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## Asset Accumulation Comparison

The Asset Accumulation Comparison calculator allows you to compare two different product or plan designs against a hypothetical cash flow and rate-of-return scenario.

**Asset Accumulation Comparison**

*Cash Flow Section*

Name:  Starting Year for illustration:

Cash flow input mode:  Quick mode  Year by year input

Initial lump sum deposited/retained: \$  New money amt: \$  Tax basis: \$

PAY-IN PERIOD: \$  per contribution, paid  time(s) per year for  years, with contributions increasing  % per year.

Marginal tax rate (federal + state + local) during pay-in period:  %

PAY-OUT PERIOD:  None  Amortize  Required Minimum Distributions   % of Balance

Type of pay-out:  \$  for the first payment, increasing at  % annually.

Payments will start in year  and will occur  time(s) per year for  years.

Marginal tax rate (federal + state + local) during pay-out period:  %

*Asset Comparison Section*

Name of asset:

Surrender/sales charges to move initial balance:

Sales load on new contributions:  %  %

Annual fee (dollar amount or percent):  \$  %  \$  %

Tax characteristics of asset:

Rate of return input:  Quick  Year by year

Annual rate of return:  %  %

Among its features:

- Cash flow definition can be in a simplified form (optional lump sum plus optional periodic contributions plus optional periodic withdrawals), or on a year-by-year basis.
- Either contributions or distributions, or both, can be easily made to increase annually at a fixed rate.
- Required minimum distributions will be automatically calculated and illustrated.
- Alternatively, the system can amortize a fund by illustrating level payments over a fixed number of years, or can withdraw a fixed percentage of the fund every year.



- Rates of return can be specified as flat amounts or can be entered on a year-by-year basis to simulate past performance of an actual fund.
- Surrender charges, sales loads, and either flat or asset-based annual fees can be illustrated for two different product or plan types.

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## When to Use This Calculator

The Asset Accumulation Comparison is intended mainly to compare two different funding alternatives. Normally it is used when a client is considering transferring funds from one product to another. You can use this calculator to facilitate the change (if you are representing the new product) or to discourage the change (if you are trying to conserve the old product) – assuming, of course, that you are representing the better product !! You can also use this utility to compare two different products when you are representing both products, to illustrate how each might work over the long run.

The calculator can also be used to compare alternative savings strategies, e.g., a qualified plan vs. a fully taxable alternative. It is usually most accurate and appropriate, however, when used to compare two funding alternatives of the same type (e.g. two qualified plan funds, two fully taxable alternatives, etc.).

Keep in mind that the Asset Accumulation Comparison uses simplified assumptions about tax treatments. It is not a full analysis of how a plan might be implemented, therefore, or of its long-term tax or other financial consequences, and so you should not use it in place of a product illustration or a more sophisticated tax analysis when such is called for.

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## How to Use This Calculator

In most cases, the simple approach is easiest and quite adequate. So normally use "Quick" mode (rather than year-by-year entries) to indicate cash flows and rates of return.

Start at the top of the input screen and work your way down. As you do so, certain fields and certain options will be enabled or disabled, according to what choices you make above. This will guide you in your inputs. Use the detailed instructions that follow, or press the <F1> key at any time during the input process to obtain on-line Help.

When you have finished entering all the required information, use the "Print" menu to print or preview the results, or to export the comparison data to an Excel spreadsheet (automatically named AsstComp.XLS).



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## Detailed Input Instructions

### Name

Enter the benefit recipient's name, as it should appear on the printed report.

### Date of birth (mm/dd/yyyy)

Enter the benefit recipient's date of birth in mm/dd/yyyy format.

### Starting Year for Illustration

This field will default to the current calendar year. If you want your illustration to start on a different year, enter the 4-digit calendar year.

### Cash Flow Input Mode

Two radio buttons and a "Detail" button determine the inputs for cash flow for the funds to be illustrated.

The selection of "Quick mode" means that all the cash flow will be input on this same screen. The appropriate fields in the "PAY-IN PERIOD" section and the "PAY-OUT PERIOD" section are enabled for input. This choice is appropriate when both the cash in-flows and the cash-outflows are relatively straightforward. That is, periodic inputs either do not occur, occur in a level pattern for a fixed amount of time, or increase at a certain percentage each year for a fixed amount of time. Also, periodic out-flows either do not occur, or occur in one of the patterns defined on the screen: amortization, required minimum distributions, fixed percent of starting balance, level amount, or amount increasing at a fixed rate.

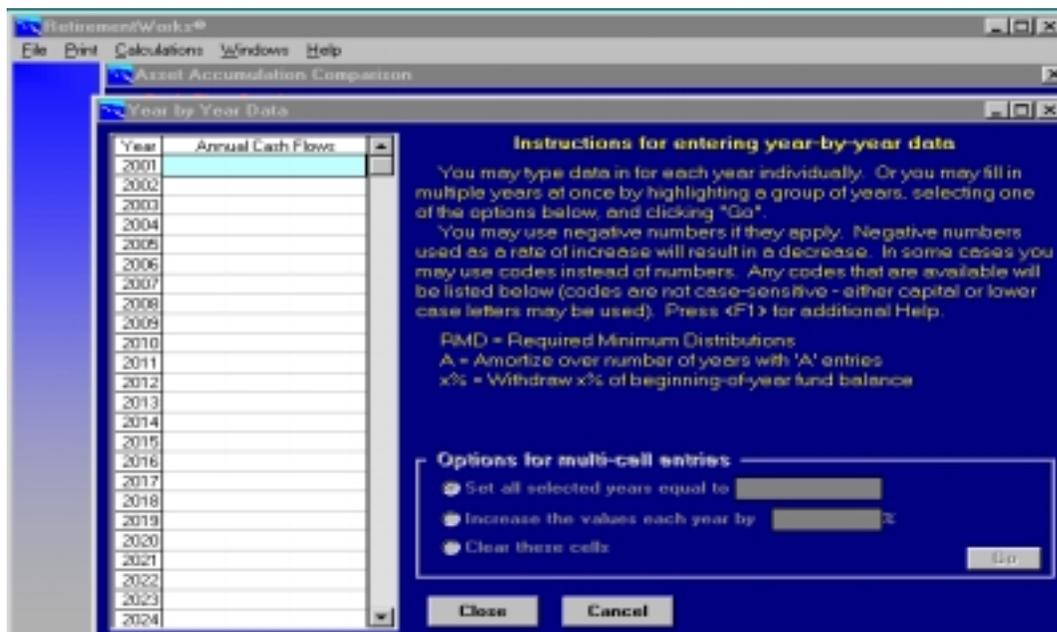
If the cash flow pattern is more complicated, click on "Year-by-year input" then "Detail" and the Year-by-year Data input screen pops up while most of the fields in the "PAY-IN PERIOD" and "PAY-OUT PERIOD" sections are disabled.

Although this method allows you to define only annual contribution amounts (not monthly or weekly, for example), it allows you to enter any amount for any year, up to sixty years into the future. You can enter contributions (positive numbers) or withdrawals (negative numbers). You may also leave any year blank. In addition, you may enter codes indicating special types of



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withdrawals: amortization, required minimum distributions, or percentage of start-of-year balance.



Note that if you use Year-by-year input, you may still specify a lump sum amount in the “Initial lump sum amount being deposited (or retained)” field. This amount will appear on the report as the opening balance for each fund, rather than as a contribution. It may also receive different treatment with regard to taxes, surrender charges, and sales charges.

### Initial lump sum amount being deposited (or retained)

This field allows you to input the current balance in a plan or product, the balance from another plan or product that might be transferred to a new plan or product, or any other amount that will be contributed as an initial lump sum.

The initial lump sum is unlike any other contribution amount in three ways:

- **Surrender/sales charges.** No sales loads will be applied to the lump sum amount, even if you specify a sales load percentage for one or both of the asset options. Instead, each of the two funding alternatives allows you to specify applicable surrender or sales charges specifically for the lump sum. If one of your



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alternatives is to leave the amount in its existing account, therefore, no surrender fee or sales charge would apply. But if you want to illustrate transferring a lump sum from an existing account to a new account, there may be surrender charges on the old account, sales loads or start-up fees on the new account, or both. These amounts should be entered in total in the "Surrender/sales charges to move initial balance" field in the "Asset Comparison Section" of the screen.

- **Non-taxable amounts.** Normal contributions are treated as taxable or non-taxable depending on the tax treatment indicated in the "Tax characteristics of asset" field. For lump sums, however, you can indicate what parts, if any, are to be treated as non-taxable, in two different ways, as explained in the following section.
- **Reporting.** On the report, the initial lump sum, net of any surrender or sales charges, will appear as the opening balance in the first year.

You can, and often should, use the "Initial lump sum amount being deposited (or retained)" field even if you are entering year-by-year cash flows, since contributions entered on the year-by-year detail will not get the special treatment described above.

### Amount of lump sum that is NON-taxable.

These fields appear next to the initial lump sum amount field, and indicate what portions of a lump sum should be treated as taxable or non-taxable.

To the immediate right of the total lump sum amount, you can enter any portion of that amount that represent new money. Except for pre-tax accounts (such as 403(b), 401(k) and 457), "new money" amounts will be treated as taxable in the first year of the illustration, and will be part of the tax cost basis.

Father to the right, you can also enter the tax basis for any portion of the lump sum that is being retained or transferred from an existing account. For qualified plans, this would mean any after-tax monies in the plan (which are unusual, but can happen). For non-qualified annuities this would mean prior contribution amounts. This field is not needed for Roth or Non-tax-advantaged accounts.

### PAY-IN PERIOD:

This section is available for input if you are not entering "Year by Year" cash flows. Enter the amount of any expected periodic payments into the plan. If payments are made more often than once a year, enter the actual amount of each payment (NOT the annual total). If



payments will increase annually, then enter the amount of the initial payment; the system will then use this as a base for future increases. A zero in this field indicates that no regular contributions are to be used. Enter the number of times each year that the contribution amount will be made. The default value is "1", indicating annual payments. Monthly payments would be "12", weekly "52", etc. Then enter the number of years during which contributions should be made. It is always assumed that contributions begin (or continue, if this is an existing fund) with the year indicated in the "Starting Year for Illustration" field, and continue without interruption for the number of years indicated here. (Keep in mind that this is the number of years, not the number of payments. For example, if you've indicated that there are 12 payments per year, entering "20" as the number of years would mean a total of 240 payments.) Next, enter the percentage, if any, by which contributions should change each year (not each payment). Leaving this field blank, or entering "0", indicates no change in contribution amounts during the pay-in period.

### **Marginal tax rate (federal + state + local) during pay-in period**

The marginal tax rate is the rate at which the next dollar of income will be taxed. The rate you enter should ideally include any applicable state and local income taxes. The rate you enter will be used, when applicable, starting from the first year of the illustration until the last year before withdrawals begin.

## **PAY-OUT PERIOD**

### **Type of pay-out**

The pay-out options, available if you are NOT inputting year-by-year cash flows, are represented by five radio buttons. They allow you to easily identify how fund withdrawals should be made.

- **None.** No withdrawals are illustrated. Note that you can still instruct the system to continue to illustrate fund growth for any desired period of time even though neither contributions nor withdrawals are being made by using the "Payments will start in year \_\_\_ and will occur \_\_\_ time(s) per year for \_\_\_ years" field.
- **Amortize.** The system will calculate and illustrate level payments made from each fund, so that the balance at the beginning of the pay-out period will be reduced to zero at the end of the pay-out period. Please note that if "Non-qualified annuity taxation" is chosen in the "Tax characteristics of asset" field at the bottom of the screen, amortization is the only pay-out option (other than "None") allowed.



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- **Required Minimum Distribution.** The system will calculate and illustrate Required Minimum Distributions during the pay-out period. Please note the following: (1) Prior to the fund owner turning age 70½, a zero distribution will be shown, even if an earlier pay-out start date is indicated. (2) Even though the first required minimum distribution may legally be postponed until the second year, the system will illustrate one distribution in the first year and one in the second year, rather than none in the first year and two in the second year. (3) The system will illustrate required minimum distributions on an annual basis, regardless of the number of times per year specified for payments to be made.
- **% of Balance.** Specify a percentage of the beginning-of-year balance to be withdrawn for each payment. Note that this percentage is per *payment*, not per year, so if you enter 5%, and have entered 12 times per year as the payout frequency, you will withdraw 60% of your fund balance in the first year!
- **\$\_\_\_\_\_ for the first payment, increasing at \_\_\_% annually.** Specify the amount of the initial payment and a rate at which this amount should increase each year. A zero or blank percentage will result in level payments throughout the payout period. Note that the amount entered is for each *payment*, not for each year.

**Payments will start in year \_\_\_\_\_ and will occur \_\_\_\_\_ time(s) per year for \_\_\_\_\_ years.**

Enter the year in which distributions should begin as a 4-digit calendar year (e.g. "2025") or as an illustration year (e.g. 25). This field will default to the first year after contributions stop, but you can change it to a different year. You can also specify withdrawals beginning before contributions stop (for example, if education funding is to be shown).

Next, enter the number of times each year that withdrawals should be made. The default value is "1", indicating annual payments. If Required Minimum Distributions have been selected, this entry must be "1".

Finally, enter the year in which distributions should end as a calendar year or as an illustration year. Note that this is the number of *years*, not the number of payments.

### **Marginal tax rate (federal + state + local) during pay-out period**

Enter the rate at which the next dollar of income will be taxed during the pay-out period once withdrawals begin. This rate should include any applicable state and/or local income taxes.



## **Name of asset**

Enter the names of the alternative funding vehicles as you want those names to appear on the report.

## **Surrender/sales charges to move initial balance**

These fields are disabled if nothing has been entered in the "Initial lump sum amount being deposited (or retained)" field.

Enter the total dollar amount of all costs involved in transferring the lump sum amount to the account being illustrated. If the amount is being transferred from one product to another, there might be surrender charges associated with the old product, broker commissions and/or sales loads or other charges for the new product. The total of all such charges for each asset should be entered here.

Generally, do not count taxes on the lump sum transfer. The software automatically handles ordinary income taxes on such transfers. However, if special tax treatment is relevant (e.g. capital gains tax), enter the amount of such tax and then indicate that the full amount of the lump sum transfer is non-taxable as ordinary income in the "Amount of lump sum that is NON-taxable" field.

## **Sales load on new contributions**

Enter the sales load percentage, if any, that applies to new contributions going into each product. If there are no such costs, leave these fields blank. The percentage entered here will apply to all contribution amounts except for those that might apply to the initial lump sum transfer.

## **Annual fee (dollar amount or percent)**

Enter the annual fee for each fund as a dollar amount or as a percent. If there is no annual fee, leave this field blank.

If you enter a dollar amount, click the dollar sign at the left edge of the field if it is not already highlighted. The same dollar amount will be applied every year of the illustration.

If you enter a percentage, click the percent sign at the right edge of the field if it is not already



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highlighted. Make sure you enter a percentage, NOT a ratio, and NOT a number of basis points (e.g. if the fee is 95 basis points a year, enter "0.95"). All percentage fees will be applied to the average of (1) the beginning balance and (2) the ending balance before fees and taxes are taken out (but after contributions, withdrawals, and fund earnings).

### Tax characteristics of asset

The four drop-down options allow you to define, in a general way, what the tax treatment of each asset should be. Note that for all options, initial lump sum amounts, other than those indicated as non-taxable in the "Amount of lump sum that is NON-taxable" field, are assumed to be subject to ordinary income taxes. In most versions of the system, the options are:

- **Qualified plan (tax deferred).** Contributions are considered to be tax-deferred. All earnings are tax-deferred. All withdrawals are considered to be taxable, except for those for which taxes were taken out in the lump sum year. In such cases, non-taxable amounts are assumed to be withdrawn first, then taxable amounts.
- **Roth / life insurance.** Contributions are considered to be fully taxable when made, with taxes illustrated as reducing the amount in the fund. All earnings are tax-deferred. All withdrawals are considered to be tax-free.
- **Non-qualified annuity.** Contributions are assumed to be fully taxable when made, with taxes illustrated as reducing the amount in the fund. All earnings are tax-deferred. Withdrawals are assumed to be partially taxable, according to the general rule for annuity taxation defined by the IRS. Please note: this option should be used only if amortization is selected in the "Type of pay-out" field.
- **No tax advantage.** Contributions are assumed to be fully taxable when made, with taxes illustrated as reducing the amount in the fund. All earnings are also taxable, at a combination of ordinary and capital gains rates: during the pay-in period, 75% capital gains & 25% ordinary; during the pay-out period, 50% for each. All withdrawals are considered to be tax-free.

### Rate of return input

In most versions of the system, the "Quick" and "Year by year" buttons and "Detail" boxes determine how rates of return for the funds will be entered.

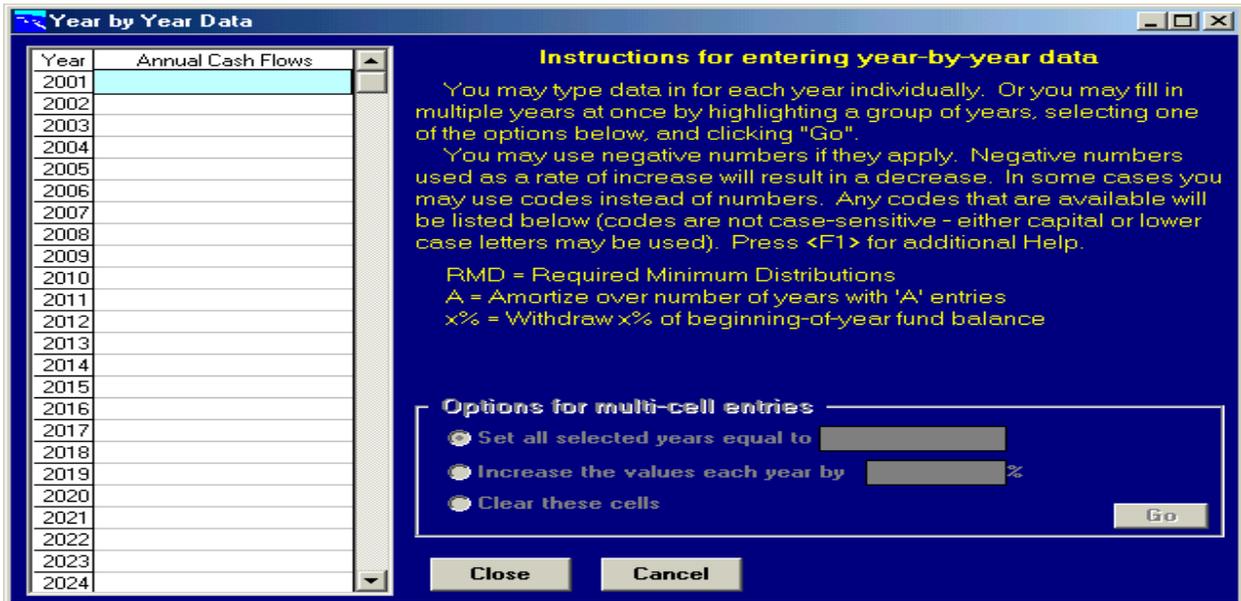
If you select "Quick" as the input mode, a single flat rate of return will be used for all years of the illustration. A separate rate of return may be entered for each of the two assets being



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illustrated, but neither may be more than "15". If you select "Quick" mode, the "Detail" boxes will be disabled.

Select "Year by year" input when the rate of return pattern is more complicated. This choice (not available in all versions of the system) will pop up a year-by-year data input screen, which allows you to enter any amount for any year, up to sixty years into the future.



Enter positive earnings (positive numbers) up to 15%, or losses (negative numbers). You can also leave any year blank. Click the appropriate "Detail" button at any time to bring back the year-by-year data for further editing.