What Is Your Financial Planning Weakness?

by David M. Cordell, Ph.D., CFA, CFP®, CLU; and Thomas P. Langdon, J.D., LL.M., CFA, CFP®

David M. Cordell, Ph.D., CFA, CFP®, CLU®, is director of finance programs at the University of Texas at Dallas.

Thomas P. Langdon, J.D., LL.M., CFA, CFP®, is a professor of business law at Roger Williams University in Bristol, Rhode Island.

The two of us have a common friend who is about to move to another state for a new job with a new employer. Hold that thought for a minute.

If you are reading this column, you probably have earned the right to display the CFP® mark or are well on your way. This commitment is an indication of your competence and professionalism. The fact that you are reading the *Journal* and are presumably a member of FPA gives further witness. However, there is likely a weakness in your preparation as a financial planner.

Are You a Comprehensive Planner?

Both of us were, once upon a time, chair of what CFP Board now calls the Council on Examinations, the group responsible for the comprehensive exam that you enjoyed preparing for (ahem).

Periodically, the Council on Examinations invites a group of subject matter experts to a two-day session to write multiple-choice items for the CFP® certification examination. Each question goes through a series of steps, including a field test, before it finds its way onto an exam. (Everyone who attends an item-writing session seems to leave with a heightened respect for the exam and the examination process. If you ever have an opportunity to participate, we highly recommend it.)

Most subject matter experts are specialists in one of the major topic areas covered on the exam: investments, tax, retirement planning, estate planning, and insurance. They write questions related to their respective areas of specialization, although items are not supposed to be so arcane that only a specialist could answer them. Of course, the exam itself has always had a comprehensive case component, and now CFP Board Registered programs must have a capstone course that emphasizes comprehensive planning.

The education and experience process is a bit like it would be for a physician. Physicians have to know the general "doctor stuff" to be licensed, but most of them specialize thereafter. They are known by their specialty. You wouldn't ask a proctologist to check your sore throat, would you? (Try not to think about that question too much.)

So, what do item-writing sessions and proctologists have to do with our friend's move to a different state? Well, if you are a CFP® professional, your education included all aspects of financial planning. Even if you are a specialist, you should be able to rattle off a broad set of critical items that are appropriate to a fact set.

Bob and Fran

Our common friend is Bob. He is 55 years old and lives in a state with a high personal income tax rate. His wife Fran is, well, since Fran might see this column, we'll say she is 39, even though she graduated from high school in the same year as Bob. Bob is an information technology manager with a 501(c)(3) institution, and Fran performs contract work as a manuscript editor. They have three children, Melanie (15), Debbie (18), and Mark (26).

Bob has accepted a similar IT manager position with a different institution in a state that has no personal income tax. His salary will be $175,000 per year. Fran telecommutes from home, and the move won't affect her work. She will continue to earn about $30,000 per year.

They haven't sold their current home and will leave most of the furnishings temporarily so the house will show better. Bob's new employer will only reimburse $8,000 for moving expenses, but the move will cost $17,000. They are renting a small truck to move some of their household goods to the apartment in the new state while waiting for their old home to sell.

Their son Mark is currently taking a respite from college, seemingly on the

10-year plan. He lives with the family and will seek an hourly-wage position in the new state. Debbie will enroll in a state university in the new state, and Melanie will enroll in 10th grade at her new school.

Bob and Fran have properly drawn, simple wills. They have 15-year level term life insurance policies that are three years old, and have death benefits of $500,000 and $250,000 respectively.

Their invested assets include $750,000 in an S&P 500 index fund in Bob's 403(b) plan. They also have $30,000 in a money market fund and $20,000 in municipal bonds issued in their current state. Bob's new employer provides a defined benefit plan and a 403(b) plan with a match of up to 3 percent of employee contributions.

So, What Do You Think?

You've probably identified many planning issues that Bob and Fran should consider, and you probably have a few questions:

- What is their risk tolerance?
- When do they plan to retire?
- Are they aware that they will need new wills?
- How are they going to finance college for their children?
- Will Debbie qualify for in-state tuition?
- At their ages, should all of the 403(b) funds really be in equities?
- Will Bob roll over the 403(b) into an IRA?
- Are municipal bonds a good idea for them, especially when they move to a state that is not the state of issue?
- What will be the tax impact of moving expenses?
- Will Bob be eligible for a 457 plan?
- What is the formula for the defined benefit plan?
- Does Fran have a retirement plan?
- Does Bob have enough life insurance?

You may have wondered how much inexpensive group term life insurance will be available through Bob's new employer. Maybe you thought about group disability insurance, or even group long-term care and about whether it is portable. Perhaps you wondered what the waiting period is for Bob's family to be included in the new employer's medical and dental plans. You may have questioned whether Mark will still be 26 when Bob qualifies for health insurance at the new job. There are many other questions you could have asked.

But Did You Consider This?

If you are like many financial planners, you may not have thought about property and casualty insurance issues. Here are just a few examples:

- Will the old house and belongings be fully covered under the current policy while it is unoccupied?
- Are household items transported in the rental truck fully insured?
- When they employ a moving company, if the van crashes, is the moving company responsible for the full value of the goods?
- How long will the current auto policies be valid in the new state?
- What are reasonable deductibles on their cars, and are the cars old enough that it makes sense to drop the collision and comprehensive coverage?
- Should they buy renter's insurance until they buy a home?
- What size deductibles should they seek for their new home?
- When they buy a new home, should they pay extra for replacement cost coverage?
- If Fran develops local business and customers come to the house, will the homeowner's policy provide any liability coverage if a customer slips and falls?
- How large of an umbrella policy should they purchase?

Is This Your Weakness?

Most financial planners are quick to admit that they don't know much about property and casualty insurance. Many dislike the fact that they had to learn about P&C for the CFP® certification examination, even though they had no interest in the topic and knew they would never be licensed for that type of insurance. Indeed, the common advice from planners regarding P&C insurance is to find a good property and casualty agent, which presumably exonerates the planner from any responsibility if something goes wrong.

If you completed an approved education program, you should have been exposed to myriad insurance topics, including property and casualty insurance for individuals and businesses. Still, few of us learn the topic well, and even fewer retain the information. Yet mistakes in the property and casualty area can be catastrophic financially for your clients.

An informed discussion about property and casualty insurance topics with your clients is the right thing to do, because it is in their best interest. It is also good business. If Bob and Fran are your clients in their old state, you have a much better chance of retaining their business if you provide them guidance that will help in their transition. You may even want to do some homework on their new location and identify a good property and casualty agent there who will be loyal to you for directing business their way. And if you are in a potential client's new state of residence, you will earn a lot of points in the first interview if you can address complexities they hadn't considered.

Develop good relationships with P&C agents just like you do with estate planning attorneys and CPAs. Brush up on your P&C knowledge and build on it. And consider that there is a side benefit: you will be more critical in analyzing your own P&C insurance, which may lead to better coverage for less money. ■