

Step by Step: A Financial Planning Primer For Consumers

Financial Planners Standards Council

What is financial planning? Definition



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- Process of **creating strategies**
- Considers **all relevant aspects** of your financial situation
- Manage your financial affairs to **meet your life goals**

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Why do I need a financial plan?



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- Financial planning is important to the well-being of Canadian adults (75%)
- A financial plan is important (73%)
- Canadians clearly recognize the importance of financial planning
- Yet only one third actually have a plan

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What Canadians say



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- Financial planning associated with retirement and savings/investing
- Should include estate, tax, mortgage, insurance, budgeting, goals etc.
- Still don't see financial planning as being holistic/inclusive

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What is financial planning?



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Financial planning is a step-by-step process that includes:

- Engagement
- Data gathering
- Financial status/problems/opportunities
- Develop/present plan

And often:

- Implement plan
- Monitor/review/adjust

Considers all aspects of financial/life situations

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Who uses financial planning?



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Is financial planning only for
the wealthy? NO!

Net Worth - \$ 0 - \$99,000	8%
- \$100,000 - \$499,000	63%
- \$500,000 - \$999,000	23%
- Over \$1 million	6%
Age - 18-29	16%
- 30-49	45%
- 50 or over	39%

**Financial planning is for
everyone**

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Summary



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- Financial planning is a process that encompasses your entire financial situation to meet your life goals
- Financial planning is important for your future well-being
- Financial planning is for everyone

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History of Financial Planning



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- CFP (1977)
- Offers comprehensive education program
- Financial planning popularity increases with economic boom of 80s and 90s
- Education providers and designations increase with growing popularity
- Blurring of financial services
- Becoming advice-driven

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Financial Planners Standard Council (FPSC)



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- FPSC formed (1995) to simplify choice of financial planning professional for consumers
- One licensing body:
 - defines and explains role
 - sets ethical and competency standards
- CFP credential pre-eminent financial planning qualification in Canada

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FPSC Mission



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- Establish and enforce standards
- Ensure ethical, consistent and competent advice
- Ensure benefits to the public and financial planning profession

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Where we are now



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- Not-for-profit licensor of the CFP certification marks in Canada
- Represents more than 16,000 professionals across Canada
- The only international financial planner credential recognized in 18 countries
- Supported by:
 - Certified General Accountants Association of Canada
 - Certified Management Accountants of Canada
 - Credit Union Institute of Canada
 - Canadian Institute of Chartered Accountants
 - Canadian Institute of Financial Planning
 - Financial Advisors Association of Canada

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The Gold Standard



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- Not all “planners” and “advisors” qualified to offer professional financial planning advice
- CFP trademark recognized as the “Gold Standard” in competency and ethical behaviour
- Sets practitioners apart from other advisors
- CFP professionals meet rigorous qualifications and standards to earn CFP credential

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Standards – 4Es



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Education: complete one of many FPSC-accredited education programs

Examination: Write a rigorous examination

Experience: minimum two years financial planning experience

Ethics: pledge adherence to FPSC code of ethics

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Standards – 4Es



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- Ongoing requirements — annually attest to compliance to FPSC Code of Ethics
- 30 hours continuing education a year
- Practice Standards

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Practice Standards



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- The next step – Making financial planning a profession
- Practice Standards clarify “how” financial planning services are provided
- Bring together financial planning process and code of ethics
- Defines financial planning process and how CFP professionals should perform
- Ensures consistency and uniformity of practice
- Standards applicable from April 2005
 - Elevate to a profession

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Where We Work



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- Throughout the financial industry in one or more of the following organizations:
 - Banks and trust companies
 - Credit Unions
 - Financial planning companies
 - Insurance companies
 - Accounting firms
 - Securities companies
 - Mutual fund companies

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How We Work



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- A variety of compensation structures
 - Salary and commission
 - Salary and bonus
 - Bonus
 - Salary
 - Fee
 - Fee and Commission

There's a compensation structure that's right for you

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Some Common Mistakes



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- Confuse financial planning with investing
- Don't set measurable goals
- Don't evaluate plan
- Financial planning - retirement planning
- Expect unrealistic returns on investments

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Some Common Mistakes



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- Don't understand how advisors are compensated
- Quick fix rather than long-term strategy
- Financial planning primarily is tax planning
- Using a planner means losing control

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Questions to ask



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- What are your qualifications?
- What experience do you have?
- What services do you offer?
- What is your approach?
- Will you be the only person working with me?

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Questions to ask



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- How will I pay for your services?
- How much do you charge?
- Do you have any conflicts of interest?
- What regulatory standards do you have to meet?
- Can I have it in writing?

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Summary



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- FPSC formed to simplify financial planning for consumers and set ethical and competency standards
- The Gold Standard in the industry
- Meet stringent standards of education, experience and ethics
- Practice Standards a springboard to becoming a profession
- By asking the right questions you can avoid making a mistake

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The Financial Planning Engagement



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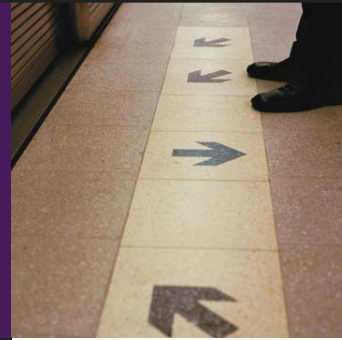
- Financial planners versus advisors
- Planners use the “big picture” approach to meet your life goals
- See individual financial issues in context of overall situation
- Financial planners may buy/sell products
- Multidisciplinary: may bring in outside experts as needed

The big picture sets financial planners apart

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The Financial Planning Process



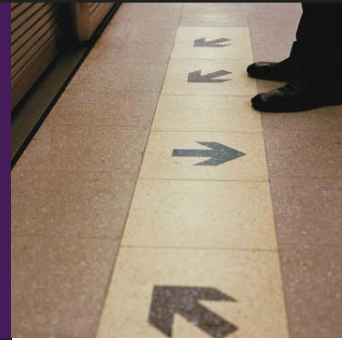
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- Lays out what planners should do when performing financial planning
- Step-by-step process that helps you meet your goals
- Gain perspective — where you are now and where you want to be in the future
- Provides meaning and direction to all financial decisions
- Comprehensive approach
- Helps you adapt to life's changes and keeps you on track

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The Financial Planning “Litmus” Test



Take the
next step.

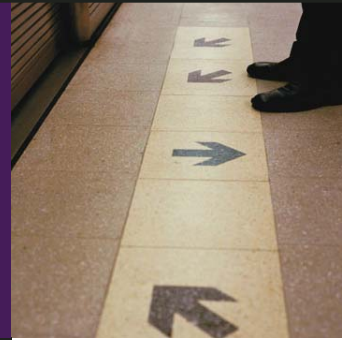
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- Is the objective to meet my/client's specific life goals?
- Are all relevant aspects of my/client's financial situation considered?
- Are the creation of strategies involved?
- If yes to the above, you are engaged in financial planning activity

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The Financial Plan



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- Financial planning consists of:
 - Establishing the engagement
 - Gathering client data
 - Analyzing current financial information, identifying problems/opportunities
 - Developing and presenting financial plan

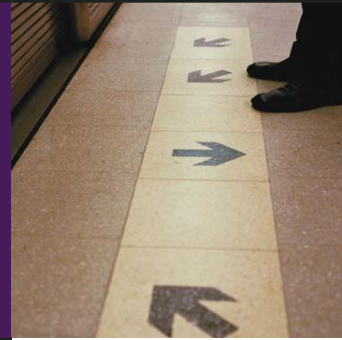
And often:

- Implementing plan
- Reviewing plan

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The Financial Plan The Engagement



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- Define and agree on scope of engagement
- Written letter of engagement essential to mutual understanding and agreement
- Letter should include:
 - Specific parties to the engagement
 - Assurance of confidentiality
 - Financial planning services to be provided
 - Statement on disclosure of assumptions
 - Tenure and timeframes
 - Compensation arrangements
 - Conflicts of interest, if any
 - Each party's responsibilities

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The Financial Plan Gathering Client Data



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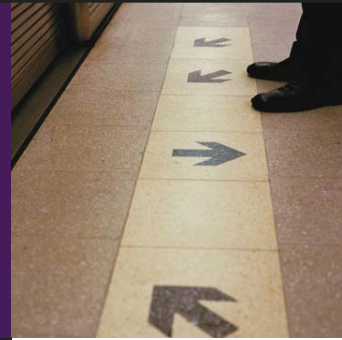
- Identify client's goals, needs and priorities
- Identify goals **BEFORE** making and/or implementing advice or recommendations
- Gather all relevant data **BEFORE** making/implementing advice or recommendations

Inability to obtain necessary information must be disclosed to and discussed with client

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The Financial Plan Clarifying Financial Position



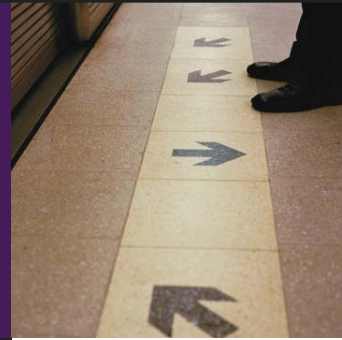
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- Analyze/evaluate information in terms of client's goals
- Determine current financial situation (cash flow, net worth, tax, etc.)
- Can client's goals be met under current circumstances?
- Evaluate problem areas/opportunities (capital risk, investments, tax, estate planning, special needs)

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The Financial Plan Develop and Present The Plan



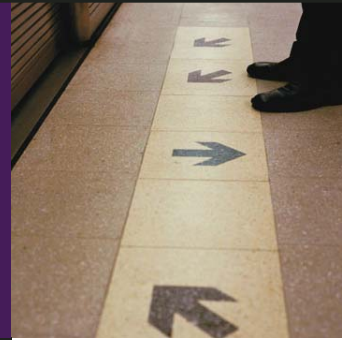
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- Formulates and evaluates financial planning strategies to achieve goals
- Assumptions must be reasonable and realistic; disclose to client in writing
- Develop recommendations and present/explain to client
- Written report containing relevant data and assumptions to support recommendations

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The Financial Plan Implementing The Plan



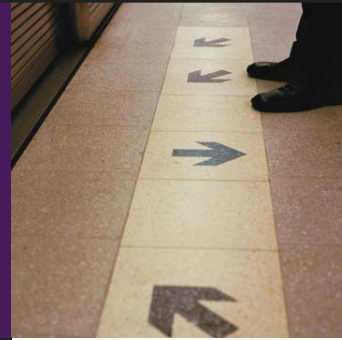
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- If part of engagement, planner and client should agree on:
 - Actions to be taken
 - Who is responsible for what actions
 - Times frames for completion of action items
- Coordinate contacts with other professionals if appropriate (accountants, lawyers, insurance, investment fund representatives, etc.)

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The Financial Plan Reviewing The Plan



Take the
next step.

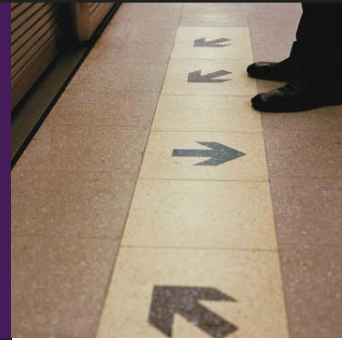
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- Agree on time frame for monitoring/evaluating the plan
- Not less than once a year/ consistent with schedule in engagement letter
- Assess plan's progress — Is it still appropriate based on client's goals?
- Confirm necessary revisions, if needed, based on client's goals

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The Financial Plan Summary



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- Financial planning is a process that lays out what planners should do when performing financial planning
- Financial planning takes a holistic, “big picture” approach
- Considers your goals, stage of life, current circumstances and risk tolerance
- Recommendations/advice made based on all relevant data
- Are you getting financial planning?
– Take the “Litmus” test

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Financial Planning Practice Standards



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Introduction

- Tremendous growth/evolution of financial planning over 10 years
- Development of professional financial planning standards— education, examination, experience and ethics
- Commitment to standards
- Support from all industry sectors toward creation of financial planning profession
- Platform for becoming a profession in Canada - CFP™ certification to lead the way

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What are Practice Standards?



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- Expand on commonly-accepted process of profession and ensures Code of Ethics is adhered to in practice.
- Financial Planning Practice Standards expand on financial planning process defined by CFP credential
- Provide greater clarity about **HOW** the financial planning process should be implemented in accordance with Code of Ethics
- Ensure uniformity of practice
- Specify what should happen during financial planning engagement
- Clarify role and responsibilities

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What makes a profession?



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- Consistency of service
- Uniformity of service
- The primary purpose of serving the public good
- **A profession cannot exist without standards of practice**

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How Were Standards Developed?



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- Process begun in 2001 – led by FPSC with industry consultation
- 10 draft standards introduced in Sept 2002 for distribution
- Focus groups solicit feedback/ more drafts
- Final standards released January 2005 – applicable April 2005

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The Standards



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- The standards show what should happen in the stages of the financial planning process:

- The engagement
- Gathering client data
- Analyzing data and identifying problems/opportunities
- Developing/presenting financial plan

And often:

- Implementing plan
- Reviewing plan

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The Standards – Enforcement & Regulation



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- FPSC to review complaints/ alleged violations of Code of Ethics
- Disciplinary action for breach of Code of Ethics to include reprimand, fines or suspension of licence
- Enforce trademark violations
- Renew licence annually to keep CFP credential
- 30 hours continuing education/adherence to Code of Ethics

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The Standards – Summary



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- Practice Standards are the platform from which financial planning will become a profession in Canada
- Clarify **HOW** an engagement should take place
- Ensure uniformity and consistency of practice and services
- Developed over four years with profession, industry and public consultation
- Provide regulatory framework in a largely unregulated industry