The Missing Pieces of the Financial Planning Puzzle

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Are you a true financial planning professional or are you one of the thousands of practitioners who call themselves financial planners, and yet, prepare plans with “missing pieces”? As kids, we all experienced putting together jigsaw puzzles. Sometimes we had a puzzle with missing pieces and that was very frustrating. Unlike child’s play, however, when you are designing a financial plan, the purpose of which is to assist your clients in reaching their life’s goals in the financial and life planning arena, you cannot afford to have any missing pieces. After this session, you will have all the pieces you will need to be a true professional, and it will be up to you to use them correctly in serving your clients.

What exactly is a financial plan? When you talk to your clients about financial planning, are you both speaking the same language? When you present your value proposition to your client, which includes your offer to prepare a comprehensive financial plan for her or him, are you truly prepared to deliver what you are promising?

I first became aware of the term financial planning shortly after completing my MBA in May, 1985. At the time the only place where you could learn the art and science of financial planning, and earn a professional designation for your efforts, was through coursework available exclusively from the College for Financial Planning. The curriculum consisted of six courses, each of which had an exam. Upon completing the exam for each course, and fulfilling the industry work experience requirements, you became eligible to use the CFP marque and call yourself a Certified Financial Planner. Today, there are hundreds of colleges and universities qualified to deliver the CFP Board’s required education curriculum. I am proud to say that I represent the institution that is foremost in preparing candidates to sit for the CFP exam, and again, in 2011, we enjoyed a double digit lead in the number of our students who passed the exam on their first attempt compared to the national average.

From my entry into the financial planning industry, through an internship with The Equitable, part of AXA today, I believed in, and supported, the concept of comprehensive planning. The
basis of comprehensive planning is the Financial Planning Process. This process consists of six steps:
1. Establish the client-planner relationship.
2. Gather client data and determine client goals.
3. Analyze and evaluate the client’s financial status.
4. Develop planning recommendations.
5. Implement planning recommendations.
6. Monitor planning recommendations and make necessary adjustments.

As one of my peers says, using the first letter of each of the six steps, “EGAD, I’M a financial planner!”

The majority of my fellow CFPs, however, apparently did not adopt my beliefs regarding comprehensive planning. A recent survey completed by the CFP Board of Standards reports that 73 percent of CFPs in the United States say that they do comprehensive planning, but the same survey reports the following:
- 59 percent do insurance planning
- 60 percent do tax planning
- 73 percent do estate planning
- 87 percent do retirement planning
- 90 percent do investment planning

Am I the only person who sees a problem with these self-reported numbers?

Some planners would argue that they do not do comprehensive financial planning because their practices are specialized. They use the example of medicine, where you have generalists and specialists. They see themselves as specialists. I do not accept this comparison for one major reason; it is faulty in definition.

When you become a physician, you complete medical school and then you work toward a specialization. In other words, you learn all the basics and then you choose an area where you want to gain additional specialized knowledge. In so doing you do not set aside everything you learned about those areas not directly related to your specialization. In most cases, that
information and education is, in fact, incorporated into your specialty. In financial services, and financial planning specifically, there is a process. It has six steps. If you are going to call yourself a financial planner, you owe your clients the duty to be able to perform all six steps—in all the different aspects of financial planning. Otherwise, you should not call yourself a financial planner. If all you are going to do is investments, call yourself what you are, an investments planner. If all you are going to do is taxes, call yourself a tax planner. If all you are going to do is advise in areas of retirement planning, call yourself a retirement planner. You get the picture.

Financial planners owe their clients a duty to do what they say they are. Financial planning has, in addition to a six-step process, a specific series of areas where a client’s situation is supposed to be analyzed and evaluated, utilizing that six-step process. These areas include, insurance planning, investment planning, tax planning, estate planning, retirement planning, and cash flow and budgeting.

Does this mean I do not approve of, or engage in, modular planning? No, of course not. As a matter of fact, as long as that is the planning engagement you enter into with your clients, it is fine. The problem however, as I see it, is your clients having a false belief that you have analyzed their entire situation and made all the appropriate recommendations for them to follow and to enable them to reach their financial goals.

A few specific examples of importance to this august group are in order. I will focus on three areas where I have seen time and again missing pieces in otherwise competent financial plans. The first missing piece is represented by disability income insurance.

The greatest financial risk to a working person is the loss of his or her ability to earn an income. This risk is proportionally greater than the risk of death for all age groups between 25 and 65, yet disability income insurance remains a huge missing piece in a vast majority of financial plans I have reviewed in the past two decades. I will not ask for a show of hands, but I am confident that within this room today, there are those among you who do not own disability income insurance, and you represent the cream of the crop of financial advisors in the world. Is it any wonder that
our prospects and clients do not own the coverage when some of you don’t either? They, however, may have an excuse because they might not know about it. But what about you?

I have heard various reasons why planners choose not to discuss disability income insurance with their clients. They include:

“It’s too expensive.”

“My client has coverage through his employer.”

“It’s too difficult to explain.”

“It’s not worth my time because the commissions are so small.”

Are any of these excuses valid? I will let you decide.

Let’s look at a few quotes for disability income insurance. These are for two different scenarios—a middle-income earner and a higher income earner, both male and female. Let’s see what the costs would be for a quality contract offered by one of the largest non-disability specialized carriers in the United States.

The second missing piece of the financial planning puzzle that represents what may be the greatest risk of all is the piece called long-term care. It has been said that the two certainties in life are death and taxes. Well, statistically speaking, the future need for long-term care is perhaps the third certainty in our lives. If you are married and you and your spouse reach age 80, there is a 50 percent likelihood that one of you will suffer from dementia. If you have reached age 65, there is a greater than 68 percent chance that you will experience the need for long-term care in the next 17 years. As many long-term care specialists will tell you, planning for the need for long-term care is not done with an if question, rather it is done when a when question.

With these facts available to any competent financial services professional, why is LTCI also often omitted from a financial plan? The reasons are similar to those excuses given for disability income insurance. They include:

“It’s too expensive.”

“It too hard to explain.”

“I tried to present it, but my clients said they would self-fund.”
”My clients said it wouldn’t happen to them.”
“Companies raise rates and anger the clients, and they will take it out on me.”
“The commissions are not worth all the effort.”
Once again I must ask, are any of these excuses valid? Once again, I will let you decide.

Imagine you have successfully amassed a substantial retirement nest age and you are looking forward to a comfortable retirement. Over your 40 plus years in the workforce, you have saved and invested and now you have $1.5 million available for you and your wife’s retirement years. When your long-term care even occurs, if you are the average person, you will spend 2 1/2 years receiving custodial care. Depending on where you live, your costs will undoubtedly be different, but on average, at $230 a day, your long-term care event will deplete $209,875.00, or 14 percent of your retirement nest egg. Do you think you might be able to convince your clients to spend a fraction of 1 percent or so of their nest egg to insure that they won’t have to lose 14 percent of it when their long-term care event occurs? Let’s look at a couple of quotes for a single man and a single woman as well as a couple of quotes for a married couple.

A third missing piece of the financial planning puzzle that represents substantial risk is the area represented by liability for damages to others. This risk is greatest among those with teenagers and youthful drivers, but also includes millions of people with automobile and homeowners insurance policies that have inadequate liability limits. I will not ask for a show of hands, but I would be willing to bet that within this room today, there are people who, based upon their having qualified to be here, are tremendously talented people, yet some of you do not have proper insurance coverage on one of your most valuable assets and one of your greatest areas of potential liability for damages to others. I am referring not only to your auto and homeowners insurances, but also to a personal umbrella liability policy.

First, let’s look at some quotes on auto liability and homeowner’s liability to see just how small the cost is from being minimally covered to being properly covered.

In this area I will admit that the average financial services professional has a gap in his education. This does not, however, release him from his responsibility to provide the best advice
possible for his clients. My solution here is simple: If your personal property and casualty agent isn’t someone you are willing and anxious to recommend to your clients, get a new agent who meets that mark.

Let’s look at a few quotes for umbrella liability insurance and see why it too should be included in a quality comprehensive final plan.

It was my original intent to stop my presentation here, but there is actually one other type of coverage that I believe deserves your consideration for inclusion in a truly comprehensive financial plan. This last coverage is critical illness insurance. I will confess, the reason I own this coverage today is because my mother died of pancreatic cancer in January of 2011. Prior to her death, cancer had never touched my family—or so I believed. I found out that my paternal grandmother also died from cancer. Needless to say, once it had touched my life, I was ready to listen to the representative from AFLAC when he presented the critical illness benefit as part of our annual enrollment last year. I have owned the policy ever since.

For those of you who are not familiar with critical illness insurance, you owe it to yourselves to do a little research. Basically, a critical illness policy provides you, not your doctor or hospital, cash to use for personal expenses when you are stricken with any of a long list of covered illnesses. In the early stages of the development of this type of coverage, the plans had names like cancer policies or heart attack policies. You may also recognize them by the name dread disease polices. Whatever you call them, you owe it to yourself and your clients to know and understand where they fit into a comprehensive financial plan.

I have a simple question for you: What do all these missing pieces of the financial planning puzzle have in common? Answer: They are all part of insurance planning, which, according to the results of their own survey, the CFP Board of Standards says only 59 percent of CFPs claim to perform for their clients. Let’s consider why this might be the case.

Can anyone give me a valid reason why a comprehensive financial plan should be missing any of these components? I haven’t had anyone identify one for me yet, on the previous occasions when
I have discussed these issues in a professional forum. Perhaps you will be able to since, as I said earlier, you are the cream of the crop of financial professionals.

I contend there are no valid reasons for any client to ever receive a professionally prepared financial plan that is missing these critical pieces. They may not choose to prioritize these needs among those they wish to address first, but they need to at least be made aware of their existence. Wouldn’t you agree? Then why doesn’t it happen?

The primary reason that financial professionals deliver financial plans that are deficient is because the individual planner doesn’t personally possess the skills or licenses necessary to engage in the giving of advice in these areas. As an ethical financial professional however, while you are correct in not engaging in advising clients in matters in which you are not competent, you are, never the less, responsible for finding peers or fellow professionals who have the skills and education you might be missing. If you are not licensed in property and liability insurance, it is incumbent upon you to find a property and liability professional to serve your clients’ needs. The same is true for your clients’ needs in the disability income, long-term care, and critical illness arenas.

You do not have to be able to do it all, but you do have to be responsible for your client getting all the professional advice and financial planning attention he or she requires and deserves. Many of us came into the business through insurance companies. As young financial services professionals, we learned to prospect for clients by answering the question, “Who do you know…” I contend that many of us need to revisit this time-tested question, but with a slight twist. Depending on our own area of specialization, today we need to ask, “Who do you know who is

- a qualified life insurance specialist?
- a qualified health insurance specialist?
- a qualified long-term care insurance specialist?
- a qualified critical illness insurance specialist?
- a qualified investments planning specialist?
- a qualified charitable giving specialist?
You all get the picture. Start with what you are great at and affiliate with other professionals to form a practice consortium that will enable you to be the value-added financial services professional you aspire to be.

Some of us will want to take the helm and captain the financial planning ship with assorted specialists as our crew. Others of us will shun the responsibility of captaincy and aspire instead to serve as a crewmember. Whatever the role to which you aspire, I wish you only the greatest success on your voyage and safe travels for you and your clients. Bon voyage.
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<thead>
<tr>
<th></th>
<th>Age 45</th>
<th>Age 45</th>
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<tbody>
<tr>
<td><strong>Male</strong></td>
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</tr>
<tr>
<td><strong>Income</strong></td>
<td>$50,000</td>
<td>$100,000</td>
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<tr>
<td>Monthly Benefit</td>
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<td>90 Days</td>
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<td>Benefit Period</td>
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<td><strong>Annual Premium</strong></td>
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<td></td>
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<tr>
<td><strong>Female</strong></td>
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<td><strong>Annual Premium</strong></td>
<td><strong>$670.91</strong></td>
<td><strong>$1,175.96</strong></td>
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Attachment B

Long-Term-Care Insurance Quotes

Single Male or Female

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<th>Age</th>
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<tbody>
<tr>
<td>Policy Type</td>
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<tr>
<td>Daily Benefit</td>
<td>$200.00 per day</td>
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<td>Benefit Period</td>
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<td>Maximum Lifetime Benefit</td>
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<td>Cost of Waiting Five Years (Monthly Premium)</td>
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Married Couple, Both Applying

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<th>Age – Male/Female</th>
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<tr>
<td>Annual Premium</td>
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<td>Monthly Premium</td>
<td>$497.33 / $454.66</td>
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<td>Cost of Waiting Five</td>
<td>$597.00 / $513.00</td>
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Attachment C

Auto and Homeowner’s Liability Coverage

Auto Coverage

State Minimum Coverage

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<th>Coverage Range</th>
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<th>Auto 2 Premium</th>
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<tbody>
<tr>
<td>$15,000 - $30,000</td>
<td>$107.53</td>
<td>$107.63</td>
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<tr>
<td>$30,000 - $50,000</td>
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Appropriate Coverage

<table>
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<tr>
<th>Coverage Range</th>
<th>Auto 1 Premium</th>
<th>Auto 2 Premium</th>
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<tbody>
<tr>
<td>$100,000 - $300,000</td>
<td>$145.84</td>
<td>$145.97</td>
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<td>$300,000 - $1,000,000</td>
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For $38 per six-month premium, or $6.33 a month, you get coverage that is 6.67X - 10X - 20X higher than state minimum coverage.

Homeowner’s Coverage

Coverage for a home insured for $250,000, with

- $100,000 in Liability Coverage
- $5,000 in Medical Payments Coverage

**Annual Premium $1,003.00**

Same home, covered for actual cost to rebuild, at $300,000, with

- $300,000 in Liability Coverage … $15.00 a year more
- $10,000 in Medical Payments Coverage … $7.00 a year more

**Annual premium $1,175.00**

So for $150.00 a year, you have insured to value coverage vs. minimally inadequate coverage, with which to rebuild your home. For 47 cents a day more, you have proper coverage.
Attachment D

Umbrella Liability Policy

$1,000,000 Coverage

Personal Liability w/Underage Driver

Premium: $470.00 Annually (w/o Underage Driver @ $150.00)

$2,000,000 Coverage

Personal Liability w/Underage Driver

Premium: $799.00 Annually