

The Role of Universities in the Development of the Personal Financial Planning Profession

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Abstract

I begin this paper with a discussion of the emergence of the personal financial planning profession from its financial services roots. I then provide definitions of financial planning from several points of view. After a review of the reasons for growth in the profession, I examine the relationship between universities and other planning constituents. In particular, I focus on the importance of education and practice standards in the development of the financial planning profession. Much research remains to be conducted to guide the practice of financial planning. I describe the state of the knowledge base for financial decisions, using an example. The paper concludes with a discussion of the role of universities in the future of the financial planning profession. © 2002 Academy of Financial Services. All rights reserved.

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1. Introduction

1.1. The emergence of the financial planning profession

Financial services firms employ the majority of individuals providing industry specific financial advice, including insurance company agents, bank loan officers, customer service representatives and personal bankers, and securities brokers. Many financial services firms provide advice in various areas of finance including financial planning, but often in a very fragmented way. That is, there is little coordination of borrowing, investment and insurance advice. Today, few financial services firms seem to realize the extent that the financial planning process links the various services they offer.

However, the relationship between financial planners and the financial services industry hasn't always been a close one. Financial planning often evoked a negative response from financial services firms in the 1970s and 1980s. Some firms even prohibited employees from using the "planning" label and dismissed those that called themselves planners. One can only speculate as to the reasons, but some feel the policy was due to liability concerns, whether resulting from fiduciary responsibilities or by application of the standard of duty expected of an expert. Planning stretches expertise, and encompasses more than selling a particular type of security. Other firms might have feared that as planners, employees might feel a higher obligation to their customers than to their firm. In contrast, today many financial service firms have embraced the terms "financial planner" or "financial counselor." They also have embraced professional credentials, such as CFP Board's certification marks CFP® and CERTIFIED FINANCIAL PLANNER™. In some cases this acceptance may have resulted from the wholesale embrace of the six-step financial planning process. In others it may have been simply that the marketing benefits and public acceptance of the financial planning process and credentials was finally worth the potential liability.

The financial planning field has gone through several metamorphoses. One could call the initial phase the "maverick era." Those independent practitioners formed the heart of the profession in the 1970s. Often, planners had fled from, were fired from, or were driven away from their insurance, securities and sometimes banking roots. They founded firms that provided financial advice without regard to any specific company's products. They often viewed financial advice much more broadly than a product line. That is, they used products from a range of financial service provider types (e.g., insurance, securities, and banking) and used strategies often unrelated to specific products. These embryonic professionals were self-taught, primarily within the context of their previous financial service employers. They were aided by newly introduced personal computers and spreadsheet software. Some were armed with business degrees emphasizing corporate decision-making, but most had no specific professional college education in personal financial planning.

As financial service product providers sought to compete for the business generated by these mavericks, price competition became an element in product design, something new to the financial services industry. Term life insurance became more popular as client-oriented planners, no longer tied to individual companies, encouraged their clients to "buy term and

invest the difference.” Much to the chagrin of the financial service firms, some in the public appreciated independent advice. In other words, many of these independent practitioner advisers became successful.

The mavericks founded a school to teach personal financial planning, the College for Financial Planning, began the Certified Financial Planner educational credential in 1972 and founded organizations that, through a chain of events, have resulted in today’s Financial Planning Association (FPA), a trade group, and the Certified Financial Planner Board of Standards, Inc. (CFP Board) which, through the certification of qualified individuals, sets standards to protect the public. The mavericks still exist with pretty much the same attitudes as independent, and usually small, financial planning firms. Many maverick-era financial planners became fee-only planners and formed the National Association of Personal Financial Advisers (NAPFA) in 1983 to promote a manner of financial planning that they see as eschewing the conflicts of interest associated with product sales.

By the 1980s, the success of these planners attracted the attention of the marketing executives of the financial services firms who then viewed planning as a mechanism for product sales. Some correctly felt they could use the planning process to “cross-sell” financial products (Holliday, 1999; Kahan, 2002). Many banks, insurance companies and securities firms fit this mold. Others thought that they could build customer loyalty through the planning process. A few made planning the centerpiece of their product line (Metzger, 1989). These firms ushered in the “marketing era” of financial planning, which continues today.

The “professional era” could be said to have emerged in 1985 with the formation of the Certified Financial Planner Board of Standards as a 501(c)(3) organization to benefit and protect the public. That was, not incidentally, the year the Academy of Financial Services held its first annual meeting. For the first time the public, it was hoped, could recognize qualified and objective advice givers, not based upon the reputation of the financial service firms, but rather based upon their professional credentials. The College for Financial Planning transferred their ownership of the originally education-based CFP® service mark to CFP Board, at that time. The Board surveyed numerous university educators about their financial planning curricula, established criteria for registering university degree and non-degree programs congruent with that input, and all educational institutions were encouraged to register any educational program that covered the appropriate material. In 1987, the Board conducted its first job analysis study of CFP practitioners. Focused education, an essential ingredient in any profession became the professional standard for qualified financial planners.

Thus, a qualified and objective professional could exist in either the independent firm or within the financial services industry. A professional, however, must be solely responsible for the content of his or her recommendations, an element that is sometimes missing in the financial services industry. The three eras of financial planning all exist today: the independent “mavericks,” the financial services “marketing era” firms whose integration of the process and independence of the advisor is less than complete, and the qualified “professionals,” wherever they practice.

2. Definition of financial planning and the financial planning process

What is financial planning? Is it the same thing as financial advice or financial consulting? To be clear on the concept we should explore the definition of financial planning, the process itself, the breadth of planning and its content.

CFP Board's definition of financial planning states:

"Personal financial planning" or "financial planning" denotes the process of determining whether and how an individual can meet life goals through the proper management of financial resources. (CFP Board, 2001)

This definition includes key elements of goals and the use of resources; however, it omits some critical aspects of the process.

A somewhat more complete definition might be:

Financial Planning is the process that takes into account client's personality, financial status and the socio-economic and legal environments and leads to the adoption of strategies and use of financial tools that are expected to aid in achieving the client's financial goals (Warschauer, 2001).

The process is the key, even in the definition. The process, according to Certified Financial Planner Board of Standards (CFP Board, 2001), includes six steps:

1. Establish and define the client-planner relationship.
2. Gather client data, including goals.
3. Analyze and evaluate client financial status.
4. Develop and present financial planning recommendations and/or alternatives.
5. Implement the financial planning recommendations.
6. Monitor the financial planning recommendations.

One is not doing financial planning if one omits an element of the definition or a step in the process. One can be a financial adviser or consultant or give financial advice without being a financial planner, but one is not practicing as a financial planner without the elements of the definition and the process intact.

A third distinction is "comprehensive" versus "slice" financial planning. Slice planning can occur if a client has inherited some money and needs to invest it, or if she would like to maximize the passage of assets when her estate passes, or if he is worried about paying for the education of their children, or if she is trying to determine how much to save to retire. Planners frequently try to explain the advantages of financial planning as a comprehensive and highly integrated process (Black, Ciccotello, and Skipper, 2002). But almost as frequently, clients simply want their particular problem solved. Elmerick, Montalto, and Fox (2002) empirically examine the issue of whether clients come to a planner with a specific problem or for comprehensive planning. Although slice planning can result in suboptimal overall decisions, it is often in the interest of the client to move forward and have a positive experience with the planning process. So, many financial planners start their clients down the comprehensive financial planning road by providing a slice of a plan. Other planners, keenly aware of the suboptimal decisions likely to result, refuse to work with "slice" clients. As long

as the definition and process are adhered to, the profession has concluded that the “slice” plan is acceptable.

The final element necessary to define financial planning consists of a content analysis. Certified Financial Planner Board of Standards periodically conducts a “job analysis” of CFP practitioners. The purpose of this analysis is to determine the content knowledge necessary to the practice of financial planning. “Job analysis delineates the important knowledge and skills of a specified domain essential to the practice of an occupation or profession and is the foundation of voluntary credentialing in the US.” (Joint Committee, 1999) The current 101 content areas are listed in CFP Board’s current *Guide to CFP® Certification* (2001, 2002) and on their Website. The major headings are listed here:

- General principles of financial planning
- Insurance planning and risk management
- Employee benefits planning
- Investment planning
- Income tax planning
- Retirement planning
- Estate planning

3. Reasons for the growth of the profession

What forces have caused the financial planning profession to develop so quickly? The answer is simply that there have been major forces changing the socio-economic landscape and resulting in increased economic value to the service. What follows is a description of several of these forces.

For the financial planning profession to prosper there needs to be an affluent middle class. Financial planning, as a process, is essentially a middle-class need. The emergence of a well-to-do middle class is a prerequisite of the development of the profession. If one reviews the membership of the International CFP Council, eleven of the 17 members and two associate members are from OECD member nations [Australia, Austria, Belgium (associate), Canada, France, Germany, Japan, New Zealand, Switzerland, the U.K. and the U.S.] and most of the remainder are quite developed or at least have a sizable middle class [Bermuda (associate), Brazil, Hong Kong, India, Malaysia, Singapore, South Africa, South Korea].

Financial planning is a middle-class endeavor because it relates to goal realization. Middle-income individuals and families can achieve goals with proper planning. Wealthy individuals, by definition, tend to have all their financial goals met by accumulated wealth. They do have substantial and complex financial advisory needs, particularly in estate and investment planning and asset protection, but they have minimal goal actualization needs. In contrast, low-income individuals tend to have financial problems that require advice in cash/debt management and career counseling. For lack of resources, low-income individuals are less able to accomplish goal actualization. The goal of financial advice to low-income clients is to make changes in their financial status such that future goal actualization using

financial planning is possible. The most important factor in the growth in the financial planning profession is the size and affluence of the middle economic class.

Increased life expectancy often means preparing for a greater number of years in retirement. The average retirement age has decreased somewhat while the average life expectancy has increased. Life expectancy contingent upon reaching retirement age is also increasing rapidly, while the age at which full Social Security benefits will be available is climbing. This requires substantial planning, as each additional retirement year adds substantially to retirement needs.

Financial illiteracy is rampant. Many studies have shown that the average American is not competent to make even simple financial decisions (Cutler and Devlin, 1996; Tennyson and Nguyen, 2001). Most consumers have difficulty using credit wisely, deciding whether to buy or lease a car, or in diversifying their investments. Even worse, complex financial products and strategies may put wise choices out of range of individuals' limited financial abilities. The financial system's strength is its ability to develop products that fill individuals' varied needs. This results, however, in a plethora of financial products, some of which are intrinsically very complex. Universal variable life insurance and exchange-traded funds are only two out of dozens of examples. Government also impacts on the need for planning through complex regulation—tax, estate, and employee benefits to mention a few—which creates the need for more financial advice.

The pace and complexity of modern life has limited the time available for families to optimize their finances. We have seen increases in the average workweek and changing family patterns, including more single parent families and grandparent-led families, contribute to the limited time people have for managing family finances. International competition has increased the need for job mobility and time-consuming reeducation.

Longer child rearing responsibilities seem common. Parents are often concerned with education costs through graduate school, financing medical insurance for their uninsured young, and the choice of having their children live more years at home or helping them purchase their own home. That is, the list of goals may be growing and the chance those goals will compete for scarce resources is increasing.

A final factor in the increased demand for planning is the general trend toward riskier portfolios. During the 1960s, most families had their relatively modest portfolios involved in bank savings certificates and whole life insurance cash values. For example, a review of Federal Reserve data shows that safe assets decreased from 33% of investors' portfolios in 1966 to 16% in 1998 (Projector, 1964; Kennickell, 2000). Variable life insurance products went from zero in 1966 to 26% of all life insurance in force by 2000. Further, savings-based life insurance dropped from 77% of all life insurance in force to 58% during the same period. (Institute, 1970; American, 2001). Defined contribution plans were usually invested in guaranteed investment contracts, while employee-safe defined benefit plans dominated.

The rapid appreciation of risk investments through the 1990s encouraged individuals and planners to markedly increase the exposure of middle-income clients to risk assets. The recent market declines (1999–2002), while showing the benefit of planner-inspired diversification, also found many clients unprepared to see the massive losses their planner-inspired risk portfolios absorbed. Despite that, it is clear that many individuals, feeling the pain of

their own mistakes, have sought professional advice. For all the factors indicated above, financial planning has emerged as an important and possibly essential consumer need.

So, financial planning can be defined, it has an agreed upon process, it has a known content and its adherents and practitioners can be identified by the public through one of several credentials or educational designations. The time is right for very large growth in the profession, for reasons just cited. This is enormous progress and success for a profession that had its roots less than 40 years ago.

However, much work lies ahead. This paper now turns to the work that remains to be accomplished, as the development of the profession continues. Concerns include the increase in number and quality of the educational programs, the improvement and development of a theoretical base for many of the decisions planners make, and the more precise specification of professional standards.

4. Certified Financial Planner Board of Standards and CFP board-registered programs

There are four elements necessary for an individual to be granted the right to use the Certified Financial Planner Board of Standards' certification marks CFP® and CERTIFIED FINANCIAL PLANNER™. These are: meeting an educational requirement, passing the CFP® Certification Examination ("Exam"), meeting and ascribing to their *Code of Ethics and Professional Responsibility* and *Financial Planning Practice Standards* and meeting the experience requirement. Although there is some variance as to the administering body and legal authority, these requirements exist for most professions including law, medicine, accountancy, and engineering.

The Board permits the educational standard to be met in three ways: a candidate can graduate from a Registered Program, can already hold certain degrees, licenses, or credentials (Challenge Status) and be allowed to take the Exam without further educational preparation or they can submit their transcripts to CFP Board for review, if they allege they have covered the 101 topics in their university course work.

In registering universities, whether degree programs or adult education division certificate programs, whether master's level or bachelor's level, whether housed in business schools or in consumer science departments, the primary criteria is the credibility of the topic coverage at appropriate cognitive levels. CFP Board has indicated that all topics may be covered on their Exam at cognitive levels up through Bloom's taxonomy (1956) highest level (the evaluation level) and should be taught at the application, analysis, synthesis, or evaluation levels. That is, simple knowledge or comprehension level instruction is not at a sufficient level for the practice of financial planning.

When conducting a transcript review CFP Board staff must make a reasoned decision as to the likelihood that transcript's listed classes actually contain all the content that is required. Any professor who has been asked to articulate another university's course to their own would understand the difficulties inherent in this decision. However, despite the administrative difficulties, the concept of transcript review makes some sense at a time when out of 151 universities with CFP Board-Registered Programs only 84 universities have registered

Universities with Masters' Programs	
At AACSB Accredited Business Schools	13
At other Business Schools	13
In Family Science Departments	8 ¹
Universities with Bachelors Programs	
At AACSB Business Schools	32
At other Business Schools	21
In Family Sciences Departments	9
Universities with Certificate Programs	
89114	
<small>¹Seven of these universities jointly designed a master's degree curriculum as part of the Great Plains Interactive Program have each registered their university's master's programs, which are included as separate programs. Source: <i>Guide To CFP® Certification</i>, Certified Financial Planner Board of Standards, 2001 and CFP Board database of Registered Programs. Since programs are added through time, the actual count shown here might not be accurate as of publication date.</small>	

Fig. 1. Universities with registered programs.

degree programs. Fig. 1 shows that currently 34 schools have registered masters programs, 60 schools have registered bachelor's degree programs and 114 universities and colleges have certificate programs; 53 of the 151 schools have registered more than one program.

Probably the most disputed criteria for meeting the educational requirement, is not, in fact an educational requirement at all; it is a waiver of the educational requirement. Specifically, those earning various professional competencies are allowed to "challenge" the Exam—waive the educational requirement—if they have achieved a certain status. These include Certified Public Accountants (CPA), licensed attorneys, Chartered Financial Consultants (ChFC), Chartered Life Underwriters (CLU), Chartered Financial Analysts (CFA[®]), and doctorates in business or economics. While arguably ChFCs and CLUs have covered most or all of the 101 topics in their certificate education, the other designations have not covered, by reason of that designation, more than a fraction of the topics listed.

The challenge status was introduced with the goal of solidifying the CFP certification as the single recognized designation for the professional financial planning community. The issue at present is whether that challenge status has outlived its usefulness. As this article was going to press, CFP Board was in the process of considering the addition of masters programs in business (the MBA) and masters in related fields (including consumer economics, tax, finance, etc.) to the list of challenge credentials that meet its education requirements. The debate was born out of concern for fairness. A CPA practicing financial planning qualifies for the challenge status, an MBA practicing financial planning does not. At the level of the individual candidate, fairness seems to be a reasonable argument. An MBA could have covered as many of the 101 topics as a CPA or JD, for example, but a managerially oriented MBA may have covered very few topics. Further, the fairness argument would not end there. A person with a BS in Business Administration also could have covered as many of the 101 topics as any of the others. Should the challenge status be extended to those candidates as well?

The requirement for almost universal topic coverage required by both the program

registration and transcript review alternatives reinforces the education component of the profession. But, eventually the growth of challenge status to accommodate fairness threatens the viability of Registered Programs, and undermines the education component of the CFP credential. All other professions have separated the educational component from any exam requirements. At least, no other profession has a substantial portion of its examinees waive the educational component, as is currently the practice with the Board. As such, it appears likely that considerations of fairness coupled with the need to increase professionalism in financial planning through a strong education component will eventually lead to the end of the challenge status.

5. The development of professional standards

Every profession has its professional standards. Their enforcement mechanisms are different, but professional sanctions are nearly always an essential ingredient. Further, the courts are very good at exposing malpractice. Malpractice could be defined as a failure to follow accepted practice standards, whatever the profession. The burden for those disagreeing with practice standards is on the professional planner's shoulders.

Medicine is one of the most respected and established professions, if not the oldest. The medical lexicon describes practice standards in the context of diagnosis, treatment and prognosis. Diagnosis is "investigation or analysis of the cause or nature of a condition, situation or problem (Webster, 1972)." Treatment is "a substance or technique used in treating," and the prognosis is "the prospect of recovery as anticipated from the usual course of disease or peculiarities of the case." Although not strictly equivalent, the analogy of financial planning to medical practice is common. If one views medicine as optimizing health and not merely fixing "what ails" patients, the concepts of diagnosis, treatment and prognosis really do apply. Financial planning could be seen as optimizing economic well being.

Professional standards consist of a set of non-binding rules, which help the professional determine the accepted method of analysis or diagnosis and are intended to lead to an optimal prognosis. They are non-binding because professionals must be given authority to disagree, based upon reasoned judgment and peculiarities of the case.

The medical profession has developed standards in a comprehensive way for each step of the process: the tests that are to be used given a set of symptoms, the substances or techniques that are appropriate for treating the symptoms, and for the resulting prognosis. Each step has practice standards. In the context of financial planning we might notice symptoms (large credit card balances), accomplish tests (ratio analysis, for example to determine if a client has too much debt), prescribe treatments (refinancing debt), or techniques (consolidation, sale of assets, etc.) with a prognosis of renewed solvency.

In this respect financial planning is not a developed science. CFP Board has approved and begun to enforce a set of practice standards. But given the early stage in its evolution as a profession, standards are in their infancy. There are wide ranges of acceptable diagnostic and treatment procedures. And that is as it should be, because there is little agreement on the best diagnostic procedure, the optimum appropriate treatment, and the ultimate method for predicting results in any particular situation.

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| <ul style="list-style-type: none"> A. Ratios B. Consumer Debt C. Home Equity Loans and Home Equity Lines of Credit D. Secured vs. Unsecured Debt E. Bankruptcy F. Consumer Protection Laws <p style="text-align: right; margin-right: 20px;">Source: Certified Financial Planner Board of Standards</p> |
|---|

Fig. 2. Topic 7: Credit and debt management.

6. State of the profession: an example

Selecting a particular topic and describing its lack of fundamental theoretic guidance to planners can demonstrate the enormous need for a theoretical basis for financial planning decisions. We referred earlier to the 101 content topics promulgated by Certified Financial Planner Board of Standards (2001) as a result of its 1999 job analysis study. The same sort of analysis could be made, to one degree or another, with the other one hundred topics, but particularly the topics specifically related to the content of financial planning. Fig. 2 shows that the first item under Topic Seven is “Credit and Debt Management–Ratios.”

Generally, finance professionals measure levels of corporate debt by computing “Leverage Ratios.” Brealey and Meyers *Principles of Corporate Finance* (2000) includes three specific debt ratios: the debt ratio, the debt to equity ratio and the times-interest-earned ratio. Ordinarily corporate ratios are tracked over time and company/industry comparisons are made to establish norms. Of course, many other ratio computations are possible. Academics have adapted these ratios to individuals. Mason and Griffith (1988) proposed tailoring financial ratios to individual needs and provided examples for a number of debt ratios. Cao and Hart (1989) wrote, “It has been found that the corporate norms do not apply to the personal norms because of differences of purposes, motives, and the types of accounts found in personal financial statements.” Fan, Chang, and Hanna (1993) demonstrate that optimal credit use is related to real income growth. Greninger et al. (1996) proposed six different ratios measuring insolvency and credit standing and divided the ratios into those used to test the reasonableness and those that test danger point levels.

The results of this research into the personal aspects of debt, however, have not made it into the standard textbooks of personal finance. The casebook used in many CFP Board-registered financial planning programs give several cases that use ratio analysis that seemingly ignore this research (Dalton, 1996). The same seems true by most personal finance textbooks. Gitman and Joehnk (1999) give debt ratios that provide measures of debt service and debt safety, but norms are based upon industry standards, not optimal debt levels. Dalton and Dalton’s *Theory and Practice* (2000) text gives a much more complete coverage of debt ratios but still deals with debt on a capacity level rather than a theoretical issue. So it seems surprising that even at the turn of the millennia we are struggling to agree on what debt ratios are meaningful and, more importantly, the academic community has not determined the optimum level of debt for a particular client’s situation. We can simply indicate whether or

- A. To finance acute cash flow needs.
- B. To have use of an asset while amortizing cost over a period of years.
- C. To take advantage of a true bargain or opportunity.
- D. To finance a temporary yet chronic net cash outflow. (e.g. an employee laid off)
- E. To provide financial leverage for investments
- F. To smooth standard of living caused by life cycle
- G. To reduce risk by adding liquid assets
- H. To transfer risk to lender

Source: Author

Fig. 3. Reasons for borrowing.

not the lending community is likely to lend beyond that point. The institutional (as opposed to personal) nature of analysis is also reflected in academic journals. Most shun analyses that relate to the individual, preferring corporate or institutional motivation. *Financial Services Review* is a notable exception to the general rule.

The optimum level of debt issue should be at the core of financial advice used in virtually all financial plans. Debt is generally considered to create risk. Standard financial theory shows that companies with more debt have “leveraged” their earnings and, in doing so, have a more volatile, and therefore riskier, position. However, there are a number of reasons an individual might borrow which have little to do with leveraging earnings. Some of the reasons an individual might borrow are shown in Fig. 3.

It is beyond the scope of this paper to discuss all these needs individually. The point is, however, that evaluating the appropriate use of debt goes far beyond the issues of maximum permissible borrowing and simple ratio comparisons. It goes beyond comparing simple expected after-tax cost of debt versus expected after-tax returns. Let’s take the last two items in Fig. 3 as examples. The second last item indicates that borrowing for cash decreases risk and provides the client with a valuable option that may well exceed the cost of its negative leverage. Research showing the value of this option has yet to be published.

The last item lists the possibility of using leverage to transfer risk to the lender. Not only is interest rate risk on fixed rate loans borne by the lender but also the lender provides a sort of insurance function in states where lenders have no recourse beyond taking title upon default. For example, in earthquake-prone California, a homeowner may be better off maximizing the value of his home loan so that the most he has at risk is his 20% or less of the equity value of the home. The loan provides implicit property insurance, which may be less expensive than the limited earthquake insurance that is available.

There is little evidence that planners who insist that clients pay off their home mortgage at retirement are giving optimum advice. If a client has adequate and stable retirement income at a level similar to her pre-retirement income—and a planner’s clients should—why is the mortgage tax subsidy so valuable before retirement but so inappropriate after?

Financial planners may and should disagree strongly over these issues. The point is

academics have not developed the theory necessary for planners to make informed decisions in some of the most basic areas in personal financial planning (Black, Ciccotello, and Skipper, 2002). Planning will continue to be an art as long as more sophisticated decision rules are not established. And testing a potential planner's knowledge base in, for example, the CFP® Certification Examination, is much more difficult, particularly at higher cognitive levels, if planners disagree on appropriate methodologies. One wonders when Exam questions are asked in this area at the analysis level, if the Board is testing rules of thumb, or ascertainable, theoretically consistent responses. Practice standards, at this level are impossible to establish when there is no educated consensus at the academic, let alone practitioner, level.

So, despite the enormous progress of the profession in the last 40 years, much needs to be conducted to improve the quality of advice through research and through education. This is in no way a condemnation of the abilities or aptitude of thoughtful professional planners. Rather it is a plea for academics to provide a theoretic basis for many, many important decisions that must be made regardless of the inadequate theoretic state of the science today.

7. The importance of universities in the development of the profession

It is common for universities to evaluate faculty based upon three criteria, teaching/education, research/professional growth activities, and service to the profession; that is, in fact, what faculty do. And that is what faculty can contribute to the financial planning profession.

Many branches of academe accomplish valuable research into issues important to financial planners. Professors from operations research and finance collaborated to develop modern portfolio theory (MPT). Asset allocation was developed within the business school framework while risk preference measurement was developed in psychology and economics departments. Sociologists and consumer scientists have published many empirical studies of social groups' responses to economic conditions. But the key research needs to be developed regarding theoretical models to solve individual financial decision problems in a sophisticated way. Black et al. (2002) argue that such theory can spring from considering MPT from an individual's perspective. But other theoretical bases, such as utility, options valuation, and life cycle are also likely candidates.

As one approaches the content of financial planning (CFP Board's 101 topics) from a view of higher cognitive level, it becomes clear that we have poor theory to guide the practice of financial planning. Warschauer and Cherin (1987) describe a more advanced approach to determining liquidity needs. Every comprehensive financial plan must evaluate a client's adequacy of liquidity. Yet most textbooks and some in the profession cling to a simplistic decision rule stating that clients should hold liquid assets at the level of three to six month's expenses. As demonstrated above, the evaluation of the use of debt by clients is an open question. Not only does the Academy of Financial Services need to publish decision-model research, but also it needs to involve practitioners in the development of those models and to disseminate that information to practitioners in an effective way.

Academics need to evaluate the decisions of practitioners and, in a helpful way, encourage

the level of practice to improve by raising issues, even where those issues are complex. Many practitioners are unaware of the academic research suggesting that dollar-cost-averaging might not be superior to lump sum investing (Abeysekera and Rosenbloom, 2000 or Williams and Bacon 1993) or work showing the contrary (Balvers and Mitchell, 2000). Nor are many aware of the work that shows reduced variance of return is not a necessarily a good reason to hold riskier portfolios for longer time horizons, a position long held by Zvi Bodie (1995). These are both important issues in individual finance. Yet many in the profession do not seem to understand the issues exist. Finance faculty and financial economists need to expand their research and to do a much better job in disseminating their findings. The public reads more about the findings published in the *Journal of the American Medical Association* or the *New England Journal of Medicine* than they do of personal finance research. Is it possible that the discipline of finance is more arcane than that of medicine? I think not. Is it less important? Probably it is, but not remarkably less so.

CFP Board's 101-item topic list is a positive contribution of the topic areas each planner needs to know to practice competently. But it is little more than a start at defining the field. The Board faces a significant challenge in developing evaluative tools at higher levels, such as synthesis. Faculty needs to work with practitioners to carefully describe issues at all cognitive levels. They need to parse each topic carefully into learning objectives at each cognitive level. They need to consider what should be covered that goes beyond CFP Board's topic list, including current research and "cutting edge" theory. It is suggested that the topic list and job analysis could be improved by increased use of academic experts to insure significant new developments, as well as over looked older topics, are considered in the updated topic list.

Both professionals and university faculty must cooperate to improve financial planning education. The former have the advantage of being able to relate the content information to their practices, providing realistic examples for their students. The latter have the advantage of awareness of theoretical issues in financial planning as well as the more recent research. They are more likely to identify the underlying assumptions in a complex scenario, and help their students build "vision" and adapt to change. Professors should not "teach to the Exam" nor feel constrained by the current topic list. Possibly the best of both worlds can be achieved by mixing both professional and academic faculty in either program.

It is clear that universities can have a significant role to play in the development of the financial planning profession; in creating decision models through research; in disseminating that research in a way that is meaningful to practitioners; in helping the profession define the domain of the field and evaluating it from a cognitive level; and, to provide educated, and client-dedicated planners to provide competent advice to their clients.

8. Support from the profession

There are a number of ways the financial planning professional can aid university and professional programs. Possibly the first is the general recognition that academics have the ability to make substantial contributions to their field. Planners need to consider the research output provided by the academic community and consider how their tools and findings might

improve their practices, even when such research goes against their traditions. Joining the Academy of Financial Services and other academic organizations would help financially and provide an inside look at research ideas. They need to continue to foster and reward relevant research that is helpful to the profession. Professionals need to assist the academic community in making the results of academic research available to the best professional periodicals and at professional meetings.

Financial planning organizations and planners themselves need to recognize the academic obsession with quality and accuracy, sometimes to the detriment of relevance. They need to be sensitive to the academic stress on credibility and to academic financial planning's struggle to gain acceptance within finance and accounting departments in business schools, as well as within wider academic communities. They must avoid actions that reinforce the "check book balancing" and product sales image many of our colleagues have of this field. They need to recognize the rate of innovation in university life is somewhat slower than in commercial life.

The Financial Planning Association, the National Association of Personal Financial Advisers, other financial planning and services organizations, and firms that embrace the financial planning process need to consider better ways that students and new graduates can become professional planners. They need to recognize most faculty members are very busy with their teaching and research functions and have limited time available for professional interaction, as valuable as that interaction is. They need to be sensitive to students' real needs and reconsider the role of internships in a broader sense; students do need the interactions and exposures possible from quality internships. They do not need to be used for the most mundane work in the office, to work without pay, to earn academic credit for insubstantial content or to be used to generate prospect lists for marketing-era planners.

9. Conclusion

This article began with a short history of the relationship of professional financial planners to the financial services industry. Some firms in the financial services industry are coming to understand that financial planning plays a central role in financial advice. But most financial services firms simply do not "get it." Some want to diffuse the marketing advantage of professional planners by obscuring the differences between their product-based services and planners' strategy-based services. Given the low level of financial acumen in society, this is real danger to financial planning as a profession. The educational community and the professional community must work together to carefully guard to insure each planner, particularly each CERTIFIED FINANCIAL PLANNER[®]™ certificant, is required to hold the full knowledge set at the highest practical level and that each planner is provided the freedom to act with professional discretion and to be solely responsible for the recommendations within the plans they endorse.

It is the intent of this article to demonstrate that financial planning has become a legitimate profession, but that its content and decision processes are in the early stages of theoretical development. Because all professions need to replenish their corps with new members and because colleges are the best source of newly trained competent planners, university edu-

cation for financial planning is essential. We must recognize though that many planners and most academics are unaware of the desirability of this tie.

Before one can seriously address the theoretical shortages of this emerging discipline, the academic community needs to review each important financial decision made by households and critically evaluate the quality of the theory used. That is, we need to assess the state of the art for almost all individual financial decisions. This implies that the Academy and the profession should foster panel discussions that would lay the groundwork for publishable decision models. This paper referred to debt, liquidity issues and several investment issues, but these are merely examples of many more issues.

Wherever individual financial decisions are made, better decision models are needed. So, for example, in retirement computations, when should individual assets be transferred to retirement assets? Using stochastic models in estate planning, is current or future wealth transfer in the client's interest? In education planning, which savings mechanism is appropriate in a world where the eventual use of the funds for that specific purpose is in doubt? The good news is that many qualified researchers could devote their lives to this field, with no shortage of research questions.

It could be said that a capitalist system rests upon the belief by families that they can make decisions that improve their financial destiny. In our complex world, unbiased professional financial planning advice can help families and individuals achieve that end. Universities should heed the demand of students and financial planning professionals to develop CFP Board-registered financial planning programs. Along with this program development, much additional research is needed. Research in personal financial planning serves not only the needs of individual faculty, but it is a socially responsible undertaking given the benefit that planning can bring to our society.

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