Profiles Professional Desktop

Tax-Sensitive and Detailed Cash Flow Cases

Self-Study Guide

Version 8.0

EISI, Winnipeg

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Tax-sensitive and detailed cash flow cases

This module explains the *Tax-Sensitive* option which is optional in *Comprehensive* mode and always included in *Detailed Cash Flow* mode. In a tax-sensitive case, you can enter tax rates that will apply to all future income resulting in a more realistic plan. You can specify how assets get treated for tax purposes, which is especially useful for plans with considerable savings held in non-qualified accounts.

This module also discusses how to do a cash flow–based analysis that defines current and future needs of clients using detailed income and expense information on a year-by-year basis. Cash flow–based analysis is available in *Detailed Cash Flow* mode only. In a *Detailed Cash Flow* case, income screens are combined into one screen which allows you to control start and end dates for today and in the future.

Learning objectives

This module will enable you to

- Enter tax rates for future incomes
- Control the timing of incomes and expenses
- Modify the taxation of asset returns
- Review output pages (note changes due to tax-sensitivity and detailed cash flow)

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 7 - Detailed Cash Flow Current.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 7 - Detailed Cash Flow Current.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, *Tax Sensitive and DCF Self-Study Case*.

Introduction

When creating a new case, you can choose from four analysis methods on the *Create New Case* screen: *Preview*, *Express*, *Comprehensive*, and *Detailed Cash Flow*.

In *Comprehensive* mode, tax-sensitivity is optional. If the case is to be tax-sensitive, the *Tax-Sensitive* option must be manually selected.

In *Detailed Cash Flow* mode, tax-sensitivity is always included, and is not optional. *Detailed Cash Flow* mode also has added cash flow–based functionality which requires additional data entry. *Detailed Cash Flow* mode is the most detailed of the analysis modes, and is ideal for clients who are in or near retirement or for analytical clients who want to keep close track of cash flow. It is a great cash management tool designed to help you model retirement distribution.

Tax-sensitivity in both the *Comprehensive* and *Detailed Cash Flow* modes is easier to use in version 8.0.

Tax-sensitive checklist

The following checklist summarizes what you need to do when working with tax-sensitive cases in either *Comprehensive* or *Detailed Cash Flow* mode.

1. For an existing *Comprehensive* case, you may first need to select the **Tax-Sensitive** option on the *Upgrade Client Case* screen if it hasn't already been included. This step is not required for a *Detailed Cash Flow* case.
2. Enter tax rates for future incomes on the *Case Setup – Tax Rates* screen.
3. Modify the taxation of asset returns.
4. Check to see whether disability policy benefits are taxable.

Detailed cash flow checklist

The following checklist summarizes what you need to do when working with cash flow–based functionality which is only available in *Detailed Cash Flow* mode. For a *Detailed Cash Flow* case, make sure you follow both the Tax-Sensitive checklist and the Detailed Cash Flow checklist.

1. Create a new case using *Detailed Cash Flow* mode, or upgrade an existing case to *Detailed Cash Flow* mode.
2. Enter incomes and expenses in the frequency that they occur in real life.
3. Review planning preferences to ensure they are accurate for your clients' situation.

If you are using a *Comprehensive* case that does not include the *Tax-Sensitive* option, you can add it to the case or upgrade the case to *Detailed Cash Flow* mode on the *Upgrade Client Case* screen.

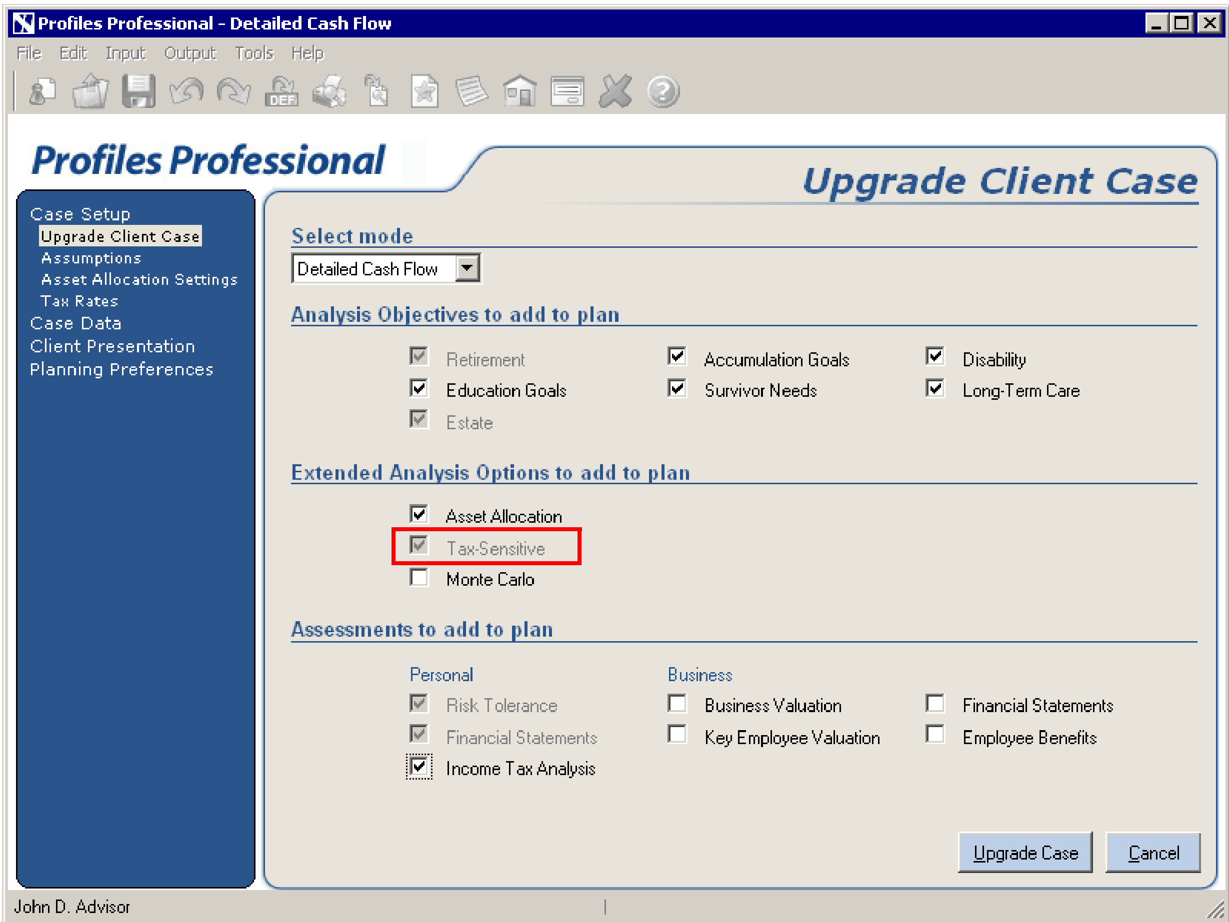


Figure 1: Case Setup – Upgrade Client Case

Note that as soon as the *Detailed Cash Flow* mode is selected, the *Tax-Sensitive* option is selected and unavailable (cannot be cleared).

Ensure that the *Income Tax Analysis* assessment is added to the case so that you can analyze these output pages with tax sensitivity.

To upgrade the case, click **Upgrade Case**.

Next, let's look at entering tax rates that will be applied to all future incomes.

Enter tax rates for future incomes

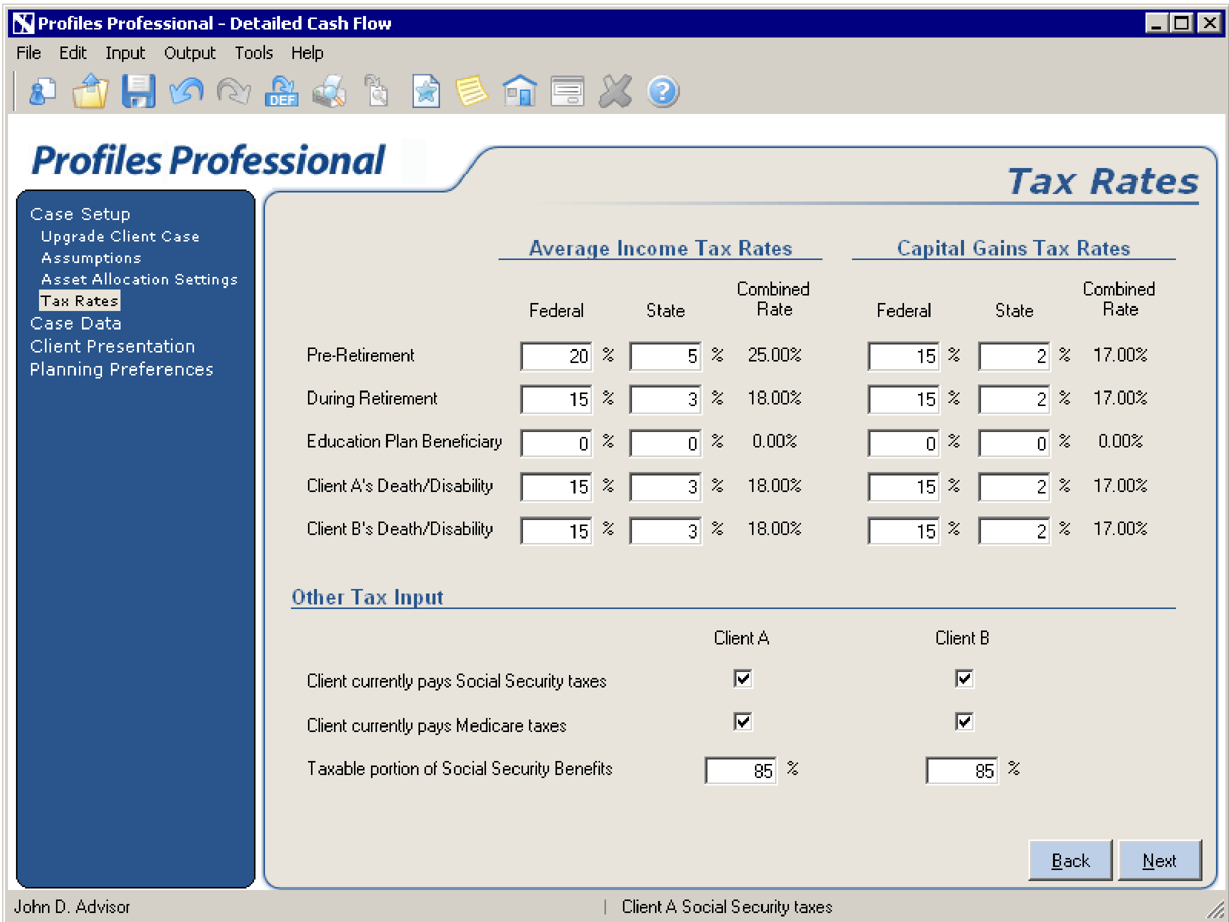


Figure 2: Case Setup – Tax Rates

On the *Tax Rates* screen, you enter average income tax rates and capital gains tax rates that will apply to all future income for the clients. By default the tax rates are set to zero for all client cases. There are multiple federal and state tax fields that let you model tax rates for five different life stages for your clients; this is useful if your clients expect their income to change at different stages.

Under *Other Tax Input*, you can specify what percentage of Social Security should be taxed. This feature was added as a result of customer feedback.

To determine your clients' average tax rate, based on their incomes, that can be applied to future income, generate the *Income Tax Analysis* audit page on the *Client Presentation* screen.

Social Security and Medicare Taxes	
Social Security Tax (6.20% times maximum of $97,500 per earner)	$11,253
Medicare (1.45% times all wages)	3,248
Self-Employment Tax (based on 92.35% of earnings)	
Social Security (12.40% times maximum of $97,500 per earner)	0
Medicare (2.90% times 92.35% of all earnings)	0
State Income Taxes	
$0 Plus 0.00% of Federal Taxable Income	0
Estimated Total Federal, Social and State Income Taxes	**$57,919**

Average Tax Rate

Federal Income Tax	$43,418
State Income Tax	0
Total	$43,418
Divided by Total Income	$229,104
Equals Average Tax Rate	**18.95%**
Social Security, Medicare, and Self-Employment Tax	$14,501
Social Security, Medicare, and Self-Employment Tax as a Percentage of Income	6.33%

This is not meant to be a complete analysis of your tax situation. It is only an estimate.

Figure 3: Client Presentation – Income Taxes – Income Tax Analysis audit page

This audit page provides a breakdown of the current year's estimated tax analysis, using the information you've entered into the case. The *Income Tax Analysis* audit page acts as a stand-alone worksheet and will not affect the case.

The estimated *Average Tax Rate* on this page is calculated as the current year taxes paid divided by the total income.

You've now completed the first learning objective, entering tax rates for future incomes.

Control the timing of incomes and expenses

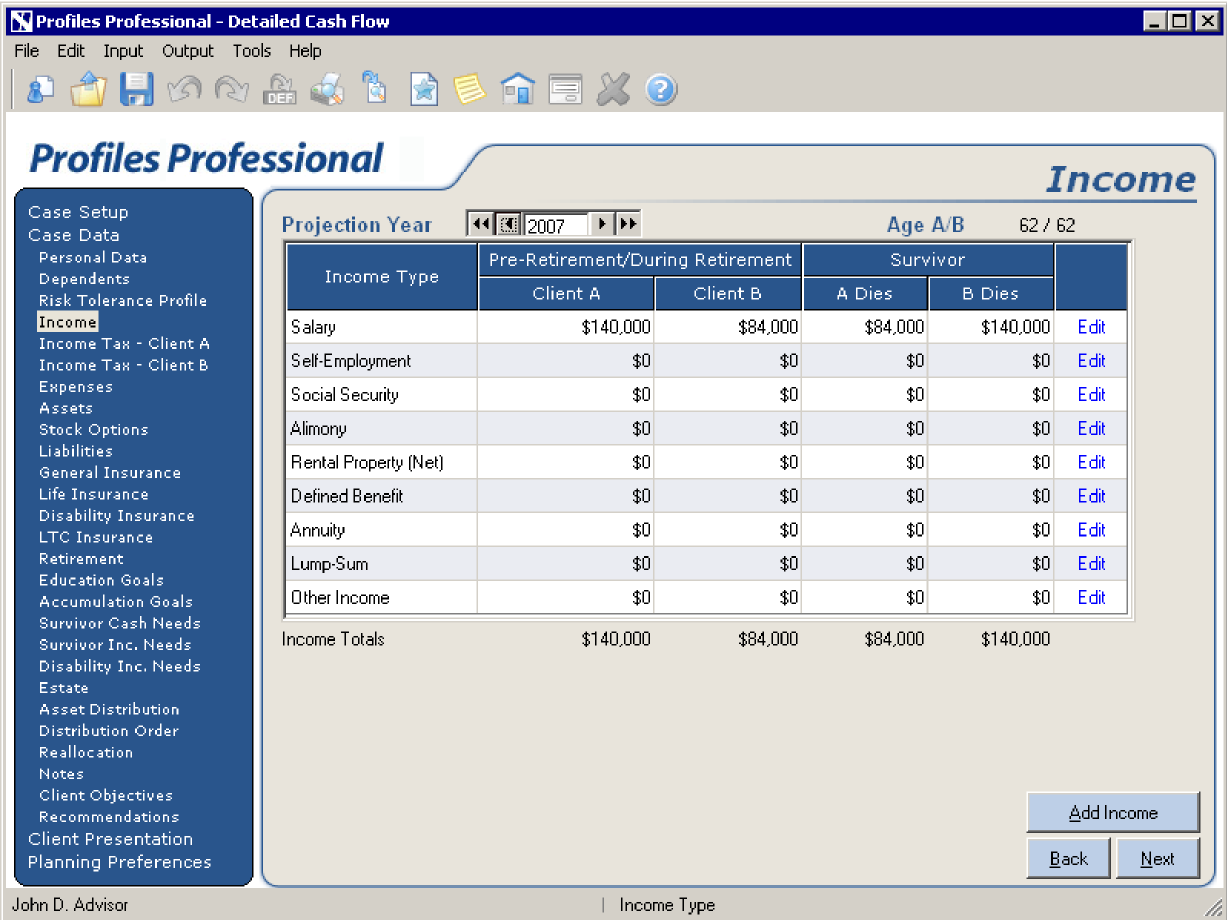


Figure 4: Case Data – Income

In a *Detailed Cash Flow* case, the *Income* screen replaces the *Income - Client A*, *Income - Client B*, and *Direct Income Sources* screens that are seen in a *Comprehensive* case.

Your clients' income taxes are calculated based on the tax rates you entered on the *Tax Rates* screen. For this reason, make sure that you enter your clients' gross incomes.

You can use the *Projection Year* field to view the summarized income sources on a year-by-year basis, or simply enter the year you want to view. Client A's and Client B's ages as of that projection year appear to the right.

You can edit an income category by clicking *Edit* next to the income type. You can add a new income by selecting the category, and then clicking the *Add Income* button. The *Income Entry* screen opens.

Enter detailed incomes

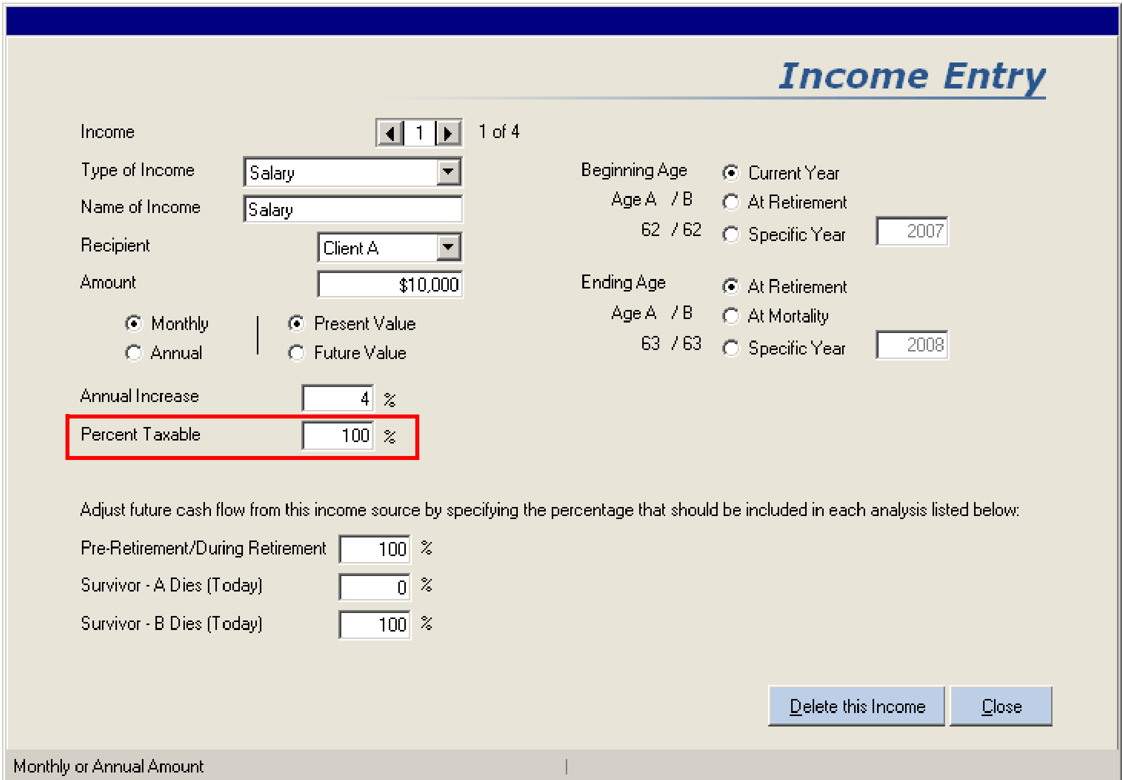


Figure 5: Case Data – Income – Edit link – Income Entry

On the *Income Entry* screen, clicking the arrows on either side of the “spin” bar allows you to enter multiple incomes of a specific income type. It is very important to select the frequency for incomes and expenses at which the clients receive these in real life. An inaccurate choice may result in unrealistic surpluses or deficits over a period of many months. In *Detailed Cash Flow* mode, your clients’ cash flow is calculated to project surpluses and deficits on a monthly basis. If a deficit is projected, assets will be redeemed based on the distribution order you have specified on the *Distribution Order* screen.

To fully understand why it is imperative to get accurate values for the clients’ incomes and expenses, and their timing, consider this example. Client A makes $50,000 per year and spends $3,000 per month in expenses. If you enter the $50,000 income as an annual income, it will occur in January resulting in a $47,000 surplus in January that will be invested into the surplus asset. For February to December, there will be deficits that require asset redemptions.

In cases which are not tax-sensitive, the non-taxable portion of income is specified. In a tax-sensitive case, the reverse is true; the taxable percentage of income is specified in the *Percent Taxable* field. Each income type has a default tax percentage. For example, the default for Salary and Alimony is 100%; the default for Social Security is 85%. When a case is upgraded to a *Detailed Cash Flow* case, the non-taxable portion is automatically converted to the taxable percentage. Make sure you specify this correctly when entering new incomes.

On the right side of the screen, you can control the start and stop dates for the incomes based on age, event, or specific year. Using an event, such as *At Retirement*, is advantageous because the entry will not require updating if you decide to change the retirement and life expectancy dates.

The bottom half of the screen allows you to enter the income percentages that should be included in pre-retirement/during retirement, death of survivor A, and death of survivor B for the client case. These percentages will affect cash flow for each of these analysis types. For example, your clients have decided that the stay-at-home spouse will return to work if the working spouse dies. To model this scenario, after entering a salary, you would have 0% available for the pre-retirement/during retirement period, and then 100% available when the other client dies.

Let's move to the *Expenses* screen now.

The initial *Expenses* screen is very similar to the initial *Incomes* screen, providing a view of summarized expenses on a year-by-year basis. You can edit an expense category by clicking *Edit* next to the expense type. You can add a new expense by selecting the category, and then clicking the *Add Expenses* button. The *Expense Entry* screen opens.

Enter an expense

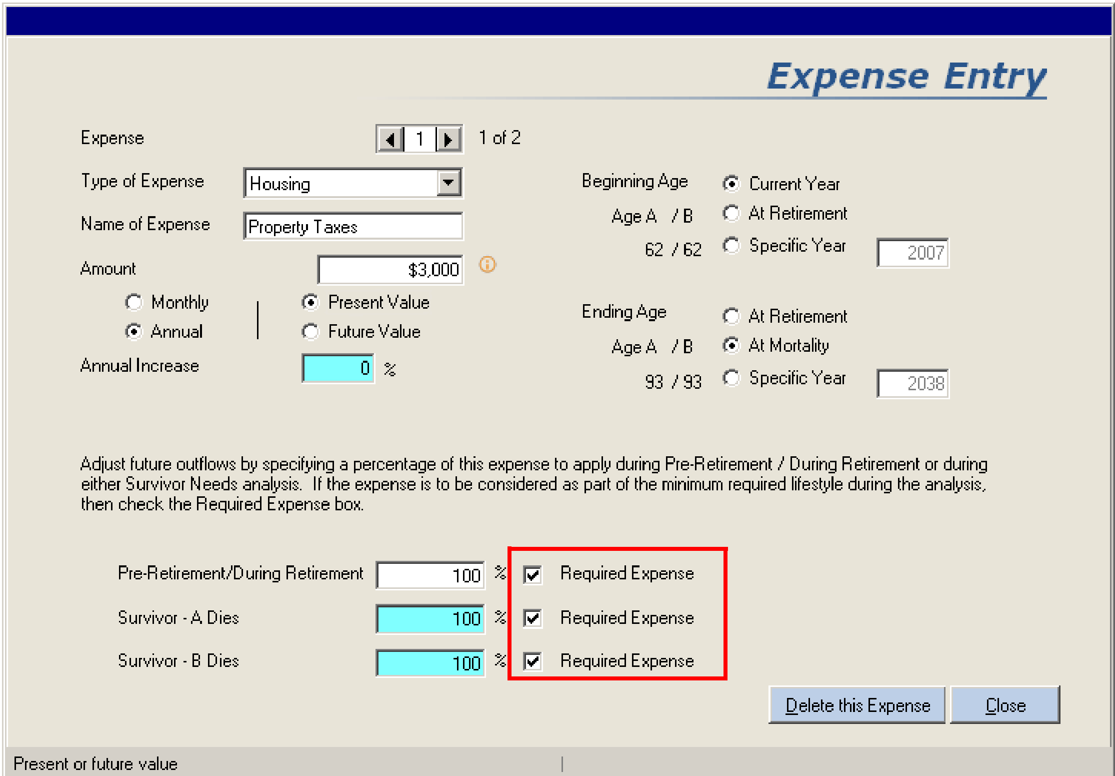


Figure 6: Case Data – Expenses – Edit link – Expense Entry

The *Expense Entry* screen is similar to the *Income Entry* screen.

The top half of the screen allows you to define the expense. It is very important to select the correct frequency for expenses. Select the frequency at which the clients pay their expenses in real life, because your choice will affect the case and could result in unrealistic surpluses or deficits.

The bottom half of the screen allows you to adjust the future cash flow for the expense by entering the percentage that should be included in each analysis for the client case. If the expense is to be considered as part of the minimum required lifestyle during the analysis, you can select the *Required Expense* check box. Using the *Required Expense* check box makes it possible to distinguish between required and desired expenses on input and output pages. For example, property taxes would likely be a required expense and a golf membership would be a desired expense.

You've now completed the second learning objective, controling the timing of incomes and expenses.

Modify the taxation of asset returns

Before you can modify the taxation of asset returns, you must first enter accounts and the holdings within those accounts.

Enter assets

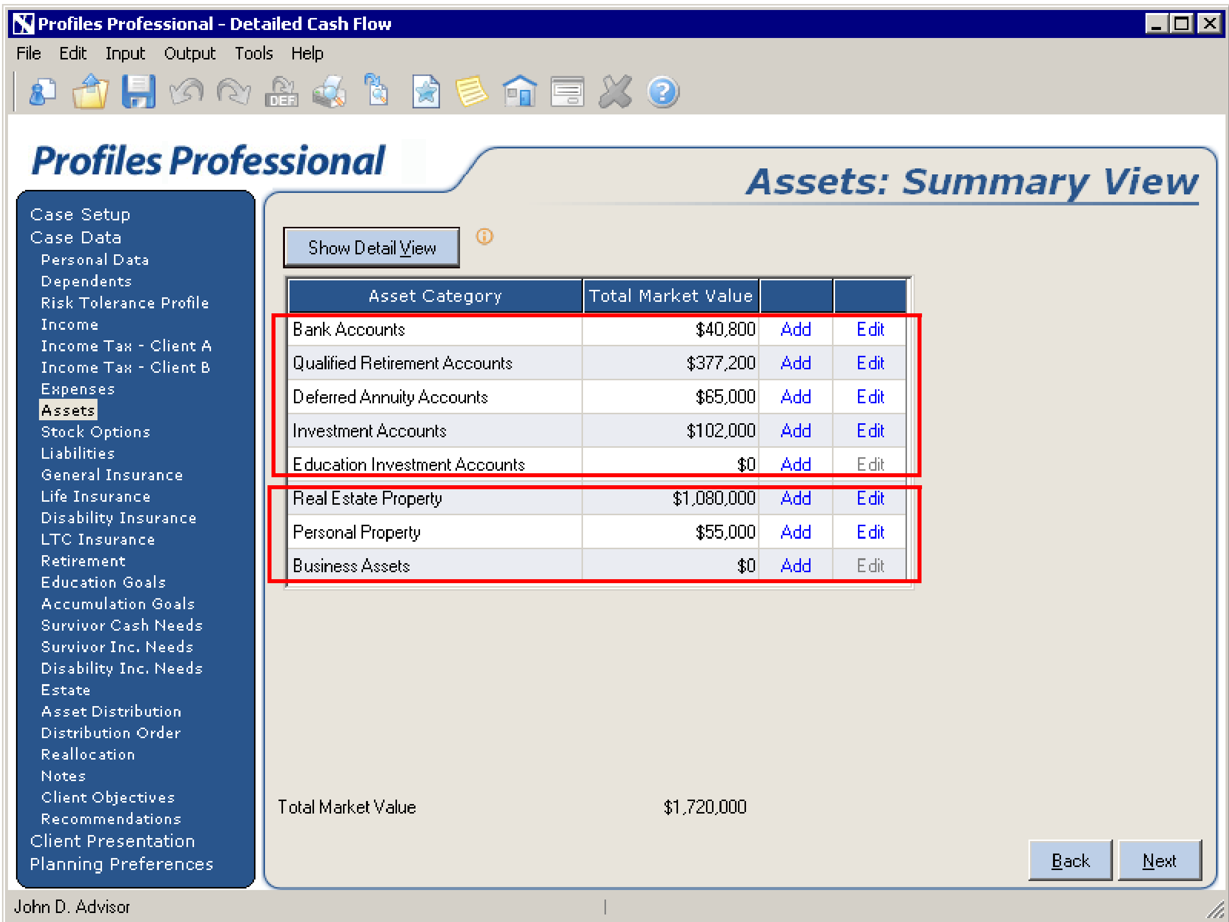


Figure 7: Case Data – Assets: Summary View

On the *Assets* screen, assets are grouped into investment assets and hard assets. By default, all asset category types are taxed as ordinary income. Bank accounts are always taxed as ordinary income because they only earn interest. Let's take a look at the *Investment Account Entry* screen to view the details of a specific holding within an account.

Edit investment account details

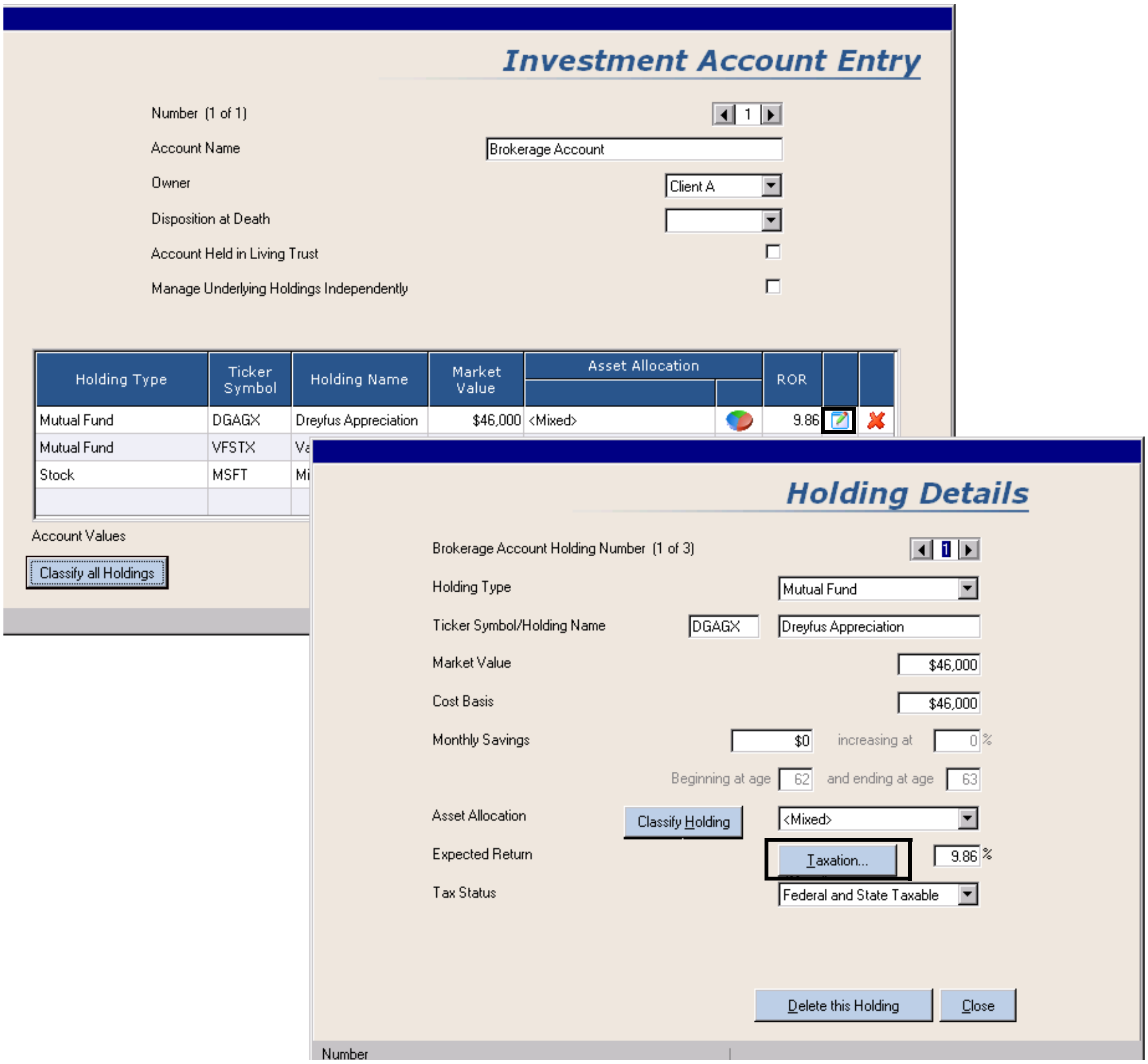


Figure 8: Case Data – Assets: Summary View – Investment Accounts, Edit link – Dreyfus Appreciation holding, Details button

You can edit the details of a specific holding within an account by clicking the button for it. The *Holding Details* screen opens. It is important to enter the cost basis for each non-qualified holding to ensure that any unrealized capital gains are accurate upon redemption. In tax-sensitive cases, the *Taxation* button appears. Clicking the *Taxation* button opens the *Taxation of Return* screen based on the asset type chosen.

Edit taxation return rates

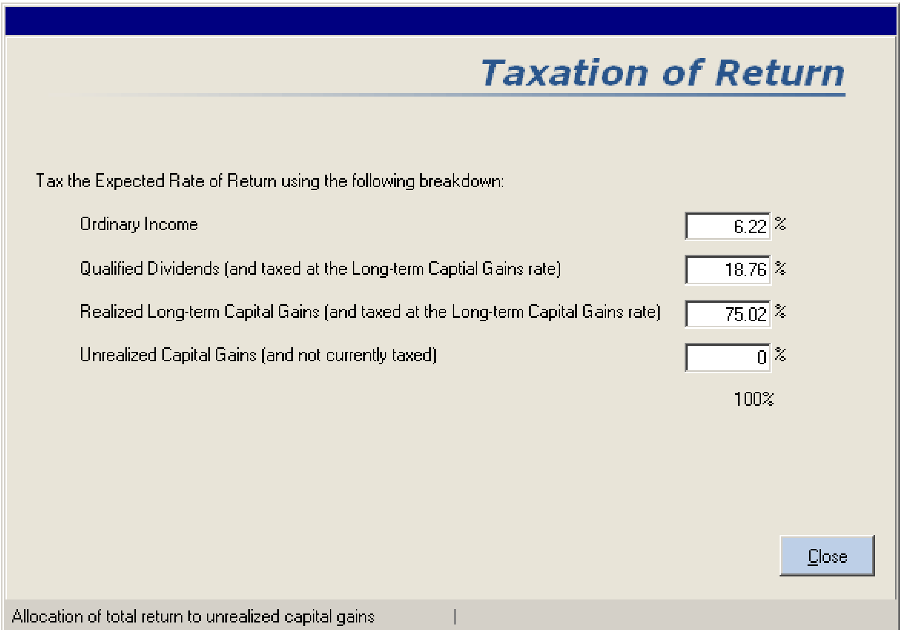


Figure 9: Case Data – Assets: Summary View – Edit link – Dreyfus Appreciation Fund holding, Details button – Dreyfus Appreciation Fund holding, Details button – Taxation button

Please note you could open the *Taxation of Return* screen by clicking *Case Data* – *Assets* – *Show Detail View* button – Dreyfus Appreciation Fund holding, *Details* button – Dreyfus Appreciation Fund holding, *Details* button – *Taxation* button.

Four different expected rates of returns are listed: ordinary income, qualified dividends, realized long-term capital gains, and unrealized capital gains. You can manually edit the percentages if necessary. The default values for these *Taxation of Return* fields are determined on the *Tax Preferences* screen. The percentages in Figure 9 are based on the asset type *Mutual Fund* and are a weighted average between stock and bond.

Once *Investment* and *Education Investment* accounts are classified, the corresponding taxation is applied based on the holding type and the asset class weighted average. If you change the taxation that applies to a holding's returns, that change does not affect the holding's expected return rate.

Let's review the *Tax Preferences* screen to see where the default values for these *Taxation of Return* fields come from.

Edit tax preferences

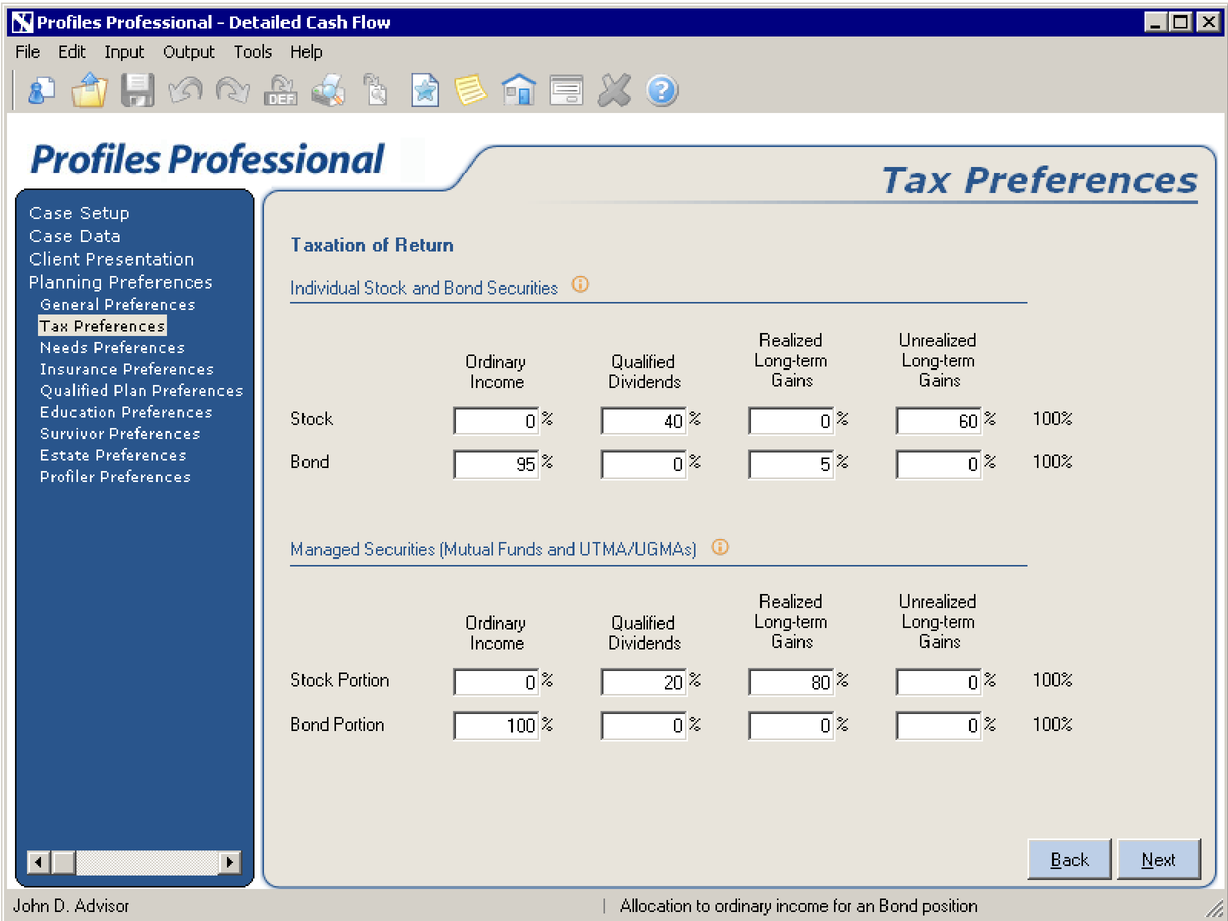


Figure 10: Planning Preferences – Tax Preferences

Profiles Professional automatically determines an appropriate level of taxation for a return on a holding. You can override these default values on the *Tax Preferences* screen by entering the different rates of return to be used for tax calculations for the stock and bond holdings in an investment account or for managed securities such as mutual funds and UTMA/UGMA accounts.

These defaults are only applied once the holding is classified. If a holding remains unclassified, the expected return is taxed as 100% ordinary income.

Remember you can manually change the taxation of returns for each holding within the investment account on the *Assets* screen.

On the *Qualified Plan Preferences* screen, you can redeem qualified assets early to cover deficits if needed by selecting the *Allow pre-59 1/2 withdrawals from qualified assets when needed* check box. You can then enter a combined state and federal penalty percentage in the *Qualified Plan early withdrawal penalty* field.

On the *Education Preferences* screen, the *Use surplus account balances to fund Retirement and Survivor Needs* check box allows you to control whether any remainder from 529 and Coverdell accounts can be used to fund retirement and survivor needs. You can also enter a penalty for the non-qualified withdrawals.

When working in tax-sensitive and *Detailed Cash Flow* cases, you will notice some additional input details.

On the *Disability Insurance* screen, there is a new check box as of version 8.0 called *Benefit is Taxable*. When this check box is selected, the recipient has to pay taxes on the disabiity benefits paid out. Disability benefits are taxed based on the federal and state *Death/Disability Average Income Tax Rates* specified on the *Tax Rate* screen.

Let’s take a look at the *Retirement* screen.

View income needs in retirement

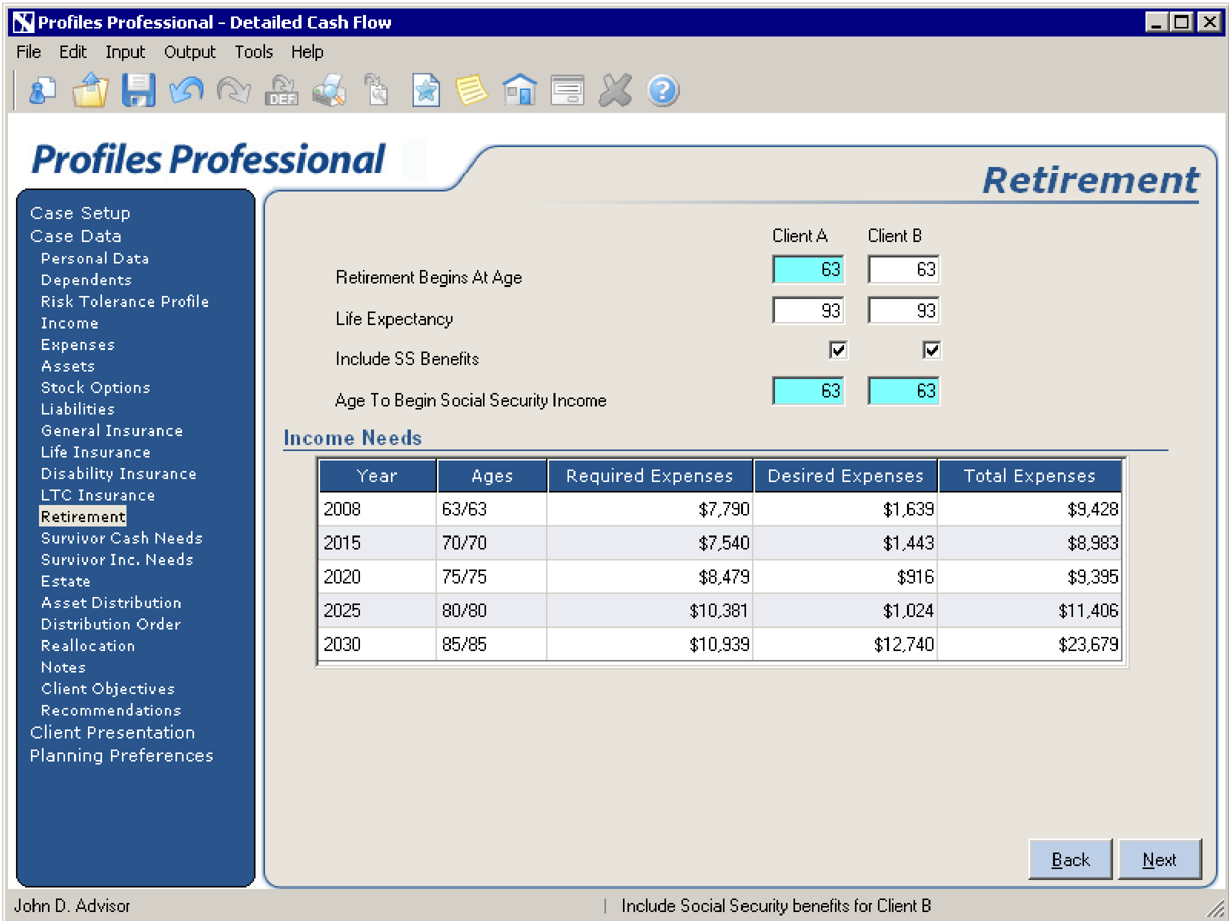


Figure 11: Case Data – Retirement

Income needs appear on the *Retirement* screen in read-only format. The income needs are comprised of the required and desired expenses entered on the *Expenses* screen and appear in five-year increments.

The *Survivor Income Needs* screen also shows the clients' required and desired expenses as entered on the *Expenses* screen.

Modify asset distribution

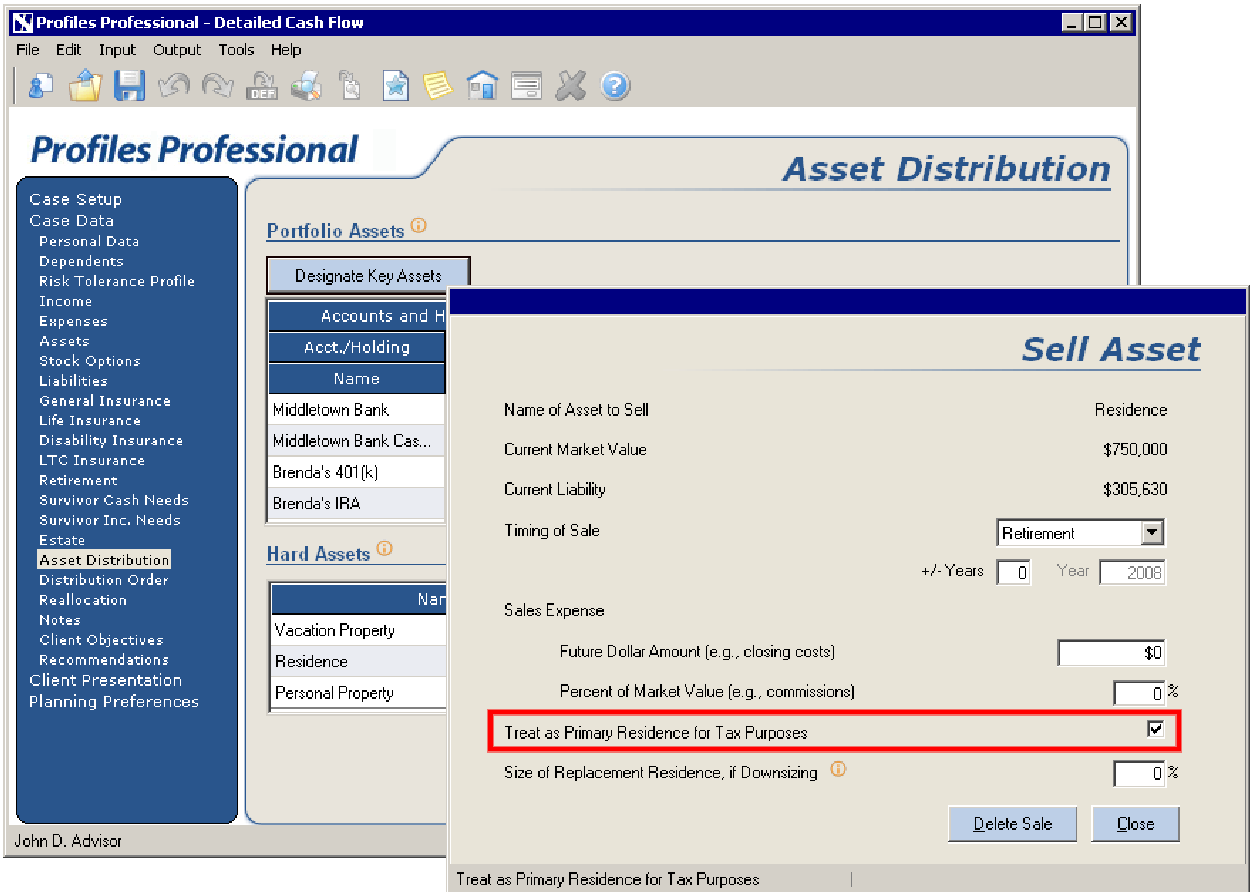


Figure 12: Case Data – Asset Distribution –Sell Strategy – Sell Asset

On the *Asset Distribution* screen, you can enter sell strategies for hard assets. It's important to select the *Treat as Primary Residence for Tax Purposes* check box to assign the exclusion amount for tax purposes. If the asset ownership is joint or community property, Profiles applies an exclusion amount of $500,000. If the asset ownership is single, Profiles applies an exclusion amount of only $250,000. if the clients' marital status is a domestic partnership, then the exclusion amount is based on the percentage of ownership for the asset.

You have now completed the third learning objective, modifying the taxation of asset returns.

Review

Before we move on to our fourth learning objective, reviewing output pages, let's review the tax-sensitive checklist to ensure we know the steps to take when working with taxation in either the *Comprehensive* or *Detailed Cash Flow* mode. If you're completing a *Detailed Cash Flow* case, be sure to follow both the Tax-sensitive checklist and the Detailed cash flow checklist.

Tax-sensitive checklist

1. Select the **Tax-Sensitive** analysis option for *Comprehensive* cases only. In *Detailed Cash Flow* mode, tax-sensitivity is always included.
2. Enter tax rates for future incomes on the *Tax Rates* screen. Remember to enter average tax rates and not marginal tax rates.
3. Enter taxation rates for each asset. Each asset on the *Assets* screen must have the cost basis and taxation on return information entered.
4. If disability policies are included in the case, check to see if disability policy benefits are taxable.

Detailed cash flow checklist

If you're completing a *Detailed Cash Flow* case, be sure to follow both the Tax-sensitive checklist and the Detailed cash flow checklist.

1. Select **Detailed Cash Flow** mode for a new case or upgrade an existing case to *Detailed Cash Flow* mode.
2. Enter incomes and expenses in the frequency that they occur in real life.
3. Check planning preferences to make sure they are set for your clients' specific analysis.

Review tax-sensitive and detailed cash flow output pages

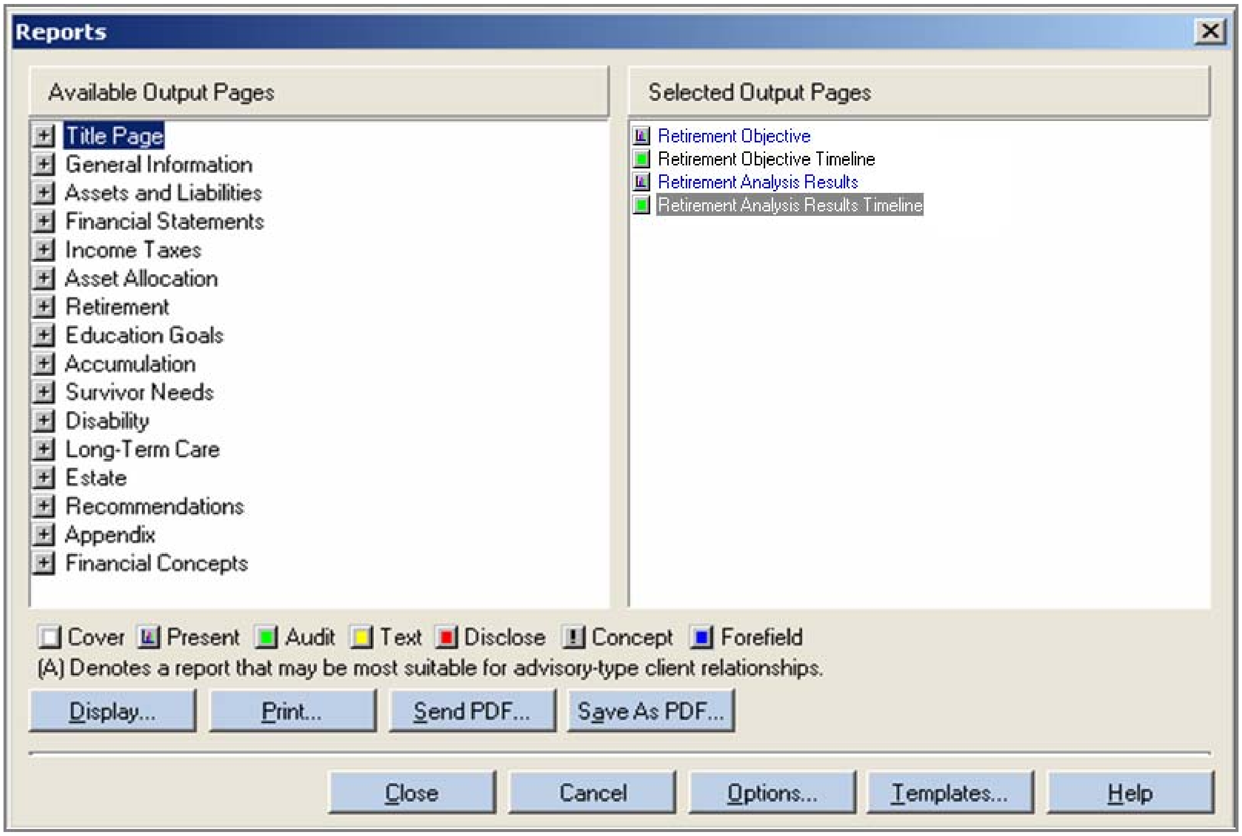


Figure 13: Client Presentation – Reports

After entering all your data, you can generate various reports for analysis. This module will review four reports that are available in all cases whether they are tax-sensitive or not.

- *Retirement Objective* (presentation page)
- *Retirement Objective Timeline* (audit page)
- *Retirement Analysis Results* (presentation page)
- *Retirement Analysis Results Timeline* (audit page)

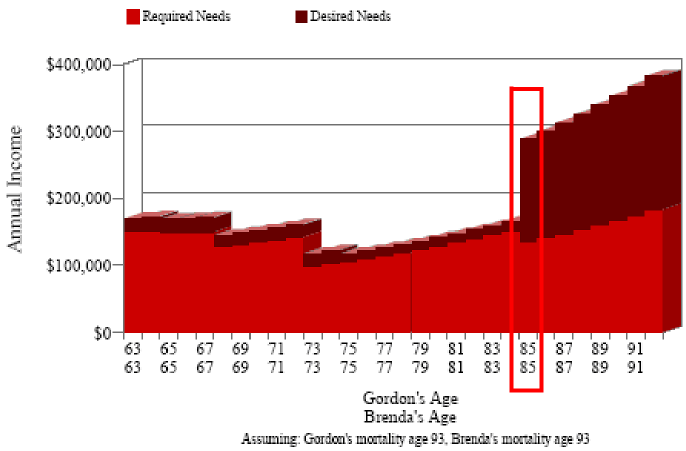
When generated in tax-sensitive and *Detailed Cash Flow* cases, the output pages offer more detail because taxes and cash flow analysis are incorporated.

To learn more about generating output pages, see the Organizing Output Self-Study Guide.

Retirement Objective presentation page

Retirement Objective

How much do you need?



Your income objective in the first year of retirement is made up of the following needs:

Required needs	$150,852
Desired needs	$19,664
Total annual income objective in first year	**$170,516**

In order to meet your income objective throughout your retirement, the amount of money needed at the beginning of retirement, in a taxable account earning 7.00%, would be the following:

	Amount	*% of Total Objective*
Capitalized required needs	$2,051,978	79%
Capitalized desired needs	$558,921	21%
Total capitalized income objective	**$2,610,900**	**100%**

The goal of the retirement analysis is to determine if your objective above can be met with expected income sources (e.g., Social Security) and withdrawals from assets (e.g., 401(k), IRA).

Figure 14: Client Presentation – Reports – Retirement – Retirement Objective presentation page

The *Retirement Objective* presentation page displays the clients' annual required and desired retirement needs throughout the planning period. At age 85, the clients have an increase in needs which is due to an expected home care expense classified as a desired expense. The table at the bottom of the page displays how the *Total capitalized income objective* is made up of the *Capitalized required needs* and *Capitalized desired needs*.

The following reports deal with how to solve the *Total capitalized income objective* amount.

Retirement Objective Timeline audit page

Retirement Objective Timeline

	Required Needs							
Ages	Required Expenses	Liability Payments	Required Savings	Goals and Gifting	Taxes on Prior Year Inv. Returns	Total Required Needs	Total Desired Needs	Total Needs
62 / 62	$83,475	$45,133	$16,200	$0	$0	$144,808	$12,100	$156,908
63 / 63	104,377	44,797	0	0	1,678	150,852	19,664	170,516
64 / 64	106,992	44,718	0	0	750	152,460	20,251	172,711
65 / 65	79,525	44,718	0	24,000	0	148,243	20,861	169,104
66 / 66	82,382	42,129	0	24,000	0	148,511	21,495	170,006
67 / 67	85,369	40,000	0	24,000	0	149,369	22,155	171,524
68 / 68	88,493	39,918	0	0	0	128,411	16,388	144,799
69 / 69	91,759	39,918	0	0	0	131,677	16,843	148,521
70 / 70	95,175	39,918	0	0	0	135,094	17,317	152,411
71 / 71	98,749	39,918	0	0	0	138,667	17,810	156,477
72 / 72	102,487	39,918	0	0	0	142,405	18,322	160,728
73 / 73	98,702	0	0	0	0	98,702	18,855	117,557
74 / 74	102,487	0	0	0	0	102,487	19,409	121,896
75 / 75	106,450	0	0	0	0	106,450	10,994	117,445
76 / 76	110,601	0	0	0	0	110,601	11,234	121,835
77 / 77	114,949	0	0	0	0	114,949	11,483	126,433
78 / 78	119,504	0	0	0	0	119,504	11,743	131,247
79 / 79	124,277	0	0	0	0	124,277	12,012	136,289
80 / 80	129,278	0	0	0	0	129,278	12,293	141,571
81 / 81	134,519	0	0	0	0	134,519	12,585	147,104
82 / 82	140,014	0	0	0	0	140,014	12,888	152,902
83 / 83	145,775	0	0	0	0	145,775	13,204	158,978
84 / 84	151,815	0	0	0	0	151,815	13,532	165,347
85 / 85	135,968	0	0	0	0	135,968	152,883	288,851
86 / 86	141,727	0	0	0	0	141,727	158,798	300,525
87 / 87	147,776	0	0	0	0	147,776	164,950	312,726
88 / 88	154,132	0	0	0	0	154,132	171,348	325,480
89 / 89	160,812	0	0	0	0	160,812	178,002	338,814
90 / 90	167,834	0	0	0	0	167,834	184,922	352,756
91 / 91	175,216	0	0	0	0	175,216	192,119	367,335
92 / 92	182,978	0	0	0	0	182,978	199,604	382,582

*The highlighted row indicates the beginning of retirement

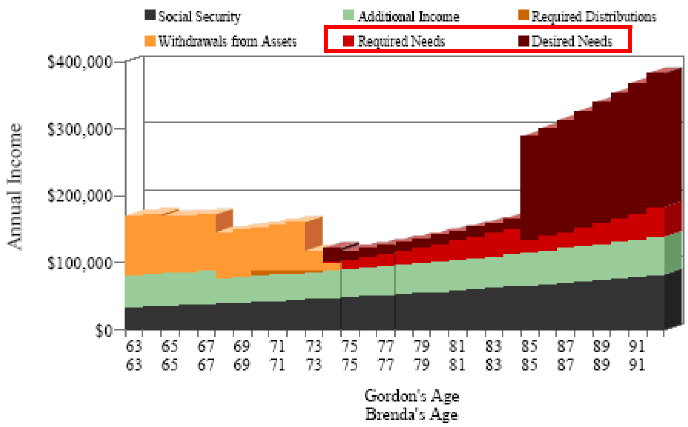
Figure 15: Client Presentation – Reports – Retirement – Retirement Objective Timeline audit page

The *Retirement Objective Timeline* audit page displays a breakdown of the retirement objective throughout the plan. In a tax-sensitive case, *Required Needs* are detailed, and *Taxes on Prior Year Investment Returns* are shown. The year of retirement is highlighted on the page so you can quickly identify the beginning of the retirement period.

Retirement Analysis Results presentation page

Retirement Analysis Results

Has the objective been met?



Assuming: Gordon's mortality age 93, Brenda's mortality age 93

Based on the analysis of your retirement income needs, expected income sources and available assets, your objective will be satisfied until age 74. At retirement, additional funds of *$552,129* will be needed.

	Objectives	*Results*	*Remaining*
Successful years of retirement	30	11	19
Capitalized value at retirement*	$2,610,900	$2,058,770	$552,129
Percent of goal	**100%**	**79%**	**21%**

There are several methods by which you can improve your results: save more, earn more on your savings, retire later, retire on less or reduce other expenses.

These results are hypothetical and are not a promise of future performance.

*Capitalization is a way of treating a series of cash flows as a lump sum, deposited in a hypothetical account with a taxable return of 7.00%. The Results amount includes all after-tax income sources and asset withdrawals applied to the retirement objective.

Figure 16: Client Presentation – Reports – Retirement – Retirement Analysis Results presentation page

The *Retirement Analysis Results* presentation page combines income sources, including asset withdrawals, and plots them against the retirement objective. In a *Detailed Cash Flow* case, this page also shows any expenses that the clients have classifed as required and desired expenses. The graph uses two shades of red to illustrate income shortages that arise when required expenses and desired expenses cannot be met.

The table near the bottom of the page summarizes the years where the clients have successfully attained their retirement objective, and it also indicates the remaining capital needed at retirement to achieve the goal. The *Capitalized value at retirement* line shows the remaining amount needed to meet the *desired* retirement goal. The report will always solve for desired needs if they exist.

Retirement Analysis Results Timeline audit page

Retirement Analysis Results

		Applied Income Sources			Applied Assets		
Ages	*Total Needs*	*Social Security*	*Additional Income*	*Needed from Assets*	*Required Distributions*	*Asset Withdrawals*	*Unmet Needs*
62 / 62	$156,908	$0	$156,908	$0	$0	$0	$0
63 / 63	170,516	35,125	48,315	87,075	0	87,075	0
64 / 64	172,711	36,179	48,819	87,712	0	87,712	0
65 / 65	169,104	37,264	49,336	82,503	0	82,503	0
66 / 66	170,006	38,382	49,866	81,758	0	81,758	0
67 / 67	171,524	39,534	50,409	81,581	0	81,581	0
68 / 68	144,799	40,720	37,583	66,496	0	66,496	0
69 / 69	148,521	41,942	38,153	68,426	0	68,426	0
70 / 70	152,411	43,200	38,738	70,473	8,404	62,068	0
71 / 71	156,477	44,496	39,338	72,643	6,569	66,075	0
72 / 72	160,728	45,831	39,952	74,945	4,319	70,626	0
73 / 73	117,557	47,206	40,582	29,769	1,573	28,196	0
74 / 74	121,896	48,622	41,227	32,047	417	9,508	22,122
75 / 75	117,445	50,080	41,889	25,475	0	0	25,475
76 / 76	121,835	51,583	42,567	27,685	0	0	27,685
77 / 77	126,433	53,130	43,263	30,040	0	0	30,040
78 / 78	131,247	54,724	43,975	32,548	0	0	32,548
79 / 79	136,289	56,366	44,705	35,218	0	0	35,218
80 / 80	141,571	58,057	45,454	38,060	0	0	38,060
81 / 81	147,104	59,799	46,221	41,084	0	0	41,084
82 / 82	152,902	61,593	47,008	44,302	0	0	44,302
83 / 83	158,978	63,440	47,814	47,724	0	0	47,724
84 / 84	165,347	65,343	48,641	51,363	0	0	51,363
85 / 85	288,851	67,304	49,488	172,060	0	0	172,060
86 / 86	300,525	69,323	50,356	180,846	0	0	180,846
87 / 87	312,726	71,403	51,246	190,078	0	0	190,078
88 / 88	325,480	73,545	52,158	199,778	0	0	199,778
89 / 89	338,814	75,751	53,093	209,971	0	0	209,971
90 / 90	352,756	78,024	54,051	220,681	0	0	220,681
91 / 91	367,335	80,364	55,033	231,937	0	0	231,937
92 / 92	382,582	82,775	56,040	243,767	0	0	243,767

*Highlighted Row Denotes Start of Retirement

Figure 17: Client Presentation – Reports – Retirement – Retirement Analysis Results Timeline audit page

The *Retirement Analysis Results Timeline* audit page calculates the *Unmet Needs* for the retirement goal. *Total Needs* minus *Applied Income Sources* and *Applied Assets* equals *Unmet Needs*.

Keep in mind that *Detailed Cash Flow* mode incorporates the taxes due on income sources during each analysis, so your clients' needs could be greater.

Exercises

Exercise 1: Control the timing of incomes and expenses

1. When you are in *Detailed Cash Flow* mode you have the option to designate expenses as *required* or *desired*. True or false?

   a) True

   b) False

Exercise 2: Enter tax rates for future income

1. Where can you enter *Average Tax Rates* that will be applied to all future incomes?

   a) *Case Data – Income Tax - Client A* screen

   b) *Planning Preferences – Tax Preferences* screen

   c) *Case Setup – Tax Rates* screen

2. Profiles allow you to enter tax rates to be applied to future incomes during different life stages. True or false?

   a) True

   b) False

Exercise 3: Modify the taxation of asset returns

1. Where in Profiles can the *Taxation of Return* for stocks, bonds, and mutual funds be changed?

   a) *Case Setup – Tax Rates* screen

   b) *Planning Preferences – Tax Preferences* screen

   c) *Taxation* button found within the details of any investment account

   d) Both b) and c)

2. Investment accounts are the only type of account in Profiles that give access to the *Taxation* button so that the taxation of the account can be changed.

   a) True

   b) False

Exercise 4: Review tax-sensitive and detailed cash flow output pages

1. Output pages specific to a *Detailed Cash Flow* analysis will only be included in the available output pages if *Detailed Cash Flow* is selected on the *Case Setup – Upgrade Client Case* screen. True or false?

   a) True

   b) False

HANDS-ON EXERCISES

2. Which output page will provide you with the estimated average tax rate for your client?
   a) *Income Taxes* – *Income Tax Analysis* presentation page
   b) *Income Taxes* – *Income Tax Analysis* audit page
   c) *Income Taxes* – *Income Tax Schedule D* audit page

Answers to exercises

Exercise 1: Control the timing of incomes and expenses

1. a) True. In *Detailed Cash Flow* mode, you can designate expenses as *required* or *desired*.

Exercise 2: Enter tax rates for future income

1. c) You enter *Average Tax Rates* that will be applied to all future incomes on the *Case Setup – Tax Rates* screen.
2. a) True. Profiles allows you to enter tax rates to be applied to future incomes during different life stages.

Exercise 3: Modify taxation of asset returns

1. d) Both b) and c). You can change the *Taxation of Return* for stocks, bonds, and mutual funds using both the *Planning Preferences – Tax Preferences* screen, and the *Taxation* button found within the details of any investment account.
2. b) False. Investment accounts are not the only type of account in Profiles that give access to the *Taxation* button so that the taxation of the account can be changed.

Exercise 4: Review tax-sensitive and detailed cash flow output pages

1. a) True. Output pages specific to a *Detailed Cash Flow* analysis will be only be included in the available output pages if *Detailed Cash Flow* is selected on the *Case Setup – Upgrade Client Case* screen.
2. b) The *Income Taxes – Income Tax Analysis* audit page will provide you with the estimated average tax rate for your client.