Household finances, financial planning, and COVID-19

Jonathan Fox  
_Iowa State University_, jjfox@iastate.edu

Suzanne Bartholomae  
_Iowa State University_, suzanneb@iastate.edu

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Abstract
This article provides a brief summary and review of the impact of the COVID-19 pandemic on household finances. The stressors related to the pandemic are evaluated as either transitory or permanent shocks to both the practice of financial planning and client financial concerns. Based on qualitative responses from practicing financial planners, changes in practice and client concerns as a result of the pandemic are outlined. At the global level, respondents shared that the practice of financial planning has accelerated its adoption of communication technology while clients are experiencing unprecedented levels of stress related to changes in health, the economy, and the political landscape in the United States. Insights and observations from the sample of practicing financial planners are used to inform recommendations for practice.

Disciplines
Civic and Community Engagement | Emergency and Disaster Management | Family, Life Course, and Society | Finance | Medicine and Health Sciences

Comments
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1 | INTRODUCTION

Financial planners have long held the responsibility to support their clients as they encounter environmental threats to their financial well-being. Whether it is a financial shock like the Global Financial Crisis (i.e., Great Recession), the COVID-19 pandemic, or client-specific household shocks such as a divorce or health crisis, financial planners play a vital role in helping families adjust to a new normal or return to the original course of action. Household financial shocks are not unusual, but client responses vary. So too, does the consequence of the financial shock and whether it spirals into a “destabilizing financial shock,” described as diminished financial well-being (Pew Charitable Trust, 2015, p. 3). Recent financial planning research demonstrates that perceived environmental threats to a person’s well-being triggers physiological stress which remains beyond the actual event and diminishes a variety family outcomes (Grable, 2013; Grable & Britt, 2012; Zepp, 2019). This is consistent with scholarship on stress and its link to the health and well-being of individuals and families (for reviews see Masarik & Conger, 2017; Mistry, Lowe, Benner, & Chien, 2008; O’Connor, Thayer, & Vedhara, 2021; Thoits, 1995).

Financial planners attempt to prepare households for a financial shock with the elements and strategies of a financial plan. Depending on the client, once a financial shock hits, financial planners can be expected to provide reassurance to clients about the plan along with emotional and social support. The demands precipitated by clients in the event of a financial shock depend on the extent to which the client trusts their financial planner, has confidence in the plan, their perception of the financial threat, and their financial stress response. A previous study of client financial stress found that clients do a poor
job of accurately appraising their own subjective or real financial stress level, with almost half of the clients demonstrating “stress denial” (Grable & Britt, 2012, p. 43). A client’s perception of their financial challenges and associated financial stress is important since stress has been found to be associated with initially seeking help from a financial professional as well as engaging in subsequent financial planning behavior that may alter their financial situation (Grable, 2013; Grable & Britt, 2012; Grable, Heo, & Rabbani, 2015; Grable & Joo, 2001).

Integrated financial planning is described as “helping clients navigate change and conditions of uncertainty, a deep client-planner relationship built on trust, and the facilitation of behavioral change” (Fortin, Jansen, & Klontz, 2020, p. 47). Financial stress reduction is a key desired outcome of integrated financial planning (Fortin et al., 2020). The ability of financial professionals to address psychological aspects of their clients, such as financial stress, along with relationship and behavioral issues, has become an essential aspect associated with building and using a financial planning framework (Chaffin & Fox, 2018). Integrated financial planners have an advantage in the current uncertain environment. This article provides a brief summary and review of the impact of the COVID-19 financial shock on household finances. It then summarizes the responses of financial planners as they described their clients’ concerns and how their practice changed as a result of COVID-19. The article concludes with practice recommendations.

2 | PANDEMIC SHOCK: PERMANENT OR TRANSITORY IMPACT ON FINANCES AND PLANNING?

There is no doubt that COVID-19 has been the catalyst of a shock to the business of financial planners, their clients, and the overall economy. If this shock is a “permanent” disruption then the impact of COVID-19 will be everlasting and will not dissipate out of the system as it would if it were a “transitory” shock. In this article, we wrestle with the question of whether the COVID-19 shock on household finances, the business of financial planning, and clients of financial planners is permanent versus transitory. Essentially, we are asking, has the nature of the work, and the needs of clients, been forever changed by the COVID-19 pandemic? Empirically, this is an impossible question to answer as this article is being written during the early days of vaccine administration in the United States. In time, a capable time-series economist or social scientist will prove the existence of a permanent or transitory impact. For now, we offer insights of practicing financial planners on changes in practice and client needs.

Before beginning, it is important to note (not surprisingly) that these observations give evidence to both arguments. It is clear that the use of technology in delivering financial planning services is the most significant change in the practice of providing financial advice. This change is viewed by some as an acceleration of a process already in motion, and a temporary fix by financial planners wanting to return to a relationship (face-to-face, nonvirtual) model of service delivery. For clients and their finances, the issues are more diverse, with some clients changing their plans forever and others making small adjustments that may be long forgotten in the post-pandemic years.

A 2015 study by The Pew Charitable Trusts does a good job of describing the conditions where one household may experience a more transitory impact of an economic shock while another will experience a longer lasting, if not permanent, impact. On the balance, the Pew study concludes that the effects of shocks are long-lasting for many households. For about a quarter of the sample, the impact of a simple event, such as an unexpected auto repair, was still present 6 months after the event. The length of the impact of the shock was longest for those with the fewest resources. For higher resource households, the speed of recovery was observed to be much faster. Financial shocks were shown to be “destabilizing,” meaning households struggled to make ends meet (Pew Charitable Trust, 2015, p. 6). The size of the expense of the financial shock was the key destabilizing feature.

In the Pew study, the size of the financial shocks ranged from less than $800 to $6,000 or more and varied by income level. The median household absorbed income equal to about a half a month’s income, with lower-income households forfeiting a month’s worth of income compared to higher income households who reportedly spent three times that amount on their most expensive shock, with a median shock cost of $3,000. Regardless, financial shocks in the Pew study were shown to have long-lasting effects, regardless of household income level. This was particularly true in relation to larger “destabilizing” shocks. A key takeaway from the study is that a financial shock undermines feelings of financial security in households, with feelings of insecurity amplified among younger households, households of color, and households with annual incomes less than $50,000 (Pew Charitable Trusts, 2015).

3 | COVID-19 AND HOUSEHOLD FINANCES

Financial shocks do not discriminate. The incidence of a financial shock occurs at equivalent rates among households, regardless of income level, age, or race.
COVID-19 related reason to qualify for these benefits also eligible for benefits if they could demonstrate a other typically noneligible workers. Other workers were self-employed workers, independent contractors, and not typically eligible, such as gig economy workers, economy workers, program also extended benefits to classes of employees. The PEUC expired December 26, 2020. Through the end of July 13 weeks of benefits from the Pandemic Emergency Relief, and Economic Security (CARES) Act of March 2020 enabled many workers to receive an additional 13 weeks of benefits from the Pandemic Emergency Unemployment Compensation program (PEUC), which expired December 26, 2020. Through the end of July 2020, the PEUC program supplemented state weekly unemployment benefits by an additional $600. Four in 10 adults indicated that their unemployment benefits were higher than what they earned before being laid off or losing their job, with 36% indicating the benefits were lower (Federal Reserve Board, 2020). The PEUC program also extended benefits to classes of employees not typically eligible, such as gig economy workers, self-employed workers, independent contractors, and other typically noneligible workers. Other workers were also eligible for benefits if they could demonstrate a COVID-19 related reason to qualify for these benefits (Gilbert, 2020).

The CARES Act infused many households with a one-time payment ranging from $1,200 up to $2,400, depending on marital status and adjusted gross income, plus an additional $500 per qualifying child dependent (Internal Revenue Service, 2020). The US Census’ Household Pulse Survey (2020), a newly deployed survey designed to collect information about the effect of the coronavirus on American households, showed differences in how the payments were used. In mid-July, of households who spent, or were planning to spend, their economic stimulus payment, 74% expected to use it to mostly cover ordinary expenses, 14% to pay off debt, and 11% to add to savings or investments (US Census Bureau, 2020). Among high-income households, spending only increased modestly compared to low-income households, which saw a spike after receiving a payment. One study found household liquidity was the strongest predictor of households spending their stimulus payment (Baker, Farrokhnia, Meyer, Pagel, & Yannelis, 2020). Among low-income households of color (e.g., Latinx or Black), the actual receipt of stimulus payments was 8% lower when compared to White households (Cantor & Landry, 2020).

Households are better able to absorb a financial shock when they hold sufficient cash reserves in liquid savings. Financial planners typically recommend three to 6 months of income or expenses in an emergency fund, but few households follow this practice recommendation. Going into the COVID-19 crisis, one study found almost 40% of households lacked enough liquid savings to maintain their household expenses for 3 months (Cantor & Sims, 2020). Another study found 77% of lower-income, 52% of middle-income, and 25% of upper-income households did not have liquid savings to cover 3 months of living expenses in the absence of income (Parker, Horowitz, & Brown, 2020). Since the onset of the coronavirus pandemic, one-third of American households have dipped into their savings or retirement accounts to pay household expenses (Parker, Minkin, & Bennett, 2020). In another study, just over half of US households needed to tap into retirement savings to meet the shortfall brought on by income loss and lack of emergency savings (Cantor & Sims, 2020).

4 | FINANCIAL PLANNING INSIGHTS ON PRACTICE AND CLIENT CONCERNS

The Certified Financial Planner Board of Standards, Inc. (CFP Board) has been on the forefront of documenting how the COVID-19 pandemic has and continues to impact the practice of financial planners. Working in
collaboration with Iowa State University, 90 financial planners were surveyed in November 2020 about changes in their practice, adjustments made by their clients, and any other observations on financial planning and COVID-19. Approximately 30% of those surveyed provided meaningful responses. These financial planners were considered ideal informants as they were engaged dually in the practice of financial planning and in a CFP Board-sponsored program that provides training in teaching financial planning courses at the college level. The purpose of the survey was to gather insights and perspectives about how the COVID-19 pandemic impacted their financial planning practice and the service needs of their clients. Using Qualtrics, three core questions were asked to allow for open-ended input on changes in practice, changes in client expectations and concerns, and any other thoughts related to COVID-19 and financial planning. Two additional questions were used to assess participant years in practice and a general description of each participant’s financial planning practice.

The financial planners in the sample had an average of 15.5 years of experience, ranging from 3 to 38. Almost all held the CFP® certification. Most served a particular market niche such as small-business owners, middle-income families, military, women, or those in the GenX population. One third of those completing the survey described their practice as wealth management or investment advisory for higher income and asset holding clients. Most firms represented were small, employing fewer than five advisors. Four respondents specifically identified as fee-only financial planners, and a select few described their practice as tax or insurance based.

When asked how their practice has changed as a result of COVID-19, almost all responses addressed the use of technology and virtual and phone meetings. One financial planner put the transition into percentage terms:

“Pre-Covid, I was doing approximately 80% of my appointments in person and 20% by phone. Now, I’m probably doing the reverse, 80% by phone or videoconference and 20% in person.”

Another financial planner shared, “It’s made me adapt and forced me to adopt new technology tools that I haven’t used before.” Some in the sample welcomed gains in efficiency. Consider the following note:

“Client meetings are all on Zoom™ now. We are much more efficient, as there is no travel time, no getting coffee at the beginning of a meeting, etc. Allowing for much more work getting done during the day.”

Others highlighted the steady march toward digitization that started well before the onset of the pandemic. For example, one participant noted the following: “We are now 100% virtual. We were already moving our processes to be digital, but the pandemic has accelerated the move.” Some in the sample appeared to have already transitioned most of their business to the virtual space. This is what one participant said: “We currently all work from home, however, many of my clients and I interacted virtually prior to this change so not much has changed in that regard.” In some cases, likely driven by cost savings and employee satisfaction, the adoption of virtual meetings appears to be permanent, as evidenced by this statement:

“Our practice has changed much like others. My wife, who works in the practice, and I work from home. Our executive assistant works from home and now likes it; she will not go back to the office full time. We use Zoom™ for all meetings and face time video is important.”

Four financial planners in the sample lamented lost face-to-face interactions, leading to fewer clients and difficulty building planning relationships. One financial planner shared:

“I lost clients. I see them less often. For new clients, there is not enough time to better cement a deeper relationship. It’s hard to start a relationship online, but to maintain an existing deep one is doable.”

Similarly, one planner shared that, “Prospecting and networking has become increasingly difficult.” One comment alluded to the changing nature of the actual work being done on financial plans. Specifically, “Clients are not inclined to schedule a review, as they prefer to meet in person.” Several financial planners perceived little change in their practice. Consider this statement: “I have officed from home for some time. I have many elderly clients and have reduced the number of in person appointments.” Another planner shared:

“We still work with clients the same way. Not much has changed in the way we work. We were already using video for clients around the country and overseas. We were already paperless.”

Similarly, one financial planner stated:
“Nothing has changed really other than the few in-person meetings I have held have moved to virtual, but the majority of my clients are used to meeting virtually already.”

The adoption of technology and virtual meetings was clearly the most prevalent consideration in the COVID-19 financial planning world at the time of the survey in November 2020. It was also clear that financial planning practices that had already adopted digital and virtual solutions seemed inclined to move clients toward the permanent adoption of working with a financial planner at a distance. Others operating in business models where a personal face-to-face relationship was foundational expected a return to business as usual after full implementation of the COVID-19 vaccination process.

When asked to describe how the concerns of clients have changed due to COVID-19, responses were more varied. The most prevalent concerns related to the economy, personal health, the presidential election, and the general level of fear and anxiety leading to difficulty making decisions. The balance between economic and health concerns seems to be dependent on age as one planner said:

“I have many older clients, several of which are in assisted living, so their lives are significantly worse now. They are concerned mostly for their health, both physically and mentally. The younger clients are more focused on the financial impact that COVID-19 has had on the country.”

Another financial planner noted how economic and health concerns have changed over time, subsequently leading to larger concerns over family life. As noted by one survey participant,

“... earlier in the year it was market risk. Mid-year it was health risks. Later this year it has been more fear expressed around the long term effect of the pandemic and the normal routines of life and family.”

One financial planner highlighted the varied experiences of their clients: “Some clients are in affected industries, and others are thriving. Most are concerned, but some are not.”

Four participants shared that clients were more concerned about the 2020 presidential election and political division in the United States than they were COVID-19. A representative comment was, “Clients are anxious. COVID-19 plays a part, but politics and the election has also caused a heightened level of anxiety.” A general level of anxiety was noted for the role it appeared to be playing in client decision-making. In this regard, the following insight was characteristic:

“Clients and prospects seem to have a harder time making any decisions during COVID-19. They are very afraid to move forward with their life or any changes needed.”

The interplay between counseling and planning was evident in responses, such as:

“I am more of a financial counselor. My area relies on tourism and manufacturing for its economy. As a result, many of my local clients have left the area. I now consult with a handful of clients in other states.”

Not unlike comments on their practices, some in the sample observed little change in client concerns as a result of the COVID-19 pandemic. Consider the following statement:

“Client concerns haven’t really changed; the virus has heightened awareness on some concerns, impact on the economy and markets, and increased the number of conversations it takes to calm clients, but it hasn’t led them to reprioritize or change their focus or concerns.”

In one case, the timing of planned events may have changed, but the basic client needs had not. The following statement highlights this insight:

“I have really not observed much change in the issues that bring clients to the table. I have had a few early retirements, but those were accompanied with large lump sum packages so planning for retirement may have been pulled forward a year or two but only for a select group of clients.”

Similarly, a financial planner shared that some clients are treating the virus as a temporary shock, waiting for things to return to normal. This financial planner noted,

“Most clients seem resigned to hunker down and wait this out. Most of mine are already retired, so their day-to-day hasn’t changed as dramatically as working individuals. They have almost all expressed concern about how the economy will ride this out.”
Most optimistically of all, some survey participants shared clients’ heightened awareness of the need for comprehensive financial planning. One financial planner commented that:

“Clients are a little more serious about both their financial and physical wellness. Estate planning is taken more seriously. Knowing when they can retire is now more of a priority. Also, recreational goals have become more important. People realize if they ever wanted to do something, they may not have the chance to in the future.”

Likewise, one financial planner observed that client savings were on the rise:

“Originally, many had concerns with the economy and the market. The illness and pandemic seems to be a primary concern with its effects on the accounts being secondary, and yet at the same time, they are spending less and likely have a better retirement outlook than they did a year ago.”

A final catchall question was asked of survey participants about any other observations related to the pandemic and financial planning. A theme in this set of responses reflects the heightened client awareness revealed in the client change question. One participant stated, “I have noticed that people are desiring more details in their plans and for multiple scenarios.” Another financial planner comment reinforces the demand for comprehensive planning: “Because people are concerned about the future, and working remotely, more have been willing to engage in comprehensive planning.” In recognition of the likelihood of some clients losing their jobs, one participant said, “We are having to do more contingency planning for the event of someone losing a job due to the crisis.” Creatively, one financial planner linked the need for services expressed above to the following bullish statement on the profession itself: “Financial planning as a business might be consumer defensive as a profession, which is good to know.”

The compensating impact of the planning process itself was reflected in several other statements, bringing focus to the notion that life is more important than money. Consider the following statement:

“The pandemic has caused clients to really rein in spending and get pretty clear on what’s important to them. Travel consumption is way down, but there seems to be a strong focus on what will really make them happy. In a lot of ways, it’s interactions with family and friends, however they are able to manage that.”

The potential financial planning silver lining to the pandemic appears to be further reflected in this statement:

“In many ways, it’s a positive experience. People are more cognizant of health and hygiene. Families spend more time together. There seems to be a greater awareness and need to be prepared for uncertainty and therefore a need for help in planning.”

Additional items of interest reported in the catchall question included a single reference to environmental, social, and governance (ESG) investing. Consider this insight: “There is more interest in social issues and investing in companies who care more about society than corporate profits.” A perceived difference in acceptance and adoption of virtual meetings was also noted based on the type of planning being conducted. One participant noted that “my financial planning clients have given me positive feedback about videoconferencing our sessions. The investments clients, not as much.” Similarly, a split in employee response to the transition to virtual meetings was noted. This statement was representative of many responses:

“Older employees are much less likely to go back to the office, it will be younger cohorts who return. Conversely, older clients prefer to meet in person, and oddly enough, take some risk to do so. Younger clients already were comfortable meeting online. We were already meeting with clients who are geographically close, but because of traffic, family and work, wanted to meet online. COVID will accelerate these changes and they will become more permanent.”

5 | PRACTICE RECOMMENDATIONS AND CONCLUSIONS

There are several themes that emerged from the responses of the financial planners regarding practice and client concerns. However, the acceleration of the adoption of technology in client communication was the
single dominant theme. Most planners reporting have been practicing virtual financial planning as a result of the pandemic, and many have permanently shifted much of their practice to online delivery. The new normal of a shorter, perhaps more efficient, web-based meeting with a shared screen showing portfolio or financial planning software illustrations is all but certain to remain a part of practice until it is replaced by new and better technology. Permanent technology adoption was not universal and some planners expect to return to in-person meetings when it is safe. In some cases, it was the perceived willingness of clients, and effectiveness of virtual communication, that will push planners back to face-to-face engagements.

In a similar investigation with implications for the practice, Kiesnoski and Mercado (2020) shared observations from financial planners. For one firm, 90% of client contacts moved to GoToMeeting with the onset of the pandemic. Prior to March 2020, an estimated 10% of the firm’s 600 clients were contacted through a virtual meeting platform. While the prevalence of remote meetings is expected to remain high, firm leaders expect about a 50/50 split between virtual and face-to-face meetings after full implementation of a COVID-19 vaccine. Again, similar to the financial planners in the CFP Board-Iowa State University study, the nature of financial planning meetings has likely changed. Meetings are shorter, more focused, and more frequent. If the benefits for both financial planners and clients of a virtual-based communication strategy can be found and highlighted, then the practice of financial planning is likely changed forever. The success with which firms find these benefits will likely be the determining factor in returning to “normal” or moving to the “new-normal.”

Regarding their clients, financial planners in this study consistently shared that clients have been significantly stressed throughout the period defined by the pandemic. While health concerns appear to be the major cause of the stress for some families, concerns over the economy and political division have compounded stress levels, likely impacting client ability to engage productively in financial decisions. Some planners noted the need to serve more as counselor than planner, helping clients focus on what matters more than money. Revisiting basic financial goals after job loss or dedication to spending more time with family and friends, was noted by some planners as a positive outcome of a stressful period. In helping families revisit their foundational financial goals, planners are challenged to recommit to the comprehensive nature of the behavioral and human based practice of financial planning. Through their comments, it appears as if financial planners are ready and willing to continue investing in and using their skills as expert communicators, counselors, and life coaches.

Benz (2020) outlined the practical financial planning implications of COVID-19 for clients. Not surprisingly, her recommendations were founded on the importance of an emergency fund and liquid asset holdings to move through the crisis. Creative solutions such as using Health Savings Accounts to simultaneously save for an emergency and take advantage of tax deferral were discussed. Benz also shared strategies for transitioning to an earlier than expected retirement and dealing with low yields in traditional lending investments held by retirees. In considering these more traditional responses to the shock of COVID-19, financial planners can and will be asked to go farther.

Financial planners can expect to take on an integrated counselor and planner role—perhaps moving away from a purely technical or transactional focus. In the role of a counselor, financial planners will likely be tasked with asking clients to stretch to implement secondary or alternate plans. This is where a financial planner asks their client to move from the transitory to the permanent impact of the COVID-19 shock. A career change or early retirement is such an example of not simply hoping that existing liquid resources are adequate to get past the crisis, but actually changing the fundamentals of the plan itself. Some of these ever-lasting changes may be reimagining fixed expenses as variable expenses, changing education goals for children, or adjusting expectations for a future level of living. As a final way of thinking about permanent and transitory shocks in financial planning, the transitory nature of shocks can be handled within the plan, encouraging clients that this is a series of changes that we will get them through the crisis. A permanent shock is one that literally changes the financial goals for the client, resulting in a whole new plan.

As noted at the outset of this article, financial planners continue to be tasked with the opportunity and responsibility to support their clients in the face of environmental threats. The COVID-19 pandemic has fully tested this task orientation and the ability of financial planners to rise to the challenge of a global health and financial shock. Whether the world’s economies will ever return to normal, or if there will be a permanent adjustment to a new normal, is something to be determined over the course of the next few years. What is known for certain is that the COVID-19 pandemic has introduced a new type of “destabilizing financial shock” into the lexicon of financial planning. With certainty we can say that no practicing financial planner will ever forget the period of practice defined by the pandemic. Stress at the macro, micro, and human level is something that financial planners will need to deal with in their ongoing work with clients, as they too will never forget COVID-19. The
aftermath of the pandemic may mean that financial planners will be called upon to not only provide financial advice and counsel through the pandemic period, but also engage when clients face challenges and opportunities that hearken back to individual, family, and household stressors connected to such a remarkable period in history.

**ORCID**

Jonathan Fox [https://orcid.org/0000-0002-9267-8016](https://orcid.org/0000-0002-9267-8016)

Suzanne Bartholomae [https://orcid.org/0000-0001-5779-6239](https://orcid.org/0000-0001-5779-6239)

**ENDNOTE**

1 The findings from this convenience sample should be interpreted with caution as the investigation was essentially a pulse survey of a limited number of financial planners.

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