



Confirming What You Understand

If understanding what you are hearing and knowing that who you are communicating with understands is critical, here's a concept that is so simple, yet has such powerful positive implications to your financial health, I'm amazed it hasn't been promoted everywhere.

Quite simply, here's the simple tool: before you enter into any sort of financial agreement take a blank piece of paper and write out your understanding of what it is you are buying, investing, borrowing in. Write down in point form everything you understand about your new financial product. If you can, have your financial advisor sign it too. It's not a legal document; it's simply an understanding as per the details in the actual contract and subject to certain conditions. You can even refer to the contract, which is legal.

The benefits of this letter of understanding are enormous:

- you become clear on what and why you are making this transaction;
- your advisor will also know what more clearly what you do and do not understand about your transaction;
- if you keep this document with the actual paperwork for the product you will have it to refer back to later, or someone else who might be helping with your affairs after your death or disability or in your absence will be able to quickly and easily understand why you have the financial products you do.

Here is an example for an insurance product:

I understand that as long as I pay my premiums (which will not go up as long as I have this plan or until age 65) and adhere to the other terms in the contract, if I become disabled and can't work, this policy will pay me \$2500 per month non-taxable starting as soon as the disability occurs and for as long as it continues to a maximum of 2 years. I also understand that there are partial disability benefits where I could receive only some of this benefit if I'm able to work at some of my job or in other employment. I am buying this 2 year benefit because I feel this would be adequate time for either me or my spouse to develop other sources of income if I was unable to return to work for a longer period of time.

There might be more that your advisor would suggest putting in to your paragraph, but if you write a short note like this, it would go along way in helping ensure everyone involved was on the same page about what and why you have the product you have. This is not an onerous task. It's not part of your legal paperwork, but it keeps your transactions clear and your communication about your understanding open. Don't make it complicated, hope you never have to refer back to it in a negative situation, but it will provide you with a powerful decision making tool in the future and ensure your decisions are appropriate today.

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