1. INTERPRETING THE PRACTICE STANDARD FOR ANALYZING THE CLIENT'S CURRENT COURSE OF ACTION

Joe, a CFP® professional, meets with Martha and Dan Miller, who are 32 years old and have a newborn daughter. Joe learns the following about the Millers:

Age, Income, Dependents

- Martha and Dan have annual salaries of $120,000 and $110,000, respectively.

Savings, Assets, Liabilities, Education and Retirement Accounts

- The Millers contribute $12,600 annually to a savings account that has a balance of $70,000, which includes $30,000 for emergencies, $30,000 targeted for the purchase of a lake cabin, and $10,000 earmarked for college savings.
- They have a taxable investment account with a $10,000 value.
- The allocation in their accounts is 50% equities and 50% fixed income.

Expenses, Cash Flow, Liquidity

- Marth and Dan have $34,500 in unallocated cash flow each year.

Insurance, Employee Benefits

- Martha and Dan contribute 10% of their salaries (with a 6% employer match) to their 401(k) plan accounts, which collectively have a value of $150,000.
- They have employer-provided life insurance coverage that is equal to two times their salaries.

Estate Plans

- Marth and Dan's home value is $300,000 with $60,000 of equity.
- They have not created any estate planning documents.

Miller's Current Annual Personal Balance Sheet and Cash Flow Report

Assets		**Liabilities**	
Taxable Investment Account	$10,000	Mortgage Debt	$240,000
Current Market Home Value	$300,000		
Low-Yield Savings Account	$70,000		
401(k) - Martha	$80,000		
401(k) - Dan	$70,000		
Net Worth			
Total Assets	$530,000	Total Liabilities	$240,000
Net Worth	$290,000		

Income		Expenses	
Martha's Income	$120,000	Fixed Expenses	
Dan's Income	$110,000	Income Taxes	$48,000
		Mortgage	$15,000
		Health and Other Insurances	$15,000
		Utilities and Household Maintenance	$11,900
		Food and Clothing	$10,000
		Transportation	$10,000
		Fixed Expenses	
		Vacations and Travel	$15,000
		Recreation and Entertainment	$20,000
		Gifts and Charitable Constributions	$15,000
		Low-Yield Savings Account Contributions	$12,600
		401(k) Contributions	$23,000
Cash Flow			
Total Income	$230,000	Total Expenses	$195,500
Unallocated Cash Flow	$34,500		

Joe helps Martha and Dan identify and select five goals:

1. Accumulate adequate retirement assets to retire at age 67 and live a comfortable life during retirement.
2. Acquire a cabin at the lake within approximately six years.
3. Have adequate insurance coverage.
4. Create an estate plan.
5. Accumulate assets to cover their daughter's elite private university costs.

QUESTION:

In analyzing the current course of action under Step 3 of the Financial Planning Process, what else must Joe do?

RESPONSE OPTIONS:

A. Determine whether the interest rate on Martha and Dan's mortgage is higher than the existing market rate, and if so, recommend that they refinance their mortgage.

B. Evaluate their investment allocations against their risk tolerance.

C. Develop recommendations based upon the selected goals.

D. Analyze their savings rate, liabilities, investment allocation, and retirement projections to determine whether the Millers are maximizing the potential to meet their goals.

Best Response: Response D is the best response. This case study involves Step 3 of the Financial Planning Practice Standards (Standard C.3.)

Step 3 of the Financial Planning Practice Standards has two components: (1) analyzing the Client's current course of action and (2) analyzing potential alternative courses of action. In fulfilling the first component, a CFP® professional must analyze the Client's current course of action, including the material advantages and disadvantages of the current course and whether the current course maximizes the potential for meeting the Client's goals.

Response A-B are not the best response because each present only one material advantage or disadvantage of their current course of action. There is additional analysis that Joe must perform to satisfy this step of the Financial Planning process. Response A also addresses a component of Step 4 of the Financial Planning process; namely, the development of a recommendation. A CFP® professional, however, does not develop recommendations until Step 4 of the Financial Planning process. Before developing recommendations, a CFP® professional must analyze potential alternative courses of action.

Response C is not the best response. As discussed in the analysis of Responses A and B, a CFP® professional does not develop recommendations until Step 4 of the Financial Planning process.

Response D is the best response because it presents a more comprehensive list of the additional analysis that Joe must perform than that which is presented in Responses A and B. In analyzing their savings rate, liabilities, investment allocation, and retirement projections, Joe would need to consider the material advantages and disadvantages to determine whether the Millers are maximizing the potential to meet their goals. After performing this analysis, Joe determines as follows:

Joe identifies advantages of their current course of action. The Millers:

☐ Have a cash reserve in the event of an emergency.	☐ Do not have significant liabilities and have no credit card debt.
☐ Are contributing approximately 15.5% of their gross income annually to a savings account and to their 401(k) plan accounts (does not include employer match).	☐ Have some insurance coverage (Martha's short- and long-term disability policies though her employer, Dan's short-term disability through his employer, and Martha and Dan's life insurance policies through their employers.
☐ Are building equity in their home.	☐ Have established an excellent credit rating.

Joe identifies disadvantages of their current course of action and potential opportunities. The Millers:

☐ Should be allocating their assets in alignment with their risk tolerance.	☐ Have an interest rate on their existing mortgage that is high compared to current market rates.
☐ Have mutual fund investments that have high costs and are not tax-efficient.	☐ Are using a low-interest savings account with taxable interest for college savings.
☐ Do not have adequate insurance coverage (Dan and Martha lack appropriate liability and life insurance coverage and Dan lacks long-term disability coverage).	☐ Have no estate planning documents and have outdated beneficiary designations on their retirement accounts and life insurance policies.
☐ Are not planning for the additional costs of owning a second home, such as property taxes, insurance, and maintenance costs.	

Joe's analysis of the Millers' current course shows a low likelihood of meeting all their targeted goals. Joe begins to analyze potential alternative courses of action, each of which helps maximize the potential for the Millers to meet their goals and integrates the relevant elements of the Millers' personal and financial circumstances.

Relevant Standards and Definitions: Practice Standards for the Financial Planning Process, Step 3: Analyzing the Client's Current Course of Action and Potential Alternative Course(s) of Action (Standard C.3.)