The financial planning process underlies the foundation of both comprehensive and modular financial planning. The process of financial planning is highly integrated into every aspect of financial advice giving. The systematic process is shaped and guided by many factors, including a financial planner’s commitment to disclosure, practice standards, professional conduct, and ethical standards. Communication and counseling skills also are essential to making the process work most effectively for clients. The financial planning process connects the core content areas of planning, including cash flow and net worth, tax, insurance, investment, retirement, and estate planning.

**TABLE OF CONTENTS**

- Introduction ........................................................................................................................................... 2
- Establishing and Defining the Client-Planner Relationship ................................................................. 4
- Gathering Information Necessary to Fulfill the Engagement .............................................................. 6
- Analyzing and Evaluating the Client’s Current Financial Status .......................................................... 8
- Developing the Financial Planning Recommendations ........................................................................ 10
- Implementing the Financial Planning Recommendations .................................................................. 13
- Monitoring the Financial Planning Recommendations ....................................................................... 14
- Notes ....................................................................................................................................................... 16
- The Path to CFP® Certification ............................................................................................................ 17

Material excerpted from CFP Board’s Financial Planning Competency Handbook (John Wiley & Sons, 2013). The Financial Planning Competency Handbook is available for purchase through the CFP Board web site: CFP.net. Create a CFP Board online account to visit the online store.
The process of financial planning is generally thought of as a six-step activity, as described by the Certified Financial Planner Board of Standards, Inc. (CFP Board). 1

1. Establishing and Defining the Client-Planner Relationship: This first step in the financial planning process is important because it sets the stage for client-planner interactions by clarifying issues and concepts related to responsibilities of both parties in the relationship. CFP Board rules require financial planners to specify and document their services. CFP Board Practice Standard 100-1 further requires financial planners to specifically provide clients with the following:5
   • Disclose the practitioner’s material conflict(s) of interest.
   • Disclose the practitioner’s compensation arrangement(s).
   • Determine the client’s and the practitioner’s responsibilities.
   • Establish the duration of the engagement.
   • Provide any additional information necessary to define or limit the scope.

2. Gathering Client Data, Including Goals: Gathering client data begins following the establishment of the client-planner relationship. According to CFP Board, data gathering includes interviewing or questioning clients about various aspects of their financial resources, obligations, and expectations. Data gathering also includes collecting all necessary documents. This step in the process is most often used by financial planners to help their clients define and better understand financial goals and objectives, needs, desires, and priorities.

3. Analyzing and Evaluating the Client’s Financial Status: According to CFP Board, within the context of the financial planning process, examining and evaluating client data begins with a review of current cash flow needs. The analysis procedure continues with a review of risk management, investment, tax, retirement, employee benefits, estate planning, and special situation topics. Understanding a client’s values and attitudes and determining the client’s time horizon, risk capacity, and risk tolerance are important elements associated with this step in the planning process.

4. Developing and Presenting Financial Planning Recommendations and/or Alternatives: Financial planning recommendations should meet the unique goals and objectives of each client, reflecting his or her values, traditions, risk profile, and unique situation. Financial planners are expected to present, review, and discuss recommended strategies with clients to ensure that expectations and desired outcomes are maximized, and that recommendations are thoroughly understood by the client. It may be necessary to revise recommendations or alternatives based on client-planner discussions.

5. Implementing the Financial Planning Recommendations: Without client action to put into place recommendations, the likelihood that clients will reach their financial goals becomes uncertain. Clients and planners should agree on how to perform recommendations made. During implementation, planners either carry out the services for the client or counsel the client in coordinating efforts with other professionals. It is important for financial planners to use counseling and communication skills in this process.

6. Monitoring the Financial Planning Recommendations: Monitoring the soundness of implemented recommendations and progress toward goal achievement is a crucial aspect of the planning process. The client and planner must agree on who will monitor the financial progress. If it is the planner, then he or she should openly communicate with the client and make any necessary, ongoing adjustments to the plan relative to changes in the client’s life.
Establishing and Defining the Client-Planner Relationship

There are a number of techniques commonly used by financial planners when establishing and defining the client-planner relationship. As with all interactions between clients and planners, dialogue is the starting point. This will often take the form of simple, open-ended questions or appreciative inquiry, but at times questions may be directed toward more specific topical areas. Many planners use a variety of more formal instruments, surveys in which clients can check off life transitions they are experiencing or expect to experience or indicate their level of satisfaction with different aspects of their financial life. Such instruments allow the planner to quickly identify areas of dissatisfaction or impending life transitions that have planning implications and can ensure that the planner asks appropriate questions in order to flesh out the issues. All of this will help to determine the scope of the planning engagement. It has been shown that clients place a high value on their financial planner having a systematic process for uncovering personal goals, values, and expectations, and the use of formal instruments, such as forms and checklists, can go a long way in assuring clients that they are engaged in such a structured process. Such formal approaches have also been shown to be associated with higher levels of client trust and relationship commitment, two variables that exert a powerful impact on the planning relationship. Sharma and Patterson note that higher levels of trust and relationship commitment are associated with a higher propensity to reveal personal and financial information and to implement recommendations. It is also highly associated with “functional conflict,” the ability to resolve conflicts quickly and effectively when they arise.

When explaining the financial planning process, planners will often use visual representations, finding that graphical forms help to illustrate the interconnected and process-oriented nature of financial planning. As Tufte has observed, “only a picture can carry such a volume of data in such a small space.” Beckes also recommends the use of “engagement standards,” which take the form of written documentation explaining how the planner practices, what the client can expect, and the role and responsibility of the client in the process. As Beckes puts it, “engagement standards are like an instruction manual, letting the client know how to get the best of what the planner has to offer.”

Finally, advisory agreements that clearly spell out the services to be delivered, the methodology to be employed, and the means of compensation are important tools for establishing the advisory relationship.
Information serves as the foundation for all financial plans. On the surface, the process of gathering information appears to be an easy and routine task. The more routine the process, the more efficient and effective the planning process can be. However, the planner must also recognize that clients, along with their approaches to gathering and communicating data, are each unique. The information gathered from a client will be used to prepare the financial plan, including conducting the necessary financial calculations for analysis. A comprehensive financial plan consists of client information; financial statements, including a balance sheet, cash flow statement, and budget; needs assessments for insurance, education, and retirement planning purposes; and compliance with tax laws, including income and estate taxation.

In general, the more information a planner gathers from the client, the better the financial plan and its subsequent adoption by the client will be. However, it is equally important for the planner to know when enough information has been gathered to minimize the burden on the client. A planner may consider several factors when determining how much information to collect, practice standards require that a planner know and understand a client’s personal and financial goals, needs, and priorities. This entails exploring the client’s values, attitudes, expectations, and time horizons during the early interviews.

Practice standards also necessitate the need for quantitative data. The type and amount of quantitative data need to be sufficient for conducting the technical analysis that leads to recommendations. It may be difficult for a planner to determine how much information to collect, particularly when a client desires assistance for a limited, focused problem. Often, information about one financial issue may greatly impact the issue of interest. In this case, the planner is obligated to obtain the larger amount of data. For example, a client’s retirement fund may greatly impact the ability to fund a child’s education.

The discovery process can take many forms, but generally will include an exploration of the client’s life (upbringing, family, education, culture, etc.). The planner will use learned communication skills to probe for additional information as needed. In order to improve communication with the client, the planner needs to be sensitive to nonverbal signals provided by the client and be aware of the planner’s own physical and nonverbal cues. Generally, the discovery process will include questions to enable the planner to understand much of the following about the client:

- Who matters to the client and why.
- What matters to the client and why.
- What the client’s life and worldview are.
- What money means to the client and why.
- What goals, dreams, and aspirations the client has, including time horizons as applicable.
- What fears and concerns the client has.
- What financial knowledge and experience the client has.
- What the client knows and does (human capital).
- What obstacles, risk exposures, and risk capacity the client has (including health issues).
- What the client’s risk tolerance is.

Exploration of a client’s interior information is a critical part of the financial planning process. The answers to questions about a person’s family values or money history do not lend themselves to being tracked on a data-gathering form. Different planners will approach this aspect of the financial planning process in different ways. In some cases, critical for all planners during the discovery process is the ability to listen in an engaged and active way. Listening skills can be learned, and ultimately come from a deep desire to know the client well in order to provide the best financial plan possible.

While personal information allows the planner to tailor a plan to a particular client, fact, or exterior, data—such as account types and balances—are needed to determine if reaching client goals is possible. The purpose for a particular data point should inform the information request. The four components of a financial plan suggest that the data needed from the client for financial planning purposes can be divided into four categories: lists of assets and liabilities, dollar values, ownership information, and contractual components.

Information and data can be provided to the planner from one of several sources. Of course, the obvious source is the client. Many are able to complete lists of the property owned and liabilities owed, as well as the categories in which they spend their income. However, clients are often not aware of the technical differences between types of account titles, and may not remember the beneficiaries on an account. And a planner may be quite surprised to find that clients cannot often state the dollar value of a property or an account with acceptable accuracy.

It is the planner’s responsibility to verify, to the extent possible, the information provided by the client. This requires the planner to gather, or the client to provide at the planner’s request, recent account statements, income tax returns, financial account applications, and employer and government benefit program information. The tools and techniques used in the discovery process are as numerous as the planners who use them. There are tools available from third-party vendors (e.g., full discovery systems with questionnaires, risk tolerance tests, etc.). Techniques can also be derived from books and articles on the subject or borrowed from other areas of study (e.g., mind mapping as a way of tracking the answers to various discovery questions). Many advisors have developed their own tools and techniques through years of experience and trial and error. As with establishing and defining the client relationship, research suggests that a formal discovery process with written tools is valued by clients, and such a process leads to higher levels of client trust and commitment. For the most part, the specific best form of discovery process, while many hypotheses may exist, has not been studied, leaving advisors to decide for themselves what works best for their firm and their clients.
In developing and documenting a client’s strengths and vulnerabilities, a planner must attend to many areas. Any financial plan is based on a series of assumptions, both exogenous/economic and endogenous/personal. It is important to recognize that planners are not themselves economic forecasters. However, the success of their role as planners is partly dependent upon their estimation of future levels of interest rates, market returns, levels of economic growth, and inflation. Economists regularly disagree as to the specifics of these key variables, so it is necessary for planners to know how to find and evaluate consensus levels of those variables or to decide to deviate from them for specific reasons. Also, a planner must evaluate the likely growth in the client’s income and the client’s longevity. Again, planners are not economic forecasters or public health experts, but reasonable assumptions need to be made regarding income growth and mortality, and to that end planners should be familiar with occupation-based income growth and with gender- and health-based mortality tables.

THE CFP BOARD FINANCIAL PLANNING PRACTICE STANDARDS ATTEST TO THIS NEED: THEY STATE:
The practitioner will utilize client-specified, mutually-agreed-upon, and/or other reasonable assumptions. Both personal and economic assumptions must be considered in this step of the process. These assumptions may include, but are not limited to, the following: Personal assumptions, such as: retirement age(s), life expectancy(s), income needs, risk factors, time horizon and special needs; and Economic assumptions, such as: inflation rates, tax rates and investment returns.19 Financial planners often prepare lists of strengths and vulnerabilities for their clients and for themselves. These lists are not always the same, as their purpose is different for the client and the planner. The purpose of such a list is for clients to indicate where planners may be going with their recommendations at an early stage. It also serves to let the clients know that they have, in fact, done some things well. The purpose of the list for the planners may be to remind them not to omit a particular consideration in developing the recommendations at a later phase.

One of the responsibilities of financial planners, whether they develop a comprehensive financial plan or a plan targeted to a specific goal, is to ensure that unforeseen circumstances do not interfere with their plan, at least to the extent that is practical. Three areas that are necessary to review, regardless of clients’ stated objectives, are their emergency fund adequacy, their use of debt, and their protection against insurable loss. Failure to do so may inhibit their ability to reach even their most mundane of goals.

The first step after reviewing assumptions behind the plan is often to evaluate the financial status of the client. The purpose of creating and evaluating financial statements is to measure the extent to which a given client compares with income and asset peers. A planner should review the financial status of the client to ensure that the client has an adequate emergency fund held in liquid assets and that the level and type of debt the client has used are appropriate in the particular circumstances. The CFP Board’s recommendations are that each insurable peril and decide the extent to which the client wishes to retain or insure against it. The CFP Board states:

The CFP Board financial planning practice standards attested to this need: They state:

Prior to making recommendations to a client, it is necessary for the financial planning practitioner to assess the client’s financial situation and to determine the likelihood of reaching the stated objectives by continuing present activities.46 There are innumerable risks clients face as they work to achieve their objectives, some of which can be ameliorated with the use of insurance. Planners need to evaluate each insurable peril and decide the extent to which the client wishes to retain or insure against it.

Many goals stipulated in the second domain, “Gathering Information Necessary to Fulfill the Engagement”, have future cash flow needs; most obvious among them are retirement and education goals, but others may be relevant such as the purchase of a vacation home, travel expenses, life insurance needs computations, and many others. For each goal a capital needs analysis must be conducted. Tools in these areas often include spreadsheet analysis using sensitivity analysis and/or financial planning software using Monte Carlo analysis. In developing the recommendations these different needs must be ranked and coordinated, and a comprehensive plan must be developed that integrates all recommendations into a consistent plan.

In order to evaluate both the retirement and risk management goals, the data collected regarding employee benefits are important. Employers sometimes provide a plethora of benefits, including health, life, and disability insurance and a variety of retirement plans. It is important for the financial planner to obtain actual plan documents, as it is not uncommon for a client to have significant misinformation or gaps in knowledge about the specifics of their coverage and benefits. Investment analysis at this stage of the financial planning process usually consists of an overview of asset allocation. Also, a planner must determine if the allocation to asset classes provides adequate diversification, if the client does not hold any poorly performing assets, and if the strategies used in the past were appropriate. The intersection of the fourth domain of the financial planning process, “Developing the Recommendations”, requires a systematic coordination of the investment plan with the goals, to assure the optimal chance of success. Virtually all financial planners are, or should be, prepared to provide planning services for all of the aforementioned functions. However, there are three sets of considerations in which various planners may be expert or may choose to work with other experts. These areas are taxation, estate planning, and business planning. Of course, basic levels of analysis must be performed in these areas and should not be ignored. In many instances, the financial planner is the professional most intimately acquainted with the details of a client’s financial affairs and can be a valuable partner to the other professionals working for the client. The financial planner is necessary not only as a partner for the other professionals, but also as a partner to the client in order to ensure that goals are met. For example, the tax professional serves chiefly to minimize the tax burden on the client; however, it is possible that an action taken to minimize the tax burden will end up preventing the client from reaching his or her goals. The financial planner serves as the informed buffer to assist both parties in making better decisions for the client.
Although little empirical work exists within the financial planning literature regarding how planners do, or should, make recommendations, the process of formulating a recommendation has been widely studied in the operational research and medical field literature. Those working in the field of operational management have consistently illustrated how decision makers who face multiple-criteria dilemmas—such as financial planners—are best served when using a hierarchy recommendation development process. Saaty, for instance, argued that it is essential to do the following whenever a recommendation decision must be made: (1) represent the problem thoroughly, (2) maintain sensitivity to changing elements, (3) consider the environment in which the decision is being made, (4) identify issues and attributes that contribute to a recommendation (i.e., solution), and (5) identify the participants in the recommendation. He went on to point out the importance of “arranging the goals, attributes, issues, and stakeholders in a hierarchy.” In effect, Saaty argued that without a process or model even the most expert of decision makers may become overwhelmed with the complexity of the data inputs needed to make a sound recommendation. In addition, systematic models help frame recommendations by ordering data, issues, and environmental factors by magnitude. This systematic approach stands in stark contrast to most expertise models where intuition is often substituted for processes.

Oxman noted that whenever complex, multiple-criteria recommendations are being made, judgments about decision-making evidence and recommendations become complex. In the medical world, physicians and clinicians must, on a daily basis, make decisions about which data to incorporate into analyses; they must also look to models, past experience, manuals, and other source information documentation for evidence of suitability and effectiveness. Ultimately, as Oxman noted, those in the medical field are tasked with making recommendations that do more good than harm. Not surprisingly, the process of recommendation development within financial planning tends to mirror that of the medical field. Financial planners and medical clinicians deal with comprehensive situations. In one profession, cases are financial, whereas in the other the cases are physical or mental. When making recommendations, however, the process of thinking and acting tends to be quite similar in the two professions.

EVALUATING RECOMMENDATIONS

According to researchers at the British Medical Association (BMA), recommendations have one objective: namely, to facilitate decision making on the part of an individual or group. Within the domain of financial planning, this means helping clients take appropriate action. Recommendations are never universal. Rather, recommendations should always be based on individual case situations. Analysis of case data and situational factors requires financial planners to make trade-offs among benefits, costs, and harms. This is true regardless of the lens in which a practitioner views a client’s situation. The true role of expertise within financial planning involves the ability to evaluate the relative value to the client that different recommendations create, as well as the commensurate trade-offs associated with that recommendation. Fortunately, this type of expertise can be marshaled through both experience and training. Oxman and his associates at the BMA noted that decision makers ought to consider the following five factors when evaluating recommendations:

1. Given the trade-offs made, the impact of the primary outcome.
2. Confidence intervals around the estimated outcome(s).
3. The quality of evidence underlying the recommendation.
4. The uncertainty associated with the analytical framework of the recommendation.
5. The risk that other factors could modify the extent and impact of the anticipated outcome(s).

Using these criteria and a systematic recommendation process, such as the one advocated by Saaty, can help financial planners address a key question asked by clients—is a particular recommendation the best course of action to take? Rather than relying on intuition, gut feelings, or heuristic judgments as the basis for an answer, financial planners who consider the BMA criteria can provide clients with a more thorough and integrative answer. In doing so, they will also produce important documentation that they are acting with the client’s best interest in mind.
Implementing the Financial Planning Recommendations

How financial planners implement the financial planning recommendations largely depends on their business model, where they are licensed and/or registered, their support and resources available, and the scope of the engagement they have agreed upon with the client. For example, if the financial planner is insurance licensed, he or she can write the insurance products; if not, the planner may outsource that activity to someone who is licensed. Or the client may already have an insurance agent that he or she prefers. For portfolio selection and implementation, if financial planners are licensed, they may have an array of products available through their broker-dealers. The account is held by the brokerage account and the client cannot buy or sell in that account unless it is through the financial planner. Similarly, if the planner is fee-based or fee-only, he or she may work through a custodian, who will hold the assets in the client’s name. The client will often be asked to sign a limited power of attorney authorizing the custodian to accept the adviser’s trade instructions and possibly allow billing for fees directly from the account. Before financial planners begin the implementation process, they should be certain that they have the appropriate licenses and registrations in place, including state license, Securities and Exchange Commission (SEC) registration, and/or Financial Industry Regulatory Authority (FINRA) registration.

It is wise to prioritize the recommended actions so that those tasks that have some urgency about them will be accomplished first. Clients without wills, for example, are at greater risk of dying intestate. The financial planner may want to put this task before assigning the client to open a 529 savings plan for her five-year-old. While saving for college should be done, it does not take priority over a more major exposure.

It is important to view the implementation process from the client’s perspective, particularly since there will be many responsibilities that the planner will direct but the client may need to execute. The personal financial planner is not typically an attorney, so he or she will not be drafting any legal documents. But the planner can make important recommendations that the client can take to an attorney to complete. The planner may not be preparing tax returns, but certainly can give an opinion about tax-saving strategies that the client will want to discuss with a CPA.

The following is a five-step process the financial planner may want to follow to complete the implementation plan:

1. Meet with the client to review the implementation process. Explain what action steps are required, including reallocating assets, opening accounts, or arranging for appointments with outside experts.

2. Reconfirm all future planned actions. Ensure that the client understands all the recommendations and how they will be accomplished, even if some of the steps are scheduled to be performed at a much later date.

3. Review the timeline. Estimate the time it should take to accomplish each action in the implementation plan. For example, if in past experience it has taken three weeks to open accounts and transfer assets, be sure to discuss this with the client to ensure that his or her expectations are being managed from the beginning of the relationship.

4. Introduce the client to appropriate firm personnel (e.g., operations, any assistants, and other management). Clients who are familiar with all firm personnel will feel more comfortable in calling or visiting the office.

5. Send a follow-up letter confirming and documenting the implementation process. Each time the planner discusses anything with the client, it is a good idea to get in the habit of documenting the conversations so that miscommunication or misunderstandings can be minimized.

It is recommended that the financial planner meet or talk with the client frequently during the implementation process to confirm accuracy, answer questions, and allay fears. It is often at this time that clients may experience some buyer’s remorse if they feel they are not consistently informed of the implementation progress.
Monitoring the Financial Planning Recommendations

There are two types of reviews of the status of a financial plan: regular reviews and episodic reviews. Regular reviews occur at predetermined intervals; episodic reviews are triggered by a major change in circumstances.

The interval between regular reviews depends on a number of factors. The first is the complexity of the plan. The more complicated a client’s situation is, the more likely it is to change and the more often it should be checked. Second, the volatility of the client’s circumstances is an important factor in the frequency of reviews. If a client enjoys more stable circumstances, a longer period between reviews is acceptable. A third determinant of the frequency of reviews is the value added of a review relative to its cost. The client must see that an additional review is worth more than it costs. In general, annual contracts along with annual reviews are the norm. That is partly because in some jurisdictions investment advisory contracts must be renewed every year, and partly because that frequency meets the need of most clients. However, planners should remember that failure to initiate an episodic review or a more frequent regular review when necessary can result in a serious and unnecessary failure of a plan.

It is essential that clients explicitly understand that when their circumstances change in any significant way, they must inform the planner immediately of the change. The planner must then determine whether this change should result in an episodic review or it can wait for the regular (usually annual) review. This close and very personal working relationship is absolutely essential to the smooth working of the plan. If the client becomes pregnant, gets laid off, receives a large and unexpected bonus or gift, or encounters a chronic illness, this event can have a huge and confounding effect on a financial plan.

What techniques can ensure that a planner remains current with a client’s life changes? First, planners should always inquire about changes in the life circumstances of the client during regularly scheduled periodic reviews. Second, planners should actively receive and read local community news publications. Third, planners can encourage clients to report life-changing circumstances through e-mail or online submission pages, or by telephone.

Both episodic and regular reviews should include an analysis of changes in the economic or business environment. Many financial plans are written using financial planning software. Financial planning software often contains explicit economic assumptions regarding interest rates, market returns, inflation, and others. Often software providers use assumptions equal to historical averages (e.g., of interest rates or rates of return on indexes). Planners may have no disagreement with using historical averages as the basis for their plans. However, as a professional, planners have a duty to evaluate the wisdom of merely assuming the future will be like the past. If the planner believes that more aggressive or conservative assumptions are needed, or that economic and business conditions validate a need for varying the assumptions, he or she has the responsibility to adopt them.

Often, reviews of the investment component of a comprehensive plan are handled somewhat differently than other aspects of a financial plan. Typically, reviews are often provided monthly or quarterly. Investment reviews virtually always show the changes in value of each of the assets held. This is not what is meant by monitoring the investment performance in a financial planning sense. Periodically (annually may be acceptable in some cases), a planner must adequately determine the performance results of investments held within the plan. For actively managed stock and bond funds, professional standards require the planner to adopt one of a number of appropriate professional risk-adjusted and intertemporal performance measures at least annually. Further, the planner needs to regularly reevaluate the optimal asset allocation targets and asset location for each of the client’s asset category holdings. This latter concern is true even if the planner’s method stresses passive management.

The basis of monitoring plan recommendations results from the dynamic nature of all components of a plan: the life of the client; legal, business, and economic environments; and other exogenous variables. The plan is not a book to be acted upon and then put on a shelf. It is a living, breathing mechanism to adapt the client’s objectives to fit the ever-changing world.
3. The financial planning process can be found under the Guide to CFP® Certification: www.cfp.net/become/experience.asp.
4. www.cfp.net/learn/standards100.asp.
13. Ibid.
16. Ibid.
21. Ibid.