C. PRACTICE STANDARDS FOR THE FINANCIAL PLANNING PROCESS, 7. MONITORING PROGRESS AND UPDATING

1: INTERPRETING THE PRACTICE STANDARD FOR MONITORING PROGRESS

Sally and George are 50 years old and have a goal of retiring in 16 years. They engaged Jim, a CFP® professional, to provide Financial Planning, including with respect to their intended retirement. After understanding their financial and personal circumstances, identifying and selecting goals, and analyzing their current course of action and potential alternative courses of action, Jim develops and then presents the Financial Planning recommendations. Jim determined that it would be in their best interests to reallocate their retirement investments with broader diversification to the equity markets. In addition, while Sally and George had accumulated significant savings for retirement, Jim determined that they needed to increase their annual savings contribution and optimize their asset allocation to maximize the potential of retiring in 16 years.

Jim communicates and fulfills his implementation responsibilities and establishes that he will have full monitoring progress and updating responsibilities. Jim also informs Sally and George of their responsibility to inform him of any Material changes to their information. Sally and George agree to pay Jim an annual fee.

QUESTION:

How often must Jim monitor Sally and George's progress?

RESPONSE OPTIONS:

A. Sally and George are responsible for determining how frequently Jim must monitor progress towards their goal.

B. Jim must monitor Sally and George's progress towards their goal on at least an annual basis.

C. The Practice Standards for the Financial Planning Process indicate that a CFP® professional must analyze progress toward achieving a Client's goals at appropriate intervals.

Best Response: Response C is the best response. This case involves the Monitoring Progress and Updating standard of the Practices Standards for the Financial Planning Process (Standard C.7.).

The Practice Standards provide that a CFP® professional must establish with the Client whether the CFP® professional has monitoring and updating responsibilities. When the CFP® professional has responsibilities for monitoring and updating, the CFP® professional must communicate to the Client:

i. Which actions, products, and services are and are not subject to the CFP® professional's monitoring responsibility;

ii. How and when the CFP® professional will monitor the actions, products, and services;

iii. The Client's responsibility to inform the CFP® professional of any Material changes to the Client's qualitative and quantitative information;

iv. The CFP® professional's responsibility to update the Financial Planning recommendations; and

v. How and when the CFP® professional will update the Financial Planning recommendations.

The Practice Standards further provide that a CFP® professional who has monitoring responsibilities must analyze, at appropriate intervals, the progress toward achieving the Client's goals. The CFP® professional must review with the Client the results of the CFP® professional's analysis. A CFP® professional who has monitoring responsibility also must collaborate with the Client in an attempt to obtain current qualitative and quantitative information concerning the Client's personal and financial circumstances. Where circumstances warrant changes to the Client's goals, recommendations, or selections of actions, products or services, the CFP® professional must update as appropriate in accordance with the Practice Standards. A CFP® professional also must comply with applicable federal and state laws, rules, and regulations that apply to monitoring services.

In this case Jim needs to determine what interval is appropriate for analyzing Sally and George's progress towards retirement. In making that determination, he might consider, among other factors, Sally and George's demonstrated ability to stick to the plan, the consequences to Sally and George of deviating from the plan, and the probability that Sally and George will achieve their goals, taking into account their investment portfolio, retirement date, life expectancy, and expenses. Jim may need to reevaluate the monitoring interval should the market experience significant volatility or if Sally and George experience other material qualitative or quantitative changes to their financial or personal circumstances.

Response A is not the best response because a CFP® professional must communicate to the Client how and when the CFP® professional will monitor progress toward the Client's goals.

Response B is not the best response because monitoring progress on an annual basis may not be an appropriate interval for some Clients.

Relevant Standards and Definitions: Monitoring Progress and Updating standard of the Practices Standards for the Financial Planning Process (Standard C.7.).