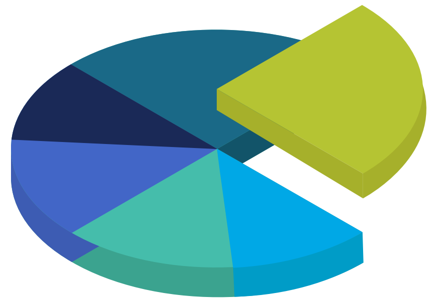
eMoney

Applying the 7 Step Financial Planning Process

Improving Outcomes and Driving Growth

Comprehensive financial planning services represent a significant growth opportunity for financial advisors.



In 2019, the industry's regulatory assets under management (AUM) grew $1.2 trillion, or 1.4 percent, from $82.5 trillion to $83.7 trillion, continuing a decades-long trend of AUM growing faster than the U.S. economy[1]. Since 2001, AUM in the U.S. has grown 279 percent, a compound annual growth rate (CAGR) of 8.2 percent, compared to the 94 percent growth (4.0 percent CAGR) of the U.S. Gross Domestic Product (GDP).

This growth in assets is occurring at the same time as a historic transfer of wealth—76 percent of RIA clients are 50 and older[2]. As these clients enter the peak accumulation and disbursement phases of their financial life cycle, a younger client segment in need of financial advice will emerge.

While robo-advisors have received a great deal of attention as industry disruptors who threaten to capture growing market share, this hype has been inflated, according to Aite Group. At the end of the third quarter of 2019, robo-advisor platforms only managed $283 billion in assets—only a small fraction of overall AUM[3].

Automated advice platforms can't quite replicate the productive relationship an advisor can establish with clients. A recent study showed that RIAs believe transparency, customization, responsiveness, and active listening are the most important drivers of client acquisition. Another study showed that CFP® professionals' annual median revenue is 46 percent higher than non-CFP® professionals, with 40 percent higher annual median revenue per client[4].

Technology itself is not bad—it must be used in a way that both increases efficiency and enhances advisors' ability to develop strong relationships. Financial planning software is widely used by advisors to improve planning productivity and personalization, in turn helping them comply with each step of the financial planning process.

Following the practice standards set in the CFP Board's seven-step financial planning process, advisors can provide clients with transparent, holistic views into their finances. The seven-step model represents a complete workflow that establishes productive, long-term relationships. When faithfully executed, clients will view financial planning as a collaborative process that's intrinsic to achieving their life goals.

01 Understanding the Client's Personal and Financial Circumstances

The relationship between financial advisor and client is not easily comparable to other business relationships because it focuses on money and goals, which are deeply personal. The first step in the financial planning process is to have a broad discussion about a client's personal and financial circumstances.

This information may include the client's health and life expectancy, their life goals and risk tolerance, their earnings potential, their assets and liabilities, or any other bit of information that may impact a financial plan. Obtaining and analyzing this qualitative and quantitative information means you must take a collaborative approach to build deeper client engagements.

You need to understand a client's broader life circumstances to deliver truly impactful financial advice. Without knowing the full picture, you may make recommendations that negatively impact another area of your client's financial life. The CFP Board altered the first step in the financial planning process to reflect this reality when they changed the previous six-step process to the current seven-step process.

Productive relationships hinge upon an advisor's ability to deliver financial advice that guides clients towards their true life goals. Often, having a client portal within financial planning software, where you can view a client's entire financial picture in one area, as well as a space to safely and securely share documents, is key to making recommendations in the client's best interest. With client portal technology, the client also gets deeper insight into their financial situation. They benefit from more personalized planning in this way, but they're also empowered to share more information with you from the start of the relationship.

Only after understanding your client's broader life circumstances can you identify their most important goals and create a personalized plan to get there together.

CREATING VALUE AND NEW REVENUE STREAMS WITH FINANCIAL PLANNING

Bill Simonet, CFP® and principal advisor of Simonet Financial Group, decided to double down on financial planning to better serve his clients.

Simonet worked to streamline his tech stack in a way that facilitated comprehensive financial planning services, as well as additional coaching and persona CFO services, to help his firm stay ahead of the curve and offer unique value to clients.

"I think planning provides a much bigger overall return [for clients]," says Simonet.

After implementing holistic financial planning at his firm, Simonet was able to more than triple his planning fees. He was also able to drastically enhance the value he offered, and clients were seeing improved financial outcomes. Planning has been the primary growth vehicle for Simonet's business.

Read the full case study on Simonet Financial Group here.

Bill Simonet
Principal Advisor

02

Identifying and Selecting Goals

To build on the foundation you've created in the first step, this is where you'll start to get more specific about what your clients hope to achieve. Step two represents an opportunity to strengthen client relationships for more productive, long-term engagements.

After understanding a client's personal and financial circumstances, the next step is to identify potential goals with the client. This begins with an open conversation about your assessment of the client's circumstances. From there, you can get into the details about short-term and long-term goals, as well as a general discussion of how they could be funded. Once you're both on the same page, it becomes much easier to identify goals that are achievable and best serve your client.

Working closely together, potential goals must then be selected and prioritized. This is where you'll begin to understand where your clients want to be financially and what you can achieve together. By collaborating in this way, you'll also begin to understand what's most important to your client on a personal level.

Some financial planning software solutions allow you to create detailed notes of concrete, prioritized goals to guide the relationship. These can be used alongside robust goal planning tools to incentivize further engagement, as well as for transparency, allowing your clients to see the power of your plan. At this point in the relationship, you're getting to the heart of what your clients want and working to find a path towards their most important goals in life, drastically increasing the value you provide.

Advisors who complete this step in the process and maximize their value to the client are likely to engage their clients in more productive, long-term relationships, while their clients benefit from improved, holistic advice.

03

Analyzing the Client's Current Course of Action and Potential Alternative Course(s) of Action

By now, your clients have opened up to you about their personal and financial circumstances, and together you've chosen their most important goals in life. Now it's time to weigh this information against their current situation and determine the client's progress in achieving their goals.

Step three establishes the connection between good information and successful goal-setting, which is the heart of comprehensive financial planning. This is where you explore if and how clients should proceed to achieve their goals.

It's important to closely evaluate the material advantages and disadvantages of a client's current course of action to illustrate why certain changes may be necessary. Your expertise as a financial advisor is key in this step—you must also evaluate any alternative courses of action that will maximize the client's chances of achieving their most important personal and financial goals.

There are many different aspects of a client's circumstances that must be evaluated in this step and having access to robust financial planning software will help you dive deeper into all courses of action. Cash flow planning, for example, is a foundational aspect of most financial planning solutions and it's an essential part of understanding current vs potential progress towards goals. Monte Carlo analysis, which determines the probability of a financial plan's success, is essential in evaluating different courses of action. Maintaining up to date financial information from all financial institutions, getting insight into budgeting, and monitoring reports that detail a client's situation are vital in assessing all courses of action. Financial planning software that offers transparency into the details of these various reports, maintains multiple scenarios, and has different planning techniques lets you look at a client's options from all angles.

All of the information collected and analyzed in the first three steps will serve as the basis of your financial plan. At this point in the relationship, you'll be fully versed in the client's current and potential financial outcomes, best positioning yourself as an invaluable partner in their effort to achieve their true life goals.

Developing the Financial Planning Recommendation(s)

From all the potential courses of action identified, now you must select a recommendation or multiple recommendations that will best serve your client in achieving their most important goals.

The most recent version of the seven-step process explicitly separates the responsibilities of developing and presenting financial plans. This is first and foremost to reflect the reality that at many firms, the same person may not be developing and presenting the plan to the client—both are now accountable in complying with the seven-step process. Separating plan development and presentation also underscores the importance of both in delivering impactful financial plans.

Financial planning recommendations should scale to clients' needs and address their deepest concerns. Maintaining multiple plans and alternative scenarios, having a large library of planning techniques and options, and having the ability to show clients the tradeoffs and benefits of each scenario is the key value that a planner brings. Having planning technology with these capabilities increases efficiency, but it also allows clients to understand your recommendations in an easy-to-follow, engaging, and interactive way, which can make the planning process more consumable for the client.

Your recommendations may require clients to re-prioritize or sacrifice certain aspects of their current lifestyle. For better buy-in from clients, it's important that recommendations balance the real with the ideal. Formulate recommendations that balance the client's preferred outcomes with his or her ability and willingness to achieve them.

It can also help to make multiple recommendations, showing clients how their decisions impact their financial outcome—this can be deeply empowering while encouraging clients to shoulder their share of responsibility in achieving their goals.

Presenting the Financial Planning Recommendation(s)

The presentation of your recommendations helps shape the perception of your financial plan, as well as your trustworthiness as an advisor.

Presenting planning information in a meaningful way can help steer clients to the decisions that strike the optimal balance between their goals and constraints. Thoughtful and understandable presentations will continue to solidify the trust you've been building with clients in the first four steps of the relationship.

When presenting plans, you can further establish trust by demonstrating your transparency, especially for items the CFP Board deems as necessary considerations when developing a financial plan, including:

- The assumptions and estimates used to formulate recommendations
- The basis of the recommendation and how it is designed to help your clients achieve their most important goals
- The timing and priority of the recommendation
- Whether or not the recommendation is independent or must be implemented with other recommendations

Financial planning software typically has multiple interactive tools for advisors to leverage in client presentations. These tools can take client input and recalculate projections in real-time, allowing clients to witness the financial impact of their life decisions while helping advisors tell a more dynamic and personalized story.

An interactive client portal, where clients can do their own tracking and monitoring, can make this step of the process much more engaging for clients as well, helping deepen their commitment to the plan while strengthening their trust in the validity of your recommendations.

06 Implementing the Financial Planning Recommendation(s)

Once you've agreed on a realistic path forward, implementation will depend on the nature of your recommendations. This could involve guidance in the form of referrals to other professionals (e.g. legal, tax, or insurance) or action (e.g. configuring direct transfers or investment management). Either way, there will likely be follow-through required by both you and the client.

Advisors need to orchestrate everyone's efforts, including:

- Addressing implementation responsibilities
- Identifying, analyzing, and selecting actions, products, or services
- Recommending actions, products, or services for implementation
- Selecting and implementing actions, products, or services

Assigned actions need to be clear and specific with concrete timelines. It's a good idea to include meeting dates in your implementation schedule from the start. Determine the best way to communicate these action steps with your client. Will you be working through a paper presentation list, email or text reminders, or an online portal?

A pre-determined and concrete strategy to implement recommendations will help increase the likelihood that clients and third-party professionals execute their respective planning responsibilities on schedule. Clearly communicating next steps, including educating clients on how they can best serve themselves in achieving their goals, helps bring financial planning recommendations to fruition, in turn improving the value of your advice.

07 Monitoring Progress and Updating

Comprehensive financial planning is a long-term engagement that takes significant time from the initial interaction to the end results.

The seventh and final step of the financial planning process is ongoing, spanning the length of the engagement with the client. Advisors have a duty to assign monitoring and updating responsibilities, as well as monitoring client progress towards goals, keeping both qualitative and quantitative information up to date, and updating the client's goals, recommendations, and implementation decisions.

Financial planning software can help you stay up to date with all your clients. With client site and advisor site alerts and tracking, both parties can see goal progress and items such as spending and investment transactions, connections that bring over holdings, and asset allocation. These kinds of details are essential for you to monitor a client's success. Analytics tools can extend this capability, allowing you to track clients across your book of business and even identify areas of opportunity.

As clients' financial lives evolve, you'll need to discuss any changes to their goals and their ability to achieve them, gather and assess information, and make recommendations on how best to move forward. This creates meaningful experiences that help clients achieve their financial goals, while helping advisors retain clients and grow their businesses.

Staying attuned to changes in your client's circumstances and proactively adapting financial plans helps cultivate deeper, long-term relationships that clients view as essential to meeting their life goals.

Conclusion

Comprehensive financial planning represents a major opportunity for financial advisors to acquire and retain clients and grow their businesses. Total AUM in the U.S. continues to grow amid a period of enormous generational wealth transfer, presenting a unique opportunity for advisors.

Financial advisors are well positioned to grow their businesses and offering comprehensive financial planning services is a promising way to capitalize on emerging trends in the industry.

Modern financial planning technology plays a major role in delivering the personalized, impactful advice the drives long-term, productive relationships between advisors and clients. This kind of technology helps comply with each step of the CFP Board's financial planning process, in turn helping advisors best serve their clients.

When the seven steps are followed faithfully, clients can achieve their true life goals. Developing close relationships with clients improves their personal and financial outlook, which in turn drives retention and growth for advisors. The seven-step financial planning process is your way to becoming an indispensable part of your clients' financial lives.

SOURCES

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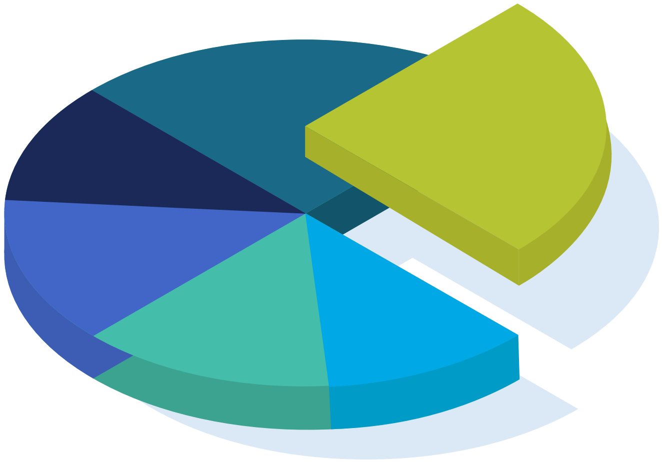

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