The Benefits of a Written Financial Plan

What is a Financial Plan?

You may have a place in mind to go, but you likely will need a map to get there. A financial plan can help identify where you want to go, determine how best to get there, and help measure your progress in getting to your destination. Specifically, it starts with summarizing your current financial picture, including net worth, investment portfolio structure, cash flow, income taxes, risk management (insurance), and your estate plan. Most importantly, the plan formalizes your main financial goals, and the information you provide is used to analyze your ability to achieve those goals.

A written financial plan is the framework to organize your financial information at a high level to determine if you are trending towards success in achieving your goals. It will not tell you what to do day to day, but it will address what is required to achieve long-term success. And the plan is always supplemented with the ongoing services of your accountant, portfolio manager, and financial planner who, as a team, will help you implement the steps to succeed.

A good financial plan will integrate all this information to address your goals regarding retirement, education funding for children or grandchildren, investment management, tax efficiency, estate planning and wealth transfer, business planning and succession, and insurance planning to protect your income and family as you progress towards your goals.

Leverage existing resources

You already use the services of your accountant, and possibly the investment services available through IAIC and your accounting firm's financial advisor. So why not leverage these resources by bringing IAIC's financial planning services into the picture? A written financial plan would bring the expertise and knowledge of your accountant, portfolio manager, and financial planner compiling your information, your personal goals, and constructing a document to help chart you towards achieving your objectives.

Identifying your lifestyle needs

Your lifestyle income needs are frequently the key in identifying one of the most critical goals of a financial plan – "will I have enough to retire?". To first answer that question, you need to determine what your current after-tax "lifestyle" need is. Your financial team can run through a simple exercise with you to find this number, but it is essentially the following simple equation:

CURRENT INCOME (Personal)	
Gross Annual Income (before tax)	**Total**
Salary	-
Self Employment Income (taxable)	145,000
Private Company Dividends	-
Rental Income	5,000
Other Income	-
Total Income (A)	**$150,000**

CURRENT OUT FLOW (Personal)	
Annual Expenditures & Savings	**Total**
Debt Payments	15,000
Savings - RRSP	20,000
Savings - RESP	5,000
Savings - TFSA	-
CRA (income taxes, CPP/EI premiums)	40,000
Other	-
Total Out Flow (B)	**$80,000**

Current After-Tax Lifestyle Need (A-B)	**$70,000**

It literally takes just a few line items to determine the total amount you are spending on lifestyle – your home, groceries, food, vehicles, vacations, restaurants and everything else. You simply take your taxable income, net out the amounts you aren't "living on", such as income taxes and personal savings, and the residual is the figure you spend annually to support your current lifestyle. This is an excellent starting target for your retirement needs, and is often the figure used in our long-term retirement modelling, adjusted for inflation annually.

Getting started

Getting started is easy – your accountant already has much of the information we need to work on your plan. They have likely known you for years, so there is the advantage of already understanding your financial picture, including your tax situation. A quick meeting with the financial advisor is generally all that would be needed to flesh out the additional information needed to begin your plan.

Taking the first step is always the hardest, but with the existing relationship with your accountant, you are already half-way there.

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