

Fixed Expenses and Fixed Needs in Retirement

Functions addressed in this document:

- What is the difference between fixed expenses and discretionary expenses?
- What is the difference between fixed expenses and fixed needs?
- What is the difference between fixed needs and total needs?

Expense Details

Description *

Retirement

Member

Joint

Type

Lifestyle

Frequency

Monthly

Every x Years

Amount

\$8,750

Start Date

Ret. (1st)

End Date

Death (2nd)

Infl +/- Add'l

☒ + 0.00%

% Deductible

☒ Transfer to Survivor

☒ Fixed Expense

☐ Cover any pre-retirement deficits created by this expense

Add Expense

Previous Entry

Next Entry

OK

Cancel

Financial Picture – Cash Flow – Cash Flow – Details (under Expenses) – Expense Details

Your clients' cash flow (their incomes and expenses) plays a significant role in their financial plan. Since NaviPlan monitors the clients' cash flow in retirement, the ability to mark expenses as fixed and discretionary provides a retirement planning opportunity. To use this opportunity effectively, it is important to understand how (missing or bad snippet) treats both fixed and discretionary expenses, and how they relate to fixed needs and total needs.

While the ability to mark expenses as fixed applies to both Level 1 and Level 2 Plans, this document was created using a Level 2 Plan with the **Retirement** module selected.

What is the difference between fixed expenses and discretionary expenses?

NaviPlan categorizes expenses as either fixed or discretionary. Fixed expenses are those which the clients cannot easily change or eliminate. For example, most clients cannot easily change the amount of their basic living expenses, such as their electric bill or rent. NaviPlan considers expenses entered on the **Financial Picture** section – **Cash Flow** category – **Cash Flow** page, as well as on the **Set Goals** section – **Retirement** category – **Objectives** page as fixed, and the **Fixed Exp.** option is selected by default. In contrast, discretionary expenses are those for which the **Fixed Exp.** option is cleared and which the clients can easily change, such as travel or entertainment expenses.

By default, NaviPlan includes 100% of fixed and discretionary expenses in the retirement analysis, and then offers the ability to modify these expenses within all scenarios (except the **Current Plan** scenario), providing users with flexibility in the retirement planning process.

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Expense Details

Description *	Member	Type	
Retirement	Joint	Lifestyle	

Frequency	Every x Years	Amount	Start Date	End Date	Infl +/- Add'l
Monthly		\$8,750	Ret. (1st)	Death (2nd)	✓ + 0.00%

% Deductible

☒ Transfer to Survivor

☒ Fixed Expense

☐ Cover any pre-retirement deficits created by this expense

Add Expense

Previous Entry

Next Entry

OK

Cancel

Financial Picture – Cash Flow – Cash Flow – Details (under Expenses) – Expense Details

What is the difference between fixed expenses and fixed needs?

Controllability is the difference between fixed expenses and fixed needs. Fixed expenses are controlled by selecting the **Fixed Exp.** option for expenses entered on **Enter Financial Data – Cash Flow – Cash Flow** and for retirement expenses entered on **Set Goals – Retirement – Objectives**. In contrast, fixed needs include both fixed expenses (which are controllable by selecting an option) and items that cannot be controlled by selecting or clearing an option. These include liability payments, insurance premiums, and some taxes.

Fixed expenses are:	Fixed expenses stem from the following:
Fixed expenses	Enter Financial Data – Cash Flow – Cash Flow , when the Fixed Exp. option is selected
Fixed retirement expenses	Set Goals – Retirement – Objectives , when the Fixed Exp. option is selected

Fixed needs focus on the clients' retirement and insurance goals and are defined as follows:

Fixed needs are:	Fixed needs stem from the following:
Fixed expenses	Enter Financial Data – Cash Flow – Cash Flow , when the Fixed Exp. option is selected
Fixed retirement expenses	Set Goals – Retirement – Objectives , when the Fixed Exp. option is selected
Liability payments	Enter Financial Data – Net Worth – Assets/Liabilities , excluding lump-sum debt modification strategies
Insurance premiums	Financial Picture – Insurance Coverage – Insurance Coverage
Income taxes	Federal and provincial income taxes calculated by NaviPlan
Annual income needs	Set Goals – Survivor or Disability Income – <Client> – Objectives – Annual Income Needs , when using the Income Coverage analysis method; with this method, NaviPlan converts these needs to fixed expenses to meet survivor or disability needs

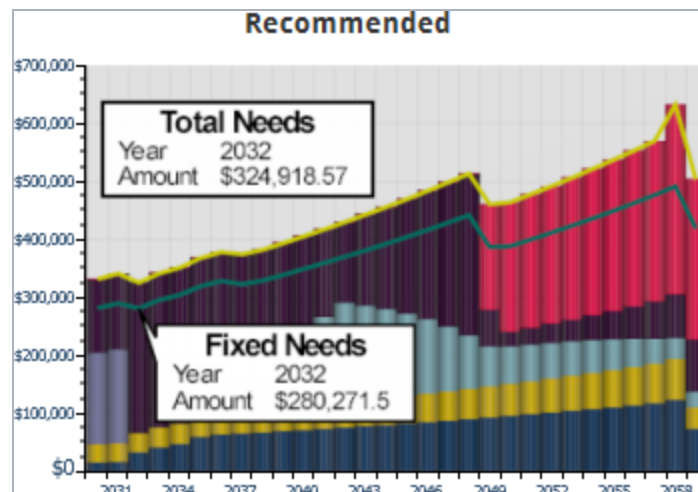
What is the difference between fixed needs and total needs?

In **Enter Financial Data** and **Set Goals**, NaviPlan distinguishes between expenses as either fixed or discretionary, while within stand-alone reports and graphs, as well as client reports, NaviPlan uses a similar concept and refers to needs as either fixed or total.

In contrast to fixed needs, which focus primarily on the clients' retirement and insurance goals, total needs focus on all of the clients' goals. Total needs include fixed needs and the following:

Total needs are:	Total needs stem from the following:
Investment-related expenses	Savings strategies entered on Enter Financial Data – Strategies – Savings , and Enter Financial Data – Net Worth – Accounts , as well as non-registered account transactions including reinvestments
Education objectives	Set Goals – Education – Objectives
Major purchase objectives	Set Goals – Major Purchase – Objectives
Expenses (discretionary)	Enter Financial Data – Cash Flow – Cash Flow , when the Fixed Exp. option is cleared
Retirement expenses	Set Goals – Retirement – Objectives , when the Fixed Exp. option is cleared
Annual expenses	Set Goals – Survivor Income – Client/Co-client Objectives – Annual Expenses , when using the Goal and Expense analysis method
Additional annual expenses	Set Goals – Disability Income – Client/Co-client Objectives – Additional Annual Expenses , when using the Goal and Expense analysis method
Lump-sum needs	Set Goals – Survivor Income or Disability Income – Client/Co-client Objectives – Lump Sum Needs for either analysis method
Additional lump-sum needs	Set Goals – Survivor Income – Both Objectives – Lump Sum Needs

Using the **Detailed Comparison** graph for the **Recommended** scenario (accessible by clicking **Compare Scenarios on Results — Analyze Goals — Scenarios — Edit <plan> — Retirement**), we can see the breakdown of needs for Robert and Sarah starting in 2032, the first year they will both be retired.



Results – Analyze Goals – Scenarios – Retirement — Scenario Reports

Using a section of the **Current Year Cash Flow** report for 2032 (the first year both Robert and Sarah are retired), we can see the future value of Robert and Sarah's cash flow, and reconcile the fixed needs versus total needs.

In the case of Robert and Sarah, fixed needs are \$280,272, which includes the following:

$$\begin{aligned}
 &= \text{Regular Retirement Exp.} + \text{Loan Payments} + \text{Total Taxes} + \text{Critical Illness Policy Premiums} \\
 &= \$195,331 + \$12,000 + \$1,231 + \$71,710 \\
 &= \$280,272
 \end{aligned}$$

Cash Inflows	
Canada / Quebec Pension Plan:	
CPP / QPP (Robert)	\$16,233
CPP / QPP (Sarah)	\$16,233
Total Canada / Quebec Pension Plan	\$32,466
Defined Benefit Pension:	
Robert's Pension (Robert)	\$32,555
Total Defined Benefit Pension	\$32,555
Other Pension Income:	
Robert's RRSP	\$129,949
Sarah's RRSP	\$129,949
Total Other Pension Income	\$259,898
Total Cash Inflows	\$324,919
Cash Outflows	
Lifestyle Expenses:	
Regular Ret. Expenses	\$195,331
Travel	\$44,647
Total Lifestyle Expenses	\$239,978
Total Taxes	\$71,710
Loan Payments (principal/interest):	
520 Thomas St Mortgage (Joint)	\$12,000
Total Loan Payments (principal/interest)	\$12,000
Critical Illness Expenses:	
Policy Premiums	\$1,231
Total Critical Illness Expenses	\$1,231
Total Cash Outflows	\$324,919
Current Surplus (Deficit)	\$1
Previous Surplus (Deficit)	(\$1)
New Surplus (Deficit)	\$0

Quick Actions – Reports – Cash Flow – Current Year Cash Flow Report

For Robert and Sarah, whose travel expense is discretionary, total needs are \$324,919. This figure includes the following:

$$\begin{aligned}
 &= \text{Fixed needs} + \text{Travel} \\
 &= \$280,272 + \$44,647 \\
 &= \$324,919
 \end{aligned}$$