**C. PRACTICE STANDARDS FOR THE FINANCIAL PLANNING PROCESS, 2. IDENTIFYING AND SELECTING GOALS:**

# 1: INTERPRETING THE PRACTICE STANDARD FOR IDENTIFYING AND SELECTING GOALS

Tania (age 43) and Bonnie (age 45) engage with Scott, a CFP® professional, for Financial Planning. In accordance with step 1 of the Practice Standards for the Financial Planning Process, Scott obtains and analyzes the qualitative and quantitative information necessary to fulfill the Scope of the Engagement and assess Tania and Bonnie's personal and financial circumstances. Tania and Bonnie rent an apartment, have modest savings in low-yielding savings accounts ($50,000) and retirement assets ($100,000), are cash flow positive with moderate expenses, and are carrying high interest credit card debt ($15,000). For the last 11 years, Tania and Bonnie have invested for retirement in conservative Financial Assets, with most of their retirement assets allocated to fixed income and cash equivalent investments. They sold their more growth-oriented portfolio at market lows.

Tania and Bonnie indicate their two primary goals are (1) to save the funds that they will need in approximately 5 years to make a 20% down payment ($70,000) on the purchase of a $350,000 small beach condo on the South Carolina coast that they will use for vacations while working and then in retirement, and (2) to retire at age 65 with a net retirement income of $75,000 in today's dollars.

## QUESTION:

**What actions must Scott take to address Tania and Bonnie's goals, in accordance with step 2 of the Practice Standards for the Financial Planning Process?**

## RESPONSE OPTIONS:

A. **Scott must assist Tania and Bonnie in planning to accomplishing their stated goals, without considering how they may impact other potential goals.**

B. **Scott must help Tania and Bonnie identify their goals, and the impact that a particular goal may have on other goals. Scott also must help Tania and Bonnie select and prioritize goals.**

C. **Scott must provide Tania and Bonnie with Financial Advice concerning the goals to include in their financial plan without regard to their expressed goals.**

**Best Response:** Response B is the best response. This case involves the Practice Standards for the Financial Planning Process, Identifying and Selecting Goals (Standard C.2.).

The second step of the Financial Planning Process involves identifying and selecting goals. A CFP® professional must discuss with the Client the CFP® professional's assessment of the Client's financial and personal circumstances, and help the Client identify goals, noting the effect that selecting a particular goal may have on other goals. In helping the Client identify goals, the CFP® professional must discuss with the Client, and apply, reasonable assumptions and estimates. These may include life expectancy, inflation rates, tax rates, investment returns, and other Material assumptions and estimates. A CFP® professional also must help the Client select and prioritize goals. The CFP® professional must discuss with the Client any goals the Client has selected that the CFP® professional believes are not realistic.

Here Scott must discuss with Tania and Bonnie his assessment of their financial and personal circumstances, including their high interest credit card debt, current investment allocation, and stated goals. Scott also must discuss with Tania and Bonnie the assumptions and estimates that he is making, such as their life expectancy, current and future tax and inflation rates, and anticipated investment returns and expenses. Scott must use this information to help Tania and Bonnie identify other potential goals, including how each goal may affect the other goals. Here, for example, if Tania and Bonnie prioritize the goal of saving for a vacation home down payment and making ongoing mortgage payments and maintenance costs, then that goal may affect the funds that will be available for retirement at age 65, and such other potential goals that they may identify.

Response A is not the best response because the goals that a Client identifies when a CFP® professional is assessing the Client's financial and personal circumstances during the first step of the Financial Planning process may be different from the goals that the Client selects during the second step of Financial Planning process. A CFP® professional must help the Client identify potential goals and then select and prioritize the Financial Planning goals, taking into account the effect that selecting a particular goal may have on other goals. This may require the CFP® professional to discuss goals that the Client has selected that the CFP® professional believes are not realistic.

Response C is not the best response because the goals that a Client identifies when a CFP® professional is assessing the Client's financial and personal circumstances during the first step of the Financial Planning process are a component of the qualitative information that a CFP® professional must consider in helping the Client select and prioritize goals during the second step of Financial Planning process.

**Relevant Standards and Definitions:** Practice Standards for the Financial Planning Process, Identifying and Selecting Goals (Standard C.2.).