

NaviPlan Extended 6.0b

Here's the best of its breed in the planning market.

by Joel Bruckenstein

The question you always hear is: "What's the best financial planning software package?" Of course, no planning package is ideal for every user. But I think NaviPlan Extended will appeal to many of you.

EISI, a Canadian company, created quite a buzz at the ICFP Technology and Practice Management conference a few years ago in Panama City, Florida, when they demonstrated the U.S. version of NaviPlan Extended to attendees. Since that time, the company has regularly upgraded and improved the product, and now offers two desktop-based products, NaviPlan Standard and NaviPlan Extended. Standard is a goal-based program that uses average tax rates to calculate outcomes. It is well-suited to relatively simple cases, where the planner wants to run multiple "what if" scenarios.

EISI also offers NaviPlan Online (Standard) and NaviPlan Express (a data entry platform for NaviPlan Extended, targeted at large firms who generate plans from a centralized location). An ASP version of NaviPlan Extended is slated for release later this year. NaviPlan Extended, the subject of this review, is a comprehensive financial planning package that is cash flow-driven, uses calculated income tax rates, and is capable of handling complex cases. Extended has a much-improved estate planning module, the ability to model stock options, and a Monte Carlo tool.

Set-up

Before one can do any financial planning, the user should enter the preference section and set the program defaults (which can be overridden in any plan). The general tab allows you to set retirement ages, life expectancies, inflation rates, returns on unappropriated surplus cash flows, and a cost of deficit funds. At this tab, you can also control file locations and default planning graphs. The system tab controls auto back-ups, file compacting, the auto save feature, and other options. The preference section also contains tabs labeled "return rates" and "asset classes" that require an explanation. In previous versions, NaviPlan only offered the "rate of return" method of computing returns. Each asset (such as a mutual fund or investment portfolio) was assigned rates for interest, dividends, capital gains (realized), deferred growth (unrealized capital gains), and tax-free income, as appropriate. This method worked fine, but it did not allow the program to produce true asset allocation pie charts, and it presented a problem when EISI decided to add the Monte Carlo module. As a result, NaviPlan Extended now offers a second choice for computing returns, which would seem to be the preferred method. The asset class tab allows advisors to enter up to 30 asset classes, using the same breakdown for returns. Under the asset allocation method, the planner can also enter a standard deviation for each asset class that can be used by the Monte Carlo module. When using the asset class method, planners can also construct model portfolios. Up to 15 model portfolios can be saved in the program. These portfolios are for illustrative purposes only.

They allow the planner to compare a client's current portfolio to a hypothetical model, or a number of models.

Another distinction between the new method and the old is that the return rates tab contains some system defaults to get the user going. The asset class tab is blank. EISI believes that users generally want to set their own asset classes, rates of return and standard deviations. While experienced planners will undoubtedly want to control these variables, less experienced planners may need some guidance with these inputs. It would have been nice if EISI had provided some historical data from a trusted source, if for no reason other than to let new users get comfortable with the program.

One other noteworthy feature is the "Concepts" drop-down menu. Concepts lets you easily answer general questions about future purchasing power, cost of living, inflation history, and historical rates of return for stocks, bonds and bills. The information is available in both table and graph formats, and can be easily printed for presentation to the client. The concept menu also contains a number of useful calculators, such as a loan calculator, two retirement calculators, a goal calculator, and an education goal calculator, and a Roth vs. Traditional IRA calculator. While obviously not comprehensive, these tools are useful for answering questions during client meetings and illustrating basic scenarios.

The Program

One of the outstanding design features of NaviPlan is its graphical desktop. When you set up a new client, a file cabinet is created for the client. A file folder represents every plan that you create. Individual documents, concepts, reports, etc. are each represented by an icon on the desktop. Once you have created a document that you wish to print, simply drag and drop it on the printer. For instance, if you have entered data in a plan file, and you wish to create a cash flow analysis, simply drag the folder onto the cash flow analysis document package.

The data entry interface is sensibly laid out and easy to follow. In many cases, the planner has the option of entering the minimum required information, or clicking on a button to enter more detailed information.

EISI recommends that planners enter all current client information in an initial folder called the "base plan." The base plan remains "as is" on the desktop once the information is entered, and then the plan is duplicated. Planning strategies are performed on the duplicated plan, so you have "before" and "after" plans that can be compared. EISI's recommended methodology is to build one strategy upon another, thereby isolating each change you make. For example, once you've completed and duplicated the base plan, you might add a "retirement savings strategy," directing a portion of yearly excess cash flow to qualified plans. You would then duplicate the "retirement savings strategy" and build an "estate planning strategy" on the retirement plan. After you're finished with your planning, you would file some of the intermediate plans in the file cabinet, and leave the ones you want for client presentations on the desktop.

NaviPlan Extended contains a number of tools that aid in the planning process. When base plan (or subsequent plan) data entry is complete, the program displays by default a “Current and Accumulated Surplus/Deficit” graph and Net Worth graph. Other graphs are available, but we recommend that you work with the default graphs until you become more familiar with the program. These graphs are interactive. The user can click on a datapoint for further detail.

The default graphs let you immediately spot cash flow problems and visualize a client’s projected net worth at any time. NaviPlan contains a number of assistants to help you deal with problems. The Planning Assistant will examine a number of areas, such as incomes, expenses, assets, liabilities, savings, taxes and life insurance, highlighting any potential problems it finds. If it appears, for example, that a client will have an AMT tax liability some time in the future, the Planning Assistant warns you. If a client is saving in future years, but has not made an IRA contribution, the Planning Assistant tells you. If you wish to perform a life insurance needs analysis, the assistant does it for you. If you have not allocated funds for burial expenses, you are warned to do so.

The cash flow assistant helps you plan future cash flows, but in order to make full use of this feature, it is necessary to itemize expense items. For example, when entering expense data, you have a choice of lumping all lifestyle expenses together, or breaking them down. If you’re confident that your client doesn’t have any budgeting problems that need to be addressed, lumping expenses together will save time. If you anticipate creating a detailed budget for your client, however, you need to itemize so that the cash flow assistant can provide you with the required details.

Strengths

One thing that I like in particular about this program is that the output is highly customizable. If you don’t like the way the fact-finder looks, you can export it to MS Word (or another program), and enter your own graphics. Is there a piece of data that you generally require that’s missing from the template? Just add it. When you have the document looking the way you want it to, rename it and save it as a MS Word document. Client reports can be customized in much the same way. If you wish, you can add lines of text to a report, or if you want to add additional sections of text, the Export feature allows you to customize easily. Once a plan is completed, you can generate about 115 preformatted reports.

Because documents can easily be exported to MS Word, it’s easy to e-mail them. If a client calls or e-mails you with a quick question, or requests a specific report, you can respond quickly.

You can create text notes, and associate them with a client, or with a specific client plan (to access this feature select File...New...Text Document). If you link them to a specific client plan, the color-coding of the note will match the color of the plan.

Another nice usability feature is the future returns tab, located in the assets section. If you want to assume one rate of return from now until retirement, for instance, and a different rate of return following retirement, this tab simplifies the process

The options module does a credible job of tracking employee stock options and modeling scenarios. NaviPlan does not track the \$100,000 ISO limit, but it clearly warns the user of it.

Customer and technical support are two essential areas where EISI gets high marks. In our opinion, they are the gold standard of the industry. The company habitually logs calls, noting common questions, requests for new features and other pertinent information. The frequently-requested features are invariably incorporated into updates. Technical questions are generally answered in a professional manner. When a feature in the program generates a large volume of calls, additional printed instructions are compiled that can be e-mailed to registered users upon request.

Product training is available through a number of channels, including live training seminars, webcasts, and CD-ROM tutorials.

Weaknesses

The Monte Carlo module, which was recently added, still needs work. You can use it as an education tool, to illustrate concepts, but I wouldn't use it as a planning tool yet. The program offers two methods of Monte Carlo analysis. If you've used the asset class method of calculating returns and entered a standard deviation for each asset, the program can be instructed to use your assumptions. If you chose the alternate method of calculating returns, or if you failed to enter standard deviations for the asset classes, the program can be instructed to use the system default method. In either case, it appears to us that the model has faults. The default number of trials is 25, which may lead some inexperienced users to believe that such a low number can produce meaningful results (it cannot). Running 5,000-10,000 trials, a more reasonable number, will take hours. We also have a problem with sampling methodology for drawing the random numbers. There are a number of other minor problems and/or omissions that we hope EISI will address. Currently, the program does not allow for a 529 plan savings option in the education module. EISI has updated the lifetime IRA distribution schedules, but they retain the old labels. We noticed that the planning assistant sometimes alerts you to contribute to an IRA when the client is not eligible. When producing pie chart graphs to compare existing assets to a suggested model portfolio, the colors representing the various assets don't always match (but this is easy to adjust). Also, the program needs a stronger audit trail. Creating your own customized document packages is possible, but challenging (EISI will do it for a reasonable fee). Default Standard deviations entered under the "preferences" don't always carry over into the plan.

The program has a few additional quirks that experienced users need to be aware of. One is the way it handles capital gains. Except with mutual funds, the program assumes that capital gains are short-term. Long-term gains should be entered as "deferred growth."

In the case of mutual funds, the program treats capital gains as long-term realized gains. (Short-term gains must be entered as ordinary income.) This isn't a problem as long as you're aware of it, but it's not readily apparent.

Another minor problem is that when you enter a new asset through the strategies section, you can't assign it to an asset class. Avoid using this shortcut, and you won't have a problem.

One aspect of Education planning can create confusion. The default choice on the cash flow graph only includes the husband and wife. Since education spending is associated with the children, the cash flow graph will display misleading numbers when the education module is used unless you modify the default settings on the graph.

We expect fixes and improvements over the next few months. An improved version, which apparently addresses many of our concerns, was scheduled for release next month, but we understand that it is being postponed to incorporate tax law changes.

With this list of weaknesses, it may come as a surprise that we are awarding NaviPlan Extended our highest recommendation. In all fairness, we have been particularly hard on NaviPlan because we are recommending it so highly. Our preparation for this review dug even deeper into the program than we generally do, not only expending an extraordinary amount of time with the program ourselves, but also attending a beginner's seminar and an advanced seminar to gauge user experiences and reactions. We want you to know that we recommend the program in spite of what we found, not because we missed something, but because we have found the blemishes, and we can live with them.

The program has become somewhat more complex as features have been added, but we think it is still relatively easy to learn. EISI has done an excellent job of producing training materials, easing the pain for novice users. Experienced users should find NaviPlan capable of handling most situations they come across. With the exception of the Monte Carlo module (which we think can be easily improved), and the auditing capabilities (which should be strengthened), this program is as good as it gets for the mainstream user.

-From the **Inside Information** Web site, May 2001, at www.bobveres.com.

Licensed NaviPlan users are eligible for a free three-month trial to the **Inside Information** Web site. Just e-mail bobveres@yahoo.com and mention this article!