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June–September 1994

PLANNER

Ideas from Leading Experts in Financial Planning

TrendWatch

Some interesting facts about working women. A recent survey designed to investigate working women's financial planning thoughts highlights some interesting numbers:

- About 42 percent of married women are the primary wage earners.
- About 60 percent think their retirements will be less than comfortable.
- Of the respondents, about 75 percent were more likely to consult a book or magazine rather than a financial adviser for advice.
- About 45 percent say that retirement is their biggest financial concern.
- Finding an adviser they can trust is important to 38 percent of the respondents.

Many women who have never used a financial planner or broker fear receiving investment advice that is grounded in the adviser's desire to earn a commission or being intimidated. *Working Woman,* September 1994, page 29.

Changes in pre-existing conditions clauses under way. Not waiting for possible changes that might be imposed by federal health care reform, many states have taken steps to change the pre-existing conditions

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AICPA
American Institute of Certified Public Accountants

Make the Right Election to Keep Retirement Account Values High

by Hugh J. Campbell, Jr.

Hugh J. Campbell, Jr., CPA/PFS,CFP, Union, NJ, discusses the importance of retirement plan elections and choice of beneficiary.

Before signing on the dotted line to start withdrawing the required minimum distribution from an IRA or other qualified requirement account, such as a 401(k), some serious thought has to be given to the available elections and the choice of beneficiaries. Failure to make the most advantageous choices could result in net distributions as different as day is from night.

To illustrate, let us look at Mrs. Day and Mrs. Night.

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From the Chairman's Corner: Reflections on My First Year

By James A. Shambo

James A. Shambo, CPA/PFS, Chairman of the American Institute of CPA's Personal Financial Planning Executive Committee, reviews the PFP Division's progress as his first year nears its end.

I know that I am preaching to the choir—the readers of my column—but I just have to say the obvious. Personal financial planning is making a comeback and CPAs are becoming known as the preferred providers. I say this is obvious because I see it every day in my practice. In my mind, PFP's comeback is the result of two convergent factors. First, as the rate of inflation slowed from the '70s and early '80s, financial assets regained favor over hard assets, such as oil and real estate. Second, during the same twenty-year period as this dramatic shift in economic forces occurred, a generation of consumers has matured into savers and investors, your current clients.

This new generation of investors carries with it the experiences of the last twenty years. That is, from the 1973–74 bear market and soaring commodity prices to the bull market that extended from the late '80s through last year. But many of their portfolios carry the scars of the huck-

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TRENDWATCH

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practices of carriers writing small group policies. The new rules allow employees with mild conditions to get standard coverage with shorter waiting periods than were previously experienced. At least four states have limited the waiting periods. Another reform is a requirement that there be continuous coverage if the gap does not exceed a specified number of days, typically thirty to ninety days. In addition many insurers are voluntarily taking steps to remove or shorten waiting periods or to provide continuing coverage following a job change. *National Underwriter,* August 29, 1994, page 2.

Going overseas may be the way to diversify. Investing overseas is one way to diversify risk. While the U.S. markets tend to move together, the stock markets of different nations are relatively independent. There is an imperfect correlation with the U.S. markets. Thus, investing abroad can be downright prudent because international diversification has the potential to reduce overall risk while increasing a portfolio's return. When looking to invest overseas, consider sponsored American depository receipts, which assures that you will receive company information in English. Another route is through mutual funds. Basically you are hiring a portfolio manager who should be familiar with local companies. *Individual Investor,* September 1994, page 12. ◆

From the Chairman's Corner: Reflections on My First Year

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sters and snake oil salesmen they met along the way. When they met, your clients had money and the hucksters had the experience. Now their positions are reversed.

We know their stories and we all have examples that make you shake your head and wonder every time you think about them. Your clients are well educated, but at the same time—other than becoming warier—they are generally ignorant of investing fundamentals. They are still easy prey and need your help. They need trusted advisers and you are there.

So what are we doing to help you? I am glad you asked.

Regulatory Matters

In May, the PFP Division responded to proposed SEC rule making dealing with suitability of investments for clients and custodial notifications to clients. At about the same time, representatives of the PFP Division met with Barry Barbash, Head of the Division of Investment Management of the SEC. This informal meeting was designed to provide a better understanding of the SEC's goals and positions on matters that affect our members.

We also discussed the ways the PFP Division can assist employer and employee groups to make decisions with 401(k) funds to remain in compliance with Department of Labor rules. I will establish a task force to identify the various issues involved in this effort. I want to ensure that our members receive full benefit directly in their practices by creating a practical guide on how to provide these services in your practice area. We hope to enhance the image of the CPA with both employer and employee groups. We will keep you up to date on our progress.

Consumer Awareness

Because we realize that not all of the public is either an employer or employee, the PFP Executive Committee has met with a representative of the American Association of Retired Persons (AARP). We are going to investigate common ways to assist consumers needing planning advice. We expect to meet with other consumer groups in the future to discuss ways the PFP Division and our members can help educate the organizations' members or help their members identify and achieve their goals.

Communications

We are moving full steam ahead with our communications efforts as outlined in our strategic plan (see December/January 1994 *Planner*). This effort is directed at making it known that CPAs are the premier providers of financial planning services. The target is broad public awareness of CPAs as financial planners.

Specialization

As previously mentioned (see December/January 1994 *Planner*) a proposal will be presented to the AICPA Board of Directors that would allow AICPA members who are CFP or ChFC licensees to substitute their test for the PFS Examination. These CPAs would still have to meet all the other PFS requirements including presentation of references, continuing education and prior and ongoing minimum practice of 250 hours per year. I hope to be able to report about the success of the proposal in my next column.

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Murray B. Schwartzberg, Esq.
Editor

Phyllis Bernstein, CPA
Director

Make the Right Election to Keep Retirement Account Values High

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Profiles

Mrs. Day and Mrs. Night are widows over age 70½ who have identical estates and are both in the 39.6 percent marginal federal income tax bracket and 55 percent federal estate tax bracket. At their deaths, aside from other assets, each had an IRA with a balance of $1 million (an amount not in excess of their hypothetical life annuity) from which they had been taking minimum distributions since 1990. In addition, they elected to defer the excess accumulations tax for which they remained liable during their lives.

Just prior to their deaths, the liquidation value of each IRA after taking income tax into account was $604,000 ($1,000,000 – [$1,000,000 × .396]). Mrs. Day and Mrs. Night were survived by their fifty-three year old daughters.

Mrs. Day

Before making any elections relating to her IRA, Mrs. Day consulted her financial planner who told her that her retirement account had the potential for being the most valuable asset she could leave to her daughter, Judy. That is, the IRA would be most valuable if Judy would elect to withdraw the account proceeds over her, Judy's, life expectancy. By taking this step, the tax-deferred accumulation feature of the IRA would be kept in place as long as possible. To make this happen, Mrs. Day was advised to do the following:

- Select Judy as her designated beneficiary.
- Use the Joint Life and Last Survivor Expectancy Table (IRS Publication 590, Table II) for computing the annual minimum distribution.
- Elect not to recalculate the Joint Life and Survivor Expectancy before the first required minimum distribtuion. This is a critical election. Making the wrong decision could lead to an actual monetary loss.

As a result, Judy is able to take the IRA distributions over her own life expectancy of 30.4 years.

As shown in Table I, Judy, who took minimum distributions from the IRA she inherited from her mother, received a total after tax cash flow of $2,862,140. This reflects the following:

- Judy's plan distributions were computed on her 30.4 year life expectancy.
- The $1 million IRA yields an annual average 8 percent pre-tax rate of return.
- Federal income tax at a 39.6 percent rate was paid on the distributions.
- Judy received the full benefit of the itemized income tax deduction for federal estate tax paid that was attributable to the IRA.

TABLE I

Judy Day's Inherited IRA

Marginal Federal Income Tax Rate 39.60%
Investment Rate of Return 8.00%
Life Expectancy 30.4 Years

Year	Beginning Balance	IRA Earnings	Minimum Distribution	Itemized Deductions for Estate Tax	After-Tax Cash Flow
1	1,000,000	80,000	32,895	18,092	27,033
2	1,047,105	83,768	35,616	19,589	29,269
3	1,095,258	87,621	38,565	21,211	31,693
4	1,144,313	91,545	41,763	22,970	34,321
5	1,194,095	95,528	45,231	24,877	37,171
6	1,244,392	99,551	48,992	26,945	40,261
7	1,294,951	103,596	53,072	29,189	43,614
8	1,345,475	107,638	57,499	31,624	47,253
9	1,395,615	111,649	62,304	34,267	51,202
10	1,444,959	115,597	67,521	37,137	55,489
11	1,493,035	119,443	73,188	40,253	60,146
12	1,539,290	123,143	79,345	43,640	65,206
13	1,583,088	126,647	86,037	47,321	70,706
14	1,623,698	129,896	93,316	51,324	76,687
15	1,660,277	132,822	101,236	55,680	83,196
16	1,691,863	135,349	109,861	45,881	84,525
17	1,717,351	137,388	119,260	0	72,033
18	1,735,479	138,838	129,513	0	78,226
19	1,744,804	139,584	140,710	0	84,989
20	1,743,678	139,494	152,954	0	92,384
21	1,730,218	138,417	166,367	0	100,486
22	1,702,268	136,181	181,092	0	109,380
23	1,657,357	132,589	197,304	0	119,172
24	1,592,641	127,411	215,222	0	129,994
25	1,504,831	120,386	235,130	0	142,018
26	1,390,088	111,207	257,424	0	155,484
27	1,243,871	99,510	282,698	0	170,750
28	1,060,683	84,855	311,965	0	188,427
29	833,572	66,686	347,322	0	209,782
30	552,936	44,235	394,954	0	238,552
31	202,217	16,177	202,217	0	122,139
32	16,177	1,294	17,471	0	10,553
		3,378,047	4,378,047	550,000	2,862,140

Mrs. Night

Mrs. Night, without the benefit of sound advice, named her estate as the beneficiary of her IRA, and she elected to recalculate her life expectancy for the pur-

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Make the Right Election to Keep Retirement Account Values High

Continued from page 3

pose of taking minimum distributions. At her death, the $1 million in the IRA fell into her estate as an inherited IRA. After nine months, her executor took a lump-sum distribution from the IRA, some of which was used to pay estate taxes. As a result, the estate realized only $271,800 [$1,000,000 − [($1,000,000 × .396) + ($604,000 × .55)] the amount left after paying income and estate taxes on the $1 million proceeds.

With only 27.18 percent of the $1 million realized, it is easy to say that the IRA was among the least valuable assets in Mrs. Night's estate.

Comparison

To illustrate the difference between the two estates, Mrs. Night would have to bequeath $1,155,027 in nonretirement assets to her daughter Jan to achieve the same after tax cash flow of $2,862,140 (see, Table II). This assumes there is no deferral of federal income tax and there is no itemized income tax deduction for federal estate tax. The $1,155,027 is the sum of the present values of the individual cash flow amounts calculated using the after-tax rate of return of 4.832 percent.

Mrs. Night would require assets of $2,566,727, using the 55 percent estate tax rate ($1,155,027 ÷ .45), to leave a bequest of $1,155,027 to her daughter Jan. In contrast, Mrs. Day's bequest of her $1 million IRA to Judy would generate $1,222,222 of estate tax ([$1,000,000 ÷ .45] − $1,000,000). Because the $1 million IRA is only worth $604,000 net of related income tax, the economic cost of Mrs. Day's bequest is only $1,826,222 ($1,222,222 + $604,000). Thus, Mrs. Night would have to come up with an additional $740,505 ($2,566,727 − $1,826,222) of assets to provide Jan Night with the same cash flow as Judy Day.

Conclusion

There is no question that retirement planning cannot and should not be separated from estate planning. The dramatically different benefits available to the heirs resulting from the "nonestate planning" retirement type decision as to how to draw down the IRA benefits is like the difference between day and night. This type of planning also excludes any role life insurance might play in preventing the liquidation of the retirement plan funds. Therefore, you should be ready to point out to your clients the importance of coordinating their retirement and estate planning. ◆

TABLE II

Jan Night's Inherited Non-Retirement Account

Marginal Federal Income Tax Rate	39.60%
Investment Rate of Return	8.00%
Life Expectancy	30.4 Years

Year	Beginning Balance	Pre-Tax Earnings	Federal Income Tax	After-Tax Cash Flow
1	1,155,027	92,402	36,591	27,033
2	1,183,805	94,704	37,503	29,269
3	1,211,737	96,939	38,388	31,693
4	1,238,595	99,088	39,239	34,321
5	1,264,123	101,130	40,047	37,171
6	1,288,035	103,043	40,805	40,261
7	1,310,011	104,801	41,501	43,614
8	1,329,696	106,376	42,125	47,253
9	1,346,695	107,736	42,663	51,202
10	1,360,565	108,845	43,103	55,489
11	1,370,819	109,665	43,428	60,146
12	1,376,911	110,153	43,621	65,206
13	1,378,237	110,259	43,663	70,706
14	1,374,128	109,930	43,532	76,687
15	1,363,839	109,107	43,206	83,196
16	1,346,544	107,724	42,659	84,525
17	1,327,084	106,167	42,042	72,033
18	1,319,175	105,534	41,791	78,226
19	1,304,692	104,375	41,333	84,989
20	1,282,745	102,620	40,637	92,384
21	1,252,343	100,187	39,674	100,486
22	1,212,371	96,990	38,408	109,380
23	1,161,573	92,926	36,799	119,172
24	1,098,528	87,882	34,801	129,994
25	1,021,615	81,729	32,365	142,018
26	928,961	74,317	29,429	155,484
27	818,365	65,469	25,926	170,750
28	687,158	54,973	21,769	188,427
29	531,935	42,555	16,852	209,782
30	347,856	27,828	11,020	238,552
31	126,112	10,089	3,995	122,139
32	10,067	805	319	10,553
		2,826,348	1,119,234	2,862,140

Coming soon . . . .

PFP Partner 2.0. More features. More flexibility. We will tell you all about it in the December/January *Planner*.

U.S. Supreme Court Hands Down Decision Affecting Florida CPA Practice

Recently, the U.S. Supreme Court reversed a Florida Court's ruling upholding the Florida State Board of Accountancy's order censuring an attorney/CPA who used her CPA and Certified Financial Planner (CFP) designations in connection with her law practice [*Sylvia S. Ibanez v. State of Florida, Department of Professional Regulation, Board of Accountancy* (No. 93-639, June 13, 1994)]. The Board had censured Ms. Ibanez because it found her advertisements to be false, deceptive and misleading.

Facts

Briefly, Ms. Ibanez, a member of the Florida Bar and a practicing attorney, indicated in her yellow pages listing (under attorneys), letterhead and business card that, in addition to being an attorney, she was a CPA and a CFP. The Florida Board of Accountancy attempted to discipline her for not adhering to its rules and regulations relating to truth in advertising. A Florida appeals court sustained the position of the State Board. On Ms. Ibanez's appeal, the Supreme Court reversed the Florida decision.

AICPA's Position

The AICPA filed a brief in the Supreme Court as an amicus curiae in support of the State Board. This brief only addressed the following two points:

1. Holding oneself out as a CPA, while knowingly refusing to comply with the regulations specifically applicable thereto, is false and misleading and not protected by the first amendment.

2. The state has a substantial interest that is directly advanced by the limitation of the "CPA" designation to those willing to conform to its professional regulations.

The AICPA brief did not address the issue of the use of a designation other than the "CPA" designation.

Court's Opinion

In its opinion on the use of the "CPA" designation, the Supreme Court did not have to address the issues raised in the AICPA brief for two reasons. First, the petitioner, Ms. Ibanez, yielded on the point of the Florida Board's jurisdiction. The Court stated (at page 7), "Ibanez no longer contests the Board's assertion of jurisdiction, see Brief for Petitioner 28 (Ibanez 'is, in fact, a licensee subject to the rules of the Board')...." Second, the Supreme Court found that on the record before it, there were not sufficient facts to permit it to rule on the holding out issue. Because of this, the issues raised in the AICPA's brief were not actually reached by the Court.

Rather, the Supreme Court gave a very narrow ruling, of limited value, that permitted Ms. Ibanez to make the otherwise truthful statements about her credentials.

Use of Professional Designation for CPA Personal Financial Specialists

The Supreme Court held that Ms. Ibanez could identify herself as a CPA and CFP because she was in fact both a CPA and a CFP. The Court reversed the Florida Court's acceptance of the Florida Board's claim that, "...using the term 'certified' to refer to a certifying organization other than the Board itself (or an organization approved by the Board) 'inherently mislead[s] the public into believing that state approval and recognition exists,' " (at page 5). The Supreme Court rejected this position holding that the use of the CFP designation was protected commercial speech and Ms. Ibanez's use of the designation in published communications was not deceptive to the public. In addition, the Supreme Court stated that, "Because 'disclosure of truthful, relevant information is more likely to make a positive contribution to decision making than concealment of such information,' *Peel v. Attorney Registration and Disciplinary* Comm'n of Ill., 496 U. S. 91, 108 (1990), only false, deceptive, or misleading commercial speech may be banned...." (at page 5), except in limited circumstances.

The Supreme Court was not unanimous on this point. Ms. Justice O'Connor, in her dissent (joined in by Chief Justice Renquist) stated, "Because petitioner's [Ibanez] use of the CFP designation is both inherently and potentially misleading, I would uphold the Board's sanction of petitioner." (dissent, at page 1). The dissenting justices reached this conclusion about the use of the word "certified" because they thought the public would assume the State Board or other state authority conferred the designation. (The dissenters joined in the majority opinion as to the use of CPA.)

Thus, the Ibanez case means that CPAs in Florida who have specialty designations, such as the Personal Financial Specialist designation, cannot be prohibited from using their designations unless there is factual proof of real or potential harm.

Future

Richard Miller, AICPA General Counsel said, "The Supreme Court decision was very narrow and avoided the key issue of whether Ms. Ibanez could practice accounting in an unlicensed firm. I expect there will be further litigation, either by Ms. Ibanez or others, squarely addressing the issue of whether someone holding himself or herself out as a CPA may practice public accounting in a non-CPA firm." ◆

Early-Bird Registration Extended

If you have not yet registered for the Eighth Annual PFP Technical conference, ACT NOW and save up to $145. That is right, the early-bird registration discount period has been extended to those who register by October 15, 1994. If you are a PFP Section member or PFS practitioner, your registration fee is $495 ($595 after October 15). Groups of three or more registrants from the same firm or local chapter of a state CPA society mailing their applications together only pay $450 (not available after October 15). If you do not fit into one of the above categories, your early-bird registration fee is $610 ($710 after October 15). Do not pass up this money saving opportunity: FAX your credit card registration to (201) 938-3169. If you need a brochure or further information, call AICPA Meetings registration at (201) 938-3232.

Personal Financial Planning for the Unmarried Couple

By Larry M. Elkin

Larry M. Elkin, CPA, CFP, Hastings on Hudson, NY, describes unmarried couples and the financial planning problems they face.

People involved in unmarried relationships are probably, as a group, no better or no worse than anyone else when it comes to managing their financial affairs. Generally, this means they are not very good at it. But there is a difference: our laws attempt to protect people who are single or married. In contrast the legal system rarely helps the unmarried couple, and often makes matters worse.

When a society changes rapidly, the law often lags behind. Unmarried domestic partners were both rare and secretive just 30 years ago. As of the 1990 census, there are more than 3 million unmarried couples in this country. Most of them live together openly and many view their relationship as committed and long term. The law continues to treat unmarried couples—gay and straight, young and old, prosperous and poor alike—as virtual strangers.

Unmarried couples need professional help, which has seldom been forthcoming. The probable reasons for this lack include

- Failure to recognize the need.
- Failure to understand the market.
- Unfamiliarity with the financial planning hazards facing unmarried couples.
- Personal prejudices.
- Fear of offending clients and potential clients through known associations with individuals in unmarried relationships.

In my opinion, none of these reasons justify the failure of financial advisers to serve a segment of society that wants and needs financial planning. Further, you can build your practice by addressing the needs of unmarried couples.

Who Are Today's Unmarried Couples?

Of the more than 3 million households headed by unmarried couples, at least 10 percent had at least one member over sixty-five years old. About one third of the households had at least one child under age fifteen. Although same-sex couples are a large fraction, the majority of unmarried couples are heterosexuals.

Unmarried people choose to live together for a wide variety of reasons. Gays and lesbians have no choice—no state currently recognizes same-sex marriages. Older people often live together for companionship or cost-sharing reasons, while limiting their financial involvement with one another. Younger couples may want to achieve the same financial goals as married couples, or they may be less committed.

Often the true goals of the relationship are left vague. This can lead to major planning mistakes and considerable pain and hardship at a later date.

When Does a Couple Need Help?

Important financial issues arise as soon as two people become domestic partners. The question is: Do they intend to share financial rewards and responsibilities or do they intend to maintain separate finances? The answer will determine whether that couple should sign a joint lease, buy a home together, apply jointly for a loan or divide living expenses.

When a couple is deeply committed to one another, the issues become even more complicated. For example, if one person has a good employer-provided retirement plan, should the other partner pay a disproportionate share of living expenses in order to allow for tax deferred savings? If yes, how does the person paying the bills obtain some assurance of an eventual benefit from the retirement plan? The Retirement Equity Act did not establish any pension rights or Qualified Domestic Relations Orders (QDRO) for unmarried persons.

A similar problem arises with health benefits. An increasing number of employers now offer some type of health insurance to the domestic partners of their employees. The employer-paid portion of the premium covering a nonmarried domestic partner, however, is taxable income to the employee. This may be one reason why use of these benefits when offered to employees has been surprisingly light. Another factor may be the insistence by many employers that the employee sign an affidavit attesting that the parties are involved in a committed relationship.

Classifying Unmarried Couples

The longer a couple stays togeter and the more deeply committed they become, the more likely they are to need professional guidance. I divide unmarried couples into five categroies:

1. *Roommates:* They generally intend to keep their finances separate and often see the domestic relationship as temporary (except in the case of some elderly couples).

2. *Test Drivers:* They are uncertain about the future direction and durability of their relationship. While total separation of finances may not be important, they generally wish to avoid long-term entanglements until matters are clearer.

3. *Newly (Un)Weds:* They are highly optimistic and perhaps emotional as well; they may try to do everything at once as they establish their domestic relationship.

THERE OUGHT TO BE A LAW

Unmarried Couples Need Legislative Help

First Comes Love, Then Comes Money, by Larry M. Elkin, CPA,CFP, is the first financial planning guide designed expressly for unmarried domestic partners. In his book, Mr. Elkin proposes that Congress enact a new Code Section to allow unmarried domestic partners to elect, under specified circumstances, to treat one another as spouses. Although the proposal would not aid unmarried couples in their legal problems, such as inheritances or custody, it would, if enacted, solve many of the tax problems.

Mr. Elkins' book, *First Comes Love, Then Comes Money,* published by Doubleday Currency in 1994, is available through bookstores or can be ordered at a 10 percent discount (additional discounts available for quantity orders) directly from the author by calling (914) 478-7932.

Their situation is analogous to that of a newly married couple, except that they lack the legal protection, such as equitable distribution or community property; death benefits, including a share of the estate; Retirement Equity Act benefits and unlimited gift and estate tax marital deduction, to name a few. Because of this legal vulnerability, planning mistakes or an early end to the relationship can hurt "newly unweds" quite a bit more than their married counterparts.

4. ***Committed Couples:*** They are involved in long-term, stable relationships. Lacking any other option, many same-sex couples enter into committed relationships lasting many years or decades. The committed couple may intend for its partners to be in the same financial position as in a marriage.

5. ***Open Couples:*** They have expressed a long-term commitment to each other, but also prefer to allow either party to maintain relationships with other people. This is a relationship akin to an "open marriage." These relationships, when new, seem inherently less stable than commitments in which the partners expect fidelity from one another. For open couples, I would lean more toward more flexible arrangements, such as wills and revocable trusts rather than irrevocable trusts that may not be able to be undone if the relationship eventually fails.

Financial Hazards Confronting Unmarried Couples

You can begin to understand the financial planning issues that unmarried couples confront by thinking of all of the laws that have been created to protect married partners. Then, imagine life without those laws. It is under this legal structure that unmarried couples live.

It is beyond the scope of this article to catalogue all of these financial planning issues. The following is a short list of some of the more important ones:

- Loss of inheritance rights when a partner dies intestate or an elective share when a partner is omitted from a will. Whereas a spouse can only be disinherited in limited circumstances and with advance planning, an unmarried partner is almost certain to be disinherited in the absence of a well drawn will.
- Knowledge that a court may not respect an unmarried couple's selection of the surviving partner as guardian of minor children. Same-sex couples, in particular, have often faced hostility from judges, grandparents and the public in their efforts to adopt or care for a partner's child.
- Loss of joint income tax filing status. Although avoiding the "marriage penalty" could in some instances be of greater benefit, valuable deductions for interest, taxes, medical and miscellaneous expenses and personal exemptions can be lost when the person bearing the expenses is not the one earning most of the income.
- Loss of the gift and estate tax marital deduction. The survivor may be forced to sell a business, home or other property to pay estate taxes. Also, jointly held property is 100 percent includable in the estate of the first partner to die, except to the extent the survivor can prove contribution to the purchase price.
- Loss of the right, under the Retirement Equity Act, to receive a joint and survivor pension, or to receive a tax-free share of a partner's qualified plan assets under a QDRO.

Unmarried couples also need help in

- Planning how to hold title to their investments (that is, individually, jointly or in common).
- Obtaining life, health and disability insurance coverage.
- Preparing an effective business succession plan, especially if the unmarried couple are in business together.

Provisions of the Internal Revenue Code (IRC) create many of the financial traps that unmarried couples encounter. One way to cure many of these problems would be to amend the IRC to allow partners to reciprocally elect to be treated as spouses for all purposes under the IRC. (See the accompanying sidebar for information about the author's proposed amendment and his new book, *First Comes Love, Then Comes Money,* a primer for planning for unmarried couples.)

Prejudice and Its Consequences

Until about twenty-five years ago, unmarried couples were the objects of scandal and social ostracism regardless of the sexual orientation of the partners. Today a heterosexual couple living together outside of marriage provokes little if any comment. In contrast, same-sex couples still face prejudice and its consequences in many places.

Providing PFP services to unmarried couples does not represent your endorsement of the couple's beliefs, goals or lifestyles. Unmarried couples need the planning expertise of CPAs to reach their financial goals. There is no reason why you should not provide these needed services. ◆

Financial Aid Opportunities Featured in Education Funding Video Course

Recent changes in financial aid opportunities are explored in our new education funding video. In addition, you will learn how to project college costs and select college funding investment strategies. Our experts discuss how you can help your clients realistically assess their financial aid opportunities, and they explain how certain decisions to save taxes may, unfortunately, also reduce potential aid. Affluent clients often want to know how the financial aid process works. And, they can be motivated to save more aggressively for college once they understand why they are ineligible for financial aid: even if they never save another dollar! The video also highlights information on funding vehicles and ownership and tax issues.

To order your video course, which provides up to eight hours of CPE credit (both individual and group study), call the AICPA Order Department at 1 (800) 862-4272, submenu 1 and ask for 180150PLB for the tape and manual at $129.00 and 350150PLB for additional manuals at $30.00 each.

For information about the new simplified Report for Monitoring Education Fund see the article beginning on page 13.

Promoting Personal Financial Planning: Tips and Strategies

By Phyllis J. Bernstein

Phyllis J. Bernstein, CPA, Director of the AICPA Personal Financial Planning Division, describes some of the available techniques to use when promoting your personal financial planning practice.

There are more types of competitors for personal financial planning services than in the more traditional areas of accounting and tax. To be successful, we need to know what we can do best and what type of clients need our services. Then we must convince our clients that we should be the ones responsible for their financial planning. To do this we need to market our PFP services. The Personal Financial Specialist (PFS) designation is one critical success factor your clients may be looking for.

Direct Approach

Your existing clients are the base on which to build your PFP practice. Before contacting clients, however, you should determine the benefits of PFP services for each client. Methods of marketing PFP services to existing clients include the following:

- Discussing PFP services with clients when they bring in their tax return data.
- Asking 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.
- Calling clients for additional information about a possible PFP need.
- Developing a telephone call into an office visit during which the original client query is discussed in terms of PFP services.
- Sending a PFP brochure along with the clients' completed tax returns.
- Educating partners and staff about your firm's PFP services and encouraging them to review their client lists for good prospects for PFP services.
- Developing client questionnaires and tax return checklists to generate PFP engagements.

You can identify clients' PFP needs by having your tax clients fill out special financial planning questionnaires. Completing the questionnaire helps your clients realize that you will identify their personal financial concerns and be able to assist them in resolving those concerns. Well-designed questionnaires are good marketing tools for your PFP services.

You can send a PFP questionnaire to your clients with a cover letter explaining that the information will help you understand their need for financial planning services. To have a good response rate enclose a postage-paid return envelope for the questionnaire. (The *PFP Manual* contains serveral questionnaires that might be used for this purpose.)

The following are suggested ways to implement local promotional activities that increase consumer awareness and media opportunities for CPA financial planners.

Join Organizations

One way to effectively promote your PFP practice is through active membership in nonpractice-related organizations and associations. This presents the opportunity to create a positive public image through writing for the organizations' publications or making presentations to the membership. By becoming known as an active member of the organization, you can deliver the message to potential clients that you provide PFP services.

Referral Sources

Because many clients come from referrals, either from existing clients or third parties, cultivate potential referral sources, including partners and employees, clients, insurance professionals, investment professionals, attorneys, bankers, actuaries and valuation specialists.

When cultivating other financial service professionals as referral sources, make sure that you let them know that *you will work with them and not duplicate or supersede their efforts.* Also point out that they will receive the benefit of enhanced credibility and professionalism in their clients' eyes. Providing quality professional services on a timely basis is critical to getting referrals.

Media Activities

Print Media: Editorial coverage on a local level can provide benefits. Call or write the local press and tell them about your special PFP services,what they are, what they can mean to consumers and the topics about which you are qualified to speak or write. If you produce a newsletter, send it regularly to the editors of appropriate local publications and the program managers of local talk-radio and TV shows. Be available to the media for questions, comments and suggestions about topics of interest to their readers, listeners and viewers. You might even offer to write a financial planning column for your local newspaper.

Do not forget the local newsletter of your state society of CPAs. Very often these publications are happy to receive material, and an article about CPAs as financial planners is a great way to encourage other CPAs to begin to offer financial planning services.

Electronic Media: Although more difficult to implement, consider TV or radio appearances to be an important adjunct of your marketing plan. A radio appearance conveys the message to the listening public that the station respects your views. TV appearances convey the same message, possibly with more impact, but are generally more difficult to obtain. Media appearances are more effective than paid advertisements because the guest appearance implies there is a genuine interest in having you speak.

Seminars and Speaking Opportunities

If you feel comfortable addressing groups of people, then public speaking engagements provide many opportunities for you to communicate your message and to enhance your reputation as a qualified professional. The audience for speaking engagements is varied and includes chambers of commerce, charitable or civic organizations, libraries, alumni groups and joint programs with other professionals such as banks, insurance companies or brokers. Remember, it is advantageous to speak at meetings of your state society of CPAs and to keep your colleagues up to date on PFP activities. Approach these organizations with topics you are ready to speak on.

As an alternative, organize your own

seminars. Also, follow the path of many successful practitioners and cosponsor seminars with other financial services professionals to promote the team concept of financial planning.

In addition to the advance promotion you will do for your seminar or speaking engagement, do not forget to send out a press release after your speech. Highlight the significant points made in your presentation and stress your professional affiliations and credentials. Also, prepare a press release anytime you attend a continuing professional education course or conference.

Writing Opportunities

Seek out the countless opportunities to write articles on PFP topics. These opportunities help establish your expertise and familiarize the audience with your name and capabilities. Find opportunities that reach prospective clients and referral sources. The newsletters of local medical and dental societies, or other professional groups outside the financial community, are ideal targets.

It is important to establish professional expertise by writing. Article reprints may be strategically placed in waiting areas in your office or mailed to appropriate clients and other referral sources when the content of the article is appropriate.

Brochures

Attractive and informative brochures are another way to inform clients about the availability of your PFP services. Brochures carry a message and should make a good first impression. To catch a client's or prospective client's attention, the brochure should tell what problems PFP might solve, such as how PFP can help plan for retirement, how PFP can reduce insurance costs or how PFP can save time, taxes and costs through estate planning.

Brochures should be attractive, direct and clearly presented. Brochures can be handed out or 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 giveaway materials used at seminars or other meetings.

Newsletters

Many people are unnerved at the prospect of composing a newsletter, but there are benefits to reap from this regular communication with clients and prospects. Newsletters are effective in keeping your market informed while allowing you to promote your services and expertise. A newsletter can be as simple as a "newsy" letter format that highlights tips and relevant news items you have collected over a period of time. A regular feature of your newsletter can promote your PFP services and the benefits of enlisting you for financial planning.

PFP articles inform clients, potential clients and other interested parties about what you are doing both professionally and in the community and the various PFP services provided. Although personalized newsletters communicate more effectively, the time and energy necessary to produce a quality product is great. Therefore, some practitioners use a "canned" newsletter; generally, one that is personalized for you by its vendor.

Advertising

Advertising is an effective method for promoting your PFP services and your specialty designations. Paid advertising can be placed in the yellow pages, newspapers and local TV and radio. Because first impressions are important, the tone of your advertisement is important. CPAs who advertise should determine whether state securities regulations apply to CPAs holding themselves out to the public as providing PFP services. If they do, you may need to register as an investment adviser.

Conclusion

You are the key to the success of any of these programs that you can adopt to promote your PFP practice. Writing articles will not generate new clients unless you see that reprints reach your prospective client base. Likewise, making presentations will not turn up new clients unless you personally contact the attendees to investigate the possibility of their becoming clients. If you sit back, they will take your ideas to their present adviser. Thus, building your practice is directly related to the amount of time and effort you put in. ◆

Financial Planning for Ranchers

By Connie A. Brezik

Connie A. Brezik, CPA/PFS of McGladrey & Pullen, Casper, WY, reviews the special planning needs of ranchers and those who raise livestock.

Ranchers face the same general financial planning issues that affect all of our small business clients. But there are some special concerns. First and most important is the weather. The weather can dictate how well a rancher will do, financially and otherwise. Many of the financial planning issues affecting ranchers are directly influenced by the weather. And ranchers have no control over it.

Because a rancher's products, including cattle and sheep, are traded commodities, the rancher must always face the whims of the market. Prices tend to be volatile. If a rancher is not large enough to warehouse ready-for-sale stock until prices increase sufficiently, the stock must be sold at the current market price, which may or may not be profitable. Consideration should also be given to using hedging transactions through the offices of an experienced broker to attempt to protect against price volatility.

Ranching—that is raising cattle and sheep—is not limited to the West. To a varying degree there are cattle and sheep operations all over the country. While ranches in the West tend to cover many acres, the cost per acre can be low when compared to the higher cost but smaller acreage employed elsewhere. Regardless of where ranching is carried on, it is not a liquid business. It requires an expanse of land.

This article focuses on the special planning considerations needed for ranchers.

Cash Management Planning

Cash management and budgeting are critical for ranchers because the majority of their income is not received evenly throughout the year. Their income is

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Financial Planning for Ranchers

Continued from page 9

received in one or two lump sums when they sell their livestock. Those payments have to last through the months when there are only expenses. Ranchers often have to draw on their line of credit. Thus, managing cash flow to prevent excess borrowing can mean the difference between operating in the black or in the red.

A rancher's budget, like everyone else's, is usually based on the prior year's income and expenses. However, those two uncontrollable variables, weather and pricing, can significantly affect the budget, making continual revisions necessary.

For instance, a major spring blizzard can cause the death of many lambs or calves. Not only does this cause a loss of expected income for the current year, the cash flow for the next year is decreased. This can result in increased borrowing and interest costs. Unlike other businesses, ranchers cannot protect their inventory—livestock—through insurance

Another weather problem is drought, which prevents the growth of adequate pasture grasses and hay. This requires the rancher to purchase more feed for the following winter. A rancher unable to purchase feed to cover drought induced shortages may be forced to sell off part of the herd to raise the needed cash.

This in turn, creates the financial burden of rebuilding the herd. Some ranchers, when conditions improve, borrow and purchase replacement animals all at once. Others attempt to replace these animals over time through raised calves and lambs. This reduces the rancher's annual income because these animals are not available for sale.

Sheep ranchers will soon be faced with a special serious cash management problem. The federal government's wool incentive program will be phased out completely over the next few years. This wool subsidy program has been in place to protect the U.S. wool market from imports. Sluggish consumer demand and Australia's large wool stockpile has tended to depress world wool prices in recent years. Money for this program is collected as a tariff on imports and redistributed to ranchers in this country.

According to one Wyoming rancher, the wool incentive program meant the difference between just breaking even or making a small profit and going broke. For some sheep ranchers, this incentive program has accounted for one-third of their income. The elimination of this government program, in addition to other problems such as rangeland reforms and added restrictions on predator controls, may drive a lot of sheep ranchers out of business.

Table

Drought Provisions

Calculation of deferred ordinary income on nonbreeding livestock for 1992:

		Number of animals sold		Total Income
		Calves	Lambs	Deferred
1992	(a)	395	975	
1991		302	653	
1990		275	799	
1987*		290	504	
Total sold 1991, 1990 and 1987		867	1,956	
Average sold during 1991, 1990 and 1987	(b)	289	652	
Excess number of animals sold due to drought conditions	(a) – (b)	106	323	
Multiplied by ordinary income per animal sold in 1992		$ 455	$ 46	
Total income deferred for one year under Section 451 (e)		$48,230	$14,858	$63,088

*1988 and 1989 were drought years and, therefore, are not included in the calculation.

Investment Planning

Oftentimes a rancher's total investment is tied up in the ranch, generally considered to be an illiquid asset. From an investment planning view, this is probably the ultimate nondiversification situation. Thus, if and when investable funds become available, consideration should be given to directing them towards nonagricultural related investments.

Income Tax Planning

There are many provisions in the tax law that provide ranchers with opportunities for income tax planning. Generally, taxpayers who produce, buy or sell merchandise must use inventories and the accrual method of accounting for purchases and sales. Ranchers, who fall under the definition of farmers, are allowed to choose between several methods of accounting, including the cash method. Under the cash method, the increase in the value of livestock can be excluded from taxable income until the livestock is sold. This is not necessarily true under other available accounting methods. In addition, inventories do not have to be kept under the cash method. Some ranch entities, such as those owned by large corporations, must use the accrual method.

Normally, prepaid expenses of nonranchers or nonfarmers are not deductible in the year paid. However, ranchers are allowed to deduct prepaid expenses for feed, seed, fertilizer and other ranch supplies. The total deductible prepaid expenses may be limited to one half of all the other deductible ranching expenses for the year. In the case of prepaid feed, the prepayment should have a business purpose, not be solely for tax avoidance and cannot materially distort the taxpayer's income. For a rancher with available cash, there is

a solid opportunity to advantageously time the purchases of qualifying items for business reasons and to achieve favorable income shifting between tax years.

Ranchers suffering from drought conditions are provided with special tax breaks. The provisions differ for breeding and nonbreeding livestock. Bulls, cows, rams, bucks and ewes are considered breeding livestock. Calves, steers and lambs are nonbreeding livestock.

Income from the sale of nonbreeding livestock, in excess of the number the rancher would have normally sold, can be deferred for one year for cash basis taxpayers. (See the Table on page 10 for an example of how the deferral is computed.) To qualify for the deferral, a ranch's geographical area must be designated as a drought region that is eligible for assistance from the federal government. Only taxpayers whose principal business is ranching can take advantage of this deferral.

If, because of drought conditions, livestock held for draft, breeding or dairy purposes are sold or exchanged in excess of the number the rancher would normally sell in a taxable year, the sale or exchange can be treated as an involuntary conversion. If the livestock is replaced within two years, the gain on the sale or exchange of these animals is not reported as taxable income. The cash received from the drought-related sales must be reinvested in like-kind animals to obtain the deferral. The deferred gain, however, reduces the basis of the replacement animals.

Estate Planning

Planning to minimize estate taxes can be challenging for any client. The special challenge in estate planning for ranchers is keeping the ranch in the family and not losing it to death taxes.

The challenge arises because ranchers typically own a significant amount of land but may not have many other liquid assets. Thus, it could prove difficult to provide for heirs who are not involved in the ranch operations. This situation is made more difficult when there is a limited cash flow.

CPAs should consider the options available that would prevent a forced sale of the ranch in order to pay death taxes. One method of providing liquidity for death taxes is the judicious use of life insurance. In addition, there are also two tax law provisions the ranching family can use to its advantage: the election of special-use valuation for real estate (IRC section 2032A) and the election to defer the payment of estate taxes (IRC section 6166(a)).

In an appropriate case, the special-use valuation election could work to reduce the estate tax liability of a deceased rancher. By valuing the ranch on its current-use value, rather than its highest and best-use value, estate tax may be reduced.

The special-use valuation election is made on the estate tax return. The property must be qualified real estate (that is, used in ranching) and the adjusted value of real and personal property used in ranching must be at least 50 percent of the adjusted value of the gross estate. The adjusted values are based on the highest and best use of the property. In addition, the decedent or a family member must own the property and "materially participate" in the ranching operation for five of the eight years preceding the decedent's death. If the surviving spouse inherits the qualifying property, a less stringent "active management" standard can be used to satisfy the "material participation" standard.

If within ten years the heirs dispose of or cease to use the property for its qualified use, an additional tax is imposed. The maximum additional tax is the amount of tax that would have been paid if the special-use valuation had not been elected.

Electing to defer the payment of estate tax attributable to a closely held business interest might allow the ranch family time to raise the necessary funds for estate taxes and prevent a sale of property. If the election can be made, the tax can be paid in up to ten equal annual installments starting no later than five years after the regular due date.

To qualify for the deferral election, the value of the ranching business interest must be more than 35 percent of the adjusted gross estate. Although the deferred estate tax payments are subject to interest, a special 4 percent interest rate applies to a portion of the deferred estate tax.

A potential drawback to the deferral election is the placing of a tax lien on the ranch. This could become an impediment to future financing or estate planning.

Other Planning Considerations

When appropriate, the following should be considered when planning for the rancher:

- Charitable gifts of stock and crops.
- Education funding planning through gifts of stock or crops.
- For the rancher in fiscal difficulty, the special federal bankruptcy law provisions applicable to agribusiness owners.

Conclusion

Financial planning for ranchers includes some opportunities that do not exist for other businesses. Being aware of the cash management issues and income tax and estate planning provisions allows CPAs to help their ranching clients meet their goals. Even though we probably cannot help ranchers with some problems such as fighting predators and rangeland reforms, we can help them keep the ranch profitable and in the family. These may be our most important challenges. ◆

Business Succession Video Course Available Early October

A new two-hour videocourse, Profitable Business Succession Planning, available in early October, introduces you to business succession planning. It equips you with the information needed to help a closely held business owner develop a workable plan for transferring the business to the next generation.

The course, which provides up to eight hours of CPE credit, highlights gathering data, determining the value of the business, goal setting, identifying potential successors, using the available transfer tools, and communicating the plan.

To order the new videocourse, call the AICPA Order Department at (800) 862-4272 (select sub-menu #1) and ask for Profitable Business Succession Planning, product 180416PLB for VHS Tape and Manual at $129.00 and product 350728PLB for additional manuals at $30.00 each.

From the Chairman's Corner: Reflections on My First Year

Continued from page 2

Practice Assistance

Education and practice guidance for you, the PFP Section members, is in full swing. As I have mentioned in the past, our Annual PFP Technical Conference, in addition to receiving high ratings, was sold out. I recently attended the first ever AICPA Investment Planning conference and it too was a smash. Thanks again to Lyle Benson, CPA/PFS, Coyne & McClean, Chartered, Baltimore, MD, and his conference planning task force and the PFP Division Staff for the great job of putting these conferences together.

Next year's lineup is set. Mark your calendar for January 9-11, 1995, for the Eighth Annual PFP Technical Conference in Phoenix, AZ and June 12-13, 1995, for the Second Annual Investment Planning Conference to be held in Chicago, city of the big shoulders, deep pockets and the Cubs. (By now, you should have received your early-bird conference brochure for the PFP Technical Conference.)

Our subcommittees are in various stages of projects designed to assist you, including practice aids on registration issues, compensation disclosure issues, communications to clients (including sample language). Also scheduled for release in the near future, having completed its exposure procedure, is Statement on Responsibility in PFP Practice No. 4, *Monitoring and Updating Engagements—Functions and Responsibilities.*

The Members Services Subcommittee has a full plate of projects including what may be the most obvious change in members benefits in years. We are in the process of redesigning the *PFP Manual.* In the future you will receive an annual update of a new bound version, the *PFP Practice Handbook.* The *PFP Practice Handbook* will provide you with up-to-date information on PFP Division administration, the Personal Financial Specialist program, and state society PFP committee chairpersons. These people are key contacts if you are just getting started. The *PFP Practice Handbook* will also offer practical guidance on issues ranging from establishing a PFP practice, developing a business plan and marketing your services to sample work programs and illustrative plans.

The PFP Library Series will contain stand-alone paperback reference guides. You will still be able to keep the paperback series in your ring binders, if you wish, but we hope you find the individual volumes convenient to take with you to clients. The PFP Library Series will follow the format of the existing volumes, such as the *Guide to Planning for the Closely Held Business Owner and the Guide to Planning for Divorce* (the *Guide to Planning for Divorce* was mailed in August and you should have received your copy by now).

Liability Insurance

We are also concerned with making sure your professional liability insurance coverage meets your needs. We met with the AICPA professional liability insurance carrier in January and expressed concern with new language in the policies the AICPA sponsors. We have been assured by all the players involved that the intent was not to change or diminish the coverage for certain PFP activities even though the language itself seems to do just that. Mitchell Freedman, CPA/PFS, of Sherman Oaks, CA, is heading a task force to follow up on the carrier's promise to clarify the policy language and to identify the types of services that our members need coverage for that are not currently listed in our existing policy. If you are asked to participate in a survey to identify your investment advisory activities, please help us by completing the survey quickly and returning it as soon as possible. It is critical that we have an idea what level of coverage is needed and the extent of member interest in the coverage.

Changing of the Guard

The last meeting of my first year as chairman was held in August in my home state of Colorado. I am encouraged by the progress made this past year. But I have said goodbye to some Executive Committee members who have been my mentors over the years. Stu Kessler, CPA/PFS, my predecessor, is finishing seven years of service to the Division. I owe him a personal debt of gratitude for recommending me as Chairman and for both offering me guidance and advice while at the same time letting me run the show in my own style.

Irv Rothenberg, CPA/PFS, and I go all the way back to developing the original PFP specialist examination outline in 1983, for the 1985 examination held in Colorado. Our friendship, while long distance, is sealed with our common efforts over two decades. I appreciate the commitment Irv has made over these years to the financial planning community.

Ron Linder, CPA/PFS, has been my personal counselor this past year. He has constantly urged us to shed our paradigms and look anew at what it is we are about. Ron's passion for these issues has helped us all look at them differently.

Bob Batty, CPA/PFS, has contributed for three years as a member of our PFP Practice Subcommittee and also three years as its chair. He then joined the Executive Committee. Bob has agreed to help Irv Rothenberg and the Executive Committee with a new project, Town Hall Meetings. Keep an eye out in your state society publications for when we will visit your area. Thanks, Bob, for your continued assistance.

Bernie Blum, CPA/PFS, is also leaving the Executive Committee this year. He will, however, continue to carry our message in his role as a member of the National Association of State Boards of Accountancy (NASBA). Bernie has served three years on our committee and will ably represent CPA financial planners' interests as NASBA deals with specialization, continuing education and state regulation issues.

I urge each of you to thank members of the Executive Committee, the Division's staff and Subcommittee members the next time you see them. Everyone is giving great effort and significant time towards the goal of making the CPA the premier provider of financial planning services. And from this corner, it is working. Like I said, it is obvious. ◆

Simplified Education Funding Monitoring Form

By Alan M. Rothstein and Kathryn K. Norris

Alan M. Rothstein, CPA/PFS, and Kathryn K. Norris, CFP, both of Rothstein & Co., Avon, CT, explain the workings of the new Report for Monitoring Education Fund.

Once a client sets, with your assistance, the education funding goal for a child, you might then be asked to monitor the progress. Although many software programs have the capability of assisting in this function, we have prepared a new simplified approach that you can effectively use for this purpose (see Table III, Report for Monitoring Education Fund). (For your convenience, there is a blank full-size copy of the Report to permit easy duplicating.)

The Report allows you to easily compare the actual and projected rates of return of the education fund and the actual and projected rates of college cost inflation. If you believe your initial assumptions are still valid for the long term, but your computations using the form indicate a funding shortfall, you may recommend that your client increase the annual contribution and/or the investment risk. If, however, you believe your original assumptions are no longer valid for the long term, you can recompute the required annual contribution and projected annual fund balances needed to reach the client's goal. For example, if the actual college cost inflation rate (Line 11) begins to vary materially from the projected inflation rate (Line 12), you are on notice that your original assumptions might need adjustment.

During the period you monitor your client's education funding program, you will have to collect the following information annually

- Actual client contributions to the education fund.
- Earnings on the client's education fund (either before or after tax)
- Any withdrawals from the fund principal. (Although non-tax withdrawals have not been explicitly incorporated in this form, they may easily be accounted for in your calculations.)

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TABLE I

Computation of Amount Required For Educational Funding

Line No.		
1	Child's name	Hart
2	Child's age	8
3	Years remaining before post-secondary education	10
4	Years attending post-secondary education	4
5	Estimated current cost of post-secondary education	$ 10,000
6	Estimated after tax return on investment	8 %
7	Estimated post-secondary education inflation rate	6 %
8	Real rate of return target (Line 6 − Line 7)	2 %
	Lump-Sum Calculation	
9	Step 1: Compute current cost of education (Line 4 × Line 5)	$ 40,000
10	Step 2: Compute the inflation adjusted time period (Line 3 + ½ Line 4)	12
11	Step 3: Compute estimated future education cost [Line 9 × future value factor (from Future Value of $1 Compounded Annually Table using Line 10 and Line 7)]	$ 80,500
12	Step 4: Lump sum required [Line 11 × present value factor (from Present Value of $1 Table using Line 10 and Line 6)]	$ 32,000
13	Current funds set aside for education plus aid available	$ 7,000
14	Step 5: Determine additional amount to fund (Line 12 − Line 13)	$ 25,000
	Monthly Contribution Calculation	
15	Step 6: Calculate annual additional savings required [Line 14 ÷ annuity factor (7.536: from Present Value of an Annuity of $1 Table, using 12 years and 8 percent)]	$ 3,317
16	Step 7: Compute monthly savings (Line 15 ÷ 12)	$ 276

TABLE II

Present Value of an Annuity of $1

Period	Percent 4	5	6	7	8	9	10	11
1	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901
2	1.886	1.859	1.833	1.808	1.783	1.759	1.736	1.713
3	2.775	2.723	2.673	2.624	2.577	2.531	2.487	2.444
4	3.630	3.546	3.465	3.387	3.312	3.240	3.170	3.102
5	4.452	4.329	4.212	4.100	3.993	3.890	3.791	3.696
6	5.242	5.076	4.917	4.767	4.623	4.486	4.355	4.231
7	6.002	5.786	5.582	5.389	5.206	5.033	4.868	4 712
8	6.733	6.463	6.210	5.971	5.747	5.535	5.335	5.146
9	7.435	7.108	6.802	6.515	6.247	5.995	5.759	5.537
10	8.111	7.722	7.360	7.024	6.710	6.418	6.145	5.889
11	8.760	8.306	7.887	7.499	7.139	6.805	6.495	6.207
12	9.385	8.863	8.384	7.943	7.536	7.161	6.814	6.492
13	9.986	9.394	8.853	8.358	7.904	7.487	7.103	6.750
14	10.563	9.899	9.295	8.745	8.244	7.786	7.367	6.982
15	11.118	10.380	9.712	9.108	8.559	8.061	7.606	7.191
16	11.652	10.838	10.106	9.447	8.851	8.313	7.824	7.379
17	12.166	11.274	10.477	9.763	9.122	8.544	8.022	7.549
18	12.659	11.690	10.828	10.059	9.372	8.756	8.201	7.702
19	13.134	12.085	11.158	10.336	9.604	8.950	8.365	7.839
20	13.590	12.462	11.470	10.594	9.818	9.129	8.514	7.963
25	15.622	14.094	12.783	11.654	10.675	9.823	9.077	8.422
30	17.292	15.372	13.765	12.409	11.258	10.274	9.427	8.694

TABLE III

Report for Monitoring Education Fund

Line	Funding Years			
	Year 1	Year 2	Year 3	Year 4
1. Beginning of Year Balance (Year 1: from line 13, Computation of Amount Required for Education Funding;Table I; Later years: from line 13, below, prior year)				
2. Projected Annual Contribution (from line 15, Table I, Computation of Amount Required for Education Funding)				
3. Adjustment to Projected Contribution (from line 15, below, for prior year)				
4. Total Required Contribution (line 1 + line 3)				
5. Total Actual contribution (supplied by client, assume made at beginning of year)				
6. Beginning Balance + Actual Contribution (line 1 + line 5)				
7. Annual After-Tax Earnings (supplied by client, you may calculate tax before entering)				
8. Actual Rate of Return (line 7 ÷ line 6)				
9. Projected Rate of Return (from line 6, Computation of Amount Required for Education Funding)				
10. Actual College Costs (from College Board or a College Admissions Office)				
11. Actual College Cost Inflation (compute percentage change in college cost from line 10)				
12. Projected College Cost Inflation (from Line 7, Table I, Computation of Amount Required for Education Funding)				
13. Actual End-of-Year Fund Balance (line 6 + line 7, assuming no withdrawals other than taxes)				
14. Projected End-of-Year Balance (From [line 1 + line 4] × [1 + Projected Rate of Return (line 9, above)])				
15. Annual Adjustment (line 13 − line 14)				

■ Actual annual college costs.

We have prepared the following example to illustrate how the Report highlights the impact of the variables. (see Table IV).

Mr. and Mrs. Ford have an eight year old daughter, Hart, for whom they have been putting money away, from time to time, in a college education fund. When they come to see you, they have amassed $7,000. Using the Sample Computation of Amount Required for Educational Funding form (Table I) you determine that $3,317 (Line 15) is the required additional annual savings. In year one, the Fords contribute $2,000. In subsequent years, they contribute $5,000, $3,000 and $3,085 respectively (line 5). Although the projected rate of return is 8 percent, the actual rate for each year is 7, 8, 10 and 5 percent (line 8). The annual cost of college, estimated to be $10,000 (line 7) at a projected inflation rate of 6 percent (line 9) is subject to actual inflation rates of 5, 8 and 6 percent (line 8).

PFP Manual: Later this fall, you will receive replacement pages for the Education Funding Module at ¶3/700 in your PFP Manual. The pages will include a corrected Sample Computation of Amount Required For Education Funding, a new Table III, Present Value of an Annuity of $1, and the new simplified Report for Monitoring an Education Fund. ◆

TABLE IV

Report for Monitoring Education Fund

Line	Funding Years			
	Year 1	Year 2	Year 3	Year 4
1. Beginning of Year Balance (Year 1: from line 13, Computation of Amount Required for Education Funding;Table I; Later years: from line 13, below, prior year)	7,000	9,630	15,800	20,680
2. Projected Annual Contribution (from line 15, Table I, Computation of Amount Required for Education Funding)	3,317	3,317	3,317	3,317
3. Adjustment to Projected Contribution (from line 15, below, for prior year)	-0-	1,512	<184>	<232>
4. Total Required Contribution (line 1 + line 3)	3,317	4,829	3,133	3,085
5. Total Actual contribution (supplied by client, assume made at beginning of year)	2,000	5,000	3,000	3,085
6. Beginning Balance + Actual Contribution (line 1 + line 5)	9,000	14,630	18,800	23,765
7. Annual After-Tax Earnings (supplied by client, you may calculate tax before entering)	630	1,170	1,880	1,188
8. Actual Rate of Return (line 7÷ line 6)	7%	8%	10%	5%
9. Projected Rate of Return (from line 6, Computation of Amount Required for Education Funding)	8%	8%	8%	8%
10. Actual College Costs (from College Board or a College Admissions Office)	10,000	10,600	11,130	12,020
11. Actual College Cost Inflation (compute percentage change in college cost from line 10)	N/A	6%	5%	8%
12. Projected College Cost Inflation (from Line 7, Table I, Computation of Amount Required for Education Funding)	6%	6%	6%	6%
13. Actual End-of-Year Fund Balance (line 6 + line 7, assuming no withdrawals other than taxes)	9,630	15,800	20,680	24,953
14. Projected End-of-Year Balance (From [line 1 + line 4] × [1 + Projected Rate of Return (line 9, above)])	11,142	15,616	20,448	25,666
15. Annual Adjustment (line 13 – line 14)	<1,512>	184	232	<713>

1995 Personal Financial Planning Technical Conference — Addressing Client Needs in a Changing Environment

Plans are being finalized for the Eighth Annual Personal Financial Planning Technical Conference—Addressing Client Needs in a Changing Environment—to be held at the Pointe Hilton at Tapatio Cliffs, in Phoenix, AZ, on January 9-11, 1995. This is the largest conference addressing the specific needs of CPA financial planners such as yourself.

The 1995 Conference will offer up to 21 hours of continuing professional education credits in a variety of advanced-level sessions. According to the Conference Advisory Committee Chair, Steve Levey, CPA/PFS, of Gelfond Hochstadt Pangburn Stark & Co., Denver, CO, "The agenda has been designed to help you develop the skills to meet your clients' needs and operate a profitable PFP practice. If you are looking for innovative ideas and strategies, plan to join your colleagues at this exciting three-day program."

Top-Notch Technical Sessions

The keynote address will focus on the issues your clients face as they approach the next millennium. Following this presentation, you can pick and choose among 32 technical sessions, grouped into tracks that focus on investment planning, retirement planning, estate planning, risk management and special issues.

Investment planning topics include asset allocation techniques, analyzing the market for fixed income investments and strategies for selecting mutual funds. In addition, there will be a Tuesday afternoon panel discussion focusing on appropriate portfolio construction techniques for your clients.

William L. Raby, CPA/PFS, CFP, Tempe, AZ, committee member, explained that, "To help you prepare your clients for their retirement, the conference includes sessions on building retirement savings in both qualified plans and deferred compensation arrangements, as well as how to develop strategies for taking distributions from those plans."

Barton C. Francis, CPA, CFP, Shellenhamer & Company, Palmyra, PA, a member of the committee, reported that, "The estate planning program includes techniques involving family limited partnerships; planning opportunities for moderate sized estate; maximizing the effectiveness of GRITs, GRATs and GRUTs and tips for effective post-mortem estate planning."

"Your clients' insurance and risk management concerns will be addressed in sessions on eldercare planning and how to protect against the devastating effects of

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1995 Conference

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fires, floods, riots, storms and other disasters," related committee member Andrew B. Blackman, CPA/PFS, CFP, Shapiro & Lobel, New York. He added, "You will also learn how to evaluate insurance illustrations."

Other sessions of special interest include income tax planning with tax deferred annuities and strategies for safeguarding your clients' assets. "In addition, you will learn about tips for dealing with challenging issues in buy-sell planning," declared committee member Robert E. Zobel, CPA/PFS, Deloitte & Touche, Fort Lauderdale, FL.

Keys to Profitability

In addition to the technical sessions, the conference will feature a series of profitability workshops on Wednesday morning. Lyle K. Benson, Jr., CPA/PFS, Coyne & McClean Chartered, Baltimore MD, committee member and the chair of the 1993 and 1994 Technical Conference and the 1994 Investment Conference, stated that, "At these sessions you can learn from the shared experiences of other practitioners and survey the practice issues involved in areas such as working with insurance professionals or providing investment planning services."

Other workshops will deal with setting realistic client expectations, automating your practice to increase the profitability of your PFP services, niche marketing techniques, and using *PFP Partner* to enhance your productivity. Stephan R. Leimberg, Esq., CLU, Professor, American College, Bryn Mawr, PA, will lead an exciting closing session focusing on new ideas for marketing your practice.

Exciting Extracurricular Activities

In addition to the traditional welcoming reception and PFP Fun Run/Walk, the PFP Technical Conference will feature an optional chuck wagon supper, complete with barbecue chicken, ribs and all the "fixins."

Two special tours have been arranged for your spouses and guests. On Monday, January 9, 1995, there will be an Arabian horse ranch tour. Tuesday's "Culture and Cactus" tour exposes participants to the beauty of desert plant life, an excursion through citrus groves and ends at the Heard Indian Museum.

More information on the cost and registration procedures for these extracurricular activities is included in the conference brochure coming your way in October. If you have already registered, the information will be included in your confirmation letter.

Register Today

The PFP Technical Conference offers you the opportunity to enhance your technical skills, discover tips for profitably managing and marketing your PFP practice, hear the ideas and strategies of nationally recognized speakers, exchange practice tips with other CPA financial planners and investigate a wide variety of products and services on exhibit.

Last year's conference was a sold-out success! Do not miss this opportunity to sharpen your skills and learn new techniques while enjoying the midwinter warmth of the scenic southwest. Complete and mail your registration form today. If you have not received a conference brochure, please call AICPA Meetings and Travel at 201-938-3232.◆

AICPA
American Institute of Certified Public Accountants
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

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