

## An Emerging Partnership: AFS and the CFP Board

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*The past 20 years have witnessed growth in personal financial planning—as a profession and as a separate body of knowledge worthy of attention by the academic community. The Certified Financial Planner Board of Standards is a private, nonprofit, regulatory organization that has emerged as the group bringing these new practitioners and the personal finance academics together in the quest towards an independent body of knowledge developed exclusively for personal financial planning. The CFP Board has funded its own research, through job analyses and market surveys and academic research through grants and monetary awards for seminal articles and research papers.*

### I. INTRODUCTION

Over the last 5 to 10 years on campus or in print, you may have noticed an increase in the following terms: financial planner, financial planning, CFP. Fellow professors, students, or deans may be inquiring about this newly emerging profession of personal financial planning and how it relates to the academic world of finance. The term “emerging” is used because 20 years ago there was no such category, although many professionals (lawyers, accountants, insurance specialists, financial advisors) were being asked by clients to move out of their “professional box” to provide assistance in other related areas. Finance, particularly, moved out of the theoretical and corporate worlds into the individual investor’s realm. Deregulation, the baby boom generation, and the proliferation of 401(K) plans have spawned the consumer’s need for education, coordination, and planning. While the practical side of financial planning has accelerated through the process of professional certification, the research and academic pursuit is poised to catch up under a new partnership for growth. With over 30,000 CFP licensees currently, the financial planning profession is obviously growing rapidly and is in need of resources (studies, research, applications) for their practices. How can each planner do a better job of planning for each client? How can they know if the information they receive is useful, reliable, valid? How can they use current research in new ways? Are theories only that—where is the application? The AFS Board of Directors is extremely interested in bringing the academicians and the practitioners closer together so that some of these questions can be answered. Let me start by introducing you to financial planners, the CFP Board, and the process of CFP certification.

## II. WHAT IS PERSONAL FINANCIAL PLANNING?

There is no precise definition of personal financial planning. However, it is generally accepted to be a *process* for determining how a person can meet specific life goals through the proper management of his or her financial resources. Personal goals might include a comfortable retirement, buying a home, saving for a child's education, or starting a small business. To help a client reach specific goals, a personal financial planner might address a host of interrelated issues such as budgeting and saving, tax planning, investments, and insurance, or focus on only one area of a person's financial life. Regardless of the number or extent of issues involved, the *process* of financial planning usually involves the following six key steps:

1. Establishing the client-planner relationship.
2. Gathering client data, including the client's financial goals objectives.
3. Identifying and evaluating client's financial status.
4. Developing and presenting a financial plan.
5. Implementing the financial plan.
6. Monitoring the plan and implementations.

Financial planning is a *process*, not a product. While the practice of financial planning can be performed in conjunction with providing financial products, it can also be performed as a distinct and separate function from the practice of any other profession or occupation. Although financial planning often involves the use of financial products, it is not, when properly practiced, a process driven by the sale of insurance products or securities.

## III. THE ORIGINS OF THE CFP CREDENTIAL

The designations, Certified Financial Planner and CFP, were first used in 1972 by the College for Financial Planning, an educational distance-learning organization located in Denver, CO. Several financial services professionals around the United States had been trading information over the years in order to help clients with a broad outlook on financial goals and strategies (investments, insurance, tax, retirement, etc.). This group met in Chicago on December 12, 1969 to form two organizations: The International Association for Financial Planning (an industry association) and the College for Financial Planning (the educational arm). The College's goal was to provide a student with the education (the equivalent of 15-18 college semester credits) and the designation. Uniquely, the College for Financial Planning also registered the designations as trademarks with the U.S. Patent and Trademark Office. When a candidate received the designation, he or she was actually earning the right (as in "license") to use the trademark. This also means that the trademark use can be taken away, unlike an educational designation. In 1982, the American College created the Chartered Financial Consultant (ChFC) designation followed by the American Institute of Certified Public Accountants Personal Financial Planning Division's Personal Financial Specialist (PFS) designation in 1986.

While the young financial planning profession initially served the well-to-do, other consumers came to recognize its benefits, especially in light of an explosion in the number of financial products being offered, a more complex, global economy, more complicated tax laws, and the need for more personal involvement in retirement planning. Due to the lack of federal or state regulatory oversight, by the mid-1980s, an estimated 100-400,000 individuals (depending on who was doing the counting) were calling themselves financial planners. The vast majority of these individuals had no formal education in financial planning and were using the term merely to sell traditional and not-so-traditional financial products, a practice that eventually led to large consumer losses due to tax law changes and a subsequent plunge in public confidence in the financial planning profession.

#### IV. WHO IS THE CFP BOARD?

As a result, the CFP Board (originally called the International Board of Standards and Practices for Certified Financial Planners or IBCFP) was founded in July 1985 by the College for Financial Planning and the Institute of Certified Financial Planners (a membership group) as an independent, standards-setting and certifying board to *act in the public interest* by maintaining the quality of the CFP and Certified Financial Planner marks.

With the establishment of the CFP Board as an independent certifying body and the transfer of the ownership of the CFP and Certified Financial Planner marks, the emphasis shifted from the CFP license as an educational credential to one of professional certification. Professional certification connotes competency, occupational experience, adherence to standards of practice. This type of certification can be mandatory (as in the state licensing of medical doctors, architects, engineers, nurses, etc.) or voluntary (as in Certified Trust Officers, Chartered Financial Analysts). The growth of the financial planning profession during the early 1980s had created a demand for more financial planning training and education and had moved the need for the separate maintenance and surveillance of professional standards and self-discipline. Because a planner can provide services without the CFP credential, we can only demonstrate this growth through the increasing numbers of those who are certified. In 1986, the CFP Board monitored 12,000 certified planners. By the end of 1995, we had grown 263%.

According to a 1995 CFP Board survey, the top reasons financial professionals cited for wanting the designation were: enhanced credibility, increased knowledge and expertise, and improved professional standing among colleagues.

Since June 1986 when the CFP Board acquired ownership of the marks as well as all responsibility for the testing and certification of CFP licensees, the CFP Board adopted a Code of Ethics and Standards of Practice, Disciplinary Rules and Procedures. Other elements of the certification process quickly followed: the registration of financial planning programs of educational institutions other than the College for Financial Planning (now numbering more than 75 programs around the United States, listed in Table 1), continuing education requirements, and the delineation of experience requirements and annual licensing procedures.

The CFP Board accelerated the monitoring of CFP licensees in the international arena in 1990 with the signing of a license and affiliation agreement with the IAFP of Australia and now six countries are members of the International CFP Council (United States, Aus-

**TABLE 1**  
**CFP Board-Registered Programs: Summary Sheet**

<i>Graduate Degree Program</i>	<i>Certificate Programs</i>
Georgia State University	Baker College
Golden Gate University	Barry University
Loyola University, New Orleans	Boston University
Northeastern University	College for Financial Planning*
Nova Southeastern University	Fairleigh Dickinson University
San Diego State University	Florida Institute of Technology
Texas Tech University	Florida State University
University of Dallas	Georgia Southern University
University of Miami	Golden Gate University
Widener University	Lehman College
	Long Island University
	Loyola University—Chicago
	Manchester Community College
<i>Undergraduate Degree Programs</i>	Marist College
Baker University	Medaille College
Barry University	Merrimack College
Baylor University	Metropolitan State College
California State University—Chico	New York University
California State University—Fullerton	Nova Southeastern University
Campbell University	Oakland University
Delta State University	Ogelthorpe University
Fort Hays State University	Old Dominion University
Kansas State University	Pace University
Mankato State University	Rockland County Community College
Mercyhurst College	Rollins College
Metropolitan State College	Southwest Texas State University
Mississippi State University	St. John's University
Purdue University	The American College
San Diego State University	University of California
Southern Arkansas University	University of Central Florida
Southwest Texas State University	University of Houston
Texas Tech University	University of Miami
University of Alabama	University of North Texas
University of Northern Colorado	University of Tennessee
University of Wisconsin	
Western Kentucky University	<i>Associate Degree Programs</i>
Wright State University	Waukesha County Technical College

tralia, Japan, United Kingdom, Canada, and New Zealand). The International CFP Council is an international assembly of financial planning bodies that exists to promote the professionalism of individuals and organizations offering personal financial planning services and to insure that such services are offered in an ethical and competent manner throughout the global community. To join the International CFP Council, organizations must make a commitment to adopt the CFP certification program, symbolized by the trademarks CFP and Certified Financial Planner. The council is charged with establishing these marks as the globally recognized standards of excellence for professional financial planners. The number of member-financial planners outside the United States totals more than 15,000 individuals, which brings the total worldwide to approximately 50,000 CFP licensees.

The CFP Board is governed by a Board of Governors, 19 volunteers reflecting the practice of financial planning: sole practitioners, Wall Street, consumer advocates, academia. The Board of Governors oversees the work of four sub-boards. The Board of Examiners is responsible for the examination and education requirements. The Board of Ethics is responsible for the ethics enforcement and disciplinary procedures. The International CFP Council was described above. The Board of Practice Standards has just been formed to begin the process of establishing standards of practice based on the job analysis. The CFP Board's staff headquarters is located in Denver, CO, and currently 30 staff members administer the pre- and post-certification policies put into place by the governing board.

## **V. CERTIFICATION REQUIREMENTS**

To be authorized to use the trademarks CFP and Certified Financial Planner, individuals must meet requirements in four areas: education, examination, experience, and ethics. These requirements, which are based on a 1987 job analysis study of practicing financial planners (which was updated in 1994), assure the public that persons who have been authorized to use the CFP marks have met rigorous professional standards. A job or practice analysis is the foundation of any bona fide certification program. It is a systematic collection of data that describes the responsibilities required of a professional and the skills and knowledge needed to perform the job. The CFP Board, whose appointed officers and board members are planning practitioners, determined from the job analyses that the combination of the following four requirements were necessary for attesting to the competency of the mark holder.

### **A. Education**

Before applying for the CFP Certification Examination, a candidate must first complete academic coverage of a financial planning curriculum through one of the three educational paths: completion of a financial planning education program that has registered with the CFP Board; completion of the curriculum through transcript review of upper division coursework taken at an accredited U.S. college or university; or holding certain financial planning related designations or degrees (CPA, ChFC, CLU, CFA, PhD in business economics, Doctor of Business Administration, or licensed attorney).

### **B. CFP Board-Registered Personal Financial Planning Programs**

The first educational path is through the completion of a course of study in financial planning offered by an educational program registered with the CFP Board. A current list of these programs is found in Table 1. Each registered program provides complete coverage of the topics determined by the CFP Board to constitute the core curriculum for personal financial planning practitioners. Each individual educational institution will present these topics under various course names and titles, such as risk management, financial analysis, estate planning. Some programs provide a "capstone" course that integrates all areas of financial planning, based on case analysis; others will include a review course in preparation for the Certification Examination. Typically, the course work can be com-

pleted in 18 to 24 months. Successful completion of a registered program automatically satisfies the education component of the CFP certification process. Program directors at any CFP Board-registered program have the authorization to waive students out of courses if the program director deems the student has already satisfied the topic coverage of that course. There is no time limit between the completion of a registered program and sitting for the Certification Examination.

### **C. Transcript Review**

If candidates completed upper-division course work at an accredited U.S. college or university that covers some or all of the topics, then they may have the transcript(s) reviewed by the CFP Board of Standards. The nonrefundable fee for this review is \$100. "Upper-division" is defined as courses at the junior, senior, or graduate level. If the review confirms that all of the necessary topics have been covered, then the candidate may apply to sit for the Certification Examination. However, if the review confirms that some of the topics have not been covered, then the candidate will receive a letter outlining the missing topic areas. The CFP Board will not pre-determine the status of any course. If the transcript review confirms topic coverage is lacking, the candidate may then (a) complete the education requirement at any accredited college or university and resubmit this course work to the CFP transcript review process with the understanding that the course work may still not be accepted as adequate topic coverage. Or (b) complete the requirement at a CFP Board-registered program (see Table 1) with the understanding that this additional course work will be accepted by the CFP Board without further review.

### **D. Challenge Status**

Certain degrees and professional credentials will automatically allow a candidate to sit for the Certification Examination without having to verify educational topic coverage. The Board-recognized degrees and credentials (Certified Public Accountant, Chartered Financial Consultant, Chartered Financial Analyst, PhD in business or economics, Doctor of Business Administration, and licensed attorney) *with 3 years of financial planning-related work experience* have been approved by the CFP Board as meeting the educational requirement.

If candidates are challenging the exam on the basis of a CPA designation or licensed attorney, they must provide a letter of good standing from the applicable licensing board. (An inactive CPA license will be accepted.) If the challenge is on the basis of the ChFC or CFA designation, evidence of good standing from the membership organization, or its equivalent, must be provided.

### **E. Curriculum Registration**

One of the CFP Board's principal assignments is to evaluate applications for financial planning curriculum registration. The Board of Examiners, together with the Administrator of Certification Services and the Director of Certification, operate as an objective and unbiased review body. Its members judge degree or certificate programs based on submitted applications and supportive materials, and requested written or oral testimony, to determine compliance with the Board-approved registration criteria and approved educational guidelines. The purpose of these standards is to promote the overall high quality of finan-

cial planning educational programs. Emphasis should be placed on substantial rather than form-related compliance.

Financial planning programs are registered for 3 years. After initial registration is granted, every 3 years all registered programs must submit a complete application to renew the registration. Financial planning programs change over time and the criteria may be periodically amended. This registration is renewed and programs reviewed in their entirety every 3 years. An annual report is also required to demonstrate continued compliance with the registration criteria and amendments. In addition, the reports provide the CFP Board with national information and yearly data on financial planning programs. Deficiencies noted in an annual update could lead to a review of the institution's registration.

### **F. Examination**

Once candidates have successfully completed the education requirement, they are eligible to apply for the CFP Certification Examination, which serves as the uniform financial planner competency examination. The Certification Examination is a 10-hour, 2-day examination designed to assess a candidate's ability to apply the financial planning education to financial planning situations in an integrated format. Topics on the examination are based on the financial planning job analysis (see below) in accordance with procedures that ensure its job relatedness and content validity. The format of the exam is all multiple-choice questions (approximately 320 questions per exam); three case questions are also included—a three or four page fact pattern with 20 multiple-choice questions.

### **G. Experience**

CFP candidates must also show evidence of having worked in a personal financial planning-related position for compensation. A summary of the work experience, signed by a supervisor, is reviewed by the CFP Board's Registrar, pursuant to guidelines developed by the governing board. The experience requirement is designed to provide the public with the assurance that the candidate understands the counseling nature of personal financial planning. Three years of financial planning-related experience is the basis of the work experience requirement for candidates with a baccalaureate degree.

### **H. Ethics**

Prior to certification, CFP candidates must complete an ethics statement which requires the disclosure of past or pending litigation or agency proceedings relating to their professional conduct. For example, the candidates and all current licensees disclose: (a) extensive professional background; (b) conflict of interest that might affect the professional relationship, objectivity, or independence; and (c) any past or pending litigation or agency proceedings and to acknowledge the right of the CFP Board to enforce its Code of Ethics and Professional Responsibility. As a private entity, the CFP Board does not have the governmental authority to prohibit an individual financial planner from practicing. However, if a CFP licensee fails to meet the high standards of the Code of Ethics, appropriate disciplinary action may be taken. The severest of those actions is the individual's loss of the right to use the CFP marks. Revocation of the license or other disciplinary actions are disseminated to the media and other regulatory bodies, like the state securities and insurance departments. Disclosure forms are reviewed by the CFP Board's legal staff

and any questionable disclosure is investigated before the individual receives the right to use the CFP marks.

## VI. JOB ANALYSIS

CTB/McGraw-Hill completed a comprehensive job analysis study for the practice of Certified Financial Planner licensees on June 30, 1994. The study was an important component of continuing to ensure that the certification examination reflects the requirements of practice of personal financial planning. The study included input from a diverse sample of practicing CFP licensees and updated the job analysis published in 1990. The study was conducted for the CFP Board by CTB/McGraw-Hill staff members with extensive experience in job analysis and certification program development.

To be licensed to use the CFP Board's certification marks, candidates must meet the experience, ethics, education, and examination standards established by the CFP Board. The examination is a critical portion of the certification process and representative of the standards of practice. The examination must reflect the requirements to practice as a CFP licensee and, therefore, should indicate the impact, if any, of current trends, financial and regulatory agency mandates, market requirements, and various practice settings on the tasks required to perform the job of a practicing CFP licensee.

To reflect these requirements, an accurate assessment of current practice must be conducted at regular intervals. The CFP Board anticipated that the new job analysis would provide an update to the previous analysis performed in 1987, without revealing radical changes in practice. The results of the new job analysis study enable the CFP Board to re-evaluate the content outline for the certification examination for currency of practice and job relatedness and to re-evaluate the emphasis on certain tasks required for competent, professional practice.

In keeping with recognized standards in testing, the job analysis process included information about current job practice provided by content experts and a large-scale, national survey of practitioners. Prior to the development of the survey, CTB/McGraw-Hill conducted a review of materials on the CFP licensee program, the results of the previous job analysis, the Code of Ethics, sample courses, and other related materials. Approximately, 30 telephone interviews were conducted to obtain additional information for the survey instrument. The interviews were conducted with CFP licensees who were familiar with large-scale changes, demands, innovations, and trends in current practice. Participants were solicited by the CFP Board.

Next, a Job Analysis Update Committee was selected by the CFP Board from outstanding CFP licensees representing a variety of practice settings. The Committee members included a diversity of content expertise, geographic distribution, practice settings, and demographics of the profession. The committee's leadership was crucial to the success of the project. With guidance from CTB, the Committee finalized the list of tasks that describe the scope of practice, created the survey instrument, and identified a sampling plan for the survey. The survey was distributed to 2,600 CFP licensees. Participants were given detailed instructions and asked to rate each of the 154 tasks described to indicate the frequency of the performance of the task and the criticality of the task to competent performance (a measure used to define tasks that have serious consequences). Survey respon-



dents were also give the opportunity to write in additional comments regarding the structure and content of the survey task list. Demographic questions included in the survey also enabled the CFP Board to collect background information of value toward the analysis of the results. The surveys were collected, processed, and analyzed by CTB, and the results presented to the Job Analysis Update Committee for final interpretation and recommendations.

The results indicated a high importance placed on the financial planning process with particular emphasis on tasks associated with gathering client data (especially determining client goals and objectives) and tasks associated with analyzing and evaluating client financial status. Respondents considered of next importance the tasks included in developing and presenting the financial plan and establishing the client-planner relationship. Areas of knowledge which were rated highest included: tax planning, investments, retirement issues, and the time value of money and principles of compounding. It is notable that no additional changes to the job analysis task list were necessary as a result of information obtained from the respondents.

Based on the results of the job analysis, the CFP Board has proceeded to update the certification examination to reflect the revised content outline. This will be accomplished by a correlation of the job analysis results to new test specifications which reflect the

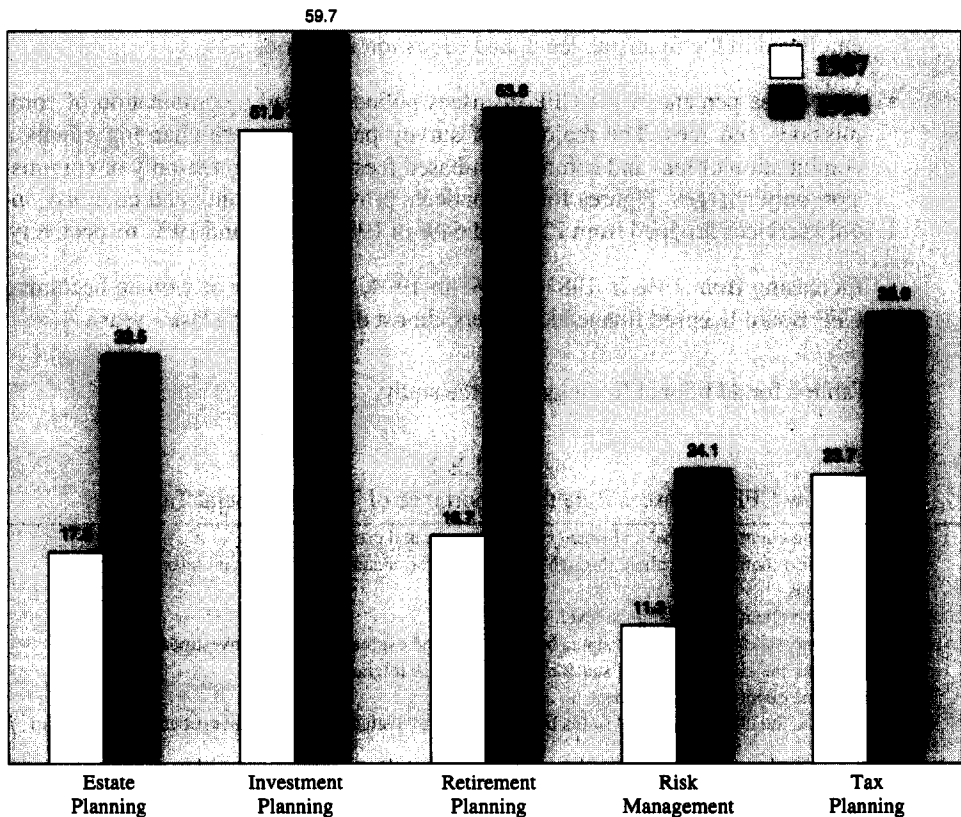


Figure 1. Job Analysis Licensee Practice Areas

results. Accordingly, item development, examination construction, and final examination forms will proceed to reflect the new job analysis as this interpretation is integrated into the process through the test specifications. Changes in the content outline and test specifications will be indicated on material sent to prospective candidates as the process is completed. This revision, scheduled to be completed by January, 1997, reinforces the role of the CFP Board to ensure that the examination process reflects the practice and to assure the continuance of the high standards of the CFP Board's certification marks.

Based on certain demographic information captured during the job analysis, the following summarizes some of the key benchmark findings.

- Sixty percent of respondents identified investment planning as an area of expertise, and 54% selected retirement planning. Investment vehicles are rated the most important area of their practice by survey respondents, while retirement and tax planning are gaining prominence. The consumer emphasis has shifted from seeking advice simply on investments to also seeking advice on retirement and tax issues. See Figure 1.
- Forty-nine percent of survey respondents were associated with a financial planning firm, 14% with a securities brokerage firm, 12% with an accounting firm, and 10% with an insurance company. 1994 results show fewer CFP licensees were working in financial planning firms than in 1987; more were being employed in the financial, legal, and education industries.
- Fifty-three percent of the CFP licensees polled charged a combination of commissions and fees. The majority of survey participants are charging clients a combination of fee- and commission-based fees, rather than fee-only or commission-only charges. Figures for respondents providing fee-only and commission-only services dropped from 21% and 64% in 1987 to 19% and 19%, respectively.
- Increasing from 14% in 1987 to 23% in 1994, the number of women becoming CFP Board licensed financial planners almost doubled in the last 7 years.

See Table 2 for additional findings from the study.

**TABLE 2**  
**How CFP Licensees Rate the Importance of Their Financial Tasks**

I.	Determine client's personal and financial goals, needs and propertities.
II.	Obtain information from client through interview/questionnaire about financial resources and obligations.
III.	Determine client's risk tolerance level.
IV.	Determine the client's financial status by analyzing and evaluating current investments.
V.	Determine the client's financial status by analyzing risk tolerance.
VI.	Determine client's time horizons.
VII.	Determine the client's financial status by analyzing and evaluating current investment strategies and policies.
VIII.	Assess client's values, attitudes, and expectations.
IX.	Present and review the plan with the client.
X.	Determine the client's financial status by analyzing and evaluating current assets, liabilities, cash flow, debt management.

## VII. FUTURE RESEARCH NEEDS OF THE CFP BOARD

Obviously, the cornerstone of our profession is the emphasis on education—of the planner before and after certification and of the clients who become “better” clients as they become more educated. The CFP Board is poised to assist both groups. We currently provide grant assistance for research on financial planning subjects. Each year, the Board of Examiners, on behalf of the CFP Board, reviews grants submitted by February 1. Five grants of \$5,000 each are available for research into the integration of the major areas of planning: insurance, income tax, retirement planning, investments, and estate planning. Half of the grant is paid upon initial acceptance, and the balance is paid if the work is completed (in publishable form) within 18 months. To date, the CFP Board has awarded four grants, two of which have been completed. The CFP Board also regularly recognizes outstanding articles in the “nontraditional” financial planning arena (“nontraditional” meaning not necessarily based on academic research) that add quality to the practice of financial planning. Five monetary awards are available each year, and a \$1,000 “Best Paper on Personal Financial Planning” is available to presenters at the annual AFS conference.

Further, the CFP Board works closely with more than 75 colleges and universities that have registered their financial planning curricula with us as covering the topics currently tested for certification. The rapid increase in interest by the academic community has furthered the interest of students, practitioners, and consumers, all of whom are seeking more information on personal financial planning subjects.

Finally, the growth in interest from the international community is testimony to the growth of the profession. The six current members of the International CFP council (United States, Australia, Japan, United Kingdom, Canada, and New Zealand) are all interested in expanding the body of financial planning knowledge. Of particular concern is finding the common areas of study and a network of information and research. For more information on any of these topics, please feel free to contact the CFP Board: Dede Pahl, Director of Certification, CFP Board, 1660 Lincoln Street, Suite 3050, Denver, CO 80264.

## VIII. SUMMARY

The past 20 years have witnessed growth in personal financial planning—as a profession and as a separate body of knowledge worthy of attention by the academic community. The Certified Financial Planner Board of Standards is a private nonprofit, regulatory organization that has emerged as the group bringing these new practitioners and the personal finance academics together in the quest towards an independent body of knowledge developed exclusively for personal financial planning. The CFP Board has funded its own research, through job analyses and market surveys, and academic research through grants and monetary awards for seminal articles and research papers. Financial planning practitioners are eager for new approaches to old planning dilemmas, for easy-to-understand applications of past academic theories, and for a partnership with the academic community to further the information available to themselves as planners and to their clients.