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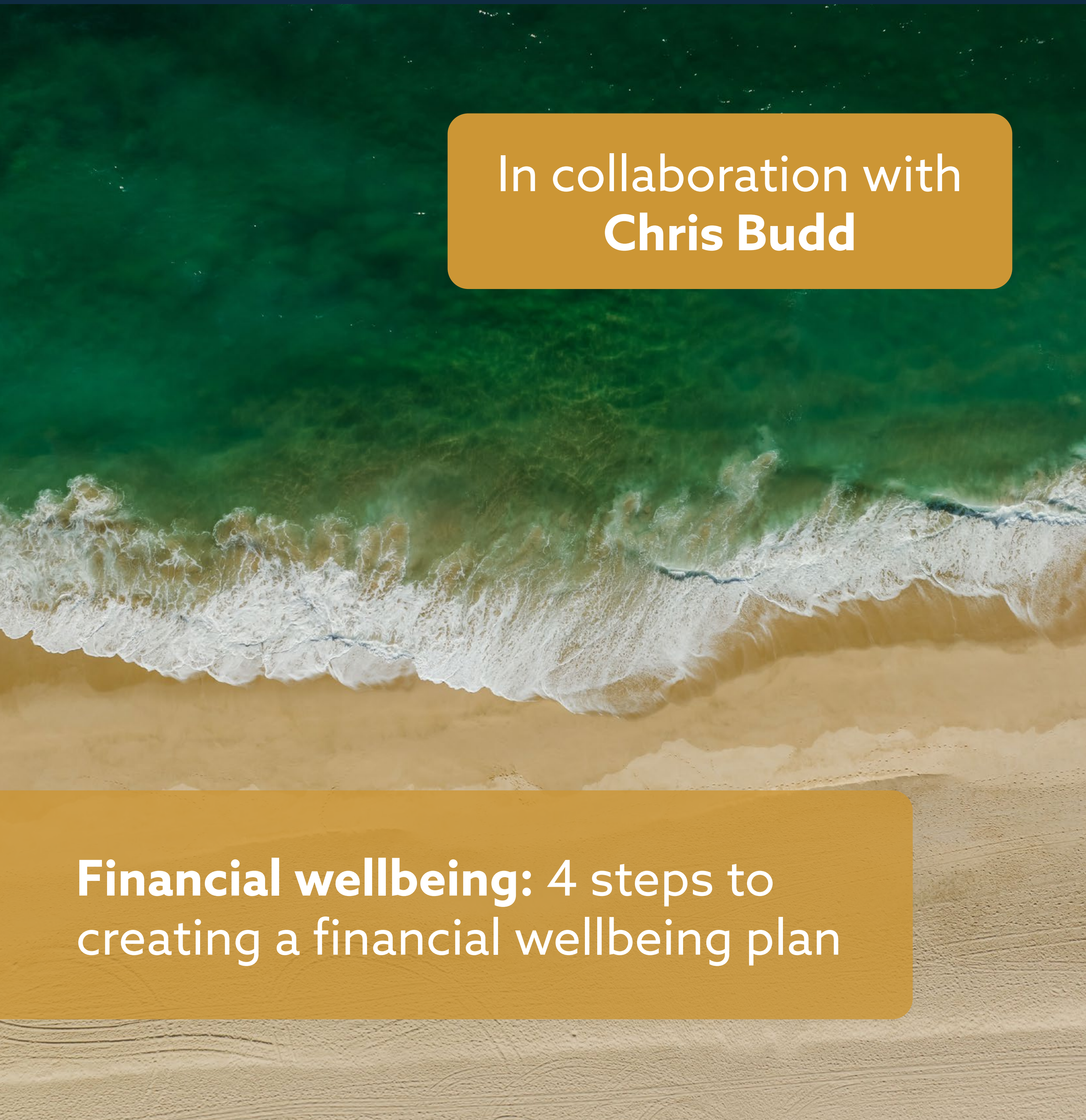

In collaboration with
Chris Budd

Financial wellbeing: 4 steps to creating a financial wellbeing plan

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Chris Budd has been in financial planning all his career. He wrote the original *Financial Wellbeing Book* back in 2015, helping the reader to create a financial plan. His new book, *The Four Cornerstones of Financial Wellbeing*, digs deeper into the relationship between money and happiness as a guide to creating a financial wellbeing plan. He has also written some 100 episodes of *The Financial Wellbeing Podcast*.

He founded the Institute for Financial Wellbeing (the IFW) in 2020. The IFW was established to bring together like-minded financial advisers and planners who want to learn how to help their clients be happier, not just wealthier.

This guide is designed to help you create a plan that will complement the advice you receive from your financial adviser. It will take you through a series of steps designed to create a financial wellbeing plan – a plan that will result in you having a better relationship with money.

In this instance, "better" means money is one of your engines for happiness, rather than being the destination.

This can then provide a solid foundation for your financial plan.

There are four parts to this financial wellbeing plan, each of which will benefit from interaction with your financial adviser. These are:

1. Understanding the sources of happiness that are true of everyone (to come from: this financial wellbeing guide, provided by your adviser)
2. Understand what makes you happy
3. Creating a clear path to those objectives you have just identified (source: your adviser)
4. Travelling along that path in the most effective and efficient way possible. (source: your adviser)

This book is a distillation of some of the ideas contained in my book *The Four Cornerstones of Financial Wellbeing*.

So, are you ready to create your plan for a life with greater wellbeing? Let's get started!

First, let's take a look at some of the reality, and the distractions, around money that are true of all of us.

Step 1: What makes us all happy? The general truths

The first step in changing our relationship with money is to recognise that our relationship with money needs changing.

Do we even need money to be happy? The answer is undeniably "yes" – if you have nothing, and you get something, then surely that is going to increase your wellbeing.

But if you already have quite a lot, and you get a bit more, then the amount by which your wellbeing increases will become increasingly small.

There even comes a point beyond which a bit more money won't make you any happier. Research from Purdue University in America in 2018 suggests this figure might be around $95,000 (£78,600) income a year. This number is debatable, and is still a high amount for most people. But it establishes the principle that there is a limit – and that limit might be a lot less than people tend to assume.

Are you in control of your own happiness?

Research in *The How of Happiness* by Sonja Lyubomirsky suggests we reach our adult life with a set level of wellbeing. Maybe we experience something that makes us feel happy. This feeling doesn't last, however, and we revert down to our set level. Perhaps something makes us feel sad. Again, we acclimatise, and revert up to our set level of wellbeing.

I'm sure we could all think of someone who always seems positive, who lights up a room whenever they enter it. Then there are people that just seem happy being miserable.

This raises an interesting question: what determines our individual set level of wellbeing? And can we change it?

Your first instinct might be that it comes from our childhood experiences. In fact, Lyubomirsky suggests that some 50% to 60% of our set point is inherited.

Of the remainder, around 10% of our wellbeing comes from our circumstances. This means what we own, status, where we live, what do we do, and so on.

The remaining amount, perhaps as much as 40%, comes from our intentional activity: what we say; what we do; how we react to things. This includes our relationship with money.

When it comes to creating a financial wellbeing plan, we need to recognise that it is not the amount of money or possessions that we own that make us happy, as this only contributes 10% to overall wellbeing. If we have a financial plan that increases our circumstances by 50%, then this would only increase our overall wellbeing by 5%!

If we have a financial wellbeing plan that also helps us to improve our relationship with money by 50%, and thereby our intentional activities, then we could increase our overall wellbeing by 25%.

So, what does bring wellbeing?

My tip for finding long-term wellbeing from your relationship with money is this: Work out what you want from life, then spend your money on that.

The trouble is, knowing what we want from life is not always easy. If you ask a parent what are their hopes for their children, you will often end up with an answer along the lines of: "As long as they are happy, that's enough."

I think we could agree that being happy is ultimately what we want from life. But what makes us happy?

This is surely the perennial question that humanity has asked itself over the millennia. It has been a fundamental question for the religions of the world, for literature, art and music. And yet, still we seem to be searching for the answer!

In fact, we do know the answer. And it is amazingly simple. Buddha sat down under a tree some 2,500 years and worked it all out. The Greek philosophers had it figured out. Jesus knew. Over the last few decades, academics and psychologists have been working it out all over again.

So, what is this incredible secret to happiness?

Be kind.

Yup, that's it. The Dalai Lama calls it having a "warm heart".

Jesus said: "...the fruit of the Spirit is love, joy, peace, patience, kindness, goodness..."

Philosopher and scientist Daniel Dennett said: "The secret of happiness: find something more important than you are and dedicate your life to it."

And, according to the Beatles: "The love you take is equal to the love you make".

Action:

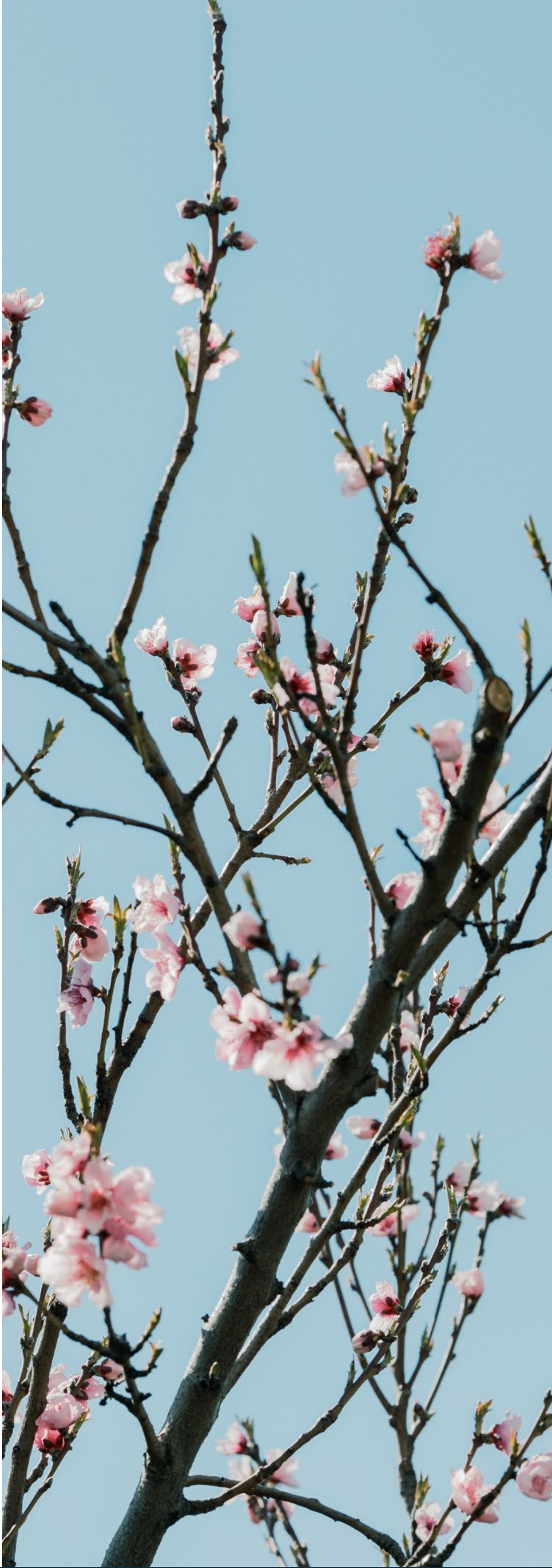
Your first activity then might be to review where kindness lies in your life. Here are a few questions you might ask yourself:

- Is there something in your life that brings you meaning and purpose? This doesn't need to be everything you do, but is there something involving helping others?
- Are you focused on achieving goals, without looking beyond them to purpose? Goals can be steps on the way to finding purpose, but they can be a distraction if they are not part of a longer plan.
- Reflect on how you spend your time, maybe reviewing your calendar. Do your activities bring you joy?
- Reflect on how you spend your money, maybe reviewing your bank statements. Does your spending bring you joy?

We'll be returning to this last point shortly.

Before we move on to look at what wellbeing means for you, let's recap some of the general truths that we have established about what makes us happy.

- Wellbeing is one of life's basic objectives.
- Wellbeing comes from helping others.
- Only 10% of our wellbeing comes from our wealth.
- Changing our relationship with money can increase our wellbeing.



Step 2: What makes *you* happy? Know thyself

If the first step is to understand the general truths around happiness, the second step in this process is to understand the things that make you happy.

To illustrate the point, let's take that classic symbol of wealth – the yacht. Suppose somebody has constructed a financial plan that enables them to buy a yacht. Will this make them happy?

The answer depends on what they will use the boat for. If they will moor it in an expensive marina, so that they can be seen by other wealthy people, then this would mean they are constantly chasing the approval of others. This is actually likely to make them less happy.

If, on the other hand, the person loves sailing, they take it out on the local reservoir with friends, or perhaps it is something that their children love doing with them, then the purchase will be much more purposeful, and likely to increase their wellbeing.

The phrase I use for this understanding of the things that will bring joy to you is: Know Thyself*.

*This is the first of the three maxims from the ancient Greeks, which were written on the front of the temple of Delphi. The third is also very relevant to this plan – one translation is: "Certainty brings insanity". It's very important to have an open mind when thinking about the future!

Intentional activity

There is a challenge for us here, however. Nobody seeks to make themselves less happy. So surely what we are doing with our lives is already making us as happy as we can be?

Well, not necessarily. There are many distractions that encourage us to consume and spend, which take our focus away from what brings wellbeing. This is where we need to focus on our relationship with money.

Then there is also an obstacle in that it is very difficult to challenge our own assumptions. If we could, they wouldn't be assumptions!

So, it is useful, maybe even essential, to use a third party – such as your adviser – to help you understand yourself better.

Sigmund Freud called this "talking therapy" (which developed into psychoanalysis). I, for one, think best when I am talking, and I'm sure most people will have seen the benefits of talking through a problem with someone else.

This process works best when the other person offers little to the conversation. They aren't trying to solve any problem at this stage – they are just allowing a safe space in which you can talk, and thereby make the unconscious conscious.

Spend some time working out what you would like your future to look like. Dare yourself to dream a little (or be dared by someone else). Look beyond travel, or making sure the kids are OK, and past financial security. Where is meaning and purpose in your life, and is there anything you would like to do in the future to bring more of this? Bear in mind what you might have learned from step one.

Step 3: Creating a clear path

Now you understand a bit better what makes us all happy, what makes you happy, and hopefully helped you identify a future that looks appealing to you. The next step is to create a clear path.

If you have the skills, you might be tempted to construct your own spreadsheet. Be careful, however, as some of the assumptions you need to make will have a big impact on the outcome. According to Albert Einstein, compound interest is the eighth wonder of the world – a quote that financial advisers are fond of repeating!

For example, the real rate of return (the difference between investment returns and inflation) is a key assumption. Real rates of return vary hugely from different types of investments, which also requires an understanding of your attitude to risk. Then there are the different tax rules on income, investment growth, pensions, inheritance, and more.

The interplay between each of those over a 20-year period, for example, can have a huge impact on your forecast. So, the better option might be to ask your financial adviser to help you with your cashflow forecast.

Whether you do it yourself or get the help of a professional, the first step is to understand your income and expenditure habits by looking through your bank statements. This might feel a bit tedious (to be fair, it is rather tedious!) but there are important lessons to learn from this process.

This might tempt you to go back and review your thoughts from step one, for example. Is the focus of your spending too heavily weighted on now, and not enough on the future?

What does the future look like?

When you have information about your current financial position, plus certain dates (like when you plan to stop work), you are ready to prepare your first forecast. Once everything is ready, press the button, and the forecast will reveal whether you will run out of money, based on the information and assumptions you've put in.

If the forecast tells you that you aren't going to have enough money, then you need to make some changes. Possibly push the retirement date back a little. Maybe review that spending again, and see if you might put a little more aside now you know what the stakes are. Press the button again and see how these changes affect the forecast.

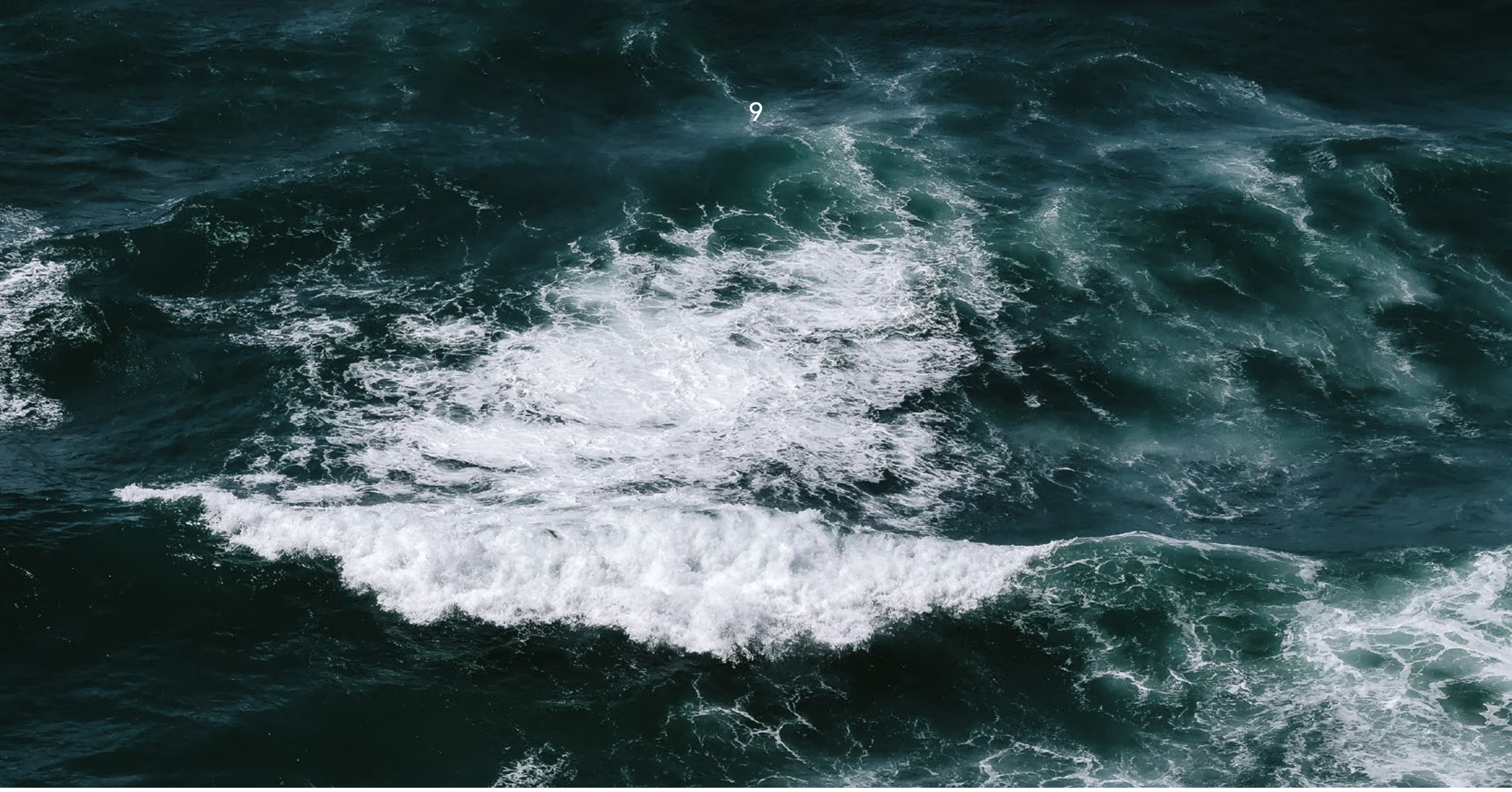
Scenario modelling

Simply projecting your current position, however, is just the start of the power of a cashflow forecast. The real impact is when you get to play with the figures.

This is where the result of your thinking from step two can be tested. Maybe you've realised that the high pressured, highly paid job is not actually making you happy – could you afford to do a different job which does give you purpose? If not, could purpose be found outside of work, and would there be a cost? Maybe you'd like to see if a change in working hours to spend some time helping others would be possible? Perhaps a sabbatical could be achievable.

Again, these are great conversations to be having with your financial adviser. They will have seen these situations many times before, and will be able to help you to envisage your new future, test whether it is realistic, and help you understand what you need to do to achieve it...

...and what not to do.



Step 4: Changing behaviours and beliefs

Earlier in this piece, I posed the question: "Why we aren't already acting in ways that will maximise our wellbeing?"

There are many reasons for this, and the good news is that they can be addressed. But they do require a change to our intentional activity.

Money behaviours

Throughout history, humans have developed various behaviours that protect us. For example, if something happens that is good, our natural tendency will be to seek information to confirm our understanding of the event, and so make it more likely for this event to happen again.

Many of our behaviours and beliefs exist to get us through life safely. However, where we have developed a habit or attitude that leads to decisions that are not in our favour, this is called a "self-limiting belief".

When it comes to money, behavioural biases and self-limiting beliefs are what might stop us from achieving our financial plan. Let's take a look at a few examples.

- **Confirmation bias** is where we seek information that confirms our existing beliefs. For example, if we only read a newspaper that matches our political beliefs, we will not receive information that challenges our views.

  This will be stronger in some than others. It is one of the reasons why it can be extremely difficult to challenge our own assumptions when working through the "know thyself" stage.
- **Present bias**. Do you tend to spend money today, and ignore the future? This could be because you have strong present bias. Trying to connect with your future self, to sit and envisage where you want to be (another form of know thyself) can help with this.
- **Framing bias**. This refers to when your attitude toward something is affected by how it is presented. For example, when you go and see a financial adviser, you may be expecting to just get advice about your finances, not about creating a more attractive future!

Money beliefs

Common self-limiting beliefs around money include:

- "I'm not worth it"
- "I'm no good with money"
- "Tomorrow can look after itself"
- "The stock market isn't for me".

Try this exercise. Over the next week or so, notice phrases and expressions that might go through your head when it comes to money.

Perhaps you see something on the news about the stock market going down: what words pop into your head? Maybe you're tempted to buy something as a treat – again, what words do you find yourself saying? What about your money behaviours – do you react in a certain way?

Write these down, then set some time aside to look through them. Does this tell you anything about your attitude to money? Are these preventing you from achieving the objectives you have identified in the activities already undertaken.

Taken together, these four steps can create information that will enable you to make changes to your relationship with money. To move away from spending, saving, investment or accumulation, and on to generating wellbeing.

You may like to send the outcome of this exercise to your financial adviser, and use it as a basis of a conversation in your next financial planning meeting.

Contact us to discuss your financial wellbeing

If you'd like to talk about any of the topics covered in this guide or are ready to make a financial plan that could improve your wellbeing, please get in touch.

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Please note: The Financial Conduct Authority does not regulate cashflow modelling.