

Power to Spend: Helping Clients Build a Workable Budget

by Nancy Opiela

Whether used as a noun or verb, it's a word that's so full of fear and loathing for clients that many planners refuse to utter it. That word is "budget," or the more nonthreatening "cash flow analysis," "lifestyle costs" or "saving and spending plan." Call it what you will—here we'll bravely use the word *budget*—it's tough to find anyone who disagrees that, for most of us, budgeting is at the core of wealth accumulation and the ultimate success of our financial plan. Without an accurate picture of what a client spends now, how can a planner possibly project retirement income needs or effectively allocate assets to meet other goals?

Accordingly, planners try, as does John Girlando, CFP®, of John Girlando Financial Services in Carpinteria, California, to put a positive spin on budgeting. "We look at a budget not as a way to restrict spending, but to give clients a license to spend their money how they want to. That way, they are in control and can freely spend up to a certain amount in a month, knowing that they aren't causing problems down the road."

Many planners have noticed a "back to the basics" renewed interest in budgeting. "It's a hot topic with clients," says Darlene A. Simard, CFP®, of MassMutual Financial Group in Bedford, New Hampshire. "Two months ago, a recently divorced woman came into my office with her Quicken report. She said she needed someone to hold her hand and keep her accountable for her spending. This week, a young married couple came in with the complaint that they just can't save money, that it disappears."

Particularly in the aftermath of the bursting of the stock market bubble, planners say clients are more interested in making better use of the assets they have rather than expecting that an investment will double their money and put them on easy street. And that makes it an ideal time to stress or revisit this basic building block of the financial plan.

Different Strokes for Different Folks

If the word "budget" is taboo, what's the best way to broach the subject and get clients talking and tracking cash outflows? Every planner has his or her own starting point, ranging from big-picture estimates to detailed line-item budgets.

Karen McIntyre, CFP®, of Executive Financial Services Inc. in Spring House, Pennsylvania, works with high net worth individuals and families. She discusses "lifestyle costs" from the outset of the relationship. "My clients know I don't care whether they spend money on going out to dinner or entertainment. What's more important to us is what they spend in general," she says. "We want clients to take responsibility for their spending, but it doesn't teach anyone to manage their finances by having an envelope for the electric bill and one for groceries."

McIntyre's is a top-down approach, not the traditional bottom-up budget that begins with the mortgage and adds up fixed monthly expenses. "If a client says it costs them X to live, and they bring home Y, I suggest they save the balance toward long-term goals. A systematic savings plan might start with half of the money they can't account for when we go through monthly expenses and compare it with income. Every few months we check in and keep refining that savings figure. We emphasize that this is a process. Throughout, we want clients focused on the big picture and understanding that developing a plan to achieve their goals doesn't have to be painful."

Liz Hoover, CPA, of Hoover Financial in Indianapolis, Indiana, prepares for every financial planning client a detailed cash-

flow statement she calls their "needs" which, when compared with their income, often reveals room to save. She says improving cash flow hinges on defining priorities. "Comprehensive planning usually identifies several family goals such as increased retirement savings, education savings and additional insurance. When clients see that they have identified \$50,000 in new goals and only have \$30,000 of surplus cash flow, we work together to allow them to determine if they want to cut back goals or reduce their level of personal spending," she explains. "If they are overspending and running up debt, they can see how that behavior is keeping them from meeting their future goals. A detailed plan allows people to make better choices about their priorities and I will help them identify areas to cut back their spending to meet other goals. Clients make their own choices; it's my job to lay out the facts."

Sheila Walker Hartwell, of Hartwell Planning LLC in New York, New York, does a "savings and spending plan" for almost all clients in the early stages of the planning process. "Clients submit expenses over a 12-month period, and we develop a first draft and meet to revise it together, moving from historical numbers to planning into the next 12 months," she explains. "We have found it effective to get fairly detailed—line items are clumped into categories and we build in a debt repayment schedule for eliminating credit card debt or paying off school loans. We also set up a savings category to build or protect a contingency fund, accommodate 401(k) deferred income or add to an IRA."

Hartwell views the savings and spending plan as a valuable tool that "helps clients gain more control of their affairs and, as a result, make more informed and better decisions in the future." She continues, "A client called last month because they fell in love with a house upstate and wanted to know if they could afford it. We quickly updated the saving and spending plan and were able to help them make an informed decision."

John Scherer, CFP®, CLU, ChFC, of Trinity Financial Planning in Madison, Wisconsin, provides some form of budget planning for all clients, but works on detailed budgeting with about half of his clients—"those who don't have any idea where a large part of their income goes or who haven't ever been able to save enough money."

Scherer explains, "I set up clients with Quicken, input a few months of expenses, and then have them run the program for six months so we can review where their money went. I find that this way of looking back at what happened is more effective in modifying behavior than trying to impose future limitations without a good record of what's been done in the past."

Even more detailed, Errold Moody of San Leandro, California, has included what he believes to be the most extensive budget in use in his new book, [*No Nonsense Finance*](#) (McGraw Hill.) Here, he has line items for parking tickets, expenses for pets, snow removal, registration fees and uniforms for children's sports. "If you don't account for the money you spend with a line item, the money is lost," he says.

Moody requires a budget of all clients, regardless of income. "Most of the time people don't have a clue that what they are spending today will so severely affect their financial future. It's a waste of time to work with valueless numbers," he says. "People become interested in me through my Web site and call. I tell them they need to fill out a client questionnaire and detailed budget; it's surprising the number of people I never hear from again. Many people expect a planner to design something for the future based on a number that is nebulous at best. If I don't know what you are spending, what do you want from me?"

Clients of Robert Giarrappa, of New Horizons Financial Services in Cedar Knolls, New Jersey, will never complain that his approach to budgeting is too time consuming. They complete his "Backdoor Budgeting: Your Commitment to Your Future" in less than five minutes in the first client meeting.

Explains Giarrappa, "According to the mortgage industry, your total monthly cash obligations cannot be more than 36 percent of your gross monthly income. If your total fixed monthly cash obligations—such as for mortgage and car loans—are less than 36 percent of your gross monthly income, there is room to invest in yourself. So we simply add up those fixed monthly obligations and direct anything extra into a savings account. Writing down every penny doesn't work. That approach requires a lot of effort and there's always money you can't account for. As long as what a client spends on groceries or entertainment is in the normal range, we don't need to factor that in. I'm worried about that 36 percent; they can spend the other 64 percent of their money however they want to."

Problem Children

Naturally, there are clients who, for a variety of reasons, resist the tasks a planner feels are essential to determine current spending. To get her clients on board and cooperating, Holly Carroccio, CFP®, of HFG Advisors LLC in Dallas, Texas, uses a two-step budgeting process with data gathering followed by what-if analysis. "When we go through the modeling process, clients see how today's numbers might affect their future. I hope that will motivate them to be as accurate as possible with the numbers they provide. In cases where we can't figure out a way to track expenses accurately, we simply go in another direction and ask the client, 'What do you think you can make a commitment to save every month?' Some clients may have to make that commitment to saving first so their money doesn't burn a hole in their pocket."

When there's money a client can't account for, what Keith Newcomb of Full Life Financial LLC in Nashville, Tennessee, prescribes depends on the personality of the client. Solutions range from "an assignment to write down every penny for two months to having a young accountant come in and do forensics on their bills, checking and credit card statements."

Newcomb also has hired organizational experts to work with some clients. "These professionals can set up an organizational structure for clients and teach them how to maintain the records needed to budget. Sometimes, as professionals, we focus on the sophisticated planning tools and investment strategies we can implement, when the necessary first step for the client is basic organization."

Karen McIntyre, reflecting on a situation where a couple with a huge inheritance saw their cost of living spiraling out of control, stresses a planner's responsibility not to skirt a difficult issue. "I had to have a very mature and respectful conversation along the lines of 'I know these are your goals and I'm worried about your ability to meet them. What are we going to do?' They appreciated my honesty and recognized it was up to them to make some changes. We revisited the financial plan to get them to the point where they were no longer drawing from the portfolio to support monthly expenses. They became more mindful of impulse purchases, reconsidered vacations and set limits for Christmas spending. It's been a year and they have not tapped their investment account."

Keys to Budgeting Bliss

Planners are ready to share advice and tips so that conversations like the one McIntyre was forced into with her clients are not necessary. First and foremost, planners agree that a budget needs to relate to a client's goals to provide the motivation to stay "on budget." Says Newcomb, "Successful budgeting needs to be done in context. I ask clients to provide expense information after we have completely mapped out their vision, values, very specific goals, what I call the personal life mission, have tabulated details of all assets and liabilities, and have reviewed income history and discussed income expectations.

"Once the client and I are satisfied that we understand where the money is going, we compare this with how they have expressed their values and goals. I lead the client through an exercise of deciding which is more important: their current spending reality or their articulated values and goals. This keeps the focus on what the clients want, not what the planner imposes. The end result is that the client's resources are aligned with their vision, values, goals, and personal life mission—and to me that's the heart of what financial planning is all about."

It's also important that planners not judge, say planners. Rather than express horror at their \$5-a-day Starbuck's habit, the more effective response is, "Tell me more about this expense." Explains Amy Whitlatch, CFP® , CDFP, of Cincinnati, Ohio: "We all bring our predispositions to our work. As planners, we have to be careful not to transfer our goals to the client because the client will be motivated to meet only their goals. Clients need to feel that their goals are in concert with their values—not thrust upon them by society, planners or others. I recently did some planning with a client who wants to make major gifts to her children during her lifetime, even though there is a significant chance that her invested assets will be spent. We reviewed the lifestyle that's possible if she uses only her pension and Social Security income, and she understands and accepts that."

Because it's rare that clients don't need to make any change at all, motivation is also a factor in ultimate success. Steven Landis, CFP®, of Landis Financial & Investments Associates in Columbus, Ohio, sends this message to the "average people" he works with: "There are three ways you can accumulate wealth: you are born with a silver spoon in your mouth, win the lottery, or harness the power of earned income. The last way means determining how much of what you make you can keep from going into someone else's pocket."

Landis's goal for most clients is to save ten percent of their gross income. "If they are at five percent, we go up to six percent and then review it a year later. We're looking to find an amount that's difficult, but not impossible," he says.

Barbara A. Stewart, CFP®, of Prosperity Advisors LLC in Houston, Texas, motivates her clients to realize where their "leaking money" goes by asking them to resist "frivolous purchases" and then put the money they don't spend in a glass jar. "If you can see the money you're saving accumulate, it motivates you to resist the day-to-day temptation of overspending," she says. "Maybe you treat yourself when the jar reaches a certain level and allocate the rest to meet short-term goals."

Stressing these short-term goals also motivates clients to commit what's necessary to meeting their long-term goals. "Saving is like dieting," says John Girlando. "If you can look at scale at the end of the week and you've lost a pound, that motivates you to do even better. Meeting short-term goals can be very helpful to the entire planning process."

Throughout the process, flexibility helps. As Girlando notes, "It's important to not make budgeting a chore or a straightjacket, or else no client will do it. I try my best to make it fun while conveying its importance to financial success. Budgets can be viewed as empowerment to control and to spend rather than restrictions to *not* spend. The client needs to know that he or she can "cheat" occasionally without feeling like a failure. Maybe you forget to budget for school clothes or there's a huge clothing sale. You know you have a monthly budget for clothing, but you can overspend in the category as long as you make it up later or underspend in another category."

Finally, planners say clients need to understand that there is no "magic pill." Universally, planners stress budgeting has to be a two-way street with clients committing the time necessary to come up with accurate numbers and get their arms around what it is they need to do.

Says Errold Moody, "I can't beat clients on the head and demand perfection, that they account for every penny, but I tell them the most critical information they can give me is what they are spending. If they are unwilling or unable to provide that information, that's a liability on me. If they are not interested in their own money, I can't get that interested in helping them."

Adds Girlando, "As a rule, I do not monitor my clients' adherence to budgets. I expect them to take responsibility for their own life. I'm there as a planner, not a cop."

Tools and Tricks

While most planners agree with Girlando that they don't want to be intimately involved in day-to-day cash monitoring, there are strategies they've discovered to help their clients be more successful in their efforts to track cash flow. For example, Scherer has his clients keep a detailed "cash journal." He explains, "I give them a spreadsheet to keep track of all the cash that they spend for one month. It's usually very eye-opening for clients so see how the nickel-and-dime expenditures add up. Knowing where your money goes empowers you to make intentional decisions on what and how you spend, rather than just letting it go without thinking about it. Recognition is the biggest factor in prudent personal cash-flow control."

Says Bedda Emous, CFP®, of Fiduciary Solutions LLC in North Andover, Massachusetts, "Usually, people who need to budget maintain a life view that 'there is not enough.' They also confuse status symbols for affluence and are committed to maintaining a certain lifestyle. These people need to experience what it feels like to achieve an important but tangible short-term financial goal. Therefore, I send them out shopping for whatever that goal is, let's say a first home. I have them pick a community in which they would like to live and go out and look at homes with realtors. We calculate how much they would need to save for a down payment and how much the monthly payment would be at current interest rates for the range of values they are interested in. Once they believe they can buy a home and have a concrete idea of what they need to save, I can usually convince them to direct their employer to electronically transfer substantial deposits to a brokerage money market every paycheck. We set a goal of 12 months or less. Most people can slash their spending for short periods to achieve short-term goals."

Once clients are on track with funding their goal, Emous focuses on paying down debt. She explains, "I have them select the credit card with the lowest outstanding balance and we decide on a monthly payment that is at least double the minimum monthly payment. On other debts, they continue to make only the minimum monthly payment. By the time a client has achieved one important goal and paid off one credit card, their confidence is built and they really buy into the power of budgeting."

Noting that most clients spend all that they earn, Joseph Khasho of American Express Financial Advisors in Rolling Meadows, Illinois, works with clients to avoid having their income dictate their lifestyle. "Planning should dictate lifestyle," he says.

To that end, Khasho has developed and successfully implemented a detailed automated budgeting system that has "changed the lives" of virtually all the clients who have implemented it. "We need to be proactive," he says. "Quicken is great, but if you blow your budget, you don't know it until you run your report. Clients need a forward-looking system that makes them aware they are close to overspending before they overspend. Then income growth can be a powerful tool in building wealth."

Darlene Simard has found a number of useful strategies to help clients budget in [The Good Sense Budget Course](#):

[*Biblical Financial Principles for Transforming Your Finances and Life*](#) by Dick Towner, John Tofilon and Bill Hybels.

"What's different is this program takes feelings into account," she says. "It's not all about how much you spend or save, but how you feel. What does it feel like to have bills pile up at the end of the month? This program also teaches that we are trustees of our money, so we need to make the best use of it we can. If clients look at their budget from that standpoint—taking fiduciary responsibility for their money—it helps them escape the personal confusion and treat their finances almost like a business."

Among tips offered in the book is keeping fixed expenses in a checking account and variable expenses, such as for gas or entertainment, in cash in an envelope. "When you pay cash, expenses register more," says Simard. "When you take money out of your envelope to spend, you feel the loss right away. When you use credit cards, these variable expenses just don't register and you don't feel the loss."

Kevin Delaere, CPA, CFP®, of Groen, Kluka & Company in Troy, Michigan, finds that programs like Quicken are particularly effective for younger clients making decisions about whether they can afford the bigger house or living on one salary if one parent doesn't return to work after a child is born. For these clients, Delaere says it's helpful to have as many of their fixed monthly expenses, like the mortgage, car loans or insurance premiums, automatically deducted from their checking account. "This is crucial for anyone who is cash-strapped because they'll then have less to spend on what's actually draining their cash," he says.

Brock Dumont, CFP®, ChFC, of Brock Dumont Consulting Company in Santa Barbara, California, uses an interactive process via e-mail with Microsoft Excel spreadsheets to get clients to forecast what they will spend. If clients are not familiar with the program, he'll spend half an hour to get them up to speed.

Says Dumont, "I want to empower my clients to make better choices for themselves. People think of budgeting as what they are not going to spend, rather than what they spend. I tell my clients the budgeting process is not about cutting back, at least to start. Our first goal is simply to figure out where the money is going. I want 80 percent of my clients' energy looking forward, and 20 percent looking at what they've done, so that they become a good forecaster. It's the forecast of what they are going to spend that's key to their success.

Perry Chesney, CFP®, CLU, ChFC, of Merrill Lynch in Atlanta, Georgia, stresses that planners need to address the reasons behind why so many clients have trouble sticking to a budget. "To ignore the basis for why we're not good at budgeting means we're not going to get any better at it," he says.

Drawing from behavioral finance, Chesney notes that "over-confidence is at the root of many clients' troubles. Spending rises to your level of income, in many cases to 110 percent of your income," he says. "Many affluent people don't save anything. If you get a \$1,000-a-month raise, how much will you save? Zero. That's because you figure you'll always have that \$1,000. But if you got a \$12,000 bonus, it's likely you'd save part of it because in our mental accounting, we think of the bonus differently; it's a one-time amount."

The ideal, says Chesney, is for planners to harness what they know about behavioral finance and use that to the client's advantage. He explains, "In our mental accounting, we carve our money into little accounts. Therefore, it's effective for planners to set up sub-accounts for clients: the car account, the vacation account, the education account, the retirement account. It's easier to save that way. If all the money is in one account, it's easier for the client to drain it all out."

Chesney recalls a doctor and his wife who were making \$500,000 a year and not saving anything other than their 401 (k) contribution. He asked them how much they needed a month to live on. "We came up with \$15,000 a month. So, each month we put \$15,000 in a spending account and the balance into a savings account. Now they have a high six-figure account that would have never existed had we not helped them budget."

Relationship Glue?

Whether your client makes \$30,000 a year or \$1 million a year, it's likely you'd be able to work on a budget and help them better align their spending with their goals. The key to your success will be ensuring that the exercise of "where the money goes" is not too time consuming and uncovers something more meaningful than "we're spending too much on entertainment."

Whether or not your clients make significant changes in their spending and saving, Keith Newcomb says explorations on the budgeting path can cement the relationship between the planner and client. "The budgeting process is a crucial footer of the foundation for financial success, because it provides clients with the opportunity to experience a series of small accomplishments, resulting in a sense of progress, and helps both planner and client ascertain if the goals set elsewhere in the financial plan are attainable," he notes.

Says Susan Spraker, CFP®, of Spraker, Fitzgerald, Tamayo & Moisand LLC in Maitland, Florida: "Helping clients set up a budget and stick to it is not the most exciting, and sometimes the least rewarding, aspect of financial planning. It often requires prodding and probing clients beyond their initial tolerance. Yet, once completed, the roadmap of current expenses explains cash-flow problems as well as the most revealing MRI. Helping clients create a budget is tricky and time consuming. It requires patience beyond collecting the average financial plan data. It sometimes requires the counseling skills of a battlefield cleric. But the rewards of success are mighty, and the hope of that success keeps the process alive as long as the client is trying."

Says Brock Dumont, "Clients often tell me that pulling together all the financial information for our first meeting is very powerful. Not only is it a relief to begin the process of discovering where their money goes, but they often realize that their financial life is indeed complicated and worthy of significant attention."

"In the end, the value of budgeting is akin to the psychological benefits afforded by formulating an asset allocation strategy on the investment side," says Kevin Delaere. "If clients spend time and develop an appropriate budget, it can take a lot of the stress out of their financial situation."

And that's good for planner and client alike.

Nancy Opiela, based in Medfield, Massachusetts, is a freelance writer and a contributing editor of the Journal of Financial Planning.

Sidebar: Readers Weigh In

Some of our readers weighed in on how they work with their clients on budgeting issues.

The First Step

Lynn McIntire, CFP®, CLU

*First Tennessee Bank
Dallas, Texas*

"Cash flow and budgeting, if necessary, is the first area of focus with all of my clients. Not only understanding the current cash-flow issues of budgeting, but past experiences with money and attitudes stemming from those experiences are crucial to making necessary changes today. Having said this, I do not consider myself a 'budget counselor' and will refer clients to local professionals when debt restructuring and credit score issues are critical."

Nichole Durocher, CFP®

*Nvest Financial Group, LLC
Kennebunk, Maine*

"I have quite a few clients at all income levels who are looking to budget. I usually address it before putting the investment plan together as that has a big impact on how much income I may or may not pull from the portfolio. Even higher net worth clients are interested in budgeting as they are comforted in knowing that they are being wise with their funds. How strict or flexible the budget is depends on their specific situation."

Alan McKnight, CFP®

*Kays Financial Advisory Corporation
Atlanta, Georgia*

"The majority of my clients are pre-retirees or retirees, and it's amazing to see how many of them are relatively clueless when it comes to how much they spend on a monthly basis. With them, I always address this issue right up front because it's the linchpin of a successful retirement plan."

A Budget by Any Other Name...

Timothy Heidenberg, CFP®

*American Express Financial Advisors Inc.
Columbia, Maryland*

"At our firm, we don't use the term *budget*. It is too restrictive, like the word *diet*. We use the term *cash-flow planning*. Through comprehensive financial planning, we try to determine where each dollar is going. The ultimate goal is to determine how much the client is saving toward financial goals. By reviewing cash flow, we can help clients reduce some discretionary expenses, save money on insurance and so on, and redirect that cash flow to college or retirement plan programs."

Stephanie Goucher, CFP®

*Cornerstone Financial Programs Inc.
Overland Park, Kansas*

"This marks my 20th year in the business. Budgeting, or as we call it, 'cash-flow planning,' has always been our first step in the financial planning process. Unless you know what they make, and what they spend, you cannot make recommendations on anything until you know that they have the cash flow to handle your recommendations. I have clients who make \$30,000 a year and have positive cash flow, and I have clients who make \$1 million a year and have negative cash flow."

The Client's Job

Roger Southward, CFP®

Southward Financial Services

Pickerington, Ohio

"The worst clients for budgeting are those still in denial about their spending; they don't see that there is a problem. It is our job to tell them what to do. Budgeting is like dieting; the doctor can prescribe the best possible diet (plan) but it won't work unless the patient (client) is willing to do the hard work and modify behavior."

Charles Becker, CFP®

Becker Financial Advisors Inc.

White Hall, Arkansas

"I try to get clients to live by their budget, but I also inform them that 'I am not the sheriff!' They must find the discipline to live by their own budget. I simply revisit the subject periodically to oversee progress toward their goals. If progress is lacking, I know they are slipping on their commitment to their budget, or the budget is not realistic. We simply revise the budget until we are in consonance with reality."

Donna Gestl, CFP®

New Vision Financial Planning

Baltimore, Maryland

"I do not feel it is my job to tell clients how to spend their money; my job is to help make them aware of how they spend it, so they can make adjustments if desired. In addition, I try to make them aware of the consequences of their choices. I will ask clients, 'What is more important to you—to have that car (clothes, etc.), or to retire five years earlier?'"

Ann Elliott, CFP®

American General Securities

Naperville, Illinois

"The very first goal for most of my clients is to live below their means in order to eliminate all consumer debt and save for future expenses/investments. I am very detailed and monitor them until they can do it on their own. When they don't follow their budget, like anything else I suggest they do, they usually don't call me back, and I move on to the next client."

Women and Divorce

Lili Vasileff, CFP®

Money Matters!

Greenwich, Connecticut

"I focus on working with women going through divorce. Budgeting comes up early since it is integral to the divorce process. This becomes a critical educational and advocacy tool for the planner to help the client understand the legal process, become motivated to move forward with their lives, and to accept responsibility (often for first time) for their own financial welfare."

Laura Webb, CFP®

Webb Investment Services Inc.

Asheville, North Carolina

"More frequently than not, I need to use a budgeting tool with my female clients. I need it to know what type of lifestyle they are living and to find a realistic number to use for retirement planning or retirement management. I use an income and expense worksheet that visually translates where they spend their money and their savings ability (or lack thereof). This has been especially effective for recently divorced women."

Getting—and Staying—on Track

Anthony Rossetti, CFP®

Heritage Financial Services LLC

Winter Park, Florida

"We monitor progress as needed. Some clients talk to us quarterly about their budgets, others annually. If people are on the right track—increasing savings and decreasing debt—we might not address the subject in detail for a few years."

Brenda Morris

Wachovia

Glen Allen, Virginia

"Working at both a bank and a brokerage firm, I have the unique advantage of being able to examine a client's daily money management, and advise them accordingly. I have no problem commenting on overdrafts when I know these clients have the funds and simply 'forget' to make payments. I will warn them ahead of time that they are in for a lecture..."

Douglas Goldstein

Profile Investment Services

Jerusalem, Israel

"...I have developed a staff member who can coach clients in getting their [budgeting] act together. This way, I can focus on macro-level financial planning, and my office can still supply full service to clients at all levels."