1 Purpose and scope

Financial planning is the practice of **organising your cash-flows, assets, liabilities, and human capital so they support life goals with the highest probability of success**. Success is defined not by outperforming a benchmark but by funding the goals you set—retirement income, children's education, philanthropy, or a sabbatical—within the risk you can bear. SEC

2 The classical six-step framework

1. **Establish the relationship** – clarify fiduciary duty and fee model.

2. **Gather data** – income, expenses, assets, debts, insurance, taxes.

3. **Define goals** – specific, measurable, time-bound.

4. **Analyse and evaluate** – project cash-flows, test alternatives.

5. **Present recommendations** – action list ordered by impact and cost.

6. **Implement and monitor** – automate where possible; revisit annually or when life events occur. Voya Financial

3 Cash-flow management

A plan begins with the **household cash-flow statement**: net income minus fixed and variable expenses. The "50-30-20" rule—needs 50 %, wants 30 %, savings 20 %—is a starting point, not a mandate. High fixed costs (> 60 % of take-home) raise fragility and slow wealth accumulation. Cash-flow projections convert irregular pay or bonuses into a monthly average so the plan isn't derailed by lumpy income. Fidelity

4 Emergency liquidity

Before long-term investing, set aside **three to six months of core expenses** in a liquid, FDIC-insured or government-money-market account. Dual-income, recession-proof households may lean toward the low end; single earners or gig workers need more. Liquidity protects the plan from forced asset sales during market drawdowns and covers deductibles before insurance kicks in. SEC

5 Debt strategy

List every loan with balance, rate, and tax treatment. High-interest (> 6 %) consumer debt is paid first because its after-tax cost exceeds most low-risk investments. Mortgage debt may be retained if the fixed rate is below expected real portfolio returns and cash-flow is comfortable. Snowball (smallest balance first) and avalanche (highest rate first) are behavioural and mathematical approaches, respectively. Fidelity

6 Risk management through insurance

Insurance transfers catastrophic risks the household cannot self-fund.

- **Life** – coverage = financial capital needed to replace human capital plus debt payoff minus existing assets.
- **Disability** – protects income; probability lower than death, but impact similar.
- **Medical** – high-deductible paired with health-savings account if cash-flow allows.
- **Property, liability, umbrella** – preserve net-worth against lawsuits.
  The critical-financial checklist emphasises documenting policy numbers, beneficiaries, and renewal dates in a single file.

Vanguard

7 Investment policy statement (IPS)

An IPS codifies **objective, time horizon, risk tolerance, target asset mix, benchmarks, and rebalancing bands**. This written document restrains emotion when markets swing and guides advisers managing funds on your behalf. A 60/40 portfolio might carry ±5 percentage-point bands; breaches trigger trades. Voya Presents

8 Asset allocation logic

Long-dated goals need growth; short-dated goals need preservation. Historical data show equities outpace inflation over periods > 15 years, whereas intermediate-term bonds stabilise sequence-of-return risk during the withdrawal phase. Adding 5 %-10 % alternatives (real estate, commodities, managed futures) can lower correlation and help in inflation spikes. Asset location—placing tax-inefficient assets (bond funds, REITs) in tax-sheltered accounts—adds after-tax alpha without extra risk. Vanguard

9 Goal funding hierarchy

1. Build emergency fund.
2. Capture employer retirement match.
3. Eliminate toxic high-interest debt.
4. Max tax-advantaged retirement space.
5. Save for medium goals (education, home down-payment).

6. Taxable investing for flexibility and legacy. Fidelity

10 Retirement accumulation

Key levers are **contribution rate, asset mix, and time in market**. Modeling shows that for a median U.S. earner, saving 15 % of gross pay from age 25 yields a portfolio replacement ratio of ~55 % at age 65, assuming 5 % real return. Catch-up contributions at age 50 close shortfalls. Fidelity

11 Retirement decumulation

The **4 % rule**—first-year withdrawal = 4 % of starting portfolio, adjusted for inflation—historically survived 30-year horizons in U.S. data about 85 % of the time. Dynamic guards such as "guardrails" (raise or cut 10 % when portfolio crosses bands) improve success probability to > 90 %. Deferred annuities can hedge longevity risk. Fidelity

12 Tax optimisation

- **Tax-loss harvesting** offsets capital gains.
- **Asset location** shields ordinary-income generators.
- **Roth conversions** during low-income years reduce future RMDs.
- **Charitable bunching** or donor-advised funds bunch deductions into one tax year. The SEC roadmap underscores that after-tax return, not pre-tax, funds goals. SEC

13 Education funding

Inflation in college costs historically runs 2-3 points above CPI, so the assumed growth rate on expenses should reflect that.

Dedicated 529 or similar plans enjoy tax-free growth when used for qualified education. Funding early compounds advantage; delayed funding requires larger annual contributions. Fidelity

14 Estate and legacy

A comprehensive plan specifies **will, power of attorney, health-care directive, guardianship for minors, and updated beneficiary designations**. Trusts manage tax, control, or incapacity concerns. Consolidated records—asset inventory, account numbers, digital-asset logins—speed estate settlement and reduce stress. Vanguard

15 Behavioural finance and implementation

Humans face loss aversion, overconfidence, present bias. Practical antidotes: automatic payroll deductions, default investment options, pre-agreed rebalancing, and "self-binding" commitments like no-trade periods. Simple dashboards showing progress toward goals reduce noise-trading impulses. Fidelity

16 Key financial ratios

- **Savings ratio** = annual savings ÷ gross income (target ≥ 15 %).
- **Liquidity ratio** = liquid assets ÷ monthly expenses (target 3-6).
- **Debt-service ratio** = annual debt payments ÷ gross income (target ≤ 36 %).
- **Net-worth trajectory** – track year-over-year growth after inflation. Voya Financial

17 Periodic review cadence

Annual full reviews, quarterly investment check-ins, ad hoc updates after life events—marriage, birth, job change, inheritance. Review should cover goal progress, budget drift, risk-profile changes, tax law updates, and estate document freshness. Voya Presents

18 Planning for business owners

Integrate **business valuation, succession plans, key-person insurance**, and retirement vehicles like SEP or SIMPLE IRAs. Diversify owner's net worth away from the business as it matures to mitigate concentration risk. Fidelity

19 Special considerations

- **Women** often face longer lifespans and wage gaps, requiring higher savings rates and longevity insurance. Fidelity
- **Caregivers** must include potential elder-care costs that can rival college tuition.
- **NRIs** juggle dual tax regimes; treaty benefits and currency risk must be modelled.

20 Stress-testing the plan

Monte Carlo simulations vary returns, inflation, and longevity to estimate success probability. Scenario analysis overlays "bad timing" events—market crash in first retirement year, sequence of low bond returns, health-care shock. Adjust savings rate, spending flexibility, or annuitisation to lift probability into the comfort zone (> 85 %). Voya Presents

21 Ethical and regulatory guardrails

Advisers acting under a fiduciary standard must put client interest first, disclose conflicts, and adopt a prudent process. In the U.S., advisers register with the SEC; in India, SEBI defines Registered

Investment Adviser rules. Written agreements and ADV brochures describe services and fees. Clients should retain copies for record-keeping. Fidelity

22 Creating a one-page plan

Summarise **goals, target dates, required savings, asset mix, insurance, estate to-dos, and annual review month** on a single sheet. This becomes the “command centre” visible at a glance and prevents the plan from living only inside a thick binder.