Q3 2015 AICPA CPA Personal Financial Planning Trends Survey

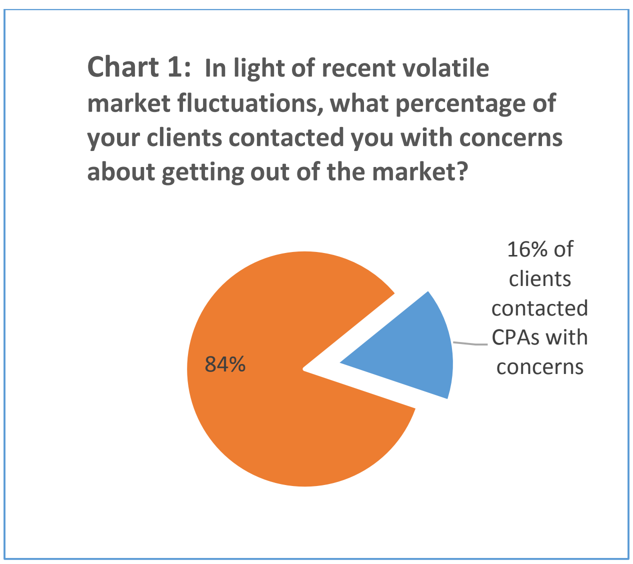
Executive Summary

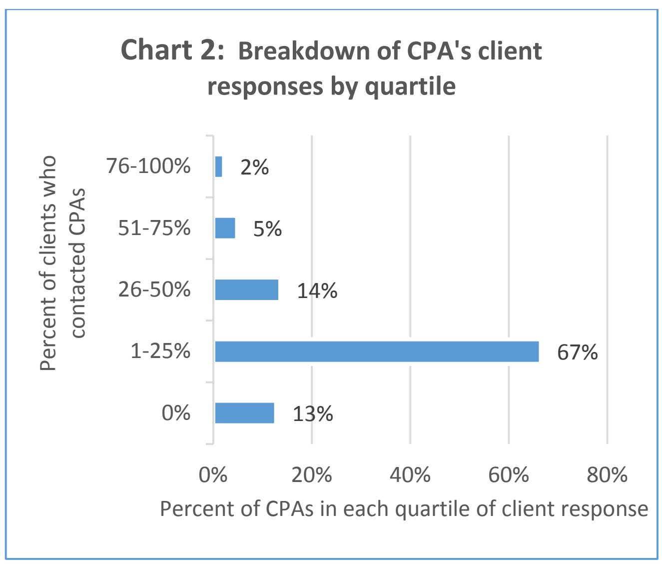
The Q3 2015 PFP Trends Survey focuses on client reactions to market fluctuations and client perspectives on both retirement planning assumptions as well as the potential for changes in income or spending during retirement. These factors all have an impact on the success of a client's retirement plan. Poor assumptions, knee-jerk reactions to market changes, and a hesitance to make adjustments over time can all have a significant impact on achieving long-term retirement goals. A CPA financial planner can coach a client through the decisions relating to these factors so their retirement plan can be modified to meet their changing situations and remains consistent with other areas of their financial planning, including tax, estate, investment and insurance planning.

This online survey was administered September 2-22, 2015 to members of the AICPA Personal Financial Planning Section, inclusive of CPA/PFS credential holders, and resulted in 398 completed survey responses by CPAs.

Client Reactions to Market Fluctuations

In spite of significant market fluctuations, only an average of 16% of CPA respondents' clients contacted them with concerns about getting out of the market. In fact, 80% of the respondents reported 25% or less of their clients had raised these concerns; while only 7% of the respondents indicated over 50% of their clients had reached out to them.

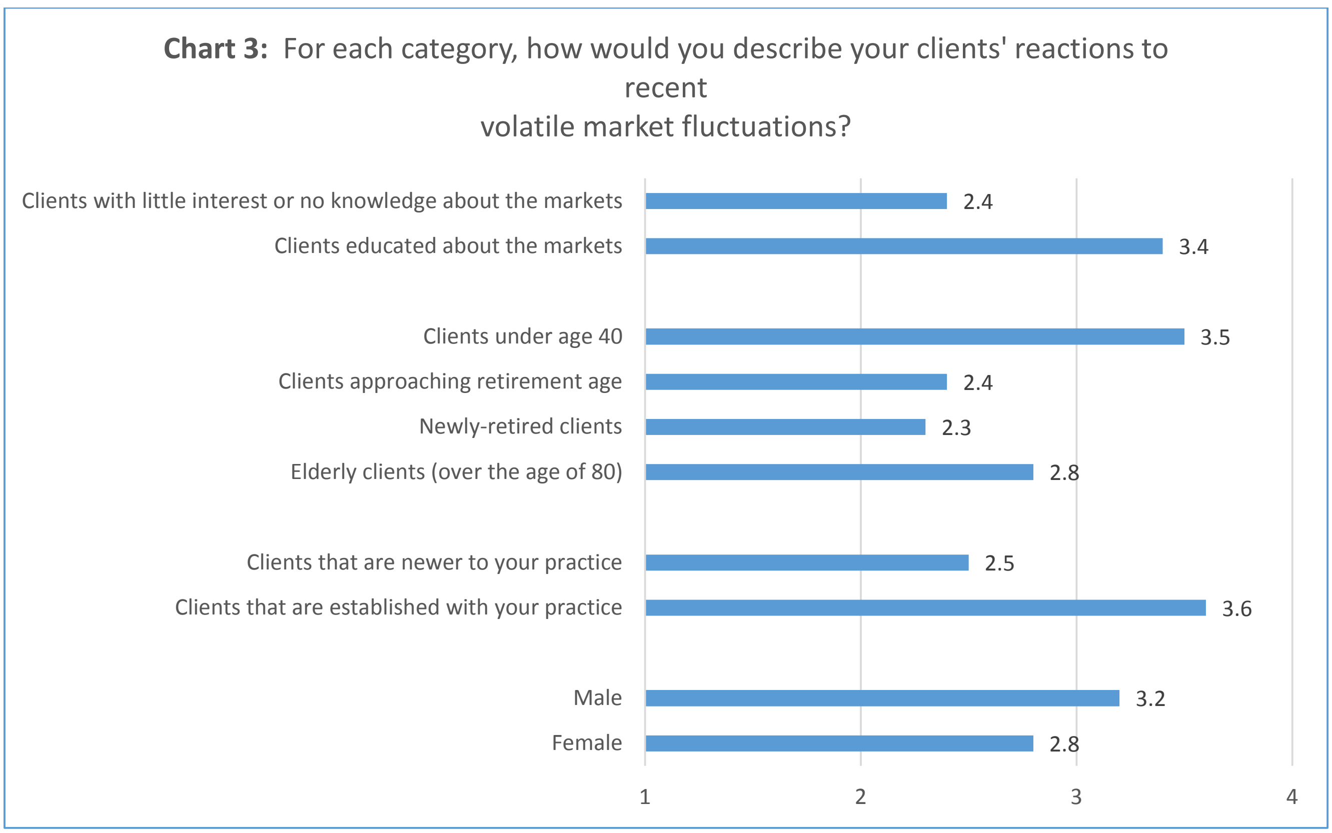


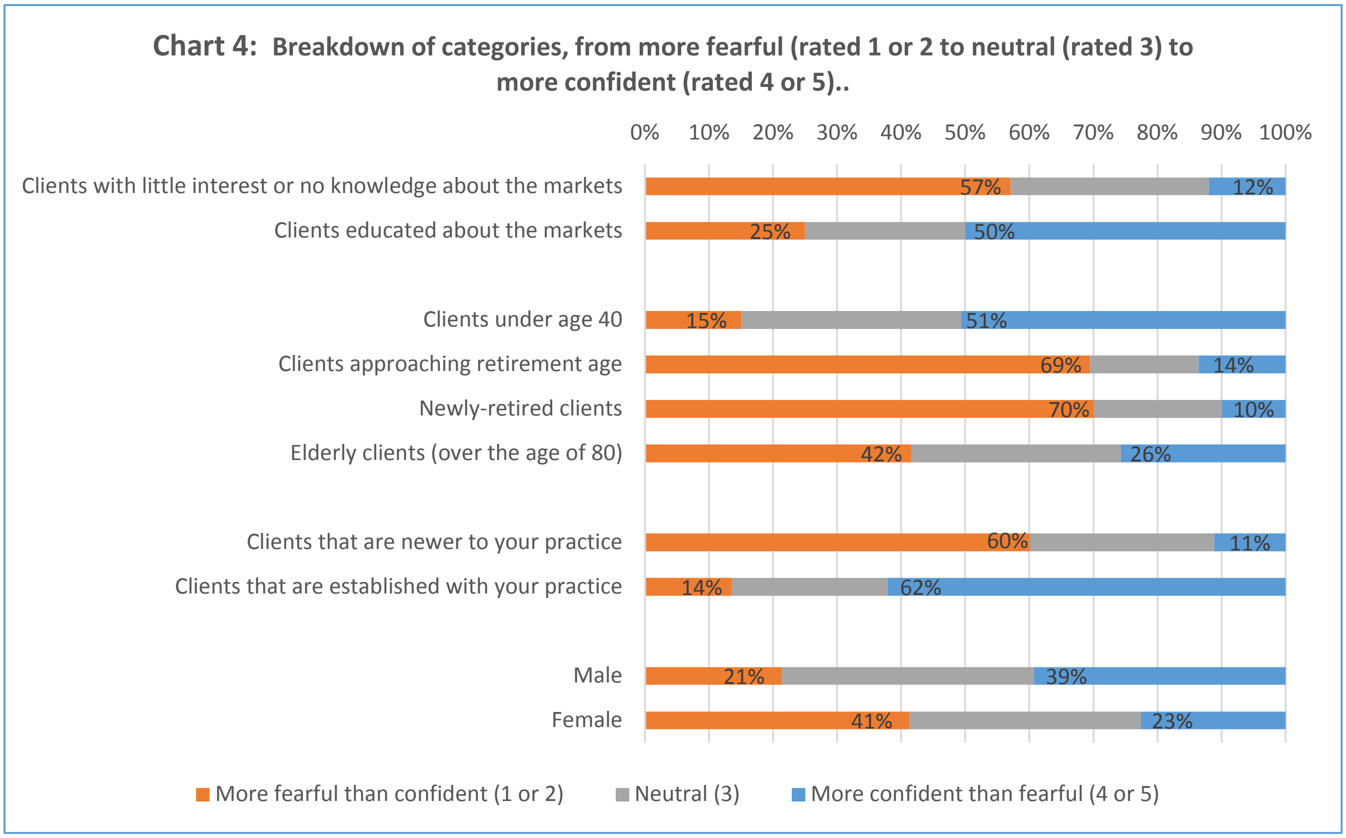


In an effort to identify factors that impact a client's reaction to market fluctuation, CPAs were asked to rate categories of their clients on a scale of 1 (fearful) to 5 (confident). Chart 3 below show the average rating (from 1 to 5) for each category. Chart 4 groups these ratings to show the % of CPA respondents who were rated as being more fearful (rated as 1 or 2), neutral (rated as 3), or more confident (rated as 4 or 5).

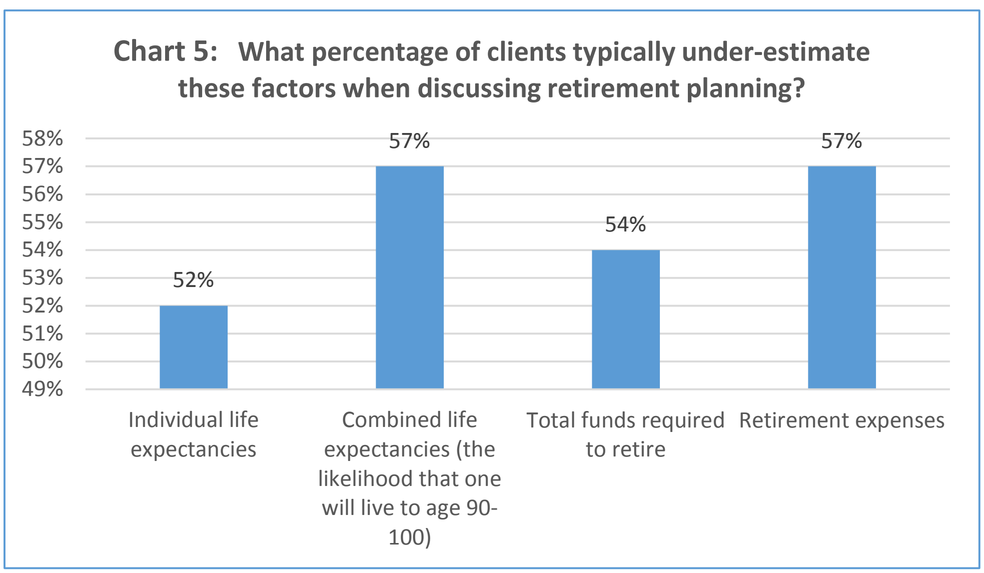
From these results, the following observations are supported:

- ***Education makes clients less fearful.*** Clients who were educated about the market were rated at 3.4 versus 2.4 for those with little interest or knowledge. 50% of their market-educated clients rated as more confident versus only 12% of those with little interest or knowledge.
- ***Stage in life plays another factor.*** Younger clients tended to be more confident at 3.5 while those approaching retirement or newly retired were rated at 2.4 and 2.3, respectively. Elderly clients (over the age of 80) were slightly less fearful than the newly retired at 2.8. Chart 4 shows those approaching or newly retired are significantly more likely to be in the "more fearful" group.
- ***Exposure to a CPA financial planner positively impacted their client's response to the market swings.*** Clients who were more established with the CPA's practice (at 3.6) were more confident than newer clients (at 2.5). Chart 4 shows this even more dramatically in the "more confident" grouping with 62% of their established clients versus 11% of their newer clients.
- ***Gender did not play a major role.*** Men (at 3.2) were slightly more confident than women (at 2.8) in the face of market changes.





Estimates of Retirement Planning Factors

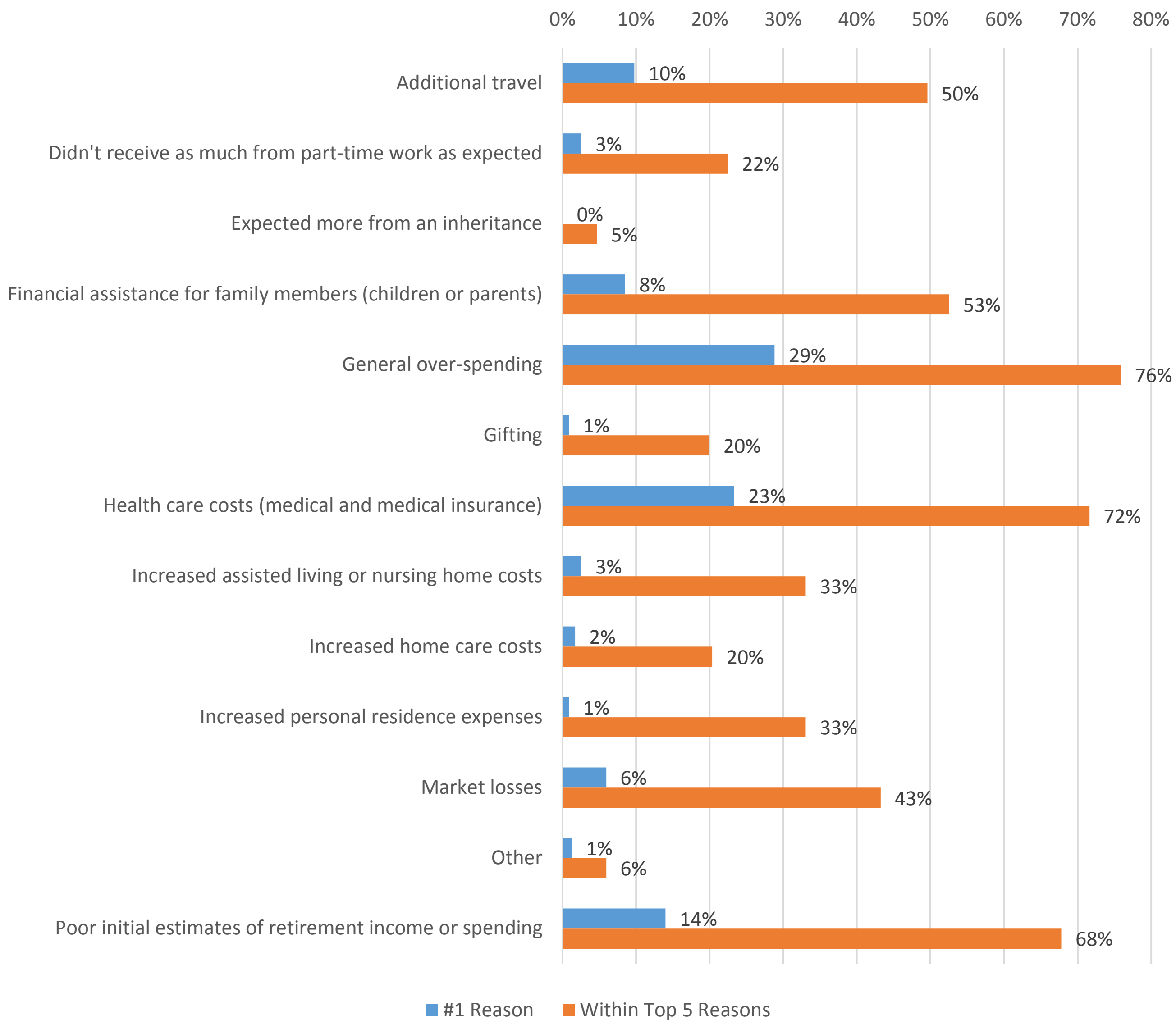


CPA respondents reported that just over half of their retirement planning clients typically under-estimate key factors in retirement planning. While 52% underestimate their life expectancy, slightly more (57%) under-estimate their joint life expectancies, putting potential planning at risk. The combination of underestimating the funds needed (55%) and potential expenses (57%) in retirement can have significant effects on the retirement plan.

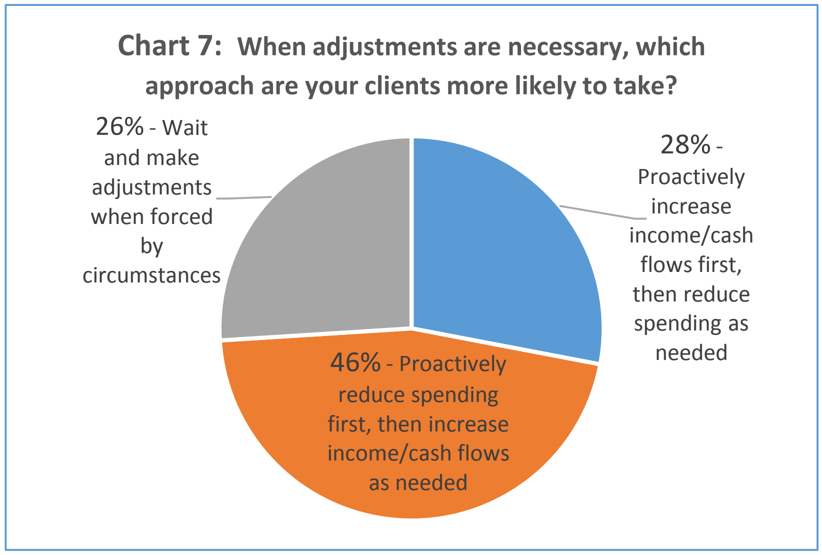
Spending and Income Cash Flow Adjustments During Retirement

Causes for adjustment: Many factors can impact the retirement plan after retirement takes place causing adjustments to the income and spending approaches initially established. When asked for the top five reasons for these adjustments, 29% of respondents cited general over-spending as the number one reason and 76% included this in their top five reasons. The remainder of the top five reasons include healthcare costs (72%), poor initial estimates (68%), financial assistance for family members (53%) and additional travel (50%). Interestingly, market losses ranked sixth overall with only 43% of respondents considering it to be one of their clients' top five reasons for making changes.

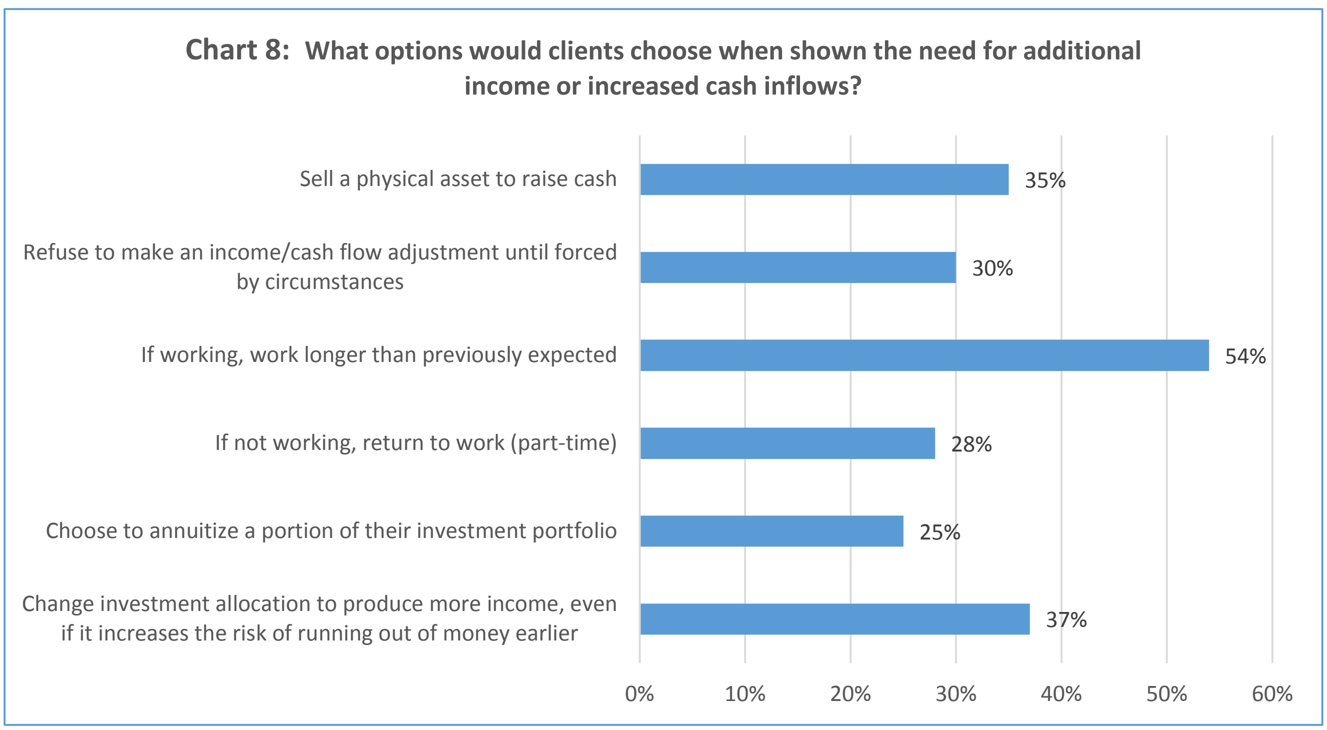
Chart 6: What are the top five causes for adjustments to your clients' original retirement income/spending approach?



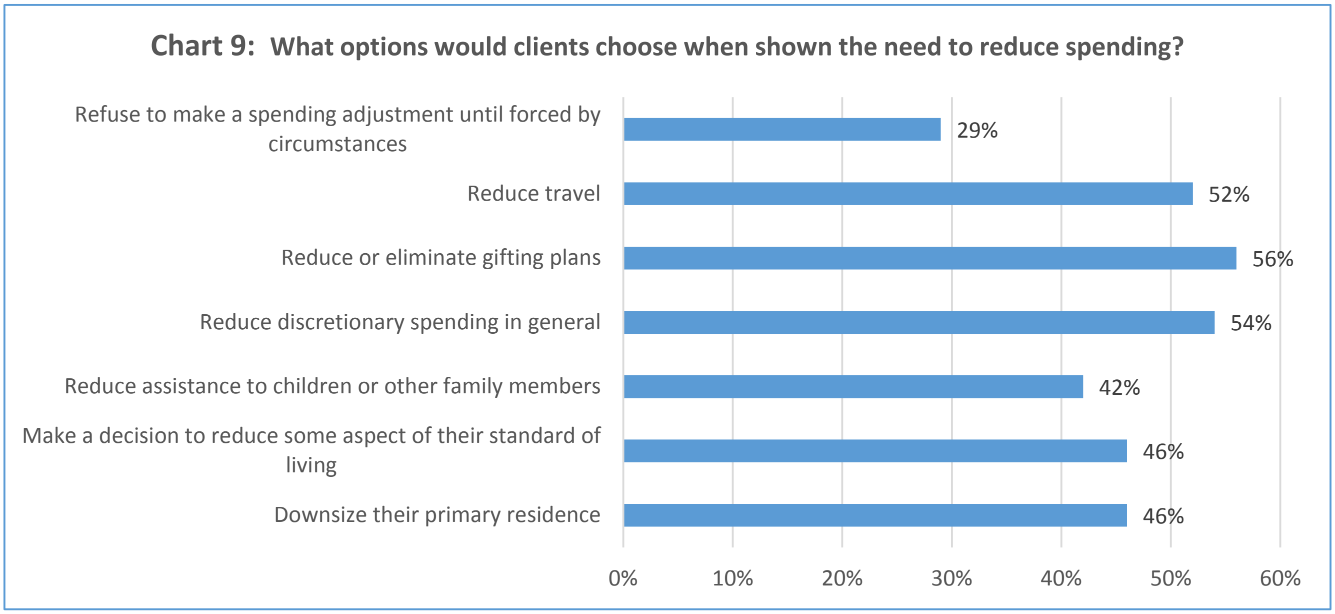
Approach to change: When faced with a need to make adjustments in the retirement income or spending plans, most CPAs felt their clients would reduce spending first to address the issue (46%); while 28% would rather first focus on changes in their income flows. However, 26% felt their clients would not be proactive and simply make adjustments when forced by circumstances.



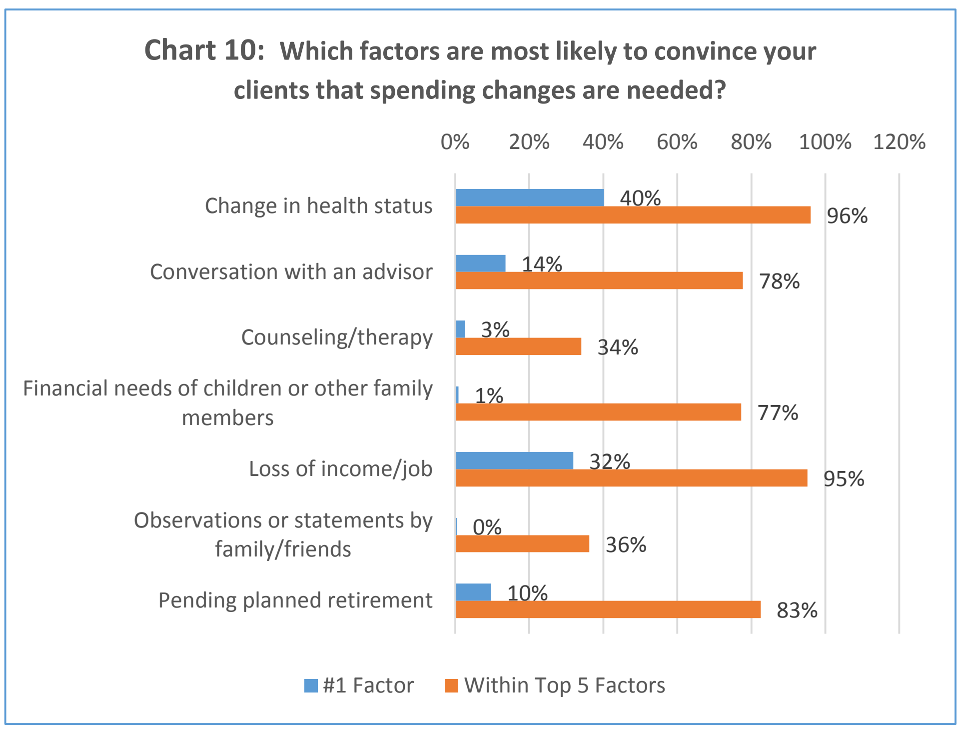
Client attitudes toward income change tactics: When faced with the need for more income during retirement, CPAs felt their clients who were still working would simply work longer (54%). 37% indicated they would modify the investment allocation to produce more income and 35% would resort to selling physical assets to raise cash. 30% felt that their clients would not be proactive and be forced by circumstances to make a change. Reverse mortgages were also mentioned as an additional source of income.



Client attitudes toward spending change tactics: When faced with making spending changes to fix cash flow problems, the top three changes clients would likely choose were fairly close: reducing gifting plans (56%), reducing discretionary spending (54%) and reducing travel (52%). 46% also would consider lifestyle changes by reducing their standard of living or downsizing their residence. As with the income adjustments, 29% felt their clients would not make proactive spending changes until forced by circumstances.



Potential factors motivating client change: Changes in the retirement plan can be stressful but necessary. When asked what was most likely to convince their clients that spending changes were needed, CPA financial planners top responses were predictably external factors impacting their clients: changes in health (40% ranked this as their number one factor; 96% included it in their top five) and loss of income or job (95% identified this in their top five). 83% identified pending planned retirement decisions as a motivating factor. Conversations with an advisor ranked fourth at 78% (14% identified it as the number one factor) and potential financial needs of children or other family members ranked fifth at 77%.



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.