An Introduction to Cashflow Modelling



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What is Cash Flow Modelling?

Cash flow modelling is a useful tool for providing a picture of your financial future.

In its simplest form, it allows you to reflect on your current financial position relative to your preferred position and your personal aspirations.

A cash flow model is normally understood to be a detailed picture of your assets, investments, debts, income and expenditure, projected forward, year by year, using assumed rates of growth, income, inflation, and interest rates.

That said, a cash flow model is only as good as the information available and it must be kept updated with the inevitable changes to your circumstances.

It is aimed at individuals who wish to become, and remain, financially well organised, determine lifetime goals, create a lifetime cash flow plan and control their tax liabilities.

Once undertaken, this can be very empowering.

Why should I consider it?

For most people, running out of money is one of life's major concerns. Having clarity about your financial position gives peace of mind.

Cash flow modelling can help to 'map out' how the future could look and with the use of 'What if?' scenarios, can be used to identify any particular advantages or challenges of a specific route.

This could mean spending a little more (or less), saving more, retiring earlier or later, or giving more away.

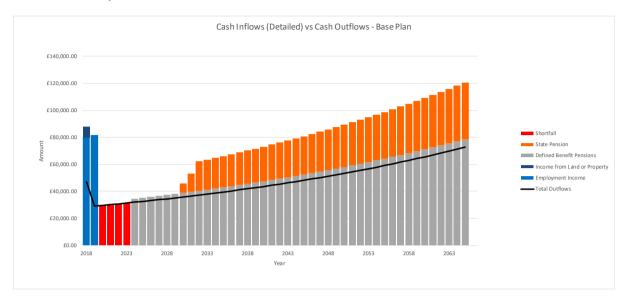
These scenarios are driven by your objectives and future aspirations. They do not include the value of your property and we do not generally include it because although it is an asset, it isn't easily available to you in the form of providing an income without selling up.

Cash flow modelling is not an exact science and does not promise that what is illustrated will occur, but it can be a useful guide to how one particular route or plan may be more or less beneficial than another one.

The assumptions are made using historical data available to us. However, these are only assumptions and should not be relied upon. It is important that you review your financial plan and the assumptions used on an annual basis.

Can I see an example?

Here's an example of a lifetime cash flow model showing income and expenditure which change over time, as well as years where a shortfall exists:



Once this initial Base Plan has been established, it is possible to work out various 'What if?' scenarios, before taking important and often permanent changes in our lives.

What will it allow me to determine?

Undertaking a lifetime cash flow can help you to:

- Produce a clear and detailed summary of your financial arrangements.
- Define your family's version of a 'good life' and begin working towards it.
- Work towards achieving and maintaining financial independence.
- Ensure adequate provision is made for the financial consequences of death or disablement.
- · Plan to minimise your tax liabilities.
- Produce an analysis of your personal expenditure, balancing your cash inflows and desired cash outflows.
- Estimate future cash flow on realistic assumptions.
- Develop an investment strategy for your capital and surplus income in accordance with your attitude to risk and wish for flexibility and accessibility.
- Become aware of the tax issues that are likely to arise on death.
- Identify any shortfalls in your planning before they become real life issues.



You can't change the wind, but you can set your sails.

Billie Joe Armstrong

Running the Numbers

Cash flow modelling is vital if financial objectives are to be achieved. It is also important to be specific; for example, it is not enough just to say, "I want to have enough to retire comfortably". You need to think realistically about how much you will need.

The more specific you are, the easier it will be to come up with a plan to achieve your personal aspirations.

If your needs are not accurately established, then the cash flow will not be seen as personal, and therefore you are unlikely to perceive value in it.

It is vital that you are made aware that certain assumptions have been made in the making of your plan.

Projected inflation and growth rates need to be made clear, and it should be explained that the plan and cash flow model is only as good as the information provided, so it is critical that it is reviewed!

Are your future financial plans on track?

In conjunction with your adviser, cash flow modelling helps you stay in control of your financial future by giving a more holistic planning approach and clearer picture of the consequences of change on an ongoing basis.

It also helps to give an idea of when certain key decisions should be made, such as retiring early or downsizing a property.



What's the next step?

To take the first steps of building your lifetime cash flow model, it will be necessary to provide your adviser with information about your income, expenditure, assets and liabilities, as well as anticipated changes to these.

This information will be used by your adviser to populate your draft lifetime cash flow. Please contact your adviser for a template of the information they will need.

To complete this process effectively, you should consider the following:

- Your aspirational future plans for work, home, leisure and retirement.
- Your expenditure both now and in the future.
- This may be as a result of retirement, planned expenditure such as holidays, house purchase, education fees etc.
- Please bear in mind that this may change from year to year and there may be some years where you will have exceptional or one-off items.
- Your income both now and in the future. When are you stopping work? Are you working part time? What other sources of income will you have and when?
- You may be reducing your hours, starting a new job, anticipating an inheritance, or in receipt of your state or other pensions.
- How much will your state pensions be and when will they start?
- What other assets do you have? Savings plans, investments, property etc. Are you going to be buying or selling any of these?
- What philanthropic intentions do you have? Do you need to support your children? What about their education? Their own families? How much do you anticipate spending? How will you fund your own social care?
- What liabilities do you have? When will these be paid off? What other liabilities will you take on? How will you change your car? Are you downsizing or upsizing? When will this happen?



Ongoing Review

Whilst the creation of a lifetime cash flow is empowering and beneficial, it needs to be reviewed and updated regularly with any changes in your objectives, circumstances and to take into account of the current financial climate.

So that we can produce an informative lifetime cash flow for you, we rely on you to provide us with accurate information which in turn must be updated and reviewed.

We consider lifetime cash flow modelling a key component of financial planning.

It's not how much money you make that matters but how much money you keep—and how long that money works for you.

Robert Kivosak



Please note that this document does not constitute financial advice.

For further information, please contact us

www.stoverfp.co.uk

hello@stoverfp.co.uk

Telephone 01626 305318

