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Planner, Volume 19, Number 5, September-October 2004

American Institute of Certified Public Accountants (AICPA)

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PLANNER

SEPTEMBER/OCTOBER 2004
VOL.19, NO. 5

Newsletter of the AICPA
Personal Financial Planning Section

What's Inside

***Planner* Wins 2004 Publishing Award**

The *Planner* received an Award for Publication Excellence in Newsletter Writing in the 2004 APEX competition, the 16th annual awards program recognizing excellence in professional publications.

APEX awards are based on excellence in graphic design, editorial content, and the ability to achieve overall communications excellence. This year there were over 5,400 entries, including 793 newsletters.

WINNER 2004 APEX® AWARDS FOR PUBLICATION EXCELLENCE

Statements on Responsibilities in Personal Financial Planning Practice—Do They Apply to You?

Ten years ago the American Institute of CPAs' personal financial planning (PFP) executive committee issued the final in a series of Statements on Responsibilities in Personal Financial Planning Practice (SRPFPs). The SRPFPs, created to support members providing PFP services, are even more relevant today, as an increasing number of Institute members offer services that involve developing recommendations and strategies to help clients achieve their financial goals. The services to which the SRPFPs apply are in a wide array of areas, including, but not limited to, budgeting and cash flow management, income tax planning, retirement and education funding, risk management, investment planning, and estate planning.

The Significance of the Statements

SRPFPs offer broad guidance on what constitutes good practice for those members who provide PFP services. The SRPFPs do not offer specific procedures, but rather provide a valuable framework for addressing the issues a member must consider when providing PFP services. Whether PFP is a member's primary practice focus or a part time or occasional service, it is important for all members to be aware of and to comply with these statements.

Some of the more significant aspects of the AICPA's SRPFPs are:

- These statements apply to all members providing PFP services, not only those members who hold the Personal Financial Specialist credential or who are members of the AICPA PFP membership section.
- Although not enforceable standards, the SRPFPs provide a body of guidance against which a member's practices could be measured.
- From a practical standpoint, the SRPFPs provide a foundation for a member's competency in the services provided and a framework in which to deliver those services.

When the Statements Apply

As mentioned above, the SRPFPs apply to members whenever they are providing PFP services. The SRPFPs define PFP services rather broadly. Basically, a member is providing PFP services whenever he or she is involved in developing strategies or making recommendations to assist a client in defining and achieving personal financial goals. These services would

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also include assisting the client in implementing such strategies and recommendations, monitoring progress toward established financial goals, and updating existing strategies and recommendations. For example, if a member advises a client about alternative investment vehicles for a large tax refund, the member could be providing PFP advice and subject to the provisions of the SRPFPs.

The Body of Guidance

The SRPFPs cover many aspects of a member's practices in providing PFP services. The SRPFPs issued and in existence are:

- SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities,* which defines the scope of PFP services and provides the framework in which the other statements are written.
- SRPFP No. 2, *Working With Other Advisers,* which provides guidance to members when they work with other members of a client's financial team, such as attorneys, investment advisers, and insurance brokers.
- SRPFP No. 3, *Implementation Engagements Functions and Responsibilities.* This statement assists members who are working with their clients to take action on financial strategies and decisions, such as the creation of estate documents or the selection of specific investments or insurance policies.
- SRPFP No. 4, *Monitoring and Updating Engagements—Functions and Responsibilities.* This statement provides guidance to members who are asked by a

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TO LEARN MORE:

The full text of existing SRPFPs are included in the *PFP Library Series CD-ROM* (Product No. 017243), provided without charge to members of the AICPA Personal Financial Planning Section and PFS Credential holders. The AICPA *Professional Standards* includes a thorough discussion of all professional standards applying to members providing PFP services. To order the AICPA *Professional Standards,* please contact Service Center Operations at 1-888-777-7077 or log onto *www.cpa2biz.com.*

Checklist of Personal Financial Planning Services

You may be providing personal financial planning services and subject to the guidance of the SRPFPs if you engage in activities such as:

- Preparing retirement projections
- Answering questions about the relative benefits of various retirement accounts
- Advising where to invest an income tax refund
- Reviewing existing insurance coverage
- Developing a comprehensive estate plan
- Advising a client about long-term care insurance
- Reviewing the titling of a client's assets for estate planning purposes
- Creating a strategy to fund college costs
- Offering an opinion about a mutual fund
- Evaluating the current mix of investments in a portfolio

client to monitor the progress to some specific goal or to review and revise existing financial strategies.

- SRPFP No. 5, *Developing a Basis for Recommendations,* which describes members' responsibilities in collecting and analyzing information and formulating strategies to achieve clients' financial goals.

Relationship to Other Guidance

The SRPFPs are one aspect of the standards and guidance that apply to Institute members providing PFP services. It is important to consider all existing professional standards and published guidance in conjunction with the SRPFPs. For example, the rules of the AICPA Code of Professional Conduct concerning competency, planning and supervision, confidentiality, and other areas of conduct govern the members' behavior in this practice area. In addition, members who include financial statements or projections in their engagements must consider applicable reporting guidance. A full discussion of the professional responsibility issues for members providing PFP services is included on the *PFP Library Series* CD-ROM (see sidebar on page 2 for ordering information).

The level of integrity and technical competence that comes from compliance with the SRPFPs and the full body of standards and guidance is an important way in which CPAs stand apart from other financial service providers.

Securing Vital Records From Disaster

By Stephen J. Rojas, Esq., CPA

The summer of 2004 was an especially active one for fires, hurricanes, and tornadoes, three of nature's fiercest and most unstoppable disasters. The damage from such disasters goes beyond the typical home, property, and sometimes human loss to include the destruction of many vital documents, such as wills, investment records, insurance policies, and account information. Without proper planning, clients must reconstruct these lost records before they can file insurance claims, establish entitlement to their property and benefits, and start rebuilding their lives.

CPAs have the opportunity to provide clients with peace of mind in compiling and securing their important records. A well-planned compilation of documents, often referred to as a "personal document locator" or "vital records inventory," pulls all important documents together in one place. This inventory not only provides a structure for clients to cope with the aftermath of a disaster, but also can be an important component of many other personal financial planning services, such as insurance and estate planning, where access to documents is key.

Contents of a Vital Records Inventory

The starting point in creating a vital records inventory is to establish with the client what documents are critical. This can be done in a face-to-face meeting or through a checklist that can serve as a memory jogger. Some records, such as birth certificates, wills, and insurance policies, are vital to all clients and should always be included in the inventory; however, each client has a unique and personal perspective of what is a vital record. It may be important that items such as an ancestor's memoirs, vintage family photographs, immigration records, and other items be preserved at all cost. Accordingly, it is a good idea to review the concept of a vital records inventory carefully with clients and identify documents or records that may not be included in a checklist. See the checklist on page 4 for a representative listing of items that could be included in a vital records inventory.

From this point it will be up to the client to start compiling all vital records and documents. This can be a time-consuming and daunting task. Periodic telephone calls or status meetings will help keep the client on track in completing this process. Some records, such as a household inventory, may have to be created or updated.

Since creating the household inventory may be one of the most difficult aspects of this process, CPAs can work with their clients to develop a workable strategy. The creation of a household inventory can be broken down into a manageable four-step process:

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Stephan Rojas is an attorney and certified public accountant in private practice in New York City. He works with a diverse client base on a variety of legal, tax, and financial issues, developing strategies to protect their interests and financial well-being and to achieve their goals. Mr. Rojas is a former AICPA Personal Financial Planning staff member and has published a number of articles on financial topics.

Components of a Vital Records Inventory

- Inventory of household and other assets
- Insurance policies, including a summary of policy numbers and contact phone numbers
- Retirement plan documents, including beneficiary designations
- Bank and investment accounts
- Credit card accounts
- Deeds to real estate, mortgages
- Home improvement records
- Titles to automobiles and other large assets (boats, campers, etc.)
- Birth certificates and death certificates
- Social Security cards and earnings records
- Marriage, adoption, and citizenship papers
- Veteran's papers
- Wills and estate planning documents
- Guardian nominations
- Advance medical directives (living will, health care proxy, etc.)
- Powers of attorney or appointment
- Trust instruments
- Medical records, including prescription information
- Pay stubs
- Tax returns
- Rental agreement or lease
- Warranties and receipts for major purchases
- Credit card records
- Other loan records
- Safe deposit box information (location and key)
- Family records
- Photographs (or negatives) of important events
- Any other important contracts, certificates, and documents

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1. Prepare a detailed list of possessions. In going from room to room, it is important to include items such as towels, shirts, silverware, and toys, along with more precious and costly furnishings, collectibles, and other possessions. It is also important to make note of the model and serial number when available.

2. Document property. This can be accomplished by photographing or videotaping the house and its contents, as well as automobiles, boats, and other property.

3. Establish the value of the property. Clients should obtain appraisals of artwork, jewelry, and other unique items. Receipts for other valuable possessions should be kept until needed.

4. Secure the inventory. This household inventory can be the basis for insurance claims, estate distributions, and other transactions.

Once the household inventory is complete and all other documents are compiled, the vital records inventory can be enhanced by supplementing the list with the location of each document or record. This provides the client with a road map to gather and use the documents in the event of a disaster or at any time the information may be needed.

Location, Location, Location...

The determination of where the documents will be securely stored is as important as identifying, listing, and gathering a client's vital records. Some documents are best kept in a safe deposit box, where they can be retrieved when necessary. Clients should keep other documents closer at hand for immediate use. CPAs can review the various storage options with their clients. Each of the following offers varying degrees of security.

Safe deposit box. A safe deposit box is secure and inexpensive. Because the bank is physically separate from the client's home, the chances may be reduced that the box contents would also be affected by the disaster. This option is most suitable for storing the originals of hard-to-replace documents, such as birth and death certificates, adoption papers, passports, Social Security cards,

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Disaster Recovery: A Guide to Financial Issues

To help victims of natural and man-made disasters recover financially from loss, the American Institute of Certified Public Accountants (and the National Endowment for Financial Education developed a consumer resource booklet entitled *Disaster Recovery: A Guide to Financial Issues.* This guide can act as a resource for anyone who may feel overwhelmed by the financial issues surrounding a natural or man-made disaster. The guide offers suggestions on steps to take immediately following a disaster, what to do in the initial weeks and months, and how to begin planning for the future.

Copies of the guide (Product No. 017231) can be ordered for a small fee (to cover the printing expenses) at *www.cpa2biz.com/store* or by calling 1-888-777-7077. A downloadable version is available at *https://www.cpa2biz.com/ResourceCenters/Personal+ Financial+Planning/PFP+ Disaster+ Recovery+Guide.htm.* This site also provides access to a package of materials developed to help CPAs get involved in the program.

Earlier this year, the AICPA received the 2004 Award of Excellence from the American Society of Association Executives for the guide and the pro bono program that it developed with CPAs from around the country to help educate the public about recovery steps to take following a disaster. The award recognizes programs "that provide significant benefits to Americans and make America a better place to live." To date, more than 100,000 guides have been distributed by local chapters of the American Red Cross to people affected by disasters in the United States.

divorce decrees and related documents, and stocks and bonds not held in a brokerage account. Consideration should be given to the possibility that, in the event of the client's death, some banks may temporarily seal the safe deposit box. This is not an appropriate place to store the original of a will.

Home safe. While more convenient than a safe deposit box, a home safe would be subject to the same effects of a disaster as the home. Only those safes that can withstand tremendous heat are recommended.

An adviser's office. Some CPAs and attorneys will maintain certain client records at their offices. It is probably advisable to maintain a copy of the vital records inventory here and encourage the client to take responsibility for the location of the originals.

Disaster supplies kit. Clients may want to keep close at hand some records that they may need to access quickly. These could include documents such as the vital records inventory, the household inventory, electronic backup of important papers, a list of emergency contacts, copies of insurance policies, and safe deposit box information. These records can go into a kit with some emergency cash, a first aid kit, and other emergency supplies.

Format

The format of a vital records inventory can be as simple as a three-ring binder that holds the inventory and originals or copies of all documents. Or the entire inventory can be transferred to a CD for more efficient storage. From a disaster preparedness planning standpoint, however, it may not be advisable to rely on electronic retrieval of important records. Some CPAs may even recommend duplicate copies, one to be kept in a disaster emergency kit, the other to be kept in the CPA's office.

Conclusion

A comprehensive summary of a client's vital records, identifying the location of the original and including copies of the records, is a valuable planning tool for all financial planning clients. In the context of disaster preparedness, this service provides valuable peace of mind for clients. They know that, if needed, they are well prepared to start rebuilding their lives in the event they suffer a disaster loss. ●

Illustrating Retirement Planning Strategies With Customized Spreadsheets

By Francis C. Thomas, CPA/PFS

A question frequently asked by clients, particularly of the baby boomer era, is: "How much can we withdraw each year from our retirement assets without going broke before we die?" This question is repeatedly explored in personal finance magazines, newspaper articles, and continuing education seminars. There is also a wide variety of software devoted to the analysis of this issue. However, off-the-shelf software often falls short as an effective tool for CPA financial planners in developing answers for clients. This article will first discuss the uses and benefits of developing customized electronic spreadsheet templates to illustrate the answers to this question and then how functional templates can be developed using deterministic and Monte Carlo methodology.

Several Web sites and many software packages are available to help individuals and financial planners quantify retirement asset distribution strategies. They all require that the users input key assumptions such as planned retirement age, retirement assets, portfolio allocation, and life expectancy. Some of the available tools use historical data employing back testing techniques. An example of the historical approach is found at *www.early-retirement.org.* Many financial calculators use projected data employing deterministic models or Monte Carlo techniques. There is a very useful income calculator site, *www3.troweprice.com/ric/RIC,* which employs Monte Carlo analysis. The available Web sites and software are generally easy-to-use and very helpful.

These and similar types of pre-programmed tools are practical for basic universal applications; however, for many situations, the parameters of the ready-made applications can be restrictive: Will the site or software permit adjusting the portfolio allocation over the withdrawal period? Can withdrawals be adjusted for planned changes, such as selling a residence sometime after retirement or the subsequent retirement from a second job? Does the program facilitate different retirement plans for couples? Developing templates

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using electronic spreadsheet software can give the planner a great deal of control, enhance flexibility, and improve communication with clients.

Developing Decision Modeling Worksheets—General Considerations

The development of a customized template should start with a plan. Here are five helpful steps:

1. Develop the worksheet's objective. What do you want the worksheet to present?

2. Identify the results that you want to see in the worksheet—the output.

3. Specify the data you will need for the spreadsheet-the input.

4. Determine the calculations that will be needed. These calculations become formulas to use in the worksheet.

5. Prepare a blueprint of the worksheet on a piece of paper; sketch a simple layout including titles, row and column headings, and formulas written in a conceptual manner.

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Proper planning can save time in the long run and eliminate significant errors that can result in erroneous conclusions. It is important to present the assumptions explicitly, and equally essential to carefully review those assumptions with the client when presenting a model. Formulas should be created using the cell locations of the data and assumptions. A properly prepared worksheet facilitates "what if" analysis. What-if analysis enables the user of the spreadsheet to change a single variable and instantly see how the results change.

While using customized templates can offer the planner the opportunity to build in specialized situations and to create tailor-made illustrations for clients, developing those spreadsheets requires a high level of quality control. For example, a crucial responsibility of self-made applications is testing. Since it is easy to make critical mistakes when developing electronic worksheets, planners will need to take steps to ensure the reliability of the model results.

Deterministic Model or Monte Carlo Analysis?

One of the critical decisions in developing a customized retirement planning template is what predictive model to use. A common approach used by financial planners to illustrate distribution withdrawal scenarios is the deterministic model. The deterministic model assumes nothing is random. One or more variables are used and the model is run to predict an outcome stated as a definitive number. If the goal is not attained the planner can either adjust the inputs until the desired outcome is reached or use the "goal seek" function with Excel. The formulas for the deterministic model are fairly basic; however, the big unknown with the deterministic model is that it provides no probability of success or failure.

Planners can use Monte Carlo methodology to incorporate the concept of probability, simulating returns based upon the likelihood of different events instead of using a fixed rate of return. The Monte Carlo technique calculates the odds or the probability of an outcome by testing thousands of possible results, including the worst-case scenarios. Monte Carlo models will tell you that you have some chance, 80%, 60%, or 40%, of reaching the goal. If the odds are unacceptable, adjustments can be made to the input variables, asset mix, retirement date, or savings amount. The statistical and graphic data provided by Monte Carlo modeling enhances client communication. Planners should not be intimidated by the math—the computer does the calculations. What matters is thinking about the probabilities rather than the uncertainties.

An advantage of the Monte Carlo approach over the deterministic model is the statistical data and the graphic depiction of the results. The statistical presentation reports minimum, maximum, and mean results, as well as the standard deviation of the projected returns. The presentation also reports the probability of reaching a particular goal, which can help manage client expectations. The graphic presentation enables the clients to picture the image of the projected data. The range of data and the probabilities of attaining goals make the Monte Carlo approach more useful than the deterministic approach, providing much more information—meaningful information that can effectively help with client communication.

Several software add-ons provide the ability to do Monte Carlo analysis. The following discussion uses @Risk software from Palisade Corporation; however, another popular add-on is Crystal Ball from Decisioneering, Inc.

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Special Considerations With Monte Carlo Analysis

The Monte Carlo approach will require input for the standard deviations for equity and bonds.

Using @Risk software, the formula to calculate the year-by-year equity return is:

	The annual			Equity
Equity =	equity portion	*	RiskNormal	(mean, standard deviation)
return	of the portfolio			

The argument for the @Risk function for a normal distribution is "RiskNormal" and the formula inputs are mean return and standard deviation. For example, if we invest $10,000 in equity, and the investment grows at 10% with a standard deviation of 20.2%, the formula would be:

Equity return = 10,000 * RiskNormal (.10, .202)

The formula to calculate the year-by-year return for bonds is similar to that of equity with the mean return for bonds and the standard deviation for bonds substituted for those of equity.

It is statistically valid to treat the returns of equity and bonds separately. Often in practice, the weighted average portfolio return and weighted average portfolio standard deviation are used to compute the total portfolio return. While the use of a weighted average value for the mean is statistically valid, it is not valid to use a weighted average standard deviation. Fortunately, as the number of investment vehicles increases, the two approaches produce immaterial differences. Note that the formulas and arguments vary for other Monte Carlo software applications; please refer to the appropriate manuals.

An Illustrative Case Study Is Available

Let's assume the case of a married couple, both age 55. They desire to retire at age 60 withdrawing $48,000 per year after tax in today's dollars from their retirement assets. The couple currently has $810,750 in qualified retirement assets and they plan to save $12,000 per year adjusted for inflation until retirement. Other assumptions such as asset mix during their lifetime, average tax rate, investment returns, inflation, and life expectancy need to be incorporated into the worksheet. This is the type of situation that may warrant a customized model. While examples of how a planner might handle this hypothetical case are beyond the scope of this article, worksheets illustrating the analysis of this situation, depicting the deterministic and Monte Carlo models with suggested output, can be obtained electronically directly from the author at *frank.thomas@stockton.edu.* The worksheets were prepared using Microsoft Excel and the spreadsheet add-on @RISK.

Conclusion

Pre-programmed tools available to help predicting retirement planning outcomes can be useful for standard applications—and may be necessary in situations that require uniformity or quick preliminary analysis. However, self-made worksheets can augment a planner's flexibility, especially in unique cases. Developing worksheets can be time-consuming and steps need to be taken to assure reliability. The costs of the additional time and effort to prepare your own templates need to be measured against the satisfaction of better illustrations for the client. ●

Completely Revised! *CPA ElderCare/ PrimePlus: A Practitioner's Resource Guide*

Projections show the elderly population will more than double over the next 40 years. Most of this growth will begin in the next 10 years. The CPA ElderCare/PrimePlus service has been developed to give CPAs the information and tools to offer assistance to their older adult clients.

The second edition of *CPA Eldercare/PrimePlus: A Practitioner's Resource Guide* answers your questions about offering CPA ElderCare and CPA PrimePlus services to your older adult clients and their families, and provides you with the fundamentals to get started in this practice area.

This new second edition offers:

- More information on housing alternatives, help on determining what level of care may be needed, financing alternatives, and who is best qualified to provide the care
- Additional information on federal and state programs for the elderly including new rules covering Medicare, Medicaid, and Social Security—information that you and your clients need to know
- Detailed advantages and disadvantages of a long-term care policy
- Best practices for operating a CPA ElderCare/PrimePlus service including details on risk management

In addition, the revised Guide, available October 15, 2004, offers you more practice aids, more marketing materials, and an expanded contact list of related associations, organizations, and agencies.

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To order online, log onto *www.cpa2biz.com,* or call 1-888-777-7077 (between 8am-8pm ET). ●

Reserve the Date: 2005 Personal Financial Planning Conference

The 2005 AICPA Personal Financial Planning Conference will take place January 10–12, 2005, at the Wyndham El Conquistador Resort in Fajardo, Puerto Rico.

This year's program is designed to expand your knowledge in three critical areas: personal financial planning expertise, practice management, and innovative personal financial planning strategies. CPAs who offer their clients personal financial planning services or wish to add this growing service to their practice have much to gain by attending. Over three days, you'll gain insights into your personal financial planning practice—and address a wide range of topics in estate planning, financial planning, risk management, tax, and investments.

Conference highlights will include:

- A panel discussion on the future of the industry from different voices, including the media and a consumer representative
- Techniques and strategies to serve your clients more effectively
- Analysis of the latest planning trends
- Ideas for opportunities to broaden your services—and your client base

And, you'll be able to benefit from great networking opportunities in the Networking Lounge.

Optional workshop sessions will be held on January 9.

Take advantage of the super early bird discount! Register by October 12 and save $75!

More information is available at *https://www.cpa2biz.com/CS2000/Products/CPA2BIZ/The+AICPA+Personal+Financial+Planning+Technical+Conference.htm.*

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