



NaviPlan Standard Online/Offline

Net Worth Self-Study Guide

USA version 11.2

EISI, Winnipeg

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Net worth

The NaviPlan Standard Net Worth 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 net worth position by entering details about their current and future assets and liabilities. You can model various strategies, including increasing or paying down existing debt. Generating the *Financial Needs Summary* report allows you to verify your data entry and begin a discussion with your clients.

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 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

This module will enable you to

- Capture your clients' current net worth position
 - Enter new and existing lifestyle and real estate assets
 - Examine the cash flow implications of selling a home
 - Enter existing and future liabilities
 - Calculate your clients' mortgage based on payment, balance, or amortization
 - Construct strategies for your clients' liabilities
 - Model detailed investment accounts and holdings
 - Analyze your clients' net worth position using related reports

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.

Note: If you are using a version of NaviPlan Offline without the Ibbotson Asset Allocation option, or if you are using NaviPlan Online, there will be some differences between the guide and your version of NaviPlan.

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 existing lifestyle and real estate assets

On the *Financial Picture* section – *Net Worth* category – *Assets/Liabilities* page, you can enter the clients' lifestyle assets and income-producing real estate assets. Under *Lifestyle Assets*, you can enter assets such as residences, vehicles, and other personal property. Under *Real Estate*, only real estate assets that produce income should be entered.

To enter details for and modify the sale date of a home

1. In the *Brown Base Details* plan, go to the **Financial Picture** section – **Net Worth** category – **Assets/Liabilities** page.
2. Under *Lifestyle Assets*, click the **Details** button for *123 Home Street*. The *Lifestyle Asset Details* dialog box opens.

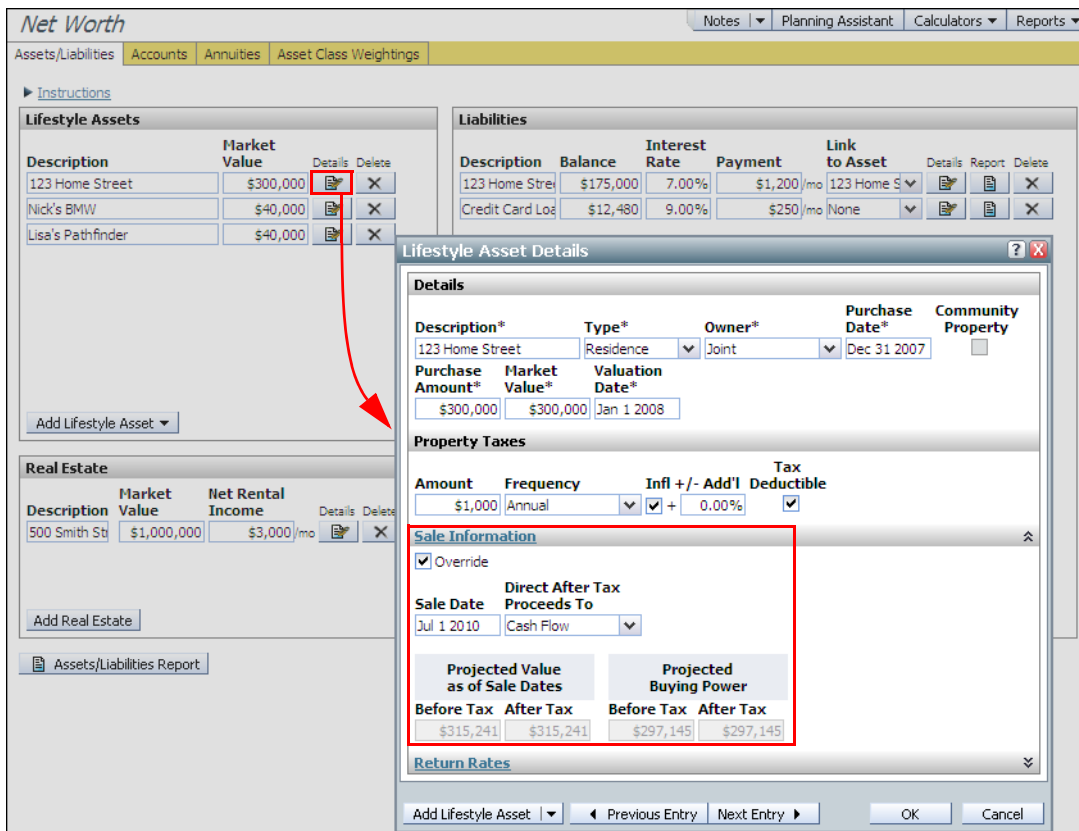


Figure 1: Financial Picture section – Net Worth category – Assets/Liabilities page – Details button – Lifestyle Asset Details dialog box

3. Under *Details*, note the following:
 - *Type* – When *Residence* is selected, you can enter property taxes. By default, property taxes are deductible. Property taxes associated with the asset are included in cash outflows.

- *Purchase Date* – By default, the purchase date is December 31 of the previous year.
 - *Purchase Amount* – By default, the purchase amount defaults to the market value. If capital gains taxes apply upon the sale of the residence, the actual purchase amount should be entered.
 - *Valuation Date* – The date of the latest value statement for the asset. By default, the date originates from the *Plan Analysis Date* field on the *Plan Management* section – *Modules* category – *Modules* page.
4. Click the **Sale Information** link. Additional fields appear.
 5. Select the **Override** check box, and then in the *Sale Date* field, enter **July 1, 2010**.
 6. Click the **Direct After Tax Proceeds To** list, and then note the following options that appear:
 - *Cash Flow* – When selected, the after-tax proceeds of the sale are entered into cash flow.
 - *<existing non-qualified account or annuity>* – When selected, the after-tax proceeds of the sale are saved to an existing non-qualified account or annuity entered on the *Accounts* page.
 - *New Non-Qualified* – When selected, the after-tax proceeds of the sale are saved to a new non-qualified account. This account appears as *Savings from <name of lifestyle asset>* on the *Accounts* page and defaults to a 0% rate of return.
 7. Select **Cash Flow**.

Note: By selecting an account or annuity instead of *Cash Flow*, you can increase the clients' total assets under management.
 8. Click OK. The *Lifestyle Asset Details* dialog box closes.

Examine the cash flow implications of selling a home

The *Cash Flow Details* report provides a breakdown of the cash inflows and outflows for a given year. You can use this report to show the effect of the proceeds of the sale of the house and the tax deductibility of property taxes.

Generate the Cash Flow Details report

Cash Flow Details			
Brown			
Brown's Base Details (2010)			
	Nick	Lisa	Family
Cash Inflows			
Employment Inflows			
Salary	\$137,917	\$111,395	\$249,312
Investment Inflows			
From Assets			
Interest	\$624	\$624	\$1,249
Dividends	\$1,900	\$1,451	\$3,351
Capital Gains (Short Term)	\$2,769	\$2,995	\$5,764
Capital Gains (Long Term)	\$54	\$54	\$108
Rental	\$18,000	\$18,000	\$36,000
Total	\$23,348	\$23,124	\$46,472
Received Capital			
Cost Basis	\$159,041	\$159,041	\$318,083
Total Cash Inflows	\$320,306	\$293,560	\$613,866
Cash Outflows			
Lifestyle Expenses			

Figure 2: Cash Flow Details report

To generate the Cash Flow Details report

1. From the *Reports* menu, select **Cash Flow – Cash Flow Details**. The *Assign Settings* dialog box opens.

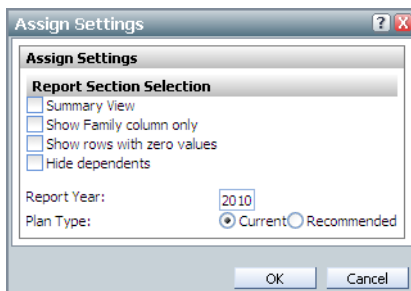


Figure 3: Assign Settings dialog box

2. In the *Report Year* field, enter **2010** (the year the house will be sold).

Two analysis options are available beside *Plan Type*:

- *Current* – Analyzes the information in the plan, including all current plan scenarios for each goal
 - *Recommended* – Analyzes the information in the plan including all recommended scenarios for each goal
3. Select **Current**, and then click **OK**. The *Cash Flow Details* dialog box opens and the report appears. In the report, you can see the following:
 - Inflows and outflows have increased
 - The clients are receiving rental income from a real estate asset (500 Smith Street)
 - The *Received Capital* report item includes the proceeds of the house sale (123 Home Street), which is divided evenly between Nick and Lisa (this always occurs for jointly-owned assets)
 - The *Mortgage Principal* report item shows that some of the proceeds were used to pay off the outstanding mortgage
 - Property taxes and mortgage payments are reduced, but do not disappear entirely, since the sale occurs midyear
 4. Close the *Cash Flow Details* dialog box.

View real estate details

On the *Assets/Liabilities* page, for income-producing real estate assets, you can enter purchase, valuation, and rental income details, specify sale information, and enter return rates.

Note: Income generated from real estate assets should be entered on the *Assets/Liabilities* page and not on the *Cash Flow* category – *Cash Flow* page.

To view real estate details

1. Under *Real Estate*, click the **Details** button for *500 Smith Street*. The *Real Estate Details* dialog box opens.

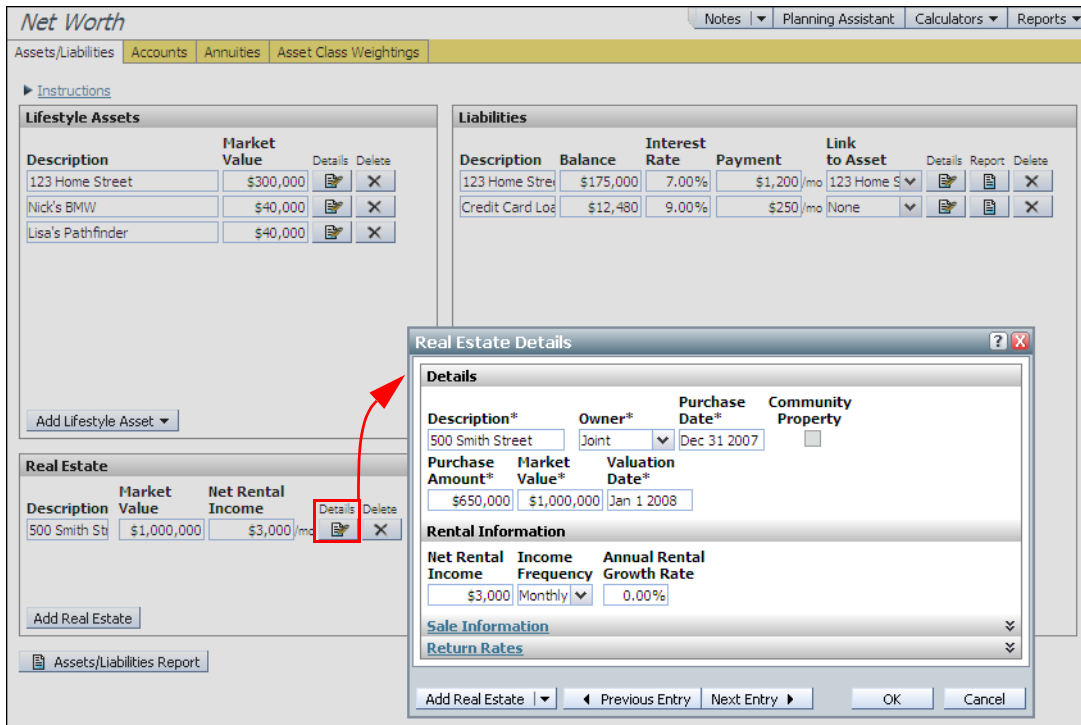


Figure 4: Financial Picture section – Net Worth category – Assets/Liabilities page – Details button – Real Estate Details dialog box (showing Details section)

2. Under *Rental Information*, note that the value of the rental income is net income and not gross income. When entering real estate assets, you need to obtain the clients' rental incomes and expenses, and then calculate the net rental income separately.
3. Click **OK**. The *Real Estate Details* dialog box closes.

Enter existing and future liabilities

On the *Assets/Liabilities* page under *Liabilities*, you can enter both secured and non-secured liabilities. For secured liabilities, such as mortgages, you can link the liability to an asset, such as a home. When the linked asset is sold, NaviPlan automatically uses the proceeds of the asset sale to pay off the liability. You can also indicate whether interest paid is tax deductible.

Note: Real estate loans should be entered to capture the value in net worth and the payments in cash flow.

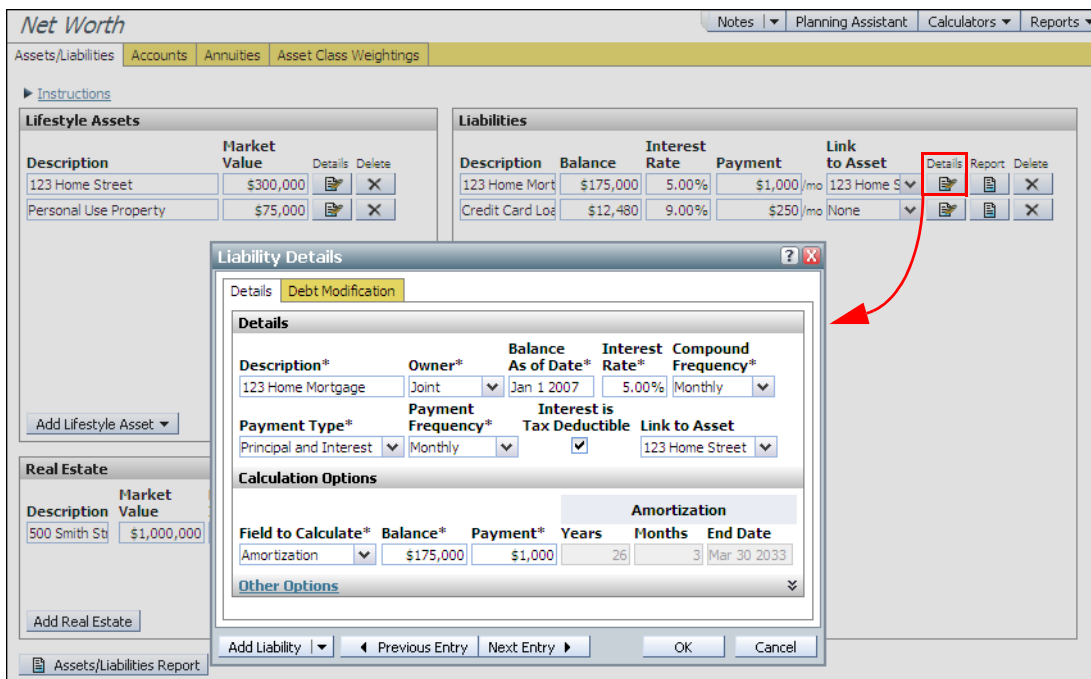


Figure 5: Financial Picture section – Net Worth category – Assets/Liabilities page – Details button – Liability Details dialog box – Details tab

In NaviPlan Standard, the following three payment types are available:

- *Interest Only* – Used for lines of credit and credit cards
- *Principal and Interest* – Used by default
- *Last Period Payment* – No payments are made until the end of the amortization period (interest accrues first, and then loan is paid down at the end of the period)

In situations where clients are accumulating cash flow deficits due to increased liability payments, you could recommend reductions in discretionary expenses, lowering taxes through qualified plan purchases, or establishing a new budget.

Calculate your clients' mortgage based on payment, balance, or amortization

On the *Liability Details* dialog box – *Details* tab, you can change the details of the clients' mortgage, such as the payment, balance, and amortization. You can also provide additional information about the liability under *Other Options*.

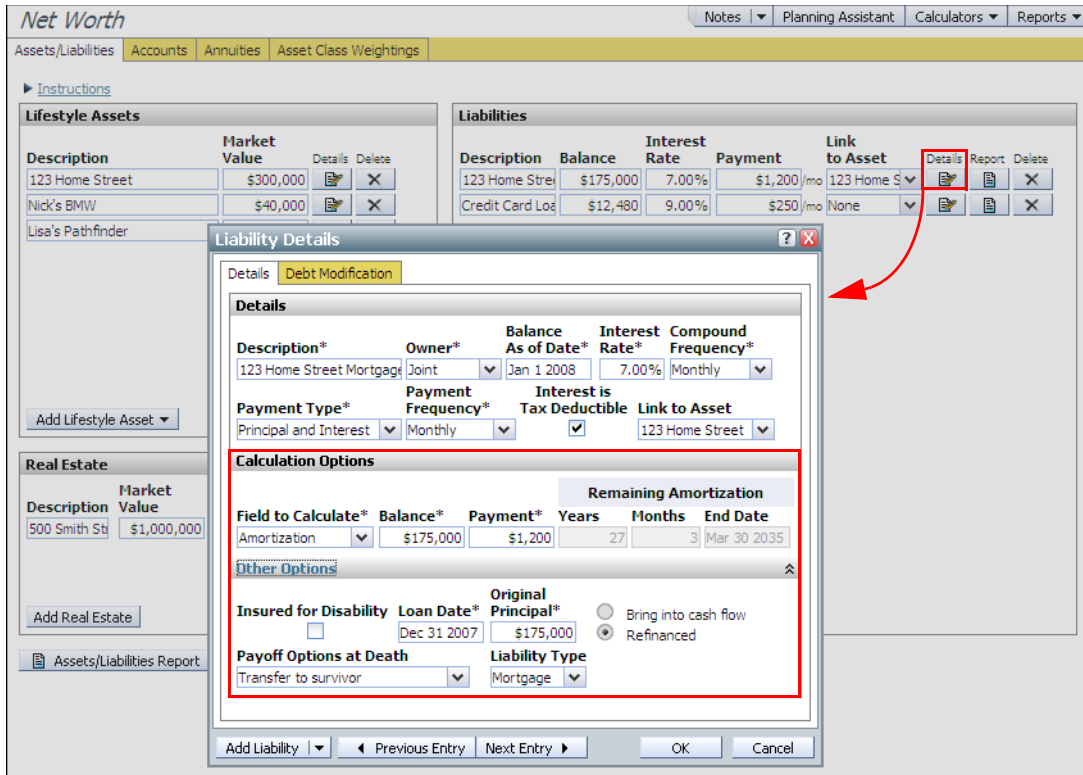


Figure 6: Financial Picture section – Net Worth category – Assets/Liabilities page – Details button – Liability Details dialog box – Details tab (showing Calculation Options and Other Options sections)

Under *Calculation Options*, the *Field to Calculate* list allows you to select a field or group of fields to calculate. You cannot modify the selected field(s) directly, however, you can modify the remaining fields. For example, often clients know their monthly payment amount and original loan value, but do not know the amortization duration. To determine the amortization period, you must select *Amortization* from the *Field to Calculate* list, and then enter the loan balance and payment amounts. Some examples where these calculation options are useful include

- a refinancing strategy for a high-interest vehicle, consumer, or mortgage loan
- debt consolidation if calculated payments negatively affect cash flow
- a repositioning strategy where assets could be redeemed to pay down debt

Under *Other Options*, the following options are available:

- *Insured for Disability* – When selected, this check box indicates that the liability is to be paid off by an insurance policy (a policy outside of this plan) if owner becomes disabled.
If this check box is selected, the outstanding liability is paid in full upon disability and can be verified by generating the *Cash Flow Detail if <client> is Disabled* report. The premiums for the disability insurance policy (if applicable) should be entered as an expense on the *Cash Flow* category – *Cash Flow* page.
- *Payoff Options at Death*:
 - *Transfer to survivor* – Indicates that the unpaid balance of the liability will be transferred to the surviving client or co-client.
 - *Payoff at first death (from estate)* – Indicates that the unpaid balance of the liability will be paid from the clients' estate.
 - *Insured for life* – Indicates that the liability is to be paid off by an insurance policy (not entered in the plan) if the liability's owner dies before the liability is paid in full. If this option is selected, the insurance premium (if applicable) should be entered as an expense on the *Cash Flow* category – *Cash Flow* page.
- *Loan Date* – The date the loan was established or refinanced. The *Balance As of Date* field takes precedence over any value entered in this field. If the start date is after January 1 of the current year, ensure the proper cash flow setting is selected. If the liability is one that is anticipated in the future, the future start date should be entered. A start date after January 1 of the plan year must be entered for the refinancing option to be available.
- *Original Principal* – The amount of the original principal. The *Balance* field under *Calculation Options* takes precedence over this field.
- *Liability Type* – The type of liability (personal, business, credit card, mortgage, or vehicle). This list is for information purposes only.
- *Bring into cash flow* – When selected, this option indicates that the liability principal is added to cash flow to offset asset purchases. Cash outflows include payments of principal and interest or interest only.
- *Refinanced* – When selected, this option indicates that the principal is never added to cash flow. Instead, it is used to model refinancing or consolidation of existing loans. Cash outflows include payments of principal and interest, or interest only.

Construct strategies for your clients' liabilities

On the *Liability Details* dialog box – *Debt Modification* tab, you can create debt modification strategies that allow you to increase or pay down principal on a liability in addition to the regular payments modeled on the *Details* tab. After entering a debt modification strategy, you can generate the *Liability Schedule* report to review the principal and interest payments for the liability.

Note: You can access the same fields on the *Financial Picture* section – *Strategies* category – *Debt Modification* page.

Direct Funds To	Outstanding Amount	Amount	Frequency	Start Date	End Date	Increase Principal	Infl +/- Add'l	Delete
123 Home Mortgage	\$175,000	\$2,000	Lump Sum	Jan 1 2007		<input type="checkbox"/>	+ 0.00%	X

123 Home Mortgage Add Debt Modification

Figure 7: Financial Picture section – Strategies category – Debt Modification page

Enter a debt modification strategy

Some examples of debt modification strategies you can enter include

- Decreasing debt when the clients receive a bonus, inheritance, or income tax return
- Increasing debt when the clients decide to make a purchase after receiving a credit limit increase on a credit card or line of credit

To enter a debt modification strategy

1. In the *Liability Details* dialog box, go to the **Debt Modification** tab.
2. Click the **Add Debt Modification** button. Additional data-entry fields appear.
3. In the *Amount* field, enter **\$2,000**.
4. From the *Frequency* list, select **Lump Sum**.

Note: The *Increase Principal* check box is unavailable since you can only increase the principal for *Interest Only* and *Last Period Payment* liabilities.

5. Click **OK**.

Generate the Liability Schedule report

In the *Liability Schedule* report, you can view the changes to the outstanding balance after debt modification payments are made.

123 Home Street Mortgage (Principal & Interest)

Payment Date	Total Money Owing Before Payment	Principal & Interest Payment	Interest Payment	Principal Payment	New Principal Outstanding
Jan 30 2008	175,000.00	3,200.00	1,020.83	2,179.17	172,820.83
Feb 29 2008	172,820.83	1,200.00	1,008.12	191.88	172,628.95
Mar 30 2008	172,628.95	1,200.00	1,007.00	193.00	172,435.96
Apr 30 2008	172,435.96	1,200.00	1,005.88	194.12	172,241.83
May 30 2008	172,241.83	1,200.00	1,004.74	195.26	172,046.58
Jun 30 2008	172,046.58	1,200.00	1,003.61	196.39	171,850.18
Jul 30 2008	171,850.18	1,200.00	1,002.46	197.54	171,652.64
Aug 30 2008	171,652.64	1,200.00	1,001.31	198.69	171,453.95
Sep 30 2008	171,453.95	1,200.00	1,000.15	199.85	171,254.10
Oct 30 2008	171,254.10	1,200.00	998.98	201.02	171,053.08
Nov 30 2008	171,053.08	1,200.00	997.81	202.19	170,850.89
Dec 30 2008	170,850.89	1,200.00	996.63	203.37	170,647.52
Jan 30 2009	170,647.52	1,200.00	995.44	204.56	170,442.96
Feb 28 2009	170,442.96	1,200.00	994.25	205.75	170,237.21
Mar 30 2009	170,237.21	1,200.00	993.05	206.95	170,030.26
Apr 30 2009	170,030.26	1,200.00	991.84	208.16	169,822.11
May 30 2009	169,822.11	1,200.00	990.63	209.37	169,612.74
Jun 30 2009	169,612.74	1,200.00	989.41	210.59	169,402.14
Jul 30 2009	169,402.14	1,200.00	988.18	211.82	169,190.32
Aug 30 2009	169,190.32	1,200.00	986.94	213.06	168,977.27
Sep 30 2009	168,977.27	1,200.00	985.70	214.30	168,762.97
Oct 30 2009	168,762.97	1,200.00	984.45	215.55	168,547.42
Nov 30 2009	168,547.42	1,200.00	983.19	216.81	168,330.61
Dec 30 2009	168,330.61	1,200.00	981.93	218.07	168,112.54
Jan 30 2010	168,112.54	1,200.00	980.66	219.34	167,893.20
Feb 28 2010	167,893.20	1,200.00	979.38	220.62	167,672.57
Mar 30 2010	167,672.57	1,200.00	978.09	221.91	167,450.66
Apr 30 2010	167,450.66	1,200.00	976.80	223.20	167,227.46
May 30 2010	167,227.46	1,200.00	975.49	224.51	167,002.95
Jun 30 2010	167,002.95	1,200.00	974.18	225.82	166,777.14
Jul 1 2010	166,777.14	166,841.11	63.97	166,777.14	0.00

Figure 8: Liability Schedule report

To generate the Liability Schedule report

1. On the *Assets/Liabilities* page, under *Liabilities*, click the **Report** button for *123 Home Street Mortgage*. The *Liability Schedule* report dialog box opens.

The current year principal payment is much larger than the remaining principal payments since you added a \$2,000 lump-sum debt modification strategy. The mortgage payments end in 2010 because you entered *July 1, 2010*, as the sale date for 123 Home Street.

2. Click **OK**. The *Liability Schedule* dialog box closes.

Model detailed accounts and holdings

On the *Accounts* page, you can enter simple and detailed accounts. Annuities should be entered on the *Annuities* page.

Modify a 403(b) detailed account

For detailed accounts, you can model multiple holdings, enter multiple savings strategies for each account, and define return rates.

To modify an account and add holdings and savings strategies

1. Go to the **Accounts** page. Under *Qualified and Non-Qualified Accounts*, all accounts belonging to the Brown family are listed.

Note: When adding new accounts, clicking  beside the *Add Account* button allows you to select the type of account to add.

Net Worth Notes | Planning Assistant | Calculators | Reports | ◀ Back Next ▶

Assets/Liabilities Accounts **Annuities** Asset Class Weightings

[Instructions](#)

To edit investment income earned before the valuation date for all non-qualified accounts, click **Accrued Investment Income**.

[Accrued Investment Income...](#)

To enter amounts for any 2010 Roth conversions that occurred prior to the plan date (Jan 1 2010) and where the election was made to defer the tax over 2011 and 2012, click **2010 Roth Conversions**.

[2010 Roth Conversions...](#)

Qualified and Non-Qualified Accounts										
Description*	Account Type*	Owner*	Market Value*	Basis*	Asset Class Weightings	Return Rates	Savings Strategies	Holdings	Details	Delete
Joint Savings Accou	Non-Qualified ▼	Joint ▼	\$50,000	\$50,000	45% Large Cap Gro...	5.59%	1	Add...		
Lisa's Brokerage Acc	Non-Qualified ▼	Joint ▼	\$55,000	\$46,000	64% Large Cap Gro...	10.51%	0	2		
Nick's Brokerage Acc	Non-Qualified ▼	Joint ▼	\$60,000	\$47,500	50% Large Cap Gro...	9.67%	0	3		
Nick's 403(b)	403(b) ▼	Nick ▼	\$100,000	\$0	25% Large Cap Gro...	9.30%	1	Add...		
Lisa's Roth IRA	Roth IRA ▼	Lisa ▼	\$112,000	\$0	30% Large Cap Gro...	6.58%	1	Add...		
Kevin's 529 Plan	529 Plan ▼	Nick ▼	\$12,000	\$0	25% Large Cap Gro...	4.41%	1	Add...		

Add Account ▼

- Simple Account
- Investment Portfolio distribution for all plan goals, click **Goal Funding**.
- Mutual Fund
- Cash Account

Figure 9: Financial Picture section – Net Worth category – Accounts page

- Click the **Details** button for *Nick's 403(b)*. The *Account Details* dialog box opens.

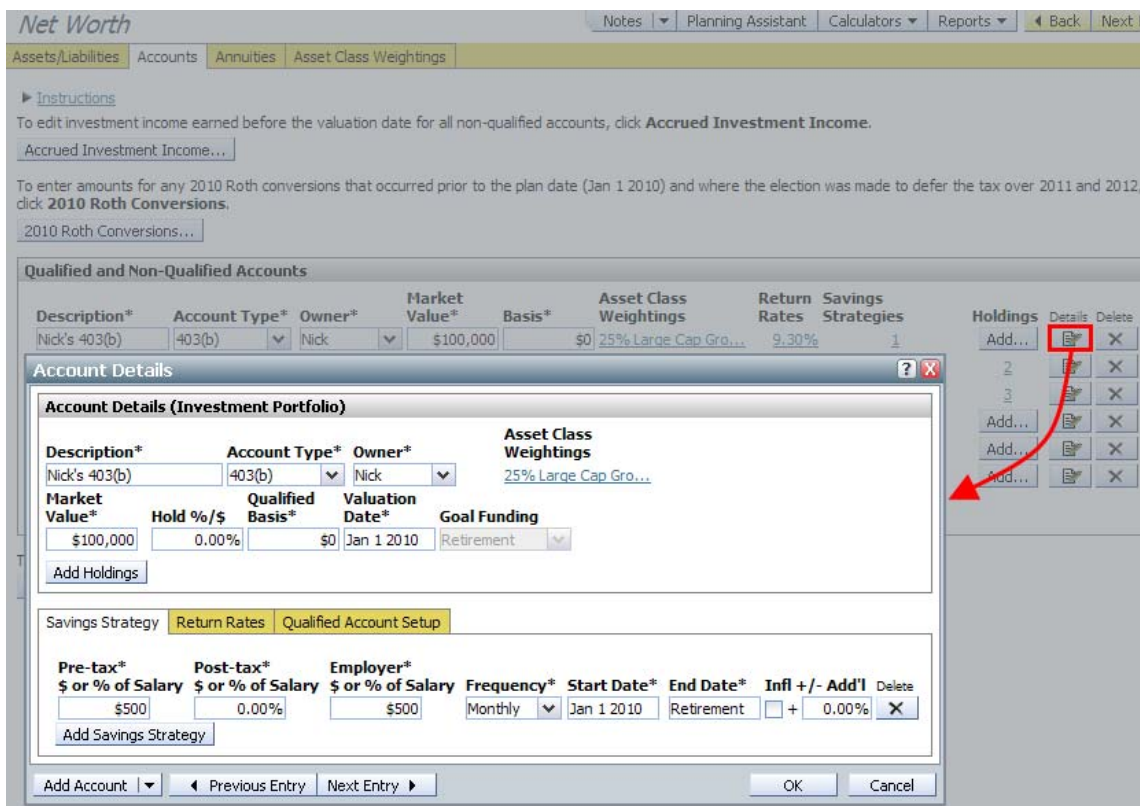


Figure 10: Financial Picture section – Net Worth category – Accounts page – Details button – Account Details dialog box (showing details of Nick's 403(b) account)

- Click the **Asset Class Weightings** list. From this list, you can specify one or more asset classes for the account by selecting a predefined asset class, by searching for asset class weightings for a real security, or by defining the asset classes manually.

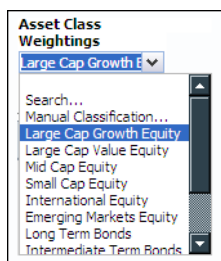


Figure 11: Asset Class Weightings list

4. Select **Manual Classification**. The *Asset Class Weightings Details* dialog box opens.

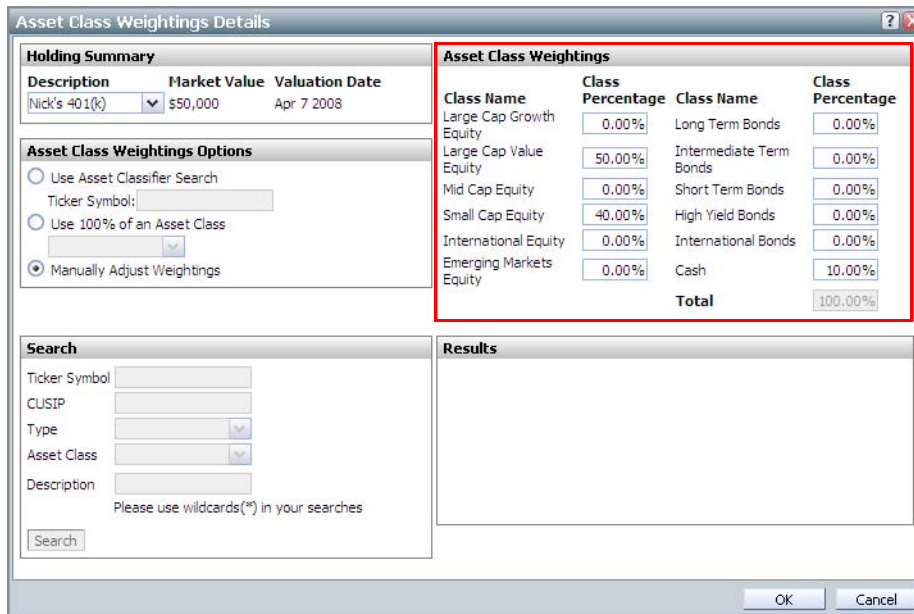


Figure 12: Asset Class Weightings Details dialog box

5. Under *Asset Class Weightings*, enter the following:
 - *Large Cap Value Equity* – **50%**
 - *Small Cap Equity* – **40%**
 - *Cash* – **10%**
6. Click **OK**. The *Asset Class Weightings Details* dialog box closes. The *Asset Class Weightings* list changes to a link showing a breakdown of the asset class weightings.

- Click the **Add Holdings** button. The *Holdings* tab appears and a default holding is entered automatically and contains the market value and asset class weightings entered for the account.

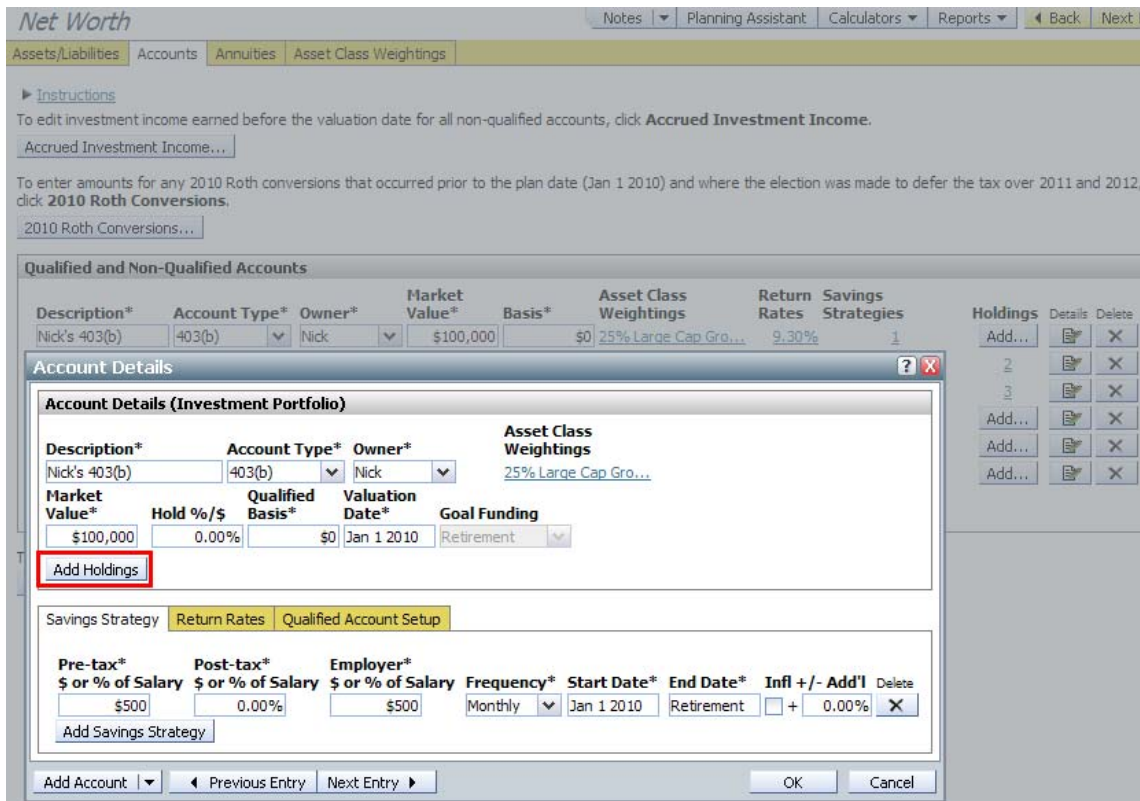


Figure 13: Financial Picture section – Net Worth category – Accounts page – Details button – Account Details dialog box – Savings Strategy tab

Holdings in the account can have different market values and asset classes. If you are using NaviPlan Standard with Ibbotson Asset Allocation and you know the ticker symbol for each holding, you can classify each holding automatically by entering the symbol, and then clicking *Classify*. If NaviPlan Standard finds a match, the application updates the *Description* and *Asset Class Weightings* fields.

NaviPlan Standard reallocates assets for you. If needed, you can hold a percentage or dollar amount of the holding outside of asset reallocation. Assets that are not reallocated can lead to unexpected results.

- Go to the **Savings Strategy** tab. On this tab, you can enter multiple savings strategies to reflect changes to savings amounts over time.

Note: In the *Pre-tax \$ or % of Salary* field, entering *max* maximizes contributions to the 403(b) account. This keyword does not apply to non-qualified accounts. If multiple 403(b) accounts have been entered, NaviPlan prorates the contribution amounts automatically

and recognizes catch-up provisions. However, NaviPlan Standard does not prorate contributions between different qualified account types (i.e., one 403(b) account and one 401(k) account) and overcontributions may occur.

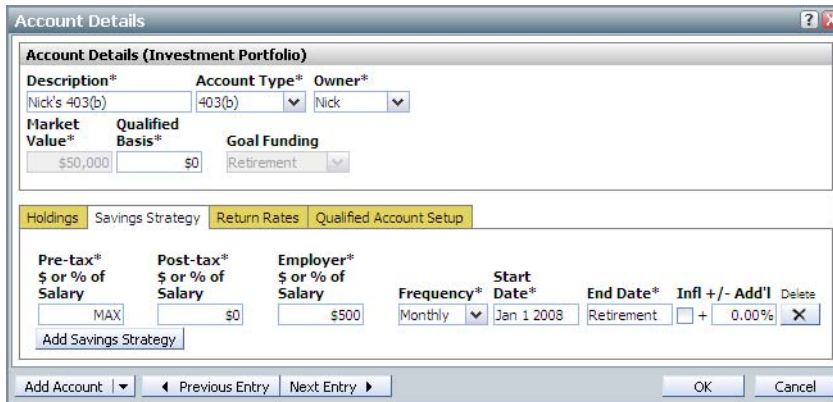


Figure 14: Account Details dialog box – Savings Strategy tab

- Go to the **Return Rates** tab. On this tab, you can override the pre-retirement and retirement return rates for the account, and then define interest, dividends, capital gains, tax-free growth, deferred growth, and the standard deviation.

Note: The *Total* return rate is the weighted average of all holdings in the account.

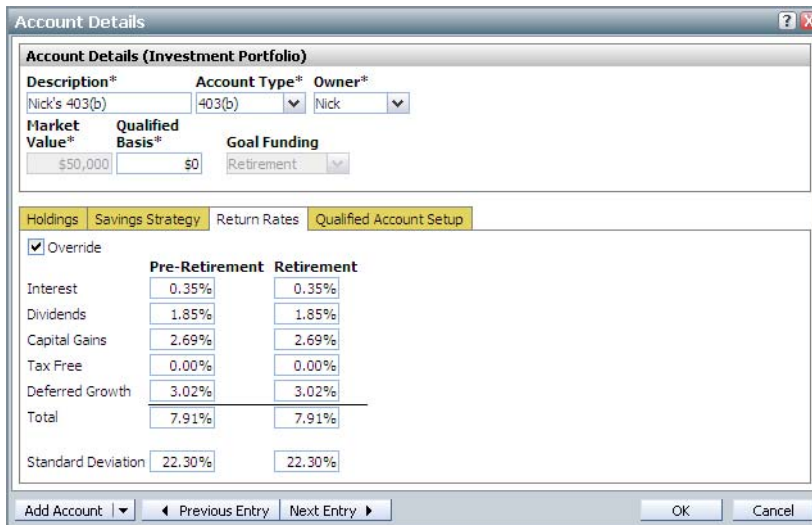


Figure 15: Account Details dialog box – Return Rates tab

- Go to the **Qualified Account Setup** tab. This tab only appears for qualified accounts and the fields contained within it vary depending on the account type. On this tab, you can determine the required minimum distributions (RMDs) required for each qualified asset

on an annual basis, waive the 10% penalty resulting from qualified redemptions prior to age 59½, and assign a beneficiary for estate planning purposes.

For example, to model a stretch IRA, select a child as the contingent beneficiary.

The screenshot shows the 'Account Details (Investment Portfolio)' dialog box with the 'Qualified Account Setup' tab selected. The fields are as follows:

Field	Value
Description*	Nick's 403(b)
Account Type*	403(b)
Owner*	Nick
Market Value*	\$50,000
Qualified Basis*	\$0
Goal Funding	Retirement
Pre-1987 Account Balance	\$0
Primary Beneficiary	Lisa
Contingent Beneficiary	Estate

Additional options include checkboxes for 'Waive early withdrawal penalties' and 'State taxable', and navigation buttons at the bottom: 'Add Account', 'Previous Entry', 'Next Entry', 'OK', and 'Cancel'.

Figure 16: Account Details dialog box – Qualified Account Setup tab

11. Click **Cancel**. The *Account Details* dialog box closes.

View accrued investment income

In the *Previously Accrued Investment Income* dialog box, you can capture a partial year's growth for accounts that have a valuation date other than January 1. You can access this dialog box by clicking the *Accrued Investment Income* button at the top of the *Accounts* page. For more information about how NaviPlan calculates accrued income, see [Accrued Income Due to Midyear Account Values Help Video Clip](#).

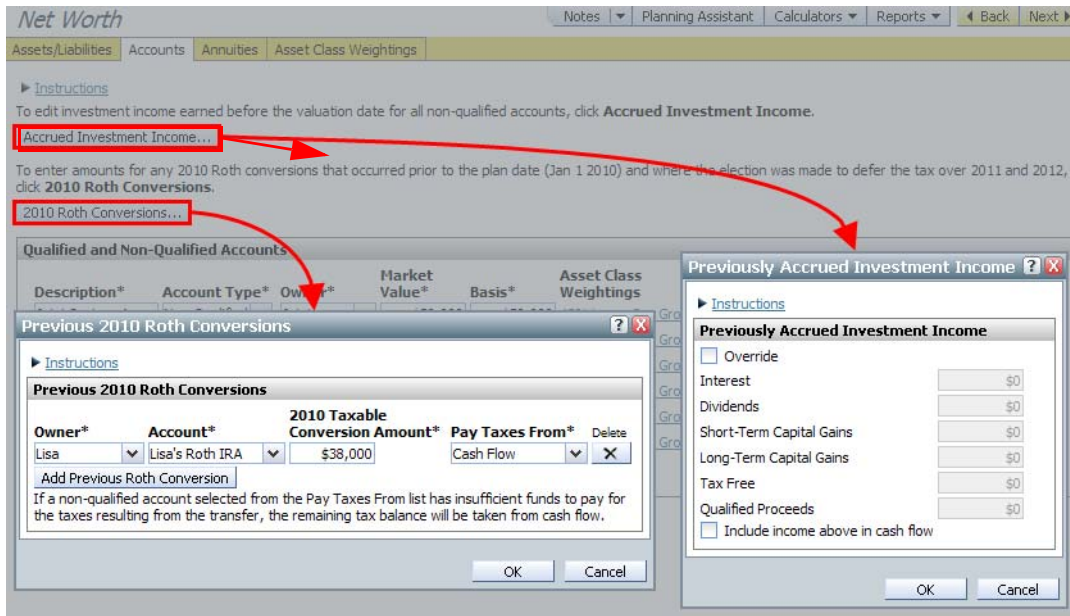


Figure 17: Previous 2010 Roth Conversions dialog box and Previously Accrued Investment Income dialog box

Establish an annuity

On the *Annuities* page, you can enter fixed, variable, and annuitized annuities. The annuity types are defined as follows:

- *Fixed* – Annuities with fixed interest rates
- *Variable* – Annuities with return rates that vary depending on how the annuity funds (holdings) are invested
- *Annuitized* – Annuities that have matured and are distributing payments to the clients.

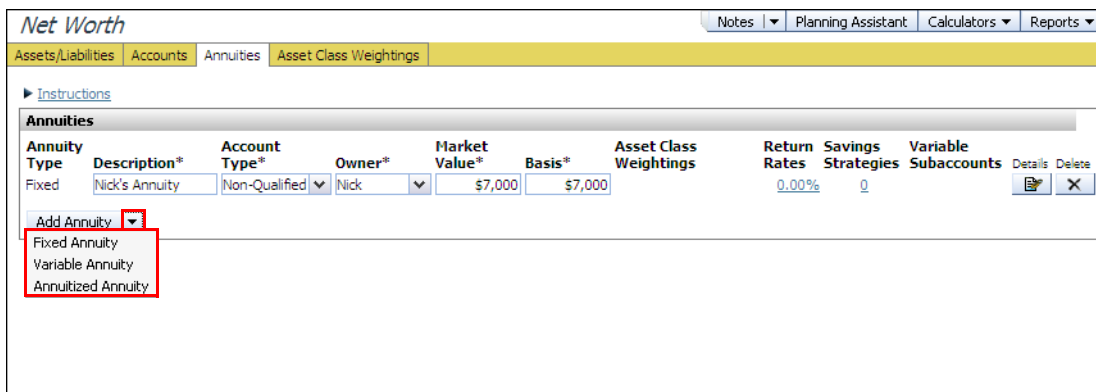


Figure 18: Financial Picture section – Net Worth category – Annuities page (showing annuity types)

To view annuity details

1. Go to the **Annuities** page. *Nick's Annuity* appears under *Description*.
2. Click the **Details** button. The *Annuity Details* dialog box opens.

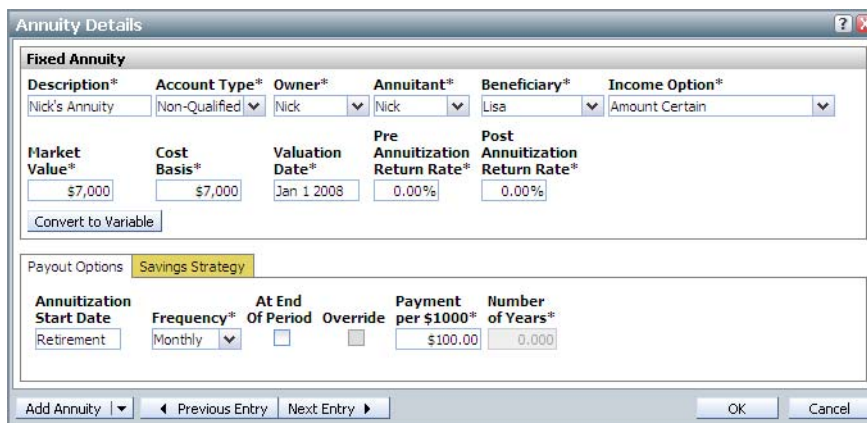


Figure 19: Annuity Details dialog box (showing details for a fixed annuity)

From the *Income Option* list, the following methods for receiving annuity payments are available:

- *Amount Certain* – Years are calculated based on payment amount specified.

- *Term Certain* – Pays a given dollar amount per \$1,000 of the annuity’s market value until the specified term has ended.
- *Life Income* – Pays a given dollar amount per \$1,000 until death (the annuity becomes a permanent income stream). Payouts over the life of the annuitant are calculated based on the annuitant’s life expectancy. This amount can be overridden.
- *Withdrawals as Needed* – The annuity is used like an account. When deficits occur, NaviPlan draws money from this annuity.
- *Guaranteed Withdrawal Benefit* – Withdrawals begin as of the withdrawal start date (provided the oldest client has reached the minimum age for guarantee).

Note: When you click the *Convert to Variable* button for a fixed annuity, NaviPlan permanently converts the annuity into a variable annuity. As for detailed accounts, a *Holdings* tab is available for variable annuities. On this tab, you can add subaccounts and classify them in the same manner in which you can classify holdings for detailed accounts.

3. Click **Cancel**. The *Annuity Details* dialog box closes.

Generate the Single Asset Details report

The *Single Asset Details* report allows you to project and identify transactions occurring for any asset entered in the plan.

Asset Details											
Nick's Annuity (Non-Qualified)											
Brown											
Brown's Base Details (2008)											
	Interest	Buy Amount	Transfer from Trust	Sell Amount	Withdrawal Charges	General Account Balance	General Account Accrued Interest	General Account Market Value	Subaccounts Unit Price	Subaccounts Unit Balance	Subaccounts Market Value
Jan 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Feb 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Mar 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Apr 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
May 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Jun 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Jul 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Aug 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Sep 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Oct 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Nov 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Dec 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
End 2008	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
TOTAL	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Jan 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Feb 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Mar 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Apr 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
May 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Jun 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Jul 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Aug 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Sep 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Oct 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Nov 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
Dec 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
End 2009	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00
TOTAL	0.00	0.00	0.00	0.00	0.00	7,000.00	0.00	7,000.00	1.00	0.00	0.00

Figure 20: Single Asset Details report

To generate the Single Asset Details report for Nick's Annuity

1. From the *Reports* menu, select **Net Worth – Assets – Single Asset Details**. The *Assign Settings* dialog box opens.

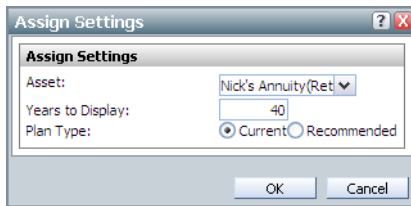


Figure 21: Assign Settings dialog box

2. From the *Asset* list, select **Nick's Annuity (Retirement)**.
3. In the *Years to Display* field, enter **40**, and then select the **Current** plan type.
4. Click **OK**. The *Single Asset Details* dialog box opens and displays the report. The report illustrates any savings strategies associated with the annuity, pre- and post-annuitization rates of return, and payouts from the annuity starting in the year of retirement.

Analyze your clients' net worth position using related reports

In the *Financial Needs Analysis* client report, the *Net Worth* section includes several individual net worth reports and offers a comprehensive snapshot of your clients' current net worth position.

Generate the Financial Needs Analysis report

The *Financial Needs Analysis* report can be used as a starting point for discussion about how your clients are currently progressing towards their stated objectives. This report can provide you with important clues about where your clients should focus in their financial plan.

To generate the *Financial Needs Analysis* report

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

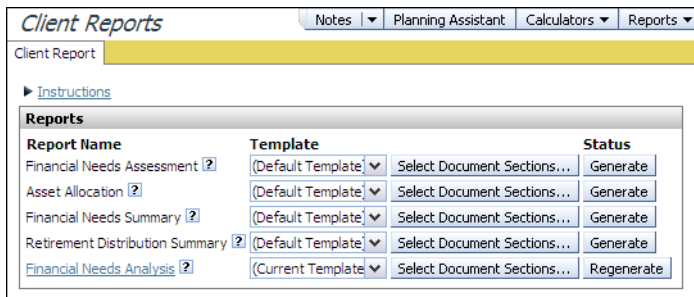


Figure 22: Financial Picture section – Client Reports category – Client Report page

2. Under *Reports*, click the **Select Document Sections** button for the *Financial Needs Analysis* report. The *Select Document Sections* dialog box opens.

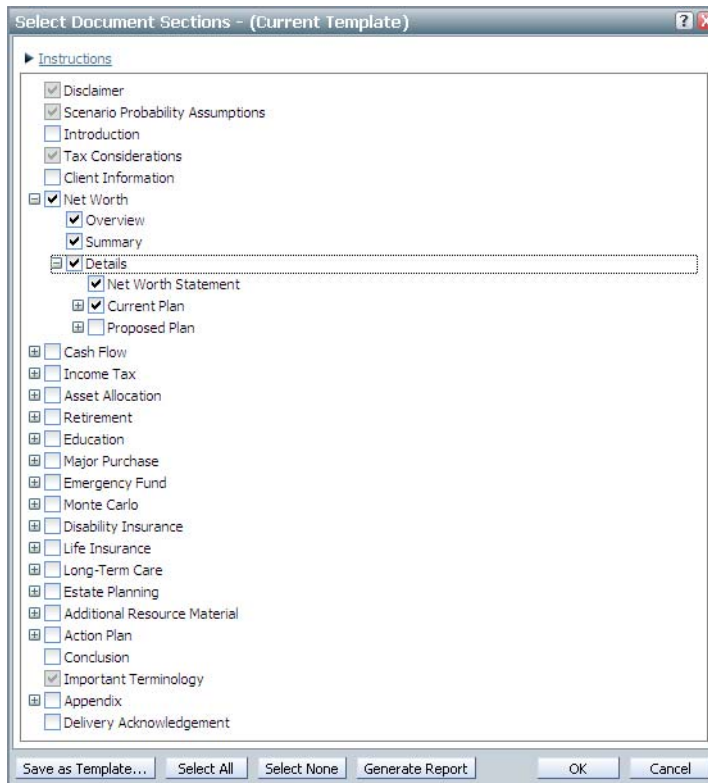


Figure 23: Select Document Sections dialog box

3. At the bottom of the dialog box, click **Select None**. All sections, except for the required sections, are removed from the report.
4. Select the **Net Worth** check box, and then expand the **Net Worth** and **Details** report sections.
5. Clear the **Proposed Plan** check box.
6. Click **Generate Report**. After about one minute, the *Financial Needs Analysis* report opens.

Financial Needs Analysis report – Net Worth Overview

In the *Financial Needs Analysis* client report, the *Net Worth Overview* page introduces the clients' net worth statement.

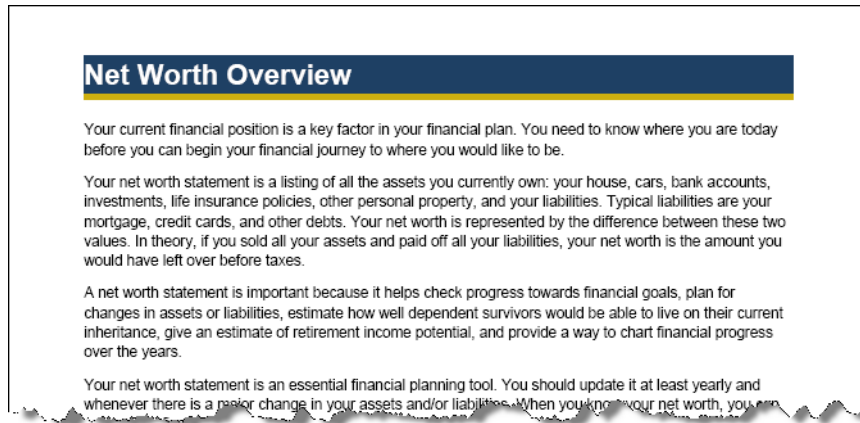


Figure 24: Financial Needs Analysis report – Net Worth Overview

Financial Needs Analysis report – Net Worth Summary

The *Net Worth Summary* illustrates the clients’ progress and the growth of their net worth. This page is useful for tracking the progress of new clients over time and should be reviewed annually. You can use this page to highlight your clients’ net worth at any time (based on information entered on the *Assets/Liabilities* page).

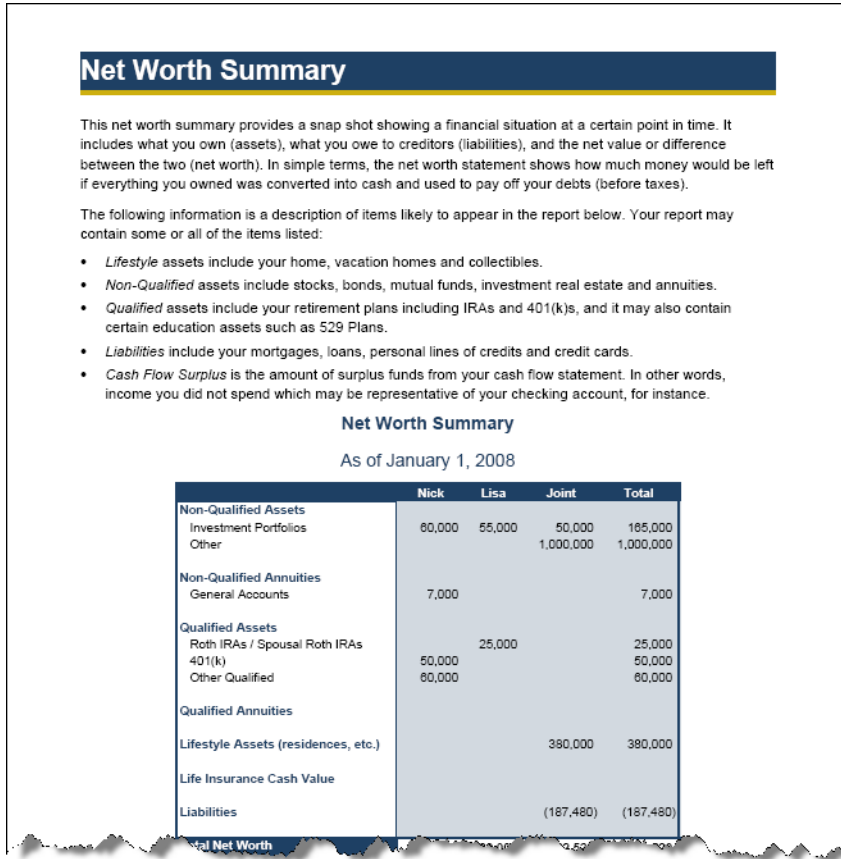


Figure 25: Financial Needs Analysis report – Net Worth Summary

Financial Needs Analysis report – Net Worth Statement

The *Net Worth Statement* is a detailed breakdown of the *Net Worth Summary* details. This report section is ideal for analytical clients, such as accountants and engineers. Using this section, you can examine the progress your clients are making towards their financial goals, and then recommend suitable investment products that could help meet these goals. The following are some possible recommendations:

- If your clients are saving for retirement and are heavily invested in non-qualified accounts, you could recommend a tax-deferred savings account
- You can identify opportunities for reducing outstanding debt by redeeming lower interest accounts
- If surplus cash is accumulating in a checking account, you can recommend savings to an emergency fund

Net Worth Statement				
This net worth statement provides a detailed breakdown of your financial situation as of January 1, 2008.				
Net Worth Statement				
As of January 1, 2008				
	Nick	Lisa	Joint	Total
Non-Qualified Assets				
500 Smith Street			1,000,000	1,000,000
Nick's Brokerage Account	60,000			60,000
Lisa's Brokerage Account		55,000		55,000
Joint Savings Account			50,000	50,000
Total Non-Qualified Assets	60,000	55,000	1,050,000	1,165,000
Non-Qualified Annuities				
Nick's Annuity (Gen. Acct.)	7,000			7,000
Total Non-Qualified Annuities	7,000			7,000
Qualified Assets				
Nick's 401(k)	50,000			50,000
Nick's 403(b)	50,000			50,000
Kevin's 529 Plan	10,000			10,000
Lisa's Roth IRA		25,000		25,000
Total Qualified Assets	110,000	25,000		135,000
Lifestyle Assets				
123 Home Street			300,000	300,000
Lisa's Pathfinder			40,000	40,000
Nick's BMW			40,000	40,000
Total Lifestyle Assets			380,000	380,000
Total Assets	177,000	80,000	1,430,000	1,687,000
Liabilities				
123 Home Street Mortgage			(175,000)	(175,000)
Credit Card Loan			(12,480)	(12,480)
Total Liabilities			(187,480)	(187,480)

Figure 26: Financial Needs Analysis report – Net Worth Statement

Financial Needs Analysis report – Net Worth Accumulation

The *Net Worth Accumulation* report section focuses on your clients’ asset capital growth and illustrates factors affecting clients’ accumulation stage, such as regular savings, reinvestments, deferred growth, and compound interest. When presented to your clients, this section can provide a compelling reason for your clients to take action today by saving now.

Reductions in savings appear when one client retires, and then stop completely at the second retirement. Reductions can also appear as assets are redeemed for goals, such as education or major purchases.

Net Worth Accumulation - Current							
The following report provides a summary of the accumulation and/or depletion of your assets over time. It displays the start of year asset balance, along with any contributions, redemptions, reinvestments or growth that are applicable throughout each year, as well as the end of year asset balance.							
Year	Ages	SOY Total Capital	Regular Savings	Redemptions from Assets	Reinvestments	Growth	EOY Total Capital
2008	42/40	1,657,000	44,044	0	12,662	44,655	1,777,860
2009	43/41	1,777,860	48,963	0	15,897	51,413	1,883,662
2010	44/42	1,883,662	109,979	319,971	18,359	50,932	1,732,461
2011	45/43	1,732,461	114,138	0	22,093	51,795	1,909,987
2012	46/44	1,909,987	71,962	0	26,854	56,048	2,054,349
2013	47/45	2,054,349	63,322	0	30,703	59,648	2,197,621
2014	48/46	2,197,621	62,151	22,782	33,282	63,010	2,322,683
2015	49/47	2,322,683	62,514	24,182	36,482	66,285	2,453,262
2016	50/48	2,453,262	63,265	25,447	39,017	69,698	2,590,195
2017	51/49	2,590,195	63,410	26,756	43,530	73,298	2,733,145
2018	52/50	2,733,145	64,439	0	48,178	77,573	2,912,836
2019	53/51	2,912,836	65,411	0	53,151	82,122	3,103,018
2020	54/52	3,103,018	66,361	0	58,469	86,626	3,304,304
2021	55/53	3,304,304	67,364	0	64,154	91,999	3,617,351
2022	56/54	3,617,351	68,427	0	70,231	97,357	3,742,865
2023	57/55	3,742,865	69,460	0	76,726	103,017	3,961,698
2024	58/56	3,961,698	70,564	0	83,668	108,997	4,234,348
2025	59/57	4,234,348	71,712	0	91,087	115,318	4,501,662
2026	60/58	4,501,662	72,872	0	99,014	121,995	4,785,344
2027	61/59	4,785,344	74,044	0	107,485	129,085	5,085,452

Figure 27: Financial Needs Analysis report – Net Worth Accumulation

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., *Net worth 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: Model assets and liabilities

To find the answers, see “Answers to net worth exercises” on page 32.

Part A – Enter an asset and a liability

- Lisa expects to receive a cash bequest of \$100,000 from her late grandfather’s estate in 2013. Nick and Lisa are interested in purchasing a vacation home with the proceeds in the same year; they will finance the remainder with a loan.

Enter a second residence, named *Vacation Home*, on the *Financial Picture* section – *Net Worth* category – *Assets/Liabilities* page. Click the **Details** button, and then enter the following information:

1.Lifestyle Asset					
<i>Vacation Home</i>	<i>2nd Residence</i>	<i>Joint</i>	<i>Jan 1 2013</i>	<i>No</i>	
Description:	Type: e.g.) Residence	Owner:	Purchase Date:	Community Property:	
<i>\$175,000</i>	<i>\$-</i>	<i>-</i>	<i>2.00%</i>	<i>0.00%</i>	<i>Never</i>
Purchase Amount:	Current Amount:	Current Value As Of:	Deferred Growth:	Standard Deviation:	Sale Date:
<i>\$3,000</i>	<i>Annual</i>	<i>3.0%</i>	<i>Yes</i>		
Property Tax Amount:	Property Tax Frequency:	Property Tax Inflation:	Tax Deductible:		

- Create a mortgage for the vacation home with the following information:

1.Liability					
<i>Mortgage for Vacation Home</i>	<i>Joint</i>	<i>\$75,000</i>	<i>5.00%</i>	<i>Principal and Interest</i>	
Liability Name:	Member:	Amount:	Interest Rate:	Payment Type:	
<i>Monthly</i>	<i>\$600</i>		<i>Monthly</i>	<i>Jan 1 2013</i>	
Payment Frequency:	Required Payment:	Amortization (Years):	Compound Frequency:	Start Date:	
		<i>Jan 01 2013</i>	<i>\$75,000</i>	<i>No</i>	
End Date:	Bring into cash flow:	Refinanced:	Principal as of:	Principal:	Insured for Disability:
<i>Yes</i>	<i>Transfer to Survivor</i>				
Interest is Tax Deductible:	Payoff Options at Death:				

3. Click the **Details** button for the mortgage, enter a future loan date of January 1, 2011, and then bring the loan's proceeds into cash flow.

Hint: Click the **Other Options** link.

- a) What step must you take to ensure that the mortgage will be paid off if the home is sold in the future?

- b) Why is it necessary to bring the proceeds of the liability into cash flow?

Part B – Validate data entry

1. Generate the *Assets/Liabilities* report to confirm the accuracy of your entries. Why does the vacation home *not* appear in the report?

2. From the *Reports* menu, generate the **Itemized Cash Flow Projection for Family** report. Ensure that the report reflects the next five years of the current plan.

- a) How does the purchase of the vacation home affect Nick and Lisa's cash flow in future years?

- b) Would you recommend the purchase of this property to Nick and Lisa? Why or why not?

Exercise 2: Model mortgage refinancing

To find the answers, see "Answers to net worth exercises" on page 32.

Part A – Enter a debt modification strategy

1. During a recent telephone conversation, Nick mentioned that he would like to discuss the possibility of refinancing their mortgage in the upcoming year since interest rates are expected to decline by 2%. The Browns would like to determine what effect the anticipated decrease in mortgage interest rates will have on their cash flow situation.

On the *Financial Picture* section – *Net Worth* category – *Assets/Liabilities* page, click the **Report** button for Nick and Lisa's existing home mortgage. Make note of the outstanding

principal amount as of May 30 next year, and then in the *Liability Details* dialog box, enter a lump-sum debt modification strategy for the Browns' existing mortgage.

Hint: Ensure that the amount entered reflects the outstanding balance of the mortgage as of the date of refinance.

-
2. Model the refinanced mortgage on the *Liability Details* dialog box – *Details* tab using the following details:
 - an interest rate of 5%
 - monthly mortgage payments based on a 25-year amortization period
 - loan date of June 1 of the next year
 - the original principal

Hint: Click the **Other Options** link.

a) What should be entered as the *Original Principal* amount?

b) What are the final steps in the data-entry process?

Part B – Verify your data entry

1. From the *Reports* menu, generate the *Itemized Cash Flow Projection for Family* report, selecting at least three years of the current plan to view. What differences do you notice in the Browns' cash flow situation in the current year compared to the year of refinancing?

Exercise 3: Model an account and confirm data

To find the answers, see “Answers to net worth exercises” on page 32.

- 1. Nick and Lisa are interested in establishing a low-interest checking account for incidental expenses. They intend on saving \$100 a month to the account.

Enter a new cash account without holdings, named **Emergency Fund** on the *Financial Picture* section – *Net Worth* category – *Accounts* page with the following information:

1. Investment Account		<i>Non Qualified</i>		<i>Joint</i>	
<i>Emergency Fund</i>					
Description:	Plan Type:	Account Type:	Owner:		
\$0	\$0	No	No		
Market Value:	Basis:	Savings Strategy:	Community Property:	State Taxable:	414(h):

- *Asset Class Weightings: Cash*
- *Savings Strategy: \$100 Monthly, from January 1 (current plan year) to retirement*

- 2. From the *Reports* menu, generate the *Net Worth – Single Asset Details* report and confirm periodic savings to the account. Why is the reinvested amount less than the accrued income amount at the end of the year?

Conclusion

This module has enabled you to

- Capture your clients' current net worth position
 - Enter new and existing lifestyle and real estate assets
 - Examine the cash flow implications of selling a home
 - Enter existing and future liabilities
 - Calculate your clients' mortgage based on payment, balance, or amortization
 - Construct strategies for your clients' liabilities
 - Model detailed investment accounts and holdings
 - Analyze your clients' net worth position using related reports

Answers to net worth exercises

Exercise 1: Model assets and liabilities

Part A – Enter an asset and a liability

3. a) To ensure that the mortgage will be paid off if the home is sold in the future, link the asset (i.e., the vacation home) to the liability.
b) It is necessary to bring the proceeds of the liability into cash flow to ensure that the purchase of the asset will be offset by the loan.

Part B – Validate data entry

1. a) The *Assets/Liabilities* report only displays assets with a current market value. Since the vacation home has a future purchase date, it does not appear in the report.
2. a) The purchase of the vacation home does not have a negative effect on Nick and Lisa's cash flow.
b) Answers will vary

Exercise 2: Model mortgage refinancing

Part A – Enter a debt modification strategy

2. a) The *Original Principal* amount should be the outstanding balance of the previous mortgage as of the date of refinance.
b) The final steps in the data-entry process are
 - Select the **Bring into cash flow** option
 - Link the refinanced mortgage to the primary residence

Part B – Verify your data entry

1. The differences in the Browns' cash flow in the current plan year compared to the year of refinancing are
 - A *Liability Inflow* amount appears for the proceeds of the refinanced mortgage
 - A cash outflow appears for the payout of the existing mortgage
 - Principal and interest payments for the previous loan cease
 - Principal and interest payments for the refinanced liability begin
 - Calculated mortgage payments are slightly lower

Exercise 3: Model an account and confirm data

2. The reinvested income amount is less than the accrued income amount at the end of the year because it reflects the after-tax growth on the account at the end of the year.

