NaviPlan Standard Online/Offline

Accumulation Goals Self-Study Guide

USA version 11.2

EISI, Winnipeg

Disclaimer

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Accumulation goals

The NaviPlan Standard Accumulation Goals Self-Study Guide was created using NaviPlan Standard Offline with the Ibbotson Asset Allocation option. This option allows you to use actual Ibbotson return rates in NaviPlan's calculations.

In NaviPlan Standard, you can explore the clients' accumulation goals, such as retirement, major purchases, and emergency funds. Using multiple What-if scenarios, you determine an optimal scenario for your clients by including various planning strategies such as additional savings and asset reallocation. Once you are ready to create the client presentation, generate the *Financial Needs Analysis* report to examine the results of the recommended scenario.

The exercises in this module are based on a version of NaviPlan Standard Offline that includes the Ibbotson Asset Allocation option, which means that the asset allocation settings are set up for you. If your version of NaviPlan Standard Offline does not include the Ibbotson Asset Allocation option, you can modify the data.

This module focuses on Level 3 Plans.

Learning objectives

This module will enable you to

- Define and analyze your clients' education and major purchase goals
  - Identify goal assumptions
  - Define the time horizon for your clients' education goal
  - Use the Peterson's Undergraduate Database to search for college-specific costs
  - Define an appropriate asset allocation mix for the education goal
  - Allocate your clients' assets to a goal
  - Create and compare alternative education goal scenarios
  - Enter an asset or expense as a major purchase goal
  - Evaluate relevant output pages in a client report to assess the clients' progress toward meeting their goals

Learning tools

This module includes some practice exercises. We recommend that you use the Nick and Lisa Brown (Brown, Nick and Lisa.nps) client file in the data folder of your installation of NaviPlan Standard Offline (the default path is C:\Program Files\EISI\Data, but you may have installed it elsewhere). It will be available when you run NaviPlan Standard Offline, as well as on the central server if you prefer to work in the online application.

Note: If you are using a version of NaviPlan Offline without the Ibbotson Asset Allocation option, or if you are using NaviPlan Online, there will be some differences between the guide and your version of NaviPlan.

> **Hint:** In NaviPlan Standard Offline, to find the location of your data directory, go to the **User Preferences** menu – **System Settings** selection – **User Preferences - System Settings** dialog box – **File Locations** tab.

Identify goal assumptions

NaviPlan Standard uses the following set of assumptions when calculating retirement, education, major purchase, and emergency fund goals:

Goal	Goal starts	Goal ends	Savings end	Applicable account types
Retirement	January 1 of the first retiree's retirement year	December 31 of year the second client dies	December 31 of the year prior to retirement	Qualified and non-qualified
Education	January 1 of the specified year	January 1 of the last year of the goal	December 31 of the second-last year of the goal	529, UTMA, and non-qualified
Major purchase	Date entered	Date entered	One month prior to the date entered	Non-qualified
Emergency fund	Immediate	Not applicable	Not applicable	Non-qualified

Define the education goal

You can enter the information for your clients' education goals on the *Goals* section – *Education* category – *Objectives* page. Use the *Objectives* page to define the goal time horizon, education cost, and asset funding, and use the *Scenarios* page to analyze and solve the goal.

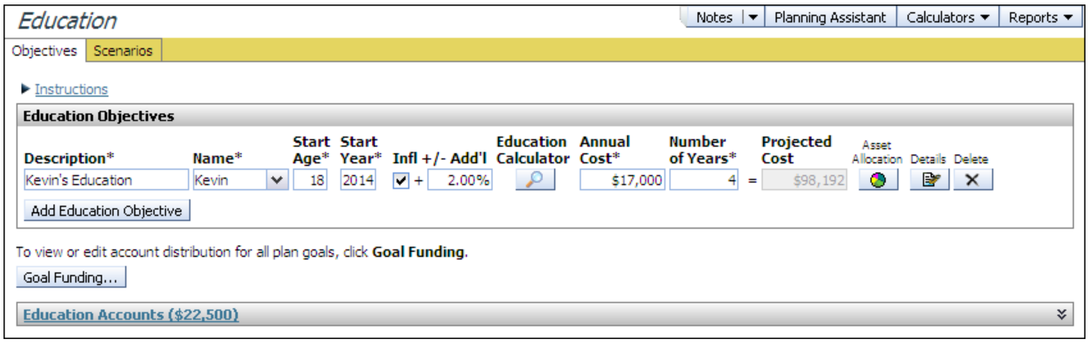


Figure 1: Goals section – Education category – Objectives page

To add an education objective

1. In the *Brown's Base Details Plan*, go to the **Goals** section – **Education** category – **Objectives** page.

1. Click the **Add Education Objective** button. A new data-entry row appears.

2. Under *Description*, enter a unique name for the goal.

3. Enter details about the clients' education goals. The *Education* calculator can be used to obtain costs for specific education institutions.

> **Note:** If you enter the current year as the start date for the education goal, the date defaults to the next year, because education expenses in NaviPlan occur on Jan. 1 of the year of the education goal.

- *Description* – Enter a name that identifies a particular goal on all screens and dialog boxes, and differentiates it from other similar goals.
- *Name* – Select the name of the family member for whom the goal is established.
- *Start Age* – Enter the age at which the family member is expected to begin his or her education, that is, the age when the family member begins to use the funds saved towards this education goal. The default start age for dependents is 18.
- *Start Year* – Enter the year that the education expense is to begin.
- *Infl +/- Add'l* – Select **Infl** to index the item to the default rate of inflation. The total rate can be adjusted using the *Add'l* field. Generally, education costs tend to rise by a rate higher than inflation. Therefore, by default, NaviPlan automatically increases the plan's base inflation rate by 2%.

- *Education Calculator* – Click to open the *Search Education Costs* dialog box to search Peterson's Undergraduate Database (Data source: Peterson's Databases, copyright (2007). Peterson's, a division of Thomson Learning. All rights reserved.) to determine education costs for a specific college or university.
- *Annual Cost* – Enter the estimated yearly cost of all expenses associated with the education goal.
- *Number of Years* – Enter the expected number of years the selected family member will take to complete this education goal.
- *Projected Cost* – Displays the estimated total cost of the goal in future dollars.
- *Asset Allocation* – Click to open the *Asset Allocation Details* dialog box.
- *Details* – Click to open the *Search Education Costs* dialog box. In this dialog box, you can add multiple education expenses to the same goal. For example, if Kevin is attending both undergraduate and graduate studies, you can enter these as separate expenses.
- *Delete* – Click to remove the selected item. In some cases, the deleted item cannot be recovered and you have the choice to delete the item or to return to your previous task without deleting it.
- *Add Education Objective* – Click to add another goal to the list of education goals.
- *Goal Funding* – Click to view or edit the account distribution for the funding of plan goals.

Use the Peterson's Undergraduate Database

You can search for the cost of tuition and rooming expenses for universities and colleges using the *Education* calculator. The *Education* calculator opens a search tool connected to the Peterson's Undergraduate Database.

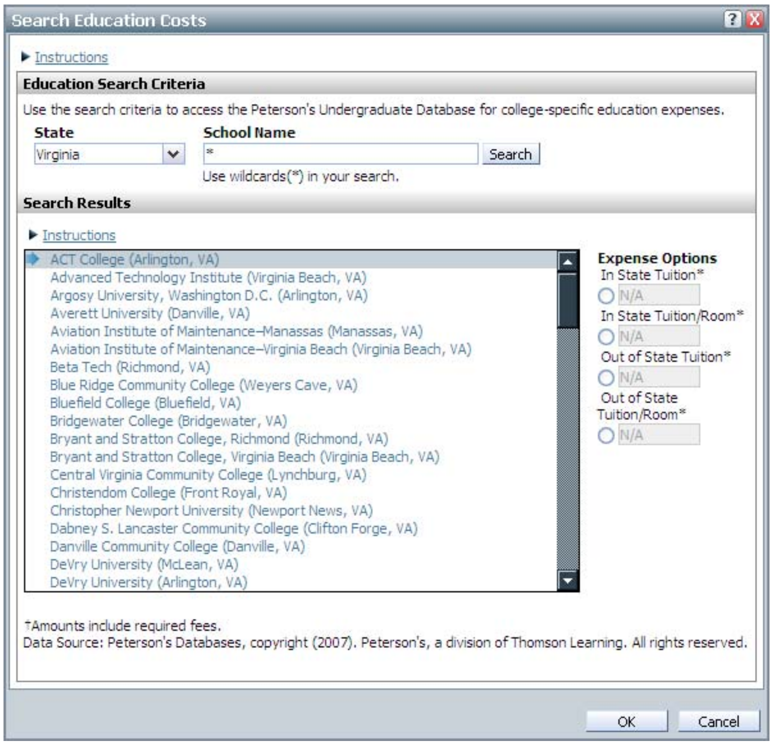


Figure 2: Goals section – Education category – Objectives page – Education Calculator button – Search Education Costs dialog box

Search education costs

To search education costs by school

1. Go to the **Goals** section – **Education** category – **Objectives** page.
2. Click the **Education Calculator** button for *Kevin's Education*. The *Search Education Costs* dialog box opens.
3. Select the relevant state from the *State* list.
4. Enter the full name of the school, or use a wildcard (*) to search for any unknown variable in the *School Name* field.

   For example, enter *Hawaii Business College*, or, enter *hawaii** or **Business** if unsure of the full name. Use the first letter of the school and a wildcard (*) to search for schools that start with that letter. Other combinations can include *X or X* or *X*, where X is any letter, or word.

5. Click **Search**. American schools that match the search criteria will be listed under *Search Results*.
6. Select a school from the list, and then select one of the *Expense Options*. The last option selected before clicking *OK* will be used.
7. Click **OK**. The *Search Education Costs* dialog box closes and the *Projected Cost* field populates on the *Objectives* page.

Define an appropriate asset allocation fix for the education goal

On the *Objectives* page, you can use the *Asset Allocation* button to define the specific asset allocation objective for the education goal.

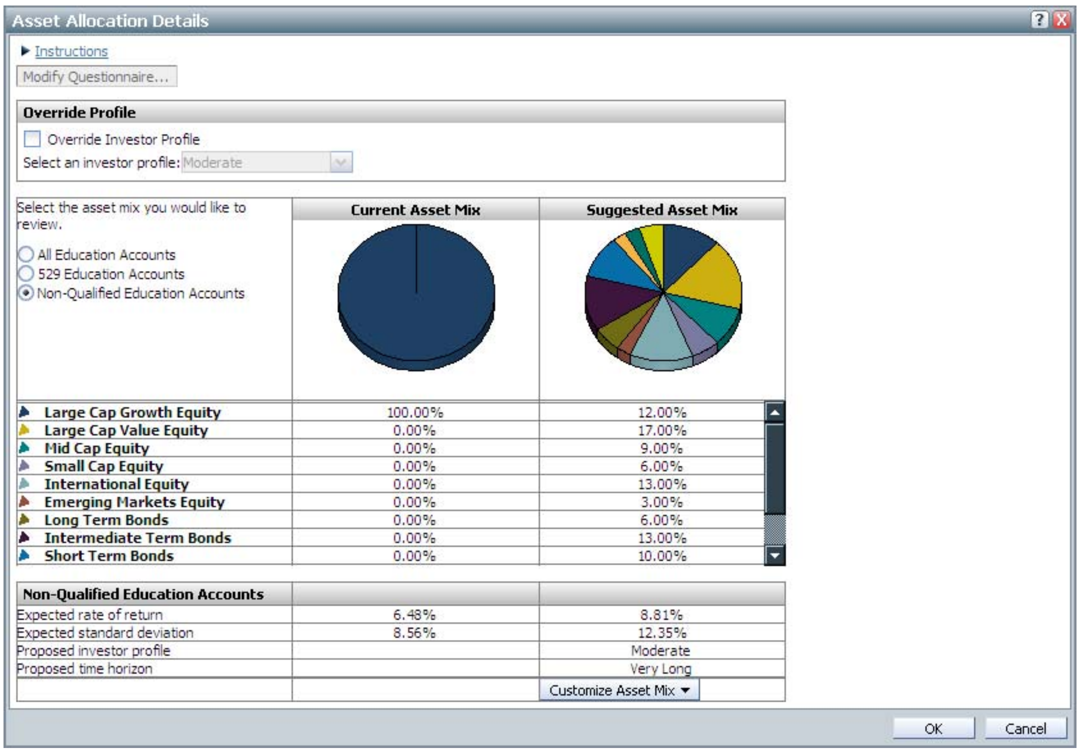


Figure 3: Goals section – Education category – Objectives page – Asset Allocation button – Asset Allocation Details dialog box

The asset allocation defined for a goal is originally based on answers to the questionnaire provided in the *Plan Management* section. You can modify the original asset allocation, and select a new investor profile for your education goal.

To modify the asset allocation for a goal

1. Click the **Asset Allocation** button. The *Asset Allocation Details* dialog box opens.
2. Click the **Modify Questionnaire** button. The *Questionnaire* dialog box opens. In this dialog box you can modify your answers to the asset allocation questionnaire for the education goal.

> **Note:** The *Modifiy Questionnaire* button is only accessible when *All Education Accounts* is selected in the table.

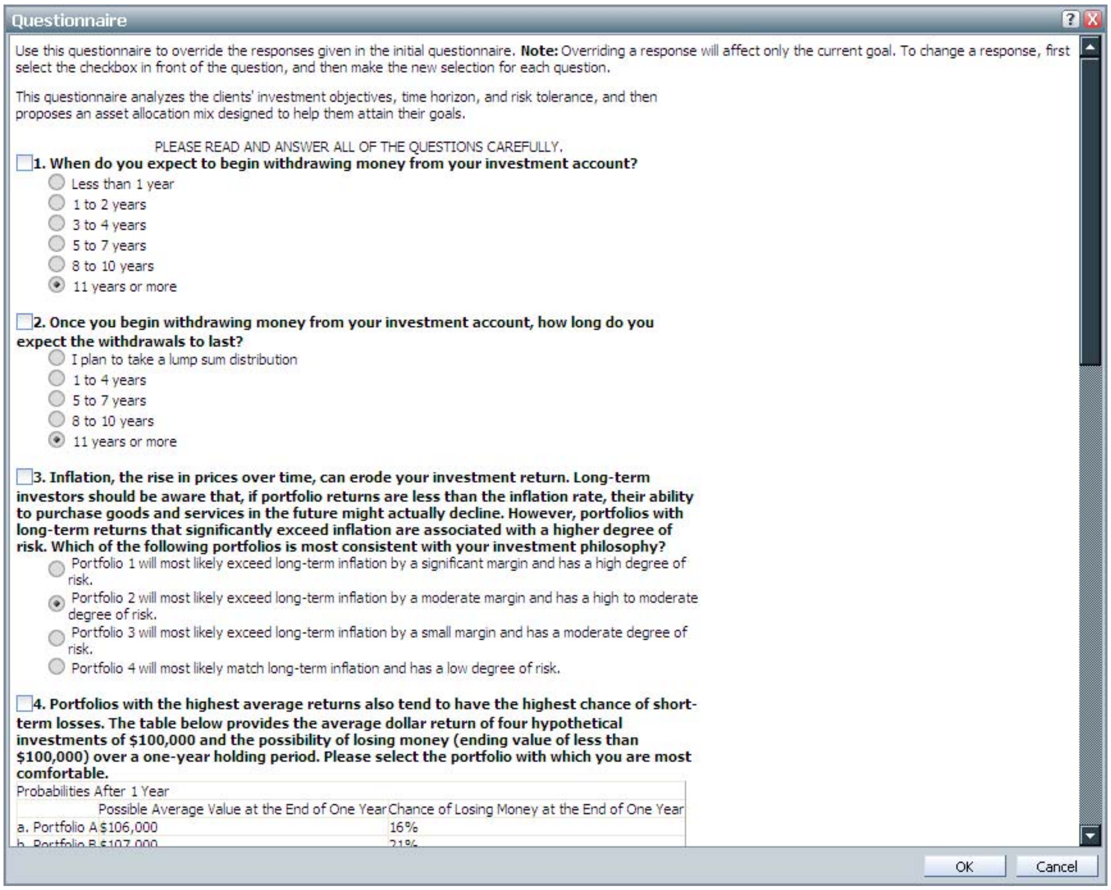


Figure 4: Questionnaire dialog box

3. For each applicable question, select the check box next to a question, and then revise the answer.
4. Click **OK**. The *Questionnaire* dialog box closes. Depending on your answers, the investor profile might change.

5. In the table, select either **529 Education Accounts** or **Non-Qualified Education Accounts**. The *Current Asset Mix* graph updates to reflect the clients' asset mix for the option you selected.
6. Under *Override Profile*, select the **Override Investor Profile** check box, and then select a new investor profile for the clients' education goal.
7. Click **Cancel**.

Note: For more information on how to adjust the asset allocation, see the *Asset Allocation* module.

Allocate your clients' assets to the education goal

There are two methods to define asset funding sources for your clients' education goal:

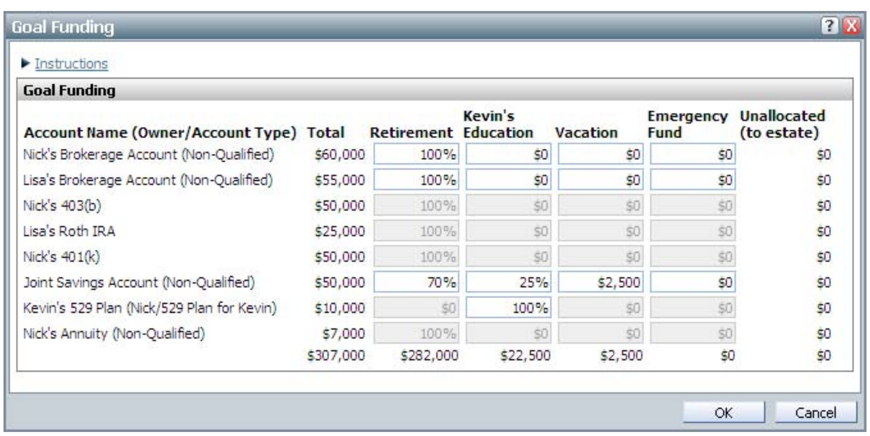
- Using the *Goals* section – *Goal Funding* category – *Goal Funding* page
- Using the *Goal Funding* button on the *Objectives* page

For the purpose of this self-study guide, let's examine the *Goal Funding* button method.

To fund a goal

1. On the *Objectives* page, click the **Goal Funding** button. The *Goal Funding* dialog box opens. In this dialog box, you can determine how much of each asset will fund each of the clients' goals.

Note: Some account types are restricted to specific goals. For example, qualified retirement accounts can only be used to fund the clients' retirement goal. Non-qualified accounts can be used to fund any goal.



Account Name (Owner/Account Type)	Total	Retirement	Kevin's Education	Vacation	Emergency Fund	Unallocated (to estate)
Nick's Brokerage Account (Non-Qualified)	$60,000	100%	$0	$0	$0	$0
Lisa's Brokerage Account (Non-Qualified)	$55,000	100%	$0	$0	$0	$0
Nick's 403(b)	$50,000	100%	$0	$0	$0	$0
Lisa's Roth IRA	$25,000	100%	$0	$0	$0	$0
Nick's 401(k)	$50,000	100%	$0	$0	$0	$0
Joint Savings Account (Non-Qualified)	$50,000	70%	25%	$2,500	$0	$0
Kevin's 529 Plan (Nick/529 Plan for Kevin)	$10,000	$0	100%	$0	$0	$0
Nick's Annuity (Non-Qualified)	$7,000	100%	$0	$0	$0	$0
	$307,000	$282,000	$22,500	$2,500	$0	$0

Figure 5: Goals section – Education category – Objectives page – Goal Funding button – Goal Funding dialog box

The *Goal Funding* dialog box lists all investment assets in rows and the goals in columns.

2. For *Nick's Brokerage Account*, enter **0%** in the *Retirement* column and **25%** in the *Kevin's Education* column. Select an account and enter any mix of dollar amounts, percentages, or the keyword balance to allocate funds to the applicable goals.

   In NaviPlan, you can fund goals in three ways:

   - *Fixed amount* – Enter a fixed dollar value. When a fixed amount is entered, NaviPlan uses only that amount to fund the goal, even when additional funds are available in the account.
   - *Percentage* – Enter a percentage.
   - *Balance* – Enter the keyword **balance**. All remaining unallocated funds in the account are directed to the goal. If *balance* is entered for more than one goal, the remaining balance is distributed equally among those goals.

   When allocating an account across multiple goals and using any of the fixed amount, percentage, and balance options, behind the scenes NaviPlan divides the account into portions for each respective goal. This split is reflected in stand-alone reports and eliminates the need to manually divide an account. Subsequently, any savings for the account will be appropriately distributed among the goals of the account.

   > **Note:** If amounts are assigned to multiple goals and the combined fixed amount, percentage, and balance amounts exceed the value of the account, fixed amounts are funded first and the remaining funds are automatically distributed on a prorata basis.

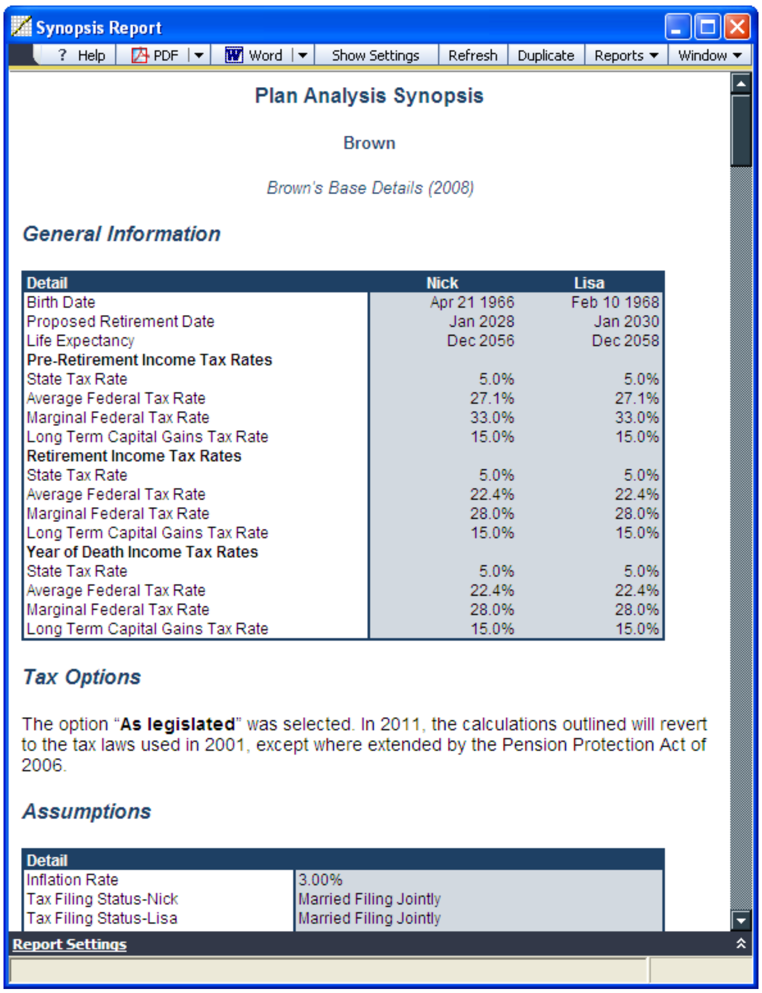
   > **Note:** When an education goal is overfunded, the residuals funding one education goal are not available to other education goals. Residuals from non-qualified accounts are used to fund retirement. Three different account types (non-qualified, 529, and UTMA) can be used to fund education goals. For more information, go to http://knowledge.eisi.com, and then search for *Functional Documents* using the term *Goal residuals in NaviPlan Standard*.

3. Click **Cancel**. Under *Education Accounts*, NaviPlan provides a summary of all accounts that have funds allocated to education goals. Accounts that have not yet been allocated to any specific goal are listed under *Unassigned Accounts*.

Validating the data

Before analyzing a goal or a plan, it's important to make sure the current data is accurate so that NaviPlan's suggestions will be appropriate. There are several ways to verify data:

- *Report* buttons – Use the buttons within categories (e.g., *Cash Flow Report* button on the *Cash Flow* page)
- *Reports* menu – Use various summary reports like the *Current Year Cash Flow* report, the *Net Worth* reports, and the *Synopsis* report, which summarizes almost all data entered. Be sure to select the *Current* setting in the *Assign Settings* dialog box before generating the report.



Plan Analysis Synopsis

Brown

Brown's Base Details (2008)

General Information

Detail	Nick	Lisa
Birth Date	Apr 21 1966	Feb 10 1968
Proposed Retirement Date	Jan 2028	Jan 2030
Life Expectancy	Dec 2056	Dec 2058
Pre-Retirement Income Tax Rates		
State Tax Rate	5.0%	5.0%
Average Federal Tax Rate	27.1%	27.1%
Marginal Federal Tax Rate	33.0%	33.0%
Long Term Capital Gains Tax Rate	15.0%	15.0%
Retirement Income Tax Rates		
State Tax Rate	5.0%	5.0%
Average Federal Tax Rate	22.4%	22.4%
Marginal Federal Tax Rate	28.0%	28.0%
Long Term Capital Gains Tax Rate	15.0%	15.0%
Year of Death Income Tax Rates		
State Tax Rate	5.0%	5.0%
Average Federal Tax Rate	22.4%	22.4%
Marginal Federal Tax Rate	28.0%	28.0%
Long Term Capital Gains Tax Rate	15.0%	15.0%

Tax Options

The option "**As legislated**" was selected. In 2011, the calculations outlined will revert to the tax laws used in 2001, except where extended by the Pension Protection Act of 2006.

Assumptions

Detail	
Inflation Rate	3.00%
Tax Filing Status-Nick	Married Filing Jointly
Tax Filing Status-Lisa	Married Filing Jointly

Figure 6: Reports menu – Summary – Synopsis report

- *Planning Assistant* – Use the *Planning Assistant* to perform checks on data in the plan and notify you if the data falls outside typical ranges.

The following list includes common data-entry errors to look for:

- Spelling of names
- Birth date
- Index rates
- Asset valuations
- Dates

Create and compare various What-if scenarios

In most plans, the clients' current financial resources are not sufficient to meet their goals. NaviPlan allows you to create, compare, and manage What-if scenarios within a plan. These What-if scenarios include additional assumptions and strategies which assist you in finding an optimal solution to meet your clients' goals.

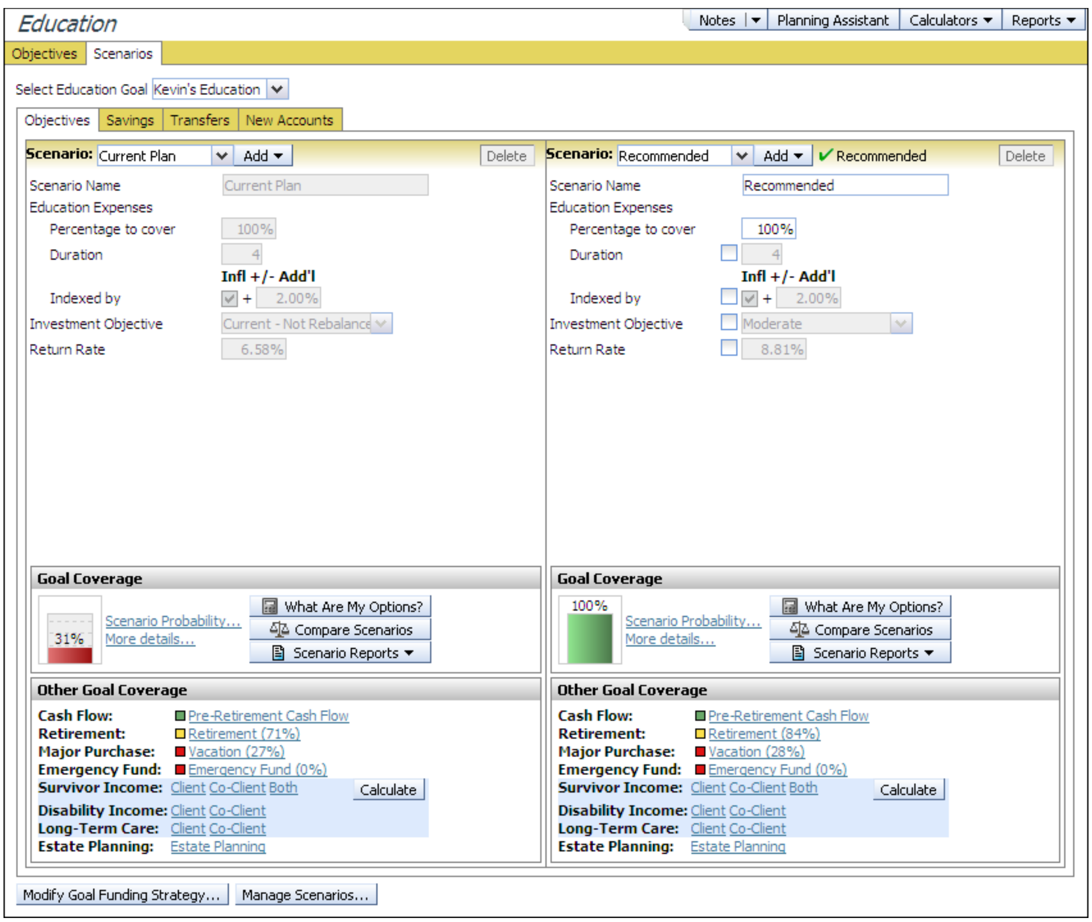


Figure 7: Goals section – Education category – Scenarios page – Objectives tab

View the Scenarios page layout

- *Select Education Goal* list – Select the goal for which you want to compare and manage scenarios.

Left side	Right side
Contains the *Current Plan* scenario	Contains the *Recommended* scenario
By default it provides read-only details. It includes specifically defined education expenses, and assumes the current rate of return on existing assets and existing savings.	System-generated second scenario is a copy of the *Current Plan* scenario, with the effects of reallocation to the suggested asset mix and new rate of return.

- *Objectives* tab – Change basic goal details
  - *Education Expenses* – Change the *Percentage to cover* or the *Duration* in the *Recommended* scenario
  - *Indexed by Infl +/- Add'l* – Change the inflation rate
  - *Investment Objective* – Change the investor profile for education accounts as well as the specific rate of return
  - *Return Rate* – Used to override the return rate associated with the goal

    Note: You must have the *Override Return Rates* permission to override the return rate
  - *Goal Coverage* – Shows the plan's overall ability to cover education expenses for the specified education goal (red represents < 64%, yellow represents 65 – 90%, and green represents > 90%)
- *Savings* tab – Capture savings strategies to new or existing accounts
- *Transfers* tab – Create a transfer strategy between accounts

Note: Dependent-owned education accounts will appear in the list for the owner of the expense.

- *New Accounts* – Enter a brand new education-specific account (e.g., UTMA or 529 plan) or a non-qualified account to assist in education goal funding

Add a new scenario

If asset reallocation alone does not solve the goal, you could add a new scenario for comparison, or build on the existing one.

To add a new scenario

1. On the *Savings* tab, click the **Add** button on the right side. The following four options are available:
   - *New* – Allows you to create a copy of the *Current Plan* scenario
   - *Copy of <scenario name>* – Allows you to create a copy of the existing scenario

- *Predefined Scenarios* – Allows you to access a list of predefined scenarios
- *Manage Scenarios* – Allows you to manage a list of all scenarios created in the plan

2. Select **Predefined Scenarios**. The *Add Predefined Scenarios* dialog box opens. In this dialog box you can quickly create common scenarios.

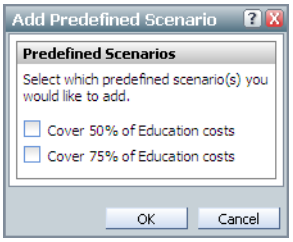


Figure 8: Add Predefined Scenarios dialog box

3. Click **Cancel**.
4. For the right-hand scenario, click **Add**, and then select **New**. NaviPlan creates a new scenario. If the clients' funding of the education goal is insufficient, the *Goal Coverage* graphs for both the left and right scenarios should not be 100%.
5. In the *Scenario Name* field, enter **Recommended AA and Strategies**.

> **Note:** To recommend a new scenario, click the **Recommend Scenario** button.

6. Select the **Investment Objective** check box. A message appears asking you to confirm your selection.
7. Click **OK**, and then select **Moderate Aggressive**.

> **Note:** Modifying the *Investment Objective* for a *Recommended* scenario will affect the goal coverage for the scenario.

8. Click the **What Are My Options?** button. The *What Are My Options?* dialog box opens. In this dialog box, any one of the listed options, except *Continue Planning*, will meet the goal coverage at 100%.

> **Note:** Any savings listed in the *What Are My Options?* dialog box are in addition to those already entered in the plan, and are assumed to continue.

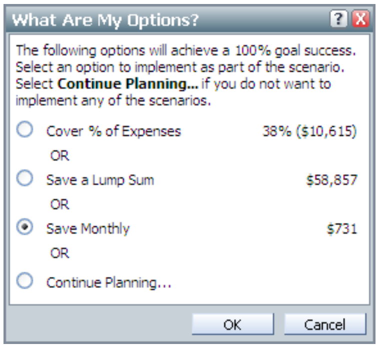


Figure 9: What Are My Options? dialog box

9. Select **Save Monthly**, and then click **OK**. NaviPlan applies the selected option to the scenario and goal coverage changes to 100%. When *Save a Lump Sum* or *Save Monthly* is selected, NaviPlan saves the amount to a system-generated non-qualified account using the rate of return displayed for the scenario on the *Objectives* tab. Since *Save Monthly* is selected, NaviPlan begins savings based on the *Plan Analysis Date* field on the *Plan Management* section – *Modules* category – *Modules* page. The savings end on December 31 of the second-last year of the education goal.

Create savings strategies

With NaviPlan Standard, you can apply multiple strategies into a scenario such as

- Reallocating assets
- Changing the goal duration and the savings start date
- Reducing or increasing goal expenses
- Increasing savings (lump sum or monthly)
- Modifying inflation on expenses and savings

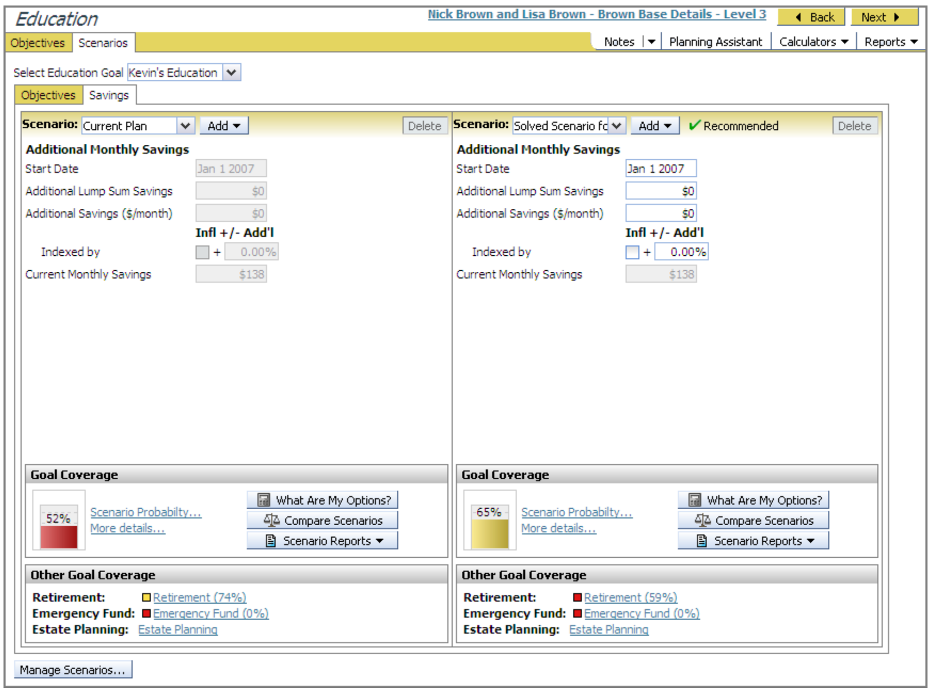


Figure 10: Goals section – Education category – Scenarios page – Savings tab

Additional Monthly Savings on the Savings tab

- *Start Date* – Enter the start date of additional monthly savings.

> **Note:** By default, NaviPlan starts savings in the same month as the plan analysis date, providing the plan analysis date is the first day of the month. For example, if the plan analysis date is Feb. 1, savings start Feb. 1. If the plan analysis date is Feb. 2 or later, the savings begin on the first day of the following month (March 1).

- *Additional Lump Sum Savings* – Enter an additional lump-sum savings amount to be included as part of the analysis. The funds are invested in a hypothetical account earning the suggested asset mix return.

- *Additional Savings ($/month)* – Enter an additional monthly savings amount to be included as part of the analysis. This amount is in addition to the current monthly savings. The funds are invested in a hypothetical account earning the suggested asset mix return.
- *Indexed by Infl +/- Add'l* – Select **Infl** to index the item to the default rate of inflation. The total rate can be adjusted using the *Add'l* field.
- *Current Monthly Savings* – Use to display the current monthly savings being made towards the education goal. This field cannot be edited.
- *Total Monthly Savings* – Use to display the total of current and recommended additional monthly savings being made towards the education goal. This field cannot be edited.

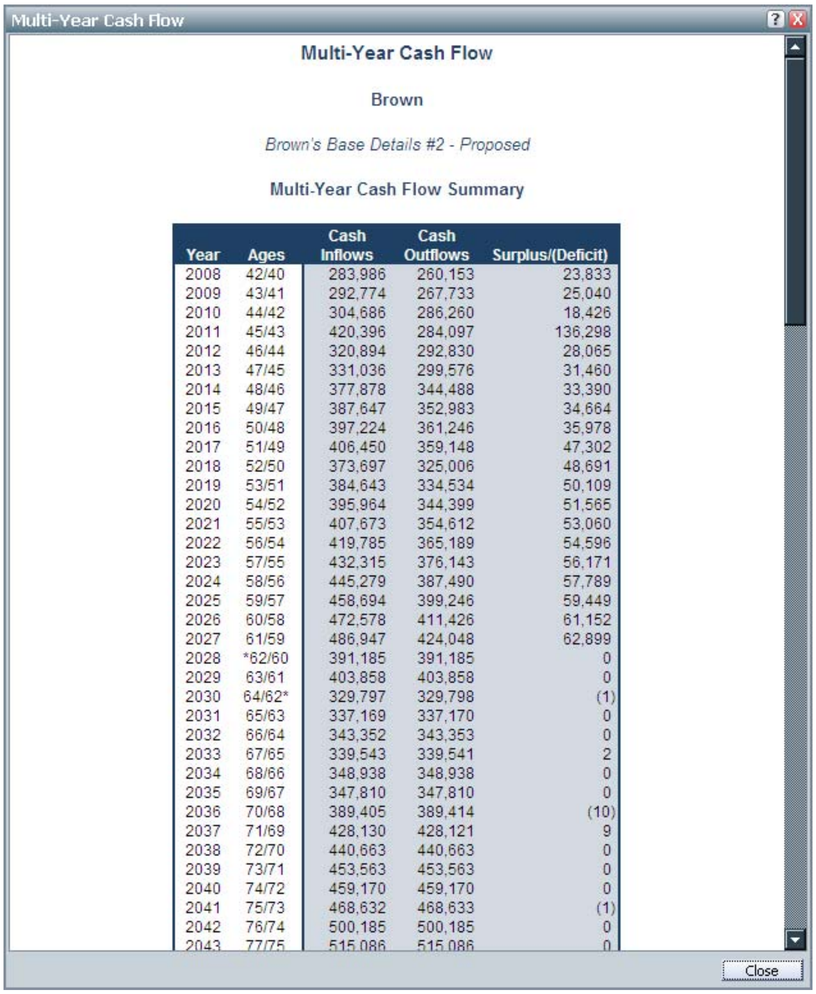
> **Note:** If the start date does not occur on the 1st of a given month, NaviPlan defers the savings to the following month.

Generate scenario reports

On the *Scenarios* page, you can quickly access reports that include the strategies you created for the scenario.

To generate the Multi-Year Cash Flow report for the scenario

1. On the *Scenarios* page, click the **Scenario Reports** button, and then select **Multi-Year Cash Flow**. The *Multi-Year Cash Flow* dialog box opens, displaying the *Multi-Year Cash Flow* report.



Multi-Year Cash Flow

Brown

Brown's Base Details #2 - Proposed

Multi-Year Cash Flow Summary

Year	Ages	Cash Inflows	Cash Outflows	Surplus/(Deficit)
2008	42/40	283,986	260,153	23,833
2009	43/41	292,774	267,733	25,040
2010	44/42	304,686	286,260	18,426
2011	45/43	420,396	284,097	136,298
2012	46/44	320,894	292,830	28,065
2013	47/45	331,036	299,576	31,460
2014	48/46	377,878	344,488	33,390
2015	49/47	387,647	352,983	34,664
2016	50/48	397,224	361,246	35,978
2017	51/49	406,450	359,148	47,302
2018	52/50	373,697	325,006	48,691
2019	53/51	384,643	334,534	50,109
2020	54/52	395,964	344,399	51,565
2021	55/53	407,673	354,612	53,060
2022	56/54	419,785	365,189	54,596
2023	57/55	432,315	376,143	56,171
2024	58/56	445,279	387,490	57,789
2025	59/57	458,694	399,246	59,449
2026	60/58	472,578	411,426	61,152
2027	61/59	486,947	424,048	62,899
2028	*62/60	391,185	391,185	0
2029	63/61	403,858	403,858	0
2030	64/62*	329,797	329,798	(1)
2031	65/63	337,169	337,170	0
2032	66/64	343,352	343,353	0
2033	67/65	339,543	339,541	2
2034	68/66	348,938	348,938	0
2035	69/67	347,810	347,810	0
2036	70/68	389,405	389,414	(10)
2037	71/69	428,130	428,121	9
2038	72/70	440,663	440,663	0
2039	73/71	453,563	453,563	0
2040	74/72	459,170	459,170	0
2041	75/73	468,632	468,633	(1)
2042	76/74	500,185	500,185	0
2043	77/75	515,086	515,086	0

Figure 11: Multi-Year Cash Flow dialog box – Multi-Year Cash Flow report

Three tables are included in the report:

- *Summary* – Displays cash inflows, outflows, surpluses, and deficits. This table should be used to quickly view the total annual effect of the scenario strategies on the plan cash flow.

- *Inflows Summary* – Provides a breakdown of inflows by major category to help identify reasons for the patterns you may see in the first table.
- *Outflows Summary* – Provides a breakdown of outflows by major category to help identify reasons for the patterns you may see in the first table.

2. Click **Close**. The dialog box closes.

View other goal coverage

For the left and right scenarios, you can determine immediately whether other goals are adequately funded by examining the *Goal Coverage* colors under *Other Goal Coverage*. To determine whether additional savings are affordable, you can check the clients' pre-retirement cash flow (green is adequate; red indicates deficits of $100 or greater have occurred).

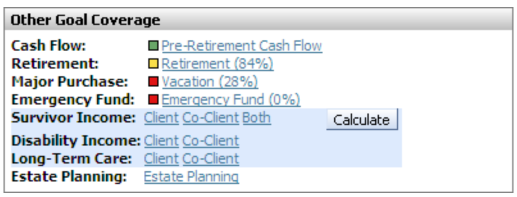


Figure 12: Other Goal Coverage

Manage scenarios

In the *Manage Scenarios* dialog box, you can create, duplicate, and control all scenarios. You can also view goal coverage and mark one scenario as *Recommended*.

To duplicate a scenario

1. On the *Scenarios* page, click the **Manage Scenarios** button. The *Manage Scenarios* dialog box opens.

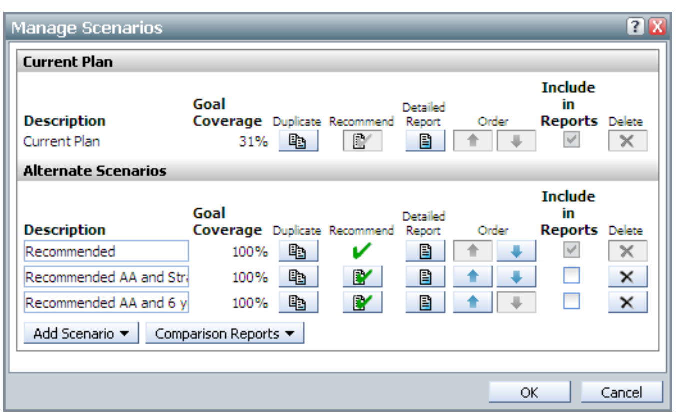


Figure 13: Manage Scenarios dialog box

2. For *Recommended AA and Strategies*, click the **Duplicate** button. NaviPlan creates a copy of the scenario.
3. Rename the new scenario to **Recommended AA and 6 years**, and then click **OK**. The dialog box closes.
4. On the right side of the window, from the *Scenario* list, select **Recommended AA and 6 Years**.
5. On the *Objectives* tab, select the **Duration** check box, and then enter **6**. The *Goal Coverage* graph updates to reflect the increased duration.
6. Go to the **Savings** tab, and then click the **What Are My Options?** button. The *What Are My Options?* dialog box opens.
7. Select **Save a Lump Sum**, and then click **OK**. The dialog box closes and the *Goal Coverage* graph shows 100%.

Compare scenarios

Click the **Compare Scenarios** button to open the *Compare Scenarios* dialog box – *Detailed Comparison* tab. The information presented here identifies key assumptions for each scenario, goal funding, and includes an interactive surplus/deficit graph. Clicking anywhere on the graph provides more details about the item that was clicked.

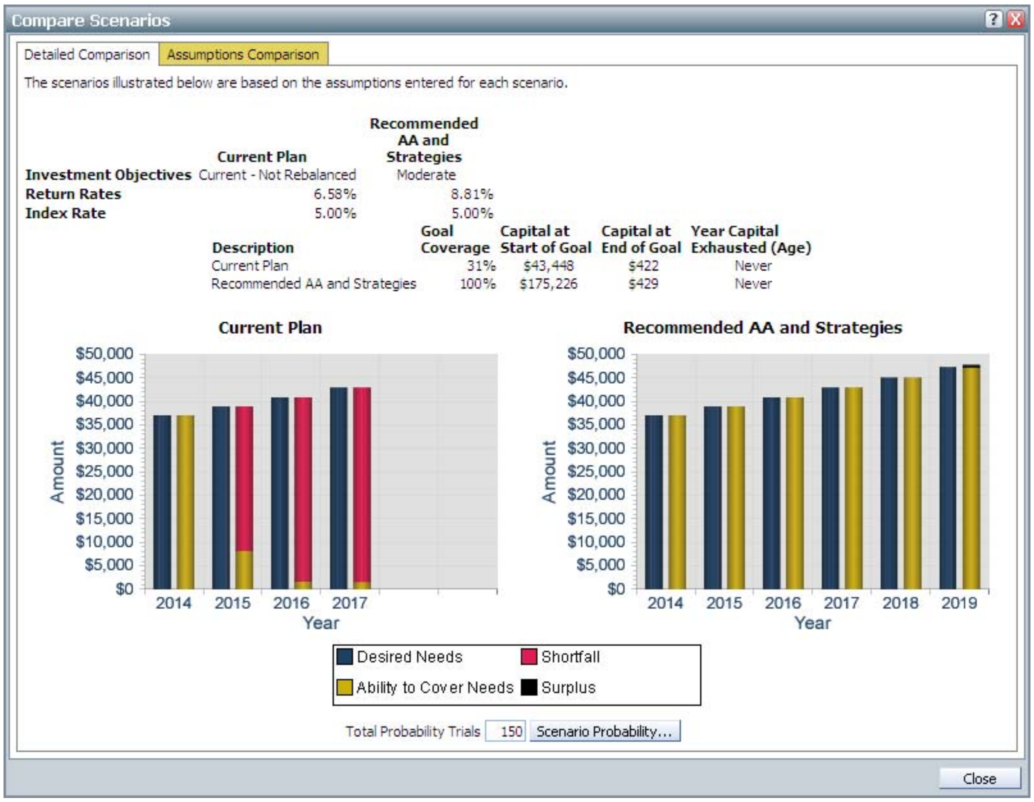


Figure 14: Goals section – Education category – Scenarios page – Savings tab – Compare Scenarios button – Compare Scenarios dialog box – Detailed Comparison tab

Recommend a scenario

After building several strategies, you may want to change your *Recommended* scenario. Out of all the scenarios, you will mark only one scenario as *Recommended* to present to the client.

To recommend a scenario

1. On the right-side of the *Scenarios* page, from the *Scenario* list, select **Recommended AA and Strategies**.
2. Click the **Recommend Scenario** button. A check mark appears, to indicate that the scenario will be included in the recommended plan.

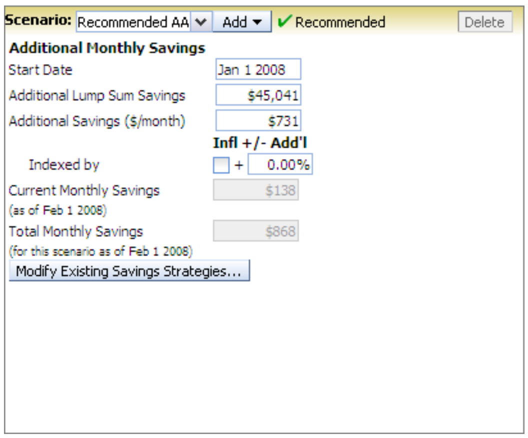


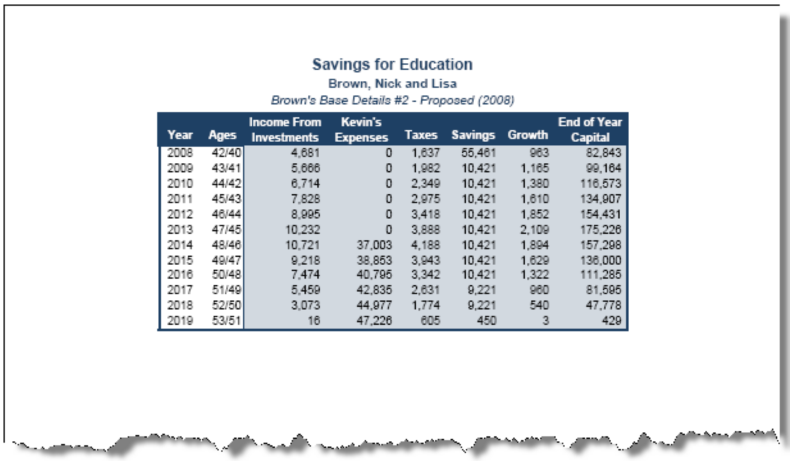
Figure 15: Scenario marked as Recommended

Generate and view reports

Once you recommend a scenario, the strategies in the scenario will apply to any *Recommended* reports. Lets look at several reports to view the education goal results.

Generate the Savings for Education report

The *Savings for Education* report shows the accumulation and dispersal of education savings.



Savings for Education
Brown, Nick and Lisa
Brown's Base Details #2 - Proposed (2008)

Year	Ages	Income From Investments	Kevin's Expenses	Taxes	Savings	Growth	End of Year Capital
2008	42/40	4,681	0	1,637	55,461	963	82,843
2009	43/41	5,666	0	1,982	10,421	1,165	99,164
2010	44/42	6,714	0	2,349	10,421	1,380	116,573
2011	45/43	7,828	0	2,975	10,421	1,610	134,907
2012	46/44	8,995	0	3,418	10,421	1,852	154,431
2013	47/45	10,232	0	3,888	10,421	2,109	175,226
2014	48/46	10,721	37,003	4,188	10,421	1,894	157,298
2015	49/47	9,218	38,853	3,943	10,421	1,629	136,000
2016	50/48	7,474	40,795	3,342	10,421	1,322	111,285
2017	51/49	5,459	42,835	2,631	9,221	960	81,595
2018	52/50	3,073	44,977	1,774	9,221	540	47,778
2019	53/51	16	47,226	605	450	3	429

Figure 16: Reports menu – Goals – Savings – Education Savings Report – Savings for Education report

To generate the report

1. Go to the **Reports** menu, and then select **Goals** – **Savings** – **Education Savings Report**. The *Assign Settings* dialog box opens. This dialog box is available for all reports and graphs. The following options are available:
   - *Current* – Analyzes the information in the plan, including all Current Plan scenarios for each goal
   - *Recommended* – Analyzes the information in the plan, including all Recommended scenarios for each goal

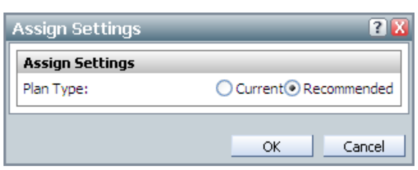


Figure 17: Assign Settings dialog box

2. Select **Recommended**, and then click **OK**. The *Savings for Education* report is generated and displayed.

Report Details

- *Year* – The years included in the projection.
- *Ages* – The age of the client and co-client.

- *Income From Investments* – Value of the investment income from linked assets that is applied to education funding.
- *<family member's> Expenses* – Expenses are listed for each family member that is assigned an education goal. The report lists the yearly expense that is associated with each goal for the displayed year. For example, if an annual education goal takes effect in 2010, all the years prior to 2010 will read $0.00.
- *Taxes* – Taxes paid on the investment income.
- *Savings* – The total savings currently made towards this goal. These are savings for education funding accounts that were entered in the *Strategies* category, and additional savings from the *Scenarios* page – *Savings* tab. As well, their total can consist of savings records for multiple assets.
- *Growth* – Capital growth due to interest income.
- *End of Year Capital* – The accumulated capital for the assets linked to this goal. This total is a combination of the savings made towards the linked education assets, and their yearly growth based on those assets' return rates.

Generate the Current Year Cash Flow report

This report provides a detailed and comprehensive breakdown of all cash inflows and outflows expenses for the client and co-client for the selected year.

Current Year Cash Flow Report
Brown
Brown's Base Details (2008)

Cash Inflows		
Regular Income:		
Nick's Salary (Nick)	$130,000	
Lisa's Salary (Lisa)	$105,000	
Total Regular Income	**$235,000**	
Investment Income:[1]		1.
Joint Savings Account (Non-Qualified)	$2,263	Investment Income
500 Smith Street (Joint/Real Estate)	$36,000	
Lisa's Brokerage Account (Non-Qualified)	$3,372	
Nick's Brokerage Account (Non-Qualified)	$3,564	
Total Investment Income[1]	**$45,199**	
Total Cash Inflows	**$280,199**	
Cash Outflows		
Lifestyle Expenses:		
Housing (e.g. utilities, repairs)	$30,000	
Food	$15,000	
Transportation (e.g. gas, insurance)	$18,000	
Entertainment (e.g. restaurants, movies)	$12,000	
Personal (e.g. clothing, hobbies)	$9,000	
Other (e.g. child care, travel)	$24,000	
Total Lifestyle Expenses	**$108,000**	
Taxes:		
Federal Taxes	$67,088	
State Taxes	$13,051	
Social Security Tax - employment	$12,648	
Medicare Tax - employment	$3,408	
Property Taxes Paid	$1,000	
Total Taxes	**$97,194**	
Loan Payments (principal/interest):		
123 Home Street Mortgage (Joint)	$14,400	
Credit Card Loan (Joint)	$3,000	
Total Loan Payments (principal/interest)	**$17,400**	
Savings Allocated to Goals:		
Retirement:		
70% of Joint Savings Account (Non-Qualified)	$1,260	
Lisa's Roth IRA	$3,600	
Nick's 403(b)	$6,000	
Total Retirement Savings	**$10,860**	
Kevin's Education:		2.
25% of Joint Savings Account (Non-Qualified)	$450	Savings Allocated to Goals
Kevin's 529 Plan (Nick/529 Plan for Kevin)	$1,200	
Total Kevin's Education Savings	**$1,650**	
Vacation:		
$2.5K of Joint Savings Account (Non-Qualified)	$90	
Total Vacation Savings	**$90**	
Life Insurance:		
Lisa's Group Insurance (Nick/Term 10 Life)	$300	
Nick's Group Insurance (Other/Term 10 Life)	$300	
Total Life Insurance Premiums	**$600**	
Disability Insurance:		
Policy Premiums	$4,500	
Total Disability Insurance Premiums	**$4,500**	
Total Savings Allocated to Goals	**$17,700**	
Reinvestments Allocated to Goals:		
Retirement:		
70% of Joint Savings Account (Non-Qualified)	$1,083	
Lisa's Brokerage Account (Non-Qualified)	$2,324	
Nick's Brokerage Account (Non-Qualified)	$2,518	
Total Retirement Reinvestments	**$5,926**	
Kevin's Education:		3.
25% of Joint Savings Account (Non-Qualified)	$387	Reinvestments Allocated to Goals
Total Kevin's Education Reinvestments	**$387**	
Vacation:		
$2.5K of Joint Savings Account (Non-Qualified)	$77	
Total Vacation Reinvestments	**$77**	
Total Reinvestments Allocated to Goals	**$6,390**	
Long-Term Care Expenses:		
Long-Term Care Policy Premiums	$900	
Total Long-Term Care Expenses	**$900**	
Total Cash Outflows	**$247,584**	
Current Surplus (Deficit)	**$32,615**	
Previous Surplus (Deficit)	**$0**	
New Surplus (Deficit)	**$32,615**	

Figure 18: Reports menu – Cash Flow – Current Year Cash Flow Report – Current Year Cash Flow report

In terms of the education goal, there are three parts to look at in this report:

1. *Investment Income – <goal name> Fund* – If you reallocated and/or applied additional savings, you will see contributions to a new hypothetical account producing income (e.g., Kevin's Education Fund (joint non-qualified))
2. *Savings Allocated to Goals – <goal name> Fund* – If you applied savings, the savings would go into the asset as an outflow
3. *Reinvestments Allocated to Goals – <goal name> Fund* – After tax value of investment income is reinvested automatically to the goal asset

Enter an asset or expense as a major purchase goal

On the *Goals* section – *Major Purchase* category – *Objectives* page, you can classify a major purchase objective as either an asset or an expense. For major purchase assets, NaviPlan ensures that the acquisition of the asset is incorporated into net worth at a future point in time. For major purchase expenses (e.g., a wedding or world tour), you can model the cash flow implications of the major purchase without recognizing the purchase as an asset for net worth tracking. In reports, major purchases appear based on the target date of the purchase.

The following asset types are available to model the major purchase:

- *Residence*
- *2nd Residence*
- *Personal use property*
- *Vehicle*
- *Other personal assets*
- *Real Estate*

You can create an unlimited number of What-if scenarios on the *Scenarios* page for major purchase goals. You can model strategies such as changing asset allocation, saving to new or existing accounts, transferring accounts, and creating new accounts.

Create an asset-based major purchase goal

When a major purchase goal is an asset-based purchase, the asset appears on the *Financial Picture* section – *Net Worth* category – *Assets/Liabilities* page as a read-only asset. Report projections include the major purchase goal in the plan as an attained asset as of the goal's target date.

> **Hint:** For down payments on assets, the down payment should be added as a major purchase asset.

To create an asset-based major purchase goal

1. Go to the **Goals** section – **Major Purchase** category – **Objectives** page.

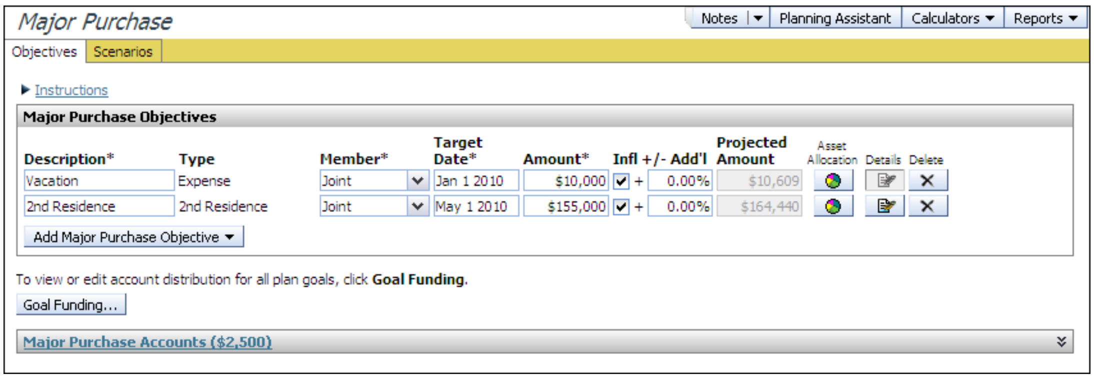


Figure 19: Goals section – Major Purchase category – Objectives page

2. Click the **Add Major Purchase Objective** button, and then select **2nd Residence**. Under *Major Purchase Objectives*, a new data-entry row appears.
3. In the *Target Date* and *Amount* fields, enter **May 1 2010** and **$155,000** respectively.
4. Click the **Details** button. The *Major Purchase Objective Details* dialog box opens.

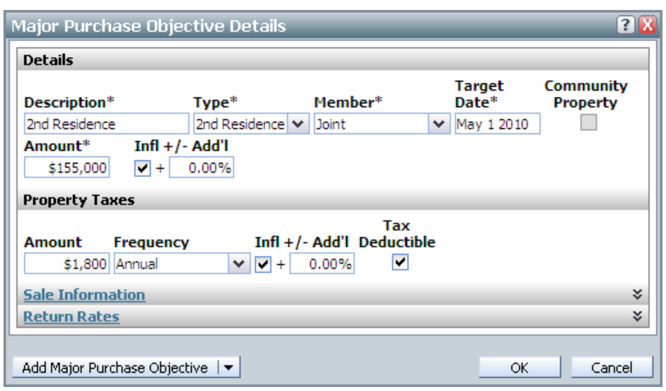


Figure 20: Major Purchase Objective Details dialog box

5. Under *Property Taxes*, in the *Amount* field, enter **$1,800**.

6. Click **OK**. The dialog box closes.

View major purchase assets in net worth reports

Major purchase assets appear in net worth reports as of the target date entered for that asset.

Net Worth Detailed as of June
Brown
Brown's Base Details (2010)

	Nick	Lisa	Joint	Community Property	Total
Non-Qualified Assets					
500 Smith Street			1,086,847		1,086,847
Nick's Brokerage Account	70,081				70,081
Lisa's Brokerage Account		64,164			64,164
Joint Savings Account			58,323		58,323
Total Non-Qualified Assets	**70,081**	**64,164**	**1,145,170**		**1,279,415**
Non-Qualified Annuities					
Nick's Annuity (Gen. Acct.)	7,000				7,000
Total Non-Qualified Annuities	**7,000**				**7,000**
Qualified Assets					
Nick's 401(k)	58,982				58,982
Nick's 403(b)	87,419				87,419
Kevin's 529 Plan	14,855				14,855
Lisa's Roth IRA		37,162			37,162
Total Qualified Assets	**161,255**	**37,162**			**198,417**
Lifestyle Assets					
123 Home Street			314,721		314,721
2nd Residence			164,712		164,712
Lisa's Pathfinder			41,963		41,963
Nick's BMW			41,963		41,963
Total Lifestyle Assets			**563,358**		**563,358**
Total Assets	**238,336**	**101,326**	**1,708,528**		**2,048,190**
Liabilities					
123 Home Street Mortgage			(169,357)		(169,357)
Credit Card Loan			(7,434)		(7,434)
Total Liabilities			**(176,791)**		**(176,791)**
Total Net Worth	238,336	101,326	1,531,737		1,871,399

Figure 21: Net Worth Detailed as of June report

To generate the Net Worth Detailed as of June report

1. Go to the **Reports** menu, and then select **Net Worth – Detailed – Net Worth Detailed as of June**. The *Assign Settings* dialog box opens.

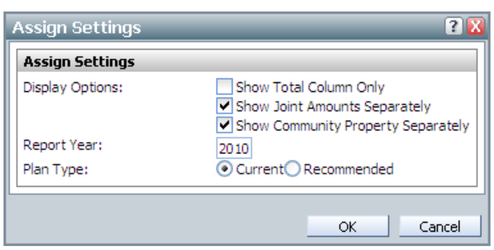


Figure 22: Assign Settings dialog box

2. In the *Report Year* field, enter **2010**.
3. Select **Current**, and then click **OK**. The *Net Worth Detailed as of June* report is generated and displayed.

Evaluate relevant output pages in client reports

Using the F*inancial Needs Summary* and *Financial Needs Analysis* client reports, you can compare the current and recommended plan.

The *Financial Needs Summary* client report provides an overview of the clients' current financial position and whether the clients' goals are being met.

The *Financial Needs Analysis* client report includes the same information as the *Financial Needs Summary,* and adds a comprehensive analysis of the plan and supporting tables and reports with projections of year-over-year results for the current and recommended plan.

The *Financial Needs Analysis* client report is best suited for very detail-oriented clients and for comparing scenarios that have fluctuating needs over time.

Generate the Financial Needs Summary report

You can generate client reports on the *Results* section – *Client Reports* category – *Client Report* page.

To generate the Financial Needs Summary client report

1. Go to the **Results** section – **Client Reports** category – **Client Report** page.
2. For the *Financial Needs Summary* report, click the **Select Document Sections** button. The *Select Document Sections* dialog box opens.

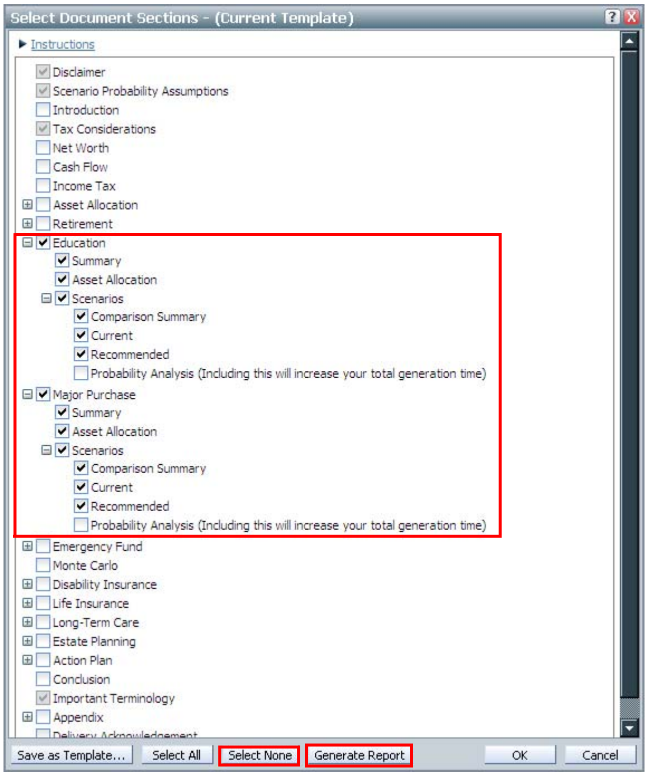
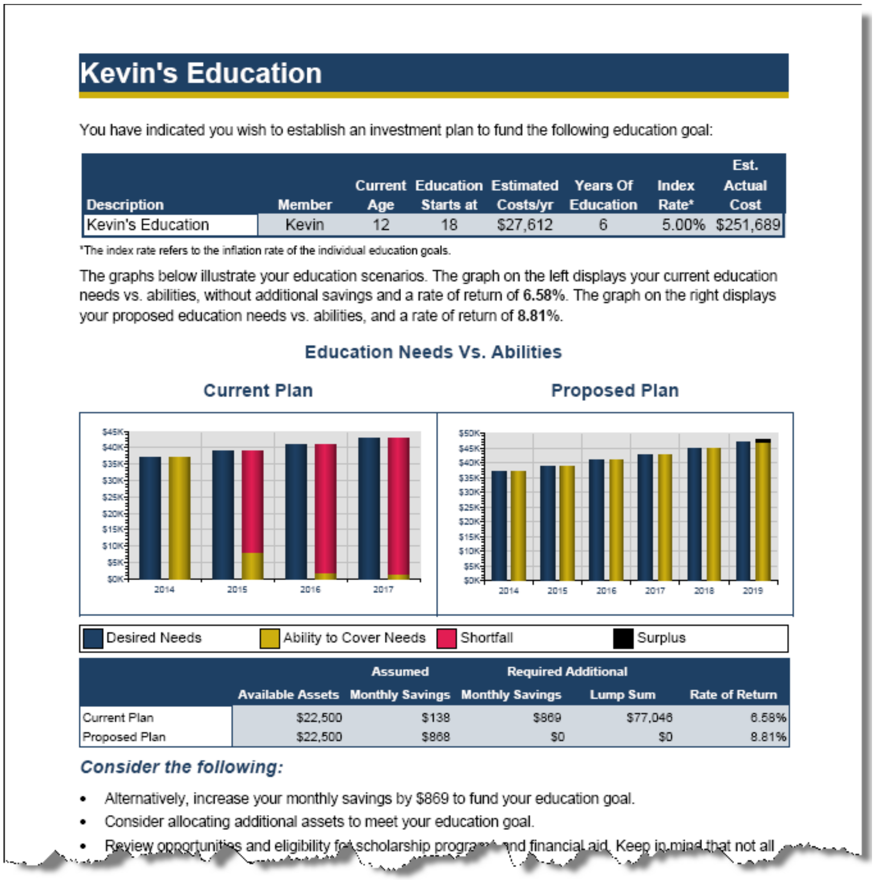


Figure 23: Results section – Client Reports category – Client Report page – Select Document Sections button – Select Document Sections dialog box

3. Click **Select None**, and then select all the education and major purchase sections, except for *Probability Analysis*. (**Note:** See the *Monte Carlo Sensitivity Analysis* module for more information on probability analysis.)
4. Click **Generate Report**. The *Financial Needs Summary* client report is generated and displayed.

Kevin's Education



Kevin's Education

You have indicated you wish to establish an investment plan to fund the following education goal:

Description	Member	Current Age	Education Starts at	Estimated Costs/yr	Years Of Education	Index Rate*	Est. Actual Cost
Kevin's Education	Kevin	12	18	$27,612	6	5.00%	$251,689

*The index rate refers to the inflation rate of the individual education goals.

The graphs below illustrate your education scenarios. The graph on the left displays your current education needs vs. abilities, without additional savings and a rate of return of **6.58%**. The graph on the right displays your proposed education needs vs. abilities, and a rate of return of **8.81%**.

Education Needs Vs. Abilities

		Assumed	Required Additional		
	Available Assets	Monthly Savings	Monthly Savings	Lump Sum	Rate of Return
Current Plan	$22,500	$138	$869	$77,046	6.58%
Proposed Plan	$22,500	$868	$0	$0	8.81%

Consider the following:

- Alternatively, increase your monthly savings by $869 to fund your education goal.
- Consider allocating additional assets to meet your education goal.
- Review opportunities and eligibility for scholarship programs and financial aid. Keep in mind that not all

Figure 24: Financial Needs Summary client report – Kevin's Education

Kevin's Education – This is a summary page that graphically shows the needs versus abilities of the current and proposed plans. The scenario selected as *Recommended* on the *Scenarios* page represents the proposed plan for client reports. Notice in the graph that the current plan is falling short of covering needs, and how the proposed plan meets the needs because it has strategies to improve the situation.

The *Financial Objectives* table summarizes key objectives such as the goal start and end dates, goal value, savings, and return rate.

Kevin’s Education Scenario Summary

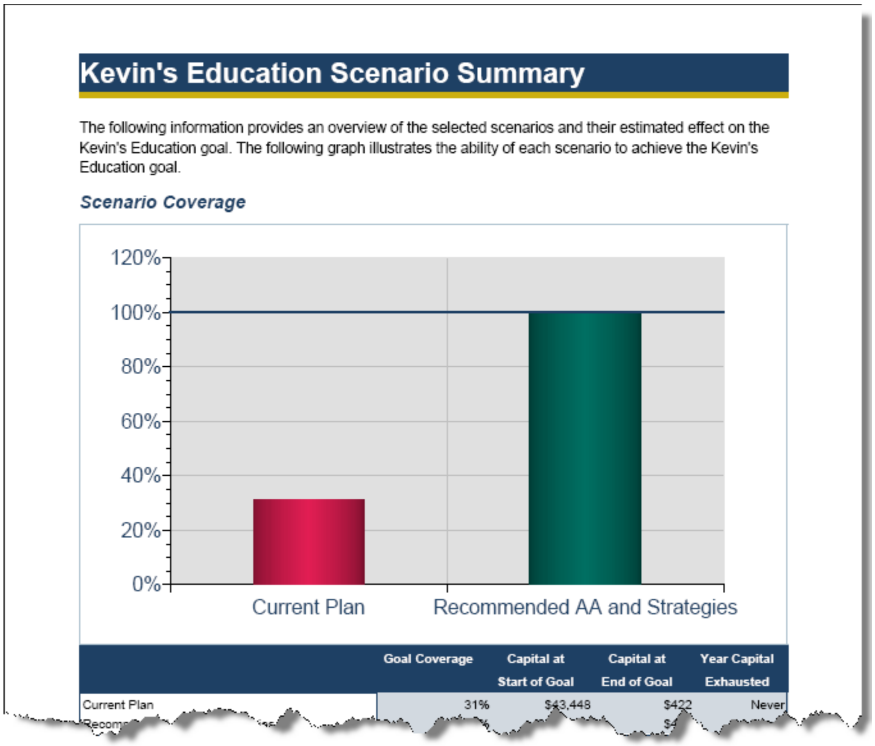


Figure 25: Financial Needs Summary client report – Kevin’s Education Scenario Summary

The graph shows the goal coverage of all the scenarios included in the plan, and shows the relative strength of each scenario. Up to four scenarios can be included in the report using the *Manage Scenarios* button on the *Scenarios* page. The *Current Plan* and *Recommended* scenarios must be included.

The bottom table shows the key results of each scenario.

Vacation Scenario Summary

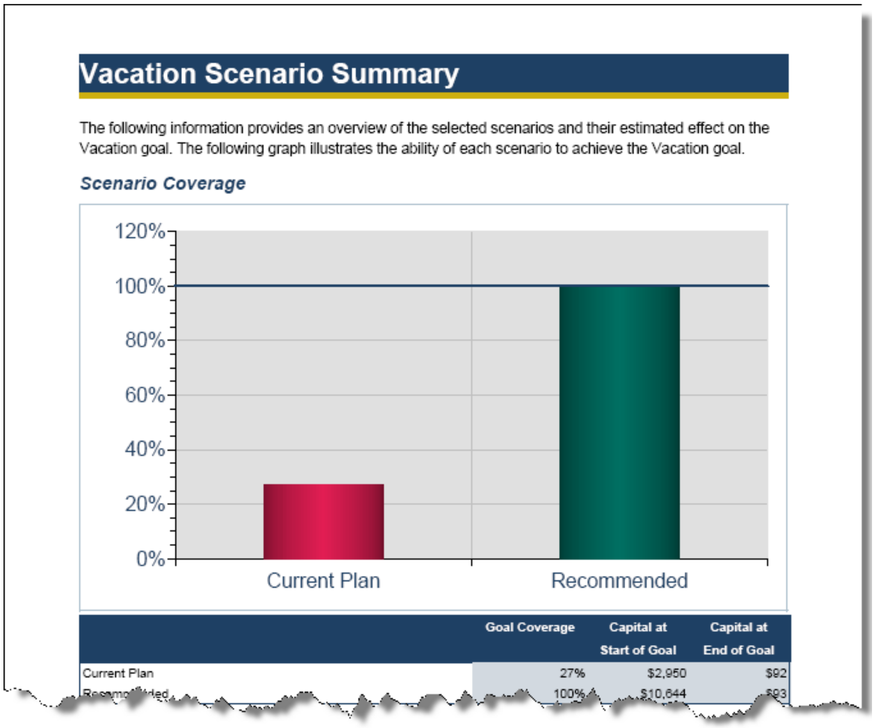
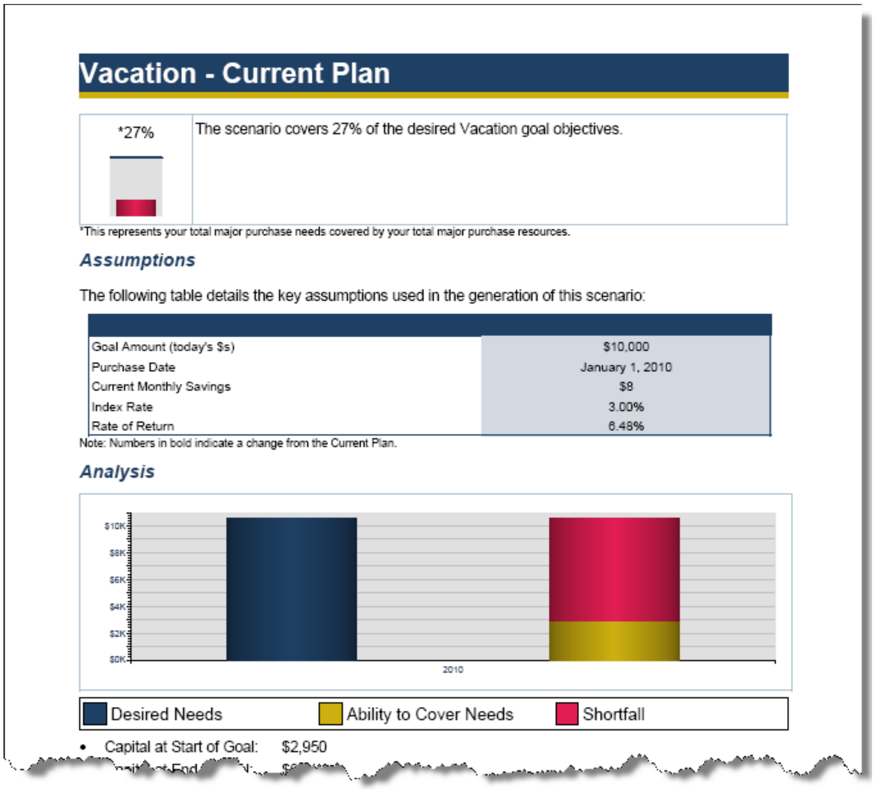


Figure 26: Financial Needs Summary client report – Vacation Scenario Summary

The graph shows the goal coverage of all the major purchase scenarios in the plan, and shows the relative strength of each scenario. The report sections for education and major purchase goals are similar.

Vacation - Current Plan



Vacation - Current Plan

*27%

The scenario covers 27% of the desired Vacation goal objectives.

*This represents your total major purchase needs covered by your total major purchase resources.

Assumptions

The following table details the key assumptions used in the generation of this scenario:

Goal Amount (today's $s)	$10,000
Purchase Date	January 1, 2010
Current Monthly Savings	$8
Index Rate	3.00%
Rate of Return	6.48%

Note: Numbers in bold indicate a change from the Current Plan.

Analysis

- Capital at Start of Goal: $2,950

Figure 27: Financial Needs Summary client report – Vacation - Current Plan

The <*goal*> - *Current Plan* report section isolates the *Current Plan* scenario for the goal, and reports the starting and ending capital balance for the goal, the goal amount, purchase date, and monthly savings.

Vacation - Recommended

Vacation - Recommended (Recommended)

*100%

The scenario covers 100% of the desired Vacation goal objectives.

*This represents your total major purchase needs covered by your total major purchase resources.

Assumptions

The following table details the key assumptions used in the generation of this scenario:

Goal Amount (today's $s)	$10,000
Purchase Date	January 1, 2010
Additional Lump-Sum Savings	**$0**
Current Monthly Savings	**$7**
Additional Monthly Savings	**$298**
Total Monthly Savings	**$305**
Index Rate	3.00%
Investment Objective (ROR)	**Moderate (8.81%)**

Note: Numbers in bold indicate a change from the Current Plan.

Analysis

- Capital at Start of Goal: $10,644
- Capital at End of Goal:

Figure 28: Financial Needs Summary client report – Vacation - Recommended

The <*goal*> - *Recommended* report section is similar to the <*goal*> - *Current Plan* report section, except that the implemented strategies are used, goal coverage is higher or 100% (in many cases), and goal residuals (if any) appear under the graph.

HANDS-ON EXERCISES

Exercises

The exercises have been designed specifically for this module and assume that you are working with the original data in the *Brown Base Details* plan. Before starting the exercises, duplicate the **Brown Base Details** plan, rename the duplicate with a meaningful name (e.g., *Accumulation goals training*), and then use it to complete the following exercises.

> **Hint:** All copies of plans are managed in the *Plan Management* section – *Plan List* category.

Exercise 1: Define the education goal

To find the answers, see “Answers to accumulation goals exercises” on page 39.

1. The education objective amount will create a cash outflow on which date?

   a) January 1 of each year of education

   b) August 1 of each year of education

   c) September 1 of each year of education

   d) December 1 of each year of education

2. Which of the following can be used to define the education costs?

   > **Hint:** Navigate to the **Goals** section – **Education** category – **Objectives** page.

   a) *Annual Cost* field

   b) *Education* calculator

   c) Both a) and b)

   d) None of the above

3. Nick and Lisa would like their son Kevin to attend **Boston College** in the fall of **2014**. What will the projected cost for tuition and room and board be if Kevin attends this college for four years?

   > **Hint:** Search the Peterson’s Undergraduate Database for college-specific costs.

HANDS-ON EXERCISES

Exercise 2: Create and compare education What-if scenarios

To find the answers, see "Answers to accumulation goals exercises" on page 39.

1. Go to the **Goals** section – **Education** category – **Scenarios** page, and then view the *Goal Coverage* graph for *Kevin's Education* goal.

   a) Is the education objective fully funded?

____

   b) What strategies would you suggest the Browns implement to cover 100% of Kevin's education expense?

____

____

____

____

____

2. Add a new scenario (*Suggested AA & Savings*), and then solve for *Kevin's Education* goal by following these steps:

   a) From the *Investment Objective* list, select **Aggressive**.

   b) Implement additional monthly savings.

   Hint: Click the **What Are My Options?** button.

   Can the Browns afford the additional savings requirement?

   Hint: Click the **Pre-Retirement Cash Flow** link.

____

3. Ensure that the scenario is marked as *Recommended* to have it appear in related reports and graphs.

Exercise 3: Create and compare major purchase What-if scenarios

To find the answers, see “Answers to accumulation goals exercises” on page 39.

1. Go to the **Goals** section – **Major Purchase** category – **Objectives** page, and then override the asset allocation details for the Browns’ vacation expense by changing the investor profile from *Moderate Aggressive* to **Aggressive**.

   Hint: Click the **Asset Allocation** button.

2. Go to the **Goals** section – **Major Purchase** category – **Scenarios** page, and then add a new scenario (*Suggested AA & Savings*).

3. Click **What Are My Options?** and then implement the additional recommended monthly savings amount to the goal before recommending the scenario.

4. Generate the **Current Year Cash Flow Report: 2010 (Recommended)**. Where do the additional recommended savings towards the goal appear?

   Hint: Ensure that the newly created scenario is marked as *Recommended*.

HANDS-ON EXERCISES

Exercise 4: Identify differences in other accumulation goals

1. Complete the table below.

Goal	Goal start	Goal end	Savings end	Funding
Retirement				
Education				
Major purchase				

Conclusion

This module has enabled you to

- Define and analyze your clients' education and major purchase goals
  - Identify goal assumptions
  - Define the time horizon for your clients' education goal
  - Use the *Peterson's Undergraduate Database* to search for college-specific costs
  - Define an appropriate asset allocation mix for the education goal
  - Allocate your clients' assets to a goal
  - Create and compare alternative education goal scenarios
  - Enter an asset or expense as a major purchase goal
  - Evaluate relevant output pages in a client report to assess the clients' progress toward meeting their goals

HANDS-ON EXERCISES

Answers to accumulation goals exercises

Exercise 1: Define the education goal

1. a) January 1 of each year of education. The education objective amount will create a cash outflow on January 1 of each year of education.
2. c) Both a) and b). Both the *Annual Cost* field and the *Education* calculator can be used to define the education costs.
3. Answers will vary.

Exercise 2: Create and compare education What-if scenarios

1. a) No. The education goal is not fully funded.

   b) Answers will vary. Some answers could include:
   - save a lump-sum amount
   - save monthly
   - reallocate assets or change the investment objective
   - transfer between existing accounts
   - purchase a new account
2. Answers will vary.

Exercise 3: Create and compare major purchase What-if scenarios

4. The additional recommended savings towards the major purchase goal appear under *Cash Outflows – Savings Allocated to Goals – Vacation* in the *Current Year Cash Flow* report.

Exercise 4: Identify differences in other accumulation goals

1. See the answers in the table.

Goal	Goal start	Goal end	Savings end	Funding
Retirement	January 1 of the first retiree's retirement year	December 31 of the second to die's year of death	December 31 of the year prior to retirement	Qualified investment accounts and non-qualified investment accounts
Education	January 1 of the specified year	January 1 of last year of goal	December 31 of second-last year of goal	529, UTMA, and non-qualified investment accounts
Major purchase	Date entered	Date entered	1 month prior to date entered	Non-qualified investment accounts