Providing Invincible Value: Is Goals-Based Or Cash Flow-Based Financial Planning Better?

Advisors building their own Fiduciary Flywheel know that client-centric and comprehensive financial planning is crucial. This aspect of your business, where you work with investors to develop guardrails and best practices for helping clients achieve peace of mind and financial independence, revolves around two major strategies: cash flow planning and goals-based planning.

Cash flow planning and goals-based planning are often positioned as opposites to one another. Unfortunately, this false dichotomy can cause professionals to believe they need to choose one strategy or the other, when in fact both are effective tools under the right circumstances.

What Is Cash Flow-Based Financial Planning?

Cash flow planning focuses on inflows and outflows of capital, which can often be complex and irregular. After analyzing them, excess inflows are invested or saved, while excess outflows (hopefully there are none!) are addressed to keep the overall plan in balance. It's a strategy that works particularly well with clients who already budget or who tend to track expenses. It can also be effective for clients who enjoy seeing their savings expand over time.

What Is Goals-Based Financial Planning?

Goals-based planning is a collaborative planning strategy where clients lay out future goals, such as retirement, a new house or a college fund, and then build a plan with projections and approaches for arriving at their goals. Most clients will have a variety of future wants and needs. However, for some clients, identifying even a single goal can become overwhelming. Depending on a client's financial situation and expected outcome, goal-based financial planning can be emotive, producing relief or frustration based on the feasibility of accomplishing an objective. To counter this, some advisors work to temper expectations by planning for "possibilities" instead of "goals."

The Value of Cash Flow-Based Financial Planning

Cash flow planning provides clients with an exacting review of assets, allocations and the impact of factors like withdrawals, insurance and taxes.

Cash flow planning emphasizes the importance of a financial path by addressing a client's entire financial situation. This includes elements like income, debt, expenses, investment performance and insurance. When conducting a cash flow planning exercise, advisors will often uncover excessive fees, inappropriate insurance and drag created by tax penalties or financial miscalculations.

It's a strategy with real implications for clients. "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," according to a Morningstar report. It's no coincidence that those same topics are addressed by cash flow planning.

Advisors can utilize this planning technique across all stages of a client's financial timeline.

When working with asset accumulators in their 20s and 30s, advisors can illustrate the impact of spending, saving and funding emergency and retirement accounts using cash flow planning. For clients in the middle of their careers, it's a technique designed to help clients manage spending and saving, so they can pay for their children's college expenses or cover future health care costs. For clients on the verge of retirement, cash flow planning will outline how pre-retirement spending habits translate into retirement. For clients already in their golden years, it's a methodology that advisors can use to demonstrate the proper tax-efficient order of operations for account drawdowns and the likelihood of outliving retirement savings.

The Value of Goals-Based Financial Planning

Goals-based financial planning positions a client's wants and needs, in the form of goals, front and center in a planning conversation. Advisors and clients then evaluate investment portfolios, timelines and financial behavior to optimize the likelihood of achieving those goals.

Like cash flow financial planning, goals-based planning produces tangible results. "A goals-based framework for financial planning led to a 15% increase in utility-adjusted client wealth," according to a report by Morningstar. A goals-based planning framework leads to better retirement outcomes, more financial security and better client satisfaction.

But for many clients, jumping straight to a conversation about financial goals can be intimidating and unrealistic. The complexities of life are such that any individual's future is bound by their access to capital, investments, time horizons, career goals, family situations and more.

To get the most from a goals-based planning exercise, try focusing on values, says Orion Advisor Solution's Chief Behavioral Officer, Dr. Daniel Crosby. "People often aren't that connected to their goals," he points out. "They have a much deeper and better understanding of their personal values. They have better access to those values — and those values are more enduring."

Personalization matters. "People are twice as likely to contribute to an account if it's named and linked to something that they value," Dr. Crosby explained. "They're as much as ten times *less* likely to go to cash or fall into panic when they have a dedicated bucket that is earmarked for safety, for example."

Advisors who rely on goals-based planning often update and re-evaluate goals as their clients change. It's part of the methodology.

Values, however, tend to remain constant. A client who values adventure might plan for a major trip to a foreign country in one chapter of life, and then lay a foundation for a career change at another.

While goals may morph, clients' values tend to amass more and more importance as life progresses. Creating a universe of values that maps to goals is a great way to bridge a client's present situation, his or her cash flow and future ambitions.

Which Is Better: Cash Flow-Based Financial Planning or Goals-Based

Financial Planning?

There are many roads on the map of financial planning — the important part is to use the map!

It’s no longer necessary to choose one strategy or the other. The latest advisor technology incorporates elements of both techniques, so that advisors can focus on client values, rather than obsessing over calculations. By addressing and aligning client values with planning methodology, advisors can serve a wider client base and increase client satisfaction.

Goals-based planning often helps clients to see the bigger picture during downturns, creates “stickier” books of business and gives clients a sense of achievement when goals are reached. Meanwhile, cash flow planning is useful in nailing down fine details in clients’ financial outlooks and tends to focus on the “here and now.” Values endure through it all.

The correct planning technique is based on the context of the advice you’re providing, the client you’re working with and the finish line you’ll eventually cross.

Scale your business by delivering plans faster, with crystal-clear transparency and personalization, by incorporating Orion Planning into your practice. We’re here to help put your plan into action.

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