

## Financial Planning Letter of Engagement

Once you have chosen a financial planner, what should you expect from the planning process? To start with, your expectations and those of your planner should be spelled out in a letter of engagement, a document that defines the relationship, duties and responsibilities of both parties to the financial planning agreement. By describing the engagement in detail, you and your planner build a framework within which a truly mutual financial planning relationship can develop.

A primary function of a comprehensive financial plan is to provide clarity regarding your current situation—exactly where you are with respect to the various goals and concerns addressed in the engagement document. Additionally, the plan should elucidate what behaviors, habits and conditions have been instrumental in creating your current financial situation. Seemingly disjunct events and actions taken in unrelated life events can have a dramatic impact on one another. For example, naming a minor child as beneficiary on a life insurance policy or retirement account can set in motion a number of estate planning, custodial, and trustee issues.

Observations regarding your current situation can be viewed in conjunction with the goals and concerns that most likely generated your perceived need for a comprehensive financial plan. Strengths and weaknesses in your approach to date will assist both you and your planner in mapping a course of action to bring you closer to your financial goals, while working towards eliminating behaviors and conditions that could prevent you from reaching their goals in the desired time frame.

The complexity of financial life these days demands that each facet of a financial plan be evaluated in relationship to others—a strategy to reduce current income tax liability could likely have the effect of reducing retirement plan income, or increase the assets deemed available for an expected family contribution towards college costs. Investment decisions affect income tax, business budgets, and estate planning consideration, etc., etc.!

Most comprehensive plans have a multiple disciplinary flavor: that is, a team approach including some or all of the following; tax advisor, legal counsel, investment counselor, insurance agent, and others. Be advised that in many cases, the financial planning fee may cover the services of only one or two of the professionals involved in the process. The letter of engagement should spell out the costs are covered by the engagement and those that are not.

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