

Financial Planning Projection Assumption Guidelines 2019

An integral part of planning involves analysing a client's needs and priorities, making financial projections about various scenarios and using assumptions to prepare those projected needs and make recommendations. Equally important is stress testing all of this periodically to ensure that the plans, solutions and strategies continue to do the job they were intended to do when they were first set up. It is also important to assess how sensitive any changes in assumptions or results are to a client's objectives and financial situation. Added to this is the importance of assessing and testing the risk tolerance of clients. This provides insight to potential risks that a client may be facing now and in the future.

A common question or concern that advisors and clients have is what assumptions to use for projections, stress testing and comparisons to other plans and recommendations.

Guidelines are established, published and reviewed annually to do two things:

- Remove possible advisor or client bias and
- Protect advisors and clients from assumptions that may be deemed to be out of line with accepted norms.

Taken together, they should encourage trust and confidence in the plans, projections and assumptions used as being objective, reasonable and reliably sourced. There may be individual and regional differences that will drive variations from standards; at least there is a common standard from which to start. Think about cost of living, salary, transportation and educational costs that vary from region to region. In all cases, as a best practice for financial advisors acting in a professional manner, assumptions should be clearly communicated to clients and documented, including the rationale used.

What assumptions should I use when making and testing financial projections or plans?

Two financial planning organizations work together to establish annual guidelines to assist financial advisors in making longer term financial projections (10 years or more): FP (financial planning) Canada Standards Council and the IQPF (the only organization in Quebec authorized to grant financial planning diplomas and to establish rules concerning the ongoing professional development of professional financial planners). While everyone may not be a member, using a common set of reliably sourced standards adds to consistency and credibility in methodology in the marketplace and makes for easier understanding, and comparisons.



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Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As an accredited Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

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The Projection Assumption Guidelines for 2019 are the following:

Inflation rate	2.1%
Rate of return (nominal before fees)	
• Short term (91 day T-bills)	3.0%
• Canadian Fixed income	3.9%
• Canadian equities	6.1%
• Foreign developed market equities	6.4%
• Emerging market equities	7.2%
Borrowing rate	5.0%
Year's Maximum Pensionable Earnings (YMPE), MPE growth rate or salary	3.1% (inflation + 1%)
Life expectancy	2014 Canadian Pensioners' Mortality Table

Please note that investment management fees paid by clients both for products and advice must be subtracted from rate of return guidelines to obtain the net rate of return.

One planner may be better than another. One plan may be more effective and appropriate than another for a particular client. Using a set of common, well researched and reliable assumption guidelines will help clients better discern the better planner and the better plan on a more objective basis. It will also help the profession improve its image of integrity, sense of professionalism and objectivity. We can all win by using professional standards.

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