

# Financial Illustration

**Prepared for:**

Mr & Mrs X Ample

Prepared by:

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**Paraplanning Online**

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## Cashflow Model

This plan has been prepared using your current financial position as a starting point which is then projected forward into the future using the planned income, expenditure, savings, investments, loans and assets. A number of different outcomes can be considered as part of the cashflow planning process representing different assumptions, expectations or choices you make in your planning.

Cashflow modelling is designed to illustrate the financial outcome(s) resulting from a specific set of choices and demonstrate if you have insufficient wealth to meet all of your objectives or that you have surplus wealth which continues to increase throughout your life. This information will help you make informed decisions about your future including reducing or increasing expenditure, changing your investment strategy, realising assets, or protecting your estate.

### Asset Rich Cash Poor - No Change

Having worked hard all of your lives you each plan to retire at age 65. You are worried however for your future retirement years as your savings, investments and pensions are quite modest. You expect your standard of living to reduce compared to now on account of a large drop in income when you stop work.

You are open to downsizing from your current home as your children have left and you find you don't need all the space that you have now or maybe renting. You would like to know if your home was sold at age 65 when the current mortgage ends, what would be the benefit to your living standards by using the proceeds to invest and generate an income.

Your current financial circumstances are:

- (Mr) will receive a full state pension at age 65
- (Mrs) will receive a part state pension at age 65
- (Mr) has 1 small personal pension plan. (Mrs) has no pensions.
- Your outstanding mortgage is £12,000 and due to be repaid at age 65 and your home is valued at £380,000
- You would like to have a joint income of £1,500 per month in retirement which could reduce after 10 years
- Your savings total £8000

Events modelled in this illustration:

- You make no changes to your financial plans and you each live for another 30 years
- Reflect everything planned where no unforeseen events occur

### Basic Information

<b>Illustration</b>	63 to 93
<b>Retirement Age</b>	65
<b>State Pension Age</b>	65
<b>Inflation Rate</b>	2% per annum
<b>Initial Cash</b>	£8000
<b>Interest Rate</b>	1% per annum

## General assumptions:

- The validity of any projection or plan is only as good as the input assumptions and values used to create it
- Figures shown may fluctuate in reality and could have a significant positive or negative effect on your finances
- Regularly reviewing the cashflow reports and the assumptions used will increase the accuracy of the forecasted outcomes

## Income

	From	To	Amount	Frequency	Adjust
Job Income (Mr)	63	64	£18000	Annually	By Inflation
Job Income (Mrs)	63	64	£15000	Annually	By Inflation
State Pension (Mr)	65	93	£7488	Annually	By Inflation
State Pension (Mrs)	65	93	£4800	Annually	By Inflation
Annuity Income	65	93	£640	Annually	By Inflation

## Spending

	From	To	Amount	Frequency	Adjust
Living Expenses	63	64	£1200	Monthly	By Inflation
	Then	75	£1500	Monthly	
	Then	93	£1200	Monthly	
Annuity Purchase	At	65	£12000	Single	

## Assumptions about spending:

- Spending figures up to age 65 exclude mortgage repayments which are accounted for within the loans section of this illustration
- The spending figures shown are based on your current spending habits today and cannot predict what you will actually spend at retirement

## Investments

PPP			
Initial Value	£16000		
Capital Gain	By Inflation		
Income	0% pa Re-invested		
	From	To	Activity
Tax Free Cash L/S	At	65	Withdraw £4000 Single
Annuity Purchase	At	65	Withdraw £12000 Single

## Loans

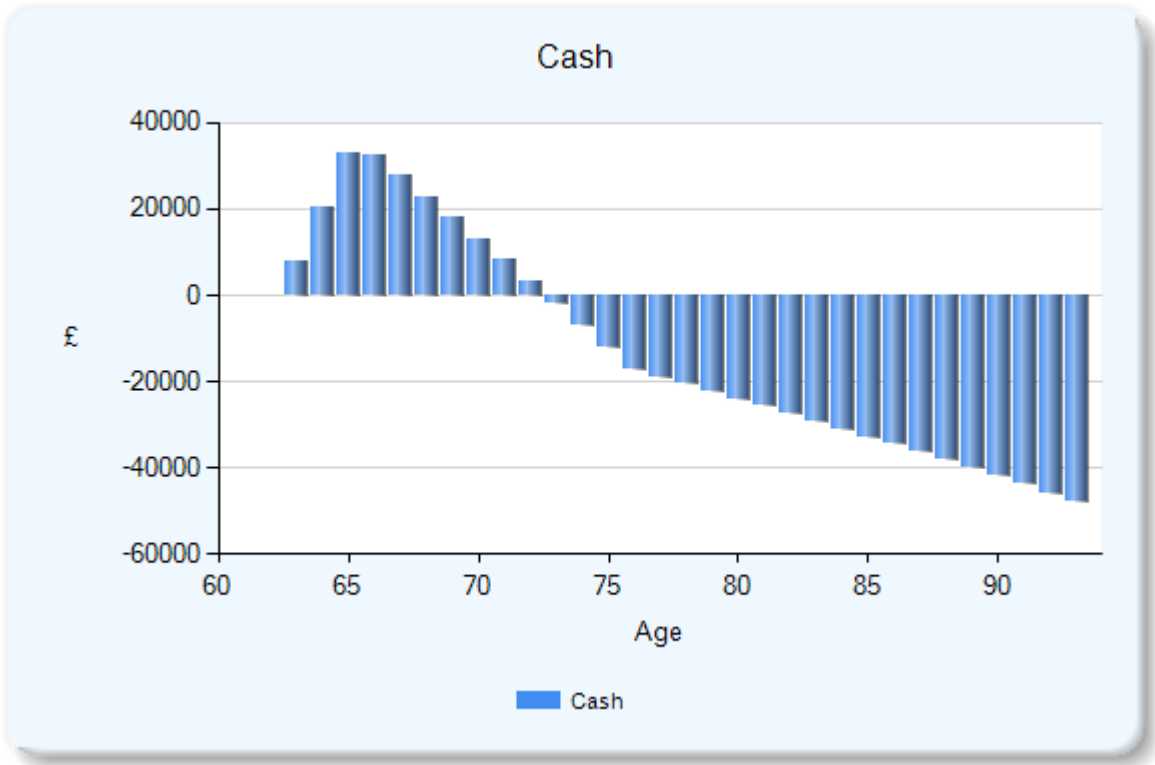
Mortgage			
Initial Value	£12000		
Interest	3% pa Added to Loan		
	From	To	Activity
Mortgage Repayments	63	64	Repay £531.25 Monthly

## Assets

	Value	Buy & Sell
Home	£380000	rising with inflation

**Cash** - A summary of your opening and closing cash balances for each year is shown below.

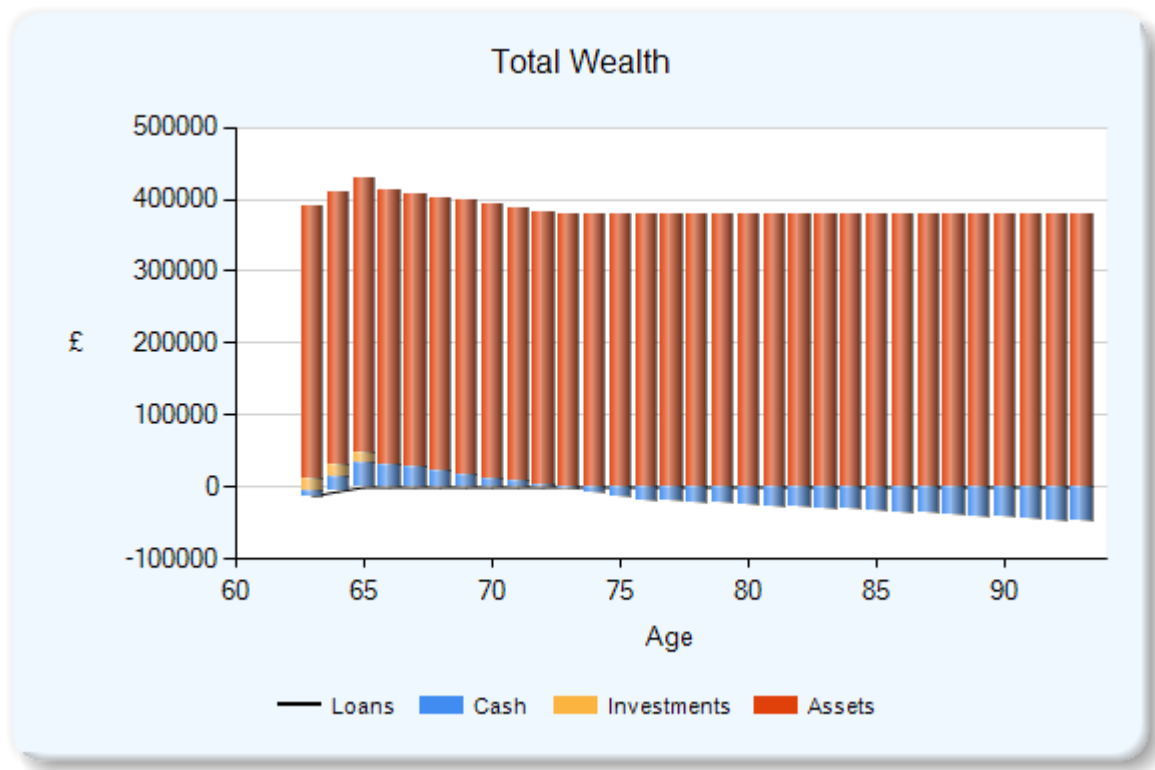
Age	Opening	Incomes	Spending	Investments	Loans	Assets	Closing
63	8000	+33000	-14400	+80	-6375	+0	=20305
64	20305	+33000	-14400	+203	-6041	+0	=33067
65	33067	+12928	-30000	+16331	+0	+0	=32325
66	32325	+12928	-18000	+323	+0	+0	=27577
67	27577	+12928	-18000	+276	+0	+0	=22780
68	22780	+12928	-18000	+228	+0	+0	=17936
69	17936	+12928	-18000	+179	+0	+0	=13044
70	13044	+12928	-18000	+130	+0	+0	=8102
71	8102	+12928	-18000	+81	+0	+0	=3111
72	3111	+12928	-18000	+31	+0	+0	=-1930
73	-1930	+12928	-18000	-19	+0	+0	=-7021
74	-7021	+12928	-18000	-70	+0	+0	=-12163
75	-12163	+12928	-18000	-122	+0	+0	=-17357
76	-17357	+12928	-14400	-174	+0	+0	=-19002
77	-19002	+12928	-14400	-190	+0	+0	=-20665
78	-20665	+12928	-14400	-207	+0	+0	=-22343
79	-22343	+12928	-14400	-223	+0	+0	=-24039
80	-24039	+12928	-14400	-240	+0	+0	=-25751
81	-25751	+12928	-14400	-258	+0	+0	=-27480
82	-27480	+12928	-14400	-275	+0	+0	=-29227
83	-29227	+12928	-14400	-292	+0	+0	=-30992
84	-30992	+12928	-14400	-310	+0	+0	=-32773
85	-32773	+12928	-14400	-328	+0	+0	=-34573
86	-34573	+12928	-14400	-346	+0	+0	=-36391
87	-36391	+12928	-14400	-364	+0	+0	=-38227
88	-38227	+12928	-14400	-382	+0	+0	=-40081
89	-40081	+12928	-14400	-401	+0	+0	=-41954
90	-41954	+12928	-14400	-420	+0	+0	=-43845
91	-43845	+12928	-14400	-438	+0	+0	=-45756
92	-45756	+12928	-14400	-458	+0	+0	=-47685
93	-47685	+12928	-14400	-477	+0	+0	=-49634



**Wealth** - A summary of your total wealth is split between cash, investment and values taking into account any loan debt.

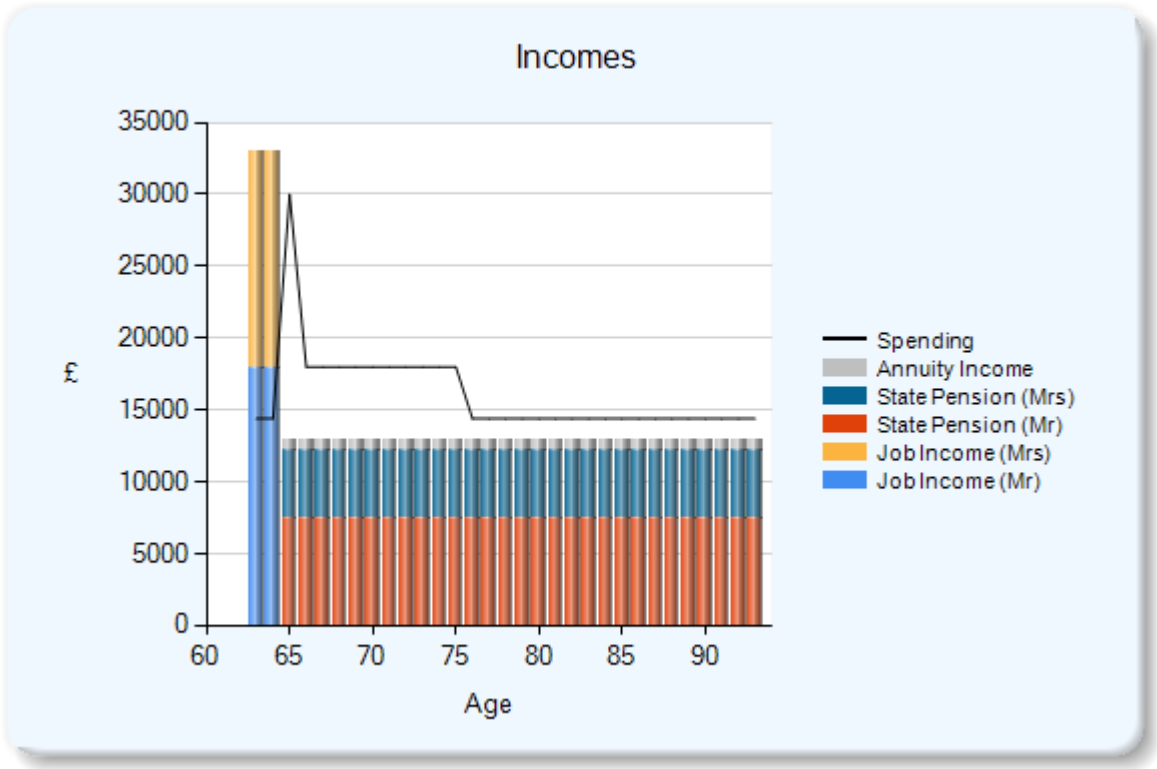
Age	Cash	Investments	Loans	Assets	Total
63	8000	16000	-12360	380000	391640
64	20305	16000	-6041	380000	410264
65	33067	16000	0	380000	429067
66	32325	0	0	380000	412325
67	27577	0	0	380000	407577
68	22780	0	0	380000	402780
69	17936	0	0	380000	397936
70	13044	0	0	380000	393044
71	8102	0	0	380000	388102
72	3111	0	0	380000	383111
73	-1930	0	0	380000	378070
74	-7021	0	0	380000	372979
75	-12163	0	0	380000	367837
76	-17357	0	0	380000	362643
77	-19002	0	0	380000	360998
78	-20665	0	0	380000	359335
79	-22343	0	0	380000	357657
80	-24039	0	0	380000	355961
81	-25751	0	0	380000	354249
82	-27480	0	0	380000	352520
83	-29227	0	0	380000	350773
84	-30992	0	0	380000	349008
85	-32773	0	0	380000	347227
86	-34573	0	0	380000	345427
87	-36391	0	0	380000	343609
88	-38227	0	0	380000	341773
89	-40081	0	0	380000	339919

90	-41954	0	0	380000	338046
91	-43845	0	0	380000	336155
92	-45756	0	0	380000	334244
93	-47685	0	0	380000	332315



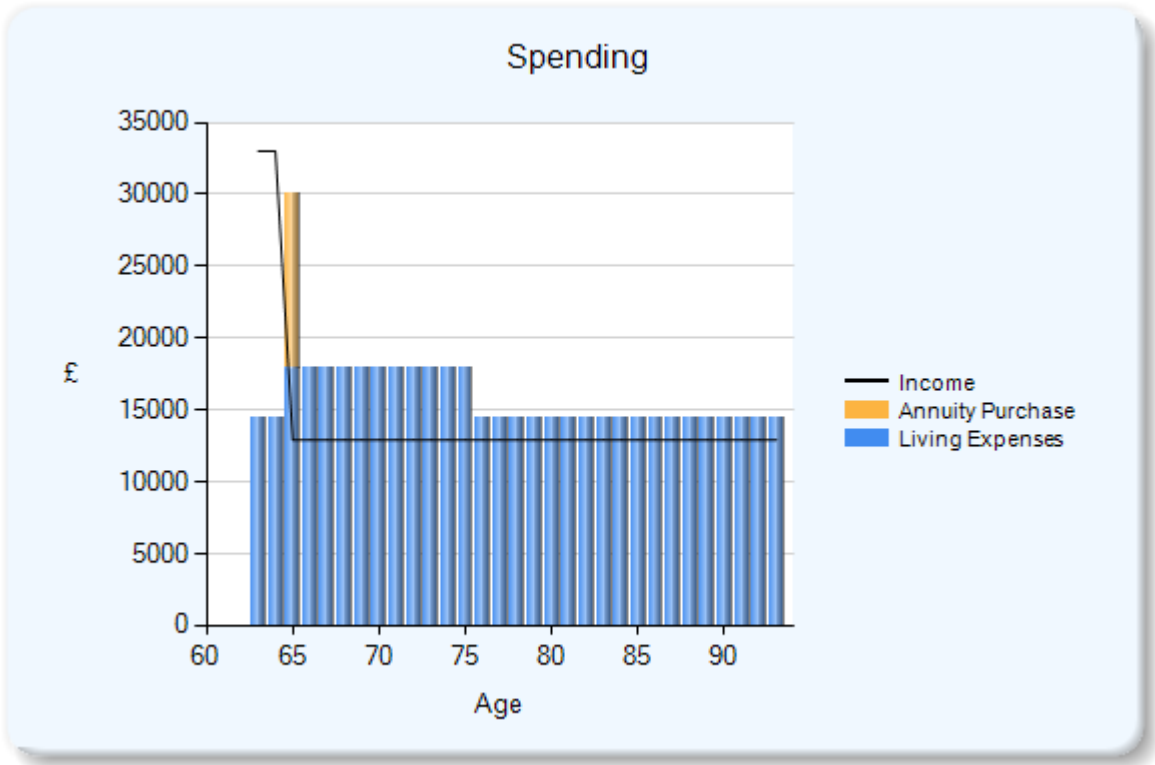
**Incomes** - A summary of your current income streams and future estimated income streams is shown below.

Age	Job Income (Mr)	Job Income (Mrs)	State Pension (Mr)	State Pension (Mrs)	Annuity Income	Total
63	18000	15000	0	0	0	33000
64	18000	15000	0	0	0	33000
65	0	0	7488	4800	640	12928
	Values repeating until					
93	0	0	7488	4800	640	12928

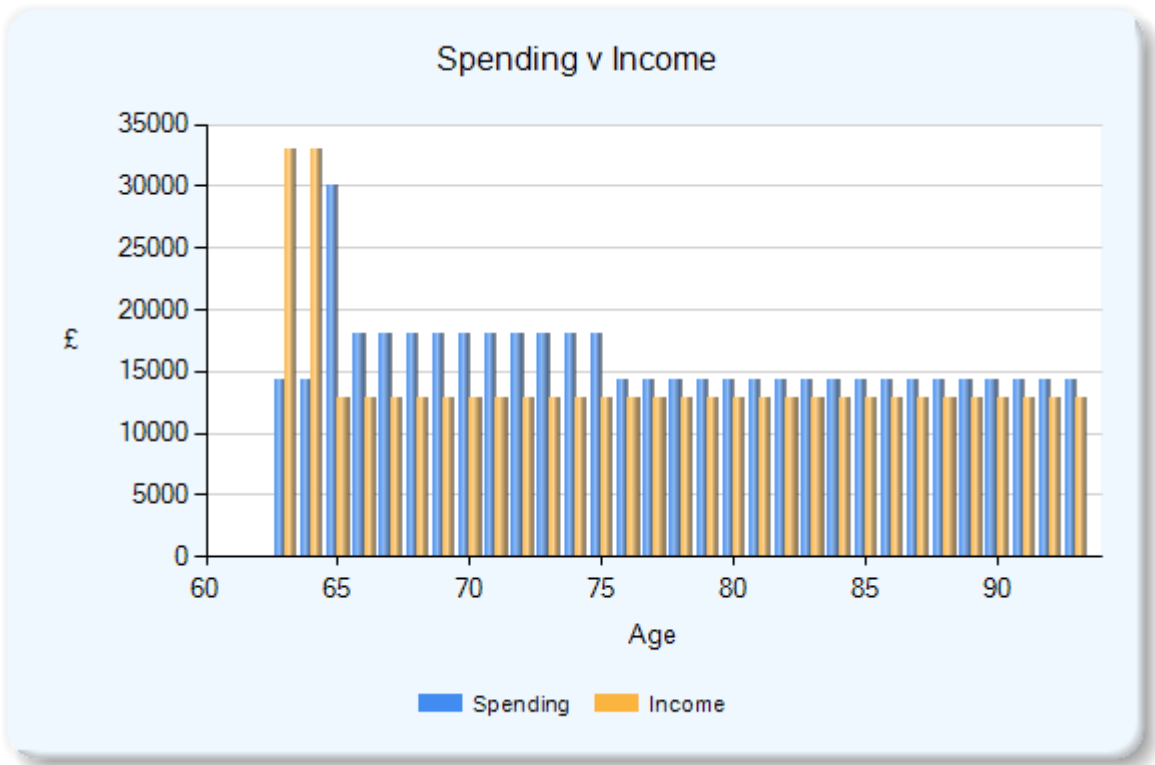


**Spending** - A summary of your current spending and future estimated spending is shown below.

Age	Living Expenses	Annuity Purchase	Total
63	14400	0	14400
64	14400	0	14400
65	18000	12000	30000
66	18000	0	18000
	Values repeating until		
76	14400	0	14400
	Values repeating until		
93	14400	0	14400



**Spending v Income** - A comparison of spending versus income is shown below.

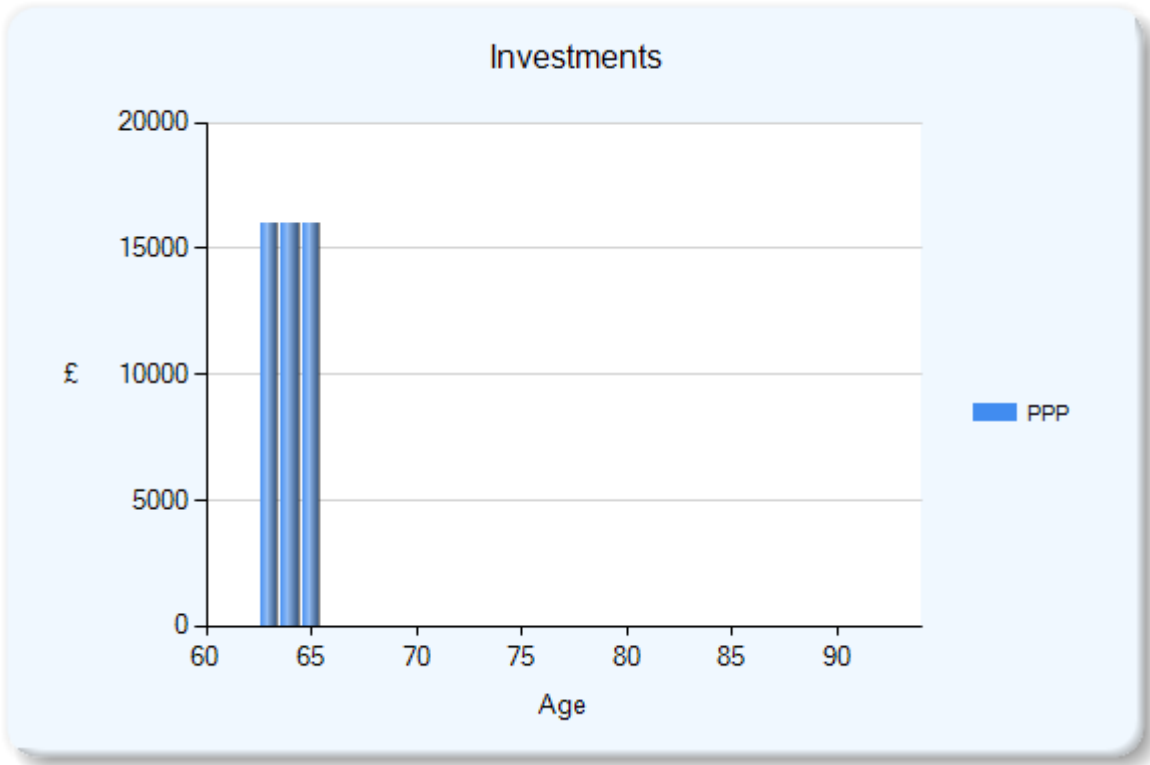


**Investments** - A summary of your current investment values and the projected changes to these as a result of new contributions or withdrawals is shown below.

Age	PPP	Total
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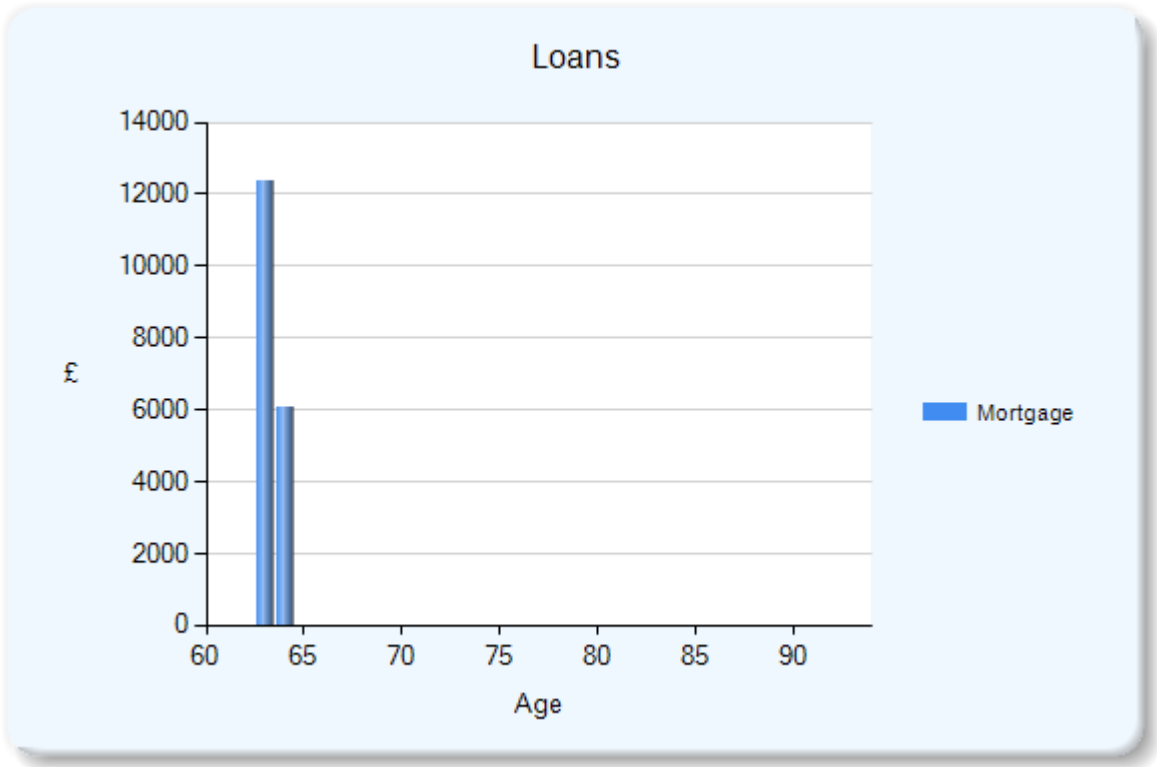


63	16000	16000
	Values repeating until	
66	0	0
	Values repeating until	
93	0	0



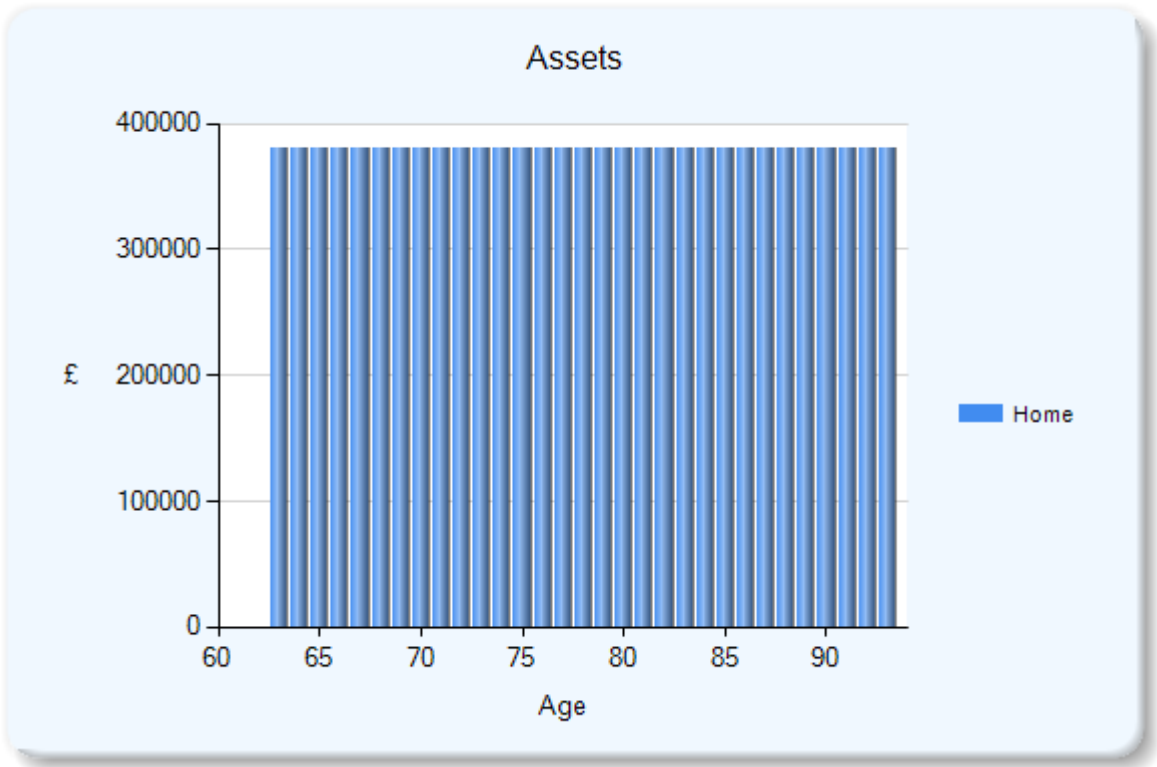
**Loans -**

Age	Mortgage	Total
63	12360	12360
64	6041	6041
65	0	0
	Values repeating until	
93	0	0



**Assets** - A summary of your current asset values and the projected changes to these as a result of future sales and acquisitions is shown below.

Age	Home	Total
63	380000	380000
Values repeating until		
93	380000	380000



## **Conclusion**

This cashflow analysis shows that you were right to worry about your living standards in retirement as your modest pension income and savings is insufficient to sustain your planned levels of expenditure. A change in your financial position is required if you are to avoid running out of money at age 73. You should consider reducing expenditure or releasing equity from your property to generate an additional income. You stated that reducing expenditure is not an option and therefore asked for an illustration based on downsizing in retirement and investing part of the sale proceeds. An illustration of this scenario follows.

# Cashflow Model

## Downsize - Age 65

Your personal and financial circumstances remain unchanged but you would like to consider the financial benefits of downsizing to a smaller property and using the balance of the sale proceeds to improve your income in retirement.

### Events modelled in this illustration:

- Basic information is unchanged from the initial scenario
- You sell your current home at age 65 for its valuation and purchase a bungalow with £250k of the sale proceeds
- You invest the balance of the sale proceeds for an income
- Reflect everything planned where no unforeseen events occur
- You each live for another 30 years until age 93

### Income

	From	To	Amount	Frequency	Adjust
Job Income (Mr)	63	64	£18000	Annually	By Inflation
Job Income (Mrs)	63	64	£15000	Annually	By Inflation
State Pension (Mr)	65	93	£7488	Annually	By Inflation
State Pension (Mrs)	65	93	£4800	Annually	By Inflation
Annuity Income	65	93	£640	Annually	By Inflation

### Spending

	From	To	Amount	Frequency	Adjust
Living Expenses	63	64	£1200	Monthly	By Inflation
	Then	75	£1500	Monthly	
	Then	93	£1200	Monthly	
Annuity Purchase	At	65	£12000	Single	

### Investments

PPP			
Initial Value	£16000		
Capital Gain	By Inflation		
Income	0% pa Re-invested		
	From	To	Activity
Tax Free Cash L/S	At	65	Withdraw £4000 Single
Annuity Purchase	At	65	Withdraw £12000 Single

NISA x 2			
Initial Value	£0		
Capital Gain	4% pa		
Income	5% pa Paid Out		
	From	To	Activity
Invest at age 65	At	65	Additional £30480 Single

<b>GIA</b>			
<b>Initial Value</b>	£0		
<b>Capital Gain</b>	3% pa		
<b>Income</b>	5% pa	Paid Out	
	<b>From</b>	<b>To</b>	<b>Activity</b>
<b>Invest at age 65</b>	At	65	Additional £99520 Single

Assumptions about spending:

- The income paid out from investments has been set at 5% p.a.

<b>Mortgage</b>			
<b>Initial Value</b>	£12000		
<b>Interest</b>	3% pa	Added to Loan	
	<b>From</b>	<b>To</b>	<b>Activity</b>
<b>Mortgage Repayments</b>	63	64	Repay £531.25 Monthly

## Assets

	<b>Value</b>	<b>Buy &amp; Sell</b>
<b>Current Home</b>	£380000 rising with inflation	Sell at 65 & realise 100% of then value
<b>New Bungalow</b>	£250000 rising with inflation	Buy at 65

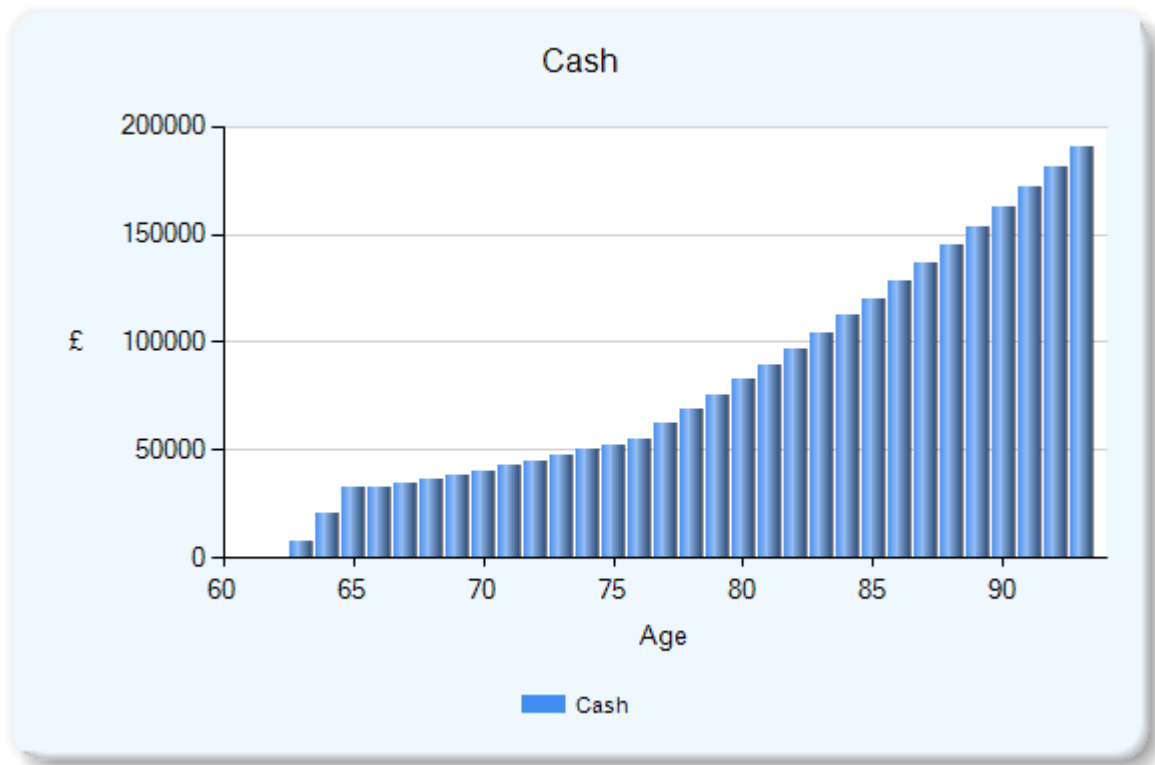
Assumptions about assets:

- No account has been taken of the sale and purchase costs of these assets in this illustration.

**Cash** - A summary of your opening and closing cash balances for each year is shown below.

Age	Opening	Incomes	Spending	Investments	Loans	Assets	Closing
63	8000	+33000	-14400	+80	-6375	+0	=20305
64	20305	+33000	-14400	+203	-6041	+0	=33067
65	33067	+12928	-30000	-113669	+0	+130000	=32325
66	32325	+12928	-18000	+6903	+0	+0	=34157
67	34157	+12928	-18000	+7003	+0	+0	=36088
68	36088	+12928	-18000	+7105	+0	+0	=38121
69	38121	+12928	-18000	+7209	+0	+0	=40258
70	40258	+12928	-18000	+7315	+0	+0	=42501
71	42501	+12928	-18000	+7423	+0	+0	=44852
72	44852	+12928	-18000	+7534	+0	+0	=47314
73	47314	+12928	-18000	+7647	+0	+0	=49889
74	49889	+12928	-18000	+7762	+0	+0	=52580
75	52580	+12928	-18000	+7880	+0	+0	=55388
76	55388	+12928	-14400	+8000	+0	+0	=61916
77	61916	+12928	-14400	+8159	+0	+0	=68603
78	68603	+12928	-14400	+8321	+0	+0	=75452
79	75452	+12928	-14400	+8485	+0	+0	=82465
80	82465	+12928	-14400	+8653	+0	+0	=89646
81	89646	+12928	-14400	+8823	+0	+0	=96997
82	96997	+12928	-14400	+8997	+0	+0	=104522
83	104522	+12928	-14400	+9174	+0	+0	=112224
84	112224	+12928	-14400	+9354	+0	+0	=120106
85	120106	+12928	-14400	+9537	+0	+0	=128172
86	128172	+12928	-14400	+9724	+0	+0	=136424
87	136424	+12928	-14400	+9914	+0	+0	=144866

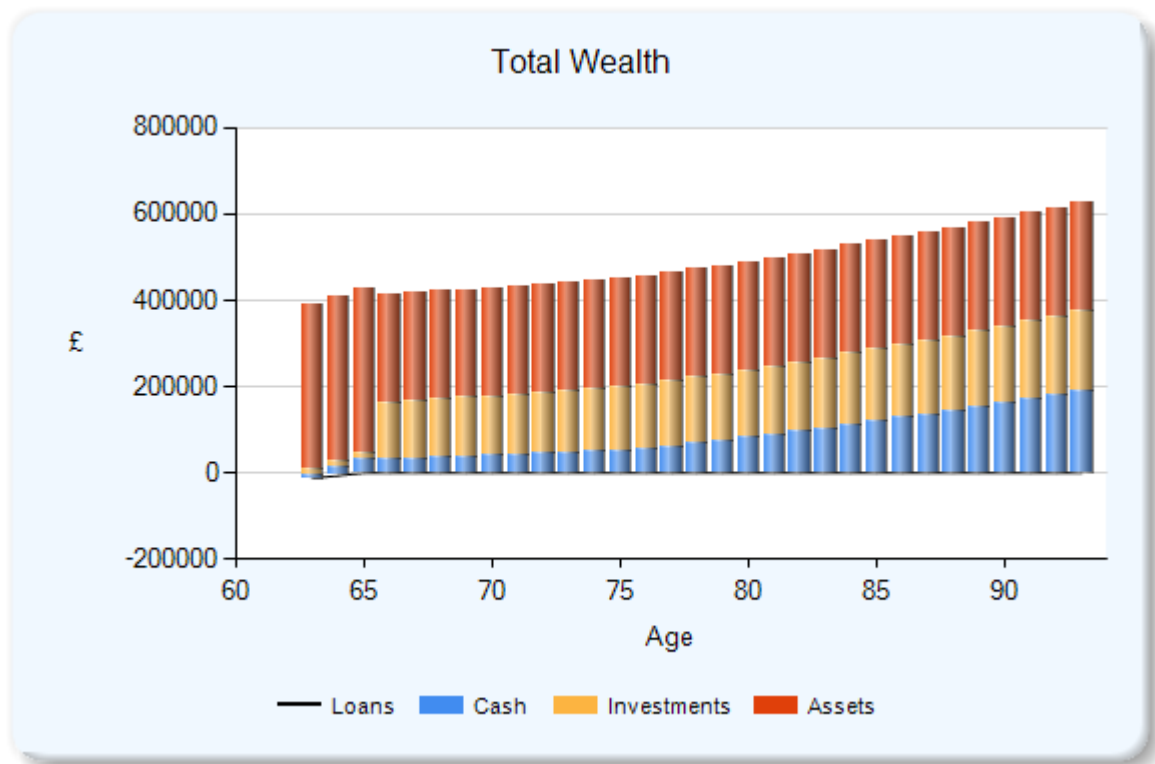
88	144866	+12928	-14400	+10107	+0	+0	=153501
89	153501	+12928	-14400	+10304	+0	+0	=162333
90	162333	+12928	-14400	+10505	+0	+0	=171366
91	171366	+12928	-14400	+10709	+0	+0	=180604
92	180604	+12928	-14400	+10917	+0	+0	=190049
93	190049	+12928	-14400	+11129	+0	+0	=199705



**Wealth** - A summary of your total wealth is split between cash, investment and values taking into account any loan debt.

Age	Cash	Investments	Loans	Assets	Total
63	8000	16000	-12360	380000	391640
64	20305	16000	-6041	380000	410264
65	33067	16000	0	380000	429067
66	32325	131605	0	250000	413930
67	34157	133232	0	250000	417389
68	36088	134881	0	250000	420969
69	38121	136553	0	250000	424674
70	40258	138249	0	250000	428507
71	42501	139968	0	250000	432469
72	44852	141711	0	250000	436563
73	47314	143478	0	250000	440792
74	49889	145270	0	250000	445159
75	52580	147087	0	250000	449667
76	55388	148929	0	250000	454317
77	61916	150798	0	250000	462714
78	68603	152692	0	250000	471295
79	75452	154613	0	250000	480065
80	82465	156562	0	250000	489027
81	89646	158538	0	250000	498184
82	96997	160541	0	250000	507538

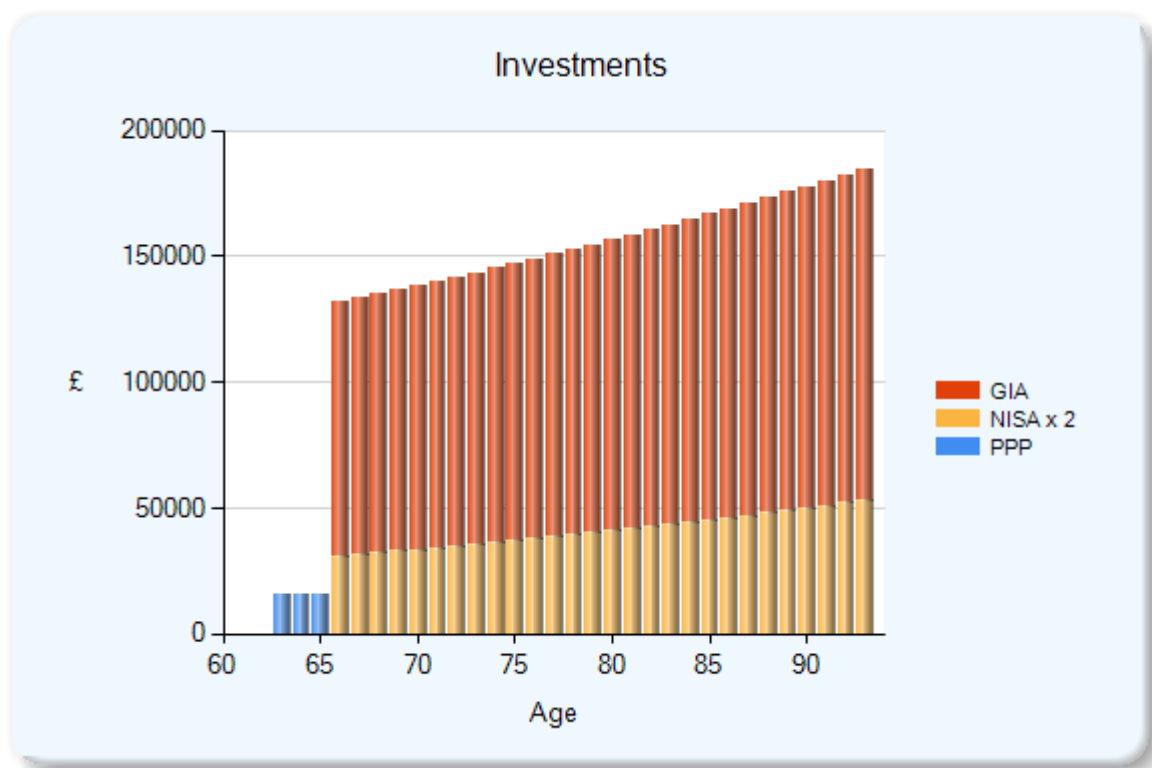
83	104522	162574	0	250000	517096
84	112224	164635	0	250000	526859
85	120106	166725	0	250000	536831
86	128172	168845	0	250000	547017
87	136424	170996	0	250000	557420
88	144866	173177	0	250000	568043
89	153501	175389	0	250000	578890
90	162333	177633	0	250000	589966
91	171366	179910	0	250000	601276
92	180604	182219	0	250000	612823
93	190049	184561	0	250000	624610



**Investments** - A summary of your current investment values and the projected changes to these as a result of new contributions or withdrawals is shown below.

Age	PPP	NISA x 2	GIA	Total
63	16000	0	0	16000
Values repeating until				
66	0	31090	100515	131605
67	0	31711	101520	133232
68	0	32346	102536	134881
69	0	32993	103561	136553
70	0	33652	104597	138249
71	0	34325	105642	139968
72	0	35012	106699	141711
73	0	35712	107766	143478
74	0	36426	108844	145270
75	0	37155	109932	147087
76	0	37898	111031	148929
77	0	38656	112142	150798

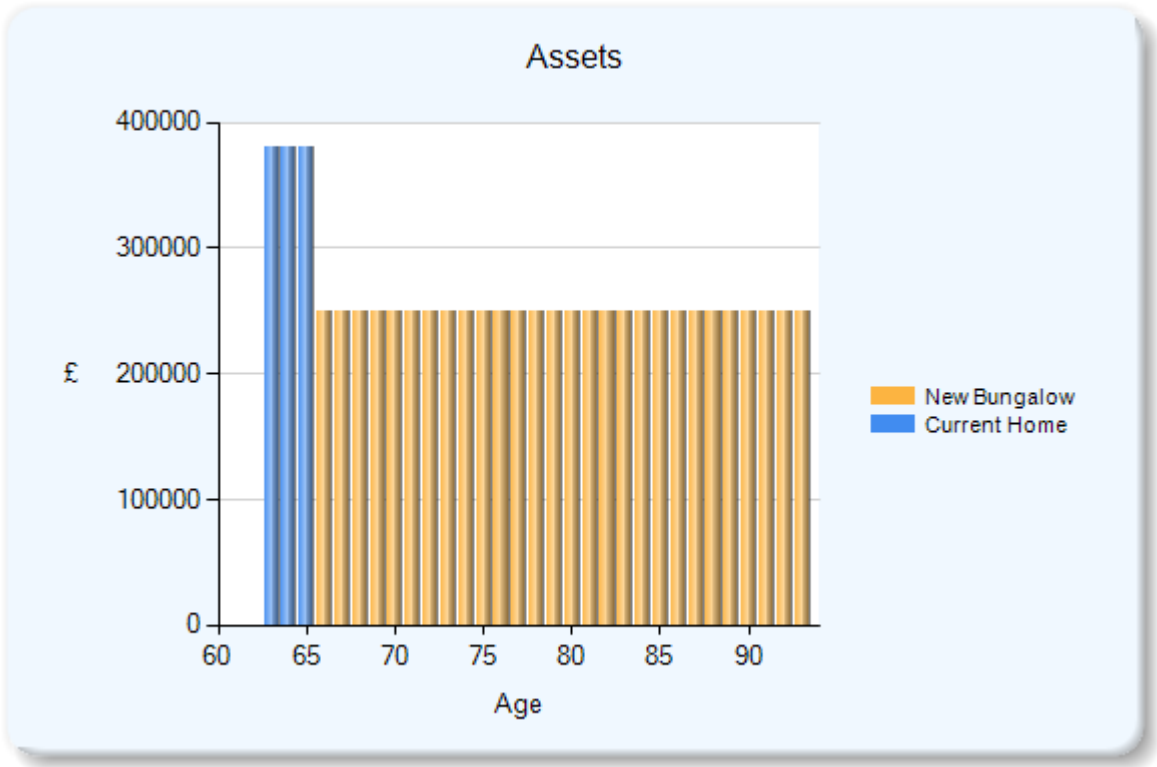
78	0	39429	113263	152692
79	0	40218	114396	154613
80	0	41022	115540	156562
81	0	41843	116695	158538
82	0	42679	117862	160541
83	0	43533	119041	162574
84	0	44404	120231	164635
85	0	45292	121433	166725
86	0	46198	122648	168845
87	0	47121	123874	170996
88	0	48064	125113	173177
89	0	49025	126364	175389
90	0	50006	127628	177633
91	0	51006	128904	179910
92	0	52026	130193	182219
93	0	53066	131495	184561



**Assets** - A summary of your current asset values and the projected changes to these as a result of future sales and acquisitions is shown below.

Age	Current Home	New Bungalow	Total
63	380000	0	380000
Values repeating until			
66	0	250000	250000
Values repeating until			
93	0	250000	250000





**Conclusion**

This cashflow analysis confirms that releasing equity from your property by way of a sale has provided you with sufficient cash to invest. The income generated from your investments not only eradicates the cash shortfall shown in the first scenario, but helps you to grow your overall wealth in retirement. As such you have a choice as to whether you spend more on your new home purchase or whether you take less in the way of income from your investments.

## **Appendix**

### **Personal Details**

Client 1 is Mr X Ample date of birth 23 / 05 / 1952.

Client 2 is Mrs X Ample date of birth 12 / 07 / 1952.

### **Today's Money**

Where values are described as being in *today's money* that means that, whilst the nominal (actual) amounts in future years may have increased by inflation, the values shown have been discounted by inflation to show their real value in today's terms.

For example whilst loan repayments or level annuity income might be a fixed sum each year the actual value of that amount (its buying power) will be eroded by inflation and so in future years its value is smaller in today's money.

This is useful as it allows for valid comparison of values at different times. Often nominal amounts far in the future may seem to be very large because of the compounding effect of inflation, but when seen in today's money its real value can be better appreciated