



**Profiles Professional
Desktop
Assets and Liabilities
Self-Study Guide**

Version 8.0

EISI, Winnipeg

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Assets and liabilities

In Professional version 8.0, a summary view and a detail view are now available for entering assets and liabilities. On the summary view screens, you can see the total value of each asset or liability category at a glance. On the detail view screens, you can see the individual holdings or loans.

Learning objectives

This module will enable you to

- Model different asset types
- Enter liabilities
- Link an asset to a liability
- Interpret asset and liability output

Learning tools

This module includes some practice exercises using one of the sample clients provided in the application. If you want to keep this sample client case unchanged, open the *Sample 4 - Comprehensive (Jones - non-tax).fpx* client case, and then save it with a new case name.

To open and save the client case, follow these steps:

1. Start Profiles Professional.
2. Click **Open Existing Case**, and then click **Open Sample Case**. The *Open Sample Case* screen opens.
3. Click the **Open** link beside *Sample 4 - Comprehensive (Jones - non-tax).fpx*. A *Data Conversion* dialog box may appear to warn you that the planning preferences in this case differ from the global planning preferences. Click **Close**.
4. Click the **File** menu – **Save As**. The *Save Client Data As* dialog box opens.
5. Save the case with a unique name, for example, *Jones – Assets Liabilities Self-Study Guide*.

Please keep in mind that the case we are using for this self-study guide does not have the *Tax-Sensitive* option included.

Model different asset types

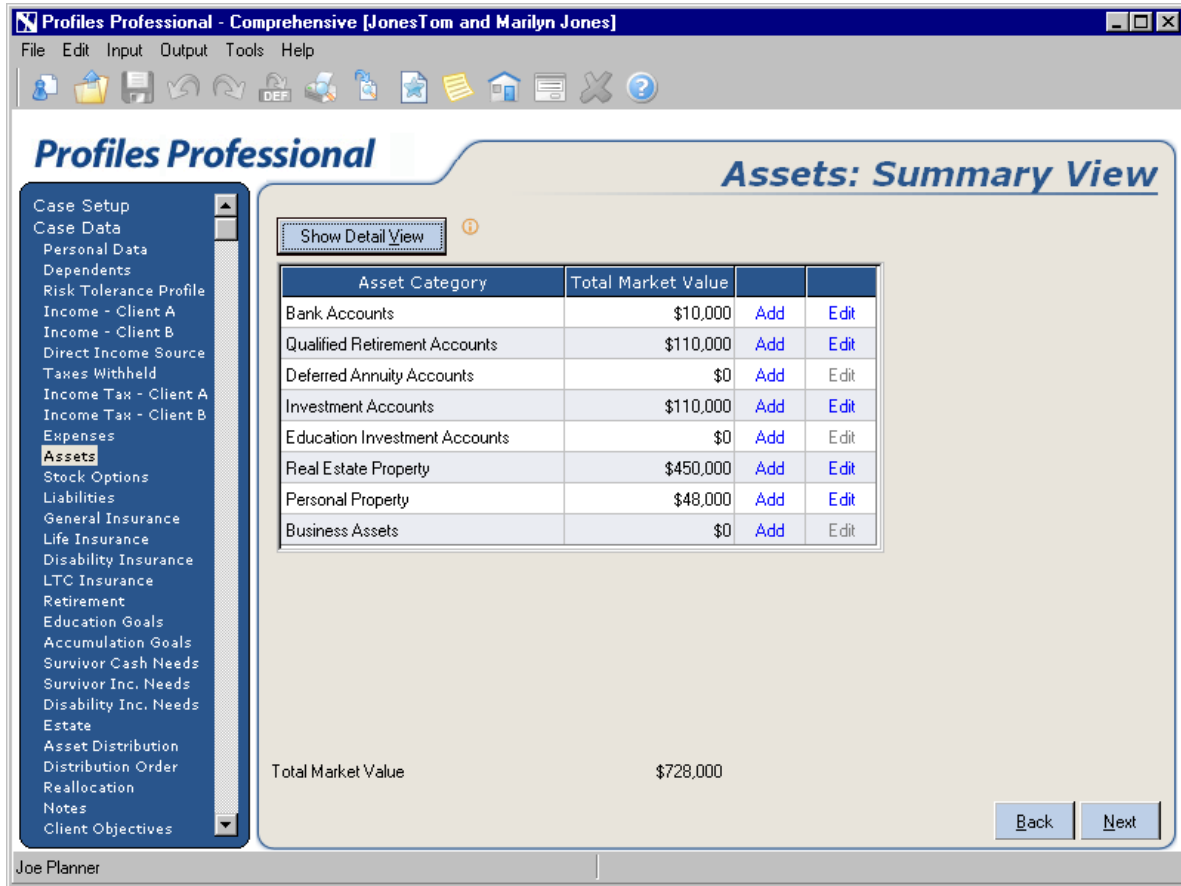


Figure 1: Case Data – Assets

On the *Assets: Summary View* screen, you can add assets by clicking the *Add* link next to the applicable asset category. Eight predefined asset types are available: *Bank Accounts*, *Qualified Retirement Accounts*, *Deferred Annuity Accounts*, *Investment Accounts*, *Education Investment Accounts*, *Real Estate Property*, *Personal Property*, and *Business Assets*. Each asset category now has a unique entry screen which simplifies data entry. The first five asset categories listed are investment assets. The last three asset categories listed on the screen (*Real Estate Property*, *Personal Property*, and *Business Assets*) are hard assets.

Note: In version 7.6, you could designate an asset to receive surplus income or lump sums on the *Assets and Liabilities* screen. In version 8.0, this is done on the *Asset Distribution* screen.

Let's take a look at the first category in the list: *Bank Accounts*.

Add a bank account

Bank Account Entry

Number (1 of 2) ◀ 1 ▶

Account Name

Owner

Account Type

Disposition at Death

Held in Living Trust

Market Value

Monthly Savings

Begin Age End Age Increase at

Interest Rate

Account Held in Living Trust

Figure 2: Case Data – Assets – Add link next to Bank Accounts

On this screen, you can enter data related to the clients' bank accounts.

From the *Disposition at Death* list, you can select the account beneficiary that will determine the account's disposition for the taxable estate. This field is unavailable if the owner of the account is *Community*, *Joint*, or *Other*.

If the *Held in Living Trust* check box is selected, no probate fees will be applied.

The default rate of return for new bank accounts is 3.13%, but you can override this rate by entering a different percentage in the *Interest Rate* field.

That's all there is to entering bank accounts. If you click the *Close* button on this screen, the *Assets: Summary View* screen reappears. Clicking the *Edit* link next to *Qualified Retirement Accounts* on the *Assets: Summary View* screen opens the *Qualified Account Entry* screen where you can view the accounts that were previously entered in this case on individual screens.

Add a qualified account

Qualified Account Entry

Number (1 of 2) ◀ 1 ▶

Account Type: 401(k)

Account Name: Atlas Retirement Plan

Investment Style: Self-directed

Owner: Client A

Beneficiary: Client/Spouse

Account Held in Living Trust:

Manage Underlying Holdings Independently:

Ticker Symbol	Holding Name	Market Value	Allocate Contribution	Asset		ROR	
				Allocation			
FFIDX	Fidelity	\$35,000	50.00	<Mixed>		10.38	✘
MS	Morgan Stanley	\$10,000	50.00	Large Cap Value		11.32	✘
							✘

Account Values: \$45,000 100.00% 10.59%

Contributions
 Classify all Holdings
 Delete this Account
 Close

Figure 3: Case Data – Assets – Add link next to Qualified Retirement Accounts


On this screen, you can enter qualified retirement accounts.

In the *Investment Style* list, there are usually two options.

- *Self-directed* – Allows various holdings to be entered under one umbrella, that is, the same account information doesn't have to be entered over and over again. For 401(k) accounts, *Self-directed* is the only option available.
- *Fixed annuity* – If selected, multiple holdings cannot be entered for the account. Why enter an annuity here instead of on the *Deferred Annuity Accounts* screen? Some investors may want certain guarantees such as, guaranteed interest rates, a death benefit, or living benefits (guaranteed minimum accumulation/withdrawal benefits, and guaranteed minimum income benefits) in addition to tax deferrals. If the client doesn't mind paying for those guarantees, they may consider an annuity within an IRA. The *Fixed annuity* option is not available for 401(k) accounts.

Selecting the *Manage Underlying Holdings Independently* check box allows you to assign individual holdings to specific goals for non-qualified accounts. For qualified accounts, you can exclude specific holdings from retirement or survivor needs analysis on the *Asset Distribution* screen. Please note that no asset reallocation or rebalancing will occur.

In the *Allocate Contribution* column, you can specify the portion of the total asset contributions to the account that are to be distributed to this holding.

When you click the pie graph button , the *Classify Holding* screen opens. On this screen, if you purchased the additional Ibbotson auto classifier feature with your version of Profiles Professional, you can automatically classify the asset by entering the ticker symbol or the name of the asset. You always have the option to manually enter or change the classifications if you wish. If you did not purchase the additional Ibbotson auto classifier feature, you can manually enter the asset classifications.

If you purchased the additional Ibbotson auto classifier feature with your version of Profiles Professional and you've entered ticker symbols, you can then classify all holdings automatically by clicking the *Classify All Holdings* button. Only the ticker symbols that are found in the Ibbotson asset database will be classified.

Earnings from the asset will be reinvested and are not brought into cash flow.

Clicking the *Contributions* button on the *Qualified Account Entry* screen opens the *Qualified Account Contributions* screen. On this screen, you can enter employer contributions for plans like 401(k)s. Maximum contribution limits are not tracked so it is up to you to make sure the maximum limits are followed. However, if the plan is overfunded, the income tax analysis will only apply the allowable deduction, so the client will not get a larger-than-expected deduction.

Preferences for qualified plans are set on the *Qualified Plan Preferences* screen under *Planning Preferences*.

Set qualified plan preferences

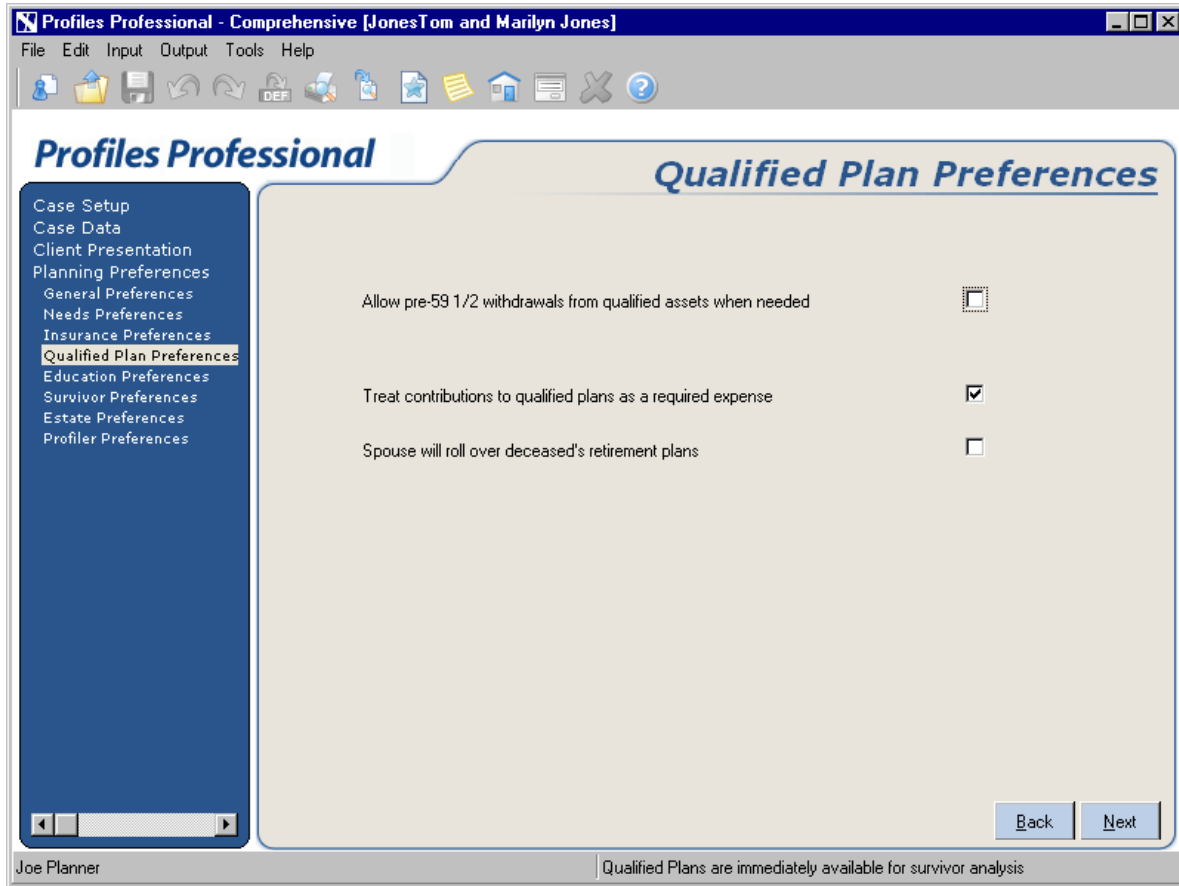


Figure 4: Planning Preferences – Qualified Plan Preferences

On this screen, you can set preferences for qualified plans for this case only or for all future cases (by clicking the *Input* menu – *Save Planning Preferences*).

If the *Allow pre-59 1/2 withdrawals from qualified assets when needed* check box is selected, qualified assets are immediately available to fund both survivor and retirement needs prior to age 59 1/2.

If the *Treat contributions to qualified plans as a required expense* check box is selected, savings in qualified retirement plans continue even when income sources are not sufficient to fund these savings. A forced savings will occur which will lead to an increased need.

If the *Spouse will roll over deceased's retirement plans* check box is selected, the deceased's retirement plan will be rolled over into an IRA in the name of the surviving spouse. This will exclude the asset from the IRD calculation of the first to die.

On the *Assets: Detail View* screen, hard assets are entered as *Real Estate Property*, *Personal Property*, or *Business Assets*. You can link a liability to a hard asset, by clicking the *Add/Edit Liability* button. When a hard asset is sold, the linked liability will be paid off.

View detailed assets

The screenshot shows the 'Assets: Detail View' window in Profiles Professional. On the left is a navigation tree with 'Assets' selected. The main area contains a table of assets and two buttons at the top: 'Show Summary View' and 'Move Holdings between Accounts', both highlighted with red boxes. The table lists various asset types, owners, names, market values, and RORs. At the bottom, the total market value is \$728,000. There are 'Back' and 'Next' buttons at the bottom right.

Type	Owner	Name	Market Value	ROR		
403(b)	Client B	Wachovia	\$30,000	11.32	[Notepad]	[X]
CDs	Community	First Bank CD	\$22,000	4.50	[Notepad]	[X]
CDs	Other	Grandparents CD for ...	\$25,000	3.57	[Notepad]	[X]
CDs	Other	Grandparents CD for ...	\$25,000	3.57	[Notepad]	[X]
CDs	Community	Bank of Irvine CD	\$5,000	3.57	[Notepad]	[X]
Mutual Fund	Community	Evergreen Balanced A	\$0	7.60	[Notepad]	[X]
Stock	Community	AIM Charter A	\$11,000	10.71	[Notepad]	[X]
Stock	Community	Putnam Voyager A	\$8,000	11.29	[Notepad]	[X]
Tax Free Bond	Client A	CA-Muni Tax Free Bo...	\$14,000	4.50	[Notepad]	[X]
Residence	Community	123 Main Street	\$450,000	3.00	[Notepad]	[X]
Personal Property	Client B	Coin Collection	\$8,000	4.00	[Notepad]	[X]
Personal Property	Community	Vehicles	\$40,000	0.00	[Notepad]	[X]
Total Market Value			\$728,000			

Figure 5: Case Data – Assets – Show Detail View button

The *Assets: Detail View* screen lists all of the individual assets in the plan. The *Move Holdings between Accounts* button allows you to transfer holdings from one account to another account. If you upgraded from an earlier version of Profiles Professional to version 8.0, during the initial data conversion, there is a possibility that some of the client's assets may not convert to the proper account. The *Move Holdings between Accounts* button and the *Move Holdings* screen were created to make this clean up quick and easy to do.

CAUTION: Profiles Professional will not stop you from moving holdings from qualified plans to non-qualified plans, or qualified plans to 529 plans.

Clicking the notepad button [Notepad] opens the *Holding Details* screen where you can view the holding details. The *Assets: Summary View* and *Assets: Detail View* screens simply provide two ways to organize and look at your assets.

Enter liabilities

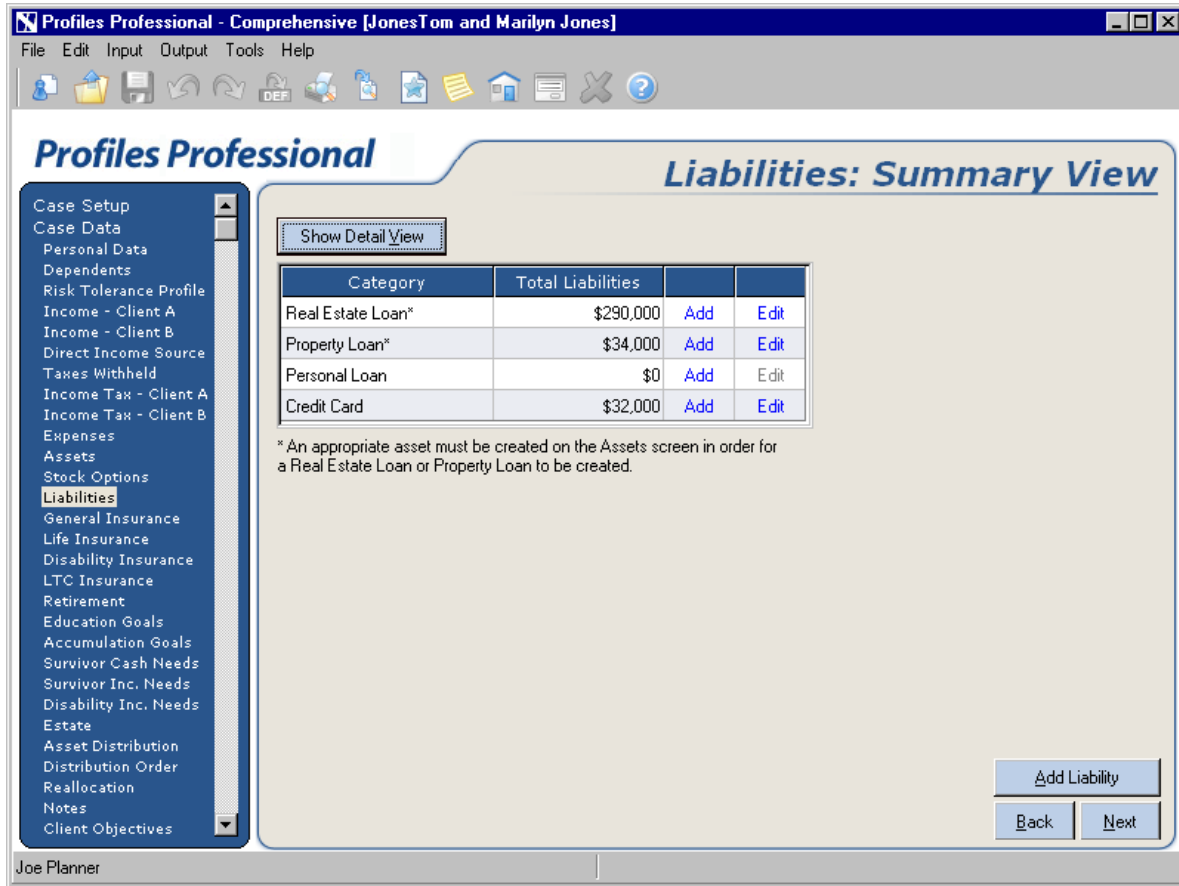


Figure 6: Case Data – Liabilities

On the *Liabilities: Summary View* and *Liabilities: Detail View* screens, you can enter individual liabilities, or liabilities that are linked to assets. Liabilities that were entered via the *Assets* screen using the *Add/Edit Liability* button will appear on this page, and vice versa. Clicking the *Add* or *Edit* link opens the *Liability Entry* screen for the liability type selected. You can link the liability to an asset by selecting the asset from the *Secured by* list.

When the *Real Estate Loan* liability type is selected for a standard mortgage with a constant interest rate, select the *Fixed Rate Mortgage/Fixed Rate Equity Loan* option from the *Type* list. If the interest rate might change at some point in the future, select the *Adjustable Rate Mortgage/Adjustable Rate Equity Loan* option.

When a hard asset is sold on the *Asset Distribution* screen, the linked liability will be paid off.

From the *Timing of Loan/Information* list, you can choose to base the loan on either the loan's current information or the loan's originating information.

The *Scheduled Monthly Payment* field allows you to enter the monthly loan payment amount. For client files that were brought in from version 7.6, this field will be blank. In version 7.6, this value was entered as an expense.

Clicking the *Additional Payments* button allows you to enter any payments that are above and beyond your regular payments. In a tax-sensitive case, you could also enter an exclusion amount.

Interpret asset and liability output

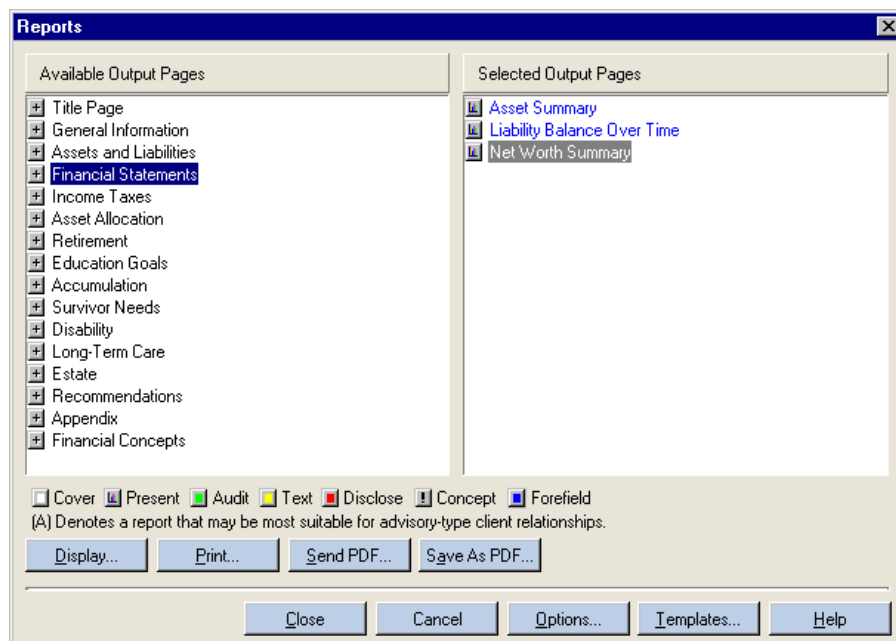


Figure 7: Client Presentation – Reports dialog box

The final learning objective in this self-study guide is to interpret asset and liability output. All output pages are available on the *Reports* dialog box (opened by clicking *Client Presentation* on the left-side navigation bar or by clicking the *Output* menu – *Client Presentation*).

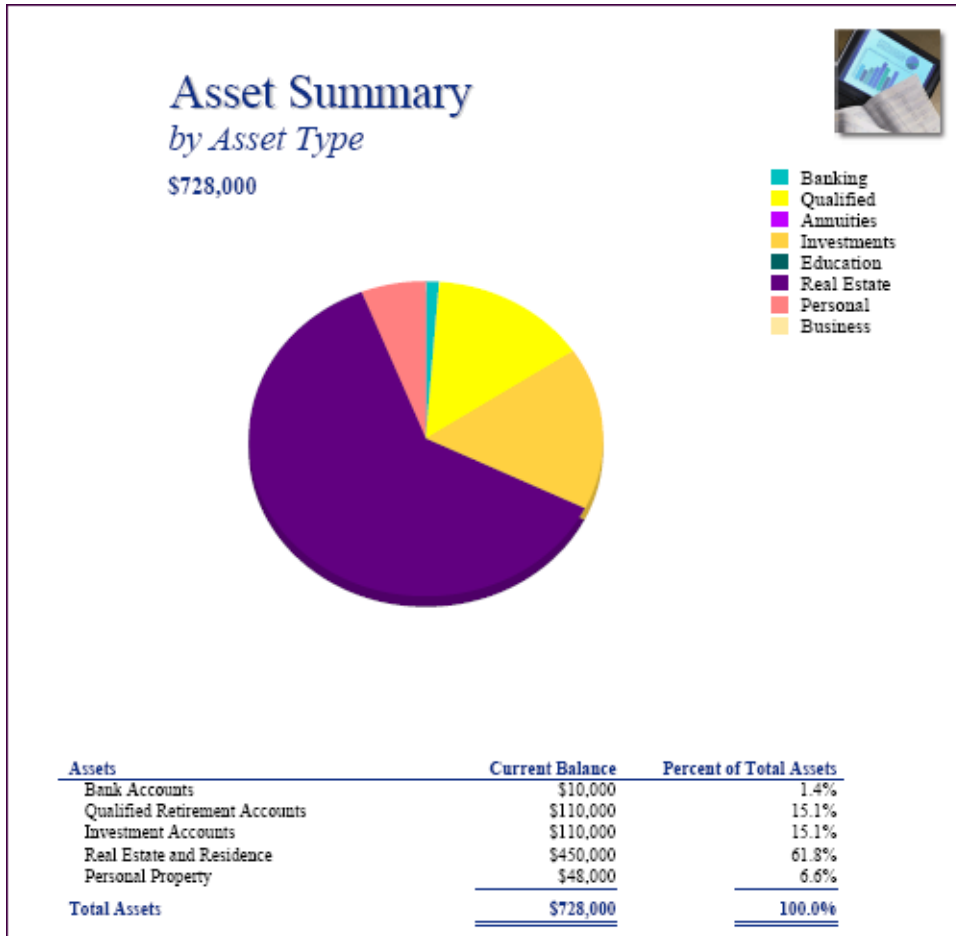


Figure 8: Client Presentation – Assets and Liabilities – Asset Summary (presentation page)

The *Asset Summary by Asset Type* output page displays the clients’ current portfolio breakdown in an easy-to-read and colorful pie graph. The bottom half of this report puts a dollar value on the pie graph percentages.

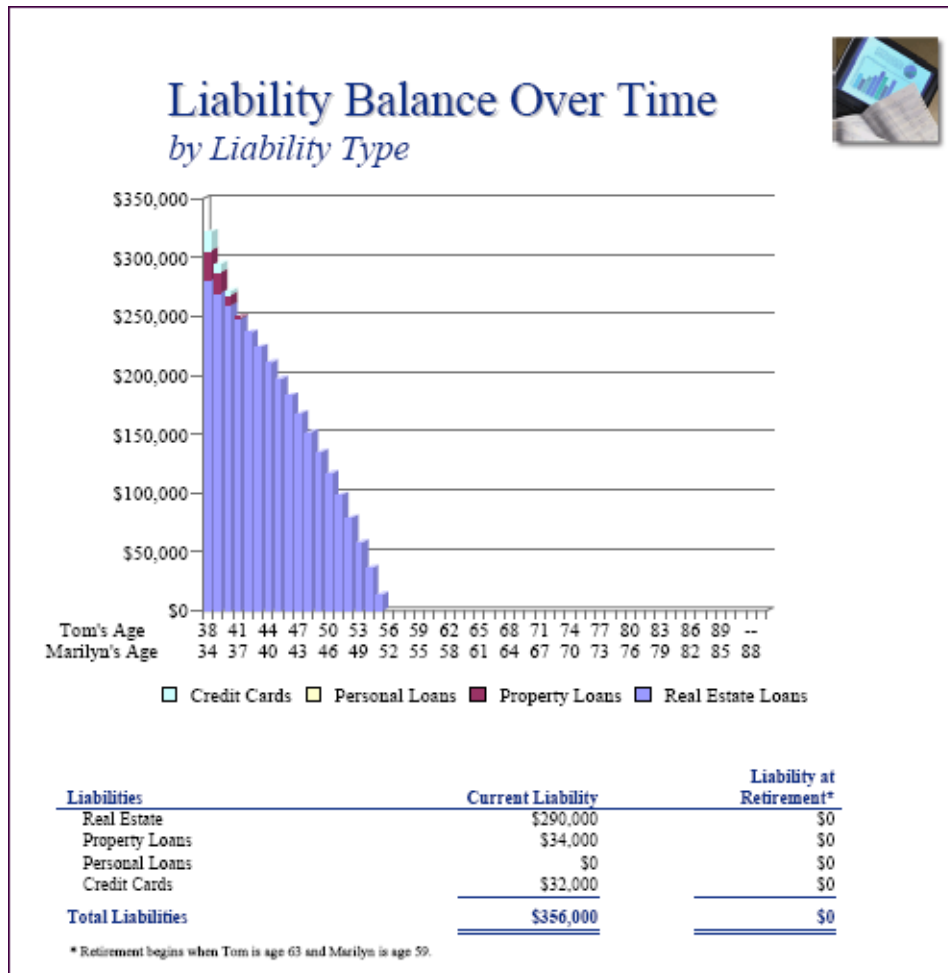


Figure 9: Client Presentation – Assets and Liabilities – Liability Balance Over Time (presentation page)

The *Liability Balance Over Time* output page features a graph showing what happens to the liabilities in the case over time. For most clients, the bulk of this graph will represent the mortgage on the house.

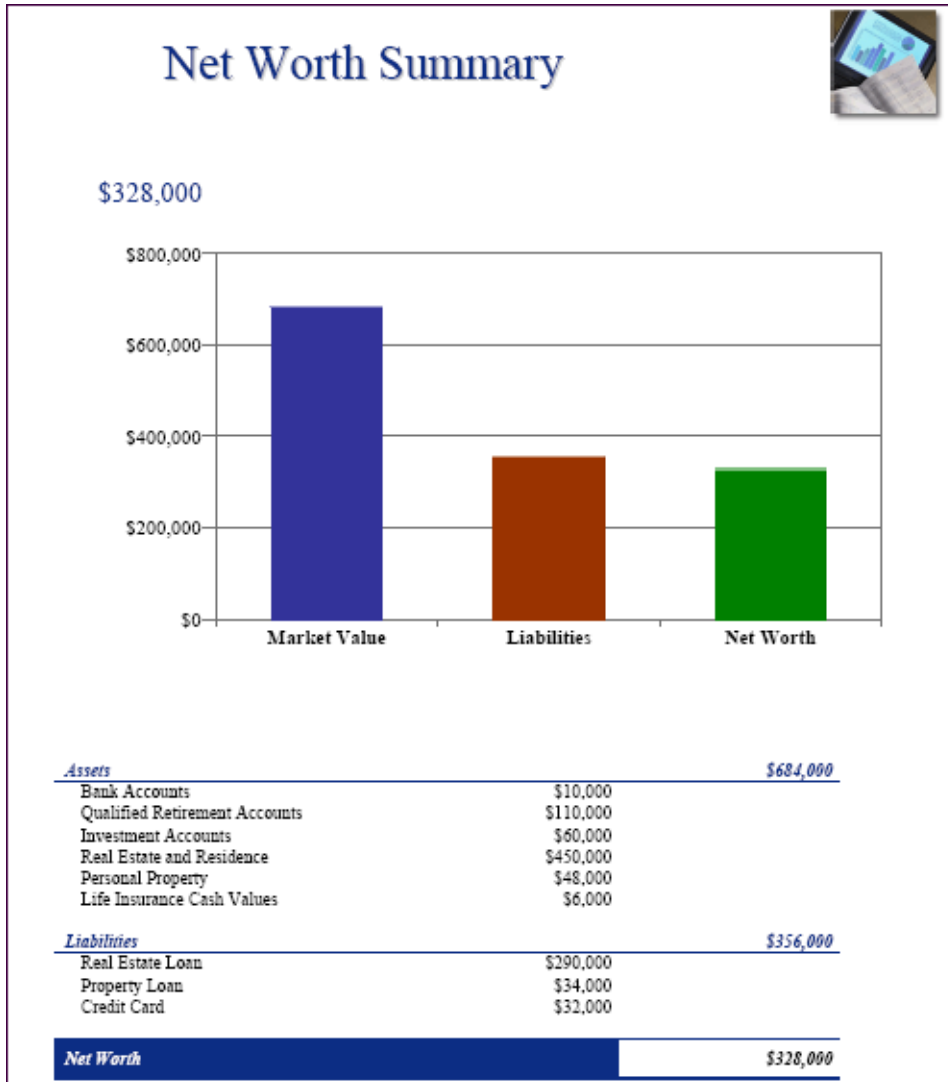


Figure 10: Client Presentation – Financial Statements – Net Worth Summary (presentation page)

The *Net Worth Summary* output page displays the clients' current year net worth in a very simple graph.

Exercises

These exercises have been designed specifically for this module and assume that you are working with the original data in the Jones sample case. If you want to keep the sample case unchanged, open the original Jones sample case, and then save it as a new case as follows:

1. From the *File* menu, click **Open Sample Case**. The *Open Sample Case* screen opens.
2. Click the **Open** link next to the *Comprehensive (Jones non-tax).fpx* case.
3. Click the **File** menu – **Save As**. The *Save Client Data As* dialog box opens.
4. Enter a unique name for the case (for example, *Jones – Assets Liabilities Exercises*).

Exercise 1: Enter assets and liabilities

1. In your initial meetings, Tom and Marilyn did not tell you about their vacation home and its loan because they didn't realize how it might affect their overall financial picture. Enter the asset and associated liability into the case based on the following notes you made during your last meeting.
 - Vacation property is jointly owned by Tom and Marilyn
 - They think that it is currently worth approximately \$90,000 based on 5% growth
 - Loan on the property is a fixed rate mortgage
 - Loan balance is \$50,000
 - Payments are \$700/month based on 5.5% interest rate
2. According to a recent investment statement you received from the clients, the AIM Charter A holding is now valued at \$15,000 and the Putnam Voyager A holding is now worth \$9,000. There is also a third mutual fund, the Sentinel Fidelity Global Balanced (FGBLX) fund, with a market value of \$1,000. Update the account with this data.

Hint: Enter the *Ticker Symbol* or *Holding Name*, and then try the *Classify All Holdings* button.

Exercise 2: Asset and liability output pages

1. Which of the following output pages will **not** verify that the mutual fund holdings are entered within a single account?

Hint: These pages are part of the *Assets & Liabilities* and *Financial Statements* output pages.

- a) *Asset Summary* presentation page
 - b) *Assets & Liabilities by Owner* audit page
 - c) *Net Worth Statement* audit page
2. Tom wants to know when the mortgages for their house and vacation property will be paid off. Which of the following output pages can you use to answer his question without including a graph?
 - a) *Liability Summary* presentation page
 - b) *Assets & Liabilities by Owner* audit page
 - c) *Liability Balance Over Time* presentation page
 - d) *Liability Timeline - All Liabilities* audit page

Answers to exercises

Exercise 2: Asset and liability output pages

1. a) *Asset Summary* presentation page
2. d) *Liability Timeline - All Liabilities* audit page

