

Personal Financial Planning: Theory and Practice, 2nd Edition

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How should financial planners be trained? The Certified Financial Planner (CFP™) Board provides one guide for educational programs – the ultimate target being passing the CFP Exam. Dalton and Dalton's textbook is one of a few that is focused on the CFP exam. Currently at the Ohio State University's Family Financial Management program, we have been using parts of *Personal Financial Planning* in three courses. It is not perfect, for instance, it essentially has no coverage of consumer credit. This is an important topic even for typical financial planning clients, as bad credit ratings are not limited to low and moderate income households. However, in terms of CFP test topics, the coverage is broad.

As a tool for training financial planners, the text starts strong. The sections on communication, internal analysis, and helping clients establish financial direction are thorough and give the proper emphasis on the planning process. The early and detailed discussion of mission, objective, and goal setting provides an excellent framework for working through the specific planning areas that make up most of the remaining chapters in the text.

Unfortunately, many of the remaining chapters in *Personal Financial Planning* are uneven in depth, especially in terms of providing step-by-step calculations. For instance, there is a paragraph describing the needs approach to determination of life insurance needs, but based on our experience, few students are able to apply the needs approach based on the coverage. On the other hand, the chapter on Social Security goes into far too much detail to be useful. Do students really need to have a table showing the national average wage-indexing amount for 1952? In our financial planning classes, we do not bother to teach students how to calculate Social Security benefits, as any client should have received Social Security Earnings statements within the past year, and even if the client had thrown the statement away and there was not time to obtain a new statement, the online quick benefits calculator available at www.ssa.gov would provide a better

estimate in most cases than a planner's hand calculation.

Another aspect we find odd is that Chapter 11 on Social Security follows Chapter 9, which covers life, disability, and health insurance. We realize that an instructor is free to use a textbook's chapters in any order, but the sequencing suggests that the authors might not have thought through the pedagogical reasoning. The Social Security chapter does have the useful feature of an example of the Social Security statement. Understanding this statement is an important starting point for analysis of disability, life insurance and retirement planning.

Five authors and nine contributors are listed, and it is not clear whether significant efforts were made to ensure consistency of depth and breadth of topic coverage between chapters, or whether unnecessary duplication was avoided. For instance, geometric and arithmetic investment rates of return are discussed in detail on pages 413-414 and on pages 500-501. It is our hope that the soon to be released 3rd edition has been carefully reviewed for such inconsistencies and unnecessary repetition.

Much of the value of this text comes at the end of each chapter. One unique and useful feature is "Professional Focus," an interview with a planner about a relevant topic in each chapter. The end of each chapter also contains a wide-ranging set of exercises and problems. An instructor can rely heavily on these problems, both in and out of class, in giving students the necessary experiential learning opportunities (Fox & Bartholomae, 1999). Some improvement is needed in the use of cases in the book. For example, the Nelson family case is used heavily in early chapters, but is not carried through to investment, retirement or estate planning topics. The graphics in the text are generally good, though not as slick as some introductory textbooks.

The coverage of investments is good, and theoretically, students mastering all of the material could be well on their way to success on the investment questions of the CFP exam. We particularly like the sample Morningstar analysis, as this is a resource we want our students to understand.

The coverage of retirement planning is adequate, though we cannot understand the point of projecting expenses and income based on an assumed inflation rate, unless there was an explicit assumption about differential inflation rates. We think it makes much more sense to project everything in inflation-adjusted terms, and use inflation-adjusted investment returns. There is little question that this would be a superior method for somebody more than 15 years away from retirement --- it is foolish to project an inflation rate, and the result is not very meaningful to clients.

The examples for retirement needs calculations all assume one-stage calculations. However, for clients retiring before 62 and expecting a Social Security pension, for couples retiring in different calendar years, and for phased retirements, multi-stage calculations are needed. A typical example would be somebody wanting to retire at 55, and who would have no Social Security until turning 62. It would be useful to have more complex examples, as it is likely that roughly half of client households will have more than one stage of retirement.

As with many textbooks, there is little documentation of information. One example is a graph on retirement age, which supposedly shows that 93% of workers retire between age 62 and 65. This is not true, and is even less valid in terms of planned retirement age, since as Montalto, Hanna and Yuh (2000) showed, about 35% of workers plan to retire before age 62.

One feature we both really liked was the "Statement of Changes in Net Worth." This is a topic rarely mentioned in the personal finance literature, but one of some importance, as such analysis can help ascertain the consistency of household financial statements and the accuracy of expenditure estimates (Hanna, 1997; Hanna & Gutter, 1998).

The text provides good coverage of ethical responsibilities, though it lacks a discussion of the possible conflicts between commission-based fee structures and the practice standard "The financial planning practitioner shall select appropriate products and services that are consistent with the client's goals, needs and priorities." We do not believe that there is an inherent conflict between a commission-

based fee structure and this guideline. However, it would be useful to discuss the possibility of conflicts that come with high commission products that may not be entirely in the best interest of a client.

A new edition of *Personal Financial Planning* should be published in 2004, so anyone interested in it should check for any major changes, beyond the usual updating on income taxes and investment returns. Despite our reservations about some features, any program with a focus on preparing students for careers in financial planning should consider this textbook.

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