



# **NaviPlan Standard Online/Offline**

# **Retirement Goal Analysis Self-Study Guide**

**USA version 11.2**

EISI, Winnipeg

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# Retirement goal analysis

The NaviPlan Standard Retirement Goal Analysis 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.

In NaviPlan Standard, retirement is treated as a goal rather than just a time period. NaviPlan allows you to enter retirement assumptions, and then analyze the clients' ability to meet the retirement goal. In Level 3 Plans, you can create and analyze multiple retirement scenarios, and then make a recommendation that best meets your clients' financial situation.

**Note:** This module assumes that you will be using a Level 3 Plan throughout the lesson.

## Learning objectives

This module will enable you to

- Define your clients' retirement needs and perform a retirement goal analysis
  - Identify retirement goal assumptions
  - Define your clients' asset allocation objective
  - Define the method used to calculate retirement expenses
  - Model fixed and discretionary retirement expenses
  - Establish retirement income sources
  - Allocate assets to the retirement goal
  - Verify the accuracy of your data entry with stand-alone reports
  - Create and compare alternative retirement goal scenarios
  - Evaluate relevant output pages in a client report to assess the clients' progress toward meeting the goal

## 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.

**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 retirement goal assumptions

In NaviPlan, you should enter assumptions regarding your clients' expected retirement age and life expectancy, and then determine an investor profile that is appropriate for their investment time horizon and risk tolerance.

## Define objective and scenario assumptions

On the *Goals* section – *Retirement* category – *Objectives* page, you can define when retirement occurs, the length of the retirement period, asset allocation, retirement incomes and expenses, goal funding options, and asset liquidation strategies.

**Retirement** [Notes] [Planning Assistant] [Calculators] [Reports] [Back] [Next]

Objectives | Scenarios

Instructions

**Objectives**

	Nick		Lisa	
	Age	Year	Age	Year
Retire At	62	2028	62	2030
Life Expectancy	90	2056	90	2058

To view or edit additional asset allocation details, click **Asset Allocation**.  
[Asset Allocation...]

**Calculate Retirement Expenses**

Enter the annual retirement expenses as a

percentage of the current estimated after-tax salary \$162,855 X [ ] = \$0

percentage of the current lifestyle expenses \$108,000 X [ ] = \$0

specific amount [ ]

[Add to Retirement Expenses]

**Retirement Expenses**

Description	Member	Type	Amount	Frequency	Infl +/-	Add'l	Start Age	End Age	Tfr to Survivor	Fixed Exp.	Delete
Retirement Goal Expense	Joint	Lifestyle	\$130,000	Annual	✓	+ 0.00%	Retirement	Death	✓	✓	✕
Retirement Travel (End at)	Joint	Lifestyle	\$10,000	Annual	✓	+ 0.00%	Retirement	75	✓	✓	✕
Retirement Travel (Start at)	Joint	Lifestyle	\$15,000	Annual	✓	+ 0.00%	76	85	✓	✓	✕

[Add Retirement Expense]

**Retirement Incomes**

If Social Security or defined benefit pensions are entered on the *Financial Picture* section - *Cash Flow* category - *Cash Flow* page, do not enter them in this section. Only enter additional retirement incomes in this section.

Description	Income Type	Member	Amount	Frequency	Infl +/-	Add'l	Start Age	End Age	Delete
Wood Working Hobby	Tax Free or Inheritance	Lisa	\$5,000	Annual	✓	+ 0.00%	Retirement	75	✕

[Add Retirement Income]

To view or edit account distribution for all plan goals: [Goal Funding]

To view or edit account liquidation strategies: [Liquidation Strategies]

Retirement Accounts (\$282,000)

Figure 1: Goals section – Retirement category – Objectives page

On the *Goals* section – *Retirement* category – *Scenarios* page, you can specify alternative scenarios with a different set of retirement goal assumptions.

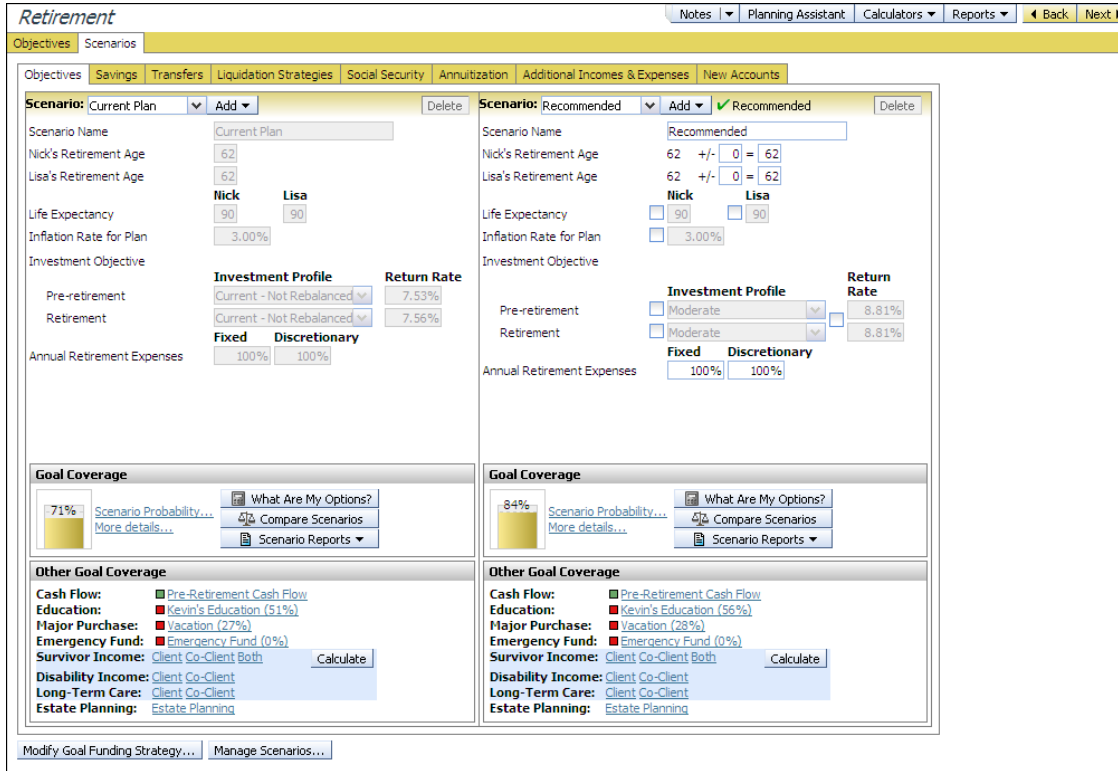


Figure 2: Goals section – Retirement category – Scenarios page – Objectives tab

For both retirement objectives and scenarios, NaviPlan uses the following assumptions:

Milestone	Assumption	Keyword
Retirement begins	January 1 of the first retiree’s first year of retirement	<i>retirement</i>
Retirement ends	December 31 of the year the last client in the plan dies	<i>death</i>

**Hint:** To avoid re-entering the age or year of retirement and death, by using the keywords *retirement* and *death*, you only need to specify the values once. NaviPlan automatically updates the related dates in the plan. For more information, go to <http://knowledge.eisi.com>, and then search for *Functional Documents* using the term *keywords dates*.

## Define the retirement goal asset allocation

In the *Asset Allocation Details* dialog box, you can define asset allocation assumptions for the retirement goal by overriding the suggested asset mix that was determined on the *Plan Management* section – *Asset Allocation* category – *Questionnaire* page. At the bottom of the dialog box, NaviPlan displays expected rates of return and standard deviations for the current asset mix and for the suggested asset mix.

Some reasons clients may consider changing their asset allocation mix include responding to life changes or goals, adapting to changes in their planning horizon, or managing a sudden loss of employment. The Asset Allocation Assessment level in NaviPlan is useful for conducting quick assessments of the clients’ asset allocation, risk preferences, and time horizon.

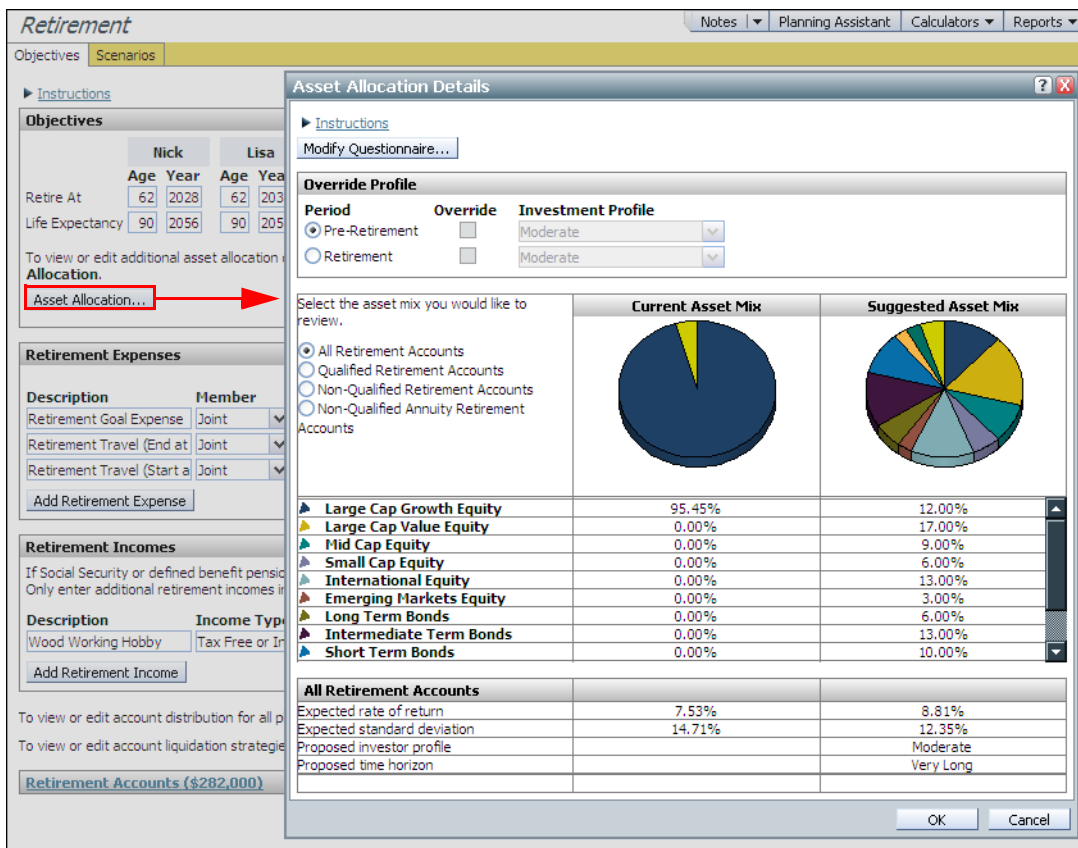


Figure 3: Goals section – Retirement category – Objectives page – Asset Allocation button – Asset Allocation Details dialog box

### To define asset allocation assumptions for the retirement goal

1. In the *Base Details Plan*, go to the **Goals** section – **Retirement** category – **Objectives** page.
2. Click the **Asset Allocation** button. The *Asset Allocation Details* dialog box opens. NaviPlan displays the clients’ current asset mix on the left and the suggested asset mix on the right.

- Click the **Modify Questionnaire** button. The *Questionnaire* dialog box opens. This dialog box shows the responses that were used to determine the suggested asset mix. Changing the answers here changes the suggested asset mix for the retirement goal.

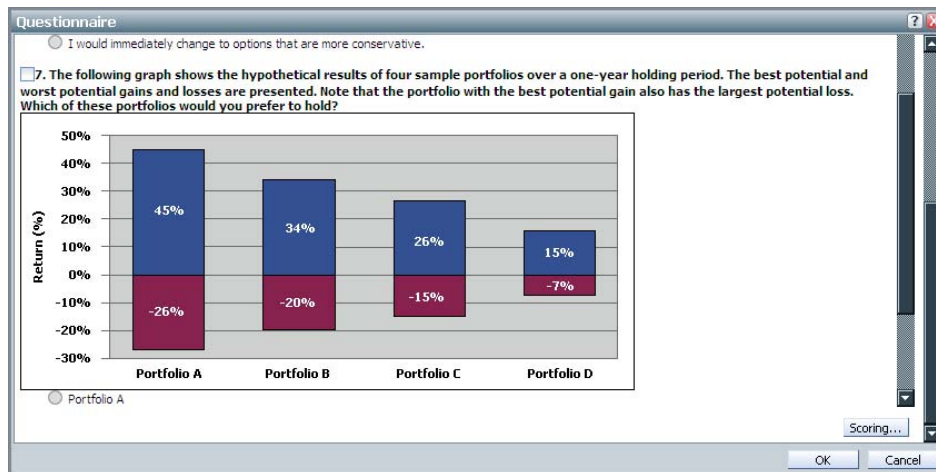


Figure 4: Goals section – Retirement category – Objectives page – Asset Allocation button – Asset Allocation Details dialog box – Modify Questionnaire button – Questionnaire dialog box

- Click **OK**. The *Questionnaire* dialog box closes.
- Select an asset mix you would like to review. A proportional breakdown of the selected accounts is displayed for both the current asset mix and suggested asset mix.

**Hint:** If *All Retirement Accounts* is selected, you cannot override the clients' investment profile and the *Weightings* and *Optimize* options are unavailable when you click *Customize Asset Mix*.

- Under *Override Profile*, you can define different asset mixes for the pre-retirement and retirement periods and for qualified, non-qualified, and annuity assets. Select the period that you want to override.
- Select the **Override** check box, and then select the alternative investor profile you want to use for the selected period.

8. Scroll down to the bottom of the page. At the bottom of the page, NaviPlan displays the expected rate of return and standard deviation for both asset mixes. You can modify the suggested asset mix by clicking either the *Weightings* button or the *Optimize* button.

Click	To do this...
<b>Weightings</b>	Customize the asset class weightings to better suit the clients' situation.
<b>Optimize</b>	Set constraints for each asset class available. NaviPlan determines a new mix that can achieve a similar rate of return or standard deviation as the suggested asset mix. <b>Note:</b> This button is only available if you have permission to use <i>Mean Variance Optimization</i> .

9. Clear the **Override** check box. NaviPlan clears your changes. For more information about asset allocation, see the *Asset Allocation* module.
10. Click **Cancel**. The *Asset Allocation Details* dialog box closes.

## Enter retirement incomes and expenses

NaviPlan considers the pre-retirement and retirement periods separately, allowing you to enter incomes and expenses that are either exclusive to each period or applicable throughout the plan.

Time period	Where to enter the income or expense
Pre-retirement	<ul style="list-style-type: none"> <li>• <i>Financial Picture</i> section – <i>Cash Flow</i> category – <i>Cash Flow</i> page</li> </ul> <p><b>Note:</b> Depending on the end date for the income or expense, the income or expense may flow into the retirement period.</p>
Retirement	<ul style="list-style-type: none"> <li>• <i>Goals</i> section – <i>Retirement</i> category – <i>Objectives</i> page</li> </ul> <p><b>Note:</b> Incomes and expenses entered on the <i>Cash Flow</i> page that continue into retirement also appear on this page. You do not have to re-enter the income or expense.</p>

**Hint:** It is good practice to separate pre-retirement and retirement incomes and expenses for reporting purposes.

On the *Objectives* page, you can enter retirement expenses using one of two methods:

Method	Description
Calculation	Under <i>Calculate Retirement Expenses</i> , you can use one of three formulas to populate a single retirement expense.
Itemized expense	Under <i>Retirement Expenses</i> , you can enter specific itemized expenses with varying start and end dates, amounts, indexation, and frequency.

**Retirement** Notes Planning Assistant Calculators Reports

Objectives Scenarios

Instructions

**Objectives**

	Nick		Lisa	
	Age	Year	Age	Year
Retire At	52	2028	62	2030
Life Expectancy	90	2056	90	2058

To view or edit additional asset allocation details, click **Asset Allocation**.

Asset Allocation...

**Calculate Retirement Expenses**

Enter the annual retirement expenses as a

percentage of the current estimated after-tax salary \$169,785 X  = \$0

percentage of the current lifestyle expenses \$108,000 X  = \$0

specific amount

Add to Retirement Expenses

**Retirement Expenses**

Description	Member	Type	Amount	Frequency	Infl +/- Add'l	Start Age	End Age	Tfr to Survivor	Fixed Exp.	Delete
Retirement Goal Expense	Joint	Lifestyle	\$130,000	Annual	✓+ 0.00%	Retirement	Death	✓	✓	✕
Retirement Travel (End at	Joint	Lifestyle	\$10,000	Annual	✓+ 0.00%	Retirement	75	✓	✓	✕
Retirement Travel (Start a	Joint	Lifestyle	\$15,000	Annual	✓+ 0.00%	76	85	✓	☐	✕

Add Retirement Expense

**Retirement Incomes**

If Social Security or defined benefit pensions are entered on the *Financial Picture* section - *Cash Flow* category - *Cash Flow* page, do not enter them in this section. Only enter additional retirement incomes in this section.

Description	Income Type	Member	Amount	Frequency	Infl +/- Add'l	Start Age	End Age	Delete
Wood Working Hobby	Tax Free or Inheritance	Lisa	\$5,000	Annual	✓+ 0.00%	Retirement	75	✕

Add Retirement Income

To view or edit account distribution for all plan goals: [Goal Funding](#)

To view or edit account liquidation strategies: [Liquidation Strategies](#)

Retirement Accounts (\$282,000)

Figure 5: Goals section – Retirement category – Objectives page

**To enter a retirement expense using the calculation method**

- Under *Calculate Retirement Expenses*, select **percentage of the current lifestyle expenses**, and then enter **75%**.
- Click the **Add to Retirement Expenses** button. Under *Retirement Expenses*, the new retirement expense appears. You can modify the expense further since it is now an itemized expense.

**To enter a retirement expense using the itemized expense method**

The Browns want to spend \$10,000 annually on travel when retirement begins, and then stop traveling after 15 years.

- Under *Retirement Expenses*, click the **Add Retirement Expense** button. A new data-entry row appears. By default, NaviPlan creates a joint expense that occurs annually.
- In the *Description* and *Amount* fields, enter **Retirement Travel** and **\$10,000** respectively.

3. In the *End Age* field, enter **Retirement + 15**.

**Hint:** You can modify keywords by including a positive or negative number of years. When NaviPlan replaces the keyword with an age, it will add or subtract the amount from the client's age.

4. Clear the **Fixed Exp.** check box. Travel is considered a discretionary expense. When creating scenarios, NaviPlan considers the distinction between fixed and discretionary expenses. For example, one scenario might show the ability to cover 100% of fixed expenses, but only have an ability to cover 75% of discretionary expenses.

Expense type	Description
Fixed	Fixed expenses are expenses that will always apply. Examples include food, utility bills, and rent. When entering fixed expenses, ensure the <i>Fixed Exp.</i> check box is selected.
Discretionary	Discretionary expenses are expenses that can start and stop at any time. Examples include golfing, and annual vacations. When creating a scenario, you can increase the odds of goal success by reducing the percentage of discretionary expenses covered. When entering discretionary expenses, ensure the <i>Fixed Exp.</i> check box is cleared.

The benefits of encouraging clients in pre-retirement to reduce discretionary expenses can include

- increasing the clients' ability to save more towards long- or short-term goals
- increasing net worth
- directing surplus cash towards emergency or cash reserve funds
- creating opportunities for new financial goals or objectives, such as a Hawaiian vacation or the purchase of a second residence

### To enter a retirement income

Your clients may decide to work during retirement to maintain or increase their income during this period. For example, your clients may choose to gain part-time employment or earn income from a business venture. If your clients are considering working during retirement, you can point out some benefits, which include

- increasing Social Security benefit payments
- increasing tax-deferred funds in IRA or employer-sponsored retirement plans
- funding goals and expenses using a phased retirement plan
- covering the cost of discretionary expenses

The Browns have an annual \$10,000 pension that will begin at retirement and end at death.

1. Under *Retirement Incomes*, click the **Add Retirement Income** button. A new data-entry row appears. By default, NaviPlan creates an income that occurs annually and begins at retirement.
2. In the *Description* field, enter **Pension**.
3. From the *Income Type* list, select **Pension**.
4. In the *Amount* and *End Age* fields, enter **\$10,000** and **Death** respectively.

## Allocate assets to the goal

After entering goals in the plan, it is important that you specify the source of funding for each goal. Once the goal funding details have been entered, you can determine whether the clients' goals are being met, and then create alternative scenarios.

## Use goal funding options

Another source of funding for the retirement need is income from retirement asset redemptions. You can define asset funding sources for multiple goals in the *Goal Funding* dialog box, or on the *Goals* section – *Goal Funding* category – *Goal Funding* page.

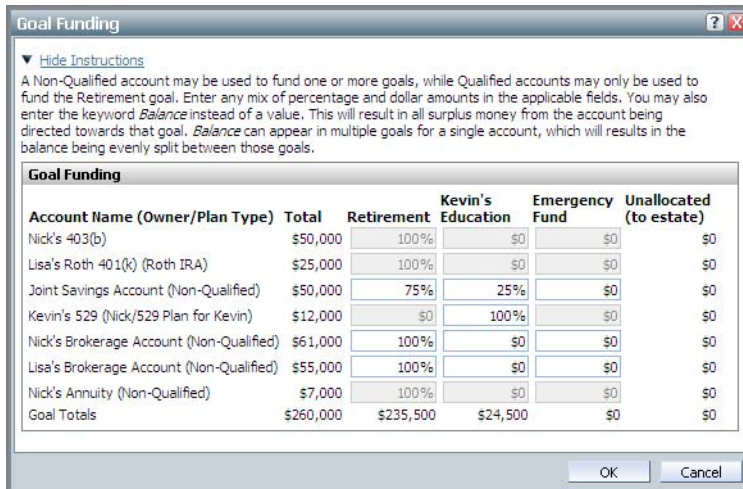


Figure 6: Goals section – Retirement category – Objectives page – Goal Funding button – Goal Funding dialog box

The *Goal Funding* dialog box lists all investment assets in rows and all financial goals in columns. You can allocate how much of each asset, if any, to use for each goal. Qualified retirement assets are automatically assigned 100% to the retirement goal and cannot be changed, whereas non-qualified assets can be allocated to one, multiple, or no goals. Residuals from 529 plans and UTMA/UGMA accounts cannot be used to fund retirement. There are three ways to allocate assets:

Entry	Details
Dollar value	NaviPlan allocates the exact dollar amount to the listed goal. Dollar values take precedence in calculating the total funding amount.
Percentage of asset value	NaviPlan takes the percentage of the asset and converts that percentage into a dollar amount to fund the listed goal. This calculation occurs after dollar values.
The keyword <i>balance</i>	NaviPlan allocates the balance of the asset to the listed goal after the dollar values and percentage of asset values have been calculated.

### To assign assets to the retirement goal

1. On the *Objectives* page, click the **Goal Funding** button. The *Goal Funding* dialog box opens.
2. For a non-qualified account, in the *Emergency Fund* column, enter **\$15,000**.
3. In the *Education* column for the same account, enter **25%**. The amount applied to the education goal is 25% of the total account value. If you enter a percentage that is too high, NaviPlan displays an error message.
4. In the *Retirement* column for the same account, enter **balance**. NaviPlan applies the balance of the account toward the retirement goal.
5. Click **Cancel**. The *Goal Funding* dialog box closes and your changes are cleared.
6. At the bottom of the *Objectives* page, click the **Retirement Accounts** link. The link expands to show all accounts that have been allocated toward the retirement goal. If cash flow deficits are projected during the retirement period, NaviPlan will redeem enough funds from these assets to cover these deficits and any tax due.
7. Click the **Unassigned Accounts** link. The link expands to show all accounts that have some funds available that have not been allocated toward any goals.

### Define account liquidation strategies

On the *Objectives* page, the *Liquidation Strategies* button opens the *Liquidation Strategies* dialog box. The *Liquidation Order* tab allows you to control and define the order in which assets will be redeemed to cover cash flow deficits. The *Redemptions* tab allows you to enter specific redemption details for individual accounts. For example, you could enter a one-time redemption from a non-qualified account to provide additional income in a given year. See the *Advanced Retirement Analysis* module for more details about this dialog box.

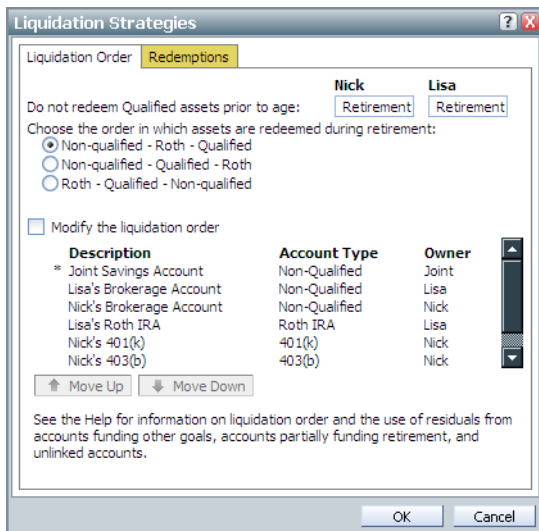


Figure 7: Goals section – Retirement category – Objectives page – Liquidation Strategies button – Liquidation Strategies dialog box – Liquidation Order tab

## Verify retirement data

Before analyzing the clients' plan or an individual goal, you should verify the accuracy of your data. Having accurate data helps ensure that your suggestions are appropriate to the clients' financial situation. There are three ways you can check for errors:

- Use the report buttons on the *Assets/Liabilities*, *Cash Flow*, and *Insurance Coverage* pages. For example, you can generate the *Cash Flow* report by clicking the *Cash Flow Report* button on the *Cash Flow* page.
- Generate a report from the *Reports* menu, such as the *Current Year Cash Flow* report, any of the *Net Worth* reports, or the *Plan Analysis Synopsis* report (which summarizes almost all data entered).
- Open the *Planning Assistant*, which performs checks on data in the plan and notifies you if the data falls outside of typical value ranges. The *Planning Assistant* also identifies potential problems and opportunities as well as areas where data might be incorrect. For example, the *Planning Assistant*<sup>TM</sup> could find an used cash surplus or additional room for qualified contributions.

### To generate the *Plan Analysis Synopsis* report

1. From the *Reports* menu, select **Summary – Synopsis Report**. The *Assign Settings* dialog box opens. 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 scenarios marked as *Recommended* for each goal

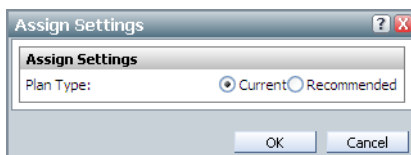


Figure 8: Assign Settings dialog box

2. Select **Current**, and then click **OK**. The *Synopsis Report* dialog box opens.

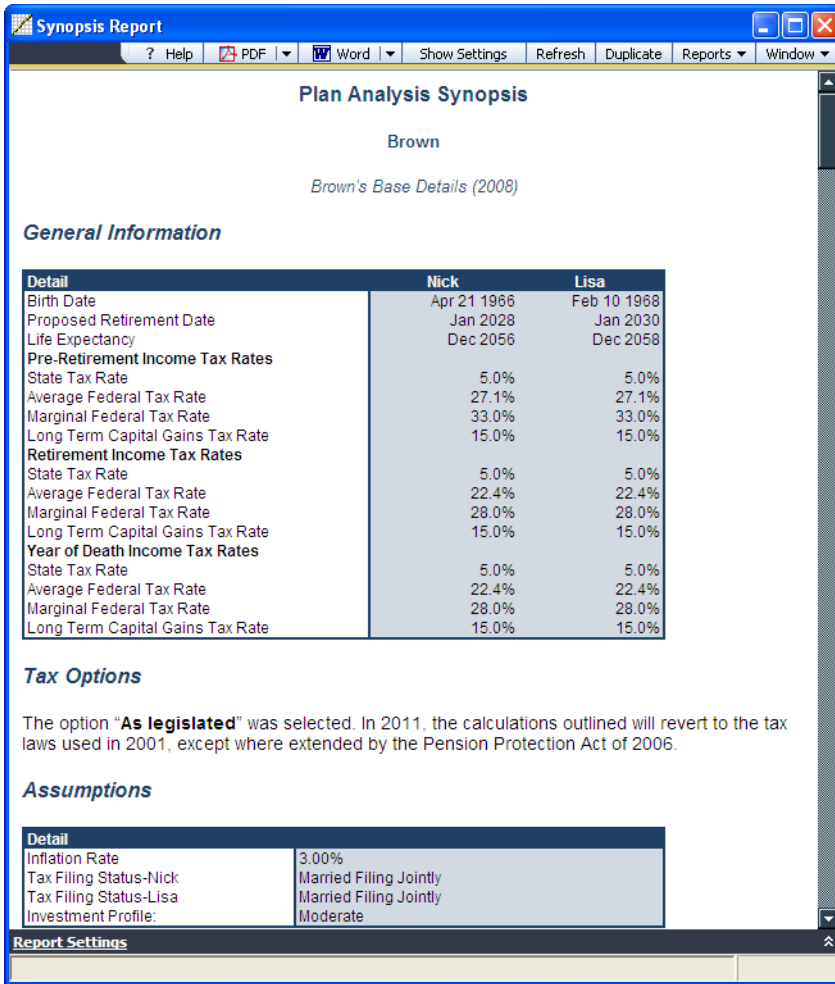


Figure 9: Reports menu – Summary – Synopsis Report – Synopsis Report dialog box

The *Synopsis* report provides a complete overview of the plan including incomes, expenses, assets, liabilities, and strategies. This report serves as a basis for comparing plan alternatives.

3. Close the *Synopsis Report* dialog box.

### To use the *Planning Assistant*

1. Click the **Planning Assistant** button at the top of the NaviPlan window. NaviPlan performs an analysis of the plan. The *Planning Assistant* dialog box opens to the *Overview* tab.

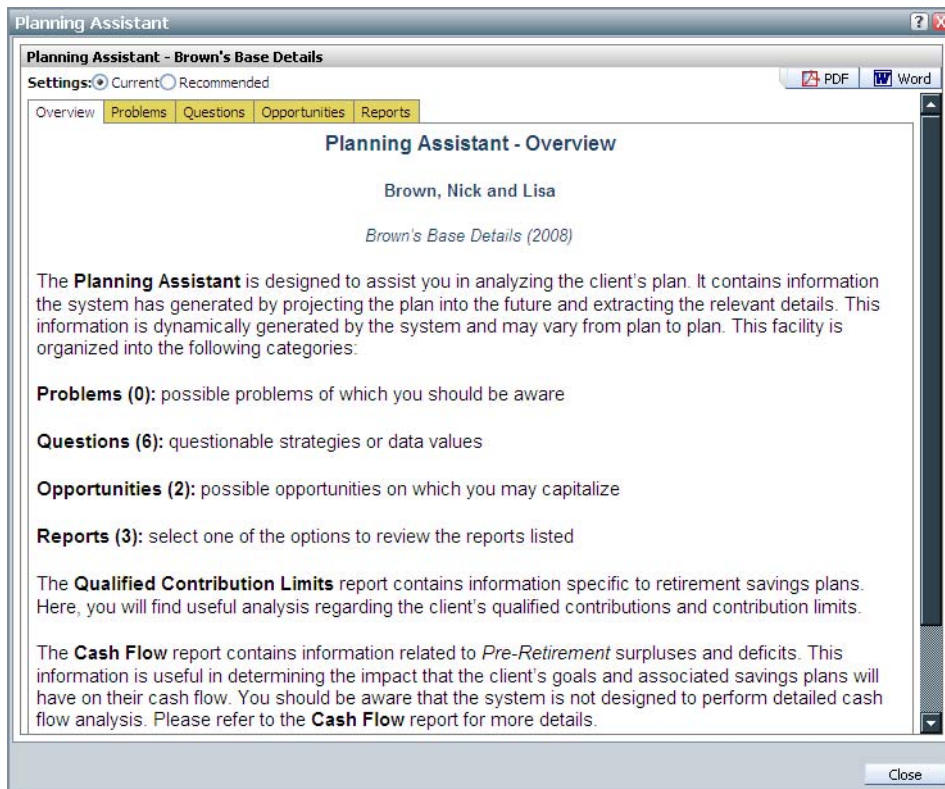


Figure 10: *Planning Assistant* button – *Planning Assistant* dialog box

2. Review the remaining tabs in the dialog box for errors involving name spelling, dates, rates of return, and asset valuations.

To reconcile data-entry inaccuracies, you can generate a variety of stand-alone reports in strategic order, starting with a multi-year focus then narrowing in scope. For example, you can start with the *Multi-Year Cash Flow* report, and then finish with the *Itemized Projection for Family* report.

**Hint:** For more information about auditing numbers in NaviPlan, go to <http://knowledge.eisi.com>, search for *Functional Documents* using the term *auditing numbers*, and then open **Auditing the numbers using reports and other strategies**.

## Create and compare common What-if scenarios

NaviPlan provides convenient and user-friendly *Scenarios* pages allowing you to compare and manage multiple What-if scenarios all within the same plan. Each scenario is designed to help you quickly explore alternative strategies and test key variables. Before choosing a scenario for your clients, you can place two scenarios side-by-side so that you can easily compare the details for both scenarios.

The screenshot displays the 'Retirement' Scenarios page in NaviPlan. It features two side-by-side scenario configurations. The left scenario is named 'Current Plan' and the right is 'Recommended'. Both scenarios are set for Nick and Lisa, with retirement ages of 62 and life expectancies of 90. The inflation rate for both is 3.00%. The investment objective is 'Current - Not Rebalanced' with a return rate of 7.53% for the current plan and 7.56% for the recommended plan. Annual retirement expenses are set at 100% for both. The 'Goal Coverage' section shows 86% for the current plan and 100% for the recommended plan. The 'Other Goal Coverage' section lists various goals like Cash Flow, Education, Major Purchase, Emergency Fund, Survivor Income, Disability Income, Long-Term Care, and Estate Planning, with a 'Calculate' button for each.

Figure 11: Goals section – Retirement category – Scenarios page – Objectives tab

Left retirement scenario	Right retirement scenario
<p>By default, a scenario describing the current analysis appears on this side of the <i>Scenarios</i> page. This scenario is used for comparison purposes only and cannot be edited. If you want to change the scenario, you have to change the data in the current plan.</p> <p>This scenario considers specifically defined retirement expenses, and other expenses such as mortgage payments, taxes, and insurance premiums.</p> <p>NaviPlan uses the return rates on existing assets and uses existing savings strategies. If <i>Current - Rebalanced</i> is selected on the <i>Plan Management</i> section – <i>Assumptions</i> category – <i>Current Portfolio Setting</i> page, NaviPlan rebalances the accounts linked to retirement and uses the weighted average rate of return of the linked assets.</p>	<p>By default, the <i>Recommended</i> scenario appears on this side of the <i>Scenarios</i> page. This scenario is a copy of the <i>Current Plan</i> scenario; however, NaviPlan applies the suggested asset mix to this scenario. This scenario can have a different return rate and goal coverage percentage. You can edit this scenario.</p> <p>When you generate a <i>Financial Needs Analysis</i> client report, scenarios marked as <i>Recommended</i> are included in the recommended plan.</p>

On the *Goals* section – *Retirement* category – *Scenarios* page – *Objectives* tab, you can change many basic goal details in the *Recommended* scenario.

Fields	Description
<i>Retirement Age / Life Expectancy</i>	<p>You can change the time horizon of the retirement goal by adding or subtracting years from the clients' retirement age.</p> <p>If you think your clients might live longer or might die sooner (i.e., due to a pre-existing medical condition), you can adjust the life expectancy as well.</p>
<i>Investment Objective</i>	<p>If you are not satisfied with the suggested asset mix for this scenario, you can select another investor profile for the pre-retirement and retirement period and override the return rates.</p>
<i>Expenses</i>	<p>You can specify the percentage of fixed and discretionary expenses to cover in the plan. For example, if the Browns reduce their discretionary travel expenses during retirement, the clients might be more likely to meet their retirement needs.</p>

When designing a scenario for the recommended plan, it is important to ensure that the suggestions you make are likely to meet the clients' needs. When you make changes to a scenario, a *Goal Coverage* graph updates and shows one of three colors:

The color...	Indicates that...
Green	Goal coverage is 90% or greater
Yellow	Goal coverage is between 65% and 90%
Red	Goal coverage is less than or equal to 64%

### Add a retirement scenario

If asset reallocation alone does not provide adequate goal coverage, you can add a new scenario or build upon a pre-existing one.

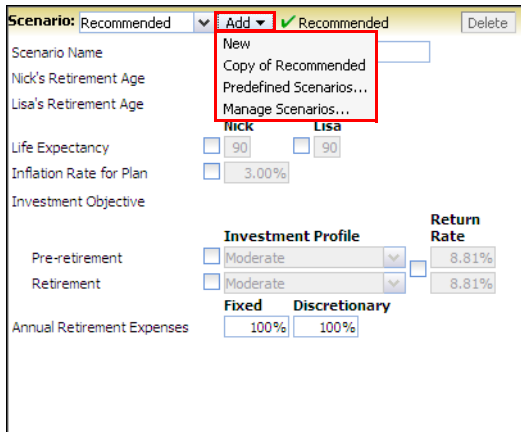


Figure 12: Goals section – Retirement category – Scenarios page – Objectives tab – Add list

#### To add a retirement scenario

1. On the *Objectives* tab, click the **Add** button for the *Recommended* scenario. A list of options appears. You can create a new scenario, create a copy of an existing scenario, access a list of predefined scenarios, or manage multiple scenarios.
2. Select **Copy of Recommended**. The *Recommended* scenario is replaced with a new scenario.
3. In the *Scenario Name* field, enter **Recommended AA and Strategies**.

**Hint:** When entering the name of a scenario, ensure that you use a unique name to distinguish this scenario from others.

## Explore retirement options

In seconds, you can explore retirement options that will provide 100% goal coverage, and then apply an option toward a retirement scenario. The *What Are My Options?* dialog boxes that are accessible from the *Scenarios* pages are particularly useful for this purpose.

**Hint:** For more information, go to <http://knowledge.eisi.com>, and then search for *Functional Documents* using the term *What Are My Options*.

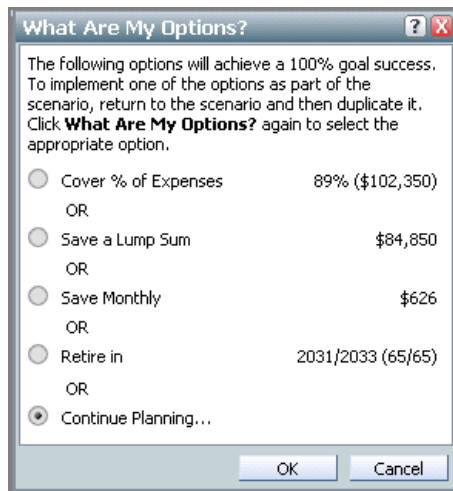


Figure 13: Goals section – Retirement category – Scenarios page – *What Are My Options?* button – *What Are My Options?* dialog box

### To provide quick 100% goal coverage for the retirement goal

1. For the *Recommended AA and Strategies* scenario, click the **What Are My Options?** button. The *What Are My Options?* dialog box opens showing a number of options that will provide 100% goal coverage.

**Hint:** If you demonstrate to your clients the *Save a Lump Sum* option, they may reveal undisclosed assets that you can add to the plan.

2. Select **Save Monthly**, and then click **OK**. The *What Are My Options?* dialog box closes and NaviPlan adds your strategy to the scenario. The *Savings* tab opens, showing additional monthly savings.

## Include a savings strategy

On the *Savings* tab, you can define when savings begin, the amount of lump-sum and monthly savings, and whether savings are indexed. NaviPlan assumes that the clients will begin saving the funds into a joint non-qualified asset earning the rate of return defined on the *Objectives* tab.

By default, NaviPlan starts the savings in the same month as the *Plan Analysis Date*, provided that the *Plan Analysis Date* is the first day of the month. For example, if the *Plan Analysis Date* is February 1, the savings start date is also February 1. However, if the *Plan Analysis Date* is on the second day of the month or later, the savings begin on the following month. For example, if the *Plan Analysis Date* is February 2, the savings begin on March 1.

The screenshot displays the 'Retirement' software interface, specifically the 'Scenarios' page under the 'Savings' tab. It compares two scenarios side-by-side:

- Scenario 1: Current Plan**
  - Start Date: Jan 1 2008
  - Additional Lump Sum Savings: \$0
  - Additional Savings (\$/month): \$0
  - Infl +/- Add'l: Indexed by + 0.00%
  - Current Monthly Savings: \$1,405
  - Goal Coverage: 86%
- Scenario 2: Recommended**
  - Start Date: May 1 2008
  - Additional Lump Sum Savings: \$0
  - Additional Savings (\$/month): \$0
  - Infl +/- Add'l: Indexed by + 0.00%
  - Current Monthly Savings: \$1,405
  - Total Monthly Savings (as of Feb 1 2008): \$1,405
  - Goal Coverage: 100%

Both scenarios include a 'Goal Coverage' section with a progress bar and buttons for 'What Are My Options?', 'Compare Scenarios', and 'Scenario Reports'. Below this is an 'Other Goal Coverage' section listing various goals and their funding sources:

- Cash Flow:** Pre-Retirement Cash Flow
- Education:** Kevin's Education (51%)
- Major Purchase:** Vacation (27%)
- 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

Figure 14: Goals section – Retirement category – Scenarios page – Savings tab

## View other retirement tabs

In addition to entering objectives and additional savings to the retirement goal scenario, you can enter additional assumptions on the remaining tabs on the *Scenarios* page. These tabs are discussed in more detail in the *Retirement Distribution Planning* module.

Use this tab...	To do this...
<i>Transfers</i>	Model transfers between accounts and analyze the effect of these transfers on retirement.
<i>Liquidation Strategies</i>	Control the order in which assets will be redeemed to cover cash flow deficits and analyze redemptions from individual accounts.
<i>Social Security</i>	Analyze the effect of less or more Social Security income by changing the start date for Social Security.
<i>Annuitization</i>	Analyze the effect of additional fixed income by applying an annuitize-to-need strategy that converts non-annuity assets into annuities at retirement.
<i>Additional Incomes &amp; Expenses</i>	Analyze the effect of extra income and expenses during the retirement period. For example, your clients might decide to work part-time during retirement.
<i>New Accounts</i>	Analyze the effect of new accounts on retirement.

## Generate scenario reports and graphs

Scenario reports and graphs provide a summary overview of cash flow, which includes the scenario strategies. The *Multi-Year Cash Flow* report and *Cash Flow Surplus/Deficit* graph are available.

Report/Graph	Description
<i>Multi-Year Cash Flow</i>	This report contains three tables. The <i>Cash Flow Summary</i> table contains a summary of all incomes, expenses, surpluses, and deficits for the entire plan. The <i>Inflow Summary</i> shows all incomes by major category, whereas the <i>Outflow Summary</i> contains all expenses by major category.
<i>Cash Flow Surplus/Deficit</i>	This graph shows the yearly surpluses and deficits for the pre-retirement period. The graph uses the data from the <i>Cash Flow Summary</i> table.

### To generate a scenario report

1. Click the **Scenario Reports** button, and then select **Multi-Year Cash Flow**, or click the Pre-Retirement Cash Flow link. A dialog box opens.
2. Review the report details, and then click **Close**.

## View other goal coverage

Funding for one goal affects the goal coverage of other goals when the amount available is limited. For example, the Browns can afford to save an extra \$500 per month to all goals; however, saving the entire \$500 to one goal might cause other goals to be underfunded. While working in one scenario, under *Other Goal Coverage*, you can view the status of all other *Recommended* scenarios in the plan.

Figure 15: Goals section – Retirement category – Scenarios page – Objectives tab (showing Other Goal Coverage)

NaviPlan highlights the affordability of the scenario by determining whether pre-retirement cash flow deficits are expected in pre-retirement. Clicking the *Pre-Retirement Cash Flow* link generates the *Cash Flow Surplus/Deficit* report.

The color...	Indicates that...
Green	No cash flow deficits are expected
Red	A cash flow deficit appears in at least one pre-retirement year

## Manage scenarios

When creating a plan, you might decide to create multiple scenarios. In the *Manage Scenarios* dialog box, you can create, duplicate, and control all scenarios within a plan. For example, you can view the goal coverage percentage for all scenarios created for the retirement goal. Selecting the *Include in Reports* check box marks a scenario to be included in client reports. Up to four scenarios can be included. The *Current Plan* and *Recommended* scenarios are always included.

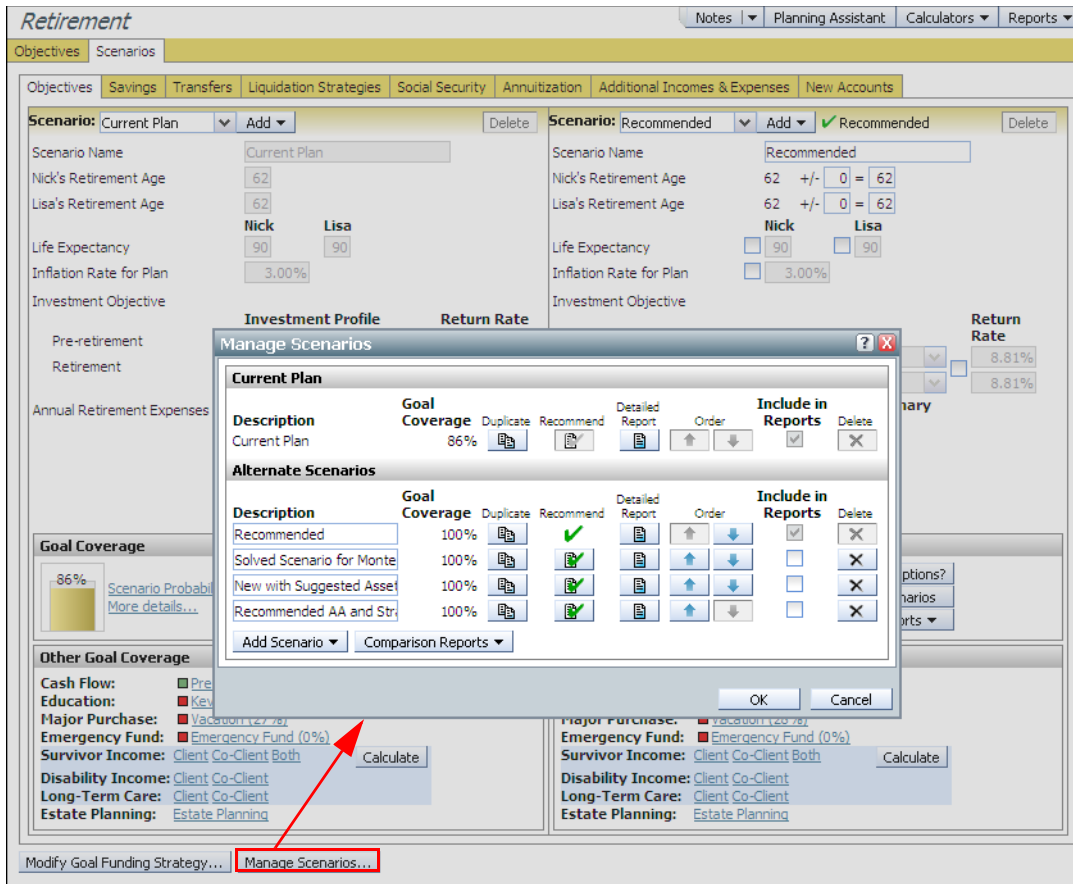


Figure 16: Goals section – Retirement category – Scenarios page – Objectives tab – Manage Scenarios button – Manage Scenarios dialog box

### To add a predefined scenario using the *Manage Scenarios* dialog box

1. On the *Scenarios* page, click the **Manage Scenarios** button. The *Manage Scenarios* dialog box opens.
2. Click the **Add Scenario** button, and then select **Predefined Scenarios**. The *Add Predefined Scenario* dialog box opens. Many common scenarios are included so you can add them quickly and reduce data entry.

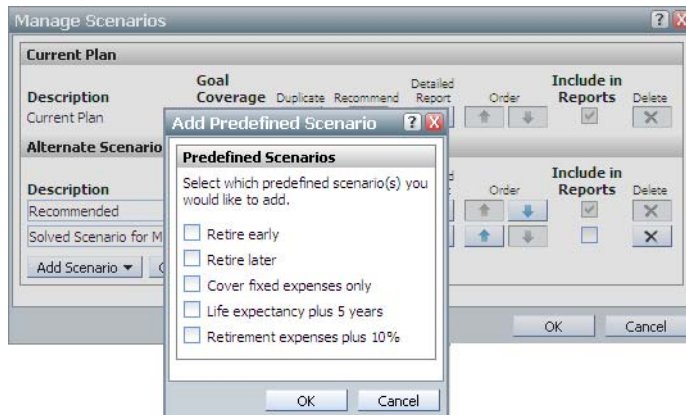


Figure 17: Goals section – Retirement category – Scenarios page – Objectives tab – Manage Scenarios button – Manage Scenarios dialog box – Add Scenario button – Add Predefined Scenario dialog box

3. Select **Retire later**, and then click **OK**. The *Add Predefined Scenario* dialog box closes. Under *Alternate Scenarios*, the new scenario appears.
4. Rename the scenario to **New AA, Delay, and Savings**.
5. Click **OK**. The *Manage Scenarios* dialog box closes. You can now select the new scenario on one of the tabs on the *Scenarios* page.
6. Go to the **Objectives** tab, and then select the new scenario. Notice that two years have been added to Nick's and Lisa's retirement age. In addition, the assets used for the scenario are reallocated. Asset reallocation occurs in all new scenarios.
7. Click **What Are My Options?** The *What Are My Options?* dialog box opens.
8. Select **Save Monthly**, and then click **OK**. The dialog box closes.

## Override existing savings strategies

By clicking the *Modify Existing Savings Strategies* button on the *Savings* tab, you can override existing savings strategies that have been entered in the current plan. You can also add new strategies to the scenario. Changes you make to the savings strategies are included in the recommended plan (provided that the scenario is also recommended).

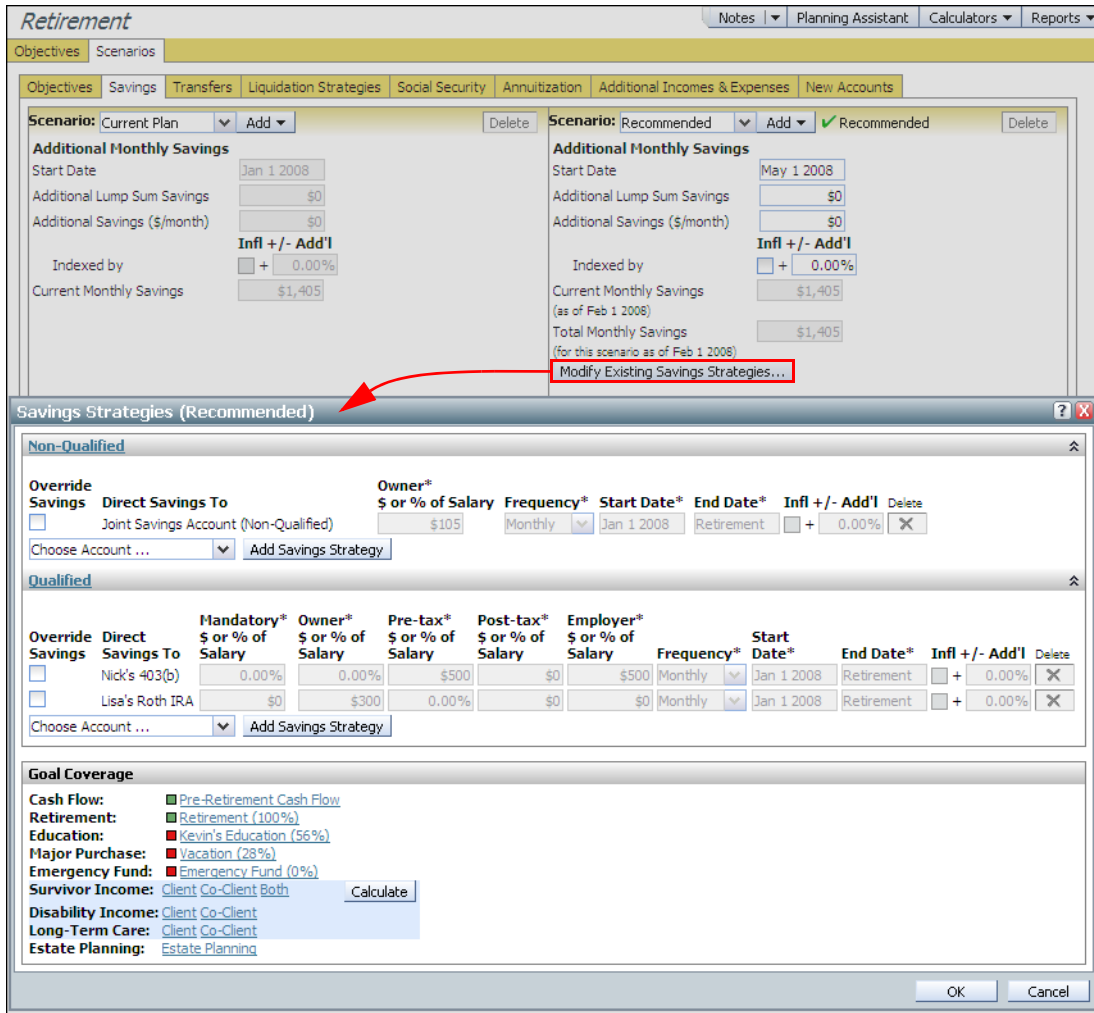


Figure 18: Goals section – Retirement category – Scenarios page – Modify Existing Savings Strategies button – Savings Strategies dialog box

## Explore retirement output pages

Once you have created your clients' scenarios, you can compare key assumptions among these scenarios, and then recommend a scenario that suits the clients' needs. If needed, you can verify the results by generating additional reports. Finally, you can generate and distribute a *Financial Needs Summary* client report, which contains your recommendations.

## Compare scenario assumptions

At any time while you're working through scenarios on the *Scenarios* page, you can quickly compare the two scenarios by clicking the *Compare Scenarios* button. In the *Compare Scenarios* dialog box, you can compare summary and detailed assumptions for the two scenarios.

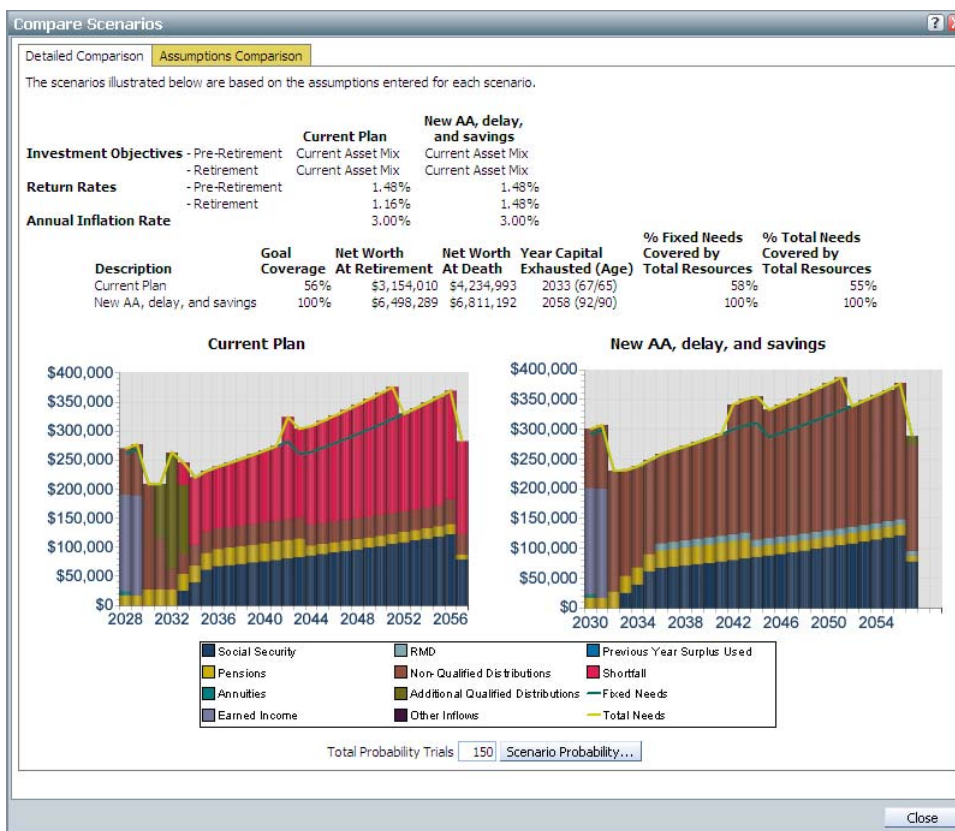


Figure 19: Goals section – Retirement category – Scenarios page – Objectives tab – Manage Scenarios button – Manage Scenarios dialog box – Compare Scenarios dialog box – Detailed Comparison tab

## To compare scenario assumptions

1. On the *Scenarios* page, click the **Compare Scenarios** button. The *Compare Scenarios* dialog box opens to the *Detailed Comparison* tab. The *Detailed Comparison* tab shows a side-by-side comparison of the two scenarios selected on the *Scenarios* page and identifies key assumptions for each scenario, as well as graphs showing retirement needs and abilities.

2. Click anywhere on one of the graphs. A message appears showing details about that part of the graph.
3. Go to the **Assumptions Comparison** tab. NaviPlan shows a side-by-side comparison of key goal assumptions.
4. Click **Close**. The *Compare Scenarios* dialog box closes.

## Recommend a scenario

After testing various scenario strategies, if you have a scenario that you believe is appropriate for your clients, you can recommend it. Once you recommend a scenario, the strategies in the scenario will apply to all reports used for the recommended plan.

The screenshot displays the 'Retirement' software interface, specifically the 'Scenarios' page under the 'Savings' tab. It shows a side-by-side comparison of two scenarios:

- Scenario: Current Plan** (Left):
  - Start Date: Jan 1 2008
  - Additional Lump Sum Savings: \$0
  - Additional Savings (\$/month): \$0
  - Infl +/- Add'l: Indexed by + 0.00%
  - Current Monthly Savings: \$1,405
  - Goal Coverage: 86%
- Scenario: New AA, Delay, ar** (Right):
  - Start Date: Jan 1 2008
  - Additional Lump Sum Savings: \$0
  - Additional Savings (\$/month): \$0
  - Infl +/- Add'l: Indexed by + 0.00%
  - Current Monthly Savings: \$1,405
  - Total Monthly Savings (as of Feb 1 2008): \$1,405
  - Goal Coverage: 100%

The 'Recommend Scenario' button for the right scenario is highlighted with a red box. Below the scenario details, there are sections for 'Goal Coverage' and 'Other Goal Coverage' (including Cash Flow, Education, Major Purchase, Emergency Fund, Survivor Income, Disability Income, Long-Term Care, and Estate Planning) for both scenarios. At the bottom, there are buttons for 'Modify Goal Funding Strategy...' and 'Manage Scenarios...'.

Figure 20: Goals section – Retirement category – Scenarios page – Savings tab

## To recommend a scenario

- On the *Scenarios* page, ensure the *New AA, Delay, and Savings* scenario is selected, then click the **Recommend Scenario** button. NaviPlan changes the status of the scenario to *Recommended*.

## Generate the Current Year Cash Flow report

By generating the *Current Year Cash Flow* report, you can view the effect of the retirement goal scenario you recommended, and then determine if you need to make additional changes to the scenario.

Current Year Cash Flow Report	
Brown	
Brown's Base Details #2 - Proposed (2008)	
<b>Cash Inflows</b>	
Regular Income:	
Nick's Salary (Nick)	\$130,000
Lisa's Salary (Lisa)	\$105,000
<b>Total Regular Income</b>	<b>\$235,000</b>
Investment Income: <sup>1</sup>	
Joint Savings Account (Non-Qualified)	\$3,818
500 Smith Street (Joint/Real Estate)	\$36,000
Lisa's Brokerage Account (Non-Qualified)	\$4,118
Nick's Brokerage Account (Non-Qualified)	\$4,492
<b>Total Investment Income<sup>1</sup></b>	<b>\$48,427</b>
<b>Total Cash Inflows</b>	<b>\$283,427</b>
<b>Cash Outflows</b>	
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
<b>Total Lifestyle Expenses</b>	<b>\$108,000</b>
Taxes:	
Federal Taxes	\$88,269
State Taxes	\$13,212

Figure 21: Reports menu – Cash Flow – Current Year Cash Flow Report – Current Year Cash Flow report

### To generate the *Current Year Cash Flow* report

1. Go to the **Reports** menu, and then select **Cash Flow – Current Year Cash Flow Report**. The *Assign Settings* dialog box opens.
2. Select **Recommended**, and then click **OK**. The *Current Year Cash Flow* report appears using the retirement goal settings you defined and recommended.

Under *Investment Income*, if you reallocated or applied additional savings, hypothetical accounts are listed that are producing income.

Under *Savings Allocated to Goals*, any additional savings strategies you added in the retirement scenario appear.

Under *Reinvestments Allocated to Goals*, you can see that investment income is reinvested automatically into the assets for which you have allocated funds.

3. Close the report.

## Generate and view the Financial Needs Summary report

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

### To generate the *Financial Needs Summary* 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.

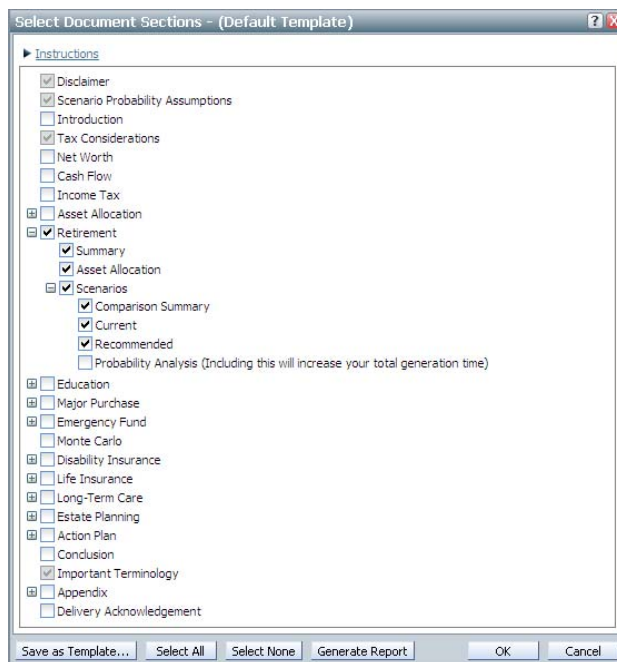


Figure 22: Results section – Client Reports category – Client Reports page – Select Document Sections button – Select Document Sections dialog box

3. Click the **Select None** button. All check boxes are cleared, except for mandatory sections.
4. Expand the **Retirement** document section, and then select the **Retirement** check box. All *Retirement* check boxes are selected.
5. Expand the **Scenarios** document section, and then clear the **Probability Analysis** check box. For information about probability analysis, see the *Monte Carlo* module.
6. Click the **Generate Report** button. The *Financial Needs Summary* report opens.

- In the report, go to the **Retirement** section. This page provides a summary that graphically demonstrates the retirement needs and abilities for the Browns' current and proposed plan. Notice that under *Current Plan*, some shortfalls appear during retirement, whereas under *Proposed Plan*, all needs are met because of the strategies you added to the recommended retirement scenario. Under *Financial Objectives*, the report lists assumptions that have been entered in the *Current Plan* and *Recommended* retirement scenarios.

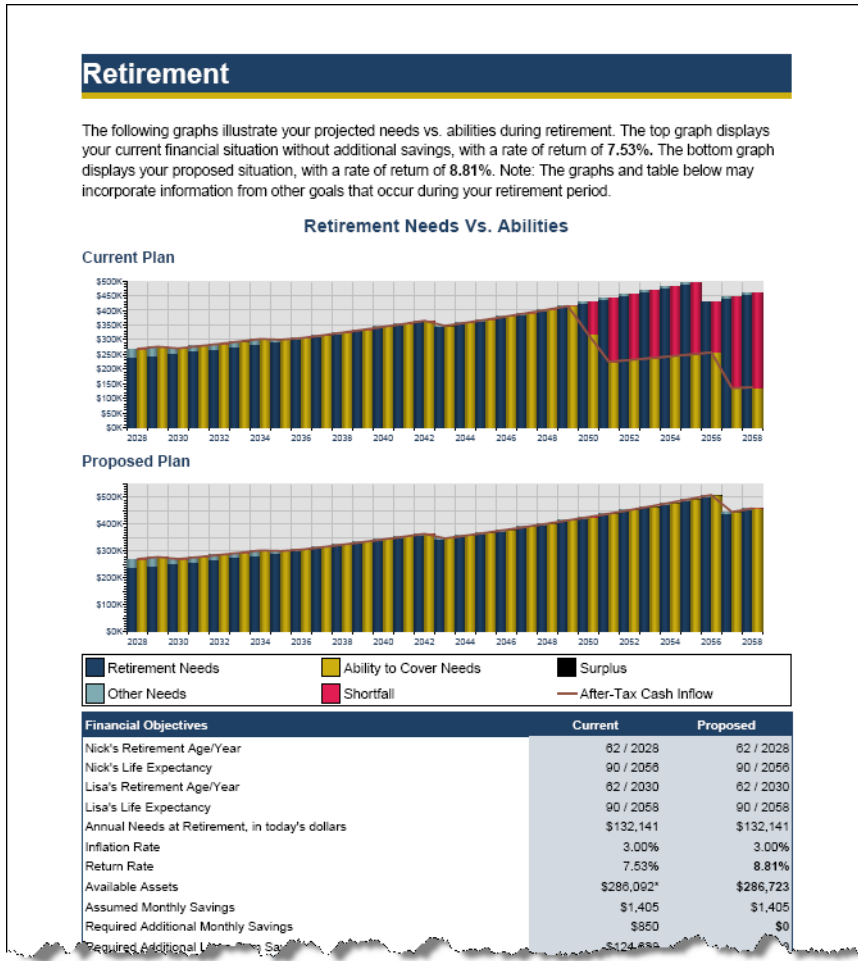


Figure 23: Financial Needs Summary report – Retirement section

- In the report, go to the **Asset Allocation for Retirement** section. The asset allocation details show the current and proposed asset mix graphs and return details. These details can demonstrate how balanced asset diversification can reduce exposure to any single asset class and increase the rate of return for the given level of risk. The table lists the changes in assets required to match the asset allocation for the proposed plan.

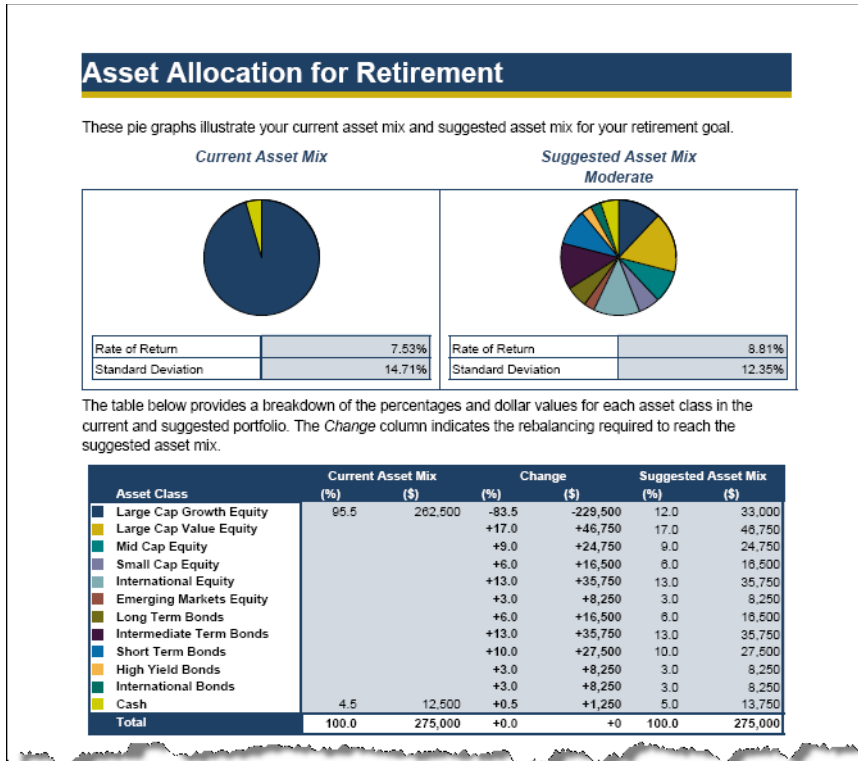


Figure 24: Financial Needs Summary report – Asset Allocation for Retirement section

- In the report, go to the **Retirement Scenario Summary** section. The graphs shows the difference in goal coverage between the *Current Plan* scenario and each scenario included in the client report. The *Current Plan* and *Recommended* scenarios are always included. Up to four scenarios can be included in the report. The table lists the net worth and goal coverage details for each scenario.

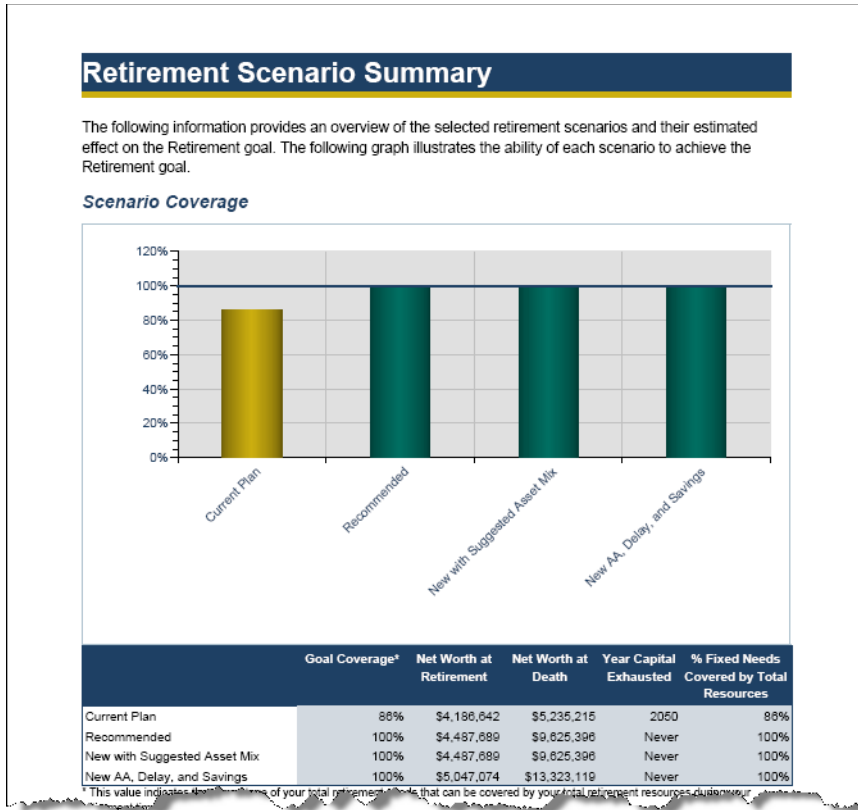


Figure 25: Financial Needs Summary report – Retirement Scenario Summary section

10. In the report, go to the **Retirement - Current Plan** section. This page shows the retirement goal coverage, key scenario assumptions, and a needs and abilities analysis for the current plan.

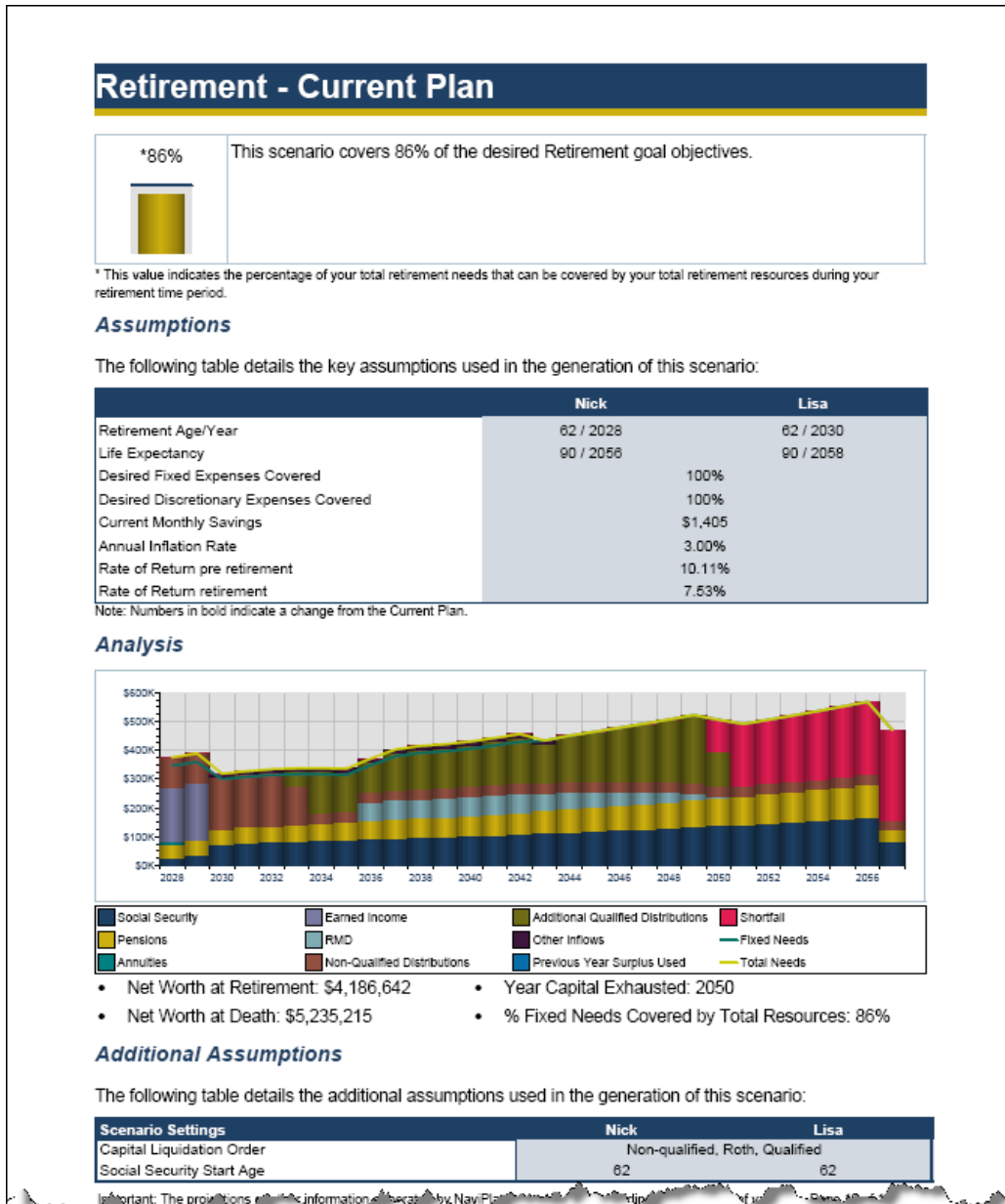


Figure 26: Financial Needs Summary report – Retirement - Current Plan section

11. In the report, go to the **Retirement (Recommended)** section. This section is similar to the *Retirement - Current Plan* section, except that it is based on the recommended plan.

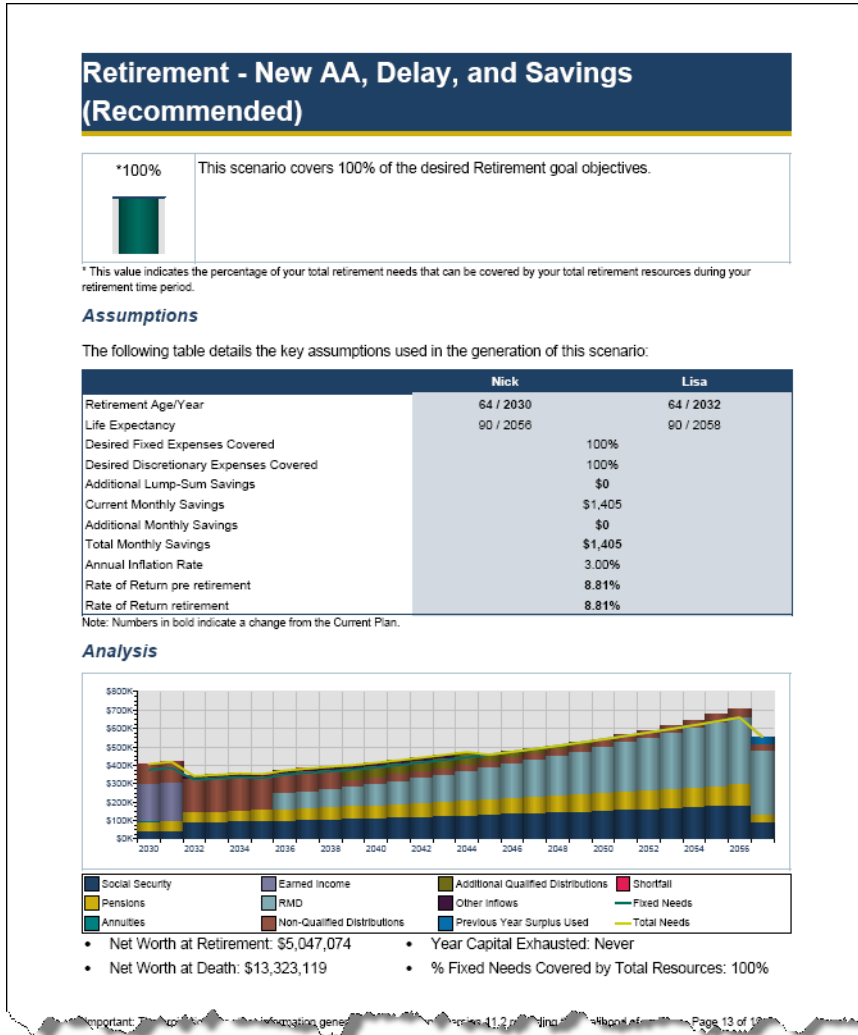


Figure 27: Financial Needs Summary report – Retirement - Recommended section

## 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., *Retirement goal analysis 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: Identify goal assumptions

To find the answers, see “Answers to retirement goal analysis” on page 38.

1. The time horizon for the retirement period is:

**Hint:** The Help on the *Goals* section – *Retirement* category – *Objectives* page provides useful background information on retirement objective assumptions in NaviPlan.

- a) January 1 of the year in which the first client retires to December 31 of the year in which the last client dies.
  - b) January 1 of the year in which the last client retires to December 31 of the year in which the last client dies.
  - c) The birth month of the year in which the first client retires to December 31 of the year in which the last client dies.
  - d) The birth month of the year in which the last client retires to December 31 of the year in which the last client dies.
2. Nick’s retirement date is January 1, 2032, and Lisa will retire two years later. Lisa will have a singly owned health club membership expense of \$100 per month that will begin at her retirement and end ten years later.

**Hint:** Using the keyword *retirement* streamlines data entry in NaviPlan and can safeguard against improperly timed cash flows.

Enter this information on the *Goals* section – *Retirement* category – *Objectives* page.

On what date will Lisa’s health club membership expense begin?

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3. Which of the following account types are automatically allocated to the retirement goal?

**Hint:** Click the **Goal Funding** button on the *Goals* section – *Retirement* category– *Objectives* page to view or edit account distribution for all plan goals.

- a) Qualified accounts
  - b) Non-qualified accounts
  - c) 529 accounts
  - d) None of the accounts are automatically allocated; you must manually allocate all assets.
4. If Lisa owns all the qualified retirement accounts and she retires *after* Nick, will her qualified accounts, such as an IRA or 401(k), be available to cover the retirement goal in the first two years of Nick's retirement?

**Hint:** Generate the **Itemized Cash Flow Projection for Family** report (*Plan Type: Current*) for the first five years of retirement.

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## Exercise 2: Create and compare common What-if scenarios

To find the answers, see “Answers to retirement goal analysis” on page 38.

1. Before proceeding to the *Scenarios* page to analyze a goal, what should you do?
  - a) Verify specific cash flow and net worth details using reports (like the *Itemized Cash Flow Projection for Family* and *Net Worth Statement as of January*), and then correct any inaccuracies in the plan.
  - b) Verify nearly all data in the plan using the *Plan Analysis Synopsis* report, and then correct any inaccuracies in the plan.
  - c) Click the *Planning Assistant* button, review the results, and then correct any inaccuracies in the plan.
  - d) Any of the above are recommended methods for verifying plan data.

2. Go to the **Goals** section – **Retirement** category – **Scenarios** page and make note of the goal coverage amounts in the *Current Plan* and *Recommended* scenarios. Why is goal coverage different in these scenarios?

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3. Nick and Lisa are not interested in reallocating their accounts to the *Recommended* investment profile.

a) Make this change on the *Scenarios* page.

**Hint:** Override the pre-retirement/retirement profiles under *Investment Profile* for the *Recommended* scenario, and then select **Current - Not Rebalanced**.

b) Why is goal coverage using the *Current - Rebalanced* investment profile of the *Current Plan* scenario lower than goal coverage using the *Current - Not Rebalanced* investment portfolio of the *Recommended* scenario?

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c) What happens when you choose each of the following options in the *What Are My Options?* dialog box?

<i>Cover % of Expenses</i>	
<i>Save a Lump Sum</i>	
<i>Save Monthly</i>	
<i>Retire in</i>	
<i>Continue Planning</i>	

- Solve the retirement goal by creating your own custom retirement scenario(s). Use any of the tools available on the *Objectives* and *Savings* tabs, including the *What Are My Options?* and *Predefined Scenarios* options. When you are finished creating a scenario that you feel is appropriate, mark the scenario as *Recommended*.

**Hint:** Use the *Scenario Reports* button and the link beside *Cash Flow* under *Other Goal Coverage* to confirm that the clients can afford your suggested strategies.

## Conclusion

This module has enabled you to

- Define your clients' retirement needs and perform a retirement goal analysis
  - Identify retirement goal assumptions
  - Define your clients' asset allocation objective
  - Define the method used to calculate retirement expenses
  - Model fixed and discretionary retirement expenses
  - Establish retirement income sources
  - Allocate assets to the retirement goal
  - Verify the accuracy of your data entry with stand-alone reports
  - Create and compare alternative retirement goal scenarios
  - Evaluate relevant output pages in a client report to assess the clients' progress toward meeting the goal

## Answers to retirement goal analysis

### Exercise 1: Identify goal assumptions

- a) The time horizon for the retirement period is January 1 of the year in which the first client retires, to December 31 of the year in which the last client dies.
- The expense will begin on January 1 of the year in which Lisa retires (January 1, 2030).
- a) Qualified accounts are automatically allocated to the retirement goal.
- No – Qualified retirement accounts cannot be redeemed to cover the retirement goal until the asset's owner retires, therefore a shortfall may be experienced.

### Exercise 2: Create and compare common What-if scenarios

- d) Any of the above are recommended methods for verifying plan data.
- The difference between the *Current Plan* and *Recommended* scenarios is the allocation of assets. The *Recommended* scenario automatically reallocates the accounts linked to the retirement goal.

3. b) Returns in the *Current - Not Rebalanced* investment profile fluctuate because each account continues to earn its rate of return each year. However, when accounts linked to retirement are rebalanced in the *Current Plan* scenario, they will grow by a weighted average rate of return, which can result in a lower goal coverage.
- c)

<i>Cover % of Expenses</i>	Changes the percentage of plan expenses included in the retirement goal to the largest percentage the clients can afford
<i>Save a Lump Sum</i>	Creates a one-time savings strategy that saves the suggested amount to a system-generated non-qualified account
<i>Save Monthly</i>	Creates a savings strategy that saves the suggested amount to a system-generated non-qualified account on a monthly basis
<i>Retire in</i>	Changes the retirement date to the earliest year in which the clients can afford to retire
<i>Continue Planning</i>	Does not make any changes to the scenario

