

# planner

Newsletter of the AICPA Personal Financial Planning Division

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## Incorporating the Statement on Responsibilities in Personal Financial Planning Into Your Practice



By Dirk L. Edwards

If your clients ask how much they should save for retirement, whether they should have

life insurance, or any one of a dozen other questions about financial planning, it's up to you to provide the answers. As you figure out how to address these questions, wouldn't it be helpful to know that some of the best and brightest minds in the accounting profession have already developed a framework to assist your practice in developing processes for helping clients with these questions?

This type of real-life practice guidance is the underlying goal of the Statement on Responsibilities (SOR) in Personal Financial Practice issued by the AICPA Personal Financial Planning (PFP) Executive Committee. As outlined in the preface, the SOR is designed 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 PFP services so that the CPA financial planner can serve the best interests of the public, regardless of the form of his or her practice."



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#### Chairman's Corner



The Personal Financial Planning Executive Committee (PFP EC) works with the AICPA to ensure that issues impacting CPA financial planners are monitored

and acted upon as needed with the intent of protecting CPAs and the public. Since late 2008, in response to exposure of fraudulent advisers, Congress has placed extraordinary focus on assessing the need for further regulation of financial planning as well as whether oversight of investment advisers needs restructuring.

The result was the Dodd-Frank Act. The Act created the Consumer Financial Protection Bureau to oversee financial planning (among

other things), directed the GAO to study whether financial planning needs further regulation, and directed the SEC to study whether investment adviser oversight needs to be restructured. The AICPA has been successful in educating Congress on the services that CPAs provide and the rigorous regulatory scheme already in place for CPAs that makes any additional regulation of financial planning for CPAs redundant. To keep up with these and other issues as they evolve, visit www.aicpa.org/PFP/advocacy.

Clark Blackman II, CPA/PFS Chairman, PFP Executive Committee

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As a practice aid, the SOR provides a conceptual framework, outlining the primary professional responsibilities of the CPA in providing PFP services to clients. However, because there is no single, specific practice model for the effective delivery of PFP services, the SOR does not delineate a specific "must do" list of steps; rather, it highlights the various professional considerations in providing PFP services.

These are not "required practices," but rather an understanding of what would be considered "best practices." Because the PFP Executive Committee does not have standard-setting authority, this guidance is nonauthoritative. However, the SOR reflects the efforts and years of experience of many Executive Committee members and CPA financial planners.

#### A Two-Decade Journey

Written to address the lack of formal professional materials summarizing best practices in the PFP area, the SORs were published between 1993 and 1996. These original SORs were issued after an extensive period of member and public discussion, formal exposure, and review. While initially issued as individual SORs in each topical area, after approximately 15 years of use by the CPA community, they were edited into one single document in 2010. The goal of consolidating the SORs was to assist in their understanding and application in practice. Click here for the updated SOR issued December 2010.

The SOR is not intended to apply to stand-alone services that are not a part of a PFP process and are already addressed in other professional literature (See paragraph 1; all paragraph references in this article are to various paragraph numbers within the SOR). For example, while outlining general guidance, the SOR would not apply to stand-alone services such as:

- compilation of personal financial statements;
- projection of future taxes;
- tax compliance, including, but not limited to, preparation of tax returns; or
- tax advice or consultations (for example, advising a client to re-title real estate in the spouse's name in order to equalize a couple's estate).

However, when these types of services are provided as part of a broader PFP services engagement, the SOR would be applicable. As with all professional services, before undertaking a PFP engagement, the CPA should assess his or her ability to perform the services with competency, objectivity, and integrity (paragraph 3).

As outlined in Rule 201, General standards (AICPA, Professional Standards, ET sec. 201 par. .01), in the AICPA Code of Professional Conduct, professional competence means that a member shall "undertake only those professional services that the member ... can reasonably expect to be completed with professional competence." As discussed in the

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For questions or assistance with your PFP Section membership, please contact pfp@aicpa.org or call (888) 777-7077. If you need assistance with the log in process to the PFP Section's website, contact the AICPA Service Center through service@aicpa.org or call (888) 777-7077 (option #3, then option #3).

SOR, a member who provides PFP services should possess a level of knowledge of financial planning principles and theory and a level of skill in the application of such principles that will enable him or her to identify, gather, and analyze data; consider and apply appropriate planning approaches and methods; and use professional judgment in developing the financial recommendation (paragraph 4).

The CPA would also want to be aware of governmental regulations and other professional standards applicable to the engagement (paragraph 14), including the AICPA Code of Professional Conduct, Statement on Standards for Tax Services, Statement on Standards for Valuation Services, Statement on Standards for Consulting Services, Statements on Standards for Accounting and Review Services No. 6, Investment Advisers Act of 1940, and Securities and Exchange Commission Interpretive Release IA-1092.

## PFP Services and Engagement Objectives

The SOR guidance is available whether the PFP services are provided on a stand-alone basis or as part of another engagement, and whether provided on a comprehensive, segmented, or consultative basis. *PFP services* refer to the process of identifying individual or family goals, evaluating existing resources, and designing financial strategies that, when implemented, move the individual toward achieving these goals (paragraph 10).

In addition to assisting a client with developing his or her financial plan, the CPA financial planner may also assist—when agreed—in separate engagements in implementation, monitoring, and periodic plan updates (paragraph 11).

In planning the engagement, the engagement objectives should first be determined with the client. The scope and nature of the services to be performed should be communicated with the client and the compensation for the services should be disclosed (paragraph 17). Generally, this understanding would be documented in an engagement letter or in a file memo if there is an oral understanding with

the client (paragraph 21).

This documentation would include (paragraph 23) the engagement objectives; services to be provided; roles and responsibilities of the CPA, the client, and other service providers; timing of the engagement; scope limitations and other constraints; responsibility, or lack thereof, for helping the client act upon planning decisions; responsibility, or lack thereof, for monitoring the client's progress toward achieving goals; responsibility, or lack thereof, for updating the plan and proposing new actions; and compensation arrangements.

#### **Developing a Financial Plan**

In developing a financial plan, a reasonable basis for the PFP recommendations needs to be established. This would involve collecting, analyzing, and integrating sufficient and relevant information to develop a basis for recommendations (paragraph 34), and would be grounded in an understanding of the client's objectives and goals (paragraph 39).

Analyses of the information is performed (paragraph 42), including evaluating the reasonableness of estimates and assumptions (paragraph 43), and the appropriateness of assumptions used (paragraph 44). Assumptions used in developing a plan should be consistent with each other (for example, an assumed low rate of inflation with an assumed low rate of return for investments in fixed income securities) (paragraph 45).

Recommendations are derived from analyses of relevant information and the client's goals (paragraph 49). The client may impose a constraint that would affect your recommendation, such as a stipulation of an investment rate of return or the availability of Social Security benefits. When constraints are imposed, the client should be notified (paragraph 50).

Consideration should also be given to recommendations to achieve a goal in relation to recommendations regarding another goal (for example, recommendations for wealth transfer planning may affect recommendations

#### Online Resources

The Statement on Responsibilities (SOR) in Personal Financial Practice is available for download. In July 2011, Dirk Edwards and Scott Sprinkle presented "Using the PFP SORs to Develop a Fiduciary Based Process for Delivery of PFP Services." PFP Section members may access the seminar recording and presentation materials. Edwards also will present a SORrelated session during the AICPA Advanced Personal Financial Planning Conference, January 15-18, 2012.

in retirement funding or investment planning) (paragraph 51).

#### Presenting the Financial Plan

Plan recommendations should be communicated in a manner that helps the client understand the strategies and implement financial planning decisions. These would generally be in writing and include a summary of goals, significant assumptions, recommendations, a description of any limitations on the work performed, a statement that projected results may not be achieved, and IRS Circular 230, "Regulations Governing Practice before the Internal Revenue Service," if recommendations contain tax advice (paragraph 57).

You also should help the client prioritize tasks that are essential to enabling the client to act on the planning decisions (paragraph 60).

## Working With Other Service Providers

In the financial planning engagement, other service providers may be needed. These may be any of the following:

- Others whom the client has worked with in the past, for which you would have no due diligence obligation on the background or expertise of the service provider (paragraph 97a).
- Someone the client seeks out without your assistance, for which you would have no due diligence obligation on the background or expertise of the service provider, but you may wish to provide at least informal assistance (paragraph 97b).
- A provider the client seeks out with your assistance, whereby you provide due diligence, but do not make a referral recommendation. You generally would provide a summary of the review and evaluation procedures that were followed, ordinarily in writing (paragraph 97c).
- A provider you recommend, but from whom no benefit inures back to you. You generally would provide a summary of the review and evaluation procedures followed and

- the reason the provider was considered, ordinarily in writing (paragraph 97d).
- A provider you recommend when some cash or other payment, or quid pro quo is received by you, your firm, or a related organization. In addition to providing a summary of the review and evaluation procedures that were followed and the reason the provider was considered, any benefit you receive should be disclosed. Any known potential conflicts of interest should also be disclosed. Ordinarily, all of these disclosures should be in writing. (paragraph 97e).

When the advice of another service provider is used, you should understand that advice. If you concur with the advice, it is not necessary to communicate this concurrence to the client (paragraph 99). If you do not concur, that should be communicated to the client, ordinarily in writing (paragraph 99). If you use the other providers' advice without evaluating the advice, that should be communicated to the client and this would be done ordinarily in writing (paragraph 100).

In referring the client to other providers, you want to become satisfied with the professional qualifications and reputation of that provider (paragraph 104). Information you would consider includes:

- your previous experience with the provider (paragraph 104a);
- professional certification, license, or other recognition of competence (paragraph 104b); and
- the reputation of the provider (paragraph 104c).

When you refer to another provider, you should communicate to the client the nature of the work to be performed and the extent that you will evaluate that work. Ordinarily, that communication would be in writing (paragraph 106), for example:

As we discussed, you should consult an attorney to prepare updated will provisions. We have provided you with the names

of several attorneys whose professional credentials and reputations are familiar to us. The selection of an attorney is your decision. Our referral does not constitute an endorsement of these attorneys nor can we be responsible for any advice they may provide to you.

## When Would the SOR Apply for You in Your Tax Practice?

In general terms, the SOR would provide guidance when your client advice is related to budgeting/cash flow planning, risk management/insurance planning, retirement planning, investment planning, estate/gift/ wealth transfer planning, elder planning, charitable giving, education planning, or a combination of these.

If you are preparing a comprehensive financial plan, or involved in the sale of a product or investment, then the SOR would apply. If not, are you using professional judgment in determining investment returns? If this is not the case (as when the client provides the rate of return expectation for your use in developing a retirement model), the SOR would not apply. If you are using professional judgment in determining investment returns, is the investment advice incidental to the overall client service or engagement? If it is incidental, the SOR would not apply.

Of course, as general guidance to assist you in developing your practice framework for delivering PFP services, the SOR best practice points and discussion can always be used.

### Sample Client Letter: Estate Planning Awareness Week



By Martin M. Shenkman

Did you know National Estate Planning Awareness Week is October 17–23, 2011?

When H.R. 1499 became law in May 2006, Congress designated the third full week in October as "National Estate Planning Awareness Week." According to an article on *InsideBiz.com*, more than 120 million Americans do not have up-to-date estate plans to protect themselves or their families in the event of sickness, accident, or untimely death.

That represents a tremendous number of potential clients—and you also can make quite an impression with your current tax clients by capitalizing on the media attention on this topic and talking with your clients about their estate planning needs. In addition, as part of the congressional arrangement to increase the debt ceiling, the Joint Select Committee on Deficit Reduction was recently formed. As a result, significant tax changes may be looming in the near future. Being proactive during this period of potentially significant tax law change

will undoubtedly be appreciated by your clients.

Here is a sample letter you might consider sending your clients in October.

#### Dear Client:

"National Estate Planning Awareness Week" is October 17–23, 2011. Congress passed H.R. 1499 declaring this special week in order to bring attention to the estimated 120 million Americans who do not have up-to-date estate plans to protect themselves or their families in the event of sickness, accident, or untimely death. Don't dismiss this risk just because you have a will. A significant number of clients do not understand how inadequate their estate planning really is.

The discussion that follows will hopefully remind you that estate planning involves more than just a will and much more than planning for death; it's not only for the elderly, but a process everyone over age 18 must address. And, don't

#### AICPA Tax Act Resources

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act introduces many personal financial planning issues for consideration. The AICPA has several resources to help you get up to speed on the new act, all included on a dedicated Tax Act page. In addition to Forefield Advisor alerts, this member-only page includes topic-specific web seminar recordings, two detailed "decision" charts from Robert S. Keebler, CPA, MST, AEP (Distinguished), and a Journal of Accountancy Congressional Hot Topics' page.

In addition, visit the AICPA's PFP Advocacy page to keep apprised on legislative and regulatory issues, developments, and advocacy of interest to CPA financial planners.

#### **Online Checklist**

In honor of National
Estate Planning
Awareness Week, the
AICPA has developed an
online checklist to help
practitioners. Download
a copy of the checklist.

dismiss the planning process because of uncertainties with the tax law. Taxes are only one component of an estate plan, and uncertainty doesn't mean planning is not possible or critical—only that the planning has to be more flexible.

#### Planning for the Future

A Roper poll commissioned by the AICPA found that two-thirds of Americans over age 65 believe they lack the knowledge necessary to adequately plan for retirement. You may have questions similar to the findings in the survey:

- If your retirement plan is not adequate, what might be left for your heirs?
- Is spending down your estate what you really envisioned as the way to reduce potential estate taxes?
- Did you know that, for many people, their beneficiary designations (individual retirement account or life insurance, for example) control the distribution of most or almost all of their assets? Many of these people spend considerable money and time obtaining a complex will that may only direct where a small portion of their estate is distributed.
- If you want to make gifts to children or other heirs, have you first projected whether you'll have sufficient funds for your later years? Gifts are a wonderful way to help heirs while you're alive because you can enjoy seeing your heirs benefit, but even many wealthy people overestimate their available resources. Plan, first.

#### Planning for Aging and Disability

Elder financial abuse is so prevalent that it has become a new specialty area of the law. Traditional estate planning documents, such as a will and health proxy, do nothing to address this. We can assist you with some simple, low-cost steps to minimize these risks.

Twenty-six percent of Americans age 65–74 have a chronic illness that has had a significant impact on their lives. Does

your plan protect you? How you organize and handle your investments and finances, bill paying, and other routine matters can make it dramatically easier for you or your loved ones to cope with future health issues. We can help you plan now to avoid financial trauma later. Do you have an estate planning team? Many clients do, but have not coordinated the members of their team. Something as simple as a conference call (or Web conference) with your attorney, wealth manager, CPA, and key family members can create a coordinated team of advisers from what otherwise are only independent planners working without a plan.

#### **Asset Protection**

If you don't have adequate excess liability coverage, a simple accident could devastate your estate and leave you struggling financially. When was the last time you had a comprehensive review of all your property, casualty, and liability coverage? To ensure a proper analysis, we can coordinate this review so that your insurance consultant understands, among other areas, which trusts or entities may own certain assets, and information about the values of your estate.

Did you know that courts can pierce through corporations, partnerships, and limited liability companies if you don't respect the formalities of these entities? That could put your home and much of your savings at risk. Do you have the appropriate entities to protect your interests? We can review these issues with you.

#### Your Financial Plan

Do you have a budget and financial plan? Even very wealthy people will benefit from going through the process. Determining your future financial needs and goals is an integral part of determining how much investment risk your portfolio should have, what gifts you can make, what your insurance needs are, and much more. A financial plan is the foundation of every estate and retirement plan. We can assist you in assembling the data for a budget, preparing projections, and other steps.

#### Online Resources

Martin Shenkman regularly presents Web seminars for the Personal Financial Planning (PFP) Section. In fact, if you missed his seminar on September 8, Charitable Planning Strategies (Shark Fin CLATs, DAFs vs. Private Foundations, etc.), a recording and a copy of his presentation materials will be available for download in the PFP Web Seminar Library. Shenkman also is a regular contributor to the PFP Planner newsletter; you will find his most recent article. "2010 Gift Tax Returns: You've Extended, Now What?" in the May/June 2011 edition.

#### The CPA's Guide to Financial and Estate Planning

Download your copy of Volumes 1 and 2 of The CPA's Guide to Financial and Estate Planning. This comprehensive 1000-page, fourvolume, downloadable publication provides guidance to CPAs advising clients in estate, tax, retirement, investment, and risk management matters. Volumes 3 and 4 will be available in the coming months. For more information, see PFP News at the end of this issue of Planner.

#### **Get Your Estate Checkup**

While the old rule of thumb might have been to review your estate plan at least every 3-5 years, or if a significant life event occurred (marriage, divorce, new child, or significant financial change), the "newnormal" of estate planning is to review your plan every year. An hour or two of time to assure that the issues discussed in this letter, along with a host of others that might affect you, are addressed is essential to keep your finances and family safe, trusts properly maintained, and your estate plan current. The economic, legal, and tax changes have become so significant and frequent that an estate checkup should be as routine as an annual physical. We can facilitate the process by creating the balance sheet and financial data essential to the review and, if you wish, coordinating the meeting of your advisers.

If your will was not reviewed since the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 passed in December 2010, you should have it looked at; given the changes in the law, formula clauses typically used in many wills can have varying impact.

Estate planning is critical for everyone to address. The process requires a regular review and coordination of your advisers,

but to obtain the protections you and your loved ones need, much more than a will needs to be addressed. Let us know how we can help.

Sincerely,

[your name]

#### **A Final Word**

Of course, you can customize this letter based on the needs of your clients in your own practice, and you may want to even personalize portions of the letter for specific clients if you have the time. Using e-mail to send the letter, rather than regular mail, is a consideration, but your impact diminishes compared to clients receiving something in the mail. From a cost and visibility perspective, consider mailing a postcard; it is much less costly, more likely to be read, and can be done in a professional manner. A mail fulfillment house can inexpensively handle the entire process so that your staff is not burdened.

Whether you send a letter, a postcard, or some other form of correspondence, the important thing to remember is that you must communicate with your clients on a regular basis. Not every tax law change is a reason to send a letter, but think about the kinds of milestones we have throughout the year and capitalize on these opportunities.

#### Save the Date! Estate Planning Awareness Week Web Seminars

Two web seminars are scheduled in recognition of Estate Planning Awareness Week (October 17-21, 2011). Registration links will be available via *PFP News*.

Consumer-focused seminar: Protecting You and Your Loved Ones: Practical and Vital Estate Planning Information For Consumers in Plain English (October 18, 2:30-3:30 p.m., ET)

Practitioner-focused seminar: Top Reasons Why Your Individual Clients Should Be Seeking Your Advice on Financial and Estate Planning Considerations (October 19, 11:00 a.m.-12:30 p.m., ET)

#### **About the Author**

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## Excess Liability Insurance: Protecting Your Client's Net Worth



By Bob Donnelly

Terry Bollea (aka Hulk Hogan), Stephen King (the author), and Barron Hilton (Paris Hilton's

younger brother) are not commonly connected, yet all three have at least one thing in common: they all received unwelcome attention for being involved in multimillion dollar lawsuits.

- Terry Bollea settled a lawsuit last year with the family of a young man critically injured in a car accident at the fault of Bollea's son.
   Terms of the settlement were not disclosed, but they are believed to significantly exceed his primary insurance limit at the time, which was \$500,000. He had no excess liability coverage in place at the time of the accident. (Source: St. Petersburg Times, February 20, 2010)
- Stephen King sued his insurance company for \$10 million, claiming it failed to provide full coverage for injuries he sustained when struck by a van, whose driver was inadequately insured. King carried \$500,000 of uninsured/underinsured motorist coverage at the time of the accident. When commenting on the suit, his lawyer stated that medical bills, future surgeries, and lost writing income would total \$65 million. (Source: ABC News, February 14, 2001)
- In July 2011, a Los Angeles jury ordered Barron Hilton to pay \$4.9 million to a gas station attendant he allegedly struck with his car. The payment covers pain and suffering, medical expenses, and loss of earnings, in addition to punitive damages and interest. (Source: Los Angeles Times, July 15, 2011)

The financial impact to these individuals' personal net worth may have been different had they purchased personal excess liability insurance with the proper terms and conditions.

A personal excess liability policy, commonly referred to as umbrella coverage, is a financial

tool that can help protect your clients' assets and wealth from the serious expense and potentially devastating impact of a personal injury lawsuit. The coverage starts to pay when the primary policy (for example, homeowners, renters, automobile, or watercraft policy) has paid its limits on a claim. Some excess liability policies, particularly those targeted to affluent clients, offer even broader coverage than found in the underlying policies. Excess liability policies require minimum limits of applicable primary personal, automobile, and watercraft liability coverage. If the applicable limits are not maintained, the client is responsible for paying the resulting gap in coverage.

#### **Expanding Your Planning Process**

Why do you need to know about excess liability? Because you are a trusted adviser providing financial planning advice to clients, the three examples illustrate the benefits of incorporating a personal insurance risk management review into your planning process. Many highly skilled wealth practitioners do not have expertise in personal insurance review and consultation, and they may not have the knowledge to determine how much excess liability insurance is adequate to protect their clients' net worth.

The absence of sufficient coverage may expose your clients' financial and physical assets to loss after an unfavorable verdict or settlement. On the flip side, too much coverage or overpaying a premium is certainly not conducive to saving, increasing, and protecting your client's wealth and assets or building a trusting, long-term relationship. A comprehensive personal risk management plan is the wealthy client's best defense against personal lawsuits.

Where do you start? When conducting a personal risk management review for prospects and clients, there are four main factors to consider: exposures and lifestyle, net worth, cost, and risk aversion.

#### **Exposures and Lifestyle**

The presence of young drivers on a policy and extravagant recreational toys, such as fast cars and personal watercraft, are the most common exposures that limit selection and price. Affluent individuals also may have added exposure through prominent business positions or social ties, making them a more visible target to a personal lawsuit. In addition, bad press may make it more difficult or expensive for some individuals to obtain high limits of coverage.

#### Words Can Hurt

The explosive growth of social media introduced new ways to instantly communicate, interact, and share an opinion with people all over the world. What also appears to be growing at an accelerated rate is the number of libel and defamation of character lawsuits being filed. Courtney Love's recent settlement is a case in point. In March 2011, The Huffington Post reported that the singer agreed to pay Dawn Simorangkir, a fashion designer, \$430,000 plus interest to settle a lawsuit the designer filed in March 2009 over comments Love made on Twitter and her MySpace blog.

Most standard insurance carriers' homeowners and excess liability policies do not include a personal injury endorsement covering libel and slander suits. Carriers that focus on the affluent typically provide this coverage, but they exclude business-related activities. This means that any blog, tweet, post, or other public comment related to your clients' employment or professional endeavors is likely to be excluded. If your clients actively engage social media to voice their personal, nonbusiness related opinion, this endorsement could help protect them.

#### A Sluggish Economy Hurts in Many Ways

During times of economic hardship, there is likely to be an increase in the number of uninsured/ underinsured drivers (and neighbors) and lawsuits by domestic staff that target the wealthy.

In a new study, *Uninsured Motorists*, 2011 Edition, the Insurance Research Council

estimates that one in seven U.S. drivers are uninsured. The study further points out that the rate may be as high as 30 percent in some states. Excess uninsured/underinsured coverage is offered by most, but not all carriers, is inexpensive, available in \$1 million increments, and easy to add to the policy. Your clients' insurance adviser can assist in procuring that coverage.

Affluent individuals are more likely to have personal assistants, as well as domestic staff, including full-time nannies, housekeepers, and gardeners. Employment Practices Liability Insurance (EPLI) provides protection against many kinds of employee lawsuits, including claims of sexual harassment, wrongful termination, and discrimination. In addition to EPLI, which is voluntary, the client needs to be aware of each state's workers' compensation requirements and provide the required coverage. Your clients' insurance adviser can advise on the requirements and assist in procuring such coverage.

## Unintended Trust and Limited Liability Company Consequences

If a client has placed a primary home in a trust or limited liability company (LLC) and wants to insure the entity, there are insurance ramifications to consider. The broadest rights and responsibilities in an insurance contract are retained by the first "named insured." In homeowners and excess liability policies, the definition of "named insured" applied to an individual (the client) and extended to resident family members and some others. The definition of "named insured" was not historically intended to apply to an entity.

By establishing the client as the named insured, he or she enjoys all the benefits and responsibilities that being the named insured provides, including off premises liability coverage. Carriers that focus on providing coverage to high net worth individuals and families often extend this coverage on a worldwide basis. The trust or LLC can be added as an "additional insured" and coverage for liability exposures pertaining to that specific property. Over the years, these same carriers

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expanded the definition of named insured and now permit entities such as a trust or LLC to be listed.

When a client wishes to use the trust or LLC as the named insured, coverage will be limited to that specific property. Although you may add the client and resident family members as additional insures, the coverage will be limited to that specific property, which may create a significant gap in the client's coverage. There are insurance vehicles that could address covering that gap, including extending liability from other property owned by the client or obtaining a renter's policy in the client's name. Your client's insurance adviser can assist in identifying and procuring applicable coverage.

#### **Net Worth**

Do your clients' visible assets make them a target? Do they have sufficient liquid assets to address a claim that exceeds their selected limit? If not, are they willing to liquidate assets to cover the loss?

#### **Cost of Insurance**

The cost of \$1 million in excess liability coverage from a standard carrier is very affordable and remains affordable for most clients up to \$3 million. Anyone who owns a home, auto, personal watercraft, or a similar kind of asset should have at least \$1 million in excess liability. If they can afford it, they should have \$3 million.

For high and ultra-high net worth individuals, the cost for \$5 million or \$10 million in coverage is typically not a driving factor in the buying decision. Pricing becomes more important in the purchasing decision as limits

exceed \$10 million due to the carrier's need to factor in reinsurance costs.

#### **Aversion to Risk**

Your clients' risk appetite is typically the most important factor in their decision process. It is deeply personal, but it often reveals itself during the risk management review process. One discovery question that can be particularly useful in identifying their risk appetite is to ask them, "What is it worth to you to transfer a potentially crippling financial liability from your personal balance sheet to an insurance carrier's balance sheet?" When dealing with couples, it is not uncommon that the answers vary greatly and a lively discussion ensues!

#### **Final Thoughts**

Many factors lead affluent clients to choose excess liability program limits. In addition to those outlined in this article, future earning potential should also be taken into consideration. With all of these components, many high net worth clients choose to start a discussion with their insurance adviser around a \$10 million or \$20 million limit and then modify it up or down depending on their risk tolerance.

If you do not want to assume responsibility for, or feel you are not properly qualified, to conduct a personal insurance risk management review for your clients, you may wish to engage a trained insurance adviser to collaborate with you in the process. Adding personal risk management into your practice will enhance your position as your clients' trusted adviser who can oversee the spectrum of personal financial planning subjects.

#### Online Resources

The AICPA Personal Financial Planning Section has additional educational resources in insurance and related tools to help you implement in your practice. On November 10, Lee Slatuvin will present a Web seminar, "Insurance Analysis and Implementation." For registration information, visit the PFP Upcoming Events page. If you need in-depth education on insurance or other financial planning topics, discounts are available on foundational selfstudy education courses. In addition, Forefield Advisor (accessible from the PFP Section homepage) has a variety of consumer materials that can be personalized and used to educate clients on these topics. PFP Planner also featured "It's Time to Revisit Whole Life Insurance" by Thomas N. Tillery in the July/ August issue.

#### **CPA/PFS Profile: Dirk Edwards**

#### Mutual "Trust" is at the Core of His Practice



What distinguishes one CPA's practice from another, especially in the personal financial planning (PFP) arena? The services may be similar, but the way in which they

are delivered and the philosophy associated with how the practice operates can be as different as night and day.

For Dirk Edwards, CPA/PFS, MBA, JD, it's all about "trust," or the relationship between him and his clients.

"I'm really very interested in helping my clients understand where they are today, help them identify where they want to be in the future, and develop a process to help them get from here to there," he says. "I refer to this as a proactive-versus-reactive way to run my practice. In short, my clients trust me and I trust them."

If you ever attended one of the AICPA
Advanced PFP conferences or PFP Section Web
seminars, or accessed any of the PFP Section's
resources, you probably are familiar with Dirk,
who practices as Edwards Consulting, LLC, in
Lake Oswego, Oregon. For a very long time,
Dirk has actively built and promoted PFP. His
many volunteer positions include serving as
a past chairman of the AICPA PFP Executive
Committee and the AICPA Responsibilities
in PFP Practice Task Force. He also chaired
the AICPA PFP Manual Risk Management
Task Force and is a past state chairman of the
Oregon Society of CPAs' PFP Committee.

What else makes Dirk's practice different? He only offers the consulting function, leaving the mechanics of implementing the plans to others. Working only with high net worth clients, for example, he may recommend specific estate planning actions as a planning tool, but would refer the business to other attorneys who would draft the appropriate documents.

"I'm think I'm kind of like a personal CFO because what I'm really running is a private

office for my clients," says Dirk. "I don't manage money, but I do provide advice in a large number of PFP matters in everything from exercising stock options, gifting to family members, and how wealth impacts charitable giving, to helping clients decide what state to live in to manage their tax liability in conjunction with retirement location goals."

Although Dirk is a member of the Oregon State Bar and American Bar Association, he does not practice as an attorney. Rather, he is licensed in multiple jurisdictions and has always practiced as a CPA. After graduating from law school, he was wooed by the Big 8 accounting firms, but instead went to work with several colleagues in a small CPA practice. However, he realized that he was spending too much time on administrative matters rather than providing the kind of firm he envisioned in which "personal" client service came first.

Dirk was soon introduced to some of the founding officers of a company that was going through an initial public offering. "Because of the timing, we jumped into a personal financial planning stream we couldn't paddle fast enough in, and working with the officers provided a wealth of opportunities."

Dirk says 95 percent of his referrals come from current clients. He regularly travels to visit with clients around the country and overseas, but he operates with little overhead by sharing space in Portland with a dozen CPA/attorneys in what he calls a "collegial" atmosphere. They interact and bounce ideas off one another—resembling anything but a traditional PFP practice.

Traditions, for Dirk, come in the way he helps shape the profession. This includes the CPA/Personal Financial Specialist (PFS) credential.

"The CPA/PFS is a clear delineating mark for a CPA to say I have an expertise in financial planning, and is the industry's premier mark only available to a CPA," he says. "For those

## Resources for More Information

Also featured in this issue of the PFP Planner is "Incorporating the Statement on Responsibilities in Personal Financial Planning Into Your Practice," an article by Dirk Edwards that explains how the SOR is an integral component in financial planning. Page 3 also references a recent Web seminar Dirk taught on the SOR, as well as his upcoming presentation at the 2012 AICPA Advanced PFP Conference.

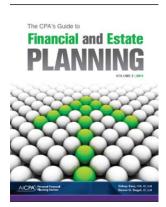
who want to do financial planning, the PFS tells clients and prospects their CPA adviser has expertise in financial planning. The credential demonstrates this knowledge, shows a commitment to financial planning, and is a great indicator to your clients."

With the huge wave of new CPAs coming into the profession, he believes choosing financial planning as a service to offer is an incredibly rich opportunity for the CPA because it emphasizes the proactive versus reactive mindset.

"That's why I practice as a CPA. Clients trust the CPA, and it is that trust that is the basis of long-term, rewarding relationships."

#### **PFP News**

## The CPA's Guide to Financial & Estate Planning: Volume 2



Volume 2 of The CPA's Guide to Financial and Estate Planning is now available exclusively to PFP/PFS members. This comprehensive 1000-page, four-volume, downloadable publication provides guidance to CPAs advising clients in estate, tax, retirement, investment, and risk management matters.

Volume 2 covers life insurance.

annuities, employee benefits, transfers includible in the estate at death, wills, and the marital deduction. Volume 1 covers the art of financial planning, estate and client analysis, the co-ownership of property, lifetime gifts to individuals, charitable trusts, and the use of trusts. Watch *PFP News* and *Planner* for Volumes 3 and 4, which will be available in the coming months!

Additionally, access the seminar recording and presentation materials from part 1 of the Web seminar series *The Window of Opportunity for Successful Financial Planning in 2011 and 2012.* This series connects *The CPA's Guide to Financial and Estate Planning* with planning opportunities you can take advantage of now and features Steve Siegel, one of the authors of the guide.

## Announcing New Business Development Resources That Are CPA Strong

To support you in your efforts to build your practice in this increasingly competitive environment, the PFP Division has created a coordinated set of marketing materials. These ads, brochures, online tools, and presentation materials are designed to help you explain what you do in a consistent

way to many different audiences—that the financial plans you put together with your clients are CPA Strong. Customize them with your logo and contact information. Plus, you'll find a guide to get you started using these tools—from placing an ad in a newspaper to one on Google. Check them all out today in the PFS and PFP Marketing Toolkits. If you missed the free Web seminar on August 4, Standing Out in a Crowded Market, access the recording and presentation materials to learn how to put these resources into action.

## From Tax Preparer to Financial Planner: The Road Best Traveled

The PFP Division offers several resources to help tax practitioners transition into financial planning—including a three part Web seminar series, a checklist to help analyze your client's tax returns for financial planning opportunities, the *Roadmap to Developing and Managing a Personal Financial Planning Practice*, and (coming soon) discounts and access to a financial planning workflow system from Fox Financial Planning Network. Visit www.aicpa.org/PFP/Pathway to access these resources. Also, Implementing PFP Services: Step-by-Step Plans for Success, a two-day workshop in conjunction with the 2012 AICPA Advanced PFP Conference, will be offered to provide the step-by-step process for formalizing financial planning in your firm (Registration information available under "PFP Calendar of Events").

## Build on Your CPA: Set Yourself Apart as a Personal Financial Specialist

The trend toward specialization is growing fast and is farreaching, as revealed in the article "Why Add a Fifth Part to Your CPA Exam." CPAs who hold the PFS credential demonstrate their expertise in personal financial planning through education, experience, and successful completion of a comprehensive exam. The PFS exam assesses your knowledge on all aspects of personal financial planning and the professional responsibilities specific to the CPA financial. A self-study PFS exam review course with 32.5 hours of CPE is available to help you prepare in addition to a live two-day review course in conjunction with the 2012 Advanced PFP Conference (Registration information available under "PFP Calendar of Events)." Registration for the winter PFS exam

window (December 19, 2011-January 27, 2012) is now open. For more information on discounts, sponsorships to reduce your cost and in-depth education courses, visit www.aicpa. org/PFP/PFS.

#### **PFP Calendar of Events**

**Note:** PFP section members, including PFS credential holders, attend web seminars FREE without CPE, or for a discounted price with CPE. For a complete list of web seminars and registration links, click here.

Event Title	Format/Location	Dates	Links/More Info
Protecting You and Your Loved Ones: Practical and Vital Estate Planning Information For Consumers in Plain English	Consumer-Focused Online Web Seminar in Recognition of Estate Planning Awareness Week	10/18/2011 2:30-3:30 p.m. ET	Watch <i>PFP News</i> or the PFP Web site for registration information.
Top Reasons Why Your Individual Clients Should Be Seeking Your Advice on Financial and Estate Planning Considerations	Practitioner-Focused Online Web Seminar in Recognition of Estate Planning Awareness Week	10/19/2011 11:00 a.m12:30 p.m. ET	Watch PFP News or the PFP Web site for registration information.
Investment Adviser SEC to State Transition and Other Compliance Issues	Online Web Seminar	10/26/2011 1:00-2:00 p.m. ET	Register Today
Insurance Analysis and Implementation	Online Web Seminar	11/10/2011 1:00-2:30 p.m. ET	Register Today
Collaborative Divorce - Getting Through a Divorce without Financial Disaster	Online Web Seminar	11/16/2011 1:00-2:30 p.m. ET	Register Today
Advanced Personal Financial Planning Conference	AICPA Conference Las Vegas, NV	1/15/2012 – 1/18/2012	Register Today PFP/PFS members save an additional \$100 off of the early-bird discount and AICPA member discount.
PFS Exam Review Class	2-day session offered in conjunction with the Advanced PFP Conference Las Vegas, NV	1/15/2012 – 1/16/2012	Register to attend this 2-day class (January 15-16) and then join days 2 and 3 of the conference (January 17-18). Alternatively, register to attend this review session only. PFP/PFS members save an additional \$100 off the early-bird and AICPA member discounts.
Implementing PFP Services: Step-by-Step Plans for Success	2-day session offered in conjunction with the Advanced PFP Conference Las Vegas, NV	1/15/2012 – 1/16/2012	Register to attend this 2-day session (January 15-16) and then join days 2 and 3 of the conference (January 17-18). Alternatively, register to attend this 2-day session only. PFP/PFS members save an additional \$100 off the early-bird and AICPA member discounts.

