



ESSENTIALS OF PERSONAL FINANCIAL PLANNING

INSTRUCTOR NOTES

Chapter 1: Personal Financial Planning

Chapter Outline

Case Study

Learning Objectives

Introduction

Phases of the Personal Financial Planning Engagement

Engage

Disclosure of Conflicts of Interest

Scope Limitations and Other Constraints

Discover

Analyze

Recommend

Expanded or Additional Engagements

Implementation Engagement

Monitoring Engagement

Updating Engagement

Behavioral and Psychological Methods of Building Client Rapport

Active Listening

Behavioral Biases and Heuristics

Socratic Questioning

Application of Behavioral Techniques to Client Relationships

Gathering Data: Quantitative Versus Qualitative Data

Quantitative Data

Qualitative Data

Risk Tolerance

Life Planning and the Personal Financial Planning Process

Chapter Review

Case Study Revisited

Review Questions

Internet Research Assignments

Learning Objectives

- Identify the personal financial planning (PFP) process and its value in helping clients meet their financial goals.
- Determine the applicable phases and strategies within the PFP process, including behavioral elements.

- Identify various behavioral biases and how to use them in the discovery process to gather the qualitative information needed for analysis and recommendations.
- Compare life planning to traditional personal financial planning.

Teaching Guidance

Teaching Strategy

This chapter is an introduction to the discipline of personal financial planning and AICPA's *Statement on Standards in Personal Financial Planning Services No. 1*. Personal financial planning should be positioned as process, and as a process, students should be encouraged to formulate their own opinions as to its efficacy, and whenever possible, suggests modifications. Finally, encourage students to engage in the process themselves and begin writing their own personal financial plan as they work their way through the course.

Teaching Notes

- Introduce the *Case Study* and indicate that the case studies in the book will be used in each chapter to highlight material that will be addressed in the chapter.
- Discuss the steps in the personal financial planning process, and emphasize that personal financial planning is a process with recognized steps and a method.
- Discuss that the first four steps of the personal financial planning process are required by the Standards in Personal Financial Planning Services No. 1. And that the remaining three steps are not required, and may be standalone engagements, or integrated into the entire engagement.
- Review reach of the phases of the personal financial planning engagement:
 - Engage
 - Disclosure of Conflicts of Interest
 - Scope Limitations and Other Constraints
 - Discover
 - Analyze
 - Recommend
- Review the phases of an expanded or additional engagements
 - Implementation Engagement
 - Monitoring Engagement

- Updating Engagement
- Building client rapport is essential to the personal financial planning process. The material provides several methods to establish rapport. Review each and encourage students begin using these methods in lives outside of the classroom.
 - Active Listening
 - Behavioral Biases and Heuristics
 - Socratic Questioning
 - Application of Behavioral Techniques to Client Relationships
- Introduce the concepts of quantitative and qualitative data in the context of data gathering.

Review Questions Solutions

1. During the initial consultation with a client, the personal financial planner and client need to mutually define the scope of the engagement before any PFP services are rendered. Which of the following elements should be defined?

- A. Correct. All of the elements presented should be defined in the scope of engagement**
- B. Incorrect.
- C. Incorrect.
- D. Incorrect.

2. In establishing and defining the PFP engagement between the personal financial planner and the client, which of the following is not among the planner's obligations, unless defined in the engagement?

- A. Incorrect. Identifying the services to be provided is required under the *Statement on Standards in Personal Financial Planning Services No. 1*.
- B. Incorrect. Describing personal financial planner's compensation arrangements is required under the *Statement on Standards in Personal Financial Planning Services No. 1*.
- C. Incorrect. Deciding on the time frame of the engagement is required under the *Statement on Standards in Personal Financial Planning Services No. 1*.
- D. Correct. Implementation of personal financial planning recommendations is not required as part of the personal financial planning process under the *Statement on Standards in Personal Financial Planning Services No. 1*.**

3. Which of the following is an example of qualitative data?

- A. Incorrect. The client would like to retire by age 60 is an example of quantitative data.

B. Incorrect. The client would like to provide a fully paid education program for his/her child is an example of quantitative data.

C. Incorrect. The client will gift \$12,000 to his parents each year is an example of quantitative data.

D. Correct. The client has a low risk tolerance is an example of qualitative data.

4. Which of the following are heuristics?

A. Incorrect. A risk tolerance assessment is not a heuristic.

B. Incorrect. A risk tolerance assessment is not a heuristic.

C. Correct. I, II, IV are examples of heuristics.

D. Incorrect. A risk tolerance assessment is not a heuristic.

5. John Adams is meeting with a potential PFP client. Based on reasoned judgment, John feels that he is qualified to enter into a PFP engagement. As part of the engagement process, what are his obligations to the client?

A. Incorrect. D is the correct answer because it includes IV.

B. Incorrect because the engagement process does not obligate the personal financial planner to provide a brochure about the planner's PFP firm.

C. Incorrect because the engagement process does not obligate the personal financial planner to provide a brochure about the planner's PFP firm.

D. Correct. I, II and IV are required as part of the engagement process.

6. In the data gathering segment of the PFP process, there are two types of data that can be obtained. Which of the following is an example of qualitative data?

A. Incorrect. Details on current investments is an example of quantitative data.

B. Correct. Health status of client and family members is an example of qualitative data.

C. Incorrect. Names of financial advisers is an example of quantitative data.

D. Incorrect. Copies of wills and trusts is an example of quantitative data.

7. Dr. Williams, age 64, wants to retire in three years, at age 67. He has engaged you for an analysis of his retirement plan. Based on reasonable assumptions, his goals for retirement income cannot be met. In order to meet Dr. Williams's retirement income goals, an unreasonably high return assumption must be utilized. What should you do?

A. Incorrect. Mutually agreeing to cancel the PFP engagement is not indicated. The planner was engaged for an analysis of the retirement plan. The unreasonably high rate of return necessary to achieve Dr. Williams's goal is an element of the analysis.

B. Incorrect. Modeling the plan using only the planner's return assumptions is not reasoned analysis.

C. Correct. Modeling the plan using both the planner's return assumptions, and the necessary assumptions to meet Dr. Williams required retirement income goal, is a reasoned analysis.

D. Incorrect. Modeling the plan using only the necessary assumption to achieve Dr. Williams' income goal is disingenuous.

8. Which of the following is not an example of qualitative data?

A. Incorrect. Client priorities are an example of qualitative data.

B. Incorrect. A client's personal and financial goals are examples of qualitative data.

C. Incorrect. A client's desired retirement date is an example of qualitative data.

D. Correct. The fair market value (FMV) of the client's assets is an example of quantitative data.

9. A familial data gathering form which includes, age, health status, and family tree of the client and the client's family members allows the personal financial planner to determine which of the following?

A. Incorrect. A client's net worth (IV) is not determined by the data presented.

B. Incorrect. A client's net worth (IV) is not determined by the data presented.

C. Correct. Answers I, II, III are indicated by a familial data gathering form.

D. Incorrect. While the insurability of the client (II) and the special needs of the client's family members (III) are correct, Answer C is the better choice because it includes all the correct responses.

10. Identify the following phases, in chronological order, as they occur in the PFP process:

3 Recommend actions

6 Update the plan

5 Monitor the plan

4 Implement the plan

2 Analyze and evaluate data

1 Establish and define client-planner relationship

Internet Research Assignments

1. The *Statement on Standards in Personal Financial Planning Services (SSPFPS) No. 1* will be used throughout the course. The instructor should use this as an opportunity to introduce the SSPFPS and the other resources for the Personal Financial Planning Section.

2. The GAO report "*Regulatory Coverage Generally Exists for Financial Planners, but Consumer Protection Issues Remain*" provides a very broad overview of personal financial planning in the

United States. The instructor should be familiar with the report and connect some of the findings in the report to the *SSPFPS*.

3. Moderate a discussion of George Kinder's webcast, "The Life Planning Perspective: An interview with George Kinder" and integrate it with the *SSPFPS* and the GAO report "*Regulatory Coverage Generally Exists for Financial Planners, but Consumer Protection Issues Remain.*" How does life planning address issues presented in the GAO report? Are life planning concepts reflected in the *SSPFPS*?

Chapter 2: The Statement on Standards in Personal Financial Planning Services No. 1

Chapter Outline

Case Study

Learning Objectives

Introduction

The Pathway to Standards in PFP

A Timeline of Personal Financial Planning in the United States

Statement on Standards in Personal Financial Planning Services

Personal Financial Planning Services

Applicability

Requirements of the Member

Steps in a Personal Financial Planning Engagement

Planning the PFP Engagement

Selecting Other Service Providers

Obtaining and Analyzing Information

Developing and Communicating PFP Recommendations

Other Types of Personal Financial Planning Engagements

Implementation Engagement

Monitoring Engagement

Updating Engagement

Chapter Review

Case Study Revisited

Review Questions

Internet Research Assignments

Learning Objectives

- Identify the pathway that led to the professional standards of a CPA personal financial planner.
- Apply the requirements of the AICPA Statement on Standards in Personal Financial Planning Services (SSPFPS) No. 1 to a PFP engagement.
- Differentiate the steps in the PFP process and their applicability to SSPFPS No. 1.

Teaching Guidance

Teaching Strategy

The focus of this chapter is AICPA's *Statement on Standards in Personal Financial Planning Services No. 1*. SSPFPS should be positioned as a roadmap to the personal financial planning

process. SSPFPS should also be applied in conjunction with both the AICPA Code of Professional Conduct and the Investment Advisers Act of 1940. Lastly, SSPFPS should be viewed as a tool that both protects consumers and outlines expectations for the personal financial planner and the personal financial planning process.

Teaching Notes

- The *Case Study* illustrates how easy it is for a CPA to come under SSPFPS. Use the case study as an opportunity to begin a dialogue with the students as to the broad scope of what is considered personal financial planning.
- Discuss the history of personal financial planning in the United States:
 - A fairly recent phenomenon
 - CPAs in the personal financial planning process
 - Recent regulatory changes
- PFP is a process of identifying personal financial goals and resources, designing financial strategies, and making personalized recommendations. The process could be oral or codified in writing. The process may include implementation of recommendations or monitoring or updating the engagement. PFP services can be very broadly defined. And as a result, a CPA may unintentionally “step into” personal financial planning services. The instructor should facilitate a discussion of the broad scope of PFP services and illicit student observations as to which CPA’s services might be classified as PFP services.
- Review activities which may constitute PFP services:
 - Cash flow planning
 - Risk management and insurance planning
 - Retirement planning
 - Investment planning
 - Estate, gift, and wealth transfer planning
 - Elder planning
 - Charitable planning
 - Education planning
 - Tax planning
- Review potential elements of an engagement agreement:
 - Engagement objectives

- Scope of services to be provided
- Roles and responsibilities of the member, client, and other service providers
- Timing of the engagement
- Scope limitations and other constraints
- Conflicts of interest (Ref: par. 20)
- Responsibility, or lack thereof, for helping the client implement planning decisions
- Responsibility, or lack thereof, for monitoring the client's progress in achieving goals
- Responsibility, or lack thereof, for updating the plan and proposing new action
- The personal financial planner should develop recommendations derived from analyses of relevant information, client goals and the client's overall financial circumstances. The recommendations and assumptions should be communicated to the client in writing and may include:
 - A summary of the client's goals
 - Significant assumptions
 - Estimates
 - Recommendations
 - A description of limitations on the work performed
 - The recommendations in the engagement should contain qualifications to the recommendations if the effects of certain planning areas on the client's overall financial picture were not considered.

Review Questions Solutions

1. According to the Statement on Standards in Personal Financial Planning Services No. 1, which of the following words are used to describe actions and procedures that are recommended but not required?

- A. Incorrect because C. is the better answer.
- B. Incorrect because it contains answer IV.
- C. Correct. All of the words indicate actions which are not required.**
- D. Incorrect because it contains answer IV.

2. Which of the following is not a PFP service?

- A. Incorrect. Designing financial strategies is a PFP service.
 - B. Incorrect. Identifying personal financial goals and resources is a PFP service.
 - C. Incorrect. Making personalized recommendations is a PFP service.
 - D. **Correct. Preparing individual tax returns is not a PFP service.**
3. The member should disclose, in writing, the compensation the member, the member's firm, or affiliates will receive for services rendered or products sold. The disclosure should include:
- A. Incorrect. D is the better answer.
 - B. Incorrect. D is the better answer.
 - C. Incorrect. D is the better answer.
 - D. **Correct. All responses are correct.**
4. Which of the following is not true when referring another service provider to a client?
- A. Incorrect. This is a true statement.
 - B. **Correct. The consideration the professional qualifications of another service provider after referring the client to that service provider is not appropriate.**
 - C. Incorrect. This is a true statement.
 - D. Incorrect. This is a true statement.
5. A member lists CPA/PFS credentials on business cards and the company website. Which of the following activities is not covered by the Statement on Standards in Personal Financial Planning Services No. 1?
- A. Incorrect. Advising a client regarding income tax matters that result in a personalized recommendation is a personal financial planning service.
 - B. **Correct. Business valuation services are not personal financial planning services.**
 - C. Incorrect. Education-related discussions that result in a personalized recommendation is a personal financial planning service.
 - D. Incorrect. Mechanical computations that result in a personalized recommendation is a personal financial planning service because it results in a personalized recommendation.
6. The coordination of, or the review of, the delivery of services or products by other service providers is part of:
- A. **Correct. The coordination of, or the review of, the delivery of services or products by other service providers is part of the implementation engagement.**
 - B. Incorrect.
 - C. Incorrect. PFP engagement is too broad of a response.
 - D. Incorrect.

7. With regards to a PFP engagement, if a member determines that a conflict of interest exists, which of the following is correct?

- A. Incorrect. C is the full and complete answer.
- B. Incorrect. C is the full and complete answer.
- C. Correct. The member can engage the prospective client if objectivity is not impaired, the conflict of interest is disclosed and consent is obtained.**
- D. Incorrect.

8. Which of the following four circumstances creates a fiduciary status?

- A. Correct.**
- B. Incorrect. Preparing an income tax return is not a fiduciary activity.
- C. Incorrect. Providing personalized advice about securities for compensation is not fiduciary activity.
- D. Incorrect. Selling an insurance product is not a fiduciary activity.

9. The development and communication of recommendations is the goal of:

- A. Incorrect. An implementation engagement is entered into after the decision is made to implement the recommendations.
- B. Incorrect. Quantitative data is a form of data obtained through the discovery process.
- C. Incorrect. Qualitative data is a form of data obtained through the discovery process.
- D. Correct. The development and communication of recommendations is the goal PFP process.**

10. The member's evaluation of progress toward achieving the client's PFP goals is an element of which type of engagement?

- A. Incorrect. The type of engagement was not specified.
- B. Incorrect.
- C. Correct. The evaluation of progress toward achieving a client's PFP goals is a Monitoring engagement.**
- D. Incorrect.

Internet Research Assignments

1. Students should be encouraged to read, and engage with the Statement on Standards in Personal Financial Planning Services No. 1 and determine which activities are not covered by the standard?

2. The purpose of this exercise is for the student to compare and contrast “Prudent Practices for Investment Advisors” with the Statement on Standards in Personal Financial Planning Services No. 1. What are the similarities and what are the differences?
3. Students should be encouraged to read and engage with The Government Accountability Office Report “Regulatory Coverage Generally Exists for Financial Planners, but Consumer Protection Issues Remain.” As consumers of financial services, what concerns are raised by the lack of regulatory oversight of personal financial planners?
4. The Investment Advisers Act of 1940 is a fairly quick read and it establishes the foundation and regulatory framework for personal financial planning. Students should make a list of recommended changes to the Act in light of Regulatory Coverage Generally Exists for Financial Planners, but Consumer Protection Issues Remain.
5. Students should provide a list of useful links, tools and resources after viewing the U.S. Securities and Exchange Commission’s website.
6. Students should provide a list of useful links, tools and resources after viewing the Financial Industry Regulatory Authority’s website.
7. Students should provide a list of useful links, tools and resources after viewing the National Association of Insurance Commissioners’ website.
8. Students should obtain their free credit report.
9. The purpose of this exercise is for the student to compare and contrast the AICPA’s Code of Professional Conduct with the Statement on Standards in Personal Financial Planning Services No. 1. In what ways are the documents similar and how are they different?
10. Students should read “The CPA’s Guide to Investment Advisory Business Models.” They should select the business model for which they are best suited and defend their selection.