider its short and long-term effects on your life goals. You can also adapt more easily to life changes and feel more secure that your goals are on track.

## Can You Do Your Own Financial Planning?

The simple answer is yes. Some personal finance software packages, magazines or self-help books can help you do your own financial planning. However, you may decide to seek help from a professional financial planner if:

- *you need expertise you don't possess in certain areas of your finances. For example, a planner can help you evaluate the level of risk in your investment portfolio, adjust your retirement*

*plan due to changing family circumstances or provide tax advice that will contribute to the planning process.*

- *you want to get a professional opinion about the financial plan you developed for yourself.*
- *you don't feel you have the time to spare to do your own financial planning.*
- *you have an immediate need or unexpected life event such as a birth, inheritance or major illness.*
- *you feel that a professional adviser could help you improve on how you are currently managing your finances.*
- *you know that you need to improve your current financial situation but don't know where to start.*

## What Is A Financial Planner?

A financial planner is someone who uses the financial planning process to help you figure out how to meet your life goals. The planner can take a "big picture" view of your financial situation and make financial planning recommendations that are right for you. The planner can look at all of your needs including budgeting and saving, taxes, investments, insurance and retirement planning. The planner may also work with you on a single financial issue but within the context of your overall situation. This big picture approach to your financial goals sets the planner apart from other financial advisers, who may have been trained to focus on a particular area of your financial life.

## Financial Planners Who May Work With You

In addition to being qualified to provide you with general financial planning services, many financial planners are also authorised by the Financial Services Authority allowing them to recommend and buy or sell insurance or investment products. Other planners may suggest you use particular specialists to help you implement their recommendations. Ethical financial planners will refer you to one of these

professionals for services that they cannot provide and disclose any referral fees they may receive in the process.

### **Be Sure You're Getting Financial Planning Advice**

The government does not regulate financial planners as financial planners; instead, it regulates planners by the services they provide. For example, a planner who also provides investment advice is regulated by the Financial Services Authority as a Financial adviser. As a result, the term "financial planner" may be used inaccurately by some financial advisers. To add to the confusion, many financial advisers can also offer financial planning services. To be sure that you are getting financial planning advice, ask if the adviser follows the process described below.

The Financial Planning Process consists of the following six steps:-

- 1. Establishing and defining the client-planner relationship.**

The financial planner should clearly explain or document the services to be provided to you and define both his and your responsibilities. The planner should explain fully how he will be paid and by whom. You and the planner should agree on how long the professional relationship should last and on how decisions will be made.
- 2. Gathering client data, including goals.**

The financial planner should ask for information about your financial situation. You and the planner should mutually define your personal and financial goals, understand your time frame for results and discuss, if relevant, how you feel about risk. The financial planner should gather all the necessary documents before giving you the advice you need.
- 3. Analysing and evaluating your financial status.**

The financial planner should analyse your information to assess your current situation and determine what you must do to meet your goals. Depending on what services you have asked for, this could include analysing your assets, liabilities and cash flow, current insurance protection, investments retirement or tax strategies.
- 4. Developing and presenting financial planning recommendations and/or alternatives.**

The financial planner should offer a financial plan which includes the recommendations that address your goals, based on the information you provide. The planner should go over the recommendations with you to help you understand them so that you can make informed decisions. The planner should also listen to your concerns and revise the recommendations as appropriate.
- 5. Implementing the financial planning recommendations.**

You and the planner should agree on how the recommendations will be carried out. The planner may carry out the recommendations or serve as your "coach," coordinating the whole process with you and other professionals such as solicitors, accountants or stockbrokers.
- 6. Monitoring the financial planning recommendations.**

You and the planner should agree on who will monitor your progress towards your goals. If the planner is in charge of the process, they should report to you periodically to review your situation, update the financial plan and adjust the recommendations, if needed, as your life changes.

### Best Practices When Approaching Financial Planning

- Set measurable goals.
- Understand the effect your financial decisions have on other financial issues.
- Re-evaluate your financial plan periodically.
- Start now – don't assume financial planning is for when you get older.
- Start with what you've got – don't assume financial planning is only for the wealthy.
- Take charge – you are in control of the financial planning process.
- Look at the big picture – financial planning is more than just retirement planning or tax planning.
- Don't confuse financial planning with investing.
- Don't expect unrealistic returns on investments.
- Don't wait until a money crisis to begin financial planning.

### How To Make Financial Planning Work For You

You are the focus of the financial planning process. As such, the results you get from working with a financial planner are as much your responsibility as they are those of the planner. To achieve the best results from your financial planning arrangement, you will need to be prepared to avoid some of the common mistakes by considering the following advice:

- **Set measurable goals.**  
Set specific targets of what you want to achieve and when you want to achieve results. For example, instead of saying you want to be "comfortable" when you retire or that you want your children to attend "good" schools, you need to quantify what "comfortable" and "good" mean so that you'll know when you've reached your goals.

- **Understand the effect of each financial decision.**  
Each financial decision you make can affect several other areas of your life. For example, an investment decision may have tax consequences that are harmful to your estate plans. A decision about your child's education may affect when and how you meet your retirement goals. Remember that all of your financial decisions are interrelated.
- **Re-evaluate your financial situation periodically.**  
Financial planning is a dynamic process. Your financial goals may change over the years due to changes in your lifestyle or circumstances, such as an inheritance, marriage, birth, house purchase or change of job status. Revisit and revise your financial plan as time goes by to reflect these changes so that you stay on track with your short and long-term goals.
- **Start planning as soon as you can.**  
Don't delay your financial planning. People who save or invest small amounts of money early and often, tend to do better than those who wait until later in life. Similarly, by developing good financial planning habits such as saving, budgeting, investing and regularly reviewing your finances early in life, you will be better prepared to meet life changes and handle emergencies.
- **Be realistic in your expectations.**  
Financial planning is a common sense approach to managing your finances to reach your life goals. It cannot change your situation overnight; it is a lifelong process. Remember that events beyond your control such as inflation or changes in the stock market or interest rates will affect your financial planning results.
- **Realise that you are in charge.**  
If you're working with a financial planner, be

sure you understand the financial planning process and what the planner should be doing. Provide the planner with all of the relevant information on your financial situation. Ask questions about the recommendations offered to you and play an active role in decision-making.

## **Common Questions About Financial Planning**

**Q** *Who can use the term “financial planner”?*

**A** The government does not regulate financial planners as financial planners; our brochure “10 Questions to Ask When Choosing a Financial Planner,” can help you look for someone who is qualified to offer financial planning advice. The brochure contains questions to ask during an initial interview with a planner to help you determine if he or she is right for you.

**Q** *Why should I choose a financial planner over another type of financial adviser?*

**A** A financial planner will focus on your needs first before recommending a course of action. Most planners have been trained to take a broad look at your financial situation, while accountants, investment advisers, stockbrokers or insurance agents may focus on a particular area of your financial life. Always ask a financial adviser what qualifies him or her to offer financial planning services.

**Q** *What is the best age to start financial planning?*

**A** While it is true that the younger you start the more beneficial the process will be, financial planning is worthwhile at any age. Although younger people may have more decisions to make regarding their financial lives, changing laws and circumstances can lead middle-aged people and seniors to have to adjust their financial plans as well. Changes in tax law, for example, may require

many people to revisit certain investments or estate plans, and adequate disability planning becomes more important as people age.

**Q** *How are financial planners paid?*

**A** There is currently no uniform method by which financial planners are paid. A planner can be paid by a salary paid by the company for which the planner works; by fees based on an hourly rate, a flat rate, or on a percentage of your assets and/or income; by commissions paid by a third party from any products recommended to you to implement the financial planning; or by a combination of fees and commissions whereby fees are charged for the amount of work done to develop your financial plan and commissions are received from any products required. Be sure to ask the planner how he or she is paid.

**Q** *Do I have to pay a financial planner for the first interview? How much does a planner typically charge?*

**A** Most financial planners will provide you with one free half-hour or hour meeting to talk about your reasons for wanting to work with them. During these initial interviews, the planners will also decide if they can help you and explain how they would work with you. Like other professionals, the rates financial planners charge depend on their experience, geographic location, level of services and your needs. Interview more than one planner to get an idea of the going rate for financial planning services.

By viewing each financial decision as part of a whole, you can consider its short and long term effects on your life goals.