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How often should financial planning be done to be most effective?

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Financial plan updates "tend to have different personalities" as clients age and their priorities shift, but there isn't an age or life stage at which they need less frequent updates, says an advisor.
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Advisors who treat financial plans as a box to check at the beginning of the client relationship and only update them alongside major life milestones may be missing out on a chance to demonstrate their value.

Clients' lives are dynamic, with unexpected twists and turns, and their plans need to be responsive to their changing goals, financial planning-focused advisors say.

"The core of a financial plan, I think, is really understanding the client's story: where they came from, where they are today and where they're going," says Mark Lotocky, certified financial planner (CFP) and partner at Dixon Davis Financial Planning Corp. in Victoria. "As the financial planner, it's up to you to determine when there's a change in direction."

“A lot of assumptions go into [a financial plan], dozens if not hundreds, and over three years, there are definitely going to be some of those assumptions that haven’t played out as the [financial] plan would’ve predicted,” she says.

How the pandemic changed assumptions

The pandemic is a perfect case in point, says Darren Coleman, senior vice president, private client group and portfolio manager with Coleman Wealth at Raymond James Ltd. in Toronto. The past two years prompted an initial wave of job losses and layoffs, and many Canadians have since reconsidered their career and life goals, started new businesses or changed their retirement date.

“[The pandemic] changed a lot of people’s assumptions for how they want to work, when they want to retire, where they want to live – all those things have been in flux,” he says.

“Right now is a really important time for advisors to check in with clients and say, ‘If we talked about your planning assumptions in 2018, for example, are any of them actually still appropriate?’”

Mr. Coleman says advisors could be failing to highlight their value to clients if they aren’t checking in regularly – and potentially missing opportunities to optimize clients’ financial outcomes.

He schedules annual visits with his clients to assess the financial plan’s assumptions, chart clients’ progress toward financial goals and expected events – such as a child going to university or the year a client is aiming to pay off their mortgage – and assess their investment portfolio, savings rate and tax return.

“How do you know what’s going on in someone’s life if you don’t check in at least once a year?” he says.

Instead of completing the entire financial plan at once, Mr. Coleman says he plans a roadmap with new clients to work through the various components over a period of roughly two years.

He prioritizes a combination of what the client is most interested in addressing and any areas he sees as particularly important to their situation – such as ensuring a young client has adequate life and disability insurance or helping a dual citizen address a pressing U.S. tax issue.

Mr. Lotocky says he begins the financial planning process with a life cycle cash flow assessment and then ensures clients’ investments support that cash flow in a tax-efficient manner. He also ensures their spending and savings patterns won’t impede any inheritance goals.

Younger versus older clients

While Ms. Ulmer says financial plan updates “tend to have different personalities” as clients age and their priorities shift, there isn’t an age or life stage at which they need less frequent updates.

Younger clients tend to experience a concentration of major life events in a relatively short period – getting married, purchasing a house, having kids, job changes and purchasing life insurance – that necessitate regular financial plan reviews. Those in mid-life will need check-ins geared to ensuring they’re on track for a comfortable retirement.

Tax planning is particularly important for business owners and retirees, Ms. Ulmer says, noting that she reviews tax plans with her clients that are in the decumulation phase once a year to assess their income, tax bracket, and the buckets of assets they can draw from in the most tax-efficient way.

“We don’t have a blanket strategy of non-registered assets, then the [tax-free savings account], then the [registered retirement savings plan]. We’re using a blended approach because we’re looking at the lifetime tax bill, not just year by year,” she says. “Tax planning can contribute to wealth just like a rate of return can.”

Estate planning, meanwhile, is much more dynamic than clients tend to assume and isn’t just about penning their will. She says life insurance, jointly owned assets, assets within a trust and more fall outside the scope of the will, and require closely examining all of those pieces as a whole to ensure against “unintended consequences” that go against a client’s plans.

Clients who gift an early inheritance to one or more of their children for a down payment on a home or to pay for a wedding could also risk creating inequity in the will inadvertently and hard feelings between their children if they fail to update the document to account for that gift.

"It's not an every 10 years thing, you have to review it on a regular basis," she says. "The more moving parts there are, the more it needs to occur."

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