



Policy-Based Financial Planning[©]

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With special thanks to Sandra Davis

Financial Planning Association

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YESKE  BUIE

[Our Session Today]

- Presentation
- Client Examples
- Case Study 1
- Policies developed from Retreat Sessions
- Case Study 2
- Personal Example
- Q&A

Overview

- Uncertainty
- Chaotic World
- Financial Planning
 - Well crafted financial planning policies can serve both planners and their clients by acting as a powerful touchstone in the midst of a rapidly changing world.

Policy

*A tool for making decisions
in the face of uncertainty*

Examples

{Financial Planning Profession}

- Investment Policies
 - Boone, Lubitz 1992, 2004
- Safe Withdrawal Rates
 - Bengen 1994, 1996, 1997, 2001
 - Guyton 2004, 2006
- CFP® Code of Ethics
- CFP® Practice Standards

Examples {Other Professions}

■ Law

- Ethics policies, e.g. what constitutes conflicts of interest

■ Medicine

- “First, do no harm.”

■ Accounting

- FASB/GAAP

■ Military

- Chain of Command

[Examples from Life]

- I will give 10% of my gross income to charity.
- I will only drive American cars.
- I will only do work that I love.
- ?more non-fp examples?

[What Policies Are Not]

- Beliefs or Values
- Action Items
- Implementation
- Observations
- Goals and Aspirations

Policies vs. Values, Beliefs, Observations, Goals, Action Items

- **Value**: A college education is imperative for a good life.
- **Goal**: To ensure my son's education is covered even if I die prematurely.
- **Policy**: I will maintain sufficient life insurance to cover my son's education costs.
- **Action Item**: I will buy \$250,000 of 20-year term life insurance.

Policies vs. Values, Beliefs, Observations, Goals, Action Items

- **Observation**: Our extended family looks to us to help support them.
- **Goal**: To encourage them to support themselves.
- **Policy**: We will provide financial literacy support but will not give them money.
- **Action Item**: Arrange for and pay for brother John's consumer credit counseling services.

Policies vs. Values, Beliefs, Observations, Goals, Action Items

- **Belief**: Too much inheritance blunts ambition.
- **Goal**: To provide for spouse without leaving too much money to our grown kids.
- **Policy**: We will own life insurance for our survivor needs only, establishing charities as contingent beneficiaries.
- **Action Item**: Buy term insurance based on capital needs analysis; coordinate beneficiary designations; monitor regularly.

Characteristics of a “Good” Policy

- Broad enough to encompass any novel event that might arise.
- Specific enough so that we are never in doubt as to what actions are required.

Identifying a “Good” Policy

- Are there external circumstances that will change and affect the decisions encompassed by this policy?
- Does this policy enable us to make decisions as things change?

Goals **policies** Decisions

[Policy from Retreat]

[Policy from Retreat]

- Observation: It is difficult, dangerous even, to try to find your mouth with a cocktail in the dark.

[Policy from Retreat]

- Observation: It is difficult, dangerous even, to try to find your mouth with a cocktail in the dark.
- Goal: To party.

[Policy from Retreat]

- Observation: It is difficult, dangerous even, to try to find your mouth with a cocktail in the dark.
- Goal: To party.
- Policy: FPA will have light-up ice cubes at all evening outdoor events.

Policies vs. Values, Beliefs, Observations, Goals, Action Items

- **Value**: A college education is imperative for a good life.
- **Goal**: To ensure my son's education is covered even if I die prematurely.
- **Policy**: I will maintain sufficient life insurance to cover my son's education costs.
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Policies vs. Values, Beliefs, Observations, Goals, Action Items

- **Value**: A college education is imperative for a good life.
- **Goal**: To ensure my son's education is covered even if I die prematurely.
- **Policy**: I will maintain sufficient life insurance to cover my son's education costs.
- **Action Item**: *I will buy an **additional** \$100,000 of 20-year term life insurance.*

Policies vs. Values, Beliefs, Observations, Goals, Action Items

- **Observation**: Our extended family looks to us to help support them.
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Policies vs. Values, Beliefs, Observations, Goals, Action Items

- **Observation**: Our extended family looks to us to help support them.
- **Goal**: To encourage them to support themselves.
- **Policy**: We will provide financial literacy support but will not give them money.
- **Action Item**: *Teach Susan how to balance her checkbook and how to use Quicken to establish and follow a budget.*

Policies vs. Values, Beliefs, Observations, Goals, Action Items

- **Belief**: Too much inheritance blunts ambition.
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Policies vs. Values, Beliefs, Observations, Goals, Action Items

- **Belief**: Too much inheritance blunts ambition.
- **Goal**: To provide for spouse without leaving too much money to our grown kids.
- **Policy**: We will own life insurance for our survivor needs only, establishing charities as contingent beneficiaries.
- **Action Item**: *Cancel insurance.*

[Financial Planning]

Client Values
and Goals

Best Practices



Recommendations
and

Implementation

[Policies: A Bridge]

Client Values
and Goals

Best Practices



Recommendations
and

Implementation

Financial Planning Policies

- Financial Planning Policies transcend the current situation by expressing in general terms what clients plan to do and how they are willing to do it in terms not limited to the current circumstances.

[Implicit vs. Explicit]

- We are not suggesting that financial planning policies are not implicitly present in most financial plans. We are simply suggesting that these policies made explicit can create better tools for guiding clients.

Integral Framework

	Interior	Exterior
Individual	I	It
Collective	We	Its

Integral Framework

<p><u>Individual / Interior</u> Who you are, who matters to you, and how you feel about things, including attitudes toward spending & saving, personal risk tolerance, and your vision of “the good life.”</p>	<p><u>Individual / Exterior</u> What you own, what you owe, all the objective facts about your life, including personal resources and constraints like education, occupation, income, expenses, assets, liabilities.</p>
<p><u>Collective / Interior</u> Relationships; religious/spiritual beliefs; family, ethnic, cultural history and beliefs, including collective attitudes toward spending, debting, investing, charitable giving, education, legacy, etc.</p>	<p><u>Collective / Exterior</u> Objective facts about the external environment, including tax laws, financial market structure, state of the economy, interest rates, inflation rates, available financial instruments, etc.</p>

Policies Blend the Interior and the Exterior, the Individual and the Collective

WHY

Goals
Objectives
Values
Beliefs
Money Issues
Relationships
Culture

HOW

Strategies
Laws
Regulations
Best Practices
Resources
Economy
Societal Pressures

Financial Planning Policies

- Financial Planning Policies blend the integral quadrants by expressing in general terms what clients plan to do and how they are willing to do it in terms not limited to the current external circumstances.

Financial Planning Policies

Six-Step Process

- Step 1: Discovery
 - Goals
 - Desires
 - Values
 - Attitudes
 - Data
- What really matters to them?
- What do they want?
- What do they have to work with?

Financial Planning Policies

Six-Step Process

- Step 2: Identify Planning Area and Related Principles
 - What Planning Area(s) are the Policies going to need to address based on the client's circumstances?
 - What are the Best Practices in that/those Planning Area(s)?

Financial Planning Policies

Six-Step Process

- Step 2:
 - Different client *structural* circumstances will dictate different planning areas that may require policies.
 - Client resources
 - Kids/No kids
 - Marital status
 - Career path
 - Etc.

Financial Planning Policies

Six-Step Process

- Step 3: Combine Client Goals/Attitudes with Planning Principles
 - Draft statements that you believe reflect the client goals, values and attitudes, and the relevant planning principles.

Financial Planning Policies

Six-Step Process

- Step 4: Test Policies and Develop Specific Recommendations
 - Is it a policy?
 - Are there external circumstances that will change and affect the decisions encompassed by this policy?
 - Does this policy enable us to make decisions as things change?
 - Scenario Planning: Feed current and potential data through the policies to test how good they are.
 - General enough to encompass divergent circumstances.
 - Specific enough to leave one in no doubt as to the actions to be taken.

Financial Planning Policies

Six-Step Process

- Step 5: Test Policies with Client
 - Formalize for discussion with client.
 - Does the wording resonate with them?
 - Do clients see their goals and values reflected in the Policies?
 - Interactive Process

Financial Planning Policies

Six-Step Process

- Step 6: Periodic Review and Update
 - Policies change based on ***structural*** or ***fundamental*** triggers, ***not cyclical*** triggers
 - Laws and Regulations
 - Best Practices
 - Change in Client Values or Goals or Structural Circumstances
 - An interior shift that has changed the exterior goals
 - An exterior change that has changed the structural circumstances

[FP Policies - Applications]

- All comprehensive financial planning engagements
- Hourly or “one-time” financial planning engagements
- Young people and others with little income and few assets for whom planning issues will emerge over time

Summary

- A process for making financial planning policies explicit would aid both clients and advisors in making appropriate adjustments to changing circumstances without the necessity of starting from scratch.

[Some Examples]

[Debt Policy]

- We will use credit cards for convenience only for purchases that are part of the monthly budget.
- For purchases equal to 10% or less of annual after-tax earnings, we will set aside funds monthly until needed sum is accumulated.
- For purchases equal to more than 10% of annual after-tax earnings, we will use amortized debt.

DEVELOPING FINANCIAL PLANNING POLICIES

What really matters to the client (values, beliefs)?
For children/grandchildren to live productive, happy lives To not remove incentives to make their way in the world Helping family achieve Education Family
What does the client want (goals)?
Client wants estate distributed with care, without undue waste in taxes. Client wants to make sure children and grandchildren are provided a solid base for a productive and happy life. Client wants to leave a legacy that will support empowerment.
What Policy (Planning) Areas need to be addressed?
Estate planning Charitable giving Gifting during life
Draft Policies to be shared with the client
We will provide, by lifetime gifting or through our wills and trusts, funds sufficient to pay for up to 8 years of college education for our children and grandchildren. We will provide, through lifetime gifting or through our wills and trusts, funds to help make a 20% down payment on a first home. The balance of our estate will go to charity.

[An example where policies might have helped]

- Client who could not live on \$50,000 per month, wouldn't sell employer stock and started a business.
 - I will maintain a portfolio that supports a 5% safe withdrawal rate
 - I will invest in the new business by liquidating employer stock

An example where policies did help

- Same stock, \$110,000 cash flow goal
 - Maintain portfolio of at least \$2,200,000 (increasing with inflation)
 - Make other purchases/investments out of remaining employer stock
 - New first home
 - Business with partner and brother
 - Speculative real estate investment
 - New second home (and upgraded)

[More examples: The Horse Farm]

Clients spent money they couldn't afford helping their daughter and son-in-law buy the house next door, which the daughter and son-in-law couldn't afford, prompting the clients to spend even more money they couldn't afford to subsidize the daughter's monthly living expenses.

[The Horse Farm: policies]

- We will provide financial support to our children up to the point that it does not endanger our own financial security based on Guyton's safe withdrawal rate and "guardrails"
- We will not facilitate transactions by our children that they themselves cannot afford to sustain.

[The Money Anorexic]

- Husband retired from UCSF with a pension equal to 85% of prior earnings
- Couple have \$2mm in financial assets
- Wife spent her entire life as a diligent saver
- Wife told husband when he retired that they were going to have to tighten their belts because his pension was less than his salary had been.

[The Money Anorexic: policies]

- An amount equal to the sustainable withdrawal rate will be transferred quarterly to a separate “play” account.
- The play account will be kept liquid
- All travel, vacations, and other discretionary purchases will be made from the play account
- Suspend transfers when play account exceeds 150% of annual target

[Case study 1 – The Mustangs]

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Case study 1 – The Mustangs

Spending and Debt Management Policy

- We will use credit cards for convenience only, for purchases we can pay off each month.
- For moderate purchases we cannot pay off each month, we will save to purchase the item with cash and will not use credit cards.
- For expensive but necessary purchases (e.g. a car), we will use intermediate-term financing that fits into our budget.
- For appreciating assets (e.g. a home) or business assets, we will use long-term financing.
- We will allocate all of Max's overtime and Martha's bonus to paying down debt.
- We will pay down highest interest debt first (credit card, personal loan, student loan).

[Case 1 – Mustang, cont.]

Risk Management Policy

- We will allocate 10% of our take-home pay to build and maintain an emergency fund equal to 3 months living expenses.
- We will maintain the largest deductibles consistent with our emergency fund.
- We will secure as much disability income insurance as we can qualify for.
- Martha will not make a career change until we can afford to purchase health insurance or have coverage through some other venue.

[Case 1 – Mustang, cont.]

Retirement Planning Policy

- We will save 2% of our income, increasing by 2% each year until we reach our target of 10% annual savings.
- We will first defer up to 5% of our gross pay into our 457 plan.
- We will fund (a) Roth IRA(s) with up to 5% of our gross income.
- Once we achieve our savings goals for the month, we will reward ourselves out of what is left over.

[Case 1 – Mustang, cont.]

Education Policy

- We will consider funding any education funding shortfall (after accounting for the financial aid each child qualifies for and the amount earned in work-study and summer jobs) only after funding our retirement savings.

[Policies from Retreat Sessions]

- Thank you to:
 - Holly Gillian Kindall
 - Guy Cumbie
 - Sandra Davis
 - Kyra Morris

[Policies from Retreat Sessions]

- Whose policy is it?
 - Client
 - Planner
 - Staff
- What does it cover?
 - Personal
 - Professional

Policies from Retreat Sessions

Reverend Gomes

- Where your great joy meets the world's great need

Serving the Underserved - Barajas, Davis, Elie

- Value: Giving back
- Goal: to serve the underserved

Our firm will allocate 10% of its resources to providing financial planning to non-traditional clients.

[Policies from Retreat Sessions]

Reverend Gomes

- If this business is giving you no joy, that diminishes the stake you have in the business which will impact everyone you come in contact with.

I will be in this business as long as it gives me joy.

Policies from Retreat Sessions

Reverend Gomes

- Client policies around their planners
 - I will expect competency and compassion in my planner (goal)
 - I will speak up anytime I don't understand something (policy)
 - I will speak up anytime I don't see myself reflected in what my planner is recommending (policy)

[Policies from Retreat Sessions]

Career Asset Management -Haubrich, Foster and Hogan

- Values around:
 - Employment
 - Community
 - Family

[Policies from Retreat Sessions]

- Value: To enjoy elder years and still provide value to the community
- Goal: Extend my career life to optimize my career as an asset
- Policy: I will work 100% until age 55, 80% from age 55 – 60, 60% from age 60-70 ...

[Policies from Retreat Sessions]

Economics of Uncertainty, Woody Brock

- A leverage policy (distinct from a “use of debt” policy) –
 - debt/equity ratio
- Considerations
 - Values
 - Risk tolerance
 - Cultural issues

Policies from Retreat Sessions

Economics of Uncertainty, Woody Brock

- “Strategies based on theories are fundamental to our success.”
 - Where there is scientific theory, Yeske Buie will operate within the prevailing theory (and will stay engaged with the evolving and emerging theory).

Policies from Retreat Sessions

Creativity by Intent, Michael Starbird

- Be willing to admit limitations
- Be willing to cultivate additional knowledge
- No one gets to be wrong
- Harry Beck – Life insurance is one of the pillars of financial planning
 - client policies around the uses of insurance
 - planner policies around our knowledge of insurance products

[Policies from Retreat Sessions]

Creativity by Intent, Michael Starbird

- Follow where ideas lead (goal/value)
- Policy
 - For each client meeting, we will create an agenda to account for $\frac{1}{2}$ of the allotted meeting time, leaving the other $\frac{1}{2}$ of the meeting time for whatever emerges.

[Policies from Retreat Sessions]

Creativity by Intent, Michael Starbird

- We will spend half of our dialog time with clients on the question:
 - What is the question?
- Whenever I have a strong opinion on something, I will spend one hour pursuing the opposite viewpoint.

Policies from Retreat Sessions

Creativity by Intent, Michael Starbird

- Is there an area of my life where a policy, if articulated and implemented, could change my life in a way that 50 years from now I would not be able to look back and say, “what was I thinking?”
 - Relationships
 - Participation in the world
 - Self awareness

[Policies from Retreat Sessions]

Speaking Truth, Sharon Hoover

- Policies around
 - what level of truth telling you expect from your clients
 - what level of truth telling clients can expect from you
- When I tell the truth, I will do so without expecting anything from others in return

Policies from Retreat Sessions

Speaking Truth, Sharon Hoover

- Policies around how far “to the edge” you will go/participate/observe with a client
- Policies are a way of facilitating our value system

[Policies from Retreat Sessions]

Speaking Truth, Sharon Hoover

- I will only do things that I would feel comfortable with others reading about on the front page of the NY Times.
- I will only do things that I would do with an SEC officer in my office.
- I will always point out the legal resolution to a client's situation.

[Policies from Retreat Sessions]

Speaking Truth, Sharon Hoover

- How far will you go letting the numbers “stretch” before telling a client something difficult?
 - Safe withdrawal rates
 - Monte Carlo

Policies from Retreat Sessions

Speaking Truth, Sharon Hoover

- Policy around what you'll discuss or do when only one partner of a couple is participating in the fp relationship:
 - If both partners are the client, then both partners must be present at all meetings

or

- I will deal with one partner as long as the other partner has given me permission to do so and all decisions are communicated by me with that other partner

Policies from Retreat Sessions

Client Advisory Board, Maureen Wilke

- We appreciate other's ears and insights
 - We will create an environment to harness other's ears and insights
 - We will seek feedback from our Client Advisory Board (CAB) on any decision that will directly impact the client experience.
 - We will create quarterly opportunities to receive feedback and input from the CAB about every client "touch" provided by the firm.

Policies from Retreat Sessions

Tax Planning in a Chaotic World, Morris and Noard

- We will make tax-related recommendations based on the tax laws in existence today.

Policies from Retreat Sessions

*PPATIPRATRHC AEGTRRA, Michael
Kitces*

- Prior policy: We will maximize our deductible retirement plan contributions.
- Structural Change: Roth 401k

Policies from Retreat Sessions

Planning for the Aging Population, Grady Cash

- Client policies around their health
 - We commit to assessing our health risks and identifying steps to take to improve our health (goal)
 - We will work out 3 times per week (policy)
 - We will spend 5% of our take-home pay on improving our health (policy)

[Case 2 - Granada]

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Case 2 - Granada

Spending/Savings Policy

- We will live within our take-home pay.
- We will spend within our means and develop healthy savings habits to meet our short- and long-term goals.
- We will track our spending with a computer based tool, develop a monthly budget, and balance our bank statements to ensure adherence to the budget. We will use the following accounts to manage our money:
 - a) Create and fund an **emergency fund** to cover 6 months of non-discretionary expenses.
 - b) Create and fund a **save/spend account** for all expenditures that are not in our monthly spending plan.
 - c) Create and fund a **save/don't spend account** for longer term goals or to transfer to investment accounts.

Case 2 - Grenada

■ Spending/Savings Policy, cont.

- Any and all financial windfalls will be equally divided between the emergency fund savings and debt reduction.
- We will use cash for all budgeted expenditures. Our budget includes all nondiscretionary and discretionary expenses. We will not use credit cards for household expenses and we will save in our save/spend account for all non-budgeted expenses.
- We will allocate 10% of our gross income to long-term endeavors (e.g. education to increase our future income, retirement savings, children's education, etc.).

Case 2 - Grenada

Debt Management Policy

- We will use debt wisely.
- Debt is a roadblock to financial security.
- We will pay off all of our consumer debt within 30 months.
- We will ensure future debt is incurred and managed responsibly.
- We will reduce the number of credit cards we currently have.
- We will develop a payment plan to pay the existing debt and adhere to our monthly spending plan to avoid creating additional debt.
- We will pay an additional \$ 500/month toward the consumer debt with the highest interest rate. As each card is paid off, the additional payment will be applied to the next highest interest rate card until all consumer debts are retired. Once the consumer debt is retired, the additional monthly amount will be re-purposed to fully fund our emergency savings.
- We will use debt only when purchasing appreciating assets.

Case 2 - Grenada

Policy on Family & Finances

- We will ensure that we have sufficient financial resources to meet the needs of our immediate family and to increase the financial literacy of our immediate and extended family.
- Each member of the family will have a weekly allowance to meet their personal needs.
- Each month we will discuss our monthly expenditures and our financial goals for the upcoming month.
- Our extended family should be self-sufficient.
- We will provide extended family members with emotional support and information regarding financial resources (credit counseling, budgeting support, etc.) but we will not provide financial support to family members until such time as our debt is retired, and our emergency fund is sufficient to meet our needs.
- Children need to learn financial responsibility.
- We will teach our children financial literacy. .

[Case 2 - Grenada]

Children's Vacation Policy

- We will balance our lives with a combination of work and play, ensuring that we have play time together as a couple and with our children.
- We will increase the amount of time we spend with our children by visiting local parks and museums one weekend each month. We will have one annual vacation as a family and the children will each have one week away at a camp of their choice. The maximum amount for each camp adventure will be \$350 and each child is responsible for contributing 10% to the total fee.
- We will provide our children with an experiential learning opportunity while teaching them financial responsibility. Our children will save 10% of their weekly allowance to pay a portion of all extracurricular activities.

[A Personal Example]



[A Personal Example]

- (Some of) Dave's and Elissa's Goals/Values
 - Elissa being with Lauren and Alisson as much as possible.
 - Dave building a relationship with Lauren and Alisson.
 - Dave and Elissa continuing to evolve ourselves and our relationship.
 - Financially supporting our lifestyle.
 - Participating in the financial planning profession.

[A Personal Example, cont.]

- Dave's and Elissa's Environment
 - 2,419 mile separation
 - Ultimate desire to live in San Francisco
 - Joint custody of Lauren and Alisson
 - Merging two firms – clients and staff
 - United Airlines frequent flyer program
 - Finances

[Dave's and Elissa's Policies-old]

- V-Our family energy is focused on NoVa and the growth and evolution of the girls
- G-Dave's finite number of travel days will maximize his time with the girls
- A/P-Dave takes on parental duties
- P-Elissa travels to SF whenever girls are not available to her in NoVa
- P-Dave and Elissa actively discuss all opportunities to participate in profession

Dave's and Elissa's Policies-new

- Dave will schedule his time in Virginia to coincide with the times Elissa has the girls
- Dave will take on a share of parental duties as possible based on situation and location
- Elissa will be in town when the girls are in town and will travel to SF whenever the girls are not available to her in NoVa
- We will actively discuss all opportunities to participate in profession
- We will create family activities that include all 4 of us
- Dave will upgrade to First/Business whenever he can and will buy a First/Business class ticket when upgrades are not available.

Dave's and Elissa's Action Items

- Dave travels to NoVa Friday night – Wednesday a.m. every other week
- Dave books all his travel with United Airlines
- Dave is responsible for making school lunches and for getting Alisson to school in the morning when he's in NoVa
- Dave helps with homework
- Dave takes responsibility for Mother's Day celebration, etc.
- Elissa spent 2006 Spring Break in California and has not been there since other than our wedding
- Dave is taking riding lessons with Elissa and the girls
- We are going to South Africa in May but Elissa won't be attending Far West Roundup in August.

What has this meant?

- Managing client and staff expectations
- Being able to plan well in advance for holidays, vacations, and invitations
- Being able to schedule events with the girls (birthday parties, trips, etc.)
- Being able to schedule flights well in advance
- Ask us a question ...
 - Can you speak at FPAxyz?
 - How will you react to the next UAL bankruptcy?
 - Are you available Thanksgiving 2009 for a visit?

[Bumps in the road ...]

- GGU Practicum opportunity
- 4 days together out of 14 isn't enough