

# Financial Planning



EFFECTIVE FINANCIAL PLANNING, WITH OR WITHOUT PROFESSIONAL ASSISTANCE, CAN BE KEY IN MAXIMIZING YOUR ASSETS. SETTING GOALS, LOOKING AT YOUR FINANCIAL STATUS, AND UNDERSTANDING WHAT FINANCIAL PLANNERS DO AND HOW TO SELECT ONE WILL HELP YOU IN THIS PROCESS.

*“The man who has done nothing but wait for his ship to come in has already missed the boat.”*

*— unknown*

Financial planning generally involves evaluating and recommending strategies to achieve your financial goals. Planning advice should be objective and comprehensive. The title, “financial planner” and “financial advisor” are used by a variety of people — accountants, brokers, insurance agents, and others — to indicate that they offer comprehensive financial planning services.

Not everyone needs the advice of a financial planner. By reading publications or taking courses, you may decide to undertake your own financial planning. Even if you decide to hire a financial planner, you still need to know as much as you can about your own individual financial situation. Without that knowledge, it is nearly impossible to evaluate whether a planner’s recommendations make sense.

A good financial planner will review your total financial picture and offer advice about how to make your money work for you in the most advantageous ways — given your income, goals, and attitude toward financial risk.

## **Decide If You Need a Financial Planner**

To decide if you want to contact a financial planner, go through some of the same preliminary steps a good financial planner would take you through. Though this may require some time and effort, it is a necessary part of the financial planning process. You will have a clearer picture of your financial profile and will have laid the foundation for future investment decisions. You may determine you are doing very well on your own or you may decide to confer with a financial expert to get more information or to find out if you have other investment options to consider.

## ***Set Long-Term Goals***

Before you consider any specific investments, think hard about what is important to you. If you have a spouse, try thinking first alone and then together. Writing down these ideas may help. When you know (and can agree on with a spouse) what’s most important to you, you are in much better shape to tackle your financial future.

## ***Organize Your Important Papers***

Without your important papers and financial documents your calculations may be based on too much guesswork. See *Appendix I* for a form to list your important papers.

However, do not put off planning if you can’t bring yourself to get all your papers together. Make necessary appointments, and the professionals you contact will let you know what documents to bring.

## Examples of Important Papers

- Birth certificates, marriage certificates, divorce papers, child support orders
- Naturalization papers
- Legal agreements
- Stocks, bonds, CDs, IRAs, other investments
- Deeds
- Insurance policies
- Income tax returns
- Financial records
- Guardianship papers
- Letter of Intent for your child
- Advance Directives/Living Will
- Power of Attorney
- Wills
- Trust Agreement
- Names and addresses of people named in Power of Attorney, Trusts, Wills
- Burial Instructions

### ***Figure Out How Much You Own and Owe***

A financial statement tells at a glance what you own and how much you owe. This basic tool is often the starting point for future financial decisions. The process of compiling a financial statement may point out revealing things about the way you handle your money.

The financial statement tells your net worth by subtracting everything you owe (liabilities like credit card balances, mortgages, taxes, etc.) from what you own (assets you could sell or cash in). See *Appendix J* for sample forms.

### ***Determine Where Your Money Goes***

Collecting information on how much money you spend and for what may seem overwhelming but it may be one of the most important steps you take. To do this, you will need to collect receipts, check stubs, credit card statements, and other information for a period of time that is adequate to establish a picture of where your money goes.

Don't be surprised if you find you are spending more money than you thought in some categories. Most people have little idea where their money really goes — especially for miscellaneous items. Based on the information you gather, you may decide you need to develop a budget to track the money you have and to determine if some of your spending is unnecessary.

Once you know where your money is going, you are in a much better position to know what funds, if any, you have available for investment purposes. Then you can set long-term investment goals. See *Appendix K* for a sample cash flow statement.

### **What to Expect from a Financial Planner**

If you decide to use a financial planner, a good one can assist you in the following ways:

- Assess your financial history, such as tax returns, investments, retirement and estate planning, wills and insurance policies.
- Review your financial statement, examine your debts, and determine if any should be consolidated, paid off or refinanced.

- Help you develop a financial plan, based on your personal and financial goals for you and your children, history, preferences, and attitude toward investment risk.
- Identify financial areas where you may need help, such as funding a trust, building up retirement income, improving your investment returns, buying or selling an insurance policy and tax saving suggestions.
- Write down and discuss an individualized financial plan and timetable that you understand.
- Help you implement your plan, including referring you to specialists, such as lawyers and accountants, if necessary.
- Review your situation and financial plan periodically and suggest changes when needed.

## How to Choose a Financial Planner

Select a financial planner like you do other professionals — by considering credentials, experience, reputation, types of services, the manner in which services are provided, and fees.

There are several ways to look for a financial planner.

1. **One place to start is to look for planners who are certified.** Certification does not guarantee that a person will be a creative or effective planner. It does indicate, however, that he or she has studied important financial planning subjects. The major groups that represent financial planners who have taken courses and passed exams can be found in *Appendix B*.
2. **Ask friends and colleagues for recommendations.** Realize, though, that an investment advisor who impresses one client may not be suitable for someone else.
3. **Planners often teach classes at local schools or offer free seminars.** Going to these makes sense if you want to shop around before deciding what investments to make or which planner to work with. Keep in mind that these seminars are opportunities for professionals to promote themselves — go with a healthy dose of caution.

Always interview financial planners you are considering to determine if they have the knowledge, experience and business style that best fits your needs. Many will have an introductory meeting with you at no cost. Planners may specialize in a certain profession, income level, age group, or area of planning. You will find a list of questions to ask financial planners in *Appendix L*.

Ask for references and check them. Request a copy of the planner's Form ADV to understand more about his or her practice. In Maryland, this form is filed with the Securities Division of the Office of the Attorney General. You can also check with the Securities Division to see if complaints have been filed against the planner you are considering. Be aware, however, that it may take time for complaints to surface against someone because years may pass before investments are found to be worthless.

## How are Financial Planners Compensated?

Financial planners are paid in several ways. Ask specifically how the fee is calculated and what it will be. No matter which fee structure you work with, make sure to get written estimates of what services will be provided at what price. Compare estimates and select the package of services that best meets your needs at a reasonable cost.

**Fee-only:** Fee-only planners base their charge on gathering your financial data, analyzing it, recommending a plan and helping you implement it. They do not earn income from financial products they suggest you buy or invest in. You may pay some fees to unaffiliated companies for investment and insurance products.

The planner's fees may be charged on an hourly or project basis, or on a percentage of assets under management. Your planner should be able to estimate these costs. Payment is required whether or not you implement the suggested plan.

**Commission-only:** Commission-only planners charge no fee for their advice and preparation of your plan. They receive commissions from the companies whose financial products they sell to you. Since commissions are often not disclosed, it is difficult to know how much you are paying toward the commission. Ask for a disclosure of this information. Commissions on mutual funds can average about five percent while on insurance they can be 50% or more of the first year's premium.

Exercise caution as some commission-only planners may be inclined to direct you toward products that provide them with the best commissions. Consider making a written agreement that the planner will disclose yearly total commissions earned on recommendations made to you.

**Combined Fee and Commission:** Some planners charge a fee for consultation and planning and earn sales commissions.

**A note of caution:** Please realize that not everyone offering financial or investment services has taken specialized courses in all aspects of financial planning. There is little regulation of the financial planning industry. Most financial planners earn all or part of their living from the commissions on the products they sell. If you visit a financial planner, you probably will be asked to consider purchasing some financial products as part of your overall financial plan. Be wary of planners who push particular financial products at the expense of your real needs or who promise quick riches or instant financial gain. Building a secure financial future is not accomplished overnight or with a single investment.

Also be wary of anyone who pressures you to make a purchase immediately, without adequate time to evaluate your options. Always take the time you need, outside your meeting with the planner, to make your decisions.