

CONNECTING MONEY & LIFE

Daniel Pink, author of *A Whole New Mind: Why Right Brainers Will Rule the Future*, claims that our society is moving from the “Information Age,” which prized and rewarded the analytical left-brained thinker, to the “Conceptual Age,” which places a high value on the insightful, creative, and empathetic right-brained thinker. He explains that consumers are beginning to recognize that accumulation and functionality are no longer enough. They are now in search of professionals who offer services with a personalized design as well as processes that help them to create a meaningful life.

Surprisingly, the Great Recession did not sidetrack this paradigm shift, but rather put it into overdrive. For example, the “Study of the American Dream,” an annual survey conducted by MetLife, indicated a huge transition in consumer thinking and expectations. Survey results in 2009 indicated that economic fears and hardships caused a majority of the respondents to re-evaluate their values and life goals. Respondents also renounced rampant consumerism and expressed their intention to redirect financial resources to what was truly important to them.

During this turbulent time, some financial professionals have been able to help their clients to clarify their values and establish a spending plan aligned with those values. These advisors not only retained their clients, but also empowered them to take control of their financial destiny and to lead happier and more satisfying lives.

GETTING FROM VALUES TO FINANCIAL CONTROL

However, getting from values to control still requires some left-brain, analytical thinking. Budgeting is a good example of the need to still pay attention to the bottom line, so to speak. But because traditional budgeting often leads to a sense of frustration and failure,

an alternative method to managing money—“bucket budgeting”—is getting a lot of attention these days. It is easier to implement and more compatible with client needs and expectations in this more right-brained era that Pink describes as “high concept, high touch.” Several models for bucket budgeting are available, and each can help individuals and couples to manage expenditures, reduce debt, increase savings, and—most importantly—align their finances with their values and priorities.

Bucket budgets typically work by allocating income flows into multiple accounts or “buckets.” Each bucket holds money designated for a specific purpose. While the uses are different, all buckets are interrelated. One example is the First Step Cash Management System™ (www.firststepcashmanagement.com), which was created by financial planner and NAPFA member Marty Kurtz. His program operates with three buckets:

- The Static Account™ bucket holds money that has been spent, or that the budgeter has agreed to spend, at some point in the past. These are regular monthly expenses such as mortgages, utilities, insurance, home equity loans, student loans, and auto loans. Money is also allocated to this bucket to pay down credit card balances.
- The Control Account™ bucket contains money that will be spent within the next seven days. Control expenditures include things such as groceries, gas, entertainment, and eating out.
- The Dynamic Account™ bucket stores money that will be spent in the future for goals such as retirement and education funding, vacations, gifts, and special purchases like furniture and appliances.

Once this cash flow system is set up and tweaked based on individual priorities

and circumstances, the system goes into autopilot, and detailed tracking of expenditures is not required. The result is a simple decision framework that brings clarity and purpose to personal finances.

In a very real sense, the “bucket budget” process supports the main premise of the book *Nudge: Improving Decisions about Health, Wealth, and Happiness*, by Richard Thaler and Cass Sunstein. They claim that only 5 percent of the population are completely rational in their decision-making, and that the remaining 95 percent need help in sorting through all the pros and cons of the options they have.

Thaler and Sunstein build a strong case for the importance of giving folks a “nudge in the right direction.” They believe that it is the responsibility of those in advisory positions “to design decision-making paths” that will help individuals make choices and take actions that are in their own best interests. That is exactly what a values clarification and goal-setting process can do for your clients when combined with a simple bucket budget.

There is a lot of truth to the saying, “If you don’t know where you are going, any road will take you there.” For your clients, living life without a rudder can be wholly unsatisfying. Instead, you can position yourself as a trusted advisor by encouraging them to envision and articulate important personal and financial goals and provide them with a personalized financial decision-making framework (i.e., bucket budget) that will connect their money to their lives in a meaningful way. 🌈

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