



Tapping into the Emotional Side of Financial Planning

Money impacts every aspect of our lives. While it can be a source for good and bring us great joy, it can also cause high stress levels that negatively impact our overall well-being.

In short, money is emotional. That's why financial professionals interested in holistic financial planning need to become familiar with some of the ideas emerging from the multi-disciplinary financial therapy field.

In holistic financial planning, financial professionals wear many hats. When a client's financial behavior impacts their ability to plan for life goals, financial therapy lessons might help determine underlying causes. This leads to stronger and more profitable relationships and greater financial wellness for clients.



What Is Financial Therapy?

Financial therapy is a relatively new field, with the **Financial Therapy Association** (FTA) founded in 2009.

According to the FTA, financial therapy has an interdisciplinary nature, and members include psychologists, marriage and family therapists, social workers, financial planners, accountants, counselors and coaches, students, and academics.

Members of the FTA promote the research and study of financial health and training.

To become a certified financial therapist, candidates must meet specific education and experience requirements and can qualify through various paths. Candidates must also meet the ethical standard requirements and complete coursework for three certification levels to become an accredited Financial Therapist through the FTA. Visit **Become a Financial Therapist** for more information.

Although a registered financial therapist may also hold the CFP designation, their role isn't to give investment or financial planning advice, making it important for clients to continue working with a qualified financial professional. For the client who needs their assistance, a financial therapist helps clients see what makes their finances personal, thus facilitating the financial planning process.

As traditional financial professionals become more holistic in support of their clients, it's helpful to understand financial therapy principles and broaden referral networks to include certified financial therapists. This could benefit clients struggling with financial behavior issues.



The Emotional Side of Money

The things that people hold most dear—their spouse, their children or parents, their mental or physical health, their home—drive their financial decisions. In this way, money is deeply personal and emotional.

Study after study shows that money is an emotional issue and one that causes stress and has a large impact on overall wellness.

According to a National Association of Personal Financial Advisors (NAPFA) study,



say they have a stressful relationship with money.¹ At the same time, a recent study from Fidelity Investments found that

79 percent of women currently feel stress around their finances.²

Even individuals with comfortable incomes can experience financial stress. The American Psychological Association (APA) Stress in America™ 2020 survey reported that

59 percent of Americans earning over \$50,000 annually report feeling money-related stress.³



Family History Influences Financial Behavior

In addition, family history and learned behaviors can frame a person's view of money from a young age.

Dr. Joy Lere, a licensed clinical psychologist and behavioral financial consultant, says there's more at play than the financial professional's office discussion.

“The thing about financial anxiety is someone’s experiences with money early on in their life can really set the stage for their attitudes, their beliefs, their behaviors and their feelings about money later on that can lead to problems.”

For example, children might regularly hear parents arguing over difficulties paying bills. Witnessing these behaviors as a child might lead an adult earning six figures to keep a larger-than-necessary checking account balance instead of investing, or be critical of a spouse's spending.

When clients appear to struggle to complete the tasks required to make their financial plan successful, the proactive financial professional has an opportunity to broaden the conversation to help them see the affecting behaviors.



Applying the Principles of Financial Therapy

Dr. Lere considers therapists as part of the big picture when it comes to holistically working on well-being.

“As a behavioral finance consultant, it’s been exciting for me to step into the finance industry. I love what’s happening in the industry because when we’re talking about money, we’re talking about people’s lives. More people are acknowledging that planning conversations aren’t just about math, they’re about understanding people. So it’s important to engage with the psychology behind financial decisions.”

How to Identify Unproductive Financial Behavior or Patterns

To identify potentially problematic financial behavior, Dr. Lere suggests financial professionals look for issues such as:



Overspending



Impulse buying



Not saving enough



Difficulty sticking to the chosen financial plan

Savvy holistic financial planners should quickly recognize these problem behaviors, understand the associated impact on the client’s goals, and find productive ways to engage with the behavior. As Dr. Lere points out, to truly empathize and engage with clients, advisors should examine their own financial behaviors.

“You can’t preach what you don’t practice,” says Dr. Lere. “So I think for advisors who really want to create an experience that’s going to give them an edge in the industry now, they need to be financially self-aware and squared away first.”

Setting the Stage for Honest Communication

Establishing clear, direct communication beginning with the initial client meeting helps planners discover the financial and life history—good and bad—that may have led the clients to their current situation. Bringing any difficulties into the open may connect the dots for the client and help them see what's behind their behavior so they can take action to resolve the issues.

It's important to remember—and remind clients—that avoiding talking about and working through financial behavior challenges may continue into future generations and perpetuate the cycle of learned behavior.

It's also important to look at this in the context of couples, which may bring together different money management traditions but don't yet realize how this impacts their family finances.

Sometimes, simply talking about money with the clients helps normalize the activity and allows them to see that it's okay to discuss money and their issues surrounding it.

Helping clients reach this understanding will deepen their trust in their financial planner and the financial planning process.



Opening the Conversation

Creating a script to ease into the often difficult topic of an individual's relationship with money helps planners prepare to broach the subject of unproductive financial behavior. For example, consider opening with a general discussion of a current or recent volatile economic condition and how the client feels about it. This can help uncover potential issues.

"People experience financial trauma in their lives, and they can have very real traumatic reactions to that," says Dr. Lere. She says that getting to know a client through discussing current events, such as the pandemic, as well as discussing the client's general history, can help advisors uncover issues and introduce the idea of therapy.

"If someone is seeing there is significant emotional distress around this, it may be a good time to be seeking some extra support as well," she says. Approaching financial behavior, challenges, and conflict in an open, direct, and non-judgmental manner can help foster self-observation and awareness in the client.

For example, while overspending to meet a practical need is a financial problem, the behavior is often driven by something else.

Holistic financial planners help clients recognize the need to acknowledge this and find preferable alternatives to financial self-sacrifice, including a certified financial therapist referral.



Navigating Family and Finances

Family and finances can be an uncomfortable discussion for people. However, it's critical to address tough topics—like paying for elder care—long before needed, to avoid future financial issues.

Family and financial situations are also very important for succession planning, especially for particularly complex family businesses.

As recent studies have shown, retirement can make people feel anxious, and in some cases, this results in avoidance and denial of financial issues, such as large amounts of debt or inadequate savings.

In the NAPFA study,

74 percent of Americans said they wanted a financial planning “do-over” to improve their financial situation.¹

In addition, Dr. Lere says to watch out for reactions to the often-delicate financial subjects that impact the extended family, such as care costs for elderly parents, and succession planning for family businesses. “... it might make some people really anxious and the way people manage their anxiety is sometimes they go into denial.”

That's why it could be important to bring other family members into financial discussions.

Dr. Lere points out that avoiding these discussions can “really hamstring future generations.” If the clients aren't communicating about it and planning for it, it's tough to manage the situation from a tax vantage point. “So I think bridging generations is really important, especially when there's going to be a succession of any kind of assets.”



Identifying Positive Financial Behavior

Learning the signs of changed financial behavior is just as important as identifying unproductive financial behaviors.

“It can be really powerful to combine something good with something we know we have to do but aren’t excited about,” Dr. Lere says. “In behavioral science, we call it temptation bundling. In practice, it may mean going out for a nice dinner when budgeting goals are met, or anything special as a reward for correcting financial behaviors.”

Nobody likes to be told they aren’t managing their money right, and financial professionals are there to do more than point out overspending. They can identify productive behavior, congratulate clients on making these changes, and encourage further positive change by demonstrating the long-term impacts they’re having on their financial success.

Sometimes individuals become more confident and less inhibited as they experience the success of meeting their first financial goals.

They may negotiate differently or even pursue better job opportunities to increase their income.

And couples might find their financial conversations redefined from combative interactions to productive, team-based discussions.



Receptivity to a Deeper Relationship

Financial professionals may wonder about the likelihood of finding clients willing to dig deeper into long-entrenched personal money behavior, particularly for issues adjacent to the financial professional's traditional role. Research shows that this may vary depending on the age of the clients

Our greatest insight into this receptivity by generation stems from our research into total wellness—or the intersection of physical, mental, and financial health. Not only are younger clients more interested in exploring this expanded view of their well-being, but they also place more importance on the financial professional as being able to help with total wellness than older generations do.

Among Gen Y and Gen Z, our research⁴ shows they are willing to pay for advice that expands into:



80%

Physical health



79%

Business advice



77%

Mental health

When asked about the most important aspects of their total wellness, these younger generations also most frequently cited compensation and salary (83 percent). Among all generations,

71 percent say they're open to their financial professional having additional professional associations or certifications in wellness areas.

Financial professionals have a great opportunity to engage clients through their finances to improve their overall well-being as individuals.⁴

Embracing Lessons from Financial Therapy for Stronger Relationships

Financial planners who seek to strengthen client relationships must offer enhanced value to their clients. These relationships happen when clients view the planner as an invaluable resource to help them achieve their life's goals.

By fulfilling this role, the financial planner becomes the conduit to many other aspects of their client's lives, positioning them to make a major impact on financial success and overall well-being.

Sometimes, this could mean taking lessons from financial therapy to help clients delve into behaviors threatening financial success.

This type of commitment will not only differentiate a financial planning practice but will also lead to stronger and more profitable relationships and greater financial wellness for clients.



To learn how eMoney can help you deliver an exceptional client experience, visit us at [eMoneyAdvisor.com](https://www.emoneyadvisor.com)

SOURCES

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