



**NaviPlan Standard
Online/Offline
Long-Term Care Analysis
Self-Study Guide**

USA version 11.0

EISI, Winnipeg

Disclaimer

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Long-term care analysis

The NaviPlan Standard Long-term Care 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.

Learning objectives

This module will enable you to

- Examine long-term care analysis assumptions
- Define the parameters of a long-term care analysis
- Perform a long-term care 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.

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.

Long-term care insurance coverage

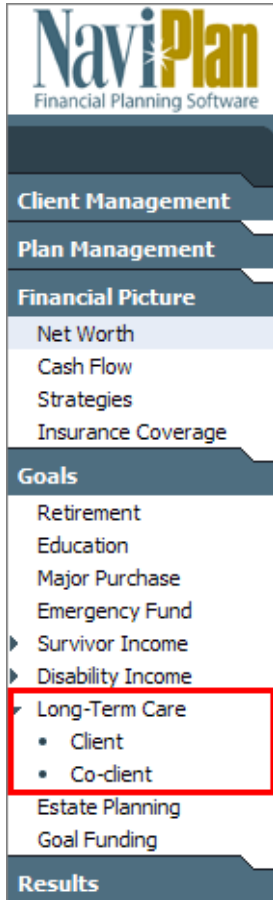


Figure 1: Navigation bar showing the Financial Picture section – Insurance Coverage category and the Goals section – Long-Term Care category

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 – *Long-Term Care – Client* or *Co-client* category, you can define your clients' long-term care insurance needs.

In order to see the *Long-Term Care* category, the *Long-Term Care* check box must be selected on the *Plan Management* section – *Modules* category – *Modules* page.

Long-term care insurance typically covers a broad range of services including nursing home care, assisted living facilities, and adult day care. Like any insurance product, long-term care insurance allows the insured to pay an affordable premium to protect against an unaffordable catastrophic event.

The *Insurance Coverage* page is used by NaviPlan to capture the insurance policies owned by the client for each particular insurance need. Any premiums related to policies entered on this page are tracked by NaviPlan for cash flow purposes and reported under *Other Expenses* on the *Cash Flow* page, to remind you not to add them as expenses.

In contrast, the *Goals* section allows you to analyze the insurance needs of the client or more specifically, asks the question, does the client have enough resources such as insurance, if they were to require long-term care. When analyzing long-term care needs, NaviPlan considers the benefits associated with any policies entered on the *Insurance Coverage* page.

Examine long-term care analysis assumptions

In calculating the clients' long-term care insurance needs, NaviPlan makes the following assumptions:

- The default long-term care period is from age 80 until death
- The analysis period duration defaults to four years
- The client in long-term care is assumed to be deceased at the end of the long-term care analysis
- The asset availability can be modified
- You can control which assets are available to cover cash flow deficits during the long-term care period
- NaviPlan Standard does not calculate a recommended amount of additional long-term care insurance for the clients to purchase

Enter long-term care insurance policies

Under *Long-Term Care Insurance*, default insurance policies automatically appear for the client and the co-client (if there is one). These default entries each have a *Benefit* and *Premium* of \$0. You can delete these entries, you can modify them so that they represent the clients' actual insurance policies (by entering dollar amounts and other information), or you can ignore them.

The screenshot displays the 'Insurance Coverage' page with the following data:

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

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

Long-Term Care Insurance				
Description*	Insured*	Daily Benefit Amount*	Premium*	Details Delete
LTC insurance policy	Nick	\$150	\$75/mo	[Details] [X]

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

To add a new long-term care insurance policy

1. Go to the **Financial Picture** section – **Insurance Coverage** category – **Insurance Coverage** page.
2. Click the **Add LTC Insurance** button. A new blank data-entry row appears.
3. Click **Details**. The *Long-Term Care Insurance Details* dialog box opens.
4. Enter the details of the policy, and then click **OK**. The *Long-Term Care Insurance Details* dialog box closes.

Figure 3: Financial Picture section – Insurance Coverage category – Insurance Coverage page – Add LTC Insurance button – Details button – Long-Term Care Insurance Details dialog box

Details

- *Description* – Enter a unique name or policy number that identifies the item.
- *Company* – Enter the name of the company issuing the policy.
- *Policy Number* – Enter a unique number that identifies the policy.
- *Insured* – Select the family member insured under the policy.
- *Effective Date* – Enter the date the coverage begins.

Benefits Payable

- *Daily Amount* – Enter the amount of benefits to be paid daily. Most long-term care policies define their benefits on a daily basis.
- *Benefit During LTC Indexed* – Select the **Infl** check box to index the benefits by the base inflation rate defined on the *Plan Management* section – *Assumptions* category – *General* page. Enter a value in the **Add'l** field to index the benefits by a value plus or minus the base inflation rate. This indexing rate applies to the period when benefits are paid.
- *Benefit Before LTC Indexed* – Select the **Infl** check box to index the benefits by the base inflation rate defined on the *Plan Management* section – *Assumptions* category – *General* page. Enter a value in the **Add'l** field to index the benefits by a value plus or minus the base inflation rate. This indexing rate applies to the period before benefits are paid.

Applicable Period

- *Waiting Period (after starting LTC)* – Enter the time period after long-term care starts that the client or co-client is required to wait before benefit payments begin. The waiting period is defined as a number of days, weeks, months, or years. Enter the number in the first field, and then select the unit of time in the second field.
- *Benefit Period (after starting LTC)* – Enter the period of time the benefits are paid. The period is defined as a number of days, weeks, months, or years. Enter the number in the first field, and then select the unit of time in the second field.

Premiums details

Note: By default, all premiums are monthly, but if you change the frequency in the *Long-Term Care Insurance Detailed View* dialog box, the frequency also changes on the *Insurance Coverage* page. NaviPlan Standard automatically deducts premiums from the premium payer's cash flow.

- *Payer* – Select the person who pays the premiums on the insurance policy.
- *Amount* – Enter the dollar amount of the long-term care premium based on the frequency defined in the following field. This value will be deducted from the cash flow.
- *Frequency* – Select how often premiums are paid.
- *Cease at Age* – Enter the age when premiums are no longer payable. If premiums are to continue for the life of the insured, enter the life expectancy age.
- *Cease on Date* – Enter the date when premiums are no longer payable.
- *Infl +/- Add'l* – Select the **Infl** check box to index the item to the default rate of inflation. The total rate can be adjusted using the *Add'l* field.

Define the parameters of a long-term care analysis

After you have entered the long-term care policy, the next step in creating a long-term care analysis is to set up the parameters of the analysis. This can be done on the *Goals* section – *Long-Term Care – Client* or *Co-client* category – *Long-Term Care - Client* or *Co-client* page.

To enter long-term care objectives

1. Under *Objectives*, select **If <client> or <co-client> is in Long-Term Care**.
2. Enter the age the client or co-client expects to enter long-term care. NaviPlan Standard calculates the corresponding date. The default age at which long-term care begins is 80 years old.
3. Enter the age the client or co-client expects to end long-term care. NaviPlan Standard assumes a client will spend four years in long-term care before death.
4. Enter the tax rates for the pre-retirement and retirement time periods.
5. Enter the return rates for proceeds, surpluses, and liquidations on lifestyle assets.

	Tax Bracket	State*	Federal		Long-Term Capital Gains*
			Average*	Marginal*	
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%

Total	Interest	Dividends	Capital Gains	Tax Free	Deferred Growth
6.00%	6.00%	0.00%	0.00%	0.00%	0.00%

Figure 4: Goals section – Long-Term Care – Client category – Long-Term Care - Client page

Objectives

- *If <client> or <co-client> is in Long-Term Care* – When this check box is selected, you can model the long-term care scenario for the client or co-client. This selection makes the other data-entry pages in this category accessible.
- *Start of LTC* – The age and year when detailed long-term care reporting will begin.
- *LTC period years* – The duration in years for long-term care.

Note: NaviPlan Standard assumes that the client dies after the period of long-term care. Long-term care is assumed to start on January 1 and end on December 31.

To enter tax rates

1. If you want to change the tax rates used for both the client's and the co-client's income tax calculations during the long-term care period, under *Tax Rates*, select **Override Tax Rates**.
2. Under *Tax Bracket*, select the clients' tax bracket from the list for the *Before Retirement* and *During Retirement* periods.
3. Under *State*, enter the state tax rate.
4. Under *Average*, enter the average tax rate.
5. Under *Marginal*, enter the marginal tax rate.
6. Under *Long-Term Capital Gains*, enter the long-term capital gains tax rate.

Rate of Return on Surpluses and Liquidations

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.

Enter long-term care expenses

On the *LTC Expenses* page you can enter the clients' expenses during long-term care.

Existing Annual Expenses

A list of the clients' expenses, entered elsewhere in the plan, appears under *Existing Annual Expenses*. The expenses were entered on one of the following pages:

- *Financial Picture* section – *Net Worth* category – *Assets / Liabilities* page
- *Financial Picture* section – *Insurance Coverage* category – *Insurance Coverage* page
- *Goals* section – *Retirement* category – *Objectives* page

Expenses only appear if they apply during the long-term care period. That is, expenses do not appear if they end before the start of long-term care or start after the end of long-term care.

The default *Percentage of lifestyle expenses to cover* for the long-term care period is 100%, and during the survivorship period is 85%.

		Long-Term Care		Survivorship			
Percentage of lifestyle expenses to cover*		100%		75%			
Description	Annual Amount	Start Date	End Date	Use Defaults	% to Cover	Use Defaults	% to Cover
123 Home Street	\$1,000	Dec 31 2006	Dec 31 2058	<input type="checkbox"/>	100%	<input type="checkbox"/>	100%
Retirement Travel (Start at 76)	\$15,000	Jan 1 2042	Dec 31 2051	<input checked="" type="checkbox"/>	100%	<input checked="" type="checkbox"/>	75%
Retirement Expense	\$105,000	Retirement	Death	<input checked="" type="checkbox"/>	100%	<input checked="" type="checkbox"/>	75%

Additional Long-Term Care Expenses
Click the **Add LTC Expense** button to create a new row.
[Add LTC Expense](#)

Figure 5: Goals section – Long-Term Care – Client category – LTC Expenses page

Additional Long-Term Care Expenses

Here you can enter any additional expenses that are expected to occur during long term care. There are two types of expenses: *Qualified Medical*, and *Lifestyle*. The differentiation between the two is for labeling purposes only, with the exception of the following:

- *Qualified Medical* – If you import an NPS client file into NPE, qualified medical expenses for non-self-employed individuals are deductible as itemized expenses subject to the 7.5% floor of adjusted gross income
- *Lifestyle* – These expenses are not deductible

Additional Long-Term Care Expenses							
Description*	Expense Type*	Daily Amount*	Start Date	Number of Years*	End Date	Indexed	Delete
LTC Expense	Qualified Medical	\$0	LTC	4	Death	<input checked="" type="checkbox"/> + 0.00%	<input type="button" value="X"/>
<input type="button" value="Add LTC Expense"/>							

Figure 6: Goals section – Long-Term Care – Client category – LTC Expenses page – Additional Long-Term Care Expenses

To add an additional long-term care expense

1. Click the **Add LTC Expense** button. A new data-entry row appears.
2. Enter a unique name that identifies the expense, and then select an expense type.
3. Enter the remaining information for the long-term care expense:
 - *Daily Amount* – Enter the daily dollar amount of the expense. Long-term care costs are usually calculated based on daily expenses. However, this expense is reported on an annual basis in the long-term care scenario of cash flow reports.
 - *Start Date* – Enter the date the expense will begin.

Note: When *LTC* is entered in the *Start Date* field, the expense starts on January 1 of the year in which the expense owner enters long-term care.

- *Number of Years* – Enter the number of years the client or co-client expects to incur the expense. It is assumed that the expense ends at the death of the client or co-client who was in long-term care.

Note: NaviPlan Standard assumes that long-term care starts on January 1 and ends on December 31.

- *End Date* – The end date will adjust based on the value entered in the *Number of Years* field.
- *Indexed* – When this check box is selected, the item is indexed by the rate defined on the *Plan Management* section – *Assumptions* category – *General* page. This amount can also be indexed by a value plus or minus the base inflation rate. When this check box is cleared, an index value can be manually entered.
- *Delete* – Click to remove the selected item.

Adjust incomes

The *Income Adjustments During LTC* page only appears when the *If <client> or <co-client> is in Long-Term Care* check box is selected on the *Goals* section – *Long-Term Care – Client* or *Co-client* category – *Long-Term Care - Client* or *Long-Term Care - Co-client* page.

This page allows the user to adjust regular income in the event of long-term care. In some cases, a person can receive a percentage of his or her income after entering long-term care. For example, a musician may be incapacitated but still earn royalty income. The only editable field on this page is *Owner in LTC*.

Figure 7: Goals section – Long-Term Care – Client category – Income Adjustments During LTC page

Set up long-term care asset availability

On the *Asset Availability* page you can define which assets will fund the long-term care need. Asset availability default assumptions are as follows:

- Non-qualified and qualified assets are available during long-term care
- Lifestyle assets are not available for long-term care, but available for the estate
- Education assets are not available for long-term care coverage

Note: Asset availability is fixed for Level 1 and Level 2 Plans, but may be modified for Level 3 Plans.

Figure 8: Goals section – Long-Term Care – Client category – Asset Availability page

Perform a long-term care analysis

Several reports can be generated to see the effect of long-term care on the plan, and you can generate them for the Current or *Recommended* Plan for comparison.

Long-term care will affect the expenses and the timing of the life insurance policy payouts and these, in turn, will affect the ending net worth.

Generate long-term care reports

Generate the *Cash Flow Detail if <client> needs Long-Term Care* report, by going to the *Reports* menu, and then selecting *Insurance – Long Term Care – Cash Flow Detail if <client> needs Long-Term Care*. This report shows cash inflows and outflows for the long-term care years. The long-term care policy benefits and expenses will be displayed under *Cash Inflows* and *Cash Outflows*. The bottom of this report displays the deficits that are occurring in the plan as a result of long-term care.

Itemized Cash Flow Projection for Family (If Nick enters Long-Term Care)

Brown Base Details (2007)

	2046	2047	2048	2049
Cash Inflows				
Investment Inflows				
Invested Available Capital (Joint/Non-Qualified)	0	1,209	8,197	16,126
500 Smith Street (Joint/Real Estate)	36,000	36,000	36,000	36,000
Total Investment Inflows	36,000	37,209	44,197	52,126
Pension Inflows				
Social Security (Nick)	57,006	58,717	60,478	62,293
Nick's Pension (Nick)	17,500	17,500	17,500	17,500
Social Security (Lisa)	34,204	35,230	36,287	37,376
Total Pension Inflows	108,710	111,447	114,265	117,168
Miscellaneous Inflows				
LTC insurance policy (Nick)	276,571	380,914	401,015	419,957
Total Miscellaneous Inflows	276,571	380,914	401,015	419,957
Total Cash Inflows	421,281	529,570	559,478	589,252
Cash Outflows				
Lifestyle Expenses				
Retirement Expense (Joint)	332,538	342,514	352,789	363,373
Retirement Travel (Start at 76) (Joint)	47,505	48,931	50,398	51,910
Total Lifestyle Expenses	380,043	391,445	403,188	415,284
Non-Qualified Contributions and Reinvestments				
Invested Available Capital (Joint/Non-Qualified)	20,155	116,468	132,146	147,022
Total Non-Qualified Contributions and Reinvestments	20,155	116,468	132,146	147,022
Miscellaneous Expenses				
New LTC Insurance (Lisa)	600	600	600	600
Total Miscellaneous Expenses	600	600	600	600
Taxes				
State Taxes	3,741	3,833	4,215	4,646
Federal Taxes	16,743	17,224	19,328	21,700
Total Taxes	20,483	21,057	23,544	26,346
Total Cash Outflows	421,281	529,570	559,478	589,252
Current Surplus/(Deficit)	0	0	0	0
Previous Surplus/(Deficit)	0	0	0	0
Ending Surplus/(Deficit)	0	0	0	0

Figure 9: Reports menu – Insurance – Long Term Care – Cash Flow Detail if <client> needs Long-Term Care – Itemized Cash Flow Projection for Family (if <client> enters Long-Term Care) report

Generate the *Multi-Year Cash Flow Summary if <client> needs Long-Term Care* report, by selecting *Reports – Insurance – Long Term Care – Multi-Year Cash Flow Summary if <client> needs Long-Term Care*.

This report can be generated for the Current or Recommended Plans, and displays four tables:

- *Multi-year Long-Term Care Needs if <client> Requires Long-Term Care*
- *Multi-Year Cash Inflows if <client> Requires Long-Term Care*
- *Multi-Year Cash Outflows if <client> Requires Long-Term Care*
- *Net Worth Accumulation if <client> Requires Long-Term Care*

Multi-Year Cash Flow if Nick Requires Long-Term Care							
Brown							
LTC Insurance Practice							
Multi-Year Long-Term Care Needs If Nick Requires Long-Term Care							
Year	Ages	LTC Income	Other Inflows	Taxes	LTC Expenses	Expenses	Surplus (Deficit)
2046	#80/78	276,571	145,481	20,694	380,043	21,314	0
2047	81/79	380,914	149,490	21,286	391,445	117,673	0
2048	82/80	401,015	159,366	23,792	403,188	133,401	0
2049	83/81	419,957	170,274	26,616	415,284	148,332	0
2050	--/82	0	344,511	22,705	320,807	1,000	0
2051	--/83	0	347,444	23,057	330,431	1,000	(7,043)
2052	--/84	0	112,819	14,322	297,801	1,000	(200,304)
2053	--/85	0	114,861	14,384	306,735	1,000	(207,258)
2054	--/86	0	116,964	14,448	315,937	1,000	(214,421)
2055	--/87	0	119,131	14,514	325,415	1,000	(221,798)
2056	--/88	0	121,362	14,582	335,177	1,000	(229,397)
2057	--/89	0	123,660	14,652	345,233	1,000	(237,224)
# Long-Term Care Age							

Multi-Year Cash Inflows If Nick Requires Long-Term Care								
Year	Ages	Employment Income	Social Security	Pension	Qualified Proceeds	Investment Inflows	Other Inflows	Total Cash Inflow
2046	#80/78	0	91,210	17,500	770	36,000	276,571	422,052
2047	81/79	0	93,947	17,500	824	37,219	380,914	530,404
2048	82/80	0	96,765	17,500	882	44,219	401,015	560,381
2049	83/81	0	99,668	17,500	943	52,163	419,957	590,231
2050	--/82	0	64,161	8,750	913	270,687	0	344,511
2051	--/83	0	66,086	8,750	17,149	255,459	0	347,444
2052	--/84	0	68,069	8,750	0	36,000	0	112,819
2053	--/85	0	70,111	8,750	0	36,000	0	114,861
2054	--/86	0	72,214	8,750	0	36,000	0	116,964
2055	--/87	0	74,381	8,750	0	36,000	0	119,131

Figure 10: Reports menu – Insurance – Long-Term Care – Multi-Year Cash Flow Summary if <client> needs Long Term Care – Multi-Year Cash Flow if <client> Requires Long-Term Care 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., *Long-Term Care training*), and then use it to complete the following exercise.

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

Exercise 1: Examine long-term care assumptions

To find the answers, see “Answers to long-term care analysis exercises” on page 15.

1. Assume Nick will enter the long-term care period at age **85** for a period of **5** years. Enter these details in the plan.
2. In addition to the regular lifestyle expenses, he will also have a **\$400** per day additional *Qualified Medical* long-term care expense which is indexed for inflation. Enter this information in the plan.
3. By default, which types of assets from the list below will not be sold to cover cash flow deficits during the long-term care period?
 - a) Qualified assets
 - b) Lifestyle assets
 - c) Non-qualified assets
 - d) Real estate assets
 - e) Both b) and d)

Exercise 2: Define the parameters for a long-term care analysis

To find the answers, see “Answers to long-term care analysis exercises” on page 15.

Generate the *Multi-Year Cash Flow if Nick Requires Long-Term Care* report for the Recommended Plan, and then answer the following questions.

1. In what year does the long-term care period for Nick end?

2. What is assumed to happen to the client after the long-term care period?

3. At what point does the time period covered in the report end?

HANDS-ON EXERCISES

Exercise 3: Perform a long-term care analysis

To find the answers, see “Answers to long-term care analysis exercises” on page 15.

Generate the *Cash Flow Detail if Nick needs Long Term Care* report for the Recommended Plan, and then answer the following questions.

1. Where are the *Qualified Medical* long-term care expenses found in the report?

2. Is Nick adequately insured in the event he enters long-term care (in the Recommended Plan)?

3. How can you analyze long-term care needs for the Current Plan?

4. What other reports are available to assess the long-term care need?

Hint: These reports are designed for client presentation and include a cover page.

Conclusion

This module has enabled you to

- Examine long-term care analysis assumptions
- Define the parameters of a long-term care analysis
- Perform a long-term care analysis

Answers to long-term care analysis exercises

Exercise 1: Examine long-term care analysis assumptions

3. e) Both b) and d) – Lifestyle assets and real estate assets will not be sold to cover cash flow deficits during the long-term care period.

Exercise 2: Define the parameters for a long-term care analysis

1. The long-term care period for Nick ends at the end of 2055.
2. The client is assumed to be deceased at the end of the long-term care period.
3. The time period covered in the report ends at the death of the surviving client.

Exercise 3: Perform a long-term care analysis

1. The *Qualified Medical* long-term care expenses are listed as *Miscellaneous Expenses*, under *Cash Outflows*.
2. No, Nick does not appear to be adequately insured for long-term care because there are huge deficits during the long-term care period.
3. You can analyze long-term care needs for the Current Plan as follows: Go to the **Reports** menu – **Insurance – Long Term Care – Multi Year Cash Flow Summary** if <client> needs **Long Term Care**, and then select the **Current** plan type in the *Assign Settings* dialog box.
4. The following client reports are available in the *Results* section – *Client Reports* category:
 - *Financial Needs Assessment*
 - *Financial Needs Summary*
 - *Financial Needs Analysis*

