1997

PFP practice handbook, 1997

American Institute of Certified Public Accountants. Personal Financial Planning Division

PFP PRACTICE HANDBOOK 1997

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Personal Financial Planning Division

PFP PRACTICE HANDBOOK

1997

NOTICE TO READERS

The nonauthoritative practice aids in the *Personal Financial Planning Practice Handbook* do not present positions but attempt to offer some alternatives that practitioners can choose from and then modify, if necessary, to meet their needs. They are intended as time saving illustrations and tools. They are not intended to establish standards or preferred practices.

This Handbook has not been approved, disapproved or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants and has no official or authoritative status. Authoritative technical literature should be consulted in carrying out all engagements, including personal financial planning engagements.

The AICPA PFP Member Services Subcommittee is responsible for developing and revising this Handbook. Current members of the subcommittee are listed below.

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Personal Financial Planning Division

PFP PRACTICE HANDBOOK 1997

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PREFACE

The AICPA has prepared the *Personal Financial Planning Practice Handbook*, containing nonauthoritative practice aids to assist certified public accountants in the efficient and competent delivery of personal financial planning services to their clients.

The practice aids are intended for practitioners who are developing comprehensive personal financial plans as well as those performing segmented planning and consultation engagements.

The Handbook is published annually because we intend to expand and modify it to include—

- Additional or revised practice aids.
- Suggestions received from practitioners.
- The effects of new laws and pronouncements.

Your comments and suggestions are appreciated and should be addressed as follows:

AICPA
Personal Financial Planning
1211 Avenue of the Americas
New York, NY 10036-8775

NOTE: DISKETTES ENCLOSED

The diskettes included with the *Personal Financial Planning Practice Handbook* contain WordPerfect versions of the PFP Work Program (Appendix B), data gathering forms (Appendix C), a speech, "Taking Responsibility for Your Financial Future" (Appendix J), and many of the letters, forms and checklists included as exhibits in the Handbook. There is also a PowerPoint version of the slide presentation that accompanies the speech. For further information, please refer to "How to Use This Handbook."

HOW TO USE THIS HANDBOOK

General

The *Personal Financial Planning Practice Handbook* addresses a variety of issues encountered in the delivery of personal financial planning services. Each chapter features brief explanatory text supplemented by helpful action tips and practice aids. Action tips are designed to highlight a specific step you can implement in practice. The practice aids can help you streamline the delivery of your services.

The appendices contain more detailed explanations and examples of selected topics and feature a detailed work program and comprehensive data gathering forms. The work program and data gathering forms, along with many of the practice aids, are reproduced on the enclosed diskettes. You may customize these files as you see fit.

The Handbook also contains several samples of engagement and transmittal letters. These examples are intended for illustrative use only. Because documents such as these have legal significance, we recommend that you obtain legal advice in developing engagement letters for use in your practice.

Diskettes

The enclosed diskettes contain WordPerfect 5.1 versions of the PFP Work Program (Appendix B); data gathering forms (Appendix C); the speech, "Taking Responsibility for your Financial Future" (Appendix J); and many of the forms, letters, and checklists included as exhibits throughout the Handbook. An index of the items contained on the diskettes appears on the following pages.

The diskette files are in WordPerfect version 5.1 but can be used in any word processing software. You do not have to install any programs. To use the files, simply use the general file retrieve commands in your word processing software. The following instructions will enable you to retrieve the files in most software.

WordPerfect 5.0 or 5.1. Execute the List command (F5 key). Change the directory to the drive where the diskette is located. Strike Enter. Move the cursor to the desired file. Type 1 or strike Enter to retrieve the file.

WordPerfect 6.0 or higher. Execute the File Open command or icon. Highlight the appropriate file and click OK. WordPerfect will convert the file to your version as it retrieves it. You can then save the file in the version you currently use.

Microsoft Word. Execute the File Open command or icon. Identify the file as WordPerfect 5.1. Retrieve the appropriate file. Word will convert the file as it is retrieved. You can then save the file as a Word document.

☛ **Action Tip**

The documents on the enclosed diskettes have been formatted to make their retrieval and use as efficient as possible. However, when you retrieve the files, you may find the information needs to be realigned slightly, due to one of a variety of factors, including the version of the word processing software you are using, your printer configuration, or the margins you use. You can easily reformat the information using the basic editorial commands of your word processing software. This also gives you the opportunity to edit the visual presentation of the information.

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CHAPTER 1

THE PERSONAL FINANCIAL PLANNING PROCESS

THE PERSONAL FINANCIAL PLANNING PROCESS

1. INTRODUCTION

.01 This introductory portion of the *Personal Financial Planning Practice Handbook* is designed to—

- Define the personal financial planning (PFP) process.
- Identify the kinds of PFP services performed by CPA financial planners.
- Explain the role of CPAs in the PFP process.
- Identify and explain the objectives of each significant element of the PFP process.
- Provide a flexible framework designed to foster quality and consistency in the PFP services provided by CPAs.

This discussion is introductory in nature and is not intended to be a comprehensive discussion of all activities involved in delivering PFP services.

2. THE PERSONAL FINANCIAL PLANNING PROCESS

.01 PFP is the process of designing financial strategies and making planning decisions that, when implemented, are intended to help clients to achieve PFP goals. Through this process, you can help your clients maximize the utility of their financial resources.

.02 The PFP process helps your clients answer the following questions:

1. *Where am I?* The PFP process involves an assessment of your clients' current financial condition.
2. *Where do I want to go?* During the process, you and your clients identify and prioritize realistic, quantifiable financial goals.
3. *How do I get there?* Your recommended strategies, based on an analysis of relevant information, help your clients to make planning decisions to achieve their goals.

.03 You can assist your clients in this process by organizing data, performing analyses, assisting in goal setting, providing suggestions and recommendations, assisting in decision making, and coordinating the implementation of planning decisions. You may also help by monitoring the progress toward achieving the established financial goals and by modifying and updating previous recommendations.

.04 Because PFP is a process, you may be involved in all or only some activities. For instance, organizing data, performing analyses, providing suggestions or recommendations, and helping clients make decisions may constitute one engagement with a client, while coordinating the implementation of that same client's planning decisions may be addressed in a separate engagement.

Kinds of Services

.05 The many kinds of PFP services you may offer clients are generally characterized as comprehensive engagements, segmented engagements, and consultations. These services differ in both formality and comprehensiveness.

.06 Comprehensive Engagements. The client's overall financial situation, within the context of that client's goals, is addressed in a comprehensive engagement. These engagements involve the application of the PFP process to the following planning areas:

- Studying the client's financial position and cash flow
- Income tax planning
- Risk management and insurance planning
- Retirement planning
- Investment planning
- Estate planning

The process involves an analytical approach to these areas that recognizes their interrelationship. The PFP process entails integration—a recommended strategy in one planning area is likely to affect planning considerations in other areas. The process is *comprehensive* even though not every possible alternative is considered.

.07 Segmented Engagements. These engagements involve analyses and recommendations that address one or more of the specific planning concerns that are important to the client. A segmented engagement focuses on one or more, but not all, of the planning areas involved in a comprehensive engagement.

.08 You and your clients should reach a clear understanding of the scope of segmented engagements. You might include qualifications to your recommendations because the effects of and on certain planning areas were not considered. Your clients should also understand that, had other planning areas been considered, different recommendations or decisions may have resulted.

> ☛ **Action Tip**
>
> When delivering recommendations for a segmented engagement, remind clients that other planning areas may be affected by these recommendations and that you can help them develop financial strategies in those areas as well.

.09 Consultations. These services, while not considered a PFP engagement per se, are important opportunities to address clients' limited questions on financial issues. A consultation typically involves advice on a specific question, based on existing knowledge about the client's circumstances, the technical issues involved, the client's financial objectives, and other information received from the client. The advice may be communicated orally or in writing to the client.

> ☛ **Action Tip**
>
> To ensure profitability on consultation services, avoid making your efforts seem too easy and giving away answers for free. Clients typically perceive written advice as more valuable than oral advice, particularly if it is delivered over the telephone. Consider putting all advice in a letter or providing clients with copies of file memos documenting your advice.

.10 Many CPAs begin a PFP practice through consultations, which they often provide along with tax and other accounting services. From that point, segmented or comprehensive engagements may be undertaken that involve more formalized procedures for engagement planning, supervision, data gathering, delivering recommendations, and other aspects of the engagement. As your practice grows and develops, you will probably find that you provide a mix of consultation, segmented and comprehensive engagements, depending on your clients and their needs and resources.

3. YOUR ROLE IN THE PFP PROCESS

.01 The client's goals and the scope of the engagement determine your role in the PFP process. Effective PFP services should therefore be flexible, allowing you to vary the methods used and the sequence of the planning process. As part of the PFP process, you will undertake activities such as the following:

1. Defining engagement objectives
2. Planning the specific engagement procedures
3. Developing a basis for recommendations
4. Communicating recommendations to clients

.02 Other engagement opportunities include the following PFP services:

1. Implementing planning decisions
2. Monitoring progress in achieving goals
3. Updating recommendations and revising planning decisions

Defining Engagement Objectives

.03 Engagement objectives describe your preliminary understanding of the client's objectives in seeking PFP services and the general nature of the recommendations or advice expected.

.04 **Objective.** Defining engagement objectives enables you to —

- Determine whether the client can benefit from PFP services and what service is appropriate.
- Reach an understanding with the client concerning the engagement objectives, including any issues not originally considered by the client that should be addressed.
- Obtain a sufficient understanding of the client's goals and resources to determine the appropriate scope of services to meet the client's needs.

- Prioritize financial goals.
- Evaluate the appropriateness of the original objectives as the engagement proceeds.

.05 Explanation. Prescreening clients helps you determine whether a potential client has a planning need and sufficient resources to benefit from the PFP process. During this process, you also have the opportunity to educate your clients about the PFP process and arrive at some mutual understanding of many issues, such as the following:

1. The benefits that can be reasonably expected from the PFP process
2. The importance of the client's involvement and cooperation in providing necessary data in a timely manner
3. The responsibilities of all parties in the PFP process — you, your client, and other advisers
4. The PFP issues to be considered, their relative priorities, and the significant planning assumptions to be made
5. The nature and extent of the services to be performed
6. The fees for the services and your method of compensation

.06 The scope of your services will vary according to the needs and resources of your client. Segmented engagements may be limited to reviewing and analyzing one or more PFP areas, whereas comprehensive engagements involve analyses of all of the client's significant financial goals.

.07 Before you can define engagement objectives, you must gather information to help you understand the client's needs, expectations, and desires — including relevant information about family data, commitment to the planning process, the amount of current cash flow and assets available to implement PFP decisions, personal preferences, and relationships with other advisers.

.08 At this point, your inquiries and other information-gathering activities may be more limited than those undertaken when you develop your recommendations. The extent of your activities depends on a number of factors, including the anticipated scope of the engagement and your familiarity with the client's circumstances.

.09 As a result of this process, you can help your client establish realistic, quantifiable goals, enabling you to tailor your services to meet the client's specific needs. As you work through the PFP process, your client's goals and objectives will undoubtedly become clearer and more well defined. The engagement may need to be modified as this understanding grows. As you proceed, evaluate whether the engagement objectives, as originally determined, continue to be appropriate.

Planning the Specific Engagement Procedures

.10 The engagement objectives and your understanding of the client form the basis for engagement planning — identifying the procedures that are needed to develop PFP recommendations.

.11 Objective. Adequate planning of engagement procedures enables you to —

- Select procedures that provide a sufficient basis for your recommendations and help the client make planning decisions.

- Focus on analyses and procedures intended to provide useful information for the PFP process.

.12 Explanation. The following factors might affect your choice of engagement procedures: engagement size and complexity; the personnel available; time constraints; specialized expertise required; and the qualifications, experience, and training of personnel to be assigned. Your choice of procedures often reflects materiality and cost/benefit considerations.

.13 In planning the engagement, you may coordinate with other advisers (attorneys, insurance brokers, investment advisers) who may be necessary for the engagement.

Developing a Basis for Recommendations

.14 Analyses of alternative strategies or data for achieving the client's goals are necessary to develop and support the recommendations and to assist the client in making each of the planning decisions.

.15 Objective. During this segment of the PFP process you should seek to—

- Identify and gather sufficient relevant information to perform appropriate analyses.
- Analyze the relevant data and your client's current situation.
- Develop recommendations, supported by your analyses, that assist your client in making planning decisions.

.16 Explanation. PFP engagements involve collecting, analyzing, and integrating sufficient relevant information to develop a basis for your recommendations.

.17 Your professional judgment determines what information is relevant to an engagement, but you should generally collect quantitative and qualitative information sufficient to develop an understanding of the following:

- The client's goals, existing financial situation, and available resources
- Nonfinancial factors such as client attitudes, risk tolerance, investment preferences, spending habits, family considerations, age, health and life expectancy
- External factors such as estimates of inflation, taxes, economic conditions, legislative activity, investment markets, and interest rates
- Reasonable estimates, projections, and assumptions.

.18 Information is relevant if it is necessary to make decisions regarding the client's financial goals. The nature and volume of relevant information will depend upon the scope and complexity of the engagement and your professional judgment. Your knowledge can be obtained through a long-term relationship with the client, through information gathering, or both.

.19 Because PFP addresses the future, you will often use estimates and assumptions in your analyses. Estimates and assumptions may be furnished by the client, provided by the client's advisers, or developed by you. It is important that the estimates and assumptions you use are valid, are appropriate for your analysis, and are consistent with each other.

.20 *Estimates* are approximate values that result from projections or other analyses. Estimates substitute for precise values where precision would not add material value to the planning process. The level of precision needed in an estimate depends on factors such as the priority of a goal to which the analysis relates, the time frame in which the goal is to be achieved, or the sensitivity of the analysis to other variables. Estimates can help provide an economically useful service within a reasonable time at a reasonable cost.

.21 *Assumptions* represent conditions or events that are expected to exist and a course of action the responsible party expects to take. *Hypothetical assumptions* are used in financial projections to present conditions or courses of action that are not necessarily expected to occur but that are consistent with the purpose of the projection. Hypothetical assumptions are generally useful when considering various alternatives for which expected courses of action are not completely defined. Assumptions and hypothetical assumptions have the same meaning as in the AICPA's *Guide for Prospective Financial Information.*

.22 Estimates and assumptions that you might use include:

- Tax rates
- Inflation rates
- Life expectancy
- Retirement age
- Living expenses
- Rates of return

.23 Analyses frequently center around projections, often for multiple years, of cash flow and net worth and may include the following:

- Defining financial goals in measurable terms
- Comparing the financial effects of different strategies
- Projecting income and estate tax liabilities
- Evaluating the present investment portfolio in terms of diversification, liquidity, risk, and yield
- Evaluating casualty or disability insurance coverage requirements
- Projecting liquidity requirements
- Projecting income requirements during retirement
- Projecting education costs
- Calculating the current and projected financial positions
- Projecting life insurance coverage requirements based on current expenditure patterns and financial needs

.24 The analyses and other procedures you choose to perform depend on the client's objectives and the scope of your engagement. The analyses should generate the recommendations and advice appropriate to your client's needs, support the suitability of your recommendations, and establish adequate documentation of the process used to develop the recommendations.

.25 Because of the integrated nature of PFP, your analyses and recommendations in one planning area can influence or be influenced by other areas of your client's financial environment. For example, in analyzing the amount of life insurance needed to fund a potential estate tax liability, you might also consider what effect the premature death of a parent could have on the ability to fund the children's education.

.26 A number of software programs are available to help you perform your analyses. The "Resources" section of this Handbook includes a partial listing of commercially available software. Software should not substitute for your understanding of the analysis performed. It is important to understand the nature and limitations of the computer applications used in order to ascertain the accuracy and integrity of the analysis.

.27 In the course of your analyses, you may determine that your client's goals cannot be achieved. This may lead to a reassessment of the goals or the assumptions and estimates used in your analyses.

.28 The final step in developing recommendations is formulating, evaluating, and presenting appropriate strategies and courses of action for achieving your client's goals. Your recommendations should flow from analyses of relevant information and should be consistent with the client's goals.

Communicating Recommendations to Clients

.29 The end result of the PFP process is client action toward achievement of goals. To facilitate this action, a written record of your advice and recommendations helps your client make planning decisions.

.30 **Objective.** Your activities in this segment of the PFP process enable you to:

- Communicate recommendations and advice to the client in a way that clarifies both the anticipated effect and the limitations of the recommendations and advice.
- Present alternative strategies to enable the client to evaluate the recommendations in light of their situation and goals.
- Develop an action plan that includes the essential tasks, the targeted completion dates, and the parties responsible for completing them.

.31 **Explanation.** To assist your client in making planning decisions, you should communicate significant information pertinent to your recommendations, including any qualifications or limitations on your recommendations and references to other information that was considered. For example, you may include information about cash flow analyses that influenced your recommendations about saving for retirement.

.32 Your recommendations may be communicated orally or in writing; however, it is generally a good idea to document all substantive communication. Likewise, it is usually advisable to follow up oral advice with a written communication.

.33 A written report may include a summary of the client's goals, a description of the work performed and the scope of the engagement, qualifications on the recommendations, clarification of the responsibility you are taking for your recommendations or advice, and a summary of actions suggested to implement planning decisions.

.34 Qualifications are often expressed in precautionary statements, such as the following:

- "The income and estate tax planning recommendations are based on tax laws and regulations that are subject to change."
- "The advice contained in this report is based on your present financial condition, and the appropriateness of that advice may change as your personal and financial circumstances change or as the economic environment changes."

.35 Once you have communicated your recommendations, and your client has made the appropriate planning decisions, it is time to put the financial plan into action. To facilitate this process, you can identify the tasks that are essential in order to act on planning decisions.

.36 Often, the presentation of a recommended action plan to the client concludes the initial engagement and its fee arrangement. You might then establish a further agreement to undertake implementation tasks or to monitor or update the financial plan.

.37 The AICPA has issued a publication, *Guide to Communicating the Results of Personal Financial Planning Engagements*, that more fully explains the considerations in delivering written communications to clients. See the “Resources” section for additional product information.

4. OTHER ENGAGEMENT OPPORTUNITIES

Ongoing Services

.01 A successful PFP engagement often results in ongoing services for your clients, perhaps involving other financial services in addition to PFP. Examples of such ongoing services include: updating financial statements, updating capital sufficiency analyses, preparing income tax projections, calculating estimated tax payments, reviewing existing insurance coverage, assessing changes in company benefits, and assessing estate planning needs resulting from changes in intentions, family circumstances, civil laws, tax laws, or level of wealth or income.

.02 Other PFP engagements typically involve follow-up or revisions to one or more planning decisions. These include the following:

- Assisting clients take action on planning decisions
- Monitoring the client's progress in achieving goals
- Updating recommendations and helping the client revise planning decisions

.03 Implementing, monitoring, and updating services are considered separate engagements rather than part of the initial PFP engagement. You are not responsible for this work unless you undertake it by specific agreement with your client. If you undertake these additional services, another engagement letter may be appropriate to document your understanding with the client.

Implementing Financial Planning Decisions

.04 Implementation involves assisting your client to take action on planning decisions developed during the initial PFP engagement.

.05 Objective. In implementation, you make recommendations or take other steps to ensure that your client follows through on planning decisions.

.06 Explanation. You may be engaged to help your client implement planning decisions. This may be agreed upon as part of an initial PFP engagement or it may be an additional engagement. Your agreement with the client should be documented in an engagement letter.

.07 Implementation includes activities such as selecting investment advisers, restructuring debt, creating estate documents, establishing cash reserves, preparing budgets, and selecting and acquiring specific investments and insurance products.

.08 Your role in implementation will vary depending on the engagement. Depending on your experience and interest, you may—

- Monitor the completion of all steps in the action plan.
- Function as a team leader and coordinate the implementation process.
- Perform some or all of the tasks included in the action plan, such as preparing tax returns.

.09 This part of the process frequently involves other advisers. When other advisers are involved, you may—

- Recommend the use of other specific advisers
- Help a client identify and select competent advisers
- Cooperate with and provide information to other advisers
- Coordinate other advisers' participation in this process

.10 In some situations, you may be engaged to implement planning recommendations you did not develop. Implementation is complete once your client has acquired all products and secured all services identified in the action list.

Monitoring Progress in Achieving Goals

.11 In a monitoring engagement, you undertake procedures designed to determine your client's progress in achieving established PFP goals.

.12 Objective. Your activities in monitoring should enable you to:

- Determine whether action steps have been completed
- Ascertain that progress toward achieving goals is acceptable
- Verify that PFP recommendations are still appropriate

.13 **Explanation.** You may be engaged to perform certain monitoring services, either in conjunction with the initial PFP engagement or as a separate engagement after planning decisions have been implemented. You may be engaged to review the client's progress or to determine if the recommendations are still appropriate to enable the client to meet his or her goals. You may even be engaged to monitor financial planning recommendations developed by other advisers.

.14 The determination of whether recommendations are still appropriate is based on developments in the following:

- Client circumstances, such as marital status, number of children, employment, and financial resources
- External factors, such as tax rates and laws, interest rates, and market conditions

.15 You and your client may agree that you are expected to communicate with the client when subsequent developments affect your advice and recommendations. This agreement should be considered part of your engagement understanding and documented in an engagement letter.

.16 The monitoring process may identify the need for revisions to existing planning decisions and for new or changed financial planning issues to be addressed.

Updating Recommendations

.17 In an updating engagement you help your client revise an existing financial plan and financial planning recommendations, as appropriate, in light of the client's goals, current circumstances, and current external factors. Updating generally occurs as a result of a monitoring engagement, but may also occur as a result of changed goals or circumstances or a lapse of time, independent of a monitoring engagement.

.18 **Objective.** Your activities in updating should enable you to identify planning decisions that should be revised and develop revised recommendations as appropriate.

.19 **Explanation.** You may be engaged to update planning decisions, either in conjunction with another PFP engagement or as a separate engagement. Your role may include helping your client to revise planning decisions developed by another adviser.

.20 During an update, the planning strategies may be modified. Updates may be scheduled with the client on a regular basis, depending on needs. Some areas are particularly critical for certain clients and may require frequent updates.

.21 Updating involves a review of existing planning decisions and the development of new recommendations as needed. You are, in effect, undertaking the PFP process to develop your updated recommendations. This generally involves the same activities involved in the complete PFP process, described above.

5. DOCUMENTATION

.01 Documentation is critical in every phase of the planning process to demonstrate how the engagement was performed and how you arrived at your recommendations and advice. AICPA's *Code of Professional Conduct,* rule 201 (AICPA, *Professional Standards*, vol. 2, sec. ET 201) indicates that members should have a reasonable basis for conclusions or recommendations in relation to professional services.

.02 Objective. Documentation enables you to:

- Demonstrate a systematic approach to the engagement
- Provide a record of your understanding of the client and the engagement
- Demonstrate due professional care
- Support your conclusions
- Provide a source for future reference

.03 Explanation. There should be documentation of the engagement objectives, your understanding of the client, and your analysis and recommendations. You may also wish to develop standardized client communications that can be tailored to report your advice and recommendations for each engagement.

.04 How you document this understanding is a matter of professional judgment, and might be in the form of engagement letters or file memos that document oral understandings. Although there is no standard format for engagement letters, they generally contain a description of the following:

- Engagement objectives
- The level of services to be provided
- The roles and responsibilities of you, your client, and other advisers
- Fee arrangements
- Any limitations or constraints on the work to be performed
- The term of your services (ongoing or for a limited term)

.05 Work papers may be used to document your analyses of financial information such as earned income and expenses, net worth, tax position, and financial requirements and sources of income during retirement. These work papers may also document your basis for recommendations.

.06 File memos can be used to document the engagement objectives and your understanding of the client and to summarize significant client discussions and meetings regarding substantive issues, development of estimates and assumptions and, in particular, differing views on planning decisions and on the implementation of decisions.

.07 The documentation of recommendations, advice, and planning decisions may include a written communication that relates the analysis performed to the conclusions reached.

.08 Documentation may be accomplished with some or all of the following tools:

- A signed engagement letter or a file memo that sets forth your oral understanding with the client
- A completed data-gathering questionnaire
- A completed checklist or work program identifying the procedures performed
- A description of the client's goals
- Evidence of a review of client documents
- Copies of significant client documents, such as wills and employee benefit statements

6. CONCLUSION

.01 Understanding the mechanics and the benefits of the PFP process is the first step in profitably delivering PFP services to your clients. The rest of this handbook builds on this foundation and provides information to help you establish a PFP practice, market and sell your services, and manage the delivery of your practice to ensure profitability and compliance with applicable laws and professional standards.

EXHIBIT 1-1

FLOWCHART: THE PFP PROCESS

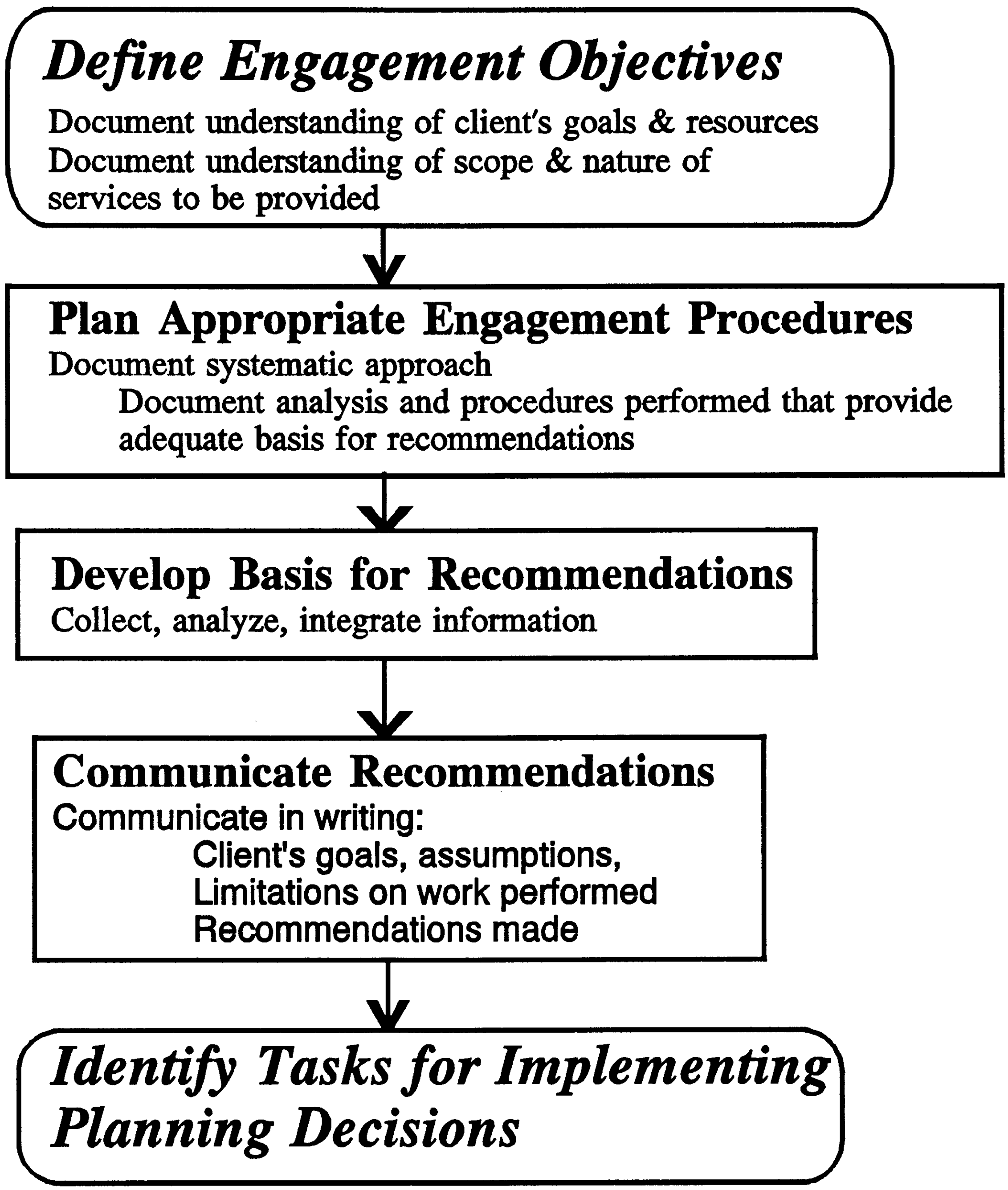
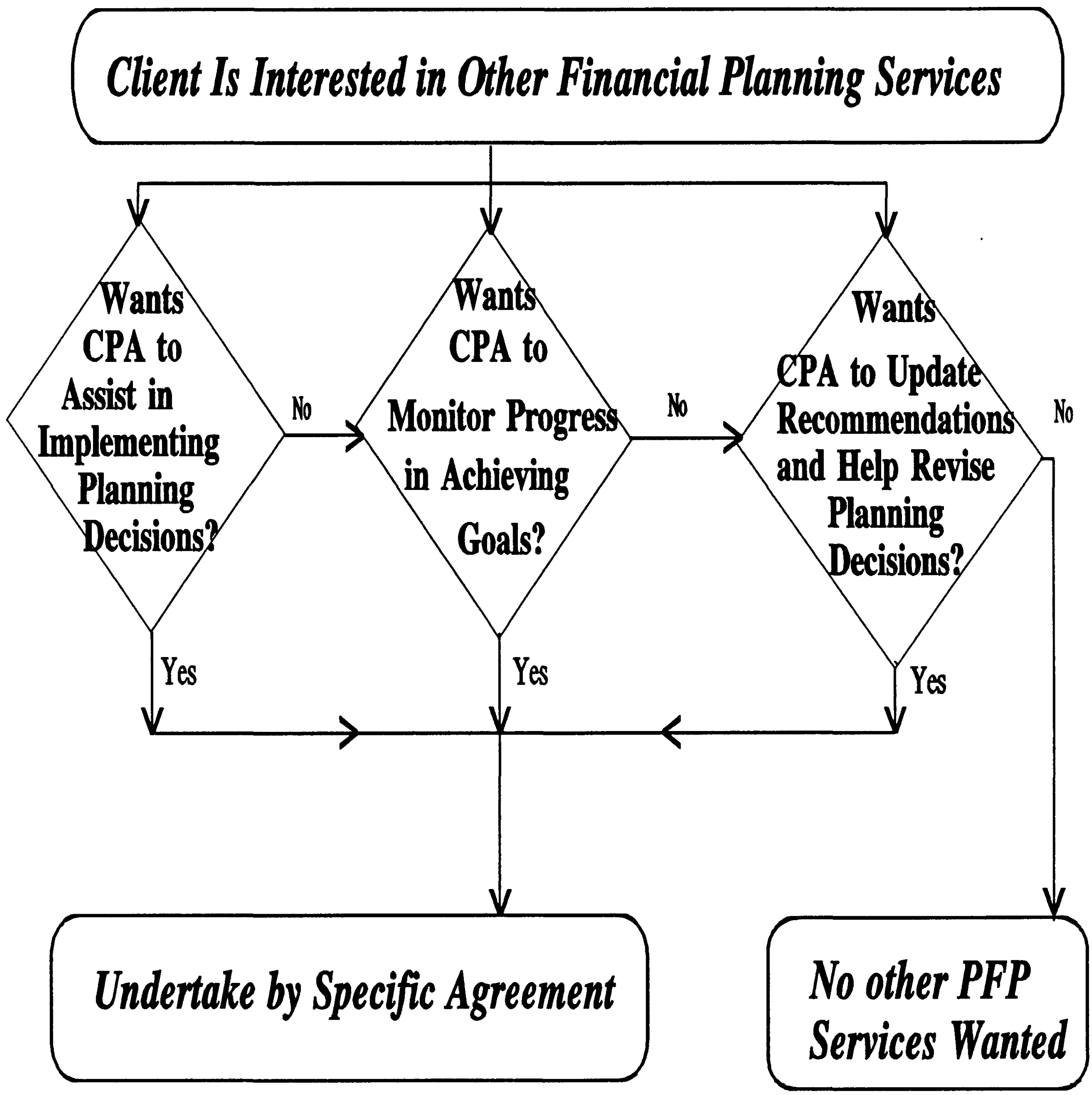


EXHIBIT 1-2

FLOWCHART: ADDITIONAL PFP SERVICES



CHAPTER 2

ESTABLISHING A PFP PRACTICE

ESTABLISHING A PFP PRACTICE

1. INTRODUCTION

.01 The materials presented here offer ideas and strategies for developing and operating a profitable personal financial planning (PFP) practice. Whether you are just starting to offer PFP services or have been practicing in this field for years, you will undoubtedly find some information relevant to your practice.

2. CPAs AND PFP — A NATURAL FIT

.01 PFP, which addresses a client's overall financial future, is a logical extension of tax and accounting services. The decision to provide PFP as a separate service may result from a number of forces, such as: client requests; personal enthusiasm; new client development; or the wish to avoid losing clients to others in the financial services industry who offer PFP services.

.02 CPAs are well suited to provide advice on PFP matters for the following reasons:

- *Readily transferrable skills.* Accounting skills, such as data gathering, analyzing quantitative information, and advising clients, are essential in a PFP engagement.
- *Established client base.* Established client relationships provide a ready market for PFP services. CPAs already assist clients with a variety of wealth management issues. Clients are comfortable discussing financial issues with their CPA.
- *Financial background.* CPAs generally possess an established financial knowledge base on which a PFP practice can be built.
- *Public perception.* Surveys regarding consumer trust rate CPAs at the top of the list. This is due, at least in part, to professionally dictated integrity, competence, and objectivity.

3. BENEFITS OF PROVIDING PFP SERVICES

.01 Adding PFP services can broaden the scope of your practice and make it more interesting; offer new opportunities for generating revenue and activity during otherwise slow periods; and provide the personal satisfaction derived from helping individuals set and reach their important financial goals.

Client Service

.02 Clients have questions about their financial future — when to start saving for their children's education; how to reduce their income tax burden; how to maximize their retirement nest egg; whether they are sufficiently insured. You can respond either as a professional providing a technical answer or as an adviser on financial decisions and strategies. The broader PFP orientation provides a valuable service to clients; it helps them establish direction, become more organized, and gain a sense of control over their financial future.

Client Loyalty

.03 Because PFP helps them in achieving and maintaining financial "peace of mind," clients generally place a high value on these services and perceive the work as important. Many clients are overwhelmed by the simplest financial matters and are looking for someone to walk them through the resolution of important personal issues—whether it's buying a house, funding college education, or going through a divorce. Offering these services can enhance client loyalty and protect against the loss of clients to others in the financial services field.

Profitability

.04 PFP can provide an additional source of revenue. The increased revenue often bolsters profitability because it is generally more efficient to sell additional services to existing clients than it is to attract new clients.

Workload Management

.05 PFP services are generally not subject to the time constraints and deadlines inherent in compliance work. With proper management of client expectations, a PFP practice can help stabilize your workload.

Personal Development

.06 Many individuals are interested in the various disciplines in PFP, either as a way to expand their technical competence or to help with their own financial situation. Knowledge in the areas of cash flow analysis, retirement planning, risk management, investments, and estate planning are valuable to their general education as CPAs.

Staff Utilization

.07 PFP work can be delegated to experienced staff members, for review by a PFP specialist. Under this arrangement, staff stay involved in the PFP process for the same clients that they assist with accounting and tax matters. Their enhanced knowledge of the client and the PFP process can reinforce their job satisfaction and their value to your clients and your practice.

Referral Development

.08 A PFP practice broadens the number of professionals you regularly work with. This larger circle of professional contacts — insurance brokers, investment advisers, attorneys, appraisers — enhances your potential for referrals.

4. OVERCOMING HURDLES

.01 PFP embraces a different philosophy from more traditional CPA services. To be successful — to help your clients establish and work toward realistic goals and to do so profitably — you must possess or develop the mind-set for looking at client situations and seeing an individual with wealth to manage. To begin, assess your attitudes in the following areas.

People Orientation

.02 You must be comfortable working with people and discussing with them the details of their finances, their goals and dreams, their ability to tolerate risk, and other issues of a personal nature that come up during the course of an engagement. You must have well-developed listening skills and be able to evoke the trust of your clients and potential clients.

Future Focus

.03 Your focus in a PFP engagement is different from that in compliance engagements. PFP addresses the present and the future. Since you are addressing the future and all its uncertainties, there is no prescribed "right" answer for many of your recommendations.

Marketing

.04 A successful PFP practice needs a marketing plan; furthermore, this plan must be implemented. You have to be willing to tell people what you do and what benefits there are to PFP.

New Horizons

.05 Your clients need advice on a wide range of financial issues. You must be willing to work with them on investment planning and risk management issues.

.06 The checklist in exhibit 2-1 can help you assess whether PFP services are right for you and your firm. Once you are comfortable with the "PFP mind-set" — the willingness to work with people on forward-looking strategies designed to achieve personal and financial goals; to advise your clients on a wide array of financial issues; and to market and sell your services — you are personally positioned to offer PFP services. The remainder of this section of the Handbook addresses the many considerations in getting started.

5. STRATEGIC PLANNING

.01 Before committing to the delivery of PFP services, you have to determine whether the idea makes sense for you and your firm. Consider issues such as the following:

- Is there support to launch a firm-wide expansion of PFP services? If you are a sole practitioner, do you have the patience to establish this practice?
- Does your practice have or can you secure staff that is qualified and committed to providing PFP services? Consider both technical and interpersonal skills.
- Does a market for PFP services exist within your client base?
- What is the potential for new clients for PFP services?
- What additional costs will you face? Consider items such as marketing and promotion, additional insurance, continuing education, library and reference materials, software, the services you plan to offer, and your organizational structure.
- What is your realistic potential for success?

.02 As with any business decision, an analysis must be made of the expected costs and benefits of delivering PFP services. In addition, you must consider nonfinancial factors, including the opportunities and challenges you face in your market. It is a good idea to prepare a business plan, just as you would for a client exploring a new venture or the expansion of an existing one.

.03 A business plan for PFP services should be carefully thought out and flexible, and it should establish realistic, measurable goals. Your business plan might include some or all of the following components:

- Mission statement
- Practice methodology
- Types of services to be offered
- Coordination/correlation with other services
- Marketing strategies, including a discussion of the targeted niches and an analysis of the competition
- Documentation procedures
- Billing practices
- Staffing
- Training and professional development
- Professional liability insurance
- Federal and state regulation (registration related to investment and insurance advice)

.04 A detailed example of a business plan for PFP services is included in appendix A, "Business Plan for PFP Services." The "Resources" section of the Handbook identifies other sources of information on strategic and business planning.

.05 Exhibit 2-2 contains a brief checklist summarizing the major considerations in strategic planning. The checklist can be used in your decision-making process.

6. THE RIGHT TOOLS—WHAT DOES IT TAKE TO SUCCEED?

Organization

.01 The delivery of PFP services can be organized in a number of ways—as an auxiliary function of an existing tax practice; as a formal, freestanding service department; or even as a completely separate entity. Factors such as the size of your practice, the kind of PFP services you offer, your experience level, and liability issues significantly affect the decision. For example, a PFP practice focusing exclusively on comprehensive engagements might call for a formal PFP department or group; this provides more opportunity for the effective use of staff, computer-assisted analysis, and formal reporting of the analysis, recommendations, and advice.

.02 In organizing your practice, it is important to assess the specific capabilities of those involved. This assessment is essential to organizational planning, service delivery, and staff training. For example, a start-up practice may not have an individual with the necessary skill and experience in all planning areas (typically, this is true for insurance and investment planning). Practices or engagements in this situation may choose a *team captain* approach with the team captain providing client motivation, direction, and support during the planning process. Ideas and implementation services may come from other professionals. Careful skill assessment is necessary to design, establish, and direct a successful PFP practice.

Commitment

.03 PFP is a very competitive field—a successful practice requires careful planning and a serious commitment of resources, energy, and talent. Part of the planning process includes selling yourself—and your partners and coworkers—on the concept of PFP services. Once that is done, you have to make additional commitments to incorporating the PFP process into your work with clients; to mastering the technical, marketing, and interpersonal skills necessary to provide PFP services; to developing and implementing a marketing plan.

Technical Competency

.04 PFP is a multi disciplined practice, challenging you to expand your base of technical knowledge beyond the traditional fields of accounting, auditing, and tax. Successful practice in this area also requires a working knowledge of such fields as risk management, investment planning, and estate planning. A concerted effort must be made to stay current in all of these areas by attending conferences, completing CPE courses, reading PFP periodicals, and networking with other committed professionals.

.05 The AICPA PFP Division publishes the multivolume *PFP Library*, with volumes on all PFP disciplines as well as specialized topics such as planning for closely held business owners and planning for divorce. A list of *PFP Library* publications is included in the "Resources" section of this Handbook.

.06 Formal training is available from a variety of sources. The AICPA and most state societies, as well as some colleges, universities, and specialized institutions, offer PFP courses and programs.

.07 The AICPA Professional Development Division has developed a Certificate of Educational Achievement program for presentation by state societies to their members. The program consists of five integrated courses that qualify for seventy-two CPE hours and provide the background and information to provide PFP services to clients. A Certificate of Educational Achievement is issued upon successful completion of the full program. More information is included in the "Resources" section of the Handbook.

Marketing Plan

.08 CPA financial planners compete daily with dedicated financial planning businesses, banks, brokerage houses, and insurance agencies, many of which provide their personnel with extensive sales training and organizational support. The importance of a well-developed comprehensive marketing plan, providing information about the benefits of PFP and your ability to deliver those benefits, is critical to your success. The marketing function is discussed in greater detail in the "Marketing and Selling PFP Services" chapter of this Handbook.

Communication and Interpersonal Skills

.09 There is a highly personal dimension to PFP. CPA financial planners must frequently explore the emotional aspects of the client's financial beliefs and goals. This directly contrasts traditional auditing and tax services that are driven by checklists and programs.

.10 Solid communication and interpersonal skills are essential to your success. You must be sensitive to what people tell you; this enables you to establish credibility with both clients and potential clients and develop good interpersonal relationships.

.11 The PFP process requires continued interaction to—

- Establish a working relationship.
- Identify financial planning needs.
- Obtain financial and personal information.
- Comprehend personal goals and objectives.
- Determine risk-tolerance attitudes.
- Deliver financial planning recommendations.
- Implement and periodically monitor and update the plan.

.12 Eye contact, handshakes, and even the physical distance from the client affects the client's impressions. Your vocabulary is also important; clients can quickly lose interest if you use too much technical jargon.

☛ **Action Tip**

The following suggestions may prove beneficial when interacting with clients and potential clients.

- Arrange a meeting location where you will have the client's undivided attention.
- Have all the decision-makers at the meeting—husband and wife, if possible.
- Be prepared. Plan an approach for the first meeting with a client. Determine how well informed the client is in financial matters and what motivates the client (reducing taxes, building wealth, safeguarding wealth, avoiding details, or providing for a family's financial needs).
- Observe and match your client's verbal and nonverbal style. Is the client brisk and businesslike or casual and friendly? Is he or she interested in details or only the overall picture? Try to identify the words and concepts to which the client responds positively and negatively.
- Engage in as much incidental conversation as the client seems to want.
- Avoid talking too much. A good communicator should steer the conversation by asking the right questions and then listening carefully to the answers without interrupting unnecessarily.
- Your choice of words should be client-centered—focus on *you*, *your family*, and *your business*, rather than *I* or *we*.
- Ascertain and address the client's concerns and expectations.
- Discuss those expectations so the client knows that the message has been heard.
- Only after you have established a mutual relationship, proceed by emphasizing the benefits of the PFP process and explaining what you can do for the client.

.13 You and any staff members working with clients should identify developmental needs in communication and interpersonal skills. Training is available from a number of sources, including the AICPA Professional Development Division. A list of training sources is included in the "Resources" section of this Handbook.

Engagement Management Tools

.14 Once your marketing efforts are successful, you must be prepared to efficiently deliver quality services for your clients. You can maximize your efficiency by establishing a system for gathering and analyzing data, communicating recommendations, documenting decisions, and other aspects of the PFP engagement. The tools (checklists, data gathering forms) should be adaptable to a wide variety of clients, yet flexible enough to account for the unique circumstances in each engagement. Tips and strategies for successful engagement management are discussed more fully in the "Managing for Profitability" chapter of this Handbook.

Staffing Considerations

.15 Competent professionals and support staff contribute to the successful delivery of PFP services. Careful selection and training of suitable personnel are essential.

.16 In selecting staff, look for professionals who either possess or have the potential to develop good communication and interpersonal skills. Such people are usually adept at public relations, which is important in attracting new business and retaining old business. Ideally, your staff should have analytical skills, as well as business experience and practical experience in financial matters.

.17 **Professional Staff.** In addition to being enthusiastic about the benefits of PFP services and willing to devote time to them, professionals working with PFP clients must be able to do the following:

- Market PFP services both within the firm and to existing and potential clients
- Relate to clients and understand their concerns and problems
- Anticipate clients' financial concerns and recommend creative solutions
- Stay current on a broad range of information
- Supervise staff in technical areas

.18 **Support Staff.** Depending on their qualifications, non-CPAs, such as administrative assistants or paraprofessionals, can perform many of the tasks involved in delivering PFP services, freeing you to focus on the PFP process and generate new business.

.19 Paraprofessionals—or paraplanners—can assist by monitoring data collection, following up with clients and other advisers, preparing working papers, providing client contact in your absence, and assisting in report preparation. Paraplanners should possess good problem-solving and other analytical abilities, listening and communication skills, initiative, and a client service orientation. They should also be familiar with the range of PFP services you offer, enabling them to identify opportunities for marketing and selling additional services.

.20 If your staff includes non-CPAs, a CPA should supervise their work to ensure compliance with the AICPA's professional, ethical, and reporting standards.

> ☛ **Action Tip**
>
> The use of a standardized, yet flexible work program can help you effectively utilize staff. You can then place greater reliance that the work is done in accordance with your standards and use the analyses performed as the basis on which client recommendations are made. This is discussed in greater detail in the "Managing for Profitability" chapter of this Handbook.

Regulatory Issues

.21 Many states have regulations for CPAs who hold themselves out to the public as personal financial planners. Check with the state boards of accountancy in the states where you practice to investigate the applicable state regulations.

.22 You should also be familiar with the provisions of the Investment Advisers Act of 1940 and its impact on CPA financial planners who give investment advice. These issues are addressed briefly in this Handbook in appendix F, "Investment Adviser Registration Issues," and more fully in the PFP Library volume *Guide to Registering as an Investment Adviser*.

Library

.23 A PFP practice requires adequate resources, including books, periodicals, and reference guides. A list of possible library resources is included in the "Resources" section of the Handbook. You can review this list to determine those items that are appropriate for your library.

Computer Software

.24 While analyzing your clients' information and developing your planning recommendations, you will typically perform many calculations under a variety of assumptions. The appropriate software can help you to efficiently undertake this analysis and assist in the development of your recommendations.

.25 **Software Decisions.** Software packages vary greatly in a number of attributes, including the calculations performed, "what if" capabilities, the information used and generated, graphics, report design, and flexibility of use. Your PFP software decision depends primarily on what you want the software to do. Some packages make calculations that function as workpaper support; others have automatic graphics and modifiable boilerplate reports. Sophisticated, comprehensive PFP software systems perform extensive calculations, allowing you to analyze the financial information to arrive at recommendations for the client. These programs save calculation time and greatly reduce the possibility of errors.

.26 Integrated programs eliminate the need to reenter the same data for different calculations. For example, an integrated program will use the data entered in the cash flow and balance-sheet sections not only to calculate projected cash flows and balance-sheet information, but also to calculate retirement funding, income tax projections, and other computations. Although integration can be time saving and efficient, it can also be expensive and inflexible.

.27 The software you select depends on the complexity, volume, and diversity of your engagements, and other considerations such as the following:

- Compatibility of the software with existing hardware
- Sophistication and flexibility of the program

- Cost to purchase, install, and maintain the software and to train the users
- The vendor's stability and enhancement program

A checklist of the major considerations in a software purchasing decision is included in exhibit 2-3.

.28 Sources. A list of some of the better-known PFP software packages is included in the "Resources" section of the Handbook. This information may provide a starting point for your software investigation. The vendors should be contacted directly for information about their products and to verify the details, such as cost, hardware needs, and support, which are subject to change. Many vendors will also provide a demonstration copy of their software.

> ☛ **Action Tip**
>
> Avoid using a software program as a substitute for your own expertise. Develop a personalized philosophy and approach to PFP first, then select software that supports your style. PFP software should be viewed as a tool to help you gain efficiency in your practice, not as the determinant of how you do your planning.

.29 Customized Technology. You may decide that none of the available software programs fit your needs. You can then develop your own templates and programs that perform specific calculations or generate reports.

.30 Partially Computerized Systems. Existing software, such as tax planning and word processing packages, can be used to automate segments of the PFP process. Some CPAs develop spreadsheets to perform calculations and analyses. Specialized features, such as an estate-planning package, can be added as needed.

.31 On-line Information Services (Databases). A number of vendors offer on-line information retrieval databases to assist with a variety of research projects (for example, Research Institute of America (RIA) and Commerce Clearing House (CCH)). Using an on-line database may expedite research of tax or economic issues pertinent to a PFP engagement.

7. GETTING STARTED

.01 Now that you've done your homework and decided that PFP is the right field for you, you're probably asking, "How do I get started?" Like any business undertaking, you need a plan. Several considerations in getting started are discussed in the article in exhibit 2-5.

☛ **Action Tip**

To gain experience and develop your expertise, try some of the following strategies:

- Prepare your own plan. This gives you experience with the mechanics of the process.
- Practice on nonclients such as relatives. The downside is you may find yourself working with people who are not very committed to the process.
- Work with another CPA. This would give you both experience as planners and of being in the role of the client. Being the patient has often helped doctors to develop sensitivity about how it feels to receive treatment.
- Consider preparing financial plans for your partners, but bear in mind that you work with these people on a daily basis. Take stock of the implications of the personal details that may come to light in the process; you and your partners may know how much each of you takes out of the firm but very little about how it is spent.
- An alternative to the preceding item is to simply teach your partners the PFP process and challenge them to develop their own plans. Coach them on the process without going into specific details.
- Expand advice you provide to existing clients. If you have an existing client base, you probably already advise your clients on a number of financial planning issues, on an informal basis. A PFP orientation enables you to view a client's situation from a slightly different perspective.

  For example, assume that a client purchasing a new residence requests advice about a fifteen- versus a thirty-year mortgage. From a tax perspective, the concern is primarily with the deductibility of the interest expense. You could also ask whether the larger loan payment over a shorter period of time would influence other uses of cash, such as retirement or education funding. This simple inquiry could expand your service into a PFP engagement.
- Review client tax returns for planning ideas. The article included in exhibit 2-5 discusses this process in greater detail.
- Offer your friends, relatives, and clients second opinions on plans prepared by others. Use this review to verify that the client understands the recommendations and to identify any additional recommendations or planning needs. Offering second opinions also gives you the opportunity to see how other planners present their plans, what information is included or excluded, and how well the recommendations are supported by the data in the plan. It also enables you to see different presentations and uses of text, charts, and graphs.

.02 There is no magic formula to developing a successful PFP practice; however, the following steps can help you establish yourself as a CPA offering PFP services.

1. Assess your technical competency and communication and interpersonal skills and develop needed skills.
2. Identify your target market and develop a marketing plan.
3. Develop an efficient system of practice management, including software, support staff, forms, and checklists (see the "Managing for Profitability" chapter of this Handbook).

4. Promote your practice. Let people know that you provide PFP services. If you have an existing client base, start there. Identify ways to offer your clients additional benefits through PFP services.
5. Do it. You need to get your feet wet. Start slowly, working in areas with which you are most comfortable. As you gain knowledge and experience, you can expand the scope of your services. The PFP Work Program, included in appendix B, "PFP Work Program," can help you identify the steps and procedures to be undertaken in each engagement.

8. CONCLUSION

.01 CPAs are uniquely qualified to bring together all the information and skills needed to develop a financial plan that addresses the complete range of their clients' financial needs. Your professional expertise, coupled with sensitivity to your clients' personal and financial concerns, creates an exciting business opportunity that can be personally rewarding both for you and your clients.

EXHIBIT 2-1

CHECKLIST: IS PFP RIGHT FOR YOU?

Although there is no quantitative way to determine how well PFP services will fit into your practice, this checklist can help you evaluate your strengths and weaknesses and identify developmental needs before you move forward with the delivery of PFP services.

Firm or Organizational Assessment

Characteristic	Low	High	Development Need
Commitment of time and resources	☐	☐	☐
Ability and willingness to wait for future financial rewards	☐	☐	☐
Personnel available to assist in PFP services	☐	☐	☐
Existing clients with PFP needs	☐	☐	☐
Existing referral network	☐	☐	☐

Self-Assessment: Personal Characteristics

Characteristic	Low	High	Development Need
Communication skills	☐	☐	☐
Listening skills	☐	☐	☐
Comfort in discussing personal issues with clients	☐	☐	☐
Marketing skills	☐	☐	☐
Willingness to sell professional services	☐	☐	☐
Selling skills	☐	☐	☐
Flexibility in addressing different client needs	☐	☐	☐
Comfort in making recommendations based on estimates, assumptions, and other uncertainties	☐	☐	☐

Self-Assessment: Technical Knowledge of PFP Areas:

Area of Knowledge	*Basic*	*Intermediate*	*High*	*Development Need*
Financial and Cash Management				
Financial statement analysis	☐	☐	☐	☐
Liquidity	☐	☐	☐	☐
Leverage	☐	☐	☐	☐
Net worth	☐	☐	☐	☐
Cash flow analysis	☐	☐	☐	☐
Budgeting	☐	☐	☐	☐
Debt management	☐	☐	☐	☐

Area of Knowledge	*Basic*	*Intermediate*	*High*	*Development Need*
Tax Planning Strategies				
Deferrals	☐	☐	☐	☐
Tax reduction	☐	☐	☐	☐
Income shifting	☐	☐	☐	☐
Charitable Giving				
General tax considerations	☐	☐	☐	☐
Planning techniques	☐	☐	☐	☐
Property selection	☐	☐	☐	☐
Use of trusts	☐	☐	☐	☐
Private foundations	☐	☐	☐	☐
Retirement Planning				
Defined-benefit plans	☐	☐	☐	☐
Defined-contribution plans	☐	☐	☐	☐
Other qualified plans	☐	☐	☐	☐
Nonqualified plans	☐	☐	☐	☐
Lifestyle considerations	☐	☐	☐	☐
Pre-retirement considerations	☐	☐	☐	☐
Taxation of distributions	☐	☐	☐	☐
Social security	☐	☐	☐	☐
Medicare	☐	☐	☐	☐
Medicaid	☐	☐	☐	☐
Estate Planning				
Will review	☐	☐	☐	☐
Estate liquidity analysis	☐	☐	☐	☐
Property ownership considerations	☐	☐	☐	☐
Probate and administration issues	☐	☐	☐	☐
Federal estate tax	☐	☐	☐	☐
State tax issues	☐	☐	☐	☐
Estate tax planning strategies	☐	☐	☐	☐
Inter vivos trusts	☐	☐	☐	☐
Testamentary trusts	☐	☐	☐	☐
Education Funding				
Needs analysis	☐	☐	☐	☐
Funding strategies	☐	☐	☐	☐
Alternative fund sources	☐	☐	☐	☐
Risk Management				
Needs analysis	☐	☐	☐	☐
Life insurance products	☐	☐	☐	☐
Insurance costs	☐	☐	☐	☐
Disability insurance	☐	☐	☐	☐
Health insurance	☐	☐	☐	☐
Property and casualty insurance	☐	☐	☐	☐
Long-term care insurance	☐	☐	☐	☐
Business insurance	☐	☐	☐	☐

Area of Knowledge	*Basic*	*Intermediate*	*High*	*Development Need*
Investment Planning				
Present-value calculations	☐	☐	☐	☐
Evaluating risk tolerance	☐	☐	☐	☐
Investment constraints	☐	☐	☐	☐
Determining investment risk	☐	☐	☐	☐
Analyzing risk and return	☐	☐	☐	☐
Asset allocation theory	☐	☐	☐	☐
Asset allocation strategies	☐	☐	☐	☐
Investment performance monitoring	☐	☐	☐	☐
Investment products:				
Corporate stock	☐	☐	☐	☐
Corporate bonds	☐	☐	☐	☐
Municipal bonds	☐	☐	☐	☐
U.S. Government obligations	☐	☐	☐	☐
Zero coupon bonds	☐	☐	☐	☐
Annuities	☐	☐	☐	☐
Mutual funds	☐	☐	☐	☐
Money market funds	☐	☐	☐	☐
Mortgage-backed securities	☐	☐	☐	☐
Derivatives	☐	☐	☐	☐
Puts, calls, straddles	☐	☐	☐	☐
Real estate	☐	☐	☐	☐
Oil and gas	☐	☐	☐	☐
Precious metals	☐	☐	☐	☐
Collectibles	☐	☐	☐	☐
Commodities	☐	☐	☐	☐
Tax shelters	☐	☐	☐	☐
Small Business Planning				
Employer provided benefits	☐	☐	☐	☐
Succession planning	☐	☐	☐	☐

EXHIBIT 2-2

CHECKLIST: STRATEGIC PLANNING

MONTHLY CHECKLIST SERIES

STRATEGIC PLANNING CHECKLIST ✓

Strategic planning is a critical management process in a highly competitive and rapidly changing business environment. Here is an outline of the three-step process that is the basis of a productive planning meeting.

Step 1: *Prepare for the strategic planning meeting.*

❑ Decide whether to use an outside facilitator.
❑ Select the meeting date and site and assign responsibilities.
❑ Research these data for meeting packets:

1. Internal firm information for strength and weakness analysis:
   - ❑ Client input.
   - ❑ Staff input.
   - ❑ Participant input.
   - ❑ Financial information.
   - ❑ Client-base information.
2. External impact information:
   - ❑ Participant input.
   - ❑ Industry trends from outside sources.
   - ❑ Organize the agenda and meeting packets.

Step 2: *Conduct the meeting.*

❑ Create a mission statement. (Who are we?)
❑ Prepare a situation analysis. (Where are we today?)
❑ Envision the future. (What do we want to become?)
❑ Choose goals and strategies. (How do we get there?)

Step 3: *Implement the plan.*

❑ Write the plan.
❑ Communicate the plan.
❑ Monitor achievement.

This checklist was adapted from Strategic Planning: A Step-by-Step Guide to Building a Successful CPA Firm, *published by the American Institute of CPAs management of an accounting practice committee.*

EXHIBIT 2-3

CHECKLIST: EVALUATING PFP SOFTWARE

Program ______________________________

Vendor ______________________________

Price ______________ Annual Maintenance ______________

System Requirements: Configuration ______________
Disk space ______________
Operating System ______________
Printer Requirements ______________
Network Support ______________

	Yes	No
Planning Areas:		
Comprehensive	☐	☐
Cash flow analysis	☐	☐
Goal funding	☐	☐
Retirement planning	☐	☐
Income tax planning	☐	☐
Estate planning	☐	☐
Insurance needs analysis	☐	☐
Investment planning	☐	☐
Investment monitoring	☐	☐
Other ______________	☐	☐
Other ______________	☐	☐
Data Input and Analysis:		
Ease of learning	☐	☐
Ease of use	☐	☐
Integration of data	☐	☐
What-if capabilities	☐	☐
Calculation speed	☐	☐
User's ability to review calculations	☐	☐
Other ______________	☐	☐
Other ______________	☐	☐
Output:		
Comprehensive reports	☐	☐
Personal financial statements	☐	☐
Summary of recommendations	☐	☐
Quality	☐	☐
Other ______________	☐	☐
Other ______________	☐	☐

	Yes	No
Support:		
Installation	☐	☐
Training	☐	☐
Manuals	☐	☐
Tutorial	☐	☐
Technical support	☐	☐
Available twenty-four hours a day	☐	☐
Toll free	☐	☐
Other costs	☐	☐
Other Features:		
Text processor for customizing reports	☐	☐
Compatibility with existing or planned software	☐	☐
Other ______________________	☐	☐
Other ______________________	☐	☐

Best Feature:

____

____

Worst Feature:

____

____

Other Considerations:

____

____

____

____

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EXHIBIT 2-4

ARTICLE: *HOW TO GET STARTED AS A FINANCIAL PLANNER*

HOW TO GET STARTED AS A FINANCIAL PLANNER

Three practitioners share their experiences in making the transition to a PFP practice.

by Peter D. Fleming

In the 1980s, as the term "financial planning" first entered the American consumer's lexicon, almost anyone could and did call himself or herself a financial planner. Stockbrokers, accountants, bankers, insurance agents and others claiming specialized training offered a confusing array of credentials: CFP, CPA, CLU, APFS and ChFC. But as the smoke clears in the financial services industry, CPAs, many holding the accredited personal financial specialist (APFS) designation conferred by the American Institute of CPAs, have emerged among the leaders in delivering financial planning services. (For more on the APFS designation, see the sidebar on page 42.)

Today, more CPAs are considering expanding into personal financial planning and still others are considering specializing in this discipline. To help them get started, the *Journal* spoke with three successful practitioners to see how they got where they are today and what advice they can offer others who may be hoping to achieve similar success.

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Mr. Fleming is an employee of the American Institute of CPAs and his views, as expressed in this article, do not necessarily reflect the views of the AICPA. Official positions are determined through certain specific committee procedures, due process and deliberation.

LARRY FOWLER— AVOIDING THE TAX WARS

Larry Fowler, CPA, APFS, has always been associated with local firms, first in California and now in Bellevue, Washington, where he is a sole practitioner. Fowler's experience includes tax, auditing and compilation engagements, primarily for small businesses. After heading the tax department of a large local firm, he decided to avoid "the annual wars of hundreds and hundreds of tax returns" and open his own office. "I do nothing more," Fowler says, "than financial planning and taxes." Even so, he prepares tax returns only for planning clients.

When asked why he started a PFP practice, Fowler answers simply: "Because I enjoy it." He adds, "It's much more creative than traditional accounting." Fowler also wanted to operate his practice on a reduced scale, with fewer responsibilities in terms of employees and less liability exposure.

GETTING STARTED

For Fowler, the difficult part of getting started was understanding the scope of the subject. "In financial planning's relatively

Larry Fowler

short history, we have been through a process of figuring out what it is—and we've been at it for almost 20 years." Fowler encourages beginners to stick with what they are doing while testing their concept of financial planning. "If you have a non-PFP practice, keep it going while you develop a financial planning model that works for you and your clients."

Fowler recommends taking small, manageable steps, the first being to develop technical skills. "Learn how to do cash flow projections, about interest rates and how inflation and financial markets work together." Fowler says it's important to "get good at what you do technically before you try to market financial planning to others." He suggests practicing by doing free plans for friends or long-time clients.

TWO NEW DISCIPLINES

Most CPAs find financial planning involves more reading, research and learning. Fowler had to master two areas not part of traditional accounting: insurance and investments. Before offering himself to clients as a financial planner, Fowler learned everything he could from insurance agents—their products and industry, the way they do business and the relationships they have with their clients. "I knew if I got involved in financial planning I'd eventually have to talk to clients about life insurance, and I like to know what I'm talking about." Fowler found himself making similar forays into investments, spending time with investment professionals and reading about investment theory.

USES OF TECHNOLOGY

Technological innovation has had a dramatic effect on financial planning. Early plans were produced with a yellow pad and a well-sharpened pencil. Comprehensive PFP software assumed much of that burden in the mid-1980s. Today, technology has come full circle. Many believe most commercially available PFP software is not useful in practice, a view Fowler shares.

"As planners, we are trying to create a basis for an opinion we want to give a client. To do this, we need computer tools that will illustrate the wisdom of our recommendations. Most financial planning software takes a 'cookie cutter' approach, treating all clients roughly the same." Using spreadsheet software, Fowler has developed his own templates for customizing solutions to clients' problems such as retirement funding, education planning or life insurance needs. "Most software," Fowler says, "is weak on analysis; it doesn't have the tools to analyze insurance or investment recommendations."

Because computers can crunch numbers a lot faster, they remain an essential financial planning tool. Fowler estimates a $1,000 up-front cost for a good spreadsheet or word processing program and a $500 annual cost for updates and new specialized software. Those doing more in-depth investment analysis can expect to spend $3,000 to $4,000 for an investment monitoring program, with $500 annual updates.

REGISTRATION AS AN INVESTMENT ADVISER

As a Washington State resident, Fowler is registered with the Securities and Exchange Commission as an investment adviser. Washington requires anyone calling himself or herself a financial planner to register, the only state that has such a requirement.

In other states, opinion is divided on whether CPAs should register with the SEC and their state securities departments when their performance of investment advisory services is "solely incidental to the practice of accounting," a description fitting many CPAs doing PFP. While the AICPA has taken the position that registration is not required, Phyllis Bernstein, director of the AICPA personal financial planning division, recommends consulting a local attorney. She says most CPAs qualify for an "accountant's exception" because they don't sell securities, hold client funds for investment purposes or hold themselves out as investment advisers.

Even if he didn't live in Washington, it's unlikely Fowler would qualify for the accountant's exception. He does hold himself out as an investment adviser and makes specific investment recommendations, believing he must do so to plan properly for his clients.

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TRANSITION TO A PFP PRACTICE

Fowler saw some change in revenue when he switched his practice to PFP. "There was a period when I had to accept engagements I ordinarily would not have chosen, because of the economics." To help pay the bills, in his first year on his own he had to do accounting other than financial planning. And while he often wishes he had a stable of tax clients to fall back on, Fowler found it necessary to downsize his practice to concentrate on PFP.

Another skill new planners must acquire is the expertise to market themselves as financial planners. Fowler says the wrong approach is "selling" financial planning to clients rather than finding out what's wrong with a client's finances and offering solutions to their problems. "The most effective marketing tool I've found is listening to what's causing clients or prospective clients pain and offering a program to alleviate that pain." (For more on marketing PFP, see the sidebar on pages 44-45.)

HELP AND SUPPORT

Support for new and ongoing planners comes from a variety of sources. Fowler speaks highly of the PFP division. The division, with 7,000 members, offers resources such as

- The *Planner*, a bimonthly newsletter.
- Practice aids, including a three-volume practice manual.
- An annual technical conference. (See the box on page 45.)

Support also is available from state societies through seminars, specific information on practicing PFP in that state and a chance to interact with peers actually doing planning locally. Most state societies have PFP committees, and many sponsor roundtables where planners exchange ideas on practice marketing and development, software and local tax issues.

HELPING CLIENTS FEEL BETTER

Fowler believes most people, even successful ones, struggle with their finances. In doing so, they want to talk to a professional to find out if they are on the right track. One "old financial friend" they depend on, Fowler says, is the CPA who does their taxes. For Fowler, the transition to financial planning has brought him considerable satisfaction. "When you see somebody feel better about where he or she is going in life, you feel better as well—and you get paid for it."

**ISABELLE CURTISS—
A NEED FOR FLEXIBILITY**

Isabelle Curtiss of Middlebury, Connecticut, is no stranger to success. Her nearly 20-year accounting career includes both audit and tax work. She left Coopers & Lybrand to start a PFP practice as a sole practitioner. Today, she has a successful practice with PFP clients totaling 60% of her business.

Why did Curtiss elect to do financial planning on her own? She believes planning is a personal, partner-level service in which clients expect to talk to someone with ex-

EXECUTIVE SUMMARY

■ IN AN ENVIRONMENT where almost anyone can say he or she is a "financial planner," CPAs' background and training have positioned them as leaders in delivering personal financial planning services.

■ FOR THOSE CONSIDERING specializing in PFP, the accredited personal financial specialist designation can give prospective clients assurance a CPA has met strict requirements and is prepared to deliver high-quality services.

■ THREE SUCCESSFUL planners around the country agree the transition to financial planning is well worth the effort. All recommend acquiring the needed expertise before starting an independent practice.

■ NEW FINANCIAL PLANNERS will find themselves acquiring disciplines not traditionally associated with accounting, such as insurance planning, investments and retirement funding.

■ COMPUTER SOFTWARE CAN help new planners get started. Some seasoned planners, however, find comprehensive PFP software is not flexible enough to address special situations.

■ ESTABLISHING A PFP practice involves a significant commitment of time and money. CPAs starting from scratch can expect an up-front cost of $5,000 to $10,000, not all of it cash. Some costs are measured in billable time "lost" to learning new disciplines; hard costs include new software, equipment and tuition.

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Isabelle Curtiss

perience. "In a large firm, it's difficult to maintain that one-on-one relationship when someone up above keeps looking at the cost-effectiveness of what you're doing and pressuring you to do other work." Curtiss says she needed "the freedom to talk to clients, sift through their priorities and make appropriate recommendations." Flexibility was the main reason for going out on her own. "I do have a regular accounting practice, but it's specialized in closely held business clients and the financial planning it takes to respond to their needs."

Like most sole practitioners, Curtiss does other work, including tax return preparation, pension plan administration and some corporate tax work. She says, "Doing tax returns supports my financial planning work. I have a foundation I can rely on for the bread and butter."

MAKING THE TRANSITION

Curtiss says she brought many PFP-related disciplines from her earlier work, including cash flow, budgeting and tax. Her estate and retirement planning background helped, too. "I was already technically competent in many areas a planner needs." Still, she found herself doing considerable reading on insurance, investments and charitable giving, areas in which she knew she was weak. Curtiss says while CPAs often are part of a financial planning team including an insurance agent, stock broker and attorney, the CPA needs varied expertise to communicate with the client and his or her advisers. "Clients look to you to explain the alternatives before going to the professional—insurance, investment, legal—for implementation."

Being a CPA is a definite asset for Curtiss. "My CPA credentials give me the respect of the public and my clients. Adding the APFS designation has given me a credential to support my contention that I do financial planning." She says since clients have more than one need, the flexibility of being able to switch from income tax to estate planning is a "dynamite asset" for any planner.

THE SOFTWARE QUESTION

Curtiss is not a proponent of comprehensive PFP software. "Most clients want segmented planning," she says. "It may be a comprehensive engagement by the time I'm finished, but it's spread over time." For this type of work, she recommends individual stand-alone software programs that calculate, for example, education funding or life insurance needs. The software should allow data to be "exported" to other parts of the program to minimize data input and should produce a plan tailored to the client's needs. Most such programs are inexpensive when compared with comprehensive packages.

IMPORTANCE OF VISIBILITY

Marketing is critical for any CPA on her own, Curtiss points out, since at larger firms "marketing does not have to be part of your career." She emphasizes that "people won't be aware you are providing the quality services you perform unless you're out front where they can see you." She recommends speaking engagements and, where possible, writing. "Write an article for a technical journal or local newspaper. Researching the article gives you a chance to train yourself, and it's fun." Curtiss does not recommend advertising, saying, "It just doesn't work."

THE BOTTOM LINE

Expanding into PFP is not expensive, Curtiss says, but there are some new expenses. Hers include annual dues (PFP division, $115; APFS, $150), added research services including the Commerce Clearing House *Financial and Estate Planning,* investment services such as *Value Line* and other PFP practice aids (about $2,000 annually) and continuing professional education. Most CPAs already incur CPE expenses but will need to include PFP-related areas.

A NEW WAY TO DO THINGS

Curtiss enjoys financial planning because it gives her a chance to "touch people's lives." Her work gives her the satisfaction that she has shown her clients "a way that didn't exist before" and "introduced them to a concept that saved them money." Bringing a smile to a client's face is something Curtiss says she "wouldn't be able to do with routine accounting."

For those considering specializing in

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PFP, Curtiss has some capsule advice: "Financial planning is the seasoned end of a person's practice. Work with a quality professional experienced in financial planning before going out on your own. Expertise is what sets a planner apart from his or her peers."

TERRY STOCK– DEEP IN THE HEART OF TEXAS

Despite the economic woes that have beset the city and state he calls home, Terry Stock has managed to prosper as a financial planner in Houston. His background as a general CPA practitioner is supplemented by five years as an Internal Revenue Service field agent auditing small businesses. Since deciding to specialize in financial planning, he has added the APFS designation to his credentials.

After spending the 1980s with several local firms and at KPMG Peat Marwick, Stock decided to strike out on his own again as a sole practitioner in 1990, doing PFP and tax work exclusively. "You still have to do tax returns to survive, to feed your family and pay the rent." But Stock prefers to avoid accounting work: "I generate no financial statements. I don't even have a general ledger package on my computer."

TAKING CARE OF THE WHOLE CLIENT

Stock's career has allowed him to see PFP at several different levels. "I've been with big firms where I instituted a financial planning practice; I've been with one-partner firms where we did planning out of necessity to serve our clients; and I've been on my own." He points out that financial planning has only recently become a service people are willing to pay for. Today, his practice is restricted to upper-level clients.

Stock says he got into financial planning just as Houston began its economic down-

WHAT IS THE APFS DESIGNATION?

How can CPA financial planners set themselves apart from their competition? Many elect to pursue the accredited personal financial planning specialist (APFS) designation conferred by the American Institute of CPAs. In a constantly changing business environment, many believe the APFS designation is the consumer's assurance a CPA has met strict requirements and is prepared to deliver high-quality professional services.

APFS REQUIREMENTS

To obtain the APFS designation, a candidate must

- Hold a valid state CPA certificate.
- Be a member in good standing of the AICPA.
- Have at least 250 hours of PFP experience per year for the three years immediately preceding the application. This experience must be in each of the six financial planning practice areas: the PFP process, personal income tax planning, risk management planning, investment planning, retirement planning and estate planning.
- Submit a written statement of intent to comply with all reaccreditation requirements.
- Successfully complete a six-hour examination consisting of multiple-choice questions, objective-format other than multiple-choice questions and a case-study question.
- Submit six references substantiating professional experience in personal financial planning.

Pending the results of the exam administered in January 1992, 595 CPAs nationwide hold the APFS designation. They receive marketing support from the AICPA PFP division, including a toll-free number potential clients can call to get the names of APFS planners in their state. Designees also have access to a six-page brochure, which can be printed with their firm name, explaining the APFS designation to clients.

FUTURE EXAMS

The APFS examination is given twice each year. It next will be administered on September 25, 1992, at 22 sites around the United States. Additional information on the exam and the APFS designation is available by calling 1-800-966-7379 or writing AICPA–PFP Division, 1211 Avenue of the Americas, New York, New York 10036-8775.

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MARKETING PFP SERVICES: WHAT WORKS, WHAT DOESN'T

How should CPAs market financial planning services? Even more important, how shouldn't financial planning be marketed? Developing a marketing plan typically involves both success and failure. Here are some ideas from experienced PFP practitioners.

MARKETING SUCCESSES

Over time, our firm has refined our marketing plan into a five-step process.

***Step 1:** Know what you do in PFP.* The entire financial planning process, from start to finish, should be in place before marketing the service to clients. It's not possible to sell your financial planning expertise successfully until you clearly understand how you can help clients.

***Step 2:** Believe in the PFP process.* Many marketing mistakes stem from forgetting why you're involved in PFP in the first place—to help clients achieve financial peace of mind by understanding their financial goals and developing a plan to meet those goals.

***Step 3:** Identify your target market.* What types of clients are likely to benefit most from the services you provide? If your expertise is developing cash flow models to evaluate retirement-plan distribution options, your marketing plan should target employees about to retire.

***Step 4:** Communicate with your target audience.* Knowing what services you provide and to whom enables you to develop a communication program tailored to your target audience. Use marketing tools that will enable you to inform potential clients of your availability and expertise.

***Step 5:** Follow up with potential clients.* Few clients instantly engage your services as a financial planner. Most need time to consider the services you offer, consult with their spouses, etc. It is, however,

turn. His clients began asking more unusual questions about tax shelters, etc. "I found myself needing to answer questions that went beyond what the typical CPA deals with." Stock believes if you don't talk to clients about financial planning concerns, someone else will.

SOFTWARE CAN HELP

Software can help a new planner "pull it all together," according to Stock. He says PFP software forces him to find answers to all the questions the program poses. "After a few years, many practitioners move away from canned programs as they become more comfortable with what they are doing." Most, Stock says, develop their own software. But he believes a comprehensive financial planning software package helps beginners understand what a good financial plan should include.

Terry Stock

WHAT YOU DON'T KNOW CAN HURT YOU

For Stock, starting out in financial planning meant changing his "study" habits and the way he approached his work. He found himself doing more reading than ever before, much of it in nontechnical publications such as *Money* magazine or the *Wall Street Journal*. "You have to read what your clients are reading" and be ready with answers to their questions.

As a CPA, Stock had some difficulty with the "less precise" nature of financial planning. When doing PFP, projections of income, assets and income tax liability, for example, do not need to be exact, since they are being used only for planning purposes. Stock says, "It's difficult to decide when to bring out your CPA personality and get precise and when to put on your planner hat and be a generalist."

A SIGNIFICANT COMMITMENT OF TIME AND MONEY

For CPAs starting from scratch in financial planning today, Stock says there is a significant time and money commitment. He estimates an up-front cost of $5,000 to $10,000, not all of it out-of-pocket cash. Some costs are measured in time lost learning a new discipline, reading more or becoming familiar with new software. Hard costs include new software, reference materials and tuition for continuing education.

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helpful to remain in contact with potential clients, by phone or letter, on a regular basis.

MARKETING FAILURES

Our firm's PFP marketing efforts have involved a few embarrassments, most stemming from our inability to focus on the five steps outlined above. Here are a few things that didn't work for us.

Engaging a public relations firm. We hoped hiring professionals would give us much-needed local exposure. However, since we lacked comprehensive marketing objectives, even the experts couldn't get us that exposure. And since they didn't understand what we did either, the PR firm's efforts on our behalf were expensive and yielded no quantifiable results.

Developing a brochure. Considerable time and money were devoted to producing a brochure with information on our firm, partners, staff and history. Not only did the brochure become dated after the first staff departure but also clients said it was irrelevant to the decision to retain us. Instead, we developed pieces on specific planning areas, such as a summary of current retirement issues accompanied by a biographical summary of staff members with expertise in the area. Even then, clients told us speaking with existing clients with similar problems was much more helpful in making their decision to retain us.

Holding seminars. It's not difficult to fill a room with potential retirees, but few seminar attendees have grown into PFP clients. Seminar attendees are difficult to prequalify, and the type of clients we're seeking rarely attend public seminars.

Sending out a client newsletter. For many years, we mailed a commercially produced newsletter to our clients monthly. A survey revealed most of them did not read it. What they want is short, concise information geared to their own needs. As a result, we developed our own one-page, quarterly newsletter. It focuses on information our clients want and on keeping them up-to-date on our expertise.

—DIRK L. EDWARDS, CPA, APFS, is a partner of Edwards & Myers, Portland, Oregon.

Stock recommends new planners pick one area, such as insurance, and become an "expert" by taking courses and "reading everything you can." This, he says, gives the planner at least one subject to start talking to clients about. Learning about insurance allows a planner to discuss life, long-term-care or disability insurance. The important thing, Stock says, is to "start talking to clients about something other than tax deductions and audits." Letting clients know you offer services other than traditional accounting may pave the way for questions and lead naturally into a financial planning engagement.

SO YOU WANT TO BE A PLANNER: HERE'S HOW

As the three planners profiled here have explained, getting started in PFP is a step-by-step process:

- Identify disciplines (insurance, investments, retirement, estate planning) where you need additional expertise and do research, reading or CPE as necessary.
- Remain in your current position long enough to develop technical expertise and test your financial planning model to make sure it meets client needs.
- Acquire financial planning software to help prepare your clients' plans. Beginners should use a comprehensive package until they are familiar with the elements of a good financial plan.
- Decide if you need to register with the SEC as an investment adviser.
- Carefully evaluate the economics of making the transition to a PFP practice, including start-up costs, ongoing expenses and changes to firm revenue.
- Seek help from the AICPA PFP division and consider obtaining the APFS designation.

One of the most important advantages CPAs have over others doing financial planning is they recommend what clients need, not what they think they can sell. Their job is to provide clients with information needed to make informed decisions. CPAs, Larry Fowler, Isabelle Curtiss and Terry Stock among them, by merit of their training are poised to take advantage of a future in which the need for financial planning is likely to be even greater as Americans try to make do with less while still living better. It presents a significant challenge. ■

1993 PFP TECHNICAL CONFERENCE

The PFP division's annual technical conference will be held January 11–13, 1993, at Loews Coronado Bay, San Diego, California. Additional information is available by contacting the AICPA meetings and travel department at (212) 575-6451.

EXHIBIT 2-5

ARTICLE: *USING FORM 1040 TO IDENTIFY FINANCIAL PLANNING NEEDS*

USING FORM 1040 TO IDENTIFY FINANCIAL PLANNING NEEDS

A PFP practitioner shows why a client's 1040 is a good starting point for a financial planning engagement.

by Michael R. Ruff

Form 1040 is virtually unsurpassed as a road map to a client's financial needs, as well as a vital blueprint for developing financial planning goals. Without the information provided on this form, a financial planner would have to invest much more time and effort to identify a client's financial imperatives: for example, a young family's concern about college funding, a middle-aged couple's need for business capital or an older client's worries about having adequate retirement income and reducing the size of their estate.

However, form 1040 is only a tool for identifying opportunities; considerable analysis usually is necessary before any recommendations can be made. This article describes how to use a client's form 1040 to identify financial planning needs and how to take advantage of an opportunity to complete a financial planning engagement for the client.

MINING THE 1040 CHECKLIST

A checklist such as the one on page 63 can help the planner pinpoint areas needing attention while prospecting for financial planning clients. Each category should elicit a series of questions to be raised with the client that might, in turn, reveal issues to be addressed in a financial planning engagement.

Information as minor as a change of address can prompt financial planning concerns. If a client has moved since his or her last return was filed, there's a perfect opportunity to ask if property and casualty insurance, tax and estate planning issues have been addressed since the move. Residence in a new state may require new wills. The new residence also should be properly insured and withholding may need to be adjusted to reflect the deductions a larger mortgage may bring.

After thoroughly reviewing the data on form 1040, the planner should schedule an initial conference with the client to assign priorities to specific financial planning goals. This can be done most effectively by reviewing line by line those form 1040 entries the planner has found to be of con-

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■ PLANNING NEEDS

cern. Using graphics or computer-generated schedules should be avoided at this point. The objective is not to impress the client with financial wizardry but, rather, to develop a comprehensive personal financial plan in a series of segmented planning engagements.

ANALYZING FORM 1040 DATA

What kinds of form 1040 entries should raise red flags? While some entries are obvious, such as excessive taxable investment income for a high-bracket taxpayer, others (inadequate diversification, for example) may not be as easy to spot. A few examples follow.

High taxable income. The client's schedule B shows a large amount of taxable interest or dividend income. Is this income needed to cover family living expenses? Is the client in the top marginal tax bracket? Unnecessary taxable income may indicate a need to rearrange the client's investment portfolio. Investments that generate tax-exempt or tax-deferred income may be more appropriate. Investments also can be restructured to emphasize long-term growth if additional income is not needed to supplement wages.

TERRY MIURA

Consider the Smiths, a retired couple with a significant federal income tax liability. Their principal income source is interest on bank certificates of deposit (CDs) and oil and gas royalties. Itemized deductions on schedule A are minimal; they have no mortgage on their home and medical expenses are reimbursed by Medicare and private insurance. A conversation with the client reveals current income exceeds the amount needed for living expenses.

Under these circumstances, asset reallocation could help the client diversify and reduce taxes. For example, transferring a part of the couple's assets to a single-premium deferred annuity will reduce the size of the estate subject to probate and the amount of income subject to current taxation; the couple will be able to make withdrawals from the annuity as needed and pay tax on that income only when they do so. CDs don't offer such flexibility.

If the Smiths receive Social Security retirement benefits, up to half may be subject to tax under current law. If form 1040 shows they pay tax on these benefits, proper planning to rearrange their investments may also reduce or eliminate the tax.

Diversification. Form 1040 also may reveal an overconcentration of assets in one area. This may include substantial dividends from only one stock (for example, that of the wife's employer), interest on a single bank account or undue reliance on risky investments such as those in commodities or oil and gas.

For example, the Smiths' schedule B shows all their liquid assets are invested in CDs. This leaves them vulnerable to purchasing-power risk—the risk inflation will erode their purchasing power over time—and interest rate risk—exposure to short-term interest rate fluctuations.

These problems can best be solved by using asset allocation techniques to diversify in accordance with their risk tolerance and goals.

For the Smiths, repositioning part of their assets into tax-exempt municipal bonds will not only diversify their investment portfolio but also reduce their taxable income. If further diversification is desired, an investment in equities (individual stocks, mutual funds, etc.) may be an appropriate move.

Insufficient diversification also may mean the client lacks a well-defined investment philosophy. Additional work may be needed to determine whether the client's current investments match his or her goals, objectives, risk tolerance and tax bracket. The client may need a new investment adviser or broker to provide investment guidance.

Cash flow problems. Cash flow problems also may become apparent when reviewing a client's tax return. Consider the case of Mary Jones, a self-employed taxpayer who had a large balance due when her return was filed, plus penalties for underpayment of estimated tax. This situation presents a number of planning opportunities:

■ Does the client understand the estimated tax rules? A simple explanation may help avoid future penalties.

■ Does the client need a cash flow analysis? Cash inflow may be adequate (the client earns enough to live) but she may need help with budgeting and the timing of expenditures (her business income may be cyclical).

■ Will asset reallocation reduce the client's overall tax liability and improve cash flow? Investments can be structured to provide Jones with adequate income during slow business periods.

Jones's self-employed status creates other planning opportunities. For example, is a sole proprietorship or partnership the best form or organization for her business? Would a C or S corporation be better (and perhaps even solve her cash flow problems)? In either case, does Jones take maximum advantage of the employee benefits each ownership form offers? Opportunities exist to help clients establish retirement plans to reduce taxable income and fund future income needs.

Education funding. Funding their children's education is a concern of many clients. Does form 1040 show deductions for dependent children? If the practitioner was not asked to prepare a return for the children (which means little or no income-generating assets have been placed in the children's names), it's likely the family could benefit from income shifting to fund future education expenses.

When a completed 1040 was delivered to Carol and Mike Martin, the clients said they already had started an education fund for their five-year-old son. About $2,000 was invested in a passbook savings account. An analysis of future college costs, however, showed current funding provisions were inadequate. The planner recommended they begin a monthly investment program for each child (they also have a daughter, age 3). Because of the children's ages, a growth mutual fund was selected as the investment vehicle.

For many clients, the excuse for not prefunding education expenses is a lack of available funds. Does line 61 show a refund? A refund of almost any size can be used to begin a savings program for education or retirement. A large refund may mean withholding or estimated payments need to be reduced (making the resulting increase in monthly take-home pay available to continue meeting savings goals).

Insurance. Form 1040 can yield a wealth of information about a client's insurance needs. Obviously, clients with children need adequate life insurance. Of course,

EXECUTIVE SUMMARY

■ FORM 1040 IS VIRTUALLY unsurpassed as a road map to a client's financial planning needs. Planners can use form 1040 to identify opportunities to complete a financial planning engagement for the client.

■ A CHECKLIST OF QUESTIONS can be used with tax return clients to identify additional financial planning concerns. A follow-up conference can be scheduled to determine the need for additional work.

■ A CLIENT'S TAX RETURN can reveal problems such as unnecessary taxable income, inadequate diversification and poor cash flow. Form 1040 also can indicate a need for education funding, an insurance coverage review and retirement planning.

■ SUBSTANTIAL INCOME ON form 1040 often means there's a substantial estate backing it up. When delivering a completed tax return to a high-income client, the planner should ask whether he or she has an up-to-date estate plan in place.

■ A TAX RETURN ALSO SHOWS common mistakes that usually point to the need for a financial planner. Mistakes include failing to roll over unneeded retirement distributions, failing to make individual retirement account contributions and mismatching gains and losses.

■ PLANNING NEEDS

Tax return checklist for identifying financial planning needs

Investment planning

■ Does investment income suggest a concentration of investments in one area?

■ Does the investment mix appear appropriate considering the client's stage of life and capacity for financial risk?

■ Does investment income suggest a liquid fund has been established for emergencies?

■ Does the number of capital gain and loss transactions indicate excessive trading? If so, does the client need a coordinated investment plan?

■ If a family-owned business exists, is there a succession plan that will preserve the business's value and provide liquidity?

Cash flow planning

■ Given the number of family members, does the level of income appear sufficient to provide for necessities plus a suitable amount of savings?

■ Does the level of investment income demonstrate past successes in accumulating savings and managing cash?

■ Is investment income increasing or decreasing? Does a decline suggest a net cash outflow?

■ Do schedule A interest and debt service represent an acceptable percentage of income?

Education funding

■ Does the tax return show there are children in the family?

■ Do the children file tax returns pointing to the establishment of education funds in their names?

■ If funds previously have been transferred to children, does the client understand the consequences of making gifts in trust versus making outright gifts?

■ If there is a family-owned business, are working-age children receiving wages?

Risk management

■ Does the taxpayer's occupation require special coverage? (For example, a surgeon may need disability insurance that pays when he or she is unable perform his or her own occupation.)

■ Is family income dependent on one wage earner?

■ Do the number and ages of dependents suggest income continuation needs are likely to be high in the event of death or disability?

■ If the tax return shows ownership of rental property or schedule C income, does the insurance expense appear reasonable in relationship to the property's value?

■ Are there extraordinary medical expenses? Do the expenses indicate inadequate health insurance coverage or special needs?

■ If the client receives Social Security benefits, has he or she elected coverage under part B of Medicare?

Retirement planning

■ Does form W-2 or schedule C list coverage under retirement plans? Does the client make maximum contributions and deferrals?

■ Does the level of wages suggest the client is likely to qualify for the maximum Social Security retirement benefit?

■ Does Form 8606, "Nondeductible IRA Contributions, IRA Basis, and Nontaxable IRA Distributions," indicate a prior accumulation of IRA investments?

■ Considering age, accumulated investments and level of debt, does the client appear to be on track toward funding retirement income?

Estate planning

■ Does the amount of income on the tax return point to a sizable taxable estate?

■ Do the clients have wills? Trusts?

■ Will the $600,000 exemption equivalent be wasted on the first spouse's death by on excessive concentration of joint wealth?

■ If a closely held business is part of the estate, is a buy–sell agreement needed?

■ Does the estate have sufficient liquidity?

■ Is life insurance, if any, properly structured to remain out of the estate?

home and car owners should have property and casualty insurance. But what about disability insurance? If only one W-2 is submitted with the return, meaning only one spouse works outside the home, does he or she have the disability insurance needed to protect the family? Even if the other spouse is able to work, it can take time to find a job and restore family income to previous levels.

Retirement. A client's tax return and accompanying data can reveal a great deal about how he or she has prepared for retirement. A form 1040 shows any contributions to an individual retirement account (IRA), Keogh or other retirement plan. Form W-2 shows any contributions to an employer's 401(k) plan and whether the employer provides a pension plan. Planning opportunities abound. Has the client explored 401(k) distribution options? How much retirement income will existing provisions provide? Does the client contribute the maximum amount to his or her 401(k) plan? Depending on the answers to these questions, the client may need additional retirement guidance, even if he or she is young. An opportunity to provide it shouldn't be missed.

ESTATE PLANNING

Clients whose forms 1040 show substantial income often have sizable taxable estates to back it up. The various income sources indicate the types of assets they own; for example if both spouses receive a salary or other income from an S corporation, they are likely to have an ownership interest in a closely held business. This opens up considerable estate and business succession planning opportunities.

Consider the situation of Bill and Betty Baxter. Their 1040 shows each drawing a salary from EZ Widgets, an S corporation. Their answers to the questions on the tax return checklist suggest they need help redrafting their wills to take advantage of recent estate tax changes, implementing a buy–sell agreement for their closely held business and adopting an irrevocable life insurance trust. If such S corporation income is not scrutinized to prompt additional questions, an engagement opportunity may be missed.

Delivering a completed tax return to a client presents an opportunity to ask whether he or she has an up-to-date estate plan (including a will, trust, power of attorney, etc.). A computerized estate planning program can be used, with the client seated at the planner's side, to explore alternatives for disposing of his or her estate. Such alternatives often are difficult for the client to understand, and computer-generated illustrations showing estate distribution and the tax effects of each alternative make it easier for him or her to select the best option.

Reviewing a client's schedule A provides a good indication of his or her charitable inclinations. If charitable donations are substantial, the client may benefit from more sophisticated charitable giving strategies, including charitable lead or remainder trusts, gifts of appreciated property, etc. In addition to the income tax benefits, certain estate planning goals also may be met. For larger gifts, schedule A also shows what charities the client favors. Many such charities have their own planned-giving programs with income and estate tax benefits.

COMMON MISTAKES

Many tax returns will show common mistakes and may indicate the client needs the help and direction of a financial planner. For example, a tax return may show the client failed to

- Roll over a retirement plan distribution he or she did not need when changing jobs.
- Match capital gains and losses in the same tax year. (For example, last year's return shows a large gain and this year's return has a large loss that will have to be carried forward.) Perhaps the client did not even consider the tax consequences of disposing of assets.
- Make an IRA contribution even though his or her employer does not offer a pension plan.
- Prepay state and local taxes. This could result in penalties or, at the very least, postponement of the deduction's tax benefit.
- Take advantage of all available itemized deductions. While this is not an immediate planning opportunity, it suggests the client needs help maximizing income and deductions and minimizing taxes.

The key to turning tax return clients into financial planning clients is developing relationships. It's important to remember that clients don't need to have personal relationships with their tax preparers, but they do need to have close working relationships with their financial planners. ■

CHAPTER 3

MARKETING AND SELLING PFP SERVICES

MARKETING AND SELLING PFP SERVICES

1. INTRODUCTION

.01 The market for PFP services is crowded with providers. Investment and insurance brokers, attorneys, and other CPAs are all competing for similar clients. To be successful, you must know what you can do best and what kind of clients need your services. Then you must convince clients and potential clients that you should be the person to help them address their financial concerns.

Marketing and Selling

.02 Marketing and selling activities, while often confused in practice, have very different objectives.

.03 Marketing is the communication of your message to people you want to do business with. Any contact you have with clients, potential clients, and referral sources is a marketing opportunity; therefore, you — and the people who work for you — must see yourselves as always marketing. Your goal in marketing is to create the best possible environment in which to make a sale — to secure a PFP client.

.04 Selling, on the other hand, is what you do once you are face to face with a prospective client. In the selling process, you capitalize on the opportunities created by your marketing efforts and attempt to close the sale. The goal of selling is to convert a prospect into a client.

.05 Marketing and selling require well-developed communication skills, coupled with interpersonal skills in building relationships and trust.

2. THE MARKETING FUNCTION

.01 Marketing is a dynamic, ongoing process, and should be designed to enhance not only your profitability, but your ability to meet your clients' needs as well. Your marketing activities can generally be broken down into the following steps:

1. Analyzing market opportunities
2. Selecting target markets
3. Developing a marketing mix
4. Managing the marketing effort

Analyzing Market Opportunities

.02 The first step in the marketing process is to analyze the potential market for your PFP services. There are two critical components of this analysis — local demographics and your competitors' services.

.03 Local Demographics. Ask yourself questions such as: Is there a large enough number of residents who need and can afford PFP services? What kinds of services do they need? Before deciding to expand PFP services, you should know the PFP needs of clients and nonclients.

.04 For example, if the community in which you practice consists primarily of couples with young children, you might consider focusing your practice and marketing efforts on education funding and retirement planning. If the population is much older, an estate planning focus may be more appropriate.

.05 Competitors' Services. Ask yourself questions such as: Who are your competitors? What services and products do they offer? To what extent is the potential market already served by your competitors? Are potential clients satisfied with the services currently available? Is there a niche market unserved?

> ☛ **Action Tip**
>
> State CPA society PFP committee meetings provide an opportunity to discuss what other financial planners are doing in their PFP practices. You can gain insight about the extent to which competitors are meeting the needs of your potential clients.

.06 Your existing clients represent the easiest and most important market to study. Client lists can be reviewed for prospective PFP clients. The need for PFP services can be identified by a number of traits, including high net worth, high tax bracket, undiversified investments, lack of retirement plans, upwardly mobile executives, and potential estate tax problems.

Selecting Target Markets

.07 After analyzing the potential market for PFP services, you will probably want to focus your efforts on one or a few segments of that market. After investing time and resources in developing the expertise and procedures for delivering PFP services, you can most effectively capitalize on that investment by providing cost-effective services to one or a few clearly defined segments.

.08 The number of market segments you target is a function of many variables, including your expertise and that of your staff, the time available to serve the targeted markets, the profile of your existing clients, and the size and conditions of the local economy. Initially, you may target a single segment while developing other PFP packages to meet the needs of additional segments.

.09 Possible segments include the following:

- Individuals, defined by income level (for example, below $75,000 or above $200,000)
- Individuals, defined by net worth (for example, over $500,000)
- Middle management
- Young, upwardly mobile executives
- Professionals and business owners
- Retirees

.10 There are two broad approaches to defining your target market or markets. You can base your target market on your existing client base. For example, if an analysis of your existing clients (and potential PFP clients) reveals that most have annual incomes ranging from $50,000 to $75,000, your target market would be individuals with moderate incomes. It would therefore be wise to develop an efficient lower cost method of providing PFP services. The ideal service to offer might be a comprehensive engagement developed by stringing together a series of segmented planning engagements.

.11 Alternatively, you can identify the target market you want to serve and tailor your practice and marketing efforts to that market. If, after studying the potential market for PFP services, you determine that there are a large number of wealthy individuals who need, but are not receiving, PFP services, you might decide to target individuals with net worth in excess of $1 million. Although you may be successful, you might not find much initial business among current clients.

Developing a Marketing Mix

.12 Once you've identified your target markets, you must determine what potential clients want that they're not currently getting from other PFP professionals. You need to develop your marketing mix, which is an interrelated group of marketing variables designed to maximize your exposure to the target market. The variables are marketing's four Ps — product, price, place, and promotion — and together they define exactly what you are selling.

.13 **Product.** Your product is service. Your PFP services should meet the needs of your targeted market and be cost-effective, affordable, and competitive.

.14 As discussed in the "Establishing a PFP Practice" chapter of this Handbook, PFP services can generally delivered as either consultations or segmented or comprehensive planning engagements. You must determine what services you want or need to provide to serve your market.

.15 Not everyone wants or needs a comprehensive personal financial plan. Some clients could benefit from just one engagement on cash and debt management. Young, upwardly mobile executives could use a consultation or segmented planning engagement. Professionals and business owners might benefit from a comprehensive engagement or a series of segmented plans that over time comprise a comprehensive plan. Your challenge is to identify the services that will attract your target group or groups.

☛ **Action Tip**

Divide your existing or target client list into categories and analyze what kind of service might benefit each group. These categories may include the following:

- Income less than $75,000
- Middle management
- Rising executives
- Professionals and business owners
- Retired

.16 You may be able to differentiate your services through creative delivery of PFP, including the following:

- Do-it-yourself packages of instructions, worksheets, and home-computer software suggestions
- A series of workshops to guide clients through a do-it-yourself planning process
- Computer-assisted plans with incremental pricing (The client receives a basic plan with limited consultation. After reviewing the plan, the client may extend the consultation into a segmented planning engagement in areas of special interest.)

.17 Price. PFP clients generally perceive financial planning as a value-added service and are willing to pay a somewhat higher price for the service. You must balance what you need to be profitable with what your clients are willing to pay. The more you can do to develop a sense of value in your clients' minds, the less fee-sensitive they will be. The "Managing for Profitability" chapter of this Handbook includes tips and recommendations for pricing your PFP services.

.18 Place. Place refers to the location at which you deliver your services as well as to the quality and character of your facilities. Your office should be readily accessible, with convenient parking nearby. Entryways, hallways, and other areas in which you meet with clients should be neat, clean, and orderly.

.19 With a little imagination, you can make your PFP services more accessible to your target market. The following strategies might can help you improve your accessibility to your clients:

1. Use some of the time with clients during tax season to educate them about what PFP involves, and explain how they can benefit from the PFP process.
2. Offer educational seminars or workshops at night or on weekends when both clients and their spouses can attend.
3. Offer seminars and workshops to the employees of your clients who are business owners.

> ☛ **Action Tip**
>
> Meet with your clients at their homes. People are generally more apt to discuss their personal concerns and goals in a comfortable, familiar setting. Furthermore, you will be meeting where most personal records are kept, making the data gathering process easier.

.20 Promotion. No matter how expert, well-priced, or convenient your services are, your target market will not use these services unless they know about them. Promotion is essentially communication — telling people what you have to offer and how it can benefit them. A proper mix of promotional tools and activities will enable you to achieve the exposure and subsequent selling opportunities needed to ensure growth.

.21 You and everyone in your firm should be aware of client situations that indicate a need for PFP, including undiversified investments, a lack of retirement plans, and tax planning possibilities. Discussing PFP services with other professionals, such as lawyers and bankers, can lead to later referrals. Other promotional strategies include brochures, seminars, speaking engagements, and newspaper or magazine articles. These and other promotional strategies are discussed below.

Promotional Strategies — Implementing the Marketing Plan

.22 Once you have identified your target markets and established your marketing mix, you need to develop a promotional plan, comprised of a mix of the promotional strategies discussed below. The mix you choose depends on several factors, including your marketing objectives, your budget, and the strategies you are most comfortable with.

.23 A key objective of your promotional strategies is to get you and your name in front of your target audience as efficiently as possible. From there, you have to meet with potential clients, gain their trust, and convince them that they need your PFP services. Your promotion will be targeted to some combination of three groups: existing clients; existing referral sources; and, potential or prospective clients.

.24 A natural starting point for marketing PFP services is your existing client base. Because you have an existing relationship with this group, you can focus on keeping your clients informed about the full range of your services. They need to know what financial services you provide. Try using a tax return "PFP Needs Checklist," discussed below, or a similar checklist to identify their financial planning needs.

.25 A second target is your existing referral sources. Continued personal contact, reinforced with newsletters and other correspondence, helps to associate your name with PFP. Invite them to work with you as one of the other advisers in developing or implementing PFP recommendations; let them see you in action.

.26 A third target group consists of potential clients and referral sources with whom you have not yet established a professional relationship. This group needs to be educated not only about your services, but about you as well. Reach these people through seminars, speaking engagements, and other general marketing activities, such as writing articles for local publications.

> ☛ **Action Tip**
>
> Surveys indicate that the public wants a trusted financial adviser. In promoting your PFP services, emphasize that you bring objectivity and integrity to the process.

> ☛ **Action Tip**
>
> In determining the amount of time and energy to commit and how to allocate it, devote the most effort to your existing client base, then to your referral base, and finally to potential new clients. In this way, you will be expending most of your energy on already established relationships.

.27 The following promotional strategies should be considered in developing your marketing strategy. The key is to get your name, and ultimately you, in front of a potential PFP client. Try the strategies with which you are most comfortable. Once you've become more comfortable with marketing your service, you can try other promotional strategies until you identify what works best for you.

.28 Strategies for Existing Clients. The following marketing strategies tend to work best with existing clients with whom you already have a relationship.

- Discuss PFP services, such as retirement, estate or investment planning, with clients when they bring in their tax return data.
- Ask tax clients questions about their existing financial planning, such as whether they have education funding programs for their children or are participating in employer-sponsored retirement savings programs.
- Send a copy of an article on a PFP topic that the client might find interesting.
- Develop a telephone call into an office visit during which the original issue or question is discussed in terms of PFP services.
- Send a PFP brochure along with your clients' completed tax returns.
- Educate partners and staff about the firm's PFP services, and encourage them to review their client lists to identify good prospects for PFP services.
- Develop client questionnaires and tax return checklists to identify potential PFP engagements.

☛ **Action Tip**

All people experience major events that create the need for PFP services. The list is endless and includes events such as marriage, divorce, births, illness, disabilities, disasters, retirement, and deaths. Demonstrate the benefits of PFP by explaining to clients how planning can make major life events more financially manageable.

☛ **Action Tip**

"Thank You" marketing is an easy and personal strategy for your existing clients. Sending a personal note of thanks whenever appropriate not only properly expresses your gratitude, it also enhances your image and strengthens the existing bond between you and your clients. This practice may also be appropriate for referral sources and others with whom you have a relationship, but who are not yet clients.

.29 **Client Questionnaires.** You can identify your clients' PFP needs by having your tax clients fill out special financial planning questionnaires. Completing the questionnaires also helps clients realize that they have financial concerns and that you can assist them in resolving those concerns. Well-designed questionnaires are good marketing tools for PFP services.

.30 If you have a significant tax practice, you can send the questionnaires to your clients with year-end tax organizers and ask them to bring the completed questionnaires with them to their tax interviews. The questionnaires can be discussed during the interview and you can then keep a post-tax season tickler file for those clients who want follow-up assistance.

.31 Alternatively, some CPAs send PFP questionnaires to their clients in a separate mailing. A cover letter can explain that the information will help them understand the client's need for financial services and permit the updating of the client's file before completing the client's tax return.

.32 Exhibit 3-1 is a compilation of questions that have appeared on various questionnaires. You can use the list as a starting point from which to develop a questionnaire suitable for your clients. For your convenience, exhibit 3-2 features a sample PFP questionnaire.

☛ **Action Tip**

The people you want as clients are typically very busy. Choose a few, well-constructed questions that generate interest in PFP. Questionnaires that are limited to fifteen or twenty questions elicit more responses. You may also increase the response rate by providing a postage-paid return envelope for the questionnaire.

☛ **Action Tip**

When using questionnaires, be proactive. Sit with your clients and complete it with them. Cover the following points:

- Ask clients what their financial goals are and how they plan to achieve them.
- Challenge your clients to develop goals if they do not have any.
- Point out areas they can take control of, such as organizing tax papers.
- Discuss the PFP process. Eventually, your clients will understand that you have a potential solution or can help them address whatever financial issues they have.

.33 PFP Needs Checklist. Checklists are internal documents used by you or your staff to identify potential PFP needs in existing clients. Well-designed checklists can provide structure to the process of reviewing client files to identify PFP prospects.

.34 Exhibit 3-3 is an illustrative checklist developed for reviewing clients' tax returns to identify the need for PFP services. The formal review process identifies opportunities that may not be immediately apparent. If the review is performed before or during tax season, you can discuss the need for PFP services during the client's tax interview. In larger firms, an advantage of the checklist is that junior staff members can perform the review. This also helps to train PFP staff. By using the checklist, they learn to identify PFP issues when reviewing clients' tax information.

.35 Brochures. Promotional brochures can help you inform potential clients about your expertise and the range of financial services you provide. Brochures should be attractive, direct, and clear presentations of your expertise and the benefits of PFP. To catch attention, the brochure should focus on the personal needs of the readers, such as planning for retirement, reducing insurance costs, or saving time, taxes, and costs through estate planning.

.36 A good brochure satisfies the following tests (known as the AIDA criteria):

- Get Attention
- Hold Interest
- Create Desire
- Result in Action

.37 Brochures can be handed out, mailed to existing and potential clients, or displayed prominently on a desk or in other areas frequented by clients and other office visitors. They can also be inserted in give-away materials used at seminars or other meetings.

> ☛ **Action Tip**
>
> Tax season is an excellent opportunity for you to distribute your brochure to existing clients. You can include the brochure with completed tax returns and add a personal note about specific planning needs that you noticed in reviewing their tax information.

> ☛ **Action Tip**
>
> Exhibit 3-4 features a prototype marketing brochure. The text of the brochure is included in a WordPerfect file on the enclosed diskette. Use this as a starting point and customize the text to market your PFP services. Exhibit 3-5 contains a number of sample brochures for your reference.

.38 Speaking Opportunities. If you are comfortable addressing groups of people, public speaking engagements provide abundant opportunities to communicate the benefits of PFP and to promote your services. This promotional strategy can be an effective and economical way to:

- Inform the audience about a relevant issue or development and its impact on their personal finances
- Communicate your expertise on the topic
- Motivate participants to action
- Establish goodwill between participants and the firm

> ☛ **Action Tip**
>
> Many groups in your community need speakers for luncheons, meetings, and other forums. You can contact the chamber of commerce, small business groups, local medical and dental societies, civic groups, and other associations outside of the financial community to discuss speaking opportunities.

> ☛ **Action Tip**
>
> If you have a newsletter, use this forum to announce your availability to speak at clubs and organizations. A statement as simple as "We are available to address your club or organization on a variety of financial topics" gets your message across. You can also include a news section that highlights your speaking engagements and other accomplishments.

.39 Seminars. Seminars are useful to enhance your visibility and reputation within the financial community. Developing a seminar involves more planning and resources than other speaking engagements, but can be more effective because you control the timing, the audience and the topics covered.

.40 Seminars may be geared toward any number of markets, and the tone and focus of the seminar should reflect the target market. For example:

- A seminar for existing clients enables you to educate this group about issues and developments that affect their personal finances. You can showcase the full range of your professional services
- A seminar for potential clients provides the opportunity for you to introduce yourself and your services to a group that you have identified as target clients.
- A seminar for other professionals helps to develop your referral network and may also result in client development among the professional group.

.41 When planning your seminar, there are a number of important considerations. The checklist included at Exhibit 3-6 is designed to guide you in developing and presenting seminars. Some of the major considerations are discussed below:

- **Topic.** Capitalize on your expertise. You will be more relaxed and confident if you speak on issues within your existing knowledge and experience. This can bolster your reputation as a competent financial adviser. In addition, you should consider the intended audience and their particular needs. For example, college cost planning is probably not a hot topic for retirees. A catchy title can help to arouse interest.

- **Audience.** Target your seminars to audiences with similar demographics and planning needs. This enables you to personalize and focus your presentation on their specialized interest. The audience then hears you speaking to their unique needs. Both spouses should be invited; one often acts as a catalyst to produce action.

- **Timing.** Carefully plan the date and time of day for a seminar. Conflicts with events such as a local community affair or a religious holiday can reduce attendance. When choosing the time, consider the characteristics — such as age or work schedule — of the intended audience.

- **Location.** The location should be attractive, convenient, and easily accessible, including parking. This minimizes the distractions imposed on your audience and helps them to focus on you and your message.

- **Publicity.** Press releases, mailings, and other notices should start early. Many newspapers have community activities sections that will publish information about the seminar.

- **Invitations.** Written invitations with reservation reply cards help you to promote the event and to monitor the response and plan for the expected attendance. Be sure your invitation clearly states the time and location of the seminar, as well as directions to the site, and identifies the important issues that personally impact the invitees' finances. Shortly before the seminar, confirm all reservations by phone and check with those who did not respond. Exhibit 3-7 contains a sample seminar invitation and exhibit 3-8, a sample seminar reply card.

- **Cost.** The time and resources involved in planning a seminar can be extensive. These costs can be more manageable if you conduct several seminars; co-sponsor a seminar with another professional, such as an attorney, insurance broker or investment adviser; or use a published seminar script. The "Resources" section identifies a number of published seminars.

- **Handouts.** Attractive and informative materials continue to deliver your message after the seminar and reinforce the fact that the seminar is a learning experience. Consider including the following:

  - A summary or outline of your presentation
  - Brochures and other printed information
  - Illustrations that support your financial analyses or conclusions
  - Brief biography, highlighting recent accomplishments
  - A notepad and a pencil (perhaps imprinted with your name, address and phone number)

- **Audience Motivation.** A successful presentation includes information that provides value to the audience and motivates them to act. Participants should learn something of financial value, as well as something about you, your services, and the potential benefit of those services to them. To help motivate your audience, direct questions to them at the close of your presentation. Use questions that establish a need in the mind of your audience, such as the following:

  - Will your current investment strategy enable you to retire?
  - Considering your resources, have you established financial goals that are realistic?
  - Are you using the best techniques to minimize income and estate taxes?

.42 It is important to follow up with invitees after the seminar. Your follow-up can include some of the following:

- A thank you letter to those who attended.

- A letter to those who could not attend, providing some of the information that was distributed and reinforcing the importance of the PFP process.
- A telephone call to those who attended. This can be an excellent chance to answer any questions that arose during or since the seminar.

Sample follow-up letters are included at exhibit 3-9.

> ☛ **Action Tip**
>
> Include in your handouts a card requesting an appointment. Ask your audience to complete the card. A few days after the seminar, call those requesting an appointment.

.43 A final consideration is the evaluation of your efforts. Developing and presenting a seminar involves a significant investment of time and other resources and it is important to determine whether your efforts are worthwhile. The following techniques can help you to determine the value of your efforts:

- Compare the expected and actual number of attendees.
- Determine your response rate. What percentage of invitees mailed back the response card?
- Find out what the audience thought. Distribute a simple evaluation with handouts and ask for feedback on the seminar topic, the speakers, the accommodations, whether their expectations were met, the most and least enjoyable part of the seminar, and topics they would be interested in learning more about.
- Identify any new clients or additional engagements were obtained as a result of the seminar.

.44 Writing Opportunities. There are countless opportunities to write articles on PFP topics. These opportunities help establish your expertise and familiarize the audience with your name and capabilities.

> ☛ **Action Tip**
>
> Find outlets that reach prospective clients and referral sources. Try to establish contacts at local or community newspapers and commit to provide them with articles about personal finance. Local medical and dental societies and other professional groups outside the financial community have newsletters that would publish PFP articles of interest to their readers.

☛ **Action Tip**

If you would like to write for publications that serve the accounting profession, the AICPA PFP Division has a number of outlets for your writing. Contact the PFP Division at (800) 862-4272 for information on publishing an article in *Planner* or the *Journal of Accountancy.*

.45 Although it is important to establish professional expertise by writing and speaking within the accounting profession, these efforts should be only part of your PFP marketing program. For example, you can target CPA groups who are not involved in PFP, but who have clients that may need your services. This can be an excellent referral source. Article reprints may be strategically placed in waiting areas or mailed to clients and other referral sources.

.46 Mailing Lists. Mailing lists are useful means to deliver information to clients, potential clients, and other interested parties. You can use them to mail newsletters, seminar announcements, and other mailings of interest.

.47 Your target audience is already swamped with mail and does not pay much attention to it after a while. If the material is not pertinent, it will just be thrown away. Therefore, the concept of a single mailing list for all mailings is not appropriate.

☛ **Action Tip**

In a well-developed marketing plan, there should be at least three different mailing lists.

1. *Existing clients.* Send clients everything: client bulletins, technical updates on tax laws and proposed legislation, seminar notices, announcements of new personnel, and the like.
2. *Potential clients.* Send potential clients newsletters and information about seminars. A telephone call following the mailing of the newsletter or attendance at a seminar presents the opportunity to answer questions and showcase PFP services offered. The next step is a face-to-face meeting.
3. *Referral sources, sorted by categories (for example, bankers, lawyers).* Send referral sources material related to their respective fields of interest, which could include the newsletter and seminar invitations, plus information about the scope of your PFP practice and the services offered.

.48 Newsletters. Newsletters can help you efficiently communicate with clients and others on a regular basis. You have the opportunity to keep your target markets informed about information and developments that affect their financial security and promote your services and expertise. Exhibit 3-10 features several sample newsletters for your consideration.

☛ Action Tip

Keep newsletter features short and in plain English. The purpose of the newsletter is to inform readers of relevant issues, but not to provide all the answers. As a marketing tool, a newsletter should generate interest and curiosity and result in calls for more information.

.49 If you decide to publish your own newsletter, consider the following strategies to reduce the burden on your time and resources:

- Capitalize on activities and projects that you are already involved in. If you are working with a client on rebalancing a portfolio, the information from your notes, letters, and memoranda is an excellent starting point for an article on asset allocation, portfolio rebalancing, or the need to monitor investment performance.
- Tap your referral network. Many other advisers — attorneys, appraisers, and brokers, to name a few — will be willing to contribute short items of interest for your readers.
- Use a simpler, letter format that highlights tips and other important information and relevant news items you have collected over time. You can include information on financial record keeping, interest rates, filing dates, and estimated tax payments.
- Include information about firm accomplishments. For example, you can let your readers know about CPE courses you've attended, emphasizing the value of your commitment to training.

.50 Personalized newsletters can be effective marketing tools because they showcase your talents and those of your firm and allow you to customize the information to your firm and your readers; however, the time and energy necessary to produce a quality product can be great. As an alternative, you may decide to purchase a prepared newsletter. The AICPA publishes a number of newsletters. The "Resources" section contains more information.

☛ **Action Tip**

The following is a list of potential topics for newsletter articles. Over time you can develop other articles on specific topics derived from more general topics such as these. Keep ideas for articles, supporting materials, and even draft articles in a central file from which you can select topics for development as needed.

Financial Planning Topics

- Setting financial goals
- Balancing priorities among your goals
- Organizing financial records
- Record retention guidelines
- Ten things you can do right now to secure a better financial future
- Why have a personal financial plan
- Why have a will
- Does your will still work?
- The importance of personal liability insurance
- Creative debt management ideas
- The importance of goal-directed investing
- Expense documentation
- Avoiding a financial crisis at retirement
- Planning for long-term care
- Planning for education costs
- Tax calendar, summarizing significant upcoming dates

News-Oriented

- Firm news—individual accomplishments, training attended, promotions, etc.
- Speaking availability
- Client accomplishments—be careful not to show favoritism

.51 Advertising. Advertising can be an exciting and effective method of promoting your PFP services. Your message can be placed in the yellow pages, newspapers, and local television and radio. An advertisement is often the first impression someone has of you and your practice; you should carefully develop the tone of the advertisement to ensure it accurately depicts you, your practice and the services you provide. Exhibit 3-11 features sample print advertisements for CPAs offering PFP services.

.52 Although advertising cannot replace the personal contact needed to ultimately secure a PFP engagement, it does serve a number of general purposes. Well-placed advertising can help to—

- Keep your name in the public eye.
- Create a unique image for you and your practice.
- Reinforce other promotional strategies.
- Attract the attention of potential clients that are beyond other promotional strategies.
- Provide general information about the extent of your services, your qualifications, and other information.

.53 Once you've made the decision to undertake an advertising campaign, you must then decide on the advertising media to use and the message to project. Your goal is to reach the maximum number of potential clients at the most reasonable cost. Your advertising strategy therefore depends as much on your target market as it does on your advertising budget. Be sure that the medium you choose is one that your target market is using and that your message touches on the unique needs of that group.

> ☛ **Action Tip**
>
> Consider videotape advertising. If you're comfortable in this setting, this medium offers a relatively low cost method to distribute your message to potential clients. You can include a message from you at your office, excerpts from a videotaped presentation, graphics that reinforce the importance of saving early, or any other relevant information. One benefit of this type of advertising is that it is recyclable. You can ask potential clients to return the tape after they've viewed it.

.54 Joining Organizations. *Active* membership in organizations and associations can be an effective marketing strategy. This presents you with the opportunity to create a positive public image through participation in membership activities, writing for the organizations' publications, or making presentations to the membership. By becoming known as an active member of the organization, the message that you provide PFP services gets to potential clients and referral sources.

.55 Referral Sources. Many clients come from referrals. Your potential referral sources include fellow partners and employees, clients, insurance professionals, investment professionals, attorneys, bankers, actuaries and valuation specialists.

☛ **Action Tip**

To develop working relationships that generate referrals—

- Provide quality professional services on a timely basis. Other professionals will want to know that their clients are receiving the best treatment.
- *Ask* for referrals. Tell people what you do and ask them for assistance.
- Educate your referral sources on your services. Before someone can recommend your services, they must know about you and your PFP services. Provide them with copies of brochures and other promotional materials.
- Acknowledge all referrals. People who help you should be rewarded for their efforts. Set up a system to acknowledge every referral — at a minimum with a telephone call, preferably followed up by a letter of thanks.
- Reciprocate, when possible. Your referral sources are also looking for new sources of business.

☛ **Action Tip**

In new client relationships, the first six months to a year usually bring the most accolades (after which, good service is generally taken for granted). During that time, ask your clients who else they know that would benefit from the PFP process. Most clients do not refer new clients because they never think of it.

.56 Once you have received a referral, you should follow up personally, preferably in a face-to-face meeting; if this is not possible, a telephone call is an acceptable initial contact. If you must follow up by mail, exercise care in deciding what to send. A form letter may be perceived as indicating a lack of interest, and can leave a negative impression. A personal note that conveys your interest in the prospective client may be more appropriate. Consider including brochures and other promotional materials and a short article of interest to the reader.

.57 After your initial follow-up, your goal is to schedule a face-to-face meeting to determine whether the referral is an appropriate candidate for your services. The following questions will help you qualify the referral as a potential client.

1. *Does the individual need PFP services?* The answer should rarely be no; everyone can benefit from some financial fine-tuning, perhaps cash budgeting, insurance analysis, or a review of investment performance.
2. *Is the contact the individual for whom the PFP services will be performed?* If the answer is no, find out who will receive the PFP services and then talk to that individual.

3. *Can the individual afford the desired services?* If the answer is no, take a realistic look at the potential client's finances and determine whether there is a proper CPA/client match.

.58 Electronic and Print Media. Editorial coverage in the media puts you before the public and showcases your capabilities. This helps you attract new clients and also increases the public awareness of CPA financial planners. Media appearances are more effective than paid advertisements because your appearance does not appear self-serving.

.59 Appearance in the general-circulation print media, whether through interviews, by-lined articles, or special interest stories, establishes you as a knowledgeable and reliable source of information. Approach the local business or financial page editors and reporters with prepared statements, story ideas, or comments on new developments relating to PFP. By developing this working relationship, your name will attract attention by identifying you as a provider of PFP services in the community.

.60 Although more difficult to implement, television or radio appearances can be an important component of your marketing plan. A radio appearance conveys the message to the listening public that the station respects your views, in addition to bringing your name before the public. Television appearances convey the same message, possibly with more impact, but are generally more difficult to obtain. (Local access cable television is opening this market and offering more opportunities to deliver your message.)

.61 For more information on working with the media, refer to exhibit 3-12.

.62 Internal Marketing and Cross-selling. Your clients and other members of your firm need to be aware of the full range of financial services you offer. Cross-selling and internal marketing are typically appropriate in firms that have more than one line of business, but can be implemented even in boutique practices that offer a few discrete types of service. The ultimate goal is to make sure that all of your clients are aware of all the services you offer. If you are part of a firm with different departments, it is critical that the staff in each department are aware of the services provided by other departments and are able to identify situations that indicate a need for these services. If you are a small firm or sole proprietor, it is up to you to make sure your clients are aware of all the services they can obtain from you and that you are alert to opportunities to provide these services.

> ☛ **Action Tip**
>
> Establish open lines of communication that ensure that all staff are aware of the full range of PFP services you offer. Reinforce your capabilities with strategies such as the following:
>
> - Use internal memoranda or electronic mail to keep others aware of issues to look for that indicate a need for PFP services.
> - Disseminate updated information about training you have attended, software you have obtained, or other developments that enable you to provide a new service or more efficiently provide an existing service.
> - Create cross-functional teams that deal with the full range of each client's needs.
> - Practice what you preach. Make sure that you are effective at cross-selling the full range of your firm's services.

.63 AICPA Marketing Aids. The AICPA has various public relations and marketing aids available for members. For more information refer to the "Resources" section of this Handbook.

Managing the Marketing Effort

.64 Marketing efforts must be organized and carefully managed. Over time, you will want to evaluate your marketing efforts, determine which strategies work and which ones do not, and revise your marketing mix.

.65 Annual marketing plans provide organization. They should be explicit, specifying the target market and how you will differentiate your PFP services from other providers. The goals should be outlined, such as the number of new clients to be obtained and the dollar volume of PFP services.

.66 Your marketing plan should also specify the following:

- Strategies for implementing the plan
- The method for measuring performance
- How to analyze gaps between planned and actual results
- Corrective action to be taken to close gaps

3. SELLING PFP SERVICES

.01 To many who provide professional services such as PFP, the word *selling* has a negative connotation. Professional selling should be viewed in an entirely different light from that of convincing people to buy things they do not really want or need. You should view selling PFP services as the act of helping a potential client to identify his or her personal and financial goals and demonstrating how you are best equipped to satisfy those needs.

The Purchasing Process

.02 Potential clients will decide to engage you when they believe their needs or expectations have been met. These needs or expectations tend to fall into one of three categories: service expectations, personal needs, and motivational forces.

.03 Service Expectations. Potential clients are usually quite clear about their service expectations. These can include technical competence, expertise in PFP, ability and willingness to anticipate and solve problems, timeliness, and value.

.04 Personal Needs. Potential clients expect a certain kind of relationship. They may be looking for trust, rapport, empathy, personal attention, and sociability. The importance of these factors varies from one individual to another.

.05 Motivational Forces. Finally, potential clients may have some motivational needs, often on a subconscious level, that may affect their choice of financial planner. These can include the drive for survival and security, a sense of belonging, or achieving recognition or power.

.06 The more you know about your potential clients, and the better you understand their needs, the more effective you will be in the sales process. Because no two individuals are exactly alike, your challenge is to identify what those expectations are and address them all.

The Selling Cycle

.07 Getting a client to engage you to provide PFP services typically involves more than one meeting. The following steps can apply to a single meeting, or may be pertinent to what goes on in two or more face-to-face meetings.

.08 Preparation. Before your first meeting, review all available information about the potential client and his or her financial situation. Identity pertinent issues and probable areas of concern. If the potential client was referred to you, ask your referral source to shed any light on the situation. For instance, you might be able to learn why the prospect is looking for PFP services, what he or she wants from a CPA, and what criteria he or she will use when making a selection.

.09 Planning. Identify what you want to accomplish at the meeting. Do you want permission to study their financial situation, or are you going to try to collect information about what the potential client needs? Are you going to ask questions about the potential client's decision-making process and time-frame?

.10 The Meeting. Project enthusiasm and engage in casual conversation until the potential client seems to be at ease. Try to determine the kind of personality you are dealing with. The prospect's style of communication should influence how you approach the selling process. If the prospect is action-oriented, be crisp and get to the bottom line quickly. If the prospect is analytical, your presentation should contain enough detail to satisfy his or her need to understand how you arrived at your conclusions and recommendations.

.11 A clear understanding of the potential client's needs requires active listening. Probe with open-ended questions to discover what he or she really needs from the PFP process. Demonstrate your understanding of these needs by restating them in your own words. Try to find out how and when the final decision will be made.

.12 Always focus on how you will meet the prospect's needs. Offer relevant examples that demonstrate your experience in the PFP process.

.13 **Closing.** The meeting should close with a request for the work. If you believe it is too soon for this step, then you should get the prospect to agree to another meeting. For example, you might arrange a second meeting to study the potential client's tax returns or briefly review their investment portfolio. Or you might meet to deliver a proposal for PFP services. All too often, this seemingly obvious step of the closing is overlooked.

☛ **Action Tip**

If you are uneasy with an overt request to be engaged for PFP services, consider using the following approaches for closing with a request for work:

- How do you feel about our approach to dealing with your problem?
- When would you want us to get started?
- Are there any issues that we have not addressed to your satisfaction?

.14 The prospect's responses to trial closing questions will provide clues as to how close he or she is to making a decision. It is perfectly natural for the prospect to raise objections at this stage. Expect it, and be prepared to respond. After all, the prospect is about to make an important decision and needs assurance that he or she is making the right one. Objections might also arise because the prospect does not fully understand what is being offered, he or she has a real problem with what you propose, or is unwilling to make a commitment at this time. Often, the prospect is really looking for reassurance and clarification. When the prospect has agreed to what you have proposed, thank him or her and prepare to leave.

.15 **Follow-Up.** Contact the potential client soon after the meeting to answer any questions, clarify action steps, and provide additional detail. Respond quickly to any requests, and deliver on all promises you may have made.

.16 In professional selling, the focus should always be on the potential client and his or her needs, not on the technical merits of your services. Accordingly, when you meet, your objectives should include putting the potential client at ease, gaining the fullest understanding of his or her financial and personal needs, working together to define the best solution, and convincing the prospect that you have the expertise and practical experience—as well as the desire—to fulfill his or her needs.

☛ **Action Tip**

The following are some useful tips for the selling cycle:

1. Establish rapport, and show the prospect you are personable, sensitive, and responsible.
2. Demonstrate your interest in the prospect as well as his or her financial concern.
3. Try to identify the prospect's real concerns, both financial and personal.
4. Review how you have addressed similar situations.
5. Suggest approaches to solving the prospect's problems, and involve the prospect and secure feedback throughout this process.
6. Arrive at a solution that the prospect can endorse.
7. Continually reassure the prospect that you understand his or her needs and are committed to satisfying them.
8. Obtain the prospect's consent to move forward.

4. DEVELOPING MARKETING AND SELLING SKILLS

.01 You and your staff must develop a marketing orientation and selling skills that you are comfortable with. The AICPA and other sources provide a number of publications and training materials that can help you develop your marketing and selling skills. This information is included in the "Resources" section of this Handbook. Several ideas for training your staff on professional selling are also included in the checklist in exhibit 3-13.

.02 For additional reference, exhibits 3-14 through 3-19 include several recent articles on marketing for CPA practices. These articles should provide some insight into the marketing and selling of professional services.

5. CONCLUSION

.01 Most CPAs entered their profession secure in the knowledge that they would not have to sell for a living. Unfortunately, times have changed and this is no longer the case. But marketing and selling your services need not be an unpleasant chore. Marketing PFP services is an ongoing process. Any time you or your name is in front of a client or potential client, marketing is happening; your job is to control the message being delivered. Selling PFP services really involves putting potential clients at ease, helping them articulate what they want or need, then demonstrating how you can and will satisfy those needs in a responsive and cost-effective manner. To profitably serve the largely untapped PFP market, you must commit yourself to the concepts of the PFP process and to marketing and selling strategies that spell success.

EXHIBIT 3-1

SAMPLE QUESTIONS FOR A PFP QUESTIONNAIRE

Many CPAs identify the PFP needs of existing and potential clients through questionnaires. The following is a compilation of questions that may be used as a starting point to develop your own questionnaire.

General Questions

Describe any specific financial concerns:

Client ______________________________

Spouse ______________________________

Describe any significant changes you expect in your income in the next five years.

Describe any major expenditures that you plan in the next five years.

Net Worth

Do you have adequate cash reserves?

Do you have savings accounts or investments that generate taxable income?

Do you have consumer debts?

Are you planning to refinance your home?

Do you have or anticipate getting a home equity loan?

What is your current estimated net worth?

Are you satisfied with your net worth?

Cash Flow

Do you have a budget and stick to it?

Are you satisfied with the amount you have available for savings or investment after payment of monthly living expenses?

Tax Planning

Do you know your projected income tax before year end?

Are you satisfied that you have taken maximum advantage of available tax reduction opportunities?

Estate Planning

Are your wills current?

When did you last review your estate plan and wills?

Is your estate designed to minimize taxes and fees?

Do you have any assets that need special attention after your death?

Does your executor know the location of your key documents, the names of your financial advisers, and the value of your assets?

Investments

When did you last review your investment portfolio?

Are you satisfied with the diversification of your investment portfolio?

Are you satisfied with the performance of your investment portfolio?

Risk Management

Are you satisfied that your insurance coverage is adequate?

Will your insurance cover your family's needs in the event of death or disability?

Do you have an umbrella liability policy?

When did you last review and update the following:

- Life insurance coverage
- Disability insurance coverage
- Excess liability (umbrella) coverage
- Medical coverage

Education Funding

Do you have children who will be attending college?

How, out of the following, do you expect to finance their college expenses?

- Pay as you go
- Scholarships
- Financial aid and loans
- Savings

Have you established college funds for your children?

Have you planned adequately to provide for your children's education?

Retirement Planning

Are you saving for retirement?

Are you currently maintaining a retirement fund?

Does your employer maintain a retirement program on your behalf?

Does your employer offer a salary deferral or savings plan?

Does your employer match any portion of your contribution?

Are you using the deferral or savings plan to your maximum advantage?

Does your employer offer any other retirement benefits?

Do you have IRAs?

Will you make contributions to IRAs in the future?

What other provisions are you making for retirement?

Do you expect to rely on any amount of Social Security during retirement?

At what age do you plan to retire?

Do you plan to relocate at retirement?

Do you know what rate of return you must realize on your retirement investments to maintain your lifestyle and keep pace with inflation?

Are you satisfied that your current retirement savings program will provide you with a comfortable retirement?

Do you plan to work after retirement?

Business Planning

Do you own a business?

Have you planned for a successor at the time of your retirement or death?

Is the value of your interest in the business more than 50 percent of your net worth?

Does your business have excessive amounts of liquid assets?

Does your business have unused borrowing capacity?

Concluding Question

Do you need financial planning assistance?

EXHIBIT 3-2

SAMPLE PFP QUESTIONNAIRE

Name ______________________________ Date Completed ______________________

As CPAs, we often see financial problems that might have been avoided or minimized with adequate planning. This questionnaire is designed to draw your attention to areas of your financial life that may need attention and to give us a better view of your concerns so that we may better serve you.

1. Please indicate your level of interest in the following:

	High	*Low*	*None*
Establishing a regular, systematic savings plan	☐	☐	☐
Developing or revising your investment strategy	☐	☐	☐
Minimizing personal income taxes	☐	☐	☐
Investing for a comfortable retirement	☐	☐	☐
Establishing an IRA, SEP, or Keogh retirement plan	☐	☐	☐
Providing for your children's education	☐	☐	☐
Providing for your grandchildren's education	☐	☐	☐
Making gifts to relatives	☐	☐	☐
Making gifts to charity	☐	☐	☐
Minimizing your estate tax	☐	☐	☐
Determining how your estate assets are distributed	☐	☐	☐
Avoiding probate costs at death	☐	☐	☐
Minimizing the burden of health-care costs	☐	☐	☐
Providing for your family in the event of death	☐	☐	☐
Providing for your family in the event of disability	☐	☐	☐
Ensuring your insurance coverage is cost-effective	☐	☐	☐
Changing or modifying your career	☐	☐	☐
Saving for a major purchase or vacation	☐	☐	☐
Other ______________________	☐	☐	☐
Other ______________________	☐	☐	☐

2. In which of the following areas of personal finance do you believe you need assistance:

☐ Cash flow management	☐ Insurance	☐ Education funding
☐ Retirement planning	☐ Income tax planning	☐ All areas
☐ Investment planning	☐ Estate planning	☐ Other __________

3. What are your three greatest financial concerns?

1) ______________________________________
2) ______________________________________
3) ______________________________________

4. Are you interested in learning more about the benefits of personal financial planning? ☐ Yes ☐ No

EXHIBIT 3-3

CHECKLIST: TAX RETURN REVIEW FOR PFP NEEDS

Client Name ______________________ Date Completed ______________________

	Yes	*No*
Cash Flow Planning		
1. Does the level of income appear sufficient to provide necessities for family members plus a suitable amount of savings?	___	___
2. Does investment income indicate the client has had past success in accumulating savings and managing cash?	___	___
3. Is investment income increasing or decreasing? A decline may indicate a net cash outflow.	___	___
4. Is interest expense an acceptable percentage of income?	___	___
Risk Management		
5. Does the taxpayer's occupation require special coverage — for instance, does a surgeon have adequate disability coverage?	___	___
6. Is family income dependent on one wage earner?	___	___
7. Do the number and ages of dependents necessitate high income continuation coverage?	___	___
8. Are there extraordinary medical expenses? Do medical expenses indicate inadequate health insurance or special needs?	___	___
Investment Planning		
9. Does investment income indicate investments are too concentrated?	___	___
10. Does the mix of investments appear appropriate, considering the stage of life and the capacity for financial risk?	___	___
11. Has a liquid fund been established for emergency needs?	___	___
12. Does the number of capital gain (loss) transactions indicate excessive trading? Is this contrary to an appropriate investment strategy, given the family income level and other circumstances?	___	___

	Yes	No
Education Funding		
13. Are there children in the family?	___	___
14. Do the children's tax returns show that funds for education have been set aside? Are the funds adequate and are they invested in appropriate vehicles?	___	___
15. If there is a family-owned business, do children of working age receive wages?	___	___
16. If funds have previously been transferred to children, does the client understand the consequences of gifts in trust versus outright gifts?	___	___
Retirement Planning		
17. Does Form W-2 or Schedule C show the client is covered by a retirement plan with maximum contributions and deferrals?	___	___
18. Will the client's wage level qualify for the maximum Social Security retirement benefit?	___	___
19. Does Form 8606 indicate a prior accumulation of individual retirement account investments?	___	___
20. Considering age, accumulated investments and levels of debt, does the client appear to be "on track" toward funding retirement income?	___	___
Estate Planning		
21. Do investment income, real estate, family trusts, and a family business indicate the client will have a taxable estate?	___	___
22. Are estate assets liquid?	___	___
23. Does the income tax return illustrate how assets have been apportioned between spouses? Do asset account titles reveal that revocable trusts have been established?	___	___
24. Does the client have property in more than one state?	___	___
25. Does Schedule A indicate the client is inclined to make substantial charitable contributions?	___	___

EXHIBIT 3-4

PROTOTYPE PROMOTIONAL BROCHURE

The following pages feature a prototype of a promotional brochure that can be customized for use in your marketing efforts. It includes basic information on the importance of PFP, suggestions for information to complete the brochure, and a checklist of the types of services that clients may be interested in.

The first steps have been taken. To facilitate your use of the brochure, the existing text is included on the enclosed diskette. After you make your editorial changes, you can—depending on your printing capabilities and comfort level—create a final version ready for reproduction or bring the file to be typeset at a print shop.

When customizing your brochure, keep the following points in mind:

- Avoid cluttered pages. Readers respond better to lots of "white space" on the page; it makes your message seem less overwhelming.
- Keep the needs of the reader in mind. Focus on their needs as well as your accomplishments and capabilities.
- Don't try to explain everything you know or do. Provide enough information to peak the readers' interest and make them want to find out more about your financial services. You are not trying to educate them on the subject matter of the brochure.

Exhibit 3-5, which follows the prototype brochure, contains samples of brochures used by other CPA financial planners.

[*Your name or firm name*] provides a wide range of personal financial services. Our expertise and experience can help you–

- ☐ Identify your financial goals
- ☐ Manage cash flow
- ☐ Review your insurance needs
- ☐ Build education funds
- ☐ Minimize income tax liability
- ☐ Maximize retirement savings
- ☐ Plan for the succession of your business
- ☐ Develop an estate plan
- ☐ Monitor your investment performance
- ☐ Create an investment strategy
- ☐ Plan for elder care or other special needs

Start taking responsibility for your financial future. Call to schedule an initial consultation:

[*Person to Contact*]
[*Telephone Number*]

[*Firm Name, Address, Affiliations (as desired)*]

BLANK BACK

Firm Logo/Name
Firm Address
Firm Telephone Number

CPA

The CPA. Never Underestimate The Value.

TAKING RESPONSIBILITY FOR YOUR FINANCIAL FUTURE

Questions About Your Future?

The questions about your financial future are becoming more complex. How often do you ask yourself—

- *What can I do today to plan for a comfortable retirement?*
- *Can I reduce the amount of income tax I currently pay?*
- *When should I start saving for my child's college education?*
- *Do I have enough insurance to protect my family?*
- *How can I keep more of what I earn?*

It's nearly impossible for you to individually monitor the volatile financial markets, changing tax laws, and other developments that impact your personal finances. Our financial services are designed to help you meet today's complex financial challenges head on and enable you to take responsibility for your financial future.

As a partner in planning your financial future, we establish an organized approach to using your financial resources to achieve financial peace of mind. Financial planning is more than financial products. It is an array of services designed to guide in—

- Defining goals
- Identifying strategies to achieve those goals
- Taking the steps necessary to implement the strategies
- Monitoring your progress
- Updating your plan when your goals or circumstances change

We can point you in the right direction.

[Include in this panel information about you and your firm, such as:

- How long you have been in business. For example: [Your firm name] has been adressing the financial needs of individuals for [___] years.
- Training or credentials in PFP
- Background information about firm principals
- Any other information that uniquely qualifies you to best serve the reader's financial needs
- Photos
- Client testimonials]

Why a CPA Financial Planner

CPAs have been trusted and competent financial professionals for more than 100 years, helping individuals and businesses thrive in an increasingly complex financial environment.

The hallmarks of this profession include:

Education

CPAs are educated in a variety of financial topics and must meet annual continuing education requirements.

Experience

In addition to auditing and taxation, CPAs typically have a solid, broad-based financial background.

Ethics

CPAs must conform to their state's code of ethics to maintain their professional licenses. This means you receive competent objective advice

In a nutshell, CPAs who provide personal financial planning services are able to combine their financial savvy and professional integrity in developing the creative planning strategies you need for financial peace of mind.

EXHIBIT 3-5

SAMPLE PROMOTIONAL BROCHURES

This exhibit contains examples of brochures used by practicing CPAs to market their personal financial planning services. The brochures are included for illustrative and educational purposes only. The AICPA gratefully acknowledges these members for sharing their resources with our readers.

EXHIBIT 3-4

SAMPLE PROMOTIONAL BROCHURES

Douglas E. Hull.
CPA PFS

Doug is the owner and manager of the firm. He was certified in 1973 and educated at Northeastern University. In 1993 he became a PFS (Personal Financial Specialist), the first CPA specialty accredited by the AICPA.

He served on the editorial board and has written articles for The Journal of Accountancy, and served on an AICPA CPE subcommittee.

Doug served as a founding director of New England Quality Review, a body approving quality reviews of CPA firms. Doug has performed about 35 reviews of other CPA firms and continues to be a reviewer.

For the Vermont Society of CPAs, Doug has served as chair of the Professional Ethics Committee, Quality Control Committee and as coordinator for a NEGASC Conference.

Doug is active with community organizations such as the Central Vermont Economic Development Corporation and the Central Vermont Chamber of Commerce. He is a past president of the Montpelier Kiwanis Club. He also served as a 1st Lt. in the U. S. Army Signal Corp in Vietnam.

Doug taught a course in antiques and helps Cathy with refinishing furniture. A clock collection as well as ink wells are displayed at the office. He enjoys the social activities of his wife Cathy and two children, Lyn Soon and Yang.

Catherine R. Hull

Cathy is the Office Administrator and manages computer and bookkeeping services. She has an associate degree from Becker Junior College and has worked for 30 years with several accounting firms. Cathy is the firm's software specialist, as well as an experienced tax preparer.

Cathy is an antique buff with part ownership in the East Barre Antique Mall. She is also treasurer of the Worcester United Methodist Church.

What is PFS?

CPAs have always provided tax advice to clients but failed to understand client needs for insurance, investment strategy, estate tax planning, and retirement planning services.

PFS enhances the CPA's credibility in providing the knowledge, skills, and planning techniques required to offer advice in these areas of practice.

Only 1,000 CPAs have earned the PFS designation and Doug is the only one in Vermont. It is similar to the CFP designation.

History

Douglas E. Hull, CPA PFS has been a respected name in the accounting community for over twenty years. During that time Doug has built an excellent reputation by serving the tax and accounting needs of individuals, closely held businesses, non-profit organizations, municipal governments, partnerships , and estates and trusts.

Now Doug is developing his PFS specialty by consulting and assisting clients with their retirement, financial, and investment decisions.

Although he has served many large businesses over the years, and will continue to do so, his roots have been, and always will be, service to small businesses and individuals. He is dedicated to serving his clients with personal financial counseling and management consulting.

The firm will gladly refer you to some of their clients who have been asked to serve as references.

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CPA Accounting , Tax,
and Management Services
Provided by the Firm

Tax planning and Implementation

College financial planning

Business Valuations

Divorce Planning
Like-Kind Exchanges

Charitable Gift Planning

Personal and Business Budgeting

Projections and Forecasts

Business Start-ups
Bankruptcy and Reorganization

CPA Quality Reviews and Tax Practice Reviews

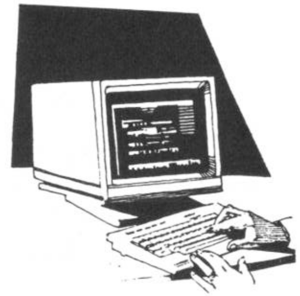
Disclaimer Trusts/Martial Deduction Trusts
Life Insurance Trusts

Assets Allocation Planning
Estate/Probate Accounting

Business and Personal Planning

Management reviews for Dentists and Doctors
Representation before the IRS
Financing Businesses

Computer consulting



Put Your Tax and Management Questions Here

1.

2.

3.

4.

5.

Member of
AICPA including
AICPA Tax Division
AICPA PFP Division
AICPA MCS Division
Vermont Society of CPAs

DOUGLAS E. HULL, CPA PFS

CERTIFIED PUBLIC ACCOUNTANT

PERSONAL FINANCIAL SPECIALIST

802-229-5616

800-496-5616

Heritage I Professional Building
81 River Street
Montpelier, Vermont

Mailing Address
P O Box 541
Montpelier, VT 05601

Your Comprehensive Financial Plan lets you see the "Big Picture."

An important way we apply our multidisciplinary expertise to financial planning is to prepare your Comprehensive Financial Plan. First we give you a total picture of your assets. Then we work to help you meet your financial goals. Your Comprehensive Financial Plan, with explanatory text, graphs, and recommendations, includes:

- Summary of your key financial contacts
- Net worth statement
- Cash flow statement
- Federal and state income tax projections
- Investment advice and planning
- Disability and life insurance needs analysis
- Retirement needs analysis
- Educational funding analysis
- Schematic of present estate plan
- Estate tax calculations

Specialized Services Tailored To Your Special Financial Interests.

We also offer special services which are invaluable if you've experienced a major economic change, such as the sale of a business, an inheritance or a divorce:

- Business continuation planning
- Cash flow and tax projections

- Investment planning — includes asset allocation, money manager selection, mutual fund advice and performance monitoring
- Compensation, retirement and benefits analysis

Another Good Reason Why You Can Trust Tax & Financial Advisors.

We work on a fee basis only — not on commissions as many financial planners do. Since financial product sales are not our motivating force, you'll find our investment evaluations and recommendations are objective and designed *for your benefit only.*

We're always looking for opportunities to help you grow financially. We take a personal interest in your success and work to establish a long-term relationship — as we've done with many clients.

We Make Sure Your Money Works Harder For You.

Our involvement doesn't end with expert advice. We also provide quarterly reports to analyze your investment portfolio performance.

We maintain an updated list of recommended mutual funds as an investment resource. And we conduct professional searches to find money managers who are experts at handling investments, and at helping clients accumulate wealth.

Whenever You Need Us, We'll Be Here For You.

Besides being expert financial advisors, we are also good listeners. We'll be happy to discuss any financial matter. You can count on **Tax & Financial Advisors** for quality work and responsive, personalized service.

We'll help you keep what you have earned — and show you how to realize your financial dreams and goals.

Call Now For A Free Financial Planning Consultation.

Hiring a financial planning firm is an important decision. Because you can't afford to make the wrong choice, we offer a free initial consultation.

To help you realize your ultimate financial goals, call us today at

(617) 863-2200.

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With a president who is an attorney and has degrees in accounting, law, and taxation and an executive vice-president who is both a CPA and MBA,

TAX & FINANCIAL ADVISORS *has the right experience.*

You've Found the Right Financial Planning Team for Your Family. . .

We all want financial security and peace of mind. But they're something few of us find. When we do, they're hard to keep, without the right help.

To help you reach those goals, the principals of Tax & Financial Advisors draw on several areas of expertise. Besides being a lawyer, William T. Baldwin, co-founder and president, has accounting and tax law degrees and over 15 years experience helping individuals and closely held businesses set and meet financial goals.

Beth C. Gamel, co-founder and vice-president, puts her CPA and MBA degrees and over ten years experience to work for you. Both principals lecture and frequently provide expert financial advice to major newspapers.

Our professional backgrounds allow us to work with professionals in other disciplines. We won't replace your lawyer, accountant, insurance agent or broker. Instead, we will work with them to serve your needs.

We're a highly qualified team of financial planners with the tools to develop a customized plan to help you reach your financial dreams and goals. In essence, we will be the best financial friends that you can have.

TAX & FINANCIAL ADVISORS

Making today less complicated and tomorrow more profitable

80 Hayden Avenue
Lexington, MA 02173
(617) 863-2200

WILLIAM T. BALDWIN, J.D.

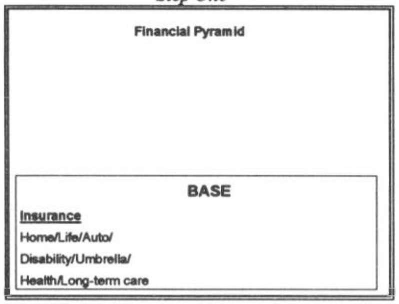
Master of Law in Taxation, Boston University Law School, 1983
Juris Doctor, Boston College Law School, 1975
Bachelor of Business Administration, major in Accounting, *magna cum laude,* University of Cincinnati, 1972
Member: Boston Estate Planning Council, Smaller Business Association of New England, The Forge, Winchester (Massachusetts) Retirement Board

BETH C. GAMEL, C.P.A.

Accredited Personal Financial Specialist, 1989
Certified Public Accountant, 1983
Master of Science in Business Administration, University of Massachusetts, 1977
Bachelor of Arts, University of North Carolina, 1968
Past Co-chairperson: Financial & Estate Planning Committee of the Massachusetts Society of Certified Public Accountants
Executive Committee: Boston Estate Planning Council
Member: Personal Financial Planning Division of the American Institute of Certified Public Accountants, New England Women Business Owners
Author • Lecturer

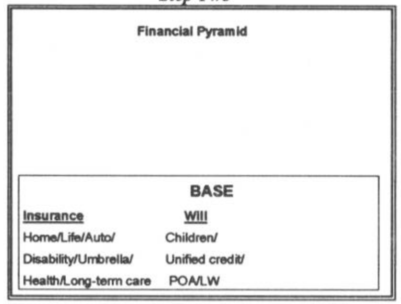
Only an experienced financial planner can build your assets and give you peace of mind.

Step One



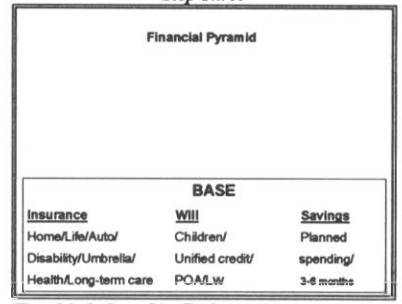
Your financial pyramid must have a strong base built on three piers.
The first pier is Insurance.
Insurance keeps a financial or health disaster from draining your pyramid.

Step Two



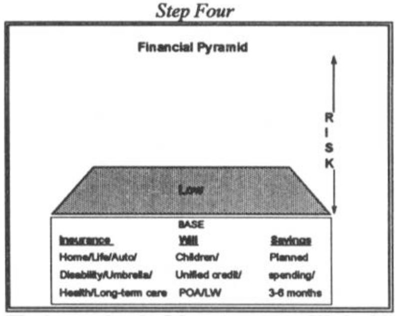
The second pier is Estate planning/Will.
You must have a will for guardianship and for proper executory direction.
A Living Will/Physicians Directive is needed, as well as Powers of Attorney-Health & Financial.

Step Three



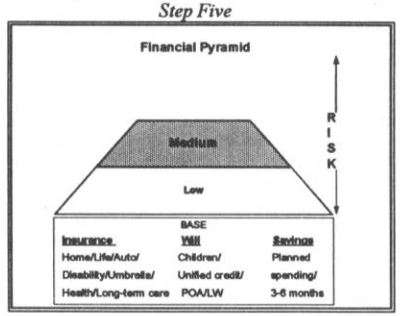
The third pier of is Cash Management.
You must plan where you spend your money, planning for necessities, and fun.
You need a cash reserve to at least match the waiting period on your disability policy.

Step Four



The lowest level of the pyramid is filled with the lowest type risk investments, such as T-bills and CD's. These offer the safest returns, many with limited federal guarantees. Taking more risk requires that you receive a return 'premium'. Too little risk can allow inflation to significantly impact your return.

Step Five

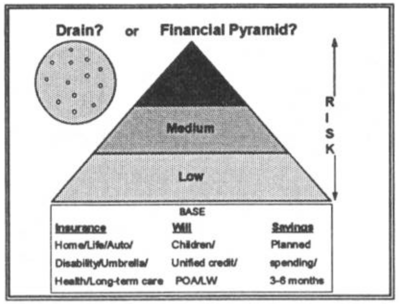


The second level of the pyramid moves your investment risk into investments that provide returns that increase a few points; investments such as stocks and bonds of major companies.

Step Six

The highest levels of the pyramid, where risk is generally double the lowest level, is where the smallest percentage of your investments, such as futures, options and speculative stocks, should be placed. Too much here will reshape, even invert, your pyramid.

Terry M. Stock,



The result of good financial planning is reaching your goals. Goals are reached by having sufficient assets in your pyramid to provide for a comfortable retirement, while allowing for your planned spending to provide an enjoyable lifestyle while working toward your goals.

It's your decision every payday-

Does money go into your pyramid to reach your goals?
or,
Down the drain!

Read inside to see how to 'build' your pyramid.

TERRY M. STOCK, CPA/PFS

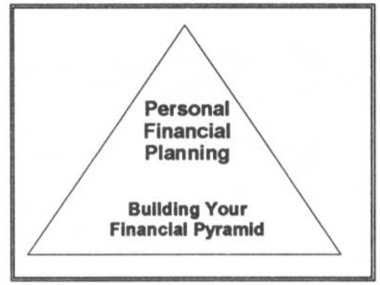
15734 WANDERING TRAIL
FRIENDSWOOD, TEXAS 77546

(713) 486-9688
(phone&fax)

You should do a periodic review of your financial plan to make sure that you are progressing towards the attainment of your goals and objectives.

Suggestions regarding insurance coverage and investment alternatives are presented only as guidelines and should not be viewed as an endorsement of a specific product or investment. Before purchasing an investment product, you should thoroughly investigate the product and the offering institution and seek the guidance of a broker or investment advisor who is registered with the Securities and Exchange Commission to give investment advice. Insurance products selected should be made based on the services of a licensed insurance representative.

PFP1



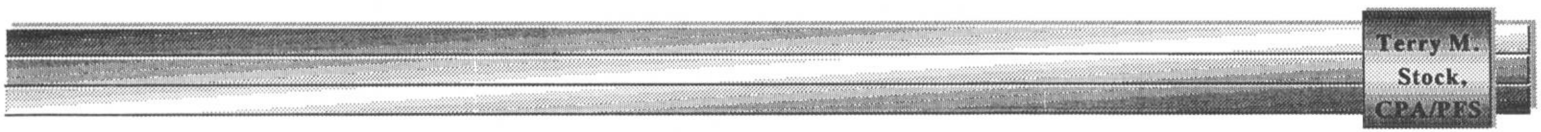


EXHIBIT 3-6

CHECKLIST: SEMINAR PLANNING

Program Development

- ☐ Form a development team and appoint a coordinator.
- ☐ Identify the target audience.
- ☐ Determine the seminar focus and related topics. Consider the target audience and their needs, timely hot topics, and the firm's expertise.
- ☐ Identify the speakers. Consider the following:
  - Speakers should have a mastery of the selected topic and be able to maintain interest by discussing personal experiences.
  - The seminar is an opportunity to show off the expertise and ability of your entire staff. Try a mix of partners and others.
  - If you are part of a small firm or a sole practitioner, consider including other advisers with whom you frequently work. This presents a full service team to invitees.
- ☐ Determine the seminar size. The size of the audience should be easily manageable by the site and the speakers and enhance relationship development.
- ☐ Select a location. Consider issues such as accessibility, parking, aesthetics, and comfort. If you use your office, avoid busy hours.

Financial Considerations

Prepare a budget, taking into account expenses such as the following:

- ☐ Speaker fees and travel expenses
- ☐ Seminar room rental
- ☐ Equipment rental (audiovisual, tables and chairs)
- ☐ Refreshments (including tax and gratuities for catering)
- ☐ Mailing list rental
- ☐ Production and mailing of invitations and reply cards
- ☐ Guest parking
- ☐ Name badges
- ☐ Production of audiovisual materials (slides, transparencies, etc.)
- ☐ Handout materials

Detailed Arrangements

- ☐ Finalize site arrangements.
- ☐ Obtain a confirmation of the site arrangements.
- ☐ Coordinate menu and catering services.
- ☐ Contact prospective speakers and confirm their participation.
- ☐ Mail invitations with reply cards. Include a space to verify invitee's name and address.
- ☐ Monitor acceptances.
- ☐ Pre-seminar contact to those accepting (advance mailings, confirmation card, telephone call).
- ☐ Prepare materials for distribution, including handouts and visual aids such as slides and flip charts.
- ☐ Develop evaluation forms for participants.
- ☐ Select a seminar "greeter" and brief on logistics.
- ☐ Prepare name tags.
- ☐ Reconfirm site arrangements prior to seminar date.

During the Seminar

- ☐ Set place cards and distribute name tags.
- ☐ Check that all audiovisual equipment is working properly.
- ☐ Have someone greet and register participants as they arrive.
- ☐ Introduce speakers.
- ☐ Monitor the comfort level of the room (seating availability, temperature, lighting).
- ☐ Collect completed evaluations from participants.
- ☐ Make sure firm representatives (partners and staff) join the group for any planned social event (lunch, reception).

After the Seminar

- ☐ Mail follow-up letters to all who were invited (participants and no shows).
- ☐ Add participants to your mailing list.
- ☐ Telephone those with whom acquaintances were made and develop relationships.
- ☐ Review evaluations for relevant information, including possible topics for future seminars.
- ☐ Monitor new clients or additional business from existing clients to ascertain whether the seminar directly resulted in increased business.

EXHIBIT 3-7

SAMPLE SEMINAR INVITATION

Dear [*Invitee*]:

Are you prepared for the future?

Consider the following:

- Only 32 percent of couples and 18 percent of singles who reach the age of 65 will receive pensions other than Social Security.
- At only five percent inflation, in 25 years it will require approximately $3,400 to purchase what $1,000 buys today; in 35 years, the requirement will be $5,500.

Would you like to be better prepared?

I am inviting you and [*Spouse's name, if known*] to attend **Taking Responsibility for Your Financial Future**, a seminar sponsored by [*Your firm*]. The seminar will be held on [*Date*], beginning at [*Time*] at [*Location – include directions if appropriate*].

This seminar will highlight [*Identify the issues you plan to address and the benefits the invitees can expect. For example: "This program will address many issues that directly affect your financial future. This is your chance to learn how to develop a financial road map that puts your financial welfare at the top of the list and you in the driver's seat."*].

Someone once said, "No one plans to fail, but many people fail to plan." It is so easy to put off planning for your financial security. You now have the opportunity to take the first step for taking responsibility for your financial future.

I've enclosed a postage-paid reply card for your RSVP. I look forward to seeing you on [*Date*]!

Sincerely,

[*Your name*]

EXHIBIT 3-8

SAMPLE SEMINAR REPLY CARD

TAKING RESPONSIBILITY FOR YOUR FINANCIAL FUTURE

RSVP

- ☐ Yes, I will attend (I will __ will not __ be bringing my spouse or a guest.)
- ☐ Sorry, but the date/time is inconvenient. Please let me know about future seminars.
- ☐ Sorry, but I'm not interested at this time.

Name (Please print): ______________________________

Spouse /guest's name: ______________________________

Signature: __________________________________

EXHIBIT 3-9

SAMPLE SEMINAR FOLLOW UP LETTERS

FOR PARTICIPANTS ATTENDING THE SEMINAR

The following letter can be customized to take into account your existing relationship with the recipient, whether you actually met at the conference, any specific planning needs you are aware of, or other items that create a personal touch:

Dear [*Name*]:

Thank you for attending the recent seminar [*Seminar title*].

I realize that taking control of your financial future can seem overwhelming and I hope that you gained some useful information from this event.

If you have any questions about the topics discussed at the seminar, please call me.

Sincerely,

[*Your name*]

FOR INVITEES WHO DID NOT ATTEND

This letter can also be customized to take into account the considerations mentioned above.

Dear [*Name*]:

I am sorry you were unable to attend the recent seminar, [*Seminar title*].

Because your financial well-being is extremely important, I've enclosed some of the seminar handouts and a brochure describing the many personal financial services we provide.

I hope to meet with you soon, perhaps at one of our future seminars. In the meantime, please call me if you have any questions.

Sincerely,

[*Your name*]

EXHIBIT 3-10

SAMPLE NEWSLETTERS

This exhibit contains examples of newsletters used by practicing CPAs to market their personal financial planning services. The newsletters are included for illustrative and educational purposes only. The AICPA gratefully acknowledges these members for sharing their resources with our readers.

Rothstein
& Company
Certified Public
Accountants

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Avon, CT 06001
(203) 673-5500
Fax (203) 675-5505

THE FINANCIAL PAGE

May 1995 Page No. 4-9

DATES TO REMEMBER

Tax Returns and Payments Due:

May 15	Federal corporate tax returns with February 28, 1995 year end. Federal corporate estimated payments for May, August, November, and January year ends.

REBALANCING – WITHOUT FALLING AND GETTING HURT!

Many investors are aware of the benefits of asset allocation, an approach which spreads your investments among various asset categories in order to minimize investment risk. Having the right asset mix in your portfolio can be essential to attaining your goals.

Sophisticated investors take asset allocation one step further by "rebalancing" on a periodic basis. To illustrate, let's say that you want 65% of your portfolio to be in growth investments. As the value of your growth investments increases and/or decreases, the percentage of your portfolio in this asset class may be more or less than 65%. Suppose, for example, that during the first quarter of 1995, while other components of your portfolio remained relatively stable, your growth investments, following the Dow Jones' dramatic rise, increased to 70% of your total portfolio. Following a rebalancing strategy, you would sell a portion of your growth investments and use the proceeds to increase your holdings in other components of your portfolio. The dollar value of your overall portfolio would have increased, but, after adjusting by rebalancing, your growth investments would be back to 65% of your total investments.

When does rebalancing as a strategy help? Normally, all asset classes have volatility, meaning that in some years they increase in value and in some years they decrease. Stated another way, asset classes do not always move in the same direction. The classic investment advice is to "buy low, sell high." With rebalancing, you sell assets when they are up (sell high), and you buy assets when their value is relatively low (buy low).

Rebalancing should be done at least annually, and sometimes more often if a major market change dramatically shifts the relative values of your assets. The stock market results after the first three months of 1995 might cause you to evaluate whether or not rebalancing is in order for you.

Investing Guidelines: WHEN TO SELL MUTUAL FUNDS

To achieve your goals, you need to know what you want, stick to a plan...and monitor your results.

Some factors which we consider when recommending whether or not a mutual fund should be sold are:

- Two years of poor performance relative to comparable mutual funds
- A shift in the fund's goals
- Changes in the fund's investment policies and strategies
- A change in the fund's portfolio manager
- *Changes in your own financial position* which make the fund's goals no longer compatible with your own.

DISABILITY INSURANCE: YOU CAN'T AFFORD TO BE WITHOUT IT

Several studies have shown that, during a person's normal working lifetime, the probability of being disabled for 90 days or more is substantially higher than the probability of dying. The risk of being disabled is not only statistically more common than the risk of premature death, but a lengthy disability also can have a much greater impact on your family. Both death and disability can remove a source of family income, but, in the case of disability, family expenditures may actually increase because of large, on-going medical expenses and other special needs.

You may have read recently about changes insurance companies are making in their individual disability insurance policies. New policies, especially those issued after the first of next year, are likely to be less generous than ones already on the market. These anticipated changes should serve as an extra incentive to review any existing policies to make sure your coverage is adequate, and, if you need coverage but have put off acquiring it, to search for the policy best suited to your needs.

Please feel free to call Kathy Norris or Alan Rothstein to set up an appointment for a disability insurance analysis and to review your other insurance, including life, health, and personal and business liability policies.

"If something sounds too good to be true, it probably is---"

Nicholas S. Perna

THE FINANCIAL PAGE© is written and produced by Rothstein & Company, CPAs. Our firm specializes in providing accounting, tax and financial planning services for closely-held businesses and self-employed individuals. Alan M. Rothstein, CPA/PFS; Janet R. Ouellette, CPA/CVA; Kathryn K. Norris, CFP. This publication is intended to provide general information only and is not intended to provide investment, tax, or legal advice.

TAX & FINANCIAL ADVISORS

Quarterly Client Update

Winter 1993

Investment Focus

Selecting the Right Money Manager

Selecting a money manager may occur by chance, based upon a recommendation or a personal relationship. If you would rather not leave such an important decision to chance, you will be happy to learn that there really is a method to selecting a money manager. Each step along the way can help increase your understanding of the decisions you need to make and the likelihood that the outcome will meet your expectations.

The process can be compared to building a house. First you decide what you want. Should it be a colonial, a contemporary, or some other style? How large and how many rooms? Next you obtain a list of reputable builders, interview them and select one. Once the project begins, you need to stay involved, to ensure that the builder is following the plans and responding to design changes.

Selecting a money manager is a similar process that can be divided into three steps:

- Setting investment policy
- Selecting a manager or managers
- Reviewing and monitoring performance.

Investment Policy

The first step is to ***objectively analyze your own situation***. How much is available for investment? What will the assets eventually be used for? Do you need the income currently generated by the investment? If not, how many years will it be before the investment will be drawn upon?

Next, you need to ***establish reasonable expectations***. What is a reasonable rate of return and level of risk? Can return be enhanced by taking additional risk, or can risk be reduced without significantly reducing the expected return?

Finally, there are ***subjective considerations*** to take into account. How much risk can you *really* stand to take? Would you close the account if your portfolio lost 5% of its value in the first three months? 10%? Or would you be willing to withstand an even larger loss in the expectation of higher long term returns?

Continued on next page.

Tax & Financial Advisors ■ 80 Hayden Avenue, Lexington, Massachusetts 02173 ■ Phone: 617.863.2200

Giving some thought to these matters will help you gain an idea of ***how much risk is appropriate*** given your needs, preferences and the real world of investments. They can also help you ***decide on the allocation*** that best suits you. By dividing your money between stocks and bonds and selecting from among the various investment styles that are available, you can design an allocation that should give you the best possible return at the level of risk that is appropriate for you. This becomes your ***investment policy.***

Selecting a Manager

Next, you need to understand a bit about the ***investment styles*** of money managers. The general categories are value, growth, small cap, international and balanced. By reviewing the materials prepared by several investment management firms, you will learn how each manager chooses stocks or bonds. You may see the investment process described by terms such as "top down," "bottom up," "earnings momentum" and "sector rotation."

Look also at ***performance***, but don't let returns rule your decision. Note the volatility of that performance and how the manager has done in both up and down markets.

You are now ready to narrow down the list and meet with managers. If you have laid the groundwork, you will ask better questions and convey a clear understanding of your objectives.

Performance Review and Monitoring

Once a decision is made, you must periodically review your account to determine if it is meeting your expectations. This is done by reviewing the purchases and sales and computing the performance of the account. That performance should be compared with the appropriate market index, such as the S&P 500 for domestic stocks and the Shearson/Lehman Government/Corporate bond index for bonds. Every manager has good and bad years, and markets run in cycles, so you should establish a reasonable length of time for making a meaningful evaluation.

How Can Tax & Financial Advisors Help?

Most people wouldn't think of building their house alone. Instead, they hire experts such as architects and builders. So it is with finding a money manager.

Tax & Financial Advisors has the expertise to help you define your needs and to identify and select money managers. Below are the basic steps we take, and following that are examples from our practice.

- Prepare a financial plan which includes a recommended asset allocation for the client.
- Identify prospective portfolio managers using our information, resources and experience.
- Help clients learn the terms they need to know and questions they need to ask in order to gain the most from the interview process.
- Monitor the performance of investment accounts and report to clients each quarter on their managers' results.

Examples

A client received over $2,000,000 as a divorce settlement. Her objective was to invest it for income to support her standard of living with enough growth to counter inflation. We worked with her to develop an investment allocation to achieve that objective. Of the four managers we recommended she interview, she selected one to manage a portfolio of stocks, another to manage a balanced portfolio, and a third to manage a portfolio of tax exempt bonds. Tax and Financial Advisors assembled a fourth portfolio consisting of mutual funds invested in small cap stocks, international stocks and international bonds—asset classes not represented by the three managers.

A business owner sold his company, receiving publicly traded stock in return. Restrictions on the transferability of this OTC-traded stock mean that a

Continued on page 3

considerable portion of his net worth will be tied up in a highly volatile, aggressive growth stock for quite some time. The diversification plan we agreed upon involved substantial holdings in municipal bonds. As our client was not convinced that a managed account was superior to a simple laddered bond portfolio, we reviewed such data as total returns before and after fees and before and after state taxes and compared that information to managed and unmanaged muni bond indexes. We interviewed several prospective managers and then accompanied the client to meetings with two bond managers and a broker.

Because of our experience with money manager searches, we are familiar with a number of excellent Boston and New York-based firms. But our data base covers the entire United States, and we used it when we were engaged to handle searches outside of the Northeast.

A client of ours died last summer, leaving his two adult children who live in the Midwest and California respectively, over $2 million each. As they preferred to work with local managers, we collected and analyzed data on growth and value equity and balanced managers based in four different cities.

At The Podium

On May 1st Beth was a panel member, along with a "Big 6" CPA, a lawyer and a pension consultant, at the national conference of the Society of Asset Allocators and Fund Timers, Inc. Beth described the role Tax & Financial Advisors plays in money manager searches for individuals. In addition to her prepared remarks, Beth answered a wide variety of questions on our investment advisor search, selection and monitoring methods.

CPA Planners Featured in the *Wall Street Journal*

Reporter Earl Gottschalk, who addressed the American Institute of Certified Public Accountants' (AICPA) Personal Financial Planning Technical Conference in San Diego which Beth attended in January, wrote a highly complimentary article about CPA Planners. In the May 4th "Your Money Matters" column, Mr. Gottschalk stated:

> Of the country's approximately 400,000 CPAs, some 4,000 have completed financial planning courses sponsored by the AICPA. An even smaller minority—783 CPAs—have spent at least 250 hours a year counseling clients in financial planning for the past three years and have passed a one-day test. They hold a special designation, Personal Financial Specialist, or PFS.

You may be interested in knowing that Beth is one of only 20 CPAs in Massachusetts who has this PFS designation.

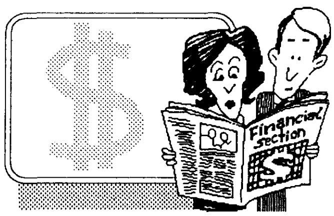
Welcome Aboard Chuck!

We are very pleased to announce that a second CPA recently joined our firm. Chuck Katz became a full-time staff member in February, just in time for the busy tax season.

Chuck has an interesting combination of skills and background. He received his Bachelor of Arts from Amherst College in Classical Languages and his Masters of Science in Accountancy from Northeastern University. Chuck speaks Italian and taught Latin at the Moses Brown School in Providence.

He worked in his family's business, General Builders Supply Co. in Norwood, and then at the regional accounting firm of Tofias, Fleishman, Shapiro & Co. Chuck, his wife, Jill, and their one year old son, Jake, make up Casa Katz.

In the News and On the Screen



Talk of New England, the nightly cable television program, invited Bill back for a second appearance. He served on a panel of experts who discussed income taxes on the March 11th show. He also took calls from viewers about their tax problems.

Bill was quoted in the "50 Plus" column in the May 3rd *Boston Globe*. The drop in IBM stock served as the backdrop for this article on employee investment in their own company's stock. Bill suggested that people apply the same tests for suitability regarding their employer stock holdings as they would any stock in their portfolio.

Keeping Up

On February 25th and 26th Karla attended the *Effective Office Management* seminar conducted by Ethel Cook at Bryant College. Determining priorities, managing time, organizing files and managing work flow were among the topics addressed.

Bill and Beth attended a March 25th Boston Estate Planning Council program on "The Irrevocable Life Insurance Trust." Attorney Patricia Annino spoke about the estate, gift and income tax consequences of establishing such a trust as well as the special issues related to second to die insurance.

Softeach Spotlight

Tax & Financial Advisors was recently featured in someone else's quarterly newsletter. Softeach president, Elizabeth Brown, asked if we would talk about the ways in which we had used the company's services over the past 3 years. Since we were very satisfied with the software training and computer consulting services the firm had provided us, we readily agreed. The result was our picture and a feature article entitled "Building Partnerships with Clients" in their Spring 1993 newsletter, *Softalk*.

Comings and Goings

With deep regret, we say "goodbye" to John Valutkevich. John started as our Bentley College Honors Intern last summer and stayed on as a part-time staff member during the school year. He graduates this month and starts a position with Meditech in June. Although we will all miss John and wish him the best as he begins his career, we'll never forgive him for winning the office NCAA pool.

Welcome Our new Bentley Honors Intern is Peter Hinkley, a finance major with a minor in Spanish. He enjoys sports, especially lacrosse, reading and travel. While working part-time as a high school student, Peter revitalized the boys apparel department of a national discount store chain, leading to his promotion to department manager. We look forward to his applying his skills of hard work, dedication and self-motivation to his tasks at Tax & Financial Advisors.

Bill Baldwin

William T. Baldwin, Esq.

Beth C. Gamel

Beth C. Gamel, CPA

Tax & Financial Advisors ■ 80 Hayden Avenue ■ Lexington, Massachusetts 02173 ■ Phone: 617.863.2200

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EDITOR: KAREN BROSI

Financial Advisory

February 1995

Financial, Business and Tax Strategies You Can Use

News From Capitol Hill

by Dorothy H Congleton

The news out of Washington appears to contain a mixed bag. In these early days of 1995, Congress, the White House and the Internal Revenue Service have all tipped their hands—providing previews of what's in store for us this year.

On the legislative front, the essence of "Contract with America" is receiving mounting support across the nation—and across party lines. Congress is considering several proposals for tax breaks this year:

- Lower effective capital gains tax rates
- Credit for couples subject to the "marriage penalty"
- Credit of $500 per child for the "middle class"
- Roll back of the taxation of 85% of Social Security benefits to 50%
- IRAs that accumulate and distribute income tax-free
- Simplified home office deduction rules
- Deduction for loss on the sale of a personal residence (this is not currently allowed).

These appear to be among the most popular proposals currently under consideration, and support for many of them comes from both sides of the Congressional aisle and from the White House as well. In fact, the biggest controversy brewing seems to be which party will get full credit for originating these proposals.

The largest obstacle standing in the way of passage will be the cost. We expect debate to center around which part of the system will be used to pay for these tax breaks. In the end, however, the taxpayer should be the overall winner.

On the other hand, the Internal Revenue Service has announced less welcome news for taxpayers—they will be increasing their examination activities. In fact, we are already seeing early signs of this increase locally. Both the San Francisco and San Jose Districts have taken on large numbers of new trainees, and we expect a substantial rise in audits by September, 1995. Major targets will be sole proprietors, the construction industry, attorneys and passive activities (particularly rentals).

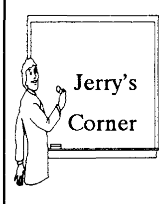
The Service has also expanded its computer capabilities. As a result, it has become extremely important for taxpayers to report income and expense items on the lines which are scanned for those items by the computer. For example, the total mortgage interest expense declared for rentals, farms and your personal residences should match *exactly* the totals reported to you (and to the IRS) by financial institutions on Forms 1098. Even a small difference might generate an IRS notice requiring you to validate your figures. If the difference is deemed to be substantial, your return could be set aside for further scrutiny and, possibly, an audit.

For this year's tax filing season, our advice is to proceed cautiously. Some of the changes in 1995 might effect 1994 (*eg,* a retroactive renewal of allowable deductions that expired on December 31, 1993). Further, new IRS Regulations are, and will continue to be, issued throughout the year clarifying existing tax law (in particular, passive loss rules). And you want to be sure you have all information returns (*ie,* K-1s, 1099s and 1098s), in order to report each item correctly on the proper line of the tax forms.

With all that in mind, this might be the year you decide to extend your return beyond the April filing date. In any case, give yourself time to be sure you have all your data, and to review late-breaking developments. Only then can you file an accurate and well-informed return.

In This Issue

The Elements of an Investment

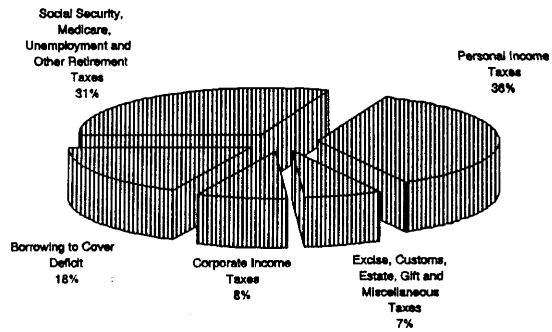


Liquidity

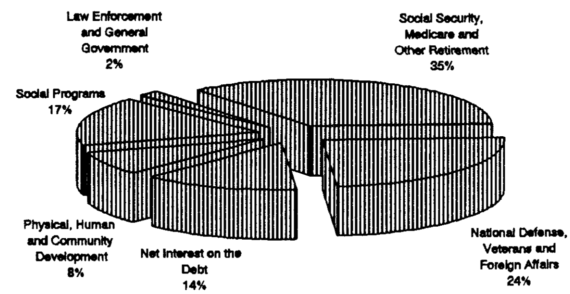
Consider the man in Manhattan who hailed a taxi in the rain.
please turn to page 4.

Where Did It All Go? Federal Income & Outlays for 1993

Federal Income & Borrowing
$1,408 billion



Federal Outlays
$1,408 billion



"Step-Up" in Basis—What's the Big Idea?

by Lina T Swisher

Suppose you paid $25,000 for an investment that's now worth $100,000. Suppose further that you still own that investment at the date of your death. Neither you, your estate or your heirs will have to pay income taxes on the $75,000 gain. That's the idea known as a "step-up" basis.

When you die owning an appreciated asset, the gain is unrecognized, and therefore not taxed. In addition, your heirs inherit the asset at its fair market value, and their basis becomes this "stepped-up" amount. Even if they decide to sell the asset the day after your death, their gain would be zero ($100,000 sales price less $100,000 basis).

This strategy can also hold tax advantages for married couples. When one spouse dies, his or her one-half interest in any jointly owned assets also receives a step-up in basis. Even better, for assets held as *community property*, the entire holding is stepped-up. The key here is in the titling of the asset, and the income tax impact can be substantial.

For example, let's say you and your spouse paid $100,000 for your home that is now worth $600,000. If you own the home as joint tenants with rights of survivorship (JTWROS), when one of you dies the other would then have a basis of $350,000 ($50,000 of original basis owned by the surviving spouse plus $300,000 stepped-up basis in the decedent's half interest). If the survivor decides to sell, he or she would have a realized gain of $250,000. By simply titling the home as community property, you ensure that the surviving spouse will receive a basis step-up to the full fair market value. Under current tax law (28% capital gains tax) that could be an income tax savings of $70,000.

Of course, while the strategy of owning and holding appreciating assets avoids income taxes during your life, and reduces or eliminates them for your heirs, your estate will still owe *estate taxes* on the value of the assets you own at your death. This is an important consideration.

One method to alleviate both income and estate taxes is known as income shifting. Here, you give away certain income producing assets during your lifetime, thus eliminating the assets from your taxable estate, and shifting the income to the recipients. When a recipient's income tax bracket is lower than your own (with the exception of your own child under age 14), he or she benefits from the additional income and pays less tax than you would have.

The disadvantage of this combined estate and income tax approach occurs when you gift an appreciated asset. In that case, the recipient receives your original basis, and any accumulated gain is transferred. Therefore, you and your heir miss out on step-up treatment, and the sale of such an asset will result in capital gains tax to the new owner.

Prudent planners carefully analyze each of their assets before employing an estate and gift plan. Giving away income producing assets removes them from your estate, but also removes their income from your pocket. Lifetime transfers of appreciated assets will lose step-up basis treatment. For some assets, you might want to give away only a fractional interest, thus retaining control (and some of the income, if needed) while substantially reducing the asset's estate tax value. (For more information, see "The Family Partnership" in our May, 1992 *Financial Advisory*.)

As you can see, taking advantage of the stepped-up basis is just one element of a complete estate planning strategy. Your actual plan should be guided and analyzed by a professional who is sensitive to your unique needs and goals, and who can assess the most tax-advantaged means of transferring your estate to your heirs.

Retiring Well

by Karen R Goodfriend

Americans are worried about retirement. And the truth is, maybe they should be. Studies have repeatedly shown that many Americans will not have nearly enough income in their retirement years. Will you be able to retire well? You have the power to ensure that the answer is yes.

The keys to beating the odds can be found in the trend we are seeing with more and more of our clients: start planning now (age 20 is not too soon, age 50 is not too late); develop a well-thought-out plan for retirement; and save, save, save. To get you started, let's look at the steps you'll want to include when developing your retirement strategy.

The 5 Stages of Retirement Planning

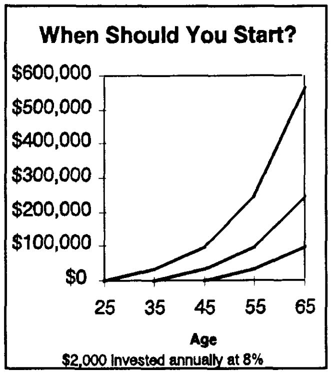
Stage 1. Establish Your Retirement Goals.

Stage 2. Make Realistic Assumptions for the Future.

Stage 3. Determine any Additional Savings Needs.

Stage 4. Design a Retirement Savings Program and Appropriate Investment Mix.

Stage 5. Implement and Monitor Your Program.



Along the way, there are a number of factors you will need to consider in order to make the most informed choices. We've identified several critical concerns and then recommended some strategies.

The benefits you receive at retirement may be entirely in your hands. If current trends continue, the heyday of the traditional pension is past (when you made no contributions, and the company guaranteed you a fixed monthly payout for life). Most employers today have plans such as a 401(k), in which *you* make the contributions and *you* determine how your money is invested. That means, you have absolute responsibility for your retirement benefits. The strategy here is simple: set aside as much of your paycheck as the plan allows, and take advantage of any employer matching contributions.

If you are a business owner, you can determine the characteristics of your retirement plan. Plan it around your retirement needs, your employees and the cash flow of your business.

Finally, you can supplement your retirement funds with an IRA (deductible or non-deductible), personal savings and you may be able to negotiate supplemental benefits as an executive employee.

You could enjoy a long retirement. Life expectancies are on the rise, and many people are planning to enjoy retirement well into their nineties. For those who plan to retire early, that means planning for retirement benefits to last 30 to 40 years.

Your Social Security benefits could shrink. The age to begin collecting full benefits is already rising. Your retirement plan should include a realistic assessment of your possible future benefits. Many young people now design their plans around the assumption that they will receive no benefits at all.

Consider the effects of inflation. Even at a gentle 3% per year, inflation cuts the value of a traditional, fixed payment pension in half in 23 years. Inflation can also stunt the growth of your retirement savings if you rely too much on fixed-income investments. Although you may be attempting to avoid the risk of losing principal by using fixed-income or cash investments, the risk of inflation can be even more destructive to the purchasing power of your retirement funds.

Don't be afraid to invest some of your retirement savings in equities. The average rate of return for the S & P 500 stock index from 1926 to 1993 was 10.33%—well above the inflation rate. Remember, the longer you have until retirement, the more time you will have to ride that trend.

Let your plan be a reminder of your goals, and guide you toward success. The US personal savings rate has stood at 4% since the late 1980's, half of what it was in the 1970's, and lower than that of many other countries. Even more unsettling, many people are withdrawing their retirement savings early and spending them on something else.

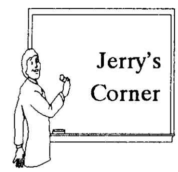
You have the power to assure a satisfactory retirement—setting goals and working a plan are time-honored techniques for success. That means you must stop living for today, and make a lifetime commitment to your retirement savings. If you absolutely must use these funds, find out if you can take a loan from your employer-sponsored plan, then pay it back as soon as possible. Let your ultimate goal—retiring well—keep you on track.

When should you start planning? It's never too late; start today. As you can see from the graphic, starting early reaps the greatest rewards.

The Elements of an Investment

Liquidity

by Gerald L Moorman, CPA, PFS



Consider the case of the man in Manhattan who hailed a taxi in the pouring rain. Only after they were underway did the man realize he had no cash and the cab driver didn't accept credit cards. But the cabby agreed to stop at a nearby automated teller machine. Unfortunately, the rain had caused a power outage, and the man was unable to make a withdrawal. Four ATMs later, the man was still without cash and his fare had climbed to $20. You could say this man had a *liquidity* problem.

The man in our story eventually worked something out, but we can see from this example why the element of liquidity is usually the most important to investors. We generally define liquidity as the ability to convert an investment to cash, without risk of loss, whenever we need it. And, usually, that need is sudden, unexpected and unforeseeable—namely, an emergency.

The discerning investor, however, realizes that most emergencies do not require access to *all* the money he or she has tied up in investments. In the same way, not all liquidity needs are sudden and unexpected. Therefore, an investment's liquidity (or lack thereof) must be measured in the context of the overall purpose of the investment. Not unlike the element of risk, sometimes liquidity must be traded for a potentially higher return on investment.

Savings and Money Market funds obviously receive our highest liquidity rating on the chart to the right. For that reason, most people keep their emergency funds (3 to 6 months of expenses) in these types of investments. This type of investment also lends itself well as a repository for any funds you will need in the short-term (usually, less than one year).

Stocks and Bonds rate slightly lower on the liquidity scale because of the risk of loss of principal if you are unable to plan the timing of a liquidation. Nevertheless, there are ready markets for both these investment types. Further, with bonds, you can improve liquidity by "laddering" their maturities—instead of buying one bond with one maturity date, buy several smaller bonds with staggered, incremental maturities. For stocks, when you hold them in a brokerage account, you can generally borrow against them with a margin loan, enabling you to obtain cash without actually liquidating the investment.

Limited Partnerships, on the other hand, are extremely illiquid investments. Remember, that doesn't make them inappropriate to include in a well-diversified portfolio; it only means that they are not readily convertible to cash. Many long-term investors enjoy the ease of management and potential for appreciation these investments can provide—they just don't invest their emergency funds in them.

At first glance, many people don't think of real estate or their own homes as terribly liquid investments. But, just as stocks can be viewed as more liquid because of margin loans, real estate, too, can be leveraged to provide ready cash. And, as we discussed in the article on Flexibility, there is a market for real estate.

Another way to look at the liquidity rating of some investments is that they are *receptacles* of liquidity—investments designed to preserve liquidity until it is actually needed. For example, you might purchase an annuity at age 30 with the intention of holding on to it until you retire at 65. In the intervening thirty-five years, the investment preserves your capital, and provides tax-advantaged accumulation of income. As retirement approaches, you can *choose* whether to liquidate the investment in a timely, orderly fashion, annuitize it and live on the cash flow or preserve it and pass the asset on to your heirs.

Elements of an Investment

Elements	Savings & Money Mkts	Stocks	Bonds	Limited Partnerships	Real Estate	Commodities	Home
Risk	8	6	7	2	5	2	9
Management	8	7	7	9	4	5	7
Flexibility	4	8	7	1	5	2	7
Liquidity	9	8	7	1	6	1	7
Cash Flow							
Rate of Return							
Appreciation							
Leverage							
Taxes							
Total							

Liquidity, like the other eight elements, is a personalized rating, and subject to your specific goals and needs. Depending on your particular requirements for the money you invest, some investments will rate better on the liquidity scale for you than they will for someone else. And remember, while some liquidity in your investment portfolio is important, not all of your assets need to be liquid.

This is the twentieth in a series of articles by Jerry.

LINTON, SHAFER & COMPANY CPAs Fall 1994

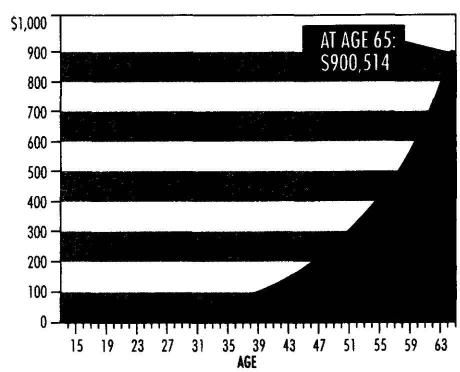
BLUEPRINT

A FINANCIAL AND ESTATE PLANNING GUIDE

You Can Benefit From a Very Early Start on Retirement Savings

Although many Americans will spend as much as one-third of their lives in retirement, few take appropriate measures to ensure that they have enough money for their living expenses during those years. And while it's never too late to start saving for retirement, there's great news for those who have yet to enter the workforce.

The chart below shows how a child's IRA can appreciate substantially if left intact until retirement.



A child who makes annual deposits of $2,000 into an IRA throughout four years of high school will have $900,514 at age 65 if that IRA earns 10% interest each year until retirement. Unfortunately, many teenagers can't be convinced to put $2,000 of hard-earned summer income into an IRA that can't be touched for 50 years. So while few people begin a retirement program at age 15, our example demonstrates the power of early saving - even if it's a relatively modest amount - and how it can help in your retirement years when you need it most.

Why You Need to Build Your Own Retirement Fund

A recent survey of working Americans indicates that they expect Social Security or pension benefits to be their primary source of retirement income. Although these sources still account for a portion of retirement savings, most people must supplement with a retirement plan of their own design.

To put these factors into perspective, let's take the example of a 45 year-old couple who jointly make $75,000 per year. They'll need to save about $483,000 in today's dollars to retire at age 65 and maintain their current lifestyle; however, with inflation rates of three to four percent each year, they will probably need more than $1 million 20 years from now. Many people don't realize they will need to be millionaires just to be comfortable in the next century!

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Donald C. Linton, CPA, CFP
Principal
Linton, Shafer & Company

Don is the founding partner of Linton, Shafer & Company. He is a graduate of the University of Maryland and has over 30 years of experience in public accounting. He also earned the title of Personal Financial Specialist through the American Institute of CPAs, the certificate as a Certified Financial Planner, and most recently, the Accredited Estate Planner designation. He specializes in tax and financial planning for individuals and small corporations.

The 401(k) Plan - A Smart Choice for Retirement Planning

Maximizing participation in your employer's 401(k) plan is one of the smartest moves you can make when planning for a sound retirement. You defer taxes on your contributions and earnings until the money is withdrawn at retirement, when you're usually in a lower tax bracket.

How much to defer and how to invest are often more difficult decisions. Ideally, when you're younger than 40, you should invest 10 percent of your annual income in your retirement savings plan. After 40, increase your savings by another five or 10 percent of your annual income. (Note that the maximum allowable contribution to a 401(k) plan is $9,240 in 1994.)

Most 401(k) plans allow participants to choose several investment vehicles. When deciding how to invest, consider putting some of your money in growth stocks since their typically higher yields keep up with inflation. Investment advisors also usually recommend keeping one percent of your portfolio in guaranteed bonds or CDs for each year of your age. The balance should be invested in growth stocks. For example, a 40-year old employee might keep 40 percent invested in bonds and CDs and 60 percent in growth stocks.

As for the type of retirement plan you choose, 401(k)s have some advantages over IRAs. Many employers add to or match an employee's contribution. And many 401(k) plans let you borrow from your account for specific needs such as college tuition or a down payment on your home, while you can't borrow from an IRA.

So if a 401(k) plan is available through your employer or if you're self-employed and have a Keogh account, invest as much as you can now to maximize your financial well-being at retirement.

Baby Boomers Shouldn't Expect Big Social Security Benefits

A 21-year-old who invests $2,000 a year for only 10 years at an average annual return of 9% will have more than $620,000 at age 65— even without contributing after age 30. But someone who makes 35 annual contributions of $2,000 starting at age 31 will have only $431,422. ***Moral: an early start — and the magic of compounding — are the keys to financial independence.***

Social Security seems to work for current retirees since they get a fair return on the tax dollars they have paid into the system. For example, a 65 year-old employee who retires this year and has paid the maximum Social Security tax each year since age 21 will contribute a total of $46,000. His monthly check of $1,147 repays his entire contribution within 41 months. If he lives to his current life expectancy of 81, he'll collect $220,000 - not counting future cost-of-living increases built into the system. Unfortunately, young workers may not be able to expect such bountiful returns.

Some predictions for Social Security as baby boomers retire:

- As baby boomers start retiring in 20 years, an insufficient number of workers will be paying into the system to cover this large increase in the number of retirees.
- The baby boomer retirees will have to wait longer to receive benefits - and their Social Security checks will be less than they are expecting.
- Workers will probably start to receive benefits at age 70 instead of age 65.
- Inflation and cost of living increases currently built into the system will be abolished.
- Payroll taxes will be higher. In 1940, both employer and employee paid Social Security taxes of only one percent of the first $3,000 in wages. In 1994, both pay 7.65 percent of the first $60,600 in wages, and the taxable amount increases every year.

While we can't predict exactly how the Social Security system will have changed by your retirement date, we recommend that you take steps to maximize your retirement savings account, regardless of how it is impacted by Social Security.

How Much is Enough?

If the prospect of living on a steadily declining income during your retirement years doesn't fit your plans, take stock of your situation **now.** Then take action to establish a program that will lead to a comfortable retirement.

These calculations will help you estimate how much income you will have at retirement based on your current income and how much you will need for the kind of retirement you want to have.

1. Yearly income needed at retirement in current dollars (70%-80% of current gross income). $________
2. Expected Social Security benefits (You can get an estimate from the Social Security Administration by filing a request for your Personal Earnings and Benefits Statement). $________
3. Expected retirement benefits (IRA, Keogh, 401(k), company plans, etc.) currently in place. $________
4. Annual investment income needed (line 1 minus lines 2 and 3). If your current savings plan will provide this amount, you are in good shape. If not, make some adjustments now. $________

Get a Loan That Works for You Through Your 401(k) Plan

Follow these steps if you need to borrow from your 401(k) plan:

► Find out your 401(k) account balance. The IRS lets you borrow half of the vested amount up to $50,000.

► A loan to buy a house can be repaid over 15 or 30 years, depending on the length of your mortgage. Loans to purchase a car or boat, or fund a child's college education must be repaid in five years.

► Your employer will set up a loan repayment schedule, and this is usually done through payroll deduction. The IRS says you must make fixed payments on at least a quarterly basis.

You'll pay interest at the market rate for secured loans. If you resent paying interest on the loan, remember that it is credited to your 401(k) account, so you're repaying yourself!

Whether you're 25 or 55, you should be planning for retirement. This second issue of Blueprint is devoted to selected topics and planning tools that will help you decide when to retire and offer suggestions for doing so comfortably. We welcome your comments and ask that you let us know of friends or associates who would like to receive future issues of Blueprint.

Please send Blueprint to:

Name________________________ Company________________

Address____

____

Topics I'd like to read about in future issues of Blueprint:

____________________ ____________________

____________________ ____________________

Please call me to discuss options for my future retirement.

Name and phone number ______________________________

Can You Afford to Retire Early?

Many people look forward to retiring before age 65. In fact, the average retirement age is 62. But it's a lot easier to dream of an early retirement than to afford it. The early retirement decision must be carefully evaluated, and must usually be viewed as irreversible since job prospects for many older Americans who have left the work force are dim - particularly in a weak economy.

When considering early retirement, the following checklist will help you determine if you are adequately prepared. If you can answer "yes" to these questions, you're attending to the important details of early retirement.

	YES	NO	N/A
1. Have you projected your retirement living expenses through at least age 90, taking inflation into account?	☐	☐	☐
2. Have you projected your income through at least age 90, taking into account the probable need to continue saving a portion of your income until about age 75 in order to meet higher living costs in later years?	☐	☐	☐
3. Will you have adequate health insurance coverage until you reach age 65, when Medicare coverage commences?	☐	☐	☐
4. Have you evaluated the income tax consequences of early retirement?	☐	☐	☐
5. If you're considering your employer's early retirement incentive offer, have you compared it carefully with the alternative of remaining at work?	☐	☐	☐
6. If you're considering part-time work when you retire, are your expectations of finding satisfactory work realistic?	☐	☐	☐
7. Have you decided when you will start collecting Social Security retirement benefits? If you must begin drawing benefits at age 62 for financial reasons, this may indicate that you cannot comfortably afford an early retirement.	☐	☐	☐
8. Have you made decisions regarding lifestyle and activities to ensure an active retirement?	☐	☐	☐

Getting Set to Retire

- Set a target retirement age.
- Double-check what to expect from pension and Social Security.
- Determine how much income you'll need from investments.
- Rev up your savings.
- Pare down debt.
- Check out possible retirement sites if you plan to move.
- Review your insurance coverage.
- Update your will and trust arrangements.
- Start shifting to safer investments as you get closer to retirement.
- Expect adult children to pay their own way.

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LS *Blueprint* is published as a financial and estate planning resource for our clients and friends. Donald Linton, CPA, CFP, principal, is our newsletter's publisher and author. Please contact him at (301) 663-5122 for additional information.

EXHIBIT 3-11

SAMPLE ADVERTISEMENT

Just
What You Have
Been Looking For!!

Valuable, trustworthy financial advice

As your Financial advisor, we will:

- Review your present financial status.
- Help you identify your financial goals.
- Determine what financial areas are most important to you.
- Assist you in developing a personal financial plan for you and your family.

Call [your name here] TODAY

Your address and
phone number here

Your
picture
here

CPA℠ The CPA. Never Underestimate The Value.℠

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[Your name here] offers objective, advice to help you meet your financial goals.

Call for an appointment.

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Do You Need Personal Financial Planning?

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picture
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Do You Know:

- When and if you can retire?
- How you will pay for your child's college education?
- Which types of investments will best meet your objectives?

[Your name here!], is an objective, CPA financial planner
She can help you answer these questions.
Call today for an appointment.

Your address and phone number here

CPA[SM] The CPA. Never Underestimate The Value.[SM]

Thinking About Retirement?

Be wise about taking your retirement plan distributions. Avoid excess income taxes by planning how and where you will take distributions

For more information, call [your firm name here!] *today.*

Your picture here

[Your address and phone number here]

CPA[SM]

The CPA. Never Underestimate The Value.[SM]

Investing Your Money

- Start with a solid investment plan
- Understand the risks involved with various investments
- Consider the tax implications

Your picture here

To develop an investment plan, call [your firm name here].

[Your address and phone number here]

CPA[SM]

The CPA. Never Underestimate The Value.[SM]

EXHIBIT 3-12

TIPS FOR DEVELOPING MEDIA RELATIONSHIPS

Handling Media Interviews

Mastering the art of the interview takes practice. It is best to begin with local newspapers which aren't usually looking for an angle of controversy.

During an interview, remember that you are the expert on the topic — that's why you are doing the interview. Take control of the discussion, get in your points and turn negative questions into positive or informative answers.

Before the Interview

Do your homework before the interview. Find out the background of the reporter, the editorial slant of the publication/station and the story angle the reporter is likely to take. Know the answers to these questions: What is the news "hook" that generates interest in the story? Does the reporter usually look for "dirt"? What is the objective of the story? Who else is being interviewed? When will this piece be aired or printed? Who are the audiences? What do they want to hear? What have they been told before by others? Is the interview part of a series, a seasonal wrap-up or a one-time feature? Will you get an advance copy, tape or transcript?

Being prepared is essential to a successful interview. Once you have determined the reporter's agenda, you can establish your own. Ask yourself: What do I want the audience to know? How can I subtly promote myself/my firm? What questions may be asked (and how do I answer them)? What backup information can I provide to help prove my point?

Also, you may request an advance list of the questions or topics to be covered during the interview, though not every reporter or editor will give it to you.

During the Interview

At the start of the interview, present a short summary of the story. State your points and then support them with examples. If you present any facts or figures, make sure they're accurate and cite reference sources whenever possible.

Keep the interview on a "human" level. Laugh, smile and gesture appropriately. Use "I" or "my firm" instead of "we" or "the company." Avoid CPA jargon; speak in layman's terms so the audience — and interviewer — can understand.

Stick to the topic and make your major points as often as opportunity allows. Don't digress from the question or you'll risk losing your points. Using short sentences conveying one clear thought will help you. For broadcast media, be aware of time constraints so that your important points don't get cut off (that's why you should always say them first and then discuss more detailed information).

Don't volunteer additional information. You may strike a nerve that changes the focus of the interview. End your sentences after they have answered the questions. Never speak "off-the-record." There is really no such thing. It's advisable to tape an interview for a newspaper or magazine article. This way, if you're misquoted you can support your claim. Reviewing a tape will also help you hone your interviewing skills.

After the Interview

Call the newsclip or transcription service immediately. If the story strongly contrasts with the information you provided during the interview, you can do one of two things: either call the reporter, point out the error and request a clarification, or prepare a "letter to the editor." The letter will enable you to present your point of view to the editor. However, only a small percentage of these letters are published.

If the story was successful in positioning you as an expert, you're sure to get calls not only from reporters but also from prospective clients.

Specific Interview Tips for Print, Radio and Television Media

Print

- Expect quotes to be edited. Therefore, speak concisely, stay on the topic and make every word count.
- Ask for clarification of a question if you are unsure of its meaning. If you don't have an answer, say that you are not able to answer that question but will get the information and call back the reporter.
- "No comment" is acceptable but it is preferable to rephrase the question so that you can give a favorable answer. This is called "bridging."

Example:

Question: "Don't CPAs have a large responsibility for the current savings and loan crisis facing the nation?"

Bridge: "There are several reasons for the S&L crisis and subsequent bailout..."

Answer: "First on the list is that, for the past several years, management and regulators allowed thrift institutions to make high-risk investments . . ." Then discuss the energy crisis in the Southwest, merger mania, high interest rates paid on deposits, etc., leaving CPAs out of it.

Radio

- Think before you speak. Don't feel you must fill "dead air" time with "ums" and "wells."
- Be conscious of the microphone but don't feel that you need to speak directly into it. Microphones easily pick up voices that are reasonably close. Also, don't tap the microphone. The audio crew is responsible for seeing that it works.

- Find out in advance whether the interview is "live" or "taped." If it's taped, the interview will be edited.
- Practice speaking and answering questions so that you can be eloquent on the air.
- Definitely do not speak "off-the-record." The microphone might still be on while the segment is ending.

Television

The same tips apply with some additions:

- Dress appropriately and conservatively. Wear medium-to-pastel colors; men should wear suits and women should wear suits, dresses, or skirts and blouses. Colors are intensified on TV; pure white is too bright so wear gray. Avoid large or distinctive patterns, such as plaids and polka dots. Men should wear knee-high socks.
- Wear minimal and/or plain jewelry. Wear eyeglasses without metal frames.
- Speak naturally in terms of pitch and tone; don't be afraid to raise or lower your voice as the answer dictates.
- Gesture as you would in a normal conversation; don't feel obligated to be overly animated. Keep eye contact with the host or other guests when speaking to them.
- Be prepared for the set-up of a television studio. There are lights all around which may make you hot (and maybe even sweat). A studio crew with cameramen may add a dozen people to the set. Try not to think about all the action going on around you.

An effective interview will enhance media contact, develop/solidify an "expert" image, increase visibility, and promote your practice.

EXHIBIT 3-13

CHECKLIST: PRACTICE DEVELOPMENT TRAINING

PRACTICE DEVELOPMENT TRAINING

CHECKLIST ✓

In an increasingly competitive world, CPAs more and more must sell their professional expertise. Many firms have in-house practice development training programs that teach partners and staff to become better salespeople. Here are some ways to get more out of such programs.

A partner who is a proven business-getter should facilitate the practice development program. He or she should

- ❑ Make sure the program is in accordance with the firm's long-range growth plan and practice philosophy.
- ❑ Schedule regular practice development training sessions. These may be more fruitful if held in a relaxed atmosphere away from the office.
- ❑ Encourage all partners and staff members to get in the habit of filling out monthly contact reports recording each contact's name, the type of meeting that took place, who was present and what was discussed. Staff members who do so will be better prepared to identify activities that lead to new business and to explain how they acquired new clients when they attend training sessions (see below).
- ❑ Develop agendas, list possible discussion items and make sure each training session follows a prepared plan.
- ❑ Recognize fellow partners and staff who bring in new business.

When attending practice development training sessions, participants should be prepared to

- ❑ Provide examples of new business sources.
- ❑ List activities that can lead to new business.
- ❑ Share how they acquired new clients.
- ❑ Present skits showing how to respond to the most frequently asked questions about the firm.
- ❑ Compile a list detailing the firm's outstanding qualities.

Adapted from *The Practicing CPA on Practice Development.*

EXHIBIT 3-14

ARTICLE: *A MARKETING SUCCESS STORY*

A MARKETING SUCCESS STORY

Any small firm can benefit from—and afford—a marketing director.

by William T. Zumwalt

Many partners of small firms feel inadequate when it comes to developing and implementing a marketing program. Most recognize the need but are unsure of what approach will work best.

When our firm set out to develop a marketing program in 1990, we decided to make the financial commitment to hire an experienced marketing director. The results have been remarkable:

- Revenue increased 58% during the first year, with a net cost of only $8,200 (see the exhibit on page 58).
- In the second year, the marketing department became an independent profit center.
- Marketing revenues for the first six months of 1993 surpassed the total for all of 1992.

These results show neither our firm nor our clients were too small to justify the time and money spent. Before 1990, I had only one employee, who doubled as a staff accountant and office manager. Our client mix consisted primarily of tax clients, with a small percentage of monthly write-up clients (mostly owners of small retail and service-related businesses and law firms).

THE FIRST STEP

In 1990, I added a CPA to our staff and wanted to begin some type of marketing program. Like many CPAs, I concentrated on advertising during tax season. I used various outlets, including the yellow pages, newspapers, radio and television, and I tried direct mail. In most cases, the cost was recovered by securing new tax clients. However, it became evident that although we were very busy during tax season, we had to find a way to diversify our client mix to increase our monthly billings and work flow year-round. I came to the conclusion that we needed professional assistance.

I thought the best solution was to hire a marketing director. I consulted with several marketing professionals in Tulsa, including two who had worked for large CPA firms. They concurred that a marketing director would best meet my long-term goals and objectives and also suggested some of the qualities I should seek in my recruiting efforts. These included experience in marketing professional services, a successful sales background and public relations knowledge. Further, they helped me come up with a competitive compensation arrangement. Now I had to seek financing to underwrite the cost of hiring a marketing director and fund the development of a marketing program.

I developed a one-year marketing budget and approached my banker with the plan, projected costs and what I hoped to accomplish. He thought the proposal had merit and his bank agreed to advance me a loan.

WILLIAM T. ZUMWALT, CPA, is president of William T. Zumwalt, Inc., Tulsa. He serves on the communications task force and public relations committee of the Oklahoma Society of CPAs.

■ MARKETING

I started recruiting in late 1990 by running a series of classified ads in the professional section of the Sunday *Tulsa World*, which has the largest circulation in the area. About 100 people responded. Of these, I interviewed 15 applicants. After the initial interviews, I narrowed the field to 5 candidates. After checking references extensively, I selected two finalists. At this point, I asked the other staff members to join me in the final interviews. The entire process took about two months and involved four interviews with the candidate selected. He joined the firm on February 1, 1991. His background and experience satisfied the marketing professionals' recommendations: He had over 15 years' experience in marketing professional services, a successful professional sales background and a bachelor's degree in journalism.

First-year marketing start-up costs

Brochures	$2,500
Client newsletter/tax letter	1,800
Seminars (3)	1,700
Direct mail campaigns	1,200
Public relations	500
Client survey	500
Total marketing expenses	$8,200

LAUNCHING THE PROGRAM

We decided on a traditional approach using proven marketing principles. Our first step was to develop a written plan. All four members of our firm were involved in the planning process. We agreed to focus marketing efforts on securing monthly write-up clients who would pay us monthly retainers on a year-round basis. We identified our target markets—businesses and professionals we thought we could serve best—as predominantly closely held businesses and professional firms. We decided to concentrate on providing value-added services so we could command higher fees. We examined our strengths to see how we could differentiate ourselves from the competition.

We also set goals for revenues and profits as well as limits for the program's costs. We created a budget and agreed to change the firm's monthly financials to treat marketing as a separate department with its own income statement. It has been easy to determine what income should be attributed to this department; our director frequently comes back from a client meeting with a signed engagement letter and a check. Expenses include his salary and the cost of seminars we conduct as well as mailings and PR efforts. Our marketing program has always paid for itself and contributed further profits to the firm—proof that a program of this kind is not out of the question for any small firm.

We put our marketing plan in writing and then went about the task of implementation. To create our support materials, we located a company that specialized in developing marketing materials for CPA firms. With its help, we developed a professional firm brochure and obtained four additional brochures that addressed tax and business issues targeted to small business owners. The cost of the entire package, which included a year's supply of brochures, was approximately

EXECUTIVE SUMMARY

■ HIRING A MARKETING DIRECTOR had a major impact on a four-person firm's growth and success.
■ ALL MEMBERS of the firm were involved in developing the written plan and setting revenue goals and cost limits.
■ REVENUE INCREASED 58% during the first year (1991) with a net marketing cost of only $8,200; in the second year, the marketing department became an independent profit center. During the first six months of 1993, marketing revenues surpassed the total for all of 1992.
■ THE FIRST YEAR'S business development efforts helped secure 17 new monthly write-up clients, primarily closely held businesses in retail and service-related categories. The firm also was recognized for marketing excellence by the Tulsa chapter of the American Marketing Association.

■ MARKETING

$2,500, which was in line with our budgeted amount.

GAINING NEW CLIENTS

We next addressed business development. We agreed that our objective always would be to promote the profession along with our firm. A direct mail campaign had modest success but our sales efforts were best achieved through personal appointments. Although we evaluated telemarketing, we did not think it was compatible with the image we wanted to convey.

We established a business development process in which the marketing director made the initial client contact to assess needs and then I stepped in to help define the scope of services and fees. The last step was an engagement letter outlining the proposed services and fee structure to the prospective client. More than 80% of the time engagement letters were signed at the initial presentation.

Networking also has proved to be a successful and cost-effective business development vehicle. We joined and became very active in the Metropolitan Tulsa Chamber of Commerce and its various networking programs. Our marketing director was appointed to the chamber's ambassador program, in which chamber representatives survey members each month to determine needs and attitudes. This has provided us with an opportunity to meet with presidents and owners of small businesses in our targeted markets. Our director also is a member of the Tulsa Connection, a local business networking club, and the American Marketing Association. All have produced new client relationships.

In the first year, our business development efforts helped us secure 17 new monthly write-up clients. Each one paid an

FIRM PROFILE

William T. Zumwalt, Inc.

Year opened: 1989, on the retirement of William Zumwalt's father. The predecessor firm, Zumwalt and Zumwalt, Inc., opened in 1983.

Location: Tulsa.

Total personnel: 6.

Number of partners: 1.

Number of CPAs: 2.

Areas of concentration: Monthly write-up, tax planning and preparation, auditing and management consulting (business plans, loan proposals and retirement programs).

Percentage of fees in
- Tax planning and preparation: 55%.
- Monthly write-up: 35%.
- Audit: 5%.
- Other: 5%.

Size of clients: Businesses with $200,000 to $1.5 million in sales per year.

Types of clients: Closely held businesses (retail, service and professional corporations).

Advertising and marketing programs: Advertisements in trade journals that reach target markets (physicians, for example).

How the practice will change in the near future: The firm hired a full-time audit manager in December 1993 to meet clients' increased demand for audit services. The firm also expects increased revenue from providing marketing services, business planning and evaluating existing businesses for sales or acquisitions.

average of 25% to 75% more in monthly retainer fees than they had to their prior accountants, which proved we had accomplished our objective of marketing on a value-added basis. The new clients were primarily closely held businesses in retail and service-related categories. They ranged in sales from $200,000 to $1.5 million in sales per year and had staff sizes ranging from 5 to 25.

As part of our integrated marketing effort—which goes beyond marketing to include public relations, sales and measuring client satisfaction—we developed an internal PR program and have been very successful in placing news releases in the local newspapers. We make sure a 3" x 5" photo accompanies every release whenever possible, which has helped increase firm visibility. We also upgraded our monthly newsletter with feature articles on new clients and both tax legislation and economic updates. In addition, we've had success in writing articles for publications. For example, we've been writing a tax column for a company's monthly newsletter for over a year. Its circulation includes a large segment of small business owners. We also write several monthly articles for a business-to-business newspaper. We obtained reprints of our articles at a nominal cost and have used them effectively in our marketing program.

We sponsor three free seminars annually for current and potential clients. They start at 8 A.M. so attendees (small business owners) can be back at business by midmorning, thus ensuring their attendance.

In 1991, we initiated a free seminar program for existing and prospective clients. Normally, we conduct three seminars a year on topics that range from "Lending Trends and Opportunities"—which featured a panel of four Tulsa bank presidents—to "A Legislative Update for Small Business," led by the Oklahoma secretary of commerce and Congressman James Inhofe's chief of staff. The seminars are held at various Tulsa hotels, usually from 8 A.M. until 9:30 A.M. This allows the small business owners to be back in their place of business by midmorning, which we found is critical to ensuring their attendance. The program cost an average of $500 per seminar. Additional activities have included conducting client satisfaction surveys in both 1992 and 1993 to measure our performance and secure client feedback and establishing an internal quality control program to monitor the progress of a client's work from the time it is received until it is returned.

SIGNS OF SUCCESS

A little over a year after we hired our marketing director, the firm received a Bullseye Award for Marketing Excellence from the Tulsa chapter of the American Marketing Association in recognition of our integrated marketing efforts and overall 1991 marketing campaign.

Many partners of small firms think marketing directors are only for larger firms, but I believe small firms trying to intensify their marketing efforts can effectively do so by hiring experienced marketers. Partners should allow a minimum of one year to develop and implement the marketing program, get expert advice on how to choose the best candidate and allow the director the creative latitude to implement new programs. It's important, too, to establish guidelines and objectives in advance to ensure a mutual understanding of what is expected. Once these steps are taken, small firms will be gratified by the benefits. ■

For more information ...

Additional information on crafting marketing strategies can be found in *The Marketing Advantage: How to Get and Keep the Clients You Want*, by Colette Nassutti (American Institute of CPAs, product no. 090404JA), and *Winning Proposals: A Step-by-Step Guide to the Proposal Process*, by Kaye Vivian (AICPA, product no. 090390JA).

EXHIBIT 3-15

ARTICLE: *FOUR CASE STUDIES IN MARKETING*

FOUR CASE STUDIES IN MARKETING

CPAs share solutions to common practice development problems.

by Colette P. Nassutti

When it comes to marketing accounting firm services, it is easy to spend money—and even easier to waste it. To ensure that a firm's marketing efforts are successful and its practice development dollars well spent, CPAs must be both sophisticated marketers to their clients and skilled managers of their employees' marketing efforts.

Why do some campaigns yield extraordinary results, from generating significant new revenues to delivering a host of intangible benefits? This article answers this question by examining four programs launched to solve common practice development problems and describing solutions that practitioners can adapt for their own needs.

SOLIDIFY RELATIONSHIPS AND EXPAND MARKET SHARE

At the end of 1987, Marvin & Company, a two-office firm in Albany, New York, with 6 partners and 61 total staff, made an unpleasant discovery. A veteran provider of audit and accounting services to long-term health care facilities, nursing homes and organizations providing services to the developmentally disabled, the firm discovered that other CPA firms were bidding on work that once came to Marvin & Co. almost exclusively.

After evaluating the situation, the firm decided the best defense was a good offense: It formed a marketing team, made up of most of the members of the firm's health care practice and led by the senior partner, that developed a marketing program designed to cement existing client relationships, secure greater market share and establish Marvin & Company as a leading provider in its market.

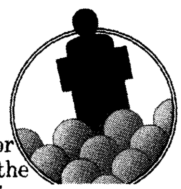
To achieve these objectives, the firm rolled out a bimonthly newsletter, *Health Care News & Views*, devoted exclusively to long-term health care management and sent to both clients and prospective clients. It also launched an annual, two-day conference for the industry. Together, the newsletter and the conference helped to increase awareness of the firm's capabilities among prospective clients and to establish it as a leading provider.

The firm also wanted to ensure existing clients were highly satisfied, so firm members organized a series of informal roundtable discussions to discover what executive directors of client companies thought

COLETTE P. NASSUTTI, president of Colette Nassutti & Associates, San Jose, California, is the editor of The Marketing Advantage: How to Get and Keep the Clients You Want, *published by the American Institute of CPAs management of an accounting practice committee. Most of the programs described in this article were conceived and executed by individuals who also were contributing authors to* The Marketing Advantage.

■ MARKETING

TOP TIPS ON:
Producing an industry newsletter



1. Prepare articles that have real value for executives and senior managers. Monitor the industry closely by reading trade publications, attending industry conferences and talking to clients.

2. After the newsletter has been published several times, ask for feedback from the target audience.

3. Have articles bylined by firm members to showcase their expertise.

4. Find ways to highlight the firm's service capabilities within the articles.

of the firm's scope and quality of service.

The results? According to Warren Garling, the firm's marketing director at the time, accounting and audit billings to this market segment expanded to over 40%, up from 20%, against an overall firm expansion of 71%.

The cost? Out-of-pocket expenses for the newsletter averaged $3,000 a year and the annual conference paid for itself. Roundtable costs were mainly time spent organizing them in-house.

Why did a small investment in newsletters, conferences and focus groups reap such large dividends? According to Frank Venezia, a firm director, the drive to understand its target audience and a willingness to invest in the long term were the key ingredients.

The newsletter, for example, is written by members of the health care practice and produced in-house. Venezia said this enabled Marvin & Company to speak directly to the topics and issues that matter most to its target audience. He advised others to "investigate your clients' needs and interests and write about them. It also is important to write articles that are cutting-edge. If something big hits a week after you've published, be ready to write it up and mail it as an industry alert." Firm members keep up to date through publications and by monitoring trends in clients' businesses.

As for Marvin & Company's two-day conference, the opportunities it offers to create new business are not left to chance. Each year, the participant list is reviewed carefully and an effort is made to schedule a breakfast, lunch or dinner meeting with each prospect. After the conference is over, prospects are assigned to the partner or manager who had the most contact and rapport. Action items are defined and firm members report progress to the firm marketing director.

To produce an effective conference, Garling surveyed the key decision makers in his target audience to identify the issues that most concerned them. This yielded the twin benefits of ensuring the conference would be topical and that senior managers—not lower level personnel—would attend.

The presenters were firm partners and industry experts, including state officials who influenced regulations. "Always give participants the opportunity to meet with people—and get the kind of information—to which they would otherwise not have access," says Venezia.

PENETRATE A NEW NICHE

Herbert Kaplan, a marketing consultant and the president of Ridgefield Consulting Group, worked with another firm that achieved spectacular success in a selected market niche. While Marvin & Company's goal had been to consolidate gains in a market segment in which it already had a considerable presence, here the goal was to penetrate a niche that, at first, accounted for only 1% or 2% of firm billings.

EXECUTIVE SUMMARY

■ TO ENSURE THAT a firm's marketing efforts are successful and its practice development dollars well spent, CPAs must be both sophisticated marketers and skilled managers of firm marketing efforts.

■ THE KEY INGREDIENTS for achieving success usually can be applied to different kinds of firms and programs. They include viewing marketing expenditures as an investment and expecting a two- to three-year delay before initiatives yield significant financial results.

■ FIRMS MUST COMBINE marketing programs with specific strategies for converting new leads into clients.

■ MOST IMPORTANT, the program must have the managing partner's full and enthusiastic support if it is to be successful.

ICONS BY KELLEY GRAPHICS

■ MARKETING

The firm, a New York-based practice with one office, 11 partners and 75 total staff, chose to pursue not-for-profit, voluntary health and welfare organizations, a market segment in which it had a small but thriving practice.

To reach the goal of generating 10% of firm revenues from this practice area, the firm recognized it had to improve visibility, build credibility, increase the number of face-to-face contacts with key decision makers and win more proposals.

To accomplish these objectives, the firm began publishing a bimonthly newsletter for not-for-profits. It also began sponsoring three industry-specific seminars a year and created a package containing partner and firm credentials and illustrative engagements.

What did these efforts cost? The newsletter cost about $15,000 per year, the seminars $5,000 a year and expenses for the capabilities statement—which was generated in-house—were negligible.

The result? In a little over two years, the firm's billings in this area have gone from under $100,000 to in excess of $500,000. Thanks in large part to its enhanced credibility and visibility, the firm also has received many more bidding opportunities.

As was the case with Marvin & Company, the marketing tools used to achieve this growth were not extraordinary. Why, then, was this effort so fruitful?

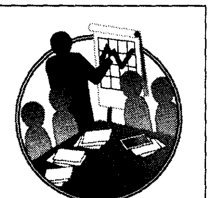
1. The firm successfully identified the one small part of the not-for-profit market (voluntary health and welfare organizations) that made the most sense for it to pursue. Market research conducted early in the planning process revealed the firm had a good grasp of this segment's service needs, there was a large and ready market in the New York metropolitan area and the competition was limited. "A lot of people talk about not-for-profits as though they were all part of one market," said Kaplan. "They're not."

2. The project was managed by a small but dedicated team whose leader had committed himself exclusively to pursuing business in the health care arena. "It all comes down to leadership," Kaplan explained. "You must have a partner in charge (of the marketing effort) who is entrepreneurial and who has real expertise in the chosen area."

3. This marketing program had the full faith and support of the firm's managing partner. All of the consultants interviewed for this article said this was possibly the single most important factor in the success of a marketing initiative.

TOP TIPS ON:

Forming a marketing team



1. Make the practice group head the team leader. If there is no practice group head, the effort should be directed by the firm managing partner.

2. Provide team members with training in specific business development tasks, such as public speaking, business writing and consultative selling skills.

3. Schedule regular marketing meetings and don't let client work be an excuse for putting them off.

4. Offer incentives (both tangible and intangible) for active participation.

5. Make all team members part of the decision-making process. Solicit and act on their suggestions.

MOTIVATE CPAs TO SELL

For another Albany-based firm, Bollam, Sheedy, Torani & Co. (one office, 9 partners, 52 total staff), the challenge wasn't to create more opportunities to sell but, rather, to convert them into new business.

According to managing partner Joseph A. Torani, the firm didn't have to look far to identify its problem. "In an average firm of 50 or 60 people, 3 or 4 will be really good at developing leads," says Torani. "We were no exception."

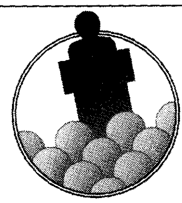
Recognizing that the ability to sell doesn't always translate into the ability to teach and inspire others, Bollam, Sheedy retained Tammy Linn of Phoenix-based Tammy Linn & Co. to provide needed sales training.

Linn's first task was to interview members of the management group and help them discover where their marketing strengths and interests lay. "For years I kept hearing, 'We can't do it; we're not as good as you....We don't have the network,'" said Torani. But this process "made people see they had the ability and they already had a network, even if it was their church congregation or the volunteer group they worked with."

Linn's second task was to develop personal marketing plans that were geared to each firm member's strength. "Until then," explained Torani, "we had been trying to get everyone to do the same kinds of mar-

■ MARKETING

TOP TIPS ON:
Running an annual conference



1. Survey the target audience to identify seminar topics.

2. Bring in industry experts who offer participants something of value.

3. Use in-house specialists as well—they'll highlight the firm's expertise.

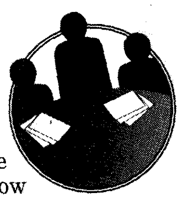
4. Screen all speakers carefully. Make sure they are effective presenters.

5. Organize a business development strategy that identifies important clients or prospects among participants. Make sure a firm member follows up with them after the conference.

keting—writing articles, making speeches. But with the development of personal marketing plans, each person had his or her own path to take."

The result? "This program got people who weren't good at marketing to get better and it helped people who hated marketing to realize that it is an essential part of being in this business," said Torani. As an example, he cited a highly talented tax specialist who had resisted the pressure to market for years. "Just last year," he reported, "she brought in her first client—worth $15,000 a year. Having her tell me that she really likes marketing now—that alone is worth the cost of retaining a consultant."

TOP TIPS ON:
Organizing a client roundtable discussion



1. Invite trusted clients and tell them the truth: You want to solicit their input on how to serve them better.

2. Choose a time of day that is most convenient for guests.

3. Keep the number of firm members present to about half the number of guests.

4. Don't do a presentation of the firm's capabilities. Instead, ask good questions and sit back and listen.

5. Summarize what you learned and communicate your findings (and how you plan to act on them) to participants in a thank-you letter.

Linn thought personal marketing plans, combined with just the right amount of pressure in the form of monthly marketing reports by firm members on their activities, were seminal to the success of this initiative. Torani concurred. "Without those individual marketing plans, we would have been right where we've been for the last 20 years."

Personal action plans should contain statements about the amount of time to be devoted each week and how it will be used. For instance, a senior staff member's plan might say, "I'm going to spend three hours on business development each week. I'm going to use that time to call, visit or correspond with two clients and one referral source (each week). By the end of the year, I hope this activity will produce highly satisfied clients, $x,xxx of new work for existing clients and two new clients, each valued at $y,yyy in annual fees."

The cost in terms of staff time varies depending on each person's marketing commitment. Launching such a program would probably require one to two days of a consultant's time for initial training plus monthly individual coaching time for individuals.

TARGETING A MARKET

While a senior member of Coopers & Lybrand's national marketing department in New York, Bruce Marcus was asked to promote an audit division service called *preemptive auditing.* This program helped companies involved in large-scale construction projects to monitor planning and construction phases closely and anticipate delays, changes and related costs. Marcus said his mission was to sell the service and at the same time establish long-term relationships with companies that weren't using Coopers & Lybrand as their auditor.

His first act was to find companies with ongoing or pending construction projects and to identify, by name, the executives who managed them. He decided direct mail, coupled with a publicity campaign that consisted of interviews, profiles and bylined articles in trade journals, as well as seminars and public speaking, were the best way to reach these decision makers.

The results were tremendous. Within three months, 50% of the letters he sent had created opportunities for a Coopers & Lybrand partner to make a personal presentation to a prospective client.

Why did this effort yield such positive results? According to Marcus, the intense

■ MARKETING

initial research effort was crucial. "Our research enabled us to identify, by title and by name, the three executives who would be involved in the decision to purchase our product and to name the construction projects they would be worrying about when they got our letters," said Marcus. To find these people, Marcus used the *Dodge Report,* a periodic report published by McGraw-Hill that lists all construction projects pending or in process in the United States and names key players, such as the developers, funders and owners.

All of this research, he concluded, had a strong influence on how the direct mail letters were written. For instance, the salutations were personalized and, to improve the chances the letters would be read, they were sent on high-quality stationery. Each letter was hand-signed by a senior Coopers & Lybrand partner and contained an explicit reference to a current construction project. "It was vital to demonstrate an understanding of the prospect's problems and to do so when the prospect was feeling the pinch most strongly," Marcus said.

He advised CPA firms to combine direct mail with a very strong follow-up, usually through telemarketing. "Never send out more letters than you can follow up on personally in one week," said Marcus.

LESSONS LEARNED

Although the situations and solutions described here may not suit all firms, they are based on basic steps—such as good research and consistent follow-through—that are valid for any practitioner. The marketing directors and managing partners involved offered these guidelines for success that will apply in nearly every instance:

■ Think of marketing expenditures as an investment, not an expense. To make real headway in a targeted market segment, it may be necessary to wait, sometimes for two or three years, before seeing any impact on the bottom line.

■ Maintain relentless commitment to the process. When it takes two or three years to get results, it is easy to see why so many marketing programs lose momentum. To prevent this from happening, firms should break down long-term goals into short-term objectives with predetermined start and completion dates. They should celebrate the completion of those project segments even if they haven't begun yielding financial dividends.

■ Never leave business development opportunities to chance. Conferences, direct mail, newsletters—these programs only stimulate interest in a firm and its services. CPAs must always couple them with active efforts to convert interested and informed prospects into clients.

■ Invest marketing dollars in personnel. If partners, managers and staff are to convert new leads into prospects, firm leaders must begin by defining expectations about marketing and selling efforts. Then, firm members must receive the training and personal counseling that enable them to fulfill those expectations. Finally, accountability through reports and meetings must be combined with just the right amount of pressure to get people moving.

■ Remember that the quality of the effort counts. Market research can help identify the firm's very best prospects and the key decision makers, their industry jargon, their perspectives and needs.

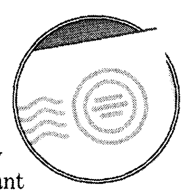
■ Be willing to take risks and to learn from mistakes. CPAs must make risk-taking and failure an integral and acceptable part of the learning process.

■ Create a caring and committed leadership. Don't even try to launch a program if firm leaders don't have an innate hunger for success. The firm's managing partner cannot merely acquiesce to the decision to launch a marketing effort—he or she must be the impetus. The partner in charge of a specific marketing effort also must have a personal stake in the venture.

By following these guidelines, firms of all sizes should be able to achieve better results from their marketing investments. ■

TOP TIPS ON:

Waging a direct mail campaign



1. To capture readers' attention, identify and speak to an issue that is very important to them—not you.

2. Conduct advance research to identify key decision makers and verify their names, titles and roles in the decision-making process.

3. Plan to send at least three separate pieces of correspondence.

4. Have a follow-up strategy in place and respond to all inquiries quickly and professionally.

5. Be realistic about the anticipated response rate. Many direct mail campaigns are considered successful when 3% of those targeted respond.

EXHIBIT 3-16

ARTICLE: *MARKETING: THE SEVEN DEADLY SINS*

MARKETING: THE SEVEN DEADLY SINS

Practice development failures usually can be traced to one or more of these common errors.

by Vin Manaktala

There are many different ways to structure a successful practice development program, but a few unfortunate mistakes can doom a CPA firm's efforts. Even if partners and managers recognize the importance of a well-designed practice development plan and have a general idea of how to implement one, they still may achieve minimal success or fail outright. There are seven reasons why.

1: INADEQUATE MARKET RESEARCH

Unless a firm knows its market, it will expend resources unnecessarily and risk becoming frustrated and disenchanted with its practice development program. Clients' needs can be ascertained through frequent contact, while prospective clients and their needs can be identified through market research. Such research entails identifying a pool of prospects by, among other things, analyzing population trends and business and industry data (industry type, business size, profitability and growth rates, need for professional services, etc.) in the local area. To get this information, CPAs can turn to industrial directories, the local chamber of commerce, professional and trade group directories, state and national economic statistics, industry associations, business publications and other resources, many of which are available in local or business school libraries. (See also "Local Area Statistics: A Practice Development Tool" by Michael D. Chase, JofA, June94, page 100.)

A key component of market research is collecting data on the competition. Once a firm has identified its competitors, its leaders should learn about their capabilities, marketing strategies, sales practices and pricing policies to differentiate their firm. It's then possible to formulate marketing strategies that neutralize competitors' strengths and capitalize on their weaknesses. (See "Learning from the Competition" by Tammy Linn, JofA, Feb94, page 43.)

A complete marketing strategy involves integrating the firm's services and the market needs, pricing strategy, differentiation from the competition and the development of appropriate support materials for potential clients not familiar with the firm's capabilities and services.

2: INADEQUATE CLIENT PROFILE

Many CPA firms satisfy less than 50% of their clients' potential needs and wants. (The exhibit on page 71 contains a client relations form that helps develop additional business from present clients.) Unfortunately, many firms don't take the time to understand their clients' needs, which can

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result in inadequate client service and lower revenues.

There are several reasons why this can come about:

1. The firm reacts to client needs instead of being proactive and inquiring about as well as suggesting additional services. Many times, firms could understand their clients' needs better if they asked more questions about their clients' personal and business goals. Clients themselves may not anticipate future needs since they are busy taking care of day-to-day business. Firms can generate client loyalty not only by correcting the clients' past mistakes but also by preparing them for the future.

2. CPAs sometimes are uncomfortable asking about clients' personal finances. Most closely held businesses are intimately involved with the owners' personal goals. All of the owners' finances are a personal matter, so CPAs must be able to elicit information from clients without feeling uncomfortable or making clients defensive.

3. Practitioners may not take advantage of the opportunities to provide additional services when making personal calls on clients or when a client calls with a question. A client call is a chance for CPAs to explore why a question is being asked rather than simply to focus on providing a narrow answer. In addition, the practitioner need not only offer answers; it's also perfectly acceptable to ask as many questions as the client does to get a sense of where the business stands and where it is going.

4. CPAs don't develop personal rapport with clients through lunches and wide-ranging discussions about topics of interest to clients. Sometimes, the emphasis on hourly billing can get in the way of more satisfying and lucrative relationships. Practitioners shouldn't think they are wasting their time when reinforcing client relationships or exploring possibilities for additional work to benefit the client.

5. Many CPA firms don't know which clients make them successful. Those that analyze the reasons for their success know the "80/20" rule applies: Eighty percent of the growth, profitability and satisfaction comes from 20% of the clients. At a minimum, firms should identify the top 20% to get a clear picture of desirable prospects for future growth. Firms will discover that clients in this category rate highly on most of the following criteria:

a. The client is likely to generate revenues within the quarter.

b. There is a potential for high billings during the quarter.

c. The client is easy to contact and ask for new business.

d. The growth potential is high.

e. A profitable long-term relationship is likely.

f. The client is a potential referral source.

g. The client has value as a center of influence of other potential clients.

h. The client's past payment record or credit history is good.

i. The client's industry or needed services are consistent with the firm's long-term plans.

j. Client contacts are willing to work

EXECUTIVE SUMMARY

■ EVEN IF PARTNERS and managers recognize the importance of a well-designed marketing plan and have a general idea of how to implement one, they still may achieve minimal success or outright failure. There are seven reasons why:

1. Inadequate market research. Firms must be familiar with the needs of current and potential clients to plan a worthwhile program.

2. Inadequate client profile. Asking questions can be a key step in improving and expanding client service.

3. Off-the-shelf sales programs. Any standard plan will fail unless it is customized to fit a firm's goals, values, operating principles and personnel.

4. Hourly billing mentality. A narrow focus on billable hours can undermine marketing efforts.

5. Lack of incentives. Unless firms allow members to engage in practice development during working hours—and compensate them for their efforts—the commitment to the program will be minimal and the results disappointing.

6. Lack of sales skills. Any practice development program that doesn't assess skills and provide group and individual sales training will fail.

7. Lack of personal accountability. Everyone, including the managing partner, should have personal goals for marketing efforts and results.

with firm staff instead of being served exclusively by the selling accountant.

All clients are not equal; some are more equal than others. Firms should weight each of the 10 criteria above according to their own objectives and then score every client from 1 to 10. Firms should seriously evaluate whether they want to keep clients with scores of 1 to 4; they also should ask what level and type of services can be provided to clients in this category. The object is to achieve the maximum value—for both the clients and the firm—for the resources expended in making the clients and the firm successful. This is best accomplished by concentrating on the most worthwhile clients while developing marginal clients into better ones. (See also "Keeping the Client Satisfied" by Seth R. Ellis and Martin A. Mayer, JofA, July94, page 49.)

3: "CANNED" SALES PROGRAMS

One of the expensive shortcuts many firms take is to use an off-the-shelf program to reach practice development objectives. Any standard plan, no matter how successful it has been for other firms, will fail unless it is customized to fit a firm's goals, values, operating principles and personnel. Standard indicators such as calls per week, length of presentation, closing ratio, competitive pricing, etc., serve as broad guidelines but shouldn't be adopted automatically as performance standards even if they are based on firms of similar sizes and capabilities.

Any off-the-shelf sales program, no matter how successful it's been for other firms, will fail unless it is customized to fit a firm's goals, operating principles and personnel.

When tailoring an off-the-shelf program, firm leaders should keep in mind that every firm is different, even though each may provide the same services, employ the same number of people and generate approximately the same revenues. The difference is the people—their skills, attitudes, motivation, personal goals. Every individual contributes to the firm culture through his or her personal values, attitudes and behaviors. The firm culture is a result of the leadership style, the firm values and how different behaviors are rewarded. Each culture creates a unique environment in which individuals strive to achieve the firm's common goals.

A marketing program should be flexible, not only in recommending overall results and activities but also in allowing for individual differences. For example, the number of calls to be made or the number of new clients to be generated should vary based on each person's work situation, skills and experience.

The practice development program must be consistent with the firm's overall goals as well as the marketing plan and capitalize on its unique strengths. Instead of focusing on what the firm can't do, it should focus on what it can. Placing too much emphasis on a firm's weaknesses or lack of resources can actually hinder practice development.

4: HOURLY BILLING MENTALITY

Practice development requires a disciplined time commitment, and the results are not always guaranteed. If firm leaders don't understand the impact of members' practice development efforts and base rewards solely on the billing revenues generated or hours billed, they will undermine even the most carefully planned practice development plan. This approach sacrifices long-term revenue growth for short-term cash flow.

Practitioners sometimes say they don't have time for practice development because of too much client work, tax season or yearend pressures, etc. The real reasons might be a lack of sales skills and of incentive to do anything but hourly billing. Firms that engage in disciplined and patient practice development realize a much higher return on their time than just the hourly billing rate. Firms should not allow a short-sighted focus on hourly billing to undermine the establishment of a meaningful practice development program.

5: LACK OF INCENTIVES

Many firms provide neither tangible nor intangible compensation for sales activities. Even though attitudes are changing, practice development still is considered to be extracurricular, something to be accomplished in the early morning or during evenings and weekends. Unless firms allow members to engage in practice development during working hours, the commitment to such a program will be minimal.

More progressive firms may allow practice development during regular work hours but do not reward activities or re-

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Client relations checklist

Client profile

1. Name:
2. Industry—business(es):
3. Contact person:
4. Size:
  a. Sales:
  b. Number of employees:
  c. Divisions—sites:
5. Length and nature of relationship:
6. Client billing history and potential:

	Last year	This year	Next year
a. Tax:			
Individual			
Corporate			
Partnership, nonprofit, etc.			
b. Compilation and write-up:			
c. Audit:			
d. Review:			
e. Other traditional services:			
Total traditional services:			
f. Consulting:			
g. Other services:			
Total other services:			

7. Potential needs the firm can satisfy:
8. Dimensions of relationship:
Score letters *a* through *f* below on a scale of 1 to 7; score *h* through *j* using the options provided. Mark the firm's perception first, and then ask the client for his or hers.

	Perception	
	Firm	Client
a. Client satisfaction:		
b. Value to client:		
c. Payment record:		
d. Accessibility:		
e. Knowledge of future plans:		
f. Frequency of contact:		
g. Client loyalty (none, partial, complete):		
h. Firm involvement (reactive, active, proactive):		
i. Communication flow (negative, neutral, positive):		
j. Chemistry (bad, neutral, good):		

9. Relationship improvement areas:
10. Most potentially rewarding improvement areas (financially and in terms of better client relationship and service):
11. Relationship improvement objectives and actions to be accomplished:
Within 7 days:
a.
b.
Within 30 days:
c.
d.
Within 90 days:
e.
f.
Within one year:
g.
h.

sults with tangible compensation such as bonuses. Many don't offer the intangible compensation of public recognition. Some firms seem to want members to meet their billing objectives and engage in practice development on their own time without any expectation of compensation. That's one reason their practice development goals aren't met.

A suitable incentive program should enable firm members to sacrifice some billing hours to generate new business. Firm members' work loads should be decreased as part of this effort. In many cases, CPAs not only must get new business, but they also must perform the additional work they generate. That means more work and no additional compensation. In fact, if there is a drop in hourly billing, tangible compensation actually may decrease. This perverse system of punishing people for gaining additional revenues is not the basis of an effective practice development program.

The job of the marketing director or the partner in charge of practice development is not to sell for everyone but to make it easy for everyone to sell.

In some cases, incentive systems are vague, inconsistent, narrowly focused and inflexible. A well-designed system

- Rewards both individual and group performance.
- Is specific and easy to understand.
- Rewards both focused attempts and results.
- Satisfies multiple criteria, such as new client revenue, additional revenue from present clients, number of new clients, increase in market share, etc.
- Allows for individual differences in types of awards. Bonuses tailored to suit the effort and the recipient might vary among money, time off, attendance at an off-site professional meeting and graduate school fees.

A good system shows a firm's commitment to its practice development program. Lack of proper incentives will discourage even the most highly motivated employees.

6: LACK OF SALES SKILLS

There are no born salespeople; everybody can sell. Sales skills are learned. Any practice development program that doesn't assess sales skills and provide group and individual sales training will fail. Group training can teach prospecting, fact finding, presentation and communication skills. It also can provide general ideas on overcoming the fear of rejection and call reluctance, closing strategies and personal organization.

Firms must allocate sufficient resources to the sales training effort to enable their staffs to sell in the marketplace with confidence. Lack of training may save money in the short term, but it won't generate any in the long run.

Once general sales skills are learned, the next training step is to define an individual selling style and learn how to capitalize on personal strengths. Specialized training and sales and client relations strategies also should be appropriate for the types of clients and industries.

7: LACK OF PERSONAL ACCOUNTABILITY

Everyone, including the managing partner, must set objectives for practice development efforts and results in consultation with the partner in charge of practice development and be held accountable for his or her performance. When performance goals aren't met, the emphasis should be on problem solving and not on finger-pointing or excuses. Instead of fixing blame, focus should be on fixing the problem.

A common error is to hold the marketing director or the partner in charge of practice development responsible for results. People in such positions are responsible only for providing the resources and establishing a collaborative sales and marketing plan. Their job is not to sell for everyone but to make it easy for everyone to sell. They may have their own personal practice development objectives, but to hold them accountable for overall firm results is unfair and unproductive. It is the firm's responsibility to reinforce accountability and celebrate the successes of those who make an effort.

A GREATER CHANCE OF SUCCESS

There may be other reasons for the failure of practice development programs, but these seven are the most common. Firms that commit one or more of these errors will be frustrated in their efforts to expand their practices. Eliminating these problems may not guarantee success, but it certainly will increase the probability that firms will reach their practice development goals. ■

EXHIBIT 3-17

ARTICLE: *MARKETING FROM THE GROUND UP*

MARKETING FROM THE GROUND UP

All of a firm's staff members play a vital role in practice development. Management must communicate its expectations to staff, offer guidance and opportunities to learn and measure performance. Here's a step-by-step program for enlisting everyone in a firm's practice development program and making it succeed.

by Constance Anne Vaughan

Accelerating competition has resulted in stepped-up marketing efforts at virtually every firm in the nation, with even the most conservative placing a greater emphasis on new business development—and expecting everyone to participate in the effort. Here's how to develop a structured program to enlist all of a firm's professional staff members in the practice development effort—and measure their effectiveness. A carefully orchestrated practice development program will lead to new clients, new sources of referrals and new services to offer.

Often staff accountants don't understand what is required of them in this area and are afraid they lack the necessary skills. Which marketing director or managing partner hasn't heard a staff member say, "I'm not a rainmaker, and I never will be" when practice development is mentioned, as if that were expected of every member of the firm?

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Such misunderstanding and self-doubt often stem from management's failure to define and communicate its expectations. The partners know they want staff to become more involved in—and competent at—developing the firm's practice, but haven't translated their expectations into terms staff members can understand and put into action. "We're supposed to be doing things to generate new business, but the partners never say what those things are," a senior accountant in a midsized firm said. "Do they really expect me to bring in a couple of new audits every year?"

Of course not. No firm expects a senior accountant to single-handedly deliver new audit engagements. But staff members need to know what is expected of them and how those expectations change as they advance within the firm. Performance expectations regarding technical and engagement management responsibilities are spelled out; shouldn't this be done for practice development?

Closing this communication gap calls for a structured program to involve staff of all

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levels in developing new business. The program rests on two basic principles:

■ Marketing professional services is as much a science as an art. Every successful firm seems to have at least one "star" who makes practice development ability look like something one must be born with. In truth, practice development is a process that can be broken down into discrete activities in which everyone can participate and succeed.

■ Marketing professional services depends to a great extent on establishing and maintaining a professional reputation and building professional relationships. Sales ability, public relations, proposal writing and advertising all have a place in the process, but an effective practice development plan begins with, and emphasizes throughout, the building of reputations and relationships.

SETTING UP THE MARKETING PROGRAM

The first step in establishing a firmwide practice development program is to form a practice development committee. (If the firm already has one, establish a special task force for this purpose.) Include someone from each professional level, from recent hires up to partner, in order to obtain and take into account the perspectives of people at all levels. Firms with fewer than 15 accountants may want to include all the professional staff.

Select someone with responsibility and authority in the practice development or marketing area—such as the director or partner-in-charge—to head the committee, and add members who are well regarded by their peers and their superiors. This will help ensure that everyone in the firm supports the effort.

The committee's objectives will be to

■ Identify the activities that make up the practice development process.

■ Determine which activities and responsibilities are appropriate for each staff level.

■ Decide how the firm will communicate these activities and responsibilities.

■ Identify the guidance and education staff members will need to fulfill their practice development roles and develop ways to provide them.

■ Develop a system to evaluate staff performance and measure the program's effectiveness.

ASPECTS OF PRACTICE DEVELOPMENT

Practice development activities fall into four broad categories:

1. *Establishing and maintaining professional credentials.* The first step in marketing professional services is obtaining the appropriate education and certifications. CPAs must pursue appropriate continuing education to stay abreast of regulatory and other changes and improve their technical knowledge and skills.

2. *Understanding the firm's services.* This is particularly important in large firms with multiple areas of specialization, in which staff members in one area often are not familiar with other areas.

3. *Developing and maintaining a positive professional reputation and relationship with prospective clients and referral sources, and regularly communicating the firm's credentials and services to these various individuals.* This is the nitty gritty of practice development.

EXECUTIVE SUMMARY

■ A GREAT CHALLENGE FACING accounting firms today is helping staff members understand and fulfill their roles in developing new business for their firms. Often staff members do not understand what is required of them and are afraid they lack the skills to perform well.

■ IN MANY CASES, FIRMS HAVE failed to define and communicate to staff their practice development expectations. Without this direction, the staff's efforts are likely to be haphazard and ineffectual, and the firm will lack a basis for measuring and evaluating staff performance.

■ PRACTICE DEVELOPMENT activities fall into four broad categories: establishing and maintaining professional credentials; understanding the firm's services; developing and maintaining a positive professional reputation and relationship with prospective clients and referral sources; and identifying, cultivating and closing the deal on practice development opportunities.

■ A STRUCTURED PROGRAM TO involve staff in activities that comprise these four categories can overcome this problem. It's an ongoing process that should become a way of life at the firm, but the effort will result in new clients, new sources of business referrals and new services to existing clients.

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4. *Identifying, cultivating and closing the deal on practice development opportunities.* Here's where the effort to build relationships pays off. Staff members who are active in the areas described above will begin to generate leads and, over time, will become increasingly skilled at turning the leads into new business.

With an understanding of the above categories, the committee can begin to identify specific activities that are part of each. The following examples can be used as a guide, but each firm's list of activities must reflect its particular culture and marketing philosophy.

Professional credentials.

■ Passing the CPA exam or obtaining other applicable certifications. For example, a firm may want staff members who specialize in particular professional areas or specific industries to obtain the applicable certifications.

■ Pursuing an appropriate level of continuing professional education. This includes programs aimed at improving overall technical knowledge and skills, as well as specialized programs relating to the firm's specific niches. For some staff members, this may mean taking courses toward an advanced degree, such as a master's in taxation, an MBA or a JD. And, since building relationships will be an important aspect of staff members' jobs, continuing education should include programs aimed at improving communication and interpersonal skills.

■ Joining professional associations, such as the American Institute of CPAs and the state CPA society. Membership validates a practicing CPA's professional credibility in the perception of the general public, potential clients and referral sources.

Familiarity with the firm's services.

■ Keeping abreast of the services the firm offers. Brochures and other marketing materials have educational value and should be distributed regularly to staff.

■ Becoming acquainted with specialists throughout the firm and their areas of expertise. As a partner in a firm with an active marketing program says, "Every workweek contains five lunches. That's five hours that could be devoted to practice development." Lunching with staff from other departments is an excellent way to get to know what they do.

■ Attending and participating in firm presentations on service and industry niches. This offers an added benefit: Staff members can gain valuable experience in making public presentations in a relatively comfortable setting.

■ Developing ideas for new services. If staff members are encouraged to develop new service ideas, they will begin to change their approach to client service. Rather than trying to match clients to the firm's services, they will begin matching services to client needs.

Professional reputation and relationship building.

■ Serving on professional association committees and perhaps assuming a leadership role. Just as membership in the AICPA and state CPA society enhances a CPA's professional credibility, participation on a committee can help establish him or her as an industry or service area specialist. For example, membership on the state society's estate planning committee strengthens the résumé of a staff member who specializes in estate planning in the eyes of referral sources and potential clients.

■ Joining specialized industry associations. Many industry associations offer associate memberships to CPAs and other service providers, offering opportunities for staff members to meet potential clients and gain industry recognition.

■ Participating in civic and philanthropic organizations and possibly assuming a leadership role. Mere membership in any organization will get a firm nowhere, as a partner in one local firm learned. "We've belonged to the chamber of commerce for years, and it's never generated a single lead," he commented, but then admitted that no one from the firm attended meetings on a regular basis. A look at local organizations' leadership rosters will reveal a "who's who" of the community's business leaders—people who would be valuable members of the firm's referral network. Shouldn't firm members be developing relationships with these individuals?

■ Speaking before industry and civic associations and other groups. Speaking engagements can increase a firm's visibility and enhance the speaker's reputation as a specialist. (However, don't make the mistake of sending staff to the podium without adequate training and preparation; a poorly delivered presentation can harm the firm's reputation and be a devastating experience for the individual.)

■ Writing articles for professional journals and other publications. The appearance of a professional's name in print accords him or her standing as an expert in the eyes of readers. A firm can get extra

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mileage from published articles by distributing reprints to clients, potential clients and referral sources.

Identifying opportunities and closing the deal.

■ Learning to recognize signs that existing clients need additional services, pursuing these opportunities or passing them along to the appropriate individual. As one firm partner said, "There's a gold mine of business in our client files." Who should be prospecting for that gold? The staff members, who have constant exposure to client records and documentation and who routinely interact with clients.

■ Identifying and approaching prospective clients. This will follow naturally if staff members already are building professional reputations and relationships. Making the approach is vital; many new business opportunities are missed because no one actually asks a potential client for his or her business.

■ Attending meetings with prospective clients. Staff members must learn how to conduct meetings with prospective clients if they are to become competent in this aspect of practice development. Partners and other senior firm members should regularly invite less experienced staff to accompany them to meetings, if only in the role of note taker.

EXHIBIT 1

Practice development activities for a senior accountant and a manager

The following are examples of practice development activities appropriate for a senior accountant and for a manager. Note the progression of responsibilities between the two levels. These are examples only; the activities for each firm's staff should reflect the nature of its practice and its particular culture and marketing philosophy.

Category of activity	Senior accountant	Manager
Establishing and maintaining professional credentials.	Take courses toward an advanced degree and/or pursue industry certification.	Complete an advanced degree.
	Maintain membership in the American Institute of CPAs and the state CPA society and perhaps serve on an industry or service niche committee.	Maintain membership in the AICPA and state CPA society and serve on at least one industry or service committee.
Understanding the firm's services.	Regularly attend firm presentations on service and industry niches and cultivate relationships with specialists from the firm's other practice sections to learn about their areas of expertise.	Play an active role in informing staff about firm service and industry niches and participate in or lead presentations on the services offered.
Developing and maintaining a positive professional reputation and relationship with prospective clients and referral sources.	Participate in at least one civic or philanthropic activity.	Assume a leadership role in at least one civic or philanthropic organization.
		Pursue opportunities to make presentations before industry groups and other organizations.
Cultivating and closing the deal on practice development opportunities.	Stay alert to and inform the appropriate firm members about opportunities to cross-sell services to clients.	Stay alert to opportunities to cross-sell services to clients and pursue them.
	Accompany partners and other staff members to meetings with prospective clients.	Identify and develop new business opportunities and bring a partner or principal into the process at the appropriate time.
	Assist in the drafting of correspondence from more senior members of the firm to prospective clients.	Routinely participate on proposal teams under the leadership of more senior members of the firm.

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■ Corresponding with prospective clients. Staff should do this from an early stage in their careers. They can begin by preparing drafts of correspondence for more senior firm members' review and signature.

■ Leading or participating on proposal teams. The proposal process is a mystery to most young staff members—until they suddenly have proposal-related responsibilities thrust on them. Getting staff involved in the process early in their careers will prepare them to assume greater responsibility in the future.

■ Closing the deal on new engagements. By participating in the practice development program, staff members will be prepared to translate opportunities into new business when they have gained the appropriate level of experience and seniority.

DEFINING ROLES BY STAFF LEVEL

After identifying practice development activities, the committee must decide which are appropriate at each staff level. For example, assuming a leadership role in a professional association may be appropriate for a manager but not for a new staff member. Similarly, while a partner or principal may be capable of closing the deal on new engagements, this may not be considered a realistic expectation of a manager. (See exhibit 1, page 48, for examples of activities that may be appropriate for a senior accountant and a manager.)

As it defines and documents practice development roles for all staff levels, the committee should pay particular attention to suggestions by the member who represents the staff level under consideration, since his or her input may affect how the new roles are accepted by peers.

COMMUNICATING THE NEW ROLES TO STAFF

The staff's newly defined practice development roles must be communicated throughout the organization and incorporated into its performance evaluation system. Also, it is important to identify individual staff members' needs for guidance and education and develop a plan to meet them.

It is best to make the announcement both in a setting in which staff can ask questions and in writing, so staff have something to refer to later. A small firm may choose to hold one organization-wide meeting led by the firm managing partner or the practice development committee partner. A large firm may find a series of meetings by staff level better, especially since staff members may be more willing to voice their concerns and raise questions when their immediate superiors aren't present. These meetings could be led by the firm managing partner or the practice development committee partner.

For example, a regional firm implementing such a program scheduled a series of staff-level meetings led by the committee partner. This partner was assisted by a committee member from the appropriate level. Each attendee received written materials describing the new roles, including a description of appropriate activities for each staff level and a grid illustrating the progression of activities accompanying career growth. These materials helped staff understand not only what was expected of them now, but what would be expected in the future.

Common questions raised by staff were how much time they were expected to devote to practice development, whether some of this time could be spent during normal working hours and whether that time was reportable in the firm's time and billing system.

Based on concerns expressed by staff during the meetings and other observations, the firm identified several areas in which staff needed training:

■ The practice development process, including how to conduct an initial development meeting with a prospective client, what information to include in a typical written proposal and how to close the deal on new engagements.

■ Oral and written communication skills, including conducting group presentations and drafting correspondence and proposals.

■ The firm's service and industry niches.

In addition, staff needed individual guidance regarding appropriate industry associations to join and opportunities for civic or community involvement.

How a firm addresses such needs will depend on its size, the nature of its practice and its practice development philosophy and objectives. Some steps to consider are:

■ Sponsor an ongoing series of presentations by the firm's industry and service area specialists about their capabilities and typical engagements.

■ Provide all new staff with literature describing the firm's practice areas and the services it offers.

■ Distribute copies of newly developed marketing materials to all members of the firm.

■ Present in-house seminars and work-

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shops or send staff to external training programs to improve their written and oral communication skills, as well as their interpersonal skills. (Many staff members will benefit from instruction in making personal introductions and guidance in effective networking skills.)

■ Match staff members with mentors who are a notch or two higher on the firm's ladder and who can share the benefits of their practice development experience and listen to the concerns of the lower-level staff members.

■ Encourage partners and other senior members to share their knowledge about practice development with less experienced staff, include them in meetings with potential clients and invite them to social and business events that present new business opportunities.

MEASURING YOUR PRACTICE DEVELOPMENT PROGRAM'S SUCCESS

A successful practice development program calls for long-term investment of a firm's financial resources and professional time in providing education and guidance to staff members. Don't expect an immediate, measurable impact on your firm's revenues. However, you can expect a measurable increase in the time staff members devote to activities such as

■ Developing relationships with attorneys, bankers and other referral sources.

■ Learning about the firm's specialized services and relating these to the needs of current and potential clients.

■ Active involvement in industry, civic and charitable associations, which will increase the firm's visibility among potential clients.

■ Writing articles for business and industry journals and making public presentations.

■ Identifying and pursuing new business leads.

■ Engaging in a variety of other activities that, in the long run, will produce opportunities to expand the practice.

Over the long term, the program's effectiveness can—and should—be evaluated. Incorporating the newly defined practice development roles in the firm's performance evaluation process will provide a means of evaluating the progress of each staff member.

Taking the next step and preparing a firmwide summary of the information reported on staff evaluations will result in information with which to track the firm's involvement in practice development activities. (This summarization can be performed by the firm's marketing manager or another individual involved in the marketing process.) For instance, the summary will provide a list of all professional, industry, civic and philanthropic organizations in which firm members are involved, along with specific business leads generated through this involvement and the disposition of these leads. The summary also will provide a compilation of speaking engagements in which the firm has participated and the leads produced as a result. Such information can be used to measure the relative value of practice development activities on a firmwide basis and to identify activities that are worth continued pursuit.

MEASURING THE PROGRAM'S EFFECTIVENESS

Just as staff members are evaluated periodically on technical performance, client relations and supervisory skills, they should be evaluated on their practice development skills. If a firm doesn't do this, staff members will justifiably believe they aren't accountable in this area and the firm will have no means of identifying individuals' strengths and weaknesses or measuring the program's overall effectiveness. (See sidebar on this page.)

Incorporate the firm's expectations for staff into the general performance review system. Expand the measurement criteria to include practice development activities and create new evaluation forms for each staff level that provide space to report the results of the individual's activities, such as referrals, leads and new business generated. (Exhibit 2, page 51, shows how a manager's responsibilities can be incorporated into the practice development section of his or her performance evaluation form.)

In addition to measuring staff performance, information from staff evaluation forms will help in tracking firmwide practice development activities, judging their effectiveness and making appropriate changes.

AN ONGOING PROCESS

The practice development committee's work is not complete even after the firm's practice development expectations have been incorporated into its evaluation process. If the program is to reap long-term results, the work never will be finished. New hires will have to be trained and staff education and mentoring programs will become ongoing activities—a way of life—at the firm.

But the result—a firm in which everyone plays an important part in practice development—will be well worth the effort. Establishing and maintaining a firmwide practice development program will result in new clients, new business referrals and new services for current clients. ■

■ MARKETING CASE STUDY

EXHIBIT 2

Sample practice development section of a manager's performance evaluation form

Please answer the following questions related to practice development expectations at the manager level.

Are you pursuing an advanced degree or industry certification?____ Please identify degree or certification and courses completed in the past year.

Have you maintained membership in the American Institute of CPAs and state CPA society?____ Please identify committee involvement.

Describe your role in communicating information about your area of specialization throughout the firm, including topics and dates of presentations in which you participated.

Have you assumed a leadership role in at least one civic or philanthropic association?____ Please identify organization(s) and role(s).

Has this involvement resulted in new business leads?______ Please identify and describe how you pursued these leads.

Have you pursued opportunities to make presentations before industry groups and other organizations?____ Please identify the topics and organizations.

Has this activity resulted in new business leads?____ Please identify and describe how you pursued these leads.

Have you identified and pursued opportunities to cross-sell services to existing clients?____ Please identify these opportunities and describe how you pursued them.

Have you participated on one or more proposal teams in the current year?____ Please identify the team(s) and results.

Have you identified and pursued new business opportunities beyond those noted above?____ Please identify them and their sources and describe what you did.

Please rate your overall performance in the practice development area by identifying areas in which you excel, areas in which you are in need of improvement and your plans to improve your performance.

Please provide your assessment of the relative effectiveness of the various practice development activities in which you participated during the past year. Which do you believe are worth continued involvement? What new activities would you like to pursue?

(Note that the above is a sample that may be used as a general guide; each firm's forms should reflect its particular culture and marketing philosophy.)

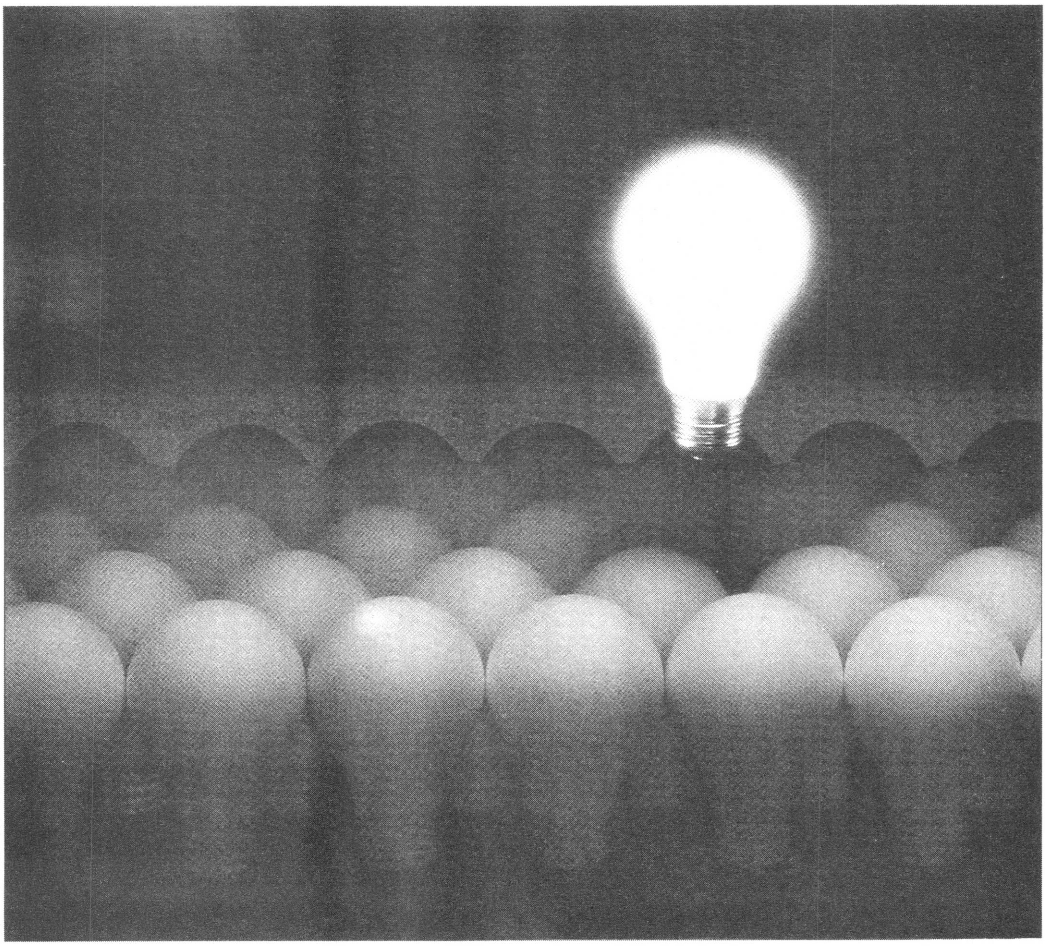
EXHIBIT 3-18

ARTICLE: *MARKETING IN TROUBLED WATERS*

MARKETING IN TROUBLED WATERS

Marketing efforts don't have to be expensive—and they may be the worst thing for firms of any size to cut in a downturn.

by Allan S. Boress



ROBERT GEORGE YOUNG/MASTERFILE

"The recession has been a wake-up call for the accounting profession. It has caused us to place more focus where it belongs: on clients and the skills to better serve and communicate with them," says Keith Cobb, managing partner of KPMG Peat Marwick in Philadelphia, in response to an interviewer's question.

But has it? Has the economic downturn really caused CPA firms to change the way they do business and how they interact with clients? This article explores

- How the recession has affected CPA firms.
- The steps—beyond cost cutting and increased efficiency—some CPA firms have taken to deal with the economic downturn and the tangible results.

In addition, the sidebar on pages 42–43 provides a systematic marketing action plan, based on what successful firms are doing to create additional profitable business now.

THE RECESSION'S IMPACT

Over 70% of the 200 firms interviewed for this article reported a decline in revenues or profits over the previous two years—no surprise there. This dip did more than lower partner draws and net profits, however, as evidenced by a managing partner who requested anonymity: "Our practice revenues dropped 25% from 1989, our record year, which we attributed mostly to the real estate depression in our area. Collections slowed and we had significant bad debt writeoffs. We focused on survival more than growth."

Even at his very successful firm, the recession was a shock, says Mike Dugan, managing partner of Dugan & Lopatka in Wheaton, Illinois. "DuPage County (suburbia west of Chicago) was never affected until this recession. Our automatic growth of 15% per year stopped."

Over 90% of firms interviewed said they were caught off guard by the recession and its severity. Bill Lankford, managing partner of DeLoach & Company in Atlanta, best summed up the downturn's unexpected impact: "Our accounts receivable turnover was longer than anticipated, and although we had been providing for bad debt writeoffs, they were larger than we expected. We found that it was possible to operate the firm and maintain and even improve quality with fewer professionals and support people."

There was significant fee competition during this recession, but not all of it can be attributed to the decline in business, especially in larger firms. Certain markets simply dried up. The number of public offerings, acquisitions and large financed transactions that create demand for additional services clearly has shrunk. And technology has lowered demand for public accounting services as clients now do more for themselves. Few firms correctly predicted the degree of industry contraction, which left the profession overstaffed in the middle of a recession and created fee competition.

A few bright spots. Some firms found benefits in the economic downturn. "The recession has been good to us," according to Curt Miller, managing partner of Katz Sapper Miller (KSM) of Indianapolis. When larger competitors cut staff and curtailed business development activities, they made well-established and high-profile smaller firms more appealing to their competitors' neglected clients. KSM also had its best recruit class ever because the larger firms had stopped hiring.

AVOIDING THE WAIT-AND-SEE MISTAKE

Although over 93% of the firms interviewed said they moved to deal with the recession, less than 5% of them took active steps to generate additional business or materially

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■ TROUBLED WATERS

changed the ways in which they dealt with clients. The remainder said their primary focus was cutting costs and improving efficiencies in the work product, but there are other steps CPAs can take in a downturn to produce tangible results.

It took a deep recession before many firms would even consider investing time and effort into marketing or business development training. Jayne Osborne, a Nutley, New Jersey-based consultant to CPA firms on practice management and administrative issues, says, "It's been a tough sell until now. I've been fighting with some of my clients for over 10 years to get everyone involved in marketing."

But her clients now are bringing younger firm members to retreats where selling-skill development is discussed. "Many of my clients are beginning to take seniors on sales calls and helping them develop their own contacts, which will pay off in three to four years." She suggests seniors be coached and counseled by partners individually to analyze and enhance their marketing skills.

She also tells practitioners not to ignore internal marketing. "It's more important than ever to share financial information with your people, if only to show them how the success of the firm affects their salaries and bonuses. This helps motivate all employees to market the firm to the people they know."

Osborne also encourages her clients to use technology in business development. "My clients keep databases to track full-charge bookkeepers, controllers and outside consultants as they move to different positions. The firms keep in touch with this 'secondary alumni association' through vehicles such as newsletters, seminars and open houses."

John Reed, managing partner of the Omaha, Nebraska, office of Arthur Andersen & Co., said his office is "concentrating on limited nonattest services—where there's value for the client." Reed now meets regularly with the office's clients to discuss the challenges facing their businesses and their expectations of him and his team. The result is happier clients, additional referrals and business sold.

Keith Cobb reorganized his practice's audit and tax practices to concentrate on specialized industries and businesses, which has allowed the office to focus on clients' unique needs. Pressures to cut costs forced the firm to drop marketing tools such as brochures and seminars and to place its complete attention on the business relationship between CPA and client. The good news is the firm has saved money on marketing expenses, generated additional business and retained good clients despite fierce competition.

A new focus. Malcolm Hayes, a Florida CPA, says his firm made a conscious decision to "stop being shopkeepers and to start being rainmakers. We've substantially increased our daily communications with our most valuable clients, sharing with some of them our intention to make them partners in our growth plans for the future. We in turn committed to help them achieve their future growth goals. We've instituted a bonus and incentive program for the staff to motivate them to provide even better client service and to generate referrals. As a result, we've acquired a sizable new client and received superb reviews in our most recent client survey."

Other firms have looked to outside

EXECUTIVE SUMMARY

■ **OF 200 FIRMS interviewed, over 70% reported a decline in revenues or profits over the past two years. The dip lowered net profits, slowed collections and created significant bad debt writeoffs for many firms.**

■ **LESS THAN 5% of those affected took active steps to generate additional business or materially changed the ways in which they dealt with clients, however. The remainder said their primary focus was cutting costs and improving efficiencies in the work product, but there are other steps CPAs can take in a downturn to produce tangible results.**

■ **FIRMS' STRATEGIES FOR fighting off business decline include involving all firm members in marketing efforts—offering bonuses in some cases—and meeting regularly with clients to determine services they need as well as bringing in outside help.**

■ **DRASTIC CUTBACKS CAN backfire if they cause firms to lower their expectations. Prudent spending on programs that best suit the firm is a better choice.**

■ TROUBLED WATERS

A MARKETING PLAN FOR HARD TIMES

This 10-step marketing plan is based on successful firms' strategies to create additional profitable business immediately.

Although CPAs may be reluctant to impose on referral sources and clients for some of the input needed, many firms have found this is a powerful way to involve often overlooked assets in building the practice. The effort shouldn't be presented as an attempt to get more business but, rather, to gain input on quality improvements. These discussions should take place away from the distractions of the firm.

Step 1: Discuss the following questions with the partners, managers and staff; referral sources; and clients in separate groups:

A. What are the facts about the firm? This purposely vague question is designed to give respondents freedom of thought and allow them to come up with new reflections and ideas.

B. What is the marketplace telling us about the firm? Why aren't clients willing to pay the firm's fees? Do they no longer value firm services? Often, firms place blame outside—on the economy, competition, etc.—but some firms succeed despite poor economic conditions and don't cut fees below costs.

C. What's working and what's not? This question delivers each group's observations about what they like and dislike about the firm.

D. What are the competition's strengths and weaknesses?

E. What are best ways to promote the firm?

F. What services should the firm actively promote?

Step 2: Develop a fresh marketing plan for partners, managers and any marketing people by reviewing the discussion summaries and brainstorming. Discussion leaders shouldn't throw out any ideas until all opinions are on the table.

A. Set goals and timetables and assign responsibilities for implementation.

B. Decide how to spend more time with existing clients and referral sources to safeguard these relationships, to seek opportunities to help clients survive difficult times and to spot chances to sell work and improve chances for referrals. To help accomplish this goal, partners can

1. Delegate more detail work (not client contact work).

2. Institute a staff bonus system.

C. Make sure clients know what the firm does. Firms should never lose a client to someone else because he or she didn't know the firm could provide the service.

D. Target prospective clients, and then arrange for introductions.

Step 3: Declare a three-month firmwide marketing push. Es-

resources to combat the recession's effects. Mike Dugan reports his firm hired a consultant to improve partners' and managers' selling skills. "The net result was, we recovered a very good client we had lost and sold business we probably wouldn't have in the past."

Some firms now are reaping the benefits of foresight and years of preparation. Curt Miller explains why his firm was spared the recession's effects: "We've let every firm member know for the past five years that their career paths depend on their practice development efforts." In addition, his firm tracks members' activities.

Miller conducts monthly practice development sessions by industry group in which participants make strategic marketing plans, discuss referral sources and describe new client prospects. This past summer they targeted an entire city to "invade," introducing the firm and its services to likely engagement candidates.

Miller also meets monthly with senior managers alone to "discuss everything under the sun—our goals, theirs. We allow them to let their hair down. We purposely have our monthly partner meeting after the senior managers' meeting so we can relate the results to the partners."

And Miller believes professionals should participate in the profits earned from new clients. "The first year we introduced a compensation system of 10% of first-year collections, firm members brought in three new clients in the $40 million to $50 million sales range." The firm doesn't compensate its people based simply on chargeable time, specialized skill and work experience—there are also special merit salary increases that reward practice development.

Miller also believes in the power of public relations, to which the firm devotes $20,000 of its total annual promotion budget of approximately $150,000.

Jerry Atkinson, managing partner of Atkinson & Co. in Albuquerque, New Mexico, decided not to terminate anyone

■ TROUBLED WATERS

tablishing a time frame helps set monthly goals and creates urgency.

Step 4: Empower employees. An effective marketing plan can work only through everyone's efforts.

A. Motivate employees and reassure them about the firm's future so good workers aren't lost unnecessarily. The employee bonus system can cover suggestions and referrals. Plan a party to celebrate achievement of goals.

B. Invest in the skills needed to produce additional business. Firm members should be trained to spot opportunities through outside courses and regular sales coaching sessions.

Step 5: Ask for help. Call in favors from vendors, referral sources, bankers, clients to find new business sources. Track closely how referral sources have helped the firm and vice versa.

A. Go to market together: Cosponsor seminars, articles, speeches, etc., to audiences of mutual interest.

B. Make sure sources and their staffs know whom to contact at the firm with referrals.

Step 6: Package and heavily promote a particular service. Examples might be cash management, inventory control, internal control procedures review, office productivity—services that normally are given away or included as part of another service. It's a good idea to choose one in which a competitor is weak. Services can be promoted to existing and prospective clients. Promote one item per month to keep firm members focused and to create interest in the new product. Firms should regard promotion and marketing expense as a fixed cost, like rent. In hard times, don't cut back—just invest wisely.

Step 7: Institute a monthly practice development meeting with partners and managers.

Step 8: Monitor results. Track monthly goals and progress and post them for all to see. Use graphs to chart changes in revenues, client count—anything positive.

Step 9: Make adjustments. Redirect, reshape, change the plan and accompanying action based on what's working well and what isn't.

Step 10: Resolve to be positive, no matter how tough business might be.

A. Firm members should maintain a positive attitude with employees, clients, vendors, referral sources.

B. Partners should show enthusiasm for the firm, employees and clients.

C. Firm management should do something to brighten employees' spirits during a challenging time. A small investment or change in procedures can alter the mood of an entire office. Some proven ideas to lift morale are sprucing up the offices, allowing a weekly casual-dress day and soliciting employees' suggestions for improvement.

when the recession started there three years ago. Although it was an expensive choice, Atkinson decided that instead of firing, the firm would hire the most qualified full-time marketing director it could find—one with CPA firm experience as a bookkeeper, a marketing degree and five years' real estate experience. "She knew about business," Atkinson attests.

The marketing director coaches partners and managers on closing deals, coordinates their individual marketing plans and has improved the firm's proposal process. She helps the staff get involved in the right organizations for marketing efforts and accompanies them to meetings until they get comfortable.

If after a proposal opportunity Atkinson doesn't get the business, she follows through to find out why and meets with the still-prospective client on a regular basis to keep the contact alive. She has been such a success that Atkinson hires her out to other professional firms in Albuquerque.

TAKING A RISK

The consensus of the firms that best handled the recession was summed up by Ed Hirschberg, managing partner of London Witte and Company in Fort Lauderdale, Florida: "The firm must take the risk of concerted marketing action. Merely cutting costs and employees and becoming more efficient can have the exact opposite effect on revenues and profits as hoped for. As a firm scales down, it expects less new business and therefore gets less. On the other hand, once an office is familiar with and becomes involved with a concerted marketing effort, the members' positive attitude about gaining new business helps attract new clients. And as this marketing effort is undertaken, new business comes from totally unexpected leads."

No matter how long a recession lasts, successful CPA firms create their own profitable futures. Firm leaders can increase revenues and profits if they are willing to change some of the ways they do business. ■

EXHIBIT 3-19

ARTICLE: *ACCOUNTING FOR MARKETING SUCCESS*

ACCOUNTING FOR MARKETING SUCCESS

Is marketing worth the money it costs? There are ways to find out.

by Fern Lentini

As it already has in other business areas, accountability is fast becoming the watchword in CPA firm marketing. Partners or senior managers now demand cost–benefit analyses of their firms' marketing and media programs, just as they do for practice areas. And for the same good reasons: planning, future budget allocation and simply determining the most productive activities.

Professionals frequently become frustrated with marketing efforts because they believe marketing is or should be a science with guaranteed results. In fact, it's more of a practical art that succeeds best when firms are willing to take calculated risks. Careful tracking can enable a firm to get a better grasp of which marketing risks are most likely to pay off.

This article describes how our firm attempted to unravel the mystery of marketing accountability, showing the steps our firm used to budget, track and analyze marketing activities. As the firm's marketing director, I oversee a staff that includes two marketing coordinators, an information specialist and a database coordinator, but many of the firm's strategies can be adapted by other practitioners.

FERN LENTINI is director of marketing at AM&G (Altschuler, Melvoin and Glasser), Chicago. The former president of the Chicago chapter of the Association of Accounting Marketing, she is a member of its educational–university committee. She is a member of the American Marketing Association and of the practice development committee of Summit International.

STEP ONE: FORMALIZING THE MARKETING BUDGET

What percentage of revenues should be allocated to marketing?

Choose according to firm needs. AM&G (Altschuler, Melvoin and Glasser) allocates 2% to 2.5% of gross revenues. Suggested guidelines range anywhere from 2% to 6%, depending on the items included and the firm's marketing needs and priorities. Firms must decide if they want to finance expensive ad campaigns, marketing training for professionals and other possibilities or opt for more modest efforts.

In our budget, we include all the obvious marketing expenses such as brochures, newsletters, advertising, promotional seminars, market research, direct mail, public relations activities, etc., as well as meals, travel and entertainment for referral sources, prospects and clients; association involvement; and certain subscriptions. All marketing department personnel salaries are included. We do not include charitable gifts, even if they are client-related.

To determine each department's or industry's marketing budget, we review the area's revenue and allocate a percentage to marketing. Start-up areas and industries get a much bigger slice of the pie than do mature ones—in some cases, up to 10% of revenue. Others get from .25% to 1%, and we reserve a small amount for special opportunities. The remainder goes to firmwide marketing expenses.

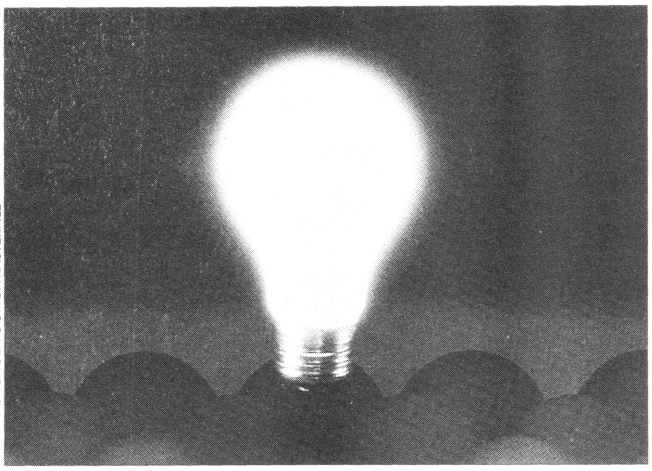
We budget for various AM&G responsibility centers: divisions, departments, practice areas and industries.

How are reporting procedures developed and implemented?

Firms need a good financial software system capable of capturing and reporting on revenues and expenses for each practice area. We have a new practice management system that makes it possible for us to track and monitor our marketing expenses.

The software includes these modules:

- Time recording.
- Accounts receivable.
- Cash receipts front-end.
- Firm expenses front-end.
- Report distribution.
- On-line diary.



ROBERT GEORGE YOUNG/MASTERFILE

- On-line billing.
- Notes–reminder.
- Accounts payable.
- General ledger.
- Personnel administration.
- Marketing–mailing.

We identify marketing accounts and responsibility centers for all marketing expenses, and as an expense is incurred it is charged to the appropriate account and responsibility center. All expenses are coded by industry and type of service.

How is the budget created?

The process starts when each division, department or industry head completes a special form to budget marketing expenses. Marketing personnel meet with division directors to get their preliminary ideas and then with department heads and industry chairpeople to discuss their thoughts on what they want to do; offer advice; and give project cost estimates. They allocate their marketing dollars to the strategies they wish to pursue based on their goals and overall firm goals.

Budget information is entered into the financial system; then, as the dollars are spent, they are charged to the appropriate area. An area's revenues can be compared with expenses to determine how increased marketing expenditures have affected revenue generation.

STEP TWO: CONTROLLING MARKETING COSTS

What controls should exist?

Establish systems and procedures. As an example, any marketing-related expenses (we inform bookkeeping of what they include) must be approved by the marketing director before they can be processed, as must the use of outside marketing services from consultants, etc.

The firm also is careful not to duplicate expenditures. We have developed a database for dues and memberships, which includes firm members' names, the organizations or associations to which they belong or want to join and their level of involvement, such as committee membership or leadership positions. This enables us to maintain an up-to-date list of all association involvement firmwide and identify weak or heavy areas. The database can be sorted by individual or by type of association, such as industry, women's, etc.

Our staff information specialist also has a publications database. All requests for publications are sent to her for approval, which means we don't duplicate subscriptions, and we route printed matter to as many people as is practical. This also helps in locating particular periodicals.

How is budget adherence maintained?

Track everything possible. Tracking is time-consuming and tedious, but it's critical in locating the greatest payback. Developing and maintaining databases for tracking are necessities. Actual costs are compared with budget monthly.

Who has the last word on spending?

Give one person authority. This can be difficult. Most of the time at AM&G, the marketing director has the final word. Sometimes people cross swords over what is to be spent, but the managing partner believes it's vital to have a designated authority to control the budget. If marketing is responsible for adherence to the budget, that department must have the authority (and fortitude) to control it.

■ MARKETING ACCOUNTABILITY

STEP THREE: DETERMINING THE VALUE OF EXPENDITURES

This is tough to quantify, but it's made much simpler by using the proper procedures and systems.

How are revenues linked to marketing expenses?

Track, track, track, even when there are no immediate connections. Some results are very difficult to track, such as those provided by image advertising. Others—seminars, speaking engagements, article placement, newsletters and so on—have a long-term payback. Even in developing a referral source, the cost of entertainment or meals can get very high, but it is a long-term payback and requires long-term tracking. Rarely does someone call and say, "We're calling because we saw your ad."

Even though public relations, for example, is hard to link with revenues, published articles, quotes in the media, etc., are all very important to a firm's reputation. An article or a quote may not immediately generate a client, but they all contribute to the firm's credibility.

We keep count of all articles placed, mentions in various media, etc., to track how well the firm is doing in public relations. Although we can't point directly to dollars earned because of our efforts, public relations also carries intangible benefits. Clients usually like seeing their CPAs quoted in print. When our firm was recently highlighted in *Business Week,* a number of clients called to say they had seen the article. This made all the partners very happy.

Other marketing costs are tracked more readily, such as telemarketing or direct mail. Again, it's more important to remember that some unmeasurable marketing expenses are absolutely essential. When New York retailer John Wanamaker was asked how he justified his store's sizable advertising budget, he said, "I know half of my advertising is a waste of money, but I don't know which half."

How is long-term value tracked?

Provide incentive for reporting and recognize efforts. Partners and other staff must be encouraged to report potentially valuable marketing activities of which the firm may be unaware. We publicize efforts such as article writing, speaking engagements, organization or committee involvement, etc., in a monthly marketing newsletter. At yearend, we prepare a summary of all marketing activities and compare it with revenue sources.

Firm members are aware that if they don't bring in business they won't become partners, so they understand the importance of taking part in marketing efforts. We provide personal marketing counseling to all managers and senior managers. Depending on realization, employees who refer clients are eligible for bonuses of up to 10% on the first-year fees and we are developing a formal system to reward employees who helped sell an engagement or helped in the proposal process.

Conduct surveys. Surveys can help determine the value of activities. We commissioned an independent benchmark study to determine our name recognition in the Chicago metropolitan area, which helped us determine the benefit of our advertising. We plan on conducting a second name recognition survey this spring. If recognition goes up, our advertising is working. The survey is broken down by industry, so we can measure results in different areas. It also includes five other CPA firms in Chicago so we can gauge ourselves against our competition.

We targeted industry advertising surveys to those businesses in which we had an important presence. Satisfaction with fac-

EXECUTIVE SUMMARY

■ ACCOUNTABILITY IS fast becoming the watchword in CPA firm marketing. Partners or senior managers demand cost–benefit analyses of their firms' marketing and media programs.

■ ONE FIRM has had success with a five-step process that includes

1. Formalizing the marketing budget to determine the percentage of revenues allocated to marketing and reporting procedures.

2. Controlling costs through discussions with firm leaders and by assigning spending authority.

3. Determining the value of various expenditures by linking them to revenues, developing tracking value and measuring long-term value.

4. Trimming the budget based on results.

5. Evaluating the marketing function using a simple evaluation form.

■ MARKETING ACCOUNTABILITY

EXHIBIT 1

Keys to revenue growth

Client/prospect contacts x Close ratio x Average sales, service by service = Revenue

Partner A has 100 contacts with prospects or clients over a period of six months, including lunches, seminars and sales calls. He closes 10% of these contacts at an average of $10,000 per engagement. This totals $100,000 in revenue.

The same partner increases his contacts to 120 in the next six months with the same 10% close rate and $10,000 average, which results in revenue of $120,000.

A 15% close rate with the same 120 contacts at the same $10,000 average would result in $180,000 in revenue.

tors such as personal attention and range of services also can be measured in surveys.

Keep a record of where prospects originate. We have a prospect-reporting form that asks for the referral source. We use our new client–prospect database to track leads and pinpoint how we got them.

How is revenue tracked?

Develop a simple formula. Revenue can be tracked by watching client–prospect contacts, close ratio—or the number of engagements gained versus contacts made—and average sales with an equation we call "keys to revenue growth" (see exhibit 1 above).

To set priorities for a marketing activities budget, CPAs should think about the impact of an increase in client and prospect contact—or a higher close ratio—on revenue and on marketing activities.

Client contact could incorporate seminars, articles placed in various media, quotes in print or on radio or TV, lunches and entertainment. The number of client contacts can be multiplied by the partners' close ratio to find the measure of their sales skills, and then the result can be multiplied by average sales, service by service. This makes it possible to project revenue with considerable accuracy.

STEP FOUR: TRIMMING THE BUDGET

What are the best areas to trim? And how are budgets kept under control?

We've trimmed our budget in a number of ways:

1. Newsletters are self-mailers produced in-house and receptionists do the labeling and sorting.

2. Use of outside consultants is limited and controlled. Because requests are monitored, we usually find ways to finish projects in-house. Most public relations, for example, is handled internally. Our efforts include proposing and writing articles, issuing press releases, obtaining speaking engagements for firm members with trade and other associations, issuing an expertise directory and sponsoring charitable events.

3. Firm member training includes marketing training sessions taught in-house. The marketing department teaches a networking workshop, personal marketing planning, presentation skills, sales training and more. We also conduct marketing counseling sessions with all senior managers and those who've been partners for less than five years. We do sometimes have outside teachers, but for the most part only for partnership levels.

4. Research is conducted in-house, which saves a great deal. We recently purchased software to compile survey data and prepare reports simply and very professionally. Firms should be confident of their surveying skills before they do their own studies; for example, I have studied research and survey design and our information specialist has a background in library science. But once firms gain confidence in this area, they can offer survey engagements to clients, as we have begun to do with some success. This was an unexpected example of how our marketing expenditures helped increase revenue.

5. Advertising copy and designs are recycled and we use in-house desktop publishing. We also look for talented beginning designers who don't charge too much for their work while trying to get established.

6. When firm members attend seminars, charitable events, firm functions or other training, they are encouraged to share the information with other AM&G people to limit attendance costs.

7. We conduct joint events. We typically team with a law firm or a bank to share costs when putting on a seminar. This also offers ready access to each others' clients.

Staying on or under budget requires routine financial reporting and a watchful eye. We generate reports monthly.

STEP FIVE: EVALUATING THE MARKETING FUNCTION

What's the best way to assess marketing activities?

Create a tracking mechanism. We've devised the simple evaluation form shown in exhibit 2 on page 48, which summarizes the results of our tracking. Even if form items

MARKETING ACCOUNTABILITY

EXHIBIT 2

Marketing department performance summary

	6/91	6/92	Comments	Rating: Outstanding	Good	Average	Below average
Cost savings							
Consultant fees			Outstanding: 10% increase				
Newsletters			Good: 5%–9% increase				
Mailings			Average: Same number				
			Below average: Decrease				
New business							
Prospects to proposals (#)							
Proposals to new clients ($)							
Telemarketing appointments/leads							
Public relations							
Media placements							
Speaking engagements							
Article placements							
Special projects							
Retail/distribution surveys							
Legal survey							
Medical survey							
Advertising survey							
Auto dealership survey							
Litigation survey							
Client satisfaction							
Law firm/bank mixers							
Other							
Newsletters							
Distribution Focus							
Manu-Facts							
Real Estate Focus							
New product development/revenue							
Information solutions							
Other service revenue							
Budgets							
Planned			Outstanding: 10% under budget				
Actual			Good: On budget				
			Average: 1%–10% over budget				
			Below average: 10% + over budget				

change from year to year, it's a terrific way to track activities and evaluate the marketing department at the same time. This form appeals to accounting minds because it's numerical and logical with limited subjectivity.

Finally, practitioners should bear in mind that everyone is a potential client and clients are sometimes found in the strangest places. A tracking system like ours, which can be modified for different needs and budgets, has helped reassure us about the merits of our marketing efforts. That reassurance has led us into new activities that have widened our client base and our name recognition. ■

CHAPTER 4

MANAGING FOR PROFITABILITY

MANAGING FOR PROFITABILITY

1. INTRODUCTION

.01 Although helping clients with their financial planning concerns may be personally rewarding, you want and need to be profitable in your PFP practice. Profitability depends on a variety of factors. Other sections of this Handbook have addressed three important prerequisites to achieving profitability— technical competence, effective communication and interpersonal skills, and a well-developed marketing plan. This foundation helps you attract clients and respond to their needs. Your profitability also depends on how efficiently you manage the delivery of PFP services. A number of variables influence your efficiency, ranging from how you qualify potential clients to how you establish fees.

.02 The delivery of PFP services is not as structured or standardized as tax, audit, or other accounting functions. Audit and tax practitioners work within an established framework of tools and techniques — audit programs, tax forms and checklists, and proven engagement management procedures. To achieve and maintain profitability, you must create a similar working environment. Your challenge is to strike a balance between the personalized attention demanded by the nature of PFP services and the need to establish a structured system for the efficient delivery of these services. In short, you must create an efficient, flexible framework for delivering services.

2. ENGAGEMENT MANAGEMENT

.01 Your system for delivering PFP services should offer flexibility and adaptability to meet the needs of your varied clients. Some of all of the following items may be part of your PFP delivery system:

- Data-gathering forms
- Engagement programs and time budgets
- Research tools
- Analytical forms
- Checklists
- Computational worksheets
- Software

> ☛ **Action Tip**
>
> Identify the tools that help you to maximize your efficiency and flexibility in providing PFP services. Create planning kits that can be easily tailored to each PFP engagement.

.02 Appendix B, "PFP Work Program," summarizes many of the procedures and considerations involved in a PFP engagement. You can use this information and tailor it to your own practice.

Qualifying Potential PFP Clients

.03 Virtually everyone can use some advice in their financial affairs. You must identify those clients who have needs to be addressed, are committed to the PFP process, and are willing and able to pay for your services.

.04 Your initial meetings with potential PFP clients have several objectives: to establish a working relationship; to explain the objectives and mechanics of the PFP process; to determine the potential client's suitability for PFP services; and to begin identifying the potential client's goals and objectives.

.05 **Client Expectations.** The client's expectations for the PFP process and the expected fees for your services should be discussed. The client must understand that PFP services do not perform miracles. A well-developed personal financial plan, however, does provide the client with realistic goals as well as strategies and recommendations for achieving them. Undertaking the PFP process enables your clients to become organized and educated about their finances and to take control of their financial destiny.

.06 **Commitment to the Process.** You should also review the scope of the PFP process, including your respective roles and responsibilities. The client should understand the expected involvement in goal setting, data gathering, and implementation, and the importance of obtaining a spouse's input, if the client is married. Clients must realize that the success of the PFP process greatly depends on their commitment and that the benefits of the PFP process depends on their commitment to implementing the recommendations developed.

.07 **Accepting Clients.** You want some assurance that the engagement will be successfully completed. This results in a more rewarding experience for both you and your client and increases the likelihood that your fees will be collected. Some CPAs do not accept a client for PFP engagements until they have an established relationship with the client, through tax or other services.

.08 Asking yourself questions such as the following can help you determine the suitability of prospective PFP clients:

- Does the individual have a real financial planning need?
- Does the individual have realistic expectations of the results of the PFP process?
- Is the individual committed to and prepared to participate in the PFP process?
- Does the individual understand the time commitment and cost?
- Is the individual able and willing to pay for PFP services?

> ☛ **Action Tip**
>
> Consider incorporating these and other relevant questions into a checklist to be completed after your initial contact with a prospective PFP client. A sample checklist for evaluating potential PFP clients is included in exhibit 4-1.

Engagement Letters

.09 Engagement letters identify the nature and extent of your services and document your agreement with a PFP client. Well-drafted letters clarify your discussions and the understandings reached during the qualification process, provide a blueprint for engagement management and control, and help minimize the possibility of later misunderstandings. In addition, the process of drafting the letter provides you with the opportunity to develop an educated estimate of the time and resources you will devote to the engagement and ensure your client understands the terms.

.10 Engagement letters may concisely summarize your understanding of the engagement or contain detailed descriptions of the PFP process and the roles and responsibilities of you, the client, and other advisers. Regardless of the format, an engagement letter should clearly express the mutual understanding of what you will do and what the client will receive.

.11 PFP engagement letters frequently include the following points:

- Engagement objectives
- The type of services to be provided: consultation, segmented, comprehensive
- The roles and responsibilities of you, the client, and the other advisers
- Information the client is to provide
- A description of the expected report and any financial statements to be included
- Any limitations on the use of personal financial statements
- Any other limitations and other constraints
- Fee arrangements — rates, payment terms, and billing procedures
- The extent of any continuing services (implementation, monitoring, updating) after development of the initial plan

.12 Illustrative engagement letters are featured in exhibits 4-2 through 4-7. These letters are nonauthoritative and assume you are not a registered investment adviser. Because an engagement letter may have legal consequences, your attorney should review the document before you use it in practice.

.13 Note: The illustrative letters are not for use by CPAs who are registered investment advisers. If you have registered as investment adviser under the Investment Advisers Act of 1940 or applicable state law, consult a securities attorney familiar with your state law to develop an engagement letter and the documentation required to conform with your registration requirements. Please refer to "Investment Adviser Registration Issues," appendix F in this Handbook, for additional information.

Establishing Realistic Goals

.14 The client's financial planning goals define the scope of your engagement and help determine the procedures necessary to deliver the agreed-upon services. The goals should be quantifiable, realistic, and stated as explicitly as possible. A clear understanding of these goals is essential to ensure that you do not waste your time on unnecessary procedures and that the client will be motivated to implement your planning recommendations. You can also help your client to prioritize goals and establish a time line for achieving them.

.15 During your initial meetings with a client, you should listen carefully and request clarification until it is clear what the client needs. In some cases, you will identify or help the client to articulate goals that were not previously recognized. Goal setting can be a long process, but helps establish a relationship of trust and understanding. You might also complete a worksheet of the client's goals following the initial interview. A sample goals worksheet is included with other data gathering and analysis forms in appendix C, "Data Gathering and Analysis Forms."

.16 In addition to face-to face discussions, you may use data-gathering forms to help identify your clients' financial goals. These forms or checklists are useful to help clients identify goals they may have otherwise overlooked, but should not be used as a substitute for a face-to-face interview.

Identifying Appropriate Procedures

.17 Once the client's goals have been identified, specific procedures can be selected to help achieve those goals. The procedures you identify will be based on the established goals and any number of other factors, including the complexity and availability of information, client-imposed limitations, time and budgetary constraints, and your professional experience.

.18 **Engagement Program.** The procedures you identify can be summarized in an engagement program. An engagement program documents your understanding of the client, the goals, and the underlying financial situation. This understanding provides the basis for your planning recommendations. An engagement program also functions as a checklist to help keep the engagement moving on track. Exhibit 4-8 includes a sample of procedures that may be contained in an engagement program. The "PFP Work Program" in appendix B contains more detailed steps that can be incorporated into an engagement program.

.19 The following tools are included as exhibits at the end of this chapter:

- Exhibit 4-9, "Condensed Time-Budget Worksheet"
- Exhibit 4-10, "Working Paper Organizer"
- Exhibit 4-11, "Next Update To-Do List"

☛ **Action Tip**

Customize an engagement program to meet your needs, such as in the following examples:

- Use a coding device to show the relationship between a specific procedure and a goal. This enables you to quickly review the engagement program to determine if there are any unnecessary procedures or any goals without a designated procedure.
- Include in your engagement program columns to track actual and budgeted time for each procedure. This enables you to evaluate the efficiency of those working on an engagement and to monitor the potential profitability of each part of the engagement.

Collecting and Analyzing Data

.20 Getting personal and financial information from your clients is one of the major challenges of the PFP process. You must identify and gather enough relevant information to perform the analyses and calculations on which to base your planning recommendations.

.21 Categories of Data. The information you need to collect typically answers basic questions about what your clients have, how they spend their money, and what they want to accomplish with their wealth. This information may be divided into two broad categories:

1. Qualitative data includes the following information about your client:
   - Family and personal situation
   - Goals and objectives
   - Investing preferences
   - Risk tolerance

2. Quantitative data consists of the following:
   - Financial information, including current investments, income tax returns, and cash flow data to help you understand where and how your client's money originated, how it's being used, and what is available to fund other goals
   - Existing legal documents, such as wills, trusts, insurance contracts or policies

☛ **Action Tip**

Start off gathering information about your client's family. The client can provide this information with little research; furthermore, this provides a frame of reference when you review other information, such as insurance policies, wills, education funding needs. Beginning with family information also reinforces the *personal* aspect of the PFP process.

.22 **Data-Gathering System.** An efficient data-gathering system includes any number of tools that help you identify and gather your clients' data. Questionnaires, checklists, and other forms can help you in the process. The system you use should be streamlined to enable you gather and organize all the information you need and to minimize the burden on your clients.

.23 Appendix C features a number of illustrative questionnaires for you to collect and organize data from your clients. The appendix includes a "Personal Financial Planning Questionnaire"; a "Document Request Form"; a list of advisers; worksheets for identifying goals, objectives, significant assumptions, and investment preferences; and a "Family Data Interview Sheet."

.24 In addition to a system of questionnaires and other forms, your clients must accept some responsibility and cooperate in the data-gathering process. Getting this cooperation involves education. Once your clients understand the PFP process and its potential benefits and have worked with you to establish realistic goals that address real needs, they are more likely to be motivated to participate in the process. If you are providing PFP services to existing clients, you already have some idea of their ability to organize their affairs and commit to cooperation in the PFP process.

.25 These two aspects of data collection are interrelated. If you cannot motivate your clients to cooperate in data collection, you cannot realize the full efficiency of your data collection system. On the other hand, if your clients are comfortable with the data collection procedures you have established, they are more likely to cooperate in the process.

> ☛ **Action Tip**
>
> To reduce the burden of data collection on clients, try the following:
>
> - Obtain as much information as possible during face-to-face meetings with your clients (even as early as the initial interview). Your notes or memory can supply information that would otherwise be included on client prepared forms.
> - Obtain information from existing documents, such as tax returns and brokerage statements.

Reporting Your Recommendations

.26 Once you have developed recommended strategies to achieve a client's goals, you must communicate your recommendations to your client. Although there is no prescribed method for reporting your recommendations, your recommendations should be communicated in a manner that clearly identifies the various financial strategies, explains the considerations of each, and facilitates action by your client.

.27 The content of your report will depend on your personal preference, as well as a number of other factors, such as client expectations, the scope and nature of the engagement, and the complexity of the planning issues involved. Exhibit 4-12 features an illustrative transmittal letter for PFP recommendations. For a more complete discussion, you may consult the PFP Library volume *Guide to Communicating the Results of Personal Financial Planning Engagements.*

.28 If personal financial statements are included in a written personal financial plan, you should comply with the requirements of either Statement on Standards for Accounting and Review Services (SSARS) 1 or 6 (AICPA, *Professional Standards*, vol. 2, AR sec. 100 and 600), whichever applies. SSARS 1 requires an understanding with the client to include a description of the nature and limitations of the services to be performed and a description of your report to be rendered. If you decide to comply with SSARS 6, the understanding with the client should establish the following.

1. The financial statements will be used solely to assist the client and the client's advisers in developing the client's personal financial objectives, and

2. They will not be used to obtain credit or for any purpose other than developing those objectives.

.29 The "Professional Standards" chapter of this Handbook summarizes many of the reporting requirements for presenting financial information in a financial plan.

Implementing, Monitoring and Updating Financial Planning Recommendations

.30 Implementation, monitoring, and updating are all activities that are undertaken after you have delivered your financial planning recommendations and the planning decisions have been made. Additional guidance for these activities is included in Statements on Responsibilities in Personal Financial Planning Practice (SRPFP) issued by the AICPA's PFP Executive Committee, as follows:

- SRPFP No. 3, *Implementation Engagement Functions and Responsibilities* (AICPA, *Professional Standards*, vol. 2, PFP sec. 300)
- SRPFP No. 4, *Monitoring and Updating Engagements: Functions & Responsibilities* (AICPA, *Professional Standards*, vol. 2, PFP sec. 400)

.31 The text of these SRPFPs is included in the "Professional Standards" chapter of this Handbook.

.32 **Implementation.** A financial plan is a blueprint for organizing a client's PFP situations. Like other blueprints, its value derives from its implementation. Implementation involves taking action on the planning decisions. This process can involve many time-consuming activities, such as continual follow-up with your client, meetings with other advisers, and reviewing numerous proposals. This can be costly for your client. It is a good idea to establish a fee arrangement with your client for these services.

.33 There are many activities you might undertake in helping your clients implement their planning decisions. Your involvement will depend on the agreement you reach with your client. You may—

- Ascertain that the client understands, agrees with, and plans to implement the recommendations.
- Determine the order and timetable for implementing the recommendations and the responsibility for initiating action on each recommendation—you, your client, or some other adviser. This discussion results in an implementation plan if it is recorded on a form

such as the one included at the end of this chapter in exhibit 4-13. You and your client should both retain a copy of the implementation plan.
- Assist in selecting insurance policies, investments, or other products. Your clients may expect specific recommendations. If you are appropriately licensed or registered (as an investment adviser, a broker-dealer, or an insurance consultant), you may choose to provide such advice. Alternatively, you can refer your clients to other advisers.
- Coordinate a team of financial professionals in the implementation process. Such a team may include an attorney, an investment adviser, a stockbroker, an insurance broker, and a banker. As an independent and objective professional, your role might include evaluating the suggestions from other team members. Such an evaluation would include consideration of the professional qualifications and reputation of the other professionals as well as consideration of the methods or assumptions used by the other professionals to develop the implementation suggestions.
- Review prospectuses, insurance proposals, and other implementation possibilities that the client may consider.
- Contact the client from time to time to determine whether the plan is being implemented. Implementation difficulties may indicate that some of the planning decisions were unsatisfactory. These problems can be discussed, and new, feasible recommendations can be developed.

.34 **Monitoring.** Once the planning decisions have been implemented, periodic reviews can help ensure that progress is being made toward the established financial planning goals. Monitoring is a measurement process, designed to—

- Ascertain whether all recommended actions to achieve the client's goals have been undertaken.
- Measure and evaluate the actual progress toward achieving the client's goals.
- Identify developments in the client's circumstances and in external factors that affect the financial plan.

.35 As a result of monitoring, you may identify one or more recommendations that need to be revised or updated.

.36 **Updating.** The updating process generally involves the development of revised planning recommendations. In updating, you undertake the procedures involved in the PFP process, including goal setting and data gathering, to develop new recommendations for your client. Some of the data may have been gathered during a monitoring review.

> ☛ **Action Tip**
>
> Develop "Update Forms," which basically are short data-gathering forms or questionnaires. Mail these to clients periodically, perhaps each year with their tax returns. Include questions that would identify the need for revising existing planning decisions. These may include personal questions about births or new jobs or more open-ended questions, such as how they feel their investments are performing or what their greatest financial concerns are. Many of the questions featured in exhibit 3-1 can be incorporated into your update form.

Working With Other Advisers in PFP Engagements

.37 You will frequently work with other financial advisers during PFP engagements, particularly during implementation activities. These advisers may include appraisers, attorneys, bankers, insurance agents, investment advisers, pension consultants, real estate brokers, stockbrokers, or trust officers. These individuals are generally needed to provide a specialized service that you do not or choose not to provide, such as drafting a new will, trust instrument, or pension plan; recommending specific investment products; or selling insurance products.

> ☛ **Action Tip**
>
> Misunderstandings can be avoided if a client knows in advance that, in addition to your fee, there may be fees for the work of other advisers. Discuss with your clients, early in the engagement, the extent to which you will use other advisers and what their services may cost.

.38 **Selecting Advisers.** If your client does not have an established relationship with a needed adviser, you may be asked to help identify suitable advisers. If you choose to assist in this selection, you may suggest a specific person with whom you have a good relationship and who you think meets the client's needs. Alternatively, you may provide a list of several names and let your client determine the most suitable adviser.

.39 Regardless of how the adviser is selected, you will want to be satisfied concerning their professional qualifications and reputation. By making inquiries and using other appropriate procedures, you can learn about the adviser's professional credentials, capabilities, and reputation among peers and other professionals.

.40 **Coordinating the Work of Other Advisers.** Effective communication among the client's advisers facilitates understanding of the objectives of the engagement and each adviser's role. A written agreement or letter of understanding can be used to describe the following:

- The objectives and scope of each adviser's work
- The methods or assumptions to use
- The form and content of any correspondence or reports the advisers will send to you and your client
- Any responsibilities of the adviser to follow up on their recommendations or implementation services

.41 If you plan to incorporate another adviser's recommendations into the client's financial plan, you will probably want to review the adviser's work and determine that the conclusions support the overall plan. In addition, although the reasonableness and suitability of methods or assumptions used are the responsibility of the adviser, you should have a good understanding of the methods used to determine whether the findings are suitable for the client and the client's financial situation.

.42 The AICPA's PFP Executive Committee has issued SRPFP No. 2, *Working With Other Advisers* (AICPA, *Professional Standards*, vol. 2, PFP sec. 200). The text of this SRPFP is included in the "Professional Standards" chapter of this Handbook.

3. PRACTICE MANAGEMENT CONSIDERATIONS

Establishing Fees

.01 Fees for PFP services can range from a few hundred to several thousand dollars. Developing a reasonable fee structure is critical to the long-term profitability of your PFP practice.

.02 A key starting point is your mind-set. Before you can think about how much to charge for PFP services, you have to develop a PFP mind-set. You must recognize that when a client asks your advice on a financial question, you have the opportunity to provide valuable PFP recommendations and to be compensated for your work.

> ☛ **Action Tip**
>
> When responding to requests for financial advice from clients, account for and bill for this time separately from other services you have provided. This gets you and your clients accustomed to the idea that you provide PFP services.

.03 Valuing Your Services. How you charge for PFP services is critical to the number of clients you attract and to your profitability. A reasonable fee structure is one that is acceptable to your clients, reflects the value of your services, and adequately compensates you for your time and effort. Your fees may be based on some combination of factors such as the following:

- Standard billing rates

- The complexity of the engagement and the expected commitment of time and resources.
- Other services provided for the client
- The norm for PFP services in the practice area
- The quality of your PFP services compared to other planners
- The client's financial condition and sensitivity to fees
- Your method of compensation (such as fee-only, commission and contingent fees, discussed below)

.04 PFP helps your clients realize their financial goals. Accordingly, many clients perceive a greater value in PFP services than in compliance services such as audits and tax return preparation and are willing to pay somewhat higher fees for PFP.

☛ **Action Tip**

Don't undervalue your services. Consider the factors outlined above and develop what you believe is a reasonable fee. Capitalize on the established reputation of CPAs as trustworthy, objective financial advisers.

.05 Past experience is not a sufficient basis on which to determine price. Once you design an efficient delivery system for your services, you can estimate staffing time for each step, and develop a fee based on your billing rates. Exhibit 4-14 illustrates the time involved for different PFP services. These numbers are not absolute but can provide guidelines to give you an estimate of the time involved.

.06 An efficient delivery process is critical. Questionnaires, software, worksheets, and checklists used in the development of a plan should be interrelated to minimize the amount of time spent organizing and analyzing data, developing recommendations, and drafting the final report.

.07 **Discussing Fees.** Discussing or negotiating fees with clients at the outset of an engagement is always a good idea. You can identify and resolve problems or terminate the engagement with a relatively small investment of your time and effort.

.08 Clients tend to accept an initial fee structure or quote as a benchmark against which any fee increases are measured. It is a good policy to start with your standard billing rates, leaving room for compromise if the time involved in the engagement grows significantly.

☛ **Action Tip**

Never let the size of a bill be an unpleasant surprise. Keep your clients current on fees and changes in the amount of time—and fees—for completing the job.

☛ **Action Tip**

Try the following strategies when explaining your fee structure.

- Describe the long-term benefits of PFP and, more specifically, how the client will benefit.
- Describe the intricacies of financial planning, such as necessary training, both initial and ongoing, and the standards that a CPA must meet.
- Make a cursory review of the client's situation identifying, when possible, the client's goals and objectives. Then give specific examples of how money spent on financial planning services transforms into wealth enhancement or some other benefit for the client.

☛ **Action Tip**

You may be able to overcome fee sensitivity by offering segmented planning engagements. By limiting your in-depth analysis to one or a few PFP areas, you can provide a client with a tangible benefit. Once the value of your services is established, your client may be more receptive to undertaking planning in other areas. Alternatively, you may consider performing the equivalent of a comprehensive PFP engagement over an extended time period, billing your services as a series of segmented planning engagements.

.09 Hourly Fees. Most CPAs providing PFP services earn their compensation on a fee-only basis. If you base your compensation on hourly fees, you will bill your clients for the time it takes to perform the PFP services.

.10 Flat Fees. Many CPAs who bill their clients on a fee-only basis for PFP services quote a flat fee to the client before beginning work on the engagement. When setting the flat fee quoted to a particular client, you will usually consider the factors noted above, including the total hours estimated for the completion of the engagement and the perceived complexity of issues involved. If you fail to accurately evaluate the impact of these factors on the fee setting process, you will have to absorb the unbillable amount or convince the client that a fee adjustment is necessary. If an upward adjustment is desired, collecting the additional fee could be a difficult task.

.11 A major advantage of the flat fee over billing on an hourly basis or sliding scale arrangement is that both you and your client know at the outset of the engagement what your services will cost. The most common forms of flat fee billing are by the plan, or by time period.

.12 *Billing by the plan* generally involves an arrangement with the client at the outset of the engagement to bill for the production and delivery of a document called the *plan*. This arrangement typically includes no implementation services. If you are a fee-based CPA, your fee would be based on a time estimate, perhaps developed using a format similar to that depicted in exhibit 4-14. If you receive commissions, you will generally be compensated by the commissions received for the placement of the various investment products called for in the plan.

.13 Under the method of *billing by the time period*, your client pays a flat fee each quarter, year, or other pre-established time period as the engagement continues. For new clients, the first year's fee would take into account the charges for developing the plan.

.14 Flat fees can be based on a number of factors, but are typically based on either the client's net worth or the client's income. For example, you may charge ¾ to 1¼ percent of net worth or 2½ to 3½ percent of salary for comprehensive financial planning. A major consideration in any fee arrangement is a clear understanding between you and client about the services covered under the agreement.

.15 **Commissions.** In those states that allow a CPA to receive compensation in the form of commissions from a purchase or sale, some CPAs base all or part of their compensation on commissions or a combination of commissions and fees. As of April 1996, seventeen states permit either the taking of commissions or contingent fees provided the rules governing compensation established by the controlling Board of Accountancy are met.

.16 In those states where it is permitted, CPAs who are licensed to receive commissions from the sale of securities, insurance products, or real estate may decide to receive that form of compensation for the services they provide their clients. The AICPA *Code of Professional Conduct* has specific client disclosure rules that must be followed by CPAs who decide to be compensated by commissions. Rule 503 provides that a member of the AICPA who is in public practice and does not perform attest work for that client is permitted to receive a commission provided that fact is disclosed to the client.

Billing Techniques

.17 **Retainer.** A consideration in any fee arrangement is the retainer, under which the client literally pays for the PFP services in advance. A financial plan is not an essential document. Therefore, some CPAs believe it is important to ask for a retainer fee in case the client decides against accepting the plan after it has been presented.

.18 Although the ideal retainer is 100 percent of the fee, the size of the retainer varies according to the comfort level established between you and the client. In many areas, the prevailing retainer is 50 percent. If the client's employer is paying for the PFP services, however, the general rule is that the retainer should be 100 percent of the contemplated fee.

.19 **Progress Payments.** Absent a 100-percent retainer, it is also common to have progress payments so that the full fee is paid at the time of the delivery of the plan. Using progress payments makes realizing the full fee an easier task.

☛ **Action Tip**

If you are a registered investment adviser and collect more than six months of fees in advance, the Securities and Exchange Commission (SEC) rules require you to have annual audited financial statements.

Professional Liability Insurance

.20 CPAs who wish to protect themselves from the adverse consequences of client lawsuits related to PFP activities should consider obtaining errors and omissions insurance. The basic kinds of insurance available are the standard accounting practice policies and separate policies for investment advisory services.

.21 **AICPA Plan.** One of the accounting policies is the AICPA-sponsored policy. Generally, this plan considers financial planning as services that accountants have always performed that are now rolled up in the term *financial planning*. Presumably, it does cover financial planning under the general provisions of "whatever is a normal incident of a practice of the public accountancy." For a more detailed discussion of the scope of the AICPA's plan, see appendix D, "Professional Liability Insurance Issues." For more information, call Aon Direct Insurance, Inc. at (800) 221-3023.

.22 **Other Coverage.** There are other sources of errors and omissions coverage for CPAs engaged in PFP practice. For instance, the California CPA Society has created its own state-licensed insurance company to provide errors and omissions insurance to its members. The policy *does* cover a CPA for both specific investment advice and PFP services, provided no commissions are received for these services.

.23 If your PFP services go beyond the scope of the coverages described above, you will probably have to go into the market to seek coverage. For instance, ask your carrier to write a policy rider that covers investment advice, including specific advice and financial planning. For more information see appendix D, "Professional Liability Insurance Issues."

Risk Management

.24 In addition to insurance, you should consider implementing other risk management procedures.

- Be selective in accepting PFP engagements. By carefully evaluating and screening clients, potential liability exposure can be reduced.
- Use engagement letters to delineate the scope of the services to be performed for the client.
- Maintain the technical competency necessary to deliver quality PFP services (whether through formal training or use of published materials).
- Use checklists to document procedures and prevent omissions.
- Closely supervise the work of staff and review the quality of your work product.
- Verify compliance with state and federal regulations.

Professional Standards

.25 CPAs performing PFP services are bound by the same ethical rules and technical pronouncements that govern all CPAs. Additionally, the PFP Executive Committee has issued Statements on Responsibilities in Personal Financial Planning Practice that, while not authoritative, describe what the Committee believes to be good practice for CPA financial planners. These pronouncements are covered in detail in the "Professional Standards" chapter of this Handbook.

Evaluating Your Practice

.26 Client Feedback. Your client's perceptions about you, your firm, and the value of your services are critical to your long-term success. You can obtain this feedback informally by paying careful attention to your client's verbal and written communications. You may also develop a more formal system for gathering this information, such as a questionnaire or comment card for clients to complete and return to you.

.27 Client Service Questionnaire. The feedback you obtain from a client service questionnaire enables you to assess the services you deliver and the way in which you deliver them. You can use this information to capitalize on your strong points and identify opportunities for improvement. Specifically, you can obtain valuable information about areas such as—

- Satisfaction with the specific services provided
- Satisfaction with the firm and its staff
- Perceived fairness of your fees
- Awareness of other services provided by the firm
- Other areas of concern or interest

A sample client service questionnaire is included in exhibit 4-15.

☛ **Action Tip**

To maximize the effectiveness of the client feedback process, consider the following tips:

- Deliver the client service questionnaire with your financial planning recommendations. Your clients' perceptions will be fresh.
- Send the questionnaire shortly after delivery of your recommendations, accompanied by a short personal thank you note.
- Use the questionnaire for two-way communication. While asking for feedback from your clients, also provide information about other available services you provide. This reinforces the continual marketing aspect of your services.
- ***Read*** the completed questionnaires and ***use*** the information to build a more customer oriented, quality PFP practice.

.28 Self Review. From time to time, it is a good idea to step back and ask yourself how you are doing. A critical analysis of your practice can help you identify challenges such as risk exposure or operating inefficiencies as well as strengths such as overall client satisfaction. The AICPA has developed a practice review questionnaire designed to help you assess and improve the quality of your PFP services. It provides a tool for evaluating whether your services comply with professional standards, guidance in authoritative literature, and recommendations in practice aids. The questionnaire is reproduced in appendix E, "PFP Practice Evaluation Process." The article included in exhibit 4-16 offers additional insights on evaluating how profitably your practice is operating.

☛ **Action Tip**

As you near the end of an engagement, ask yourself whether you have properly educated the client about his or her financial matters. This is where the client sees value. Successful practitioners are colleagues in educating clients, not merely technicians doing financial planning for clients. CPAs have often failed at profitably providing PFP services because they focused on the number crunching and technical aspects. Clients typically appreciate the value in your services when they are involved and educated in the PFP process.

PFP Specialization

.29 Clients for PFP services tend to shop around for these services, forcing you to compete with other CPA financial planners as well as a number of other qualified professionals — investment advisers, attorneys, stockbrokers, and insurance agents — many of whom hold one or more PFP certifications or designations. Accordingly, you may consider whether obtaining such a designation can enhance your image and help you to market your services more effectively.

.30 The articles included in exhibits 4-17 and 4-18 explore the issues involved in PFP specialization and describe the more well-known designation programs.

.31 Personal Financial Specialist Designation. The AICPA has established a specialty designation program for CPA financial planners. AICPA members who meet the accreditation requirements are awarded the Personal Financial Specialist (PFS) designation.

.32 Additional information about the PFS program and a copy of the PFS examination content outline is included in appendix H, "Personal Financial Specialist Program Information," in this Handbook. For additional information or an application for PFS accreditation, contact the AICPA Order Department at (800) 862-4272, option #1, and request Product G00055, "Personal Financial Specialist Accreditation Information."

Investment Adviser Registration

.33 Investment planning is an integral part of the PFP process, and one that has caused the most concern among CPAs. Many CPAs who provide PFP services include at least some level of investment advice. Clients ask for it, and it is an integral part of attaining most goals, particularly educational and retirement funding goals. It is important to choose the level of investment advice you will offer before moving forward with these services.

.34 If you provide investment advice, you must consider the legal question of whether your activities require registration as an investment adviser under the Investment Advisers Act of 1940 or the investment adviser laws of the states governing your practice. The SEC interprets the definition of investment adviser broadly and its regulations are complex; therefore, you should consider seeking the opinion of legal counsel.

.35 Appendix F, "Investment Adviser Registration Issues," summarizes many of the considerations in registering as an investment adviser. For a more complete discussion, including information on the registration, reporting and compliance aspects of registered investment advisers, you may consult the PFP Library volume *Guide to Registering as an Investment Adviser*.

4. CONCLUSION

.01 Profitable delivery of PFP services demands that you efficiently manage all aspects of the PFP process. This can be accomplished through the creation of systems for all aspects of service delivery—qualifying clients, establishing goals, gathering and analyzing data, pricing your services, etc.—that provide some standardization in your procedures but allow flexibility in tailoring the procedures to the unique circumstances of each client.

EXHIBIT 4-1

CHECKLIST: EVALUATING POTENTIAL PFP CLIENTS

Potential Client: ______________________________

Referral: ☐ Yes ☐ No Referred By: ______________________

Date of Preliminary Meeting: ______________________________

		Yes	*No*
1.	Is the potential PFP client an existing client? If not, skip Questions 2–4.	☐	☐
2.	What services are currently provided? ____________	☐	☐
3.	Is the client cooperative in providing information when requested?	☐	☐
4.	Does the client pay bills timely?	☐	☐
5.	Does the potential client:		
	a) Understand the PFP process?	☐	☐
	b) Understand his or her time commitment in the PFP process?	☐	☐
	c) Have time to commit to the PFP process?	☐	☐
	d) Appear fee-sensitive?	☐	☐
6.	What kind of services does the potential client need? (Please check box)		
	a) Comprehensive PFP	☐	☐
	b) Cash flow and cash management	☐	☐
	c) Debt management	☐	☐
	d) Income tax planning	☐	☐
	e) Retirement planning	☐	☐
	f) Estate planning	☐	☐
	g) Education funding	☐	☐
	h) Insurance analysis and planning	☐	☐
	i) Investment planning	☐	☐
	j) Monitoring of investment performance	☐	☐
	k) Other____________	☐	☐
	l) Other____________	☐	☐
7.	Has the potential client undertaken the PFP process before?	☐	☐

8. Indicate any other considerations pertinent to the decision to work with the potential client:

____

____

____

EXHIBIT 4-2

ILLUSTRATIONS OF ENGAGEMENT LETTER EXPLANATIONS OF HISTORICAL AND PROSPECTIVE FINANCIAL INFORMATION

Because personal financial plans can include a variety of historical or prospective financial information, the illustrative engagement letters do not describe such information.

The chart below contains illustrative engagement letter descriptions of certain historical and prospective financial information. Similar paragraphs should be added to the illustrative engagement letters to describe the financial statements or prospective information included in the written personal financial plan.

Included in the Written Personal Financial Plan	Engagement Letter Explanations of the Nature, Limitations, and Accountant's Report
• Historical financial statements with SSARS 6 accountant's report	We will prepare a statement of financial condition to be used solely to assist you and your advisers in developing your personal financial goals and objectives. It will be accompanied by an appropriate report required by professional standards. The statement of financial condition may be incomplete or contain other departures from generally accepted accounting principles and should not be used to obtain credit or for any purposes other than to develop your financial plan. We will not audit, review, or compile the statement.
• A compilation of historical financial statements with SSARS 1 accountant's report. The statements will omit the deferred tax liability.	The compiled financial statement that will be included in your personal financial plan will be prepared in accordance with Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants, which provide the following: 1. A compilation is limited to presenting in the form of a financial statement information of the individuals whose financial statements are presented. We will not audit or review the statement of financial condition and, accordingly, will not express an opinion or any other form of assurance on it. 2. Our report on your statement of financial condition, which will omit an estimate of income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases, will include an additional paragraph stating that this estimate is omitted. Because of the significance and pervasiveness of this omission, users of the financial statement may reach different conclusions about your they had access to a statement of financial condition prepared in conformity with generally accepted accounting principles.

Included in the Written Personal Financial Plan	**Engagement Letter Explanations of the Nature, Limitations, and Accountant's Report**
	3. Because your statement of financial condition will omit substantially all disclosures, our report on it will include an additional paragraph stating that those disclosures are omitted and that their inclusion may influence a user's conclusion about your financial condition. Our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that may exist. However, we will inform you of any such matters that come to our attention.
• Prospective financial information included for internal use only	The projected financial information in the plan will be based on your assumptions concerning future events and circumstances. Differences will probably exist between prospective and actual results because events and circumstances frequently do not occur as expected and those differences may be material. The prospective presentations are to be used solely to assist you and your advisers in developing your personal financial objectives and should not be shown to a third party for any purpose.
• Prospective financial information prepared according to agreed-upon procedures	The prospective information included in the plan, which will be prepared in accordance with the procedures you specified, should be used solely to assist you and your advisers in developing your personal financial objectives. It should not be used by those who did not participate in determining the procedures. We will not compile or examine the prospective information and will not express assurance on it.

EXHIBIT 4-3

ILLUSTRATIVE ENGAGEMENT LETTER 1

(See Exhibit 4-2 for paragraphs to insert if the written plan will include historical financial statements, prospective financial information, or both.)

Dear [*Name of client*]:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will prepare your personal financial plan after consideration of your goals and your present and forecasted financial situation. Our approach to the personal financial planning process will include the following steps:

- We will schedule a preliminary meeting to assist you to define short- and long-range goals and begin gathering information about your family situation and major anticipated financial obligations.

- In addition to the quantitative data requested in our financial planning questionnaire, we will require copies of all pertinent documents such as wills, trusts, company-provided fringe benefits, tax shelter forecasts, prior tax returns, and insurance coverage. Much of this information may be present in the information we already have from [*identify other sources*].

- After the information has been received, we will organize and review the data, utilizing appropriate technology. We will analyze the quantitative information in terms of tax liability (both income and estate), cash flow, net worth, risk management, and eventual retirement.

- A second meeting will be held at this stage to verify the accuracy of the data and to allow you to validate your assumptions used in the projections. Our analysis and recommendations are based on information you provide.

- Based on our analysis of the data, we will outline alternative strategies or courses of action to meet your immediate and long-term goals and objectives and to mitigate problems uncovered. The various alternatives are tested and their effect depicted in our projections.

- At the conclusion of the engagement we will prepare and discuss with you a report that includes our recommendations and projections. We are available to assist in implementing the actions agreed upon. The nature and extent of our implementation services will be established at that time.

Responsibility for financial planning decisions is yours. We will aid you in the decision-making process, suggest alternative recommendations to help you achieve your objectives, and assist you to determine how well each alternative meets your financial planning objectives. Investment recommendations should be made by a registered investment advisor or other licensed investment adviser you choose and engage. We are not responsible for the success or failure of any specific investment recommended by such advisors.

Our estimated fee for the services described above will range from $[ ] to $[ ]. We will submit our bill monthly as services are performed and they will be due and payable at that time. If an extension of our services is requested, we will discuss our fee arrangements at that time.

We thank you for the opportunity to be of service. If you concur with these arrangements, please sign the enclosed copy of this letter in the space provided and return it to us. We anticipate beginning this engagement on or about [*date*]. If you have any questions, please call.

Very truly yours,

____

[*Firm Name*]

Approved by:

____

[*Signature*]

____

[*Date*]

EXHIBIT 4-4

ILLUSTRATIVE ENGAGEMENT LETTER 2

(See Exhibit 4-2 for paragraphs to insert to describe historical financial statements and prospective financial information to be included in the written plan.)

Dear [*Name of client*],

This is to confirm our understanding of the engagement to assist in the development of your personal financial plan. Your plan will include a statement of your short- and long-term personal financial objectives, as well as an analysis of your insurance coverage and estate plan, and a statement of financial condition.

Our role in the personal financial planning process is to assist you in defining your financial goals, in developing your investment plan, and in making decisions concerning risk management and your estate plan. We understand that you will rely on [*name of other adviser*] to assist you to implement the recommendations concerning investments in your report.

We estimate that our fee for preparing your personal financial plan will be $[ ]. If it appears that the fee will be more than 10 percent above that amount, we will discuss the matter with you immediately.

Yours very truly,

____

[*Firm Name*]

We agree to the terms of the engagement described in this letter.

____

[*Client Name*]

____

[*Signature*]

____

[*Date*]

EXHIBIT 4-5

ILLUSTRATIVE ENGAGEMENT LETTER 3

To Prepare Personal Financial Plans for Corporate Executives

(See Exhibit 4-2 for paragraphs to insert for historical financial statements and prospective financial information to be included in the written plan.)

Dear [*Corporate Officer Responsible for the Engagement*]:

This is to confirm our arrangement to assist certain of XYZ Corporation's executives in the development of their personal financial plans. We will analyze each executive's financial situation, financial goals, insurance coverage, recent tax returns, and estate plans. We will then develop a personal financial plan for each executive that will include goals listed by priority and recommendations for reaching each of them. The recommendations will include income tax, estate planning, and insurance suggestions. The plans will include personal financial statements.

Our role is to coordinate the financial planning process. We are not, however, investment advisors or lawyers. We will assist each executive to carry out the plan, including working with other professionals as needed.

Our fee for presenting a personal financial planning seminar for your executives will be $[ ]. The fee for each plan we prepare will be $[ ]. This agreement expires on [*date*].

Sincerely,

____

[*Firm Name*]

Approved by:

____

[*Signature*]

____

[*Date*]

EXHIBIT 4-6

ILLUSTRATIVE ENGAGEMENT LETTER 4

(See Exhibit 4-2 for paragraphs to insert for historical financial statements and prospective financial information to be included in the written plan.)

Dear [*Name of client*]:

We are looking forward to working with you in designing your personal financial plan. The financial planning process is complex and sometimes tedious. It is an important step toward achieving personal financial goals. This letter highlights the activities involved in developing, implementing and maintaining your financial plan. It also confirms the terms and objectives of our engagement.

Highlights of Activities

The initial phase involves accumulating and organizing facts about your current and desired financial status and identifying your specific goals and objectives. This will be accomplished through a series of interviews and the data-gathering questionnaire.

The next step involves analysis of the data accumulated and after a review of the results of the preliminary analysis and cash flows with you, we will begin performing detailed analysis of your specific financial circumstances.

Following the analysis and discussion with you, we will meet to review our preliminary recommendations. As a result of these meetings, a written draft of your plan will be prepared. We then will be able to finalize your plan and to set time goals and establish responsibilities for the implementation. We will prepare, in writing specific recommendations that will seek to address your financial goals. Where appropriate, we will include financial illustrations and projections for greater understanding of potential outcomes of financial alternatives.

We will assist you, as a separate engagement, in implementing the strategies that have been agreed upon. Accordingly, we will be available on an ongoing basis to answer questions, to assist you or your advisors, to take necessary actions, and to make recommendations regarding financial matters. Your plan should be reviewed informally on a quarterly basis and formally annually. These update sessions are vital so that adjustments can be made for changes in your personal circumstances, overall economic conditions, and future tax law revisions.

Terms and Objectives

The primary objective of our engagement is to prepare a review of your personal financial situation. This review will emphasize your personal financial goals and objectives and will include strategies to attain them if possible. We will be relying upon your representations.

During this engagement, we will also compile 15-year cash flow projections. The projections will be prepared from information you provide. They will not express any form of assurance on the achievability of the projections or reasonableness of the underlying assumptions. You are responsible for providing the prospective financial information to us and for communicating to us any significant information that might affect the ultimate realization of the projected results.

The suggestions and recommendations included in your financial plan will be advisory in nature, and we cannot guarantee the performance of any investment or insurance products which may be purchased to implement recommendations in your plan. The plan will also include financial projections based on assumptions about future events. We cannot vouch for the achievability of such projections as the assumptions about future events may not be accurate.

Insurance recommendations developed as part of your financial plan or to implement the financial plan should be made by licensed insurance professionals you choose to engage. We are not responsible for the success or failure of any specific policy or insurance strategy recommended such advisors.

Investment recommendations developed as part of your financial plan or to implement the financial plan should be made by registered investment advisers or other licensed investment advisers you choose to engage. We are not responsible for the success or failure of any specific investment recommended by such advisers.

It is agreed and understood that [*firm name*] will not accept or receive fees, commissions, or other remuneration or compensation from the investment advisors or from originators, sponsors, syndicators, or distributors of investment of insurance products purchased by you.

We cannot be responsible for the acts, omissions, or solvency of any broker, agent, or independent contractor or other advisor selected in good faith to take any action to negotiate or consummate a transaction for your account. Our services are not designed and should not be relied upon as a substitute for your own business judgment, nor are they meant to mitigate the necessity of your personal review and analysis of a particular investment. These are not investment advisor services. Our services are designed to supplement your own planning analysis and aid you in fulfilling your financial objectives.

In addition, these services are not designed to discover fraud, irregularities or misrepresentations made in materials provided to us concerning your potential investments or insurance coverages.

You will, of course, be free to follow or to disregard, in whole or in part, any recommendations we make. You will be responsible for any and all decisions regarding implementation of the recommendations. At your request, we will be happy to coordinate implementation, as a separate engagement, with any insurance agent, investment broker, and/or attorney of your choosing.

The fee for this planning service will be based on our regular hourly rates plus out-of-pocket expenses. We project our fee will range between $[   ] and $[   ] plus direct out-of-pocket expenses for the initial plan development. Update sessions and follow-up work are separate engagements and will be billed separately. As work progresses, we will make progress billings which are due and payable upon presentation.

We will be pleased to discuss this letter with you at any time. If the foregoing is in accordance with your understanding, please sign one copy of this letter in the space provided and return it to us. The additional copy is for your files.

If we can be of assistance to you in any other way, please do not hesitate to contact us. We look forward to helping you develop and maintain a sound, businesslike approach to your personal financial affairs.

Sincerely,

____

[*Firm Name*]

Approved by:

____

[*Signature*]

____

[*Date*]

EXHIBIT 4-7

ILLUSTRATIVE ENGAGEMENT LETTER 5

(See Exhibit 4-2 for paragraphs to insert if the written plan will include historical financial statements, prospective financial information, or both.)

Dear [*Name of client*]:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

Planning Services

We will assist you in the development of your [*identify type of planning*] planning after consideration of your financial objectives and present financial situation.

Alternative format: *You requested our advice on the following issues:* *[List issues]* *We will assist you in the development of your plans regarding the matters listed above after careful consideration of your objectives and present financial situation.*

In a preliminary meeting we will discuss your financial objectives in those planning areas and begin gathering the required financial information. In addition to the information requested in the data-gathering questionnaire, we will require copies of [*list documents*].

We will review and analyze the information you provide. Based on our analysis, we will develop alternative recommendations to meet your objectives in [*identify type of planning*] planning. We will develop projections to show the effect of the various recommendations.

We will meet with you to discuss a draft of our preliminary recommendations and projections. Based on our discussions and your preferences, we will prepare a finalized plan.

The responsibility for financial decisions is yours. We will aid you in the decision-making process, suggest alternative recommendations to help you achieve your objectives, and assist you to determine how well each alternative meets your financial planning objectives.

Fees

Our estimated fee for the service described above will be based on our standard hourly rates and should range from $[ ] to $[ ]. We will submit our bill monthly as services are performed and they will be due and payable at that time.

We will offer our assistance in implementing the actions agreed upon. Implementation generally includes reviewing and commenting on specific investment proposals, drafts of legal documents, and communications with other professionals on matters resulting from our recommendations. These services will be in addition to those for which we have estimated our fee. We will bill you for the additional services at our standard hourly rates.

The engagement fee does not include future updates of the plan that may be required because of changes in circumstances. Updates will be treated as separate engagements.

Limited Scope of Services

We do not receive fees for recommending investment products. Investment recommendations should be made by an investment adviser registered with the SEC, or other licensed investment adviser that you choose and engage. We are not responsible for the success or failure of any specific investment recommendation.

At your request, we have limited the scope of this engagement to [*list items*].

Because of the limited scope of these services, we may not be able to make certain recommendations without analyzing other areas of your financial situation. We will notify you if that situation arises and suggest either that we expand the services or postpone those recommendations until a later time when we will further develop your financial plans. Any expansion of our services will be billed at our standard hourly rate.

We thank you for the opportunity to be of service. If you concur with these arrangement, please sign the enclosed copy of this letter in the space provided and return it to us. We anticipate beginning the engagement some time after [*date*]. If you have any questions, please call.

Very truly yours,

____

[*Firm Name*]

Approved by:

____

[*Signature*]

____

[*Date*]

EXHIBIT 4-8

SAMPLE ENGAGEMENT PROGRAM

CLIENT: ______________________________

	Activity	Goal	Budget Hours	Actual Hours	Initial
Plan Engagement					
1	Meet with client to outline engagement goals				
2	Obtain an overall understanding of client's financial situation				
3	Prepare engagement program based on client's goals				
4	Prepare engagement letter				
5	Summarize client's goals and current situation				
Collect Relevant Data					
1	Review client files				
2	List additional data needed				
3	Meet with client to collect new data				
4	Copy and index client documents				
Analyze Data					
1	Summarize client assumptions				
2	Cross reference goals, documents, working papers				
Financial Statement Analysis					
1	Inquire about client's goals for future net worth				
2	Summarize key factors and assumptions for the projected financial position				
3	Project financial position for next ______ years				
4	Review appropriateness of valuation methods for significant asset groups				

	Activity	Goal	Budget Hours	Actual Hours	Initial

Financial Statement Analysis (*Continued*)

5	Compute significant ratios (liquidity, debt to equity, etc.)				
6	Determine if ratio of investments to total net worth is appropriate				

Investment Planning

1	Identify client investment objectives and risk attitudes				
2	Assist client in developing an investment allocation model				
3	Assist client in quantifying risk, reward, and other significant parameters for investment selections				
4	Compare current investments to findings in 2 and 3 above				

Education/Retirement/Other Goal Funding

1	Identify client's funding goals				
2	Identify client assumptions				
3	Project funding needs				

Risk Management

1	Identify significant risks and their amounts				
2	Compute current insurance costs for each risk type				
3	Consider alternative methods for risk management				
4	Determine need to coordinate personal insurance coverages				

Cash Flow Planning

1	Identify client's investment goals				
2	Identify client's lifestyle goals				
3	Compute current discretionary income for ____ years				

	Activity	Goal	Budget Hours	Actual Hours	Initial

Cash Flow Planning (*Continued*)

4	Project discretionary income for ____ years				
5	Summarize projection assumptions				
6	Prioritize goals and discretionary expenses				

Income Tax Planning

1	Review prior ____ years returns				
2	Project next ____ years tax				
3	Identify tax saving strategies currently in use				
4	Determine whether additional tax saving strategies can be employed				

Estate Planning

1	Review will				
2	Estimate estate taxes for both spouses				
3	Identify estate tax saving strategies currently in use				
4	Determine whether additional strategies can be employed				
5	Identify estate distribution goals				

Summarize Analyses and Develop Recommendations

1	Personal data				
2	Financial statement analysis				
3	Investment planning				
4	Education and other funding				
5	Retirement planning				
6	Risk management				
7	Cash flow				

	Activity	Goal	Budget Hours	Actual Hours	Initial

Summarize Analyses and Develop Recommendations (*Continued*)

8	Income tax planning				
9	Estate planning				
10	Cross reference/summary				
11	Draft summary of recommendations				

Prepare Report of Recommendations

1	Prepare first draft of report letter/summary of recommendations				
2	Review summary of goals and assumptions				
3	Draft action plan/implementation checklist				
4	Meet with client to discuss draft recommendations				
5	Incorporate changes based on client meeting				
6	Deliver and review final report				

Time Summary

Partner		
Staff		
Partner @ $___________ per hour	$	$
Staff @ $___________ per hour	$	$
Total	$	$

EXHIBIT 4-9

CONDENSED TIME-BUDGET WORKSHEET

Personal Financial Planning
Time Budget and Analysis

for ____________________
(client)

Prepared by ____________________

Approved by ____________________ ___/___/___
Date

Procedure	Ptr./Mgr. Budget	Ptr./Mgr. Actual	Staff Budget	Staff Actual	DATE																														
					HOURS																														
Qualify client																																			
Engagement planning																																			
Client interviews																																			
Questionnaire																																			
Fin. stmt. analysis																																			
Cash flow planning																																			
Income tax planning																																			
Investment analysis																																			
Risk management																																			
Retirement funding																																			
Education funding																																			
Estate planning																																			
Other ________																																			
Other ________																																			
Recommendations																																			
Report																																			
Implementation																																			
Update plan																																			
Other ________																																			
Other ________																																			
Total hours																																			
Cumulative total																																			

EXHIBIT 4-10

WORKING PAPERS ORGANIZER

Client: ____________________

Engagement: ____________________

Prepared by: ____________________

	Enclosed? Yes	Enclosed? No
A. Engagement management documents		
1. Memorandum for next update	☐	☐
2. Engagement letter	☐	☐
3. Time budget and analysis	☐	☐
4. Other ____________________	☐	☐
5. Other ____________________	☐	☐
B. Engagement work papers		
1. Notes from meetings and cleared questions	☐	☐
2. Summary of goals	☐	☐
3. Summary of assumptions	☐	☐
4. Personal information	☐	☐
5. Financial statement analysis	☐	☐
6. Cash flow planning analysis	☐	☐
7. Investment planning analysis	☐	☐
(a) Summary of securities	☐	☐
(b) Summary of partnership interests	☐	☐
(c) Real estate summary	☐	☐
(d) Valuation of business interests	☐	☐
(e) Other ____________________	☐	☐
8. Risk Management analysis	☐	☐
9. Retirement funding	☐	☐
10. Education funding	☐	☐
11. Other funding	☐	☐
12. Income tax planning	☐	☐
13. Estate planning	☐	☐
14. Data-gathering forms	☐	☐
15. Other ____________________	☐	☐
16. Other ____________________	☐	☐

EXHIBIT 4-11

NEXT UPDATE TO-DO LIST

Client: ______________________________

Engagement: ______________________________

Prepared by: ______________________________

Item		Action Taken

EXHIBIT 4-12

ILLUSTRATIVE TRANSMITTAL LETTER

Dear [*Name of client*]:

We are pleased to have the opportunity to assist you in developing your personal financial plans. The enclosed financial plan has been prepared to assist you in making decisions about your financial future.

We have considered various alternatives and developed recommendations to achieve the personal financial goals listed below.[1]

- Design a cash management plan that provides the maximum opportunity for savings and investment.
- Design a strategy to fund your retirement goals.
- Design a strategy to fund your children's college education.
- Design a plan to minimize your income tax obligations without impairing your ability to achieve other financial goals.
- Design a plan to transfer your estate to your heirs without paying excessive death taxes.
- Design an investment policy that reflects both your accumulation goals and your tolerance for risk.
- Review your insurance coverages to determine whether they are adequate for your circumstances.

Optional paragraph to be used when client has imposed scope limitations. (See SRPFP No. 1, paragraph 17, reprinted in the "Professional Standards" chapter of this Handbook.)

However, you have instructed us not to consider other planning issues that might have an impact on (that/those) goal(s). If we had done so, different conclusions or recommendations might have resulted.

Our recommendations are based on your current financial condition as presented in the accompanying Statement of Financial Condition and estimates of future income, expenditures, and net worth, as well as estimates of investment performance, inflation rates, retirement benefits, and other variables.

The Statement of Financial Condition contained in this plan is intended for use by you and your advisers in developing your financial plans. Accordingly, it may be incomplete or contain other departures from generally accepted accounting principles and should not be shown to anyone else for purposes of obtaining credit or for any purpose other than developing your financial plan. We have not audited, reviewed, or compiled the statement.

---

[1] Alternatively, the correspondence may relate back to an engagement letter or other previous correspondence that describes the objectives of the personal financial planning engagement. The following language may be appropriate:

> *We have considered various alternatives and developed recommendations to achieve the personal financial goals identified at the start of this engagement, as detailed in our engagement letter dated ___________.*

Projections of future income, expenditures (including income taxes), net worth, and estate taxes are based on assumptions that are described in the financial plan as well as interpretations of existing laws. Usually, there will be material differences between prospective and actual results because laws change and events and circumstances frequently do not occur as expected. We therefore recommend periodic reviews of your plan and financial situation to make sure that you are progressing towards achieving your financial goals. We are not responsible for reviewing or updating this plan unless you ask us to do so.

If the projections of future income, expenditures, and net worth are presented in the form of a projected Statement of Changes in Net Worth (as defined in SOP 82-1 paragraph 6 (b)) alternative reporting language is appropriate. A sample of such language follows:

We have compiled the accompanying projected Statement of Changes in Net Worth for (client name) for the years ended XXXX, in accordance with standards established by the American Institute of Certified Public Accountants.

The accompanying projection and this report were prepared for the purpose of helping you develop your personal financial plan and should not be used for any other purpose.

A compilation is limited to presenting in the form of a projection information that is your representation and does not include an evaluation of the support for assumptions underlying the projection. We have not examined the projection and, accordingly, do not express an opinion or any other form of assurance on the accompanying statement or assumptions. Furthermore, even if you follow this plan there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Recommendations regarding insurance and investment alternatives are presented as guidelines and represent our general understanding of the information available to us. Before purchasing an investment product, you should thoroughly investigate the product and offering institution, and seek the guidance of a broker or registered investment adviser. Insurance decisions should be made with the assistance of a licensed insurance professional.

We believe that many of your financial objectives will be realized only through the implementation of a properly formulated plan and encourage you to carefully consider the recommendation contained in the plan. We will be happy to assist you in formulating your immediate as well as your future plans. If you have any questions, please call.

Very truly yours,

____

[Firm Name]

EXHIBIT 4-13

SAMPLE IMPLEMENTATION PLAN

IMPLEMENTATION PLAN

____
[Client name]

Recommendation	Priority (1, 2, 3)	Time Frame	Responsible Party		
			Client	CPA	Other

EXHIBIT 4-14

ESTIMATED TIME INVOLVED IN PFP SERVICES*

Activity	Consultation Hours	Segmented Hours	Comprehensive Hours
Engagement planning	—	.5	1.0
Client interview	1.0	1.0	2.0
Questionnaire preparation/review	.5	1.5	4.0
Data input	.5	1.0	3.0
Analysis of computer output	1.0	2.0	4.0
Develop recommendations	1.0	2.0	8.0
Draft report	—	1.5	4.0
Review draft with client	—	—	1.0
Finalize report	—	—	2.0
Word processing	1.0	3.0	8.0
Final interview with client	1.0	1.0	2.0
Implementation	—	1.0	4.0

* This schedule is intended as an illustration only; the amount of time involved in each engagement varies according to your engagement procedures and the unique circumstances of the engagement.

EXHIBIT 4-15

CLIENT SERVICE QUESTIONNAIRE

As part of our ongoing effort to deliver quality services to our clients, we'd like you to take a few moments to assess the service you received. Your careful evaluation will provide the feedback we need to better serve you in the future. You may return the completed evaluation in the enclosed postage-paid envelope.

Please indicate your level of satisfaction with the various aspects of our services. The rating scale is 1-5, with 5 indicating high satisfaction and 1 indicating dissatisfaction.

	Highly Satisfied				*Not Satisfied*
Assistance in helping you set goals and objectives	5	4	3	2	1
Your comfort in working with the staff	5	4	3	2	1
Responsiveness to your questions and concerns	5	4	3	2	1
Clarity of analyses, explanations, and recommendations	5	4	3	2	1
Timeliness	5	4	3	2	1
Fairness of our fee	5	4	3	2	1
Expected future benefits from the process	5	4	3	2	1
Overall value of our services	5	4	3	2	1

Please indicate whether you are aware of the following services we provide and indicate whether you would like more information on these services.

	Yes	*No*	*More Information*
Personal budgeting and financial management	☐	☐	☐
Portfolio assessment and rebalancing	☐	☐	☐
Insurance needs analysis	☐	☐	☐
[*Include other services offered by your firm*]	☐	☐	☐

Please provide any comments that would help us deliver quality financial services to our clients:

____

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EXHIBIT 4-16

ARTICLE: ***HOW MUCH MONEY ARE YOU REALLY MAKING?***

HOW MUCH MONEY ARE YOU REALLY MAKING?

CPAs may be surprised by the answer.

by David W. Cottle

One of the principal reasons for low profitability in CPA firms is that owners pay too much attention to profit margin and not enough to profitability. They are not the same thing. True profitability is the amount left over after properly allowing for the value of owners' labor and capital. Because profit margin measures only how much money the owners earn, it is a limited indicator of the source of profit problems. It also can mislead, particularly when it's used to make firm-to-firm, interoffice or year-to-year comparisons. A firm with a 25% profit margin is not necessarily less profitable than one with a 30% margin, depending on the number of partners.

THE WRONG FOCUS

When a friend (and client) who thought his firm was not profitable enough asked me how he could raise his profit margin, I suggested he make partners out of all his staff. Since nonpartner salaries were shown as expenses, their salaries would be eliminated, costs would appear to go down and profit margin would "improve." My friend pointed out that this technique wouldn't make him any more money, which was precisely the point. The margin would increase, but the firm would be no more profitable than before.

Profit margin in an unincorporated business is almost meaningless for management purposes, so one must be careful to distinguish between it and profitability when trying to make an effective change.

It's not possible to make meaningful comparisons of income statements of different firms with different employee-to-owner ratios. Indeed, measuring performance trends in a single firm based on profit margin alone can mislead when the staff-to-owner ratio and other factors change from year to year. Profit may be simple to calculate, but profitability is quite a bit more difficult.

WHAT'S THE PROFITABILITY?

Take the simple example of Alan Accountant, an actual sole practitioner with five employees. Last year, Alan grossed \$459,000. He had \$44,000 of equity in accounts receivable, work in process, equipment and so on. He netted \$117,000. One could say his profit margin was 25% (\$117,000 divided by \$459,000). But what was his profitability?

If Alan was employed at another firm, he would earn a salary—in his case, about \$63,000. In waiving that opportunity by setting up his own practice, he had an "opportunity cost" of \$63,000 (the salary he could have made elsewhere). Everyone working for a practice, whether an owner or not, should be paid for services rendered. The economic cost of providing own-

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ers' labor is equivalent to the salary they could earn working for someone else. This opportunity cost is real whether or not it is recognized in the financial statements. A practice is profitable in an economic sense only when it generates owner income in excess of the opportunity cost of salary value. If Alan could earn a $63,000 salary working for another organization, the firm should recognize the economic cost of $63,000.

Furthermore, accounting practices require capital and investors expect a return on their investments. CPAs who invest in a practice deserve a return as well. One can measure the value of the money invested by referring to investments in other types of businesses with similar degrees of risk. This value, too, is an economic cost of doing business regardless of whether the income statement reflects it. If Alan could invest his $44,000 equity elsewhere and earn 13% a year, he must recognize the $5,720 annual opportunity cost of his capital.

JOS. PALMIERI/AFI

True profitability is the amount left over after properly allowing for the value of owner's labor and capital.

True profitability is the amount left over after properly allowing for the value of owners' labor and capital. This economic income actually is the owners' return on their abilities to manage and market the practice, or—as CPA and author Ronald G. Weiner refers to it—the "entrepreneurial results." In Alan's case, the entrepreneurial results were

"Net income" using generally accepted accounting principles	$117,000
Alan's salary	(63,000)
Cost of Alan's capital	(5,720)
Economic income (entrepreneurial results)	$48,280

Alan's return for the risks and demands of running an accounting practice was $48,280. While his profit margin using GAAP was 25%, his profitability using my economic analysis was only about 11% ($48,280 divided by $459,000).

Most CPAs starting new practices hope to earn more than they could working for someone else—but they may never know if they've succeeded. Traditional GAAP financial statements do not provide this information unless they're properly analyzed. To focus on profitability (as opposed to profit margin) it's necessary to distinguish between owners' salaries, interest on owners' capital and owners' profits (the entrepreneurial results of their practices).

THE MANAGEMENT DILEMMA

In addition, firms' financial results can differ because of varying ratios of staff to owners, methods of compensating owners, capital structures and billing philosophies. The differences are exacerbated by partnership or proprietorship GAAP, which shows all owners' compensation as profits whether it came from invested capital, labor or entrepreneurial skill. Comparing different firms' profits, salaries, billing rates or other operating information often is futile because it is like comparing three grapes with four melons.

Harmonizing the differences. Ron Weiner developed an analytical method to convert these different factors to a common pattern so that one can add three grapes to four melons and get 87 pounds, 14 ounces of fruit. Here's how it works.

Before I can compare different firms, profits must be adjusted to reflect economic reality for owners' compensation. For a firm that doesn't record owners' salaries, a reasonable salary must be calculated to reflect the economic value of owners' labor. If a firm already records owners' salaries, they must be adjusted to reflect economic reality.

Most firms establish standard hourly billing rates based on a multiplier of each person's salary. On the basis of this practice, Ron Weiner developed a standard "costing" system that adjusts for the economic value of owners' labor, as shown below.

Alan Accountant set his employee billing rates using the following method:

Total compensation	$36,000
Divided by estimated chargeable hours	÷1,800
Equals cost per chargeable hour	$20
Times billing multiple	3
Equals target rate	$60
Actual billing rate used	$60

Dividing the $60 hourly rate by the

■ PROFITABILITY

EXHIBIT 1
Selected financial information

Summarized income statement

	Firm A	Firm B	Your firm
Revenue (net fees)	$9,172,000	$6,511,000	
Expenses (other than partners' compensation and interest on capital)	7,861,000	4,516,000	
Net income (partnership GAAP)	$1,311,000	$1,995,000	
Profit margin (partnership GAAP)	14.29%	30.64%	

EXHIBIT 2
Fair market value of owners' salaries

Line		Firm A	Firm B	Your firm
1	Average owner billing rate	$93.56	$53.25	
2	Staff billing multiple	0.00205	0.001714	
3	1 ÷ 2 = average owner salary	$45,639	$31,068	
4	Number of owners	25	23	
5	3 × 4 = total owners' salaries	$1,140,975	$714,564	

$36,000 annual compensation yields an actual billing multiple of 0.001667. The fair market value of Alan's compensation was approximated by inverting the firm's billing rate formula and dividing the owner's billing rate by the 0.001667 staff multiplier factor. If a $36,000 staff person was worth $60 per hour to Alan's clients, then Alan, whose billing rate was $105 per hour, should have had an approximate salary value of $63,000 ($105 divided by 0.001667). A partner with a $180 billing rate would have a salary equivalent of about $108,000.

When CPAs make this salary calculation for themselves using their staff billing multiples and their own personal billing rates, they may be astonished because they believe they are worth more than the salary indicated by this calculation. If that's so, it's time to consider raising billing rates.

Converting owners' capital to financial equivalents. To compare different firms' cost of capital one must impute an appropriate rate of interest on owners' invested capital. Since owners' capital incurs greater risk than a creditor's loan, most firms impute an interest rate of something over the prime rate. I usually suggest 2 points over prime or 125% of prime, whichever is greater. *continued on page 64*

EXECUTIVE SUMMARY

■ ONE OF THE PRINCIPAL reasons for low profitability in CPA firms is that owners pay too much attention to profit margin and not enough to profitability. Profit may be simple to calculate, but profitability is quite a bit more difficult. Measuring performance trends within a single firm based on profit margin alone can mislead when the staff-to-owner ratio and other factors change from year to year.

■ TRUE PROFITABILITY IS the amount left over after properly allowing for the value of owners' labor and capital. This economic income is actually the owners' return on their abilities to manage and market the practice.

■ CPAs MAY BE surprised when they adjust their firms' financial results to determine their true profitability, but the effort is worthwhile because it offers a realistic picture of how much owners are making.

■ PROFITABILITY

Many firms keep their books on a cash basis for tax purposes and often for internal reporting purposes. Accordingly, they do not recognize accounts receivable and unbilled work in process as assets. Nevertheless, these are firm assets and owners must invest capital to carry them until they are billed (for work in process) and collected (for accounts receivable). For economic analysis purposes, firms should recognize the value of these assets and the related invested capital.

Converting net fees to standard fees. Weiner defines a firm's product as $1 of service (measured at standard), however that unit of service is earned or provided and regardless of what it costs to produce it. This means firm revenue (in the sense of production) actually is standard fees, while reductions from that figure—whatever the cause—are operating costs. Firms that record net fees as revenue should gross up their fees to standard by adding back write-downs, which are shown as separate line items like any other controllable expenses. While this treatment is not in accordance with recognized accounting principles, I refer here only to an analytical method, not to a firm's externally presented financial statements.

Weiner says that adding allowances for owners' salaries and interest on capital to firm costs and expenses makes all costs comparable. Standard time charges that

EXHIBIT 3
Firm profitability

Line		Firm A	Firm B	Your firm
6	Average accrual-basis capital	$1,375,000	N/A*	
7	Interest rate	14.47%	N/A	
8	6 × 7 = interest on capital	$198,963	$253,000	
9	Net fees	$9,172,000	$6,511,000	
10	Write-downs (write-ups)	1,172,000	1,033,000	
11	9 + 10 = standard fees	$10,344,000	$7,544,000	
12	Costs and expenses other than owners' salaries and interest on owners' capital	7,861,000	4,516,000	
13	Owners' salaries (line 5 above)	1,140,975	714,564	
14	Interest on capital (line 8 above)	198,963	253,000	
15	12 + 13 + 14 = total economic costs and expenses	$9,200,938	$5,483,564	
16	15 ÷ 11 × 100% = percentage of standard fees	88.95%	72.69%	
17	11 − 15 = economic profit on standard fees	$1,143,062	$2,060,436	
18	17 ÷ 11 × 100% = percentage of standard fees	11.05%	27.31%	
19	Write-ups (write-downs) (line 10 above)	$1,172,000	$1,033,000	
20	19 ÷ 17 × 100% = percentage of economic profit	102.53%	50.14%	
21	17 − 19 = economic income (loss), or true profitability	($28,938)	$1,027,436	
22	21 ÷ 11 × 100% = percentage of standard fees	(0.28%)	13.62%	

*Firm B accrues interest on partners' capital at 3% over the prime rate. I used actual interest for the year. Calculation of the average rate in effect was not necessary.

■ PROFITABILITY

EXHIBIT 4
Reconciliation of traditional profits

Average net income per owner, based on partnership GAAP

Line		Firm A	Firm B	Your firm
23	Salary (line 3 above)	$45,639	$31,068	
24	8 ÷ 4 = interest on capital	7,959	11,000	
25	21 ÷ 4 = economic income (loss), or true profitability	(1,158)	44,671	
26	23 + 24 + 25 = net income per owner (partnership GAAP)	$52,440	$86,739	

are not billed should be viewed as a bottom-line cost and not included in overhead since it costs the same to provide the service whether it's billed or not.

ANALYZING FIRM PROFITABILITY

Using these concepts, I developed several related worksheets to convert owners' salaries and interest on capital to economic equivalents and to gross up revenue and show write-downs as controllable expenses.

I'll use two firms of approximately equal size to illustrate how the worksheets work. Firm A has 245 personnel (including partners, professional staff and support staff) and firm B has 253. Exhibit 1 on page 62 includes selected financial information for both and a column for firms to supply their own information.

Exhibit 2 on page 62 calculates the fair market value of owners' salaries. As an example, employee billing rates were calculated using the following method:

Total compensation	$38,975
Divided by estimated chargeable hours	1,450
Equals cost per chargeable hour	$26.88
Times billing multiple	3
Equals target rate	$80.64
Actual billing rate used	$80.00

Dividing the $80 hourly rate by the $38,975 annual compensation yields an actual billing multiple of 0.00205. We approximated the fair market value of partners' compensation by inverting the firm's billing rate formula and dividing the average partner billing rate by the 0.00205 staff multiplier factor. The average partner billing rate of $93.56 indicated a salary equivalent of $45,639.

Exhibit 3 on page 64 calculates true profitability.

If these firms operated on a true one-third salaries, one-third overhead and one-third profit model, the operating cost figure on line 16 would be 66.67% and the profit percentage on line 18 would be 33.33%. For many CPAs, performing the calculation for their firms may bring on a sick feeling in the pit of their stomachs. Further, firm A is losing all of its profits and firm B is losing half its profits in write-downs. The actual economic profit remaining on line 22 is an unpleasant surprise.

Exhibit 4, above, reconciles economic-model profitability to traditional partnership GAAP profits.

My worksheet expresses profits (economic income) as a percentage of standard fees, viewing write-downs as a cost-management indicator. Partnership GAAP expresses profits as a percentage of net fees, operating on the philosophy that write-downs are pricing decisions. As a result, the revenue denominator for percentage calculations for this model is different from that used in the traditional method. Firm A's profit margin using the traditional method is 14.29%. After allowing for owners' salaries and interest and treating write-downs as costs, I determined that profitability (true economic income) was actually a loss. Firm B's profit margin is 30.64% using the traditional method, but economic income is only 13.62% using the Weiner model.

DISAPPEARING MARGINS

After completing this analysis, most CPAs are surprised to discover that their comfortable profit margins quickly disappear. However, this realization can help practitioners reorient their thinking about profitability and make needed changes in their practices. ■

EXHIBIT 4-17

ARTICLE: *COSTS AND BENEFITS OF PERSONAL FINANCIAL PLANNING ACCREDITATION*

PERSONAL FINANCIAL PLANNING

COSTS AND BENEFITS OF PERSONAL FINANCIAL PLANNING ACCREDITATION

Approximately 750 CPAs have completed the requirements for the American Institute of CPAs personal financial specialist (PFS) designation as of July 1. Yet there are about 7,500 members of the AICPA personal financial planning division, 80% of whom hold no PFP accreditation. This month, **Joseph G. Donelan**, *CPA, PhD, assistant professor of accounting, University of Northern Colorado, Greeley, reports on the results of a study he conducted to find out what those 80% know about financial planning accreditation and how they view its costs and benefits.*

Among PFP practitioners, there are two dominant professional certifications: the certified financial planner (CFP) designation granted by the International Board of Standards and Practices for Certified Financial Planners, Inc., and the PFS designation. Yet, more CPAs hold the CFP designation than hold the PFS. Why?

SURVEY RESULTS

A survey was mailed to a random sample of 1,500 PFP division members. Exhibit 1, page 110, shows a breakdown according to the group's accreditation status or desire to obtain accreditation.

Among those not certified as financial planning specialists, there was a slight preference for the CFP. The CFP's popularity may

EXECUTIVE SUMMARY

- ONLY ABOUT 600 of the 7,500 members of the AICPA PFP division hold currently the PFS designation.
- A SURVEY OF PFP division members without the PFS revealed 80% had no financial planning accreditation and 37% did not wish to obtain one.
- THE CFP DESIGNATION was more popular with survey respondents because they were more familiar with it and believed it to be more widely recognized than the PFS. About 900 CPAs currently are CFPs.
- AMONG THE requirements that deter CPAs from obtaining the PFS designation were the examination and experience requirements. A perception of increased legal liability also was a negative factor.
- MOST PFS DESIGNEES believed the designation enhanced their image, improved their skills and made them more competitive with other planners.

■ PFP

EXHIBIT 1
Composition of PFP sample group

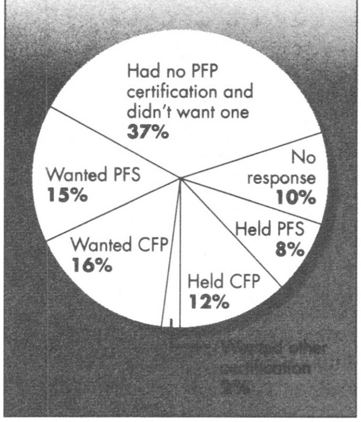
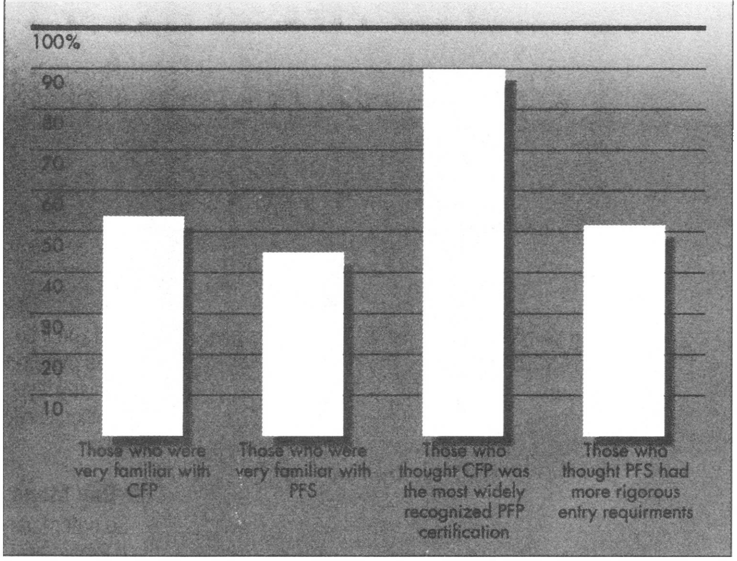


EXHIBIT 2
Views of CFP and PFS
Sample group: PFP division members who held no certification



be due to its familiarity. Exhibit 2, above right, shows respondents were more familiar with the CFP and thought it was more widely recognized, even though a majority believed the PFS has more rigorous entry requirements.

ACCREDITATION COSTS

A second survey was mailed to CPAs who hold the PFS designation (the "PFS group"). The survey provides information about how accredited CPAs view the PFS designation's costs and benefits. The views of accredited CPAs are compared to those of nonaccredited CPAs who wanted to obtain the PFS designation, showing the relative level of optimism among potential PFS candidates.

Accredited CPAs were asked to assess the benefits and costs (obstacles) resulting from accreditation; those who wanted the PFS were asked to assess the benefits and costs if they became accredited.

Exhibit 3, at right, summarizes both groups' responses to questions about the six-hour PFS exam, the exam fee and the experience requirement. (Exam candidates must have 250 hours of PFP experience in each of the three years preceding the exam.)

■ The PFS group rated the exam as the most significant obstacle.

■ The group wanting a PFS designation rated the experience requirement as the most significant obstacle.

■ The exam fee appears to be less of an obstacle for both groups.

Exhibit 4, page 111, summarizes responses to questions about legal liability and promotion of the PFS designation.

■ Thirty-seven percent of the PFS group believed their legal liability had increased. (Although not shown in exhibit 4, an equal percentage of the PFS group believed it had not.)

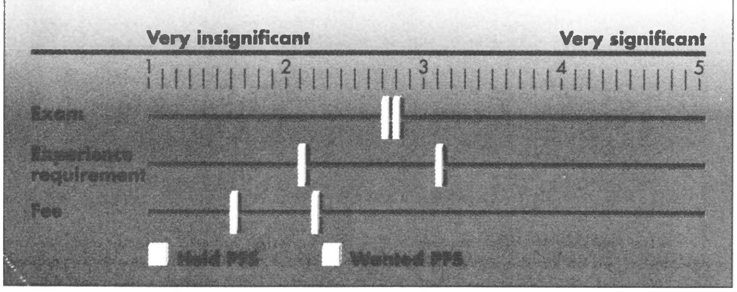
■ Of those who wanted a PFS designation, 31% thought liability insurance premiums would increase. This might be overly pessimistic; only 6% of the PFS group said their premiums had increased.

■ The group wanting a PFS designation was slightly more concerned with state restrictions on their ability to promote their certification than was the PFS group.

ACCREDITATION BENEFITS

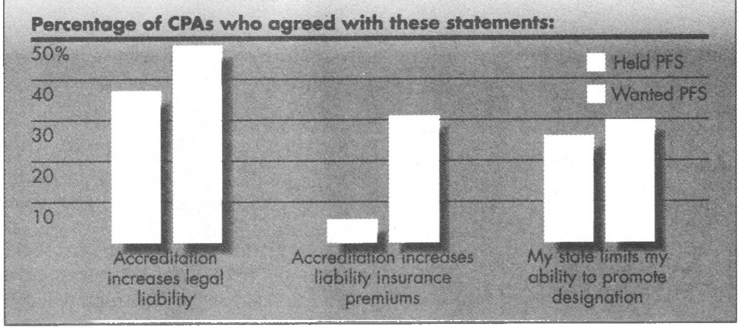
Both survey groups, those who held the PFS and those who wanted the designation, were asked whether they agreed with nine statements about the potential

EXHIBIT 3
CPAs' assessment of accreditation costs



■ PFP

EXHIBIT 4
CPAs' assessment of accreditation costs



benefits of specialization. Respondents viewed five benefits favorably. At least 42% in both groups agreed with each statement and said accreditation had

- Enhanced their professional image.
- Improved their skills and expertise.
- Helped them compete more effectively with non-CPAs offering PFP services.
- Helped them compete more effectively with small and medium-sized CPA firms.
- Helped local firms by providing public recognition and credibility.

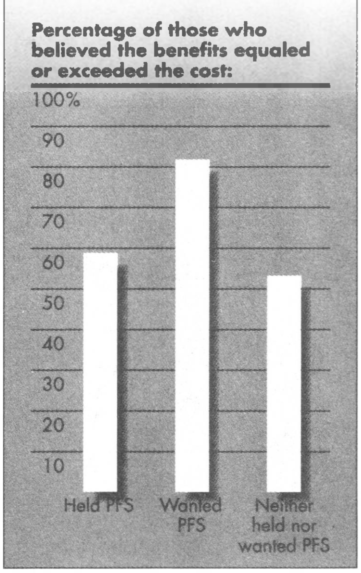
Responses to the next four statements were mixed:

- The designation resulted in increased referral business.
- Accreditation helped in developing closer ties with other CPAs who specialize in PFP.
- Hourly billing rates increased because of the designation.
- Gross billings increased because of the designation.

The PFS group tended to disagree with these statements, suggesting they did not view them as significant accreditation benefits; the group wanting PFS accreditation tended to agree with the statements.

For all nine statements the group that wanted the PFS designation had a more positive attitude than did the group that held the PFS.

EXHIBIT 5
CPAs' assessment of accreditation cost–benefit relationship



OVERALL ATTITUDES

A third AICPA-member group was segregated to help analyze overall attitudes: PFP division members who had no accreditation and did not want to obtain one.

Exhibit 5, at left, shows those who wanted PFS accreditation had the most optimistic view of the cost–benefit relationship. As expected, the lowest rating came from those neither holding nor wanting the PFS accreditation; they also perceived both the expe-

■ PFP

rience requirement and the potential increase in legal liability as greater costs than did the PFS group. These results may explain, at least in part, why the former group had no interest in seeking accreditation.

POSITIVE ATTITUDES

Most PFS designees had a positive overall attitude toward the designation, believing it enhanced their image, improved their skills and made them more competitive. Moreover, 82% said they would go through the certification process again, given what they knew about the program.

Requirements that deter CPAs from obtaining the PFS designation included the experience requirement and the exam. Another explanation for the slow growth in the number of PFS candidates was competition from the CFP designation. The CPAs most likely to pursue accreditation view the CFP as more prestigious and widely recognized.

The group surveyed may have preferred the CFP because it has been around longer and more CPAs have earned it. ■

PFS EXAM INFORMATION

The PFS exam is offered twice each year—in conjunction with the annual PFP technical conference in January and at testing sites nationwide in September. The next nationwide exam will be January 9, 1994. For more information on the PFS accreditation program or the PFS exam, write the Personal Financial Planning Division, AICPA, Harborside Financial Center, 201 Plaza III, Jersey City, NJ 07311-3881, or call 1-800-862-4272, menu item 5. Applicants will receive the *PFS Candidate's Handbook*, an application for the PFS exam and other background information.

EXHIBIT 4-18

ARTICLE: *ALPHABET SOUP: FINANCIAL PLANNING DESIGNATIONS AND WHAT THEY MEAN*

ALPHABET SOUP: FINANCIAL PLANNING DESIGNATIONS AND WHAT THEY MEAN

Which PFP designation is right for you?

by Susan W. Eldridge and Kevin S. Barrett

In these days of wary consumers, clients usually shop around for personal financial planning services. As a result, CPAs must recognize they are competing with other qualified planners. Comprehensive financial planning has many aspects, including investment planning, risk management and retirement and estate planning. This means other professionals—investment advisers, stock brokers and insurance agents—also offer PFP services to their clients.

These advisers may hold PFP certifications or designations. Since the American Institute of CPAs personal financial specialist designation is relatively new—the AICPA instituted the PFS designation in 1987—many CPAs hold one or more of the other available PFP certifications. Understanding the competition may help CPA planners market their services better. It also may help them decide if obtaining one or more of these designations will enhance their professional expertise.

This article describes the PFS and the three other well-known PFP designations—the certified financial planner (CFP), the chartered financial consultant (ChFC) and the chartered financial analyst (CFA)—in terms of the education, experience and testing requirements for obtaining and maintaining each. The exhibit on page 82 summarizes the requirements for each, and the sidebar on page 84 explains how CPAs can obtain additional information.

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PERSONAL FINANCIAL SPECIALIST

The PFS designation has been awarded to nearly 800 CPAs since 1987. After identifying the need to accredit accounting specialties, the AICPA chose financial planning as the first such specialty and established the PFS program to accredit CPA financial planners. Only licensed CPAs can obtain the designation.

To earn the PFS designation, a candidate must

- Hold a valid and unrevoked CPA certificate.
- Be an AICPA member.
- Have at least 250 hours of experience per year for the preceding three years before taking the exam in the six specified PFP subject areas (listed below).
- Submit a written statement of intent in order to comply with all reaccreditation requirements.

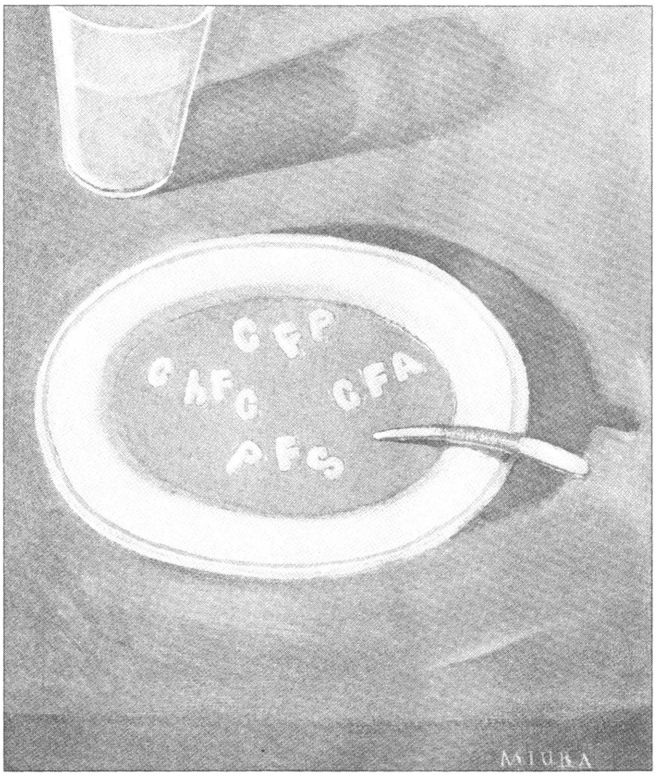
■ Pass the PFS exam.

■ Submit six references (three from clients and three from other professionals) to substantiate experience.

The PFS program does not have a specific course of study for candidates. The emphasis is on CPAs' PFP experience, which must be in six planning areas:

1. Personal financial planning process.
2. Personal income tax planning.
3. Risk management.
4. Investment planning.
5. Retirement planning.
6. Estate planning.

The six-hour PFS exam is offered twice a year (in January and September). It is composed of multiple-choice questions (50%), objective-format (other than multiple-choice) questions (25%) and case-study questions (25%). Since no partial credit is given, CPAs must retake the entire exam if they do not earn passing scores. *The Personal Financial Specialist (PFS) Candidates Handbook* provides information for candidates preparing to take the exam. It includes a content specification outline listing the areas covered and the weight of each on the exam. Sample exam questions, a list of useful reference materials and exam-taking suggestions also are provided.



TERRY MIURA

Once CPAs earn PFS designations, they must go through the reaccreditation process every three years. Reaccreditation ensures practitioners continue to perform PFP by requiring at least 750 hours of PFP experience and at least 72 hours of PFP continuing professional education during the three-year period. Additional reaccreditation requirements include maintaining AICPA membership and a valid CPA certificate, submitting a written statement of intent to continue to comply with reaccreditation requirements and completing an internal practice review questionnaire.

The AICPA, through its PFP division, provides practitioners with CPE, marketing and technical support. To provide guidance on the responsibilities of CPAs offering financial planning services, the PFP executive committee issued three statements on responsibilities in personal financial planning practice (SRPFP) including SRPFP no. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities*, SRPFP no. 2, *Working With Other Advisers*, and SRPFP no. 3, *Implementation Engagement Functions and Responsibilities*. (See "Working With Other Advisers to Provide PFP Services," page 86, for a discussion of SRPFP no. 2.)

As CPAs, holders of the PFS designation must abide by the AICPA Code of Professional Conduct, which requires CPAs to serve the public interest, perform responsibilities with integrity and due care and maintain objectivity and independence.

CERTIFIED FINANCIAL PLANNER

The CFP designation was first awarded in 1972 by the College for Financial Planning in Denver. In 1985, the International Board of Standards and Practices for Certified Financial Planners (IBCFP) assumed responsibility for overseeing the CFP examination process and awarding CFP licenses. Currently, there are over 23,000 licensed CFPs, some of whom are CPAs.

To qualify for the CFP license, candidates must

■ Complete a financial planning education program registered with the IBCFP.

■ Pass the IBCFP comprehensive certification examination.

■ Have related work experience (the number of years varies with the level of education).

■ Sign the IBCFP declaration to uphold

the IBCFP Code of Ethics and Professional Responsibility.

The IBCFP maintains a list of registered education programs. Some are bachelor's or master's degree programs at colleges and universities around the country. Many others are certificate programs in financial planning and are designed specifically to prepare applicants for the CFP exam. The most well-known certificate program is the CFP professional education program offered by the College for Financial Planning. This is a six-part, self-study program that usually takes two years to complete. It is possible, however, for students to accelerate the program and complete it in one year.

The CFP comprehensive certification exam is a two-day, 10-hour exam and is offered twice each year (in February and July). It includes multiple-choice questions, matching items and case problems or problem sets with multiple-choice responses. The six areas covered are

1. Fundamentals of financial planning.
2. Insurance planning.
3. Investment planning.
4. Income tax planning.
5. Retirement planning and employee benefits.
6. Estate planning.

As is the case with the PFS exam, no partial credit is given; a failing score means the entire exam must be retaken. In its *General Information Booklet*, the IBCFP provides a detailed topic outline and a list of publications that may help candidates prepare for the exam.

The experience requirements for CFP licensure depend on the candidate's level of formal education. The basic requirement is three years of PFP-related experience for those who have an undergraduate degree (in any major) from an institution accredited by one of the six regional accreditation agencies and who have completed a PFP curriculum registered with the IBCFP. Candidates with undergraduate degrees in financial planning from IBCFP-registered institutions need two years of experience. Only one year of experience is required for individuals with graduate degrees in business or consumer economics or J.D. degrees from accredited institutions. Four years' experience is required of those who have associate's degrees in business from accredited institutions and who complete an IBCFP-approved curriculum. Even candidates with no college education may become CFPs if they have five years of financial planning experience and complete an IBCFP-approved curriculum.

Maintaining the CFP license requires 30 hours of CPE every two years, annual license renewal and a signed statement disclosing any ethics violations, legal proceedings, etc. The IBCFP enforces its Code of Ethics and Standards of Practice and can suspend or revoke the license of any CFP who violates the code. The code requires CFPs to abide by the principles of integri-

EXECUTIVE SUMMARY

■ AS CONSUMER INTEREST in personal financial planning grows, planners' interest in obtaining one or several financial planning designations is on the rise.

■ THE PERSONAL FINANCIAL specialist (PFS) designation has been awarded to nearly 800 CPAs by the American Institute of CPAs. Candidates must meet experience requirements, pass an exam and submit client and professional references.

■ OVER 23,000 INDIVIDUALS hold the certified financial planner (CFP) designation granted by the International Board of Standards and Practices for Certified Financial Planners. Candidates must complete a financial planning education program, pass a comprehensive exam and have related work experience.

■ THE AMERICAN COLLEGE has granted more than 23,000 financial professionals the chartered financial consultant (ChFC) designation. Candidates must pass 10 financial planning courses and have three years' business experience.

■ THE CHARTERED FINANCIAL analyst (CFA) designation has been awarded to some 14,500 investment professionals by the Institute of Chartered Financial Analysts. Candidates must have bachelor's degrees or equivalent experience, pass three exams and have at least three years' experience as financial analysts.

■ THE PFS, CFP AND ChFC designations all have continuing education requirements for designees. All four designations, including the CFA, hold designees to a strict code of ethics.

■ PFP DESIGNATIONS

Summary of designation requirements

	PFS	CFP
Examination	Comprehensive 6-hour exam; no partial credit	Comprehensive 2-day, 10-hour exam; no partial credit
Experience	250 hours per year for the preceding 3 years in financial planning	3 years in financial planning (varies with education)
Education/study program	No required study program; higher education as required by state boards of accountancy	Bachelor's or master's degree and International Board of Standards and Practices for Certified Financial Planners (IBCFP)-approved financial planning program (varies with experience)
References	3 from clients and 3 from other professionals	None
Code of ethics	AICPA Code of Professional Conduct	IBCFP Code of Ethics and Professional Responsibility
Other	Valid CPA license; AICPA membership; statement of intent to comply with reaccreditation requirements	None
Continuing professional education	72 hours in PFP every 3 years (also 750 hours of PFP experience every 3 years)	30 hours every 2 years

	ChFC	CFA
Examination	2-hour exams for each of the 10 courses; no comprehensive exam	3 comprehensive exams, each 6 hours; must be passed sequentially
Experience	3 years of business experience (undergraduate or graduate degree may qualify for 1 year)	3 years as a financial analyst
Education/study program	10 courses through the American College	CFA study and examination program; bachelor's degree or equivalent in experience
References	None	3 from investment professionals
Code of ethics	Code of Ethics of the American College	Association for Investment Management and Research Code of Ethics and Standards of Professional Conduct
Other	None	Membership in a Financial Analysts Federation society
Continuing professional education	60 hours every 2 years (for those enrolled after July 1, 1989)	Voluntary

ty, objectivity, competence, fairness, confidentiality and professionalism.

CHARTERED FINANCIAL CONSULTANT

The ChFC designation has been awarded since 1982 to over 23,000 financial consultants by the American College in Bryn Mawr, Pennsylvania. The ChFC often is associated with the chartered life underwriter (CLU) designation, also granted by the American College. Since the CLU is an insurance designation, those who hold both usually have insurance backgrounds. The American College also offers degree programs for a master of science in financial services and a master of science in management.

Candidates for the ChFC designation must

- Pass 10 courses.
- Have three years of business experience immediately preceding the date of the designation (an undergraduate or graduate degree may qualify for one year of experience).
- Abide by the American College Code of Ethics.

The ChFC program consists of eight required and two elective courses, which can be taken through self-study or formal classes. Required courses include

1. Financial planning fundamentals.
2. Income taxation.
3. Life and health insurance.
4. Investments.
5. Wealth accumulation planning.
6. Estate planning.
7. Financial planning applications.
8. Retirement planning.

Students with certain professional designations may apply for a transfer of credit for certain courses. In particular, CPAs may be allowed credit for the income taxation course.

To complete each required course, candidates must pass a two-hour objective exam. Exams can be taken on a computer or with paper and pencil. Computer exams are available year-round; however, traditional exams for most courses are given only once each year. Candidates are allowed one year to retake failed exams before having to reregister and pay full tuition again. There is no final comprehensive exam for ChFCs; only the 10 individual course exams must be passed. Once candidates earn ChFC designations, they can earn CLU designations by passing three additional required courses. Likewise, CLUs can earn ChFCs by passing three additional courses.

CLUs and ChFCs enrolled in the program after July 1, 1989, are required to complete 60 hours of CPE every two years. Those who enrolled before that date can choose to participate voluntarily in the professional achievement in continuing education program. The Code of Ethics, adopted in 1984, applies to all students in the ChFC and CLU programs who matriculated on July 1, 1982, or later and to earlier matriculants who consent voluntarily to abide by it. The code requires designees to render the same service to clients they would apply to themselves, to act with honor and dignity and to maintain a high level of professional competence through continued studies. Sanctions for code violations include temporary or permanent suspension of the right to use the ChFC or CLU designation.

CHARTERED FINANCIAL ANALYST

The CFA designation has been awarded to some 14,500 investment professionals by the Institute of Chartered Financial Analysts (ICFA) in Charlottesville, Virginia, since 1963. The ICFA defines "financial analyst" as a person who "has spent and/or is spending a substantial portion of his/her professional time collecting, evaluating or applying financial, economic and related data for direct application to the investment process." CFAs are more often securities analysts, portfolio managers and investment advisers than personal financial planners. However, in using a team approach to financial planning one might consider having a CFA assist with investment planning.

To earn CFAs, candidates must

- Have a bachelor's degree or the equivalent in professional work experience.
- Complete the registration and enrollment form to enter the CFA study and examination program and pay the required fees.
- Provide three acceptable references from investment professionals.
- Sequentially pass the level I, level II and level III exams.
- Have at least three years of experience as financial analysts.
- Have evidenced a high level of professional, financial, business and personal conduct.
- Have applied for membership or be a member of a constituent Financial Analysts Federation society.
- Comply with the Association for Investment Management and Research Code of Ethics and Standards of Professional Conduct.

■ PFP DESIGNATIONS

The CFA study program basically is one of independent or self-study. Candidates use the ICFA study guides and required textbooks and readings to learn the body of knowledge and prepare for the exams. The body of knowledge includes seven major topic areas:

1. Ethical and professional standards.
2. Financial accounting.
3. Quantitative analysis.
4. Economics.
5. Fixed-income securities analysis.
6. Equity securities analysis.
7. Portfolio management.

The exams are structured in four functional areas representing the steps in the investment decision-making process. Level I covers tools and inputs for investment valuation and management. Level II covers asset valuation. Level III covers portfolio management and asset allocation. The fourth area, ethical and professional standards, is included in all three levels.

Candidates must pass three comprehensive exams sequentially. The six-hour exams are given annually on the first Saturday in June, and candidates can take only one exam each year. Thus, the study and examination process takes at least three years to complete. Candidates spend about 160 hours preparing for each exam. The level I exam uses multiple-choice, problems and short essay questions. Levels II and III use problems, cases and essays. Candidates must sit for the first exam within three years of initial registration and complete all three exams within seven years. If these deadlines are not met, candidates must reregister but do not have to retake any previously passed exams.

CFAs must comply with the Association for Investment Management and Research Code of Ethics and Standards of Professional Conduct. The code requires financial analysts to conduct themselves with integrity and dignity, act in a professional and ethical manner, act with competence, use proper care and exercise independent professional judgment. The Standards of Professional Conduct include provisions for disclosure of conflicts, additional compensation arrangements and referral fees. Also, financial analysts must preserve the confidentiality of client information and maintain independence and objectivity. Noncompliance with the code and standards subjects CFAs to disciplinary sanctions, which may include suspension or revocation of the CFA charter. Currently, CPE is not mandatory; however, voluntary CPE is encouraged.

BASIC REQUIREMENTS

In marketing their services, financial planners should consider which designation or combination of certifications they need. Providing high-quality professional services is possibly the best marketing and practice tool financial planners can have. ■

WHERE TO GET MORE INFORMATION

The following publications and associations provide information on financial planning certifications. These organizations also provide lists of planners holding their designations.

Personal Financial Specialist (PFS) Candidates Handbook
American Institute of CPAs
Personal Financial Planning Division
Harborside Financial Center
201 Plaza III
Jersey City, New Jersey 07311-3881
1-800-TO-AICPA

The CFA Candidate Program
Instructions for Registration and Enrollment
Association for Investment Management and Research
Department of Candidate Programs
5 Boar's Head Lane
P.O. Box 3668
Charlottesville, Virginia 22903-0668
(804) 980-3668

Annual Catalog
College for Financial Planning
4695 South Monaco Street
Denver, Colorado 80237-3403
(303) 220-1200

IBCFP General Information Booklet
IBCFP Code of Ethics and Professional Responsibility
International Board of Standards and Practices for Certified Financial Planners
1660 Lincoln Street
Suite 3050
Denver, Colorado 80264
(303) 830-7543

Action Information Guidelines for CLU/ChFC Studies
The American College Code of Ethics
The American College
270 South Bryn Mawr Avenue
Bryn Mawr, Pennsylvania 19010
(215) 526-1000

CHAPTER 5

PROFESSIONAL STANDARDS

PROFESSIONAL STANDARDS

1. INTRODUCTION

.01 This chapter describes AICPA professional literature applicable to PFP engagements. It is designed as educational and reference material for AICPA members and others interested in the subject. It is not intended to establish standards. (For a review of the authoritativeness of the applicable documents, see exhibit 5-1.) Like other publications issued by the PFP Division, it is nonbinding under rule 202 of the AICPA *Code of Professional Conduct.*

.02 CPAs should consult applicable AICPA professional standards when performing PFP services. The following professional rules, standards, guides, and statements on responsibility have particular relevance for the performance of PFP services.

- *Code of Professional Conduct*
- Statements on Responsibilities in Personal Financial Planning Practice (SRPFPs)
- Statements on Standards for Accounting and Review Services (SSARSs)
- Statements on Standards for Attestation Engagements (SSAEs), which include guidance related to financial forecasts and projections
- Statements on Standards for Consulting Services (SSCSs)
- Statements on Responsibilities in Tax Practice (SRTPs)
- *Guide for Prospective Financial Information*
- *Personal Financial Statements Guide*
- Statement of Position 82-1, *Accounting and Financial Reporting for Personal Financial Statements*
- Statement of Position 90-1, *Accountants' Services on Prospective Financial Statements for Internal Use Only and Partial Presentations*

This chapter summarizes some of the guidance involved in those documents. It is not intended to be a comprehensive discussion or to establish preferred practices. It also does not address the rules and regulations imposed by various state boards of accountancy. You should consult those provisions for the states in which you practice.

2. ETHICS: RULES OF PROFESSIONAL CONDUCT

Integrity and Objectivity

.01 AICPA *Code of Professional Conduct* ("Code") rule 102 requires that in the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others. Examples of such violations include the following:

- Knowingly making, or permitting or directing another to make, false and misleading entries in an entity's financial statements or records (ET section 102.02).
- A conflict of interest may occur if a member performs a professional service for a client or employer and the member or his or her firm has a significant relationship with another person, entity, product, or service that could be viewed as impairing the member's objectivity. If this significant relationship is disclosed to and consent is obtained from such client, employer, or other appropriate parties, the rule shall not operate to prohibit the performance of the professional service. When making the disclosure, the member should consider rule 301, "Confidential Client Information" (ET section 102.03).

General Standards

.02 The general standards are described in Code rule 201 and apply to all members of the AICPA as a normal part of their professional services.

.03 Professional Competence. A member must provide only those professional services that the member or the member's firm can reasonably expect to complete with professional competence (interpretation under Code rule 201 [AICPA, *Professional Standards*, Vol. 2, ET sec. 201.02]).

.04 Due Professional Care. A member must exercise due professional care when performing professional services. In particular, certain minimum standards are necessary in each engagement; for example, checking to be sure that advice given is consistent with current law and regulation.

.05 Planning and Supervision. A member must adequately plan and supervise the performance of professional services. Proper planning enhances the productivity of the engagement personnel. Two commonly used planning documents are the planning memo and the planning checklist. Steps in planning engagements may include the selection of procedures appropriate to the individual circumstances, which will serve as a basis for developing recommendations and making planning decisions.

.06 Sufficient Relevant Data. A member must obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed. In the context of a PFP engagement, sufficient relevant data required to complete the engagement varies depending on the scope of the engagement. Professional judgment is required to determine what information is relevant to a PFP engagement. This is particularly important in PFP engagements because of the interrelationship of the technical topical areas.

Compliance With Standards

.07 Code rule 202 (AICPA, *Professional Standards*, Vol. 2, ET sec. 202) states that members are required to comply with standards for conducting professional services when standards are promulgated by bodies designated by AICPA Council. Currently, those bodies are—

- Financial Accounting Standards Board
- Governmental Accounting Standards Board
- Accounting and Review Services Committee

- Auditing Standards Board
- Management Consulting Services Executive Committee

Confidentiality

.08 Clients expect that information about their personal finances will be kept confidential. Code rule 301 states that confidential client information shall not be disclosed without the specific consent of the client (ET section 301.01).

Contingent Fees

.09 Code rule 302 states that a member in public practice may have contingent fee arrangements in PFP engagements for a client for whom the member or the member's firm does *not* also perform: (1) an audit or review of a financial statement or (2) a compilation of a financial statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the member's compilation report does not disclose a lack of independence; or (3) an examination of prospective financial information. This prohibition applies during the period in which the member or the member's firm is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in any such listed services.

.10 The rule itself provides the following definition of a contingent fee:

> Except as stated in the next sentence, a contingent fee is a fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service. Solely for purposes of this rule, fees are not regarded as being contingent if fixed by courts or other public authorities, or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies.
>
> A member's fees may vary depending, for example, on the complexity of services rendered.

.11 Additionally, a member in public practice shall not prepare an original or amended tax return or claim for a tax refund for a contingent fee for any client. An interpretation on contingent fees in tax matters (ET section 302.02) defines certain terms in rule 302 and provides examples of the application of the rule. The text of the definition of terms and examples follows.

Definitions of Terms

(a) Preparation of an original or amended tax return or claim for tax refund includes giving advice on events which have occurred at the time the advice is given if such advice is directly relevant to determining the existence, character, or amount of a schedule, entry, or other portion of a return or claim for refund.

(b) A fee is considered determined based on the findings of governmental agencies if the member can demonstrate a reasonable expectation, at the time of a fee arrangement, of substantive consideration by an agency with respect to the member's client. Such an expectation is deemed not reasonable in the case of preparation of original tax returns.

Examples

The following are examples, not all-inclusive, of circumstances where a contingent fee would be permitted.

1. Representing a client in an examination by a revenue agent of the client's federal or state income tax return.
2. Filing an amended federal or state income tax return claiming a tax refund based on a tax issue that is either the subject of a test case (involving a different taxpayer) or with respect to which the taxing authority is developing a position.
3. Filing an amended federal or state income tax return (or refund claim) claiming a tax refund in an amount greater than the threshold for review by the Joint Committee on Internal Revenue Taxation ($1 million at March 1991) or state taxing authority.
4. Requesting a refund of either overpayment or interest or penalties charged to a client's account or deposits of taxes improperly accounted for by the federal or state taxing authority in circumstances where the taxing authority has established procedures for the substantive review of such refund requests.
5. Requesting, by means of "protest" or similar document, consideration by the state or local taxing authority of a reduction in the "assessed value" of property under an established taxing authority review process for hearing all taxpayer arguments relating to the assessed value.
6. Representing a client in connection with obtaining a private letter ruling or influencing the drafting of a regulation or statute.

The following is an example of a circumstance where a contingent fee would not be permitted:

1. Preparing an amended federal or state income tax return for a client claiming a refund of taxes because a deduction was inadvertently omitted from the return originally filed. There is no question as to the propriety of the deduction; rather the claim is filed to correct an omission.

Acts Discreditable

.12 Code rule 501 prohibits acts that are discreditable to the profession. Examples of such acts include the following:

- Retention of the client's records after demand is made for them (ET section 501.02).
- Negligence in the preparation of financial statements or records. This includes situations where a member, by virtue of his negligence, makes, or permits or directs another to

make, false and misleading entries in the financial statements or records of an entity (ET section 501.04).

Advertising and Other Forms of Solicitation

.13 Code rule 502 requires that advertising and other forms of solicitation not be false, misleading, or deceptive. ET section 502.03 states that prohibited advertising activities include those which:

- Create false or unjustified expectations of favorable results.
- Imply the ability to influence any court, tribunal, regulatory agency, or similar body or official.
- Contain a representation that specific professional services in current or future periods will be performed for a stated fee, estimated fee or fee range when it was likely at the time of the representation that such fees would be substantially increased and the prospective client was not advised of that likelihood.
- Contain any other representations that would be likely to cause a reasonable person to misunderstand or be deceived.

.14 Designations. A CPA who has the Personal Financial Specialist designation or other designations, such as a certified financial planner, may use the designation if the use of such a designation is permitted by the CPA's state board of accountancy.

.15 Third Party Efforts. Members may accept engagements obtained through the efforts of third parties, but are required to ascertain that these efforts are within the bounds of the rules of conduct. Because members receive benefits from the efforts of third parties, they are prohibited from using third parties to do what they are prohibited from doing. (ET section 502.06)

Commissions

.16 Code rule 503 states that a member in public practice shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, when the member or the member's firm also performs for that client: (1) an audit or review of a financial statement; or (2) a compilation of a financial statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the member's compilation report does not disclose a lack of independence; or (3) an examination of prospective financial information.

.17 This prohibition applies during the period in which the member is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in such listed services.

.18 Disclosure of Permitted Commissions. A member in public practice who is not prohibited by this rule from performing services, or receiving a commission, and who is paid, or expects to be paid a commission, shall disclose that fact to any person or entity to whom the member recommends or refers a product or service to which the commission relates.

.19 Referral Fees. According to rule 503, any member who accepts a referral fee for recommending or referring any service of a CPA to any person or entity or who pays a referral fee to obtain a client shall disclose such acceptance or payment to the client.

Form of Practice and Name

.20 Code rule 505 addresses the form of practice and name for members in the practice of public accounting. As explained in one of the interpretations of Rule 505, a member who holds out as a CPA and performs for a client any of the professional services included in the definition of the practice of public accounting (e.g., personal financial planning) must observe the Rules of Conduct in the operation of his or her business. A member in the practice of public accounting can participate in the operation of a separate business that offers financial planning services to clients if the member observes all of the Rules of Conduct in the operation of the separate business (ET section 505.03). Under Code rule 505 and ET Appendix B, members are allowed to choose the form of business in which to practice, provided it is allowed under state law, and conforms to Council Resolutions Concerning Form of Organization and Name.

Use of Personal Financial Specialist Designation

.21 Ethics Ruling 183 (AICPA, *Professional Standards*, Vol. 2, ET sec. 591.366) states when the PFS designation can be used [the Ethics Ruling was issued before the change of the name of the designation from *Accredited Personal Financial Specialist* (APFS) to *Personal Financial Specialist* (PFS)]. The PFS designation can be used on a firm's letterhead and in marketing materials if all partners or shareholders of the firm currently have the AICPA-awarded designation. In addition, the designation may be used after the name of an individual member who holds the designation.

3. STATEMENTS ON RESPONSIBILITIES IN PFP PRACTICE

.01 The PFP Executive Committee has issued five Statements on Responsibilities in Personal Financial Planning Practice (SRPFPs). They represent the considered opinion of the PFP Executive Committee of what it considers to be good practice in PFP engagements. The statements are not intended to establish a code of conduct in PFP practice. They are advisory and educational in nature and do not constitute enforceable technical standards. (See exhibits 5-2 through 5-6 for the text of the SRPFPs.)

4. STATEMENTS ON STANDARDS FOR CONSULTING SERVICES

.01 The Management Consulting Services (MCS) Executive Committee has issued a Statement on Standards for Consulting Services (SSCS). This statement provides guidance to enable members to comply with Code rule 201 within the context of consulting services. The SSCS provides broad general standards for all consulting services except engagements specifically to perform tax return preparation, tax planning/advice, tax representation, PFP or bookkeeping services. (See exhibit 5-7 for the text of the SSCS.) CPAs providing business valuation services as part of a PFP engagement should follow the SSCS as appropriate.

5. ATTEST SERVICES

.01 The focus of an attest service is to provide assurance on the reliability of a written assertion of another party, thus adding credibility to the written assertion. The focus of a PFP service is to provide advice or recommendations to a client. An attest service may be either required or desired. It may be performed instead of, or as part of, a PFP engagement. A client may desire assurance on a specific written assertion, or a third-party user of the assertion may require it.

.02 When the CPA's PFP work involves a personal financial statement or a prospective financial statement, the Statements on Standards for Accounting and Review Services (SSARSs) and the Statements on Standards for Attestation Engagements (SSAEs) may apply. The SSAEs (AICPA *Professional Standards*, Vol., 1 AT section 100), issued by the Auditing Standards Board and the Accounting and Review Services Committee, establish a broad framework for a variety of attest services. The attestation standards also apply to reports on investment performance statistics.

.03 SSAE No. 1 (AICPA, *Professional Standards*, Vol. 1, AT sec. 100.01) defines an attest engagement as "one in which a practitioner is engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion that is a responsibility of another party." In general, PFP services do not meet the definition of an attest service because a CPA is usually not engaged to express and does not issue a written communication that expresses a conclusion with respect to the reliability of a written assertion that is the responsibility of another party. When a CPA provides services with respect to a financial statement or a prospective financial statement as part of a PFP engagement, a CPA may be performing both an attest and a PFP service. Guidance for the CPA's services with respect to a written financial plan is discussed below.

6. WRITTEN PERSONAL FINANCIAL PLANS

.01 Written personal financial plans may include personal financial statements, supplementary schedules of personal financial information, and prospective financial information, such as projected income and cash flow. If a written plan includes personal financial statements, the CPA should comply with the requirements of either SSARS 1, *Compilation and Review of Financial Statements*, or SSARS 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*, depending on the nature of the engagement. If a written plan includes prospective financial information, the CPA should comply with the requirements of the AICPA's SSAEs and the *Guide for Prospective Financial Information* (the *Guide*). The determination of which of those documents applies depends, in part, on whether the financial information will be used only to develop the client's personal financial plan or whether third parties also will use the information.

7. PROSPECTIVE FINANCIAL INFORMATION

Guide for Prospective Financial Information

.01 The *Guide* provides information and guidance that is useful and relevant to providing PFP services. It serves as a basis for applying professional standards to engagements involving prospective financial information and provides guidelines for the preparation and presentation of financial forecasts and projections and for accountants' reports thereon. This section also derives guidance from Statement of Position (SOP) 90-1, *Accountants' Services on Prospective Financial Statements for Internal Use Only and Partial Presentations*, which provides guidance on reporting and preparation procedures.

.02 The *Guide* discusses three levels of service that can be performed for prospective financial information for general use, limited use, and internal use. The types of services are compilations, examinations, and applications of agreed-upon procedures. In PFP engagements, the client may be the only user of the prospective financial information, and it may be prepared for internal use. The *Guide* indicates that "Plain Paper" services (no report necessary) are appropriate for internal-use-only engagements. When a CPA includes a financial projection in a financial planning report or other written communication (for example, with a transmittal letter), a caveat that the prospective results may not be achieved and a statement that the financial projection is for internal use only should be communicated in writing.

Types of Prospective Financial Information

.03 Prospective financial information is extremely useful in formulating personal financial plans. When an accountant provides a financial plan to a client that includes prospective financial information, the accountant cannot report on the certainty of the outcome of the future events. To the extent that the CPA is associated with the prospective financial information, the report accompanying it must discuss the degree of association.

.04 Prospective financial statements are based on assumptions regarding future events; the assumptions are based on available information and judgment, which is based on history and plans. Financial information about the future may be presented as complete financial statements or limited to one or more elements or items.

.05 Forecasts. A financial forecast is rarely used in a PFP engagement. For information about forecasts see the *Guide*.

.06 Projections. A financial projection is a prospective financial statement that presents, to the best of the responsible party's knowledge and belief and given one or more hypothetical assumptions, an entity's expected financial position, results of operation, and changes in financial position. It is sometimes prepared to present one or more hypothetical courses of action for evaluation, as in response to "What would happen if. . .?" A projection, like a forecast, may contain a wide range of assumptions.

.07 Projections can be based on many assumptions. A forecast, however, should be based on the assumptions and rationale that are most likely to be valid. Minimum presentation guidelines are presented in paragraph 8.06 of the *Guide*. See exhibit 5-10 for the minimum presentation requirements.

.08 Partial Presentations. An accountant may be engaged to perform services on partial presentations. SOP 90-1, part 2, describes how the guidance in the *Guide* applies to partial presentations and discusses the accountant's responsibility for partial presentations when he or she is engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written partial presentation. A partial presentation excludes one or more of the items required for prospective statements as described in paragraph 8.06 of the *Guide*. A projection of expected retirement expenses is an example of a partial presentation. (See exhibit 5-10 for the minimum presentation requirements of prospective financial statements.)

.09 Partial presentations are not ordinarily appropriate for general use. Accordingly, a partial presentation should not be distributed to third parties who will not be negotiating directly with the client. Negotiating directly is defined as the third-party user's ability to ask questions of and negotiate the terms or structure of the transaction directly with the client. Partial presentations are appropriate for personal financial plans because PFP engagements are generally limited-use situations.

.10 The following should be considered in performing services on partial presentations:

- *Key Factors*. The key factors affecting elements, accounts, or items of prospective financial statements that are interrelated with those presented should be considered.
- *Titles*. The title used for the partial presentation should describe the limited nature of the presentation and not state that it is a "financial forecast" or a "financial projection." Examples of appropriate titles are "projected college costs for each child based on current college cost" or "projected life insurance needs assuming your spouse will never work and all funds will be exhausted when your spouse reaches age 85."
- *Materiality*. The concept of materiality should be related to the partial presentation taken as a whole.
- *Assumptions*. Assumptions deemed to be significant to the partial presentation of prospective financial information should be disclosed.
- *Introduction to Summary of Assumptions*. The introduction preceding the summary of assumptions for a partial presentation should include a description of the purpose of the presentation and any limitations on the usefulness of the presentation.

.11 Accountant's Involvement With Partial Presentations. An accountant may be engaged to prepare a financial analysis of a potential investment transaction where the engagement includes obtaining the information, making appropriate assumptions, and assembling the presentation. In such circumstances, the analysis would not be appropriate for general use and should not be characterized as forecasted or projected information. This analysis may be deemed as a partial presentation only if the client adopts the assumptions.

.12 Types of Prospective Financial Statements Prepared. Educational funding and retirement planning computations are two types of prospective financial statements prepared for many PFP clients. When discussing retirement planning with a client, most CPAs would prepare a projection because many different hypothetical assumptions might be considered. A hypothetical assumption is defined as an assumption used in a financial projection to present a condition or course of action that is not necessarily expected to occur but is consistent with the purpose of the projection. When developing an education-funding computation, the assumptions would be based on those situations that are most likely to occur, and a financial forecast may be prepared.

Services Performed on Prospective Financial Statements

.13 Compilation. Paragraph 12.01 of the *Guide* describes a compilation as a professional service that involves:

- Assembling, to the extent necessary, the financial forecast (or projection) based on the responsible party's assumptions.
- Performing the required compilation procedures, including reading the forecast (or projection) with the summaries of significant assumptions and accounting policies and considering whether they appear to be in conformity with the AICPA guidelines and are not obviously inappropriate.
- Issuing a compilation report.

A compilation is not intended to provide assurance on the statements or the underlying assumptions. The compilation involves considering the appropriateness of the statements and its conformity with the AICPA guidelines. The procedures in a compilation include making inquiries and performing certain procedures to determine the consistency of the assumptions, the preparation and presentation of the statement, and the adequacy of the disclosure, without seeking to verify supporting documents. Paragraphs 12.10 to 14.18 in the *Guide* provide guidance on engagements to compile a prospective financial statement.

.14 Examinations. Chapter 15 of the *Guide* describes examinations. Examinations of projections are rarely provided in a PFP engagement.

.15 Agreed-Upon Procedures. Paragraph 19.01 of the *Guide* describes an engagement to apply agreed-upon procedures to a financial forecast or a projection as a professional service as an engagement in which:

- The specified users participate in establishing the nature and scope of the engagement and take responsibility for the adequacy of the procedures to be performed by the CPA.
- The report indicates it is limited in use and intended solely for the specified users, enumerates the procedures performed, states the accountant's findings, and refers to conformity with the arrangements made with the specified users.

A prospective financial statement to which agreed-upon procedures are performed must include a summary of significant assumptions. Chapter 19 in the *Guide* describes the application of agreed-upon procedures to financial forecasts and projections.

.16 Other Services. When the prospective financial statement is not reasonably expected to be used by third parties and the accountant is not engaged to compile, examine, or apply agreed-upon procedures, the accountant may provide consulting or assembly services for internal use only without reporting on the statements. SOP 90-1 provides optional and flexible guidance in such circumstances.

Guidelines for Preparing Prospective Financial Information

.17 When a CPA prepares a financial analysis of a potential investment transaction by obtaining the information, making appropriate assumptions, and assembling the presentation, this analysis may be deemed a partial presentation that is appropriate for limited use if the client reviews and adopts the assumptions and presentation.

.18 On many occasions, the CPA prepares every aspect of a projection, including development of the assumptions. In such circumstances, the CPA assumes many of the client's responsibilities and the analysis should not be characterized as forecasted or projected information. Accordingly the CPA should consider guidance for preparation of projections as well as for presentation and reporting on such statements. Chapter 6 of the *Guide* provides guidance for preparing prospective financial statements. Highlights of the guidance include the following:

- Prospective financial information should be prepared in good faith.
- Prospective financial information should be prepared with appropriate care by qualified personnel.
- Prospective financial information should be prepared using appropriate accounting principles.
- The process used to develop prospective financial information should provide for seeking out the best information that is reasonably available at the time.
- The information used in preparing prospective financial information should be consistent with the plans of the entity.
- Key factors should be identified as a basis for assumptions. Consider key factors affecting elements, accounts, or items of prospective financial statements that are interrelated with those presented. Key factors are those significant matters upon which the client's future results are expected to depend. These serve as the foundation for the projection.
- Assumptions used in preparing prospective financial information should be appropriate.
- The process used to develop prospective financial information should provide the means to determine the relative effect of variations in the major underlying assumptions.
- The process used to develop prospective financial information should provide adequate documentation of both the forecast (or projection) and the process used to develop it.
- The process used to develop prospective financial information should include, where appropriate, the regular comparison of the financial forecasts with attained results.
- The process used to develop prospective financial information should include adequate review and approval by the responsible party at the appropriate levels of authority.

For a discussion of each of these points, please refer to the *Guide*.

Guidelines for Presenting Prospective Financial Information

.19 Refer to Chapter 8 of the *Guide* for presentation guidelines relevant to the CPA who will report on prospective financial information. Brief highlights of the presentation guidelines are presented below.

.20 Responsibility. The responsibility for preparation in conformity with the *Guide for Prospective Financial Statements* rests with the client. The accountant may make suggestions as to the form or content of the prospective financial statements, or he or she may draft them for the client.

.21 Title. The title used for the prospective financial information should describe the nature of the presentation. For example, for a projection the title should describe or refer to any significant hypothetical assumptions.

.22 Date. The date of completion of the preparation of the prospective financial information should be disclosed. Paragraph 8.29 of the *Guide* illustrates such a disclosure.

.23 Accounting Principles and Policies. A summary of significant accounting policies used in preparing the prospective financial information should be disclosed. Ideally, prospective financial statements and historical financial statements should be available to users on the same basis of accounting.

.24 Materiality. Materiality applies to prospective financial statements. Materiality is judged in light of the expected range of reasonableness of the information. Users should not expect information about events that have not yet occurred to be as precise as historical information.

.25 Assumptions. The disclosure of significant assumptions is essential to the reader's understanding of the financial projection. Paragraph 8.23 of the *Guide* states that assumptions disclosed should include the following:

- Sensitive assumptions—assumptions about which there is a reasonable possibility of the occurrence of a variation that may significantly affect the prospective results.
- Assumptions about anticipated conditions that are expected to be significantly different from current conditions, which are not otherwise reasonably apparent.
- Other matters deemed important to the prospective information or its interpretation.
- Hypothetical assumptions and whether the hypothetical assumptions are improbable.

.26 Particularly Sensitive Assumptions. The presentation should specify those assumptions having a high probability of variation that would materially affect the financial forecast. The material effect may result from either an assumption with a relatively high probability of a sizable variation or one for which the probability of a sizable variation is not as high but for which a small variation would have a large impact.

.27 Period to Be Covered. The client should consider the information needs of the users and the ability to estimate prospective results in determining the period to be covered.

.28 Distinguishing From Historical Financial Statements. The financial projections should be clearly labeled to preclude a reader from confusing them with the historical financial statements. When prior period information (such as historical results and financial forecasts from prior periods) is presented alongside the financial projections to facilitate comparison, it should be clearly labeled and distinguished from the financial projections.

Internal Use Only

.29 CPAs may be engaged to perform services on prospective financial information that is restricted to internal use only for a variety of circumstances, such as giving advice and assistance to the client on the possible consequences of proposed future actions. The CPA may provide any number of services, including compilation, examination, and agreed-upon procedures. Part 1 of SOP 90-1 states that the CPA should consider the degree of consistency of interest between the responsible party and the user in deciding whether a potential use is "internal use." If the interests are substantially consistent (for example, both the responsible party and the user are employees of the entity about which the prospective financial statement is made), the use would be deemed internal use. Otherwise (where the responsible party is a nonowner and the user is an owner), the use would not be deemed internal use.

.30 If a financial projection is included in a written personal financial plan that is only for internal use, paragraph 9, part 1 of SOP 90-1 states that the communication should include a caveat that the prospective results may not be achieved and a statement that the financial forecast or projection is for internal use only.

.31 Report on Forecasts or Projections for Internal Use. If the CPA decides to issue a report and he or she purports to have compiled, examined, or applied agreed-upon procedures to a financial forecast or projections for internal use only in conformity with AICPA standards, the CPA should follow the reporting guidance in Chapter 14, 17, or 21, respectively, in the *Guide*. If the CPA decides to issue a report on other services performed with respect to a financial projection for internal use only, the report's form and content are flexible. However, the summary of significant assumptions should not be excluded from the projection. The report preferably would:

- Be addressed to the responsible party.
- Identify the statements being reported on.
- Describe the character of the work performed and the degree of responsibility taken with respect to the financial forecast or projection.
- Include a caveat that the prospective results may not be achieved.
- Indicate the restrictions as to the distribution of the financial projection and report.
- Be dated as of the date of the completion of his or her procedures.

.32 In addition to the elements listed above, the CPA's report on a financial projection for internal use only preferably would include a description of the limitations of the usefulness of the presentation. Where applicable, the CPA report would:

- Indicate if the CPA is not independent with respect to an entity on whose financial projection he or she is providing services. The CPA should refuse to provide any assurance on a prospective financial statement of an entity with respect to which he or she is not independent.

- Describe omitted disclosures that come to his or her attention or simply state that there are omissions of disclosures required under the guidelines for presentation of a financial projection. For example, when a financial projection is included in a personal financial plan, the description may be worded as follows: "This financial projection was prepared solely to help you develop your personal financial plan. Accordingly, it does not include all disclosures required by the guidelines established by the American Institute of Certified Public Accountants for a presentation of a financial projection."

.33 Illustrative Report. The following is an example of a report for a financial projection that has been assembled by the CPA for which distribution is limited to internal use.

> We have assembled projections concerning your projected statement of financial condition and the related projected statement of changes on net worth, projected federal tax calculations, and projected estate tax calculations, from information provided by you. (The projected statement of financial condition omits the summary of significant accounting policies.[1]) We have not compiled or examined the projections and express no assurance of any kind on them. Further, there usually will be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In accordance with the terms of our engagement, this report and the accompanying projections are restricted to internal use by you and your advisers who are developing your financial plan and may not be shown to third parties for any purpose.

8. REPORTING ON PERSONAL FINANCIAL STATEMENTS

Unaudited Personal Financial Statements

.01 CPAs engaged to compile or review financial statements included in a PFP engagement must comply with the SSARSs. If the CPA is engaged to compile or review information other than financial statements, the SSARSs do not apply. When a CPA is engaged to compile or review financial statements, the CPA should consider whether he or she should report in accordance with SSARS 1 or SSARS 6.

.02 Unaudited personal financial statements included in a financial plan are subject to either SSARS 1 or SSARS 6. SSARS 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*, provides the accountant an exemption from reporting in accordance with SSARS 1 when he or she submits a written personal financial plan containing unaudited personal financial statements to a client after he or she establishes with the client that the financial statements (1) will not be used for credit-granting purposes or for any other purposes other than developing goals and objectives, and (2) will be used exclusively to assist the client and his or her advisers to develop the goals and objectives. Interpretation of SSARS 6 (AICPA, *Professional Standards*, Vol. 2, AR secs.

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[1] This sentence should be included if applicable.

9600.01–.03) makes it clear that an accountant can submit a personal financial plan containing unaudited financial statements to a client, to be used by the client, or the client's advisers to implement the personal financial plan. (See exhibit 5-9 for the text of SSARS 6 and the interpretation.) Examples include use of the plan by:

- An insurance broker who will identify specific insurance products.
- An investment adviser who will provide specific recommendations about the investment portfolio.
- An attorney who will draft a will or trust documents.

.03 To comply with SSARS 6, a report should note that the accompanying financial statement may be incomplete or may contain departures from generally accepted accounting principles (GAAP). Although most personal financial statements in personal financial plans generally include SSARS 6 reports, some are subject to the requirements of SSARS 1, as amended.

.04 It is necessary to perform a SSARS 1 engagement when the financial statements will be used by a third party for credit purposes. The CPA may need to report under SSARS 1 if (1) the engagement does not meet the definitions of SSARS 6 or (2) the client engages the CPA to compile or review in accordance with SSARS 1.

.05 Because the purpose of including personal financial statements in personal financial plans is solely to assist in developing the client's personal financial plan, the statements frequently omit disclosures required by GAAP and contain departures from GAAP or from an established other comprehensive basis of accounting (OCBOA) other than GAAP. SSARS 6 provides an exemption from SSARS 1, as amended, for such financial statements. The benefit of using SSARS 6 is that departures from GAAP do not need to be disclosed in the accountant's report.

.06 Under OCBOA, a CPA may prepare a financial statement on a tax basis or a cash basis. For example, doctors and other professionals frequently use the cash basis of accounting. For more practical information on OCBOA, see Technical Information for Practitioners Series (TIPS) No. 1, *Other Comprehensive Bases of Accounting*.

.07 Compilation and Review. The CPA follows the guidance in SSARS 1 if he or she is engaged to compile or review financial statements of a nonpublic entity. It is necessary to compile or review the financial statements if they are going to be used by third parties or to be relied on to obtain credit. The CPA must consider the guidance in SOP 82-1 if he or she is engaged to compile or review a financial statement. When a CPA performs a compilation or review of a financial statement to be included in a personal financial plan that fails to include all the required disclosures, a provision for estimated income taxes, or other departures from GAAP, the CPA should modify the standard report to disclose these departures.

Issuing Draft Personal Financial Statements

.08 A CPA frequently issues draft financial statements during a PFP engagement for review by the client prior to final issuance of the plan. The Accounting and Review Services Committee issued an interpretation (AICPA, *Professional Standards*, Vol. 2, AR secs. 100.61–62) noting that a CPA should not submit draft financial statements without intending to submit those in a final form accompanied by an appropriate compilation or review report. The interpretation states that as long as the accountant intends to submit those financial statements in a final form and labels each page with words such as "Draft" or "Preliminary Draft," the accountant does not have to report in accordance with SSARSs with respect to those draft financial services.

Reporting When the Accountant Is Not Independent

.09 A CPA frequently is asked to compile or review personal financial statements when the CPA is not independent of the client. ET section 101 of the Code states that independence is considered impaired if a member or a member's firm had, for example, any of the following transactions, interests, or relationships:

- Had or was committed to acquire any direct or material indirect financial interest in the client's business
- Acted as a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the client or the client's business
- Had any loan to or from the client
- Acted in the capacity equivalent to that of the member of management or of an employee

.10 SSARS 1 states that if a CPA is not independent of the client, he or she is not precluded from issuing a report with respect to his or her compilation of financial statements for that client (AICPA, *Professional Standards*, Vol. 2, AR sec. 100.22). SSARS 1 further states that a CPA is precluded from issuing a report on his or her *review* of financial statements with respect to a client with respect to which he or she is not independent (AICPA, *Professional Standards*, Vol. 2, AR sec. 100.38). When issuing such a report on his or her compilation of financial statements the CPA should disclose the lack of independence. However, the reason for the lack of independence should not be described. When the CPA is not independent, the last paragraph of the compilation report should include the following sentence: "I am (we are) not independent with respect to [*client's name*]."

9. PREPARING PERSONAL FINANCIAL STATEMENTS

.01 In most PFP engagements, the analysis of the client's statement of financial condition is a key component in the development of the overall financial plan. The statement of financial condition provides information about the client's asset allocation, liquidity, leverage, and net worth.

The Personal Financial Statements Guide

.02 The *Personal Financial Statements Guide* provides information and guidance that is useful and relevant to providing PFP services. It serves as a basis for applying professional standards to engagements involving personal financial statements. The *Personal Financial Statements Guide* includes SOP 82-1. The Accounting Standards Executive Committee developed SOP 82-1 with the interests of the third-party users of the financial statements in mind. SOP 82-1 is generally used for the preparation of financial statements if the client is seeking credit or if the client intends for third parties to use the financial information. A brief discussion of the guidance in SOP 82-1 appears later in this section.

.03 When submitting and reporting on financial statements that will be used for PFP engagements in accordance with SSARS 6, CPAs may decide not to follow the guidance in SOP 82-1. Some of the guidance in *Personal Financial Statements Guide* and SOP 82-1 is helpful in PFP engagements even if personal financial statements are not issued to the client (for example, client acceptance procedures and the development of an understanding with the client). The presentation guidance, however, is often not economical for PFP engagements prepared in accordance with SSARS 6.

.04 The *Personal Financial Statements Guide* (paragraph 1.03, page 1) states that "some procedures are common to all personal financial statement engagements; for example:

- A decision is made whether to accept a prospective client.
- An understanding is reached with the client regarding the type of service to be rendered.
- Ordinarily information is gathered."

.05 Client Acceptance Procedures. The *Personal Financial Statements Guide* (paragraph 1.05, page 1) states that "[B]efore accepting an engagement involving personal financial statements, the accountant ordinarily would evaluate certain aspects of the potential client relationship." The factors to consider include:

- Facts that might bear on the integrity of the prospective client.
- His or her ability to serve the prospective client.
- Whether available accounting records or other data provide a sufficient basis for providing the services requested.

.06 The *Personal Financial Statements Guide* (paragraph 1.06, page 2) also notes that "the accountant may want to consult predecessor accountants or auditors, attorneys, bankers, and others having business relationships with the individuals regarding facts that might bear on the integrity of the prospective client."

.07 Understanding With the Client. Understanding with the client is described in many areas of professional literature. The *Personal Financial Statements Guide* (paragraph 1.11, page 3) states that, "Once the accountant has decided to accept an engagement involving personal financial statements, he should establish an understanding with the client, preferably in writing, regarding the services to be performed and the terms and objectives of the engagement." SSARS 1 (AICPA, *Professional Standards*, Vol. 2, AR sec. 100.08) adheres to those same thoughts and adds that the "understanding should include a description of the nature and limitation of the services to be performed and a description of the report the accountant expects to render."

.08 Level of Knowledge. The *Personal Financial Statements Guide* states that professional standards require the accountant to attain a certain level of knowledge of the client's financial activities. That knowledge relates to the individual's financial transactions, accounting methods, sources of information, and the form and content of the financial statements.

.09 Gathering Information. The *Personal Financial Statements Guide* suggests that it may be necessary to obtain information from outside sources such as bankers, financial consultants, and attorneys who may know about the client's financial affairs (paragraph 1.16, page 3). A list of possible sources of information is included in appendix B of the *Personal Financial Statements Guide*.

10. IDENTIFYING WHEN FINANCIAL DATA IS A FINANCIAL STATEMENT

.01 Both ET section 92.04 of the Code and SSARS 1 (AICPA, *Professional Standards*, Vol. 2, AR sec. 100.04) define the term *financial statements.* ET section 92.04 includes in its definition statements and related footnotes that purport to show financial position at a point in time or changes in financial position over time, and statements which use cash or other incomplete basis of accounting. AR section 100.04 broadly defines a financial statement as "a presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or changes therein for a period of time, in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles."

.02 An individual may not have accounting records and may provide a list of assets and liabilities to the accountant. If the accountant includes this information in the written financial plan, some believe the information is incidental financial data rather than a financial statement. ET section 92.04 indicates that "incidental financial data included in management advisory services reports to support recommendations to a client and tax return and supporting schedules do not constitute financial statements." When financial data is presented in the form of a financial statement, it is subject to the reporting requirements of the SSARSs.

.03 To determine whether the financial information included in the plan is a financial statement rather than incidental financial data, refer to Interpretation 15 of SSARS 1 (AR secs. 9100.54-57).

Personal Financial Statement Presentation

.04 SOP 82-1 deals with the preparation and presentation of personal financial statements. Such statements present assets and liabilities at their estimated current amounts at the date of the financial statements (SOP 82-1, paragraph 4). The form (SOP 82-1, paragraph 6) of the statements consists of:

- *A Statement of Financial Condition.* This is the basic financial statement.
- *A Statement of Changes in Net Worth.* This presents basic increases and decreases in net worth. It presents income, expenses, and changes in estimated current assets and liabilities. It is optional to present a Statement of Changes in Net Worth.
- *Comparative Financial Statements.* Financial statements for the current period and one or more prior periods may sometimes be desirable. This presentation is optional.

.05 Presentation Method. The method of presentation is as follows:

- The accrual basis is used, not the cash basis (SOP 82-1, paragraph 7).

- Assets and liabilities are presented in order of liquidity and maturity without classification between current and noncurrent (SOP 82-1, paragraph 8). A categorized statement that group assets are based on common factors such as liquid assets, investments, and personal assets is permitted.
- If property is jointly owned only the person's beneficial interests in the property as determined by the state property laws should be included in the statements (SOP 82-1, paragraph 9).
- The estimated current value of business interests that (1) constitute a large portion of a person's total assets and (2) are marketable as a going concern is shown separately from similar personal assets (SOP 82-1, paragraph 10). Summarized financial information about such an entity is presented in the footnotes (SOP 82-1, paragraph 31*f*).
- Limited business activities not conducted as a separate business are presented separately. As an example, for an investment in real estate the estimated value of the land is shown under assets, and a related mortgage is shown under liabilities.

Determining Estimated Current Values

.06 The guidelines for determining estimated current values of assets and liabilities are useful for preparing personal financial statements that will be used by third parties. Depending on the nature of the engagement, current value information may be necessary to support the recommendations included in the financial plan. For further discussion concerning the values and amounts at which the assets and liabilities are presented, see exhibit 5-8.

.07 Generally accepted accounting principles other than those discussed in SOP 82-1 apply to personal financial statements. For example, FASB Statement No. 5, *Accounting for Contingencies*, and FASB Statement No. 57, *Related Party Disclosures* provide guidance on accounting matters.

11. STATEMENTS ON RESPONSIBILITIES IN TAX PRACTICE

.01 The Statements on Responsibilities in Tax Practice (SRTPs) provide guidance when:

- Preparing federal income tax projections.
- Reviewing prior year tax returns and discovering an error.
- Preparing a tax return following a financial planning engagement.

Preparing Income Tax Projection Models and Developing a Tax Plan

.02 Statement on Responsibilities in Tax Practice No. 8, *Form and Content of Advice to Clients* (AICPA, *Professional Standards*, Vol. 2, TX sec. 182), should be considered by CPAs who include income and estate tax advice and projections in PFP engagements. Although no standard format for communicating written or oral advice to a client is provided, the statement explains that "in providing tax advice to a client, the CPA should use judgment to ensure that the advice given reflects professional competence and appropriately serves the client's needs" (AICPA, *Professional Standards*, Vol. 2, TX sec. 182.02).

.03 TX sec. 182.04 indicates that "the CPA may choose to communicate with a client when subsequent developments affect advice previously provided with respect to significant matters." The CPA is expected to initiate such communications (1) while helping a client implement procedures or plans associated with the advice provided or (2) when the CPA undertakes this obligation by specific agreement.

.04 TX sec. 182.06 further states "written communication are recommended in important, unusual, complicated transactions. In the judgment of the CPA, oral advice may be followed by written communication to the client."

.05 TX sec. 182.07 describes some factors to consider in deciding on the form of advice provided to a client. These include the following:

- Importance of the transaction and amounts involved
- Specific or general nature of the client's inquiry
- Time available for development and submission of the advice
- Technical complications presented
- Existence of authorities and precedents
- Tax sophistication of the client
- Need to seek legal advice

.06 TX sec. 182.08 states that "the CPA may assist a client in implementing procedures or plans associated with the advice offered. During this active participation, the CPA continues to advise and should review and revise such advice as warranted by new developments and factors affecting the transaction." TX sec. 182.09 observes that "[S]ometimes the CPA is requested to provide tax advice but does not assist in implementing the plans adopted." Because the purpose of the planning engagement is to get the client to do something and the client wants something to happen, the CPA may help the client with this.

.07 TX sec. 182.09 notes, however, that the CPA cannot be expected to communicate legislative or administrative changes or further judicial interpretations that affect advice previously provided "unless the CPA undertakes this obligation by specific agreement with the client." The communication of significant developments affecting previous advice is considered as "an additional service rather than an implied obligation in the normal CPA-client relationship."

.08 TX sec. 182.10 provides the guidance that "the client should be informed that advice reflects professional judgment based on an existing situation and that subsequent developments could affect previous professional advice." This explanation says that "CPAs should use precautionary language to the effect that their advice is based on facts as stated and authorities that are subject to change." CPAs preparing personal financial plans often include a precautionary statement that explains that the income and estate tax planning recommendations are based on information received from the client and tax laws and regulations that are subject to change. Such statements remind the client that tax advice in a financial plan may not be current and may need updating.

.09 Statement on Responsibilities in Tax Practice No. 1, *Tax Return Positions* (AICPA, *Professional Standards*, Vol. 2, TX secs. 112 and 9112), should be considered by CPAs who recommend income tax positions when developing projections in PFP engagements. CPAs have a duty to their clients as well as to the tax system. The major thrust of TX sec. 112.02 is that before a CPA recommends a tax return position, he or she must have "a good faith belief that the position has a realistic possibility of being sustained administratively or judicially on its merits if challenged." If there is no such good faith belief, a tax return position may be recommended only if there is disclosure of the position *and* the position is not frivolous. TX sec. 112.02 provides that CPAs should, "where relevant, advise the client as to the potential penalty consequences of the recommended tax return position." TX sec. 112.03 provides additional guidance that "the CPA should not recommend a tax position that exploits the Internal Revenue Service audit selection process." The CPA has both the right and the responsibility to be an advocate for the client with respect to the tax positions (AICPA, *Professional Standards*, Vol. 2, TX sec. 112.04).

Reviewing a Prior-Year Tax Return as Part of a PFP Engagement and Discovering an Error

.10 Statement on Responsibilities in Tax Practice No. 6, *Knowledge of Error: Return Preparation* (AICPA, *Professional Standards*, Vol. 2, TX sec. 162), should be considered by CPAs who become aware of an error in a client's previously filed tax return or of the client's failure to file a required tax return during PFP engagements. TX sec. 162.03 indicates that "the CPA should inform the client promptly upon becoming aware of an error in a previously filed return or upon becoming aware of a client's failure to file a required return. The CPA should recommend the measures to be taken. Such recommendation may be given orally." TX sec. 162.05 notes that "it is the client's responsibility to decide whether to correct the error." If the client will not correct the error, the CPA should consider withdrawing or "whether to continue a professional relationship with the client."

.11 TX sec. 162.08 observes that when the CPA becomes aware of an error during an engagement that does not involve tax return preparation, "the responsibility of the CPA is to advise the client of the existence of the error and to recommend that the error be discussed with the client's tax return preparer."

Preparing a Tax Return Following a Financial Planning Engagement

.12 Statement on Responsibilities in Tax Practice No. 3, *Certain Procedural Aspects of Preparing Returns* (AICPA, *Professional Standards*, Vol. 2, TX sec. 132), should be considered by CPAs who prepare a client's tax return following a PFP engagement. TX sec. 132.02 indicates that, "the CPA should not ignore the implications of information furnished and should make reasonable inquiries if the information furnished appears to be incorrect, incomplete, or inconsistent either on its face or on the basis of other facts known to the CPA." For example, the CPA should inquire about information obtained from cash flow modeling or data gathering about related business income that was used to prepare a cash flow projection but was not included in the tax return information.

EXHIBIT 5-1

AICPA PROFESSIONAL STANDARDS

Professional Standards. The following table lists the types of documents that are applicable to PFP and the degree of authoritativeness of each.

DOCUMENT	AUTHORITY
Statements on Auditing Standards	Binding
Statements on Standards for Accounting and Review Services	Binding
Statements on Standards for Attestation Engagements	Binding
Statements on Standards for Consulting Services	Binding
Statements of Position	See discussion
Audit and Accounting Guides	See discussion
Statements on Responsibilities in Personal Financial Planning Practice	See discussion
Statements on Responsibilities in Tax Practice	See discussion

Statements of Position. Statements of position of the Accounting Standards Division present the conclusions of at least a majority of the Accounting Standards Executive Committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting. Statements of position of the Auditing Standards Division are issued to revise or clarify certain recommendations in industry-oriented audit guides or areas to which they relate. Statements of position have the same authority as that of an audit and accounting guide.

AICPA Audit and Accounting Guides. Audit and accounting guides present recommendations of the AICPA Committee on the Application of Generally Accepted Auditing Standards to audits of financial statements and recommendations and descriptions of financial accounting and reporting principles and practices. The Accounting Standards Executive Committee and members of the Auditing Standards Board review guides before issuance to assure that they are consistent with existing standards and principles covered by rules 202 and 203 of the AICPA Code. AICPA members must be prepared to justify departures from guides.

Statements on Responsibilities in Personal Financial Planning Practice. These present the considered opinion of the PFP Executive Committee of what it considers to be good practice in PFP engagements. The statements are not intended to establish a separate code of conduct in personal financial planning and depend on the general acceptability of the opinions expressed. They are advisory and educational in nature and do not constitute enforceable technical standards.

Statements on Responsibilities in Tax Practice. These present the Tax Division's opinions of what it considers to be appropriate standards of responsibility in tax practice. The statements are not intended to establish a separate code of conduct in federal income tax practice and depend on the general acceptability of the opinions expressed. They are advisory and educational in nature and do not constitute enforceable technical standards.

EXHIBIT 5-2

STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE NO. 1

BASIC PERSONAL FINANCIAL PLANNING ENGAGEMENT FUNCTIONS AND RESPONSIBILITIES

Definition and Scope of Personal Financial Planning

1. Personal financial planning engagements are only those that involve developing strategies and making recommendations to assist a client in defining and achieving personal financial goals.

2. Personal financial planning engagements involve all of the following:

   a. Defining the engagement objectives
   b. Planning the specific procedures appropriate to the engagement
   c. Developing a basis for recommendations
   d. Communicating recommendations to the client
   e. Identifying the tasks for taking action on planning decisions

3. Personal financial planning engagements may also include—

   a. Assisting the client to take action on planning decisions.
   b. Monitoring the client's progress in achieving goals.
   c. Updating recommendations and helping the client revise planning decisions.

4. Personal financial planning does *not* include services that are limited to, for example—

   a. Compiling personal financial statements.
   b. Projecting future taxes.
   c. Tax compliance, including, but not limited to, preparation of tax returns.
   d. Tax advice or consultations.

5. Personal financial planning engagements may address all of a client's personal financial goals or may focus on a limited number of goals. When an engagement addresses a limited number of specific personal financial goals, the CPA should consider the client's overall financial circumstances in developing recommendations.

Guidance Applicable to Personal Financial Planning Engagements

6. The following is a summary of existing professional standards and published guidance applicable to personal financial planning engagements. Other standards and guidance may apply depending on the scope of the services provided.

7. The CPA should act in conformity with the AICPA *Code of Professional Conduct* in all matters related to a personal financial planning engagement. The following is a partial list of the rules of the AICPA *Code of Professional Conduct*:

   a. Rule 102, Integrity and Objectivity. A member shall maintain objectivity and integrity, be free of conflicts of interest, and not knowingly misrepresent facts or subordinate his or her judgement to others.
   b. Rule 201, General Standards. A member shall undertake only those professional services the member or the member's firm can reasonably expect to be completed with professional competence, shall exercise due professional care in the performance of professional services, shall adequately plan and supervise the performance of professional services, and shall obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations relating to any professional services performed.
   c. Rule 301, Confidential Client Information. A member in public practice shall not disclose any confidential client information without the specific consent of the client.
   d. Rule 302, Contingent Fees; Rule 503, Commissions and Referral Fees. A member in public practice shall follow these rules in making fee arrangements.

8. Personal financial planning often involves providing tax advice. The Tax Division of the AICPA has published guidance on tax advice in Statement on Responsibilities in Tax Practice (SRTP) No. 8, *Form and Content of Advice to Clients* (AICPA, *Professional Standards*, vol. 2, TX sec. 182). In addition to the Statements on Responsibilities in Personal Financial Planning Practice, CPAs should consider the guidance in SRTP No. 8 when personal financial planning activities involve tax advice. Other tax-related matters may also come to the CPA's attention in the course of providing personal financial planning services. Additional guidance on these matters may be found in other SRTPs.

9. When a personal financial planning engagement includes providing assistance in the preparation of personal financial statements or financial projections, the CPA should consider the applicable provisions of AICPA pronouncements, including—

   a. Statements on Standards for Accounting and Review Services (AICPA, *Professional Standards*, vol. 2, AR secs. 100-600).
   b. Statement on Standards for Attestation Engagements *Financial Forecasts and Projections* (AICPA, *Professional Standards*, vol. 1, AT sec. 200).
   c. *Guide for Prospective Financial Information.*
   d. *Personal Financial Statements Guide.*

10. CPAs providing business valuation services as part of a personal financial planning engagement should consider the Statement on Standards for Consulting Services (SSCS), *Consulting Services: Definitions and Standards* (AICPA, *Professional Standards*, vol. 2, CS sec. 100).

Responsibilities of CPAs in Personal Financial Planning Engagements

Defining the Engagement Objectives

11. The personal financial planning engagement includes defining the objectives of the engagement so that the CPA can determine the services needed. The CPA should—

    a. Obtain an understanding of the client's goals and resources in order to determine the appropriate scope of service that will meet the client's needs.
    b. Reach an understanding with the client concerning the engagement objectives. When the CPA identifies issues not originally considered by the client that may require special attention, those issues should be brought to the client's attention.
    c. Evaluate the appropriateness of the original engagement objectives as the engagement proceeds.

12. The CPA should obtain an understanding of matters such as the client's family situation, commitment to the planning process, current cash flow and assets available, personal preferences, and relationships with other professionals. This understanding can be obtained through knowledge gained during a long-term relationship with the client, inquiry, and information gathering.

13. The CPA should document his or her understanding of the scope and nature of the services to be provided. Such documentation could be in the form of an engagement letter or in the form of file memos that document oral understandings. This documentation may include a description of (a) engagement objectives; (b) the scope of services to be provided; (c) the roles and responsibilities of the CPA, the client, and other advisers in the personal financial planning process; (d) the fee arrangements; and (e) scope limitations and other constraints.

Planning the Specific Procedures Appropriate to the Engagement

14. The personal financial planning engagement should be adequately planned. The engagement's objectives form the basis for planning the engagement. The procedures should produce information that is useful in making planning recommendations. Procedures should be selected that are appropriate in the circumstances and reflect materiality and cost-benefit considerations. The CPA should document personal financial planning engagements in a manner that—

    a. Shows that a systematic approach to the engagement was taken.
    b. Shows that the analysis and other procedures performed provide an adequate basis for the recommendations made.

Developing a Basis for Recommendations

15. Personal financial planning engagements involve collecting, analyzing, and integrating sufficient relevant information to develop a basis for recommendations. Relevant information may include, but is not limited to, an understanding of the client's goals, existing financial situation, the available resources for achieving the goals, nonfinancial factors, and external factors. Relevant information may also include reasonable estimates, projections, and assumptions furnished by the client, provided by the client's advisers, or developed by the CPA.

16. In personal financial planning, some information deals with the future, which is uncertain. Planning may also involve a broad range of goals, which may change as events occur. Consequently, the CPA may develop recommendations based on several selected hypothetical events.

Communicating Recommendations

17. The CPA should communicate recommendations to the client in a manner that assists the client in evaluating strategies and implementing financial planning decisions. Such communications should ordinarily be in writing and include a summary of the client's goals and significant assumptions, a description of any limitations on the work performed, the recommendations made, and a statement that projected results may not be achieved.

18. The following is an illustration of a communication when recommendations are made only on selected goals and the CPA communicates the parameters of the limited engagement:

> We have considered ways to achieve your goal of providing for the education of your children. However, you have instructed us not to consider other planning areas that might have an impact on that goal. If we had done so, it is possible that different conclusions or recommendations might have resulted.

Identifying the Tasks for Taking Action on Planning Decisions

19. The CPA should assist clients to identify tasks that are essential in order to act on planning decisions. The CPA may also assist the client to set target dates for the completion of tasks and identify parties responsible for completing them.

Other Personal Financial Planning Services

20. Unless undertaken by specific agreement with the client, the CPA is not responsible for additional services. Such services include—

- Assisting the client to take action on planning decisions.
- Monitoring progress in achieving goals.
- Updating recommendations and revising planning decisions.

Assisting the Client to Take Action on Planning Decisions

21. The CPA should have an understanding with the client, preferably in writing, regarding the degree of responsibility he or she will assume for helping the client to act upon planning decisions.

Monitoring the Client's Progress in Achieving Goals

22. A CPA is not responsible for monitoring the client's progress in achieving goals unless the CPA undertakes this obligation by specific agreement with the client.

Updating Recommendations and Helping the Client Revise Planning Decisions

23. A CPA is not responsible for updating recommendations unless the CPA undertakes this obligation by specific agreement with the client. The agreement should identify the scope of the CPA's responsibility for updating the plan and proposing new actions.

EXHIBIT 5-3

STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE NO. 2

WORKING WITH OTHER ADVISERS

Introduction

1. This Statement is intended to provide guidance to the CPA who uses the work of other advisers in performing a personal financial planning engagement.

2. Personal financial planning engagements may require the CPA to interact with other advisers. Such interaction includes, but is not limited to, the following:

    a. The CPA may use advice provided by others in developing recommendations for a client. Some advice will suggest that action be taken, other advice will provide information.
    b. The CPA may refer a client to other advisers who assist the client in securing products or services that have been identified in the personal financial planning engagement.
    c. The CPA may refer a client to advisers who provide services in areas in which the CPA either does not practice, or chooses not to practice, in a specific engagement.

3. Circumstances in which the CPA may use the advice of other advisers or refer a client to other advisers include those in which there is a need for specialized expertise outside the scope of the CPA's practice and for services or products for which the CPA is not a licensed provider.

Working With Other Advisers in Personal Financial Planning Engagements

Guidance Applicable to Working With Other Advisers

4. The CPA should apply existing applicable professional standards and should consider the guidance included in other published Statements on Responsibilities in Personal Financial Planning Practice (SRPFPs).[1]

Engagement Scope Limitations

5. If the CPA does not provide a service needed to complete an engagement, he or she should restrict the scope of the engagement and recommend that the client engage another adviser who provides the needed service.

6. If the client declines to engage another adviser, the CPA and the client may still agree to proceed with the engagement.

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[1] Refer to paragraphs 6 through 10 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities*, for a discussion of applicable standards and guidance.

7. In such situations, the CPA should communicate to the client any limitation on the scope of the engagement, as well as the fact that this limitation could affect the conclusions and recommendations developed in the engagement. Such communication should ordinarily be in writing. The CPA should refer to SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities*, paragraphs 5 and 18, for further guidance when the engagement is limited in scope.

8. For example, in the CPA's judgment, a valuation of a client's business may be appropriate to complete a personal financial planning engagement; however, undertaking such a valuation may be beyond the CPA's expertise and the client may be unwilling to incur the additional cost of an outside appraiser. The CPA and the client may therefore agree that the CPA will complete the personal financial planning engagement and develop planning recommendations using the client's estimate of the value of the business.

9. The following is an illustration of an appropriate communication in the event that limitations are placed on the scope of information considered in the personal financial planning engagement:

> At your request, an independent valuation of your business has not been obtained. Such a valuation may have affected the conclusions reached in your financial plan.

Recommending Other Advisers

10. The CPA should become satisfied concerning the professional qualifications and reputation of another adviser before referring the client to that adviser. The CPA should consider information such as the following:

    a. The CPA's previous experience in working with the adviser
    b. The professional certification or license or other recognition of the competence of the adviser in his or her field
    c. The reputation and standing of the adviser in the views of the adviser's peers and others who have worked with the adviser
    d. The relationship, if any, of the adviser to the client

11. When recommending another adviser to a client, the CPA should communicate to the client the nature of the work to be performed by the other adviser and the extent to which the CPA will evaluate that work. Such communication should ordinarily be in writing.

12. The following is an illustration of a communication in the event that the CPA recommends that the client engage an attorney to take action on recommendations developed in the personal financial planning engagement.

> As we discussed, you should consult an attorney to prepare updated will provisions. We have provided you with the names of several attorneys whose professional credentials and reputations are familiar to us. The selection of an attorney is your decision. Our referral does not constitute an endorsement of these attorneys or of any advice they may render.

Using Advice Provided by Other Advisers

13. When the CPA uses the opinions of another adviser in completing the personal financial planning engagement, the CPA should understand and evaluate the adviser's opinions and the procedures used to develop them. If the CPA concurs with the other adviser's opinions, he or she need not communicate this concurrence to the client.

14. If the CPA uses the other adviser's opinions in the engagement without evaluating these opinions, he or she should communicate that fact to the client. Such communication should ordinarily be in writing.

15. The following are illustrations of communications for instances in which the CPA uses the advice or opinion of another adviser in a personal financial planning engagement.

    a. An appraisal provided by an outside appraiser is incorporated into a client's personal financial plan and the CPA has not evaluated the appraiser's opinion.

        > We have used the ABC Company's estimate of the value of your real estate in developing your financial plan. We have not evaluated their estimate and do not accept responsibility for it. If a different value were used, different recommendations may have resulted.

    b. An insurance agent has recommended that the client purchase a specific life insurance policy and the CPA, by agreement with the client, has not evaluated the agent's recommendation.

        > Bob Jones, CLU, has recommended that you purchase a specific life insurance policy. As agreed, we have not evaluated this recommendation and do not accept responsibility for it.

EXHIBIT 5-4

STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE NO. 3

IMPLEMENTATION ENGAGEMENT FUNCTIONS AND RESPONSIBILITIES

Definition and Scope of Implementation

1. Implementation engagements are those that involve assisting the client to take action on planning decisions developed during the personal financial planning engagement described in Statement on Responsibilities in Personal Financial Planning Practice (SRPFP) No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities*. Implementation includes activities such as selecting investment advisers, restructuring debt, creating estate documents, establishing cash reserves, preparing budgets, and selecting and acquiring specific investments and insurance products.

2. This Statement is intended to address only those situations in which the CPA is engaged by a client to assist in implementation activities. This Statement does not extend to those situations in which the CPA is functioning in a fiduciary or an agency relationship.[1]

3. The CPA may be engaged at one or more of the following levels to assist the client to take action on planning decisions:

   a. The CPA may refer the client to other advisers (see SRPFP No. 2, *Working With Other Advisers*).
   b. The CPA may coordinate and/or review the delivery of services and/or products by other advisers (see SRPFP No. 2, *Working With Other Advisers*).
   c. The CPA may participate in implementation by establishing selection criteria.
   d. The CPA may participate in implementation by participating in the selection of service providers and/or the selection and acquisition of products.[2]

4. Implementation is typically completed when products are acquired or services are rendered in accordance with the recommendations developed during the personal financial planning engagement.

Implementation Engagements

Guidance Applicable to Implementation Engagements

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[1] Agency and fiduciary relationships are defined by state law.

[2] CPAs advising clients on the selection or acquisition of products (such as investments or insurance policies) should determine whether they meet the qualifications and licensing requirements established by applicable federal and state laws.

5. The CPA may be engaged to assist the client to take action on planning decisions. When undertaking an implementation engagement, the CPA should apply existing professional standards and should consider the guidance included in other published SRPFPs.[3]

Planning the Engagement

6. Implementation engagements vary in complexity and scope, as well as in the level of assistance to be provided by the CPA. The CPA and the client should identify and agree on the level of the CPA's assistance in implementation. Regardless of the level of assistance, implementation decisions are made by the client, not by the CPA.

7. The CPA should document his or her understanding of the nature and scope of the implementation services to be provided and the roles and responsibilities of the CPA, the client, and other advisers. The CPA should refer to SRPFP No. 1, paragraphs 13 and 14, for documentation guidance.

Communicating With the Client

8. The CPA should communicate information and recommendations to the client in a manner that assists the client in understanding the nature and scope of services performed by the CPA in an implementation engagement. Such communication ordinarily should be in writing and include a summary of the planning decisions being implemented, recommended actions to be taken, and a description of limitations on the work performed in the engagement and the results of the engagement.

9. The following is an illustration of a communication in the event that a client instructs the CPA not to consider certain investment options (for example, limited partnerships) in developing implementation recommendations for funding a retirement plan.

> We have evaluated investment alternatives available to fund your retirement plan. However, you have instructed us not to consider limited partnerships as an investment alternative. If we had done so, it is possible that we would have recommended a different investment strategy.

Establishing Selection Criteria

10. The CPA who is engaged to establish selection criteria should identify those attributes or other specifications that are required to accomplish the client's objectives, subject to any constraints that result from the client's circumstances. Selection criteria may be expressed in ranges if the CPA and the client agree that such practice is useful. Since it is not always possible to secure products or services that exactly match the established selection criteria, the CPA should assist the client in prioritizing attributes so that available alternatives can be compared.

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[3] Refer to paragraphs 6 through 10 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities*, for a discussion of applicable standards and guidance.

Participating in the Selection Process

11. When the CPA is engaged to participate in selecting and acquiring products, the CPA should gather data that provides a reasonable basis for determining whether the alternatives meet the selection criteria. Upon analyzing this information, the CPA may communicate to the client his or her evaluation of all alternatives that the CPA recommends for action.

Implementing Planning Decisions Developed by Others

12. The CPA may be engaged to assist the client in taking action on planning decisions developed in a personal financial planning engagement in which the CPA did not participate. For example, the planning decisions may have been developed by another adviser or by the client acting alone. The CPA might also be asked to assist the client in developing more specific selection criteria or exploring issues related to each planning decision, other than those established in the personal financial planning engagement.

13. In situations such as these, the CPA should obtain a sufficient understanding of the planning decisions to effectively assist in implementation. To obtain such an understanding, the CPA should consider factors such as the client's goals, existing financial situation, the available resources for achieving the goals, nonfinancial factors, and external factors. Relevant information may also include estimates, projections, and assumptions.

Illustrations

14. Appendixes A and B contain illustrations of possible procedures to be followed by the CPA who is engaged by a client to assist in implementing a personal financial planning decision. In each example, the initial personal financial planning engagement is presumed to have been completed before implementation, either by the CPA in the illustration or another adviser.

APPENDIX A *(SRPFP No. 3)*

Illustration: Implementation Involving Risk Management

Background

1. The CPA is engaged to assist a client to take action on a planning decision that disability insurance be purchased. The CPA has the expertise to advise the client regarding the selection of disability insurance.

Communication

2. To assist the client in understanding the implementation decision making process, the CPA should review with the client the disability coverage identified in the personal financial planning engagement, including options such as loss of earnings coverage, definition of occupation, coverage amounts, and exclusion periods.

Strategy Development and Product Selection

Planning the Engagement

3. The CPA and the client should agree on whether the CPA, the client, or another adviser is responsible for identifying available insurance products and carriers and clearly define who is responsible for reviewing the proposals provided by the solicited insurance carriers. A schedule of required actions should be developed that includes how and when the actions will take place.

    a. When selecting insurance professionals, reference should be made to SRPFP No. 2, *Working With Other Advisers*.
    b. The rest of this illustration assumes that the CPA is responsible for identifying the appropriate insurance products and carriers and reviewing the proposals provided.

Establishing Selection Criteria

4. The CPA should identify the characteristics of disability insurance products that meet the criteria identified in the personal financial planning engagement. These characteristics generally include the following:

    a. Appropriate protection levels, considering factors such as the amount of coverage needed, how disability is defined, the waiting period to receive benefits, partial disability coverage, and duration of benefits
    b. Optional coverage conditions, such as cost-of-living adjustments, guaranteed insurability riders, and waiver of premium riders
    c. Minimum quality standards for disability coverage, generally based on the insurer's financial stability

Participating in the Selection Process

5. The CPA should identify and solicit proposals from insurance carriers whose disability products meet the established criteria.

6. When selecting a specific disability insurance product, the CPA should review and discuss with the client the financial stability of the company providing coverage and determine that the policy meets the following criteria:

   a. The client's goals, as identified in the personal financial planning engagement, are satisfied.
   b. The policy is cost effective when compared to other insurance company proposals received.
   c. The insurance carrier has demonstrated a commitment to servicing the disability market.

Documentation

7. The CPA should document meetings, discussions, or other contacts with the client and indicate the decisions regarding responsibilities for actions and product selections and the results of reviewing proposals from various insurance carriers. The CPA may supplement such documentation by indicating when the application was filled out, insurance coverage bound, and the policy issued. The CPA may also document any insurability issues and the ultimate resolution of those issues.

APPENDIX B *(SRPFP No. 3)*

Illustration: Implementation Involving Investment Planning

Background

1. The CPA is engaged to assist a client in structuring an investment portfolio to take action on a planning decision that funds be invested to provide for the client's postretirement needs. The CPA has the expertise to advise the client regarding investment planning.

Communication

2. To assist the client in understanding the implementation decision making process, the CPA should review with the client financial strategies, investment constraints, asset allocations, and rate of return goals identified in the personal financial plan or the investment policy statement.

Strategy Development and Product Selection

Planning the Engagement

3. The CPA and the client should agree on whether the CPA, the client, or another adviser is responsible for identifying available investment alternatives and clearly define who is responsible for reviewing prospectuses, partnership agreements, offering documents, and other such reports. A schedule of required actions, including how, when, and where these actions will take place, should be developed.

   a. Other advisers may include money managers (private and public, such as mutual fund managers), general partners of partnerships, investment bankers, and stockbrokers. When selecting other advisers, reference should be made to SRPFP No. 2, *Working With Other Advisers*.

   b. The rest of this illustration assumes that the CPA is responsible for identifying the appropriate investment alternatives and reviewing the related documents.

Establishing Selection Criteria

4. The CPA should develop the appropriate investment strategy based on the specific investment criteria, rate of return requirements, and risk tolerance of the client, as identified in the personal financial planning engagement. This generally includes the following:

   a. Developing an appropriate investment class allocation, including the amount of investment resources to be invested in financial assets, such as cash equivalents, stocks, or bonds, and the amount of investment resources to be invested in nonfinancial assets, such as real estate or oil and gas interests.
   b. Developing an appropriate allocation within each investment class.

Participating in the Selection Process

5. When selecting specific investment assets, the CPA should review and discuss with the client the available investment alternatives and identify those investments that meet the following criteria:

   a. The client's goals, as identified in the personal financial planning engagement, are satisfied.
   b. The client's investment constraints, such as risk tolerance, capacity to assume financial risk, cash flow and asset availability, and personal preferences, as identified in the personal financial planning engagement, are honored.
   c. The diversification plans established in the client's investment strategy are achieved.

Documentation

6. The CPA should document meetings, discussions, or other contacts with the client and indicate the decisions regarding responsibilities for actions and product selections. The CPA may supplement such documentation by providing the client with an inventory of investment assets in the client's portfolio along with a description of values, yields, portfolio percentages, and so forth.

EXHIBIT 5-5

STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE NO. 4

MONITORING AND UPDATING ENGAGEMENTS — FUNCTIONS AND RESPONSIBILITIES

Definition and Scope of Monitoring and Updating

1. This Statement is intended to address only those situations in which the certified public accountant (CPA) is specifically engaged by a client to provide monitoring services, updating services, or both.[1]

2. Monitoring engagements are those that involve determining the client's progress in achieving established personal financial planning goals.

3. Updating engagements are those that involve revising the client's existing financial plan and financial planning recommendations, as appropriate, in light of the client's goals, current circumstances, and current external factors.

4. Monitoring and updating activities are typically undertaken after implementation of actions and recommendations developed during a personal financial planning engagement (See Statement on Responsibilities in Personal Financial Planning Practice [SRPFP] No. 3, *Implementation Engagement Functions and Responsibilities*). Monitoring and updating services may be either separate or combined engagements.

5. Updating generally occurs as a result of a monitoring engagement, but may also occur as a result of changed goals or circumstances or a lapse of time, independent of a monitoring engagement.

Guidance Applicable to Monitoring and Updating Engagements

6. The CPA should apply existing applicable professional standards and should consider the guidance included in other published SRPFPs.[2]

7. The CPA should document his or her understanding of the nature and extent of the monitoring and/or updating services to be provided and the roles and responsibilities of the CPA, the client, and other advisers. The CPA should refer to paragraphs 13 and 14 of SRPFP No. 1 for documentation guidance.

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[1] Although the CPA would typically have informed the client during a personal financial planning engagement in which planning recommendations are developed that monitoring and updating are important elements of the financial planning process, the CPA is not responsible for undertaking these services except by specific agreement with the client.

[2] Refer to paragraphs 6 through 10 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities*, for a discussion of applicable standards and guidance.

Monitoring Engagements

8. Monitoring engagements vary in complexity and scope, as well as in the nature and extent of assistance to be provided by the CPA. For example, the CPA may—

   a. Undertake some, or all, of the monitoring services.
   b. Coordinate and/or review monitoring services performed by other advisers (see SRPFP No. 2, *Working With Other Advisers*).
   c. Monitor the progress toward goals in a financial plan developed by other advisers (see SRPFP No. 2).

   The CPA and client should agree on the nature and extent of the CPA's services in a monitoring engagement.

9. In determining the client's progress toward achieving established financial planning goals, the CPA should—

   a. Ascertain whether all recommended actions to achieve the goals were undertaken.
   b. Measure and evaluate the actual progress toward achievement of the goals.
   c. Identify developments in the client's circumstances and in external factors that affect the financial plan.

10. The CPA and client should agree on how frequently the progress toward the client's financial planning goals should be monitored. The CPA should use monitoring criteria that are appropriate and consistent with the criteria used to establish the financial planning goals being monitored.

11. The CPA should focus on criteria and other factors that are important to the ultimate attainment of the financial planning goals being monitored. For example, realizing a targeted investment rate of return may be important for the ultimate achievement of the client's retirement planning goals; however, at a particular time, monitoring the client's level of spending may be more important.

12. The CPA should communicate to the client the CPA's evaluation of progress toward achieving the client's financial planning goals. Such communication should ordinarily be in writing.

13. As a result of a monitoring engagement, the CPA may identify differences from the expected progress toward the client's financial planning goals or other circumstances that might warrant a review or update of the existing financial plan. In this case, the CPA should evaluate whether the differences or circumstances necessitate an update of the client's existing financial plan and financial planning recommendations and advise the client accordingly.

14. The following is an illustration of a communication in the event that the CPA, during the course of a monitoring engagement, has determined that the progress in achieving the client's financial planning goals differs from the expected progress.

    > Your children's college education funds have not earned the targeted rate of return assumed in your existing financial plan. If this trend continues, you will not have saved enough to

> meet anticipated costs. We, therefore, recommend that your education savings plan be updated.

15. The following is an illustration of a communication in the event that the CPA, during the course of a monitoring engagement, has identified changes in the client's circumstances that warrant an update of the client's financial plan.

> During the course of our monitoring engagement, we learned that you have inherited a large interest in a closely held business. This change in your business circumstances may impact several of the recommendations contained in your financial plan. Accordingly, we recommend that your financial plan now be updated.

Updating Engagements

16. Updating engagements vary in complexity and scope, as well as in the nature and extent of assistance to be provided by the CPA. The CPA should communicate to the client the fact that updating a personal financial plan affects all aspects of the plan and that all existing financial planning recommendations should be reviewed as part of the updating process. The CPA and client should agree on the nature and extent of the CPA's services in updating financial planning recommendations.

17. An updating engagement generally involves the same functions and responsibilities outlined in SRPFP No. 1 and expanded upon in other SRPFPs. Accordingly, the CPA should refer to other SRPFPs, as appropriate, when engaged to update a client's PFP recommendations. For example, SRPFP No. 5 and paragraphs 15 and 16 of SRPFP No. 1 provide guidance on developing a basis for recommendations; the CPA should, therefore, determine whether all criteria and assumptions used as a basis for existing financial planning recommendations are still valid before developing revised recommendations.

18. In updating a personal financial plan and financial planning recommendations, the CPA should consider the integrated nature of financial planning and the effect of revising recommendations to achieve one financial planning goal on the client's ability to achieve all other financial planning goals. For example, if, as part of updating a client's financial plan, the CPA revises the amount to be saved each month to fund retirement goals, the CPA should consider the effect of this recommendation on the client's ability to fund other goals, such as children's education, and on the client's cash flow.

19. The CPA should communicate to the client any revisions to financial planning recommendations that arise as a result of the engagement. Such communication should ordinarily be in writing.

20. The following is an illustration of a communication in the event that the client has engaged the CPA to update the client's estate plan, but not to revise recommendations on other financial planning issues.

> Updating any portion of your personal financial plan may affect other aspects of the plan. All of your financial planning recommendations should be reviewed periodically as part of the updating process. You have asked us to update only those financial planning recommendations for achieving your estate planning goals. Had we addressed all aspects of your financial plan, different recommendations may have resulted.

EXHIBIT 5-6

STATEMENT ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE NO. 5

DEVELOPING A BASIS FOR RECOMMENDATIONS

Definition and Scope

1. This Statement is intended to provide guidance to the certified public accountant (CPA) engaged by a client to develop personal financial planning recommendations.

2. Financial planning recommendations are suggested actions developed to assist the client in achieving financial goals.

3. Recommendations are based on analyses and other procedures that are conducted prior to and in preparation for developing suggested actions. The CPA's knowledge and experience also contribute to the basis for recommendations.

4. Developing a basis for the recommendations involves the following:

   a. Collecting relevant quantitative and qualitative information, which may include but is not limited to—
      1. The client's goals, existing financial situation, and available resources
      2. Nonfinancial factors such as client attitudes, risk tolerance, family considerations, age, health, and life expectancy
      3. External factors such as estimates of inflation, taxes, economic conditions, legislative activity, investment markets, and interest rates
      4. Reasonable estimates, projections, and assumptions furnished by the client, provided by the client's advisers, or developed by the CPA

   b. Analyzing the client's current situation as it relates to the client's goals and objectives and identifying strengths and weaknesses of the existing financial situation

   c. Formulating, evaluating, and recommending appropriate strategies and courses of action for achieving the client's goals

Guidance Applicable to Developing a Basis for Recommendations

5. The CPA should apply existing applicable professional standards and should consider the guidance included in other published Statements on Responsibilities in Personal Financial Planning Practice (SRPFPs).[1]

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[1] Refer to paragraphs 6 through 10 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities*, for a discussion of applicable standards and guidance.

6. The CPA should document the nature and extent of the procedures performed in developing financial planning recommendations.[2] The CPA should refer to paragraphs 13 and 14 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities*, for documentation guidance.

Collecting Information

7. Since personal financial planning recommendations are developed to address specified goals, the CPA should obtain an understanding of the client's measurable goals.

8. The CPA should obtain sufficient relevant information to form a basis for recommendations to assist the client in achieving his or her financial goals. The nature and amount of information will depend on the scope and complexity of the engagement and the professional judgment of the CPA.

9. If the CPA is unable to collect sufficient relevant information to form a basis for recommendations, he or she may restrict the scope of the engagement to those matters for which sufficient information is available. The CPA should communicate to the client any limitation on the scope of the engagement, as well as the fact that this limitation could affect the conclusions and recommendations developed.

10. If there is not sufficient information to proceed, the CPA should consider terminating the engagement. The CPA should communicate notice of such termination to the client.

11. Communications involving limitations on the scope or terminations of engagements should ordinarily be in writing. The CPA should refer to SRPFP No. 1, paragraphs 5 and 18, for further guidance when engagements are limited in scope.

Analyzing Information

12. The nature and extent of analyses and other procedures performed in developing a basis for recommendations are affected by the scope and objectives of the engagement. However, even when an engagement addresses a limited number of specific personal financial goals, the CPA should consider the client's overall financial circumstances in developing recommendations. For example, in considering ways to achieve the goal of providing for the education of the client's children, other planning areas, such as providing for the client's retirement, may have an impact on that goal.

13. The CPA should evaluate the reasonableness of estimates and assumptions that are significant to the plan.

    a. The CPA should consider the appropriateness of the assumptions used.[3] For example, the use of a current rate of return on investments to calculate the amount of capital needed to fund a short-term goal is appropriate if the recommendation is to fund the goal with short-term investments.

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[2] If the CPA will be developing investment recommendations, he or she may need to obtain information on becoming a Registered Investment Adviser and may want to refer to the AICPA's *Guide to Registering as an Investment Adviser.*

[3] Regarding the use of appropriate assumptions, the CPA should consider the guidance provided in paragraphs 6.30 to 6.36 of the Audit and Accounting Guide *Guide for Prospective Financial Information* (see the Appendix of this SRPFP).

b. The CPA should use assumptions that are consistent with each other. For example, an assumed low rate of inflation would be consistent with an assumed low rate of return for future investments in fixed-income securities.
c. When performing analyses based on estimates, assumptions, and projections, the CPA should consider their sensitivity in relation to the overall plan.[4] For example, in a long-range retirement funding projection, a slight change in the assumed rate of return on investments may have a significant impact on the projected result.
d. If, during the course of the engagement, the CPA determines that significant estimates, projections, or assumptions are no longer valid, the CPA should evaluate the appropriateness of the original engagement objectives. The CPA should also revise the collection of relevant information and the analysis of that information, as appropriate. The CPA should refer to "Defining the Engagement Objectives" (paragraphs 11 through 13) in SRPFP No. 1.

14. The CPA should communicate to the client the assumptions and estimates that are significant to the plan and should identify those that have a high probability of variation that could materially affect the plan. Such communication should ordinarily be in writing and include a statement that projected results may not be achieved.

15. The CPA should integrate analyses in one financial planning area with analyses in other financial planning areas for which the CPA has been engaged. For example, analysis for college funding may affect or be affected by analysis in risk management, retirement funding, cash management, investment strategies, and income, estate, and gift taxation.

16. If the CPA determines that the client's goals cannot reasonably be achieved, the CPA should communicate to the client the need to reconsider the originally stated goals.

Formulating Strategies and Recommendations

17. Recommendations are derived, in part, from analyses of relevant information and should be consistent with the client's goals.

18. The client may impose a constraint on the engagement that affects the CPA's recommendations. For example, the client may stipulate that he or she will not purchase health insurance. This stipulation may affect the personal financial planning recommendations developed.

19. In situations of a client-imposed constraint, the CPA should communicate to the client the fact that this constraint could affect the conclusions and recommendations developed. Communications involving client-imposed constraints on engagements should ordinarily be in writing. The CPA should refer to SRPFP No. 1, paragraphs 5 and 18, for further guidance when the engagement is limited in scope.

20. The CPA should integrate recommendations developed to achieve one financial planning goal with the recommendations regarding other goals. For example, recommendations for college funding may affect

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[4] Regarding the sensitivity of appropriate assumptions, the CPA should consider the guidance provided in paragraphs 6.37 to 6.38 of the Audit and Accounting Guide *Guide for Prospective Financial Information* (see the Appendix of this SRPFP).

or be affected by recommendations in risk management, retirement funding, cash management, investment strategies, and income, estate, and gift taxation.

APPENDIX ***(SRPFP No. 5)***

Excerpt From *Guide for Prospective Financial Information*

The Appendix is an excerpt from chapters 1 and 6 of the AICPA Audit and Accounting Guide *Guide for Prospective Financial Information.*

Chapter 1 — Introduction

Structure of the Guide

1.07 The guidance on forecasted financial information contained in chapters 6 through 23 generally also applies to projected financial information. Certain paragraphs in those chapters, however, do not apply — partially or fully — to projections. In those instances, readers interested in financial projections should refer to the corresponding *italicized* paragraphs (which bear the same paragraph numbers followed by the letter P) and consider the modifications discussed in those paragraphs in conjunction with the paragraphs that precede them.

Chapter 6 — Preparation Guidelines

Assumptions used in preparing financial forecasts should be appropriate.

6.30 Assumptions are the essence of developing financial forecasts and are the single most important determinant of such statements. The quality of the underlying assumptions largely determines the quality of financial forecasts.

6.31 The attention devoted to the appropriateness of a particular assumption should be commensurate with the likely relative impact of that assumption on the prospective results. Assumptions with greater impact should receive more attention than those with less impact.

6.32 The assumptions should be reasonable and suitably supported. The level of support should be persuasive, although there are times when a number of assumptions within a narrow range of possibilities may appear equally likely.

6.32P Hypothetical assumptions need not be reasonable but should be appropriate in light of the purpose for which the financial projection is prepared. All other assumptions should be reasonable, given the hypothetical assumptions, and be consistent with the hypothetical assumptions and with each other. That is, the other assumptions should be developed to depict conditions based on the hypothetical assumptions. For example, if the financial projection is prepared to show the effect of the construction of a new production facility that is partially financed, the presentation should include the effect of the related debt service. Furthermore, hypothetical assumptions need not be supported, as they relate to the special purpose of the presentation. The other assumptions, however, should be suitably supported, given the hypothetical assumptions.

6.33 The nature of a business enterprise is such that many underlying assumptions are interrelated, and certain of their elements may have multiple effects. For example, a slowdown in economic activity typically will not only cause a slowdown in sales volume, but may also affect sales prices and the availability and cost of resources. The conditions assumed in arriving at the prospective sales or revenue data should be consistent with those assumed in developing the prospective financial data for the cost of operations. Care should be exercised to ensure that appropriate costs and revenues have been considered, that sufficient capacity and resources would be available to produce the forecasted revenues, that capital expenditures have been recognized as appropriate, that provision has been made for applicable taxes, and that the need for financing has been considered.

6.34 Support for assumptions might include market surveys; general economic indicators; trends and patterns developed from the entity's operating history, such as historical sales trends; and internal data and analyses, such as obligations under union contracts for labor rates.

6.35 In analyzing alternative assumptions, care should be exercised to assess the situation objectively. Relating assumptions to past or present conditions often is a useful approach for checking reasonableness or appropriateness; however, trends are not necessarily reliable indicators of the future. Particular attention should be given to the possibility of changes in conditions, which must rest mainly on theory and on an understanding of the basic causal factors.

6.36 It is ordinarily not feasible to exhaustively document and support all the assumptions underlying financial forecasts. It is nevertheless necessary to seek out and to identify explicitly the information that forms a basis for the most significant assumptions; although, frequently, the most basic assumptions with enormous potential impact, such as those relating to war or peace conditions, are not addressed explicitly. Despite precautions, hindsight will often reveal assumptions that have been overlooked or that, in light of later circumstances, received inadequate treatment. Furthermore, the nature of developing financial forecasts is such that some assumptions may not materialize, and unanticipated events and circumstances may occur no matter what effort, analysis, or support may be applied.

The process used to develop financial forecasts should provide the means to determine the relative effect of variations in the major underlying assumptions.

6.37 Prospective financial results are relatively more sensitive to certain assumptions and less sensitive to others. Small changes in certain assumed conditions can result in relatively large variations in the prospective results, while relatively large changes in other assumptions cause only minor shifts in the prospective results.

6.38 In developing financial forecasts, an understanding of the relative sensitivity of the results to the assumed conditions permits the allocation of analysis and study, as well as review by persons of higher authority, to those areas with the most significant effects. Particular attention should be devoted to those assumptions (a) to which the attainment of forecasted results is particularly sensitive (that is, those in which a small variation in the assumptions would have a large effect on forecasted results) and (b) for which the probability of variation is high.

EXHIBIT 5-7

STATEMENT ON STANDARDS FOR CONSULTING SERVICES NO. 1

CONSULTING SERVICES: DEFINITIONS AND STANDARDS

Introduction

1. Consulting services that CPAs provide to their clients have evolved from advice on accounting-related matters to a wide range of services involving diverse technical disciplines, industry knowledge, and consulting skills. Most practitioners, including those who provide audit and tax services, also provide business and management consulting services to their clients.

2. Consulting services differ fundamentally from the CPA's function of attesting to the assertions of other parties. In an attest service, the practitioner expresses a conclusion about the reliability of a written assertion that is the responsibility of another party, the asserter. In a consulting service, the practitioner develops the findings, conclusions, and recommendations presented. The nature and scope of work is determined solely by the agreement between the practitioner and the client. Generally, the work is performed only for the use and benefit of the client.

3. Historically, CPA consulting services have been commonly referred to as management consulting services, management advisory services, business advisory services, or management services. A series of Statements on Standards for Management Advisory Services (SSMASs) previously issued by the AICPA contained guidance on certain types of consulting services provided by members. This Statement on Standards for Consulting Services (SSCS) supersedes the SSMASs and provides standards of practice for a broader range of professional services, as described in paragraph 5.

4. This SSCS and any subsequent SSCSs apply to any AICPA member holding out as a CPA while providing Consulting Services as defined herein.

Definitions

5. Terms established for the purpose of SSCSs are as follows:

Consulting Services Practitioner. Any AICPA member holding out as a CPA while engaged in the performance of a Consulting Service for a client, or any other individual who is carrying out a Consulting Service for a client on behalf of any Institute member or member's firm holding out as a CPA.

Consulting Process. The analytical approach and process applied in a Consulting Service. It typically involves some combination of activities relating to determination of client objectives, fact-finding, definition of the problems or opportunities, evaluation of alternatives, formulation of proposed action, communication of results, implementation, and follow-up.

Consulting Services. Professional services that employ the practitioner's technical skills, education, observations, experiences, and knowledge of the consulting process.[5] Consulting Services may include one or more of the following:

a. *Consultations*, in which the practitioner's function is to provide counsel in a short time frame, based mostly, if not entirely, on existing personal knowledge about the client, the circumstances, the technical matters involved, client representations, and the mutual intent of the parties. Examples of consultations are reviewing and commenting on a client-prepared business plan and suggesting computer software for further client investigation.

b. *Advisory services*, in which the practitioner's function is to develop findings, conclusions, and recommendations for client consideration and decision making. Examples of advisory services are an operational review and improvement study, analysis of an accounting system, assistance with strategic planning, and definition of requirements for an information system.

c. *Implementation services*, in which the practitioner's function is to put an action plan into effect. Client personnel and resources may be pooled with the practitioner's to accomplish the implementation objectives. The practitioner is responsible to the client for the conduct and management of engagement activities. Examples of implementation services are providing computer system installation and support, executing steps to improve productivity, and assisting with the merger of organizations.

d. *Transaction services*, in which the practitioner's function is to provide services related to a specific client transaction, generally with a third party. Examples of transaction services are insolvency services, valuation services, preparation of information for obtaining financing, analysis of a potential merger or acquisition, and litigation services.

e. *Staff and other support services*, in which the practitioner's function is to provide appropriate staff and possibly other support to perform tasks specified by the client. The staff provided will be directed by the client as circumstances require. Examples of staff and other support services are data processing facilities management, computer programming, bankruptcy trusteeship, and controllership activities.

f. *Product services*, in which the practitioner's function is to provide the client with a product and associated professional services in support of the installation, use, or maintenance of the product. Examples of product services are the sale and delivery of packaged training programs, the sale and implementation of computer software, and the sale and installation of systems development methodologies.

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[5] The definition of Consulting Services excludes the following:

a. Services subject to other AICPA Technical Standards such as Statements on Auditing Standards (SASs), Statements on Standards for Attestation Engagements (SSAEs), or Statements on Standards for Accounting and Review Services (SSARSs). (These excluded services may be performed in conjunction with Consulting Services, but only the Consulting Services are subject to the SSCS.)

b. Engagements specifically to perform tax return preparation, tax planning/advice, tax representation, PFP or bookkeeping services; or situations involving the preparation of written reports or the provision of oral advice on the application of accounting principles to specified transactions or events, either completed or proposed, and the reporting thereof.

c. Recommendations and comments prepared during the same engagement as a direct result of observations made while performing the excluded services.

Standards for Consulting Services

6. The general standards of the profession are contained in rule 201 of the AICPA *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET section 201.01) and apply to all services performed by members. They are as follows:

   Professional competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.

   Due professional care. Exercise due professional care in the performance of professional services.

   Planning and supervision. Adequately plan and supervise the performance of professional services.

   Sufficient relevant data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

7. The following additional general standards for all Consulting Services are promulgated to address the distinctive nature of Consulting Services in which the understanding with the client may establish valid limitations on the practitioner's performance of services. These Standards are established under rule 202 of the AICPA *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET section 202.01).

   Client interest. Serve the client interest by seeking to accomplish the objectives established by the understanding with the client while maintaining integrity and objectivity.[6]

   Understanding with client. Establish with the client a written or oral understanding about the responsibilities of the parties and the nature, scope, and limitations of services to be performed, and modify the understanding if circumstances require a significant change during the engagement.

   Communication with client. Inform the client of (*a*) conflicts of interest that may occur pursuant to interpretations of rule 102 of the *Code of Professional Conduct*,[7] (*b*) significant reservations concerning the scope or benefits of the engagement, and (*c*) significant engagement findings or events.

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[6] Article III of the *Code of Professional Conduct* describes *integrity* as follows:

"Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle."

Article IV of the *Code of Professional Conduct* differentiates between *objectivity* and *independence* as follows:

"Objectivity is a state of mind, a quality that lends value to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. Independence precludes relationships that may appear to impair a member's objectivity in rendering attestation services."

[7] Rule 102-2 on Conflicts of Interest states, in part, the following:

"A conflict of interest may occur if a member performs a professional service for a client or employer and the member or his or her firm has a significant relationship with another person, entity, product, or service that could be viewed as impairing the member's objectivity. If this significant relationship is disclosed to and consent is obtained from such client, employer, or other appropriate parties, the rule shall not operate to prohibit the performance of the professional service...."

8. Professional judgment must be used in applying Statements on Standards for Consulting Services in a specific instance since the oral or written understanding with the client may establish constraints within which services are to be provided. For example, the understanding with the client may limit the practitioner's effort with regard to gathering relevant data. The practitioner is not required to decline or withdraw from a consulting engagement when the agreed-upon scope of services includes such limitations.

Consulting Services for Attest Clients

9. The performance of Consulting Services for an attest client does not, in and of itself, impair independence.[8] However, members and their firms performing attest services for a client should comply with applicable independence standards, rules and regulations issued by the AICPA, the state boards of accountancy, state CPA societies, and other regulatory agencies.

Effective Date

10. This Statement is effective for engagements accepted on or after January 1, 1992. Early application of the provisions of this Statement is permissible.

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[8] AICPA independence standards relate only to the performance of attestation services; objectivity standards apply to all services. See footnote 2.

EXHIBIT 5-8

GUIDELINES FOR DETERMINING ESTIMATED CURRENT VALUES OF ASSETS AND LIABILITIES

Determining Estimated Current Values. SOP 82-1 defines the estimated current value of an asset in paragraph 12 as "the amount at which the item could be exchanged between a buyer and a seller, each of whom is well informed and willing, and neither of whom is compelled to buy or sell." Current value of an asset is the current selling price less expected direct costs of disposal. Because the current values of some assets are difficult to estimate and the cost of obtaining the value may exceed the benefits of doing so, judgment is exercised in determining estimates of current values.

Other factors to consider include the following:

- Recent sales transactions involving similar assets and liabilities in a similar situation (paragraph 13)
- Capitalization of past or prospective earnings (paragraph 13)
- Liquidation values (paragraph 13)
- Historical cost adjusted for changes in specific price index (paragraph 13)
- Appraisal (paragraph 13)
- Discounted amounts of projected cash receipts and payments (paragraph 13)
- Consultation with a specialist (paragraph 14)

The guidelines for determining estimated current values of assets and liabilities are useful for preparing personal financial statements. Depending on the nature of the engagement, current-value information may be necessary to support the recommendations included in the financial plan.

Receivables. The current value is the discounted amounts of cash expected to be collected, using appropriate interest rates (paragraph 16).

Marketable Securities. Market quotations are used generally. The current value is the closing prices of the securities if traded on the securities exchanges on the date of the financial statement (valuation date). If the securities were not traded on that date but published bid and asked prices are available, the estimated current value should be within the range of those prices (paragraph 17).

For over-the-counter market securities many sources are available for quotes of the bid and asked prices. To determine the estimated current values for those securities, use either the mean of (1) bid prices, (2) bid and asked prices, or (3) prices of a representative selection of broker-dealers quotes of the securities (paragraph 18).

It may be necessary to adjust recent market price of the security to determine the estimated current market value. Factors to consider include quantity of securities held.

For example, a large block of equity securities may not be salable at the price a small number of shares were recently sold or quoted (paragraph 19). For further discussion on valuing marketable securities, see AICPA Audit and Accounting Guide *Audits of Investment Companies*, pp. 15–17.

Options. When published prices are unavailable, the estimated current values are based on the values of the assets subject to option, considering such factors as exercise prices and length of the option periods (paragraph 20).

Investment in Life Insurance. The estimated current value is the cash value of the policy less the amount of loans against it. The face amount of the life insurance is disclosed (paragraph 21).

Investments in Closely Held Businesses. For closely held business investments, the net investment in a business enterprise at its estimated current value is presented in the statement of financial condition. This value is usually difficult to determine because there is usually no ready market for such an investment. Several procedures or a combination of procedures may be used to determine the estimated current value of a closely held business, including a multiple of earnings, liquidation value, reproduction value, appraisals, discounted amounts of projected cash receipts and payments, or adjustments of book values or cost of the person's share of the equity in the business. If a buy–sell agreement exists it should be considered, but it does not necessarily determine the estimated current value (paragraphs 22–23).

Real Estate (Including Leaseholds). Information to determine the estimated current value includes the following:

- Sales of similar property in similar situations
- Discounted projected cash receipts and payments relating to the property or the net realizable value of the property, based on planned courses of action, including leaseholds whose current rental value exceeds the rent in the lease
- Appraisals used to obtain financing or based on estimates of selling prices and costs from independent real estate agents or brokers with similar properties in similar locations
- Assessed values for property taxes, including consideration of the basis for such assessments and their relationship to market values in the area (paragraph 24)

Intangible Assets. If both the amounts and the timing of the cash receipts and payments arising from the planned use or sale of the assets can be reasonably estimated, use the projected discounted amounts. For example, a record of receipts under a royalty agreement may provide sufficient information to determine its estimated current value. The cost of a purchased intangible is used if no other information is available (paragraph 25).

Future Interests and Similar Assets. Discounted amounts are used for nonforfeitable rights to receive future sums that (1) are for fixed or determinable amounts, (2) are not contingent on the holder's life expectancy or the occurrence of a particular event, such as disability or death, and (3) do not require future performance of service by the holder. Assets that may meet those characteristics include the following:

- Guaranteed minimum portions of pensions
- Vested interests in pension or profit sharing plans
- Deferred compensation contracts
- Beneficial interests in trusts
- Remainder interests in property subject to life estates
- Annuities
- Fixed amounts for alimony for a definite future period (paragraph 26)

Payables and Other Liabilities. The estimated current value of payables and other liabilities is the discounted amounts of cash to be paid. The rate implicit in the transaction in which the debt was incurred is the discount rate. If the debtor is able to discharge the debt currently at a lower amount, the debt should be presented at the lower amount (paragraph 27).

Noncancelable Commitments. Discounted amounts are used for noncancelable commitment to pay future sums that meet the characteristics described as future interests. Examples may include alimony and charitable pledges (paragraph 28).

Income Taxes Payable. The liability should include (1) unpaid income taxes for completed tax years and (2) the estimated amount for income taxes accrued for the elapsed portion of the current tax year to the date of the financial statements. That estimate is based on the relationship of taxable income earned to date to total estimated taxable income for the year, net of taxes withheld or paid with estimated tax returns (paragraph 29).

Estimated Income Taxes. SOP 82-1 requires that estimated income taxes be calculated on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases (paragraph 30). The methods and assumptions used to compute the estimated taxes should be disclosed. The estimated taxes should be presented between the liabilities and net worth.

When an accountant is engaged to compile or review a financial statement that fails to include a provision for estimated income taxes, the accountant should consider modifying the standard report to disclose this departure. If the written person financial plan includes personal financial statements that will be used solely to assist in developing a personal financial plan and not used to obtain credit, the accountant may comply with SSARS 6.

Required Disclosures. SOP 82-1 describes financial disclosures necessary to make the financial statements adequately informative in paragraph 31. SSARS 1, paragraphs 19–21, permits an accountant to compile a financial statement that omits the required disclosures if the omission is clearly indicated in the accountant's report, and it is not done to mislead the users of the financial statement. A paragraph describing the omission should be added to the standard report. If the financial statement does not disclose that assets are presented at estimated current values and liabilities at estimated current amounts, the accountant should include the following sentence at the end of the first paragraph of his report: "The financial statements are intended to present the assets of [*name of client*] at estimated current values and their liabilities at estimated current amounts."

SSARS 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*, provides information on the special reporting requirements for personal financial statements included in written personal financial plans that are not expected to be used for credit granting purposes and that are intended to help the client and his or her advisers implement the plan. This special disclaimer states that the statement of financial condition may not be prepared in accordance with GAAP (see reprint of SSARS 6 in exhibit 5-9).

EXHIBIT 5-9

SSARS 6, REPORTING ON PERSONAL FINANCIAL STATEMENTS INCLUDED IN WRITTEN PERSONAL FINANCIAL PLANS

SSARS 6 Text

1. This statement provides an exemption from Statement on Standards for Accounting and Review Services (SSARS) 1, as amended, for personal financial statements that are included in written personal financial plans prepared by an accountant, and specifies the form of written report required under the exemption.[1] However, this statement does not preclude an accountant from complying with SSARS 1 in such engagements.

2. Because the purpose of such financial statements is solely to assist in developing the client's personal financial plan, they frequently omit disclosures required by generally accepted accounting principles (GAAP) and contain departures from GAAP or from an established comprehensive basis of accounting other than GAAP.

3. An accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of SSARS 1, as amended, when all of the following conditions exist:

   a. The accountant establishes an understanding with the client, preferably in writing, that the financial statements—

      (i) Will be used solely to assist the client and the client's advisers to develop the client's personal financial goals and objectives.
      (ii) Will not be used to obtain credit or for any purposes other than developing these goals and objectives.

   b. Nothing comes to the accountant's attention during the engagement that would cause the accountant to believe that the financial statements will be used to obtain credit or for any purposes other than developing the client's financial goals and objectives.

4. An accountant using the exemption provided by this statement should issue a written report stating that the unaudited financial statements—

   a. Are designed solely to help develop the financial plan.
   b. May be incomplete or contain other departures from GAAP and should not be used to obtain credit or for any purposes other than developing the personal financial plan.
   c. Have not been audited, reviewed, or compiled.

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[1] For purposes of this statement, personal financial statements are those financial statements of an individual that meet the definition of financial statements in paragraph 4 of SSARS 1, *Compilation and Review of Financial Statements*.

5. The following is an illustration of an appropriate report when an accountant uses the exemption provided by this statement.

> The accompanying Statement of Financial Condition of X, as of December 31, 19XX, was prepared solely to help you develop your personal financial plan. Accordingly, it may be incomplete or contain other departures from generally accepted accounting principles and should not be used to obtain credit or for any purposes other than developing your financial plan. We have not audited, reviewed, or compiled the statement.

6. Each of the personal financial statements should include a reference to the accountant's report.

Effective Date

7. This statement is effective on September 30, 1986.

Interpretation of SSARS 6: *Reporting on Personal Financial Statements Included in Written Personal Financial Plans: Accounting and Review Services Interpretation of Section 600*

1. Submitting a Personal Financial Plan to a Client's Advisers

.01 *Question*—Paragraph 3 of Statements on Standards for Accounting and Review Services (SSARS) 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*, states that an accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of SSARS 1, *Compilation and Review of Financial Statements* when, among other conditions, the accountant establishes an understanding with the client that the financial statements will be used solely to assist the client and the client's advisers to develop the client's personal financial goals and objectives. Does developing the client's personal financial goals and objectives encompass implementing the personal financial plan by the client or the client's advisers?

.02 *Interpretation*—Yes. Developing a client's personal financial goals and objectives includes implementing the personal financial plan by the client or the client's advisers because implementing the plan may be considered the culmination of the process of developing personal financial goals and objectives. Therefore, an accountant may submit a written personal financial plan containing unaudited personal financial statements to a client, to be used by the client or the client's advisers to implement the personal financial plan, without complying with the requirements of SSARS 1 provided the conditions in paragraph 3 of SSARS 6 exist.

.03 Examples of implementation of a personal financial plan by the client's advisers include use of the plan by:

- an insurance broker who will identify specific insurance products.
- an investment adviser who will provide specific recommendations about the investment portfolio.
- an attorney who will draft a will or trust documents.

[Issue Date: May, 1991.]

EXHIBIT 5-10

MINIMUM PRESENTATION REQUIREMENTS FOR PROSPECTIVE FINANCIAL STATEMENTS

(EXCERPTED FROM THE AICPA *GUIDE FOR PROSPECTIVE FINANCIAL INFORMATION,* PARAGRAPH 8.06)

Prospective information presented in the format of historical financial statements facilitates comparisons with financial position, results of operations, and cash flows of prior periods, as well as those actually achieved for the prospective period. Accordingly, *financial projections preferably should be in the format of the historical financial statements that would be issued for the period(s) covered* if there is no agreement between the responsible party and potential users specifying another format [emphasis added]. Financial forecasts may take the form of complete basic financial statements[1] or may be limited to the following items (where such items would be presented for historical financial statements for the period):[2]

a. Sales or gross revenues
b. Gross profit or cost of sales
c. Unusual or infrequently occurring items
d. Provision for income taxes
e. Income from continuing operations
f. Discontinued operations or extraordinary items
g. Net income
h. Primary and fully diluted earnings per share
i. Significant changes in financial position [3]
j. A description of what the responsible party intends the financial forecast to present, a statement that the assumptions are based on the responsible party's judgment at the time the prospective information was prepared, and a caveat that the projected results may not be achieved
k. Summary of significant assumptions
l. Summary of significant accounting policies

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[1] The details of each statement may be summarized or condensed so that only the major items in each are presented. The usual footnotes associated with historical financial statements need not be included as such. However, items j, k, and l should be disclosed.

[2] Similar types of financial information should be presented for entities for which these terms do not describe operations, as illustrated in paragraph 9.02. Furthermore, similar items should be presented if a comprehensive basis of accounting other than generally accepted accounting principles is used to present the forecast. For example, if the forecast is presented on the cash basis, item a would be cash receipts. The basis of accounting on which the forecast is presented should be appropriate for the use of the forecast.

[3] The responsible party should disclose significant cash flows and other significant changes in balance sheet accounts during the period. However, neither a balance sheet nor a statement of cash flows, as described in FASB Statement No. 95, *Statement of Cash Flows*, is required. Furthermore, none of the specific captions or disclosures required by FASB Statement No. 95 are required. Significant changes disclosed will depend on the circumstances; however, such disclosures will often include cash flows from operations. Exhibits 9.07 and 9.11 [of the *Guide for Prospective Financial Information*] illustrate alternative methods of presenting significant changes in financial position.

Items *a* through *i*, above, represent the minimum items that constitute a financial forecast. A presentation that omits one or more of those that are applicable[4] would be a partial presentation and, thus, would not ordinarily be appropriate for general use.[5] If the omitted applicable item is derivable from the information presented, the presentation would *not* be deemed to be a partial presentation.

Items *j* through *l*, above, are disclosures that should accompany the forecast whether the presentation is limited to applicable minimum items or presents more detail. The omission of item *j*, *k*, or *l* from a presentation that contains at least the applicable minimum items would not make it a partial presentation; it would be a deficient presentation because of the lack of required disclosures.

The guidelines for preparation of financial forecasts (chapter 6 [of the *Guide for Prospective Financial Information*]) apply even if the presentation is limited to the minimum items above. Therefore, the underlying data used in the preparation of financial forecasts should be sufficient to allow presentation of detailed statements, even though only the minimum are to be presented.[6]

Each page of a financial forecast should contain a statement that directs the reader to the summaries of significant assumptions and accounting policies.

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[4] An applicable item is one that would be presented for historical financial statements. For example, earnings per share would not be an applicable item for a nonpublic entity since earnings per share are not required to be presented for historical financial statements for such entities.

[5] See chapter 23 [of the *Guide for Prospective Financial Information*] for a discussion of partial presentations.

[6] This level of detail should be comparable to that presented in historical financial statements.

APPENDIX A

BUSINESS PLAN FOR PFP SERVICES

APPENDIX A

BUSINESS PLAN FOR PFP SERVICES

INTRODUCTION

A business plan is important whether you're adding PFP services to an existing practice, starting a new practice to provide PFP services, or want to operate your existing PFP practice more profitably.

A business plan provides logic, discipline and an organized approach to the delivery of PFP services and improves your ability to establish and meet goals. The planning process helps you to test the feasibility of your plan, provide a benchmark for evaluating and controlling performance, and communicate the plan to professional staff involved in carrying out the plan.

DEVELOPING A BUSINESS PLAN

The AICPA's *Management of an Accounting Practice Handbook* (*MAP Handbook*) includes a chapter on developing long-range and annual business plans. Chapter 104 identifies the following steps common to long-range plans:

1. **Select a planning team.** Small practices can assign the partner in charge of financial planning to develop the plan. Other partners, or, for sole proprietorships, another practitioner, can act as a sounding board.

2. **Develop an agenda and timetable.** The planning process requires time-consuming steps such as data gathering, goal identification, and the development of forecasts. Consequently, assignments and deadlines are necessary to complete the project.

3. **Decide on the duration of the plan.** The plan should give proper recognition to the firm's long-range objectives and still be manageable. Trying to formulate detailed plans for five or more years can be frustrating because of the difficulty in projecting financial and operating data over an extended period.

4. **Identify the purpose for offering PFP services.** In this step you must look forward and determine what you want to be. This step will give direction and meaning to the plan.

5. **Identify goals and objectives.** This is the first step in determining how to use the practice's resources to accomplish its purpose for offering financial planning. The objectives should reflect the general aims and the goals should reflect the specific targets. All partners should be surveyed or interviewed so that they can contribute to the development of objectives and goals. Objectives and goals should be material, consistent, challenging, measurable, reasonable, and tied to a reward system. They usually address the following:

   - Contributions from financial planning services
   - Billings for the department's partners and employees
   - The number of new financial planning clients

- How financial planning fits into the practice's organizational structure
- Development of new financial planning services
- Staffing changes
- Contribution to bringing in new business for other services of the practice

6. **Evaluate goals and objectives.** The planning team evaluates all identified goals and selects a set of goals that is compatible with the statement of purpose, consistent, flexible, and attainable. It determines the priority of the goals.

7. **Prepare financial forecasts.** Financial forecasts are then prepared for each year in the plan or for as many years as seem meaningful.

8. **Prepare a marketing plan.** A marketing plan is critical to the success of long-range planning and should be interwoven into the planning process. The development of a marketing plan typically involves an analysis of the firm's market and the identification of appropriate strategies for tapping that market. For more information, please refer to Chapter 3, Marketing and Selling PFP Services.

9. **Communicate the plan.** Everyone in the firm must understand and support the plan for it to be successful. Copies or summaries of the plan can be discussed in a staff meeting, followed by informal discussions, as needed.

10. **Monitor the plan.** To be effective, the partner in charge of PFP should monitor the plan to see that assignments and responsibilities are being carried out. The plan should be modified to reflect changing conditions.

11. **Repeat the cycle.** The planning process should be repeated annually. Subsequent plans typically become more sophisticated as the benefits of planning are realized.

The *MAP Handbook* includes a more complete discussion of each planning step, as well as illustrative plans, worksheets, and survey forms.

CONTENTS OF A BUSINESS PLAN

The contents of a business plan depend on the purpose for developing the plan. It may be to determine the feasibility of offering PFP services or to improve the profitability of your current PFP services. Depending on its purpose, the plan may emphasize financial projections, marketing strategies, or some other area.

An outline of a business plan for adding PFP services to an existing practice follows. An illustrative business plan immediately follows the outline.

OUTLINE OF A PERSONAL FINANCIAL PLANNING BUSINESS PLAN

I. Philosophy
   A. Purpose of business plan
      Define the purpose (to test feasibility, gain control over the practice area, encourage a team effort, or other reason) and focus the plan on that purpose
   B. Purpose for offering PFP services

II. PFP Goals and Objectives
   A. Overall objectives for financial planning services
   B. Nature of PFP services
   C. Distinctive PFP capabilities
   D. Specific short-term and long-term goals

III. Market Analysis (based on experience, surveys, and research)
   A. Industry description and outlook
      1. Current description of PFP market
      2. Size of market historically, currently, in five years, and in ten years
      3. Trends in PFP industry
      4. Major client groups
   B. Target markets
      1. Description of primary target market, including needs
      2. Size of target market
      3. Market penetration
         a) goal
         b) rationale for estimate
      4. Fee structure: Allow for write-offs during the start-up period
      5. Methods for identifying potential financial planning clients: Review of client tax files, financial planning checklists for tax clients, seminars, brochures, newsletters, advertising, and so forth
      6. Trends and expected changes in target market
      7. Secondary target markets: Size, penetration, trends
   C. Client survey results
      1. Reaction of potential PFP clients
      2. Survey results, if any
   D. Competition
      1. Identification: Existing and potential
      2. Strengths: Market penetration, ability to satisfy needs
      3. Weaknesses: Market penetration, ability to satisfy needs
      4. Competition's interest in your target market

IV. PFP Services
   A. Description of PFP services offered
   B. How services will meet the needs of target markets
   C. Ability to provide services

D. Competitive advantages
E. Regulatory restrictions (state and federal laws regulating financial planners or investment advisers)

V. Marketing Activities (describe the planned activities that will enable the practice to meet the revenue projections in the financial data)
   A. Strategy for growth in services
   B. Communication methods: Promotion, advertising, public relations, client meetings, seminars, and so forth

VI. Operations
   A. Procedures for delivering PFP services. The following publications describe financial planning procedures:
      1. *Guide to Personal Financial Planning*. Fort Worth, TX: Practitioners Publishing Co., updated periodically
      2. *Personal Financial Planning Practice Handbook.* New York: American Institute of Certified Public Accountants, published annually
      3. Pond, Jonathan D. *Personal Financial Planning Handbook.* New York: Warren, Gorham and Lamont, Inc.
      4. *Tax Management Financial Planning*. Washington, DC: Bureau of National Affairs, Inc., updated periodically
   B. Quality control
      Some of the publications listed above include quality control procedures
   C. Capacity
      1. Current
      2. Anticipated increases in capacity
   D. Competitive advantages: Experience, techniques, technology

VII. Structure and Staffing
   A. Position of PFP within organizational structure
   B. Staff structure of financial planning department
   C. Planned additions to financial planning staff

VIII. Financial Data (should reflect information presented in earlier section)
   A. Start-up costs
   B. Break-even analysis
   C. Projected financial data

ILLUSTRATIVE BUSINESS PLAN

The following business plan was developed by a local firm adding a PFP department to its practice. A description of the practice is provided to make the plan more meaningful.

Practice Profile

The practice that developed the plan has one office and gross billings of about one million dollars a year. Tax department fees make up about 25 percent of the gross fees. The practice's professional staff consists of four partners, two managers, and seven staff members.

Joe Miller has been chosen to head the PFP area. He has demonstrated technical ability in PFP and good communication skills, as well as a strong interest and desire to provide these services to clients. Joe will be assisted by a manager and two professional staff. Because of the firm's size, its professional staff members are shared by various departments. From January through April, Joe plans to concentrate on marketing efforts. Between May and December, tax department staff will be available to help provide PFP services. Most of the actual work will be performed during this period.. That schedule is designed to permit the firm to use its staff effectively during the non-busy season. Other partners will act primarily as client relationship managers, setting up initial meetings and monitoring each engagement's progress. Clerical time is minimal on PFP engagements because professional staff produce the written report on a personal computer.

PFP services require specialized knowledge. Joe will therefore develop a training program for the staff that will include AICPA continuing professional education (CPE) courses.

BUSINESS PLAN FOR PFP SERVICES

Philosophy

The overall goal of the practice is to provide high quality profitable PFP services. Initially, these services will be provided to our clients who have high incomes or high net worth or both. The purpose of this service is threefold:

1. To help clients choose the best financial options open to them
2. To provide clients with a plan of action they can follow to reach their goals
3. To give clients control over their financial affairs

We believe that, as CPAs, we are uniquely qualified to provide PFP services to clients. Our qualifications include the following:

- Technical competence
- Familiarity with the client's personal financial position, financial problems, and financial goals
- Analytical ability and experience in financial and analytical problem solving
- Professional objectivity and integrity
- Ability to aid clients in assembling a team of competent professional advisers in legal, insurance, investment, and other fields

We will strenuously avoid both actual and perceived conflicts of interest in our planning services. We will always work for what is in the best interest of our client. Our long-term profitability is tied directly to the ongoing success of our clients.

We are committed to designing personalized, high quality financial plans for our clients—plans specifically designed to accomplish the client's personal and financial objectives. In order to insure that plans continue to be valuable to clients, we are committed to contacting our planning clients at least annually to update their plans. Our fees will be structured so that we can provide the level of service to which we are committed.

We believe that PFP is a part of an on-going advisory relationship and if a financial plan is to be of the greatest value to a client, it must reflect the client's total financial environment. In nearly every case, for example, decisions about investments and insurance are linked to overall retirement planning. It would be irresponsible to ignore retirement goals and lifestyle costs in the analysis of a client's insurance or investment needs. For this reason we will usually do segmented planning only for those clients whose financial picture we are already familiar with; that is, clients who will not be done a disservice if we address only a portion of their financial needs. While the initial fee for comprehensive planning will be higher, we believe that ultimately clients will save fees by having all areas of their financial lives examined. It is our belief that most clients who request only segmented planning services will ultimately request that we evaluate other planning areas also.

We will consistently strive to attain the highest level of professionalism possible in the relationship we have with clients.

Goals

This section lists both the long- and short-term general goals that we have set for our PFP practice. They are not necessarily listed in the order of importance. The section on specific objectives explains how we plan to reach these goals.

1. To have PFP revenue generated from the sources shown in table 1.

2. To provide planning services almost exclusively to clients who meet at least one of the following criteria:

   - Net worth of at least $250,000
   - Annual income of at least $75,000
   - Persons meeting neither of the above financial thresholds but who will soon have such a financial profit, perhaps because they are executives and shareholders in a company that is about to go public

3. To offer our PFP services to existing clients during year 1 and market to nonclients, as well, in later years.

4. To obtain software or develop templates for use in automating PFP services.

5. To develop an investment portfolio allocation tool to provide clients with quantitative criteria for investment selection.

6. To develop standard documentation procedures for working papers.

7. To develop a plan-implementation management system to help our clients obtain maximum value from the planning process.

8. To develop procedures to use after the initial financial plan is developed and insure that necessary plan updating is being provided to clients.

9. To provide all professionals with adequate training and experience in the PFP practice area.

10. To implement quality control procedures for the plan preparation process. These procedures will insure that the plans we prepare have consistent quality and proper scope.

11. To have investment- and personal-expense monitoring services ready for all clients during year 2. The monitoring service will be integrated with our other services. It will give clients a tool for evaluating whether their investment performance and personal expenses are actually in line with the assumptions made in their financial plans.

12. To monitor the requirement to register as an investment adviser pursuant to federal and state legislation.

13. To acquire and maintain malpractice insurance that provides adequate coverage for the PFP services we provide.

14. To limit administrative expenses and unbilled hours.

Specific Objectives

Specific objectives for each of the fourteen goals are listed below, along with the persons assigned to carry them out and the dates by which the objectives should be accomplished.

	Person Assigned	Target Date
1. Increase Service Mix		
Expose every individual tax client to PFP services.	________	________
2. Client Selection		
To insure that prospective clients fit our client profile, complete an evaluation before undertaking a PFP engagement.	________	________
3. Marketing		
Prepare a PFP checklist to assist in identifying potential PFP clients. This checklist will be completed during the tax interview process and will be used to educate our existing clients that we now offer PFP services.	________	________
During the summer and fall of year 1, develop PFP referral sources among—		
1. Existing clients.	________	________
2. Bankers.	________	________
3. Insurance professionals.	________	________
4. Securities brokers and dealers.	________	________
5. Major corporate employers.	________	________
4. Computer Software Search		
Select suitable PFP software from the following alternatives:		
• An integrated PFP package	________	________
• Software packages for different PFP modules	________	________

	Person Assigned	Target Date
• Internally developed software	________	________
5. Asset Allocation Module		
Research asset allocation tools and methods.	________	________
6. Working Papers Documentation		
Develop a standard index and cross-referencing system for all PFP files.	________	________
7. Plan Implementation		
Develop a computerized tickler system that tracks the specific action items for each client.	________	________
8. Plan Updating		
Contact each PFP client to see if changes in their financial status require the plan to be updated.	________	________
9. Professional Experience and Expertise		
Obtain Personal Financial Specialist designation. (CFP, ChFC, or CFA designations may also be pursued in order to provide educational background.)	________	________
Complete at least 16 hours per year of CPE in PFP related areas.	________	________
Attend the annual AICPA PFP Conference.	________	________
Maintain all required licenses in appropriate states.	________	________
Complete professional reading of approximately 15 to 20 hours each month relating to finance, economics, and tax.	________	________
Attend quarterly meetings with other PFP professionals, such as specialists in investments, insurance, and estate planning.	________	________

	Person Assigned	Target Date

10. Quality Control

	Person Assigned	Target Date
Review all material to insure that all areas of the plan are covered and other points of view are considered.	________	________
Develop standard engagement work program and checklists.	________	________
Submit all financial plans to a two-level review process, consisting of a detailed and a general review.	________	________
Our entire practice operation shall be involved in a practice peer review.	________	________

11. Monitoring Service

The cover letter sent with the year 1 tax organizers will emphasize signing up for the monitoring service so that clients can easily organize tax information for year 2. At either the meeting to gather tax return information or the meeting to deliver the return, the discussion will emphasize monitoring services.	________	________

We anticipate that the higher net worth individuals who are dealing with numerous money managers will be more interested in the investment monitoring service, while those individuals with moderate incomes of $75,000 to $150,000 will find the expense monitoring of greatest benefit. Both investment and expense services will be offered to all clients and can be used either together or independently. Every monitoring client will be contacted to explore their potential as planning clients.

12. Registration Issues

Although not registered as investment advisers, we will comply with the administrative requirements of the act, such as making all disclosures to both actual and prospective clients; written engagement letters; written plans for all engagements, including limited segmented engagements; continued refusal of commissions or related income, etc.	________	________

	Person Assigned	Target Date
13. Malpractice Insurance		
We will try to obtain a minimum of $1,000,000 of malpractice coverage.	________	________
14. Administrative Costs		
We will limit administrative expenses as indicated in tables 2 and 3.	________	________

Organizational Structure

Staffing

At least three individuals will attend to each PFP engagement — two partners and one staff person.

The role of the partner responsible for the engagement is as follows:

- Conduct all client meetings from start to completion of planning process
- Draft portions of plan in which he has expertise
- Act as primary reviewer of entire plan

The role of the second partner is limited to attending a review committee session. This session will take place as soon as the staff member has analyzed the client data. The purpose of the review committee session is to share ideas and clarify planning issues that need to be addressed in the plan.

The role of the staff person is to:

- Attend all data-gathering sessions with the client.
- Perform necessary background research for the plan.
- Participate in review committee sessions.
- Prepare engagement and transmittal letters, develop all necessary workpapers, organize client files, and draft the analysis of the client's situation and the goals and assumptions sections of the report.

Fees

Seek to achieve standard hourly rates for all work performed. We anticipate that fees for comprehensive plans will range from $2,000 to $7,500 per plan.[1]

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[1] These fees are illustrative only. Actual fees for PFP engagements vary according to factors such as the complexity of the engagement, the experience of the CPA, the relationship with the client, and local market conditions.

TABLE 1

PERSONAL FINANCIAL PLANNING
DEPARTMENT BUDGET

	Year 1		Year 2		Year 3		Year 4		Year 5	
Engagement Mix	Plans	Hours	Plans	Hours	Plans	Hours	Plans	Hours	Plans	Hours
Comprehensive Plans	6	240	10	350	15	450	20	600	36	1,080
Segmented Plans	12	120	16	128	24	144	36	180	48	240
Consultations	24	60	40	80	60	90	90	135	120	180
Totals	42	420	66	558	99	684	146	915	204	1,500
Billing Rates	Rate		Rate		Rate		Rate		Rate	
Senior	$ 50		$ 50		$ 60		$ 60		$ 70	
Partner	$ 100		$ 100		$ 110		$ 120		$ 130	
Production Budget	Hours	Dollars	Hours	Dollars	Hours	Dollars	Hours	Dollars	Hours	Dollars
Senior	0	$ 0	198	$ 9,900	366	$ 21,960	475	$ 28,500	774	$ 54,180
Partner	420	42,000	360	36,000	318	34,980	440	52,800	726	94,380
Totals	420	$ 42,000	558	$ 45,900	684	$ 56,940	915	$ 81,300	1,500	$148,560
Unbilled Time										
Senior	0	$ 0	59	$ 2,950	12	$ 720	0	$ 0	0	$ 0
Partner	192	19,200	59	5,900	12	1,320	0	0	0	0
Totals	192	$ 19,200	118	$ 8,850	24	$ 2,040	0	$ 0	0	$ 0
Billings	228	$ 22,800	440	$ 37,050	660	$ 54,900	915	$ 81,300	1,500	$148,560

TABLE 2

OTHER UNBILLED TIME

	Year 1		Year 2		Year 3		Year 4		Year 5	
	Hours		Hours		Hours		Hours		Hours	
Additional CPE	16		32		48		48		48	
Practice Development	100		100		100		100		100	
PFP Division	100		100		100		100		100	
	216		232		248		248		248	
	Hours	Dollars	Hours	Dollars	Hours	Dollars	Hours	Dollars	Hours	Dollars
Senior	0	$ 0	16	$ 800	24	$ 1,440	24	$ 1,440	124	$ 8,680
Partner	216	21,600	216	21,600	224	24,640	224	26,880	124	16,120
Totals	216	$ 21,600	232	$ 22,400	248	$ 26,080	248	$ 28,320	248	$ 24,800

TABLE 3

ADMINISTRATIVE EXPENSES

	Year 1	Year 2	Year 3	Year 4	Year 5
Computer	$ 7,500	$ 500	$ 500	$ 500	$ 500
Library	1,500	1,000	1,000	1,000	1,000
Additional CPE	1,000	2,000	3,000	3,000	3,000
Professional Organizations	200	200	200	200	200
Other	500	500	500	500	500
	$10,700	$ 4,200	$ 5,200	$ 5,200	$ 5,200

APPENDIX B

PFP WORK PROGRAM

APPENDIX B

PFP WORK PROGRAM

INTRODUCTION

The PFP Work Program was designed to guide CPA financial planners performing personal financial planning engagements. Although the PFP Work Program can be used like a typical audit program, it differs significantly in that it does not provide precise, comprehensive steps to be performed. Since the PFP process is more art than science, the PFP Work Program indicates general factors that should be considered in PFP engagements.

The flexibility demanded by the PFP process requires you to be knowledgeable and experienced and to exercise professional judgment. The PFP Work Program is designed to stimulate your thought process in developing more specific procedures and in gathering the necessary facts and documentation to provide PFP services. More importantly, it helps to identify planning issues and strategies.

The preliminary and final considerations checklist are useful in all engagements. The topical work programs can be used individually for segmented PFP engagements or as a complete set for comprehensive PFP engagements.

USING THE PFP WORK PROGRAM

To maximize the usefulness of the PFP Work Program, you may use it in one of the following ways:

1. **Manual reproduction.** Photocopy the work program and complete it as you work through a PFP engagement.
2. **Electronic reproduction.** A 3½" diskette containing a WordPerfect version of the work program is included with this Handbook. Use the work program as is or tailor it to your individual specifications.
3. **Audit Program Generator 2 (APG2).** If you have the AICPA's APG2, you can use the PFP Library Volumes for APG2 to generate the portions of the work program you need. PFP Library Volume 3 contains the PFP Work Program. (Product information about APG2 and the Library Volumes is included in the "Resources" section of this Handbook.)

Instructions for *Audit Program Generator* Users

The *PFP Automated Work Program,* which operates off the *APG2* system, affords the user flexibility in editing programs, adding or deleting sign off columns and tailoring a particular program for a specific client. In addition, *APG* operates on a stacking or leveling concept, in which subsets or additional procedures can be created and called on when necessary. See the *APG User's Manual* for more detailed information.

The library volume disk contains the following:

1. Preliminary Information Programs

   - Preliminary Information Form
   - Closely held Business Planning Form

2. Work Program

   - Preliminary Considerations
   - Topical Work Programs
     - Analysis of Net Assets & Cash Flow
     - Income Tax Planning
     - Investment Planning
     - Education Funding
     - Risk Management
     - Retirement Funding
     - Estate Planning
     - Closely Held Business Planning
   - Final Considerations

SUPPLEMENTARY INFORMATION

Many of the steps listed in the work program involve analyses and calculations. You will find many of the forms for these calculations in the appropriate volume of the *PFP Library*. In addition, Version 2.0 of the AICPA's *PFP Partner* software can help you perform many of the analyses and funding calculations for retirement, education, or other goal funding and in assessing your clients' risk management needs.

PRELIMINARY INFORMATION FORM

Client Name: ______________________________

Spouse Name: ______________________________

Dates of Birth: Client: ______________ Spouse: ______________

Occupations: Client: ______________________________
Spouse: ______________________________

Children and Other Dependents:

Name	Relationship	Birthdate

Financial Profile:

Liquid Assets	$______	
Other Investment Assets	$______	
Personal Assets	$______	
Total Assets	$______	
Short-Term Liabilities	$______	
Other Liabilities	$______	
Total Liabilities	$______	
Net Worth	$______	
Employment Cash Flow	$______	
Investment Cash Flow	$______	
Basic Living Expenditures	$______	
Housing		$______
Transportation		$______
Food		$______
Clothing		$______
Health Care		$______
Insurance		$______
Discretionary Expenditures		$______
Entertainment		$______
Vacation		$______
Gifts		$______
Contributions		$______
Income Taxes		$______
Amount Available to Fund Objectives	$______	

Date of Most Recent Wills:

Client: ____________________ Spouse: ____________________

Insurance Summary:

Life Insurance — Face Amount

Client: ____________________ Spouse: ____________________

Disability — Monthly Benefit

Client: ____________________ Spouse: ____________________

Medical Insurance:

Client: ☐ Yes ☐ No Spouse: ☐ Yes ☐ No

Casualty Insurance:

Client: ☐ Yes ☐ No Spouse: ☐ Yes ☐ No

List Unique Circumstances and Other Factors (Example: Debt Guarantees):

____

____

List Client's Key Concerns:

____

____

____

____

Note: This form suggests a minimum level of information needed for preliminary engagement decisions. More information may be needed to make the initial engagement decision and generally will be needed to continue into actual planning.

CLOSELY HELD BUSINESS PLANNING FORM

This form is designed to help you gather more information about the client's business than could be readily ascertained by analyzing historical financial information; that is, the Business Financial Profile refers to average balances of balance sheet items at estimated fair market value rather than cost, providing an approximation of the net worth of the business. In addition, while obtaining information for each line item and asking for the average accounts receivable balance, you might ask the client to describe the average turnover of accounts receivable and collections.

Business Name: ______________________

Name of Proprietor: ______________________

Nature of Business: ______________________

Ownership Form: ______________________

Ownership Percentage: ______________________

Year Started: ______________________

Employees in Addition to Owner: ______________________

Business Financial Profile:

Average Cash Balance	$__________
Average Accounts Receivable Balance	$__________
Average Inventory Balance	$__________
Property and Equipment	$__________
Total Assets	$__________
Average Balance Short-Term Liabilities	$__________
Average Balance Long-Term Liabilities	$__________
Total Liabilities	$__________
Net Equity	$__________
Client's Value Estimate	$__________
Gross Revenue	$__________
Cost of Sales	$__________
Net Profit	$__________
Operating Expenses	$__________
Debt Service	$__________
Salaries/Distribution	$__________
Net Cash Available	$__________

List Unique Circumstances and Commitments with Regard to Business Including Personal Loan Guarantees:

List Client's Key Concerns and Future Expectations:

Note: This form suggests a minimum level of information needed for preliminary engagement decisions. More information may be needed to make the initial engagement decision and generally will be needed to continue into actual planning.

PFP WORK PROGRAM

	Done By	W/P Ref.	Date
A. Preliminary Considerations			
1. Preliminary Data Gathering			
a. Obtain sufficient nonfinancial data for initial engagement decisions (see section on Initial Engagement Decision).	______	______	______
b. Obtain sufficient financial data for initial engagement decision (see Preliminary Information Form).	______	______	______
c. If client owns a controlling interest in a closely held business, gather sufficient preliminary information about it for initial engagement decision (see Closely held Business Planning Form).	______	______	______
2. Initial Engagement Decision in Light of Preliminary Data Gathering			
a. Determine whether anything should be done considering—			
(1). Cost/Benefit limitations	______	______	______
(2). Planner's abilities and inclinations	______	______	______
(3). Possible need to register as investment advisor and/or insurance advisor with Federal and/or state government	______	______	______
(4). Client's commitment to the planning process in general	______	______	______
b. Make an initial assessment of appropriate engagement scope.			
(1). Consultation	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(2). Segmented engagement	______	______	______
(3). Comprehensive engagement	______	______	______
3. Determine Engagement Scope.			
a. Develop client goals. Be aware of client's special concerns and goals.	______	______	______
b. Obtain enough additional data to make scope decision. Confirm with client the validity of data used.	______	______	______
c. Determine if client's potential benefit from the engagement is likely to exceed client's cost.	______	______	______
d. Make final decision on engagement type.	______	______	______
e. If segmented engagement, decide on segments to perform.	______	______	______
f. Communicate terms of engagement orally or in writing.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date

B. Topical Work Programs

1. Analysis of Net Assets & Cash Flow

Objective: To develop a realistic estimate of client's income, expenses and financial condition that will serve as a basis to identify assets and cash flow that is or might be available for meeting client's objectives.

a. Specialized Data Gathering

	Done By	W/P Ref.	Date
(1). Prepare a statement of net worth.	______	______	______
(2). Prepare a statement of cash flow.	______	______	______

b. Analysis of Net Worth and Cash Flow

(1). Review statement of net worth for the following:

	Done By	W/P Ref.	Date
(a). Is net worth concentrated in a particular asset or assets?	______	______	______
(b). How liquid and/or marketable is the client's net worth?	______	______	______
(c). Are adequate liquid funds or immediate borrowing capacity available for an emergency?	______	______	______
(d). Is the leverage of assets suitable considering the client's objectives and ability to meet obligations as they come due?	______	______	______

(2). Review statement of cash flow for the following:

	Done By	W/P Ref.	Date
(a). What portion of total expenditures is discretionary?	______	______	______
(b). What portion of income is devoted to debt service?	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(c). What portion of total income is available for funding goals?	_____	_____	_____
(3). Feedback from client			
(a). What is the client's reaction to the preliminary statement of cash flow?	_____	_____	_____
(b). If cash flow has not previously been analyzed, was the client's perception of cash flow consistent with the results of the analysis?	_____	_____	_____
(c). Are there expenditures that the client feels should be reduced or increased if the goal funding objectives could otherwise be met?	_____	_____	_____
(4). Incorporate the above analysis into a revised cash flow projection.	_____	_____	_____
(5). Consider the advisability of implementing a system to track expenditures.	_____	_____	_____
c. Achievability of Goals			
(1). Identify assets that are available for use in meeting goal funding objectives.	_____	_____	_____
(2). Based upon the set of assumptions that have been agreed upon with the client, project growth or decline in assets and cash flow that are available for meeting goal funding objectives.	_____	_____	_____
(3). Evaluate whether it is likely that the client will achieve their goals. Consider the sensitivity of a change in assumptions.	_____	_____	_____
(4). Determine when the client is likely to achieve financial security (that is, the ability to support basic lifestyle with only investment income).	_____	_____	_____
d. Development of Recommendations			

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(1). If under reasonable assumptions it is unlikely that the client's goals will be achieved, explore with the client the following options:			
(a). Reduction of discretionary expenditures	______	______	______
(b). Employment of both spouses if not already working	______	______	______
(c). Career counseling and education to maximize income potential	______	______	______
(d). Abandonment of secondary goals	______	______	______
(2). Consider the need and possible benefit of budgetary controls if a reduction in discretionary expenditures is recommended.	______	______	______
(3). Recommend a repositioning of assets that is suitable in relation to the time frame and priority of objectives. Refer to Investment Planning section.	______	______	______
(4). If a progressive "spend down" of assets will be required or desirable, consider which assets are to be liquidated first. Also, consider contingency plan for longer client life span than plan assumptions provide.	______	______	______
(5). Formulate a "game plan" that incorporates the recommendations.	______	______	______
(6). Revise cash flow and net worth projections to incorporate changes that will be adopted.	______	______	______
(7). Reevaluate achievability of goals.	______	______	______
e. Coordinate With Other Financial Planning Areas.			
(1). Consider the extent to which assets are exposed to risk.	______	______	______

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	Done By	W/P Ref.	Date
(2). Consider the extent that income is vulnerable to risk.			
(a). Stability of earned income			
(1). Termination of employment			
(2). Death or disability of a wage earner			
(3). Closely held business' financial condition			
(3). Consider vulnerability to increased expenses.			
(a). Catastrophic medical expenses			
(b). Property destruction and replacement			
(4). Consider the effect that divorce would have on the achievability of goals.			
(a). Reduction in income available to fund goals			
(b). Reduction in assets available to fund goals			
(c). Ability of each spouse to generate an acceptable income			
f. List Other Considerations Based on Client's Specific Circumstances.			
g. Document the Rationale Supporting Your Recommendations in the Working Papers.			

2. Income Tax Planning

Objective: Minimize and manage income taxes taking into account the objectives of clients overall financial plan.

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
a. Strategies to Consider:			
(1). Consider advisability of tax deferral based on present and anticipated general tax rates and client's circumstances.	______	______	______
(a). Defer income (i.e., defer receipt of bonus payments until following year, installment sales, like-kind exchange, retirement plan, contributions and receipts).	______	______	______
(b). Accelerate deductions (i.e., pay fourth quarter state tax estimates by December 31).	______	______	______
(c). If tax rates are anticipated to increase, consider acceleration of income and/or deferral of deductions (i.e., accelerate receipt of bonus payments, defer payment of fourth quarter state tax payment into the following year).	______	______	______
(d). Consider taxpayers' anticipated income tax position for the following years (i.e., tax bracket, income, deductions).	______	______	______
(e). Consider inflation, interest rates, and anticipated future economic conditions.	______	______	______
(f). Consider utilization of withholding (or quarterly payments) to avoid tax payment penalties.	______	______	______
(g). Consider recharacterization of income and deductions (i.e., passive vs. active).	______	______	______
(2). Consider income tax reduction strategies.			
(a). Increase deductions (i.e., utilizing active participation on rental property rule).	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(b). Use tax credits (i.e., low-income housing credit, rehabilitation credits).			
(c). Consider recharacterization of income and deductions (i.e., recharacterizing itemized deductions subject to 2% rule to business category).			
(d). Consider tax incentive investments (i.e., working interests in oil or gas transactions).			
(e). Consider anticipated future tax legislation (i.e., reinstatement of capital gain preferences).			
(f). Consider charitable giving (i.e., direct gifts, charitable remainder trusts, charitable lead trusts, private foundations, pooled income funds).			
(g). Consider tax efficient borrowing (i.e., refinancing nondeductible interest debt with deductible interest debt).			
(3). Consider shifting income and deductions.			
(a). Consider changing property ownership to family members or other entities (sales, gifts, contributions).			
(b). Consider making payments to others (i.e., salaries to family members).			
(4). Consider taxpayer status and changes.			
(a). Married, single, or head of household			
(b). Dependents			
(c). Status of employment			

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(d). Acquisition or disposition of property or business	______	______	______
(e). Marital stability or divorce	______	______	______
(f). State of domicile for state income tax purposes	______	______	______
(5). Consider tax ramifications of employer securities, stock options and other employee benefits.	______	______	______
b. Special Tax Concerns			
(1). Evaluate alternative minimum tax (i.e., passive losses allowable for regular tax purposes but not deductible for AMT).	______	______	______
(2). Evaluate state income taxation (i.e., certain deductions or income permitted or taxed at Federal level are not permitted or taxed at state level).	______	______	______
(3). Assess whether related party transactions may trigger otherwise noncurrently taxable income or prevent the deductibility of certain items.	______	______	______
(4). Determine if constructive receipt doctrine requires income recognition even though cash is not actually received.	______	______	______
(5). Assess rules relating to relief of indebtedness that may result in income recognition without receipt of cash to pay the related taxes.	______	______	______
(6). Advise client of the risks, costs and the benefits of potential tax penalties and relate interest charges.	______	______	______
c. Procedures			
(1). Review income tax returns for prior three years.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(a). Look for trends, errors, loss and credit carry forwards. Consider filing amended tax returns.	______	______	______
(b). Consider past problems with Federal or state taxing agencies.	______	______	______
(2). Assess client's risk tolerance in dealing with the Internal Revenue Service and in making tax incentive investments.	______	______	______
(3). Select tax strategies for use in client's plan and prepare an income tax projection before and after the implementation of the selected tax strategies.	______	______	______
(4). Consider impact on retirement, estate, cash flow and investment plans. Rework projections or computations in other planning areas (i.e., cash flow projection) reflect the implementation of selected tax strategies.	______	______	______
(5). Consider reworking federal and state tax projections on a quarterly basis to better monitor differences between estimated and actual results and to help client monitor cash flow throughout the year.	______	______	______
(6). Assist client in designing a record keeping system that will aid in tracking taxable income and deductions.	______	______	______
d. List other considerations based on client's circumstances.	______	______	______
e. Document in workpapers the rationale supporting your recommendations.	______	______	______

3. Investment Planning

Objective: Make sound investment recommendations that are appropriate in light of client's circumstances.

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
a. Allocation Priorities. Determine the client's priorities for the allocation of financial resources among specialized risk management needs.	______	______	______
(1). Identify and segregate contingency funds. Consider appropriate form which is generally short-time horizon and high liquidity. Consider placement for best economic benefit (i.e., return, safety, or maintaining bank relations).	______	______	______
(2). Identify and segregate funds earmarked for additional insurance purchases.	______	______	______
b. Decide on Engagement Scope. Decide if the nature of the engagement suggests a direct goal funding approach, a review of an investment that is currently being considered, or a general comprehensive investment review.	______	______	______
(1). If a direct goal funding approach is suggested, go directly to section on Investment Strategies.	______	______	______
(2). If a review of an investment that is currently being considered is necessary, go directly to "Provide the Agreed-Upon Level of Investment Planning Services."	______	______	______
(3). If a general comprehensive investment review is necessary, continue on with the next section below on gathering information regarding special investment considerations.	______	______	______
c. Gather Information Regarding Special Investment Considerations.			
(1). Consider opportunities from client's employer.			
(a). 401(k) plans	______	______	______
(b). 403(b) plans	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(c). ESOPs	______	______	______
(d). Stock options	______	______	______
(e). Stock appreciation rights	______	______	______
(f). Deferred compensation arrangements	______	______	______
(2). Consider client's business characteristics.			
(a). Does client's business provide special knowledge or expertise that would enhance an investment opportunity?	______	______	______
(b). Does client's business enjoy financial or social leverage based on industry or community position that enhances the chance of success or lowers the risk of an investment?	______	______	______
(3). Consider client's personal characteristics.			
(a). Does client have an unusually good or bad track record in certain investment types?	______	______	______
(b). Does client's past history indicate ability or inability to deal with partners in investment dealings?	______	______	______
(c). Do client's other commitments preclude or mandate any investment types?	______	______	______
d. Gather and Analyze Data to Develop the Client's Investment Profile and General Deposition Toward Risk.			
(1). Schedule the client's current investment assets by category.	______	______	______
(2). Identify characteristics of investment assets in key areas such as—			
(a). Diversification.	______	______	______

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	Done By	W/P Ref.	Date
(b). Identification of assets essential to maintain a significant portion of income stream (i.e., closely held business).	______	______	______
(c). Liquidity.	______	______	______
(d). Cash flow production.	______	______	______
(e). Appreciation potential.	______	______	______
(f). Inflation protection.	______	______	______
(g). Need for active management.	______	______	______
(h). Expected composition based on client's age.	______	______	______
(i). Significant holdings of employer securities.	______	______	______
(j). Possible conflict with client constraints.	______	______	______
(k). Cost basis.	______	______	______
(3). Assess the client's level of risk tolerance based on general information, satisfaction with present investments, and other indications of risk tolerance.	______	______	______
(4). Ask client to complete a questionnaire or worksheet assessing investment preferences and assess level of risk apparent from the responses (Appendix C contains a sample Investment Preference Worksheet).	______	______	______
(5). If risk assessment from item (3) varies with risk assessment from item (4), consider using a more formal risk assessment model to refine actual risk tolerance.	______	______	______
e. Evaluate the Risk and Return Characteristics of the Client's Current Investments.			

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	Done By	W/P Ref.	Date
(1). Consider relative importance of various risk elements to client.			
(a). Market risk (susceptibility to fluctuations in general market for an investment)	______	______	______
(b). Interest rate risk (potential price fluctuations caused by interest rate changes)	______	______	______
(c). Purchasing power risk (effect of inflation and disinflation on future income/principal of an investment)	______	______	______
(d). Investment risk (unique to a firm or industry)	______	______	______
(2). Calculate the earned after-tax yield on each investment category for an appropriate investment cycle.	______	______	______
(3). Relate the calculated yield-to-a-risk-adjustment-yardstick (i.e., Beta, comparable yields, or "risk free" return comparison).	______	______	______
(4). Compare the calculated yield with client's stated goals.	______	______	______
f. Select Financial Assumptions.			
(1). Based on the previous steps, select assumptions that are within a reasonable range for:			
(a). Interest rates.	______	______	______
(b). Investment returns.	______	______	______
(c). Inflation.	______	______	______
(2). Consider impact of required time frame on financial assumptions.	______	______	______

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	Done By	W/P Ref.	Date
g. Investment Strategies. Using the financial assumptions selected above, determine the adequacy of the client's resources for achieving stated investment goals and analyze the appropriateness of the client's current investment strategies. If resources are insufficient, consider revising the allocation of resources, changing goals, or using investments with higher risks and yields.	______	______	______
(1). Identify high priority goals for which specific strategies are presently desired or advisable (i.e., children's education or new home purchase).	______	______	______
(2). Identify the required time frame in which the high priority goals must be achieved.	______	______	______
(3). Identify the amount of present investments and cash flow that must be dedicated to achieve the high priority goal in the required time frame.	______	______	______
(4). Measure sensitivity of accomplishing goal to changes in assumptions.	______	______	______
(5). Advise client of the impact of funding the high priority goals on financial security at retirement age.	______	______	______
(6). Advise client as to the advisability of accepting higher risk and return for potential higher yield based on importance of high priority goal.	______	______	______
h. Provide the Agreed-Upon Level of Investment Planning Services.			
(1). Consider investment product types and determine appropriate allocation percentage ranges based on required return rates, age, risk assessment, client's investment management time and ability, high priority goals, and other client conditions.	______	______	______

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	Done By	W/P Ref.	Date
(2). Consider special opportunities or problems of nonmarketable securities.	______	______	______
(3). Develop alternatives for restructuring present portfolio to achieve desired allocation.	______	______	______
(4). Develop alternatives for investing future cash flow from employment to achieve desired allocation.	______	______	______
(5). Assist the client in writing a strategic investment plan for investing based on the results of the steps above.	______	______	______
(6). Assist client in selecting investment advisor(s) for implementing the investment plan.	______	______	______
(7). Assist client in developing an action plan to convert investments that are not meeting goals.	______	______	______
i. Review an Investment Which is Currently Being Considered.			
(1). Discuss or clarify the scope of review with client (i.e., financial planning, tax, general, or other). If nonfinancial planning review, this section of the checklist may not apply.	______	______	______
(2). Determine client's goal(s) for the specific investment under consideration by reference to the previous steps.	______	______	______
(3). Compare the characteristics of the investment to those identified in the previous steps; note and discuss differences with client.	______	______	______
(4). List intrinsic advantages and disadvantages of the investment based on review of supporting documentation.	______	______	______
(5). List advantages and disadvantages of the investment based on the steps above.	______	______	______

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	Done By	W/P Ref.	Date
(6). Develop a conclusion regarding suitability for client based on the steps above.	______	______	______
(7). Encourage client to consider several specific alternatives before making a final decision.	______	______	______
j. Coordinate With Other PFP Areas.			
(1). Consider impact of closely held business risk and return on overall investment planning. See Closely Held Business Planning segment.	______	______	______
(2). Measure sensitivity of investment plan to possible reduction of annual additions to investment base resulting from earnings decline and lifestyle spending increases. See Net Worth and Cash Flow segment.	______	______	______
(3). Consider impact of tax situation on conclusions and consider tax planning strategies if appropriate. See Income Tax Planning segment.	______	______	______
(4). If asset level or special circumstances indicate estate planning issues, consider evaluating investment ownership alternatives. See Estate Planning segment.	______	______	______
k. List Other Considerations Based on Client's Specific Circumstances.	______	______	______
l. Document the Rationale Supporting Your Recommendations in the Working Papers.	______	______	______
4. Education Funding			
Objective: Provide for education cost.			
a. Educational Objectives of Family			
(1). Determine portion client is willing to pay.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(2). Determine client's wishes for state or private institution.	______	______	______
(3). Determine client's wishes for college or trade school.	______	______	______
(4). Determine client's wishes for providing for post-graduate education.	______	______	______
(5). Determine client's wishes for providing for ancillary costs (i.e., travel and added living expenses).	______	______	______
(6). Determine parents' attitude toward children working for college money during school year and summer.	______	______	______
(7). Determine parents' attitude toward funds provided in excess of those required for education.	______	______	______
(8). Consider ability or desire of person to be educated.	______	______	______
(9). Determine disposition of earmarked funds if education planned is not actually undertaken.	______	______	______
(10). Consider special needs or circumstances of client or person to be educated.	______	______	______
b. Required Amount of Funds			
(1). Perform computation using or a similar for each person to be educated.	______	______	______
(2). Identify funds presently earmarked for education.	______	______	______
c. Financing Sources Other Than Client			
(1). Determine possible financial aid from private or public financial aid system.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(2). Identify resources from grandparents or other relatives.	______	______	______
(3). Consider contribution from child through earnings or other sources (i.e., previously established planning entity or working for family business).	______	______	______
d. Ownership of Education Fund Assets			
(1). Consider ownership by parents, children, trust, or family partnership.	______	______	______
(2). Consider creditor protection.	______	______	______
(3). Consider income tax implications.	______	______	______
(4). Consider estate tax implications.	______	______	______
(5). Consider disposition of funds that are not used for education.	______	______	______
e. Selection of Investment Vehicles			
(1). Consider earmarking funds or leaving funds as part of general investments.	______	______	______
(2). Evaluate rate of return used in Required Amount of Funds section above.	______	______	______
(3). Determine investment risk tolerance for education funds.	______	______	______
f. Coordination With Other Financial Planning Areas			
(1). Consider life or disability insurance to assure financial commitment. See Risk Management section.	______	______	______
g. List Other Considerations Based on Client's Specific Circumstances.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
h. Document Reasons for Conclusions.	______	______	______

5. Risk Management

Objective: Identify risk exposures and manage risk exposure through avoidance, reduction, transfer, or retention.

a. Specialized Data Gathering

	Done By	W/P Ref.	Date
(1). Obtain data regarding insurance policies owned. The data-gathering forms included in Appendix C may be used.	______	______	______
(2). For employer-provided medical benefits, consider requesting information directly from the benefits administrator.	______	______	______

b. Risk Identification

	Done By	W/P Ref.	Date
(1). Review all family and financial data obtained in the data gathering process for potential sources of risk.	______	______	______
(2). Review the statement of cash flow for income sources that are subject to risk.	______	______	______
(3). Seek input from client and the client's insurance professional regarding potential sources of risk.	______	______	______
(4). If the client owns a significant business interest, consider the advisability of a risk management audit of the company.	______	______	______

c. Risk Management

	Done By	W/P Ref.	Date
(1). For significant risks if avoidance, reduction or retention is not desirable, determine whether coverage to transfer risk is in place.	______	______	______

(2). Discuss with client and spouse the variables and personal preferences that are involved in determining life insurance needs. Ascertain and

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This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
document the client's preferences regarding the parameters (i.e., desires regarding family lifestyle, elimination or retention of debt, or preservation of capital).	______	______	______
(3). Calculate life and disability insurance needs. Modify calculations in accordance with client funding preferences.	______	______	______
d. Develop Recommendations			
(1). With input from the insurance professional and the client, determine important policy characteristics and features. Compare existing policies with the desired features and suggest appropriate changes.	______	______	______
(2). Estimate the cost of the recommended insurance coverage and update the cash flow projections.	______	______	______
e. Coordinate With Other PFP Areas.			
(1). Consider life insurance needs in the context of estate planning, retirement planning, and education funding.	______	______	______
(2). Consider the impact of divorce or loss of occupation on risk transfer needs.	______	______	______
f. List Other Considerations Based on Client's Specific Circumstances.	______	______	______
g. Document Reasons for Conclusions.	______	______	______

6. Retirement Funding

Objective: Provide for income during retirement. Determine that assets are appropriate and accumulate the assets that are desired for retirement.

a. Retirement Objectives

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(1). Review retirement goals and objectives.	______	______	______
(a). Consider time horizons.	______	______	______
(1). Determine the age at which the client wants to retire.	______	______	______
(2). Determine client's most likely age for retirement.	______	______	______
(b). Consider retirement activities such as second career and hobbies to pursue.	______	______	______
(c). Consider the desired level of security during retirement.	______	______	______
(d). Quantify living expenses.	______	______	______
(e). Quantify retirement income.	______	______	______
(2). Review relocation plans, if any.	______	______	______
(3). Consider impact of divorce.	______	______	______
b. Retirement Plan Options From Employer			
(1). Determine retirement plan(s) including early retirement options.	______	______	______
(2). Review medical plan.	______	______	______
(3). Review long-term health care plan.	______	______	______
c. Retirement Options			
(1). Analyze investment considerations.	______	______	______
(a). Consider changes that should be made in investments to achieve retirement goals.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(1). Consider changes to increase returns on investments to meet retirement objectives.	______	______	______
(2). Consider changes to reflect changing levels of risk tolerances in light of transactions costs and income taxes.	______	______	______
(3). Consider recommending that the client make investments or reposition investments to reflect desires regarding management of assets during retirement (for example, retirees may wish to spend more time on investments).	______	______	______
(4). Consider changes to achieve proper diversity in investments.	______	______	______
(5). Consider recommending that the client divert some assets to retirement use (e.g., retirement home).	______	______	______
(2). Consider repositioning personal assets.	______	______	______
(3). Special considerations at or near retirement:			
(a). Review elections available regarding retirement funds, insurance contracts, social security or Medicare.	______	______	______
(b). Review changes required in insurance coverage, (i.e., medical or long-term care).	______	______	______
(c). Plan for the ordering of the use of funds considering any tax problems or opportunities relating to the excise taxes on retirement plans or the use of funds that will be income in respect of a decedent in the estate.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(4). Consider counteracting any overconcentration of assets in employer stock or closely held business interests.	______	______	______
d. Special Management Considerations			
(1). Consider use of trusts, durable powers of attorney, or other techniques to assure continued management if client becomes unable or unwilling to manage assets.	______	______	______
(2). Consider whether the will or power should be executed setting forth desired medical treatment.	______	______	______
(3). Consider steps to protect against catastrophic illness (for example, maximize the use of funds from the public sector).	______	______	______
e. List Other Considerations Based on Client's Specific Circumstances.	______	______	______
f. Document Reasons for Conclusions.	______	______	______

7. Estate Planning

Objective: Provide funds for heirs and dispose of assets in accordance with client's wishes.

	Done By	W/P Ref.	Date
a. Client's Wishes and Special Data			
(1). Complete or review data regarding client's wishes. The data gathering forms in Appendix C may be used.	______	______	______
(a). Gather data regarding disposition, including:			
(1). Who are beneficiaries?	______	______	______
(2). Are there special considerations regarding spouse as beneficiary?	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(3). Are there special considerations regarding other beneficiaries?	______	______	______
(4). Are there family members who are not to share?	______	______	______
(5). Who should inherit if named beneficiaries predecease the client?	______	______	______
(6). Does client wish to make substantial lifetime gifts? Charitable or non-charitable?	______	______	______
(7). Review prior gift tax history.	______	______	______
(b). Gather data regarding management, including the following:			
(1). Is a revocable trust appropriate?	______	______	______
(2). Should there be a medical or living will?	______	______	______
(3). Who will be executor?	______	______	______
(4). Should property be left in trust?	______	______	______
(5). Collect information regarding advisors and location of important papers?	______	______	______
(c). Gather data regarding assets and potential assets.			
(1). Use information gathered above for overview and review it for special considerations at death.	______	______	______
(2). Is life insurance information available?	______	______	______
(3). Check available ownership information between husband and wife; joint tenancy or tenants in common.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(4). Are any expected inheritances not reflected in asset information?			
(5). Does client possess any powers of appointment?			
(6). Should client exercise the powers of appointment?			
(d). If there is a closely held business, see the checklist regarding Closely Held Business Planning.			
(1). If equitable title to property is different from legal title, determine if it should be corrected or conformed to client's wishes.			
b. Estate Liquidity and Needs			
(1). Compute estimated estate or inheritance taxes and administrative expenses.			
(2). Compute estimated liquidity analysis.			
(3). Compute shortfall for liquidity and total assets less liabilities.			
(a). If controlled corporation exists, consider impact including possible IRC Section 303 redemptions and IRC Section 6166 tax deferral.			
(4). Consider recommending alternatives to alleviate shortfall (i.e., insurance or investment strategies, leverage in estate and repositioning of personal assets).			
(a). Use appropriate procedures from other segments, particularly insurance and investments.			
(b). Consider education and retirement planning.			

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(c). If shortfall still exists, have client reevaluate objectives.			
c. Choice of How to Manage Affairs			
(1). Consider use of revocable trust, durable power of attorney, or other device to manage assets in event of incompetence or desire to shift management of assets.			
(a). If appropriate, check if plan accommodates deathbed planning (e.g. ability to buy flower bonds and make gifts).			
(b). If safe deposit box is to be sealed at death, are needed documents available?			
(2). Consider use of will or durable power to direct desired level of medical treatment.			
(3). Select probate and revocable trust to dispose of assets.			
(a). Use trust to avoid publicity, cost, and delays associated with probate.			
(b). Use will to supervise probate court regarding family disputes, or protection from creditors.			
d. Choice of Managers			
(1). Select someone to manage affairs during life at death, and for any continuing trust. Consider splitting management between policy matters, supervision of people to administer assets, and to carrying out various functions).			
(2). Does client need assistance in selecting an attorney for the estate?			

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(3). If there are minor children, ask client the following to decide on guardian and related provisions:			
(a). Who should be guardian of the children?	_______	_______	_______
(b). Who should manage assets for the children?	_______	_______	_______
(c). Consider the extent, if any, to which assets may be used to improve lifestyle of guardian and guardian's family.	_______	_______	_______
(1). Use a trust to avoid publicity, cost, and delays associated with probate.	_______	_______	_______
(2). Use a will to supervise probate court regarding family disputes and protection from creditors.	_______	_______	_______
(3). Consider preparation of a letter of instructions to spouse and executor.	_______	_______	_______
e. Marital Deduction Planning, If Married			
(1). If estate is likely to be over $600,000, recommend bypass trust or document why it is not used.	_______	_______	_______
(2). Consider equalizing the two estates.	_______	_______	_______
(a). For gifts dúring life; consider implications of possible divorce.	_______	_______	_______
(b). Calculate payment of tax on first estate.			
(1). Client may decide to defer decision to surviving spouse by using disclaimer, or to executor with QTIP elections.	_______	_______	_______
(2). Consider impact of previously taxed property credit if client decides to pay tax in first estate.	_______	_______	_______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(3). Consider if marital should be a fractional interest or if marital or bypass should be the residue.	______	______	______
(3). Ask client to decide on form of marital deduction, such as outright to surviving spouse, general power trust, QTIP, estate trust, or charitable trust (remainder or lead).	______	______	______
(4). Consider provision regarding simultaneous death (i.e., death from a common accident or desired period of survival).	______	______	______
(5). Consider the impact of possible divorce on marital estate planning.	______	______	______
f. Other Disposition Considerations			
(1). Consider rights or obligations caused by cohabitation.	______	______	______
(2). Consider impact on heirs regarding transfer.	______	______	______
(a). Ask client to decide on appropriate ages for beneficiaries to have control of assets.	______	______	______
(b). Consider if there are any special needs of beneficiaries that should be provided for.	______	______	______
(c). Consider if steps should be taken to educate beneficiaries regarding the assets to be received.	______	______	______
(3). Consider use of generation-skipping tax exemption(s).	______	______	______
(4). Consider if provisions should be made to allow others to disclaim to get marital deduction.	______	______	______
(5). Consider other contractual rights (i.e., divorce rights or obligations, or prenuptial agreements).	______	______	______

	Done By	W/P Ref.	Date
g. Other Tax Savings Ideas			
(1). Consider special ramifications of state gift and inheritance tax.	______	______	______
(2). Consider ownership of life insurance (i.e., insured, beneficiary, or trust). Check impact of IRC Section 2036 (c) and 2035.	______	______	______
(3). Pay or increase pay to heirs for services rendered to client and client's business.	______	______	______
(4). Pay all expenses that are appropriate for heirs, for example, direct payment of tuition and medical expenses.	______	______	______
(5). Consider gifts using the $10,000 annual exclusions.	______	______	______
(6). Consider gifts in excess of the annual $10,000 exclusion to transfer growth of gifted assets out of estate.	______	______	______
(7). Purchase or plan for the purchase of flower bonds.	______	______	______
(8). Consider buy-sell agreements and related funding, if appropriate.	______	______	______
(9). Consider loans to heirs.	______	______	______
(10). Shift growth of assets by available means including current gifts, grantor-retained interest trusts, charitable remainder unitrusts, charitable lead trusts, and joint purchase of assets. Note: Consider issues under Section 2036(c) and check recent developments.	______	______	______
(11). Consider gifts to parents for step-up in basis if parents' estate is small and parents are expected to survive over one year.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(12). Plan to dispose of rights to income in respect of decedent.	______	______	______
(13). Consider if plan accommodates post-mortem planning including election of special valuation, long-term payment of estate taxes, IRC Section 303 redemptions, and disclaimers.	______	______	______
h. List Other Considerations Based on Client's Circumstances.	______	______	______
i. Document Reasons for Conclusions.	______	______	______

8. Closely Held Business Planning

Objective: To assist the closely held business owner in achieving business and personal goals.

a. Maximize Cash Flow Objectives for the Business

	Done By	W/P Ref.	Date
(1). Prepare a monthly cash flow budget for the coming year.	______	______	______
(a). Assist client in developing a system to monitor the actual cash flow and to compare the budget to actual (i.e., design spreadsheets).	______	______	______
(b). Consider meeting with client during the year to review the results and identify or analyze large variances. Stress to client the significance of such reviews on a monthly basis, with or without the planner.	______	______	______
(2). Identify and evaluate client's credit requirements and relationships with lenders.	______	______	______
(a). Are the client's credit requirements and relationships with lenders adequate, currently and prospectively?	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(b). Develop a plan to fulfill the client's credit requirement (i.e., introduce the client to a new lender and work towards meeting the necessary credit requirements).	______	______	______
(3). Assess the use of leverage in the business in terms of risk, rate of return, industry comparison, and client's desired level of indebtedness.	______	______	______
(a). Determine whether the existing use of leverage is in accordance with the other objectives of the plan.	______	______	______
(4). Determine the client's comfort level for existing and projected accounts receivable and accounts payable.	______	______	______
(a). If there appears to be a problem in this area, ascertain whether it is an internal problem (i.e., client billings are not generated on a timely basis) or an external problem (i.e., collections are not made on a timely basis).	______	______	______
(b). Consider bringing in a specialist (i.e., systems analyst) to resolve internal control problems, where appropriate.	______	______	______
(c). Discuss with client the desired levels of receivables or payables and develop a plan designed to achieve such objectives. In addition, the plan should include the design of a monitoring system, to assist in periodically reviewing the results.	______	______	______
(5). Review with client all variable cost items on prior year financial statement and current year budget, focusing on the cost vs. benefit of each item.	______	______	______
(6). Determine short-term and long-term cash requirements for the business (i.e., pension plan funding requirements).	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(a). Develop an investment plan for excess cash balances to maximize return on investment and maintain desired liquidity to achieve other goals and objectives.	______	______	______
(7). Discuss with client the merits or detriments of using independent contractors or employees (i.e., control and cost) and the related impact to cash flow.	______	______	______
(8). Discuss with client fluctuations in the liquidity of the business (i.e., seasonality, and the related impact to other areas of the business).	______	______	______
(a). Consider ways to smooth the cash flow generated by the business more evenly throughout the year.	______	______	______
(9). Where applicable, determine the client's existing inventory control procedures and the viability of such procedures.	______	______	______
(a). If there appears to be a problem in this area, consider recommending to client that a specialist should examine and resolve the present situation.	______	______	______
b. Manage Business Growth Within the Parameters of the Client's Objectives and Goals.			
(1). Discuss with client long-term and short-term general goals, objectives, or desires for the business.	______	______	______
(a). Determine the reasonableness of these goals and prioritize them.	______	______	______
(b). Develop a plan to achieve these objectives. This plan should indicate the goal, the steps to be taken to achieve the goal, the person(s) responsible for completing the steps and the time frame in which the steps will be completed.	______	______	______

	Done By	W/P Ref.	Date
(c). Review and update this plan periodically to assess the success rate, and identify variances in the plan to actual results.	______	______	______
(2). If employees are a significant factor to the overall growth and success of the organization, an employee retention plan may be required.	______	______	______
(a). Discuss with the client the merits and costs of an employee benefit plan, including vacation time, health benefits, sick time, and participation in the decision-making process and business ownership.	______	______	______
(3). Determine the appropriateness of the existing business form or structure (i.e., corporation or sole proprietorship) within the growth plan.	______	______	______
(4). If additional financing or refinancing will be required by the plan for growth, review the available alternatives (i.e., bank financing, investor equity, debt financing, or government subsidies).	______	______	______
(a). Determine with the client the avenues that will be pursued, and develop a plan that will enable this objective to be achieved (i.e., create a stronger balance sheet that will support such financing).	______	______	______
(5). Review the debt to equity relationship of the business, and determine its appropriateness within the framework of the client's objectives (i.e., if the debt is too high in relation to the client's equity, a plan to reduce such debt may be necessary).	______	______	______
(6). Discuss with the client the importance of time management especially during periods of significant growth.	______	______	______
(a). Suggest to the client and his or her employees the use of a day-timer or daily planner, time			

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
management consultant, or weekly progress meetings.	______	______	______
c. Minimize and Manage Income Taxes Within the Objectives of the Client's Overall Financial Plan.			
(1). Prepare an income tax projection on a quarterly basis for the coming year and on an annual basis for the next year.	______	______	______
(a). Prior to the due date of each estimated payment or quarterly, compare the projected amounts to the actual and identify or analyze large variances. Consider the impact on cash flow planning.	______	______	______
(b). Assist client in designing a record-keeping system that will aid in tracking taxable income and deductions.	______	______	______
(2). Discuss with client the tax results of the existing business structure or form (i.e., sole proprietor, partnership, S-Corp., C-Corp.). Determine if this existing structure makes sense within client's overall objectives.	______	______	______
(3). Consider the benefits and costs of tax incentive investments (i.e., acquisition of real estate in which business is located).	______	______	______
(4). Review the tax impact of purchasing or leasing equipment and the related impact to cash flow.	______	______	______
(5). Assess client's desire to save money and business' ability to fund a pension or profit sharing plan.	______	______	______
(a). Discuss with client the tax savings that could be achieved with the implementation of pension or profit sharing plans.	______	______	______

	Done By	W/P Ref.	Date
(b). Consider the related impact on cash flow, employee satisfaction, retention, and proprietor's personal retirement plan.	_____	_____	_____
(6). Consider the benefits and costs of an employee stock ownership plan.	_____	_____	_____
d. Manage and Control Risks Within the Business.			
(1). Assess client's risk tolerance as it relates to the business.	_____	_____	_____
(2). Identify and evaluate potential sources of risk including:			
(a). Loss of property (i.e., permanent and temporary or partial and full) due to casualty or theft.	_____	_____	_____
(b). Loss of key employee's life.	_____	_____	_____
(c). Potential liabilities and contingencies (i.e., product, personal injury, officers or directors liability).	_____	_____	_____
(d). Loss of company secrets or key employee to another company.	_____	_____	_____
(3). Prepare a list of potential risks and discuss with client how each will be managed (i.e., retention, avoidance, reduction, transfer).	_____	_____	_____
(a). Analyze the cost and benefit of insurance in each category. Also, consider the viability of legal agreements or contracts (i.e., leases or employment contracts).	_____	_____	_____
(b). Analyze impact of recommendations to cash flow and growth plan.	_____	_____	_____
e. Plan for the Business Disposition and Retirement or Death of Owner.			

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
(1). Assess client's objectives for the ultimate disposition of the business. Stress the importance of a plan to achieve these objectives.	______	______	______
(2). Consider the merits of a buy-sell agreement (i.e., important for personal service companies and small corporations with more than one shareholder) and key-man life insurance which can be held inside or outside of the company.	______	______	______
(3). Review implications of business form or structure (i.e., corporation or sole proprietorship) for ease of transfer, liability, potential tax effects, and multiple entity potential.	______	______	______
(4). Ask client to consider if there is a family member or long-term employee who could operate or acquire the business. Consider the emotional aspects of this decision to the heirs.	______	______	______
(5). Analyze impact on estate plan (i.e., estate liquidity, lifetime gifts, IRC Section 6166, extension of time to pay estate tax if estate consists largely of an interest in a closely held business).	______	______	______
(6). Determine if there is an existing or prospective pension plan that could fund the client's retirement.	______	______	______
(a). Analyze the merits or detriments of existing plans, where appropriate.	______	______	______
(b). Outline the cost and benefit of implementing a pension plan, where appropriate.	______	______	______
(c). Consider bringing in a retirement plan specialist to assist in the design and implementation of such a plan.	______	______	______
f. List Other Considerations Based on Client's Circumstances.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
g. Document Reasons for Conclusions.	______	______	______
h. *Note*: Certain segments of closely held business planning require significant technical knowledge (i.e., automation, inventory control). In such cases, it is the planner's role to identify problems or potential problems rather than to necessarily resolve them. A specialist should be brought in to assist the client in these areas, perhaps as a separate engagement. This is an ideal marketing tool for a planner employed by a firm that has a MAS department to cross-sell services and to generate external references.			
C. Final Considerations Before Completing PFP Work Program			
1. Reporting of Recommendations and Advice			
a. Consider frequency and method of communication appropriate to scope.	______	______	______
b. Consider appropriate reports for client.	______	______	______
(1). Determine who should receive reports (i.e., client, other advisors, or some combination).	______	______	______
(2). Determine report content and time frame.	______	______	______
c. Identify key assumptions and sensitivity of conclusions to changes in key assumptions and communicate this to client.	______	______	______
2. Helping the Client to Effect Financial Planning Decisions			
a. Determine the decisions that client must make and establish a time frame for making them.	______	______	______
b. Encourage, guide, and facilitate the decision-making process by holding additional meetings and providing input and information, as appropriate.	______	______	______
c. Based on client's decisions, develop an action plan of implementation steps including person responsible and			

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

	Done By	W/P Ref.	Date
date to be accomplished. Communicate it to all persons involved.	______	______	______
3. Monitoring the Progress			
a. Determine if client wants monitoring service. This is normally separate from other PFP services.	______	______	______
b. Follow up on implementation steps with all responsible persons.	______	______	______
c. Address and resolve problems in the implementation process.	______	______	______
4. Revising the Plan			
a. Explain to client that updating and ongoing advice are not mandatory but are generally in the client's best interest.	______	______	______
b. Consider desired time frame before update is advisable, including time frame for updating reports.	______	______	______
c. Establish update ticklers to notify client when recommended update time is near.	______	______	______
d. Establish an understanding with client as to other ongoing advisory services, preferably in writing.	______	______	______

This practice aid is to be used with professional judgment that considers specific client circumstances. Also, see Preliminary and Final Consideration Checklists for all engagements.

APPENDIX C

DATA GATHERING AND ANALYSIS FORMS

APPENDIX C

DATA GATHERING AND ANALYSIS FORMS

INTRODUCTION

This appendix contains the following forms for gathering client data, organizing information, identifying client goals and engagement objectives, and evaluating investment preferences:[1]

- Personal Financial Planning Questionnaire
- Client Advisers Summary
- Document Request Form
- Personal Financial Profile
- Goal-Setting Worksheet
- Objectives Worksheet
- Investment Preference Worksheet
- Assumptions and Objectives
- Family Data Interview Sheet

There is some overlap in the materials covered on the various forms, allowing you to review different formats and develop the data gathering and analysis forms with which you are most comfortable. These forms are also included on the enclosed diskettes and may be tailored for use in your own practice.

DATA GATHERING TIPS

The forms, questionnaires and worksheets included in this appendix can be used in several ways:

- You can ask your clients to complete the form or questionnaire and return it to you. This normally assumes that the client's goals are relatively well defined, and may be most appropriate after an engagement has begun.

- You can compete the form or questionnaire with your clients and potential clients in face-to-face meetings. This technique enables you to explain the significance of the responses and information you're requesting and to work with your clients in the early development of their financial goals.

- The last form, the *Family Data Interview Sheet,* is specifically designed to be used during a face-to-face meeting. This worksheet contains a number of brief questions designed to gather general background information about the clients, their family, their resources, and their financial goals and obligations.

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1 Some of the forms included here were adapted from forms developed by the LINC Society of CPA Financial Planners (LINC). The PFP Division acknowledges the help provided by LINC in developing these materials.

A series of italicized discussion points follows most of the interview questions. These discussion points are structured as open-ended questions to encourage clients to communicate their ideas, concerns, and feelings and to help you develop your listening skills. Bring these up casually during the interview rather than as part of a bullet list of questions.

At the end of the worksheet, document the client's goals, including goals specifically identified by the client as well as those that you infer from your conversation.

☛ **Action Tip**

A face-to-face interview is an effective marketing strategy. Meeting with potential clients and working with them in the preliminary establishment of their goals helps in relationship building and emphasizes the "personal" nature of PFP.

PERSONAL FINANCIAL PLANNING QUESTIONNAIRE

Please fill out this questionnaire as accurately and completely as possible. You may estimate or make rough guesses where necessary; if you do so, please identify these answers clearly by putting a question mark in the margin next to your response.

PART I • PERSONAL AND FAMILY INFORMATION

1. **Personal Information**

	You	*Your Spouse*
Full Name	____________	____________
Social Security Number	____________	____________
Date and Place of Birth	____________	____________
Occupation	____________	____________
Name of Employer	____________	____________
Self Employed?	____________	____________
Work Telephone Number	____________	____________
Health	____________	____________

2. **Home Address** ____________________

____

____

3. **Home Telephone Number** (   ) ____________________

4. **Prior Marriages**

	Yes	*No*
Have you been married previously?	☐	☐
Has your spouse been married previously?	☐	☐

5. **Children**

Name	*Age*	*Dependent* *Yes*	*Dependent* *No*
____________________	________	☐	☐
____________________	________	☐	☐
____________________	________	☐	☐
____________________	________	☐	☐

6. **Grandchildren**

Number ____________________ Age(s) ____________________

	Yes	*No*
7. Does anyone other than your children depend financially on you or your spouse?	☐	☐

If yes, give name(s) and relationship(s):

_______________________________________ ____________

_______________________________________ ____________

_______________________________________ ____________

	Yes	*No*
8. Do any members of your family have significant health problems?	☐	☐

If yes, please explain:

____

____

____

9. **Advisers**

	Name(s)	*Telephone #*
Attorney	________________	__________
Banker	________________	__________
Insurance Agent	________________	__________
Stockbroker	________________	__________
Trust Officer	________________	__________
Other __________	________________	__________

10. **Other Endeavors**

	Yes	*No*
Are you or your spouse engaged in any professional activities, paid or unpaid, outside of your main employment (e.g., moonlighting, board memberships, volunteer work, professional association memberships, etc.)?	☐	☐

If yes, please explain:

____

____

____

PART II • FINANCIAL PLANNING GOALS AND OBJECTIVES

1. Financial Planning Goals

Please list your specific financial planning goals and indicate their relative importance to you and your spouse.

	You		Spouse	
Goal	*Very*	*Somewhat*	*Very*	*Somewhat*
a. ______________________	☐	☐	☐	☐
b. ______________________	☐	☐	☐	☐
c. ______________________	☐	☐	☐	☐
d. ______________________	☐	☐	☐	☐

2. Personal Objectives

Please indicate the relative importance of each of the following personal objectives to you *and* your spouse.

	You			Spouse		
Objective	*Very*	*Somewhat*	*Not*	*Very*	*Somewhat*	*Not*
Saving regularly	☐	☐	☐	☐	☐	☐
Making a major purchase (e.g., second home, car)	☐	☐	☐	☐	☐	☐
Taking a dream vacation	☐	☐	☐	☐	☐	☐
Minimizing personal income taxes	☐	☐	☐	☐	☐	☐
Developing or revising your investment strategy	☐	☐	☐	☐	☐	☐
Investing for a comfortable retirement income	☐	☐	☐	☐	☐	☐
Providing for your children's education	☐	☐	☐	☐	☐	☐
Providing for your grandchildren's education	☐	☐	☐	☐	☐	☐
Making gifts to relatives	☐	☐	☐	☐	☐	☐
Making gifts to charity	☐	☐	☐	☐	☐	☐
Minimizing estate tax	☐	☐	☐	☐	☐	☐
Determining how your estate assets will be distributed	☐	☐	☐	☐	☐	☐
Avoiding probate costs	☐	☐	☐	☐	☐	☐
Minimizing the burden of health care costs	☐	☐	☐	☐	☐	☐
Providing for your family in the event of your or your spouse's death	☐	☐	☐	☐	☐	☐
Providing for your family in the event of your or your spouse's disability	☐	☐	☐	☐	☐	☐
Changing or modifying career	☐	☐	☐	☐	☐	☐
Other: ____________________	☐	☐	☐	☐	☐	☐
Other: ____________________	☐	☐	☐	☐	☐	☐
Other: ____________________	☐	☐	☐	☐	☐	☐

3. **Investment Objectives**

Please indicate the relative importance of each of the following investment objectives to you *and* your spouse.

Objective	*You*			*Spouse*		
	Very	*Somewhat*	*Not*	*Very*	*Somewhat*	*Not*
Current Income: Dividends or interest to spend and/or reinvest	☐	☐	☐	☐	☐	☐
Liquidity: Ability to quickly convert the investment into cash	☐	☐	☐	☐	☐	☐
Capital Appreciation: Possibility of original investment gaining in value over time	☐	☐	☐	☐	☐	☐
Safety: Little or no danger of losing the investment	☐	☐	☐	☐	☐	☐
Tax Shelter: Current and/or longer-term tax advantages	☐	☐	☐	☐	☐	☐

Please describe any significant investments planned in the near future (e.g., stock, direct real estate ownership, real estate limited partnerships, etc.):

____

____

____

____

PART III • ASSETS

1. **Cash on Hand** $____________________

2. **Cash Accounts**

Present Balance for Each of the Following:

Type of Account	*Your Name*	*Spouse's Name*	*Joint with Spouse*	*Other*
Checking Accounts				
Savings Accounts				
CDs				
Money Market Funds				
Treasury Securities				
U.S. Savings Bonds				
Brokerage Accounts				
TOTAL				

3. **Stocks Owned — Direct Ownership***

Name of Security	*Ownership***	*Number of Shares*	*Current Market Value*

4. **Stocks Owned — Stock Mutual Funds***

Institution	*Ownership***	*Number of Shares*	*Current Market Value*

5. **Stock Plans**

	Yes	*No*
a. Do you and/or your spouse participate in a company stock option plan?	☐	☐
b. Do you and/or your spouse participate in a company stock purchase plan?	☐	☐

6. **Bonds Owned — Direct Bond Investment***

Institution	*Ownership***	*Number of Shares*	*Current Market Value*

7. **Bonds Owned — Bond Mutual Funds***

Institution	*Ownership***	*Number of Shares*	*Current Market Value*

* Please be sure to include all ownership, whether in your name, your spouse's name, or jointly owned with your spouse or another individual, throughout this section.

** Identify in whose name the asset is held thoughout this section.

8. **Other Mutual Funds***

Institution	*Ownership***	*Number of Shares*	*Current Market Value*

9. **Receivables** (i.e., money owed to you and/or your spouse)

	Notes Receivable	*Other Receivables*
Description		
Amount		
Maturity Date		

10. **Retirement Accounts**

	Description	*Vested Value*	
		You	*Spouse*
IRA			
Keogh Plan			
Pension Plan			
Profit-Sharing Plan			
ESOP			
Other (e.g., deferred			
compensation, stock			
options, etc.)			

11. **Real Estate Owned — Personal Use***

	*Ownership***	*Cost*	*Approximate Market Value*	*Mortgage(s) and Home Equity Loans Outstanding*	*Monthly Payment*
Personal Residence(s)					
Vacation Home(s)					

12. **Real Estate Owned — Investment** (excluding limited partnerships)*

	Description	Ownership**	Cost	Approximate Market Value	Mortgage(s) Outstanding	Monthly Payment
Undeveloped Land						
Income Producing						

13. **Limited Partnership Interests***

	Description	Ownership**	Date Acquired	Capital Contribution Made
Real Estate				
Oil/Gas				
Other				

14. **Closely Held Business Interests** (please attach recent financial statements)

Description: ______________________________

Date Acquired ____________ Percent Owned __________ Estimated Fair Market Value ____________

15. **Other Investments**

Description	Ownership**	Estimated Fair Market Value

16. **Personal Property***

	Estimated Fair Market Value	Recently Appraised Yes	Recently Appraised No
Furniture and Household Goods	______	☐	☐
Jewelry and Furs	______	☐	☐
Automobiles, Trailers, etc.	______	☐	☐
Boats, Aircrafts, etc.	______	☐	☐
Art and Antiques	______	☐	☐
Other Collectibles	______	☐	☐
Other Items (of Significant Value)	______	☐	☐

PART IV • INSURANCE COVERAGE

1. **Life Insurance — Other Than Through Employer**

	Face Value	Cash Surrender Value	Beneficiary (if not spouse)	Policy Owner
Whole Life/Universal Life				
You	______	______	______	______
Spouse	______	______	______	______
Term				
You	______	______	______	______
Spouse	______	______	______	______
Other Insurance: ______				
You	______	______	______	______
Spouse	______	______	______	______

2. **Life Insurance — Employer-sponsored**

	Face Value	Beneficiary (if not spouse)
You	______	______
Spouse	______	______

3. **General Insurance**

Check appropriate boxes

Are you and/or your spouse covered by the following insurance?	You Yes	You No	Spouse Yes	Spouse No
Hospitalization, Major Medical, HMO	☐	☐	☐	☐
Long-Term Care	☐	☐	☐	☐
Short-Term Personal Disability	☐	☐	☐	☐

General Insurance *(continued)*

Are you and/or your spouse covered by the following insurance?

	You Yes	You No	Spouse Yes	Spouse No
Long-Term Personal Disability	☐	☐	☐	☐
Personal Umbrella Liability	☐	☐	☐	☐
Professional Liability	☐	☐	☐	☐
Director's Liability	☐	☐	☐	☐
Automobile	☐	☐	☐	☐
Homeowner's or Renter's	☐	☐	☐	☐
Specified Personal Property (for Valuables)	☐	☐	☐	☐
Other: ________	☐	☐	☐	☐
Other: ________	☐	☐	☐	☐
Other: ________	☐	☐	☐	☐
Other: ________	☐	☐	☐	☐

PART V • LIABILITIES* — *Excluding real estate mortgages and home equity loans identified in Part III*

	Amount Owed	Monthly Payment
1. **Loans**		
Bank Loans	________	________
Student Loans	________	________
Insurance Policy Loans	________	________
Personal Loans	________	________
2. **Consumer Credit**		
Installment Debt	________	________
Major Credit Cards	________	________
Store Charges	________	________
Other Unpaid Bills	________	________
3. **Brokers' Margin Accounts**	________	________
4. **Alimony/Support Obligations**	________	________
5. **Charitable Pledges**	________	________
6. **Other:** ________	________	________
________	________	________

* Please include liabilities for both spouses.

PART VI • INCOME SOURCES

1. **Employment Income** (current year)	*You*	*Spouse*
Gross Salary	______	______
Bonus	______	______
Commissions	______	______
Self-Employment	______	______
Other: ______	______	______
______	______	______

2. **Income From Investments** (current year)	*You*	*Spouse*	*Joint*
Interest — Taxable	______	______	______
Interest — Non-taxable	______	______	______
Dividends	______	______	______
Rental Income — Net	______	______	______
Partnership Distribution Income	______	______	______
Annuities	______	______	______
Trusts and Estates	______	______	______
Social Security	______	______	______
Pension	______	______	______
Other: ______	______	______	______
______	______	______	______

3. **Miscellaneous Income** (current year)	*You*	*Spouse*	*Joint*
Gifts from Others	______	______	______
Sale of Assets	______	______	______
Alimony	______	______	______
Child Support	______	______	______
Other: ______	______	______	______
______	______	______	______

4. **Income Trends Over the Next Three Years**	*19__*	*19__*	*19__*
Employment Income			
You	$ ______	$ ______	$ ______
Spouse	$ ______	$ ______	$ ______

5. **Borrowing and Credit Considerations**	*Yes*	*No*
a. Do you or your spouse have a line of credit with a bank?	☐	☐
b. Are you aware of how the credit bureaus rate your personal credit?	☐	☐
c. Are you considering making a major durable-goods purchase (car, trailer, appliance, etc.) in the near future?	☐	☐
d. Are you considering the purchase of a home (residence, vacation, etc.) in the near future?	☐	☐
e. Are you considering any major home improvements?	☐	☐
f. Are you considering the purchase of a vacation time share?	☐	☐
g. Have you or your spouse considered leasing a personal automobile?	☐	☐
h. Are you considering securing a home equity loan (i.e., a loan secured by the equity in your home)?	☐	☐
i. Other: ____________________	☐	☐

PART VII • EXPENDITURES

	Current Annual	*Post-Retirement Changes*
Income Taxes	________	________
FICA Tax	________	________
Housing	________	________
Monthly Payment	________	________
Insurance	________	________
Taxes	________	________
Telephone	________	________
Utilities	________	________
Repairs/Maintenance	________	________
Other________	________	________
Food	________	________
Clothing	________	________
Transportation	________	________
Automobile Payments	________	________
Repairs/Maintenance	________	________
Insurance	________	________
Other________	________	________
Medical	________	________
Insurance	________	________
Doctors/Dentists	________	________
Other________	________	________
Other Insurance	________	________
Life	________	________
Personal Liability	________	________
Disability	________	________
Other________	________	________

	Current Annual	*Post-Retirement Changes*
Debt Payments		
______________	______________	______________
______________	______________	______________
______________	______________	______________
______________	______________	______________
Recreation	______________	______________
Dining out	______________	______________
Vacations	______________	______________
Sporting Events	______________	______________
Other__________	______________	______________
Miscellaneous	______________	______________
Education	______________	______________
Gifts	______________	______________
Contributions	______________	______________
Personal Grooming	______________	______________
Allowances	______________	______________
Hobbies	______________	______________
Other__________	______________	______________
Current Savings	______________	______________
IRA/Keogh/401(k)	______________	______________
Other Retirement	______________	______________
Other__________	______________	______________

PART VIII • RETIREMENT PLANNING

If you are already retired, please skip the questions in this section and proceed to Part IX.

1. At what age do you and your spouse plan to retire? You ________________ Spouse ________________

		Yes	*No*
2.	Have you invested in tax-deferred annuities or are you considering doing so?	☐	☐
3.	Are you taking full advantage of elective deferrals (401k and 403b plans)?	☐	☐
4.	Do you expect to receive any inheritances?	☐	☐
5.	Does your spouse expect to receive any inheritances?	☐	☐
	Please answer the next eight questions only if you are over 50 years of age.		
6.	Are you eligible for social security benefits?	☐	☐
7.	Is your spouse eligible for social security benefits?	☐	☐
8.	Have you estimated how much income you will have upon retirement?	☐	☐
9.	If you have estimated your retirement income, do you think it's sufficient to live on?	☐	☐
10.	Will you have the option of taking a lump-sum pension payment at retirement?	☐	☐
11.	Have you considered alternate places for living when you retire?	☐	☐

12. What will your income requirements be when you retire (in today's dollars)? ______________________

13. Describe your plans for retirement. Include a description of your retirement lifestyle.

____

____

____

____

PART IX • ESTATE PLANNING

	You Yes	You No	Spouse Yes	Spouse No
	(Check appropriate boxes)			
1. **Wills**				
a. Do you have a will?	☐	☐	☐	☐
b. Are there any amendments to the will?	☐	☐	☐	☐
c. Are you planning to make any changes to the will?	☐	☐	☐	☐
d. Is the will up-to-date?	☐	☐	☐	☐
e. Have you designated the distribution of personal property to heirs?	☐	☐	☐	☐
2. **Trusts**				
a. Do you receive income from any trust?	☐	☐	☐	☐
b. Have you created a trust except as part of your will?	☐	☐	☐	☐
c. Do you expect to be named a beneficiary of a trust?	☐	☐	☐	☐
3. Do you have a letter of instructions that provides information about insurance policies, investments, funeral preferences, etc.?	☐	☐	☐	☐
4. Have you discussed the contents and whereabouts of your will and letter of instructions with your immediate family?	☐	☐	☐	☐
5. If applicable, have you appointed a financial guardian for your children?	☐	☐	☐	☐
6. Have you established an adult guardianship arrangement for yourself in the event you become disabled or mentally incompetent?	☐	☐	☐	☐

PART X • PLANNING, RECORD-KEEPING AND TAXES

	Yes	No
1. Are you satisfied with your personal record-keeping system?	☐	☐
2. Do you have a safe-deposit box for storage of valuable papers and possessions?	☐	☐
3. Do you have a comprehensive and up-to-date inventory of your household furnishings and possessions?	☐	☐
4. Do you have a list of the contents of your wallet or purse?	☐	☐
5. Does your spouse have a list of the contents of his or her wallet or purse?	☐	☐
6. Do you periodically prepare a personal balance sheet (i.e., a listing of your assets and liabilities)?	☐	☐
7. Do you periodically prepare a household budget that lists expected income and expenses?	☐	☐

		Yes	No
8.	Do you prepare your own income tax return?	☐	☐
9.	Do you consider yourself knowledgeable on tax-saving techniques and the latest changes in the tax law?	☐	☐
10.	In your opinion, is your personal record-keeping system adequate enough to be useful in preparing your tax return?	☐	☐
11.	Do you keep a notebook handy to record miscellaneous tax-deductible expenses?	☐	☐
12.	Are you familiar with the potential benefits of tax-sheltered investments?	☐	☐
13.	Does your tax situation require immediate, large tax write-offs?	☐	☐

Part XI • Accuracy of Information Supplied

Overall, how would you classify the information provided in this questionnaire?

☐ Very accurate
☐ Based on estimates that are reasonably accurate
☐ Based on rough estimates

Date completed: ____________________

CLIENT ADVISERS SUMMARY

	ADVISER	NAME, ADDRESS, TELEPHONE NUMBER
1	CPA	
2	Attorney	
3	Banker	
4	Investment Broker	
5	Insurance Agent	
6	Stockbroker	
7	Executor	
8	Trustee	
9	Children's Guardian	
10		
11		
12		

DOCUMENT REQUEST FORM

The check marks identify the documents we will need from you. Please provide these at your earliest convenience and ignore any that do not apply to you.

Personal

____ Current wills
____ Living wills
____ Trust agreements
____ Income tax returns for the last three years
____ Gift tax returns
____ Annual reports, tax returns, and other agreements regarding ownership in closely held corporations, partnerships, joint ventures, or other business
____ Information pertaining to investment ventures, partnerships, joint ventures, stocks, bonds, mutual funds, municipal bonds, cash balances, and so forth
____ Divorce settlements, separation agreements, nuptial agreements, birth certificates, and adoption decrees
____ Estate tax returns, if you have been the beneficiary of any estates
____ Most recent report of vested interests in pension or profit-sharing plans (including IRAs)
____ Documents pertaining to other corporate benefit plans (including stock option programs, thrift plans, hospitalization, disability insurance, and so forth)
____ Sale or purchase contracts
____ Copies of life insurance policies or a summary of policies owned
____ Disability insurance policies
____ Health insurance policies
____ Automobile insurance policies
____ Homeowners' insurance policies
Other insurance policies (specify)
____ ____
____ ____
____ ____
____ ____
____ Current insurance offers
____ Current investment offers
____ Deeds, mortgages, land contracts
____ Guardian nominations
____ Leases (as lessor or lessee)
____ Power of attorney or appointment
Appraisals for (specify)
____ ____
____ ____
____ ____
____ ____

____ Notes and other debts you owe
____ Debts owed to you
____ Summaries of any previous financial objectives or plans that have been prepared
____ Copies of personal financial statements for the last three years
Other (specify)
____ ____
____ ____
____ ____
____ ____

Business

____ Tax returns
____ Financial statements
____ Deferred compensation plans
____ HR-10 plans (Keogh)
____ Simplified employee pensions (SEP)
____ Pension or profit-sharing plans
____ Stock option purchase agreements
____ Buy-sell agreements
____ Employment agreements
____ Employee benefits booklets
____ Articles of incorporation
____ Merger/acquisition agreements
____ Partnership agreements

Insurance policies (specify)

____ ____
____ ____
____ ____
____ ____

Other (specify)

____ ____
____ ____
____ ____
____ ____

PERSONAL FINANCIAL PROFILE

Date: ____________________

Names and Ages

Husband ______________________________
Wife ______________________________
Children ______________________________
____
____

Description	*Value*	*Amount Owed*	*Net Worth*	*% of Total*
Investment and retirement assets:				
Cash and cash equivalents	____	____	____	____
Investment assets	____	____	____	____
____________	____	____	____	____
____________	____	____	____	____
____________	____	____	____	____
____________	____	____	____	____
____________	____	____	____	____
____________	____	____	____	____
Retirement funds				
IRAs	____	____	____	____
Keoghs	____	____	____	____
Company plans	____	____	____	____
____________	____	____	____	____
____________	____	____	____	____
Total investment and retirement assets	____	____	____	____
Personal assets:				
Residence	____	____	____	____
Autos	____	____	____	____
____________	____	____	____	____
____________	____	____	____	____
____________	____	____	____	____
Total personal assets	____	____	____	____
Other amounts owed:	____	____	____	____
Total all assets:	____	____	____	____
Target next year	____	____	____	____

Income tax bracket ____ %

Total annual income $ ____________
Annual living expenses (housing, food, taxes, etc.) $ ____________
Annual discretionary expenses (entertainment, vacation, etc.) $ ____________
Income available for goals $ ____________

GOAL-SETTING WORKSHEET

Listed below are some common personal goals. Indicate the relative importance you attach to each by circling the appropriate number. Include other important goals as appropriate.

	High		Medium		Low
Maintain present standard of living	5	4	3	2	1
Improve present standard of living	5	4	3	2	1
Improve future standard of living	5	4	3	2	1
Financial independence at age 65	5	4	3	2	1
Financial independence by age ___	5	4	3	2	1
Full retirement by age ___	5	4	3	2	1
College education for children	5	4	3	2	1
Support of adult children	5	4	3	2	1
Distributing wealth to heir(s)	5	4	3	2	1
Support of parents or parents-in-law	5	4	3	2	1
Support of surviving (dependent) spouse	5	4	3	2	1
Supporting political or philanthropic causes	5	4	3	2	1
Change or modify career activities	5	4	3	2	1
Pursue family or social activities	5	4	3	2	1
Pursue other personal activities or experiences	5	4	3	2	1
Change or modify business enterprise	5	4	3	2	1
Transfer control of business enterprise to others	5	4	3	2	1
Transfer ownership of business enterprise to others	5	4	3	2	1
Organizing financial records	5	4	3	2	1
Saving regularly	5	4	3	2	1
Peace of mind regarding financial condition	5	4	3	2	1
Protection against financial loss	5	4	3	2	1
Unusual expense within foreseeable future:					
Change of residence	5	4	3	2	1
New automobile	5	4	3	2	1
Vacation house or recreational item	5	4	3	2	1
Extraordinary travel	5	4	3	2	1
Education for self or spouse	5	4	3	2	1
Children's weddings	5	4	3	2	1
Other goals:					
________________________________	5	4	3	2	1
________________________________	5	4	3	2	1
________________________________	5	4	3	2	1
________________________________	5	4	3	2	1

OBJECTIVES WORKSHEET

In answering the following questions, consider your needs in after-tax dollars.

1. If today you were at the age of your desired independence and living the lifestyle you expect to live at independence, what would be your expenses in today's dollars? $____________ per month

2. If the spouse providing primary support were disabled for a long period of time, what would the family's expenses be in today's dollars? $____________ per month

3. If the spouse providing primary support died today, what would the family's expenses be in today's dollars (excluding college expenses)? $____________ per month

4. What college or other educational expenses do you expect to provide for your children?

Child	*Expenses per School Year*	*Number of Years*

5. What large unusual expenses are you planning?

Item	*Amount*	*When*
Automobile	$	
Change of residence		
Vacation home		
Travel/vacation		
Other: ____________		

6. What assumptions are reasonable for your projections?

	19X1	*19X2*	*Future*
Salary	$	$	+ %
Bonus	$	$	+ %
Profit-sharing contribution	$	$	+ %
Thrift contribution	$	$	+ %
Profit-sharing earnings	$	$	+ %
Thrift earnings	$	$	+ %

7. What inflation rate is reasonable for your projections?

Short-term (two to five years): ____________%
Long-term (more than five years): ____________%

INVESTMENT PREFERENCE WORKSHEET

Investment Benefits

The following benefits are inherent to some degree in all investments. No single investment maximizes all three; receiving more of one benefit typically means receiving less of another.

- *Safety of principal.* The likelihood that the principal will be returned intact, without increase or decrease.
- *Cash flow.* The expected periodic income from your investment.
- *Appreciation.* The likelihood that the investment will be worth more at the time of disposition.

In the space below, you will indicate your relative preferences for each of the benefits described above. Please indicate your relative preferences, both for all your holdings (your total investment portfolio) and for the next investment you plan to make, by circling the appropriate numbers. Because each investment decision requires some trade-off among the characteristics, the total of the numbers circled for "All Holdings" and the total of the numbers circled for your "Next Investment Only" should both equal ten.

	All Holdings					Next Investment Only				
	High				Low	High				Low
Safety of principal	5	4	3	2	1	5	4	3	2	1
Cash flow	5	4	3	2	1	5	4	3	2	1
Appreciation	5	4	3	2	1	5	4	3	2	1
	Total = 10					Total = 10				

Investment Characteristics

The following are characteristics of investments. Unlike the benefits described above, you can have as much or as little of each characteristic without affecting the others. Trade-offs are involved, however, because each characteristic has both favorable and unfavorable aspects.

- *Liquidity.* The ease of converting the investment to cash within a short time.
- *Debt.* The extent to which you are personally obligated for debt associated with the investment.
- *Risk and return.* The degree of uncertainty about the results of the investment and the magnitude of the total return. In most cases, increased risk creates the potential for increased return.
- *Management effort.* The degree to which you are personally involved with the operation and decision-making aspects of the investment.

Please indicate below your preference for each of the characteristics described above. Again, you should indicate your preferences both for all your holdings and for your next investment. Since there is no trade-off involved among these characteristics, the numbers you circle do not have to equal 10.

	All Holdings					Next Investment Only				
	High				Low	High				Low
Liquidity	5	4	3	2	1	5	4	3	2	1
Debt	5	4	3	2	1	5	4	3	2	1
Risk and Return	5	4	3	2	1	5	4	3	2	1
Management Effort	5	4	3	2	1	5	4	3	2	1

ASSUMPTIONS AND OBJECTIVES

1. The following questions are designed to aid you in defining your financial and investment objectives. Circle the appropriate number. Feel free to add other goals that are important to you.

	High		*Medium*		*Low*
Retire comfortably	5	4	3	2	1
Provide for my children's education	5	4	3	2	1
Minimize income taxes	5	4	3	2	1
Provide for my survivors in the event of my death	5	4	3	2	1
Structure my estate to minimize estate taxes	5	4	3	2	1
Other________________	5	4	3	2	1
Other________________	5	4	3	2	1
Other________________	5	4	3	2	1

2. How important to you are the following investment objectives?

	High		*Medium*		*Low*
Cash flow (increase current income)	5	4	3	2	1
Diversification (a variety of investments to spread risks)	5	4	3	2	1
Liquidity (available cash for emergencies or investment opportunities)	5	4	3	2	1
Growth (keep pace with or outpace inflation)	5	4	3	2	1
Leverage (use borrowed funds to increase investment return)	5	4	3	2	1
Safety of invested principal	5	4	3	2	1
Minimize time managing investments	5	4	3	2	1

3. What is your attitude toward risk? Check the one that best describes your attitude:

- ☐ Strongly dislike risk, prefer very safe investments, such as insured savings accounts and government securities.
- ☐ Prefer low-risk investments with a known yield, such as highly rated bonds.
- ☐ Willing to assume some risk, such as stocks and mutual funds.
- ☐ I am a risk-taker and prefer speculative stocks and other investments that have an uncertain, but possibly substantial, return.

4. Do you expect any inheritances, legal settlements, or gifts that may affect your financial future?

☐ Yes ☐ No

If so, please explain:

____

____

____

____

5. Are you aware of any upcoming changes in your lifestyle that may directly affect your present financial situation, such as early retirement, divorce, or child support?

☐ Yes ☐ No

If so, please explain:

____

____

____

____

6. Do you or your spouse have any health problems that may make you retire at an earlier date?

☐ Yes ☐ No

If so, please explain:

____

____

____

____

7. If you or your spouse died, would your survivors want the mortgage on your personal residence to be paid off? ☐ Yes ☐ No

8. Do you have a will? ☐ Yes ☐ No

9. Does your spouse have a will? ☐ Yes ☐ No

10. Who prepared the will(s)?

Yours ______________________________

____

Spouse's ______________________________

____

11. Where is(are) your will(s) located?

Yours ______________________________

Spouse's ______________________________

FAMILY DATA INTERVIEW SHEET

Completed by: ______________________________ Date: __________

1. Personal Information:

	Full Name	*Social Security #*	*Date of Birth*
Client			
Spouse			

Date and Place of marriage ______________________________

Have either of your been married previously? ☐ Yes ☐ No

2. Addresses and telephone numbers:

Home ______________________________

Business ______________________________

Spouse's Business ______________________________

What do you feel is your most important goal?
What do you feel is your most important financial goal?
Describe your understanding of the financial planning process?
What experience have you had with financial planning?

3. Occupations and titles:

Client: ______________________________

Spouse: ______________________________

How do you feel about your career?
At what age would you like to retire?
What do you foresee yourself doing during retirement?

4. Children:

	Name	*Date of Birth*	*Social Security Number*	*Are you their primary source of support?*
(a)				
(b)				
(c)				
(d)				

Do your children have any special support needs, such as private school, special lessons, medical problems? If so, please describe:

___

___

___

Do you have a current will?
Do you feel that your life insurance coverage is adequate to provide for your spouse and children?
How much do you feel would be necessary to care for your family?
Do you have a living will?
Do you have power of attorney?
Do you feel that you have enough disability insurance in the event you become disabled?

5. Grandchildren:

	Their Parents		*Names of Grandchildren*	*Date of Birth*
(a)		(1)		
		(2)		
		(3)		
(b)		(1)		
		(2)		
		(3)		

Do you provide any financial support to your grandchildren? If so, please describe:

___

___

___

Do you feel that you are providing adequately for your (grand)children's education?

6. Parents still living:

Father	*You*			*Your Spouse*			
Name							
Address							
Birthdate		*Health*		*Birthdate*		*Health*	
Financial Status:				*Financial Status:*			

Mother	*You*			*Your Spouse*			
Name							
Address							
Birthdate		*Health*		*Birthdate*		*Health*	
Financial Status:				*Financial Status:*			

Do you provide or anticipate providing financial support to your parents? ☐ Yes ☐ No
If so, please describe:

____

____

____

7. Do you provide or anticipate providing financial support to others? ☐ Yes ☐ No
If so, please describe:

____

____

____

How do feel about long-term nursing care insurance?
Would your parents be able to live with you as they become older?
Do you feel that you have enough disability insurance in the event you become disabled?

8. What is your estimated annual income? Husband ________________ Wife ________________

Is your present standard of living adequate? If not, what should change?
How much of your current income do you allocate to savings?
How do you feel about your current income taxes?

9. Approximately how much do you presently have saved or invested for retirement? ________________

At what age do you want to retire?
What will you do during your retirement years?
How much per month, in today's dollars, will you need for retirement?
How could your investment portfolio be better?

10. Are there any unusual expenses upcoming in the short-term, such as a new car, child's wedding etc.?

What is the most important thing to you in this world?

Summary of Goals

Immediate

Short-Term

Long-Term

APPENDIX D

PROFESSIONAL LIABILITY INSURANCE ISSUES

APPENDIX D

PROFESSIONAL LIABILITY INSURANCE ISSUES

OVERVIEW

Professional liability insurance protects your assets and your business from liability judgments stemming from negligence, errors or omissions in rendering professional services. As you develop a PFP practice and expand into new practice areas, it is essential that you evaluate errors and omissions or professional liability insurance policies and ensure that the policy you select covers all the professional services your provide. Not all insurance policies are the same.

One often asked question is, what is the limit needed for an insurance policy? The wrong answer is that the amount of coverage should equal your net worth. The answer is really based on an unknown — how much you might be sued for.

Coverage Options

You should carefully consider the kind of liability policy you choose. Policies may be broadly classified as *occurrence* and *claims-made* policies.

- *Occurrence policies* provide protection when the liability-causing event occurred. For example, if you had an occurrence policy and were sued for an event that was alleged to have happened six years ago, you would turn the claim over to the carrier who provided you coverage at that time. For this reason it is important to hold on to old policies.

- *Claims-made policies* cover only those claims first made during the policy period and within a specific short period. Most coverage today is on a claims-made basis. If you report an incident to the carrier during the policy period or extended period, the claim will be honored no matter when it is filed. Most companies will offer an extended reporting period to cover claims made during the extended reporting period for incidents that occurred after the retroactive date and before expiration.

Common Terminology

Most policies are divided into the following sections: definitions; insurance coverage agreements; limits of liability; exclusions; and policy conditions and provisions. A brief explanation of these sections follows:

- *Definitions* usually appear on the first page of the policy. This explains the exposure that the insurer is assuming.

- *Insurance coverage agreements* describe the policy coverage in broad terms. This language is critical because it determines whether the policy will cover a particular incident.

- *Limits of liability*. This section describes the limit for each individual claim and a second aggregate limit that applies to all claims and all claim expenses for the policy period. Most carriers require an advance payment of the deductible for each claim. Defense costs are usually within the limits and are stated in the contract. Some carriers will pay legal defense costs that exceed the policy limits and other carriers limit their responsibility for these costs to aggregate policy limits.

- *Exclusions* are intended to narrow the broad terms expressed in the insurance agreement. Some typical exclusions include: any dishonest, fraudulent, criminal, or malicious act or omission; any act as an officer, director, or trustee of not-for-profit organization or business enterprise, pension, welfare, profit sharing, mutual fund, investment fund, or trust; and any claim arising out of the promotion, sale, or solicitation for sale of securities, real estate, or other investments.

- *Policy conditions and provisions* are the governing rules for the policy, and include items such as the policy period, coverage territory, premium computation, duties in the event of a claim, reimbursement, bankruptcy or insolvency of the insured, subrogation, cancellation and renewal, extended term reporting period, audit, and policy changes.

Selecting an Insurer

Insurance policies are conditional contracts. The purpose of buying insurance is to rely on a third party to whom you transfer some risk. That is why it is important to find a carrier that is financially sound. The following strategies can help you to assess the financial stability of the insurer:

- Look for a strong well-rated company. Sources of company ratings include AM Best, Weiss, Standard & Poor's, Moody's, and Duff & Phelps.
    - If your agent or broker is unable to supply the ratings, check the local library for this information.
    - For carriers that are not rated, find out why.

- Contact the state insurance department to verify that the carrier is licensed to sell insurance in your state.

In addition to the insurer's financial condition, there are many unique liability issues that arise when providing PFP services. Some of the concerns when purchasing professional liability insurance coverage include—

- What is the definition of professional services? Does it cover all services that you provide in your capacity as an accountant? Make sure the services you provide are covered and identify services you need coverage for that are eliminated in the exclusions section. In some cases, the carrier will attach an endorsement letter to the policy to clarify that an area of service is covered. It is not unusual for a professional liability insurance contract designed for a CPA to exclude many of the activities that may now be routine in your practice, such as investment advisory activities, registered representative activities, and insurance sales activities. In many cases, it might be necessary to obtain additional coverage beyond the traditional scope of practice.

- Investment planning can expose you to several types of claims, including suitability, diversification, and investment misrepresentation. Suitability claims occur when clients claim an investment was too risky or otherwise inappropriate. The suitability rule always applies to financial planners who are investment advisers. Diversification claims can occur when clients claim that their investments were not properly diversified. These claims can occur even when you are responsible for only one asset class recommendation. Investment misrepresentation claims can be minimized by techniques such as ensuring that your clients read the prospectus, avoiding the use of the word "guaranteed," and clearly explaining the liquidity of the investments.

☛ **Action Tip**

The AICPA and many state CPA societies make protection available to members as a member benefit, and their policies are worth exploring. Group coverage through a broker/dealer typically is inexpensive. In any event, it is critical to make sure the insurance fits your practice needs. Be sure you provide a complete description of your services to the agent or broker.

ILLUSTRATIONS

The following scenarios illustrate the scope of errors and omission coverage — under the existing AICPA Plan —for PFP activities and **are for illustrative proposes only. Since each CPA's practice is different, care should be exercised to assure that the proposed policy provides the desired coverage.**

Scenario 1

A CPA has just completed a personal financial plan for Mr. and Mrs. Hunter. This financial plan covers income tax, estate, insurance, and investment planning. After discussing their investment goals and objectives, you suggest that the Hunters should allocate their $1 million investment portfolio as follows:

- 40 percent in money market and Treasury Bills.
- 30 percent in intermediate term municipal bonds. Before purchasing the bonds, the Hunters want their broker to call you for approval when the broker finds an appropriate municipal bond.
- 20 percent in no-load equity mutual funds. You present a list of seven no-load funds that have met your criteria for performance, cost, risk, and continuity of management, and recommend that the Hunters choose any three funds from the list.
- 10 percent in real estate limited partnerships. The Hunters invested in a private placement real estate limited partnership. The general partner is also a client of your financial planner, which provides accounting and tax services to the partnership. The initial introductions between the Hunters and the general partner were made through you. You received no commission or referral fee from the general partner.

As a result of the CPA's actions, evaluated together and individually, Scenario 1 presents the following issues:

- Would you be covered under the AICPA's errors and omission coverage?
- Which recommendations would exclude you from coverage?
- Why would the recommendations exclude you from coverage?

The AICPA Professional Liability Insurance Plan (policy dated July 19, 1994) provision governing the coverage of recommendations is Exclusion K. This exclusion states that the AICPA Plan does not apply to any claim arising out of the promotion, solicitation, or sale of securities. Thus, there would appear to be no problem with the recommendation for the percentage allocation by category for the investment of the client's funds. This is a generic recommendation and not specific as to a particular investment vehicle.

The results for the specific investment categories (other than the money market and Treasury bills, which are not in question) are:

- *Mutual Fund Recommendation.* The Hunters are going to rely on you to suggest criteria for performance, cost, risk, and continuity of management. Although it would be better from a coverage point of view if you did not provide a list of specific funds, the fact that the client is asked to choose three funds from a group of seven appears not to present a coverage problem.

- *Municipal Bond Recommendation.* Rather than have your approval of the broker's selection of an appropriate municipal bond, it would be better from a coverage point of view for you, again, merely to establish whether the bonds under consideration meet the criteria for performance, cost, risk, and continuity of management based on tax considerations and financial statement analyses.

- *Real Estate Recommendation.* Initially, there appears to be no coverage concern here. The fact that the general partner and the limited partnership are your clients would not prevent introductions to other clients who have funds to invest and for whom real estate is an appropriate investment. It would be prudent for you to disclose to his client the full relationship, including whether you are also an investor in the partnership. If you are an investor in the limited partnership, Exclusion G might be applicable. This exclusion eliminates coverage for the professional services to the partnership if you are an "officer, director, partner, manager, or holder of more than 5% ownership interest."

Scenario 2

A CPA financial planner has a number of employees who provide financial planning services as part of their accounting practice. The financial planner:

a. Charges fees based on an hourly billing rate.

b. Has no discretionary authority over client funds for investment purposes.

c. Does not sell or recommend any specific investment or insurance products.

d. Does not receive any direct or indirect compensation for the purchase of products by its clients.

e. Provides generic investment recommendations.

f. Recommends the use of a specific investment adviser, fund manager, or mutual fund.

g. Provides generic investment planning recommendations of general asset categories, such as the purchase of insurance, mutual funds, bonds, stocks, and real estate.

h. Suggests a specific portfolio mix of general asset categories (such as, assets should be 15 percent liquid, 20 percent income-producing, and 65 percent growth-oriented investments).

i. Evaluates whether specific investments selected by the client or the client's investment adviser are suitable.

j. Manages and disburses the client's funds while investment selections are made by an investment adviser.

k. Has registered as an investment adviser under the Investment Advisers Act of 1940 and the state securities statutes.

l. Has established a separate entity to handle its financial planning practice with a different name from that of the accounting firm.

As a result of the CPA financial planner's actions, evaluated together and individually, Scenario 2 presents the following issues:

- Would you be covered under the AICPA Plan?
- Which actions (A through L) would exclude you from coverage under the AICPA plan?
- Why would you be excluded from coverage for a specific action?

Actions A through E and G through I all appear to fall within the scope of coverage. The other actions would be covered as follows:

- Action F is questionable. Although recommending a specific investment adviser or fund manager is not clearly within any policy exclusion(s), the practice could lead to a suit based on the legal theory of negligent referral. This requires you to be certain that the recommended person not only will act professionally but also will work within your investment criteria for performance, cost, risk, and continuity of management. Further, if you know that an investment adviser or fund manager favors certain specific investment advice, pursuant to policy Exclusion K, the coverage could be called into question because you could be deemed to be giving specific investment advice.

The presence of consideration for the recommendation could also bring coverage into question. For instance, if in return for recommending clients the investment adviser returns the favor, there might be a loss of coverage. The consideration does not have to be an actual cash payment to raise a question. Further, if you know that the recommended investment adviser or fund manager favors a specific category of investments or a specific investment strategy, you might be said to be giving specific investment advice, possibly causing a loss of coverage under Exclusion K.

- Action J raises the question of the control you have over the funds managed and disbursed. If control is pursuant to precise, written client instructions, there should be no coverage concern. The insurer's focus is on fraud or embezzlement. Culpable parties are not covered for these acts.

  The *innocent partner* language of the policy will provide coverage for those insureds having no knowledge of or participation in their partner's alleged criminal misconduct. It would be prudent, however, for your financial planner to be covered by a fidelity bond if it manages and disburses client funds because the AICPA Plan is a professional liability product covering alleged acts, errors, or omissions in professional accounting services. It does not cover dishonesty.

- Action K by itself presents no coverage questions, provided your conduct is appropriate with regard to the policy provisions already discussed.
- Action L presents no problem, provided the separate entity is named as an additional insured under your financial planner's professional liability policy. In addition, the separate entity needs to conduct itself as described above.

OTHER EXAMPLES

The PFP Executive Committee requested the Professional Liability Insurance Plan Committee to describe coverage relating to the promotion, solicitation, or sale of a security using the following two illustrative examples.

Example 1. A CPA manages and disburses a client's funds and has discretionary authority to evaluate whether any excess funds should be invested. However, you rely on the client's investment adviser to select the specific investment products. Is that action excluded?

Example 2. The same CPA recommends specific securities or investment products but does not sell them to the client. Is that action excluded?

In Example 1, your discretionary authority appears irrelevant because the client's investment adviser selects the specific investment product. To clarify the situation, the investment adviser and client should have a clearly drafted agreement. This agreement should then be incorporated by reference into an engagement letter between you and the client, as well as language holding you harmless for implementing any advice given by the investment adviser.

In Example 2, because you recommend specific investment products, Exclusion K would be triggered and coverage probably lost.

CONCLUSION

The above discussion is for illustrative purposes only and is not intended to be a complete review of the scope of the coverage provided. Responding to hypothetical situations is always problematic. Generally, underwriters will not unequivocally state that coverage is or is not afforded for the rendering of a specific service to a specific client under a unique set of circumstances. A proper evaluation cannot be made with assurance until an actual, concrete claim is presented. Therefore, you should always proceed with caution when attempting to determine the extent of insurance coverage.

Information on the AICPA's Professional Liability Insurance Plan is available from Aon Direct Group, Inc. by calling 800-221-3023. If your practice includes investment advice, you should review your liability insurance policy to determine the scope of coverage. A special policy beyond the normal errors and omission policy may be necessary to provide the desired coverage.

Exhibit D-1 features insurers that may provide errors and omissions coverage for your practice.

EXHIBIT D-1

INSURANCE PROGRAMS FOR INVESTMENT ADVISING

Camico*
255 Shoreline Drive, 3rd Floor
Redwood City, CA 94065
800-652-1772
*For California CPAs Only

Financial Services Mutual (FSM) Insurance Company**
540 Hopmeadow Street, Suite 16
Simsbury, CT 06070
**Must Be a Registered Investment Adviser

Frontier
c/o Norman-Spenser Inc.
377 Butterfield Road, Suite 260
Lombard, IL 60148
800-842-3653

Liftman Insurance Inc.
101 Federal Street
Boston, MA 02110
617-439-9595

APPENDIX E

PFP PRACTICE EVALUATION PROCESS

APPENDIX E

PFP PRACTICE EVALUATION PROCESS

INTRODUCTION

There is currently no requirement to periodically review and evaluate a PFP practice. However, many CPAs find the practice helpful in enhancing the quality and profitability of their PFP services.

This appendix contains the PFP Practice Evaluation Review, a checklist practice aid designed to help—

- Ensure that you comply with existing AICPA professional standards.
- Evaluate whether you follow recommendations contained in practice aids, such as this Handbook or the *PFP Library*.
- Identify procedures that can help you operate more efficiently and profitably.

The completed checklist is for your use only. Do not send completed checklists to the AICPA.

> ☛ **Note**
>
> At the time of publication, the AICPA was preparing a new publication, the *Personal Financial Planning Quality Control Checklist*, for distribution in early 1997. When published, that checklist will supercede the PFP Practice Evaluation Review contained in this appendix.

PRACTICE AID

PFP Practice Evaluation Review

NOTE: FOR YOUR FILES ONLY – DO NOT RETURN TO THE AICPA

American Institute of Certified Public Accountants

Contents

Instructions for Performing the Practice Evaluation Review

Objective

The purpose of this checklist is to provide guidance for CPA financial planners who perform a periodic review of their personal financial planning (PFP) practice. Some firms undergo an annual review of their PFP practice. The review covers the general PFP practice and specific PFP engagements. The purpose of this review is to determine whether the CPA financial planner is adhering to AICPA professional standards and recommendations contained in practice guides. The practice evaluation may result in ideas for corrective actions that will improve your procedures or provide a new planning strategy for a client. Implemented corrective actions will enhance the quality of your PFP practice.

This aid is also a useful tool for those CPA Personal Financial Specialists (PFS) completing the Internal Practice Review Questionnaire (IPRQ) for reaccreditation. In completing the questionnaire, you should review your policies and procedures, reference manuals and the AICPA Code of Professional Conduct. Also, CPA financial planners with the PFS designation may be asked to submit documentation supporting their answers in their IPRQ. Completed checklists in this practice aid can be used as documentation in satisfying that request.

Timing of Practice Evaluation

You should select a time period to conduct your practice evaluation that will enable you to evaluate your findings and to implement any corrective actions you deem necessary. A slow period prior to the busy season seems to be the best time to conduct one. This will allow you sufficient time to evaluate the quality of your PFP practice and implement any necessary corrective actions such as a change in procedures or implementation of a new planning strategy for a particular client.

Note: CPAs with the PFS designation should carefully select their practice evaluation period. The first evaluation may begin when the designation is granted. The time period for the evaluation may be a short period in the first year (i.e., begin with the date you are granted the specialty designation, January, and end with September or October, a few months prior to the accredited specialty renewal date of December 31). Future evaluation periods should begin when the last evaluation period ended, such as September or October. You may select an evaluation period which corresponds to your state license renewal period as long as it is not more than three months prior to the accredited specialty reaccreditation period.

The Practice Evaluation Process

The practice evaluation process covers a review of the general PFP practice (Section A) and a review of specific PFP engagements (Section B). This checklist should be used to assist you in conducting your practice evaluation.

Section A—PFP Practice Evaluation—General

This section concentrates on the adherence to general professional standards relating to PFP activities and covers the established procedures that apply to all PFP services performed in your practice. Questions in this section relate to the minimum levels of acceptable behavior for AICPA members. The general practice evaluation covers ethics, reporting standards, regulatory compliance, client communication and disclosure, and practice procedures (Conduct of Engagement, Documentation and Planning, PFP Resources, Data Collection, Personal Financial Profile and Goals, Data Analysis, Recommendation Development, Communication to Client, Plan Implementation, and Plan Update).

This section of the evaluation process considers certain reporting standards, the Statements on Standards for Consulting Services, the Statements on Responsibilities in PFP Practice, and the Statements on Responsibilities in Tax Practice as they relate to PFP as well as the AICPA's Guide for Prospective Financial Statements and Personal Financial Statement Guide. This section also addresses compliance with the AICPA Code of Professional Conduct and legislation and regulations.

After completing this section, you may identify areas for taking corrective action to improve procedures or implement new ones to insure that quality PFP services are provided. These conclusions and corrective actions taken are summarized in the Conclusion and Explanation of Corrective Actions Section of this Practice Aid (Section C).

Section B—PFP Practice Evaluation—Specific Engagements

To complete this section, select a sample of PFP engagements for review. In selecting the sample, select engagements that represent a cross section of your PFP activities. The sample should include comprehensive, segmented or consultation services, if available. If you only perform consultation or segmented planning, then you should select a series of engagements that cover the specific areas of the PFP process including financial statement analysis, cash flow planning, investment planning, education or retirement funding, risk management, income tax planning, and estate planning. A checklist should be prepared for each engagement reviewed to document the evaluation process.

The objective of the review of specific engagements is to evaluate whether you are complying with standards and recommended practice procedures. The review, therefore, should include an examination of the report or written client communication, client goals and objectives and planning assumptions, data-gathering procedures, data analysis working papers, financial problems identified, communication of planning strategies, and implementation and monitoring of strategies.

For each engagement reviewed, evaluate whether anything came to your attention that caused you to believe that corrective action should be taken to improve procedures or implement a new procedure or planning strategy for a specific client. These conclusions and corrective actions taken should be documented in the Conclusion and Explanation of Corrective Actions section of this Practice Aid (Section C). These corrective actions taken reflect your desire to provide quality services to your clients.

Section C — Conclusion and Explanation of Corrective Actions

Conclusions based on the practice evaluation should be documented in this section by providing a detailed description of the situations which led you to believe that corrective actions should be taken. These corrective actions may involve improving procedures or developing a new planning strategy for a client based on the review of a specific engagement.

Section A — PFP Practice Evaluation — General

		Yes	*No*
A.	***Ethics***		
1.	Do you hold out as a CPA in the performance of PFP services for clients?	☐	☐
2.	Are you performing any engagement that may be considered to be impairing your independence? (Rule 101)	☐	☐
3.	Do you intend to hold yourself out as a CPA who provides financial planning services?	☐	☐
4.	Are you maintaining your integrity and objectivity when rendering professional services? (Rule 102)	☐	☐
5.	In connection with your PFP engagements —		
	a. Do you undertake only those engagements that you can perform with professional competence? (Rule 201A)	☐	☐
	b. Do you exercise due professional care when performing a PFP engagement? (Rule 201B)	☐	☐
	c. Do you plan and supervise your PFP engagements? (Rule 201C)	☐	☐
	d. Do you obtain sufficient relevant data during an engagement to form a reasonable basis for the recommendations included in the PFP engagement? (Rule 201D)	☐	☐
6.	Do you comply with standards promulgated by AICPA Council when providing professional services? (Rule 202)	☐	☐
7.	Do you always obtain the client's consent before disclosing confidential client information obtained during a PFP engagement? (Rule 301)	☐	☐
8.	Do you accept fees contingent on the results of the service provided? (Rule 302)	☐	☐
9.	Do you retain original records after a demand has been made from the client? (Rule 501)	☐	☐
10.	Have you ever permitted or directed another to make false or misleading entries in financial statements or other records? (Rule 501)	☐	☐

Section A (Continued)

		Yes	*No*
11.	Do you seek to obtain clients in a manner that is false, misleading, or deceptive? (Rule 502)	☐	☐
12.	Do you ever accept fees, payments, or other reimbursement from outside vendors who have obtained clients from you? (Interpretation Under Rule 502-5)	☐	☐
13.	Do you receive payments or commissions from the vendors of investment or insurance products that you recommend to clients? (Rule 503)	☐	☐
14.	Do you accept payments for referring to a client the products or services of others? (Rule 503)	☐	☐
15.	Is your public accounting firm operated as a proprietorship, a partnership, or a professional corporation? (Rule 505)	☐	☐

B. ***Reporting Standards***

1.	In a written plan that includes personal financial statements that will be used by third parties, do you present assets at estimated current values and liabilities at their estimated current amounts? (Statement of Position 82-1, *Accounting and Financial Reporting for Personal Financial Statements*)	☐	☐
2.	In a written plan that includes personal financial statements that will be used by third parties, does your written report indicate that you performed a compilation or a review of those financial statements? (Statement on Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements* [AR Section 100]).	☐	☐
3.	In a written plan that includes financial statements that will be used only to develop the plan and not to obtain credit or for any other purpose, does your report conform to the form of written report required by the Statement on Standards for Accounting and Review Services No. 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* (AR Section 600)?	☐	☐
4.	In a written plan that includes prospective financial information, do you disclose the major assumptions, the character of the work performed, and the degree of responsibility assumed? (*Guide for Prospective Financial Information*)	☐	☐

Section A (Continued)

	Yes	No
5. In a written plan that includes prospective financial information for internal use only, do you indicate that the prospective financial information is based on assumptions for future events and the actual results may not occur as expected and that the information should be used only to assist the client and the client's advisers develop the financial plan and should not be shown to a third party for any other purpose? (*Guide for Prospective Financial Information*)	☐	☐
6. In a written plan that includes prospective financial information considered to be a partial presentation, do you always include a statement indicating a general description of the purpose of the prospective financial information and the limitations on its usefulness? (*Guide for Prospective Financial Information*)	☐	☐

C. ***Regulatory Compliance***

1. Have you reviewed your practice to determine whether you are required to register as an investment adviser with the SEC?	☐	☐
2. Are you in compliance with the investment adviser laws and registration and regulatory requirements in the states where you practice?	☐	☐

D. ***Client Communication and Disclosure***

1. Are you in compliance with AICPA Statements on Responsibilities in Tax Practice No. 8, *Form and Content of Advice to Clients*, which discusses certain aspects of providing tax advice to clients? (TX Section 182)	☐	☐
2. In written plans that include income and estate tax advice, do you use a precautionary statement in your transmittal letter indicating that the advice is based on information received from the client and tax laws and regulations that are subject to change?	☐	☐

Section A (Continued)

	Yes	No
E. *Practice Procedures*		
1. Conduct of the Engagement		
a. Documentation and Planning		
(1) Do you use a standardized questionnaire for screening prospective clients?	☐	☐
(2) Do you review the work of your support staff?	☐	☐
(3) Do you use standardized forms, checklists, working papers, or questionnaires?	☐	☐
(4) Do you have established planning procedures for your PFP engagements?	☐	☐
(5) Do you appropriately evaluate clients' needs for consultative, segmented, or comprehensive services?	☐	☐
(6) Do you document the results of client interviews?	☐	☐
(7) Do you generally use an engagement letter to document your engagement understanding with the client?	☐	☐

b. PFP Resources

(1) What are the most often used PFP resources? (periodicals, manuals, etc.)

____

____

____

____

____

	Yes	No
c. Data Collection		
(1) In your practice, do you have an established data-gathering process?	☐	☐
(2) Do you have a process that you follow to identify clients' goals and objectives, investment risk tolerance, and other personal financial issues?	☐	☐

Section A (Continued)

			Yes	No
	(3)	Do you have an established procedure for reviewing client files, collecting, copying, and indexing client documents?	☐	☐
d.	Personal Financial Profile and Goals			
	(1)	Do you summarize relevant financial information in a client financial profile?	☐	☐
	(2)	Do you review with the client the personal financial profile and goals and objectives to verify accuracy?	☐	☐
e.	Data Analysis			
	(1)	In a PFP engagement involving investment planning, do your procedures take time horizon, asset class preference, risk tolerance and expected return into consideration?	☐	☐
	(2)	Do you inquire about the client's goals?	☐	☐
	(3)	Do you analyze the client's net worth?	☐	☐
	(4)	Do you analyze the client's income and spending patterns?	☐	☐
	(5)	Do you summarize significant factors and assumptions for the projected financial position?	☐	☐
	(6)	Do you generally include prospective information in a written plan?	☐	☐
f.	Recommendation Development			
	(1)	After you consider the results of your financial analysis and develop your recommendations, do you then discuss them with the client before finalizing them?	☐	☐
	(2)	Do you document how you arrived at your recommendations?	☐	☐
	(3)	Do you prepare a written summary of your recommendations?	☐	☐

Section A (Continued)

	Yes	No
(4) When you use the work of specialists, such as in insurance, estate planning, and investments, do you coordinate their work into the overall plan and review the appropriateness of their recommendations?	☐	☐
(5) Do you prepare an investment policy statement to summarize the client's investment discipline?	☐	☐
g. Communication to Client		
(1) If the scope of your engagement does not include plan implementation, do you communicate this limitation to your client in writing?	☐	☐
(2) Do you document the results of a consultation with the client?	☐	☐
(3) Do you have established procedures for providing written communication to the client to facilitate implementation by the client?	☐	☐
(4) Do you prepare a report or written communication which includes:		
(a) Scope of services provided?	☐	☐
(b) Appropriate disclaimers?	☐	☐
(c) A summary of the goals and assumptions used to develop the plan?	☐	☐
(d) A summary of your recommendations?	☐	☐
(5) Do you communicate in writing to the client the importance of periodic plan review and update?	☐	☐
h. Plan Implementation		
(1) Do you have an established process for assisting your client to implement the plan?	☐	☐
(2) Do your procedures result in the client making the final decisions before action is taken?	☐	☐

Section A (Continued)

	Yes	*No*
(3) Do you have established procedures for determining whether the client implemented the recommendations?	☐	☐
i. Plan Update		
(1) Do you have an established process for updating and reviewing the client's financial plan?	☐	☐

Section B — PFP Practice Evaluation — Specific Engagements

	Yes	No
A. *Planning*		
1. Did you have an engagement letter?	☐	☐
2. Did you meet with the client to verify correctness of the personal financial profile and goals and objectives before analyzing the data?	☐	☐
B. *Financial Statement Analysis*		
1. Did you prepare or analyze the client's financial statements?	☐	☐
2. Did you inquire about the client's goals for future net worth?	☐	☐
3. Did you summarize relevant factors and assumptions for the projected financial position?	☐	☐
4. Did you prepare projections of future net worth?	☐	☐
C. *Cash Flow Planning*		
1. Did you compute the client's cash flow available for investment and savings?	☐	☐
2. Did you include projected cash flow in the written financial plan?	☐	☐
D. *Investment Planning*		
1. Did you assist in developing an asset allocation model?	☐	☐
2. Based on consideration of client risk tolerances and other parameters for investment selection, did you review the client's current investments to determine their suitability?	☐	☐
E. *Education or Retirement Funding*		
1. Did you identify the client's funding goals and pertinent assumptions to project funding needed?	☐	☐
2. Did you analyze whether the client's projected resources will meet those needs?	☐	☐
3. Did you develop strategies to address those needs?	☐	☐

Section B (Continued)

	Yes	No
F. ***Risk Management***		
1. Did you analyze existing insurance coverages?	☐	☐
2. When working with a client's insurance and protection needs, did you identify significant risks and their amounts in connection with the following: property, casualty and liability, and life, health and disability?	☐	☐
3. Did you review appropriate areas based on the client's needs, for example, did you consider alternative methods for managing the risk and determining the need for insurance coverages?	☐	☐
G. ***Income Tax Planning***		
1. Did you review prior years' tax returns?	☐	☐
2. Did you project future years' income taxes?	☐	☐
3. Did you identify tax saving strategies currently in use and determine whether additional tax strategies can be used?	☐	☐
H. ***Estate Planning***		
1. Did you identify the client's estate distribution goals?	☐	☐
2. Did you review the client's current will and any related trust agreements in view of current law and the client's estate distribution goals?	☐	☐
3. If the client had no will, did you recommend that the client meet with an attorney or did you and the client meet with an attorney to ensure that the will and trust agreement is properly written and processed in accordance with the requirements of the law?	☐	☐
4. Did you compute federal and state estate taxes for both spouses?	☐	☐
5. Did you identify estate tax saving strategies currently in use?	☐	☐
6. Did you identify new or additional estate planning strategies that can be used?	☐	☐
7. Did you evaluate the client's estate liquidity requirements?	☐	☐

Section B (Continued)

	Yes	*No*
I. *Written Communication*		
1. Did you prepare a transmittal letter?	☐	☐
2. Did your report or written communication include—		
a. A description of the services provided?	☐	☐
b. Appropriate disclaimers?	☐	☐
c. A summary of the goals and assumptions used to develop the plan?	☐	☐
d. A summary of your recommendations?	☐	☐
J. *Recommendations*		
1. Do your files contain working papers to support your recommendations?	☐	☐
2. Did you prepare a written summary of your recommendations?	☐	☐

Section C — Conclusion and Explanation of Corrective Actions

Review Conclusions:	*Yes*	*No*
1. Did the review disclose any significant situation that led you to conclude that you should consider taking any further action with the client to develop a new planning strategy or obtain additional information to support your recommendations?	☐	☐
2. Did the review lead you to conclude that you should improve your procedures for providing PFP services to clients?	☐	☐

If any of the above answers are yes, describe such situations, including actions you took or plan to take below.

Findings and Recommendations:

Describe any findings and recommendations for improvement below.

Findings	*Recommendations*	*Corrective Action Taken or Planned*

APPENDIX F

INVESTMENT ADVISER REGISTRATION ISSUES

APPENDIX F

INVESTMENT ADVISER REGISTRATION ISSUES

INTRODUCTION

The following general discussion is intended to present some information that will add to your understanding about registering as an investment adviser. It is not intended to provide a legal analysis of the issues involved in determining whether you are required to register as an investment adviser under the Investment Advisers Act of 1940 (the Act). Determining whether you are required to register under the Act involves a complicated area of law. An assessment of your or your firm's potential obligation to register requires careful examination and determination based on the facts and circumstances surrounding your practice. Each practice is different, and the advice of legal counsel should be obtained before a decision to register is made.

The AICPA has published *Guide to Registering as an Investment Adviser,* containing information to help you understand the registration, reporting, and compliance requirements under the Act. The laws of many states contain requirements that may be more significant and far-reaching, from your viewpoint, than the federal requirements. You should review with your legal counsel the laws of the states in which you practice and in which your clients are located in order to determine the registration requirements under those laws. The following is a general discussion on registration.

> ☛ **Note**
>
> New federal legislation – the Investment Advisers Supervision Coordination Act – which takes effect April 9, 1997, may affect your registration requirements. Please refer to the overview of this new legislation at the end of this section.

FEDERAL RULES

The Investment Advisers Act of 1940 (the Act) makes it unlawful for a person to act as an investment adviser (IA) unless she or he is registered under the Act or is exempt from registration. Under Section 202(a)(11) of the Act, an IA is:

> "... any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities; **but does not include** (A) a bank ...; **(B) any lawyer, *accountant,* engineer, or teacher whose performance of such services is solely incidental to the practice of his profession** [*emphasis added*]; (C) any broker or dealer ...; (D) the publisher of any bona fide newspaper ...; (E) any person whose advice, analyses, or reports relate to no securities other than securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States, or securities issued or guaranteed by corporations in which the United States has a direct or indirect interest; such other persons not within the intent of this paragraph as the Commission may designate by rules and regulations or order."[*emphasis added*]

The SEC staff interpreted this definition in an Investment Advisers Act Release No. IA 1092, October 8, 1987, to mean, generally, that "...if the activities of any person providing integrated advisory services satisfy the elements of the definition, the person would be an investment adviser..., unless entitled to rely on one of the exclusions [including the accountants exclusion] from the definition of investment adviser...." The SEC noted that a facts and circumstances approach is to be used to determine who is required to register under these rules. The PFP Division believes a number of PFP engagements performed by CPAs may involve no rendering of investment advice and believes that many CPAs may broadly interpret IA 1092 (and, in many instances, applicable state law) as requiring any CPA who provides any form of financial planning services to register as an IA. The PFP Division supports the narrower interpretation of IA 1092 suggested later in this section.

Investment Adviser Defined. As suggested above, the definition of IA consists of three factors. As a CPA financial planner, you may be considered an IA if you—

1. Provide advice or issue reports or analyses about securities
2. Are in the business of providing these services, and
3. Provide these services for compensation.

In applying the test, according to the SEC, the advice given need not relate to a specific security, provided it was given as part of a business and for compensation. For example, advising a client to invest in a non-security as opposed to a security would meet the test.

For the second factor, the giving of investment advice need not be the principal business activity of the person for the person to be considered an IA. The frequency of this activity is a factor to be considered, but it is not determinative. In establishing an additional facts and circumstances test, a person is in the business of giving investment advice if there is (1) the holding out as an investment adviser, (2) the receipt of identifiable compensation for the giving of advice about securities, or (3) in any other than rare, isolated, and nonperiodic instances, the giving of specific investment advice. Specific investment advice is interpreted broadly to include generic advice such as asset allocations, or the recommendation of broad categories of securities, such as corporate bonds, municipal bonds, or kinds of mutual funds.

The compensation factor is also broadly interpreted. Thus, according to the SEC, any form of compensation from any source would meet the test. In addition, the compensation does not have to be specifically identified as being for investment advisory services to meet the test.

Accountant's Exclusion. The Act provides an exclusion from the IA registration rules to CPAs, among other professionals. Under the SEC's interpretation of the exclusion, a CPA who holds out as performing financial planning, pension adviser or other financial advisory services would not be able to take advantage of the exclusion because the performance of those services would not, in the opinion of the SEC, be incidental to the practice of the profession.

THE AICPA POSITION

Recognizing that the SEC in IA 1092 interpreted the language of the Act broadly, especially the accountant's exclusion, the AICPA adopted the position that the availability of the exclusion should not depend on the title given to the services a CPA performs, but to the type of services performed. Thus, you would not be required to register if the PFP services performed were such that you did not meet the definition of *investment adviser* contained in the Act, or if you meet the definition of investment adviser, but may rely on the accountant's exclusion from the definition contained in the Act. You should fall within the accountant's exclusion when you do not do one of the following:

1. Exercise investment discretion with respect to the assets of clients or maintain custody of the assets of clients for the purpose of investing such assets, except when the person is acting as a bona fide fiduciary, such as executor, trustee, personal representative, estate or trust agent, guardian, conservator, or person serving in a similar fiduciary capacity

2. Accept or receive, directly or indirectly, any commission, fee, or other remuneration contingent upon the purchase or sale of any specific security by a client of such person

3. Advise on the purchase or sale of specific securities except that this activity shall not apply provided the advice about specific securities is based on financial statement analyses or tax considerations that are reasonably related to and in connection with a person's profession

If you may rely on the accountant's exclusion of the Act, then you are not subject to any of the Act's provisions. **Because the SEC has established a facts and circumstances test to establish whether a CPA must register, it is imperative to seek the guidance of legal counsel on this issue.**

STATE REGULATION

Many states have investment adviser legislation containing language similar to the Act. Other states have used the Act as a base, but have added their own unique provisions. It is beyond the scope of this discussion to examine the rules of the fifty states; however, you should be aware of the existence and content of the investment adviser laws of the states in which you perform PFP services. The form of your practice will determine whether the filing is for a firm or individual. In addition to filing a form, paying a fee, passing an examination, specific record-keeping and disclosure requirements, states often have minimum bond and capital requirements. **The determination of whether to register should be made with the advice of counsel after a full examination of the controlling state laws and the facts and circumstances surrounding your PFP practice.**

FILING REQUIREMENTS

If you determine, on the advice of counsel, that it is necessary to register, many different actions must be taken. First, a Form ADV together with required fee must be filed with the SEC; additionally, another form and fee must be filed with the appropriate state authority. (It is assumed that if you register for federal purposes, registration with the appropriate state authorities and compliance with the state rules would ensue. Most states have adopted the use of the Form ADV.)

Annual Report. Every registered IA must file an annual report with the SEC that updates the information contained in the previous year's report. In some instances, you may have to file an audited balance sheet with the annual report (if you maintain custody of client funds or receive prepayments of advisory fees, in excess of $500 per client, for more than six months in advance of providing the services).

Documentation. Under SEC rules, a registered IA must be prepared to provide clients or prospective clients with a copy of Form ADV, Part II, or a brochure containing the information contained in the form. The information to be provided includes descriptions of the services and fees, kinds of clients, kinds of investments, and educational and business background, among the topics on the form.

The registered IA must deliver a copy of the required information to the prospective client at least forty-eight hours before entering the engagement or at the time of entering the engagement agreement, provided the client has five days in which to cancel the engagement. In addition, a copy of the appropriate section of every subsequent year's annual report or a new brochure containing the required information has to be offered or delivered to the client.

BOOKS AND RECORDS

A registered IA must keep those books and records specified by the SEC. This means, generally, that every piece of paper relating to the client must be kept. This includes financial plans and recommendations, all communications, and all financial records. According to SEC rules, some of this information can be kept in computer files.

Inspections. The SEC and state security administrators can inspect a registered IA's books and records relating to a client. When possible, the deficiencies are corrected on the spot. If this is not possible, you will receive a deficiency letter, which is a directive to resolve the perceived deficiencies.

Examinations. Several state investment advisers laws require the applicant to pass an examination. The number of states requiring an examination is growing. Several states waive the required examination for those who have earned a recognized financial planning designation, such as Personal Financial Specialist, which is granted by the AICPA. See the *Guide to Registering as an Investment Adviser* for information on states that require an investment adviser examination to be passed before registration

New Investment Adviser Legislation
Public Law 104-290

A new law amending the Investment Adviser Act of 1940 takes effect April 9, 1997. The Investment Advisers Supervision Coordination Act (the Act) is intended to coordinate federal and state regulation of investment advisers to avoid duplicative and unnecessary regulation. The Act also authorizes $20 million in appropriations for the SEC for each of the next two fiscal years to use in its oversight of investment advisers.

The Act gives the SEC sole responsibility for the supervision of investment advisers that manage $25 million or more in client assets, preempting state regulation of these federally-registered advisers who meet this $25 million threshold. Furthermore, the Act prohibits federal registration of any investment adviser that is regulated or required to be regulated as an investment adviser in the state in which it maintains its principal office and place of business, unless the adviser meets the $25 million threshold or is an adviser to a registered investment company. Accordingly, those advisers that manage less than $25 million in client assets would continue to be regulated by the states. Advisers with a principal place of business in one of the four states that currently have no investment adviser regulation – Colorado, Iowa, Ohio, and Wyoming – can register with the SEC even if they do not meet the $25 million threshold.

The Act relieves smaller advisers of some regulatory burdens because it provides that a state may only enforce the books, records, capital and bonding requirements of investment advisers maintaining their principal places of business in that state. A national de minimis standard was also established to exempt any adviser from having to register in state where he or she does not have a place of business and during the year has had fewer than 6 clients who are residents of that state. The SEC is expected to modify the ADV form to reflect these changes.

The Act also amends the Employee Retirement Income Security Act (ERISA) to allow both state- and federally-registered advisers to advise ERISA accounts. However, this ERISA amendment expires in two years. Hopefully, this provision will become permanent once Congressional committees of jurisdiction have held hearings examining the issues involved.

Although many states have investment adviser regulation that is similar to federal regulation, these regulations and registration requirements may vary greatly from state to state. Some advisers that cannot register at the federal level may find that applicable state level requirements are more onerous than the federal requirements, depending on the state(s) involved.

You should contact your attorney to determine the extent to which this new legislation affects you and your practice. The AICPA will keep you posted about this and other important developments in future issues of *Planner* and other appropriate AICPA communications.

APPENDIX G

PERSONAL FINANCIAL PLANNING DIVISION ADMINISTRATION

APPENDIX G

PERSONAL FINANCIAL PLANNING DIVISION ADMINISTRATION

This document summarizes the responsibilities, authority, and structure of the personal financial planning division. It explains the major operating policies that guide the division's activities.

GENERAL INFORMATION

Structure of the Division

The personal financial planning division (the division) consists of the Personal Financial Planning (PFP) Executive Committee (the Committee), its subcommittees and task forces, the personal financial planning membership section (the membership section), and AICPA staff assigned to the division.

Personal Financial Planning Executive Committee. The Committee is the senior technical committee of the AICPA with respect to the personal financial planning area of practice. It is authorized, subject to the coordination and clearance procedures set forth in exhibit G-1, to make public statements on behalf of the AICPA and to issue advisory statements on personal financial planning practice without clearance of either the Council or the Board of Directors. It is authorized to plan, to initiate, to supervise, and to coordinate the projects, programs, and activities of the membership section. It has clearance responsibility for all recommendations proposed by its subcommittees. It works with other AICPA components and state societies in providing educational, practice development, technical guidance, and other programs.

The Committee consists of fifteen individuals, all of whom must be AICPA members. The chair and the members of the Committee are appointed annually by the chair of the AICPA Board of Directors. Each member normally serves no more than three years, although an individual may serve as chair for up to three years in addition to the three years served as a member of the Committee.

Subcommittees and Task Forces. Subcommittees and task forces are appointed to assist the Committee in carrying out its responsibilities. Their work is subject to review by, and approval of, the Committee.

A *subcommittee* is a standing group, which need not be entirely or partially composed of members of the Committee. Subcommittees are appointed by the chair of the AICPA Board of Directors. Each member normally serves no more than three years, although an individual may serve as chair for up to three years in addition to the three years served as a member of the subcommittee.

A *task force* is a group appointed to undertake a special project and is terminated on the completion of the special project. It need not be entirely composed of members of the Committee. A task force is appointed by and reports to the chair of the Committee.

Membership Section. The membership section was formed for AICPA members. It is part of the AICPA structure for members who have an interest in personal financial planning. Membership is voluntary.

Staff. Staff support is provided to the division by the director–personal financial planning, who reports to the AICPA vice president–technical services, and assigned managers and assistants.

Responsibilities and Authority of the Executive Committee

Responsibilities. The Committee's responsibilities and goals are as follows:

- To meet the needs of AICPA members interested in personal financial planning
- To develop and coordinate programs designed to meet the needs of AICPA members who have joined the membership section
- To develop policy positions on personal financial planning matters
- To provide AICPA members with guidance on good practice for CPAs by developing and issuing advisory statements on personal financial planning
- To provide AICPA members with information on practice management in the personal financial planning area and on personal financial planning practice by developing and publishing practice aids
- To monitor legislation and regulation relating to personal financial planning and to assist and work with other AICPA components to develop and communicate AICPA policy positions on such matters (See exhibit G-1)
- To develop and conduct a communications program designed to inform the public of the important role of CPAs in providing high quality personal financial planning services; such programs should be consistent with the Institute's overall communications program
- To develop and coordinate programs to enable practitioners engaged in personal financial planning to share their knowledge and experience
- To help to define the general body of knowledge required for CPAs who practice personal financial planning, and to conduct studies that contribute to the development of that body of knowledge
- To establish a voluntary exchange network as a forum for the interchange among the AICPA and state CPA societies of information on personal financial planning
- To assist state CPA societies in coordinating their activities relating to personal financial planning and to maintain liaison with other groups interested in personal financial planning
- To work with the AICPA professional development division in identifying the need for, and in developing, personal financial planning courses
- To work with the AICPA examinations division in developing and administering the accreditation program for Personal Financial Specialists
- To work with the AICPA software development division in identifying the need for, and in developing, personal financial planning software

The Committee organizes the efforts of the accounting profession to serve these goals.

Relations With Other AICPA Components. The Committee will obtain and consider the views of other AICPA components in its deliberations on personal financial planning. By the same token, the Committee should be informed on a timely basis about activities of other AICPA components that relate to personal financial planning. In accordance with the memorandum of understanding incorporated in this document as exhibit G-1, the Committee and the Federal Taxation Executive Committee have established a joint coordinating committee to identify and resolve potential conflicts because of overlapping responsibilities.

Relations With State Societies and Others. The Committee maintains a relationship with state society committees on personal financial planning. It has established a voluntary exchange network so that the state societies can share information. This liaison provides benefits to the state societies and the Committee by fostering cooperation in areas of common interest in personal financial planning. The Committee provides the forum for meetings to allow the liaison to progress.

The Committee maintains contact with other organizations interested in personal financial planning to facilitate the resolution of issues that are of interest to both those organizations and the Institute.

OPERATING POLICIES

Conduct of Meetings

Meetings of the Committee and the subcommittees and task forces are conducted informally rather than on the basis of rigid rules of order. Since the work of the components of the division is deliberative, a free interchange of ideas is essential, within the framework of orderly proceedings.

Meetings Open to the Public. Portions of meetings of the Committee relating to developing and issuing advisory statements on personal financial planning practice will be open to the public. Portions of Committee meetings during which discussions take place to identify issues for possible addition to the list of projects under study by the Committee need not be open to the public. All other work of the Committee is done in closed session.

The following procedures apply to open meetings of the Committee:

- Public announcement of the date, time, and location of the meeting will be made in *The CPA Letter,* with a listing of the subjects expected to be discussed in open sessions. Additional information about regular or special meetings will be made available through an AICPA telephone service. The form of the public announcement in *The CPA Letter* and through the telephone service will conform to uniform AICPA procedures for all open meetings held by any AICPA component.
- Subjects to be discussed in open sessions may be added up to ten days before the meeting. Such changes will be announced by the telephone services.
- Special meetings of the Committee will not be set less than ten days in advance of the meeting date.
- Copies of documents relating to issues discussed in open meetings will not be supplied at such meetings for the use of individuals other than those included on the Committee's distribution list. However, the Committee will make available for public inspection at the meeting location six sets of highlights of the previous public meeting, the meeting agenda, and the drafts for discussion. These items will also be available by mail through the AICPA meetings subscription service to which the public may subscribe for a fee.
- A "public file" on the open sessions of the Committee will be created and kept for one year in the AICPA library for public reference. This file will contain copies of the meeting agendas, the drafts for discussion, the highlights of public meetings, and the comment letters on exposure drafts.
- Although observers will not ordinarily have the privilege of the floor, the chair of the Committee may extend such a privilege to an observer in advance of the meeting for good cause.

Meeting Sites. The AICPA policy on meeting sites is contained in a resolution of Council dated May 5, 1976, and in a resolution on location of AICPA committee meetings adopted by the Board of Directors.

Quorum Requirements. A majority of the members of the Committee, a subcommittee, or a task force constitutes a quorum.

Privilege of the Floor. Members of a component of the division, the chair of the AICPA Board of Directors, the president, the group vice president–professional, the vice president– technical standards and services, the director–personal financial planning, and other AICPA technical staff members whose presence at a meeting is required, have the privilege of the floor at meetings of the Committee, a subcommittee, or a task force. The chair of a component of the division ordinarily will extend the privilege of the floor to members of other AICPA components when matters relating to their components are being discussed, as well as to invited guests.

Meeting Highlights. The staff prepares meeting highlights for division components in the form of brief summaries of principal actions taken and decisions reached. Meeting highlights are considered approved in the absence of objections by members within two weeks of their issuance. The chair of a component of the division, other than the Committee or a subcommittee, may decide not to have highlights prepared.

Distribution of Materials. The staff prepares a distribution list for the Committee and each subcommittee and task force. The distribution lists ordinarily include the members of the component, their advisers, the chair of the Committee, and selected members of the Institute staff. Individuals on a distribution list may ask to receive a reasonable number of extra copies of correspondence. Copies of all materials intended for a component should be sent to all individuals included on the distribution list. All requests for comments from a component should identify the appropriate distribution list.

Reimbursement of Expenses. AICPA members who serve on the Committee, a subcommittee, or a task force are entitled to reimbursement of reasonable expenses for attending meetings of those components, in accordance with the AICPA's reimbursement policy in effect at the time of the meeting.

Voting Procedures

The matters on which votes may be taken can be categorized as follows:

- Votes by the Committee on a motion to issue an exposure draft or a final advisory statement on personal financial planning practice
- Votes by the Committee on motions relative to other actions
- Votes to indicate the preference of members of a component on any issue

In a vote by the Committee to issue an exposure draft of an advisory statement or on a final statement a member may vote (*a*) to approve its issuance, or (*b*) to dissent to its issuance.

Issuance of an exposure draft or a final statement requires the written affirmative approval of two-thirds of the members of the Committee at the date of the vote.[1] On all other matters considered by the Committee and on all matters considered by other components, the affirmative votes of a simple majority of the members will be required for approval of the matter (including approval to publish a practice aid or a special report). At the discretion of the chair of a component, such votes may be taken by a show of hands at a meeting, by a written ballot, or by a telephone poll.

PUBLICATIONS

Advisory Statements

The Committee issues advisory statements on PFP practice, known as Statements on Responsibilities in Personal Financial Planning Practice (SRPFPs), to provide guidance to AICPA members on what constitutes good practice in PFP. These statements, however, are advisory in nature and not binding on AICPA members. The authority of the advisory statements is set forth in the forepart of each statement. The Committee is authorized to make such statements under its general authority to speak for the Institute on this area of practice.

The ordinary procedures for preparing and issuing an advisory statement on personal financial planning practice are summarized as follows:

- Suggestion of a topic by a division component, a member of a division component, other AICPA components, the staff, or members of the public
- Approval of the topic by the Committee
- Preparation and approval by the designated subcommittee or task force of a draft statement and submission of the draft to the Committee for review and approval
- Discussion of the draft by the Committee in an open meeting concluding with approval to issue an exposure draft of a proposed statement or a decision to ask the subcommittee to revise the draft and resubmit it for approval after further review
- Clearance by the Federal Taxation Executive Committee prior to exposure (see exhibit G-1) of topics considered to contain tax aspects
- Review by legal counsel
- Distribution of an exposure draft for comment to (*a*) PFP section members, (*b*) AICPA Council members, (*c*) Technical Committee chairs, (*d*) state societies (presidents, executive directors, PFP Committee chairs), (*e*) AICPA legal counsel, and (*f*) persons who have requested copies. The period for public comment will normally be 90 days, but may be for a longer or shorter period as determined by the Committee

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[1] The Committee year expires annually at the time of the AICPA annual meeting and a member's term ends on that date. However, the Committee year and a member's term will be extended solely for the purpose of completing the written balloting procedures on a specific document(s) provided that the document does not need to be placed on a meeting agenda beyond the Committee year, and the written balloting procedures are completed within 90 days after the Committee year.

- Preparation and approval by the subcommittee or task force of a revised draft based on a review of the comment letters

- Discussion by the Committee of the comment letters and revised draft in an open meeting concluding with approval to prepare a ballot draft or a decision to refer the draft back to the subcommittee for further revisions

- Balloting by the members of the Committee for approval to publish the final statement

- Publication of the final statement for distribution to section members and for sale to others. The issuance of the final statement will be reported in *The CPA Letter,* the *Journal of Accountancy,* and the *Planner*

Practice Aids

The division issues practice aids designed to provide practitioners with information on the conduct of various kinds of personal financial planning services or with technical information useful in performing such services. Practice aids are reference materials that provide guidance. They are prepared under the supervision of a subcommittee or a task force and are submitted to selected committee members for review and approved for publication by the director, personal financial planning. Such approval may be withheld if a practice aid is determined to be in conflict with existing standards or for other substantive reasons.

The ordinary procedures for preparing a practice aid are summarized as follows:

- Suggestions of a topic for a practice aid by a division component, a member of a section component, other AICPA components, the staff, or members of the public

- Consideration of the suggested topic by the Committee, and if approved, assignment of the topic by the chair to a subcommittee or task force to supervise the preparation of a practice aid

- Preparation of an outline for the practice aid by the assigned component and approval by the Committee

- Preparation by the assigned component, with the assistance of staff, of a draft of the practice aid

- Review and approval of the draft by selected committee members. The draft may be discussed in a meeting of the Committee and approved for publication by the director.

- Review by legal counsel if appropriate

- Publication of the practice aid for distribution to members of the section and for sale to others

Practice aids contain a notice to readers stating that they are designed as educational and reference materials for AICPA members and others interested in the subject, that they are not intended to establish standards, and that they are not binding on AICPA members.

Personal Financial Planning Practice Handbook

The annual *Personal Financial Planning Practice Handbook* provides nonauthoritative guidance. It includes practice aids such as sample engagement letters, client questionnaires, checklists, and reports. It contains other materials that provide alternative approaches to deal with a practice problem from which practitioners can select and modify, if necessary, to meet their needs. Annual updates are issued to expand and modify the publication. The Handbook is distributed to PFP section members and is available for purchase by others.

The procedures for preparing updates to the Handbook are as follows:

1. An outline of a proposed addition or modification is submitted to the Committee for review and approval.
2. AICPA staff supervises the preparation of the update from information obtained from section members or from other sources.
3. The draft of the update is submitted for approval to the director, who is responsible for publishing the Handbook.

Special Reports

The Committee may periodically issue special reports to provide information on topics of interest to its members and others concerned with personal financial planning. The ordinary procedures for preparing special reports are summarized as follows:

- The Committee may designate a section component, a staff member, or an outside organization or individual to prepare a special report on a particular topic.
- The publication of a special report, or the submission of such a report to another body, requires the approval of a majority of the members of the Committee and the approval of the director.

Comment Letters

The Committee prepares letters of comment on proposals relating to personal financial planning by groups outside of the AICPA, such as the Securities and Exchange Commission, other government agencies, and other organizations concerned with personal financial planning. Such letters may be prepared by the Committee, or by a subcommittee or a task force designated by the Committee. Letters of comment present the views of the Committee, are approved by the Committee and the director, and are signed by the chair of the Committee. In accordance with the memorandum incorporated in these procedures by exhibit G-1, communications by the Committee with Congressional committees and subcommittees or government agencies are reviewed and approved by the AICPA Government Affairs Committee prior to submission.

EXHIBIT G-1

MEMORANDUM CONCERNING THE RELATIONSHIP OF THE FEDERAL TAXATION EXECUTIVE COMMITTEE AND THE GOVERNMENT AFFAIRS COMMITTEE TO THE PERSONAL FINANCIAL PLANNING EXECUTIVE COMMITTEE

The Federal Taxation Executive Committee is the senior technical committee of the AICPA designated to represent the Institute on tax matters before any committee of Congress, other government bodies, and the public. With respect to all other senior technical committees, it has exclusive responsibility for technical tax and tax policy issues within the Institute. This includes, but is not limited to, development of and/or comments on tax policy matters; technical review and comments on rulings, regulations and legislation; tax administration matters; issuance of tax policy statements; statements of responsibilities in tax practice; and guidance on the practice of tax by CPAs.

The Personal Financial Planning Executive Committee has responsibility to provide guidance on the practice of personal financial planning by CPAs. Personal financial planning involves analysis of financial condition, cash flow planning, income tax planning, risk management, investment planning, retirement planning, education funding, and estate planning.

The Government Affairs Committee has the authority and responsibility to review and approve all testimony intended for Congressional committees or subcommittees and all technical matters when those matters involve Congress or government agencies, unless the President or the Special Assistant to the Chair determine such clearance is not appropriate or necessary.

The Federal Taxation Executive Committee shall have the authority to review and approve the tax aspects of any pronouncements, publications, or guidance by the Personal Financial Planning Executive Committee prior to the exposure of those statements to the membership or the public.

A liaison committee shall be established that consists of three members of each executive committee with staff from each division. This liaison committee is expected to meet at least semi-annually. If official positions, pronouncements, or publications developed by the Personal Financial Planning Executive Committee or Federal Taxation Executive Committee involve policy or technical issues which potentially overlap the authority of the other executive committee, the liaison committee shall seek to resolve any such conflicts, with such resolution reported to the two executive committees. Unresolved issues will be referred to the Board of Directors. One member from each executive committee will be designated to serve as co-chair of the liaison committee.

The respective executive committee chairs and the appropriate staff members will be included in the distribution lists by both divisions. Consideration will be given to a liaison relationship between relevant subcommittees of the two divisions.

EXHIBIT G-2

AICPA PERSONAL FINANCIAL PLANNING EXECUTIVE COMMITTEE 1996-1997

COMMITTEE OBJECTIVE

To plan, initiate, supervise and coordinate projects, programs and activities of the PFP Division. The Committee assists in developing public statements made by the AICPA in the area of personal financial planning and develops advisory statements of practice in personal financial planning.

COMMITTEE MEMBERS

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APPENDIX H

PERSONAL FINANCIAL SPECIALIST ACCREDITATION PROGRAM

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PERSONAL FINANCIAL SPECIALIST ACCREDITATION PROGRAM

INTRODUCTION

The AICPA has established an accreditation designation program for CPAs who specialize in personal financial planning (PFP). The Personal Financial Specialist (PFS) accreditation is granted exclusively to CPAs with considerable PFP experience who want to demonstrate their knowledge, skill and experience by earning the credential. It is the first accreditation established by the AICPA and is administered by the PFP Division.

This section of the Handbook provides information on the PFS designation program, and on registering for and taking the examination.

THE NEED FOR SPECIALIZATION

A number of factors have generated a need for specialization in the accounting profession, including a rapidly changing business environment, advancements in computer technology, increasingly complex accounting and auditing standards, new tax laws and government regulations, and increased public expectations. Although CPAs already specialize in various areas of accounting, auditing, taxation, and consulting services, it is important to evaluate and accredit members who practice as specialists in the functional fields of public accounting.

Why the PFS Designation

There are several reasons why it is important for CPAs who provide PFP services to consider obtaining the PFS designation. These include —

- Protecting the public by assuring the competency of PFP service providers.
- Improving PFP skills and expertise, resulting in increased professional competency.
- Enhancing the image of CPAs as competent, trustworthy financial advisers.
- Keeping up-to-date in a profession currently experiencing information overload.
- Facilitating client referrals among practitioners.
- Creating the opportunity for smaller firms to become more competitive in specialty areas of practice.
- Encouraging closer ties within the profession as members with similar interests are brought together.
- Improving communication between the accounting profession and the public.
- Developing uniform standards to be used in evaluating claimed expertise.

Benefits of Having the PFS Designation

The PFS designation distinguishes CPAs who specialize in PFP. The addition of the PFS credential displays a higher level of skills and knowledge, enhancing your marketing efforts. To support your efforts, you receive a number of benefits, described below:

Exclusive PFS List. Your name and telephone number is included in a geographic listing supplied to potential clients who call the AICPA for the names of CPA financial planners. National publicity of the PFS designation results in daily requests from all across the country. This list is also accessible on CompuServe's Accountants Forum.

Practice Building Benefits. You have the opportunity to develop technical skills with the following:

- A complimentary subscription to *Planner*, the bimonthly newsletter highlighting relevant PFP issues, trends and developments.
- Discounted registration to the annual PFP Technical Conference where you can attend advanced CPE courses and network with leaders in financial planning.
- Opportunities to enhance marketing and selling skills, including special sessions at the annual PFP Technical Conference.

Promotional Materials. Once you obtain the PFS designation, you receive marketing support, such as:

- A marketing and media kit, including specific tangible tools to help you attract clients. The kit includes camera-ready advertisements, a radio script, yellow page advertisements, a speech and a press release, sample client letters, and advice on using the media to promote your practice.
- A unique, high-impact logo developed for the exclusive use of PFS practitioners.
- A six-page brochure explaining to clients the value of the PFS designation. You can imprint your firm's name on the back panel. The first 25 copies are free.
- A distinctive certificate and pin to identify you as a CPA•PFS.

Public Awareness Program. The AICPA's ongoing media relations campaign heightens the awareness of PFS among consumers, the financial community, and the press. The designation has been featured in such publications as *Wall Street Journal, Fortune, Inc.*, and *Kiplinger's Personal Finance Magazine*, and in regional newspapers through syndication.

Special Recognition at the PFP Technical Conference. You can network at a special event during the annual AICPA PFP Technical Conference. In addition, the three top scorers for each PFS exam are honored at the conference luncheon.

INITIAL ACCREDITATION REQUIREMENTS

To qualify for the PFS designation, you must—

1. Be a member in good standing of the AICPA.

2. Hold a valid and unrevoked CPA certificate issued by a legally constituted state authority.

3. Have at least 250 hours of experience per year in personal financial planning activities for the three years immediately preceding the application. This experience must include—

    - Personal financial planning process
    - Personal income-tax planning
    - Risk-management planning
    - Investment planning
    - Retirement planning
    - Estate planning

4. Agree to comply with all the requirements for reaccreditation.

5. Pass the PFS Examination.

6. Submit six references to substantiate working experience in personal financial planning.

The first four requirements must be met at the time you register to sit for the examination. References are required only after you have been notified of successful completion of the examination. You then have six months to submit these references, after which time your examination score will be invalidated. You will then have to retake and pass the examination to become accredited as a Personal Financial Specialist.

THE PFP EXPERIENCE REQUIREMENT: WHAT COUNTS?

PFS candidates must have at least 250 hours of experience in PFP activities in each of the three years preceding the initial application. Candidates for reaccreditation must have at least 750 hours of PFP experience over the three years preceding their reaccreditation. The following summary, which highlights some of the PFP services provided by CPA financial planners, provides examples of activities that may qualify as PFP experience.

- **Personal financial planning process**

  Helping clients to establish their financial goals; identifying the constraints within which these goals might be achieved (personal circumstances and preferences, financial considerations, etc.); organizing and analyzing data; reviewing income and spending patterns and developing cash flow management and budgeting recommendations; performing time value of money calculations for decisions such as refinancing a home or buying versus leasing a vehicle.

- **Personal income tax planning**

  Advising clients regarding the federal and state income tax consequences of their financial decisions, including matters such as timing income and deductions; making charitable contributions; utilizing net operating losses, capital losses, or passive activity losses; establishing and maintaining employee fringe benefit plans; taking retirement plan distributions; and bankruptcy. Helping clients split income among family members through the use of family partnerships, employment arrangements, gifts and trusts, installment sales, etc. Advising clients on the issues related to personal decisions such as marriage or divorce (property settlements, retirement plan asset division, alimony and child support).

- **Risk management planning**

  Analyzing clients' exposure to risk and reviewing with them methods for managing risk; reviewing the adequacy of existing insurance coverage or self-insurance funds; advising clients on various types of life insurance and its uses (education funding, charitable giving, buy-sell funding, etc.); helping clients to minimize their financial risks from disability, illness, property damage, and personal and professional liability; planning for long term health care for clients and their families; reviewing proposed policies to ensure clients' needs are satisfied; reviewing with clients the income and estate tax aspects of their insurance coverage.

- **Investment planning**

  Reviewing with clients their investment preferences and risk tolerance and helping them to develop investment strategies based on these considerations and their goals; discussing available investment options with clients; monitoring the performance of invested assets; developing asset allocation recommendations; recommending investments or helping clients build portfolios (consider registration requirements); managing client assets.

- **Retirement planning**

  Helping clients develop or refine retirement planning goals (timing, relocation, second careers or other activities, etc.); determining cash requirements to realize those goals; calculating savings needed to meet retirement cash requirements and analyzing available retirement plans; reviewing with clients the limits on and tax consequences of contributions to or distributions from retirement plans; helping to establish retirement plans; planning for retirement plan withdrawals; assisting clients to maximize their social security benefits; planning for the post-retirement succession of a closely held business.

- **Estate planning**

  Helping clients develop or refine their financial and personal estate planning goals; estimating liabilities for federal estate tax, state death taxes and other obligations and determining cash needs at death; developing recommendations to meet the financial obligations of death; reviewing with clients the tax and probate considerations of various forms of property ownership and making recommendations on the titling of assets; developing strategies for minimizing estate and death taxes and achieving the clien's other estate planning goals; recommending or reviewing various instruments (wills, powers of attorney, trusts, etc.) for use in achieving goals; planning for the post-mortem succession of a closely held business (buy-sell agreements, estate freeze techniques, valuation issues, etc.).

Although you must have some experience in each of these planning areas, there is no specific or minimum amount of time required for any one area. Experience may consist of oral or written advice and segmented or comprehensive planning.

THE PFS EXAMINATION

Examination Sites and Dates

The PFS examination is offered semiannually, typically on the first or second Friday in June and November, at over 250 sites nationwide. Exact site locations are provided upon acceptance of your registration. The following exam dates and registration deadlines have been established for 1996 and 1997:

Examination Date	Registration Deadline
June 20, 1997	May 23, 1997
November 7, 1997	October 10, 1997

Examination Content

The PFS examination tests a comprehensive range of PFP topics. The subject matter is summarized in the PFS Examination Content Specification Outline included in exhibit A. The examination is prepared under tight security by the AICPA PFS Examination Subcommittee, the members of which review the questions for technical accuracy, relevance to practice as a PFS, compliance with the PFS Examination Content Specification Outline, and appropriate range and level of skills and knowledge needed to practice as a PFS. The PFS Examination is a nondisclosed examination; the answers to the examination are not published.

The following paragraphs describe the types of questions encountered on a PFS examination.

Multiple-Choice Questions. A multiple-choice question consists of a stem that includes factual data, or describes a situation, and four options — the answer and three incorrect choices. The following illustrates a multiple-choice question:

Which of the following areas included in the PFS Examination is weighted at 20 percent?

- ■ a. Personal financial planning process
- ☐ b. Personal income-tax planning
- ☐ c. Risk-management planning
- ☐ d. Investment planning

You are not penalized for incorrect responses on multiple-choice questions. Therefore, you are likely to get a higher score if you answer all questions, even if you are uncertain of the answer.

Objective-Format Other-Than-Multiple-Choice Questions. The objective-format other-than-multiple-choice questions present a factual setting to which you apply your knowledge of planning techniques. The answers to the questions, however, are in objective formats. An answer may be selected once, more than once, or not at all. The following illustrates one of the formats that will be used:

First Computer Screen (Left)	First Computer Screen (Right)
The PFS Content Specification specifies the scope of the examination and the weight that each of the following areas will be given. For each of the following areas, you are to select the weight given to that area. A weight may be selected once, more than once, or not at all.	Professional Responsibilities Weight: ■ A. 5% ☐ B. 10% ☐ C. 15% ☐ D. 20% ☐ E. 25% ☐ F. 30%

Second Computer Screen (Left)	Second Computer Screen (Right)
The PFS Content Specification specifies the scope of the examination and the weight that each of the following areas will be given. For each of the following areas, you are to select the weight given to that area. A weight may be selected once, more than once, or not at all.	Personal Financial Planning Process Weight: □ A. 5% □ B. 10% □ C. 15% ■ D. 20% □ E. 25% □ F. 30%

Third Computer Screen (Left)	Third Computer Screen (Right)
The PFS Content Specification specifies the scope of the examination and the weight that each of the following areas will be given. For each of the following areas, you are to select the weight given to that area. A weight may be selected once, more than once, or not at all.	Personal Income Tax Planning Process Weight: □ A. 5% □ B. 10% ■ C. 15% □ D. 20% □ E. 25% □ F. 30%

Case Study Question. The case study presents a factual setting to which you are asked to apply your knowledge of planning techniques to a series of questions. You will be expected to exercise professional judgment while exploring alternatives, which includes identifying the significant planning issues, assisting in setting goals, discussing alternative courses of action, and developing a plan of action.

To familiarize yourself with the general style of PFS examination questions, exhibit B features illustrative examples of multiple-choice questions, objective-format other-than-multiple-choice questions, and a case study question.

Examination Format

The PFS Examination is computer-based and consists of two separate parts:

- Part I is scheduled for three hours and consists of multiple-choice questions (50 percent of grade)
- Part II is scheduled for three hours and consists of objective-format other-than-multiple-choice, questions (25 percent of grade) and a planning case study (25 percent of grade)

Before starting Part I, you will be presented with a short, self-paced tutorial to help you learn how to use the computer for testing. After beginning the Part I testing session, you may review any question in Part I at any time until you exit Part I or time has expired. After that time, you cannot go back and review those questions again.

There is a mandatory one hour lunch break between Part I and Part II. When you return from the break, the test center administrator will provide you with a printed copy of the planning case study. You will then be presented with a second tutorial to learn how to answer the case study questions on the computer. After you have had time to practice, you may choose to answer these questions either on the computer or on paper. If you choose to answer on paper, the administrator will provide an essay booklet. Once you decide how to compose your answers — on the computer or on paper — you cannot change your mind during the test.

After you have made your selection, you will begin Part II of the examination. The objective-format other-than-multiple-choice questions are presented first, followed by the planning case study. The planning case study will be presented on computer and in printed form. The questions to the planning case will be presented only on the computer. Even if you chose to answer your questions on paper, you must still use the computer to view the questions. You may review any of the objective-format other-than-multiple-choice questions or the planning case questions at any time during Part II. Once you exit Part II, or time has expired, you cannot go back and review those questions again.

A clock will display time remaining in the upper left-hand corner of the computer screen. If at any time during the examination you encounter a problem with your computer, need more scratch paper, or need any other assistance, notify the administrator immediately by raising your hand.

There is no penalty for incorrect answers; therefore, it is to your advantage to attempt all questions even if you are uncertain of the answer.

Preparing for the PFS Examination

As you start to prepare for the PFS examination, review the PFS Examination Content Specification Outline (exhibit A). The outline specifies the scope of the examination and the weight that each area will be given. Once you identify areas requiring additional study, you can prepare through self-directed readings or by completing a program specifically designed to prepare candidates for the PFS exam.

The key to passing the examination is your broad working experience in financial planning. For that reason, the 750-hour experience requirement is a prerequisite to sitting for the examination. It is through experience that candidates apply their knowledge, as well as gain new knowledge about personal financial planning. Candidates may need to study those planning areas in which they have less experience. Past PFS candidates who passed the examination used the content specification outline to become familiar with the topics that the examination covered and to identify the areas of weakness that need further study.

You must individually determine the level of preparation necessary to successfully complete the examination. The following are examples of reference materials used:

- The AICPA's *PFP Practice Handbook* and *PFP Library* Series
- Practitioners' Publishing Company's *Guide to Personal Financial Planning*
- Bureau of National Affairs' *Tax Management Financial Planning*
- Commerce Clearing House's *Financial and Estate Planning*
- Materials used in the AICPA Certificate of Educational Achievement Personal Financial Planning Process Program (CEA PFPPP)
- National Underwriter's *Tools and Techniques of Financial Planning* and *Tools and Techniques of Estate Planning*
- The American College's *Financial Services Professional's Guide to the State of the Art*

Professional journals and newsletters, including the AICPA's bi-monthly newsletter *Planner*, are also good sources for techniques that financial planners are currently using to service their clients. New publications are produced frequently and should be considered when available.

Training Programs. The following courses of study may help to prepare candidates for the PFS examination:

- **LINC Society of CPA Financial Planners PFS Review Course.** This course is typically offered on the weekend preceding each PFS exam. For information contact Lorraine Webb at 615-242-7351.
- **PFS Review Self Study Course.** For information contact Terry Stock at 513-651-2542.
- **AICPA Personal Financial Planning Process Certificate of Educational Achievement.** The PFPP CEA program is neither a prerequisite nor intended as a preparatory course of study for the PFS examination, but does cover many of the exam topics. For more information call the AICPA Professional Development Support Services at 201-938-3529.

Examination Registration Procedures

The PFS application and examination process is administered by The Chauncey Group International, a subsidiary of Educational Testing Services (ETS). CPAs who are AICPA members and meet the PFP experience requirements can register for the examination and become a PFS candidate by calling the Sylvan National Testing Service Group at **1-800-864-8080. Registration is available only through this telephone number; there is no application to complete**.

When you call to register for the PFS examination, you must provide the Sylvan representative with the following information:

- Name and address
- Home and office telephone numbers
- Social Security Number
- Date of birth
- AICPA membership number
- Visa or MasterCard number and expiration date (The examination fee is $300. Only Visa and MasterCard are accepted for payment).

The Sylvan representative will confirm the choice of an examination site. You may choose from more than 250 national testing centers. At the examination, you will sign a statement of intent to comply with all PFS reaccreditation requirements.

Payment. Payment is by Visa or MasterCard only. Your credit card account will be charged on the day of the examination. Your credit card statement will be the only receipt furnished as proof of payment. Please note that if you fail to arrive for your appointment or cancel without giving the required notice, your credit card will be charged for the full amount of the examination fee.

Appointment Cancellations. You may cancel your appointment up to **48 hours before** the exam day by calling the Sylvan National Registration Center at **1-800-864-8080. Do not call the test site to cancel your appointment.** If you fail to arrive for your appointment or cancel without giving the required notice, you will forfeit the examination fee.

Examination Procedures

Reporting to the Test Center. You should arrive at the test center at least 30 minutes before the scheduled appointment to allow time for check-in. When you arrive at the test center, report to the center administrator. Waiting areas at the test center are small. Friends and relatives who accompany you to the test center will not be permitted to wait in the test center or contact you while you are taking the examination.

Personal Identification. You must present two forms of identification. Both pieces of identification must be signed and one must bear your recent photograph. At least one of your forms of identification must be from the list of primary forms of identification. You should keep your two forms of identification with you at all times. You will not be admitted to the examination and you will forfeit your examination fee if you fail to present proper identification.

The following are examples of acceptable forms of **primary identification** (must include both your signature and photograph) are:

- Driver's license
- Employee ID card
- State/province ID card
- Passport
- You may also affix a recent photo of yourself on a blank piece of paper. You must sign the paper and have it notarized, with the notary seal overlapping the photo.

Examples of acceptable forms of **secondary identification** (that must include your signature) are:

- Military identification card
- Citizenship card
- Driver's license without a photo
- U.S. Social Security card
- Canadian Social Insurance card
- Valid credit card with signature
- Bank automated teller machine (ATM) card

Examination Security. The following are additional security measures that will be taken at the test center:

- You will be required to sign the center log sheet each time you enter and leave the testing area.
- You will be required to read and sign the following:
    - *Statement of Intent*, declaring your intention to comply with the triennial PFS reaccreditation requirements. A sample of the Statement of Intent is included in section D of exhibit D.
    - *PFS Confidentiality Statement*, by which you agree not to disclose the contents of the PFS examination.
- You will be photographed as part of the check-in procedure.
- You will be observed at all times while taking the examination. This observation may include direct observation by test center staff, as well as video and audio recording of your examination session.

Breaks. A mandatory one hour break is scheduled between Part I and Part II. If you must leave the room during the examination, raise your hand to notify the administrator. Timing will not stop during such unscheduled breaks. You will be required to show the administrator your identification to be readmitted to the testing room.

Personal Items/Reference Materials. You will be required to leave your personal belongings outside the testing room. Most test centers provide small lockers for storage of personal possessions. Do not bring attaches or brief cases into the center as they may not fit into the storage lockers. You may not bring books or papers of any kind into the examination room. Scratch paper and pencils are provided by the test center. Rulers, slide rules, and calculators are prohibited. An on-line calculator is included in the computer software. You may not eat, drink, or use tobacco during the examination.

Misconduct. If you engage in misconduct and fail to heed the administrator's warning to discontinue the offensive behavior, you may be dismissed from the test center. Misconduct includes:

- Giving or receiving assistance of any kind
- Using any prohibited aids
- Attempting to take the examination for someone else
- Failing to follow testing regulations or the instructions of the test administrator
- Creating a disturbance of any kind
- Removing or attempting to remove examination questions and/or responses (in any format) or notes about the examination from the testing room
- Tampering with the operation of the computer or attempting to use it for any function other than taking the examination
- Removing or attempting to remove scratch paper from the test center

Exit Survey. At the conclusion of the examination, you will be asked to complete a brief survey which will provide information to help improve the testing process.

Examination Tips

Knowledge of the subject matter is essential for success on the examination. However, the following are some examination taking techniques that may improve your performance.

- **Be punctual.** Plan to arrive at the examination room well in advance of the starting time. Allow time for any unforeseen delays.

- **To maintain uniform examination conditions, mechanical and electronic aids, computers, rulers, slide rules, and calculators are prohibited.** An on-line calculator is included in the computer software and can be accessed on the computer screen for each question. Do not bring any paper or printed material to the examination workstation. Scrap paper and pencils will be provided.

- **Budget your time**. A schedule of the points for each section appears on the computer and can be accessed at any time during the test. These points should be used as a guide in budgeting the time to spend on each question.

- **Answer all multiple-choice and objective-format other-than-multiple-choice questions.** All multiple choice questions and objective-format other-than-multiple-choice questions should be answered because there is no penalty for incorrect answers, and grades are based solely on the total number of correct answers. Because these questions are computer-graded, no consideration is given to comments and calculations pertaining to them. Therefore, comments and calculations should not be submitted.

- **Read the case-study question.** Carefully read the entire case-study question to get a general idea of the subject matter being tested, and then reread the question and underscore the pertinent facts and data. Some candidates approach a case-study question by reading the requirements first and then reading the situation for the information it contains. This procedure may enable candidates to identify the data more rapidly and to classify the information for pertinence.

- **Respond to the question.** The PFS Examination case-study question is intended to be straightforward. Assumptions rarely are necessary. However, when a candidate feels that an assumption must be made, the assumption for the case-study question should be stated, together with the reasons for it. An example of when an assumption must be made is when the answer to the estate-planning portion of a case-study question would be different in the cases of common-law and community-property states.

  Answers should respond directly to the specific question asked and not be broad expositions on the subject of the case-study question. Do not identify the general subject matter and then state everything known about the subject without regard to the specific question. Answers should not contain contradictions within themselves. In some cases, when a discussion of both sides of a question is required, make it clear that differing views or opposing arguments are presented.

  Use examples freely to illustrate the statements made, but be certain that the examples provide logical support or present reasonable applications. Providing well-chosen examples often is a short and easy way of expressing an idea or supporting a conclusion. On the other hand, inapplicable examples can cast doubt on the candidate's comprehension of the subject matter.

- **Select the efficient approach.** Selecting an inefficient — though not necessarily incorrect — approach to a question can waste precious time. Before typing or writing the answer, devote some time to determine what approach will be used, and then to think through the answer to its conclusion. This is a logical use of time that will ensure maximum credit for both knowledge of the subject matter and professional skill in recognizing and completing the significant part of the answer first.

  If it appears that there is not enough time to complete a question, work until the last few minutes of the time budgeted for the question, and then state briefly how the answer should be completed. Remember, however, that resorting to explanations rather than completing the answers for a number of questions would probably lead to the conclusion that the candidate was not fully prepared.

- **Organize answers.** After clearly understanding the requirements of the question and analyzing the data, organize answers so that they respond directly to the requirements. These questions are phrased carefully to elicit specific knowledge. Organizing answers carefully before beginning to type or write them in final form will save time, avoid false starts, and aid in producing a coherent answer.

Each principal idea should be the subject of a separate paragraph. Follow the rules of good grammatical construction, and state the principal idea of the paragraph in the first sentence. Subsequent sentences should present subordinate or supporting concepts or illustrative examples. Generally, knowledge is best expressed by employing short paragraphs composed of short sentences. Moreover, short paragraphs, each limited to one principal idea, can better emphasize the main points in the answer.

- **Prepare adequate, concise answers.** Answer the question completely. Comprehensive answers using proper language need not be lengthy. However, guard against the extremely brief answer that is likely to omit important points. Quality and quantity of ideas are desired, not quantity of words. Do not repeat the question; this wastes valuable time.

- **Be specific.** Be specific so that there can be no doubt about the meaning or reasoning set forth in the answer. The grader cannot make any assumptions about the candidate's knowledge.

- **Support your answers.** The reasons offered for conclusions may be as important as the conclusions themselves. Citing authorities, rather than giving the underlying reasons or supporting logic, is a common error.

- **Write legibly.** If you choose to handwrite your answers to the case study questions, your answers should be legible and neat in appearance. Extensive underscoring for emphasis of major points is unnecessary.

Turn in the package containing the scenario for the case-study question and your handwritten essay answer book if you chose to handwrite your responses. This is a secure examination. All examination materials must be turned in at the completion of the test.

Examination Grading and Test Results

The AICPA's grading procedures are designed to ensure that all examinations are fairly and uniformly graded. Anonymity is preserved throughout the grading process. The only information available to the graders is the candidate numbers.

Grading keys are used for the case-study questions. The key lists the concepts tested by the case-study question and specifies under what conditions credit will be awarded. The grading key is simultaneously developed with the case-study question. The grading keys provide uniform standards to which the graders must adhere throughout the grading process. Candidates are not expected to compose perfect solutions under examination conditions and can receive full credit for a less-than-perfect solution.

The multiple-choice questions and the objective-format other-than-multiple-choice question are graded by computer, and candidates' explanations of their answers are not considered. Statistical controls are used for all questions.

A score of 75 has been set as the passing score for the examination. All examination papers that are close to the passing score after the first grading are regraded a second time. The results of the examination are mailed within four months of the examination.

After Passing the Examination

After passing the examination, you must submit, within six months, six references to substantiate your PFP experience. Three references must be from clients and three from other professionals, including CPAs, with whom you have previously worked. Only one of the latter references can be from a CPA within your own firm. You should allow these references to complete the reference forms themselves rather than preparing completed forms and presenting them for signature. If a question about your references arises, the AICPA will contact you directly to resolve the issue.

After your references are reviewed and accepted, you will receive a PFS certificate and pin, and will be eligible to use the PFS accreditation in compliance with the rules of the state in which you practice. Your state society also will be notified that you have been designated as a Personal Financial Specialist.

If you fail to submit your references within the six-month period your examination score will be invalidated and you will have to retake and pass the examination in order to obtain the PFS accreditation.

REACCREDITATION REQUIREMENTS

To maintain the PFS accreditation, you must pay an annual reaccreditation fee and recertify your accreditation every three years. To do so, he or she must —

1. Be a member in good standing of the AICPA.

2. Have a valid and unrevoked CPA certificate issued by a legally constituted state authority.

3. Have at least 750 hours of experience in personal financial planning over the preceding three years. Experience must be in each of the following areas:

   - Personal financial planning process
   - Personal income-tax planning
   - Risk-management planning
   - Investment planning
   - Retirement planning
   - Estate planning

4. Have taken at least seventy-two hours of financial planning courses in prescribed disciplines every three years. Self-study courses are limited to 33 1/3 percent of the total hours.

5. Submit a written statement of intent to continue to comply with all the requirements for reaccreditation.

6. Submit a completed internal practice review questionnaire (IPRQ), as amended from time to time. The questionnaire asks the PFS practitioner to provide information to determine whether he or she has met the reaccreditation requirements. The PFS practitioner agrees to submit supporting data, including work papers, for external review of personal financial planning activities upon request. A Sample IPRQ is included at exhibit D.

If reaccreditation requirements are not met, your accreditation ceases and all initial requirements, including examination, must again be met to regain accreditation. A waiver may be requested and will be granted if, in the sole judgment of the AICPA, there is justification because of extreme hardship or extraordinary circumstances.

FOR MORE INFORMATION

For more information about the PFS program contact the AICPA Personal Financial Planning Division by calling 1-800-862-4272, option #5, or writing AICPA, Personal Financial Planning Division, 1211 Avenue of the Americas, New York, NY 10036-8775.

EXHIBIT A

PFS EXAMINATION CONTENT SPECIFICATION OUTLINE

I. Professional Responsibilities (5%)

A. Regulatory

1. Securities Act of 1933 and the Securities Exchange Act of 1934
2. Investment Advisers Act of 1940
3. General concepts of state regulation

B. Professional standards — AICPA

1. Authoritative
   a. *Code of Professional Conduct*
   b. *Statements on Standards for Accounting and Review Services* (Statements 1-7)
   c. *Personal Financial Statements Guide*
   d. *Guide for Prospective Financial Statements*
   e. *Statement on Standards for Consulting Services*
2. Nonauthoritative
   a. *Statements on Responsibilities in Tax Practice* (Statements 1-8)
   b. *Statements on Responsibilities in Personal Financial Planning Practice* (Statements 1-5)

II. Personal Financial Planning Process (20%)

A. The financial planner as a generalist

B. Elements of the process

1. Defining engagement objectives
2. Planning the engagement
3. Performing analyses to develop and support recommendations and planning decisions
4. Documenting the planning process
5. Reporting of recommendations and advice
6. Coordinating the implementation of the client's financial planning decisions
7. Monitoring the client's progress in achieving goals
8. Assisting the client to revise planning decisions

C. Time value of money calculations

D. Practice management, including engagement letters

E. Establishing financial objectives and identifying constraints

1. Qualitative issues
   a. Client goals
   b. Life cycle considerations
   c. Client's personality, health and preferences
   d. Time horizon
   e. Other
2. Quantitative issues
   a. Financial statement analysis
   b. Cash flow planning and budgeting
   c. Business considerations
   d. Financial independence, including retirement
   e. Current income and spending patterns
   f. Other income or cash flow sources

III. Personal Income Tax Planning (15%)

A. Fundamental rules

1. Filing status
2. Dependency exemptions
3. Nontaxable and partially taxable income

4. Deductible and nondeductible expenses
5. Tax credits
6. Other, such as taxation of social security and children under fourteen
7. Alternative minimum tax

B. Income splitting

1. Incorporating
   a. Subchapter C corporations
   b. Subchapter S corporations
2. Interest-free loans
3. Private annuities
4. Employing spouse or children and FICA taxes
5. Family partnerships
6. Installment sales to heirs
7. Gifts and trusts
8. Assignments of income rules

C. Employee fringe benefits planning

D. Retirement tax planning

1. Deferred compensation
2. Stock options
3. Qualified plans, including Keoghs and SEPs
4. IRAs
5. Distributions and rollovers

E. Charitable contributions

1. Limitations
2. Property donations
3. Charitable trusts
4. Bargain sales to charities

F. Income and deduction timing

1. Capital gains and losses
2. Original issue discount
3. Net operating losses
4. Passive income and losses
5. Interest expense classification
6. Itemized deduction limitations

G. Divorce considerations

1. Property settlement rules
2. Alimony, child support, and property payments
3. Dependency exemption
4. Retirement plan asset division

H. Bankruptcy or insolvency

IV. Risk Management Planning (15%)

A. Methods of handling risk

B. Needs analysis

C. Life insurance

1. Types
2. Uses
   a. Life insurance trust
   b. Key man insurance
   c. Buy-sell agreement funding
   d. Split-dollar arrangements
   e. Minimum deposit issues
   f. Charitable giving
   g. Other, such as cash fund, education fund, and estate-clearance fund
3. Beneficiary designations

D. Annuities

1. Immediate vs. deferred annuities
2. Flexible annuities
3. Rollovers, withdrawals, and distributions

E. Disability insurance

1. Policy definitions
2. Exclusions
3. Waiting periods and duration of benefits
4. Partial disability benefits and qualification periods

F. Property and casualty insurance

1. Homeowner's insurance
2. Automobile insurance
3. Other property insurance
4. Umbrella insurance

G. Health insurance

1. Basic, major medical, and comprehensive insurance
2. Medicare
3. Health maintenance organizations (HMOs) and preferred provider organizations (PPOs)
4. Long-term health care
5. Other types

H. Professional liability insurance

I. Interrelationship of business and personal risks

J. Tax implications of insurance

V. Investment planning (15%)

A. General considerations about clients

1. Risk tolerance
2. Liquidity
3. Cash flows to and from investment
4. Tax implications
5. Maturity
6. Diversification
7. Collateralization
8. Growth
9. Need for income
10. Marital and family status
11. Life cycle
12. Time horizon
13. Monitoring

B. Investment considerations

1. Investment risks
   a. Systematic risk
   b. Unsystematic risk
   c. Quantifying risk and return
2. Investment preferences
   a. Safety of principal
   b. Growth
   c. Cash flow (income)
   d. Total return
   e. Tax benefits
3. Asset allocation
   a. Asset categories and mix
   b. Economic considerations
4. Investment strategies
   a. Diversification
   b. Buy and hold
   c. Dollar cost averaging
   d. Market timing
   e. Value averaging
   f. Leveraging
   g. Hedging
   h. Index funds
   i. Maturity selection
5. Forms of ownership
6. Tax implications

C. Record-keeping requirements

D. Cash and cash equivalents

1. Money market instruments
2. Passbook savings accounts
3. Certificates of deposit
4. Other

E. Fixed income

1. U.S. government securities
   a. Treasury bills, notes, and bonds
   b. Zero-coupon bonds
   c. Other
2. Bonds
   a. Municipal bonds
   b. Corporate bonds
   c. Bond funds
   d. Zero-coupon bonds
   e. Other, such as savings bonds and commercial paper
3. Mortgage-backed securities and REMICs

F. Equity investments

1. Common stock
2. Preferred stock
3. Stock options
4. Commodity futures
5. Stock index futures
6. Foreign equities
7. Warrants
8. Convertible securities

G. Mutual funds

H. Real estate

1. Commercial real estate
2. Residential real estate
3. Real estate investment trusts

I. Other types of investments

1. Equipment leasing
2. Research and development
3. Energy
4. Limited partnerships and investment trusts
5. Insurance products
6. Others
   a. Precious metals
   b. Options
   c. Futures
   d. Collectibles and physical assets

VI. Retirement Planning (15%)

A. Determining cash needed

B. Retirement plans

1. Types
   a. IRAs
   b. Qualified plans
   c. Nonqualified plans
   d. Pension versus profit-sharing
   e. Social security
2. Limits on contributions and benefits
3. Methods of distribution and their taxation
4. Qualified plan investments
5. Beneficiary designations
6. Plan loan provisions

C. Tax and economic considerations

1. Tax advantaged funding
2. Creating and protecting retirement assets
3. Identifying present asset base
4. Insurance, including supplemental medical coverage
5. State income and death taxes

D. Noneconomic considerations

1. Relocation
2. Second career, training
3. Activities
4. Life expectancy
5. Other

VII. Estate Planning (15%)

A. Property ownership and asset titling

1. Split income property ownership
2. Pros and cons of jointly held assets

B. Determining cash needed

1. Federal estate tax calculations
2. State death taxes
3. Other liquidity needs

C. Probate estate

1. Advantages
2. Disadvantages

D. Tools and techniques

1. Wills
2. Intestacy
3. Instruction letters
4. Gifts
   a. Annual exclusion unified credits

   b. Present versus future interests
   c. Generation-skipping tax
   d. Gifts to dependents
   e. Gifts to charities
5. Trusts
   a. Intervivos and testamentary
   b. Revocable and irrevocable
   c. Charitable
   d. Life insurance
   e. QTIP
   f. Qualified domestic
6. Life insurance
7. Marital deduction
8. Living wills and durable powers of attorney
9. Other, such as beneficiaries and alternatives

E. Disclaimers and responsibility to inform on a timely basis

F. Closely-held business issues

1. Valuation issues
2. Family succession planning
3. Active vs. nonactive owners
4. Equitable vs. equal distribution
5. Buy-sell agreements
6. Estate freeze techniques

EXHIBIT B

ILLUSTRATIVE EXAMINATION QUESTIONS

Multiple-Choice Questions

Part I of the PFS Examination will consist of approximately 100 multiple-choice questions and will be worth 100 points. Because Part I is 50 percent of the total grade for the PFS Examination, each of the following examples of a multiple-choice question would be 0.5 percent of the total grade for the PFS Examination.

1. Which of the following statement/statements regarding the performance of personal financial planning services by a CPA is/are correct?

   I. Exercise due professional care in the performance of professional services.
   II. Adequately plan and supervise the performance of professional services.

   a. I only.
   b. II only.
   c. Both I and II.
   d. Neither I nor II.

2. Barriers that make it difficult for a client to formulate personal financial plans include which of the following?

   I. Psychological makeup of client.
   II. Variety and complexity of client needs.

   a. I only.
   b. II only.
   c. Both I and II.
   d. Neither I nor II.

3. Which of the following statements concerning personal financial planning is correct?

   a. It is a process that is limited to focusing on clients' quantitative circumstances.
   b. It is a nonthreatening, nonstressful experience for clients to identify and prioritize their objectives.
   c. It avoids involving clients in the decision-making process that affects their financial well-being.
   d. It requires time spent in educating and counseling clients as to available courses of action.

4. Winston owns a home with a fair market value of $250,000. Winston's acquisition indebtedness is $190,000. What amount of new home equity indebtedness can Winston incur and have all of the home equity interest be deductible?

   a. $ 60,000
   b. $100,000
   c. $187,000
   d. $190,000

5. Which of the following types of property used in a like-kind exchange will result in the deferral of long-term gains?

   I. Business inventory.
   II. Professional sports franchise.

   a. I only.
   b. II only.
   c. Both I and II.
   d. Neither I nor II.

6. A client has an unendorsed homeowners HO-3 policy and a personal auto insurance policy. Which of the following circumstances would cause you to recommend that the client consider modifying the insurance coverage?

   a. The client's six-year-old child throws a stone through a neighbor's window.
   b. The client purchases a thirty-foot sailboat.
   c. The client's detached garage is damaged when a tree limb falls on the roof.
   d. The client borrows your automobile to drive to the bank to cash a check.

7. A client is considering the purchase of a listed stock. The stock sells for $28 per share on an organized exchange but the client wants to place a buy order at $25. The client is placing a —

   a. Limit order
   b. Stop-loss order
   c. Market order
   d. Call order

8. Which of the following actions will minimize the possibility that the IRS will consider a controlling shareholder to be in constructive receipt of compensation under a deferred-compensation arrangement?

   a. Use an independent plan trustee.
   b. Provide for the forfeiture of benefits on termination prior to retirement.
   c. Name the shareholder as annuitant if an annuity is used to fund the plan.
   d. Name the shareholder as beneficiary if life insurance is used to fund the plan.

9. Which of the following statement/statements concerning the tax on excess distributions from a pension plan is/are correct?

   I. Early withdrawals from individual retirement accounts (IRAs) may have the effect of minimizing the excess-distributions tax, since the period over which the distributions will be received is lengthened.
   II. When applied to a lump-sum distribution from a pension plan, the excess-distributions tax is assessed against the total amount of the distribution.

   a. I only
   b. II only
   c. Both I and II
   d. Neither I nor II

10. A client desires to write a codicil that would establish a pour-over trust provision to the client's will. For this to be an effective planning procedure, the client must also —

    a. Revoke all prior wills and have a new will prepared.
    b. Have an inter-vivos trust in place prior to executing the codicil.
    c. Use the same witnesses to the codicil as were used for the original will.
    d. Obtain the written consent of beneficiaries of the current will.

The difficulty level of the preceding multiple-choice questions should not be construed to represent the difficulty level of the PFS Examination.

Objective-Format Other-Than-Multiple-Choice Question

In Part II of the PFS Examination, there will be several objective-format other-than-multiple-choice questions, which will be worth approximately 50 points. Since this portion of Part II is approximately 25 percent of the total grade for the PFS Examination, the following example of an objective-format other-than-multiple-choice question, which is worth eight points, would be 4 percent of the total grade for the PFS Examination.

Items 21 through 30 are based on the following: An individual investor often uses several strategies to achieve his or her investment objectives. In many cases more than one investment instrument can be used to implement the strategy. Match each investment statement with one of the following investment strategies. A strategy may be selected once, more than once, or not at all.

Investment Statements

21. Use modern portfolio theory to create a portfolio consisting of 10 to 15 stocks.
22. An investment strategy that minimizes transactions costs.
23. A periodic investment strategy that makes no recommendations as to when portfolio restructuring should take place.
24. Identifying the current state of the economy/market and assessing the likelihood of its continuing on its present course.
25. Buying call options and warrants.
26. Investment portfolio designed to match that of the market.
27. Selecting bonds based on the shape of the yield curve.
28. Using margin in the purchase of securities.
29. Facilitates the strategy of asset allocation.
30. Buying stock market futures.

Investment Strategies

A. Diversification
B. Buy and hold
C. Dollar cost averaging
D. Market timing
E. Value averaging
F. Leveraging
G. Hedging
H. Index Funds
I. Maturity selection
J. Investing in a family of funds

The difficulty level of the preceding illustrative questions and the number of questions derived from the example should not be construed to represent the difficulty level of the PFS Examination or the scope and number of questions that are developed from a factual setting.

Case Study

In Part II of the PFS Examination, there will be a case study worth approximately 50 points. Because this portion of Part II is approximately 25 percent of the total grade for the PFS Examination, the following example of a case study, which is worth 50 points, would be 25 percent of the total grade for the PFS Examination. Using the 50 points as a guide in budgeting the time for a case study, a candidate should spend approximately one and one-half hours to answer this case study.

Each case study on the PFS Examination tests from the following areas of the Content Specification Outline: Personal Financial Planning Process; Personal Income Tax Planning; Risk Management Planning; Investment Planning; Retirement Planning; and Estate Planning.

Facts for the Sullivan Case

Chet Sullivan has just been offered an enticing job that he wants to accept. He has called you for advice on certain aspects of the job offer, his present situation, and future financial concerns.

Chet is 52 years old. He has successfully run his own business, ComCo, Inc., for the past 14 years. Chet's wife Sybil, age 49, is extremely active in their church and does considerable volunteer work for other charitable organizations. Their 26 year-old daughter, Sally, lives at home. She did not go to college, and works as a beautician. She has been talking with Chet lately about opening her own beauty shop.

Sybil's mother, age 79, still lives in the old homestead. However, because of the decline in interest rates her investments no longer provide an adequate income level. Therefore, Chet has been sending her about $500 per month during the past two years. Sybil's mother has had some recent problems with arthritis. Because of this she is thinking of selling the house and moving into a small apartment or condominium. Chet thinks she should move into a nursing home. The cash from the sale of the house could be used for the entrance fee to a home.

Sybil's father passed away 15 years ago. In his will, he established a testamentary trust naming Sybil as beneficiary with a general power of appointment. The explicit purpose of the trust was to provide money to pay for Sally's education. He also gave directly to Sybil a pewter collection that was then valued at $60,000 and a porcelain collection that was valued at $50,000.

Both of Chet's parents died 30 years ago in an automobile accident. Although they had never been considered wealthy, they did leave a sizeable inheritance to Chet. The value of the assets that Chet received has been depleted by events such as the purchase of their first home and the start-up costs for ComCo, Inc. When the stock market dropped in October 1987, Chet panicked somewhat and moved all remaining investment funds into Treasury notes and two bond mutual funds.

The Sullivans' residence is an older home that sits on 2.2 acres in a desirable suburb. Although they have no intention of selling the home, they recently had a realtor appraise its market value, which was $350,000. The personal property, other than the pewter and porcelain, contained in the home is valued at about $80,000. The Sullivans have a homeowners form HO-3 with $250,000 on the dwelling. There are no special endorsements on this policy.

The Sullivans own two cars. However, if Chet accepts the new job, they expect to give Sally the older one to replace her eight-year old car that was a gift for her high school graduation. The Sullivans' personal auto policy includes all the usual coverage, but does not have any special modifying endorsements. Sally has her own auto insurance.

Chet has life insurance in the amount of $300,000, with Sybil as beneficiary. Sally has $25,000 with Chet as beneficiary. The Sullivans have group medical benefits that are provided through Chet's business. There is no disability income insurance.

Additional information about Chet and Sybil Sullivan's current financial situation is as follows:

Assets	
Checking account	$ 10,000
Savings account	40,000
Real estate	350,000
Personal property	80,000
Pewter	100,000
Porcelain	100,000
Autos	25,000
Life insurance CSV	75,000
Pension	125,000
Bond portfolio	150,000
Treasury notes	50,000
Trust account	110,000
Value of business	600,000
Liabilities	
Credit card and other short-term debt	$ 15,000

Chet is now president and sole owner of ComCo, Inc., a small firm that sets up systems for improving communications within businesses. Chet started the business with a capital infusion of $200,000 fourteen years ago. He currently owns all of the stock in the business which was just recently valued at $600,000. There are only seven employees at ComCo, with Perry Loman as the key person among this group. Perry has been with Chet for 12 years, is a very effective performer, and has always been well received by ComCo's clients. When Chet received the job offer he took Perry aside and asked if he would be interested in buying the firm. Perry is very excited about the prospect, but has indicated that he could come up with no more than $150,000 toward the purchase price of $600,000.

Prior to forming ComCo, Chet worked for a firm that is now called Integrated Communication Systems (ICS). George, who was general manager of ICS when Chet worked there, recently was elected its president. George and Chet have been close friends for many years, so it is no surprise that Chet has been offered the position of vice president and general manager at ICS. Chet shares with you the following list of benefits that are included in the employment package in addition to an annual salary of $120,000.

- Participation in the company employee benefit package that includes group term life in the amount of two-times annual salary, the selection of either a major medical insurance plan or an HMO, and immediate participation in the regular company pension plan
- Company furnished auto (a BMW) that Chet and his family could use for their personal purposes
- Nonqualified deferred compensation plan to augment the pension benefit
- Stock option plan

Chet is anxious to accept the ICS offer, but feels he needs a little advice on parts of the offer package.

During your visit with Chet you have ascertained that he and Sybil have three objectives that should be considered.

1) They want to retire when Chet is 62 and have adequate income to maintain an active lifestyle that includes ample opportunity for travel.
2) They believe they have a commitment to assure that Sally has adequate financial support.
3) They want to make sure that Sybil's mother does not suffer financially during her remaining lifetime.

Questions on the Sullivan Case

The 50 points are allocated as follows:

Question	Points
A-1	6
A-2	3
B-1	5
B-2	6
C-1	3
C-2	4
C-3	3
D	20

A. George has told Chet that there could perhaps be some modification in the employment package offered by ICS, if Chet comes up with alternative ideas. Chet asks for your advice on the nonqualified deferred compensation plan (NQDC) and the stock option plan.

1. The NQDC plan will pay Chet $50,000 per year for ten years beginning at age 62, if Chet will remain at ICS for ten years. There is a provision for the same payments to be made if Chet should die before reaching 62. ICS has proposed that a secular trust be established for the NQDC plan.

   a) Briefly describe the features of a secular trust, including the federal income tax consequences to both the employee and the employer.
   b) Given the requirements of the NQDC and the secular trust, how should the trust be funded? Explain why.
   c) You state that Chet might want to consider a Rabbi trust rather than a secular trust. What is the advantage to Chet of using a Rabbi trust?
   d) Are there any disadvantages to using a Rabbi trust rather than the secular trust that Chet should know about? Explain.

2. The stock option plan offered by ICS is an incentive stock option (ISO) plan that satisfies all requirements established by the Internal Revenue Code. Chet is confused by this option plan and asks you to explain a couple of things. Respond to Chet's questions.

   a) How is the exercise price established for an ISO?

b) What are the federal income tax consequences to Chet under an ISO, both now and in the future?

B. As with the job offer from ICS, Chet seeks your advice on the sale of his business and the disposition of the funds that would materialize as a result of the sale.

1. Perry has indicated a desire to purchase the business from Chet. The major obstacle is the lack of funding to complete the purchase. One technique that can be considered is an installment sale arrangement.

   a) What are the advantages to Chet if an installment sale is used for the sale to Perry?
   b) Explain the federal income tax treatment to Chet of the annual payments he will receive from the installment sale. (It is not necessary to use numbers for this explanation.)
   c) Although generally limited to family situations, the use of a private annuity could be an acceptable variation of the installment sale for Chet's estate planning purposes. Explain why.

2. A second problem resulting from the sale of the business is the question of what to do with Chet's vested balance in the qualified pension plan at ComCo. Chet understands that it could be left where it is, but he thinks he would like to move the money elsewhere.

   a) Since the pension plan offered by Integrated Communications Systems offers very little flexibility for its participants, Chet plans to roll the ComCo funds into a self-directed IRA. What requirements must be met to properly move the funds to such an account?
   b) Because of his current investment portfolio Chet thinks he would like to put the new IRA funds in a mutual fund, either a growth fund or a balanced fund. Contrast these two types of mutual funds.
   c) Another alternative that Chet has thought about is to take the funds from the pension plan as a lump-sum distribution and purchase a single-premium deferred annuity. Discuss the pros and cons of this alternative.

C. Sybil has no real sentimental attachment for the pewter or porcelain collections and would like to dispose of them. A recent appraisal of these collections resulted in values of $100,000 for each. Sybil would like to make a gift to the church and also provide income for her mother.

1. The Sullivans will donate the entire pewter collection to the church this year.

   a) What are the federal income tax consequences to the Sullivans of this property donation?
   b) Are there any gift or estate tax consequences to the Sullivans as a result of this gift? Explain.

2. The porcelain collection will be sold for $100,000, and the proceeds placed in an irrevocable trust. The terms of the trust call for the trustee to distribute all the trust income to Sybil's mother for as long as she lives. Upon her death the corpus would be distributed to Sally. What are the federal income, gift, and estate tax consequences to Chet and Sybil of this action?

3. The combination of assets, current income, and the income to be derived by the proposed trust would prevent Sybil's mother from qualifying for Medicaid.

a) Although she is covered by Medicare, are there any reasons why a long-term care (LTC) policy should be considered for Sybil's mother? Explain.
b) Assuming that an LTC policy is to be purchased, describe at least three policy provisions that are desirable in such policies.

D. Based on the information contained in this case and excluding the financial planning concerns already covered in the preceding questions, there are additional financial planning concerns that should be relevant to the Sullivans. For each of the following topical areas, **identify three** additional financial planning concerns that should be relevant to the Sullivans and **explain** why each concern is of importance:

- Estate planning
- Retirement planning
- Risk management planning

NO CREDIT WILL BE EARNED FOR ONLY AN IDENTIFICATION OF THE FINANCIAL PLANNING ISSUE. CREDIT WILL BE BASED ON YOUR EXPLANATION OF **WHY** EACH FINANCIAL PLANNING CONCERN IS OF IMPORTANCE.

EXHIBIT C

ANSWERS TO ILLUSTRATIVE EXAMINATION QUESTIONS

Multiple-Choice Questions

The answer to each of the preceding multiple choice questions and the area of the Content Specification Outline that is being tested are as follows:

1. c (Area I — Professional Responsibilities)
2. c (Area II — Personal Financial Planning Process)
3. d (Area II — Personal Financial Planning Process)
4. a (Area III — Personal Income-Tax Planning)
5. b (Area III — Personal Income-Tax Planning)
6. b (Area IV — Risk-Management Planning)
7. a (Area V — Investment Planning)
8. b (Area VI — Retirement Planning)
9. d (Area VI — Retirement Planning)
10. b (Area VII — Estate Planning)

Objective-Format Other-Than-Multiple-Choice Questions

21. A (Diversification)
22. B (Buy & hold)
23. C (Dollar cost averaging)
24. D (Market timing)
25. F (Leveraging)
26. H (Index funds)
27. I (Maturity selection)
28. F (Leveraging)
29. J (Investing in a family of funds)
30. G (Hedging)

Case Study Questions

A. 1. a) The secular trust, although set up by the employer (ICS in this case), is treated as if it were a grantor trust. Because any funds transferred to the trust for Chet's benefit would be immediately vested in Chet, he would be currently taxable on those funds as if they were salary. If ICS did not withhold on the contributions to the trust, Chet would have to come up with the cash to pay the tax when he filed his return for the year of the contribution. During the term of the trust, any income or gains realized by the trust would be treated as Chet's income and be subject to tax. This is true even though Chet received no proceeds from the trust's activities. Again, Chet would have to generate the cash to pay any taxes due without having any cash flowing to cover the tax payments.

The above negative tax results are the price Chet has to pay to move the assets beyond the reach of ICS's creditors. ICS benefits from this set-up because it receives a deduction for the payments to the trust. ICS cannot retrieve the funds to use in the business or to pay its creditors.

b) A life insurance policy on Chet's life, especially a policy that has the potential for a rapid internal build up, such as a variable or universal life, could be purchased by ICS and used to fund the trust. ICS should retain the ownership in the policy so that the income the insurance policy earns is not currently taxed to Chet. It is possible that Chet will still have income to the extent of the premium paid on the policy used to fund the trust. However, this would be a much smaller amount than it would be if cash rather than insurance were used for the funding. One further consideration: using insurance does have the feature of providing funds on the termination of the trust, or if Chet should die, a death benefit that would probably be much larger in size than the life benefit.

In the alternative, ICS could fund the trust with tax-exempt assets, such as municipal bonds. Under this scenario, the contribution of the asset to the trust would generate income for Chet, although any further earnings would not be subject to tax.

c) If a rabbi trust is established, Chet does not have the income tax complications outlined above. However, the assets used to fund the trust can be reached by ICS's creditors. The drawback of a rabbi trust to ICS is that the contributions are not currently deductible.

d) There are disadvantages to Chet. Because a rabbi trust is not vested, ICS's creditors can reach the trust assets (see (c) above). This removes some of the "safety net" that a secular trust would provide. However, because Chet has intimate knowledge of ICS, he would be able to hazard an educated guess as to the possibility of ICS running into financial difficulties. There is a bit of give and take here: exchanging safety for tax advantages. It is a decision Chet would have to make.

A. 2. a) Under the rules for establishing an ISO the exercise price for the stock cannot be less that the fair market value of the stock on the grant date.

b) When the ISO is granted, if it meets the statutory requirements, there are no current tax consequences. However, when Chet sells the stock, assuming he exercised his ISO rights, there would be capital gain or loss at the time of sale. The gain or loss would be measured by the selling price less the exercise price. Also, if Chet held the underlying stock for the appropriate period of time, the capital gain or loss would be long term. There is, however, possible alternative minimum tax exposure to the extent that the fair market value of the underlying stock exceeded the exercise price at the time of exercise, or when any substantial risk of forfeiture is extinguished, or when the stock becomes freely transferable. If Chet is subject to the investment interest limitation, any net capital gain can be used to absorb the investment interest.

B. 1. a) Because Perry is a desired purchaser for the business who cannot raise the full purchase price up front, using the installment method would facilitate a sale to Perry. In addition, because the sale would be over a period of time, Chet would receive interest, at a rate at least equal to market rate, which could possibly increase the value of the deal. A tax benefit Chet would receive is that the gain from the sale of the business would be realized over the term of the installment contract. This would reduce the immediate tax impact of realizing all of the gain in the year of the sale. However, if at some time during the term of the installment sale Chet finds it to his advantage to realize all of the gain from the sale in one year, for example if he sustained a deductible loss or had a year with little or no income, he can elect out of the installment method.

b) The payments Chet would receive under the installment contract have three components. First, there would be a return of his basis in the business. Next, there would be a realization of a pro rata share of the gain on the sale. Last, there would be an interest factor, which would have to be a market interest rate or equivalent. If the interest charged is not at a market rate, the IRS would readjust the other two components of the payments so that the interest component would reflect a market rate.

c) If a private annuity alternative is used, all payments to Chet would stop on his death and there would be no further estate tax ramifications. Under an installment sale, the underlying note would still be a valid obligation, now owned by the estate. Thus, the estate would increase in size by the value of the note. In addition, there could be income in respect of a decedent, depending on the timing of the death and the installment payments.

B. 2. a) To avoid any problems, Chet should create a separate "rollover" IRA to receive the proceeds of the qualified pension plan. In addition, to avoid any withholding (currently at a 20% rate) the transfer to the IRA should be made directly from the trustee of the pension plan to the trustee of the rollover IRA.

b) A *growth* mutual fund's objective is capital appreciation. This is generally achieved by investing in stocks or other securities that promise long-term growth and capital gains. Because the stocks and securities invested in generally show above-average growth potential, they usually offer little in the way of dividends or other current income.

A *balanced* mutual fund has as its objectives the preservation of the investment, current income, and an increase in both principal and income. This type of fund invests in common stocks, preferred stocks, and debt instruments.

c) If Chet were to invest in a single-premium deferred annuity, the advantages would be that there would be a guaranteed income and the investment in the annuity (cash) grows tax-deferred. That is, any income earned by the annuity is not taxable until it is paid out to Chet.

The negative of the single-premium deferred annuity is that the immediate lump-sum distribution (that is the cashing in of the pension) is taxed currently. This results in fewer dollars available to purchase the annuity. If the funds were rolled over into an IRA the full amount would be available to grow tax-deferred until it was time to receive the payout of the IRA. At that time there would be more dollars available to purchase an annuity and the tax would be spread out over the receipt of the annuity.

C. 1. a) On making a gift of the pewter to the church, Sybil would receive a charitable deduction for the gift limited to the basis in the pewter, which is $60,000. This is less than the collection's current fair market value. Also, the gift is one of tangible personal property whose use is not related to the purpose of the church. This brings in other limitations. The deduction is limited to 50% of adjusted gross income, any excess benefiting from a 5-year carryover.

b) There is no gift tax payable at the time of the gift. The advantage is that by making the gift, Sybil's estate is reduced by the $100,000 fair market value of the pewter collection, which should result in a lowering of the potential estate tax payable on death.

C. 2. a) A capital gain tax would be payable on the gain from the sale ($100,000 less $60,000 [basis]). The present value of Sally's remainder interest has to be actually valued using the IRS tables ($100,000 minus a remainder factor) and included in the Sullivans' gift tax return. Furthermore, because the gift to Sally is a gift of a future interest it does not qualify for the annual $10,000 exclusion.

The gift to Sybil's mother is a gift of a present interest that qualifies for the annual exclusion for Sybil of $10,000 and another $10,000 if Chet joins in the gift. The value of the gift to Sybil's mother is $100,000 less the value of the remainder interest that Sally has.

To the extent Sybil has an unused unified estate and gift-tax credit it can be applied to both gifts. In addition, there is an estate tax benefit in that Sybil's estate is reduced by the fair market value ($100,000) of the property given, potentially reducing any estate tax that might be due at some future date.

C. 3. a) With somebody of Sybil's mother's age, consideration has to be given to the possibility of the need for custodial care. Medicare does not cover custodial care (or nursing home stays of long duration). Thus a long-term care policy could prevent the dissipation of assets that would otherwise have to be spent for care costs. These problems are magnified for a person of Sybil's mother's age.

b) Among the provisions that a long-term care policy should have are a description of the level of care to be given (that is, will it be skilled nursing care, intermediate level care or merely custodial care?). Another important provision is whether there is a requirement of hospitalization before the policy takes effect. A third provision is inflation protection: is there a COLA or other provision in the policy to accommodate rising costs? Other provisions that should be considered are: pre-existing conditions, waiting period for benefits, renewability (guaranteed), benefit period (lifetime?), cost, exclusions, and other acceptable provisions.

D. **Estate Planning:**

1. There is no indication that Chet and Sybil have wills. This should be investigated. If they in fact do not have wills, they should be encouraged to execute wills. It should be explained to them that it would be possible through their wills to provide protection for both Sally and Sybil's mother. In addition, by naming an executor and providing that no bond be required, there is an immediate cash saving. Also, because of the special situations of Sally and Sybil's mother, an intestacy could cause major problems providing for both of them. This creates the potential for larger legal fees.

2. There is also no indication of the ownership of the house and the other personal property (save Sybil's collections). It is important to determine how the house and the other personal property is owned. Care has to be taken to see that the property doesn't end up increasing either Chet's or Sybil's estate to the point that it creates additional estate taxes.

3. If Chet does go through with the Incentive Stock Option, he should provide for its disposition in his will. This could be a major asset of his estate and careful consideration should be given to its disposition.

4. Sybil is the beneficiary of a trust that will fall into her estate because she has a general power of appointment that is not limited by an ascertainable standard. Some consideration should be given to ending the trust by using the trust corpus to fund Sally's business. This would seem to be within Sybil's father's intention because Sally is not going to college, yet she would need financial assistance for her new business. Failure on Sybil's part to act will only build up her estate and can result in unnecessary estate tax liability. Therefore, every effort should be made to bring the trust to an end.

Retirement Planning:

1. At the present juncture, there has been no planning to provide for objective 1: Retirement at 62, active lifestyle and funds for travel. The projected cash flow potential of Chet's and Sybil's assets should be made for ten years hence. Doing this would provide a basis from which planning decisions regarding investments, sale of the business, gifts to charity, and gifts to Sally and Sybil's mother could be better made.

2. Consideration should be given to the integration of Social Security into the retirement planning equation. Chet is planning on retiring at 62, which means reduced Social Security payments and reduction for earned income. Because Sybil is three years younger than Chet, consideration has to be given to the impact of her age on the eventual receipts from Social Security.

3. While it is known that ICS has a pension plan, there is no indication of what it will be worth to Chet. This is an important consideration for Chet both for his retirement planning and in deciding whether to sell his business. In his own business he controls the plan; that is, within the limits set by statute he can max out contributions. But at ICS, he would not have that control.

Risk Management:

1. In reviewing Chet and Sybil's insurance protection one of the possible glaring omissions is not having specific coverage of the pewter and china collections. The two collections have more than

ordinary value and yet there is no specific coverage in the standard HO-3 policy. Although some of the loss of the collections could be covered in the case of fire, there really is no protection against theft or incidental breakage. Chet and Sybil should be advised to investigate specific rider coverage for the two collections.

2. Chet should be advised to look into disability coverage. He is the only source of income for the household; if he is disabled his income will stop or be sharply reduced. This would result in the need to liquidate assets to provide for living expenses if the disability continued for an extended period of time. Because Chet and Sybil have a fairly good cash position, they could investigate a disability insurance policy with a fairly lengthy waiting period. This would substantially lower the premium.

3. If Chet sells to ICS and receives the car, the auto insurance has to be looked at carefully. There should be assurance that the policy covers the personal use of the car, which Chet will be allowed by his employer, in addition to coverage for the business use of the car. Chet and ICS should clarify who is to be responsible for providing the insurance and the limits of coverage.

4. Chet and Sybil have a substantial estate that is quite solvent. There should be some public liability coverage over and above the coverage normally found in an HO-3 policy. Usually the same carrier that wrote the HO-3 policy can write an umbrella liability policy for a very reasonable premium. This would protect Chet and Sybil from being wiped out in the event of a major auto accident or other event for which they would be liable.

EXHIBIT D

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
PERSONAL FINANCIAL SPECIALIST DESIGNATION PROGRAM

INTERNAL PRACTICE REVIEW QUESTIONNAIRE

JANUARY 1, 1994 - DECEMBER 31, 1996

Please print or type, and return by February 1, 1997, to AICPA, PFS Accreditation Program, 1211 Avenue of the Americas, New York, NY 10036-8775.

Section A: Member Profile

1. Name ______________________ AICPA Membership # __________

   Firm or Organization ______________________

   Business Address ______________________

   City ______________________ State __________ Zip Code __________

   Business Telephone (______) ______________ Fax Number (______________

   Home Address ______________________

   City ______________________ State __________ Zip Code __________

   Home Telephone (______) ______________

2. Correspondence should be sent to: ☐ Business ☐ Home
3. Telephone number for use in PFS promotional lists: ☐ Business ☐ Home
4. Are you a member of the AICPA PFP Division? ☐ Yes ☐ No
5. Which of the following designations do you hold? (Check all that apply.)

   ☐ CFP (Certified Financial Planner)
   ☐ ChFC (Chartered Financial Consultant)
   ☐ JD (Juris Doctor)
   ☐ Other ______________ *(please specify)*
   ☐ CFA (Chartered Financial Analyst)
   ☐ CLU (Chartered Life Underwriter)
   ☐ Master's Degree ______________ *(please specify)*

Section B: Reaccreditation Requirements

1. Are you a member in good standing in the AICPA? ☐ Yes ☐ No

2. Is your state CPA certificate valid? ☐ Yes ☐ No

   State certified ______________

3. During the period covered by this questionnaire, did you provide at least 750 hours of personal financial planning services to clients?

☐ Yes ☐ No

Note: Your PFP experience must encompass all of the following disciplines:

- *Personal financial planning process*
- *Risk management planning*
- *Retirement planning*
- *Estate planning*
- *Personal income tax planning*
- *Investment planning*

4. During the period covered by this questionnaire, did you complete at least 72 hours of continuing professional education in the disciplines identified in Question 3?

☐ Yes ☐ No

Note: Self-study courses are limited to $33\frac{1}{3}$ percent of total credit hours. Submitting a detailed listing of qualified courses is optional; however, you may be requested to submit this information as evidence that all reaccreditation requirements are satisfied.

Section C: Practice Evaluation Summary

1. Are you in compliance with all applicable professional standards in your PFP practice?

☐ Yes ☐ No

2. If you answered No to Question 1, please explain (attach a separate page if necessary):

____

____

3. Have you been advised of possible violations of any professional standards by the AICPA, your state society, or your state board of accountancy?

☐ Yes ☐ No

4. If you answered Yes to Question 3, please explain (attach a separate page if necessary):

____

____

5. At any time during the period covered by this questionnaire, have you or your firm performed an internal review to monitor the quality of your PFP practice?

☐ Yes ☐ No

6. If you answered Yes to question 5, please indicate the period covered by the review and explain any corrective actions identified and/or taken as a result of the review (attach a separate page if necessary):

____

____

Section D: Statement of Intent

To maintain your accreditation as a Personal Financial Specialist, you must submit a written statement of your intent to comply with all reaccreditation requirements, summarized below:

1. Membership in good standing in the AICPA.

2. Payment of all annual reaccreditation fees since the date of initial accreditation.

3. A valid and unrevoked CPA certificate issued by a legally constituted state authority.

4. At least 750 hours of experience over the three preceding years in personal financial planning activities. Experience must be in each of the following areas:

   - Personal financial planning process
   - Risk management planning
   - Retirement planning
   - Personal income tax planning
   - Investment planning
   - Estate planning

5. At least 72 hours of financial planning courses in prescribed disciplines every three years. Self-study courses are limited to 33 ⅓ percent of the total credit hours.

6. A written statement of intent to continue to comply with all reaccreditation requirements.

7. Completion of an internal practice review questionnaire, as amended from time to time. The accredited specialist will agree to submit data for external review of personal financial planning activities upon request. The external review will be limited to documentation of the information disclosed in the questionnaire.

8. If reaccreditation requirements are not satisfied, accreditation ceases and all initial requirements, including examination, must be met to regain accreditation. However, a waiver may be requested and will be granted if there is justification because of extreme hardship or extraordinary circumstances.

Do you agree to comply with these requirements? ☐ Yes ☐ No

Section E: Signature

I hereby certify that the information provided in this IPRQ is true to the best of my knowledge. I further certify that I have read the reaccreditation requirements contained in the Statement of Intent (Section D) and agree to comply with all reaccreditation requirements.

______________________________ ______________

[*Signature*] [*Date*]

APPENDIX I

STATE INFORMATION

APPENDIX I

STATE CPA SOCIETY
PERSONAL FINANCIAL PLANNING COMMITTEE CHAIRS
1997

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STATE LICENSING OR REGISTRATION OF CPA FINANCIAL PLANNERS

POSITION PAPER

This paper presents the position of the American Institute of Certified Public Accountants (AICPA) on state licensing or registration of CPAs who offer or provide financial planning services to the public.

ISSUE

Should CPAs who offer or provide financial planning services be subject to licensing or registration under state investment adviser or other laws?

AICPA POSITION

The AICPA supports state licensing or registration of CPA financial planners who perform certain investment related services; holding client funds with investment discretion, being compensated by commissions from the purchase or sale of investments, and advising on the purchase or sale of specific investments unless that advice is related to financial statement analysis or tax considerations. Because state securities laws comparable to the federal 1940 Investment Advisers Act (1940 Act) regulate virtually all persons who offer or provide those high risk investment advisory services, CPAs and all others who offer or provide such investment advisory services are already subject to state registration requirements in addition to federal registration.

There is no documented abuse or breakdown of existing law in the case of CPA financial planners who do not sell securities, give specific investment advice or hold client funds with investment discretion. The abuses that occur typically involve the sale of securities. These abuses fall into a few broad categories. The highest incidences are in those cases in which individuals accept commissions for the purchase or sale of securities, hold client funds or securities for investment purposes, or both recommend and sell securities to the same client. Those situations foster an environment conducive to fraud and abuse and should be the focus of extensive regulatory scrutiny.

Financial planners, financial consultants, financial advisers, or others using similar titles, who are not covered by the professional exclusion are already subject to state investment adviser and other securities laws, and to criminal laws. The failure to deter or punish the fraudulent conduct relates to the enforcement capabilities of state agencies, not to the sufficiency of the laws that cover the fraudulent acts of such persons. The need to improve regulatory oversight of investment advisers under the *present* investment advisers act has been supported by SEC Chairman Breeden in recent testimony before the House Subcommittee on Telecommunications and Finance, and by the GAO in a recent report on the sufficiency of investment adviser regulation.

Expansion of state securities and investment adviser acts to include CPAs who hold themselves out to the public as financial planners, or use other similar titles, but are not investment advisers, would only weaken the effectiveness of existing securities statutes by shifting enforcement emphasis and resources away from those who have demonstrated the greatest potential to harm the public; that is, those persons who give investment advice on specific securities, hold client funds for investment purposes, or sell investment products.

Any additional state regulation, if extended to CPAs who are not investment advisers and who are examined for technical competence and moral character before being licensed by state accountancy boards, would result in a duplicative and costly supervision system without commensurate benefit to the investing public. Consequently, it is the AICPA's position that regulation based on nomenclature, such as *financial planners*, but including CPAs who do not act as investment advisers, will provide minimal benefit for the public and add to the costs of financial planning services.

The AICPA supports adoption of the Uniform Securities Act of 1956 (the 1956 Act) by states not having similar laws. In addition, we believe increased enforcement of existing statutes and sufficient funding will provide necessary protection of the public interest. There is however, no demonstrated public need for state licensing and registration of CPA financial planners who are not also investment advisers.

The AICPA also supports clarification of the professional exclusion for accountants. Registration should not be required for those CPAs whose investment advice is "solely incidental to the practice of the profession." That means the exclusion should be available only to CPAs who do *not* exercise investment discretion, do *not* maintain custody of assets of clients for the purposes of investing, do *not* receive commissions, or do *not* advise on the purchase or sale of specific securities except when related to financial statements or tax considerations.

BACKGROUND AND ANALYSIS

The AICPA is deeply concerned about state legislative and regulatory initiatives that equate financial planning with investment advising. The term *financial planner* is an imprecise term that has no accepted definition in most state securities statutes. Financial planning includes a broad range of diversified services. When financial planners perform investment advisory services, as those services are defined in state statutes, they must register under those laws. Persons who hold themselves out to the public as financial planners include representatives of many diverse professions and associations, such as CPAs, attorneys, investment advisers, bankers, securities dealers, insurance agents and real estate brokers.

CPAs have traditionally offered a broad range of services to their clients and have always, among those services, offered what is now being called *financial planning*. As licensed professionals, CPAs offering these services are subject to scrutiny by state boards of accountancy.

By targeting those services most frequently associated with fraud and abuse, the burden of compliance with the state securities laws and the related enforcement efforts would be placed upon those investment advisers whose activities necessitate greater regulatory and legal scrutiny. CPAs who do not engage in the types of activities that give rise to abuse of the public should fall outside of that state regulatory structure.

State Laws

All states have enacted laws regulating the practice of public accountants, real estate brokers, bankers, and insurance agents. State accountancy laws and rules protect the public against fraudulent acts and conflicts of interest. Attorneys are subject to discipline by state courts.

The majority of states regulate investment advisers, including financial planners who give investment advice, under state securities laws. Most of these states have adopted the Investment Adviser provisions of the 1956 Act, which are intended to strengthen state investment adviser laws and make them uniform with the 1940 Act. The 1956 Act prohibits fraudulent activities. It also provides for the filing of annual financial reports and periodic inspections of all records maintained by investment advisers.

Model amendments to the 1956 Act have been developed by the North American Securities Administrators Association (NASAA). They require investment advisers to pass certain tests and meet certain financial responsibility criteria. NASAA has also prepared a uniform examination for use by the states.

Abuses

Advocates of additional state regulation of persons who hold themselves out as financial planners generally cite instances of fraud and abuse to support their positions. No distinction is made by those advocates between giving general financial planning advice, selling investment products or providing investment advice.

Cases of fraud committed by individuals calling themselves investment advisers or financial planners have been well documented and publicized. Virtually every one of these cases has involved someone who held client funds or securities for investment purposes or who accepted commissions for recommending the purchase or sale of investment products. A study published by the Consumer Federation of America (CFA) in July 1987, describes various abuses attributed to financial planners. Every example of financial planning fraud in the CFA study related solely to persons who *sold* investments or insurance products, or *took custody* of a client's funds and embezzled or misinvested them.

In addition, a July 1988 study of fraud and abuse in the financial planning industry by the North American Securities Administrators Association (NASAA) surveyed 79 enforcement actions carried out by 30 state securities agencies. Each of the state enforcement actions cited in the NASAA report involved the *sale* of an investment product or the *theft of funds that were entrusted* to the purported financial planner. The AICPA believes that these persons should be the focus of state regulatory and licensing requirements.

The fraud and abuse that has taken place underlines the need for enhanced enforcement of existing laws by state officials. By designating additional funds for state securities enforcement actions, fraud and abuse can be more effectively minimized.

Proposed Amendments to the Uniform Securities Act of 1956: The Professional Exclusion

The strength of the dual state-federal system of investment adviser regulation results from the uniformity that exists between each state's respective securities statutes, and between state law and federal securities statutes, such as the 1940 Act. State adoption of the 1956 Act promotes a uniform and comprehensive regulatory network and sets in place an effective state-federal structure to regulate the activities of persons involved in the sale of securities, including investment advisers.

Accountants, attorneys, engineers, and teachers have been excluded from the definition of investment adviser, and consequently investment adviser regulation, under federal law and almost all state statutes so long as they provide investment advice that is "solely incidental to the practice of their profession." This exclusion recognizes the nature of the decades-old role that CPAs and other professionals have played as financial planners.

However, efforts are being undertaken to amend the state securities laws to restrict the ability of accountants, attorneys, and others to use this statutory exclusion. These efforts have taken the form of legislation to modify existing statutes and regulations that incorporate language taken from model amendments prepared by NASAA in 1986 (amending Model Act Sec. 401(f), November 20, 1986).

These efforts to amend current securities laws focus on regulating persons who merely use the title *financial planner*. These so called *title* amendments would require registration as an investment adviser even though a CPA may provide no investment advisory services or be otherwise eligible to use the professional exclusion. Regulations should focus on services performed, not titles.

In response, the AICPA has adopted language to clarify the statutory exclusion of accountants, attorneys and others, that describes those activities that would bring an otherwise exempt professional within the regulatory provisions of the investment advisers act. The proposed language states that:

> *Investment adviser* means any person who, for compensation, engages in the business of advising others as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities; but does not include....(B) any lawyer, accountant, engineer or teacher (1) whose performance of such services is solely incidental to the practice of his profession, or (2) who:
>
> (i) does not exercise investment discretion with respect to the assets of clients or maintain custody of the assets of clients for the purpose of investing such assets, except when the person is acting as a bona fide fiduciary in a capacity, such as an executor, trustee, personal representative, estate or trust agent, guardian, conservator, or person serving in a similar fiduciary capacity;
>
> (ii) does not accept or receive, directly or indirectly, any commission, fee or other remuneration contingent upon the purchase or sale of any specific security by a client of such person; or

(iii) does not advise on the purchase or sale of specific securities except that (iii) shall not apply when the advice about specific securities is based on financial statement analyses or tax considerations that are reasonably related to and in connection with the person's profession.

Sufficient Regulation

CPAs are already subject to an extensive regulatory framework. If CPAs are abusive to the public or commit acts discreditable to the profession, they are subject to an appropriate investigatory and disciplinary process. All CPAs are subject to regulation by the board of accountancy in the states in which they are licensed. In addition, CPAs who are members of the AICPA or state CPA societies are also governed by the AICPA's Joint Ethics Enforcement Program and Joint Trial Board Divisions. This professional process of enforcement of the state boards of accountancy and the AICPA has been used by a number of government departments and agencies when instances of substandard performance by CPAs have been identified.

If CPAs commit fraud, they are subject to general anti-fraud and state accountancy statutes, regulations and codes of ethics, which are appropriate and effective mechanisms to discipline CPAs. In addition, any person, including a CPA, who meets a state definition of investment adviser and who cannot rely on the professional exclusion is subject to the anti-fraud provisions of the state investment adviser law. These safeguards ensure that the public is adequately protected against unethical practices of CPAs who provide financial planning services.

CONCLUSION

The AICPA supports efforts to reduce the fraud and abuse that exists in the investment advising field. As professionals, CPAs strive to protect the best interests of the public they serve.

We recognize that there have been developments in recent years that have triggered a drive to identify and regulate those services that CPAs and other professionals provide in financial planning. Although CPAs have historically provided general financial planning services to clients, they now provide them to more clients and do so in a more structured way. Any clarification or change that is made in state investment adviser legislation or regulations should focus on the investment advisory services provided by CPAs. It should not focus on what the services provided are called.

AICPA State Legislation Department
(Approved by the Government Affairs Committee, February 11, 1993)

APPENDIX J

SPEECH AND SLIDE PRESENTATION

APPENDIX J

SPEECH AND SLIDE PRESENTATION

INTRODUCTION

This appendix contains a speech and slide presentation developed to assist you in your marketing and promotional efforts.

- Speech: *Taking Responsibility for Your Financial Future*. This is a scripted 20-30 minute consumer-oriented presentation addressing many of the current financial concerns facing individuals. In addition to the printed text, the speech is contained on the enclosed diskette.

- Slide Presentation: *Taking Responsibility for Your Financial Future*. The slide presentation, designed to accompany the speech, was created in Microsoft PowerPoint. You can retrieve this file in most commercially available presentation software. If you do not have such software in your office, you can obtain this service at a local reproduction and business service center.

These tools are designed to facilitate the development of your marketing programs. You can use them as is or customize them to your market.

☛ **Action Tip**

Everyone has a different speaking style. Use the WordPerfect version of the speech and adapt it to your own style or tailor it more closely to your target market or markets. You might also develop other speeches from one of the many PFP issues addressed in the speech. Choose one of these topics and expand it into a longer presentation on a more focused topic. For example, you could expand the retirement planning portion with some of your own resources and create a presentation for younger clients that focuses on the need to plan early for retirement.

SPEECH

TAKING RESPONSIBILITY FOR YOUR FINANCIAL FUTURE

Taking Responsibility for Your Financial Future

Thank you (*insert name of person who introduced you*). I am a CPA who offers a wide range of personal financial planning, or PFP services. (*You may want to begin with an anecdote or an example of a recent client experience, or briefly describe the types of services you offer, why you started offering these services, etc., depending on the audience).*

The 1990's have taken a financial toll on many of us. The uncertain economy, changing tax laws, and volatile business environment have caused many of us to reevaluate our financial expectations. Unfortunately, the balance of the decade does not promise a greater sense of financial stability.

These recent trends lead to one unescapable conclusion: We as individuals have a far greater responsibility to provide for our own financial security than did previous generations. This principle is supported by many examples (*describe as many of the following examples as appropriate, or use some of your own*):

- We tend to live longer and retire earlier.
- Changing employment, once frowned upon by our grandparents, has become the norm.
- An entrepreneur who is successful with a first business venture stands out as an anomaly.

- Just as we finally grasp the basics of one set of income tax rules, new rules are enacted, some retroactive.
- Many of us will leave estates that could be eaten away by taxes and administrative costs without adequate planning.
- The litigious state of modern America puts us at a greater risk of losing what we've worked hard to accumulate.
- Corporate downsizing raises the prospect of long term unemployment.
- Asset allocation has become a buzz word that is preached by many but understood by few.
- Skyrocketing college costs make funding our children's education a monumental task.
- Retirement planning, something we are acutely aware of as a concept, can be thoroughly daunting as an economic reality.

How many of you have considered matters such as these and developed a workable financial plan? It's up to you to decide what you want out of life and what to do about getting it. While the concept of personal financial planning may sound intimidating or overwhelming, it is really no more than a process of setting realistic financial goals and objectives, developing strategies for achieving these goals and objectives, and coordinating the implementation of these strategies to produce tangible results. Sure, the issues may be complex, but the planning process enables you to tackle each issue -- with the help of competent professionals -- and chart a course to address it head on. A well-developed financial plan prepares you to meet the financial challenges at each stage of your life.

For many of us, the biggest hurdle to addressing our financial concerns is the natural tendency to procrastinate. We fail to plan for different reasons. Very often, people feel that they are at a particular point of uncertainty in their economic lives and hesitate to plan in this perceived vacuum of knowledge -- yet, greater certainty may not arrive. Others believe that they do not have enough assets or disposable income to warrant financial planning. Many hesitate to confront difficult issues such as choosing potential guardians for their children and executors for their estates, the potential unemployment or job relocation, planning for retirement, or facing the inevitability of death. Although procrastination is understandable, keep in mind that failing to plan carries its own price -- mounting concerns about your financial future. These concerns may include:

- The adequacy of insurance to protect your families in the event of death, disability, lawsuit, or catastrophe.
- The appropriate amount of cash reserves.
- The amount of money you'll need to educate your children or secure a comfortable retirement.
- Caring for the special needs of your parents or children.

Everyone has some need that can be addressed through the personal financial planning process -- whether you simply need to monitor your cash better, plan your retirement distributions, or develop a comprehensive plan for all your financial needs. The key is to GET STARTED!

Where do you start? As with most undertakings, self analysis is key. Before undertaking the financial planning process, it is important to establish where you are today. Take a snapshot of your current financial position. Start with a list of your assets -- what you own -- cash on hand or in demand deposits, commissions, bonuses, IOUs and other amounts owed to you, investments, IRAs, cash surrender value of life insurance, market value of your home, furnishings, cars and other belongings that are convertible into cash, and your vested interest in your employer-pension plan. You might consider breaking out in greater detail your investment assets -- including investments both inside and outside of retirement plans. Next, compile your liabilities -- what you owe -- include your tax obligations, debts, bills, charge accounts, loan payments and the unpaid balance on your mortgage. You can then determine your net worth by subtracting your liabilities from your assets. This process may result in the compilation of a personal financial statement, which a CPA can help you to prepare.

By the way, while you're undertaking this process, it's a good idea to pull together and organize all important documents related to your finances. These documents include insurance policies; tax returns; estate documents including wills, trusts, health care proxies and living wills; investment account statements; retirement account information. Creating a central file of all important documents helps ensure that your affairs are kept in order, allowing a surviving spouse or relative to know what you have in the event of your untimely death. Well-organized records also enable you to identify exactly where your money is going, which in turn gives you the necessary information to help you improve your savings. It also helps you to uncover deductions that you may have overlooked.

GOAL SETTING

Once you have a clearer picture of where you are today, you must determine where you want to go -- by identifying and establishing realistic goals and objectives. Try organizing your thoughts by establishing concrete short and long term objectives.

Short term objectives might include some of the following:

- debt reduction
- establishing an emergency cash reserve
- starting an investment plan
- purchasing a home
- reviewing insurance coverage.

Your long term objectives may include:

- funding your children's college education
- accumulating retirement funds
- planning for the orderly transfer of your business to the next generation
- providing for dependents and heirs.

As part of the goal setting process, it's important that you —

- Assess your resources and evaluate your ability to reach your goals. Unrealistic goals can doom you to frustration.

- Recognize that your goals will change over time. Our world changes and our individual circumstances are subject to regular changes. Occasionally review your goals to be sure your financial plans are on course to meet them.

- If you are married, develop one set of goals that reflects both of your interests. You and your spouse can independently list your goals and objectives, then compare them and develop one set of coordinated goals.

- Commit your goals to writing. This exercise reinforces your commitment to achieving those goals. A study done at a twenty-year reunion of a graduating class at Yale found that only 3 percent of the graduates had written goals. However, the combined net worth of those who had written goals was greater than the combined net worth of the remaining 97 percent who had not written their goals. That demonstrates the power of written goals.

Now that you've determined where you are and established where you want to be, your next step is to figure out how to get there -- by formulating strategies to accomplish your financial goals. You may find the advice of a competent financial planning professional helpful to be sure you consider all the pieces of the financial planning puzzle. These pieces include: cash flow analysis — which often includes income tax planning; retirement planning; a savings and investment strategy; risk management; and estate planning. In addition, you probably have some special needs to plan for, such as your children's education, a vacation home, or long term care for you or your parents. Let's take a quick look at some of these pieces.

CASH FLOW ANALYSIS

A careful analysis of your cash flow will identify income that can be used to fund your financial planning goals. A thorough analysis can assist you in seeing your ability to save, sizing up your standard of living to indicate if you are living within or beyond your means, and highlighting any problem areas.

First determine what you spend each month. Many of these items --mortgage or car payments -- will be easy. If you are at a loss as to where your money is going, keep a record of what you spend for several months. This has become especially easy with the proliferation of personal finance software such as Quicken and Managing Your Money. Compare your monthly expenditures to your monthly income. If your cash outflow closely matches or exceeds the inflow, it's time to reassess your spending patterns to determine how you can fund your financial goals.

We all agree that saving money is a good idea; unfortunately, too few of us actually do a good job of it. You know the reasons: competing demands on income; too many bills; overwhelming investment options; or, simply, denial.

One of the easiest ways to save is to start paying yourself first, thus putting your money to work for you. Put whatever you decide to save immediately into a savings account or other prearranged savings plan. Many companies have arrangements for automatic payroll deposits into the accounts of your choice.

Regular saving also enables you to establish an emergency fund. Corporate downsizing, temporary disability and other financial booby-traps are lurking. It's up to you to be ready if and when they occur. A good rule of thumb is to accumulate an emergency savings fund of three to six months of living expenses. If you're self-employed, you should set up a business contingency fund as well as one for your personal safety net.

Responsible credit use is another important part of budgeting and cash flow planning. The ease of using a credit card is tempting and you can rack up big bills without blinking an eye. Effective use of credit cards means paying off the debt each month. Otherwise, you'll be paying interest and adding an additional mark up to the price of each item you buy. If you have a problem with credit cards, cut them up or put them away. If you have built up credit debts, establish goals to pay them off as fast as possible.

RETIREMENT PLANNING

Think about retirement. What comes to mind? Your quality of life upon retirement depends largely on careful planning initiated long before you retire. Recent statistics suggest that most Americans -- especially those in the babyboom years -- aren't saving adequately for retirement, and many aren't saving at all. The danger of following the live-for-today attitude is that you'll face your retirement years with inadequate resources to maintain your standard of living.

Many of you are concerned or confused about the future of social security. You hear reports about proposals to reduce benefits or tax more of them. Social security should be only one part of your retirement plan. What you can do **now** is request a statement of your earnings history and benefit estimate to see how much additional savings you'll need to live comfortably in retirement.

One rule of thumb is to save at least 10 percent of your annual income for your retirement. If you're over 50 and haven't started saving, you'll need to save 20 percent for that goal alone. If you're over 60, you'll need to save 30 percent. And that can hurt. The ideal time to start saving is NOW! You will always have excuses for procrastinating.

You can monitor your savings program by calculating the funds you need to retire and comparing that amount to what you actually are accumulating, taking inflation into account.

Some or all of your savings may be in tax-deferred retirement accounts. If your company has a 401(k) or a 403(b) plan, contribute to the maximum allowed by the plan. Your contributions reduce your current income taxes while building a retirement nest egg. Many employers match employee contributions. Because this money is both out of your paycheck and out of your reach, you won't spend it on day-to-day living. This money grows tax-deferred and grows faster than your other investments.

Similarly, if you can deduct IRA contributions, you should probably contribute the maximum. If you cannot deduct IRA contributions, you should nevertheless consider using nondeductible IRAs because the earnings will grow faster in a tax-deferred account.

Once you've retired, the planning isn't finished. To take full advantage of the special tax treatment of IRAs and other retirement plans, you must carefully plan your distributions. The Federal Tax Code imposes penalties for early distributions, late distributions, excess distributions, and distributions less than the required minimum. In other words: **too much, too little, too late** can be too bad for your bottom line! You also must consider the effect penalties will have on undistributed retirement plan balances that are part of your estate.

A comfortable retirement can be within your grasp and you owe it to yourself to develop a financial strategy that will enable you to reach your retirement goals. With the proper discipline to carry out your retirement planning strategy, your retirement years can truly be golden.

INVESTMENT PLANNING

Once you've established a systematic savings plan, you need to decide where to invest the money you're saving. You may also have current investments that need to be reassessed. I'm sure that many of you feel bombarded by the investment alternatives available today. We all know the basics: Buy low; sell high. It's that simple. But no one knows whether or when the market value of a particular investment will go up or down. There are as many approaches to investing as there are investors, and examples of successful investors and their strategies abound. How do you make the right decision?

As with most areas of financial planning, investment decisions are very personal. Each of us has a certain tolerance for risk, and this plays into every investment decision we make. This risk factor must be viewed in conjunction with the time constraints for your investment. When you save, you save for something -- an event or a major purchase. The time horizon for that savings -- the length of time before you need the money you're saving -- impacts your investment decisions.

For example: If you're in your thirties and saving for retirement, you can afford to invest in riskier ventures. On the other hand, if you're putting away money to buy a new car next year, you'll be interested in investments that are more stable, such as a money market account.

INSURANCE

Insurance plays an important role in personal financial planning. Since the main purpose of insurance is to protect you from financial risks, start off by thinking about what kinds of risks require insurance protection. Review your policies and determine what they do and do not cover. Make sure you have what you need and that you need what you have. Excess coverage costs unnecessary dollars.

Your insurance needs change from year to year. Too often people have the wrong amount or wrong type of insurance. Reevaluate how much deductible you can afford. You may be able to hike your deductible and save premium dollars.

On an ongoing basis, you'll need to reassess whether you have the appropriate kinds and amounts of insurance, whether your deductibles are appropriate, and whether the designated beneficiary is consistent with your goals. If you're thinking of changing insurers, be sure you can reinsure before canceling an existing policy. It is important to get health and life insurance while you still can. If you wait too long, you might become uninsurable.

ESTATE PLANNING

Estate planning is the one area most people dread most -- it means staring death in the face! However, this part of the financial planning process is crucial as a means of providing for your family after you're gone. It also provides you with the opportunity to determine how your affairs are handled.

If you don't address these issues, someone else will — and not necessarily according to your wishes.

Having a will is essential. A will provides for an efficient and financially beneficial distribution of your assets. Without a will, the state decides how your estate will be distributed and whom it will be distributed to. The custody of your children may be left to the courts. Fighting over money can tear your family apart. In addition to a will, a revocable living trust may be appropriate to facilitate the distribution of your estate.

Planning enables you to state your wishes and can help remove the seeds for family dispute. You can spell out who gets what, who will manage your business, even who will take care of your pets. Careful planning can also minimize the tax bite on your estate. Estate taxes can be sizable when your estate reaches a certain size.

As in most areas of financial planning, estate planning is an ongoing process. It is critical to keep your will and other estate planning documents current. People frequently outgrow their initial wills. Events such as marriage, divorce, a birth, the death of a spouse or child, or the move to a new state are among the many reasons to update your estate plans.

We've touched on some of the big issues in each of the personal financial planning areas. Of course, no discussion can address every concern you have, but I hope you've developed an appreciation of how many components there are to be considered when thinking about your financial security.

While no amount of planning can guarantee that all your goals are reached, a well-developed financial plan can help you to get on the right track and take the first steps toward realizing your goals.

There are several ways that you can embark on the financial planning process, depending on how wet you want your feet to get. You might seek basic financial counseling during a one-on-one session with a CPA or other professional that provides PFP services. This arrangement can provide you with the opportunity to get feedback on your overall financial planning picture, along with broad suggestions on how to address your specific problems.

Alternatively, you might focus on a particular area or specific goals -- such as evaluating your estate and life insurance or fine-tuning your plans for retirement. Strategies can be formulated to assist you in achieving your unique objectives. This is an excellent way to begin developing a strategic plan to address your concerns about your financial future.

If you're up to the challenge, a comprehensive financial plan -- the most thorough and complete approach to financial planning -- can be undertaken to review all the relevant aspects of your financial picture, including your goals and objectives, cash flow, insurance, estate, retirement and investment plans. This undertaking often involves a team of professionals -- including CPAs, investment advisers, attorneys, and insurance representatives -- who work closely together during the process. Comprehensive financial planning is of course time-consuming, but is also rewarding in that you develop a more complete picture of your financial situation.

IMPLEMENTATION

Once you've mapped out the right strategies for your financial future, it's critical that you act on them. If you simply go through the motions of financial planning but don't take action, you might as well not have bothered in the first place. Although no implementation strategy fits everyone, your financial strategies should be developed and implemented in a way that will assist you in achieving your own personal financial goals. The financial planning process involves an investment of energy and focus, and you are primarily responsible for, and will ultimately live with, the financial future that you plan for today. After all, there is not a lot of talk about life becoming easier and less complicated during the years ahead.

There are many who would be more than happy to help you plan your future. Moreover, financial planners are compensated in a number of different ways -- some through a fee-only arrangement, others through commissions on the products they sell or recommend, still others by some combination of both. The important thing is to find someone you can trust. Much has been written recently about CPA financial planners as a source of objective advice. In this regard, many individuals consider certified public accountants who have received training in personal financial planning as the premier source of objective financial planning advice.

If you're concerned with taking control of your financial future, you have lots of company. Investment decisions, inflation, taxes and other money matters concern everyone. Yet, even if you recognize the importance of financial planning, you may have trouble taking action, sizing up your situation, and putting all the pieces together. You may find the planning process itself overwhelming. Or, you may even have trouble following your plan. Or you may simply be unsure where to begin. As I mentioned earlier, the key is to get started! The sooner you start, the sooner you will be in control of your financial destiny. And remember to follow through on the plans you develop. The best financial plan in the world is useless if it's merely sitting on the shelf with other bound classics. Do what needs to be done!

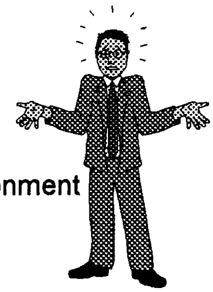
Thank you very much for your attention. I'd like to take some of your questions.

SLIDE PRESENTATION

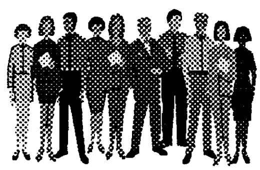
TAKING RESPONSIBILITY FOR YOUR FINANCIAL FUTURE

Taking Responsibility for Your Financial Future

- Uncertain economy
- Changing tax laws
- Volatile business environment



We as individuals have greater responsibility to provide for our own financial security than did previous generations

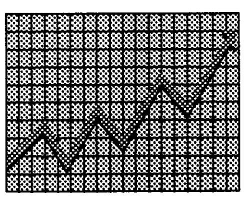


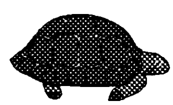
Examples

- Longer lives
- Earlier retirement
- Changing employment
- Fewer successful entrepreneurs
- Changing tax laws
- Estate taxes
- Risks of litigation
- Corporate downsizing
- Need to understand asset allocation
- College costs
- Finding the means to save for retirement

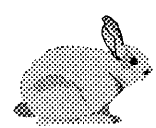
Financial Planning = Charting a Course to Your Goals

- Setting goals
- Developing strategies
- Implementing the strategies





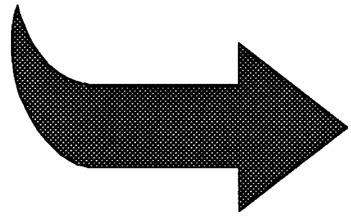
There is a natural tendency to procrastinate, but failing to plan leads to mounting concerns about your financial future.



What concerns you most?

- Do I have enough insurance?
- How much emergency cash reserves should I keep?
- How will I pay for my children's tuition?
- Will I be able to retire comfortably?
- What help will my parents need from me?

SO ... GET STARTED!

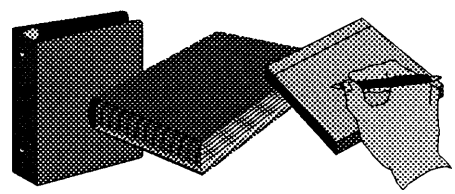


Net Worth Statement

+ Cash
+ Investments
+ Real estate
+ Life insurance
+ Retirement and pension plans

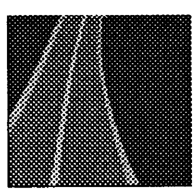
– Loans
– Mortgage

Gather and Organize Important Documents



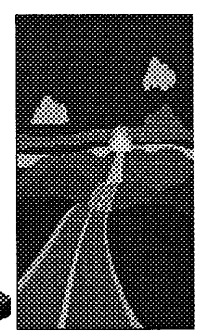
Possible Short Term Goals

- Debt reduction
- Establishing emergency cash reserve
- Starting an investment plan
- Purchasing a home
- Reviewing insurance coverage



Possible Long Term Goals

- Funding children's college education
- Accumulating retirement funds
- Business succession planning
- Providing for dependents and heirs



The Goal Setting Process

- Assess your resources
- Recognize that goals will change over time
- If married, develop goals that reflect both your interests
- Commit your goals to writing

The Pieces of a Financial Plan

- Cash Flow & Income Tax Planning
- Retirement Planning
- Savings & Investment Strategy
- Risk Management
- Estate Planning
- Special Needs

Cash Flow Analysis

- Determine monthly expenses
- Compare to monthly income
- Are you living beyond your means?
- Plan to save and pay yourself first
- Establish an emergency fund
- Use credit responsibly

Retirement Planning

- Avoid living only for today
- Obtain an estimate of Social Security benefits
- Determine how much of your income you need to save
  - 10% rule of thumb
- Start saving **now**!
- Monitor your savings program

Retirement Planning

- Money grows faster when tax deferred
- Use company 401(k) and 403(b) plans
  - Many employers provide matching funds
  - Deducted before you can spend it
- Use IRAs even if not deductible
- Carefully plan your distributions

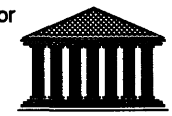
Investment Planning

- Now that you have a savings plan, where do you invest the money?
- Consider personal tolerance for risk
- Consider time horizons
- Consider age

Insurance

- Assess your risks
- Review existing policies
- Do you have what you need?
- Do you need what you have?
- The deductible/premium tradeoff
- Don't cancel policies before replacing them
- Get life and health insurance while you still can

Estate Planning



- A crucial part of providing for your family over the long term
- Ensure that your children are cared for by a person you select
- Ensure that your estate is distributed according to your wishes
- Estate tax issues
- Review periodically

Take Responsibility!

- Seek basic financial counseling
- Address a particular issue or a specific goal
- Undertake a comprehensive review of your financial picture

RESOURCES

RESOURCES

INTRODUCTION

This section of the Handbook identifies many sources of technical information and practical assistance for CPAs providing PFP services. In addition to information on the various disciplines of PFP, you will also find references to products, publications and CPE courses to help develop your marketing, selling and other practice management skills.

The following information is included:

- **AICPA Products and Services for CPA Financial Planners.** A catalog of technical publications, software and CPE courses, and promotional and marketing materials published by the AICPA.
- **Personal Financial Planning Software.** A listing of commercially available software that can help streamline your practice.
- **Books and Periodicals.** A compendium of books and other publications on a full range of PFP topics, practice management, marketing and selling.
- **Published Seminars.** Information on scripted speeches that you can use to promote your PFP services.

AICPA PRODUCTS AND SERVICES FOR CPA FINANCIAL PLANNERS

The products and services listed here are offered by the AICPA to help CPAs promote and profitably deliver quality PFP services. The product number is indicated at the right margin. For current pricing information, or to place an order, contact the AICPA Order Department at 1-800-862-4272, option # 1.

TECHNICAL PFP PUBLICATIONS — *(PFP Library)*

Guide to Retirement Planning	017207
Guide to Cash Flow Planning	017209
Guide to Planning for the Closely Held Business Owner	017202
Guide to Investment Planning	017111
Guide to Risk Management and Insurance Planning	017112
Guide to Planning for Divorce	017205
Guide to Registering as an Investment Adviser	017206
Guide to Communicating the Results of Personal Financial Planning Engagements	017218

PUBLICATIONS — MARKETING AND MANAGEMENT

PFP Practice Handbook	017108
Management of An Accounting Practice Handbook	090407
On Your Own! How to Start Your Own CPA Firm	012641
Strategic Planning: Step-by-Step Guide to Building a Successful CPA Firm	090402
Managing the Malpractice Maze	090380
Managing By The Numbers: Monitoring Your Firm's Profitability	090220
Tax Practice Management	029540
The Practicing CPA on Practice Development	092100
Persuasive Business Proposals	029923
How To Make It Big As A Consultant	029913
MAP Selected Readings	090406
Making the Most of Marketing	090063
The Marketing Advantage: How to Get and Keep the Clients You Want	090404
Winning Proposals: A Step-by-Step Guide to the Proposal Process	090390
Public Relations Guide for CPAs	889633
The Little Black Book Series — helps refresh basic business skills:	
Little Black Book of Business Etiquette	029914
Little Black Book of Business Letters	029915
Little Black Book of Business Math	029916
Little Black Book of Business Meetings	029917
Little Black Book of Business Reports	029918
Little Black Book of Business Speaking	029919
Little Black Book of Business Statistics	029920
Little Black Book of Business Words	029921
Little Black Book of Project Management	029922

PROMOTIONAL MATERIALS

Promotional Brochures

For distribution to clients or potential clients to educate them about your services.

Do I Need Personal Financial Planning	009151
Guide to Finding a Personal Financial Planner	017101
Invest in Your Future: Choose a Personal Financial Specialist	017130
Budget and Cash Flow Worksheet	889670
Find Out What You're Worth With Your Own Personal Financial Statement	889736
Keeping Financial Records	889488
Getting Started Financially	889489
Minimizing Homeowners' Expenses: Cost-Cutting Tips	889519
Planning for the Future: Your Social Security Benefits	890518
Personal Finances: Managing Through An Economic Downturn	890544
Managing Credit: Avoiding the Debt Trap	890820
Estate Planning: Protecting Your Family	890819
Saving for College: Easing the Financial Burden	890818
Retirement Planning: Achieving Financial Security for Your Future	890803
Good News for Good Samaritans: A Guide to Deducting Charitable Contributions	889490
Business Succession: Planning for a Change in Ownership	338694

Speeches

Designed for delivery to clients and civic or community groups.

Shaping Up Your Future With Personal Financial Planning	890644
Financial Recordkeeping: Organizing Your Past to Plan Your Future	889473
The Journey to Financial Independence	889474
Tips for Cutting and Containing the Costs of Owning a Home	890663
What You Should Know About Your Future Social Security Benefits	890662
Dealing With a Financial Downturn	890562
Control Your Credit Before It Controls You	890561
Estate Planning Tips for Individuals	890560
Planning and Saving for Your Child's College Years	890822
Achieving Financial Security for Your Retirement Years	890630
A Gift for Those Who Give, the Tax Benefits of Donating Time, Cash, and Property	889475
Succession Planning for Small Business Owners	890677

Seminar

Financial Planning in a Complex World 015203

Approximately 30-minute seminar, including a script and 40 four-color slides, overview of financial planning from a CPA's perspective.

Client Booklets and Other Promotions

Settling an Estate: Understanding Probate and Estate Administration	009152
Accumulating Wealth: An Investing Primer	009153

Savings Guide 890557

Slide rule calculates savings required to reach financial goals and the effect of saving $100 per month at varying rates of return

Newsletters

CPA Client Bulletin	G01005
CPA Client Tax Letter	G01006

SOFTWARE

PFP Partner 2.0	016501
Upgrade from 1.0	016502

Automates many time-consuming calculations performed in a PFP engagement, including 5-year projected statements of net worth, 5-year cash flow projections, funding calculations for education, retirement and other user-specified goals, and insurance needs analyses.

Engagement Manager 1.2	016902
Upgrade from 1.0	016903

Records time and expenses, analyzes/revises estimates to complete, and creates reports to help evaluate engagement performance, track budget variances, time statistics, staff hours and other key areas.

PFP Library Volumes for the Audit Program Generator2 (APG2)

APG2	016297
Volume 1	016812
Volume 2	016827
Volume 3	016829

The library volumes, which operate with *APG2*, are designed to guide CPAs performing PFP engagements. Volumes 1 and 2 contain data gathering forms, engagement letters, checklists and worksheets. Volume 3 is an Automated Work Program designed to stimulate the user's thought process in developing more specific procedures and in gathering the necessary facts. *APG 2* includes a complete text editor and can also be used with a word processor to generate engagement letters, short memos, outlines and other documents.

CONTINUING PROFESSIONAL EDUCATION

Self Study Courses

The following are a representative sampling of available CPE courses. Please refer to the AICPA *Catalog of Publications and CPE Materials* and periodic updates for a complete course selection.

Title	Level	Format	Recommended CPE Hours	Product Number
Technical Topics				
Personal Financial Planning - Comprehensive				
Personal Financial Planning (AMA)	Basic	Text	19	723590
		Text & 3.5" diskette		724930
Personal Financial Planning (MicroMash)	Intermediate	DOS 3.5" (1.4MB)	8	701733
		Windows 3.5" (1.4MB)		701736
Personal Financial Statements	Basic	Text	8	731622
Estate Planning				
Estate Planning I: The Small & Mid-Sized Estate (MicroMash)	Basic	DOS 3.5" (1.4MB)	8	701753
		Windows 3.5" (1.4MB)		701756
Estate Planning–Practical Applications	Intermediate	CD-ROM	8	738010
Estate Planning	Advanced	Text	12	736529
Estate and Gift Taxation	Basic	Text	12	732505
Business Valuation Methods	Intermediate	Text	16	730491
Business Valuation Videocourse	Basic	1 VHS Tape/Manual	10	180110
		Additional Manual		350115
Investment Planning				
Investment Essentials	Basic	CD-ROM	10	738030
Investing in Mutual Funds Videocourse	Basic	1 VHS Tape/Manual	8	180160
		Additional Manual		350160

Title	Level	Format	Recommended CPE Hours	Product Number
Investment Strategies in the '90s	Basic	Text	10	735916
Investment Strategies for Risk: Derivatives, Options, Straddles and Other Hedges	Basic	Text	8	737075
Risk Management				
What a CPA Should Know About Business Insurance	Basic	Audiocassette/Workbook Additional Workbook	8	747514 747515
Retirement Planning				
Retirement Planning: Selected Readings	Basic	Text	8	730550
Social Security for the Financial Professional	Basic	Text	8	731168
Benefit Plans for Small Business	Intermediate	Text	8	732522
Specialized Topics				
Education Funding Videocourse	Basic	1 VHS Tape/Manual Additional Manual	8	180150 350150
Marriage, Divorce & Family Taxation	Basic	Text	8	731230
Physicians, Dentists & Veterinarians (Services to Clients)	Basic	3 Audiocassettes/Workbook Additional Workbook	8	745336 745337
Business and Tax Planning with Limited Liability Companies	Basic	Text	8	735943
Real Estate: Tax and Financial Planning	Basic	Text	12	730590
Profitable Business Succession Planning Videocourse	Basic	1 VHS Tape/Manual Additional Manual	8	180416 350728

Title	Level	Format	Recommended CPE Hours	Product Number
Employee Stock Ownership Plans — Practical Applications	Intermediate	3 Audiocassettes/Workbook Additional Workbook	8	751216 751226
The High Income Taxpayer	Advanced	Text	6	730611
Personal Service Corporations — Using Them to Advantage	Advanced	Text	12	736408

Marketing, Management and Personal Skills Development

Marketing And Selling

The I-Hate-Marketing-My-Practice Course for CPAs	Basic	Text	8	730451
The I-Hate-Selling Course for CPAs: How to Make More Sales Systematically and Painlessly	Basic	Text	8	731800
I-Hate-Selling: The Audiocourse	Basic	8 Audiocassettes & Study Guide	8	740081
Client-Centered Selling Skills	Basic	1 VHS Tape/1 Discussion Leader Guide/3 Participant Manuals	8/4	103207

Communication and Interpersonal Skills

How to Win With People Package: Relationship Strategies	Basic	Audiocassette/Workbook	8	710301
Communication Skills for Managers	Basic	Text	15	720566
Customer Service: The Key to Your Competitive Edge	Basic	Text	8	737900
Effective Writing for Accountants (MicroMash)	Intermediate	DOS 3.5"(1.4MB) Windows 3.5"(1.4MB)	8	700256 700260

Title	Level	Format	Recommended CPE Hours	Product Number
Writing for Accounting Professionals	Basic	1 VHS Tape/1 Discussion Leader Guide/3 Participant Manuals	12/6	103635
		Additional Manual		103636
Other Practice Management Topics				
CPA's Guide to Navigating Online	Basic	Text & Online Contacts	16	739055
Starting a CPA Practice	Basic	Text	8	733103
Billing & Collection – Proven Strategies for the CPA	Basic	Text	8	737135
How to Write a Business Plan	Basic	Text	19	724589
How to Put Your Business Plan Into Action	Basic	Text	19	721592
Total Quality Management in Accounting and Finance	Basic	Text	8	737070
Keeping Customers for Life	Basic	Text	9	720280
Managing the Customer Satisfaction Process	Basic	Text	9	720140
How to Write Dynamic Business Proposals	Basic	Text	9	720030
How to Deliver Winning Presentations	Basic	Text	15	721569
Pricing Your Product or Service (MicroMash)	Intermediate	DOS 3.5"(1.4MB)	8	703043
		Windows 3.5"(1.4MB)		703047

Personal Financial Planning Process Certificate of Educational Achievement Program

The PFPP CEA program, sponsored nationwide by state CPA societies, consists of five challenging courses (a total of 72 CPE hours) built around a real world, life cycle approach to PFP. Each course focuses on a specific aspect of the personal financial planning process, as summarized below:

- PFPP1 Putting the Process into Practice
- PFPP2 Wealth Accumulation and Management
- PFPP3 Fringe Benefits and Business Succession
- PFPP4 Wealth Utilization and Transfer
- PFPP5 Application and Implementation — A Case Study

For more information, contact your state CPA society or call the AICPA at (201) 938-3515.

Conferences

The AICPA annually sponsors two conferences devoted primarily to the needs of CPAs providing PFP services:

- **PFP Technical Conference** - the largest conference addressing the specific needs of CPA financial planners, offering technical and practice management sessions and recommended for CPAs with an advanced knowledge of PFP topics.
- **AICPA Investment Planning Conference** - focused specifically on investment planning issues and recommeded for CPAs who advise clients on investment decisions, monitor investment performance, make investment decisions for company funds or funds in employee benefit plans, or are interested in refining their personal investment strategy.

Other AICPA conferences that address a number of issues of interest to CPAs who provide PFP services, including the following:

- Tax Strategies for the High Income Individual
- CPA & the Older Client Conference (add-on toTax Strategies for the High Income Individual)
- National Conference on Divorce
- Employee Benefits Conference
- Advanced Estate Planning Conference
- Marketing and Managing a Successful Tax Practice

For more information, please call the AICPA Conferences at 1-800-862-4272, option #1.

PERSONAL FINANCIAL PLANNING SOFTWARE

The following list summarizes many of the commercially available software packages appropriate for PFP practices. Information about price and capability has been summarized from promotional materials and other information provided by the vendors. You should contact the software vendor directly to verify the current price and the suitability for your practice.

The listing is not all-inclusive and the products included here, other than those published by the AICPA, have not been reviewed or evaluated by the AICPA or any of its committees or subcommittees. Accordingly, the inclusion of a product here should not be construed as an express or implied endorsement of its suitability. This list will be updated in future editions of this handbook.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

COMPILED BY AMERICAN INSTITUTE OF CPAS PERSONAL FINANCIAL PLANNING

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
COMPREHENSIVE FINANCIAL PLANNING SOFTWARE				
Easy Money PLUS	Money Tree Software Contact: Mike Vitkauskas 541-929-2140	$ 500.00	$ 200.00	Integrated personal financial planning program that covers net worth, cash flow, retirement, life insurance needs, estate and income tax, education funding and more.
ExecPlan	ExecPlan, Inc. Contact: Rich Ringer 800-850-8444	$ 1,995.00	$ 695.00	Versatile financial planning software features implementation of federal and state tax statutes, variable planning span of up to 100 years, control of projections on an item-by-item, year-by-year basis. Includes customized reports. DOS or Windows.
Expert Series	Sterling Wentworth Corp. Contact: Chad Gardner 800-752-6637	$ 550.00 per module	$ 200.00	Price is per module for each of a series of Windows-based programs that offer planning calculations in a full graphical format. Available modules: *Retirement Expert*, *Portfolio Expert*, *Estate Expert*, *Risk Management Expert*, *Expert Toolkit*. Entire package is available for $ 1,695.00
FastPlan III	Abacus Data Systems Contact: Brian Blackstone 800-726-3339	$ 995.00	$ 199.00	Integrated comprehensive financial planning, including asset management, disability needs, cash flow, and tax analysis. Downloads from CompuServe.
Financial Manager for Windows	Specialty Software Contact: Ray Whittemore 503-753-6526	$ 95.00	Information not available	Stand-alone program with planning modules, including retirement and estate planning, estimated income needs, education funding, tax-deferred vs. taxable savings, financial calculator, checkbook, and others.
Financial Planning Tools	Brentmark Software, Inc. Contact: Gregory Kolojeski 800-879-6665	$ 249.00	$ 49.00	49 independent calculations in the areas of investments, inflation, real estate, insurance, net worth, financial goals, and budgeting. Features client reports and graphics capabilities.
Financial Planning Toolkit	Leimberg & LeClair, Inc. Contact: Kathy Maphis 610-527-5216	$ 249.00	$ 89.00	Efficient easy to use software that performs insurance, investment, real estate, retirement and over 50 other financial planning calculations. Built-in graphics.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

COMPILED BY AMERICAN INSTITUTE OF CPAS PERSONAL FINANCIAL PLANNING

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Financial Planning Professional	Lumen Systems, Inc. Contact: William S. Porter 800-233-3461	$ 1,995.00	$ 650.00	Fully integrated, questionnaire-driven planning. Plans can be modular or comprehensive, micro or macro in detail. Reports can be 1 to 2 page executive summary per topic (using text, graphics and tables). Network version available.
Financial Planning Worksheets	Lumen Systems, Inc. Contact: William S. Porter 800-233-3461	$ 595.00	Information not available	Modular system that focuses on discreet planning issues. Areas of analysis include net worth; cash flow and budgeting; investment analysis; tax, retirement, and estate planning; insurance needs; and education funding.
Financial Sense	Financial Sense, Inc. 800-344-4094	$ 225.00	$ 95.00	Fully integrated financial planning software with graphics. Can produce comprehensive or modular plans.
FP Tools	IFDS Enterprises Contact: Richard Wells 800-554-8004	$ 49.00 to $ 699.00 per module. Call for details.	Information not available	A series of 15 individual programs that address topics such as mortgage refinancing, mortgage acceleration, retirement planning, education funding, life insurance needs, budgeting, break even, and purchasing power analysis.
FPlan	First Financial Software Contact: Mike Martone 800-719-8761	$ 495.00	None	Windows-based, comprehensive action-oriented planning software. Integrated modules can stand alone. Easy to use questionnaires and input screens. Flexible report and graph selections; reports can be customized. Free technical support.
Leonard 2000	Mobius Group Contact: Tony Babich 800-632-3044	$ 1,000.00	$ 1,200.00 ($ 100.00 per month)	Fully-integrated, Windows-based system. Includes data gathering forms and marketing support system and offers professional presentations in full color. **Also available:** *Leonard 5000* and *Leonard 6000*, which provide more sophisticated analyses and detail, with networking capabilities. Call for pricing information.
MasterPlan: The Analyst	MasterPlan Financial Software Contact: Mary Robinson 916-756-5080	$ 1,495.00	$ 395.00	Generates complete plan or modular reports, including comparisons of present and proposed scenarios. Features three asset allocation reports, client database management, and mail list. Network version available.

Personal Financial Planning Software List

Compiled by American Institute of CPAs Personal Financial Planning

Program	Distributor	Price	Annual Maintenance	Description
Mini/Max	Summit Innovation, Inc. Contact: Brad Burkhalter 903-868-9425	$ 495.00	$ 200.00	Comprehensive or modular analyses of cash flow, estate planning, retirement planning, college funding, tax planning, business valuation, and capital needs. Ease of data entry, with accessability from any other part of the program.
MoneyCalc	Money Tree Software Contact: Mike Vitkauskas 541-929-2140	$ 500.00	$ 200.00	Modular planning program of 50 templates for use with Lotus 1-2-3.
PFP Notebook	Brentmark Software, Inc. Contact: Gregory Kolojeski 800-879-6665	$ 595.00	$ 150.00	Windows-based integrated approach to financial planning. Features a step-by-step "notebook" approach and produces a variety of text, from letters to worksheets to reports.
Professional Series/2	IFDS Enterprises Contact: Richard Wells 800-554-8004	$ 499.00	$ 325.00	Smaller version of *Professional Series/3*. Offers fully integrated, comprehensive financial planning assistance.
Professional Series/3	IFDS Enterprises Contact: Richard Wells 800-554-8004	$ 699.00	$ 525.00	Fully-integrated software incorporating full multi-year financials, as well as asset, income tax, cash flow, disability, life insurance, retirement, estate, and education planning.
ProPlan	Financial Planning Consultants, Inc. Contact: Ed Morrow 800-666-1656	$ 795.00	$ 800.00	Full-featured planning package includes modular retirement, estate, tax and investment planning calculations. Also includes a disability and health insurance analysis.
Suite Success	Kettley Publishing Contact: Russell Morgan 714-752-8613	$ 695.00	Information not available	Combination of Kettley's *Back Room Technician*, *Estate Cost Estimator*, and *Estate Quick Plan*, *Retirement Quick Plan*, and *Charitable Quick Plan*.
Ten Minute Mini	Summit Innovation, Inc. Contact: Brad Burkhalter 903-868-9425	$ 295.00	$140.00	Inexpensive and easy to use. Designed for mid range planning, tax planning, estate planning, disability, survivors' needs, goal funding, and lump sum distribution analysis.

Personal Financial Planning Software List

Compiled by American Institute of CPAs Personal Financial Planning

Program	Distributor	Price	Annual Maintenance	Description
Budget & Cash Flow Analysis Software				
FinPack	Financial Data Planning Corp. Contact: Chris Stroud 800-337-2677	$ 595.00 (Windows) $ 295.00 (DOS)	Information not available	Modular systems handles financial profiling and analysis, including survivor needs, retirement, disability, education and estate planning. Also performs cash flow and tax projections.
FINWORTH	Erjay Products Contact: Manny Doumas 412-344-3944	$ 95.00	Information not available	Cash flow and net worth analysis; calculation of Social Security benefits to the year 2020. Tabulates 30 financial parameters annually, including total income, taxes paid, real estate valuation.
Life Planner System	Financial Planning Systems Contact: Edward Cox 800-245-1991	$ 149.00	$ 45.00 per month	Generates a client history and net worth statement, planning calculations and recommendations, and tax projections.
PFP Partner	American Institute of CPAs Contact: AICPA Order Dept. 800-862-4272, option # 1	$ 655.00	None	Integrated cash flow, insurance needs analysis, retirement planning, and goal funding software. Features flexible funding analyses, projections of cash flow and net worth, reporting and graphics capabilities. **Discounts for AICPA and PFP section members.**
QPLAN	QPLAN, LP 203-356-1910	$ 1,750.00	$ 900.00	Windows-based tool featuring a centralized database of client information, sophisticated estate planning projections, and comprehensive financial spreadsheets. LAN version and securities download also available.
Wealth Creator	RAM Technologies Contact: Bruce Ramsey 905-795-9222 (Ontario, Canada)	$ 275.00	Information not available	Retirement, goal planning, budgeting, and needs analysis software, featuring net worth statements, amortization tables, and presentation graphics.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

COMPILED BY AMERICAN INSTITUTE OF CPAS PERSONAL FINANCIAL PLANNING

RECORDKEEPING SOFTWARE

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Check Form Navigator	Financial Navigator International Contact: Ed Van Deeman 800-468-3636	$ 795.00	Information not available	Prints checks for multiple checking accounts, including MICR bank line. Companion to *Financial Navigator*.
Financial Navigator	Financial Navigator International Contact: Ed Van Deeman 800-468-3636	$ 249.00	$ 250.00	Windows-compatible program handles investment tracking, budgeting and business accounting. Tracks security portfolios, income tax info, and actual forecasted cash flow. Annual support fee does not include upgrades.
Mutual Fund Manager	Concepts Software, Inc. Contact: Bryan Woods 800-471-6800	$ 59.95	Information not available	Computes gain or loss on mutual fund share transactions under allowable IRS methods. Includes separate fund database with information on over 6,000 funds. **Special offer for PFP Section members: $49.**
Navigator Access	Financial Navigator International Contact: Ed Van Deeman 800-468-3636	$ 149.00	Information not available	Provides access to current and historical marketable security prices for easy updating of portfolios through Interactive Data Corporation, an online service with comprehensive securities listing.
Navigator DataBridges	Financial Navigator International Contact: Ed Van Deeman 800-468-3636	$ 49.00	Information not available	Utility products facilitate the transfer of data in *Financial Navigator* to tax planning or preparation packages. Versions currently available for *BNA Tax Planner*, *A.Plus.Tax 1040*, *TurboTax* (Personal and Professional), *CLR/Fast Tax 1040*.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

COMPILED BY AMERICAN INSTITUTE OF CPAS PERSONAL FINANCIAL PLANNING

RETIREMENT PLANNING SOFTWARE

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
FinPack	Financial Data Planning Corp. Contact: Chris Stroud 800-337-2677	\$ 595.00 (Windows) \$ 295.00 (DOS)	Information not available	Modular systems handles financial profiling and analysis, including survivor needs, retirement, disability, education and estate planning. Also perfoms cash flow and tax projections.
Golden Years	Money Tree Software Contact: Mike Vitkauskas 541-929-2140	\$ 500.00	\$ 200.00	Detailed and complete retirement projection analysis with full tax calculations, yearly cash flow and asset and tax reporting.
Harvest-Time Retirement Planning Software	Harvest-Time Contact: Mike Molina 702-433-2695	\$ 495.00	\$ 250.00	Interactive retirement planning program.
IRA Distributions Calculator	Brentmark Software, Inc. Contact: Gregory Kolojeski 800-879-6665	\$ 49.00	Information not available	Windows-based program calculates amount of distributions needed to satisfy minimum distribution requirements and avoid the 10% penalty on pre-59.5 distributions.
Lump Sum Distribution Planner	Cheshire Software Contact: Eric Drogan 617-734-0100	\$ 299.00	\$ 90.00	Windows-based program that compares various distribution options and calculates after-tax payout. Integrates with Cheshire's *Asset Allocation Planner* and *Retirement Planner*.
Mobius Professional Retirement Planning System	Mobius Group Contact: Tony Babich 800-632-3044	\$ 200.00	\$ 40.00 per month ongoing license fee	Designed to create hypothetical retirement scenarios for planning purposes.
PenD'Calc Retirement/Estate Planning Software	PenD'Calc Corporation Contact: Vince Heck 800-766-7327	\$ 510.00 (Windows) \$ 410.00 (DOS)	Information not available	Handles virtually all pension and IRA calculations. 40 reports and 26 graphs focusing on: pre-retirement account growth; estate tax calculations; gifting analysis; distribution analysis; and insurance makeup concepts. **Advanced version for \$810.**
PENDEAS	BLAZE SSI Corporation 908-223-5575	\$ 2,500.00	Call	Projects accumulated funds at retirement and illustrates benefits of individual tax-sheltered annuity contributions. Generates client reports. Annual maintenance available.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

COMPILED BY AMERICAN INSTITUTE OF CPAS PERSONAL FINANCIAL PLANNING

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
PENDEAS II-SST	BLAZE SSI Corporation 908-223-5575	Call	Call	Profit sharing plan illustrations comparing salary-ratio-integrated, age-weighted and "new comparability" plans. Annual maintenance available.
PENPLAN	Research Press, Inc. Contact: Ben Jacobs 913-362-9667	$ 97.00 ($ 295.00 w/ 2 training hours)	Information not available	Retirement tax planning worksheets, featuring comparison of lump-sum taxes to an IRA rollover or life income annuity and retirement tax and estate planning modules.
Pension & Estate Tax Calculator	Leimberg Associates, Inc. Contact: Kathy Maphis 610-527-5216	$ 349.00	Information not available	Evaluates alternative distribution strategies and calculates a variety of combinations. Prints comparative graphs and charts demonstrating projected remainder for family.
Pension & Excise Tax Planner	Brentmark Software, Inc. Contact: Gregory Kolojeski 800-879-6665	$ 349.00	$ 99.00	Evaluates alternate strategies for taking pension distributions from qualified plans. Calculates up to four simultaneous alternatives. Includes minimum distribution rules.
Pension Resource	Benefit Analysis, Inc. Contact: Arthur Warady 800-223-3601	$ 695.00	Information not available	Comprehensive programs for designing and comparing qualified plans. Includes pension maximization and pension distribution analysis.
Personal Financial Planning Calculator	Practitioners Publishing Company 800-323-8724	$ 64.00	Information not available	Retirement and goal funding software. Calculates cash flow projections and projected statements of net worth.
PFP Partner	American Institute of CPAs Contact: AICPA Order Dept. 800-862-4272, option # 1	$ 655.00	None	Integrated cash flow, insurance needs analysis, retirement planning, and goal funding software. Features flexible funding analyses, projections of cash flow and net worth, reporting and graphics capabilities. **Discounts for AICPA and PFP section members.**
Retirement Funding Analysis	Price Waterhouse Financial Education Group 800-752-6234	$ 60.00	Information not available	A 10-15 page report that provides an analysis of retirement funds, additional savings needs, and investment strategies.
Retirement Plan Analysis	Financial Planning Consultants, Inc. Contact: Ed Morrow 800-666-1656	$ 299.00	Information not available	Illustrates accumulation, distribution and post-retirement income from qualified and nonqualified plans. User options include multiple plans and custom annuity rate takes. Network version available.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

COMPILED BY AMERICAN INSTITUTE OF CPAS PERSONAL FINANCIAL PLANNING

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Retirement Planner	Cheshire Software Contact: Eric Drogan 617-734-0100	$ 499.00	$ 150.00	Estimates retirement needs considering all income sources - taxable, tax free and tax deferred investments; pensions; social security; other investments. Integrates with Cheshire's *Asset Allocation Planner*, *Lump Sum Distibution Planner*, and *College Planner*.
Retirement Planning Calculator	Practitioners Publishing Company 800-323-8724	$ 60.00	Information not available	Determines retirement fund needs and calculates the periodic savings required to accumulate that amount.
Retirement Planning Analysis	Price Waterhouse Financial Education Group 800-752-6234	$ 185.00	Information not available	A 35-50 page report that covers retirement planning, investment strategies, and estate planning.
Retirement Quick Plan	Kettley Publishing Contact: Russell Morgan 714-752-8613	$ 169.00	Information not available	Illustrates the advantages of over funding a qualified retirement plan and compares a private pension plan (cash value life insurance policy) to other accumulation programs.
Retirement Solutions PLUS	Money Tree Software Contact: Mike Vitkauskas 541-929-2140	$ 250.00	$ 75.00	Analyzes options for taking lump sum distributions and early retirement. IRA projections, capital needs, and retirement projections.
TSA Illustration System	BLAZE SSI Corporation 908-223-5575	$ 2,500.00	Call	Illustrates exclusion allowances, maximum deferrals and contributions, projections of accumulated retirement funds, and tax advantages of tax-sheltered annuity contributions.
Wealth Creator	RAM Technologies Contact: Bruce Ramsey 905-795-9222 (Ontario, Canada)	$ 275.00	Information not available	Retirement, goal planning, budgeting, and needs analysis software, featuring net worth statements, amortization tables, and presentation graphics.

Personal Financial Planning Software List

Compiled by American Institute of CPAs Personal Financial Planning

Education & Other Goal Funding Software

Program	Distributor	Price	Annual Maintenance	Description
College Planner	Cheshire Software Contact: Eric Drogan 617-734-0100	$ 199.00	$ 60.00	Estimates costs for up to six children based on included tuition database and historical rates of increase. College Planner Plus ($249; $75/yr) incorporates up to six additional goals. Integrates with Cheshire's *Asset Allocation Planner* and *Retirement Planner*.
Education Funding Analysis	Price Waterhouse Financial Education Group 800-752-6234	$ 60.00	Information not available	A 10-15 page report that projects education costs and provides an annual savings plan and education investment strategies.
Educational Funding Analysis	Financial Planning Consultants, Inc. Contact: Ed Morrow 800-666-1656	$ 199.00	Information not available	Projects future annual education costs for up to seven children in inflation-adjusted dollars. Uses single, level, or increasing funding and covers trusts, gifts, grants, and student earnings. Includes support text. Network version available.
FinPack	Financial Data Planning Corp. Contact: Chris Stroud 800-337-2677	$ 595.00 (Windows) $ 295.00 (DOS)	Information not available	Modular systems handles financial profiling and analysis, including survivor needs, retirement, disability, education and estate planning. Also performs cash flow and tax projections.
Personal Financial Planning Calculator	Practitioners Publishing Company 800-323-8724	$ 78.00	Information not available	Retirement and goal funding software. Calculates cash flow projections and projected statements of net worth.
PFP Partner	American Institute of CPAs Contact: AICPA Order Dept. 800-862-4272, option # 1	$ 655.00	None	Integrated cash flow, insurance needs analysis, retirement planning, and goal funding software. Features flexible funding analyses, projections of cash flow and net worth, reporting and graphics capabilities. **Discounts for AICPA and PFP section members.**
Wealth Creator	RAM Technologies Contact: Bruce Ramsey 905-795-9222 (Ontario, Canada)	$ 275.00	Information not available	Retirement, goal planning, budgeting, and needs analysis software, featuring net worth statements, amortization tables, and presentation graphics.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

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PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
		INCOME TAX PLANNING SOFTWARE		
Income Tax Planning Spreadsheet	BNA Software Contact: Kitty Richards 800-424-2938	$ 495.00	$ 365.00	Handles complex individual tax projections for up to 10 years. Windows or DOS platforms. **Also available:** Version with calculations on taxes in all 50 states for $890; $580/year upgrade charge.
Individual Tax Calculator	Practitioners Publishing Company 800-323-8724	$ 75.00	Information not available	Windows-based program for estimating and projecting two years of U.S. individual income tax liability.
Life Planner System	Financial Planning Systems Contact: Edward Cox 800-245-1991	$ 149.00	$ 45.00 per month	Generates a client history and net worth statement, planning calculations and recommendations, and tax projections. Windows version due in early 1997.
Mutual Fund Manager	Concepts Software, Inc. Contact: Bryan Woods 800-471-6800	$ 59.95	Information not available	Computes gain or loss on mutual fund share transactions under allowable IRS methods. Includes separate fund database with information on over 6,000 funds. **Special offer for PFP Section members: $49.**
Planmode	ExecPlan, Inc. Contact: Rich Ringer 800-850-8444	$ 395.00	Information not available	Stand-alone program for federal income tax planning. Some states also available.
Tax MiniMiser	Sunrise Software, Inc. 800-223-2379	$ 395.00	Information not available	Full U.S. and state individual income tax projections. Client information convertible from most popular tax programs. California and New York versions are available for $495.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

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ESTATE PLANNING SOFTWARE

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
BeneQuick	View Plan, Inc. 800-826-2127	$ 349.00	Information not available	Features charitable gift calculations, wealth replacement trust analysis, and explanatory text.
Estate & Financial Planning Essentials	Thompson Publishing 800-323-1336	$ 195.00	Information not available	Develops an estate plan from form 706-formatted spreadsheet. Features a range of trust alternatives and gifting and estate growth scenarios. Reporting and graphic capabilities. Multi-user version available.
Estate and Gift Tax Calculator	Practitioners Publishing Company 800-323-8724	$ 60.00	Information not available	Calculates federal estate and gift taxes and solves interrelated calculations to determine the marital or charitable deduction.
Estate Cost Estimator	Kettley Publishing Contact: Russell Morgan 714-752-8613	$ 199.00	Information not available	Calculates estate settlement costs and produces a custom report for clients; considers a wide variety of estate planning tools, including living and credit shelter trusts, charitable bequests, and life insurance options.
Estate Plan Plus	ProBate Software Publishing Company, Inc. 800-822-9169	$ 495.00	Information not available	Analyzes a number of planning alternatives (asset titling changes, insurance options, marital deductions, bequests, etc.) based on easily-input estate information.
Estate Planning SuperSystem	ECTA Corporation Contact: Robert Fueman 215-540-0250	$ 300.00	$ 195.00	Illustrates estate tax and liquidity needs, estate savings with irrevocable life insurance trust, alternate fund accumulation, compares cost of life insurance with cost of borrowing, asset liquidation, stock redemptions and deferred tax payments.
Estate Planning Tax Spreadsheet	BNA Software Contact: Kitty Richards 800-424-2938	$ 995.00	Information not available	Multiple analyses for family estate plans and individuals. Calculates federal and state death taxes, marital and charitable deductions, GST, GRITS, GRATS, GRUTS, and other calculations.
Estate Planning Tools	Brentmark Software, Inc. Contact: Gregory Kolojeski 800-879-6665	$ 299.00	$ 99.00	50 different calculations: estate planning; GRITS, GRATS, GRUTS, SCINS; private annuities; charitable remainder unitrusts and annuity trusts; split-interests; group-term costs; and present and future values.

Personal Financial Planning Software List

Compiled by American Institute of CPAs Personal Financial Planning

Program	Distributor	Price	Annual Maintenance	Description
Estate Practice Assistant	Thompson Publishing 800-323-1336	$ 395.00	Information not available	Integrates estate tax and estate planning calculations. Produces graphic presentations of estate planning strategies and form 706 worksheets and attachments. Multi-user version available.
Estate Quick Plan	Kettley Publishing Contact: Russell Morgan 714-752-8613	$ 169.00	Information not available	Helps clients understand the advantage of life insurance in the estate planning process. Illustrates use of the Unified Credit and paying estate settlement costs with text, calculations, and color charts.
Estate Resource	Benefit Analysis, Inc. Contact: Arthur Warady 800-223-3601	$ 695.00	Information not available	Comprehensive estate planning system containing 12 estate planning software programs. Basic to advanced estate planning. Calculates federal estate and GST taxes; determines the inheritance tax and property distribution rules for all 50 states.
Estate Tax Analysis for Windows	Impact Technologies Group, Inc. Contact: Heather Keziah 800-438-6017	$ 549.00	Information not available	Comprehensive estate tax planning program. Includes detailed analysis and support, graphic and flowchart capability.
EstateCalc Plus	Synaptic Software 515-226-1713	$ 549.00	$ 175.00	Calculates and generates reports on state and federal death taxes and the effects of asset repositioning.
Factuary	View Plan, Inc. 800-826-2127	$ 349.00	Information not available	Performs a number of estate planning calculations: GRITS, GRATS, GRUTS; installment sales; private annuities; excess retirement accumulations; and more. The results of different planning alternatives can be compared. Graphics and reporting capabilities.
IRS Factors Calculator	Leimberg Associates, Inc. Contact: Kathy Maphis 610-527-5216	$ 99.00	$ 39.00	Calculates value of annuities, life estates, and remainder interest (one or two lives), GRITs, GRATs. On-disk User Manual.
Number Cruncher	Leimberg & LeClair, Inc. Contact: Kathy Maphis 610-527-5216	$ 299.00	$ 89.00	Over 50 estate planning calculations including GRITs, GRATs, GRUTs, charitable trusts, and others. Built-in graphics.

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Program	Distributor	Price	Annual Maintenance	Description
PenD'Calc Retirement/Estate Planning Software	PenD'Calc Corporation Contact: Vince Heck 800-766-7327	$ 510.00 (Windows) $ 410.00 (DOS)	Information not available	Handles virtually all pension and IRA calculations. 40 reports and 26 graphs focus on: pre-retirement account growth; estate tax calculations; gifting analysis; distribution analysis; and insurance makeup concepts. **Advanced version for $810.**
Pension & Estate Tax Calculator	Leimberg Associates, Inc. Contact: Kathy Maphis 610-527-5216	$ 349.00	$ 99.00	Evaluates alternative distribution strategies and calculates a variety of combinations. Prints comparative graphs and charts demonstrating projected remainder for family.
Profiles+	Financial Profiles, Inc Contact: Marketing Department 619-237-6335	$ 995.00	Information not available	Integrated client management and planning program. Emphasis on insurance issues and concepts in business and estate planning. Modular and comprehensive planning capabilities for individual clients and business owners.
Progeny	View Plan, Inc. 800-826-2127	$ 249.00	Information not available	Visual comparisons of generation skipping strategies. Features "what if" scenarios, explanatory text, and death tax calculations for 50 states.
QPLAN	QPLAN, LP 203-356-1910	$ 1,750.00	$ 900.00	Windows-based tool featuring a centralized database of client information, sophisticated estate planning projections, and comprehensive financial spreadsheets. LAN version and securities download also available.
Remainder Trust Marketing System, The	Philanthrotec, Inc. Contact: Rita Weaver 800-332-7832	$ 695.00	$ 300.00	Illustrates the advantages of using a charitable remainder unitrust or annuity trust. Features cash flow illustrations, life insurance illustrations, tax analysis, and color graphics. Compares benefits of trust to keeping or selling an asset.
Shepard's Federal Estate Tax Returns: Calculation and Preparation	Thompson Publishing 800-323-1336	$ 795.00	Information not available	Prepares complete Form 706. Internally performs all necessary and interrelated calculations. Imports data from other Shepard's software programs. Multi-user, single estate, and some state modules available.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

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PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Steve Leimberg's Estate Maximizer	Dynamic Financial Logic Corp. Contact: Joseph Coluzzi 610-667-6250	$ 249.00	Information not available	Analyzes whether it's more beneficial to pay more federal estate tax at the death of the first or second spouse to die. Includes powerful reporting and graphics capabilities.
Survivor Income Analysis	Price Waterhouse Financial Education Group 800-752-6234	$ 50.00	Information not available	A 10-15 page report that evaluates survivor income and insurance needs.
Vista	View Plan, Inc. 800-826-2127	$ 699.00	Information not available	Visual comparisons of estate planning strategies and "what if" scenario. Includes explanatory text and death tax calculations for 50 states. Demo disk available.

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Program	Distributor	Price	Annual Maintenance	Description
Charitable Giving Software				
Charitable Financial Planner	Brentmark Software, Inc. Contact: Gregory Kolojeski 800-879-6665	$ 349.00	$ 99.00	Calculates split-interest charitable transfers, charitable remainder and lead trusts, pooled income funds, and gift annuities. Includes presentation graphics.
Charitable Giving Solutions	ECTA Corporation Contact: Robert Fueman 215-540-0250	$ 300.00	$ 150.00	Compares the effect of various types of charitable trusts simultaneously. Built in graphics, forms, and helpful text.
Charitable Quick Plan	Kettley Publishing Contact: Russell Morgan 714-752-8613	$169.00	Information not available	Illustrates value of charitable gifts in the financial and estate planning process; calculates income tax deductions and illustrates replacing the gifted asset with a life insurance policy.
Charitable Scenario, The	Philanthrotec, Inc. Contact: Rita Weaver 800-332-7832	$ 1,895.00	$ 595.00	Determines income and tax consequences of almost any charitable gift, including cash flow, tax deductions generated, and any deduction limitation.
Crescendo Lite	Crescendo Software Contact: Ardis C. Schultz 800-858-9154	$ 250.00	$ 100.00	Ten programs illustrating planned giving. Calculations for charitable remainder trusts, GRATs, GRUTs, and QPRTs. Crescendo and Crescendo Plus include more programs.
Deduction Calculator, The	Philanthrotec, Inc. Contact: Rita Weaver 800-332-7832	$ 145.00	$ 50.00	Illustrates the tax deductions for any charitable technique. Creates a summary report suitable for submission with the donor's tax return.
EZ Gift Planner	Jane Schuck & Associates Contact: John or Jane Schuck 800-694-7624	$ 475.00	$ 99.00	Offers ease of use in calculating all major types of planned gifts, including income and tax benefits.
InsGift	InsMark, Inc. Contact: John Famsworth 510-866-1050	$ 349.00	$ 240.00	Gifting analysis program that evaluates qualified plans and determines if a client can afford to make irrevocable gifts. Shows the cumulative value of gifts at death.

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PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Paragon	Blackbaud MicroSystems, Inc. Contact: Mark Terrero 800-443-9441	$ 3,000.00	$ 600.00	Planned giving software. Calculates remainder values; compares up to 10 gift scenarios; explores charitable estate planning options; analyzes unitrust cash flow and asset growth; prepares proposals, graphs, and charts.
Remainder Trust Marketing System, The	Philanthrotec, Inc. Contact: Rita Weaver 800-332-7832	$ 695.00	$ 300.00	Illustrates the advantages of using a charitable remainder unitrust or annuity trust. Features cash flow illustrations, life insurance illustrations, tax analysis, and color graphics. Compares benefits of trust to keeping or selling an asset.

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PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
INVESTMENT PLANNING & ASSET ALLOCATION SOFTWARE				
Allocation Master	Frontier Analytics Contact: Randy King 619-552-1268	$ 495.00	$ 396.00	Windows-based portfolio optimization, asset allocation, and financial forecasting program. Considers client holdings, cash flows and taxes.
Asset Allocation Planner	Cheshire Software Contact: Eric Drogan 617-734-0100	$ 399.00	$ 120.00	Facilitates asset allocation decisions. Users can analyze current and prospective portfolios at a general level or using the investor's specific holdings in each asset category. Integrates with Cheshire's *Retirement Planner*.
Christopher A. Lowry's No-Load Net Funds Manager	No-Load Fund Shareholders Association, Inc. Contact: Christopher Lowry 800-966-5623	Call	Call	Database and electronic newsletter of over 500 no-load mutual funds. Information available via modem every Friday. Features MPT risk measures, returns up to five years, graphical presentations, and portfolio tracking capabilities.
Compliance Module	Financial Planning Consultants, Inc. Contact: Ed Morrow 800-666-1656	$ 325.00	Information not available	Includes regulations, forms, checklists, and other procedures for Registered Investment Advisers. Works with *Text Library System*.
Compu Trac	Dow Jones Telerate Software, Inc. 800-535-7990	$ 450.00 (starting price)	Information not available	Windows, DOS and Macintosh versions, starting at $450. Completely automated technical analysis software for stocks, futures, and funds. Optimizes and tests strategies for profitability and creates personal indicators.
Donoghue's Fund Wizard	Donoghue Group Contact: Tracy Torgerson 800-982-2455	$ 39.95	$ 299.00	Mutual fund tracking and analysis service including over 1,300 funds. Users can chart and analyze funds using the screening, ranking, and risk assessment capabilities, plus Donoghue's commentaries and recommendations.
EnCorr Analyzer	Ibbotson Associates Contact: Stanley Braxton 800-758-3557	$ 2,000.00	Information not available	Module of *EnCorr* system designed to analyze historical behavior of data, analyze and back test investment strategies, and create graphs, portfolios and benchmarks.

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PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
EnCorr Attribution	Ibbotson Associates Contact: Stanley Braxton 800-758-3557	$ 7,000.00	$ 4,000.00	Module of *EnCorr* system designed to analyze a manager's style over time and to attribute portfolio performance to investment decisions.
EnCorr Inputs Generator	Ibbotson Associates Contact: Stanley Braxton 800-758-3557	$ 3,500.00	$ 1,250.00	Module of *EnCorr* system designed for use in conjunction with EnCorr Analyzer to forecast expected return based on both historical data and current market conditions.
EnCorr Optimizer	Ibbotson Associates Contact: Stanley Braxton 800-758-3557	$ 3,500.00	$ 1,250.00	Module of *EnCorr* system designed to analyze the effects of diversification across asset lines and to create portfolios and project growth based on indicated risk and return.
Fundscope	The Planner's Edge Contact: Jeffrey Ross 800-859-8039	$ 74.95 per quarter or $ 39.95 per month	Subscription	Mutual fund information and performance analysis, updated monthly or quarterly. Presentation quality graphs easily created.
HySales	CDA/Wiesenberger Contact: Dawn Kahler 800-232-2285	$ 690.00	$ 690.00	Presentation software for investment professionals. Three databases (Open-end funds, closed-end funds, variable annuities) allow users to sort and screen funds, compare performance to over 100 indexes, and create presentations. Price is for first database; second is $300.00, third is $200.00.
Monocle	Manhattan Analytics Contact: Matthew Smith 800-251-3863	$ 249.00 with trading system $149.00 without	Information not available	Complete mutual fund analysis software. Features include quantitative and technical analysis, trading system, advanced fund timing, portfolio analysis, screening and ranking, graphics, and more.
Mutual Fund Expert	Steele Systems, Inc. Contact: Robert Blackmon 800-678-3863	Varies with version. Call for more information.	Varies with version. Call for more information.	*Personal*, *Professional* and *ProPlus* versions are available. Prices are based on version and update options (monthly, quarterly, or one-time). *Professional* and *ProPlus*: Over 30 years of data on over 8,000 mutual funds, including return, risk measures, sales charges and fees, assets, ratings, and averages. Data can be exported to spreadsheets. Features customizable reports.

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PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Mutual Fund Manager	Concepts Software, Inc. Contact: Bryan Woods 800-471-6800	$ 59.95	Information not available	Computes gain or loss on mutual fund share transactions under allowable IRS methods. Includes separate fund database with information on over 6,000 funds. **Special offer for PFP Section members: $49.**
Portfolio Strategist	Ibbotson Associates Contact: Stanley Braxton 800-758-3557	$ 900.00	Information not available	Integrates asset allocation and financial needs analysis in one system. Features include risk profile assessment, optimization, sensitivity analysis, historical data analysis, and portfolio planning.
Portfolio Strategist Plus	Ibbotson Associates Contact: Stanley Braxton 800-758-3557	$ 1,595.00	Information not available	Combines features of *Analyst* and *Portfolio Strategist*, integrating historical data analysis, taxes, portfolio optimization, and client portfolio information.
Principia	Morningstar, Inc. 800-735-0700	$ 395.00	See description	Screens and ranks funds available for mutual funds, closed end funds and variable annuities) and subaccounts. Tracks performance and risk, and makes fund comparisons. Price is for monthly updates; also $195 for quarterly or $95 for one-time updates.
TopVest	Savant Software, Inc. Contact: Richard Atkins 800-231-9900	$ 3,500.00	Information not available	Investment analysis software using integrated data base system.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

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PORTFOLIO MONITORING & MANAGEMENT SOFTWARE

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Allocation Master	Frontier Analytics Contact: Randy King 619-552-1268	$ 495.00	$ 396.00	Windows-based portfolio optimization, asset allocation, and financial forecasting program. Considers client holdings, cash flows and taxes.
AXYS	Advent Software Contact: Direct Response Team 800-727-0605	Call: Price varies with firm size and # of users	Call: Price varies with firm size and # of users	Comprehensive portfolio management system designed for large institutional money managers. Integrates portfolio accounting, real-time reporting, trading, order management on Windows and local area network platforms.
Balancing Act 1.12	TaskMaster Software Contact: Lee Crawford 800-477-3197	$ 259.00	Information not available	Portfolio rebalancing tool featuring user-defined asset classes, model names, and securities universe. Compatible with Schwablink, *Centerpiece*, *dbCAMS+*. Available in DOS and Windows format.
BPS-Fund Administration 6.3	Broker Portfolio Systems, Inc. Contact: Alan Mayer 800-437-7299	$ 6,000.00	Information not available	Portfolio tracking; net asset value for funds; historic appraisals; cash flow and bond maturity schedules. Available platforms: DOS, Windows, LAN, OS/2, Windows NT.
Broker Portfolio System 6.3	Broker Portfolio Systems, Inc. Contact: Alan Mayer 800-437-7299	$ 1,500.00	Information not available	Portfolio tracking; automatic downloading; asset allocation; time-weighted performance; invoicing for fee-based accounts. Available platforms: DOS, Windows, LANS, 0S/2, Windows NT.
Broker's Notebook	Quotron Systems, Inc. Contact: Rick Van Schoick 610-896-8780	$ 995.00	$ 200.00	Prospecting and portfolio management system. Tracks client activities and allows immediate access to holding, transaction and account data. Offers 800 user-defined objective codes, mass mailings, labels & envelopes.
Business Insurance & Planning	Financial Planning Systems Contact: Edward Cox 800-245-1991	$ 149.00	$ 45.00 per month	Insurance needs calculation program. Windows version due in early 1997.

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PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
CAPTOOL Professional Investor	Techserve, Inc. Contact: Elisabeth Bystrom 800-826-8082	$ 499.00	$ 200.00	Client and portfolio management system. Features reports that comply with AIMR standards and use time-weighted return on investment, fund swaps, color graphics, and customizable reports and statements. Automatic downloads with Schwab, DST, and others.
Centerpiece 4.0	Performance Technologies Inc. Contact: Mike Williams 800-528-9595	$ 895.00	$ 150.00	Portfolio management system featuring portfolio accounting, performance measurement, decision support, and custom client reporting. Full inventory of modem downloads. DOS platform.
Client/Asset Management System	National Datamax, Inc. Contact: Don Bowles 619-673-3300	$ 695.00	$ 95.00	Integrated client, prospect and portfolio management tools. Tracks most investment types and generates various portfolio reports. Interfaces with *Datamax Account Information System* for electronic portfolio updates.
Client Data System	EZ Data, Inc. Contact: Joseph Paul 800-777-9188	$ 998.00	$ 360.00	Features client tracking, list and contact management, query functions, notepad, word processor, action calendar, asset management, and portfolio performance reporting. DST interface for securities price downloads and portfolio value updates. Windows or DOS.
Datamax Account Information System	National Datamax, Inc. Contact: Don Bowles 619-673-3300	$ 250.00 set up fee plus monthly fees	Subscription	Downloads client transaction and position data from DST, clearing firms, mutual fund direct downloads, and other sources. Reports include account information, transaction histories, asset cross references, and account reconciliation reports.
dbCAMS+	Financial Computer Support, Inc. Contact: Karyn Seilhamer 301-334-1800	$ 1,495.00	$ 75.00 monthly dues	Comprehensive software package for tracking prospects, clients, assets, and portfolios. Handles many practice management issues. Electronic interface with many financial planning software packages and other systems. IBM and compatibles.

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Program	Distributor	Price	Annual Maintenance	Description
Investment Scenario Generator	Brentmark Software, Inc. Contact: Gregory Kolojeski 800-879-6665	$ 299.00	$ 99.00	Portfolio optimization program that balances client investments with retirement needs and goals. **Free demonstration disk.**
Investment Tracking	Financial Planning Systems Contact: Edward Cox 800-245-1991	$ 149.00	$ 45.00 per month	Produces simple performance reports or updates on portfolio results. Globally updates all portfolios based on user input. Interface with stock databases. Windows version due in early 1997.
LaPorte Asset Allocation	Burlington Hall Asset Mgmt., Inc. Contact: Richard Oberuc 908-852-1694	$ 1,975.00	$ 1,975.00	Portfolio optimization software featuring access to multiple fund and manager data bases, performance searches, and report and graphic capability.
LaPorte Mutual Fund Database	Burlington Hall Asset Mgmt., Inc. Contact: Richard Oberuc 908-852-1694	$ 850.00	$ 850.00	Monthly data for over 6,000 mutual funds.
M-Search	Mobius Group Contact: Tony Babich 800-632-3044	$ 4,750.00 starting price; call for more details	$ 4,750.00 starting price; call for more details	Data on more than 1,000 large and small private asset management companies with 3,700 composites featuring a variety of analytical statistics includes breakdowns on 25 different management styles. Updated quarterly.
M-Watch Performance Reporting System	Mobius Group Contact: Tony Babich 800-632-3044	$ 2,000.00 starting price; call for more details	$ 2,000.00 starting price; call for more details	Windows-based program facilitating the retrieval and analysis of data on over 1,200 institutional money managers and 4,400 composites. Features searches based on 350 different criteria, performance comparisons against market indices and style.
MicroShaw	Shaw Micro Data Contact: Deborah Yamin 212-682-8877	$ 7,500.00	$ 1,800.00	For large institutional asset managers. Features trading links, automatic securities updates, and attribution reporting. Additional modules and pricing updates are available for an additional charge.

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Program	Distributor	Price	Annual Maintenance	Description
Money Tools	Money Tree Software Contact: Mike Vitkauskas 541-929-2140	$ 250.00	$ 75.00	Client database and tracking system, with asset management capabilities designed for users who don't need pricing updates over the modem. Globally updates portfolios from price input.
MOXY	Advent Software Contact: Michael Morini 415-543-7696	Call	Call	Works with *AXYS*; offers Windows-based trading and order management capabilities to automate order preparation for asset managers.
Mutual Fund Investor	The Planner's Edge Contact: Jeffrey Ross 800-859-8039	$ 895.00	Information not available	Portfolio management system using posted client transactions to generate rate of return analyses, asset allocations, performance results, tax basis, and other reports. Downloads prices and other information by modem or from *Fundscope*.
Mutual Fund Manager	National Datamax, Inc. Contact: Don Bowles 619-673-3300	$ 50.00 per quarter or $ 25.00 per month	$ 50.00 per quarter or $ 25.00 per month	Performance data for approximately 5,000 mutual funds, updated monthy or quarterly. Features single page monitor reports, side-by-side fund comparisons, portfolio comparison, color graphics, laser quality reports.
PEAKWIN	Springwater Software Systems Contact: Bill Munro 800-354-1548	$ 400.00	$ 125.00	Windows-based client and portfolio management system. Features global updates on prices and dividends, asset allocation capabilities, and modem interfaces. Requires *Paradox* database.
Portfolio Strategist	Ibbotson Associates Contact: Stanley Braxton 800-758-3557	$ 900.00	Information not available	Integrates asset allocation and financial needs analysis in one system. Features include risk profile assessment, optimization, sensitivity analysis, historical data analysis, and portfolio planning.
Portfolio Strategist Plus	Ibbotson Associates Contact: Stanley Braxton 800-758-3557	$ 1,595.00	Information not available	Combines features of Ibbotson's *Analyst* and *Portfolio Strategist*, integrating historical data analysis, taxes, portfolio optimization, and client portfolio information.

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PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Portfolio Tracker	RAM Technologies Contact: Bruce Ramsey 905-795-9222 (Ontario, Canada)	$ 575.00	Information not available	Menu-driven program designed to track client investments and generate a range of reports on current value and performance.
Power Center	Wilson Associates, International Contact: Philip Wilson 303-750-5535	$ 600.00	Information not available	Includes *Power Optimizer*, *Analytics*, *Hypotheticals* and *Variable Selector* programs. Offers interactive computer models to analyze risk and return characteristics of investment portfolios over specified time periods.
QPLAN	QPLAN, LP 203-356-1910	$ 1,750.00	$ 900.00	Windows-based tool featuring a centralized database of client information, sophisticated estate planning projections, and comprehensive financial spreadsheets. LAN version and securities download also available.
RAMCAP	Wilson Associates, International Contact: Philip Wilson 303-750-5535	$ 595.00	$ 400.00	Summarizes historical data and performs optimization analyses for 115 asset classes, including calculating the Sharpe Ratio for the optimized portfolio. Does not interface with Wilson's other databases.
Research Analyst	RAM Technologies Contact: Bruce Ramsey 905-795-9222 (Ontario, Canada)	$ 399.00	Information not available	Windows-based analysis sorts stocks by 65 screening variables, including price, EPS, yield, P/E ratio,and book value. Graphs historical information. Updated monthly.
Stock & Industry Monitor	National Datamax, Inc. Contact: Don Bowles 619-673-3300	$ 75.00 per quarter or $ 40.00 per month	$ 75.00 per quarter or $ 40.00 per month	Performance data for over 5,100 securities, updated monthy or quarterly. Features stock and industry analysis programs, side-by-side comparisons, laser quality reports.
Tax Tracker	No-Load Fund Shareholders Association, Inc. Contact: Christopher Lowry 800-966-5623	$ 48.00	Information not available	Portfolio management software that tracks all activity in a portfolio of up to 100 funds. Can print up to the minute tax summary.
Total Manager	Wilson Associates, International Contact: Philip Wilson 303-750-5535	$ 1,995.00	$ 888.00	Portfolio management software that provides client and prospect management, asset/investment tracking and reporting, order entry, and transaction processing.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

COMPILED BY AMERICAN INSTITUTE OF CPAS PERSONAL FINANCIAL PLANNING

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Total Planner	Wilson Associates, International Contact: Philip Wilson 303-750-5535	$ 1,495.00	$ 888.00	Features client database with comprehensive and summary planning capability, client review, and tax and cash flow projections.
Total Resource	Wilson Associates, International Contact: Philip Wilson 303-750-5535	$ 2,495.00	$ 1,556.00	Integrated client management and financial planning system. Features comprehensive and summary planning, investment tracking, asset allocation, portfolio management and compliance and commission tracking. Options for downloading of prices and transactions.
Trades & Compliance	Philibert Software Group Contact: Rocky Philibert 404-667-3001	$ 295.00	Information not available	Tracks client's positions and produces compliance reports, as well as mailing labels and telephone lists.
Variable Annuity Manager	National Datamax, Inc. Contact: Don Bowles 619-673-3300	$ 50.00 per quarter or $ 25.00 per month	$ 50.00 per quarter or $ 25.00 per month	Performance data for over 2,400 variable annuities, variable life subaccounts and other variable products, updated monthy or quarterly. Features side-by-side comparisons, portfolio comparisons, color graphics, laser quality reports.
Variable Selector Professional	Wilson Associates, International Contact: Philip Wilson 303-750-5535	$ 495.00	$ 495.00	Stock and mutual fund search and analysis program which can be purchased bundled in *Power Center*. Maintenance fee includes mutual fund history and mutual fund databases covering more than 3,000 funds and 215 asset classes. Additional databases available.
Wilson Total Office	Wilson Associates, International Contact: Philip Wilson 303-750-5535	$ 2,995.00	Information not available	Financial planning, investment tracking, portfolio management, asset allocation, mutual fund hypotheticals, and financial text for inclusion in reports and letters.

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PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
RISK MANAGEMENT / INSURANCE PLANNING SOFTWARE				
Classic Concepts	Impact Technologies Group, Inc. Contact: Heather Keziah 800-438-6017	$ 75.00	Information not available	Compares various insurance products. Features include: analysis of term vs. permanent insurance; internal rate of return; family split dollar; and pension maximization.
FinPack	Financial Data Planning Corp. Contact: Chris Stroud 800-337-2677	$ 595.00 (Windows) $ 295.00 (DOS)	Information not available	Modular systems handles financial profiling and analysis, including survivor needs, retirement, disability, education and estate planning. Also performs cash flow and tax projections.
Impact Needs	Impact Technologies Group, Inc. Contact: Heather Keziah 800-438-6017	$ 60.00	Information not available	Performs basic insurance needs analysis. Also considers retirement, education and survivorship issues.
PFP Partner	American Institute of CPAs Contact: AICPA Order Dept. 800-862-4272, option # 1	$ 655.00	None	Integrated cash flow, insurance needs analysis, retirement planning, and goal funding software. Features flexible funding analyses, projections of cash flow and net worth, reporting and graphics capabilities. **Discounts for AICPA and PFP section members.**
Profiles+	Financial Profiles, Inc Contact: Marketing Department 619-237-6335	$ 995.00	Information not available	Integrated client management and planning program. Emphasis on insurance issues and concepts in business and estate planning. Modular and comprehensive planning capabilities for individual clients and business owners.
STEP 1	Sterling Wentworth Corp. Contact: Chad Gardner 800-752-6637	$ 695.00	Information not available	Personal needs analysis to assist in implementing financial services products. Modular analysis with a sales presentation format.
UniScreen II	Philibert Software Group Contact: Rocky Philibert 404-667-3001	$ 750.00	Information not available	Designed for insurance professionals to help clients make decisions with regard to life insurance, individual, business, estate and investment planning.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

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OTHER PLANNING SOFTWARE

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Biz-Kit	Leimberg & LeClair, Inc. Contact: Kathy Maphis 610-527-5216	$ 250.00	Information not available	Helps planners value a business, project value to illustrate future growth, and analyze its financial health with 50 key ratios. Built-in graphics.
Business System	Financial Planning Consultants, Inc. Contact: Ed Morrow 800-666-1656	$ 199.00	Information not available	Business valuation software for estate planning and other purposes. Features IRS accepted formulas, background text, and tutorial.
Fiduciary Accounting for Trusts and Estates	Thompson Publishing 800-323-1336	$ 700.00	Information not available	Develop reports that complies with National Fiduciary Accounting Standards and meet other reporting needs, including reports for active businesses, bank reconciliations, and depreciation. Multi-user version available.
Financial Calculator	Leimberg Associates, Inc. Contact: Kathy Maphis 610-527-5216	$ 250.00	Information not available	Performs essential financial calculations faster and easier. Over 50 different computations to solve your clients' mortgage, investment, finance, loan, and depreciation issues.
Financial Manager	Specialty Software Contact: Ray Whittemore 503-753-6526	$ 69.95	Information not available	Spreadsheet templates. Planning modules (22) include retirement and estate planning, estimated income needs, education funding, tax-deferred vs. taxable savings, financial calculator, checkbook, and others. Requires spreadsheet program.
FP Tools	IFDS Enterprises Contact: Richard Wells 800-554-8004	$ 49.00 to $ 699.00 per module. Call for details.	Call	A series of 15 individual programs that address topics such as mortgage refinancing, mortgage acceleration, retirement planning, education funding, life insurance needs, budgeting, break even, and purchasing power analysis.
IRS Factors Calculator	Brentmark Software, Inc. Contact: Gregory Kolojeski 800-879-6665	$ 99.00	$ 39.00	Calculates value of annuities, life estates, and remainder interest. Also handles GRITs, GRATs, and GRUTs.
NEXT $	Sterling Wentworth Corp. Contact: Chad Gardner 800-752-6637	$ 695.00	Information not available	Designed to assist self-employed clients deal with business valuation, buy-sell arrangements, and other issues.

Personal Financial Planning Software List

Compiled by American Institute of CPAs Personal Financial Planning

Program	Distributor	Price	Annual Maintenance	Description
Real Estate Investors Spreadsheet	BNA Software Contact: Kitty Richards 800-424-2938	$ 395.00	$ 245.00	Evaluates real estate investments based on current operating data & projected returns. Shows cash flow and rate of return for up to 40 years; computes depreciation and loan amortization; applies passive loss and credit limitations; generates financial statements.
Ryan Financial Planning Software Programs	Ryan Software, Inc. Contact: Edward D. Ryan 914-633-0130	$ 45.00 per module	Information not available	Modular Lotus 1-2-3 templates, including retirement and cash flow, estate tax, lump sum/rollover, investment planning, retirement distribution, cash flow for the non-retiree, and income tax analysis. Priced at $45 each.
Smart Planner	Financial Planning Information, Inc. Contact: Pauline Kelly 617-924-6611	$ 20.00 per report	Information not available	Nonqualitative financial planning overview report for prospective or new clients. Service bureau prepares basic recommendations and worksheets based on client-completed questionnaire submitted by planner.

Personal Financial Planning Software List

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Program	Distributor	Price	Annual Maintenance	Description
Presentation & Marketing Software				
Analyst	Ibbotson Associates Contact: Stanley Braxton 800-758-3557	\$ 595.00 starting price	Information not available	Integrates historical data on capital markets to generate graphs, charts and tables of statistical data, and demonstrate risk/return tradeoff. Customized analysis capabilities.
Back Room Technician	Kettley Publishing Contact: Russell Morgan 714-752-8613	\$ 199.00	\$ 75.00	Creates 1-2 page client reports on over 200 different tax, legal and insurance topics. Updated twice each year.
Estate Planner's Six-Pack	Kettley Publishing Contact: Russell Morgan 714-752-8613	\$ 150.00	Information not available	Marketing program to generate referrals from "gift" disks. Customizable disks include fact finders and request forms on estate planning topics which can be completed and returned to you for analysis. Unlimited distribution rights.
Estate Planning Explorer	Thompson Publishing 800-323-1336	\$ 200.00	Information not available	Price is for a ten-pack of marketing software that enables prospective clients to project their estate tax liability by entering personal information. Customized with planner's name and phone number.
Estate Planning Concepts	Thompson Publishing 800-323-1336	\$ 295.00	Information not available	Windows-based presentation software designed to help explain the impact and analysis of various estate planning strategies. Features graphic presentations and clear explanations. Multi-user version available.
Estate Tax Concepts for Windows	Impact Technologies Group, Inc. Contact: Heather Keziah 800-438-6017	\$ 249.00	Information not available	Interactive presentation software. Features "what if" calculations with minimal data entry.
Estate Tax Explorer	Impact Technologies Group, Inc. Contact: Heather Keziah 800-438-6017	\$ 129.00	Information not available	A software marketing tool, designed to be copied and distributed to clients, enabling them to discover their unique estate planning issues.
Financial Planner's Six-Pack	Kettley Publishing Contact: Russell Morgan 714-752-8613	\$ 150.00	Information not available	Marketing program to generate referrals from "gift" disks. Customizable disks include fact finders and request forms which can be completed and returned to you for analysis. Unlimited distribution rights.

Personal Financial Planning Software List

Compiled by American Institute of CPAs Personal Financial Planning

Program	Distributor	Price	Annual Maintenance	Description
Financial Planning Presentation	Financial Planning Consultants, Inc. Contact: Ed Morrow 800-666-1656	$ 395.00	Information not available	Customizable presentation software for comprehensive or modular financial planning services. Includes marketing suggestions and editing guide. Uses Microsoft *PowerPoint*.
How to Retire Worry Free	Harvest-Time Contact: Mike Molina 702-433-2695	$ 1,250.00	Information not available	Interactive seminar software with information on all aspects of retirement planning. Compatible with Harvest-Time's *Retirement Planning Software*.
InsMark System, The	InsMark, Inc. Contact: John Famsworth 510-866-1050	$ 399.00	Information not available	Life insurance presentation software. Illustrates insurance needs, pension add-ons, combinations between cash value and term policies and various capital accumulation projects.
M-Preps	Mobius Group Contact: Tony Babich 800-632-3044	$ 200.00	$ 480.00	Windows-based presentation software featuring a variety of reports capable of side-by-side comparisons of current and several alternative investment allocations.
Path Presentation	Sterling Wentworth Corp. Contact: Chad Gardner 800-752-6637	$ 129.00 starting price	$ 39.00 starting price	Interactive sales presentation system that produces on-screen and printed presentations in more than 20 different areas of financial services marketing.
Picture This	Financial Profiles, Inc Contact: Marketing Department 619-237-6335	$ 325.00	Information not available	Presentation software library covering over 160 financial planning concepts. Includes concepts on the approach, wealth accumulation, risk management, business issues, and the closing interview. Graphics capabilities.
SAFE Start	IFS Systems Inc. Contact: Wes Fowler 404-952-4721	$ 595.00	$ 400.00	Produces needs-based presentations, product illustrations with mutual funds and variable annuities, asset allocation, asset class, and fund performance. Features client and prospect management tools. Windows-based.
Tracking and Marketing	Financial Planning Consultants, Inc. Contact: Ed Morrow 800-666-1656	$ 179.00	Information not available	Works with *Text Library System* to generate marketing letters and other promotional material.

PERSONAL FINANCIAL PLANNING SOFTWARE LIST

COMPILED BY AMERICAN INSTITUTE OF CPAS PERSONAL FINANCIAL PLANNING

CLIENT & PRACTICE MANAGEMENT SOFTWARE

PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
Client/Asset Management System	National Datamax, Inc. Contact: Don Bowles 619-673-3300	$ 695.00	$ 95.00	Integrated client, prospect and portfolio management tools. Tracks most investment types and generates various portfolio reports. Interfaces with Datamax Account Information System for electronic portfolio updates.
dbCAMS+	Financial Computer Support, Inc. Contact: Karyn Seilhamer 301-334-1800	$ 1,495.00	$ 75.00 monthly dues	Comprehensive software package for tracking prospects, clients, assets, and portfolios. Handles many practice management issues. Electronic interface with many financial planning software packages and other systems. IBM and compatibles
Money Tools	Money Tree Software Contact: Mike Vitkauskas 541-929-2140	$ 250.00	$ 75.00	Client database and tracking system, with asset management capabilities designed for users who don't need pricing updates over the modem. Globally updates portfolios from price input.
PEAKWIN	Springwater Software Systems Contact: Bill Munro 800-354-1548	$ 400.00	$ 125.00	Windows-based client and portfolio management system. Features global updates on prices and dividends, asset allocation capabilities, and modem interfaces. Requires *Paradox* database.
Text Library System	Financial Planning Consultants, Inc. Contact: Ed Morrow 800-666-1656	$ 395.00	$ 95.00	Program for text communications; includes letters, text documents, meeting & presentation agendas, pre-formatted interview notes, practice management checklists, and a master checklist of over 700 planning techniques. Network version available.
Wilson Total Office	Wilson Associates, International Contact: Philip Wilson 303-750-5535	$ 2,995.00	Information not available	Financial planning, investment tracking, portfolio management, asset allocation, mutual fund hypotheticals, and financial text for inclusion in reports and letters.

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PROGRAM	DISTRIBUTOR	PRICE	ANNUAL MAINTENANCE	DESCRIPTION
TEXT PROCESSING SOFTWARE				
Back Room Technician	Kettley Publishing Contact: Russell Morgan 714-752-8613	$ 199.00	$ 75.00	Creates 1-2 page client reports on over 200 different tax, legal and insurance topics. Program is updated twice each year.
Contracts on Computer	Philibert Software Group Contact: Rocky Philibert 404-667-3001	$ 175.00	Information not available	Collection of illustrative business documents, including buy-sell, deferred compensation, split dollar, and life insurance trusts. Each includes an overview and cover page.
Documents on a Disk	InsMark, Inc. Contact: John Famsworth 510-866-1050	$ 299.00	Information not available	Insurance-related contracts, proposals and agreements related to more than 226 specimen documents, 37 multi-life joiner agreements, buy-sell agreements, split-dollar and deferred compensation concepts. Summary page of plan highlights.
FastPlan Text Library	Abacus Data Systems Contact: Brian Blackstone 800-726-3339	$ 295.00	Information not available	Includes ASCII text files adapted and compiled for financial plans.
Text Library System	Financial Planning Consultants, Inc. Contact: Ed Morrow 800-666-1656	$ 395.00	$ 95.00	Program for text communications; includes letters, text documents, meeting & presentation agendas, pre-formatted interview notes, practice management checklists, and a master checklist of over 700 planning techniques. Network version available.

BOOKS AND PERIODICALS

The following list summarizes many of the currently available books, journals, periodicals, newsletters, and services of interest to CPAs offering PFP services. The listing is not all-inclusive and the publications included here, other than those published by the AICPA, have not been reviewed or evaluated by the AICPA or any of its committees or subcommittees. Accordingly, the inclusion of an item here should not be construed as an express or implied endoursement of suitability. This list will be updated in future editions of this handbook.

SERVICES

Estate Planning & Taxation Coordinator. The Research Institute of America.

Executive Compensation and Taxation Coordinator. The Research Institute of America.

Financial and Estate Planning. Commerce Clearing House.

Financial Planning. Prentice-Hall, Inc.

Fringe Benefits Tax Guide. Commerce Clearing House.

Individual Retirement Plans Guide. Commerce Clearing House.

Moody's. Moody's Investors Service.

Pension and Profit Sharing Reports. Prentice-Hall, Inc.

Pension Plan Guide. Commerce Clearing House.

Real Estate Coordinator. The Research Institute of America.

Tax Planning Strategies. Callaghan and Co.

Tax Management Financial Planning. The Bureau of National Affairs, Inc.

Tax Management Estates, Gifts and Trust. The Bureau of National Affairs, Inc.

Tax Planning for the Highly Compensated Individual. Warren, Gorham & Lamont, Inc.

Taxation for Financial Planning. The National Underwriter Co., Inc.

The Stanger Report. Robert A. Stanger and Co.

Value Line Investment Survey. Value Line, Inc.

NEWSLETTERS

Ernst & Young Financial Planning Reporter. Ernst & Young LLP.

The Gourgues Report. Harold W. Gourgues Co., Inc.

The Kiplinger Tax Letter. The Kiplinger Washington Editors, Inc.

Mutual Fund Forecaster. Institute for Econometric Research.

Planner. American Institute of Certified Public Accountants.

Real Estate Investment Ideas. The Research Institute of America.

Review of Taxation of Individuals. Warren, Gorham & Lamont, Inc.

Tax Hotline. Board Room Reports, Inc.

JOURNALS AND PERIODICALS

The AAII Journal. American Association of Individual Investors.

Barron's. Dow Jones-Irwin.

Best's Review: Life/Health Insurance Edition. A.M. Best Co., Inc.

Best's Review: Property/Casualty Insurance Edition. A.M. Best Co., Inc.

Business Week. McGraw-Hill Book Co., Inc.

Changing Times. The Kiplinger Washington Editors, Inc.

Compensation Planning Journal. The Bureau of National Affairs, Inc.

Estate Planning. Warren, Gorham & Lamont, Inc.

Estates, Gifts and Trusts Journal. Tax Management, Inc.

Fee Advisor. Dow Jones Financial Publishing Corp.

Financial Planning. International Association for Financial Planning, Inc.

Financial World. Financial World Partners.

Financial Strategies. Financial Service Corp.

Forbes. Forbes, Inc.

Fortune. Time, Inc.

Investment Advisor. Dow Jones Financial Publishing Corp.

Investor's Daily. Investor's Daily.

Journal of Financial Planning. Institute of Certified Financial Planners.

Journal of Real Estate Taxation. Warren, Gorham & Lamont, Inc.

Journal of Taxation of Investments. Warren, Gorham & Lamont, Inc.

Money Magazine. Time, Inc.

Personal Financial Planning. Warren, Gorham & Lamont, Inc.

Practical Financial Planning. Matthew Bender & Co., Inc.

Real Estate Tax Ideas. Warren, Gorham & Lamont, Inc.

Registered Representative. Plaza Communications, Inc.

Review of Taxation of Individuals. Warren, Gorham & Lamont, Inc.

The Tax Adviser. American Institute of Certified Public Accountants, Inc.

Tax Management Financial Planning Journal. The Bureau of National Affairs, Inc.

Trusts and Estates. Communications Channel, Inc.

Wall Street Journal. Dow Jones-Irwin.

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The following are published seminar scripts, with slides, that may be appropriate for presentations to civic groups, professional organizations, executives, and other potential clients. The listing is not all-inclusive and the products included here, other than those published by the AICPA, have not been reviewed or evaluated by the AICPA or any of its committees or subcommittees. Accordingly, the inclusion of an item here should not be construed as an express or implied endorsement of its suitability. This list will be updated in future editions of this handbook.

- *The Complete FINANCIAL MANAGEMENT WORKSHOP.* Emerald Publications, San Diego, CA. (619) 592-6262.

- *Building Your Financial Pyramid.* Stock Financial Services, Houston, TX. (713) 486-9688.

- *PFP Workshop.* LINC, Inc., Nashville, TN. (615) 242-7351.

- *Financial Planning in a Complex World.* American Institute of CPAs, New York, NY. (800) 862-4272, option #1 (Order Department).

- *Goal Oriented Personal Financial Planning.* Mayer, Hoffman & McCann, Kansas City, MO. (816) 968-1000.

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