



**NaviPlan Standard
Online/Offline
Disability Insurance
Analysis
Self-Study Guide**

USA version 11.0

EISI, Winnipeg

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Disability insurance analysis

The NaviPlan Standard Disability Insurance 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 Online/Offline, in addition to entering disability insurance policy information such as premiums and benefits, you can

- adjust premium and benefit timing and amounts
- modify disability analysis start and end dates
- use the *Goal and Expense* or *Income Coverage* analysis methods
- determine whether existing expenses will continue during disability and whether additional expenses will occur
- review your results in a cash flow report

This guide focusses on Level 3 Plans.

Learning objectives

This module will enable you to

- Model disability insurance policies
- Examine disability insurance assumptions
- Define disability insurance needs
- Perform a disability insurance analysis

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.

Disability insurance coverage

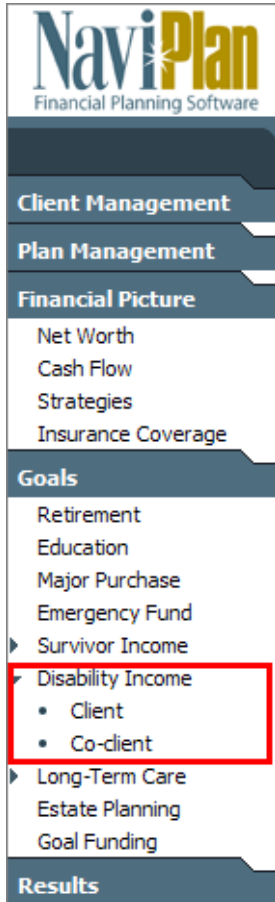


Figure 1: Navigation bar showing the Financial Picture section – Insurance Coverage category and the Goals section – Disability Income category

In the *Financial Picture* section – *Insurance Coverage* category, you can access the *Insurance Coverage* page and the *Insurance Coverage* report. On the *Insurance Coverage* page you can enter information for your clients’

- life insurance policies
- disability insurance coverage
- long-term care insurance coverage

In the *Goals* section – *Disability Income – Client* or *Co-client* category, you can define your clients’ disability insurance needs.

In order to see the *Disability Income* category, the *Disability Income* check box must be selected on the *Plan Management* section – *Modules* category – *Modules* page.

Disability insurance analysis allows planning for the disability of either the client or co-client, and illustrates the effect that a permanent disability could have on the family’s ability to maintain its current standard of living. The first step in calculating how much disability insurance your clients require is to enter existing disability insurance policies.

Model disability insurance policies

In NaviPlan, you can establish the clients' existing disability insurance policies and disability income needs, and then determine whether the policies you entered provide enough insurance to cover the clients' needs during the disability period.

View the Insurance Coverage page

On the *Financial Picture* section – *Insurance Coverage* category – *Insurance Coverage* page, you can enter the clients' existing life insurance, disability insurance, or long-term care policies. Under *Disability Insurance*, default disability insurance policies appear.

Insurance Coverage ◀ Back Next ▶

Insurance Coverage Notes Planning Assistant Calculators Reports

▶ Instructions

Life Insurance

Description*	Insured*	Policy Type*	Benefit*	Beneficiary*	Premium*	Details	Delete
Lisa's Group Insurance	Lisa	Term 10 Life	\$300,000	Nick	\$25/mo		
Nick's Group Insurance	Nick	Term 10 Life	\$375,000	Lisa	\$25/mo		

[Add Life Insurance](#)

Disability Insurance

Description*	Insured*	Policy Type*	Benefit*	Premium*	Details	Delete
Nick's Disability Policy	Nick	Individual Disability	\$3,000/mo	\$200/mo		
Lisa's Disability Policy	Lisa	Individual Disability	\$2,600/mo	\$175/mo		

[Add Disability Insurance](#)

Long-Term Care Insurance

Description*	Insured*	Daily Benefit Amount*	Premium*	Details	Delete
LTC insurance policy	Nick	\$150	\$75/mo		

[Add LTC Insurance](#)

[Insurance Coverage Report](#)

Figure 2: Financial Picture section – Insurance Coverage category – Insurance Coverage page

To view disability insurance details

1. In the *Brown's Base Details* plan, go to the **Financial Picture** section – **Insurance Coverage** category – **Insurance Coverage** page.
2. Under *Disability Insurance*, for one of the policies, expand the *Policy Type* list. A list of group and individual policy types appears.
3. Click the **Add Disability Insurance** button. Notice that the same list appears. When creating a new plan, by default NaviPlan includes short- and long-term disability insurance policies. You can remove or change these default policies as needed to reflect your clients' current policies.
4. For one of the disability insurance policies, click the **Details** button. The *Disability Insurance Details* dialog box opens.

Figure 3: Financial Picture section – Insurance Coverage category – Insurance Coverage page – Details button – Disability Insurance Details dialog box (Level 3 Plan)

Benefit Details

Under *Benefit Details*, you can define the benefit timing, growth, and taxation. By default, NaviPlan assumes the benefit is taxable and is not indexed to inflation. Depending on the policy type, you can express benefits as a percentage of the client’s salary or a flat dollar amount. If you select the *% of Salary* option, NaviPlan uses the client’s salary defined on the *Financial Picture* section – *Cash Flow* category – *Cash Flow* page. Benefits for the *Individual* policy type can only be expressed as flat dollar amounts. If you select the *Taxable Benefit* check box, NaviPlan deducts taxes when the benefits are paid out.

Maximum Indexed Benefit

Under *Maximum Indexed Benefit*, you can establish limits to the benefit amount and the waiting period start and end dates. The maximum indexed benefit can be determined by selecting one of the following options:

If you select...	NaviPlan allows you to...
<i>Calculated As</i>	Use a formula for calculating the maximum indexed benefit. The formula options are <i>None</i> , <i>2 x Monthly</i> , and <i>3 x Monthly</i> .
<i>Dollar Amount</i>	Assign a flat dollar amount as the maximum indexed benefit.

Selecting the *Offset by Social Sec* check box indicates that disability insurance policy benefits are offset by Social Security disability benefits. By default, this is selected for group LTD or group STD policies and is not selected for individual insurance policies.

Hint: To avoid overstating income during disability, a message appears to warn you when disability benefits are entered in the *Financial Picture* section – *Cash Flow* category – *Cash Flow* page – *Social Security* dialog box. In this situation, NaviPlan Standard recommends that you clear the *Offset by Social Sec* check box and remove the Social Security disability benefits from the *Cash Flow* page, because there is no automatic reduction of the disability policy benefits.

Note: By default, Social Security benefits for disability are not automatically paid. They must be turned on in the *Cash Flow* category.

Premiums

NaviPlan considers premiums as expenses when calculating cash flow. Under *Premiums*, you can set the payer, amount, and frequency of the disability insurance premiums, set the end date for these premiums, and index the premiums to inflation. By default, NaviPlan makes the following assumptions:

- the premium payer is also the insured
- premiums cease at retirement
- premiums are not indexed for inflation

Select an insurance analysis method

In Level 3 Plans, you can select one of two insurance analysis methods on the *Goals* section – *Disability Income – Client* or *Co-client* category – *Disability Income - Client* or *Co-client* page.

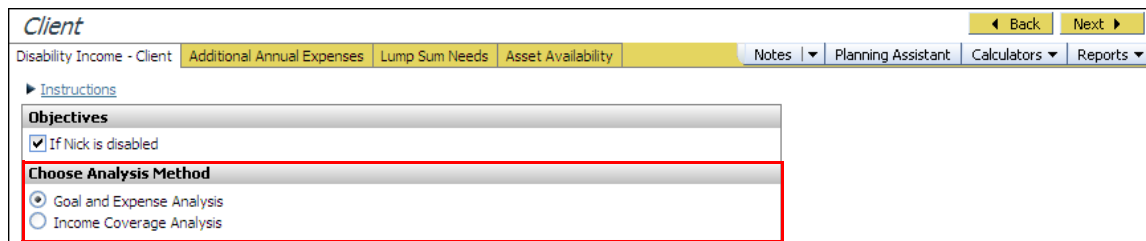


Figure 4: Goals section – Disability Income – Client category – Disability Income - Client page

Analysis method	Description
<i>Goal and Expense Analysis</i>	This method focuses on maintaining your clients’ current standard of living. NaviPlan defines the clients’ disability needs by including existing lifestyle expenses and goals that have been entered in the plan. This method is used automatically in the Financial Assessment and all plan levels. This method can help you save time by eliminating the need to redefine existing expenses.

Analysis method	Description
<i>Income Coverage Analysis</i>	This method focuses on replacing lost income during disability. You can define a percentage of existing income as anticipated expenses or create new expenses. This method is only available in Level 3 Plans.

Note: The insurance analysis methods are also available for life insurance analysis. You can set the default insurance analysis method used in new Level 3 Plans by going to the *User Preferences* menu, and then selecting *Plan Settings*.

Goal and expense

Existing Annual Expenses

Percentage of expenses to cover*

Expense	Amount	Use Defaults	Percent to Cover
Housing (i.e. utilities, repairs)	\$30,000	<input checked="" type="checkbox"/>	100%
Food	\$15,000	<input checked="" type="checkbox"/>	100%

Income coverage

Annual Income Needs

Description*	Member*	Income Need (pre-tax)*	Frequency*	Start Date*	End Date*	Infl +/- Add'l	Delete
Lifestyle Expenses	Nick	\$0	Annual	Jan 1 2008	Retirement	<input type="checkbox"/> + 0.00%	<input type="button" value="X"/>

Fund Education Goals

% to Fund	Education Goal
	Kevin's Education

Figure 5: Goals section – Disability Income – Client or Co-client category – Disability Income - Client or Co-client page – Insurance analysis methods (Level 3 Plan)

Examine disability insurance assumptions

NaviPlan Standard projects your client family's cash flow needs in the event of disability and uses this information for the disability insurance analysis. For disability insurance, the goal and expense analysis and income coverage analysis methods use the following assumptions:

Assumption	Goal and expense	Income coverage
Either the client or the co-client enters disability (not both).	✓	✓
Disability starts on January 1 of the following year.	✓	✓
The analysis ends at retirement.	✓	✓
Incomes already entered in the plan continue during disability. The disabled client's income stops on December 31 of the current year.	✓	✓
The plan's existing lifestyle expenses are used to calculate disability insurance needs.	✓	
Pre-tax income must be defined and converted to an after-tax expense.		✓
Non-lifestyle expenses such as loans and insurance premiums continue during disability.	✓	✓
If disability insurance policies exist, the proceeds enter cash flow and are invested in a system-generated proceeds asset after January 1 of the following year and after the disability benefits waiting period.	✓	✓
Assets in the plan may be redeemed to eliminate projected cash flow deficits during disability, including assets linked to goals.	✓	✓
The analysis method is the default for all planning levels.	✓	
The analysis method is available to Level 3 Plans only.		✓

Define disability insurance needs

The *Goals* section – *Disability Income* category allows you to define the clients’ disability income needs. The *Client* and *Co-client* subcategories provide mirrored data entry where you can analyze either the client or co-client becoming disabled on January 1 of the following plan year.

Multiple pages are available for entering key assumptions, expenses, insurance needs, and asset availability. The pages available for the analysis varies depending on the disability insurance analysis method used in the plan. In most plans, the *Goal and Expense Analysis* method is used by default. However, in Level 3 Plans, you can select the *Income Coverage Analysis* method.

Page	Goal and expense method	Income expense method
<i>Disability Income - <client > or <co-client></i>	✓	✓
<i>Additional Annual Expenses</i>	✓	
<i>Annual Income Needs</i>		✓
<i>Additional Annual Income</i>	✓	
<i>Lump Sum Needs</i>	✓	✓
<i>Income Available</i>		✓
<i>Asset Availability</i>	✓	✓

Note: This self-study guide focusses on the *Goal and Expense Analysis* method.

Enter disability income assumptions

On the *Goals* section – *Disability Income* – <client> or <co-client> category – *Disability Income* <client> or <co-client> page, you can enter assumptions that only apply to the disability insurance analysis.

Client
◀ Back Next ▶

Disability Income - Client
Additional Annual Expenses
Lump Sum Needs
Asset Availability
Notes ▾
Planning Assistant
Calculators ▾
Reports

Objectives

If Nick is disabled

Choose Analysis Method

Goal and Expense Analysis
 Income Coverage Analysis

Retirement Age

Override Retirement Age

	Nick		Lisa	
	Age	Year	Age	Year
Retirement Age for Disability Analysis	62	2028	62	2030

Life Expectancy

Override Life Expectancy

	Nick		Lisa	
	Age	Year	Age	Year
Life Expectancy for Disability Analysis	90	2056	90	2058

Analyze Disability Through

	Nick	
	Age	Year
Analyze Disability Through	64	2030

Tax Rates

Override Tax Rates

	Tax Bracket	State*	Federal		
			Average*	Marginal*	Long-Term Capital Gains*
Before Retirement	\$195,851 - \$349,700	5.00%	27.05%	33.00%	15.00%
During Retirement	\$128,501 - \$195,850	5.00%	22.38%	28.00%	15.00%

Note: The average, marginal and long-term capital gains tax rates shown represent federal rates. The corresponding state tax rate and the federal deduction for state taxes are accounted for in the income tax calculations.

Rate of Return on Surpluses and Liquidations

	Total	Interest	Dividends	Capital Gains	Tax Free	Deferred Growth
Pre-Retirement	6.00%	1.50%	1.50%	1.50%	0.00%	1.50%
Retirement	6.00%	1.50%	1.50%	1.50%	0.00%	1.50%

Figure 6: Goals section – Disability Income – Client category – Disability Income - Client page (Level 3 Plan)

For Level 3 Plans, under *Retirement Age* and *Life Expectancy*, you can adjust the client's retirement age and life expectancy for the disability insurance analysis.

Under *Analyze Disability Through*, you can specify the age and year at which NaviPlan will cease its analysis of the disability period. Disability reports and graphs will analyze the years up to and including the year specified.

For Level 3 Plans, under *Tax Rates*, you can override the plan tax rates for the disability insurance analysis. The tax rates originate from the *Plan Management* section – *Assumptions* category – *General* page.

Under *Rate of Return on Surpluses and Liquidations*, you can specify the returns rates that would apply if lifestyle or real estate assets are liquidated or projected cash surpluses are saved to a hypothetical proceeds asset.

Note: Insurance proceeds pay directly into cash flow and are invested in a hypothetical proceeds asset, which is named *Invested Available Capital* in cash flow reports.

NaviPlan makes the following calculation assumptions when analyzing the client's disability insurance needs:

- By default, reporting ends at retirement since retirement benefits are expected to replace the disability insurance benefits.
- The retirement goal is fully funded since only pre-retirement shortfalls can be insured.
- NaviPlan forces required savings during the pre-retirement period to ensure sufficient assets are available at the start of retirement. If insufficient income is available to cover the additional savings, you may need to adjust the retirement goal assumptions.

Enter additional annual expenses

On the *Additional Annual Expenses* page, you can set annual expense assumptions during disability by doing the following:

- determine how existing annual expenses will be covered during disability
- enter a surplus expense and savings strategy
- add additional annual expenses to the analysis

Client

Disability Income - Client | Additional Annual Expenses | Lump Sum Needs | Asset Availability | Notes | Planning Assistant | Calculators | Reports

▶ Instructions

Existing Annual Expenses

Percentage of expenses to cover*

Expense	Amount	Use Defaults	Percent to Cover
Housing (i.e. utilities, repairs)	\$30,000	<input checked="" type="checkbox"/>	100%
Food	\$15,000	<input checked="" type="checkbox"/>	100%
Transportation (i.e. gas, insurance)	\$18,000	<input checked="" type="checkbox"/>	100%
Entertainment (i.e. restaurants, movies)	\$12,000	<input checked="" type="checkbox"/>	100%
Personal (i.e. clothing, hobbies)	\$9,000	<input checked="" type="checkbox"/>	100%
Other (i.e. child care, travel)	\$24,000	<input checked="" type="checkbox"/>	100%
Retirement Travel (End at 75)	\$10,000	<input type="checkbox"/>	0%
Retirement Travel (Start at 76)	\$15,000	<input type="checkbox"/>	0%
Retirement Expense	\$105,000	<input type="checkbox"/>	75%

Surplus Strategy

Percent surplus spent*

Percent surplus saved*

Analysis Surplus

Assume surplus is spent

Additional Annual Expenses

Click the **Add Annual Expense** button to create a new row.

Figure 7: Goals section – Disability Income – Client category – Additional Annual Expenses page (Level 2 or Level 3 Plan)

To enter additional annual expenses

1. Go to the **Additional Annual Expenses** page.
2. Under *Existing Annual Expenses*, in the *Percentage of expenses to cover* field, enter the highest percentage of annual expenses you expect the client to cover during disability. By default, NaviPlan assumes the client incurs 100% of expenses. The value entered applies to all listed expenses that have the *Use Defaults* check box selected.
3. For one of the listed expenses, clear the **Use Defaults** check box. The *Percent to Cover* field is now editable.
4. Change the rate to **90%**.
5. Under *Surplus Strategy*, in the *Percent surplus saved* field, enter **40%**, and in the *Percent surplus spent* field enter **60%**. NaviPlan uses the *Surplus Strategy* fields to determine whether to save or spend any projected surpluses during the disability period. In this case, NaviPlan saves 40% of the surplus in the proceeds asset using the return rates defined on the *Disability Income - Client* page. The remaining 60% becomes a new expense.

Note: The sum of the *Surplus Strategy* fields must be 100%. If surplus strategies exist in the plan, NaviPlan overrides these strategies when performing an insurance analysis.

6. Under *Analysis Surplus*, select the **Assume surplus is spent** check box. NaviPlan assumes that the surpluses occurring when both clients aren't disabled are legitimate expenses that

will continue during the disability period. Although surpluses may be projected in the plan, in reality, expenses might be understated. The *Analysis Surplus* feature allows you to provide a conservative analysis of this situation.

For example, imagine the Browns have regular annual expenses of \$50,000 that are indexed to inflation. Surpluses of \$2,500 and \$5,000 are projected in 2007 and in 2009, respectively.

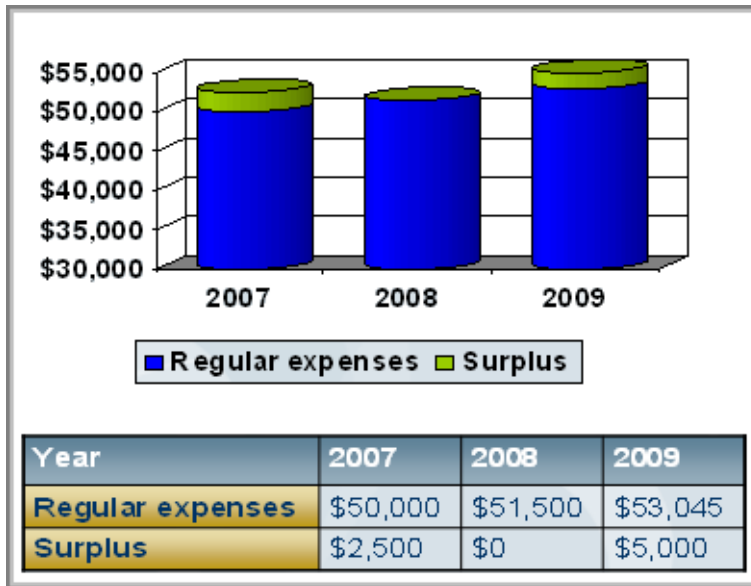


Figure 8: Client not disabled (Level 3 Plan)

In reality, these surpluses may never materialize because the expenses might have been understated. You can model this situation by selecting the *Assume surplus is spent* check box. NaviPlan reduces each surplus by the percentage entered in the *Percentage of expenses to cover* field, and then for the remaining surplus, uses the strategy entered under *Surplus Strategy*.

For example, assume that during disability, the clients' \$50,000 annual expense is reduced to 75% or \$37,500 (75% is entered in the *Percentage of expenses to cover* field) and the *Assume surplus is spent* check box is selected. If the clients planned to keep expenses at 100% during disability, no surpluses would appear; however, since 75% is entered, only 75% of the projected surpluses is made up of assumed expenses. The new surpluses are as follows

Year	Original surplus	New expense (surplus × 75%)	Remaining surplus
2007	\$2,500	\$1,875	\$625
2009	\$5,000	\$3,750	\$1,250

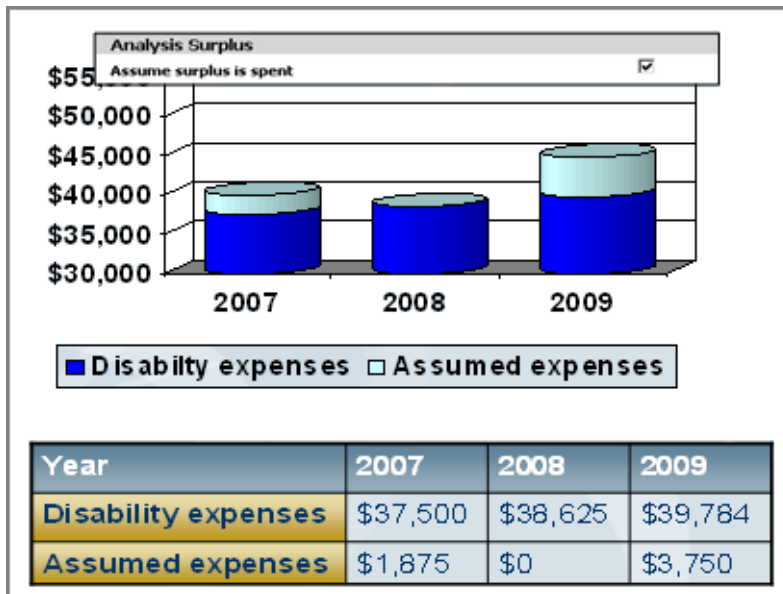


Figure 9: Client disabled (Level 3 Plan)

7. Under *Additional Annual Expenses*, click the **Add Annual Expense** button. A new data-entry row appears. Here, you can enter additional expenses that may occur during the disability period only. For example, clients might incur additional daycare, lawn care, snow removal, or medical expenses. Assume that Nick Brown will incur \$5,000 in medical expenses annually for three years.
8. In the *Description* field, enter **Medical Expenses**, and then in the *Amount* field, enter **\$5,000**.
9. In the *Number of Years* field, enter **3**, and then click outside the field. NaviPlan automatically updates the *End Date* field.

Enter lump sum needs

On the *Lump Sum Needs* page, you can determine whether outstanding liabilities will be paid off, whether major purchases will be paid for, and whether the clients will incur any additional lump sum expenses upon disability. NaviPlan assumes that education expenses are automatically covered.

Figure 10: Goals section – Disability Income – Client category – Lump Sum Needs page

To enter lump sum needs

1. Go to the **Lump Sum Needs** page. NaviPlan displays the Brown family's outstanding liabilities. No major purchase goals appear since none have been entered in the *Brown Base Details* plan.
2. Under *Pay Off Outstanding Liabilities*, select the **123 Home Mortgage** check box. NaviPlan assumes that the home mortgage payments will stop upon disability, whereas the credit card payments will continue through the disability period.
3. Under *Additional Lump Sum Needs*, click the **Add Lump Sum Need** button. A new data-entry row appears. Here, you can enter additional expenses that may occur once upon disability. For example, clients might be required to make house modifications to support wheelchair access. Assume that Nick Brown will incur a \$30,000 home renovating expense.
4. In the *Description* field, enter **Home Renovation**, and then in the *Amount* field, enter **\$30,000**.

Set up asset availability

On the *Asset Availability* page, you can designate which assets should be available for redemption at disability or at retirement. NaviPlan uses the capital depletion method of insurance. If deficits are projected during pre-retirement, NaviPlan automatically redeems assets to cover these deficits. In Level 3 Plans, you can redeem investment accounts, lifestyle accounts, and real estate assets.

Note: Lifestyle and real estate assets are redeemed as a whole and the proceeds are invested in a hypothetical non-qualified proceeds asset. Education accounts, such as 529 Plans, can only be redeemed to fund education goals.

Account Name	Available At Disability	Available Starting At Retirement	Not Available
Nick's 403(b)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Lisa's Roth 401(k) (Roth IRA)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Joint Savings Account (Non-Qualified)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Nick's Brokerage Account (Non-Qualified)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Lisa's Brokerage Account (Non-Qualified)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Nick's Annuity (Non-Qualified)	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

Asset Name	Liquidate At Immediately	Liquidate At Retirement	Not Available
123 Home Street (Joint/Lifestyle)	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Personal Use Property (Joint/Lifestyle)	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

Asset Name	Liquidate At Immediately	Liquidate At Retirement	Not Available
500 Smith Street (Joint/Real Estate)	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

Account Name	Use For Education Only
Kevin's 529 (529 Plan for Kevin)	<input checked="" type="checkbox"/>

Figure 11: Goals section – Disability Income – Client category – Asset Availability page (Level 2 or Level 3 Plan)

NaviPlan uses the following default settings for asset availability:

Asset type	Default setting
Non-qualified investment accounts	<i>Available At Disability</i>
Qualified investment accounts	<i>Available Starting At Retirement</i>
Lifestyle assets	<i>Not Available</i>
Real estate assets	<i>Not Available</i>

Perform a disability insurance analysis

After you have entered your disability insurance assumptions, you can determine whether your clients' existing disability insurance coverage is sufficient to meet their needs by generating and analyzing the *Multi-Year Cash Flow Summary if <client> is Disabled* and *Cash Flow Detail if <client> is Disabled* reports.

View the Multi-Year Cash Flow Summary if Nick is Disabled report

The *Multi-Year Cash Flow Summary if <client> is Disabled* report allows you to review cash flow for the entire duration of the disability analysis period. From this report, you can estimate the amount of additional life insurance your client needs and examine differences in cash flow on an annual basis.

Multi-Year Cash Flow Summary if Nick is Disabled						
Brown						
Disability Insurance Practice						
Year	Ages	Disability Income	Other Cash Inflows	Taxes	Expenses and Savings	Surplus (Deficit)
2008	42/40	36,000	182,548	47,974	170,574	0
2009	43/41	36,000	191,243	51,912	175,331	0
2010	44/42	36,000	198,372	54,098	180,273	0
2011	45/43	36,000	206,299	57,429	184,870	0
2012	46/44	36,000	212,815	58,918	189,897	0
2013	47/45	36,000	219,411	60,114	195,297	0
2014	48/46	36,000	254,824	63,489	227,335	0
2015	49/47	36,000	261,146	64,968	232,182	(5)
2016	50/48	36,000	255,708	64,453	227,253	1
2017	51/49	36,000	301,715	103,087	234,631	(3)
2018	52/50	36,000	279,964	96,078	225,943	(6,057)
2019	53/51	36,000	228,214	74,669	232,860	(43,314)
2020	54/52	36,000	237,033	77,896	240,065	(44,929)
2021	55/53	36,000	246,256	81,273	247,574	(46,591)
2022	56/54	36,000	255,903	84,808	255,399	(48,305)
2023	57/55	36,000	265,996	88,509	263,557	(50,070)
2024	58/56	36,000	276,560	92,384	272,064	(51,888)
2025	59/57	36,000	287,618	96,443	280,937	(53,762)
2026	60/58	36,000	299,196	100,695	290,193	(55,692)
2027	61/59	36,000	311,322	105,151	299,852	(57,681)
2028	*62/60	36,000	343,729	110,261	269,468	0
2029	63/61	36,000	350,222	114,899	271,322	0
2030	64/62*	0	216,076	46,731	169,345	0

* = Year of retirement

Figure 12: Reports menu – Insurance – Disability Insurance – Multi-Year Cash Flow Summary if <client> is Disabled report

To generate the Multi-Year Cash Flow Summary if Nick is Disabled report

1. Go to the **Reports** menu, and then select **Insurance – Disability Insurance – Multi-Year Cash Flow Summary if Nick is Disabled**. The *Assign Settings* dialog box opens.
2. Select **Current**, and then click **OK**. The report opens.

View the Cash Flow Detail if Nick is Disabled report

NaviPlan assumes that disability will occur on January 1 of the following year. The *Cash Flow Detail if <client> is Disabled* report provides itemized cash flow details for a given year in the disability period.

Note: If you generate the *Current Year Cash Flow* report and the *Cash Flow Detail if <client> is Disabled* report (for the following year), you can compare key changes in the client's cash flow. You will notice that in the first year of disability, the client's salary has stopped, investment income may be higher due to redemptions, disability benefits are paying out, and you may see changes in living expenses, loan payments, and goal savings.

To generate the Cash Flow Detail if Nick is Disabled report for 2008

1. Go to the **Reports** menu, and then select **Insurance – Disability Insurance – Cash Flow Detail if Nick is Disabled**. The *Assign Settings* dialog box opens.
2. In the *Report Year* field, enter **2008**.
3. Select the **Current** option, and then click **OK**. The report opens.

After you have generated the 2008 report, generate the **2007 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. In the *Report Year* field, enter **2007**.
3. Select the **Current** option, and then click **OK**. The report opens.

Disability Insurance Cash Flow Single Year Details (Nick Disabled Jan 1 2008)		Current Year Cash Flow Report	
Brown Base Details (2008)		Brown Base Details (2007)	
Cash Inflows		Cash Inflows	
Regular Income:		Regular Income:	
Lisa's Salary (Lisa)	\$92,700	Nick's Salary (Nick)	\$100,000
Total Regular Income	\$92,700	Lisa's Salary (Lisa)	\$90,000
Social Security:		Total Regular Income	\$190,000
Social Security (Nick)	\$10,094	Investment Income: ¹	
Social Security (Lisa)	\$2,524	500 Smith Street (Joint/Real Estate)	\$36,000
Social Security (Kevin)	\$2,524	Lisa's Brokerage Account (Non-Qualified)	\$3,372
Total Social Security	\$15,141	Total Investment Income¹	\$39,372
Tax-free Capital Received:		Total Cash Inflows	\$229,372
Joint Savings Account (Non-Qualified)	\$50,000	Cash Outflows	
Lisa's Brokerage Account (Non-Qualified)	\$28,542	Lifestyle Expenses:	
Nick's Brokerage Account (Non-Qualified)	\$28,655	Housing (i.e. utilities, repairs)	\$30,000
Total Tax-free Capital Received	\$107,198	Food	\$15,000
Investment Income: ¹		Transportation (i.e. gas, insurance)	\$18,000
500 Smith Street (Joint/Real Estate)	\$36,000	Entertainment (i.e. restaurants, movies)	\$12,000
Lisa's Brokerage Account (Non-Qualified)	\$8,830	Personal (i.e. clothing, hobbies)	\$9,000
Nick's Brokerage Account (Non-Qualified)	\$8,144	Other (i.e. child care, travel)	\$24,000
Retirement Fund (Joint/Non-Qualified)	\$2,645	Total Lifestyle Expenses	\$108,000
Total Investment Income¹	\$55,619	Taxes:	
Disability Insurance:		Federal Taxes	\$52,316
Group Coverage	\$36,000	State Taxes	\$10,175
Total Disability Insurance	\$36,000	Social Security Tax - employment	\$11,625
Total Cash Inflows	\$306,657	Medicare Tax - employment	\$2,755
		Property Taxes Paid	\$1,000
		Total Taxes	\$77,871

Figure 13: Disability Income Cash Flow Single Year Details if Nick is Disabled report for 2008 and the 2007 Current Year Cash Flow report

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., *Disability 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: Model a disability insurance policy

To find the answers, see “Answers to disability insurance exercises” on page 21.

1. Which disability insurance policy type is not supported in NaviPlan?

Hint: On the *Insurance Coverage* category – *Insurance Coverage* page, review the options in the *Policy Type* list.

- a) Group LTD
 - b) Group STD
 - c) Employer payment
 - d) Individual disability
2. When entering a *Group LTD* policy, the default end date for benefits paid out is when the client turns age 65. Is this statement true or false?
 - a) True
 - b) False

Exercise 2: Examine disability insurance assumptions

To find the answers, see “Answers to disability insurance exercises” on page 21.

1. What are the two insurance analysis methods available to review disability income in a Level 3 Plan?

Hint: Go to the **Goals** section – **Disability Income – Client** category – **Disability Income - Client** page.

- I) *Goal and Expense Analysis*
 - II) *Itemized Analysis*
 - III) *Income Coverage Analysis*
 - IV) *Needs Analysis*
- a) I and II
 - b) II and IV
 - c) I and III
 - d) All of the above
2. When a disability policy pays out, where do the proceeds go directly?
 - a) Cash flow
 - b) Savings asset
 - c) Never appears in the plan
 - d) Estate
 3. NaviPlan’s stand-alone reports and graphs will not provide an additional recommended disability insurance amount, so it is up to the planner to determine a suitable amount. Is this statement true or false?
 - a) True
 - b) False

Exercise 3: Define disability insurance needs and perform a disability insurance analysis

To find the answers, see “Answers to disability insurance exercises” on page 21.

1. Match the description with the correct field or page name when using the *Goal and Expense Analysis* method.

Feature	Field or page
1. You can enter the percentage of a specific expense to be covered by the clients’ cash flow during the disability period in the _____ field.	a) <i>Asset Availability</i>
2. On this page you can specify which assets will be available to cover cash flow deficits in the disability period and when they will become available.	b) <i>Lump Sum Needs</i>
3. This field on the <i>Disability Income – <client> or <co-client></i> page allows you to specify the time horizon for the disability insurance analysis.	c) <i>Percent to cover</i>
4. The _____ field allows you to specify that all surplus cash during disability will be saved.	d) <i>Analyze Disability Through</i>
5. This page allows you to enter any one-time expenses that could occur on the event of disability.	e) <i>Percent surplus saved</i>

2. On the *Additional Annual Expenses* page when the *Assume surplus is spent* check box is selected under *Analysis Surplus*, **100%** of the pre-retirement cash flow surplus that would have existed had Nick not been disabled will become an expense for the disability analysis. Is this statement true or false?

Hint: Use the application Help if needed.

- a) True
- b) False

3. List the name of at least one report that will display any surpluses/deficits occurring during Nick's disability.

4. When, if ever, do deficits occur in the plan you currently have open?

Conclusion

This module has enabled you to

- Model disability insurance policies
- Examine disability insurance assumptions
- Define disability insurance needs
- Perform a disability insurance analysis

Answers to disability insurance exercises

Exercise 1: Model a disability insurance policy

1. c) *Employer payment* is not supported as a disability insurance policy type in NaviPlan.
2. a) True – When entering a *Group LTD* policy, the default end date for benefits paid out is when the client turns age 65.

Exercise 2: Examine disability insurance assumptions

1. c) I and III – The two insurance analysis methods available to review disability income in a Level 3 Plan are: *Goal and Expense Analysis* and *Income Coverage Analysis*.
2. a) Cash flow – When a disability policy pays out, the proceeds go directly to cash flow.
3. a) True – NaviPlan's stand-alone reports and graphs will not provide an additional recommended disability insurance amount. It is up to the planner to determine a suitable amount.

Exercise 3: Define disability insurance needs and perform a disability insurance analysis

1.

Feature	Field or page
1. You can enter the percentage of a specific expense to be covered by the clients' cash flow during the disability period in the _____ field.	c) <i>Percent to cover</i>
2. On this page you can specify which assets will be available to cover cash flow deficits in the disability period and when they will become available.	a) <i>Asset Availability</i>
3. This field on the <i>Disability Income – <client> or <co-client></i> page allows you to specify the time horizon for the disability insurance analysis.	d) <i>Analyze Disability Through</i>
4. The _____ field allows you to specify that all surplus cash during disability will be saved.	e) <i>Percent surplus saved</i>
5. This page allows you to enter any one-time expenses that could occur on the event of disability.	b) <i>Lump Sum Needs</i>

2. a) True – On the *Additional Annual Expenses* page when the *Assume surplus is spent* check box is selected under *Analysis Surplus*, **100%** of the pre-retirement cash flow surplus that would have existed had Nick not been disabled will become an expense for the disability analysis.
3. The following reports will display any surpluses/deficits occurring during Nick's disability: *Multi-Year Cash Flow Summary if Nick is Disabled*, or *Projected Cash Flow if Nick is Disabled*.
4. Results may vary.