



**NaviPlan Extended Online/Offline  
Self-Study Guide  
Automatic Cash Flow Management  
(Deficit Coverage)**

**USA version 10.2**

EISI, Winnipeg

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500-330 St. Mary Avenue  
Winnipeg, Manitoba  
R3C 3Z5  
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# Using the Self-Study Guides

The NaviPlan Extended Self-Study Guides are intended to be used with the NaviPlan Extended Online/Offline application to help you learn how to use NaviPlan.

Each NaviPlan Extended Self-Study Guide covers a different topic. The following topics are covered in these guides:

- Deficit coverage
- Planning strategies
- Life insurance
- Basic life insurance
- Stock options

For information on the Ibbotson Asset Allocation option, contact the EISI Sales department at (888) 692-3474 (press 2 to speak to a sales representative).

**Note:** The NaviPlan Extended Self-Study Guides were created using NaviPlan Extended with the Ibbotson Asset Allocation option. This option allows users to use actual Ibbotson return rates in NaviPlan's calculations. If you are using a version of NaviPlan without the Ibbotson Asset Allocation option, there will be some differences between the guides and your version of NaviPlan.

## Conventions

The NaviPlan Extended Self-Study Guides include the following conventions:

- The names of items that are labeled on the screen are capitalized and italicized. For example,  
The *Clients* page opens.
- Within instructions, the names of items that are labeled on the screen, and items that you must select, click, or type appear in bold. For example,  
Select **My Clients**, and then click **Go**.

## Prerequisites

The self-study guides assume that you are familiar with the basics in NaviPlan Extended. You are able to create a client file and a base plan, and you can use NaviPlan to analyze your clients' ability to meet their current needs.

## Finding more information

If you have a question that is not answered in the self-study guides, there are other places to look for additional help.

### Help

The fastest way to get information about any command, dialog box, or item within NaviPlan Extended Online/Offline is to use the Help.

To access the Help, click the **Help** link at the top of the NaviPlan window.

### support.eisi.com

Visit our Web site to access the following resources:

- Training video clips
- Live Web-based training
- Reference Guides
- Release Notes
- Technical Support
- NaviPlan Support Forums
- NaviPlan User Services

To access these resources, do one of the following:

Click the **Support** link in NaviPlan Extended.

OR

1. Go to [support.eisi.com](http://support.eisi.com).
2. Click **US**.
3. Under *Offline format*, click **NaviPlan Extended Offline**.

OR

You can go directly to

[http://support.eisi.com/support\\_us/npe\\_offline/v10.2/index.htm](http://support.eisi.com/support_us/npe_offline/v10.2/index.htm).

Bookmark or add this page to your favorites in your Internet browser for future reference.

# Automatic cash flow management (deficit coverage)

By default, deficit coverage strategy in NaviPlan Extended automatically redeems assets to cover cash flow deficits in retirement. You do not have to specify exactly how much of each asset should be sold or when it should be sold. The strategies available depend on your current plan level. In Level 1 Plans, you can specify whether deficit coverage applies during pre-retirement or not. Deficit coverage always applies in the retirement period. In Level 2 Plans, deficit coverage has more options. This module explains how deficit coverage works in Level 2 Plans.

You may find it helpful to have NaviPlan Extended open while you work your way through this self-study guide.

## Learning objectives

This module will enable you to

- Identify key concepts of deficit coverage
- Distinguish between the two types of deficit coverage
- List the default redemption order
- Modify deficit coverage defaults
- Analyze deficit coverage using various tools

## Overview

Cash flow deficits occur in NaviPlan when the cash inflows are less than the cash outflows in a year. Unless covered by the redemption of assets, cash flow deficits will accumulate from year to year as shown in the graph below.

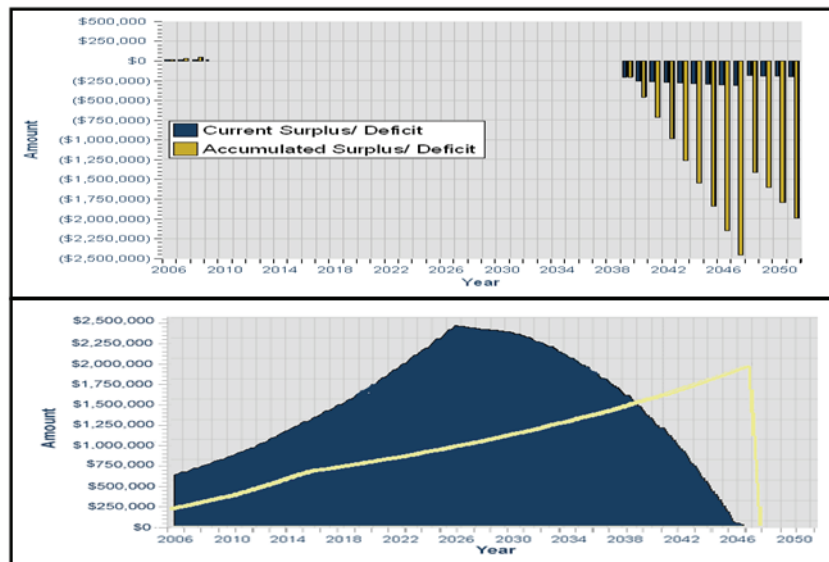


Figure 1: Tools menu – Planning Assistant selection – Plan Analysis Window option

NaviPlan Extended automatically redeems assets to cover cash flow deficits. This strategy, called deficit coverage, is a default mechanism that you can easily modify in Level 2 Plans, to control when and how cash flow deficits are covered.

## Key concepts

NaviPlan’s automatic asset redemption strategy eliminates the need for you to specify when to sell investment assets and how much to sell.

The key concepts to deficit coverage are

- Targeted deficit coverage occurs during pre-retirement and full deficit coverage occurs during retirement (these are the default settings)
- Projected deficits are covered by NaviPlan’s automatic asset redemption strategy by default

- Assets are redeemed to cover deficits in a predefined tax-efficient order
- The predefined liquidation order can be modified

In pre-retirement, day-to-day expenses are typically paid out of regular cash flow, that is, no assets are redeemed to cover the expense. Semi-regular expenses are often paid for out of savings because there is not enough money in cash flow. This is why NaviPlan's deficit coverage strategy applies, by default, to deficits caused by semi-regular and lump-sum expenses in pre-retirement.

In retirement, incomes stop or slow and cash flow is often insufficient to cover expenses. NaviPlan automatically covers all expenses in retirement by redeeming assets to fund the cash flow.

Deficit coverage strategies can be modified on the *Strategies* section – *Strategies* category – *Deficit Coverage* page.

The screenshot displays the NaviPlan Financial Planning Software interface. The top navigation bar includes links for Help, Save, Notes, Print, Undo, Support, and Sign Out. The main content area is titled "Strategies" and features a breadcrumb trail: Regular & Lump Sum Savings > Surplus Savings > Surplus Lifestyle > Redemptions > Deficit Coverage. Below the breadcrumb trail are "Instructions" and "Plan Settings" sections. The "Plan Settings" section includes checkboxes for "When both the client and co-client are alive", "When David is the survivor", "When Mary is the survivor", and "Always use end of year reinvested amounts from non-qualified deficit coverage assets first." There is also an "Add New Deficit Coverage Strategies" section with fields for Account, Holding/Asset, Applicable Period, Start Date, and End Date, and checkboxes for "When Status is" (Pre-Retired, Retired, Long Term Care, Disabled, Retired/Disabled, Transfer To Partner on Death). At the bottom, there is a table titled "Deficit Coverage Strategies" with columns for Description, Plan Type, Owner, and Applicable Period.

Description	Plan Type	Owner	Applicable Period
Joint NQ (Joint NQ)	Non-Qualified	Joint	Always
Brampton Crest International Incorporate (David's Brokerage Account)	Non-Qualified	David	Always
Mary's Brokerage (Mary's Brokerage Account)	Non-Qualified	Mary	Always
Cash (David's 401(k))	401(k)	David	While Retired
Putnam Income Fund A (Qualified Account)	401(k)	Mary	While Retired
eBay Incorporated (David's 401(k))	401(k)	David	While Retired
Life Insurance Proceeds for Mary (Life Insurance Proceeds for Mary)	Non-Qualified	Mary	Always

Figure 2: Strategies section – Strategies category – Deficit Coverage page

## Types of deficit coverage

There are two types of deficit coverage:

- Targeted deficit coverage
- Full deficit coverage

### Targeted deficit coverage

Targeted deficit coverage applies to deficits caused by semi-regular and lump-sum expenses during the pre-retirement period. By default, assets are redeemed to cover these expenses. Targeted deficit coverage does not apply to periodic or lifestyle expenses by default because that would mask problematic spending habits.

Targeted deficit coverage does not cover deficits caused by

- education expenses
- major purchase expenses

By default, the *Include in Targeted Deficit Coverage* check box is not selected for regular periodic expenses.

**Note:** If you want to cover long-term care expenses by deficit coverage, you need to specifically select them to be included in targeted deficit coverage.

Figure 3: Financial Picture section – Cash Flow category – Cash Flow page – <expense description> link (periodic expense) – Expense Details dialog box

For lump-sum or one-time expenses, the *Include in Targeted Deficit Coverage* check box is selected by default.

Figure 4: Financial Picture section – Cash Flow category – Cash Flow page – Add link (one-time expense) – Details button – Regular Expense Details dialog box

If you want targeted deficit coverage to apply for an expense that is not covered by default, you can select the **Include in Targeted Deficit Coverage** check box in the *Expense Details* dialog box to override the system defaults. If you do not want targeted deficit coverage to apply for an expense that is covered by default, you can clear the **Include in Targeted Deficit Coverage** check box in the *Expense Details* dialog box.

## Full deficit coverage

During retirement, clients typically have less cash to meet day-to-day and lump-sum expenses and need to redeem assets to prevent cash flow deficits.

By default, in the retirement period, NaviPlan redeems qualified and non-qualified assets to cover all deficits. This is called full deficit coverage. If targeted deficit coverage is turned off, full deficit coverage also applies during the pre-retirement period.

## Asset redemption order

**Note:** Lifestyle, business, and real estate assets are not readily convertible into cash. These assets are not available for deficit coverage by default.

NaviPlan redeems assets for both targeted and full deficit coverage in the following predefined tax-efficient order. Each source of funds is exhausted before the next one is used.

1. Before any assets are redeemed, the client's deficits are covered by the co-client's surpluses (and vice versa). If the client has a deficit, and the co-client has a surplus, NaviPlan transfers the co-client's surplus to the client at the end of each plan year, including any accumulated surplus from previous years.
2. Income earned from non-qualified accounts is used to offset deficits instead of being reinvested.
3. Non-qualified accounts are redeemed in order of highest market value to cost basis to reduce realized capital gains.
4. If early withdrawal penalty taxes would be triggered by redeeming the younger client's tax-deferred accounts, NaviPlan transfers the deficit to the older client who will not incur penalty taxes on account redemptions.
5. Non-qualified deferred annuities are redeemed next by their ratio of end-of-year cost basis to end-of-year market value. Annuities with the highest ratio are used first.
6. Finally, qualified accounts are redeemed by the order of lowest return rate to highest, then by alphabetical order.

For non-qualified accounts, non-qualified deferred annuities, and for income earned from non-qualified accounts, the following rules apply:

- Each client's deficits are first covered by his or her eligible assets and any jointly-owned eligible assets
- If there is still a deficit, the other client's eligible assets are used to cover the amount

## Modifying deficit coverage

In certain circumstances you may want to modify the default deficit coverage strategies. For example, if a client is extremely wealthy and regularly redeems accounts to meet regular cash flow needs, it may be appropriate to clear the *Targeted Deficit Coverage* options.

The *Strategies* section – *Strategies* category – *Deficit Coverage* page allows you to

- Specify when targeted deficit coverage applies to an asset
- Add or remove deficit coverage strategies from assets
- Specify when deficit coverage strategies apply to each asset

Under *Plan Settings*, you can control when targeted deficit coverage applies and whether or not to use reinvestment amounts prior to redeeming non-qualified accounts.

The screenshot shows a dialog box titled "Plan Settings" with a sub-section "Targeted Deficit Coverage (Pre-Retirement Only)". It contains several checkboxes:
 

- When both the client and co-client are alive
- When David is the survivor
- When Mary is the survivor
- Always use end of year reinvested amounts from non-qualified deficit coverage assets first.

Figure 5: *Strategies* section – *Strategies* category – *Deficit Coverage* page – *Plan Settings*

Under *Add New Deficit Coverage Strategies*, you can apply the deficit coverage strategy to new accounts and holdings/assets.

**Note:** It is possible to manually add deficit coverage strategies to lifestyle, business, and real estate assets, but it may not be practical (in real life these types of assets are redeemed all at once and not piece by piece).

The screenshot shows a dialog box titled "Add New Deficit Coverage Strategies". It has fields for "Account", "Holding/Asset", "Applicable Period", "Start Date" (Jan 1 2006), and "End Date" (Dec 31 2999). Below these is a "When Status is" section with checkboxes for:
 

- Pre-Retired
- Retired
- Long Term Care
- Disabled
- Retired/Disabled
- Transfer To Partner on Death

 There is an "Add" button and a refresh icon at the bottom right.

Figure 6: *Strategies* section – *Strategies* category – *Deficit Coverage* page – *Add New Deficit Coverage Strategies*

The *Applicable Period* field allows you to quickly establish when deficit coverage will apply for the asset using various life stages. For non-qualified assets, the default value is *Always*. For qualified assets, the default value is *While Retired*.

Under *Deficit Coverage Strategies*, all deficit coverage strategies that have been applied to the plan appear.

All client-owned qualified and non-qualified accounts are assumed to be available to cover deficits. NaviPlan Extended follows the predefined asset redemption order unless the *Control the order that assets are used* check box is selected. If the check box is selected, NaviPlan uses the redemption order you specify.

Update Priorities <input checked="" type="checkbox"/> Control the order that assets are used			
Deficit Coverage Strategies			
Description	Plan Type	Owner	Applicable Period
Joint NQ (Joint NQ)	Non-Qualified	Joint	Always
Brampton Crest International Incorporate (David's Brokerage Account)	Non-Qualified	David	Other Date
Mary's Brokerage (Mary's Brokerage Account)	Non-Qualified	Mary	Always
Cash (David's 401(k))	401(k)	David	While Retired
Putnam Income Fund A (Qualified Account)	401(k)	Mary	While Retired
eBay Incorporated (David's 401(k))	401(k)	David	While Retired
Life Insurance Proceeds for Mary (Life Insurance Proceeds for Mary)	Non-Qualified	Mary	Always

Figure 7: Strategies section – Strategies category – Deficit Coverage page – Deficit Coverage Strategies area

To see the details of a strategy, or to edit or delete the strategy, click the strategy name. The information expands.

Update Priorities <input type="checkbox"/> Control the order that assets are used						
Deficit Coverage Strategies						
Description	Plan Type	Owner	Applicable Period			
Joint NQ (Joint NQ)	Non-Qualified	Joint	Always			
<b>Applicable Period</b>	<b>Start Date</b>	<b>End Date</b>	<b>When Status is</b>	<b>Delete</b>		
Always	Jan 1 2006	Dec 31 2999	<input checked="" type="checkbox"/> Pre-Retired <input checked="" type="checkbox"/> Retired <input checked="" type="checkbox"/> Long Term Care	<input type="button" value="X"/>		
			<input checked="" type="checkbox"/> Disabled <input checked="" type="checkbox"/> Retired/Disabled <input checked="" type="checkbox"/> Transfer To Partner on Death			
Brampton Crest International Incorporate (David's Brokerage Account)	Non-Qualified	David	Always			
Mary's Brokerage (Mary's Brokerage Account)	Non-Qualified	Mary	Always			
Cash (David's 401(k))	401(k)	David	While Retired			
Putnam Income Fund A (Qualified Account)	401(k)	Mary	While Retired			
eBay Incorporated (David's 401(k))	401(k)	David	While Retired			
Life Insurance Proceeds for Mary (Life Insurance Proceeds for Mary)	Non-Qualified	Mary	Always			
David's ISO '06		David	Always			

Figure 8: Strategies section – Strategies category – Deficit Coverage page – Deficit Coverage Strategies area showing one strategy expanded

The *Start Date*, *End Date* and *When Status is* fields work together. That is, the dates and the status must correspond for the asset to be used for deficit coverage. For example, if *Pre-Retired* is selected under *When Status is*, and the *Start Date* is Jan. 1, 2010, the asset will not be used for deficit coverage until both the year and the status conditions are met.

## Analyzing deficit coverage

Several reports are available in NaviPlan Extended for you to view the clients' surpluses and deficits and to help you verify your deficit coverage strategies.

**Report**

Deficit Coverage Both  
 Deficit Coverage Assets  
 Deficit Coverage Redemptions  
 Deficit Coverage Both

### Deficit coverage reports

The following deficit coverage reports are available:

- Deficit Coverage Assets
- Deficit Coverage Redemptions
- Deficit Coverage Both

Although there are separate reports for assets and redemptions, the *Deficit Coverage Both* report shows the qualified and non-qualified deficit coverage assets available, along with any redemptions that have occurred in that year.

The *Deficit Coverage Both* report is available on the *Results* section – *Additional Reports* – *Net Worth* category – *Deficit Coverage* page.

Year	Age(s)	Qualified Deficit Coverage Assets	Non-Qualified Deficit Coverage Assets	Qualified Deficit Coverage Sells	Non-Qualified Deficit Coverage Sells
2006	40/38	0	0	0	0
2007	41/39	0	0	0	0
2008	42/40	0	0	0	0
2009	43/41	0	0	0	0
2010	44/42	0	0	0	0
2011	45/43	0	0	0	0
2012	46/44	0	0	0	0
2013	47/45	0	0	0	0
2014	48/46	0	0	0	0
2015	49/47	0	0	0	0
2016	50/48	0	0	0	0
2017	51/49	0	0	0	0
2018	52/50	0	0	0	0
2019	53/51	0	0	0	0
2020	54/52	2,905,112	0	274,839	0
2021	55/53	2,899,293	0	314,050	0

Figure 9: Results section – Additional Reports – Net Worth category – Deficit Coverage page – Deficit Coverage Both selection

### Projection criteria

To change the parameters of the report such as start and end dates, dollar value types, or future years, click the **Assign Settings** button to open the *Projection Criteria* dialog box.

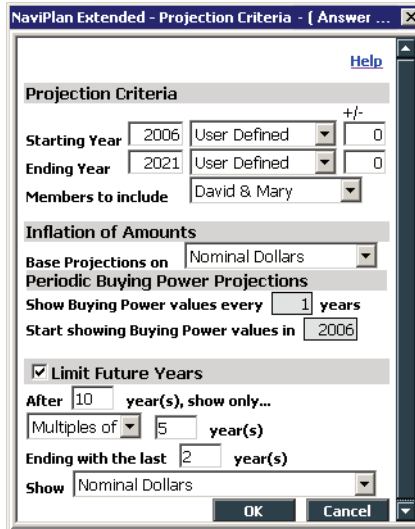
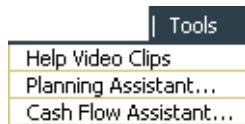


Figure 10: Results section – Additional Reports – Net Worth category – Deficit Coverage page – Deficit Coverage Both selection – Assign Settings button – Projection Criteria dialog box



## Cash Flow Assistant

The *Cash Flow Assistant* is a helpful verification and analysis tool that displays a complete analysis of the family's cash flow for any given year, and shows the deficit coverage strategies at work in the plan.

You can access the *Cash Flow Assistant* from the *Tools* menu on the right-hand side of the window.

The screenshot shows the 'NaviPlan Extended - Cash Flow Assistant' dialog box. It includes 'Assistant Options' with radio buttons for 'Plan Deceased Dates' (selected), 'Simultaneous Death' (2006), and 'Other Life Expectancies' (David, Mary). There are checkboxes for 'Apply Additional Capital Needed for David' and 'Mary' (both 2006), and a dropdown for 'Estate Planning Scenario' (Existing Estate Scenario). The 'Year' is set to 2006. Member status is shown as 'David is Pre-Retired (Age 40)' and 'Mary is Pre-Retired (Age 38)'. A table displays cash flow data for Head1, Head2, and Family. At the bottom are 'Activity' and 'Close' buttons.

Description	Head1	Head2	Family
Employment Income	156,000	120,000	276,000
Investment Income	415,098	415,098	830,196
Pension Income	0	0	0
Total Income	571,098	535,098	1,106,196
Total Tax	44,547	37,310	81,857
Income after Tax	526,551	497,788	1,024,339
Lifestyle Expenses	195,453	175,690	371,143
Pension Contributions	15,000	6,000	21,000
Investment Purchases	1,098	1,098	2,196
Investment Expenses	315,000	315,000	630,000
Current Surplus/(Deficit)	0	0	0
Previous Surplus/(Deficit)	0	0	0
Ending Surplus/(Deficit)	0	0	0

Figure 11: Tools menu – Cash Flow Assistant selection – Cash Flow Assistant dialog box

To display an explanation of an amount, click a value.

The *Activity* button displays a quick list of activity reports for the year. You can view deficit coverage strategies in the *Action Plan* and *Asset Activity* reports.



## Exercises

The following exercises have been designed specifically for this module and assume that you are working with the original data in the *Core and Elective Base* plan. Before starting the exercises, duplicate the **Core and Elective Base** plan, rename the duplicate with a meaningful name (e.g., *Automatic cash flow management training*), and then use it to complete the exercises below.

To find the answers, see “Answers to automatic cash flow management (deficit coverage)” on page 19.

### Exercise 1: Identify the key concepts of deficit coverage

1. What are some of the key concepts of deficit coverage?

**Hint:** Use the Help feature if required.

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### Exercise 2: Distinguish between the two types of deficit coverage

1. By default, targeted deficit coverage applies during the clients’ pre-retirement period. Is this statement true or false?
  - a) True
  - b) False
2. By default, which expense frequency is automatically covered by NaviPlan’s targeted deficit coverage strategy?
  - a) Semi-regular
  - b) Semi-annually
  - c) One-time
  - d) a and c
  - e) b and c

3. NaviPlan’s full deficit coverage strategy will cover all retirement expenses regardless of the expense’s frequency. Is this statement true or false?
  - a) True
  - b) False

**Exercise 3: List the default redemption order**

To find the answers, see “Answers to automatic cash flow management (deficit coverage)” on page 19.

1. By default, which of the following types of assets is included in NaviPlan’s deficit coverage strategy?
  - a) Non-qualified annuities
  - b) Lifestyle assets
  - c) Real estate assets
  - d) Business entities
  
2. Reorder the following assets in the correct predefined order based on the deficit coverage redemption list.

**Hint:** In the Help, search for *Deficit Coverage Calculations*.

Assets	Order
Qualified assets	_____
Non-qualified deferred annuities	_____
Non-qualified assets	_____
Surplus/deficit funds reallocated between client and co-client	_____
Reinvestment income	_____
Deficits shifted to avoid qualified withdrawal penalty	_____

**Exercise 4: Modify deficit coverage defaults**

1. Lifestyle, real estate, and business assets can be included in the deficit coverage strategy. Is this statement true or false?
  - a) True
  - b) False

2. Which of the following options is **not** available as an applicable period when entering a deficit coverage strategy?
  - a) *While Retired*
  - b) *While Disabled*
  - c) *Always*
  - d) *While Working*

**Exercise 5: Analyze deficit coverage using various tools**

To find the answers, see “Answers to automatic cash flow management (deficit coverage)” on page 19.

1. NaviPlan has three very useful reports that can be used to analyze deficit coverage in your plan. What are these reports?

**Hint:** See the *Results* section – *Additional Reports* – *Net Worth* category.

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2. What is the value of all qualified assets available for deficit coverage in the first year of retirement (2022)?

**Hint:** You can generate the *Deficit Coverage Assets* report on the *Results* section – *Additional Reports* – *Net Worth* category – *Deficit Coverage* page.

- a) \$0–\$1,000,000
- b) \$1,000,001–\$5,000,000
- c) \$5,000,001–\$10,000,000
- d) \$10,000,001 or more

3. Within the clients’ assets, which holdings are redeemed in the year 2025?

**Hint:** In the *Cash Flow Assistant* dialog box, click the **Activity** button, and then select **Action Plan**.

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4. Based on the holdings identified in question three, what is the aggregate dollar amount from the holdings that are being redeemed to cover deficits?
- a) \$50,000–\$100,000
  - b) \$100,001–\$150,000
  - c) \$150,001–\$200,000
  - d) Over \$200,000

## Conclusion

This module has enabled you to

- Identify the key concepts of deficit coverage
- Distinguish between the two types of deficit coverage
- List the default redemption order
- Modify deficit coverage defaults
- Analyze deficit coverage using various tools

# Answers to automatic cash flow management (deficit coverage)

## Exercise 1: Identify the key concepts of deficit coverage

1. Some of the key concepts of deficit coverage are as follows:
  - NaviPlan's default asset redemption strategy to cover deficits throughout the plan
  - Two types: targeted and full
  - Predefined order (most tax-advantaged order)

## Exercise 2: Distinguish between the two types of deficit coverage

1. a) True. By default, targeted deficit coverage applies during the clients' pre-retirement period.
2. d) a and c. Semi-regular and one-time expense frequencies are automatically covered by NaviPlan's targeted deficit coverage strategy.
3. a) True. NaviPlan's full deficit coverage strategy will cover all retirement expenses regardless of the expense's frequency.

## Exercise 3: List the default redemption order

1. a) Non-qualified annuities are included by default in NaviPlan's deficit coverage strategy.
- 2.

Assets	Order
Qualified assets	6
Non-qualified deferred annuities	5
Non-qualified assets	3
Surplus/deficit funds reallocated between client and co-client	1
Reinvestment income	2
Deficits shifted to avoid qualified withdrawal penalty	4

## Exercise 4: Modify deficit coverage defaults

1. a) True. Lifestyle, real estate, and business assets can be included in the deficit coverage strategy.
2. b) *While Disabled* is not available as an applicable period when entering a deficit coverage strategy.

### **Exercise 5: Analyze deficit coverage using various tools**

1. Three very useful reports that can be used to analyze deficit coverage in your plan are
  - *Deficit Coverage Assets* report
  - *Deficit Coverage Redemptions* report
  - *Deficit Coverage Both* report
2. b) \$1,000,001–\$5,000,000 of all qualified assets available for deficit coverage in the first year of retirement (2022).
3. David's *Brampton Crest International Incorporated, ISO '09*, and Mary's *Brokerage* holding are being redeemed in the year 2025.
4. d) The aggregate dollar amount from the holdings that are being redeemed to cover deficits is over \$200,000.

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