



Profiles Professional Desktop

Education Analysis Self-Study Guide

Version 8.0

EISI, Winnipeg

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Education analysis

With Profiles Professional, you can create and analyze educational goals for your dependents. Using the *College Cost Search* screen, you can find and enter costs for tuition fees, books, and room and board for specific schools. On the *Education Goals* screen, you can compensate for any shortfalls in funding for the educational goal using the *Fund at Client A's Death* and *Fund Deficit from cash flow* check boxes.

Learning objectives

This module will enable you to

- Define the education objective
- Analyze an education objective using output pages
- Discuss solutions to solve the education objective

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 intact, open the *Sample 4 - Comprehensive (Jones - non-tax).fpx* 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 – Education analysis case*.

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

Define the education objective

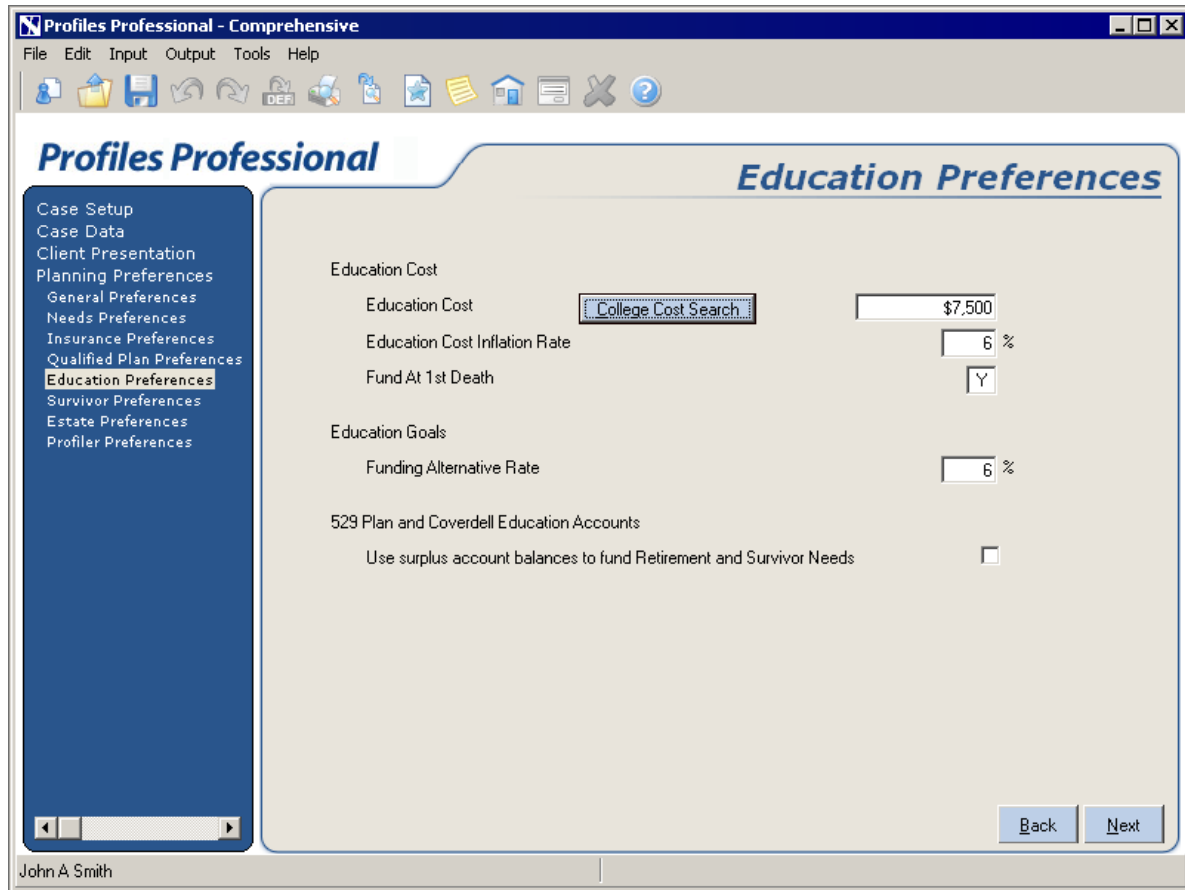


Figure 1: Planning Preferences – Education Preferences

Before you define your education goals, review the planning preferences for the education goal by going to the *Planning Preferences – Education Preferences* screen. Here you can set various defaults such as education cost, inflation rate, and funding objectives for this case.

These preferences can be saved as the defaults for future cases by clicking the *Input* menu – *Save Planning Preferences*.

To include the education costs as part of the survivor analysis, enter **Y** in the *Fund At 1st Death* field.

The *Funding Alternative Rate* is the rate of return applied to any additional savings used to achieve the education goal.

By default, 529 plans and Coverdell accounts are not included for retirement use. However, if an education goal is overfunded with assets from 529 plans, selecting the *Use surplus account balances to fund Retirement and Survivor Needs* check box makes those surplus assets available for either survivorship or retirement.

Profiles Professional - Comprehensive

File Edit Input Output Tools Help

Profiles Professional **Education Goals**

Education Goal Item Number: 1 of 2

Name: Melissa

School: University of California: Irvine

Amount Needed Per Year: \$17,565 [College Cost Search](#)

Inflate Need: 6 %

Years Until Needed: 8

Number Years Needed: 4

Fund at Client A's Death:

Fund at Client B's Death:


Fund Deficit from cash flow:

Back Next

John A Smith | Education goal

Figure 2: Case Data – Education Goals

All of your education goals can be entered or modified on the *Case Data – Education Goals* screen. An education goal is automatically entered for each dependent entered in the case. To move from one education goal to another use the “spin” bar.

To view all of your education goals on one screen, click the *View Summary Data* icon  on the tool bar, and then click it again to return to the detailed view.

If the *Fund Deficit from cash flow* check box is selected, Profiles Professional assumes that any education funding shortfalls not met by assigned assets can be funded from cash flow. It will look for other assets to redeem to cover the education expense. This also occurs in a *Detailed Cash Flow* case.

Clicking the *College Cost Search* button opens the *College Cost Search* screen where you can search a database of recent undergraduate college costs to estimate college funding needs.

Search for college costs

College Cost Search

Institution Name	City	State	In-State	Out-of-State	
University of California: Irvine	Irvine	California	\$6,770	\$24,590	Select

ASC 2006-07 Annual Survey of Colleges 2006-07. Copyright (c) 2006 The College Board.

University of California: Irvine

Education Goal	Tuition & Required Fees	Other Costs	Total
Melissa	<input type="radio"/> In-State \$6,770 <input checked="" type="radio"/> Out-of-State \$24,590 <input type="radio"/> Exclude Tuition	<input type="radio"/> Room Only \$0 <input checked="" type="radio"/> Room & Board \$9,202 <input type="radio"/> Exclude Housing <input checked="" type="checkbox"/> Books & Supplies \$1,593	\$35,385

Figure 3: Case Data – Education Goals – College Cost Search button – College Cost Search

To search for college costs, follow these steps:

1. From the search list, select either **Name of School**, **City**, or **State**.
2. Enter the full name of the school, city, or state in the field provided. You can separate multiple items with commas. If you're searching by *Name of School*, enter the entire name or a keyword, not the acronym.
3. You can also search for a school by tuition range. Select **In-State** or **Out-of-State** from the list, and then enter the tuition range for which you wish to search.
4. When you're ready to complete the search, click **Search**. The screen updates with the results of your search.
5. Click the **Select** link beside a school to view its costs.
6. Once you've designated a child and found the correct institution, use the fields under *Tuition & Required Fees* to select the correct tuition payment based on whether the child is in-state or out-of-state (the state in which the institution is located).

7. Under *Other Costs*, you can factor in room, board, books, and supplies into the total cost. These items are excluded by default. To include these expenses in the total, select the applicable check boxes. Some of these choices are not available for some institutions in the *College Cost Search*.
8. Once you've decided on a school, click **OK**. The data will appear on the *Education Goals* screen.

Reserve assets for the goal

Profiles Professional - Comprehensive

File Edit Input Output Tools Help

Profiles Professional **Asset Distribution**

Case Setup
Case Data
Personal Data
Dependents
Risk Tolerance Profile
Income - Client A
Income - Client B
Direct Income Source
Taxes Withheld
Income Tax - Client A
Income Tax - Client B
Expenses
Assets
Stock Options
Liabilities
General Insurance
Life Insurance
Disability Insurance
LTC Insurance
Retirement
Education Goals
Accumulation Goals
Survivor Cash Needs
Survivor Inc. Needs
Disability Inc. Needs
Estate
Asset Distribution
Distribution Order
Reallocation
Notes
Client Objectives

Portfolio Assets

Designate Key Assets

Accounts and Holdings		Available for Following Events			Reserve Asset for a Goal	
Acct./Holding	Market	At	When Client		Education	Accumulation
Name	Value	Retirement	A Dies	B Dies		
Bank of Irvine Checkin...	\$4,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Melissa	
Cash Management Sa...	\$6,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Melissa Neal	
Atlas Retirement Plan	\$45,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
Medical 403(b)	\$65,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		

Hard Assets

Name	Market Value	Disposition	Sell Strategy
123 Main Street	\$450,000	Hold	
Coin Collection	\$8,000	Hold	
Vehicles	\$40,000	Hold	

Back Next

John D. Advisor | Assigns the asset to a particular Education Goal

Figure 4: Case Data – Asset Distribution

On the *Asset Distribution* screen, you can reserve assets for a goal by selecting the type of goal and the asset's recipient. If you need to use the same asset for multiple college goals or more than one child, go to the **Case Data – Assets** screen, and then split the asset into multiple asset entries. An asset can be assigned to either an education goal or an accumulation goal, but not both. However, multiple assets can be assigned to the same goal.

For more information about asset distribution, see the *Distribution and Reallocation Self-Study Guide*.

Analyze the education objective using output pages

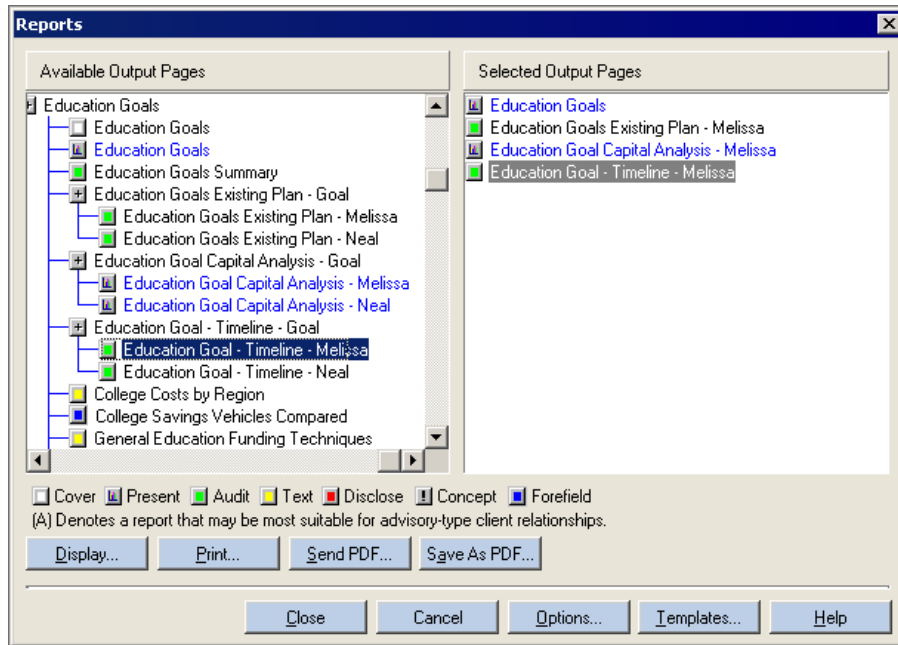


Figure 5: Client Presentation – Reports

The output pages accessible from *Client Presentation – Reports – Output Pages* are a valuable tool to verify your data entry and analyze your education goals.

To analyze an education goal using output pages, follow these steps:

1. Click **Client Presentation**.
2. The *Reports* screen opens.
3. Go to the **Available Output Pages** list, select **Education Goals**, and then select the output pages below:
 - *Education Goals Existing Plan - <goal name>*
 - *Education Goal Capital Analysis - <goal name>*
 - *Education Goal - Timeline - <goal name>*
4. Display the selected output pages.

For more information on output pages, see the *Organizing Output Self-Study Guide*.

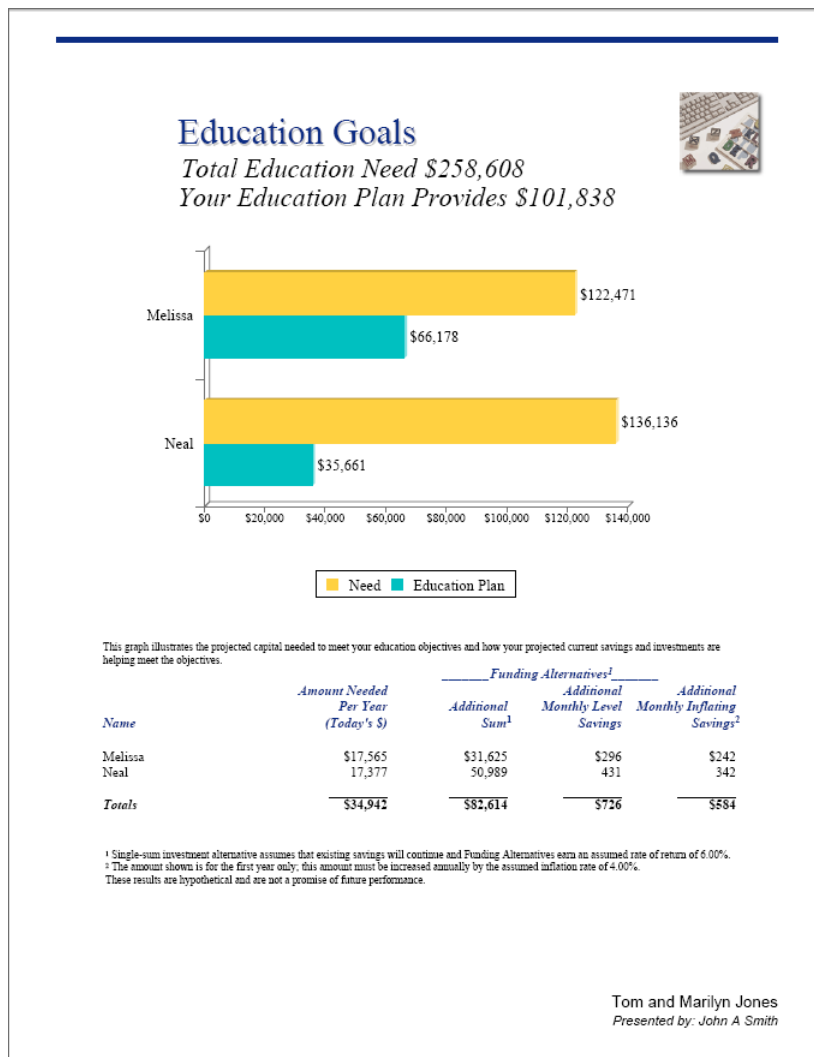


Figure 6: Client Presentation – Education Goals – Education Goals presentation page

The *Education Goals* presentation page displays the clients’ education goals in a graph and table. The graph at the top of the page shows the total education need compared to what your current education plan provides, based on existing assets and savings. The table at the bottom of the page displays three funding alternatives to achieve the goal:

- Additional lump-sum needed today
- Monthly level savings
- Monthly inflating savings

The *Funding Alternative Rate* field on the *Planning Preferences – Education Preferences* screen defines the rate of return that is used for the additional lump-sum or monthly savings.

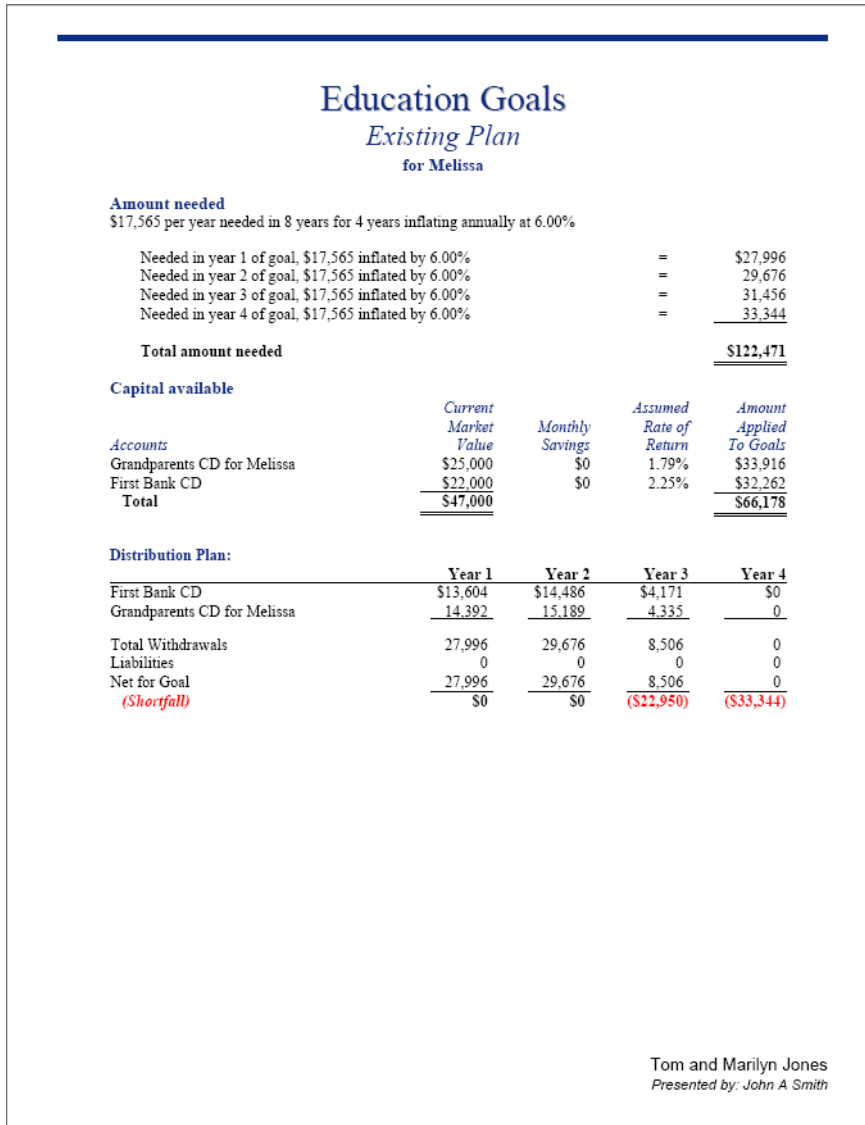


Figure 7: Client Presentation – Education Goals – Education Goals Existing Plan - Goal – Education Goals Existing Plan - <Family Member>

The *Education Goals Existing Plan - <Family Member>* audit page provides a more detailed view of the presentation page including the following:

- *Amount needed* – Displays the yearly cost breakdown and provides a total amount needed to fund the goal in future dollars
- *Capital available* – Lists the assets that are currently reserved for this specific goal
- *Distribution plan* – Shows you how the assets get depleted and when the shortfall occurs (Note that asset redemptions are prorated across all available assets based on market value.)

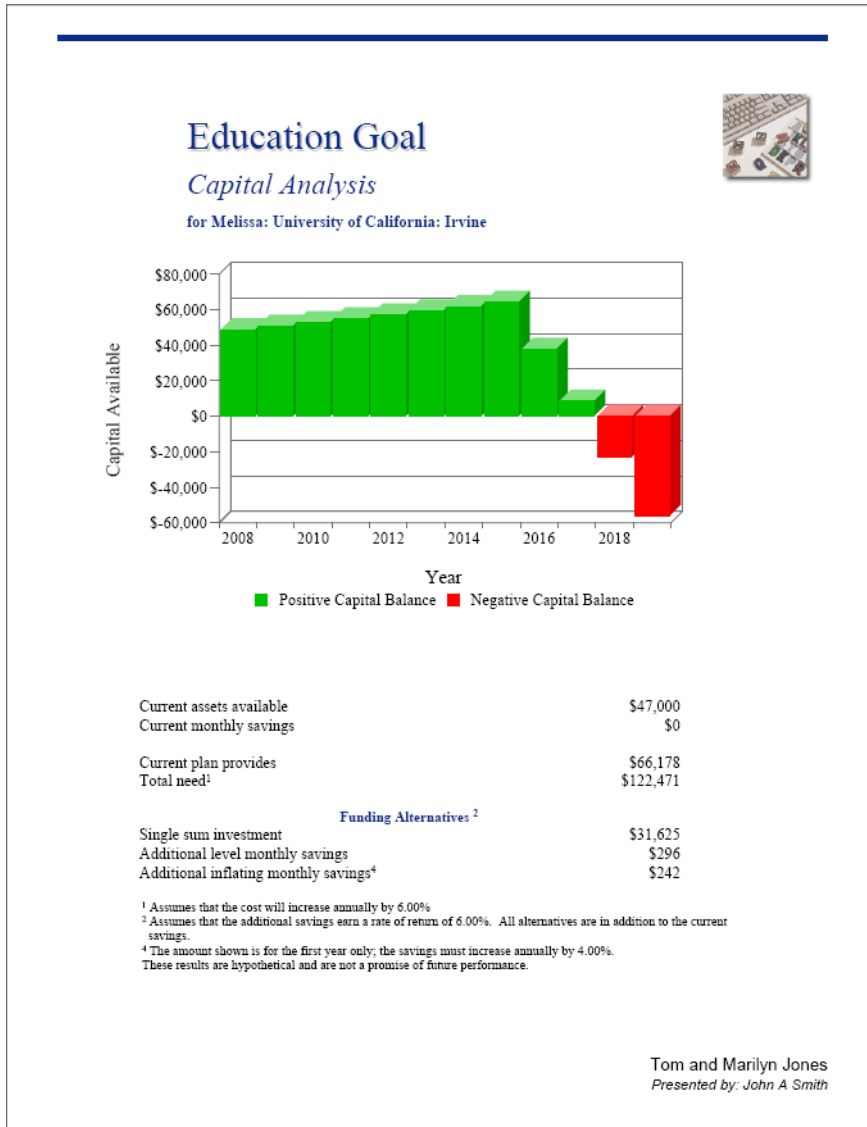


Figure 8: Client Presentation – Education Goals – Education Goal Capital Analysis - Goal – Education Goal Capital Analysis - <Family Member>

The *Educational Goal Capital Analysis* - <Family Member> presentation page is a more personalized report covering the education goal of the respective child.

The graph at the top of the page depicts the increase and decrease of capital. The color green indicates positive capital balances, and red indicates negative capital balances.

The bottom section of the page provides a numeric breakdown of goal funding with alternatives for funding goal shortfalls.

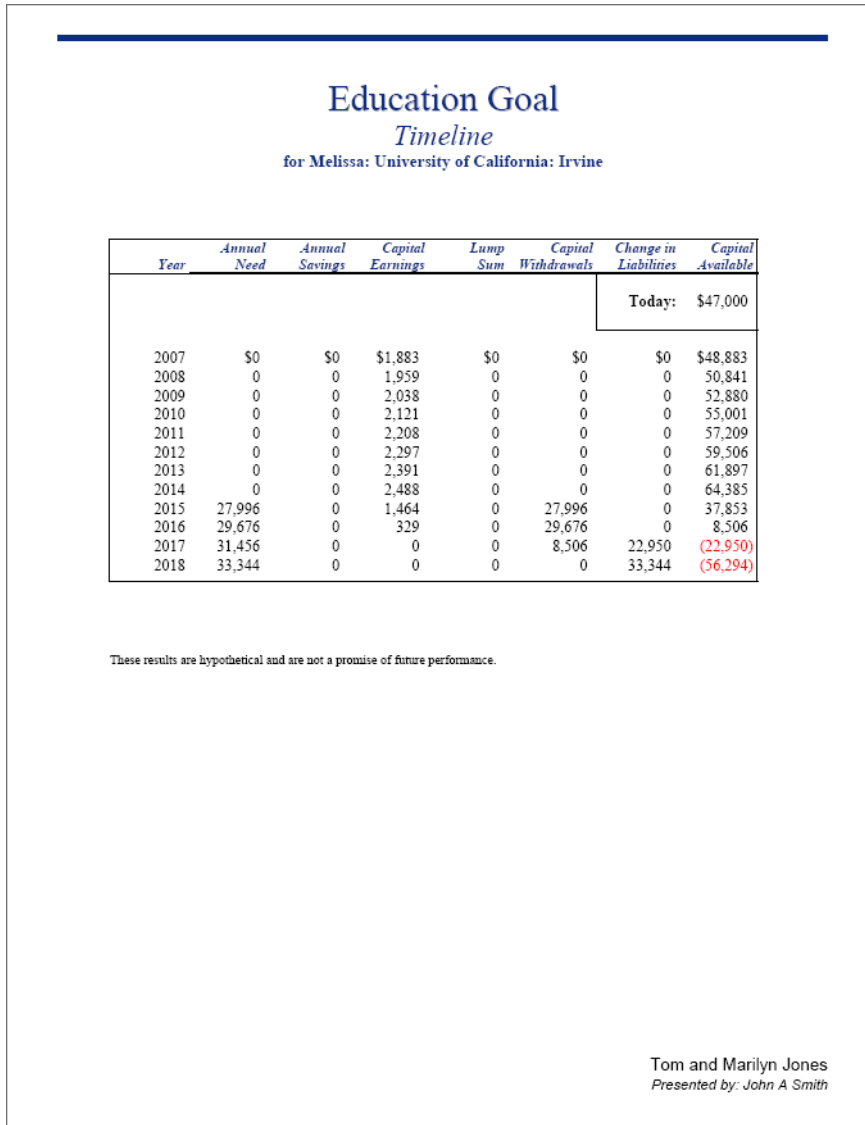


Figure 9: Client Presentation – Education Goals – Education Goal - Timeline - Goal – Education Goal - Timeline - <Family Member>

The *Education Goal - Timeline - <Family Member>* audit page provides a year-by-year breakdown of what is happening to the individual education goal within the case from today until the end of the goal. You can change the time frame by going to the *Assets* screen, and then changing the start or end dates for monthly savings.

The *Change in Liabilities* column shows the yearly liability amount required to fund the goal.

Discuss solutions to solve the education objective

By examining the sample case, you can see that the education goal for Melissa has shortfalls in the last two years of the goal. Now let's focus on *solving* Melissa's education goal.

To compare the current analysis with the proposed solutions, duplicate the current case using the *File* menu – *Save As* command, and then implement suggestions in the copy of the original case. This will ensure that the original case remains unchanged.

Several options are available to lessen the shortfalls in the goal:

- Save an additional \$200 per month to the *First Bank CD* account
- Reduce the *Amount Needed Per Year* expense by \$2,000
- Reallocate the assets to a riskier asset mix or a 529 plan

After implementing these solutions in the duplicated case, let's generate the *Educational Goal Capital Analysis* - <Family Member> presentation page again.

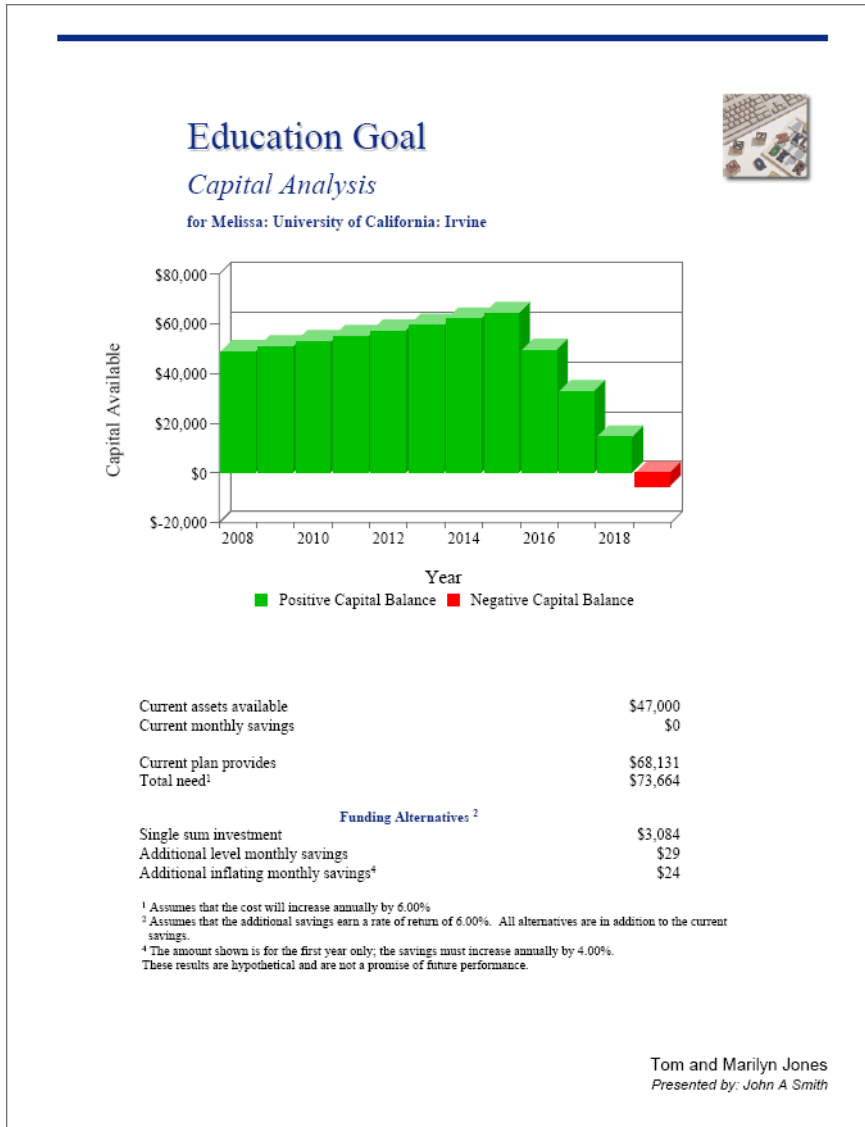


Figure 10: Client Presentation – Education Goals – Education Goal Capital Analysis - Goal – Education Goal Capital Analysis - <Family Member>

Note that now there is only a shortfall in the final year.

Remember to make sure the clients can afford the recommended saving amounts or alternative strategies.

Modify the risk tolerance and asset allocation

The screenshot shows the 'Profiles Professional - Comprehensive' software window. The title bar includes 'File Edit Input Output Tools Help'. The main window is titled 'Profiles Professional' and 'Risk Tolerance Profile'. On the left is a navigation menu with items like 'Case Setup', 'Case Data', 'Personal Data', 'Dependents', 'Risk Tolerance Profile', 'Income - Client A', etc. The main area is titled 'Risk Tolerance' and contains six questions with dropdown menus:

Question	Selected Answer
Question 1	b. Portfolio 2
Question 2	b. Portfolio B
Question 3	c. Balance moderate risk/returns
Question 4	b. Wait at least a year before change
Question 5	c. Portfolio C
Question 6	a. Agree

Below the questions, it shows 'Risk tolerance profile: Moderate Aggressive'. There is a 'Complete Questionnaire' button and 'Back' and 'Next' buttons at the bottom right. The status bar at the bottom left shows 'John A Smith' and the bottom right shows 'Question 1 - Risk Tolerance'.

Figure 11: Case Data – Risk Tolerance Profile

The *Risk Tolerance Profile* screen is used to determine which investment portfolio best matches your clients' objectives. Based on the score of the answers to the *Risk Tolerance* questions, the clients will be given a suggested portfolio that may change depending on the time horizon for each goal.

The asset allocation derived from the *Risk Tolerance* questions is based on Ibbotson asset allocation information.

For more information on the effects of modifying the risk tolerance for a goal, see the *Rebalance Assets* section in the *Distribution and Reallocation Self-Study Guide*.

6. I am comfortable with investments that may frequently experience large declines in value if there is a potential for higher returns.

- a. Agree (15 points)
- b. Disagree (8 points)
- c. Strongly disagree (0 points)

Your Risk Tolerance Score: 62 out of 100

In the table below, you will find a description of the risk tolerance profile that most closely fits the score above.

<i>Risk Tolerance Profile</i>		
<i>Score</i>	<i>Profile</i>	<i>Description</i>
0-19	Conservative	The conservative investor is particularly sensitive to short-term losses, but still has the goal of beating expected inflation over the long run.
20-39	Moderate Conservative	The moderate conservative investor is sensitive to short-term losses, but is willing to accept more risk than the conservative investor in order to pursue higher potential returns over the long-term. The safety of investment and return is of relatively equal importance to the moderate conservative investor.
40-59	Moderate	The moderate investor is willing to accept some risk, but is probably not willing to accept the short-term risk associated with achieving a long-term return substantially above the inflation rate.
60-79	Moderate Aggressive	The moderate aggressive investor is concerned primarily with wealth accumulation over an intermediate to long time horizon. A greater importance is placed on the return potential of an investment than on its safety. A moderate amount of risk aversion tempers the pursuit of higher returns.
80-100	Aggressive	The aggressive investor values high returns relatively more than other types of investors. The aggressive investor is able to tolerate both large and frequent fluctuations in portfolio value in exchange for a higher return.

Continued...
Tom and Marilyn Jones
Presented by: John A Smith

Figure 12: Client Presentation – Asset Allocation – Risk Tolerance Assessment audit page

The *Risk Tolerance Assessment* audit page explains the idea of matching risk tolerance and time horizon for an objective with a given asset allocation. Part 1 shows the clients’ answers to the questionnaire, their overall score, and the suggested profile and its description. Part 2 measures the impact of time horizon for each objective. The time horizon is calculated based on the start of the objective. Next, you can use the table on the *Recommended Allocations* output page to align your risk tolerance and your time horizon scores with an appropriate asset allocation portfolio.

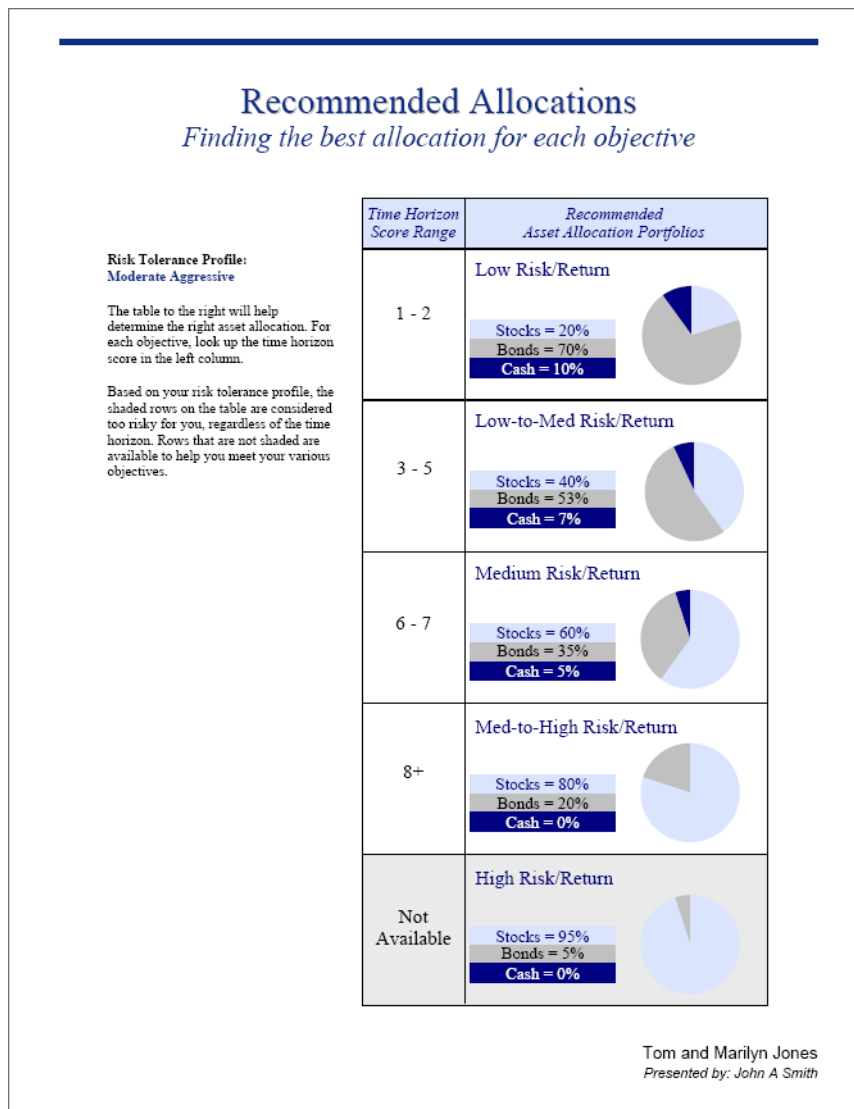


Figure 13: Client Presentation – Asset Allocation – Recommended Allocations presentation page

The *Recommended Allocations* presentation page shows that the risk tolerance profile for this case is Moderate Aggressive. For each objective, the time horizon score is shown in the left column of the table and the recommended asset allocation portfolio is shown in the right column.

Based on the risk tolerance profile regardless of the time horizon, the shaded rows on the table are considered too risky for this client case. Rows that are not shaded are available to meet objectives. Please note that the recommended asset allocation portfolios are only suggestions.

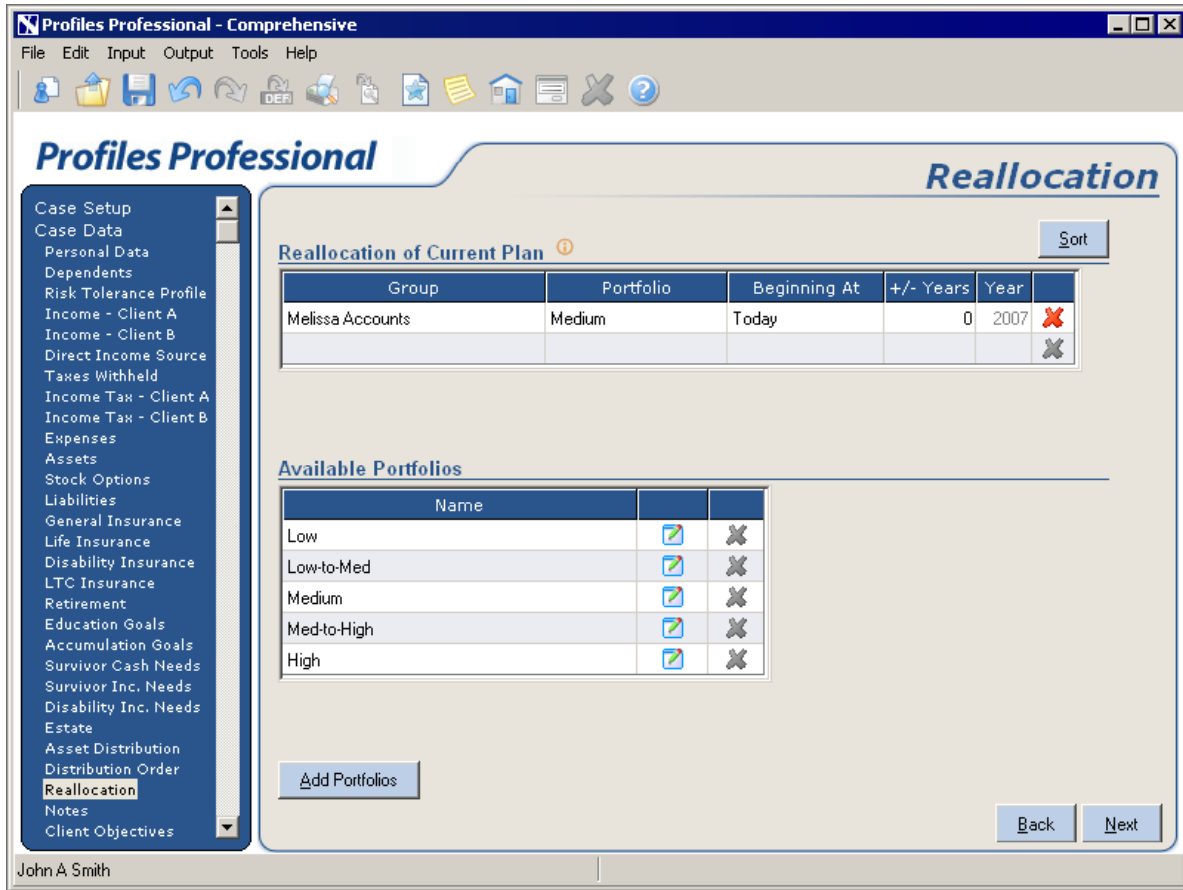


Figure 14: Case Data – Reallocation

From the *Case Data – Reallocation* screen, you can choose which asset to reallocate, and when. For more information about reallocating assets, see the *Distribution and Reallocation Self-Study Guide*.

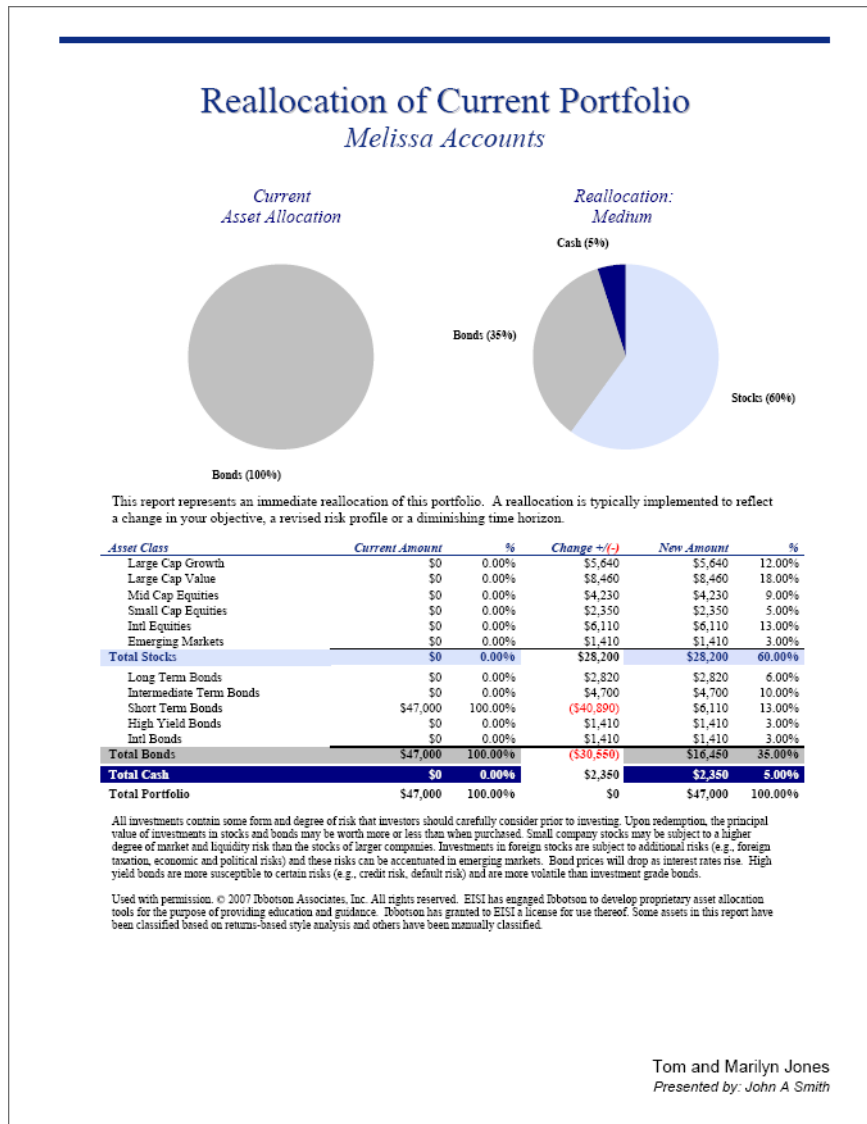


Figure 15: Client Presentation – Asset Allocation – Allocation of <Family Member> Accounts – Reallocation of Current Portfolio - <Family Member> Accounts

The *Reallocation of Current Portfolio - <Family Member> Accounts* page is only available if assets have been reallocated in the case. The top half of this output page displays the current asset mix beside the suggested asset mix in a pie graph format, and the bottom half displays the reallocations that occurred to get to the suggested portfolio.

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 this sample case intact, 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 *Sample 4 - 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 – Education Analysis case*).

Exercise 1: Risk tolerance profile

1. Profiles examines the *Risk Tolerance Profile Questionnaire* as well as the time horizon and duration of a specific objective to determine the most appropriate asset allocation for your clients. True or false?
 - a) True
 - b) False
2. Which report should you generate to find the best asset allocation mix for each specific objective based on risk and time horizon?
 - a) *Risk Tolerance Assessment*
 - b) *Recommended Allocations*
 - c) Both

Exercise 2: Define an education objective

1. On the *Education Goals* screen, you can specify when the goal occurs and the duration of the education goal. True or false?
 - a) True
 - b) False
2. On the *Planning Preferences – Education Preferences* screen, the *Funding Alternative Rate* is the return rate applied to any additional savings required to achieve the education goal. True or false?
 - a) True
 - b) False

3. Without modifying the default settings for education, how much would the first year of a Duke University education cost based on the following criteria:
 - *Out-of-State Tuition*
 - *Room & Board*
 - a) \$20,000 – \$29,999
 - b) \$30,000 – \$39,999
 - c) \$40,000 – \$49,999
 - d) \$50,000 +

4. On which screen can you designate assets to fund a specific goal?
 - a) *Assets*
 - b) *Education Goals*
 - c) *Asset Distribution*
 - d) *Distribution Order*

Exercise 3: Analyze education objectives using output pages

1. The *Education Goals* output page displays the education need amount and the capital available. Which output page displays a graph showing a year-by-year breakdown of capital available?
 - a) *Education Goals Summary*
 - b) *Education Goals Existing Plan - Goal*
 - c) *Education Goal Capital Analysis - Goal*
 - d) *Education Goal - Timeline - Goal*

2. The *Education Goals Summary* output page includes education needs, capital available, and funding shortfalls. How could this help your relationship with your clients?
 - a) Allows you to provide your clients with an overall picture of their education goal
 - b) Provides you with the opportunity to work with your clients in establishing strategies going forward to address potential shortfalls
 - c) Allows you to gather more information about the clients and potentially discover assets they may not have disclosed to you in previous meetings
 - d) All of the above

Answers to exercises

Exercise 1: Risk tolerance profile

1. a) True. Profiles examines the *Risk Tolerance Profile Questionnaire* and the time horizon and duration of a specific objective to determine the most appropriate asset allocation for your clients.
2. c) Both the *Risk Tolerance Assessment* and *Recommended Allocations* output pages can help you find the best asset allocation mix for each specific objective based on risk and time horizon.

Exercise 2: Define an education objective

1. a) True. On the *Education Goals* screen, you can specify when the goal occurs and the duration of the education goal.
2. a) True. On the *Planning Preferences – Education Preferences* screen, the *Funding Alternative Rate* is the return rate applied to any additional savings required to achieve the education goal.
3. c) \$40,000 – \$49,999 is what the first year of a Duke University education including out-of-state tuition and room and board would cost.
4. c) The *Asset Distribution* screen is where you can designate assets to fund a specific goal.

Exercise 3: Analyze education objectives using output pages

1. c) The *Education Goal Capital Analysis - Goal* output page displays the education need amount and the capital available.
2. d) All of the above. The *Education Goals Summary* output page allows you to provide your clients with an overall picture of their education goal. It provides you with the opportunity to work with your clients in establishing strategies going forward to address potential shortfalls. It allows you to gather more information about the clients and potentially discover assets they may not have disclosed to you in previous meetings.