AIMS & OBJECTIVES

Establishing clients’ aims and objectives is a vital stage in the 6 step financial planning process.

The art of financial planning is about helping clients to reveal to themselves and to their advisers what they want out of life, and to understand what needs to be done to achieve those aims. Financial planning is not confined to selecting good investments or other products; and it is not about managing a client’s portfolio.

Financial planning is the process by which successful financial planners advise their clients, and such advice demands that sufficient time and patience is allocated to all clients to allow them to explore a range of possibilities and outcomes.

This process of helping clients to define their aims and to prioritise their objectives is essential.

It is essential for clients because it is an opportunity to bring order and purpose to their finances, expressed through the way they live their lives. A road is mapped out and decisions are made, all adding to the client’s wellbeing and the sense of purpose of doing what needs to be done.

For the adviser, identifying and focusing on aims and objectives provides efficiency for the financial plan and motivation for the client. A motivated client who understands what needs to be done, and when, is far more likely to stick to their budget and long term plan and derive great satisfaction from doing so.

DEFINITIONS

Before an adviser can help their client to define their future and objectives, it is important that the adviser understands the subtle difference in meaning between the two words, aims and objectives.

Cambridge Dictionaries Online defines an aim as ‘a result that your plans or actions are intended to achieve’, while an objective is defined as ‘something that you plan to do or achieve’.

The two words have very similar meanings and are clearly interrelated.

In simple terms the ‘aim’ is the anticipated or desired outcome, whilst the ‘objective’ is the means by which an aim is achieved.
Aims

The hopes and aspirations of clients - their “aims” – are unlikely to be expressed purely in terms of financial statements, but rather to some emotional and/or physical situation(s) in which they would like to find themselves in the future.

Objectives

The objectives are the stepping stones that the adviser and client agree that the client should take in order to achieve the client’s aim(s).

EXAMPLE

A fairly typical aim for a couple is to be able to stop work by the time they reach 60 and to retire to enjoy a “comfortable and relaxed retirement”.

A closer examination of the requirement of a ‘comfortable and relaxed retirement’ may reveal that they wish to retire to a bungalow with a large garden, and to live near to their family. They also wish to have repaid all debt, have funded their three children’s university fees and to have adequate income for retirement. These objectives - bungalow plus large garden, well-educated children and living close to grandchildren – are all part of the overall aim of a “comfortable and relaxed retirement”.

It is the objectives that concern the adviser because they have financial implications:

- First, we need to establish what level of income will be required to achieve a ‘comfortable’ retirement in the client’s minds: this will involve a good deal of essential work on the part of the client in quantifying expected expenditure, now and in the future, so that a required income level in retirement can be established.
- The client must maintain health as well as they can: this may involve, for instance, joining a gym with the consequent fees payable. Quantify these fees.
- The client must be in a position to have repaid any debt, including their current mortgage, if they have one. This will require funds: how much?
- The clients will have to earmark funds for children’s university costs. How much do they anticipate that university fees (and any accommodation and subsistence costs) will cost?
- They must put themselves in a position to purchase a bungalow with an appealing garden in the area that they aspire to: this may require a capital sum in addition to the value of their current home, or indeed there may be an opportunity to release capital to repay debt by downsizing from a larger home to purchase the bungalow. Quantify any capital need.

It is the job of a financial planner to examine today’s assets (and any liabilities) and projected future income in the light of future expenditure, and to demonstrate to the client the feasibility of their aims and the costs of the objectives that need to be taken. It is also the responsibility of the planner to advise the clients if the objectives are financially unrealistic.
ABOVE AND BEYOND?

It is a requirement of the FCA that advisers ensure that recommendations are aligned with clients’ objectives. This requirement is called “suitability”. Clearly, without a financial plan, it is impossible to claim that a product meets a client’s specific objective; but it may well cover an objective common to many clients, e.g. life cover for the surviving spouse. Even then, without a Financial Plan, it is not possible for the adviser to properly quantify the cover needed.

This falls far short of the in-depth process of establishing aims and objectives required as part of a proper financial planning exercise.

HOW TO BEGIN

Most people have never examined their finances with another person in the role of a personal financial planner. In the past most people’s only experience of advice from an adviser was to sign forms, write a cheque eg to top a pension plan and expect a return visit by the adviser in a year’s time.

The modern financial planner must explain that his (or her) role is to assist and to advise the client on financial matters, that the client’s interests are paramount and that the financial planner can only achieve the best for the client if both client and adviser work together, in harmony. For these reasons, an adviser must encourage their clients to discuss their feelings and ambitions as fully as possible.

It may be very difficult for some clients to clearly express their aims. Indeed, they may not have even discussed them with their partner, let alone admitted them to themselves. The client may be concerned about revealing certain aims to their partner, or remain silent in front of a financial planner, for fear of being judged for harbouring strange or unusual aims. It is not however for the planner to comment or judge, merely to help the client to articulate their aims; and to do their best to understand what it is that the client would really like to achieve.

By carefully encouraging a client to think about what truly matters to them, one can establish their key aspirations as well as their daydreams, their ‘nice to have’s’. By exploring the ‘why’ behind the aims, the financial planner can help the client to prioritise their goals; and at the same time be confident that the stated aims are really those of the client, as opposed to those that the client thinks the financial planner wants to hear!

Many clients, without any clear idea of their aims, or how to achieve them, may feel that they are drifting through life without any real sense of purpose, indeed, that life is passing them by. Not having identified aims, they are unable to achieve the objectives required to achieve them and are thereby robbed of the satisfaction of achievement.

This is very powerful stuff: questioning beyond the obvious, delving into deep feelings and encouraging meaningful dialogue between partners. Encourage the clients to open their minds to anything, particularly long held secret ambitions; and be ready for anything!
Discussions may move in directions that surprise the planner, the client’s partner, or even the client themselves.

A final resolution to these issues may not be reached immediately and it may be weeks or even months before things can be finalised: this can be a slow and sometimes painful process but the prize of agreed goals which excite them both sufficiently will ensure enthusiasm from both parties and a far greater chance of success.

**WHOSE AIMS AND OBJECTIVES?**

The first lifetime cash flow may simply demonstrate the scope in terms of disposable income etc, after allowing for essential expenditure, and serve as a glimpse of the future for the client if they continue on their existing path.

Some clients are exceptionally clear about their future plans. Many are not. In the absence of a clear statement from the client of his or her vision of the future, the adviser is left in a quandary. The onus is placed on the adviser to define the future plans and hopes of the client, in order to move to the next level of the advisory process.

Without a clear message from the client the adviser might be tempted to substitute vague aims, such as ‘early retirement’ or ‘financial independence’. The client may agree to these aims, because at the meeting he/she cannot articulate genuine alternatives. However, this is unhelpful and not the basis of a successful financial planning process.

It is not the role of the financial planner to impose his/her own ideas or ideals; but rather to help the client to realisation of their own aims in life. Where a planner’s input may be valuable is in helping the client to identify the objectives which, if achieved, would move clients towards their overarching aims; but the aims must be those of the client.

The Institute of Financial Planning is very clear about how a financial planner should determine a client’s aims and objectives. Under ‘Practice Standard 2.1: Identify the Client’s Personal and Financial Goals, Needs, and Priorities’ it lays down that ‘The Financial Planning professional and (author’s italics) the client shall identify the client’s personal and financial objectives, needs and priorities that are relevant to the scope of the engagement before making and/or implementing any recommendations’.

**VALIDATION**

It is important not only to ensure that clients are not being unrealistic but also for clients to prioritise aims and objectives. This can be difficult.

Planners might ask clients to think about various aspects of their lives, how satisfied they are with each at present, and how they would like to improve things. If they are able to identify things that they would like to change, this provides a useful measure of the validity of aims and of objectives. For example, do the clients believe that achievement of a particular aim or objective would improve their overall lifestyle and wellbeing? Is this the case for both parties in a client partnership?
For instance, if work life balance were a real issue for a client who was not motivated too much by money, then reducing working hours should increase their sense of satisfaction.

THE ART OF THE POSSIBLE

The planner can assist by engaging with the client, by facilitating the ‘life planning’ process and by providing the client with relevant information. Lifetime cash flow forecasts can be effectively used for this purpose.

Clients need evidence to demonstrate the future possibilities: lifetime cashflow forecasting can be used as a tool to help clients to see and test what might be possible, rather than leaving them to rely completely on their own imagination.

When clients are able to view their dreams and aspirations in the context of possibility, it becomes much easier for them to discuss their goals openly between themselves and with their adviser.

The relevant information is available to all parties and this enables clients to prioritise and the adviser to formulate the relevant objectives, and a meaningful financial plan to achieve them.

VALUABLE ADVICE

Clients want meaningful advice and are willing to pay for it. They want to be freed from the tyranny of money, and instead take control of it. They want to develop a new relationship with their finances that has meaning beyond savings and taxes and which defines money as a tool and not an end in itself.

Many planners already use their expertise to coach clients towards decisions about their aims in life. Financial planning is then the process of developing strategies to assist clients in managing their financial affairs to meet life goals.

Clients want advice that means something to them and that will have a real impact on their lives. They should settle for nothing less.
FURTHER READING FOR INFORMATION & INSPIRATION

Bill Bachrach’s book: Values-Based Financial Planning
Bachrach & Associates Inc: http://www.billbachrach.com/
Dan Sullivan’s book: The Dan Sullivan Question
The Strategic Coach Inc: www.strategiccoach.com
George Kinder’s book: The Seven Stages of Money Maturity
The Kinder Institute: https://www.kinderinstitute.com/

INSTITUTE OF FINANCIAL PLANNING PRACTICE STANDARDS

2. COLLECT THE CLIENT’S INFORMATION

2.1 Identify the client’s personal and financial objectives, needs and priorities.
The Financial Planning professional and the client identify the client’s personal and financial objectives, needs and priorities that are relevant to the scope of the engagement before making and/or implementing any recommendations.

EXPLANATION
The Financial Planning professional strives to clearly understand the client’s current situation and financial objectives, needs and priorities. The client’s financial objectives state intent, provide guidance and bring structure to the Financial Planning engagement. The Financial Planning professional assists the client in clarifying and prioritising his/her short and long-term objectives, and discusses with the client the merit and feasibility of any objectives that appear to be unrealistic.

2.2 Collect quantitative information and documents.
The Financial Planning professional collects sufficient quantitative information and documents about the client relevant to the scope of the engagement before making and/or implementing any recommendations.

EXPLANATION
The Financial Planning professional strives to collect complete and accurate client information and documents relevant to the scope of the engagement. The Financial Planning professional relies on information provided by the client and other sources to make appropriate recommendations and clearly communicates to the client the importance of collecting complete, current and accurate information. In return, the Financial Planning professional respects the confidentiality of, and safeguards, client documents. If the Financial Planning professional is unable to collect information necessary to develop and support recommendations, the Financial Planning professional discusses this with the client, explaining how these limitations impact the engagement and the financial plan. These limitations could result in a revised engagement document or in termination of the engagement.

2.3 Collect qualitative information.
The Financial Planning professional collects sufficient qualitative information about the client relevant to the scope of the engagement before making and/or implementing any recommendations.

EXPLANATION
The Financial Planning professional gathers information to understand the client’s values, attitudes, expectations and financial experiences. This includes asking questions of the client and employing appropriate listening skills. The Financial Planning professional determines the client’s level of sophistication and financial literacy. These areas are subjective and the Financial Planning professional’s interpretation may be limited by what the client reveals.