

TRENDS AND ISSUES

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MOVING FROM FINANCIAL PLANNING TO FINANCIAL LIFE PLANNING

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EXECUTIVE SUMMARY

Financial life planning is one of the labels used to describe a more integrated and humanistic approach that has emerged over the past decade to address personal financial issues. It signals an evolution of planners from product vendors to trusted advisors who recognize that individuals do not behave rationally regarding decisions involving money, but are instead emotional, conflicted and inconsistent. In addition, they have unique dreams, beliefs, values and challenges. Financial life planners help individuals focus on their values and motivations, determine the goals and objectives they have, and then use these values, motivations, goals and objectives to guide the planning process and provide a framework for making decisions that have financial and non-financial implications. Financial life planning is a holistic process that applies traditional financial analysis within a framework of the individual's life and total resources.

At the core of financial life planning is an emphasis on asking meaningful questions. A thoughtful open question will likely generate deeper thinking on the part of the client, unleash new insight or inspire clarity and direction. This is the process of "discovery." It is tempting for advisors to focus questions on the financial products they might recommend to solve a particular financial planning issue, but questions designed to get the client to consider a financial product are typically unsuccessful and potentially manipulative. The focus must be on the client's interests; implementation comes later.

To be truly client-centered is to view the individual in terms of all of his or her resources. This involves consideration of the geo-financial, bio-medical and psycho-social components of life. Like financial assets (geo-financial), other aspects have a direct relevance in financial life planning once considered. Expanding questions about retirement preparation to include the individual's environment highlights planning possibilities and possible additional constraints.

"Bio-medical" is the label for all issues related to an individual's physical well being: family history, personal history, health promoting or health-inhibiting behaviors, insurance, access to care, cost of care, self-care and so on. An ability to engage in honest discussion addressing these areas is fundamental to successful planning. Perhaps the area that financial planners are most reluctant to explore



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with clients is the psycho-social. But who else is better positioned to help the client consider the relationship of his or her emotional, psychological and social well-being in relation to financial well-being? Often it is an issue arising from one of these factors that encourages someone to retire too soon or to avoid it unnecessarily. Financial life planning is not concerned with exploring mental or emotional dysfunction, but it is concerned with exploring beliefs that may unconsciously drive decisions.

In the wake of the economic meltdown, we are seeing people employ all of their resources in order to manage. They are drawing on their creativity and their community connections. They are becoming more conscious of spending habits. They are seeking more guidance and support. They are questioning what it means to plan for the future in such uncertain times. In the process, individuals are discovering that they are more resilient and resourceful than they realized and that the ability to be resilient and flexible is critical to thriving and realizing a life plan. Nurturing and tracking such qualities is within the financial life planner's realm of focus. Helping clients find ways to move forward, to plan, to make decisions and to make choices that support their ability to maintain a quality of life at every stage of life is the goal.

INTRODUCTION

There is nothing like a global financial crisis to force one to "take stock." Workers, retirees and retiree-want-to-be's are questioning their decisions, their future and how to thrive or get by right now. The recession has also led to a state of concern among financial advisors. The financial planning profession was just emerging as the '73 recession was winding down. Advisors and clients have overall enjoyed growth of asset values and abundance ever since with only the occasional downturn. Our age of innocence is ending. We are, alas, growing up. Growing up requires some letting go, some pain and some hard-won wisdom. The good news is that financial planners have always been an innovative bunch, learning from mistakes, listening to clients and wondering about what the future holds. We have as a community of professionals, never been satisfied. The desire to make a meaningful difference in our clients' lives is genuine. The search for the right approach, best processes, most prudent and effective investment philosophy and most sophisticated analytical tools is never ending. The soul searching has reached critical proportions today in the face of economic uncertainty.

Over the last ten years a shift has been occurring that has become more significant in light of the current environment. Financial life planning is one of the labels used to describe a more integrated and humanistic approach to addressing personal financial issues, in contrast to a more product-driven, transaction-based and numbers-driven system of client care. It has evolved as the world of personal finance has increased in complexity. Planning professionals in search of sustainable results have learned from their clients and from behavioral research in fields ranging from economics and finance to the social sciences and the arts. It represents the integration of the "art, heart and science" of financial planning. By any name it is impacting the practice of planning and the client experience and results.

Over the years the financial planner has evolved from product vendor to trusted advisor.¹ The progression from product-centered to advice-driven is grounded in the genuine sense of responsibility to the client. It continues to evolve. The breadth and depth of financial planning is expanding and in the process a new model is emerging that may define financial planning going forward. At the core is the recognition that the client is NOT the money; it is, rather, the person. Until recently economics has sought to portray behavior around money as rational. Its models

1 See Maister, David H., Charles H. Green and Robert M. Galford. The Trusted Advisor. Free Press (2000.)

have been built on this premise. The financial planner in practice quickly realizes that individuals do not in fact behave rationally around questions and decisions involving money, but are instead, emotional, conflicted and inconsistent. As a result humans may act in ways that are against their best interest. Humans are not only emotional; they have unique dreams, beliefs, values and challenges. Each individual defines prosperity for himself, consciously or more often, unconsciously. That is the domain of the financial life planner—the work of helping individuals to thrive where money and life intersect.

Financial planner and 2003 recipient of the P. Kemp Fain Jr. Award², Dick Wagner, has said that money is the most powerful secular force on the planet and that the financial life planner's role is to help individuals cope with money in the midst of uncertainty. In that case we can only assume that financial planning must concern itself with all aspects of an individual's life:

- Family and relationships
- Values
- Notions of personal fulfillment
- History, beliefs and attitudes
- Emotional well-being
- Work/life satisfaction
- Purpose and meaning
- Health and physical well-being
- Environment
- Cultural and community life
- Legacy and stewardship intent
- Definition of freedom
- Risk definition and tolerance

The list is surely not exhaustive but one can see that a thriving life has to do with more than money and that money is often a connector between the self and fulfillment in these areas. What we understand from over 30 years in practice is that helping people cope with uncertainty, make good financial decisions and live a thriving life requires both broad technical knowledge and deep communication skills. Both are necessary in order to tend both the interior and exterior aspects of an individual's financial life.

The forward-thinking, client-centered financial planner who wishes to embrace the full range of what planning has to offer, will focus on being a bridge between the client's life and their financial resources, applying the technical tools, processes and knowledge in the context of the more qualitative, human-connection skills.

Those who practice comprehensive financial planning are less likely to lose clients and more likely to add new clients during times of crisis. The reason is simple: the financial planner is bringing greater value and offering a broader array of service and advice, a currency that holds its value in good and bad markets. The financial planner has an edge by occupying a unique place in the client's mind, that of trusted advisor as well as investment manager.

2 The P. Kemp Fain, Jr. Award recognizes an individual who has made outstanding contributions to the financial planning profession in the areas of service to society, academia, government and professional activities. Recipients must also exemplify FPA's core values of integrity, competence, relationships and stewardship. P. Kemp Fain, Jr., formed the first International Association for Financial Planning (IAFP) chapter in the nation in 1971 and served as its first president.

ADDRESSING CLIENT WANTS AND NEEDS

Research supports the anecdotal observation that clients place value on being heard and understood.³ Clients value the relationship with the advisor in addition to competence. They want an advisor who inspires confidence. They want to be viewed as more than the sum of their investment assets. They need help with complex issues, not all of which can be solved with a financial product. The advisor may focus on what the clients needs, but the clients are focused on what they want! A successful engagement bridges the two. From the perspective of advisors, what clients need is to heed their sound advice, invest a certain way or purchase a certain product that solves a concern the client may not even have expressed!

At its core financial planning is about helping clients make smart decisions and to cope and thrive in a world of uncertainty. Individuals need confidence to make decisions and to understand the consequences of their decisions. They seek a guide to help them address all of the life-impacting financial decisions they will make. Clients want a trusted advisor. Trust develops over time through competency and authentic communication. Trust inspires action. As a result, in the financial life planning engagement, the ability to know the client more deeply is key to success.

This is often challenging to planners who may tend to separate their technical knowledge from building a connection with the client. Clients are not served when advisors “spew out their technical knowledge”. Successful financial life planning is a collaborative process.

There is no short cut to building a relationship or trust. It requires an investment of time. Clients must see a trend of alignment between what we say we will deliver and what we actually provide. That is why we talk about financial planning as a process and not a “transaction” or “event”. The results are literally compounded and embedded in the relationship itself.

Those advisors who have had a process in place for delivering advice and ongoing care have clients who feel well-tended and loyal in this time of crisis. There is a foundation of trust and of being valuable and even vital to the well-being and sense of clarity and freedom for the client.

WHAT IS FINANCIAL LIFE PLANNING?

Anderson and Sharpe define financial life planning as “A process conducted...To help financial planning clients (1) focus on the true values and motivations in their lives, (2) determine the goals and objectives they have as they see their lives develop and (3) use these values, motivations, goals and objectives to guide the planning process and provide a framework for making choices and decisions in life that have financial and non-financial implications or consequences...A collaborative, client-centered approach to communication that integrates a client's values-based life goals with their financial goals.”⁴

Imagine that you are sitting down to begin a jigsaw puzzle. Once you have dumped the pieces onto the table, what do you do next? Most folks would place the edge pieces, or sort the pieces by color. For our clients, the pieces are the stuff of plans: income, debt, taxes, savings, investments, etc. The picture on the box is the life they want to create: the life today and the life tomorrow. Every time we meet for the renewal meeting, we must update the picture on the box top as surely as we update our records and understanding of the pieces. Think of your own life and how quickly things change: your dreams, your family issues, your job, your fears and what overwhelms you, your behavior. We are unique in our profession in that we have the capacity to impact our clients’ ability to thrive both today in the here and now, and far into the future.

3 Anderson, Carol, and Deanna L. Sharpe. “Research: Communication Issues in Life Planning.” *Journal of Financial Planning* (June 2008.)

4 Ibid.

“Not everything that counts can be counted, and not everything that can be counted, counts.”—Albert Einstein

Einstein didn't know that he was offering the essence of financial life planning when he spoke those words. Financial life planning is focused on what can be counted in our clients lives—their money and finances—as well as those things we cannot count—their aspirations, fears, health, concerns, challenges, will, resilience, coping skills, etc. As Dave Yeske, former FPA president, has said, “Planning is in the space between the subsets.”

What we are getting at in these statements is that the outcome of planning goes beyond exterior recommendations. There is an interior aspect that contributes to the experience of thriving and to the success of the plan.

In this challenging time we are seeing the consequences of an overemphasis on investment returns. Most of our clients and advisors have grown up in a world of surging economic growth reflected in the stock market, with the occasional bubble burst or short-lived downturn or recession. Suddenly the truth of uncertainty has struck.

Quite simply every individual is struggling with a fundamental tension: the tension that exists between what I need and want today versus what I will need and want in the future. Traditional financial planning has placed most of its focus on the future, but the future is created through every decision made today. The ability to guide individuals' financial decisions now, is key to success and to sustainability. We know that knowing what to do is not enough. We must meet our client where he or she is, to find a way to inspire to action, to engage in a rich dialogue that leads to a partnership of trust as the basis for successful decision-making.

It helps to be reminded that in the holistic planning model, planners help people control the things they CAN control so that the things they CANNOT control do less harm to their financial well-being and the achievement of their aspirations. None of us has the ability to predict the market or time the market. We cannot control the tax code or the future value of our homes or the cost of health care. We can control how much we save, how much we spend, how clear we are on what matters to us, our priorities. Also, we can control our work to a degree, our values and how we live them. We can take measures to protect our health and our family. We can build our knowledge, our relationships and our resiliency. We can devise a plan and implement it so that we have done what we can to minimize the consequences of negative surprises. We can build reserves that allow us to take advantage of opportunities. We can communicate with our spouse so that we are in alignment. When all is said and done, planners have a responsibility to take this broader definition of our role very seriously.

THE PROCESS OF FINANCIAL LIFE PLANNING

At the core of financial life planning is the emphasis on asking meaningful questions. Great questions help us paint that picture on the puzzle box top. A thoughtful open question may generate deeper thinking on the part of the client, unleash new insight or inspire clarity and direction. Good questions lead to critical learning on the part of the advisor and the client. We call this process “discovery.”

The ability to ask truly opening questions is difficult because it is so easy to embed our own assumptions and beliefs into our questions. For instance, the question, “When do you want to retire?” makes an assumption that the individual does in fact, want to retire. Perhaps a better question in the framing of financial life planning would be, “What do you want to do during your 60s, 70s and 80s? Note the difference between the question “How much money do you want to spend in retirement?” versus “Describe a thriving life in retirement.” Perhaps both questions are warranted, but one assumes that one's financial resources are the key to a happy quality of life. The other question opens the possibilities to find resources aside from financial ones, to address goals and aspirations. Good questions lead to critical thinking, and critical thinking leads to better, more thoughtful decisions.

Consider how advisors often approach the conversation about the need for life insurance. It is often approached through a capital needs analysis and a discussion which leaves the client cold and often suspicious. Through the deeper discovery process a client will often express that nothing would cause regret more than leaving his family without financial security should the unthinkable happen. Connecting the client's values and personal priorities with the conversation about income replacement in the event of unexpected death strikes a personal chord that inspires action rather than resistance.

It is tempting for advisors to focus questions on the financial products they might recommend to solve a particular financial planning issue, such as life insurance to address income replacement in the event of death or an annuity to provide a guaranteed income regardless of the length of one's life. Old habits die hard, but questions that are designed to get the client to consider a financial product are usually not successful and are potentially manipulative. If financial planning is to be recognized as a professional activity, the focus must be on the client's interests. Implementation comes later.

An open inquiry into what is most important to a client in retirement will almost certainly lead the client to express concerns about maintaining lifestyle and income, regardless of lifespan and health issues. One of the best questions the financial life planner often asks is simply, "Tell me more about that," or "is there anything else?" Listening is not a hurry-up-so-I-can-close process. It is an expression of care, attention, genuine curiosity and alignment that requires a slower pace and a willingness to let go of dominating the conversation, leading to a particular outcome and rushing to solutions.

The process of financial life planning applies traditional financial analysis (addressing risk management issues, income needs, asset allocation, etc.) within a framework of the individual's life and total resources.

The most skilled practitioners of financial life planning have developed their technical skills, communication skills and presentation skills to create a seamless experience for the client. Every meeting weaves the art and science of planning, tending both the "picture on the box" and the pieces to help construct that picture in reality.

Several years ago a veteran teacher visited a financial life planner to discuss retirement. She wanted her investments to be reviewed and to find out if she actually could retire. The planner did not ask to see any financial statements. Instead he engaged the client in a conversation and discovery process focused on what she most wanted to do, where she wanted to be and how she wanted to live. It took time for the teacher to set aside her fears about money, to imagine beyond the image of teaching nine months a year and living in a busy city suburb, but she enjoyed the process. She was able to describe a clear picture of life—a life in a smaller, more rural community, a life with time for golf, quilting and art classes, with time for walks in nature, with new friends, with access to health care.

With the picture clear, the planner and she were able to collaborate on a plan. She was inspired by that picture to save more even if it meant doing less until she retired. The life she described could actually be obtained on her budget since she wanted to move out of the city. When the day came, she had an ample reserves fund and knew her budget. She has lived this life now for nearly 10 years, always meeting her budget and getting so much out of life that she never regrets her decisions.

A recent annual review meeting with a couple in their mid 40's included an estate planning conversation. If we are approaching this conversation from the financial life planning model, we begin as always with discovery. "Let's assume, Dan, that with the snap of my fingers you are no longer with us. Carol, let that sink in. What is coming up for you?" An open question like this may stir both quantitative issues and qualitative issues, which it did in this case. "I wonder if Dan has enough life insurance." ("Carol, if he had enough, what would you be able to do? Describe enough.") Carol: "I wonder what his wishes were about his burial and his service. I wish he had written something for our two

daughters. I'm glad I have a handle on our finances. Will I have to go back to work? Should I sell the house? Did he know how much I loved him?" And on. While this may seem like a morbid example it is at the core of what we deal with and offer to our clients—we are advocates for their futures. In this example the skilled planner helps the client uncover what matters and gives time for the client to raise questions, concerns and feelings without the need to rush and solve the more technical issues. Embedded in the emotions and much of the qualitative responses are the solutions to the technical issues or the keys to unlock resistance or procrastination.

TOTAL RESOURCE PLANNING

The financial life planning model is a holistic model. To be truly client-centered is to view the individual in terms of all of his or her resources and aspects of life. It is focused on not only riches of life but also on what defines richness of life. A model that serves us well is one developed by John Nelson, co-author of *What Color Is Your Parachute in Retirement*. Nelson has created a Venn model of the components of happiness in retirement, although the model could easily be applied to all stages of life. These components of the framework are geo-financial (money and environment) bio-medical (health) and psycho-social (happiness.)

Financial issues have typically been the focus of planner interactions with clients. Such conversations have often revolved around the notion that individuals will need to replace a specific percentage of their working income once they retire. We arrive at a more complete and accurate picture of the lifestyle and quality of life that is non-negotiable by weaving together life planning and traditional financial planning. In some cases a client may aspire to an income greater than that enjoyed during their working years. Another may find that their consumption needs for a thriving "life after work" would require only 50% of the after-tax income that was needed pre-retirement. Armed with this level of clarity, the planner in collaboration with the client can arrive at solutions, compromises and adjustments that reflect the intersection of the financial realities and a lifetime of comfort.

Like financial assets, other aspects suddenly have a number bearing as well once they are considered. This is the value of Nelson's three-part model—when we expand our questions about retirement preparation to include environment, the planning possibilities and possible additional constraints are highlighted. Consider the puzzle piece of where to live. Can the couple afford to live where they've always lived or do they need to go somewhere else? Is their current home conducive to the typical physical needs and capabilities of older individuals? Can their current community (family, church, neighbors, and public services) replace what money would have to buy otherwise? How do they view their current home? Is there emotional attachment? A hope of having grandchildren visit? Is it in an expensive state? Will a meaningful and supportive social community be lost if the clients move?

"Bio-medical" is the label for a large container that holds all issues related to an individual's physical well being: family history, personal history, health promoting or health-inhibiting behaviors, insurance, access to care, cost of care, public policies, impact of environment, spousal impact, self-care and so on. In comprehensive holistic planning it's not enough to simply ask how old an individual's parents were when they died. Planning should consider current state of health, any existing diseases, current habits impacting health, and how individuals make healthcare decisions. Here we face one of the biggest uncertainties in life that can directly impact a client's ability to thrive, just survive or face hardship down the road. We can only reduce and manage that uncertainty, not eliminate it. Our ability to engage in honest discussion that touches each of these areas is fundamental to successful planning. Health is a huge issue, but not only because of the cost of healthcare, but also the cost of not being very healthy or the cost of longevity.

Perhaps the area that financial planners are most reluctant to explore with clients is the psycho-social element. But, the question arises, 'Who else is in a position to help the client consider the relationship of his or her emotional, psychological and social well-being in relation to their financial well-being? Often it is an issue arising from one of these factors that encourages someone to retire too soon or to avoid it unnecessarily. Financial life planning is not concerned with exploring mental or emotional dysfunction, but it is concerned with exploring beliefs that may be unconsciously in the driver's seat where decisions are concerned. It is concerned with behaviors, values, motivators and emotions that are deeply connected to one's ability to thrive, to implement recommendations and to bring the necessary vigor, resilience and focus necessary to meet the uncertainty that defines life. For some individuals there is a great fear of losing the social connection as well as losing an identity if they retire. This may be especially true in the academic environment. The sudden lack of daily structure and the loss of meaning that come with retirement can be devastating. Deep assessment of what a client expects to gain and lose if retired is something financial planners must take some ownership of with their clients.

In the wake of the economic meltdown, we are seeing how people are employing all of their resources in order to manage. They are drawing on their creativity and their community connection. They are engaging in conversations, becoming more conscious of spending habits and making more conscious decisions. They are seeking more guidance and support and the chance to reexamine what matters. They are wondering what it means to plan for the future in such uncertain times. Individuals are discovering that they are more resilient and resourceful than they realized and that the ability to be resilient and flexible is critical to thriving and realizing a life plan. Nurturing these qualities and tracking them is within the financial life planner's realm of focus and concern. Helping clients find ways to move forward, to plan, to make decisions and to make choices that support their ability to maintain a quality of life at every stage of life is the goal.

MEASURING SUCCESS

How do financial planners measure success? How does rate of return translate into client satisfaction? What if in helping a client position himself or herself for a secure (based on what we know today) retirement, we have disregarded the client's well-being in the here and now? Have we omitted attention to building joy, resiliency or meaning today by shifting so much of the clients resources to tomorrow? Is a successful plan one that smoothes standard of living over a lifetime or is it the ability to help a client in a more dynamic way in response to changing goals, transitions and opportunities? What is the ideal balance?

These are challenging questions. A financial life planner lives in the paradox and tradeoffs that individuals must make between today's quality of life and what will position one for a healthy quality of life in the future.

The holistic model requires us to include both quantitative and qualitative measurements in defining success. In the quantitative column we would include:

- Tracking the probability of success of meeting specific goals through mathematical analysis
- Rise in net worth
- Decrease in debt level
- Investment rates of return
- Adequate savings to meet future goals
- Tax reduction
- Adequate risk protection for income in the event of illness, accident or death
- Asset allocation as it relates to funding goals, risk tolerance and market uncertainties
- Adequate reserves
- Adequate college funding

All of these can be measured. In terms of our Einstein quote, these can be counted. But does this give us a complete picture of how the client is doing? What matters to the client? Research clearly tells us that over a certain amount, more money doesn't equate with a state of greater happiness. What is the goal of financial planning then? Riches? Richness of life? And who gets to define the answer?

On the qualitative side it would seem appropriate to assess our clients' well-being in ways that cannot be counted, but that indeed, "count". Does the individual have a greater sense of:

- Clarity and confidence
- Consciousness regarding money—spending habits, how much is “enough,” beliefs and values
- Resilience and decision-making capacity
- Energy, vigor and optimism
- Focus
- Alignment with spouse
- Well-being
- Purpose and direction
- Control and peace of mind
- Discipline and commitment to those actions that will lead to success
- Health
- Satisfaction

It has been said that we make our decisions with our emotions and we rationalize them with our minds. The financial life planner who does not integrate emotions into the process of discovery and evaluating success will be challenged to create the impact she earnestly aspires to make in the lives of her clients. As human beings we have conflicting desires, competing aspirations and habits that sabotage our deepest wishes for our own well-being, especially where our finances are concerned.

A couple in their 60's visits their financial life planner. It becomes clear through a rich discovery process in the early meetings that there is a fundamental conflict. The couple is deeply committed to charitable work, to financial giving to those less fortunate and to living a life based on their values and spiritual beliefs. On the other hand they come from a family of prominence and “old money” and have lived the lifestyle that seems expected. Over the years, however, their financial assets have diminished significantly through lifestyle spending related to maintaining the lifestyle to be expected of people in their social and cultural realm. The habits die hard.

A forced early retirement has exacerbated the issue of having “enough” money and living a life of richness. Difficult choices have had to be made, but the shared understanding of what really matters to this couple has made those decisions less painful and provided a sense of resilience and clarity of purpose. First, the vacation home must be sold. In the face of the economic crisis, now the family home must be sold in order to maintain a lifestyle in the face of increasing health care costs and longevity uncertainty. The answer is not to be found in simply making changes to asset allocation or asking the couple to stop their generosity to causes or to spending on their grandchildren. Through the conversation, through discovery and through collaboration the decision is made that selling the home and downsizing is the solution. It is not without tears or some sadness. This is real life. This is financial life planning.

ABOUT THE AUTHOR

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Ms. Jetton has worked in the financial services industry since 1981 and became a Certified Financial Planner® professional in 1991. She served as President of the Financial Planning Association in 2004 and Chair of the FPA in 2005. She has testified before Congress on behalf of consumer interests and is active in public awareness, consumer advocacy and improving government regulatory standards.

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