



NaviPlan Standard Online/Offline

Retirement Distribution Planning Self-Study Guide

USA version 11.2

EISI, Winnipeg

Disclaimer

This software is designed to allow a financial planner to demonstrate and evaluate various strategies in order to achieve a client's financial goals. It is licensed on the understanding that EISI is not engaged in rendering legal, accounting, or other professional advice and, if any such advice is required, the services of a competent professional person should be obtained.

EISI has engaged Ibbotson Associated, Inc., a wholly owned subsidiary of Morningstar, Inc., to develop proprietary asset allocation tools for educational purposes. Ibbotson has granted to EISI a license for use thereof.

Copyright

No part of this publication may be reproduced or transmitted in any form, by any means (electronic, photocopying, recording, or otherwise) without the written permission of EISI.

NaviPlan is a registered trademark of EISI.

Microsoft Word is a registered trademark of Microsoft Corporation. Adobe and Acrobat are trademarks of Adobe Systems Inc. All other product names are the sole properties of their respective owners.

© Copyright 2010

Emerging Information Systems Incorporated ("EISI")

All rights reserved.

100128

Contents

Retirement distribution planning	1
Learning objectives	1
Learning tools.....	1
Transfer funds between non-qualified and qualified accounts	2
Modify the liquidation order of retirement assets	4
Predefined liquidation order	5
Custom account liquidation	5
Create a liquidation strategy	6
View Social Security effects.....	8
Use the annuitization feature	9
Scenario A – No fixed income.....	9
Scenario B – Fixed income	10
Create an annuitize-to-need scenario.....	11
Create additional retirement incomes and expenses.....	18
Create new non-qualified accounts and annuities	21
Interpret the Retirement Distribution Summary client report	25
Assumptions - Current Plan.....	27
Current Plan	28
Proposed Plan.....	31
Appendix A - Distribution Schedules - Current Plan	32
Exercises.....	33
Exercise 1: Transfer funds between existing accounts.....	33
Exercise 2: Modify the liquidation order of retirement assets	33
Exercise 3: Use the annuitization feature	34
Exercise 4: Interpret the Retirement Distribution Summary client report.....	35
Conclusion.....	37
Answers to retirement distribution planning exercises.....	37

Retirement distribution planning

The NaviPlan Standard Retirement Distribution Planning 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.

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.

The prerequisite Retirement Goal Analysis training module helps you to determine how your clients could save funds to meet their retirement goals. This module help you to explore methods for distributing and liquidating your clients' retirement assets in a tax-efficient manner. Discussing retirement distribution is particularly useful for clients who are at or are nearing retirement. This module is applicable to Level 2 and 3 Plans.

Learning objectives

This module will enable you to

- Create and implement distribution strategies in a retirement scenario for clients near or in retirement
 - Transfer funds between non-qualified and qualified accounts
 - Modify the liquidation order of retirement assets
 - Modify the Social Security start date
 - Convert non-annuity assets to a fixed income stream to cover a defined fixed income gap
 - Create additional retirement incomes and expenses
 - Create new non-qualified accounts and annuities
 - Evaluate relevant output pages in a client report to assess the clients' progress towards their retirement goal

Learning tools

This module includes some practice exercises. We recommend that you use the Jack and Suzie Greene (Greene, Jack and Suzie.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.

Transfer funds between non-qualified and qualified accounts

The *Goals* section – *Retirement* category – *Scenarios* page has several tabs you can use to control retirement distribution options to help you construct a *Recommended* scenario. In Level 3 Plans, you have access to the following tabs:

- *Objectives*
- *Savings*
- *Transfers*
- *Liquidation Strategies*
- *Social Security*
- *Annuitization*
- *Additional Incomes & Expenses*
- *New Accounts*

Level 2 Plans do not include the *Transfers* or *New Accounts* tabs.

To create a retirement planning scenario with account transfers

1. In the *Greene's Base Details* plan, go to the **Goals** section – **Retirement** category – **Scenarios** page.
2. On the right side of the *Scenarios* page, click the **Add** button, and then select **New**. NaviPlan Standard creates a new scenario.
3. Rename the scenario **Retirement Distribution Planning Scenario**.
4. Go to the **Transfers** tab. On this tab, you can create account transfers that model moving money between non-qualified and qualified accounts in the *Recommended* scenario. By creating a transfer strategy, you could recommend to your clients the tax benefits of moving money from a non-qualified account to an existing annuity or qualified account.

Note: For education goals, you have the option of transferring money from a non-qualified account to a 529 plan account.

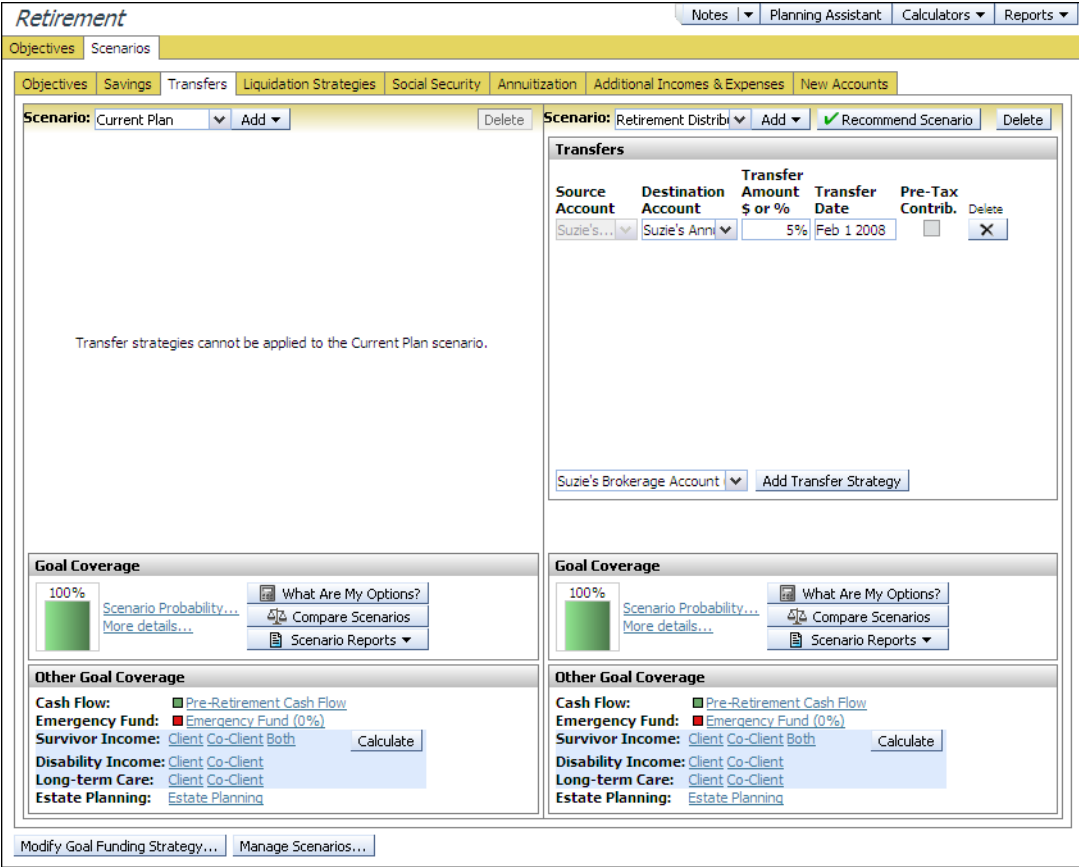


Figure 1: Goals section – Retirement category – Scenarios page – Transfers tab

- 5. Under *Transfers*, from the *Choose Source Account* list, select **Suzie’s Brokerage Account**, and then click the **Add Transfer Strategy** button. New data-entry fields appear.
- 6. From the *Destination Account* list, select **Suzie’s Annuity**.

Note: Only existing accounts that are linked to the retirement goal are available for the transfer strategy. To model new non-qualified accounts, you must use the *New Accounts* tab.

- 7. In the *Transfer Amount* field, enter **5%**.
- 8. Review the transfer details, and then for this exercise, click the **Delete** button.

Transfers occur as of the date entered in the *Transfer Date* field. The minimum transfer date is one month after the first of the current plan month. Transfer strategies cannot be entered in the *Current Plan* scenario.

Modify the liquidation order of retirement assets

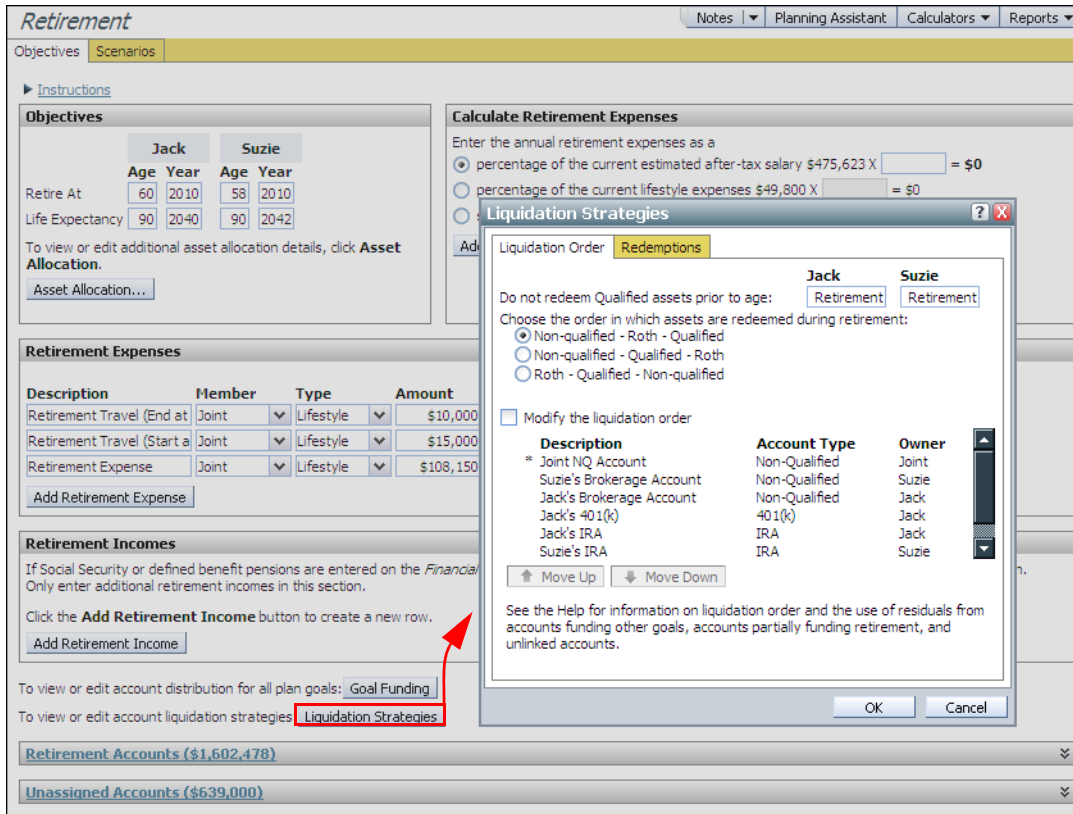


Figure 2: Goals section – Retirement category – Objectives page – Liquidation Strategies dialog box – Liquidation Order tab

Millions of Americans are ready to retire in the next 10 years. They will need to know the best way to redeem their retirement assets. Using the *Liquidation Strategies* tab, you can help your clients explore and compare their liquidation options between their current plan and the *Recommended* scenario.

To enter liquidation strategies for the current plan

1. Go to the **Goals** section – **Retirement** category – **Objectives** page.
2. Near the bottom of the *Objectives* page, click the **Liquidation Strategies** button. The *Liquidation Strategies* dialog box opens to the *Liquidation Order* tab.

On this tab, you can select one of three predefined asset liquidation sequences:

- *Non-qualified - Roth - Qualified*
- *Non-qualified - Qualified - Roth*
- *Roth - Qualified - Non-qualified*

The default liquidation order is designed to be the most tax-efficient order for redeeming accounts. NaviPlan automatically sorts the clients' accounts among the three listed account types.

3. Click **Cancel**. The *Liquidation Strategies* dialog box closes.

Predefined liquidation order

The three predefined sets of accounts in the liquidation order are used as follows:

- *Non-qualified accounts* – These accounts are used before redeeming any non-qualified annuities. Accounts are liquidated on the basis of their ratio of cost basis to market value (both at year-end values). The accounts with the highest ratio are used first, and accounts with the same ratio are used in alphabetical order.
- *Roth accounts* – These accounts available for liquidation include Roth IRA, Roth 401(k), and Roth 403(b), and are used in order from lowest return rate to highest return rate. If Roth accounts exist with the same return rate, they are used in alphabetical order.
- *Qualified accounts* – These accounts are liquidated on the basis of their ratio of qualified basis to market value (both at year-end values). The accounts with the highest ratio are used first, and accounts with the same ratio are used in alphabetical order.

Custom account liquidation

On the *Liquidation Strategies* dialog box – *Liquidation Order* tab, the initial ordering of the accounts depends on the current predefined account liquidation selection. However, you can reorder the accounts individually to meet the needs of your clients by selecting the *Modify the liquidation order* check box. You can use the *Move Up* and *Move Down* buttons to change the liquidation position of the selected account.

Any account that is not used fully to fund the retirement goal is marked with an asterisk (*). For example, an account named *Joint Savings Account*, which is a jointly owned, non-qualified account that is funding the retirement goal, would appear as **Joint Savings Account (Non-qualified/Joint)*.

If you clear the *Modify the liquidation order* check box, a verification message appears informing you that any changes to the liquidation order will not be retained. Clicking *OK* returns the liquidation order to the order specified by the predefined account liquidation order selection. Clicking *Cancel* returns you to the liquidation order list and highlights the first account in the list.

Create a liquidation strategy

Various situations exist where creating a liquidation strategy could be beneficial to your clients. For example, if the majority of the clients' portfolio is held in qualified accounts and the plan shows that required minimum distributions (RMDs) cannot be met, redeeming some of these qualified accounts could solve this issue.

To create a liquidation strategy for retirement

1. Go to the **Goals** section – **Retirement** category – **Scenarios** page – **Liquidation Strategies** tab. On this tab, you can compare the liquidation strategies entered for the *Current Plan* and *Recommended* scenarios side by side.

Note: This tab uses the same functionality as the *Liquidation Strategies* dialog box, except the *Current Plan* scenario cannot be edited.

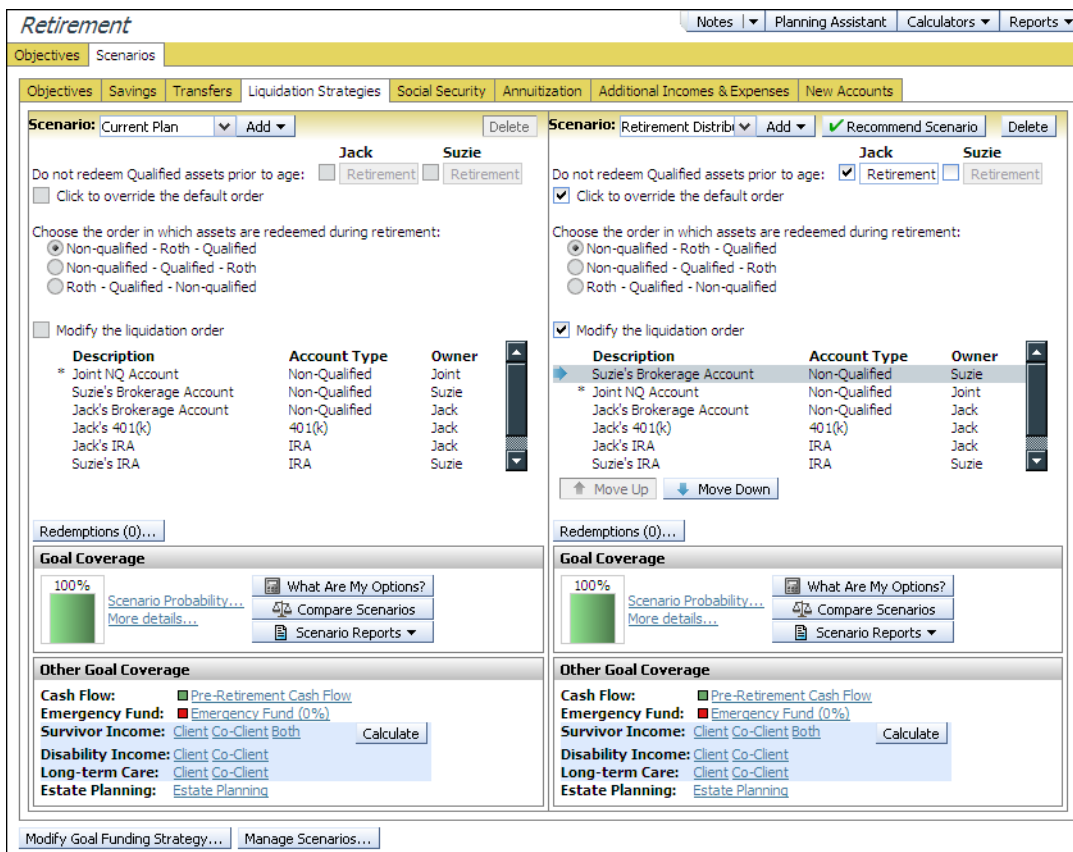


Figure 3: Goals section – Retirement category – Scenarios page – Liquidation Strategies tab

2. By default, NaviPlan prevents qualified accounts from being liquidated before the clients' retirement. Select the **Do not redeem Qualified assets prior to age** check box for Jack. By selecting this check box, you can change the age at which to restrict asset liquidations.

3. Select the **Click to override the default order** check box. NaviPlan allows you to select any of the three predefined liquidation options. Selecting one of these options reorders the listed accounts based on the order selected.
4. Select the **Modify the liquidation order** check box. The individual accounts are now available to be reordered.
5. Select an account, and then click the **Move Up** and **Move Down** buttons to change the position of the individual account.
6. If you determine that modifying the liquidation order for individual accounts is not appropriate for the clients' financial situation, you can revert to the predefined liquidation order. Clear the **Modify the liquidation order** check box.
7. Click the **Redemptions** button. The *Redemptions* dialog box opens. In this dialog box, you can model periodic (monthly or annual) or lump-sum redemptions from retirement assets. Only non-qualified or qualified accounts that are funding the retirement goal are available for redemption strategies. The earliest start date for redemption strategies is *retirement*.

Redemption strategies are useful for modeling losses caused by market fluctuations.

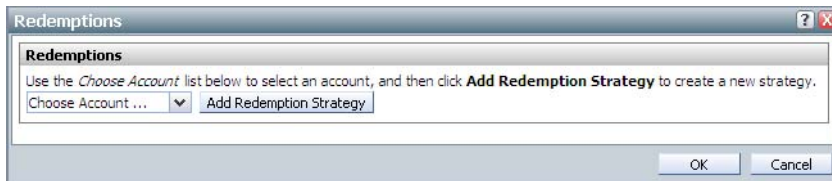


Figure 4: Goals section – Retirement category – Scenarios page – Liquidation Strategies tab – Redemptions dialog box

8. Click **Cancel**. The *Redemptions* dialog box closes.

View Social Security effects

The *Social Security* tab allows you to see the effects of changing the Social Security start dates on the success of your retirement goal.

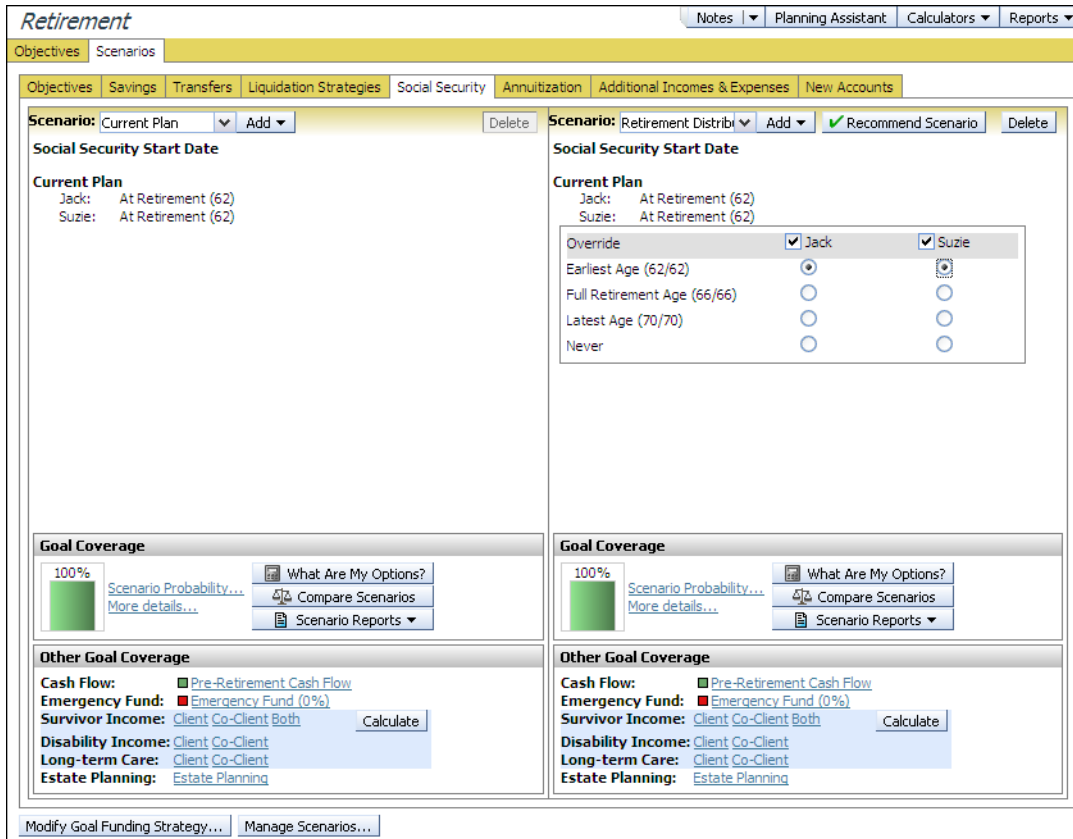


Figure 5: Goals section – Retirement category – Scenarios page – Social Security tab

To view the effects of changing Social Security dates on the retirement goal

1. Go to the **Goals** section – **Retirement** category – **Scenarios** page – **Social Security** tab.
2. Select a scenario from the *Scenario* list, and then select the **Override** check box for either the client, co-client, or both.
3. Select one of the Social Security age options for either the client, co-client, or both. The *Goal Coverage* graph changes to reflect the selected options.

Note: For more information on retirement scenarios, achieving 100% goal coverage, and managing scenarios, see the *Retirement Goal Analysis* training module.

Use the annuitization feature

On the *Annuitization* tab you can set up a What-if scenario where NaviPlan Standard sells assets in the plan in order to purchase an annuity that will cover a specific retirement need. This scenario can demonstrate the benefits of covering some expenses with a guaranteed income stream (from the annuity) instead of relying on market performance to provide enough growth to cover basic living needs during retirement. The scenario is of particular interest to clients who are nearing or in the retirement period.

Scenario A – No fixed income

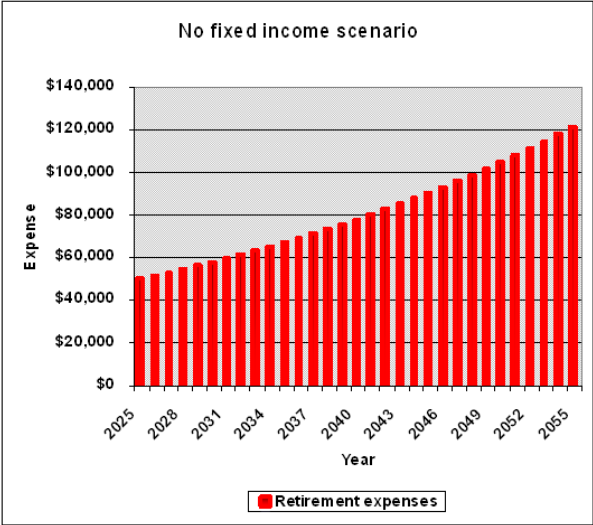


Figure 6: Scenario A – No fixed income

Assumptions

- Retirement expense: \$50,000 per year
- Fixed retirement income: \$0
- Investment assets at retirement: \$2 million
- Majority of income must come from the investment assets
- With fixed returns, the income may cover retirement expenses

Pros	Cons
<ul style="list-style-type: none"> • Higher potential investment income • Investments typically outperform inflation 	<ul style="list-style-type: none"> • More exposure to market risk • Higher likelihood of outliving all income sources • No guaranteed income • Income sources are not diversified

Scenario B – Fixed income

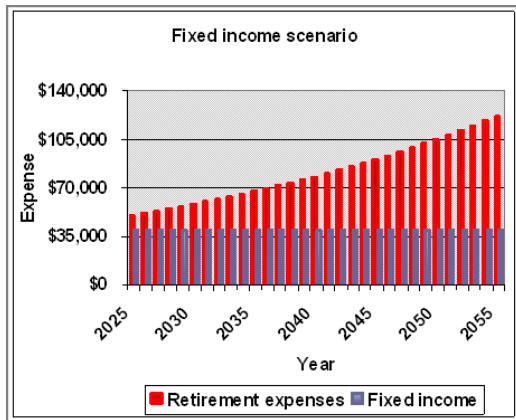


Figure 7: Scenario B – Fixed income

Assumptions

- Retirement expense: \$50,000 per year
- Fixed retirement income: \$40,000
- Investment assets at retirement: \$1 million
- Life income annuity purchased
- \$1 million in investment assets to fund their retirement
- Used half of their investments to buy the annuity
- Much more guaranteed income
- Still some need for investment income, but not as much

Pros	Cons
<ul style="list-style-type: none"> • Less exposure to market risk • Less likelihood of outliving all income sources • Guaranteed income • Diversification of income sources 	<ul style="list-style-type: none"> • Less potential investment income • Higher inflation-rate risk

Create an annuitize-to-need scenario

The screenshot displays the Retirement software interface, specifically the Scenarios page under the Annuitization tab. The interface is divided into two main columns for scenario management.

Left Column (Current Plan):

- Scenario: Current Plan
- Text: The Current Plan will maintain the current annuitization settings only.
- Goal Coverage: 100%
- Other Goal Coverage:
 - Cash Flow: Pre-Retirement Cash Flow
 - Emergency Fund: Emergency Fund (0%)
 - Survivor Income: Client Co-Client Both
 - Disability Income: Client Co-Client
 - Long-term Care: Client Co-Client
 - Estate Planning: Estate Planning

Right Column (Annuitization Strat):

- Scenario: Annuitization Strat
- Buttons: Add, Recommend Scenario, Delete
- Checkbox: Override current annuitization settings
- Text: Review how applying an annuitize-to-need strategy can affect the scenario.
- Steps:
 - Estimate the additional income gap to cover: \$100,000 /yr (in future dollars) Estimate Income Gap...
 - Apply new strategies to existing annuities
 - Select the assets to annuitize
 - Review the results and assumptions
- Goal Coverage: 94%
- Other Goal Coverage:
 - Cash Flow: Pre-Retirement Cash Flow
 - Emergency Fund: Emergency Fund (0%)
 - Survivor Income: Client Co-Client Both
 - Disability Income: Client Co-Client
 - Long-term Care: Client Co-Client
 - Estate Planning: Estate Planning

At the bottom, there are buttons for 'Modify Goal Funding Strategy...' and 'Manage Scenarios...'.

Figure 8: Goals section – Retirement category – Scenarios page – Annuitization tab

On the *Annuitization* tab, you can set the plan to convert non-annuity assets into life income annuities at retirement to generate a fixed income.

Who should consider this strategy?

- Clients close to retirement
- Clients in retirement
- Clients who can expect to exceed estimated life expectancy
- Clients wishing to minimize market risk and volatility

To apply an annuitize-to-need strategy

1. Go to the **Goals** section – **Retirement** category – **Scenarios** page – **Annuitization** tab.
2. For the scenario on the right, click the **Add** button, and then select **New**. NaviPlan creates a new scenario.
3. Go to the **Objectives** tab, and then in the *Scenario Name* field, enter **Annuitization Strategy**.

4. Return to the **Annuitization** tab, and then select the **Override current annuitization settings** check box.
5. Follow the four-step process. The four-step process to apply the annuitize-to-need strategy is as follows:
 1. Estimate additional income gap to cover, using the calculator.
 2. Apply new strategies to any existing annuities.
 3. Choose assets to annuitize and set a unique liquidation order.
 4. Review the results with a report.

Step 1: Estimate additional income gap to cover

1. On the *Annuitization* tab, enter the annuity income amount you want to add.
2. Click the **Estimate Income Gap** button to help define the income amount. The *Estimate Income Gap in Retirement* dialog box opens.

There are two uses for this dialog box:

 - Find the gap between fixed incomes and fixed or total expenses
 - Review a scenario after the annuitize-to-need strategy is applied

The bottom graph plots incomes vs. expenses.
3. Click the **Graph Information** link to open the *Graph Information* dialog box, which displays information such as
 - how an annuitize-to-need strategy may help
 - a description of the purpose of the graph
 - an explanation of the values reported
 - the fixed expenses gap (fixed incomes vs. fixed expenses)
 - the fixed expenses
 - annuity assumptions and effects (for example, the income gap might not be covered in every year)
 - A description of the patterns in the graph
4. Click **Close** to close the *Graph Information* dialog box.
5. Under *Estimate Income Gap*, specify whether values should be expressed in future dollars or today's dollars.
6. In the *Estimate the additional income gap to cover* field, enter **\$100,000** (after-tax amount).

Under *Apply the following annuity settings*, you can determine how the clients' life annuity payments should be calculated by overriding the *Payment per \$1,000* field and entering a new rate of return in the *ROR%* field.
7. Click **Calculate**. The dialog box updates to show all values in the selected dollars. Under the graph, the following message appears:

The value of the assets in the plan does not produce an income level sufficient to cover the desired additional fixed income.

Note: Finding the right income gap level requires some trial and error.

8. Following steps 6 and 7, recalculate the effects of \$85,000 and \$50,000 income gaps.
9. Notice that for the \$100,000 and \$85,000 additional income gaps, insufficient assets are available in the plan to produce the desired annuity amount, whereas enough assets are available to cover \$50,000.
10. Above the fixed expenses gap table, click **Projected gaps throughout retirement**. The projected gap table appears. The table lists all years where gaps are projected to occur and the amount of each gap.

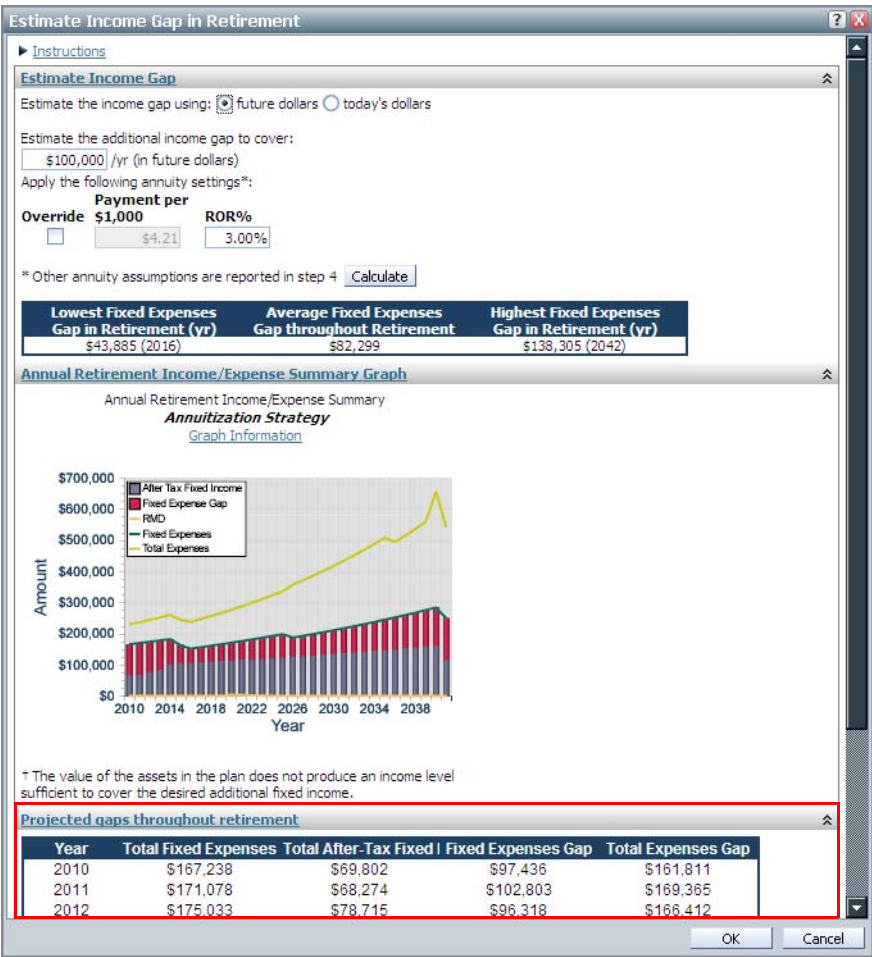


Figure 9: Goals section – Retirement category – Scenarios page – Annuitization tab – Estimate Income Gap button – Estimate Income Gap in Retirement dialog box

11. Click **OK**. The *Estimate Income Gap in Retirement* dialog box closes. On the *Annuitization* tab, the percentage shown in the *Goal Coverage* graph drops. Although the projected retirement income is less, you can mention to your clients some of the following benefits of purchasing an annuity:
 - income is guaranteed
 - the return is reduced, but so is the risk
 - the annuity purchase might be suitable if the clients are already retired

Step 2: Apply new strategies to existing annuities

This step will convert any existing annuities in the plan that are set as *Withdrawal as Needed* into life income annuities to reduce the income gap and the amount you need to convert.

1. On the *Annuitization* tab, click the **Apply new strategies to existing annuities** link. The *Strategies for Existing Annuities* dialog box opens.

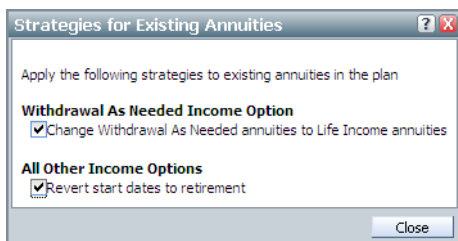


Figure 10: Goals section – Retirement category – Scenarios page – Annuitization tab – Strategies for Existing Annuities dialog box

2. Under *Withdrawal As Needed Income Options*, select **Change Withdrawal As Needed annuities to Life Income annuities**.
3. Under *All Other Income Options*, select **Revert start dates to retirement**.
4. Click **Close**.

Step 3: Choose assets to annuitize and set a unique liquidation order

1. On the *Annuitization* tab, click the **Select the assets to annuitize** link. The *Assets for Annuitization* dialog box opens.

Figure 11: Goals section – Retirement category – Scenarios page – Annuitization tab – Assets for Annuitization dialog box

2. Select all three asset types, and then enter **100%** as the percentage of those assets to annuitize.
Note: The account residuals for goals that have not ended by the start of retirement, dependent-owned accounts, and 529 plans are unavailable for annuitization.
3. Under *Order of Annuitization*, select the **Use assets in the following order for annuitization** option, and then from the list, select **Non-Qualified - Qualified - Roth**.
4. Click **Close**.

Step 4: Review the results with a report

After overriding the current settings it's a good idea to review results of the annuitize-to-need scenario.

1. On the *Assumptions* tab, click the **Review the results and assumptions** link. The *Annuitize to Need Results and Assumptions* dialog box opens.

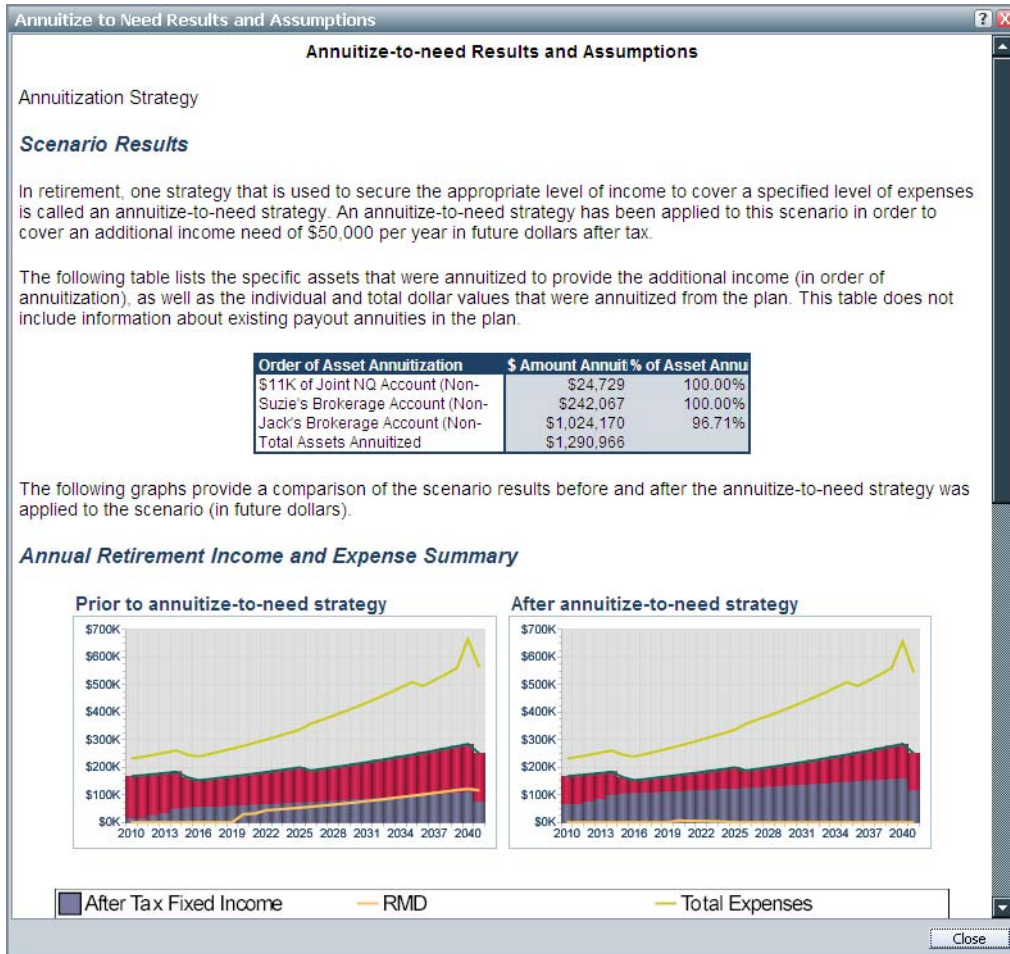


Figure 12: Goals section – Retirement category – Scenarios page – Annuitization tab – Annuitize to Need Results and Assumptions dialog box

The report describes the selected annuitize-to-need strategy. The table displays which assets were used in the annuitization, their amount, and order. The graphs compare retirement incomes and expenses before and after applying the annuitize-to-need strategy. The report also shows the annuity assumptions.

A maximum of five annuities can be created. NaviPlan funds annuities in the following manner:

- All non-qualified accounts that are available for the annuity are used for purchasing a joint non-qualified annuity
- All qualified accounts are used for purchasing qualified annuities
- All Roth accounts are used for purchasing Roth annuities

For each system-generated annuity, a table in the report appears showing when each conversion to the annuity occurred, the payment, owner, and other details.

Note: The market value reflects any taxes that the clients incurred during the conversion of non-qualified account to an annuity. If desired, you can create a new annuity with a Guaranteed Withdrawal Benefit (GWB) rider on the *New Accounts* tab. When the GWB income option is included in an annuity, the income payments are annual withdrawals that are guaranteed for the life of the owner. If the annuity is jointly held, payments are guaranteed until the first owner dies. Using this option, income is guaranteed even if the value of the annuity is exhausted.

Create additional retirement incomes and expenses

The screenshot displays the Retirement Scenarios page in NaviPlan. The top navigation bar includes 'Notes', 'Planning Assistant', 'Calculators', and 'Reports'. The main navigation tabs are 'Objectives', 'Savings', 'Transfers', 'Liquidation Strategies', 'Social Security', 'Annuitization', 'Additional Incomes & Expenses', and 'New Accounts'. The 'Additional Incomes & Expenses' tab is active, showing two scenarios: 'Current Plan' and 'Annuitization Strat'. The 'Current Plan' scenario has a message: 'Additional incomes and expenses cannot be added to the Current Plan scenario.' The 'Annuitization Strat' scenario has a 'Recommend Scenario' button. Below the scenarios are two main sections: 'Additional Annual Expenses' and 'Annual Incomes'. Each section has a table with columns for 'Description*', 'Member', 'Type', and 'Amount'. The 'Additional Annual Expenses' table has one entry: 'Misc. Expense' for 'Joint' member, 'Lifestyle' type, with an amount of '\$5,000'. The 'Annual Incomes' table has one entry: 'Wood Working Hobby' for 'Jack' member, with an amount of '\$5,000'. Below these are two 'Goal Coverage' sections, each showing a progress bar (100% and 93% respectively) and buttons for 'What Are My Options?', 'Compare Scenarios', and 'Scenario Reports'. At the bottom, there are 'Other Goal Coverage' sections with links for 'Cash Flow', 'Emergency Fund', 'Survivor Income', 'Disability Income', 'Long-term Care', and 'Estate Planning'. A 'Calculate' button is present in the 'Survivor Income' section of both 'Other Goal Coverage' areas.

Figure 13: Goals section – Retirement category – Scenarios page – Additional Incomes & Expenses tab

The *Additional Incomes & Expenses* tab allows you to enter any additional expenses or incomes that might affect each scenario. This is helpful in modeling scenarios such as semi-retirement.

To add an additional expense

You can model additional expenses in a new scenario or include them as part of an existing scenario.

1. For the *Annuitization Strategy* scenario, go to the **Additional Incomes & Expenses** tab.
2. Under *Additional Annual Expenses*, click the **Add Annual Expense** button, and then select **Discretionary Expense**. The *Annual Expense Details* dialog box opens.

Note: NaviPlan allows you to separate expenses into fixed and discretionary expenses so that you can model retirement goal coverage by including or excluding discretionary items.

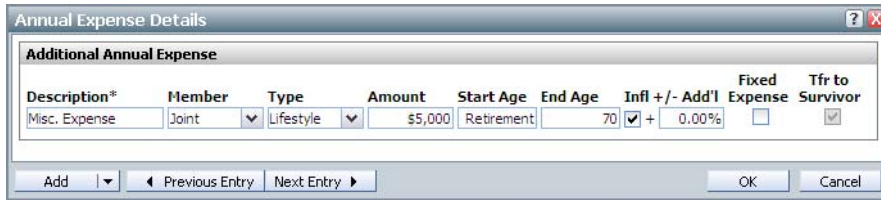


Figure 14: Goals section – Retirement category – Scenarios page – Additional Incomes & Expenses tab – Annual Expense Details dialog box

3. Enter the following information:

- *Description* – **Misc. Expense**

- *Member* – **Joint**

When the member is *Joint*, the expense transfers to the survivor automatically.

- *Type* – **Lifestyle**

- *Amount* – **\$5,000**

- *Start Age* – **retirement**

When the keyword *retirement* is entered, the expense begins on January 1 of the retirement year.

- *End Age* – **70**

When the keyword *death* is entered, the expense ends on December 31 of the last year of retirement.

- *Infl* – **selected**

4. Click **OK**. The *Annual Expense Details* dialog box closes and the percentage shown in the *Goal Coverage* graph drops. If the scenario is recommended, NaviPlan includes the expense in insurance analyses.

To add an additional income

During retirement, some clients might decide to supplement Social Security, pensions, and other sources of retirement income with additional income. You can model the additional income on the *Additional Incomes & Expenses* tab.

1. Under *Annual Incomes*, click the **Add Annual Income** button, and then select **Other Taxable**. The *Annual Income Details* dialog box opens.

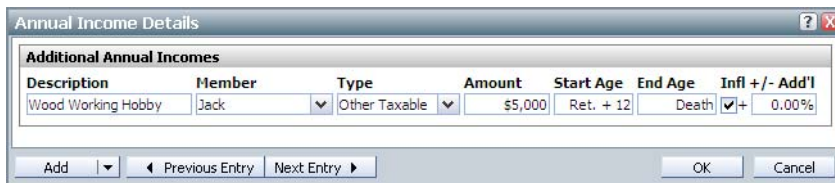


Figure 15: Goals section – Retirement category – Scenarios page – Additional Incomes & Expenses tab – Annual Income Details dialog box

2. Enter the following information:

- *Description* – **Wood Working Hobby**
- *Member* – **Jack**
- *Amount* – **\$5,000**
- *Start Age* – **retirement + 12**

When the keyword *retirement* is entered with a modifier (+12 in this case), NaviPlan starts the income <n> years after retirement begins.

- *End Age* – **death**
- *Infl* – **selected**

3. Click **OK**. The *Annual Income Details* dialog box closes and the miscellaneous expense is partially offset by the income generated from Jack's wood working hobby.

Create new non-qualified accounts and annuities

On the *New Accounts* tab, you can show your clients how opening new investment accounts or annuities could help them meet their retirement goal. Entering the market value or cost basis for these accounts and annuities is not applicable since they start at \$0 and require savings strategies to increase the value. Once you create a new account or annuity, it is available for savings, transfer, and redemption strategies.

To add a new account to the scenario

- 1. Go to the **New Accounts** tab.

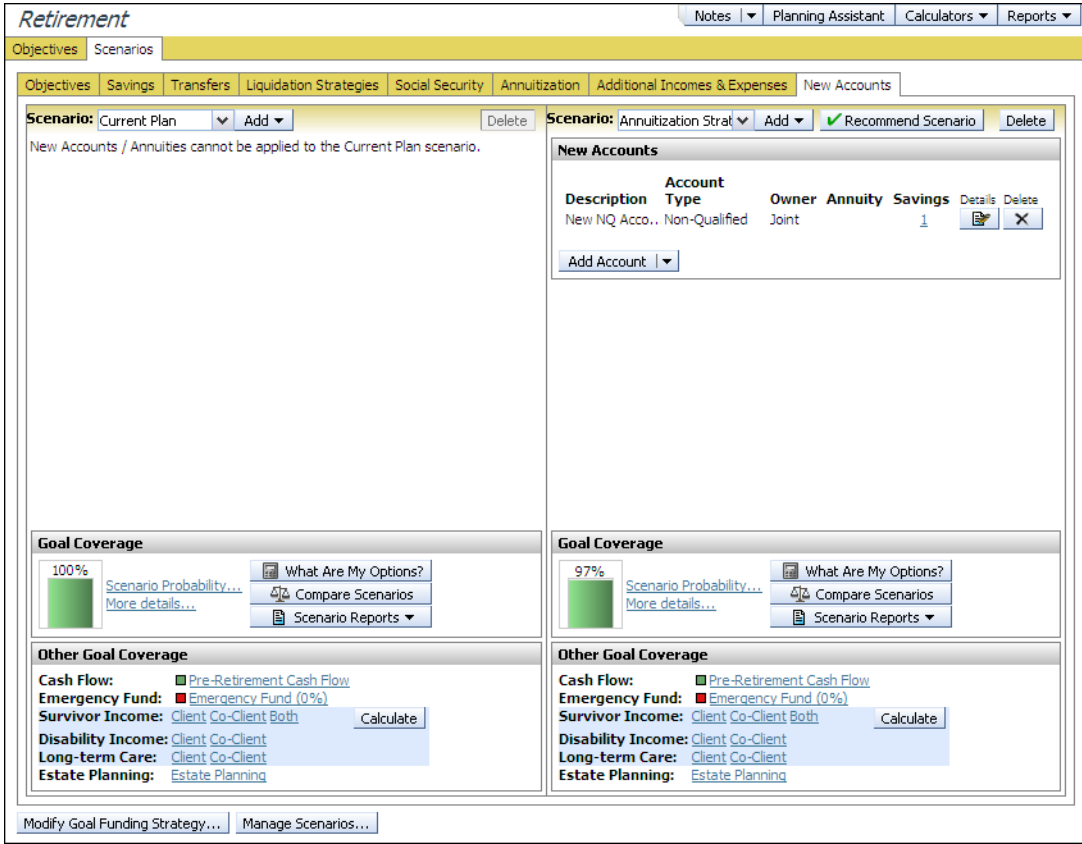



Figure 16: Goals section – Retirement category – Scenarios page – New Accounts tab

- 2. Under *New Accounts*, click  beside the *Add Account* button, and then select **New Account**. The *New Account Details* dialog box opens. By default, NaviPlan assumes the account is non-qualified and is jointly owned.

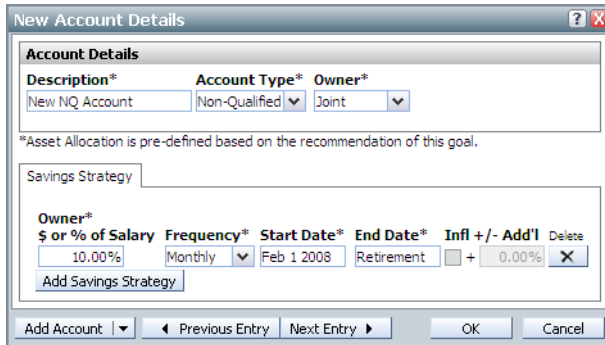


Figure 17: Goals section – Retirement category – Scenarios page – New Accounts tab – New Account Details dialog box

3. In the *Description* field, enter **New NQ Account**.
4. Click the **Add Savings Strategy** button. A new data-entry row appears.
5. In the *Owner \$ or % of Salary* field, enter **10%**.
By default, the strategy begins on the first day of the month following the *Plan Analysis Date* and ends at retirement.
6. Click **OK**. The *New Account Details* dialog box closes. Under *New Accounts*, the new account appears. NaviPlan automatically uses 100% of the new account to fund the retirement goal.
7. Click the **Recommend Scenario** button. NaviPlan uses the *Annuitization Strategy* scenario as the *Recommended* scenario for the plan. You can view the effects of the *Recommended* scenario on cash flow by generating the *Itemized Cash Flow Projection for Family* report.

To generate the *Itemized Cash Flow Projection for Family* report

1. Go to the **Reports** menu, and then select **Cash Flow – Itemized Cash Flow Projection for Family**. The *Assign Settings* dialog box opens.
The *Assign Settings* dialog appears for almost all reports and graphs. The contents of the dialog box vary depending on the type of report or graph you are generating. For this report, four years are already selected. You can generate the report based on either the current plan or the recommended plan.

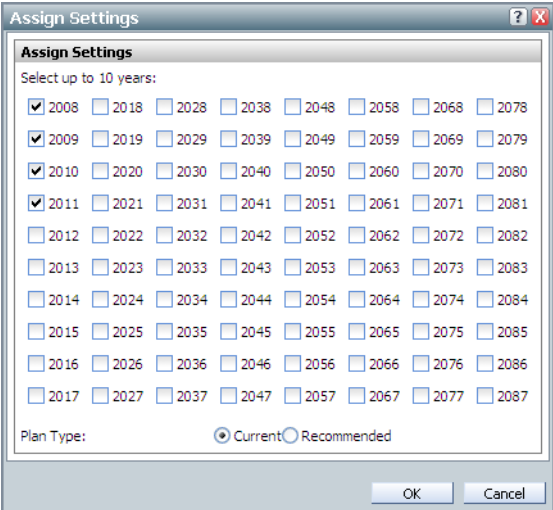


Figure 18: Assign Settings dialog box

- 2. Select the **Recommended** plan type, and then click **OK**. The *Itemized Cash Flow Projection for Family* dialog box opens.

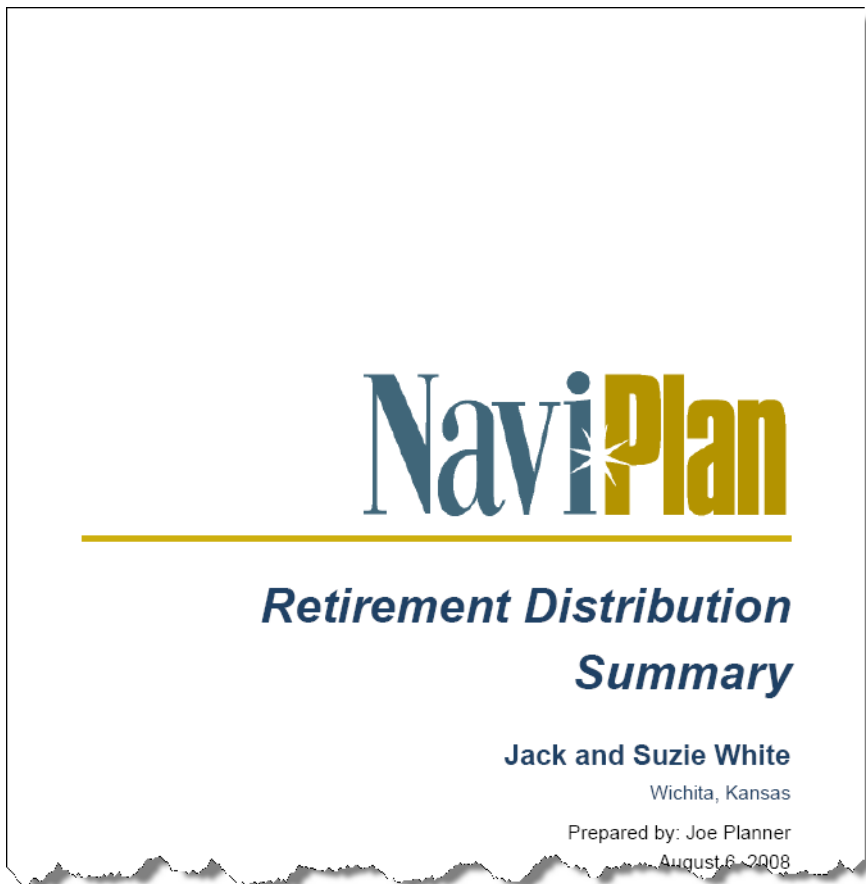
	2008	2009	2010	2011
Cash Inflows				
Employment Inflows				
Jack's Salary (Jack)	425,000	437,750	0	0
Suzie's Salary (Suzie)	220,000	226,600	0	0
Total Employment Inflows	645,000	664,350	0	0
Investment Inflows				
Jack's Brokerage Account (Non-Qualified)	58,695	61,994	975,720	102,632
323 Divison Street (Jack/Real Estate)	24,000	24,720	25,462	26,225
Suzie's Brokerage Account (Non-Qualified)	13,182	14,095	242,067	0
Suzie's Annuity (Non-Qualified)	0	0	1,576	1,576
Joint NQ Account (Non-Qualified)	40,268	60,578	103,385	85,193
New NQ Account (Joint/Non-Qualified)	1,818	5,958	132,156	0
Non-Qualified Annuity (Joint)	0	0	55,755	55,755
Total Investment Inflows	137,963	167,345	1,536,119	271,382
Pension Inflows				
Suzie's Defined Benefit Pension (Suzie)	0	0	19,096	19,669
Total Pension Inflows	0	0	19,096	19,669
Total Cash Inflows	782,963	831,695	1,555,216	291,051
Cash Outflows				
Lifestyle Expenses				
Entertainment (e.g. restaurants, movies) (Joint)	9,000	9,270	0	0
Food (Joint)	9,600	9,888	0	0
Housing (e.g. utilities, repairs) (Joint)	12,000	12,360	0	0
Misc. Expense (Joint)	0	0	5,305	5,464
Other (e.g. child care, travel) (Joint)	6,000	6,180	0	0
Personal (e.g. clothing, hobbies) (Joint)	9,600	9,888	0	0
Retirement Expense (Joint)	0	0	114,736	118,178
Retirement Travel (End at 75) (Joint)	0	0	10,609	10,927
Transportation (e.g. gas, insurance) (Joint)	3,600	3,708	0	0
Mortgage - 323 Divison Street (Jack)	30,384	30,384	30,384	30,384

Figure 19: Itemized Cash Flow Projection for Family dialog box – Itemized Cash Flow Projection for Family report (Recommended plan)

3. In the report, examine the changes in income, expenses, and investment flows.
4. Close the **Itemized Cash Flow Projection for Family** dialog box.

Interpret the Retirement Distribution Summary client report

The *Retirement Distribution Summary* client report can be used to educate clients about the inherent risks of retirement distribution planning and strategies to reduce the risks. This report is available in Level 1, Level 2, and Level 3 Plans, and like other reports, it can be customized using the *Select Documents Sections* dialog box. *Probability Analysis* is not a default section, but can be included by selecting it in the *Select Document Sections* dialog box.



To generate the Retirement Distribution Summary client report

1. Go to the **Results** section – **Client Reports** category – **Client Report** page.

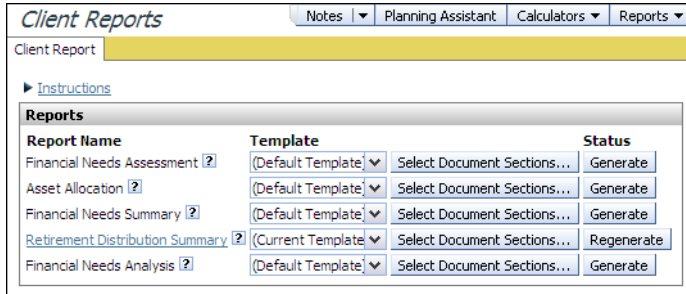


Figure 20: Results section – Client Reports category – Client Report page

2. For *Retirement Distribution Summary*, click the **Select Document Sections** button. The *Select Document Sections* dialog box opens.

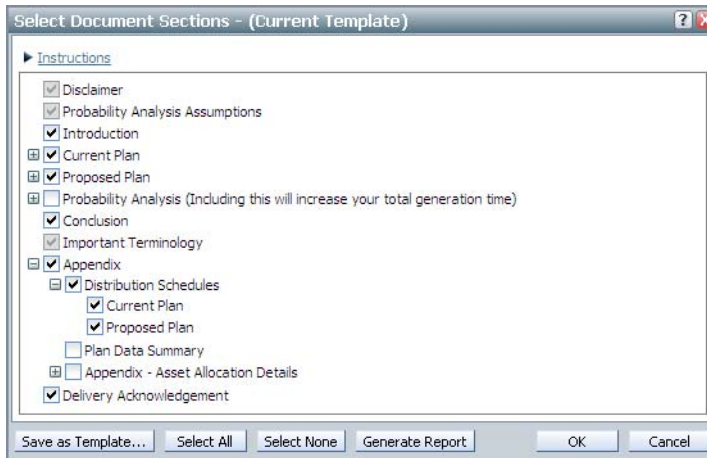


Figure 21: Results section – Client Reports category – Client Report page – Select Document Sections dialog box

3. Select the **Appendix** check box, and then click + beside the check box.
4. Select the **Distribution Schedules** check box, and then click + beside the check box.
5. Select the **Current Plan** and **Proposed Plan** check boxes.
6. Click the **Generate Report** button. NaviPlan generates the *Retirement Distribution Summary* client report.

In this client report, you can analyze the following:

- the ability of the clients’ assets to cover all their retirement expenses
- the ability of the clients to maintain their lifestyle at the level of inflation
- the annual amount the clients can spend each year in retirement
- the ability to sustain retirement while facing health care costs

Assumptions - Current Plan

The *Assumptions - Current Plan* report section provides details regarding the clients' current asset mix and planned retirement spending.

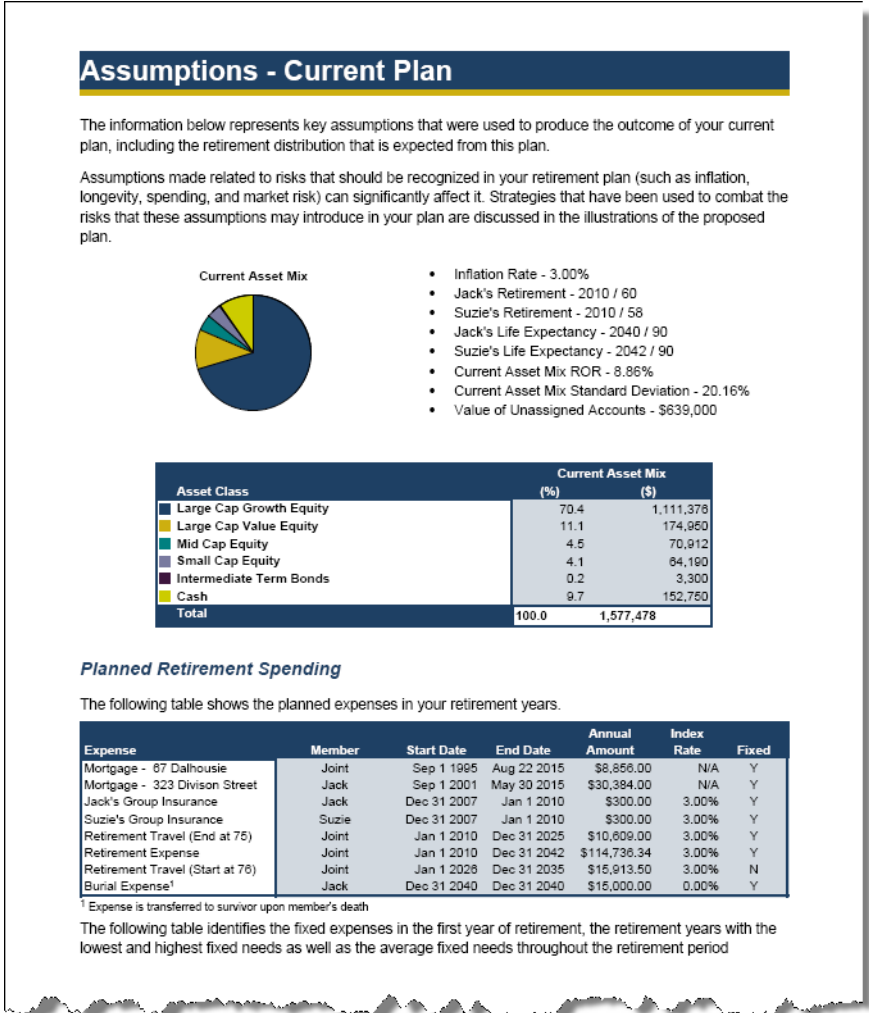


Figure 22: Retirement Distribution Summary client report – Assumptions - Current Plan

Current Plan

The *Current Plan* report section includes the expected retirement goal coverage and three graphs that compare the clients' fixed and total retirement needs and incomes.

Fixed vs. Total Retirement Needs graph

The *Fixed vs. Total Retirement Needs* graph compares the level of fixed retirement needs to total needs, which include discretionary expenses.

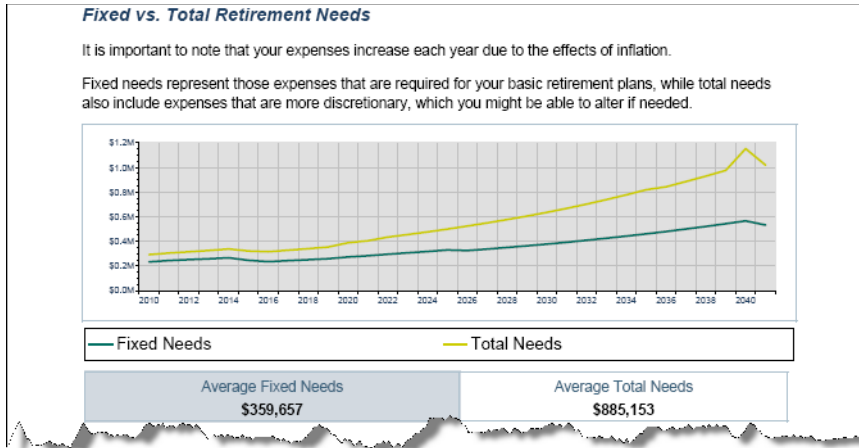


Figure 23: Retirement Distribution Summary client report – Current Plan – Fixed vs. Total Retirement Needs graph

Fixed Income vs. Retirement Needs graph

The *Fixed Income vs. Retirement Needs* graph compares fixed and total retirement needs with the clients' fixed income. Fixed income includes pension income, Social Security income, salaries, and annuity income. The fixed income gap is visible where fixed income sources are insufficient to cover fixed needs.

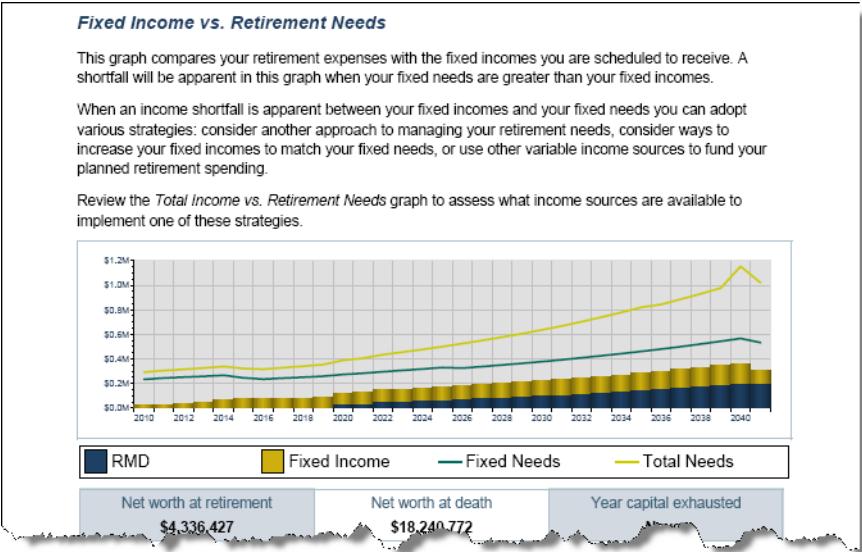


Figure 24: Retirement Distribution Summary client report – Current Plan – Fixed Income vs. Retirement Needs graph

Total Income vs. Retirement Needs graph

The *Total Income vs. Retirement Needs* graph outlines the clients' complete retirement income and needs situation for the current plan. You can compare retirement needs with all available income sources.

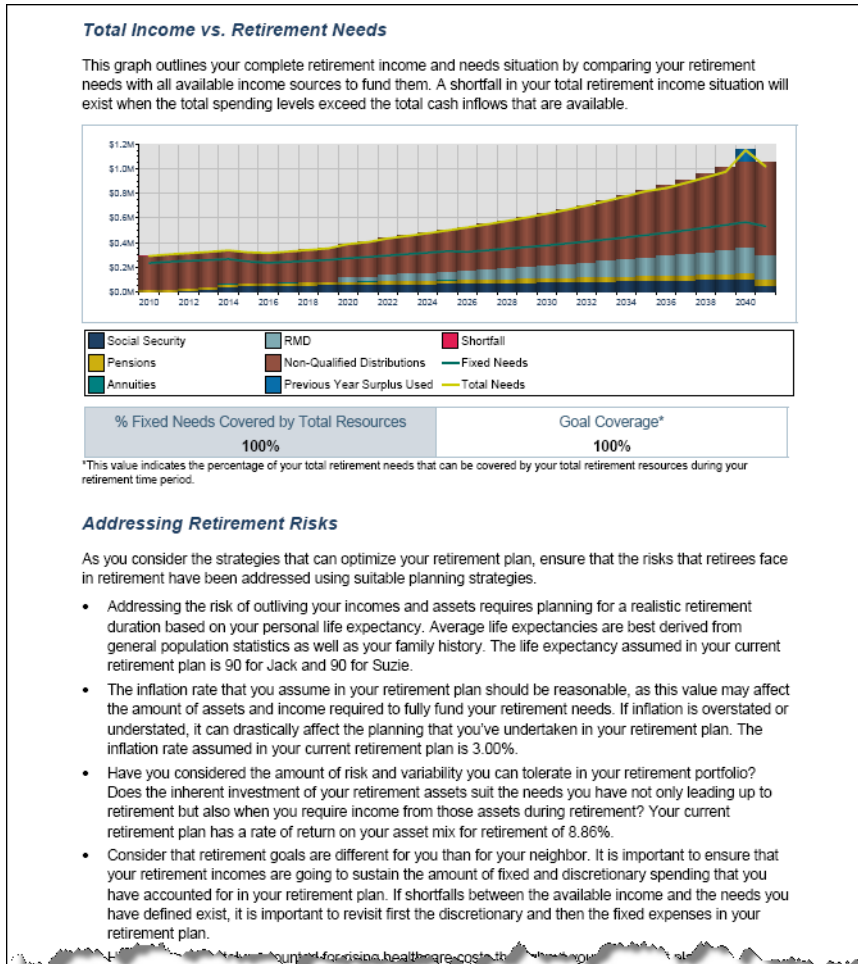


Figure 25: Retirement Distribution Summary client report – Current Plan – Total Income vs. Retirement Needs graph

Addressing Retirement Risks

Under the *Total Income vs. Retirement Needs* graph, the *Retirement Distribution Summary* client report lists questions and strategies that clients might want to consider in order to address risks during retirement.

Proposed Plan

The *Proposed Plan* report section consists of strategies that your clients could implement that would satisfy the clients’ retirement goal and address some of the risks that your clients could incur. Key differences between the current plan and the recommended plan are highlighted. The same graphs that are available in the *Current Plan* report section also appear in the *Proposed Plan* report section, except that the *Proposed Plan* graphs apply only to the recommended plan.

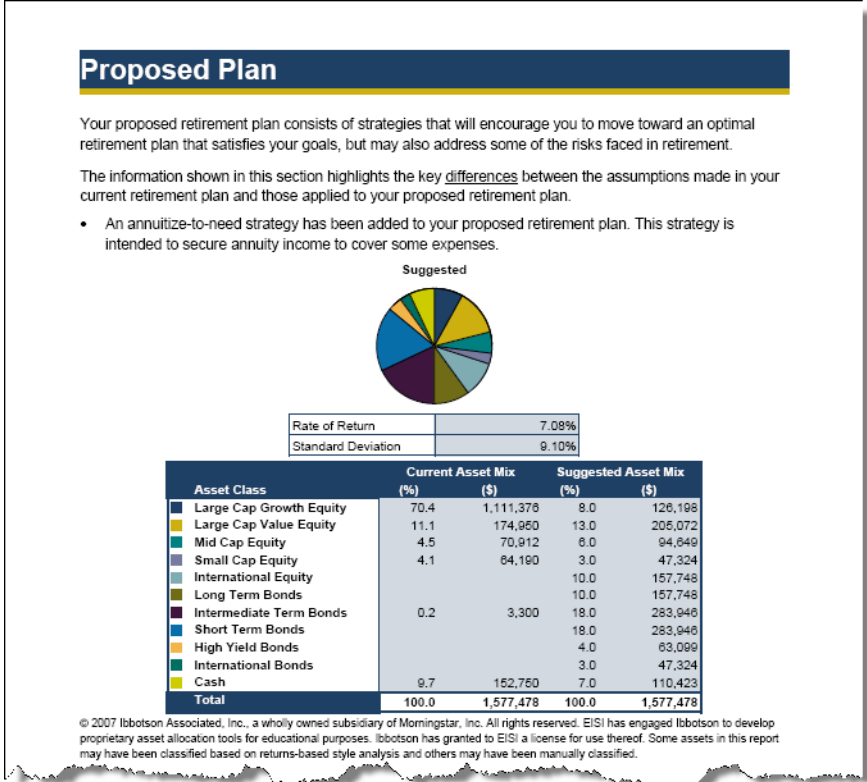


Figure 26: Retirement Distribution Summary client report – Proposed Plan

Appendix A - Distribution Schedules - Current Plan

The appendices are used for completing a thorough analysis of the clients' retirement distribution, supporting your recommendations, and providing details to the clients.

Appendix A can include the following report sections:

- *Retirement Income and Expenses*
- *Required Minimum Distributions*
- *Net Worth During Retirement*
- *Annuitize-to-need Results and Assumptions* (described on page 16)



Figure 27: Retirement Distribution Summary client report – Appendix A

Retirement Income and Expenses

The *Retirement Income and Expenses* appendix section allows you to do the following:

- confirm the payment amounts for Social Security and pension annuities
- determine reasons for cash flow deficits in the clients' retirement plan
- verify RMD payment amounts
- identify patterns and specific years for income sources and expenses

Required Minimum Distributions

The *Required Minimum Distributions* appendix section illustrates the clients' qualified account activity during retirement, including RMDs and additional qualified contributions.

Net Worth During Retirement

The *Net Worth During Retirement* appendix section illustrates when the clients' liabilities are expected to be paid off and whether qualified or non-qualified assets are expected to be exhausted during retirement.

Exercises

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

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

Note: This module does not explain how to create a *Recommended* scenario for your clients. Please refer to the *Retirement analysis* training module for details, if required, on how to create a *Recommended* scenario for retirement before you begin these exercises.

Exercise 1: Transfer funds between existing accounts

1. To isolate the differences in your scenario, duplicate the *Recommended* scenario, and then name it **Retirement distribution strategies**. Duplicating the scenario ensures that the *Recommended* scenario's customized asset allocation is applied to the new scenario.

Hint: Be sure to select the *Retirement distribution strategies* scenario from the *Scenario* list so that any changes you make are applied to the correct scenario.

2. You have completed a review of Jack's and Suzie's net worth and cash flow by looking at different reports from the *Reports* menu, and you would like to recommend that they transfer \$11,000 from their joint non-qualified account into Jack's existing 401(k) account to take advantage of the annual contribution limit and catch-up contributions for the current year. In the *Retirement distribution strategies* scenario, use the *Transfers* tab to model this type of strategy.

Exercise 2: Modify the liquidation order of retirement assets

To find the answers, see "Answers to retirement distribution planning exercises" on page 37.

Jack and Suzie need help managing the distribution of their retirement assets and would like to know which liquidation strategy will work best for their situation. NaviPlan offers various liquidation strategies to allow you to explore alternative distribution strategies when creating What-if scenarios for your clients.

1. What is the default liquidation order that will be used in the *Current Plan* and the *Recommended* scenarios if you do not make any changes to the liquidation strategies?
 - a) *Non-qualified - Roth - Qualified*
 - b) *Non-qualified - Qualified - Roth*
 - c) *Roth - Qualified - Non-qualified*

2. You want to ensure that Suzie is not penalized for taking early redemptions from her qualified accounts since she plans to retire at age 58. As your *first* distribution strategy, make the appropriate adjustments to the *Retirement distribution strategies* scenario on the *Liquidation Strategies* tab. What are the steps for completing this task?

Exercise 3: Use the annuitization feature

To find the answers, see “Answers to retirement distribution planning exercises” on page 37.

Jack and Suzie told you they were concerned with having enough fixed income to cover their day-to-day living expenses. You have decided to recommend that the couple purchase an annuity product which will provide a guaranteed income stream and reduce the income gap.

1. The *Estimate Income Gap in Retirement* dialog box helps you estimate the gap that exists between fixed income and fixed or total expenses in the selected scenario by displaying which of the following details?

Hint: The *Estimate Income Gap in Retirement* dialog box is accessible by going to the *Goals* section – *Retirement* category – *Scenarios* page – *Annuitization* tab, and then clicking the *Estimate Income Gap* button.

- a) *Lowest Fixed Expenses Gap in Retirement*
 - b) *Average Fixed Expenses Gap throughout Retirement*
 - c) *Highest Fixed Expenses Gap in Retirement*
 - d) All of the above
 - e) None of the above
2. What happens to the *Estimate Income Gap in Retirement* dialog box when the estimated income gap to cover entered is too high?
 - a) A message appears indicating that either there are insufficient assets in the plan to produce the income level or insufficient assets have been made available for the goal.
 - b) The graph and table update to illustrate the effect of the additional income regardless of whether or not sufficient assets are available to produce the income.

- c) A warning message displays and the dialog box automatically closes.
- d) All of the above

3. The annuity product you can offer Jack and Suzie has a *Payment per \$1,000* of **\$5**, an *ROR%* of **6%**, and increases the payment amount in annual increments of **\$500**. With these details, which is the highest additional income range that can be supported by the plan? Be sure to use the *Retirement distribution strategies* scenario.

Hint: Click the **Estimate Income Gap** button, and then increase or decrease the *Estimate additional income gap to cover* amount until you reach the maximum value that can be supported.

-
4. What is the total value of assets annuitized for this scenario?

Hint: Step 4 on the *Annuitization* tab opens an informative *Annuitize-to-need Results and Assumptions* report.

-
5. After the annuitization strategy has been established, there is a significant increase in fixed income. Is this statement true or false?

Hint: Use the graphs available in the report you generated for question 4 to compare the scenario results before and after the annuitize-to-need strategy was applied to the scenario.

- a) True
- b) False

Exercise 4: Interpret the Retirement Distribution Summary client report

To find the answers, see “Answers to retirement distribution planning exercises” on page 37.

1. Beside the *Scenario* list, mark the *Retirement distribution strategies* scenario as the *Recommended* scenario to ensure it is used as the *Proposed Plan* within the *Retirement Distribution Summary* client report.
2. Before generating the *Retirement Distribution Summary* report, click **Select Document Sections**, and then include the following sections in the *Select Document Sections* dialog

box: **Introduction, Current Plan, Proposed Plan**, and the **Distribution Schedules** appendices for the Current Plan and Proposed Plan. Click **Generate Report**.

3. Which aspects of the *Retirement Distribution Summary* report for the *Current Plan* would you most want to discuss with your clients?

4. In the client report, the *Proposed Plan* for Jack and Suzie is projected to cover what percentage of fixed and total needs?

Conclusion

This module has enabled you to

- Create and implement distribution strategies in a retirement scenario for clients near or in retirement
 - Transfer funds between non-qualified and qualified accounts
 - Modify the liquidation order of retirement assets
 - Modify the Social Security start date
 - Convert non-annuity assets to a fixed income stream to cover a defined fixed income gap
 - Create additional retirement incomes and expenses
 - Create new non-qualified accounts and annuities
 - Evaluate relevant output pages in a client report to assess the clients' progress towards their retirement goal

Answers to retirement distribution planning exercises

Exercise 2: Modify the liquidation order of retirement assets

1. a) *Non-qualified - Roth - Qualified* – The default liquidation order is *Non-qualified - Roth - Qualified* assets.
2. The steps for completing the task are as follows:
 1. Go to the **Goals** section – **Retirement** category – **Scenarios** page – **Liquidation Strategies** tab.
 2. On the right side, select the *Recommended* scenario, which is named *Retirement distribution planning*.
 3. Select the **Click to override the default order** check box.
 4. Select the check boxes under the client's and co-client's names.
 5. In the *Do not redeem qualified assets prior to age* field, enter age **59.5**.

Exercise 3: Use the annuitization feature

1. d) All of the above – The *Estimate Income Gap in Retirement* displays all of the details listed.
2. a) A message appears indicating that either there are insufficient assets in the plan to produce the income level or insufficient assets have been made available for the goal.
3. Answers will vary.
4. Answers will vary.
5. a) True – After the annuitization strategy has been established there is a significant increase in the fixed income.

Exercise 4: Interpret the Retirement Distribution Summary client report

3. Examples: clearly defines expenses, highlights high value of fixed needs, highlights the fixed income gap, and shows the retirement distribution.
4. Answers will vary.