



**NaviPlan Standard  
Online/Offline  
Retirement Goal Analysis  
Self-Study Guide**

**USA version 11.0**

EISI, Winnipeg

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# Retirement goal analysis

The NaviPlan Standard Retirement Goal Analysis 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.

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.

In NaviPlan Standard, retirement is treated as a goal rather than just a time period. NaviPlan allows you to enter retirement assumptions, and then analyze the clients' ability to meet the retirement goal. In Level 3 Plans, you can create and analyze multiple retirement scenarios, and then make a recommendation that best meets your clients' financial situation.

**Note:** This module assumes that you will be using a Level 3 Plan throughout the lesson.

## Learning objectives

This module will enable you to

- Identify goal assumptions
- Model fixed and discretionary retirement expenses
- Allocate assets to specific goals
- Create and compare common What-if scenarios
- Explore retirement output pages

## 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.

## Identify goal assumptions

In NaviPlan, you should enter assumptions regarding your clients' expected retirement age and life expectancy, and then determine an investor profile that is appropriate for their investment time horizon and risk tolerance.

## Define objective and scenario assumptions

On the *Goals* section – *Retirement* category – *Objectives* page, you can define when retirement occurs, the length of the retirement period, asset allocation, retirement incomes and expenses, goal funding options, and the asset liquidation order.

**Retirement**
Level 3
◀ Back
Next ▶

Objectives
Scenarios
Notes
Planning Assistant
Calculators
Reports

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Enter expenses and incomes during retirement under *Retirement Expenses* and *Retirement Incomes*. Click **Goal Funding** to view and modify how accounts are used across all goals in the plan. Click **Liquidation Order** to view and modify the order in which accounts are used for the Retirement goal.

**Objectives**

	Nick		Lisa	
	Age	Year	Age	Year
Retire At	62	2028	62	2030
Life Expectancy	90	2056	90	2058

To view or edit additional asset allocation details, click **Asset Allocation**.

[Asset Allocation...](#)

**Calculate Retirement Expenses**

Enter the annual retirement expenses as a

percentage of the current estimated after-tax salary \$131,670 X  = \$0

percentage of the current lifestyle expenses \$108,000 X  = \$0

specific amount

[Add to Retirement Expenses](#)

**Retirement Expenses**

Description	Member	Amount	Frequency	Infl +/- Add'l	Start Age	End Age	Tfr to Survivor	Fixed Expense	Delete
Retirement Travel (End at	Joint	\$10,000	Annual	✓+ 0.00%	Retirement	75	✓	✓	✕
Retirement Travel (Start a	Joint	\$15,000	Annual	✓+ 0.00%	76	85	✓		✕
Retirement Expense	Joint	\$105,000	Annual	✓+ 0.00%	Retirement	Death	✓	✓	✕

[Add Retirement Expense](#)

**Retirement Incomes**

If Social Security or defined benefit pensions are entered on the *Financial Picture* section - *Cash Flow* category - *Cash Flow* page, do not enter them in this section. Only enter additional retirement incomes in this section.

Description	Income Type	Member	Amount	Frequency	Infl +/- Add'l	Start Age	End Age	Delete
Wood Working Hobby	Tax Free or Inheritance	Lisa	\$5,000	Annual	✓+ 0.00%	Retirement	75	✕

[Add Retirement Income](#)

To view or edit account distribution for all plan goals: [Goal Funding](#)

To view or edit account liquidation order: [Liquidation Order](#)

[Retirement Accounts \(\\$235,500\)](#)

Figure 1: Goals section – Retirement category – Objectives page

On the *Goals* section – *Retirement* category – *Scenarios* page, you can specify alternative scenarios with a different set of retirement goal assumptions.

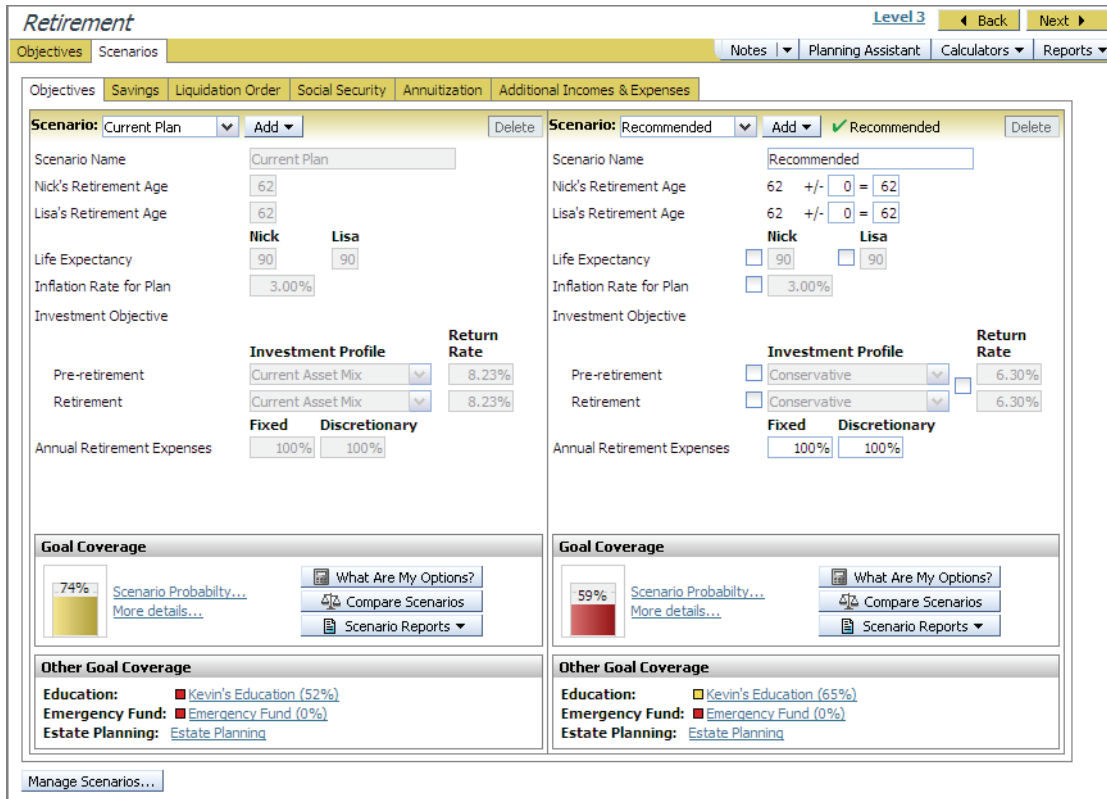


Figure 2: Goals section – Retirement category – Scenarios page – Objectives tab

For both retirement objectives and scenarios, NaviPlan uses the following assumptions:

Milestone	Assumption	Keyword
Retirement begins	January 1 of the first retiree's first year of retirement	<i>Retirement</i>
Retirement ends	December 31 of the year of death for the last client to die	<i>Death</i>

**Hint:** To avoid re-entering the age or year of retirement and death, by using the keywords *retirement* and *death*, you only need to specify the values once. NaviPlan automatically updates the rest of the plan. For more information, go to <http://knowledge.eisi.com>, and then search for *Functional Documents* using the term *keywords dates*.

## Define the retirement goal asset allocation

In the *Asset Allocation Details* dialog box, you can define asset allocation assumptions for the retirement goal by overriding the suggested asset mix that was determined on the *Plan Management* section – *Asset Allocation* category – *Questionnaire* page.

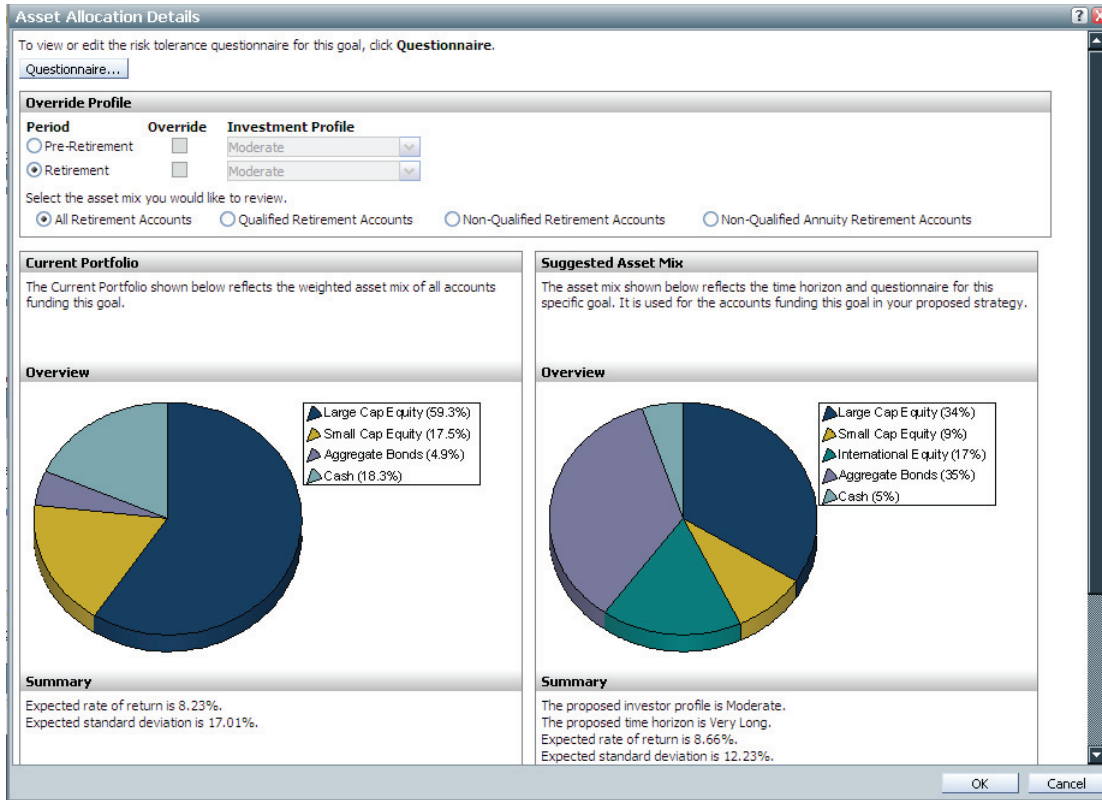


Figure 3: Goals section – Retirement category – Objectives page – Asset Allocation button – Asset Allocation Details dialog box

### To define asset allocation assumptions for the retirement goal

1. In the *Base Details Plan*, go to the **Goals** section – **Retirement** category – **Objectives** page.
2. Click the **Asset Allocation** button. The *Asset Allocation Details* dialog box opens. NaviPlan displays the clients' current asset mix on the left and the suggested asset mix on the right.
3. Click the **Questionnaire** button. The *Questionnaire* dialog box opens. The dialog box shows the answers that were used to determine the suggested asset mix. Changing the answers here changes the suggested asset mix for the retirement goal.

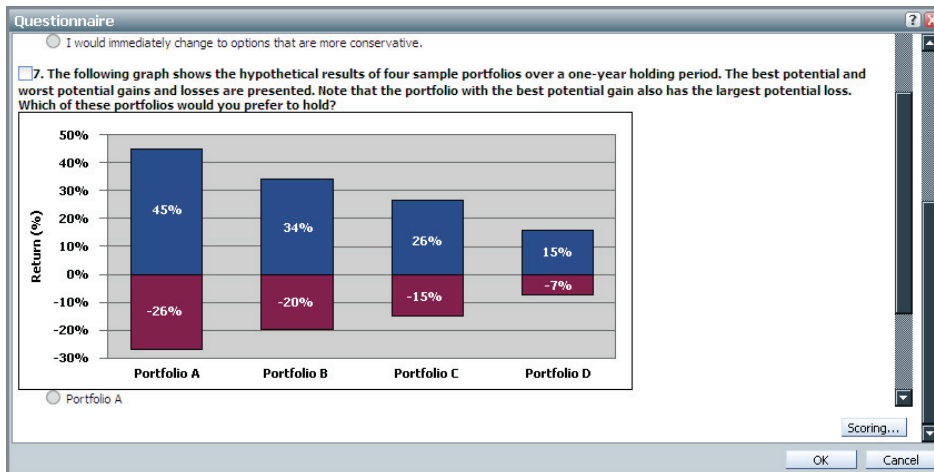


Figure 4: Goals section – Retirement category – Objectives page – Asset Allocation button – Asset Allocation Details dialog box – Questionnaire dialog box

- Click **OK**. The *Questionnaire* dialog box closes.
- Select an asset mix you would like to review. A proportional breakdown of the selected accounts is displayed for both the current portfolio and suggested asset mix.

**Hint:** If *All Pre-Retirement Accounts* is selected, you cannot override the clients' investment profile and the *Weightings* and *Optimize* buttons are unavailable.

- Under *Override Profile*, you can define different asset mixes for the pre-retirement and retirement periods and for qualified, non-qualified, and annuity assets. Select the period that you want to override.
- Select the **Override** check box, and then select the alternative investor profile you want to use for the selected period.
- Scroll down to the bottom of the profile. On the bottom of the page, NaviPlan displays the expected rate of return and standard deviation for both asset mixes. You can modify the suggested asset mix by clicking either the *Weightings* button or the *Optimize* button.

Click	To do this...
<b>Weightings</b>	Customize the asset class weightings to better suit the clients' situation.
<b>Optimize</b>	Set constraints for each asset class available. NaviPlan determines a new mix that can achieve a similar rate of return or standard deviation as the suggested asset mix. <b>Note:</b> This button is only available if you have permission to use <i>Mean Variance Optimization</i> .

9. Clear the **Override** check box. NaviPlan clears your changes. For more information about asset allocation, see the *Asset allocation* module.

## Enter retirement incomes and expenses

NaviPlan considers the pre-retirement and retirement periods separately allowing you to enter incomes and expenses that are either exclusive to each period or available throughout the plan.

Time period	Where to enter the income or expense
Pre-retirement	<i>Financial Picture</i> section – <i>Cash Flow</i> category – <i>Cash Flow</i> page <b>Note:</b> Depending on the end date for the income or expense, the income or expense may flow into the retirement period.
Retirement	<i>Goals</i> section – <i>Retirement</i> category – <i>Objectives</i> page <b>Note:</b> Incomes and expenses entered on the <i>Cash Flow</i> page that continue into retirement also appear on this page. You do not have to re-enter the income or expense.

**Hint:** It is good practice to separate pre-retirement and retirement incomes and expenses for reporting purposes.

On the *Objectives* page, you can enter retirement expenses using one of two methods:

Method	Description
Calculation	Under <i>Calculate Retirement Expenses</i> , you can use one of three formulas to populate a single retirement expense.
Itemized expense	Under <i>Retirement Expenses</i> , you can enter specific itemized expenses with varying start and end dates, amounts, indexation, and frequency.

**Retirement** Level 3 [Back](#) [Next](#)

Objectives **Scenarios** Notes | Planning Assistant | Calculators | Reports

▼ [Hide Instructions](#)  
 Enter expenses and incomes during retirement under *Retirement Expenses* and *Retirement Incomes*. Click **Goal Funding** to view and modify how accounts are used across all goals in the plan. Click **Liquidation Order** to view and modify the order in which accounts are used for the Retirement goal.

**Objectives**

	Nick		Lisa	
	Age	Year	Age	Year
Retire At	62	2028	62	2030
Life Expectancy	90	2056	90	2058

To view or edit additional asset allocation details, click **Asset Allocation**.  
[Asset Allocation...](#)

**Calculate Retirement Expenses**

Enter the annual retirement expenses as a

percentage of the current estimated after-tax salary \$131,670 X  = \$0

percentage of the current lifestyle expenses \$108,000 X  = \$0

specific amount

[Add to Retirement Expenses](#)

**Retirement Expenses**

Description	Member	Amount	Frequency	Infl +/- Add'l	Start Age	End Age	Tfr to Survivor	Fixed Expense	Delete
Retirement Travel (End at	Joint	\$10,000	Annual	✓+ 0.00%	Retirement	75	✓	✓	✕
Retirement Travel (Start a	Joint	\$15,000	Annual	✓+ 0.00%	76	85	✓		✕
Retirement Expense	Joint	\$105,000	Annual	✓+ 0.00%	Retirement	Death	✓	✓	✕

[Add Retirement Expense](#)

**Retirement Incomes**

If Social Security or defined benefit pensions are entered on the *Financial Picture* section - *Cash Flow* category - *Cash Flow* page, do not enter them in this section. Only enter additional retirement incomes in this section.

Description	Income Type	Member	Amount	Frequency	Infl +/- Add'l	Start Age	End Age	Delete
Wood Working Hobby	Tax Free or Inheritance	Lisa	\$5,000	Annual	✓+ 0.00%	Retirement	75	✕

[Add Retirement Income](#)

To view or edit account distribution for all plan goals: [Goal Funding](#)

To view or edit account liquidation order: [Liquidation Order](#)

[Retirement Accounts \(\\$235,500\)](#)

Figure 5: Goals section – Retirement category – Objectives page

**To enter a retirement expense using the calculation method**

1. Under *Calculate Retirement Expenses*, select **percentage of the current lifestyle expenses**, and then enter **75%**.
2. Click the **Add to Retirement Expenses** button. Under *Retirement Expenses*, the new retirement expense appears. You can modify the expense further since it is now an itemized expense.

**To enter a retirement expense using the itemized expense method**

The Browns want to spend \$10,000 annually on travel when retirement begins, and then stop traveling after 15 years.

1. Under *Retirement Expenses*, click the **Add Retirement Expense** button. A new data-entry row appears. By default, NaviPlan creates a joint expense that occurs annually.
2. In the *Description* and *Amount* fields, enter **Retirement Travel** and **\$10,000** respectively.

- In the *End Age* field, enter **Retirement + 15**.

**Hint:** You can modify keywords by including a positive or negative integer. When NaviPlan replaces the keyword with an age, Naviplan adds or subtracts the amount from the client's age.

- Clear the **Fixed Expense** check box. Travel is considered a discretionary expense. When creating scenarios, having a distinction between fixed and discretionary expenses is important.

Expense type	Description
Fixed	Fixed expenses are expenses that will always apply. Examples include food, utility bills, and rent. When entering fixed expenses, ensure the <i>Fixed Expense</i> check box is selected.
Discretionary	Discretionary expenses are expenses that can start and stop at any time. Examples include golfing, and annual vacations. When creating a scenario, you can increase the odds of goal success by reducing the percentage of discretionary expenses covered. When entering discretionary expenses, ensure the <i>Fixed Expense</i> check box is cleared.

### To enter a retirement income

The Browns have an annual \$10,000 pension that will begin at retirement and end at death.

- Under *Retirement Incomes*, click the **Add Retirement Income** button. A new data-entry row appears. By default, NaviPlan creates an income that occurs annually and begins at retirement.
- In the *Description* field, enter **Pension**.
- From the *Income Type* list, select **Pension**.
- In the *Amount* and *End Age* fields, enter **\$10,000** and **Death** respectively.

## Allocate assets to the goal

After entering goals in the plan, it is important that you specify the source of funding for each goal. Once the goal funding details have been entered, you can determine whether the clients' goals are being met, and then create alternative scenarios.

## Use goal funding options

Another source of funding for the retirement need is income from retirement asset redemptions. You can define asset funding sources for multiple goals in the *Goal Funding* dialog box or on the *Goals* section – *Goal Funding* category – *Goal Funding* page.

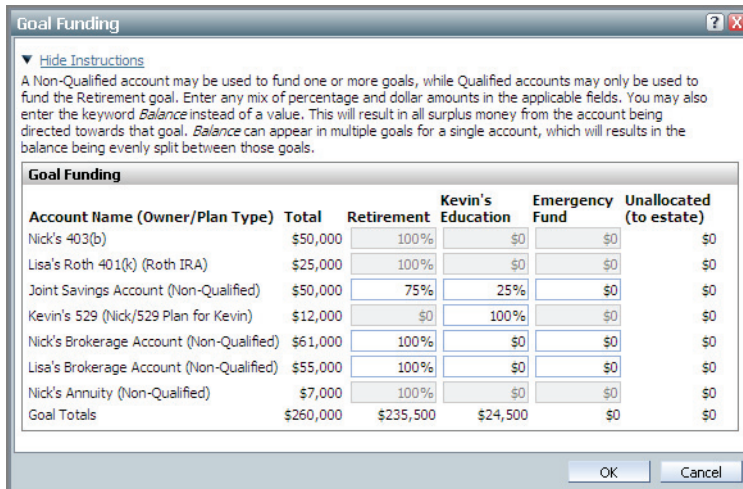


Figure 6: Goals section – Retirement category – Objectives page – Goal Funding button – Goal Funding dialog box

The *Goal Funding* dialog box lists all investment assets in rows and all financial goals in columns. You can allocate how much of each asset, if any, to use for each goal. Qualified retirement assets are automatically assigned 100% to the retirement goal and cannot be changed, whereas non-qualified assets can be allocated to one, multiple, or no goals. There are three ways to allocate assets:

Entry	Details
Dollar value	NaviPlan allocates the exact dollar amount to the listed goal.
Percent of asset value	NaviPlan uses the percentage of the asset and converts that percentage into a dollar amount to fund the listed goal.
The keyword <i>balance</i>	NaviPlan allocates the balance of the asset to the listed goal after the dollar values and percentage of asset values have been calculated.

When allocating an account across multiple goals and using any of the fixed amount, percentage, and balance options, behind the scenes NaviPlan divides the account into

portions for each respective goal. This split is reflected in stand-alone reports and eliminates the need to manually divide an account. Subsequently, any savings for the account will be appropriately distributed among the goals of the account.

**Note:** If amounts are assigned to multiple goals and the combined fixed amount, percentage, and balance amounts exceed the value of the account, fixed amounts are funded first and the remaining funds are automatically distributed on a prorata basis.

### To assign assets to the retirement goal

1. On the *Objectives* page, click the **Goal Funding** button. The *Goal Funding* dialog box opens.
2. For a non-qualified account, in the *Emergency Fund* column, enter **\$15,000**.
3. In the *Education* column, enter **25%**. The amount applied to the education goal is 25% of the total account value. If you enter a percentage that is too high, NaviPlan displays an error message.
4. In the *Retirement* column, enter **balance**. NaviPlan applies the balance of the account toward the retirement goal.
5. Click **Cancel**. The *Goal Funding* dialog box closes and your changes are cleared.
6. On the bottom of the *Objectives* page, click the **Retirement Accounts** link. The link expands to show all accounts that have been allocated toward the retirement goal. If cash flow deficits are projected during the retirement period, NaviPlan will redeem enough funds from these assets to cover these deficits and any tax due.
7. Click the **Unassigned Accounts** link. The link expands to show all accounts that have some funds available that have not been allocated toward any goals.

### Define account liquidation order

In the *Liquidation Order* dialog box, NaviPlan allows you to control and define the order in which assets will be redeemed to cover cash flow deficits. You can open this dialog box by clicking the *Liquidation Order* button on the *Objectives* page. See the *Advanced Retirement Analysis* module for more details about this dialog box.

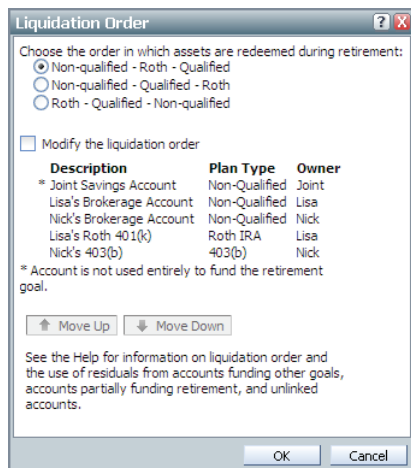


Figure 7: Goals section – Retirement category – Objectives page – Liquidation Order button – Liquidation Order dialog box

## Verify retirement data

Before analyzing the clients' plan or an individual goal, you should verify the accuracy of your data. Having accurate data helps ensure that your suggestions are appropriate to the clients' financial situation. There are three ways you can check for errors:

- Use the report buttons on the *Assets/Liabilities*, *Cash Flow*, and *Insurance Coverage* pages. For example, you can generate the *Cash Flow* report by clicking the *Cash Flow Report* button on the *Cash Flow* page.
- Generate a report from the *Reports* menu, such as the *Current Year Cash Flow* report, any of the *Net Worth* reports, or the *Synopsis* report (which summarizes almost all data entered).
- Open the *Planning Assistant*, which performs checks on data in the plan and notifies you if the data falls outside of typical value ranges. The *Planning Assistant* also identifies potential problems and opportunities and areas where data might be incorrect. For example, the *Planning Assistant* could find an used cash surplus or additional room for qualified contributions.

## Create and compare common What-if scenarios

NaviPlan provides convenient and user-friendly *Scenarios* pages allowing you to compare and manage multiple What-if scenarios all within the same plan. Each scenario is designed to help you quickly explore alternative strategies and test key variables. Before choosing a scenario for your clients, you can place two scenarios side-by-side so that you can easily compare the details for both scenarios.

The screenshot displays the 'Retirement' section of the NaviPlan software, specifically the 'Scenarios' page under the 'Objectives' tab. It compares two scenarios side-by-side:

- Scenario 1: Current Plan**
  - Scenario Name: Current Plan
  - Nick's Retirement Age: 62
  - Lisa's Retirement Age: 62
  - Life Expectancy: 90 (Nick), 90 (Lisa)
  - Inflation Rate for Plan: 3.00%
  - Investment Objective:
    - Pre-retirement: Current Asset Mix, Return Rate: 8.23%
    - Retirement: Current Asset Mix, Return Rate: 8.23%
  - Annual Retirement Expenses: Fixed 100%, Discretionary 100%
  - Goal Coverage: 74%
  - Other Goal Coverage:
    - Education: Kevin's Education (52%)
    - Emergency Fund: Emergency Fund (0%)
    - Estate Planning: Estate Planning
- Scenario 2: Recommended**
  - Scenario Name: Recommended
  - Nick's Retirement Age: 62 +/- 0 = 62
  - Lisa's Retirement Age: 62 +/- 0 = 62
  - Life Expectancy: 90 (Nick), 90 (Lisa)
  - Inflation Rate for Plan: 3.00%
  - Investment Objective:
    - Pre-retirement: Conservative, Return Rate: 6.30%
    - Retirement: Conservative, Return Rate: 6.30%
  - Annual Retirement Expenses: Fixed 100%, Discretionary 100%
  - Goal Coverage: 59%
  - Other Goal Coverage:
    - Education: Kevin's Education (65%)
    - Emergency Fund: Emergency Fund (0%)
    - Estate Planning: Estate Planning

Figure 8: Goals section – Retirement category – Scenarios page – Objectives tab

Left-hand retirement scenario	Right-hand retirement scenario
<p>By default, a scenario describing the current analysis appears on this side of the <i>Scenarios</i> page. This scenario is used for comparison purposes only and cannot be edited. If you want to change the scenario, you have to change the Current Plan.</p> <p>This scenario considers specifically defined retirement expenses and other expenses such as mortgage payments, taxes, and insurance premiums.</p> <p>NaviPlan uses the return rates on existing assets and uses existing savings strategies.</p>	<p>By default, the <i>Recommended</i> scenario appears on this side of the <i>Scenarios</i> page. This scenario is a copy of the <i>Current Plan</i> scenario; however, NaviPlan applies the suggested asset mix to this scenario. This scenario can have a different return rate and goal coverage percentage. You can edit this scenario.</p> <p>When you generate a <i>Financial Needs Analysis</i> client report, scenarios marked as <i>Recommended</i> are included in the Recommended Plan.</p>

On the *Goals* section – *Retirement* category – *Scenarios* page – *Objectives* tab, you can change many basic goal details in the *Recommended* scenario.

Fields	Description
<i>Retirement Age / Life Expectancy</i>	<p>You can change the time horizon of the retirement goal by adding or subtracting years from the clients' retirement age.</p> <p>If you think your clients might live longer or might die sooner (i.e., due to a pre-existing medical condition), you can adjust the life expectancy as well.</p>
<i>Investment Objective</i>	<p>If you are not satisfied with the suggested asset mix for this scenario, you can select another investor profile for the pre-retirement and retirement period and override the return rates.</p>
<i>Expenses</i>	<p>You can specify the percentage of fixed and discretionary expenses to cover in the plan. For example, if the Browns reduce their discretionary travel expenses during retirement, the clients might be more likely to meet their retirement needs.</p>

When designing a scenario for the Recommended Plan, it is important to ensure that the suggestions you make are likely to meet the clients' needs. When you make changes to a scenario, a *Goal Coverage* graph updates and shows one of three colors:

The color...	Indicates that...
Green	Goal coverage is 90% or greater
Yellow	Goal coverage is between 65% and 90%
Red	Goal coverage is less than or equal to 64%

## Add a retirement scenario

If asset reallocation alone does not provide adequate goal coverage, you can add a new scenario or build upon a pre-existing one.

The screenshot shows the 'Objectives' tab in the NaviPlan software. At the top, there are tabs for 'Objectives', 'Savings', 'Liquidation Order', 'Social Security', 'Annuitization', and 'Addition'. Below these is a 'Scenario:' dropdown menu currently set to 'New with Suggest'. To the right of this menu are buttons for 'Add', 'Recommend Scenario', and 'Delete'. The 'Add' button is active, and a dropdown menu is open, listing options: 'New', 'Copy of New with Suggested Asset Mix', 'Predefined Scenarios...', and 'Manage Scenarios...'. The main form area contains several input fields and checkboxes. Under 'Nick' and 'Lisa', there are checkboxes for 'Life Expectancy' (set to 90) and 'Inflation Rate for Plan' (set to 3.00%). There are also checkboxes for 'Investment Profile' (set to Conservative) and 'Return Rate' (set to 6.30%) for both 'Pre-retirement' and 'Retirement' phases. At the bottom, there are checkboxes for 'Annual Retirement Expenses' (set to 100% for both 'Fixed' and 'Discretionary' categories).

Figure 9: Goals section – Retirement category – Scenarios page – Objectives tab – Add list

### To add a retirement scenario

1. On the *Objectives* tab, click the **Add** button for the *Recommended* scenario. A list of options appears. You can create a new scenario, create a copy of an existing scenario, access a list of predefined scenarios, or manage multiple scenarios.
2. Select **Copy of Recommended**. The *Recommended* scenario is replaced with a new scenario.
3. In the *Scenario Name* field, enter **Recommended AA and Strategies**.

**Hint:** When entering the name of a scenario, ensure that you use a unique name to distinguish this scenario from other scenarios.

## Explore retirement options

In seconds, you can explore retirement options that will provide 100% goal coverage, and then apply an option toward a retirement scenario. The *What Are My Options?* dialog boxes that appear throughout the *Scenarios* pages are particularly useful for this purpose.

**Hint:** For more information, go to <http://knowledge.eisi.com>, and then search for *Functional Documents* using the term *What Are My Options*.

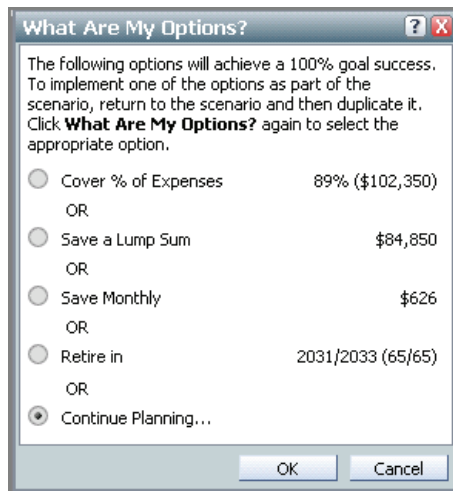


Figure 10: Goals section – Retirement category – Scenarios page – What Are My Options? button – What Are My Options? dialog box

### To provide quick 100% goal coverage for the retirement goal

1. For the *Recommended AA and Strategies* scenario, click the **What Are My Options?** button. The *What Are My Options?* dialog box opens showing a number of options that will provide 100% goal coverage.

**Hint:** If you demonstrate to your clients the *Save a Lump Sum* option, they may reveal undisclosed assets that you can add to the plan.

2. Select **Save Monthly**, and then click **OK**. The *What Are My Options?* dialog box closes and NaviPlan adds your strategy to the scenario. NaviPlan moves to the *Savings* tab showing additional monthly savings.

## Include a savings strategy

On the *Savings* tab, you can define when savings begin, the amount of lump sum and monthly savings, and whether savings are indexed. NaviPlan assumes that the clients will begin saving the funds into a joint non-qualified asset earning the rate of return defined on the *Objectives* tab.

By default, NaviPlan starts the savings in the same month as the plan analysis date, provided that the plan analysis date is the first day of the month. For example, if the plan analysis date is February 1, the savings start date is also February 1. However, if the plan analysis date is on the second day of the month or later, the savings begin on the following month. For example, if the plan analysis date is February 2, the savings begin on March 1.

The screenshot displays the 'Retirement' category with the 'Scenarios' page selected. The 'Savings' tab is active, showing two scenarios side-by-side:

- Scenario: Current Plan** (Status: Add)
  - Start Date: Jan 1 2007
  - Additional Lump Sum Savings: \$0
  - Additional Savings (\$/month): \$0
  - Infl +/- Add'l: + 0.00%
  - Indexed by:  + 0.00%
  - Current Monthly Savings: \$1,413
  - Goal Coverage: 74%
  - Other Goal Coverage:
    - Education: Kevin's Education (52%)
    - Emergency Fund: Emergency Fund (0%)
    - Estate Planning: Estate Planning
- Scenario: Recommended** (Status: Add, Recommended)
  - Start Date: Jun 1 2007
  - Additional Lump Sum Savings: \$0
  - Additional Savings (\$/month): \$0
  - Infl +/- Add'l: + 0.00%
  - Indexed by:  + 0.00%
  - Current Monthly Savings: \$1,413
  - Goal Coverage: 59%
  - Other Goal Coverage:
    - Education: Kevin's Education (65%)
    - Emergency Fund: Emergency Fund (0%)
    - Estate Planning: Estate Planning

Buttons for 'What Are My Options?', 'Compare Scenarios', and 'Scenario Reports' are visible under each goal coverage section. A 'Manage Scenarios...' button is at the bottom left.

Figure 11: Goals section – Retirement category – Scenarios page – Savings tab

## View other retirement tabs

In addition to entering objectives and additional savings to the retirement goal scenario, you can enter additional assumptions on the *Liquidation Order*, *Social Security*, *Annuitization*, and *Additional Incomes & Expenses* tab. These tabs are discussed in more detail in the *Advanced Retirement Analysis* module.

Use this tab...	To do this...
<i>Liquidation Order</i>	Control the order in which assets are liquidated to cover cash flow deficits during the retirement period.
<i>Social Security</i>	Analyze the impact of less or more Social Security income by changing the start date for Social Security.
<i>Annuitization</i>	Analyze the impact of additional fixed income by applying an annuitize-to-need strategy that converts non-annuity assets into annuities at retirement.
<i>Additional Incomes &amp; Expenses</i>	Analyze the impact of extra income and expenses during the retirement period. For example, your clients might decide to work part-time during retirement.

## Generate scenario reports

Scenario reports provide a summary overview of cash flow, which includes the scenario strategies. The *Multi-Year Cash Flow* and *Cash Flow Surplus/Deficit* graphs are available.

Report	Description
<i>Multi-Year Cash Flow</i>	This report contains three tables. The <i>Cash Flow Summary</i> table contains a summary of all incomes, expenses, surpluses, and deficits for the entire plan. The <i>Inflow Summary</i> shows all incomes by major category, whereas the <i>Outflow Summary</i> contains all expenses by major category.
<i>Cash Flow Surplus/Deficit</i>	This report contains a graph of the yearly surpluses and deficits for the pre-retirement period. The graph uses the data from the <i>Cash Flow Summary</i> table.

### To generate a scenario report

1. Click the **Scenario Reports** button, and then select either **Multi-Year Cash Flow** or **Cash Flow Surplus/Deficit**. A dialog box opens.
2. Review the report details, and then click **Close**.

## View other goal coverage

Funding for one goal affects the goal coverage of other goals when the amount available is limited. For example, the Browns can afford to save an extra \$500 per month to all goals; however, saving the entire \$500 to one goal, might cause other goals to be underfunded. While working in one scenario, under *Other Goal Coverage*, you can view the status of all other *Recommended* scenarios in the plan.

The screenshot displays the 'Retirement' section of the NaviPlan software, specifically the 'Scenarios' page under the 'Objectives' tab. It compares two scenarios: 'Current Plan' and 'Recommended'.

**Scenario: Current Plan**

- Scenario Name: Current Plan
- Nick's Retirement Age: 62
- Lisa's Retirement Age: 62
- Life Expectancy: Nick (90), Lisa (90)
- Inflation Rate for Plan: 3.00%
- Investment Objective:
  - Pre-retirement: Current Asset Mix, Return Rate: 8.23%
  - Retirement: Current Asset Mix, Return Rate: 8.23%
- Annual Retirement Expenses: Fixed 100%, Discretionary 100%

**Goal Coverage**: 74% (Yellow bar)

**Other Goal Coverage** (highlighted with a red border):

- Education: Kevin's Education (52%)
- Emergency Fund: Emergency Fund (0%)
- Estate Planning: Estate Planning

**Scenario: Recommended**

- Scenario Name: Recommended
- Nick's Retirement Age: 62 +/- 0 = 62
- Lisa's Retirement Age: 62 +/- 0 = 62
- Life Expectancy: Nick (90), Lisa (90)
- Inflation Rate for Plan: 3.00%
- Investment Objective:
  - Pre-retirement: Conservative, Return Rate: 6.30%
  - Retirement: Conservative, Return Rate: 6.30%
- Annual Retirement Expenses: Fixed 100%, Discretionary 100%

**Goal Coverage**: 59% (Red bar)

**Other Goal Coverage** (highlighted with a red border):

- Education: Kevin's Education (65%)
- Emergency Fund: Emergency Fund (0%)
- Estate Planning: Estate Planning

Figure 12: Goals section – Retirement category – Scenarios page – Objectives tab (showing Other Goal Coverage)

## Manage scenarios

When creating a plan, you might decide to create multiple scenarios. In the *Manage Scenarios* dialog box, you can create, duplicate, and control all scenarios within a plan. For example, you can view the goal coverage percentage for all scenarios created for the retirement goal. Selecting the *Include in Reports* check box marks a scenario to be included in client reports. Up to four scenarios can be included. The *Current Plan* and *Recommended* scenarios are always included.

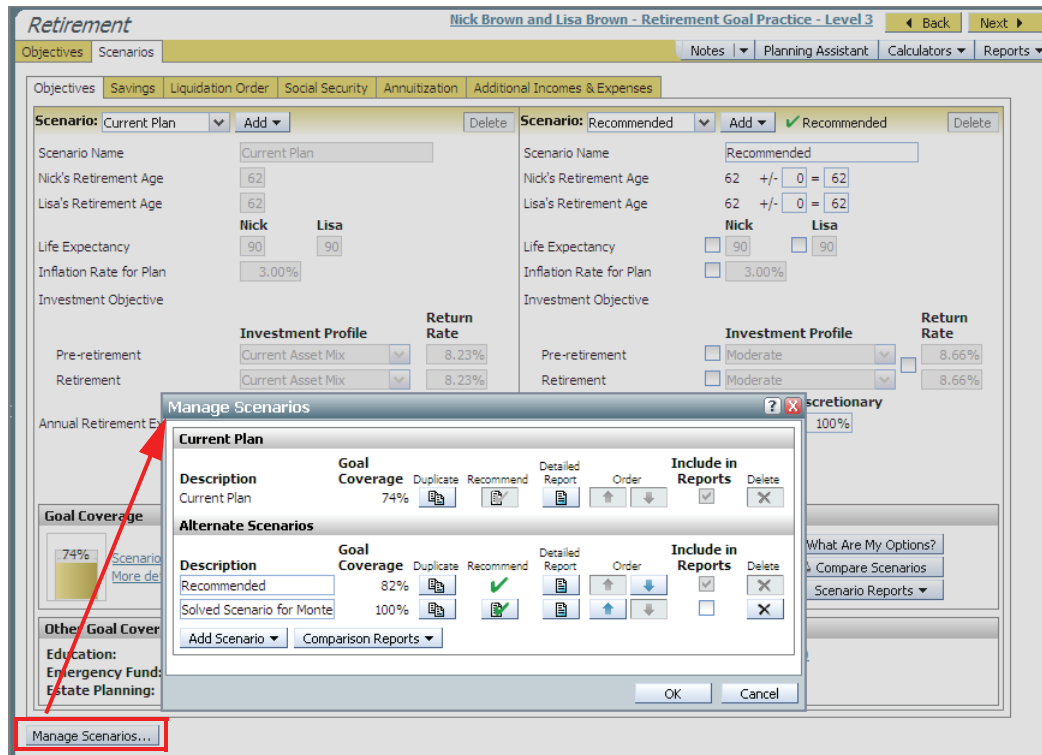


Figure 13: Goals section – Retirement category – Scenarios page – Objectives tab – Manage Scenarios button – Manage Scenarios dialog box

### To add a predefined scenario using the Manage Scenarios dialog box

1. On the *Scenarios* page, click the **Manage Scenarios** button. The *Manage Scenarios* dialog box opens.
2. Click the **Add Scenario** button, and then select **Predefined Scenarios**. The *Add Predefined Scenario* dialog box opens. Many common scenarios are included so you can add them quickly and reduce data entry.

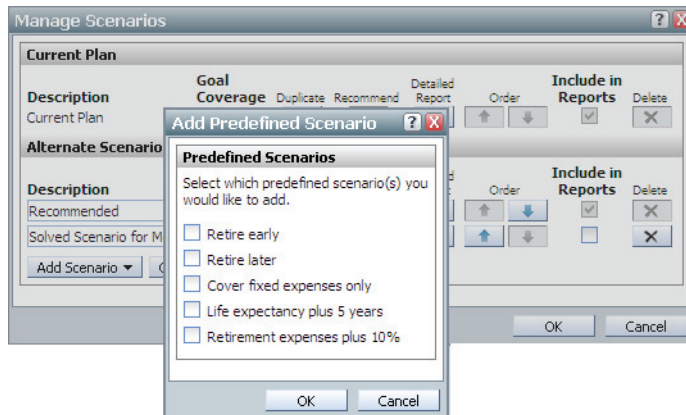


Figure 14: Goals section – Retirement category – Scenarios page – Objectives tab – Manage Scenarios button – Manage Scenarios dialog box – Add Scenario button – Add Predefined Scenario dialog box

3. Select **Retire later**, and then click **OK**. The *Add Predefined Scenario* dialog box closes. Under *Alternate Scenarios*, the new scenario appears.
4. Rename the scenario to **New AA, Delay, and Savings**.
5. Click **OK**. The *Manage Scenarios* dialog box closes. You can now select the new scenario on one of the tabs on the *Scenarios* page.
6. Go to the **Objectives** tab, and then select the new scenario. Notice that two years have been added to Nick's and Lisa's retirement age. In addition, the assets used for the scenario are reallocated. Asset reallocation occurs in all new scenarios.
7. Click **What Are My Options?** The *What Are My Options?* dialog box opens.
8. Select **Save Monthly**, and then click **OK**. The dialog box closes.
9. Go to the **Savings** tab, and then reduce the additional savings.

## Explore retirement output pages

Once you have created your clients' scenarios, you can compare key assumptions among these scenarios, and then recommend a scenario that suits the clients' needs. If needed, you can verify the results by generating additional reports. Finally, you can generate and distribute a *Financial Needs Summary* client report, which contains your recommendations.

## Compare scenario assumptions

At any time while you're working through scenarios on the *Scenarios* page, you can quickly compare the two scenarios by clicking the *Compare Scenarios* button. In the *Compare Scenarios* dialog box, you can compare summary and detailed assumptions for the two scenarios.

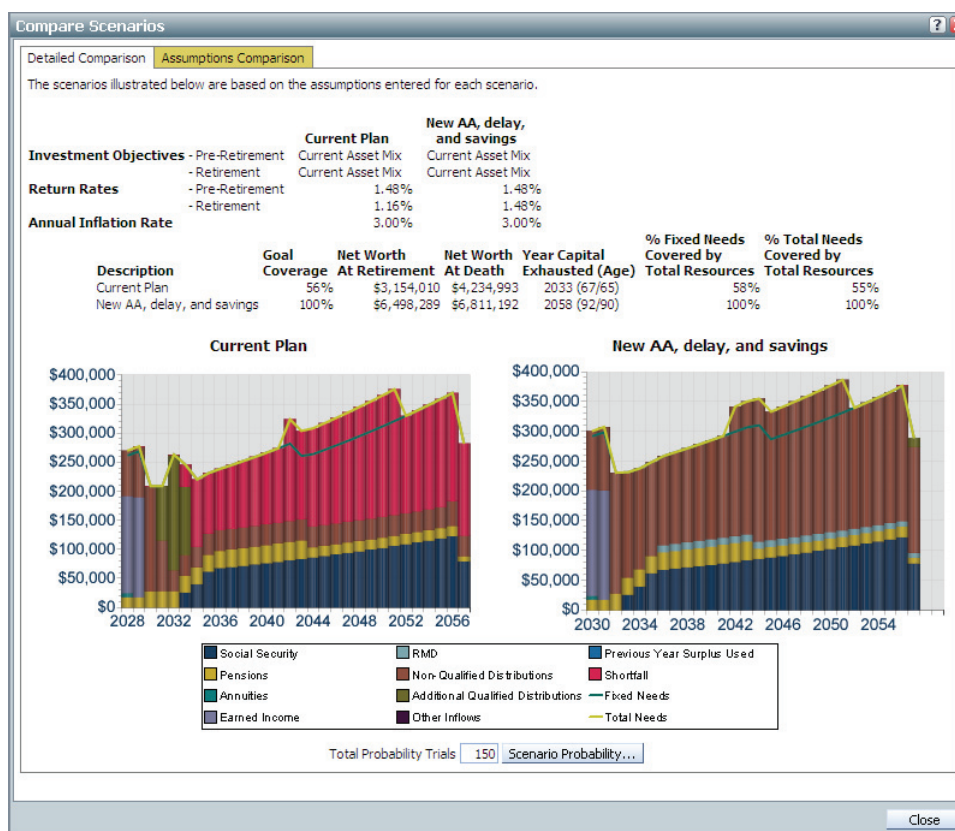


Figure 15: Goals section – Retirement category – Scenarios page – Objectives tab – Manage Scenarios button – Manage Scenarios dialog box – Compare Scenarios dialog box – Detailed Comparison tab

## To compare scenario assumptions

1. On the *Scenarios* page, click the **Compare Scenarios** button. The *Compare Scenarios* dialog box opens to the *Detailed Comparison* tab. The *Detailed Comparison* tab shows a side-by-side comparison of the two scenarios selected on the *Scenarios* page and identifies key assumptions for each scenario, as well as graphs showing retirement needs and abilities.

2. Click anywhere on one of the graphs. A message appears showing details about that part of the graph.
3. Go to the **Assumptions Comparison** tab. NaviPlan shows a side-by-side comparison of key goal assumptions.
4. Click **Close**. The *Compare Scenarios* dialog box closes.

## Recommend a scenario

After testing various scenario strategies, if you have a scenario that you believe is appropriate for your clients, you can recommend it. Once you recommend a scenario, the strategies in the scenario will apply to all reports used for the Recommended Plan.

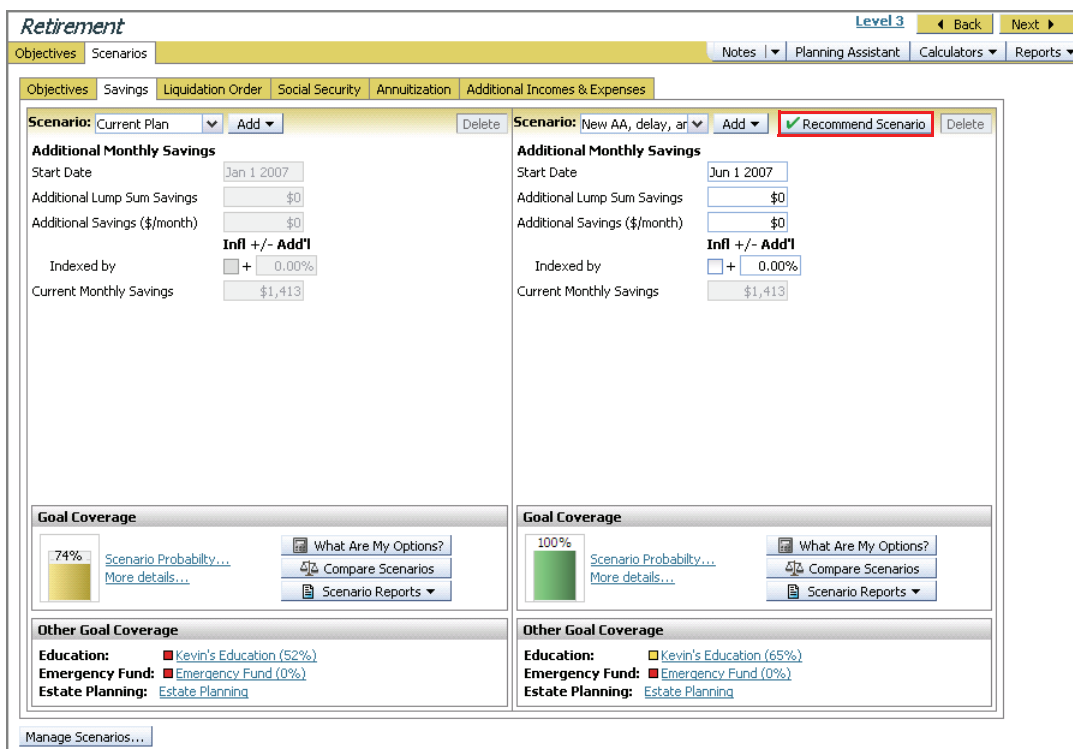


Figure 16: Goals section – Retirement category – Scenarios page – Savings tab

### To recommend a scenario

- On the *Scenarios* page, ensure the *New AA, delay, and savings* scenario is selected, then click the **Recommend Scenario** button. NaviPlan changes the status of the scenario to *Recommended*.

## Generate the Current Year Cash Flow report

By generating the *Current Year Cash Flow* report, you can view the impact of the retirement goal scenario you recommended, and then determine if you need to make additional changes to the scenario.

Current Year Cash Flow Report	
Brown Base Details #2 - Proposed (2007)	
<b>Cash Inflows</b>	
Regular Income:	
Nick's Salary (Nick)	\$100,000
Lisa's Salary (Lisa)	\$90,000
<b>Total Regular Income</b>	<b>\$190,000</b>
Investment Income: <sup>1</sup>	
500 Smith Street (Joint/Real Estate)	\$36,000
Lisa's Brokerage Account (Non-Qualified)	\$3,372
Retirement Fund (Joint/Non-Qualified)	\$761
<b>Total Investment Income<sup>1</sup></b>	<b>\$40,132</b>
<b>Total Cash Inflows</b>	<b>\$230,132</b>
<b>Cash Outflows</b>	
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
<b>Total Lifestyle Expenses</b>	<b>\$108,000</b>
Taxes:	
Federal Taxes	\$52,517
State Taxes	\$10,213
Social Security Tax - employment	\$11,625
Medicare Tax - employment	\$2,755
Property Taxes Paid	\$1,000
<b>Total Taxes</b>	<b>\$78,109</b>
Loan Payments (principal/interest):	
123 Home Mortgage (Joint)	\$12,000
Credit Card Loan (Joint)	\$3,000
<b>Total Loan Payments (principal/interest)</b>	<b>\$15,000</b>

Figure 17: Reports menu – Cash Flow – Current Year Cash Flow Report – Current Year Cash Flow report

### To generate the *Current Year Cash Flow* report

1. Go to the **Reports** menu, and then select **Cash Flow – Current Year Cash Flow Report**. The *Assign Settings* dialog box opens.
2. Select **Recommended**, and then click **OK**. The *Current Year Cash Flow* report appears using the retirement goal settings you defined and recommended.

Under *Investment Income*, if you reallocated or applied additional savings, hypothetical accounts are listed that are producing income.

Under *Savings Allocated to Goals*, any additional savings strategies you added in the retirement scenario appear.

Under *Reinvestments Allocated to Goals*, you can see that investment income is reinvested automatically into the assets for which you have allocated funds.

3. Close the report.

## Generate and view the Financial Needs Summary report

The *Financial Needs Summary* report provides an overview of the clients' current financial situation and determines whether the clients' goals are being met.

### To generate the *Financial Needs Summary* report

1. Go to the **Results** section – **Client Reports** category – **Client Report** page.
2. For the *Financial Needs Summary* report, click the **Select Document Sections** button. The *Select Document Sections* dialog box opens.

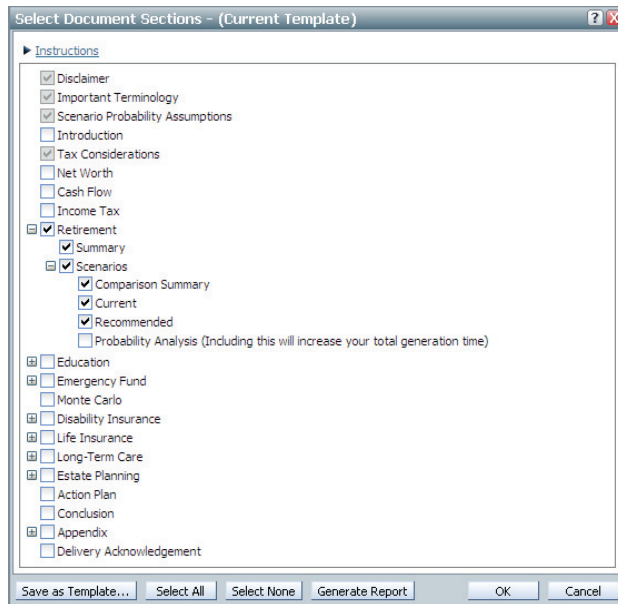


Figure 18: Results section – Client Reports category – Client Reports page – Select Document Sections button – Select Document Sections dialog box

3. Click the **Select None** button. All check boxes are cleared, except for mandatory sections.
4. Expand the **Retirement** document section, and then select the **Retirement** check box. All *Retirement* check boxes are selected.
5. Expand the **Scenarios** document section, and then clear the **Probability Analysis** check box. For information about probability analysis, see the *Advanced Retirement* module.
6. Click the **Generate Report** button. The *Financial Needs Summary* report opens.

- In the report, go to the first page in the *Retirement* section. This page provides a summary that graphically demonstrates the retirement needs and abilities for the Browns' Current and Proposed Plan. Notice that in the *Current Plan*, some shortfalls appear during retirement, whereas in the Proposed Plan, all needs are met because of the strategies you added to the *Recommended* retirement scenario.

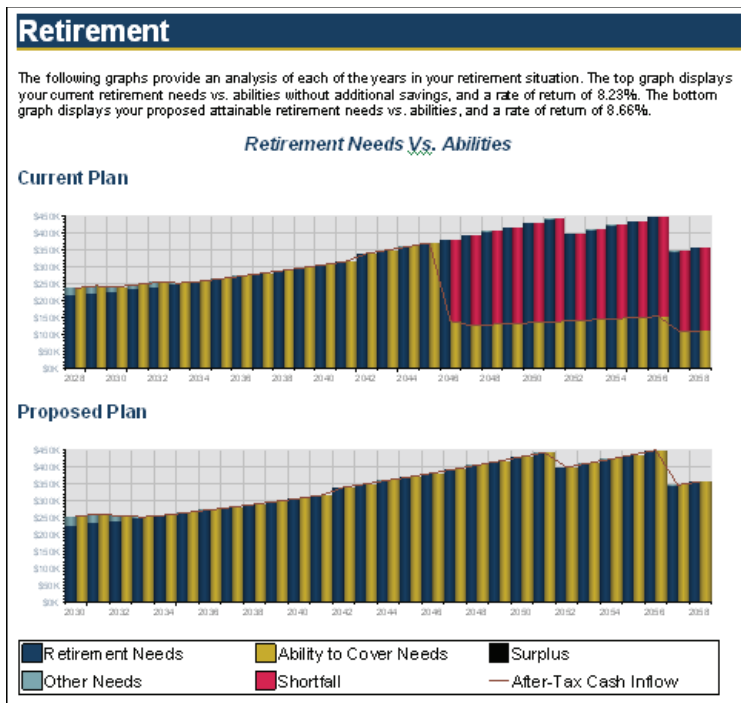


Figure 19: Financial Needs Summary report (first page of Retirement section)

- Go to the next page in the report. Under *Financial Objectives*, the report lists assumptions that have been entered in the *Current Plan* and in the *Recommended* retirement scenario.

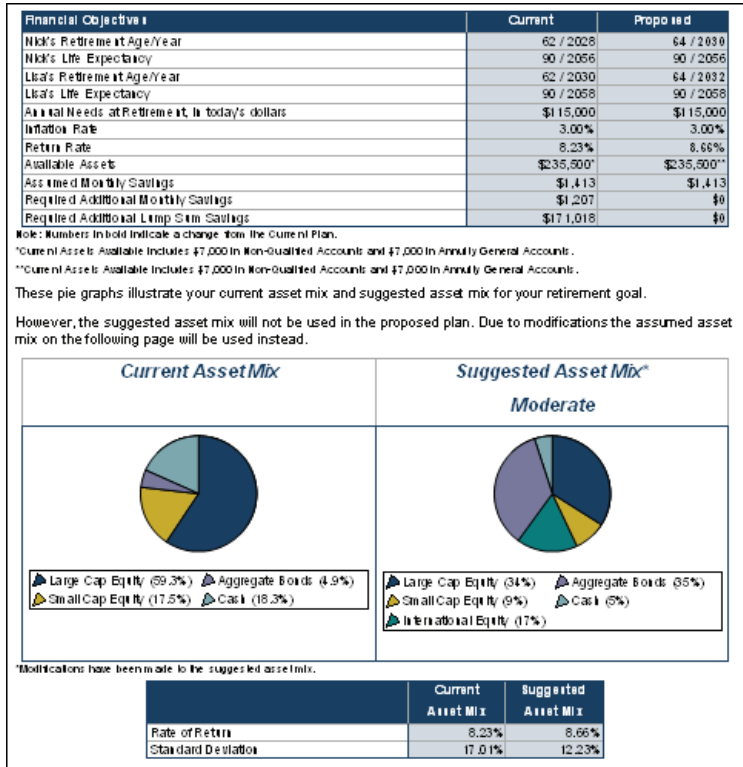


Figure 20: Financial Needs Summary report (second page of Retirement section)

The asset allocation details show the current and proposed asset mix graphs and return details. These details can demonstrate how balanced asset diversification can reduce exposure to any single asset class and increase the rate of return for the given level of risk.

- Go to the next page in the report. The table lists the changes in assets required to match the asset allocation for the Proposed Plan.

10. In the report, go to the **Retirement Scenario Summary** page. The graphs shows the difference in goal coverage between the Current Plan and each scenario included in the client report. The *Current Plan* and *Recommended* scenarios are always included. The table lists the net worth and goal coverage details for each scenario.

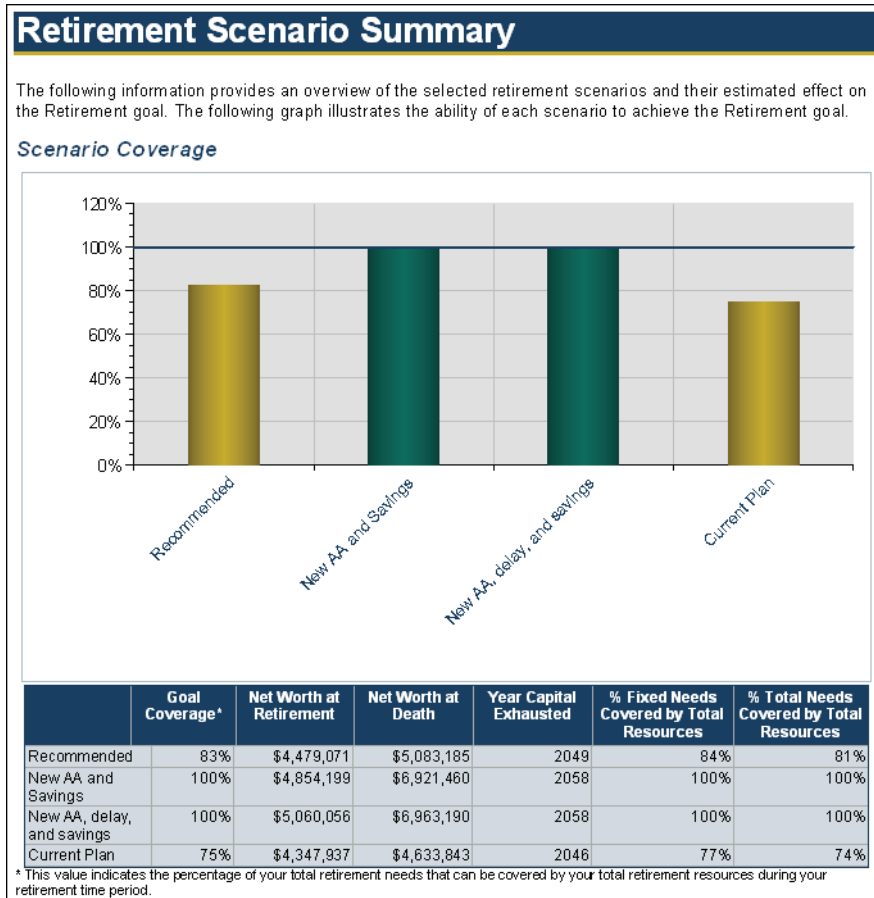


Figure 21: Financial Needs Summary report (Retirement Scenario Summary page)

11. In the report, go to the **Retirement - Current Plan** page. This page shows the retirement goal coverage, key scenario assumptions, and a needs and abilities analysis for the current plan.

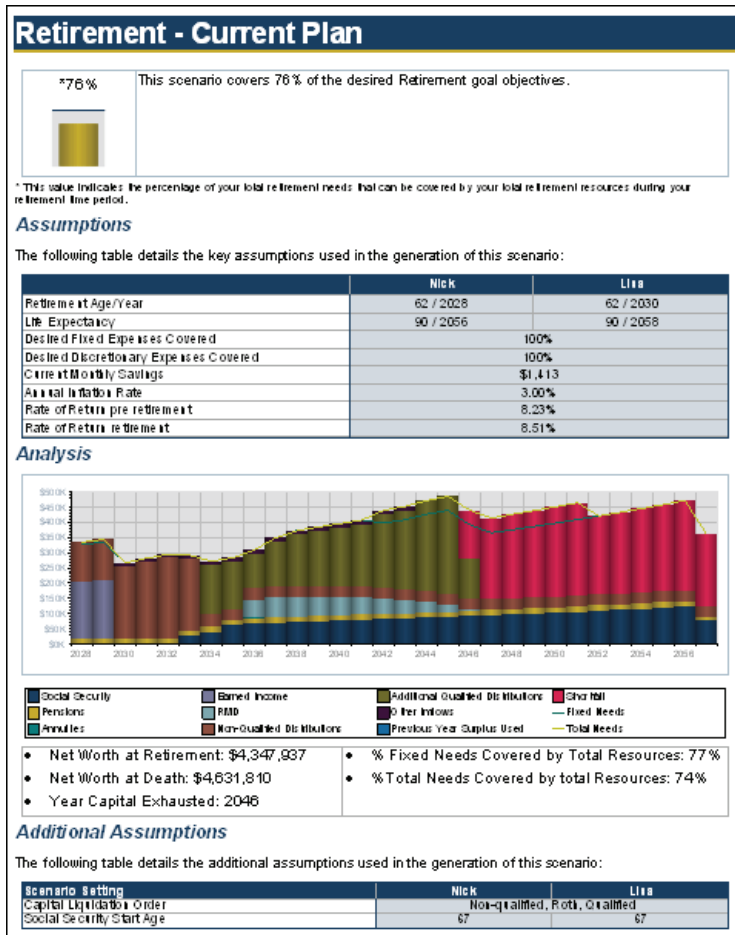


Figure 22: Financial Needs Summary report (Retirement - Current Plan page)

12. In the report, go to the **Retirement - Recommended** page. This page is similar to the *Retirement - Current Plan* page, except that it is based on the Proposed Plan.

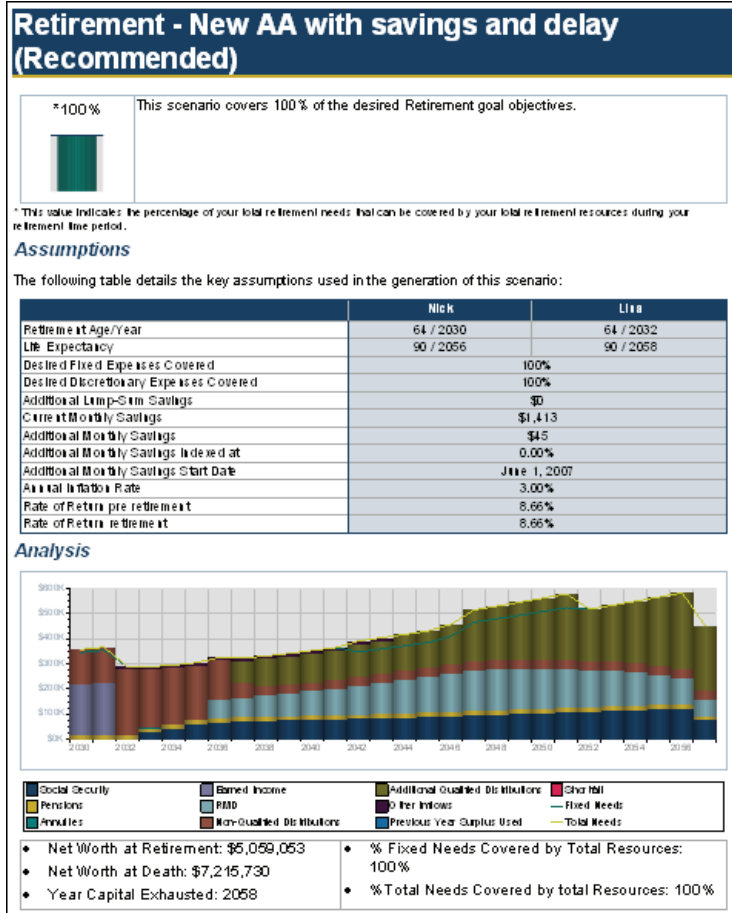


Figure 23: Financial Needs Summary report (Retirement - Recommended)

## 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., *Retirement goal 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: Identify goal assumptions

To find the answers, see “Answers to retirement goal analysis” on page 34.

1. The time horizon for the retirement period is:

**Hint:** The Help on the *Goals* section – *Retirement* category – *Objectives* page provides useful background information on retirement objective assumptions in NaviPlan.

- a) January 1 of the year in which the first client retires to December 31 of the year in which the last client dies.
  - b) January 1 of the year in which the last client retires to December 31 of the year in which the last client dies.
  - c) The birth month of the year in which the first client retires to December 31 of the year in which the last client dies.
  - d) The birth month of the year in which the last client retires to December 31 of the year in which the last client dies.
2. Which of the following options are available when defining the asset allocation suggestions for the retirement goal in a Level 2 or Level 3 Plan?

**Hint:** There is an *Asset Allocation* button on the *Goals* section – *Retirement* category – *Objectives* page.

- a) You can define separate investment profiles for pre-retirement and retirement years.
- b) You can define separate suggested asset mixes for qualified, non-qualified, and non-qualified annuity retirement accounts.
- c) You can suggest an investment profile for the retirement goal that differs from the investment profile for other goals.
- d) All of the above.

# HANDS-ON EXERCISES

3. When you define the retirement incomes or expenses for the clients' retirement goal, you have the following options:
  - a) Enter a single income or expense that starts at retirement and ends at death.
  - b) Enter multiple incomes or expenses that start at retirement and end at death.
  - c) Enter multiple incomes or expenses that start and end at various time periods throughout retirement.
  - d) All of the above.

4. Which of the following account types are automatically allocated to the retirement goal?

**Hint:** Click the **Goal Funding** button on the *Goals* section – *Retirement* category– *Objectives* page to view or edit account distribution for all plan goals.

- a) Qualified accounts
  - b) Non-qualified accounts
  - c) 529 accounts
  - d) None of the accounts are automatically allocated; you must manually allocate all assets.
5. Before proceeding to the *Scenarios* page to analyze a goal, what should you do?
    - a) Verify specific cash flow and net worth details using reports like the *Itemized Cash Flow Projection for Family* and *Net Worth Statement as of January*, and then correct any inaccuracies in the plan.
    - b) Verify nearly all data in the plan using the *Synopsis* report, and then correct any inaccuracies in the plan.
    - c) Click the **Planning Assistant** button, review the results, and then correct any inaccuracies in the plan.
    - d) Any of the above.

# HANDS-ON EXERCISES

## Exercise 2: Create and compare common What-if scenarios

To find the answers, see “Answers to retirement goal analysis” on page 34.

1. Name at least two similarities and two differences between the default left-side scenario and the default right-side scenario for retirement.

**Hint:** Access the *Scenarios* page in the *Goals* section – *Retirement* category.

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2. When you click the *What Are My Options?* button, which options are listed?

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3. The *Current Plan* scenario and the *Recommended* scenario for the retirement goal are automatically generated by NaviPlan. Which other scenarios are automatically available within NaviPlan?

**Hint:** The *Add* and *Manage Scenarios* buttons allow you to create, manage, and edit multiple scenarios.

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- Solve the retirement goal by creating your own custom retirement scenario(s). Use any of the tools available on the *Objectives* and *Savings* tabs including the *What Are My Options?* and *Predefined Scenarios* options. When you are finished creating a scenario that you feel is appropriate, recommend the scenario.

**Hint:** Use the **Scenario Reports** button to confirm that the clients can afford your suggested strategies.

### Exercise 3: Explore retirement output pages

To find the answers, see “Answers to retirement goal analysis” on page 34.

- How many retirement scenarios can you include in the client reports?

**Hint:** You can control which scenarios will be included in client reports by clicking the *Manage Scenarios* button.

- 2
  - 4
  - 10
  - Unlimited
- If your clients asked you to provide details on all the differences between the *Current* and *Recommended* scenarios, which of the following would you do to describe the differences?
    - Click the **Compare Scenarios** button, and then go to the **Assumptions Comparison** tab.
    - Generate the **Synopsis** report for the *Current Analysis*.
    - Click the **Planning Assistant** button, and then go to the **Reports** tab.
    - Go to the **Reports** menu, and then select **Goals – Savings – Retirement Savings Report** and generate the report for the *Recommended Analysis*.
  - Select the **Retirement** section when generating the *Financial Needs Summary* client report. Review the output. Which pages of the report would you focus on during a presentation to your clients?

**Hint:** Click **Select None** in the *Select Document Sections* dialog box to quickly clear any unwanted sections of the report, and then select only the sections you want to include.

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## Conclusion

This module has enabled you to

- Identify goal assumptions
- Model fixed and discretionary retirement expenses
- Allocate assets to specific goals
- Create and compare common What-if scenarios
- Explore retirement output pages

## Answers to retirement goal analysis

### Exercise 1: Identify goal assumptions

1. a) The time horizon for the retirement period is January 1 of the year in which the first client retires to December 31 of the year in which the last client dies.
2. d) All of the listed options are available when defining the asset allocation suggestions for the retirement goal in a Level 2 or Level 3 Plan.
3. d) All of the listed options are available when you define the retirement incomes or expenses for the clients' retirement goal.
4. a) Qualified accounts are automatically allocated to the retirement goal.
5. d) Any of the listed options will help you to correct inaccuracies in the plan before proceeding to the *Scenarios* page to analyze a goal.

### Exercise 2: Create and compare common What-if scenarios

1. Any two of the following similarities and differences between the default left-side scenario and the default right-side scenario would be a correct answer.

#### Similarities:

On both the left-side and the right-side scenario, you can

- examine the goal coverage of the scenario
- add new scenarios
- examine the *What Are My Options?* details for the scenario
- compare the two scenarios
- review the *Other Goal Coverage* results
- change the scenario you are viewing
- delete a scenario
- recommend a scenario

**Differences:**

The left side

- is read-only
- represents the current goal and savings strategies

The right side

- presumes retirement accounts will be reallocated to the suggested asset mix
- allows you to change details in the scenario

2. When you click the *What Are My Options?* button, the following options are listed:
  - *Cover % of Expenses*
  - *Save a Lump Sum*
  - *Save Monthly*
  - *Retire in*
  - *Continue Planning*
3. The *Current Plan* scenario and the *Recommended* scenario for the retirement goal are automatically generated by NaviPlan. The following other scenarios are automatically available within NaviPlan:
  - *Retire early*
  - *Retire later*
  - *Cover fixed expenses only*
  - *Life expectancy plus 5 years*
  - *Retirement expenses plus 10%*

**Exercise 3: Explore retirement output pages**

1. b) 4 – Four retirement scenarios can be included in the client reports.
2. a) Click the **Compare Scenarios** button, and then go to the **Assumptions Comparison** tab, if your clients asked you to provide details on all the differences between the *Current* and *Recommended* scenario.
3. Answers will vary.

