



NaviPlan Standard Online/Offline

Advanced Retirement Features

Self-Study Guide

USA version 11.0

EISI, Winnipeg

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Advanced retirement features

The NaviPlan Standard Advanced Retirement Features 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.

This module is applicable to Level 2 and 3 Plans, and focuses on the liquidation and distribution of retirement assets.

Learning objectives

This module will enable you to

- Modify the liquidation order of retirement assets
- Utilize the annuitization feature
- Use probability analysis to evaluate scenarios
- Interpret the *Retirement Distribution Summary* client report

Learning tools

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

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

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

Retirement planning

The *Retirement Goal Analysis* self-study guide looked at how you would save and meet your retirement goals. This module looks at how to distribute and liquidate retirement assets in a tax-efficient way.

Modify the liquidation order of retirement assets

The screenshot shows the 'Retirement' software interface. At the top, there are navigation buttons for 'Level 3', 'Back', and 'Next'. Below that, there are tabs for 'Objectives' and 'Scenarios', and a menu with 'Notes', 'Planning Assistant', 'Calculators', and 'Reports'. The main content area is divided into several sections:

- Objectives:** A table with columns for 'Nick' and 'Lisa', and sub-columns for 'Age' and 'Year'. It shows 'Retire At' (62, 2028 for Nick; 62, 2030 for Lisa) and 'Life Expectancy' (90, 2056 for Nick; 90, 2058 for Lisa). Below this is a link for 'Asset Allocation...'.

	Nick		Lisa	
	Age	Year	Age	Year
Retire At	62	2028	62	2030
Life Expectancy	90	2056	90	2058
- Calculate Retirement Expenses:** A section with radio buttons for 'percentage of the current estimated after-tax salary \$131,670 X [] = \$0', 'percentage of the current lifestyle expenses \$108,000 X [] = \$0', and 'specific amount []'. There is an 'Add to Retirement Expenses' button.
- Retirement Expenses:** A table with columns: Description, Member, Amount, Frequency, Infl +/- Add'l, Start Age, End Age, Tfr to Survivor, Fixed Expense, and Delete.

Description	Member	Amount	Frequency	Infl +/- Add'l	Start Age	End Age	Tfr to Survivor	Fixed Expense	Delete
Retirement Travel (End at)	Joint	\$10,000	Annual	✓+ 0.00%	Retirement	75	✓	✓	✕
Retirement Travel (Start at)	Joint	\$15,000	Annual	✓+ 0.00%	76	85	✓	☐	✕
Retirement Expense	Joint	\$105,000	Annual	✓+ 0.00%	Retirement	Death	✓	✓	✕
- Retirement Incomes:** A section with a note about Social Security or defined benefit pensions. It has a table with columns: Description, Income Type, Member, Amount, Frequency, Infl +/- Add'l, Start Age, End Age, and Delete.

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	✕

At the bottom, there are instructions: 'To view or edit account distribution for all plan goals: Goal Funding' and 'To view or edit account liquidation order: **Liquidation Order**'. A dropdown menu shows 'Retirement Accounts (\$235,500)'.

Figure 1: Goals section – Retirement category – Objectives page

When you click the *Liquidation Order* button on the *Goals* section – *Retirement* category – *Objectives* page, the *Liquidation Order* dialog box opens.

This dialog box allows you to select the order in which accounts are liquidated to fund your clients' retirement. Depending on your user permissions, you can choose the predefined method of account liquidation or the custom method.

Level 2 and 3 Plans allow users to control the liquidation order for accounts linked to the retirement goal.

Predefined liquidation order

You can select one of three predefined sets of accounts to determine the order they are liquidated to fund your clients' retirement:

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

Non-qualified accounts

All non-qualified 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

Roth 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

Qualified 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

The initial ordering of the accounts in this list depends on the current predefined account liquidation selection, and you can reorder the accounts to meet the needs of your clients.

Any account that is not used fully to fund the retirement goal is marked with an asterisk (*). For example, an account named *Major Purchase*, which is a jointly owned, non-qualified account that is funding the major purchase goal, would appear in the selection box as **Major Purchase (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.

Set the liquidation order

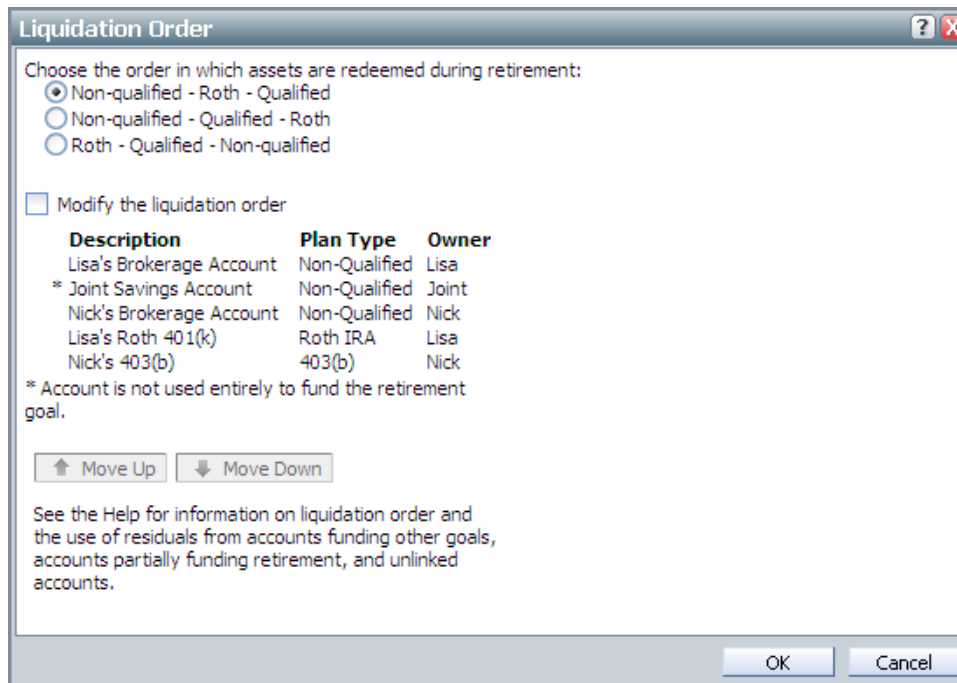


Figure 2: Goals section – Retirement category – Objectives page – Liquidation Order dialog box

To set the liquidation order

1. Select the account redemption order from the predefined list:
 - *Non-qualified – Roth – Qualified*
 - *Non-qualified – Qualified – Roth*
 - *Roth – Qualified – Non-qualified*or
 1. Select the **Modify the liquidation order** order check box.
 2. Select an account, and then click the **Move Up** or **Move Down** buttons until the account is in the desired position.
 3. Repeat step 2 until all of the retirement accounts are in the desired order.
 4. Click **OK**.

Liquidation order details

- *Modify the liquidation order* – This check box allows you to select and reorder your clients' accounts in the account list for redemption in retirement.
- *Move Up* – This button moves the selected account up in the list one position for each time it is clicked.

- *Move Down* – This button moves the selected account down in the list one position for each time it is clicked.
- An account that has an asterisk (*) beside it is only partly used to fund the retirement objective.

View scenario liquidation order

The *Scenarios* page for Level 2 and 3 Plans contains tabs that can be used to control retirement distribution options.

This module examines the advanced features on these tabs:

- *Liquidation Order*
- *Social Security*
- *Annuitization*
- *Additional Incomes & Expenses*

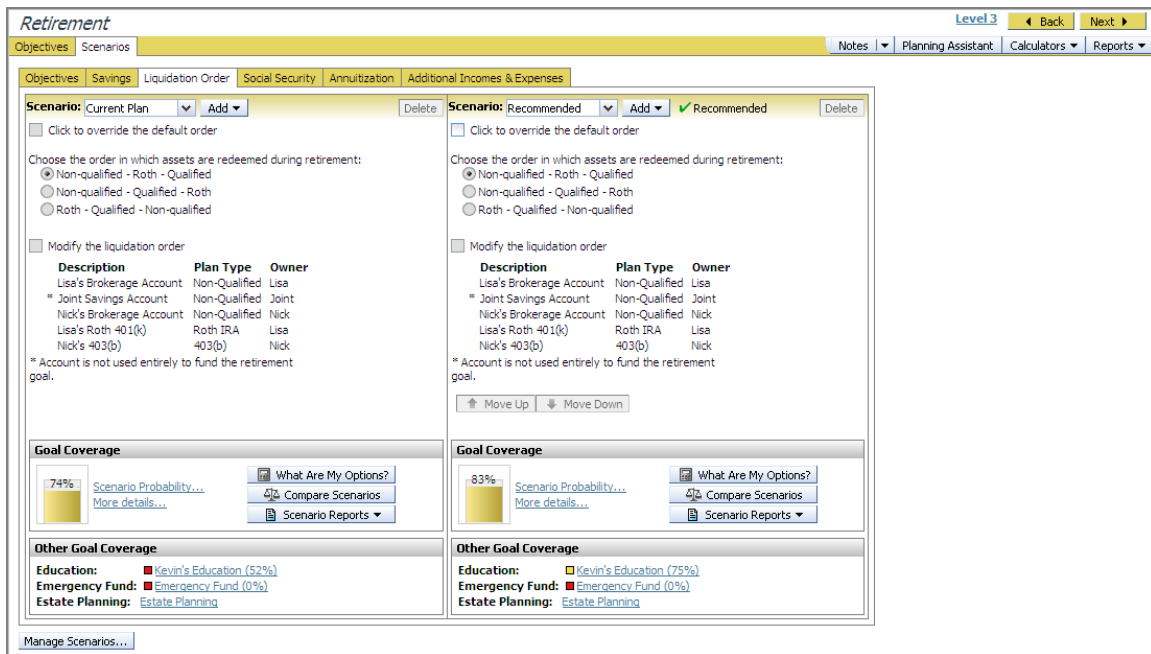


Figure 3: Goals section – Retirement category – Scenarios page – Liquidation Order tab

On the *Scenarios* page – *Liquidation Order* tab, you can compare the effects of the liquidation order of scenarios side-by-side. This gives you a visual interpretation of how the changes in asset liquidation will affect your retirement goal.

After modifying the liquidation order using the *Modify the liquidation order* check box, if you decide to change the order in which assets are redeemed by a specific predefined order (buckets), you must clear the *Modify Liquidation Order* check box prior to making a new selection.

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.

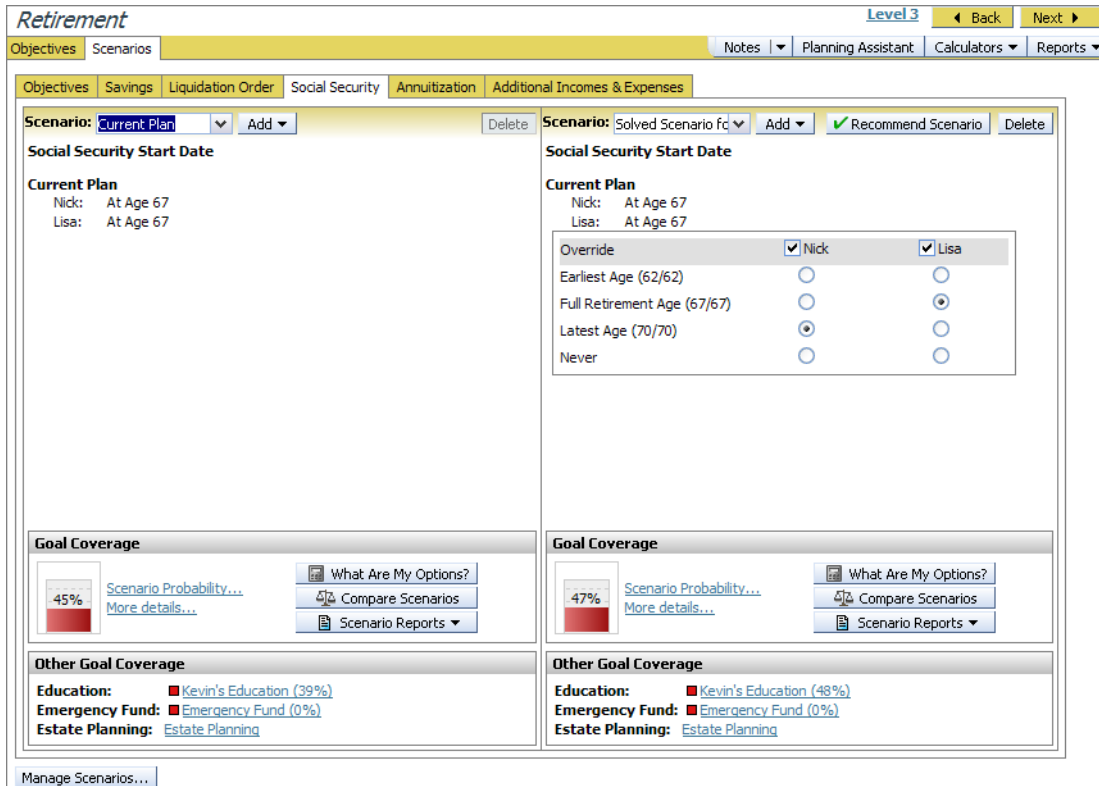


Figure 4: Goals section – Retirement category – Scenarios page – Social Security tab

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

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, and notice how the graph under *Goal Coverage* changes.

Note: For more information on retirement scenarios, *What Are My Options?*, and managing scenarios, see the *Retirement Goal Analysis* self-study guide.

Social Security details

- *Scenario* – Used to select a scenario to use in the comparison. The *Current Plan* scenario cannot be modified.
- *Add* – Adds a scenario to the *Scenario* list.
- *Recommend Scenario/Recommended* – Indicates which scenario has been selected as the recommended scenario. The recommended scenario is included in reports generated for the *New Analysis*.
- *Delete* – Deletes the associated scenario.
- *Override* – Overrides the default start date for retirement. The start date can be changed to
 - *Earliest Age* – as determined by the United States Federal Government
 - *Full Retirement Age* – as determined by the client's date of birth
 - *Latest Age* – as determined by the United States Federal Government
 - *Never*
- *Goal Coverage* – The percentage of all cash outflows that occur during the goal period, except for income and estate taxes, that can be covered using all goal resources and the specified goal dates.
- *Scenario Probability* – Opens the *Scenario Probability* dialog box.
- *More details* – Opens the *Scenario Details* dialog box.
- *What Are My Options?* – Opens the *What Are My Options?* dialog box.
- *Compare Scenarios* – Opens the *Compare Scenarios* dialog box.
- *Scenario Reports* – Provides access to the *Details*, *Multi-Year Cash Flow*, and *Cash Flow Surplus/Deficit* reports.
- *Other Goal Coverage* – This section displays the estimated chance of achieving other goals.
- *Manage Scenarios* – Opens the *Manage Scenarios* dialog box.

Utilize 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

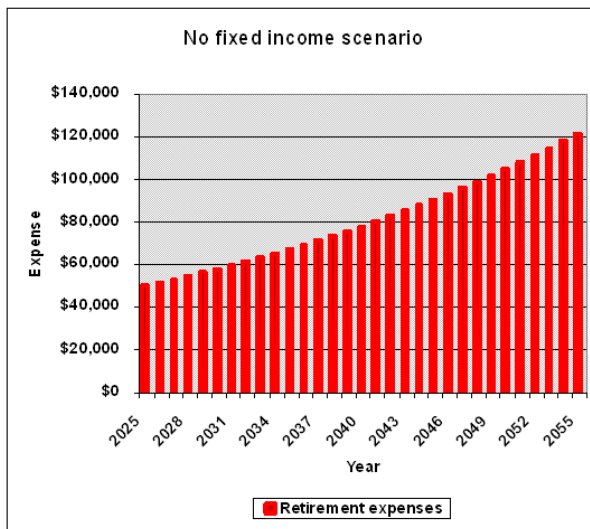


Figure 5: Scenario A – No fixed income

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 asset
- With fixed return 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

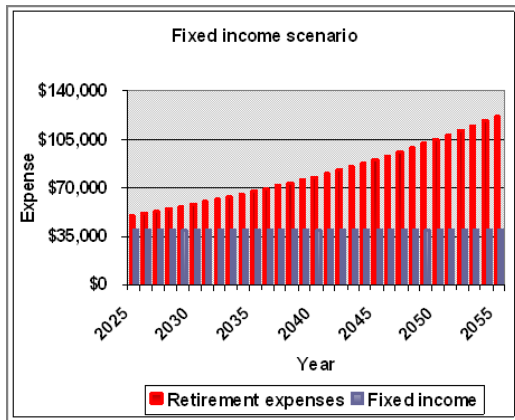


Figure 6: Scenario B – Fixed income

Assumptions

- Retirement expense: \$50,000 per year
- Fixed retirement income: \$40,000
- Investment assets at retirement: \$1 million
- Bought life income annuity
- \$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

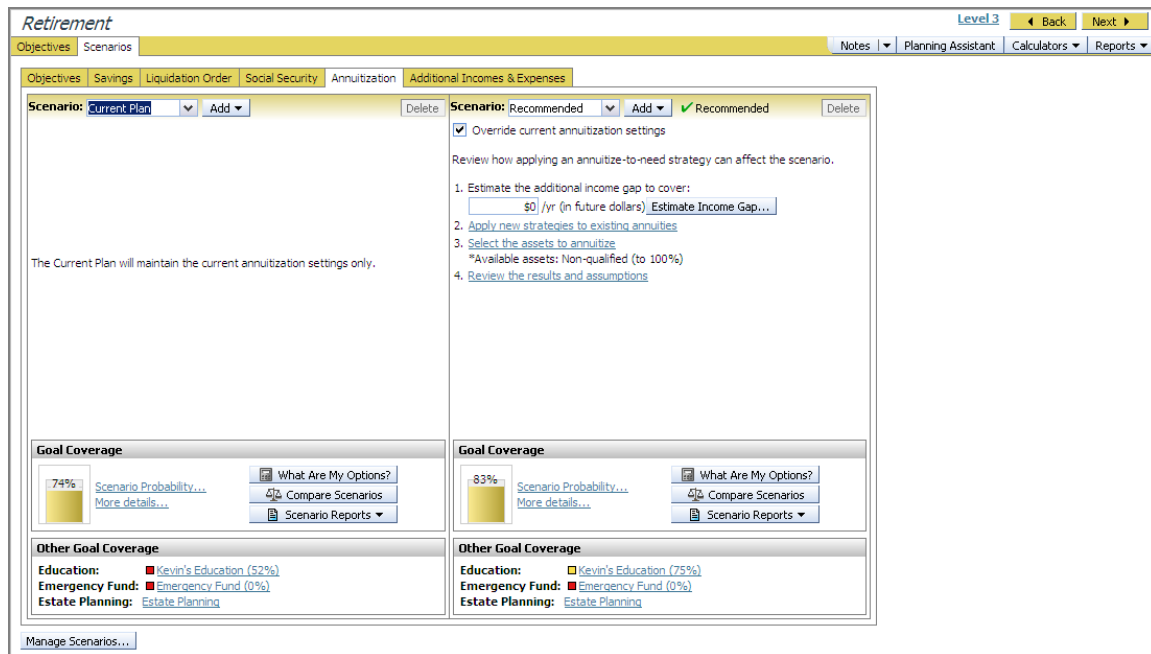


Figure 7: Goals section – Retirement category – Scenarios page – Annuitization tab

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. Select a scenario from the *Scenario* list, and then select the **Override current annuitization settings** check box.
3. 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 by 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. 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 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
 - 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. Click **Calculate**. The dialog box updates to show all values in the selected dollars.
7. Above the fixed expenses gap table, click **Projected gaps throughout retirement**. The projected gap table appears.
8. Examine the table and the *Annual Retirement Income/Expense Summary* graph to determine if there is an income gap which your clients would like to cover with an annuitize-to-need strategy.
9. If there is a gap, determine the size of the gap your clients would like to cover.
10. Click **OK**. The *Estimate Income Gap* dialog box closes.
11. Enter the income gap amount on the *Annuitization* tab under *Estimate the additional income gap to cover*.

Estimate Income Gap in Retirement

Instructions

Estimate Income Gap

Estimate the income gap using: future dollars today's dollars

Estimate the additional income gap to cover:
 /yr (in future dollars)

Apply the following annuity settings*:

Payment per
Override **\$1,000** **ROR%**

*Other annuity assumptions are reported in step 4

Lowest Fixed Expenses Gap in Retirement (yr)	Average Fixed Expenses Gap throughout Retirement	Highest Fixed Expenses Gap in Retirement (yr)
\$97,646 (2029)	\$227,906	\$307,925 (2056)

Annual Retirement Income/Expense Summary Graph

Annual Retirement Income/Expense Summary
Solved Scenario for Monte Carlo
[Graph Information](#)

Projected gaps throughout retirement

Year	Total Fixed Expenses	Total After-Tax Fixed Incomes	Fixed Expenses Gap	Total Expenses Gap
2029	\$236,652	\$139,006	\$97,646	\$105,715
2030	\$242,987	\$134,647	\$108,340	\$116,584
2031	\$247,671	\$22,432	\$225,239	\$225,239
2032	\$254,684	\$21,099	\$233,585	\$233,585
2033	\$252,061	\$23,523	\$228,538	\$228,538
2038	\$289,409	\$89,717	\$199,693	\$199,693
2043	\$306,219	\$101,280	\$204,939	\$248,413
2048	\$354,689	\$114,740	\$239,949	\$290,348
2053	\$410,880	\$130,399	\$280,481	\$280,481
2057	\$346,233	\$96,182	\$250,050	\$250,050

OK Cancel

Figure 8: Goals section – Retirement category – Scenarios page – Annuitization tab – Estimate Income Gap button – Estimate Income Gap in Retirement dialog box

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. Go to the **Goals** section – **Retirement** category – **Scenarios** page – **Annuitization** tab.
2. Click the **Apply new strategies to existing annuities** link. The *Strategies for Existing Annuities* dialog box opens.

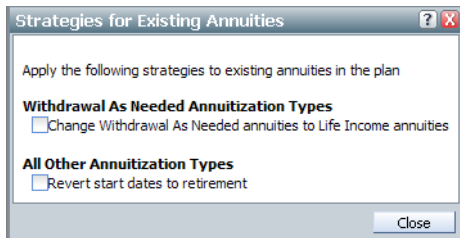


Figure 9: Goals section – Retirement category – Scenarios page – Annuitization tab – Strategies for Existing Annuities dialog box

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

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

1. Go to the **Goals** section – **Retirement** category – **Scenarios** page – **Annuitization** tab.
2. Click the **Select the assets to annuitize** link. The *Assets for Annuitization* dialog box opens.

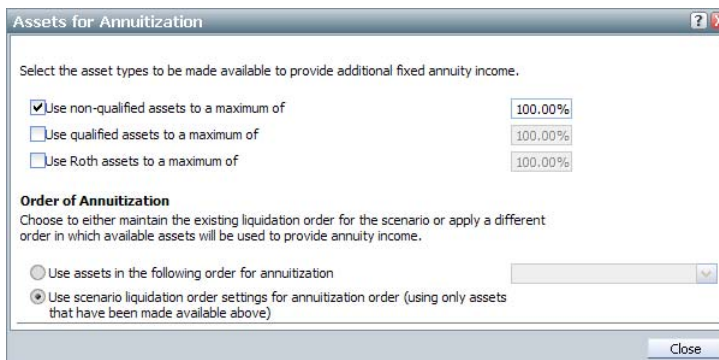


Figure 10: Goals section – Retirement category – Scenarios page – Annuitization tab – Assets for Annuitization dialog box

3. Select the assets, and then enter the percentage of those assets to annuitize.
4. Select the order of annuitization, and then click **OK**.

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. Go to the **Goals** section – **Retirement** category – **Scenarios** page – **Annuitization** tab.
2. Click the **Review the results and assumptions link**. The *Annuitize to Need Results and Assumptions* report opens.

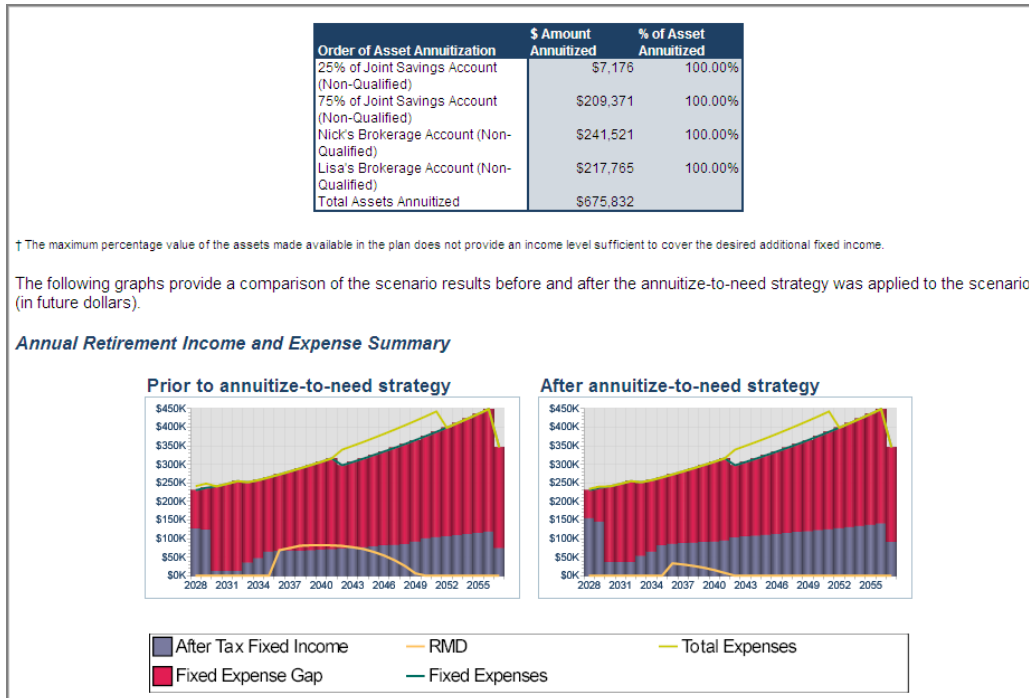


Figure 11: Goals section – Retirement category – Scenarios page – Annuitization tab – Review the results and assumptions link

The report describes the annuitize-to-need strategy applied, the table displays which assets were used, their amount and order, and the graphs display side-by-side with and without the annuitize-to-need strategy. The report also shows the annuity assumptions.

Use probability analysis to evaluate scenarios

If the *Monte Carlo Analysis* module is selected for the retirement goals NaviPlan will allow you to conduct probability analysis on the on-screen scenarios.

1. Go to the **Goals** section – **Retirement** category – **Scenarios** page – <any tab>.
2. Click the **Compare Scenarios** button.

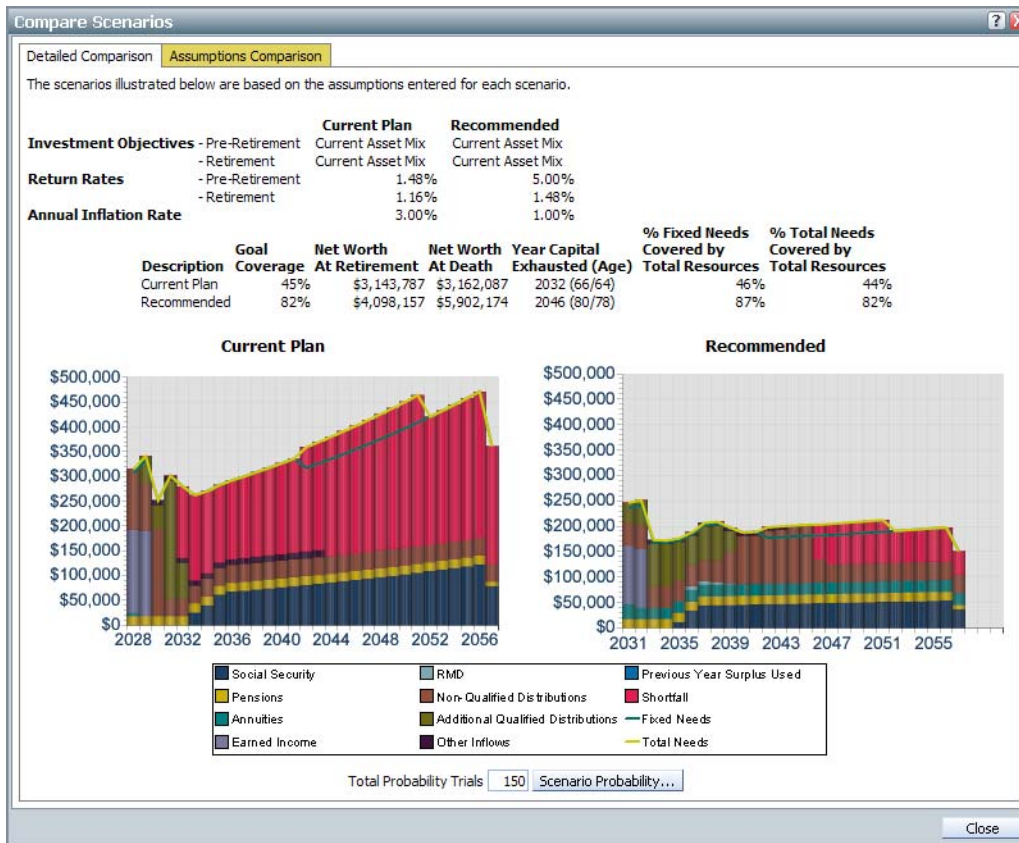


Figure 12: Goals section – Retirement category – Scenarios page – <any tab> – Compare Scenarios button – Compare Scenarios dialog box

3. The *Compare Scenarios* dialog box opens and analyzes the selected scenarios to determine the effect of risk on a completed plan and presents the *Comparison Report*.

To perform a probability analysis

1. Enter the number for the *Total Probability Trials* field, and then click the **Scenario Probability** button.
2. The *Scenario Probability* dialog box opens.

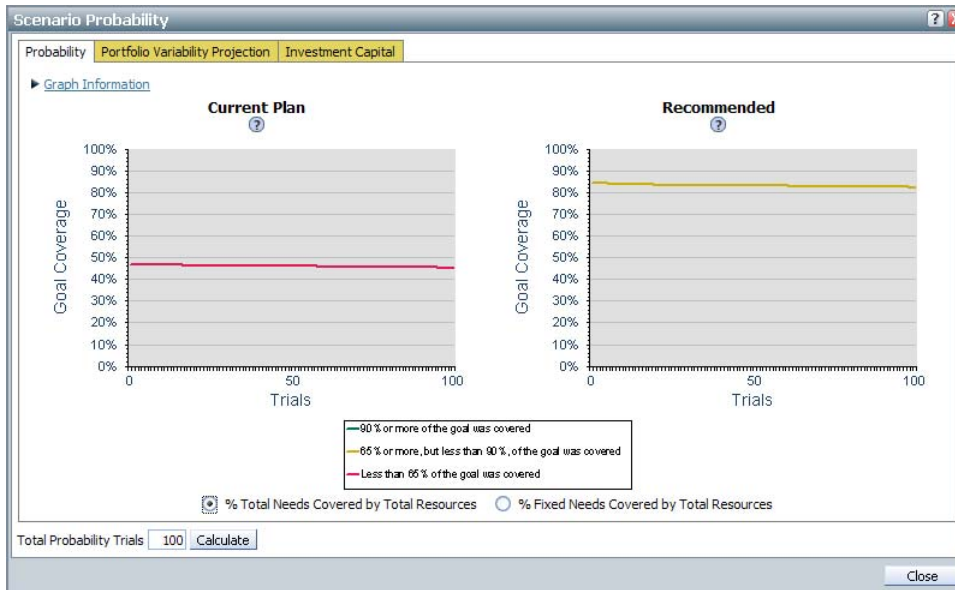


Figure 13: Goals section – Retirement category – Scenarios page – <any tab> – Compare Scenarios button – Compare Scenarios dialog box – Scenario Probability button – Scenario Probability dialog box – Probability tab

The probability analysis projects the scenario multiple times and randomizes return rates on the accounts, according to their standard deviations, for each time or trial.

The *Plan Probability* graph illustrates the goal coverage percentage for each trial that was generated.

NaviPlan can show the results based on *Total Needs* or *Fixed Needs Covered by Total Resources* by selecting the type below the graphs. Click the question mark above the graph to get more information. This helps with interpretation of the graph by explaining how many trials had goal coverage between specific ranges.

The *Portfolio Variability Projection* tab displays graphs that plot the assumed return rate each year for the 10th, 50th, and 90th percentile trials, and the scenario's assumed rate of return.

- 10th – trial that marks bottom 10% of ending asset values
- 50th – trial that marks middle point of ending asset values
- 90th – trial that marks top 10% of ending asset values

The *Investment Capital* tab displays two graphs that illustrate the ending net worth value each year for the actual plan, the 10th percentile, the 50th percentile, and the 90th percentile from the current plan year through to and including the year of last death.

Implement retirement income and expenses

Retirement

Level 3 Back Next

Objectives Scenarios Notes Planning Assistant Calculators Reports

Objectives Savings Liquidation Order Social Security Annuitization Additional Incomes & Expenses

Scenario: Current Plan Add Delete

Scenario: Recommended Add Recommended Delete

Additional Joint Annual Expenses

Description	Amount	Details	Delete
Additional Expense	\$30,000		
Additional Expense	\$5,000		

Add Annual Expense

Annual Incomes

Description	Member	Amount	Details	Delete
Additional Income	Nick	\$50,000		

Add Annual Income

Additional incomes and expenses can not be added to the Current Plan scenario.

Goal Coverage

74% Scenario Probability... What Are My Options? Compare Scenarios Scenario Reports

Other Goal Coverage

Education: Kevin's Education (52%)
Emergency Fund: Emergency Fund (0%)
Estate Planning: Estate Planning

Goal Coverage

83% Scenario Probability... What Are My Options? Compare Scenarios Scenario Reports

Other Goal Coverage

Education: Kevin's Education (75%)
Emergency Fund: Emergency Fund (0%)
Estate Planning: Estate Planning

Manage Scenarios...

Figure 14: Goals section – Retirement category – Scenarios page – Additional Income & 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.

Additional joint annual expenses

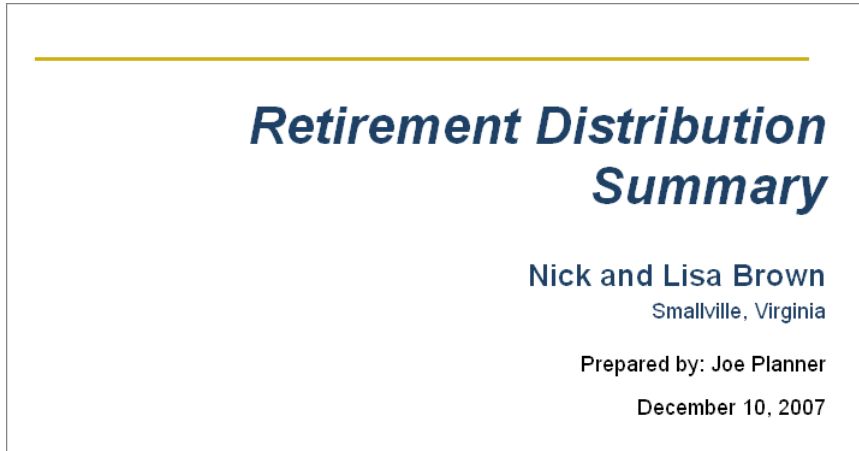
- *Description* – The name of the expense. This name can be modified to apply a unique name to a scenario.
- *Amount* – The gross dollar amount of the expense.
- *Details* – Opens the *Annual Expense Details* dialog box.
- *Start Age* – The client or co-client's age when the expense begins. The keyword *retirement* appears by default.
- *End Age* – The client or co-client's age when the expense ends. The keyword *death* appears by default.
- *Infl +/- Add'l* – Indexes the item to the default rate of inflation. The total rate can be adjusted using the *Add'l* field.
- *Fixed Expense* – Indicates whether the expense is fixed rather than discretionary.
- *Add* – Used to add or copy an expense.

Additional annual incomes

- *Description* – The name of the income. This name can be modified to apply a unique name to a scenario.
- *Member* – The first name of the client or co-client who receives the income.
- *Type* – Indicates whether the income type is *Salary*, *Tax Free*, or *Other Taxable*.
- *Amount* – The gross dollar amount of the salary.
- *Start Age* – The client or co-client's age when the salary starts. The keyword *retirement* appears by default.
- *End Age* – The client or co-client's age when the salary ends. The keyword *death* appears by default.
- *Infl +/- Add'l* – Indexes the item to the default rate of inflation. The total rate can be adjusted using the *Add'l* field.
- *Add* – Used to add or copy an income.
- *OK* – Saves any changes you made and closes the dialog box. If you are working in a tabbed dialog box and made changes on a separate tab, these changes are also saved.
- *Cancel* – Removes any changes you made and closes the 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. It is available in Levels 1, 2, and 3, and like other reports 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.



The following sections are available in the report:

- *Disclaimer*
- *Important Terminology*
- *Scenario Probability Assumptions*
- *Introduction*
- *Assumptions - Current Plan*
- *Current Plan*
- *Proposed Plan*
- *Probability Analysis*
- *Conclusion*
- *Action Plan*

Probability assumptions and information

The *Probability Assumptions and Information* section starts with the cover page, table of contents, and important terminology information. This section is important for compliance officers.

The *Probability Assumptions* section discloses the methodology used in creating the probability analysis in the report, and the introduction educates the clients about retirement risks like longevity, inflation, overspending, market risk, and health.

Assumptions current plan and proposed plan

This section begins with the current asset mix information and key goal objective details, retirement expenses, and the details of changes to fixed expenses throughout retirement. The second page displays details about the goal coverage (% coverage of retirement needs), *What Are My Options?* analysis and graphs fixed and total retirement needs throughout the period.

The third page displays two graphs. The top graph shows fixed incomes in relation to fixed and total expenses, and the bottom graph outlines retirement income sources (e.g., Social Security, pension, annuity, non-qualified income), compared to the retirement needs.

The fourth page lists questions and strategies, unique to this plan, that the clients may want to consider to address key retirement risks.

The same pages appear for the recommended plan as the current plan.

Probability analysis

Details from the *Graph Information* link in the application are included to help explain the results for the analysis. Graphs are included for both fixed needs and total needs analysis, and display the current and the proposed plan side by side.

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., *Advanced retirement 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* module for details, if required, on how to create a *Recommended* scenario for retirement before you begin these exercises.

Exercise 1: Modify the liquidation order of retirement assets

To find the answers, see “Answers to advanced retirement features exercises” on page 25.

1. To isolate the differences in your scenario, create a duplicate of the *Recommended* scenario named *Advanced retirement*. Duplicating the scenario ensures that the *Recommended* scenario's customized asset allocation is applied to the new scenario.

Hint: Be sure to select the *Advanced retirement* scenario from the *Scenario* list so that any changes are applied to the correct scenario.

2. Which of the following is **not** a predefined liquidation order option in NaviPlan?
 - a) *Non-qualified – Roth – Qualified*
 - b) *Non-qualified – Qualified – Roth*
 - c) *Roth – Qualified – Non-qualified*
 - d) *Qualified – Roth – Non-qualified*
3. Use the predefined liquidation order options to assess the effects on the goal coverage for the scenario created in the previous exercise. If one of the other predefined liquidation order options results in higher goal coverage than the original *Non-qualified – Roth – Qualified* order, implement the new option; otherwise, use the original option. If necessary, you can also modify the liquidation order by reordering specific accounts in the list.

Hint: Select the **Click to override the default order** check box to access the predefined liquidation order options for the *Advanced retirement* scenario.

Exercise 2: Use the annuitization feature

To find the answers, see “Answers to advanced retirement features exercises” on page 25.

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 values?
 - 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 appears and the dialog box automatically closes.
 - d) All of the above
3. The annuity product you can offer Nick and Lisa increases the payment amount in annual increments of \$500 with a *Payment per \$1,000* of \$5 and a *ROR%* of 6%. With these details, which of the following is the highest additional income range that can be supported by the plan? Be sure to use the *Advanced retirement* scenario.

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

- a) Under \$25,000
- b) Over \$25,000

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

Hint: Step 4 produces a useful *Annuitize-to-need Results and Assumptions* report.

- a) \$0–\$250,000
 - b) \$250,001–\$500,000
 - c) \$500,001–\$750,000
 - d) Over \$750,000
5. After the annuitization strategy has been established, there is a significant increase in the 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 3: Use the probability analysis to evaluate scenarios

To find the answers, see “Answers to advanced retirement features exercises” on page 25.

1. Ensure that the *Current* and your *Advanced retirement* scenarios are selected from the *Scenario* lists, and then click the **Compare Scenarios** button to compare the two scenarios side-by-side.
2. The probability analysis feature can analyze between 100 and 1,000 trials. Perform a probability analysis with **100** trials for both scenarios. To do this, click the **Scenario Probability** button and then answer the remaining questions for this exercise based on the results.
3. An annuitization strategy will always improve the goal coverage on a retirement goal. Is this statement true or false?
 - a) True
 - b) False

4. In many cases, your overall goal coverage will drop after applying an annuitization strategy. This decrease in overall goal coverage is expected because you are trading a smaller goal objective for a more secure and predictable flow of guaranteed fixed income. Is this statement true or false?
 - a) True
 - b) False

5. On the *Scenarios* page, click the **Manage Scenarios** button to mark your *Advanced retirement* scenario as the *Recommended* scenario and to include the scenario in reports.

Exercise 4: Interpret the Retirement Distribution Summary client report

To find the answers, see “Answers to advanced retirement features exercises” on page 25.

1. Before generating the *Retirement Distribution Summary* report, click **Select Document Sections**, and then clear the **Probability Analysis** check box, since the probability analysis results were addressed in the previous exercise. The *Probability Analysis Assumptions* section is automatically included in the client report and the check box for it cannot be cleared. Click **Generate Report**.

2. In the client report, the *Current Plan* for Nick and Lisa is projected to cover what amount?
 - a) 100% of fixed needs and less than 100% of total needs
 - b) 100% of fixed needs and 100% of total needs
 - c) Less than 100% of fixed needs and less than 100% of total needs
 - d) None of the above

3. Which part of the *Current Plan* reporting do you think is the most important conversational piece?

4. Which part of the *Proposed Plan* reporting do you think is the most important conversational piece?

Conclusion

This module has enabled you to

- Modify the liquidation order of retirement assets
- Utilize the annuitization feature
- Use probability analysis to evaluate scenarios
- Interpret the *Retirement Distribution Summary* client report

Answers to advanced retirement features exercises

Exercise 1: Modify the liquidation order of retirement assets

2. d) *Qualified – Roth – Non-qualified* – The predefined liquidation order is *Qualified – Roth – Non-qualified* assets.

Exercise 2: Use the annuitization feature

1. d) All of the above – The selected scenario displays all of the values 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. b) Over \$25,000 – The highest additional income range that can be supported by the plan is over \$25,000.
4. c) \$500,001–\$750,000 – The total value of assets annuitized for this scenario is between \$500,001–\$750,000.
5. a) True – After the annuitization strategy has been established there is a significant increase in the fixed income.

Exercise 3: Use probability analysis to evaluate scenarios

3. b) False – Goal coverage could drop if you are trading the probability of higher returns in accounts for lower fixed income generated by annuities.
4. a) True – A decrease in overall goal coverage is expected because you are trading a smaller goal objective for a more secure and predictable flow of guaranteed fixed income.

Exercise 4: Interpret the Retirement Distribution Summary client report

2. c) Less than 100% of fixed needs and less than 100% of total needs – The *Current Plan* is projected to cover less than 100% of fixed needs and less than 100% of total needs.
3. Examples: clearly defines expenses, highlights high value of fixed needs, highlights the fixed income gap, and shows the retirement distribution.

4. Examples: clearly defines differences between scenarios, highlights the fixed income gap reduction, and shows the retirement distribution.