



**NaviPlan Standard
Online/Offline
Life Insurance Analysis
Self-Study Guide**

USA version 11.0

EISI, Winnipeg

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Life insurance analysis

In NaviPlan Standard Online/Offline, in addition to entering life insurance policy information such as premiums and benefits, you can

- enter assumptions regarding the start and end dates for the survivorship period
- analyze your clients' cash flow needs
- specify which expenses will continue during survivorship
- review your results in a cash flow report

Two insurance analysis methods are available in Level 3 Plans:

Life insurance analysis method	Description
Goal and expense analysis	This method focuses on maintaining your clients' current standard of living. NaviPlan defines the survivor's needs by including existing lifestyle expenses and goals that have been entered in the plan. This method is used automatically in the Financial Assessment and all plan levels.
Income coverage analysis	This method focuses on replacing lost income during survivorship when a client dies. You can define a percentage of existing income as anticipated expenses or create new expenses. This method is only available in Level 3 Plans.

Note: The insurance analysis methods are also available for disability analysis. You can set the default insurance analysis method used in new Level 3 Plans by going to the *User Preferences* menu, and then selecting *Plan Settings*.

Learning objectives

This module will enable you to

- Examine life insurance assumptions
- Modify life insurance policies
- Define life insurance needs
- Perform a life insurance analysis

Learning tools

This module includes some practice exercises. We recommend that you use the Nick & 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 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.

Examine life insurance assumptions

NaviPlan Standard projects your client family's cash flow needs in the event of survivorship and uses this information for the life insurance analysis. NaviPlan can simulate the death of the client, co-client, or both. For life insurance, the goal and expense analysis and income coverage analysis methods use the following assumptions:

Assumption	Goal and expense	Income coverage
The client dies on December 31 of the current plan year	✓	✓
The analysis ends at the second death	✓	✓
The income and Social Security entered for the surviving spouse continue during the survivorship period	✓	✓
The deceased client's income stops on December 31 of the current plan year	✓	✓
If life insurance policies exist, the proceeds serve to replace lost income	✓	✓
The plan's existing lifestyle expenses are used to calculate life insurance needs	✓	
Pre-tax income must be defined and converted to an after-tax expense		✓
Non-lifestyle expenses such as loans and insurance premiums continue during the survivorship period	✓	✓
If life insurance policies exist, the proceeds enter cash flow and are immediately invested in a system-generated proceeds asset	✓	✓
Assets in the plan may be redeemed to eliminate projected cash flow deficits during the survivorship period, including assets linked to goals	✓	✓
The analysis method is the default for all planning levels	✓	
The analysis method is available to Level 3 Plans only		✓

Modify life insurance policies

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

Insurance Coverage
[Nick Brown and Lisa Brown](#)

Insurance Coverage

[Instructions](#)

Life Insurance

Description*	Insured*	Policy Type*	Benefit*	Beneficiary*	Premium*	Details	Delete
Lisa's Group Insurance	Lisa	Term 10 Life	\$300,000	Nick	\$25/mo		
Nick's Group Insurance	Nick	Term 10 Life	\$375,000	Lisa	\$25/mo		

[Add Life Insurance](#)

Disability Insurance

Description*	Insured*	Policy Type*	Benefit*	Premium*	Details	Delete
Nick's Disability Policy	Nick	Individual Disability	\$3,000/mo	\$200/mo		
Lisa's Disability Policy	Lisa	Individual Disability	\$2,600/mo	\$175/mo		

[Add Disability Insurance](#)

Long-Term Care Insurance

Description*	Insured*	Daily Benefit Amount*	Premium*	Details	Delete
LTC insurance policy	Nick	\$150	\$75/mo		

[Add LTC Insurance](#)

[Insurance Coverage Report](#)

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

In new plans, default policies appear for each insurance type. Under *Life Insurance*, each default entry has a *Benefit* and *Premium* of \$0. You can delete these entries, modify them so that they represent the clients' actual insurance policies (by entering dollar amounts and other information), or you can ignore them.

Note: Do not enter premiums as expenses. NaviPlan automatically deducts the premiums from the premium payer's cash flow.

Enter policy details

In the *Life Insurance Details* dialog box, you can enter further details about the policy, benefits, and premiums.

Details					
Description*	Policy Type*	Insured*	Beneficiary*	Policy Owner*	
Nick's Group Insurance	Term 10 Life	Nick	Lisa	Other	
Benefit Details					
Death Benefit*	Cash Surrender Value*	CSV Payable with Death Benefit	Coverage Cease at Age	Coverage Cease on date*	Community Property
\$375,000	\$0	<input type="checkbox"/>	62	Apr 21 2028	<input type="checkbox"/>
Premiums					
Payer*	Amount*	Frequency*	Cease at Age	Cease on date*	Waived at Disability
Nick	\$25	Monthly	62	Apr 21 2028	<input checked="" type="checkbox"/>

Figure 2: Life Insurance Details dialog box – Details tab

To enter policy details

1. On the *Insurance Coverage* page, click the **Details** button for a life insurance policy. The *Life Insurance Details* dialog box opens to the *Details* tab. The fields on this tab vary depending on the policy type.
2. Under *Details*, enter the policy type, insured, beneficiary, and policy owner.
3. Under *Benefit Details*, enter the death benefit and coverage details.

Note: For all term insurance policy types, you must enter a cease date or the policy will continue until the insured's death.

4. If available, enter the cash surrender value.
5. For universal, variable and whole life policies, if the cash surrender value is payable with the death benefit, select the **CSV Payable with Death Benefit** check box.
6. If community property applies, select the **Community Property** check box.
7. Under *Premiums*, select the person(s) paying the policy premiums. If the payer is an employer, select **Other**.
8. Enter the remaining premium details. By default, premiums cease at the insured's 65th birthday and are not indexed to inflation.

Add additional policies

Multiple types of life insurance can be entered in the plan, including whole, universal, term, variable, and variable universal life.

On the *Insurance Coverage* page, by clicking the *Add Life Insurance* button, you can select the type of policy you want to create. A new data-entry row appears containing a description of the policy type you selected.

The screenshot shows the 'Insurance Coverage' page for 'Nick Brown and Lisa Brown'. It features a table of existing policies and a dropdown menu for adding new ones.

Description*	Insured*	Policy Type*	Benefit*	Beneficiary*	Premium*	Details	Delete
Lisa's Group Insurance	Lisa	Term 10 Life	\$300,000	Nick	\$25/mo		
Nick's Group Insurance	Nick	Term 10 Life	\$375,000	Lisa	\$25/mo		

The 'Add Life Insurance' dropdown menu is open, showing options: Whole Life, Universal Life, Term 1 Life, Term 5 Life, Term 10 Life, Term 20 Life, Term 100 Life, Variable Life, and Variable Universal Life.

Insured*	Policy Type*	Benefit*	Premium*	Details	Delete
Nick	Individual Disability	\$3,000/mo	\$200/mo		
Lisa	Individual Disability	\$2,600/mo	\$175/mo		

Description*	Insured*	Daily Benefit Amount*	Premium*	Details	Delete
LTC insurance policy	Nick	\$150	\$75/mo		

Buttons: Add Life Insurance, Add LTC Insurance, Insurance Coverage Report

Figure 3: Financial Picture section – Insurance Coverage category – Insurance Coverage page (Add Life Insurance button clicked)

Modify future values

In addition to entering life insurance details, you can modify the future value of death benefits, cash surrender value, and premiums on the *Future Values* tab.

The screenshot shows the 'Life Insurance Details' dialog box with the 'Future Values' tab selected. The 'Future Benefits' table is as follows:

Age	Year	Premiums	Death Benefit	Estimated CSV
41	2007	\$300	\$375,000	\$0
42	2008	\$300	\$375,000	\$0
43	2009	\$300	\$375,000	\$0
44	2010	\$300	\$375,000	\$0
45	2011	\$300	\$375,000	\$0
46	2012	\$300	\$375,000	\$0
47	2013	\$300	\$375,000	\$0
48	2014	\$300	\$375,000	\$0
49	2015	\$300	\$375,000	\$0
50	2016	\$300	\$375,000	\$0
51	2017	\$300	\$375,000	\$0
52	2018	\$300	\$375,000	\$0
53	2019	\$300	\$375,000	\$0

Below the table, the 'Override' section is checked, and the 'Fill Values' section is expanded. The 'Fill Values' section contains the following fields:

Column to Fill*	Start Year*	End Year*	Start Value*	Base Rate*	Increase Rate By	Period (years)*
Premiums	2007	2106	\$0	0.00%	0.00%	1

Figure 4: Life Insurance Details dialog box – Future Values tab

To override the future values of the life insurance policy

1. In the *Life Insurance Details* dialog box, go to the **Future Values** tab.
2. Select the **Override** check box, and then click **OK** to the message that appears. You can edit the individual values, or you can automatically populate the table with new information.
3. To populate the table with new information, click the **Fill Values** link, enter the required data, and then click **Fill**. The column you selected to fill updates.

Define life insurance needs

The *Goals* section – *Survivor Income* category allows you to define the clients' survivorship needs. The *Client* and *Co-client* subcategories provide mirrored data entry where you can analyze either the client or co-client dying on December 31 of the current plan year. The *Both* subcategory analyzes cash flow needs of the surviving dependants if both clients die.

Multiple pages are available for entering key assumptions, expenses, insurance needs, and asset availability. The pages available for the analysis varies depending on the life insurance analysis method used in the plan. In most plans, the *Goal and Expense Analysis* method is used by default. However, in Level 3 Plans, you can select the *Income Coverage Analysis* method.

Page	Goal and expense method	Income expense method
<i>Survivor Income - <Client or Co-client></i>	✓	✓
<i>Annual Expenses</i>	✓	
<i>Annual Income Needs</i>		✓
<i>Additional Annual Income</i>	✓	
<i>Lump Sum Needs</i>	✓	✓
<i>Survivor's Income</i>		✓
<i>Asset Availability</i>	✓	✓

Note: This self-study guide focusses on the *Goal and Expense Analysis* method.

Modify key assumptions

The *Goals* section – *Survivor Income* – <Client or Co-client> category – *Survivor Income* - <Client or Co-client> page allows you to define key assumptions for the survivorship period. In Level 3 Plans, you can modify the survivor’s retirement age, life expectancy, and tax rates specifically for the insurance analysis. In Level 2 and Level 3 Plans, you can modify the rate of return on life insurance proceeds, surpluses, and liquidations during survivorship.

Client
Nick Brown and Lisa Brown

Survivor Income - Client
Annual Expenses
Additional Annual Income
Lump Sum Needs
Asset Availability

[Instructions](#)

Objectives

If Nick dies

Choose Analysis Method

Goal and Expense Analysis

Income Coverage Analysis

Adjust Retirement Age

Override Retirement Age

Lisa

Age Year

Survivor Retirement Age

Survivor Life Expectancy

Override Life Expectancy

Lisa

Age Year

Survivor Life Expectancy

Tax Rates

Override Tax Rates

		Federal			
	Tax Bracket	State*	Average*	Marginal*	Long-Term Capital Gains*
Before Retirement	<input type="text" value="\$195,851 - \$349,700"/>	5.00%	27.05%	33.00%	15.00%
During Retirement	<input type="text" value="\$128,501 - \$195,850"/>	5.00%	22.38%	28.00%	15.00%

Note: The average, marginal and long-term capital gains tax rates shown represent federal rates. The corresponding state tax rate and the federal deduction for state taxes are accounted for in the income tax calculations.

Rate of Return on Life Insurance Proceeds, Surpluses and Liquidations

	Total	Interest	Dividends	Capital Gains	Tax Free	Deferred Growth
Pre-Retirement	6.00%	1.50%	1.50%	1.50%	0.00%	1.50%
Retirement	6.00%	1.50%	1.50%	1.50%	0.00%	1.50%

Figure 5: Goals section – Survivor Income – Client category – Survivor Income - Client page

Enter annual expenses

When a client dies, the annual family expenses can change. In NaviPlan, you can model the percentage of existing lifestyle expenses and add new expenses that need to be covered following the death of the client or co-client.

To enter annual expenses for the life insurance analysis

1. In the *Brown Base Details* plan, go to **Goals** section – **Survivor Income** – **Client** category – **Annual Expenses** page. The Browns’ existing annual lifestyle and education expenses appear.

Client Nick Brown and Lisa Brown

Survivor Income - Client | Annual Expenses | Additional Annual Income | Lump Sum Needs | Asset Availability

▶ Instructions

Existing Annual Expenses

Percentage of expenses to cover*

Expense	Amount	Use Defaults	Percent to Cover
Housing (i.e. utilities, repairs)	\$30,000	<input type="checkbox"/>	100%
Food	\$15,000	<input checked="" type="checkbox"/>	85%
Transportation (i.e. gas, insurance)	\$18,000	<input checked="" type="checkbox"/>	85%
Entertainment (i.e. restaurants, movies)	\$12,000	<input type="checkbox"/>	50%
Personal (i.e. clothing, hobbies)	\$9,000	<input checked="" type="checkbox"/>	85%
Other (i.e. child care, travel)	\$24,000	<input type="checkbox"/>	80%
Retirement Travel (End at 75)	\$10,000	<input checked="" type="checkbox"/>	85%
Retirement Travel (Start at 76)	\$15,000	<input checked="" type="checkbox"/>	85%
Retirement Expense	\$105,000	<input checked="" type="checkbox"/>	85%

Cover Education Expenses

Name	Expense	Start Age	Number of Years	Amount	Indexed By	Percent to Cover
Kevin	Kevin's Education	18	4	\$17,000	5.00%	100%

Surplus Strategy

Percent surplus spent*

Percent surplus saved*

Analysis Surplus

Assume surplus is spent

Additional Annual Expenses

Description*	Amount*	Start Date	Number of Years	End Date*	Infl	Delete
House Maintenance	\$5,000	Jan 1 2007	35	Jan 1 2042	<input checked="" type="checkbox"/>	<input type="button" value="X"/>

Figure 6: Goals section – Survivor Income – Client category – Annual Expenses page

2. Under *Existing Annual Expenses*, in the *Percentage of expenses to cover* field, change the value to **85%**, and then click outside the field. All expenses that have the *Use Defaults* check box selected also continue into survivorship at 85% of the original amount.

Note: Under *Cover Education Expenses*, you can define the percentage of education expenses to cover during survivorship.

3. For the *Other* expense item, clear the **Use Defaults** check box, and then enter **80%**.
4. Under *Surplus Strategy*, in the *Percent surplus saved* field, enter **100%**. NaviPlan uses the *Surplus Strategy* fields to determine whether to save or spend any projected surpluses during the survivorship period. In this case, NaviPlan saves the entire surplus in the proceeds asset using the return rates defined on the *Survivor Income - Client* page.

Note: The sum of the *Surplus Strategy* fields must be 100%. If surplus strategies exist in the plan, NaviPlan overrides these strategies when performing an insurance analysis.

5. Under *Analysis Surplus*, select the **Assume surplus is spent** check box. NaviPlan assumes that the surpluses occurring when both clients are alive are legitimate expenses that will continue during the survivorship period. Although surpluses may be projected in the plan, in reality, expenses might be understated. The *Analysis Surplus* feature allows you to provide a conservative analysis of this situation.
6. Under *Additional Annual Expenses*, click the **Add Annual Expense** button. A new data-entry row appears where you can enter a new lifestyle expense.
7. Enter a **House Maintenance** expense of **\$5,000** that will continue for **35** years.

Enter additional annual income

When a client dies, a nonworking survivor may decide to return to the workforce or work more. You can model additional survivor income on the *Additional Annual Income* page.

Description*	Income Type*	Annual Amount*	Start Date*	End Date*	Infl +/- Add'l	Delete
Salary	Salary	\$0	Jan 1 2008	Retirement	<input checked="" type="checkbox"/> + 0.00%	<input type="button" value="X"/>

Figure 7: Goals section – Survivor Income – Client category – Additional Annual Income page

To enter additional annual income for the survivorship period

1. Go to the **Additional Annual Income** page.
2. Click the **Add Annual Income** button. A new data-entry row appears where you can enter additional details for the new income.

Enter lump-sum needs

On the *Lump Sum Needs* page, you can identify lump-sum expenses such as lifestyle expenses and liabilities to be covered in the event of survivorship.

Client Nick Brown and Lisa Brown

Survivor Income - Client | Annual Expenses | Additional Annual Income | **Lump Sum Needs** | Asset Availability

[Instructions](#)

Pay Off Outstanding Liabilities

Description	Outstanding Principal
<input checked="" type="checkbox"/> 123 Home Mortgage	\$171,674
<input checked="" type="checkbox"/> Credit Card Loan	\$10,526

Additional Lump Sum Needs

Description	Amount	Infl +/-	Add'l	Delete
Lump Sum Need	\$0	<input checked="" type="checkbox"/> +	0.00%	<input type="button" value="X"/>

Figure 8: Goals section – Survivor Income – Client category – Lump Sum Needs page

Under *Pay Off Outstanding Liabilities*, selected liabilities are paid in full on January 1 of the following year, creating an additional expense for the total liability amount. Additional life insurance is needed to pay off these liabilities. For liabilities that have not been selected, payments continue during the survivorship period.

To enter additional lump-sum needs

- On the *Lump Sum Needs* page, click the **Add Lump Sum Need** button. A new data-entry row appears where you can enter a lump-sum amount that will be needed when the survivorship period begins.

Asset availability

On the *Asset Availability* page, NaviPlan provides the ability to deplete specific assets to cover any projected cash flow deficits that might occur during the survivorship period. During this period, the survivor may deplete the asset immediately, at retirement, or never. For example, Nick might decide not to redeem his 403(b) account until retirement in order to reduce withdrawal penalties. In this case, selecting *Available Starting At Retirement* is the appropriate option. Selecting the *Not Available at <client or co-client>'s Death* check box for an asset ensures that the asset will not be available for estate needs at first death.

Client		Nick Brown and Lisa Brown			
Survivor Income - Client					
Annual Expenses					
Additional Annual Income					
Lump Sum Needs					
Asset Availability					
Instructions					
Investment Accounts					
	Survivor Needs			Estate Needs	
Account Name	Available Immediately	Available Starting At Retirement	Not Available	Not Available at Nick's Death	
Nick's 403(b)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	
Lisa's Roth 401(k) (Roth IRA)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="checkbox"/>	
Joint Savings Account (Non-Qualified)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	
Nick's Brokerage Account (Non-Qualified)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	
Lisa's Brokerage Account (Non-Qualified)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="checkbox"/>	
Nick's Annuity (Non-Qualified)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	
Lifestyle Assets					
	Survivor Needs			Estate Needs	
Asset Name	Liquidate Immediately	Liquidate At Retirement	Not Available	Not Available at Nick's Death	
123 Home Street (Joint/Lifestyle)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="checkbox"/>	
Personal Use Property (Joint/Lifestyle)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="checkbox"/>	
Real Estate Assets					
	Survivor Needs			Estate Needs	
Asset Name	Liquidate Immediately	Liquidate At Retirement	Not Available	Not Available at Nick's Death	
500 Smith Street (Joint/Real Estate)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="checkbox"/>	
Education Specific Accounts					
Account Name	Use For Education Only				
Kevin's 529 (529 Plan for Kevin)	<input checked="" type="checkbox"/>				

Figure 9: Goals section – Survivor Income – Client category – Asset Availability page

NaviPlan provides the following default asset availability settings:

Asset type	Default availability
Non-qualified accounts (includes life insurance proceeds asset)	At first death
Qualified accounts	At retirement
Lifestyle and real estate	Not available

Note: For lifestyle and real estate assets, the asset is redeemed as a whole, and proceeds are invested in a hypothetical proceeds asset.

Perform a life insurance analysis

Using the *Reports* menu, you can generate several life insurance reports for the Browns' life insurance analysis.

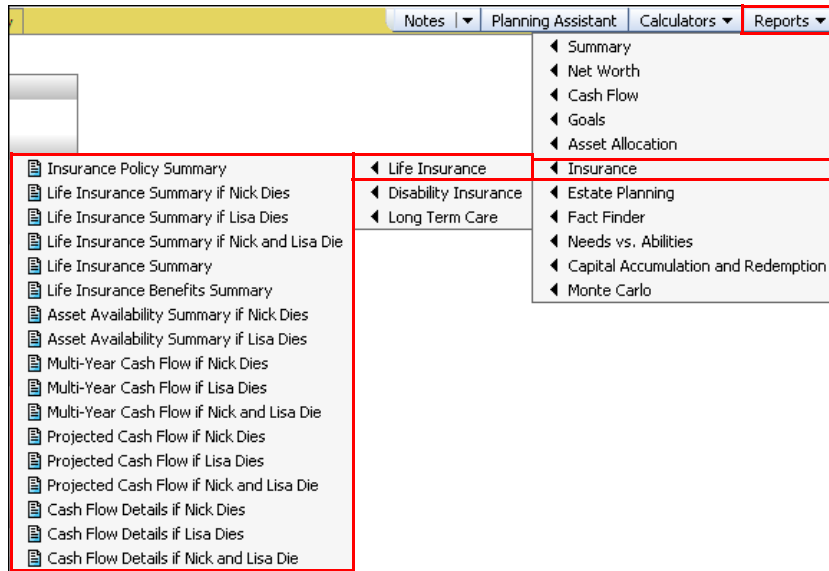


Figure 10: Reports menu showing multiple life insurance reports

Life Insurance Summary report

The *Life Insurance Summary* report for the current analysis is based on the current settings in the plan. The report compares existing life insurance coverage with current needs, and if insurance needs are greater than the coverage, NaviPlan recommends additional coverage.

Life Insurance Summary			
<i>Brown Base Details (2007)</i>			
	Nick	Lisa	Nick and Lisa
Existing Life Insurance Coverage	\$375,000	\$300,000	\$675,000
Immediate Capital Needs			
Probate Expenses	\$670	\$573	\$15,912
Admin. Expenses	\$670	\$573	\$15,912
123 Home Mortgage	\$171,674	\$171,674	\$171,674
Credit Card Loan	\$10,526	\$10,526	\$10,526
Estate Taxes	\$0	\$0	\$34,116
Assumed Expenses	\$6,425	\$6,425	\$0
Existing resources to meet Immediate Needs			
Pre-Death Cash Flow Surplus	(\$6,425)	(\$6,425)	(\$7,559)
Life Insurance Proceeds	\$0	\$0	(\$240,582)
Redeemed From Assets (net of tax)	(\$146,547)	(\$115,091)	\$0
Additional Coverage for Immediate Needs	\$36,995	\$68,256	\$0
Capital needed to meet future cash flow shortfalls	\$1,626,927	\$1,106,846	\$434,418
Life Insurance Proceeds	(\$375,000)	(\$300,000)	(\$434,418)
Reinvested Surplus	(\$1,134)	(\$1,134)	\$0
Additional Coverage for Future Shortfalls	\$1,250,793	\$805,713	\$0
Additional Recommended Coverage	\$1,287,787	\$873,969	\$0

Figure 11: Reports menu – Insurance – Life Insurance – Life Insurance Summary report

Multi-Year Cash Flow if Nick Dies report

The *Multi-Year Cash Flow if Nick Dies* report allows you to review overall cash flow for the entire analysis period where Nick is assumed to die in the current plan year. The report includes tables showing gross capital available, inflows, and outflows during the analysis period.

Multi-Year Cash Flow if Nick Dies							
Brown							
<i>Brown Base Details</i>							
Multi-Year Life Protection Needs If Nick Dies							
Year	Ages	Cash Inflows	Cash Outflows*	Surplus/(Deficit)	Gross Capital Available	Future Value Life Insurance	Additional Life Insurance Needed
2008	--/40	539,169	539,169	0	504,610	0	0
2009	--/41	167,311	167,311	0	517,742	0	0
2010	--/42	171,699	171,699	0	530,593	0	0
2011	--/43	178,212	178,212	0	541,121	0	0
2012	--/44	184,910	184,910	0	549,109	0	0
2013	--/45	190,327	190,327	0	555,791	0	0
2014	--/46	221,230	221,230	0	548,076	0	0
2015	--/47	225,758	225,758	0	512,047	0	0
2016	--/48	219,807	219,807	0	483,341	0	0
2017	--/49	225,770	225,770	0	450,591	0	0
2018	--/50	215,839	215,840	0	429,562	0	0
2019	--/51	221,143	221,144	0	405,837	0	0
2020	--/52	226,277	226,277	0	379,492	0	0
2021	--/53	231,847	231,848	0	350,089	0	0
2022	--/54	237,633	237,634	(1)	317,378	1	0
2023	--/55	243,564	243,565	(1)	281,148	1	0
2024	--/56	250,064	250,066	(1)	240,753	1	0
2025	--/57	254,551	254,544	7	197,625	0	0
2026	--/58	258,977	258,985	(8)	151,644	8	0
2027	--/59	266,083	266,083	0	100,123	0	0
2028	--/60	257,889	257,889	0	58,124	0	0
2029	--/61	265,016	265,016	0	11,126	0	0
2030	*--/62*	57,760	207,048	(149,288)	0	149,288	54,771
2031	--/63	46,164	212,908	(166,744)	0	166,744	58,522
2032	--/64	46,469	218,969	(172,500)	0	172,500	57,915
2033	--/65	46,783	224,593	(177,810)	0	177,810	57,104
2034	--/66	47,106	231,005	(183,898)	0	183,898	56,491
2035	--/67	77,183	244,531	(167,349)	0	167,349	49,170
2036	--/68	84,545	252,967	(168,422)	0	168,422	47,330
2037	--/69	86,002	260,231	(174,229)	0	174,229	46,828
2038	--/70	87,502	267,712	(180,210)	0	180,210	46,323
2039	--/71	89,047	275,418	(186,371)	0	186,371	45,816
2040	--/72	90,638	283,354	(192,716)	0	192,716	45,307
2041	--/73	92,277	291,529	(199,252)	0	199,252	44,797
2042	--/74	93,966	299,012	(205,046)	0	205,046	44,084

Figure 12: Reports menu – Insurance – Life Insurance – Multi-Year Cash Flow if Nick Dies report

Life Insurance Cash Flow Single Year Details report

To obtain additional cash flow details about a specific year, you can generate a *Life Insurance Cash Flow Single Year Details* report for that year. Unlike the *Cash Flow Details* report, this report assumes that Nick dies on December 31 of the current plan year instead of the year defined by the planned life expectancy. If you generate this report for the current year, you should notice that life insurance benefits begin paying out, Nick's salary is no longer present, lifestyle expenses vary, liability payments have ended, and goal savings have changed.

Life Insurance Cash Flow Single Year Details (Nick Dies Dec 31 2007)	
<i>Brown Base Details (2007)</i>	
Cash Inflows	
Regular Income:	
Nick's Salary (Nick)	\$100,000
Lisa's Salary (Lisa)	\$90,000
Total Regular Income	\$190,000
Other Pension Income:	
Nick's 403(b)	\$66,521
Total Other Pension Income	\$66,521
Tax-free Capital Received:	
Nick's Annuity (Non-Qualified)	\$7,000
Joint Savings Account (Non-Qualified)	\$27,311
Nick's Brokerage Account (Non-Qualified)	\$64,590
Total Tax-free Capital Received	\$98,902
Investment Income: ¹	
500 Smith Street (Joint/Real Estate)	\$36,000
Joint Savings Account (Non-Qualified)	\$2,389
Lisa's Brokerage Account (Non-Qualified)	\$3,372
Nick's Brokerage Account (Non-Qualified)	\$3,466
Total Investment Income¹	\$45,226
Life Insurance Redemptions:	
Nick's Group Insurance (Other)	\$375,000
Total Life Insurance Redemptions	\$375,000
Total Cash Inflows	\$775,649
Cash Outflows	
Goal Expenses:	
Assumed Expenses	\$6,425
Total Goal Expenses	\$6,425
Lifestyle Expenses:	
Housing (i.e. utilities, repairs)	\$30,000
Food	\$15,000
Transportation (i.e. gas, insurance)	\$18,000
Entertainment (i.e. restaurants, movies)	\$12,000
Personal (i.e. clothing, hobbies)	\$9,000
Other (i.e. child care, travel)	\$24,000
Total Lifestyle Expenses	\$108,000

Figure 13: Reports menu – Insurance – Life Insurance – Life Insurance Cash Flow Single Year Details report

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., *Life insurance analysis 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: Examine life insurance assumptions

To find the answers, see “Answers to life insurance analysis exercises” on page 20.

1. What are the two life insurance analysis methods available in a Level 3 Plan?

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

- I. *Goal and Expense Analysis*
 - II. *Itemized Analysis*
 - III. *Income Coverage Analysis*
 - IV. *Needs Analysis*
- a) I and II
 - b) II and IV
 - c) I and III
 - d) All of the above
2. Match the description with the correct field or page name when using the **Goal and Expense Analysis** method.

Feature	Field or page
1. You can enter the percentage of a specific expense to be covered by the client’s cash flow during the survivorship period in the _____ field.	a) <i>Asset Availability</i>
2. On this page you can specify which assets will be available to cover cash flow deficits in the survivorship period, and when they will become available.	b) <i>Lump Sum Needs</i>

HANDS-ON EXERCISES

3. This field on the <i>Objectives</i> page allows you to modify the life expectancy of the survivor for the life insurance analysis.		c) % to Cover
4. The _____ field allows you to specify that all surplus cash during survivorship will be saved.		d) Enter the Survivor Life Expectancy
5. This page allows you to enter any one-time expenses that could occur on the event of survivorship.		e) Percent surplus saved

3. What is the default **Total Rate of Return on Surpluses and Liquidations** value?
 - a) 0%–2.5%
 - b) 2.6%–5.5%
 - c) 5.6%–7.5%
 - d) Over 7.5%

Exercise 2: Modify life insurance policies

1. For the policy insuring Nick, change the following: *Premium Payer* to **Other**, *Death Benefit* to **\$350,000**, *Policy and Premiums cease on date* to **Dec 31 2030**.

Hint: Leave all other fields at their defaults.

2. Generate a report to confirm that you have entered the policy details accurately.

Hint: For quick access to the insurance reports, click the **Insurance Coverage Report** button, or select a report from the **Reports** menu.

Exercise 3: Define and analyze life insurance needs

To find the answers, see “Answers to life insurance analysis exercises” on page 20.

Nick and Lisa recognize that their expenses would change drastically in the event of Nick’s death. Use this exercise to adjust the survivorship needs for your analysis.

1. Nick and Lisa would like to take a conservative approach and assume that 100% of pre-retirement cash flow surplus that would have existed if Nick were still alive have been spent. They would also like to assume that 100% of any surplus that materializes after Nick dies continues to be spent. Enter these assumptions into the analysis.

Hint: *Surplus Strategy* refers to the use of surpluses during survivorship; *Analysis Surplus* refers to surpluses when both the client and co-client are alive.

2. In the event of Nick’s death, the Browns expect that their original expenses will change. Using the **Goal and Expense Analysis** method, apply a value of 75% to cover for each original expense amount.

Hint: Select the **Use Defaults** check boxes to make it easy.

3. Based on the data you just entered, is there a need for additional life insurance?
 - a) Yes
 - b) No
4. If you answered *Yes* in question 3 above, note the year in the plan in which shortfalls begin.

Conclusion

This module has enabled you to

- Examine life insurance assumptions
- Modify life insurance policies
- Define life insurance needs
- Perform a life insurance analysis

Answers to life insurance analysis exercises

Exercise 1: Examine life insurance assumptions

1. c) I and III – The two life insurance analysis methods available in a Level 3 Plan are the *Goal and Expense Analysis* method and the *Income Coverage Analysis* method.
- 2.

Feature	Field or page
1	c) % to Cover
2	a) Asset Availability
3	d) Enter the Survivor Life Expectancy
4	e) Percent surplus saved
5	b) Lump Sum Needs

3. c) 5.6%–7.5% – The default *Total Rate of Return on Surpluses and Liquidations* value is 6.0%.

Exercise 3: Define and analyze life insurance needs

3. a) Yes – Based on the data entered previously, there is a need for additional life insurance.