8-1996

Planner, Volume 11, Number 3, August-September 1996

American Institute of Certified Public Accountants (AICPA)

AUGUST—SEPTEMBER 1996

PLANNER

IDEAS FROM LEADING EXPERTS IN FINANCIAL PLANNING

TRENDWATCH

Meeting the financial planning needs of baby boomers. Baby boomers—people born between 1946 and 1966—are expected to make the greatest generational transfer of wealth in U.S. history. The boomers are thinking about transferring their business, investment, and retirement assets, which may total billions of dollars, to their children. One issue they face: high rates of transfer tax (37 percent to 55 percent). To help them reduce these taxes, Harvey Berger of Grant Thornton recommends using a family limited partnerships. Berger thinks this strategy may be appropriate for clients who own businesses, rental property, other real estate and securities portfolios. "But," Berger warns, "it is somewhat complicated." *Tax & Business Adviser*, May/June 1996.

Persistence pays on Wall Street. Stick with your old strategies to survive the current stock market, advises James O'Shaughnessy in his book, *What Works on Wall Street*, which will be published by McGraw-Hill. O'Shaughnessy, president of O'Shaughnessy Capital Management and a consultant to five major Wall Street brokerages, conducted an exhaustive study of the stock market to test the long-term performance of sixty different investment strategies. Some were value strategies, others growth strategies. Value

Continued on page 2

AICPA Investment Planning Conference Covers New Strategies

In his welcoming remarks at the AICPA's 1996 Investment Planning Conference in Orlando, Florida, on June 20 and 21, 1996, Wallace L. Head told the attendees that clients of CPAs not only are demanding "an ever increasing array of services," but also their "expectations in the performance of those services" are increasing. Head is Managing Director at Sanford C. Bernstein & Co., Inc., Chicago, Illinois. The conference gave attendees many opportunities to expand their knowledge in the investment area and thereby enhance their performance of these services.

Head turned the conference over to Roger G. Ibbotson, Ph.D., Professor, Yale School of Management and Chairman and President of Ibbotson Associates, Chica-

Continued on page 4

WHAT'S INSIDE

Time is Running Out for PFS Substitution

AICPA members with the CFP or ChFC designation can earn the PFS designation without taking the PFS exam. The cutoff date is December 31, 1996. Call (800) 862-4272 (menu #1) and request free product number G000105.

A Window of Opportunity Opens

By Robert S. Keebler, CPA, MST, with John A. Herbers, Esq.

Robert S. Keebler, CPA, MST, is with Schumaker, Romenesko & Associates in Green Bay, Wisconsin. John A Herbers, Esq., is with Reinhart, Boerner, Van Deuren, Norris & Rieselbach S.C. in Milwaukee, Wisconsin. Here they discuss the issues and opportunities for personal financial planners associated with certain provisions of the recently enacted minimum-wage bill.

Congress introduced the 15-percent excise tax on large retirement plan balances and distributions in the Tax Reform Act of 1986. On August 20, 1996, President Clinton signed the minimum wage bill, which included provisions for avoiding this excise tax. Buried in the wage law, these provisions will generate significant opportunities for personal financial planners to assist clients in deciding whether the provisions related to the excise tax will benefit them.

Sections 1401 and 1452 of the law provide a three-year window of opportunity for clients with large qualified plans, sec-

Continued on page 2

AICPA

TrendWatch

Continued from page 1

strategies had an edge over growth strategies, but either type of strategy will succeed only if it's followed through despite market changes, O'Shaughnessy concludes. He asserts that the S&P 500 beats 80 percent of the returns of mutual funds tracked by Morningstar because portfolio managers don't stick to their strategies, not because they're bad managers. "The whole point," says O'Shaugnessy, "is . . . to find a strategy that works and stick to it. It's really boring and very profitable." Andrew Osterland, "The Value of Stick-to-itiveness," *Financial World,* June 17, 1996.

Investing in WEBS. Individuals can invest in overseas markets by trading on the American Stock Exchange by buying World Equity Benchmark Shares (WEBS). The shares represent the benchmark or their equivalent shares of companies in particular countries. The selection of stocks, which is based on the Morgan Stanley Capital International Indexes, tries to mirror approximately 60 percent of the market capitalization in each country's market, thereby giving investors an accurate representation of its blue chips. The shares replicate the broad market and their net asset values are designed to stay as close as possible to their market prices. Neil J. George, Jr., "Growth on the Cheap," *Personal Finance,* May 8, 1996. ◆

A Window of Opportunity Opens

Continued from page 1

tion 403(b) plans and IRAs to withdraw funds without paying the 15-percent excess distributions tax. In essence, section 1401 suspends the excess distributions tax on lump sum distributions, while section 1452 repeals the excess distributions tax on other retirement distributions. This window of opportunity is open from January 1, 1997 to December 31, 1999.

Congress even provided an important bonus in that distributions during this period will not affect a taxpayer's 1986 grandfathered amount. On the other hand, Congress also took away the five-year averaging strategy for lump sums.

Your clients may soon be asking, "What do I do now?" The answer to this question, like the answer to most issues associated with retirement distribution, involves addressing a complex set of interrelated issues associated with estate tax, income tax and excise tax, not to mention the client's age, health, investment returns and financial planning objectives. Within this framework, the adviser must remember that the true goal is to "create and preserve wealth," not simply to reduce tax.

From the client's perspective, the problem appears overwhelming. The client faces a series of estate, income and excise taxes that could reduce a $2 million IRA by between 75 percent and 85 percent.

The new tax raises a simple question illustrated in the case of Dr. Jones. Jones has $3 million in his IRA. He made an excise-tax grandfather-election of $900,000 in 1986. He is 67 years old and his wife, 65. If he were to die today, an excise tax of $271, 477 would be imposed. At this time, Jones has several options including maximizing tax deferral, withdrawing all or a portion of the $3 million or modeling alternatives that involve the careful use of the following tax planning opportunities:

- Threshold distribution of $155,000, inflation adjusted, after 1999.
- Maximizing income tax deferral.
- Taking substantial excise tax-free distributions in 1997, 1998 and 1999.
- Retaining the sum total of the grandfather amount and death exemption within the IRA.
- Developing a holistic plan designed to maximize overall wealth transfers to the children.

To date, several wealth creation strategies involving IRAs are beginning to emerge. These strategies focus on wealth creation involving tax deferral. To analyze these opportunities, the planner needs to develop a spreadsheet that examines the

Staying Wealthy

Also buried in the minimum wage bill is a provision that people who work well into their old age can defer taxes on retirement funds until they quit. At present, people age 70½ must begin withdrawing funds from their retirement accounts or pay a tax penalty equal to 50 percent of the amount the Internal Revenue Service thinks they should have withdrawn. Furthermore, if they die with too much money in their accounts, the IRS will claim 15 percent of the amount above the amount it calculates would be needed to provide $155,000 per year during their life expectancy according to actuarial charts.

Beginning in 1996, however, employees of any age can leave money in an employer-sponsored plan, such as a 401(k) or profit-sharing plan, as long as they don't own 5 percent or more of the company.

PLANNER, August–September 1996, Volume 11, Number 3. Publication and editorial office: AICPA, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881.

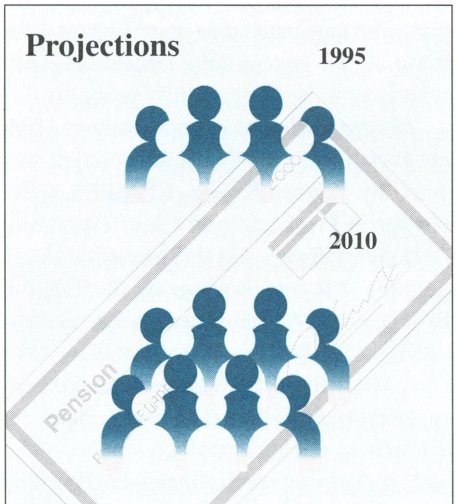
William Moran
Editor

Phyllis Bernstein, CPA
Director

various options over the life expectancy of the client, the client's spouse and their children.

One of the most promising strategies may be withdrawing a substantial amount excise-tax-free in 1997, 1998 and 1999, and subsequently investing the after-tax proceeds in a second-to-die life insurance policy held in an irrevocable trust. The insurance proceeds will then be available to cover the estate and excise taxes payable after the client's death and allow the children to keep the IRA intact. By paying the death taxes on the IRA from other sources, the children can leverage income tax deferral on the IRA over their remaining life expectancy. The amount to withdraw will generally depend on several factors including the person's age, net worth, other income and grandfather amount, if any, and whether he or she will be rated by the insurance companies.

Other strategies may simply involve taking distributions up to an amount that will leave the IRA with an amount equal to the sum of the grandfather amount and the death exemption, or simply up to the death-exemption amount. The practitioner should computer-model the alternatives before the client selects a course of action. The client must be willing to pay substantial income taxes over the next three years, taxes that might otherwise have been deferred for a generation or more into the future. ◆



According to the Association of Insurance and Financial Analysts, 1.9 million people retired in 1995, but 3.6 million people will retire annually by 2010.

Investment Adviser Amendments Advance

In June, the House and Senate each passed separate bills intended to streamline securities regulation and thereby improve capital formation. As of this time, a conference committee has not yet worked out the differences in the bills. The Senate version, S 1815, passed unanimously and offers significant reform for registered investment advisers with $25 million or more in assets under management. The bill defines assets under management as "the securities portfolios with respect to which an investment adviser provides continuous and regular supervisory or management services."

These registered investment advisers would be regulated solely by the Securities and Exchange Commission (SEC), while investment advisers with less than $25 million under management would remain under state jurisdiction. The bill also provides relief for smaller investment advisers in record-keeping, capital and bonding requirements.

The House bill does not contain any changes that have an impact on registered investment advisers.

The Senate bill generally exempts investment advisers who manage less than $25 million from SEC registration, but gives the SEC the authority to grant exceptions to this exemption. The SEC may exempt from state registration those advisers for whom registration would be "unfair" or "a burden on interstate commerce."

The AICPA recognized that the Senate bill's definition of assets under management could pose a problem for large firms with national or multistate practices because it does not include a variety of advisory activities that involve an investor's portfolio, such as asset allocation, and it brought this possibility to the attention of the Senate Banking Committee. The Committee's report noted the problem and stated that it intends the SEC to use its exemptive authority to permit the registration of such firms with the Commission.

In addition, the AICPA recognizes that many smaller investment advisers now must register in several states where they maintain clients. They must comply with diverse state laws, including each state's examination requirement. This bill would relieve these advisers of some of the regulatory burden. Specifically, the law restricts each state to enforcing only the requirements associated with books, records, capital and bonding of the state in which the investment adviser maintains his or her principal place of business. ◆

Expert Guidance on Estate Administration Services

CPAs are particularly qualified to serve as executors or administrators of estates because, as financial planners they have in-depth knowledge of their clients' personal and business assets. Guidance is available to CPAs serving in these capacities in a 2½-hour video presentation, *Expanding Estate Administration Services*. The video covers the will and other estate planning documents, the responsibilities of the executor and of the administrator, revocable living trusts and the use of a corporate fiduciary.The course moderator is Stuart Kessler, CPA/PFS, who is joined by panelists Joseph V. Falanga, CPA; David Gerson, CPA; Susan Petersen, CPA: Howard Safer, CPA/PFS; and Judith E. Siegel-Baum, JD.

Other topics include—

- Preparing the estate tax return.
- Tax elections on valuation of the estate, the time for paying the tax and the availability of deductions and exemptions.
- Terminating the estate.

Produced in cooperation with the PFP Member Section, the course is recommended for 8 hours of CPE credit (self and group study). The course level is basic and the format is VHS tape with a manual, which sells for $129 (product no. 180215PL9). An additional manual is $40 (product no. 350215PL9).

To order: call 1-800-862-4272 (dept. #1), fax to 1-800-362-5066 or write the AICPA Order Department, P.O. Box 2209, Jersey City, NJ 07303-2209. This course is also available through your state society. ◆

AICPA Investment Planning Conference Covers New Strategies

Continued from page 1

go, Illinois, a provider of financial market information. In his presentation entitled "Do Winners Repeat?" Ibbotson examined the patterns in the returns of mutual funds. He reported the results of his investigation of whether the past performance of mutual funds may be used to predict their future performance. Ibbotson concluded that "while the 'repeat-winner' pattern may not be a guide to beating the market, it appears to be a guide to beating the pack over the long term. Investors can improve their chances of superior relative performance by using historical ranking as their guide."

After Ibbotson's presentation, attendees dispersed to concurrent sessions. Highlights of these sessions include:

CPAs will become asset gatherers. The future of the fee-based CPA adviser is very bright, according to Donald B. Trone, founder and Executive Director of the Investment Management Council of Callan Associates, Inc., San Francisco, CA. In his presentation, Trone predicted that once the Internet is more widely used, the components of investment consulting will become a commodity. However, CPAs will have an edge in that arena, Trone said, because they can bring discipline, rigor and process to investment advising. The greatest growth in investing consulting services will be in the middle market (account size from $2 million to $200 million).

Trone predicted further that in this market, CPAs will be *the* asset gatherers by the end of the decade. Along with this trend, we will see continued growth in the registered investment advisor niche, greater demand for fiduciary training and education with the passage of the Uniform Investment Act and the establishment of consulting subsidiaries by money management firms.

Trone expects the middle market to experience more growth than the institutional market (account size $200 million and more) and the retail market (accounts less than $2 million). There will be fewer players in the institutional market, and compensation will fall in line with money management firms.

The commission-oriented segment of the retail market will see a decline in independent broker dealers, while the fee-based segment will be the growth area of this market. Asset gatherers within the brokerage industry will set up their own shops, books of business will sell at multiples comparable to the money management industry, and the Internet will foster growth of activity.

Reaching the high end of the market. The rich are different from you and me, F. Scott Fitzgerald asserted many years ago. But, like everyone else they want to feel that their investment advisers are attentive to their needs, says Suzanne Currie of the Investment Management Institute (IMI), New York, NY. In her presentation entitled "The Super Rich: Meeting the Investment Objectives of The Wealthy," Currie reported the findings of a survey of high net worth individuals that IMI conducted earlier this year. Almost 400 wealthy people, heirs and creators of wealth, were surveyed and 325 of these were interviewed face-to-face.

Currie highlighted the survey's findings. (Detailed results are available from IMI for $10,000). Defining consultants as advisers who were not broker-dealers or registered investment advisers, Currie reported that—

- Only 17 percent of those surveyed used consultants to help them manage their money.
- Among those who used consultants, the primary reason was help in selecting a money manager (90 percent).
- Approximately one-third of those surveyed used consultants to evaluate performance of their money managers (31 percent).
- Approximately one-quarter had consultants help them select alternative investment strategies.
- Only 10 percent sought the help of consultants in making investment decisions.

The wealthy do not rank returns as the most important factor in selecting a manager. More important was that the manager held similar beliefs, values and standards. As would be expected, attentive behavior was important. The wealthy also seek managers who take a long-term view rather than focus on results from quarter to quarter. They are looking for expertise and knowledge, but also value trustworthiness, good manners, sincerity, dependability and a caring attitude.

Curric advised financial planners to learn their clients' attitudes and beliefs before selecting a money manager for them. She also said that the wealthy consider education about their assets absolutely vital for them and succeeding generations and suggested that practitioners offer seminars on generational education every quarter or half year to family groups.

The transition to asset manager. High net worth individuals are the market targeted by Kaycee Krysty, CPA/PFS, CFP. Krysty is President and Chief Operating Officer of Tyee Asset Strategies, Inc., Seattle, WA and is chair of the AICPA PFP Executive Committee. In her presentation, "Taking the Plunge—How One CPA Made the Transition to Asset Manager," Krysty described the process she went through in deciding on her market niche and in planning the business. She pointed out the operational and compliance issues that arose as well as the issues associated with managing the business, reporting to clients, packaging the services, managing personal time, forming strategic partner-

TAKE YOUR PICK

In the process of selecting the right money manager for a client, Beth Gamel uses the following resources to identify candidates:

A. Past experience
B. Internally developed database
C. Brokerage firm databases
D. Purchased computer databases (for example, Mobius Group's M-Search®)
E. Published databases (for example, *Nelson's Directory of Investment Managers*)
F. Pension consultants (for example, Frank Russell, Callan)

JOIN AN ELITE GROUP

Dear Colleague:

"You might be able to get one of the certified public accountants who specialize in financial planning.... **Among them is an elite group of 1,600 personal financial specialists.**" This is what *Fortune* magazine told its readers in August 1996 about your CPA/PFS colleagues. We invite you to join our 1,600 CPA Personal Financial Specialists.

The next Personal Financial Specialist Examination is November 8, 1996. Enroll today. The enrollment cutoff is October 11. If you already earned the CFP designation, you can become a PFS *without* taking the PFS examination, provided you meet all the other accreditation requirements by December 31, 1996.

These days offering personal financial planning (PFP) services to your clients is not enough to differentiate you from your competitors. If you want your current and prospective clients to see you as ***the best professional*** to help them achieve their financial goals, you need to go a step further.

Set yourself apart with the Personal Financial Specialist (PFS) designation. Becoming a CPA/PFS makes you part of ***the most exclusive group of financial planners***. It tells clients and prospective clients that you are a breed apart—a consummate professional whose hard-earned savvy can help plan their financial lives.

As a PFS, you will receive several benefits including:

- **Marketing and Media kit**, including specific tangible tools to help you attract clients, such as camera- ready advertisements, radio scripts, yellow page ads, a speech and press release, advice on using the media to promote your practice, and more!
- **A unique, high impact logo** developed for the exclusive use of PFS practitioners.
- Opportunities to **enhance marketing and selling skills**, including training sessions and a registration discount for the annual PFP Technical Conference.
- **Increased potential to gain new clients.** Your name will be included in the AICPA's PFS list that consumers can access by calling a toll-free number, as well as through the AICPA's Accountant's Forum on CompuServe.

Your current and prospective clients can choose who to go to for financial advice. Make sure you're their first choice — earn the PFS designation!

For your convenience, the reverse side contains the PFS Examination Instruction Procedures. We look forward to welcoming you to the growing PFS program!

Sincerely,

Phyllis Bernstein

Phyllis Bernstein, CPA
Director
Personal Financial Planning

PFS Examination Registration Procedures

The PFS examination is offered at over 250 exam sites nationwide. Exact site locations are provided to candidates upon acceptance of the telephone application. The PFS application and examination process is administered by The Chauncey Group International, a subsidiary of Educational Testing Services (ETS). CPAs who are AICPA members and meet the PFP experience requirements can register for the examination and become a PFS candidate by calling the Sylvan National Testing Service Group at **1-800-864-8080. Registration is available only through this telephone number; there is no application to complete.**

Candidates must provide the Sylvan representative with the following information in order to register:

- Name and address
- Home and office telephone numbers
- Social Security Number
- Date of birth
- AICPA membership number
- Visa or MasterCard number and expiration date (The examination fee is $300. Only Visa and MasterCard are accepted for payment).

The Sylvan representative will confirm the choice of an exam site. Candidates may choose from more than 250 national testing centers. At the examination, candidates must sign a statement of intent to comply with all PFS reaccreditation requirements.

Payment

Payment is by Visa or Mastercard only. Your credit card account will be charged on the day of the exam. Your credit card statement will be the only receipt furnished as proof of payment. Please note that if you fail to arrive for your appointment or cancel without giving the required notice, your credit card will be charged for the full amount of the examination fee.

Initial Requirements for the PFS Designation

To qualify for the PFS designation, a candidate must —

1. Be a member in good standing of the AICPA.
2. Hold a valid and unrevoked CPA certificate issued by a legally constituted state authority.
3. Have at least 250 hours of experience per year in personal financial planning activities for the three years immediately preceding the application. This experience must include personal financial planning process; personal income-tax planning; risk-management planning; investment planning; retirement planning; estate planning.
4. Agree to comply with all the requirements for reaccreditation.
5. Pass the PFS Examination.
6. Submit six references to substantiate working experience in personal financial planning.

The first four requirements must be met at the time of the application to sit for the examination. References are required only after the candidate has been notified of successful completion of the examination.

For more information on PFS examination preparation and procedures, contact the AICPA Order Department at 1-800-862-4272 and request G00055.

ships and finding support. Many attendees left the session feeling that making the transition to asset manager takes a lot of hard work, but it can be done.

Selecting money managers. High net worth individuals are also the target market for Beth Gamel, CPA/PFS, of Tax & Financial Advisors, Lexington, MA and a member of the AICPA PFP Executive Committee. Along with Steven B. Enright, CFP, of Enright Financial Advisors, River Vale, NJ, Gamel presented "Beyond Mutual Funds: Selecting and Monitoring Money Managers." According to Gamel, " In general, clients with at least $2 million of investable accounts can benefit from the services of a money manager and can afford to pay for manager search and monitoring services." She warned practitioners, however, not to go into this business unless they currently work with or expect to begin focusing on wealthy clients. The reasons: The software is expensive and the expertise is time-consuming to develop. A critical mass (between ten and fifteen clients) is needed to make the investment in these areas worthwhile.

Gamel and Enright described the various investment styles of money managers, the general approaches managers take to build portfolios, and other common strategies. They also discussed the preliminary steps in selecting the right money manager, the methods of identifying and screening potential managers (see "Take Your Pick" on page 9), including the criteria for selecting them, and reviewing and monitoring their performance. They provided sample questionnaires for the selection, along with an illustrative search report, a sample investment policy statement and a performance report.

The SEC and RIAs. In 1995, the Philadelphia District of the SEC conducted 1,075 examinations of registered investment advisers. No action was taken in 70 instances, 907 received deficiency letters, and 76 received enforcement referrals. These statistics were reported by William R. Meck, CPA, CVA, Senior Assistant District Administrator (Regulation) for the Philadelphia District Office of the SEC. Meck is responsible for the SEC's examination program of registered investment advisers and investment companies in the Philadelphia District, which comprises five states and the District of Columbia. In his presentation "SEC Examinations of Investment Advisers," Meck estimated that for every registered investment adviser there are two not registered.

Complaints about investment advisers often came from brokers because the market is very competitive. Meck advised practitioners who are registered investment advisers to segregate clients clearly according to the services rendered to them (keep accounting and tax services separate from financial planning and investment advisory services). He also asserted that if they give advice concerning investment accounts, they were investment advisers. Investment advisers who have custody or possession of client funds or securities are required to have a surprise examination of these funds and securities by an indepen-

Continued on page 6

The Docket

CPE programs of interest.

■ The 1996 Family Firm Institute Conference. Hosted by Wharton Business Programs, The University of Pennsylvania, Philadelphia, Pa. Topics of concurrent sessions include balancing family business wealth with personal investment wealth, sophisticated strategies for estate planning for multi-generational businesses, liquidity alternatives without selling the business and the technical aspects of charitable giving alternatives. Scheduled for October 16–19, 1996. Accommodations at the Bellevue and Doubletree Hotels, Philadelphia. Registration fees: $435 for individual members of Family Firm Institute; $635 for nonmembers. For more information, call (617)738-1591. Family Firm Institute web site: http//www.ffi.org.

State Societies—

■ *Louisiana:* Estate and Financial Planning Cluster—Thursday, Friday, November 7–8, 1996; LCPA Educational Facility, Kenner (20 minutes from New Orleans), LA; 4–16 CPE credits; $80 per session, $260 for all four sessions. Contact LCPA CPE Department: (800) 288-5272. *Note:* Phyllis Bernstein, Director, AICPA PFP Division will be the keynote speaker at the conference (November 7). Her topic is the future of the CPA in Personal Financial Planning.

■ New Jersey: Personal Financial Planning Conference—Friday, October 18, 1996; Princeton Marriott, Princeton, NJ; 8 CPE credits; $125—member (includes member of any state CPA society), $160—nonmember. Contact CPE Department, New Jersey Society of CPAs: (201) 226-4494.

■ *New York:* Investment Partnerships Conference—Wednesday, September 18, 1996; Sheraton New York Hotel and Towers, New York City; 8 CPE credits; $220—member, $265—nonmember. Broker/Dealer Conference—Thursday, September 26, 1996; Sheraton New York Hotel and Towers, New York City; 8 CPE credits; $220—member, $265—nonmember. Contact Foundation for Accounting Education: (212) 719-8383 or (800) 537-3635.

■ *Oregon:* Personal Financial Planning Conference—Thursday, October 17, 1996; Lloyd Center Red Lion, Portland, OR; 8 CPE credits; $195—member, $230—nonmember. Call the Oregon Society of CPAs, CPE Division: (503) 641-7200, extension 18.

■ *Pennsylvania:* Advanced Personal Financial Planning Workshop—Monday, Tuesday, September 30–October 1, 1996; Hotel Hershey, Hershey, PA; 16 CPE credits; $395—member, $425—nonmember. Contact Pennsylvania Insitute of CPAs Foundation for Education and Research: (215) 735-2635.

■ *Virginia:* Personal Financial Planning Conference—Wednesday, October 16, 1996; The CPA Center, Glen Allen, VA; up to 10 CPE credits; $130—member, $180—nonmember. Contact Virginia Society of CPAs CPE Department: (804) 270-5344. ◆

Practice Development Opportunity: An Interview With Paula O'Connor

Paula O'Connor, CPA, is a Financial Consultant with Merrill Lynch, Federal Way, WA, providing investment advisory services to institutional clients as well as individuals. In this interview, she discusses opportunities for advising nonprofit organizations on investing their monies and at the same time developing relationships that can lead to providing individual personal financial planning services to leaders of these organizations.

Planner: At the Investment Planning Conference in Orlando, you identified nonprofit organizations as potential clients for CPAs. Please describe the market and the services required by these prospective clients?

O'Connor: The niche that I thought CPAs would be positioned to fill is advising nonprofit organizations on the monies that they are responsible for investing. I'm thinking not so much of government organizations, but of quasi-government organizations, such as professional associations, fraternal associations, trade associations. A lot of governments—cities and counties—have gotten more sophisticated and have very public bidding processes. What the CPA can do is take a look at the nonprofit associations, the Girl Scouts, for example, that may have pools of money, such as an insurance pool, an endowment or perhaps some other reserve of money.

Recently, a friend approached me who is on the Board of the Girl Scouts. The organization has endowment money left to it by women who were Brownies and Girl Scouts. It has been sitting in passbook savings accounts.

Planner: What skills does a CPA bring to this clientele?

O'Connor: I think the boards of directors and executives of these organizations feel they have a fiduciary responsibility for overseeing this money on behalf of the organization's members. The first step in working with these organizations is to establish an investment policy. The CPA needs to establish whether there are any legal constraints. For example, insurance pool money may have regulatory constraints associated with it, or the organization's charter may restrict what can or cannot be done with the money.

Then the CPA can develop and establish a written investment policy for the group that it can stand behind. The AICPA PFP Section recently sent members a PFP Pointer on developing investment policy statements. It provides excellent information on the topic.

The statement doesn't have to be detailed. It states how long you can tie them up and how much volatility the investments can experience. It addresses whether there are statutory requirements by the association and it talks about the prudent investor rule.

Planner: What differences can the practitioner expect between providing financial planning services to nonprofit organizations and to personal clients?

O'Connor: I think that people will have different objectives when it's their money than when it's someone else's. Probably the biggest difference is the concern of the nonprofit organization with the return *of* principle rather than the return *on* principle. Nonprofit organizations will sacrifice earnings rather than ever lose money that they have been entrusted with. They're really looking for safer investments that are more fixed in nature, and they may put just a little portion of their portfolio into something more volatile. Some may not want to put money into anything that is volatile at all. This is why I think that this service is a natural fit for CPAs because these organizations—and again this is how they may be different from the CPA's PFP clients—want to show their members that they are exercising proper fiduciary responsibility over their funds.

Planner: Have you ever noticed any variation in the type of organization and how it wants to invest funds?

O'Connor: Yes. Some take their fiduciary responsibility so seriously that if, for example, they have $500,000, they feel that they have to open five separate bank accounts at $100,000 each to make sure that the funds are insured. Some just buy CDs. A lot feel that all they can do is to put it in their local bank to earn 3 percent. CPAs can recommend other companies or services for this money. A CPA can take a look at what's available in the local area that's appropriate. Many money market accounts pay closer to 5 percent, so if they're going to stick with money markets, a CPA can ensure that at least their getting the best return.

AICPA Investment Planning Conference Covers New Strategies

Continued from page 5

dent public accountant.The possibility of an SEC audit is heightened for those practitioners, according to Meck.

Meck reviewed the "rules of SEC engagement" for an audit and described the substance of the exam. He advised practitioners to consider examiners as resources and to get to know them, calling upon them when confused about an issue.

Editor's note: *Last year, the PFP Member Section published an excellent* Guide to Registering as an Investment Adviser. *It explains who must register, how to register, and how to comply with regulations. It is available through the AICPA Order Department: 800-862-4272. Ask for product no. 017206.*

A mix of assets. Several other sessions covered a variety of investment possibilities of interest to practitioners and their clients: real estate investment trusts, variable annuities, tax exempt bonds and global investing.

Practitioners will have more opportunities to expand their knowledge about investment planning along with other personal financial planning skills at the upcoming Tenth Annual Personal Financial Planning Technical Conference. Planning is well under way for this conference, which is scheduled for January 13–15, 1997, in San Antonio, Texas. More details about the conference will be forthcoming. ◆

Others—I think it may be the type of association that determines this, but it may also be the amount of money they have—feel that if they have a reserve they can tie up for a longer period—six months, a year or more than a year—they can at least consider buying some Treasury notes or bonds or perhaps putting a portion in some blue chip stocks or a balanced fund.

Planner: How does a practitioner gain entry to this market? How can the practitioner identify those prospective clients in this market?

O'Connor: I would suggest that CPAs just take a look at their own client base first, particularly their key clients. Find out from them what associations they belong to. If the CPA has a dentist who is a client, is he or she active in the dental society? A client who is a restaurateur may be active in the state or local restaurant association.

Then I would take a look at organizations in the community. Often this is a niche that practitioners in smaller areas may be able to crack more easily. We CPAs have our "halo effect," and I think that's where this will really help. If you're known in the community as a CPA and you have objectivity, integrity and good judgment, the leaders of these organizations will feel comfortable in having you assist them.

Who are the decision makers? Usually, it's a group of peers. For example, in the local restaurant association, five people may sit on a committee responsible for overseeing its money. A smaller association sometimes will have just the executive director in charge. So I suggest finding out about the association. The practitioner can even join it. Usually the dues are reasonable—$65 a year, $100 a year max. You can become an associate member and get a membership directory that will list the committees. You can see which committees look as if they have oversight responsibility for monies.

The practitioner has to be a bit of a sleuth, keeping your eyes and ears open and talking with your clients. When you talk with clients in the process of doing the annual tax return or when you take them out for golf, ask them about their associations' monies. They may say "Oh yes, I think we do have a pool of money and we use the community bank," or "I don't know. I haven't checked." It's a good entree. A key question always to ask is "Do you have a written investment policy that I can just take a look at?"

Planner: How saturated is this market? Who are the competitors? How can CPAs differentiate themselves from the competition?

O'Connor: The market for nonprofit organizations is not very saturated. The government market is saturated. In the last ten years, there has been so much more scrutiny of government agencies that their relationships with vendors have become pretty sophisticated—very arm's length with formal, public bidding processes. In the case of nonprofit organizations, however, the process isn't as formalized and often you can just give an unsolicited proposal. Again, that's where we CPAs have the "halo effect." The person you know may say "Gosh, you know we *do* have a pool of money and I'd like you to take a look and see what we're doing and see if you have any suggestions about whether we're doing the most prudent thing or whether we're being too prudent." So if the CPA wants to practice in that area, it's just sort of a natural. My experience has shown that when some of these monies are being managed by a bank or a bank trust company, no one is preparing the written investment policy and guidelines. The thing that I put up front is what we'll do. Then again, it depends upon the CPA.

Planner: What resources are available to practitioners to assist them in marketing and providing services?

O'Connor: Certainly, they should take a look first at anything that the PFP Section can help them with, including certainly attending the annual PFP technical conference and other investment planning conferences.

Planner: What advice can you offer practitioners concerning fees related to providing services to nonprofit organizations?

O'Connor: This a good place to emphasize that this is where we see CPAs who are crossing the line from consultants to investment advisers. There are really a few ways to go that clients feel comfortable with. You can charge a percentage of the assets under management depending on what you're doing for the client. You can justify that if you are creating the investment policy, monitoring performance and compliance with the policy, and attending the quarterly investment meetings. You are the person between the one who is investing the money and the committee.

If you have the appropriate state licensing or if you've met the investment adviser requirements, you can charge a flat fee and appear quarterly to explain to them their investment results, and how they're doing compared with benchmarks. I think that's very appropriate.

If, however, you don't have that state securities license or you don't want to do that, you may just develop the investment policies for them for a flat fee and then give them a recommendation for areas that they may want to consider as investments for their funds.

If CPAs really want to go the gamut, I think they can see the possibilities. I was once the treasurer of the City of Tacoma, Washington, and a trustee of a $100 million retirement plan. As a trustee, you have this feeling that you're looking over someone else's money. You don't like to lose your own, but, if you do, you chalk it up to experience. But, my gosh, if you do something terrible to 500 employees' money, they may all come after you. So we hired different investment advisers. We'd get our reports that said that our fixed income peo-

continued on page 8

Send Us Your Newsletters

Does your firm publish a newsletter? If so, we'd like to see it. Firm newsletters are a good source of information about current trends. They also help us to identify opportunities to publicize the accomplishments of personal financial planners (We'd contact you first, of course, before embarking on any public relations effort.) We may also be able to use them as examples of the "best of the best" in our annual updates of the *PFP Practice Handbook.*

So, please add us to your mailing list. You can send the newsletter to Susan Frohlich, PFP Division, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775.

Interview

Continued from page 7

ple made 3 percent this quarter, and our stock people made 8 percent. Compared to what, we didn't know. We hired a company to be another layer between us and our investment advisers. They evaluated our investment managers.

They did an analysis of different managers, assuming the same risk—how they compared with other managers for the quarter—so that we knew if they were top, middle, or we needed to look elsewhere. That is an area CPAs could see develop. They don't actually manage the money or make the investment decision. They just analyze and communicate the results of the money managers.

That's what CPAs can do. This helps to communicate and assure those people that have oversight responsibility that they're fulfilling their fiduciary responsibility. It gives them someone else to point to: "We went to the CPAs and they reviewed these with us." That's a very important role for CPAs, especially since they have credibility and they're objective. They're just in a great position to say "My goodness, Bill, for your society here, you know Bank A is paying 3 percent, Bank B, 2 percent, and Bank C, 7 percent. I think you probably want to transfer it all over to Bank C. I'll check to see that the risks are the same." Remember too that most board and committee members of these organizations are part time and have other lives. They get together quarterly or so, but they feel they have a responsibility. So this is really helpful.

Planner: Does entering this niche provide the CPA with opportunities to expand their client base?

O'Connor: Absolutely. I believe that this is a way to develop your credibility and visibility in the community. Rather than just your one client who was a member of the association, now you're meeting regularly with seven or so prospective clients. It's a wonderful way to do marketing that we CPAs feel comfortable with. You can put yourself in front of people who are potential clients. At least that's the way I like to market: performing a service and presenting results to people who never heard of me before.

You get to know the association, not only the board and committee members. They have training programs. They may want you to present a half-day workshop on the effects of changes in tax law or on retirement. It gives you a wonderful entree into other opportunities. I like to just work with someone to show that I add a value and then the rest just comes. And also they will think of you as providing value-added services. A lot of times people just think of CPAs as doing taxes and that's it. Now they'll think of you for estate planning. They may think about you for tax advice, but they may also think of you for financial planning, which they probably would not have done before. ◆

AICPA
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881