

The Purpose of Financial Planning

Much like following a road map to get from point A to point B, a financial plan tells a family what they need to do each year to accomplish the financial goals that are important to them. A personal financial plan is the end result of a process that includes the following: gathering various financial data, defining specific financial goals, forming recommendations that address the financial goals, offering detailed recommendations of specific financial products and services to implement the recommendations and ongoing monitoring of financial status/financial goals for any changes.

Examples of financial goals families may have include: retirement income planning, college funding objectives, estate tax and distribution planning including charitable gifting strategies and gifting strategies to multi-generational family members. Liquidity planning for estate taxes and business succession strategies can also be addressed in larger or less liquid estates.

It is important for financial goals to have specific time frames and to be quantified. Thus, a financial plan can be considered a road map that bridges a family's current financial status (assets and liabilities) to the specific steps needed to accomplish the financial goals that are most important to them in the future.

A financial plan provides a family guidance on how much per year they need to save, and what rate of return is needed on their investments to fund their retirement nest egg, college, charitable gifts or legacies to heirs. A properly crafted financial plan should also address key risks that could derail the accomplishment of the financial goals that are most important to the family. Some examples of risks include: long-term disability during normal earnings years, extended stay in a nursing home during retirement, death of spouse, major medical expenses, litigation judgments, and estate taxes due as a result of death in certain sized estates. Many of these risks can be addressed with disability, life, long-term care, major medical, and property and casualty insurance but some may involve complex asset protection strategies.

Typical topics addressed in a personal financial plan include financial goals; a current snap shot of assets and liabilities, current income and expenses; income, gift and estate tax planning strategies; estate distribution strategies; retirement income strategies; risk management (insurance coverage and asset protection strategies); and a specific asset allocation investment policy to attain the required return considering the family's tolerance for various types of investment risks.

Once implemented, a financial plan should be monitored at least once a year to assure there have not been any changes in the financial goals of the family or in the priority of the goals. In addition, the levels of assets and liabilities along with any special situations should be reviewed to see if the plan is on track.

A personal financial plan is a valuable tool to help a family reach their financial goals in the future. Not having one is the financial equivalent of traveling at night in a car without headlights.

(Article by Scott Summerford, Senior Investment Manager, Wells Fargo)

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