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EISI

500 - 330 St. Mary Ave.

Winnipeg, Manitoba

R3C 3Z5

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## **NaviPlan Extended**

Version 9.0a

General (USA)

Build 2524-092

## Morning

### **Introduction to NaviPlan Extended**

- Overview of cash flow–based planning
- The planning process
- The desktop and the Help system

### **Building the plan**

- Plan Analysis* window and assistants
- Deficit coverage – automatic asset redemption
- Data entry – creating the base plan

## Afternoon

### **Planning**

- Data verification
- Analyzing and comparing scenarios
- Creating the recommended plan

### **Insurance analysis**

- Life insurance analysis
- Disability insurance analysis
- Long term care insurance analysis

### **Review of reports, graphs, and presentations**

- Including custom and comparison reports and graphs
- On-screen presentation of the recommended plan
- Creating comprehensive client reports

### **Question and answer period**



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## 1. Using asset classes

When using the asset classes method for assigning return rates, you can establish up to 30 asset classes with corresponding returns and an unlimited number of model portfolios. Returns for each asset class can be defined according to interest, dividends, capital gains (realized annually), deferred growth (unrealized until redemption), and tax free. All investment income is given the appropriate tax treatment based on these classifications.

For our case study we will use the asset classes method as a means of calculating default return rates.

### Defining asset classes

#### Procedure

1. Go to the **Edit** menu, and then select **Preferences**.
2. Go to the **Asset Classes** tab – **Classes** subtab.
3. Select the **Use asset class weightings for setting asset return rates** check box.  
This check box specifies this method as the default method for calculating asset returns for all future plans.
4. Click the **New Asset Class** button four times to create four blank rows.
5. Enter the asset classes and their corresponding return rates, as listed below:

	<b>Interest</b>	<b>Dividends</b>	<b>Capital Gains</b>	<b>Deferred Growth</b>	<b>Tax Free</b>	<b>Standard Deviation</b>
<b>Foreign Equity</b>	0.00%	<b>4.00%</b>	0.00%	<b>8.00%</b>	0.00%	<b>10.00%</b>
<b>Domestic Equity</b>	0.00%	<b>2.00%</b>	0.00%	<b>8.00%</b>	0.00%	<b>8.00%</b>
<b>Fixed Income</b>	<b>3.00%</b>	<b>2.00%</b>	0.00%	<b>2.00%</b>	0.00%	<b>4.00%</b>
<b>Cash</b>	<b>3.00%</b>	0.00%	0.00%	0.00%	0.00%	<b>3.00%</b>

## Defining model portfolios

### Procedure

1. Go to the **Portfolios** subtab.
2. Click the **New Portfolio** button three times to create three blank rows.
3. Enter the portfolios and corresponding asset class weightings, as follows:

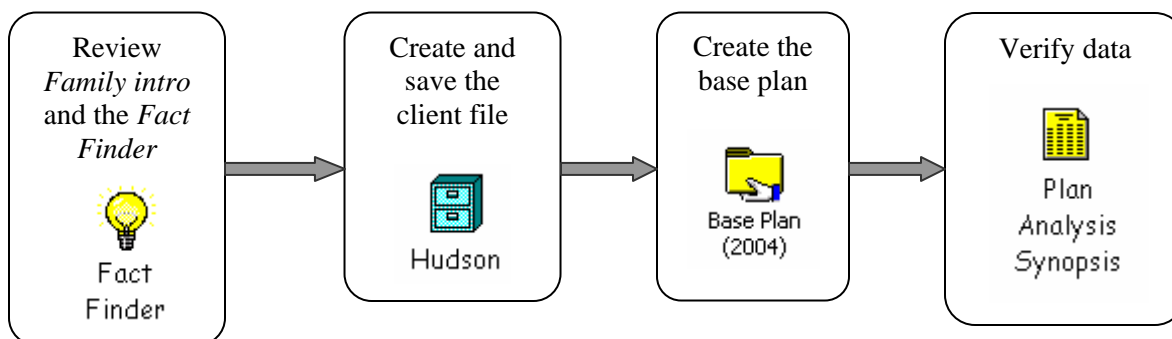
	<b>Foreign Equity</b>	<b>Domestic Equity</b>	<b>Fixed Income</b>	<b>Cash</b>
<b>Aggressive</b>	20.00%	60.00%	20.00%	0.00%
<b>Moderate</b>	0.00%	40.00%	40.00%	20.00%
<b>Balanced</b>	0.00%	30.00%	30.00%	40.00%

4. From the *Default Portfolio* list, select **Moderate**.
5. Click **OK** to save the new default asset classes and model portfolios.

## 2. Case study instructions

Now that we have established all of the necessary defaults, we can proceed with our analysis of the Hudson and Turner case study. An initial meeting was conducted with the family and, as a result, financial goals and objectives were established. Also, all current financial information was documented using the *Fact Finder* available in NaviPlan.

### Case study process model



### Review *Family introduction* and the *Fact Finder*

Review the chapter titled *Family introduction* to get a sense of the clients' financial objectives. Then, refer to the chapter titled *Fact Finder* to become familiar with the Hudson and Turner current financial situation.

### Create and save the client file

Go to the **File** menu, and then select **New – Client** to create a new client file for the Hudson and Turner family.

Be sure to enter all information from the *Fact Finder* using correct spelling and punctuation, as much of this data will appear on reports.

Once the client file is created you will be prompted to save the client file. Enter a file name in the *File Name* field, and then click **OK**.

### Create the base plan

Once you have created and saved the client file, you will be prompted to create a new plan. If you miss this prompt, go to the **File** menu, and then select **New – Plan**.

Name the new plan **Base Plan**, and then enter all financial data from the *Fact Finder*.

### Verify data

Verify data using the *Plan Analysis Synopsis* report.

To generate the *Plan Analysis Synopsis* report, go to the **Reports** menu and select **Synopsis**.

Compare this report with the *Plan Analysis Synopsis* report found in the chapter titled *Verifying data*. If data entry errors are found, go back into the base plan to correct the data.

## 3. Family introduction

The following case study provides an example of how you can use NaviPlan to help your clients meet their financial goals and objectives, both during their lifetime and at death.

### Personal information

Richard Hudson and Sylvia Turner have approached you to review and comment on their financial situation. Until now, Richard and Sylvia have been overseeing their own financial affairs. However, their financial goals have become too complex for their knowledge and require too much of a time commitment. They need the assistance of a financial planner.

Client	Age	Health	Relationship
Richard	44	Excellent	Husband
Sylvia	41	Excellent	Wife
Ryan	12	Excellent	Son

### Employment

Richard is a project manager for an engineering firm and has been employed for the past 15 years. Richard's base salary is \$90,000. The company consistently rewards their employees with an annual bonus, which increases each year by approximately 1%.

Sylvia rejoined the work force after the birth of their son (Ryan) and works as a programming analyst for a successful software company. Sylvia's base salary is \$55,000. To date, Sylvia has not received an annual bonus.

Both companies sponsor a 401(k) profit-sharing plan, which allows for pre-tax contributions and an employer match. In previous years, both employers have made profit-sharing contributions, but this has not occurred for the past four years.

### Financial position

Richard and Sylvia's major asset is their home, which they purchased in 1990 and is currently valued at \$300,000. They saved \$20,000 for a down payment on their home and incurred a mortgage of \$230,000. They expect the value of their home to increase annually. After Ryan completes his college education, Richard and Sylvia are planning to use a portion of Richard's annual bonus to pay off the mortgage more rapidly.

They also financed the purchase of a new car in 1998 and paid the liability completely in 2000. Although the car is depreciating, it still holds some value.

Richard and Sylvia have managed to save \$10,000 in a savings account and would like to use the proceeds to set up an emergency fund. They have also set up a 529 plan for Ryan but have not made recent contributions to this account.

Richard had a terminally ill uncle from whom he will be receiving an inheritance of \$20,000. He will receive this inheritance once the estate is settled and they expect this will be near the beginning of 2005.

The entire family loves to travel and they usually plan for a major trip every two years. They do not foresee another family vacation until 2005 due to a family reunion that is scheduled for 2004. The expenses for the family reunion will be covered with existing cash flow, and since it will take place in their hometown of Chicago, there is no need for a savings plan.

The family currently spends \$5,000 per month on regular household expenses such as food, utilities, transportation, and other discretionary spending. They also pay \$500 per month in real estate and property taxes, which are 100% deductible.

## **Goals and objectives**

### **Risk tolerance**

Richard and Sylvia feel that their current asset mix for their entire portfolio is quite conservative. Both of them are willing to invest for growth and are eager to devote more of their assets to equity funds, including international markets.

### **Education**

Richard and Sylvia are concerned about Ryan's future and wish to give him a head start in life by beginning to save for his education now.

Ryan excels academically and all indications point to continuing education at the post-secondary level. Richard and Sylvia have not made any recent contributions to Ryan's 529 asset. They are concerned that the projected costs of college will far outweigh what they have saved so far.

### **Real estate opportunity**

Recently, a business associate approached Richard regarding the purchase of a real estate property that has the potential of producing some excellent revenue. Richard believes that the property could be a lucrative opportunity and would like to explore this further.

### **Insurance**

Another concern is their insurance needs. Are they adequately insured against an untimely death or an unforeseen incident that would cause short- or long-term disability? They are also concerned about unforeseen expenses in the later years of their plan if either of them were to need long-term care.

Richard has term coverage under a group plan naming Sylvia as the beneficiary. However, neither client has existing disability or long-term care insurance.

## **Other**

Richard and Sylvia want to ensure that they do not have to sacrifice their current lifestyle when they retire.

## **Estate planning**

Richard and Sylvia have complete wills detailing their wishes upon death. Their wills name each other as beneficiaries, and Ryan secondly.



## 4. Fact Finder



### ***NaviPlan Extended Fact Finder***

*Client Name:* **Richard Hudson**

*Client Name:* **Sylvia Turner**

*Advisor Name:* **Joe Planner**

*Date (mm/dd/yy):* **January 1 - Current Year**



## Overview

This *Fact Finder* is designed to help you gather the required information for your clients' customized financial plan. The questionnaire's easy-to-follow format will allow you to enter your clients' required personal data and financial details. These items are necessary for you to create a complete and thorough picture of your clients' *current* and *future* financial situation.

The following sources will provide you with most of this information:

- Latest investment statements from trust companies, brokers, investment companies and banks
- Latest mortgage and other loan statements
- Budget of personal and living expenses
- All life insurance and disability insurance policies
- Pension statement from employer
- Social Security Statement
- Tax returns (Form 1040)
- Latest will, power of attorney
- Other relevant documentation

## Client Information

### Base Family

	Client	Co-client
Last Name:	Hudson	Turner
Given Name:	Richard	Sylvia
Gender:	Male	Female
Tax Filing Status (e.g., married filing joint, single):	Married filing jointly	Married filing jointly
Date of Birth (mm/dd/yy):	January 17, 1960	November 12, 1963
Social Security Number (optional):		
Number of Dependents:	1	1
Address:	375 Woodlawn Avenue	375 Woodlawn Avenue
City:	Chicago	Chicago
State:	Illinois	Illinois
Country:	United States	United States
Zip Code:	14612	14612
Home Phone Number:	(224) 555-0080	(224) 555-0080
Business Phone Number:		
Fax Number:		
Email Address:		

### Dependents

Name of Child or Dependent	Dependent Of (Client, Co-client, Both or Other)	Gender	Date of Birth
Ryan	Both	Male	April 5, 1992

### Advisors

Advisory Type (Accountant, etc.)	Full Name	Address	Business #
Attorney	David Larson		(224) 985-5555

### Will Information

	Client	Co-client
Is there a Will? (yes or no):	Yes	Yes
What date was the Will last updated on?:	January 1, 2000	January 1, 2000
Where is the Will located? (safety deposit box, etc.):	Safety deposit box	Safety deposit box

## Participant Guide I

### Estate Beneficiaries

(Use this section to enter basic information about the beneficiaries of the estate. Dependents are automatically included as potential heirs.)

Beneficiary Name	Class (e.g., heir/charity/other):	GSTT Applicable for Client (yes / no)	GSTT Applicable for Co-client (yes / no)	50% Charity (applies to charitable beneficiary only) (yes / no)
Ryan	Heir	No	No	No

**Additional Notes** (Use this section to enter any other Client information that you feel would be relevant to your client's financial plan.)

\* You will need to insert a *Planner Name* to complete the data entry.

\*\* *Assumptions* category - *General* tab - *Plan Date* field - select *Use today's date*.

\*\*\* *Assumptions* category - *Tax Options* tab - select *As legislated*.

## Assumptions

### Risk Profile

Model Portfolio (if applicable):	Moderate
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### Milestones

	Client	Co-client
Retirement Date (age or date) (mm /yy):	Age 62 (January 2022)	Age 59 (November 2022)
Life Expectancy (age / year):	Age 90	Age 90
Disabled (age or year) (if applicable):	N/A	N/A
Long-Term Care (age or year) (if applicable):	Start: N/A End: N/A	Start: N/A End: N/A

### Historical Data

#### Unused Charity Deductions

Years (previous 5 years)	50% Charities		Non-50% Charities	
	Non-Capital Gain Property (line 10)*	Capital Gain Property (line 19)*	Non-Capital Gain Property (line 16)*	Capital Gain Property (line 24)*

\* Line references are from Table 4 of IRS publication 526.

#### A.M.T. Carryforward Credit

Form 8801 from last year's taxes - A.M.T. Minimum Tax Credit Carryforward (last line of Part II):				
Form 6251 from last year's taxes - Alternative Minimum Tax payable (line 35):				
Schedule D	Line 23:	Line 19:	Line 23:	Line 32:
Schedule D Tax Worksheet	Line 4:	Line 7:	Line 9:	Line 20:

**Capital Loss Carryovers**

Loss Type	Client		Co-client	
	Regular Tax	A.M.T.	Regular Tax	A.M.T.
Short-Term				
Long-Term				

Note: If there is no difference in the capital loss carryovers for A.M.T. purposes, enter the amount from the regular column in the A.M.T. column.

**Economic Factors**

Base Inflation Rate: % <u>3%</u>	Return on Surplus Fund: % _____	Cost on Deficit Funds: % _____
----------------------------------	---------------------------------	--------------------------------

**Assets**

**House & Mortgage**

(Non-income producing property only - income producing property is entered under Real Estate.)

House

Description	Purchase Amount	Ownership <small>(client, Co-client, joint, community property)</small>	Purchase Date	Market Value	Growth Rate
Richard and Sylvia's house**	\$250,000	Joint	June 30, 1990	\$300,000	3%

**Additional Notes** (Use this section to enter any House & Mortgage information that you feel would be relevant to your client's financial plan.)

**\*\* Community Property - No**

Mortgage (Non-income producing property only - income producing property is entered under Real Estate.)

	Mortgage 1	Mortgage 2	Mortgage 3
Description (e.g., first mortgage on 123 Main St.):	<b>1<sup>st</sup> Mortgage</b>		
Original Principal:	<b>\$230,000</b>		
Ownership (client, Co-client, joint):	<b>Joint</b>		
Start Date:	<b>June 30, 1990</b>		
Interest Rate:	<b>6.50%</b>		
Amortization (years):	<b>30 Years</b>		
Payment Frequency (e.g., weekly, monthly):	<b>Monthly</b>		
Outstanding Principal Amount (if available):			
Outstanding Principal Date (relates to above):			
Insured (life on mortgage. both or none):	<b>No</b>		
Insured (disability on mortgage. both or none):	<b>No</b>		

**Additional Notes** (Use this section to enter any House & Mortgage information that you feel would be relevant to your client's financial plan.)

**Payoff Options at Death - select Transfer to survivor**

## Participant Guide I

### **Real Estate** *(Income producing property - use a separate sheet to enter additional information.)*

	Real Estate 1	Real Estate 2	Real Estate 3
Name <i>(identify property):</i>			
Ownership <i>(client, Co-client, joint, community property):</i>			
Purchase Date:			
Purchase Amount:			
Market Value:			
Cost Basis:			
Property Growth Rate:			
Rental Income <i>(monthly amount):</i>			
Rental Expenses <i>(monthly amount):</i>			
Annual Rental Growth Rate <i>(amount or percent):</i>			

**Additional Notes** *(Use this section to enter any Real Estate information that you feel would be relevant to your client's financial plan.)*

### **Business Entities** *(Income producing property - use a separate sheet to enter additional information.)*

	Business Entity 1	Business Entity 2	Business Entity 3
Name <i>(identify property):</i>			
Type <i>(LLC, Partnership, S Corporation, C Corporation)</i>			
Ownership <i>(client, Co-client, joint, community property):</i>			
Purchase Date:			
Purchase Amount:			
Start of Year Unit Value:			
# of Units:			
Market Value:			
Cost Basis:			
AMT Basis:			
Growth Rate:			
Income Activity for C Corporations:			
Annual Dividend per Unit:			
Frequency <i>(annual, semi-annual, quarterly or monthly):</i>			
Income Activity for LLC, Partnerships, and S Corporations:			
Income:			
Expenses:			
Distributions:			
AMT Adjustments:			
Frequency <i>(annual, semi-annual, quarterly or monthly):</i>			
Indexed for inflation by:			

**Additional Notes** *(Use this section to enter any Business Entity information that you feel would be relevant to your client's financial plan.)*

**Non-Qualified** (Use a separate sheet to enter additional assets.)

(Under Market Value enter each asset type's **aggregate** value as of the start of the year. Break down each asset's expected return rate based on its return component - e.g., if a Mutual Fund asset is earning 2% **Interest**, 2% **Dividends**, 4% **Capital Gains** and 4% **Deferred Growth**, you would enter **2-I, 2-D, 4-CG, 4-DG**. Or, you may prefer to include investment statements for any or all of this section.)

Name (identify investment)	Ownership (client, Co-client, joint, community property)	Purchase Date	Cost Basis	Market Value (start of year)	Reinvest (reinvest all, don't reinvest)*	Rate of Return* (interest = I, dividend = D, capital gains = CG, deferred growth = DG, tax free = TF)	Bond or T-Bill Face Amount (if applicable)
Cash Account**	Joint			\$10,000	Reinvest All	Cash 100%	N/A

\* Return rates are assigned by default. To change the rates select the override feature.

\*Dividend income that does not qualify for the rate reduction should be entered as interest income.

**Stock Options** (Use a separate sheet to enter additional stock options or attach copies of recent Stock Option statements.)

Name	Type (NSO or ISO)	Ownership (client, Co-client, community property)	Grant			Current Unit Value	Growth Rate	Vesting* (e.g., immediately, 50% after 1 year, 50% after 2 years):	Expiry (e.g., 10 years after granting)
			Grant Date	Number of Options	Strike Price				

\* Attach Vesting Schedule and other Stock Option Documents if available

**Additional Notes** (Use this section to enter any other Non-Qualified Asset information that you feel would be relevant to your client's financial plan.)

**\*\* Set Hold Status at 100% for Cash Account.**

**Deferred Annuities** (Use a separate sheet to enter additional annuities.)

**Annuity #1**

Name :	Type :	(e.g., Amount Certain, Term Certain, Life Income, etc.)
Ownership :	Annuitant(s) : Client <input type="checkbox"/> Co-client <input type="checkbox"/>	
Joint <input type="checkbox"/> First to Die <input type="checkbox"/> Last to Die <input type="checkbox"/> Percent to Survivor : _____	Beneficiary :	
Issue Date : Account type : General <input type="checkbox"/> Separate <input type="checkbox"/>	Initial Premium \$:	Cost Basis \$:
Balance or Market Value \$:	Annuitization Start Date :	
Type of Annuitization :	Payment Frequency :	Guaranteed Number of Years : _____

**Annuity #2**

Name :	Type :	(e.g., Amount Certain, Term Certain, Life Income, etc.)
Ownership :	Annuitant(s) : Client <input type="checkbox"/> Co-client <input type="checkbox"/>	
Joint <input type="checkbox"/> First to Die <input type="checkbox"/> Last to Die <input type="checkbox"/> Percent to Survivor : _____	Beneficiary :	
Issue Date : Account type : General <input type="checkbox"/> Separate <input type="checkbox"/>	Initial Premium \$:	Cost Basis \$:
Balance or Market Value \$:	Annuitization Start Date :	
Type of Annuitization :	Payment Frequency :	Guaranteed Number of Years : _____

Participant Guide I

**Qualified**

(Use a separate sheet to enter additional assets.)

Name <i>(identify investment)</i>	Ownership <i>(client, Co-client)</i>	Type <i>(e.g., IRA, 401k, other)</i>	Purchase Date	Qualified Basis <i>(if applicable)</i>	Market Value	Rate of Return*		Beneficiary	
								Primary	Contingent
Sylvia's 401(k) <b>(Investment Portfolio)</b>	Sylvia	401(k)	Dec. 31 - Previous year	N/A	\$75,000	Domestic Equity Fixed Income	60% 40%		
Richard's 401(k) <b>(Investment Portfolio)</b>	Richard	401(k)	Dec. 31 - Previous year	N/A	\$100,000	Domestic Equity Fixed Income	80% 20%		
Ryan's College Fund <b>(Mutual Fund**)</b>	Richard	529 plan	Dec. 31 - Previous year	N/A	\$40,000	Fixed Income Cash	50% 50%		

**Additional Notes** (Use this section to enter any other Qualified Asset information that you feel would be relevant to your client's financial plan.)

**\*\* Ryan's College Fund (Donor: Richard - Distribution Beneficiary: Ryan - withdrawals exempt from state tax.)**

\* Return rates are assigned by default. To change the rates select the override feature.

\*Dividend income that does not qualify for the rate reduction should be entered as interest income.

Personal Use Assets (Enter as a Lifestyle asset under the Detailed tab.)

	Asset 1	Asset 2	Asset 3	Asset 4
Name:	Family car			
Ownership <i>(client, Co-client, joint, community property):</i>	Joint			
Type <i>(personal use property, collectibles, residence):</i>	Personal Use Property			
Purchase Date:	Jan 1 1998			
Purchase Amount:	\$20,000			
Growth Rate:	-2%			
Market Value:	\$13,000			

## Incomes

### Standard

Description	Member (client, Co-client)	Amount (annual)	Index Rate	Applicable Period (while working, while retired, during LTC, both, other - e.g., Jan. 2000 - Dec 15 2002)	% While Retired*	% While Disabled*	% While Survivor*	% While in LTC
Employment Salary:	Richard	\$90,000	Inflation	While Working	0%	0%	100%	0%
Employment Salary:	Sylvia	\$55,000	Inflation	While Working	0%	0%	100%	0%
Employment Bonus:	Richard	\$5,000	1%	While Working	0%	0%	100%	0%
Taxable Benefits:								
Net Self-employed earned:								
Net Self-employed commission:								
Tax-Free Income: Inheritance	Richard	\$20,000	0%	Jan 1, 2006 (Lump Sum)	N/A	N/A	N/A	N/A
Royalty Income Received:								
Alimony Payments Received:								

\* The **Percent While Retired**, **Percent While Disabled**, and **Percent While Survivor** designations allow you to specify the percentage of **Pre-retirement** incomes the client will receive during each of these life stages.

### Social Security

(Please enter family members who may be eligible dependents for Social Security Disability and Survivor benefits in the *Eligible Dependents* Section below.)

#### Eligible Dependents

Dependent of (Client/Co-client)	Dependent(s) (Name)	Relationship
Both	Ryan	Child

#### Benefit Formula

(Please provide a copy of your Social Security Statement to enter your monthly benefits in the Estimate Benefit section below.)

Monthly Benefits from Social Security Statement						
Benefit For (Client/Co-client)	At Full Retirement	*Include Benefit (Yes/No)	At Disability	*Include Benefit (Yes/No)	Surviving Spouse at Full Retirement	*Include Benefit (Yes/No)
Richard	75% (age 62)	Yes		No	100% (age 62)	Yes
Sylvia	75% (age 62)	Yes		No	100% (age 62)	Yes

(Note: The exact details of earnings history from your Social Security Statement can be entered directly in the Earnings History dialog in the Social Security section of NaviPlan using the Benefit Formula method.)

Choose whether to include *Retirement*, *Disability* and *Survivor* benefits as part of your Financial Plan.

**Additional Notes** (Use this section to enter any other Income information that you feel would be relevant to your client's financial plan.)

**Employment Salary** - Richard and Sylvia's salary frequency is *Monthly*.

**Employment Bonus** - Richard's bonus frequency is *Annual*.

**Use the *Benefit Formula* option for Social Security. Social Security benefits are indexed by inflation.**

## Participant Guide I

### Defined Benefit Pensions

Please choose either the *Estimate Benefit* or *Benefit Formula* option below to complete applicable Pension information.

(Attach pension statements or obtain information from the client's company pension administrator. The calculations may be overridden and the pension benefits may be entered under the **Benefit Payments** tab.)

#### Estimate Benefit

	Pension 1	Pension 2	Pension 3
Owner: (Client/Co-client)			
Benefits (% of final salary or estimated amount):			
Benefits Begin (age, date, at retirement or when disabled):			
Percent Payable to Survivor (If applicable):			
Benefit Indexing:			
Linked Incomes (income to which the pension applies):			

#### Benefit Formula

(Attach pension statements or obtain information from the client's company pension administrator. The calculations may be overridden and the pension benefits may be entered under the **Benefit Payments** tab.)

	Pension 1	Pension 2	Pension 3
Owner (client, Co-client):			
Description:			
Linked Incomes (income to which the pension applies):			
Pension Participation Date (eligibility or enrollment date):			
Number of Years Average Salary:			
Pension Formula (percent per year of service):			
Accrue Pension Credits while Disabled (yes / no):			
Benefits Begin (age, date, at retirement or when disabled):			
Percent Payable to Survivor (If applicable):			
Benefit Reduction for Survivor Coverage (if applicable):			
Benefit Indexing (specify maximum indexing if applicable):			
Normal Retirement Age (as specified by the pension plan):			
Percent Penalty for Early Retirement (per year):			
Minimum Retirement Age for Unreduced Benefit:			

## Expenses

**Standard** (If you share your common lifestyle expenses, just enter the total for one person.)

**Periodic** (Expenses may be combined or broken down into sub-categories.)

Description	Member (Client, Co-client or Joint)	% Deduct (if applicable)	Amount and Frequency	Index Rate	Start Date	End Date	% While Retired*	% While Disabled	% While Survivor	% While in LTC*
<b>Total Lifestyle Expenses</b>	<b>Joint</b>	<b>N/A</b>	<b>\$5,000 Monthly</b>	<b>Inflation</b>	<b>Now</b>	<b>Default</b>	<b>110%</b>	<b>100%</b>	<b>75%</b>	<b>100%</b>
<b>Real Estate &amp; Property Taxes</b>	<b>Joint</b>	<b>100%</b>	<b>\$500 Monthly</b>	<b>Inflation</b>	<b>Now</b>	<b>Default</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* The **Percent While Retired**, **Percent While Disabled**, **Percent While Survivor**, and **Percent While in LTC** designations allow you to specify the percentage of **Pre-retirement** expenses the client will receive during each of these life stages.

**Semi-Regular**

Expense Description	Member (Client, Co-client or Joint)	% Deduct, (if applicable)	Annual Amount	Frequency (specify in years)	Index Rate	Start Date	End Date	% While Retired*	% While Disabled*	% While Survivor*	% While in LTC*
<b>Vacation</b>	<b>Joint</b>	<b>N/A</b>	<b>\$13,000</b>	<b>Every 2 years</b>	<b>Inflation</b>	<b>Jan 2006</b>	<b>End of year age 70</b>	<b>100%</b>	<b>100%</b>	<b>50%</b>	<b>0%</b>

\* The **Percent While Retired**, **Percent While Disabled**, **Percent While Survivor**, and **Percent While in LTC** designations allow you to specify the percentage of **Pre-retirement** expenses the client will receive during each of these life stages.

**Lump Sum**

Expense Description	Member (Client, Co-client or Joint)	Percent Deductible (if applicable)	Amount	Index Rate	Date Effective

**Education**  
the **Standard** tab.)

(Education expenses should only be entered in this tab if specific assets are designated to cover them. If an education expense is to be funded from cash flow, enter it under

Member (For whom the expense is incurred)	Type (e.g., Tuition fees, room and board)	Description (e.g., Billy's College Fund)	Amount and Frequency	Index Rate	Start Age (When student begins education)	Years (Number of years expense will be incurred)	Linked Assets (Asset(s) used to fund this expense)
<b>Ryan</b>	<b>Tuition fees</b>	<b>Ryan's College Fund</b>	<b>\$15,000 (Semi-annual)*</b>	<b>5%</b>	<b>18</b>	<b>4 years</b>	<b>Ryan's College Fund</b>

**Additional Notes** (Use this section to enter any other Education information that you feel would be relevant to your client's financial plan.)

\* Enter as a semi-annual expense for Ryan from September 1, 2010 - June 1, 2014.

## Participant Guide I

### Major Purchase

(Major Purchase expenses should only be entered in this tab if specific assets are designated to cover them. If a major purchase expense is to be funded from cash flow, enter it under the **Standard** tab.)

Description (e.g., Wedding)	Future Growth Rate	Member (For whom the expense is incurred)	Amount	Indexed by (%)	Transaction Date	Funding Assets (Asset(s) used to fund this expense)

### Emergency Fund

(The Emergency Fund expense is intended to meet short-term cash flow needs. A general guide should replace three months of employment income)

Target Amount (Number of months expenses or specific \$ amount)	Type of Asset to Fund Goal (Typically short term investments)	Current Savings Amount	Savings Frequency	Index Rate	Savings Start Date	Savings End Date

## Liabilities

### Detailed

(Use a separate sheet to enter additional liabilities)

	Liability 1	Liability 2	Liability 3	Liability 4	Liability 5
Description:					
Owner (client, Co-client, joint):					
Payoff Option at Death: (i.e. Transfer to Survivor, Payoff at First Death, Insured for Life)					
Disability Insured (yes / no):					
Amortization Period (or end date):					
Start Date:					
Principal Amount:					
Principal Date (as of):					
Payment Type (e.g., interest only, PI):					
Payment Frequency (e.g., weekly, monthly):					
Interest Rate:					

**Additional Notes** (Use this section to enter any other insurance information that you feel would be relevant to your client's financial plan.)

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## Insurance

### Death Benefit Reinvestment Settings

(Indicate how to invest the proceeds received from a life insurance policy.)

Which investment vehicle would you like to use when investing Life Insurance proceeds?: Mutual Fund  
(e.g., Mutual Funds, Stocks, Bonds)

What rate of return do you expect the invested Life Insurance proceeds to earn?: 2% Interest, 2% Dividends, 4% Capital Gains

Enter each asset type's **aggregate** value as of the start of the year. Break down each asset's expected return rate based on its return component - e.g., if a Mutual Fund asset is earning 2% **Interest**, 2% **Dividends**, 4% **Capital Gains** and 4% **Deferred Growth**, you would enter **2-I, 2-D, 4-CG, 4-DG**.

**Life Insurance** (Use a separate sheet to enter additional policies.)

	Policy 1	Policy 2	Policy 3
Description:	<b>Group Policy #12345</b>		
Premium Payer (e.g., client, Co-client, joint, or other):	<b>Richard</b>		
Type (e.g., term, universal):	<b>Term 1 Life</b>		
Insured (e.g., client, Co-client, joint 1st to die, other):	<b>Richard</b>		
Effective Date:	<b>Dec. 31 - Previous year</b>		
Policy Owner (e.g., client, Co-client, joint, or other):	<b>Other</b>		
Beneficiary (e.g., client, Co-client, joint 1st to die, other):	<b>Sylvia</b>		
Premium Frequency (e.g., monthly):	<b>Monthly</b>		
Premiums*:	<b>\$400 annually (cease at age 62)</b>		
Death Benefit*:	<b>\$125,000**</b>		
Coverage Ceases (age or date):	<b>Age 62</b>		
Cash Surrender Value*:	<b>N/A</b>		

\* If the Death Benefits, Premiums, or CSVs are not level, attach the appropriate schedules.

**Additional Notes** (Use this section to enter any other Insurance information that you feel would be relevant to your client's financial plan.)

**\*\* Increase death benefit by 3% per year**

**\*\*\* Clear the *Disability Waiver Included* option. All other fields not mentioned above leave at the default.**

**Disability Insurance** (Use a separate sheet to enter additional policies.)

	Policy 1	Policy 2	Policy 3
Description (group LTD, group STD, individual disability):			
Insured Member:			
Owner:			
Effective Date:			
Monthly Benefit:			
Taxable (yes / no):			
Index for Benefit Amount:			
Waiting Period:			
Benefit Paid Until (years or age):			
Monthly Premium:			
Index Rate for Premium Amount:			

**Additional Notes** (Use this section to enter any other Insurance information that you feel would be relevant to your client's financial plan.)

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Participant Guide I

**Long-Term Care Insurance** *(Use a separate sheet to enter additional policies.)*

**Long-Term Care Expenses**

<b>Member</b>	<b>Expense Type</b> <i>(medical, lifestyle, etc)</i>	<b>Daily Amount</b>	<b>Frequency</b>	<b>Indexed by Inflation</b>	<b>Number of years applicable</b>	<b>End Date</b>
Client						
Co-client						

	<b>Policy 1</b>	<b>Policy 2</b>	<b>Policy 3</b>
Description:			
Insured Member:			
Effective Date:			
Tax Qualified <i>(Yes or No)</i> :			
Daily Benefit:			
Per Diem Plan <i>(Yes or No)</i> :			
Frequency <i>(daily, monthly, etc.)</i> :			
Index for Benefit Amount During Long-Term Care:			
Index for Benefit Amount Before Long-Term Care:			
Waiting Period:			
Benefit Paid Until <i>(years or age)</i> :			
Monthly Premium:			
Premium Payer:			
Index Rate for Premium Amount:			
Premiums Cease <i>(date or age)</i> :			

**Additional Notes** *(Use this section to enter any other Long Term Care Insurance information that you feel would be relevant to your client's financial plan.)*

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# Estate Planning

Use this section to tell us about estate planning strategies that the client already employs, or that you will suggest as part of the financial plan. Use the back of this sheet to enter additional information.

## General

**Additional Fees and Taxes** (Use this section to enter any additional fees that may be calculated on the estate at disposition.)

State Death Tax Rate (% or \$)		Probate Fee Rate (% or \$)		Administration Fee Rate (% or \$)	
Client	Co-client	Client	Co-client	Client	Co-client

**Historical Data** (Use this section to enter information about historical estate taxes.)

	Client	Co-client
Taxable Lifetime Gifts:		
Gift Taxes Already Paid:		
Lifetime GSTT Exemption Used:		

**Additional Notes** (Use this section to enter any other Insurance information that you feel would be relevant to your client's financial plan.)

## Funded Trusts

(Use this section to enter basic information regarding any Trusts that have been previously funded. Please provide a copy of Trust documents.)

	Trust 1	Trust 2	Trust 3	Trust 4	Trust 5
Trust Type (i.e. Irrevocable):					
Created On:					
Grantor (if applicable):					
Start of Year Cost Basis:					
Start of Year Market Value:					
Return Rate:					
Trust Tax Rate:					
Income Beneficiaries (Name and %):					
Remainder Beneficiaries (Name and %):					

**Note:** If there are details that are not specified above (i.e. Trust term, GSTT Inclusion Ratios) attach Trust documents. Include any Credit Shelter Trusts, Marital Trusts or QTIPs that were created as a result of a former spouses death.

# Participant Guide I

**Family Limited Partnership Information** (Use this section to enter basic information regarding any Family Limited Partnership that the client has established.)

**General**

	Trust 1	Trust 2	Trust 3
FLP Name:			
Date Created:			
Marketability Discount:			
Minority Interest Discount:			
Market Value:			
Cost Basis:			
Return Rates:			

**Partner**

	Partnership 1	Partnership 2	Partnership 3
Partners:			
Partner Type (general, limited, or both):			

**Income Distributions**

	Distribution 1	Distribution 2	Distribution 3	Distribution 4
Income Distribution Amount:				
Frequency (annual, monthly or lump sum):				
Index Rate:				
Start Date:				
End Date:				

**Gifting**

	Gift 1	Gift 2	Gift 3	Gift 4
Gift By (gift from limited partnership interest):				
Gift To (beneficiary):				
Frequency (annually or lump sum)				
Amount (Dollar amount or Maximum Annual Gift Exclusion):				
Index Rate:				
Start Date:				
End Date:				

**Gifting History** (Use this section to enter estate gifting information.)

	Gift 1	Gift 2	Gift 3	Gift 4	Gift 5
Description:					
Beneficiary Name:					
Growth Rate (on property given to beneficiary):					
Tax Rate:					
Net After Tax Growth:					
Prior Gifts From Client Including Growth (cash & asset gifts):					
Prior Gifts From Co-client Including Growth (cash & asset gifts):					
Prior Bequests From Client, Including Growth:					
Prior Bequests From Co-client, Including Growth:					

**Gifting: Current Strategies**

	Gift 1	Gift 2	Gift 3	Gift 4	Gift 5
Description:					
Gifting Strategy (i.e. Cash gift, Asset gift)					
Amount:					
Applicable Period:					
Beneficiary Name:					

**Estate Expenses**

(Use this section to enter information about expenses for the decedent.)

	Expense 1	Expense 2	Expense 3	Expense 4
Owner (client, Co-client, first to die, second to die):	Richard	Sylvia		
Expense Name (eg Burial):	Burial expense	Burial expense		
Amount:	\$10,000	\$10,000		
Index To Inflation (yes / no):	Yes	Yes		

**Will Information**

Family Member (Client/Co-client)	Cash Bequests (Yes/No)	Asset Bequests (Yes/No)	Credit Shelter Trusts (Yes/No)	Marital Trust (Yes/No)	Living Trust (Yes/No)	QTIP Trust (Yes/No)	Other Testamentary Trusts (Yes/No)

**Additional Notes** Use this section to enter any other Estate Planning information that you feel would be relevant to your client's financial plan.

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**Other Tax**

**Misc. Credits & Deductions**

Owner	Description	Miscellaneous Deductions		Miscellaneous Credits		Applicable To (federal, state or both)
		Above the Line	Below the Line	Refundable	Non-refundable	

**Additional Notes** (Use this section to enter any Other Tax information that you feel would be relevant to your client's financial plan.)

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## Strategies

Use this section to tell us about any planning strategies that you are currently applying (e.g., regular savings to an investment, additional payments toward a loan's principal, etc). Use a separate sheet to enter additional strategies.

### Savings

(Use the following section to list **Savings** plans that are currently in place.)

#### Regular

(Savings made on a regular, periodic basis.)

	Strategy 1	Strategy 2	Strategy 3	Strategy 4
Asset Name:				
*Maximize Contributions (Yes/No) :				
Contribution Amount:				
Frequency (e.g., monthly, weekly):				
Index Rate:				
Savings Period (while I'm working, while I'm retired, both, until LTC, other - e.g., Jan. 1990 - Dec 2025):				

#### Lump Sum

(Savings made in one or more lump sums.)

	Strategy 1	Strategy 2	Strategy 3	Strategy 4
Asset Name:				
*Maximize Contributions (Yes/No) :				
Amount:				
Index Rate:				
When is this Transaction Applicable? (upon retirement, upon disability, upon death, other - e.g., Jan. 15, 2003):				

\*Applies only to IRA accounts

#### Surplus

(Savings put toward an asset using surplus cash at year-end.)

	Strategy 1	Strategy 2	Strategy 3	Strategy 4
Asset Name:				
Percent Of Surplus (e.g., half or 50%):				
Savings Period (while I'm working, until age 71, other - e.g., Jan 1, 1995 to Dec 31, 2011):				

#### Employer-Sponsored Pensions

(Savings put into plans that are established by the employer.)

	Plan 1	Plan 2	Plan 3	Plan 4
Asset Name:	<b>Richard's 401(k)</b>	<b>Sylvia's 401(k)</b>		
Maximize Qualified Plan Contributions (Yes/No) :	<b>No</b>	<b>No</b>		
Employee Pre-tax Amount:	<b>\$200.00</b>	<b>\$140.00</b>		
Employee Post-tax Amount:	<b>N/A</b>	<b>N/A</b>		
Employer Amount:	<b>\$200.00</b>	<b>\$140.00</b>		
Frequency (e.g., monthly, weekly):	<b>Monthly</b>	<b>Monthly</b>		
Index Rate:	<b>3%**</b>	<b>3%**</b>		
Savings Period (while I'm working, until age 71, other - e.g., Jan 1, 1995 to Dec 31, 2011):	<b>While Working</b>	<b>While Working</b>		

**Additional Notes** (Use this section to enter any Strategy information that you feel would be relevant to your client's financial plan.)

**\*\* Select Index from 2005 by to index the amount.**

**Debt Reduction**

(Use the following section to list **Debt Reduction** plans in which your client is already taking part.)

**Regular**

(Any payments made directly toward the principal of an existing loan.

(These are over and above the required payments that are automatically defined for the liability.)

	Strategy 1	Strategy 2	Strategy 3	Strategy 4
Liability Name:	<b>1<sup>st</sup> Mortgage</b>			
Amount:	<b>\$2,000</b>			
Frequency (e.g., monthly, weekly):	<b>Annually</b>			
Index Rate:	<b>0%</b>			
Payment Period (while I'm working, while I'm retired, both, other - e.g., Jan. 1990 - Dec 2011):	<b>Jan 2014 to Dec 31 2021**</b>			

**Lump Sum**

(Payments made in one or more lump sums toward the principal of an existing loan.

These are over and above the required payments that are automatically defined for the liability.)

	Strategy 1	Strategy 2	Strategy 3	Strategy 4
Liability Name:				
Amount:				
Index Rate:				
Payment Date (upon retirement, upon disability, upon death, other - e.g., Jan. 15, 2003):				

**Surplus**

(Savings put toward the principal of an existing loan using surplus cash at year-end.)

	Strategy 1	Strategy 2	Strategy 3	Strategy 4
Liability Name:				
Percent Of Surplus (e.g., half or 50%):				
Payment Period (while I'm working, until age 71, other - e.g., Jan 1, 1995 to Dec 31, 2011):				

**Redemptions**

(Use the following section to list asset **Redemption** plans which your client has already established.)

**Regular**

(Any redemptions from an asset made on a periodic basis.)

	Strategy 1	Strategy 2	Strategy 3	Strategy 4
Asset Name:				
Amount:				
Frequency (e.g., monthly, weekly):				
Index Rate:				
Redemption Period (while I'm working, while I'm retired, both, other - e.g., Jan. 1990 - Dec 2011):				

**Additional Notes**

(Use this section to enter any Strategy information that you feel would be relevant to your client's financial plan.)

**\*\* Clear the Transfer to Co-client on Death check box.**

**Lump Sum**

(Redemptions from an asset in one or more lump sums.)

	Plan 1	Plan 2	Plan 3	Plan 4
Asset Name:				
Amount:				
Index Rate:				
Redemption Date (fixed date, or upon retirement, disability or death):				



## 5. Verifying data

Financial planning is an art in many ways. However, there is one variable that remains constant: the clients' existing financial data. This data is the foundation upon which plans are developed. It cannot be over-emphasized how important it is to accurately enter current financial data into the base plan. The omission of a key piece of data or the inclusion of erroneous data can cause the financial results to be altered significantly.

The data verification process is a crucial step that should be performed immediately after the creation of the base plan.

### *Plan Analysis Synopsis* report

The *Plan Analysis Synopsis* report contains most of the data that has been entered for our case study. Common data entry errors that can be easily detected using this report include

- Birth dates
- Milestones such as retirement and deceased dates
- Expenses applicable during different periods
- Income and savings amounts
- Indexation rates

To ensure consistent results and gain familiarity with some of the reporting capabilities of NaviPlan, we will generate this report and compare it to the one that follows.

### Procedure

1. Go to the **Reports** menu, and then select **Synopsis**.
2. Compare the *Plan Analysis Synopsis* report you generate with the *Plan Analysis Synopsis* report provided on the next page.
3. Document any differences, and then change your data in the base plan to match the following *Plan Analysis Synopsis* report.

**Plan Analysis Synopsis**  
**Hudson and Turner**  
*Base Plan (2005)*

**General Information**

Detail	Richard	Sylvia
Birth Date	Jan 17 1960	Nov 12 1963
Proposed Retirement Date	Jan 2022	Nov 2022
Life Expectancy	Dec 2050	Dec 2053

**Tax Options**

The option “**As legislated**” was selected. In 2011, the calculations outlined will revert to the tax laws used in 2001.

**Assumptions**

Detail	
Return on Excess Cash Flow:	0.00%
Interest rate applied to Deficits:	0.00%
Inflation Rate	3.00%
Tax Filing Status-Richard	Married Filing Jointly
Tax Filing Status-Sylvia	Married Filing Jointly

**Estate Assumptions**

Detail	Richard	Sylvia
Is there a will?	Yes - Revised: Jan 1 2000	Yes - Revised: Jan 1 2000
Life Expectancy	2015	2020
State Death Tax	2001 Credit Amount	2001 Credit Amount
Probate Fee	1.00%	1.00%
Administration Fee	1.00%	1.00%

**Dependents**

Name	Birth Date	Age as of Plan Date	Dependent of (for tax)	Dependent of (for Social Security)
Ryan	Apr 5 1992	13	Richard and Sylvia	Richard and Sylvia

**Professional Advisors**

Type	Name	Business Phone #	Cell Phone #
Attorney	David Larson	(224) 985-5555	
Accountant			
Financial Advisor			
Power of Attorney			

**Regular Income**

Income Source	Member	Applicable	Amount	Indexed
Employment Salary	Richard	Jan 1 2005 to Dec 31 2021	\$90,000	Inflation
Employment Salary	Sylvia	Jan 1 2005 to Oct 31 2022	\$55,000	Inflation
Employment Bonus	Richard	Jan 1 2005 to Dec 31 2021	\$5,000	1.00%

**Lump Sum Incomes**

Income Source	Member	Applicable	Amount	Indexed
Inheritance	Richard	Jan 1 2006	\$20,000	No

**Social Security Retirement Benefits**

Member	Start Age/Date	Calculated Monthly Benefit (% / \$) OR Est. Monthly Benefit (today's \$)	Indexed
Richard	62 / Feb 1 2022	75% / \$1,123	Inflation
Sylvia	62 / Dec 1 2025	75% / \$889	Inflation

## Social Security Survivor Benefits

Member	Monthly Benefit to Survivor and Eligible Dependents (% / \$)	Monthly Benefit to Survivor at Retirement (%/\$)	Spouse's Revised Start Date During Retirement	Indexed
Richard	100% / \$1,542	100% / \$942	62 / Dec 1 2025	Inflation
Sylvia	100% / \$1,276	100% / \$717	62 / Feb 1 2022	Inflation

## Regular Expenses

Expense	Member	Start Date	End Date	While Working	While Retired	While Survivor	Annual Amount	Indexed
Total Lifestyle Expenses	Joint	Jan 1 2005	N/A	100%	110%	75%	\$60,000	Inflation
Real Estate and Property Taxes	Joint	Jan 1 2005	N/A	100%	100%	100%	\$6,000	Inflation

## Lump Sum Expenses

Expense	Member	Applicable	Amount	Indexed
Burial Expense	Richard	Dec 31 2050 (Richard's Deceased Date)	\$10,000	Inflation
Burial Expense	Sylvia	Dec 31 2053 (Sylvia's Deceased Date)	\$10,000	Inflation

## Semi-Regular Expenses

Expense	Member	Start Date	End Date	Every	Amount	Indexed
Vacation	Joint	Jan 1 2006	Dec 31 2030	2 years	\$13,000	Inflation

## Lifestyle Assets

Asset Name	Purchase Date	Purchase Amount	Market Value Date	Market Value	Growth Rate <sup>1</sup>	Standard Deviation
Family Car (Joint/Lifestyle)	Jan 1 1998	\$20,000	Jan 1 2005	\$13,000	-2.0%	0.0%
Richard & Sylvia's House (Joint/Lifestyle)	Jun 30 1990	\$250,000	Jan 1 2005	\$300,000	3.0%	0.0%

<sup>1</sup>The growth rate is a pre-tax amount

## Cash Accounts

Asset Name	Date	Opening Balance	Current Balance	Interest Rate	Standard Deviation
Cash Account (Joint/Non-Qualified)	Jan 1 2005	\$0	\$10,000	3.0%	3.0%

## Portfolio Assets

Asset Name	Market Value Date	Market Value	Basis	Int. (%)	Div. (%)	Cap. Gain (%)	Tax Free (%)	Def. Growth (%)	St. Dev. (%)
Life Insurance Proceeds for Sylvia (Non-Qualified)	Jan 1 2005	\$0	\$0	2.00	2.00	4.00	0.00	0.00	0.00
Richard's 401(k)	Jan 1 2005	\$100,000	\$0	0.60	2.00	0.00	0.00	6.80	7.20
Sylvia's 401(k)	Jan 1 2005	\$75,000	\$0	1.20	2.00	0.00	0.00	5.60	6.40
Ryan's College Fund (Richard/529 Plan for Ryan)	Jan 1 2005	\$40,000	\$0	3.00	1.00	0.00	0.00	1.00	3.50

The *Portfolio Assets* includes your major investment assets. It supplies the market value and cost basis of these assets. Your total pretax growth rate is broken down into specific return rate types, as some of these items receive special tax treatment. Interest is taxed as ordinary income at the marginal tax rates. Dividends are taxed at the long-term capital gains tax rates in 2003-2008 and are otherwise taxed as ordinary income at the marginal tax rates. Capital gains are either long-term or short-term. Income from the deferred growth component is not subject to tax until the asset is sold and is usually subject to the capital gains tax rules. Tax-free returns are not subject to regular income tax, but may be subject to the Alternative Minimum Tax. The actual total return rates that you will receive will depend on many factors, including inflation, type of investment, market conditions and investment performance.

## Life Insurance Policies

<b>Description:</b>	Group Policy #12345		
<b>Policy Type:</b>	Term 1 Life	<b>Owner:</b>	Other
<b>Effective Date:</b>	Dec 31 2004	<b>Insured:</b>	Richard
<b>Death Benefit:</b>	\$125,000	<b>Beneficiary:</b>	Sylvia
<b>Cash Surrender Value (CSV):</b>	\$0	<b>Premium Payer:</b>	Richard

<b>Description:</b>	Group Policy #12345		
<b>Premiums cease on:</b>	Jan 17 2022	<b>Annual Premium Payments:</b>	\$400
<b>CSV payable with Death Benefit:</b>	No	<b>Coverage ceases on:</b>	Jan 17 2022
<b>Death Benefit payable when coverage ceases:</b>	No	<b>Disability Waiver:</b>	No

## Liabilities

Liability Name	Liability Date	End Date	Original Principal	Current Principal	Int. Rate	Payment Type
Mortgage	Jun 30 1990	Jun 30 2020	\$230,000	\$170,123	6.500%	Principal & Interest

## Regular Investment Strategies

Asset Name	Applicable	Amount	Indexed
Sylvia's 401(k)	While Working		
Employee Pre-Tax Contribution		\$140/Month	3.00%
Employee Post-Tax Contribution		\$0/Month	3.00%
Employer Contribution		\$140/Month	3.00%
Richard's 401(k)	While Working		
Employee Pre-Tax Contribution		\$200/Month	3.00%
Employee Post-Tax Contribution		\$0/Month	3.00%
Employer Contribution		\$200/Month	3.00%

The table above includes all your periodic (annual or monthly) investment contributions.

## Regular Debt Modification Strategies

Liability Name	Applicable	Amount	Indexed
Mortgage	Jan 1 2014 to Dec 31 2021	\$2,000/Year	No

A regular debt modification plan will help you reduce your outstanding debt and reduce your interest costs.

### Transfer Strategies

Source Asset	Destination Asset	Amount	When
Group Policy #12345	Life Insurance Proceeds for Sylvia	100%	Upon Death

Transfers specify a plan for moving your investments from one type of asset to another on specific dates or events such as retirement. Also, transfers will be desirable in some cases to move from one type of investment to another type at a certain point in time. Refer to your **Action Plan** to view the projected amounts to be transferred for the next three years.

### Deficit Coverage Strategies

Asset Name	Applicable
Cash Account (Joint/Non-Qualified)	Jan 1 2005 to Dec 31 2053
Sylvia's 401(k)	While Retired
Richard's 401(k)	While Retired
Life Insurance Proceeds for Sylvia (Non-Qualified)	Jan 1 2005 to Dec 31 2053

The assets listed are available for redemption to meet cash flow needs. The *Applicable* column indicates the period of time these assets are available. Typically, qualified assets are not available during your working years. If applicable, only fully vested, exercised stock options are available for deficit coverage.

### Education Expenses

#### Ryan's College Education

##### Expenses

Expense	Member	Start Date	End Date	Annual Amount	Indexed
Tuition Fees	Ryan	Sep 1 2010	Jun 1 2014	\$30,000	5.00%

### Assets Allocated to Education Expenses

Linked Assets	Purchase Date	Purchase Amount	Market Value Date	Market Value	Growth Rate
Ryan's College Fund (Richard/529 Plan for Ryan)	Dec 31 2004	\$0.00	Jan 1 2005	\$40,000.00	5.00%

### Giftling Growth

Beneficiary	GSTT applicable for Richard's gifts	GSTT applicable for Sylvia's gifts	50% Charity	Growth Rate	Average Income Tax Rate	Net After-Tax Growth
Ryan Hudson (Heir)	No	No		3.00%	0.0%	3.00%

## 6. Financial planning strategies

### Objectives

The clients have indicated that they would like to invest in growth equities, have enough money to fund their retirement goals, pay Ryan's education, enter into a real estate opportunity, and establish an emergency fund. By duplicating the base plan, you can implement a variety of strategies that will ultimately lead to a recommended plan, and fulfill the clients' objectives without compromising their goals.

### Observations

The *Plan Analysis* window allows you to see an instant analysis of the active plan.

#### Procedure

- From the desktop, double-click the **Base Plan** folder.

The *Plan Analysis* window opens.

Use the *Plan Analysis* window to analyze the base plan. You can see accumulated surpluses in the pre-retirement period, which may indicate that an opportunity exists, and you can also see projected accumulated deficits during the retirement period.

The bottom graph shows that the *Lifestyle Assets* line intersects with the *Total Net Worth* graph. This represents a critical juncture in the plan, where all liquid assets have been fully depleted and the only remaining assets are lifestyle assets. In summary, to prevent the accumulated deficit during the retirement period, the Hudson and Turner family may have to sell their home.

### Planning strategy: new asset allocation

After a lengthy discussion on asset allocation and their planning horizon, Richard and Sylvia are interested in exploring a different asset allocation strategy. With retirement almost 20 years in the future, they would like to assume more risk in the hopes of better returns over the long term.

#### Procedure

1. In the *Plan Analysis* window, click the **Duplicate** button.
2. On the *General* tab, rename the new plan **New Asset Allocation**.
3. Go to the **Assumptions** category – **Risk Profile** tab.
4. Under *Model Portfolio*, select **Aggressive**.
5. Go to the **Expenses** category – **Retirement** tab – **Asset Mix** subtab.
6. Click the **View Asset Mixes** button.

This graph shows the *Current Asset Mix* compared with the *Suggested Asset Mix*. As noted at the bottom of the window, the *Suggested Asset Mix* is based on the *Aggressive* portfolio we just selected in the *Assumptions* category.

The *Suggested Asset Mix* assumes rebalancing, and then remains static throughout future years. To print these pie graphs in the side-by-side view, right-click anywhere on the graph, and then select *Print*.

7. Click **Done** when finished.
8. Go to the **Savings Plans** subtab.
9. Under *Auto-reallocate to Suggested Asset Mix*, select **Minimal**.
10. Go to the **Asset Mix** subtab, and then click the **View Asset Mixes** button.
11. Click the **report year** button to scroll to the next year.

The *Current Asset Mix* displayed resembles the *Suggested Asset Mix* at the start of the next year. Notice, however, that the *Current Asset Mix* contains a cash component because the *Hold Status* check box was selected for the cash account during our data entry of the base plan.

12. Click **Done** when finished.
13. Go to the **Assets** category – **Qualified** tab.

Since we are re-allocating all qualified assets, we must insert new suggested qualified assets with the *Aggressive* portfolio mix for those assets that have current savings strategies. We will direct all savings towards the new suggested assets, which will ensure the appropriate risk tolerance for the client (*Aggressive* portfolio).

### Procedure to direct savings to new suggested assets

1. Click **Insert – Investment Portfolio**, to insert a new 401(k) asset for Richard.
2. On the *Details* tab, enter the following information:

<i>Name:</i> <b>Richard's 401(k) Suggested Asset</b>	<i>Ownership:</i> <b>Richard</b>
<i>Type:</i> <b>401(k)</b>	<i>Purchase Date:</i> <b>Last day of the previous year</b>

3. Go to the **Asset Classes** tab, and then enter the following information to represent the *Aggressive* portfolio:

<i>Foreign Equity:</i> <b>20%</b>	<i>Domestic Equity:</i> <b>60%</b>
<i>Fixed Income:</i> <b>20%</b>	

4. Click **OK**.
5. Click **Insert – Investment Portfolio** to insert a new 401(k) asset for Sylvia.
6. On the *Details* tab, enter the following information:

<i>Name:</i> <b>Sylvia's 401(k) Suggested Asset</b>	<i>Ownership:</i> <b>Sylvia</b>
<i>Type:</i> <b>401(k)</b>	<i>Purchase Date:</i> <b>Last day of the previous year</b>

7. Go to the **Asset Classes** tab, and then enter the following information to represent the *Aggressive* portfolio:

*Foreign Equity:* **20%**

*Domestic Equity:* **60%**

*Fixed Income:* **20%**

8. Click **OK**.
9. Go to the **Strategies** category – **Savings** tab – **Employer-Sponsored Pensions** subtab, to redirect the current savings strategies.
10. Select **Richard’s 401(k)** located under the *Asset Name* column.
11. Click **Edit**.
12. In the *End Date* field, enter the first of the current month.
13. Click **OK**.
14. Click **Insert – Richard’s 401(k) Suggested Asset**.
15. Click **Edit**.
16. Enter the following information:

*Pre-tax Amount:* **\$200**

*Employer Amount:* **\$200**

*Frequency:* **Monthly**

*Index from 2004 by:* **Inflation Rate**

*Start Date:* **First day of next month**

17. Click **OK**.
18. Select **Sylvia’s 401(k)** located under the *Asset Name* column.
19. Click **Edit**.
20. In the *End Date* field, enter the first of the current month.
21. Click **OK**.
22. Click **Insert – Sylvia’s 401(k) Suggested Asset**.
23. Click **Edit**.
24. Enter the following information:

*Pre-tax Amount:* **\$140**

*Employer Amount:* **\$140**

*Frequency:* **Monthly**

*Index from 2004 by:* **Inflation Rate**

*Start Date:* **First day of next month**

25. Click **OK**.
26. Click **OK**, and then click **Yes** to finish editing the New Asset Allocation plan.

## The results

With the *Plan Analysis* windows for the base plan and New Asset Allocation side-by-side, we can see that we have effectively eliminated the retirement deficits in the New Asset Allocation plan by changing the asset allocation strategy. Cash flow

irregularities still exist during the pre-retirement period, but the reallocation has improved the clients' net worth. However, adopting a more aggressive investment style may also increase the volatility of returns. Once a recommended plan is in place, you can use the *Monte Carlo Sensitivity Analysis*, which will project the success rate for the plan.

### Procedure

To see which assets have been affected by the reallocation, follow these steps to generate a report:

1. Minimize both *Plan Analysis* windows.
2. Select the **New Asset Allocation** plan icon.
3. Go to the **Reports** menu, and then select **Net Worth – Asset Class Weightings**.

This report displays the breakdown of each asset and of the total portfolio by asset class.

4. Click the **Report Year** button to scroll to the next year.

Since we selected the *Minimal* reallocation option, the *\*Transition Mix for Retirement* asset lists the minimal reallocation amounts for each asset class to rebalance to the suggested asset mix.

5. Minimize the *Asset Class Weightings* report.
6. Go to the **Reports** menu, and then select **Activity – Asset In – Plan Year (current year)**.

This report displays all of the asset-related transactions that occur during a specific year. You can see the total sells from *Sylvia's 401(k)* asset and the corresponding total buys to the *401(k) \*Transition Mix for Retirement (Sylvia)* asset. Select a transaction in the report, and then click the **Show Selected Item's Transactions** button. A dialog box opens to display the specific transactions for that asset.

7. Click **OK** to close the detailed transaction dialog box.
8. Minimize the *Asset Activity* report.

### Auto-reallocation assumptions

- The *Auto-reallocate* feature retains the ownership characteristics of the rebalanced assets.
- Any jointly owned non-qualified assets will be transferred to a jointly owned suggested asset mix asset titled *\*Suggested Mix for Retirement*.
- The *Auto-reallocate* feature is available for retirement, education, and major purchase goals on the *Savings Plans* subtabs.
- You can reallocate all, none, or minimal amounts of the linked assets to the suggested asset mix by selecting *Complete*, *None*, or *Minimal*.

- *Complete*: Auto-reallocation assumes all assets linked to the associated goal (retirement, education, or major purchase) are sold. It also assumes assets representing the suggested asset allocation are purchased. This event triggers taxes on the growth component of all the assets. Each qualified investment is transferred to a new suggested asset mix. For example, Richard's 401(k) asset will be transferred to a 401(k) suggested asset mix asset titled *401(k) \*Suggested Mix for Retirement*.
- *None*: No reallocation to the suggested asset mix occurs.
- *Minimal*: Reallocation is limited to selling enough of each asset class to achieve the suggested asset allocation mix overall. This option is more tax-effective because it only sells enough of each asset class to achieve the suggested asset allocation mix, whereas the entire asset is sold when using the *Complete* option. When *Minimal* is selected, a new *\*Transition Asset Mix* asset is created along with a *\*Suggested Asset Mix*, which is a joint non-qualified asset. Any new or existing qualified savings plans should then be directed to a newly created qualified asset that has the characteristics of the recommended asset mix.
- All assets available for deficit coverage during the retirement period are linked to the retirement goal. If you do not want a particular asset to be reallocated, select the **Hold Status** option on the *Asset Details* tab, and then define a percentage to hold. However, *Hold Status* is only effective when the *Minimal* reallocation option has been selected.

## Planning strategy: education

With retirement cash flow resolved, the clients' next objective is to ensure adequate funding for Ryan's future. During our discussions with Richard and Sylvia we learned that they have surplus cash at the end of the year. Some of this surplus cash can be used to help fund Ryan's education. Richard and Sylvia also feel that a more conservative investment approach should be used to meet Ryan's education objective.

### Procedure: solving for Ryan's college education

1. Right-click the **New Asset Allocation** plan icon, and then select **Duplicate**.
2. On the *General* tab, rename the new plan **Education Analysis**.
3. Go to the **Expenses** category – **Education** tab – **Ryan's College Fund – General** subtab.

The *Needs vs. Abilities* graph indicates that there is not enough capital to fully fund Ryan's education.

4. Go to the **Asset Mix** subtab.
5. Click the **Override Risk Profile** button, and then select the **Override Model Portfolio** check box.
6. Under *Model Portfolio*, select **Moderate**, and then click **OK**.
7. Go to the **Savings Plans** subtab.

8. Under *to allocate to*, select **Current Asset Mix**.
9. Click the **calculator** to calculate the additional college fund savings required to provide for all education needs based on the current asset mix of the 529 plan.

What is the amount of additional monthly savings required, without a 5% cushion?

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10. Under *to allocate to*, select **Suggested Asset Mix**.
11. Under *Auto-reallocate to Suggested Asset Mix*, select **Complete**.
12. Click the **calculator** to calculate the additional monthly savings required to provide for all education needs based on the *Moderate* portfolio.

What is the amount of additional savings required, without a 5% cushion?

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13. Click **Insert**, and then select **529 plan \*Suggested Mix for Ryan's College Fund (Richard)**.
14. Select **Periodic**, and then click **OK**.
15. In the *Amount* field, enter the additional savings required from step 12, and then click **OK**.
16. Click the **calculator** again to confirm that the funding is adequate.
17. Click **OK**, and then click **Yes** to finish editing the current plan.
18. Double-click the **Education Analysis** icon to open the *Plan Analysis* window.

## The results

The bottom graph within the *Plan Analysis* window now has a *Total Payments to Heirs* component that reflects the contributions to Ryan's asset. Cash flow during the pre-retirement period is still erratic. An accumulated surplus grows until 2021, and then depletes over the next three years.

## Procedure

To see the contributions to Ryan's 529 plan and any gift taxes incurred, follow these steps to generate a report:

1. Go to the **Reports** menu, and then select **Estate Planning – Gift Taxes (Richard)**.
2. In the *Estate Planning Report Settings* dialog box click **OK**.

This report displays a summary of all gift taxes paid, credits used, and exemptions and exclusions applied. If Richard's contributions exceed the annual maximum gift exclusion allowed, the resulting credit is applied.

Close the *Gift Taxes* report, and minimize the Education Analysis *Plan Analysis* window.

## Planning strategy: emergency fund

Richard and Sylvia have accumulated \$10,000 in a cash account as an emergency fund. We need to ensure that this cash account is only used to finance the emergency fund and that the proceeds are not inadvertently used elsewhere in the plan.

### Procedure

1. Right-click the **Education Analysis** plan icon, and then select **Duplicate**.
2. On the *General* tab, rename the new plan **Emergency Fund**.
3. Go to the **Assets** category – **Non-Qualified** tab.
4. Select the **Cash Account**, and then click **Edit**.

To ensure that the *Cash Account* is reserved just for the emergency fund, we must guarantee that it is not redeemed by deleting the deficit coverage strategy from this asset.

5. Go to the **Sells** tab.
6. Click the **Delete** button, and then click **Yes**.
7. Click **OK**.
8. Go to the **Expenses** category – **Emergency Fund** tab – **Target Amount** subtab.
9. Select **Specific amount**, and then enter **\$10,000**.
10. Go to the **Assets** subtab, and then clear the **Life Insurance CSVs** check box.  
The summary at the bottom of this tab indicates that the emergency fund will contain only the *Cash Account*.
11. Go to the **Analysis** subtab to verify that the emergency fund is adequately funded.
12. Click **OK**, and then click **Yes** to finish editing the current plan.

### The results

Assets used to finance the emergency fund must have the deficit coverage sell record removed. If the deficit coverage sell record is not removed for the assets you wish to use, NaviPlan will not consider the asset eligible to finance the emergency fund.

## Planning strategy: real estate opportunity

A business associate has approached Richard about some real estate that has the potential to become an excellent revenue property. Richard and Sylvia want to know if this venture would have an adverse effect on their cash flow. The property will become available for purchase in 2010. Richard and Sylvia believe that they will sell this venture the year Richard retires.

### Procedure

1. Right-click the **Emergency Fund** icon, and then select **Duplicate**.
2. On the *General* tab, rename the new plan **Real Estate Venture**.

3. Go to the **Assets** category – **Real Estate** tab.
4. To add a new real estate asset, click **Insert**.
5. On the *General Information* tab, enter the following information:

<i>Name:</i> <b>Real Estate Venture</b>	<i>Ownership:</i> <b>Joint</b>
<i>Type:</i> <b>Non-Qualified</b>	<i>Purchase Date:</i> <b>Jan 2010</b>
<i>Purchase Amount:</i> <b>\$100,000</b>	<i>Portion not depreciable:</i> <b>25%</b>
<i>Growth Rate:</i> <b>2%</b>	

6. Go to the **Rent** tab, and then enter the following information:

<i>Income:</i> <b>\$3,000</b>	<i>Expenses:</i> <b>25%</b>
<i>Frequency:</i> <b>Monthly</b>	<i>Annual Rental Growth Rate:</i> <b>3%</b>

7. Go to the **Sale Information** tab, and then enter the following information:

<i>Based On Event:</i> <b>selected</b>	<i>Person:</i> <b>Richard</b>
<i>Event:</i> <b>Retirement Date</b>	<i>Offset by:</i> <b>0</b>
<i>Selling Cost:</i> <b>7%</b>	

8. Go to the **Installment Sale** tab, and then enter the following information:

<i>Activate:</i> <b>selected</b>	<i>Seller Installment pct:</i> <b>70%</b>
<i>Annual Interest Rate:</i> <b>7%</b>	<i>Payment Frequency:</i> <b>Monthly</b>
<i>Compound Frequency:</i> <b>Annual</b>	<i>Amortized:</i> <b>selected</b>
<i># of Years:</i> <b>5</b>	

9. Click **OK**.
10. Click **OK**, and then click **Yes** to finish editing the current plan.

## The results

1. Double-click the **Real Estate Venture** icon to open the *Plan Analysis* window. In the *Plan Analysis* window you can see a deficit in 2010.
2. Double-click the year **2010** to open the *Cash Flow Assistant*.

A deficit appears in the *Ending Surplus/(Deficit)* field. This indicates that Richard and Sylvia cannot afford to purchase the investment property from funds out of their current cash flow. They must obtain a loan to offset the purchase of the real estate asset.
3. Within the *Cash Flow Assistant*, click **Edit Data**, and then select **Assets – Real Estate**.
4. To add and link a loan to the *Real Estate Venture*, select **Loans**.
5. To first add a new loan, click **Insert**.
6. Enter the following information:

<b>Lender: Loan for Real Estate Venture</b>	<b>Ownership: Joint</b>
<b>Payoff Options at Death: Transfer to survivor</b>	<b>Loan Date: Jan 1 2010</b>
<b>Loan Ends: Jan 1 2015</b>	<b>Bring into cash flow: selected</b>
<b>Original: \$100,000</b>	<b>Method: Principal &amp; Interest</b>
<b>Annual Interest Rate: 8%</b>	

7. Click **OK** three times, and then click **Yes** to return to the *Cash Flow Assistant*.  
The deficit that was recorded in the *Ending Surplus/(Deficit)* field disappears.
8. Double-click the **Investment Income** category for the family. You can see the rental income of \$39,404 for the *Real Estate Venture*. This represents the rental income (indexed from 2004) for the remainder of the year following the January purchase date. (Assumes rent is collected in February, the month following the purchase.)
9. Click **OK**.
10. Double-click the **Received Capital** category for the family. You can see the offsetting loan proceeds from the *Loan for Real Estate Venture*.
11. Click **OK**.
12. Double-click the **Investment Purchases** category for the family. You can see the investment purchases, including the purchase of the *Real Estate Venture*, for \$100,000.
13. Click **OK**.
14. Double-click the **Investment Expenses** category for the family. You can see the *Landlord's Property Expenses* (indexed from 2004) for the remaining 11 months of the year, or \$9,851. The principal and interest payments for the loan for the real estate also appear here.
15. Click **OK**.
16. Click **OK** to return to the *Plan Analysis* window.

### Planning strategy: final recommended plan

We know that Richard and Sylvia have some surplus cash at the end of each year; however they have indicated that realistically only about 60% of the surplus that you have projected actually materializes. It would be advantageous to invest the remaining surplus and earn a potentially higher rate of return rather than leaving it unallocated. With this in mind, we are going to recommend that the remaining annual surplus cash be invested and used to fund their retirement.

#### Procedure

1. Minimize the Real Estate Venture *Plan Analysis* window.
2. Right-click the **Real Estate Venture** icon, and then select **Duplicate**.

3. On the *General* tab, rename the new plan **Recommended Plan**.
4. Go to the **Strategies** category – **Surplus Lifestyle Expenses** tab.
5. Click **Insert**, and enter **40%** in the *Spend What Percentage* field for Richard and Sylvia.
6. Click **OK**.
7. Go to the **Savings** tab – **Surplus** subtab.
8. Click **Insert**, and then select **\*Suggested Mix for Retirement (Joint/Non-Qualified)**.
9. Click **Order of Surplus Cash Usage**.
10. The *Order of Surplus Cash Usage* dialog box opens. Under *1<sup>st</sup>*, select **Surplus Lifestyle Expenses**, and then select **Surplus Savings** as the *2<sup>nd</sup>* priority.

This will ensure that in any year a surplus exists, 40% of the surplus will be spent out of the plan and the remainder will be redirected to the **\*Suggested Mix for Retirement (Joint/Non-Qualified)**.
11. Click **OK**.
12. Click **OK**, and then click **Yes** to finish editing the current plan.
13. Double-click the **Recommended Plan** icon to open the *Plan Analysis* window.

## The results

With the surplus savings strategy in place, it looks like you have a potential optimal plan to present to the clients. The *Plan Analysis* window shows that all cash inflows meet cash outflows across the entire planning horizon, and the clients' net worth continues to grow at a gradual rate. Surplus savings and surplus expense strategies can be used in unison or separately depending on the clients' circumstances.

## 7. Insurance analysis

### Planning strategy: life insurance

Both Richard and Sylvia have expressed concerns about their existing life insurance. Is the coverage they already own adequate to maintain a current lifestyle for the surviving spouse? There are several ways to analyze insurance needs in NaviPlan. For our purposes, we are going to use the reports and graphs method to determine whether or not additional life insurance is required for Richard.

#### Procedure to generate reports

1. Minimize the Recommended Plan *Plan Analysis* window.
2. Right-click the **Recommended Plan** icon, and then select **Duplicate**.
3. On the *General* tab, rename the new plan **Insurance Analysis** in the *Name* field.
4. Click **OK**, and then click **Yes** to finish editing the current plan.
5. Go to the **Reports** menu, and then select **Life Insurance – Coverage Needs Detailed – Richard**.
6. In the *Year* field, enter the current year, and then click **OK**.

#### The results

This report lists accumulated surpluses and deficits for the remaining lifetime of the survivor. The text at the bottom of the reports states whether or not additional life insurance is required. If Richard were to die at the end of the current year, an additional amount of insurance would be required to maintain Sylvia's lifestyle. This report can be generated using alternative deceased dates to explore what effect dying in different years would have on cash flow.

#### Procedure to generate graphs

1. Minimize the *Additional Life Insurance Required to Cover Potential Death of Richard* report.
2. Go to the **Graphs** menu, and then select **Life Insurance – If Richard Dies**.
3. Go to the **Graphs** menu, and then select **Life Insurance – If Richard Dies with Insurance**.
4. Go to the **Window** menu, and then select **Tile Vertical**.

Both graphs appear side-by-side on the desktop.

#### The results

These graphs illustrate the accumulated surpluses and deficits for the entire lifetime of the survivor (Sylvia). From the reports we generated in the previous procedure, we determined that in the event Richard were to die at the end of the

current year, an additional amount of insurance would be required to maintain Sylvia's lifestyle.

- o In the *If Richard Dies* graph, we can see that if Richard died at the end of the current year without the additional required insurance, Sylvia would be faced with accumulated deficits toward the end of her retirement period and in pre-retirement.
- o In the *If Richard Dies with Insurance* graph, we can see that if Richard died at the end of the current year with the additional required insurance, Sylvia would not be faced with accumulated deficits. In fact, Sylvia's net worth would continue to grow to the time of her death.

## Planning strategy: disability insurance

Richard and Sylvia are completely uninsured in the event of disability and want to know if purchasing individual policies would be prudent. There are several ways to analyze insurance needs for the clients in NaviPlan. For our purposes, we are going to use the reports and graphs method to determine whether or not additional disability insurance would be required.

### Procedure to generate reports

1. Go to the **Reports** menu, and then select **Disability Insurance – Cash Flow Summary if Richard is disabled**.
2. The *Projection Criteria* dialog box opens. Leave all settings at their defaults, and then click **OK**.

### The results

This report simulates the client becoming disabled at the start of the next year and the resulting cash flows until retirement. NaviPlan allows you to include or exclude Social Security disability benefits on the *Incomes* category – *Social Security* tab. In this case, we have assumed that Social Security disability benefits would not be applicable.

The disability insurance analysis does not recommend a specific dollar amount of disability insurance. However, it does show the resulting surpluses or deficits that occur based on the loss of income. Richard will definitely require some level of protection, since accumulated deficits are projected in this report. Erosion of personal capital is evident without the addition of disability insurance.

### Procedure to generate graphs

1. Minimize the *Cash Flow Summary if Richard is disabled* report.
2. Go to the **Graphs** menu, and then select **Disability Insurance – If Richard is disabled**.

## The results

This graph illustrates the accumulated surpluses and deficits for the lifetime of the client. From the report we generated in the previous procedure, we determined that in the event Richard becomes disabled at the beginning of the next year, accumulated deficits are projected. We see the same results in this graph.

This graph also displays a declining net worth for the clients over their lifetime. Assets are being redeemed to cover the cash flow deficits. Clearly, Richard does not have enough assets to maintain his and Sylvia's current standard of living in the event that he becomes disabled at the beginning of the next year.

## Planning strategy: long-term care insurance

Richard and Sylvia are concerned that they will not achieve all of their financial objectives if one or both of them were to lose the ability to perform common daily activities later in life. The clients would like to see an illustration detailing what would happen if one of them enters into long-term care.

### Procedure

1. Right-click the **Insurance Analysis** icon, and then select **Duplicate**.
2. On the *General* tab, rename the new plan **Long-Term Care Analysis** in the *Name* field.
3. Go to the **Insurance** category – **Long Term Care** tab.
4. Enter the following information on the **Richard** subtab:

*Length of LTC:* **4**

*Start Age:* **85**

*Pct. of expenses to cover:* **100%**

*LTC Expenses:* **\$250 / day indexed 4%**

### The results

The lower section of the *Long-Term Care* tab displays a graph that shows current and accumulated surpluses or deficits.

1. On the **Richard** subtab, click the **calculator** to recalculate long-term care needs.

This graph provides a good indication of whether or not additional insurance would be required, as it illustrates the projected cash flow for the four years when Richard is simulated to be in long-term care.

It does not appear that Richard requires insurance in this area.

2. Click **OK**, and then click **Yes** to finish editing the current plan.
3. Go to the **Reports** menu, and then select **Long Term Care – Cash Flow Summary if Richard enters Long Term Care**.
4. In the *Projection Criteria* dialog box, leave all fields at their defaults, and then click **OK**.

The *Cash Flow Summary if Richard enters Long-Term Care* report shows all inflows and outflows for each year of the long-term care analysis. Expenses are divided into two categories: *Long-Term Care Expenses* and *Total Expenses*. This report also shows any current surpluses or deficits that are projected to occur, and the net worth at the end of each year.

5. Go to the **Graphs** menu, and then select **Long Term Care – If Richard enters Long Term Care**.

The *If Richard enters Long Term Care* graph is in the same format as the *Plan Analysis* window. It displays the current and accumulated cash surplus or deficit, which is projected if Richard enters into long-term care. At the bottom of the graph a total net worth and lifestyle assets graph is displayed, which reflects projected values in the event Richard enters into long-term care.