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## WEALTH MANAGEMENT

# How Zero-Based Budgeting Can Help Clients

Process is useful for those undergoing a major life transition where spending plans will require change

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*Brian Merrill is partner at Tanglewood Total Wealth Management in Houston. Voices is an occasional feature of edited excerpts in which wealth managers address issues of interest to the advisory community. As told to Alex Coppola.*



Mr. Merrill on zero-based budgeting ... the process can be far more effective than trimming items piecemeal from a budget that clearly isn't working **PHOTO: TANGLEWOOD TOTAL WEALTH MANAGEMENT**

For decades, businesses have used zero-based budgeting as a tool for managing and reducing organizational costs. Unlike a traditional budgeting strategy that uses past expenditures to project future needs, the concept is to build a budget—as the name suggests—from zero. In doing so, it forces those involved to justify every dollar spent, reducing waste and ensuring that the money available is allocated appropriately. In that respect, ZBB is far more than a cost-cutting tool; it's a means of adjusting the way people think about spending and saving toward needs and goals.

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For that reason, it can also be a useful strategy for wealth-management clients, particularly those undergoing a major life transition. The circumstances of clients who are starting a family, are newly retired, recently widowed or divorced change so dramatically that there isn't a lot of value, or sense, in trying to make changes to an existing budget.

For example, a couple expecting their first child tends to have different needs and goals than they did as newlyweds, including child care and education. Trying to find room for those new goals in a budget that's already tight can be chaotic and frustrating. In many cases it's easier to start from scratch. That process begins by asking the couple to articulate their intermediate and longer-term goals and determining what it will cost over time to reach them. That's where their money is allocated first.

Once those needs have been accounted for, we subject every expense of theirs that isn't related to those long-term goals to cost-benefit analysis. That work helps the clients answer questions about what they really want and need in their lives and frees up more money to put toward the things that matter to them most.

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Throughout that process it's important to remember that people are not businesses. Their end goal isn't simply to maximize profit, and therefore their decisions don't need to be based purely on making the budget as lean as possible. The goal, instead, should be

enabling them to pursue the lifestyle they enjoy. The process often provides clients with a sense of relief and empowerment. They can feel good about spending money because it's being done thoughtfully and isn't jeopardizing their long-term needs.

While zero-based budgeting might be most beneficial to those in transition, because those clients have an expectation of major change, it can be used with clients of any age or life stage. For those having issues of overspending in retirement or not being able to save enough for their nest egg, the process can be far more effective than trimming items piecemeal from a budget that clearly isn't working.

Ultimately, the key to any client's success in this kind of budgeting is their commitment to and enthusiasm for setting and achieving their goals. It can be a time-consuming and challenging

process, but for those with the motivation to realize their long-term objectives, it's well worth the effort.

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