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Leading Clients to a Thriving Retirement

Two pernicious biases often pop up that prevent clients from acting in their best interests

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People are funny, and they're really funny about money. Nowhere is this more evident than in how people plan, or don't plan, for retirement. The most recent Census data shows 42 percent of baby boomers, 44 percent of Gen Xers, and over 50 percent of millennials have no retirement accounts. Yet, Allianz, Gallup, and Deloitte found 74 percent of Americans think yearly travel is very important, 97 percent own a smartphone, and the average household has 22 smart entertainment devices. Clearly, people care about their life today, but not about their life in the future. The reason? Two insidious biases: forecasting error and comfort drive.

"Show how manageable consistency delivers pleasure and avoids pain, now and later."

Forecasting error is a cognitive distortion. People can envision the present but can't imagine the future. The comfort drive is an emotional bias. Humans are hardwired to grab for immediate pleasure, and equally driven to avoid immediate discomfort. The combination leads people to continually satisfy today's desires, at the expense of future happiness.

Clients who fall into this trap aren't intentionally irresponsible; they're cognitively and emotionally unable to imagine their future. Frankly, many of us experience this same challenge during the December holidays. The cost of overindulging shows up every January, but we still have trouble resisting the treats. Magnify this experience by 365 days of temptation over 50 years. No surprise, it's hard to lead clients to a thriving retirement. Fortunately, there are psychological techniques that help balance the needs of today with the needs of the future. I recommend a three-step process.

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1. Make the Future Emotionally Vivid

The first step is to engage the client in a future vision exercise. The exercise has two goals. First, to dramatically shift the client's perspective out of the present and into the future. Second, to vividly imagine the emotional feel of future reality. Start by mentioning that you'd like to walk through a future-casting exercise. Explain that everyone has trouble foreseeing the future, and this exercise is designed to make future planning easier. It's also an ideal time to compliment clients on engaging your services. This affirming introduction works with the comfort drive. It helps clients feel good about doing the exercise and following your guidance.

After setting the stage, ask open-ended questions that will build a highly detailed vision of the future. Guide the clients to imagine their daily life experiences. Clients need to feel the future pleasure of achieving their goals. At the same time, they need to feel the future pain of poor financial habits.

Start with pleasure-focused questions. For example, you might ask: "As you imagine life in the future, what would a pleasurable life look like?" Keep going until they have imagined a complete picture of living that life, every day. Then move on to pain-focused questions. You might begin by asking: "Now tell me about your worst future fears. What would life feel like if your fears became a reality?" Again, keep going until they can fully imagine a financially difficult life.

Drilling into this much detail may seem extreme, but forecasting error totally blurs future realities. The 74 percent of Americans who believe yearly travel is important now will likely want even more during retirement. Unfortunately, they can't accurately foresee the impact of yearly splurges. If they're bankrupting their retirement, they need to feel the pain of finally having more time to travel but no money to do it.

Notice that the questions are completely open-ended. I don't use the word "retirement." This allows clients to cast a vision as far as they can emotionally imagine. Especially with younger clients, achieving interim goals may have more emotional power than a distant future. Also notice, future pain is imagined last. This is intentional. It magnifies the pain to counter the intense drive for immediate gratification.

It's very important to note that this order assumes clients are suffering from the default error of indulging now and ignoring the consequences. Some clients have the opposite problem. They exaggerate future risk and spend decades irrationally penny-pinching. These clients imagine too much pain. Ending with the pain would exacerbate those fears. For anxious clients, reverse the order. First, ask about their fears, but don't dwell on them. Quickly shift to envision a happy future that will counter their irrational fears.

In both cases, the end goal is to rebalance the client's cognitive and emotional perspective. Focus on imagining the vivid future that will correct the client's particular distortions.

2. Guide Clients in Behavioral Planning

After you've cast a detailed vision, pivot to a financial behavior discussion. Guide their financial habits to achieve pleasure today and tomorrow. For clients who default to instant gratification, this is the moment to focus on future comfort. Work to minimize the pain of delayed gratification, and the satisfaction of gaining future desires. Regular small wins work well. For clients stuck in financial anxiety, now is the time to show how their good habits will deliver a happy future, not the one they fear.

Show how manageable consistency delivers pleasure and avoids pain, now and later. Ideally, the vision exercise will end with the client's crafting a personal financial action plan. The overindulging clients will commit to daily and weekly savings. The anxious clients will have a plan to build confidence.

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3. Create Positive Accountability

All people need positive accountability. If you're willing, regularly check in on the client's financial action plan. Based on your fee structure and service model, build in as much support as possible. You might be the one person who knows their finances, and their only source of productive accountability.

Some Behavioral Planning Tips from Peers

There are many ways to lead clients to a thriving retirement, and I'm always impressed by the techniques advisers share with me. Below are a few tips from your peers:

- Have the client do a budget and review it every meeting. Use a standard budgeting tool to get them started. Once done, it's easy to review and update. This reveals the client's money habits and is a powerful accountability tool. It works for the overspenders and the fearful misers. In addition, it takes the pressure off the adviser. The numbers do the persuading.
- For a more intense experience, take the client through a practice retirement. First, build a realistic retirement budget. Then have the clients live on that budget one or two years, before retiring. It's a compelling reality check. The overspenders may be shocked into changing their ways or working longer. The fearful misers will have a proven track record of success.
- One adviser I coach asks her clients every meeting, "What is keeping you up at night?" It routinely reveals fears that need to be addressed. In addition, each client has a budget that's reviewed every meeting. The combination of fiscal accountability and emotional care is powerful. The clients stay on track and feel confident in their future. These and other proactive disciplines have inoculated her clients against panic. When markets are gyrating, they say "Don't worry about us, we're fine. We know we're on budget and on track."

Forecasting error and comfort drive are just two biases on an overly complex list of 188 biases. It's my job to simplify that complexity and help advisers serve their clients well. The three-step process is a practical tool to rebalance the client's perspective. Reach out if you have questions, and thank you for all your excellent service. ■