



The Smart Investor

Do you really need a financial plan?

"Not everybody would benefit from the big report."

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By Deanne Gage | 01-19-12

It sounds simple enough: accredited financial planners should produce financial plans for all their clients. Do you ever wonder why things don't work out that way? Here are the reasons:



About the Author

Deanne Gage is a Toronto-based writer who has specialized in personal-finance issues since 1999. A recipient of several journalism awards, including one from the Investment Funds Institute of Canada, she is also a former editor of *Advisor's Edge* and *Advisor.ca*. She can be reached at deannegage@gmail.com.

You don't need a plan

A financial plan is a detailed document that articulately explains the person's goals and offers specific recommendations. Some plans can be up to 40 pages. But does everyone require one of these gems?

Not necessarily, despite what some advisors and financial institutions might say. Clients just might need some financial-planning advice, says Heather MacDonald, regional financial-planning consultant, southern Alberta, with Calgary-based RBC Financial Planning. "It varies depending on where they are in life," she says. "Not everybody would benefit from the big report. They just might need advice on proper cash-flow planning, for instance."

A student probably does not need a full comprehensive plan, notes Derek

Moran, a fee-only registered financial planner with Smarter Financial Planning Ltd. in Kelowna, B.C. "A young person who is going through a lot of changes from paying off student loans to changing jobs, it doesn't make sense," he says.

Instead, someone in that predicament -- who probably doesn't have any assets to invest, anyway -- would be better served by simply

having a few conversations with an advisor or money coach. "Young people just need to be pointed in the right direction to make sure they aren't making any huge mistakes," he says. "We might focus on a savings plan, talk a bit about investing or a person who they can be in contact with periodically with questions as they arise. It doesn't need to be some elaborate document."

Who probably does need a plan? Essentially, people who are going through life events like marriage, having children, or who want to focus on saving for retirement. As Scott Plaskett, CEO and senior financial planner of Toronto-based IRONSHIELD Financial Planning puts it, "people who have more responsibilities on their shoulders than they did when they were younger."

You don't want a plan

Some investors have managed to get through life OK without an advisor-led financial plan by spending less than they make, saving tons of money and investing in low-cost index funds. And frankly, they have the time to manage things themselves. So why bother with a professional plan now? That's the feeling of some consumers.

For example, when Plaskett recently acquired some clients from a retiring advisor, some of the clients didn't want to proceed with a financial plan. Or, they procrastinated, waiting for the right moment. "They didn't have a plan with their other advisor, so we're encouraging them to have one but we're not requiring it," he says. "If you're starting with us fresh you are going to have a financial plan because that's the tool we use to determine what you need to do to make your goals a reality."

You aren't willing to pay for a plan.

A financial plan costs money, any way you slice it. The plan may seem like it's free because the financial planner has told you there's no upfront out-of-pocket expenses. In reality, a commission-based planner is paid by any investment or insurance products you buy to implement the plan.

Sterling Rempel, a CFP professional with Future Values Estate and Financial Planning in Calgary, finds people are more comfortable with a commission-based structure since they avoid sticker shock.

A 2011 study from the Investment Institute Funds of Canada backs up Rempel's claim. IFIC found 59% of investors who already hold funds prefer any fees be rolled into mutual funds. "You do need to disclose [how you are paid] to the client and I find that clients indicate their understanding, at least from the outset," says Rempel.

This assumes, however, that you actually have money for products in the first place. Not everyone does. Others are uneasy with what they deem a conflict of interest. Is my advisor selling me a product that is truly in my best interest or the product that will pay him the highest commission?

That leaves the option of paying for the financial plan directly, which can cost anywhere from \$700 to \$10,000, depending on the complexity. According to the IFIC report, 33% of fund investors prefer to pay for advice separately.

More planners like Plaskett are choosing the latter form of compensation to show the value and work put into the plan. "Tying the plan and product together can create an inherent bias and we're doing everything we can to keep that bias at bay," he explains. "So we charge for the writing of a financial plan and they choose how and whom they want to implement [the product]. In the majority of cases, they will implement through us but it's not a requirement."

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Derek Moran

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