1988

Personal Financial Planning Manual, Nonauthoritative Explanations and Illustrations as of August 1, 1988, Volume 2

American Institute of Certified Public Accountants. Personal Financial Planning Division

PERSONAL FINANCIAL PLANNING DIVISION

Volume 2

Personal Financial Planning Manual

Nonauthoritative Explanations and Illustrations

As of August 1, 1988

AICPA American Institute of Certified Public Accountants

Volume 2 Personal Financial Planning Manual As of 8/1/88 AICPA

NOTICE TO READERS

The nonauthoritative practice aids in this manual do not present positions but attempt to offer some alternatives that practitioners can choose from and then modify, if necessary, to meet their needs. They are intended as time-saving illustrations and tools. They are not intended to establish standards or preferred practices. Authoritative technical literature should be consulted in carrying out all engagements, including personal financial planning engagements.

PERSONAL FINANCIAL PLANNING DIVISION

Volume 2

Personal Financial Planning Manual

Nonauthoritative Explanations and Illustrations

As of August 1, 1988

American Institute of Certified Public Accountants

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UNIT 4

Illustrative Plans

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I. Illustrative Personal Financial Plans

Introduction

A written personal financial plan may be a brief summary of a client's goals and objectives, a summary of the assumptions used to develop the plan, and the recommendations. In contrast, it may be a 100-page document that includes an overview of the client's financial situation as well as financial statements and projections, computer-generated graphics, the client's goals, the plan's assumptions, the plan recommendations, and an implementation schedule.

This unit includes illustrative plans developed by different CPA firms. The plans represent some of the possible ways to prepare written personal financial plans for clients.

Searing, Gitelson & Keeslar
CERTIFIED PUBLIC ACCOUNTANTS

Mr. & Mrs. J. R. Sample
Renton, Washington

We are pleased to have the opportunity to assist you in formulating the accompanying personal financial plan. Before we begin to explore the data, alternatives, and recommendations in the plan, we would like to focus your attention on certain parameters associated with this information.

Historical Financial Statements

The accompanying schedule of Asset Placement Recommendations of Mr. & Mrs. J. R. Sample as of June 30, 19XX was prepared solely to help develop your personal financial plan. Accordingly, it may be incomplete or contain other departures from generally accepted accounting principles and should not be used to obtain credit or for any purpose other than developing your financial plan. We have not audited, reviewed, or compiled the statement.

Prospective Financial Information

We have assembled from information provided by you certain prospective presentations. These presentations include estimates of the effect of inflation and investment earnings on items of income, expense, assets, and liabilities. We have not compiled or examined these prospective presentations and express no assurance of any kind on them. Furthermore, there will usually be differences between prospective and actual results because events and circumstances frequently do not occur as expected, and these differences may be material. These prospective presentations are restricted to internal use and should not be shown to a third party for purposes of obtaining credit or investment capital.

Other Parameters

The recommendations in this plan are based on your projections of future income and expenditures; interpretations of existing tax laws; and estimates of investment performance, inflation rates, and retirement benefits. Changes in your present circumstances, in tax laws, in the investment environment, and similar unforeseeable events could modify the advice and recommendations contained in this plan. We therefore recommend a periodic review

Timothy J. Searing
Richard Gitelson
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of your plan to make sure that you are progressing towards the attainment of your financial goals.

Recommendations regarding insurance and investment alternatives are presented only as guidelines and should not be viewed as endorsements of specific products. Before purchasing an investment product you should thoroughly investigate the product and offering institution, and seek the guidance of a broker or registered investment advisor.

FOR THE FIRM

August 24, 19XX

ANALYSIS OF FINANCIAL CONDITION

Personal Data

The following is an analysis of the various aspects of the financial condition of John and Mary Sample. This analysis includes consideration of your obligatory and voluntary provisions regarding your children, James, age 12, and Jill, age 8.

John, age 40, is self employed as a dentist in Your Town, a community not far from your residence in Our Town. The dental practice is operated as a professional service corporation. Mary, 38, is a substitute teacher and homemaker.

Net Worth Analysis

Your current net worth is approximately $239,000, including nonworking assets of about $87,000, which leaves $152,000 in investment assets that are working to provide for growth and financial security. At this stage of life, your mix of working to nonworking assets is satisfactory, though as time passes you should work to increase the portion of your net worth that consists of working assets.

You have used debt prudently as indicated by a debt to equity ratio of about 37 percent. During economic times such as these a low debt to equity ratio is generally desirable. Should you have the opportunity to borrow for investment purposes, you would do so as long as the after-tax return on your investment exceeds the interest rate plus the inflation rate.

You are experiencing a good rate of return of 7.7 percent after taxes on your total working capital. This return is somewhat reduced because your rental property has not performed as well as other investments.

You have maintained a good liquid position in that you have six months living expenses in liquid investments and an additional six months expenses in semi-liquid positions.

Investment Strategy

Future investments should concentrate on growth and should target an after-tax rate of return of no less than 6 percent. Higher rates can be achieved through the use of tax-deferred accumulation vehicles such as IRAs, annuities, single premium universal or variable life insurance, municipal bond funds, and growth mutual funds. Because your rental property is not well located for substantial appreciation and because you place a high priority on reducing the time you spend on managing your investments, you should consider selling it and investing its equity in tax-deferred accumulation vehicles such as those listed above.

Education Plans

You intend to finance four years of private college expenses for your two children. Today's equivalent cost is $8,000 per year, but that figure may increase at an average rate of 8 percent per year. As a result, you would need to put aside a lump sum of $31,000 for each child today.

Because you do not intend to make these funds permanent gifts if the children do not attend college, we do not recommend use of irrevocable gifts.

Retirement Planning

Your objectives regarding retirement call for maintaining your current level of monthly expenditures after you retire. Of course this amount will be adjusted for inflation, which you expect to average 4 percent per year until you retire in about 25 years. To date, your company retirement plan balance is $8,500 and you will be contributing an additional $500 per month into this fund from corporate profits. To achieve your goals you need to add another $538 per month to your retirement savings. This assumes you can continue to earn 7.7 percent after taxes on these funds.

Risk Management

Your current life insurance program includes $50,000 of annual renewable term on Mary's life and $550,000 on John's life. Your disability insurance coverage is $1,500 per month for John and none for Mary. Based on the protection you want, we suggest you continue the life insurance coverage at the same level. John's disability insurance protection should be increased by $1,600 per month. Because of your liquid position, you should consider increasing your elimination period on the disability coverage to 120 days. Our review of your homeowners and automobile policies indicate that you can bear the additional risk of raising your deductibles to $500. An extended liability policy would seem to be a good purchase in your situation. We recommend a $300,000 deductible to coordinate with your existing liability limits.

Cash Flow Analysis

Prior to the sale of your rental property, you have $1,776 per month available for investment and savings. Our recommendations for additional insurance, retirement savings, and educational savings can be accommodated with these resources.

If you complete the sale of the real estate, however, and reposition your investments as we suggest, you should be able to accumulate $1,900 per month after funding the insurance purchases noted above. In this regard, it is our recommendation that you pay the income taxes on the sale of the rental property from the sales proceeds.

Income Taxes

The recommended sale of your rental property will result in an additional income tax of about $16,800. These additional taxes should be viewed as the cost of reducing the stress that results from managing property you own directly. Our projections indicate that your ability to fund your goals will not be impaired by this action.

Estate Taxes

Your wills should be rewritten to provide for an exemption equivalent trust to be funded before transfers to the surviving spouse. The result of this strategy will be that you will avoid estate taxes that would be assessed if either or both of you should die under your current wills. As your estate grows we should continue to monitor this potential liability.

SUMMARY OF GOALS AND ASSUMPTIONS

Based on the information you provided us, we understand it is your desire to achieve the following financial goals:

1. Retire at age 65 with maximum family Social Security benefits.

2. Fund a retirement lifestyle of $4,500 per month.

3. Provide for a minimum disruption to your family's life-style in the event of the death or disability of either yourself or your spouse.

4. Preserve your ability to fund retirement goals in the event of the premature death of either spouse.

5. Provide funding for private college educational costs for your two children.

6. Minimize federal income and estate taxes.

The following assumptions are an integral part of this financial plan:

1. You expect inflation to average 4 percent during your lifetime.

2. You expect to exhaust your assets by the end of your natural life span, which is expected to be 85 years.

3. You have established educational savings programs for each child with current values of $20,000 each. You do not plan to make the gifts irrevocable until the funds are actually used for educational purposes.

4. You will pay income taxes on investment earnings from those earnings rather than from current employment income.

5. You anticipate that your after-tax rate of return on investment assets will average 6 percent.

6. Your marginal income tax rate is 28 percent.

7. The valuation of assets reported on your statement of financial condition reflects valuation methods that are consistent with standards established by the American Institute of CPAs.

IMPLEMENTATION SCHEDULE

1. John will contact three realtors and select one to list the rental property.

2. After the sale of the real estate, John will contact a securities broker to discuss asset placement recommendations and select investment products.

3. CPA will review the broker's recommendations at his standard hourly fee.

4. John and Mary will meet with their insurance broker to select products suggested by the plan.

5. CPA will review the insurance broker's recommendations at his standard hourly fee.

6. John or Mary will meet with the securities broker to select appropriate investment products.

7. CPA will review the investment recommendations at his standard hourly fee.

8. CPA will review IRA account selection at his standard hourly fee.

SUMMARY OF RECOMMENDATIONS

1. Although a review of financial indicators shows that you have managed your assets well to achieve an appropriate balance between liquid and long-term growth assets, your real estate investment is not performing adequately for your needs. In addition, you have expressed a strong desire to be free from the management stress it produces. We therefore recommend that you consider selling the rental property and investing the sales proceeds and $1,800 from savings as follows: $30,000 in a universal life policy, $12,000 in mutual funds, and $25,000 in real estate investment trusts. The attached schedule of asset placement recommendations shows the effect of this recommendation. That schedule, when viewed together with the retirement funding summary schedule, shows that the tax-deferred earnings in single premium life insurance, real estate investment trusts, and mutual funds would provide more consistent returns and less management time while not seriously impairing your ability to achieve your goals.

2. If you follow the above suggestions, approximately $60,000 of your investments should continue to be designated for college funding. Doing so would completely fund your share of these costs.

3. Your life insurance program is adequate to achieve your goals in this area. You should, however, replace your current policy with a single premium universal policy. (See (1) above.)

4. Your disability insurance program is underfunded. You should purchase a policy to provide a $1,600 additional monthly insurance benefit. This policy should include a definition of your occupation that is specific to your current employment. It should also be noncancelable, guaranteed renewable, and have a 120-day waiting period before it begins to pay benefits.

5. If you sell the rental property you should be able to pay the additional taxes out of the sale proceeds.

6. Your retirement funding will be your biggest challenge during the next several years. Our computations indicate that, after repositioning your assets as we have suggested, you will need to save $1,038 per month. It appears that your company is currently funding $500 per month of that goal. Any salary increases you receive should be allocated to funding the additional $538 per month. Furthermore, these analyses assume that you will deplete your retirement savings at age 85. You should therefore work to exceed these goals in order to provide for a longer life span.

7. We recommend that you continue funding your IRA even though you will not receive a tax deduction for doing so.

Retirement Funding Summary

	Husband	Wife	Joint
You May Fund The Cost of This Goal By:			
1. Investing a lump sum of capital *	$102,016	$95,489	$144,287
2. Depositing funds monthly *	$715	$687	$1,038
3. Paying expenses out of pocket as the need arises.			

* In addition to amount presently set aside of $148,500

Capital Account Funds Projection Before Reallocation

	After Tax Return	Pre-Tax Return	Value at Retirement
Fixed	5.4%	7.5%	$118,931
Market influences	13.0%	18.0%	347,217
Real estate	4.3%	6.0%	431,798
Energy	0.0%	0.0%	0
Technology	0.0%	0.0%	0
Agriculture	0.0%	0.0%	0
Leasing	0.0%	0.0%	0
Tangibles	0.7%	1.0%	1,795
Business interests	0.0%	0.0%	0
Retirement plans	13.5%	13.5%	201,519
Total of present investments	7.70%	10.7%	1,101,260
Additional investments needed	5.18%	7.2%	563,767
Total investments for retirement fund			$1,665,027

Capital Account Funds Projection After Reallocation

	After-Tax Return	Pre-Tax Return	Value at Retirement
Fixed	5.6%	7.8%	$235,890
Market influences	13.0%	18.0%	599,738
Real estate	6.5%	9.0%	120,127
Energy	0.0%	0.0%	0
Technology	0.0%	0.0%	0
Agriculture	0.0%	0.0%	0
Leasing	0.0%	0.0%	0
Tangibles	0.7%	1.0%	1,795
Business interests	0.0%	0.0%	0
Retirement plans	13.5%	13.5%	201,519

Total of present investments	7.9%	11.0%	1,159,069
Additional investments needed	4.76%	6.6%	505,958

Total investments for retirement fund			$1,665,027

Asset Placement Recommendations

	Present Value	Increase (Decrease)	Revised Balance	Revised Total Return
Fixed				
Checking account	2,500	0	2,500	131
Savings account	10,000	(1,800)	8,200	463
Money market fund	0	0	0	0
CD's	10,000	0	10,000	750
US gov't debt	0	0	0	0
Corporate bonds	0	0	0	0
Municipal bonds	0	0	0	0
Annuities	0	0	0	0
Keogh's	0	0	0	0
IRA's	9,500	0	9,500	950
401(k)	0	0	0	0
403(b), (b)(7), TSA	0	0	0	0
Cash value life ins.	0	30,000	30,000	2,400
Debt contract	0	0	0	0
Other fixed	0	0	0	0
Variable				0
Stocks	0	0	0	0
Mutual funds	16,500	12,000	28,500	5,130
Annuities	0	0	0	0
Raw land	0	0	0	0
Commercial RE	0	25,000	25,000	2,250
Residential RE	150,000	(150,000)	0	0
Energy income	0	0	0	0
Energy development	0	0	0	0
Technology/R&D	0	0	0	0
Equipment leasing	0	0	0	0
Communications	0	0	0	0
Agriculture	0	0	0	0
Gold & silver	1,500	0	1,500	15
Precious gems	0	0	0	0
Coins & stamps	0	0	0	0
Antiques/ Collectibles	0	0	0	0
Keogh's	0	0	0	0
IRA's	0	0	0	0
401(k)	0	0	0	0
403(b), (b)(7), TSA	0	0	0	0
Other variable	0	0	0	0

Other Assets				
Business interest	0	0	0	0
Co. retirement plans	8,500	0	8,500	1148
Pensions	0	0	0	0
Co. profit sharing	0	0	0	0
Personal residence	95,000	0	95,000	0
Auto/boat/personal	75,000	0	75,000	0
	378,500	(84,800)	293,700	
Short Term Debt				
Charge cards	1,500	0	1,500	
Margin debt	0	0	0	
Other short term	5,000	0	5,000	
Long Term Debt				
Residence mortgage	65,000	0	65,000	
Investmt RE mortgage	50,000	(50,000)	0	
Investment (not RE)	0	0	0	
Other long term	18,000	(18,000)	0	
	139,500	(68,000)	71,500	
Net Worth	$239,000	($16,800)*	$222,200	

* Reconciling item--tax on sale of residential real estate

Rubin, Brown, Gornstein & Co.
Certified Public Accountants

Mr. & Mrs. James Pearson
St. Louis, Missouri

Dear Jim and Betty:

Bill and I enjoyed meeting with you in our office on March 14. This letter summarizes our discussion concerning your financial planning.

You indicated that the following are your primary financial objectives at this time:

1. To provide a college education for each of your children.
2. To invest your liquid assets to ensure growth and minimize risk.
3. To protect your family against financial loss.
4. To acquire a larger personal residence.

To achieve your financial objectives, we recommend that you consider the following:

<u>Life Insurance</u>

We recommend that Jim obtain life insurance to protect Betty and ensure that the necessary funds are available to cover the costs of higher education for your children. We have projected your current need based on the assumptions that Betty would never work and that all funds would be exhausted by the time she reached age 85. (See attachment A for calculations.) Our projections, which assume death occurs in 1987, indicate a requirement of an additional $400,000 of insurance. However, as our five-year projection indicates, your net worth will grow substantially in the next few years, thus reducing your insurance needs. We have already discussed the situation with your insurance agent and he will be providing cost estimates based on $250,000 of coverage (the amount at which the cost per $1,000 is the least).

<u>Other Insurance</u>

You currently have no disability coverage other than what would be provided through social security. We recommend obtaining private coverage of at least $5,000 per month. This amount would provide sufficient income to meet current expenses. In the event of disability, the sale of your business interest would provide the funds necessary to cover your children's college expenses.

Your property and liability coverages appear adequate at this time.

230 South Bemiston Avenue • St. Louis, Missouri 63105 • Telephone 314/727-8150
Members: American Institute of Certified Public Accountants • Missouri Society of Certified Public Accountants

College Funding

Attachment B is a projection of potential college costs for each child based on a current college cost of $10,000 per year. The projection is based on the assumptions that you can invest in your children's names to yield an after-tax return that will be 2 percent greater than inflation, and that the costs of college tuition will increase at the same rate as inflation. Our projections indicate that an investment of $4,088 for James for the next ten years, $3,596 for Susan for the next 12 years, and $3,114 for Kevin for the next 15 years should provide the necessary funds. Until your children are age 14, we urge you to seek investments that provide no more than $1,000 taxable income per year per child to avoid taxation at your rates. Investment vehicles to consider until age 14 include quality growth stocks or mutual funds, deep discount municipals, and Series EE Treasury bonds that mature after the child reaches age 14.

You have been making direct gifts to your children. Under Missouri state law, a child is entitled to any monies in his name at age 18. If you are committed to adding to their funds annually and wish to control the assets beyond age 18, as well as to ensure their use for college funding, you might consider using a trust. In addition to providing for control beyond age 18, a trust that benefits all three children would allow for pooling of assets for investment, using funds for each child based on need, and greater flexibility for tax planning.

Cash Management and Investment Strategy

You currently have about $3,000 outstanding on revolving charges. As the interest rate is excessive, eighteen to twenty-two percent, and the deduction for tax purposes is limited under current law, we urge you to pay off the balances as soon as possible.

We recommend that you maintain a $50,000 fund for emergencies. This money should be invested in certificates of deposit or money market accounts or other equally liquid funds. As your investment assets grow beyond that level, we urge you to consult an investment adviser. Your investments should be structured for growth rather than current income. We will be happy to recommend such advisers if you so desire.

We recommend that you delay acquiring a new personal residence for a few years until you build your cash assets. At that time you should evaluate whether you can afford such a purchase, allowing for the possibility of an economic downturn affecting your business.

Estate Planning

We urge that you meet with your estate attorney as soon as possible to create your wills. We suggest that the wills be written to take full advantage of current tax laws even though your net worth is less than $1,200,000 today. We recommend that you begin transferring investment assets to Betty's name to be able to take advantage of the unified credit at either death. We should continue to monitor your potential estate tax liability as your net worth grows.

Concluding Remarks

We would like to mention some limitations relating to the financial projections included in this letter and the attachments.

The projections we assembled concerning your insurance and college funding needs are based on information you provided about your current and future income and expenditures, estimates about future inflation and investment returns, and current social security benefits. We have not compiled or examined the presentation and express no assurance of any kind on it. Differences will probably exist between the projections and actual results because your personal situation, the economic environment, tax laws, and other circumstances may change and the effects of such changes may be material. The projected information in this letter and the attachments is restricted to internal use by you and your advisers developing your financial plan and should not be shown to third parties to obtain credit or for any other purpose.

Although the recommendations in this letter appear appropriate to meet your current goals, we suggest meeting annually to review your situation. As your net worth increases, additional planning will be required.

We look forward to assisting you now and in the future.

Very truly yours,

Firm name

March 16, 19xx

Life Insurance Need Worksheet

Personal Data:	Wife's current age	36	
	Age of youngest child	5	
	Number of children	3	

1. Family income fund (until youngest child reaches age 18)-- (Age 36 to 49)		
Monthly expenses--currently	3,100	
Less: Social security benefits	(1,500)	
	1,600	
Times: Number of months (13 x 12)	156	
		$249,600
2. Blackout period (Age 49 to 62)		
Monthly expenses (reduced for grown children)	2,000	
Times: Number of months (13 x 12)	156	
		312,000
3. Retirement income fund (Age 62 to 85)		
Monthly expenses	2,000	
Less: Social security	(500)	
	1,500	
Number of months (23 yrs x 12)	276	
		414,000
4. College Funds @ 10,000/yr x 12		120,000
Total Assets Needed		1,095,600

Available Assets

Investment equity	50,000	
Business interest	480,000	
Pension plans	21,000	
Life insurance	138,700	689,700
Total Additional Insurance Required		$405,900

Attachment A

Education Funding Worksheet

Personal Data And Assumptions

		James	Susan	Kevin
1.	Children's names	James	Susan	Kevin
2.	Children's ages	10	8	5
3.	Number of years until college	8	10	13
4.	Estimated number of years in college and graduate school	4	4	4
5.	Estimated annual inflation rate between now and end of education	5%	5%	5%
6.	Estimated annual college costs in today's dollars	10,000	10,000	10,000
7.	Estimated after-tax rate of return on funds invested to provide for college education	7%	7%	7%

Amount Needed To Fund College Costs

8.	Number of years for inflation adjustment	10	12	15
9.	Inflation adjustment factor	1.6289	1.7959	2.0789
10.	Adjusted annual college costs	16,289	17,959	20,789
11.	Adjusted total college costs	65,156	71,836	83,156

Future Value Of Present Investment Assets

12.	Savings accumulation factor for funds	1.9672	2.2522	2.7590
13.	Present value of college funds currently invested	4,409	3,335	1,773
14.	Future value of funds currently invested	8,673	7,511	4,892

Projected Shortfall And Required Annual Savings

15.	Shortage expected at college date	56,483	64,325	78,264
16.	Savings accumulation factor for future annual investments for college	13.816	17.888	25.129
17.	Annual amount to be invested for college education	4,088	3,596	3,114

Attachment B

BACH, SCHLUTER & ASSOCIATES, LTD., *CERTIFIED PUBLIC ACCOUNTANTS*

Minnetonka Corporate Center (494 & Baker Road)
12900 Whitewater Drive, Suite 190, Minneapolis, MN 55343 (612) 932-9750

September 7, 1987

John & Elizabeth Hartman
One Main Street
Minneapolis, Minnesota 55447

Dear John and Elizabeth:

We are please to provide you with your personal financial plan, which begins with a summary of your biographical data. This overall plan is an analysis of your current financial situation. We have prepared it from information gathered during our meetings and from the questionnaire that you completed. Your objectives and concerns have been the determining factors in this analysis. The advice in this plan is based on your forecasts of future income and expenditures; interpretations of existing tax laws; and estimates of investment performance, inflation rates, and retirement benefits.

Your financial plan is divided into several chapters, as listed in the Table of Contents. This plan examines areas important to your financial needs and objectives. It is intended to be a starting point in helping you develop strategies to reach your financial goals. It also may help you become acquainted with the process of financial planning.

Before you begin to review the data, alternatives and recommendations, we would like to bring to your attention certain limitations associated with the information. In accordance with the professional standards that apply to our practice as accountants, we are including in this transmittal letter a description of certain procedures we performed and certain limitations associated with the financial data in the plan.

Prospective Presentations

We have assembled from information provided by you certain prospective presentations. We have not compiled or examined these prospective presentations and express no assurance of any kind on them. Furthermore, there will usually be differences between prospective and actual results because events and circumstances frequently do not occur as expected, and these differences may be material. These prospective presentations are restricted to internal use by you and your advisers directly involved in formulating this financial plan. The prospective presentations should not be shown to a third party for purposes of making a financing or credit decision. In summary, the prospective financial information enclosed was prepared solely to help you develop your financial plan. It may contain departures from generally accepted accounting principles, and should not be used for any purpose other than assisting you in further developing your plan.

Other Limitations

The advice and analysis in this plan are based on estimates of your current and future income and expenditures and estimates of investment performance, inflation rates, and retirement benefits. Changes in your personal circumstances, the investment environment, Social Security benefits, and similar unforeseeable events could modify the appropriateness of the advice in this plan. Therefore, we recommend a periodic review to make sure you are progressing toward the attainment of your financial goals and objectives. The tax analyses are based on information you provided and current tax laws, which are subject to change.

The analyses in this plan regarding insurance coverage and investment alternatives are presented only as guidelines and should not be viewed as an endorsement of a specific product or investment. Before purchasing an investment product, you should thoroughly investigate the product and the offering institution, and seek the guidance of a broker or registered investment adviser.

We believe that only through the implementation of a properly formulated plan will many of your financial objectives be realized. We encourage you to thoughtfully consider the statements and recommendations contained in these analyses. We will be happy to assist you in formulating your immediate plans as well as your future plans. In addition, you should consider the advantages of a periodic review of your plans.

Thank you again for allowing us to assist you in this matter. We look forward to working with you further, and assisting you with the preparation of your 1987 tax returns, at which time you may want us to do a further review or update of your plan.

Very truly yours,

Harold J. Bach, Jr., CPA
President

enclosure

BACH, SCHLUTER & ASSOCIATES, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

PERSONAL FINANCIAL PLAN

CREATED FOR

John and Elizabeth Hartman

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BIOGRAPHICAL DATA SHEET

	Client	Spouse
Name:	John Hartman	Elizabeth
Birth date:	03/07/52	08/04/55
S.S. #:	248-24-9634	248-06-4747
Address	One Main Street Minneapolis, MN 55447	
Phone:	(612) 587-8823	

EMPLOYMENT

Occupation:	Manager	Accountant
Employer:	Taunton Utilities	Ward's Auto Supply
Address:		
Phone:		

CHILDREN/DEPENDENTS	Birth date	Soc. sec. #
Betsy	12/20/78	248-94-5835
Mark	10/25/82	248-94-3827

FINANCIAL OBJECTIVES

To a large extent, your financial plan is concerned with assessing your ability to achieve specific goals. You have designated the following financial objectives in order of priority:

Establish an education fund for your children.

You presently have assets totalling $2400 set aside for education.

Enjoy a comfortable retirement beginning at age 65.

Provide for your family in the event of death.

Maintain or expand your current standard of living.

Reduce your overall taxes.

This year, your federal tax bracket is forecast to be 35% before any additional tax planning has been implemented.

Formulate plans to invest and accumulate wealth.

Formulate an effective estate distribution plan to reduce any estate tax liability.

INVESTMENT PREFERENCES

You have indicated that the following represent your investment preferences, in order of priority:

1 Government Bonds
2 Corporate Bonds
3 Growth-oriented mutual funds
4 Income-oriented mutual funds
5 Municipal bonds
6 Money market accounts
7 Common stocks
8 Real estate
9 Variable annuities
10 Commodities

RECOMMENDATIONS SUMMARY

YOUR FINANCIAL STATUS

- Liquidity: Your liquid assets are equal to 5 months of your expenses. This is a good value for your purposes.

- Investment equity: The equity in your investment assets is 100%. This is higher than average. We recommend that you borrow against your investments to free up additional capital.

- Current cash flow: Your cash flow is projected to be relatively low this year -- only $3804. Monitor your use of cash in the short term.

- Projected cash flow: You are expected to have a cash surplus in each of the next few years. If you keep to your forecasted level of expenditures, you should not have any cash flow problems in the near future.

TAX PLANNING

- Federal taxes: Your federal income tax is estimated to be $9245 in 1987. This places you in the 35% tax bracket.

- State taxes: Your state taxes are estimated to be $3459 this year.

- IRA contributions: John is entitled to contribute up to $2000 to an Individual Retirement Account. This contribution may or may not be a tax deduction for you, but the earnings in your IRA will accumulate tax free. We suggest that you make the full $2000 contribution for this year.

EDUCATION FUNDING

- In order to pay for your children's educational expenses, $76,486 would have to be earmarked today from your current assets to establish an education fund.

  A better way to plan for your family's expenses is to make regular annual contributions to an education fund. We suggest beginning a savings program in 1987 with an initial contribution of $7519.

RETIREMENT PLANNING

- Retirement needs: Based on my estimates of your sources and uses of cash during retirement, you will need to save approximately $7230 annually beginning in 1992 in order to meet your retirement income goal of $40,000 per year.

- Retirement funding: You do not have adequate cash surplus in each of the next five years to make sufficient contributions to your retirement fund and an education fund. Therefore, we suggest you defer your retirement funding for six or seven years. At that time, we will evaluate your cash flow situation and determine your retirement funding requirements.

LIFE INSURANCE

- Needs of survivors: We recommend that you purchase at least $292,000 of additional life insurance coverage. However, even with this additional coverage your family may be forced to liquidate some of your assets. If you would prefer to provide them with sufficient income to eliminate the need to liquidate any assets, you should purchase a total of $342,000 of additional life insurance.

- Needs of survivors: We recommend that Elizabeth purchase at least $142,000 of additional life insurance coverage. However, even with this additional coverage your family may be forced to liquidate some of your assets.

ESTATE PLANNING

The following recommendations indicate what adjustments you should make in your estate:

- Credit Trust: Neither of you is using the full Unified Credit with the current structure of your will and property ownership. You can change your will to take advantage of this by transferring, at your death, only the property in excess of the exemption amount from your estate to your spouse's estate.

- Liabilities: At present, your liabilities (or debts) related to your investments are not onerous. If they increase significantly, bear in mind that a large amount of debt could deplete your estate, leaving less for your heirs.

YOUR FINANCIAL STATUS

OVERVIEW

This section examines your net worth, asset distribution and cash flow. It is the starting point for your entire financial plan. Your net worth is the difference between all your assets -- including all your personal belongings and investments -- and all your liabilities or debts. Your asset distribution indicates the type of assets in which you invest. Your cash flow is the accounting of all your sources of income and all your expenditures. This section shows exactly where your money is now, where it will come from, and how it will be used in the future.

Net Worth

Your net worth is the difference between your assets and your liabilities. It represents the part of your assets you own free and clear of any debt. Your current net worth is $177,729 and it is projected to be $250,974 in 1991.

Assets are grouped into three categories: liquid, investment and personal. Liabilities are debts, including any loans against major personal assets, investment loans, or any outstanding credit card balances.

Asset Distribution

Asset Distribution is the concept of distributing assets among various forms of investment types. The goal is to meet your investment objectives while remaining within the constraints of your risk tolerance.

Our analysis will focus on distributing your assets across six types of investments: liquid assets, stocks and bonds, real estate, passive investments, retirement plans, and other assets.

Cash Flow

Cash flow refers to the flow of money in and out of your accounts. Your cash flow consists of:

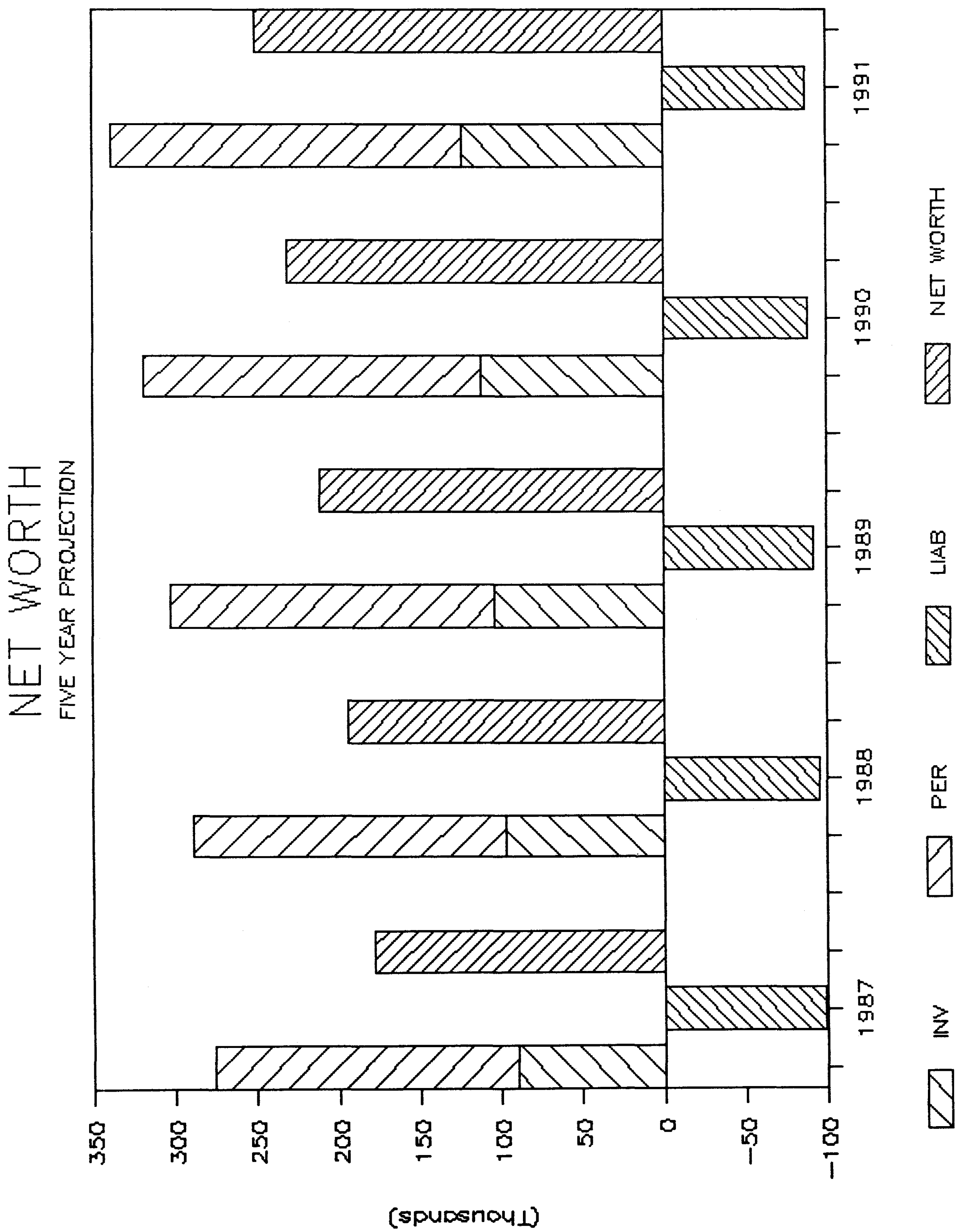
> Sources of Cash, the major components of which are generally employment and investment income.
>
> Uses of Cash, which include the purchase of necessities and personal enjoyment items, as well as the payment of taxes.

Surplus Cash is the difference between total sources and uses of cash. If this figure is negative, it is referred to as a deficit. Surplus cash is available for investments that satisfy long-term goals, such as education and retirement. This year, your net cash flow after expenses is estimated to be $3804.

The following schedules and graphs are an analysis of your net worth, asset distribution and cash flow.

PROJECTED NET WORTH

	1987	1988	1989	1990	1991
LIQUID ASSETS					
Cash/Checking Accts	3,000	3,000	3,000	3,000	3,000
Money Market Accounts	25,000	25,000	25,000	25,000	25,000
Other Liquid Assets	0	0	0	0	0
TOTAL LIQUID ASSETS	28,000	28,000	28,000	28,000	28,000
INVESTMENT ASSETS					
Bonds/Notes Recvble	9,000	9,450	9,923	10,419	10,940
Tax-free Bonds	12,000	12,600	13,230	13,892	14,586
Stocks and Options	22,000	24,750	27,844	31,324	35,240
Partnerships/S Corps	0	0	0	0	0
Real Estate	0	0	0	0	0
Personal Business	0	0	0	0	0
IRA/Keogh	8,860	9,303	9,768	10,257	10,769
Retirement Plans	8,000	8,560	9,159	9,800	10,486
Other Investments	0	0	0	0	0
Reinvested Cash Flow	2,408	3,960	5,627	8,171	13,554
TOTAL INVESTMENTS	62,268	68,623	75,551	83,863	95,575
PERSONAL ASSETS					
Residence	160,000	168,000	176,400	185,220	194,481
Automobiles	15,750	14,175	12,758	11,482	10,334
Other Personal Assets	10,000	10,000	10,000	10,000	10,000
TOTAL PERSONAL ASSETS	185,750	192,175	199,158	206,702	214,815
TOTAL ASSETS	276,018	288,798	302,709	318,565	338,390
LIABILITIES					
Mortgage(s)	90,175	89,584	88,931	88,211	87,415
Investment Loans	0	0	0	0	0
Automobile Loans	8,113	5,471	2,493	0	0
Credit/Charge Accts	0	0	0	0	0
Other Obligations	0	0	0	0	0
TOTAL LIABILITIES	98,288	95,055	91,424	88,211	87,415
NET WORTH (ASSETS - LIABILITIES)	177,730	193,743	211,285	230,354	250,975



NET WORTH
FIVE YEAR PROJECTION
(Thousands)
350
300
250
200
150
100
50
0
-50
-100
1987
1988
1989
1990
1991
INV
PER
LIAB
NET WORTH

ASSET DISTRIBUTION

CURRENT DISTRIBUTION

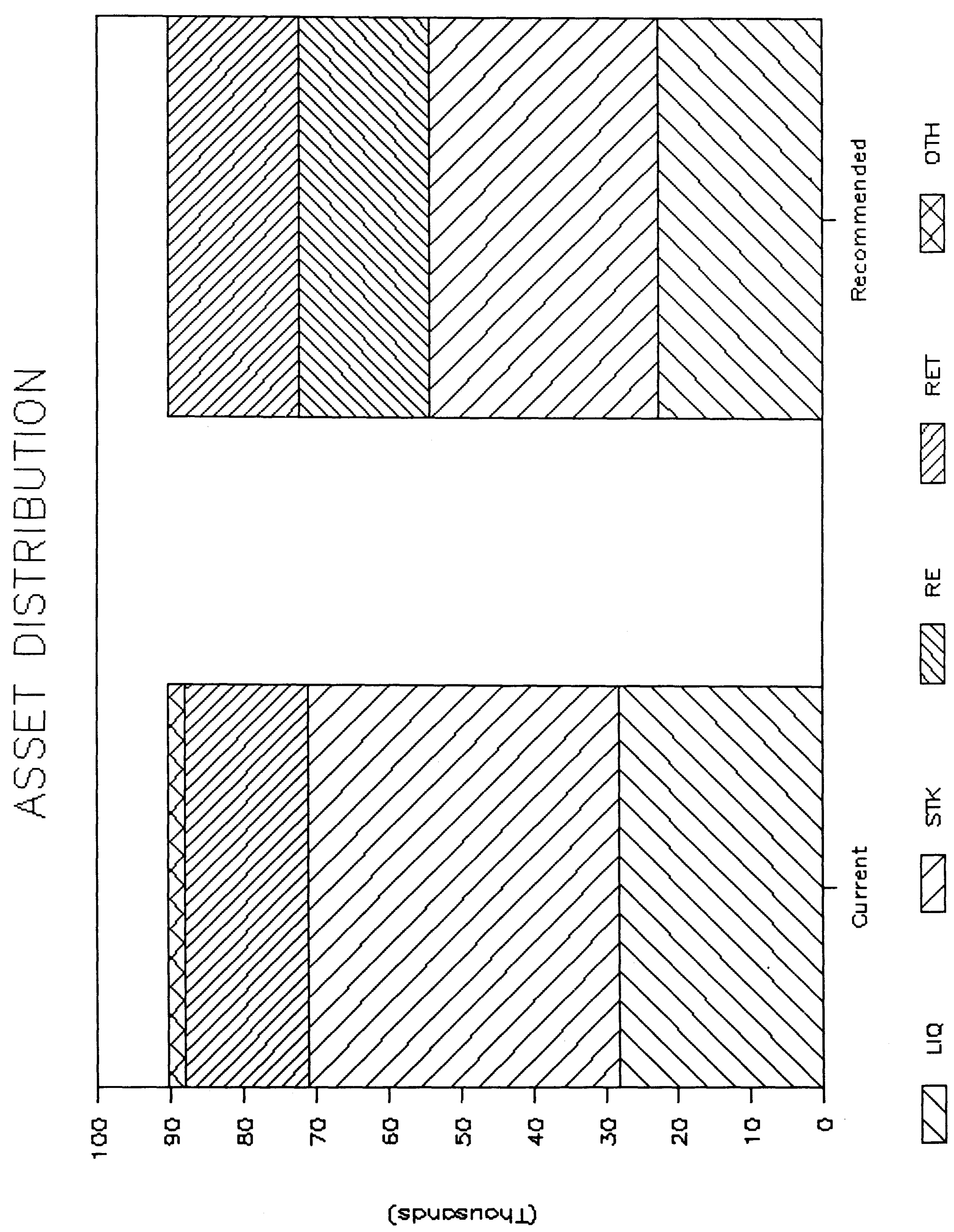
Category of Asset	Balance	% of Assets
Liquid Assets	28,000	31.0 %
Stocks and Bonds	43,000	47.6 %
Real Estate	0	0.0 %
Passive Investments	0	0.0 %
Retirement Plans	16,860	18.7 %
Other Investments	2,408	2.7 %
Total Investment Assets	90,268	100.0 %
Personal Assets	185,750	
Total Assets	276,018	

RECOMMENDED DISTRIBUTION

Category of Asset	Balance	% of Assets
Liquid Assets	22,567	25.0 %
Stocks and Bonds	31,594	35.0 %
Real Estate	18,054	20.0 %
Passive Investments	0	0.0 %
Retirement Plans	18,054	20.0 %
Other Investments	0	0.0 %
Total Investment Assets	90,268	100.0 %
Personal Assets	185,750	
Total Assets	276,018	

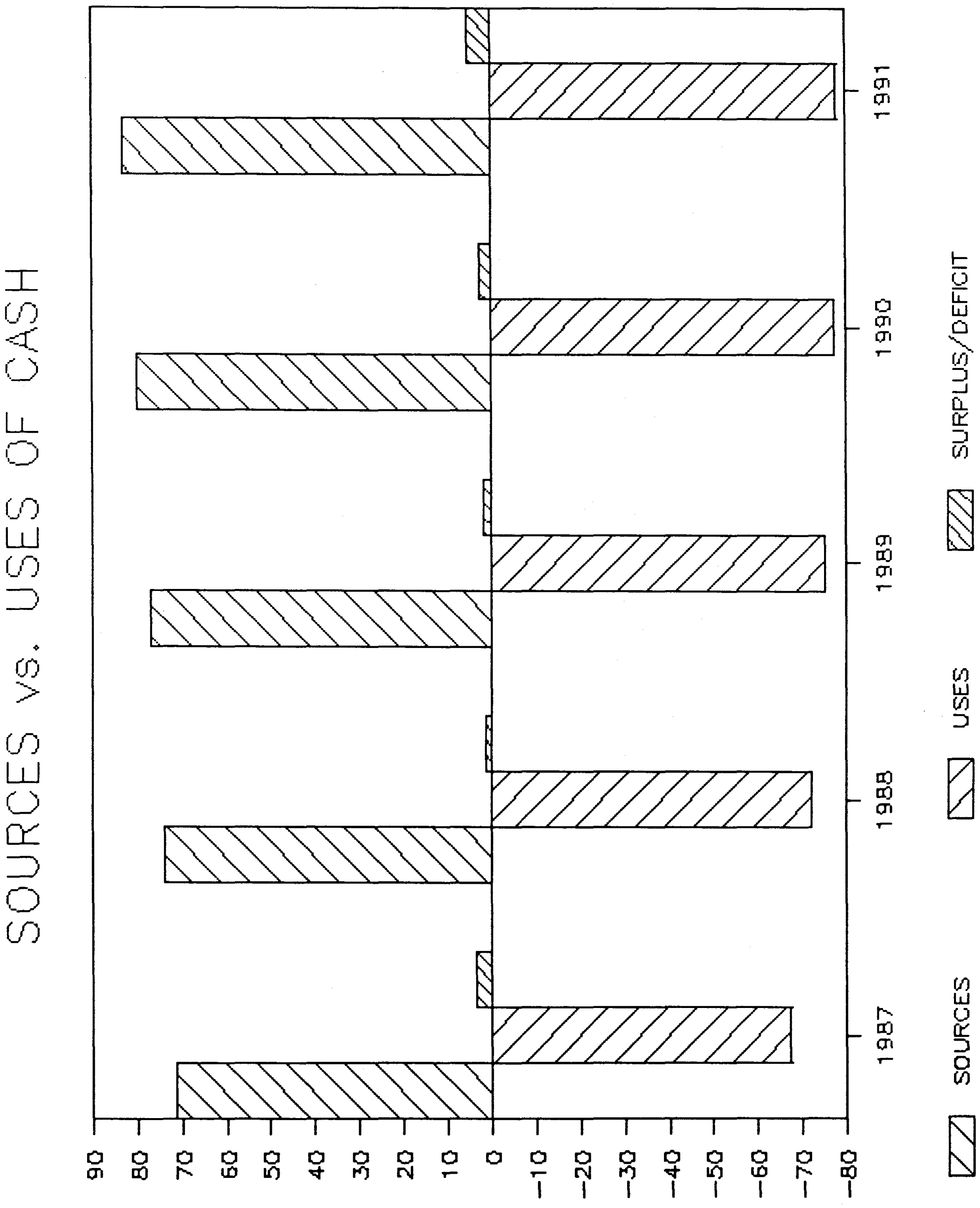
DIFFERENCES IN DISTRIBUTION

Category of Asset	Change in Balance	% of Portfolio
Liquid Assets	(5,433)	-6.0 %
Stocks and Bonds	(11,406)	-12.6 %
Real Estate	18,054	20.0 %
Passive Investments	0	0.0 %
Retirement Plans	1,194	1.3 %
Other Investments	(2,408)	-2.7 %
Total Investment Assets	0	0.0 %


ASSET DISTRIBUTION
(Thousands)
100
90
80
70
60
50
40
30
20
10
0
Current
Recommended
LIQ
STK
RE
RET
OTH

FIVE YEAR CASH FLOW SUMMARY

	1987	1988	1989	1990	1991
SOURCES OF CASH					
Employment	70,000	72,800	75,712	78,740	81,890
Business	0	0	0	0	0
Investments	760	892	978	1,069	1,209
Other Sources	450	0	0	0	0
Maturities/Sales	0	0	0	0	0
TOTAL CASH SOURCES	71,210	73,692	76,690	79,809	83,099
USES OF CASH					
Committed Expenses	38,084	39,231	40,435	40,847	39,560
Discretionary Exp	8,940	9,367	9,815	10,286	10,780
Investment Outlays	4,520	4,746	4,983	5,232	5,494
Federal Income Taxes	7,397	9,733	10,366	10,991	11,577
State Taxes	3,460	3,596	3,738	3,885	4,041
FICA Taxes	5,005	5,467	5,686	6,024	6,265
TOTAL CASH USES	67,405	72,141	75,023	77,265	77,717
SURPLUS/DEFICIT CASH	3,805	1,552	1,667	2,544	5,383
Payment of Projected Cash Flow Deficits	N/A	0	0	0	0
CASH AVAILABLE FOR INVESTMENT	3,805	1,552	1,667	2,544	5,383
LONG-TERM GOALS					
Net Investment Outlay	4,520	4,746	4,983	5,232	5,494
Cash Avail for Invest	3,805	1,552	1,667	2,544	5,383
INVEST TOWARDS GOALS	8,325	6,298	6,650	7,776	10,877
Education Funding	7,519	7,519	7,519	7,519	7,519
Retirement Savings	0	0	0	0	0
TOTAL LONG-TERM NEEDS	7,519	7,519	7,519	7,519	7,519
RESOURCES IN EXCESS OF LONG-TERM NEEDS	805	(1,222)	(869)	257	3,357



SOURCES VS. USES OF CASH
(Thousands)
90
80
70
60
50
40
30
20
10
0
-10
-20
-30
-40
-50
-60
-70
-80
1987
1988
1989
1990
1991
SOURCES
USES
SURPLUS/DEFICIT

TAX PLANNING

OVERVIEW

Tax planning is essential for managing your money in the current tax environment. Taxes affect every phase of financial management and, for many, are an ever increasing expense. The overall financial planning effort emphasizes profitable ways to use your after-tax income. Tax planning focuses on increasing your after-tax income by minimizing taxes and freeing up cash. It prepares you mentally, as well as financially, for the traditionally traumatic experience of filing your April income tax return.

1986 was a significant year for tax "simplification". The Tax Reform Act of 1986 holds some major legislative changes, including the following:

- the 14 previous tax brackets, ranging from 11% to 50%, have been compressed into two: 15% and 28%,
- the gradual phase in of increased personal exemptions and the standard deduction,
- the elimination of the special tax treatment for long-term capital gains,
- the phase out of losses on limited partnerships and other passive investments,
- the introduction of additional limitations in deductions for contributions to individual retirement accounts,
- the elimination or gradual phase out of such popular deductions as sales taxes, interest on consumer loans, and other deductions.

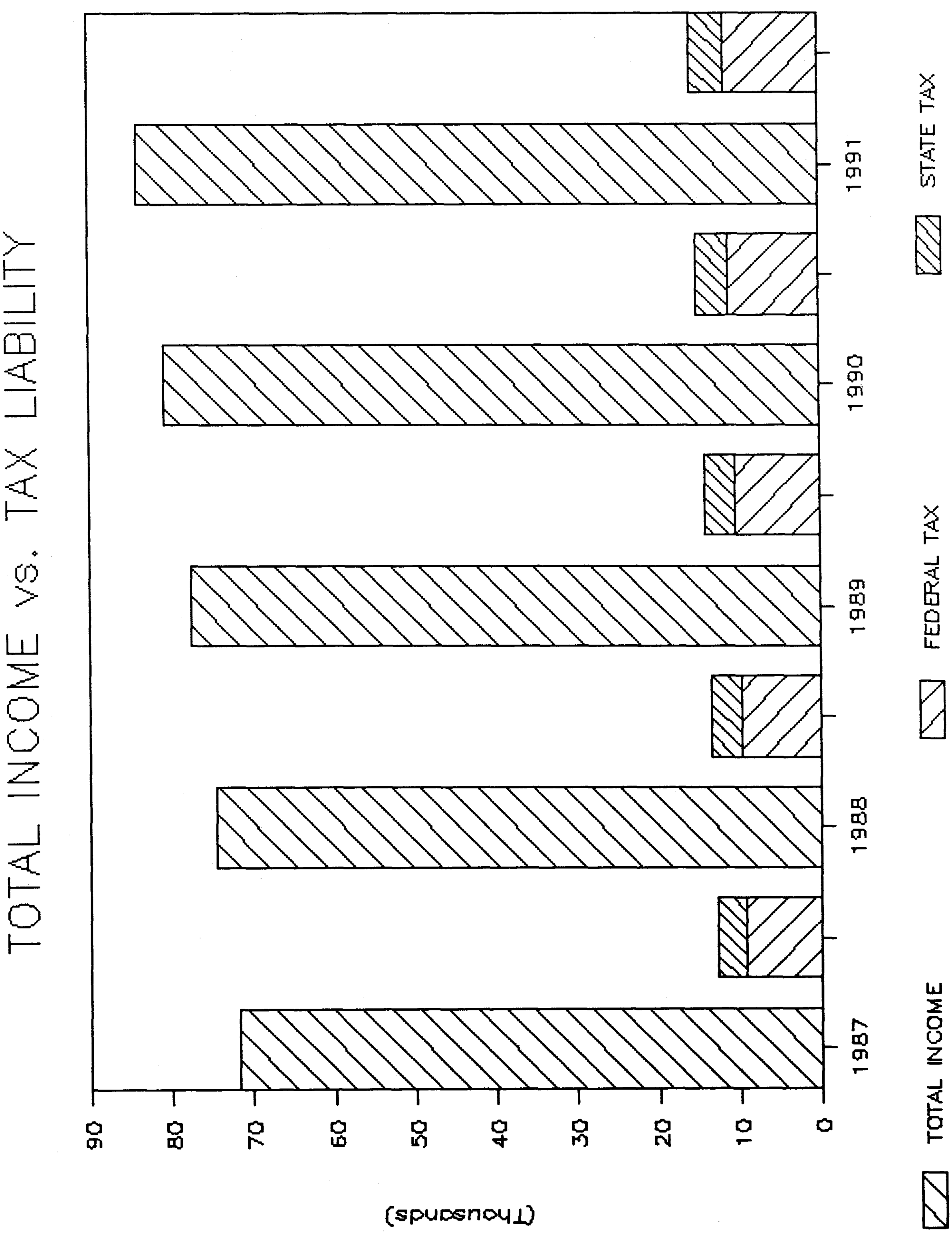
The following schedule entitled "Federal Income Tax Projection", is the cornerstone of tax analysis. It includes all the elements of the 1040 federal income tax form. Unlike the federal form this schedule projects your income and taxes for each of the next five years. This schedule should help you to see the ramifications of the tax overhaul, and help you prepare now for future tax liabilities.

The accompanying graph, "Five Year Total Income vs. Tax Liability", compares your total income with your federal and state tax liability.

FEDERAL INCOME TAX PROJECTION

	1987	1988	1989	1990	1991
Wages and Salaries	70,000	72,800	75,712	78,740	81,890
Interest/Dividends	1,660	1,792	1,878	1,969	2,109
Business Income(Loss)	0	0	0	0	0
Taxable Capital Gain	0	0	0	0	0
Sched E Income(Loss)	0	0	0	0	0
Social Security	0	0	0	0	0
Other Income	50	0	0	0	0
TOTAL INCOME	71,710	74,592	77,590	80,709	83,999
IRA/Keogh Contrib	(0)	(0)	(0)	(0)	(0)
Working Couple Ded	0	0	0	0	0
Alimony Paid	0	0	0	0	0
Other Adjustments	2,520	2,671	2,831	3,001	3,181
TOTAL ADJUSTMENTS	2,520	2,671	2,831	3,001	3,181
ADJUSTED GROSS INCOME	69,190	71,921	74,759	77,708	80,818
Medical/Dental	0	0	0	0	0
State/Local Taxes	3,460	3,596	3,738	3,885	4,041
Other Taxes	1,800	1,800	1,800	1,800	1,800
Interest Expense	9,771	9,315	9,021	8,868	8,780
Contributions	400	400	400	400	400
Casualty/Theft Loss	0	0	0	0	0
Misc Deductions	0	0	0	0	0
Standard Deduction	0	0	0	0	0
Exemptions	7,600	7,800	8,000	8,200	8,600
TOTAL DEDUCT/EXEMPT	23,030	22,911	22,959	23,154	23,621
TAXABLE INCOME	46,160	49,010	51,800	54,555	57,197
Tax Before Credits	9,246	9,855	10,493	11,115	11,693
Tax Credits	0	0	0	0	0
Fed Tax After Credits	9,246	9,855	10,493	11,115	11,693
Alternative Min Tax	0	0	0	0	0
Other Taxes	0	0	0	0	0
Federal Tax Liability	9,246	9,855	10,493	11,115	11,693
Withholdings/Payments	7,397	7,884	8,395	8,892	9,354
TAX DUE (REFUND)	1,849	1,971	2,099	2,223	2,339
Federal Tax Bracket*	35.0%	28.0%	28.0%	28.0%	28.0%

* After 1987, a 5% surtax may apply.


TOTAL INCOME VS. TAX LIABILITY
(Thousands)
90
80
70
60
50
40
30
20
10
0
1987
1988
1989
1990
1991
TOTAL INCOME
FEDERAL TAX
STATE TAX

EDUCATION FUNDING

OVERVIEW

Higher education is one of the most important investments that you can make for yourself and for your children. Today, education requires a substantial amount of financial resources.

Educational costs are beyond the reach of many families. An average private college costs more than $6000 for a single year's tuition alone. The total average annual cost exceeds $10,000, including room and board and other miscellaneous expenses. Further, in recent years the cost of both public and private institutions have historically increased at an annual rate in excess of 7%.

With such major costs involved, it is essential for you to plan a course of action to accumulate funds for education. This may involve earmarking savings as a child grows up, or gifting assets to your children.

You do not need to depend entirely on your own resources to pay for your children's education. Other methods of education funding to consider are various student loan programs, financial aid given by the college, and scholarship awards.

The schedule below, entitled "Education Planning Assumptions", shows the starting year and the number of years of education for each child, and their respective annual costs in today's dollars.

A second schedule follows, "Education Fund Accumulation", which shows the funding necessary to meet your children's education costs. The subsequent graph, "Annual Education Funding", depicts education funding and expenses.

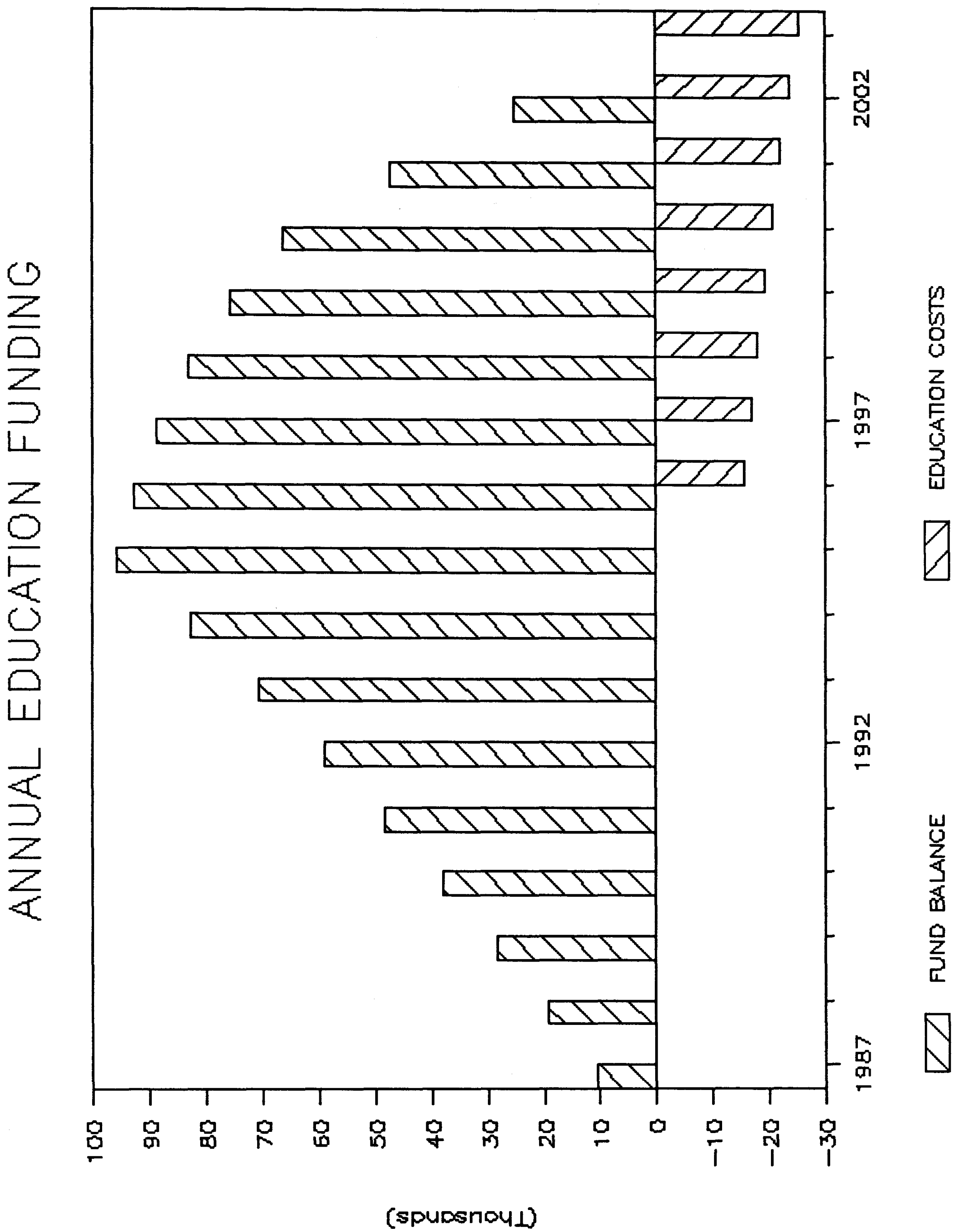
EDUCATION PLANNING ASSUMPTIONS

Child name	1st yr of education	Yrs of education	Annual costs
Betsy	1996	4	$ 8500
Mark	2000	4	8500

EDUCATION FUND ACCUMULATION

Starting Year of Funding	1987
Ending Year of Funding	2000
Amount Growth (Decline) per annum in Funding	0.00 %
Expected Rate of Return on Education Fund	6.00 %
Present Value of Education Needs	76,486
Earmarked Assets	2,400
Initial Payment	7,519

Year	Beginning balance	Funding	Education expenses	Interest	Ending balance
1987	2,400	7,519	0	595	10,515
1988	10,515	7,519	0	1,082	19,116
1989	19,116	7,519	0	1,598	28,234
1990	28,234	7,519	0	2,145	37,898
1991	37,898	7,519	0	2,725	48,143
1992	48,143	7,519	0	3,340	59,002
1993	59,002	7,519	0	3,991	70,512
1994	70,512	7,519	0	4,682	82,714
1995	82,714	7,519	0	5,414	95,647
1996	95,647	7,519	(15,627)	5,252	92,792
1997	92,792	7,519	(16,721)	5,015	88,606
1998	88,606	7,519	(17,891)	4,694	82,928
1999	82,928	7,519	(19,144)	4,278	75,582
2000	75,582	7,519	(20,484)	3,757	66,375
2001	66,375	0	(21,918)	2,667	47,125
2002	47,125	0	(23,452)	1,420	25,093
2003	25,093	0	(25,093)	(0)	(0)


ANNUAL EDUCATION FUNDING
(Thousands)
100
90
80
70
60
50
40
30
20
10
0
-10
-20
-30
1987
1992
1997
2002
FUND BALANCE
EDUCATION COSTS

RETIREMENT PLANNING

OVERVIEW

Maintaining an adequate standard of living after your retirement is a key financial goal. However, few people plan adequately for this goal. According to the U.S. Department of Commerce, fewer than 5% of the households age 65 or older are financially independent. The other 95% must rely on some other source of income during their retirement years.

It is estimated that 45% of retirees are dependent on relatives for some or all of their support. Almost 30% of all Americans age 65 and over count on social security assistance to supplement their financial resources. Over 20% of all older Americans must continue some form of employment to maintain a reasonable standard of living.

In general, retirement income comes from three sources:

- Government programs (Social Security)
- Employer programs (pension plans, profit sharing)
- Private sources (IRAs, Keogh plans, and other assets)

Most individuals will receive benefits from each of these sources. Retirement planning ensures that each income source is utilized in proper balance to create an adequate stream of income throughout the retirement years.

Major legislative reforms in the last fifteen years have set new standards regarding retirement planning. In 1974, the Employee Retirement Income Security Act (ERISA) initiated major changes affecting private pension programs. In 1981, the Economic Recovery Tax Act (ERTA) made Individual Retirement Accounts (IRAs) available to all workers. In 1982, the Tax Equity and Financial Responsibility Act (TEFRA) liberalized the rules governing self employed retirement plans (Keogh plans), while establishing certain restrictions on corporate plans. And in 1986, the Tax Reform Act has established additional limitations on contributions to most retirement plans.

The following schedule, entitled "Retirement Planning", determines whether your current resources are adequate to achieve your desired retirement income level of $40,000 annually.

If you were to begin a regular funding program beginning in six or seven years, you would be able to meet your objective of $40,000 of income during your retirement years. During this period, you will draw on both the earnings from your assets and the principal.

Retirement Planning Schedule

This schedule compares your current situation with your stated needs during retirement, and shows how much additional funding you will require to meet your needs in two cases; with and without depleting your assets during retirement.

"Cash Flow During Retirement" shows how we calculate the annual surplus/deficit during retirement. Essentially, we add all possible sources of income during retirement (retirement benefits, Social Security, and any other income). These comprise the total "Projected Annual Income." Then we compare that amount to the amount of income you would like during retirement (your desired annual income). The result, "Annual Retirement Surplus/Deficit" shows whether you will meet your goal for income during retirement with available sources of income.

"Rate of Return (Adjusted for Inflation)" shows the yield your retirement assets will generate during retirement. Since inflation will affect the purchasing power of this fund, this percentage shows real return; that is, the actual return after it is adjusted to account for inflation.

"Capital Required to Meet Annual Need" is the total amount of assets that you would need in order to cover your expenses during retirement and preserve all your assets. This amount includes assets that you have indicated will be available for use during retirement and a special retirement fund.

"Available Assets at Retirement" is the value of current assets that you anticipate will be available for use during retirement.

"Amount Required to Live on Income Only" is the amount of additional assets you will need in the year you retire if you do not plan to deplete your assets during retirement.

"Amount Required with Depletion of Assets" is the amount of additional assets you will need in the year you retire if you plan to deplete your assets during retirement.

RETIREMENT PLANNING

Client retirement age	65	in	2017
Life expectancy of	90	in	2042

		Total
CASH FLOW DURING RETIREMENT		
Desired Annual Income		40,000
LESS:		
Annual Retirement Benefits	0	
Social Security Received	20,064	
Other Available Income	0	
Projected Annual Income		20,064
Annual Retirement Surplus/Deficit		(19,936)
Loss of Purchasing Power (Inflation)		(44,724)
FUTURE NEED AT RETIREMENT IN 2017		(64,660)
RATE OF RETURN (ADJUSTED FOR INFLATION)		1.9 %
Capital Required to Meet Annual Need		3,362,322
Less Available Assets at Retirement		459,798
AMOUNT REQUIRED TO LIVE ON INCOME ONLY		2,902,524
AMOUNT REQUIRED WITH DEPLETION OF ASSETS		814,070

Retirement Fund Accumulation

The following schedule shows how you can achieve your goal for retirement by contributing to a retirement fund beginning in 1992. This funding amount is calculated with the assumption that you will deplete assets in order to meet your retirement need.

The schedule also takes into account your intentions to complete your funding in 2017. The funding is based on a 7% rate of growth for the fund, and on a 5% annual change in the amount of your contribution to the fund. A change to any of these factors can affect your retirement planning significantly.

FUND ACCUMULATION BEFORE RETIREMENT

Year of Retirement	2017
Starting Year of Funding	1992
Ending Year of Funding	2017
Amount Growth (Decline) per annum in Funding	5.00 %
Expected Rate of Return on Retirement Fund	7.00 %
Initial Payment	7,231

Year	Beginning balance	Funding	Fund apprec	Ending balance
1987	0	0	0	0
1988	0	0	0	0
1989	0	0	0	0
1990	0	0	0	0
1991	0	0	0	0
1992	0	7,231	506	7,737
1993	7,737	7,592	1,073	16,402
1994	16,402	7,972	1,706	26,080
1995	26,080	8,371	2,412	36,862
1996	36,862	8,789	3,196	48,847
1997	48,847	9,228	4,065	62,141
1998	62,141	9,690	5,028	76,859
1999	76,859	10,174	6,092	93,126
2000	93,126	10,683	7,267	111,076
2001	111,076	11,217	8,561	130,853
2002	130,853	11,778	9,984	152,616
2003	152,616	12,367	11,549	176,532
2004	176,532	12,985	13,266	202,783
2005	202,783	13,635	15,149	231,567
2006	231,567	14,316	17,212	263,095
2007	263,095	15,032	19,469	297,597
2008	297,597	15,784	21,937	335,317
2009	335,317	16,573	24,632	376,523
2010	376,523	17,402	27,575	421,499
2011	421,499	18,272	30,784	470,555
2012	470,555	19,185	34,282	524,022
2013	524,022	20,145	38,092	582,258
2014	582,258	21,152	42,239	645,649
2015	645,649	22,209	46,750	714,609
2016	714,609	23,320	51,655	789,584
2017	789,584	24,486	0	814,070

RISK MANAGEMENT

OVERVIEW

The objective of risk management is to minimize financial loss in the event of death or disability by maximizing the use of available resources, by developing alternative income sources, and by having the proper amount and type of insurance coverage.

Life insurance plays an important role in personal financial planning, since a premature death can place great financial burden on families with inadequate coverage. Premature death can devastate not only a family heavily dependent on a breadwinner, but also a family with outstanding liabilities, such as a home mortgage. It is essential that you consider life insurance to cover these critical costs.

Disability, the inability to work for prolonged periods, can easily result in financial and emotional scars. The effects may remain long after a disabled person recovers. Protection against this particular exposure frequently goes neglected without proper advice, yet the exposure is one that should be dealt with. Very few wage earners have any form of disability insurance protection, and many who do are insufficiently covered.

The following Life Insurance schedules illustrate the total amount of insurance needs for both you and Elizabeth, accounting for immediate needs, resources and objectives.

The schedules, "Cash Flow in the Event of Disability" show whether you have sufficient resources to meet your total expenditures in the event that you or Elizabeth become disabled.

Life Insurance Schedules

These schedules illustrate the family's financial situation upon the premature death of you John, or Elizabeth. They show how much additional funding the family will need to meet its stated goal for income in two cases: with and without depleting the family's assets to cover living expenses.

"Annual Needs of Survivors" shows how we calculate the annual surplus/deficit. Essentially, we add all possible sources of income to survivors. These comprise the total "Projected Annual Income." Then we compare that amount to the amount of income that you would like for survivors (your "Desired Annual Income"). As we noted, the result, shown in "Annual Survivor Surplus/Deficit," illustrates how well your current plans will meet your goal.

"Rate of Return (Adjusted for Inflation)" shows the amount your assets will earn. Since inflation will affect the purchasing power of this fund, this percentage shows the real growth; that is, the actual return after it is adjusted to account for inflation.

"Capital Required to Meet Annual Needs" is the total amount of assets that survivors will need in order to maintain your current assets. This amount includes assets that you have indicated will be available to survivors, and a special retirement fund.

"Total Immediate Cash Needs" is the total of the expenses that will occur immediately upon premature death. These include "Final Expenses," which are expenses of settling the estate, "Estate Taxes," "Liabilities Paid Off," an "Emergency Fund," that will tide the survivors over until insurance and other income begins to come in.

"Total Needs of Survivors" sums the "Capital Required to Meet Annual Needs" and the "Total Immediate Cash Needs." Therefore, this amount represents the total needs of the survivors for capital.

"Available Resources" are assets that will be available to survivors, including proceeds from insurance policies, retirement plans, and any other assets.

Note that "Amount Required to Live on Income Only" is the "Total Needs of Survivors" minus "Total Available Resources." Therefore, this amount represents a shortfall that should be met with additional life insurance if your assets are to be preserved.

"Amount Required to Live with Depletion of Assets" is the amount of life insurance you will need if your survivors deplete assets to cover expenses.

JOHN'S LIFE INSURANCE ANALYSIS		Total
ANNUAL NEEDS OF SURVIVORS		
Desired Annual Income		45,000
LESS		
Elizabeth's Salary/Business Income	28,000	
Social Security Received	9,480	
Other Available Income	0	
Projected Annual Income		37,480
ANNUAL SURVIVOR SURPLUS/DEFICIT		(7,520)
RATE OF RETURN (ADJUSTED FOR INFLATION)		2.9 %
CAPITAL REQ'D TO MEET ANNUAL NEEDS		260,692
PLUS IMMEDIATE CASH NEEDS		
Final Expenses	16,018	
Estate Taxes	0	
Liabilities Paid Off	126,586	
Emergency Fund	10,000	
Total Immediate Cash Needs		152,604
TOTAL NEEDS OF SURVIVORS		413,296
LESS AVAILABLE RESOURCES		
Insurance Proceeds	63,000	
Retirement Plans	0	
Other Investments	8,000	
Total Available Resources		71,000
AMOUNT REQUIRED TO LIVE ON INCOME ONLY		342,296
AMOUNT REQUIRED WITH DEPLETION OF ASSETS		292,201

ELIZABETH'S LIFE INSURANCE ANALYSIS		Total
ANNUAL NEEDS OF SURVIVORS		
Desired Annual Income		50,000
LESS		
John's Salary/Business Income	42,000	
Social Security Received	9,480	
Other Available Income	0	
Projected Annual Income		51,480
ANNUAL SURVIVOR SURPLUS/DEFICIT		1,480
RATE OF RETURN (ADJUSTED FOR INFLATION)		2.9 %
CAPITAL REQ'D TO MEET ANNUAL NEEDS		0
PLUS IMMEDIATE CASH NEEDS		
Final Expenses	14,157	
Estate Taxes	0	
Liabilities Paid Off	126,586	
Emergency Fund	10,000	
Total Immediate Cash Needs		150,743
TOTAL NEEDS OF SURVIVORS		150,743
LESS AVAILABLE RESOURCES		
Insurance Proceeds	0	
Retirement Plans	0	
Other Investments	8,860	
Total Available Resources		8,860
AMOUNT REQUIRED TO LIVE ON INCOME ONLY		141,883
AMOUNT REQUIRED WITH DEPLETION OF ASSETS		141,883

CASH FLOW IN EVENT OF JOHN'S DISABILITY

	1987	1988	1989	1990	1991
CASH SOURCES AND USES					
Elizabeth's Salary	28,000	29,120	30,285	31,496	32,756
Disability Insurance	7,500	15,600	16,224	16,873	17,548
Social Security Ben	8,064	8,387	8,722	9,071	9,434
Pension Plan Benefits	0	0	0	0	0
Taxable Interest/Div	1,660	1,726	1,795	1,867	1,942
Other Income	0	0	0	0	0
TOTAL SOURCES	45,224	54,833	57,026	59,307	61,680
Mortgage Payments	9,060	9,060	9,060	9,060	9,060
Other Housing Costs	1,800	1,872	1,947	2,025	2,106
Food, Clothing, Trans	10,000	10,400	10,816	11,249	11,699
Other Committed Exp	15,000	15,600	16,224	16,873	17,548
Discretionary Exp	7,000	7,280	7,571	7,874	8,189
Tax Expenditures	14,472	17,547	18,248	18,978	19,737
TOTAL USES	57,332	61,759	63,866	66,059	68,339
TOTAL SURPLUS/DEFICIT	(12,108)	(6,926)	(6,840)	(6,751)	(6,659)
LONG-TERM GOALS					
Education Funding	7,519	7,519	7,519	7,519	7,519
Retirement Funding	0	0	0	0	0
TOTAL LONG-TERM NEEDS	7,519	7,519	7,519	7,519	7,519
EXCESS OF SURPLUS					
Surplus After goals	(19,627)	(14,445)	(14,360)	(14,271)	(14,178)

CASH FLOW IN EVENT OF ELIZABETH'S DISABILITY

	1987	1988	1989	1990	1991
CASH SOURCES AND USES					
John's Salary	42,000	43,680	45,427	47,244	49,134
Disability Insurance	3,000	6,240	6,490	6,749	7,019
Social Security Ben	8,064	8,387	8,722	9,071	9,434
Pension Plan Benefits	0	0	0	0	0
Taxable Interest/Div	1,660	1,726	1,795	1,867	1,942
Other Income	0	0	0	0	0
TOTAL SOURCES	54,724	60,033	62,434	64,932	67,529
Mortgage Payments	9,060	9,060	9,060	9,060	9,060
Other Housing Costs	1,800	1,872	1,947	2,025	2,106
Food, Clothing, Trans	10,000	10,400	10,816	11,249	11,699
Other Committed Exp	15,000	15,600	16,224	16,873	17,548
Discretionary Exp	7,000	7,280	7,571	7,874	8,189
Tax Expenditures	17,512	19,211	19,979	20,778	21,609
TOTAL USES	60,372	63,423	65,597	67,859	70,210
TOTAL SURPLUS/DEFICIT	(5,648)	(3,390)	(3,163)	(2,927)	(2,682)
LONG-TERM GOALS					
Education Funding	7,519	7,519	7,519	7,519	7,519
Retirement Funding	0	0	0	0	0
TOTAL LONG-TERM NEEDS	7,519	7,519	7,519	7,519	7,519
EXCESS OF SURPLUS VS. LONG-TERM NEEDS	(13,167)	(10,909)	(10,682)	(10,446)	(10,201)

ESTATE PLANNING

OVERVIEW

Estate planning ensures that your wealth and property transfer smoothly, with a minimum of depletion, to your heirs. Planning can serve to minimize estate and inheritance taxes, and can help to avoid aggravating delays in the administrative process that settles your estate.

The first step in estate planning is to determine your gross estate, which is comprised of your total assets, including retirement benefits and life insurance. Since each individual's estate is taxed independently, ownership of property must be taken into account. There are three kinds of property ownership:

> Separately owned: In general, property owned by an individual -- also known as "outright ownership".
>
> Joint: A form of ownership involving two or more individuals. Joint property ownership may be: joint tenancy, tenancy by the entirety, or tenancy in common.
>
> Community: Property is divided equally between husband and wife. The application of this type of ownership varies from state to state: some states are community property states, some are not.

I have estimated John's gross estate at $200,593, and Elizabeth's gross estate to be $138,561. These values are presented as of 1987, which is the assumed year of death for this illustration.

Before arriving at your taxable estate, funeral expenses, debts and obligations of the estate, and similar costs and fees are allowed as deductions. Furthermore, charitable bequests and property given to a spouse (termed the "marital deduction") are subtracted. Finally, an adjustment is made for past gifts on which gift taxes were previously paid. This nets your taxable estate.

The objective of estate planning is to minimize the shrinkage of this estate, in other words, maximize the remainder that is passed on to heirs. This can be achieved through the proper utilization of wills and trusts.

Currently, both of you have the following type of will:

> Simple Will. In this will, everything goes to your spouse, excluding minor bequests.

The following schedules illustrate the transfer of property to your heirs.

ESTATE DISTRIBUTION FLOWCHART
(John Predeceases Elizabeth in 1987)

```
                              ...........................
                              : Gross Estate - John     :
                              :       $200,593          :
                              :.........................:
                                           |
                              ............|.............
                              : Debts, Expenses & Taxes :
                              :        $66,117          :  33.0%
                              :.........................:
                                           |
                              ............V.............
                              :        Remainder        :
                              :        $134,476         :  67.0%
                              :.........................:
                                           |
                     ------------------------------------------
           ...........|....................          ...........|..........
           :To Elizabeth          $134,475 :          :  To Heirs & Trust  :
           :                               :          :             $      :
           :...............................:          :....................:
                      |                                         |
           ...........|....................                     |
           :Elizabeth's Assets    $138,561 :                    |
           :...............................:                    |
                      |                                         |
           ...........|....................                     |
           :Gross Estate - 1987   $273,036 :                    |
           :...............................:                    |
                      |                                         |
           ...........|....................                     |
           :Debts, Exp & Taxes     $68,290 : 25.0%              |
           :...............................:                    |
                      |                                         |
                                                      ...........V...........
           ...........V....................           :    Total Amount      :
           :Remainder             $204,746 : 75.0%    :  To Heirs & Trust    :
           :...............................:-------->:      $204,746        :
                                                      :......................:
```

ESTATE DISTRIBUTION FLOWCHART
(Elizabeth Predeceases John in 1987)

```
                                ...........................
                                : Gross Estate - Elizabeth :
                                :        $138,561          :
                                :..........................:
                                             |
                                .............|.............
                                : Debts, Expenses & Taxes  :
                                :         $64,256          :  46.4%
                                :..........................:
                                             |
                                .............V.............
                                :        Remainder         :
                                :         $74,305          :  53.6%
                                :..........................:
                                             |
                  ------------------------------------------
............|....................                  ............|..........
:To John                $74,304 :                  :  To Heirs & Trust   :
:Less unpaid liab      ($4,852):                  :          $          :
:...............................:                  :.....................:
            |                                                  |
............|....................                              |
:John's Assets         $200,593 :                              |
:...............................:                              |
            |                                                  |
............|....................                              |
:Gross Estate - 1987   $270,045 :                              |
:...............................:                              |
            |                                                  |
............|....................                              |
:Debts, Exp & Taxes     $63,348 : 23.5%                        |
:...............................:                              |
            |                                                  |
............V....................               ...............V............
:Remainder             $206,697 : 76.5%         :      Total Amount         :
:...............................:-------->:      To Heirs & Trust     :
                                                :         $206,697          :
                                                :...........................:
```

II. Case Study and Illustrative Plan

INTRODUCTION

This case study illustrates the steps involved in developing a financial plan. It begins with a description of the personal and financial situation of the hypothetical clients. An illustrative engagement letter is presented, which describes the CPA firm's arrangement with the clients. A financial planning questionnaire was developed by assembling data-gathering forms from unit 3 that applied to the clients' situation. Workpapers from unit 3 as well as computer-generated projections are used to analyze the clients' information. Based on that analysis, a written financial plan has been prepared. The computer projections are included as attachments to the written plan. The written plan is for illustrative purposes only; it is not meant as an endorsement of an appropriate plan for this fact pattern.

CASE STUDY FACTS

William and Helen Brown

William Brown, age 52, is the owner of a small plastics manufacturing company that he started ten years ago. William worked as the production manager of the plastics division of Mego Industries until it was relocated. Rather than move with the company, William decided to go into business for himself by purchasing some of the company's equipment and renting a factory building. He incorporated the new business under the name of Plasco, Inc. and has since purchased the building. Plasco, Inc. is a subchapter C corporation.

After a relatively slow start, the business has had steady growth at an annual rate of approximately 15 percent. William feels that he will soon achieve the industry annual rate of 20 percent. Recently the forty factory workers have been approached by a union organizer to join the union that represents the industry.

Helen, age 49, works for Metropolitan Bank and recently was promoted to a position of assistant loan manager at an annual salary of $35,000. Helen took the position with the bank ten years ago to supplement the family income when William was starting his business.

William and Helen have three children -- William Jr., age 23, Richard, age 17, and Carol, age 14.

William Jr. and his wife Anne, age 23, have a one-year-old son, Michael. They live in a rented apartment. After college graduation, William Jr. was not interested in working for the family business. As a student, he was involved in activist causes and is now working for a nonprofit social agency for $20,000 a year. William hopes that his son will some day change his mind and join the family business.

Richard is a high school junior and is planning to go to college to study business or engineering like his father. He has worked summers and part-time in the family business and shows an interest in it.

Carol is a freshman in high school and is partially handicapped with special needs. Although she attends class, she is not able to function entirely on her own. Because William and Helen work, they hire a part-time person to help Carol after school.

William's widowed mother, Jane Brown, age 74, lives nearby in the old family home. Her income from Social Security and a small savings account is approximately $7,800 a year. To help out with some of the household expenses, William gives his mother $5,200 a year. The old family house, which was purchased forty years ago for $15,000, has been valued recently by a realtor for $175,000. Title to the house and the savings account are still in the names of Jane and her late husband. Although Jane is a strong willed and independent person, William, as the only child, is concerned about his mother's health and how long she will be able to take care of herself. He is the beneficiary of her will and his three children are alternate beneficiaries. William also has a power of attorney for his mother. Helen's parents are deceased.

The business provides William with medical insurance and term life insurance but no disability insurance other than that required by state law. He has a whole life policy that he purchased when he was married. The Company does not have a pension plan but, now that the business is beginning to prosper, he has been considering setting up a plan.

Through the bank, Helen has a term life policy, medical insurance, and disability insurance. The bank provides a pension plan for employees. Helen also has a whole life insurance policy, which she purchased when she was single.

Both William and Helen began IRA accounts five years ago, which are savings accounts at the Metropolitan Bank. They also created Clifford Trusts for Richard and Carol that will provide partial funding of their college education. The Metropolitan Bank is trustee.

For the first time in their lives, William and Helen are beginning to feel comfortable financially. They realize, however, that they have not given their future enough thought. They estimate that, based on financial statements prepared at December 31, 1986, their net worth is about $1,856,000 before consideration of estimated taxes that would be due on the difference between the market value and the tax basis of their assets.

William and Helen had wills drawn a number of years ago. Each will leaves everything to the survivor. All assets except Plasco, Inc. stock are in joint names, and each is beneficiary on the other's insurance policy. The Browns discussed their need for PFP services during their annual tax and financial statement engagement. About a month later they notified you that they were ready to begin the PFP process.

You determine that, initially, they are interested in --

1. Reviewing and updating their financial affairs to reflect new tax laws and investment strategies.

2. Providing for the education of Richard and the special needs of Carol.

3. Insuring that William's mother will be provided for now and in the future, if it becomes necessary for her to move to a home for the aged.

4. Providing for William Jr. and his family. Although they hope that William Jr. may some day join the business, they are concerned that his income may not be enough to provide for his wife and children.

5. Suggestions about how to turn the business over to their son(s) or to dispose of it to provide greater benefit to their family.

6. Retiring comfortably in about ten years. They have thought of selling their lake cottage and buying a condominium in Florida as a future retirement home.

7. Reducing potential estate taxes and conserving their assets for their children and grandchildren.

Subcommittee and Associates, CPAs
February 12, 19X2

Mr. and Mrs. William Brown
Middletown, USA

Dear Mr. and Mrs. Brown:

We have compiled the accompanying statement of financial condition of William and Helen Brown as of December 31, 19X1, in accordance with standards established by the American Institute of Certified Public Accountants. The financial statement is intended to present the assets of Mr. and Mrs. Brown at estimated current value and their liabilities at estimated current amounts.

A compilation is limited to presenting, in the form of a financial statement, information that is the representation of the individual whose financial statement is presented. We have not audited or reviewed the accompanying financial statement and, accordingly, do not express an opinion or any other form of assurance on it. We did, however, become aware of a departure from generally accepted accounting principles as described in the following paragraph.

Generally accepted accounting principles require that a statement of financial condition include an estimate of income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases. This disclosure has been omitted from the accompanying statement. The effects of this departure from generally accepted accounting principles on your financial condition have not been determined. If the omitted disclosure was included in the financial statement, it might influence a user's conclusions about the financial condition of Mr. and Mrs. Brown. Accordingly, the financial statement is not designed for those who are not informed about the matter.

We have assembled from information provided by you a Projected Cash Flow Statement for the year ended December 31, 19X2. We have not compiled or examined the projected statement and express no assurance of any kind on it. Furthermore, there will usually be differences between prospective and actual results because events and circumstances frequently do not occur as expected, and these differences may be material. The prospective presentation is restricted to internal use and should not be shown to a third party for purposes of obtaining credit or investment capital.

Subcommittee and Associates, CPAs

William and Helen Brown
Statement of Financial Condition
December 31, 19X1

Assets		
Cash -- checking account		$ 5,000
Cash -- savings account		10,000
Money market funds		50,000
Investments		
Plasco, Inc. (note 1)	$1,000,000	
Marketable securities (note 2)	150,000	1,150,000
Cash value of insurance (note 3)		35,000
Retirement funds .(note 4)		37,000
Reversionary interest in Clifford trust (note 5)		100,000
Residence (note 6)		295,000
Vacation home (note 7)		150,000
Household assets		40,000
Automobiles (note 8)		33,000
Jewelry		25,000
Deposit on condominium (note 9)		5,000
		1,935,000
Liabilities		
Mortgages payable -- residence		25,000
-- cottage (note 10)		5,000
Personal loan payable (note 11)		30,000
Automobile loan payable (note 12)		15,000
Monthly accounts and bills due		4,000
		79,000
Net Worth		1,856,000
		$1,935,000

The notes to financial statements are an integral part of these statements.

William and Helen Brown
Notes to Financial Statements
December 31, 19X1

Note 1 -- The value of the stock is based on the market value of the tangible assets and goodwill determined by capitalizing average excess earnings for the last five years at 15 percent.

Fair market value of net assets	900,000
Goodwill	100,000
	$1,000,000

Note 2 -- The current values of marketable securities are based on their quoted closing prices on December 31, 19X1.

Security	Acquired	Shares	Cost	Market Value
Mego Industries	1966	2,000	$20,000	$100,000
Golden Mutual Fund	1975	1,000	$10,000	23,000
State Bonds (10% tax exempt)	1984		$25,000	27,000
				$150,000

Note 3 -- The cash value of life insurance policies was determined from the annual statements of account provided by the insurance companies.

Life	Type	Face Value	Annual Premium	Cash Value
William Brown	Whole life	$ 50,000	$440	$30,000
William Brown	Term	$200,000	$700	
Helen Brown	Whole life	$ 10,000	$ 75	$ 5,000
Helen Brown	Term	$ 25,000	$260	
				$35,000

Note 4 -- The retirement funds are IRA accounts in saving certificates at Metropolitan Bank and a defined benefit plan, which is valued according to the plan sponsor's summary annual report.

Plan	Cost	Current Value
IRA -- William and Helen Brown	$20,000	$30,000
Defined Benefit -- Helen Brown		7,000
		$37,000

Note 5 -- Clifford trusts were set up for Richard and Carol Brown. Richard's trust was established eight years ago and Carol's six years ago. Each trust was funded with $50,000, and saving accounts were established at the Metropolitan Bank. Both trusts have a life of ten years and one day. They are valued at par.

Note 6 -- The residence was valued by a local realtor using recent sales prices of similar homes in the area.

Acquired	Current Age	Cost	Current Value
1966	30	$75,000	$295,000

Note 7 -- The vacation home consists of a four-room cottage at a lake in the western part of the state. Similar cottages were sold recently at the stated value. The vacation home is rented about six weeks each summer to close friends and key employees of Plasco, Inc. for $500-a-week. Similar cottages rent for about $1,000 a week. The cost of maintaining the cottage, including depreciation, is about $5,000 a year. The Browns use the cottage when it is not rented.

Acquired	Current Age	Cost	Current Value
1970	35	$25,000	$150,000

Note 8 -- The estimated values of the automobiles were determined by a local auto dealer.

Cadillac	(William)	$25,000
Ford Escort	(Helen)	5,000
Chevette	(Richard)	3,000
		$33,000

Note 9 -- This asset represents a forfeitable deposit of $5,000 on a condominium in Florida. The cost will be $200,000, and furniture will cost an additional $25,000.

Note 10 -- The mortgages payable represent first mortgages on the residence and vacation cottage. The residence mortgage is payable in monthly installments of $500, including interest at 12 percent a year through 1994. The cottage mortgage is payable in monthly installments of $100, including 8 percent interest, through 1992.

Note 11 -- The personal loan is a demand note at the interest rate of 13 percent payable quarterly, plus quarterly principal payments of $750.

Note 12 -- The automobile loan is on the Cadillac with monthly payments of $400, including interest at 18 percent a year. The remaining term is three years.

William and Helen Brown
Projected Cash Flow Statement
For the Twelve Months Ended December 31, 19X2

Inflow	
Salary -- William Brown	$125,000
-- Helen Brown	35,000
Interest income -- investments	5,300
Dividend income -- investments	3,200
Gross rental income	3,000
Total inflow	171,500
Outflow	
Income and social security taxes (Federal -- $41,850; State -- $5,800; Social Security -- $5,600)	53,300
Personal expenditures	
Residence mortgage	6,000
Food	5,200
Clothing	3,000
Utilities	5,000
Home maintenance	2,400
Auto maintenance	4,800
Child care	8,000
Recreation and vacations	6,000
Contributions	5,000
Insurance -- life	500
Insurance -- property	3,700
New household purchases	2,400
Personal family allowances and expenses	5,600
Real estate taxes	4,800
Parent support	5,200
Lake cottage mortgage	1,200
Lake cottage expenses	3,800
Auto loan payments	4,800
Personal loan -- principal	3,000
Personal loan -- interest	3,800
Total outflow	137,500
Increase in Cash	$ 34,000

Subcommittee and Associates, CPAs
February 12, 19X2

Mr. William Brown
President
Plasco, Inc.
Middletown, USA

Dear Mr. Brown:

We have compiled the accompanying Statements of Financial Condition of Plasco, Inc., as of December 31, 19X1 and 19X0, the Statement of Income and Retained Earnings for the years ended December 31, 19X1 and 19X0, and the related Statement of Changes in Financial Position for December 31, 19X1, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The company has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the financial condition of Plasco, Inc., and changes in its financial position. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Subcommittee and Associates, CPAs

Plasco, Inc.
Statement of Financial Condition
December 31, 19X1 and 19X0

	19X1	19X0
Assets		
Current Assets:		
Cash	$ 95,000	$ 65,000
Accounts receivable	185,000	170,000
Inventories	250,000	200,000
Prepaid expenses	15,000	20,000
Total Current Assets	545,000	455,000
Property and Equipment:		
Land	50,000	50,000
Building and improvements	75,000	75,000
Machinery and equipment	800,000	600,000
Auto and truck	60,000	60,000
	985,000	785,000
Less: Accumulated depreciation	470,000	400,000
Net Property and Equipment	515,000	385,000
Other Assets	15,000	10,000
Total Assets	$1,075,000	$850,000

Liabilities and Stockholder's Equity

	19X1	19X0
Current Liabilities:		
Current maturities of long term debt	$ 50,000	$ 25,000
Accounts Payable	155,000	150,000
Accrued expenses	45,000	30,000
Total Current Liabilities	250,000	205,000
Long-Term Debt Net of Current Maturities	200,000	110,000
Total Liabilities	450,000	315,000
Stockholder's Equity:		
Common Stock without par value Authorized 1000 shares, issued 500 shares at a stated value of $100 per share	50,000	50,000
Retained Earnings	575,000	485,000
Total Stockholder's Equity	625,000	535,000
Total Liabilities and Stockholder's Equity	$1,075,000	$850,000

Plasco, Inc.
Statement of Income and Retained Earnings
For the Year Ended December 31, 19X1 and 19X0

	19X1	19X0
Net sales	$2,400,000	$2,100,000
Cost of sales	1,760,000	1,550,000
Gross profit	640,000	550,000
Selling, general and administrative expenses	510,000	465,000
Income from operations	130,000	85,000
Other income (deductions)	(5,000)	10,000
Income before income taxes	125,000	95,000
Provision for income taxes	35,000	25,000
Net income	90,000	70,000
Retained earnings at beginning of year	485,000	415,000
Retained earnings at end of year	$ 575,000	$ 485,000

Plasco, Inc.
Statement of Changes in Financial Position
For the Year Ended December 31, 19X1

Resources provided by:		
Operations		
Net income		$90,000
Add (deduct) items not affecting cash		
Depreciation expense	70,000	
Increase in accounts payable	5,000	
Increase in accrued expenses	15,000	
Decrease in prepaid expenses	5,000	
Increase in accounts receivable	(15,000)	
Increase in inventories	(50,000)	30,000
Cash provided by operations		120,000
Other sources of cash		
Equipment loan		115,000
Total cash provided		235,000
Resources applied to purchase of equipment	$200,000	
Increase in other assets	5,000	
Total cash applied		205,000
Increase in cash		$ 30,000

Plasco, Inc.

Salaried Employees

	Position	Annual Earnings	Years of Service	Age
William Brown	President	$125,000	10	52
Tom Kane	Plant Manager	70,000	9	45
Dan Brown	Sales	50,000	6	35
Walt Able	Shipping	25,000	3	33
Helen Jones	Office Manager	35,000	10	58
Irene Richards	Bookkeeper	20,000	5	30
Peg Connor	Secretary	15,000	2	21
		$340,000		

CASE STUDY
ENGAGEMENT LETTER

Subcommittee and Associates, CPAs
March 16, 19X2

Mr. and Mrs. William Brown
Middletown, USA

Dear William and Helen:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will prepare your personal financial plan after careful consideration of your goals and present financial situation. Our approach to the personal financial planning process will include the following steps:

- We will schedule a preliminary meeting to assist you to define short- and long-range goals and begin gathering information about your family situation and major anticipated financial obligations.

- In addition to the quantitative data requested in our financial planning questionnaire, we will require copies of all pertinent documents such as wills, trusts, company-provided fringe benefits, tax shelter forecasts, prior tax returns, and insurance coverage.

- After the information has been received, we will reorganize and review the data with the aid of microcomputers. We will analyze the quantitative information in terms of tax liability (both income and estate), cash flow, net worth, risk management, and eventual retirement.

- Based on our analysis of the data, we will outline alternative courses of action to meet your immediate goals and objectives and to mitigate problems uncovered. The various alternatives are tested, and their effect depicted in our projections. A second meeting will be held at this stage to verify the accuracy of the data, to allow you to validate your assumptions used in the projections, and to discuss the alternate recommendations.

- At the conclusion of the engagement, we will prepare a report that includes our recommendations and projections. We will offer our assistance in implementing the actions agreed upon.

Responsibility for financial planning decisions is yours. We will aid you in the decision-making process, suggest alternative recommendations to help you achieve your objectives, and assist you to determine how well each alternative meets your financial planning objectives.

The prospective information included in the plan should be used solely to assist you and your advisers in developing your personal financial objectives. It should not be used to obtain credit, or for any other purpose. We will not compile or examine the prospective information and will express no assurance on it.

Investment recommendations should be made by an SEC-registered investment adviser or other licensed investment adviser you choose and engage. We are not responsible for the success or failure of any specific investment recommended by such advisers.

Our estimated fee for the services described above will range from $2,000 to $2,500. We will submit our bill after services are performed, which will be due and payable at that time. If an extension of our services is requested, we will discuss our fee arrangements at that time. We thank you for the opportunity to be of service. If you concur with these arrangements, please sign the enclosed copy of this letter in the space provided and return it to us. If you have any questions, please call.

Very truly yours,

Subcommittee and Associates, CPAs

Approved by ______________________________ Date ______________________________

CASE STUDY
FINANCIAL PLANNING QUESTIONNAIRE

Family Data

Date 3/16/19X2

1. Full names:

	Social Security Number	Date of Birth
You WILLIAM BROWN	012-22-3508	6/7/XX (age 52)
Your spouse HELEN BROWN	031-21-8256	12/16/XX (age 49)

Date and place of marriage MIDDLETOWN 10/4/XX (25 years ago)

Have either of you been married previously? NO

2. Addresses and telephone numbers:

Home 24 Pleasant Dr. Middletown 567-8754

Business Plasco Inc. 90 Factory Road, Middletown 586-4321

Spouse's business Metropolitan Bank 100 Main St., Middletown 586-3000

3. Occupations and titles:

You President - Plasco Inc.

Your spouse Assistant Loan Manager

4. Children:

	Name	Date of Birth	Social Security Number	Are You Their Primary Source of Support?
(a)	William Jr.	1/3/XX (age 23)	031-22-1234	no
(b)	Richard	3/13/XX (age 17)	031-25-4567	Yes
(c)	Carol	5/24/XX (age 14)	031-28-8765	Yes
(d)				

Do your children have any special support needs, such as private school, special lessons, medical problems? Yes If so, please describe: Carol - Physical disorder which requires constant supervision and therapy. Attends public school but needs monitor and assistance.

5. Grandchildren:

	Their Parents		Names of Grandchildren	Date of Birth
(a)	William Jr.	(1)	Michael	8/11/X1
	Anne	(2)		
		(3)		
(b)		(1)		
		(2)		
		(3)		

Do you provide any financial support to your grandchildren? No If so, please describe: ______

6. Parents still living:

	You	Your Spouse
Father: Name		
Address		
Date of Birth / Health		
Financial Status		
Mother: Name	Jane Brown	
Address	50 Old Lane, Middletown	
Date of Birth	7/27/X4 (age 74)	
Health	Fair	
Financial Status	Needs assistance	

Do you provide or anticipate providing financial support to your parents? Yes If so, please describe: Contribute $5200 a year to help pay for support

7. Do you provide or anticipate providing financial support to others? Yes
If so, please describe: May need to provide some support for Carol if she has limited earning ability.

Exhibit 3-1B

Goals Worksheet

Listed below are some common personal goals. Indicate the relative importance you attach to each goal by circling the appropriate number. Feel free to add other goals that are important to you.

Importance to Me High		Medium		Low	
5	4	3	2	1	Maintain present standard of living
5	4	3	2	1	Improve present standard of living
5	4	3	2	1	Improve future standard of living
5	4	3	2	1	Financial independence at age 65
5	4	3	2	1	Financial independence before age 65 (age 62)
5	4	3	2	1	Total retirement at age 65
5	4	3	2	1	College education for children
5	4	3	2	1	Support of adult children
5	4	3	2	1	Distributing wealth to heirs
5	4	3	2	1	Support of parents or parents-in-law
5	4	3	2	1	Support of surviving (dependent) spouse
5	4	3	2	1	Supporting political or philanthropic causes
5	4	3	2	1	Change or modify career activities
5	4	3	2	1	Pursue family or social activities
5	4	3	2	1	Pursue other personal activities or experiences
5	4	3	2	1	Change or modify nature or scope of business enterprise
5	4	3	2	1	Transfer control of business enterprise to others
5	4	3	2	1	Transfer ownership of business enterprise to others
5	4	3	2	1	Saving regularly
5	4	3	2	1	Peace of mind regarding financial condition
5	4	3	2	1	Protection against financial loss
					Unusual expense within foreseeable future:
5	4	3	2	1	Change of residence
5	4	3	2	1	New automobile
5	4	3	2	1	Vacation house or recreational item
5	4	3	2	1	Extraordinary travel
5	4	3	2	1	Education for self or spouse
5	4	3	2	1	Education for children
5	4	3	2	1	Children's weddings
5	4	3	2	1	Special needs of Carol
5	4	3	2	1	
5	4	3	2	1	
5	4	3	2	1	

Assumptions and Objectives

(1) The following questions are designed to aid you in defining your financial and investment objectives. Circle the appropriate number. Feel free to add other goals that are important to you.

Importance to Me High	Medium			Low	
5	4	3	2	1	Retire comfortably
5	4	3	2	1	Provide for my children's education
5	4	3	2	1	Minimize income taxes
5	4	3	2	1	Provide for my survivors in the event of my death
5	4	3	2	1	Structure my estate to minimize estate taxes
5	4	3	2	1	______
5	4	3	2	1	______
5	4	3	2	1	______

(2) How important to you are the following investment objectives?

Importance to Me High	Medium			Low	
5	4	3	2	1	To increase current income
5	4	3	2	1	To diversify my investments (that is, have a variety of investments to spread risks)
5	4	3	2	1	To have cash available for emergencies or investment opportunities (liquidity)
5	4	3	2	1	To accumulate funds that will keep pace with inflation or do better than inflation
5	4	3	2	1	To use borrowed funds to increase return from my investments (leverage)
5	4	3	2	1	To minimize time managing my investments
5	4	3	2	1	To protect the safety of my invested principal

(3) What is your attitude toward risk? Check the one that best describes your attitude:

___ Strongly dislike risk, prefer very safe investments, such as insured savings accounts and government securities.

___ Prefer low-risk investments with a known yield, such as highly rated bonds.

✓ Willing to assume some risk, such as stocks and mutual funds.

___ I am a risk-taker and prefer speculative stocks and other investments that have an uncertain, but possibly substantial, return.

(4) Do you expect any inheritances, legal settlements, or gifts that may affect your financial future? Yes If so, please explain:

May inherit Mother's home, but do not expect it to affect financial future.

(5) Are you aware of any upcoming changes in your lifestyle that may directly affect your present financial situation, such as early retirement, divorce, or child support? If so, please explain:

No

(6) Do you or your spouse have any health problems that may make you retire at an earlier date? If so, please explain:

None known

(7) If you were to die would your survivors want the mortgage on your personal residence to be paid off?

If I died ✓ Yes ___ No

If spouse died ___ Yes ✓ No

(8) Do you have a will? ✓ Yes ___ No

Who prepared your will? ATTY. CHARLES ALLEN

Address Professional Building
200 Main Street, Middletown

Where is it located? SAFE DEPOSIT BOX Metropolitan Bank

(9) Does your spouse have a will? ✓ Yes ___ No

Who prepared your spouse's will? ATTY CHARLES ALLEN

Professional Building

Address 200 Main Street

Middletown

Where is it located? SAFE DEPOSIT BOX Metropolitan Bank

Objectives Worksheet

In answering the following questions, consider your needs in after-tax dollars, excluding any income taxes. In other words, how much would you need if all your income came from municipal bonds (upon which no taxes are due)?

1. If today you were at the age of your desired independence and living the lifestyle you expect to live at independence, what would be your expenses in today's dollars? $ 7,000 per month

2. If the spouse providing primary support were disabled for a long period of time, what would the family's expenses be in today's dollars?
$ 9,000 per month

3. If the spouse providing primary support died today, what would the family's expenses be in today's dollars (excluding college expenses)?
$ 6,000 per month

   What would be the after-tax earning capacity of the surviving spouse?
$ 2,500 per month

4. What college or other educational expenses do you expect for your children?

Child	Expenses per School Year	Number of Years
Richard	$15,000	4 yr. college
Carol	$15,000	4 yr. college

5. What large unusual expenses are you planning?

Item	Amount	When
Automobile	$	
Change of residence		
Vacation home		
Travel/vacation		
Other: Retirement Condo	225,000	Now Considering

6. What assumptions are reasonable for projecting the future?

	19X1	19X2	Future
Salary - William	$145,000	$165,000	+ 15 %
Bonus	$	$	+ %
Profit-sharing contribution	$	$	+ %
Thrift contribution	$	$	%
Profit-sharing earnings	%	%	%
Thrift earnings	%	%	%

7. What inflation rate is reasonable for projecting the future?

Short-term (two to five years): 5 %
Long-term (more than five years): 5 %

Investment Preferences

Described below are the three primary benefits that are provided to some degree by all investments. No single investment maximizes all three; receiving more of one benefit usually means receiving less of another.

Safety of principal: The likelihood that the principal will be returned intact, without increase or decrease.
Cash flow: The amount of cash flow that the investment will generate annually.
Appreciation: The amount of gain that will be realized upon sale of the asset.

Indicate below the benefits you would desire from your investments by circling the appropriate numbers. The total of the numbers circled for "All Holdings" should equal ten, and the total of the numbers circled for your "Next Investment Only" should equal ten.

	All Holdings						Next Investment Only					
	High					Low	High					Low
Safety of principal	5	4	3	2	1	0	5	4	3	2	1	0
Cash flow	5	4	3	2	1	0	5	4	3	2	1	0
Appreciation	5	4	3	2	1	0	5	4	3	2	1	0
	Total = 10						Total = 10					

Listed below are four characteristics of investments. Unlike the benefits above, you can have as much or as little of each characteristic without affecting the others. Trade-offs are involved, however, because each characteristic has both favorable and unfavorable aspects.

Liquidity: The ease of converting the investment to cash within a short time.
Debt: The extent to which you are personally obligated for debt associated with the investment.
Risk and return: The degree of uncertainty about the results of the investment and the magnitude of the total return. In most cases, increased risk should mean increased return.
Management effort: The degree to which you are personally involved with the operation and decision-making aspects of the investment.

Indicate below your preference for those characteristics:

	All Holdings					Next Investment Only				
	High				Low	High				Low
Liquidity	5	4	3	2	1	5	4	3	2	1
Debt	5	4	3	2	1	5	4	3	2	1
Risk and return	5	4	3	2	1	5	4	3	2	1
Management effort	5	4	3	2	1	5	4	3	2	1

Short Data-Gathering Form
Financial Statement Analysis

Name WILLIAM AND HELEN BROWN   Date 3/16/19X2

Assets		Liabilities	
Cash on hand and in bank -- savings and checking	$15,000	Real estate mortgages payable -- see Schedule E	$30,000
Money market funds	$50,000	Automobile loan(s) -- see Schedule F	$15,000
Marketable securities -- see Schedule A	$1,150,000	Other notes payable to banks -- see Schedule F	$30,000
Federal obligations -- see Schedule B	$	Life insurance loans -- see Schedule C	$
Cash value-life insurance-- see Schedule C	$35,000	Accounts and bills due	$ 4,000
Retirement funds -- see Schedule D	$37,000	Amounts payable to others	$
Real estate -- see Schedule E	$445,000		
Jewelry, collectibles, antiques	$ 25,000		
Household assets	$ 40,000		
Automobiles, boats, and other personal property	$ 33,000		
Other assets Schedule G	$105,000		

Note: It is not necessary to total the following schedules and carry the totals to the above summaries of assets and liabilities, although you can if you prefer.

Schedule A -- Marketable Securities and Bonds

Description	Number of Shares or Face Value (Bonds)	Bond Coupon Rate	Ownership (H,W,J)	Tax Basis	Market Value	Annual Income
Nego Industries	2,000 sh.	%	J	20,000	100,000	$2,000
Golden Mutual Fund	1,000 sh.	%	J	10,000	23,000	1,200
State Bonds	25,000	10 %	J	25,000	27,000	2,500
Plasco Inc.	500 sh.	%	H	50,000	1,000,000	-0-
Total				$105,000	$1,150,000	

Schedule B -- Federal Obligations

Description	Face Value (Bonds)	Coupon Rate	Ownership (H,W,J)	Tax Basis	Market Value
		%			
		%			
		%			
Total					

Schedule C -- Life Insurance

Ownership (H,W,J)	Company	Policy Loans	Cash Surrender Value
H	National Life		$30,000
W	Security Life		5,000
Total			$35,000

Schedule D -- Retirement Funds

Type of Fund and With Whom	Ownership (H,W,J)	Current Market Value	Approximate % Yield
Pension accounts			
Metropolitan Bank	W	7,000	5 %
			%
Profit-sharing accounts			
			%
			%
Deferred compensation plan			
			%
			%
IRA accounts			
Metropolitan Bank	J	30,000	8 %
			%
Keogh accounts			
			%
			%
Total		$37,000	

Schedule E -- Real Estate

Type of Property	Title in Name of	Date Acqu'd	Tax Basis	Market Value	Mortgage Maturity	Mortgage Amount	Int. Rate
Residence	J	6/1/66	75,000	295,000	1994	25,000	12 %
Vacation Cottage	J	7/6/70	25,000	150,000	1992	5,000	8 %
							%
							%
Total			100,000	445,000		30,000	

Schedule F -- Other Loans Payable

Description	~~Principal~~ Loan Balance Remaining	Interest Rate	Remaining Term (In Months)	Monthly Payment
Automobile loans				
GMAC - Cadillac Loan	15,000	18 %	37	400
		%		
Other notes payable				
Personal Loan	30,000	13 %	40(Q)	750 (quarterly)
		%		
Total	45,000			

Schedule G -- ~~Contingent Liabilities~~ Other Assets

Describe

Clifford Trust established for Richard 8 years ago and for Carol six years ago. Each trust was funded with $50,000 savings accounts at Metropolitan Bank $100,000

Forfeitable deposit on a Florida Condominium 5,000

105,000

Short Data-Gathering Form
Insurance

Name WILLIAM AND HELEN BROWN Date 3/16/19X2

Life Insurance

	Policy 1	Policy 2	Policy 3	
Insured	WILLIAM BROWN	WILLIAM BROWN	HELEN	HELEN
Insurance company	NATIONAL LIFE		SECURITY LIFE	
Policy number (or group)				
Policy owner	WILLIAM	WILLIAM	HELEN	HELEN
Beneficiaries	HELEN	HELEN	WILLIAM	WILLIAM
Type of policy	WHOLE LIFE	TERM	WHOLE LIFE	TERM
Face amount	$ 50,000	$ 200,000	$ 10,000	25,000
Cash-surrender value	$ 30,000	$	$ 5,000	
Policy loans	$	$	$	
Interest rate on loans	4 %	%	4%	%
Annual premium	$ 440	$ EMPLOYER	$ 75	EMPLOYER
Estimated dividend	$ 150	$	$ 30	

Disability Insurance

Insured		HELEN BROWN	
Insurance company		MUTUAL LIFE	
Policy number (or group)		GROUP	

Disability Insurance (cont.)

Disability Insurance (cont.)	Policy 1	Policy 2	Policy 3
Definition of disability: Unable to perform (check one) -- (1) Own occupation			
(2) Occupation for which reasonably suited by training and education			
(3) Any occupation			
(4) Combination of the above		(1) for 2 years, then (2)	
Waiting period		6 months	
Benefit period		to age 65	
Benefit	$	60% of salary with $ 1,800/mo. max.	$
Partial disability covered?			
Residual disability covered?			
Annual premium	$	$ EMPLOYER	$

Medical Insurance

Medical Insurance	Policy 1	Policy 2
Insured family member(s)	FAMILY	HELEN
Insurance company		
Group policy (yes or no)	YES	YES
Major medical limits: Annual for each individual	$ 500,000	$ No maximum

Medical Insurance (cont.)

	Policy 1	Policy 2
Lifetime for an individual	$ 500,000	$ No maximum
Annual for family	$	$
Lifetime for family	$	$
Deductibles Annual for each individual	$ 500	$ 100
Annual for family	$ 1,000	$
Co-payment	20 % until pay $ 2,000	20 % until pay $ 2,000
Annual premium	$ EMPLOYER	$ EMPLOYER

Homeowners Insurance

	Property 1	Property 2	Property 3
Property address	24 Pleasant St. Middletown	Lot 24 Mirror Lake	
Insurance company	Home Security	Home Security	
Market value of dwelling	$ 295,000	$ 150,000	$
Replacement cost for dwelling	$ 220,000	$ 120,000	$
Insurance on dwelling	$ 220,000	$ 120,000	$
Personal liability insurance	$ 300,000	$ 300,000	$
List personal property insured separately under personal article floaters	25,000		
Personal property covered for replacement value?			

Homeowners Insurance (cont.)	Property 1	Property 2	Property 3
Deductible	$ 100	$ 100	$
Annual premium	$ 1,100	$ 900	$

Automobile	Auto 1	Auto 2	Auto 3
Describe automobile	19X1 CADILLAC	19X0 FORD ESCORT	19X0 CHEVETTE
Insurance company	HOME SECURITY	HOME SECURITY	HOME SECURITY
Liability	$ 100/300,000	$ 100/300,000	$ 100/300,000
Property damage	$ 100,000	$ 100,000	$ 100,000
Uninsured motorist coverage?	MED. 5,000	5,000	5,000
Collision?	300 DED	300 DED	300 DED
Are rental cars covered?	No	No	No
Deductible	$ 100	$ 100	$ 100
Annual premium	$ 750	$ 620	$ 400

Umbrella Liability

1. Do you have excess liability insurance? ✓ Yes ___ No
2. If so, what is the maximum coverage? $ 1,000,000
3. Insurance company HOME SECURITY, INC.

Other Property

Do you own property that is not insured? ____Yes __✓__No

If yes, describe below:

Description	Market Value

Exhibit 3-6E
(1 of 2)

Investment Alternatives Questionnaire

Name WILLIAM & HELEN BROWN   Date 3/16/19X2

Various categories of investment products are listed below. Please indicate your preference for and familiarity with each. Also indicate whether you think the investment product would be suitable for your portfolio, considering your investment objectives.

	Preference (High … Low)	Familiarity (High … Low)	Suitability: Yes	No	Not Sure
Short-Term Fixed Income					
MONEY MARKET	5 4 3 2 1	5 4 3 2 1	✓		
CD	5 4 3 2 1	5 4 3 2 1	✓		
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
Stocks					
GROWTH	5 4 3 2 1	5 4 3 2 1	✓		
GROWTH + INCOME	5 4 3 2 1	5 4 3 2 1	✓		
INCOME	5 4 3 2 1	5 4 3 2 1	✓		
	5 4 3 2 1	5 4 3 2 1			
Bonds					
U.S. TREASURY	5 4 3 2 1	5 4 3 2 1			✓
CORPORATE	5 4 3 2 1	5 4 3 2 1			✓
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
Mutual Funds					
MAXIMUM GROWTH	5 4 3 2 1	5 4 3 2 1			✓
GROWTH	5 4 3 2 1	5 4 3 2 1	✓		
GROWTH + INCOME	5 4 3 2 1	5 4 3 2 1	✓		
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			

	Preference	Familiarity	Suitability		
	High Low	High Low	Yes	No	Not Sure
Real Estate					
DIRECT	5 4 3 2 1	5 4 3 2 1			✓
REIT	5 4 3 2 1	5 4 3 2 1			✓
LIMITED PARTNERSHIP	5 4 3 2 1	5 4 3 2 1			✓
Oil and Gas					
LIMITED PARTNERSHIP	5 4 3 2 1	5 4 3 2 1			✓
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
Collectibles					
ART	5 4 3 2 1	5 4 3 2 1			✓
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
Precious Metals					
GOLD BULLION	5 4 3 2 1	5 4 3 2 1			✓
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
Insurance Products					
WHOLE LIFE	5 4 3 2 1	5 4 3 2 1			✓
UNIVERSAL LIFE	5 4 3 2 1	5 4 3 2 1			✓
VARIABLE LIFE	5 4 3 2 1	5 4 3 2 1			✓
Other					
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			
	5 4 3 2 1	5 4 3 2 1			

Exhibit 3-6G

Securities-Allocation Model

Name WILLIAM & HELEN BROWN Date 3/16/19X2

Portfolio Scoring System

Score the importance to you of each investment objective according to the following table:

Goals	Most	Very	Some	Little	None	Score
High long-term total return	5	4	3	2	1	5
Tax deferred appreciation	5	4	3	2	1	5
High after-tax current income	1	2	3	4	5	4
Low total return fluctuation	1	2	3	4	5	3
Low single-period loss probability	1	2	3	4	5	2
High liquidity	1	2	3	4	5	3
Total Score						22

Suggested Portfolio Allocation

Your portfolio mix should be similar to the allocation that matches your score:

Your Score	Money Market	Fixed Income	Equities
30	5%	5%	90%
26-29	10%	10%	80%
21-25	20%	20%	60%
16-20	30%	30%	40%
11-15	40%	40%	20%
6-10	50%	40%	10%

Your equities should be distributed according to the mix that matches your score:

Your Score	Income	Growth	Aggressive
30	10%	40%	50%
26-29	10%	60%	30%
21-25	50%	25%	25%
16-20	50%	30%	20%
6-15	50%	50%	0%

Adapted from William G. Droms, "Investment Asset Allocation for PFP Clients." Journal of Accountancy, April 1987, p. 116.

Exhibit 3-6H

A Summary of the Client's Investment-Alternatives Questionnaire

Objective: To categorize, by investment objective, a client's investment preferences on exhibit 3-6E.

Client WILLIAM & HELEN BROWN Date 3/16/19X2

	Preference Score	Familiarity Score	Suitability
Liquid Assets			
MONEY MARKET	5	5	Y
CD	5	5	Y
Income-Producing Assets			
U.S. TREASURY SECURITIES	4	3	Y
CORPORATE BONDS	3	3	Y
GROWTH AND INCOME			
STOCKS & MUTUAL FUNDS	4	3	Y
Growth-Oriented Investments			
MAX GROWTH STOCKS/FUNDS	1	3	?
GROWTH & INCOME STOCKS/FUNDS	4	3	Y
DIRECT REAL ESTATE	5	5	?
REAL ESTATE LTD. PARTNERSHIP	2	1	?
REIT	2	1	?
INSURANCE PRODUCTS	3	2	?

Short Data-Gathering Form
Education Funding

	Child's Name	Age	Estimated Cost of A Year of College	Current Amount Funded
1)	RICHARD	17	$15,000	$36,000 *
2)	CAROL	14	15,000	$45,203*
3)				
4)				

Comments and Additional Information

*Estimated total earnings on Clifford trust

Exhibit 3-8A

Data-Gathering Form
Retirement Goals and Objectives

Name WILLIAM & HELEN BROWN Date 3/16/19X2

1. At what age do you plan to retire from your present career? 62

   At what age will your spouse retire from his or her present career? ____

2. Are you considering a second career? ___Yes ✓ No

   If yes, what is the career? ____

   What preparation is required? ____

3. Is your spouse planning a second career? ___Yes ✓ No

   If yes, what is the career? ____

   What preparation is required? ____

4. What activities, including part-time and volunteer work, do you plan to pursue during retirement? ____

5. Do you plan to sell your present residence when you retire? ✓ Yes ___No

   If yes, how much, approximately, would you pay for a replacement residence? ____

6. Will you relocate when you retire? ✓ Yes ___No

   If yes, where will you relocate? Planning to purchase condo in Florida

7. Describe your major current and future financial obligations:

Current	Future
Meet current business	Provide for spouse
and family obligations	and children

8. Explain what you mean by financial security during retirement. Care for self and spouse with no burden to children

9. How much after-tax retirement income do you expect to need (in today's dollars)? see exhibit attached

Exhibit 3-8B

Short Data-Gathering Form

Estimated Annual Retirement Expenses

Name WILLIAM & HELEN BROWN Date 3/16/19X2

Years to retirement 10

Estimated average inflation rate 5%

Estimated average tax rate during retirement 35%

	Current Year	During Retirement-- In Current-Year Dollars
Housing	6,000	6,000
Utilities and telephone	5,000	5,000
Property taxes and insurance	7,800	7,800
Food and supplies	5,200	4,000
Clothing	3,000	2,400
Transportation (include car payments)	7,600	3,600
Travel and entertainment and vacation cottage	8,000	10,000
Medical and dental	1,200	2,400
Insurance: life, health, disability	3,600	3,600
Contributions	5,000	5,000
Savings and investment	24,000	10,000
Miscellaneous	36,100	24,200
Total Expenses	111,500	84,000

Estate Planning Questionnaire

Name WILLIAM & HELEN BROWN Date 3/16/19X2

1. Outline your plans for distributing your estate (attach additional sheets, as required):

Beneficiary (relationship)	Description of Property
TO SPOUSE	ESTATE ASSETS
WILLIAM JR.	✓ ✓
RICHARD	✓ ✓
CAROL	✓ ✓
ANNE, MICHAEL AND CHILDREN	

2. If your family does not survive you, who should inherit your estate?
Donate to our universities, church and charities
some stock in company to key employees

3. How important is the minimization of estate taxes to you?
Very important

4. Who will be your executor or co-executors?
ATTY CHARLES ALLEN

5. The following questions relate to your spouse, if any:

   a. Do you want your spouse to manage your estate? Yes

   b. If the answer to (a) is yes, have you considered whether your spouse will manage the family's income prudently, make responsible investment decisions, and treat all beneficiaries fairly? ✓ Yes

      ___No. Comments: ___

   c. Is your spouse likely to return to work if you die prematurely (that is, if your spouse is not presently employed)? ___

      ___

   d. In your estate plans, have you considered the possibility of your spouse's remarriage? No

   e. Does your spouse have any separately held property from before your marriage, from gifts or inheritances? Yes Describe

      Jewelry, furniture, antiques

   f. Describe any gifts or inheritances that your spouse expects to receive. None

6. The following questions relate to your children, if any:

   a. Have you and your spouse decided on a guardian for your minor children in the event of you and your spouse's premature death?

      ✓ Yes ___No Guardian's name William Jr.

   b. How will the estate assets for the benefit of your minor children be managed? would like to set up trusts

   c. Do any of your children have special living, educational, or medical needs? yes Describe Carol has special medical needs

   d. Are your children financially responsible? Not sure

   e. At what age do you expect your children to be able to manage an inheritance? Age 25-30

7. Have you and your spouse lived in any of the following states during your marriage: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, or Wisconsin? Give dates. No

   ___

8. Do you have property in other states or foreign countries? No

9. Describe any separately held property that you accumulated before your marriage or that you received as gifts or inheritances. None

10. Describe any gifts or inheritances that you expect to receive. Mother's house and some small savings

11. Do you contribute to or expect to contribute to the support of anyone other than your immediate family, such as your parents or your spouse's parents? Yes. Jane Brown - Mother

12. Do you or your spouse intend to use the annual gift tax exclusion to make gifts to your children or others? ____ Explain Not sure

13. Do you or your spouse plan a lifetime gift-giving program to heirs or others? ____ Explain Not sure

14. Have you or your spouse made any taxable gifts? No Please attach copies of the last gift tax returns that you and your spouse filed, if any.

15. Do you or your spouse plan to make substantial charitable gifts during your lifetime or in your will? ____ Describe. Have thought of giving something to our universities

16. Have you or your spouse created any trusts that still exist? Yes - Clifford trusts If yes, please attach a copy of the trust agreement and amendments.

17. Have you or your spouse made any gifts and--

   - Reserved the right to part of the income or to the use or possession of the property? ____ Yes ✓ No
   - Reserved the right to revoke, alter, or amend the gift? ____ Yes ✓ No
   - The donee's right to the property depends on the donee's surviving you or your spouse? ____ Yes ✓ No

18. Describe any powers of appointment that you or your spouse possess.

None

19. Describe any powers of appointment that you or your spouse have released.

None

20. If you own any closely held business interests, describe-- Plasco Inc.

- How you plan to dispose of them during your lifetime.

  Would like children to run if possible

- How you plan to dispose of them in your will. NO

21. Describe any other information that you believe may affect your estate plan.

CASE STUDY WORKPAPERS

Exhibit 3-2C

Asset-Valuation Workpaper

Objective: To document the method used to value assets on the statement of financial condition.

Liquid Assets

Asset	Method and Source for Valuing Asset
Certificates of deposit	
Money market funds	Account balance on 12/31
Stocks and mutual funds	Brokerage statement as of 12/31
Municipal bonds	Brokerage statement as of 12/31
Corporate bonds	
Federal notes and bonds	
CSV of life insurance	Per contract
Other:	

Investments

Asset	Method and Source for Valuing Asset
Closely held business	Market value of tangible assets plus estimate of goodwill
Partnership interest	
Land	
Mineral interests	
Rental property	
Investment-grade collectibles	
Pension accounts	Employer's report
Profit-sharing accounts	
Deferred compensation plan	
IRA accounts	Account balance at 12/31
Keogh accounts	
Other:	

Personal Assets

Asset	Method and Source for Valuing Asset
Residence	Appraisal by ABC Realty
Vacation home	Based on recent sales of similar property
Automobiles	Valuation by Middletown Motors
Boat or airplane	
Jewelry	Client's estimate
Art objects	
Furniture	Client's estimate
Household accessories	
Other:	

Exhibit 3-2D

Financial Condition Ratios

Objective: To compute financial ratios for use in the analysis of the client's financial condition.

Ratio	19X2	19X3	19X4	19X5	19X6
1. Current ratio	8.5 times	10.8 times	14.2 times	18.0 times	25.8 times
2. Investment equity	97.7 %	98.1 %	98.5 %	98.9 %	99.1 %
3. Personal-assets equity	91.8 %	93.3 %	94.7 %	96.0 %	97.3 %
4. Debt to net worth	4.3 %	3.4 %	2.6 %	1.9 %	1.4 %
5. Liquid assets to net worth	5.4 %	6.3 %	7.9 %	9.5 %	11.3 %
6. Equity in investment assets to net worth	67.7 %	67.4 %	66.7 %	66.0 %	65.1 %
7. Equity in personal assets to net worth	27.1 %	26.3 %	25.4 %	24.5 %	23.6 %

Description of Ratios

Ratio	Formula	Interpretation
1. Current ratio	$\frac{\text{Liquid assets}}{\text{Current liabilities}}$	Measures the client's ability to meet current financial obligations.
2. Investment equity	$\frac{\text{Investment less related debt}}{\text{Investment assets}}$	Measures the equity built-up in investment assets.
3. Personal-assets equity	$\frac{\text{Personal assets less related debt}}{\text{Total personal assets}}$	Measures the equity built-up in personal assets.
4. Debt to net worth	$\frac{\text{Total liabilities}}{\text{Net worth}}$	Measures the client's progress toward financial security.
5. Liquid assets to net worth	$\frac{\text{Liquid assets}}{\text{Net worth}}$	Measures the portion of net worth composed of liquid assets.
6. Equity in investment assets to net worth	$\frac{\text{Equity in investment assets}}{\text{Net worth}}$	Measures the portion of net worth composed of investment assets.
7. Equity in personal assets to net worth	$\frac{\text{Equity in personal assets}}{\text{Net worth}}$	Measures the portion of net worth composed of personal assets.

Exhibit 3-2E

Estimated Growth Rate of Assets

Objective: To document the financial growth assumptions used to develop prospective financial information.

Description	Estimated Annual Growth Rate	Source for Estimate
Inflation rate	5 %	Average of rates over prior 7 years
Liquid Assets		
Certificates of deposit	%	
Money market funds	5.5 %	Average prior 2 years
Stocks and mutual funds	7 %	Five year portfolio average
Municipal bonds	%	
Corporate bonds	%	
Federal notes and bonds	%	
CSV of life insurance	7 %	Per contract
Other:		
	%	
	%	
Investments		
Closely held business	15 %	Historical average
Partnership interest	%	
Land	%	
Rental property	%	
Investment-grade collectibles	%	
Pension accounts	5 %	Average for prior 3 years
Profit-sharing accounts	%	
Deferred compensation plan	%	
IRA accounts	8 %	Average for prior 3 years
Keogh accounts	%	
Other:		
	%	
	%	
Personal Assets		
Residence	12 %	Average over last 5 years
Vacation home	8 %	Average over last 5 years
Automobiles	%	
Boat or airplane	%	
Jewelry	%	
Art objects	%	
Furniture	%	
Household accessories	%	
Other:		
	%	
	%	

Exhibit 3-2F

Summary of Key Factors and
Significant Assumptions Used to Develop
Projected Financial Information

Objective: To document the key factors and significant assumptions used to develop prospective financial information.

Key factor 1 Growth rate for Plasco, Inc.

Significant assumptions:

Client believes Plasco will maintain or exceed its historic growth rate of 15 percent.

Key factor 2 Federal income tax rates

Significant assumptions:

Assume no change in personal federal income tax rates.

Key factor 3 Funding IRA

Significant assumptions:

Assume clients will no longer fund their IRA accounts

Key factor 4 Inflation rate

Significant assumptions:

Assume annual inflation rate of 5.0 percent

Key factor 5 Return on investments

Significant assumptions:

Assume historic rates of return will continue

Key factor 6 Discretionary income

Significant assumptions:

Assume excess cash each year will be reinvested in money market funds (hypothetical)

In a meeting on 9/15/19X2 (date), W. Brown (client)

acknowledged responsibility for the adequacy of these assumptions.

P. I. C.
(Interviewer's initials)

Exhibit 3-2G
(1 of 2)

Projected Financial Condition Workpaper
for the Years 19X2 through 19X6

Objective: To evaluate whether the personal financial plan will enable the client to reach financial goals.

Assets	19X2	19X3	19X4	19X5	19X6
Liquid Assets					
Cash and checking accounts	$5,000	$5,000	$5,000	$5,000	$5,000
Savings accounts	10,000	10,000	10,000	10,000	10,000
Money market funds	50,000	85,170	139,750	211,220	304,760
Certificates of deposit					
Brokerage accounts					
Life insurance cash value	35,000	37,450	40,070	42,870	45,870
Other liquid assets					
Total Liquid Assets	100,000	137,620	194,820	269,090	365,630
Marketable Securities					
Listed stocks and funds	123,000	129,150	135,610	142,390	149,510
Federal notes and bonds					
Corporate bonds and funds					
Municipal bonds and funds	27,000	27,000	27,000	27,000	27,000
Other marketable securities					
Total Marketable Securities	150,000	156,150	162,610	169,390	176,510
Other Investments					
Business interests	1,000,000	1,150,000	1,322,500	1,520,880	1,749,010
Partnership interests					
Investment in real estate					
Investment-grade collectibles					
Retirement accounts:					
Pension accounts	7,000	7,350	7,720	8,110	8,520
Profit-sharing accounts					
Deferred compensation/401(k) plans					
IRA accounts	30,000	32,400	34,990	37,790	40,810
Keogh accounts					
Other Clifford Trusts	100,000	105,000	110,250	115,760	121,550
Total Other Investments	1,137,000	1,294,750	1,475,460	1,682,540	1,919,890
Personal Assets					
Residence	295,000	330,400	370,050	414,460	464,200
Vacation home	155,000	167,400	180,790	195,250	210,870
Autos and boats	33,000	33,000	33,000	33,000	33,000
Furniture and household accessories	40,000	40,000	40,000	40,000	40,000
Other personal property	25,000	25,000	25,000	25,000	25,000
Total Personal Assets	548,000	595,800	648,840	707,710	773,070
Total Assets	$1,935,000	$2,184,320	$2,481,730	$2,828,730	$3,235,100

Projected Financial Condition Workpaper
For the Years 19X2 through 19X6

Liabilities And Net Worth	19X2	19X3	19X4	19X5	19X6
Current liabilities					
Charge accounts, credit card charges, and other bills payable	$4,000	$4,160	$4,330	$4,500	$4,680
Installment credit and other short-term loans					
Current portion of long-term debt	7,817	8,557	9,418	10,425	9,484
Unusual tax liabilities					
Total Current Liabilities	11,817	12,717	13,748	14,925	14,164
Long-Term Liabilities					
Mortgage notes on personal real estate	27,497	24,707	21,597	18,128	14,299
Mortgage notes on investment real estate					
Bank loans	39,686	33,919	27,611	20,654	15,000
Margin loans					
Life insurance policy loans					
Other					
Total Long-Term Liabilities	67,183	58,626	49,208	38,782	29,299
Total Liabilities	79,000	71,343	62,956	53,707	43,463
Family Net Worth	1,856,000	2,112,977	2,418,774	2,775,023	3,191,637
Total Liabilities and Net Worth	$1,935,000	$2,184,320	$2,481,730	$2,828,730	$3,235,100

Personal Income Tax Planning Checklist

Objective: To identify income tax-planning strategies applicable to the client's situation.

Client WILLIAM & HELEN BROWN Date 3/18/19X2

	Not Applicable	Currently in Use	Needs Action
Marginal Tax Rate ______			
Recordkeeping			
Business mileage log [Sec. 162]		✓	
Listed property usage log [Sec. 280F]	✓		
Condition of employment test [Sec. 280F]	✓		
Travel and entertainment [Sec. 274]		✓	
Cost or other basis for:			
Depreciable property		✓	
Capital assets		✓	
Personal residence			✓
Inherited property	✓		
Form 709 for gifts made		✓	
Loans made or received	✓		
Deductible and nondeductible IRAs [Sec. 219]		✓	
Passive-loss carryovers [Sec. 469]	✓		
Capital-loss carryovers [Sec. 1212]	✓		
Minimum tax credit carryovers [Sec. 55]	✓		
1099s for nominee distributions	✓		
Deduction Checklist			
Medical and dental insurance [Sec. 213]	✓		
Medical care costs [Sec. 213]		✓	
Medical supplies and equipment [Sec. 213]		✓	
Medical transportation [Sec. 213]		✓	
State income taxes [Sec. 164]		✓	
Property taxes [Sec. 164]		✓	
Qualified residence interest [Sec. 163(h)]			
Cost of residence plus improvements		✓	
Qualified medical and educational expenses	✓		
Other deductible interest [Sec. 163]			✓
Cash donations [Sec. 170]		✓	
Noncash donations [Sec. 170]	✓		
Qualified transportation for charity [Sec. 170]	✓		
Qualified work expenses for handicapped [Sec. 67(d)]	✓		
IRD estate taxes [Sec. 691]	✓		
Amortized bond premiums [Sec. 171]	✓		
Gambling losses [Sec. 165]	✓		
Moving expenses -- employee-related [Sec. 217]	✓		

	Not Applicable	Currently in Use	Needs Action
Miscellaneous Deductions Subject to 2% Floor [Sec. 67]			
Mutual fund pass-through expenses [Sec. 67]		✓	
Professional dues [Sec. 162]	✓		
Professional education [Sec. 162]	✓		
Malpractice insurance [Sec. 162]		✓	
Job-hunting expenses [Sec. 162]	✓		
Office at home [Sec. 280A]	✓		
Subscriptions [Sec. 162]		✓	
Uniforms [Sec. 162]	✓		
80% unreimbursed business entertainment [Sec. 274(n)]		✓	
Legal and accounting fees [Secs. 162 and 212]		✓	
Custodial fees [Sec. 212]		✓	
Collection fees [Sec. 162]	✓		
Hobby expenses up to income [Sec. 183]	✓		
Investment counsel [Sec. 212]		✓	
Safe deposit box rental [Secs. 162 and 212]	✓		
Appraisal fees for casualties or donations [Sec. 212]	✓		
Strategies			
Match capital gains and losses	✓		
Maximize deferrals of income through			
Deductible IRAs	✓		
401(k)s			✓
Qualified retirement plans			✓
Seek employer reimbursement of all employment related expenses -- even if salary reduction is required			✓
Seek enhanced employee benefits in lieu of salary increases			✓
Seek compensation increases based on total salary and benefits package			✓
Avoid nondeductible interest expense including employee business interest			✓
Consider use of the following to achieve pre-tax compounding of earnings			
Life insurance contracts			✓
Nondeductible IRAs			✓
Consider use of tax-exempt securities		✓	
Consider tax deferral opportunities of Series EE and HH U.S. government bonds	✓		
Consider borrowing from insurance contracts rather than surrender	✓		

	Not Applicable	Currently in Use	Needs Action
Consider gifts of income properties to children			✓
Consider other gifts to children under fourteen years old [Sec. 1]	✓		
Consider use of charitable remainder trusts, gift annuities, etc. [Secs. 72, 170, and 664]	✓		
Consider use of participant loan from qualified retirement plan to fund new-home purchase [Sec. 72(p)]	✓		
Consider acquiring passive-income investments to absorb passive losses [Sec. 469]	✓		
Consider the effects of alternative minimum-tax provisions on proposed transactions [Secs. 55-59]	✓		
Consider application of Sec. 179 deduction availability and pass-throughs from other entities	✓		
Consider impact of mandatory change in accounting periods for pass-through entities required in 1987 [IRC Secs. 706 and 1378]	✓		
Consider impact of mandatory change in 1987 to accrual accounting for certain cash-basis taxpayers [IRC Sec. 448]	✓		
Consider effect of mandatory 1987 change of trust year-ends to calendar year and four-year spread of income from short taxable year [IRC Sec. 645]			✓
If self-employed, consider impact of inventory costing changes in 1987 that may be required under TRA '86 [IRC Sec. 263A]	✓		
If self-employed, consider employing spouse and children to reduce self-employment taxes and obtain pension funding	✓		
Consider estimated-tax underpayment penalty rules [Sec. 6654]		✓	

Life-Insurance-Needs Worksheet

Objective: To determine if the client needs additional life insurance.

Client WILLIAM & HELEN BROWN Date 3/18/19X2

Note: All amounts should be in current dollars unless indicated otherwise.

Assume William dies first

	Decedent Husband	Decedent Wife	Reference
1. Cash needs			
a. Estate-clearance fund	84,690	385,720	Exhibit 3-9F
b. Emergency fund			
c. Debt repayment at death	79,000		
d. Education fund	56,000		Exhibit 3-7D
e. Other ______			
f. Total cash needs	219,690	385,720	
g. Cash needs not to be funded	56,000		Schedule C
h. Cash needs to be funded [line 1(f) less line 1(g)]	163,690	385,720	
2. Resources			
a. Liquid assets	65,000		Exhibit 3-2G
b. Assets convertible into cash [exclude investments reserved for retirement on exhibit 3-8G (line 4(c) below)]	150,000	37,000	
c. Life insurance	250,000	35,000	
d. Total liquid and cash resources	465,000	72,000	
3. Net cash needs (excess) [line 1(h) less line 2(d)]	<301,310>	313,720	
4. Income-continuation needs			
a. Until youngest is 18	243,000	—	Schedule A
b. Balance of years until retirement	438,000		Schedule B
c. Retirement years	578,000		Exhibit 3-8G, line 15 (attached)
5. Additional life insurance indicated [add lines 3, 4(a), 4(b), and 4(c)]	957,690		
6. Income-continuation needs not to be funded	957,690		Schedule C
7. Additional life insurance needed (line 5 less line 6)	—		

Schedule A Income Continuation Until Youngest Child is Eighteen

	Decedent: Husband	Decedent: Wife	Reference
1. Years until youngest child is 18 years old	4	4	
2. Estimated average inflation rate during lifetime	5%	5%	
3. Estimated average before-tax return on investments	7%	7%	
4. Estimated annual living expenses (including Jane Brown)	72,000	72,000	Exhibit 3-3A or 3-3B
a. Adjust for decedent's expenses included on line 4			
b. Adjust line 4 for increases in family expenses, including increases in day care expenses		10,000	
c. Adjusted annual living expenses: Line 4 minus line 4(a) plus line 4(b)	72,000	82,000	
d. Gross-up the annual living expenses on line 4(c) for taxes: divide the amount on line 4(c) by [1.00 minus the estimated average tax rate for this period] 35%	110,750	126,150	
5. Annual resources			
a. Surviving spouse's earnings	35,000	125,000	
b. Children's social security	12,000	8,000	
c. Other income earnings on excess cash	*		
d. Total	47,000	133,000	
6. Annual amount required (excess) [line 4(d) less line 5(d)]	63,750	<6,850>	

*None assumed because excess cash will be used for the income continuation need until Plasco Inc. is sold (See Schedule C).

7. Compute the inflation-adjusted rate of return during the period:

$$\left[\frac{1 + \text{interest rate on line 3}}{1 + \text{interest rate on line 2}} - 1\right] \times 100$$

7% / 5%

	1.9%	N/A	

8. Amount needed to fund annual amount required: Multiply line 6 times the present value of an annuity factor for the number of years on line 1 at the interest rate on line 7. (See table 3 in the unit 3 appendix and interpolate or use a financial calculator.)

	243,000	N/A	To page 1, line 4(a)

Schedule B Income Continuation for Balance of Years Until Retirement

	Decedent		
	Husband	Wife	Reference
1. Years until retirement	13	—	
2. Estimated annual living expenses (including Jane Brown + carol)	60,000		Exhibit 3-3A or 3-3B
a. Adjust for decedent's and children's expenses on line 2			
b. Other adjustments			
c. Adjusted annual living expenses: Line 2 minus line 2(a) plus <minus> line 2(b)	60,000		
d. Gross-up the annual living expenses on line 2(c) for taxes: Divide the amount on line 2(c) by [1.00 minus the estimated average tax rate for this period] (35%)	92,000		

3. Annual resources			
a. Surviving spouse's earnings	35,000		
b. Other ______			
c. Total resources	35,000		
4. Annual amount required (excess) [line 2(d) less line 3(c)]	57,000		
5. Compute the future value of the amount on line 4 in the number of years on schedule 4 A, line 1, at the expected 5% average inflation rate on schedule A, line 2. (See table 2 in the unit 3 appendix.)	70,000		
6. Amount needed to fund the annual amount required: Multiply line 5 times the present value of an annuity factor for the number of 13-4=9 years (line 1 less schedule 1.9% A, line 1) at the interest rate on schedule A, line 7. (See table 3 in the unit 3 appendix and interpolate or use a financial calculator.)	574,000		
7. To determine the lump sum required today, compute the present value of the amount on line 6 in the number of 4 years on schedule A, line 1 7% at the interest rate on schedule A, line 3. (See table 1 in the unit 3 appendix.) .763	438,000		To page 1, line 4(b)

Schedule C Life Insurance Needs Adjustment

List below the life insurance needs from page 1 that will not be funded and the reasons why	Amount	Explanation
Cash needs		
Education Fund	56,000	$100,000 reversionary interest in Clifford trusts will be available to fund education
Total cash needs not funded	56,000	To page 1, line 1(g)
Income continuation needs		
all	957,690	Computation ignores value of Plasco Inc. but indicates no income need for 3 or 4 years. Will dispose of investment in Plasco Inc. within that time to fund income continuation needs.
Total income continuation needs not funded	957,690	To page 1, line 6

Computation of Required Retirement Fund

Objective: To determine the lump-sum or annual contribution required to **fund** the gap between estimated retirement income and estimated retirement expenses.

Client HELEN BROWN Date 3/18/19X2

1.	Number of years until retirement	13
2.	Number of years remaining in the life of the spouse with the longer life expectancy	28
3.	Expected average inflation rate during remaining life expectancy	5%
4.	Expected average after-tax return on investments	7%
5.	Estimated average tax rate during retirement years	35%
6.	Annual after-tax retirement expenses in current dollars (from exhibit 3-8B or 3-8C)	50,000
7.	Estimated annual before-tax retirement income in current dollars (from exhibit 3-8D)	20,000
8.	Assets available for retirement (from exhibit 3-8D)	—
9.	Gross-up the annual retirement expenses on line (6): Divide the amount on line (6) by [1 minus the estimated average tax rate (line (5))].	77,000
10.	Retirement-income gap: Subtract the amount on line (7) from the amount on line (9). (There is no need to complete the form if the result is zero or less.)	57,000
11.	Compute the future value of the amount on line (10): Multiply the amount on line (10) times the future-value factor for 13 years (line 1) at a 5% interest rate (line 3). (See table 2 in the unit 3 appendix.) 1.886	107,500
12.	Compute the inflation-adjusted rate of return during retirement: $\left[\frac{1 + .07 \text{ interest rate (line 4)}}{1 + .05 \text{ interest rate (line 3)}} - 1\right] \times 100$	1.9
13.	Find the amount needed at retirement to fund the retirement-income gap: Multiply line 11 times the present-value-of-an-annuity factor for 15 years [line (2) minus line (1)] at a 1.9% interest rate (line 12). (See table 3 in the unit 3 appendix and interpolate, or use a financial calculator.)	1,391,750

14. To determine the lump sum required today, compute the present value of the amount on line (13): Multiply the amount on line (13) times the present value factor for 13 years (line 1) at 7% interest rate (line 4). (See table 1 in the unit 3 appendix.) .415 — 578,000

15. To calculate the unfunded required amount: Subtract the amount on line (8) from the amount on line (14). — 578,000 To exhibit 3-5 E, page 1065, line 4(C)

16. To compute the annual payment amount required until retirement, divide the amount on line (15) by the present value of an annuity factor for ____ years (line 1) at _____ interest rate (line 4). (See table 3.) — ____

Exhibit 3-5G

Disability Insurance-Needs Analysis

Objective: To determine if the client needs additional disability insurance.

Client WILLIAM & HELEN BROWN Date 3/18/19X2

	If Client Disabled		If Spouse Disabled	
Available Funds	Lump Sum	Monthly Income	Lump Sum	Monthly Income
Current disability income insurance	$	$	$	$
Social security benefits		1,200		800
Qualified pension plans				
Nonqualified plans				
Salary-continuation plan				
Spouse's earnings		3,000		12,000
Annuities				
Proceeds from sale of business interest				
Other INVESTMENTS		1,000		1,000
Total		5,200		13,800
Expenses				
Monthly expenses (see exhibit 3-3B)		5,100		7,000
Other expenses (such as education expenses)				
Extra expense -- disabled person				
Total		5,100		7,000
After-tax percentage (subtract tax rate from 1.00)		.65		.65
Pre-tax income needed (divide total by after-tax percentage)		7,800		10,750
Excess (deficiency) of disability income	$	$ (2,600)	$	$ 3,050

Exhibit 3-6I

Current Value of Present Portfolio

Client WILLIAM & HELEN BROWN   Date 3/18/19X2

Objective: To summarize, by investment objective, the client's liquid assets and investments listed in exhibit 3-2B; to determine if liquid assets and investments need repositioning.

	Percent	Total $	Investment Account $	Retirement Accounts (IRAs, etc.) Self-directed	Retirement Accounts (IRAs, etc.) Not Self-directed	Recommended Changes and Explanation
Liquid Investments						
Cash						
Checking accounts	.4	5,000	5,000			
Savings accounts	7.9	110,000	110,000			Reposition for better yield
Certificates of deposit	2.2	30,000		30,000		Reposition to better yield
Money market accounts	3.6	50,000	50,000			
Cash value of life insurance	2.5	35,000	35,000			
Other						
Total Liquid Investments	16.6	230,000	200,000	30,000		
Income-Producing Investments						
Municipal bonds	1.9	27,000	27,000			
U.S. government notes and bonds	.5	7,000			7,000	
Corporate bonds						
Rental property						
Notes receivable						
Other						
Total Income-Producing Investments	2.4	34,000	27,000		7,000	
Growth-Oriented Investments						
Common stocks	7.2	100,000	100,000			Diversify
Mutual funds	1.7	23,000	23,000			Growth
Closely held business	72.1	1,000,000	1,000,000			Investments
Partnership interests						
Land						
Other						
Total Growth-Oriented Investments	81.0	1,123,000	1,123,000			
Total Investments	100.0	1,387,000	1,350,000	30,000	7,000	

Exhibit 3-7D

Computation of Amount
Required for Education Funding

Objective: To determine the lump-sum or annual contribution required to meet estimated future education expenses.

1. Child's name RICHARD

2. Child's age 17

3. Number of years remaining before college 1

4. Number of years in college 4

5. Estimated inflation rate for college costs 7%

6. Estimated after-tax return on investments 8%

7. Estimated current cost of one year of college $15,000

Lump-Sum Computation:

Step 1: Compute current cost of sending a child to college:
line (4) x line (7) = (A) 4 x 15,000 = 60,000

Step 2: Inflation adjustment time period: line (3) + 1/2 line (4) = (B)
1 + 1/2(4) = 3

Step 3: Future cost of college:
(A) x future value factor for (B) years at the interest rate on line (5) (table 2 in appendix) = (C)
60,000 x 1.225 = 73,500

Step 4: Required amount of lump sum:
(C) x present value factor for (B) years at the interest rate on line (6) (table 1 in appendix) = (D)
73,500 x .794 = 58,359

Annual Contribution Computation:

Steps 1, 2, 3: same as for lump-sum computation
Adjustment: Step 3, $73,500, less future value of Clifford trust income, $36,000 = $37,500*
Step 4: Required amount of annual contribution:
(C) ÷ future value of an annuity factor for (B) years at the interest rate on line (6) (table 4 in appendix) = (E)
37,500 ÷ 3.2464 = 11,550 (funding over three years)

*Present value of 37,500 = 37,500 x .794 = 29,775

After the refunding requirements have been determined, the last step is to use the best investment tools to achieve the client's need and to continue to monitor them.

Exhibit 3-7D

Computation of Amount Required for Education Funding

Objective: To determine the lump-sum or annual contribution required to meet estimated future education expenses.

1. Child's name CAROL
2. Child's age 14
3. Number of years remaining before college 3
4. Number of years in college 4
5. Estimated inflation rate for college costs 7%
6. Estimated after-tax return on investments 8%
7. Estimated current cost of one year of college $15,000

Lump-Sum Computation:

Step 1: Compute current cost of sending a child to college: line (4) x line (7) = (A) 4 x 15,000 = 60,000

Step 2: Inflation adjustment time period: line (3) + 1/2 line (4) = (B)
3 x ½(4) = 5

Step 3: Future cost of college:
(A) x future value factor for (B) years at the interest rate on line (5) (table 2 in appendix) = (C)
60,000 x 1.403 = 84,180

Step 4: Required amount of lump sum:
(C) x present value factor for (B) years at the interest rate on line (6) (table 1 in appendix) = (D)
84,180 x .681 = 57,327

Annual Contribution Computation:

Steps 1, 2, 3: same as for lump-sum computation
Adjustment: step 3, $84,180, less future value of Clifford trust income, $45,203 = 38,977*
Step 4: Required amount of annual contribution:
(C) ÷ future value of an annuity factor for (B) years at the interest rate on line (6) (table 4 in appendix) = (E)
38,977 ÷ 5.8666 = 6644 (funding over 5 years)

* Present value of 38,977 = 38,977 x .681 = 26,543

After the refunding requirements have been determined, the last step is to use the best investment tools to achieve the client's need and to continue to **monitor** them.

Computation of Required Retirement Fund

Objective: To determine the lump-sum or annual contribution required to fund the gap between estimated retirement income and estimated retirement expenses.

Client WILLIAM & HELEN BROWN Date 3/18/19X2

1. Number of years until retirement 10

2. Number of years remaining in the life of the spouse with the longer life expectancy 28

3. Expected average inflation rate during remaining life expectancy 5%

4. Expected average after-tax return on investments 7%

5. Estimated average tax rate during retirement years 35%

6. Annual after-tax retirement expenses in current dollars (from exhibit 3-8B or 3-8C) 85,000

7. Estimated annual before-tax retirement income in current dollars (from exhibit 3-8D) 30,000

8. Assets available for retirement (from exhibit 3-8D) 350,000

9. Gross-up the annual retirement expenses on line (6): Divide the amount on line (6) by [1 minus the estimated average tax rate (line (5))]. 130,000

10. Retirement-income gap: Subtract the amount on line (7) from the amount on line (9). (There is no need to complete the form if the result is zero or less.) 100,000

11. Compute the future value of the amount on line (10): Multiply the amount on line (10) times the future-value factor for 10 years (line 1) at a 5% interest rate (line 3). (See table 2 in the unit 3 appendix.) 1.629 162,900

12. Compute the inflation-adjusted rate of return during retirement:

$$\left[\frac{1+ \underline{.07}\text{ interest rate (line 4)}}{1+ \underline{.05}\text{ interest rate (line 3)}} - 1\right] \times 100$$

1.9%

13. Find the amount needed at retirement to fund the retirement-income gap: Multiply line 11 times the present-value-of-an-annuity factor for 18 years [line (2) minus line (1)] at a 1.9% interest rate (line 12). (See table 3 in the unit 3 appendix and interpolate, or use a financial calculator.) 2,463,800

14. To determine the lump sum required today, compute the present value of the amount on line (13): Multiply the amount on line (13) times the present value factor for 10 years (line 1) at 7% interest rate (line 4). (See table 1 in the unit 3 appendix.) .508 — 1,251,600

15. To calculate the unfunded required amount: Subtract the amount on line (8) from the amount on line (14). — 900,000

16. To compute the annual payment amount required until retirement, divide the amount on line (15) by the present value of an annuity factor for ____ years (line 1) at _____ interest rate (line 4). (See table 3.) ________

Estate Liquidity Analysis

Objective: To determine whether an estate is likely to have liquidity problems.

Client WILLIAM & HELEN BROWN (assumes husband predeceases wife) Date 3/18/19X2

Estimated Liquid Assets	HUSBAND	WIFE
Checking accounts	5,000	
CDs and savings accounts	10,000	37,000
Money market funds	50,000	
Life insurance proceeds	250,000	35,000
Proceeds of buy/sell agreements		
Proceeds of sec. 303 redemption		
Other Excess liquid assets in husband's estate		156,000
Total	315,000	228,000
Estimated Estate Expenses (compute below or at Exhibit 3-5E)		
Final medical expenses	25,000	25,000
Funeral expenses	5,000	5,000
Estate legal and administrative fees	54,690	42,820
Debts: loans, credit accounts, bills	79,000	—
Net federal and state income taxes payable	—	
Federal estate tax	—	312,900
State death tax	—	
Other		
Total	163,690	385,720
Excess (Deficit) of Liquid Assets	*156,000	*<157,720>

* This scenario represents the greatest liquidity need at death. It ignores possible proceeds of buy/sell agreements or I.R.C. Sec. 303 redemptions, which the client plans to explore in a subsequent engagement.

Estate-Tax-Planning Checklist

Objective: To identify planning opportunities that may be useful in structuring a client's estate.

Client WILLIAM & HELEN BROWN Date 3/18/19X2

	Currently in Use	Planning Opportunity	N/A	Comment
1. Will the estate be subject to: Federal estate tax?		✓		
The additional 15 percent federal estate tax on excess retirement accumulations?			✓	
State death taxes?		✓		
2. Will the estate be sufficiently liquid to meet expenses, including taxes?		✓		
3. Should the annual gift-tax exclusion be used?		✓		
4. Should gifts be made so that both spouses will be able to use the unified credit?		✓		
5. Do the client's and spouse's plans maximize the use of the unified credit?		✓		
6. Should a bypass trust be considered?		✓		
7. Is the marital deduction being used to minimize the overall estate taxes of the client and spouse?		✓		
8. Should a qualified terminal-interest trust be considered?			✓	
9. Have the ownership and assignment of life insurance been arranged to minimize estate taxes?		✓		

		Currently in Use	Planning Opportunity	N/A	Comment
10.	Should a life insurance trust be set up?		✓		
	Should it include a Crummey provision?		✓		
11.	Have lifetime and testamentary charitable gifts been considered?			✓	
12.	Should generation-skipping transfers be used?			✓	
	Should the special exemption for transfers from grandparents to grandchildren be used before 1990?			✓	
13.	Should disclaimers be considered for any expected inheritances?		✓		
14.	Should *inter vivos* trusts be considered to shift income and property?		✓		
15.	Are any of the following freezing techniques applicable:				
	Installment sales?		✓		
	Personal holding companies?			✓	
	Private annuities?			✓	
	Corporate recapitalizations?		✓		
16.	Will the form of property ownership minimize estate taxes?		✓		
17.	Will anticipated income in respect of a decedent be inherited by low-income beneficiaries?			✓	
18.	Have plans been made to minimize state death taxes?		✓		

	Currently in Use	Planning Opportunity	N/A	Comment
19. Can the estate be structured to qualify for:				
o The special-use valuation of a family farm or real estate used in a closely held business? (sec. 2032A)			✓	
o Installment payments of estate taxes (sec. 6166)?		✓		
20. Has the purchase of flower bonds been considered for the payment of estate taxes?			✓	
21. Has a living will been considered?		✓		

Computation of the Federal Estate Tax

Objective: To determine the effect of estate-planning recommendations on the estimated federal estate tax.

Client WILLIAM & HELEN BROWN Date 3/18/19X2

assume William dies first

		WILLIAM ~~Current~~	HELEN ~~Revised~~
1.	Gross estate (Beginning of year)	1,772,750	1,456,310
2.	Funeral expenses + Medical	30,000	30,000
3.	Administrative expenses	54,690	42,820
4.	Debts	79,000	
5.	Taxes		
6.	Losses		
7.	Add line 2 to line 6	163,690	72,820
8.	Adjusted gross estate (subtract line 7 from line 1)	1,609,060	1,383,490
9.	Marital deduction	1,009,060	
10.	Charitable deduction		
11.	Add line 9 and line 10	1,009,060	
12.	Taxable estate (subtract line 11 from line 8)	600,000	1,383,490
13.	Adjusted taxable gifts		
14.	Tentative tax base (add line 12 and line 13)	600,000	1,383,490
15.	Tentative estate tax	192,800	505,700
16.	Gift taxes on gifts made after 1976		
17.	Tax before credits (subtract line 16 from line 15)	192,800	505,700
18.	Unified credit	192,800	192,800
19.	State death tax credit		
20.	Other ______		

		WILLIAM ~~Current~~	HELEN ~~Revised~~
21.	Total credits (add line 18 to line 20)	192,800	192,800
22.	Net tax (subtract line 21 from line 17)	None	312,900
23.	Additional tax on excess retirement accumulations		
24.	Federal estate tax payable (add line 22 and line 23)	None	312,900
25.	Estate depletion (add line 7 plus line 24)	163,690	385,720
26.	Depletion percentage (divide line 25 by line 1)	9.2%	26.5%

CASE STUDY
FINANCIAL PLAN

Subcommittee and Associates, CPAs
March 20, 19X2

Mr. and Mrs. William Brown
Middletown, USA

Dear William and Helen:

We enjoyed meeting with you yesterday and are pleased to have this opportunity to help you develop your financial plan.

You indicated that the following are your primary financial objectives at this time:

1. Organizing your financial affairs to reflect new tax laws and investment strategies.

2. Providing for Richard's and Carol's educations, assuming a current cost of $15,000 a year.

3. Providing for Carol's special needs.

4. Providing for the future needs of William's mother, including an annual expense of $5,200.

5. Providing for William Jr. and his family, if necessary.

6. Developing a plan of succession for the business that would permit passage to your children, if desirable.

7. Retiring in about ten years, with an annual after-tax income equivalent to $85,000 today.

8. Developing a plan to reduce estate taxes to their legal minimum.

The following assumptions are an integral part of this financial plan:

1. You assume existing tax rates will prevail through 19X6.

2. You expect inflation to average 5 percent during your lifetime.

3. You expect the following return on investments:

Category	Average Annual Rate of Return
Money market funds	5.5%
Life Insurance cash value	7.0%
Listed stocks and mutual funds	7.0%
Municipal bonds	10.0%
Pension and 401(k) plans	5.0%
IRA accounts	8.0%

4. You assume Plasco, Inc. will continue its 15 percent annual growth rate.

5. You expect William's salary to increase 15 percent a year and Helen's salary about 6 percent a year.

6. You assume your residence will appreciate at 12 percent a year and the vacation home at 8 percent a year.

7. You expect to invest your excess cash flow in money market funds until reinvested in accordance with the recommendations of an investment adviser.

8. The principal of the Clifford trusts will revert to you when the trusts terminate.

We have discussed alternative recommendations, and the following summarize those you have decided to implement:

Cash Management

A major factor in meeting some of your financial goals is your excess cash flow, which is projected to increase from $35,000 to $120,000 over five years. Funds for providing for the special needs of Carol, Jane Brown, and William Jr. can be met from your cash flow at this time. As your financial assets grow over the next two or three years, we should explore establishing irrevocable trusts to fund their needs while taking advantage of their lower income tax brackets.

We recommend that you forfeit your $5,000 deposit and not buy the Florida condominium. We believe the $75,000 required for the down payment and furnishings would be better used if allocated to funding trusts for Carol and Jane Brown.

To maximize the benefit of your excess cash flow, all deposits should be made to an interest-bearing account. Funds can then be transferred to a checking account once or twice a month as needed.

To reduce your consumer interest expense, we suggest that you refinance your personal loans of $45,000 at a lower rate and pay off all credit card accounts monthly.

Insurance Needs

Although an insurance review was not one of your primary planning objectives, we did review your coverage and have the following recommendations.

Life Insurance. A calculation of the family's life insurance needs in the event of William's premature death indicates that about $1 million of additional life insurance on William would be needed. The calculation ignores, however, your investment in Plasco, Inc. Because of the life insurance and marketable securities you already have, the family would not have an immediate need for the additional funds. For that reason, rather than obtaining additional life insurance at this time, we recommend first exploring with you various succession plans that could be used to obtain needed funds from Plasco, Inc.

Disability Insurance. William currently has no disability coverage other than what would be provided through Social Security. We recommend obtaining private coverage of about $2,600 a month. The definition of disability in the policy should be specific to William's current occupation.

Medical Insurance. The medical coverage provided by Plasco duplicates the coverage on Helen provided by the bank. The bank coverage currently has a lower deductible by $400 a year and no stated maximum lifetime benefit, while Plasco's policy has a $500,000 limitation for each family member. Considering Carol's physical disability, as well as the escalation of medical costs, you should explore whether the bank policy would provide a potentially larger family coverage at a lower annual cost.

Property and Liability Insurance. We recommend that you explore the following property and liability insurance issues with your insurance professional:

- Whether the $25,000 personal property floater covering your jewelry should be increased for other household assets you have acquired.

- Whether the homeowners policy on the vacation cottage provides adequate coverage for the rental activity.

- Dropping the collision coverage in the automobile insurance policies of the two lower-value vehicles.

- The advisability of obtaining director's liability coverage for your activity with Plasco, Inc.

We have attached a letter to send your insurance agent requesting a review of your property and liability coverage.

Asset Allocation

The following asset allocation recommendations are based on our discussions and our understanding of your financial objectives. You currently have $65,000 in liquid assets, including your money market funds. We suggest that you retain $35,000 in liquid assets to provide an emergency fund of about six months expenses, less Helen's salary. In the event of William's disability, disability insurance benefits would begin after six months.

Because your Plasco, Inc. stock is a high-risk, growth investment, we recommend that other funds be invested in less aggressive securities, such as bonds and blue-chip stocks. Diversification, such as that obtained by investing in mutual funds, may further spread risk.

We suggest that you retain an investment adviser, such as a securities broker, to recommend suitable portfolios for your IRAs, Clifford trusts, and excess liquid assets. As we have discussed, we could review the investment adviser's proposals to determine whether they correspond to your overall financial objectives and investment preferences.

Income Tax Planning

We recommend that Helen make the maximum allowable deductible contributions to her employer's 401(k) plan.

Establishing irrevocable trusts with contingent beneficiaries for Jane Brown, Carol, and, if necessary, for William Jr., as mentioned under the cash management heading, would mean that distributed funds would be taxed at the beneficiaries' tax rates rather than at your higher rates. Thus, more money will be available for support. Trusts funded by using your annual gift tax exclusion will also remove assets from your taxable estate.

We discussed whether Plasco, Inc. should invest in tax shelters, but concluded that it would be better to use available cash to fund a corporate retirement plan.

Education Funding

We computed projected college costs for Richard and Carol based on (1) your estimate of college costs in today's dollars of $15,000 a year, (2) an inflation factor for college costs of 7 percent a year, and (3) an annual after-tax return on invested assets of 8 percent. Based on the projections, Richard needs a college fund, in addition to the accumulated Clifford trust income, of about $30,000 today, or $11,500 a year for three years. Carol requires an additional fund of about $27,000 today, or $6,650 a year for five years.

Richard's and Carol's ten-year Clifford trusts will terminate, with the $100,000 principal returning to you, before they enter college. You could cover the unfunded amount from those funds or out of current cash flow as the costs are incurred.

Retirement Planning

You have indicated that you would like to retire in approximately ten years with an annual after-tax income equivalent to $85,000 today. If Plasco, Inc. continues to grow at an average annual rate of 15 percent, you should be able to achieve your retirement plan objectives. Retirement funding will come from selling or recapitalizing your interest in Plasco, Inc. This is discussed under the heading "Business Planning."

As you are aware, there is tremendous risk in having your retirement funding almost totally dependent on the continued growth of Plasco, Inc. We therefore suggest that Helen make deductible contributions to her employer's plan. We also recommend that you consider establishing a retirement plan in Plasco, Inc.

Estate Planning

Because of changes in estate tax laws, your wills need to be revised. Each spouse's estate is entitled to a $600,000 exemption from the estate tax.

We recommend that you have your estate attorney include a trust in each will to take advantage of the exemption. Property valued at $600,000 can be transferred to the trust at death, with the surviving spouse to receive income from the trust for life. At the second spouse's death, the trust property can be distributed free of estate tax to the children. Such a trust will reduce the overall federal estate tax by about $250,000.

So that a trust can be funded from Helen's estate, we recommend that, over time, William gift Plasco, Inc. stock to Helen until she holds stock worth $600,000.

To remove life insurance proceeds from William's estate, we recommend that an irrevocable life insurance trust be established, and the corporate term insurance be transferred into it.

Jane Brown's will names your children as alternate beneficiaries. If you decide, at the time of her death, that you will not need to inherit her property to meet your financial needs, you may want to disclaim her will, in which case the property will pass to your children. Because of special concerns you have for William Jr. and Carol, you might prefer that their inheritance pass to trusts for them, instead of outright. Richard's inheritance could still pass directly to him. If that is your preference, we recommend that you discuss it with William's mother to see if she would want to make the change in her will.

Business Planning

In discussing both retirement planning and estate planning, we have noted the importance of establishing a succession plan for Plasco, Inc. Methods of retaining the business in the family could be explored, as well as sales to outsiders.

We recommend that your entire company benefit package be evaluated. Insurance benefits should be reviewed to determine if they are competitive and cost effective. The cost of various types of qualified and nonqualified retirement plans should also be estimated and evaluated.

In addition, we should discuss the advisability of making an S Corporation election because the maximum corporate rates are higher than the maximum individual rates.

Plan Limitations

The following describes some limitations relating to the financial information included in your plan:

We have assembled projections concerning your financial needs from information you provided about your current financial situation, your current and future income and expenses, and estimates about future inflation and investment returns. We have not compiled or examined the presentation and express no assurance of any kind on it. Differences will probably exist between the projections and actual results because your personal situation, the economic environment, tax laws, and other circumstances may change, and the effects of such changes may be material. The projected information in the plan is restricted to internal use by you and your advisers who are developing your financial plan and should not be shown to third parties for any purpose.

Because changes in personal, economic, and other circumstances may modify your financial objectives and the recommendations in this plan, we suggest that we periodically review your plan and financial situation to evaluate whether you are making progress in accomplishing your goals.

Attachments

To assist you in carrying out the recommendations in this plan, we have attached an implementation schedule that reflects the implementation plans we discussed yesterday. We have also attached a copy of the five-year projections we used to develop your plan. We used the assumptions listed at the beginning of this letter to develop the projections. The third attachment is the property and liability insurance letter for your insurance agent.

We appreciate the opportunity to work with you in developing your financial plan and look forward to assisting you in its implementation and periodic review.

Very truly yours,

Subcommittee and Associates, CPAs

Attachment 1

Implementation Schedule

	Responsibility	Due Date
1. Rearrange banking practices -- set up money market fund for cash deposits.	Helen	4/1
2. Arrange with bank to begin contributions to the 401(k) plan.	Helen	4/1
3. Send the insurance letter to your insurance agent.	Helen	4/1
4. Select an investment adviser and meet with him to develop portfolios for your IRAs, Clifford trusts, and excess liquid assets.	William	5/1
5. Refinance consumer credit.	Helen	5/1
6. Consult broker about disability insurance.	William	6/1
7. Determine if Helen's employee medical coverage would provide better family coverage at a lower cost.	Helen	6/1
8. Meet with your estate attorney to have the following documents drafted: 1) Revised wills that provide for $600,000 trusts 2) An irrevocable life insurance trust	William, Helen	8/1
9. Assign corporate term life insurance to the insurance trust.	William	9/1
10. Consider whether to ask Jane Brown to revise her will to name trusts for the children as alternate beneficiaries.	William	9/1
11. Set up an appointment with CPA for the following business planning: 1) Review corporate benefit package for cost effectiveness. 2) Select a corporate retirement plan based on a cost study of various types. 3) Develop a succession plan for Plasco, Inc.	William	11/1

Attachment 2

WILLIAM BROWN FAMILY
RETURN ON ASSETS, NEW INVESTMENT AND OWNERSHIP OF ASSETS AND LIABILITIES

RETURN/ INCREASE	NEW INVESTMENT		
5.25%	0.00%	....	Cash and Checking Accounts
5.50%	0.00%	....	Savings Accounts
5.50%	0.00%	....	Money Market Funds - Nontaxable
6.00%	100.00%	....	Money Market Funds - Taxable
7.00%	0.00%	....	Brokerage Accounts
7.00%	0.00%	....	Life Insurance Cash Values
0.00%	0.00%	....	Other
7.00%	0.00%	....	Listed Stocks/Funds
5.50%	0.00%	....	Federal Obligations
7.00%	0.00%	....	Corporate Bonds/Funds
9.25%	0.00%	....	Municipal Bonds/Funds
9.00%	0.00%	....	Municipal Bonds/Funds
15.00%	0.00%	....	Business Interests
4.00%	0.00%	....	Partnership Interests
4.00%	0.00%	....	Investment in Real Estate
5.00%	0.00%	....	Money Purchase Pension Accounts
5.00%	0.00%	....	Defined Benefit Account
5.00%	0.00%	....	Deferred Compensation/401 K Plans
8.00%	0.00%	....	IRA Accounts
5.00%	0.00%	....	Profit Sharing Account
4.00%	0.00%	....	Tax-Sheltered Investments
0.00%	0.00%	....	Other
12.00%	0.00%	....	Residence
8.00%	0.00%	....	Vacation Home
0.00%	0.00%	....	Autos/Boats
0.00%	0.00%	....	Furniture and Household Accessories
0.00%	0.00%	....	Other Personal Property

	100.00%		

		....	Charge Accounts, Credit Card Charges and Other Bills Payable
		....	Installment Credit and Other Short Term Loans
		....	Unusual Tax Liabilities
		....	Mortgage Notes on Personal Real Estate
		....	Mortgage Notes on Investment Real Estate
		....	Bank Loans
		....	Margin Loans
		....	Life Insurance Policy Loans
		....	Other

WILLIAM BROWN FAMILY
PROJECTED RECEIPTS
FOR THE YEARS 19X2 THROUGH 19X6

RECEIPTS	19X2	19X3	19X4	19X5	19X6
Compensation					
Husband	$125,000	$143,750	$165,310	$190,110	$218,630
Wife	35,000	37,100	39,330	41,690	44,190
Total Compensation	160,000	180,850	204,640	231,800	262,820
Investment Income					
Interest - Taxable	2,800	5,860	8,920	12,810	17,760
Interest - Nontaxable	2,500	2,500	2,500	2,500	2,500
Interest	0	0	0	0	0
Dividends	3,200	3,420	3,660	3,920	4,190
Rental Cash Flow	3,000	3,000	3,000	3,000	3,000
Proprietorship Cash Flow	0	0	0	0	0
S Corp, Partnership Cash Flow	0	0	0	0	0
Proceeds From Sale Of:					
Capital Assets - Long Term	0	0	0	0	0
Capital Assets - Short Term	0	0	0	0	0
Other	0	0	0	0	0
Total Investment Income	11,500	14,780	18,080	22,230	27,450
Pensions	0	0	0	0	0
Annuities	0	0	0	0	0
Social Security	0	0	0	0	0
Trust Cash Flow	0	0	0	0	0
Principal Received - Notes Receivable	0	0	0	0	0
Additional Borrowing	0	0	0	0	0
Gifts Received	0	0	0	0	0
Other Income/Receipts	0	0	0	0	0
TOTAL RECEIPTS	$171,500	$195,630	$222,720	$254,030	$290,270

WILLIAM BROWN FAMILY
PROJECTED EXPENDITURES
FOR THE YEARS 19X2 THROUGH 19X6

EXPENDITURES	19X2	19X3	19X4	19X5	19X6
Ordinary Living Expenses	$49,400	$51,870	$54,460	$57,180	$60,040
Interest Expense					
Consumer Debt	7,584	6,079	5,065	3,945	2,878
Bank Loans	0	0	0	0	0
Mortgage Notes (including cottage)	3,400	2,991	2,670	2,312	1,911
Insurance Policy Loans	0	0	0	0	0
Investment Interest	0	0	0	0	0
Other Interest	0	0	0	0	0
Total Interest Expense	10,984	9,070	7,735	6,257	4,789
Debt Amortization	7,817	8,557	9,419	10,424	9,525
Insurance Premiums					
Life	500	500	500	500	500
Medical	0	0	0	0	0
Disability	0	0	0	0	0
Property and Liability	3,700	3,890	4,080	4,280	4,490
Total Insurance Premiums	4,200	4,390	4,580	4,780	4,990
Medical Expenses					
Medicine and Drugs	0	0	0	0	0
Doctors, Dentists, Hospitals	0	0	0	0	0
Total Medical Expenses	0	0	0	0	0
Charitable Contributions	5,000	5,750	6,610	7,600	8,740
19X1 Tax Liabilities	0	0	0	0	0
Gifting Program for Children	0	0	0	0	0
Miscellaneous Tax Deductible Expenses	0	0	0	0	0
Employee Business Expense	0	0	0	0	0
Taxes					
Federal Income Tax	41,180	44,546	53,334	62,083	71,695
State and Local Income Tax	5,833	7,199	8,340	9,683	11,251
Social Security	5,630	5,780	5,940	6,110	6,260
Real Estate and Personal Property	6,400	6,400	6,400	6,400	6,400
Sales Tax	1,000	1,000	1,000	1,000	1,000
Total Taxes	60,043	64,925	75,014	85,276	96,605
TOTAL EXPENDITURES	$137,444	$144,562	$157,818	$171,517	$184,689
CASH AVAILABLE FOR DISCRETIONARY INVESTMENT	$34,056	$51,068	$64,902	$82,513	$105,581

WILLIAM BROWN FAMILY
PROJECTED FEDERAL TAX CALCULATIONS
FOR THE YEARS 19X2 THROUGH 19X6

	19X2	19X3	19X4	19X5	19X6
INCOME					
Total Compensation	$160,000	$180,850	$204,640	$231,800	$262,820
Interest & Dividends (Incl. Imp. Int.)	6,000	9,280	12,580	16,730	21,950
Rental Income	1,500	1,500	1,500	1,500	1,500
Active S-Corp, Partnership Inc. (Loss)	0	0	0	0	0
Proprietorship Income	0	0	0	0	0
Net Capital Gains (Losses) Subject to Tax	0	0	0	0	0
Pensions	0	0	0	0	0
Annuities	0	0	0	0	0
Social Security Income	0	0	0	0	0
Trust Income	0	0	0	0	0
Other Income/Receipts - Taxable	0	0	0	0	0
Passive S-Corp, Partnership Inc. (Loss)	0	0	0	0	0
Total Income	167,500	191,630	218,720	250,030	286,270
ADJUSTMENTS					
IRA and Keogh Payments	0	0	0	0	0
Alimony	0	0	0	0	0
Other Adjustments	0	0	0	0	0
Total Adjustments	0	0	0	0	0
Itemized Deductions	25,562	24,771	25,034	26,389	28,302
Zero Bracket Amount	0	0	0	0	0
Exemptions	7,600	7,800	8,000	8,000	8,000
Taxable Income	$134,338	$159,059	$185,686	$215,641	$249,968
Federal Income Tax As Calculated: Per Tables with Surcharges	$41,660	45,026	53,814	62,563	72,175
Per Alternative Minimum Tax	0	0	0	0	0
Federal Tax For Year	41,660	45,026	53,814	62,563	72,175
ITC Credits	0	0	0	0	0
Child Care Credit	(480)	(480)	(480)	(480)	(480)
Federal Income Tax Due	$41,180	$44,546	$53,334	$62,083	$71,695
FEDERAL AGI	$167,500	$191,630	$218,720	$250,030	$286,270
LESS: FEDERAL INTEREST	0	0	0	0	0
ITEMIZED DEDUCTIONS	(25,562)	(24,771)	(25,034)	(26,389)	(28,302)
FEDERAL TAX	(41,180)	(44,546)	(53,334)	(62,083)	(71,695)
SOCIAL SECURITY	(5,630)	(5,780)	(5,940)	(6,110)	(6,260)
STATE TAX REFUND	0	0	0	0	0
PLUS: MUNICIPAL INTEREST	0	0	0	0	0
STATE INCOME TAX	5,833	7,199	8,340	9,683	11,251
LESS: PERSONAL EXEMPTION	(3,200)	(3,200)	(3,200)	(3,200)	(3,200)
STATE TAXABLE INCOME	$100,961	$123,731	$142,753	$165,131	$191,264
STATE TAX	$5,833	$7,199	$8,340	$9,683	$11,251

WILLIAM BROWN FAMILY
PROJECTED BEGINNING OF THE YEAR BALANCE SHEETS
FOR THE YEARS 19X2 THROUGH 19X6

	19X2	19X3	19X4	19X5	19X6
ASSETS					
Liquid Assets					
Cash and Checking Accounts	$5,000	$5,000	$5,000	$5,000	$5,000
Savings Accounts	10,000	10,000	10,000	10,000	10,000
Money Market Funds - Nontaxable	0	0	0	0	0
Money Market Funds - Taxable	50,000	84,060	135,130	200,030	282,540
Brokerage Accounts (Cash equivalents)	0	0	0	0	0
Life Insurance Cash Value	35,000	37,450	40,070	42,870	45,870
Other	0	0	0	0	0
Total Liquid Assets	100,000	136,510	190,200	257,900	343,410
Marketable Investments					
Listed Stocks/Funds	123,000	131,610	140,820	150,680	161,230
Federal Obligations	0	0	0	0	0
Corporate Bonds/Funds	0	0	0	0	0
Municipal Bonds/Funds	27,000	27,000	27,000	27,000	27,000
Municipal Bonds/Funds	0	0	0	0	0
Total Marketable Investments	150,000	158,610	167,820	177,680	188,230
"Nonmarketable" Investments					
Business Interests	1,000,000	1,150,000	1,322,500	1,520,880	1,749,010
Partnership Interests	0	0	0	0	0
Rental Property	0	0	0	0	0
Other	0	0	0	0	0
Retirement Accounts:					
Money Purchase Plan	0	0	0	0	0
Defined Benefit Plan	7,000	7,350	7,720	8,110	8,520
IRA Accounts	30,000	32,400	34,990	37,790	40,810
Profit Sharing Plan	0	0	0	0	0
Passive Partnerships	0	0	0	0	0
Clifford Trust	100,000	107,000	114,490	122,500	131,080
Total "Nonmarketable" Investments	1,137,000	1,296,750	1,479,700	1,689,280	1,929,420
Personal Assets					
Residence	295,000	330,400	370,050	414,460	464,200
Vacation Home/Deposit on Condo	155,000	167,400	180,790	195,250	210,870
Autos/Boats	33,000	33,000	33,000	33,000	33,000
Furniture and Household Accessories	40,000	40,000	40,000	40,000	40,000
Other Personal Property	25,000	25,000	25,000	25,000	25,000
Total Personal Assets	548,000	595,800	648,840	707,710	773,070
TOTAL ASSETS	$1,935,000	$2,187,670	$2,486,560	$2,832,570	$3,234,130

WILLIAM BROWN FAMILY
PROJECTED BEGINNING OF THE YEAR BALANCE SHEETS
FOR THE YEARS 19X2 THROUGH 19X6

	19X2	19X3	19X4	19X5	19X6
LIABILITIES AND NET WORTH					
Current Liabilities					
Charge Accounts, Credit Card Charges and Other Bills Payable	$4,000	$4,200	$4,410	$4,630	$4,860
Installment Credit and Other Short Term Loans	0	0	0	0	0
19X1 Tax Liabilities	0	0	0	0	0
Total Current Liabilities	4,000	4,200	4,410	4,630	4,860
Long-Term Liabilities					
Mortgage Notes on Personal Real Estate	30,000	27,497	24,707	21,597	18,128
Mortgage Notes on Investments	0	0	0	0	0
Bank Loans	45,000	39,686	33,919	27,611	20,655
Margin Loans	0	0	0	0	0
Life Insurance Policy Loans	0	0	0	0	0
Tax-Advantaged Investments	0	0	0	0	0
Total Long-Term Liabilities	75,000	67,183	58,626	49,207	38,783
TOTAL LIABILITIES	$79,000	$71,383	$63,036	$53,837	$43,643
FAMILY NET WORTH	$1,856,000	$2,116,287	$2,423,524	$2,778,733	$3,190,487
TOTAL LIABILITIES AND NET WORTH	$1,935,000	$2,187,670	$2,486,560	$2,832,570	$3,234,130

WILLIAM BROWN FAMILY
PROJECTED ESTATE TAXES AND COSTS
FOR THE YEARS 19X2 THROUGH 19X6

	19X2		19X3		19X4		19X5		19X6	
	Husband	Wife	Husband	Wife	Husband	Wife	Husband	Wife	Husband	Wife
Projected Net Worth (1)	$1,443,750	$412,250	$1,649,926	$466,361	$1,890,897	$532,628	$2,168,866	$609,867	$2,490,063	$700,424
Add:										
Net Life Insurance Proceeds	250,000	35,000	250,000	35,000	250,000	35,000	250,000	35,000	250,000	35,000
Spousal Inheritance		1,009,060		1,204,926		1,433,857		1,697,926		2,003,063
Gross Estate	1,693,750	1,456,310	1,899,926	1,706,287	2,140,897	2,001,484	2,418,866	2,342,793	2,740,063	2,738,487
Less:										
Estimated Settlement Costs	(84,690)	(72,820)	(95,000)	(85,310)	(107,040)	(100,070)	(120,940)	(117,140)	(137,000)	(136,920)
Marital Deduction	(1,009,060)		(1,204,926)		(1,433,857)		(1,697,926)		(2,003,063)	
Taxable Estate	$600,000	$1,383,490	$600,000	$1,620,977	$600,000	$1,901,414	$600,000	$2,225,653	$600,000	$2,601,567
Estate Tax	192,800	505,700	192,800	610,240	192,800	736,440	192,800	891,370	192,800	1,076,580
Less Unified Credit	(192,800)	(192,800)	(192,800)	(192,800)	(192,800)	(192,800)	(192,800)	(192,800)	(192,800)	(192,800)
Net Estate Tax	$0	$312,900	$0	$417,440	$0	$543,640	$0	$698,570	$0	$883,780
Taxable Estate	$600,000	$1,383,490	$600,000	$1,620,977	$600,000	$1,901,414	$600,000	$2,225,653	$600,000	$2,601,567
Less Net Estate Tax	0	(312,900)	0	(417,440)	0	(543,640)	0	(698,570)	0	(883,780)
Balance to Heirs	$600,000	$1,070,590	$600,000	$1,203,537	$600,000	$1,357,774	$600,000	$1,527,083	$600,000	$1,717,787

SUMMARY

Year	Total Family Net Worth & Insurance	Total Estate Tax	Total Costs	Gifts to Heirs	Insurance to Heirs	Net to Heirs	Percentage to Heirs
19X2	$2,141,000	($312,900)	($157,510)	$0	$0	$1,670,590	78.03%
19X3	2,401,287	(417,440)	(180,310)	0	0	1,803,537	75.11%
19X4	2,708,524	(543,640)	(207,110)	0	0	1,957,774	72.28%
19X5	3,063,733	(698,570)	(238,080)	0	0	2,127,083	69.43%
19X6	3,475,487	(883,780)	(273,920)	0	0	2,317,787	66.69%

(1) Projected net worth is as of the beginning of the year indicated.
It is assumed for estate tax calculations that death occurs at the beginning of the year.

(2) The projections assume the will includes provisions for a credit shelter trust.

March 20, 19x2

Dear ________________:

I am working with Subcommittee & Associates, CPAs, to evaluate my property casualty insurance, and I would appreciate your assistance.

Vehicle Insurance

My preferences concerning my vehicle coverages include --

1. The maximum available uninsured and underinsured motorist coverage.

2. The maximum available medical payments coverage.

3. Excluding collision coverage on vehicles with replacement costs that are not cost effective to insure.

4. Using cost effective deductibles.

5. Liability coverage to the maximum practical limit, keeping in mind that I would like it to coordinate with a personal umbrella liability policy.

What changes would you recommend to bring my insurance into compliance with these objectives?

Real Estate Insurance

My preferences concerning insurance coverage for my residential real estate include --

1. The maximum liability coverage available -- no less than $300,000, or the amount that would best coordinate with a personal umbrella liability policy.

2. The most comprehensive homeowners form that provides all-risk coverage, including coverage for personal property losses and indirect losses resulting from the loss of use of personal property.

3. Loss payments made based on replacement cost rather than on actual cash value (depreciated value) for all coverages including personal property.

4. Taking advantage of available discounts. Please let me know about any discounts available for the following:

	I have	I do not have
Smoke detectors	______	______
Fire extinguishers	______	______
Deadbolt locks	______	______
Other protective devices	______	______

5. Using cost effective deductibles that are available.

6. Special coverages for our household domestic help and other occasional workers we hire for household work, if special coverage is required.

7. The maximum guest medical coverage.

8. Your recommendations about my need for earthquake and flood coverage, including the cost of each coverage.

9. Coverage for sewer back up and sump pump failure.

10. A personal property rider for the following special items of value:

Item	Value	Appraisal Method/Date
______	______	______
______	______	______
______	______	______
______	______	______

11. Information about any business pursuits endorsements that you recommend.

A similar analysis should be conducted on the vacation cottage, which is rented for approximately six weeks each summer for a gross income of $3,000.

<u>Additional Liability Insurance</u>

1. What separate malpractice or errors and omissions policies do I require?

2. Please provide me with a quote on a comprehensive personal liability policy, and let me know what is required to put it in force as soon as possible. Will this coverage increase my existing vehicle and real estate liability coverages and also supplement them by providing protection against certain liability exposures not covered under those policies --such as personal injury, invasion of privacy, and liability -- for most nonowned property in my care, custody or control?

What would be the cost for $1,000,000 in coverage? ____________.

What would be the maximum I could purchase? ____________
Cost? ____________.

I would appreciate any further recommendations that you can make to help me accomplish my objective of being adequately insured for all situations involving potentially severe losses.

I also want to ensure that I am taking advantage of all cost-effective savings opportunities through the use of appropriate deductibles and self-insurance.

Sincerely,

Mr. and Mrs. William Brown
Middletown, USA

Source: Benjamin G. Baldwin, Jr., CLU, CFP, ChFC. Baldwin Financial Services, Inc., 1988. Used with permission.

UNIT 5

Personal Financial

Planning Division Administration

Table of Contents

I. PERSONAL FINANCIAL PLANNING MEMBERSHIP DIVISION OPERATING POLICIES

This document summarizes the responsibilities, authority, and structure of the Personal Financial Planning Membership Division. Nothing in this summary is intended to preclude the development of more detailed procedures for internal purposes to implement the broad policies outlined.

General Information--Structure of the Division

The personal financial planning membership division (the division) consists of those AICPA members who have voluntarily joined the division, the Personal Financial Planning (PFP) Executive Committee, its subcommittees and task forces, and AICPA staff assigned to the division.

Personal Financial Planning Executive Committee. The Personal Financial Planning Executive Committee (the Committee) is authorized to plan, to initiate, to supervise, and to coordinate the projects, programs, and activities of the division. It assists in developing AICPA policy statements relating to personal financial planning. It coordinates the efforts of other AICPA components that provide educational, practice development, and technical aids relating to personal financial planning and that conduct other programs designed to serve the needs of AICPA members interested in personal financial planning.

The Committee consists of fifteen individuals, all of whom are AICPA members. The chairman and the members of the Committee are appointed annually by the chairman of the AICPA Board of Directors. Each member normally serves no more than three years, although an individual may serve as chairman for up to three years in addition to the three years served as a member of the Committee.

Subcommittees and Task Forces. Subcommittees and task forces are appointed to assist the Committee in carrying out its responsibilities. Their work is subject to review by the Committee.

A subcommittee is a standing group, which may be entirely or partially composed of members of the Committee or may be composed entirely of other persons. Subcommittees are appointed by the chairman of the AICPA Board of Directors.

A task force is a group appointed to undertake a special project and is terminated on the completion of the special project. It may be entirely or partially composed of members of the Committee or may be composed entirely of other persons. A task force is appointed by and reports to the chairman of the Committee.

Staff. The division includes a full-time staff, consisting of a director, who reports to the AICPA vice president-technical, and assigned managers and assistants.

Objectives of the Division

The division serves the interest of the accounting profession in the area of personal financial planning. Its objectives are --

- To meet the needs of AICPA members interested in personal financial planning, particularly those who have voluntarily become members of the division by filing an application and paying the membership dues.

- To provide AICPA members guidance on personal financial planning practice by developing and publishing practice aids on personal financial planning.

- To monitor legislation and regulation relating to personal financial planning and to develop and communicate AICPA policy positions on such matters.

- To develop and conduct a communication program designed to inform the public through articles and advertisements in the media of the important role of CPAs in providing high-quality personal financial planning services.

- To provide AICPA members with guidance on practice management in the personal financial planning area.

- To publish a quarterly newsletter on personal financial planning matters of interest to AICPA members.

- To develop programs, such as an annual meeting of the division, to enable practitioners engaged in personal financial planning to share their knowledge and experience.

- To define the general body of knowledge required for CPAs who practice personal financial planning and to conduct studies that contribute to the development of that body of knowledge.

- To establish a voluntary exchange network as a forum for the interchange among the AICPA and state CPA societies of information on personal financial planning.

- To coordinate the activities of state CPA societies relating to personal financial planning and to maintain liaison with other groups interested in personal financial planning.

- To work with the AICPA continuing education division in identifying the need for, and developing, personal financial planning courses.

The division organizes the efforts of the accounting profession to serve these goals.

Operating Policies--Conduct of Meetings

Meetings of the Committee and the subcommittees and task forces of the division are conducted informally rather than on the basis of formal rules of order. Since the work of the components of the division is deliberative, a free interchange of ideas is essential. Adherence to formal rules of order would inhibit a free interchange of ideas.

Meeting Sites. The AICPA policy on meeting sites is contained in a resolution of Council dated May 5, 1976 and in a resolution on location of AICPA committee meetings adopted by the Board of Directors, both of which are reproduced in Attachment A.

Quorum Requirements. A majority of the members of the Committee, a subcommittee, or a task force constitutes a quorum.

Privilege of the Floor. Members of a component of the division, the Chairman of the AICPA Board of Directors, the President, the Vice President-Professional, the Vice President-Technical, and the director of the technical information division have the privilege of the floor during meetings of the component. The chairman of a component of the division ordinarily extends the privilege of the floor to members of other AICPA components when matters relating to their components are being discussed, as well as to invited guests, including state society representatives. Other AICPA staff members have the privilege of the floor at meetings of the Committee, subcommittee, or task force to which they are specifically assigned.

Voting Procedures. All matters requiring a vote of a division component may be approved by a simple majority of the members. A vote may be conducted at the discretion of the chairman of a component by a show of hands, a written ballot, or a telephone poll.

Meeting Highlights. The staff prepares meeting highlights for division components in the form of brief summaries of principal actions taken and decisions reached. The extent to which the results of informal preference votes are included in such highlights is at the discretion of the director with the concurrence of the chairman of the component. The chairperson of a component of the division, other than the Committee or a subcommittee, may at his or her discretion decide not to prepare highlights. Meeting highlights are considered approved in the absence of objections by members within two weeks of their issuance.

Distribution of Materials. Copies of all materials should be sent to all individuals included on distribution lists prepared by the director. All requests for comments should identify the distribution list that should be used. The distribution lists ordinarily include the members of the component, their advisers, the chairman of the Committee, and selected members of the Institute staff. Individuals on a distribution list may ask to receive a reasonable number of extra copies of correspondence. Former members of the Committee may request, in writing, to remain on the Committee's distribution list for three years after their terms end.

Reimbursement of Expenses. Division members who serve on the Committee, a subcommittee, or a task force are entitled to reimbursements of expenses for attending meetings of those components. Other members of the division are not entitled to reimbursements for participating in division activities. Attachment B contains the Institute's policy with respect to reimbursements of expenses for members of committees, subcommittees, and task forces attending meetings.

Division Publications and Publication Procedures

This section describes the division's publication and provides an overview of procedures for developing and publishing a document. It does not take the place of, amend, or supersede detailed publication procedures prepared by the director for administrative purposes.

Practice Aids. The division issues practice aids designed to provide practitioners with information on the conduct of various kinds of personal financial planning services or with technical information useful in performing such services. Practice aids are reference materials that provide guidance and do not set standards. They are prepared under the supervision of a subcommittee or a task force and are approved by the Committee and the director prior to publication. Such approval may be withheld if the practice aid is determined to be in conflict with existing standards or for other substantive reasons as determined by the Committee or the director.

The ordinary procedures for preparing a practice aid are summarized as follows:

- Suggestions of a topic for a practice aid may be made by a division component, a member of a division component, other AICPA components, the staff, or members of the public.

- The suggested topic is considered by the Committee, and if approved, a subcommittee or task force is assigned to supervise the publication of a practice aid.

- The assigned component prepares and approves an outline for the practice aid.

- The assigned component, with the assistance of the staff, prepares a draft of the practice aid.

- The assigned component, after considering the comments of members and others and revising the draft for those comments, determines by vote whether the practice aid is suitable for publication by the AICPA.

- The draft approved by the assigned component is submitted for review and approval to the Committee and the director. The draft may be discussed in a meeting of the Committee and approved for publication subject to clearance by the chairman and the director of a revised draft prepared to reflect agreed changes.

- The practice aid is published for distribution to members of the division and for sale to other AICPA members and to other interested parties.

Practice aids contain a notice to readers stating that they are designed as educational and reference materials for AICPA members and others interested in the subject and that they are not intended to establish standards.

Personal Financial Planning Manual. The personal financial planning manual is a loose-leaf publication designed as a nonauthoritative practice aid. It includes engagement letters, client questionnaires, checklists, and reports. It contains materials that provide practitioners with alternatives to select from and modify, if necessary, to meet their needs. It will be expanded and modified by the publication of periodic updates. It is published for distribution to division members and for sale to other AICPA members and to other interested parties.

The procedures for preparing updates to the manual are as follows:

- An outline of a proposed addition or modification is submitted to the Committee for review and approval.

- The division's task force on personal financial planning practice supervises the preparation of the materials for the update from information obtained from division members or from other sources.

- The draft of the update is submitted for approval to the director, who is responsible for publishing the manual.

Special Reports. The division may periodically issue special reports to provide information on topics of interest to its members and others concerned with personal financial planning. The ordinary procedures for preparing special reports are summarized as follows:

- The Committee may designate a division component, a staff member, or an outside organization or individual to prepare a special report on a particular topic.

- The publication of a special report, or the submission of such a report to another body, requires the approval of a majority of the members of the Committee and the approval of the director.

Comment Letters. The division is responsible for preparing letters of comment on proposals relating to personal financial planning by groups outside of the AICPA, such as the Securities and Exchange Commission, other government agencies, and other organizations concerned with personal financial planning. Such letters may be prepared by the Committee or by a subcommittee or a task force designated by the Committee. Since letters must ultimately present the views of the Committee, they must be approved by the Committee and the director. Letters of comment are signed by the chairman of the Committee.

Views of Other AICPA Components

Since the Committee is responsible for coordinating the activities relating to personal financial planning of other AICPA components, it should be informed on a timely basis about such activities. The Committee will obtain and consider the views of other AICPA components in its deliberations on such matters.

Relations With State Societies

The division maintains liaison with state society committees on personal financial planning. The division has established a voluntary exchange network so that the state societies can share information. This liaison provides benefits to the state societies and the committee by fostering cooperation in areas of common interest in personal financial planning. The division provides the forum for meetings to allow the liaison to progress. The Committee maintains contact with other organizations interested in personal financial planning to facilitate the resolution of issues that are of interest to both those organizations and the division.

Attachment A--AICPA Policy on Meeting Locations

The Board of Directors has approved the following criteria to be used in the selection of sites for meetings of Institute committees.

Except in unusual circumstances, the meetings should be held at sites which --

1. Minimize the time and distance of travel of a majority of committee members and staff.

2. Are readily accessible by air transportation.

3. Are reasonably accessible from airports by public transportation.

4. May coincide with the site of another meeting at which the majority of committee members will be in attendance.

5. Accommodate the needs of other groups with which the committee must meet to conduct its business.

Resort area sites may be utilized if they meet all of the above criteria.

The Board of Directors recognizes that it is not possible or even desirable to attempt to eliminate the application of judgment in selecting the location of committee meetings. However, if it appears necessary to depart from these guidelines, the decision to do so should be cleared with the president of the Institute.

Attachment B--AICPA Reimbursement Policy

The following was adopted by the Council of the Institute on May 12, 1981:

All Members of Council, Boards, Committees, subcommittees, and task forces (hereinafter "committees") are urged to devote the time necessary to fulfill the commitment associated with their acceptance of appointment. To enable all to do so and to alleviate unintended burdens, the policy of the Institute is to allow reimbursement of actual expenses only of those members whose attendance at meetings would cause significant disruption to the professional practice, business or other activities in which they are involved. Members do not qualify for reimbursement where committee participation has no such significant effect.

Request for reimbursement will automatically be considered as coming from those who qualify for reimbursement. There will be no disclosure of names of those to whom reimbursement is made.

Reimbursement will be made for expenses incurred in connection with attendance at committee meetings as follows:

1. Reimbursement for transportation costs is limited to coach fare (unless unavailable) or its equivalent.

2. Reimbursement for other out-of-pocket expenses is confined to costs of local transportation, lodging, meals, and tips, not to exceed an amount to be established from time to time by the Board of Directors.* Cost of telephone calls, cleaning, entertainment and other personal expenses will not be reimbursed.

3. Expensive methods of surface travel should be avoided. For example, unless a meeting is being held in a particularly remote location (a rare occurrence) cost of car rentals will not be reimbursed.

4. Since all members are expected to attend the annual meeting at their own expense, no reimbursement will be made for attending meetings held in conjunction with the annual meeting.

Requests for reimbursement ordinarily should be submitted within sixty days after a meeting. In no event, however, will requests for reimbursement be honored for meetings during a fiscal year if submitted more than thirty days after the close of that fiscal year which ends on July 31. To maintain confidentiality, requests for reimbursement, accompanied by receipts, copies of tickets, and other supporting documentation should be sent to the Director, Financial Management at the AICPA's offices in New York City.

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*At its February 1983 meeting, the Board established the current limit at $175/day.

II. PERSONAL FINANCIAL PLANNING DIVISION EXECUTIVE COMMITTEE AND SUBCOMMITTEE MEMBERSHIP

Personal Financial Planning Executive Committee

OBJECTIVE: To plan, initiate, supervise, and coordinate projects, programs, and activities of the personal financial planning division under the control of the AICPA Board of Directors. The committee assists in developing statements made by the AICPA in the area of personal financial planning.

Michael A. Azorsky, Chairman...Mayer Hoffman McCann, 420 Nichols Road, Kansas City, MO 64112, (816 753-3870)

Michele R. Bourgerie...Arthur Young, 277 Park Avenue, New York, NY 10172, (212 407-2635)

John R. Connell...Touche Ross & Co., 370 17 St., Suite 2600, Denver, CO 80202, (303 861-4462)

Richard L. Dougherty...Dougherty & Company, 606 South Olive Street, Suite 1500, Los Angeles, CA 90014, (213 622-1244)

John F. Edgar, Jr...Windham, Brannon & Co., 615 Peachtree Street, N.E., P.O. Box 54226, Atlanta, GA 30379, (404 875-5661)

D. Larry Fowler...Searing, Gitelson & Keeslar, P.S., 211 Morris Avenue South, Renton, WA 98057, (206 226-6200)

William Goldberg...Peat, Marwick, Main & Co., 3000 Republic Bank Center, P.O. Box 4545, Houston, TX 77210, (713 224-4262)

Charles E. Keller, III...Keller, Zanger, Bissell & Company, 201 Thomas Johnson Drive, Frederick, MD 21701, (301 663-8600)

Stuart Kessler...Goldstein, Golub, Kessler & Co., P.C., 245 Park Avenue, New York, NY 10167, (212 661-3300)

Anthony Krzystofik...University of Massachusetts, School of Business Administration, Amherst, MA 01003, (413 545-2525)

H. William Kuehl, Jr...William Kuehl, Ltd., Fidelity Bankers Building, Suite 1101, 830 East Main Street, Richmond, VA 23219, (804 648-9228)

Richard Larsen...Ernst & Whinney, 1225 Connecticut Avenue, N.W., Washington, D.C. 20036, (202 862-6000)

Rebecca M. Lee...Brooke, Freeman & Lee, 2100 South Bridge Parkway, Suite 377, Birmingham, AL 35209, (205 870-7555)

W. Thomas Porter...Rainier Bank, P.O. Box 3966, Seattle, WA 98124, (206 621-5250)

Howard Safer...Kraft Bros., Esstman, Patton & Harrell, 404 James Robertson Parkway, #103, Nashville, TN 37219, (615 242-7351)

Robert F. Warwick...Lowrimore Warwick & Co., P.O. Box 661, Wilmington, NC, 28402, (919 762-9671)

Personal Financial Planning Legislation and Regulation Subcommittee

OBJECTIVE: To help appropriate AICPA committees develop statements of position and monitor activities on legislation and regulation on federal government regulatory and state licensing activities for impact on the CPA PFP practitioner. The subcommittee will work closely with the Government Affairs Committee, the State Legislation Committee, and the State Society Committees.

Paul V. Breazeale, Chairman...Breazeale, Saunders & O'Neil, Ltd., P.O. Box 80, Jackson, MS 39205, (601 969-7440)

John F. Edgar, Jr....Windham, Brannon & Co., 615 Peachtree Street, N.E. (P.O. Box 54226), Atlanta, GA 30379, (404 898-2000)

William J. Goldberg...Peat, Marwick, Main & Co., 3000 Republic Bank Center, P.O. Box 4545, Houston, TX 77210, (713 224-4262)

Harvey B. Grant...Harvey B. Grant, 1500 Third Street, Suite C, Napa, CA 94559, (707 255-6540)

Paul D. Koehler...Laventhol & Horwath, 3699 Wilshire Boulevard, Seventh Floor, Los Angeles, CA 90010, (213 381-5393)

Curtis C. Verschoor...DePaul University, School of Accountancy, 25 East Jackson Boulevard, Chicago, IL 60604, (312 381-8115)

Robert E. Zobel...Touche Ross & Co., Miami Center 100, Chopin Plaza, Suite 700, Miami, FL 33131, (305 377-4000)

Personal Financial Planning Practice Subcommittee

OBJECTIVE: To identify and develop technical practice aids, practice management aids, and marketing aids to help CPAs in the PFP practice. May wish to consider the development and publication of nonauthoritative statements of responsibilities in PFP. Identify ethical concerns and work with the Ethics Division to promulgate ethics standards.

D. Larry Fowler, Chairman,...Searing, Gitelson & Keeslar, P.S., 211 Morris Avenue South, Renton, WA 98057, (206 226-6200)

Robert M. Barbacane...Barbacane, Thornton & Co., 202 Bancroft Building, 3411 Siverude Road, Wilmington, DE 19810, (302 478-8940)

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Martha S. Dalton...Seidman & Seidman, 555 North Pleasantburg Drive, Suite 160, Greenville, SC 29607, (803 242-9786)

Dirk L. Edwards...Edwards & Meyers, 1331 SW Broadway, Suite 200, Portland, OR 97201, (503 222-4708)

Robert L. Fasani...Haük, Fasani & Company, P.C., 5 American Drive, St. Louis, MO 63043, (314 434-0059)

Alan W. Legatz...240 State Street, Harbor Beach, MI 48441, (517 479-3315)

William H. Mears, Jr....Ernst & Whinney, CPA, 787 Seventh Avenue, New York, NY 10019, (212 830-5105)

Kevin F. Roach...Price Waterhouse, 153 East 53rd Street, New York, NY 10022, (212 371-2000)

Steven N. Strauss...Wolff & Strauss, P.C., 7733 Forsyth Boulevard, Suite 1850, St. Louis, MO 63105, (314 862-5700)

Stuart J. Zimmerman...Rubin, Brown, Gornstein, 230 South Bemiston Avenue, Clayton, MO 63105, (314 727-8150)

Personal Financial Planning Professional Education Subcommittee

OBJECTIVE: To monitor, provide input, and maintain relationships with the AICPA CPE Division and other educational groups. The subcommittee will review content of all AICPA CPE courses relating to PFP.

Jack Marzluft, Chairman...Jack M. Marzluft, Inc., 185 Front Street, Suite 108, Danville, CA 94526, (415 838-9600)

Robert Bertucelli...Bertucelli, Barragato & Company, 9 Brookside Drive, Smithtown, NY 11787, (516 724-7900)

Barry C. Broden...University of Hartford Tax Institute, 200 Bloomfield Avenue, West Hartford, CT 06117, (203 243-4271)

Fred H. Gage...Baden, Conrad, Gage & Schroeder, 400 Metro Bldg., 202 West Berry, Fort Wayne, IN 46802, (219 422-2551)

Ronald S. Kearns...Smith Elliott Kearns & Company, 804 Wayne Avenue, Chambersburg, PA 17201, (717 263-3910)

Don C. Marshall...California State University, Department of Accounting, 5500 University Parkway, San Bernardino, CA 92407, (714 887-7826)

Dr. Linda Pickthorne...West Chester University School of Business and Public Affairs, West Chester, PA 19383, (215 436-2824)

Ray Poole...Matrix-Consultant to CPAs, Park 77, Suite 3B, 50 West 77th Street, New York, NY 10024, (212 874-1612)

Personal Financial Planning Specialization Subcommittee

OBJECTIVE: To monitor, provide input, and maintain relations with the AICPA Specialization Committee.

John R. Connell, Chairman...Touche Ross & Co., 370 17th Street, Suite 2600, Denver, CO 80202, (303 861-4462)

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George E. Marucci...Marucci, Ortals, Annett & Greisel, 133 Long Lane, Upper Darby, PA 19082, (215 734-1800)

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Howard Safer...Kraft Bros., Esstman Patton & Harrell, 404 James Robertson Parkway, #103, Nashville, TN 37219, (615 242-7351)

III. STATE SOCIETY PERSONAL FINANCIAL PLANNING COMMITTEE CHAIRMEN

Alabama Society of CPAs
John C. West...3 Office Park Circle, Birmingham, AL 25223

Alaska Society of CPAs
No PFPC

Arizona Society of CPAs
Robert Jones...Toback & Co., 35 50 N. Central Avenue, Suite 500, Phoenix, AZ 85012

Arkansas Society of CPAs
No PFPC

California Society of CPAs
Robert Wagman...Price Waterhouse, 555 California Street, Suite 3800, San Francisco, CA 94104

Colorado Society of CPAs
Susan Clark-James...1557 Ogden Street, Denver, CO 80218

Connecticut Society of CPAs
Natale A. Messina...CIGNA Corporation, 20 Brookside Lane, Bolton, CT 06040

Delaware Society of CPAs
No PFPC

D.C. Institute of CPAs
No PFPC

Florida Institute of CPAs
Charles Van Middlesworth...678 4th Street North, St. Petersburg, FL 33701

Georgia Society of CPAs
Henry Nagel...Laventhol & Horwath, 225 Peachtree Street, Suite 2300, Atlanta, GA 30303

Guam Society of CPAs
No PFPC

Hawaii Society of CPAs
No PFPC

Idaho Society of CPAs
Larry L. Creek...Presnell, Gage & Co., P.O. Box 1693, Boise, ID 83701

Illinois CPA Society
Stephen A. Smith...Checkers, Simon & Rosner, 1 South Wacker Drive, Suite 2400, Chicago, IL 60606

Indiana CPA Society
James Stump...Drees, Robinson, Perugiai, 1000 One Summit Square, Fort Wayne, IN 46802

Iowa Society of CPAs
No PFPC

Kansas Society of CPAs
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Kentucky Society of CPAs
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Louisana Society of CPAs
No PFPC

Maine Society of CPAs
No PFPC

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Michigan Association of CPAs
Paul Kozowicz...Gordon & Company, 500 North Woodward, Suite 150, Bloomfield Hills, MI 48013

Minnesota Society of CPAs
Robert Eichten...I.D.S. Financial Services, Inc., I.D.S. Tower, 5th Floor, Unit 625, Minneapolis, MN 55402

Mississippi Society of CPAs
No PFPC

Missouri Society of CPAs
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Montana Society of CPAs
Michael Wagner...Blue Cross/Blue Shield, P.O. Box 1017, Great Falls, MT 59403

Nebraska Society of CPAs
David Emry...Darst, Hamilton & Associates, 9119 West Dodge Road, Suite 110, Omaha, NB 68114

Nevada Society of CPAs
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New Hampshire Society of CPAs
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New Jersey Society of CPAs
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New Mexico Society of CPAs
Casey Skousen...Atkinson & Company, Ltd., 1133 Hood Road, S.E., Rio Rancho, NM 87124

New York State Society of CPAs
Milton Miller...Moore Stephens & Co., 331 Madison Avenue, New York, NY 10017

North Carolina Association of CPAs
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North Dakota Society of CPAs
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Ohio Society of CPAs
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Oklahoma Society of CPAs
Evan Cherry...Ephrain & Miller, P.C., P.O. Box 475, Oklahoma City, OK 73101

Oregon Society of CPAs
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Richard Gwennap...Associates in Financial Planning, 3150 U.S.X Tower, 600 Grant Street, Pittsburgh, PA 15219

Colegio De Contadores Publicos Autorizadoes De Puerto Rico
No PFPC

Rhode Island Society of CPAs
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South Carolina Association of CPAs
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No PFPC

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Vermont Society of CPAs
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Virgin Islands Society of CPAs
No PFPC

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Kaycee W. Krysty...Moss Adams, 2900 Bank of California, Seattle, WA 98164

West Virginia Society of CPAs
Martha Taylor Confer...838 Monmouth Street, St. Albans, WV, 25177

Wisconsin Institute of CPAs
William Raabe...University of Wisconsin, P.O. Box 742, Milwaukee, WI 53201
Staff Liaison -- Joe Sperstad

Wyoming Society of CPAs
No PFPC

IV. AICPA POSITION PAPER--STATE LICENSING OF PERSONAL FINANCIAL PLANNERS

The American Institute of Certified Public Accountants opposes state licensing of personal financial planners.*

Persons who hold themselves out to the public as personal financial planners include representatives of many diverse professions and occupations such as certified public accountants, attorneys, investment advisers, bankers, securities dealers, insurance agents and real estate brokers. They provide services that encompass a wide variety of activities which are already subject to federal and state regulatory laws. These laws include the Securities Act of 1933, the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940 on the federal level. In addition, all states have enacted laws regulating real estate brokers, bankers, insurance agents and certified public accountants. Attorneys are regulated by their states' courts and thirty-nine states have enacted investment advisers acts.

Advocates of additional state or federal regulation of persons who hold themselves out as personal financial planners generally cite instances of fraud or abuse by those who control their clients' funds to support their positions. However, at the June 11, 1986, hearings on a proposed financial planners self-regulatory organization before the Telecommunications Subcommittee of the House Committee on Oversight and Investigation, the Chairman of the Securities and Exchange Commission, the regulatory body under the Investment Advisers Act of 1940, said, "I don't believe there is enough abuse out there to justify additional regulation." He also said that the SEC desires to focus its regulatory attention on those who have discretionary authority over clients' assets or have financial interests in products sold to clients. The SEC presented evidence that instances of fraud and abuse are minimal and said that notwithstanding a 140 percent increase in the number of active registered investment advisers since 1981, there has not been a demonstrable, or even an alleged, pattern of increased abuse, fraud or other such activity.

While existing investment adviser and broker-dealer acts do not specifically regulate financial planning services, they do provide protection for the public against those abuses that have been improperly cited as indicating the need for additional licensing of all persons who hold themselves out as personal financial planners. These existing laws require registration and disclosures to clients and prospective clients. They also regulate those who control the investment of their clients' funds and who advise or direct the investment of those funds toward financial opportunities.

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*This position paper was written by the State Legislation Committee and agreed to by the Personal Financial Planning Executive Committee. It was approved by the AICPA Board of Directors on December 11, 1986.

We are not implying that some minimal level of abuse is acceptable. However, we do believe that there is no evidence of a serious flaw in the present federal and state regulatory structure. The fraud or abuse that has taken place may, as has been suggested by SEC officials, indicate the need for enhanced enforcement of existing broker-dealer and investment adviser laws. It does not, however, justify imposing a new comprehensive regulatory system on top of the existing federal and state regulatory programs that are in place. The following is a partial list of existing laws that provide mechanisms that protect the public from abuses by those who hold themselves out as personal financial planners:

- Federal and state securities laws
- Federal and state laws against fraud and related crimes
- Federal and state investment advisers acts
- State laws regulating real estate brokers, bankers, insurance agents and certified public accountants
- State courts' regulation of attorneys

In addition to existing federal and state laws and regulations, including the Internal Revenue Code, that deter abuses of authority or fraud, a number of professional organizations and state regulatory agencies have procedures or mechanisms to protect the public. A partial list follows:

- The American Institute of Certified Public Accountants
- State societies of certified public accountants
- State boards of accountancy
- The American Bar Association
- State bar associations
- The American Bankers Association
- State banking commissions
- Chartered Life Underwriters and other insurance organizations
- State insurance commissions
- The National Association of Securities Dealers
- The National Association of Real Estate Boards
- State real estate commissions

Considering the broad scope of existing federal and state laws, enforcement agencies and available disciplinary remedies, we believe it is clear that additional regulation would result in overregulation and duplication of existing oversight and regulatory agencies having authority over many professions and occupations.

Notwithstanding the array of public and private sector regulation already available, there is a movement to license individuals who offer any type of financial planning service. An example of the motivation for this movement is apparent in the four published objectives of federal or state regulation sought by the International Association for Financial Planning. They are,

"...to 'professionalize' the industry, -- to improve the image of financial planners in the eyes of the public, the regulators, and the media, -- to ensure better quality control over financial planners...and -- to reduce the amount of duplicative, and in some cases inconsistent requirements of federal and state regulations...."**

State courts have consistently held that the use of a state's police power to license professions or occupations is justifiable only in order to protect the health and welfare of the public or to protect third parties in their reliance on the work of others. Without such demonstrated needs, government intervention is not necessary.

The governmental power to license should not be used merely to recognize personal financial planning as a profession or to improve the image of planners. A new licensing requirement would add another layer of regulation and it would not eliminate existing statutes or insure better quality control and, as previously noted, the SEC Chairman has said that additional regulation is not warranted.

Conclusion

There is no convincing evidence that documents an incidence or pattern of abuse, or a breakdown of regulation, sufficient to conclude that there is a need for state licensing of personal financial planners. The American Institute of Certified Public Accountants believes that there are in place sufficient federal, state and private sector regulatory and professional disciplinary mechanisms to protect the public.

**Legal Options for Regulation of Financial Planners, copyrighted by the International Association for Financial Planning, Commerce Clearing House, Financial and Estate Planning, page 22991.

TECHNICAL HOTLINE

The AICPA Technical Information Service answers inquiries about specific audit, accounting, and financial reporting problems, including reporting on personal financial plans.

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(800) 522-5430 (New York Only)

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