



# Why Financial Plans Lead to Better Outcomes



*August 31, 2021*

According to Charles Schwab's 2019 Modern Wealth Survey, **only 28%** of Americans have a written financial plan. It's no wonder that year after year we see statistics illustrating how ill-prepared many folks are for retirement—many aren't even taking the first step.

In our view, having a financial plan opens the door to having good money habits in general. 56% of people with financial plans felt "very confident" they would ultimately reach their financial goals, while only 17% of people without financial plans felt the same<sup>1</sup>. *Financial plans lead to better outcomes.*

'Financial planning' is often viewed within the framework of investments and investment decision-making, but the reality is that good planning should address multiple touchpoints in a person's financial life. We detail four of them below.



## 1. Understanding the Impact of Major Financial Decisions

Major financial decisions can come at many points in life. Should the family buy a second home in the mountains? Are there enough savings to earmark \$500,000 to fund all of the grandchildren's college educations? If the family donates \$1 million to their favorite charity now, how will that affect the estate plan for future generations?

These are all examples of significant financial decisions that, in our view, should be made within the framework of a financial plan. Having a financial plan gives families the ability to analyze the impact of big financial decisions, so everyone involved understands the costs and the benefits of moving forward.

A good starting point for any financial plan is a balance sheet analysis, which details a family's income, cash flows, expenses, outstanding debt, insurance coverage, and so on. A professional planner can give a family insight on how to improve savings, protect current assets, enhance long-term growth capabilities, make big purchases, and ensure estate planning outcomes. The financial plan becomes a de facto playbook for developing and executing big financial decisions.

For example, the image below shows an example of a family interested in buying a second home. The financial plan takes into account the down payment, mortgage payments over time with interest, as well as higher living expenses. The goal of the analysis is to measure the impact of the big purchase and higher spending on the overall financial plan, and to gauge how the decision affects the family's ability to realize their long-term goals. As readers can see from the illustration, the probability of success falls from 99% to 74% when the big purchase is factored-in, which is a significant drop but perhaps not enough to advise against the purchase.



Source: eMoney (hypothetical example)



## 2. Investing and Retirement Planning

A financial planner can also help drive better *investment* outcomes.

Effective planning provides advisors with the insights needed to properly structure the investment portfolios within a family’s estate. For example, it may be more advantageous to pursue a growth tilt for one account, while adopting an all-income strategy for another. Financial planning means looking at the entire financial picture—making sure each piece of the puzzle is working towards the overall goal.

Tailoring an investment portfolio to a family’s needs and making smart investment decisions are obvious ways a financial planner can add value. But there are other services a planner can—and should—provide to enhance outcomes and returns. Vanguard details these services in the table below, while also making an effort to quantify their value. As readers can see, services like rebalancing, behavioral coaching, and developing spending strategies can increase an investor’s overall return. These are all services we bake into our approach at Ascension Capital.

### QUANTIFYING FINANCIAL PLANNING SERVICES THAT ADD VALUE

Vanguard Advisor’s Alpha strategy	Module	Typical value added for client (basis points)
Suitable asset allocation using broadly diversified funds/ETFs	I	>0 bps*
Cost-effective implementation (expense ratios)	II	40 bps
Rebalancing	III	35 bbps
Behavioral coaching	IV	150 bps
Asset location	V	0 to 75 bps
Spending strategy (withdrawal order)	VI	0 to 110 bps
Total-return versus income investing	VII	> 0 bps*
<i>Total potential value added</i>		<b>About 3% in net returns</b>

Source: Vanguard

\*Value is deemed significant but too unique to each investor to quantify. We believe implementing the Vanguard Advisor’s Alpha framework can add about 3% in net returns for your clients and also allow you to differentiate your skills and practice. The actual amount of value added may vary significantly, depending on clients’ circumstances.

Ascension’s financial plans also give families a detailed look at how cash flows, spending plans, time horizons, inflation expectations, and investment strategies all influence a family’s finances over time. Our analysis can help families understand where they stand today and how prepared they are for the future.



Below, we've included a snapshot of what this analysis looks like. Ascension takes into consideration a family's income flows, total expenses, total outflows, net cash flow, and changes to the total value of the investment portfolio. The table below details a year-by-year view of how the portfolio value changes based on spending needs and other factors like life inflation and the impact of various asset allocation strategies. Changing the level of income flows, spending, or asset allocation strategies will alter the trajectory of the portfolio over time.

#### SAMPLE CASH FLOW AND INVESTMENT ANALYSIS

Year	Age	Income Flows	Investment Income	Other Inflows	Total Inflows	Total Expenses	Total Outflows	Net Cash Flow	Total Portfolio Assets
2021	46/4 2	\$350,000	\$0	\$0	\$350,000	\$325,409	\$325,409	\$24,591	\$6,847,271
2022	47/4 3	363,160	0	0	363,160	336,284	336,284	26,876	7,158,189
2023	48/4 4	376,815	0	0	376,815	347,508	347,508	29,307	7,483,373
2024	49/4 5	390,983	0	0	390,983	359,163	359,163	31,820	7,823,399
2025	50/4 6	405,684	0	0	405,684	371,183	371,183	34,501	8,178,949
2026	51/4 7	420,938	0	0	420,938	412,454	412,454	8,484	8,521,860
2027	52/4 8	436,765	0	0	436,765	426,522	426,522	10,243	8,880,467
2028	53/4 9	453,187	0	0	453,187	441,036	441,036	12,151	9,256,500
2029	54/5 0	470,227	0	0	470,227	456,140	456,140	14,087	9,647,592
2030	55/5 1	487,908	0	0	487,908	471,732	471,732	16,176	10,057,526
2031	56/5 2	506,253	0	0	506,253	487,887	487,887	18,366	10,486,061
2032	57/5 3	525,288	0	0	525,288	504,580	504,580	20,708	10,934,034
2033	58/5 4	545,039	0	0	545,039	521,951	521,951	23,088	11,402,196
2034	59/5 5	565,532	0	0	565,532	539,907	539,907	25,625	11,891,446
2035	60/5 6	586,796	0	0	586,796	558,470	558,470	28,326	12,402,722
2036	61/5 7	608,860	0	0	608,860	577,764	577,764	31,096	12,936,900
2037	62/5 8	631,753	0	0	631,753	597,725	597,725	34,028	13,494,981
2038	63/5 9	655,507	0	0	655,507	618,412	618,412	37,095	14,077,975

Source: eMoney (hypothetical example)

Ascension repeats this analysis at least once a year or anytime a family's financial situation changes, to ensure you remain on track to reach your goals.

### 3. Insurance Planning

Life insurance is often a key element of a financial plan, because the (generally) tax-free death benefit can be used for a variety of reasons—ensuring the financial security of the surviving spouse and family, paying taxes on other parts of the estate, or perhaps funding a trust that's designed to cover living expenses for generations to come. The role of life insurance means different things to different families, and Ascension can help you navigate the optimal ways to include it in your financial plan.



At the end of the day, insurance planning at its core means maximally protecting a family's assets at the lowest possible cost. Ongoing insurance analysis and planning should look for ways to increase benefits and coverage while strategically finding ways to control premiums.

#### **4. Estate Planning**

The fourth and final area where a financial plan can generate better outcomes is in estate matters. We recently sent a piece to clients titled, "The Importance of Estate Planning in 2021." In it, we detailed a few features of estate plans that should be reviewed regularly, such as:

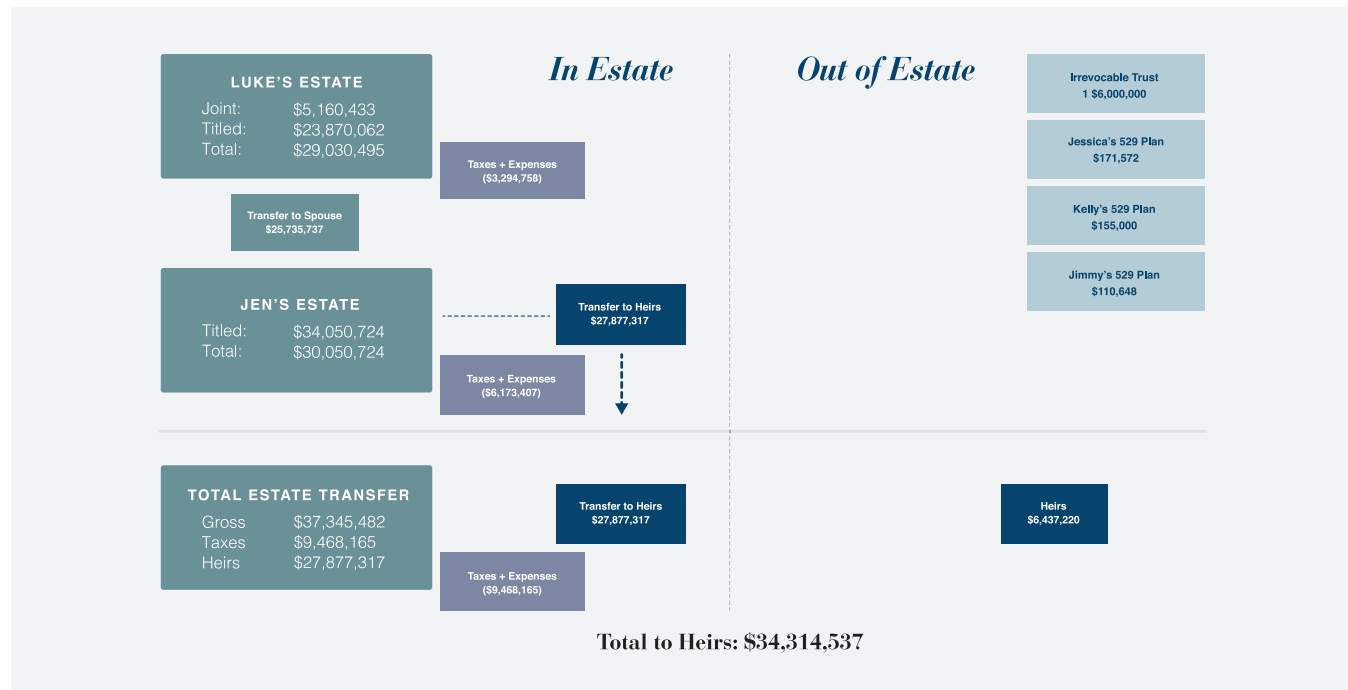
- Updating wills and power of attorney;
- Reviewing beneficiaries;
- Gifting and trust planning; and,
- Considering the potential value of Roth conversions.

A financial plan's primary goal is to ensure a family is financially secure in life and retirement, and there's peace-of-mind knowing all of your needs and goals will be met. But an equally important feature of a financial plan is ensuring your wealth is protected and preserved, which is where estate planning comes into the picture.

On the next page, we offer a hypothetical example of what an estate analysis looks like, which can help a family understand potential taxes and expenses as well as what assets can ultimately be passed on to heirs. Using this type of analysis as a starting point, we can review strategies designed to minimize taxes and costs while maximizing the total value passed to heirs.



ESTATE FLOW CHART BASE FACTS AS OF AUGUST 23, 2021



These are just a few of the benefits and tools available to us in helping families build a detailed and resilient financial plan. Having a plan in place not only results in better outcomes, in our view, it also allows families to make big and important financial decisions with a great deal of confidence.

Sources:

*Source: Charles Schwab, 2019 Modern Wealth Survey*