Why you need to revisit your financial plan

Goal-based financial plans are in vogue. However, getting a goal-based financial plan prepared by a planner or an advisor alone won't guarantee achieving all your financial goals. "A financial plan is like an itinerary given by a travel agent to you. You have to take care of some operational issues to ensure a great holiday for you," says Lovaii Navlakhi, managing director & chief financial planner, International Money Matters.

For example, you have to get a visa on time or the air-ticket at the right price if you want to make the most of your holiday. A financial plan also needs such fine-tuning from your side. Most financial planners list people's failure to get their goals right and implementation and review of the plan as the main reasons why most plans fail to deliver the goals.

Confusion about goals

"There are many instances of incorrect assessment of financial goals. Underestimating the money value of a financial goal is a big risk," says Mukund Seshadri, founder partner, MS Ventures Financial Planners. This happens especially when there are multiple family members involved in a financial goal and there is no communication among them. For example, an individual may think that 15 lakh is enough for his daughter's wedding.

But his wife may be keen on gifting her daughter a foreign honeymoon package, which may not fit into this budget. "If you really want to quantify your financial goals right, better involve your spouse in the process, as he or she will have a say in each of your spending and saving decisions," adds Seshadri.

You have to fix a date by which you would want to achieve the goal along with the money value of your financial goal. In case the time available on hand changes, your financial plan may fall short of success. For example, an individual has decided to accumulate 15 lakh for his daughter's higher education, and he assumed that he will pay 5 lakh per year for three years.

But what if she enrolls for 18 months course overseas, where her father has to pay 15 lakh at the start of the course. Such a development is beyond one's control and one can do very little about it at the last moment. One probably has to use funds meant for some other objective to pay for the course. Even if you get your goals right, there are issues with implementation of financial plan.

Implementation blues

"Some individuals think they can do implementation themselves at cheaper cost," says Lovaii Navlakhi. But it may not be that simple. "Financial planners may recommend cheaper products. But distributors may not sell it at all given the low or no commission," says a wealth manager. A financial planner may recommend liquid funds to maintain emergency corpus. But not all distributors are keen to offer a liquid fund as they are not remunerative.

Some individuals lack discipline to meticulously implement the plan given to them.

Procedural issues related to KYC, account opening and starting SIPs also adds to woes. "We come across situations where for months there is no progress on implementation of the financial plan, making a well drafted financial plan useless," says Mukund Seshadri.

Even if the individual is keen to implement the plan, some decisions at the implementation level may change the performance of the plan. Let us understand with an example. An individual estimated that he would require 15 lakh for his daughter's wedding. This included 100 gram of gold. When preparing the financial plan in CY2006, gold prices were at around 8,000 per 10 gram and he had 15 years in hand to save the money.

But now, five years down the line, gold prices have shot up at a much higher rate than average inflation to around 28,000 per 10 gram. It resulted into wedding expense estimate going much above the 15 lakh mark. In 2006, there was no gold ETF around. Had he started buying units of gold ETF at regular intervals after it was launched in CY2007, the gap between the estimate and the actual would have been less.

One can segregate wedding expenses under two heads - cost of gold and actual wedding cost. Gold ETFs can be used to accumulate gold; and financial instruments can be used to accumulate funds required for other wedding expenses. Not all individuals are aware of such techniques and may face difficulty in implementing the financial plan. Even if you implement the plan you have to keep visiting it at regular intervals.

Failure to review

"Buy-and-forget is the biggest risk. You have to review your plan at regular intervals to ensure that you are on track," says Lovaii Navlakhi. A review will bring forth any deviation from the expected progress.

"Reviews help you account for changes in priorities, changes in tax structure and performance of the existing products in portfolio. It also helps you validate your assumptions pertaining to inflation and expected returns from portfolio," says Ajay Kinjawadekar, CEO, Moneysafe Financial Services.

Some of the problem situations discussed above, could have been dealt better through thorough reviews at regular intervals. One review a year is a must, Kinjawadekar adds.

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