2016 Mid-year AICPA CPA Personal Financial Planning Trends Survey

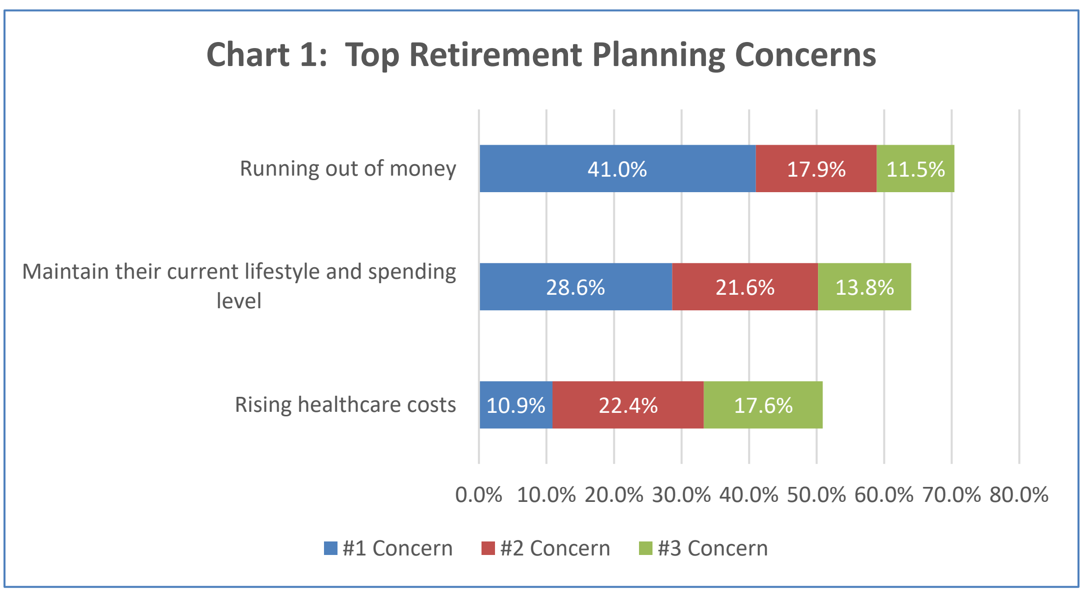
Key Findings

The 2016 mid-year PFP Trends Survey focuses on client reactions to events that raise concerns both while planning for retirement, as well as during retirement. In addition, the survey covers the related issues of diminished mental capacity and retirement concerns facing divorcees. There are many reasons why a person's retirement plan can become derailed; sometimes by client reactions to unexpected events and sometimes by external factors out of their control. A CPA financial planner can help the client be aware of these factors and proactively prepare them for the decisions that will need to be made. They can discuss the changes needed in other areas of their financial plan (whether tax, estate, investment and insurance planning) to keep their goals intact if at all possible.

This online survey was administered July 29 – August 23, 2016 to members of the AICPA Personal Financial Planning Section, inclusive of CPA/PFS credential holders, and resulted in 500 completed survey responses by CPAs.

Client Concerns While Planning for Retirement

When asked about client financial concerns with respect to their retirement planning, running out of money was clearly the primary fear with 41% of the respondents identifying it as their clients' number one concern and 70.4% including it in their top three client concerns. Maintaining their current lifestyle and spending levels was second with 28.6% (and 64% including it in the top three), and rising healthcare costs was third at 10.9% (and 50.9% including it in the top three concerns.)



Biggest Financial Concerns in Retirement Planning	#1 Concern	#2 Concern	#3 Concern	In the Top 3
Running out of money	41.0%	17.9%	11.5%	**70.4%**
Maintain their current lifestyle and spending level	28.6%	21.6%	13.8%	**64.0%**
Rising healthcare costs	10.9%	22.4%	17.6%	**50.9%**
How much to withdraw from assets	6.0%	9.5%	19.0%	**34.5%**
When to start collecting Social Security	5.2%	11.1%	13.4%	**29.7%**
Costs of elder housing (assisted care/nursing home)	1.6%	9.7%	11.9%	**23.2%**
Paying taxes	4.0%	5.4%	4.9%	**14.3%**
Social Security solvency	1.4%	1.8%	5.3%	**8.5%**
Other	1.4%	0.6%	2.6%	**4.6%**
Total	**100.1%**	**100.0%**	**100.0%**	

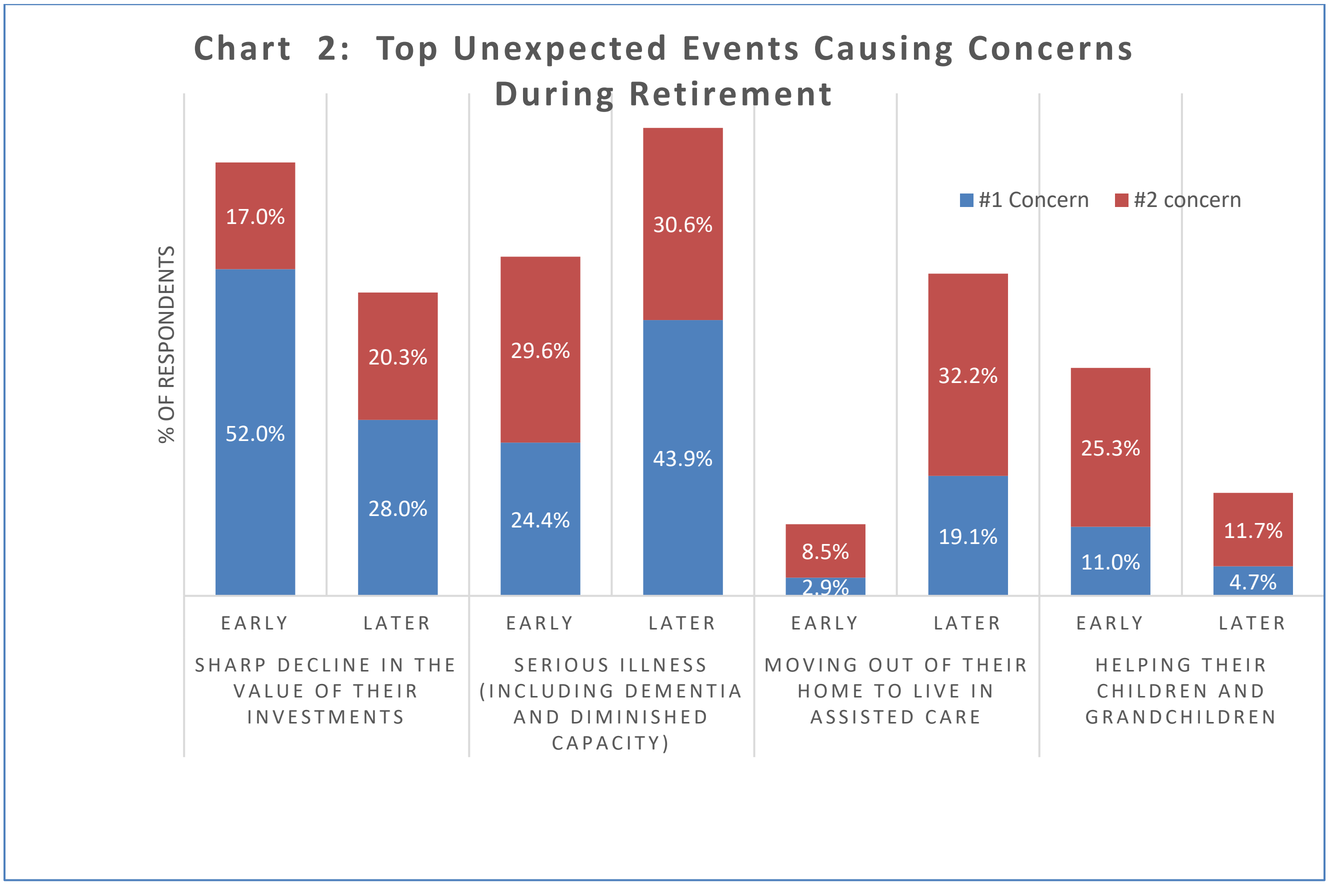
Impact of Unexpected Events During Retirement

For most people, retirement is a decade or two, or even longer. The potential events that keep people up at night changes during this period. CPA financial planners were asked to identify the top two unexpected events causing the greatest concern during retirement, contrasting early and later periods of retirement.

In the early years (first 10 years) of retirement, the focus is primarily on the value of their retirement nest egg. 52% of respondents ranked a sharp decline in the value of their investments as the number one client concern; followed, at 24.4% by a serious illness (including dementia and diminished capacity.) Helping their children or grandchildren ranked third at 11%.

In contrast, when asked the same question about later years (after 10 years) of retirement, the focus had moved to their physical well-being. Serious illness concern had risen to number one for 43.9% of the respondents, with the concern over investment decline as the number one concern dropping to 28%. Interestingly 51.3% of the respondents felt that the decisions around moving out of their home to live in assisted care ranked within the top two concerns for this age group. So while investments are still a concern, the effects of health and housing cannot be ignored.

Concerns about Unexpected Events During Retirement	Early in Retirement (first 10 years)				Later in Retirement (after 10 years)		
	#1 Concern	#2 Concern	In the Top 2		#1 Concern	#2 Concern	In the Top 2
Sharp decline in the value of their investments	52.0%	17.0%	**69.0%**		28.0%	20.3%	**48.3%**
Serious illness (including dementia and diminished capacity)	24.4%	29.6%	**54.0%**		43.9%	30.6%	**74.5%**
Helping their children and grandchildren	11.0%	25.3%	**36.3%**		4.7%	11.7%	**16.4%**
Taking care of aging relatives	6.1%	12.8%	**18.9%**		1.3%	1.6%	**2.9%**
Moving out of their home to live n assisted care	2.9%	8.5%	**11.4%**		19.1%	32.2%	**51.3%**
Being victimized by fraud or ID theft	1.3%	3.8%	**5.1%**		2.0%	2.5%	**4.5%**
Divorce	0.4%	0.9%	**1.3%**		0.2%	0.5%	**0.7%**
Other	1.8%	2.0%	**3.8%**		0.7%	0.7%	**1.4%**
Total	**99.9%**	**99.9%**			**99.9%**	**100.1%**	



Addressing the Potential of Diminished Capacity

Addressing diminished capacity will become more important as Baby Boomers and their parents approach plan for their later retirement years. While 35.4% of respondents say their clients are discussing the issue but have not made any decisions, 44.4% said clients are either ignoring the issues or just reacting when it arises (See Chart 3). This underscores the importance for continued client education on this topic. 49.5% of the respondents said that, in the last year, they had their first experience with a client who had begun to show signs of dementia or diminished mental capacity.

Most respondents felt that including proper authorizations in their plan for these clients was most important, including (see Chart 4):

- Ensuring powers of attorney and health care proxies are in place (85%)
- Authorization to contact client's other professionals and relatives (61%)
- Authorization to contact the client's attorney (44%)

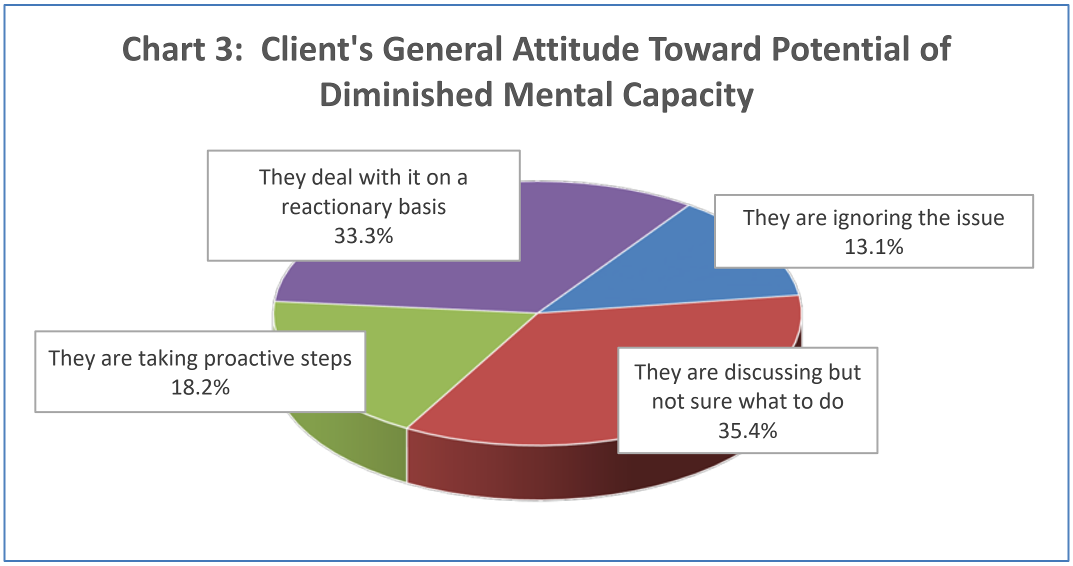


Chart 3: Client's General Attitude Toward Potential of Diminished Mental Capacity
They deal with it on a reactionary basis 33.3%
They are ignoring the issue 13.1%
They are taking proactive steps 18.2%
They are discussing but not sure what to do 35.4%

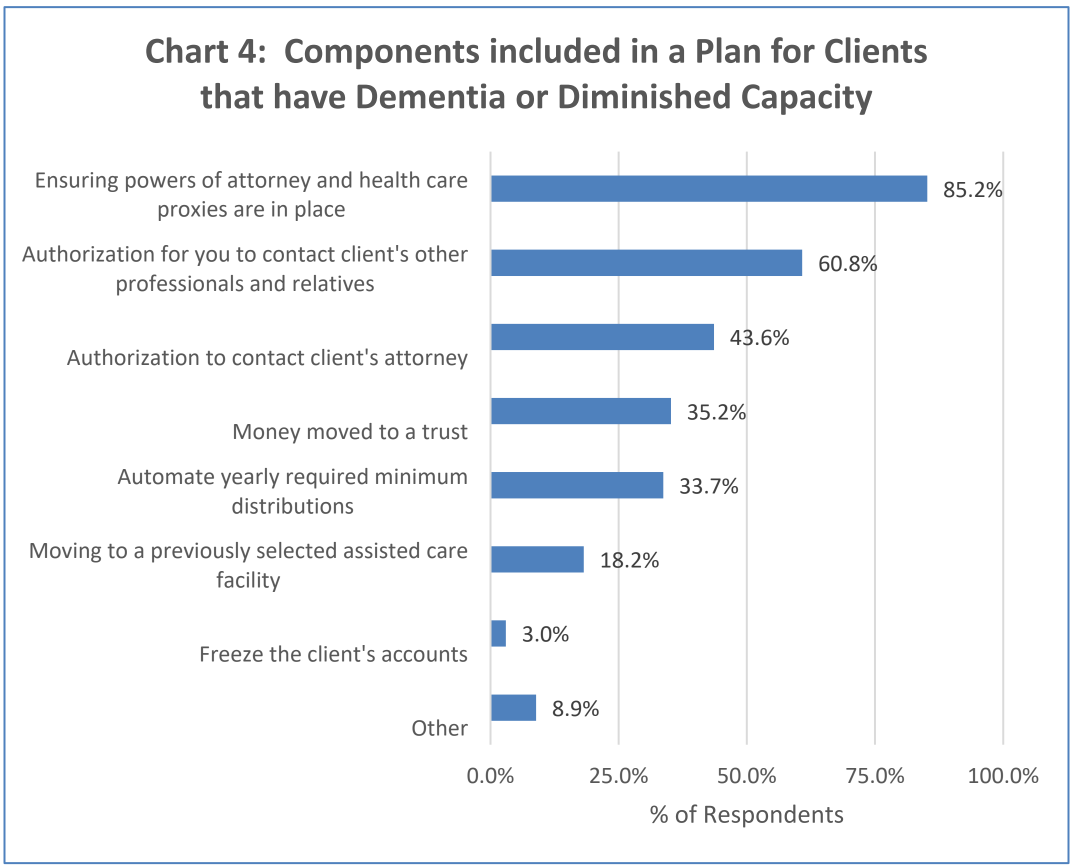
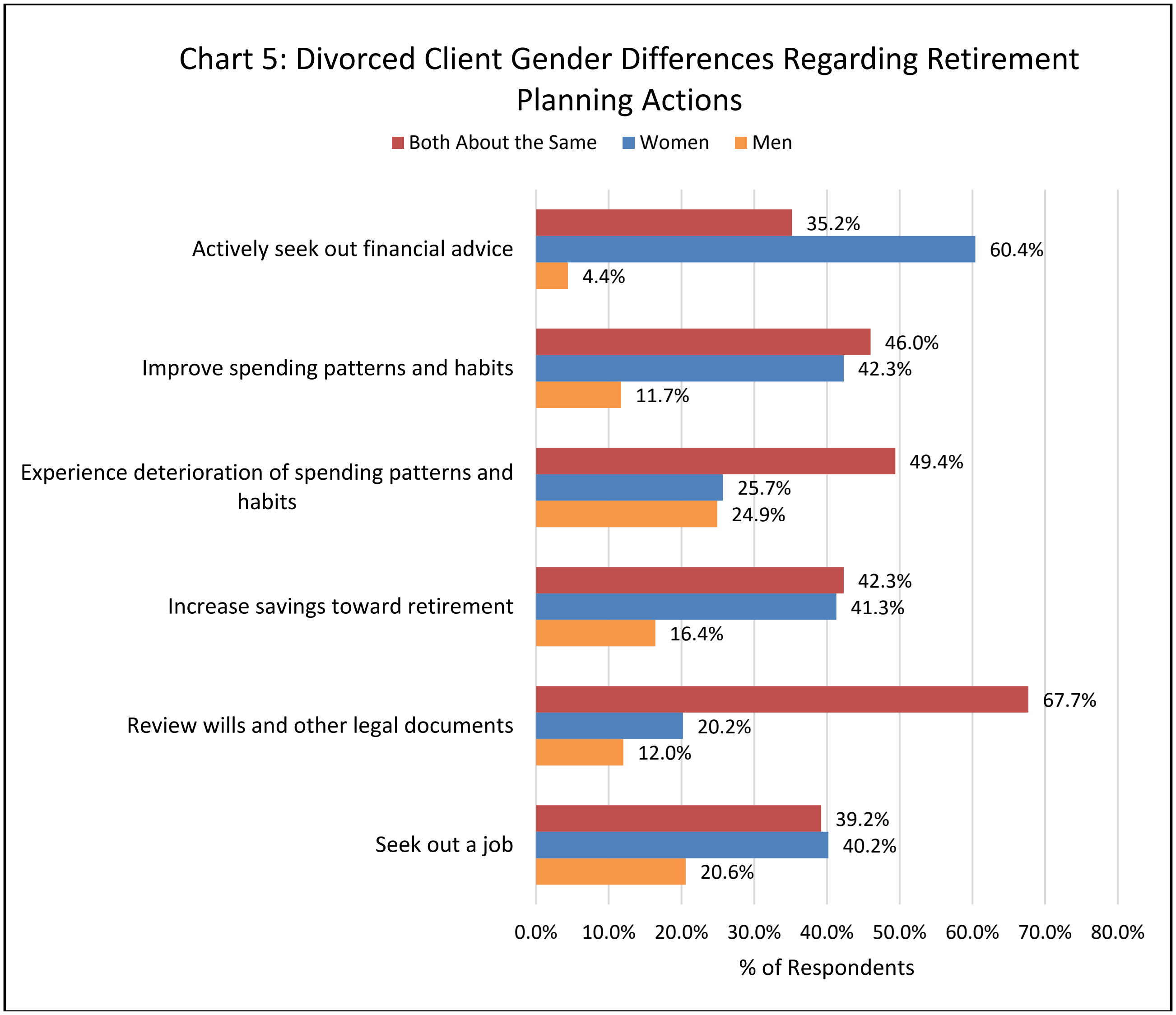


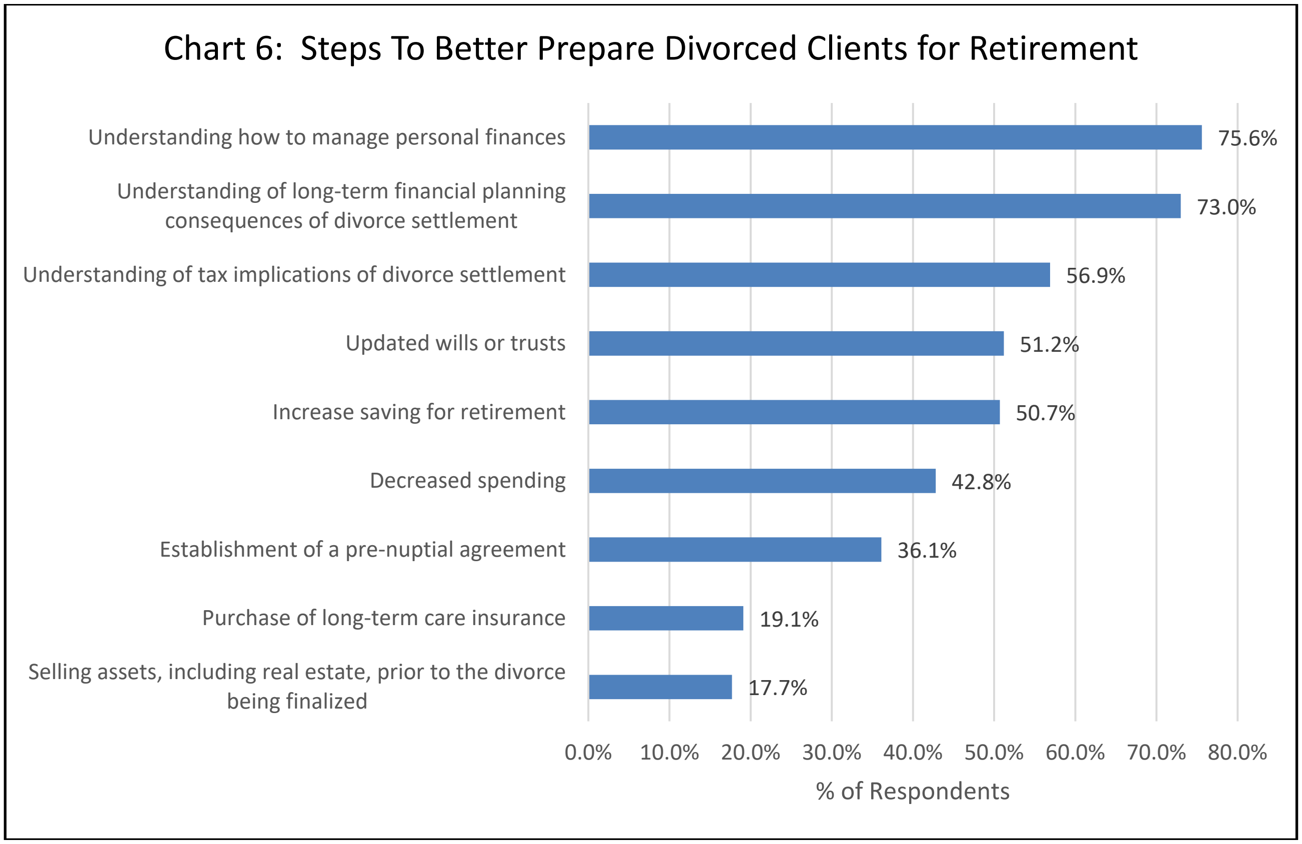
Chart 4: Components included in a Plan for Clients that have Dementia or Diminished Capacity
Ensuring powers of attorney and health care proxies are in place
85.2%
Authorization for you to contact client's other professionals and relatives
60.8%
Authorization to contact client's attorney
43.6%
Money moved to a trust
35.2%
Automate yearly required minimum distributions
33.7%
Moving to a previously selected assisted care facility
18.2%
Freeze the client's accounts
3.0%
Other
8.9%
0.0%
25.0%
50.0%
75.0%
100.0%
% of Respondents

Impact of Divorce on Retirement Planning

Divorce is another event that can have a devastating impact on even well-laid retirement plans. When divorced clients do focus on retirement planning, respondents shown in Chart 5 felt their female clients were more likely than men to actively seek out financial advice (60%), improve current spending patterns (42%), increase savings toward retirement (41%), and seek out a job (40%). Other areas did not have a clear gender differentiation.



CPA financial planners were asked about specific steps for their divorced clients facing retirement that would have prepared them better for retirement. The top two recommendations were to have a better understanding how to manage personal finances (76%) and understanding the long-term tax (73%) and financial planning (57%) consequences of their divorce settlement.



About the AICPA's PFP Division

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, families and business owners. The primary objective of the PFP Section is to support its members by providing resources that enable them to perform valuable PFP services in the highest professional manner.

CPA financial planners are uniquely able to integrate their extensive knowledge of tax and business planning with all areas of personal financial planning to provide objective and comprehensive guidance for their clients. The AICPA offers the Personal Financial Specialist (PFS) credential exclusively to CPAs who have demonstrated their expertise in personal financial planning through testing, experience and learning, enabling CPAs to gain competence and confidence in PFP disciplines.

The team members of the AICPA PFP Division can be reached at financialplanning@aicpa.org.