The Value of Financial Planning: A Theoretically-Grounded Approach

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ABSTRACT

This paper lays a foundation for quantifying the interaction "value" effects of the financial planner/client relationship through the lens of Financial Planning Client Interaction Theory (FPCIT), utilizing integration—a mathematical process commonly used in calculus to find the area under a curve. FPCIT recently emerged in response to practitioner and researcher calls for theory specific to the financial planning profession. FPCIT posits that the distinction of the professional practice of financial planning and its value to consumers is centered upon the unique and complex human interaction phenomenon inherent in the client relationship. FPCIT extends the value of financial planning discussion by offering a theory-based vantage point from which the profession can analyze the origins and synthesis of value within financial planning practice. The implications of FPCIT and the valuation method presented in this paper underscore the relevance of financial therapy, counseling, and psychology in expanding the financial planner's skillset beyond technical expertise.

Keywords: Client relationship, Financial advice, Financial Planning Client Interaction Theory (FPCIT), Household finance, Personal finance, Value of financial planning

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INTRODUCTION

The financial planning profession has contended with how to quantify the value of the professional practice of financial planning for years. The CFP Board (2019) defined professional financial planning as "a collaborative process that helps maximize a Client's potential for meeting life goals through Financial Advice that integrates relevant elements of the Client's personal and financial circumstances" (p. 9). Researchers and practitioners have primarily approached this issue by hypothesizing about the economic value derived from investment advice such as portfolio tax-loss harvesting, portfolio rebalancing, asset allocation and location, and risk reduction (Blanchett and Kaplan, 2013; Envestnet, 2016; Hanna and Lindamood, 2010; Kinniry et al., 2016; Kitces, 2016). Grable and Chatterjee (2014) extended this work and laid the groundwork for valuing comprehensive financial planning through a total wealth volatility outcome. In addition to economic outcomes, researchers and practitioners have noted that non-economic outcomes hold value, such as behavioral coaching, debiasing, organizing, implementing, motivating, and creating awareness (Hanna and Lindamood, 2010; Kinniry et al., 2016; Kitces, 2016). While it is intuitive that the value of professional financial planning is associated with economic and non-economic factors, mathematically quantifying this value has proven challenging. For example, Hanna and Lindamood (2010) argued that the value of financial planning is relative to a client's risk aversion and wealth status. Moreover, Kitces (2016) demonstrated that the economic value of particular strategies varies according to how the outcome is measured, such as overall lifetime wealth, cumulative spending, or probability of plan success.

Many of these valuation challenges remain outstanding today, particularly concerning non-economic outcomes. Thus, the financial planning profession does not yet have a clear method for defining and communicating its value to consumers, regulatory bodies, or professional peers. The pressure to define value is mounting as technological advances make delivering economic value more efficient and accessible for consumers. While accessible and efficient financial products and information are necessary, they simultaneously diminish a fundamental value proposition the financial planning profession has relied upon—economic advice. Consequently, it is becoming more crucial to address the origin of value in professional financial planning practice, quantify this value, and determine what the outcome means for the financial planning profession and the consumers it serves.

Altfest (2004) suggested that developing a theory unique to the financial planning profession might address these issues and communicate why consumers use financial services; in other words, the theory would illuminate the core *value* proposition of the profession. Altfest also suggested that a financial planning-specific theory would broaden the scope of financial planning beyond academic finance, which focuses heavily on financial assets. Financial professionals and consumers anecdotally recognize that the value of professional financial services extends beyond financial assets and associated portfolio returns. Nevertheless, researchers and financial professionals continue to frame value from the perspective of financial assets and the basis points gained from particular strategies (e.g., see Kitces, 2016). However, articulating what this means has been elusive and, consequently, ill-defined. According to Altfest, a financial planning theory would provide a linkage between the various components of the financial plan and validate the individuality of the financial planning profession, thereby enhancing its stature; it follows that a value proposition derived from theory would contribute significantly to this outcome.

A theory specific to the financial planning profession emerged in response to calls for theory development—Financial Planning Client Interaction Theory (FPCIT; Asebedo, 2019).

FPCIT extends the value of advice discussion by offering a theory-based vantage point with which the profession can analyze the origins and synthesis of value within professional financial planning practice. FPCIT recognizes that professional financial planning is built upon the foundation of a trusting and committed client relationship that inherently involves a bi-directional social interaction and exchange between a financial planner and a client. This interaction facilitates a mutually beneficial exchange of resources (e.g., goods, services, money, status, information, affection, and time) shaped by the unique combination of financial planner and client characteristics (e.g., human capital and social environmental attributes). FPCIT posits that this relative interaction and resulting resource exchange creates and defines value within the financial planner/client relationship. Therefore, FPCIT posits that value is not centered upon advice delivered unidirectionally from a financial planner to a client; instead, value is rooted in and produced from the bi-directional social interaction and exchange phenomenon within the client relationship. This relationship-centered approach to value is consistent with the CFP Board's definition of financial planning as "a collaborative process" (CFP Board, 2019, 9).

The purpose of this paper is two-fold. First, this paper will provide a cursory overview of the current valuation literature focused on the economic and non-economic value derived from financial planning to provide readers with a foundation of existing valuation thought and methodology. This paper will also review the core tenets of FPCIT to lay the foundation for a valuation approach rooted in FPCIT. Second, this paper will utilize integration—a mathematical process commonly used in calculus to find the area under a curve (Larson and Edwards, 2014)—to compare the client's production function (as defined within FPCIT) with and without financial planner use that provides a framework to quantify the *value* effects of the financial planner/client interaction. FPCIT posits that the value of professional financial planning practice is centered upon and derived from these client relationship interaction effects.

LITERATURE REVIEW

Economic Value

The predominant methods for valuing professional financial planning have focused on the economic value derived from portfolio-related advice, including Morningstar's *Gamma* (Blanchett and Kaplan, 2013), Vanguard's *Advisor Alpha* (Kinniry et al., 2016), and Envestnet's *Capital Sigma* (Envestnet, 2016). Each of these methods made unique contributions to the literature by providing a way to articulate the financial planner's value proposition for investment planning, rebalancing, lower-cost investment selection, asset allocation and location, tax-efficient withdrawal strategies, annuity allocation, and tax loss harvesting. Kinniry et al. (2016) incorporated behavioral coaching into Vanguard's Advisor Alpha, which defines value by helping clients avoid poorly timed investment decisions. While these approaches help define value, Kitces (2016) noted that assigning an economic value to specific strategies is challenging for several reasons: (a) a lack of agreement about what is covered by comprehensive financial services, (b) an appropriate baseline strategy for comparison, and (c) the unit of measurement for assessing value (e.g., wealth and cumulative spending). These issues make applying a consistent methodology across clients, strategies, and advice types difficult.

Researchers and practitioners have historically emphasized the value of portfolio-related financial advice; however, efforts to move beyond the valuation of specific strategies toward estimating the value of comprehensive financial planning have emerged. For example, Grable and Chatterjee (2014) posited that a concept called *Zeta* represents the value generated from comprehensive financial planning. This value is ultimately expressed through reduced total wealth volatility during macroeconomic and household stress. Grable and Chatterjee

provided a significant step forward by applying a comprehensive economic approach to the value question.

These valuation methods facilitate estimating the associated economic value derived from the financial planning process. However, a challenge to valuing economic outcomes is that they depend upon an interaction with a client with unique characteristics, needs, and circumstances where advice is not absolute nor necessarily needed. Given that professional financial planning depends upon the existence of and interaction with clients who consume advice, it follows that the benefits associated with financial planning need to account for the client's side of the equation. Hanna and Lindamood's (2010) findings support the notion that the client's perspective affects the overall value of advice delivered. Hanna and Lindamood examined the household utility function to estimate the economic value of increasing wealth, preventing loss, and smoothing consumption. They concluded that the value of advice for these outcomes depended on a household's risk aversion and relative wealth subject to gain or loss.

Non-Economic Value

While economic value is a fundamental outcome of financial services, such as financial gain and risk reduction (Kitces, 2016), there are also non-economic outcomes produced from skilled and client-centered financial planning that are difficult to value and, in most cases, deemed impossible to do so or simply priceless. Kitces (2016) categorized these non-economic outcomes as well-being enhancement and behavior change processes, such as debiasing, coaching, and investor behavior management. A literature review supports Kitces's observation about the difficulty of valuing non-economic outcomes, as efforts to do so are minimal and, at present, are focused primarily on investment management and not broader financial planning. For example, Vanguard's Advisor Alpha incorporated behavioral coaching advice for investment decision-making (Kinniry et al., 2016). Additionally, Gennaioli et al. (2015) proposed that investors hire portfolio managers for performance *and* peace of mind. Gennaioli et al. further posited that investors choose their portfolio manager based on trust, which adds value by reducing risk perception (and, therefore, the cost). Gennaioli et al. and Kinniry et al. brought forward the notion of non-economic value yet framed this value narrowly within investment management.

Despite the scarcity of research valuing non-economic outcomes, the financial planning profession embraces the notion that financial planners create significant non-economic value, such as behavior change and support through life transitions. For example, Dubofsky and Sussman (2009) found that financial planners encounter various client situations involving personal circumstances that affect clients' finances and overall well-being, such as life goals, career goals, divorce, conflict, mental and physical health, and death. Financial planners are uniquely positioned to help clients navigate these situations (Sussman and Dubofsky, 2009). Lawson and Klontz (2017) suggested that financial planners integrate behavioral finance, financial psychology, and financial therapy into financial services to help clients overcome emotional, cognitive, and behavioral obstacles to their financial goals. Similarly, relational competencies help clients navigate their complex social environment (e.g., spouse, children, and friends) and set aligned financial goals involving multiple parties (e.g., conflict resolution; Asebedo and Purdon, 2018). The CFP Board (2021) cemented education requirements to expand essential skills for producing non-economic value by incorporating the *Psychology of Financial Planning* section the CFP® Certification 2021 Principal Knowledge Topics that covers six key areas: (a) client and planner attitudes, values, biases; (b) behavioral finance, (c) sources of money conflict, (d) principles of counseling, (e) general principles of effective communication, and (f) crisis events with severe consequences.

Researchers and practitioners have recognized that financial planners who choose to provide skilled support in these areas add value to the client relationship, increase client trust

and commitment (Christiansen and DeVaney, 1998; Sharpe et al., 2007), and strengthen the client relationship bond (Dubofsky and Sussman, 2010). Anderson and Sharpe (2008) provided evidence that suggests how financial planners conduct the financial planning process affects the client experience and the trust and commitment developed within the client relationship. For example, Anderson and Sharpe suggested five process-oriented communication tasks are associated with enhanced client trust and commitment: (a) mutually defining the scope of the engagement; (b) helping clients identify meaningful personal and financial goals and objectives; (c) employing a systematic process to clarify client values and priorities; (d) gathering data about client's cultural expectations, biases, personality traits, and family history and values; and (e) connecting financial advice to client values, goals, needs, and priorities.

Research also suggests that non-economic outcomes add significant value to client's lives, such as enhanced psychological well-being, increased life and financial satisfaction, less stress, greater comfort, and more control (Irving, 2012; Irving et al., 2011). Irving (2012) provided a conceptual analysis of how the financial planning process facilitates various non-economic benefits in areas grounded in the psychological literature, including planning, goal setting and attainment, resource appraisal, and problem-focused financial coping.

Planning

Research shows that the *process* of planning provides non-economic benefits. MacLeod et al. (2008) found evidence for a causal link from goal and planning skill development to enhanced efficacy beliefs (measured by control, skill appraisal, confidence, and optimism). MacLeod et al.'s psychological intervention ultimately increased subjective well-being (measured by the Satisfaction with Life Scale; Diener et al., 1985). Planning for the future is associated with an enhanced sense of general control and mastery in life, facilitating increased life satisfaction (Prenda and Lachman, 2001). In a U.S.-based sample, Yeske (2010) found a rules-based policy approach that gives clients a prominent role in the financial planning process with more control over decision-making to be the most powerful predictor of client trust and commitment.

Goal setting and attainment

Setting future goals based on underlying interests and values (Sheldon and Elliot, 1999) and motivations (Brunstein et al., 1998) contributes to a sense of meaning, purpose, and well-being. Furthermore, adequate perceived progress toward goals affects well-being above and beyond actual goal achievement (Carver and Scheier, 1990; Irving, 2012).

Resource appraisal

The way individuals interpret or appraise their financial situation contributes to well-being. Research has shown subjective appraisal of financial resources (judged on an 11-point scale from the worst possible to the best possible financial situation) to mediate the relationship between objective financial resources and life satisfaction (Martin and Westerhof, 2003). Irving suggested that setting realistic financial goals with positive (and realistic) financial resource appraisal contributes to financial and life satisfaction.

Coping

Last, research has shown that financial coping strategies, such as creating a plan to earn more money and cut expenses, are associated with reduced psychosocial distress. Overall, the psychological literature and Irving (2012) suggest that financial planners provide non-economic value by engaging clients in the planning process, setting authentic and value-based goals, making satisfying progress towards goals, re-framing goals and resources realistically and positively, and providing coping support.

The overall evidence supports that communication, emotional, cognitive, relational, and behavior-change skills (i.e., non-economic skills) associated with financial planning add value. However, we have yet to quantify this value, and experts have indicated it is challenging to do so (Kitces, 2016). The combined literature suggests that economic and non-economic

outcomes are essential components of value derived from professional financial planning. However, the extent to which financial planners integrate non-economic skills (e.g., communication and emotional support) into their services plays a vital role in the client's experience of that value (Martin and Westerhof, 2003).

For example, a financial planner might increase a client's net worth through wealth accumulation advice. This economic gain might not be valuable to a client if they had to forego a life goal (such as a career change to a lower-paying job with more flexibility) to meet the savings requirement to grow their net worth—thereby causing increased stress (a non-economic loss). In this example, accumulating a lower net worth (a reduced economic gain) might have been more valuable if it allowed the client to pursue a career path aligned with their values, motivation, and purpose in life. Along with more frequent meetings to align the financial plan with the client's intrinsic desires and to reinforce successes, this alternative outcome might result in enhanced financial satisfaction and, ultimately, a greater general sense of well-being—a non-economic gain that creates value. While a lower wealth accumulation goal may sound unappealing to the financial planner with an assets-under-management fee model, the latter approach shifts the focus of value away from investment performance to value that consumers can consistently realize regardless of the investment market environment (Benjamin, 2019).

In summary, research on quantifying the value of professional financial planning has focused on the unidirectional delivery of advice from a financial planner to a client while recognizing that client characteristics and perspectives affect perceived value. Furthermore, research shows that significant non-economic value is inherent in the financial planning process. Nevertheless, researchers and financial planners have deemed this type of value too complex to quantify (Kitces, 2016), and therefore, attempts to do so have been limited. Economic and non-economic value go hand in hand, and Irving (2012) suggested that attention to economic benefits alone would "short change the value of the planning process for clients" (49). An integrated approach would encompass the extent to which economic outcomes facilitate life goals aligned with client values, measured by financial satisfaction or financial well-being as a sub-domain of life satisfaction or general well-being outcomes (Irving, 2012).

FINANCIAL PLANNING CLIENT INTERACTION THEORY

While the interplay between economic and non-economic outcomes requires further research, we can begin to consider the value of financial planning through the lens of Financial Planning Client Interaction Theory (FPCIT). FPCIT has roots in Becker's Social Interaction Theory (1976), which suggests an individual's interaction with their social environment affects their ability to produce commodities and maximize utility. A financial planner becomes part of a consumer's social environment when the financial professional and consumer agree to enter into a client relationship. FPCIT proposes that the value created from professional financial planning originates from the relative bi-directional social exchange (interaction) between a financial planner and a client within the client relationship. This interaction is the focal point that produces all economic and non-economic value within the collaborative financial planning process (CFP Board, 2019). This paper presents a framework through the lens of FPCIT that lays a foundation for quantifying this interaction value—the value of financial planning.

FPCIT posits that the value derived from the financial planner and client interaction will vary depending upon an array of unique characteristics the client *and* the financial professional bring to the relationship (i.e., inputs). FPCIT defines client relationship *inputs* as human capital (e.g., education, experience, knowledge, physical and mental health, personality, psychological characteristics, biases, values, beliefs, and communication ability), resources (e.g., goods, services, money, status, information, affection, and time; Foa, 1971), and the social environment (e.g., the business social environment for the financial planner and the

financial social environment for the client). The *client's* unique combination of inputs produces a scope of functioning, ranging from basic (smaller) to advanced (extensive), that affects their ability to produce commodities and maximize utility within their financial environment. Similarly, the financial planner's unique combination of client relationship inputs produces a scope of functioning that affects their ability to produce commodities, maximize utility, and effect positive change for the client within the client relationship.

FPCIT suggests that the client and financial planner's unique combination of inputs represents production technology sets that drive the client's production capability for financial commodities that contribute to overall utility. Commodities can consist of traditional goods (e.g., food) and, according to Becker (1976), can also encompass intangible outcomes such as reputation, distinction, and benevolence. Asebedo (2019) hypothesized that clients seek *at least* three fundamental financial outcomes that contribute to overall utility: financial stability, goal achievement, and financial satisfaction. While the financial commodities clients seek from professional financial planning requires additional research, we can summarize these outcomes through a broader conceptualization of *financial health and wellness*. *Financial health* is defined as having a functional objective financial situation (e.g., having financial savings, low debt, life and health insurance, etc.) and a positive subjective perception of that financial situation (e.g., low stress, high satisfaction; Klontz et al., 2016). *Financial wellness* extends the concept of financial health to a multidimensional and holistic vision of human flourishing where a person's financial situation is not only healthy but supports a full and meaningful life through psychological, physical, emotional, and relational well-being (Asebedo and Seay, 2015; Joo, 2008). These definitions of financial health and wellness align with the World Health Organization (2022) and the NIH (2022) as they reflect a state of optimal and complete physical, mental, and social well-being that encompasses a functioning and flourishing financial situation to fulfill this vision and not solely the absence of financial problems. FPCIT posits that client-centered outcomes, such as these, will maximize overall client utility, as conceptualized above as financial health and wellness.

The financial planner's set of inputs determines their scope of functioning for commodity production and effecting positive change within the client relationship. The financial planner with an extensive scope of functioning (i.e., a more advanced set of inputs) will have the capability to produce a greater quantity of client-centric commodities and can work with a broader array of clients than the financial planner with a limited scope of functioning (i.e., a more basic set of inputs). FPCIT posits that a client relationship will exist when the aggregate commodity output of the client relationship is greater than or equal to the sum of the aggregate commodity outputs of the financial planner and client individually. The financial planner and client will maintain this relationship so long as each experiences net gains (value) above and beyond what they expect absent of the client relationship.

VALUE FORMULAS

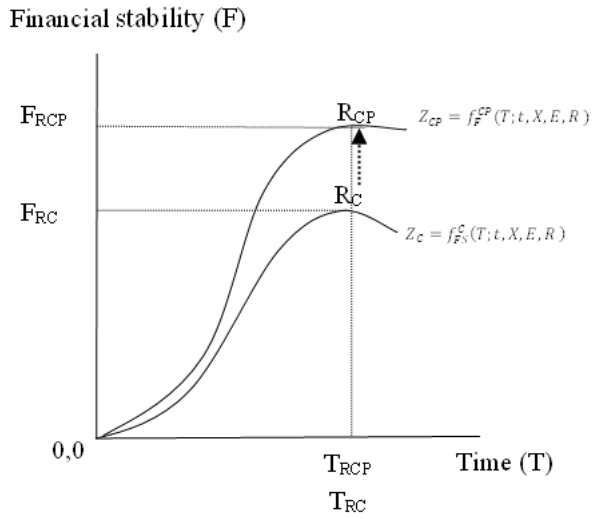
FPCIT centers on the value consumers derive from a client relationship with a financial planner through their household production function (e.g., see Bryant and Zick, 2006), where the household (client) seeks to maximize utility through financial planning. The *value* of the client relationship lies in the interaction of the financial planner's inputs with the client's production function. The financial planner becomes an essential resource for the client's production function within the client relationship, enabling the client's production function curve to shift upwards to achieve new commodity production and utility levels that they would not have achieved without the client relationship. Through this interaction, financial planners contribute their human capital, resources, and social *business* environment to the client's production technology set, where a positive or even negative effect is possible. We compute the value of this interaction effect by comparing the area of the region between the client's production

function curve with and without the use of a financial planner. The proceeding sections describe this approach.

In Figure 1, the vertical axis represents the client's commodity output level resulting from their production function inputs. This analysis assumes the client seeks to produce a financial commodity that maximizes the household's utility (e.g., financial health and wellness). While this analysis estimates financial stability on the vertical axis for illustration purposes, it is essential to note that we can estimate any product of the client relationship in its place. As noted above, more research is needed to determine the core set of financial commodities the client relationship produces. The horizontal axis represents time, with all other production function inputs held constant. Time is a production function input to the client relationship (Asebedo, 2019). We can conceptualize time in two different ways: (a) *T* (Time), defined as the time the client contributes to producing commodities within the client relationship, and (b) *t* (time), defined as the amount of real-time over which the client relationship produces commodities (e.g., a month, quarter, or year). For example, Figure 1 assumes that *T* (Time contributed) varies on the horizontal axis, while *t* (real-time) is held constant, along with other resource inputs, such as goods and services (*X*), tangible and intangible human capital (*E*), and social environmental characteristics (*R*, Asebedo, 2019).

Figure 1

Production Function Without (Z_C) and With (Z_{CP}) Financial Planner Use



The lower curve is the client's production function for commodities (Z_C) *without* using a financial planner. This lower curve represents the commodity output the client can procure *on their own* with their unique set of production function inputs: resources (e.g., goods, services), human capital (e.g., education, experience, personality), and social network (e.g., existing professionals, family, friends). The upper curve is the client's production function for commodities (Z_{CP}) using a financial planner. The upper curve represents the commodity output the client can procure by accessing the financial planner's inputs: resources (e.g., goods, services), human capital (e.g., education, experience, personality), and social network (e.g., allied professional network). This analysis assumes that the financial planner has more advanced inputs than the client and, therefore, a broader scope of functioning and can increase the client's commodity output above and beyond what the client can achieve independently. If the financial planner's inputs are not more advanced than the client's, then a client relationship

is unlikely to exist, and this analysis would not apply. FPCIT presents hypotheses regarding the conditions under which professional financial planning would be undertaken (Asebedo, 2019). However, the current paper focuses on the scenario where a consumer would engage a financial planner and enter into a client relationship.

We can then find the area of the region between the two production function curves using integration (Larson and Edwards, 2014). The area of the region between the production function curves that is bounded by current time contributed (T=a) and time contributed at the maximum point R (T=b), represents the *total expected gain* (TE_G) in the client relationship (in other words, the total expected value; see Figure 2). Once (TE_G) is defined, we can then estimate the *actual gain* (A_G), or actual *value*, generated within the client relationship (see Figure 3). Finally, the *remaining expected gain* (RE_G) results in the difference between the initial TE_G and realized A_G. The RE_G represents future opportunity to add value; missed opportunity to add value through suboptimal advice, inefficiencies, ethical issues, lack of client follow-through, and missed opportunities to refer or terminate the client relationship (see Figure 4). The purpose of this next section is to define TE_G, A_G, and RE_G using integration (Larson and Edwards, 2014).

Total Expected Gain (TE_G)

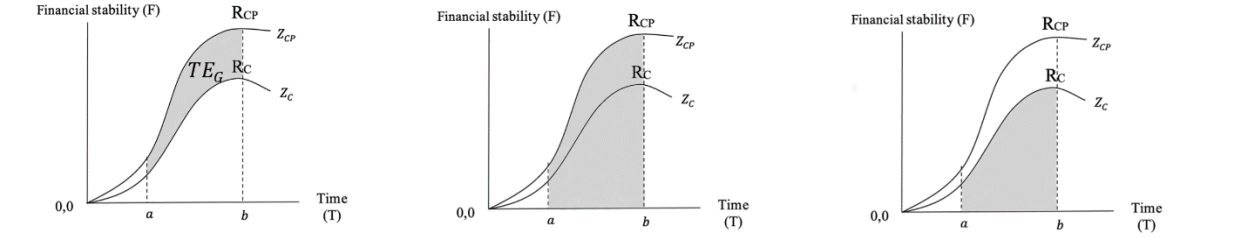
The area of the region that lies between the production function curves (Z_{CP}, client using a financial professional, and Z_C, client without using a financial planner) and is bounded by point a (current T, time contributed) and point b (time contributed at the maximum point R) represents the total expected gain (TE_G) in the client relationship (see Figure 2). We can calculate this area using integration. Following Larson and Edwards (2014), if Z_{CP} and Z_C are continuous on $[a, b]$ and $Z_{CP}(T) \geq Z_C(T)$ for all T in $[a, b]$, then the area of the region bounded by graphs Z_{CP} and Z_C and the vertical lines T=a, and T=b is

$$\int_a^b [Z_{CP}(T) - Z_C(T)]\, dT. \tag{1.0}$$

Equation 1.0 is derived from taking the area under the curve Z_{CP} minus the area under the curve Z_C, bounded by points a and b. See Figure 2 for a visual depiction of this equation (adapted from Larson and Edwards, 2014).

Figure 2

Total Expected Gain (TE_G)



Equation 1.0: $\int_a^b [Z_{CP}(T) - Z_C(T)]\, dT$ = $\int_a^b Z_{CP}(T)\, dT$ − $\int_a^b Z_C(T)\, dT$

The area of region *between* Z_{CP} and Z_C = Area of region *under* Z_{CP} − Area of region *under* Z_C

* *Notes:* $Z_{CP} = f_F^{CP}(T; t, X, E, R)$, and $Z_C = f_F^C(T; t, X, E, R)$. TE_G is the area of region *between* Z_{CP} and Z_C. This area is calculated by Equation 1.0.

* *Notes:* $Z_{CP} = f_F^{CP}(T; t, X, E, R)$, and $Z_C = f_F^C(T; t, X, E, R)$.

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Equation 1.0 assumes that real-time (t) is held constant (along with other inputs) with time contributed (T) varying along the horizontal axis, which permits an analysis of how the financial professional adds value to the client's situation through advanced inputs at any given point in time. For example, the financial planner could demonstrate how their advanced inputs

can produce a greater commodity output for the client than what the client can produce on their own with less time contributed (T) at the onset of a client relationship (for a discussion of basic vs. advanced inputs, see Asebedo, 2019). This analysis is useful in estimating the total expected gain (TE_G) within the client relationship: a higher commodity output for the client with greater efficiency. We can also view the TE_G equation within the context of real-time (t) while holding time contributed (T) and other inputs (X, E, R) constant. Under this framework, we can allow t to vary along the horizontal axis over a predetermined time interval for analysis, such as a month, quarter, or year; we can then estimate the TE_G a client can expect to receive from a financial professional over that timeframe. With t varying along the horizontal axis over the chosen time interval (e.g., a quarter) and T (time contributed), X (goods and services), E (personal environmental characteristics), and R (business and financial social environments) held constant at current levels, we can use Equation 1.1 to estimate the TE_G in the client relationship over t. As with Equation 1.0, Equation 1.1 applies when these conditions hold: Z_{CP} and Z_C are continuous on $[a, b]$ and $Z_{CP}(t) \geq Z_C(t)$ for all t in $[a, b]$.

$$\int_a^b [Z_{CP}(t) - Z_C(t)]\, dt. \tag{1.1}$$

Actual Gain (A_G)

Where TE_G measures the total expected gain (value) within the client relationship, the actual gain (A_G) measures the actual value realized within the client relationship. As illustrated in Figure 3, assume the curve Z_{CP1} represents the client's new production function curve resulting from the client relationship. The area of the region that lies between the production function curves Z_{CP1} and Z_C, and that is bounded by point a (current T, time contributed) and point b (the time contributed at the maximum point R) represents the actual gain (A_G) realized in the client relationship. Similar to TE_G, we can use integration to calculate A_G. Following Larson and Edwards (2014), if Z_{CP1} and Z_C are continuous on $[a, b]$ and $Z_{CP1}(T) \geq Z_C(T)$ for all T in $[a, b]$, then the area of the region bounded by graphs Z_{CP1} and Z_C and the vertical lines T=a, and T=b is

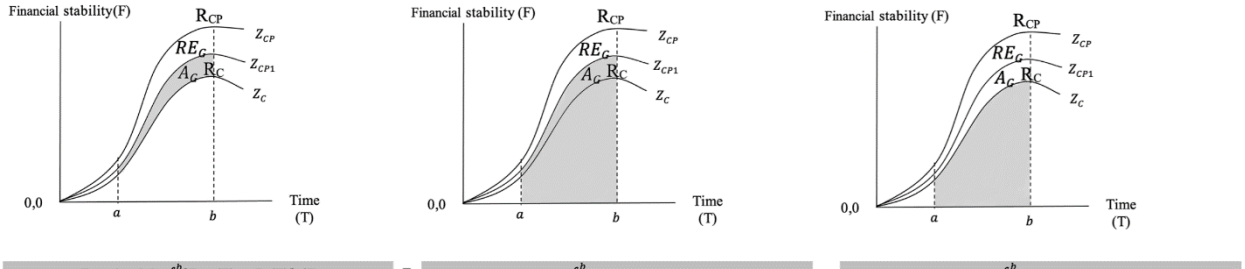
$$\int_a^b [Z_{CP1}(T) - Z_C(T)]\, dT. \tag{2.0}$$

As illustrated in Equation 1.1 for TE_G, we can also analyze A_G over a specific time period (holding all other inputs constant) through Equation 2.1:

$$\int_a^b [Z_{CP1}(t) - Z_C(t)]\, dt. \tag{2.1}$$

Figure 3.

Actual Gain (A_G)



Equation 2.0: $\int_a^b [Z_{CP1}(T) - Z_C(T)]\, dT$	=	$\int_a^b Z_{CP1}(T)\, dT$	−	$\int_a^b Z_C(T)\, dT$
The area of region *between* Z_{CP1} and Z_C	=	Area of region *under* Z_{CP1}	−	Area of region *under* Z_C
* *Notes:* $Z_{CP} = f_F^{CP}(T; t, X, E, R)$, $Z_C = f_F^{C}(T; t, X, E, R)$, and $Z_{CP1} = f_F^{CP1}(T; t, X, E, R)$. A_G is the area of region *between* Z_{CP1} and Z_C. This area is calculated by Equation 2.0.		* *Notes:* $Z_{CP} = f_F^{CP}(T; t, X, E, R)$, $Z_C = f_F^{C}(T; t, X, E, R)$, and $Z_{CP1} = f_F^{CP1}(T; t, X, E, R)$.		* *Notes:* $Z_{CP} = f_F^{CP}(T; t, X, E, R)$, $Z_C = f_F^{C}(T; t, X, E, R)$, and $Z_{CP1} = f_F^{CP1}(T; t, X, E, R)$.

Remaining Expected Gain (RE_G)

Once we determine A_G, we can then calculate the remaining expected gain (RE_G). As illustrated in Figure 4, RE_G is valued based upon the area of the region between Z_{CP} and Z_{CP1} that is bounded by point a (current T, time contributed) and point b (time contributed at the maximum

point R). Using integration (as with TE_G and A_G) and following Larson and Edwards (2014), if Z_{CP} and Z_{CP1} are continuous on $[a, b]$ and $Z_{CP}(T) \geq Z_{CP1}(T)$ for all T in $[a, b]$, then the area of the region bounded by graphs Z_{CP} and Z_{CP1} and the vertical lines T=a, and T=b is

$$\int_a^b [Z_{CP}(T) - Z_{CP1}(T)]\, dT. \quad (3.0)$$

Alternatively, we could find RE_G by taking the total expected gain minus the actual gain, as depicted in Equation 3.1:

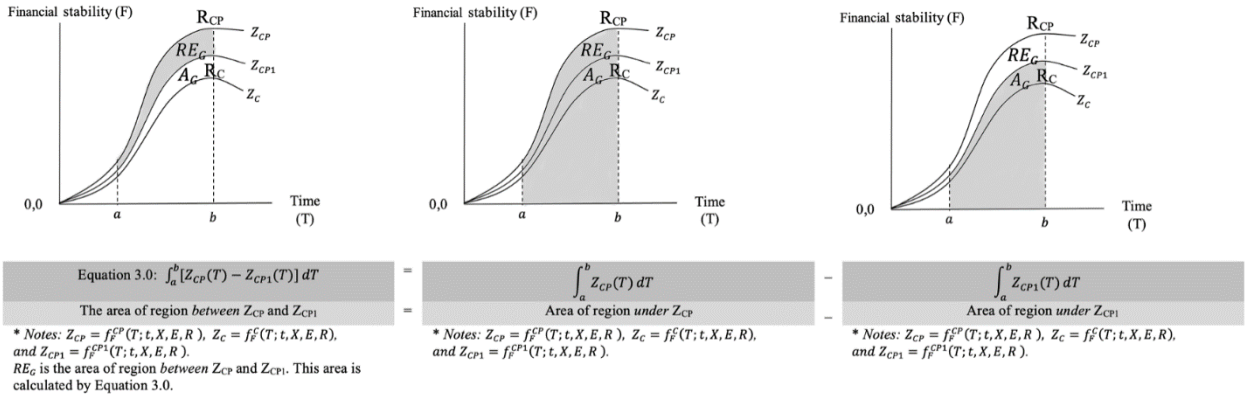
$$RE_G = TE_G - A_G. \quad (3.1)$$

And finally, similar to TE_G and A_G, RE_G can be analyzed over a specific time period (holding all other inputs constant) through Equation 3.2:

$$\int_a^b [Z_{CP}(t) - Z_{CP1}(t)]\, dt. \quad (3.2)$$

Figure 4.

Remaining Expected Gain (RE_G)



The remaining expected gain (RE_G) is a metric that indicates future opportunities to add value. RE_G is likely to exist in a client relationship where financial planning is delivered through a process that unfolds over time; however, a persistent or large RE_G might signal underperformance by the financial planner and a missed opportunity to add value due to suboptimal advice, inefficiencies, or failure to deploy available resources to serve the client. This scenario would likely arise from overestimating the financial planner's scope of functioning relative to the client due to biases (e.g., overconfidence) or ethical issues (e.g., signaling comprehensive financial services when niche services are actually delivered, such as sales or investment management). A persistent or large RE_G might also indicate a situation where fees are excessive compared to the actual value the financial planner can deliver. A persistent and large RE_G should not occur (although random measurement error would likely still exist) if TE_G accurately captures the financial planner's available inputs (resources, human capital, and social environment).

An indicator of a problematic RE_G might be a lack of client follow through on advice. Researchers and financial planners have begun to recognize that client resistance and lack of follow-through might result from the financial professional's skillset and not necessarily a *bad* or *difficult* client (for example, see Horwitz and Klontz, 2013; Klontz, Kahler, and Klontz, 2016). While researchers have observed that financial planners can positively or negatively affect client outcomes, this phenomenon needs empirical research to test these relationship interaction effects. Other helping professions (e.g., mental health) have also recognized the importance of the professional's skillset on client outcomes (e.g., see Ackerman and Hilsenroth, 2001, 2003).

RE_G is posited to primarily attribute to the financial planner's ability to integrate financial advice with individual client characteristics and circumstances. When client characteristics and circumstances become an obstacle to implementation (e.g., mental health status, irrationality, over-optimism, family relationship problems, and personality characteristics), it is the financial planner's production function inputs (i.e., human capital, resources, and social "business" environment) that facilitate recognition and identification of the obstacle(s), and ultimately elimination or mitigation of the obstacle(s) such that the client can move forward and their production function curve can shift upward, reaching their commodity output and utility potential. The financial planner can utilize existing resources to recognize, identify, eliminate, and mitigate these obstacles, or they might hire appropriate talent or seek to expand their inputs accordingly. Alternatively, the financial planner might refer the client to another professional—which could involve referring and retaining the client relationship or referring and terminating the client relationship.

DISCUSSION AND IMPLICATIONS

The primary purpose of this paper is to lay a foundation for a theoretically-grounded (FPCIT) approach to quantifying the value of financial planning through the interaction effects of the financial planner-client relationship, consistent with the CFP Board's (2019) definition of financial planning as a "collaborative process" (9). This paper accomplished this purpose by defining the measurable outcomes of the client relationship that result from the interaction between a financial planner and a client with the household production function as the unit of measurement (Bryant and Zick, 2006): total expected gain (TE_G), actual gain (A_G), and remaining expected gain (RE_G). Integration was used to define the formulas for TE_G, A_G, and RE_G, and is a standard mathematical method performed in calculus that provides a mechanism for researchers, financial planners, consumers, and regulatory bodies to assess the value of financial planning.

The analysis suggests that value is relative, consistent with existing literature (e.g., see Hanna and Lindamood, 2010; Kitces, 2016). The client and the financial planner's characteristics combine to shape value within financial planning, creating *relative* value that varies across situations and circumstances. A contribution this analysis makes to the literature through the lens of FPCIT is the proposition that both the financial planner and client contribute to value creation within the client relationship. Therefore, financial advice must be placed within the context of the client relationship to determine its value, which aligns with the importance of the *therapeutic alliance* in the mental health profession. Not all consumers need the same advice, implying that pure advice is not the source point of value that financial planners deliver. Shifting the source point of value from advice to the client relationship does not mean that individual strategies (such as asset allocation and location based on account type) carry no value; the valuation of these strategies is a necessary component of value but is part of a greater whole.

Furthermore, the above analyses demonstrate that client relationship value consists of three different categories: (a) total expected gain (TE_G,), (b) actual gain (A_G), and (c) remaining expected gain (RE_G). Drawing upon Gary Becker's work on social interactions and marriage (Becker, 1976; Bryant and Zick, 2006), we can predict that within the FPCIT client relationship that greater TE_G, and/or lower variance in A_G, results in positive client relationship outcomes (e.g., satisfaction and trust), whereas lower TE_G and/or higher variance in A_G results in adverse client relationship outcomes (e.g., dissatisfaction and client attrition; Asebedo 2019). Therefore, both expectations of gain and actual gain delivered to the client affect the client's experience of value within the client relationship.

These implications may sound familiar to financial planners; however, the formulas presented here (in conjunction with FPCIT) provide a theoretical underpinning to various

anecdotal assertions, such as *behavior change adds value* or *not all clients need the same advice*. Previously, theory had yet to be developed to identify and explain the components of financial planning value. The importance of theory is that it can explain phenomena occurring and generally understood based on anecdotal experiences and possibly even empirical data. The financial planning profession needs more theoretical advancements to explain phenomena to inform future research that informs future practice. This paper adds a tangible component to FPCIT that articulates how consumers, financial planners, researchers, and regulatory bodies can quantify the value of financial planning under varying circumstances. Future research into the value of financial planning, informed by FPCIT and this paper, will help comprehensive and *therapeutic* financial professionals differentiate themselves from those more heavily focused on sales and asset management.

Last, FPCIT is rooted in Becker's (1976) social interaction theory, which suggests that consumers of financial planning can maximize their potential for financial health and wellness by expanding their social network to include financial planners. However, FPCIT and this paper also argue that consumers will need different levels and types of advice, potentially at different times over the life course (such as a life transition). Thus, consumers can use this information to consider (a) whether or not they need professional financial planning, and (b) which professional—financial planner, financial counselor, financial psychologist, financial therapist, financial educator—might best serve their needs given the resources they already possess (e.g., psychological, relational, and financial knowledge resources).

LIMITATIONS AND FUTURE RESEARCH

A current limitation is a need for more data encompassing valid and reliable measurements from both the financial planner and client perspectives to conduct validity testing sufficiently. Researchers have observed that existing data is insufficient to properly investigate value (Hanna and Lindamood, 2010; Heckman et al., 2016; Tharp, 2017). A comprehensive and longitudinal data set with valid and reliable financial planner and client characteristics is necessary to investigate client relationship value.

This paper, combined with FPCIT, provides researchers with a theoretical basis for making hypotheses and testing various client outcomes when combining traditional financial planning with therapeutic and psychological skills, competencies, and interventions. This paper does not test this specifically because there is no publicly available data to do so effectively. To properly test these effects, a longitudinal experimental study is a necessary next step. FPCIT and the formulas in this paper offer a theoretical approach to ground future research and a method to test for and quantify value.

Regulatory bodies also play a crucial role in the future development of valuation methods. It has become increasingly prevalent to address client standards of care and unfair, deceptive, and abusive practices (CFPB, 2012; Hayashi, 2018). FPCIT adds to this work by articulating the financial planner and client characteristics that define and contribute to value and providing a method to value it. The RE_G component of value might serve as an essential metric that signals to regulatory authorities where fees relative to value are excessive or where deceptive marketing practices might be employed, thereby suggesting the financial planner is not meeting client standards of care and appropriate practices. However, more research is needed to understand RE_G, and to place parameters around it.

Furthermore, a data set to include inputs from both the client and financial planner will aid researchers in uncovering limitations to this valuation method and FPCIT. For example, Asebedo (2019) suggested that the production function curves within FPCIT are dynamic and responsive to changes in personal and economic circumstances. Periods of exceptional personal and economic circumstances may present challenges in plotting accurate production function curves. Also, while in theory we can estimate objective production function curves, it is likely

that in practice, the estimation of these curves is susceptible to a certain amount of error and variability. The actual gain (A_G) metric may be variable, and the greater the variability in A_G, the greater the likelihood of adverse relationship outcomes (Asebedo, 2019). Thus, greater production function estimation error will potentially result in more variability of A_G (i.e., greater variability in realized value experienced by the client), thereby increasing risk in the client relationship's long-term viability. Thus, the financial planner is incentivized to accurately estimate their (and their client's) capabilities to set realistic value expectations that reduce the variability of the client's value experience.

CONCLUSION

The value of professional financial planning has been elusive due to the relative nature of human interaction, thereby making value challenging to determine. Thus far, researchers and practitioners have focused on valuing advice and have yet to identify and recognize the origin of value and what it means to consumers. Therefore, the financial planning profession must address a more fundamental question: What is the source of value financial planners provide to consumers? Currently, there is no generally accepted definition of value nor consistent recognition of its source; therefore, the current research has aimed at different targets but has leaned more heavily towards economic outcomes. Value has historically been eclipsed by the appeal of technical knowledge and advice. However, technological advances are forcing financial planners to reexamine and redefine their value proposition now that consumers are experiencing increased technological efficiencies and financial knowledge that reduce the need to hire a financial planner. The literature signals that professional financial planning creates significant non-economic value grounded in psychology and therapy (e.g., financial and life satisfaction, control, mastery, and reduced stress) that is also inclusive of economic outcomes (e.g., portfolio growth). This literature suggests that an integrated approach to value that captures the benefit of both economic and non-economic outcomes is applicable. FPCIT provides a lens to explore this integrated approach because household commodities include both economic (e.g., financial goal achievement and financial stability through portfolio growth, risk reduction, and debt management) and non-economic (e.g., financial satisfaction) outcomes that facilitate household utility maximization (e.g., overall financial health and wellness). This paper presented a mathematical framework to incorporate the economic and non-economic components of the value financial planners provide to consumers. However, more research is needed to operationalize this model fully.

In summary, the financial planning profession risks becoming a transaction-based commodity that consumers primarily leverage through technology without the need for human interaction ***if*** the value proposition is centered solely on economic outcomes. However, efficient technology-based financial services might be sufficient for some consumers to maximize their household utility—but not all (Asebedo, 2019). Looking forward, we must continue examining the economic value of particular strategies and technical, comprehensive professional financial planning, yet redirect this work towards a generally accepted and grounded meaning of value. The implications of FPCIT and the valuation method presented in this paper underscore the relevance of financial therapy, counseling, psychology, and education in expanding the financial planner's skillset beyond technical expertise to encompass client-centered competencies (and/or integrating interdisciplinary approaches with professionals from other fields). FPCIT brings the unique and complex human interaction phenomenon to the forefront of the value of financial planning in a theoretically grounded and mathematically quantifiable way. By placing the value question within the context of a client relationship, we give financial planning deeper meaning, purpose, and future direction.

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