What is a Financial Plan and what should it cover?

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A Financial Plan: your documented plan to meet short-term needs, with confidence you can achieve your long-term objectives*, while managing risk.*

That's a bit to unpack but that's my quick take.

Backing up, I suspect most of us are striving for financial security. That security can bring confidence about where your money is going; do you have enough to cover your needs *and wants*. It can bring far less stress about money, goals and any strategies you have in place to realize these goals.

I've often thought about financial planning *as a process* instead of just a bunch of elements – although the elements are of course very important.

In fact, I shared my recent Financial Independence Plan here so others can see how you can tailor your own retirement dreams.

So beyond investing, beyond understanding your cashflow and building your portfolio if you will, there is a lot to unpack and figure out. Elements like insurance, estate planning and more are part of any good financial plan with a process to review it.

Financial Planning 101

In my book, I feel the following are good elements of any comprehensive financial plan to review on some periodic basis:

- Goal setting
- How you organize your money (i.e., budgeting and cashflow understanding)
- Paying down debt obligations – approaches to kill debt
- Insurance needs
- Tax management strategies
- Retirement planning / investing
- Estate planning
- ***Answering really important questions like:***
    - *Why is money important to me?*
    - *What is my money for?*
    - *How do I know I'm doing it right?*

And because I never pretend to have all the answers for all readers, I've enlisted some help for today's post.

Welcome back Steve Bridge, a Certified Financial Planner (CFP®) from Vancouver who works as an advice-only financial planner with Money Coaches Canada (no affiliation with *My Own Advisor*).

If you haven't heard from Steve in the past, we have collaborated to deliver a few posts on my site – namely:

Why you should leave DSC funds for good.

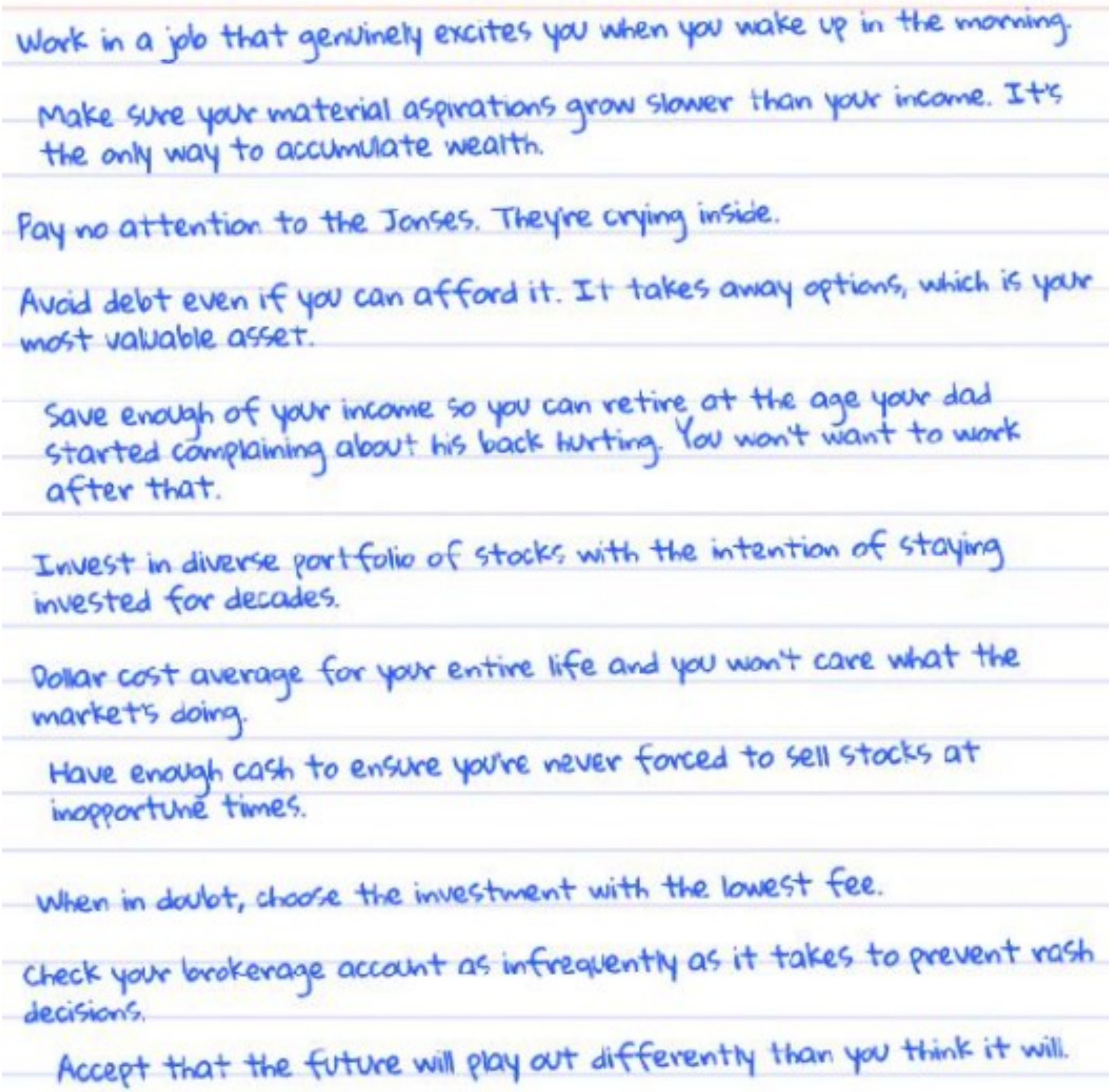
How can you get through financial emergencies?

And a reader favourite: **does the 4% "safe" withdrawal rate really make any sense?**

So Steve, let's get into it.

I have my list above and I know many of the thousands of readers that visit my site *weekly* are striving to DIY invest *and much more*. We all hear the term “financial planning” all the time. So, let’s break it down. What are the sum of elements that make up a financial plan for folks that don’t know?

I mean, some of us might have a few saving or investing principles to live by, but saving and investing is just that…there is much more…



Work in a job that genuinely excites you when you wake up in the morning.

Make sure your material aspirations grow slower than your income. It's the only way to accumulate wealth.

Pay no attention to the Jonses. They're crying inside.

Avoid debt even if you can afford it. It takes away options, which is your most valuable asset.

Save enough of your income so you can retire at the age your dad started complaining about his back hurting. You won't want to work after that.

Invest in diverse portfolio of stocks with the intention of staying invested for decades.

Dollar cost average for your entire life and you won't care what the market's doing.

Have enough cash to ensure you're never forced to sell stocks at inopportune times.

When in doubt, choose the investment with the lowest fee.

Check your brokerage account as infrequently as it takes to prevent rash decisions.

Accept that the future will play out differently than you think it will.

Mark, I’m so glad you asked and are doing a post on this topic! Happy to be back!

Before I briefly go over the elements, from my perspective and add-on to your points above, let me say that each of the elements of a financial plan will be of varying importance to your readers, depending on their individual circumstances.

I know people don’t always want to hear this, but advice is truly individual and what may apply to one person may not apply to another. As you say Mark, personal finance is personal.

Something as simple as 'contribute to an RRSP' may not be right for someone (e.g., they make under $50,000). Now that my CMA (cover my ass) clause is out of the way, here are the main parts of a quality financial plan:

- **Goals** – Without clear goals, a destination in mind, a proper financial plan cannot be created. Before anything, I usually spend a good hour talking to my clients about what is important to them. Only when you know where you want to get to and have written it down (retire at 60, buy a house, help my kids with education costs, pay off debt, reduce stress around money, live within my means) can you take the next step.
- **Net Worth** – On the surface, this is one of the easier steps as it simply involves adding up all of your assets (what you own) and subtracting your liabilities (what you owe). When I make a plan, this section will also include discussions around housing, mortgage advice (should I pay it down faster or not), emergency funds, gifting money to children and similar big picture decisions.
- **Cash Flow** – **This is the #1 important part of a financial plan**, pretty much no matter what your circumstances. Knowing exactly where your money is going each month and year is vitally important to so many other parts of your financial plan. It is used for things like:
- Creating a plan/budget to ensure your money is going toward what is most important to you (see Goals)
- Saving ahead for purchases (travel, property tax, gifts, car repairs, clothes, etc.)
- Paying off debt **systematically**
- Knowing exactly how much you can afford to save for the future (and being able to make adjustment to spending if you'd like to or need to)
- Helping with disability and life insurance analysis
- Projecting how much you will need once you stop working (***critical step – see Retirement Planning below***).
- **Retirement planning/projecting** – Only by looking at current spending and projecting ahead to retirement can you really start your financial plan. As George Foreman said, "The question is not at what age I want to retire, it's at what income." And he's 100% correct! If you don't know how much you want to spend in retirement, you don't know anything. This is not easy, but absolutely necessary because without it, you are starting a running race without knowing the distance nor the location of the finish line.

You know, clients often tell me when we first meet that they would like to know if they can retire. Without looking at any of their assets, investments, pensions, etc. I look them the eye and say, "Yes" I pause and then say, "It may not be the retirement you want, but you can retire." We then start a discussion around how they picture their retirement. And, for the record, retirement to me means having control over your time. It means waking up and doing exactly what you want to. For some that may mean, part-time work, volunteering, gardening, travel, physical activities, etc. The point is that it is whatever makes you happy.

Once you have a retirement income goal, you can then start to look at where that money will come from – RRSPs, TFSAs, non-registered investments, pensions, CPP, OAS, inheritance, rental properties, etc. and then put the pieces together. For people around 60 to 65, timing of taking CPP (and at 65, OAS) is a critical decision that can lead to thousands or tens of thousands more (or less) in their pocket. Drawdown strategies are also very important to folks around this age as well – how much to take from which account each year.

(Mark – I'm a big fan of Variable Percentage Withdrawal (VPW) strategies myself…something I hope to employ.)

Once you have your destination set (your financial independence annual income target) and know your starting point and future income streams (CPP, OAS, pensions, etc.) you are then in a position to start to set aside the required amount each month/year to reach your retirement income target. And since you have a cash flow plan set up (or are setting one up), you can easily put the required savings amount aside each month while living within your means. Note that for many of us, changes may be required to spending to balance today's goals and priorities with your long-term savings goals. We all have limited income, and choices (sometimes hard ones) have to be made.

- **Tax Planning** – Are you doing everything possible to minimize tax? How much should you be putting into an RRSP, TFSA, and/or a spousal RRSP? What drawdown strategies in retirement will save you the most tax?
- **Investment Planning** – There is a lot of overlap between this section and the tax planning and retirement planning sections. Sometimes my recommendations could go in all three sections, as they are so closely intertwined. Figuring out an appropriate asset allocation based on your age (time horizon), needs and risk

tolerance is important. Then comes determining **how** to implement this strategy. Having given quite a few presentations, had countless discussions with friends, colleagues, clients, people online, etc., I believe around 5% of people are cut out to be DIY investors (yes, that sounds low and I know it's not hard for you because you read Marks' blog, but trust me, there are a multitude of factors that go into being a good DIYer). I'm a big fan of robo-advisors as they are low-cost, have excellent diversification, allow pre-authorized contributions and will rebalance your portfolio regularly.

(Mark – you bet, a robo-advisor can help investors train their investing brain and provide sound support to aspiring DIY investors.)

- **Life Insurance** – Not everyone needs life insurance, but if you have dependents, a mortgage or consumer debt, you should have an analysis done. Dying without appropriate insurance could have a devastating financial impact on your family. For most people, term insurance is sufficient (and cheaper).
- **Disability Insurance** – The last thing you would want is to not have enough money in case you were unable to work due to disability or injury. Thanks to the work you did on your cash flow, you know what your **necessary** monthly expenses are, which will help you determine how much disability insurance (or emergency fund) you need. Most people have at least some coverage through work, so good to start there.

Critical illness insurance, travel insurance and supplemental health coverage should also be discussed.

- **Estate Planning** – Pretty much everyone should have an up-to-date will. Dying intestate creates stress and problems for your family and loved ones. Ensure your executor is willing and able to carry out the required duties and name a back-up executor as well. A power of attorney (there are a few different types) is likely a good idea as well.
- **Education Planning** – For those who want to help their children financially with post-secondary schooling, determining how much to put away each month and where to put it is very important. Discussions around asset allocation, risk tolerance and investment implementation are also required.

This list is not exhaustive, you nailed most of them Mark, but for many people this list will cover the major parts of a financial plan. Again, your circumstances will determine which sections will be most relevant to you.

Awesome Steve. So, given these elements which are not trivial, is it safe to assume "financial planning" ***is the process of assessing, evaluating and prioritizing these?*** **If my assumptions are correct Steve, then why do so many people just focus on the investing part?**

So glad you asked Mark. Investing is fun, exciting, sexy! Weed stocks! Bitcoin! Tesla shares! Cash flow and tax planning are boring and can be as fun as a visit to the dentist. No one talks about their cash flow plan around the water cooler, but man did you see what Apple stock did today!

Another reason that investments are the #1 focus when it comes to personal finances is that we have been trained that way. Pretty much every advisor (99%+) in Canada is paid by selling investments, so that's what they consider important and talk about with clients. They aren't paid to make a cash flow plan or spend significant time on goals, so these things are either ignored or given only cursory attention. And since their financial advisor is where most Canadians learn about finances, we are led to believe that investing is what is most important.

I find that once the other major pieces are in place, investing is usually one of the easier parts of the plan. The other main parts of the plan **must** be in place before appropriate investment advice can be given.

That lead me to this Steve – based on the clients you see and coach, what are some forgotten elements of each (above)? I mean, are there some elements that most clients just consistently overlook? What pitfalls or gaps do you help them overcome?

I would say not understanding the importance of cash flow. Very few of my clients want or think they need a cash flow plan, but once they see the many uses of it, they are really glad they have it. Clarifying monthly and annual expenses is not done because someone is bad with money (most of my clients are excellent with money), but rather because it ensures your money is going to where what is most important to you, to help determine how much you'll need in retirement, to help ascertain disability and life insurance needs and to see how much you can afford to save each month/year). If you haven't done a proper monthly/annual cash flow plan, it's hard to see the value.

Many of my readers are DIY investors and they enjoy managing their own money – but we know that is just one part of financial planning. How can DIY investors get better at the other elements of financial planning?

I would say start from the beginning. Think about goals and what you are working toward. Use some of those questions you listed above Mark to ask yourself:

What is most important to you?

Why are you investing?

What is your money really for?

I would then do a cash flow plan (there are a lot of templates online or you can hire someone) that gives you clarity around monthly and annual expenses. For things like home and car repairs, think about what the average cost over a few years might be. You want to get a realistic idea of how much you should be setting aside for these items and not get caught short when something big comes along (and it will).

I get that investing is the fun part of financial planning, but when it comes to financial security/financial independence, it can't be the sole focus. There are innumerable books, websites, podcasts, etc. that discuss financial planning as a whole.

Finally, even if some folks enjoy managing their plans (I do!) but is there value in fee-for-service planning – just to get an "extra set of eyes" on things to uncover biases? (I know I have mine and I bet all investors do to some degree.)

Definitely. It's kind of like doing your own work on your car- you can watch some YouTube videos and probably figure it out, but if you do it wrong you may be in for an expensive repair. Another example would be going on safari in Africa on your own vs. hiring a local guide who has a trained eye that knows what to look for, where the animals like to congregate, etc. If you go on your own, you'll see something, but likely not everything.

We hire professionals because they are trained to a level that is higher than our own. A quality advice-only financial planner has credentials and experience that make an investment in their services worthwhile, and in the end, will likely save you much more than it costs (not to mention the confidence and peace of mind that you are making decisions that are right for you).

Well put.

We've covered a lot of ground in a few thousand words today but I felt it was an important subject that most blogs never touch on thoroughly enough. I hope these details help frame what you need to do to put your comprehensive plan in place.

A big thanks to Steve for this discussion. I hope to have him back again to talk more moneystuff with me.

I want to thank Steve Bridge, a CFP from Vancouver for his detailed thoughts on this subject. Steve works as an advice-only financial planner with Money Coaches Canada (no affiliation with My Own Advisor). You can find him on that site for his services and you can follow him often on Twitter like I do at @SteveMoneyCoach.