ALL ABOUT
FINANCIAL PLANNING

THE FINANCIAL PLANNERS' GUILD, INDIA

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About The Financial Planners' Guild, India (FPGI)

The Financial Planners' Guild, India (FPGI) is an association of Practicing Financial Planners/ Advisors who are also SEBI Registered Investment Advisers (RIAs). We create Financial Planning awareness, promote professional excellence and ensure high-quality practice standards.

Website: www.fpgindia.org

Email : teamfpgindia@gmail.com

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What is Financial Planning?

Ever wondered how you plan when you go for a holiday 1 year ahead. You first identify the budget of the trip within your available resources. Convinced that you can fund the estimated amount, you start searching for the right location. You plan out in detail how the money will be spent during the stay of your vacation. In case of any shortfall in the funds, you cut down on the budget of your vacation. You then plan out the map to reach there. Finally, you book your stay and travel in advance so that you do not face any problem during the vacation. A day before travel, you start packing your bags so that you do not miss out anything. Lastly, you also take measures to accommodate any change which cannot be predicted but may occur during the trip. So much planning for a 3-4 days holiday!!.

This whole journey has answers three basic questions of life –

- How much money is required for the destination which you have to reach in future?
- How will the money be spent during the journey?
- What will you do if there is any change in situation which you cannot foresee today?

Financial Planning is also linked to planning for our future. Much like we prepare for a holiday trip, financial planning helps in preparing for those situations in life which we cannot foresee. Through this approach, we aim to provide sufficient funds for the right time to make our life simpler.

Why is Financial Planning Necessary?

Our life goes through various changes, and as the time is progressing, we humans have to deal with many complex scenarios.

Some of the risk which arises in one's lifetime are-

1. **Longevity Risk**- The life expectancy has been increasing. From an average life of 65, a normal Indian is living beyond 80 now. This increasing in life expectancy has increased the risk too, especially when you are not fully prepared. A life of 20-25 years post retirement is almost 70-80% of your working lifespan. The guaranteed retirement benefits have been on the downward trend and so have been falling short of meeting livelihood expenses during these golden years.
2. **Higher Inflation**- The inflation has been in the range of 7-8% since 1969. More than this the education inflation has been at an astonishing rate of 10%. When you have to deal with both scenarios, living becomes more complex.
3. **Higher Interest Rates**- One will experience scenarios as existing one where interest rates have risen. Higher loan EMIs have made even managing the home budget really difficult. Unprepared, it forces families to cut even on necessary expenses.
4. **Late Start**- Individuals are marrying late now, and so the birth of children has been late in life. This delays the responsibilities to even post retirement years where one aspire to be non-working.
5. **Frequent Change in Laws**- We see it every year that government has tweaked the taxations structure or benefits under different tax sections. This makes planning difficult as you need to adjust with tax laws so frequently.
6. **Entrepreneurship**- Has been rising phenomenally in our country and so there is a shift from regular income to irregular income.

All these situations are everyone's plea and not only faced by the rich. Lack of planning and actionable, starting late to reach your goals and along with its lack of knowledge & experience can make realizing dreams difficult.

What is covered in a Financial Plan?

Following are the contents which a financial plan covers comprehensively-

1. **Current Financial Status**-Here, a deep analysis of cash flows and net worth, is done to find out the status of financial health. The objective is to find the problems surrounding the cash flows. It can be related to loan liabilities, uneven expenses or insurance premiums which may have been hurting one's ability to save.
2. **Emergency Fund Planning**- Emergencies like job loss or sudden hospitalization due to health problem can arise in your lifetime. If not prepared, it can drag you few years behind. Through emergency fund planning, such concerns are addressed in detail.
3. **Debt Management**- In today's scenario, most of us have some or other loan liabilities. When we are not prepared well, rising interest rates can make it difficult to meet both ends due to increase in the liabilities. At times it can cause damage to your credit record. Through Debt management, an effective strategy is laid down to bring them under control.
4. **Risk Management**- Here, various kind of risk are identified based on ones work profile and living standard. The risk can be a high probability of accidents, medical problems, no insurance protection and many others which can interfere with the financial plan.
5. **Insurance Planning**- Once we have identified the different risk involved, we look at covering those risks through insurance planning. A detailed analysis is done through various methods to identify the amount of insurance coverage appropriate for giving protection to self and the loved ones. Then suitable insurances are recommended to cover these risks.
6. **Investment planning**- Here, a detailed evaluation is done on your risk taking ability. Based on the analysis and time horizon required for meeting various goals, an investment strategy is planned to reach them. The strategy is focused on asset allocation, and various avenues are selected which will match the specific requirements. Existing investments are analyzed in detail to allocate them for various goals.

7. **Children Future Planning-** Assessment of child future needs is essential considering the inflation with which education cost is increasing. What will be the corpus required for education at higher age or child marriage is the main thrust in this planning. Also, various investment and protection resources are identified to address the child future needs when he/she grows up.
8. **Retirement Planning**- The golden years of life, it involves the realistic estimation of post-retirement needs when you will not be working. The special issues you might face pre & post retirement are addressed in retirement planning. These mainly comprise impact of inflation, risk of longevity, right savings and investment and the corpus required for a comfortable retirement life.
9. **Tax Planning**- Through this exercise, tax planning strategies are identified which can help in maximizing one's take home income. Personal tax issues, deductions to avail tax benefits and advanced tax planning strategies are areas which are addressed through tax planning.
10. **Estate Planning**- How your wealth should be distributed among your loved ones? What is the right way to protect your accumulated wealth- writing a will or creating a trust? These are some of the concerns which get addressed in estate planning.

Along with this, the financial plan helps in addressing many short term requirements which may be on your priority list.

COMMON MISTAKES WE MAKE WITH OUR FINANCES

One of the most common areas in which people are bound to make mistakes is in the personal financial space. Here is a list of the most common mistakes we all make during our lifetime, the early awareness of which can help us take corrective steps to limit the damage it may cause.

1. **Failure to start saving at an early age:** For most, the earning career starts in the twenties, but it's only a few years later that the reality strikes home that there are not enough savings. Most of the income goes towards expensive gadgets, clothes and socializing especially with youngsters who have earning parents, which means that there is no pressure to contribute to the family's expenses.
2. **Not maintaining a budget**: Rather than spending what is left after saving, we try to save after spending only to realize that either very little or nothing is left. This can be avoided by making a list of your expenses and differentiating between what you really need and what can be avoided.
3. **Not setting financial goals:** We may all want to buy a house /car or go for a foreign vacation, but we don't know "When it is to be achieved" and "How much it will cost." Due to these ambiguities, our goals are not clear, and therefore we are never able to achieve our goals, or rather they get delayed since we haven't prioritized them and haven't really started saving or investing for that purpose.
4. **Taking on too much debt:** With the advent of credit card and "easy EMI's," it's not uncommon nowadays to find people buying so many gadgets and expensive things, which they may not really need nor can afford. Instant gratification is the mantra nowadays. Don't buy things on loan which depreciate like expensive LCD televisions, latest hi-tech mobile phones, expensive cars, etc. but rather take a loan for buying an asset such as a house. See to it that your total EMI on the house does not exceed 40% of your monthly take home, and maintain only 1 credit card, and that too for

emergency, and don't develop the habit of paying the minimum balance lest you may have to pay an interest of nearly 35 to 40% p.a on your outstanding.

5. **Not maintaining a contingency fund**: Maintain at least 3 months of your monthly expenses in either a separate savings account or flexi- Fd account. If you have dependent parents or health related issues with your family members, who are not covered by insurance, then you need to maintain some more amounts, preferably in a liquid mutual fund or a flexi fixed deposit.
6. **Ignoring insurance cover:** Don't rush in to invest your money unless you have covered yourself for your disability, health and life insurance needs. Insurance certainly cannot prevent the loss, but it can at least compensate your financial loss.
7. **Investing in products without linking it with your needs**: Don't fall into the trap of high returns or fast returns unless you can establish a link between those returns with your financial goals. Investing in equity when your goal is just 2 years away can be very risky. Similarly, don't buy any insurance product pushed by an agent or relative just to meet their targets or believing it as an investment. Evaluate the same with your goals and then take a call.

WHY IS Financial Planning Required?

You plan your holiday; you get an architect to make a plan to build your house, you ask a trainer to design an exercise schedule for you, a doctor plans a course of treatment for his patient. Every action is backed by a plan. Similarly, every financial decision should be backed by a plan.

1. Financial Planning provides a framework for you to take optimal actions in your financial lives. At all points in life, a financial plan will guide you to the correct course of action. Anytime when you want to make a financial decision which can affect your cash flow or your goals, the plan will help you make the best decision. Let us say you have an attractive opportunity to buy a plot of land. The offer seems too tempting. You can refer to your plan/planner and check whether this purchase will fit into your portfolio, how it will affect your cash flow, taxation, and achievement of goals. If you already have a huge chunk of your assets in real estate, it might probably be unwise to buy the plot. Similarly, if you are using an amount earmarked for some other goal, it might affect the completion of that goal. The plan is like a pole star always keeping you on track in your journey towards your goals.
2. A financial plan can help you find out errors that you have made over a period of time. If you have certain products in your portfolio which are hampering your goal achievement, you will be able to figure out from a plan. If any investments are creating obstacles in your cash flow, you will know. Once these roadblocks are identified, you can get to a solution which can help you get rid of them in the best possible manner. Many people keep idle money in the savings account, or low rate fixed deposits while at the same time pay huge rate of interest on personal loan or credit card outstanding. A simple action of repaying the loans by redeeming low yielding assets can streamline cash flow, free up a lot of cash for investments and give you peace of mind. Thus, when the cash flow is smoothened, and mistakes are weeded out, your chances of reaching your goals are definitely higher.

3. When you have things planned for major life events, you are relaxed and stress-free. Imagine not having to worry whether you will be able to fund your child's higher education or go for that international holiday that you had promised your wife for your tenth anniversary! You are able to concentrate more on your job/profession, be more productive, give more time to your family and generally enjoy a better quality of life. These are the intangible benefits of having a financial plan in place. But it is essential that the plan is implemented as scheduled, else it will be of no use.

Is it meant for you?

Financial planning is a need for everyone. Only the form and focus of planning is different for each individual.

Rajiv has just started working with an MNC. It's his first job and the first taste of freedom for him, being in a new city all by himself. Managing finances is nowhere on his mental radar. His financial plan would need to be guidance-oriented. He would in all likelihood have an education loan to repay, would be aspiring to buy a car and/or property. So what should he do? Pre-pay his loan and gets debt free, or start investing for retirement, or start saving for a downpayment on the property. These would be confusing questions for Rajiv. His decisions would swing based on advice from his parents and would get affected by the behavior of his peer group at work. Professional guidance from a planner at this time can keep him from making expensive mistakes in financial life and set him on the right path to live his life the way he wants.

Soumitra and Shefali are young parents. Their little angel Siya is just about two months old. Shefali has taken a career break to bring up Siya. They dream of moving into an upmarket gated colony where Siya can enjoy her childhood. They have only recently moved from the DINKS category to being a single income household, so back of the mind money worries are there. They would need a reassurance that whatever they have planned for their current requirements will not affect their long-term goals of Siya's education and their own retirement. They will be taking stock of where they stand today and what can be done to ensure that they move smoothly ahead toward their goals.

Rajesh and Amrita will soon have their twin sons going to college. They have diligently worked to ensure that they are ready for this day. Now, they want to ensure that they are completely ready for the goal and then look at the further goal of their own retirement with much more seriousness.

Pratik is retiring in five years, and Ritu is six. They are empty nesters; their only daughter just got married. They want to ensure that they never become dependent on her and wish to leave her a decent legacy. They will soon be entering a phase where they will reap the benefits of their hard-earned money saved and invested over so many years. They will finally have the time to pursue their hobbies at leisure. They want to ensure minimum money related hassles when they retire. They also want to ensure that whenever one spouse is left alone at the death of the other he/she is well taken care of financially for the rest of the life. All this requires more of distribution and estate planning focus. This would not be the case with younger families where the members are still earning.

Similarly, there would be different needs for single people, divorcees, widows/widows, young inheritors, business people, and professionals. Each person has dreams, and the job of the financial plan is to give form to those dreams and help clients make their dreams real.

But why move from FREE to FEE advice?

“There are no free lunches” - is an old saying but that is the first thing to leave our mind when we hear or read the four letter word FREE in any aspect of daily life. Personal finance is a gray area wherein we Indians are very poor decision makers as most often we are susceptible to free advice coming from every nook and corner. We always are bothered about the immediate results and never give a thought to the future outcome of our current decisions.

India has long been a “Land of Savers” with Savings rate touching 37% but is yet to graduate to “Investors.” The Financial Literacy level is still very low with the government shooting out of the roof to stop the purchase of physical gold as the fiscal deficit is getting larger by the day. Insurance companies are trying to push products with returns which cannot even match the inflation rates, but customers are still obliging them. People are buying on credit cards and paying minimum balance without even understanding the intricacies of the same. The word free plays a vital role in financial decisions given above as the life insurance agents don’t charge any fees but are agreeable to Pass-back of commissions with some even go to the extent of paying the first year premiums. Credit cards are offered with the Lifetime free with zero annual fees sales pitch which makes it a very lucrative and unavoidable offer.

Certified Financial Planners provide financial plans based on the clients’ financial data and his/her goals after taking into consideration the effect of inflation, his existing investments, and risk profile. They charge a fee for their plans as it is a customized one for him and will not be available readymade. When we suffer from cold or minor fevers, we usually don’t bother to visit the doctor and follow the medicines prescribed earlier. We go to him only when the issue aggravates to serious proportions and cannot be eradicated with self-medication. We try to avoid paying him fees as we consider the problems as petty. In the case of finance, also we follow the same principle and feel that paying for financial advice is out of the question, as the agent is offering the same freely. The point is that he is getting paid by the insurance co and will be motivated to sell products which will earn him the highest commission while the client interest takes a back seat. For planners, as the client is supreme, so he gives client’s interest topmost priority. His suggestions or advice will be solely bearing his benefit in mind. The planners by virtue of their knowledge guide the clients to keep away from products which may be very lucratively designed, but the fine prints say a different picture. The planner's job is more like an architect when the clients come to them before they have committed some financial blunders and that of a doctor when they come after they have done the damage to their financials as then he needs to check and decide what should be removed from the portfolio. Financial planners play a fiduciary and unbiased role while taking holistic decisions on behalf of the client. The fees of commission-based agents and brokers are usually tied to specific products and transactions and thereby miss completely much of what clients need.

Who is a Financial Planner?

With a very basic and technical definition, a financial planner is a professional who prepares a financial plan for his clients. Now to get the actual meaning of financial planner, you should be able to understand what does a "professional" mean and what "financial plan" is? Let's start with a financial plan. A Financial Plan is a document which covers all the personal financial aspects of a person. It is a detailed evaluation of person's current and future financial needs and taking into accounts his income, expenditure, assets and liabilities; the finances are arranged so to help him achieve his goals comfortably. It involves the holistic view of personal finances. It doesn't only involve investment but also budgeting, behavioral adjustments, Estate planning, understanding of taxation aspects, etc. The process of doing it is called as Financial Planning.

The word professional has been derived from the word profession which as per Merriam-Webster is a "calling requiring specialized knowledge and often long and intensive academic preparation." You meet so many professionals in your day to day life as a doctor, advocate, a chartered accountant, etc. same way financial planning is getting developed as a profession which requires a detailed understanding of personal finance aspects and also there are special certifications like CFPCM which satisfies the requirement of academics.

So it would not be wrong if we relate the term financial planner with other professions. Like

A financial planner is an architect: Just like an architect designs the structure of buildings, keeping in mind the building by-laws, special requirements, aesthetics, Vastu, etc. the same way financial planner designs the financial life of the client, keeping in mind the taxation laws, lifestyle, risk management, and other special requirements. As an architect helps in the construction process also keeping in mind the structure designed, same way financial planner helps clients in the implementation process to be in line with the plan designed.

A financial planner is a doctor: Just like doctor advises and treats you on your Physical health, your financial health is taken care of by Financial Planner.

Financial Planners advises you on keeping a check on the debt levels, on proper asset allocation, make regular and systematic investments if required and also helps you keep adequately insured always. This is all to keep your finances always ready to face any kind of situation.

A financial planner is a coach: Coach or guide is a person, expert in his particular domain, who trains, teaches and helps in the development process in which individual gets support while learning to achieve a personal or professional goal. Same way a financial planner coaches his clients and guides him on his way to the achievement of his personal financial goal.

All this is important to understand because the term “Financial Planner” is being loosely used these days and any product seller is calling himself a financial planner, which is not correct. Financial planning domain is a much-specialized one, and you should beware of imposters.

Ongoing engagement and advice

Financial planning is important. It takes into account one's goals, financial situation and offers a blueprint for the client that they can start following, to get to their destination. But, this is one part. Implementing the plan is the next part. A client will be able to get value from a financial plan only if they are going to implement it and follow the advice given. Else, getting a plan done is of no use.

After implementation, the client would still have to be engaged. After getting the plan done and implementing it, the client may be assailed by doubts about what they have just done. Their friends and colleagues may be doing something totally different and to all intents, doing so very successfully. One may be investing in property with great results, another may be investing in Gold in a major way, and a third may be investing in unconventional assets, like commodities. This may cause the client to have lots of doubts about what they are doing, under the planner's guidance.

A good planner will hence offer ongoing engagement in terms of allaying fears and ensuring that they stick to the plan. It is easy to go astray, and we do find some of our clients going astray, in spite of our best efforts – like buying property when it was not planned for, abruptly diverting investments to gold or cashing out from equity assets as they fear the markets will fall. Apart from calls or meetings, the planner would also offer good reading material, from time to time, which helps the client to stay engaged and understand the important precepts of finance.

The clients also will need advice, from time to time. There are going to be small to big changes in their situation, over time. They would want to know what they need to do when there is a change, would want the planner to assess the impact and advise them on the appropriate course of action. The situations could be a change of assignment, an addition in the family, sudden changes in the extended family and the associated changes in financial situation, illness or other situations requiring a reassessment of their position, etc. It could also be as simple as advice on a new product, which seems suitable to them. They may want to know the view of their financial planner. Would he advise them to go for it? Such advice is very important as it helps the clients to stick to the right path to get to their goals.

Clients, who stay engaged with the plan and the planner, derive the maximum benefit out of the engagement.

Understanding what a planner delivers and their charges

A financial planner not only deals with the client’s numbers pertaining to his/her income or expenses but goes beyond that to deal with the emotions, fears, and anxiety.

a) **Role of a friend in need** – as the planner possesses details of the client's finances, he holds a unique position to judge his financials in an unbiased manner and treat his anxiety when the markets are unfavorable and control his greed when the tables have turned favorably. He also can pacify and reduce the fears in the mind of the clients through proper explanation of his concern. This can prevent the client to keep out of the vicious circle of hope, greed, and fear by taking prudent decisions. The peace of mind helps the client in increasing his/her productivity as the monetary concerns are handled by competent persons.

b) **Making the appropriate product choice** – Clients need to buy insurance for protecting the loss of future income and select investment products which can help in the achievement of their long-term financial milestones. Very often, clients get carried away by peppy sales talks and a high return promised by salespersons whose only intention is to make the sale of the product. The planner analyses the product in minute details and advises the client to take the prudent decision of buying or dropping the same. He considers the suitability of the product after considering the bigger picture and takes the holistic view of the clients’ financial status. He acts as an antivirus to the clients’ financial data and quarantines harmful objects.

c) **Increasing financial awareness quotient** – the planner in the initial days of the engagement also has to act as a coach for the clients as the financial literacy quotient is usually very poor and rising, it is one of the major concerns for the financial planner. Some of the common investing mistakes need to be rectified, and the thought process of the client has to be modified or directed to bring about the change in the mindset which will ultimately justify future actions. He has to teach the client to understand the fine print and between the lines. This helps the client from committing mistakes through impulsive decision making.

d) **Realistic evaluations –** the planner presents before the client the most realistic financial picture and demonstrates future projections calculated on rates pertaining to specific concern areas. Taking an average, in general, can backfire as different industries have different growth rates and so the future projections may be way off the mark if there is a difference of even 1% or 2% over the long term. He considers investment returns conservatively as over-optimism may dissuade the client from the investment process in troubled markets.

The Charges

The handholding (read role of a guide) that the planner does to take the client reach his financial goals is very hard to put in exact money terms on all occasions, and the best evaluators are those who have made a financial mess and has been resurrected by a planner. The awareness created by a planner if passed on properly by the client to the family members will prevent future mistakes. The charges of a planner if calculated put in proper monetary terms can be manifold from what his actual fees are as he makes the client follow the "Prevention is better than cure," as curing incurs both loss of income and cost of treatment.