

Wealth Planning Update

Financial Planning Fail: Preventable Planning Pitfalls

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In this Wealth Planning Update:

- » *Taking action to complete a wealth plan is an important first step to help achieve your future financial goals*
- » *A plan must be fully implemented and monitored to be effective*
- » *By fully implementing your plan and avoiding several key pitfalls you can increase your odds of financial success*

Congratulations, you finally did it.

You took the proactive step to develop a financial plan that aligns your family's goals for the future with some actionable advice. Simply taking this step is a major achievement as you begin to work toward, and ultimately realize the financial future you envision.

Despite having taken this important step to help solidify your legacy, there is still work to be done. Obtaining a written plan is much like signing on with a personal trainer; the real effort actually lies ahead. How can you align the correct resources and ensure you are tracking toward financial fitness and the success of your plan?

One good way is by learning the lessons of those who have gone before you. By analyzing some of the common pitfalls of failed plans, you can avoid them and realize the full benefits planning can offer.

Pitfall 1- The plan is never implemented

The surprising reason why a large number of financial plans fail is the simple fact that they are never fully implemented. Although advice was given the plan's recommendations were never executed so the solutions offered remained theoretical. Advice is great, but it must be coupled with action.

In our view, there are two main reasons that implementation may be missed. The first reason is related to the motivation of the planner. Some planners may be less interested in developing solutions to meet specific needs and goals and more focused on specific products. Such an approach can result in a short-term focus, where the more difficult aspects of the plan are left for clients to execute on their own.

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The second reason is due to the degree of difficulty in executing some plans. Coordinating the implementation of a holistic plan can be a complex and nuanced art. It frequently involves coordinating work between a CPA, Estate Attorney, Investment Professional and others. Success requires a deep understanding across multiple disciplines and a willingness to collaborate on solutions.

Recommendations

To improve the chances that your plan will be fully implemented, first understand how your planner is compensated. Ask how they benefit from product sales and understand their motives in every interaction. Being a commissioned sales person isn't a bad thing, but you should be informed and occasionally skeptical until you understand the motivations of anyone offering advice. If you have concerns, raise them.

It is also a good idea to fully understand what will happen after the final plan is built. Who is responsible for implementation? Is your planning provider willing to work with your outside advisors (Investment Professional, CPA, Estate Attorney)? What is the timeline for that implementation? Ask questions and hold them accountable.

Pitfall 2- The plan lacks ongoing investment management

Financial plans are generally tied to your investment portfolio, and they begin with assumptions about how that portfolio will be invested now and into the future. These are core assumptions of the plan. In order for the advice that underlies those assumptions to provide guidance, someone must actively manage those investments. This means re-balancing the portfolio to maintain diversification, updating your allocations based on changes to your risk tolerance over time and changes in your investment goals, and constant monitoring.

Investment plans are rarely "set it and forget it", which means a long-term relationship with an investment professional, can be an important factor in helping you stay on track. Plans that are modeled based on one allocation throughout the plan period, or offer very few specifics around ongoing management should be questioned.

Recommendations

Have regular goals-based discussions that include your relationship manager and investment professional. Make sure you understand the projections used in any analysis and weigh those against your risk tolerance and lifestyle needs. Ask how your allocation will be monitored and adjusted over time.

Pitfall 3- The plans goals begin and end with retirement

Some planners equate financial planning with retirement savings. While retirement calculators can run basic calculations and provide directional advice, they often miss the bigger picture. Potential retirees have to consider many factors beyond “how much will I need?” These include when to take social security, how to structure withdrawals during retirement, and others.

Simple calculators similarly discount the other components of a plan outside of retirement. Those can include wealth transfer, tax efficiency, estate and legacy planning, managing cash flows, among other considerations. Reaching a fully-funded retirement is an important milestone, but it is only that. An effective plan must address issues much more broadly or risk failure.

Recommendations

Work with a plan provider equipped to address the entire breadth of your financial life. Many of the best planners work in teams that can deliver advice about your entire balance sheet and bring on specialists as needed. Ask your planner how their practice is structured, about their credentials and their ability to advise about considerations above and beyond retirement accumulation strategies and investments.

Pitfall 4- Unexpected events

Perhaps nothing can derail a plan as quickly as an unexpected event. Examples include hospitalization or extended illness, lawsuit, divorce, or a downturn for a family business. While no level of preparation can account for all possibilities, a truly holistic plan takes risk management seriously and includes components to mitigate some common risks.

Risk mitigation may be as simple as restructuring asset ownership, having a buy-sell agreement on file or purchasing an umbrella insurance policy. Often a little proactive care taken in the structure of your assets or by leveraging insurance can help you stay on track to reach your goals, even if unforeseen issues arise.

Recommendations

Have a broad and deep conversation with your planner about your family’s unique situation. Ask about common scenarios that may apply to you and work to mitigate the risks that present themselves. An effective planner will have experience with families like yours, ask them for advice about unexpected events.

The Next Stage

A plan is a wonderful and powerful thing to help align your actions with your goals for the future. The true value of financial planning is realized however, when it is treated as an ongoing process rather than a onetime event. To do this your plan must be fully implemented, monitored over time and built to cover your holistic needs.

By keeping a few key things in mind during the construction and management of your plan, you'll be able to avoid some common pitfalls, track toward your goals, make adjustments, and ultimately arrive at your destination. Your Wells Fargo relationship team has a full range of solutions available to help you as you build, manage and track your plan. If you'd like to discuss which of these planning solutions may be right for you, please contact your Relationship Manager.

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