Comparing Survivor Analysis Methods

Functions addressed in this document:

- What is the **Life Insurance Quick Assessment** method?
- What is the **Goal and Expense Analysis** method?
- What is the **Income Coverage Analysis** method?

Objectives

☑ If Robert dies

Select an insurance analysis method

- ⦿ Quick Assessment
- ◯ Goal and Expense Analysis
- ◯ Income Coverage Analysis

Set Goals — Survivor Income — Client or Co-Client Objectives

Important! Unless indicated otherwise, any locations and/or items referenced in this document are located on the **Set Goals** section – **Survivor Income** category – **Client/Co-Client Objectives** page.

In a Level 2 Plan, NaviPlan® provides the user with three insurance analysis methods to analyze the clients' survivor income needs: the **Life Insurance Quick Assessment** (LIQA) method, the **Goal and Expense Analysis** method, and the **Income Coverage Analysis** method.

By default, NaviPlan® p uses the **Life Insurance Quick Assessment** method; this default selection can be changed on the **User Preferences** – **Plan Settings** – **General** tab. To modify the analysis method on a per-plan basis only, go to the **Client/Co-client Objectives** page. The tabs will vary based on the method selected.

While this document discusses all analysis methods, the majority of the content relates to the **Income Coverage Analysis** method. For more information on the **Goal and Expense Analysis** method, refer to the *Survivor needs calculations* document listed under *Other sources on this topic*. This document covers survivor income analysis for a joint plan where either the client or co-client dies; it does not cover an analysis where both clients die.

Using any of the methods, NaviPlan® p simulates the death of the client or co-client on December 31 of the plan year to determine if the client is adequately insured. In addition, NaviPlan® p assumes that assets made available on the **Asset Availability** tab, as well as proceeds from existing life insurance policies will be depleted during the life of the survivor (i.e., capital depletion). If survivor needs cannot be fully met with these resources, NaviPlan® p recommends additional coverage. Both immediate needs at death and ongoing needs of the survivor and the family are assessed and compared to the amount of existing life insurance coverage.

What is the Life Insurance Quick Assessment method?

When the **Life Insurance Quick Assessment** method is selected, NaviPlan® uses a simplified approach for the survivor analysis. This method uses data from other locations in the plan (e.g. the clients' incomes) but information entered in the Life Insurance Quick Assessment does not affect the rest of the plan. This insurance analysis method is used to determine the amount of additional life insurance necessary to cover the survivor's ongoing needs.

The **Life Insurance Quick Assessment** method helps you communicate insurance needs to your clients clearly and concisely by using a simple—yet powerful—method for determining life insurance need. This will allow you to clearly demonstrate where your clients may experience shortfalls and how additional life insurance can fill-in those gaps. When using the **Life Insurance Quick Assessment**, NaviPlan® follows these steps to determine the need for additional life insurance:

1. NaviPlan® totals the data in the **Lump Sum Needs** and **Ongoing Needs** containers.
2. The total from the **Available Assets to Offset Needs** container is deducted.
3. The total recommended additional insurance is displayed in the **Results** section.

To get the most out of the **Life Insurance Quick Assessment** method, there are a few considerations you should make before recommending additional life insurance:

- Have I entered all needs and assets into the calculation?
- Are my clients underestimating their ongoing needs?
- Is the list of available assets complete?
- The calculation presented on this page is not iterative—that is—it calculates your clients' need in a single pass without consideration given to other factors. This means elements such as deficit coverage order are ignored for purposes of this calculation.
- The grey fields are uneditable by default and pull in data from elsewhere in the plan.
- **Note**: If you feel that the values in these fields are inappropriate for purposes of this analysis, you can select the appropriate **Override** option and enter custom data into the field.

Some key differences between the **Life Insurance Quick Assessment** and the other two analysis methods include:

- The **Goal and Expense Analysis** method analyzes the amount of insurance needed to maintain the survivor's standard of living. NaviPlan® calculates an insurance recommendation that accounts for the goals and expenses defined in the plan. The parameters of the goal and expense analysis can be changed to cover the survivor's needs.

- The **Income Coverage Analysis** method analyzes the survivor's income, the lost income due to death, and any lump-sum needs or expenses that would occur as a result of the client's death. NaviPlan® calculates a recommended amount of insurance to replace the lost income and to cover any additional lump-sum needs that are defined.

  Note: The **Income Coverage Analysis** method is designed to be used as a standalone survivor income analysis and assumes the **Estate Planning** defaults of a **Simple Will** and ignores estate strategies because data entered for the survivor income analysis does not require the entry of other plan data.

- The **Life Insurance Quick Assessment** method calculates your clients' additional insurance needs on the basis of a simple comparison of their lump sum and ongoing needs to their assets available to offset those needs. This assessment is designed to quickly assess your clients' need and provide you with an accurate amount of additional life insurance they will require.

What is the Goal and Expense Analysis method?

When the **Goal and Expense Analysis** method is selected, NaviPlan uses a detailed approach for the survivor analysis. This method is integrated with the clients' plan, and the required insurance is calculated using all defined goals and expenses, as well as any modifications and additional expenses entered on the **Client/Co-client Objectives** page. This insurance analysis method is used to preserve the family's economic security and net worth, and can be used if all the clients' expenses and goals are entered in the plan.

DID YOU KNOW? When using the **Goal and Expense Analysis** method, additional needs entered on the **Lump Sum Needs** tab also appear on the **Set Goals** – **Estate Planning** – **Estate Expenses** page, as additional lump-sum expenses at death.

When the **Goal and Expense Analysis** method is selected, a survivor analysis should be performed on a completed client plan, as any changes made to the current plan will change the insurance analysis. Adding any additional expenses may cause the insurance need to change, as these expenses may need to be covered during the survivorship period.

The **Ongoing Expenses** and the **Additional Annual Income** tabs only appear with the **Goal and Expense Analysis** method.

What is the Income Coverage Analysis method?

The **Income Coverage Analysis** method's primary objective is to replace any lost income as a result of the insured's death. This only applies to the survivor analysis and is independent of the rest of the plan.

When the **Income Coverage Analysis** method is selected, the information entered on the **Client/Co-client Objectives** page is considered in the analysis. The following are also considered:

- Liabilities
- Property taxes
- Savings strategies to the surviving client's registered and non-registered accounts
- Savings strategies to jointly owned accounts
- Survivor's insurance premiums

NaviPlan includes any liabilities, property taxes, savings strategies for the surviving client's registered and non-registered accounts, savings strategies for jointly-owned accounts, and the survivor's insurance premiums entered in the plan, and then also includes the information entered on the **Client/Co-client Objectives** page.

By default, education goals are fully funded using the **Income Coverage Analysis** method. This default can be modified in the **% to Cover** field on the **Annual Income Needs** tab. Data entered elsewhere in the plan, such as expenses and estate planning strategies, are not included in the survivor income analysis.

This insurance analysis method can be used if all the clients' expenses and goals have not been defined in the plan. For example, an individual who has elderly parents may wish to analyze the insurance required to cover only the cost of a nursing home over a period of years. Looking after these elderly parents may not be a goal defined in the plan; however, the client may feel obligated to provide his or her parents with the ability to meet this need should he or she die. The **Annual Income Needs** tab (as well as **Survivor's Income**) only appears when the **Income Coverage Analysis** method is selected.

Annual Income Needs							Add Annual Income Need
Description *	**Member**	**Income Need (pre-tax)**	**Frequency**	**Start Date**	**End Date**	**Infl +/-**	**Add'l**
Income Need	Sarah	$50,000	Annual	Jan 1 2020	Death (Owner)	☑ +	0.00% ✕

Set Goals — Survivor Income — Client/Co-Client Objectives — Annual Income Need

Example: Susan is financially independent and does not require insurance proceeds to supplement her income in the event of David's death. However, David takes care of his elderly parents and would like to purchase enough insurance to cover a $50,000 pre-tax expense for the next 15 years in the event of his death at the end of the current year.

On the **Annual Income Needs** tab, the annual income need is stated as a current year pre-tax value. NaviPlan® converts this pre-tax income need into an equivalent current year after-tax expense using the average and state tax rates entered in the **Plan Management** section – **Assumptions**.

1. $50,000 x (1 - 19.44%) = $40,280
2. $40,280 x (1 - 5%) = $38,266
3. $38,266 x (1 + 3%) = $39,414

In this example, the expense is indexed at the plan's inflation rate. Clear the **Infl** option to modify this inflation rate, or enter an **Add'l** value. As this expense will commence in the next year and the expense is indexed by the plan's inflation rate, the current year after-tax expense must be indexed.

To verify the after-tax expense, generate the **Detailed Cash Flow Projection if <client> Dies** report. This after-tax expense will be reported as a lifestyle expense under **Cash Outflows** in the report.

As visible in the **Life Insurance Summary** report, the additional life insurance recommended in this example is based on the ongoing annual income needs entered to care for David's parents in the event of his death. The **Present Value of Future Deficits** amount is $612,256 and the **Additional Recommended Coverage for Survivorship** amount is $497,860.

DID YOU KNOW? If a liability is entered on the **Assets/Liabilities** page (**Enter Financial Data** section – **Net Worth** category) and **Transfer to survivor** or **Payoff at first death (from estate)** is selected from the **Payoff Options at Death** menu (under **Liability Details**), the liability will appear on the **Lump Sum Needs** tab. By default, **Pay Off Outstanding Liabilities** will be selected on this tab. If this option is cleared when using one type of analysis method, it will remain cleared on the **Lump Sum Needs** tab after a different analysis method is selected. For example, if the option is cleared when using the **Goal and Expense Analysis** method, it remains cleared on the **Lump Sum Needs** tab after switching to the **Income Coverage Analysis** method.