



**Profiles Professional  
Desktop  
Retirement Analysis  
Self-Study Guide**

**Version 8.0**

EISI, Winnipeg

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# Retirement analysis

Retirement is often the core part of your clients' financial plan. The goal of the retirement analysis is to determine if the clients' objectives can be met with expected income sources and withdrawals from assets.

## Learning objectives

This module will enable you to

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

Profiles Professional creates a retirement objective by default. You can use the existing default values or you can override these fields using data specific to your clients' situation. The retirement output pages will help you assess your clients' current situation and identify strategies that will solve the retirement 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* 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 – Retirement Analysis 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 selected.

## Define the retirement objective

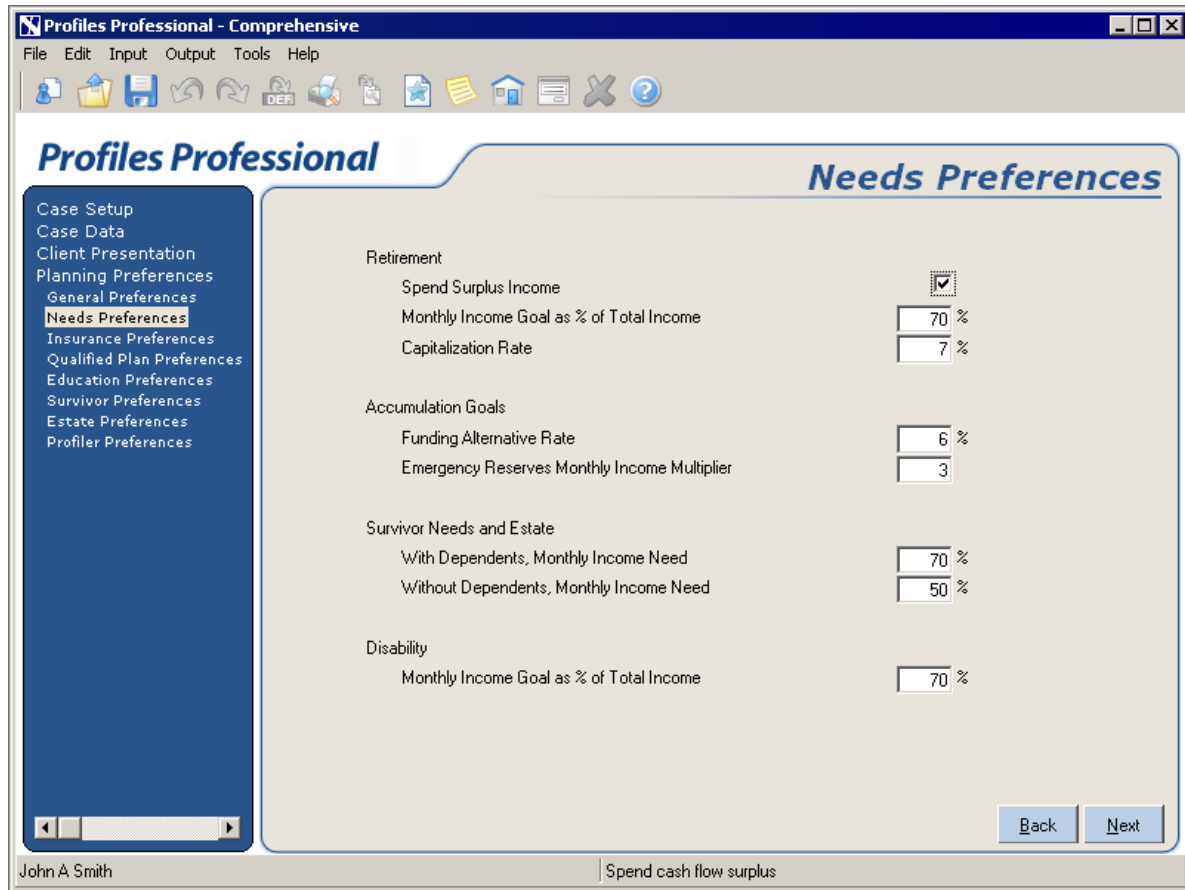


Figure 1: Planning Preferences – Needs Preferences

On the *Needs Preferences* screen under *Planning Preferences*, you can set up the default retirement values that define the retirement objective.

You can show the effect of spending the cash flow surplus instead of reserving it within the plan by selecting the *Spend Surplus Income* check box.

By default, the *Monthly Income Goal as % of Total Income* is 70%.

The *Capitalization Rate* is the ordinary income return rate Profiles Professional will apply to the required savings to calculate the savings that are needed to meet the goal.

**Profiles Professional - Comprehensive**

File Edit Input Output Tools Help

**Profiles Professional** **Retirement**

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

Client A Client B

Retirement Begins At Age 63 59

Include SS Benefits

Age To Begin Social Security Income 62 62

Life Expectancy 90 90

**Income Needs**

Client A Age	Monthly Need (1)	Monthly Need (2)
63	\$7,500	\$1,000
75	\$7,500	\$0
0	\$0	\$0
0	\$0	\$0
0	\$0	\$0


Increase Need By 3.5% 0%

Back Next

John A Smith Client A's retirement age

Figure 2: Case Data – Retirement

On the *Retirement* screen under *Case Data*, you can define the time period and expenses for the retirement goal. By default, Profiles Professional assumes that Client A retires at age 65, and Client B retires in the same calendar year. You can override the default by entering different ages in the *Retirement Begins At Age* fields. The *Age to Begin Social Security Income* field defaults to the full benefit age, but this field can also be overridden if required.

Under *Income Needs*, you can set different monthly needs for different time periods throughout retirement in today's dollars. By default, 70% of current income is required. Remember that the retirement default values are set on the *Planning Preferences – Needs Preferences* screen. To revert to the default values, click the  (*Restore Default*) button on the toolbar.

You can set up two groups of monthly incomes indexed differently and change needs over time. Enter the monthly incomes as gross expenses including taxes. For example, at age 65, the client may have a *Monthly Need (1)* of \$7,500 in living expenses that inflates at 3.5%, and a *Monthly Need (2)* of \$1,000 for a golf membership with no inflation. At age 75, *Monthly Need (1)* is \$7,500 for living expenses (no inflation) but *Monthly Need (2)* is \$0, assuming the client is no longer able to golf.

## Analyze the retirement objective using output pages

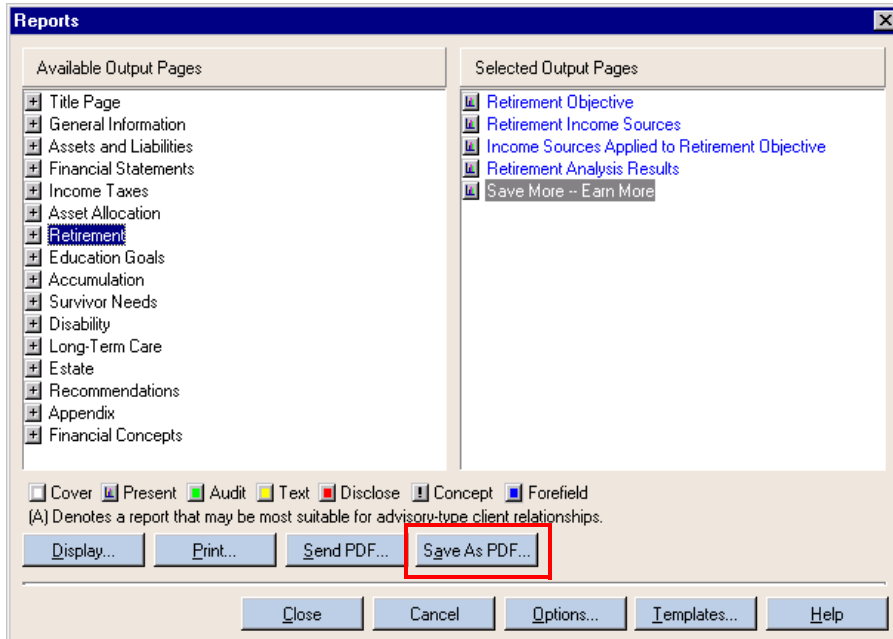


Figure 3: Client Presentation – Reports

Now let's take a look at some of the output pages that analyze retirement. When you use the *Save As PDF* button to create the report in Portable Document Format (PDF), you can choose the location where the PDF will be saved.

The *Retirement Objective* presentation page displays the clients' annual retirement expenses throughout the planning period.

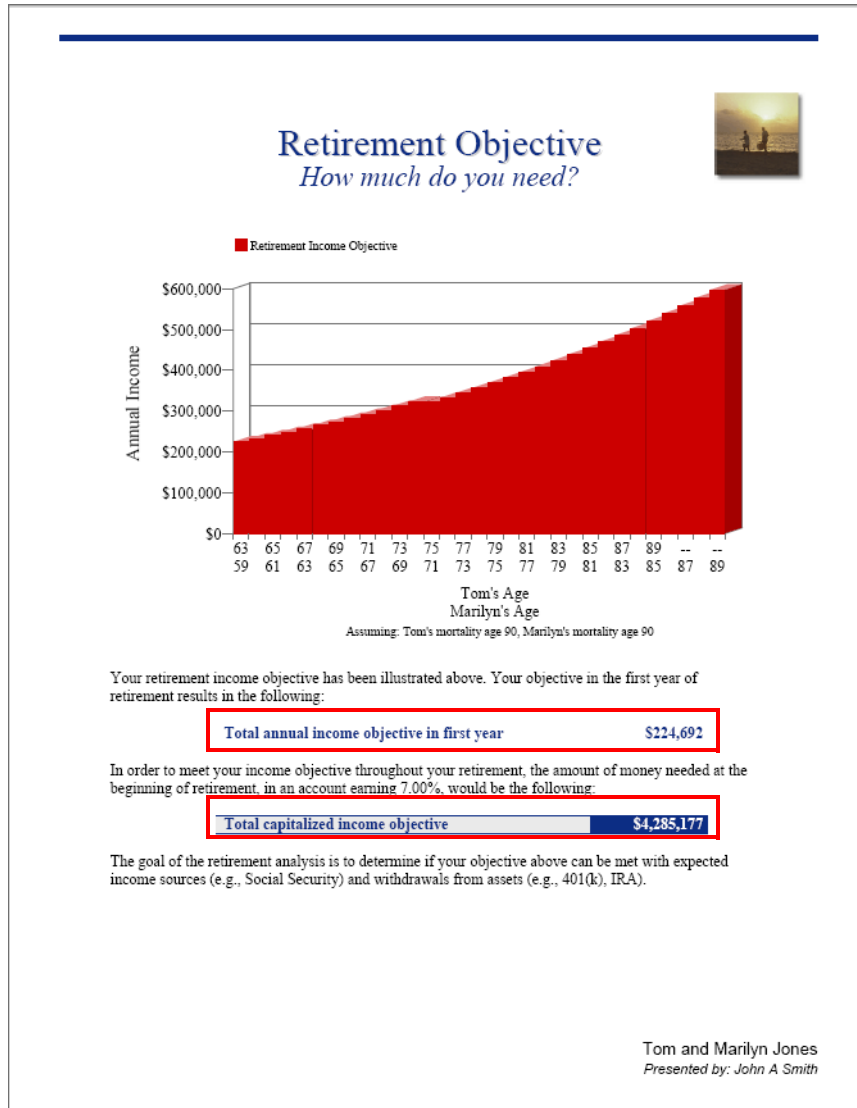


Figure 4: Client Presentation – Retirement – Retirement Objective

The first year of retirement need is shown as a future dollar amount. The total retirement income objective is the capital amount needed at retirement. The rate used to define the capital amount is defined on the *Needs Preferences* screen under *Planning Preferences*.

Next, let's take a look at the *Retirement Income Sources* output page.

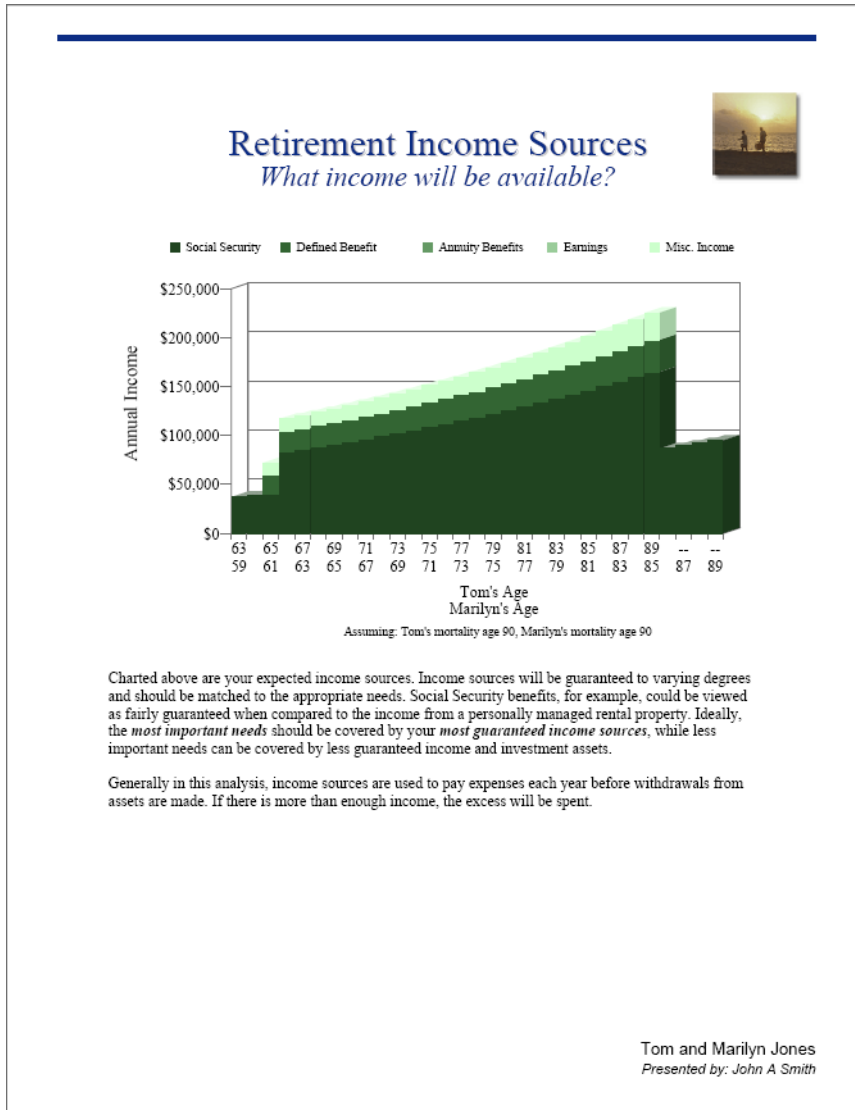


Figure 5: Client Presentation – Retirement – Retirement Income Sources

This presentation page provides an annual breakdown of the incomes available during retirement, such as Social Security, defined benefit pensions, annuity income, earnings, etc. It answers the question that your clients may be asking, “Where will our money come from?” This output page does not include income from investment assets.

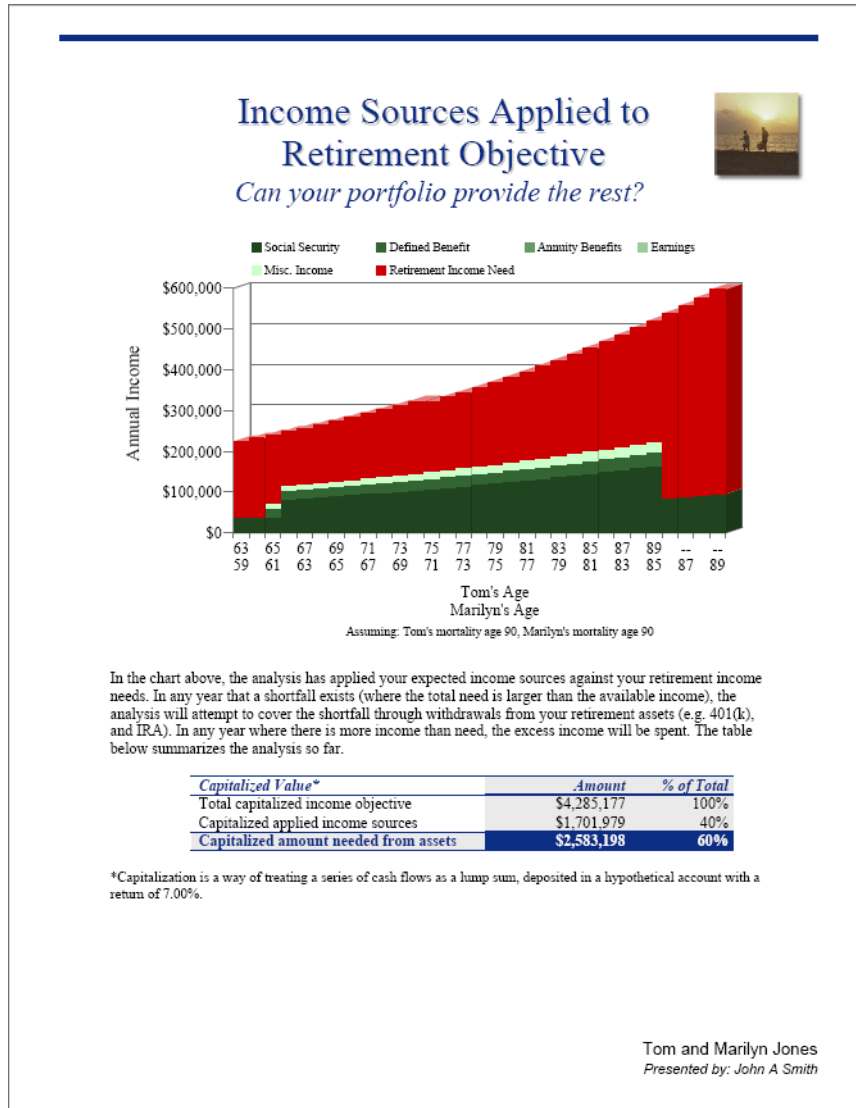


Figure 6: Client Presentation – Retirement – Income Sources Applied to Retirement Objective

This presentation page combines the two previous output pages to compare the income versus the need. The table shows how much of the retirement need will have to be covered by assets (if any).

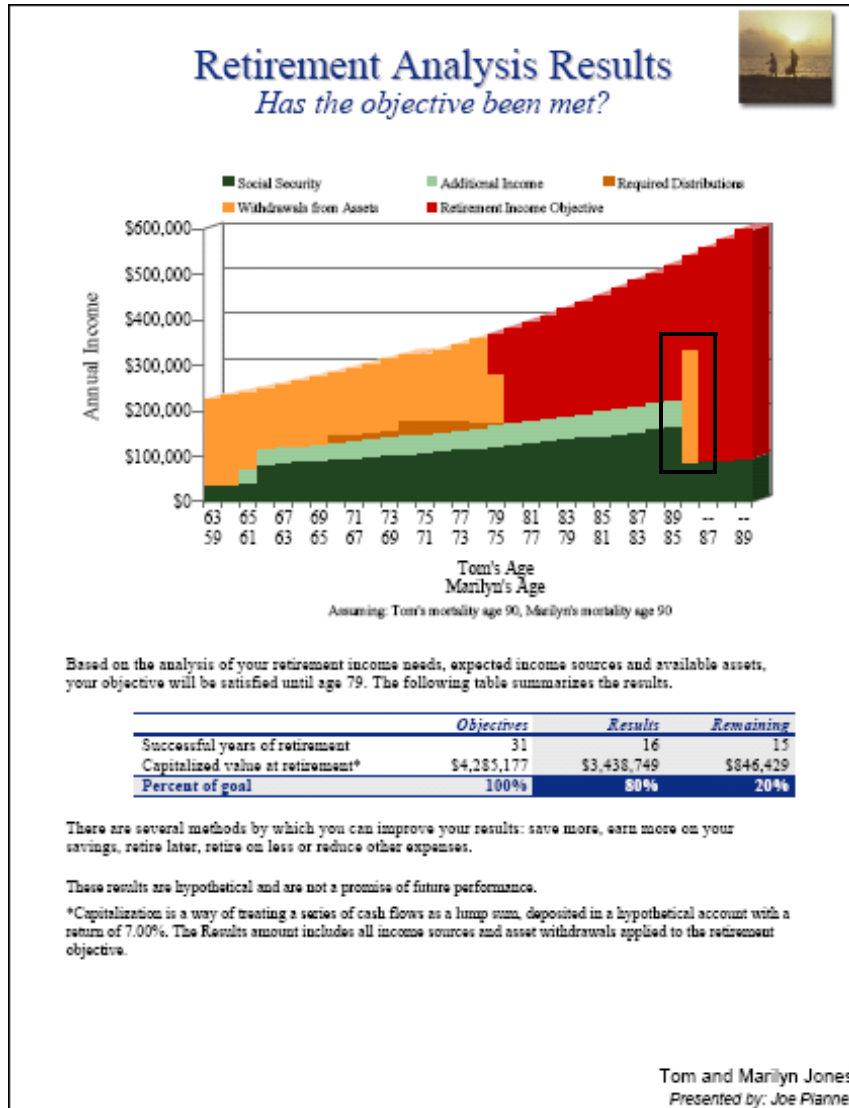


Figure 7: Client Presentation – Retirement – Retirement Analysis Results

The *Retirement Analysis Results* presentation page (similar to the *Capital Analysis* page in version 7.6) builds on the previous output pages. The graph looks at income sources and asset withdrawals and shows how they measure up against the retirement objective. On screen, the graph colors are visible. Red indicates an unmet objective. The orange spike when Tom reaches age 90 (marked with a box in Figure 7) represents life insurance being redeemed. The table summarizes the successful years in which the retirement objective is met and indicates the remaining capital needed at retirement to achieve the retirement objective. Clients will want to know how to achieve this, which brings us to the next output page.

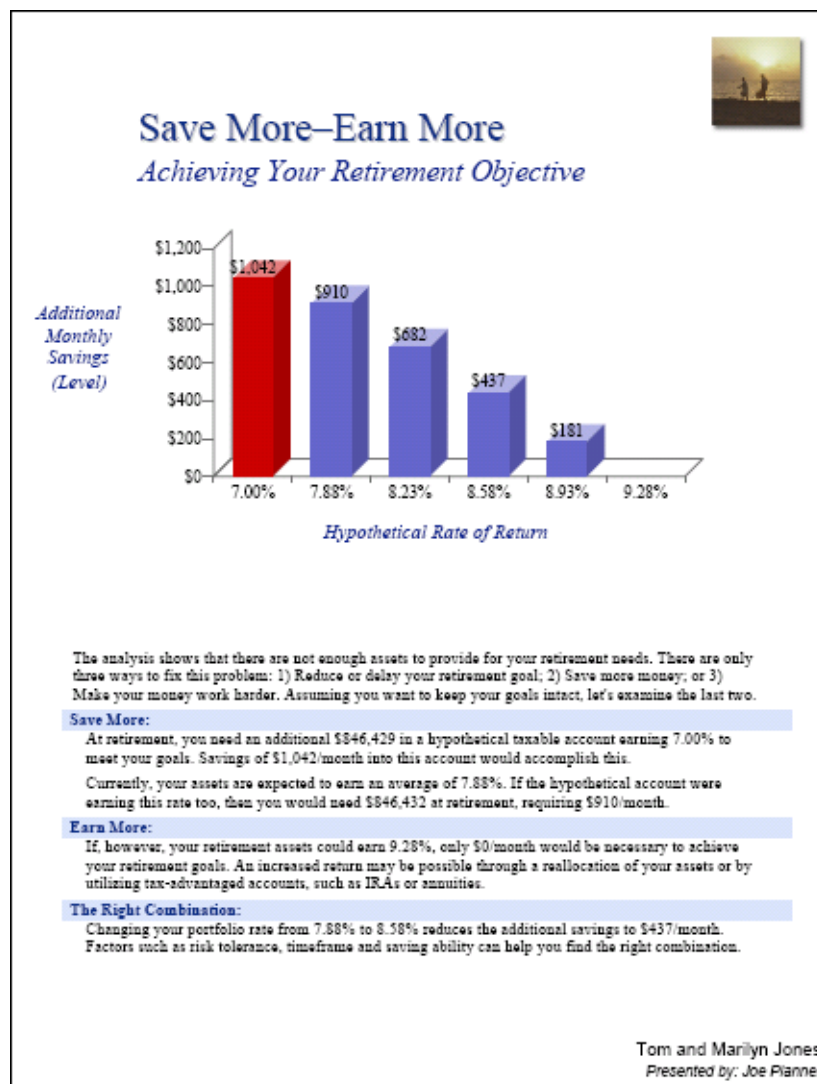


Figure 8: Client Presentation – Retirement – Save More--Earn More

The *Save More–Earn More* presentation page shows several ways in which the clients can reach their goal if a shortfall exists. If there is no shortfall, this page is not available. In Figure 8, the left bar shows that when assets earn the capitalization rate of 7.00% (specified on the *Planning Preferences – Needs Preferences* screen), the clients will need to save an additional \$1,042/month to meet the goal. The right bar shows that, if they do not or cannot save additional dollars towards their retirement goal, they need to earn 9.28% on existing assets. Most clients will choose something in between. If this is what your clients want to do, you may want to talk to them about reallocating their assets to increase their return. By reallocating their assets and investing more money, they should be on track to meet their retirement objective.

## Discuss solutions to solve the retirement objective

Before trying to solve the retirement objective, it is important to save the current case as the starting point by selecting the *File* menu – *Save As*, and then giving the case a new descriptive name. In this new case, you can try different strategies to solve the retirement objective. For example, you might try reallocating assets to increase their rate of return, saving an additional \$500 per month to any investment account asset, delaying retirement by two years, or reducing the retirement goal by \$500 per month. After trying a strategy, you can generate the *Retirement Analysis Results* output page again to see if the shortfalls disappear. Once the shortfalls disappear, you know that you have solved the objective. However, you still need to make sure that the clients can afford the recommended savings amounts by reviewing various cash flow output pages.

One of the first things you may want to look at when solving the retirement objective is asset reallocation. Clicking the *Complete Questionnaire* button on the *Risk Tolerance Profile* screen opens a questionnaire that you can use to determine which investment portfolio best matches your clients' objectives. The resulting profile is based on Ibbotson information and on the clients' score on the questionnaire. The clients' portfolio may differ for each goal based on the time horizon.

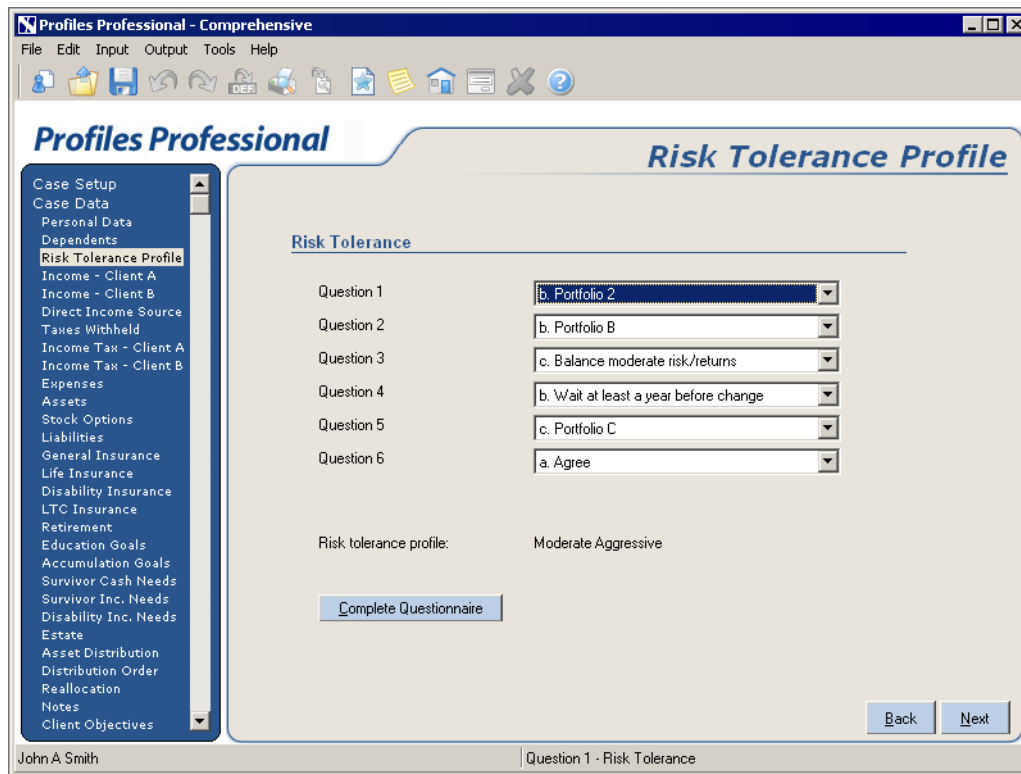


Figure 9: Case Data – Risk Tolerance Profile

A printable risk tolerance questionnaire is available from the *Tools* menu – *Printable Forms – Modular Fact Finders - Assessments – Risk Tolerance Questionnaire*.

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 10: Client Presentation – Asset Allocation – Risk Tolerance Assessment

The *Risk Tolerance Assessment* audit page explains how risk tolerance and time horizon are matched to an asset allocation for an objective. Part I of the report shows the clients’ answers to the questionnaire, the weighting given to each answer, the clients’ overall score, the suggested portfolio, and its description. Part II of the report shows the time horizon of the goal. The Time Horizon Score answers are determined by the start date and the duration of the objective. At the very bottom of the *Risk Tolerance Assessment* page is a table showing the time horizon score for different objectives.

<i>Time Horizon Score</i>	
<i>Objective Name</i>	<i>Score</i>
Retirement	17
Melissa	11
Neal	11
Vacation Home	2
Melissa's Wedding	11
	0

Figure 11: Client Presentation – Asset Allocation – Risk Tolerance Assessment (Time Horizon Score table)

Note the score for the retirement objective, and then click **Next** to go the next output page, *Recommended Allocations*.

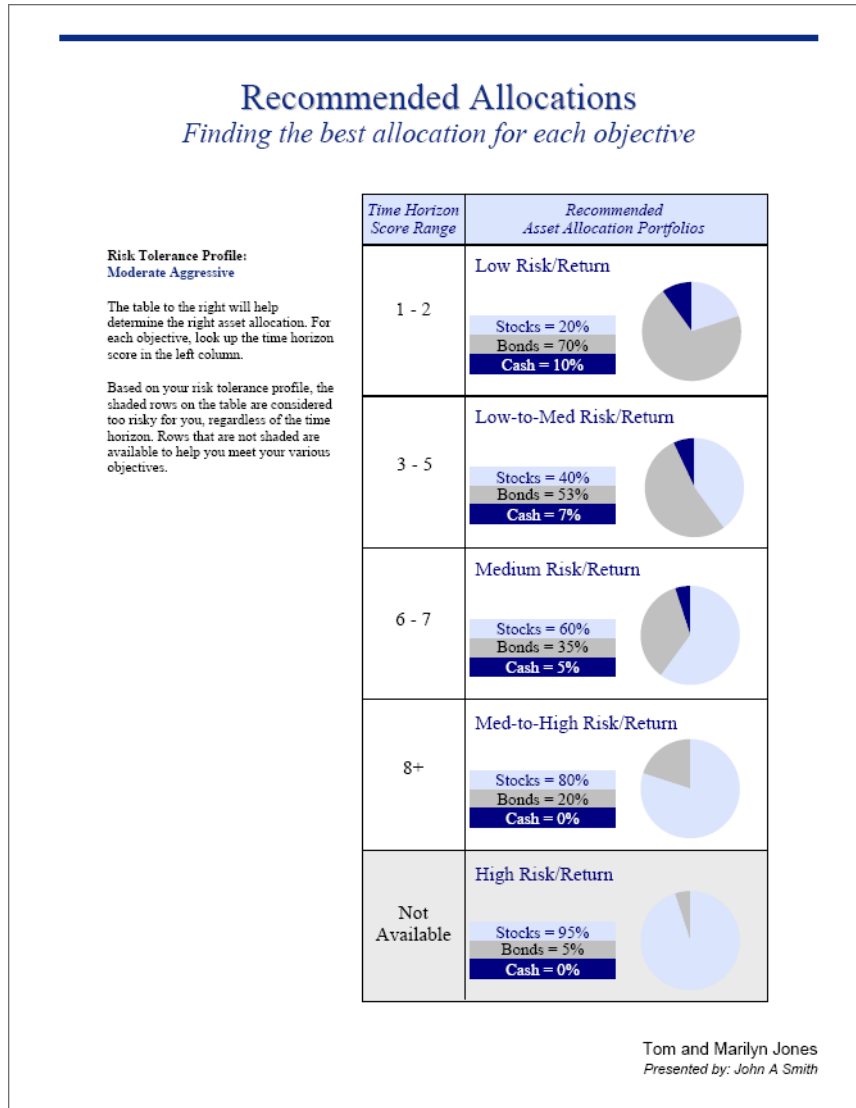


Figure 12: Client Presentation – Asset Allocation – Recommended Allocations

You can use this output page to select the recommended asset allocation based on the clients’ investment profile. Shaded rows are deemed too risky based on the answers to the Risk Tolerance Profile questions. However, these allocations are only suggestions and do not have to be used. In our example, the Jones would fall into the 8+ Med-to-High Risk/Return category.

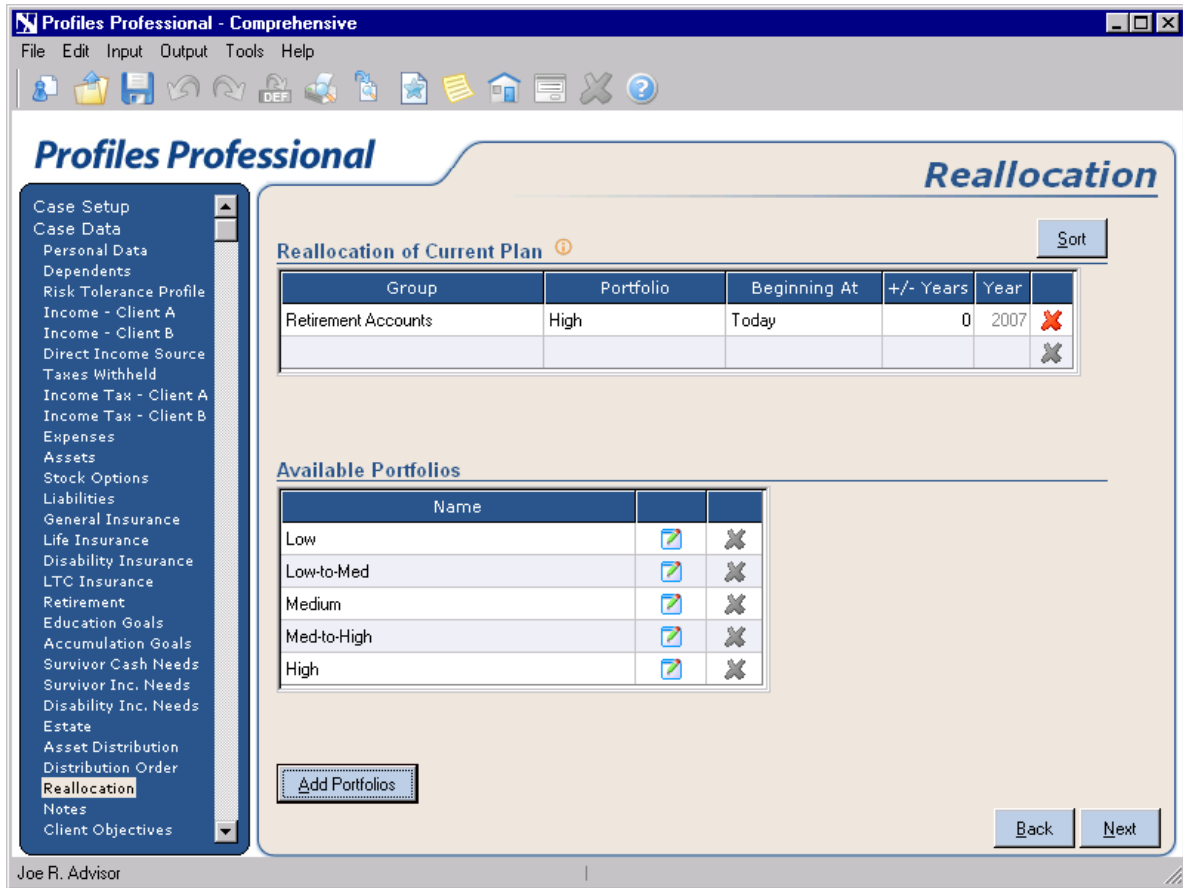


Figure 13: Case Data – Reallocation

You can reallocate asset groups to different asset allocation portfolios for different time periods using the *Case Data – Reallocation* screen. For example, you may choose to reallocate the retirement accounts for the Jones family to a high-risk portfolio for the period, beginning today. The allocation can be reset again for a set number of years prior to or after an event, such as retirement, or at retirement itself. For more information about asset reallocation, see the Asset Distribution and Reallocation Self-Study Guide.

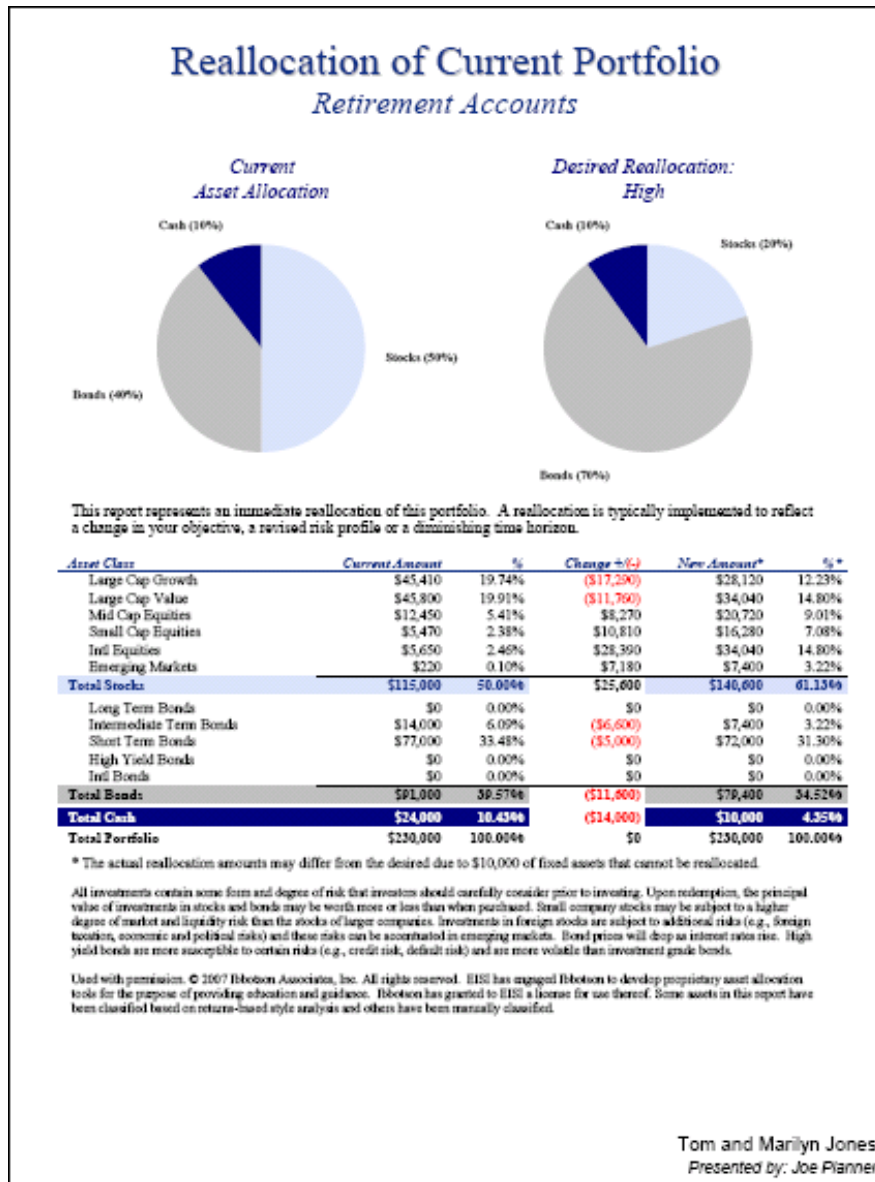


Figure 14: Client Presentation – Asset Allocation – Allocation of Retirement Accounts – Reallocation of Current Portfolio - Retirement Accounts

This output page is only available if assets were reallocated in the case. The top of this output page displays the current asset mix next to the suggested asset mix in a pie graph format. The bottom half of the page displays the reallocations that occurred in order to get to the suggested portfolio.

## Exercises

### Exercise 1: Define a retirement objective

1. The *Retirement* screen gives you the option to enter different inflation rates for different retirement expenses. True or false?
  - a) True
  - b) False
2. What percentage of current income is used to define the initial default retirement need, and where can you modify this percentage?
  - a) 70% – *Planning Preferences – General Preferences*
  - b) 75% – *Planning Preferences – Needs Preferences*
  - c) 75% – *Planning Preferences – General Preferences*
  - d) 70% – *Planning Preferences – Needs Preferences*
3. On the *Planning Preferences – Needs Preferences* screen, the *Retirement Capitalization Rate* is the return rate applied to additional savings in order to achieve the retirement goal. True or false?
  - a) True
  - b) False

### Exercise 2: Analyze retirement using output pages

1. Which output page displays the retirement need only and the amount of capital needed to fund it?
  - a) *Retirement – Analysis Results*
  - b) *Retirement – Retirement Objective*
  - c) *Retirement – Save More–Earn More*
2. The *Retirement Analysis Results* output page factors in retirement need, income sources, capital available, and any remaining shortfalls. How could this help your relationship with the clients?
  - a) Allows you to provide your clients with an overall picture of their retirement goal
  - b) Provides you 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 the clients may not have disclosed in previous meetings
  - d) All of the above

3. Profiles will examine 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. True or false?
  - a) True
  - b) False

## Answers to exercises

### Exercise 1: Define a retirement objective

1. a) True
2. d) 70% – *Planning Preferences* – *Needs Preferences*
3. a) True

### Exercise 2: Analyze retirement using output pages

1. b) *Retirement – Retirement Objective*
2. d) All of the above
3. a) True

