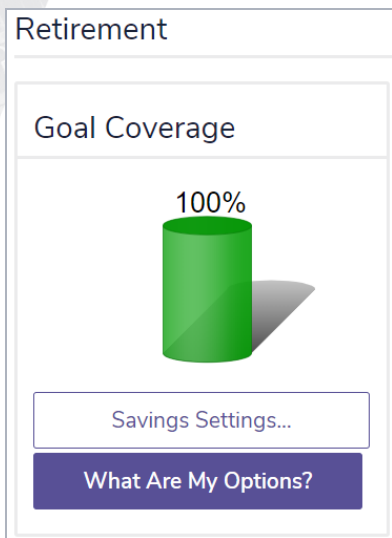# NaviPlan®
by Advicent

What Are My Options? for Retirement: Overview

Functions addressed in this document:

- What are the system-generated retirement options in (missing or bad snippet)?
- What are the cash flow implications of implementing a strategy?
- How is the Cover % of Expenses value determined?
- What is the difference between Cover % of Expenses and Goal Coverage?
- How is the Retire in year determined?
- How can Cover % of Expenses be 99% when Goal Coverage is 100%?

Important! Unless otherwise indicated, items and locations referenced throughout this document are in the **Results – Analyze Goals – Scenarios**.

Retirement

Goal Coverage

100%

Savings Settings...

What Are My Options?

Results – Analyze Goals – Scenarios – Edit <plan> – Retirement

What are the system-generated retirement options in NaviPlan?

On the **Scenarios** page you can compare different retirement scenarios and examine the ability of each scenario to achieve the clients' retirement goal. The **Goal Coverage** success cylinder indicates at a high level the percentage of the goal that is covered, given all variables entered for the goal. You can quickly obtain the system-generated retirement goal funding options by clicking **What Are My Options?** for the retirement goal within the **Scenario Manager**.

Clicking **What Are My Options?** opens a dialogue box that displays four options for modifying the scenario so that the retirement goal percentage is covered at 100%. In other words, the **What Are My Options?** feature takes the guesswork out of solving the goal by automatically determining quick solutions for achieving the goal. The following options are presented in the **What Are My Options?** dialogue box and are described below:

What Are My Options?	If selected, the following occurs:
Cover % of Expenses	• By default, NaviPlan reallocates the clients' retirement funding accounts to match the suggested asset allocation, that is, the **Investment Objective** specified for the goal. The **Cover % of Expenses** value reflects the percentage of planned retirement expenses (both fixed and discretionary) being met after this reallocation, without any other changes to the plan. • The bracketed dollar amount is the annual, after-tax retirement income your clients could expect to receive during the retirement period, stated in today's dollars (not the portion of the total **Projected Cost** that can be covered). • If the **Cover % of Expenses** option is selected, the **Fixed** and the **Discretionary Annual Retirement Expenses** fields for the **Recommended Plan** scenario are updated with the value shown in the **What Are My Options?** dialogue box.
Save a Lump Sum	• When selected, NaviPlan creates a new, jointly owned, non-registered account named **Retirement Fund** linked to retirement with a one-time lump-sum savings strategy for the recommended amount. This account earns the rate of return specified for the retirement period. • The lump-sum savings strategy is applied on the first day of the month following the **Plan Analysis Date**. If required, the **Additional Lump Sum Savings** and **Start Date** fields can be modified by clicking **Details** for the **Additional Monthly Savings** field in the **Scenario Manager** for the goal. • If the **Investment Profile** or **Return Rate** values have been overridden on the **Objectives** tab, the **Retirement Fund** account will earn the rate of return associated with the override.
Save Monthly	• When selected, NaviPlan creates a new, jointly owned, non-registered account named **Retirement Fund** linked to retirement with a monthly savings strategy for the recommended amount. This account earns the rate of return specified by the investor profile for the retirement period. • Savings start on the first day of the month following the **Plan Analysis Date**, are not indexed to inflation, and continue until December 31 of the year before the year of retirement. • If required, the savings amount, **Start Date**, and inflation rate can be modified by clicking **Details** for the **Additional Monthly Savings** field in the **Scenario Manager** for the goal. • If the **Investment Profile** or **Return Rate** values have been overridden on the **Objectives** tab, the **Retirement Fund** account will earn the rate of return associated with the override.

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What Are My Options?	If selected, the following occurs:
Retire in	• When selected, the retirement date is changed to the earliest year that the clients can meet their retirement goal, without changing anything else in the scenario. • If the client's and co-client's original retirement dates are in different years, NaviPlan maintains the b of years between the retirement dates when setting the new retirement years. As well, if one client is already retired, that client is assumed to continue to be retired.

DID YOU KNOW? To ensure that the maximum contributions are calculated when saving to registered accounts, the clients' 401kRRSP contribution information must be entered on the **Historical Data** (**Plan Management – Assumptions**).

Each of the above four options presented in the **What Are My Options?** box are mutually exclusive and, if selected, will result in 100% **Goal Coverage**. NaviPlan does not present options in which some combination of these alternatives is offered. For example, NaviPlan will not suggest that the clients could retire earlier if they reduced their expense coverage to 85%. Combinations such as this can be analyzed by manually changing these variables within a scenario.

When an option is selected in the **What Are My Options?** dialogue box, the change only applies to the selected scenario. If, however, the **Recommended** option is selected, the scenario and the change selected in the **What Are My Options?** box are adopted in the **Recommended Plan** presented in client reports.

After selecting an option in the **What Are My Options?** box, review the clients' cash flow to ensure the recommended changes are affordable. NaviPlan displays the **Pre-Retirement Cash Flow** on the **Summary** page within the **Scenario Manager**. This indicator allows you to quickly review your clients' cash flow by providing an indicator:

Cash Flow

2019	Surplus/Deficit	$14,063
✔	Pre-retirement	100%
✔	Retirement	100%

Scenarios page — Edit <plan> button — Summary Page — Cash Flow summary section

- A green check indicates there are no annual cash flow deficits greater than $100 during the pre-retirement period.
- A red "X" indicates there is at least one year with a cash flow deficit greater than $100 during the pre-retirement period.

For additional details, clicking **Analyze Cash Flow** opens the **Cash Flow Surplus/Deficit** graph (be sure to click the **Pre-Retirement** link to focus on the pre-retirement period). This graph shows the estimated after-tax cash flow surplus/ deficit in each year of pre-retirement. An average tax rate for the clients is used in these calculations.

You can also review pre-retirement cash flow using the **Planning Assistant – Reports** (**Quick Actions** menu — **Planning Assistant**) and selecting **Cash Flow** from the menu there.

To further analyze your clients' cash flow, both the **Multi-Year Cash Flow Summary** and the **Detailed Cash Flow Projection** reports (accessible from the **Quick Actions – Reports – Cash Flow**) list projected yearly cash flow surplus/(deficits) from the plan year to the end of life expectancy.

What are the cash flow implications of implementing a strategy?

When analyzing the retirement goal, three situations are possible: the goal is underfunded, adequately funded, or overfunded. To determine which situation exists and therefore which recommendations are displayed in the **What Are My Options?** dialogue box, NaviPlan performs cash flow projections and applies a cash flow surplus/ (deficit) tolerance test.

It is important to remember that each of the options presented in the **What Are My Options?** dialogue box are independent of cash flow. It is recommended that cash flow be monitored to identify cash flow issues and to evaluate whether projected surpluses could realistically be saved toward a goal.

Cash flows are projected for the retirement goal from the start date to the end date of the goal. Shown next, we can see how the results of the cash flow surplus/(deficit) tolerance determine whether the goal is underfunded, adequately funded, or overfunded.

In addition, we can see in the diagram that the recommendations shown in the **What Are My Options?** box differ depending on whether the goal is underfunded, adequately funded, or overfunded. In the following diagram, when the goal is adequately funded, we can see that no further strategies are recommended in the **What Are My Options?** box.

While the options presented in the **What Are My Options?** box will differ depending on whether the scenario is underfunded, adequately funded, or overfunded, each of the four system-generated retirement options is designed to produce a scenario that achieves 100% **Goal Coverage**. For a link to more detailed information on the **Goal Coverage** feature, see the *Other sources on this topic section* at the beginning of this document.

When an option is selected in the **What Are My Options?** box, the change only applies to the selected scenario. In addition, if **Recommend Scenario** is clicked for the scenario, the scenario and the option selected in the **What Are My Options?** box are adopted in the **Recommended Plan** presented in client reports.

How is the Cover % of Expenses value determined?

As stated earlier, the **Cover % of Expenses** value represents the largest percentage of the retirement goal that can be achieved without changing anything else in the scenario. NaviPlan iteratively projects the retirement analysis, assuming different levels of retirement expenses in each projection. NaviPlan calculates the **Cover % of Expenses** value as follows:

- When the goal is starting from an underfunded position, NaviPlan finds a decreased expense level where projected cash flow for the retirement goal period falls between the accumulated cash flow tolerance of $(100) and $(10) (i.e., produces 100% **Goal Coverage**). That expense level is displayed as the **Cover % of Expenses** value.

- When the goal is already overfunded, NaviPlan performs the projected cash flow iteration until it finds an increased expense level where cash flow falls within the tolerance range. In this case, the **Cover % of Expenses** amount is adjusted to more than 100%, which illustrates that the clients can increase planned retirement expenses.

What is the difference between Cover % of Expenses and Goal Coverage?

The **Goal Coverage** percentage displayed on the **Objectives** tab differs from the **Cover % of Expenses** value displayed in the **What Are My Options?** box in the following ways:

- **Goal Coverage** is designed to indicate at a high level how successful the strategies already included in the scenario are at achieving the goal. It is used as a progress check. **Cover % of Expenses**, on the other hand, is designed to recommend how to change the goal so that 100% **Goal Coverage** can be achieved.

- **Goal Coverage** is a calculated value based on hard data entered into the plan and is the percentage of all retirement expenses that can be covered, given all available retirement resources. **Cover % of Expenses** is determined by iteratively projecting retirement cash flow (as explained earlier in this document) in order to determine the appropriate level for expenses with respect to resources..

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- **Goal Coverage** never displays more than 100%, even when the goal is overfunded, whereas **Cover % of Expenses** can be less than or more than 100%, depending on whether the goal is underfunded or overfunded, respectively.

- **Goal Coverage** includes all expenses that occur during the retirement period, including any education and major purchase goal expenses, liability payments, manually entered savings strategies, and life, disability, or critical illness insurance premiums. The **Cover % of Expenses** value applies to 100% of fixed and discretionary retirement expenses, which only occur during the retirement period.

How is the Retire in year determined?

When determining the **Retire in year**, NaviPlan iteratively projects the analysis assuming different years of retirement, until it finds a retirement year that results in 100% **Goal Coverage**. The resulting retirement date can be earlier or later than the planned retirement date and will never occur outside the clients' life expectancy.

In a joint analysis, if the client and co-client's retirement dates are staggered, the b of years between retirement dates is maintained throughout the calculation. The latest retirement year, however, is capped at the planned life expectancy. As well, a client who is already retired in the current analysis is assumed to continue to be retired.

> **DID YOU KNOW?** For the **Cover % of Expenses** and **Goal Coverage** percentages, NaviPlan rounds down the percentage to the nearest whole number, except when the percentage is greater than or equal to 99.9%, in which case NaviPlan rounds the number up to 100%.

How can Cover % of Expenses be 99% when Goal Coverage is 100%?

Since the two values are determined by different methods, it is possible to see unanticipated results in scenarios where the goal is adequately covered. For example, a scenario may have a **Goal Coverage** value of 100% and yet the **Cover % of Expenses** in the **What Are My Options?** box is 99%.

As described earlier, **Cover % of Expenses** is derived iteratively and, therefore, it displays the results from the first iteration that meets the cash flow tolerance test. In our example, an annual retirement expense amount of $118,800 is the first value during the iteration process that meets the cash flow tolerance criteria; however, it is not the only value that could meet the criteria. **Goal Coverage**, on the other hand, is a calculated value based on the actual projected retirement expenses and retirement account redemptions based on data entered into the plan.

> **DID YOU KNOW?** Life insurance proceeds on last death are not included in the cash flow projections for attainable retirement options. This is done in order to isolate retirement needs from needs at death. For example, it would not be realistic to plan on using life insurance proceeds to fund the retirement of the last client to die in the plan.

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