LUCAS FETTES

Cash flow planning:
a brief guide

Cash flow planning and forecasting is key to understanding what you can achieve with your assets. It enables you to predict your future cash needs using a number of realistic assumptions to see if you are likely to run out of money and if so when.

A comprehensive financial plan should ensure the 3 main components of financial planning are working together, regularly reviewing and monitoring the plan to ensure everything is on track.

The benefits of cash flow planning

Cash flow planning provides:

- peace of mind that you won't run out of money or alternatively a realistic view of what you can afford
- details of where the money goes, making it clear what is core/essential and what is lifestyle/discretionary – 'nice to haves'
- a way to identify where and when shortfalls may occur in your income in the future, helping you to prioritise larger expenditure items like holidays, changing car or a home extension
- in the event that you have surplus assets, an understanding of how much you might be able to afford to give away without running out of money
- a good insight into what is affordable for regular savings and retirement planning
- an assessment of whether your future income targets are realistic or not
- the ability to select the assets that will be needed to meet your goals
- an understanding of what growth is required each year to achieve your goals
- the ability to see the effect of a decision on expenditure before you commit which removes the element of uncertainty; and
- a way to achieve those age related financial planning milestones.

Identify clear targets and goals

It is important to set clear targets and goals in order to ascertain whether you have enough money, and if not, when you are likely to run out.

Considering your assets and income sources

Having established your key goals, the next step is to look at what assets and income sources are available to you, to achieve your targets.

These might include, for example:

- Regular income from salary, other work related income, rental income, state pensions, final salary pensions, annuities, etc.
- Capital sums from sale of businesses, downsizing of your home, sale of other properties, inheritance, etc.
- Existing assets available to aid you in achieving your objectives, such as pensions, investments, rental properties, holiday homes, businesses, etc.

Creating a plan

This information can be used to create a realistic plan to help you deal with any shortfall and to try and ensure you have the assets needed to last throughout your lifetime.

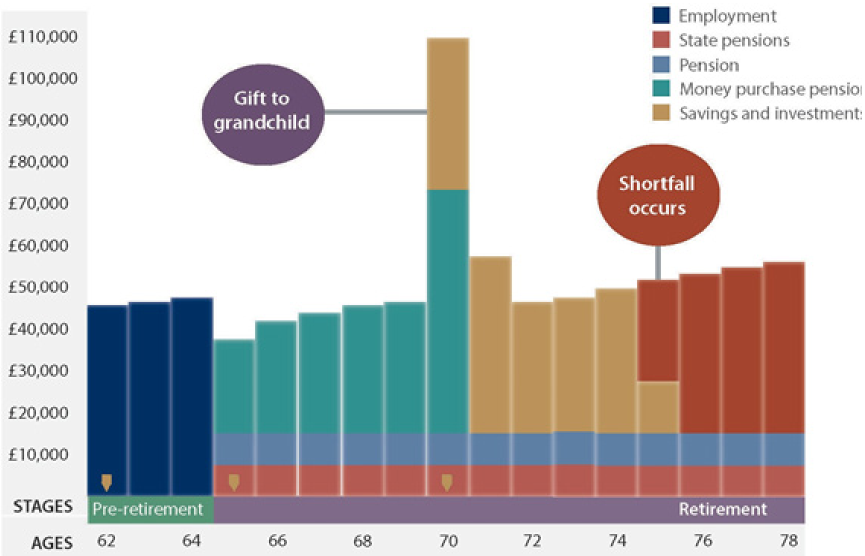
A good plan will detail how much extra you might need to save, or if you need to consider taking more risk to try and achieve a higher return. It will also consider the tax wrappers you could use to make sure your monies are invested and any withdrawals are made as tax efficiently as possible. This will help your assets last longer (please see our tax planning guide for further information about this).

Case study

Fred
Age 62, widowed

Wants	**Assets available**	**Known future income**
To retire at 65	Invested ISA £150,000	State pension: £8,088
Ideally on a net income of £35,000	Money purchase pension £175,000	Final salary pension: £8,000
To help his grandchild buy a house in 8 years time by gifting £50,000		

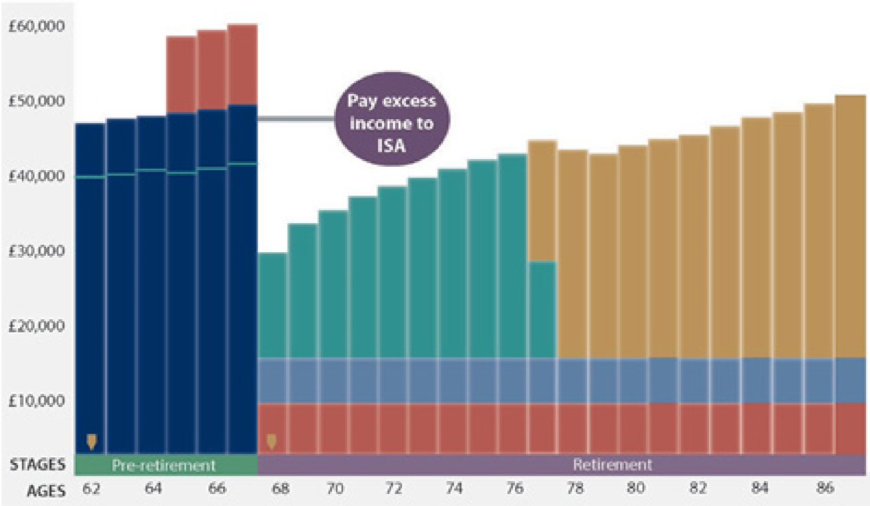
Based on Fred's needs and financial objectives, analysis1 indicates that a shortfall of income will occur by age 75 (shown as red in the chart), at this point he will be reliant on his final salary pension and state pension only.



Using our projections we can calculate that in order for his assets to last until he reaches age 90, he needs to either invest a further £527,344 now (which is impractical), or target an annual return of 8.28% per year.

1 *The analysis makes a number of assumptions, including that his pension and ISA funds will have a real return of 1.88% per year and inflation will be 2.93% per year. The figures produced are calculated based on actuarial data and are designed to be as accurate as possible. They cannot of course be guaranteed and over time growth, inflation and tax will vary considerably as might your goals.*

Alternatively, Fred could defer his planned retirement to age 68, forgo the gift to his grandchild and reduce his target net income to £27,000 per year whilst sweeping all available income after expenses to his ISA between now and age 68.



He could defer, or phase, his retirement. He also has the option of downsizing his home in later years which could free up further capital to support his income.

This case study is designed to highlight the range of potential options open to Fred. Part of the role of an independent financial adviser is to determine which option, or which combination of options, is most appropriate, and determine the way forward. Cash flow planning should be undertaken as early as possible so that any forecasted shortfall can be addressed.

Of course, a financial plan needs to be reviewed and updated periodically in light of any changes to your objectives, new legislation, the actual growth achieved, inflation and tax.

Contact us

If you would like further information on any of the above services or how we can help you, please do not hesitate to contact your Lucas Fettes Financial Planning adviser, call us on **01603 706 820** or email **info@lffp.co.uk**.

www.lffinancialplanning.co.uk

LUCAS FETTES