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American Institute of Certified Public Accountants (AICPA)

JUNE/JULY 1988

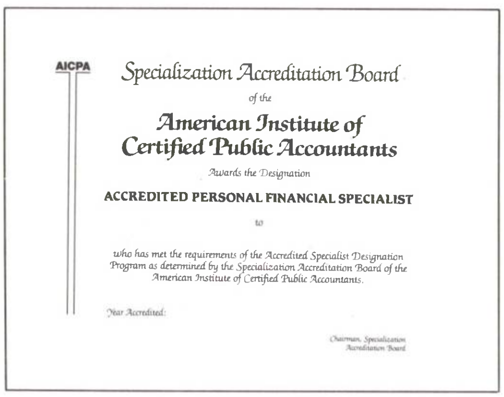
THE PLANNER

THE NEWSLETTER FOR THE AICPA PERSONAL FINANCIAL PLANNING DIVISION

Strong Interest in PFP Specialist Designation

Over 900 CPAs have requested application packages for the September 30, 1988, APFS examination. The one-day examination will be given at various locations including New York City, Boston, Chicago, Nashville, Denver, Minneapolis, and Farmington Hills, Michigan. Information about additional sites will be available in July. State societies interested in serving as examination sites should contact Ken Jackson, AICPA staff for the accredited specialist designation program, at (212) 575-6458.

The Specialization Accreditation Board of the AICPA has decided to send state societies a current list of accredited personal financial specialists in their state instead of publishing a directory. Beginning with the September 30, 1988, APFS examination, the Board will send state societies a list of CPAs in their state who successfully completed the examination.


AICPA

Specialization Accreditation Board

of the

American Institute of Certified Public Accountants

Awards the Designation

ACCREDITED PERSONAL FINANCIAL SPECIALIST

to

who has met the requirements of the Accredited Specialist Designation Program as determined by the Specialization Accreditation Board of the American Institute of Certified Public Accountants.

Year Accredited:

Chairman, Specialization Accreditation Board

The deadline for applying for the 1988 examination is August 15. This is a change from the information reported in the February/March 1988 issue of *The Planner*. To receive the requirements for the APFS designation, a content outline of the examination, and an application package, write the AICPA, Accredited Specialist Designation Program, P. O. Box 1017, New York, N.Y. 10108 or call (212) 575-3860.

Preparing for the APFS Exam

By Dirk L. Edwards, CPA/APFS, member of the PFP Practice Subcommittee and partner in Edwards & Meyers, Portland, Oregon

In recent years, our firm has evolved into a practice that provides primarily personal financial planning services. Although our clients represent a spectrum of financial backgrounds, they all have a common need for in-depth, comprehensive personal financial planning.

Wanting to stay on the forefront of planning within our profession, I decided to sit for the specialist designation exam last fall in Denver. The exam presented the challenge of testing my overall planning knowledge and abilities, plus the opportunity to receive the professional recognition of the APFS. We also expect a marketing edge with the designation.

The six-hour exam is divided between a morning session of true or false, multiple choice, and short essay questions and an afternoon round of case-study presentations.

The closed-book exam tests the CPA's working knowledge, in a personal financial planning context, of each area covered. These are the same topics a CPA would address in assisting a client in the development of a comprehensive financial plan: cash flow management, estate planning, in-

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WHAT'S INSIDE

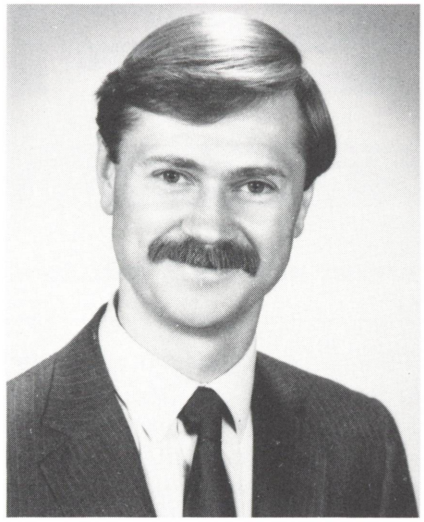
come-tax planning, risk management, goal funding, and investment planning.

I approached the exam as if it was an actual planning engagement with a client. The case-study questions presented factual settings to which I applied the planning techniques we use with our clients. There were often no right or wrong answers; the questions required the exercise of professional judgment while exploring alternatives. As in a client situation, I tried to identify the major planning issues and then assist in setting goals, discussing alternative courses of action, and developing a plan of action.

In preparing for the exam, I gathered together the three primary practice aids we use in our office: the AICPA PFP Division *Manual*, PPC's *Guide to Personal Financial Planning*, and BNA's loose leaf service on financial planning. For three weekends before the test, I spent approximately eight hours on each weekend reading the AICPA *Manual* and the *PPC Guide* cover to cover. My intent was not the development of in-depth knowledge in various subject areas, but rather an overall awareness of various tools and techniques that we had not been using in our planning engagements. As areas came up, I kept a list of topics to explore further. After developing this master list, I turned to the BNA materials to develop a stronger working knowledge of the topic. Finally, on the day before the exam, I reviewed the topical outlines in the *Manual* and my listing of additional areas.

In some respects the specialization exam is similar to the CPA exam. Both cover a broad spectrum of topical areas, have clear time constraints, and require a systematic, written response to each question, which was not as difficult as I had anticipated, having spent years developing a dictation skill.

I found, however, that the intent of the exam did not parallel a scholastic setting, but rather the normal operating constraints of a planning engagement. The exam questions required judgments similar to those required in practice, such as how many alternatives to present, keeping in mind time constraints, which are also billing constraints in practice. The questions also required the application of specific technical skills to a problem, such as using an ESOP or outlining the potential estate tax liabilities.



Dirk L. Edwards, one of the first recipients of the AICPA's Accredited Personal Financial Specialist designation.

A number of different groups plan to offer review courses before the September 30 exam. Working with a group to overview the exam process and possible test areas may give assurance to some candidates. In my experience, however, there is no substitute for actual practice background and the broad base of knowledge needed to help clients in the planning arena. For example, a detailed knowledge of the tax-free exchange provisions for life insurance was not as useful to me as the ability to put into context the conflicting client needs of cash management and advanced funding of college expenses versus liquidity and estate-tax funding needs.

The exam tested for sufficient expertise in all of the major planning areas required in comprehensive planning engagements. The exam is challenging, but remember, 94 candidates have passed.

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Director of Technical Information

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Editor

AICPA

Tuition Funding Developments

By Seth L. Starr, CPA, CFP, tax manager at Ernst & Whinney, New York, New York

Tuition costs have grown substantially over the last few years. The average private school has seen its tuition increase more than ten percent a year since 1980. The Education Department estimates that by the year 2007, the total cost of a four-year college program will exceed $60,000 for a public university and $200,000 for a private university. In addition, the government has cut funds available for student loans and made the qualifying requirements more stringent. For many clients, funding their children's tuition is their number one financial objective; parents, therefore, are becoming increasingly concerned that they will not have enough savings to meet their children's college expenses.

In recent months certain financial institutions, the federal government, and the states have examined investment vehicles designed especially to offset increasing college costs.

College Certificates of Deposit

The College Savings Bank of Princeton, N.J., has recently introduced a guaranteed certificate of deposit called the College Sure C.D. The rate of interest on this new C.D. fluctuates based on an index of tuition inflation at a group of 500 private colleges. The bank promises that, at maturity, the money will have kept pace with tuition inflation; therefore, if the client originally financed 25 percent of the education costs, his money should grow to a fund that will allow him to subsidize approximately that portion of the expense. For tax purposes, the interest is included in ordinary taxable income, just like that of other C.D.'s.

Parents can purchase an insured College Sure C.D. for any portion of their children's college costs. The amount needed for the initial deposit depends upon the child's age, the anticipated choice of college, estimated tuition charges, and the portion of the expense the parents want to finance. Alternatively, parents can make a smaller initial deposit and then add to it regularly.

Information about the College Sure C.D. is available from College Savings Bank, 5 Vaughn Drive, Princeton, NJ 08540 or by calling (800) 888-2723. These C.D.'s are also available through Paine Webber.

Federal Proposals

If enacted, proposed legislation in Congress would make the interest on Series EE Savings Bonds tax-free for families earning up to $60,000 a year, if the bond proceeds go directly into college tuition. The income limit would be based on the parents' income if the student was claimed as a dependent by his parents in any of the prior three years. Otherwise, it would apply to the child's own income.

State Proposals

Wyoming, Florida, Indiana, Maine, Michigan and Tennessee are in the process of introducing tuition guarantee trust fund programs for the benefit of residents who send their children to state public colleges. Under the proposals, parents would make a deposit into the fund to cover anticipated college costs. The state guarantees that the money deposited will cover the tuition costs, even if the tuition expense growth exceeds that of the investment. The state plans differ about what happens if the child attends a different school, or does not continue his education. The IRS is currently reviewing the tax treatment of these state tuition trust plans.

Other state and federal education funding programs are being considered, such as tax-deductible contributions to education savings plans and tax-exempt savings bonds. The CPA financial planner should keep aware of developments in this important area.

PFP Division Activities Expand as Membership Grows

With a membership of over 9,000 CPAs, the PFP Division focuses its activities on services to help members expand their PFP practices.

National Awareness Publicity Program

The Division has an ongoing campaign to increase the public's awareness of CPAs' PFP services. In addition to advertisements in national magazines, the publicity program has expanded the media coverage of CPAs' financial planning services. A large cross section of CPA planners has been quoted and featured in a variety of consumer, business, and trade publications. Topics included how to choose a financial planner, elements of financial planning, insurance, taxes, retirement issues, investments, the new AICPA specialty des-

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ignation, and financial makeovers. Articles have appeared in *The Wall Street Journal, The Washington Post, USA Today, the Miami Herald, Business Week,* and other publications.

Investment Planning Task Force

The PFP Executive Committee formed an investment planning task force to identify methods CPAs use to provide investment planning to PFP clients. The task force is outlining the investment planning process and plans to incorporate that material in the investment planning module of the *Personal Financial Planning Manual.*

Roundtable on Regulation and Legislative Issues

A roundtable meeting, held on April 22, 1988, addressed concerns about the SEC staff's interpretations of the Investment Adviser's Act and the proliferation of state legislative efforts to regulate PFP. Participants included the PFP Executive Committee and the PFP Legislation and Regulation Subcommittee and members' legal counsels, as well as invited guests. The participants discussed actions the profession could take to prevent CPAs from being subject to unnecessary regulation. They encouraged dialogue with the SEC staff and agreed that a cooperative effort, organized through the AICPA's State Legislative Division, was needed to deal effectively with state legislation.

PFP Roundtable

The Division will sponsor the fourth annual PFP State Society Roundtable on November 2, 1988. The roundtable enables the chairmen of state society PFP committees to discuss the activities of the AICPA PFP Division and to share their ideas for assisting members in developing their PFP practice area.

National Technical Symposium

The overflow attendance and high ratings of the Division's first National Technical Symposium last fall encouraged the Symposium Advisory Committee to expand the Symposium in 1988. Scheduled for October 31 and November 1 in San Francisco, it will have more concurrent technical sessions.

Other Activities

The Planner continues to provide Division members with news, technical topics, and practice development tips of interest to CPAs providing PFP services.

In addition to expanding the Division's *Personal Financial Planning Manual* to two volumes, the PFP Practice Subcommittee is developing a practice aid on existing professional standards that relate to PFP services.

The PFP Professional Education Subcommittee worked closely with the CPE Division to inaugurate the PFP Certificate of Educational Achievement Program, a series of seven integrated courses.

At the request of the Specialization Accreditation Board, the Division developed a practice review questionnaire that accredited personal financial specialists will use for annual reaccreditation. When finalized, it will be distributed to all division member to use as a tool for reviewing the quality of their PFP practices.

The HT^3 of Personal Financial Planning

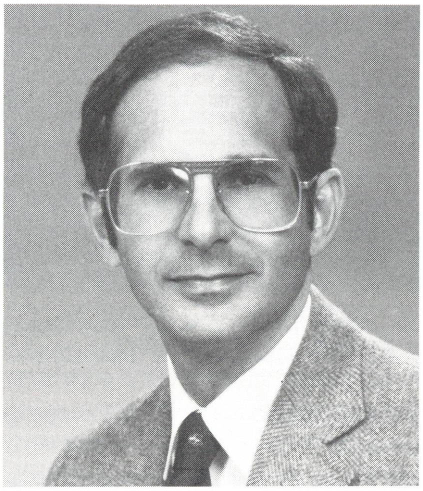
Howard Safer's formula for a successful PFP practice is HT^3—High Tech, High Touch, and High Tout. He believes those three ingredients are key to profitability in PFP.

Howard, a member of the PFP Executive Committee, is partner in charge of PFP for Kraft Brothers, Esstman, Patton & Harrell in Nashville, Tenn. He is also president of LINC, a national network of CPA firms that practice personal financial planning.

High Tech

By High Tech, Howard means technical competence as well as technology. Both are necessary to the successful practice of PFP. He believes CPA planners need to be knowledgeable in tax, investments, insurance, retirement issues, and estate planning. They also need the support of tools such as software and multi-function calculators and the ability to use them effectively for the efficient delivery of services.

Howard follows his 85 percent rule for PFP services. That rule means don't work for too much reliability. In working with historical financial information, CPAs want 95 percent reliability in audit work and 100 percent reliability in tax services. In financial planning, however, the CPA is projecting into the future—not a precise science. The goal is sufficient information for effective financial planning. Complete precision is impossible. The CPA



Howard Safer, a member of the PFP Executive Committee and PFP partner for Kraft Brothers, Eastman, Patton & Harrel in Nashville.

needs to consider important information without getting bogged down calculating every future contingency. The CPA planner is seeking a good solution. There may be no optimum solution.

High Touch

High Touch is the personal attention given to PFP clients, a critical element according to Howard. A firm should realize that PFP is a personal service that should not be delegated to young, inexperienced staff. A CPA planner needs excellent interpersonal skills to hear what the client is and is not saying. Conversations between clients and CPAs go through an evolutionary process and successful relationships build from these dialogues.

Howard believes a plan should never be considered final. His firm indicates the continuing nature of the PFP relationship by marking PFP documents "Draft: Subject to Discussion."

High Tout

The last HT, High Tout, is no less important. Howard believes CPAs need to continually market their professional services. He stresses the 3Ms of financial planning—marketing, marketing, marketing.

He finds a strong public relations program essential. That includes becoming known to the local media and using the media whenever possible. He suggests that firms send out news releases about the achievements of staff members and other topics of interest to the local papers. The firm also uses the PFP newsletter published by LINC to interest clients in the PFP services the firm provides.

The firm's workshops and seminars remind people that the firm provides financial planning services. These seminars help increase business through referrals. The firm sometimes co-sponsors seminars with local colleges, banks, or brokerage houses. Both sponsors invite clients. Each organization then has an opportunity to explain their services to a new clientele.

Successful Financial Planning

Howard's experience in PFP has taught him the importance of having a technically competent staff, appropriate technology, strong client relationships, and effective public relations. Efforts devoted to strengthening those areas will provide significant rewards for a firm's PFP practice.

New Code of Professional Conduct Excludes Ethics Rule on Prospective Financial Information

Because personal financial plans frequently include prospective financial information, CPAs relied on guidance included in the AICPA's Code of Ethics Rule 201(e), concerning forecasts, and Interpretation 201-2, concerning partial presentations of prospective financial information and prospective information for internal use only. The new Code of Professional Conduct, approved by AICPA members in January 1988, does not include Rule 201(e) or the related interpretation.

Professional guidance on prospective financial information was not limited to the ethics rule, of course. CPAs will continue to rely on guidance included in the Statement on Standards for Accountants' Services on Prospective Financial Information and the AICPA's *Guide for Prospective Financial Statements.* Prospective financial information included in personal financial plans is frequently for the client's use only and may also be partial presentations as defined in paragraph 200.06 of the *Guide.* Sections 900 and 1000 of the *Guide*, which provide guidance on prospective financial information for internal use only and for partial presentations, are particularly applicable. Because those sections refer to Rule 201(e), the AICPA may decide to revise them. Even without revision, however, guidance included in the *Guide* can provide needed direction in this area.

Section 900 includes guidance for prospective financial information prepared only for internal use. That section indicates that if a CPA issues a

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report on such prospective information, the form and content of the report are flexible. However, the Guide indicates, that, preferably, the report would

- Be addressed to the responsible party.
- Identify the prospective financial information being reported on.
- Describe the character of the CPA's work and the degree of responsibility assumed, without vouching for the achievability of the prospective financial information.
- State that the prospective information is for internal use only.
- Be dated as of the date the CPA's procedures were completed.
- Disclose significant assumptions, if not disclosed elsewhere (see paragraph 400.22 in the *Guide*).

Paragraph 900.08 indicates that the accountant's report would preferably also describe the omission of any disclosures included in section 400 of the *Guide*, which describes presentation guidelines. To comply with that reporting guideline, some CPAs note in their report that the prospective financial information was prepared solely to help the client develop his or her financial plan, that it may contain departures from AICPA guidelines, and it should not be used for any purpose other than developing the client's financial plan.

Many CPAs include a disclaimer such as the following in their report: "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."

Section 1000 of the Guide, which discusses partial presentations, does not include guidelines for preparing, presenting, or reporting on partial presentations. Consequently, many CPAs follow the guidance in section 900 for prospective financial information for internal use only, regardless of whether the information is a prospective financial statement or a partial presentation.

The following is an illustrative report on prospective information included in a personal financial plan that is only for internal use. It assumes that the client's assumptions used to develop the projection are disclosed in either the financial plan or the CPA's transmittal letter.

> *We have assembled the projection of your retirement income needs included in your personal financial plan from information you provided. It was prepared solely to help you and your financial advisers develop your financial plan. It may contain departures from the presentation guidelines of the American Institute of CPAs and should not be used for any purpose other than developing your financial plan. We have not compiled or examined the projection and express no assurance of any kind on it. Differences will probably exist between the projection and actual results because your personal situation, the economic environment, tax laws, and other circumstances may change and the effects of such changes may be material.*

Clarification of Exclusions in AICPA Liability Insurance

As discussed in the December/January 1988 issue of *The Planner*, the AICPA Professional Liability Insurance Plan has the following three exclusions from coverage:

(1) Professional accounting services that include the sale or solicitation for sale of securities, real estate, or other investments.

(2) Professional accounting services from which any insured receives a fee or commission prohibited by the rules of conduct of the AICPA.

(3) The promotion, solicitation, or sale of specific securities.

The exclusions are intended to allow insured CPAs to value stocks and other assets. They also permit insureds to provide general recommendations to clients on investments. For example, covered services include an insured's review of a client's financial situation, followed by a recommendation to allocate a specific percentage of investable assets in stocks, a specific percentage in bonds, and so forth. If an insured recommends specific stocks or investments, however, that accounting service may not be covered. Consequently, if an insured recommends that a client buy 500 shares of General Motors, that activity is probably excluded from coverage as the promotion of a specific security.

Software for Determining Social Security Benefits—It's Free!

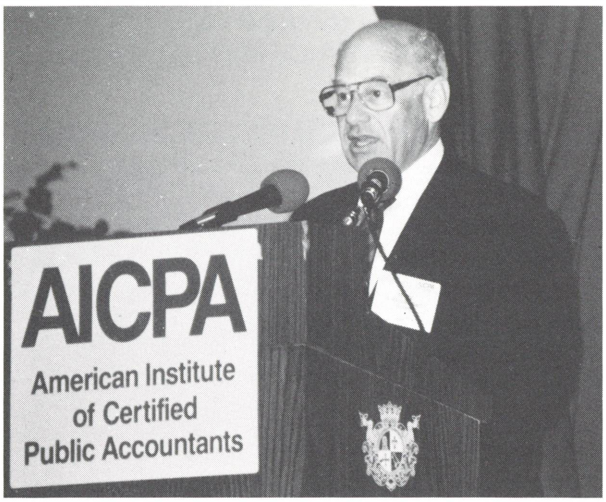
The Social Security Administration offers free software—PIA Calculation Program, version 1988—for computing social security retirement benefits, disability benefits, and survivor benefits. The software is menu driven. Required input data includes the client's earnings history, birthdate, and the date benefits will begin. The program has built in assumptions about projected salary and benefit growth, or the user can input his own assumptions.

To obtain the software, send a blank 5 1/4 inch diskette, formatted on an IBM PC or compatible, together with a stamped, self-addressed diskette mailer to PIA Calculation Program, Room 4N29 Link Building, Baltimore, MD 21235. For further information, call (301) 965-3014.

Executive Committee Granted Senior Technical Committee Status

The Council of the AICPA voted on May 19 to grant the PFP Executive Committee senior technical committee status. The action recognizes the expanding significance of this area of practice.

Senior technical committee status gives the executive committee the authority under the AICPA's bylaws to develop and issue statements on preferred practices in PFP without clearance by the Board or Council. It also permits the committee to serve as the central voice for CPAs' practice of PFP. This will help clarify for those outside the profession that CPAs' PFP services are professional accounting services that are subject to professional standards, professional rules of conduct, and regulation by state accountancy boards.



A. Marvin Strait, Chairman of the AICPA Board of Directors, proposing to Council that the PFP Executive Committee be designated a senior technical committee.

The AICPA's new accredited personal financial specialist program increased the need for a senior technical committee.

The committee will be responsible for resolving technical issues of PFP practice. The guidance to be provided in statements on PFP procedures will clarify the profession's position on good practice.

Profitability in PFP, Expanded Listing of Software Resources Among Topics in July Update to PFP Manual

PFP Division members will receive another update to their *Personal Financial Planning Manual* in July. It will include revisions to existing materials as well as a new section on profitability in PFP services and an expanded section on PFP software.

The new section on improving profitability [unit 1, section VIII(a)] discusses key features that contribute to profitability, such as

- Effective diagnostic procedures to determine the scope of the engagement.
- An efficient system for delivering PFP services.
- Review procedures.
- Training and experience opportunities to develop the technical competence of staff.
- Effective tools, including software, to promote staff efficiency.
- Realistic fees that do not underprice services.

An expanded discussion of the PFP process explains the importance of addressing clients' financial concerns in the context of their overall financial situation. Thus, all levels of PFP service—consultations, segmented planning, and comprehensive planning—involve identifying clients' financial goals and objectives and understanding the clients' financial situation (unit 1, section III). That step has been included on a revised PFP engagement program (exhibit 1-8.2).

The materials on prospective financial information have been revised to reflect the change in the Code of Professional Conduct (unit 1, section IX). See the related article on page 5.

The update includes revised material on professional liability (unit 1, section X). Some of that material is discussed in the article on page 6. Revisions also update the bibliography and the lists of CPE courses and institutions offering programs in PFP. (See unit 1, section XI and the appendix.)

An expanded listing of PFP software includes software available in individual modules, such as investment planning and tax planning software. It also includes record-keeping software for individuals and practitioners. (See unit 1, section XII.)

The update includes revisions required because of the Revenue Act of 1987. New worksheets for passive activities and for calculating the alternative minimum tax are included in the income tax planning module in unit 3.

The expanded risk management module in unit 3 includes a discussion of insurability and other factors to evaluate when considering the replacement of a client's existing life insurance policy. Tax issues concerning life insurance are also discussed.

Revisions in the investment alternatives questionnaire (exhibit 3-6E in the investment planning module of unit 3) simplify its use. The discussion of probate in the estate planning module of unit 3 is expanded to include a discussion of living trusts.

Revising the Division's *PFP Manual* is an ongoing process. The twelve members of the PFP Practice Subcommittee are currently developing additional materials for inclusion you have in the next update, planned for the fall of 1988. Your suggestions for update topics would be appreciated. Send them to: American Institute of CPAs, PFP Division, PFP Practice Subcommittee, 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

State Legislative Activity

The Maryland and Washington state legislatures let their financial planner bills die when they adjourned for the year. New Jersey's bill (A-351) requiring the registration of financial planners as investment advisers has been revised. It now includes an exemption for accountants who provide financial planning services solely incidental to the conduct of their profession and charge no incidental fee. The bill, which passed the Assembly, was forwarded to the Senate Labor and Professional Committee for consideration.

Save the Date

Our PFP Division's
National Technical Symposium
is scheduled for
October 31 and November 1
in San Francisco.
Look for your brochure in July.

Conferences of Interest to Planners

The AICPA and two state CPA societies are organizing conferences on topics of interest to CPAs providing PFP services. The state societies' telephone numbers are included in the listing below. For additional information about the AICPA conferences, call 800-AICPANY [in New York, call (212) 575-5696].

		Recommended CPE Hours
Louisiana CPA Society Financial Planning Workshop (504) 835-1040	*New Orleans July 19*	8
AICPA Estate Planning Conference	*Boston July 27, 28, and 29*	26
Mid-South Personal Financial Planning Conference (615) 269-3478	*Nashville August 8 and 9*	16
AICPA How to Choose an Entity: Business Tax Planning for 1988	*Minneapolis/Sept. 8 and 9 Las Vegas/Sept. 15 and 16*	16

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