# Situational integration framework – A Practical Guide

For personal financial planning to be recognized, the general public needs to have a clear understanding of what it entails. This will require a certain level of uniformity in the provision of services.

Furthermore, the scope of intervention is so broad that standards of service provision are essential both to guide financial planners and to ensure that clients have reasonable expectations concerning the services they can expect to receive.

The financial planner must take the time to clearly define with the client the extent of the engagement being made and agree on the objectives to achieve. The financial planner gathers the required information by questioning the client and obtaining all the documentation deemed necessary.

For every situation covered by the engagement, the financial planner uses knowledge and competencies from the seven financial planning areas to evaluate the client's situation at a given date and quantify any differences between its probable evolution and the objectives. Finally, the financial planner takes the client's priorities and issues into account to identify resource optimization strategies to allow the client to achieve their goals or simply improve their situation.

This practical guide examines every integrated personal financial planning situation. These standards offer further detail on the two following steps of the financial planning process:

- Assess the client's situation at a given date
- Identify and evaluate appropriate strategies

This analysis process will help financial planners recommend the most suitable strategies by guiding the client, if required, toward the appropriate resources.

## PERSONAL AND FAMILY SITUATION

The financial planner draws up a portrait of the client's situation, taking note of:

- Family ties
- Matrimonial situation
- Division of household financial responsibilities
  *Budget responsibility*
- Citizenship and place of residence
- Professional activities
- Any other personal responsibilities, including those arising from legal deeds
- Potential changes identified by the client
  *Changes may be related to the matrimonial situation, place of residence or professional activities.*
- Any other factor relevant to the client's goals

The financial planner informs the client about:

- Rights and obligations arising from the established portrait
- Effects arising from the potential changes the client has identified, if applicable
- Any differences between the current situation and the client's goals

Emphasizing the advantages and disadvantages, the financial planner presents:

- Appropriate strategies that will allow the client to achieve the goals or improve the situation

## FINANCIAL SITUATION

**The financial planner draws up a portrait of the client's situation, taking note of:**

- Net worth and the characteristics of items in the personal balance sheet *Characteristics of locked-in retirement savings and unseizability of certain accounts should be mentioned.*
- Budget information
- Cost of living
- Savings capacity
- Debt
- Cash required to cover unexpected situations (emergency fund)
- Investor profile
- Asset allocation
- Any other factor relevant to the client's goals

**The financial planner informs the client about:**

- The sufficiency or insufficiency of the emergency fund
- The results of the budget analysis *(Surplus, Deficit, Balance)*
- Probable changes in net worth
- The reasonability of the debt level
- Resources to allocate to the achievement of specific plans and their feasibility, if applicable
- Any differences between the investor profile and the asset allocation

**Emphasizing the advantages and disadvantages, the financial planner presents:**

- Options for creating or adjusting the emergency fund
- Debt management strategies
- Strategies for bringing the asset allocation into line with the investor profile
- Budget management strategies
- Strategies for achieving goals or improving the financial situation

# TAX SITUATION

**The financial planner draws up a portrait of the client's situation, taking note of:**

- Professional status (employee, business person, retiree, student, etc.)
- Source and amount of annual income
- Method of income tax payment
- Marginal and effective tax rate and their projected changes
- Social benefits programs that could be affected by a change in net income.
  *Effect on effective marginal taxation rate – EMTR*
- Various taxpayers to be considered (family members, corporation, trust, etc.)
- Particular characteristics of family members
  - Disability, financial dependence, non-resident of Canada, etc.)
- Deductions or credits the client may be eligible for
- Relevant historical tax data (such as net capital losses)
- Foreign assets
- Tax compliance items that may have been omitted
- Possible financial transactions between non arm's length parties
- Any other factor relevant to the client's goals

**The financial planner informs the client about:**

- The adequacy (or inadequacy) of the tax strategies in place, in light of the client's goals
- Potential risks related to the business structure

Emphasizing the advantages and disadvantages, the financial planner presents:

- Solutions for reducing the family tax burden
    - Income splitting, paying family members for contributions to the operation of a business, capital gains exemption for principal residence, etc.
- Options for optimizing the taxation of investments
- Options for optimizing the business structure
- Options for optimizing compensation
- Ways to put things in order for the tax authorities
- Any other strategy relevant to achieving the client's goals

# PROTECTION SITUATION

**The financial planner draws up a portrait of the client's situation, taking note of:**

- Sickness and accident insurance protection
- Capacity to deal with a period of disability
- Situation that would arise if the client were unable to make decisions about asset management and personal care
- Any other factor relevant to the client's goals

**The financial planner informs the client about:**

- The sufficiency (insufficiency) of the sickness or accident insurance coverage
- The adequacy (inadequacy) of the legal documents in the event of disability or incapacity
  For example, *protection mandate, buy-sell agreement, cohabitation agreement*

**Emphasizing the advantages and disadvantages, the financial planner presents:**

- Legal documents to draw up to remedy identified problems
- Types of insurance coverage that could make up for identified imbalances
- Protection strategies for the business in the event of a disability
- Any other strategy relevant to achieving the client's goals

# RETIREMENT SITUATION

**The financial planner draws up a portrait of the client's situation, taking note of:**

- Savings accumulated for retirement in various savings vehicles
- Annual retirement savings
- Different sources of retirement income and their characteristics
  *Pension plans, annuities, rent or other royalties*
- The cost of living in retirement and its variations
- Any other factor relevant to the client's goals

**The financial planner informs the client about:**

- The feasibility of the retirement plans in light of the current situation
- Changes to make up for possible shortfalls

**Emphasizing the advantages and disadvantages, the financial planner presents:**

- Optimal allocation strategies for retirement savings
- Cashing out strategies for retirement capital that take into account, in particular, eligibility for social benefits programs
- Financial strategies for managing survival risk
- Any other strategy relevant to achieving the client's goals

# SITUATION AT DEATH

**The financial planner draws up a portrait of the client's situation, taking note of:**

- Needs of dependants and spouse
- Spouse and dependants' capacity to manage their assets
- Life insurance coverage on the client's life
- Devolution of assets in the event of death
- Taxes payable on death
- Value of estate assets and assets transferred through beneficiary designations
- Cash position of the estate and cash available to the heirs
- Pensions and benefits available to the survivors
- The existence of agreements affecting certain assets
- Any other factor relevant to the client's goals

**The financial planner informs the client about:**

- The alignment of the desired asset transfer and the transfer that will actually occur
- The alignment of life insurance and annuities features and needs
- Any shortfall in financial resources in light of the estate goals

**Emphasizing the advantages and disadvantages, the financial planner presents:**

- Devolution strategies that ensure wishes are met
- Different ways to transfer life insurance proceeds (including annuities)
- Tax optimization strategies to reduce the taxes payable on death and in subsequent years
- Strategies to make up for any discrepancy between the situation at the time of analysis and the estate goals
- Control strategies for bequeathed assets
- Business transfer strategies
- Any other strategy relevant to achieving the client's goals

**INSTITUTE OF FINANCIAL PLANNING**

3 Place du Commerce, Suite 501
Île-des-Sœurs, Verdun (Québec)  H3E 1H7
Telephone: 514-767-4040/1-800-640-4050
Email: info@institutpf.org

institutefp.org

Institute of
FINANCIAL
PLANNING