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Create and Secure Your Future

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How financial planning **could help you answer** essential "what if?" questions

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Financial planning is all about helping you to reach your life goals. Ultimately, the objective is for your wealth to allow you to achieve all the things you want to do now and in the future.

That might be as simple as being able to relax and enjoy a comfortable retirement or helping your children through education or onto the property ladder. Alternatively, you may want to start a business, retire abroad, or leave a legacy to causes you care about.

When making a financial plan, you could be looking several decades ahead. During that time, a variety of unknowns could crop up, altering your ability to meet your goals.

Unfortunately, there's no such thing as a crystal ball. However, when it comes to your finances, cashflow planning could help you visualise how your wealth may fluctuate as you progress through life, and reveal answers to a variety of "what if" questions.

Read on to find out more about how cashflow planning could provide invaluable reassurance and help you reach your financial goals.

Running out of money is a common concern for many retirees

71% of financial advisers say the most common fear among their clients is outliving their savings. Other common worries included the effect of inflation or the cost of living on wealth, and the cost of long-term care.

Cashflow modelling could help to assuage such fears.

Source: Aegon/NextWealth

Cashflow modelling may help you visualise your financial future, and provide invaluable reassurance

There are two different set of circumstances where cashflow modelling could show you how your financial situation would be affected: those that you can control, and those you can't.

Situations you can control

You may wish to take a certain action but aren't sure if your finances match your plans.

Questions might include:

- What if I retire in the next two years?
- What if I want to gift my children a large sum of money?
- What if I resigned from my job and moved to another position earning less money?

Typically, these questions stem from you wanting to make a change in your life. And you may be hesitant to act because you're concerned about the long-term consequences.

Cashflow modelling can illustrate the impact such a decision might have.

Situations you have no control over

These are generally related to concerns or worries that you may have about how certain uncontrollable events could affect your finances. For example:

- What if there's a big stock market crash?
- If I passed away, would my partner be financially secure?
- What if I need to pay for long-term care when I get older?

Cashflow modelling can help you understand how these potential events could affect your financial plan.

Being able to see the possible outcomes early allows you time to take steps to correct any potential shortfalls. And, it could provide reassurance that you already have the correct measures in place to cope with such events.

Confronting concerns about your future can be difficult, but it's a step that could lead to a more robust financial plan that you have complete confidence in.

So, you can rest easy and enjoy life knowing you needn't worry about your finances.

How cashflow modelling works

Cashflow modelling, or cashflow forecasting, is smart software that a financial planner can use to analyse your long-term financial position.

There are many different programmes designed to do this, and they generally all take the same approach.

Ultimately, cashflow modelling tools work on the data you input. Using the information provided, the software illustrates how your wealth will change.

So, before you can start answering your "what if" questions, you'll first need to feed in all your relevant financial information.

This might include:

- Earnings, plus those of your spouse or partner (if applicable)
- Assets, including your savings, pensions, investments, and property
- Liabilities, such as mortgages and any unsecured borrowing
- Details of any long-term financial commitments.

Once this data is entered, the software can layer in financial variables such as investment performance, inflation, and your projected future income.

From there, the software crunches the numbers and creates a long-term projection of your finances.

This will show your future requirements alongside any increase or decrease in your assets. It will also highlight any potential surplus or shortfall.

While the information is based on the data you input, your personal cashflow forecast allows you to see a complete overview of your current financial situation and how this might change in the future.

You can also change the data you provide, allowing you to illustrate how a range of different future scenarios – both positive and negative – might affect your finances.

For example, you might wish to alter the date of your retirement, adjust the expected return on your investments, or simulate a fall in the market.

You can also see how taking income from different sources could affect your overall finances, and your potential tax situation, over time.

Regular cashflow modelling gives you access to detailed information, helping you to make informed financial decisions with confidence, rather than guessing everything will be fine.

Cashflow modelling can help you visualise how your wealth might change over time

Your financial planner can use cashflow modelling to assess your wealth now, and forecast how this could change in the future.

Alongside a financial adviser, the software can illustrate the effects of increased pension contributions – using different growth rates or levels of withdrawals – or calculate the impact of moving your savings into investments.

Cashflow modelling can be particularly useful as you approach retirement, because it can help you decide whether you have "enough" to retire. The software can even be used to assess the likely impact of any potential future changes to your circumstances (for example, needing to pay care fees).

There are multiple life events that can influence your finances. Marriage, divorce, having children, moving to a new house, or becoming unemployed – any of these could help or hinder your ability to reach your financial goals.

By forecasting the impact of these changes together with your financial planner, you'll be better placed to either capitalise or mitigate their impact on your long-term plans.

Cashflow modelling can give you confidence in your financial plan, a sense of control over your future, and peace of mind that you'll maintain your financial security whatever the future throws at you.

The pros and cons of using a cashflow model

While there's no such thing as a crystal ball, cashflow modelling comes pretty close when plotting your financial plan.

Decisions that are supported by research and factual evidence nearly always lead to a better outcome than ones based on a hunch or instinct.

3 main ways cashflow planning may help you plot your financial future

1. It can help you visualise how your wealth may change over your lifetime

Cashflow modelling could show you what is possible, what isn't, and highlight where you may need to take action to get to where you want to be.

As an example, it can be difficult to understand how your retirement provisions might change over time, particularly when it comes to investment growth.

Cashflow modelling can illustrate how your finances could fluctuate from early retirement through to the later years. Seeing a visual representation of your finances can make it easier to understand how your wealth will change over time and the level of income you can afford to take.

If you're thinking about retiring early, you can see how this could affect the money you have to live on. If you're unsure about when you might be able to retire, it can give you the confidence to move forward with your plans.

After seeing your personal cashflow model up in lights, you might be surprised at the date when you can afford to comfortably retire.

2. You can see how life events may affect your plans

While we always want things to go as planned, life can be unpredictable. The good news is, cashflow modelling can help you plan for the financial impact of big events – both good and bad.

If you want to know how your plans might be affected if the markets drop, you were to fall ill, or your income was to decrease unexpectedly, cashflow modelling maps these scenarios to see how resilient your financial plan is.

Being able to see how your finances would fare if something unforeseen happened to you or your family can be hugely helpful.

Plus, seeing weaknesses in your financial plan could give you valuable time to take appropriate steps to correct any shortfalls or put suitable protection in place to help you and your family cope should the worst happen.

3. It can inform your financial decisions

Cashflow modelling lets you "try before you buy", helping to give you confidence in your financial decisions. It allows you to try an idea on for size before you commit to making a change.

And decisions that are supported by research and factual evidence almost always lead to a better outcome than ones based on a hunch or instinct.

For example, you can use cashflow modelling to illustrate how certain milestones could influence your finances, allowing you to see how planned decisions, such as downsizing, could alter your wealth or retirement income.

Plus, you can forecast events that might occur, such as receiving an inheritance or going into long-term care.

So far, so good.

But, as with so many things in life, the good stuff is tempered by some potential drawbacks.

3 disadvantages to consider when using cashflow modelling

1. It's a static tool without regular reviews

As already mentioned, life is rarely linear. Even the best-laid plans can veer off course. In some cases, this might mean that your income could end up being vastly different to what you may have expected – especially in your retirement years.

To make the best use of cashflow modelling, you'll need to use the tool at regular intervals to ensure that your finances remain on the predicted course.

This is why many financial planners will use cashflow modelling in your annual review.

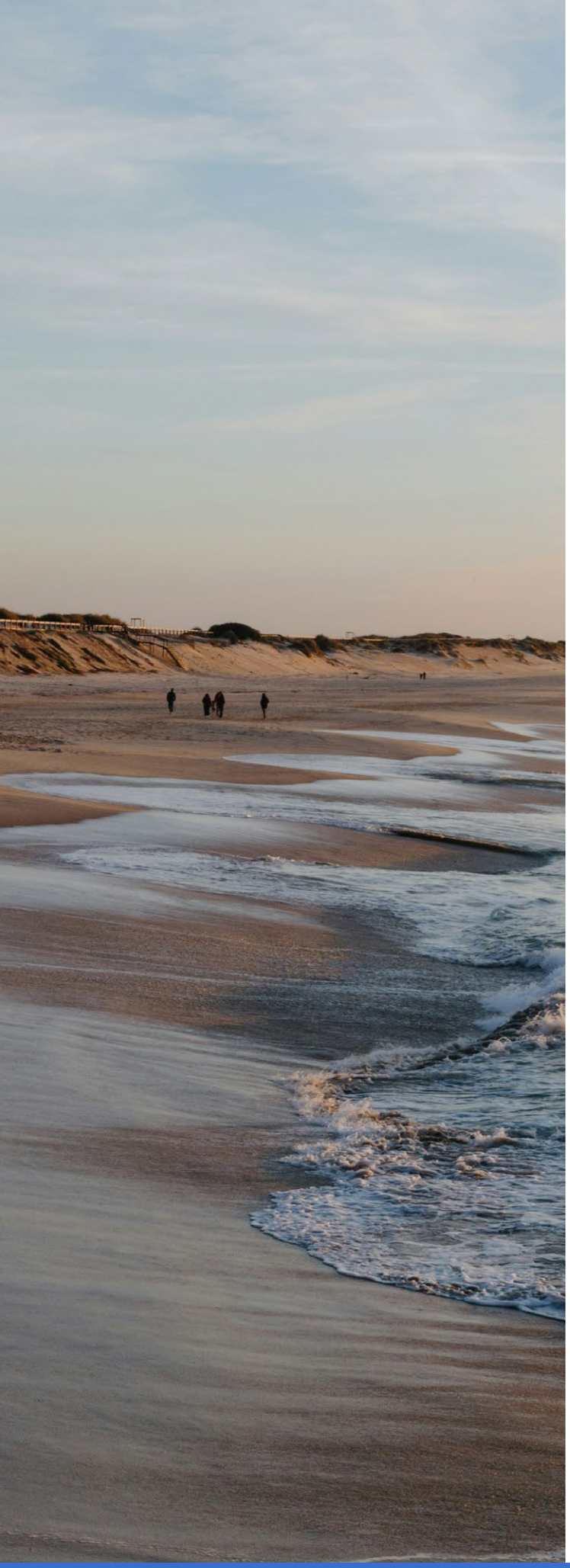
A bit like hitting "refresh", your planner will update the information according to both your current financial situation and any key economic changes. So, you can see a fresh vision of where you're at now and how your future may look.

Basing decisions from an old cashflow model may mean you're not as informed as you think. So, reviewing cashflow modelling at set intervals is usually highly recommended.

Whether your financial situation has improved thanks to an inheritance, or changing aspirations mean you wish to take more income from your investments, it's important to keep the data as current as possible to avoid the potential to get an out-of-date view.

Updating your information regularly presents a perfect opportunity to evaluate your financial goals, too.

Cashflow forecasting can provide you invaluable insight. That said, changing circumstances will affect how useful it is if you don't regularly revisit your cashflow model.



2. It's only as good as the data

Updating a cashflow modelling tool brings us on to the second drawback; it's only as good as the data that's input.

Incomplete or inaccurate information will likely lead to unreliable forecasts. On top of that, the information that's delivered will depend on how your financial planner interprets your finances and aspirations.

As such, when creating your personal cashflow model, it's important to:

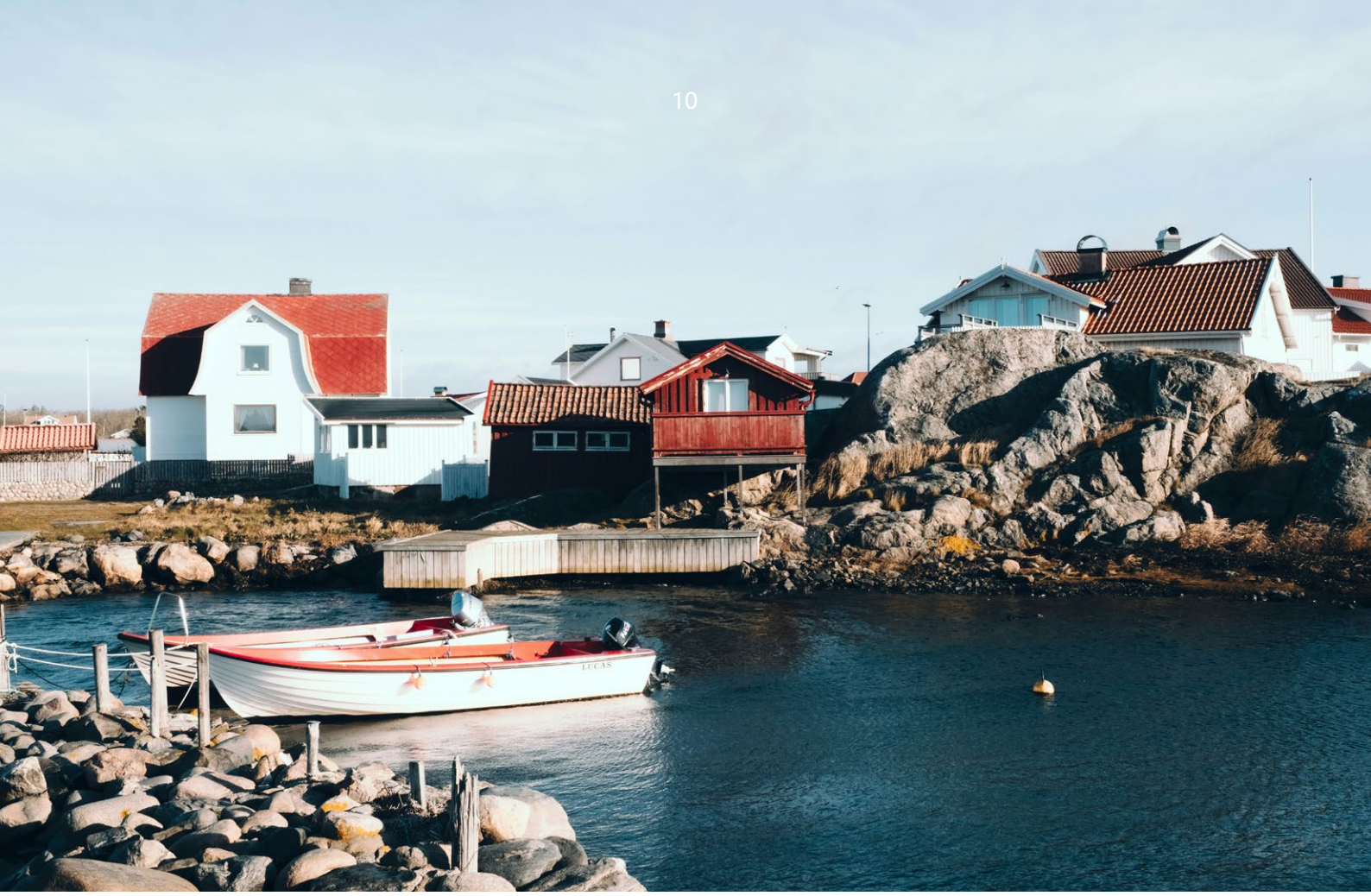
- Provide as much accurate data as possible
- Work with a financial planner who understands your long-term goals.

3. No matter how clever the technology, human input remains essential

As a tool to help you achieve your goals, it's important to remember that cashflow modelling forms only one relatively small aspect of your long-term financial plan.

So, while it's true that technology is improving all the time, you'd be wise to avoid the temptation to eliminate the human element that a financial planner can bring.

A cashflow plan used in isolation, without the input of a financial planner who has taken the time to understand your life and aspirations, is unlikely to result in a secure financial future.



3 examples of when cashflow modelling can help you forecast your financial future

As you have read, above all, cashflow planning can give you peace of mind for the future.

Even in difficult market conditions or when your goals or circumstances change, knowing you have enough money to live your desired lifestyle can be hugely reassuring.

Here are three examples of when you may wish to use cashflow modelling to forecast your financial future.

1. Gain clarity on when you can afford to retire and enjoy your desired lifestyle

What constitutes the right amount for your retirement will depend on the type of lifestyle you want to live.

The ideal amount will be enough to support your dream lifestyle, while still allowing you to help your family, and leave a reasonable legacy.

How much you need to achieve "the right amount" will be different for everyone. And cashflow modelling will help you see what's likely to be realistic for you.

There are various reasons why you might not have saved enough for your retirement. Problems such as divorce or separation, a failed business, or long-term illness can all have a detrimental effect on your savings.

This needn't mean that you can't retire when you want, but you may need to adjust your lifestyle expectations or save more while you're still working.

Alternatively, you may choose to work, save, and remain invested for longer so that you can retire comfortably and enjoy having more money to live on in later years.

Again, cashflow modelling can help you get a clear understanding of when you could afford to retire, giving you sound knowledge of whether you need to work longer, or shorter than you may have anticipated.

2. Prepare for major milestones and unexpected challenges

Being able to see how your finances would fare if something unforeseen happened to you or your family can be hugely helpful.

Knowing that there may be weaknesses in your financial plan ahead of time could grant you the opportunity to take appropriate steps and correct any shortfalls or put suitable protection in place to help you and your family cope should the worst happen.

It's also possible to alter the information provided, allowing you to understand how different future scenarios might affect your finances.

For instance, you can see how changing the date of your retirement might alter your plans, adjust the level of return on your investments, or simulate a fall in the market.

Likewise, if you're planning a big cash outlay at some point in the future such as for a world trip or a child or grandchild's wedding, it can help you to see how a significant spend might affect your overall plan.

3. For reassurance around how much of your wealth you could afford to gift to your children during your lifetime

While gifting or lending money to your family and loved ones can be rewarding, it's crucial to consider the long-term impact on your own finances.

You may have saved what seems like enough to support your own retirement lifestyle for decades to come, but you also need to factor in the effects of inflation, your longevity, and how you might cover the potential costs of later-life care.

Cashflow modelling can help you understand exactly how much you can afford to spend or give away; while also knowing you'll have enough left over to support your own lifestyle, no matter what might happen in the future.

While it doesn't allow you to forecast every possible outcome, cashflow modelling can illustrate a whole range of life events, allowing you to plan with confidence.

So, you can focus your time and attention on the things you love and enjoy.

Work with a financial planner

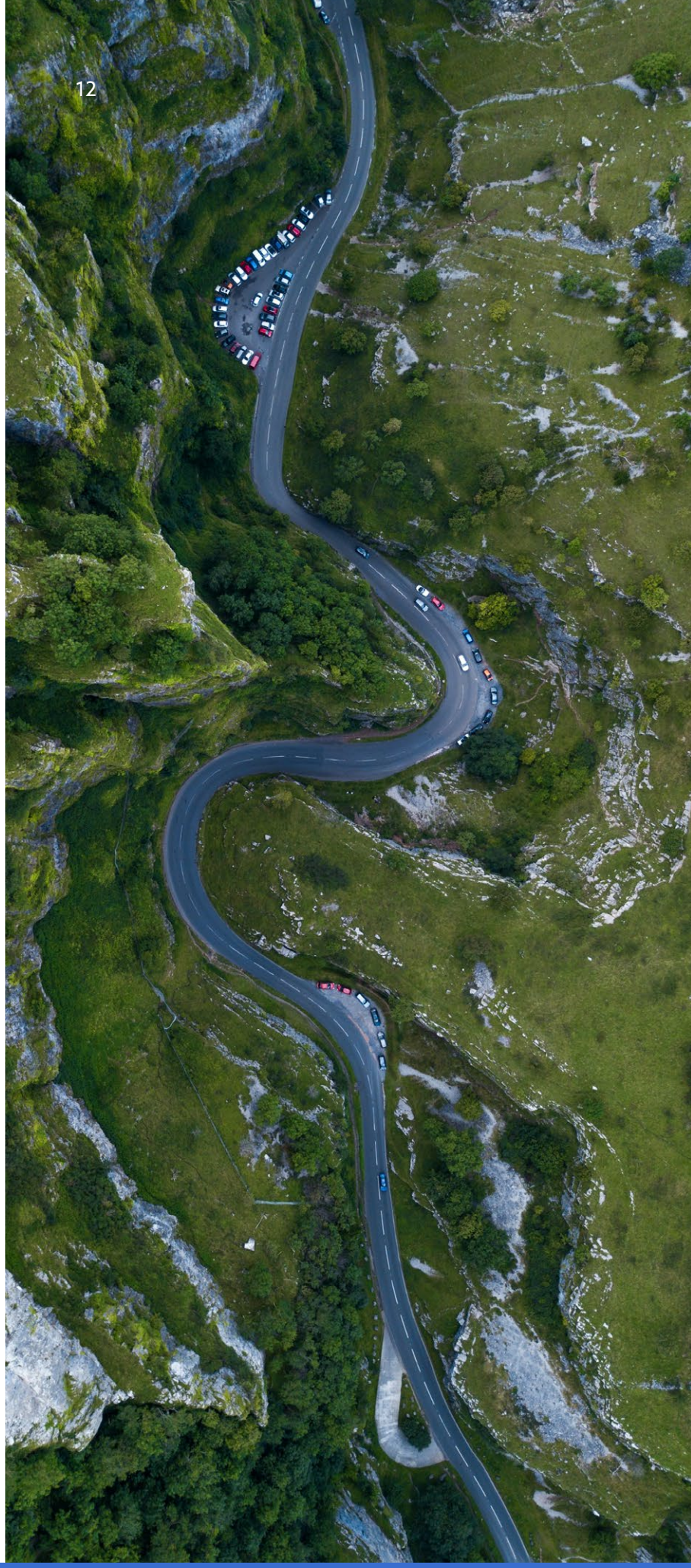
A cashflow forecast is exactly that – a forecast of what might happen. It can't provide concrete guarantees of what your future financial position will look like.

Cashflow modelling is not a replacement for bespoke financial planning but it is an incredibly useful tool. In the right hands, it can help you make informed decisions based on data, rather than assumptions and hope.

With a professional financial planner by your side, the smart planning software can help you enjoy the benefits of human knowledge and experience coupled with cutting-edge technology.

The information garnered from your financial forecast can be used to create a financial plan that incorporates multiple future possibilities. It can also help to answer many of your questions – both at the outset and at regular intervals when we meet to review your plan.

To find out more about how we use cashflow modelling to help you plan for a financially secure future, please get in touch.



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Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

All information is correct at the time of writing and is subject to change in the future.

The Financial Conduct Authority does not regulate cashflow planning or tax planning.

The value of your investments (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future performance.

The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates, and tax legislation may change in subsequent Finance Acts.

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