



# **NaviPlan Standard Online/Offline**

## **Cash Flow Self-Study Guide**

**USA version 11.2**

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**

No part of this publication may be reproduced or transmitted in any form, by any means (electronic, photocopying, recording, or otherwise) without the written permission of EISI.

NaviPlan is a registered trademark of EISI.

Microsoft Word is a registered trademark of Microsoft Corporation. Adobe and Acrobat are trademarks of Adobe Systems Inc. All other product names are the sole properties of their respective owners.

© Copyright 2010

Emerging Information Systems Incorporated ("EISI")

All rights reserved.

100128

# Contents

<b>Cash flow .....</b>	<b>1</b>
Learning objectives .....	1
Learning tools.....	2
Enter and modify pre-retirement incomes .....	2
Enter Social Security and pension benefits .....	5
Enter Social Security details .....	5
Enter defined benefit pensions .....	9
Analyze taxes using the Income Tax Summary report .....	11
Generate the Itemized Cash Flow Projection for Family report ...	13
Enter and modify pre-retirement expenses.....	15
Define the start and end dates of incomes and expenses .....	16
View other expenses .....	18
Construct surplus savings and expense strategies.....	19
Generate the Multi-Year Cash Flow Summary report .....	19
Investigate reasons for cash flow surpluses .....	20
Create surplus expense strategies .....	22
Create surplus savings strategies .....	24
View existing savings strategies .....	26
View debt modification strategies .....	26
Explore cash flow pages in the Financial Needs Analysis client report	27
Generate the client report .....	27
Interpret the cash flow pages .....	28
Exercises.....	30
Exercise 1: Enter and modify incomes and expenses .....	30
Exercise 2: Model a defined benefit plan rollover .....	31
Exercise 3: Model cash surplus strategies and output pages .....	31
Conclusion .....	33
Answers to cash flow exercises .....	33
Exercise 1: Enter and modify incomes and expenses .....	33
Exercise 2: Model a defined benefit plan rollover .....	33
Exercise 3: Model cash surplus strategies and output pages .....	33



# Cash flow

The NaviPlan Standard Cash Flow Self-Study Guide was created using NaviPlan Standard Offline with the Ibbotson Asset Allocation option. This option allows you to use actual Ibbotson return rates in NaviPlan's calculations.

In NaviPlan Standard, you can capture your clients' current cash flow situation and report on the results. You can enter your clients' current cash inflows and outflows, account for future sources of income from defined benefit pensions and Social Security, and review the effects of taxes on your clients' income. If needed, you can implement strategies to account for unstated expenses. After you have entered the clients' cash flow data, you should generate the *Financial Needs Summary* report. Using this report, you can verify the cash flow data and include it in your client presentation.

The exercises in this module are based on a version of NaviPlan Standard Offline that includes the Ibbotson Asset Allocation option, which means that the asset allocation settings (asset classes, investor profiles) are set up for you. If your version of NaviPlan Standard Offline does not include the Ibbotson Asset Allocation option, you can modify the data.

## Learning objectives

- Capture your clients' cash flow situation and report on the results
  - Enter and modify pre-retirement incomes
  - Enter Social Security and pension benefits
  - Analyze your clients' taxes using the *Income Tax Summary* report
  - Verify your clients' income with stand-alone cash flow reports
  - Enter and modify pre-retirement expenses
  - Define the start and end dates of your clients' incomes and expenses
  - Construct surplus savings and expense strategies to reduce unrealistic surpluses
  - Explore cash flow pages in a client report to assess your clients' current financial situation

## Learning tools

This module includes some practice exercises. We recommend that you use the Nick and Lisa Brown (Brown, Nick and Lisa.nps) client file in the data folder of your installation of NaviPlan Standard Offline (the default path is C:\Program Files\EISI\Data, but you may have installed it elsewhere). It will be available when you run NaviPlan Standard Offline, as well as on the central server if you prefer to work in the online application.

**Hint:** In NaviPlan Standard Offline, to find the location of your data directory, go to the **User Preferences** menu – **System Settings** selection – **User Preferences - System Settings** dialog box – **File Locations** tab.

## Enter and modify pre-retirement incomes

Under *Incomes* on the *Financial Picture* section – *Cash Flow* category – *Cash Flow* page, you can define your clients' pre-retirement incomes, such as employment income, business earnings, and commissions. Where appropriate, income is taxed using average, short-term capital gains, long-term capital gains, or marginal tax rates. Investment income from accounts should not be entered on the *Cash Flow* page. NaviPlan calculates investment income automatically.

The screenshot shows the 'Cash Flow' page in NaviPlan. The 'Incomes' table is highlighted with a red box. Below it are sections for 'Social Security', 'Defined Benefit Pensions', 'Expenses', 'Other Expenses', and 'Surplus Expenses'.

Incomes			
Description	Member	Amount	Details Delete
Nick's Salary	Nick	\$130,000/yr	[Details] [X]
Lisa's Salary	Lisa	\$105,000/yr	[Details] [X]
Wood Working Hobby	Lisa	\$5,000/yr	[Details] [X]
Lisa's Inheritance	Lisa	\$100,000/1x	[Details] [X]

Expenses			
Description	Amount	Details	Delete
Housing (e.g. utilities, repairs)	\$2,500/mo	[Details]	[X]
Food	\$1,250/mo	[Details]	[X]
Transportation (e.g. gas, insurance)	\$1,500/mo	[Details]	[X]
Entertainment (e.g. restaurants, mc)	\$1,000/mo	[Details]	[X]
Personal (e.g. clothing, hobbies)	\$750/mo	[Details]	[X]
Other (e.g. child care, travel)	\$2,000/mo	[Details]	[X]
Retirement Goal Expense	\$130,000/yr	[Details]	[X]

Defined Benefit Pensions			
Description	Member	Type	Amount (\$ or %)
Nick's Pension	Nick	Estimate Benefit	\$17,500/yr

Surplus Expenses				
Description	% of Surplus	Start Year	End Year	Delete
Surplus Expense	0.00%	2008	Death - 1	[X]

Figure 1: Financial Picture section – Cash Flow category – Cash Flow page

## To modify a pre-retirement income

1. In the *Brown Base Details* plan, go to the **Financial Picture** section – **Cash Flow** category – **Cash Flow** page. Under *Incomes*, a summary of the pre-retirement income details is listed for the Brown family.

**Hint:** When entering incomes, it is recommended that you provide a unique description, and then select the appropriate member (client or co-client) earning the income. This information appears in reports.

2. Click the **Details** button for Nick's salary. The *Income Details* dialog box opens. Under *Details*, you can enter additional information about the income, including the income type, frequency, start and end dates, and indexation assumptions.

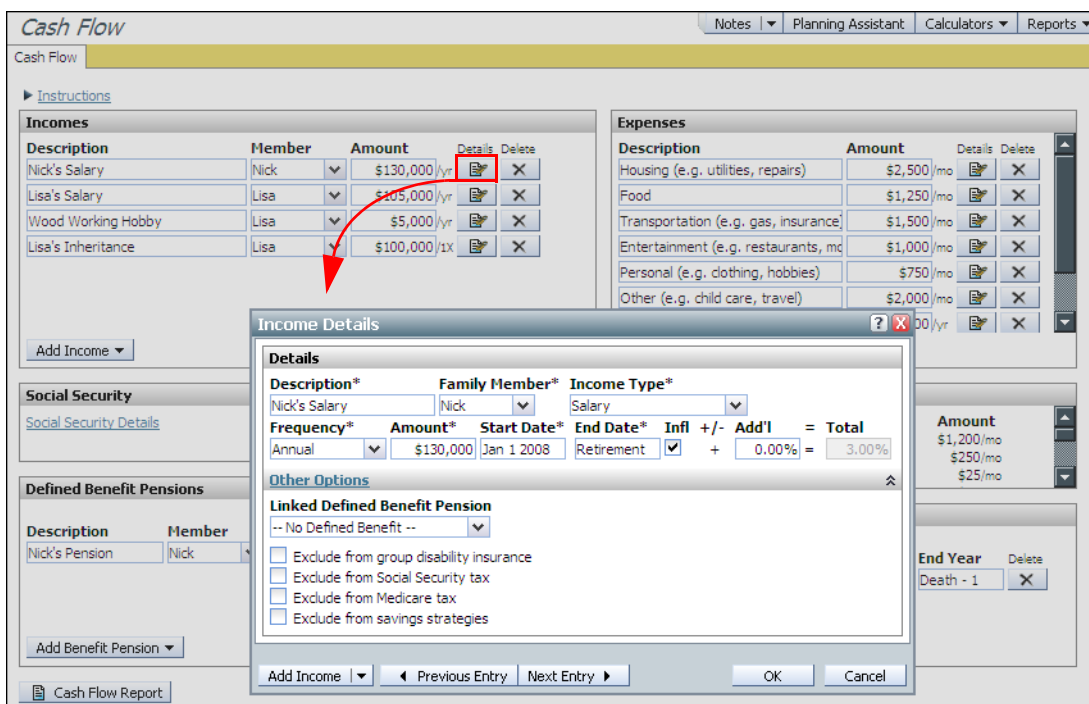


Figure 2: Financial Picture section – Cash Flow category – Cash Flow page – Details button – Income Details dialog box

3. Click the **?** button. The NaviPlan Standard Help opens.
4. Under *Screen Details*, click **Details**. The Help provides details about every field in the dialog box and includes tax rate details about every income type that can be selected.

**Note:** *Social Security* and *Pension* are income options that you can select from the *Income Type* list. However, you should only select these incomes if the client or co-client is already receiving them. Survivor benefits are not included. Retirement incomes entered on the

*Cash Flow* page also appear on the *Goals* section – *Retirement* category – *Objectives* page and do not need to be re-entered.

5. Close the Help. In the *Income Details* dialog box, under *Other Options*, you can link the income to a defined benefit pension and exclude the income from insurance, tax, and savings calculations if applicable.

**Note:** The fields under *Other Options* are available only to certain income types, such as *Salary* and *Bonus*.

6. Click **OK**. The *Income Details* dialog box closes.

## Enter Social Security and pension benefits

In NaviPlan Standard, there are two methods for determining future Social Security and pension benefits: *Benefit Formula* and *Estimate Benefit*.

*Benefit Formula* – The benefit is unknown and you need to create an estimate based on projected earnings

*Estimate Benefit* – The benefit values appear on the clients’ Social Security Statement or pension statement

## Enter Social Security details

In the *Social Security Details* dialog box, you can define monthly retirement, survivor, and disability benefits, using either the *Benefit Formula* method or the *Estimate Benefit* method.

**Hint:** To determine how NaviPlan calculates Social Security benefits see the [Social Security retirement benefit calculations](#) functional document.

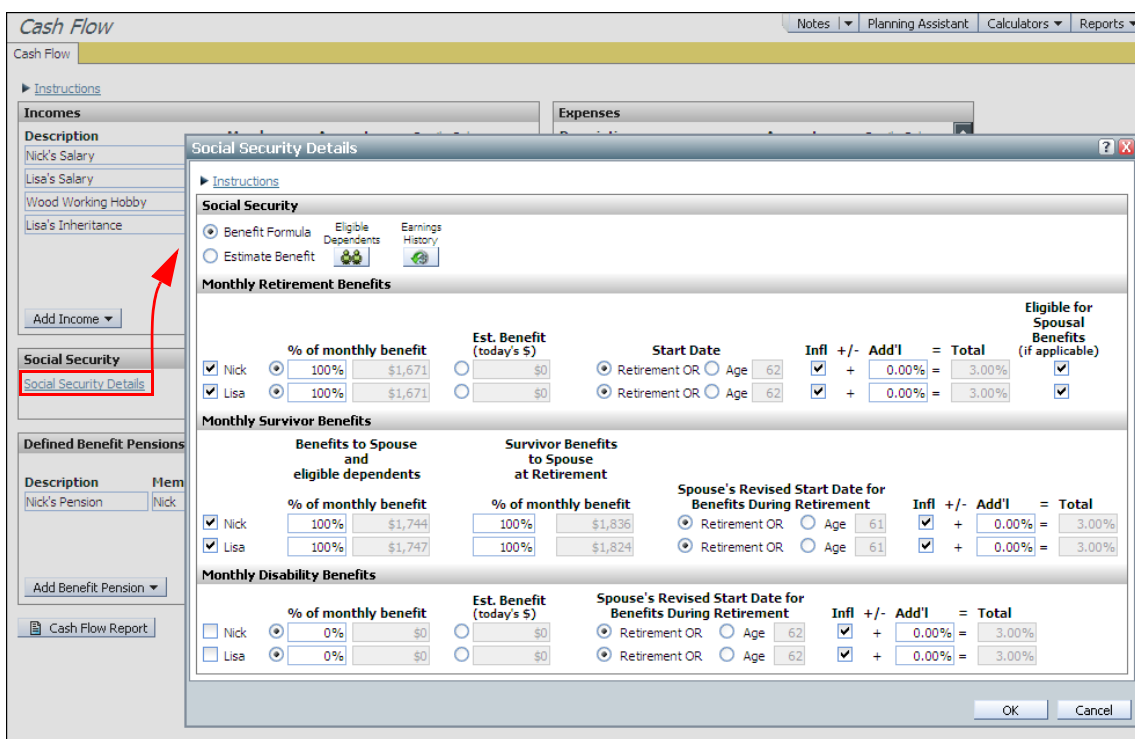


Figure 3: Financial Picture section – Cash Flow category – Cash Flow page – Social Security Details link – Social Security Details dialog box (Benefit Formula selected)

**To enter Social Security details using the Benefit Formula method**

1. On the *Cash Flow* page, under *Social Security*, click the **Social Security Details** link. The *Social Security Details* dialog box opens. Under *Social Security*, *Benefit Formula* is selected by default.
2. If the clients have any dependents, click **Eligible Dependents**. The *Eligible Dependents* dialog box opens. Select the appropriate check box(es) to link each dependent to the appropriate client. In this example, the Browns have one dependent named Kevin, who is already selected as a dependent of both Nick and Lisa.

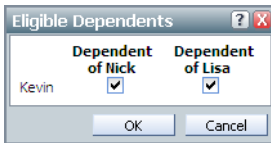


Figure 4: Eligible Dependents dialog box

3. Click **OK**. The *Eligible Dependents* dialog box closes.
4. Click **Earnings History**. The *Earnings History* dialog box opens and displays the earnings projected by NaviPlan from which the clients' Social Security earnings are calculated. The clients' past earnings appear on the *Earnings to Date* tab and the clients' future earnings appear on the *Future Earnings* tab.

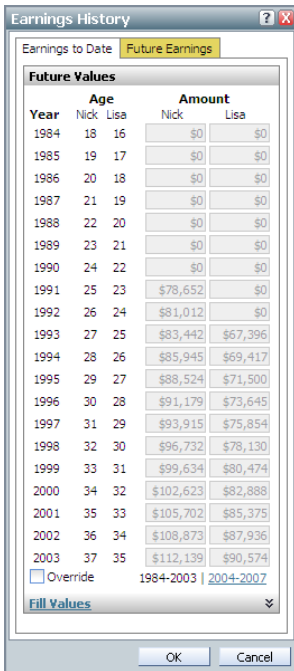


Figure 5: Earnings History dialog box – Earnings to Date tab

5. Click **OK**. The *Earnings History* dialog box closes.

6. Enter Social Security and pension benefits

6. In the *Social Security Details* dialog box, under *Monthly Retirement Benefits*, select the check boxes for the client(s) for whom you want to calculate benefits. In this example, both Nick and Lisa are selected.
7. To enter the client's percentage eligibility for monthly retirement benefits, select **% of monthly benefit**, and then enter the percentage eligibility.  
OR  
To specify the monthly retirement benefits that the client will receive, select **Est. Benefit (today's \$)**, and then enter the amount in today's dollars.
8. Select a start date, and then define the inflation rate.  
**Note:** If you select *Age*, NaviPlan updates the benefit amount automatically. If the age entered is not between 62 and 70 or the client is already retired, NaviPlan does not calculate future Social Security benefits for that client. If the client is already retired, on the *Cash Flow* page, add an income with the *Social Security* income type.
9. If the spouse is eligible to receive spousal Social Security benefits, select the **Eligible for Spousal Benefits** check box. Since the Nick and Lisa are married, the *Eligible for Spousal Benefits* check boxes are selected by default.
10. To calculate survivor benefits, under *Monthly Survivor Benefits*, select the check boxes for the client(s) for whom you want to calculate benefits. Enter a percentage of monthly benefits, and then define the inflation rate that applies.
11. To calculate disability benefits, under *Monthly Disability Benefits*, select the check boxes for the client(s) for whom you want to calculate benefits.  
If you're not sure how much the client or co-client will receive, select **% of monthly benefit**, and then enter the percentage eligibility.  
To specify the monthly retirement benefits that the client will receive, select **Est. Benefit (today's \$)**, and then enter the amount in today's dollars. Select a start date, and then define the inflation rate. NaviPlan Standard estimates the monthly benefits your clients will receive.

**To enter Social Security details using the Estimate Benefit method**

1. In the *Social Security Details* dialog box, under *Social Security*, select **Estimate Benefit**. The dialog box updates.

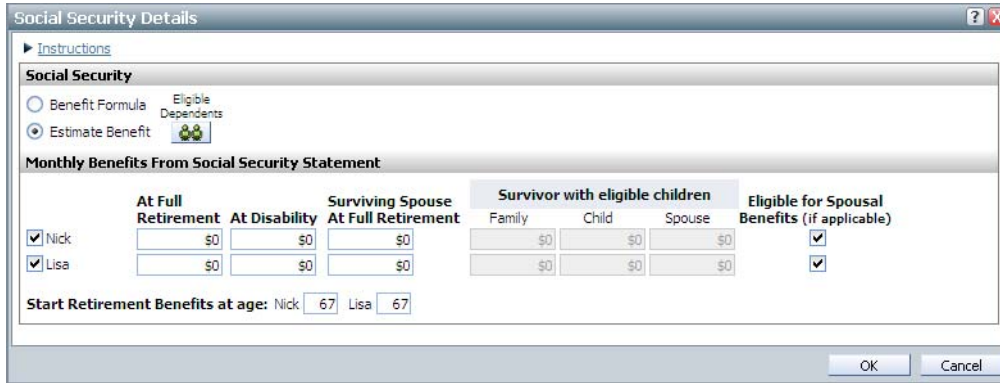


Figure 6: Social Security Details dialog box (Estimate Benefit selected)

2. Under *Monthly Benefits From Social Security Statement*, select the check boxes for the client(s) who are eligible to receive Social Security benefits. In this example, both Nick and Lisa are selected.
3. Enter the benefit details from the clients' Social Security Statement.
4. If the spouse is eligible to receive spousal Social Security benefits, select the **Eligible for Spousal Benefits** check box. Since the Nick and Lisa are married, the *Eligible for Spousal Benefits* check boxes are selected by default.
5. Enter the age when both clients will start receiving Social Security benefits.
6. Click **Cancel**. The dialog box closes without saving your changes.

## Enter defined benefit pensions

A defined benefit pension plan is generally appropriate when an employer can afford large contributions and wants to maximize tax-deferred retirement savings for older, long-term employees. This is also an attractive option for employers that have a small group of highly compensated owners and no employees. Large contributions can be made on a tax-deferred basis. Like Social Security, you can add defined benefit pensions using either the *Benefit Formula* method or the *Estimate Benefit* method.

### To add a defined benefit pension

- On the *Cash Flow* page, under *Defined Benefit Pensions*, click the **Add Benefit Pension** button.

The screenshot shows the 'Cash Flow' software interface. The 'Defined Benefit Pensions' section is visible, containing a table with one entry: Nick's Pension for Nick, Type: Estimate Benefit, Amount: \$17,500/yr. Below this table, the 'Add Benefit Pension' button is highlighted with a red box. A dropdown menu is open below it, showing options: 'Add Benefit Pension', 'Add Estimate Benefit...', and 'Add Benefit Formula...'. Other sections include 'Incomes' (Nick's Salary, Lisa's Salary, Wood Working Hobby, Lisa's Inheritance), 'Expenses' (Housing, Food, Transportation, Entertainment, Personal, Other, Retirement Goal Expense), 'Social Security', 'Other Expenses' (Mortgage, Credit Card Loan, Group Insurance), and 'Surplus Expenses'.

Figure 7: Financial Picture section – Cash Flow category – Cash Flow page – Add Benefit Pension button

Two options are available:

- Add Estimate Benefit** – Defines the pension based on a percentage of the client's or co-client's final salary or a flat dollar amount that is often included on the pension statement.
- Add Benefit Formula** – Defines the pension percentage based on a formula that considers the client's or co-client's salary and the number of years of service. For example, Nick might be eligible to receive 2% benefits per year of service up to a

maximum of 70% of his current salary. The method is appropriate when the pension statement does not include a dollar estimate.

**To view defined benefit pension details**

1. On the *Cash Flow* page, under *Defined Benefit Pensions*, click the **Details** button for Nick's pension. The *Defined Benefit Pension Details* dialog box opens. The fields available differ between the two methods. For both methods, you can
  - specify the percentage of the pension that is payable to the survivor
  - link the pension to incomes that you have already created on the *Cash Flow* page to determine the dollar amount of the pension
  - specify benefit payout and transfer options

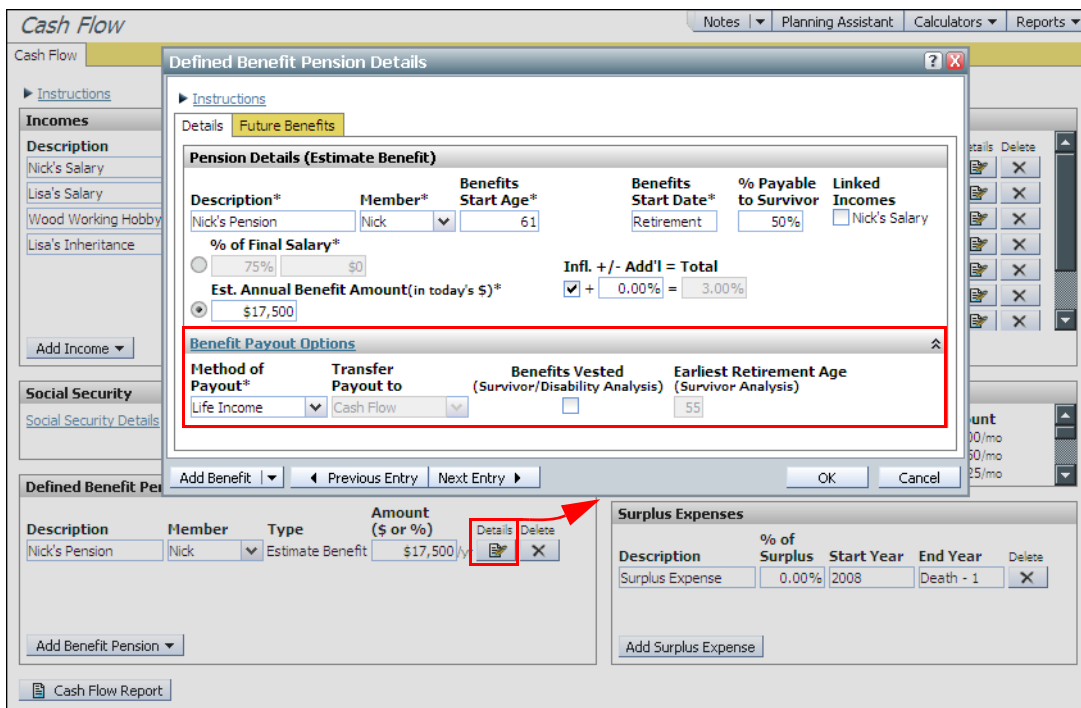


Figure 8: Financial Picture section – Cash Flow category – Cash Flow page – Details button – Defined Benefit Pension Details dialog box (Estimate Benefit pension)

2. Click the **Benefit Payout Options** link. Additional fields appear where you can specify how the benefits will be paid out. From the *Method of Payout* list, you can select
  - *Life Income* – The pension pays out benefits based on a percentage of the pension owner's linked salaries in the final year of salary income
  - *Lump Sum* – The pension benefit is paid out in one large lump sum
3. Click **Cancel**. The dialog box closes without saving your changes.

## Analyze taxes using the Income Tax Summary report

The *Income Tax Summary* report provides a detailed breakdown of all taxable income and applicable deductions for both the client and co-client. It indicates the clients' tax rates, as determined on the *Plan Management* section – *Assumptions* category – *General* page, and provides the total tax payable. This report allows you to analyze a single year of your clients' taxes.

**Hint:** To determine how NaviPlan calculates income tax, see the [Income Tax Summary Report in NaviPlan Standard](#) functional document.

Income Tax Summary	
Brown	
Brown's Base Details (2008)	
	Nick & Lisa
Income (cash flow)	
Employment	\$235,000
Investment	\$9,199
Rental	\$36,000
Total Income (cash flow)	\$280,199
Income (for taxes)	
Employment	\$235,000
Investment	\$9,199
Rental	\$36,000
Total Income (for taxes)	\$280,199
Deductions	
Qualified Contributions	\$6,000
Tax Deductible Interest	\$12,180
Property Taxes	\$1,000
State Taxes	\$13,051
Total Deductions	\$32,231
Federal Tax	
Taxable Average Income	\$238,769
Average Tax Rate	27.1%
Average Tax	\$64,806

Figure 9: Reports menu – Cash Flow – Income Tax Summary Report option – Income Tax Summary report (current plan)

### To generate the *Income Tax Summary* report

1. From the *Reports* menu, select **Cash Flow – Income Tax Summary Report**. The *Assign Settings* dialog box opens.

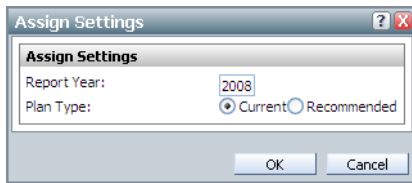


Figure 10: Assign Settings dialog box

The *Assign Settings* dialog box is available for all reports and graphs. The fields that appear vary depending on the report or graph you are generating.

2. In the *Report Year* field, enter **2008**.
3. Select one of the following options:
  - **Current** – Analyzes the information in the plan using all *Current Plan* scenarios for each goal
  - **Recommended** – Analyzes the information in the plan using all *Recommended* scenarios for each goal
4. Click **OK**. The *Income Tax Summary Report* dialog box opens showing the generated report. The *Income (cash flow)* report section contains all incomes, including investment income, whereas the *Income (for taxes)* report section excludes incomes not subject to tax, such as inheritances, tax-free incomes, and the tax-free return of capital (cost basis). NaviPlan Standard supports the following deductions, which can be included in the report:
  - tax-deductible interest
  - charitable gifts
  - property taxes
  - state taxes
  - IRD deduction for estate taxes paid
  - self-employment
  - qualified contributions
  - personal exemptions

## Generate the Itemized Cash Flow Projection for Family report

The *Itemized Cash Flow Projection for Family* report displays the family's cash flow details for the years projected, and is one of the most detailed cash flow reports available in NaviPlan Standard. If you generate projections for several years, you can identify significant changes in cash flow over time.

Itemized Cash Flow Projection for Family							
Brown							
Brown's Base Details (2008)							
	2008	2013	2018	2023	2028	2033	2038
<b>Cash Inflows</b>							
<b>Employment Inflows</b>							
Nick's Salary (Nick)	130,000	150,706	174,709	202,536	0	0	0
Lisa's Salary (Lisa)	105,000	121,724	141,111	163,587	189,642	0	0
<b>Total Employment Inflows</b>	<b>235,000</b>	<b>272,429</b>	<b>315,820</b>	<b>366,122</b>	<b>189,642</b>	<b>0</b>	<b>0</b>
<b>Investment Inflows</b>							
Nick's Brokerage Account (Non-Qualified)	3,564	4,801	6,392	8,510	11,329	0	0
Nick's Annuity (Non-Qualified)	0	0	0	0	7,000	0	0
Lisa's Brokerage Account (Non-Qualified)	3,372	4,532	6,037	8,042	10,712	0	0
Joint Savings Account (Non-Qualified)	2,263	3,177	3,333	4,668	75,943	0	0
500 Smith Street (Joint/Real Estate)	36,000	36,000	36,000	36,000	36,000	36,000	36,000
<b>Total Investment Inflows</b>	<b>45,199</b>	<b>48,510</b>	<b>51,762</b>	<b>57,219</b>	<b>140,984</b>	<b>36,000</b>	<b>36,000</b>
<b>Pension Inflows</b>							
Social Security (Nick)	0	0	0	0	24,140	41,978	48,663
Nick's Pension (Nick)	0	0	0	0	31,607	36,641	42,477
Nick's 403(b)	0	0	0	0	0	0	241,222
Social Security (Lisa)	0	0	0	0	0	41,976	48,661
Lisa's Roth IRA	0	0	0	0	0	172,444	0
<b>Total Pension Inflows</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>55,747</b>	<b>293,038</b>	<b>381,024</b>
<b>Miscellaneous Inflows</b>							
Wood Working Hobby (Lisa)	0	0	0	0	0	10,469	12,136
<b>Total Miscellaneous Inflows</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,469</b>	<b>12,136</b>
<b>Total Cash Inflows</b>	<b>280,199</b>	<b>320,940</b>	<b>367,583</b>	<b>423,341</b>	<b>386,373</b>	<b>339,507</b>	<b>429,160</b>

Figure 11: Reports menu – Cash Flow – Itemized Cash Flow Projection for Family option – Itemized Cash Flow Projection for Family report

**To use the *Itemized Cash Flow Projection for Family* report**

1. From the *Reports* menu, select **Cash Flow – Itemized Cash Flow Projection for Family**. The *Assign Settings* dialog box opens.

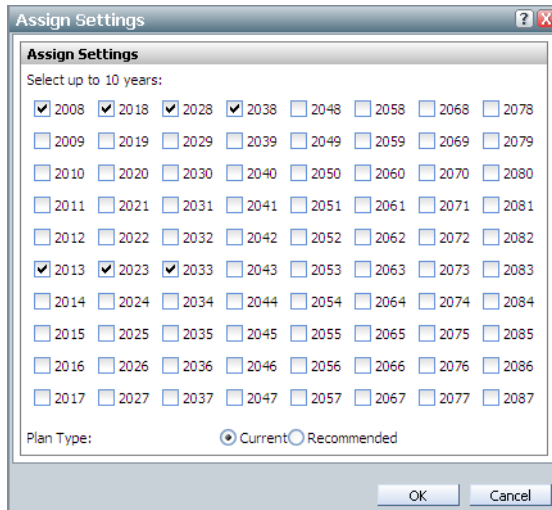


Figure 12: Assign Settings dialog box

2. Select **2008, 2013, 2018, 2023, 2028, 2033, and 2038**.

**Hint:** You can select up to ten years to include in the projection.

3. Select **Current**, and then click **OK**. The *Itemized Cash Flow Projection for Family* dialog box opens. Some patterns that can be identified include
  - Nick’s and Lisa’s salaries are indexed in early years
  - investment income is calculated automatically and reinvested in non-qualified accounts
  - steady rental income is earned from the real estate property
  - Nick starts earning a pension and Social Security in 2028 (notice that he no longer earns a salary)
  - Lisa starts earning a pension and Social Security in 2033
4. Return to the **Cash Flow** page (do not close the dialog box).
5. Under *Incomes*, add **\$10,000 to Lisa’s Salary**.
6. Return to the **Itemized Cash Flow Projection for Family** dialog box, and then click **Refresh**. In the report, notice the increase in Lisa’s salary.
7. Close the dialog box.

## Enter and modify pre-retirement expenses

All after-tax living expenses should be entered on the *Cash Flow* page under *Expenses*. Typically, only pre-retirement expenses should be entered here since retirement-specific expenses can be entered on the *Goals* section – *Retirement* category – *Objectives* page. NaviPlan allows you to enter both itemized and grouped expenses that reflect the level of detail your clients have provided. You can include as many items as you need. You can also specify whether expenses are fixed, such as utility bills, or discretionary, such as entertainment.

On the *Cash Flow* page, you can enter a description and the amount of the expense. However, you can enter additional details by clicking the *Details* button for the expense.

The screenshot shows the 'Cash Flow' page with the following sections:

- Incomes:**

Description	Member	Amount	Details	Delete
Nick's Salary	Nick	\$130,000/yr	[Details]	[X]
Lisa's Salary	Lisa	\$105,000/yr	[Details]	[X]
Wood Working Hobby	Lisa	\$5,000/yr	[Details]	[X]
Lisa's Inheritance	Lisa	\$100,000/1x	[Details]	[X]
- Expenses (highlighted in red):**

Description	Amount	Details	Delete
Housing (e.g. utilities, repairs)	\$2,500/mo	[Details]	[X]
Food	\$1,250/mo	[Details]	[X]
Transportation (e.g. gas, insurance)	\$1,500/mo	[Details]	[X]
Entertainment (e.g. restaurants, mc)	\$1,000/mo	[Details]	[X]
Personal (e.g. clothing, hobbies)	\$750/mo	[Details]	[X]
Other (e.g. child care, travel)	\$2,000/mo	[Details]	[X]
Retirement Goal Expense	\$130,000/yr	[Details]	[X]
- Social Security:** Social Security Details
- Defined Benefit Pensions:**

Description	Member	Type	Amount (\$ or %)	Details	Delete
Nick's Pension	Nick	Estimate Benefit	\$17,500/yr	[Details]	[X]
- Other Expenses:**

Description	Type	Amount
123 Home Street Mort...	Principal and Interest	\$1,200/mo
Credit Card Loan	Principal and Interest	\$250/mo
Lisa's Group Insuran...	Term 10 Life	\$25/mo
- Surplus Expenses:**

Description	% of Surplus	Start Year	End Year	Delete
Surplus Expense	0.00%	2008	Death - 1	[X]

Figure 13: Financial Picture section – Cash Flow category – Cash Flow page (showing expenses)

### To add an expense

- On the *Cash Flow* page, under *Expenses*, click the **Add Expense** button, and then select one of the following options:
  - Lifestyle** – Creates a lifestyle expense (principal and interest payments are not included)
  - Employ/Bus** – Creates a tax deduction that is applied to self-employment income

**Hint:** To determine how NaviPlan calculates income tax, see the [Income Tax Summary Report in NaviPlan Standard](#) functional document.

- **Medical** – Creates a medical expense (tax calculations are not affected)  
Under *Expenses*, the new expense appears. The expense amount defaults to \$0.

## Define the start and end dates of incomes and expenses

On the *Cash Flow* page, by clicking the *Details* button for an income or an expense, you can specify the start and end dates by entering a specific date or by entering an event. For incomes and expenses, NaviPlan Standard supports the keywords *retirement* and *death*. By default, the end date for pre-retirement incomes and expenses is *retirement*. Entering a keyword allows you to perform What-if analyses. For example, your clients are wondering whether they should retire two years early. You do not need to modify the retirement date for each individual income and expense. Instead, you can change the retirement date on the *Goals* section – *Retirement* category – *Objectives* page or on the *Plan Management* section – *Assumptions* category – *Milestones* page.

**Hint:** To set the default end date for all pre-retirement expenses, go to the **User Preferences** menu, select **Plan Settings**, and then in the *User Preferences - Plan Settings* dialog box, chose an option.

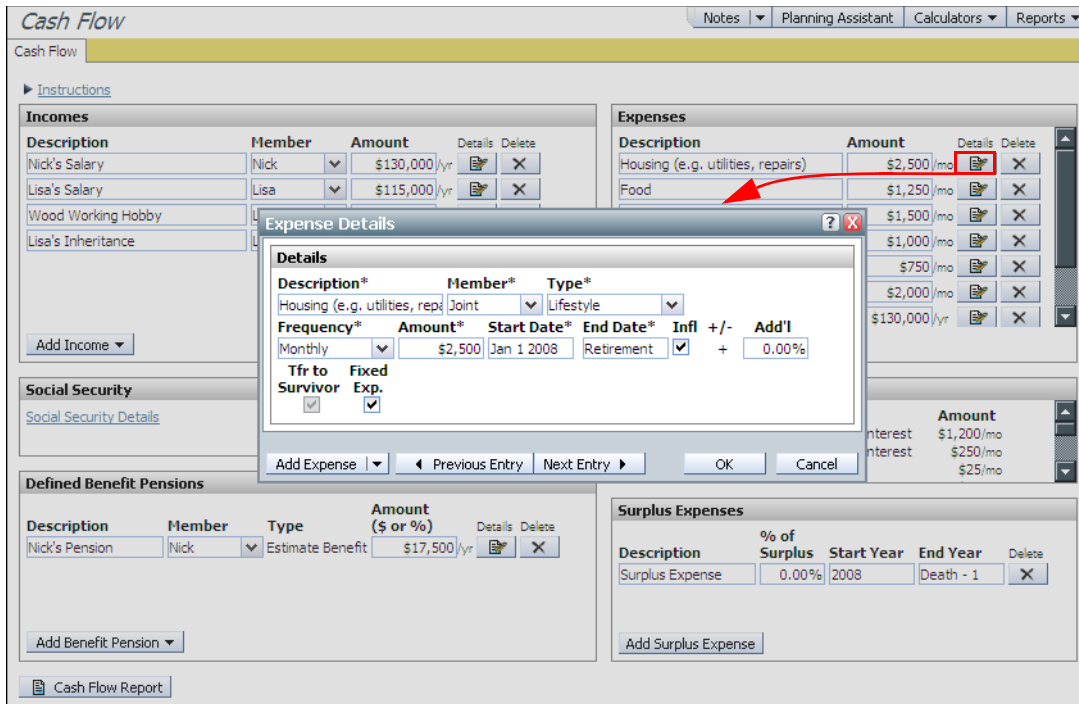


Figure 14: Financial Picture section – Cash Flow category – Cash Flow page – Details button – Expense Details dialog box

**To modify an expense**

1. On the *Cash Flow* page, under *Expenses*, click the **Details** button for the *Housing* expense. The *Expense Details* dialog box opens. The start date is already entered as *January 1 2008*. By default, all incomes and expenses entered in the plan are assumed to begin at the start of the plan year.

**Note:** Property taxes should not be entered on the *Cash Flow* page. You can enter property taxes for lifestyle assets on *Financial Picture* section – *Net Worth* category – *Assets/Liabilities* page.

2. From the *Member* list, select **Joint**. When an expense is jointly incurred, the full expense automatically transfers to the survivor in the case of death (the *Tfr to Survivor* check box cannot be cleared). For singly owned expenses, you have the option of transferring the expense.
3. Select the **Fixed Exp.** check box. When this check box is checked, it indicates that the expense is a fixed expense (unlike discretionary expenses, such as travel and other variable expenses).
4. Click **Cancel**. The dialog box closes without saving your changes.

## View other expenses

Expenses entered in other areas of NaviPlan appear under *Other Expenses*. You can modify these expenses by clicking the link for the applicable expense, but you cannot add to the list using the *Cash Flow* page. The following expense types appear, but are not entered on this page:

- loan payments (entered in the *Net Worth* category)
- insurance policy premiums (entered in the *Insurance Coverage* category)
- property taxes (entered in the *Net Worth* category)

**Note:** Do not double-count these expenses and do not enter income taxes and FICA taxes as expenses. NaviPlan calculates these automatically.

The screenshot shows the 'Cash Flow' page with several sections:

- Incomes:**

Description	Member	Amount	Details	Delete
Nick's Salary	Nick	\$130,000/yr		X
Lisa's Salary	Lisa	\$105,000/yr		X
Wood Working Hobby	Lisa	\$5,000/yr		X
Lisa's Inheritance	Lisa	\$100,000/1x		X
- Expenses:**

Description	Amount	Details	Delete
Housing (e.g. utilities, repairs)	\$2,500/mo		X
Food	\$1,250/mo		X
Transportation (e.g. gas, insurance)	\$1,500/mo		X
Entertainment (e.g. restaurants, mc)	\$1,000/mo		X
Personal (e.g. clothing, hobbies)	\$750/mo		X
Other (e.g. child care, travel)	\$2,000/mo		X
Retirement Goal Expense	\$130,000/yr		X
- Other Expenses (highlighted in red):**

Description	Type	Amount
<a href="#">123 Home Street Mort...</a>	Principal and Interest	\$1,200/mo
<a href="#">Credit Card Loan</a>	Principal and Interest	\$250/mo
<a href="#">Lisa's Group Insuran...</a>	Term 10 Life	\$25/mo
- Defined Benefit Pensions:**

Description	Member	Type	Amount (\$ or %)	Details	Delete
Nick's Pension	Nick	Estimate Benefit	\$17,500/yr		X
- Surplus Expenses:**

Description	% of Surplus	Start Year	End Year	Delete
Surplus Expense	0.00%	2008	Death - 1	X

Figure 15: Financial Picture section – Cash Flow category – Cash Flow page (showing other expenses)

## Construct surplus savings and expense strategies

As of December 31 of any given year, if NaviPlan projects a cash flow surplus, that surplus can be carried over to the following year's cash flow or you can specify whether all, or a portion of, the surplus will be saved into an investment account or spent as an unforeseen expense.

### Generate the Multi-Year Cash Flow Summary report

The *Multi-Year Cash Flow Summary* report provides an annual summary of the cash flow for the entire plan in three tables:

- *Summary* – Shows total inflows, total outflows, and the current surplus or deficit
- *Inflow Summary* – Shows various inflows over time
- *Outflow Summary* – Shows various outflows over time

This report illustrates whether additional cash is remaining at the end of the reporting period. All surpluses and deficits are reported annually. In other reports, the accumulated surplus or deficit appears instead. A pre-retirement surplus indicates that your clients have an opportunity to invest or spend the unused cash.

Multi-Year Cash Flow				
Brown				
<i>Brown's Base Details</i>				
Multi-Year Cash Flow Summary				
Year	Ages	Cash Inflows	Cash Outflows	Surplus/(Deficit)
2008	42/40	290,199	250,799	39,400
2009	43/41	298,178	257,363	40,815
2010	44/42	309,234	274,896	34,338
2011	45/43	424,054	271,549	152,505
2012	46/44	323,517	279,019	44,498
2013	47/45	332,532	284,410	48,122
2014	48/46	364,619	314,328	50,292
2015	49/47	374,026	323,039	50,987
2016	50/48	362,040	332,090	29,951
2017	51/49	372,105	340,707	31,398
2018	52/50	381,022	323,200	57,822
2019	53/51	391,875	332,359	59,515
2020	54/52	403,079	341,824	61,255
2021	55/53	414,646	351,604	63,042
2022	56/54	426,589	361,712	64,877
2023	57/55	438,921	372,158	66,763
2024	58/56	451,655	382,956	68,699
2025	59/57	464,805	394,117	70,688
2026	60/58	478,386	405,658	72,728

Figure 16: Reports menu – Cash Flow – Multi-Year Cash Flow Summary option – Multi-Year Cash Flow Summary report

### To generate the *Multi-Year Cash Flow Summary* report

1. From the *Reports* menu, select **Cash Flow – Multi-Year Cash Flow Summary**. The *Assign Settings* dialog box opens.

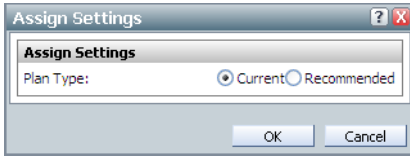


Figure 17: Assign Settings dialog box

2. Select **Current**, and then click **OK**. The *Multi-Year Cash Flow Summary* dialog box opens and the report appears.
3. Minimize the dialog box. This dialog box is needed for the next procedure.

### Investigate reasons for cash flow surpluses

When your clients have cash flow surpluses, this indicates that some expenses or savings have been omitted. By comparing the *Itemized Cash Flow for Family* and *Multi-Year Cash Flow Summary* reports, you can identify discrepancies in your clients' budget.

#### To investigate cash flow surpluses

1. From the *Reports* menu, select **Cash Flow – Itemized Cash Flow Projection for Family**. The *Assign Settings* dialog box opens.

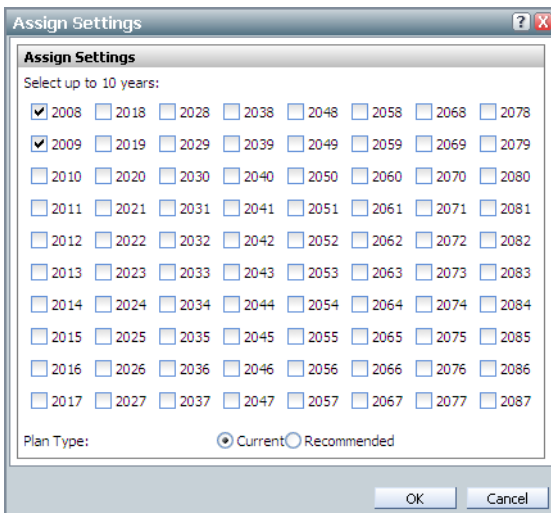


Figure 18: Assign Settings dialog box (2008 and 2009 selected)

2. Select the **Current** plan type, and then click **OK**. The *Itemized Cash Flow Projection for Family* dialog box opens.

- Place and resize the *Itemized Cash Flow Projection for Family* and *Multi-Year Cash Flow Summary* dialog boxes so that they are side by side.

**Itemized Cash Flow Projection for Family**

Brown

Brown's Base Details (2008)

	2008	2009
<b>Cash Inflows</b>		
Employment Inflows		
Nick's Salary (Nick)	130,000	133,900
Lisa's Salary (Lisa)	115,000	118,450
Total Employment Inflows	245,000	252,350
Investment Inflows		
Nick's Brokerage Account (Non-Qualified)	3,564	3,789
Lisa's Brokerage Account (Non-Qualified)	3,372	3,581
Joint Savings Account (Non-Qualified)	2,263	2,458
500 Smith Street (Joint/Real Estate)	36,000	36,000
Total Investment Inflows	45,199	45,828
<b>Total Cash Inflows</b>	<b>290,199</b>	<b>298,178</b>
<b>Cash Outflows</b>		
Lifestyle Expenses		
Entertainment (e.g. restaurants, movies) (Joint)	12,000	12,360
Food (Joint)	15,000	15,450
Housing (e.g. utilities, repairs) (Joint)	30,000	30,900
Other (e.g. child care, travel) (Joint)	24,000	24,720
Personal (e.g. clothing, hobbies) (Joint)	9,000	9,270
Transportation (e.g. gas, insurance) (Joint)	18,000	18,540
123 Home Street Mortgage (Joint)	14,400	14,400
Credit Card Loan (Joint)	3,000	3,000
Total Lifestyle Expenses	125,400	128,640
Non-Qualified Contributions and Reinvestments		
Nick's Brokerage Account (Non-Qualified)	2,518	2,677
Lisa's Brokerage Account (Non-Qualified)	2,324	2,469
Joint Savings Account (Non-Qualified)	3,348	3,481
Total Non-Qualified Contributions and Reinvestments	8,190	8,627
Investment Expenses		
123 Home Street (Joint/Lifestyle)	1,000	1,030
Total Investment Expenses	1,000	1,030

**Multi-Year Cash Flow Summary**

Year	Ages	Cash Inflows	Cash Outflows	Surplus/(Deficit)
2008	42/40	290,199	250,799	39,400
2009	43/41	298,178	257,363	40,815
2010	44/42	309,234	274,896	34,338
2011	45/43	424,054	271,549	152,505
2012	46/44	323,517	279,019	44,498
2013	47/45	332,532	284,410	48,122
2014	48/46	364,619	314,328	50,292
2015	49/47	374,026	323,039	50,987
2016	50/48	362,040	332,090	29,951
2017	51/49	372,105	340,707	31,398
2018	52/50	381,022	323,200	57,822
2019	53/51	391,875	332,359	59,515
2020	54/52	403,079	341,824	61,255
2021	55/53	414,646	351,604	63,042
2022	56/54	426,589	361,712	64,877
2023	57/55	438,921	372,158	66,763
2024	58/56	451,655	382,956	68,699
2025	59/57	464,805	394,117	70,688
2026	60/58	478,386	405,656	72,730
2027	61/59	492,414	417,586	74,828
2028	*62/60	391,582	391,582	0
2029	63/61	405,096	405,096	0
2030	64/62*	330,653	330,656	(3)
2031	65/63	338,652	338,652	(1)
2032	66/64	342,280	342,276	4
2033	67/65	339,509	339,509	0
2034	68/66	363,453	363,462	(9)
2035	69/67	412,959	412,951	8
2036	70/68	407,626	407,626	0
2037	71/69	416,761	416,762	(1)
2038	72/70	429,160	429,161	0
2039	73/71	441,931	441,931	0
2040	74/72	455,084	455,085	0
2041	75/73	468,533	468,533	0
2042	76/74	500,185	500,185	0
2043	77/75	501,657	512,081	(10,424)
2044	78/76	202,940	460,385	(257,445)
2045	79/77	207,948	473,873	(265,925)
2046	80/78	213,107	487,767	(274,660)
2047	81/79	218,420	502,077	(283,658)
2052	86/84	247,474	525,260	(277,786)
2057	-/89	158,563	498,567	(339,974)

Figure 19: *Itemized Cash Flow Projection for Family* and *Multi-Year Cash Flow Summary* reports compared

In this example, some of the observations you can make include

- in the early years, the surplus accumulates (you could ask your clients what makes up the surplus by going through the items one at a time in the *Itemized Cash Flow Projection for Family* report)
  - in Nick's retirement year, the surplus is reset to zero (see the first line marked with an asterisk in the *Multi-Year Cash Flow Summary* report)
- In the *Itemized Cash Flow Projection for Family* dialog box, click the **Report Settings** link, clear **2008** and **2009**, and then select **2028** and **2029** (the retirement years with \$0 surplus).
  - Click **Apply Settings**. The report regenerates.

The missing surplus is not shown in the itemized cash flow details. This occurs because NaviPlan is a goal-based tool and treats pre-retirement and retirement surpluses differently. NaviPlan resets the surplus or deficit to zero when the first person retires, therefore, you must ensure that all surpluses are used. Unused surpluses can result in plan inaccuracies. In the year of the first retirement, NaviPlan restarts the accumulation of surpluses and deficits. Two strategies are available for using surplus cash flow: spending the surplus (surplus expense) or saving it (surplus savings).

## Create surplus expense strategies

If NaviPlan shows a surplus that is larger than what your clients' budget suggests, this indicates that your clients are spending more than they thought and some expenses have been omitted. Some omitted expenses could include entertainment, dining, recreation, and spending on miscellaneous items. NaviPlan executes surplus savings strategies before surplus expense strategies.

On the *Cash Flow* page, you can enter strategies to capture unaccounted expenses that will use a portion of the projected surplus.

The screenshot shows the 'Cash Flow' page with several sections:

- Incomes:**

Description	Member	Amount	Details	Delete
Nick's Salary	Nick	\$130,000/yr		X
Lisa's Salary	Lisa	\$105,000/yr		X
Wood Working Hobby	Lisa	\$5,000/yr		X
Lisa's Inheritance	Lisa	\$100,000/1x		X
- Expenses:**

Description	Amount	Details	Delete
Housing (e.g. utilities, repairs)	\$2,500/mo		X
Food	\$1,250/mo		X
Transportation (e.g. gas, insurance)	\$1,500/mo		X
Entertainment (e.g. restaurants, mc)	\$1,000/mo		X
Personal (e.g. clothing, hobbies)	\$750/mo		X
Other (e.g. child care, travel)	\$2,000/mo		X
Retirement Goal Expense	\$130,000/yr		X
- Other Expenses:**

Description	Type	Amount
123 Home Street Mort...	Principal and Interest	\$1,200/mo
Credit Card Loan	Principal and Interest	\$250/mo
Lisa's Group Insuran...	Term 10 Life	\$25/mo
- Defined Benefit Pensions:**

Description	Member	Type	Amount (\$ or %)	Details	Delete
Nick's Pension	Nick	Estimate Benefit	\$17,500/yr		X
- Surplus Expenses (highlighted in red):**

Description	% of Surplus	Start Year	End Year	Delete
Surplus Expense	0.00%	2008	Death - 1	X

Figure 20: Financial Picture section – Cash Flow category – Cash Flow page (showing a surplus expense)

### To create a surplus expense and view the effect on the plan

1. In the *Itemized Cash Flow Projection for Family* dialog box, click the **Report Settings** link, clear all the check boxes, and then select **2008, 2009, 2010, and 2011**.
2. Click **Apply Settings**. The report regenerates.
3. Scroll down to the bottom of the report, and then note the surplus amounts.
4. On the *Cash Flow* page, under *Surplus Expenses*, enter **60%** in the *% of Surplus* field.

**Hint:** By default, the *End Year* field is set to *Death - 1*. The *-1* adjustment ensures that estate liquidation does not create a large surplus expense in the year of death.

5. Return to the *Itemized Cash Flow Projection for Family* dialog box, and then click **Refresh**. The report regenerates.

	290,199	298,178	309,234	424,054
<b>Total Cash Inflows</b>				
<b>Cash Outflows</b>				
<b>Lifestyle Expenses</b>				
Entertainment (e.g. restaurants, movies) (Joint)	12,000	12,360	12,731	13,113
Food (Joint)	15,000	15,450	15,914	16,391
Housing (e.g. utilities, repairs) (Joint)	30,000	30,900	31,827	32,782
Other (e.g. child care, travel) (Joint)	24,000	24,720	25,462	26,225
Personal (e.g. clothing, hobbies) (Joint)	9,000	9,270	9,548	9,835
Transportation (e.g. gas, insurance) (Joint)	18,000	18,540	19,096	19,669
Vacation (Joint)	0	0	10,609	0
Surplus Lifestyle Expenses (Nick)	14,019	20,142	20,744	23,750
Surplus Lifestyle Expenses (Lisa)	9,621	13,802	13,437	81,426
123 Home Street Mortgage (Joint)	14,400	14,400	14,400	14,400
Credit Card Loan (Joint)	3,000	3,000	3,000	3,000
<b>Total Lifestyle Expenses</b>	<b>149,040</b>	<b>162,585</b>	<b>176,767</b>	<b>240,590</b>
<b>Non-Qualified Contributions and Reinvestments</b>				
Nick's Brokerage Account (Non-Qualified)	2,518	2,677	2,846	2,725
Lisa's Brokerage Account (Non-Qualified)	2,324	2,469	2,623	2,572
Joint Savings Account (Non-Qualified)	3,348	3,481	3,531	3,544
<b>Total Non-Qualified Contributions and Reinvestments</b>	<b>8,190</b>	<b>8,627</b>	<b>9,000</b>	<b>8,842</b>
<b>Investment Expenses</b>				
123 Home Street (Joint/Lifestyle)	1,000	1,030	1,061	1,093
<b>Total Investment Expenses</b>	<b>1,000</b>	<b>1,030</b>	<b>1,061</b>	<b>1,093</b>
<b>Qualified Contributions</b>				
Kevin's 529 Plan (Nick/529 Plan for Kevin)	1,200	1,200	1,200	1,200
Nick's 403(b)	6,000	6,000	6,000	6,000
Lisa's Roth IRA	3,600	3,600	3,600	3,600
<b>Total Qualified Contributions</b>	<b>10,800</b>	<b>10,800</b>	<b>10,800</b>	<b>10,800</b>
<b>Miscellaneous Expenses</b>				
Nick's Disability Policy (Nick)	2,400	2,400	2,400	2,400
Lisa's Group Insurance (Nick/Term 10 Life)	300	300	300	300
Nick's LTC insurance policy (Nick)	900	900	900	900
Lisa's Disability Policy (Lisa)	2,100	2,100	2,100	2,100
Nick's Group Insurance (Other/Term 10 Life)	300	300	300	300
<b>Total Miscellaneous Expenses</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>
<b>Taxes</b>				
State Taxes	13,551	13,956	14,374	14,801
Federal Taxes	69,657	71,743	73,877	76,729
Medicare Tax - employment	3,553	3,659	3,769	3,882
Social Security Tax - employment	12,648	12,908	13,429	13,987
<b>Total Taxes</b>	<b>99,409</b>	<b>102,267</b>	<b>105,449</b>	<b>109,400</b>
<b>Total Cash Outflows</b>	<b>274,439</b>	<b>291,308</b>	<b>309,077</b>	<b>376,724</b>
<b>Current Surplus/(Deficit)</b>	<b>15,760</b>	<b>6,870</b>	<b>157</b>	<b>47,330</b>
<b>Previous Surplus/(Deficit)</b>	<b>0</b>	<b>15,760</b>	<b>22,630</b>	<b>22,787</b>
<b>Ending Surplus/(Deficit)</b>	<b>15,760</b>	<b>22,630</b>	<b>22,787</b>	<b>70,117</b>

Figure 21: *Itemized Cash Flow Projection for Family* report (showing new surplus expenses and reduced surplus amounts)

In the report, some of the observations you can make include

- under *Lifestyle Expenses*, new expenses are listed (these are based on 60% of the accumulated surplus)
- the surplus strategy is applied to the *Ending Surplus/(Deficit)* line in the report

- since the surplus expense strategy involves spending less than 100% of the surplus, the remaining amount (40%) is carried over to the following year and is added to the accumulated surplus for that year

## Create surplus savings strategies

Although your clients might spend a portion of their annual cash flow surplus, the remaining amount is often saved. On the *Financial Picture* section – *Strategies* category – *Surplus* page, you can enter both surplus expense and surplus savings strategies. Any surplus expense strategies you created on the *Cash Flow* page appear.

Figure 22: Financial Picture section – Strategies category – Surplus page

### To create a surplus savings strategy

1. Go to the **Financial Picture** section – **Strategies** category – **Surplus** page.
2. Under *Surplus Savings*, select **Joint Savings Account**.
 

**Note:** You can only direct surplus cash to non-qualified accounts. If you save to an account owned by only one client, only the surplus belonging that client will be used.
3. Click **Add Surplus Savings Strategy**. Additional data-entry fields appear.
4. In the *% of Surplus* field, enter **40%**.
5. Return to the *Itemized Cash Flow Projection for Family* dialog box, and then click **Refresh**.

In the report, some of the observations you can make include

- the clients' surplus lifestyle expenses have dropped significantly after the savings strategy was applied (savings strategies are applied first)
- under *Non-Qualified Contributions and Reinvestments*, the savings amount for the *Joint Savings Account* is much higher
- a surplus is still available

Personal (e.g. clothing, hobbies) (Joint)	5,000	5,270	5,540	5,810
Transportation (e.g. gas, insurance) (Joint)	18,000	18,540	19,096	19,669
Vacation (Joint)	0	0	10,609	0
Surplus Lifestyle Expenses (Nick)	9,291	12,218	12,334	695
Surplus Lifestyle Expenses (Lisa)	4,893	5,878	5,028	58,371
123 Home Street Mortgage (Joint)	14,400	14,400	14,400	14,400
Credit Card Loan (Joint)	3,000	3,000	3,000	3,000
Total Lifestyle Expenses	139,584	146,737	159,948	194,481
<b>Non-Qualified Contributions and Reinvestments</b>				
Nick's Brokerage Account (Non-Qualified)	2,518	2,677	2,846	2,725
Lisa's Brokerage Account (Non-Qualified)	2,324	2,469	2,623	2,572
Joint Savings Account (Non-Qualified)	19,108	24,067	23,881	70,753
Total Non-Qualified Contributions and Reinvestments	23,950	29,213	29,349	76,050
<b>Investment Expenses</b>				
123 Home Street (Joint/Lifestyle)	1,000	1,030	1,061	1,093
Total Investment Expenses	1,000	1,030	1,061	1,093
<b>Qualified Contributions</b>				
Kevin's 529 Plan (Nick/529 Plan for Kevin)	1,200	1,200	1,200	1,200
Nick's 403(b)	6,000	6,000	6,000	6,000
Lisa's Roth IRA	3,600	3,600	3,600	3,600
Total Qualified Contributions	10,800	10,800	10,800	10,800
<b>Miscellaneous Expenses</b>				
Nick's Disability Policy (Nick)	2,400	2,400	2,400	2,400
Lisa's Group Insurance (Nick/Term 10 Life)	300	300	300	300
Nick's LTC insurance policy (Nick)	900	900	900	900
Lisa's Disability Policy (Lisa)	2,100	2,100	2,100	2,100
Nick's Group Insurance (Other/Term 10 Life)	300	300	300	300
Total Miscellaneous Expenses	6,000	6,000	6,000	6,000
<b>Taxes</b>				
State Taxes	13,551	13,991	14,452	14,925
Federal Taxes	69,657	71,931	74,295	77,515
Medicare Tax - employment	3,553	3,659	3,769	3,882
Social Security Tax - employment	12,648	12,908	13,429	13,987
Total Taxes	99,409	102,490	105,946	110,309
Total Cash Outflows	280,743	296,269	313,104	398,733
Current Surplus/(Deficit)	9,456	2,608	(490)	27,803
Previous Surplus/(Deficit)	0	9,456	12,064	11,575
Ending Surplus/(Deficit)	9,456	12,064	11,575	39,377

Figure 23: Itemized Cash Flow Projection for Family report (showing reduced surplus expenses and increased savings to the Joint Savings Account)

A surplus remains because of the manner in which NaviPlan performs surplus strategy calculations. The surplus savings strategy occurs first, saving 40% of the surplus. Next, the surplus expense strategy occurs, spending 60% of the remainder. The 40% of the remainder that has not been spent is included in the following year's cash flow.

If you want to use the entire surplus instead while continuing to save 40% of it, you must have a 40% savings strategy and a 100% surplus expense strategy.

## View existing savings strategies

On the *Financial Picture* section – *Strategies* category – *Savings* page, NaviPlan lists all savings strategies that have been applied to existing accounts entered into the plan. These strategies are already included in cash outflow and should not be re-entered as surplus expenses. For details regarding recurring savings strategies, see the Net Worth training module.

Figure 24: Financial Picture section – Strategies category – Savings page

## View debt modification strategies

Another method for using cash flow surpluses is to pay down outstanding debts. You can create debt modification strategies during liability creation (see the Net Worth training module) or, you can create them on the *Financial Picture* section – *Strategies* category – *Debt Modification* page.

Figure 25: Financial Picture section – Strategies category – Debt Modification page

## Explore cash flow pages in the Financial Needs Analysis client report

The *Financial Needs Analysis* client report provides a comprehensive analysis of the plan, including projected cash flow, a cash flow summary, cash inflows, and cash outflows.

### Generate the client report

Client reports can be customized to include only the sections you need for your client presentation. For example, you could include only those sections that apply to cash flow.

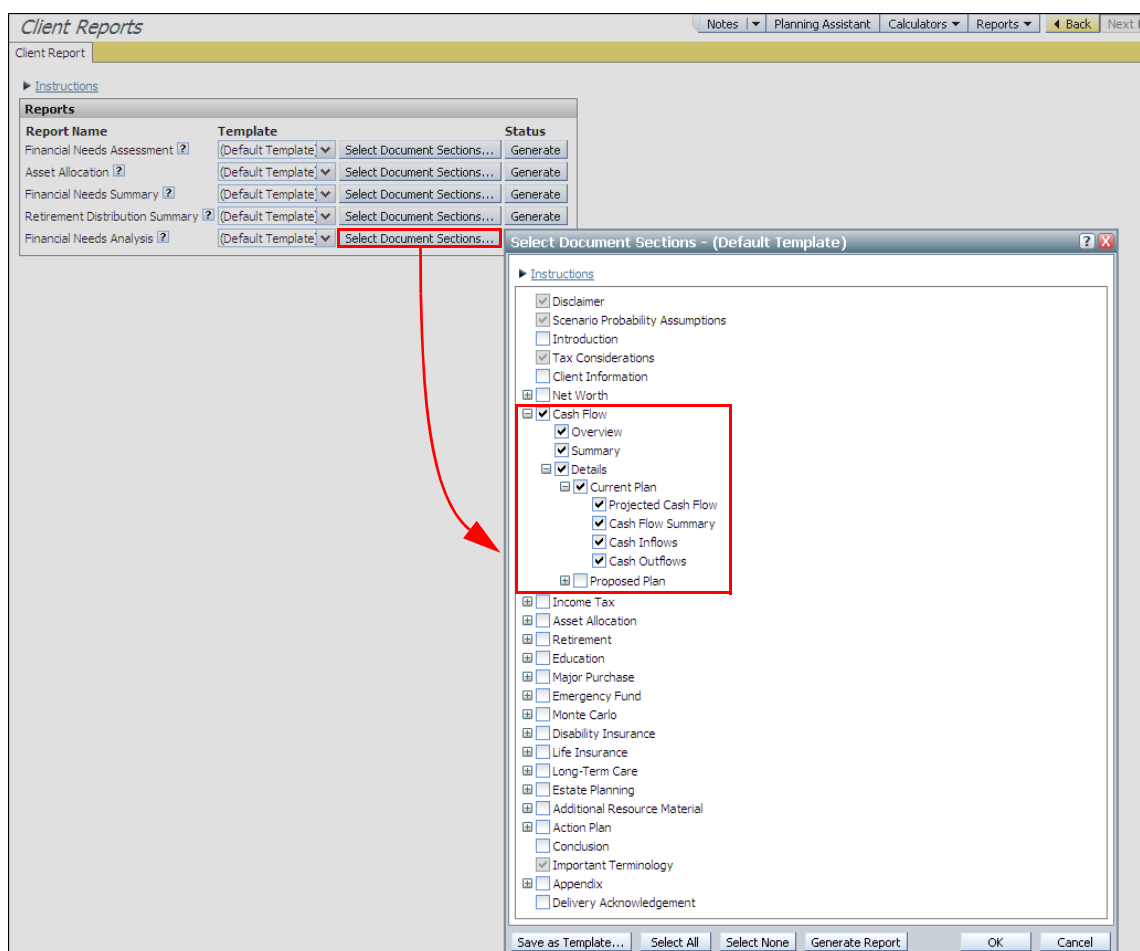


Figure 26: Results section – Client Reports category – Client Report page – Select Document Sections button – Select Document Sections dialog box (showing Cash Flow report sections)

### To generate the *Financial Needs Analysis* client report

1. Go to the **Results** section – **Client Reports** category – **Client Report** page.

2. For the *Financial Needs Analysis* client report, click the **Select Document Sections** button. The *Select Document Sections* dialog box opens.
3. Click the **Select None** button. All report sections are removed, except for some which are mandatory.
4. Select the **Cash Flow** check box, and then expand the report section.
5. Clear the **Proposed Plan** check box. When the report generates, only the cash flow details for the current plan will appear in the report.
6. Click the **Generate Report** button. NaviPlan generates the report.

## Interpret the cash flow pages

Using the *Cash Flow* section of the *Financial Needs Analysis* client report, you can develop money management objectives with your clients. Some objectives could include

- paying off outstanding credit card debt
- avoid bank overdraft and NSF charges
- establishing an emergency fund

The *Cash Flow Overview* page provides a starting point for discussing cash flow and budgeting. A graph demonstrates the process of cash coming in and out of your clients' possession.

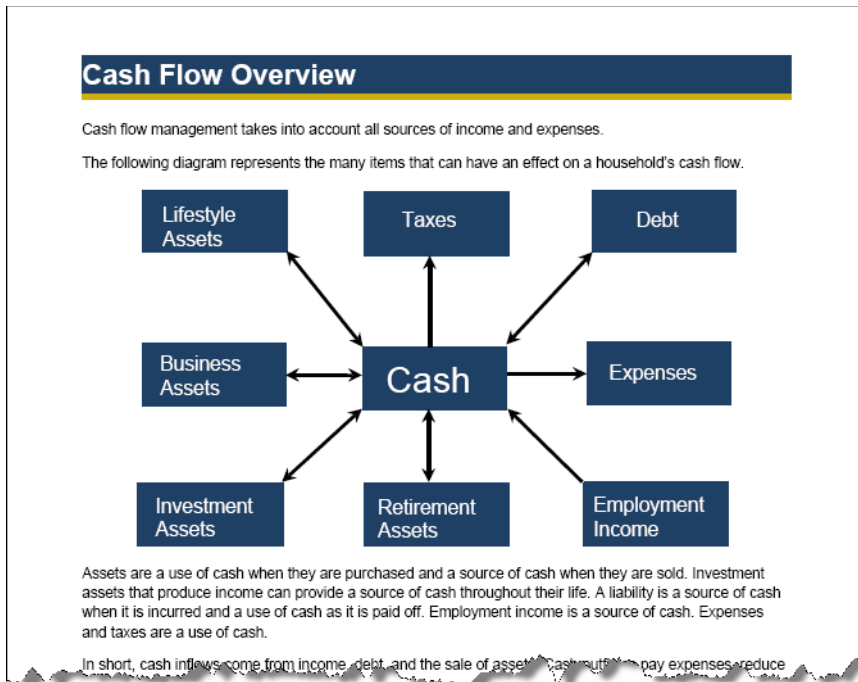


Figure 27: *Financial Needs Analysis* client report – Cash Flow Overview

The *Cash Flow Summary* page shows the clients' cash flow position for the current year and a breakdown for each client.

<b>Cash Flow Summary</b>			
The cash flow report below outlines your current sources of income and expenses. Your income includes employment income, investment income and any other sources. Your expenses include your daily living expenses, debt payments including your mortgage, current investment contributions and insurance premiums.			
<i>Current Surplus/(Deficit)</i> displays any excess cash available or shortfall at the end of the current year once all expenses have been covered and investments made. <i>Ending Surplus/(Deficit)</i> displays the final surplus or deficit at the end of the current year after adjustments to or from other family members. The family's ending surplus or deficit is the sum of the individual family member's ending surpluses or deficits.			
	Nick	Lisa	Family
<b>Cash Inflows</b>			
Employment Inflows	\$100,000	\$90,000	\$190,000
Investment Inflows	\$28,681	\$23,082	\$49,763
<b>Total Cash Inflows</b>	<b>\$128,681</b>	<b>\$113,082</b>	<b>\$239,763</b>
<b>Cash Outflows</b>			
Lifestyle Expenses	\$64,824	\$62,703	\$127,527
Taxes	\$41,720	\$38,727	\$80,446
Miscellaneous Expenses	\$4,100	\$2,900	\$7,000
Non-Qualified Contributions and Reinvestments	\$8,612	\$4,349	\$10,961
Qualified Contributions	\$7,200	\$3,600	\$10,800
<b>Total Cash Outflows</b>	<b>\$124,465</b>	<b>\$112,280</b>	<b>\$236,745</b>
<b>Current Surplus/(Deficit)</b>			<b>3,018</b>
<b>Ending Surplus/(Deficit)</b>			<b>3,018</b>

*Consider the following:*

Figure 28: Financial Needs Analysis client report – Cash Flow Summary

The *Projected Cash Flow - Current* page can be used to identify patterns in spending and confirm that data entered in the plan is accurate.

<b>Projected Cash Flow - Current</b>					
The following report shows your sources of income and expenses over the next 5 years.					
	2008	2009	2010	2011	2012
<b>Cash Inflows</b>					
<b>Employment Inflows</b>					
Nick's Salary (Nick)	130,000	133,900	137,917	142,055	146,316
Lisa's Salary (Lisa)	105,000	108,150	111,396	114,738	118,178
<b>Total Employment Inflows</b>	<b>235,000</b>	<b>242,050</b>	<b>249,312</b>	<b>256,791</b>	<b>264,495</b>
<b>Investment Inflows</b>					
Nick's Brokerage Account (Non-Qualified)	3,564	3,789	4,028	4,282	4,534
Lisa's Brokerage Account (Non-Qualified)	3,372	3,581	3,804	4,041	4,280
Joint Savings Account (Non-Qualified)	2,283	2,458	2,641	2,740	2,953
500 Smith Street (Joint/Real Estate)	36,000	36,000	36,000	36,000	36,000
<b>Total Investment Inflows</b>	<b>45,199</b>	<b>45,828</b>	<b>49,313</b>	<b>47,063</b>	<b>47,767</b>
<b>Miscellaneous Inflows</b>					
Lisa's Inheritance (Lisa)	0	0	0	109,273	0
<b>Total Miscellaneous Inflows</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>109,273</b>	<b>0</b>
<b>Total Cash Inflows</b>	<b>280,199</b>	<b>287,878</b>	<b>298,625</b>	<b>413,126</b>	<b>312,261</b>
<b>Cash Outflows</b>					
<b>Lifestyle Expenses</b>					
Entertainment (e.g. restaurants, movies) (Joint)	12,000	12,360	12,731	13,113	13,506
Food (Joint)	15,000	15,450	15,914	16,391	16,883
Housing (e.g. utilities, repairs) (Joint)	30,000	30,900	31,827	32,782	33,765
Other (e.g. child care, travel) (Joint)	24,000	24,720	25,462	26,226	27,012
Personal (e.g. clothing, hobbies)	9,000	9,270	9,543	9,835	10,130

Figure 29: Financial Needs Analysis client report – Projected Cash Flow - Current

# HANDS-ON EXERCISES

## Exercises

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

**Hint:** All copies of plans are managed in the *Plan Management* section – *Plan List* category.

### Exercise 1: Enter and modify incomes and expenses

To find the answers, see “Answers to cash flow exercises” on page 33.

1. Nick receives a bonus of \$5,000 each year from his employer. Add Nick’s bonus on the *Financial Picture* section – *Cash Flow* category – *Cash Flow* page.
2. Nick’s bonus is excluded from his percentage of salary savings strategies as well as Social Security and Medicare taxes, but is considered in his disability benefit calculations. Where can you specify these details in NaviPlan?

---

---

3. Since the Browns’ last meeting with you in September, they have enrolled their son, Kevin, in a junior hockey league. The monthly cost for the hockey membership plus rental equipment is \$75 per month. Update the Browns’ expenses on the *Cash Flow* page to reflect the new expense.
4. When entering your clients’ monthly expenses on the *Cash Flow* page, which of the following items should you include?

**Hint:** The *Instructions* link on the page guides you through the data-entry process.

- a) Savings towards investment accounts
- b) Income taxes
- c) Insurance premiums
- d) Golf membership fees

**Exercise 2: Model a defined benefit plan rollover**

To find the answers, see “Answers to cash flow exercises” on page 33.

1. Nick has participated in an employer’s sponsored defined benefit pension plan for the past seven years and is fully vested in the plan. Once he retires at age 62, he would like to roll over the distribution from his pension to an IRA.

Click the **Details** button for *Nick’s Pension* on the *Cash Flow* page, and then modify the details under *Benefit Payout Options*, as follows:

- *EST. Annual Benefit Amount*: **\$275,000**
- *Method of Payout*: **Lump Sum**
- *Transfer Payout to*: **New IRA**

**Hint:** Expand the *Benefit Payout Options* section to adjust the payout information.

2. On the *Financial Picture* section – *Net Worth* category – *Accounts* page, classify the new IRA account as **100% Intermediate Term Bonds**. How can you confirm that the transfer will take place when Nick retires?

---



---



---



---

**Exercise 3: Model cash surplus strategies and output pages**

To find the answers, see “Answers to cash flow exercises” on page 33.

1. Generate the *Itemized Cash Flow Projection for Family: Current* report, and then make a note of Nick and Lisa’s cash flow for the next 20 years.

**Hint:** It may be useful to view the report in 5-year increments.

- a) Are there any cash flow surpluses or deficits?

---

- b) How are the surpluses or deficits handled by NaviPlan during Nick’s and Lisa’s pre-retirement period?

---

# HANDS-ON EXERCISES

2. After reviewing the results of your cash flow analysis with Nick and Lisa, they reveal that they tend to make a lot of impulse purchases. Although they admit to having a moderate surplus at the end of each year, they are skeptical of the surplus amount projected. Create cash flow strategies for the Browns to retain 60% of their total projected surplus saved, with the remaining 40% spent.

How would you enter these details into the plan?

**Hint:** Consider the ordering that applies to surplus cash usage. Generate a cash flow report, and then review your results.

- a) Enter a 60% surplus savings strategy and a 40% surplus expenses strategy.
- b) Enter a 40% surplus expenses strategy and a 110% surplus savings strategy.
- c) Enter a 60% surplus savings strategy and a 100% surplus expenses strategy.
- d) You can only model one surplus strategy at a time.

## Conclusion

This module has enabled you to

- Capture your clients' cash flow situation and report on the results
  - Enter and modify pre-retirement incomes
  - Enter Social Security and pension benefits
  - Analyze your clients' taxes using the *Income Tax Summary* report
  - Verify your clients' income with stand-alone cash flow reports
  - Enter and modify pre-retirement expenses
  - Define the start and end dates of your clients' incomes and expenses
  - Construct surplus savings and expense strategies to reduce unrealistic surpluses
  - Explore cash flow pages in a client report to assess your clients' current financial situation

## Answers to cash flow exercises

### Exercise 1: Enter and modify incomes and expenses

2. This information should be entered within the *Income Details* dialog box under *Other Options*.
4. d) Golf membership fees – When entering your clients' monthly expenses on the *Cash Flow* page, the golf membership fees should be included.

### Exercise 2: Model a defined benefit plan rollover

2. You can verify the following to ensure that
  - the transfer will appear as a savings strategy on the *Account Details* dialog box – *Savings Strategy* tab
  - the transfer will appear on the *Strategies* category – *Savings* page
  - the transfer will be reflected in various stand-alone net worth reports in the year of Nick's retirement and thereafter (reports include *Asset Activity*, *Single Asset Summary/Details*, and *Net Worth Summary: End of Year*)

### Exercise 3: Model cash surplus strategies and output pages

1. The cash flow items to note are
  - a) Yes, there are surpluses illustrated in the reporting years.
  - b) The surpluses or deficits accumulate in value up until retirement.
2. c) Enter a 60% surplus savings strategy and a 100% surplus strategy – NaviPlan first saves 60% of the surplus remaining at the end of the year, and then assumes the clients spend the remaining 40%.

