



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

Version 9.0

EISI, Winnipeg

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Retirement distribution analysis

Retirement is often the focus of your clients' financial plan. The goal of the retirement distribution analysis in Profiles Professional is to manage clients in or near retirement using *Detailed Cash Flow* mode.

Learning objectives

This module will enable you to

- Upgrade cases to the *Detailed Cash Flow* mode
- Model and assess retirement income sources
- Manage current and future expenses
- Customize the distribution of assets
- Review retirement output pages

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 3 - Detailed Cash Flow* 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 3 - Detailed Cash Flow* case.

Benefits of Detailed Cash Flow mode

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 should 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.

Additional benefits of using the *Detailed Cash Flow* mode include the following:

- Income and expenses can be projected to future years for monitoring.
- Incomes can be set to start and end at specific dates. This is useful for phasing into retirement (e.g., the client may start to work part-time, and his or her salary may change from \$80,000 to \$30,000).
- Tax rates can be adjusted for each income entry to reflect the clients' real-life tax situation.
- Expenses drive the retirement income need. This helps ensure the retirement objectives are realistically based on the clients' current standard of living.
- Expenses can be set as either required or not. This is useful in the retirement scenarios to show which extra expenses the clients can afford and which ones may need to be reduced.

Upgrade cases to the Detailed Cash Flow mode

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.

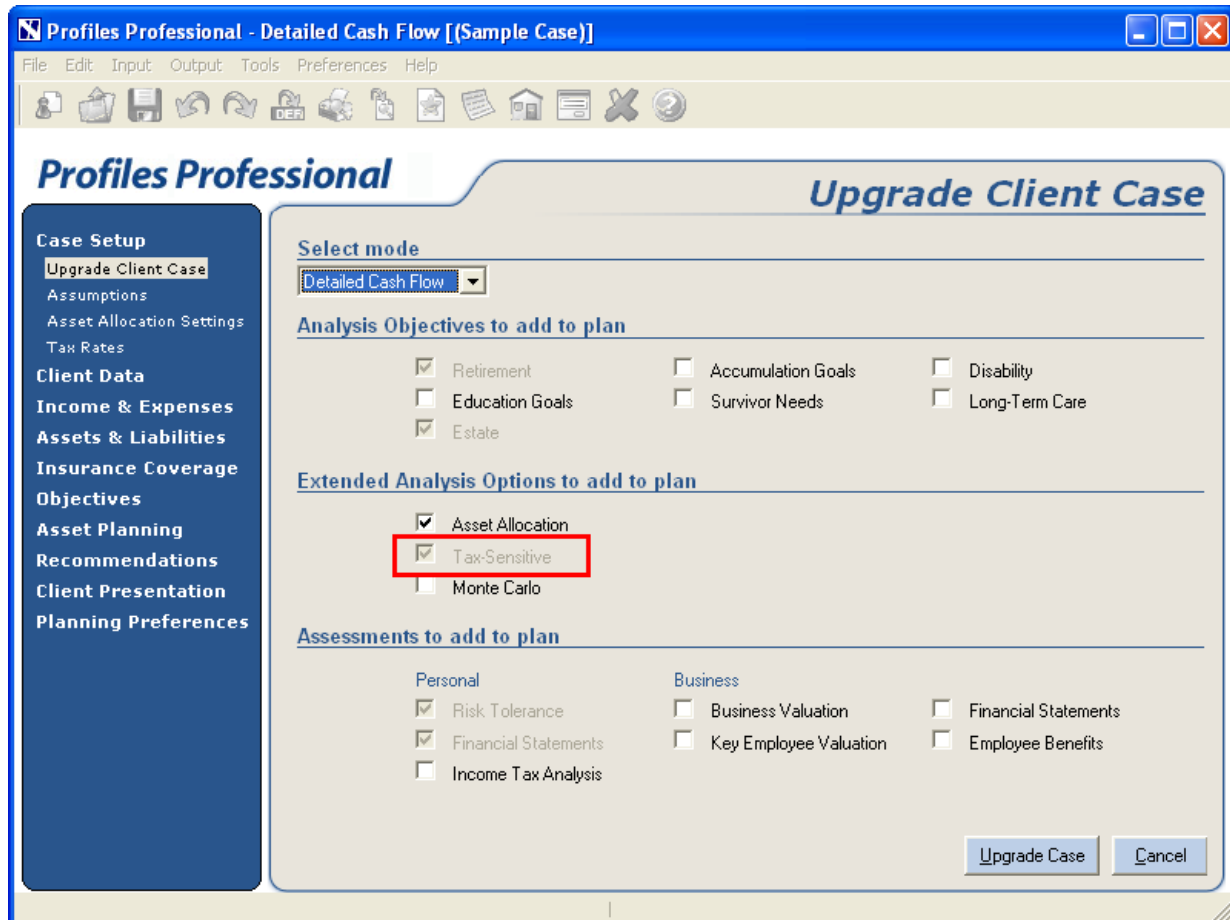


Figure 1: Case Setup category – Upgrade Client Case screen

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

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

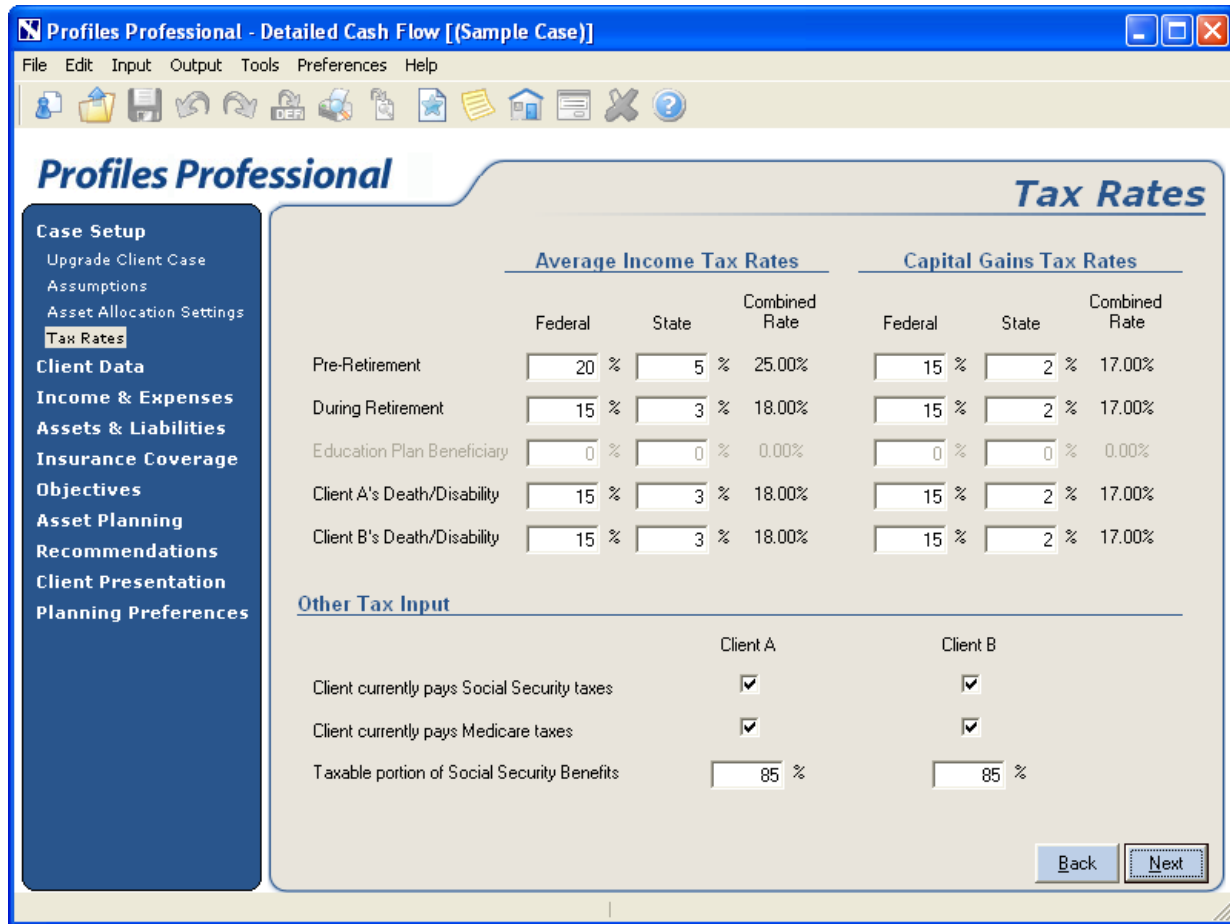


Figure 2: Case Setup category – Tax Rates screen

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 (e.g., pre-retirement and retirement).

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.

Model and assess retirement income sources

Income Type	Pre-Retirement/During Retirement		Survivor		Edit
	Client A	Client B	A Dies	B Dies	
Salary	\$140,000	\$84,000	\$84,000	\$140,000	Edit
Self-Employment	\$0	\$0	\$0	\$0	Edit
Social Security	\$0	\$0	\$0	\$0	Edit
Alimony	\$0	\$0	\$0	\$0	Edit
Rental Property (Net)	\$0	\$0	\$0	\$0	Edit
Defined Benefit	\$0	\$0	\$0	\$0	Edit
Annuity	\$0	\$0	\$0	\$0	Edit
Lump-Sum	\$0	\$0	\$0	\$0	Edit
Other Income	\$0	\$0	\$0	\$0	Edit
Income Totals	\$140,000	\$84,000	\$84,000	\$140,000	

Figure 3: Incomes & Expenses category – Income screen

In a *Detailed Cash Flow* case, the *Income* screen replaces the *Income - Client A*, *Income - Client B*, and *Direct Income Sources* screens that are available 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 age as of that projection year appear to the right. If a deficit is projected, assets will be redeemed based on their distribution order.

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 4: Incomes & Expenses category – Income screen – Edit link – Income Entry screen

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. In *Detailed Cash Flow* mode, your clients’ cash flow is calculated to project surpluses and deficits on an annual basis. If a deficit is projected, assets will be redeemed based on the distribution order you have specified on the *Distribution Order* screen.

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 as a start or end date, such as *Retirement*, is advantageous because the entry will not require updating if you decide to change the retirement date.

The bottom half of the screen allows you to enter the income percentages that should be included in pre-retirement/during retirement, at death of survivor A, and at 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.

We will now look at the *Expenses* screen.

Manage current and future expenses

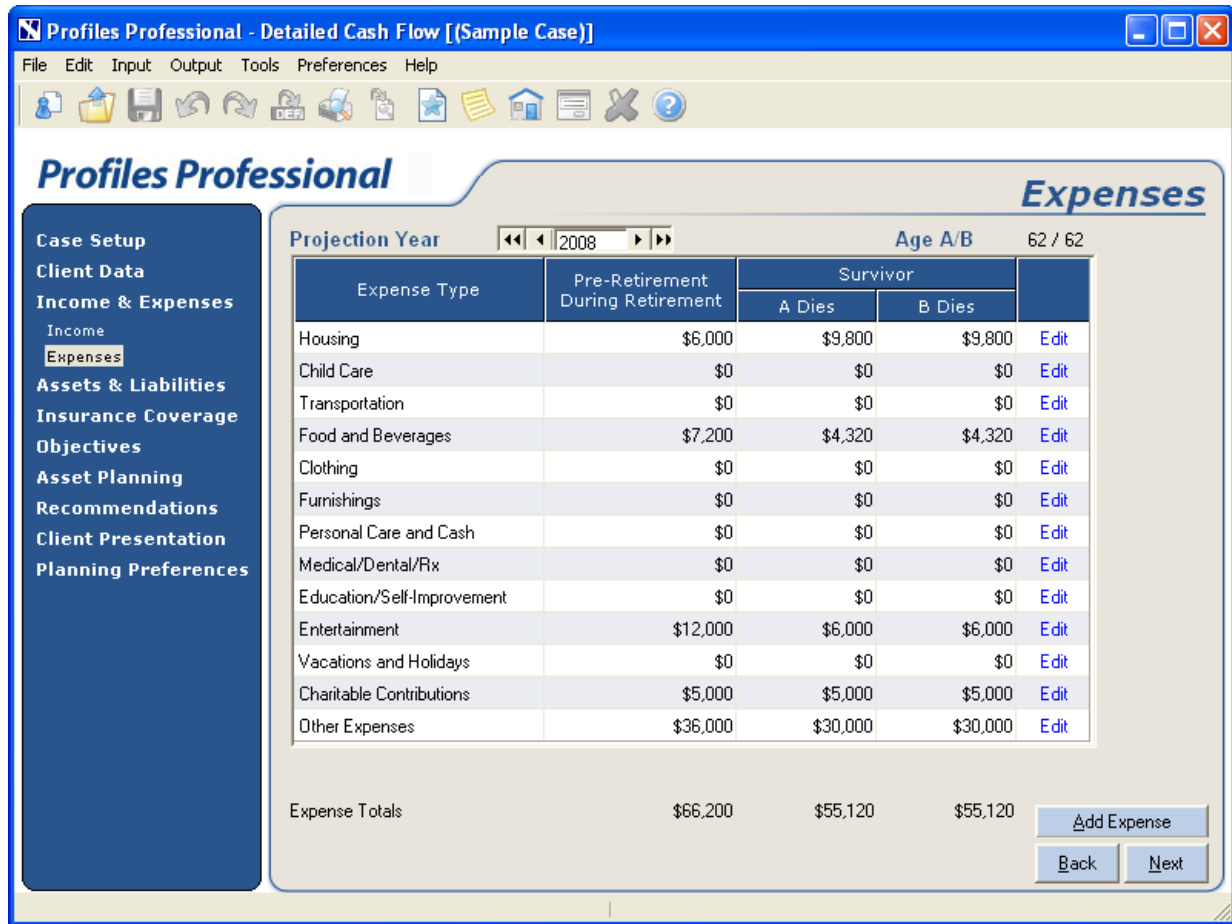


Figure 5: Incomes & Expenses category – Expenses screen

The initial *Expenses* screen is very similar to the initial *Income* screen, and provides 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 Expense* button. The *Expense Entry* screen opens.

Enter an expense

Expense Entry

Expense ◀ 1 ▶ 1 of 3

Type:

Name:

Amount: ⓘ

Monthly
 Annual

Present Value
 Future Value

Annual Increase: %

Required Expense:

Applies only to Survivor Needs (exclude from retirement)

Amount in Pre-Retirement / During Retirement: \$0

Amount in Survivor Needs Analysis - Client A Dies	<input type="text" value="100"/> %	\$5,000	<input checked="" type="checkbox"/> Required Expense
Amount in Survivor Needs Analysis - Client B Dies	<input type="text" value="100"/> %	\$5,000	<input checked="" type="checkbox"/> Required Expense

Figure 6: Incomes & Expenses category – Expenses screen – Edit link – Expense Entry screen

The *Expense Entry* screen is similar to the *Income Entry* screen. The top half of the screen allows you to define the expense. 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. This could possibly show the clients that they can afford their required expenses for retirement, but that their desired expenses may cause deficits during the retirement period.

Edit qualified plan preferences

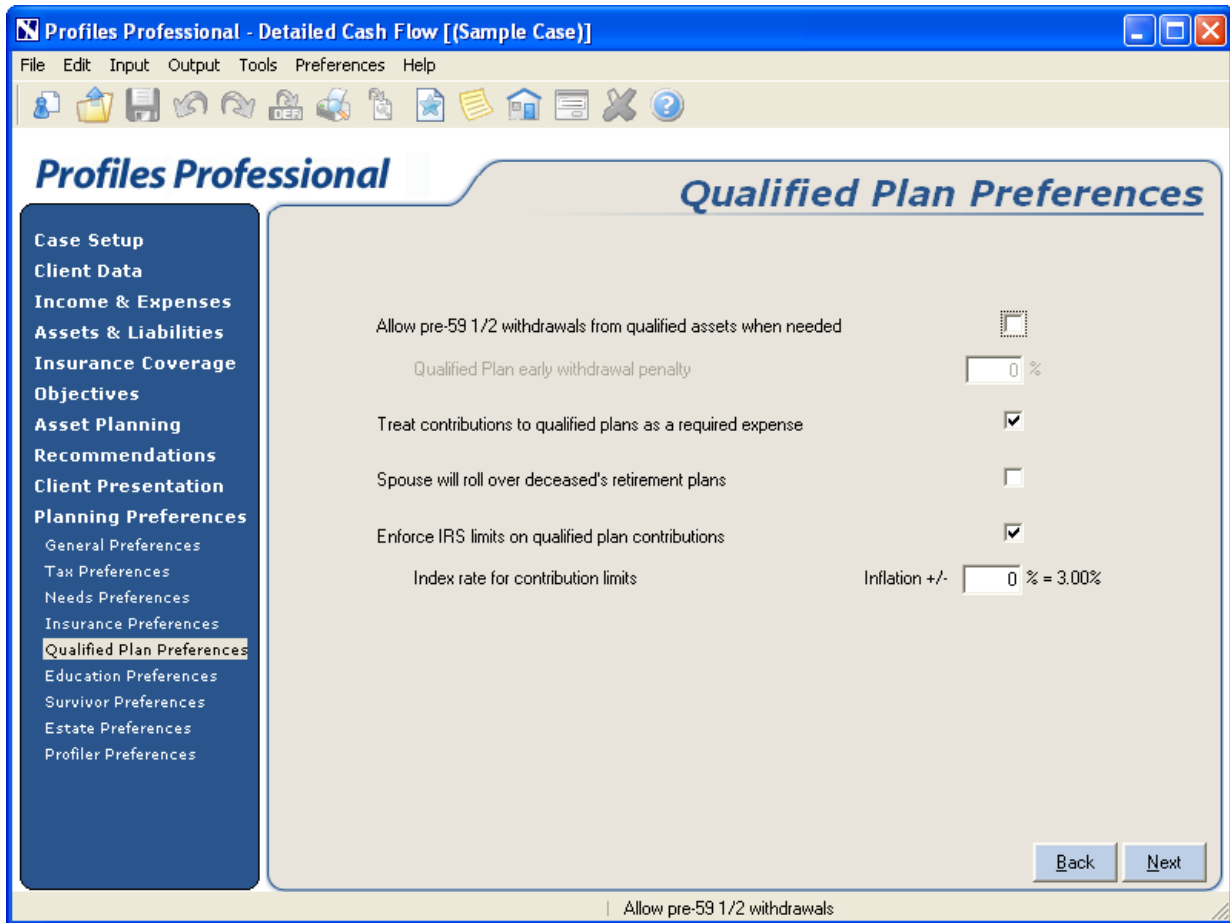


Figure 7: Planning Preferences category – Qualified Plan Preferences screen

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. This is useful if clients are looking to retire early and redeem from their qualified assets.

View income needs in retirement

Profiles Professional - Detailed Cash Flow [(Sample Case)]

File Edit Input Output Tools Preferences Help

Profiles Professional **Retirement**

Case Setup
Client Data
Income & Expenses
Assets & Liabilities
Insurance Coverage
Objectives
Retirement
Survivor Cash Needs
Survivor Inc. Needs
Client Objective Notes
Asset Planning
Recommendations
Client Presentation
Planning Preferences

Client A Client B

Retirement Begins At Age 65 65

Life Expectancy 90 90

Include SS Benefits

Age To Begin Social Security Income 63 63

Income Needs

Year	Ages	Required Expenses	Desired Expenses	Total Expenses
2011	65/65	\$4,417	\$1,639	\$6,056
2016	70/70	\$5,203	\$1,900	\$7,103
2021	75/75	\$6,174	\$2,203	\$8,377
2026	80/80	\$3,979	\$2,979	\$6,959
2031	85/85	\$4,958	\$3,454	\$8,412

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Figure 8: Objectives category – Retirement screen

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. To make adjustments, you must return to the *Expenses* screen.

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

Customize the distribution of assets

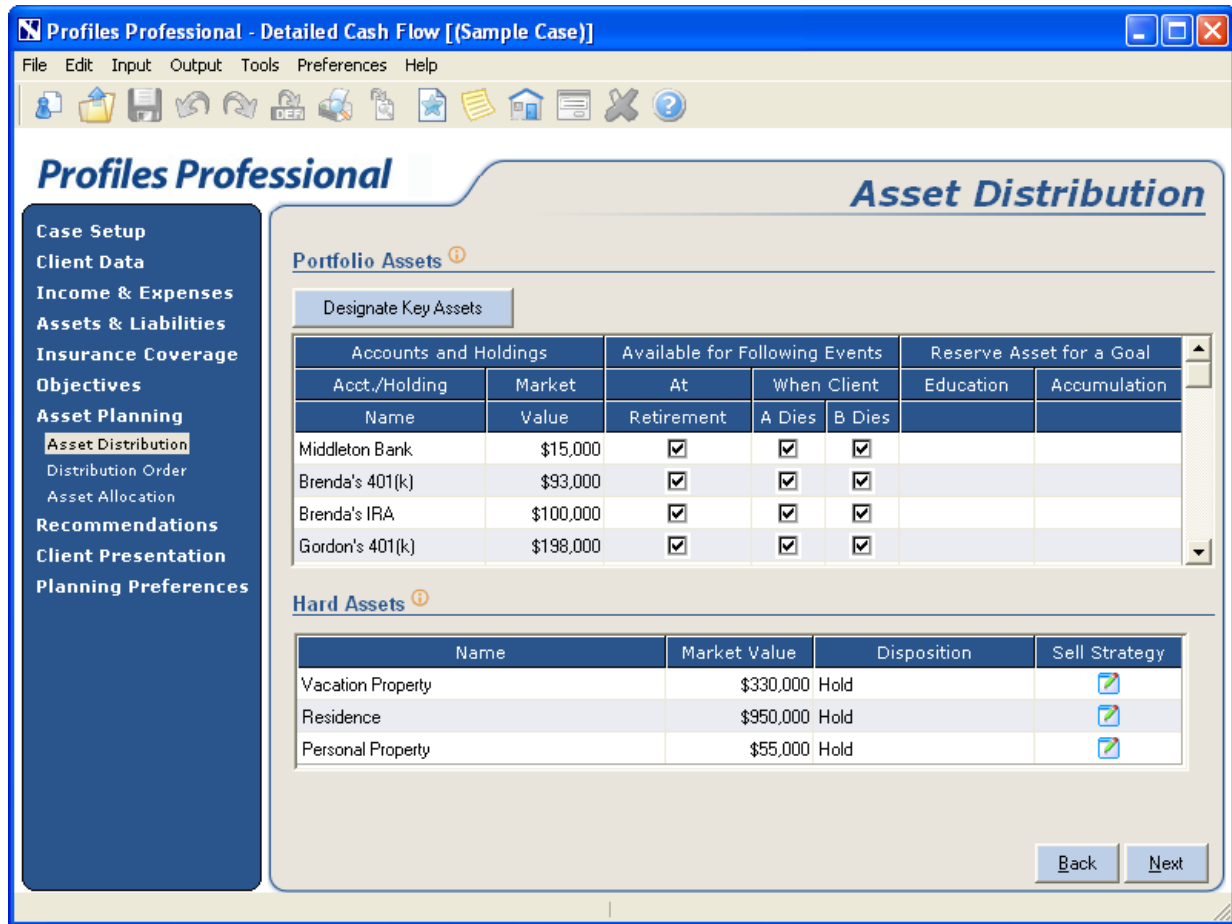


Figure 9: Asset Planning category – Asset Distribution screen

On the *Asset Distribution* screen, you can remove an asset from funding retirement and survivorship by clearing the appropriate check box. You can also enter sell strategies for hard assets. Investment accounts will automatically be used for retirement, or for accumulation goals.

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. You can reserve a portfolio asset for either education or accumulation, but not both.

Hard assets include real estate property, personal property, and business assets. Hard assets can be manually sold to help fund retirement. 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.

Model the sale of or downsize a current residence

Sell Asset Details

Name of Asset to Sell: Residence

Current Market Value: \$950,000

Current Liability: \$255,118

Timing of Sale: Retirement

+/- Years: 0 Year: 2011 Ages: 65/65

Sales Expense:

Future Dollar Amount (e.g., closing costs): \$0

Percent of Market Value (e.g., commissions): 0 %

Treat as Primary Residence for Tax Purposes:

Replacement Residence, if Downsizing: Add/Edit Future Loan 75 %

Buttons: Delete Sale, Close

Figure 10: Asset Planning category – Asset Distribution screen – Sell Strategy button

On the *Sell Asset Details* screen, you can enter the sale details including the timing of the sale (based on an event or specified year), expenses such as closing costs and commissions, and other details. 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 downsize strategy is only available for *Residence* type 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, Professional applies an exclusion amount of \$500,000. If the asset is singly owned, Professional 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.

View the Asset Sales Results output page

Asset Sales Results	
<i>The Liquidation of Hard Assets</i>	
Sale of Residence	
This plan reflects that a jointly-held primary Residence will be sold in 2011. The current market value of the home is \$950,000 with current liabilities of \$255,118.	
This plan further reflects that a new home will be purchased with a value equal to 75% of the home you are selling.	
Sales Results	
Market value in 3 years (assumes a 4.00% growth rate)	\$1,068,621
Sales expense (\$0 plus 0.00%)	0
Capital gains taxes (assumes a cost basis of \$800,000)	
Capital gains amount	\$268,621
Excluded capital gains amount	<u>(500,000)</u>
Taxable capital gains	(\$231,379)
Capital gains tax (assumes cap gains rate of 17.00%)	0
Liability payoff at the time of sale	<u>(172,851)</u>
Proceeds from asset sale	895,770
Purchase Results	
New residence purchase price (assumes 75% replacement)	<u>(801,466)</u>
Net Proceeds added to the portfolio	<u>\$94,304</u>
New residence purchase price (assumes 75% replacement)	<u>(801,466)</u>

Figure 11: Client Presentation category – Reports dialog box – Assets and Liabilities – Asset Sales Results (audit page)

The *Asset Sales Results* page shows the sale taking place, the liability being paid off, and a new home being purchased. In the sample above, the benefit to the clients is that they have a home paid off, and \$94,304 in cash that will be invested in the lump sum and applied towards their retirement.

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

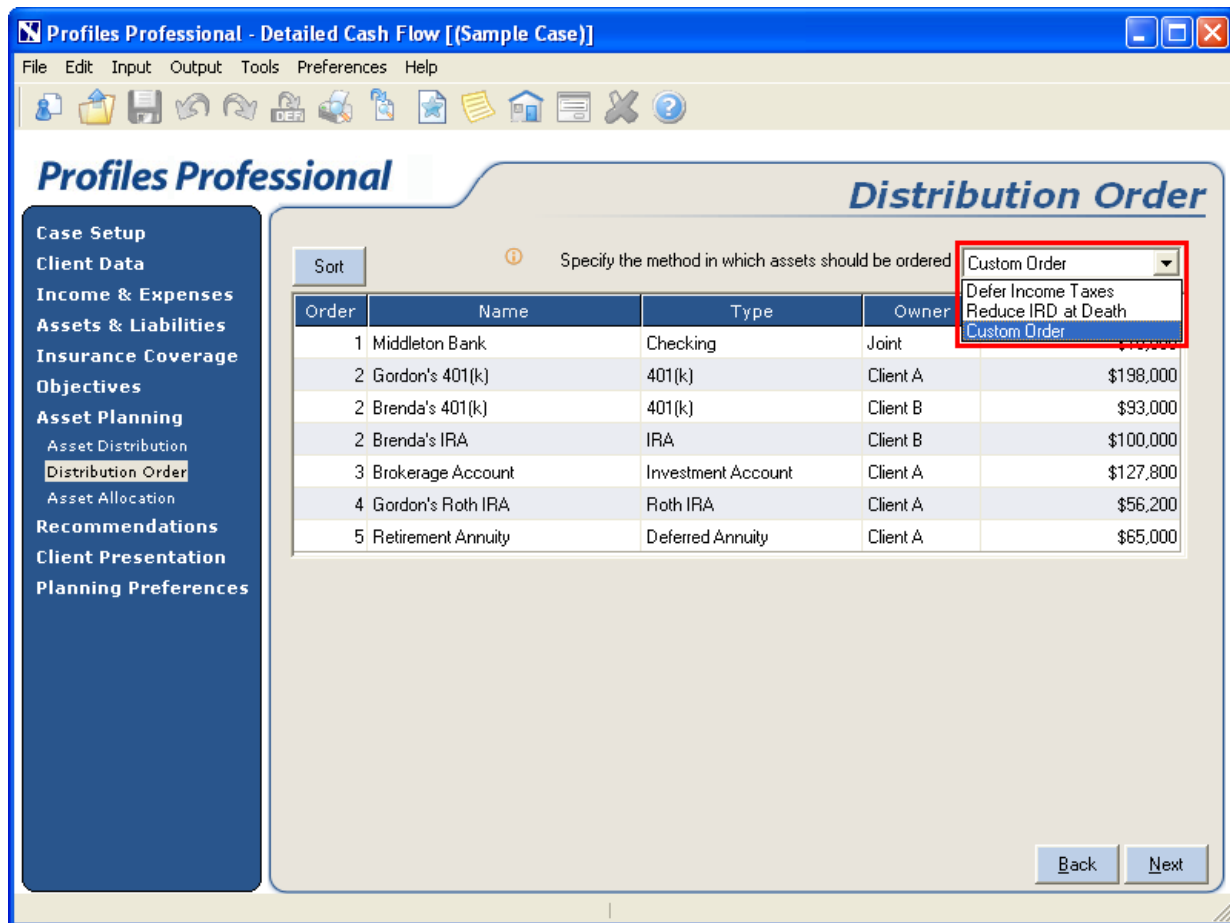


Figure 12: Asset Planning category – Distribution Order screen

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 prorated, 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 prorated 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 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 of the assets with a distribution order of 1 are depleted.

Specify your clients' current asset reallocation plans

Profiles Professional **Asset Allocation**

Enter the client's current asset allocation plans for their portfolio in the table below. To recommend reallocation to the client, use Retirement Scenarios or create a new case. ⓘ

[Sort](#)

Group	Portfolio	Beginning At	+/- Years	Year	
Survivor Accounts - A Dies	Low to Medium risk/return	Today	0	2008	✗
Survivor Accounts - B Dies	Low to Medium risk/return	Today	0	2008	✗
Total Portfolio	Low risk/return	Retirement	15	2026	✗

[Add Portfolio](#)

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	📄	✗

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Figure 13: Asset Planning category – Asset Allocation screen

The *Asset Allocation* screen allows you to reallocate groups of assets at many different points throughout the case. 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 using many different points in time throughout the case. For example, the *Total Portfolio* could be reallocated to a *High risk/return* asset allocation beginning today. Then the portfolio could be reallocated to a *Medium risk/return* asset allocation beginning at retirement, and to a *Low-to-Medium risk/return* 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 take affect for that asset.

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 Portfolio* button.

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

Review retirement output pages

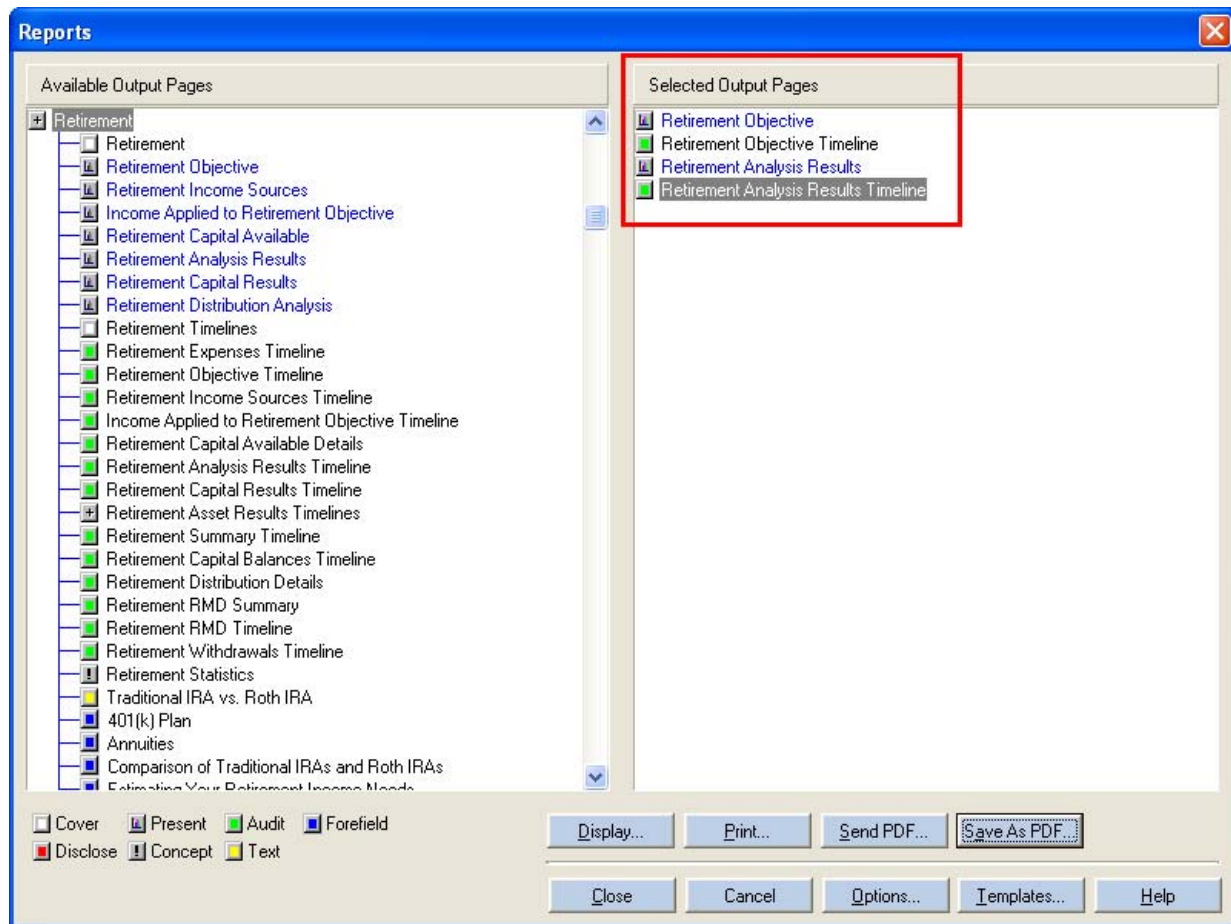


Figure 14: Client Presentation category – Reports dialog box

After entering all your data, you can generate various reports for analysis. The following four reports 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.

Retirement Objective presentation page

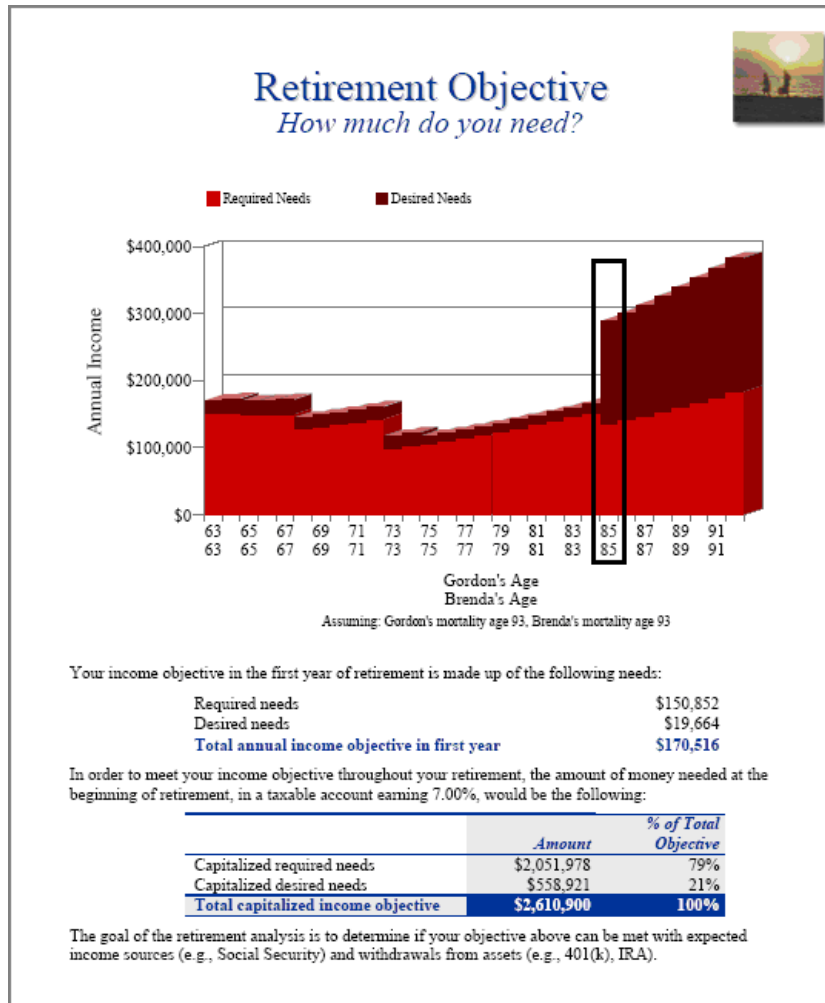


Figure 15: Client Presentation category – Reports dialog box – Retirement – Retirement Objective (presentation page)

The *Retirement Objective* presentation page displays the clients' annual required and desired retirement needs throughout the planning period. In this sample, 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* value is made up of the *Capitalized required needs* and *Capitalized desired needs* amount.

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

Retirement Objective Timeline audit page

Retirement Objective Timeline								
Ages	Required Needs					Total Required Needs	Total Desired Needs	Total Needs
	Required Expenses	Liability Payments	Required Savings	Goals and Gifting	Taxes on Prior Year Inv. Returns			
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 16: Client Presentation category – Reports dialog box – 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

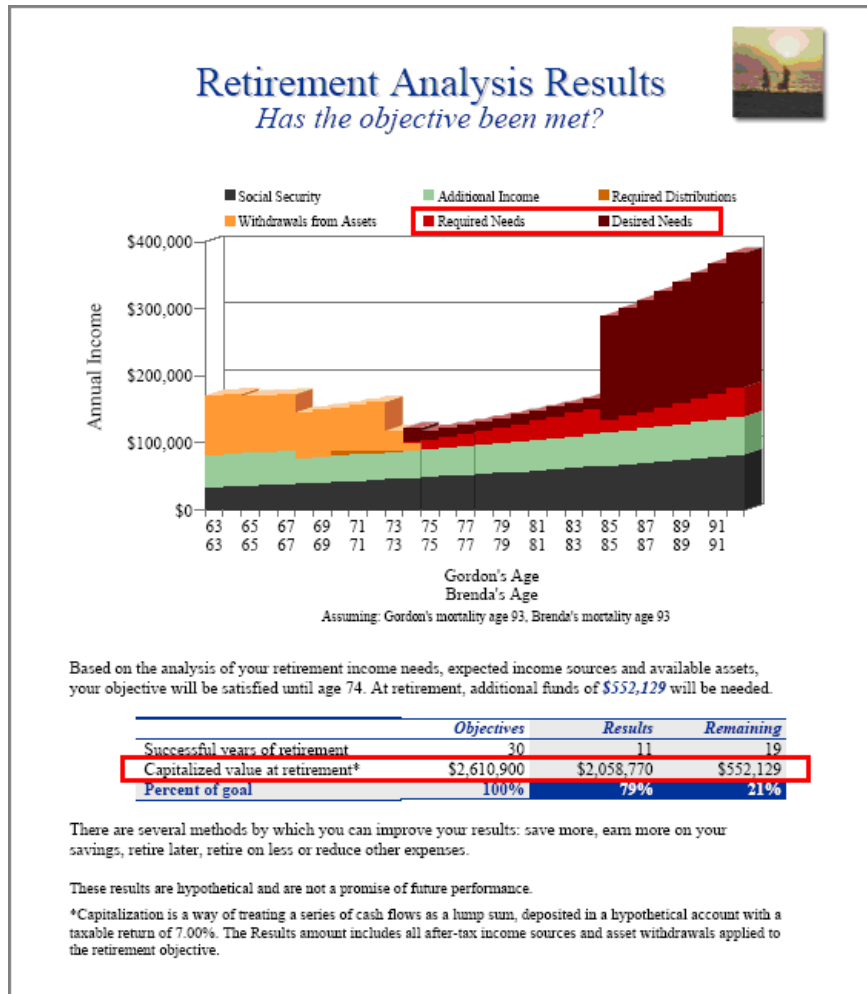


Figure 17: Client Presentation category – Reports dialog box – Retirement – Retirement Analysis Results (presentation page)

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 classified 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

Ages	Total Needs	Applied Income Sources		Needed from Assets	Applied Assets		Unmet Needs
		Social Security	Additional Income		Required Distributions	Asset Withdrawals	
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 18: Client Presentation category – Reports dialog box – 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

The exercises have been designed specifically for this module and assume that you are working with the original data in the *Sample 3 - Detailed Cash Flow* 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 3 - Detailed Cash Flow* case.

You've met with the Dixons and used the *Detailed Cash Flow* mode to more accurately reflect their current situation and their quickly nearing retirement. The Dixons have given you the following list of additional retirement objectives:

Provide for retirement

- Retire next year at age 64
- Continue to travel during the first ten years of retirement
- Afford in-home medical care late in retirement to avoid having to enter a nursing home

Provide for others

- Provide a gift during our lives to each of our three children
- Continue to make charitable donations throughout retirement

Exercise 1: Controlling the timing of incomes and expenses

To meet these objectives, you have discussed some recommendations with your clients and have decided to implement the following strategies. Implement the changes into a copy of the case.

- Instead of fully retiring, Brenda would like to ease into retirement by working part-time for the next five years. Brenda expects to earn about \$25,000 a year during these years.

Hint: Create a new income entry for Brenda, use the *Beginning* and *Ending* options.

- Brenda will continue to contribute to her IRA for the next five years. Adjust her IRA contributions to continue for five years into her retirement.
Note: If Brenda is not already contributing to her IRA, begin contributions of \$300 per month.
 - Gordon will also work part-time starting next year, until he turns 68. He also plans to continue to save \$300 per month to his Roth IRA until he stops earning a part-time salary at age 68. Adjust his IRA contributions to reflect this.
1. When you are in *Detailed Cash Flow* mode you have the option to designate expenses as required or desired. Is this statement true or false?
 - a) True
 - b) False

2. Profiles Professional allows you to enter tax rates to be applied to future income during different life stages. Is this statement true or false?
 - a) True
 - b) False
3. Where can you enter *Average Tax Rates* that will be applied to all future incomes?
 - a) *Case Data* category – *Income Tax - Client A* screen
 - b) *Planning Preferences* category – *Tax Preferences* screen
 - c) *Case Setup* category – *Tax Rates* screen

Exercise 2: Asset planning

1. The clients agree that they will not need their vacation home later in life and that they will sell it when Gordon turns 80 (in 2025) to help cover the costs of medical care later in their retirement. Ensure that the sale of the vacation home is correctly modeled and review the proceeds.

Hint: Use reports in the *Reports* dialog box under *Assets and Liabilities*.

2. Gordon and Brenda agree that they should reallocate their portfolio to provide more security for their retirement assets. Reallocate their assets to a *Low to Medium risk/return* portfolio, five years into their retirement.
3. During retirement, Gordon should withdraw funds from his brokerage account first. Customize the distribution order, and assign an order of **1** for the brokerage account.

Exercise 3: Retirement presentation

With the changes you have made, the Dixons can now afford their last two objectives. Are these statements true or false?

1. The Dixons can afford to provide a gift during their lives to each of their three children.
 - a) True
 - b) False
2. The Dixons can continue to make charitable donations throughout retirement.
 - a) True
 - b) False

Hint: Generate the *Retirement Summary Timeline* output page to review whether there are surpluses or deficits in the case.

Conclusion

This module has enabled you to

- Upgrade cases to the *Detailed Cash Flow* mode
- Model and assess retirement income sources
- Manage current and future expenses
- Customize the distribution of assets
- Review retirement output pages

Answers to exercises

Exercise 1: Controlling the timing of incomes and expenses

1. a) True – When you are in *Detailed Cash Flow* mode you have the option to designate expenses as required or desired.
2. a) True – Profiles Professional allows you to enter tax rates to be applied to future income during different life stages.
3. c) *Case Setup* category – *Tax Rates* screen – You can enter *Average Tax Rates* that will be applied to all future incomes on the *Case Setup* category – *Tax Rates* screen.

Exercise 3: Retirement presentation

1. a) True – The Dixons can afford to provide a gift during their lives to each of their three children.
2. a) True – The Dixons can continue to make charitable donations throughout retirement.