Dalton Education
BY CERIFI

The Dalton Review®
Fundamentals of Financial Planning

Exam Emphasis

- Ethics and the Financial Planning Process
  - Heavy emphasis based on ethics, communication and what a planner should do based on a scenario.

- Standards of Professional Conduct
  - Code of Ethics and Practice Standards
  - Candidate Fitness Standards
  - Disciplinary Rules

Terminology (1 of 3)

- Financial Advice.
- A communication that, based on its content, context, and presentation, would reasonably be viewed as a recommendation that the Client take or refrain from taking a particular course of action with respect to:
  - The development or implementation of a financial plan;
  - The value of or the advisability of investing in, purchasing, holding, gifting, or selling Financial Assets;

Terminology (2 of 3)

- Financial Advice continued:
  - Investment policies or strategies, portfolio composition, the management of Financial Assets, or other financial matters; or
  - The selection and retention of other persons to provide financial or Professional Services to the Client; or
- The exercise of discretionary authority over the Financial Assets of a Client.

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Terminology (3 of 3)

- Financial Planning
- A collaborative process that helps maximize a Client's potential for meeting life goals through Financial Advice that integrates relevant elements of the Client's personal and financial circumstances.

Practice Question 1

When is a client first engaged with a CFP® professional?

A. When a written contract is signed.
B. When the client pays the practitioner.
C. When the client first relies on the practitioner's advice.
D. When the client transfers their assets to the practitioner for management.

	To Clients	To Firms and Subordinates	To CFP Board
At All Times	• Integrity • Competence • Diligence • Sound and Objective Professional Judgment • Professionalism • Comply with the Law • Confidentiality and Privacy • Duties When Communicating with a Client • Duties When Representing Compensation Method • Duties When Selecting, Using, and Recommending Technology • Refrain from Borrowing or Lending Money and Commingling Financial Assets	• Use Reasonable Care When Supervising • Comply with Lawful Objectives of CFP® Professional's Firm • Provide Notice of Public Discipline	• Refrain from Adverse Conduct • Reporting • Provide Narrative Statement • Cooperation • Compliance with *Terms and Conditions of Certification and Trademark License*
Financial Advice	• The Duties That Apply At All Times (see above) • Fiduciary Duty • Disclose and Manage Conflicts of Interest • Provide Information to a Client • Duties When Recommending, Engaging, and Working with Additional Persons		
Financial Planning	• The Duties That Apply When Providing Financial Advice (see above) • The Practice Standards for the Financial Planning Process • Information to a Client in Writing		

A CFP® Professional Has Duties That Apply:

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From CFP Board Roadmap to the Code and Standards

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Code and Standards

- Profession Standards are now broken into three areas
  - Code of Ethics and Standards of Conduct
  - Fitness Standards
  - Enforcement

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Code of Ethics

1. Act with honesty, integrity, competence, and diligence.
2. Act in the client's best interests.
3. Exercise due care.
4. Avoid or disclose and manage conflicts of interest.
5. Maintain the confidentiality and protect the privacy of client information.
6. Act in a manner that reflects positively on the financial planning profession and CFP® certification.

Exam Tip: Certificants must follow the letter and spirit of the code.

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Continuing Education - Competence

- Certificants make a continuing commitment to learning and professional improvement.
  - Continuing education requirement for CFP® Certificants 30 hours every two years, including 2-hours of ethics
  - Practice what you know, refer what you don't know
  - Must know your limitations

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Professionalism in Practice…

- Professionalism requires behaving with dignity and courtesy to clients, fellow professionals, and others in business-related activities.
  - **Use marks appropriately**
    - Your Name, CFP®,
    - CERTIFIED FINANCIAL PLANNER™ (ALL CAPS)
    - Followed by one of six nouns: professional, certificant, practitioner, certification, mark, exam
    - Do NOT use as part of email or website address
  - Act with dignity and courtesy to other professionals

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Standards of Conduct

A. Duties Owed to the Client
B. Financial Planning and Application of The Practice Standards for the Financial Planning Process
C. Practice Standards for the Financial Planning Process
D. Duties Owed to the Firms and Subordinates
E. Duties Owed to CFP Board
F. Prohibition on Circumvention

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A. Duties Owed to the Client

- Direct language for items A.1 – A.15 is presented in your Fundamentals pre-study book
- Section A. 1 – A. 15 covers Fiduciary standards, disclosures, duties of the CFP® Professionals

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A.1. Fiduciary Duty

Fiduciary Duty = **Duty of Loyalty** + **Duty of Care** + **Duty to Follow Client Instructions**

Duty of Loyalty

A CFP® professional must:

1. Place the interests of the Client above the interests of the CFP® professional and the CFP® Professional's Firm;
2. Avoid Conflicts of Interest, or fully disclose Material Conflicts of Interest to the Client, obtain the Client's informed consent, and properly manage the conflict; and
3. Act without regard to the financial or other interests of the CFP® professional, the CFP® Professional's Firm, or any individual or entity other than the Client, which means that a CFP® professional acting under a Conflict of Interest continues to have a duty to act in the best interests of the Client and place the Client's interests above the CFP® professional's.

Duty of Care

A CFP® professional must act with the care, skill, prudence, and diligence that a prudent professional would exercise in light of the Client's goals, risk tolerance, objectives, and financial and personal circumstances.

Duty to Follow Client Instructions

A CFP® professional must comply with the terms of the Client engagement and follow all directions of the Client that are reasonable and lawful.

From CFP Board Roadmap to the Code and Standards

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A.5. Disclose and Manage Conflicts of Interest

- Disclose Conflicts
  - Compensation
  - Limited product set
  - Proprietary funds
  - Referrals
- Manage Conflicts
  - Set up business to avoid conflicts of interest

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Practice Question 2

Samuel, a CFP® certificant, owns a mutual fund for his daughter's education account and has been happy with the investment performance. If Samuel recommends this fund to a client, must he disclose his ownership in the mutual fund?

A. Yes, because it is a conflict of interest.
B. No, because it is for his daughter, not him.
C. Yes, because it is not suitable for the client.
D. No, because Samuel's ownership is not material.

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A.9. Confidentiality and Privacy

- One or more written documents
- For ordinary business purposes
  - Open accounts
  - Place trades
- For legal and enforcement purposes
  - Defend against wrongdoing
  - Audits
  - Subpoena

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A.10. Provide Information to a Client

- Delivery method differs when providing Financial Advice or Financial Planning
  - Similarities
    - Privacy document must be in writing
    - Conflicts of interest can be oral or in writing

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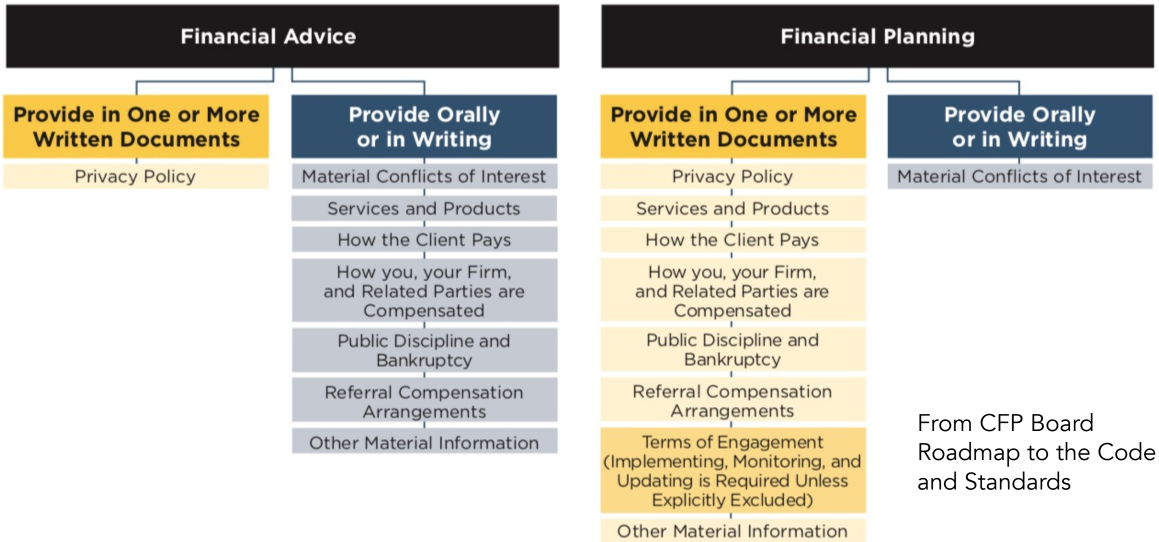

From CFP Board Roadmap to the Code and Standards

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How the Client Pays

- Provided prior to or at the time of engagement
- Cover all charges and descriptions
  - Product Management Fees
  - Surrender chards and sales loads
- Documents that may contain the information
  - ADV Part 2
  - Engagement Letter
  - Brokerage agreement
  - Offering documents
  - Prospectus

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Public Discipline or Bankruptcy

- Disclose all relevant web-sites
  - Broker Check (FINRA)
  - IAPD (SEC)
  - CFP.net

Updating Information

- Ongoing obligation to provide material changes
- Annual information
  - ADV
  - Privacy
- Material changes
  - Notify CFP Board within 30 calendar days
  - Notify Clients within 90 days with location of relevant webpages

For Financial Planning: Terms of the Engagement

- Provided prior to or at the time of the engagement
- Include:
  - The Scope of Engagement and any limitations;
  - The period(s) during which the services will be provided;
  - The Client's responsibilities.
- A CFP® professional is responsible for implementing, monitoring, and updating the Financial Planning recommendation(s) unless specifically excluded from the Scope of Engagement.

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A.12. Compensation Models

- Fee-Only
  - Advisor and/or Firm cannot change, or have the ability to charge, sales related compensation
- Fee-Based
  - Fee and Commission
- Sales Related Compensation
  - 12b-1 fees
  - Transaction fees
  - Revenue sharing
  - Referral fees

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Practice Question 3

Under what circumstances may Alan, a CFP® professional, commingle assets with his clients?

A. It is never allowed.
B. Only if assets are properly tracked and available to the clients on demand.
C. Only if given explicit written authorization, properly tracked and permitted by law.
D. Only if given explicit written authorization and available to the clients on demand.

Practice Question 4

When does the CFP Board allow you to use "Fee Only" to describe a CFP® professional's compensation?

A. Insurance sales and commissions
B. Hourly rate only
C. Salary and bonus from employer
D. 12b-1 Fees

B. Financial Planning & Application of the Practice Standards for the Financial Planning Process

1. Financial Planning Definition:

   Financial Planning is a collaborative process that helps maximize a Client's potential for meeting life goals through Financial Advice that integrates relevant elements of the Client's personal and financial circumstances.
2. Examples of Relevant Elements of the Client's Personal and Financial Circumstances
3. Application of Practice Standards
4. Integration Factors
5. CFP Board Evaluation
6. No Client Agreement to Engage for Financial Planning

Examples of Relevant Elements of the Client's Personal and Financial Circumstances

- Every client will be different
- Relevant elements may include:
  - Manage cashflow
  - Identify and manage risk
  - Educational needs
  - Financial security
  - Tax considerations
  - Retirement
  - Philanthropic
  - Estate, etc.

Integration Factors

- The number of relevant elements of the Client's personal and financial circumstances that the Financial Advice may affect;
  - Most changes do not happen in a silo
- The portion and amount of the Client's Financial Assets
- The length of time the Client's personal and financial circumstances may be affected
- The effect on the Client's overall exposure to risk if the Client implements; and
- The barriers to modifying the actions taken to implement
  - Surrender charges

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C. Practice Standards for the Financial Planning Process

1. **U**nderstanding the Client's Personal and Financial Circumstances.
2. **I**dentifying and Selecting Goals
3. **A**nalyze the client's current course of action and potential alternative courses of action
4. **D**eveloping the Financial Plan Recommendations
5. **P**resenting the Financial Planning Recommendations
6. **I**mplementing Financial Plan Recommendations
7. **M**onitoring the Plan

Uber **I**s **A** **D**runk **P**erson's **I**mmediate **M**otor vehicle.

Exam Tip: You'll need to identify which step you are in for all exam questions. Make a flashcard!

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Exam Note!

- A CFP® professional is responsible for all steps of the financial planning process unless specifically excluded from the scope of engagement.
- CFP® professional must prudently document information as facts and circumstances require (When in doubt, document)
  - CRM software;
  - Handwritten notes; or
  - emails

C.1. Understanding the Client's Personal and Financial Circumstances

- Obtain qualitative and quantitative information
- Analyze information
  - Assess the Client's personal and financial circumstances
- Address incomplete information

Examples of qualitative or subjective information:

- Health
- Life expectancy
- Family circumstances
- Values
- Attitudes
- Expectations
- Earnings potential
- Risk tolerance
- Goals, needs, and priorities
- Current course of action

Examples of quantitative or objective information:

- Age
- Dependents
- Other professional advisors
- Income
- Expenses
- Cash flow
- Savings
- Assets
- Liabilities
- Available resources
- Liquidity
- Taxes
- Employee benefits
- Government benefits
- Insurance coverage
- Estate plans
- Capacity for risk
- Education and retirement accounts and benefits

Data Gathering in Practice…

- May be obtained directly from the client or other sources such as interview(s), questionnaire(s), client records and documents.
- The planner should be an active and engaged listener during the data gathering step.
- The four categories of information gathered by the planner include: lists of assets and liabilities, dollar values, ownership information and contractual agreements.

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C.2. Identifying and Selecting Goals

- Identify potential goals
  - Discuss your assessment of client's financial and personal circumstances
  - Develop reasonable assumptions and estimates
- Select and prioritize goals
  - Note impact that particular goals have on other goals
  - Discuss any goals that may be unrealistic

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C.3. Analyze the client's current course of action and potential alternative course(s) of action

- Analyze the current course of action
  - Analyze material advantages and disadvantages of the current course of action
- Analyze potential alternative courses of action
  - Note: potential alternative course of action does not become a recommendation until the CFP® professional selects it as a recommendation in Step 4 of the process.

C.4. Developing the Financial Plan Recommendations

- From the current and potential alternative courses of action, select one or more recommendations designed to maximize the potential for meeting the Client's goals
  - Consider the assumptions and estimates used
  - The basis for making the recommendation
  - The timing and priority of the recommendation
  - Whether the recommendation is independent or must be implemented with another recommendation.

Recommendations in Practice…

- Recommendation(s) shall be consistent with the following:
  - Mutually defined scope of the engagement;
  - Mutually defined client goals, needs and priorities;
  - Quantitative data provided by the client;
  - Personal and economic assumptions;
  - Practitioner's analysis and evaluation of client's current situation; and
  - Alternative(s) selected by the practitioner.
- A recommendation may be to continue the current course of action

C.5. Presenting the Financial Planning Recommendations

- Present to the Client the selected recommendation(s) and the information that was required to be considered in developing the recommendation(s).
  - Provide advantages and disadvantages of continuing the current plan and of any alternative plans.
  - Recommendations may be presented orally, in writing, in person, over the phone, or in another format that fits the client's needs.
    - Consider the complexity of your recommendations when determining the presentation.
    - Keep in mind client's that have visual or hearing impairments

C.6. Implementing Financial Plan Recommendations

- Must be completed unless specifically excluded
- Establish responsibilities of the client, CFP® professional and any third parties.
  - CPA, Attorney, Insurance Agent, etc.
- Set timeline and priority
- Select implementation actions product and services.

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Implementation in Practice

- Select appropriate products and services that are consistent with the client's goals, needs and priorities
- Investigate products or services that reasonably address the client's needs
- Products or services selected must be suitable to the client's financial situation and consistent with the client's goals, needs and priorities
- Use professional judgment incorporating both qualitative and quantitative information in selecting the products and services that are in the client's interest
- The planner should use an implementation timeline for all parties

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Client's Participation

- After recommendations are presented:
  - Client is solely responsible to accept or reject the recommendations.
  - Once a recommendation is accepted, the planner can move to implementation.

C.7. Monitoring the Plan

- Must be completed unless specifically excluded
- Establish monitoring and updating responsibility
  - How and when
  - Client's responsibilities to update
- Monitor the client's progress
- Obtain current qualitative and quantitative information
- Update goals, recommendations, or implementation decisions
  - Determine if the terms of engagement are up to date

Monitoring in Practice

- There are two types of reviews, regular reviews and episodic reviews.
  - Regular reviews occur at predetermined intervals.
  - Episodic reviews occur after major, life-changing events.
- Investment results should be communicated at least quarterly or monthly during periods of extreme volatility. Investment management may require more frequent plan review. Performance benchmarks should be used at least annually.

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D. Duties Owed to Firms and Subordinates

- Use Reasonable Care When Supervising
- Comply with Lawful Objectives of CFP® Professional's Firm
- Provide Notice of Public Discipline

Exam Tip: If a CFP® professional goes on vacation and turns all client info to an intern to make recommendations, the CFP® Professional broke the supervision duty.

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E. Duties Owed to CFP Board

- Definitions
- Refrain from Adverse Conduct
- Reporting
- Provide Narrative Statement
- Cooperation
- Compliance with Terms and Conditions of Certification and License

F. Prohibition on Circumvention

- A CFP® professional may not do indirectly, or through or by another person or entity, any act or thing that the Code and Standards prohibit the CFP® professional from doing directly.

Practice Question 5

Under the CFP Board Code of Ethics, what responsibilities does an employer have to a CFP® certificant employee?

A. Provide ongoing continuing education.
B. Provide adequate professional premises and lawful objectives.
C. Provide adequate supervisory staff.
D. None of the above

Communication

- When communicating with the client, a combination of words, numbers and graphics should be employed.
- Communication techniques that are effective include pacing, rephrasing and reflecting.
  - Pacing – matching the speed of listening with the speed of the person talking.
  - Rephrasing – restating or repeating back what has been stated.
  - Reflecting – a paraphrasing technique where the planner restates the client's words, in the planner's words.

Communication Skills

- Reflective listening
  - Listen to understand
  - Repeat perceived message
    - Client should confirmation
- Motivational Interviewing
  - Conveys empathy and acceptance
  - Key principles
    - Partnership, Evocation, Acceptance, Compassion

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Client Meeting Skills

- Interview question structure
  - Open Questions
    - Encourages a lengthy response

  - Closed Question
    - Seeks a short and pointed response

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Learning Styles

- Visual
  - make use of pictures, charts, and graphs where possible and appropriate
- Auditory
  - Verbal explanation of each alternative and repeat key information
- Kinesthetic
  - Uses a combination of learning styles leaning toward interactive presentations

CFP Board Candidate Fitness Standards

- Specific character and fitness standards for candidates for CFP® certification and former CFP® professionals seeking reinstatement.
- Three categories of adverse conduct
  - Conduct that is unacceptable
  - Conduct that is presumed to be unacceptable
  - Other conduct that may reflect adversely upon the individual's integrity or fitness, the profession, or the CFP® certification marks.

Exam Tip: very likely to see a couple of questions.

Conduct Deemed Unacceptable

Conduct deemed unacceptable will always bar and individual from becoming certified:

- Felony conviction of:
  - Theft, embezzlement, tax fraud or other financial/tax crimes.
  - Felony conviction of any degree of murder or rape.
  - Violent crime within past five years.
- Revocation of a financial professional license.
  - Broker/dealer, insurance, accountant, financial planner
    - Exception: Not renewing a license by not paying the fee.

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Conduct Deemed a Presumptive Bar

- Behavior that is "Presumed" Unacceptable and will Bar Certification (unless the individual petitions the Disciplinary and Ethics Commission)
  - Two or more personal or business bankruptcies
  - Felony conviction of:
    - Violent crimes other than murder or rape that occurred more than five years ago.
    - Nonviolent crimes, including perjury, within the last five years.
  - Revocation or Suspension of a non-financial professional license.
  - Suspension of a financial professional license.
    - Exception: Not renewing a license by not paying the fee.

Exam Tip: Bankruptcies will be disclosed on the CFP® professional's public profile displayed on the CFP Board's website for 10 years and their names will be included once in a press release issued periodically by the Board. In limited circumstances, the first bankruptcy will not be published (see Standards).

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Other Adverse Conduct

- May reflect adversely upon the individual's integrity or fitness, the profession , or the CFP® certification marks include:
  - Customer complaints
  - Arbitrations and other civil proceedings
  - Felony conviction for non-violent crimes more than 5 years ago.
  - Misdemeanor convictions
  - Employer investigations or terminations.

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Eligibility to File Petition for Fitness Determination

- If transgression falls on "Unacceptable" list, then there's no recourse.

- If transgression falls on the Presumed to be Unacceptable or Other Adverse Conduct list, may file a Petition for Fitness Determination.
  - Pathway to CFP® Certification Agreements must have been signed.

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Proving Fitness

- A respondent must prove by a preponderance of the evidence
- The Hearing Panel will recommend to the Disciplinary and Ethics Commission whether to grant or deny
- DEC must review (*de novo*) and accept, reject or modify the Panel's findings
- DEC issues final order to grant or deny or impose temporary Bar or Permanent Bar
- CFP Board publishes Temporary Bar and Permanent Bar
  - Newspaper
  - CFP Board website or any other form of public disclosure

Eligibility to File Petition for Fitness Determination - Reinstatement

- Suspension of more than one year
  - Respondent must file a written Petition for Reinstatement
    - No earlier than 6 months prior to the last day
    - No later than 5 years after the first day of suspension
      - No request = Respondent relinquished CFP® Certification permanently.
  - Hearing Panel and DEC review
    - If DEC does not authorize a Renewed Petition for Reinstatement or denies said statement, DEC must issue revocation.
- Decisions are final unless felony conviction is overturned, at which time the individual may submit a new petition.

Testing Notes (1 of 3)

- As a CFP® professional, you owe a duty to your client. Identify your client and disclose everything.
- Examples
  - Souses are clients, one spouse wants a divorce. They either want money for an attorney or wants you to be their CFP® professional. You must disclose to the other spouse. Giving them money is not the right answer.
  - Brothers and sisters want access to their funds in a joint account established by your client, their parents. Don't liquidate the account immediately. Discuss with the brothers and sisters their reasons for wanting to liquidate the account.

Testing Notes (2 of 3)

- Be able to put a list of client's needs in the correct priority order, from highest priority to lowest priority. Always place the biggest financial risk first (as the highest priority) and the least risky, in terms of financial severity, as the lowest priority.
- December 2023 emphasis from CFP Board
  - If a CFP® Professional is aware of another CFP® Professional behavior does not align with the spirit and intent of the Code and Standards, or violates any federal, state or other law, regulation, it should be reported to the CFP Board. Use "File a Complaint" at CFP.net

Testing Notes (3 of 3)

- According to the CFP Board, the CFP® professional is responsible for everything related to a client's personal finances. The only time a CFP® professional is NOT responsible is when a special license is required to affect a transaction, such as a real estate license.
- A CFP® professional is responsible for:
  - Making sure RMDs occur (client to execute RMD).
  - Making sure a client deposits a 401k rollover check in time.
  - Just about everything…except:
- A CFP® professional is not responsible for:
  - Selling real estate
  - Writing a will or writing trust documents
  - Completing a tax return, unless the planner is a CPA or Enrolled Agent

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Bankruptcy

Number of Bankruptcies	Report to	Adjudications
One	• CFP Board within 30 calendar days • Client within 90 days with all relevant public websites	Choose: 1. Accept a public censure without incurring a few 2. Pay a hearing fee and follow streamlined adjudication
Two	Same as above	Follows normal disciplinary procedure for adjudicating complaints.

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Procedural Rule Key Dates (1 of 2)

Description	Number of Days	Consequence of Missed Deadlines
Duty to Report (non U4 items**)	Within 30 calendar days	Public Sanction (censure)
Response to Notice of Investigation (NOI)	Within 30 calendar days	Second notice is issued
Response to second NOI (if 1st not answered)	Within 30 calendar days	Default
Response to Request for Documentation	Within 30 calendar days	Second notice is issued
Response to second Request for Documentation (if 1st not answered)	Within 14 calendar days	Notice of failure to cooperate, which constitutes ground for sanction.
Response to Motion for Interim Suspension	Within 14 calendar days	*

Procedural Rule Key Dates (2 of 2)

Description	Number of Days	Consequence of Missed Deadlines
Suspension of use of marks	May last for 90 days to 5 years	N/A
Revocation of use of marks	Permanent	N/A
Evidence provided to CFP Board that certificate stopped using the marks	Within 45 calendar days	*
Notify Board of change of mailing or email address	Within 30 calendar days	*

*CFP Board has no specifically stated consequence for missing deadline.

Practice Question 6

Eric filed for personal bankruptcy four years ago and is now applying to become a CERTIFIED FINANCIAL PLANNER™ practitioner. Based on the Candidates Fitness Standards, which of the following statements is true?

A. Disclosed publicly by CFP Board for 10 years.
B. The bankruptcy is classified as conduct that is "Presumed" unacceptable and may bar certification.
C. Personal bankruptcy is not part of the Candidate's Fitness Standard.
D. Personal bankruptcy is limited to a three year "look back" when applying the Candidate's Fitness Standard.

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Practice Question 7

A husband and wife, who are both clients of a CFP® professional, are having marital problems and they recently separated. The wife needs $5,000 to pay a divorce attorney. They have a joint account with $150,000, the wife has her own IRA, and the husband has an investment portfolio. What should the CFP® professional do next?

A. Don't give the wife money
B. Give the wife money for the attorney from their joint account
C. Split the joint account into two separate individually owned accounts
D. Bring them both in to revise the planning agreements

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Practice Question 8

A client is going out of the country for an extended vacation. What should the CFP® professional help them do first, in terms of the highest priority, to the lowest priority?

A. Social security, Health insurance, Auto insurance, Update Wills
B. Update Wills, Health Insurance, Auto Insurance, Social Security
C. Auto insurance, Update Wills, Social Security, Health Insurance
D. Health Insurance, Social Security, Auto Insurance, Update Wills

Practice Question 9

Which of the following does the CFP® professional not have a duty to act as a fiduciary?

A. Giving Roth IRA advice
B. Filling paperwork for new client
C. Seminar on investing in mutual funds
D. Providing information to buy, sell or hold a stock position

Practice Question 10

Your client is 85. While going through her financial plan with her you think she is showing signs of incapacity. You believe the client may not understand your recommendations. What do you do?

A. Contact attorney
B. Coordinate with other advisers
C. Go back and start over
D. Continue with the engagement

Registered Investment Advisors

- Dodd- Frank:
  - Assets < $100M → register with the state
  - Assets > $110M → register with the SEC
    - Between 100M and 110M – choice to register state or SEC.
    - Mid-sized advisors are those with assets under management between $25 million and $100 million.
  - Cannot use the letters RIA after your name.
  - May only use the words “Registered Investment Advisor”
  - Advisory contracts cannot be assigned without the client's consent -> if selling your business.

Exam Tip: Topic tested frequently!

Registered Investment Advisors
Filing

- To register with the SEC:
  - File form ADV
- To withdrawal registration:
  - File form ADV-W
- RIA must file ADV Part 1 and Schedule I annually

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Registered Investment Advisors
Form ADV

- Form ADV
  - Part 1 A and B (not part of client brochure)
    - Firm Name
    - Background (executives)
    - U4 marks for the firm and stake holders
  - Part 2 A and B (makes up client brochure)
    - Firm and Advisor information
    - Compensation and fees
    - Education
    - Investment objectives & strategies
    - Conflicts of interest (ie: proprietary funds)

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Registered Investment Advisors
Form ADV part 3

- Form ADV part 3
  - Client "relationship summary" (also called Form CRS and Form ADV Part 3) that broker-dealers and investment advisers are required to provide when they offer services to retail investors.
  - This form is to help retail investors understand the differences between brokers and advisers.
  - The relationship summary must be written in plain English, be concise, and provide certain meaningful and accurate information about the firm, its financial professionals and the services it offers retail investor clients and customers.

Exceptions to Registration (1 of 4)

- The following need not register and generally are not regulated by the Advisers Act.
- Banks and bank holding companies that are not investment companies.
- Any broker/dealer whose advisory services are solely incidental to the conduct of business.
- Lawyers, accountants, teachers and engineers whose advice is solely incidental to their profession.

Exam Tip: Incidental TABLE
Make a flashcard of all exceptions to registration!

Exceptions to Registration (2 of 4)

- Publisher of a bona fide newspaper, magazine or periodical of regular circulation.
- Advisers whose advice and services is related strictly to securities guaranteed by the United States.
- Such person not within the intent of the law as the SEC may designate by rules, regulations or order.

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Exemptions to Registration (3 of 4)

- The following meet the definition of investment adviser but do not need to register. However, they are subject to the anti-fraud provisions of the Advisers Act.
  - Advisers whose clients reside in their state of business and who do not provide advice, services, analysis or reports regarding nationally listed securities.
  - Advisers not providing advice about securities traded on a national exchange.

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Exemptions to Registration (4 of 4)

- Advisers whose only clients are insurance companies.
- Advisers solely to venture capital funds.
- Advisers solely to private funds less than $150 million.
- Foreign advisers without a place of business in the US.

Exam Tip: "VIPs are SaFE from exemptions"

Make a flashcard of exemptions as well!

The Brochure Rule

- The "Brochure Rule" requires written disclosure to every client of the following:
  - Advisory services and fees.
  - Types of securities.
  - Education and business standards.
  - Participation/interest in securities transactions.
  - Conditions for managing accounts.
  - This information must be given to the client at or before the time of entering into a contract.
  - Compliance with the brochure rule is accomplished by providing client with ADV Part 2 (outlines fees)

Exam Tip: Tested Frequently!

Practice Question 11

Taylor Smith, a CFP® professional, has decided to increase his management fee from 1% to 1.25%. When must this be disclosed to his current clients?

A. Immediately
B. Promptly
C. Within 48 hours
D. At their next review

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Financial Industry Regulatory Authority

- Person registers with FINRA using Form U-4
- Must pass exam to sell securities:
  - Series 6: Mutual Funds, UITs and variables (life insurance and annuities)
  - Series 7: Everything except commodities and futures
  - Note – To sell variable life insurance or variable annuities, you must also have a state insurance license.

Exam Tip: Know Series 6 & 7 for exam!

General Economy

- Demand
  - The quantity of a good or service that consumers are willing to purchase
  - Heavily dependent upon price
  - Consumers demand less, the higher the price
- Supply
  - The quantity of a good or service that businesses are willing to supply
  - The higher the price, the more suppliers are willing to supply

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Change in Price vs. Shift in Demand Curve

- Quantity Demanded
  - Anytime there is a change in price
  - A movement along the demand curve
- Shift in the Demand Curve
  - Change in demand due to an increase or decrease in:
    - Income
    - Taxes
    - Savings Rate
    - Disposable Income

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Supply Curve

- Change in Quantity Supplied
  - Movements along the supply curve due to a price change
  - As prices decrease, firms are inclined to supply less
  - As prices increase, firms are inclined to supply more

- Shift in Supply Curve
  - Entire supply curve moves because of a change in:
    - Technology
    - Competition
    - Anything other than price

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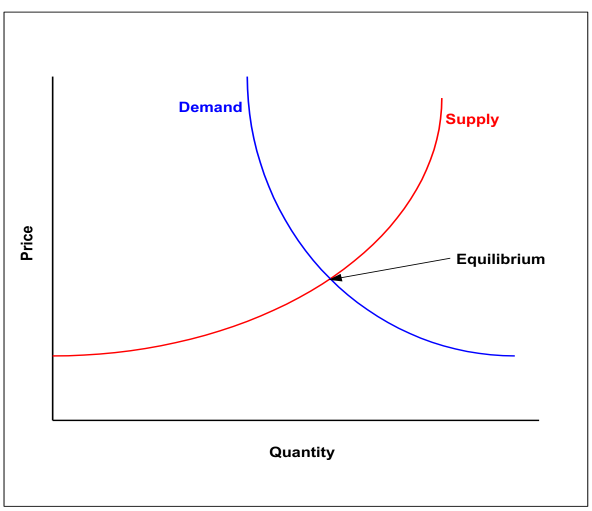
Equilibrium



Equilibrium is the price at which the quantity demanded equals the quantity supplied

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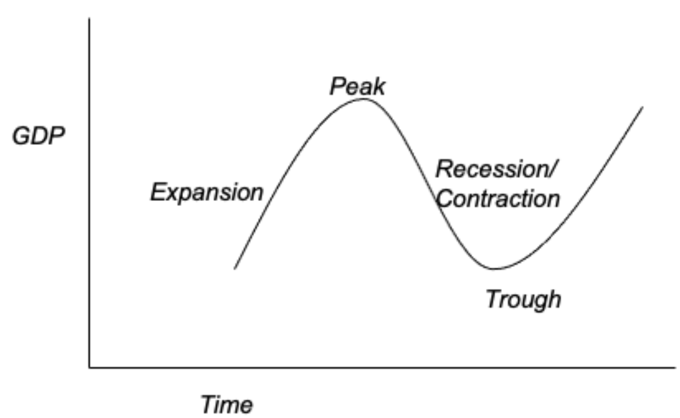
Substitutes and Complements

- Substitutes
  - Products that serve a similar purpose
  - A price change in one product changes the quantity demand for the another product.
  - If the price for chicken suddenly increases, the demand for pork may suddenly increase.

- Complements
  - Products that are consumed jointly.
  - A price change in one product changes the quantity demand for the another product.
  - If peanut butter is put on sale, demand for jelly may increase.

Business Lifecycle



Exam Tip: Know what direction the following variables are headed: Inflation, Interest Rates, Unemployment, and GDP at each phase in the business lifecycle

Gross Domestic Product

- Made up of 4 main areas
  - Consumer spending
  - Government spending
  - Business Investing
  - Net Import and Exports

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Business Life Cycle Components

- Expansion
  - GDP, inflation and interest rates increasing
  - Unemployment is decreasing
- Peak
  - GDP is at its highest
  - Inflation and interest rates are peaking
  - Unemployment is at its lowest levels
- Contraction
  - GDP begins to slow
  - Inflation and interest rates begin declining
  - Unemployment begins to increase
- Trough
  - GDP, inflation and interest rates are at their lowest levels
  - Unemployment is at its highest

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Practice Question 12

Which phase of the business cycle would be characterized by highest interest rates, low unemployment, highest GDP and increasing inflation?

A. Trough
B. Peak
C. Expansion
D. Contraction

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Monetary and Fiscal Policy

- Monetary Policy
  - The policy and means by which the Federal Reserve controls the money supply and influences interest rates
- Fiscal Policy
  - The policy and means by which Congress controls spending and taxation, which influences the money supply and interest rates

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Monetary Policy

- Monetary policy is established by the Federal Reserve.
- Federal Reserve has three main goals
  - Maintain long term economic growth
  - Maintain price levels supported by the economy
  - Maintain full employment

Monetary Policy
Federal Reserve

- Federal Reserve has the ability to:
  - Ease Monetary Policy
    - Increasing Money Supply
    - Decreasing Interest Rates
  - Tighten Monetary Policy
    - Decreasing Money Supply
    - Increasing Interest Rates

Monetary Policy
Tools 1 of 4

- Fed has four tools by which they can influence money supply and interest rates
  - Reserve Requirement (First Tool)
    - The percentage of deposits a bank must maintain in cash
    - As the reserve requirement increases, there's less cash available to lend, therefore money supply decreases and interest rates increase
    - As the reserve requirement decreases, the money supply increases, therefore interest rates will decrease.

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Monetary Policy
Tools 2 of 4

- Fed has four tools by which they can influence money supply and interest rates
  - Discount Rate (Second Tool)
    - The overnight interest rate at which member banks can borrow from the Federal Reserve to meet their reserve requirements
    - As the discount rate increases, short term interest rates increase
    - As the discount rate decreases, short term interest rates will decrease

Exam Tip: Discount rate is different than the Fed funds rate. Fed funds rate is the rate at which member banks borrow from each other.

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Monetary Policy
Tools 3 of 4

- Fed has four tools by which they can influence money supply and interest rates
  - Open Market Operations (Third Tool)
    - Buying or selling of government securities influences money supply
    - Buying Government Securities: Increases the money supply and decreases interest rates.
    - Selling Government Securities: Decreases the money supply and increases interest rates.

Exam Tip: Make a flashcard! Likely to be tested.
Buy securities – increase money supply – decrease interest rates
Sell securities – decrease money supply – increase interest rates

Monetary Policy
Tools 4 of 4

- Fed has four tools by which they can influence money supply and interest rates
  - Excess Reserve Rate (Fourth Tool)
    - Excess reserves are monies that a bank holds at the Federal Reserve (or central bank) in excess of the required reserve amount.
    - In 2008, under the Economic Stabilization Act, the Federal Reserve began paying interest on excess reserves.
    - An increase in the excess reserve rate will cause more banks to keep excess reserves, thus limiting the money available for loans.
    - A decrease in the excess reserve rate will cause fewer banks to keep excess reserves, thus increasing the money available for loans.

Practice Question 13

Interest rates will tend to increase when the Federal Reserve does which of the following:

A. Increases the prime lending rate
B. Decreases the reserve requirement
C. Buys government securities through open market operations
D. Sells government securities through open market operations

Practice Question 14

The Federal Funds rate will tend to move upward under which of the following conditions? (CFP® Certification Examination, released 2004)

A. The Federal Reserve is buying government securities
B. The Federal Reserve lowers the discount rate
C. A few banks have reserve deficiencies, and the rest have ample excess reserves
D. A few banks have excess reserves, and the rest have significant reserve deficiencies

Fiscal Policy

- Congress influences fiscal policy.
- Congress has three goals related to fiscal policy
  - Maintain economic growth
  - Maintain price stability
  - Full employment

Fiscal Policy
Tools

- Congress' three tools to influence fiscal policy
  - Taxation
    - Increasing tax rates will reduce money available for spending, therefore increase interest rates
  - Spending
    - Through government spending, congress can increase the money supply, thereby decreasing interest rates
  - Debt Management
    - Deficit spending is when Congress spends more than the tax revenue collected.
    - Because of deficit spending, Congress must borrow to continue spending. As congress borrows more, it places increasing pressure on interest rates

Consumer Protection Laws (1 of 2)

- Fair Credit Reporting Act
  - If refused credit or employment, the consumer must be provided with the information in the report
  - Consumer has the right to a free credit report once a year
- Fair Debt Collection Act
  - Creditors cannot harass or threaten a lawsuit if not intended and cannot contact you at work
  - Telephone calls limited to 8:00am – 9:00pm

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Consumer Protection Laws (2 of 2)

- Fair Credit Billing Act
  - Gives creditor 30 days to acknowledge receipt of billing dispute and explain or correct error within 90 days
  - Consumer liability for a lost or stolen credit card is limited to the lesser of $50 or charges incurred if notice is given to the credit card company
- Truth in Lending Act
  - Must disclose total cost of financing
- CARD Act of 2009
  - Must be 21 to open a credit card in your own name
  - Limits certain fees and practices

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FDIC Insurance (1 of 2)

- Each depositor has a total of $250,000 of insurance per type of account ownership.
  - Including: Certain retirement accounts (includes Traditional and Roth IRA, SEP and Simple IRAs) are covered up to $250,000.
- Three types of ownership:
  - Individual, Joint and Trust accounts
  - Retirement accounts also separate, but coverage depends upon type of asset
- Each person is deemed to own 50% of a joint account for FDIC insurance purposes

FDIC Insurance (2 of 2)

- How much is NOT covered by FDIC?

Amounts in 000's	Account Balance	John's Share	Mary's Share
John (checking)	200	200	
John (CD)	75	75	
Mary (checking)	50		50
Joint (checking)	360	180	180
Joint (CD)	140	70	70
Mary (Trust)	100		100
Total Ind.	325	275	50
Total Joint	500	250	250

$25,000 of John's Individual Accounts

FDIC Insurance

- Any deposit payable in the US IS covered
- Any deposit only payable outside of the US is NOT covered
- Money held in a money market mutual fund is NOT covered
- Stocks, bonds, mutual funds are NOT covered

Exam Tip: Be sure to know what is and is not covered. Also, how to calculate how much is covered for a particular person!

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Sample Question

Bryan and Katie are married and have $600,000 on deposit at their local bank. For FDIC purposes, which of the following account structures would you recommend so that Bryan and Katie are fully insured?

A. Bryan – Individual Checking - $200,000; Bryan – CD - $100,000; Katie – Individual Checking - $200,000; Katie – CD - $100,000
B. Bryan and Katie – Joint Checking - $600,000
C. Bryan and Katie – Joint Checking - $200,000; Katie – POD Savings for Bryan - $400,000
D. Bryan – Individual Checking - $200,000; Katie – Individual Checking - $200,000; Bryan and Katie – Joint Checking - $200,000

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Sample Question - Rationale

A. Bryan – Individual Checking - $200,000
   Bryan – CD - $100,000
   Katie – Individual Checking - $200,00
   Katie – CD - $100,00
B. Bryan and Katie – Joint Checking - $600,000
C. Bryan and Katie – Joint Checking - $200,000
   Katie – POD Savings for Bryan - $400,000
D. Bryan – Individual Checking - $200,000
   Katie – Individual Checking - $200,000
   Bryan and Katie – Joint Checking - $200,000

Over $250,000 Single

Over $250,000 Single

Over $500,000 Joint

Over $250,000 / Bene.

Under $250,000 Single
Under $250,000 Single
Under $500,000 Joint

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Bankruptcy Laws

Exam Tip: Board likes to test debts that are not discharged through bankruptcy! Also, debts obtained through negligence are discharged, however debts through fraud are not!

- Chapter 7 – Relief through liquidation
  - Debts not discharged:
    - 3 years of back taxes
    - Alimony & child support
    - Student loans (unless "undue hardship" - jurisdiction issue)
  - Protected Assets:
    - Rollover IRAs have unlimited protection
    - IRA and Roth are exempt up to about $1.3 million (as indexed)
    - Inherited IRAs do not have any protection
    - Alimony & child support
    - Pensions, life insurance & annuities
- Chapter 11 – Relief through reorganization for business or self-employed
- Chapter 13 – Relief through adjusting debts

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Worker Protection Laws

- Workers Compensation
  - Absolute form of liability
  - Regardless of fault if injured at work, employee collects benefits
  - Benefits not subject to income taxation
- Unemployment Compensation
  - Collect benefits if employee loses their job
  - Funded by tax on employers
  - Benefits are included in gross income

Fundamentals of Financial Planning
Crisis Events

- Planner needs to show empathy
- Planner needs to demonstrate reliability and competency
- Comprehensive planning with emphasis on:
  - Insurance
  - Investments
  - Emergency funds
  - Estate planning

Best Practices for Crisis Events

- Checklists
- Timelines

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Planning for Special Needs

- Financial issues
- Legal issues
- Government benefits
- Family and support factors
- Emotional factors

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Key Programs

- Federal
  - Special Education Programs
  - Social Security Benefits
  - Benefits for Disabled Veterans
- State
  - Residential services
  - Transportation services
  - Respite Care Services
  - Family Support Services
  - Day Program Services Employment Services

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Personal Financial Statements

- Primarily used as a scoring mechanism for capturing and analyzing an individual's financial position and performance
- Financial statements include:
  - Balance Sheet (or Statement of Net Worth)
  - Income and Expense Statement
    (or Cash Flow Statement)

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Financial Statements

- Balance Sheet
  - Snapshot of account balances at a "moment in time"
  - Proper dating is "As of December 31, 20xx"
  - Critical formula
    - Assets – Liabilities = Net Worth

Cash & Cash Equivalents	Cash, MM, CD ≤ 12 Months	**Liabilities**	Credit Cards, Mortgage, Auto Loan, Student Loan
Invested Assets	IRA, Brokerage Acct, CD > 12 Months		
Personal Use Assets	Car, House, Jewelry, Furniture	**Net Worth**	

Statement of Income and Expenses

- Listing of:
  - Income
    - Includes salary, interest, dividends, business income
  - Savings
    - Outflows to retirement plans, education savings
  - Expenses
    - Both variable and fixed expenses
- Presents income and expenses "Over a Period of Time"

Financial Statements

- Assume the following transactions, what was the change in net worth?
  - Purchased $10,000 of furniture on credit cards
  - Stocks in a brokerage account increased by $5,000
  - Spent $2,000 in cash on a vacation to Aruba
  - Purchased a $30,000 car with 10% down in cash and financed the remaining portion

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Practice Question 15

Jennifer's net worth increased from $600,000 to $750,000 this year. During the year she inherited $50,000 in stocks and bonds. Jennifer earned a salary of $80,000 and saved $10,000 of her salary in her 401k plan. Jennifer contributed $3,000 to her IRA, from her checking account. She also used $5,000 from her money market, to purchase new bedroom furniture. Her investments grew by $75,000. By what amount were her liabilities reduced?

A. $5,000
B. $10,000
C. $15,000
D. $20,000

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Categories of Ratios

- Liquidity Ratios
  - Measure of ability to meet short term or current liabilities
- Debt Ratios and Debt Analysis
  - Indicates how well a person manages their debt
- Performance Ratios
  - Assesses the financial flexibility of the client, as well as the client's progress towards goals

Liquidity Ratios
Current Ratio

- Measure of a client's ability to meet short term obligations
- Current assets include cash and cash equivalents and marketable securities such as certificates of deposit less than 12 months in maturity, money market, savings, cash, accounts receivable
- Current liabilities include credit cards, short term debts less than 12 months

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Practice Question 16

Joe has the following assets:

EE Bonds $6,000	IRA $25,000
Checking Account $5,000	Cash $500
Bills due in 10 days $1,500	Credit Card Balance $1,500
CD Maturing in 6 months $1,000	Money Market $10,000

What is his current ratio?

A. 3.0
B. 2.1
C. 5.5
D. 6.5

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Liquidity Ratios
Emergency Fund

- Need 3 – 6 months in nondiscretionary expenses
- Current Assets
  - Cash, Checking, MM, Savings, ST CD, US T-Bills, Life Insurance Cash Value,
- Nondiscretionary expenses include only those expenses that do not go away if you lose your job: debt, utilities, food

$$\text{Emergency Fund} = \frac{\text{Current Assets}}{\text{Monthly Nondiscretionary Expenses}}$$

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Sample Question - Ratios

Kevin has the following assets:

EE Bonds $6,000	IRA $25,000
Checking Account $5,000	Cash $500
Bills due in 10 days $1,500	Credit Card Balance $1,500
CD Maturing in 6 months $1,000	Money Market $10,000

His annual expenses are $84,000, of which $24,000 are discretionary. What is Kevin's emergency fund?

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Sample Question - Ratios - Rationale

Kevin has the following assets:

EE Bonds $6,000	IRA $25,000
Checking Account $5,000	Cash $500
Bills due in 10 days $1,500	Credit Card Balance $1,500
CD Maturing in 6 months $1,000	Money Market $10,000

His annual expenses are $84,000, of which $24,000 are discretionary. What is Kevin's emergency fund?

$$\text{Emergency Fund} = \frac{16{,}500}{(\$84{,}000 - \$24{,}000) / 12 = 5{,}000}$$

$$= 3.3 \text{ months}$$

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Debt Ratios (1 of 3)

- Housing Ratio should be less than or equal to 28% of GROSS income
- Housing plus all other recurring debt should be less than or equal to 36% of GROSS income

Exam Tip: Make a flashcard. May see questions about ratios in case problems!

Debt Ratios (2 of 3)

Housing – 28% Ratio

$$\frac{\text{Monthly Housing Costs (P+I+T+I)}}{\text{Monthly Gross Income}}$$

Target of

≤ 28%

P = Principal

I = Interest

T = Taxes (Property)

I = Homeowners Insurance

Debt Ratios (3 of 3)

Housing – 36% Ratio

$$\frac{\text{Monthly Housing Costs (P+I+T+I) + All Other Recurring Debt}}{\text{Monthly Gross Income}}$$

Target of ≤ 36%

P = Principal

I = Interest

T = Taxes (Property)

I = Homeowners Insurance

All other recurring debt includes: Auto, Student Loans, Boat, Credit Card and any other type of monthly debt.

Practice Question 17

Dan has an annual gross income of $100,000. His net annual income is $70,000. Dan's monthly mortgage is $2,000 which includes homeowners insurance and property taxes of $500 in total. Dan has a car payment of $500 per month, a student loan payment of $250 per month, auto insurance of $100 per month and $1,500 in variable monthly expenses.

What is Dan's 28% ratio?

What is Dan's 36% ratio?

Buying vs. Renting (Leasing)

- Appropriate to rent or lease if:
  - Time in property is going to be short (1-3 years)
- Appropriate to buy if:
  - Time in property is going to be long (>3 years)
  - Client wants to build equity
  - Client is in a high marginal tax bracket

Exam Tip: Primary driver to rent or to buy is "time"!

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Mortgages (1 of 3)

- Adjustable Rate Mortgage
  - ARM is appropriate when time in property will be short (1-3 years)
  - 2/6 means the interest rate cannot increase more than 2% per year or 6% during the term of the loan
  - Loan Estimate(LE): Describes the type of loan and itemizes services and fees charged by the lender when applying for a loan or refinance.

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Mortgages (2 of 3)

- Reverse Mortgage
  - Homeowner receives a monthly payment or lump sum and retains right to live in house.
  - Repayment occurs at death of homeowner
  - Appropriate to generate income for elderly homeowners
  - Available if age 62 or older

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Mortgages (3 of 3)

- Mortgages
  - Up to $750,000 max indebtedness can be considered for interest itemized deduction
  - Up to $750,000 in max indebtedness can include a home equity loan if it is used for repair or improvement of the home.
  - (Covered in tax)

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Types of Mortgages

- Conventional mortgage
  - Has a fixed interest rate for the duration of the loan
- Adjustable-rate mortgage (ARM)
  - Has an interest rate that changes (only within limits and only at specified intervals) with changes in the level of interest rates in the economy
  - Typically carry lower initial interest than fixed-rate mortgages because of the additional risk the ARM homeowner takes on

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Mortgage Refinancing

- The decision to refinance is usually based on a comparison of the up-front costs (especially points paid) to obtain a new mortgage with the ongoing benefits provided by the lower interest rate in it
- The primary motivation usually is to lower the monthly payments because of lower interest rates
- Lowering monthly payments can free up funds to be saved toward goals or to balance a deficit budget

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Mortgage Refinancing Example

- **Old mortgage**
  - $300,000 at 7% for 30 years, with 26 years remaining
  - Calculate the PMT ($1995.90) and use the amortization keys to see remaining balance ($286,424)
  - Remaining payments = 1995.90 x 312 = 622,720
  - 622,720 – 286,424 = 336,296 is interest

- **New mortgage**
  - $286,424 + $3,000 closing costs added to loan = $289,424 loan at 5% for 20 years
  - Calculate new PMT ($1910.07) Remaining payments = 1910.07 x 240 = 458,417
  - 458,417 – 289,424 = $168,993
  - Loan is paid off 6 years earlier and saves $167,303 (336,296 – 168,993) in interest
  - $86 per month available to save toward goals due to lower payment

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Mortgage Refinancing Example TVM inputs

- **Old mortgage**

PV 300000
I 7/12
N 30 x 12
Solve for PMT = 1995.90

Use your calculator Amortization function for months 1 - 48 = 286,424 remaining balance

Remaining payments = 1995.90 x 312 = 622,720

622,720 – 286,424 remaining balance = 336,296 is interest

- **New mortgage**

Add the close costs to the remaining balance of the old mortgage

PV 289,424
I 5/12
N 20 x12
Solve for new PMT = 1,910 then multiple by 240 remaining payments

= 458,417 – 289,424 balance and close costs = $168,993

Subtract from interest from old mortgage to calculate savings.

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Practice Question 18

Clients visit with their CFP® professional regarding a refinance on their house. What are the best documents the CFP® professional should use to evaluate whether to refinance the house?

A. Loan Estimate
B. Current monthly mortgage statement
C. Original loan documents
D. Current real estate taxes
E. Both A & C

Performance Ratios
Savings Ratio

$$\frac{\text{Annual Savings (Employee + Employer Contributions)}}{\text{Annual Gross Income}}$$

- Target of 10-12% depending on the age when you start saving
- If a client waits to begin saving at 45 or 55, the rate may be 20-25%
- It's important to include employer contributions to 401(k), profits sharing plans, etc.

Performance Ratios
Rate of Return on Investments (ROI)

- Rate of Return on Investments (ROI)
  - Use financial calculator to calculate
  - Target of 9-12% depending on the clients age + risk tolerance
  - ROI should also be compared with an appropriate benchmark
  - Provides some insight as to the likelihood of achieving goals

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Education & Financial Aid

- After determining a client's beliefs, goals and gathering external data, the planner should focus on financial aid.
- All students should complete the Free Application for Federal Student Aid (FAFSA)
  - Begins the financial aid process
  - Information from FAFSA is sent to colleges of the student's choice
  - Information on the FAFSA is used to calculate the Student Aid Index (SAI) *

* Under the recent *FAFSA Simplification Act*, the Student Aid Index (SAI) replaced the Expected Family Contribution (EFC) effective with the FAFSA for the 2024-2025 academic year.

* **NOTE**: at the printing of this slides the FAFSA changes are not set in stone, though the terminology will be changing in 2024.

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Student Aid Index (1 of 2)

Tuition/Cost of Attendance
- Student Aid Index

= Financial Need

- A student may have need at one school, but not at another
- Students who are independent may be eligible for more aid than children who are considered dependents.

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Student Aid Index (2 of 2)

- Students are considered independent if they are:
  - Over age 23
  - Have legal dependents other than a spouse
  - Married
  - Orphan or ward of the court until age 18
  - Working on Masters or Doctorate
  - Veteran of the U.S. Armed Forces

Exam Tip: Know the first three for the exam!

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Financial Aid Programs (1 of 2)

- Most Important Types of Aid:
  - Federal Pell Grant
    - "Need" based – dependent on SAI
  - Stafford Loan
    - Subsidized Stafford is "Need" based
    - Unsubsidized Stafford is NOT need based
  - PLUS Loan
    - NOT Need based, depends on parents' credit

- Note: while Federal Perkins Loans discontinued in 2017, it is possible to see it as an answer choice

Exam Tip: Know which ones are need based and not need based!

Financial Aid Programs (1 of 2)

- Federal Pell Grant
  - Free money – not a loan
  - Based on a student's financial need
  - The SAI determines a student's eligibility and how much is awarded
  - Only students that have not earned a bachelors or professional degree qualify

Financial Aid

- Stafford Loan – the primary type of financial aid provided by the U.S. Department of Education
  - Subsidized
    - No interest charged until graduation, leaving school or below half-time status
    - Not available for grad students
  - Unsubsidized
    - Charged interest when loan is disbursed
    - Interest may be capitalized or paid as accrued
    - Available for grad students

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PLUS Loans

- Parent Loans for Undergraduate Students
- Characteristics
  - Parent borrows based on their credit, not need based
  - Must be repaid within 10 years
  - PLUS loans are unsubsidized
  - Repayment commences once the final disbursement is made
    - Request can be made for deferment while your child is enrolled at least half-time. Payments commence when the child graduates, leaves school or drops below half-time.

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Graduate PLUS Loans

- Student Loans for Graduate Students
  - Student credit health is taken into account
- Characteristics
  - For graduate or professional students enrolled at least half-time
  - Interest accrues as you go – pay it or let it add to your balance.
  - Payments begin 6 months after graduation, leave school, or drop below half-time enrollment.

Campus Based Financial Aid

- Federal Supplemental Education Opportunity Grant (FSEOG)
  - Awarded to students with low SAI
  - Only paid if funds are available, in contrast to Pell Grant where if you qualify, you'll receive it
- Federal Work Study
  - On or off campus employment to help pay education expenses

Programs to Reduce Student Loan Payments

- Pay As You Earn Repayment:
  - Monthly student loan repayment of 10% of discretionary income with remaining debt forgiveness after 20 years.
  - Only Direct Federal loans & Graduate PLUS loans eligible
- Income Based Repayment (IBR):
  - Monthly student loan repayment of 15% of discretionary income with remaining debt forgiveness after 25 years.
  - Most Federal (except parent PLUS) loans eligible.
- Income Contingent Repayment (ICR):
  - Monthly student loan repayment of 20% of discretionary income with remaining debt forgiveness after 25 years.
  - Only Direct Federal loans & Graduate PLUS loans eligible

Tax Advantaged Plans for Education Savings

- Qualified State Tuition Plans
  - Prepaid tuition
  - Savings plans
  - ABLE Accounts
- Coverdell Education Savings Accounts
- Roth IRA
- Series EE Savings Bonds
- Uniform Gift to Minor's Act

Qualified State Tuition Plans
Prepaid Tuition

- Pay for in-state college credit at a fixed cost
- Use the credit when your child goes to college
- Asset of the parent for financial aid purposes
- Advantage
  - Lock in cost in today's dollars
- Disadvantages
  - Only earn a return equal to tuition inflation
  - Student may receive a scholarship
    - Only receive your principal back, without interest
  - If for any reason student does not attend the selected university, you generally only receive the return of principal.

Qualified State Tuition Plans
Savings Plan or 529 Savings Plan

- Contribute to a savings plan that invests in a diversified portfolio of stocks and bonds based upon your child's age.
- Any appreciation in asset value is tax-free if used for qualified education expenses
- Contributions are recognized as being made pro ratably over a five-year period
- An individual can contribute up to $90,000 in one year, without any gift tax consequences in 2024
- A couple that elects gift splitting can contribute $180,000 ($18,000 x 2 x 5) in one year (2024)
- Significant for grandparents that want to reduce their gross estate
- Considered a parental asset for financial aid purposes
- Distributions from plans owned by someone other than the parents for educational expenses are NO LONGER considered income of the child for FASFA purposes

Qualified State Tuition Plans
Savings Plan or 529 Savings Plan Advantages

- Advantages
  - Possible state income tax deduction for contributions
  - No phase out for who can participate
  - Owner controls the account
  - Can change the beneficiary anytime
  - Contributor can remove assets from gross estate.
  - SECURE 2.0 Act change effective to distributions after 12/31/23:
    - Beneficiaries are permitted to rollover up to $35,000 over the course of their lifetime from any 529 account in their name to their Roth IRA.
      - These rollovers are also subject to Roth IRA annual contribution limits, and the 529 account must have been open for more than 15 years.

Qualified State Tuition Plan
Savings Plan or 529 Savings Plan Uses

- $10,000 annually may be used to pay for tuition for elementary or secondary public, private or religious school.

- Registered apprenticeships to the list of qualified tuition
    - Includes apprenticeship fees, materials, and tools

- Aggregate amount of $10,000 can be utilized to pay student loans of the beneficiary (and siblings).

Qualified State Tuition Plans
Savings Plan or 529 Savings Plan Disadvantages

- Disadvantages
  - 10% penalty and included in gross income if not used for qualified education expenses
    - Exceptions to 10% penalty include: death, disability and scholarship for beneficiary

529A ABLE (1 of 2)

- Achieving a Better Life Experience
  - Similar to state sponsored 529 plans
    - Beneficiary must be entitled to SS disability or SSI
  - TCJA allows 529 rollover to 529A ABLE (2018-2025) - subject to annual max
    - Beneficiary same or family member of original bene
  - Only 1 ABLE Account per beneficiary
  - Max contribution $18,000 (2024)

529A ABLE (2 of 2)

- Good to knows
  - Account balance over $100K will suspend SSI
  - Qualified Expenses
    - Education, housing, transportation, assistive technology, personal support services, legal fees
  - Investment selections can be changed twice per year

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Coverdell Education Savings Account

- Contributions are limited to $2,000 per year per beneficiary
- Contributions grow tax-deferred unless used for qualified education expenses (in which case they are tax free)
  - Includes private elementary or secondary education
- Owner may change beneficiary
- Must use the funds by age 30
  - Cannot make contributions beyond the beneficiary's 18th birthday.
- 10% penalty and included in gross income if not used for qualified education expenses
- Considered an asset of the parent for financial aid purposes.

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529 vs. Coverdell

Description	529	Coverdell
Contribution Deductible?	No	No
Reinvested Earnings Taxable?	No	No
Qualified Withdrawals Taxable?	No	No
Nonqualified Withdrawals Taxable?	Yes + 10%	Yes + 10%
Dollar Limit on Contribution?	**Very High**	**$2,000**
Age Limit on Contributions?	**No**	**< 18**
Age Limit on Ownership of Account?	No	No
Age Limit on Beneficiary of Account?	**No**	**< 30**
Qualified Education?	**K-12 & Post 2nd apprenticeships**	**K-12 & Post 2nd**
Included in Account Owner's Estate?	**No***	**No**
AGI Phaseout	**No**	**Yes**

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Practice Question 19

Jorge and Hanna are looking to fund their daughter Sydney's education. Sydney is currently 4 years old and will start college in 14 years. Jorge would like to be able use part of the funds to help pay for private secondary school, as well as postsecondary. Jorge and Hanna have an AGI of $70,000. The are committed to saving $300 a month and would like to make use of any tax advantaged savings plans. Which investment option might you suggest?

A. 529 Savings Plan
B. Prepaid Tuition
C. Zero coupon bonds in an UTMA account
D. Coverdell Education Savings Account

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Roth IRA

- Roth IRA
  - Education benefit:
    - 10% penalty is waived on non-qualified distributions used for education expenses
    - Can always withdraw contributions and conversions without tax consequences
      - May impact attainment of retirement goal
    - Withdrawal of earnings is generally taxable

Series EE Savings Bond

- Series EE Savings Bond
  - May "convert into" 529 Plan or Coverdell ESA
    - Must cash in the EE Bond and invest proceeds into 529 or Coverdell
  - No federal income tax on interest if used to pay for qualified education expenses
  - Bond must be redeemed in same year as education expenses are incurred
  - Bonds must NOT be purchased in the child's name
  - Buyer must be 24 or older when purchased

Exam Tip: An EE Bond can be used for tuition and fees, in addition to the AOTC. Just not the same expenses!

Uniform Gift to Minors Act (1 of 3)

- UGMA/UTMA
  - Assets are placed in a custodial account
    - A donor appoints a custodian
    - A parent can be both
    - Could have a grandparent as the donor and a parent as the custodian
    - The donor irrevocably gifts the asset to the custodial account

Uniform Gift to Minors Act (2 of 3)

- Taxation of unearned income (interest, dividends and capital gains) may be subject to kiddie tax
  - Child less than 19 – unearned income may be taxed using the parent's tax bracket (SECURE Act)
  - Child 19 or older – taxed at child's rate
  - Exception: A full time student age 23 or less is subject to the kiddie tax rules.
  - Proper titling Parent as Custodian for Child
  - Funds are not transferrable to another beneficiary

Uniform Gift to Minors Act (3 of 3)

- Assets are considered an asset of the child when determining financial aid
- Child can use assets for something other than education
  - Traveling, sports car, professional underwater basket weaver
- UTMA may include real estate as an investment

Additional Tax Advantages for Education Funding

- Deductibility of Student Loan Interest
  - Interest on student loans is deductible above the line (before Adjusted Gross Income)
  - Amount is limited to $2,500 per year
  - Loan must have been used for:
    - Tuition, room, board, supplies or other necessary expenses

Practice Question 20

John is the custodian for an UGMA account for the benefit of Linda, who is a minor. Linda's father originally contributed to the account and walks into the planner's office demanding the account to be liquidated. Who can liquidate the account?

A. John
B. Linda
C. Linda's father
D. CFP® Professional

Additional Tax Advantages for Education Funding (1 of 2)

- Lifetime Learning Credit
  - Tax credit available for tuition and fees related to undergrad, graduate or professional programs
  - Tax credit amount is:
    - 20% of up to $10,000 in qualified expenses
    - Maximum credit "Per Family" of $2,000 per year
  - Can be claimed for an unlimited number of years of college
  - Per family credit is based on the family's tax return.
    - Son who attends school and incurs $4,000 in expenses
    - Father attends school and incurs $8,000 in expenses
      - Total tax credit for family is $2,000

Additional Tax Advantages for Education Funding (2 of 2)

- American Opportunity Tax Credit
  - Applies to tuition and fees for the first four years of post-secondary education
  - Tax credit consists of:
    - 100% of first $2,000 in qualified expenses
    - 25% of second $2,000 in qualified expenses
    - Maximum tax credit "Per Student" of $2,500 per year
  - Per student deduction is based on the number of dependent students on the family's tax return.
    - Son, who is a freshman, incurs $4,000 in expenses
    - Daughter, who is a sophomore, incurs $5,000 in expenses
      - Total tax credit for family (in this example) is $5,000 ($2,500 per student)

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Important Considerations

- An individual may claim the American Opportunity or Lifetime Learning credit in the same year as a distribution from a 529 Plan (or other qualified tuition plan), just not for the same expenses.
- An individual may NOT claim both the American Opportunity and Lifetime Learning Credit for the same child, in the same year.
- In **2024**, AOTC and LLC share the same phase out limits
  - Single: $80,000 - $90,000
  - MFJ: $160,000 – $180,000

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Practice Question 21

Which of the following are considered assets of the child when determining financial aid?

A. 529 Savings Plan
B. Prepaid Tuition
C. UTMA Account
D. Coverdell ESA

Practice Question 22

Joe has two kids. Sydney is a junior at Florida State and William is a freshman at Duke. Sydney's tuition was $7,000 and William's was $30,000. Joe decided to go back to school for a financial planning education. Joe's tuition was $5,000. How much can Joe deduct for the American Opportunity and Lifetime Learning credit this year?

A. $2,500 American Opportunity; $2,400 Lifetime
B. $2,500 American Opportunity; $1,000 Lifetime
C. $5,000 American Opportunity; $2,400 Lifetime
D. $5,000 American Opportunity; $1,000 Lifetime

Practice Question 23

Parents are paying for their daughter's education for the first two years. The parents then decide to stop paying for her education. The daughter continues going to college paying for her education expenses. Who may take the American Opportunity Tax Credit?

A. Parents for all 4 years
B. Parents for first 2 years
C. Nobody is eligible
D. Child for all 4 years

Employer Education Assistance

- An employer may pay for or reimburse an employee for education expenses
- Any benefit or reimbursement is not included in income up to $5,250 per year
  - Any ER paid educational loan repayments before January 1, 2026, are excluded from income, up to the $5,250 limit.
    - Payments can be made to the employee or lender.
    - Loans of spouses or dependents do not qualify.
    - Employer cannot receive the above-the-line interest deduction.

Summary of Qualified Education Expense Definitions

Education Expense	Tuition & Fees	Books & Supplies	Equipment	Room & Board
Prepaid Tuition	✓	X	X	X
529 Plan	✓	✓	✓	If ≥ ½ time
Coverdell ESA	✓	✓	✓	✓
Roth IRA	✓	✓	✓	If ≥ ½ time
EE Bond	✓	X	X	X
Lifetime Learning	Paid directly to University	Paid directly to University	Paid directly to University	X
American Opportunity	Paid directly to University	✓	✓	X

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Summary

	Phaseouts	Benefit	Contribution Limits Per Year
Prepaid Tuition	No	Pay for college credit in today's dollars	None
529 Plan	No	Tax free if used for education	State Dependent Gift/GSTT Limits
Coverdell ESA*	Yes	Tax free growth if used for education	$2,000
Roth IRA	Yes	No 10% penalty if used for education	$6,000
EE Bond*	Yes	Interest excluded from income if used for education	None

* Phaseout provided during the CFP® Exam.

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Summary & Phaseout

	Phaseout	Benefit	Contribution Limits Per Year
Student Loan Interest Deduction*	Yes	Deduct student loan interest before AGI	$2,500
Lifetime Learning Credit*	Yes	20% tax credit on $10,000 of education expenses	$2,000 Per Family
American Opportunity Credit*	Yes	100% of first $2,000 and 25% of second $2,000 in expense – Only for first four years	$2,500 Per Student

* Phaseout provided.

Practice Question 24

John and Mary have AGI of $125,000 and have not planned for their children's education. Their children are age 18 and 17 and the parents anticipate paying $20,000 per year, per child for education expenses. Which of the following is the most appropriate recommendation to pay for the children's education?

A. 529 Savings Plan
B. PLUS Loan
C. Pell Grant
D. Coverdell ESA

End of Code of Ethics, the Financial Planning Process and Fundamentals

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