

Financial Planning For The Middle to Lower Income Earners

Background

I watched my parents struggle with finances. As an adult I realized they were learning as they went along.

In my late 20s I started to ask the question, “What do people who do well with money know that other people don’t?”

It’s not just one thing: Stocks, insurance, interest rates, buying a car, 529 college plans, UTMA accounts, CDs, bonds. So much more, not to mention income to expenses ratio.

If your public education was anything like mine, all you learned to do was how to write a check.

So I sought to learn more about it. One of my favorite books is “Your Money: The Missing Manual by J.D. Roth”

It’s not everything a person needs to know, but it helped me make decisions when I bought my first house, my last car, and determining how much life, health, and disability insurance I should have.

I’m not an expert and I am always learning more, but I’ve learned enough that friends and coworkers have said, “Hey, John knows some stuff about money, let’s ask him about this situation.”

This has brought me to realize that it’s not just me and there is a real lack of education about personal finance. Why is that?

Possibilities

- Social taboos of discussing money
- Insecurities about lack of knowledge
- Generational ignorance/failure to pass on knowledge to kids
- Complex rules, loopholes, and variety of personal situations
- Online articles serving as entertainment masquerading as guidance
- Resources not often available to low-income earners

Problem: Financial Planning is generally out of reach for middle and lower income earners

If you're looking for financial guidance, what you want is a **fiduciary**. A fiduciary has a legal obligation to give you financial advice that is in your best interest.

Examples of fiduciaries are Certified Financial Planners (CFP) and Investment Adviser Representatives (IAR). These are designations that require passing rigorous exams, after learning some really dense information. However, almost all CFPs or IARs will require a bare minimum of \$100,000 assets under management (AUM)¹. And often they require as much as \$250,000 or \$500,000. That's not most people.

Competitive Analysis

What services are available now outside of professional fiduciaries?

Mint

Budget tracking, goal setting, no help in decision making or educating

Investopedia

Lots of resources and articles, all text based. Videos would be a step up; people seem to want 1 on 1 help². Questionable courses starting at \$199.

The Financial Gym

\$75/month at the lowest tier. One-hour goal setting plus quarterly check in.

Online Investment Brokers

Often offer educational resources in a difficult to navigate and difficult to read catalog of information; They don't really care if you make money, so long as you keep making trades and/or deposits

¹ These limits are generally imposed by their firms. Independent advisers can set their own limit, but even on the low end they are charging \$100/hr. Recently I have learned about the Accredited Financial Counselor (AFC) designation, and many of these individuals seem to be more involved as money coaches and do a larger amount of pro bono work; more research needed around this point. AFC's are fiduciaries.

² Assumption based on anecdotal experience. Survey is pending.

HMW Statements

How might we deliver personalized and professional financial guidance at a price people can afford?

- Highly accredited professionals who are willing to donate their time to give back to the community.
- Volunteer efforts by CFP candidates who need to get 6000 hours of experience before sitting for the exam (and/or AFC candidates who need 1000 hours)
- Trained staff who maybe don't have the same in-depth education as a CFP or IAR, but can help with more basic needs
- AI as a stand alone or to augment previously mentioned options.
- Instead of 1 on 1 counseling, maybe workshops with 3-5 people/households to a counselor
- Deferred payments until after suggested changes have been effective for user

How might we offer improved learning experience for self-starters?

- Workshops covering a variety of topics
- Text-based articles augmented with video and worksheets
- Interactive calculators that show the benefits/costs of specific features (CDs, credit cards, auto loans, home loans)

How might we offer a return for stakeholders

- Tiered pricing for different levels and features of service
- Affiliate partner opportunities (discounts from grocers, cell providers, investment brokers). To maintain the integrity of the product, these must be things that are necessities and/or offer an overall cost-savings benefit to the user; not upselling.

What's an MVP look like?

Lots of fancy features are described as possibilities in the HMW statements above, but what is the absolute minimum that could be created, and is there any chance that I (or some group of people) could actually bootstrap it?

What's the need for a product like this?

20% of Americans don't save any part of their annual income. (BankRate)

39% of Americans would have a hard time covering an unexpected cash expense of just \$400. (Federal Reserve)

Only 24% of millennials show signs of at least basic financial literacy. 76% do not.
(National Endowment for Financial Education)

Millennials (b. 1981 - 1996) = 72.24 million people.

$72.24 \times 76\% =$ **54.9 million people**

Just One More Thing

In my dream scenario there would be a feature designed to help lift lower income earners out of poverty with gifts or grants from a non-profit foundation.

How might we fund a non-profit foundation designed to help those who can't budget out of their individual situation?

- Compulsory donations from affiliate partners
- Solicited donations from those who have benefitted discounted financial guidance
- Funnel a percentage of profits from the primary platform
- CTA to encourage donations from those who have benefited from free resources on the platform

How might we identify those who need help beyond what financial guidance can offer?

- Identify these individuals through initial counseling intake and budget exercises
- Determine where their greatest shortfall is, recommend a method or amount for the foundation to gift to the user

Personal Product Requirements

As this product would exist to fill the absence of fiduciary advisors for middle to low income earners, *it should maintain a fiduciary integrity*: Serving to act in the user's best interest. It should be profitable in order to support the designers, advisers, and support staff, while providing a return on investment to stakeholders. However, it should not be profitable to the detriment of its users.