



# PERSONAL FINANCIAL PLANNING BODY OF KNOWLEDGE

## PFS Exam Content Specification Outline

Updated December, 2016

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### Questions?

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## Introduction

The Personal Financial Planning Body of Knowledge (BOK) is an outline of the technical knowledge that a CPA financial planner should be expected to know to competently practice in personal financial planning. This BOK outline serves two purposes:

- 1) **For CPAs practicing or desiring to practice in personal financial planning:** It provides a roadmap for the various technical competencies that can guide their professional development. We recognize that not all CPAs planners will be experts in all areas, but this outlines the areas in which a fundamental level of knowledge and awareness of the interconnectedness of the major topics is crucial for making competent recommendations.
- 2) **For CPAs preparing for the Personal Financial Specialist (PFS) exam:** It provides a guide for exam takers to ensure they are studying appropriate topics for the PFS exam. The range of coverage (percent of total exam) is identified for each major topic in the BOK so exam takers know what to expect. They can have confidence that this will guide their review regimen because the BOK is used by both:
  - authors of the AICPA's exam review materials to structure a systematic review of all exam topics, and
  - exam question writers to craft questions on the entire spectrum of PFP knowledge.

## Income Tax Planning and Integration of Topics Within the PFP Body of Knowledge

Individual income tax planning is an integral part of personal financial planning. In previous iterations of the Personal Financial Planning (PFP) Body of Knowledge, it has been included as a separate major topic. This approach did not adequately demonstrate the integration of income tax planning within the individual topics throughout the PFP Body of Knowledge. In response to this, the current PFP Body of Knowledge addresses individual income tax planning in the following manner:

- Each major section includes one or more sub-topics labeled "Taxation and Income Tax Planning" which highlights the key tax planning considerations at relevant points in that section.
- Foundational Financial Planning Concepts (section #3) includes the sub-topic "General Income Tax Planning and Liability Management" covering general tax planning topics not specifically related to a specific area within personal financial planning.

To further emphasize the integrated nature of personal financial planning, each major topic within the PFP Body of Knowledge has been updated with a sub-topic labeled "Integration with Other Areas of Personal Financial Planning". This section identifies ways in which this topic impacts other major topics in the BOK. This is done to underscore the importance of considering the impact that changes in one area can have in other parts of a client's financial plan and the responsibility to make decisions that are in the client's best interest.

# Strategies for Success on the PFS Credential Examination

## Structure of the Exam

- 160 multiple-choice questions administered over a five-hour period, including time for up to a thirty-minute break.
- Average of 1.8 minutes per question.
- Questions will test higher level thinking in financial planning emphasizing application, analysis, synthesis, and evaluation.
- Questions are all multiple-choice questions. Approximately 50% are individual standalone questions, 25% are item sets (short client data followed by 3 to 5 multiple choice questions over different topic areas), and 25% are case studies (practical comprehensive situation followed by 11 to 18 multiple choice questions over different topical areas).
- The PFS exam is a comprehensive exam format, with random topic sequencing of questions.
- The PFS exam must be passed all at once; there are no serial components.

## Preparation Strategies

- An examinee should anticipate significant pre-exam preparation time in the range of 200 hours depending upon previous practice and academic knowledge.
- Spread your preparation over several months. For example, there is a suggested 12-week and accelerated 8-week self-study plan included in the PFS exam review materials.
- Experience in financial planning is anticipated to benefit the examinee.
- Test-taking skills are also beneficial.
- Know your financial calculator; time value factor tables will not be provided in the exam.
- Don't study what you already know; focus on what you are less familiar with.
- Expertise in one area of the exam will not result in passing the examination.
- Be well-rested before the examination.
- Bring your financial calculator to the exam.
- No programmable calculators are allowed. A list of acceptable financial calculators is located at [www.aicpa.org/pfsexam](http://www.aicpa.org/pfsexam).

## During the Exam

- Read questions carefully. Questions will not be written to be "tricky," but all wording and information in each question will be important.
- Questions may appear to have more than one right answer to the under-prepared test-taker, but one answer will be the best recommendation.
- Don't "sit and think" about one question too long, move on to the ones you know and come back to the others at a later time. You will earn points for correct answers, and will not lose points for incorrect answers.

# High-level Outline

## 1. Personal Financial Planning Process (7-11%)

- A. Elements of the Overall Planning Process
- B. Understanding the Client and Building Rapport
- C. Application of Behavioral Techniques to Client Relationships
- D. Data Gathering: Establishment of Financial Objectives and Identification of Constraints
- E. Life-Planning

## 2. Professional Responsibilities and the Legislative and Regulatory Environment (7-11%)

- A. Professional Standards – AICPA
- B. Regulatory Landscape
- C. Fiduciary Practices
- D. Financial Services Regulations and Requirements
- E. Professional Liability and Compliance
- F. Engagement Letters

## 3. Foundational Financial Planning Concepts (7-11%)

- A. Assumptions
- B. Time Value of Money
- C. Personal Financial Statements
- D. Cash Management Strategies
- E. Debt Management Strategies - Financing Asset Acquisitions
- F. General Income Tax Planning and Liability Management
- G. The Economic Environment
- H. Consumer Protection Issues

## 4. Estate Planning (11-14%)

- A. Fundamentals of Estate Planning
- B. Basic Estate Planning Process
- C. Estate Planning Documents
- D. Trusts
- E. Basic Estate Planning Strategies
- F. Gifting Strategies
- G. Advanced Estate Planning Strategies
- H. Generation Skipping Transfer Tax
- I. Closely-held Business Issues
- J. Incapacity Planning
- K. Postmortem Estate Planning
- L. Other Estate Planning Considerations
- M. Taxation and Income Tax Planning
- N. Integration with Other Areas of PFP

## 5. Charitable Planning (4-6%)

- A. Charitable Gifts
- B. Charitable Trusts and Planning Tools
- C. Taxation and Income Tax Planning
- D. Integration with Other Areas of PFP

## 6. Risk Management Planning (11-14%)

- A. The Risk Management Process
- B. Professional Environment
- C. Purpose of Insurance and Needs Analysis

- D. Legal Elements of Insurance Contracts
- E. Life Insurance Types and Applications
- F. Annuities
- G. Disability Insurance
- H. Property and Casualty Insurance
- I. Medical Expense Insurance
- J. Long-term Care Insurance

## 7. Employee and Business-Owner Planning (4-6%)

- A. Executive Compensation & Arrangements
- B. Equity Compensation Plans
- C. Deferred Compensation
- D. Group Insurance
- E. Other Employee Benefits
- F. Closely Held Business Basics

## 8. Investment Planning (11-14%)

- A. Investment as a Process
- B. The Professional Environment
- C. The Planning Phase
- D. The Implementation Phase
- E. The Monitoring and Updating Phase
- F. Integration with Other Areas of PFP

## 9. Retirement and Financial Independence Planning (11-14%)

- A. Financial Independence Planning Process
- B. Regulatory and Legislative Environment
- C. Determine and Prioritize Client Goals
- D. Gather Information
- E. Perform Financial Analysis
- F. Create and Present the Retirement Plan Implementation Strategies
- G. Implement, Review and Monitor Plans
- H. Integration with Other Areas of PFP

## 10. Elder, Special Needs, and Chronic Illness Planning (5-7%)

- A. Professional Environment
- B. Non-financial Factors
- C. Financial Decisions
- D. Taxation and Income Tax Planning
- E. Integration with Other Areas of PFP

## 11. Education Planning (3-5%)

- A. Education Planning Process
- B. Gather Objectives, Needs, and Costs
- C. Assess Potential for Financial Aid
- D. Assess Funding Methods
- E. Assess Factors to Consider and Funding Strategies
- F. Taxation and Income Tax Planning
- G. Integration with Other Areas of PFP

## 12. Special Situations (2-4%)

- A. Housing
- B. Divorce
- C. Household Employees

# 1. Personal Financial Planning Process

## A. Elements of the Overall Planning Process

1. Defining and planning the engagement
2. Discovery and gathering client data
3. Performing analyses to develop and support planning recommendations
4. Preparing and communicating recommendations and advice to the client
5. Coordinating the implementation of the client's financial planning decisions
6. Periodically monitoring the clients progress in achieving goals
7. Assisting the client to modify plan as circumstances change

### Learning Objectives

- Understand the comprehensive financial planning process and its value in helping clients meet their financial goals.
- Outline the planning process and other aspects of the engagement, including compensation methods, planner and client responsibilities, timeframe, scope of the planning engagement, etc.
- Identify the needed qualitative and quantitative data from the client sufficient to support the planning analyses and recommendations.
- Demonstrate how to assess the client's current financial condition.
- Describe how to develop, justify, and prioritize recommendations and how to communicate these recommendations to the client.
- Discuss processes that can be used to collaborate with qualified professions to assist the client in implementing their financial plan.
- Demonstrate how to monitor the client's progress towards meeting the financial plan and to reassess the plan as conditions change.

## B. Understanding the Client and Building Rapport

1. 11 components of active listening
2. Verbal and non-verbal cues
3. Context
4. Intuitive abilities
5. Discovery process
6. Behavioral biases and heuristics
7. Socratic questioning methods
8. Use of behavioral assessment tools

## PFP Body of Knowledge – Section #1 - PFP Process

### Learning Objectives

- Demonstrate active listening, including employing verbal and non-verbal cues in the discovery process.
- Identify various behavioral biases and how to use them in the discovery process to gather qualitative information needed for analysis and recommendations.
- Describe the use of Socratic questions in the discovery process.
- Discuss the importance of context in the discovery process.
- Demonstrate the use of intuitive abilities in the discovery process.
- Evaluate a client to discern his/her investor personality and provide implications for your approach to that person.
- Explain the importance of psychology to successful investing.
- Describe sources of cognitive errors or investor biases.
- Recognize investor biases in your clients, and know how to approach them.
- Describe how emotions impact investing, including discipline.

### **C. Application of Behavioral Techniques to Client Relationships**

1. During initial discovery/early client meetings
  - a. Focus on the immediate issue, what's not working, and what a fix would look/feel like
  - b. Shift focus to the client and their aspirations to direct the process
    - i. Identify the 1-3 things that inspire them
2. Throughout client engagement
  - a. Establish a life planning focus or backdrop while addressing the immediate need
  - b. Encourage open-ended questions for items to come up that are unexpected but helpful
  - c. Active listening
  - d. Communicate comprehension of and empathy with client situation
  - e. Carefully and thoughtfully ask deep, penetrating questions and be prepared to address unexpected responses
  - f. Driving motivation should be: How do I move the client forward?
3. Handling conflict
  - a. Managing difficult clients
  - b. Managing expectations
    - i. Setting client expectations of what they should be doing

## PFP Body of Knowledge – Section #1 - PFP Process

- ii. Setting (and meeting) client expectations of what the advisor should be doing
  - c. Understanding family dynamics
    - i. Relationships between family members affect the financial planning process
    - ii. Facilitating discussions and decisions among family members
- 4. Financial planner's attitude
  - a. Controlling emotions evoked by client words and actions
  - b. Refraining from projecting advisor's biases/values into a client situation
    - i. Views on longevity and planning
    - ii. Attitudes on gifting – can range from spoiling heirs to giving them very little
    - iii. Advisory philosophy
      - a. Potential for client loss versus potential for client gain
      - b. Lessons from past financial crises (such as 2008)
  - c. Ability to recognize and alter communication styles for different types of clients
    - i. Client types such as older clients, millennials, etc.
    - ii. Communications styles
      - a. Simplifying conversations
      - b. Pace of conversation
      - c. Length of meetings and attention span
      - d. Summary versus detailed explanation of the reasoning
      - e. Allowing time for clients to validate your approach
- 5. Diagnosing client situations
  - a. Recognizing declining cognitive ability
  - b. Assessing client conflict
  - c. Identifying addictive behavior
    - i. Drinking / drugs
    - ii. Over-spending
    - iii. Entitlement as an excuse for reckless decision-making
  - d. Using key life events when client is more likely to be open to discussion
    - i. Entrances – marriage, birth, new business
    - ii. Exits – death, divorce, business sale/dissolution
    - iii. Understanding ethical responsibilities at these vulnerable times
  - e. Recognizing behavioral models representing different capacity and tolerance of risk

## **PFP Body of Knowledge – Section #1 - PFP Process**

6. Client communication
  - a. Understanding how clients prefer to be communicated with
    - i. Recognizing differences based on gender and age
  - b. Technology capabilities of clients
  - c. Inclusion of other family members in the communication process

### **D. Gathering Data: Establishment of Financial Objectives and Identification of Constraints**

1. Qualitative issues
  - a. Client goal setting
    - i. Overall client suitability: family disagreements on goals and risks
    - ii. Life cycle approach: accumulation, consolidation, spending, gifting
    - iii. Time horizon: near or long-term
    - iv. Client priorities: low or high priority
    - v. Impact of client macro factors: closely held businesses and overall individual/family goals
  - b. Client's financial attitudes
    - i. Client's personality
      - a. Level of confidence and method of action
      - b. Implications for the financial advisor's approach
    - ii. Client's psychology
      - a. How clients view money and use of financial resources
      - b. Investor biases
      - c. Understanding emotional responses to money
      - d. Methods of dealing with client biases
  - c. Client lifestyle and human capital risks
    - i. Employment risk
    - ii. Volatility of income
  - d. Client's health and other preferences
2. Quantitative issues
  - a. Quantifying goals
    - i. Dollar specificity
    - ii. Time specificity
  - b. Financial statement analysis
  - c. Current income and spending patterns
  - d. Cash flow planning and budgeting
  - e. Business considerations
  - f. Financial independence, including retirement

## **PFP Body of Knowledge – Section #1 - PFP Process**

- g. Other income or cash flow sources
- h. Charitable and legacy desires for the future

### **Learning Objectives**

- Facilitate prioritization of client's financial goals and objectives based on the collective qualitative data collected.
- Compile qualitative and quantitative data to identify constraints to meeting the client's financial objectives.

## **E. Life-Planning**

1. Understanding life planning goals and purpose
2. Applying life planning principles in the financial planning process

### **Learning Objectives**

- Discuss the components of life planning as they relate to the client data gathering process.
  - Identify questions appropriate to the life planning discovery process.
  - Compare and contrast the characteristics of left brain versus right brain orientation to discussions around life planning.
  - Compare and contrast life planning questions with conventional qualitative questioning.
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## 2. Professional Responsibilities and the Legislative and Regulatory Environment

### A. Professional Standards – AICPA

1. Code of Professional Conduct
  - a. Professional standards and ethics as required by the AICPA
    - i. Integrity
    - ii. Objectivity
    - iii. Competence
    - iv. Fairness
    - v. Confidentiality
    - vi. Professionalism
    - vii. Diligence
    - viii. Unauthorized practice of law
2. Statement on Standards in Personal Financial Planning Services
  - a. Scope
  - b. Applicability
  - c. Objective
  - d. Authority of the statement
  - e. Requirements
3. Statements on Standards for Accounting and Review Services No. 6
4. Statement on Standards for Consulting Services No. 1
5. Statement on Standards for Valuation Services No. 1
6. Statements on Standards for Tax Services No. 7

#### Learning Objectives

- Apply professional standards in practice setting.
- Illustrate professional conduct.

### B. Regulatory Landscape

1. Significant legislation
  - a. Securities Act of 1933
  - b. Securities Exchange Act of 1934
  - c. Investment Advisers Act of 1940
    - i. Accountant's Exclusion
  - d. General concepts of State regulation
  - e. IRS Circular 230
  - f. State regulation – broad landscape, not state-specific

## **PFP Body of Knowledge – Section #2 Professional Responsibilities and the Leg./Reg. Environment**

- g. Privacy and non-disclosure of personal information
2. Governing bodies
  - a. Securities and Exchange Commission (SEC)
  - b. Financial Industry Regulatory Authority (FINRA)
3. Insurance regulatory environment
  - a. Licensing required to sell various types of insurance
    - i. Life, disability, long-term care, health insurance and annuities
    - ii. Variable insurance products
    - iii. Property and casualty insurance

### **Learning Objectives**

- Understand government and state regulation.
- Apply past regulatory acts to case facts.

## **C. Fiduciary Practices**

1. Fiduciary Duty
  - a. Definition of fiduciary
  - b. Fiduciary duties owed to clients
2. Significant legislation
  - a. ERISA
    - i. 2016 change in definition of fiduciary
  - b. Investment Advisers Act of 1940
  - c. Prudent Man Rule
  - d. Prudent Investor Rule
  - e. Uniform Prudent Investors Act
  - f. DOL
3. Supreme Court decisions
4. AICPA Code of Professional Conduct and Statement on Standards in Personal Financial Planning Services
5. A core competency that enables the PFS to address clients' comprehensive financial planning needs
  - a. Application to all areas of personal financial planning

### **Learning Objectives**

- Know when it is allowable to disclose client information.
- Understand the requirements and duties owed to clients as a fiduciary.
- Compare and contrast various fiduciary practice rulings.
- Outline current fiduciary practices standards.
- Distinguish between levels of fiduciary requirement by type of entity.

#### **D. Financial Services Regulations and Requirements**

1. Registration and licensing
2. Reporting
3. Compliance
4. Federal and state securities and insurance laws

##### **Learning Objectives**

- Identify when registration, licensing, reporting and compliance is required.
- Illustrate securities and insurance law requirements.

#### **E. Professional Liability and Compliance**

1. Working with compliance consultants
2. Malpractice insurance

##### **Learning Objectives**

- Understand professional responsibility with regard to compliance requirements and obligations.
- Explain the uses of professional liability insurance as it relates to practicing financial planning.

#### **F. Engagement Letters**

1. Importance of well-defined engagements
2. General professional standards
3. Personal Financial Planning (PFP) specific issues
4. Investment management services
5. Limiting the scope of representation
6. Closing letter at end of representation, if appropriate

##### **Learning Objectives**

- Outline engagement letter components and identify the corresponding planning issues.
  - Explain why different consulting roles should be addressed in engagement letters.
  - Understand PFP specific and investment issues as they relate to the client engagement.
-

## 3. Foundational Financial Planning Concepts

### A. Assumptions

1. Need for reasonable and realistic assumptions
  - a. General rate of inflation
  - b. Escalation rates for unique inflows and outflows
  - c. Investment rates of return
  - d. Longevity
  - e. Tax rates
  - f. Client-directed assumptions related to goals
2. Discussion of assumptions with clients
3. Documentation of assumptions
  - a. Impact of assumptions on meeting financial goals

#### Learning Objectives

- Develop the appropriate list of assumptions to use based on the client's financial situation and goals.
- Incorporate interviewing techniques that lead to client-planner consensus regarding the needed assumptions.
- Utilize legally defensible sources to develop and document the assumptions used in the financial planning process.
- Evaluate the appropriate sources of data and decide upon the appropriate assumptions to use based on your client and his needs.
- Understand and communicate to the client the importance of sound assumptions in the financial plan.

### B. Time Value of Money

1. Present value and future value of lump sum
  - a. Compounding periods less than annually
  - b. Inflation-adjusted rates of return
2. Ordinary annuity and annuity-due payment streams
3. Serial payments
4. Uneven cash flows
5. Net present value and internal rate of return

## PFP Body of Knowledge – Section #3 – Fundamental Financial Planning Concepts

### Learning Objectives

- Solve time value of money problems used to answer financial planning questions regarding meeting financial goals such as retirement and education, loans and mortgages, investment returns, etc.
- Understand which type of calculation is preferable for the various financial planning goals and situations.

### **C. Personal Financial Statements**

1. Personal statement of financial position
2. Personal statement of cash flows
3. Business financial statements, and impact on personal financial statements
4. Use of financial ratios and benchmarks
  - a. Liquidity
  - b. Savings
  - c. Asset allocation
  - d. Inflation protection
  - e. Tax burden
  - f. Housing expenses
  - g. Insolvency/credit

### Learning Objectives

- Construct the needed personal and business-related financial statements based on the client's situation.
- Utilize the financial statements to gain an understanding of the client's current financial status and the resources currently available to meet client goals.
- Interpret the client's financial position by utilizing appropriate financial ratios and benchmarks.
- Communicate to the client the relationship between the various personal and business financial statements.
- Develop financial planning recommendations based on the client's financial statements.
- Compare and contrast the client's current position with his financial situation after following your recommendations using current and projected financial statements.
- Use financial statements to communicate effectively with the client.

### **D. Cash Management Strategies**

1. Spending plans
  - a. Factors impacting development of appropriate plans
  - b. Implementation issues

## **PFP Body of Knowledge – Section #3 – Fundamental Financial Planning Concepts**

2. Emergency fund needs
  - a. Based on financial characteristics
  - b. Based on risk tolerance and other behavioral characteristics
3. Liquid asset savings alternatives
  - a. Checking
  - b. Savings
4. Savings strategies
  - a. Paying yourself first
  - b. Systematic savings techniques
  - c. Laddering

### **Learning Objectives**

- Develop a spending plan that facilitates client goal achievement and assist the client in implementing the plan.
- Assess the emergency fund of a client based on characteristics such as job stability, diversification of income sources, availability of credit and assets, risk capacity and risk tolerance, etc.
- Understand the various liquid asset alternatives and select the appropriate type of assets to meet the client's short-term cash management needs.
- Recognize the strategies best suited to meet your client's savings needs and communicate that to the client.

## **E. Debt Management Strategies - Financing Asset Acquisitions**

1. Consumer debt
  - a. Credit cards
  - b. Lines of credit
  - c. Loans
  - d. Secured vs. unsecured debt
  - e. Fixed-rate vs. adjustable rate debt
2. Mortgage financing
  - a. Types of mortgages
  - b. Home equity loans and lines of credit
  - c. Refinancing issues
  - d. Reverse mortgages
3. Buying with debt vs. leasing/renting
  - a. Autos
  - b. Homes

## PFP Body of Knowledge – Section #3 – Fundamental Financial Planning Concepts

### Learning Objectives

- Understand the various types of consumer and mortgage financing options available to meet client needs.
- Formulate client recommendations regarding the use of debt to achieve the client's goals most effectively, considering the after-tax cost of the debt and the risks involved in the use of debt.
- Evaluate risks and rewards of fixed vs. adjustable-rate debt under various conditions.

## F. General Income Tax Planning and Liability Management

*(See the Taxation and Income Tax Planning topics in each of the other sections throughout the PFP Body of Knowledge.)*

1. Deferral techniques
2. Deduction techniques
  - a. Accelerating deductions
  - b. "Bunching" deductions into one tax year to avoid floor limitations on itemized deductions
3. Shifting techniques
  - a. Use of gifting strategies to manage overall family tax liability
  - b. Using kiddie-tax rules
4. Application of strategies in estate planning, investment planning, and retirement planning

### Learning Objectives

- Identify the techniques that a taxpayer can use to defer tax liability, and describe the planning uses and applications of these techniques.
- Explain how accelerating deductions, or bunching deductions into one tax year, may result in a minimization of a taxpayer's overall tax liability.
- Describe how the shifting of tax liability can be accomplished, and identify any limitations that may apply to this planning technique.
- Describe the kiddie tax rules, and suggest possible ways of planning around them.

## G. The Economic Environment

1. The importance of the economic environment on planning decisions
  - a. Basic concepts
  - b. Business cycles
  - c. Inflation
  - d. Interest rates

## PFP Body of Knowledge – Section #3 – Fundamental Financial Planning Concepts

- e. Monetary and fiscal policy

### Learning Objectives

- Understand basic economic concepts, including supply and demand, price and income elasticity, marginal utility, etc.
- Evaluate alternative financial planning strategies based on current and expected economic conditions.
- Communicate the importance of the economic environment to clients and the need to revise their financial plan as conditions change.

## H. Consumer Protection Issues

1. Privacy Issues
  - a. Legal requirements
  - b. Professional requirements
2. Identity theft
  - a. Common methods of appropriating identity
  - b. Protections against identity theft

### Learning Objectives

- Understand and articulate remedies to identity theft.
-

## 4. Estate Planning

### A. Fundamentals of Estate Planning

1. Understanding the unified system
  - a. Gift tax
  - b. Estate tax
  - c. Generation skipping transfer tax (GSTT)
2. Lifetime versus testamentary transfers
3. Applicable credit amount
  - a. Exemption equivalent
4. Marital deduction
5. Charitable deduction
6. Annual exclusion
  - a. Qualifying transfers
  - b. Crummey powers
7. Basis step-up (IRC Section 1014)
  - a. Income in respect of a decedent
  - b. Gifts reverting back to the original owner which were transferred within one year of death
  - c. Basis consistency reporting
8. Portability
  - a. Basic exclusion amount
  - b. No portability of GSTT exemption
9. Intestacy
10. Probate
11. Impact of property ownership and beneficiary designations
12. Expatriate issues

#### Learning Objectives

- Recognize the unification of the estate tax and gift tax systems.
- Recognize the difference between gift (tax-exclusive) and estate (tax-inclusive) tax regimes.
- Identify the applicable credit for estate tax, and gift tax purposes.
- Identify two unlimited deductions that apply for both estate and gift tax purposes.
- Recognize the use of the unlimited marital deduction.
- Identify the common ways that taxpayers make use of the unlimited marital deduction, with specific reference to the tax consequences and requirements of these techniques.

## **PFP Body of Knowledge – Section #4 – Estate Planning**

- Indicate the requirements for use of the annual exclusion for gift tax purposes.
- Identify how a Crummey Power can qualify a gift for the gift tax annual exclusion.
- Identify the requirements for use of the annual exclusion for generation skipping tax purposes.
- Recognize the limitations on the use of the Crummey Power to qualify a gift for the generation skipping annual exclusion.
- Identify the concept of the Section 1014 step up in basis rule.
- Identify assets that will not receive a step-up in basis under Section 1014.
- Identify the basic applications of portability elections.
- Determine the purpose of, and the general rules concerning disposition of property under the intestacy system.
- Determine the purpose of probate, its advantages and disadvantages, and methods of avoiding probate.
- Identify the five basic forms of property ownership, and identify the tax consequences upon transfer (during lifetime or death) for the donor and donee.
- Recognize the consequence of beneficiary designations on the probate process.

### **B. Basic Estate Planning Process**

1. Data gathering
  - a. Financial information
  - b. Existing documents and plan
2. Client interview and communication
  - a. Identifying client goals
  - b. Impact of family values
3. Prepare estate planning balance sheet
4. Estate tax calculations
  - a. Gross estate
    - i. Items included
    - ii. Items excluded
  - b. Deductions from gross estate
  - c. Federal estate tax calculation
  - d. Income in respect of the decedent (IRD)
  - e. State estate tax
  - f. Gross up rule for gift taxes paid within three years of death
  - g. Treatment of adjusted taxable gifts
  - h. Portability
5. Determining liquidity and survivor sufficiency needs
6. Recommend strategies
7. Implementation

## PFP Body of Knowledge – Section #4 – Estate Planning

### 8. Periodic monitoring and review

#### Learning Objectives

- Recognize the importance of communication among and between family members in the estate and tax planning process.
- Identify the impact of family values on the estate planning process, and how this impacts tax minimization strategies. *(topic not currently tested, will be included on future exams)*
- Identify the assets that are included in the gross estate of a decedent.
- Determine the requirements for deducting debts from the gross estate of a decedent.
- Identify expenses that are deductible from the gross estate.
- Identify expenses that may be deductible on the estate or final income tax return and discuss the issues to consider when deciding where to deduct the expense.
- Calculate the federal estate tax.
- Calculate the income tax deduction attributable to IRD included in the estate of a decedent.
- Identify the common methods that states use to assess an estate or inheritance tax.
- Apply portability concepts to the client situation
- Determine the impact of inter vivos gifting strategies on the estate tax calculation of a decedent.
- Determine liquidity needs for a client's estate.
- Given a set of client facts, analyze the client's situation and recommend the most appropriate planning options for that client.
- Identify the team approach to financial planning.

### C. Estate Planning Documents

1. Wills
2. Revocable trusts
3. Beneficiary forms
4. Healthcare power of attorney
5. Living will
6. Durable power of attorney
7. Electronic documents and storage

#### Learning Objectives

- Identify the purpose of and important components of a will.

## PFP Body of Knowledge – Section #4 – Estate Planning

- Identify how revocable trusts are used in the estate planning process, with particular emphasis on taxation and the non-tax benefits of using such trusts.
- Compare the difference between a durable and non-durable power of attorney.
- Identify the purpose of a healthcare power of attorney.
- Recognize the purpose of a living will.
- Compare the difference between a living will and a healthcare power of attorney.
- Identify the HIPAA provisions that should be included in a Health Care Power of Attorney.

### D. Trusts (types, features and taxation)

1. Types of trusts
  - a. Inter vivos and testamentary
  - b. Revocable and irrevocable
  - c. Grantor
  - d. Marital and credit shelter
2. Choice of fiduciary
  - a. Importance and implications
  - b. Corporate trustee / custodians / investment advisor / trust protector
  - c. Disclosure versus confidentiality
  - d. Control issues
    - i. General versus limited powers of appointment
    - ii. Discretionary versus non-discretionary
3. Timing of distributions to beneficiaries
4. Powers of appointment
  - a. General
  - b. Limited
5. Goals that trusts can achieve
  - a. Avoid probate
  - b. Plan for the potential of incapacity
  - c. Achieve charitable intentions while addressing other needs
  - d. Clearly address divorce and other family issues
  - e. Protect from creditors
  - f. Maintain privacy
  - g. Assist with business transitions
6. Use with asset protection planning, estate tax planning, and generation skipping transfer tax planning
  - a. Minority and marketability discounts – Rev. Rule 93-12
  - b. Temporal discounts (based on the passage of time)

## PFP Body of Knowledge – Section #4 – Estate Planning

- c. Using entities and trusts to protect assets from the claims of creditors of the grantor and beneficiaries

### Learning Objectives

- Identify the planning uses and applications of inter vivos and testamentary trusts.
- Identify the income, estate, gift, and generation skipping transfer tax consequences resulting from the use of inter vivos and testamentary trusts.
- Contrast the uses and planning applications of revocable and irrevocable trusts.
- Compare the income, estate, gift, and generation skipping transfer tax consequences resulting from the use of revocable and irrevocable trusts.
- Identify the items that will cause a trust to be classified as a grantor trust.
- Compare the gift, estate, and generation skipping transfer tax consequences of various items that will cause a trust to be classified as a grantor trust for income tax purposes.
- Identify the planning applications and uses of grantor trusts.
- Determine the types of inter vivos and testamentary trusts that will qualify for the estate and gift tax marital deduction.
- Identify the factors that are important in appointing a fiduciary for an estate or trust.
- Identify the duties of a Trustee or Executor of an estate.
- Analyze the tax consequences of the timing of distributions from trusts and estates to beneficiaries.
- Compare the difference between a general and limited power of appointment with specific reference to the tax consequences of using each type of power.
- Identify situations when it may be appropriate to use a power of appointment in a trust.
- Recognize how minority and marketability discounts can be obtained through the use of LLCs, LLPs, and Limited partnerships.
- Determine how trusts can be used to create temporal discounts (discounts based on the passage of time).
- Identify and describe the asset protection aspects of corporations, LLCs, LLPs, partnerships and trusts.

### **E. Basic Estate Planning Strategies**

1. Credit shelter trust to maximize use of applicable credit amount
2. Marital trust or outright transfer to surviving spouse
3. Disclaimers
4. Charitable trusts
5. Portability

**Learning Objectives**

- Compare the benefits, uses, and planning implications of inter vivos and testamentary credit shelter trusts.
- Contrast the benefits of using an inter vivos vs. testamentary credit shelter trust.
- Identify the requirements that must be met to obtain the gift and estate tax marital deduction.
- Recommend the most appropriate technique for using credit shelter and marital trusts given a set of client facts.
- Identify the requirements for a valid disclaimer.
- Compare the income, gift, estate, and generation skipping transfer tax consequences of using disclaimers in estate planning.
- Identify the use of disclaimers in multi-generational estate planning situations.

**F. Gifting Strategies**

1. Annual exclusion gifts
2. Present versus future interest
3. Payment of medical or education expenses
4. Gift splitting
5. Interest free loans
6. Use of the applicable credit
7. Installment sales to family members
8. Self-cancelling installment notes (SCINs)
9. Private annuities to family members
10. Gifts and trusts
11. Assignments of income rules
12. Asset sales to family members
  - a. Related party transaction rules
  - b. Bargain sales
13. Installment sale rules and elections

**Learning Objectives**

- Identify the purpose and use of the annual gift tax exclusion.
- Compare the advantages and disadvantages of transferring property through use of the annual exclusion.
- Recognize the requirements necessary to qualify for use of the annual exclusion.
- Distinguish between present and future interest gifts, with specific reference to gift, estate, and generation skipping transfer tax consequences.
- Identify the purpose of the Crummey power.

## **PFP Body of Knowledge – Section #4 – Estate Planning**

- Analyze the impact of a Crummey provision from a gift and generation skipping transfer tax perspective.
- Compare qualified transfers for gift and generation skipping transfer tax purposes, and identify the requirements for classifying a transfer as a qualified transfer.
- Identify the requirements for gift splitting.
- Identify the limitations on the use of below-market rate or interest free loans for income tax purposes.
- Describe the tax consequences of interest free loans from the perspective of both the lender and the borrower.
- Identify the de minimus limitations on the interest-free loan rules.
- Calculate the benefit of using the applicable gift tax credit for inter vivos gifts as compared to using the credit at death.
- Identify transfer techniques that do not require the payment of gift taxes, or the use of the annual exclusion or applicable gift tax credit.
- Analyze and calculate income tax consequence of an installment sale of property to a family member.
- Calculate the gift and estate tax benefits of engaging in an installment sale of property to a family member.
- Calculate the tax consequences if the seller of property subject to an installment note dies before receiving all of the note payments.
- Calculate the income tax treatment of the sale of property to a family member subject to a Self-cancelling installment notes (SCIN).
- Compare the differences, and the planning uses, of installment notes vs. SCINs.
- Identify the income tax treatment of the sale of property to a family member subject to a private annuity.
- Compare the differences, and the planning uses, of installment notes vs. SCINs vs. Private Annuities.
- Discuss the consequences of selling property to family members.
- Determine the basis of property in the hands of the purchaser/ if the property was acquired from a related party.
- Describe the tax consequences of bargain sales of property to related parties.
- Explain the benefits of the installment sale reporting provisions, and the tax consequences to the purchaser and seller of the property.

### **G. Advanced Estate Planning Strategies**

#### **1. Family entities**

## PFP Body of Knowledge – Section #4 – Estate Planning

2. Grantor retained annuity trusts (GRATs)
3. Qualified personal residence trusts (QPRTs)
4. Charitable trusts (CRTs, CLTs) – *(See Charitable Planning section for more information)*

### Learning Objectives

- Identify the estate planning benefits and risks associated with using family entities.
- Compare the benefits of family entities to the benefits derived from other advanced techniques, such as GRATs, QPRTs, and Installment Sales.
- Identify the purpose of, and usage of a GRAT.
- Determine the income, gift, estate, and generation skipping transfer tax issues associated with the use of a GRAT.
- Identify the purpose and estate planning uses of QPRTs.
- Compare the income, gift, estate, and generation skipping transfer tax issues associated with the use of a QPRT.

## H. Generation Skipping Transfer (GST) Tax

1. GST planning
  - a. Skip person
  - b. Direct skip
  - c. Taxable distribution
  - d. Taxable termination
2. GST exemption
3. GST annual exclusion
  - a. Outright transfers
  - b. Qualified transfers
  - c. Transfers in trust (transfers of a future interest)
4. Special exceptions
  - a. Predeceased parent exception (topic not currently tested, will be included on future exams)
  - b. 2010 gifts to trusts for skip persons

### Learning Objectives

- Identify the purpose of the Generation Skipping Transfer Tax (GSTT).
- Identify a skip person.
- Analyze situations that may trigger the imposition of the GSTT, and recognize planning techniques that may help minimize or eliminate the imposition of the GSTT.
- Identify how the GSTT impacts direct transfers to skip persons.
- Determine how the GSTT is imposed on transfers in, and from, trusts.

## PFP Body of Knowledge – Section #4 – Estate Planning

- Analyze the use of the GSTT exemption as a means of minimizing tax.
- Identify situations in which the GSTT can be avoided through use of a GSTT annual exclusion.
- Determine the similarities and differences between the gift and generation skipping transfer tax annual exclusion.
- Identify the special exceptions that apply to the GSTT (such as the predeceased parent exception), and analyze planning applications of these rules.

### I. Closely-Held Business Issues

*(See also Employee and Business-Owner Planning / Closely-Held Business Basics section for more information)*

1. Valuation issues
  - a. Special valuation under IRC 2032(a) farm and real estate
2. Family succession planning
  - a. Business continuation agreements
3. Active vs. non-active owners
4. Buy-sell agreements
  - a. Entity (redemption) agreement
  - b. Cross purchase agreement
  - c. Wait and see buy sell
  - d. Common terms
  - e. Funding options
5. Special valuation rules of IRC Chapter 14 and their application to family limited partnerships (FLPs) and limited liability corporations (LLCs) (topic not currently tested, will be included on future exams)

#### Learning Objectives

- Identify the use of minority, marketability, blockage, and time-based discounts in the estate planning process.
- Identify the advantages of succession planning for family business entities.
- Determine the needs of family members who are active and who are not active in the family business, and how those needs can be addressed in business succession and estate plans.
- Compare the advantages, disadvantages, and uses of the various types of buy-sell agreements, with particular emphasis on the income, gift, estate, and generation skipping transfer tax consequences of the various techniques.
- Differentiate the terms that are commonly incorporated into buy-sell agreements.

## PFP Body of Knowledge – Section #4 – Estate Planning

- Compare the various funding options for buy sell agreements, with particular emphasis on the advantages and disadvantages of using each option.
- Identify the special valuation rules of IRC Chapter 14 that apply to FLP and LLC discounts.
- Identify situations in which Chapter 14 will be invoked, and discuss how the tax consequences can be avoided.

### J. Incapacity Planning

1. Use of powers of attorney in planning for capacity
2. Use of revocable trusts
3. Hedging incapacity risk
  - a. Disability insurance
  - b. Long-term care insurance

#### Learning Objectives

- Identify how financial and health care powers of attorney can assist in the incapacity planning process.
- Identify the use of insurance to hedge against the risk of incapacity, with particular reference to disability and long-term care insurance.
- Identify the risks that a client will face if he or she becomes incapacitated.

### K. Postmortem Estate Planning

1. The qualified terminable interest property (QTIP) election
2. Income and estate tax elections of the executor
3. Section 303 redemptions
4. Section 6166 deferrals of estate tax
5. Disclaiming an inheritance as a planning option

#### Learning Objectives

- Identify the steps necessary for the executor of the estate to use the QTIP election.
- Determine how various expenses can be deducted for estate tax purposes, and identify those expenses that the executor can elect to take on either the estate tax or income tax return.
- Analyze expense deduction elections to maximize client benefits.
- Identify the requirements for, and uses of Section 303 redemptions.
- Determine how a Section 303 redemption can be incorporated into a buy-sell agreement.
- Identify the requirements for, and uses of Section 6166 deferrals.

## PFP Body of Knowledge – Section #4 – Estate Planning

### L. Other Estate Planning Considerations

1. Options for the non-citizen spouse
  - a. Limitations on marital deduction
  - b. Qualified Domestic Trusts (QDOTs)
2. Planning for blended family relationships
3. Cohabitation
4. Adoption
5. Previous relationships
6. Domiciles – past, present, and future
  - a. Community property
  - b. State estate tax (concepts and considerations, not state-specific topics)
7. Pets - planning for their ongoing needs

#### Learning Objectives

- Compare the advantages and disadvantages of obtaining US citizenship from an income, gift, estate, and generation skipping transfer tax perspective. *(topic not currently tested, will be included on future exams)*
- Identify how use of the super-annual exclusion for a non-citizen spouse can facilitate estate planning and wealth transfer goals.
- Determine the requirements necessary to establish a QDOT trust, and identify the tax implications of using this technique.
- Evaluate planning techniques that can be used to protect the expectancy interest of children from prior marriages.
- Evaluate planning techniques to protect the property interests regarding cohabitation.
- Identify the legal consequences of adopting another individual.
- Distinguish the tax benefits that can be obtained through adoption.
- Identify the special issues presented by same-sex relationships from a gift, estate, and generation skipping transfer tax perspective.

### M. Taxation and Income Tax Planning

1. Income in respect of the decedent (IRD) property
  - a. Traditional retirement assets
    - i. Qualified plan assets
    - ii. Non-qualified assets
    - iii. Individual Retirement Accounts
  - b. Royalties
  - c. Equity compensation
    - i. Employee stock options

## PFP Body of Knowledge – Section #4 – Estate Planning

- ii. Restricted stock units
- iii. Net unrealized appreciation (NUA)
- iv. Other
- d. Annuities
- e. Roth IRAs

### Learning Objectives

- Identify the income and estate tax consequences of IRD property.
- Determine charitable planning solutions for disposition of IRD property at death.

## N. Integration with Other Areas of Personal Financial Planning

1. Risk management planning
  - a. Gift, estate, and generation skipping transfer tax consequences of using life insurance.
  - b. Uses of life insurance in wealth transfer planning
    - i. Hedging against financial planning risks
    - ii. Hedging against tax risks
    - iii. Fitting the type of life insurance to the need (*see Risk Management Planning section*)
  - c. Irrevocable life insurance trusts (ILITs)
  - d. Intentionally defective grantor trusts (IDGTs)
2. Retirement and financial independence planning
  - a. Coordination of beneficiary designations with heirs in the estate plan
3. Elder, special needs, and chronic illness planning
  - a. Appropriate use of trusts to protect the estate from health care costs
4. Charitable planning
  - a. Use of charitable trusts to zero out estate tax

### Learning Objectives

- Identify the income, gift, estate, and generation skipping transfer tax consequences of using life insurance.
- Explain the 3-year rule of IRC Section 2035 and its impact on transfer tax planning with life insurance.
- Discuss the use of life insurance to hedge against financial planning risks, such as the loss of breadwinner income, education funding, etc.

## 5. Charitable Planning

### A. Charitable Gifts

1. Form of gifts
  - a. Cash
  - b. Property
  - c. Real estate
    - i. Fee simple
    - ii. Remainder gifts of residences
    - iii. Conservation easements
  - d. Personal property
    - i. Art and jewelry
    - ii. Automobiles
    - iii. Clothing and qualified housing items
    - iv. Related use tax matters
  - e. Ordinary income property
  - f. Appreciated property of capital assets
    - i. Publicly held securities
    - ii. Privately held securities
    - iii. Short-term vs. long-term
  - g. Life Insurance
    - i. Wealth replacement trust
    - ii. Beneficiary designation
      - a. Revocable vs. irrevocable
    - iii. Life settlement (old policies)
    - iv. Premium financing/life settlement programs

#### Learning Objectives

- Compare the income tax rules of cash gifts and tangible personal property.
- Evaluate the financial planning uses of charitable gifts of remainder interests in personal residences and farms, and conservation easements.
- Identify the valuation of, and the limits imposed on the deductibility of charitable gifts of remainder interests and conservation easements.
- Identify the appraisal and reporting requirements necessary for charitable gifts of various types of tangible personal property.
- Determine the advantages gifting long-term capital gain property to charity.
- Compare the uses of life insurance in charitable giving and in replacing wealth for family members.

## B. Charitable Trusts and Planning Tools

1. Types of trusts
  - a. Charitable lead trusts (CLTs)
    - i. Unitrusts
    - ii. Annuity trusts
    - iii. Grantor vs. non grantor
  - b. Charitable remainder trusts (CRTs)
    - i. Unitrusts
    - ii. Annuity trusts
  - c. Pooled income funds
2. Charitable trust planning
  - a. Inter vivos
  - b. Testamentary
  - c. Applicable federal rates (AFR)
  - d. Impact of interest rate on remainder interest
3. Other charitable vehicles
  - a. Private foundations
  - b. Donor advised funds
  - c. Charitable gift annuities

### Learning Objectives

- Determine the income tax consequences of establishing grantor and nongrantor charitable lead trusts.
- Identify the requirements necessary to set up a grantor CLT.
- Compare the financial planning uses of Charitable Lead Trusts.
- Identify the requirements necessary to set up a Charitable Remainder Trust.
- Compare the planning applications of various forms of CRTs.
- Identify the differences between Pooled Income Funds and CRTs, and recognize the planning applications of Pooled Income Trusts.
- Analyze the tax and planning benefits of inter vivos and testamentary charitable planning.
- Interpret the impact of interest rate changes on the use of the various forms of Charitable Remainder Trusts, Charitable Lead Trusts, and Pooled Income Funds.
- Identify which charitable trusts are better to use in low interest rate environments, which trusts are better to use in high interest rate environments, and which trusts are not significantly impacted by changes in interest rates.
- Compare the planning uses of private foundations.
- Identify taxation and compliance requirements for private foundations.

## PFP Body of Knowledge – Section #5 - Charitable Planning

- Identify how other charitable planning techniques can be incorporated with the use of a private foundation to better serve client charitable and family planning objectives.
- Compare Donor Advised funds to private foundations, and identify their advantages and disadvantages.
- Determine how a Donor Advised Fund can be used in conjunction with a Private Foundation to better manage a client's charitable transfers.
- Identify the planning uses of charitable gift annuities, and the elements that impact the price of the annuity.

### C. Taxation and Income Tax Planning

1. Application of limitations
  - a. Individuals
    - i. 50% Limit
    - ii. 30% Limit
    - iii. 20% Limit
  - b. Corporations
  - c. Trusts and estates
2. Carry forward rules
3. Tax impacts of transfers
  - a. Qualified Section 501(c)(3) organizations
  - b. Foreign charities
  - c. Property donations
  - d. Donor advised funds
4. Qualified charitable deduction of required minimum distribution (RMD)
5. Requirements for qualified appraisals

#### Learning Objectives

- Identify the tax limitations imposed on the tax-deductibility of gifts made to charity.
- Identify the appropriate income tax deduction for gifts to charitable organizations.
- Identify the types of gifts that qualify for the charitable deduction.
- Recognize the carry-forward rule, and describe how it can be used in charitable gift planning.
- Calculate the tax consequences of the various types of gifts made to charitable organizations.
- Identify methods that can be employed to make charitable gifts to foreign charities.
- Compare the income tax charitable deduction for individuals and for corporations.

## PFP Body of Knowledge – Section #5 - Charitable Planning

- Discuss limitations that apply on charitable gifts made by Trusts and Estates.
- Determine the consequences of making contributions of tangible personal property to charitable organizations.
- Identify the types of private foundations, and the tax consequences of making contributions to each type of private foundation.
- Compare the tax benefits of using a private foundation as compared to a donor advised fund.

### D. Integration with Other Areas of Personal Financial Planning

1. Estate planning
  - a. Qualified Charitable Gifts and Qualified Charitable Transfers at Death
    - i. Statutory requirements
2. Risk management planning
  - a. Designation of charitable organizations as beneficiaries
3. Retirement and financial independence planning
  - a. Determining charitable intent during data gathering for retirement to be sure it is included in retirement income plan
4. Investment planning
  - a. Impact on the asset allocation plan of charitable organizations as an ultimate recipient or beneficiary of an investment account

#### Learning Objectives

- Recall the requirements necessary to obtain the estate tax charitable deduction.
  - Identify the gift tax charitable exclusion.
  - Determine the limitations imposed on lifetime transfers to charitable organizations.
-

## 6. Risk Management Planning

### A. The Risk Management Process

1. Identification of potential loss exposures
2. Assess severity of loss
  - a. Frequency
  - b. Severity
3. Selection and application of appropriate risk management techniques
  - a. Avoidance
  - b. Prevention
  - c. Retention
  - d. Transfer
4. Implementation
5. Monitor and review

#### Learning Objectives

- Identify, assess and evaluate loss exposures.
- Select and propose risk management technique(s).

### B. Professional Environment

*(See Professional Responsibilities and the Legislative and Regulatory Environment Section for more information)*

1. Regulatory environment
2. Professional responsibilities
  - a. Statement on Standards in Personal Financial Planning Services
  - b. Importance of fiduciary standard for CPA financial planners
3. Carrier environment
  - a. Choosing between insurance carriers and using ratings
  - b. Differences between an agent and a broker
4. Compensation methods
  - a. Traditional – commission based
  - b. No load
  - c. Consultation fees
  - d. Disclosure requirements vary by state
  - e. Applicability of AICPA standards on personal financial planning

**C. Purpose of Insurance and Needs Analysis**

1. Life Insurance
  - a. Uses for income replacement and specific expenses
  - b. Income needs analysis
  - c. Capital retention
  - d. Human life value
  
2. Disability Insurance
  - a. Uses for income replacement
  - b. Calculation of amount needed
  
3. Other Insurance
  - a. Uses for indemnity
  - b. Cost-benefit proposition

**Learning Objectives**

- Selecting appropriate method of analysis.
- Determine amount of insurance.

**D. Legal Elements of Insurance Contracts**

1. Insurable interest
2. Principle of indemnity
  - a. Reducing moral hazards
3. Subrogation
4. Principle of utmost good faith
  - a. Representations/misrepresentations
  - b. Concealment
  - c. Warranties
5. Conditions of a contract
  - a. Offer and acceptance
  - b. Consideration
  - c. Competent parties
  - d. Legal purpose
6. Characteristics of the insurance contract
  - a. Aleatory contract
  - b. Unilateral contract
  - c. Conditional contract
  - d. Contract of adhesion
7. Policy provisions

## PFP Body of Knowledge – Section #6 – Risk Management Planning

- a. Free look period
  - b. Grace period
  - c. Incontestability clause
  - d. Suicide clause
8. State laws
- a. Creditor protection
    - i. Potential differences between states (concepts, not state-specifics)
  - b. Rebating

### Learning Objectives

- Articulate the legal elements and characteristics of insurance contracts.
- Communicate policy provisions to clients.

## E. Life Insurance Types and Applications

1. Types
  - a. Group life insurance (IRC 79)  
*(See Employee and Business-Owner Planning / Group Insurance for more information)*
  - b. Individual life insurance
    - i. Features
      - i. Premium guarantee
      - ii. Conversion
      - iii. Waiver of premium
        - i. Relationship to disability *(See Disability Insurance section for more on disability insurance)*
      - iv. Return of premium
      - v. Cost of living rider
      - vi. Guarantee purchase option
      - vii. Accidental death benefit
      - viii. Accelerated death benefit
    - ii. Underwriting
      - i. Factors
        - i. Age
        - ii. Gender
        - iii. Health status
        - iv. Tobacco use
        - v. Occupation
        - vi. Avocations

## PFP Body of Knowledge – Section #6 – Risk Management Planning

- vii. Travel
  - viii. Family history
  - ix. Economic considerations
    - 1. Net worth
    - 2. Income
    - 3. Credit history
  - x. Rate classes
    - 1. Preferred
    - 2. Standard
    - 3. Rated
- iii. Term life insurance
  - i. Types
    - i. Annual renewable term (ART)
    - ii. Level premium
- iv. Credit life insurance
- v. Permanent life insurance
  - i. Individual policies versus joint policies
    - i. Survivorship (second-to-die)
    - ii. First-to-die
  - ii. Whole life
    - i. Non-participating
    - ii. Participating (dividend paying)
    - iii. Current assumption
  - iii. Universal life (UL)
    - i. Traditional UL
    - ii. Variable UL
    - iii. Guaranteed UL
    - iv. Index UL
  - iv. Limited payment
  - v. Single premium
  - vi. Private placement
  - vii. No load/low load policies
- vi. Key Features and Issues
  - i. Optimal design
    - i. Blended

## PFP Body of Knowledge – Section #6 – Risk Management Planning

- ii. Funding period
    - iii. Cash build up
    - iv. Corridor factor
  - ii. Funding and withdrawals
    - i. Modified endowment contract (MEC) limits
    - ii. Premium financing
    - iii. Withdrawals and effect on policy
    - iv. Loans
      - 1. Participating
      - 2. Non-participating
      - 3. Loan spread
  - iii. Non-forfeiture options
    - i. Cash
    - ii. Reduced paid up
    - iii. Extended term
  - iv. Settlement options
    - i. Cash
    - ii. Fixed amount
    - iii. Fixed period
    - iv. Annuity option
  - v. Other planning issues (IRC 101)
    - i. Viatical settlements
    - ii. Life settlements
    - iii. Accelerated death benefits
- 2. Practical aspects of life Insurance
  - a. How to read an illustration
    - i. Life Insurance Illustrations Model Regulation
  - b. How to perform an annual review
  - c. What to look for on a proposal
  - d. How to compare products/carriers
    - i. In-force ledger statements
    - ii. Interested-adjusted net surrender cost method
    - iii. The Baldwin method
  - e. Impact of 2001 Standard Ordinary Mortality Table
- 3. Taxation and income tax planning (IRC 101 and 7702)
  - a. Impact of ownership
  - b. Group premium taxability
  - c. Inside build up and FIFO taxation

## PFP Body of Knowledge – Section #6 – Risk Management Planning

- d. Dividends
  - e. Death benefit
  - f. Settlements and riders' taxability
  - g. Policy loans
  - h. MEC rules
  - i. Transfer for value rules IRC Section 101(a)(2)
  - j. Section 1035 exchanges
4. Integration with other areas of personal financial planning
- a. Risk management planning
    - i. Income replacement and specific family needs
    - ii. Final expense protection
    - iii. Debt liquidation
    - iv. Funding Goals
  - b. Estate planning
    - i. Ownership and beneficiary issues
      - a. Inclusion in taxable estate unless irrevocably assigned
      - b. Irrevocable life insurance trust (ILIT)
      - c. Qualified domestic trusts (QDOT)
      - d. Spouse/unlimited marital
      - e. Children/estate taxation
      - f. Gifting Issues/limitations (IRC 2035)
        - i. Crummey provisions
    - ii. Liquidity
    - iii. Estate enhancement
    - iv. Estate freeze
    - v. Wealth replacement
    - vi. Charitable giving
  - c. Investment planning
    - i. "Alternative investments" description not allowed by National Association of Insurance Commissioners (NAIC)
    - ii. Considered for the asset allocation plan
      - a. Life insurance policies held
      - b. Use of securitized pools of life and viatical settlements
    - iii. Awareness and use of MEC
  - d. Retirement and financial independence planning
    - i. Pension maximization
    - ii. Use of cash value, UL and VUL as tax favorable savings vehicle for retirement or education

## PFP Body of Knowledge – Section #6 – Risk Management Planning

- a. Compare to buy term/save difference
- b. Impact on insurance provided if used for producing income
- iii. MEC considerations and net amount at risk insurance corridor
- iv. Use of viatical settlements
- e. Charitable planning
  - i. Naming charities as beneficiaries
  - ii. Gifting or bequeathing policies to charities

### Learning Objectives

- Compare and contrast types of life insurance.
- Select appropriate type of insurance based on client's needs.
- Evaluate tax implication of the various applications of life insurance.
- Communicate life insurance features, nonforfeiture and settlement options to clients.
- Select appropriate feature(s), nonforfeiture and settlement options based on clients' goals.
- Recognize underwriting factors as they relate to risk classifications.
- Create optimal design and funding schedule of permanent life insurance based on client's goals.
- Recognize applications of life insurance.
- Demonstrate knowledge of practical aspects of life insurance.

## F. Annuities

1. Types
  - a. Immediate vs. deferred annuities
  - b. Traditional vs. private placement
  - c. Private annuities
  - d. Fixed/variable/equity indexed
  - e. No load/low load
  - f. Charitable gift annuities
  - g. Annuitant-driven vs owner-driven (impact on death benefit and taxation)
2. Rollovers
  - a. Section 1035 exchanges
3. Distributions
  - a. Annuity options
    - i. Cash
    - ii. Life annuity without refund

## PFP Body of Knowledge – Section #6 – Risk Management Planning

- iii. Life annuity with period certain payments
  - iv. Installment refund option
  - v. Joint and survivor option
4. Creditor protection
    - a. Potential differences between states (concepts, not state-specifics)
    - b. Owner-driven rules
  5. Taxation and income tax planning (IRC 72)
    - a. Early withdrawal penalty
    - b. Taxation of withdrawals or partial surrenders
    - c. Expected return/exclusion ratio
    - d. Income with respect to a decedent (IRD)
    - e. Taxation of total distributions and death benefit
    - f. Tax treatments may vary by contract; i.e. LIFO and other beneficial tax treatments
  6. Integration with other areas of personal financial planning
    - a. Investment planning
      - i. Inclusion in the asset allocation plan
      - ii. Use in reducing portfolio risk and volatility
    - b. Retirement and financial independence planning
      - i. Impact on withdrawal and cash flow decisions
      - ii. Use in addressing longevity risk
    - c. Estate planning
      - i. Ownership considerations - inclusion in the estate
      - ii. Valuation
    - d. Charitable planning
      - i. Gifting
      - ii. Beneficiary arrangements
    - e. Risk management planning
      - i. Creditor protection

### Learning Objectives

- Recognize the various types and uses of annuities.
- Communicate tax implications to the client.
- Select annuity distribution option based on client's goals.

**G. Disability Insurance**

1. Sources of disability compensation
  - a. Types of insurance policies
    - i. Short-term vs. long-term
    - ii. Group vs. individual
    - iii. Employer provided
    - iv. Association plans
    - v. Fraternal organization
  - b. Government programs
    - i. Workers Compensation
    - ii. Social Security Disability
2. Policy definitions
  - a. Occupational classes
  - b. Own occupation vs. any occupation
  - c. Elimination/waiting period
  - d. Duration of benefits
  - e. Partial/residual disability benefits
  - f. Portability features
3. Optional benefits and riders
  - a. Cost-of-living adjustment
  - b. Automatic benefit increase
  - c. Option to purchase additional insurance
  - d. Waiver of premium
  - e. Social Security benefits rider (coordination with Social Security benefits)
  - f. Return of premium rider
4. Business disability plans
  - a. Buy/sell plans
  - b. Business overhead expense plans
5. Taxation and income tax planning (IRC 104)
  - a. Premiums – Individual vs employer paid
  - b. Benefits
  - c. Deductibility
6. Integration with other areas of personal financial planning
  - a. Retirement and financial independence planning

## PFP Body of Knowledge – Section #6 – Risk Management Planning

- i. Coverage decisions – when is it no longer needed
  - ii. Transition to with Social Security
- b. Risk management planning
- i. Income replacement and emergency reserves

### Learning Objectives

- Differentiate and compare types of disability insurance.
- Illustrate policy definitions.
- Select benefits and riders based on client need.
- Communicate tax implications of benefits.

## H. Property and Casualty Insurance

1. Homeowner's insurance
  - a. Policy forms
    - i. HO-3 (special form)
    - ii. HO-4 (contents broad form)
    - iii. HO-5 (comprehensive form)
    - iv. HO-6 (unit-owners form)
  - b. Excluded perils
    - i. Dwelling
    - ii. Personal property
    - iii. Business pursuits
  - c. Section 1
    - i. Coverage A – dwelling
    - ii. Coverage B – other structures
    - iii. Coverage C – personal property
      - a. Replacement cost endorsement
      - b. Personal property floater
    - iv. Coverage D – loss of use
  - d. Section 2
    - i. Personal liability
    - ii. Medical payments to others
  - e. Exclusions
    - i. Flood and earthquake (separate policies available)
  - f. Ownership of properties
    - i. Trusts, LLCs, and individuals
2. Personal auto insurance

## PFP Body of Knowledge – Section #6 – Risk Management Planning

- a. Part A – liability coverage
    - i. Single limit
    - ii. Split limits
  - b. Collision and not collision
  - c. Uninsured/underinsured coverage
3. Excess liability insurance (Umbrella)
- a. Secondary coverage
  - b. Identify all properties, cars, and “toys” under personal and LLC names
  - c. Determination of amount based on net worth or tangible assets at risk
4. Taxation and income tax planning
- a. Gain and loss recognized on claims
5. Integration with other areas of personal financial planning
- a. Risk management planning
    - i. Indemnification
    - ii. Asset protection

### Learning Objectives

- Select appropriate policy form for insured property based on covered perils.
- Evaluate appropriate dwelling values for co-insurance purposes.
- Choose liability limits based on client’s financial statements.

## I. Medical Expense Insurance

1. Significant legislation
  - a. Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)
  - b. Health Insurance Portability and Accountability Act (HIPAA)
  - c. Patient Protection and Affordable Care Act (PPACA)
    - i. Mandated coverages and coverage levels
    - ii. Healthcare marketplace (Exchange) for the individual and small employer
      - a. Premium tax credits
    - iii. Premium pricing based on age and location vs health history
    - iv. Individual shared responsibility provision (aka individual mandate)
    - v. Employer shared responsibility provision (aka employer mandate, “play or pay”)
    - vi. Medicaid expansion
    - vii. Medicare regulations

## PFP Body of Knowledge – Section #6 – Risk Management Planning

2. Individual medical expense insurance plans
  - a. Plan features under PPACA
    - i. Limits on Deductibles and Out of Pocket expenses
    - ii. Guarantee Issue – No Medical Underwriting
3. Types of plans
  - a. Indemnity plans (fee-for-service plans)
    - i. Preferred provider organization (PPO)
    - ii. Exclusive provider organization (EPO)
    - iii. Point of Service (POS)
  - b. Health maintenance organization (HMO)
  - c. Government programs
    - i. Medicare (Parts A, B, & D)
      - a. Medicare supplement insurance
      - b. Medicare Advantage (Part C)
    - ii. Medicaid
    - iii. TRICARE
4. Tax advantaged plans
  - a. Health savings accounts (HSA)
    - i. Paired with qualified high deductible health plans
    - ii. Deductibles
    - iii. Contribution limits
    - iv. Acceptable uses for HSA funds
  - b. Flexible spending accounts (FSA)
  - c. Health reimbursement arrangements (HRA)
5. Taxation and income tax planning
  - a. Individual plans (IRC 105)
    - i. Itemized deductions subject to limitations
    - ii. IRC Section 105 plans for self-employed individuals
    - iii. Self-employed health insurance deduction for AGI
      - a. Includes requirements for S corp shareholders
  - b. HSA plans (IRC 223)
    - i. Taxability during accumulation and distribution
    - ii. Early withdrawal penalties
6. Integration with other areas of personal financial planning

## **PFP Body of Knowledge – Section #6 – Risk Management Planning**

- a. Retirement and financial independence planning
  - i. Use of HSA funds as a tax-deferred retirement savings vehicle
    - a. Contributions and Medicare enrollment decision
  - ii. Retirement health insurance options at retirement
    - a. Retiree health benefits – current or former employers
    - b. Proper enrollment in Medicare
  - iii. Importance of reviewing health coverage (including drugs) options during retirement

### **Learning Objectives**

- Distinguish differences between types of individual and group medical expense plans.
- Compare tax advantages of various plans as well as HSAs, FSAs, MSAs and HRAs.
- Demonstrate knowledge of ACA provisions and their usefulness to clients.
- Demonstrate knowledge of government programs and their usefulness to clients.
- Break down and communicate components of COBRA and HIPAA which relate to clients concerns.

## **J. Long-term Care Insurance**

1. Types
  - a. Group vs. individual
  - b. Traditional life insurance or annuity based
2. Policy provisions/definitions
  - a. Qualified care
  - b. Benefits
  - c. Deductibles
  - d. Triggers/activities of daily living
  - e. Covered services
  - f. Inflation protection
  - g. Non-forfeiture benefits
3. Retaining the risk – the self-insurance option
4. Taxation and income tax planning (IRC 7702B)
  - a. Premium deductible/credits
  - b. Benefits
  - c. Self-employed health insurance deduction rules

## **PFP Body of Knowledge – Section #6 – Risk Management Planning**

5. Integration with other areas of personal financial planning
  - a. Retirement and financial independence planning
    - i. Use in a comprehensive retirement plan - potential catastrophic event
    - ii. Alternative to disability insurance for individuals aged 45-55
  - b. Estate planning
    - i. Inclusion of benefit if there is a return of premium rider

### **Learning Objectives**

- Analyze need for LTC insurance.
  - Select appropriate policy/benefits based on client's goals.
  - Relate tax implications to client.
-

## 7. Employee and Business-Owner Planning

### A. Executive Compensation and Arrangements

1. Salary and bonus compensation
  - a. Employment contracts
2. Severance agreements
  - a. Non-compete agreements and related contracts
3. Other arrangements
  - a. Key person insurance
  - b. Executive bonus plans (IRC 162(a)(1))
    - i. Ownership and beneficiary issues
  - c. Split dollar life insurance arrangements (IRC 61)
  - d. Golden parachute payments (IRC 280G)
  - e. Golden handcuff payments
  - f. Company owned vehicle – business owners
4. Insider issues
5. Taxation and income tax planning
  - a. Taxability of plan arrangements based on entity types
  - b. International considerations
6. Integration with other areas of personal Financial planning
  - a. Risk management planning
    - i. Familiarity with types of insurance used to fund these plans
  - b. Investment planning
    - i. Consideration in asset allocation plan based on risk tolerances
  - c. Retirement and financial independence planning
    - i. Coordination with existing retirement plan arrangements
  - d. Estate planning
    - i. Inclusion and valuation in estate

#### Learning Objectives

- Understand the implications of insider knowledge.
- Describe the different “Golden” executive payment arrangements and severance agreements, including the taxation of these arrangements.
- Understand the legal and political issues relating to executive compensation methods.

### B. Equity Compensation Plans

## PFP Body of Knowledge – Section #7 – Employee and Business-Owner Planning

1. Equity plans
  - a. Basic knowledge
    - i. Current trends in employee compensation
    - ii. Company restrictions
    - iii. Insider issues and SEC constraints
  - b. Types of plans
    - i. Restricted stock
    - ii. Phantom stock
    - iii. Stock appreciation rights
    - iv. Employee stock purchase plans
    - v. Incentive stock options (ISO)
    - vi. Non-qualified stock options (NQSO)
  
2. Taxation and income tax planning
  - a. Taxability of types of plans
  - b. 83(b) election
  - c. AMT incentive stock options (ISO)
  - d. Disqualifying dispositions
  - e. Holding period requirements
  - f. Tax implications of the use of various plan types
  - g. Net unrealized appreciation (NUA)
  
3. Integration with other areas of personal financial planning
  - a. Risk management planning
    - i. Diversification
  - b. Investment planning
    - i. Impact of these plans on investment allocation decisions
    - ii. Managing a concentrated stock position
  - c. Retirement and financial independence planning
    - i. Use of plans for retirement income planning before and during retirement
  - d. Estate planning
    - i. Inclusion and valuation in the estate
  - e. Charitable planning
    - i. Ability to gift to
      - a. Family/friends
      - b. Charity

### Learning Objectives

## **PFP Body of Knowledge – Section #7 – Employee and Business-Owner Planning**

- Describe the current trends and issues relating to employee benefits.
- Describe and evaluate the effect of taxation and holding requirements of equity-style employee benefits.
- Describe and understand the different equity employee benefits available.
- Evaluate the restrictions and taxation of these benefits to the employee.
- Understand the differences between Incentive Stock Options (ISOs) and NQSOs, including differences in taxation at exercise and sale.
- Understand and evaluate the implications of strategies for timing exercise and sale of equity employee benefits.
- Understand the issues relating to diversification and planning relating to equity plans.
- Understand and apply tax planning techniques relating to employee benefits.

### **C. Deferred Compensation**

1. Basic provisions and differences from qualified plans
  - a. Advantages/disadvantages for both employer and employee
  - b. Regulatory environment governing these plans – DOL, ERISA, etc.
2. Types of plans and applications
  - a. Salary reduction plans
  - b. Salary continuation plans
  - c. Rabbi trusts
  - d. Secular trusts
  - e. Top hat plans
  - f. Supplemental executive retirement plans (SERPS)
3. Strategies
4. Distribution options/planning
  - a. In service withdrawals
  - b. Distribution rules (lump sum definition)
  - c. Net unrealized appreciation withdrawals
  - d. Retirement
  - e. Death
    - i. Ownership and beneficiary issues
  - f. Disability
5. Taxation and income tax planning
  - a. Taxability of types of plans

## PFP Body of Knowledge – Section #7 – Employee and Business-Owner Planning

- b. Constructive receipt
  - c. Substantial risk of forfeiture
  - d. Economic benefit doctrine
  - e. IRC 409A compliance
  - f. State income tax considerations (non-state specific)
  - g. Tax implications of plan types based on entity types
6. Integration with other areas of personal Financial planning
- a. Risk management planning
    - i. Use of insurance as a funding vehicle or investment for plans
    - ii. Coordination with existing life and disability insurance
  - b. Investment planning
    - i. Impact on asset allocation
  - c. Retirement and financial independence planning
    - i. Use in available retirement assets and income
    - ii. Coordination of distribution with other retirement funding vehicles
  - d. Estate planning
    - i. Inclusion and valuation in the estate
  - e. Business-owner planning
    - i. Executive compensation (e.g., split dollar life insurance arrangements (IRC 61), insider issues, golden parachute payments (IRC 280G), golden handcuff payments, severance agreements, employment contracts, non-compete agreements and related contracts, company owned vehicle by business owners)
    - ii. Taxation and income tax planning, (e.g., taxability of plan arrangement based on entity types and international considerations)
  - f. Charitable planning
    - i. Ability to gift

### Learning Objectives

- Compare and contrast qualified and non-qualified plans.
- Understand the differences in creditor claims and taxation of deferred compensation plans (i.e., Rabbi and Secular trusts).
- Evaluate the use of deferred compensation plans.
- Describe and understand the tax, security, and application of salary reduction and salary continuation plans.
- Understand the income tax ramifications of non-qualified deferred compensation.
- Understand the provisions and requirements of IRC Section 409(a).

## PFP Body of Knowledge – Section #7 – Employee and Business-Owner Planning

- Describe and evaluate the distribution options of non-qualified deferred compensation.

### D. Group Insurance

1. Group life insurance (IRC 79)
  - a. Types
    - i. Annual renewable term (ART)
    - ii. Accidental death and dismemberment (AD&D)
    - iii. Group universal life
  - b. Characteristics
    - i. Guaranteed issue
    - ii. Modified underwriting
    - iii. Convertibility
    - iv. Retirement options
  - c. Tax issues
    - i. Premium deductibility
      - i. Differences based on type and/or purpose
  - d. Portability and conversion analysis
2. Group disability insurance

*(See Risk Management Planning / Disability Insurance for more information)*

  - a. Types and basic provisions
    - i. Short-term coverage
    - ii. Long-term coverage
      - i. Basic
    - iii. Supplemental
  - b. Definitions of disability
  - c. Portability
  - d. Income tax implications
  - e. Integration with other income/other coverage
3. Group medical insurance
  - a. Types and basic provisions
    - i. Traditional indemnity
    - ii. Managed care plans
      - i. Preferred provider organization (PPO)
      - ii. Health maintenance organization (HMO)
      - iii. Point-of-service plan (POS)
    - iii. Qualified high deductible plans

## PFP Body of Knowledge – Section #7 – Employee and Business-Owner Planning

- iv. COBRA benefits
  - v. HIPAA considerations
  - vi. Patient Protection and Affordable Care Act (PPACA)
  - vii. Continuation/transition planning
  - viii. Savings accounts
    - i. HSA (IRC 223)
    - ii. MSA (IRC 220)
    - iii. FSA (IRC 125)
4. Other Group Insurance
- (See Risk Management Planning section for more information)*
- a. Long-term care insurance
  - b. Dental insurance
  - c. Vision insurance
5. Taxation and income tax planning
- a. Eligibility for tax deductions
  - b. Taxability of premiums paid by employer or employee
    - i. Premiums taxable unless paid under a Section 125 plan arrangement
  - c. Taxability of benefits
6. Integration with other areas of personal financial planning
- a. Risk management planning
    - i. Include coverages in overall assessment of insurance and risk management plan
  - b. Investment planning
    - i. Consideration of investment components of group (UL and VUL) policies in asset allocation plan
    - ii. Impact of HSA investment on asset allocation plan
  - c. Retirement and financial independence planning
    - i. Impact of potential continuation of benefits into retirement
    - ii. Decisions on replacing coverages for retirement
  - d. Estate planning
    - i. Irrevocable assignment of group term life to an IDGT or ILIT
  - e. Charitable planning
    - i. Naming a charity as beneficiary

### E. Other Employee Benefits

- 1. Provided for employee satisfaction and retention

## PFP Body of Knowledge – Section #7 – Employee and Business-Owner Planning

2. Examples (awareness testing only, details of features and tax treatment is not tested)
  - a. Adoption assistance
  - b. Dependent care assistance
  - c. Educational assistance
  - d. Employee achievement awards
  - e. Financial, retirement, and tax planning advice
  - f. Job placement or outplacement services (part of company downsizing)
  - g. Meals
  - h. On premise athletic facilities
  - i. Qualified employee discounts
  - j. Qualified moving expenses
  - k. Transit passes
  - l. Transportation Fringes
  - m. Working condition fringes – like employer provided cell phones

### C. Closely-Held Business Basics

*(See Estate Planning / Closely-Held Business Issues section for more information)*

1. Entity selection process
  - a. Corporations
    - i. Regular (C) Corporations
    - ii. S-Corporations
    - iii. Associations taxable as corporations
  - b. Partnerships
    - i. Limited liability companies (LLC)
    - ii. Limited liability partnerships (LLP)
    - iii. Limited partnerships
    - iv. General partnerships
    - v. Sole proprietorships
  - c. Trusts
    - i. Sub chapter J
  - d. Family limited partnerships and LLCs
2. Valuation
3. Potential liquidity events
4. Income/cash flow
5. Employing spouse or children and FICA taxes
6. Liability issues
7. Maintaining and increasing value
8. Transitioning or converting to a retirement income producing asset

## PFP Body of Knowledge – Section #7 – Employee and Business-Owner Planning

### 9. Key employee life insurance

#### Learning Objectives

- Classify businesses for income tax purposes according to the check-the box regulations (IRC Section 7701).
  - Describe the characteristics of C-Corporations.
  - Identify the ongoing requirements necessary for C-Corporations to retain limited liability status.
  - Describe the taxation of C-Corporations, including special corporate tax attributes such as the accumulated earnings tax, and the tax on liquidation of the entity.
  - Identify the requirements necessary to obtain S-corporation status.
  - Describe the taxation of S-Corporations, including special corporate tax attributes such as the tax on liquidation of the entity.
  - Differentiate between Limited Liability Companies and Limited Liability Partnerships.
  - Differentiate between LLC/LLP and Limited and General Partnerships.
  - Understand the tax treatment of partnerships from the perspective of the owner.
  - Outline the consequence of self-employment status for sole proprietors, partners and 2% or more owners of S-Corporations.
  - Understand business value and valuation methods.
  - Recognize liability exposure of business owners depending on business type.
  - Evaluate owner options of selling or phasing out business responsibilities.
  - Understand the tax consequences of a business sale.
  - Communicate the benefits of hiring a spouse or child.
  - Describe the structure, benefits, and tax consequences of a family limited partnership and LLC.
-

## 8. Investment Planning

### A. Investing as a Process

1. Phases in the investment planning process
  - a. Planning
  - b. Implementation
  - c. Monitoring and Updating

#### Learning Objectives

- Describe the three phases in the investment process.

### B. Professional Environment

*(See Professional Responsibilities and the Legislative and Regulatory Environment Section for more information)*

1. Regulatory environment
2. Professional responsibilities
  - a. Application of Statement on Standards in PFP Services
  - b. Fiduciary responsibilities
3. Business models and compensation methods
  - a. Broker-dealer model
    - i. Commissions
  - b. Registered investment advisor (RIA) model
    - i. Fee for service
    - ii. Assets under management (AUM) fees
  - c. Dual-licensed
  - d. Disclosure requirements under Statement on Standards in PFP Services

### C. The Planning Phase

1. Determine and prioritize client goals

*(See the Personal Financial Planning Process / Gathering Data: Establishment of Financial Objectives and Identification of Constraints Section for more information)*

  - a. Client's financial attitudes
  - b. Client's specific financial goals
    - i. Time horizon

## PFP Body of Knowledge – Section #8 – Investment Planning

- ii. Dollar needs
2. Gather information
- a. Client's financial condition
    - i. Personal financial statements
      - a. Balance sheet
      - b. Cash flow statement
  - b. Assessing risk tolerance
    - i. Risk attitude: indifferent, adverse, seeking
    - ii. Using a risk tolerance questionnaire
    - iii. Determining risk tolerance by client conversation
    - iv. Willingness versus ability (tolerance versus capacity)
  - c. Identify unique needs
    - i. Personal trust considerations
    - ii. Divorce/separation
    - iii. Caregivers
    - iv. Family health issues
    - v. Small business owners
    - vi. Military service members
    - vii. Concentrated stock positions
    - viii. Elder planning and care issues
    - ix. Special needs
  - d. Identify potential legal issues relating to the client's situation
  - e. Identify potential client liquidity constraints
    - i. Emergency cash
    - ii. Goal spending within 5 years
    - iii. Debt management
  - f. Identify human capital risks
    - i. Employment risks – salary and income
    - ii. Pension entitlement
    - iii. Human factors (morbidity and mortality)
3. Perform financial analysis
- a. Compute required return

## PFP Body of Knowledge – Section #8 – Investment Planning

- i. Time value of money techniques
    - a. Using a financial calculator
  - ii. Modeling and Monte Carlo simulation
- b. Assess impact of investment risks
- i. Systematic (un-diversifiable) risks: purchasing power, political, currency (exchange rate), interest rate, market, event
  - ii. Unsystematic (diversifiable) risks: business, financial, liquidity, reinvestment, sector/industry, tax
  - iii. Measuring investment risk
- c. Evaluate economic and capital market expectations
- i. Macroeconomic variables
    - a. Inflation
    - b. Interest rates
    - c. Gross domestic product (GDP) growth
    - d. Exchange rate
  - ii. Expected impact of macroeconomic variables on capital markets
- d. Gauge impact of unique needs
- e. Review taxation and income tax planning
- i. Taxation of investment returns
    - a. Classification of assets by taxability
      - i. Ordinary income assets
      - ii. Capital assets (IRC Section 1221)
        - 1. Short-term vs. long-term gains and tax treatment
        - 2. Wash sale rule
        - 3. Loss limitation rules
        - 4. Section 1244 small business stock election
      - iii. Section 1231 assets (IRC Section 1231)
        - 1. Tax treatment of Section 1231 assets
        - 2. Depreciation recapture
          - a. Personal property
          - b. Real property
    - b. Marginal income tax rates
    - c. Qualified and nonqualified dividends
    - d. Tax-exempt income
    - e. Projecting before and after-tax returns

## PFP Body of Knowledge – Section #8 – Investment Planning

- f. Alternative minimum tax (AMT)
- g. Deferring recognition of gain
  - i. Like-kind exchanges (Section 1031)
  - ii. Involuntary conversions (Section 1034)
- h. Use of annuities inside and outside of qualified plans
- i. Use of LLCs and LLPs with alternative investments
- ii. Tax strategies
  - a. Capital gains
  - b. Tax-free vs. taxable – asset location
  - c. Year-end tax planning – timing of income and deductions
  - d. Gifting strategies to minimize taxes
  - e. Loss harvesting and carryover
  - f. Kiddie tax rule impacts
  - g. Tax bracket and tax bucket planning to meet specific goals (retirement, education)
- f. Assess impact of constraints
  - i. Time horizon – *(See Goal Setting above)*
  - ii. Liquidity
    - a. Client’s liquidity needs
    - b. Needs created by the financial plan
      - i. Income taxes
      - ii. Estate transfer taxes
      - iii. Investment flexibility
- g. Determine asset class allocation strategy
  - i. Role of asset allocation and diversification
  - ii. Major steps in asset allocation
  - iii. Types of allocation strategies: strategic, tactical, insured
  - iv. Asset class definitions
    - a. Equity vs. fixed income
    - b. Global, US, international
    - c. Developed and emerging markets
    - d. Capitalization or size effect
    - e. Growth and value investments
    - f. Alternative investments
  - v. Risk issues
    - a. Reduction and correlation
    - b. Suitability based on risk tolerance and age

## PFP Body of Knowledge – Section #8 – Investment Planning

4. Develop the investment policy statement (IPS)
  - a. Apply the client’s goals and information with the advisor’s analysis to produce the IPS for presentation to the client
  - b. Components of the IPS document

*(See corresponding sections in the Investment Planning section for details)*

    - i. Objectives
      - a. Return
      - b. Risk
    - ii. Constraints
      - a. Time horizon
      - b. Liquidity
      - c. Taxes
      - d. Legal issues of client’s situation
      - e. Unique circumstances
    - iii. Asset class allocation strategy
    - iv. Duties and responsibilities
      - a. Client
      - b. Advisor(s)
    - v. Monitoring and review policy
      - a. Rebalancing approach
    - vi. Acknowledgement by all parties
  - c. IPS as guiding document throughout the relationship

### Learning Objectives

- Create and analyze client financial statements.
- Create and quantify client goals, to include required return.
- Distinguish between risks that can be diversified away (nonsystematic or diversifiable risk) and those that cannot (systematic or undiversifiable risk).
- Recognize risks inherent in a client’s investments.
- Assess a client’s risk tolerance and evaluate the implications it has for his/her portfolio, and return expectations.
- Formulate an Investment Policy Statement (IPS) for your client.
- Evaluate a client’s tax situation and recommend appropriate tax strategies.
- Evaluate how the regulations that govern investment advisor behavior would apply to a given client’s situation.
- Appraise the unique needs of clients in special situations, evaluating the impact of these on their portfolio.
- Discuss client responsibilities in the investment process.

## **PFP Body of Knowledge – Section #8 – Investment Planning**

- Know the purpose of diversification, and explain how a portfolio becomes diversified.
- Define correlation coefficient and explain how imperfectly correlated assets have the potential to reduce portfolio risk.
- Explain the importance of asset allocation to the future expected returns and variability of a portfolio.
- Determine a client's current asset allocation and make supported recommendations for any changes.
- Compare and contrast insured, tactical, and strategic asset allocation.
- Distinguish between and classify asset classes by type of financial asset, origin, economic development, market capitalization, and investment style.
- Identify the classification of assets for income tax purposes.
- Identify the holding period rules that apply to capital asset transactions.
- Describe the purpose of the wash sale rule, and the resulting basis adjustments that must be made in the replacement property.
- Articulate the capital gains netting process, and the limitations imposed on capital losses when offsetting other forms of income.
- Understand the requirements necessary to obtain the tax benefits provided by Section 1244 (the Small Business Stock Election).
- Describe and compute the tax benefits of Section 1244 stock.
- Describe the purpose, and tax consequences, of the depreciation recapture rules.
- Identify the types of involuntary conversions, and the requirements necessary to avoid recognition of realized gain in an involuntary conversion.
- Describe the requirements necessary to defer recognition of gain in a like-kind exchange under Section 1031.
- Discuss the requirements necessary to defer recognition of gain in a non-simultaneous exchange under Section 1031.
- Understand the tax consequences to the parties exchanging properties in a like-kind exchange, including the treatment of boot and required basis adjustments in properties subject to the exchange.

### **D. The Implementation Phase**

1. Investment manager selection
  - a. Criteria of a suitable manager
  - b. Due diligence process
  - c. Strategies that incorporate multiple advisors

## PFP Body of Knowledge – Section #8 – Investment Planning

2. Portfolio management basics
  - a. Time value of money
  - b. Return and risk relationship
  - c. Modern portfolio theory
  - d. Efficient markets hypothesis
  - e. Market indices
  - f. Capital markets structure
  - g. Portfolio characteristics
    - i. Turnover
    - ii. Composition
    - iii. Expenses
    - iv. Tax implications
    - v. Return
    - vi. Risk
  
3. Research organizations
  - a. Stocks
  - b. Bond ratings
  - c. Mutual funds and exchange traded funds (ETFs)
  
4. Types of investment vehicles
  - a. Cash and equivalents
  - b. Guaranteed investment contracts (GICs)
  - c. Annuities: fixed, immediate, variable
  - d. Individual bonds: corporate and government securities
  - e. Individual stocks
  - f. Mutual funds
    - i. Open-end vs. closed-end
    - ii. Load vs. no-load
    - iii. Passive vs. active management
  - g. Exchange-traded funds (ETFs)
  - h. Other pooled and managed investments
    - i. Real estate
    - j. Alternative investments
      - i. Hedge funds, private equity, commodities, precious metals, master limited partnerships (MLPs), publicly traded partnerships
      - ii. Restricted nature of alternative investments
  
5. Investment strategies

## PFP Body of Knowledge – Section #8 – Investment Planning

- a. Active vs. passive management
  - b. Market timing
  - c. Dollar cost averaging
  - d. Dividend and/or capital gain distribution reinvestment
  - e. Systematic withdrawal plans
  - f. Bond laddering
  - g. Hedging
    - i. Options
    - ii. Futures
    - iii. Short selling
    - iv. Buying short ETFs
  - h. Leverage
    - i. Use of margin accounts
  - i. Concentrated portfolios
    - i. Risks of concentrated portfolios
    - ii. Strategies for reducing risk or diversifying concentrated portfolios
  - j. Like-kind exchanges
6. Investment valuation
- a. Asset pricing theories
    - i. Capital asset pricing model (CAPM)
    - ii. Arbitrage pricing theory (APT)
  - b. Technical vs. fundamental analysis
  - c. Stock valuation
  - d. Bond valuation

### Learning Objectives

- Explain the impact modern portfolio theory has on investing.
- Critique the efficient market hypothesis, and its implications for technical and fundamental analysis.
- Compare and contrast stock and bond market indices to include weightings and composition.
- Analyze and explain a portfolio's characteristics.
- Evaluate investment research and rating organizations.
- Examine the relationship of the real interest rate, expected inflation and risk premium to expected return.
- Explain the concept of volatility, how it is measured, and how it can be reduced in a portfolio.

## **PFP Body of Knowledge – Section #8 – Investment Planning**

- Compare and contrast the various cash and equivalents or money market instruments to include treasury bills, CDs, GICs, commercial paper, Eurodollars, repos and bankers acceptances.
- Compare and contrast the following types of bonds: government, municipal, corporate (secured and unsecured), and mortgage-backed.
- Describe the general features of common stock and preferred stock.
- Discuss the various trading orders that can be utilized to buy and sell stock.
- Explain the data included in a bond, stock or mutual fund listing.
- List and describe the important functions that mutual funds (investment companies) offer to investors.
- Describe the advantages and disadvantages of investing in an index mutual fund versus an actively managed mutual fund.
- Evaluate open-end and closed-end funds.
- Describe how load and no-load funds differ from each other.
- Explain the types of mutual fund fees.
- Describe exchange-traded funds (ETFs) and their advantages and disadvantages compared to open-end and closed-end funds.
- Analyze data on two mutual funds or ETFs to choose the most appropriate fund given a client's IPS.
- Discuss how a client might gain exposure to illiquid asset classes such as real estate or commodities.
- Compare and contrast active versus passive investing, describing the beliefs that underpin each.
- Create procedures to implement dollar cost averaging.
- Create a bond ladder.
- Create a portfolio hedging strategy.
- Model the option strategies of covered calls and protective puts, recommending them when appropriate.
- Evaluate a concentrated portfolio, recommending strategies to reduce risks or diversify it.

### **E. The Monitoring and Updating Phase**

1. Measuring performance and goal achievement
  - a. Calculating returns
    - i. Simple vs. compound return
    - ii. Arithmetic vs. geometric (time-weighted) average returns
    - iii. Holding period return
    - iv. Real return (after-tax and inflation)

## PFP Body of Knowledge – Section #8 – Investment Planning

- v. Internal rate of return (dollar-weighted)
  - vi. Fixed income returns
    - a. Yield
    - b. Duration
  - vii. Risk calculations: standard deviation, Sharpe ratio
- b. Tax-exempt and taxable equivalent
  - c. Tracking progress towards a dollar goal
  - d. Benchmarking returns
2. Re-evaluation of the IPS
    - a. Changes in the economy or capital markets
    - b. Changes in the client's life situation, financial situation or goals
    - c. Changes in the client's risk tolerance
    - d. Changes in constraints
  3. Rebalancing the portfolio (as discussed in the IPS)
    - a. Buy and hold
    - b. Strategic or constant mix
    - c. Tactical
    - d. Insured
    - e. Tax considerations
    - f. Timing and methodologies to rebalance
  4. Coordinating with all of the client's financial advisors and representatives

### Learning Objectives

- Assess a client's progress towards his/her goal through appropriate rate of return and net worth calculations.
- Compute your client's holding period and annual compound rate of return on an investment over a specific time frame.
- Critique a client's IPS and support your recommendation for any changes.
- Compare and contrast various rebalancing strategies, discussing the market conditions when each would be best utilized.
- Formulate rebalancing moves required using strategic (constant mix) rebalancing.
- Develop strategies to manage a portfolio for maximum tax efficiency.
- Evaluate a stock's market price by calculating its intrinsic value per share using the constant-growth dividend discount model (DDM), or P/E ratio.
- Calculate and explain a bond's price, realized compound yield, yield-to maturity (YTM), yield-to-call (YTC) and current yield (CY).

## PFP Body of Knowledge – Section #8 – Investment Planning

- Formulate the relationship between a bond's par (face) value, market price, coupon rate, maturity and YTM.
- Explain how Macaulay's duration (MAC) measures a bond's interest rate risk, and determine how a bond's time to maturity, YTM, coupon rate and discount/premium impact its MAC.
- Understand the term structure of interest rates and predict the path of future interest rates given a yield curve.
- Describe the concept of benchmarking returns and recommend an appropriate benchmark given an investment.
- Evaluate the advantages and disadvantages of investment strategies, recommending the optimum strategies for a client, and developing a prioritized action plan to implement them.

### F. Integration with Other Areas of Personal Financial Planning

1. Risk management planning
  - a. Availability of funds for required premiums
    - i. Particularly in worst case economic environment situations
  - b. Applicability of unique life insurance and annuity characteristics in the asset allocation plan
  - c. Uses of life insurance for:
    - i. Fund trusts for specific purposes
    - ii. Provide liquidity for concentrated stock positions
    - iii. Closely held business planning needs of the owner (buy/sell, estate liquidity)
  - d. Use of appropriate guaranteed cash flow products (annuities, etc.) to meet retirement fixed expenses
2. Retirement and financial independence planning
  - a. Adequacy of current and projected assets for retirement needs
  - b. Appropriate investments for:
    - i. Meeting longevity needs
    - ii. Liquidity and emergency needs
  - c. Clear objectives in the IPS for retirement needs
  - d. Asset allocation plan decisions impacted by
    - i. Retirement income decisions (working, delay Social Security, etc.)
    - ii. Changing retirement cash flow needs
  - e. Coordination of retirement income needs with capital gains harvesting

## PFP Body of Knowledge – Section #8 – Investment Planning

- f. Impact of taxable, tax deferred, or tax-free investments on retirement withdrawal decisions
3. Estate planning
    - a. Investment vehicle selection and asset allocation decisions to:
      - i. Meeting legacy desires
      - ii. Funding liquidity needs for:
        - a. Estate administration needs
        - b. Estate tax needs
    - b. Appropriate use of trusts to hold investments and meet the client's goals
    - c. Potential restrictions on selling concentrated stock positions
    - d. Monitoring of decreased estate tax liquidity needs in market downturns
  4. Charitable planning
    - a. Effect of investment selection considering gifting objectives
    - b. Use of charitable trusts to minimize taxes
    - c. Clear objectives in the IPS for charitable intent
    - d. Cash flow considerations for annual donation decisions
    - e. Effect of market downturns on annual charitable donation plans
  5. Elder planning
    - a. Updating asset allocation
  6. Other PFP areas
    - a. Succession planning for the closely held business owner to convert business investment into retirement asset
    - b. Use of family limited partnerships (FLPs) to meet needs of closely held business owner
    - c. Planning for the income or insurance needs for an ex-spouse
  7. Education planning
    - a. Appropriate investments for education funding
    - b. Clear objectives in the IPS for education needs
-

## 9. Retirement and Financial Independence Planning

### A. Financial Independence Planning Process

1. Determine and prioritize client goals and related expenses
2. Gather information
  - a. Retirement assets
  - b. Retirement income
  - c. Retirement benefits
  - d. Retirement expense needs
3. Perform financial analysis
  - a. Assumptions and risks
  - b. Tax planning considerations
  - c. Integration with overall financial plan
4. Create and present the proposed retirement plan
  - a. The contribution plan
  - b. The distribution (retirement income) plan
5. Implement, and regularly review and monitor the retirement plan

#### Learning Objectives

- Identify the retirement planning process.
- Differentiate modeling techniques relating to financial analyses.
- Select sound values for assumptions in financial needs analyses.
- Identify the concept of life expectancy and probability of living until certain ages for individuals and couples.
- Analyze available savings vehicles based on client goals and tax considerations.

### B. Regulatory & Legislative Environment

*(See the Professional Responsibilities and the Legislative and Regulatory Environment section for broader information on the topic)*

1. Employee Retirement Income Security Act (ERISA)
  - a. Coverage
    - i. Safe harbor
    - ii. Ratio percentage
    - iii. Average benefits
  - b. Eligibility
  - c. Vesting
  - d. Top heavy

## PFP Body of Knowledge – Section #9 – Retirement and Financial Independence Planning

- e. Non-discrimination testing
    - i. Average deferral percentage (ADP)
    - ii. Actual contribution percentage (ACP)
  - f. Contribution and benefit limits
  - g. Social security integration
  - h. Permissible investments
  - i. Fiduciary responsibility
    - i. Section 404(c) election
2. Department of Labor
  3. Internal Revenue Service
  4. Pension Protection Act (PPA)
  5. IRC Section 409A

### Learning Objectives

- Determine the requirements and compliance set forth in the listed laws and governmental agencies.
- Determine and perform coverage, eligibility, and non-discrimination testing.
- Distinguish top-heavy requirements and know the necessary remedies.
- Determine the allowable funding schedules under ERISA and calculate a client's vested account balance.
- Determine the types of contributions subject to vesting.
- Identify the application of social security integration.
- Identify the permissible investment vehicles allowed in each type of plan.
- Apply the qualification requirements set forth by ERISA.
- Determine the requirements and responsibilities of a plan fiduciary.
- Distinguish the prohibited transaction and parties and interest relating to plan fiduciaries.
- Distinguish the benefits of the Section 404(c) election.

### **C. Determine and Prioritize Client Goals and Related Expenses**

*(See the Personal Financial Planning Process / Gathering Data: Establishment of Financial Objectives and Identification of Constraints section for more information.)*

1. Goal setting
  - a. Essential versus discretionary (needs versus wants)
  - b. Impact on spouse and family
2. Quantifying goals
  - a. Dollar specificity
  - b. Time specificity

## PFP Body of Knowledge – Section #9 – Retirement and Financial Independence Planning

- c. Health considerations – now and after retirement
- 3. Budgeting for retirement (or financial independence) goals during working years

### D. Gather Information

- 1. Determine current retirement assets
  - a. Government and non-profit plans
    - i. 457
    - ii. 403(b)
  - b. Employer-sponsored retirement plans
    - i. ERISA qualified defined benefit plans
      - a. Defined benefit pension plan
      - b. Cash balance pension plan
    - ii. ERISA qualified defined contribution plans
      - a. Money purchase pension plan
      - b. Target benefit pension plan
      - c. Profit-sharing plan
      - d. Age-weighted profit-sharing plan
      - e. New comparability plan
      - f. 401(k)
        - i. Roth 401(k)
        - ii. Safe harbor 401(k)
        - iii. Solo 401(k)
      - g. Employee stock ownership plan (ESOP)
      - h. Stock bonus plan
    - iii. Other employer plans
      - a. Simplified employee pension (SEP)
      - b. Savings incentive match plans for employees (SIMPLE)
        - i. SIMPLE IRA
        - ii. SIMPLE 401(k)
      - c. 412(i)
      - d. Keogh (HR-10)
      - e. Deferred compensation plans (*See Employee and Business-Owner Planning section for more information*)
    - iv. Employer considerations
      - a. Business owner goals
      - b. Business cash flow position

## PFP Body of Knowledge – Section #9 – Retirement and Financial Independence Planning

- c. Need for a qualified plan
    - d. Tax benefits
    - e. Plan costs
    - f. Funding requirements
    - g. Investment risk
    - h. Pension vs. profit-sharing plans
    - i. Defined benefit vs. defined contribution plans
    - j. Employee retention – matching versus non-matching
  - c. Personal retirement savings vehicles
    - i. Individual retirement accounts (IRA)
      - a. Traditional IRA versus Roth IRA
      - b. Roth IRA conversions
    - ii. Deferred annuity
    - iii. Taxable accounts
    - iv. Employee stock purchase plan
    - v. Life insurance
    - vi. Other potential retirement assets
      - a. Business as a retirement asset
      - b. Vacation homes
- 2. Determine potential sources of retirement income
  - a. Government sources
    - i. Social Security
      - a. Eligibility
      - b. Benefit determination
        - i. Benefit maximization strategies
      - c. Taxation of benefits
      - d. Reduction of benefits
    - b. Personal sources
      - i. Employer-sponsored retirement plans
      - ii. Personal savings
      - iii. Salary continuation
      - iv. Employment during retirement
      - v. Inheritances
- 3. Determine other retirement benefits
  - a. Government programs

## PFP Body of Knowledge – Section #9 – Retirement and Financial Independence Planning

- i. Medicare
    - a. Eligibility
    - b. Benefit coverage
      - i. Part A – Hospital
      - ii. Part B – Medical
      - iii. Part D – Prescription drug
  - ii. Medicaid
4. Determine retirement expense needs
- a. Understanding current expenses versus projected retirement needs

### Learning Objectives

- Differentiate the similarities and differences between pension and profit-sharing plans.
- Differentiate the similarities and differences between defined benefit and defined contribution plans.
- Differentiate the differences in funding, taxation, and asset security between qualified plans, tax-advantaged plans, individual plans, and nonqualified plans.
- Identify the maximum contribution and benefit allowable under each type of plan.
- Identify the tax consequences of overfunding all types of plans.
- Differentiate between traditional IRAs and Roth IRAs, including the taxation of contributions.
- Identify the choice between using a traditional or Roth IRA.
- Distinguish the benefits, cost, guarantee riders, and suitability of deferred annuities in the accumulation phase.
- Distinguish the benefits, limitations, and tax considerations of taxable accounts.
- Evaluate the optimal individual retirement plan for a client based on goals, tax, and estate considerations.
- Determine the eligibility requirements and benefits available through Social Security.
- Analyze the optimal age to begin Social Security benefits.
- Differentiate the circumstances when social security benefits are taxable or reduced.
- Determine the eligibility requirements and benefits available through Medicare, and Medicaid.
- Identify types of benefits available through government retirement programs.

**E. Perform Financial Analysis**

1. Key assumptions
  - a. Inflation
  - b. Portfolio rate of return
  - c. Life expectancy
  - d. Income tax considerations
  - e. Employment in retirement part-time
  - f. Sustainable withdrawal rate
  
2. Key risks
  - a. Longevity
  - b. Mortality
  - c. Investment
  - d. Inflation
  - e. Health/healthcare
    - i. Disability
    - ii. Housing and special care needs
    - iii. Other health care issues
  - f. Political/policy
  - g. Default
  - h. Illiquidity
  - i. Retirement expenses burn rate
  - j. Unforeseen circumstances
  - k. Tax law changes
  
3. Use of modeling techniques
  
4. Taxation and income tax planning
  - a. Additional tax planning for inheritances
  - b. Incorporating tax rate diversification in the choice of retirement savings vehicles
  - c. Impact of loss harvesting for long-term versus short-term gains in the retirement planning process
  
5. Integration with other areas of personal financial planning
  - a. Estate planning
    - i. Determining clients' desire to leave a legacy in goal setting step

## PFP Body of Knowledge – Section #9 – Retirement and Financial Independence Planning

- b. Charitable planning
  - i. Determining clients' charitable intent regarding assets in goal setting step
  
- c. Risk management planning
  - i. Use of long term care and other insurances to protect the desired legacy
  - ii. Addressing health issues, such as long-term care needs, that can have an impact on expenses and appropriate insurance
  - iii. Addressing the role of cash flow products containing guaranteed cash flow payments
  
- d. Investment planning
  - i. Establishing a savings plan early in career and understanding impact on later retirement decisions and risks
  - ii. Asset allocation plan that provides the cash flow needed for projected retirement expenses

### F. Create and Present the Retirement Planning Implementation Strategies

- 1. Retirement contribution planning
  - a. Taxation and income tax planning
    - i. Employer tax savings
    - ii. Employee tax savings
    - iii. Household tax savings
  - b. Risk management tools and strategies
    - i. Budget for the contribution and expense management
      - a. Maintaining a consistent and growing retirement savings rate
    - ii. Asset allocation
    - iii. Bond strategies
  - c. Integration with the investment policy statement (IPS)

#### Learning Objectives

- Describe the tax benefits of contributions to employers, employees, and households of all types of plans.
  - Evaluate plan choices and options based on client goals and tax considerations.
- 2. Retirement distribution optimization planning (income management)
    - a. Taxation and income tax planning
      - i. Qualified plans

## PFP Body of Knowledge – Section #9 – Retirement and Financial Independence Planning

- a. Section 72(t) early withdrawal penalty
- b. Required minimum distributions
- c. ERISA qualified plans
  - i. Annuity options
  - ii. Lump-sum distributions
    1. Net unrealized appreciation
    2. Pre-1974 capital gains
- d. Qualified domestic relations order (QDRO)

### Learning Objectives

- Understand the applicability and exceptions of the early withdrawal penalty to all types of plans.
  - Understand the concept and applicability of required minimum distributions.
  - Know when required minimum distributions must begin and when they are due.
  - Know the tax issues relating to calculate a client’s required minimum distribution.
  - Describe the requirements and tax benefits of lump-sum distributions.
  - Understand the tax implications of direct and indirect rollovers.
  - Understand the benefits and disadvantages of rollovers.
  - Know the plans available to receive rollover assets.
  - Know the plans allowing in-service withdrawals and the taxation and rules regarding these withdrawals.
  - Understand the advantages and disadvantages of plan loans, as well as the plans permitting plan loans, maximum loan amounts, payback periods, and the tax consequences of default.
  - Define and understand the tax consequences of qualified domestic relations orders.
- b. Retirement risk management tools and strategies
    - i. Annuities
      - a. Non-tax considerations of annuitization choices (longevity, etc.)
    - ii. Sustainable portfolio withdrawals
      - a. Managing interaction between qualified and non-qualified assets
    - iii. Asset allocation
    - iv. Bond strategies
    - v. Reverse mortgage
    - vi. Long-term care insurance
    - vii. Longevity insurance
    - viii. Budget and expense management

## PFP Body of Knowledge – Section #9 – Retirement and Financial Independence Planning

- a. Working beyond desired retirement age to compensate for lack of savings
- b. Caring for aging parents and children - sandwich generation
- c. Paying for non-covered medical expense, i.e., Medigap insurance

### Learning Objectives

- Understand and identify the various sources of retirement income available to a client.
- Develop methods to create sustainable retirement income from these sources based on the client's life expectancy and goals.
- Understand the implications of receiving social security while still employed.
- Understand and compute the taxation of social security benefits.
- Explain the risks retirees face during retirement.
- Understand and apply tools and procedures available to minimize these risks.
- Understand the use, advantages, and disadvantages of using annuities to create lifelong income.
- Understand the concept of sustainable withdrawal rates and its applicability in retirement income management.
- Describe and evaluate asset allocation during retirement.
- Describe and evaluate the advantages and disadvantages of using bond strategies to creating retirement income.
- Understand the requirements, costs, and suitability of reverse mortgages.
- Understand the benefits, cost, and suitability of long-term care insurance.

## G. Implement, Review and Monitor Plans

1. Implementation
  - i. Contributions
    1. Establish appropriate titled savings vehicles
    2. Initiate regular funding arrangements
  - ii. Distributions
    1. Reposition assets to align with income management plan
    2. Initiate withdrawals to fund planned retirement needs and desires
2. Review and monitoring, at least annually
  - i. Changes in client's life situation, financial situation, or goals
  - ii. Changes in economy or capital markets
  - iii. Changes to retirement strategies to address changing situations

**H. Integration with other Areas of Personal Financial Planning**

1. Elder and special needs planning
    - a. Impact of special needs children/adults on retirement planning
-

## 10. Elder, Special Needs, and Chronic Illness Planning

### A. Professional Environment

*(See Professional Responsibilities and the Legislative and Regulatory Environment section for broader information on this topic)*

1. Professional responsibilities and application of standards in the elder market
  - a. Fiduciary standard
  - b. Awareness of signs of elder financial abuse
2. Coordination with all involved parties (family and professional)
  - a. Family relationships
    - i. Spouses, adult children and extended family of elderly clients
    - ii. Coordinating family meetings
    - iii. Questions to ask their elderly parents
  - b. Elder law attorneys
  - c. Geriatric care managers/aging life care managers
  - d. Home health aides
  - e. Community resources
  - f. Government agencies and programs for special needs

### B. Non-Financial Factors

1. The need for planning in advance and determining when elder planning “starts”
  - a. Recognition of needs and changes in behavior and capacity
2. Overview of the types of care and related decisions
  - a. Home care
  - b. Custodial care
  - c. Hospice care
3. Communicating with cognitively or physically impaired clients
  - a. Recognizing change in behavior
4. Family dynamics and dealing with differences
5. Life planning for caregiver and family of the elderly and special needs children/adults

### C. Financial Decisions

1. Personal finances
  - a. Financial fraud
  - b. Debt issues
  - c. Budgeting and planning

## PFP Body of Knowledge – Section #10 – Elder, Special Needs, and Chronic Illness Planning

- i. Bill paying needs
    - ii. Increased costs of healthcare and prescription drugs
    - iii. Healthcare emergencies
  - d. Special needs trusts – incapacity
    - i. Organization of trust documents
  - e. Cash management strategies with respect to on-going care of special needs children
  - f. Asset shifting
    - i. Transfers
    - ii. Gifting
    - iii. Qualifying for government programs
- 2. Housing decisions
  - a. Financial analysis and decision support
    - i. Closely tied to healthcare decisions
  - b. Housing options
    - i. Independent living
      - a. Changes to structures in home to accommodate needs
    - ii. Assisted living
    - iii. Nursing homes
    - iv. Continuing care retirement communities (CCRCs)
- 3. Healthcare decisions
  - a. Funding sources
    - i. Government programs
      - a. Medicare
      - b. Medicaid
      - c. Veteran’s benefits
  - b. Insurance options
    - i. Medigap
    - ii. Supplemental policies
    - iii. Long-term care insurance (LTCI)
      - a. Asset-based long-term care insurance
  - c. Other sources
    - i. Personal investments
    - ii. Section 529 ABLER accounts
    - iii. Reverse mortgages
  - d. Financial decisions around the types of care

## **PFP Body of Knowledge – Section #10 – Elder, Special Needs, and Chronic Illness Planning**

- i. Home care
    - a. Payment of help
    - b. Tax planning and compliance
    - c. Understanding and triggering LTCI benefits
  - ii. Custodial care
  - iii. End of life decisions
    - a. Burial
    - b. Finances
4. Survivorship decisions

### **D. Taxation and Income Tax Planning**

1. Elderly failing to file tax return – what to do
2. Planning to reduce taxation of Social Security benefits
3. Deductibility of assisted living costs – what is and what is not deductible
4. Trust accounting and taxation

### **E. Integration with Other Areas of Personal Financial Planning**

1. Estate planning
  - a. Review and update of current documents
    - i. Healthcare proxy
    - ii. Power of attorney and durable power of attorney
    - iii. Wills
    - iv. HIPPA privacy authorizations
  - b. Living wills and end of life directives
  - c. Qualified terminal interest property (QTIP) trusts for second marriages
  - d. Medicaid trusts
  - e. Personal residence trusts
2. Charitable planning
  - a. Charitable remainder trust (CRT)
  - b. Charitable lead trust (CLT)
3. Investment planning
  - a. Asset allocation given changing needs
    - i. More clarity on strategies for groupings of assets expected to be spent during lifetime (more conservative) versus those expected to be passed to heirs (more aggressive)
    - ii. Advising on suitability in the face of cognitive impairment
  - b. Changes to withdraw strategies in light of age and health considerations

## **PFP Body of Knowledge – Section #10 – Elder, Special Needs, and Chronic Illness Planning**

- c. Suitability, in light of overall elder circumstances
  - 4. Risk management planning
    - a. LTC insurance (triggers to activate)
    - b. Need for life insurance policies and alternative uses (viatical settlements)
    - c. Umbrella liability policies
    - d. Disability retirement
    - e. Social Security benefits
    - f. Continuation of life insurance
  - 5. Retirement and financial independence planning
    - a. Use of annuities
      - i. Longevity annuities
    - b. Survivorship decisions on pensions
    - c. Impact of chronic and terminal illness on pension benefits
-

## 11. Education Planning

### A. Education Planning Process

1. Gather objectives, needs, and costs
2. Assess potential for financial aid
3. Assess funding methods available
4. Assess funding strategies
5. Develop and present recommendations
6. Implement, monitor, and update the plan

### B. Gather Objectives, Needs, and Costs

*(See Personal Financial Planning Process / Gathering Data: Establishment of Financial Objectives and Identification of Constraints section for general information)*

1. Identify client's plans and subsequent costs
2. Assess constraints: time horizon, risk attitudes, contribution abilities, external risks

### C. Assess Potential for Financial Aid

1. Financial aid formula
  - a. FAFSA application
2. Scholarships
3. Loans
  - a. Student loans
    - i. Stafford loans
    - ii. Perkins loans
  - b. Parent loans
    - i. PLUS loans
  - c. Private loans
  - d. Consolidation loans
  - e. Loan forgiveness programs
    - i. Qualifying professions
  - f. Family loans
4. Work opportunities

### D. Assess Funding Methods

1. 529 plan accounts and qualified tuition programs
2. Coverdell Education Savings Accounts

## **PPF Body of Knowledge – Section #11 - Education Planning**

3. Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA)
4. Prepaid tuition programs
5. Savings bonds
6. Taxable accounts
7. Gifts directly paid to schools

### **E. Assess Factors to Consider and Funding Strategies**

1. Factors
  - a. Account ownership
  - b. Risk management
  - c. Inflation rate of educational costs
  - d. Impact of potential decision not to attend college
2. Savings vehicles
  - a. Use of mutual funds
    - i. Target date funds
  - b. Use of life insurance
  - c. Use of Roth IRA
3. Funding strategies
  - a. Saving
  - b. Gifting
  - c. Debt/mortgages
    - i. Parents
    - ii. Student

### **F. Taxation and Income Tax Planning**

1. Income
  - a. Taxation of scholarships/fellowships
  - b. Exclusions from income
    - i. Employer provided educational assistance
2. Deductions
  - a. Tuition and fees deduction
  - b. Student loan interest deduction
3. Credits
  - a. American Opportunity Tax credit
  - b. Lifetime Learning credit

## G. Integration with Other Areas of Personal Financial Planning

1. Risk management planning
  - a. Use of life insurance for risk management
  - b. Disability considerations
  - c. Student loan interest cost as significant living expense
  - d. Impact of loan defaults on credit score
2. Retirement and financial independence planning
  - a. Use of retirement plan withdrawals or loans
  - b. Dangers of funding education need instead of retirement need
3. Estate planning
  - a. Opportunities for multi-generational gifting and estate planning
  - b. Use of trusts for education
  - c. Coordination with annual exclusion gifts
4. Investment planning
  - a. Asset allocation considerations for education funding
  - b. Use of target funds

### Learning Objectives

- Understand education financing options and cost of education.
  - Evaluate education savings plans depending on client goals.
  - Comprehend asset ownership of education assets.
-

## 12. Special Situations

### A. Housing

1. Determine objectives
  - a. Primary residence versus vacation home
2. Sale of personal residence
  - a. Exclusion (IRC Section 121)
    - i. Qualification requirements
    - ii. Limitations
    - iii. Combination residence/rental
3. Integration with personal financial plan

#### Learning Objectives

- Define client housing goals.
- Quantitatively and qualitatively evaluate vacation home options.

### D. Divorce

1. Determine income needs
2. Assist in evaluation of splitting of assets and liabilities
3. Assess financial planning and tax consequences
  - a. Property settlement rules
  - b. Alimony, child support and property payments
  - c. Dependency exemption
  - d. Retirement plan asset division
4. Integrate new single status into financial plan
5. Child support

#### Learning Objectives

- Understand community and separate property laws in each state.
- Evaluate division of assets and income.
- Distinguish property settlements, alimony, and child support from a tax perspective.
- Describe how the dependency exemption for children may be claimed by divorced and separated parents.
- Describe the purpose and use of a qualified domestic relations order (QDRO).

### E. Household Employees

1. Payroll taxes
2. Workers compensation

**PFP Body of Knowledge – Section #12 – Special Situations**

3. Employment practices liability insurance (EPLI)
  - a. Sexual harassment
  - b. Umbrella