Financial Illustration

Prepared for:

Mr & Mrs X Amples

Prepared by:

Independent Financial Adviser

PPOL

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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 and investments. 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 or protecting your estate.

Leave Savings in Building Society

You would like to know if you could make your money work harder as you are unsure if you can afford your financial aims and objectives by leaving your money in the building society.

Your current financial circumstances are as follows:

- Mr X Amples is in receipt of a full state pension
- Mrs X Amples is in receipt of a part state pension
- Mr Examples has an indexed linked annuity in payment from an old private pension
- You have £50,000 in savings held at the Nicer Building Society

Events modelled in this illustration:

- You would like to pay £50 per month to each of your 2 grandchildren's Child Trust Funds.
- You would like to spend £5k per year on holidays over the next 10 years while you are fit enough to do so.
- Reflect everything planned where no unforeseen events occur
- You live to another 25 years to age 95

Basic Information

Illustration	70 to 95
State Pension Age	65
Inflation Rate	1.8% per annum
Initial Cash	£50000
Interest Rate	1.3% 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
State Pension (Mr)	70	95	£5700	Annually	By Inflation
State Pension (Mrs)	70	95	£3500	Annually	By Inflation
Annuity (Mr)	70	95	£3400	Annually	By Inflation

Spending

	From	To	Amount	Frequency	Adjust
Living Expenses	70	95	£12500	Annually	By Inflation
Holidays	70	79	£5000	Annually	By Inflation
Gifts to Grandchildren	70	74	£1200	Annually	No

Assumptions about spending:

- The spending figures shown are based on your current spending habits today and cannot predict what you will actually spend at retirement

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

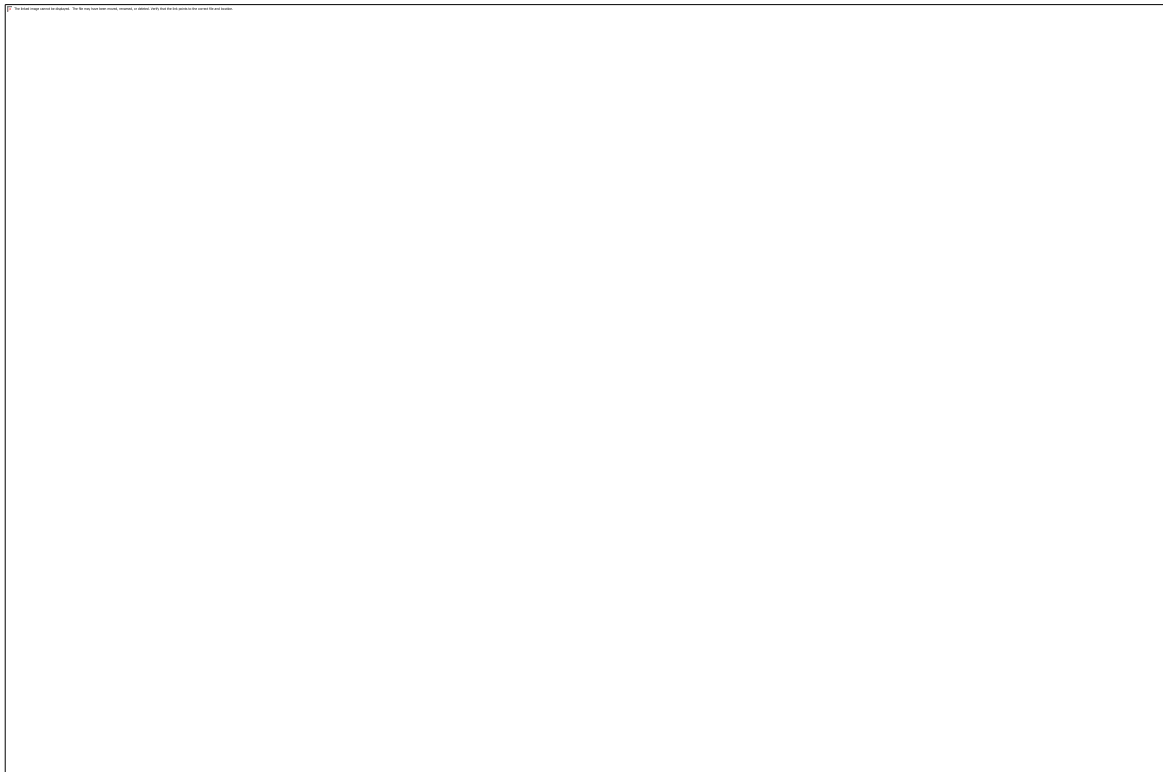| Age	Opening	Incomes	Spending	Investments	Closing
70	50000	+12600	-18700	+650	=44550
71	44550	+12600	-18678	+579	=39051
72	39051	+12600	-18657	+508	=33501
73	33501	+12600	-18636	+436	=27900
74	27900	+12600	-18616	+363	=22247
75	22247	+12600	-17500	+289	=17636
76	17636	+12600	-17500	+229	=12966
77	12966	+12600	-17500	+169	=8234
78	8234	+12600	-17500	+107	=3441
79	3441	+12600	-17500	+45	=-1414
80	-1414	+12600	-12500	-18	=-1332
81	-1332	+12600	-12500	-17	=-1250
82	-1250	+12600	-12500	-16	=-1166
83	-1166	+12600	-12500	-15	=-1081
84	-1081	+12600	-12500	-14	=-995
85	-995	+12600	-12500	-13	=-908
86	-908	+12600	-12500	-12	=-820
87	-820	+12600	-12500	-11	=-731
88	-731	+12600	-12500	-9	=-640
89	-640	+12600	-12500	-8	=-548
90	-548	+12600	-12500	-7	=-456
91	-456	+12600	-12500	-6	=-361
92	-361	+12600	-12500	-5	=-266
93	-266	+12600	-12500	-3	=-170
94	-170	+12600	-12500	-2	=-72
95	-72	+12600	-12500	-1	=27
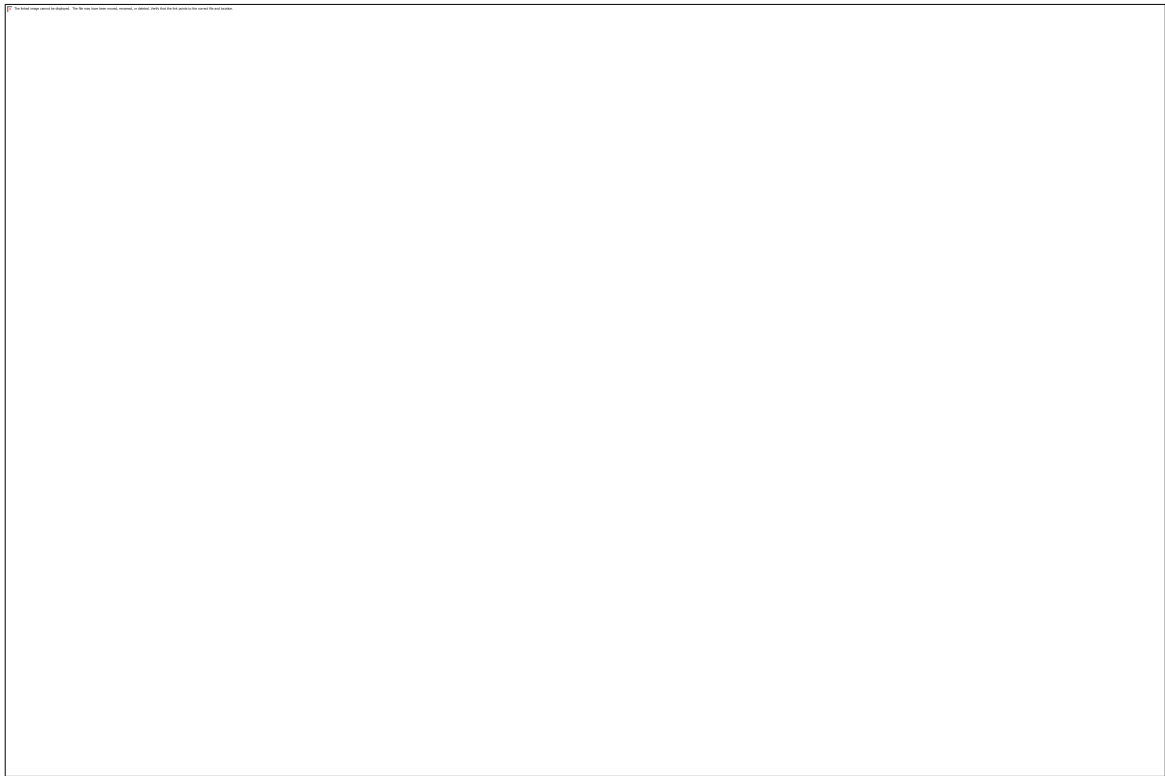
Incomes - A summary of your current income streams and future estimated income streams is shown below.

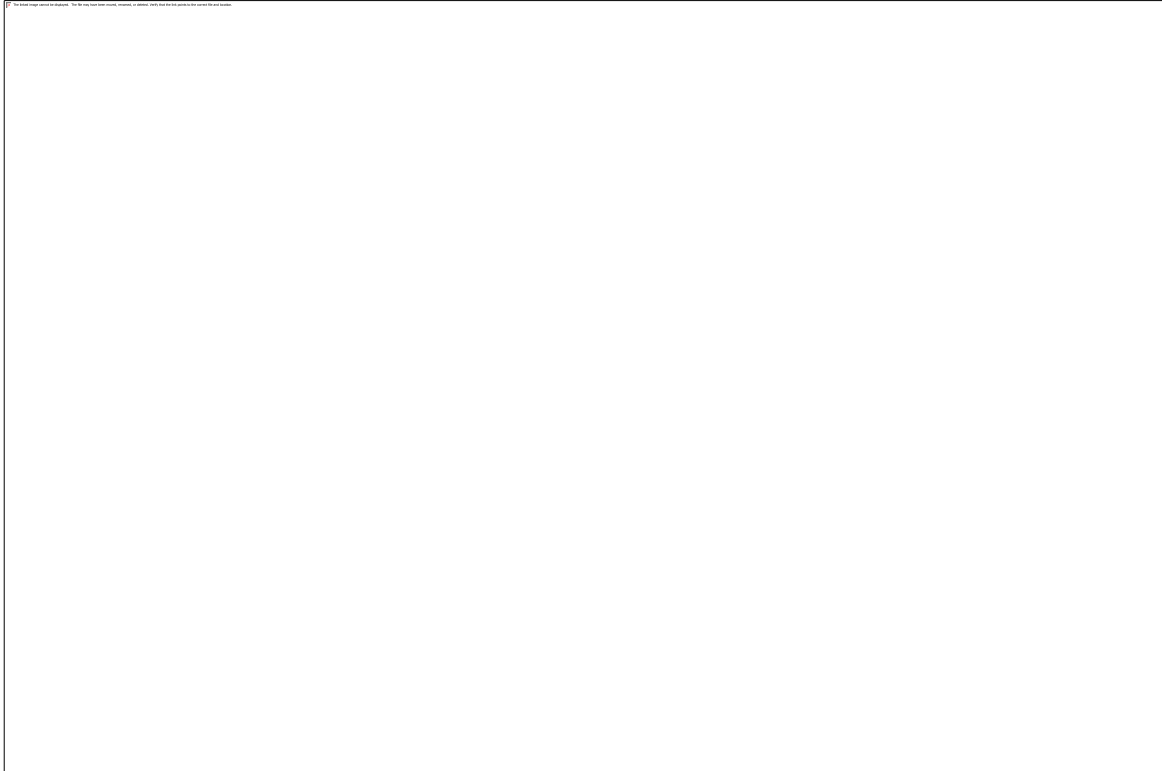| Age	State Pension (Mr)	State Pension (Mrs)	Annuity (Mr)	Total
70	5700	3500	3400	12600
	Values repeating until			
95	5700	3500	3400	12600
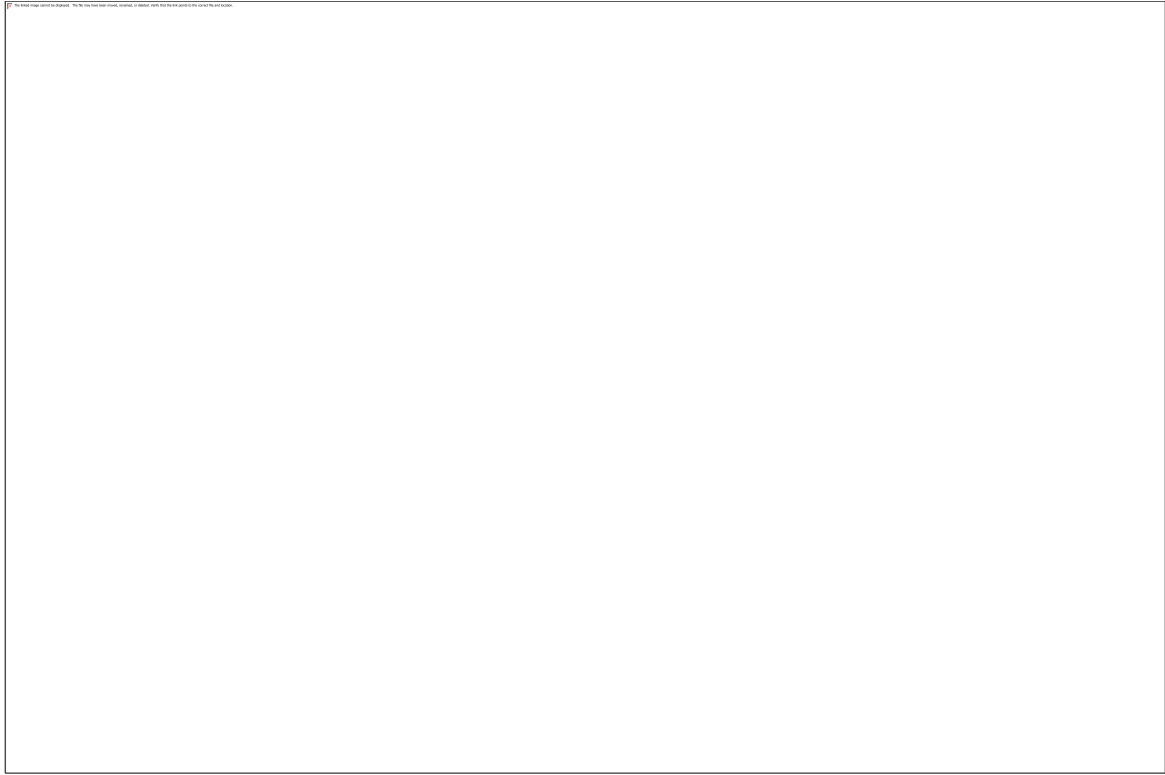
Spending - A summary of your current spending and future estimated spending is shown below.

Age	Living Expenses	Holidays	Gifts to Grandchildren	Total
70	12500	5000	1200	18700
71	12500	5000	1178	18678
72	12500	5000	1157	18657
73	12500	5000	1136	18636
74	12500	5000	1116	18616
75	12500	5000	0	17500
	Values repeating until			
80	12500	0	0	12500
	Values repeating until			
95	12500	0	0	12500

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

Conclusion

The cashflow analysis confirms that based on the low rate of interest paid on your savings balance from the Nicer Building Society and your planned spending, your savings will be exhausted over the next 9 years when you reach age 79. You have stated that you do not wish to give up your holidays or your financial gifts to your grandchildren and your living expenses cannot be altered. Therefore the suggested action would be to make your savings work harder by considering investing part of your savings to generate a better return.

Cashflow Model

Invest Half Your savings

Due to the effects of inflation and the low interest rate being paid on your savings you are not able to meet all of your financial aims and objectives and will run out of money by age 79. You therefore want to consider investing some of your savings in order to increase the potential returns on what is invested.

Your current financial circumstances are unchanged from those set out in the initial scenario.

Events modelled in this illustration:

- You would like to pay £50 per month to each of your 2 grandchildren's Child Trust Funds.
- You would like to spend £5k per year on holidays over the next 10 years while you are fit enough to do so.
- Your investment returns achieve a 2% real rate of return after taking into account inflation.
- Reflect everything planned where no unforeseen events occur
- You live to another 25 years to age 95

Basic Information

Illustration	70 to 95
State Pension Age	65
Inflation Rate	1.8% per annum
Initial Cash	£25000
Interest Rate	1.3% per annum

Investments

NISA 1			
Initial Value	£12500		
Capital Gain	4% pa		
Income	3.8% pa Paid Out		
	From	**To**	**Activity**
Withdraw funds	75	79	Withdraw £2450 Annually Amount adjusted by inflation

NISA 2			
Initial Value	£12500		
Capital Gain	4% pa		
Income	3.8% pa Paid Out		
	From	**To**	**Activity**
Withdraw funds	75	79	Withdraw £2450 Annually Amount adjusted by inflation

Assumptions about investments:

- A 4% p.a. actual return is generated on your investments
- Funds equal to the difference between expenditure and income are withdrawn from your investments between age 75 and 79 inclusive.
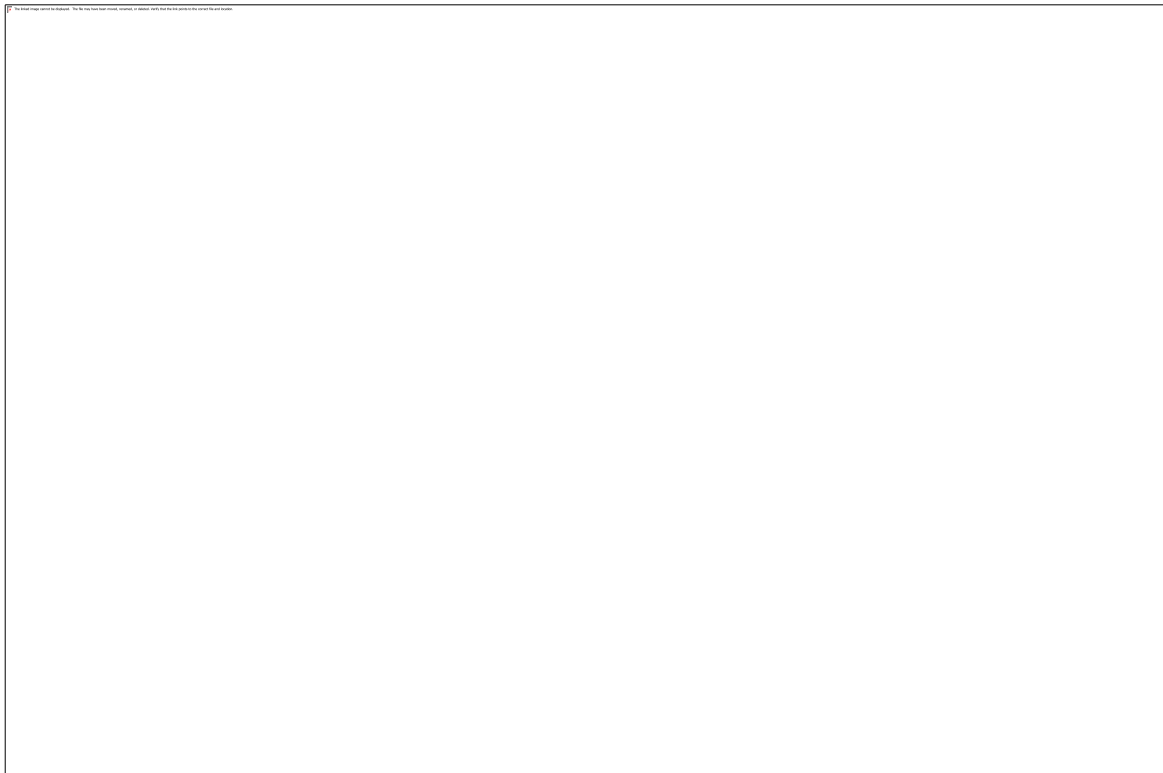
Cash - A summary of your opening and closing cash balances for each year is shown below.

Age	Opening	Incomes	Spending	Investments	Closing
70	25000	+12600	-18700	+1275	=20175
71	20175	+12600	-18678	+1233	=15330
72	15330	+12600	-18657	+1192	=10464
73	10464	+12600	-18636	+1150	=5578
74	5578	+12600	-18616	+1109	=671
75	671	+12600	-17500	+5968	=1739
76	1739	+12600	-17500	+5815	=2654
77	2654	+12600	-17500	+5656	=3410
78	3410	+12600	-17500	+5491	=4001
79	4001	+12600	-17500	+5321	=4422
80	4422	+12600	-12500	+244	=4766
81	4766	+12600	-12500	+253	=5119
82	5119	+12600	-12500	+262	=5480
83	5480	+12600	-12500	+271	=5851
84	5851	+12600	-12500	+280	=6231
85	6231	+12600	-12500	+289	=6620
86	6620	+12600	-12500	+299	=7019
87	7019	+12600	-12500	+309	=7427
88	7427	+12600	-12500	+319	=7846
89	7846	+12600	-12500	+329	=8275
90	8275	+12600	-12500	+340	=8715
91	8715	+12600	-12500	+350	=9165
92	9165	+12600	-12500	+362	=9627
93	9627	+12600	-12500	+373	=10099
94	10099	+12600	-12500	+384	=10584
95	10584	+12600	-12500	+396	=11080
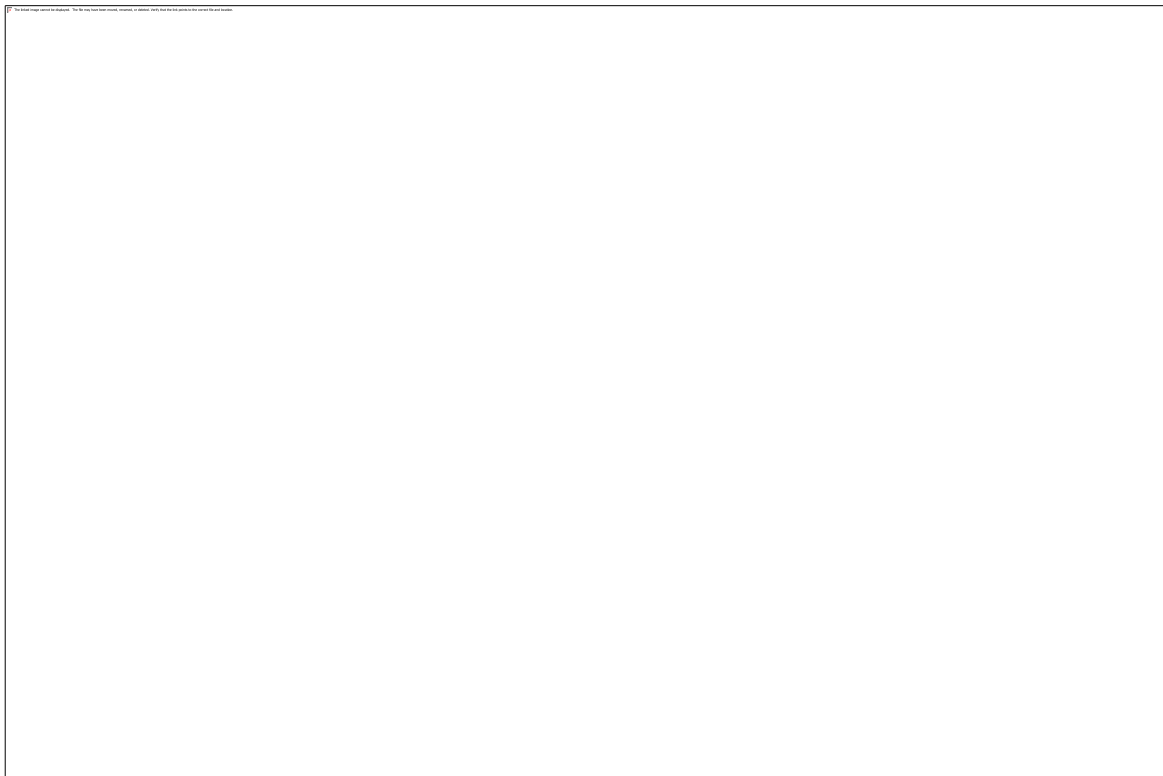
Wealth - A summary of your total wealth is split between cash and investment values.

Age	Cash	Investments	Total
70	25000	25000	50000
71	20175	25550	45725
72	15330	26112	41442
73	10464	26687	37151
74	5578	27274	32852
75	671	27874	28545
76	1739	23479	25218
77	2654	18988	21642
78	3410	14398	17808
79	4001	9707	13708
80	4422	4912	9334
81	4766	5021	9787
82	5119	5131	10250
83	5480	5244	10724
84	5851	5359	11210
85	6231	5477	11708
86	6620	5598	12218
87	7019	5721	12740
88	7427	5847	13274
89	7846	5975	13821
90	8275	6107	14382
91	8715	6241	14956
92	9165	6378	15543
93	9627	6519	16146
94	10099	6662	16761
95	10584	6809	17393

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Spending v Income - A comparison of spending versus income is shown below.
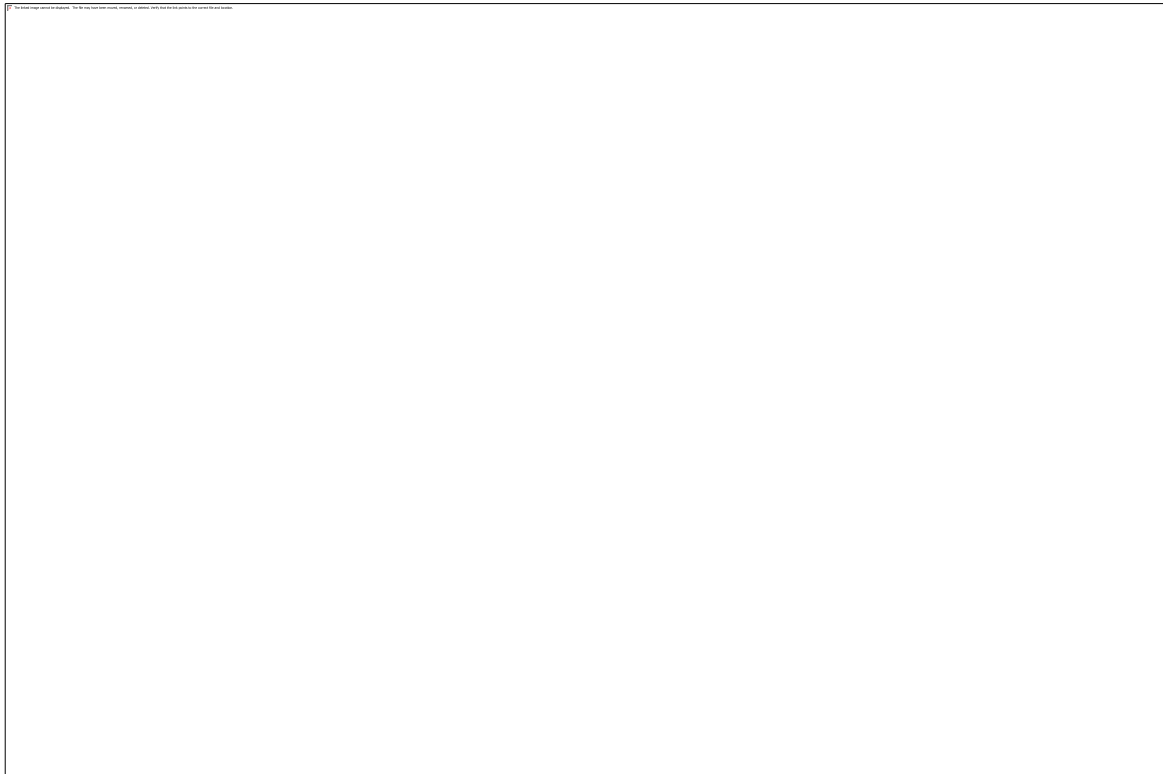
Investments - A summary of your current investment values and the projected changes to these as a result of new contributions or withdrawals is shown below.

Age	NISA 1	NISA 2	Total
70	12500	12500	25000
71	12775	12775	25550
72	13056	13056	26112
73	13343	13343	26687
74	13637	13637	27274
75	13937	13937	27874
76	11740	11740	23479
77	9494	9494	18988
78	7199	7199	14398
79	4853	4853	9707
80	2456	2456	4912
81	2510	2510	5021
82	2566	2566	5131
83	2622	2622	5244
84	2680	2680	5359
85	2739	2739	5477
86	2799	2799	5598
87	2860	2860	5721
88	2923	2923	5847
89	2988	2988	5975
90	3053	3053	6107
91	3121	3121	6241
92	3189	3189	6378
93	3259	3259	6519
94	3331	3331	6662
95	3404	3404	6809
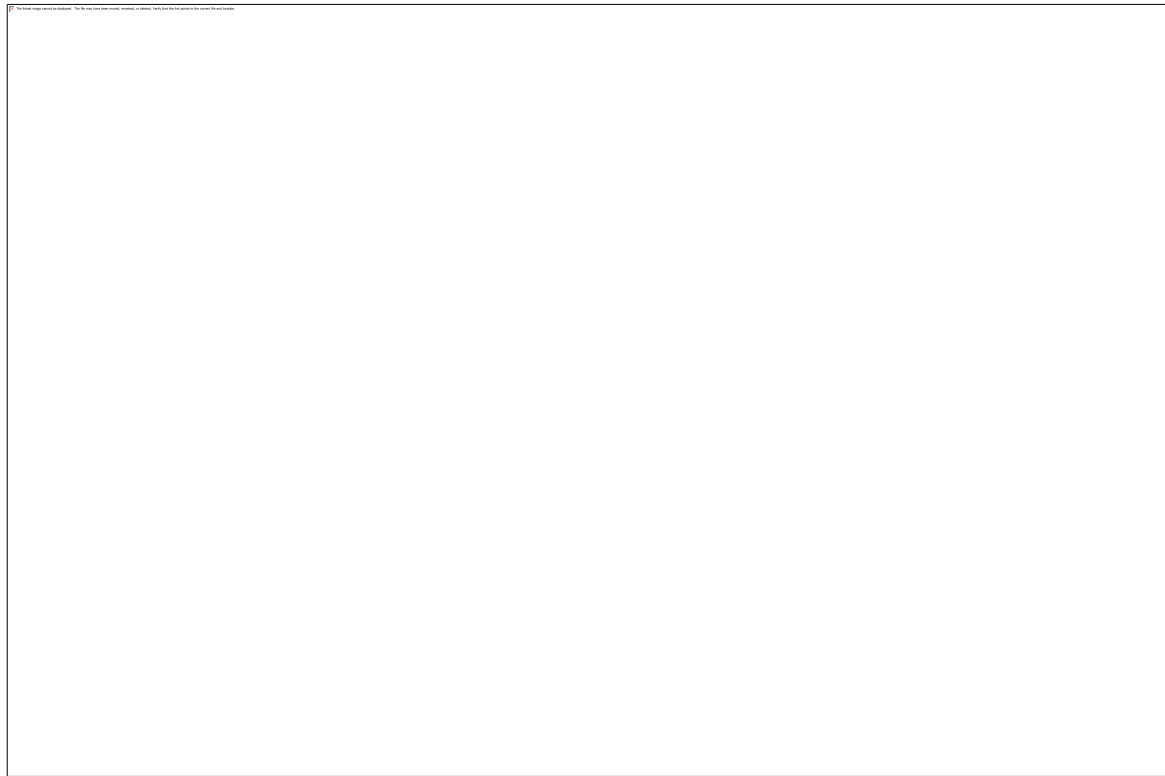
Conclusion

The cashflow analysis confirms that by investing half of your savings balance in order to generate a greater return than is being paid on these, you can meet all your financial objectives without any negative implications on your cashflow. The rate of return shown is moderate and assumes a 4% return on your investments. The lowest value of your investments would be £4912 at age 80 and then steadily rise again thereafter. Any greater figure achieved for return on investments would have a positive effect on your investment values.

Appendix

Personal Details

Client 1 is Mr X Amples date of birth 24 / 07 / 1945.

Client 2 is Mrs X Amples date of birth 01 / 08 / 1945.

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