NaviPlan Extended Online/Offline
Self-Study Guide
Life Insurance

USA version 10.2

EISI, Winnipeg

Disclaimer

This software is designed to allow a financial planner to demonstrate and evaluate various strategies in order to achieve a client's financial goals. It is licensed on the understanding that EISI is not engaged in rendering legal, accounting, or other professional advice and, if any such advice is required, the services of a competent professional person should be obtained.

EISI has engaged Ibbotson Associated, Inc., a wholly owned subsidiary of Morningstar, Inc., to develop proprietary asset allocation tools for educational purposes. Ibbotson has granted to EISI a license for use thereof.

Copyright

100122

Contents

Using the Self-Study Guides 1
Conventions 1
Prerequisites... 1
Finding more information 2

Life insurance 3
Learning objectives 3
Life insurance assumptions 3
Insurance coverage... 5
Life insurance future values 7
Death benefit settings 8
Objectives 10
Life insurance analysis... 11

Exercises 15

Conclusion 18

Answers to life insurance... 18

Index.. 20

Using the Self-Study Guides

The NaviPlan Extended Self-Study Guides are intended to be used with the NaviPlan Extended Online/Offline application to help you learn how to use NaviPlan.

Each NaviPlan Extended Self-Study Guide covers a different topic. The following topics are covered in these guides:

- Deficit coverage
- Planning strategies
- Life insurance
- Basic life insurance
- Stock options

For information on the Ibbotson Asset Allocation option, contact the EISI Sales department at (888) 692-3474 (press 2 to speak to a sales representative).

Note: The NaviPlan Extended Self-Study Guides were created using NaviPlan Extended with the Ibbotson Asset Allocation option. This option allows users to use actual Ibbotson return rates in NaviPlan's calculations. If you are using a version of NaviPlan without the Ibbotson Asset Allocation option, there will be some differences between the guides and your version of NaviPlan.

Conventions

The NaviPlan Extended Self-Study Guides include the following conventions:

- The names of items that are labeled on the screen are capitalized and italicized. For example,

  The *Clients* page opens.

- Within instructions, the names of items that are labeled on the screen, and items that you must select, click, or type appear in bold. For example,

  Select **My Clients,** and then click **Go.**

Prerequisites

The self-study guides assume that you are familiar with the basics in NaviPlan Extended. You are able to create a client file and a base plan, and you can use NaviPlan to analyze your clients' ability to meet their current needs.

Finding more information

If you have a question that is not answered in the self-study guides, there are other places to look for additional help.

Help

The fastest way to get information about any command, dialog box, or item within NaviPlan Extended Online/Offline is to use the Help.

To access the Help, click the **Help** link at the top of the NaviPlan window.

support.eisi.com

Visit our Web site to access the following resources:

- Training video clips
- Live Web-based training
- Reference Guides
- Release Notes
- Technical Support
- NaviPlan Support Forums
- NaviPlan User Services

To access these resources, do one of the following:

Click the **Support** link in NaviPlan Extended.

OR

1. Go to support.eisi.com.
2. Click **US.**
3. Under *Offline format*, click **NaviPlan Extended Offline.**

Bookmark or add this page to your favorites in your Internet browser for future reference.

OR

You can go directly to http://support.eisi.com/support_us/npe_offline/v10.2/index.htm.

Life insurance

Learning objectives

This module will enable you to

- Examine survivorship analysis assumptions
- Capture details of life insurance policies
- Define clients' survivorship needs
- Generate a life insurance analysis using reports and graphs
- Generate a life insurance analysis using the *Cash Flow Assistant*

This module explains how life insurance works in Level 2 Plans.

You may find it helpful to have NaviPlan Extended open while you work your way through this self-study guide.

Life insurance assumptions

It is important to understand the assumptions that NaviPlan uses for life insurance and survivorship analysis.

When you enter a life insurance policy, NaviPlan automatically creates a *Life Insurance Proceeds* asset to hold the payouts of the policy when the insured client dies.

The default rate of return for the *Life Insurance Proceeds* asset is 7%. To specify the return rates that will be used for the life insurance analysis, you must enter return rates on the *Goals* section – *Survivor Income* category – *Death Benefit Settings* page **before** you enter a policy, otherwise the default return rate (7%) applies.

NaviPlan assumes that death occurs at the end of the year. For example, if a client dies in 2006, then NaviPlan assumes that December 31, 2006 is the date of death and all regular cash flow transactions throughout the year of death still apply. Proceeds from the policy enter cash flow but are automatically invested in the *Life Insurance Proceeds* asset.

When conducting a life insurance analysis, NaviPlan assumes that the capital depletion method is used. This means that both the life insurance proceeds and realizable net worth are used to cover required expenses.

If there are cash flow deficits, accounts are redeemed to cover the deficits based on the predefined deficit coverage redemption order.

- Non-qualified assets are redeemed in pre-retirement and in retirement
- Qualified assets are not redeemed until retirement
- Business entities, real estate assets, and lifestyle assets are never redeemed by NaviPlan

If the survivor cannot meet his or her cash needs by drawing from existing accounts (including the *Life Insurance Proceeds* account), NaviPlan recommends additional insurance to ensure that the survivor will have enough funds to cover projected deficits throughout the plan. NaviPlan's life insurance calculations are based on all projected cash flow deficits throughout the life of the survivor's plan and also takes into account the rate of return of the *Life Insurance Proceeds* asset. NaviPlan recommends additional insurance when needed but does not indicate when a client has more than enough insurance.

Insurance coverage

You can use the *Financial Picture* section – *Insurance Coverage* category – *Insurance Coverage* page to enter information for life insurance, disability insurance, or long-term care insurance. For this module, only life insurance is pertinent.

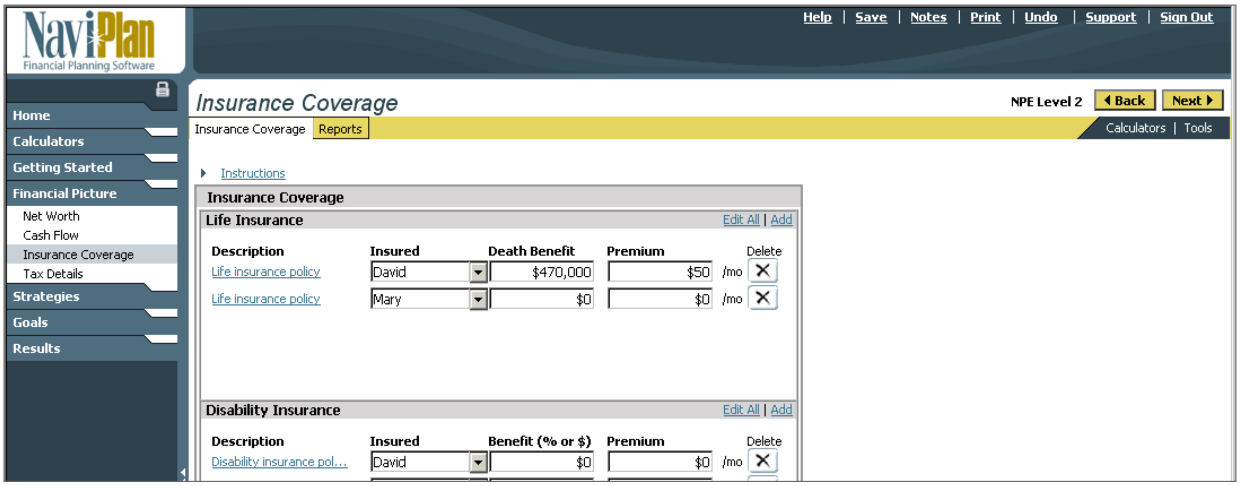


Figure 1: Financial Picture section – Insurance Coverage category – Insurance Coverage page

To enter policy details, click the **Description** link. To add additional life insurance policies, click **Add.** To edit an existing life insurance policy, click **Edit All.**

Under *Life Insurance*, default insurance policies automatically appear for the client and the co-client. These default entries each have a *Death Benefit* and *Premium* of $0. You can delete these entries, modify them so that they represent the clients' actual insurance policies (by entering dollar amounts and other information), or you can ignore them.

Because NaviPlan automatically deducts the premiums from the premium payer's cash flow, do not enter the premiums as expenses.

Policy details, such as policy type, insured, beneficiary, death benefit, and premiums, can be entered in the *Life Insurance Policy* dialog box.

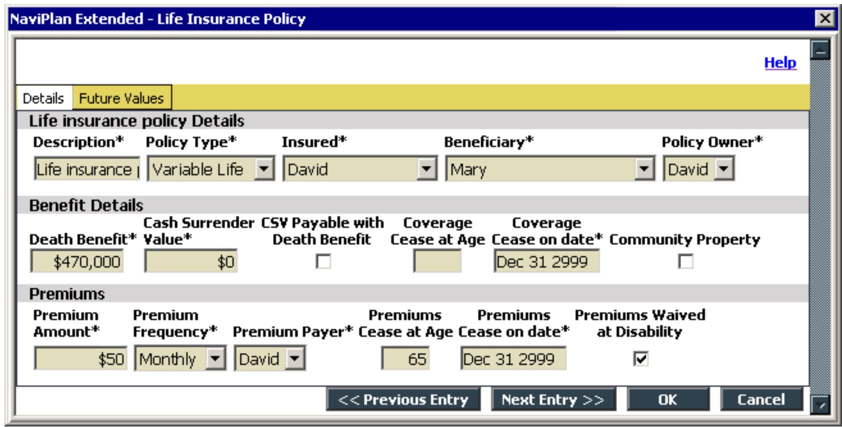
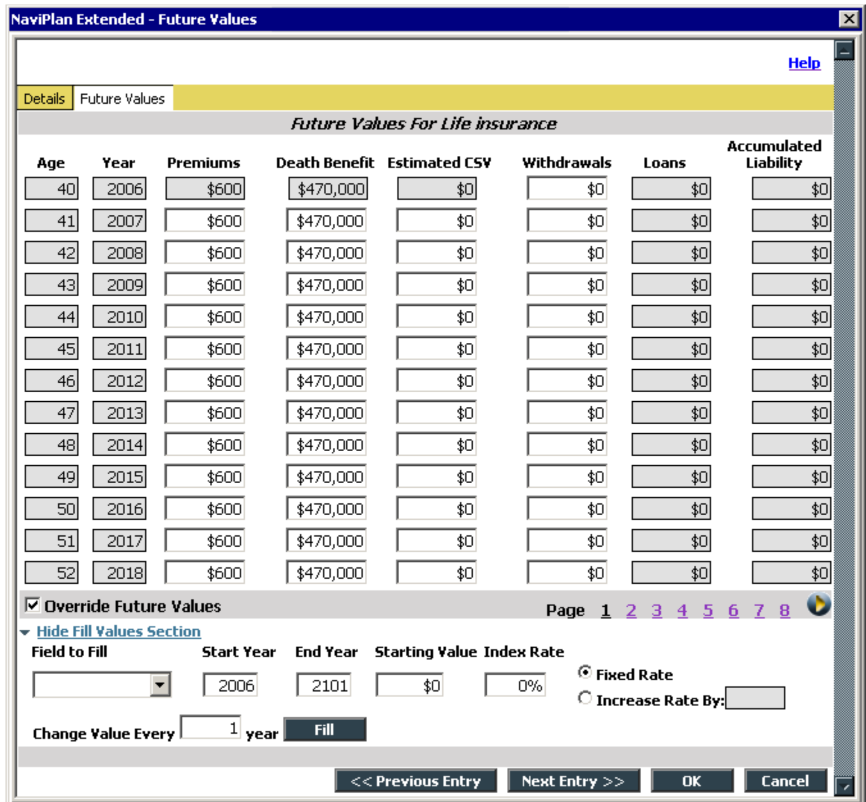


Figure 2: Financial Picture section – Insurance Coverage category – Insurance Coverage page – <policy description> link – Life Insurance Policy dialog box (Level 2 Plan only)

Life insurance future values

In a Level 2 Plan, you can view and edit projected future values of the insurance policy on the *Future Values* dialog box.


NaviPlan Extended - Future Values

Help

Details | Future Values

Future Values For Life insurance

Age	Year	Premiums	Death Benefit	Estimated CSV	Withdrawals	Loans	Accumulated Liability
40	2006	$600	$470,000	$0	$0	$0	$0
41	2007	$600	$470,000	$0	$0	$0	$0
42	2008	$600	$470,000	$0	$0	$0	$0
43	2009	$600	$470,000	$0	$0	$0	$0
44	2010	$600	$470,000	$0	$0	$0	$0
45	2011	$600	$470,000	$0	$0	$0	$0
46	2012	$600	$470,000	$0	$0	$0	$0
47	2013	$600	$470,000	$0	$0	$0	$0
48	2014	$600	$470,000	$0	$0	$0	$0
49	2015	$600	$470,000	$0	$0	$0	$0
50	2016	$600	$470,000	$0	$0	$0	$0
51	2017	$600	$470,000	$0	$0	$0	$0
52	2018	$600	$470,000	$0	$0	$0	$0

☑ Override Future Values — Page 1 2 3 4 5 6 7 8

Hide Fill Values Section

Field to Fill	Start Year	End Year	Starting Value	Index Rate	
	2006	2101	$0	0%	◉ Fixed Rate / ○ Increase Rate By:

Change Value Every 1 year — Fill

<< Previous Entry | Next Entry >> | OK | Cancel

Figure 3: Financial Picture section – Insurance Coverage category – Insurance Coverage page – <policy description> link – Life Insurance Policy dialog box – Future Values tab – Future Values dialog box

To override the displayed values, select the **Override Future Values** check box. You can edit the individual values, or you can automatically populate the table with new information by clicking the *Show Fill Values Section,* entering the required data, and then clicking **Fill.**

Death benefit settings

You can use the *Death Benefit Settings* page to specify how the proceeds of policies will be invested.

If you do not specify the death benefit settings on this page *before* you modify the default life insurance policies or create new life insurance policies in the plan, NaviPlan uses the default death benefit settings on this page. Once the policy is created, some of these settings cannot be overridden.

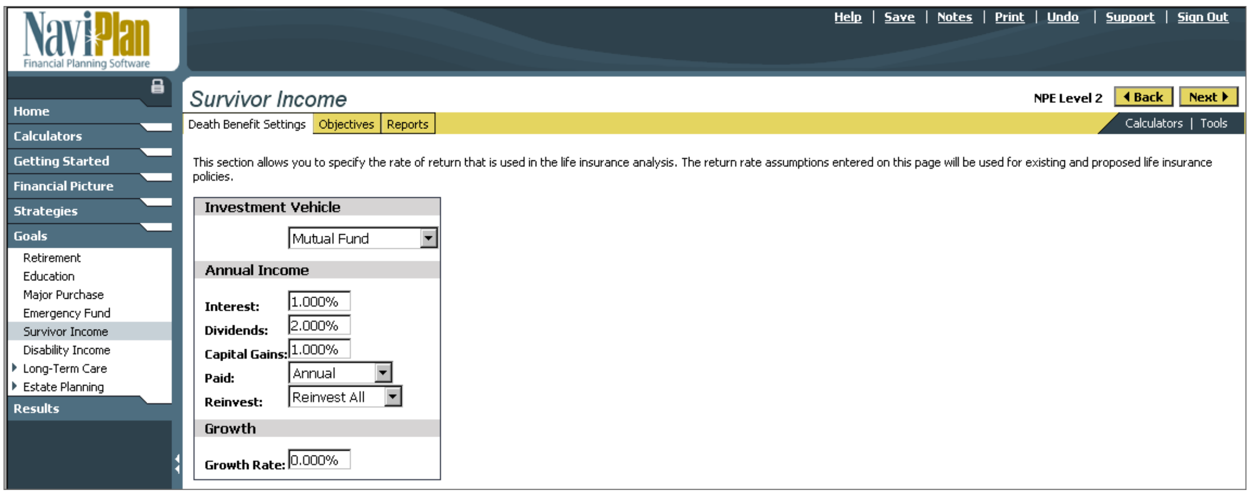


Figure 4: Goals section – Survivor Income category – Death Benefit Settings page

To change the return rates but not the investment vehicle used in the life insurance analysis after the life insurance policy has been created, follow these steps:

1. Go to the **Financial Picture** section – **Net Worth** category – **Accounts** page.
2. Click the applicable *Life Insurance Proceeds* account.
3. On the *Holdings* tab, click the **Details** button for the *Life Insurance Proceeds* holding**,** and then override the return rate. Only return rates applicable to that investment vehicle are available.

To change the return rates as well as the investment vehicle used in the life insurance analysis after the life insurance policy has been created, the following steps are required.

1. Delete the current policy or policies (on the *Financial Picture* section – *Insurance Coverage* category – *Insurance Coverage* page).
2. Delete the *Life Insurance Proceeds* account or accounts (on the *Financial Picture* section – *Net Worth* category – *Accounts* page.

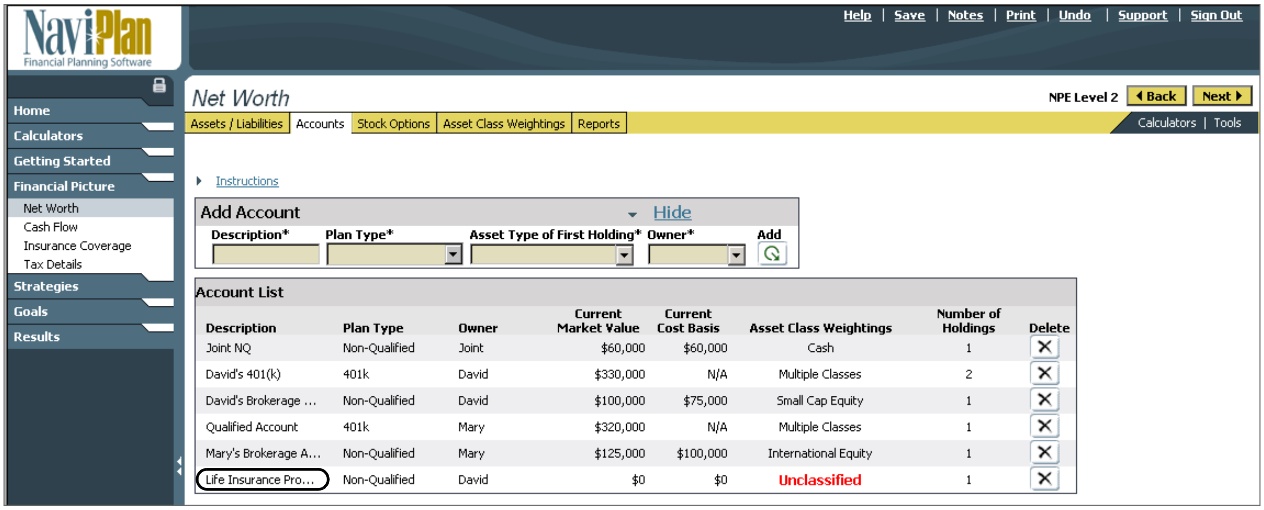


Figure 5: Financial Picture section – Net Worth category – Accounts page (showing the system-generated Life Insurance Proceeds account)

3. Change the death benefit settings (on the *Goals* section – *Survivor Income* category – *Death Benefit Settings* page).
4. Reenter the policy or policies (on the *Financial Picture* section – *Insurance Coverage* category – *Insurance Coverage* page).

When an insurance policy is created, NaviPlan automatically creates a *Life Insurance Proceeds* account. NaviPlan also automatically creates a transfer strategy, so that when the insured client dies, the *Life Insurance Proceeds* account is transferred to the *Life Insurance Proceeds* account for the surviving client.

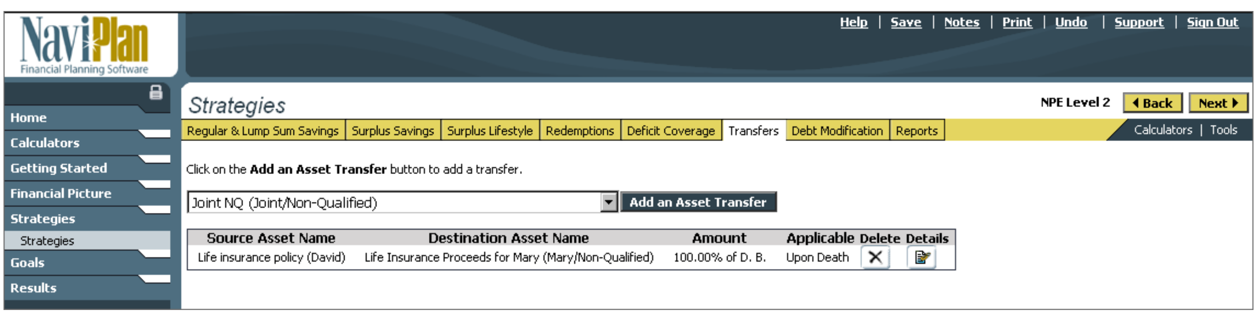


Figure 6: Strategies section – Strategies category – Transfers page (showing the system-generated transfer strategy)

Objectives

You can use the *Goals* section – *Survivor Income* category – *Objectives* page to define the client's survivorship needs and specify what happens to existing and new expenses during survivorship.

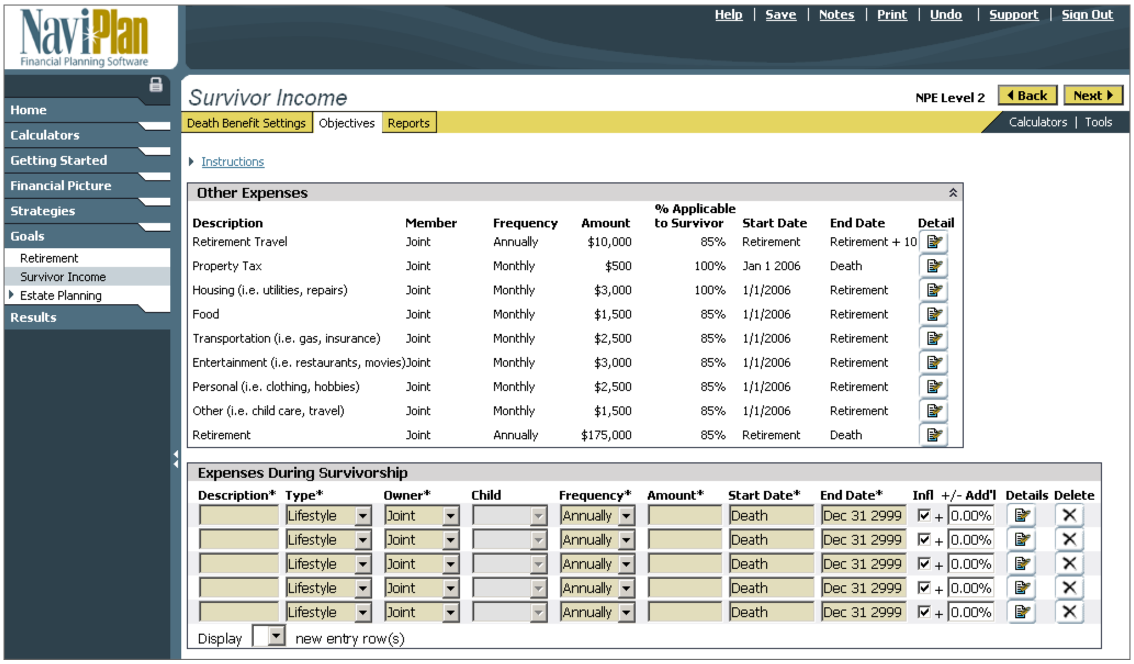


Figure 7: Goals section – Survivor Income category – Objectives page

Under *Other Expenses,* the expenses entered on the *Financial Picture* section – *Cash Flow* category – *Cash Flow* page appear. These expenses can be edited here, but not deleted. You can modify the percentage of an expense that is applicable in survivorship (for example, an entertainment expense may only be 50% in survivorship).

Under *Expenses During Survivorship,* enter expenses that apply only when the client or co-client is deceased, such as child care or additional yard maintenance expenses. Do not include loan or mortgage payments or life and disability insurance premiums. Loan and mortgage payments are entered on the *Financial Picture* section – *Net Worth* category – *Assets / Liabilities* page. Life and disability insurance premiums are entered on the *Financial Picture* section – *Insurance Coverage* category – *Insurance Coverage* page.

Life insurance analysis

There are three ways to analyze life insurance.

1. Duplicate the plan, and then change the client's life expectancy on the *Getting Started* section – *Assumptions* category – *Milestones* page. This will manually simulate the death of the client in the year specified. You can then use all of the reports and graphs (except the life insurance reports and graphs) to analyze the survivor's needs.
2. Generate life insurance reports and graphs and review the insurance-specific results. The life insurance reports and graphs automatically simulate death at the end of the current year.
3. Use the *Cash Flow Assistant* to implement alternative life expectancy dates and view the amount of additional insurance needed.

Using the life insurance reports and graphs and the *Cash Flow Assistant,* you can obtain all the information you need without changing the actual milestones within the plan. Duplicating the plan (method 1) is not necessary.

Life insurance reports and graphs

The life insurance reports and graphs determine additional insurance needs without changing the actual milestones within the plan.

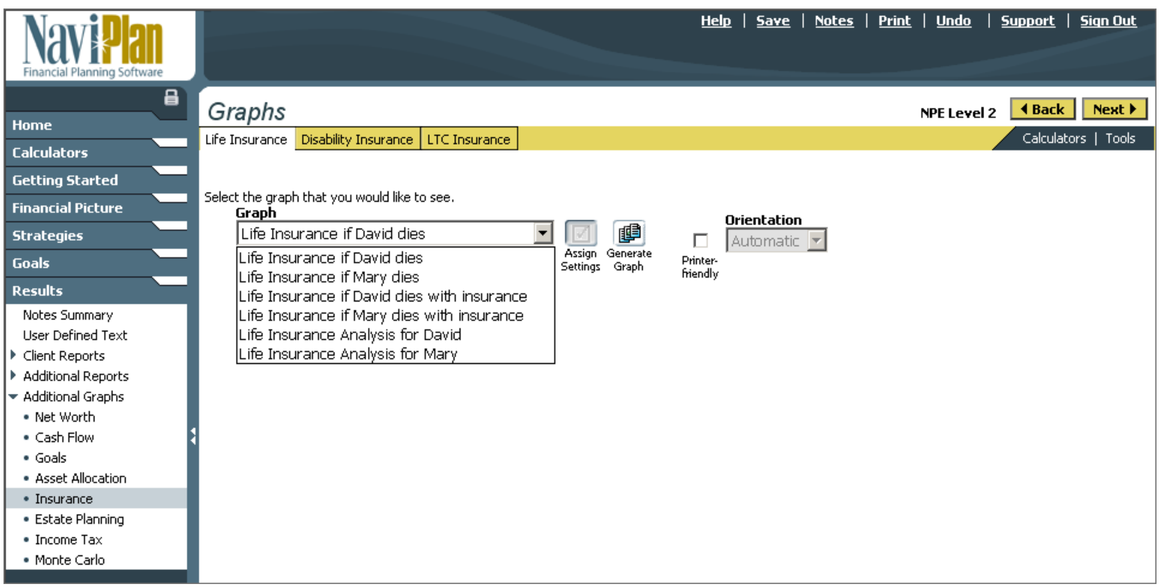
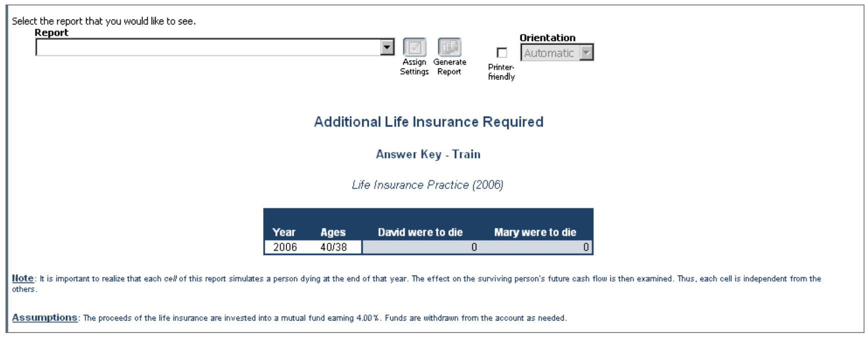


Figure 8: Results section – Additional Graphs – Insurance category – Life Insurance page

Additional Life Insurance Required report

This report displays any additional life insurance required to cover expenses. In the example below, no additional insurance is needed.



Select the report that you would like to see.
Report
Assign Settings Generate Report Printer-friendly Orientation Automatic

Additional Life Insurance Required

Answer Key - Train

Life Insurance Practice (2006)

Year	Ages	David were to die	Mary were to die
2006	40/38	0	0

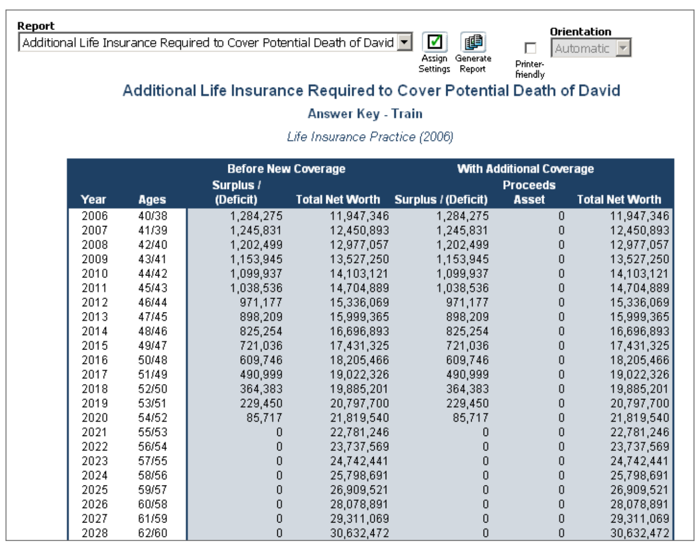
Note: It is important to realize that each *cell* of this report simulates a person dying at the end of that year. The effect on the surviving person's future cash flow is then examined. Thus, each cell is independent from the others.

Assumptions: The proceeds of the life insurance are invested into a mutual fund earning 4.00%. Funds are withdrawn from the account as needed.

Figure 9: Additional Life Insurance Required report
(Results section – Additional Reports – Insurance category – Life Insurance page)

Additional Life Insurance Required to Cover Potential Death of <client> report

This report shows the projected cash flow surplus/deficit with the current coverage, and also reports the cash flow surplus/deficit with the additional insurance amount in place for comparison.



Report
Additional Life Insurance Required to Cover Potential Death of David
Assign Settings Generate Report Printer-friendly Orientation Automatic

Additional Life Insurance Required to Cover Potential Death of David

Answer Key - Train

Life Insurance Practice (2006)

		Before New Coverage		With Additional Coverage		
Year	Ages	Surplus / (Deficit)	Total Net Worth	Surplus / (Deficit)	Proceeds Asset	Total Net Worth
2006	40/38	1,284,275	11,947,346	1,284,275	0	11,947,346
2007	41/39	1,245,831	12,450,893	1,245,831	0	12,450,893
2008	42/40	1,202,499	12,977,057	1,202,499	0	12,977,057
2009	43/41	1,153,945	13,527,250	1,153,945	0	13,527,250
2010	44/42	1,099,937	14,103,121	1,099,937	0	14,103,121
2011	45/43	1,038,536	14,704,889	1,038,536	0	14,704,889
2012	46/44	971,177	15,336,069	971,177	0	15,336,069
2013	47/45	898,209	15,999,365	898,209	0	15,999,365
2014	48/46	825,254	16,696,893	825,254	0	16,696,893
2015	49/47	721,036	17,431,325	721,036	0	17,431,325
2016	50/48	609,746	18,205,466	609,746	0	18,205,466
2017	51/49	490,999	19,022,326	490,999	0	19,022,326
2018	52/50	364,383	19,885,201	364,383	0	19,885,201
2019	53/51	229,450	20,797,700	229,450	0	20,797,700
2020	54/52	85,717	21,819,540	85,717	0	21,819,540
2021	55/53	0	22,781,246	0	0	22,781,246
2022	56/54	0	23,737,569	0	0	23,737,569
2023	57/55	0	24,742,441	0	0	24,742,441
2024	58/56	0	25,798,691	0	0	25,798,691
2025	59/57	0	26,909,521	0	0	26,909,521
2026	60/58	0	28,078,891	0	0	28,078,891
2027	61/59	0	29,311,069	0	0	29,311,069
2028	62/60	0	30,632,472	0	0	30,632,472

Figure 10: Additional Life Insurance Required to Cover Potential Death of <client> report
(Results section – Additional Reports – Insurance category – Life Insurance page)

Reports and graphs in NaviPlan complement each other. Let's take a look at some life insurance graphs.

If <client> Dies graph

This graph displays the clients' cash flow with their existing insurance only. Notice the accumulated deficit from 2033 to 2057.

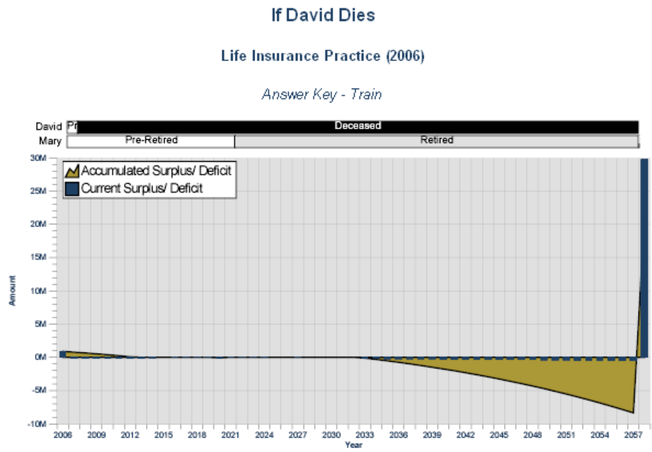


Figure 11: Life Insurance if <client> Dies graph
(Results section – Additional Graphs – Insurance category – Life Insurance page)

Now let's compare it to the *If <client> Dies with Insurance* graph.

If <client> Dies with Insurance graph

This graph displays the clients' cash flow with the additional insurance recommended by NaviPlan.

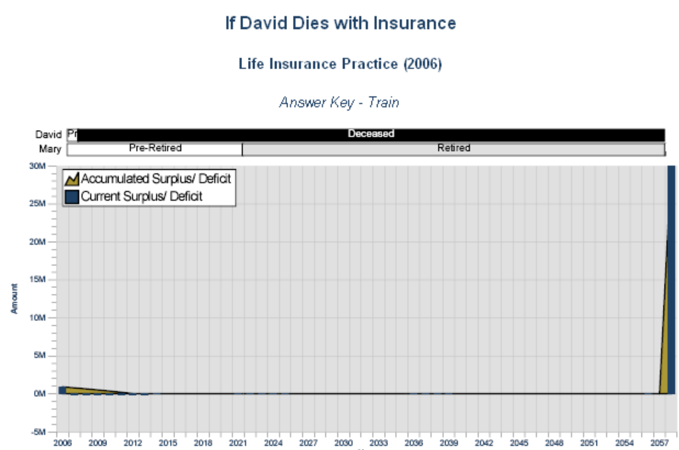
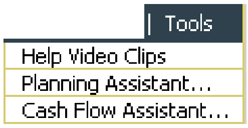


Figure 12: Life Insurance if <client> Dies with Insurance graph
(Results section – Additional Graphs – Insurance category – Life Insurance page)

The flat line indicates all outflows match inflows. Insurance is producing the desired effect.



Cash Flow Assistant

The *Cash Flow Assistant* displays a complete analysis of the family's cash flow for any given year. Changes you make in the *Cash Flow Assistant* do not affect the plan, but can give you useful What-if information. For example, you can see how changing the year of death for the client or co-client would affect results.

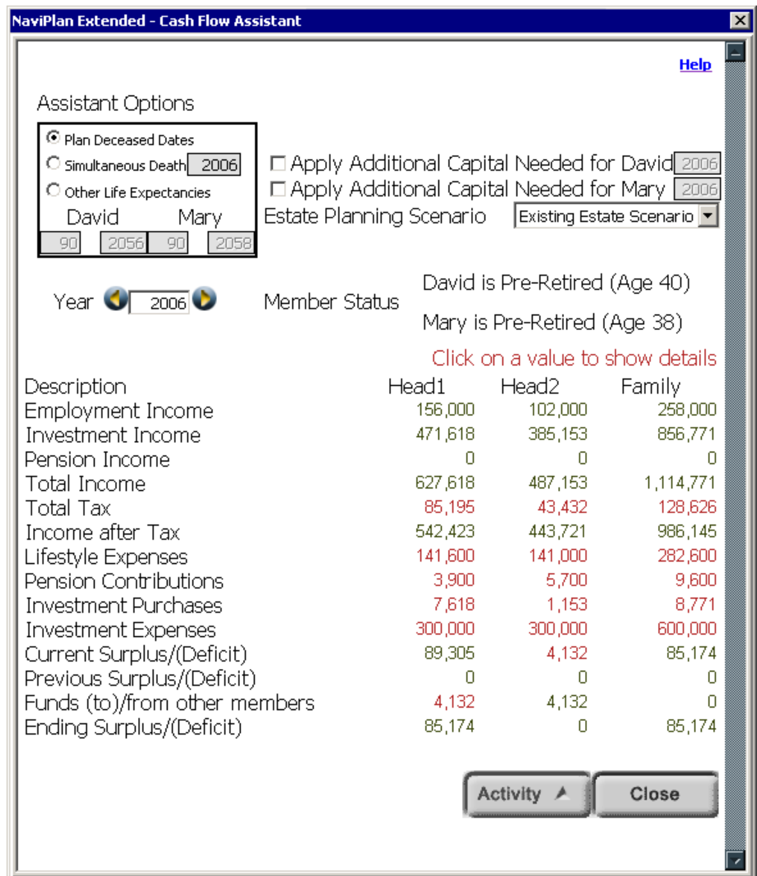


Figure 13: Tools menu – Cash Flow Assistant selection – Cash Flow Assistant dialog box

HANDS-ON EXERCISES

Exercises

The following exercises have been designed specifically for this module and assume that you are working with the original data in the *Core and Elective Base* plan. Before starting the exercises, duplicate the **Core and Elective Base** plan, rename the duplicate with a meaningful name (e.g., *Life insurance training*), and then use it to complete the exercises below.

To find the answers, see “Answers to life insurance” on page 18.

Exercise 1: Examine survivorship analysis assumptions

1. A *Life Insurance Proceeds* asset is automatically created when a life insurance policy is entered in NaviPlan. Is this statement true or false?

   a) True

   b) False

2. At what time of the specified year does NaviPlan assume the client is deceased when doing a life insurance analysis?

   a) Beginning of the year

   b) End of the year

   c) Deceased client’s date of birth

   d) Plan analysis date

   e) None of the above

Exercise 2: Capture details of life insurance policies

1. Which field is accessible in the details of a permanent policy type that is not accessible when a term policy type is selected?

   a) *Cash Surrender Value*

   b) *Premiums Cease on date*

   c) *Death Benefit*

   d) *Premium Amount*

2. The death benefit of David’s group policy is based on his salary which is indexed to increase with inflation at 3%. Change David’s life insurance policy to reflect an increasing death benefit of 3% each year.

   Hint: Go to the **Life Insurance Policy** dialog box – **Future Values** tab.

HANDS-ON EXERCISES

Exercise 3: Define the client's survivorship needs

To find the answers, see "Answers to life insurance" on page 18.

1. The Trains feel that if either one of them was to die, a nanny would be needed for the next **five** years for Michael at **$70,000** per year. They would also like to create a **$75,000** additional **lump-sum** need just for peace of mind. Add these **joint** expenses to reflect this information.

   Hint: Go to the **Goals** section – **Survivor Income** category – **Objectives** page.

2. If David were to die, the Trains want to take a conservative approach to their finances and assume that all surpluses Mary will have during survivorship are spent. Model this in NaviPlan using a surplus lifestyle strategy.

   Hint: Make sure to adjust the start and end dates of the strategy to apply only during Mary's survivorship.

3. Lifestyle expenses already modeled in the plan need to be re-entered on the *Insurance* category – *Objectives* page. Is this statement true or false?

   a) True

   b) False

Exercise 4: Generate a life insurance analysis using reports and graphs

1. Which life insurance report(s) will provide a suggested amount of life insurance in case of David's death?

   Hint: Some reports display the suggested amount in the footnotes.

2. What recommendations can you make in order to ensure that the Trains are sufficiently insured in case of David's death?

Exercise 5: Generate a life insurance analysis using the Cash Flow Assistant

To find the answers, see "Answers to life insurance" on page 18.

1. What are the benefits of using the *Cash Flow Assistant* to perform a life insurance analysis?

   a) Detailed cash flow analysis

   b) Changed settings do not affect the plan

   c) Ability to apply suggested insurance amount

   d) All of the above

   e) None of the above

HANDS-ON EXERCISES

Conclusion

This module has enabled you to

- Examine survivorship analysis assumptions
- Capture policy details
- Define survivorship needs
- Generate an analysis using reports and graphs
- Generate an analysis using the *Cash Flow Assistant*

Answers to life insurance

Exercise 1: Examine survivorship analysis assumptions

1. a) True. The asset created can be seen on the *Net Worth* category – *Accounts* page after the policy has been entered.
2. b) End of the year. NaviPlan always assumes the client is deceased on December 31 of the specified year. Any cash flow transactions for that year occur as if the client were alive.

Exercise 2: Capture details of life insurance policies

1. a) *Cash Surrender Value*. This field is accessible for permanent policies as the CSV amount specified is payable with the death benefit.

Exercise 3: Define the client's survivorship needs

3. b) False. You have the ability to specify what percentage of an expense will carry through during survivorship.

Exercise 4: Generate a life insurance analysis using reports and graphs

1. The life insurance reports that provide a suggested amount of life insurance in case of David's death are:
   - *Additional Life Insurance Required*
   - *Additional Life Insurance Required to cover Potential Death of David*
   - *Cash Flow Summary with Additional Coverage (David)*
   - *Life Insurance Detailed Analysis for (David)*
   - *Life Insurance Analysis Summary for (David)*

2. The following recommendations can be made to ensure that the Trains are sufficiently insured in case of David's death:
   - Set up a life insurance policy for the suggested amount
   - Reduce expenses
   - Increase income
   - Redeem assets during the survivorship period

Exercise 5: Generate a life insurance analysis using the Cash Flow Assistant

1. d) All of the above

Index

C

Capital depletion method, 3
Cash Flow Assistant, 14
Client file, 3

D

Death benefit settings, 8

G

Graphs
    if client dies, 13
    if client, co-client dies with insurance, 13

H

Help
    accessing, 2
    link, 2

L

Learning objectives, 3
Learning tools, 3
Life insurance
    analysis, 11
    assumptions, 3
    coverage, 5
    future values, 7
    reports and graphs, 11
Life Insurance Proceeds account, 9

P

Prerequisites, 1

R

Reports
    additional life insurance required, 12
    additional life insurance required to cover potential death of client, co-client, 12
Reports and graphs, life insurance, 11
Resources, additional, 2

S

Survivor needs
    income objectives, 10
    other expenses, 10

T

Transfer strategy, 9

W

Web site, accessing, 2