PLANNING
AS A CONCEPT

How to use Focused Planning to create Value over Product™ and Increase Sales

By Dave Faulkner, CLU, CFP

RAZOR PLAN

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EXECUTIVE SUMMARY

The longevity of the different sales concepts is a testament to their effectiveness at helping explain the many benefits of financial products. Sales concepts, however, have one serious flaw, they fail to consider the client's big picture. When financial advisors replace comprehensive analysis with a product sales concept, it can be viewed as biased and have a negative effect on the client even when the advice is the best solution given the client's situation.

If the financial industry continues to tie advice to product concepts, how can we expect the public not to view our advice as biased? The answer is simple, take the product out of the concept.

In this book you will learn how to use six Focused Planning™ concepts to create Value over Product™ so your clients will understand the value of your recommendations and give them the confidence to purchase the products and services you know will improve their financial situation.

ABOUT THE AUTHOR

Dave Faulkner, CLU, CFP

Dave Faulkner entered the insurance industry in 1978. Since then his career has evolved from selling insurance to designing software tools for insurance agents, investment advisors, and financial planners. As a software consultant, Dave's clients include insurance companies, MGAs, banks, and wealth management firms. He is also a practicing financial planner specializing in estate planning for professionals and small business owners.

Dave is co-founder and CEO of Razor Logic Systems Inc., an innovative software company and creator of RazorPlan financial planning software.

Dave and his wife Angela live in Alberta. They enjoy golfing together, touring the country on their Harley Davidson motorcycles and have 3 sons and 6 grandchildren.

WHAT IS A SALES CONCEPT?

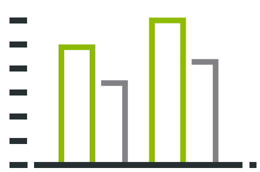
If you are like most financial advisors that sell product and earn income from commissions, you are no doubt familiar with the many insurance sales concepts promoted by product suppliers. Most of the concepts used by advisors today have been around for years. The Estate Bond concept for example, was being used to sell permanent life insurance long before many of the advisors entering the business today were born.

The longevity of the different sales concepts is a testament to their effectiveness at helping to explain the many benefits of the different financial products available. They are so successful in fact, that many companies have branded and linked the most popular sales concepts to the products they offer.

Insurance sales concepts for example, will typically fall into 1 of 3 categories:

1. **Comparison Concepts:** These are designed to illustrate the benefits of one type of insurance over another. *Buy Term and Invest the Difference* and *The Cost of Waiting* are included in this category.

2. **Estate Preservation Concepts:** These are designed to illustrate the projected value of a person's after-tax estate using life insurance compared to investing in GICs or doing nothing. *Estate Bond* and *RRIF Insurance* are included in this category.



3. **Retirement Income Concepts:** These are designed to compare after-tax income in retirement using a permanent life insurance policy to the after-tax income from a fully taxable investment. *Insured Retirement Plan* and *Insured Annuity* are included in this category.

The *Estate Bond* concept is one of the oldest insurance sales concepts around. A simple web search for "Estate Bond" produced 240 million results. The following is a first-page example promoting the Estate Bond concept to financial advisors. *See Image 1*

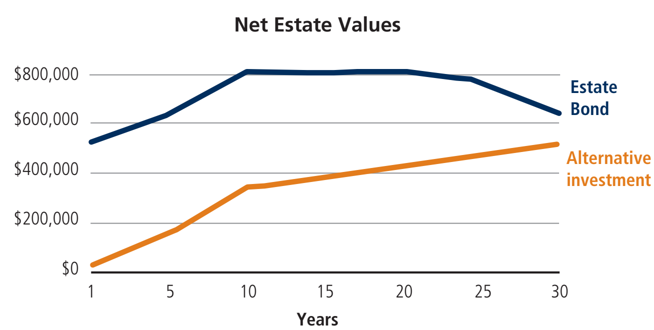
IMAGE 1

Estate Bond

Personal information	Female, age 60, non-smoker	**Before tax investment rate for alternative investment**	4%
InnoVision rate of return	1.50%	**After tax investment rate for alternative investment**	2.20%
Initial death benefit	$500,000		
Deposits	$30,000 per year for 10 years		
Personal tax rate	45%		

Estate Bond				Alternative investment		
Accumulated value	Before tax redemption value	Net estate value	Year	Annual interest	Tax payable	Net estate value
$28,191	$9,959	$528,191	1	$1,200	$540	$30,660
144,804	120,494	644,804	5	6,270	2,821	160,195
303,734	303,734	809,734	10	13,260	5,967	338,805
314,246	314,246	814,246	15	14,785	6,653	377,749
308,919	308,919	808,919	20	16,484	7,418	421,171
272,238	272,238	772,238	25	18,379	8,271	469,583
150,763	150,763	650,763	30	20,492	9,221	523,561

Estate Bond can increase the amount of cash that will go to your client's heirs by over $211,500!



Estate Bond client profile: a 60-year-old female non-smoker invests $30,000 per year for 10 years into a $500,000 universal life policy with an assumed rate of return of 1.5%. This is compared to investing the same $30,000 for 10 years into a fully taxable GIC earning 4% before tax. Assuming a 45% personal tax rate, her after-tax rate of return is 2.2% (4% x (100% - 45%)).

The conclusion demonstrated in this example is that the "Estate Bond can increase the amount of cash that will go to your client's heirs by over $211,500". We can see from the results provided that this value falls somewhere between the 25th and 30th year.

THE PROBLEM WITH THIS APPROACH

Everything about this analysis seems reasonable with one exception, a 45% marginal tax rate is realistic for the first 5 years of the analysis but there is very little chance she would have the same tax rate for the next 30 years.

Depending on her province of residence, for a marginal tax rate to equal 45% she would need to be earning approximately $150,000 per year. Assuming she lives in Ontario and earns $150,000, 2018 tax rates would trigger $46,496 in tax and leave her with $103,504 of after-tax income. After paying the life insurance premium of $30,000 she would be left with $73,504 for lifestyle and retirement savings.

Given the limited information we have been provided, a more reasonable tax rate would be 30% starting at age 65. Using this assumption, the alternative investment would be worth $602,816 after 30 years, $79,255 more than in the example provided.

The alternative investment becomes even more attractive if we utilize TFSA assets. If she has never contributed to a TFSA, and we compare the Universal Life insurance policy to an alternative investment strategy that includes contributions to a TFSA, the alternative investment would be worth $732,736 after 30 years. This is $80,973 more cash for the estate than the Estate Bond is projected to provide as a death benefit.

The Estate Bond does offer a greater after-tax estate for the first 25 years, even when compared to maximizing TFSA as part of the alternative investment, but without a more comprehensive analysis we can only speculate if this strategy is the most appropriate recommendation we can make.

“THEY FAIL TO CONSIDER THE CLIENT’S BIG PICTURE”

FINANCIAL PLANNING AND SALES CONCEPTS

Considering all the advantages and their proven track record for selling financial products, sales concepts have one serious flaw, they fail to consider the client's big picture. Sales concepts use simple assumptions and a limited analysis to highlight changes in one aspect of a client's financial life.

A sales concept that compares the future death benefit of a life insurance policy to the potential future investment value of the premiums, ignores other positive changes to the client's financial situation. By sheltering non-registered investments, you can reduce interest income and prevent the clawback of age credit and OAS benefits. These are both important side-effects of purchasing life insurance. This is added value that cannot be measured with a simple sales concept.

FP Canada, formerly the Financial Planners Standards Council, defines financial planning as:

"A disciplined, multi-step process of assessing an individual's current financial and personal circumstances against an individual's future desired state, and developing strategies that help meet personal goals, needs and priorities by optimizing the allocation of financial resources."

"THE VALUE ATTRIBUTED TO YOUR FINANCIAL PLANNING ADVICE IS MORE THAN THE SUM OF THE INVESTMENT AND INSURANCE PRODUCTS YOU RECOMMEND TO THE CLIENT."

Financial planning is a highly integrated, yet focused process consisting of six distinct elements;

- **Financial Management,**
- **Investment Management,**
- **Risk Management,**
- **Tax Planning,**
- **Retirement Planning, and**
- **Estate Planning**.

"ADVICE THAT IS ATTACHED TO A PRODUCT CAN BE VIEWED AS BIASED AND VALUED LESS THAN ADVICE THAT IS FOCUSED ON THE CLIENT'S FINANCIAL GOALS."

As a financial advisor, the scope of planning for a given client will generally focus on 2 or more of the above elements. Just as Retirement Planning is connected to Investment Management, and Estate Planning is connected to Risk Management, no one element of financial planning can be effectively done in isolation of all others.

When financial advisors replace comprehensive analysis with a product sales concept, it can have a negative effect on the client even if the advice given is the best solution. Advice that is attached to a product may be viewed as biased and valued less than advice that is focused on achieving the client's financial goals.

Sales concepts in and of themselves are not bad. They are very effective at helping clients understand the benefits of various planning strategies. The fact that most are tied to a given product is simply due to their origin. Supplier companies want you to sell more of their products, therefore providing sales concepts is just one of the ways to market products to financial advisors.

Financial advice should be recognized as a profession, no different than accounting or law. If we continue to tie advice and recommendations to sales concepts, we cannot expect the public or other professions to view us as professionals. The solution is simple, take the product out of the concept!

PLANNING AS A CONCEPT - DEMONSTRATE YOUR VALUE OVER PRODUCT™

There are many ways that clients can get product advice for little to no cost. There are numerous robo-advisors available to manage your investments and plan for your retirement. These direct to consumer financial product websites are a growing trend that will not slow down anytime soon.

The value attributed to your financial planning advice is more than the sum of the investment and insurance products you recommend. Behavioral coaching and strategic management of financial resources provides significant value that cannot be quantified using a simple product-based sales concept. This is called *Value over Product™*.

In recent years there have been several studies conducted by various professional organizations and research firms on the value of advice. The 2015 study *Putting a value on your value: Quantifying Vanguard Advisor's Alpha in Canada* determined that over time advisors can add "about 3%" growth on assets through relationship-oriented services such as wealth management and behavioral coaching. In 2012, and updated in 2015, another study called *The Gamma Factor and the Value of Financial Advice* looked at the growth in financial assets over time between households that received financial advice versus those that did not. Those that received financial advice had 1.58 times the assets in 4-6 years, and 2.73 times the assets after 15 years.

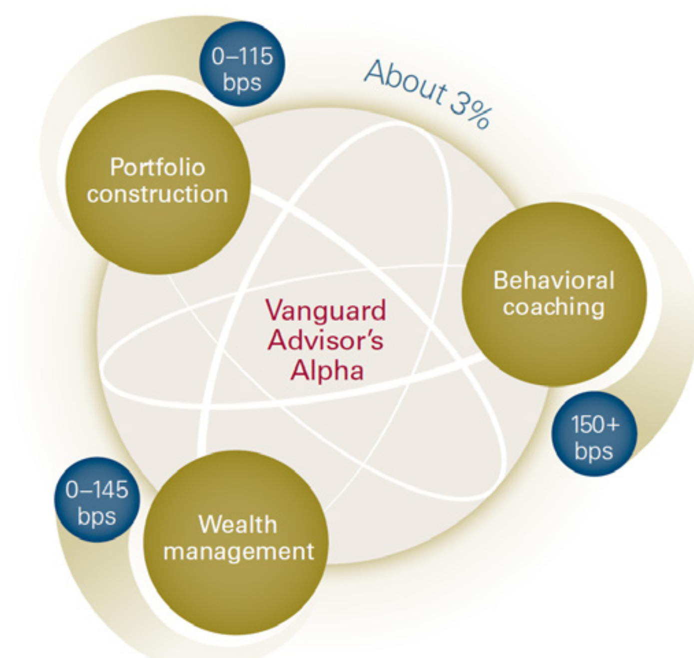
Financial Products

+

Behavioral Coaching

+

Strategic Management



SOURCE: PUTTING A VALUE ON YOUR VALUE - QUANTIFYING VANGUARD ADVISOR'S ALPHA

What these studies point to is the benefit of adding *Value over Product™*. The best way for you to illustrate your value is through a comprehensive financial analysis with a focus on the six distinct elements of a financial plan.

In the *Advice and Retirement Income Study* we conducted in March 2018, we compared the potential retirement income a client could expect to receive if they invested with a low-cost robo-advisor versus working with a financial advisor that prepared a comprehensive financial plan.

With a reduced return assumption to reflect the fees charged by the financial advisor, the impact of advice related to behavioral coaching and strategic management increased retirement income by 22% when compared to the higher return of a low-cost robo-advisor.

Advice that is limited to product will always provide limited results, and advice that is part of a comprehensive financial plan will always add additional value. When you view ***Planning*** as a ***Concept*** you can easily quantify your *Value over Product™*.

FOCUSED PLANNING™ BY RAZORPLAN

Focused Planning centres on identifying the core needs of your client as it relates the six distinct elements of a financial plan; Financial Management, Investment Management, Risk Management, Tax Planning, Retirement Planning, and Estate Planning.

It can be difficult to clearly illustrate value of advice inside a comprehensive financial plan, because the six elements of financial planning are both negatively and positively correlated. A strategy to melt-down RRSP assets to avoid a high rate of tax at death will have a positive impact on estate tax and a negative impact on net worth. This is the case with most of the planning strategies financial advisors use to help clients achieve their goals. No matter what money decisions we make, it will have both a positive and a negative impact on various aspects of a comprehensive analysis.

To eliminate this complexity, many advisors prefer instead to use single needs calculators for life insurance, retirement, and cash flow planning. But single needs calculators use simple assumptions to highlight changes in one aspect of a client's financial life while ignoring other aspects that are sure to be impacted by your advice.

FINANCIAL MANAGEMENT

Compares the projected net worth of the client's current plans to your recommendations

INVESTMENT MANAGEMENT

Compares the investment value of the client's current plans to your recommendations

RISK MANAGEMENT

Uses human capital to help clients see their future earning power as a tangible asset that should be insured

Using Focused Planning will help your clients understand the value of your advice and give them the confidence needed to purchase the products and services you recommend to help them achieve their goals and objectives.

RazorPlan financial planning software includes six *Focused Planning*™ concepts that are unlike any of the current single needs calculators available because they focus on an individual need within a comprehensive analysis.

Each concept is designed to calculate the value of your advice using selected metrics specific to the focus of the planning engagement. Concepts include:

1. **Financial Management:** With a focus on budgeting, debt management and behavioral coaching, the Financial Management concept uses net worth as the key metric. Clients that have a personal desire to better manage their money are motivated to act due to the positive impact your advice has on their net worth. Common Financial Management concepts include RRSP vs. Mortgage, Retirement Cash Flow Planning, Budgeting, and Debt Management.

2. **Investment Management:** Focusing on asset allocation, rate of return, and management fees, Investment Management concepts use investment value as the key metric. Clients that have a personal desire to increase wealth through investing, will be motivated to act due to the positive impact your advice will have on their investment accounts. Investment Management concepts include RRSP vs. Non-Registered/TFSA, Asset Allocation Rebalancing, and Cost of Investment Fees.

3. **Risk Management:** With a focus on current and future earning power, the Risk Management concept measures value by using human capital as the metric. By viewing their human capital value as a tangible asset that should be insured, client that have a personal desire to give their family the best lifestyle they can are motivated to act. Risk Management concepts include Cost of Waiting, Term vs. Permanent, and Layered Rider Allocation.

TAX PLANNING

Compares annual tax paid with the client's current plans to your recommendations

RETIREMENT PLANNING

Compares projected income producing assets of the client's current plans to your recommendations

ESTATE PLANNING

Compares projected estate value of the client's current plans to your recommendations

4. **Tax Planning:** By focusing on income tax and tax efficient retirement income strategies, the Tax Planning concept uses annual and cumulative tax paid as the metric of value. Clients that have a personal desire to pay less income tax are motivated to act due to the positive impact your advice will have on their annual tax bill. Tax Planning concepts include Insured Retirement Plan (IRP), Insured Annuity, and Social Security Optimization.

5. **Retirement Planning:** Focusing on creating a retirement nest egg and sustainable retirement income, the Retirement Planning concept uses income producing assets as the metric. Clients that have a personal desire for a secure retirement are motivated to act due to the positive impact your advice will have on their assets and retirement income. Common Retirement Planning concepts include RRSP vs. Non-Registered/TFSA, Income Withdrawal Order, and Pension Optimization.

6. **Estate Planning:** With a focus on maximizing estate value, the Estate Planning concept uses estate worth as the key metric of value. Clients that have a desire to leave more wealth to their family and less to the government are motivated to act due to the positive impact your advice will have on the value of their estate. Estate Planning concepts include Estate Bond, RRIF Insurance, Asset Protection, and Investment Shelter.

Focused Planning™ is a feature of RazorPlan financial planning software that calculates *Value of Advice* to validate your recommendations and instill confidence in you as a financial professional.

FINANCIAL MANAGEMENT

RAZOR PLAN

FINANCIAL MANAGEMENT

"IT CAN BE DIFFICULT TO CLEARLY ILLUSTRATE VALUE OF ADVICE INSIDE A COMPREHENSIVE FINANCIAL PLAN."

Financial Management is a key part of any comprehensive financial planning engagement. How a client manages their finances will play a significant role in determining if they will achieve their goals and remain committed to the recommendations you have helped them to implement. Included with the *Financial Management* concept are detailed Net Worth and Cash Flow statements, which together will help your clients focus on the financial resources they have, where their money comes from, and where they spend it.

This concept clearly communicates your *Value of Advice* by comparing the projected net worth of two scenarios using a line graph along with icons representing 5, 10 and 15 years of advice.

1. Scenario 1 is the client's current plan
2. Scenario 2 is your recommendations

To illustrate the advantage of using the *Financial Management* concept over a product sales concept, we will examine the classic RRSP savings question, "Should I contribute to my RRSP or pay down my mortgage?"

RRSP VS. MORTGAGE ... CLIENT PROFILE

Bob and June Reilly, age 45 & 41, have been insurance clients of yours for 5 years. Bob takes an active role in managing his finances and recently received a promotion that will increase his annual income from $100,000 to $125,000. This will net him an additional $1,250 each month after-tax which he plans to use to pay-down his mortgage.

With a mortgage balance of $175,000 and interest rate of 3.3%, the current monthly payment of $1,232 will have the mortgage paid off at his age 60 when they plan to retire. Using his bank's mortgage calculator, Bob has determined that if he increases his monthly payments by $1,250 the mortgage will be paid off in just under 7 years at his age 52.

Once the mortgage is paid off, he plans to contribute the entire $25,000 raise to his RRSP until he retires. Bob and June have a total of $380,000 in RRSPs and contribute $1,000 each month. Bob used his bank's RRSP calculator to estimate that at a 5% rate of return, their current RRSP savings along with the planned increase in contributions will grow to over $1.3 million by the time they retire in 15 years.

PRODUCT ADVICE

Having learned about Bob's promotion, you arrange to do a review. During the meeting they informed you of their plans for the increase in salary. As a financial advisor, you know that investing in an RRSP with a projected rate of return of 5% will create more wealth than paying down a mortgage with a 3.3% interest rate.

To illustrate this using RazorPlan, you add 2 Scenarios to Bob & June's plan; Scenario 1 prioritizes paying down the mortgage and Scenario 2 prioritizes contributing to the RRSP.

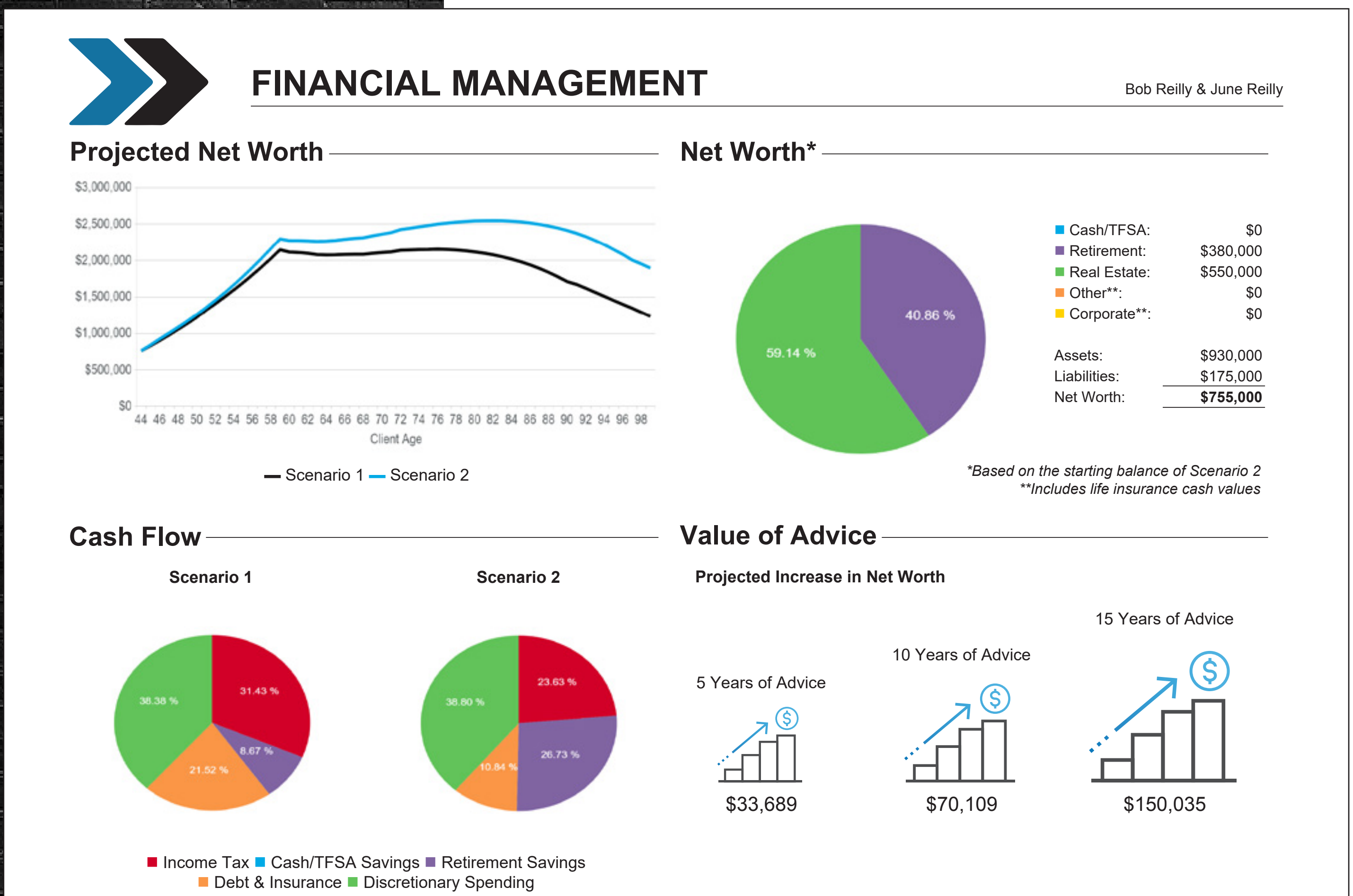


IMAGE 1, SUMMARY PAGE FROM THE FINANCIAL MANAGEMENT CONCEPT COMPARING RRSP VS. MORTGAGE

Using the summary page of the Financial Management concept *(image 1)*, you can see that investing in RRSP as opposed to paying down the mortgage, is projected to increase net worth over 5 years by more than $33,000. After 15 years, when Bob and June plan to retire, the increase in net worth is $150,000.

In addition to the change in net worth, their cash flow allocation validates that discretionary spending (lifestyle) is the same whether they pay down the mortgage or contribute to their RRSP.

PLANNING ADVICE

Although investing in an RRSP is clearly a better use of the increased income from a net worth point of view, your value is limited to a product sale. Providing additional planning recommendations related to the increase in income and the client's retirement goals will create *Value over Product™* and help your clients better appreciate the financial advice, guidance, and products you recommend.

What if in addition to increasing the RRSP contributions, you add the following recommendations in Scenario 2?

1. As Bob's income increases in the future, contributions to his RRSP should also increase at the same index rate.
2. Due to the size of the increase in wages, you have calculated that Bob's RRSP contributions will be maxed-out within 2 years. When this happens, Bob should contribute the after-tax difference to a TFSA for additional investment growth and the flexibility associated with having tax-paid saving in retirement.
3. When they retire, they should time the conversion from RRSP to RRIF to minimize the 30% withholding tax on income drawn from retirement savings.

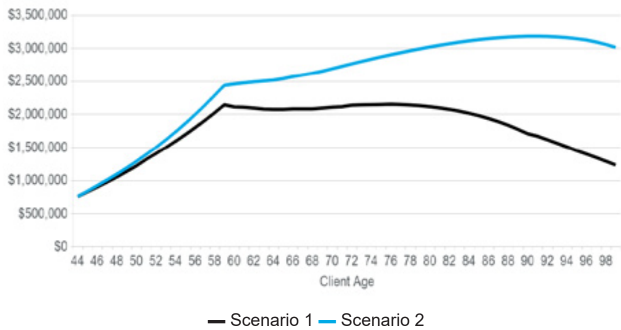
Adding these additional recommendations to the RazorPlan *Financial Management* concept creates *Value over Product™* by doubling the results of using a product sales concept alone *(see image 2).*

IMAGE 2, SUMMARY PAGE FROM THE FINANCIAL MANAGEMENT CONCEPT COMPARING ADVICE + RRSP VS. MORTGAGE.

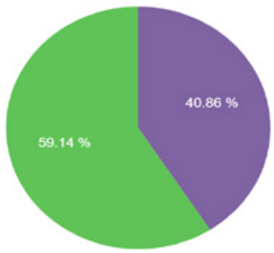
FINANCIAL MANAGEMENT

Bob Reilly & June Reilly

Projected Net Worth



Net Worth*

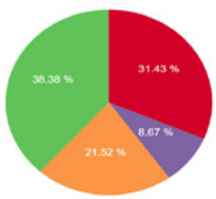


Cash/TFSA:	$0
Retirement:	$380,000
Real Estate:	$550,000
Other**:	$0
Corporate**:	$0
Assets:	$930,000
Liabilities:	$175,000
Net Worth:	**$755,000**

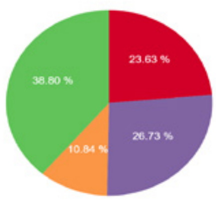
**Based on the starting balance of Scenario 2*
***Includes life insurance cash values*

Cash Flow

Scenario 1



Scenario 2



Value of Advice

Projected Increase in Net Worth

INVESTMENT MANAGEMENT

INVESTMENT MANAGEMENT

Investment Management plays an important part of any comprehensive financial planning engagement. The amount a client is willing to invest for their future will directly impact their ability to achieve goals related to major purchases, children's education and retirement. Included with the Investment Management concept is a ledger that displays the change in financial position for investment savings, withdrawals and total assets, which will help your clients focus on the positive results they can expect from your recommendations.

This concept clearly communicates your *Value of Advice* by comparing the projected investment value of two scenarios using a line graph along with icons representing 5, 10 and 15 years of advice.

1. Scenario 1 is the client's current plan
2. Scenario 2 is your recommendations

To illustrate the advantage of using the *Investment Management* concept over a product sales concept, we will examine a popular investment topic today, "Robo-advisors and the high cost of investment management fees."

Value of Advice

Projected Increase in Investment Assets

COST OF INVESTMENT FEES ... CLIENT PROFILE

One of your clients recently referred you to his accountant Ruth. Ruth and Mark Stephens, age 43 & 44, have been married for 8 years and together they have $270,000 in RRSPs (saving $1,650 / month) and $25,000 in TFSA (saving $350 / month). Ruth manages and owns most of the couple's investment assets which are invested with her local bank.

Recently Ruth was researching robo-advisor platforms after reading an article on the long-term impact that high investment fees could have on her retirement savings. Using an on-line fee calculator, she estimated that the fees she is paying on her portfolio will cost her almost $200,000 in lost investment growth by the time she retires.

Your client told her about the comprehensive financial plan you prepared for him that included a recommendation to consolidate investments using a low-cost ETF portfolio that you manage.

USING INVESTMENT VALUE IS THE BEST METRIC DUE TO THE FOCUS ON ASSET ALLOCATION, RATE OF RETURN, AND MANAGEMENT FEES.

PRODUCT ADVICE

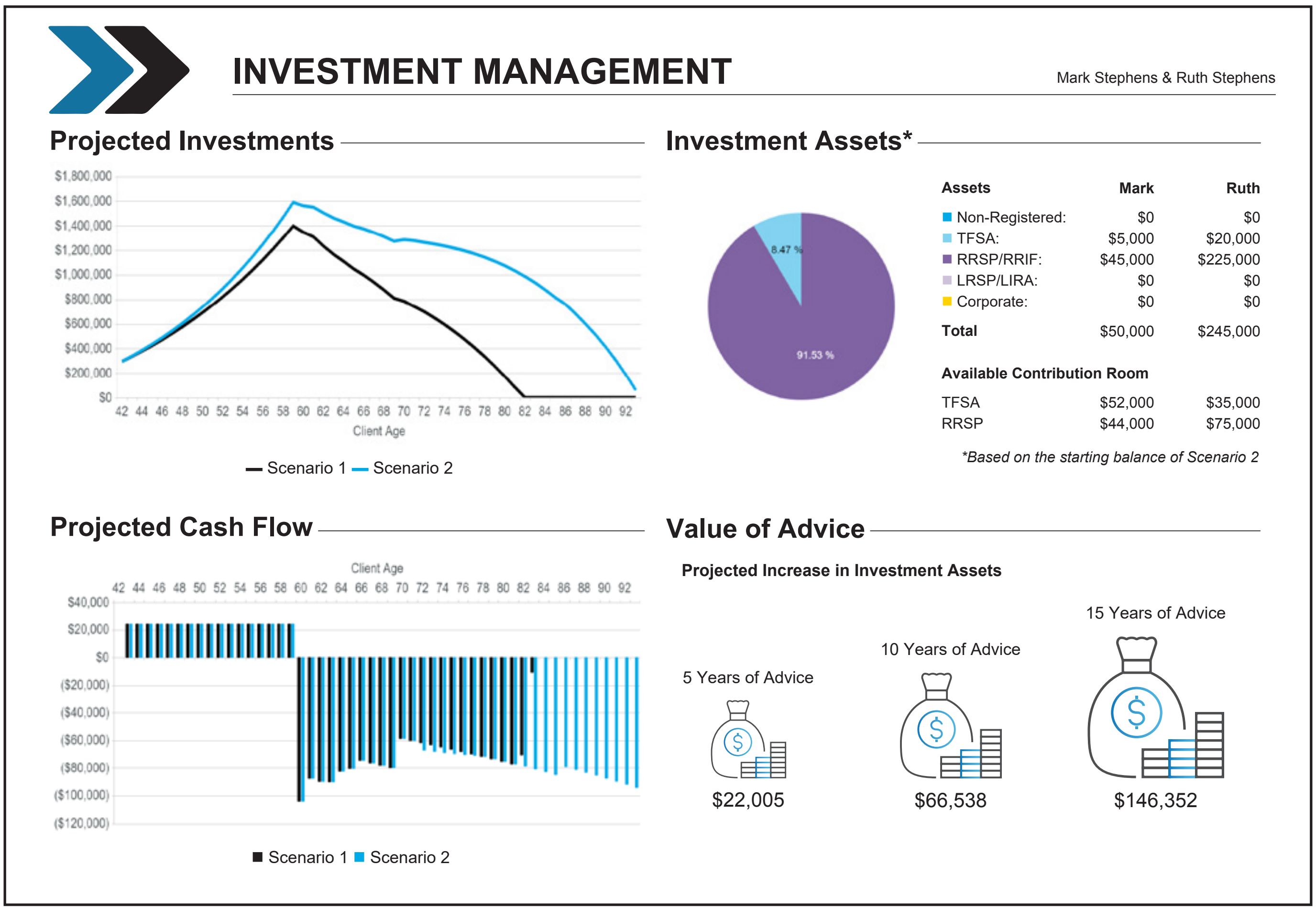
Ruth contacted you to arrange a meeting at your office to discuss how your services compare to the various online robo-advisors and the fees you would charge on her portfolio. At the meeting you explained that your fees would be about 1% lower than the current fees on her portfolio and if she consolidated her investments with you the reduction in fees would have significant impact on the projected value of her investments over the long-term.

To illustrate this using RazorPlan, you create a planning file with 2 Scenarios; Scenario 1 would project a plan assuming a portfolio earning 5.5% rate of return until retirement and a 4% rate of return in retirement, Scenario 2 would assume a 1% increase in returns to represent your lower investment fees.

Using the summary page of the Investment Management concept *(image 1)*, you can see that reducing investment fees by 1% annually is projected to increase their savings by $22,000 over 5 years. After 15 years, 3 years into retirement, the increase in investment savings is over $146,000, $54,000 less than the on-line calculator projected.

In addition to the change in total savings, the cash flow chart shows that their savings will now be sufficient to meet their needs for retirement income. With the higher fees demonstrated in Scenario 1, they are projected to consume all savings when Mark is age 82, 10 years short of Ruth's life expectancy.

IMAGE 1, SUMMARY PAGE FROM THE INVESTMENT MANAGEMENT CONCEPT COMPARING COST OF INVESTMENT FEES



INVESTMENT MANAGEMENT

Mark Stephens & Ruth Stephens

Projected Investments

Investment Assets*

Assets	Mark	Ruth
Non-Registered:	$0	$0
TFSA:	$5,000	$20,000
RRSP/RRIF:	$45,000	$225,000
LRSP/LIRA:	$0	$0
Corporate:	$0	$0
Total	$50,000	$245,000

Available Contribution Room

TFSA	$52,000	$35,000
RRSP	$44,000	$75,000

**Based on the starting balance of Scenario 2*

Projected Cash Flow

Value of Advice

Projected Increase in Investment Assets

5 Years of Advice	10 Years of Advice	15 Years of Advice
$22,005	$66,538	$146,352

PLANNING ADVICE

By recommending a low-cost ETF portfolio, the projected long-term value of Ruth's investments will be larger, but your value is limited to a product sale. Providing additional recommendations related to investment planning and the goals of the client will create *Value over Product™* and help your clients better appreciate the financial advice, guidance and products you recommend.

What if in addition to lower investment fees, you add the following recommendations in Scenario 2?

1. As Ruth's income increases in the future, contributions to her RRSP & TFSA should also increase at the same rate.
2. Based on their current marginal tax rate, Ruth and Mark should redirect their TFSA contributions to their RRSP and then contribute 50% of their annual tax refund to their TFSA.
3. When they retire, they should time the conversion from RRSP to RRIF to minimize the 30% withholding tax on income drawn from retirement savings, and contribute any excess after-tax RRIF withdrawals to TFSA.

Adding these additional recommendations to the RazorPlan *Investment Management* concept improves the results by an additional $40,000 over 5 years and $250,000 over 15 years. Also, at life expectancy when investment assets are projected to run out with product advice, there is $1.8 million of *Value over Product™* remaining, far exceeding the results provided by the robo-advisor.

INVESTMENT MANAGEMENT CONCEPTS INCLUDE:

1. RRSP vs. Non-Registered
2. RRSP vs. TFSA
3. Asset Allocation Rebalancing
4. Cost of Investment Fees

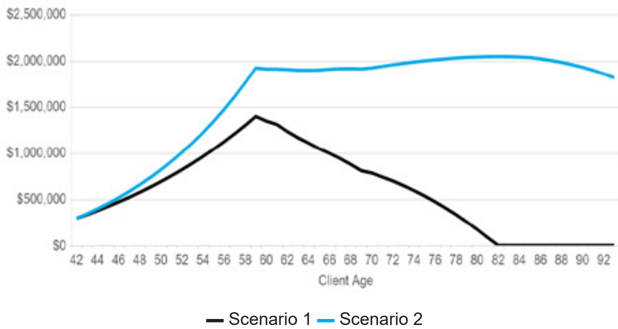
RAZOR PLAN

IMAGE 2,
SUMMARY PAGE FROM THE INVESTMENT MANAGEMENT CONCEPT COMPARING ADVICE + COST OF INVESTMENT FEES

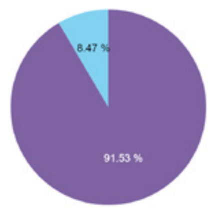
INVESTMENT MANAGEMENT

Mark Stephens & Ruth Stephens

Projected Investments



Investment Assets*



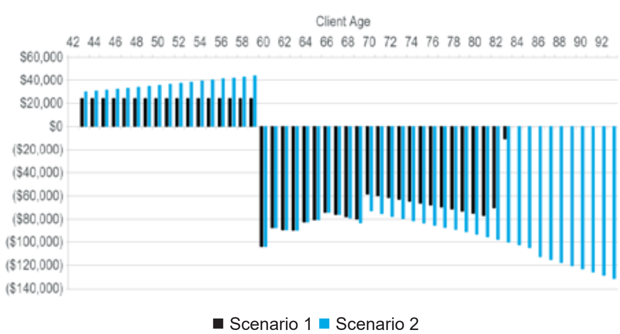
Assets	Mark	Ruth
Non-Registered:	$0	$0
TFSA:	$5,000	$20,000
RRSP/RRIF:	$45,000	$225,000
LRSP/LIRA:	$0	$0
Corporate:	$0	$0
Total	$50,000	$245,000

Available Contribution Room

TFSA	$52,000	$35,000
RRSP	$44,000	$75,000

**Based on the starting balance of Scenario 2*

Projected Cash Flow



Value of Advice

Projected Increase in Investment Assets

RISK MANAGEMENT

RAZOR PLAN

RISK MANAGEMENT

Risk Management is a required part of a comprehensive financial planning engagement. Without risk management, a client's financial plans would be at risk due to events out of their control. Financial loss involving property damage is easily managed using an insurance policy to replace the tangible value of the property in question. Events involving your ability to earn an income are more difficult to manage due to a lack of tangible value.

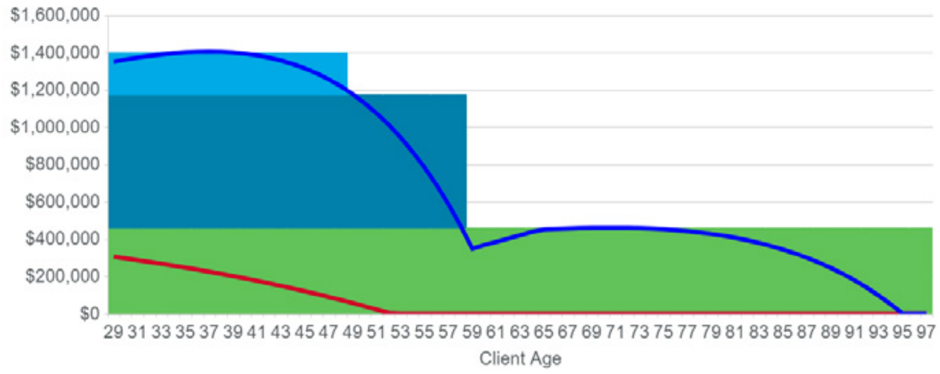
The Risk Management concept uses the client's Human Capital to create a tangible financial loss due to death, disability, critical illness and long-term care. This concept enhances your *Value of Advice* by comparing the present value of lost income to 2 primary needs:

1. Mortgage and debt repayment
2. Savings and discretionary spending *(lifestyle)*

The report clearly communicates the client's Human Capital and allocates this value in relation to various types of life and living benefit insurance policies.

To illustrate the advantage of using the *Risk Management* concept over a product sales concept, we will examine the industry standard *Insurance Needs Analysis*.

VALUE OF ADVICE - HUMAN CAPITAL ALLOCATION



INSURANCE NEEDS ANALYSIS ... CLIENT PROFILE

Thomas and Linda Roy, age 30 & 27, found you in a Google search for life insurance. Married for 2 years, they recently purchased their first home and were searching for quotes on $300,000 of mortgage insurance.

They both work in IT for different tech companies and have stable positions that pay them a combined $154,500 in salary. Together they have saved $40,000 in their RRSP & TFSA, and make monthly contributions totaling $1,300. With no immediate plans to start a family, they feel that should one of them die, insuring the mortgage plus the value of their group insurance and investment savings will be more than adequate for the surviving partner.

PRODUCT ADVICE

You arranged a meeting with Tom and Linda in your office to complete a life insurance needs analysis. After entering their lump-sum needs which include the mortgage, 2 small car loans and final expenses, you asked them how much each of them would need monthly to maintain their lifestyle. After a moment of thought, they replied zero.

After explaining to them how important it is to include an amount of monthly income for the surviving partner, they reluctantly agreed to consider replacing only $1,000 / month for 10 years.

RISK MANAGEMENT CONCEPTS INCLUDE:

1. Cost of Waiting
2. Term vs. Permanent
3. Layered Rider Allocation

The report prepared by the insurance needs analysis confirmed what Tom and Linda believed, mortgage insurance along with their savings and group insurance would be adequate for the surviving partner. They also agreed that should they decide to have children in the future, they would likely need to purchase more insurance, but that could wait.

Using a traditional insurance needs analysis will help to sell an amount of insurance needed today should the client die, but does it go far enough in helping the client understand their future needs?

IMAGE 1,
LIFE INSURANCE NEEDS ANALYSIS COMPARING CAPITAL NEEDED VS. AVAILABLE CAPITAL

LIFE INSURANCE NEEDS: SUMMARY

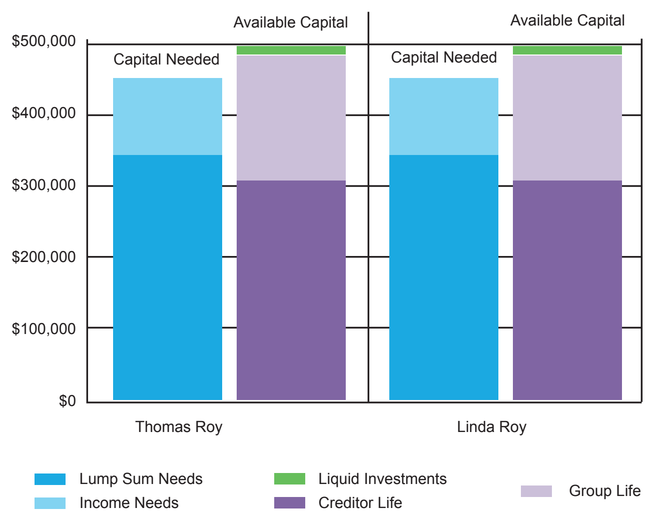
Thomas Roy & Linda Roy

At death of Thomas Roy

Lump-Sum Capital Needs	$345,000.00
Income Replacement Capital	+ $101,621.97
Total Capital Needed	**= $446,621.97**
Creditor / Group Insurance	- $480,000.00
Individual Life Insurance	- $0.00
Liquid Investments	- $11,000.00
Additional Capital Needed	**= ($44,378.03)**

At death of Linda Roy

Lump-Sum Capital Needs	$345,000.00
Income Replacement Capital	+ $101,621.97
Total Capital Needed	**= $446,621.97**
Creditor / Group Insurance	- $480,000.00
Individual Life Insurance	- $0.00
Liquid Investments	- $11,000.00
Additional Capital Needed	**= ($44,378.03)**



PLANNING ADVICE

Although the insurance needs analysis will compare available capital to capital needed in the event of death today, it is based on paying for an expense rather than replacing the tangible value of an asset. In the case of mortgage insurance, the amount purchased is equal to the debt owed. This is much different than fire insurance where the amount purchased is equal to the tangible value of the asset, regardless of how much other wealth the client may have. There is no consideration to reduce coverage by their current savings, or for the question “What type of house do you need if this one is destroyed in a fire?”

When you make recommendations for insurance based on the client’s Human Capital, you create *Value over Product™* and help your clients better appreciate the financial advice, guidance and products you recommend.

Using Human Capital in place of a traditional needs analysis offers 3 main advantages:

1. Human Capital converts the client’s future earning power into a tangible asset that can be applied to all forms of insurance needs; life, disability, critical illness and long-term.
2. Human Capital is a lifetime calculation that incorporates all types of income that could be disrupted including employment income, pensions and government benefits.
3. Human Capital can be allocated to all types of coverage and terms offered, so that you can make an insurance recommendation that is the most efficient in both amount of coverage and premiums.

Calculating insurance needs using the RazorPlan *Risk Management* concept increases your *Value of Advice* by illustrating the tangible value of future earnings in a way the client will appreciate.

The Risk Management concept begins a conversation about the future and introduces living benefits as a valuable part of any insurance portfolio.

By using Human Capital, it was easy for Tom and Linda to see the role life insurance would play in their future financial plans, and they agreed to additional coverage above the mortgage balance. They also agreed to purchase critical illness insurance equal to one year's income as added protection against financial loss.

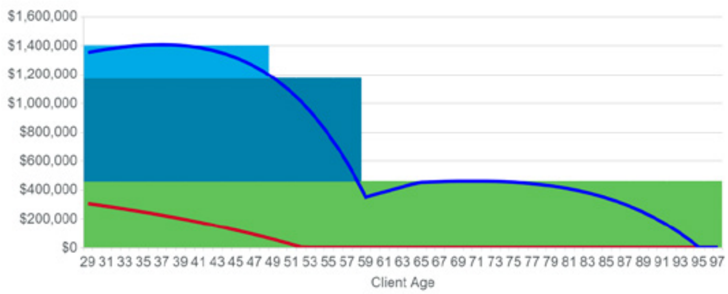
With Human Capital it is not about selling 100% of the amount illustrated, it is about creating *Value over Product™* by educating the client on the future need and purpose of the various types of insurance coverage you offer.

IMAGE 2,
SUMMARY PAGE FROM THE RISK MANAGEMENT CONCEPT WITH HUMAN CAPITAL RISK ALLOCATION

RISK MANAGEMENT

Thomas Roy & Linda Roy

Life Insurance: Thomas



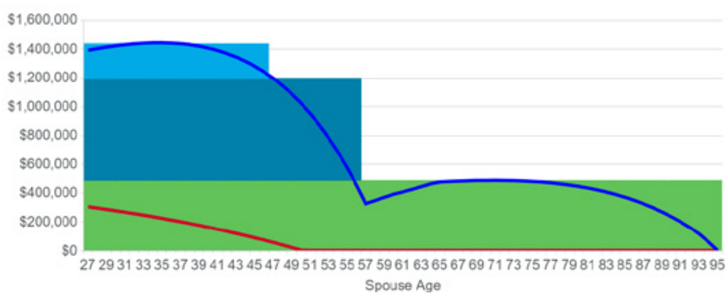
Human Capital Allocation	
10 Years:	$4,940
20 Years:	$224,055
30 Years:	$716,132
Permanent:	$459,907
Capital Needed:	$1,405,034
Debt Coverage:	$305,000

Critical Illness Insurance	
Debts:	$34,607
Savings:	$26,668
Discretionary:	$144,869
Lump-Sum:	$206,144

Disability Insurance
Monthly $2,200

Long Term Care Insurance
Monthly $2,250

Life Insurance: Linda



Human Capital Allocation	
10 Years:	$6,260
20 Years:	$240,003
30 Years:	$709,335
Permanent:	$487,032
Capital Needed:	$1,442,630
Debt Coverage:	$305,000

Critical Illness Insurance	
Debts:	$34,607
Savings:	$26,668
Discretionary:	$151,650
Lump-Sum:	$212,926

Disability Insurance
Monthly $2,200

Long Term Care Insurance
Monthly $2,250

TAX PLANNING

RAZOR PLAN

TAX PLANNING

Tax Planning impacts all areas of financial planning. Every decision your client makes involving their income, the purchase or sale of an asset, the investments they select and when they plan to retire, all play a key role in how much income tax they will have to pay in the future. Included with the Tax Planning concept is a ledger that displays the change in financial position for basic income tax payable, OAS clawback, and average tax rate, which together will help your clients focus on the positive results they can expect from your recommendations.

This concept clearly communicates your *Value of Advice* by comparing the projected income tax paid from two scenarios using a line graph along with icons representing 5, 10 and 15 years of advice.

1. Scenario 1 is the client's current plan
2. Scenario 2 is your recommendations

To illustrate the advantage of using the *Tax Planning* concept over a product sales concept, we will examine a popular insurance sales concept, *Insured Retirement Plan (IRP)*.

Value of Advice

Projected Reduction in Income Tax Paid

INSURED RETIREMENT PLAN (IRP)... CLIENT PROFILE

The Goldbergs, Walter and Stacy, both age 65, were referred to you as an orphan policyholder by an insurance company you are contracted with. After meeting with them to provide some basic policy service, you discovered that they recently retired when Walter sold his fencing company in an asset sale.

After paying all associated taxes, they netted $1.2 million invested in a holding company and $400,000 in personally owned investments. Walter owns 90% of the holding company and 100% of the personal investments in addition to $375,000 in an RRSP. Stacy owns the remaining 10% of the company and has $325,000 in an RRSP.

In the meeting, Walter expressed unhappiness that after paying tax on the sale of the company's assets he must pay more tax to get the money out. When you asked if he would be interested in looking at a strategy that would let him draw income from his corporate investments more tax efficiently, he agreed to meet with you again to discuss it.

PRODUCT ADVICE

Based on the Goldbergs financial situation you decided to suggest the Insured Retirement Plan (IRP) concept to them. Using RazorPlan to illustrate the tax advantages of the IRP concept, you create a planning file with 2 Scenarios.

Scenario 1 uses a traditional investment strategy and their limited income splitting with a lifestyle need of $120,000 reducing to $90,000 at age 75. Scenario 2 incorporates the IRP concept using a corporate owned $750,000 joint last permanent life insurance policy with annual deposits of $50,000 for 20 years.

TAX PLANNING CONCEPTS INCLUDE:

1. Insured Retirement Plan (IRP)
2. Insured Annuity
3. Social Security Optimization

Using the summary page of the Tax Planning concept *(image 1)*, you can see that by implementing the IRP concept the average income tax rate is reduced each year and the value of advice by the 5th year exceeds $64,000 in tax savings. After 15 years the cumulative tax savings is over $151,000.

In addition to illustrating total tax saved, recovery tax (Age Credit and OAS clawback) is also compared adding additional validation for the IRP concept.

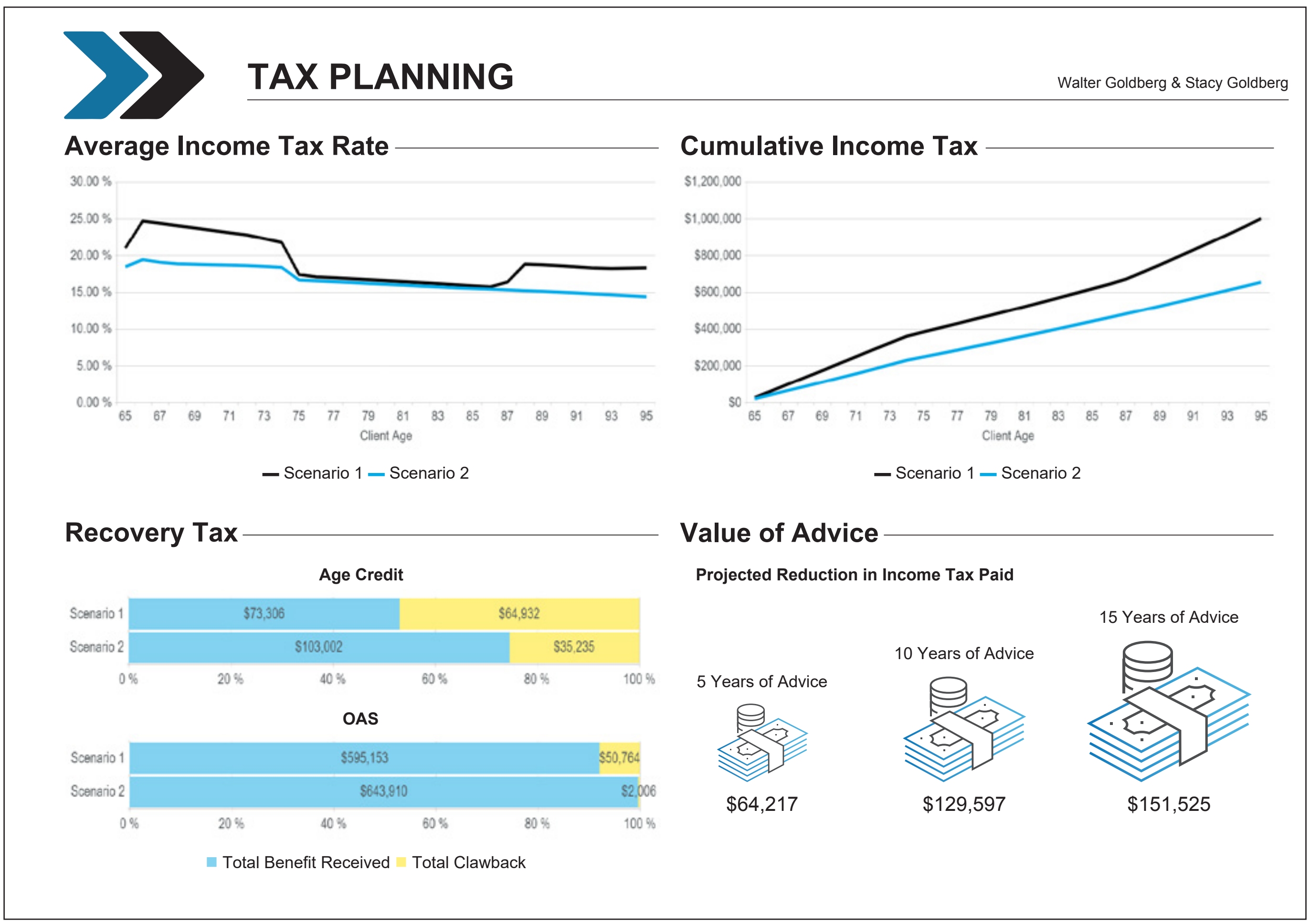


IMAGE 1,
SUMMARY PAGE FROM THE TAX PLANNING CONCEPT COMPARING IRP VS. TRADITIONAL INVESTMENTS

PLANNING ADVICE

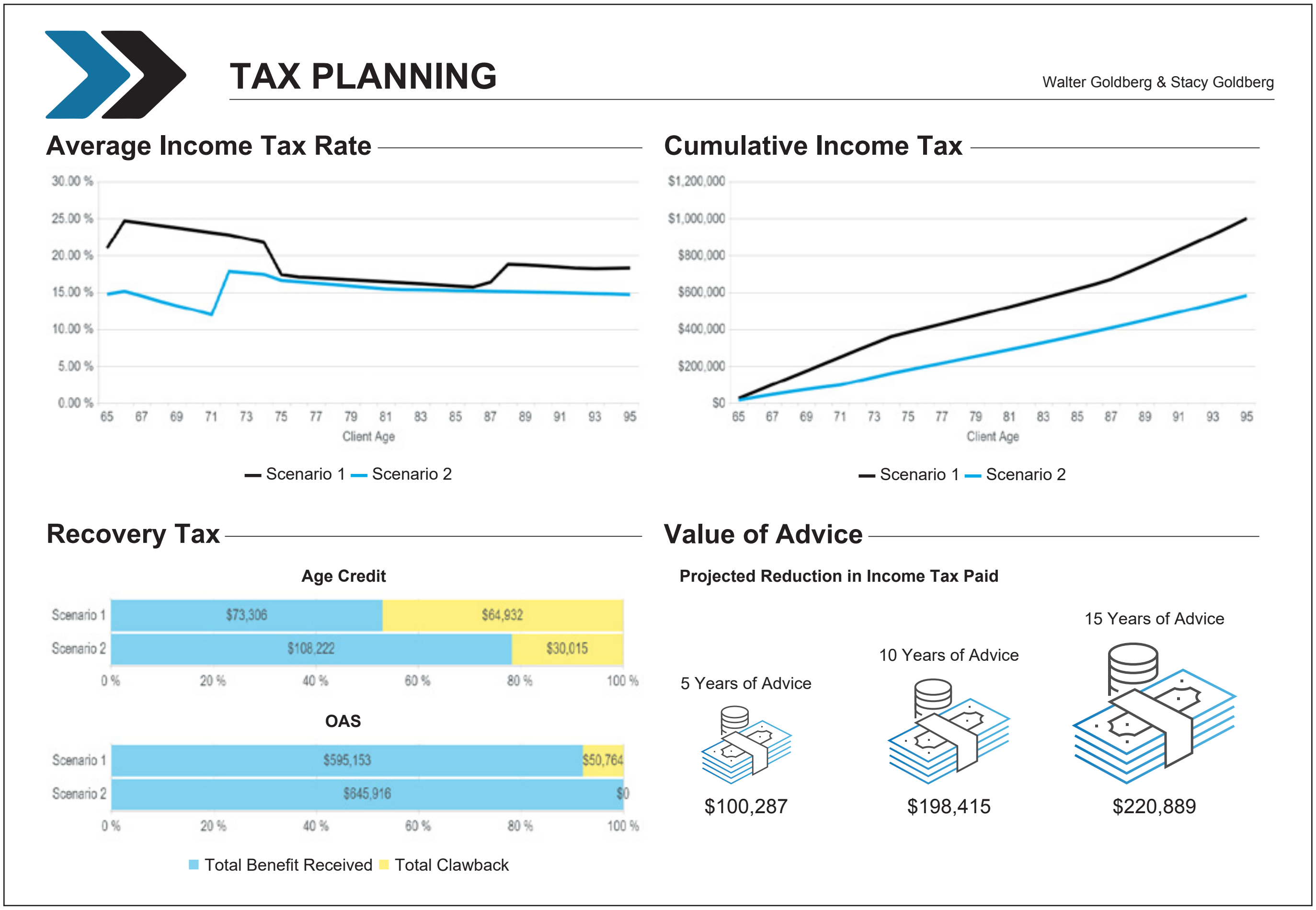
Recommending the IRP concept on its own significantly reduced the annual income taxes by reducing the amount withdrawn from corporate investments, but your value is limited to a product sale. When you include other recommendations aimed at minimizing income tax, you create *Value over Product™* and help your clients better appreciate the financial advice, guidance and products you recommend.

In addition to the IRP strategy, what if you add the following recommendations in Scenario 2?

1. Delaying the conversion of the RRSPs to a RRIF until age 71 creates an opportunity to use some of the tax-paid investments for lifestyle, further reducing the amount of taxable income until age 72.
2. The Goldbergs have not contributed to their TFSAs in the past, as their focus was on corporate growth and RRSPs. Incorporate TFSAs into their asset allocation strategy to include TFSA contributions using taxable investments this year and each year in the future.
3. Implement income splitting strategies to split investment income from the taxable investments. In addition, modify corporate share structure to allow more of the corporate dividends to be paid to Stacy.

Adding these additional recommendations using the RazorPlan *Tax Planning* concept creates *Value over Product™* by improving the results by an additional $35,000 over 5 years and $70,000 over 15 years compared to the product only recommendation.

IMAGE 2, SUMMARY PAGE FROM THE TAX PLANNING CONCEPT COMPARING ADVICE + IRP VS. TRADITIONAL INVESTMENTS



RETIREMENT PLANNING

RAZOR PLAN

RETIREMENT PLANNING

Retirement Planning is the process of helping a client manage their assets with the goal of achieving their vision of financial independence. Although all areas of financial planning will impact a client's retirement plans, it is highly integrated with Financial Management and Investment Management due to the dependency on available cash flow and willingness to invest for the future. Included with the Retirement Planning concept is a ledger that displays the change in financial position for income producing assets, required savings and any excess or deficiency, which together will help your clients focus on the positive results they can expect from your recommendations.

This concept clearly communicates your *Value of Advice* by comparing the projected value of income producing assets and pensions from two scenarios using a line graph along with icons representing 5, 10 and 15 years of advice.

1. Scenario 1 is the client's current plan
2. Scenario 2 is your recommendations

To illustrate the advantage of using the *Retirement Planning* concept over a product sales concept, we will examine the difficult decision many people with a defined benefit pension are faced with at retirement; *Pension Income vs. Commuted Value*.

Value of Advice

Projected Increase in Income Producing Assets / Pensions

5 Years of Advice	10 Years of Advice	15 Years of Advice
$290,600	$305,305	$310,534

DEFINED BENEFIT PENSION PLAN... CLIENT PROFILE

Recently you were contacted by John Parry and his wife Sasha, age 62 & 61, to consult on his retirement package which offered him 2 options:

1. Pension of $3,850 / month indexed at 75% of inflation with 75% survivorship.
2. Commuted value of $710,000 ($485,000 in a LIRA and $225,000 taxable lump-sum)

John and Sasha estimated that if they took the commuted value there would be $52,000 in taxes assuming they contributed the maximum $73,000 to their RRSPs. The remaining value along with existing savings would give them total income producing assets of $859,000.

John estimated that CPP, OAS and Sasha's small pension of $850 / month would provide $25,000 / year and their savings would provide another $35,000, assuming a 4% withdrawal rate. At $60,000 / year they felt this would be adequate to meet their income needs and their daughter would inherit the remaining balance.

RETIREMENT PLANNING CONCEPTS INCLUDE:

1. RRSP vs. Non-Registered
2. RRSP vs. TFSA
3. Income Withdrawal Order
4. Pension Optimization

PRODUCT ADVICE

Although a 4% withdrawal rate is a good rule of thumb, it will be difficult to duplicate the guarantees offered by an indexed pension and the lack of estate value can easily be handled with a permanent life insurance policy.

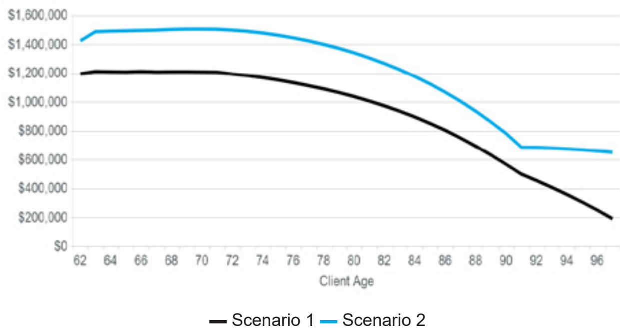
To illustrate this using RazorPlan you prepared 2 Scenarios; Scenario 1 illustrates the commuted value of the pension and Scenario 2 illustrates the pension income and $350,000 of universal life insurance with a minimum premium of $6,700 / year.

IMAGE 1, SUMMARY PAGE FROM THE RETIREMENT PLANNING CONCEPT COMPARING INSURED PENSION VS. LIRA

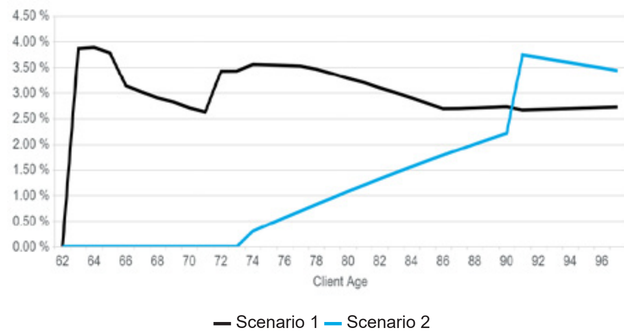
RETIREMENT PLANNING

John Parry & Sasha Parry

Income Producing Assets / Pensions



Withdrawal Rate*



**Adjusted for Inflation*

Retirement Options

	Scenario 1	Scenario 2
Planned Lifestyle:	$60,000	$60,000
Attainable Lifestyle:	$61,515	$67,239
Planned Retirement Age:	62	62
Attainable Retirement Age:	62	62
Assumed Portfolio ROR:	4.50 %	4.50 %
Required Portfolio ROR:	4.08 %	0.00 %
Projected Retirement Capital:	$859,000	$229,000
Required Retirement Capital:	$815,175	$15,467

Value of Advice

Projected Increase in Income Producing Assets / Pensions

5 Years of Advice	10 Years of Advice	15 Years of Advice
$290,600	$305,305	$310,534

Using the summary page of the Retirement Planning concept *(image 1)*, you can see that taking the monthly pension income and paying for life insurance, compared to the commuted lump-sum, increases the value of income producing assets and pensions by more than $290,000 over 5 years, and $310,000 over 15 years.

The summary page also displays the impact to retirement options and the withdrawal rate of the 2 scenarios, providing additional confirmation that the guaranteed monthly pension offers greater value.

PLANNING ADVICE

Although the monthly pension combined with life insurance for their daughter is clearly the best recommendation, your value is limited to a product sale. Providing additional planning recommendations related to optimizing retirement income will create *Value over Product™* and help your clients better appreciate the financial advice, guidance and products you recommend.

In addition to the insured pension income, what if you add the following recommendations in Scenario 2?

1. The Parrys have made only one small contribution to their TFSAs in recent years. They should incorporate TFSAs into their asset allocation strategy using taxable investments and future excess income.

2. Using a tax efficient low-cost ETF managed portfolio or digital investment platform could lower investment fees on non-registered investment, effectively increasing after-tax investment returns.

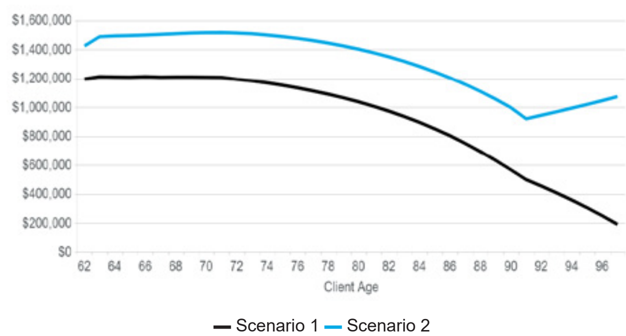
Adding these additional recommendations using the RazorPlan *Retirement Planning* concept creates *Value over Product™* by improving the results an additional $6,000 over 5 years and $38,000 over 15 years compared to a product only recommendation.

IMAGE 2, SUMMARY PAGE FROM THE RETIREMENT PLANNING CONCEPT COMPARING ADVICE + INSURED PENSION VS. LIRA

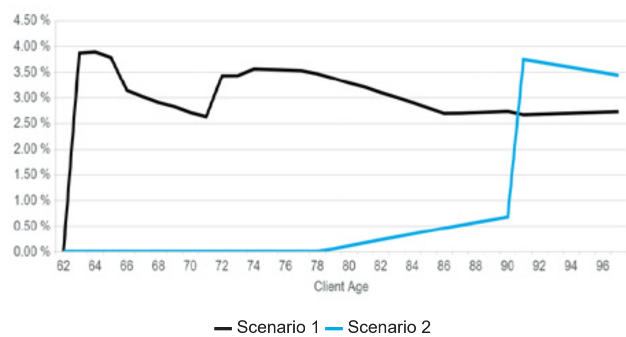
RETIREMENT PLANNING

John Parry & Sasha Parry

Income Producing Assets / Pensions



Withdrawal Rate*



**Adjusted for Inflation*

Retirement Options

	Scenario 1	Scenario 2
Planned Lifestyle:	$60,000	$60,000
Attainable Lifestyle:	$61,515	$67,715
Planned Retirement Age:	62	62
Attainable Retirement Age:	62	62
Assumed Portfolio ROR:	4.50 %	5.12 %
Required Portfolio ROR:	4.08 %	0.00 %
Projected Retirement Capital:	$859,000	$229,000
Required Retirement Capital:	$815,175	$13,910

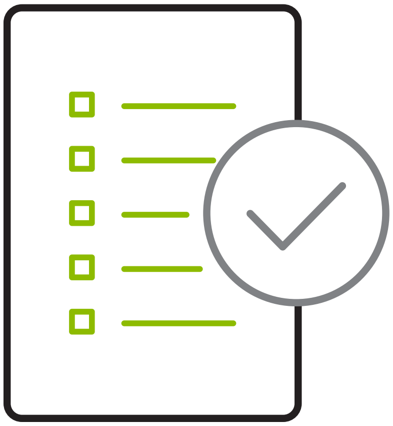
Value of Advice

Projected Increase in Income Producing Assets / Pensions

5 Years of Advice	10 Years of Advice	15 Years of Advice
$296,073	$320,516	$348,183

ESTATE PLANNING

ESTATE PLANNING

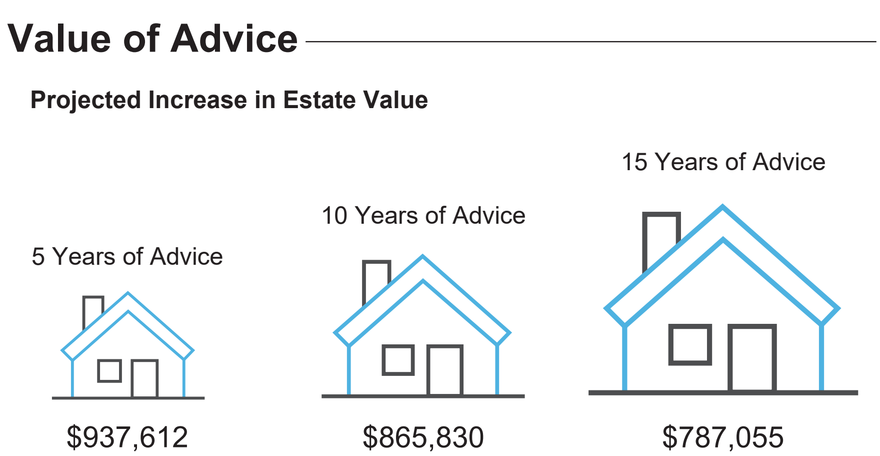


Estate Planning is the process of arranging for the orderly disposal of a client's estate to eliminate uncertainties over administration and probate. Although your client's Estate Planning is impacted by all areas of financial planning, it is highly integrated with Tax Planning, as all capital property is deemed to be disposed of immediately prior to death, triggering any deferred capital gains. Included with the Estate Planning concept is a ledger that displays the change in financial position for net worth, deferred taxes and life insurance, which together will help your clients focus on the positive results they can expect from your recommendations.

This concept clearly communicates your *Value of Advice* by comparing the projected estate value from two scenarios using a line graph along with icons representing 5, 10 and 15 years of advice.

1. Scenario 1 is the client's current plan
2. Scenario 2 is your recommendations

To illustrate the advantage of using the *Estate Planning* concept over a product sales concept, we will examine a popular insurance sales concept *Corporate Investment Shelter*.



CORPORATE INVESTMENT SHELTER (CIS)... CLIENT PROFILE

Charles and Ellen Jordan, age 59 & 57, were referred to you by an investment advisor in your professional network. They have a small industrial service business and are looking for some advice to help them minimize the taxes payable on their estate.

The business has a FMV of $1 million which will be sold when Charles retires at age 65, and the after-tax value will be added to the $1.2 million of corporate investments they have today. With growth, annual saving of $50,000, and the proceeds from the sale, they are projected to have close to $2.6 million in corporate investments at retirement.

Charles also has $525,000 in his RRSP and is contributing the maximum each year. Ellen has $175,000 and contributes her maximum of $9,000 each year. Together they own a home worth $850,000 and a cottage worth $500,000 and have no personal debt.

ESTATE PLANNING CONCEPTS INCLUDE:

1. Estate Bond
2. RRIF Insurance
3. Asset Protection
4. Investment Shelter

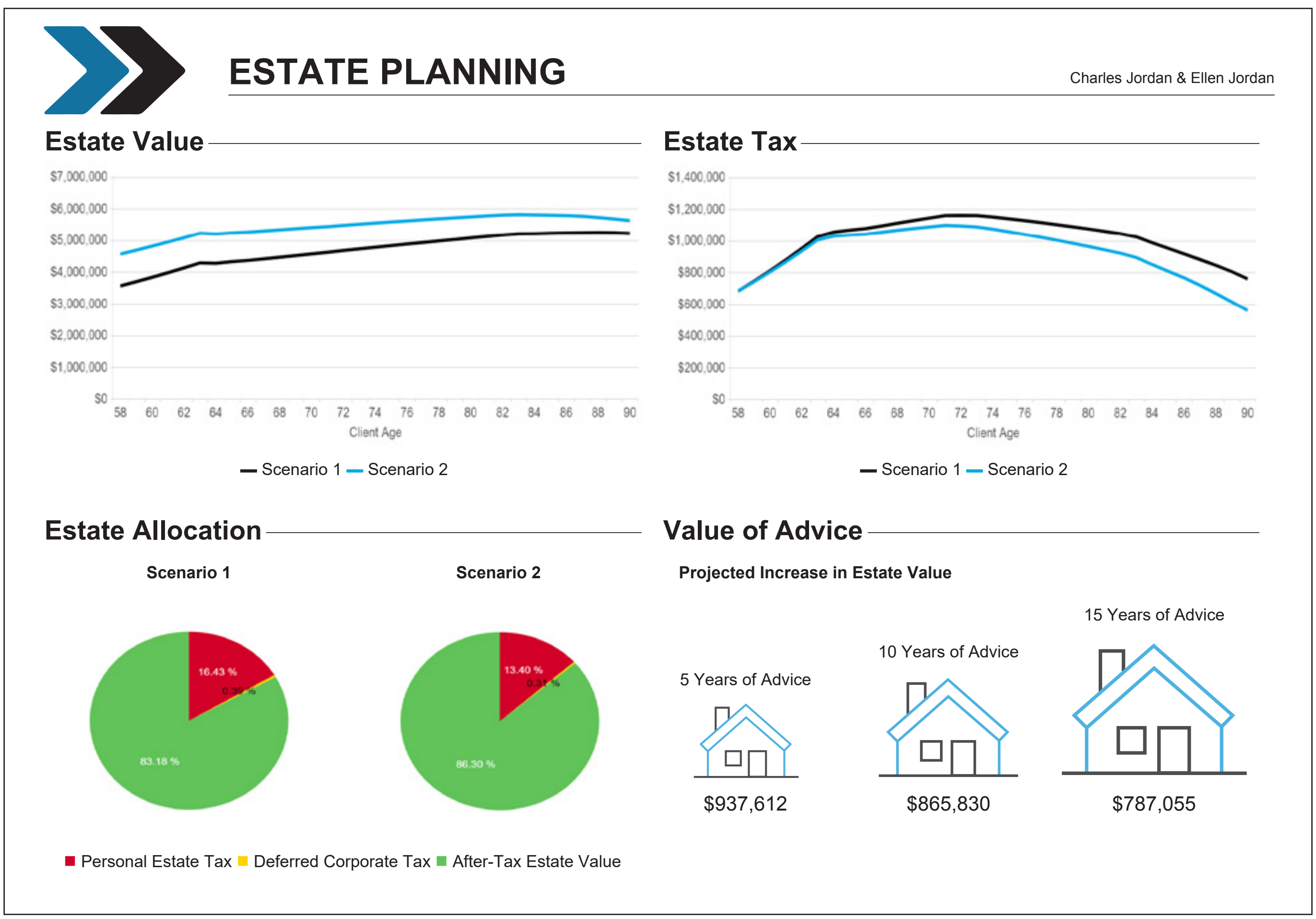
PRODUCT ADVICE

Prior to meeting with the Jordans, you sent them a comprehensive client questionnaire which they completed and returned to you the following week.

Using RazorPlan you prepared a financial analysis that incorporated their retirement income goal of $8,000 / month. This allowed you to estimate that they will have a net worth greater than $6 million at life expectancy, and taxes of approximately $1 million.

To illustrate the CIS concept, you created a second scenario and added a $1,000,000 joint last, minimum premium universal life policy funded from the corporate investments.

IMAGE 1, SUMMARY PAGE FROM THE ESTATE PLANNING CONCEPT COMPARING CIS VS. ALTERNATIVE INVESTMENT



Using the summary page of the Estate Planning concept *(image 1)*, you can see that by implementing the CIS concept the estate value is increased each year and the value of advice in the 5th year is a $937,000 increase in estate value.

In addition to illustrating the change in estate value, the percentage of the estate allocated to paying income taxes has reduced from 16.4% to 12.3%, further validation of the CIS concept.

PLANNING ADVICE

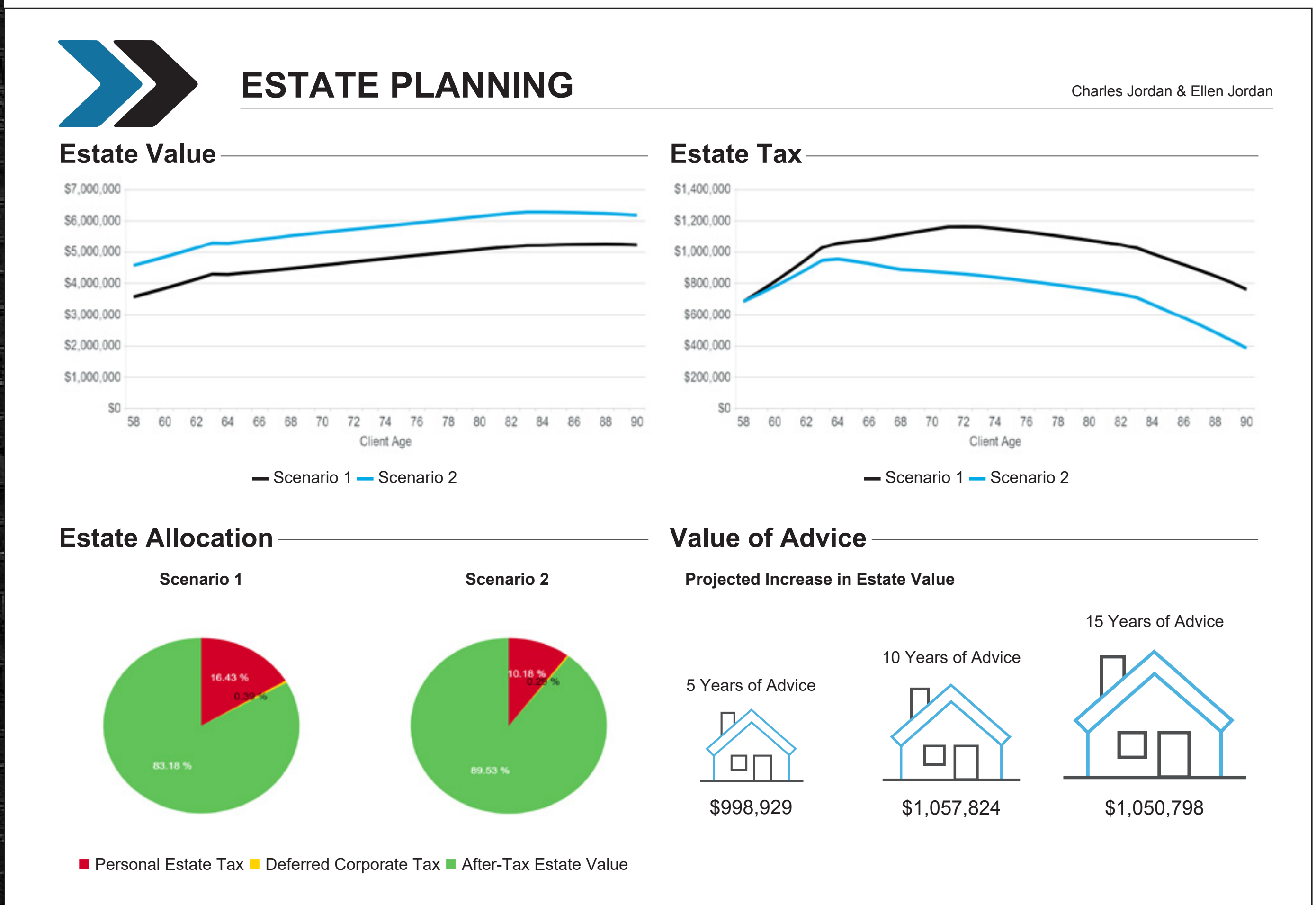
Recommending the CIS concept on its own can significantly increase estate value, but your value is limited to a product sale. When you include other recommendations aimed at minimizing estate tax, you create *Value over Product™* and help your clients better appreciate the financial advice, guidance and products you recommend.

In addition to the CIS concept, what if you added additional estate planning strategies to Scenario 2?

1. To take advantage of the tax-sheltered investment account in the universal life policy, you recommend maximum deposits of $60,000 / year for 10 years.
2. Implement income splitting strategies that would allow more of the corporate dividends to be paid to Ellen at a lower marginal tax rate.
3. To reduce taxes related to their RRSP investments at death, they should implement a modest RRSP melt-down with minimum RRIF withdrawals starting at age 65 instead of waiting until age 71.

Adding the above recommendations using the RazorPlan *Estate Planning* concept creates *Value over Product™* of $248,000 over 15 years compared to a product recommendation alone.

IMAGE 2, SUMMARY PAGE FROM THE ESTATE PLANNING CONCEPT COMPARING ADVICE + CIS VS. ALTERNATIVE INVESTMENT



IN CONCLUSION

Sales concepts in and of themselves are not bad. They are very effective at helping clients understand the benefits of the various planning strategies that involve product. With sales concepts advisors are more effective at communicating their recommendations and clients are better educated as to why a given strategy is suggested. But when advisors make recommendations using a product-based sales concept, there is a risk that the advice will not be given the same consideration had the advisor simply taken the product out of the concept.

Advice that is limited to product will always provide limited results, and advice that is part of a comprehensive financial plan will always add additional value.

Dave Faulkner, CLU, CFP

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WHAT IS RAZORPLAN?

RazorPlan is a financial planning software program that takes minimal time to complete and is centered on engaging clients through meaningful discussions and needs analysis.

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RazorPlan requires only KEY information from a client and, using its innovative algorithms, will run intuitive calculations on your behalf. This method allows you to quickly analyze your client's needs while helping them understand the importance of your recommendations.

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