PKF FRANCISCLARK
Financial planning and wealth management

FINANCIAL PLANNING

Using lifetime cash flow modelling to build a long term financial strategy

A Lifetime Cash Flow Model takes you and your family's current financial circumstances, adds in your income from all sources and how that might change over time, factors in your changing expenditure patterns including day to day living and planned capital expenditure, takes account of differing growth rates of your assets and repayment of liabilities, whilst factoring in the effects of inflation.

Long Term Financial Strategy

Building a long-term financial strategy starts with taking stock of where you are now. You then draw up a prioritised list of your goals, what you want to do for the rest of your life, complete with timescales and estimated costs. Only then you can build a plan for what you need to do to achieve those goals.

Three Horizons

The first horizon for your goals is the very short term, just for the coming year. Are there any liabilities that you should consider paying off, or at least reducing? Do you have an adequate 'emergency fund' held in easily accessible accounts with no withdrawal penalties? Is there any expenditure, over and above usual day to day living, that you have planned in the next 12 months?

Your next set of goals fall into the one-to five-year range. What cash reserves do you need to cover planned capital expenditure for the next five years? It is not a good idea to invest money, only to need to disinvest in the short term – that will cost you money in the long run. It is much better to keep money that you know you are going to need to access within the next five years in cash or cash equivalent accounts.

Your final horizon is the rest of your life. What does your later life look like? When do you plan to stop working? Do you want to step back from work gradually? Do you have a lot of travelling that you want to do? When do you plan to stop driving? Do you want to assist the next generation financially? Are you living in your 'forever home'? If not, when do you plan to move? Will this move be capital neutral or will you be downsizing or upsizing? What adaptations would be needed to allow you to stay in your current home for the rest of your life if that's what you want? If you need long term care, would you prefer to receive that in your own home or in a residential setting?

Process

We need to understand who, and what, is important to you. So we conduct an in-depth meeting to gather information about your family's make-up, health and legal matters, your financial circumstances and your short, medium and long term goals.

Once your model has been drafted, we then meet again to consider the findings.

There are likely to be actions arising from this meeting, to ensure your strategy works and that your future financial security is not jeopardised. These actions will either be for you to carry out on your own, or in conjunction with a Financial Planner, Solicitor, Accountant or other professional.

It is important that your strategy is regularly reviewed. We therefore meet on an annual basis, with more frequent meetings scheduled if appropriate. At the review meetings we can ensure that changes in your own circumstances and goals, and the wider economy, are reflected in your long term strategy so that you can have the reassurance that you are always 'on track'.

Case Studies

Mr & Mrs S are an elderly couple. Mr S had received some unsettling health news. He wanted the reassurance that, should he pre-decease his wife, she would have sufficient income to carry on living their chosen lifestyle. Should Mr S live for longer than expected, they both wanted to make sure they could afford to pay for the standard of long term care they would like to receive.

Mrs K had been widowed a few years ago. Like most couples, her late husband had always taken care of their finances. She wanted to make sure she could afford to buy her 'forever home' and still live the lifestyle she had always been used to.

Mr M loves his work. However, he is now in his 70s and he wanted to make sure he is working because he wants to, not because he has to. His wife is a few years younger than him. He wanted the 'peace of mind' that comes with knowing what his options were, and whether he could start to gradually step back from work to enjoy travelling with his wife.

Mr & Mrs J are a younger couple with teenaged and young adult children. Mr J is earning a good income. Mrs J enjoys searching out buy-to-let properties that they can renovate. They have built up a portfolio of properties and now have a large liability to Inheritance Tax. They wanted to know whether Mr J could retire as early as 55. They also wanted to establish whether they could afford to forego the income and gift the rental properties into trust to mitigate their IHT liability.

Mr & Mrs B are both retired. They have three adult children, one of whom is disabled and needs more financial support. They would like to be able to make large gifts of capital now, at a time when their children need it, rather than having to wait to inherit as they themselves had to do.

All these clients viewed their finances in a very different light having been through this process.

If you would like to work with a Chartered Financial Planner to start building your own long term financial strategy, please contact PKF Francis Clark Financial planning and wealth management on 01722 337661 to arrange an initial meeting, at our cost.

The information provided is based on our current understanding of the relevant legislation and regulations and may be subject to alteration as a result of changes in legislation or practice. The information provided is based on our current understanding of the Pensions Acts 2007, the Pensions Act 2008 and 'Making automatic enrolment work' – A review for the Department for Work and Pensions', Paul Johnson (Frontier economics and Institute for Fiscal Studies), David Yeandle (Engineering Employers' Federation), Adrian Boulding (Legal and General), October 2011.

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