



# **Profiles Professional Desktop**

## **Manage and Allocate Assets Self-Study Guide**

**Version 9.0**

EISI, Winnipeg

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# Manage and allocate assets

This self-study guide describes how to capture your clients' current plans for asset management and reallocation.

## Learning objectives

This module will enable you to

- Assign assets to retirement, survivorship, education, or accumulation goals
- Designate assets intended to receive surplus and lump-sum income
- Model the sale of, or downsize, a current residence
- Designate the order in which assets are to be redeemed to cover goals
- Specify your clients' current asset reallocation plans
- Interpret distribution and reallocation output

This guide will show you how to easily assign an asset to a goal. You will learn how to completely control the order in which assets are redeemed. You will learn how to reallocate assets at various time periods to keep asset classes with higher rates of return from dominating the portfolio over time. Lastly, you will learn to use reports to explain how assets may be distributed and reallocated.

## Learning tools

This module includes practice exercises, using one of the sample clients provided in the application. These exercises have been designed specifically for this module and assume that you are working with the original data in the *Sample 2 - Comprehensive* case. Any changes you make to the case will not be saved.

Use the steps below for guidance:

1. Open a sample case from the *File* menu or from the *Welcome* screen.
2. Click **Open** beside the *Sample 2 - Comprehensive* case.

## Assign assets to goals

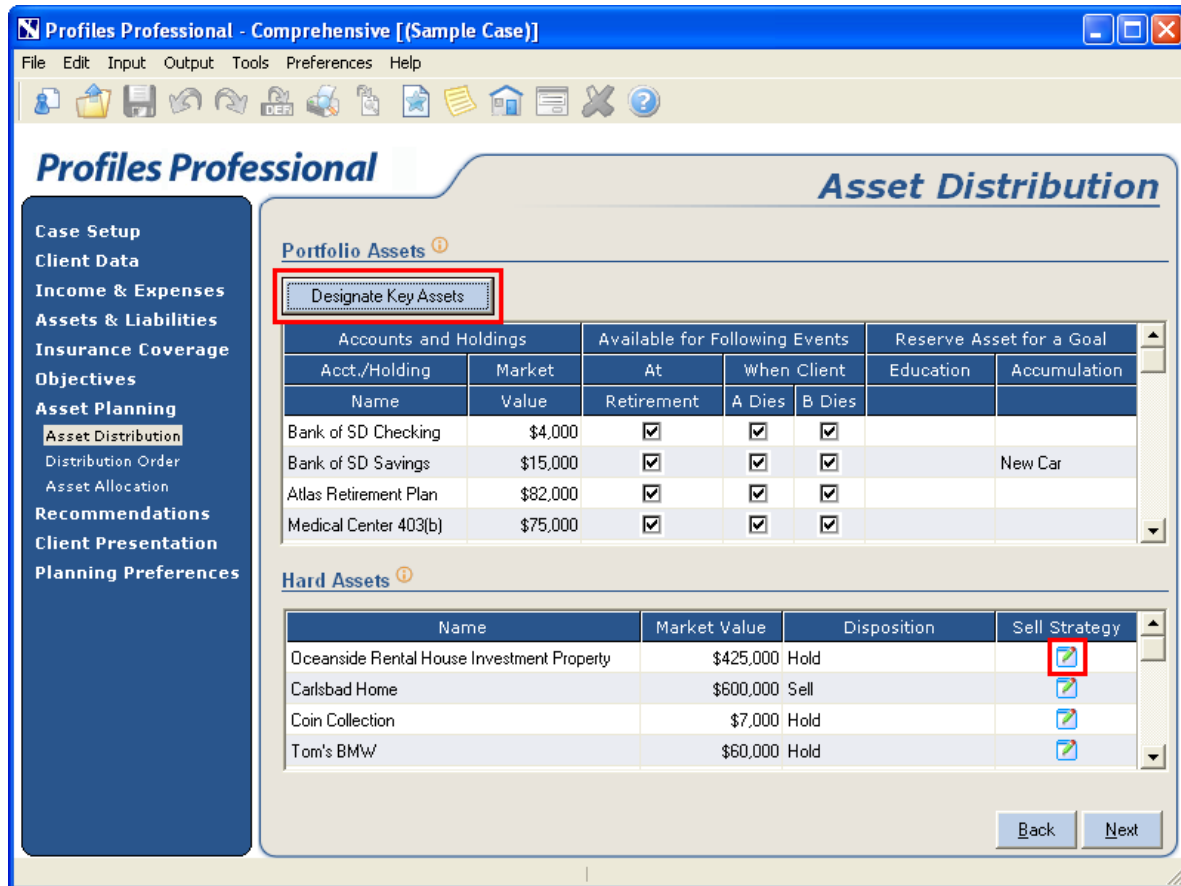


Figure 1: Asset Planning category – Asset Distribution screen

The *Asset Distribution* screen allows you to designate which assets and holdings are available at retirement and death, and to assign assets to a particular goal, such as education or accumulation. You can also remove an asset from funding retirement and survivorship by clearing the appropriate check box.

By default all portfolio assets are available for both retirement and survivorship; the total market value of the asset is available to be liquidated when these events occur.

In the *Education* column, you can specify which asset will fund the education goal. In the *Accumulation* column, you can select a specific accumulation goal. You can reserve a portfolio asset for either education or accumulation, but not both. Clicking the *Designate Key Assets* button opens the *Designate Key Assets* screen, which is described on page 3.

Hard assets include real estate property, personal property, and business assets. The *Disposition* column displays either the word *Hold* or *Sell*, depending on whether or not a sell strategy has been implemented. Clicking the *Sell Strategy* button opens the *Sell Asset Details* screen, which is described on page 5.

## Designate assets intended to receive surplus and lump-sum income

The list below contains the assets which are available for retirement and at death and have not been reserved for a goal. The Surplus Income Asset will receive excess income, including RMD, after total needs have been met. The Lump-Sum Asset, will receive amounts from insurance, lump-sum income sources, proceeds from the sale of hard assets, etc.

Name	Surplus Income Asset	Lump Sum Asset
Bank of SD Checking	<input type="checkbox"/>	<input type="checkbox"/>
AIM Charter A	<input type="checkbox"/>	<input type="checkbox"/>
CA-Tax Free Muni Bond Fund	<input type="checkbox"/>	<input type="checkbox"/>
Evergreen Balanced A	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Money Market Fund	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Close

Figure 2: Asset Planning category – Asset Distribution screen – Designate Key Assets screen

On the *Designate Key Assets* screen, non-qualified assets that are available for retirement or survivorship, but not linked to an education or accumulation goal, can be designated to receive surplus income and lump-sum funds, such as inheritance or life insurance proceeds. Assets that can be used to receive these funds include bank accounts, investment accounts, and deferred annuity accounts. Only one account can be selected in each column.

- *Surplus Income Asset* – If inflows exceed outflows, any excess income is directed to this asset, including required minimum distributions, after total needs have been met. This applies regardless of who owns the asset.

**Hint:** On the *Planning Preferences* category – *Needs Preferences* screen, you can choose to assume that surplus income is spent, not saved. This will apply until age 70.5, at which time the surplus is assumed to be saved due to required minimum distributions.

- *Lump Sum Asset* – Funds such as an inheritance, life insurance proceeds, lump-sum income sources, and proceeds from the sale of a hard asset, are directed to this asset. This applies regardless of who owns the asset.

**Hint:** It may be helpful to create a placeholder asset with a zero dollar current market value for the sole purpose of holding surpluses and lump-sum incomes.

In *Comprehensive* and *Express* modes, these strategies are illustrated in retirement and survivorship reporting only. In *Detailed Cash Flow* mode, these strategies are illustrated in all years.

## Model the sale of, or downsize, a current residence

**Sell Asset Details**

Name of Asset to Sell: Carlsbad Home

Current Market Value: \$600,000

Current Liability: \$480,692

Timing of Sale: Today (dropdown)

+/- Years: 1 Year: 2009 Ages 43/39

Sales Expense

Future Dollar Amount (e.g., closing costs): \$10,000

Percent of Market Value (e.g., commissions): 3 %

Treat as Primary Residence for Tax Purposes:

Replacement Residence, if Downsizing <sup>?</sup>: Add/Edit Future Loan 50 %

Sell at Death in Survivor Needs Analysis <sup>?</sup>: Client A's Death   
Client B's Death

Buttons: Delete Sale, Close

Figure 3: Asset Planning category – Asset Distribution screen – Sell Asset Details screen

On the *Sell Asset Details* screen, you can enter the sale details, such as the timing of the sale (based on an event or specified year), and expenses such as closing costs and commissions. If a liability is linked to the asset, it will be paid off at the time of disposition.

If the sale is part of a strategy to downsize the clients' residence and then invest the proceeds, enter the size of the replacement residence in the *Replacement Residence, if Downsizing* field. For example, if the new home costs 75% of the projected value of the original home, enter 75%. The resulting 25% difference, less expenses, liabilities, and taxes, will be invested in the lump-sum asset. The option to downsize is only available for *Residence* type assets.

## Designate the order in which assets are to be redeemed to cover goals

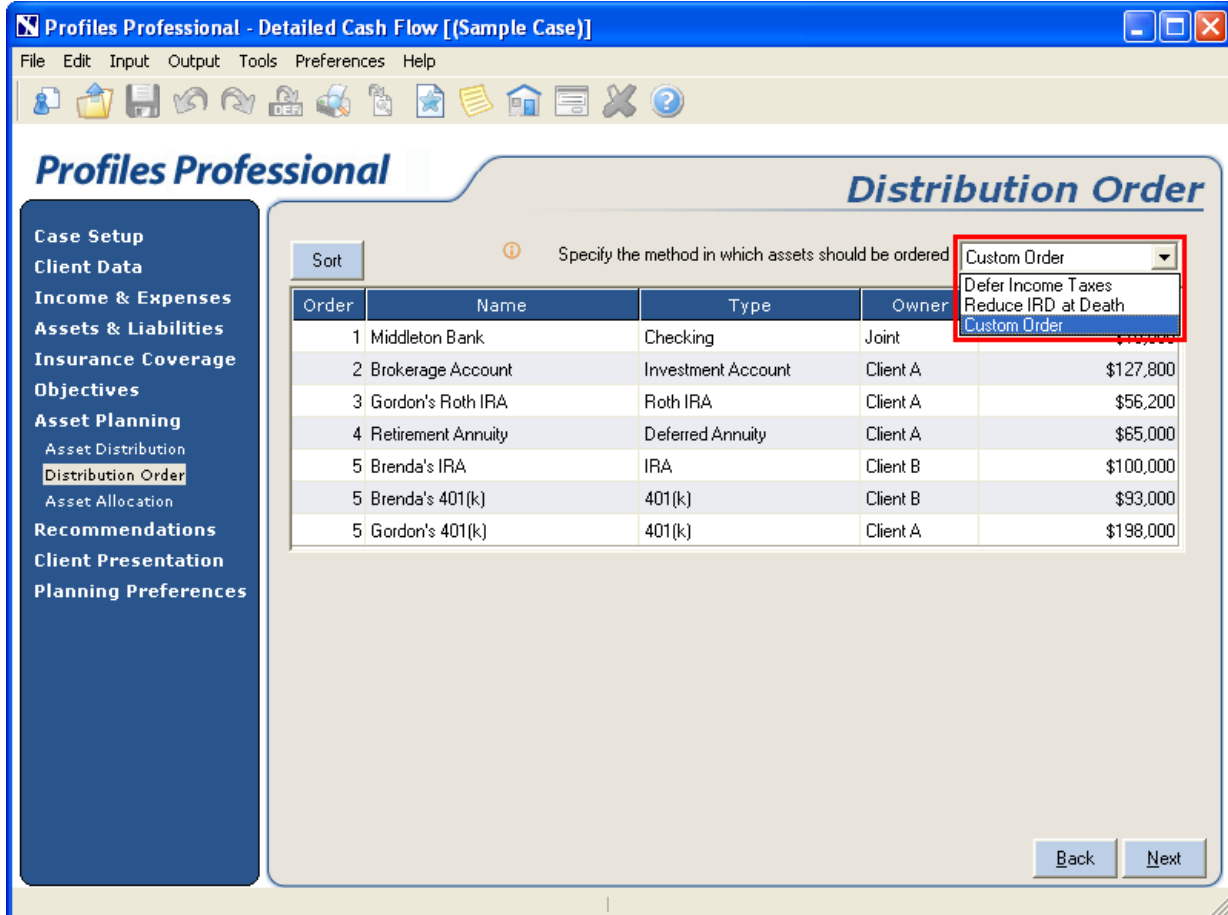


Figure 4: Asset Planning category – Distribution Order screen

On the *Distribution Order* screen, you can control the order in which investment assets will be liquidated to cover retirement or survivorship needs, by assigning an order number to each asset.

**Note:** Pre-retirement needs are only covered in *Detailed Cash Flow* mode.

From the *Specify the method in which assets should be ordered* list, three distribution order options are available:

- *Defer Income Taxes* – Orders assets in the most tax efficient manner. This is determined by asset type. For example, bank accounts are distributed before investment or qualified assets. This option is selected by default.

- *Reduce IRD at Death* – Reorders the list so that qualified assets are used prior to other investment assets to reduce the income in respect of a decedent.
- *Custom Order* – Allows you to control the distribution order of each asset (the *Order* column becomes accessible).

When assets have the same distribution order number, they form a group of assets. Distributions are pro-rated, based on the market value of the accounts, between all assets in that specific group until the group is exhausted. For example, if all bank accounts have a distribution order of 1, distributions are pro-rated between all accounts, based on market value, until there is no money left in the accounts. Note that assets retain their original tax characteristics and return rates. Only when a group of assets is completely liquidated, and funds are still needed, will the next group be formed. For example, if all investment accounts have a distribution order of 2, they are used only when all the assets with a distribution order of 1 are depleted.

## Specify your clients' current asset reallocation plans

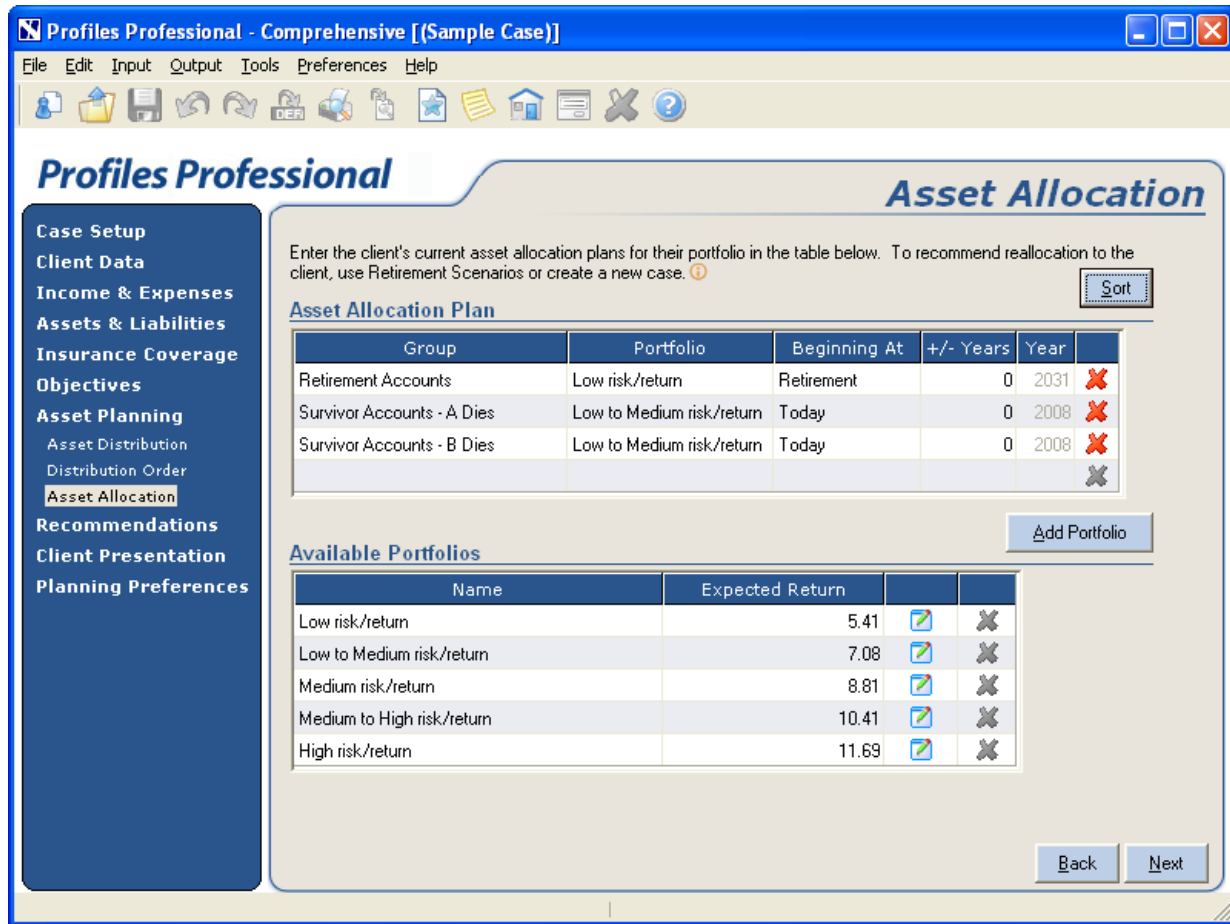


Figure 5: Asset Planning category – Asset Allocation screen

The *Asset Allocation* screen allows you to reallocate groups of assets throughout the case at different time periods. In the *Group* column, you can select, for reallocation purposes, a group of accounts allocated to a specific objective. In the *Portfolio* column, you can select the portfolio to which you wish to reallocate the assets. The suggested portfolios are based on the Ibbotson Asset Allocation model, but also include new portfolios that you have added. In the *Beginning At* column, you can indicate when the reallocation event occurs. You can also offset the reallocation event by entering the desired number of years in the *+/- Years* column.

You can reallocate a group of assets throughout the case using different time periods. For example, the *Retirement Accounts* could be reallocated to a *High* asset allocation beginning *Today*. Then they could be reallocated to a *Medium* asset allocation beginning at *Retirement*, and to a *Low-to-Med* asset allocation fifteen years after retirement (*Retirement +15*).

If the same assets are reserved for several goals, the asset reallocation of the goal that occurs first will take priority. For example, the education goal asset reallocations remain in place until the goal is complete. The retirement reallocation will then occur for that account.

The list under *Available Portfolios* is based on Ibbotson's suggested portfolios. These portfolios cannot be edited. However, you can add your own custom portfolios as needed by clicking the *Add Portfolios* button.

Note that the output pages will reflect the reallocation strategies modeled here. When generating the *Asset Allocation Time Horizon - Retirement Accounts* presentation page, the retirement scenarios previously mentioned on the *Asset Allocation* screen will appear.

If you want to make recommendations for your clients to reallocate their retirement accounts and see the effects on their retirement objective, they should not be entered here. Recommendations can be entered on the *Retirement Scenarios* screen where multiple What-if scenarios can be created and compared. Refer to the Retirement Accumulation Analysis self-study guide for more information on the *Retirement Scenario* screen.

## Generate the Asset Allocation Time Horizon output page

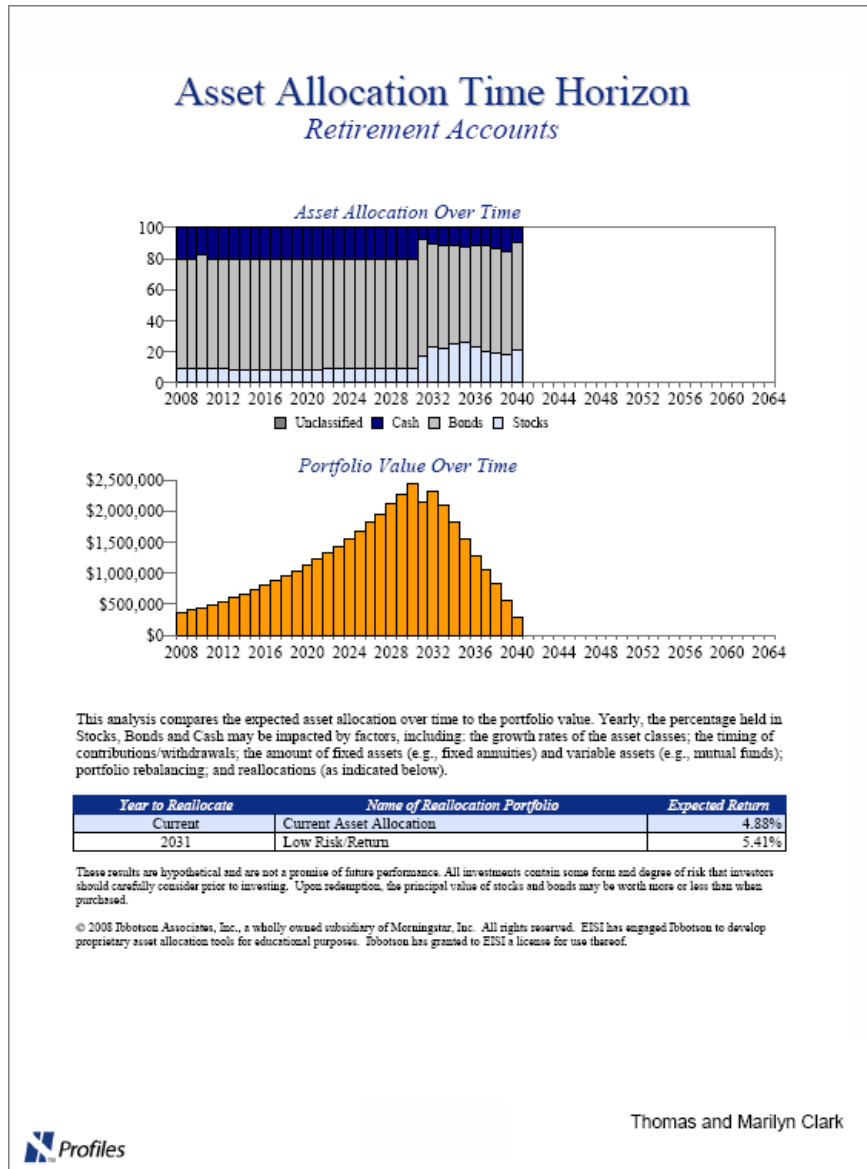


Figure 6: Client Presentation category – Reports dialog box – Asset Allocation – Allocation of Retirement Accounts – Asset Allocation Time Horizon - Retirement Accounts (presentation page)

The graph on this page visually helps the clients to understand asset allocation between stocks, bonds, and cash, as well as portfolio values over time.

The text and table explain asset reallocation, and identify reallocation points and portfolios for each individual time period.

## Rebalance assets annually

**Profiles Professional** **Asset Allocation Settings**

Case Setup  
 Upgrade Client Case  
 Assumptions  
**Asset Allocation Settings**  
 Tax Rates  
 Client Data  
 Income & Expenses  
 Assets & Liabilities  
 Insurance Coverage  
 Objectives  
 Asset Planning  
 Recommendations  
 Client Presentation  
 Planning Preferences

Asset Allocation Management:

Rebalance Managed Accounts:

Use Ibbotson Capital Market Assumptions:

Asset Class	Ibbotson Expected Return	Client Expected Return
Large Cap Growth Stocks	10.46	10.46
Large Cap Value Stocks	12.25	12.25
Mid Cap Stocks	12.55	12.55
Small Cap Stocks	15.06	15.06
International Stocks	10.91	10.91
Emerging Market Stocks	14.26	14.26
Long Term Bonds	4.50	4.50
Intermediate Term Bonds	4.01	4.01
Short Term Bonds	3.31	3.31
High Yield Bonds	6.65	6.65
International Bonds	4.21	4.21
Cash	2.82	2.82

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Figure 7: Case Setup category – Asset Allocation Settings screen

The *Asset Allocation Settings* screen allows you to modify how asset allocation is managed. The option selected from the *Asset Allocation Management* list determines which groups of assets are available for reallocation on the *Asset Planning* category – *Asset Allocation* screen. There are several options to choose from.

By default, *Separate Allocation for each Objective* is selected. The asset allocation options are grouped according to each objective included in the plan (for example, the retirement goal and the education goal, as well as any accumulation goals, if applicable). Other options include *One Allocation for All Accounts*, *Separate Allocation for Qualified vs. All Other Accounts*, and *Separate Allocation for Each Account*.

The *Rebalance Managed Accounts* check box rebalances accounts annually between reallocation points. This check box is selected by default. The following example demonstrates the usefulness of this

feature. If you reallocate to an 80% stock/20% bond portfolio, the stocks will likely outperform the bonds after one or two years. Your assets will move to an 85% stock/15% bond split, changing the original asset allocation settings. Over time the allocation becomes skewed. When the *Rebalance Managed Accounts* check box is selected, Profiles Professional adjusts the asset holdings each year to maintain the selected portfolio. You can use the *Asset Allocation Time Horizon - Retirement Accounts* presentation page (shown in Figure 6) to help clients understand the importance of rebalancing and meeting annually to update their case.

## Interpret distribution and reallocation output

You can use the output pages to explain asset distribution and reallocation to your clients. The first page of the *Risk Tolerance Assessment* audit report explains how an appropriate asset allocation is derived based on the clients' needs.

### Part 1: Risk Tolerance Profile

*What is your appetite for risk?*

Below are the questions from the Risk Tolerance Questionnaire as well as your answers (shaded). Your risk tolerance score, and the indicated profile, follow:

- Inflation, the rise in prices over time, can erode your investment return. Long-term investors should be aware that, if portfolio returns are less than the inflation rate, their ability to purchase goods and services in the future might actually decline. However, portfolios with long-term returns that significantly exceed inflation are associated with a higher degree of risk.
 

Which of the following portfolios is most consistent with your investment philosophy?

  - Portfolio 1 will most likely exceed long-term inflation by a significant margin and has a high degree of risk. (18 points)
  - Portfolio 2 will most likely exceed long-term inflation by a moderate margin and has a light to moderate degree of risk. (12 points)
  - Portfolio 3 will most likely exceed long-term inflation by a small margin and has a moderate degree of risk. (6 points)
  - Portfolio 4 will most likely match long-term inflation and has a low degree of risk. (0 points)
- Portfolios with the highest average returns also tend to have the highest chance of short-term losses. The table below provides the average dollar return of four hypothetical investments of \$100,000 and the possibility of losing money (ending value of less than \$100,000) over a one-year holding period. Please select the portfolio with which you are most comfortable.
 

	Probabilities After 1 Year		Score
	Possible Average Value at the End of One Year	Chance of Losing Money at the End of One Year	
a. Portfolio A	\$106,000	16%	(0 points)
b. Portfolio B	\$107,000	21%	(8 points)
c. Portfolio C	\$108,000	25%	(12 points)
d. Portfolio D	\$109,000	28%	(18 points)

### Part 2: Time Horizon Score

*Measuring the impact of time on your asset allocation choice*

Different objectives may have different time horizons. You may be planning for an accumulation objective that is right around the corner, while also planning for another that is off in the distance. Furthermore, objectives can have varying durations -- those that are single sum or short term versus those that may last for a number of years.

For each accumulation objective, the following two questions were answered and the points totaled to arrive at a time horizon score. Those scores are recorded below.

- When do you expect to begin withdrawing money for your objective?
  - Less than 1 year (0 points)
  - 1 to 2 years (1 point)
  - 3 to 4 years (3 points)
  - 5 to 7 years (7 points)
  - 8 to 10 years (9 points)
  - 11 years or more (11 points)
- Once you begin withdrawing money for this objective, how long do you expect the withdrawals to last?
  - I plan to take a lump sum distribution (0 points)
  - 1 to 4 years (2 points)
  - 5 to 7 years (4 points)
  - 8 to 10 years (5 points)
  - 11 years or more (6 points)

Time Horizon Score	
Objective Name	Score
Retirement	9

Figure 8: Client Presentation category – Reports screen – Asset Allocation – Risk Tolerance Assessment (audit pages)

Part 1 of the report shows the clients' answers to the questions, the weighting given to each answer, the clients' overall score, the suggested portfolio, as well as the portfolio description. The clients' tolerance for risk is indicated by a description highlighted gray. The clients' overall score is based on their answers to questions regarding their comfort level when investing. There are six questions in total. Based on the answers to each question, a score for risk tolerance and a suggested profile is determined. In the example in Figure 8, the clients fall into the profile of *Moderate Aggressive*, with an emphasis on wealth accumulation.

Part 2 of the report shows the scores of each goal based on the Time Horizon questions (the start date and the duration of the objective).

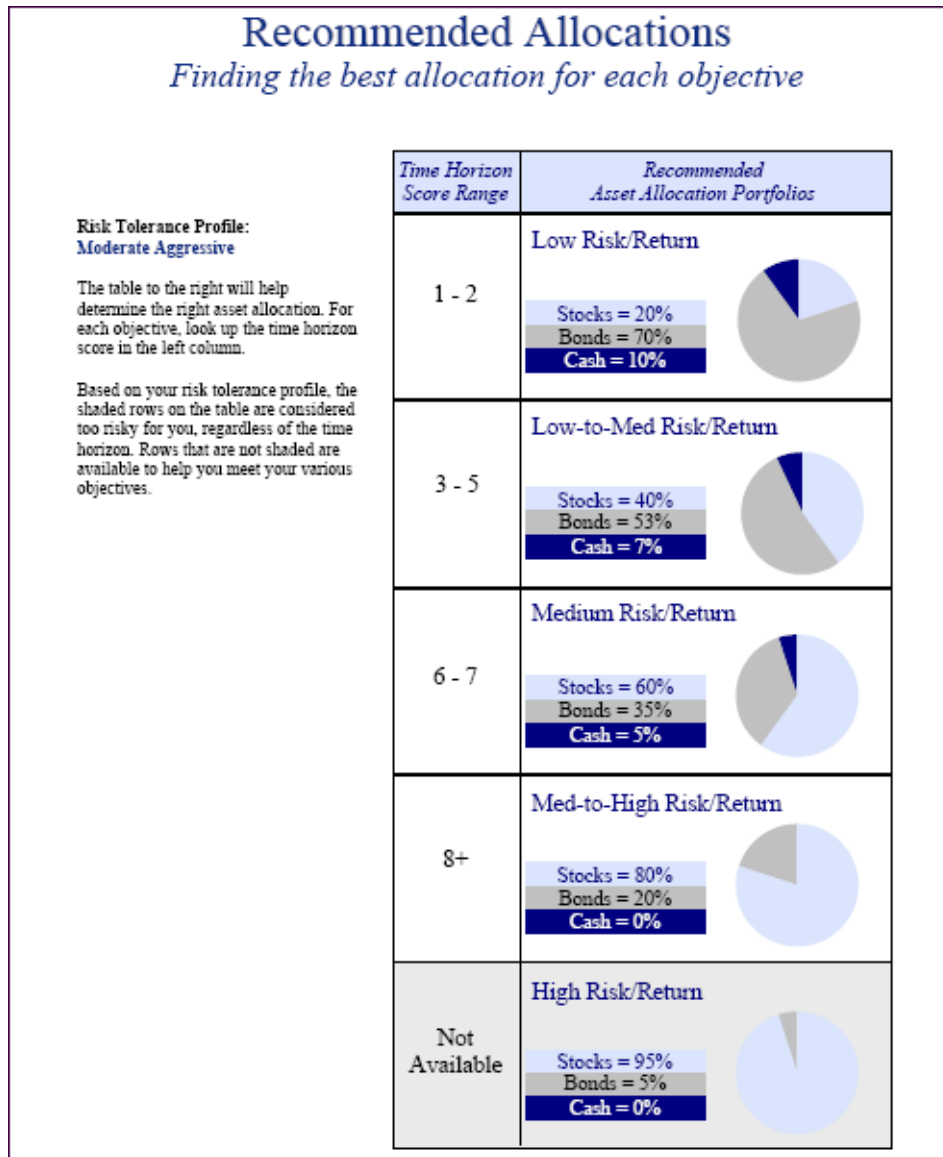


Figure 9: Client Presentation category – Reports screen – Asset Allocation – Recommended Allocations (presentation page)

The *Recommended Allocations* presentation page illustrates the clients' risk tolerance profile of *Moderate Aggressive*. The table helps determine the right asset allocation for the suggested profile, based on the time horizon. In other words, it combines Part 1 and Part 2, to indicate which allocations are appropriate. The clients' risk tolerance profile remains the same, but the recommended allocations may differ based on the time horizon.

## Reallocation Details

### Retirement Accounts

In the table below, the portfolio is allocated into various asset classes. When assets have not been classified into one of the asset classes listed, those values will be found in the row labeled Unclassified. The Expected Return and Risk rows apply only to the portion of the portfolio that has been classified. The Current column illustrates how this portfolio is allocated today. For the column(s) to the right, a reallocation is expected to occur in the year indicated. Additional descriptions for each reallocation can be found below the table.

The reallocation percentages represent the desired amounts. Actual amounts may differ due to \$10,000 of fixed assets (e.g., fixed annuity, bank account) in this portfolio that cannot be reallocated.

#### Asset Reallocations

Asset Class	Current	2007	2032	2047
Large Cap Growth	20.70%	19.00%	12.00%	8.00%
Large Cap Value	19.49%	23.00%	18.00%	13.00%
Mid Cap Equities	5.58%	14.00%	9.00%	6.00%
Small Cap Equities	2.47%	11.00%	5.00%	3.00%
Intl Equities	2.73%	23.00%	13.00%	10.00%
Emerging Markets	0.14%	5.00%	3.00%	0.00%
<b>Total Stocks</b>	<b>51.12%</b>	<b>95.00%</b>	<b>60.00%</b>	<b>40.00%</b>
Long Term Bonds	0.02%	0.00%	6.00%	9.00%
Intermediate Term Bonds	6.00%	5.00%	10.00%	15.00%
Short Term Bonds	32.63%	0.00%	13.00%	22.00%
High Yield Bonds	0.00%	0.00%	3.00%	4.00%
Intl Bonds	0.03%	0.00%	3.00%	3.00%
<b>Total Bonds</b>	<b>38.68%</b>	<b>5.00%</b>	<b>35.00%</b>	<b>53.00%</b>
<b>Total Cash</b>	<b>10.19%</b>	<b>0.00%</b>	<b>5.00%</b>	<b>7.00%</b>
<b>Total Allocated Portfolio</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Expected Return	7.37%	11.44%	8.69%	6.98%
Standard Deviation (Risk)	10.45%	18.83%	12.18%	8.61%

**Reallocation 1 in year 2007**  
**Portfolio Name:** High  
**Description:** This portfolio seeks substantial wealth accumulation and its primary goal is intended for investors who have a long time horizon. Those who invest in this portfolio must be comfortable with experiencing frequent short-term loss and extreme volatility in portfolio value to achieve high returns over the long-term.

**Reallocation 2 in year 2032**  
**Portfolio Name:** Medium  
**Description:** This portfolio is designed for those who are equally concerned with risk and return. This portfolio is intended to provide returns that are expected to outpace inflation over the long-term. Those investing in this portfolio should be comfortable with fluctuations in the portfolio's value and occasional short-term loss.

**Reallocation 3 in year 2047**  
**Portfolio Name:** Low-to-Med  
**Description:** "This portfolio primarily attempts to avoid short-term loss, but still seeks somewhat higher returns over the long-term. To achieve higher potential returns some fluctuations in investment value are to be expected."

Figure 10: Client Presentation category – Reports screen – Asset Allocation – Allocation of Retirement Accounts – Reallocation Details - Retirement Accounts (audit page)

The *Reallocation Details - Retirement Account(s)* output page illustrates, at different time periods, the asset allocation of the clients' retirement accounts. The table shows the allocation of current assets (if allocated) and each of the subsequent reallocations. The level of detail in this audit report is helpful when used with the *Asset Allocation Time Horizon* presentation page (shown in Figure 6), as it provides supporting information.

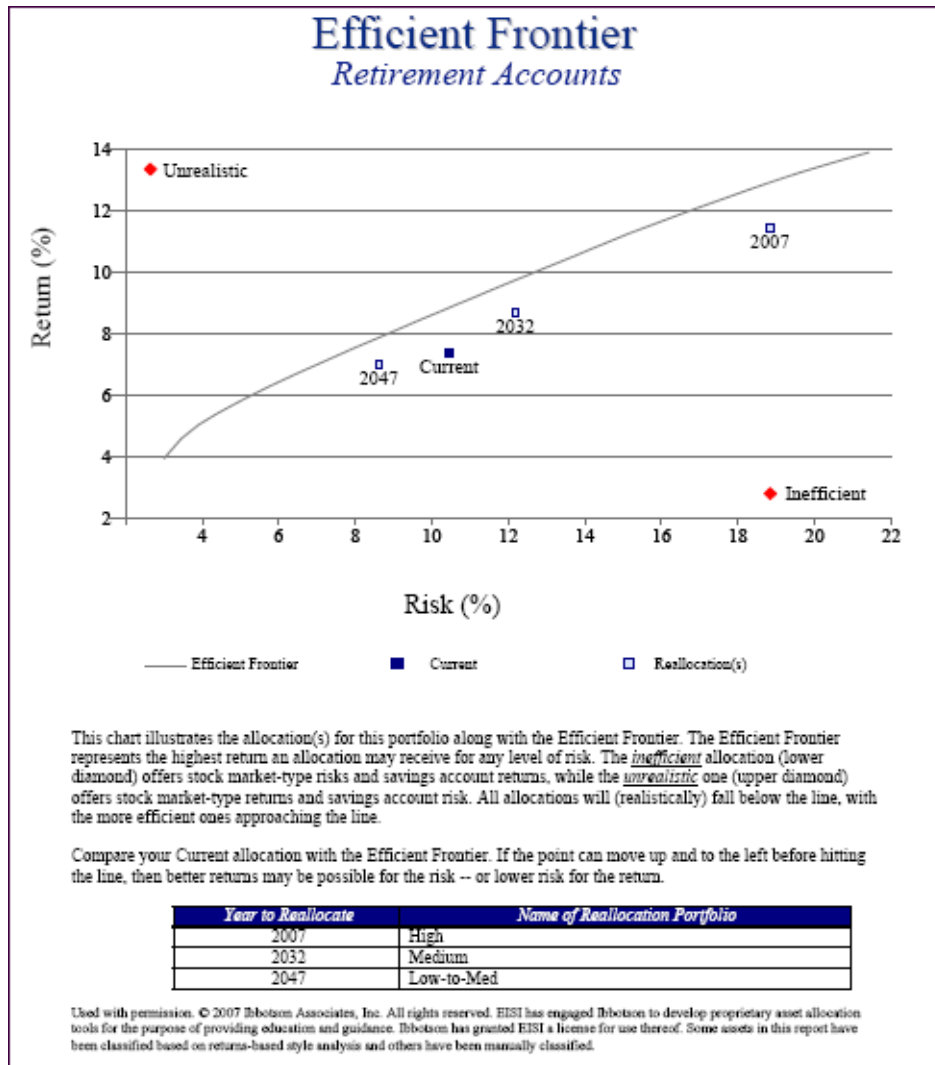


Figure 11: Client Presentation category – Reports screen – Asset Allocation – Allocation of Retirement Accounts – Efficient Frontier - Retirement Accounts (presentation page)

The *Efficient Frontier - Retirement Account(s)* output page illustrates the relative risk/reward combination of portfolios in the case. The text at the bottom of the page explains the graph in easy-to-understand terms. The table summarizes the reallocation years of retirement accounts and portfolios selected over time.

## Exercises

The exercises have been designed specifically for this module and assume that you are working with the original data in the *Sample 2 - Comprehensive* case. Any changes you make to the case will not be saved. Use the steps below for guidance:

1. Open a sample case from the *File* menu or from the *Welcome* screen.
2. Click **Open** beside the *Sample 2 - Comprehensive* case.

### Exercise 1: Designate assets to specific objectives and control the asset distribution order

1. Tom and Marilyn's Bond accounts are owned by Tom's parents and their wishes are that these should only be used to fund the education goals. Ensure that these accounts are not available to fund any other needs.

**Hint:** You can control this on the *Asset Planning* category – *Asset Distribution* screen.

2. In your most recent meeting with the Clarks, you discovered that they plan to downsize their Carlsbad home by 30%, 5 years after retirement, and then use the proceeds to help fund their retirement. Enter this strategy into the case, as well as any closing costs or commissions you feel are appropriate.
3. Which of the following output pages will identify the net proceeds being received from the sale of the residence?
  - a) *Assets and Liabilities – Asset Summary* (presentation page)
  - b) *Retirement – Retirement Income Sources Timeline* (audit page)
  - c) *Assets and Liabilities – Asset Sales Results* (audit page)
  - d) *Assets and Liabilities – Asset Balances Timeline* (audit page)
4. How can you control where the net proceeds from the sale of a hard asset will be directed?
  - a) By designating a key asset to receive surplus income
  - b) By designating a key asset to receive lump-sum income
  - c) By creating a lump-sum savings strategy for an asset
  - d) None of the above; proceeds will remain in cash flow

5. You can change the order in which the assets are redeemed by using the *Specify the method in which assets should be ordered* list. What happens to the distribution order when you change the order from *Defer Income Taxes* to *Reduce IRD at Death*?
  - a) The order remains the same
  - b) Qualified assets are redeemed first
  - c) All the assets are marked with the same distribution order number
  - d) Qualified assets are redeemed before investment accounts
  
6. On the *Distribution Order* screen, assets can have the same distribution order number, in which case they form a group when they are needed for redemption. The two assets below have the same distribution order number:
  - Asset 1 – \$20,000 – 10% return
  - Asset 2 – \$20,000 – 6% return

When these two assets are grouped (when needed for redemption), what will be the grouped rate of return?

  - a) 10%
  - b) 6%
  - c) 8%
  - d) They will retain their original rates of return

### Exercise 2: Asset allocation

1. The *Asset Allocation* screen is used to capture the clients' current asset allocation plans. While the Clarks are not very knowledgeable about asset allocation, they do understand that with a higher return usually comes a higher risk.
 

When they near retirement, they would like to reallocate to a portfolio earning a 6% return rate to reduce their market risk. Enter the asset allocation details listed below:

  - *Retirement Accounts* – **Low risk/return** – **Retirement -5**
  
2. The options available from the *Group* list depend on the selection made from the *Asset Allocation Management* list, which is available on which screen?
  - a) *Asset Planning* category – *Asset Allocation* screen
  - b) *Case Setup* category – *Asset Allocation Settings* screen
  - c) *Asset Planning* category – *Distribution Order* screen
  - d) *Client Data* category – *Risk Tolerance Profile* screen

# HANDS-ON EXERCISES

3. Generate the **Asset Allocation Time Horizon - Retirement Accounts** presentation page, and then save it as a PDF so you can make comparisons.
4. By default, Professional rebalances the assets each year to help maintain the allocation you have selected. Clear the **Rebalance Managed Accounts** option on the *Asset Allocation Settings* screen, and then regenerate the **Asset Allocation Time Horizon – Retirement Accounts** presentation page.

What differences do you notice between this output page and the previous version you generated?

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## Conclusion

This module has enabled you to

- Assign assets to retirement, survivorship, education, or accumulation goals
- Designate assets intended to receive surplus and lump-sum income
- Model the sale of, or downsize, a current residence
- Designate the order in which assets are to be redeemed to cover goals
- Specify your clients' current asset reallocation plans
- Interpret distribution and reallocation output

## Answers to exercises

### Exercise 1: Designate assets to specific objectives and control the asset distribution order

3. c) *Assets and Liabilities – Asset Sales Results* (audit page) – This output page is new to version 9.0 and gives you a breakdown of each hard asset sale in the case, and reports the net proceeds.
4. b) By designating a key asset to receive lump-sum income – The *Lump Sum Asset* will receive lump-sum incomes as well as insurance proceeds and future loans.
5. d) Qualified assets are redeemed before investment accounts – IRD taxes are typically due on qualified retirement plans. If these are redeemed before other investment accounts, there is a greater chance they will be depleted before the client is deceased.
6. d) They will retain their original rates of return – When grouped, the assets are maintained as two separate assets, and they will retain their original settings.

### Exercise 2: Asset allocation

2. b) *Case Setup* category – *Asset Allocation Settings* screen – The *Asset Allocation Management* list is found on this screen.
4. Answers will vary.