eMoney | WHITEPAPER

The Value of Cash Flow Planning Across all Life Stages

INTRO

The Importance of Cash Flow Planning

By modeling goals and expense funding for each year of a client's projected lifetime, cash flow planning reveals the true impact of chronological and priority goal funding on multiple client goals. By showing how asset allocation adjusts due to withdrawals—and the tax implications of those withdrawals—advisors can more accurately assess client outcomes for each year and over time.

With cash flow planning, clients can better determine where their money went and where it will go to help fund their life goals. Cash flow planning can be used at any life stage: early accumulators, mid-career accumulators, pre-retirees, and retirees.

Life Stage	Age Range
Early Accumulators	Age 25 - 35
Mid-Career Accumulators	Age 35 - 49
Pre-Retirees	Age 50 - 64
Retirees	Age 65+

Life Stage	Projected 2020 U.S. Population[1]
Early Accumulators & Mid-Career Accumulators	88,843,000
Pre-Retirees	83,398,000
Retirees	56,052,000

Early Accumulators

Early accumulators can use cash flow planning to understand spending, saving, and the funding of emergency and retirement accounts. Cash flow planning can start with a proper savings plan for early accumulators. As Michael Kitces points out, *"Good planning starts with putting the client's financial house in order and making sure that a good savings plan is in place with the proceeds invested into a solid, diversified portfolio."*[2]

Mid-Career Accumulators

Cash flow planning for mid-career accumulators can help them manage their spending so they can save for goals like paying for college and covering future health care expenses.

Pre-Retirees and Retirees

Pre-retirees can use cash flow planning to show how current spending could translate into retirement spending, and the impact current spending has on funding all of their goals. And finally, retirees can use cash flow planning to understand spending and the impact it has on the distribution of income to fund goals and outliving your retirement savings.

Cash Flow Planning Approach

Cash flow planning can help clients stay on the right financial path by incorporating their entire financial situations, including income and expenses, investment performance, education funding, insurance, and estate planning.

Cash flow planning can also help clients understand where they're losing money unnecessarily. Many families are unaware of the impact that fees, miscalculations, incorrect insurance, penalties, and all sorts of other charges have on their finances. On average, they're bleeding a minimum of $200 a month.[3]

With the holistic view that cash flow planning provides, advisors have important points they can discuss with their clients during the planning process. Advisors are ultimately able to analyze data more fully and provide recommendations that serve the best interests of their clients. Gamma, a metric created by Morningstar Research, pinpoints the value of sound financial decisions.[4]

As seen in Morningstar's Gamma study, **"Gamma research demonstrates that making sound financial planning decisions in five areas—asset allocation, withdrawal strategy, guaranteed income products, tax-efficient allocation, and portfolio optimization—can generate 29% more income on average for a retiree."[5]**

Additionally, by including a year-by-year trail of income and withdrawals, clients gain more robust Monte Carlo insights, as it will incorporate market volatility and the impact on the client's portfolio assuming their particular planned flows and withdrawals.

Morningstar Research also points to this value, **"Using Monte Carlo simulation, we estimate a retiree can expect to generate 22.6% more in certainty equivalent income using a Gamma-efficient retirement income strategy when compared to our base scenario."[2]**

Cash Flow Planning Through an eMoney Lens

To help clients understand the financial impact of their lifestyle decisions, a majority of eMoney advisors focus their client meetings and plans around detailed cash flow projections. eMoney offers several output options and tools to facilitate this. These tools range from a detailed cash flow report showing annual simulations for inflows, outflows and total portfolio assets, to an interactive tool called Decision Center, which allows the advisor to model recommendations in real time during a review meeting.

The **eMoney cash flow simulation** applies several key data points to project a client's cash flow simulation.

- The simulation will utilize the client's **inflows** which include income, investment distributions, planned distributions, and other inflows.
- eMoney includes **total expenses** for such things as living expenses, liability payments, insurance premiums, gifting, taxes, etc.
- **Planned savings** (also considered an outflow) include employee contributions to a qualified account, HSA, or taxable investment.
- The subtraction of total outflows from total inflows produces a **net cash flow number,** either positive or negative.
- **Total portfolio assets** will show the end-of-year balance of all liquid investments such as taxable accounts, tax-deferred, cash, etc. Some factors that affect the ending total portfolio assets year over year include the growth rates associated with each account, as well as the ending net cash flow.
- If the client has a negative net cash flow, that deficit will need to be met from **available portfolio assets** via liquidation.
- If the client has a positive net cash flow, that surplus will be added to the client's core cash account. The **core cash account** can be viewed as a hypothetical wallet that measures the client's inflows and outflows. Advisors can opt not to save surplus cash at the end of the year if a client prefers.

Budgeting and Cash Flow Planning

An expense number can help advisors initiate cash flow planning conversations with clients. Conversations about spending can be difficult especially if there are areas of concern that should be addressed. A budgeting solution can be an excellent tool for facilitating discussions on client spending and for assessing the impact of spending on a cash flow plan.

The eMoney budgeting tool provides daily updates on a client's spending transactions through connections to their financial institutions. The budgeting tool provides the advisor with an accurate picture of a client's spending that can be utilized in cash flow simulation and can highlight areas where changes could be made.

It is also important to note that entering data, especially expenses, does not have to be time-intensive or too finely detailed in cash flow planning. eMoney provides a great deal of flexibility for entering expenses, from an annualized rollup of all expenses, to the ability to create major expense buckets (like discretionary, etc), and the ability to complete a digital expense worksheet or categorize transactions on the client site to assess a client's true expenses in any given year. The time required for data entry depends on the amount of detail you need.

Aggregation and Cash Flow Planning

Account aggregation has shaped the financial planning landscape because it truly helps advisors plan with their clients. In cash flow planning, aggregation provides an up-to-date account balance with real-time information that improves a client's cash flow projection.

eMoney account aggregation connects with thousands of institutions to gather client account information, including balances, holdings, asset allocations, and more. By including accounts held away, aggregation ensures that the cash flow plan is comprehensive.

Additionally, with this information, the advisor understands how an account accumulates for projection purposes. This helps the advisor make recommendations that better align with the client's needs.

eMoney features fully integrated account consolidation (assets under management) and account aggregation (assets held away) functionality across both the advisor and client experiences. In total, more than $2 trillion in assets are linked through the eMoney platform.

All linked accounts refresh automatically each day, updating values across the system, including financial plans. eMoney is a commercial aggregator, whereby more than 90 percent of this aggregation work is performed in-house by the eMoney team with a small portion of assets gathered through third parties.

Relevant eMoney Stats

4.4 million **Total Clients/Households** on the eMoney Platform

2.2 million (50%) **Total Clients/Households** with Client Website Access

Advisors have added **$938 billion** in aggregated AUM to the eMoney platform

Advisors have added **$329 billion** in aggregated AHA to the eMoney platform

78% **of assets currently aggregated** via Direct Feed or API on eMoney

Feedback from Advisors Using eMoney[6]

47% **report AUM improvement of greater than 25%** since using eMoney

55% **cut their financial plan development time** in half or more

85% **saw a return on investment** in less than 12 months*

69% **say they've seen an improvement in customer satisfaction and engagement** since using eMoney

87% **saw an improvement in business efficiency** since using eMoney

SOURCES

1. United States Census Bureau, “2017 National Population Projections Table.” Available at: https://census.gov/data/tables/2017/demo/popproj/2017-summary-tables.html. Accessed September 2018.

2. Michael Kitces, “A Hierarchy Of The Value A Financial Advisor Provides.” Available at: https://www.kitces.com/blog/hierarachy-of-financial-advisor-value/. Accessed at March 2018.

3. Advisor News, “Here’s Why Advisors Need to Focus on Cash-Flow Analysis.” Available at: https://insurancenewsnet.com/innarticle/1491434#.XPl9iG5KhaS. Accessed April 2017.

4. Morningstar, “Alpha, Beta, and Now...Gamma.” Available at: https://www.morningstar.com/content/dam/marketing/shared/research/foundational/677796-AlphaBetaGamma.pdf. Accessed August 2013.

5. Morningstar, “The Value of Advice: What Investors Think, What Advisor Think, and How Everyone Can Get on the Same Page.” Available at: https://bit.ly/2XwYNpE Accessed April 2019.

6. eMoney ROI Survey, Tech Validate, March-April 2019, n= 341, *n=180, 95% confidence level with a +/- 8% margin of error