

## CHAPTER

# 1

## PERSONAL FINANCIAL PLANNING



### CASE STUDY

George and Angela Martin, who own a closely held engineering firm, have been in business together for 11 years and married for 15. Prior to starting their business, George was an engineer for the state highway department, and Angela was an interior decorator. The company now has 25 employees and provides services to local, state, and government agencies.

Thinking of their two children, Alex (age 5) and Amy (age 7), the Martins completed a personal financial planning engagement through your services 9 months ago. As a result of your recommendations, they created foundational estate planning

documents, purchased life and disability insurance, established a qualified plan for their business, and began funding their children's 529 plans.

Unfortunately, George just called you with some bad news: The Martins have decided to divorce. Because you know so much about their financial circumstances and previously provided such excellent financial planning advice, George would like you to assist him with working out a property settlement, potentially dissolving the business, and rewriting his estate documents.

### LEARNING OBJECTIVES

After completing this chapter, you should be able to do the following:

- Identify the personal financial planning (PFP) process and recognize 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.

## Introduction

Personal financial planning is a process, a series of purposeful and deliberate steps taken in order to achieve a personal financial plan for an individual or a family. In all, there are seven steps in the PFP process: engage, discover, analyze, recommend, implement, monitor, update. The first four steps are required for a personal financial planning engagement; the remaining three steps are not required and may be standalone engagements or part of a PFP engagement. Generally speaking, there are essentially three main actions in the PFP process, as follows:

- Identify the client's personal financial goals and resources.
- Design financial strategies.
- Make personalized recommendations that, when implemented, assist the client in achieving these goals.

### WHAT ARE PFP SERVICES?

- Cash flow planning
- Charitable planning
- Education planning
- Elder planning
- Estate, gift, and wealth transfer planning
- Investment planning
- Retirement planning
- Risk management and insurance planning
- Tax planning

Source: Paragraph .03, Statement on Standards in Personal Financial Planning Services No. 1 (AICPA, *Professional Standards*, PFP sec. 100).  
<https://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Resources/PFPPPracticeManagement/ProfessionalStandardsandEthics/DownloadableDocuments/SSPFPS.pdf>

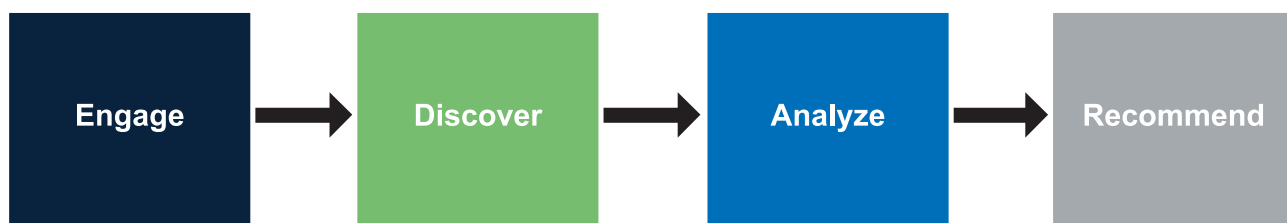
The overall PFP process starts with a financial planning engagement between the personal financial planner and his or her client.

## Phases of the Personal Financial Planning Engagement

As shown in exhibit 1-1, the PFP engagement has four required phases: engage, discover, analyze and recommend. In this section, we will take a closer look at each of these phases.

### EXHIBIT 1-1

#### FOUR PHASES OF A PERSONAL FINANCIAL PLANNING ENGAGEMENT



## ENGAGE

The *engage* phase establishes and defines the client-planner relationship. The personal financial planner explains and documents the services to be provided; defines his or her responsibilities; defines the responsibilities of the client; and explains how he or she will be paid and by whom. The planner and client should agree on how long the relationship will last and on how decisions will be made. Additionally, the engagement agreement should include the following:

- Disclosures of any conflicts of interest
- 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
- Scope limitations and other constraints

Disclosures of conflicts of interest and scope limitations and other constraints are key factors for a personal financial planner to understand.

### Disclosure of Conflicts of Interest

A conflict of interest is not bad or wrong. It is simply an element of the engagement agreement that must be disclosed to the client. AICPA's Statement on Standards in Personal Financial Planning Services (SSPFPS) No. 1 (the standard) provides the following guidance on conflicts of interest:<sup>1</sup>

The member should evaluate whether any conflicts of interest exist with regard to the engagement as follows: (Ref: par. .A9–.A10)

- a. If the member determines a conflict of interest exists, the member should determine whether the engagement can be performed objectively.
- b. If the member determines the engagement can be performed objectively, the member should disclose all known conflicts of interest and obtain consent as required under the "Conflicts of Interest" interpretation (AICPA, *Professional Standards*, ET sec. 1.110.010 and 2.110.010) under the "Integrity and Objectivity Rule" (AICPA, *Professional Standards*, ET sec. 1.100.001 and 2.100.001).
- c. If the member determines that the engagement cannot be performed objectively, the engagement should be terminated.

### Scope Limitations and Other Constraints

A personal financial planner should also disclose a limitation on the scope of the engagement, as well as any other constraints. What does a constraint look like? Consider the case of XYZ Personal Financial Planning, Inc. XYZ is a paperless, fully web-enabled financial planning firm. The firm uses data warehousing software to prevent data entry mistakes and capture clients' financial positions. For this engagement, XYZ's client has chosen to not web-enable the PFP software program. The personal financial planner needs to disclose this constraint in writing and notify the client this constraint may limit the scope of engagement.

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<sup>1</sup>Statement on Standards in Personal Financial Planning Services No. 1 (AICPA, *Professional Standards*, PFP sec. 100), paragraph .20.  
<https://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Resources/PFPPracticeManagement/ProfessionalStandardsandEthics/DownloadableDocuments/SSPFPS.pdf>

## DISCOVER

In the second phase, *discover*, the personal financial planner, using professional judgment, gathers client data and determines the client's goals and expectations. The personal financial planner should ask about the client's overall financial situation and personal and financial goals, as well as the client's attitude toward risk.

The personal financial planner should have a system in place to gather data. The rigor of a system for gathering information can eliminate or reduce the risk of overlooking or neglecting a key piece of information. It is more preferable for a client to say, as a result of an exhaustive data gathering process, "I do not have this item," than for the client to say, "Why didn't you ask me for this item in the beginning of the process?" A common way to systematize the gathering of data is using a structured data gathering form. The use of a form and a standardized process elicits more information from the clients and establishes a professional tone for the PFP engagement.

### OVERLOOKED ITEMS

The personal financial planner needs to recognize that there will always be some overlooked item the client forgot to disclose as part of the discovery process. That's human nature, and items large and small can populate the "Oh, I forgot ..." list. Examples of overlooked items, both common and uncommon, include the following:

- Gold bullion
- Personal guarantees on loans
- Real estate acquired through inheritance
- Support payments to parents or adult children

Later in the chapter, we will revisit the discover phase to take a closer look at the types of data gathered therein.

Just as they did in the engage phase, scope limitations and constraints may present themselves in the course of the data collection process. Consider, for example, a client with a large investment portfolio of stocks that were inherited from the client's mother. The investment firm that currently custodies the securities does not have basis information for the inherited stocks, and IRS Form 706, which contained the stocks' values on the date of the client's mother's death, has been misplaced. As a result, the personal financial planner is unable to make a reasoned recommendation regarding the inherited securities, which in turn limits or excludes recommendations regarding the entire investment portfolio. The personal financial planner needs to disclose this constraint and notify the client that it may limit the scope of the engagement.

A personal financial planner may be unable to collect sufficient information to establish a reasonable basis for making recommendations. If so, the scope of engagement may be restricted to matters with sufficient information available. This limitation of scope should be communicated to the client in writing, including that this limitation should be taken into account in the assessment of conclusions and recommendations developed.<sup>2</sup> Additionally, if sufficient information does not exist to proceed as originally outlined in the scope of engagement, the member should terminate or modify the engagement through mutual agreement with the client. This engagement modification or termination should be communicated in writing.<sup>3</sup>

<sup>2</sup>Ibid., par. .29

<sup>3</sup>Ibid., par. .30

## ANALYZE

During the third phase of the PFP engagement, *analyze*, the personal financial planner analyzes and evaluates the client's financial status. Analysis and evaluation enable the personal financial planner to assess the client's current situation and determine the steps to be accomplished in order to achieve the client's goals and objectives. Depending on the services requested, this assessment could include analyzing the client's

- assets;
- liabilities;
- cash flow;
- current insurance coverage;
- investments;
- estate documents; and
- tax strategies.

Exhibit 1-2 shows other actions included in the analyze phase.

### EXHIBIT 1-2

#### OTHER ACTIONS IN THE ANALYZE PHASE

- Evaluation of the reasonableness of estimates and assumptions that are significant to the plan
- Use of assumptions that are appropriate and consistent with each other
- Consideration of the interrelationship of various PFP activities

As before, scope limitations and constraints may present themselves as part of the analyze phase in this phase as well. Consider, for example, a client who owns several rental properties. The client assumes 15 percent for the annual appreciation of his rental properties, but historic appreciation for rental real estate in this geographic area is 7 percent. The client's assumptions are not reasonable. The personal financial planner needs to both disclose this constraint and notify the client this may limit the scope of engagement for the client.

## RECOMMEND

During the last required phase, *recommend*, the personal financial planner

- develops and presents the financial planning recommendations and alternatives to the client;
- offers financial planning recommendations that address the client's goals and objectives, based on the information provided by the client;
- reviews the recommendations with the client and educates the client on the applicable reasoning behind the recommendation; and
- addresses any client concerns and revises recommendations as appropriate.

When presenting the recommendations, the personal financial planner should communicate to the client any assumptions and estimates used that are significant to the recommendations. According to paragraph .35 of the standard, this communication should be documented and should include the following:

- Summation of specific client goals
- Description of limitations on the work performed
- Qualifications to the recommendations if the effects of certain planning areas on the client's overall financial picture were not considered

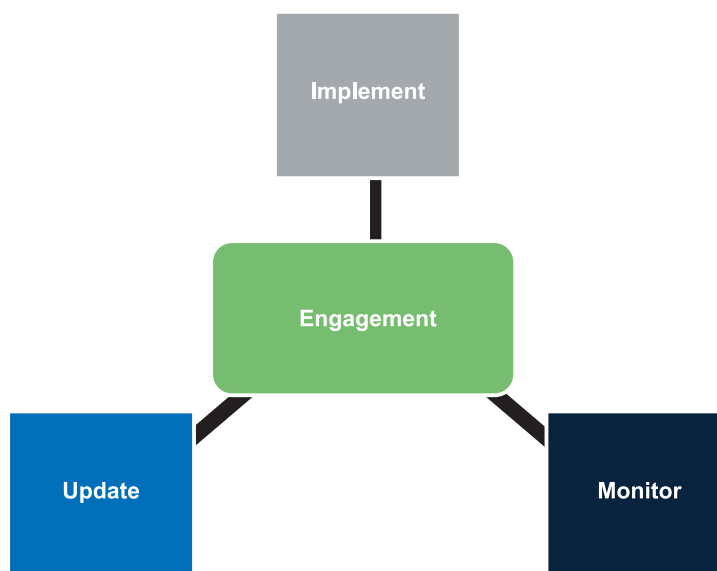
With the recommend phase complete, the client is then able to make an informed decision for attaining his or her goal.

#### EXPANDED OR ADDITIONAL ENGAGEMENTS

In some cases, a PFP engagement might extend beyond the four required phases. At the behest of the client, a personal financial planner might also take on the *implementation* of recommendations, *monitoring* of the engagement, or *updating* the engagement; a combination of any two of the three; or all three activities. These activities, shown in exhibit 1-3, then become additional engagements.

#### EXHIBIT 1-3

#### ADDITIONAL ENGAGEMENTS



#### Implementation Engagement

An *implementation engagement* is a PFP engagement that involves assisting the client in taking action on recommendations from a preceding engagement.<sup>4</sup> Paragraph .36 of the standard states that an implementation engagement should include the following:

- A summary of the planning decisions being implemented
- A summary of recommended actions to be taken
- A description of limitations on the work performed in the implementation engagement

<sup>4</sup>Ibid., par. .12

A personal financial planner engaged to establish selection criteria for an implementation engagement should identify the criteria required to accomplish the client's objectives. This evaluation should be in writing, and should include specific product recommendations. If the personal financial planner is being compensated for the sale of a product (such as life insurance) or service (such as asset management), the amount of compensation must be disclosed.

The disclosure should detail all compensation the personal financial planner, or the personal financial planner's firm or affiliates, will receive for the services rendered or the products sold. Also, if compensation alternatives are offered (levelized insurance commissions, lower asset management fees, and so on) the personal financial planner should disclose those alternatives in writing.

## DISCLOSURE OF COMPENSATION

The disclosure of compensation should include

- the method of compensation, including the impact of indirect compensation;
- the amount of compensation;
- the time period in which compensation will be received; and
- the compensation, including noncash benefits, received by the member for referrals to other providers.

Source: Paragraph .22, Statement on Standards in Personal Financial Planning Services No. 1 (AICPA, *Professional Standards*, PFP sec. 100).  
<https://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Resources/PFPPPracticeManagement/ProfessionalStandardsandEthics/DownloadableDocuments/SSPFPS.pdf>

Implementation may also include such activities as assisting the client in selecting other advisers, restructuring debt, obtaining new or updated estate documents, establishing cash reserves, and preparing spending plans. An implementation engagement is typically completed when products are acquired, or services are rendered, based on the recommendations developed during the PFP engagement.

### Monitoring Engagement

A *monitoring engagement* tracks the client's progress toward stated PFP goals and objectives. The personal financial planner should report to the client periodically to review the situation and adjust recommendations as needed. Additionally, the monitoring engagement should include a recommendation as to whether or not the client's existing PFP, and specific financial planning recommendations, should be updated.

The monitoring engagement should include a written disclosure of

- criteria that are applicable to the achievement of the financial planning goals being monitored;
- criteria that are appropriate to, and consistent with, those used to establish the goals being monitored; and,
- frequency and time period of measuring the client's progress toward reaching the stated goals.

### Updating Engagement

An *updating engagement* revises a client's existing PFP and its recommendations, as agreed to by the client and the planner. An updating engagement should include a determination as to whether or not the client's PFP goals and objectives remain



valid in light of the client's current facts and circumstances. Additionally, the assumptions used to create the original PFP should be reviewed and validated or updated. This assessment will then be applied to determine the impact of revising recommendations on the client's ability to achieve other financial planning goals.

## Behavioral and Psychological Methods of Building Client Rapport

In addition to learning and applying the PFP process, the personal financial planner needs to understand and apply behavioral and psychological techniques to his or her client relationships. Understanding client behavior is critical to the success of the PFP process, as it enables the planner to understand the client's decision-making process. When a personal financial planner understands a client's viewpoint, the planner is able to develop personalized strategies for the client, who may then enjoy a greater degree of success in achieving his or her goals.

Individuals select personal financial planners not only for their knowledge in planning, but also for their knowledge of life-planning needs (life planning is discussed later in this chapter). A personal financial planner with the right skill set empowers clients to choose the path best suited to them in attaining financial independence. Most individuals realize they are emotionally involved with each financial decision they make. One of the reasons cited by clients for hiring a personal financial planner is to receive assistance in removing emotion and bias from their decision-making process, and to keep them accountable. Therefore, finding a planner with whom they can communicate, and one they trust, is essential.

### DESIRABLE FINANCIAL PLANNER TRAITS

In general, clients prefer a personal financial planner who is

- trustworthy;
- an effective communicator;
- focused on helping them achieve their goals;
- willing to educate them;
- able to deliver excellent service; and
- able to appreciate them as a person.

Understanding what motivates clients and finding ways to improve their financial planning results is the goal of behavioral techniques. These techniques are not an alternative to traditional PFP, but rather an enhancement.

#### ACTIVE LISTENING

One of the most important skills a personal financial planner needs to master is active listening. This skill can be developed with practice; however, it is difficult to master and takes time and patience to develop. As the name suggests, active listening is fully concentrating on what is being said rather than passively hearing the speaker, and it requires all five senses. The listener's full attention must be given to the speaker in order for the speaker to conclude that what they are saying is important to the listener. Interest is conveyed to the speaker when the listener uses both verbal and non-verbal cues while listening.



## VERBAL AND NON-VERBAL CUES

Non-verbal cues include the following:

- Eye contact
- Head-nodding
- Smiling
- Posture
- Mirroring facial expressions
- Taking notes
- Refraining from
  - fidgeting;
  - looking at watch or clock; or
  - playing with hair, nails or clothing.

Verbal cues include the following:

- Remembering a few key points
- Asking relevant questions
- Paraphrasing or repeating what the speaker has said
- Asking questions for clarification
- Summarizing what has been said back to the speaker
- Carefully choosing positive words of encouragement

### BEHAVIORAL BIASES AND HEURISTICS

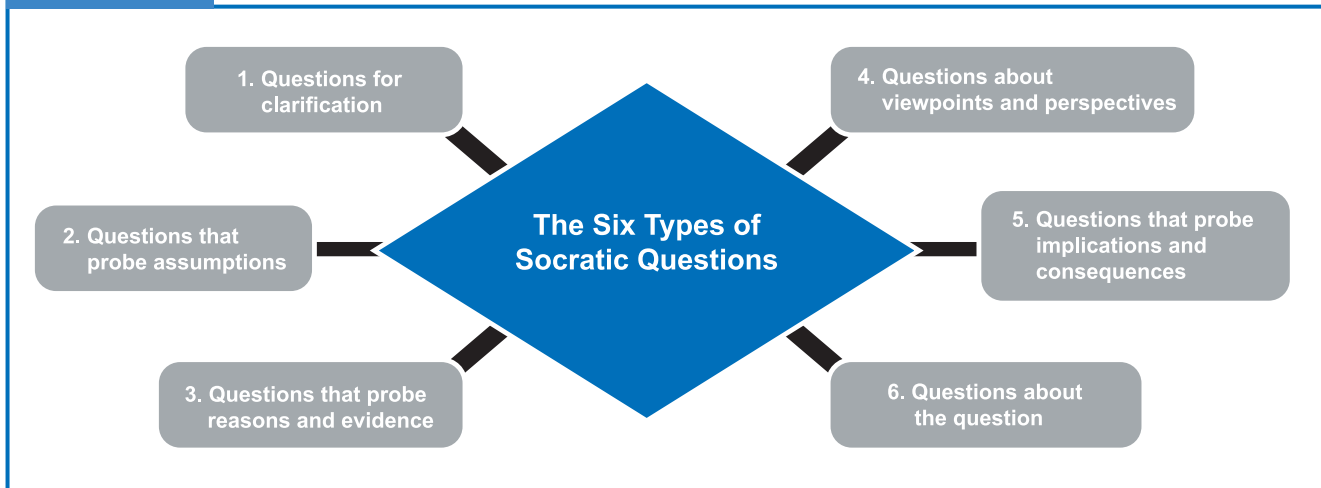
Numbers and financial goals are no match for a client's emotions and biases. Understanding these behavioral biases helps the personal financial planner assist clients in making better personal financial decisions. Behavioral biases can be cognitive or emotional: *cognitive biases* may or may not be factual; *emotional biases* cause an individual to take action based on feelings instead of fact. Some examples of biases in investing situations include overconfidence, avoiding regret, limited attention span, and chasing returns.

Knowledge of heuristics is helpful for the personal financial planner. *Heuristics* are approaches to problem solving or learning that individuals employ to solve difficult issues in high risk or uncertain situations such as investing. Utilizing these methods reduces time and effort in the decision-making process. Examples of heuristic problem-solving methods are: general rules of thumb, educated guesses, intuitive judgment, stereotyping, trial and error, and common sense.

### SOCRATIC QUESTIONING

*Socratic questioning* challenges people to answer their own questions by making them think more deeply about their assumptions and rationales. Socratic questioning may be used to pursue thought in many directions, to explore complex ideas, to get to the bottom of things, to open up issues and problems, or to uncover assumptions and biases. Personal financial planners can use Socratic questioning to discover biases and develop a heuristic approach.

As shown in exhibit 1-4, there are six types of Socratic questions. These types of questions are particularly helpful in understanding the “why” behind a client's decisions and help the clients move beyond their biases and the more basic heuristic methods.



## Application of Behavioral Techniques to Client Relationships

Knowing the behavioral and psychological methods of understanding the client and gaining rapport directs the entire PFP process. Ways to apply these behavior methods to client relationships include the following:

- Perform a risk assessment. One of the most effective tools the personal financial planner can utilize is a risk tolerance tool. Understanding the client's risk tolerance is critical in all aspects of PFP. A psychometric risk assessment demonstrates the level of risk a client is willing to take in any decision: financial, investment, or otherwise. This provides the personal financial planner with a unique perspective into the client's decision-making process.
- Address immediate needs. In the initial discovery phase of a PFP engagement, the personal financial planner who focuses on the client's immediate, or triage, event is a planner who understands and practices behavioral techniques. This type of personal financial planner is focused on the issues the client is currently struggling with, rather than what the planner decides should be first on the financial planning agenda.
- Uncover motivations. The initial discovery phase is an opportunity to discover what truly inspires or motivates the client. Understanding the client's top three motivators or inspirations is a great way to establish rapport with the client, as well as to develop a clearer understanding of who the client is.
- Focus on the client. Throughout the engagement, a personal financial planner who is focused on the client is continually asking open-ended questions, such as how the client feels about the process and the information presented. Actively listening and communicating empathetically are key, as is overcoming personal bias. All questions are carefully and thoughtfully asked — especially deep, penetrating questions — and the

planner is prepared for shocking responses from the client. In addition, the planner is focused on moving the client forward but not rushing through the process.

- **Mitigate conflict.** Interpersonal conflict may arise during a PFP engagement. When this occurs, the personal financial planner must be ready to manage the difficult situation. Setting client and planner expectations at the beginning of the engagement and at each meeting can help to mitigate conflict. Family dynamics will affect the PFP process, and the planner who is aware of problematic familial dynamics is able to facilitate discussions and decisions among family members.
- **Control attitudes and emotions.** One of the most important areas personal financial planners should be trained in, experienced in, or prepared for is controlling their attitude and emotions. Their feelings must be neutral and left at the door before entering into the meeting. Emotions can be evoked, and attitudes can deteriorate quickly, by client words or actions. The personal financial planner is a professional and should be prepared and able to pass right over any emotional or attitudinal distress. An additionally difficult task for the personal financial planner is to refrain from projecting his or her biases and values into a client situation.

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Planner biases and values can include but are not limited to: views on longevity planning, attitudes on gifting to family members, and investment philosophies.

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- **Adapt to each client.** A personal financial planner demonstrates professionalism by adjusting his or her questioning and listening style for each client. Working with both millennials and elderly clients, for example, requires a substantial adjustment in the types of questions, explanations, and even the number of questions the personal financial planner asks the client.
- **Diagnose the situation.** Practicing as a personal financial planner is like being a financial doctor and diagnosing each client situation. For example, does the elderly client have full cognitive ability? What is driving the conflict in this family? Is the client displaying, or are family members involved in, any addictive behaviors such as drinking, drugs, overspending, gambling, shopping, or other risk-taking behaviors? Are there entitlement issues?
- **Communicate well.** Being a good communicator is essential for the personal financial planner. It is a best practice for a planner to inquire as to their client's preferred method of communication. The planner will also make inquiries into the client's technological capabilities. Many personal financial planners are paperless, but if an elderly client does not have a computer, or is computer illiterate, alternative methods for the planner's processes will have to be determined. The planner will also inquire about which family members are to be included in the communication process.

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Methods of communicating include email, home phone, cell phone, and texting.

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## Gathering Data: Quantitative Versus Qualitative Data

All of the behavioral techniques for listening, communicating, and moving the client forward in the PFP process are used in the discover phase, which we previously discussed. What we did not note in that previous discussion is that all of the data gathered can be classified in two categories: quantitative and qualitative.

### QUANTITATIVE DATA

*Quantitative data* is a specific quantity (personal financial statement) or a material fact (life insurance contract). Quantitative data also includes the client's specific goals and objectives. The personal financial planner should endeavor to have the client quantify the goals as precisely as possible. The goals should be dollar and time specific.

### EXAMPLE

- General goal: "I want to have a comfortable standard of living when I retire."
- Specific goal: "I want to retire in 12 years with net after-tax income of \$72,000 per year in current dollars (3 percent annual increase for inflation), and I do not want to deplete principal (capital retention)."

Exhibit 1-5 shows the quantitative data items and documents that should be collected for a PFP engagement. Keep in mind that the data requested by the personal financial planner should be appropriate to the scope of the engagement. For example, if the scope of the engagement is college funding for the client's child, the personal financial planner would not ask for the client's most recent will.

#### EXHIBIT 1-5

#### QUANTITATIVE DATA ITEMS IN A PFP ENGAGEMENT

- |  |   |
|--|---|
| • Estate documents (wills, trusts, and the like) | • Investment statements                       |
| • List of current advisers (CPA, attorney)       | • Insurance policies                          |
| • Personal financial statement                   | • Most recent two years of income tax returns |
| • Current spending plan (budget)                 |   |

Reviewing quantitative data, such as insurance contracts and financial statements, reveals a great deal about the client's values and decision-making process. The result of effective data gathering is the quantification and prioritization of the client's goals and objectives.

## QUALITATIVE DATA

The assessment of the quantitative data by the personal financial planner will generate additional questions, which in turn reveals the client's feelings and values regarding financial planning decisions. These feelings and values are the client's subjective data. This type of information is called qualitative data. *Qualitative data* is information about the client's hopes, fears, values, preferences, and attitudes regarding financial and nonfinancial goals. Effective discovery of this type of subjective information may only be accomplished after a review of the quantitative data.

### E X A M P L E

- A will or revocable living trust (quantitative) will reveal the names and relationships of the beneficiaries to the client (qualitative).
- Tax returns (quantitative) will reveal the client's donative intent (qualitative) through charitable giving.
- An analysis (quantitative) of investments will reveal the client's risk tolerance (qualitative).

Client expectations and concerns should be addressed before the personal financial planner begins the data gathering step. Clients should understand that they will have to invest a significant amount of time in the data gathering stage of the PFP engagement. Clients should also understand that confidential information will need to be shared. Some of this information may be sensitive or painful for the client to disclose: a spouse who is a secret spender, an out-of-wedlock child, or a previous bankruptcy.

Qualitative data is expressed as an attitude, an opinion, or a desire. Client goals are qualitative considerations. A client's expectations for items such as lifestyle, education and retirement help form the foundation for goals that are specific and meaningful to the PFP process. Expectations can provide direction for goal prioritization. Clients will have competing goals: saving for retirement or saving for a child's education. A personal financial planner must be able to help the client sort through goals and develop a clear, specific list of priorities. Only after completing this will the planner be able to identify potential constraints to the client's goals and financial objectives. Exhibit 1-6 provides sample questions to facilitate qualitative discussions with the client, and which illustrate potential PFP constraints.

- What are the client's past experiences with investments? Does the client feel taken advantage of by past financial service professionals?  
Constraint: If the client's past experience has been bad, there may be a fear of working with investment professionals; a possible constraint could be the desire for all investments to be in a bank.
- Does the client have specific feelings toward investments? Does the client only invest in real estate because of a bad experience during the recession of 2007–09?  
Constraint: If the client lost a great deal of money in the stock market, a possible constraint could be the desire for all investments to be in cash/cash equivalents.
- Has the client recently completed an estate plan?  
Constraint: If the client has just recently completed an estate plan and the documents are deficient based on current goals and priorities, a possible constraint may be that the client is unwilling to begin work on a new estate plan.
- Are there health concerns? Is there a family history of health issues?  
Constraint: If there is a fear of premature death, a possible constraint may be to spend all money now and not set aside for future funding needs.

### RISK TOLERANCE

One notable exception to the quantitative/qualitative divide is risk tolerance. An analysis of the client's risk tolerance may be quantitative or qualitative. Quantitative analysis uses a statistically reliable scoring system that produces consistent results measured across a large demographic segment. This type of analysis is referred to as a psychometric tool. A qualitative risk assessment is subjective and is based on the personal financial planner's discussions with the client. The scoring system is based on the personal financial planner's experiences with other clients.

### Life Planning and the Personal Financial Planning Process

An exceptional personal financial planner may apply behavioral techniques to all phases of an engagement. This type of financial planning goes beyond the surface into life planning. *Life planning* focuses a client on their deepest values and motivations. It is a holistic process that places the client's values and interests first, and focuses on increasing the client's sense of life satisfaction and financial well-being.

Life planning is different from traditional financial planning in that the focus is on who a client is and what that person desires to be, rather than on numbers and finances. The premise of life planning is that personal financial planners should first discover a client's most essential goals in life, then help him or her build a life plan that is supported by the PFP. Personal financial planners who integrate life planning into their PFP process assist their clients in adjusting their current lifestyle in order to achieve the lifestyle of their dreams.

## EXAMPLE

Some examples of life planning goals include the following:

- Pay for my entire family to go on vacation together for two weeks every year
- Own my own business
- Send my children to Harvard or other private college
- Leave a legacy for my family
- Leave a large sum to my favorite charity
- Work because I love what I do, not because I have to
- Build our dream home
- Pay for my five daughters' dream weddings

The term “life planning” was coined approximately 20 years ago; however, most personal financial planners are still somewhat unaware of the concept. Today, more and more personal financial planners are attracted to a holistic life planning approach because it sets them apart. In addition, those who have done so are finding that it enables them to build a deeper relationship with their clients.

## GEORGE KINDER

George Kinder is considered the father of life planning. His top five areas for life planning goals are:

- Family/relationships
- Values/spirit
- Creativity
- Community
- Environment/place

Kinder felt that the life planning perspective allowed personal financial planners to provide a deeper, more targeted service to their clients. The following table shows how Kinder envisioned different levels of financial planning, with life planning as the ultimate level of service.

|                    | INVESTMENT MANAGER | PERSONAL FINANCIAL PLANNER   | PERSONAL FINANCIAL LIFE PLANNER |
|--------------------|--------------------|------------------------------|---------------------------------|
| Value proposition: | Beating the market | Comprehensive financial plan | Financial life plan             |
| Objective:         | Bazillion \$       | The “numbers”                | The life you want               |
| Life goals:        | Not considered     | In background                | Integrated                      |

Kinder, George. The Life Planning Perspective: An interview with George Kinder [webcast]. (New York: AICPA, October 29, 2015)  
[www.aicpa.org/interestareas/personalfinancialplanning/cpeandevents/pages/life-planning20151027.aspx](http://www.aicpa.org/interestareas/personalfinancialplanning/cpeandevents/pages/life-planning20151027.aspx)



As a result of integrating life planning into the PFP process, the qualitative questions are expanded to include such questions as:

- If you had all the money in the world, what would you want to do?
- If you won \$5 million in the lottery, how would your life change?
- If you had 5 to 10 years to live, how would change what you are doing?
- If you had 1 year to live, how would you change what you are doing?
- What would you do today, if you had 24 hours left to live?

These questions provide left-brained individuals an opportunity to envision different possibilities. Left-brained people are usually good at devising plans and understanding numbers, but they struggle with imagining the big goals. These questions shift their thinking to their right brain and they begin to share dreams they have never thought about or verbalized with the actively listening personal financial planner.

For right-brained individuals, the opposite is true. They have no problem imagining the big goals and dreams; however, their path to these goals is a bit blurry. For them, the financial planning side is boring and they need life planning questions to provide the motivation to work through and implement their financial plans.

## Chapter Review

Personal financial planning is a process that is undertaken to achieve a personal financial plan for an individual or a family. There are four required steps in the PFP process: engage, discover, analyze, and recommend. In addition, there are three optional steps that may be a part of a PFP engagement or may be standalone engagements: implement, monitor, and update.

Data gathered in the discover step consists of quantitative and qualitative information. Most data are specifically quantitative or qualitative, but risk tolerance can be either. Applying the risk tolerance tool is an excellent technique in understanding a client's attitude toward risk and helps the personal financial planner understand the client's decision-making process.

Life planning is a holistic approach to the PFP process that places the client and the client's desires, dreams, and goals above the financial plan. Life planning is different from traditional financial planning in that the focus is on who a client is and what that person desires to be, rather than on numbers and finances.

### CASE STUDY REVISITED

George Martin has asked you to assist him with working out a property settlement, potentially dissolving the business, and rewriting his estate documents.

Which phase in the PFP process does this request fall under?

This is phase one in the PFP process, engagement. (You can infer from the case study that the original engagement with George and Angela Martin was only a PFP engagement without implementation, monitoring or updating.) It is phase one because a new set of facts

and circumstances are being presented to the personal financial planner. George's PFP goals and objectives have changed. For example, George is now single and not married, a new spending plan will need to be created, estate planning documents will need to be re-drafted, and even his life goals and objectives have changed.

May a personal financial planner take on this engagement?

Yes. However, there are potential conflicts of interest that will need to be disclosed. In addition, an assessment by

## CASE STUDY REVISITED (continued)

the client and the personal financial planner will need to be made as to whether or not the engagement may move forward. By asking the planner for a new engagement, George's presumption is that there is either no conflict of interest or, if there is a conflict of interest, it will not hinder the judgment and objectivity of the personal financial planner. It is important to note that only the personal financial planner is able to make this decision.

What facts and circumstances should be considered before engaging?

- Is the personal financial planner able to work with only one of the clients?
- New data will need to be gathered, both qualitative and quantitative.
- A potential constraint for the PFP is the inability to create a personal spending plan. George will not be able to anticipate his expenses at this point.
- Will George be engaging you for a personal financial plan only; a PFP and implementation; a PFP and implementation and monitoring; or a PFP and implementation, monitoring and updating?

## ASSIGNMENT MATERIAL

### REVIEW QUESTIONS

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?
  - I. The personal financial planner's compensation arrangements.
  - II. The responsibilities of the client.
  - III. The duration of the engagement.
  - IV. Information which would limit the scope of the engagement.
    - A. All of the above.
    - B. I, III, IV.
    - C. I, III.
    - D. I, II, III.
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. Identifying the services to be provided.
  - B. Describing personal financial planner's compensation arrangements.
  - C. Deciding on the time frame of the engagement.
  - D. Implementing the PFP recommendations.
3. Which of the following is an example of quantitative data?
  - A. The client would like to retire by age 60.
  - B. The client would like to provide a fully paid education program for his/her child.
  - C. The client will gift \$12,000 to his parents each year.
  - D. The client has a low risk tolerance.
4. Which of the following are heuristics?
  - I. Rules of thumb.
  - II. Common sense.
  - III. Risk tolerance assessment.
  - IV. Stereotyping.
    - A. I, III.
    - B. II, III, IV.
    - C. I, II, IV.
    - D. III, IV.
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?
  - I. To disclose compensation on the sale of life insurance products.
  - II. To define the time frame for the engagement.
  - III. To give the client a brochure about the PFP firm.
  - IV. To explain the client's responsibilities.
    - A. I, II.
    - B. I, III, IV.
    - C. I, III.
    - D. I, II, IV.

## ASSIGNMENT MATERIAL (continued)

### REVIEW QUESTIONS

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. Details on current investments.
  - C. Health status of client and family members.
  - D. Names of financial advisers.
  - E. Copies of wills and trusts.
7. Dr. Williams, age 64, wants to retire in three years. 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. Mutually agree to cancel the PFP engagement.
  - B. Model the plan using only your return assumptions.
  - C. Model the plan using both your return assumptions and the necessary assumptions to meet his required retirement income goal.
  - D. Acknowledge the limitation on the scope of engagement and use the necessary assumption to achieve Dr. Williams' income goal.
8. Which of the following is not an example of qualitative data?
  - A. Client's priorities.
  - B. Client's personal and financial goals.
  - C. Client's desired retirement date.
  - D. Fair market value (FMV) of the client's assets.
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?
  - I. The potential life expectancy of the client.
  - II. The insurability of the client.
  - III. The special needs of the client's family members.
  - IV. The net worth of the client.
  - A. II, IV.
  - B. I, II, IV.
  - C. I, II, III.
  - D. II, III.
10. Identify the following phases, in chronological order, as they occur in the PFP process:
  - \_\_\_ Recommend actions
  - \_\_\_ Update the plan
  - \_\_\_ Monitor the plan
  - \_\_\_ Implement the plan
  - \_\_\_ Analyze and evaluate data
  - \_\_\_ Establish and define client-planner relationship

### INTERNET RESEARCH ASSIGNMENTS

1. Download the Statement on Standards in Personal Financial Planning Services (SSPFPS) No. 1. Review the steps in the PFP process.  
<https://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Resources/PFPPracticeManagement/ProfessionalStandardsandEthics/DownloadableDocuments/SSPFPS.pdf>
2. Download the GAO report "Regulatory Coverage Generally Exists for Financial Planners, but Consumer Protection Issues Remain." Does the SSPFPS No. 1 address the issues presented by the GAO report?  
[www.gao.gov/new.items/d11235.pdf](http://www.gao.gov/new.items/d11235.pdf)
3. Listen to George Kinder's webcast, "The Life Planning Perspective: An interview with George Kinder."  
[www.aicpa.org/interestareas/personalfinancialplanning/cpeandevents/pages/life-planning20151027.aspx](http://www.aicpa.org/interestareas/personalfinancialplanning/cpeandevents/pages/life-planning20151027.aspx)