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Elements of Financial Planning: Part 1



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A customized, well-designed financial plan is discussed at the inception of most relationships at Callan Capital. A financial plan encompasses all areas important to a significant estate including investment management, debt management, tax minimization, trust and estate planning, risk mitigation, philanthropic planning, education and financial independence. The primary purpose of a financial plan is to bring confidence and peace of mind to clients as they make significant wealth decisions.

The first step in financial planning is data gathering. We ask a series of questions to determine client goals in the areas of risk tolerance, liquidity needs, spending needs, time horizon, philanthropic goals, sources of income, family dynamics, family and charitable gifting, asset and entity information. With this information, we then gather relevant documentation such as asset statements, wills, trusts, tax returns, property and casualty and life insurance statements.

Retirement, or financial independence, is often the main objective of financial plans. Retirement typically means a

client stops working and generating employment income and requires enough savings to live a specific lifestyle until life expectancy. Financial independence is the flexibility to retire without the desire to retire. In other words, many clients continue to work because they're capable and enjoy it well beyond the point where they are financially capable of retiring.

In order to determine if a client is financially dependent, we need to determine what we call "critical capital". Critical capital is the amount needed to be liquid and diversified, so the client can achieve financial independence. Determining critical capital takes into account all existing income sources that the client will have over a lifetime including employment income, passive income such as real estate, social security, mandatory distributions from retirement accounts etc. It also takes into account spending requirements such as day-to-day lifestyle, large one-time transactions such as new homes and education for children. We show conservative linear growth rates for various asset classes. In addition, we also run a Monte Carlo analysis which takes into account thousands of possibilities on asset returns and shows the client a probability of success, or certain outcomes by running multiple simulations using certain variables.

If a client has a high probability of success and will likely never outlive their

money, we discuss more sophisticated strategies of transferring excess wealth to the next generations or a charity of choice, thus reducing the amount that goes to Uncle Sam. All estates will be taxed at 40% on amounts over \$5.34mm for a single person or \$10.68mm for a married couple. Typically clients want to look at ways of minimizing the estate and income tax through gifting techniques to family and/or charities.

Risk mitigation within a financial plan takes into account areas of the plan that would be severely impacted if a specific event were to occur. For example, the death of the income earning spouse or a creditor claim filed against the family are both events that could deplete savings. This area of financial planning is where life and property casualty insurance as well as asset protection trusts are utilized to mitigate risk.

Financial planning has become a broad term used throughout the industry. It's important for consumers to be able to distinguish between a financial plan and a product pitch. Before engaging in a financial plan, ask how will the plan provider be paid and if any of the investments in their proposal will have commissions associated with it.

The peace of mind offered by a well-constructed financial plan is invaluable to help clients navigate periods of market volatility. Through the financial planning process, clients gain clarity, direction and discipline.

*Disclaimer: * Callan Capital does not provide individual tax or legal advice, nor does it provide financing services. Clients should review planned financial transactions and wealth transfer strategies with their own tax and legal advisors. Callan Capital outsources to lending and financial institutions that directly provide our clients with, securities based financing, residential and commercial financing and cash management services. For more information, please refer to our most recent Form ADV Part 2A which may be found at www.adviserinfo.sec.gov.*

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