

## Family Financial Philosophy: A Powerful Estate Planning Tool!

by Charles L. Stanley CFP®, ChFC, AIF® and Peter Merrick BA, FMA, CFP, FCSI

Based on our experience working with clients in both Canada and United States, as well as conversations with other professionals on both sides of border (a purely unscientific survey to be sure), successful high net worth families have a difficult time completing a satisfactory estate plan. It's not unusual for a family to say they have tried "four or five times" to complete an estate plan without success, which prompts us to ask the question, "Why didn't their advisors get it right the first time?"

There are three steps to the estate planning process:

- (1) Establishing objectives i.e., What is it we are really trying to accomplish here?;
- (2) Designing a plan to fulfill those objectives;
- (3) Implementing the plan.

Typically, the majority of time is spent in plan design - as much as 80% to 90% - with minimal time devoted to step one, establishing objectives. One of the world's oldest adages may be the reason: follow the money.

Estate plan advisors are paid only when a plan is implemented. For example, an attorney is paid to create documents, an insurance professional is paid when he sells a client a policy, a public accountant is paid to do the tax analysis, a stock broker is paid to handle the securities transactions. They are all paid for plan implementation; nobody gets paid to delve into client's real values and objectives.

But how can an advisors design an effective plan if they don't understand a client's objectives?

In addition to "following the money," there is also an "advisor bias" created by differing levels of training and expertise. Steven Covey, author of "The 7 Habits of Highly Effective People" states it this way, "People see the world not as it is, but as they are."

Consider four advisors:

- Insurance professional
- Investment professional
- Attorney
- Accountant.

Pose a problem and ask for a solution. We are willing to bet, you will get four different solutions, each from a different perspective.

Because different advisors have different opinions, it's difficult to know who's right. When this occurs, more often than not, the end result is....NOTHING! The client does nothing, because he or she isn't sure who or what is correct.

This "advisor bias" creates confusion for the primary advisor who's trying to take responsibility for the estate plan. When people become confused by the process, all they want to do is get out of the process...end the conversation...eliminate the anxiety.

The estate planning process presents many dilemmas, some of which are conflicting objectives in direct opposition to one another. These may be:

- The client versus his or her heirs;
- The client's heirs versus his or her favorite charities;
- The client's favorite charities versus the client;
- One heir versus another;
- One charity versus another;
- And in some cases, the client against his or her spouse.

Another reason for plan design "paralysis" is the complexity of the process. It's understandable. There are over 100 different Tools, Techniques, Strategies and combinations available in creating an estate plan. Which apply in your client's case?

These conflicts and complexities call for a comprehensive discovery process to clarify a client's family objectives in estate planning. Instead of spending 80% to 90% of the time on plan design, it is suggested to spend that time in the discovery process, which will make the design process practically complete itself. When significant clarity exists, those 100 different possibilities may be reduced to 3 or 4 viable options that actually fit the client's situation and this is manageable.

The purpose of the discovery process is to create a written document known as the Family Financial Philosophy (FFP). We must credit the late Scott Fithian for introducing this concept into the estate planning process in his 2000 book "Values-Based Estate Planning". Fithian was a strong advocate for the idea that advisors must place much greater focus on what their clients' values are over just focusing on what their clients own.

The FFP is an extremely valuable tool for successful families with strong values to incorporate into their planning. The process of developing the FFP allows couples to confront questions they may have not discussed before. In the process, they may also discover conflicts they didn't realize existed. The objective is to establish clarity and, as much as possible, a united statement of values and objectives for the family's wealth.

The FFP addresses three significant categories.

**1) What does financial independence mean to a client?** It has a different meaning for each family. The goal is to quantify a client's definition of what financial independence is for them because it's the most important number in estate planning. As you may be aware, the key to eliminating estate taxes on both sides of the border is to separate your client from their assets, as soon as possible and permanently. This may be a scary proposition. Some strategies that eliminate taxes on death also eliminate a client's financial independence - obviously, not a good idea. So, we first have to determine what a client's definition of financial independence is and whether he or she has achieved it. That number becomes sacrosanct and inviolable.

**2) What does your client want his or her Family Legacy to be?** Advisors often assume that the objective is to reduce estate taxes as much as possible and give the kids as much as possible. That might be what the client would want to do, but an advisor should never assume that to be true. Some parents are concerned that leaving an excessive inheritance would ruin their children's lives and so they limit the amount left to their kids. Once we determine a client's definition of financial independence and what is an appropriate Family Legacy, we can address the final issue.

**3) What is your client's Social Capital Legacy?** What does your client want to do with the assets and income he and she or their heirs don't get to keep? Does the client prefer to default these monies to CRA or the IRS by paying taxes because of poor estate planning? Or, given the option, would your client prefer to direct those assets or income to causes they hold in high esteem, fulfilling their philanthropic urges?

These are the issues we address and clarify in the process of creating a Family Financial Philosophy. Clients who have embraced this process find it to be invaluable and tremendously fulfilling.

One of the most powerful effects of creating the FFP is that your client now has control of the planning process. What used to be a mystery is now resolved. No longer will you or your client be the victim of advisor bias. Simply put, no strategy can be presented by any of your client's advisors unless it specifically supports a client's FFP. You and your clients now have clearly stated objectives and values supported by well-designed plans.

If, as a client's primary financial advisor, you are not comfortable with starting the conversation about the Family Financial Philosophy approach to estate planning perhaps you might want to direct your clients to work with a CERTIFIED FINANCIAL PLANNER™ (CFP®) who specializes in this area. The CFP® is an internationally recognized professional certification owned by both the Financial Planners Standards Council (FPSC, the Canadian regulatory body) and the Certified Financial Planner Board of Standards Inc. (CFP Board, US regulatory body). Through education, training and experience CFP® Professionals are called upon to be 'financial psychologists' who understand the life clients want to create for themselves, their families and charities in the future and the life they live today. Through training in the Six Step Financial Planning process CFP® Professionals are able to help their clients' bridge their estate planning gaps.

Remember if a client has an estate planning need and if that need is not being addressed, the client will eventually find a way to satisfy that need. So think and be a proactive and creative force in your clients' lives by providing solutions for your wealthy clients' very real planning needs, today!

Charles L. Stanley, CFP®, ChFC, AIF® is an author, educator, speaker and a fee-only financial planner with Capital Financial Advisors, LLC, in sunny San Diego, California. Charles has been serving retired physicians, business owners, corporate executives, retirees and many widows helping them with their estate planning, tax strategies, risk management, investment selection, business succession, and retirement

planning over the last 17 years. He can be reached at 858-395-8694, or [cls@charlesstanley.cc](mailto:cls@charlesstanley.cc) or [www.charlesstanley.cc](http://www.charlesstanley.cc)

Peter J. Merrick, BA, FMA, CFP, FCSI, is President of [MerrickWealth.com](http://MerrickWealth.com) a fee-for-services financial planning and executive benefit advisory firm in Toronto, Canada. He is a professor of financial planning, author of "The Essential Individual Pension Plan Handbook" (Lexisnexis Canada, 2007) and the Canadian Securities Institute's Individual Pension Plan Course. Peter can be contacted at 416.854.1776 or [peter@merrickwealth.com](mailto:peter@merrickwealth.com)