

Goal Residuals in NaviPlan

Functions Addressed in this Document:

- What are goal residuals and when do they occur?
- What happens to residuals from accounts funding education and major purchase goals?
- What happens to residuals from accounts funding emergency fund goals?
- How can I use the Goal Funding feature to control goal residuals in non-registered accounts?

In general, NaviPlan assesses the needs associated with a goal and compares those needs to the resources linked to the goal. NaviPlan determines whether a goal is underfunded and a shortfall is expected to occur, or whether the goal is overfunded and a surplus is expected to occur. It is when goals are overfunded that goal residuals result.

This document focuses on a **Level 2 Plan** and assumes that you have entered data for the clients' retirement goal, as well as for an education goal, major purchase goal, or emergency fund goal.

What are residuals and when do they occur?

Residuals are the amounts remaining in the funding accounts when education, major purchase, and emergency fund goals are overfunded. Residuals can occur when one account is used to fund multiple goals or when the current monthly savings values entered cause the funding account(s) to exceed the needs of the goals.

The account type and ownership entered determine if the residual amounts from education and major purchase goals are used to fund the retirement goal. Because not all residuals are used to fund the retirement goal, it is important to ensure that education and major purchase goals are not significantly overfunded.

When goals are overfunded and the residual is not used for retirement, the residual remains an unused resource until death.

You can use the **What Are My Options?** (WAMO) feature to determine if a goal is overfunded and whether a residual may occur. If a goal is overfunded, you can also consider increasing the value of the goal. An example of the WAMO dialogue box is shown to the left.

What Are My Options?

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The following options will achieve a 100% goal success. Select an option to implement as part of the scenario. Select **Continue Planning...** if you do not want to implement any of the scenarios.

<input type="checkbox"/>	Cover % of Expenses	1,076% (\$161,400)
	OR	
<input type="radio"/>	Save Monthly	\$0
	OR	
<input type="radio"/>	Save a Lump Sum	\$0
	OR	
<input type="radio"/>	Purchase Date	Jun 1 2019
	OR	
<input checked="" type="radio"/>	Continue Planning...	

Results – Analyze Goals – Scenarios – Edit <plan> – <Major Purchase goal> – What Are My Options?

The residuals from education or major purchase goals that can be used to fund retirement are available automatically to fund the retirement goal. This availability can be controlled in the **Goal Funding** dialogue box or on the **Goal Funding** page (**Set Goals – Goal Funding**).

DID YOU KNOW? When you select either the lump-sum or monthly savings strategy recommended in the **What Are My Options?** dialogue box, small residuals can occur. This is because NaviPlan uses an iterative approach that recommends the first iteration to solve for the savings required to fund the goal while meeting defined tolerances. NaviPlan then expenses these small residuals out of the plan as a **Cumulative Rounding Allowance** in the **Itemized Cash Flow Projection** report

What happens to residuals from accounts funding education and major purchase goals?

The residuals from certain accounts funding education and major purchase goals become available in January of the year following the major purchase, or in the case of education, the last year of the expense. While accounts can be used to fund more than one goal, residuals cannot. Residuals from accounts funding one education goal are not used to fund other education goals, nor are accounts funding one major purchase goal used to fund other major purchase goals.

Three different types of accounts (non-registered, RESP, and TFSA) can be used to fund education goals, while two different types of accounts (non-registered and TFSA) can be used to fund major purchase goals. The residuals from each of these account types are used differently. See the following table for details.

Account Type	What happens to residuals?
Non-registered accounts owned by the clients	<p>Residuals are available to fund the retirement goal in January on the latter of:</p> <ul style="list-style-type: none"> • The year following the major purchase goal. • The year following the last year of the education goal. • The account owner's retirement year. <p>Residuals are used to fund retirement according to regular deficit coverage ordering. If any money is left at the time of the owner's death, it becomes part of the estate.</p>
Non-registered accounts owned by dependants	<p>These accounts are used only to fund the education goal. Residuals are removed from the plan through an expense of equal value in January of the last year of the goal. The expense is considered a lifestyle expense and can be seen in several cash flow reports. The Itemized Cash Flow Projection report lists the expense as a Cumulative Rounding Allowance under the client's name. The Detailed Cash Flow report displays it as a Goal Residual Expense.</p>
RESP accounts	<p>These accounts are used only to fund the education goal. Residuals are not used to fund the retirement goal. The residual is shown in the Estate Analysis report.</p>
TFSA's	<p>Residuals are available to fund the retirement goal in January on the latter of:</p> <ul style="list-style-type: none"> • The year following the major purchase goal. • The year following the last year of the education goal. • The account owner's retirement year. <p>Residuals are used to fund retirement according to regular deficit coverage ordering. If any money is left at the time of the owner's death, it becomes part of the estate.</p>

DID YOU KNOW? Because the residuals from non-registered accounts owned by dependants as well as RESP accounts are not used to fund the retirement goal, you should be cautious not to overfund these accounts.

What happens to residuals from accounts funding emergency fund goals?

Only non-registered accounts and TFSA's can be used to fund emergency fund goals. By default, NaviPlan does not use emergency fund goal residuals to fund any other goals. You can reallocate goal residuals to another goal or eliminate the goal residual by using the **Goal Funding** feature in NaviPlan.

Because an emergency fund goal is maintained over the long term, it is important to review the goal funding on a regular basis to ensure the goal has not become overfunded due to the growth of the underlying asset. Any outstanding balance in the emergency fund account forms part of the estate of the second client to die and could be subject to provincial probate tax.

How can I use the Goal Funding feature to control goal residuals in non-registered accounts?

The available residuals from education, major purchase, and emergency fund goals are not automatically used to fund other goals. However, this availability can be controlled on the **Goal Funding** page (**Set Goals** section – **Goal Funding** category). This feature allows you to allocate assets to fund your clients' specific goals while avoiding goal residuals. Accumulation goals are listed in the columns; accounts (assets) are listed in the rows.

Funds can be allocated in three ways: a dollar amount, a percentage of the account, and the remaining amount in the account can all be allocated by entering the keyword **balance**. When used, the keyword **balance** takes the remainder of an account not allocated to other goals and assigns it to the designated goal. It is important to note that NaviPlan assesses each goal and its allocated funding independently of one another, and cannot assess past goals to draw remainders from them and project any amounts forward. As such, the use of the keyword **balance** is not to manage a remainder but to simplify resource allocation.

Account Name (Owner/Account Type)	Total	Retirement	University Education	Expense	Emergency Fund	Unallocated
RRSP (David)	\$450,000	100%	\$0	\$0	\$0	\$0
TFSA (Susan)	\$375,000	100%	\$0	\$0	\$0	\$0
NR (Joint/Non-Reg.)	\$175,000	BALANCE	\$0	\$15,000	\$0	\$0
	\$1,000,00	\$985,000	\$0	\$15,000	\$0	\$0

Goals – Goal Funding – Goal Funding

Example: You are working on a plan for David and Susan who have recently inherited \$50,000 and are looking for advice on how to best use these funds. They have deposited them into their joint savings account. Like many clients, they are trying to fund multiple goals, and they have agreed to allocate these funds across three of their goals. On the **Goal Funding** page, you allocate the funds, and then enter the keyword **balance** under **Retirement** to ensure the residual from the account is directed towards the retirement goal.

The example above explains how to use the **Goal Funding** feature to distribute an account among multiple goals. If a goal has a residual balance and the clients do not want to increase the value of the goal, the **Goal Funding** feature can be used in the same manner to distribute the residuals towards other goals.

The **Goal Funding** feature is not only available on the **Goal Funding** page. You can also access it from the following locations:

- On **Enter Financial Data – Net Worth – Accounts**
- On **Set Goals – Retirement – Retirement**
- On **Set Goals – Education – Education**
- On **Set Goals – Major Purchase – Major Purchase**
- On **Set Goals – Emergency Fund – Emergency Fund**