



Profiles Professional Desktop

Retirement Accumulation Analysis Self-Study Guide

Version 9.0

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Retirement accumulation analysis

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

Learning objectives

This module will enable you to

- Implement strategies into a comparison case
- Specify the time horizon of the retirement goal
- Define expenses and income needs at different phases throughout retirement
- Use What-if scenarios to review different retirement strategies
- Use output pages to compare and explain results

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 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.

Implement strategies into a comparison case

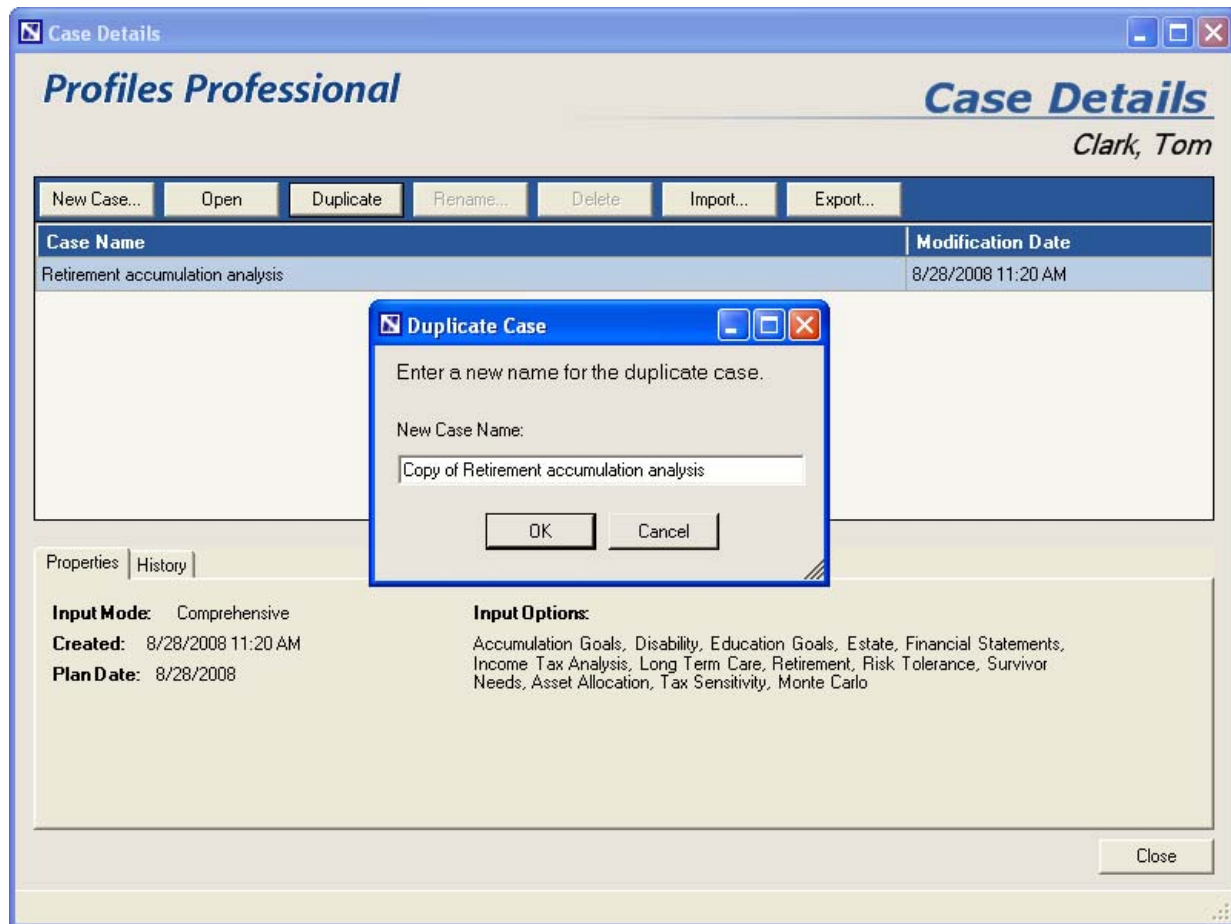


Figure 1: File menu – Existing Clients – Client List screen – Open button – Case Details screen – Duplicate button

If you want to compare the effects of modifications to the current case, you can duplicate a case before implementing any changes. This way you can leave the original case intact and make the changes on the copy, allowing you to compare the current case to a proposed case. The sample cases included with Professional cannot be duplicated.

To duplicate a case using a different name, do the following:

1. Go to the **File** menu, and then select **Existing Clients**.
2. Select a client, and then click **Open**.
3. Select a case, and then click **Duplicate**.
4. Enter a new name for the duplicate case (e.g., *Savings strategy*), and then click **OK**.

Specify the time horizon of the retirement goal

The screenshot shows the 'Retirement' screen in Profiles Professional. The 'Retirement Information' section is highlighted with a red box. It contains the following data:

	Client A	Client B
Retirement Begins at Age	65	61
Include Social Security Benefits	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Age to Begin Social Security Benefits	67	67
Life Expectancy	90	95

The 'Retirement Expenses' section is also visible, showing a table of phases with their respective needs:

	Age	Monthly Need	Additional Monthly Need
Phase 1	65	\$13,410	\$1,500
Phase 2	75	\$13,410	\$0
Phase 3	85	\$13,410	\$1,500
Phase 4	0	\$0	\$0
Phase 5	0	\$0	\$0

Below the table, there are input fields for 'Increase Need by' with values of 3.5% and 5%.

Figure 2: Objectives category – Retirement screen

On the *Retirement* screen under *Retirement Information*, you can define the time period 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 Benefits* field defaults to the full benefit age, but this age can also be overridden if required.

Define expenses and income needs at different phases throughout retirement

The screenshot shows the 'Retirement' screen in Profiles Professional. The interface includes a menu on the left with categories like Case Setup, Client Data, Income & Expenses, Assets & Liabilities, Insurance Coverage, Objectives, Retirement, Education Goals, Accumulation Goals, Survivor Cash Needs, Survivor Inc. Needs, Disability Inc. Needs, Client Objective Notes, Asset Planning, Recommendations, Client Presentation, and Planning Preferences. The main area is titled 'Retirement' and contains two sections: 'Retirement Information' and 'Retirement Expenses'.

Retirement Information

	Client A	Client B
Retirement Begins at Age	65	61
Include Social Security Benefits	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Age to Begin Social Security Benefits	67	67
Life Expectancy	90	95

Retirement Expenses

	Age	Monthly Need	Additional Monthly Need
Phase 1	65	\$13,410	\$1,500
Phase 2	75	\$13,410	\$0
Phase 3	85	\$13,410	\$1,500
Phase 4	0	\$0	\$0
Phase 5	0	\$0	\$0
Increase Need by		3.5 %	5 %

At the bottom right, there are 'Back' and 'Next' buttons. At the bottom center, it says 'Client A's retirement age'.

Figure 3: Objectives category – Retirement screen

Under *Retirement Expenses*, you can set different monthly needs in today's dollars for different time periods, or phases, throughout retirement. By default, 70% of the clients' current income is required in retirement.

You can set up two groups of monthly expenses indexed differently and change the needs over time. Enter the monthly expenses as gross expenses including taxes. For example, at age 65, the client may have a *Monthly Need* of \$13,410 in living expenses that inflates at 3.5%, and an *Additional Monthly Need* of \$1,500 for a golf membership that inflates at 5.0%. At age 75, the *Monthly Need* is \$13,410 for living expenses but the *Additional Monthly Need* is \$0, assuming the client is no longer able to golf. Remember that the default values for retirement are set on the *Planning Preferences* category – *Needs Preferences* screen.

Specify retirement preferences

Profiles Professional - Comprehensive [(Sample Case)]

File Edit Input Output Tools Preferences Help

Profiles Professional **Needs Preferences**

Case Setup
Client Data
Income & Expenses
Assets & Liabilities
Insurance Coverage
Objectives
Asset Planning
Recommendations
Client Presentation
Planning Preferences
 General Preferences
 Tax Preferences
Needs Preferences
 Insurance Preferences
 Qualified Plan Preferences
 Education Preferences
 Survivor Preferences
 Estate Preferences
 Profiler Preferences

Retirement

Spend Surplus Income

Monthly Need as Percent of Total Income %

Capitalization Rate %

Accumulation Goals

Funding Alternative Rate %

Survivor Needs and Estate

Emergency Reserves Monthly Income Multiplier

With Dependents, Monthly Income Need %

Without Dependents, Monthly Income Need %

Disability

Monthly Income Need as Percent of Total Income %

Back Next

Spend cash flow surplus

Figure 4: Planning Preferences category – Needs Preferences screen

On the *Needs Preferences* screen, you can set the default retirement values that define the retirement goal. 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 Need as Percent of Total Income* value is 70%.

The *Capitalization Rate* is the ordinary income return rate Profiles Professional will apply to the savings it is recommending to meet the retirement goal. This only applies if the goal is not currently met.


To revert to the default values, click the  (*Restore Default*) button on the toolbar.

Use output pages to verify and analyze the clients' data

Some client presentation pages can be used to verify the data you have entered, and to analyze how the current financial plan meets the clients' retirement needs.

Before doing a retirement analysis, it is important to verify that the clients' current data was entered correctly. There are two reports that you can use to verify data:

- *All Personal Input Data*
- *Analysis Summary*

Hint: Click  to access commonly used output pages that are related to the current screen that you are on.

All Personal Input Data report

A recommended report to verify that the clients' current data was correctly entered is the *All Personal Input Data* report. This report shows you all of the information that you entered for the clients.

All Personal Input Data

For: Tom and Marilyn Clark
Plan Date: 4/22/2008

Case Setup

Comprehensive Input Mode

Analysis Objectives included in the plan:

- ✓ Retirement
- ✓ Education Goals
- ✓ Accumulation Goals
- ✓ Survivor Needs
- ✓ Disability
- ✓ Long-Term Care
- ✓ Estate

Extended Analysis Options included in the plan:

- ✓ Asset Allocation
- ✓ Tax-Sensitive
- ✓ Monte Carlo

Personal Assessments included in the plan:

- ✓ Risk Tolerance
- ✓ Financial Statements
- ✓ Income Tax Analysis

Assumptions

Plan Date 4/22/2008
 Client Marital Status Married
 Long-term inflation rate 3.50%
 Social Security increase rate 3.00%

Asset Allocation Settings

Asset allocation management Separate Allocation for each Objective

You have selected to rebalance all allocations
 You have selected to use the Ibbotson Capital Market Assumptions

<i>Asset Class</i>	<i>Expected Rate of Return you have provided</i>
Large Cap Growth Stocks	10.46%
Large Cap Value Stocks	12.25%
Mid Cap Stocks	12.55%
Small Cap Stocks	15.06%
International Stocks	10.91%
Emerging Market Stocks	14.26%

Continued...

Tom and Marilyn Clark

Figure 5: Client Presentation category – Reports dialog box – General Information – All Input Data (disclosure page)

Analysis Summary report

Another useful report for reviewing the data is the *Analysis Summary* report. The *Analysis Summary* report provides a quick analysis of the following:

- financial statements
- risk tolerance assessment
- retirement analysis

Once you have verified that the data in the *Analysis Summary* report is correct, you will be able to review the clients' retirement situation prior to implementing your recommendations.

Analysis Summary

Prepared for
Tom and Marilyn Clark

This summary is intended to give you a quick overview of the detailed analyses in the sections that follow, and is based upon your current financial situation and the information you provided. Please review the analysis reports for details concerning assumed rates of return, calculations, tax implications and other factors impacting the analysis results. Included in this summary are:

- Financial Statements
- Income Taxes
- Risk Tolerance Assessment
- Retirement Analysis
- Education Funding Analysis
- Accumulation Funding Analysis
- Survivor Needs Analysis
- Disability Income Needs
- Long-Term Care Analysis
- Estate Analysis

FINANCIAL STATEMENTS

Tom and Marilyn, your Net Worth is estimated at \$999,744. This amount includes \$25,000 in readily available assets for emergencies vs. your goal of \$10,000. You have a current annual cash flow surplus of \$12,302.

Net Worth		Cash Flow	
Assets	\$1,522,000	Income	\$178,800
Liabilities	(522,256)	Expenses	(166,498)
Net Worth	\$999,744	Surplus/Deficit	\$12,302

Continued...

Tom and Marilyn Clark

Figure 6: Client Presentation category – Reports dialog box – General Information – Analysis Summary (text page)

Use output pages to analyze the retirement objective

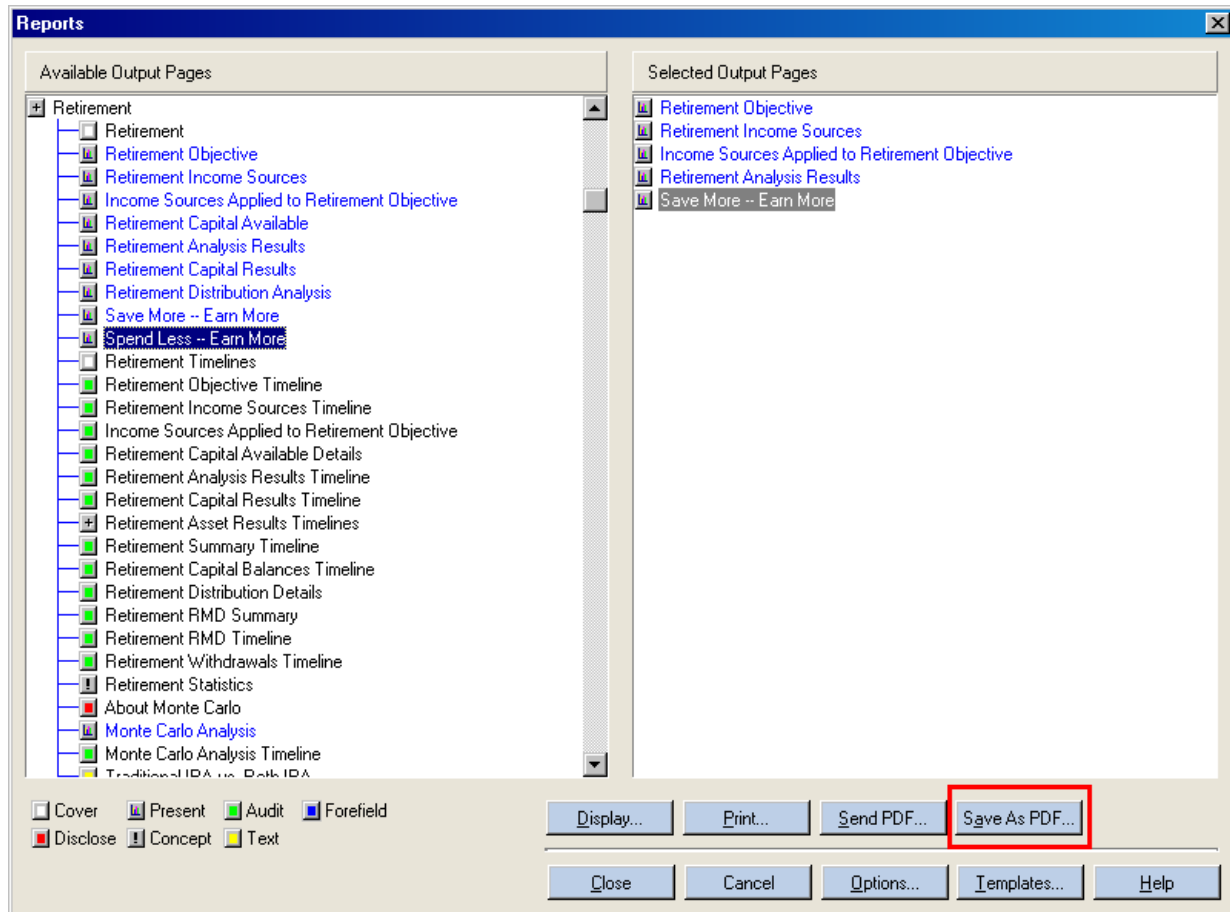


Figure 7: Client Presentation category – Reports dialog box

Once you have verified that the clients' data has been accurately entered, you can perform a retirement analysis. First, let's take a look at some of the output pages that analyze retirement.

Hint: 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.

View the Income Applied to Retirement Objective output page

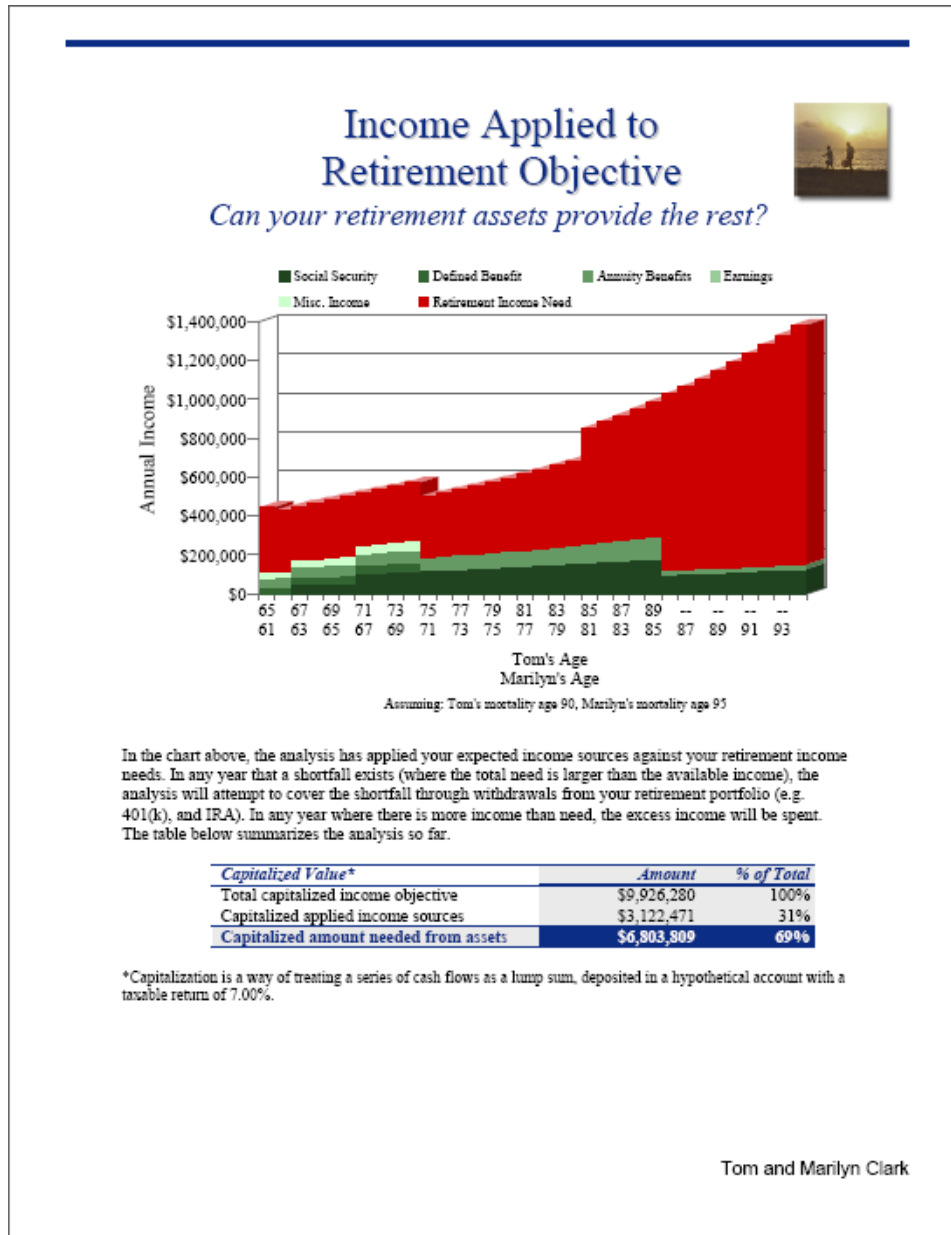


Figure 8: Client Presentation category – Reports dialog box – Retirement – Income Applied to Retirement Objective (presentation page)

This presentation page combines the *Retirement Objective* and *Retirement Income Sources* output pages to compare the income versus the need.

The *Income Applied to Retirement Objective* output page displays the clients' annual retirement expenses throughout the planning period. The 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 *Planning Preferences* category – *Needs Preferences* screen.

This presentation page also provides an annual breakdown of the incomes available during retirement, such as Social Security, defined benefit pensions, annuity income, and earnings. 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.

The table shows how much of the retirement need will need to be covered by assets (if any).

View the Retirement Analysis Results output page

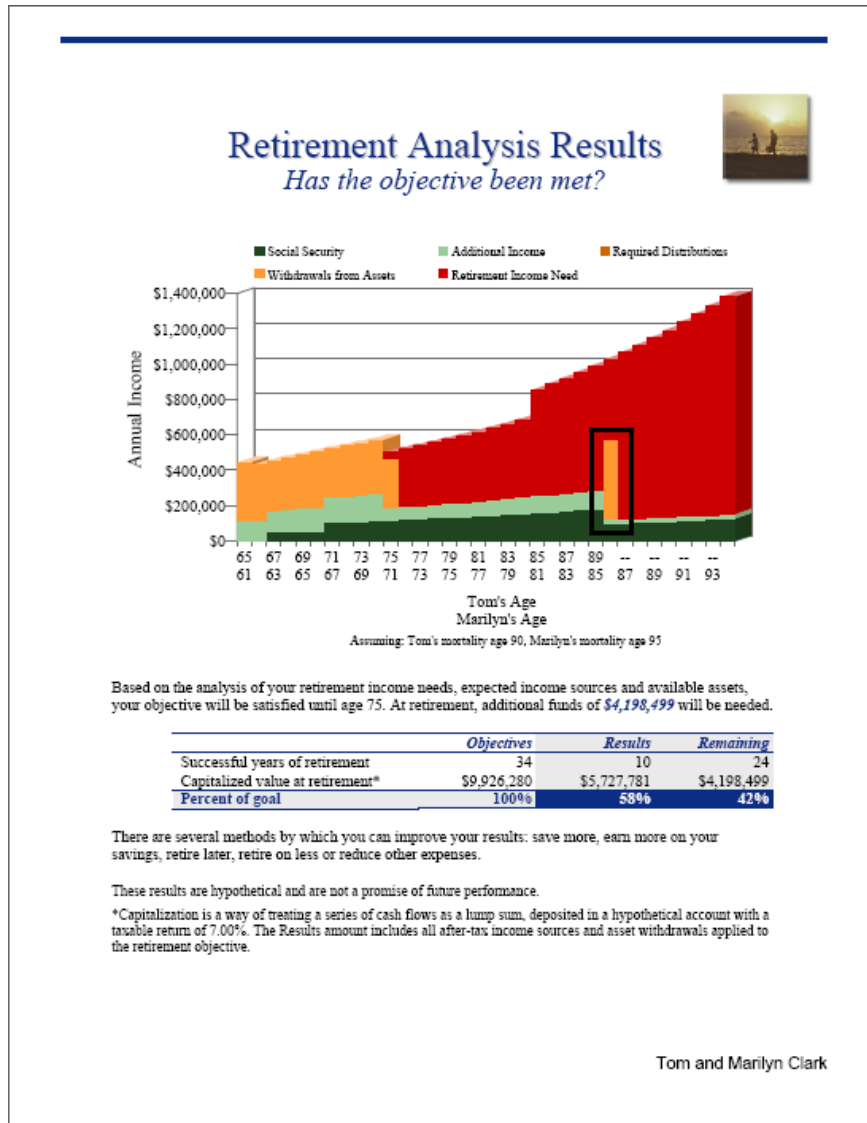


Figure 9: Client Presentation category – Reports dialog box – Retirement – Retirement Analysis Results (presentation page)

The *Retirement Analysis Results* presentation page 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 above in Figure 9) 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.

View the Save More–Earn More output page

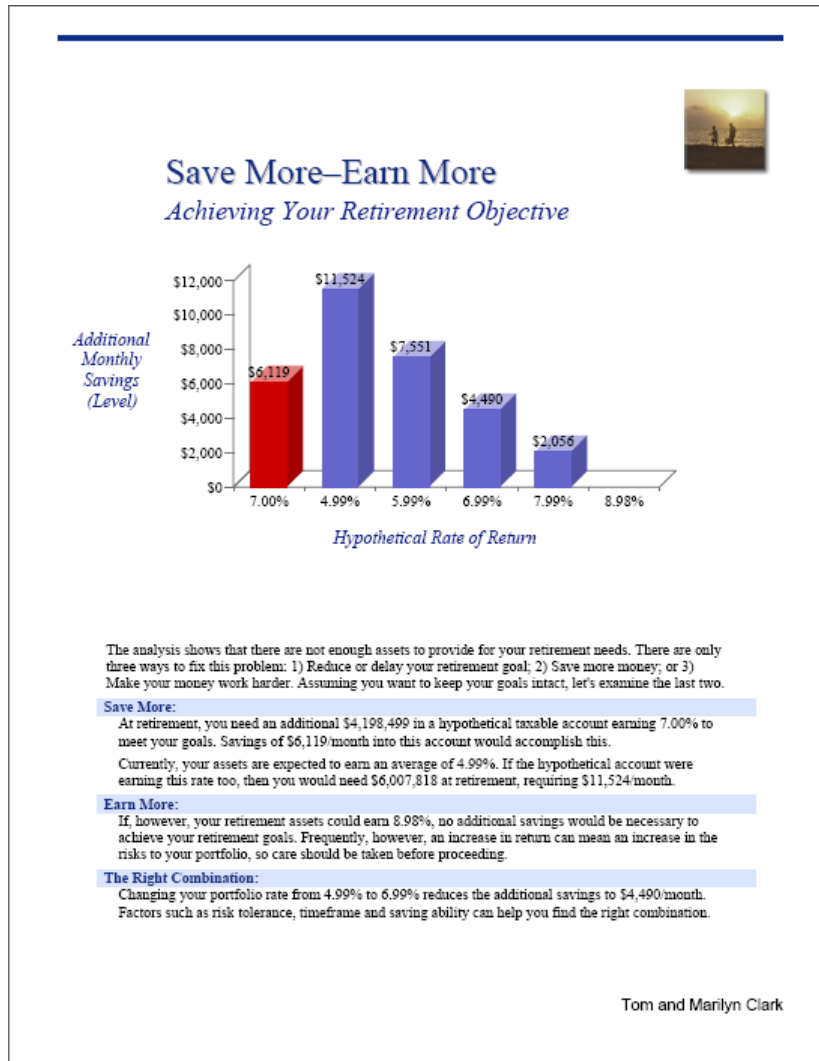


Figure 10: Client Presentation category – Reports dialog box – Retirement – Save More–Earn More (presentation page)

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 10, the first bar shows that when assets earn the capitalization rate of 7.00% (specified on the *Planning Preferences* category – *Needs Preferences* screen), the clients will need to save an additional \$6,119/month to meet the goal. The last value on the right shows that, if they do not or cannot save additional dollars towards their retirement goal, they need to earn 8.98% on existing assets. Most clients will choose something in between. If your clients want to choose something in between, 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.

View the Cash Flow Summary output page

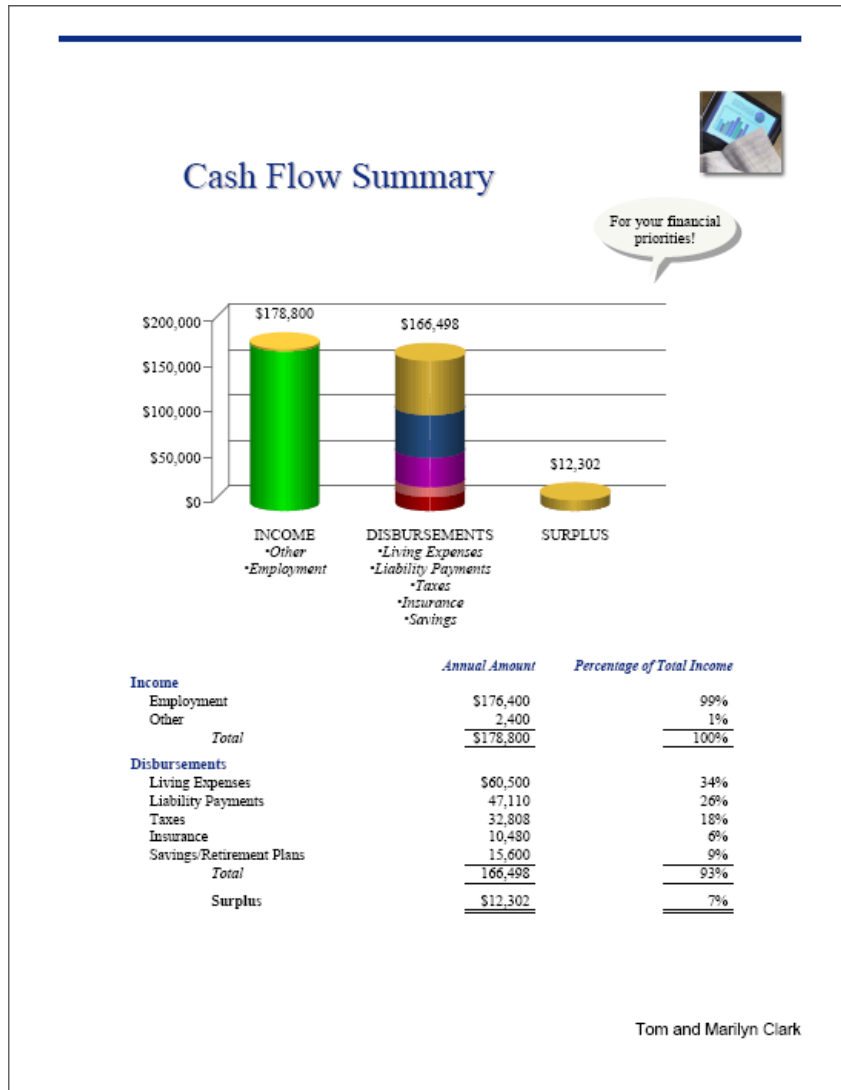


Figure 11: Client Presentation category – Reports dialog box – Financial Statements – Cash Flow Summary (presentation page)

The *Cash Flow Summary* presentation page can show you if the clients can afford to save more for retirement. After entering a strategy where cash flow may be affected, such as increasing or adding a savings strategy, it is important to ensure that it is affordable for the clients. If an increase in savings is affordable, the clients are in a surplus position.

Use What-if scenarios to review different retirement strategies

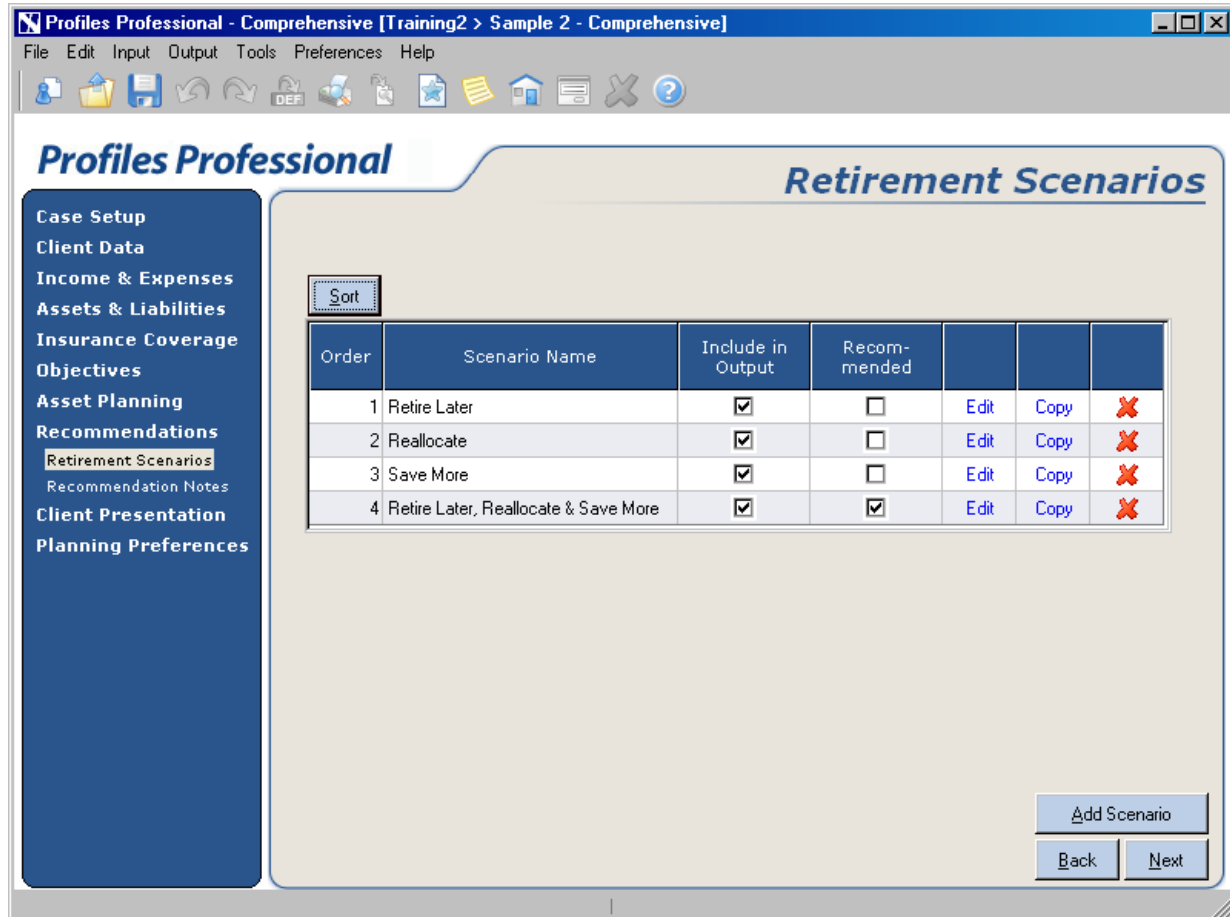


Figure 12: Recommendations category – Retirement Scenarios screen

Now that you have a general idea of the clients' current retirement situation, you can create retirement scenarios. Retirement scenarios are What-if scenarios that can include additional assumptions and strategies (such as "What if Client A retired later?") that will assist in finding an optimal solution to meet the clients' retirement objective.

Once you have an optimal solution, you can mark a scenario as *Recommended* by selecting the *Recommended* and *Include in Output* check boxes.

To create a new scenario, click the **Add Scenario** button. If you want to edit an existing scenario, click the **Edit** link. Clicking either opens the *Retirement Scenario Details* screen, where you can create a What-if scenario after you enter a description in the *Scenario Name* field.

Edit retirement scenarios

Retirement Scenario Details

Scenario Number (4 of 4) ◀ 4 ▶

Scenario Name

	Current	Scenario	
Retirement Age Client A	65	66] Solve
Retirement Age Client B	61	62	
Monthly Need ⓘ	\$14,910	100 %	Solve

Additional Scenario Tools	Modified	
Change Retirement Need	No	Select
Change Portfolio Reallocation	Yes	Select
Change Tax-Deferred Contributions	Yes	Select
Change Taxable Savings	No	Select
Change Asset Sales	No	Select

After modifying a scenario tool, *Yes* appears under *Modified* and is highlighted in yellow.

Current Results

58% of goal achieved
\$0 ending portfolio
\$445,293 first year need

Scenario Results

100% of goal achieved
\$274,335 ending portfolio
\$460,483 first year need
[Recalculate](#)

[Delete this Scenario](#) [Close](#)

Figure 13: Recommendations category – Retirement Scenarios screen – Retire Later, Reallocate & Save More scenario – Edit link – Retirement Scenario Details screen

The left side of the *Retirement Scenario Details* screen lists the clients’ current retirement objectives and needs. *Current Results* shows how the clients may or may not be achieving the goal based on the data entered throughout the clients’ case. *Scenario Results* is similar to *Current Results*, but it is affected by changes made under *Scenario* and *Additional Scenario Tools*. The ending portfolio value shows clients how much is left over at the end of the case (at death). This allows your clients to decide if the value of their estate is too high, or not sufficient.

On the right side of the *Retirement Scenario Details* screen you can modify up to five additional scenario tools in a *Comprehensive* case. These tools can be used individually or in combination to develop an optimal solution, and are available by clicking the *Select* link beside the tool.

Let’s take a look at each of the five available scenario tools.

Change Retirement Need tool

Retirement Needs

Retire Later, Reallocate & Save More

In addition to any percentage adjustments, enter changes to the retirement need for this scenario.

Phase	Age ?		Monthly Need		Additional Monthly Need	
	Current	Scenario	Current	Scenario	Current	Scenario
Phase 1	65	66	\$13,410	<input type="text" value="13,410"/>	\$1,500	<input type="text" value="\$1,500"/>
Phase 2	75	<input type="text" value="76"/>	\$13,410	<input type="text" value="\$13,410"/>	\$0	<input type="text" value="\$0"/>
Phase 3	85	<input type="text" value="86"/>	\$13,410	<input type="text" value="\$13,410"/>	\$1,500	<input type="text" value="\$1,500"/>
Phase 4	0	<input type="text" value="0"/>	\$0	<input type="text" value="\$0"/>	\$0	<input type="text" value="\$0"/>
Phase 5	0	<input type="text" value="0"/>	\$0	<input type="text" value="\$0"/>	\$0	<input type="text" value="\$0"/>

Increase Need By	3.5%	<input type="text" value="3.5"/>	5.0%	<input type="text" value="5"/>
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Scenario Results

100% of goal achieved
\$274,335 ending portfolio

Monthly need phase 1

Figure 14: Recommendations category – Retirement Scenarios screen – Retire Later, Reallocate & Save More scenario – Edit link – Retirement Scenario Details screen – Select link – Retirement Needs screen

Clicking the *Select* link beside *Change Retirement Need* on the *Retirement Scenario Details* screen opens the *Retirement Needs* screen. The *Retirement Needs* screen is used to create phased retirement needs. You can edit existing expenses and you can also add additional scenario expenses.

After modifying the retirement needs, click **Recalculate** to update the details under *Scenario Results*. If you do not want to save any of the changes you made on this screen, click **Undo Changes** to undo any changes.

Once you click *Close*, the changes are saved.

Change Portfolio Reallocation tool

Portfolio Reallocations
Retire Later, Reallocate & Save More

Modify the existing asset allocation plan for this scenario

Asset Allocation for Retirement Portfolio

Group	Reallocate to Portfolio	Beginning At	+/- Years	Year	
Retirement Accounts	Medium to High risk/return	Today	0	2008	✗
Retirement Accounts	Medium risk/return	Today	15	2023	✗
Retirement Accounts	Low to Medium risk/return	Retirement	5	2037	✗
Retirement Accounts	Low risk/return	First Death	0	2056	✗

Available Portfolios

Name	Expected Return		
Low risk/return	5.41	📄	✗
Low to Medium risk/return	7.08	📄	✗
Medium risk/return	8.81	📄	✗
Medium to High risk/return	10.41	📄	✗
High risk/return	11.69	📄	✗

Scenario Results
100% of goal achieved
\$274,335 ending portfolio
Recalculate

Modify the reallocations for this scenario

Figure 15: Recommendations category – Retirement Scenarios screen – Retire Later, Reallocate & Save More scenario – Edit link – Retirement Scenario Details screen – Select link – Portfolio Reallocations screen

Clicking the *Select* link beside *Change Portfolio Reallocation* on the *Retirement Scenario Details* screen opens the *Portfolio Reallocations* screen. The *Portfolio Reallocations* screen shows what would happen if you changed the asset allocation of the current retirement portfolio. You can modify the asset allocation for this scenario by selecting **Modify the existing asset allocation plan for this scenario**, and then editing the details under *Asset Allocation for Retirement Portfolio*.

Keep in mind that you can reallocate a group more than once. For example, in order for your clients to meet their retirement need, they may need to be more aggressive with their designated retirement accounts now. Later on at retirement, or even a few years before retirement, it may be a good idea to reallocate those accounts again, to a safer or more moderate portfolio.

The available portfolios and their expected return rates are listed under *Available Portfolios* and are based on Ibbotson data. The Ibbotson data cannot be modified or deleted. If there isn't a portfolio that suits your clients needs, you can always add an additional portfolio by clicking the *Add Portfolio* button.

Change Tax-Deferred Contributions tool

Modify	Account Name	Contributions		Monthly or Annual	Annual Increase	Beginning	+/- Year	Ending	+/- Year
		Client	Employer						
<input checked="" type="checkbox"/>	Atlas Retirement Plan	\$580	\$290	Monthly	5.00	Today	0	2008 Retirement	0
<input type="checkbox"/>	Medical Center 403(b)	\$800	\$400	Monthly	4.00	Today	0	2008 Retirement	0
<input type="checkbox"/>	Tom's Rollover IRA	\$0	\$0	Monthly	0.00	Today	0	2008 Retirement	0

Scenario Results
 100% of goal achieved
 \$274,335 ending portfolio
 Recalculate


Undo Changes
 Close

Modify existing contribution data

Figure 16: Recommendations category – Retirement Scenarios screen – Retire Later, Reallocate & Save More scenario – Edit link – Retirement Scenario Details screen – Select link – Tax-Deferred Contributions screen

Clicking the *Select* link beside *Change Tax-Deferred Contributions* on the *Retirement Scenario Details* screen opens the *Tax-Deferred Contributions* screen. The *Tax-Deferred Contributions* screen allows for the addition of or modification to savings to the clients’ tax-deferred accounts.

After selecting the *Modify* check box beside an account, you can adjust the contributions made by the clients, the clients' employers, as well as the start and end dates, to help your clients achieve their retirement goal.

Clicking the  (calculator) button for a tax-deferred account adjusts the savings until either the contribution limits are reached or 100% of the retirement objective is achieved.

Change Taxable Savings tool

Taxable Savings
Retire Later, Reallocate & Save More

Changes made to assets assigned to accumulation goals will not be applied until after the goal is complete.

Modify	Name	Monthly Savings	Annual Increase	Beginning	+/-	Year	Ending	+/-	Year
<input checked="" type="checkbox"/>	Bank of SD Checking	\$0	0.00	Today	0	2008	Retirement	0	2032
<input type="checkbox"/>	Bank of SD Savings	\$0	0.00	Today	0	2008	Retirement	0	2032
<input type="checkbox"/>	AIM Charter A	\$0	0.00	Today	0	2008	Retirement	0	2032
<input type="checkbox"/>	CA-Tax Free Muni Bond Fund	\$0	0.00	Today	0	2008	Retirement	0	2032
<input type="checkbox"/>	Evergreen Balanced A	\$0	0.00	Today	0	2008	Retirement	0	2032
<input type="checkbox"/>	Money Market Fund	\$0	0.00	Today	0	2008	Retirement	0	2032

Scenario Results
 100% of goal achieved
 \$274,335 ending portfolio
 Recalculate

Undo Changes
Close

Modify existing contribution data

Figure 17: Recommendations category – Retirement Scenarios screen – Retire Later, Reallocate & Save More scenario – Edit link – Retirement Scenario Details screen – Select link – Taxable Savings screen

Clicking the *Select* link beside *Change Taxable Savings* on the *Retirement Scenario Details* screen opens the *Taxable Savings* screen. The *Taxable Savings* screen allows you to add or modify savings to the clients’ taxable accounts. This screen displays all of the clients’ taxable accounts (including existing contribution accounts), which are available at retirement.

Clicking the (calculator) button for an account adjusts the savings until 100% of the retirement objective is achieved.

Change Asset Sales tool

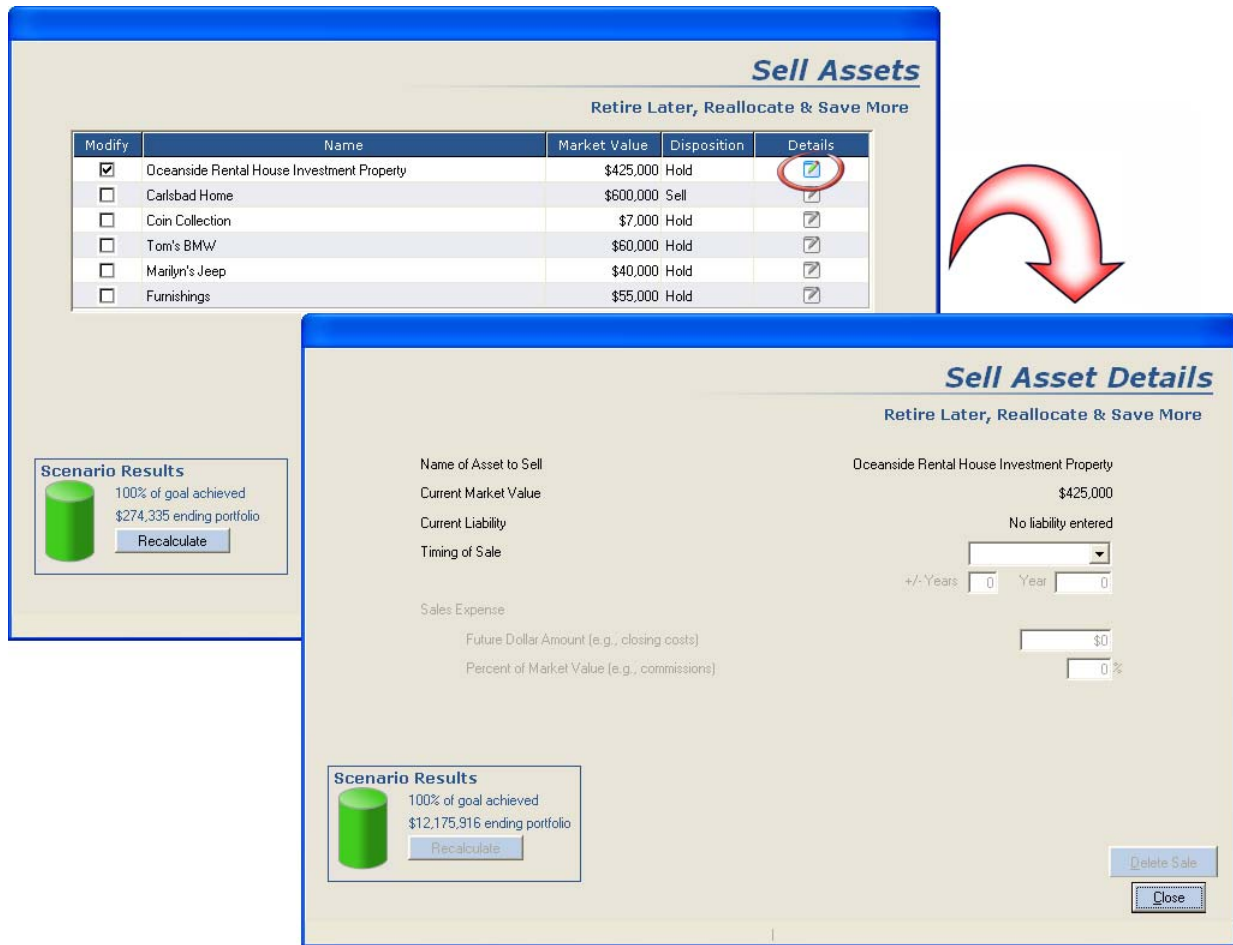



Figure 18: Recommendations category – Retirement Scenarios screen – Retire Later, Reallocate & Save More scenario – Edit link – Retirement Scenario Details screen – Select link – Sell Assets screen and Sell Asset Details screen

Clicking the *Select* link beside *Change Asset Sales* on the *Retirement Scenario Details* screen opens the *Sell Assets* screen. The *Sell Assets* screen allows clients who own assets such as a business or real estate to evaluate the benefit of selling or modifying an existing sale of one or more of these assets as an additional retirement funding source.

When the *Modify* check box is selected, clicking the  (details) button opens the *Sell Asset Details* screen. On the *Sell Asset Details* screen, you can modify the timing of the sale of an asset and enter any costs associated with the sale.

Use output pages to compare and explain results

The retirement output pages can help you assess your clients' current situation and identify strategies that will solve the retirement objective. The *Retirement Results Comparison* output page displays a comparison of the clients' current retirement results, and the recommended results.

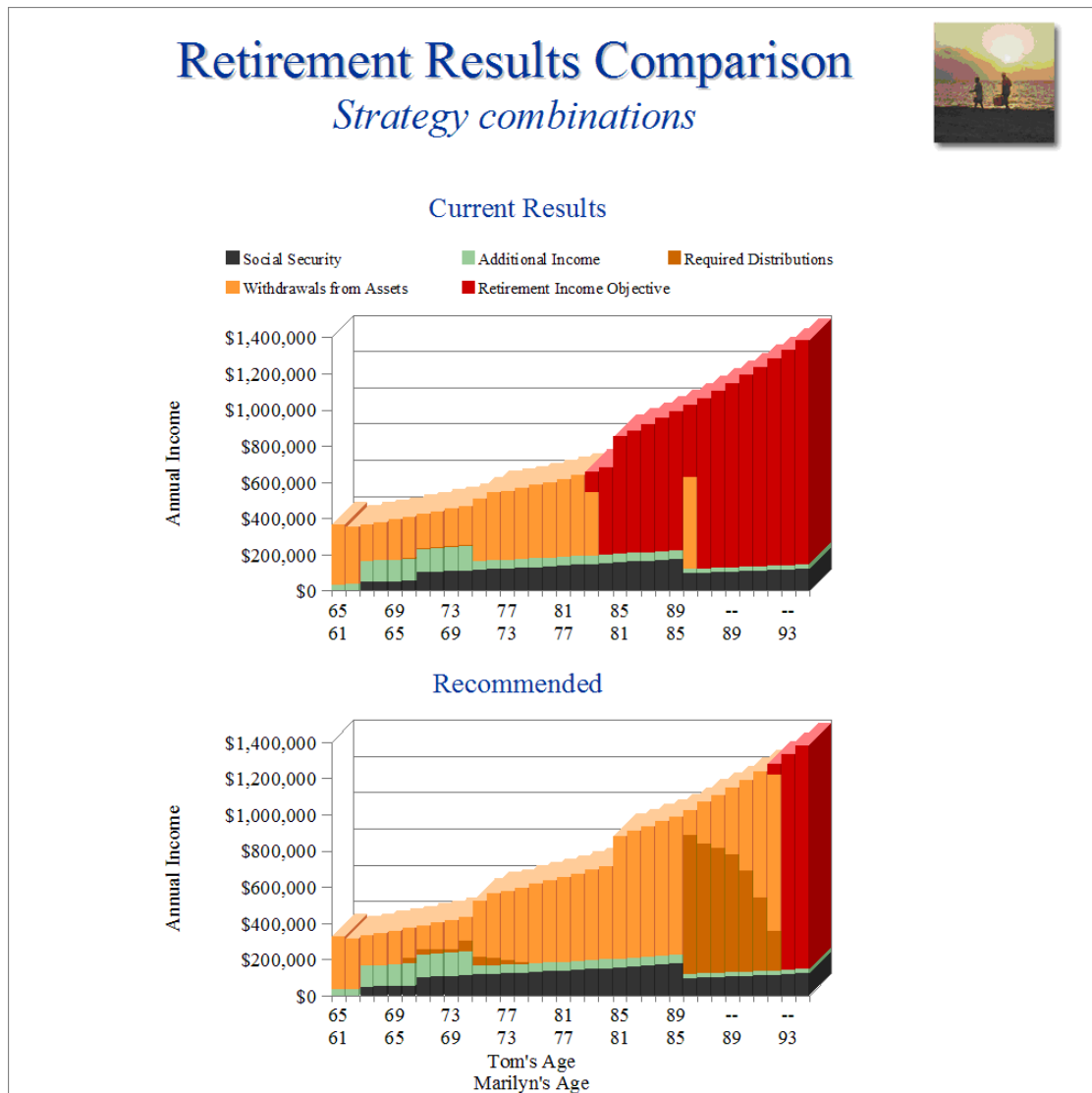


Figure 19: Client Presentation category – Reports dialog box – Retirement Scenarios – Retirement Results Comparison (presentation page)

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.

Tom and Marilyn Clark have been clients of yours for a few years. The purpose of today's meeting is to focus on retirement planning. You already have some retirement information entered for them, but they would like to talk to you about possible changes to their current data.

To find the answers, see "Answers to exercises" on page 27.

Exercise 1: Define the retirement objective

1. Make the following changes to this case on the *Objectives* category – *Retirement* screen:
 - Tom would like to retire at age 60 and Marilyn would like to retire at age 56
 - They would like to travel for the first 10 years of their retirement and they expect that in addition to their regular monthly needs, their travel plans will cost them \$1,000 per month

Hint: This expense affects the *Additional Monthly Need* between Phase 1 and Phase 2.

2. What percentage of current income is used to define the initial default retirement need, and where can this percentage be modified?
 - a) 70%, *Planning Preferences* category – *General Preferences* screen
 - b) 75%, *Planning Preferences* category – *Needs Preferences* screen
 - c) 75%, *Planning Preferences* category – *General Preferences* screen
 - d) 70%, *Planning Preferences* category – *Needs Preferences* screen
3. On the *Planning Preferences* category – *Needs Preferences* screen, under *Retirement*, the *Capitalization Rate* is the return rate applied to additional savings in order to achieve the retirement goal. Is this statement true or false?
 - a) True
 - b) False

Exercise 2: Retirement scenarios

1. Now you would like to see if Tom and Marilyn can meet their retirement objective. The *Retirement Scenarios* screen can help you review and make suggestions for your clients' retirement.
 - a) Go to the **Recommendations** category – **Retirement Scenarios** screen, and then click **Add Scenario**.
 - b) Label this scenario (e.g., *Clark Retirement*).
The results at the bottom of the screen show that in their current scenario Tom and Marilyn are falling short of their objective.

2. To achieve their retirement objectives, Tom and Marilyn will save more to their qualified accounts.
 - a) Under *Additional Scenario Tools*, select **Change Tax-Deferred Contributions**.
 - b) Tom will increase the contributions to the *Atlas Retirement Plan* to **\$600** (employer contributions will not change).
 - c) Marilyn will increase the contributions to her 403(b) account to **\$9,000** (employer contributions will not change).
 - d) Click **Recalculate** to update the results.
 - e) If the increased contributions are not enough to meet the retirement goal, move on to the next strategy.

3. To help your clients meet their objectives, you suggest that they reallocate to a more aggressive portfolio now, and then a few years before retirement that they return to a more conservative portfolio.
 - a) Under *Additional Scenario Tools*, select **Change Portfolio Reallocation**.
 - b) Select the **Modify the existing asset allocation plan for this scenario** check box.
 - c) Click the blank field under *Group*, and then select **Retirement Accounts**.
 - d) Reallocate the retirement accounts to a **Medium to High risk/return**, beginning today.
 - e) The previous step reallocated the accounts beginning today until the end of the plan. The Clarks do not want to be that risky with their retirement accounts; perform another reallocation that will reallocate the retirement accounts back to a **Medium risk/return** five years before retirement.

Hint: You will need to begin on another data-entry row.

- f) Click **Recalculate** to see the results of the reallocation.
- g) Click **Close**.

4. Create a new scenario, and then try incorporating your own suggestions.

Hint: On the *Recommendations* category – *Retirement Scenarios* screen, click **Add Scenario**, and then enter the required information.

5. Compare the scenarios you have created for Tom and Marilyn in reports. On the *Recommendations* category – *Retirement Scenarios* screen, select the **Include in Output** and the **Recommended** check boxes, so that the scenarios are available in output pages. In the *Reports* dialog box, select **Retirement Scenarios**, expand the alternative that you would like to see, and then generate the *Retirement Analysis Results Comparison* presentation page. Review the output, and then describe how you could use it.

6. The changes you have made in the scenarios have not actually been implemented into the case; they are just What-if scenarios. One of the scenario strategies was to increase the savings to Tom's and Marilyn's qualified accounts. They would like to see if this is an affordable strategy for them. How would you show your clients what effect the changes would have on their case (i.e., cash flow)? Can they afford to increase their savings?

Note: The steps for this answer cannot be done in a sample case. Please write out the steps.

7. Which output page displays the retirement need **only** and the amount of capital needed to fund it?
- Retirement – Retirement Analysis Results*
 - Retirement – Retirement Objective*
 - Retirement – Save More–Earn More*

HANDS-ON EXERCISES

8. The *Retirement Analysis Results* output page factors in retirement needs, income sources, capital available, and any shortfalls. How could you use this to help your relationship with your clients?
 - a) You can provide your clients with an overall picture of their retirement goal.
 - b) You have the opportunity to work with your clients in establishing strategies going forward to address any shortfalls.
 - c) You can dig deeper with your clients and perhaps discover any assets they may own that they have not disclosed in previous meetings.
 - d) All of the above.

Conclusion

This module has enabled you to

- Implement strategies into a comparison case
- Specify the time horizon of the retirement goal
- Define expenses and income needs at different phases throughout retirement
- Use What-if scenarios to review different retirement strategies
- Use output pages to compare and explain results

Answers to exercises

Exercise 1: Define the retirement objective

2. d) 70%, *Planning Preferences* category – *Needs Preferences* screen
Seventy percent of the current income is used to define the initial default retirement need on the *Planning Preferences* category – *Needs Preferences* screen.
3. a) True – On the *Planning Preferences* category – *Needs Preferences* screen, under *Retirement*, the *Capitalization Rate* is the return rate applied to additional savings in order to achieve the retirement goal.

Exercise 2: Retirement scenarios

5. Answers will vary.
6. Duplicate the case using a different name (e.g., *Savings strategy*).
 - a) Go to the **File** menu, and then select **Existing Clients**.
 - b) Select a client, and then click **Open**.
 - c) Select a case, and then click **Duplicate**.
 - d) Enter a new name for the duplicate case.
 - e) Implement the additional/increased savings strategies in the new case.
 - f) Generate cash flow reports to see if there are shortfalls.
7. b) *Retirement – Retirement Objective*
The *Retirement – Retirement Objective* output page displays the retirement need only and the amount of capital needed to fund it.
8. d) All of the above.

