The *Power* of Goals-Based Financial Planning

How technology helps advisors improve client relationships and drive growth

A recent Cerulli study reported the prevalence of financial planning as a service offering, particularly for higher-net-worth clients, with estate planning and tax services the fastest-growing complementary services offered by advisors[1]. On the whole, advisors are increasingly adopting a more comprehensive and goals-based approach to financial planning, thanks in large part to the availability of sophisticated financial planning tools.

[1] Source: Cerulli US High-Net-Worth and Ultra-High-Net-Worth Markets 2023

But while this shift certainly introduces a more holistic and personalized experience for the client, including greater alignment with their long-term objectives, a significant disconnect still exists between the planning process and the actual portfolio implementation. For most advisors, ensuring investment strategies reflect goal-centric plans, and keeping them up to date as goals shift or assets increase or decrease, often becomes tedious, manual, and unscalable.

With the right technology, though, advisors can capitalize on the myriad benefits of goals-based planning, both for their clients and their firms, while maintaining productivity and without sacrificing the ability to scale.

Explore:

The Value of Goals-Based Planning for Advisors

Technology Empowering the Implementation of Goals-Based Plans

Looking Ahead to the Future of Goals-Based Planning

The *Value* of Goals-Based Planning for Advisors

For investors, the benefits of goals-based planning are obvious. This approach puts their financial aspirations at the center of their investment strategies and consistently ensures the two are in alignment, making it far more likely they'll achieve their goals. Clients understand and are beginning to demand this – in fact, investors rank managing toward personal financial goals as the top three most important features of managed accounts[2].

But what about for advisors? A recent retention study underscored the critical importance of taking a holistic approach to financial services, beyond offering investment management and portfolio advice, with a large majority of clients expecting estate, tax, and charitable planning from their advisor. To that end, we believe the value of aligning a goals-based plan with its implementation for advisors can't be overstated.

In particular, leveraging this approach enables *four* critical ways to improve client relationships while driving business growth:

[2] Source: Cerulli US Managed Accounts, 1Q 2024 Issue

VALUE #1

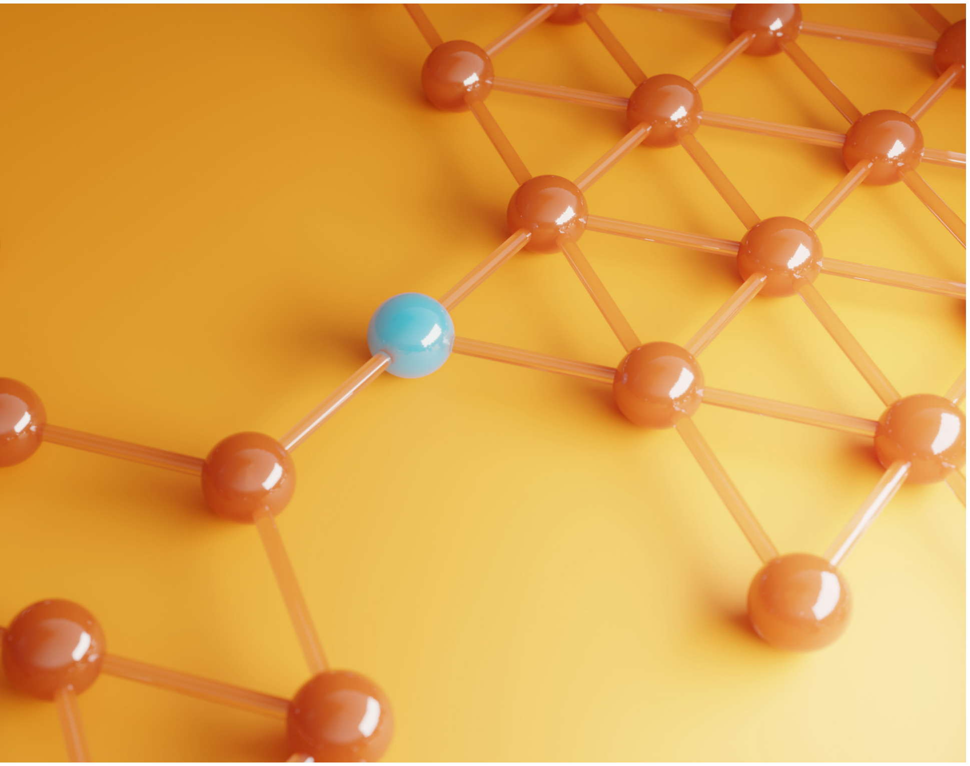
Enhanced Client Conversations

Adopting a goals-based planning approach transforms the entire nature of the advisor-client conversation from performance to tracking whether important goals are on track to be realized, such as buying a home, paying for college, retiring comfortably, and leaving a legacy. Instead of focusing solely on performance benchmarks, advisors can engage in more meaningful discussions about clients' specific life goals. By aligning investments with these personal objectives, advisors can help clients understand how each decision impacts their overall financial health and future.

Advisors can also tailor their advice far more precisely to each client's unique situation. For instance, an advisor would likely suggest different investment strategies for a young professional starting their career versus a retiree looking to preserve wealth. This personalized service fosters a deeper relationship and builds greater trust between the advisor and the client.

VALUE #2

Increased Perceived Value



Consider the powerful opportunity reporting represents for advisors to illustrate their value to their clients. Simply showing over performance relative to the benchmark is a one-dimensional reflection of value, and could arguably be achieved by any advisor, or attributed to the underlying investments themselves, not the work of the advisor.

Reporting on goals-based planning, however, gives advisors the chance to demonstrate exactly how critical he or she is to the client's ability to reach financial goals. Advisors and clients can review the various goals, each with variable time horizons before they need to be achieved, different amounts, and different allocations. The advisor and investor can then clearly "rebalance" not just the accounts, but also the investor's portfolio of goals by determining which goals are on track and which are off track, which goals are stretch goals that won't hurt as much if they are not met, and which goals need to take on more risk or receive more new contributions to stay on track.

VALUE #3

Positioning for Generational Wealth Transfer

As we approach one of the largest generational wealth transfers in history, with $84.4 trillion set to transfer through 2045, and 86% of this wealth being passed between generations, advisors need to be prepared to manage these transitions effectively. A goals-based planning approach positions advisors to better understand and plan for the financial goals of different generations within a family.

This understanding is crucial for retaining assets under management across generational transitions. In fact, research shows that a staggering 90% of clients want estate planning services from their advisors, but only 22% actually receive it. Advisors who can engage with both the older generation and their heirs, understanding their unique needs and goals and offering advice toward those goals, are more likely to retain these assets. This approach also helps build trust with the younger generation, who will eventually become the primary clients.

VALUE #4

Uncovering Held-Away Assets

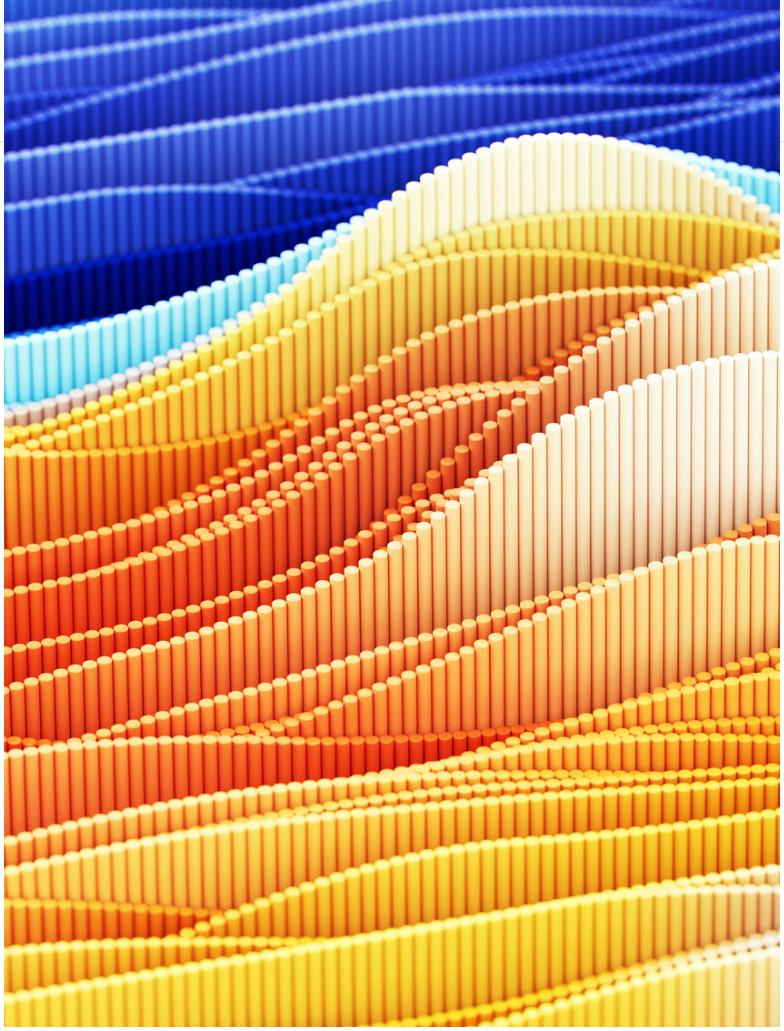
A comprehensive goals-based planning approach often reveals held-away assets that clients haven't integrated into their primary financial plans. These could include retirement accounts from previous employers, inherited investments, or other financial assets that clients manage independently.

By identifying these assets, advisors can suggest ways to integrate them into the overall financial plan, providing better coordination and increasing the likelihood of achieving the client's goals. Adopting a 360-degree approach to wealth management results in 'significantly higher growth rates,' according to a study conducted by WealthTech, along with greater success closing cross-selling opportunities.

Technology *Empowering* the Implementation of Goals-Based Plans

Realizing the benefits of goals-based planning is nearly impossible for advisors without the right technology. The burden of manual processes, unscalable operations, and significant decreases in productivity will rapidly overtake any value generated by the approach.

Luckily, advances in technology enable advisors to take advantage of the ability to develop and implement goals-based financial plans at scale, without decreasing productivity and while continuing to empower the ability to operate efficiently.



> Goals-based financial planning requires technology that ***reduces manual processes*** and enhances personalization in the following ways:

Offering a Holistic View Into Client Goals and Accounts

This holistic approach, also known as householding, offers the ability for an advisor to manage a complete set of accounts across all account types by preserving asset allocation targets and asset location rules to achieve the household's objective(s).

Having a dashboard to view current assets and accounts from the household level enables advisors to serve clients from a more holistic, well-rounded perspective. Householding functionality and tools can give advisors the foresight needed to drive more informed conversations about current savings strategies, tax obligations, and goals.

Enabling Trading and Rebalancing at Scale

The right technology can automate the trading and rebalancing of account groups aligned with certain goals so portfolios remain aligned with the client's objectives without requiring manual intervention. Automated rebalancing tools monitor portfolios, making necessary adjustments to maintain the desired asset allocation and reflecting changes in the market or the client's financial situation.

Providing Monitoring and Alerts

With automated alerts monitoring drift, tracking progress toward goals, and maintaining alignment with financial plans, technology helps advisors stay proactive and address issues before they impact the client's ability to reach their goals. For example, if a portfolio drifts from its target allocation due to market movements, such alerts will notify the advisor to take corrective action.

Empowering Efficient Tax Management

When advisors view clients' financial landscape from a holistic perspective, it's common to see multiple accounts with different time horizons and varying tax treatment. Not only are certain accounts taxed at different points in the investment's lifecycle (think taxable vs. tax-deferred accounts), but individual investments may be subject to different types of tax as well—namely ordinary income tax, short-term capital gains, or long-term capital gains tax.

Built-in tax management features help minimize tax burdens and potentially increase after-tax investment returns across client portfolios, enhancing the overall effectiveness of the financial plan and improving the likelihood of achieving client goals while creating tangible evidence of advisor value.

Enhancing Asset Location Capabilities

To further optimize tax efficiency, advisors can leverage technology to implement asset location strategies that place investments in accounts where they will be taxed most favorably. For example, placing income-generating assets in tax-deferred accounts can minimize current tax liabilities, while placing growth assets in taxable accounts can take advantage of lower capital gains rates.

Automating Compliance Monitoring

Without the right technology, adhering to compliance regulations within a goals-based approach to financial planning becomes cumbersome and unmanageable. Automated compliance monitoring tools track key aspects of the advisory and planning process, from investment recommendations to client communications, to ensure all actions meet regulatory requirements.

Looking Ahead to the *Future* of Goals-Based Planning & Technology

As technology continues to improve, advisors who prioritize staying ahead of the curve can realize significant benefits for their firms in terms of client retention, referrals, and differentiation. For example, we expect some if not all of the following visions for goals-based planning to become reality in the near future:

Simultaneously rebalancing and trading all clients' accounts.

Enabling cash management features that immediately put contributions to work toward the client's goal.

Enabling cash management features that decumulate the investments during retirement in a tax-aware manner.

Establish bi-directional data flows with financial planning tools to keep plans and portfolios in sync.

Automate notifications that summarize client progress towards their goals and identify opportunities to ensure goals are achieved.

EXAMPLE

Because you have a 55% chance of meeting your house renovation goal and it's coming due in two years, we might need to consider increasing your monthly contributions from $1,000 to $2,000

For advisors, capitalizing on the benefits of goals-based planning could be the key to driving exponential growth and value for their firms. Technology can eliminate the traditional barriers associated with implementing goals-based planning effectively, empowering advisors to enhance client relationships, increase their perceived value, and position themselves for future success.

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Investment strategies that seek to enhance after-tax performance may be unable to fully realize strategic gains or harvest losses. Tax-loss harvesting involves the risks that the new investment could perform worse than the original investment and that transaction costs could offset the tax benefit.

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