



Profiles Professional Desktop

Life Insurance Analysis Self-Study Guide

Version 8.0

EISI, Winnipeg

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Life insurance analysis

Generally, life insurance is designed to provide an income for the survivor's lifetime, which includes the survivor's retirement years. A few clients may desire to provide survivor income for a shorter period of time. With Profiles Professional, you can analyze life insurance needs to make sure that surviving family members enjoy the same standard of living they were accustomed to before the death of the client.

Learning objectives

This module will enable you to

- Enter existing insurance policies
- Define insurance needs
- Perform a life insurance analysis

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* file, 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.

Enter existing insurance policies

The screenshot shows the 'Life Insurance' screen in the Profiles Professional software. The interface includes a menu bar (File, Edit, Input, Output, Tools, Help) and a sidebar with a list of case data categories. The 'Life Insurance' category is selected. The main area contains the following fields:

- Policy Record Number: 1 of 4
- Insurance Policy Name: Allstar VUL
- Insured: Client A
- Owner: Client A
- Beneficiary: Surviving Client
- Net Death Benefit: \$250,000
- Annual Premium: \$3,600
- Number of Premiums Remaining: 52
- Net Current Cash Value: \$6,000
- Net Death Benefit at Mortality: \$250,000

Buttons for 'Back' and 'Next' are located at the bottom right of the screen.

Figure 1: Case Data – Life Insurance

On the *Life Insurance* screen, you can enter an unlimited number of personal and group life insurance policies for your client.

You can specify the owner of the policy on this screen. Options include *Client A*, *Client B*, *Joint*, *Community*, *Group Insurance*, and *Other*. Note that *Trust* is not an option; if the policy is owned by a trust, enter an irrevocable life insurance trust (ILIT) on the *Irrevocable Life Insurance Trust* screen under *Case Data – Estate*. If your client wants to use an existing policy to fund an ILIT, you can transfer it to the trust on the *Irrevocable Life Insurance Trust* screen.

You can also specify the beneficiary of the policy. If death proceeds will be distributed outside of the estate and will not be used to cover survivor needs, select *Other* from the *Beneficiary* list.

The *Net Death Benefit* amount represents the benefit amount that will be used when the insured dies. This is the amount that is used for the survivor analysis.

The *Annual Premium* amount entered is used as an expense in the current year's cash flow calculations.

To add a death benefit to the retirement analysis at the planned mortality age, enter the estimated benefit in the *Net Death Benefit at Mortality* field. This will only apply to the retirement analysis if the insured is the first to die and there is a different year of death for Client A and Client B. For term

policies that will expire before the planned mortality age, leave this field blank. Note that Profiles assumes that death occurs of the *Plan Date* specified on the *Assumptions* screen, under *Case Setup*. You've now completed the first learning objective, entering existing insurance policies.

Define insurance needs

In Profiles Professional, life insurance needs are defined on the following screens:

- *Survivor Cash Needs* screen
- *Survivor Income Needs* screen
- *Needs Preferences* screen (under *Planning Preferences*)
- *Survivor Analysis Preferences* screen (under *Planning Preferences*)

Define survivor cash needs

The screenshot shows the 'Survivor Cash Needs' screen in Profiles Professional. The interface includes a navigation pane on the left with 'Survivor Cash Needs' selected. The main area is divided into three sections:

- Cash Needs:** Contains two columns for 'At Client A's Death' and 'At Client B's Death'.

Dependent Care	\$0	\$0
Cash Bequests	\$0	\$10,000
- Emergency Reserve:** Contains a single field for 'Emergency Reserve Fund' with a value of \$44,250.
- Liabilities to Pay:** Contains a table with columns for Category, Name, Owner, Current Balance, and Payoff at (Client A's Death, Client B's Death).

Category	Name	Owner	Current Balance	Payoff at	
				Client A's Death	Client B's Death
Real Estate Loan	Loan for 123 Ma...	Community	\$290,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Property Loan	Loan for Vehicles	Community	\$28,000	<input type="checkbox"/>	<input type="checkbox"/>
Property Loan	Loan for Coin Co...	Client B	\$6,000	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Credit Card	Citibank Credit C...	Joint	\$32,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Buttons for 'Back' and 'Next' are located at the bottom right of the main content area.

Figure 2: Case Data – Survivor Cash Needs

Use the *Survivor Cash Needs* screen to specify lump-sum cash survivor needs.

The *Dependent Care* fields are used to enter lump-sum funds required to care for dependent children, such as day care (not education). You can either enter child care costs during survivorship in this field, or you can add the child care costs to the survivor's monthly need amount on the *Survivor Income Needs* screen for the appropriate number of years.

Cash Bequests can include charitable bequests if the case does **not** include an estate analysis. These do not qualify as charitable bequests and are taxed as part of the estate prior to distribution. If estate analysis is included, use the *Charitable Bequests Details* button on the *Estate* screen to enter charitable cash bequests.

The *Emergency Reserve Fund* value is calculated based on a multiple of monthly income. The default multiple is set on the *Planning Preferences – Needs Preferences* screen.

You can use the *Liabilities to Pay* table to specify whether or not liabilities should be paid off at the death of Client A or Client B. If a liability is paid off at the death of a client, the immediate cash need increases but the associated payments will no longer continue, so ongoing expenses are reduced.

Define survivor income needs

Profiles Professional - Comprehensive [JonesTom and Marilyn Jones]

File Edit Input Output Tools Help

Profiles Professional **Survivor Income Needs**

Client A Death

Client B's Age	Monthly Need (1)	Monthly Need (2)	Survivor's Earnings
34	\$10,325	\$0	\$7,583
44	\$7,375	\$0	\$7,583
59	\$7,375	\$0	\$0
0	\$0	\$0	\$0
0	\$0	\$0	\$0

Increase Need By % %

Age to Receive Social Security Retirement Benefit

Minimum Asset Balance

Client B Death

Client A's Age	Monthly Need (1)	Monthly Need (2)	Client A Earnings
38	\$10,325	\$0	\$7,000
48	\$7,375	\$0	\$7,000
63	\$7,375	\$0	\$0
0	\$0	\$0	\$0
0	\$0	\$0	\$0

Increase Need By % %

Age to Receive Social Security Retirement Benefit

Minimum Asset Balance

Back Next

Joe Planner

Figure 3: Case Data – Survivor Income Needs

The *Survivor Income Needs* screen is used to define monthly needs and survivor’s earnings in the event of Client A’s or Client B’s death. The top of the screen is used to define monthly needs and survivor earnings in the event of Client A’s death, and the bottom of the screen is used to define monthly needs

and survivor earnings in the event of Client B's death. Note these amounts are based on incomes defined elsewhere.

Because income needs vary at different times in our lives, Profiles Professional allows you to enter as many as five different time frames. The following time frames appear in the *Client A's Age/Client B's Age* fields by default:

- the survivor's age today (this can't be edited)
- the survivor's age when the youngest child turns 18
- the survivor's retirement age

By default, the *Monthly Need (1)* column values are based on a percentage of current income set on the *Planning Preferences – Needs Preferences* screen (see "Define insurance needs preferences" on page 7). However, you can change these fields as needed to reflect the expected gross needs of the survivor and family. For example, if the client needs \$5,000 monthly after tax, you should enter a gross amount, up to \$6,000 monthly, to account for estimated taxes.

The two *Monthly Need* columns allow you to specify two needs inflated at different rates. One could be used for an inflating need, the other for a non-inflating need.

- *Monthly Need (1)* – Enter the gross income that the surviving client would need, including the surviving client's monthly employment income, if any.
- *Monthly Need (2)* – Enter supplementary monthly income needed, with a different inflation rate from that of *Monthly Need (1)*.

Profiles Professional assumes the surviving client continues to work and receive the salary increases indicated on the *Income* input screens, until retirement age. Edit the *Survivor's Earnings* column if necessary to fit your clients' situation. For example, you can model various situations such as an increase or decrease in income, or to *add* an income if the surviving spouse will enter the workforce. Amounts entered here will be used to calculate the Social Security survivor benefits in pre-retirement. (Social Security during retirement is calculated using dollar values on the *Incomes* screen.)

The *Minimum Asset Balance* field is used to define a specific dollar amount to be reserved at the end of the analysis for the estate. If no dollar amount is entered in this field, the survivor needs analysis will use a capital depletion approach, meaning assets will decline to zero at mortality when a full solution has been implemented.

Note: The survivor income need specified is completely separate from the retirement need; it is based on a percentage of current income.

Define insurance needs preferences

Profiles Professional - Comprehensive [JonesTom and Marilyn Jones]

File Edit Input Output Tools Help

Profiles Professional **Needs Preferences**

Case Setup
Case Data
Client Presentation
Planning Preferences
General Preferences
Needs Preferences
Insurance Preferences
Qualified Plan Preferences
Education Preferences
Survivor Preferences
Estate Preferences
Profiler Preferences

Retirement

Spend Surplus Income

Monthly Income Goal as % of Total Income %

Capitalization Rate %

Accumulation Goals

Funding Alternative Rate %

Emergency Reserves Monthly Income Multiplier

Survivor Needs and Estate

With Dependents, Monthly Income Need %

Without Dependents, Monthly Income Need %

Disability

Monthly Income Goal as % of Total Income %

Back Next

Joe Planner Spend cash flow surplus

Figure 4: Planning Preferences – Needs Preferences

The default values for the survivor's monthly need are defined as a percentage of your clients' income on the *Needs Preferences* screen, under *Survivor Needs and Estate*. While the client has children under the age of 18, the *With Dependents, Monthly Income Need* percentage is used, but once the youngest child reaches 18 years of age, the *Without Dependents, Monthly Income Need* percentage takes effect.

Define survivor analysis preferences

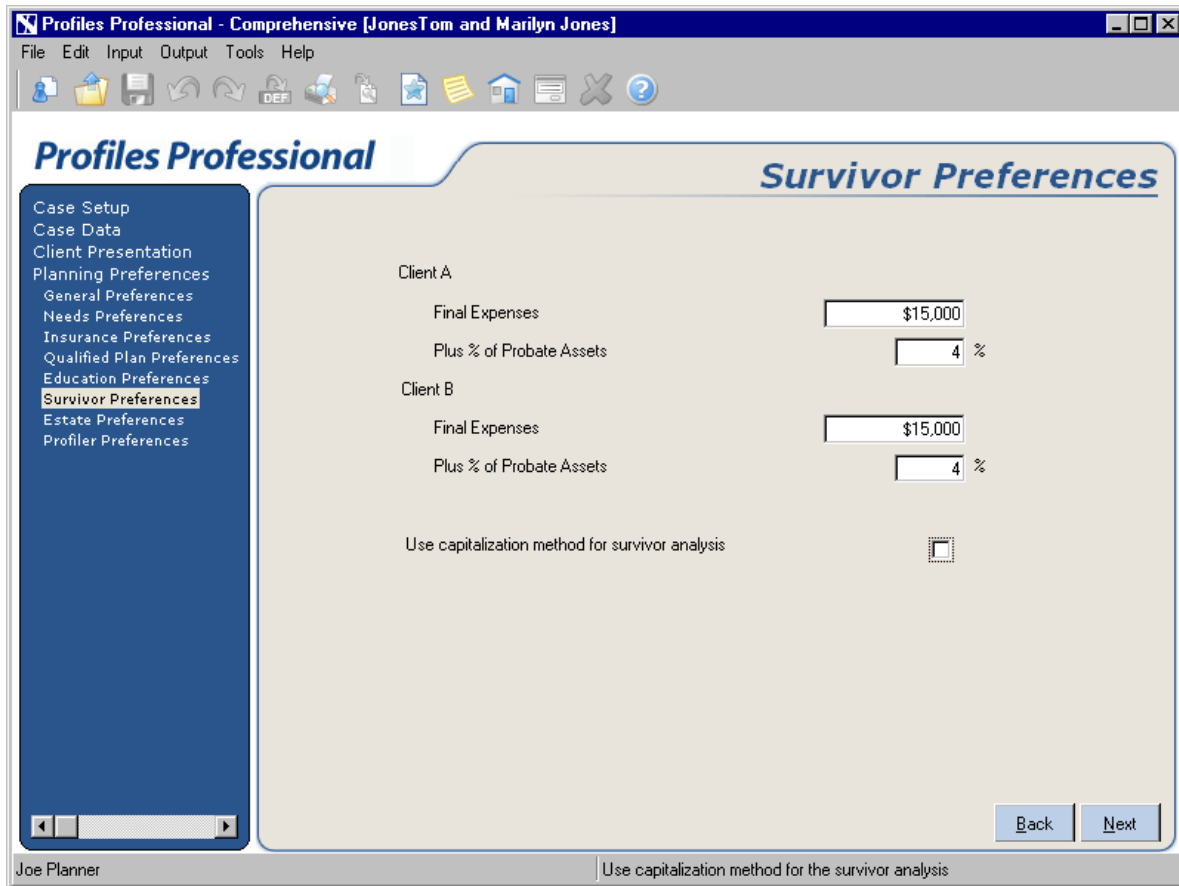


Figure 5: Planning Preferences – Survivor Preferences

On the *Survivor Preferences* screen, you can enter final costs and probate amounts for each client that will be used for the life insurance analysis. The values entered here follow through to the *Case Data – Estate* screen.

When the *Use capitalization method for survivor analysis* check box is selected, the survivor analysis shifts to a present value calculation method that compares the present value of all income needs to the present value of income sources and current assets. This is an older and less frequently used method of calculating an insurance need. It is only available in a non-tax-sensitive case.

You’ve now completed the second learning objective, defining insurance needs. Let’s take a look at some output pages to analyze the clients’ insurance needs.

Perform a life insurance analysis

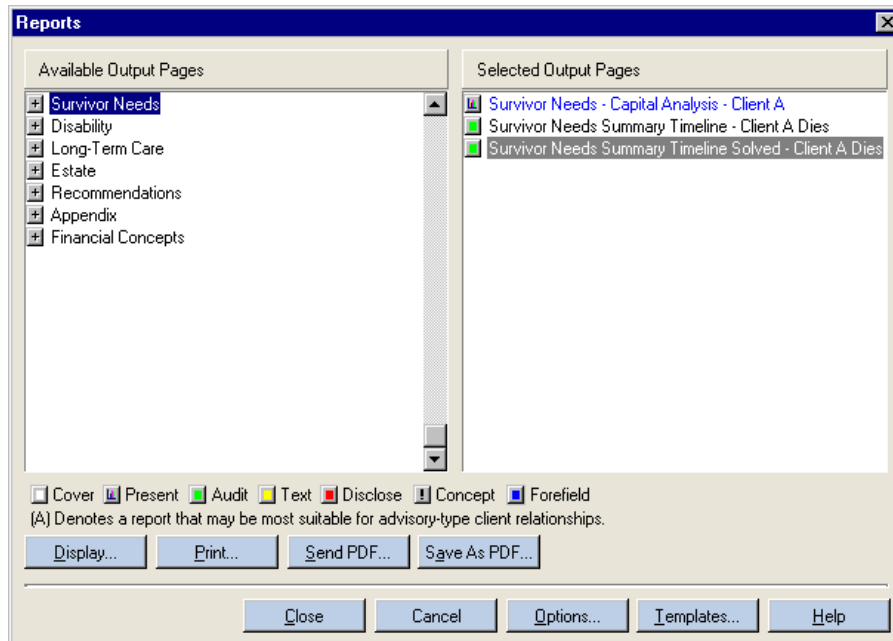


Figure 6: Client Presentation (Reports dialog box showing Survivor Needs reports selected)

To perform a life insurance analysis, click **Client Presentation** on the left navigation bar. This opens the *Reports* screen, where you can select the report pages you want to view or print.

For the life insurance needs analysis in this self-study guide, you are going to review the following reports:

- *Survivor Needs - Capital Analysis - Client A*
- *Survivor Needs Summary Timeline - Client A Dies*
- *Survivor Needs Summary Timeline Solved - Client A Dies*

For more information about generating output pages, see the Organizing Output Self-Study Guide.

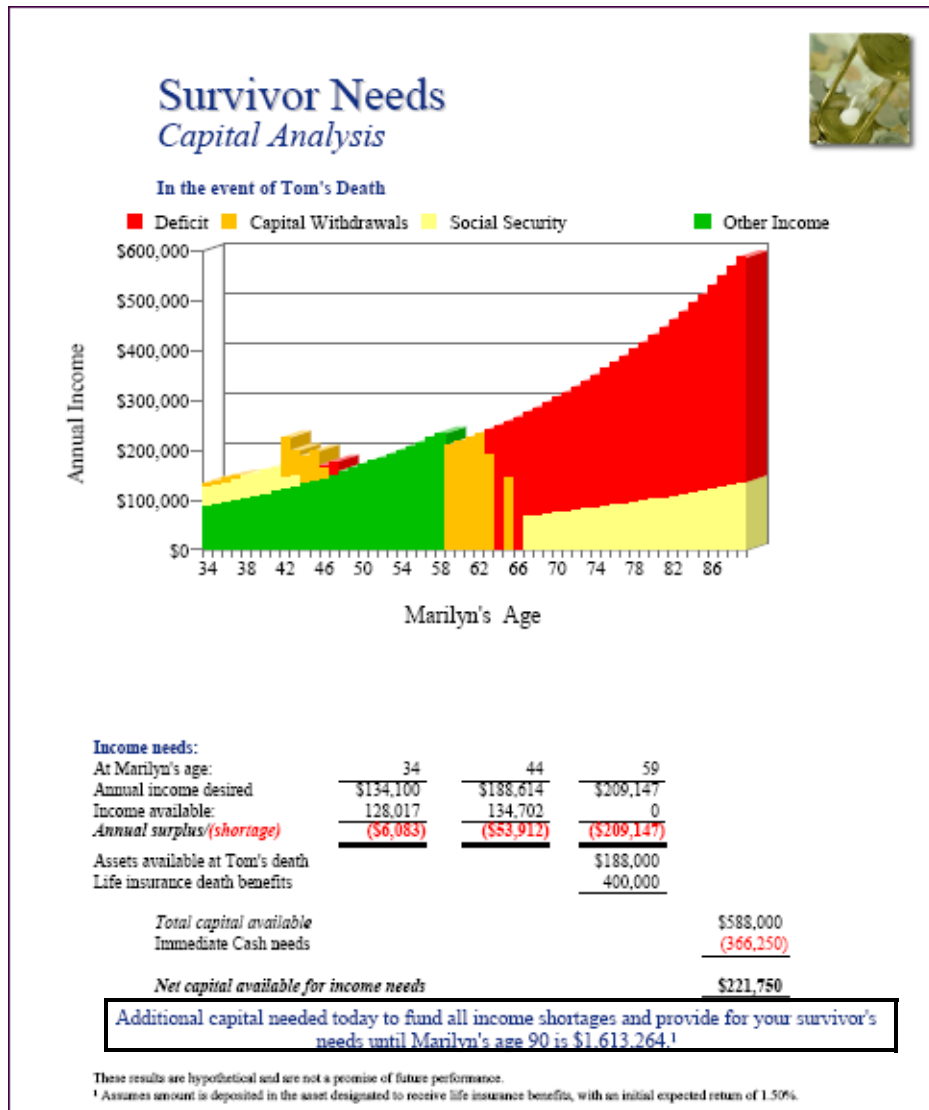


Figure 7: Client Presentation – Survivor Needs – Survivor Needs - Capital Analysis - Client A presentation page

The *Survivor Needs - Capital Analysis - Client A* presentation page is the main report page for the *Survivor Needs* module. It presents the clients' situation at the death of Client A. The colored bars represent the different sources of income. Red represents any deficit and indicates additional capital is needed. The most important value on this page is the additional capital needed to meet all of the survivor's needs.

Survivor Needs Summary Timeline In the event of Tom's Death						
Age	Total Annual Income Need	Total Annual Income Sources	Surplus/ (Shortage)	Total Withdrawal from Capital	Total Additions to Capital	Survivor Needs Capital Available
Beginning Balance:						\$221,750
34	\$134,100	\$128,017	(\$6,083)	(\$6,083)	\$17,458	\$233,126
35	138,437	132,768	(5,669)	(5,669)	18,704	246,161
36	142,925	137,697	(5,227)	(5,227)	20,058	260,991
37	146,647	142,813	(3,834)	(3,834)	21,347	278,504
38	144,578	148,121	3,542	0	26,398	304,902
39	148,354	153,629	5,274	0	30,109	335,011
40	153,505	159,345	5,840	0	32,889	367,900
41	158,835	165,276	6,441	0	35,907	403,807
42	225,269	147,986	(77,283)	(77,283)	29,475	356,000
43	199,739	153,671	(46,068)	(46,068)	26,970	336,903
44	188,614	134,702	(53,912)	(53,912)	24,680	307,671
45	196,738	140,090	(56,647)	(56,647)	22,055	273,078
46	169,896	145,694	(24,202)	(22,197)	21,205	270,082
47	176,674	151,522	(25,152)	0	22,470	267,400
48	144,454	157,583	13,128	0	24,109	304,637
49	149,468	163,886	14,417	0	26,267	344,932
50	154,658	170,441	15,784	0	44,059	388,991
51	160,029	177,259	17,230	0	48,762	437,753
52	165,588	184,349	18,762	0	53,897	491,650
53	171,341	191,723	20,382	0	59,305	550,955
54	177,296	199,392	22,096	0	64,627	615,582
55	183,460	207,368	23,908	0	70,348	685,930
56	189,839	215,663	25,824	0	76,498	762,428
57	196,441	224,289	27,848	0	83,105	845,533
58	203,275	233,261	29,986	0	90,202	935,735
59	209,147	0	(209,147)	(209,147)	55,388	781,976
60	216,467	0	(216,467)	(216,467)	41,987	607,495
61	224,044	0	(224,044)	(224,044)	27,954	411,406
62	231,885	0	(231,885)	(231,885)	13,087	192,608
63	240,001	0	(240,001)	(192,608)	0	(47,394)
64	248,401	0	(248,401)	0	0	(295,795)
65	257,095	0	(257,095)	(150,000)	150,000	(402,890)
66	266,094	0	(266,094)	0	0	(668,984)
67	275,407	70,723	(204,684)	0	0	(873,667)
68	285,046	72,845	(212,201)	0	0	(1,085,869)
69	295,023	75,030	(219,993)	0	0	(1,305,861)
70	305,349	77,281	(228,068)	0	0	(1,533,929)
71	316,036	79,599	(236,436)	0	0	(1,770,365)
72	327,097	81,987	(245,110)	0	0	(2,015,475)
73	338,545	84,447	(254,098)	0	0	(2,269,573)
74	350,394	86,980	(263,414)	0	0	(2,532,987)
75	362,658	89,590	(273,068)	0	0	(2,806,055)
76	375,351	92,278	(283,074)	0	0	(3,089,129)
77	388,489	95,046	(293,443)	0	0	(3,382,572)
78	402,086	97,897	(304,188)	0	0	(3,686,760)
79	416,159	100,834	(315,325)	0	0	(4,002,085)
80	430,724	103,859	(326,865)	0	0	(4,328,950)

Figure 8: Client Presentation – Survivor Needs – Survivor Needs Summary Timeline - Client A Dies audit page

This report page provides a year-by-year breakdown of how cash flow would appear in the case if Client A were to die as of the *Plan Date* **without** any additional insurance.

The summary starts with the *Beginning Balance* of capital (assets and existing amount of insurance), and then adds and subtracts incomes and expenses each year to track the capital. The *Beginning Balance* includes all assets made available at death on the *Asset Distribution* screen, including all qualified accounts.

The final year shows the actual accumulated deficit that is projected in the event of death.

Survivor Needs Summary Timeline - Solved In the event of Tom's Death

Age	Total Annual Income Need	Total Annual Income Sources	Surplus/ (Shortage)	Total Withdrawal from Capital	Total Additions to Capital	Survivor Needs Capital Available						
<table border="1" style="width: 100%;"> <tr> <td>Beginning Balance:</td> <td>\$221,750</td> </tr> <tr> <td>Solution Amount:</td> <td>\$1,613,264</td> </tr> <tr> <td>Solved Beginning Balance:</td> <td>\$1,835,014</td> </tr> </table>						Beginning Balance:	\$221,750	Solution Amount:	\$1,613,264	Solved Beginning Balance:	\$1,835,014	
Beginning Balance:	\$221,750											
Solution Amount:	\$1,613,264											
Solved Beginning Balance:	\$1,835,014											
34	\$134,100	\$128,017	(\$6,083)	(\$6,083)	\$41,687	\$1,870,618						
35	138,437	132,768	(5,669)	(5,669)	43,297	1,908,247						
36	142,923	137,697	(5,227)	(5,227)	45,022	1,948,041						
37	146,647	142,813	(3,834)	(3,834)	46,883	1,991,089						
38	144,378	148,121	3,542	0	32,579	2,043,668						
39	148,354	153,629	5,274	0	56,658	2,100,326						
40	153,503	159,345	5,840	0	59,738	2,160,064						
41	158,833	165,276	6,441	0	63,035	2,223,099						
42	225,269	147,986	(77,283)	(77,283)	58,103	2,203,920						
43	199,739	153,671	(46,068)	(46,068)	60,244	2,218,096						
44	188,614	134,702	(53,912)	(53,912)	62,452	2,226,637						
45	196,738	140,090	(56,647)	(56,647)	64,816	2,234,805						
46	169,896	145,694	(24,202)	(24,202)	67,878	2,278,482						
47	176,674	151,522	(25,152)	(25,152)	71,162	2,324,492						
48	144,454	157,583	13,128	0	88,617	2,413,109						
49	149,468	163,886	14,417	0	94,566	2,507,675						
50	154,658	170,441	15,784	0	100,951	2,608,626						
51	160,029	177,259	17,230	0	107,801	2,716,427						
52	165,588	184,349	18,762	0	115,152	2,831,579						
53	171,341	191,723	20,382	0	123,038	2,954,617						
54	177,296	199,392	22,096	0	131,498	3,086,116						
55	183,460	207,368	23,908	0	140,574	3,226,690						
56	189,839	215,663	25,824	0	150,310	3,377,000						
57	196,441	224,289	27,848	0	160,753	3,537,753						
58	203,273	233,261	29,986	0	171,954	3,709,707						
59	209,147	0	(209,147)	(209,147)	144,941	3,645,501						
60	216,467	0	(216,467)	(216,467)	150,827	3,579,861						
61	224,044	0	(224,044)	(224,044)	157,222	3,513,039						
62	231,883	0	(231,883)	(231,883)	164,170	3,445,324						
63	240,001	0	(240,001)	(240,001)	171,720	3,377,043						
64	248,401	0	(248,401)	(248,401)	179,926	3,308,568						
65	257,093	0	(257,093)	(257,093)	340,701	3,392,174						
66	266,094	0	(266,094)	(266,094)	197,876	3,323,956						
67	275,407	70,723	(204,684)	(204,684)	206,747	3,326,020						
68	285,046	72,845	(212,201)	(212,201)	216,253	3,330,071						
69	295,023	75,030	(219,993)	(219,993)	226,444	3,336,523						
70	305,349	77,281	(228,068)	(228,068)	229,441	3,337,896						
71	316,036	79,599	(236,436)	(236,436)	230,321	3,331,781						
72	327,097	81,987	(245,110)	(245,110)	229,733	3,316,405						
73	338,543	84,447	(254,096)	(254,096)	227,688	3,289,994						
74	350,394	86,980	(263,414)	(263,414)	225,099	3,251,679						
75	362,658	89,590	(273,068)	(273,068)	218,750	3,197,360						
76	375,351	92,278	(283,074)	(283,074)	212,755	3,127,042						
77	388,489	95,046	(293,443)	(293,443)	206,859	3,040,458						
78	402,086	97,897	(304,188)	(304,188)	199,751	2,936,020						

Figure 9: Client Presentation – Survivor Needs – Survivor Needs Summary Timeline Solved - Client A Dies audit page

This report provides a year-by-year breakdown of how cash flow would appear in the case if the client were to die today, **including** the additional required insurance amount.

The *Beginning Balance* amount includes additional recommended insurance. Projected incomes and expenses are added and subtracted each year to track the capital. The final row/year of the report is useful for showing your clients the benefit of buying the additional insurance.

Exercises

Exercise 1: Enter existing insurance policies

1. On the *Life Insurance* screen, the *Net Death Benefit at Mortality* field should be left at \$0 when entering a term life insurance policy that your client has through his or her employer. Why?
 - a) The policy will not be in effect at the plan mortality age of 90 so the death benefit to pay out would be \$0.
 - b) The employer will get the life insurance proceeds.
 - c) Profiles assumes the *Net Death Benefit at Mortality* value is equal to the *Net Death Benefit* value entered.

Exercise 2: Define insurance needs

1. On the *Survivor Cash Needs* screen, what types of expenses should be included in the *Dependent Care* fields?
 - a) All additional dependent care costs excluding education
 - b) All additional dependent care costs including education
2. On the *Survivor Income Needs* screen under *Client A Death*, the three default ages in the *Client B's Age* column represent what points in time?
 - a) Age today, age when youngest child reaches age 18, and retirement age
 - b) Random ages selected by Profiles
3. Once insurance premiums are entered, you must then create a premium expense on the *Expenses* screen. True or false?
 - a) True
 - b) False

Exercise 3: Perform an insurance analysis

1. When reviewing the *Survivor Needs* output pages, what does it mean when an output page is solved? For example, see the *Survivor Needs - Capital Analysis Solved - Client B* output page.
 - a) It means the client has no need for any additional life insurance.
 - b) It displays what the analysis would look like if the additional amount of life insurance was implemented in the plan.
 - c) It is just another output page to display life insurance needs.

Answers to exercises

Exercise 1: Enter existing insurance policies

1. a) The policy will not be in effect at the plan mortality age of 90 so the death benefit to pay out would be \$0.

Exercise 2: Define insurance needs

1. a) All additional dependent care costs excluding education
2. a) Age today, age when youngest child reaches age 18, and retirement age
3. b) False. Premiums entered on the *Life Insurance* screen come out of cash flow.

Exercise 3: Perform an insurance analysis

1. b) It displays what the analysis would look like if the additional amount of life insurance was implemented in the plan.