**AICPA Personal Finance Report Card**

**Overview**

U.S. News & World Report’s [*Best Jobs of 2012 Ranking*](http://money.usnews.com/money/careers/articles/2012/02/27/the-best-25-jobs-of-2012-rankings?s_cid=related-links:TOP) listed “accountant” and “financial adviser” in its top 25 occupations – citing promising growth opportunities in both fields. CPAs reputation for trustworthiness, integrity and objectivity, as well as their deep understanding of clients’ financial lives, present a unique opportunity to provide value-added financial planning services to their clients.

Your individual clients look to you to guide them through tax planning and preparation with an objective eye; you know their finances inside and out, and clients consider you to be their trusted adviser. Deepen existing client relationships and become the resource your clients go to for all their financial needs - from retirement and estate planning to investment and risk management planning.

The AICPA’s Personal Financial Planning (PFP) Division ([www.aicpa.org/PFP](http://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Pages/default.aspx)) has created a community committed to helping you increase your expertise in tax, estate, retirement, risk management and investments so you can focus on helping your clients reach their financial goals. [Membership](http://www.aicpa.org/INTERESTAREAS/PERSONALFINANCIALPLANNING/MEMBERSHIP/Pages/default.aspx) gives you an abundance of tools and resources, including guides and checklists to help you expand your technical knowledge, newsletters to keep you updated on the latest information, free webinars offering advanced planning ideas from nationally recognized thought leaders, and more.

**The Personal Finance Report Card**



Comprehensive financial planning involves the examination of virtually all aspects of a person’s financial life: earning and spending, risk management and insurance, tax planning, investments, and estate planning. In many ways, the most important service a CPA financial planner can offer is to provide questions rather than answers: the most serious financial crises are usually the result of unexpected events rather than risks that the person recognized.

So let’s start asking the right questions! The following report card represents a starting point that can be used to summarize a client’s financial situation. This report card was developed as an interview tool with new clients and as a way of periodically reviewing client progress: not only does it help identify the important issues, but it also is a great motivational tool, encouraging the client to take actions that will raise the score at the next meeting. Best of all, it helps avoid one of the biggest traps in financial planning: the focus on short-term investment performance in evaluating the planner. One of the most important points that this report card helps emphasize with clients is that a financial planner is much more than an investment adviser!\*

To complete the report card, have your client assign themselves a score in each of the 25 categories. The maximum score possible is 4 and the minimum 0. As a result, a client whose entire financial life is in perfect order will have an overall personal score of 100. Below the report card are questions to ask in each category in deciding how many of the 4 points to assign.

**\*Note Regarding Investment Adviser Registration Considerations:** While a CPA license or certificate alone allows a practitioner to provide financial planning services without any other credentials, there are restrictions on the ability of such a practitioner to discuss investments in anything but the most general terms, so most CPAs will investigate whether they should register as an investment adviser. For more information on registration requirements, you are encouraged to reference “Additional Considerations” on page 2 and consult [*The CPA’s Guide to Investment Adviser Registration*](http://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Resources/PFPPracticeManagement/PFPPracticeGuides/DownloadableDocuments/AICPACPAsGuidetoInvestmentAdviserRegistration.pdf).

**Instructions for CPAs**

This report can be used as a starting point for discussions with your clients about their current financial situation, and opportunities for you to help them set and meet their goals.

Feel free to customize the assessment areas and questions contained in the report card to meet your client profile. Further, consider using the following coaching questions with your clients as you walk through the initial assessment of the report card. Keep in mind that these discussions could lead to other billable services such as the creation of a comprehensive or segmented financial plan, or could simply be used as an informal coaching opportunity with your clients.

***Coaching Questions***

1. What area(s) would you most like to improve?
2. What would it take to make it happen (support, resources, expertise, etc.)?
3. What obstacles are there?
4. If any, how have you overcome such obstacles in the past?
5. What action steps will you take?
6. When can you schedule these tasks?
7. Who will you be accountable to?

Whatever your approach – be sure to schedule a follow-up meeting to review your client’s progress! The psychological aspect of this exercise can be very powerful: clients want to know their score, improve their score and become accountable to the person assessing the score.

**Additional Considerations**

As mentioned previously, while a CPA license or certificate alone allows a practitioner to provide financial planning services without any other credentials, you will want to determine whether or not you have a registration requirement under the [Investment Advisers Act of 1940](http://www.sec.gov/about/laws/iaa40.pdf) if you counsel your clients on the advisability or value of investing in securities. Providing a personal finance assessment, helping clients identify personal finance needs and resources, and helping clients brainstorm an action plan does not, by itself, require registration.  However, holding out as providing financial planning and/or providing investment advice (even in general terms) likely requires registration as an investment adviser.

Per the Investment Advisers Act of 1940 and the SEC’s Release IA-1092, an investment adviser is defined as any person (including both a natural person and a partnership, limited liability company, corporation or other entity) who:

1. provides advice or issues reports or analyses, regarding securities;
2. is in the business of providing such services; and
3. provides such services for compensation.

Each of these elements must be present before a person will be deemed an “investment adviser”.

The AICPA PFP Division has created a guide to help you determine what constitutes crossing the line with respect to offering investment advice, and you are encouraged to reference [*The CPA’s Guide to Investment Adviser Registration*](http://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Resources/PFPPracticeManagement/PFPPracticeGuides/DownloadableDocuments/AICPACPAsGuidetoInvestmentAdviserRegistration.pdf)for more information.

The AICPA Personal Financial Planning Executive Committee has issued a [*Statement on Responsibilities in Personal Financial Planning Practice*](http://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Resources/PFPPracticeManagement/ProfessionalStandardsandEthics/DownloadableDocuments/SOR.pdf) (SOR) to provide guidance to the CPA financial planner and to ensure that the highest levels of integrity, professionalism, objectivity, and competence are applied to the delivery of personal financial planning services so that a CPA financial planner can serve the best interests of the public, regardless of the form of his or her practice. Please reference the SOR as a guideline for the delivery of PFP services, as well as, the [*AICPA Code of Professional Conduct*](http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx).

**Demonstrate Your Expertise with the PFS Credential**

The AICPA has a credential program for CPAs specializing in personal financial planning. CPAs meeting the qualification requirements can become certified as Personal Financial Specialists (CPA/PFS) –demonstrating their comprehensive knowledge of tax, estate, retirement, risk management and investment topics, and signaling credibility to their clients.

PFS credential holders have a specific experience, education and examination requirement that sets them apart from other CPAs and financial planners. The following list sets forth the initial requirements CPAs must meet to qualify for PFS accreditation.

The AICPA grants the PFS certification to candidates who:

* Hold a valid and unrevoked CPA license or certificate (whether active or inactive) issued by a legally constituted state authority and are members in good standing of the AICPA.
* Complete the PFS application. To accomplish this, you must meet mandatory requirements for personal financial planning experience, education, and examination. For more detailed information on these requirements, download the [PFS application kit](http://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Membership/DownloadableDocuments/PFS-application-kit.pdf).
* Adhere to the AICPA’s strict Code of Professional Conduct and professional standards.
* Sign a declaration of intent to comply with the requirements of recertification.
* Pay a non-refundable application fee of $350.

Learn more at [aicpa.org/PFP/PFS](http://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Membership/Pages/OverviewofthePersonalFinancialSpecialist(PFS)Credential.aspx).

If pursuing the PFS credential or providing advice in any of the areas identified in the report card process is beyond the scope of your desired services, consider referring your clients to a CPA/PFS who specializes in personal financial planning. Visit [FindaPFS.org](http://apps.aicpa.org/credentialsrefweb/PFSCredentialSearchPage.aspx) to locate CPA/PFSs in your local area.

**About the AICPA Personal Financial Planning Section**

The AICPA’s Personal Financial Planning (PFP) Section is the premier provider of information, tools, advocacy and guidance for CPAs who specialize in providing estate, tax, retirement, risk management and investment planning advice to individuals and closely held entities. The primary objective of the PFP Section is to support its members by providing resources that enable them to perform valuable personal financial planning services in the highest professional manner. Members of this section broaden their technical expertise, improve their professional competence and receive resources to deliver high-quality, profitable PFP services. For more information, visit the AICPA PFP Section homepage at [**aicpa.org/PFP**](http://www.aicpa.org/InterestAreas/PersonalFinancialPlanning/Pages/default.aspx).

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**AICPA Personal Finance Report Card**

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| --- | --- | --- | --- |
| **Category** | **Item** | **Grade** *(0-4)* | **How To Raise Your Grade** |
| Estate | Wills & Living Trust |  |  |
| Estate | Titling of Assets |  |  |
| Estate | Irrevocable Trusts |  |  |
| Estate | Advance Directives |  |  |
| Estate | Gifts & Charitable Planning |  |  |
| Investing | Asset Allocation |  |  |
| Investing | Diversification |  |  |
| Investing | Benefits |  |  |
| Investing | Tax Planning |  |  |
| Investing | Cost Minimization |  |  |
| Risk | Business & Umbrella Coverage |  |  |
| Risk | Life Insurance |  |  |
| Risk | Property & Liability Insurance |  |  |
| Risk | Health Insurance |  |  |
| Risk | Disability & LT Care Insurance |  |  |
| Spending | Saving Target |  |  |
| Spending | Emergency Reserve |  |  |
| Spending | Budgeting |  |  |
| Spending | Liquidity |  |  |
| Spending | Debt Management |  |  |
| Goals | Retirement |  |  |
| Goals | College |  |  |
| Goals | Home |  |  |
| Goals | Work |  |  |
| Goals | Enjoying Now |  |  |
| **Total** | |  | **Maximum 100 Points** |

**Note:** This report card is copyrighted by Less Antman, CPA (inactive), but you are welcome to use it in your own practice or personally.**Assessment Questions**

Instruct your clients to use these questions to decide how many of the 4 points to assign in each category. When in doubt, always score lower rather than higher, since the most important use of this tool is to identify areas that require action. Also, the lower the initial score, the more improvement you’ll have when you sit down in a few months to review your progress!

***Estate Planning***

1. **Wills and Living Trust** - Do you understand the importance of having a will? Do you have a will? Has it been updated since the last major life event (birth, death, marriage, divorce, move from another state, etc.)? Are you and your spouse U.S. citizens? Have you created a living trust (or carefully considered and determined it wasn’t necessary)? Have you transferred the appropriate assets into the trust? Has anyone taken your present plan and flow charted the way your documents actually work? Do your beneficiaries know the location of these documents or the appropriate person to contact?
2. **Titling of Assets** - Have you properly designated beneficiaries on all retirement accounts and life insurance policies? Have you used such designations on bank accounts, brokerage accounts, and automobile title documents? Do the beneficiaries have copies of these designations so that they’ll be able to quickly transfer assets if needed? Have you determined the appropriateness of joint designations on shared assets and considered the effect on community property rules, if applicable?
3. **Irrevocable Trusts** - Have you considered and, if appropriate, established Credit Shelter Trusts, Qualified Personal Residence Trusts, Grantor Retained Interest Trusts, and Special Needs Trusts?
4. **Advance Directives** - Have you considered and, if appropriate, prepared health care proxies, durable powers of attorney for financial decisions, HIPAA Authorizations, and living wills? Have you provided the appropriate people with documents needed to utilize these?
5. **Gifts & Charitable Planning** – Is it important for you to leave assets to your loved ones and/or charity? Have you considered your strategy for gifts to loved ones? Have you executed it? Have you considered your strategy for charitable contributions? Have you executed it?

***Investing***

1. **Asset Allocation** - Have you identified the time frame within which you’ll need the funds from various investment accounts? Have you determined your risk tolerance and the returns you’ll need to achieve your goals? Have you determined the appropriate percentage of your assets to commit to equity investments? Have you developed an overall investment strategy? Have you executed the strategy? Are you satisfied with your investment performance?
2. **Diversification** - Have you identified any concentration of investments that may be placing you at unnecessary risk? Have you identified ways of diversifying to reduce that risk? Have you considered hedging strategies? Have you executed your diversification strategy?
3. **Benefits** - Do you fully understand the employee investment programs available to you? Are you participating in your company 401(k) plan and taking advantage of employer matching contributions? Have you determined the strategies for exercising and selling employee stock options? Have you identified all government benefits to which you may be entitled? Are you executing strategies to take advantage of them? Do you think an annuity or lump sum is a better strategy for you? Would you prefer to take a single life annuity or a joint life annuity, or other?
4. **Tax Planning** - Have you determined the appropriate allocation of investments between taxable and tax-deferred accounts? Have you identified strategies for transfer of investments to other family members? Have you determined the funds that need to be set aside to cover upcoming tax obligations? Have you considered the potential impact of the alternative minimum tax on your planning? Do you have a strategy to withdraw funds in the most tax efficient manner?
5. **Cost Minimization** - Have you chosen cost-effective ways of making and holding investments? Are you minimizing unnecessary turnover of investments? Have you determined whether it is appropriate to acquire individual securities rather than mutual funds? Have you adopted strategies to minimize the tax cost of investments held in taxable accounts?

***Risk Management***

1. **Business & Umbrella Coverage** - Have you determined the necessary business liability protection? Have you obtained solid coverage from a reliable carrier? Have you estimated the umbrella coverage needed for personal assets? Have you obtained the necessary coverage?
2. **Life Insurance** - Have you determined the amount of life insurance coverage required for loved ones? Have you determined the proper type of life insurance to acquire? Is the life insurance policy owned by the correct person or entity? Have you cancelled unnecessary and inappropriate forms of coverage? Have you reviewed older policies to assess the policy performance, the strength of carrier, or if better alternatives exist?
3. **Property & Liability Insurance** - Do you have adequate replacement cost coverage of assets? Do you have additional protection as needed for floods and earthquakes? Have you properly covered valuable items such as artwork or jewelry? Do you have an inventory of your assets for insurance purposes in a safe location? Have you eliminated unneeded coverage and raised deductibles for losses you can afford to pay? Have you consolidated various policies with one insurer to benefit from multi-policy discounts?
4. **Health Insurance** - Are all your family members covered for catastrophic health care costs to the extent possible? Do you have coverage in the form you want from a reliable provider? Have you raised deductibles on expenses you can afford to pay and/or considered a health savings account? Do you exercise regularly and avoid smoking? Are you familiar with the eligibility requirements associated with Medicare?
5. **Disability & Long-Term Care Insurance** - Would your financial plan survive if you had a catastrophic event? What would happen to your lifestyle if you did not have adequate coverage? Have you determined the need for income protection policies? Have you obtained as much coverage as you can from a reliable provider? Are you paying with after-tax dollars to ensure benefits are tax-free? Have you considered and, if appropriate, obtained long-term care insurance? Do you understand the costs associated with nursing home care and how the Medicaid program is administered?

***Spending***

1. **Saving Target** - Have you determined a reasonable savings rate for the achievement of your financial goals? Have you come to an agreement with your significant other so that you are both comfortable with this rate?
2. **Emergency Reserve –** Have you calculated what your non-discretionary monthly expenses are? Do you have 3 to 6 months of cash to cover expenses if you were to lose your job or another unexpected event occurred?
3. **Budgeting** - Do you know how much you spend each month? Have you identified expenditures that provide little real value? Do you have strategies for purchasing needed items in bulk or at the right time to reduce costs? Do you have discretionary funds for each family member that don’t need to be accounted for? Do both spouses understand the family finances and would be able to make decisions in the event of an emergency? Have you considered costs of caring for elderly parents or for adult children?
4. **Liquidity** - Are you holding the appropriate amount of cash needed to cover expected payments, allow maximum deductibles on insurance, take advantage of opportunities to purchase items at bargain prices, and sleep peacefully when investments are down?
5. **Debt Management** - Have you eliminated non-deductible debt to the extent possible? Have you reviewed interest rates on debts and taken steps to reduce them, if applicable? Do you have available but unused lines of credit to satisfy liquidity needs? Do you know your credit score and have you taken reasonable steps to keep it high? Do you check your credit report regularly to make sure your identity has not been compromised?

***Goals***

1. **Retirement** - Have you determined when or if you plan to retire? Have you calculated the capital you will need to fund retirement? Have you identified probable sources of retirement income other than investment earnings? Have you considered the availability of social security and the appropriate age to start receiving benefits? Have you determined the appropriateness of annuities and reverse mortgages to finance retirement costs? Have you taken into account unexpected costs in retirement (e.g. health care or caring for a loved one)?
2. **College** - Have you determined the extent to which you want to assist loved ones in financing the costs of attendance? Do you plan to pay for an in-state school or private institution? Have you considered the available savings vehicles? Are you funding them? Have you considered other vehicles in addition to 529 plans? Have you run the numbers for college aid?
3. **Home** - Do you have plans to acquire a home (or a larger or second home)? Have you estimated a reasonable amount to pay for it and what your mortgage options are? Have you determined the necessary cash down payment to purchase and furnish the home? Are you saving for the amount you’ve determined? Have you considered refinancing your existing mortgage(s)?
4. **Work** - Are you in the line of work that you wish to be? Are you satisfied working for your present firm? Are you taking appropriate education courses to improve your skills or to prepare for a career change? Are you saving what is needed to prepare for a planned career change or sabbatical?
5. **Enjoying Now** - Do you know when and where you will be taking your next vacation? Do you reserve time each week for those who are most important to you? Have you identified those pleasures that you can afford right now without endangering your future? Have you considered your spiritual and other needs and made sure they are not being crowded out by excessive focus on making money?

Please note that not one of the questions on the list related to short-term investment performance; while investment performance is a component of a client’s overall financial health, a useful financial plan must not be based on a belief that short-term performance is either controllable or relevant.