Cash Flow Strategies in NaviPlan

Functions addressed in this document:

- What happens to pre-retirement cash flow deficits?
- How does the automatic account redemption strategy during retirement work?
- How is the automatic account redemption strategy implemented?

What happens to pre-retirement cash flow deficits?

At the end of each year, NaviPlan calculates the clients' net cash flow (cash inflows minus cash outflows). If net cash flow is positive, a surplus exists. If net cash flow is negative, a deficit exists.

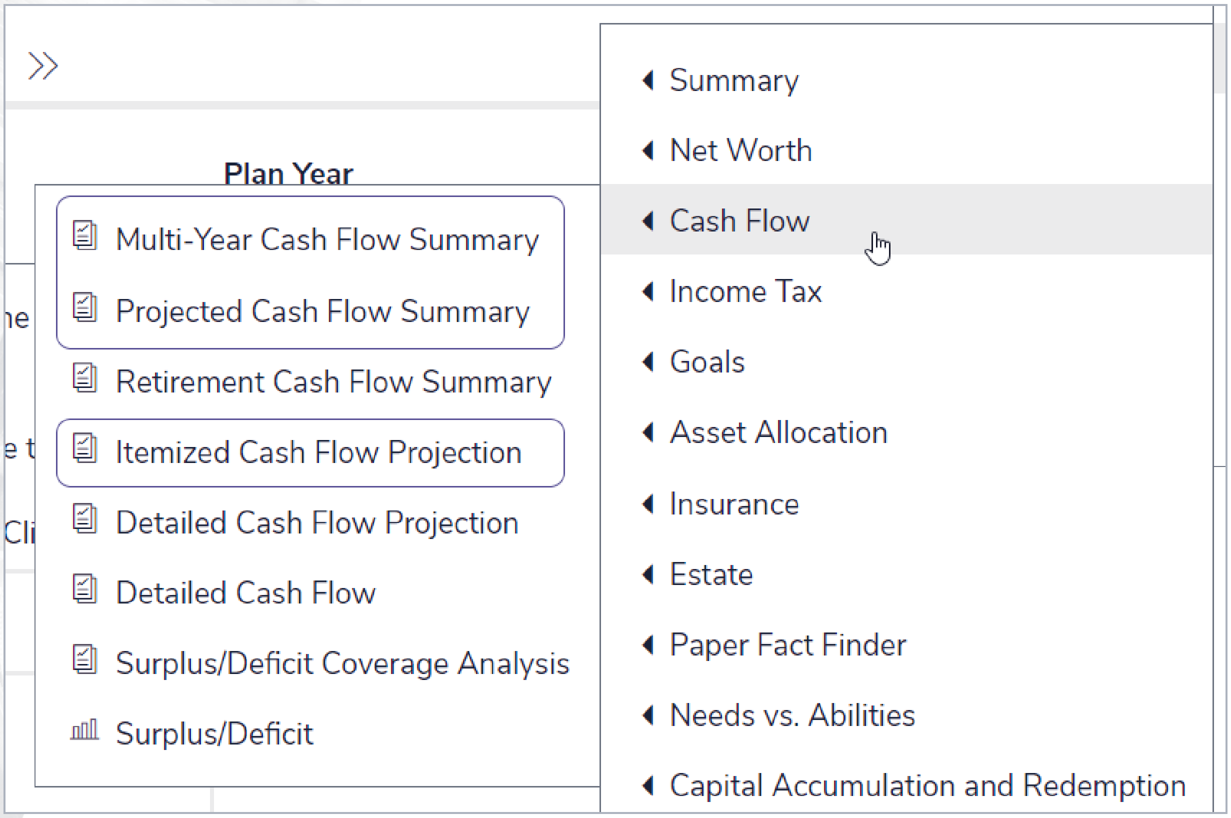
NaviPlan does not redeem accounts to cover the clients' cash flow deficits during pre-retirement as this might mask ongoing cash flow problems. Instead, explore other budgeting strategies with your clients.

If your clients wish to use a deficit coverage strategy in pre-retirement, this functionality is available in **Level 1** and **Level 2 Plans** (using the **Detailed Income Tax** method). In the **Expense Details** dialogue box (click **Details** under **Expenses** on the **Cash Flow** page), an additional **Cover any pre-retirement deficits created by this expense** option is available. When selected, NaviPlan will cover the deficit-causing expense by redeeming assets. The order in which assets are redeemed to cover this deficit can be specified on the **Enter Financial Data** section – **Strategies** section –**Deficit Coverage** page.

How does the automatic account redemption strategy work?

Automatic account redemption applies to the retirement period. When retired, clients often have insufficient income to cover their expenses and must redeem accounts to provide the needed income. During retirement, NaviPlan automatically redeems accounts at the end of each year to meet the retirement goal. This strategy is dynamic and automatically adjusts redemptions when you make modifications to the plan.

You can view the clients' cash flow surpluses and deficits in the **Multi-Year Cash Flow Summary** report (**Quick Actions** – **Reports** – **Cash Flow** – **Summary**) and the **Projected Cash Flow Summary** report (**Quick Actions** – **Reports** – **Cash Flow** – **Details**). You can view asset redemptions in the **Itemized Cash Flow Projection** report (also accessed from the **Quick Actions** – **Reports** – **Cash Flow** – **Details**).



Quick Actions – Reports – Cash Flow

How is the automatic account redemption strategy implemented?

NaviPlan implements the automatic account redemption strategy on December 31 of each year of retirement. The process begins with the reallocation of any surplus followed by the liquidation of accounts.

Reallocation of surplus (if any)

The clients' (and, if applicable, dependents') cash flow deficits are covered by the co-client's surpluses (and vice versa). Client or co-client deficits are covered first, followed by dependents. The Example 1 below shows surplus reallocated from the client to cover the co-client's cash flow deficit.

Example 1:

	Current Cash Flow Surplus/(Deficit)			
Calculation Phase	Client	Co-Client	Dependent	Total End of Year
Before surplus reallocation	$10,000	$(20,000)	$(5,000)	$(15,000)
After surplus reallocation	$0	$(10,000)	$(5,000)	$(15,000)

All remaining deficits (the client's, the co-client's, and dependents') are combined. In joint plans the total cash flow deficit is divided equally between the client and co-client. This ensures that assets belonging to each client are redeemed evenly in retirement (in other words, the assets of one client are not completely depleted before the second client's assets are used). In plans for a single individual, the client retains the total deficit. Based on Example 1, Example 2 below illustrates the cash flow deficit reallocation.

Example 2:

	Current Cash Flow Surplus/(Deficit)			
Calculation Phase	Client	Co-Client	Dependent	Total End of Year
After deficit reallocation	$(7,500)	$(7,500)	$0	$(15,000)

Liquidation order of accounts to meet the retirement goal

If cash flow remains negative after the reallocation of funds, account redemptions take place. Each client's deficits are covered by each client's accounts (plus any account income) and by joint accounts. If any deficits still remain, then other eligible accounts are used to cover the remainder

Only investment accounts and annuities (owned by the client or co-client or both) that are linked to retirement, and residual funds from non-registered education and major purchase funding accounts, as well as equity compensation, are eligible for the retirement goal. Singly-owned accounts are not available until the asset owner retires. This can affect redemption ordering when one client is retired and the other is not. Lifestyle assets, real estate assets, assets owned by dependents, and assets not linked to retirement are not used.

Only investment accounts and annuities (owned by the client or co-client or both) that are linked to retirement, and residual funds from non-registered education and major purchase funding accounts, as well as equity compensation, are eligible for the retirement goal. Residuals from RESP accounts are not available to fund retirement, but instead, carry through to the estate and are included in the **Estate Analysis** report (**Quick Actions** – **Reports** – **Estate**). Singly-owned accounts are not available until the asset owner retires, which can affect redemption ordering when one client is retired and the other is not. Lifestyle assets, real estate assets, assets owned by dependents, and assets not linked to retirement are not used. Lifestyle assets, assets owned by dependents, and assets not linked to retirement are not used.

DID YOU KNOW? Annuities with the **Guaranteed Withdrawal Benefit** income option selected are only available before the **Withdrawal Start Date**. After this date, NaviPlan considers the annuity as active and no longer available for goal coverage.

All accounts and annuities belong to one of four account types and are redeemed in the following order:

1. Non-registered
2. TFSA
3. Registered
4. Equity compensation

For account redemption purposes, it is important to recognize that non-registered accounts are separate from non-registered annuities, and that redemption of non-registered accounts occurs before the liquidation of non-registered annuities.

For other account types (TFSA and registered), accounts and annuities are combined. Roth accounts and Roth annuities are one account type, and registered accounts and registered annuities are grouped as another account type.

Unless overridden using the **Liquidation Order** feature (available in Level 2 Plans), NaviPlan automatically liquidates accounts in the order specified above. Each source of funds is exhausted before the next one is used. Account redemptions may be taxable and, if so, include enough to pay the taxes on the redemptions.

Non-registered account type:

Income from non-registered accounts that would otherwise be reinvested:

Investment Income	20% Income Tax	Current Deficit	Reinvested
$5,000	$(1,000)	$0	$(4,000)
$5,000	$(1,000)	$(2,500)	$(1,500)

Accounts are in order of their cost basis to market value ratio (both values as of end of year). Accounts with the highest ratio are used first to minimize capital gains taxes. In Example 3, Account A is used before Account B.

Non-registered account	Cost basis: market value ratio
A	$7,000 / $10,000 = 0.7
B	$6,000 / $10,000 = 0.6

If two accounts have the same cost basis to market value ratio and the same rate of return, the next determining factor is asset category. Asset categories are redeemed in the following order: cash account, mutual fund, and then investment portfolio.

Finally, if the asset category is the same, the accounts are redeemed in alphabetical order based on the name given to the account under **Description**.

TFSA type

Accounts are ordered by their total return rates, from lowest to highest. If two accounts have the same return rate, the next determining factor is asset category, and these are redeemed in the following order: cash account, mutual fund, and then investment portfolio. If the asset category is the same, the accounts are redeemed in alphabetical order based on the name given to the account under **Description**.

Registered Account type

Accounts are ordered by their total return rates, from lowest to highest. If two accounts have the same return rate, the next determining factor is asset category, and these are redeemed in the following order: cash account, mutual fund, and then investment portfolio. If the asset category is the same, the accounts are redeemed in alphabetical order based on the name given to the account under **Description**. In cases where withdrawals are limited by legislation, NaviPlan redeems the maximum available amount.

DID YOU KNOW? Deficit coverage applies to family pre-death cash flow at both first and last death, if death occurs in the retirement period. In the year of the first death, family assets (client and co-client singly owned assets, community property assets, and jointly owned assets) can be used to cover family pre-death deficits. Once pre-death cash flow deficits are dealt with to the extent possible in the year of death, the decedent's and survivor's remaining needs are then isolated from one another into the following components:

- Remaining cash flow deficits of the decedent are considered an estate need. A separate account liquidation order is applied to pay for estate needs of the decedent in the year of death; this process is referred to as estate settlement in NaviPlan.

Similarly, in the year of the last death, pre-death cash flow deficits of the decedent that remain after cash flow deficit coverage is applied are considered estate needs and are met by estate settlement.