Cashflow modelling

Cashflow modelling is used by financial planners to forecast your future finances. It shows you in real time how much money you could have in the future and whether you are on track to achieve your goals.

What is cashflow modelling used for?

Cashflow modelling helps people with all kinds of different goals to find out what their finances could look like and whether they will have enough money in the future. It can help to answer questions such as:

- Will I have enough money to stop working when I want to?
- Am I going to run out of money in later life or can I spend more now?
- Will my family be financially stable if I go into care or die unexpectedly?
- Am I going to leave behind an Inheritance Tax bill?
- How can my other savings, such as ISAs, contribute to my overall retirement income?
- How can I take an income in the most tax-efficient way possible?

How does it work?

The first step is to collect information about your current finances. How much income do you receive each month? What are your outgoings? How much money have you and your partner saved in pensions, ISAs and other accounts?

Using specialist computer software, your financial planner will analyse this information along with your future goals and income requirements. They can consider life events such as your retirement, one-off expenses like holidays or gifts to children, and even your death.

Your financial planner will then crunch the numbers to create a long-term projection of your finances. This will show your future requirements alongside any increase or decrease in your assets, helping to identify any potential surplus or shortfall.

Explore different scenarios

You can run through many different scenarios to see how they might affect your finances. For example you can bring your retirement forward, change 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 tax bill – and your overall finances – over time.

How accurate is cashflow modelling?

Cashflow modelling helps your financial planner make sensible assumptions about your future finances. Like any forecast it can't be completely accurate, but it can identify trends and show you if you are on track to reach your goals. This is why many people review their forecasts each year and check their progress.

Case study — will I have enough money in retirement?*

Phil is a 62-year old who runs his own business. He lives with his wife Angela in Hertfordshire. He wants to stop working in the next few years and decided to meet with a financial planner to check that he would have enough money for the retirement he wanted.

Before the meeting

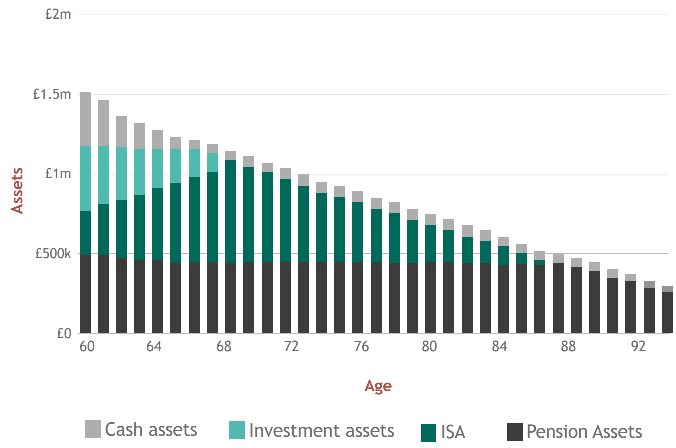
Before attending the meeting Phil filled out a spreadsheet with all of the couple's assets, savings and liabilities - for example their pensions and investments, mortgages and Phil's business account. He also listed their current and future outgoings such as pension contributions, the regular expenses they expected for retirement and other planned expenses like a new car and annual holiday. Phil's financial planner had analysed these details using the cashflow modelling software.

On the day

The results showed that they had saved more than enough money for the retirement that they wanted. They could live to 100 and still leave an inheritance to their children.

Phil was keen to run through different scenarios. For example, could he stop working this year or take more holidays during retirement. For peace of mind he also wanted to make sure he could afford care home fees in the future, and ensure Angela would be financially comfortable if he died unexpectedly.

An example cashflow illustration



Please note that this initial cash flow analysis has been undertaken on cash flow modelling software and is based upon a large number of assumptions. As this analysis has been undertaken purely for illustrative purposes, it should not be relied upon for financial decision making.

The financial planner's recommendations

The financial planner gave Phil the peace of mind that he was in a good financial position and could afford to spend more during retirement if he wanted to. As Phil was forecast to leave behind an Inheritance Tax bill when he died, the pair decided to meet again in a months' time to discuss Phil giving each of his two children a cash gift to help them onto the property ladder.

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Important information

*This is a real client case study. Names have been changed for anonymity and the client has given consent for the case study to be used.

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