

Financial Planning Matters: Psychological Issues Affecting Financial Planing

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Exploring beliefs, past experiences, and bad habits may be the key to stimulating financial success. Recognizing and understanding how our past experiences, family heritage, and family relationships affect how we handle money, may help us take control of it.

Recently, a CERTIFIED FINANCIAL PLANNER™ working with a client, whom we will call Jane, told of his frustration in working with her on a retirement plan. Jane had a professional position that paid a healthy salary, but could not save money. The planner suggested that Jane talk with a psychotherapist. After several sessions, Jane came to realize that her inability to save was driven by an unconscious fear that her money would be taken away. As a child, Jane consistently stashed her allowance in her piggy bank. But, when her perpetually penniless family members needed funds, they would raid her piggy bank. When Jane was in her early twenties, she had \$10,000 in savings, but had to blow it all to bail her brother out of jail. She quickly learned that even when she managed to save money, someone in her family would come looking for cash and take it away. So as an adult, when her family called looking for cash, she wanted to honestly say, “I don’t have any money.” Since her sessions with a psychotherapist, Jane has learned how to cut her family off and has saved \$10,000.

Recently, a newly widowed 84-year old, we’ll call Isabel, called and asked to do something with her money so that she could tie it up. Since her husband’s death, she had made several large withdrawals from the tax-deferred annuity she inherited from him. After much discussion, she confessed that her grown children had been coming to her for money. She couldn’t say “no” to her children. Her husband had always handled the money, and she knew that her kids would quickly use up the money they had saved for retirement. She



wanted to be able to tell them that she didn’t have anything available to give them. The solution was to convert her tax-deferred annuity to a monthly income annuity. With an income annuity, Western Fraternal Life guarantees to pay a monthly income that will be paid each month for as long as you live. If you don’t live for the minimum stipulated life expectancy, then your heirs will receive the monthly income for a certain period of time. This is guaranteed to be at least as much as the initial sum placed in the monthly income annuity. Now Isabel has a plan in place to provide her monthly income that she cannot outlive.

Not all of us need to work with a psychotherapist to cut through the emotional barriers to saving. We just need to face up to our past, be honest about our relationships with family members, and get beyond our history with money. Many times this means transforming a relationship and understanding how these past relationships affect your behavior.

Your financial arrangements need to include a plan to deal with relationships and lifestyle issues. Then you can feel a sense of security and take more control of other aspects of your life. People who can detach themselves from emotional needs can start making good decisions that will give them financial freedom. Those who put a plan in place without dealing with relationships are likely to fail. The key to financial success is not just making and executing a plan, but also having a clear understanding of emotional issues affecting our financial decisions.