Pierce Business Advisory & Accountancy Group

Pareto ALL MATTERS FINANCIAL

CASH FLOW MODELLING

Visualise your financial future.

CASH FLOW MODELLING

Cash flow modelling is used by financial planners to illustrate your real time financial plan relative to your objectives. It can help put plans in place to achieve your financial lifetime goals and answer questions such as 'do I have enough money?' and 'when can I afford to retire?'

What is it used for?
A cash flow model is a detailed picture of your finances which is projected forward, year by year, using assumed rates of growth, income, inflation, wage rises and interest rates.

It is useful for planning and can assist in achieving your financial objectives by visualising cash flow now and into the future. It can:

- Show if you will have enough money to retire when you would like to
- Show if you could achieve your desired lifestyle in retirement
- Help to utilise tax allowances including Inheritance Tax (IHT) planning
- Help to identify any potential surplus or shortfall in cash flow
- Plan a number of 'what if' scenarios and illustrate how they would impact your goals
- Highlight how seemingly minor changes have the potential to dramatically change your financial future

The outcome of the forecast will help you understand what you can achieve with your wealth and forms the basis of your financial plan.

Planning for the unexpected
You can run through many different scenarios to see how they might affect your finances based on realistic assumptions. For example:

- Can you bring your retirement forward?
- What if you fell ill and were unable to work?
- Changes in the expected return on your investments or simulating a fall in the market
- See how taking income from different sources could affect your tax bill, and your overall finances over time

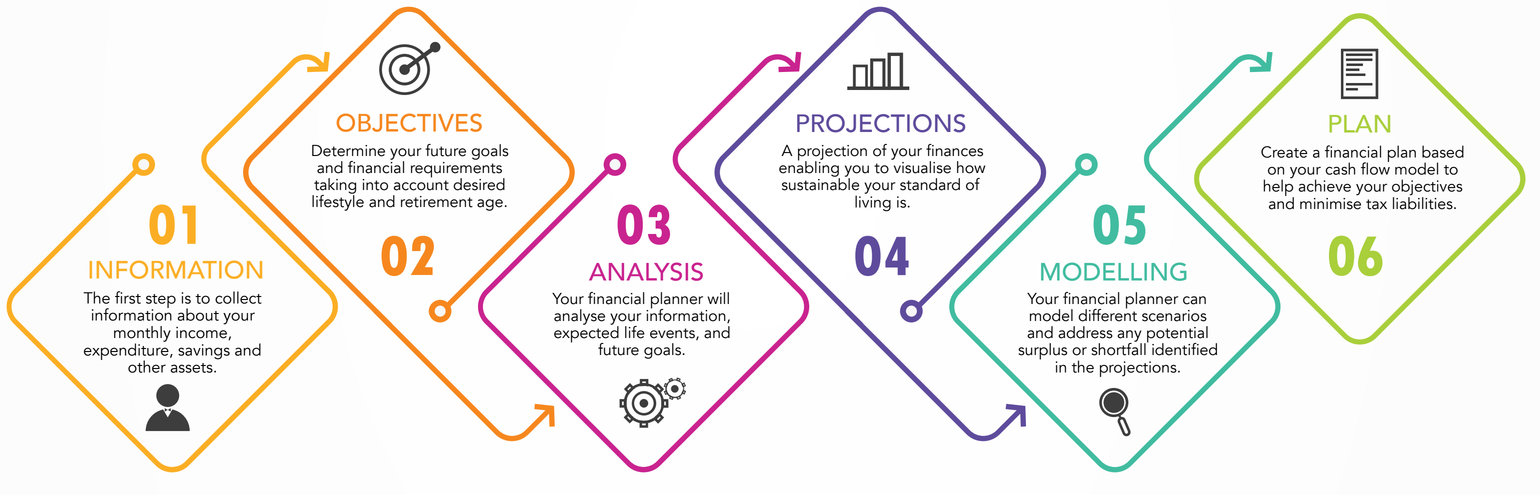
This can help you understand the potential financial impact of investment, lifestyle and spending choices.

Review regularly
Cash flow modelling is not a process to be carried out once. Financial plans should be reviewed regularly to:

- Reflect changes in personal circumstances
- Review your goals, they may change
- Keep track of progress
- Take regulatory changes into account
- Give you confidence

Even seemingly small changes in your circumstances can mean there is a better path towards your financial goal.

How it works
Cash flow modelling follows a number of steps to construct a detailed view of your cash flow now then projects that information into the future using using realistic assumptions. This then forms the basis of your financial plan to help realise your finacial goals and aspirations.



Example
Our clients were selling their business and wanted to know if the income from the sale would be enough to support them and their family and achieve their retirement goals.

They also wanted to maximise the wealth they could pass on to their children.

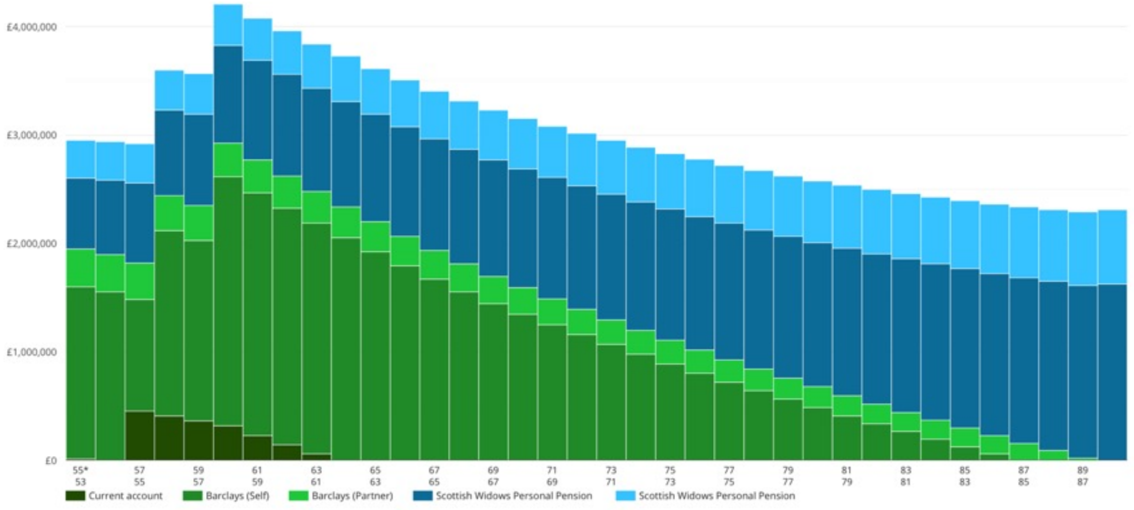
We analysed and planned out a cash flow based on current income, expenditure and other assets. We could then show what financial planning could achieve:

	Pre-Planning	Post-Planning	Potential Difference %
Total Savings at start (55)	£2,950,000	£2,950,000	0%
Total Savings at retirement (60)	£4,208,698	£4,540,787	+7.5%
Total Savings at end (90)	£2,313,416	£5,108,802	+75%

Both of the scenarios modelled below have the same income, expenditure and withdrawls.

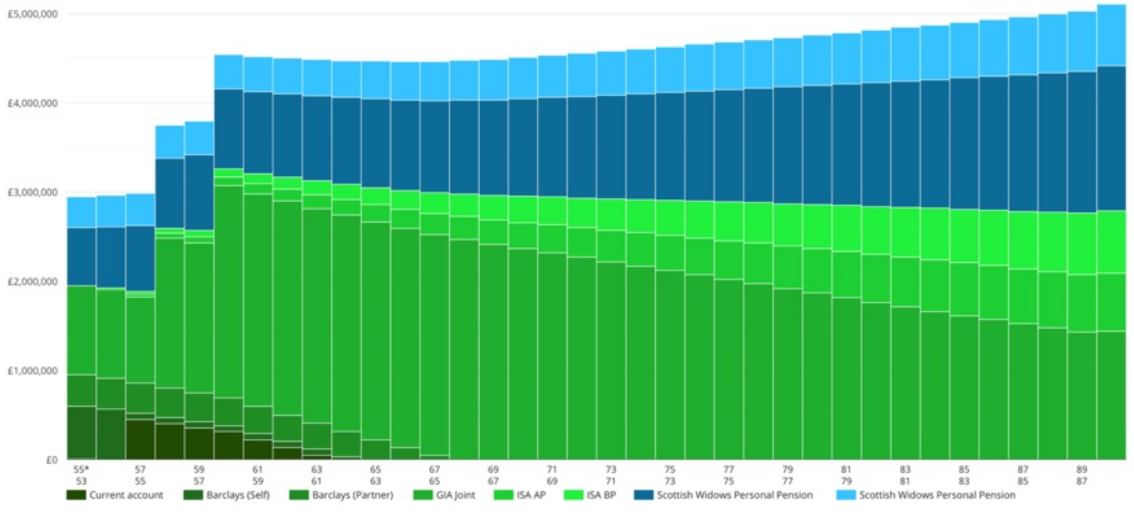
Savings over time (current) with no financial planning:

- Income and savings in savings accounts (assumed 0.1% return)



Savings over time (proposed) with planning

- Maximise pension contributions
- Use General Investment Account (GIA) to fund ISA accounts (assumed 5% return)
- Utilise Capital Gains Tax (CGT) and dividend allowance



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