



Policy-Based Financial Planning[©]

Elissa Buie, CFP[®] and David B. Yeske, CFP[®]
FPA Retreat 2006

May 4 – 7, 2006

DoubleTree Paradise Valley Resort

Scottsdale, AZ

[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

[What Policies Are Not]

- Procedures
- Action Items/To Do's
- Implementation
- Goals and Aspirations
- Targets

[Policy for Prioritizing Savings]

- Interior motivation: client wants to provide children with at least the basic tools for success.
- Policy: Funding the cost of a public education will take priority over saving for retirement but the additional cost of a private education will only be funded after retirement savings targets have been met.

Policy regarding legacy or estate planning

Interior motivation:

Client believes children and grandchildren should be given the tools to live productive and happy lives, but also believes that inherited wealth blunts ambition and too often results in lives that do not serve larger societal needs.

[Policy]

- We will provide, by lifetime gifting or through our wills and trusts, funds sufficient to pay for the education of our children and grandchildren.
- We will provide, through lifetime gifting or through our wills and trusts, funds to help make the down payment on a first home.
- The balance of our estate will go to charity.
- We will document and regularly review our desires in a formal estate plan.
- *The specific implementation will depend on how many children or grandchildren the clients have at any one time, not to mention the cost of higher education and real estate. Regardless, they have the tools to make specific concrete decisions at any point in time. Example: Specific Action: Gift \$48,000 to John and Susie (son and daughter-in-law) this year for down payment on their first home.*

[A Personal Example]



(c) Financial Planning Group, Inc.
(c) Yeske & Company, Inc.

[A Personal Example]

- (Some of) Dave's and Elissa's 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
 - 2419 mile separation
 - Ultimate desire to live in San Francisco
 - Joint custody of Lauren and Alisson
 - Two firms – clients and staff
 - United Airlines frequent flyer program
 - Finances

[Dave's and Elissa's Policies]

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

Dave's and Elissa's Action Items

- Dave travels to NoVa Friday night – Wednesday a.m.
- Dave is responsible for getting the girls to school in the a.m. 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
- Dave is taking riding lessons with Elissa and the girls
-

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?
 - How are you going to fit in the goal of taking the girls on safari?
 - How are you operating your businesses in light of these issues?
 - What date is preferable for Lauren's Sweet 16 party?

Characteristics of a “Good” Policy

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

[A Bridge]

Client Values
and Goals

Best Practices



Recommendations
and

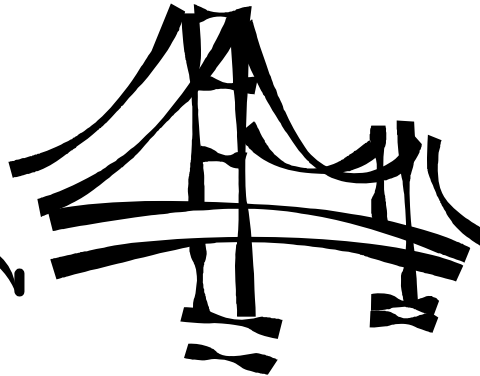
Implementation

[A Bridge]

**Client Values
and Goals**

Best Practices

**Data
and
Analysis**



**Recommendations
and
Implementation**

[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

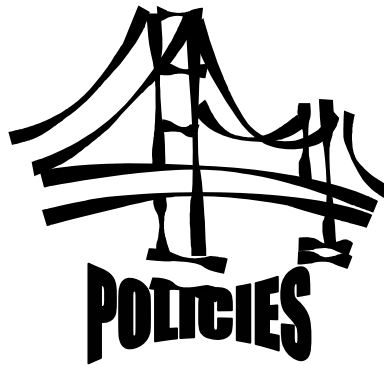
Integral Framework

<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>

Integral Framework: Policy Bridge

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 bridge the four 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.

Interesting Policies

- Policy: We will not succumb to keeping up with the Joneses
- How this helped: Clients moved away where they could start anew and made decisions in their new life specifically aimed at keeping them away from the Joneses

Interesting Policies

- Policy: We will not purposely create a financial legacy for our children
- How this helped: Clients were able to accurately evaluate their need for the permanent insurance their newly-insurance-licensed family member recommended to them

Interesting Policies

- Policy: Provide emotional support for family freely. Provide financial support only as it does not infringe on other goals.
- How this helped: Client referred sibling in debt crisis to Credit Counseling Service, and paid for initial consultation. Client did not bail sibling out of debt crisis.

Financial Planning Policies

Six-Step Process

- Step 1: Discovery
 - Goals
 - Desires
 - Values
 - Attitudes
 - Data
- What do they want to have and do?
- What really matters to them?
- 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 we addressing?
 - What are the Best Practices in that/those Planning Area(s)?

Financial Planning Policies

Six-Step Process

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

Draft statements that capture the client goals, values and attitudes, and the relevant planning principles

■ Example:

- Client Goal/Attitude:
 - Goal: To provide support for education and first home for children
 - What Matters to Them: For children to live productive, happy lives and to not remove incentives to make their own way in the world
- Best PracticeS: Document decisions; Utilize annual gifting limits; Leave retirement plans to charity; etc.

[Policy Statements:]

- We will provide, by lifetime gifting or through our wills and trusts, funds sufficient to pay for the education of our children and grandchildren.
- We will provide, through lifetime gifting or through our wills and trusts, funds to help make the down payment on a first home.
- The balance of our estate will go to charity.
- We will document and regularly review our desires in a formal estate plan.

Financial Planning Policies

Six-Step Process

- Step 4: Test Policies and Develop Specific Recommendations
 - Scenario Planning
 - General enough to encompass wildly divergent circumstances, and
 - Specific enough to leave one in no doubt as to the actions to be taken
 - This is the only place the “data” shows up in financial planning policies

Financial Planning Policies

Six-Step Process

- Step 4:

- Example:

- What if housing inflation doubled?
- What if each child has 6 children?
- What if the Estate Tax was repealed or the annual gifting exemption was eliminated?
- What if upon birth of grandchildren clients decide a family financial legacy isn't such a bad idea after all?

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
 - An interior shift that has changed all the exterior goals

[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.