

# Surplus Savings and Surplus Expense Strategies

## Functions addressed in this document:

- What is a surplus expense strategy and how does it affect the plan?
- What is a surplus savings strategy and how does it affect the plan?
- When multiple surplus savings strategies are entered, how does NaviPlan handle the surplus?
- How do I redeem from assets to cover my clients' cash flow deficits?

Surplus Savings

surplus (Joint/Non-Reg.)

Add Surplus Savings Strategy

Direct Surplus To	% of Surplus	Start Year	End Year
surplus (Joint/Non-Reg.)	100.00%	2019	Ret. (1st)

Surplus Expenses

Add Surplus Expense

Description *	Owner	% of Surplus	Start Year	End Year
Surplus Expense	Joint	0.00%	2019	Death (2nd)

Enter Financial Data – Strategies – Surplus

For most clients, effective cash flow management, or the tracking of their incomes and expenses, plays a role in the success of their financial plan. To assist in managing cash flow, NaviPlan calculates the clients' net cash flow at the end of each year (total cash inflows minus total cash outflows).

In NaviPlan, a surplus occurs when total cash inflows exceed total cash outflows as of December 31 of a particular year. In contrast, if total cash outflows exceed total cash inflows on this date, there is no surplus and a deficit occurs instead. When the clients have surpluses, no investment return is earned on the surplus; as well, when deficits exist, no borrowing or interest costs are incurred. Even though no returns or costs are incurred, it is important to ensure that the amounts reported as cash flow surplus/deficit are accurate, and that both retirement surpluses and deficits are included in the clients' net worth.

Because the accumulation of assets is the focus in pre-retirement, NaviPlan does not redeem accounts to cover the clients' cash flow deficits during pre-retirement.

## What is a surplus expense strategy and how does it affect the plan?

Ideally, clients would provide you with accurate expense details, which should result in an accurately calculated cash flow surplus. In reality, this is usually not the case. For this reason, on the **Cash Flow** page (**Enter Financial Data — Cash Flow**), and on the **Surplus** page (**Enter Financial Data — Strategies**), you can create a surplus expense that only occurs when a surplus exists whose amount fluctuates based on a specific percentage of cash flow surplus.

Creating a surplus expense is often beneficial in cases where the clients have underestimated their expenses. For example, the clients may have estimated their monthly food expenses based on their grocery store receipts, but may not have included other expenses, such as dining out or their daily cup of coffee. While these additional expenses on a short-term basis may not be significant, over the course of the year or several years, the lack of this expense information will cause their cash flow surplus to be overstated.

Enter the **% of Surplus** and specify the time frame under **Surplus Expenses** on the **Surplus** page. NaviPlan then creates an expense to reduce or eliminate the cash surplus by changing the amount based on the year's ending surplus. Because NaviPlan assumes that all assets are liquidated in the year the last client dies, which may cause a large surplus, the default end year for a surplus expenses strategy is **Death-1y**. When overriding the default and using **Death** as the end year, the value of the liquidated assets is included in cash flow and, therefore, factored into the surplus expense amount.

**DID YOU KNOW?** In plans where performing a thorough cash flow analysis is not possible, entering a savings strategy using a dollar value is often a better approach.

**Example 1:** In the first **Projected Cash Flow Details** report (attached to the end of this document), which does not include a surplus expense strategy, we can see that Robert and Sarah's total cash inflows, minus their total cash outflows, leaves them with an **Ending Surplus** of \$32,812. In addition to being reported in cash flow, this amount is also included as part of their net worth.

In further discussion with Robert and Sarah, it appears that in reality only about 40% of that amount is available. After entering a surplus expenses strategy for 60% of their surplus, we can see that NaviPlan has created an additional expense labeled **Non-Registered Contributions and Investments**. This amount corresponds to 60% of the previous ending surplus amount, or \$19,687.

## What is a surplus savings strategy and how does it affect the plan?

In most cases, the clients' surplus will be overstated because of expenses that have not been accounted for. However, following a thorough cash flow analysis, if a surplus does exist, it is often beneficial to create a strategy to use it efficiently.

Because surpluses do not earn a rate of return, it is more efficient to enter a surplus savings strategy. In years when a cash flow surplus occurs, the strategy invests the clients' surplus into a non-registered account that earns a rate of return. Because the clients' surplus will fluctuate from year to year and there are yearly contribution limits to registered accounts, a surplus savings strategy can only be invested into a non-registered account.

On the **Surplus** page under **Surplus Savings**, a percentage of the clients' surplus can be allocated for a specified time frame to a non-registered account, which can be used to fund one or more of the clients' goals. Because NaviPlan redeems the clients' accounts during the retirement period to cover cash flow deficits, the end year for a surplus savings strategy defaults to retirement.

**DID YOU KNOW?** Account ownership affects surplus savings strategies. In a joint analysis, when saving surplus to a non-registered account owned by one client, only that client's surplus will be saved. If the client and co-client's surplus is to be saved to the same account, a jointly owned account must be selected.

## When multiple surplus strategies are entered, how does NaviPlan handle the surplus?

In plans where a combination of surplus savings and surplus expenses strategies, or multiple surplus savings strategies are required, the method in which the strategies are applied must be considered.

When entering multiple surplus strategies, it is important to remember that while NaviPlan allocates cash surplus according to the percentages specified, allocations to surplus savings are made before allocations to surplus expenses strategies. For multiple strategies of the same type, NaviPlan allocates the surplus concurrently using the percentages entered for those strategies' **% of Surplus**, such that when the percentages entered total 100%, the surplus is eliminated.

**Example 2:** Robert and Sarah have a surplus that they would like to eliminate by saving 70% to an account funding their retirement and 30% to an account funding their major purchase goal. After entering the surplus savings strategies as shown below, they would eliminate their surplus and also increase the funds available for both goals.

Surplus Savings		Major Purchase (Joint/Non-Reg.)		Add Surplus Savings Strategy	
Direct Surplus To	% of Surplus	Start Year	End Year		
Retirement (Joint/Non-Reg.)	70.00%	2019	Ret. (1st)		×
Major Purchase (Joint/Non-Reg.)	30.00%	2019	Ret. (1st)		×

Enter Financial Data section — Net Worth — Surplus

In contrast, when entering multiple strategies of different types (e.g., surplus savings and surplus expenses), it is important to remember that NaviPlan applies the strategies consecutively using the **% of Surplus** for the surplus savings strategy first, followed by the **% of Surplus** for the surplus expenses strategy.

**Example 3:** Returning to the plan for Robert and Sarah, after entering a surplus savings strategy to save 60% of their surplus to an account funding their retirement goal, their surplus was reduced to \$13,125 and their retirement goal coverage increased. Unfortunately, the goal coverage for Robert and Sarah's major purchase goal is less than 100%. As a strategy to increase their major purchase coverage, they would like to allocate 20% of the surplus to this goal, then expense the remaining surplus.

Surplus Savings

Major Purchase (Joint/Non-Reg.)

Add Surplus Savings Strategy

Direct Surplus To	% of Surplus	Start Year	End Year
Retirement (Joint/Non-Reg.)	60.00%	2019	Ret. (1st)
Major Purchase (Joint/Non-Reg.)	20.00%	2019	Ret. (1st)

Enter Financial Data — Net Worth — Surplus

When both surplus savings and surplus expenses strategies are required, NaviPlan consecutively applies the strategies starting with surplus savings. In this plan, as there are two surplus savings strategies, these strategies are first applied concurrently, followed by the surplus expenses strategy, which will eliminate the surplus.