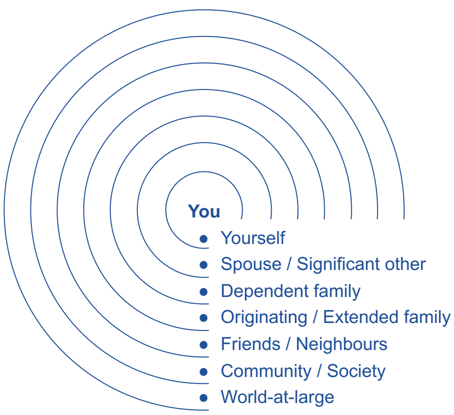
Journey into financial planning

A principled, purpose-driven process

The phrase ‘financial planning’ is at once deceptively simple and incredibly powerful. It marries up two common words to produce a phrase that both conveys meaning and compels action.

Financial planning is about understanding yourself and the people closest to you, exploring and understanding the full range of money interactions in your life, then organizing things so that you have control, comfort and confidence with where you are, and where you're going.

Beginning with the people around you



Financial planning involves you, and those who are involved with you. Think of concentric circles radiating outward. You are at the centre, with your decisions being informed by those around you, and with the effects of those decisions being felt by all of you. Dependency, responsibility and immediacy are highest near the core, usually receding as you move outward.

And ultimately, each of us is unique, as are the relationships we hold, which is why we have people as our starting point, before turning to the financial decisions that rest upon this foundation.

Yourself

Obviously, you are the primary actor in your own planning. Not so obvious is the need to view and deal with yourself across time and situations, being prepared to make trade-offs among competing and evolving best interests.

Spouse / Significant other

This most important of personal partnerships is firstly an emotional commitment, closely followed and supported by intertwined finances. While each of you may favour different approaches, be sure that your directions dovetail.

Dependent family

Children are physically dependent as infants, and emotionally and financially dependent through adolescence and into young adulthood. That’s why we cherish their time with us, while taking pride as we help them tackle the world.

Originating / Extended family

This is where you were a dependant yourself, with parents and siblings with whom you share history. Over time, roles and responsibilities change and sometimes reverse, possibly landing you in a sandwich generation position.

Friends / Neighbours

In modern society, families may be smaller than in the past, and more geographically dispersed. Formal family ties may be supplemented or substituted with other people, accompanied by similar support intentions and expectations.

Community / Society

Philanthropy and citizenship are staple values for many. Especially for those with the perspective of accumulated years, commitment to causes and organizations – charitable or otherwise – tend to take on increasing importance.

World-at-large

Though these concentric circles are framed in terms of human connections, some people are equally or even more concerned about caring for wildlife, the environment and the earth. And of course, many of us are pet parents.

Phases of your planning

Launching into financial planning may feel overwhelming without a clear path to follow. Although the scale of planning will vary according to one's wealth, the scope – the range of interactions across the phases of life – are common to us all. Your planning will involve most or all these phases, though one or two may be more pressing at a given stage of life.

Homing

Homing is more than housing; it's your emotional foundation. In our early years choices are made for us, then as adults we have greater control and responsibility over the geographic location, physical structure and selected surroundings of what we call home. If and when the choice is made to become an owner, it is often the largest single purchase one will ever make, commonly supported by a mortgage, which in turn is the largest debt most of us tackle. But regardless whether you rent or own, it's one of the costliest regular outlays.

Learning

The base for a prosperous future is an education that allows one to acquire engaging and useful knowledge, identify and hone practical skills, and explore and develop distinctive talents. Early in life, this will be supported and guided by parents and teachers, eventually giving way to one's own choices and preferences on moving into adulthood. In time, as opportunities and challenges arise, openness to continuing education can keep doors open.

Earning

Productive capabilities are a combination of manual and mental skills, allowing us to generate active income. Ideally, these skills are employed in a manner that is personally satisfying and economically rewarding, and makes a positive contribution to both society and the environment. That may be as an employee, or as an entrepreneur in your own business. Whichever route you take, your choices are driven by, reflect and define your purpose in life.

Spending

Expenses may be one-off or recurring, arising daily, weekly, monthly, annually or across years or even decades. Spending is the form, habits and routines of servicing those expenses: cash & its paper substitutes, digital platforms & processes, storing & banking, retrieving & sending. Importantly, how we spend can affect what we spend on, and how much is spent. It helps to have a budget to monitor spending, and to engage in budget*ing* to take charge of it.

Saving

Saving is about using present-you's production to fund future-you's consumption. That may be a short-term deferral, a few years ahead, or for when you're not earning income, particularly in retirement. Alternatively, maybe saving is where you start – being sure current necessities are covered – allowing what's remaining to guide present lifestyle. Core savings will obviously be in financial assets, complemented by capital assets that hold enduring future value.

Borrowing

Juxtaposed to Saving, borrowing uses future-you's production to fund present-you's consumption. On the face of it, while technically you borrow money from others, the underlying effect is that you are borrowing against your own future earning capacity. Credit is a measure of the willingness of those others to assist you in this regard, with debt being the counter-measure of how much of that assistance you have used, and interest being the cost of doing so.

Investing

Investing is what you do with savings. This is a combination of protecting your savings from depletion, earning income from it, and growing it so it can itself earn further income. For most of us, our investing experience begins with registered retirement savings plans (RRSPs) and other tax-assisted investment accounts. As resources grow, these will usually be supplemented with non-registered accounts, real estate and possibly more varied options.

Insuring

An optimistic outlook helps build momentum with one's finances, but prudent pessimism also has a role. It's critical to identify potential risks to you and your property, and the harm that will be occasioned on you and your family if these materialize. Insurance bolsters your planning by allowing you to hedge against those risks using relatively low-cost premiums that guarantee a payout to cushion the blow when there is property damage, disability or loss of life.

Retiring

Look back at Earning above, which focused on you producing *active* income. In retirement, whether by choice or necessity, you are increasingly (and eventually entirely) living off *passive* income. That's why you need to think like a boxer, who punches to-and-through the heavy bag immediately ahead. Likewise as a retiree, you must look beyond merely accumulating savings up to a retirement date – to keep income, investing and spending as ongoing targets.

Taxing

Taxes are the *quid pro quo* for the society we live in. Apart from entering politics if you want to change tax policy, your obligation is simply to pay your fair share … but only your share. Of all taxes, perhaps the most prominent is income tax, to which most people pay closest attention at annual tax filing time. But that's reporting the past, not planning the future. Tax *planning* is intentional action taken at strategic points during the year, and over your life.

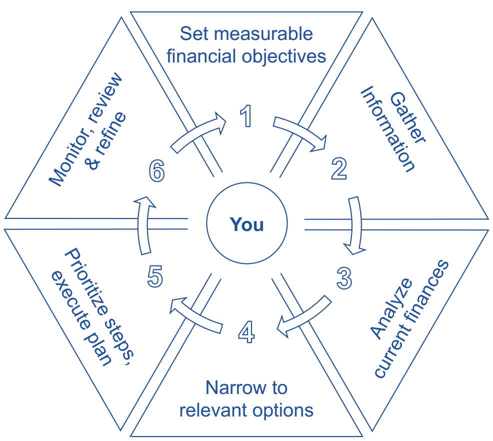
Preparing

Diligent planning requires preparing for known and potential barriers, both temporary and permanent, whether arising out of an interpersonal challenge or an individual disability. Looking closer at disabilities, some will be evident from birth, some may follow from an accident, and some may develop over time, particularly at advanced ages. Personal adjustments and requested accommodations must be catered into one's planning as conditions dictate.

Sharing

As expansive as befits our inclination and circumstances, we share our lives with those who populate our concentric circles. Primarily that means sharing mutual time and emotional connection, with sharing and gifting of our property following in turn. Within that sharing framework, estate planning emphasizes the importance of caring for yourself now and in future, and your plans to care for others – now, in your own future, and when you're no longer around.

How to organize your planning process



Armed with the knowledge of who you're planning for and what you're planning within, attention can now turn to the process. With the assistance of a capable wealth planning professional to organize the effort, you'll have access to useful calculation tools, valuable insights and practical guidance on your journey.

Pre-work: Determine & document personal goals

Before you begin, you must lay the groundwork. Planning requires context, and for financial planning that means first determining where you are headed personally. While your advisor is skilled in financial matters, you are the expert in you. You have the memories of your past, the factual knowledge of your present, and the only vote that matters in measuring your future fulfilment. Thus, it's your responsibility to settle on your personal goals, while engaging your advisor's assistance to sufficiently document them to pave the way for your upcoming planning.

1. **Set measurable financial objectives** – *Align to personal goals*

Having defined the personal goals for yourself and your aspirations for those around you, the task is now to convert those into measurable financial objectives that, once achieved, will satisfy all your decided intentions.

2. **Gather information** – *For fact-supported, evidence-based decisions*

You must know where you are presently, before you can map where you are heading. At a minimum this means collecting pay stubs, bank and credit statements, tax returns and legal documents.

3. **Analyze current finances** – *Know your "here" to target your "there"*

With gathered data and documents in hand, you're ready to summarize, analyze and render that into useable information that paints a coherent picture of your current situation.

4. **Narrow to relevant options** – *Plotting potential & parallel paths to get there*

This step connects your current situation with those measurable objectives, now with clearly defined thresholds, manageable timeframes and some prospective routes you can pursue.

5. **Prioritize steps, execute plan** – *Focused activation, actively-supported*

Your wealth planning professional will contribute and counsel you on choosing a course of action, but it is up to you to give the approval to proceed. As a team, you commit to the implementation.

6. **Monitor, review & refine** – *Continuous improvement*

Financial planning is not one-and-done. It is a living process that must be monitored for external changes, reviewed at appropriate intervals – annually at a minimum – and refined as circumstances demand.

Of financial plans, and financial planning

> *"In preparing for battle,*
>
> *I have always found that plans are useless,*
>
> *but planning is indispensable."*
>
> Dwight D. Eisenhower
> Army General and
> future U.S. President

Eisenhower's words have multi-layered meaning when applied to financial plans and financial planning.

First as a counterpoint, a financial plan is not useless: It is the tangible end-product of an organized financial planning process. It will however revert to uselessness if it is not implemented, and instead just gathers dust.

Second, you'll learn more about yourself the deeper you're immersed in the process. Financial planning is not something done *TO* you. Rather it is done *BY and WITH* you, again with the benefit of qualified professional support.

And third, finances can at times feel very much like a battleground, so the better informed and engaged you are, the better prepared you will be. That is especially critical in times of crisis, when pressure can compromise your decision-making. A solid plan helps you maintain focus, and pull through.

For more information, please consult your advisor and tax professional.