



CHURCH'S
FINANCIAL PLANNING

A Guide To
Cash Flow Modelling



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Introduction: Financial Planning

Financial Planning with the use of cash flow modelling is a method of arranging your finances using a strategic approach.

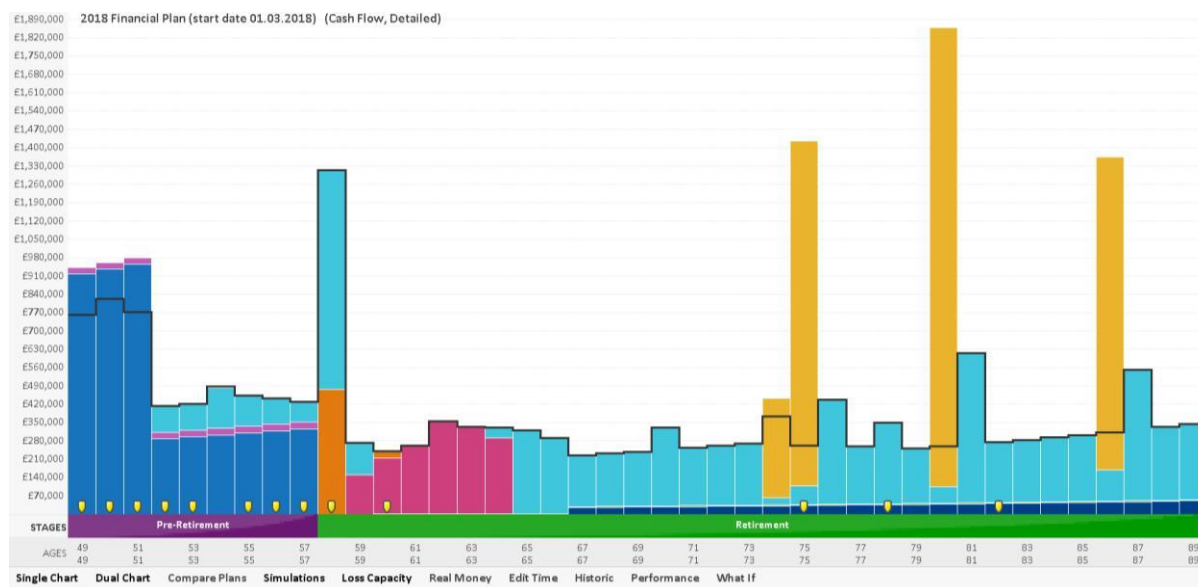
In its simplest form, it is the process of assessing your current and forecasted wealth, along with inflows (income) and outflows (expenditure), to enable a picture to be created of your finances both now and in the future.

Put simply, this is a way of linking future needs and objectives to short term decisions. How much should you save? Should you pay down debt? What sort of investment portfolio should you have and what risk should you take?

You can then add future expected events, for example a retirement pay out, alongside a series of assumptions about future rates of inflation, investment returns, borrowing costs and so on.

These types of questions can all be answered by viewing them in the context of your lifestyle wishes.

The cash flow software referred to in this document is an important tool to help with financial planning, to produce a visual long-term picture of your lifetime cash flow, as illustrated below:



Financial Freedom

The world has changed considerably over the last 30 years. One of the biggest impacts of the changing economic and social landscapes is the nature of retirement.

In the past retirement tended to represent a fixed point in time. People would work during their lifetimes, receiving a salary and then would retire on a given day and live off a pension. The norm today is quite different and the trends suggest these will accentuate.

Here are some of the key factors:

- More people want to continue working in 'retirement years' or want to stagger their retirement, working part-time or slowing down
- More people than ever now run or operate within their own businesses (nearly 5.5 million in the UK are now in this position)
- Very few employees now stay in one job, many employees move around quite liberally throughout their working lives
- People are living a lot longer in retirement
- The proportion of the population age 60+ has increased radically

This leads to a very different planning position. For many people today the primary aim is not to have enough money to retire on a certain day, but to achieve financial freedom at the earliest possible point.

With the use of the cash flow planning software, we can explore with individuals when they may achieve financial freedom.



What may the future look like?

We can use the software to run a number of 'what if scenarios?' to review different aspects of your future financial position. What if you change the date you retire, what if you inherit a lump sum when you are 60 as opposed to 80, what if you pay off your mortgage or leave it untouched, what if you need care, what if you live to 105?

Also what if your investments grow at 2% per year as opposed to 5% per year, what if you double the amount you save, what if you have to cope with inflation at 4% per year instead of 1.5% per year?

What if you start taking your pension income at 60 or leave it to 65? What if you change the income you take from your savings from £15,000 per year to £25,000 per year?

The problem with doing this exercise is you may struggle to cope with the variables. Attempting this on the back of an envelope would be very difficult!

With the use of the cash flow modelling software, this can help you to properly understand and analyse the differences future variation in assumptions could make.

The whole purpose of this exercise is to provide invaluable information and insight into your financial planning.



Ongoing Review of Planning

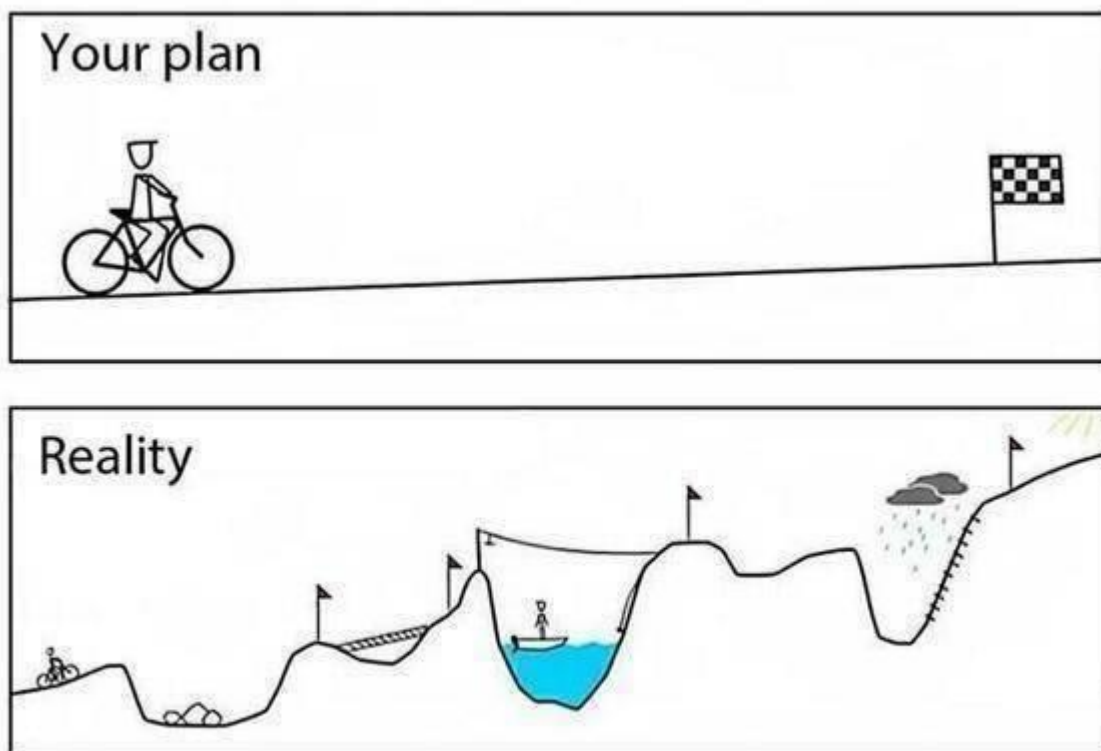
It is very important to understand that the planning process is not meant to be a rigid exercise, with no room for flexibility. The cash flow planning approach is to help inform and assist with financial planning decisions, not make them for you or automate them.

The object of running the cash flow is to produce a picture of the future pathway and to connect your goals with your short-term decisions.

Cash flow Planning helps you to know what cash is coming in, what cash is going out and being able to plan for it. The future forecasts analyse your income and expenditure over the long-term and given the assumptions, it will outline whether your lifestyle can be maintained and your financial goals met.

If there are shortfalls and/or you run out of money (based on the assumptions) it will show you how, by how much and when. You can increase the inflows or outflows of cash by changing the assumptions.

Over time your needs will change and your financial plan must also evolve and adapt.



Cash Flow Planning Can Make a Big Difference

Here are some examples:

- You are getting close to retirement and want to know how much return you should be getting on your invested sums to achieve your financial freedom amount.
- You own a Business or a share in a Business and want to know when you should aim to sell out and what sort of sum you should target.
- You are invested into pension funds and are not sure if your current investment mix is involving too much risk.
- You are looking towards your later years and want to ensure you are fully covered should you need to pay for care fees.
- You are weighing up future retirement options and want to see the difference between partial, staggered retirement, as opposed to an outright retirement.
- You may want to consider your legacy position on death and fathom what your finances need to look like throughout your pre and post retirement period so you can leave a decent legacy sum to your beneficiaries.
- You are in retirement taking an income and wish to see what situations may lead to a position where you run out of money.

These are only a few examples, but there are many ways cash flow planning can be used. Virtually any question relating to your long-term plans and their viability can be answered with the use of cash flow modelling and ongoing financial planning discussions.

About Us

We believe financial planning is an ongoing process which enables you to make sensible decisions about money that can help you create the future you want for you and your family.

As you can't predict the future, everything we discuss about how you might want your life and finances to look has to be a series of best but reasoned guesses. This is where the use of the cash flow modelling can be most effective.

In isolation, such guesses and assumptions for the future may have limited worth but where they are then reviewed and discussed on a regular basis this can form a very effective planning process for you.

With ongoing uncertainty, not just with our investments but with life generally, as a firm of independent financial planners, we at Church's can be here to help you make good and reasoned decisions about what you do for future.

It is about you being in control of your finances rather than letting your finances control you.

If you wish to find out more, please do not hesitate to contact us for a no obligation chat.



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Church's Financial Planning Ltd is authorised and regulated by the Financial Conduct Authority.
Church's Financial Planning Ltd is registered in England and Wales No. 03171812.

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