

# *What You Should Know* ABOUT FINANCIAL PLANNING



CERTIFIED FINANCIAL PLANNER  
BOARD OF STANDARDS, INC.



CERTIFIED FINANCIAL PLANNER™

CFP®

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*You may have come across the term “financial planning” recently 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.*

**It’s your future. Plan it!®**

# WHAT IS

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## *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 or planning for retirement.

The financial planning process, as described by CFP Board, 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. For more details on the financial planning process, see page 6.

# THE BENEFITS OF

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## *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

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## *Financial Planning?*

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 or adjust your retirement plan due to changing family circumstances.
- ◎ 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

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## *Financial Planner?*

A financial planner is someone who uses the financial planning process to help you figure out how to meet your life goals. (See page 6.) 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. Or, the planner may work with you on a single financial issue but within the context of your overall situation. This big picture approach to your financial goals may set the planner apart from other financial advisers, who may have been trained to focus on a particular area of your financial life.

## FINANCIAL ADVISERS

*Who May Work With You*

In addition to providing you with general financial planning services, many financial planners are also registered as investment advisers or hold insurance or securities licenses that allow them to buy or sell products. Other planners may have you use more specialized financial advisers to help you implement their recommendations. With the right education and experience, each of the following advisers could take you through the financial planning process. 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. Similarly, these advisers should refer you to a planner if they cannot meet your financial planning needs.

### ● ACCOUNTANT

Accountants provide you with advice on tax matters and help you prepare and submit your tax returns to the Internal Revenue Service. All accountants who practice as Certified Public Accountants (CPAs) must be licensed by the state(s) in which they practice.

FEEL SECURE THAT YOUR  
GOALS ARE ON TRACK.

#### ● ESTATE PLANNER

Estate planners provide you with advice on estate taxes or other estate planning issues and put together a strategy to manage your assets at the time of your death. While attorneys, accountants, financial planners, insurance agents or trust bankers may all provide estate planning services, you should seek an attorney to prepare legal documents such as wills, trusts and powers of attorney. Many estate planners hold the Accredited Estate Planner (AEP) designation.

#### ● FINANCIAL PLANNER

See page 2 for a description. Many financial planners have earned the CERTIFIED FINANCIAL PLANNER™ certification, or the Chartered Financial Consultant (ChFC) or Personal Financial Specialist (CPA/PFS) designations. Financial planners can take you through the financial planning process.

#### ● INSURANCE AGENT

Insurance agents are licensed by the state(s) in which they practice to sell life, health, property and casualty or other insurance products. Many insurance agents hold the Chartered Life Underwriter (CLU) designation. Financial planners may identify and advise you on your insurance needs, but can only sell you insurance products if they are also licensed as insurance agents.

GET THE  
BIG PICTURE APPROACH  
TO ACHIEVING YOUR  
FINANCIAL GOALS.



## ● INVESTMENT ADVISER

Anybody who is paid to provide securities advice must register as an investment adviser with the Securities and Exchange Commission or relevant state securities agencies, depending on the amount of money he or she manages. Because financial planners often advise people on securities-based investments, many are registered as investment advisers. Investment advisers cannot sell securities products without a securities license. For that, you must use a licensed securities representative such as a stockbroker.

## ● STOCKBROKER

Also called registered representatives, stockbrokers are licensed by the state(s) in which they practice to buy and sell securities products such as stocks, bonds and mutual funds. They generally earn commissions on all of their transactions. Stockbrokers must be registered with a company that is a member of the Financial Industry Regulatory Authority (FINRA) and pass FINRA-administered securities exams.

# 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 securities transactions or advice is regulated as a stockbroker or investment adviser. As a result, the term “financial planner” may be used inaccurately by some financial advisers. To add to the confusion, many of the financial advisers described on pages 3 through 5 can also offer financial planning services. To be sure that you are getting financial planning advice, ask if the adviser follows the six steps described on the next page.



# 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

## **ANALYZING AND EVALUATING YOUR FINANCIAL STATUS.**

The financial planner should analyze 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 analyzing your assets, liabilities and cash flow, current insurance coverage, investments or tax strategies.



4

**DEVELOPING AND PRESENTING FINANCIAL PLANNING  
RECOMMENDATIONS AND/OR ALTERNATIVES.**

The financial planner should offer financial planning 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 attorneys 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, she should report to you periodically to review your situation and adjust the recommendations, if needed, as your life changes.

YOU AND YOUR  
PLANNER SHOULD  
MUTUALLY DEFINE  
YOUR PERSONAL AND  
FINANCIAL GOALS.



# BEST PRACTICES

## *When Approaching Financial Planning*

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

YOU ARE THE FOCUS  
OF THE FINANCIAL  
PLANNING PROCESS.



# 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 engagement, you will need to be prepared to avoid some of the common mistakes by considering the following advice:

### © SET MEASURABLE FINANCIAL 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. Or 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 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.

© **REALIZE 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; instead, it regulates planners as stock brokers, insurance agents or investment advisers, depending on the services they provide. (See page 5.) As a result anybody can “hang out a shingle” and call himself or herself a financial planner. CFP Board’s free 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 should 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. See pages 3 through 5 for descriptions of different types of financial advisers.

**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 the products sold to you to carry out the financial planning recommendations; or by a combination of fees and commissions whereby fees are charged for the amount of work done to develop financial planning recommendations and commissions are received from any products sold. 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.

# LEARN

## *About Financial Planning Online*

CFP Board's Web site, [www.CFP.net/learn](http://www.CFP.net/learn), is a comprehensive resource for financial planning, offering useful information for visitors at every stage of the financial planning learning curve. Interactive tools provide help for your personal situation, including changing jobs, managing debt, planning your retirement and more. Join the eNewsletter for updates and check back regularly to participate in polls and quizzes.

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