When to Tell Clients to Spend Their Money Already

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JANUARY 26, 2016

Any advisor can pick investments that make money for clients over the long haul. Your challenge: Take that burgeoning wealth and guide your clients' choices, so the money makes their lives better.

To that end, here are five notions to try out on clients. These thought-provoking ideas could enliven your next meeting with clients, improve their lives — and help them to view you as more than just a peddler of investment and insurance products.

1. Tell clients they don't instinctively know what they want.

We imagine happiness lies in a fatter portfolio, a faster car and a bigger house. Yet there's ample evidence that money, along with the possessions clients buy with it, often provides only fleeting happiness. Just shy of one-third of Americans (32.5%) describe themselves as "very happy," according to the latest General Social Survey by researchers based at the University of Chicago. That's slightly below the 33.3% average for the past 42 years, despite a doubling of inflation-adjusted income during that stretch.

This doesn't mean money can't buy happiness. But to get more satisfaction out of their dollars, clients need to avoid impulse purchases and be far more thoughtful about how they spend. For instance, the research suggests we get more happiness from experiences than possessions, that money spent on others delivers greater pleasure than money spent on ourselves, and that we typically enjoy activities far more if we have included others.

2. Encourage younger clients to pursue dollars, not dreams.

College graduates are often advised to travel the world, pursue artistic endeavors and take low-paying jobs working for worthy causes. The rationale: We should do these things while we're young, before we are forced to take a more conventional job due to the demands of raising a family and paying a mortgage.

I think this is nonsense. Who says pursuing their passions is more important to folks in their 20s than those in their 50s? If anything, just the opposite is true. Young adults are often fascinated by the working world and anxious to climb the career ladder. By the time they're in their 50s, the fascination is likely to be long gone — and what excites them is work that they feel is personally important, not work that will get them the next promotion and pay raise.

3. Prepare your clients for midlife unhappiness.

Economists who focus on happiness research have found that satisfaction through life tends to be U-shaped.

Our reported level of happiness declines through our 20s and 30s, hits bottom in our 40s and then recovers from there. There are plenty of possible explanations. But no doubt disenchantment with the work world plays a role. We come to realize that all those pay raises haven't delivered lasting happiness, and that we aren't stamping our mark on the world in the way we envisaged when we were younger.

This is about the time when many folks start asking themselves, "Would I be happier if I pursued a different career — one that might pay less, but which is potentially more fulfilling?" That less lucrative but more fulfilling career might be an option if your clients have been saving diligently since their 20s. But if they spent much of their 20s backpacking across Europe and failing to become a stand-up comic, they might have no choice but to stick with the corporate job they have come to hate.

4. Offer clients a different vision of retirement — one that looks more like a continuation of work.

According to conventional wisdom, we're meant to work like dogs for 40 years, in return for which we get to sit around and do nothing for the final 20 or 30 years of our lives. Sound like a recipe for happiness? I didn't think so.

In the whirlwind of the workweek, we imagine that what we want is time to relax. But relaxation can quickly turn to boredom, as many retirees discover. The truth is, most of us get a lot of satisfaction from work.

My advice: Even as you prepare your clients financially for retirement, also talk to them about what they'll do with all that free time. I would position retirement not as a chance to sit around, relax and take things slowly, but rather as an opportunity for clients to pursue their passions, without worrying about whether these new challenges come with a paycheck.

In fact, you might talk to your clients about their lives in terms of ever greater financial freedom. In their 20s, when they have scant savings and heaps of student loans, they have very little financial freedom. But as they pay down debt and build their portfolio, their financial freedom grows. In their 40s, they might use that freedom to switch to a career that's less lucrative but more fulfilling. In their 60s, they might embark on yet another "career" — one that fascinates them, but offers little or no financial reward.

5. Train clients to worry more about living than dying.

Of course, if that new career happens to come with a paycheck, that's all the better. Earning even a little money in retirement can greatly ease the financial strain, allowing clients to draw down their portfolio more slowly, thus improving the odds that their savings will carry them through a retirement that might last 30 years.

Unfortunately, many seniors don't behave as though their retirement will last 30 years. Instead, they act as though death is imminent. This causes them to claim Social Security at age 62, the earliest possible age. It also causes them to shun immediate fixed annuities and longevity insurance — two products that even an annuity-hating financial journalist can look favorably upon. Result: Instead of a stress-free retirement funded with a generous stream of lifetime income, retirees spend their days watching the markets and worrying that their nest egg won't last.

How can you change the way your clients think? Try two approaches. First, explain that, if they delay Social Security and buy income annuities, and then suffer an early demise, the big winner isn't the federal government or the insurance company. Rather, it's their fellow retirees. Both Social Security and income annuities are a form of risk pooling, just like homeowner's insurance or life insurance. Retirees throw their dollars into a collective fund. Those who live a long time collect ample income from the pool, while those who die young receive less.

That brings us to the second approach. You might explain that the big risk in retirement isn't dying in your 60s or 70s. At that point, all your financial problems will be over. The big risk is living longer than you ever imagined and running out of money. At that point, delayed Social Security benefits and an income annuity could salvage your clients' retirement.

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