



THE RAZOR

SPEED, LOGIC, SIMPLICITY

---

## Data Entry Key

**FPAdvantage**

**Nov 09, 2011**

**Contents**

- Getting Started..... 3
- Step 1: Personal Information ..... 3
  - Client Information..... 3
  - Contact Information..... 3
  - Employment Income ..... 4
  - Other Income ..... 4
  - Retirement Income Needs ..... 4
  - Goals & Objectives ..... 5
- Step 2: Sources of Income ..... 5
  - Working in Retirement..... 5
  - Pension Income..... 5
  - Canada Pension Plan ..... 6
  - Old Age Security..... 6
  - Other Retirement Income ..... 7
- Step 3: Personal Assets ..... 7
  - Retirement Investments ..... 7
  - Cash Investments & TFSA..... 8
  - Real Estate Holdings..... 8
  - Inheritance and Lump-Sum Amounts ..... 9
  - Other Assets..... 9
- Step 4: Corporate Assets..... 9
  - Investments & Securities ..... 9
  - Real Estate..... 10
  - Good Will ..... 10
  - Share Value ..... 10
- Step 5: Plan Assumptions..... 10
  - Rate of Return ..... 10
  - Taxation..... 11
  - Government Benefits..... 11

Solver Settings (Plan Settings) .....	11
Human Capital (Plan Settings) .....	12
Step 6: Prepare Analysis.....	12
Prepare.....	12
Notes.....	13

## Getting Started

Client names: Enter your client's names as you would like them to appear on the client report.

Advisor name: Enter the advisor's name as you would like it to appear on the client report.

Plan date: The Razor has been designed to calculate based on whole years. Therefore, the software will begin calculations as of January 1<sup>st</sup> of the year entered. Example: A plan date of September 19, 2011 will cause the software to begin calculations as of Jan 01, 2011. Enter the plan date as "MMM DD, YYYY". Entering the date in this exact format will mitigate issues caused by different system settings.

Comment: This field allows you to enter a specific comment with respect to the client file opened. This value will not appear anywhere within the reporting or calculations.

## Step 1: Personal Information

### Client Information

Name: Enter the name of your client as you see fit.

Date of birth: Enter your client's date of birth as "MMM DD, YYYY". Entering the date in this exact format will eliminate any issues caused by different system settings.

Age: This is an auto-calculated field. The software will determine the age of your client based on the date of birth entered. Keep in mind that the software will make calculations based on January 1<sup>st</sup> of the Plan Date year. Therefore, it is possible that your client's age may appear to be one year younger than their actual age if their birthday falls between January 1<sup>st</sup> and the Plan Date.

Gender: Enter your client(s)' gender; this will affect the calculation of life expectancy at retirement.

Client B: If you are entering a single client, be sure to select "No Spouse" from this field's dropdown. This will remove all spousal (Client B) information from the reports.

### Contact Information

Address: Enter your client's current street address

City: Enter your client's current city of residence.

Prov: Enter your client's current province of residence for tax purposes.

Postal code: Enter your client's current postal code.

Preferred contact number A or B: Enter the preferred contact number for both client A and B.

Email address A or B: Enter the email address for both client A and B.

## Employment Income

Income (A\$): Enter your client's "Earned Income" for the current taxation year. Do not include investment income such as interest, dividends or capital gains. This entry is required to accurately calculate the impact of taxation on your client's non-registered investment prior to retirement.

Occupation / Employer: Enter the current occupation and employer of both client A and B.

## Other Income

Income (A\$): In addition to earned income, your clients may also generate other income, such as corporate earnings that are not paid to them directly but do benefit them financially. This amount should be entered here.

Or, if one client is considered a "stay at home parent" and is not currently generating earned income, you should enter the annual amount of additional income required (for child care and other expenses) should this client die prematurely. This information is necessary so that the software can properly assess the value of the client's Human Capital.

To Age: Enter the age to which you anticipate this income will continue. You can select "Retirement" automatically by clicking on the field and selecting it from the drop down. You can also choose to enter another age by simply typing it in.

## Retirement Income Needs

Active Age Client A: This field establishes the retirement age of both Client A and B. The age entered is based on Client A's age. Should you wish to enter separate retirement ages for Client A and B, use the field labeled "Age: Client B". However, the software will still base all reports on Client A's age.

Active Age Client B: This field allows you to establish separate retirement ages for both Client A and B. To set the retirement age for Client B, type an age directly into the field. If left "N/A" the software will assume Client B retires at the same time as Client A.

Passive Age: This field allows you to establish a secondary stage of retirement, one during which your clients will be likely to spend less than in early retirement. This age must be later than Active Age to avoid calculation errors, and is based on the age of Client A and will affect the retirement needs of Client B as well. Should you choose not to use a passive stage of retirement, simply enter the same monthly after-tax requirement as Active Age in the "Income (M\$)" field.

Income (M\$): Enter the Active Age retirement income as monthly after-tax dollars.

Annual \$: This field will automatically calculate the annual amount of Active Age or Passive Age income.

## Goals & Objectives

Goal 1-5: Summarize the other goals and objectives of your clients. These goals will not impact the calculations or reporting of the analysis. The purpose of this area is to allow the user of the software to have a better understanding of the client's vision while making recommendations.

## Step 2: Sources of Income

### Working in Retirement

Amount (M\$): Your clients may plan on transitioning into retirement by continuing to work for a number of years at a reduced capacity or by engaging in something else they enjoy. This field allows you to include this additional cash flow into the analysis. Enter the monthly pre-tax income the clients will expect to earn.

Annual \$: This field will automatically calculate the annual amount of income expected.

Index (% inflation): Should your clients expect this income to increase, enter as a percent of inflation. For example, if inflation is entered at 3% and you enter 50% in this field, the software will assume an increase of 1.5%.

Start Age: Enter the age at which you anticipate this income will begin accumulating. You can select "Retirement" automatically by clicking on the field and selecting it from the drop down. You can also choose to enter another age by simply typing it in.

End Age: Enter the age to which you anticipate this income will continue as a numeric value.

### Pension Income

Amount (M\$): If your client is expecting to receive retirement income from a Defined Benefit pension, enter the expected income as a pre-tax monthly amount. If they are currently retired, enter the amount that they are receiving today. In some cases, it is possible that a client could be receiving income from more than one pension plan. In this situation, you could choose to group these benefits together or enter the second pension in the Other Retirement Income section. Enter any Defined Contribution pensions in the Registered Retirement Investments section.

Annual \$: This field will automatically calculate the annual amount of pension income expected.

Index (% inflation): If this pension income offers indexing, enter the expected indexing as a percent of inflation. For example, if inflation is entered at 3% and you enter 50% in this field, the software will assume an increase of 1.5%.

Start Age: Enter the age at which you anticipate this pension will begin. You can select “Retirement” automatically by clicking on the field and selecting it from the drop down. You can also choose to enter another age by simply typing it in.

Survivor (%): Some pensions offer a survivor benefit allowing a portion of the income to pass on to a surviving spouse, should one of the clients die. Enter the survivor portion as a percent of the total income. The software requires this information to properly calculate a client’s Human Capital.

## Canada Pension Plan

CPP (% or \$): CPP can be entered as a percent of maximum or a dollar amount. If your client has not started receiving CPP, it is recommended you select “% Maximum” from the dropdown and enter the percentage of your client’s average lifetime earnings compared to YMPE (Yearly Maximum Pensionable Earnings = \$48,000 for 2011) into the field labeled “CPP (% Max)”.

If your client is currently receiving CPP benefits, select “Enter \$” from the dropdown and enter the total monthly amount received into the field labeled “CPP (\$ Month)”.

CPP (% Max): If you have selected “% Maximum” in the field labeled “CPP (% or \$)”, enter the monthly benefits your clients expect to receive as a percentage of maximum CPP. Should you enter a start age earlier or later than 65; the software will automatically adjust the CPP benefit accordingly.

CPP (\$ Month): If you have selected “Enter \$” in the field labeled “CPP (% or \$)”, enter the total monthly benefit received by both clients. The software will not make adjustments to this amount should you enter a Start Age earlier or later than 65.

Start Age: Enter the age at which you expect to begin receiving CPP. You can select “Retirement” automatically by clicking on the field and selecting it from the drop down. You can also choose to enter another age by simply typing it in.

## Old Age Security

OAS (Y/N): For higher-income pensioners, the basic OAS pension is reduced by 15% of net income exceeding \$67,668. This 2011 limit is adjusted annually for inflation. Should you choose to include OAS in your projections, any clawback of benefits will be calculated automatically, based on your client’s projected net income. To include OAS benefits, select “Yes” from the dropdown.

## Other Retirement Income

**Amount (M\$):** In addition to retirement income, your clients may expect to receive income in retirement from other sources, such as rental property or an annuity. Enter the total monthly amount your clients expect to receive, in today's dollars.

**Index (% inflation):** Should your clients expect this income to increase, enter as a percent of inflation. For example, if inflation is entered at 3% and you enter 50% in this field, the software will assume an increase of 1.5%.

**Taxable (%):** This field allows you to specify the taxable portion of this income source. In most cases, 100% of income received would be subject to taxation, however, as alternative scenarios arise, you will be able to adjust this amount and reduce the taxable portion.

**Start Age:** Enter the age at which expect this income to begin. You can select "Retirement" automatically by clicking on the field and selecting it from the drop down. You can also choose to enter another age by simply typing it in.

**End Age:** Enter the age to which you anticipate this income will continue as a numeric value.

**Survivor (%):** Like a pension, some of this income may pass on to a surviving spouse, should one of the clients die. Enter the survivor portion as a percent of the total income. The software requires this information to properly calculate a client's Human Capital.

## Step 3: Personal Assets

### Retirement Investments

**Value (\$):** Enter the total value your clients have in all RRSP investments, as well as any Defined Contribution Pension assets.

**Savings (\$):** Enter the savings that your clients are planning to make now and in the future to RRSP investments. You can choose to enter them as either annual or monthly amounts, but must specify the mode in the "Mode (A/M)" field. Although there are maximums associated with RRSP deposits, the software does not limit the amount a client can deposit. Therefore, there is no data entry point for Current Contribution Room.

**Mode (A/M):** To enter the mode associated with RRSP savings, click on the field and select either "Annual" or "Monthly" from the dropdown.

**Index (Y/N):** To specify whether savings will be linked to inflation, click on this field and select "Yes" or "No" from the dropdown.

## Cash Investments & TFSA

**Value (\$):** Enter the total value that your clients have in all Non-RRSP investments and Tax Free Savings Account (TFSA) assets. The software will automatically allocate any current value and future savings into a TFSA asset, up to the maximum room available. This result can be seen in the Ledger page under Personal Assets / Cash Investments / TFSA Balance. The benefit to this is that the software will continue to utilize the TFSA account even in retirement, demonstrating the full benefit of TFSA. There are locations to enter Client A and Client B investments, as well as any joint investments.

**Cost base (\$):** Enter the current cost base of all Non-RRSP and TFSA investments. The software will utilize this amount when calculating the tax liability of Non-RSP investments. This allows the software to accurately calculate the tax implication of investment withdrawals and net worth.

**Savings (\$):** Enter the savings your clients are planning to make now and in the future to Non-RRSP investments. You can choose to enter them as either annual or monthly amounts but must specify the mode in the “Mode (A/M)” field. The software will automatically track maximums associated with TFSA deposits. Therefore, there is no data entry point for Current Contribution Room.

**Mode (A/M):** To enter the mode associated with Non-RRSP savings, click on the field and select either “Annual” or “Monthly” from the dropdown.

**Index (Y/N):** To specify whether savings will be linked to inflation, click on this field and select “Yes” or “No” from the dropdown.

## Real Estate Holdings

**Value (\$):** Enter any real estate your clients currently own. There are three types of properties that can be entered; principal residence, recreational property and investment/rental property. Any growth associated with your client’s principal residence will not create a tax liability, however, any growth associated with the other two properties will create a tax liability.

**Cost base (\$):** Enter the current cost base of the selected real estate properties. As the principal residence is not subject to taxation, cost base is not required. The software will utilize this amount when calculating the tax liability of all future growth. This allows the software to accurately calculate the tax implication from an estate and net worth perspective.

**Mortgage (\$):** Enter the current outstanding mortgage value of the selected property. This amount will negatively affect the client’s net worth and any remaining payments at retirement will be added to lifestyle needs.

**Rate (%):** Enter current interest rate associated with the client’s mortgage. This is a static rate that will remain until the mortgage has been reduced to zero.

**Payment (M\$):** The software allows for a monthly mortgage payment only. For clients who are paying weekly or bi-weekly, you will need to adjust their payments to reflect a monthly payment.

## Inheritance and Lump-Sum Amounts

**Value (\$):** This location allows you to specify an additional one time deposit for both the client and spouse. The software will automatically allocate this amount toward the client's Non-RSP investments. Withdrawals will then be made to offset lifestyle deficiencies. Two entries have been included to add flexibility.

**At age:** Select the age at which this one time deposit will occur. Two entries have been included to add flexibility.

## Other Assets

**Value (\$):** This field allows you to specify any additional personal assets at three different rates of return: the rate of inflation, investment rate of return and no indexing. If entering an asset, decide the type of growth it will experience and enter the value into the corresponding location.

**Cost base (\$):** Enter the current cost base of the selected asset. The software will utilize this amount when calculating the tax liability of all future growth. This allows the software to accurately calculate the tax implication from an estate and net worth perspective.

## Step 4: Corporate Assets

### Investments & Securities

**Value (\$):** Enter the total value of all non-real estate corporate investments. The software will use this information to track the value of the corporation throughout the lifespan of the clients. This value can then flow out to the clients to help offset needs in retirement (see Step 6: Plan Assumptions / Settings / Solve Corporate).

**Cost base (\$):** Enter the current cost base of all non-real estate corporate investments. The software will utilize this amount when calculating the tax liability of the corporation. This allows the software to accurately calculate the tax implication from an estate and net worth perspective.

**Savings (\$):** Enter any savings being made to the non-real estate corporate investments. You can choose to enter them as either annual or monthly amounts but must specify the mode in the "Mode (A/M)" field.

**Mode (A/M):** To enter the mode associated with corporate savings, click on the field and select either "Annual" or "Monthly" from the dropdown.

**Index (Y/N):** To specify whether savings will be linked to inflation, click on this field and select "Yes" or "No" from the dropdown.

## Real Estate

Value (\$): Enter any real estate held within a client's corporation. Enter the total value of all corporate real estate as a single amount. Any future growth associated with corporate real estate will create a tax liability.

Cost base (\$): Enter the total cost base of all corporate real estate properties. The software will utilize this amount when calculating the tax liability of all future growth. This allows the software to accurately calculate the tax implication from an estate and net worth perspective.

Mortgage (\$): Enter the current outstanding mortgage value of all corporate real estate properties.

Rate (%): Enter current interest rate associated with the corporate real estate. This is a static rate that will remain until the mortgage has been reduced to zero.

Payment (M\$): The software allows for a monthly mortgage payment only. For clients who are paying weekly or bi-weekly, you will need to adjust their payments to reflect a monthly payment.

## Good Will

Value (\$): In addition to investment and real estate, the corporation may also have considerable value in the good will of the day to day operations. This field allows you to increase the value of the business beyond the total value of investments and real estate.

## Share Value

Value (\$): This field is automatically calculated based on the total value of all corporate assets, less any remaining liabilities.

Cost base (\$): Enter your client's Adjusted Cost Base as it relates to the corporate assets. The ACB is used to determine the cost of the shares for tax purposes. Generally, 50% of the capital gain is taxable when the shares are disposed of.

## Step 5: Plan Assumptions

### Rate of Return

Inflation: Enter the rate of inflation by which your client's analysis will be based. This rate of inflation will affect the lifestyle needs of your clients and establish the base inflation for government benefits and retirement income.

**Investment:** Enter the average assumed rate of return for all investment assets, both personal and corporate.

**Real Estate:** Enter the annual increase in value of all real estate properties, both personal and corporate.

**Business Value:** Enter the annual increase in value for business operations and good will.

**Lifestyle Debt:** Enter the interest charged on money borrowed to finance income deficiencies in retirement (Lifestyle Line of Credit).

## **Taxation**

**Accumulation:** Enter your client's current Tax Efficiency Factor. This amount will be applied to all pre-retirement investment income. For a full description of Tax Efficiency, please see the notes at the end of this document.

**Retirement:** Enter your client's future Tax Efficiency Factor. This amount will be applied to all post-retirement investment income. For a full description of Tax Efficiency, please see the notes at the end of this document.

**Income Splitting:** Many forms of retirement income can be split between spouses, resulting in a reduction in income taxes. Enter the assumed level of income splitting your clients can attain. Keep in mind that while 100% would be very difficult to achieve, it is not always in the best interest of the client. You can alter this value in the future to view different outcomes.

## **Government Benefits**

**CPP:** Enter the current monthly benefit amount for the current taxation year. To include CPP, visit "Sources of Income / CPP".

**OAS:** Enter the current monthly benefit amount for the current taxation year. To include OAS, visit "Sources of Income / OAS".

**Index (% Inflation):** This field allows you to establish the inflation rate of CPP and OAS as a percent of current inflation. For example, if inflation is currently entered as 3%, entering an "Index (% Inflation)" of 50% for CPP, will index CPP at 1.5%.

## **Solver Settings (Plan Settings)**

**RRIF Age:** Enter the age at which your client's RRSP investments will begin paying retirement income. If RRIF income is required before this age, the software will automatically begin making withdrawals unless "Solve RRIF" has been set to "No".

Solve RRIF: This field allows you to give the software the ability to draw on RRIF assets to fill deficiencies in retirement. If set to “No”, the software will be limited to drawing RRIF minimum amounts only.

Solve Corporate: This field allows you to give the software the ability to draw on corporate investment assets in retirement. If “Yes” is selected the software will automatically create a dividend to utilize RDTOH each year, beginning with the first year of retirement. The software will also utilize principal amounts to generate a dividend to offset deficiencies in retirement, only after RRSPs and Non-Registered investments are depleted.

LE + Years: Enter the number of additional years past life expectancy to solve for income goals. For example, a life expectancy of 85 with a “LE + Years” of 5 will solve to 90.

Monthly LOC: This field allows you to enter an amount of income to leverage in retirement. This is most applicable while demonstrating an Insured Retirement Plan (IRP) strategy. The software will track and display a leveraged withdrawal, but will not physically tie the leveraged amount to any one fixed asset. This allows you to demonstrate the ability to borrow against fixed assets for discussion purposes.

## Human Capital (Plan Settings)

Life Insurance: Enter the number of Human Capital years to cover with Life Insurance. For a full description of Human Capital, please see the notes at the end of this document.

Critical Illness: Enter the number of Human Capital years to cover with Critical Illness Insurance. For a full description of Human Capital, please see the notes at the end of this document.

Disability: Enter the number of Human Capital years to cover with Disability Insurance. The software will divide this Human Capital amount by the number of months remaining to this point. For a full description of Human Capital, please see the notes at the end of this document.

DI % Income: Enter the percent of income to include for the Disability calculation above.

LTC % Income: Enter the percent of current income required, should your client require Long Term Care.

## Step 6: Prepare Analysis

### Prepare

Finish Button: Clicking this button will automatically calculate the client analysis and move you to the Report document. From here you can view the results and print the client report. To make changes, you can return to the Wizard or Data screens at any time. For advanced users, you can also use the Chart screen to view and manipulate client data.

Report Title: This field allows you to change the title of all client reports.

Advisor Contact Information: Any data entered here will automatically populate on the Cover Page of the client report. To change the "Advisor Name", see "Getting Started".

## Notes

Tax Efficiency (TE): "Tax Efficiency" is a concept that is applied to non-registered investments and represents the portion of investment income that is taxable. For example, an investment that earns capital gains that are fully realized each year would be 50% tax efficient. Whereas, an investment that earns only interest would be 0% tax efficient, as 100% of the growth is subject to taxation.

Allocation and taxation have an immense impact on a client's ability to fund their needs throughout their lifetime. By incorporating Tax Efficiency into The Razor, we are able to accurately calculate taxation while minimizing the complexity of the analysis and effort required to complete it.

Human Capital (HC): "Human Capital" is used by The Razor as a heuristic method to calculate a client's life insurance needs. This process involves estimating their future earnings potential, then discounting this future cash flow using an appropriate investment rate of return.

The lifestyle that your client enjoys today, and hopes to enjoy in the future, is only made possible because each year they convert part of their Human Capital into cash, investments, real estate and other assets that they will use in the future.