Questions from the Personal Finance Society's Cash flow modelling webinar

Our panel of industry experts have taken the time to answer the additional questions received during the recent cash-flow modelling webinar which we didn't have time to answer live.

Can you provide a list of some cash flow modelling systems available on the market and their average costs?

Software provider	Commentary	Cost
Moneyscope http://moneyscopehq.com/tour/ enquiry@paraplus.co.uk	A service offered by ParaPlanPlus.	£25p/m – 1 user, unlimited clients and cash flows £45 pm – 2-5 users £8 per user – 6 + users (30 day free trial available)
Cashcalc https://www.cashcalc.co.uk/ info@nicheifa.co.uk	The calculators and tools were originally designed by Niche Chartered Financial Planners in South Wales. CashCalc now has its own full time web development team who maintain and develop the tools, as well as offering support to CashCalc users.	Basic modelling tool is free. Advanced tool is £30p/m
ParaPlan http://www.planplus.com/contact-us/#post-contact-us info@planplus.com	Canadian-designed system is more along the lines of a traditional calculator tool, but offers simplicity in design and process flows.	Unknown
Voyant Adviser https://www.planwithvoyant.co.uk/content/uk/default/features/ sales@planwithvoyant.co.uk	Key features include: • Timeline - used to define key life stages and events • Simulations/illustrations - demonstrate the impact of "what if" scenarios • Real-Time Snapshots - compare current account balances to established goals • Collaboration - supports secure sharing of information	First licence £150p/m, each additional £90p/m

Prestwood http://www.truthsoftware.co.uk/software-options/ Miles Hesketh, Marketing Manager: Miles@prestwood-group.co.uk	The pioneers of lifelong cash flow modelling software for over 30 years offer two products – '**Truth**' and '**Professional**'. **Truth** provides: • Comprehensive financial planning software including cash flow modelling. • Designed to be used live during client meetings. • Instant what-if scenario analysis and catastrophe solutions • Cloud-based software available on all devices (iPad, Mac, PC etc.) • links to many other back office systems including Avelo, Intelliflo, Plum, and Capita (CCD). **Professional** includes everything in Truth plus a practice management (back office) system.	(1-month Free Trial available) For Truth – first licence £197p/m. For Professional – first licence £297p/m. Additional licences are £75p/m. Sliding scale for volume licences. Comprehensive training, Masterclasses and Telephone support.
Distribution Technology http://www1.distribution-technology.com/about-us/ sales@distribution-technology.com	Dynamic Planner includes a number of configurations including risk profiling, portfolio construction and fund selection. Also includes lifetime cash flow planning.	£85 per month.
eValue http://www.evalueis.com/index.html Andrew Storey, Senior Consultant: andrew.storey@evalueis.com	**eValue's Advisa Centa** supports the full advisory process by offering a suite of analysis, forecasting and planning solutions to financial advisers. Lifetime planner is their cash flow tool.	Unknown
IRESS http://www.iress.co.uk/Portals/194991/wealthoptimiser/features-and-benefits.html Head of Business Development: Johann.kock@iress.co.uk	An Australian software company specialising in the development of software systems and services for financial markets. Owners of Avelo. Avelo Optimiser includes flexible lifetime cash flow planning.	Unknown

Do software providers' systems get audited by anyone?

Rory: The FCA does not kitemark. If we did test some of the tools, we wouldn't be permitted to disclose which had passed and which had failed.

Barring unexpected changes in a client's circumstances or in relevant legislation, how often should cash flow modelling plans be reviewed, annually or say every 2 years?

Paul: I recommend having annual planning meetings – during which cash flow modelling would be built in. It's important to keep on top of client circumstances and priorities.

Rory: It's worth considering that for clients with more complex financial circumstances an annual review may be appropriate and for those with less complex needs, perhaps reviews are required less regularly. Different firms and different clients will have varying requirements.

Pension wise page is great for health life expectancy, but what tools are there for sub-par health/lifestyle individuals?

Martin: Providers are developing longevity calculators which can give indicative figures based on a range of basic health and lifestyle information.

Robin, do you charge clients separately for the cash flow planning service?

Robin: Sometimes, yes. However, the lifetime cash flow forecast is often incorporated within the initial planning and reporting part of the process.

What level of charge are people willing to pay for this service?

Robin: We provide a fee quotation based upon the time involved and the team members involved in the process. A typical fee quotation is between £1,500-£3,000 but the clients do need to understand the value.

If you are charging separately for the cash flow modelling and the implementation, presumably the first part is then VAT-able?

Robin: The advice we have received from our accountant is that cash flow modelling (and indeed planning and advice carried out prior to implementation) is non-VATable if there is an intention to effect a transaction for the client. I would encourage you to seek your own advice on this point from your accountant or tax adviser.

Does the regulator have a view about cash flow being used instead of TVAS when considering a final salary lump sum transfer?

Rory: TVAS is still required but it is used to achieve a different objective. Both have their own merits. We are reviewing our pension rules in the summer so will be publishing a consultation paper later in the year and will welcome feedback at that time.

Question for Rory: Do you worry about the perceived precision that Advisers could be implying based on deterministic cash flow modelling tools (i.e. there is one outcome) and do you think that

a stochastic approach to cash flow modelling should be recommended instead so that a variety of outcomes can be tested?

Rory: different tools work in different ways. The important point is that advisers need to be clear about how they work, how to use them and the potential limitations.

If clients are changing their 'life plan' on a yearly basis - exactly what benefit does cash flow planning really have?

Paul: Every client will have varying priorities and needs over the course of their life, from someone in their 20s to someone approaching retirement or beyond. You can't predict the future which is why it's important to have annual meetings to make sure you're still on track to achieve your goals and to adjust plans as necessary.

Robin: One of the real benefits of lifetime cash flow modelling is to enable clients to test different scenarios before making decisions such as selling their business or making gifts. It is true to say that we do not adjust the cash flow each year for every client – it really depends upon whether the client's circumstances or aspirations have changed or are about to change radically.

Given the absolute impossibility of inputting correct assumptions into a current cash flow modeller (given the many variables that exist in returns/inflation/charges/personal circumstance change) are we in danger of depending on a modelling approach that can at best be only indicative? Without a high degree of certainty in assumptions, I fail to see how this approach can be prescriptive and absolutely effective in its current form. And we may be in danger of misleading clients into an area of promise/certainty.

Rory: There are a number of things to consider here. Firstly, cash flow modelling is a useful process to go through and is a good starting point to help you and the client consider their future financial requirements and goals. Secondly, it's important that the adviser makes it clear to the client that the illustrations are based on assumptions and that the client is aware of, and is comfortable with, the assumptions being used. Thirdly, the adviser should be sensitive to the assumptions being used. They should be sensible and reasonable.

Paul: Cash flow modelling should be used as part of a lifelong financial planning process and not for a one-off product purchase. That means that the adviser should be planning for the client's needs for their whole life and not for a short-term solution. We always assume the client may live to 100 years of age to ensure that they won't run out of money during their retirement.

To what extent do you guide the client on the reasonableness of their assumptions?

Robin: Some clients have strong views of their own, whilst others will rely heavily on us to use professional judgement. It's a good idea to record the basis upon which assumptions were set and we always tend to remain on the side of caution for planning purposes.

Please can you consider the scenario where a client is not realistic about the CFM outcome (does not want to accept a guaranteed reduced income) and as a result does not take any action and so no plan is made, which makes them possibly more vulnerable to shortfall. How would you deal with this?

Paul: We always have a very comprehensive meeting agenda, and we send thorough minutes to the client within 24 hours. We make a note of every recommendation and whether it was accepted or rejected by the client and why. The key is to fully understand the objective of the client before you start so you know what you're aiming to achieve from the meeting.

Is there or would there be an opportunity to see an example of an initial questionnaire to get the clients to consider their thoughts for the future year and beyond?

Paul: We have a detailed questionnaire which clients complete before recommendations are prepared or updated. We also ask them to complete a short supplementary questionnaire each year to ensure that their details are up to date and there haven't been any major changes to their circumstances.

Shouldn't the FCA set some general 'guidance' on assumptions as this would be helpful in setting parameters?

Rory: In general terms, we try to provide high level guidance rather than micro-managing advisers and how they choose to run their businesses. Secondly, there are a number of risks with having a standard set of assumptions, i.e. these won't necessarily be appropriate for all clients. It allows the adviser to have more flexibility when advising their clients who may have a range of different circumstances. Finally, we try not to be too prescriptive as ultimately the adviser needs to make their own decisions, using their best judgement.

Paul: The FCA provides good guidance on investment growth assumptions and I always find that helpful and include it on our agendas.
To see an example of this wording incorporated into a client meeting agenda, please click here.

Should annuities be linked to inflation if people are living for longer? Should there be differing inflation rates e.g. retirement inflation is different from the RPI or CPI?

Martin: With regard to inflation, there are a number of ways this can be accounted for. RPI and CPI could be very different from 'silver RPI' but an option may be to elect a fixed level of escalation. There is a trade-off between escalation and initial income which will need to be considered.

However, with the new flexibilities it is at least permissive to plan the shape of an annuity more specifically at outset and products may develop in this area.

For some, a combination of annuity and drawdown or a phased approach may be appropriate so that further monies can be released as and when income needs change.

In drawdown situations is it essential to take into account the impact of the sequence of investment returns to give realistic projections?

Martin: The sequence of returns makes a big difference. You can have the same average annual growth on different funds, but the resultant value can look very different over a period of months and years depending on the sequence of returns. Using cash flow modelling as part of the regular review can reflect what's really gone on year by year and allows people to re-analyse their objectives and how they might be achieved or adjusted.

Robin: Personally, I don't see the value in being that precise at an early stage in someone's life because so many things can change along the way. I think for most people, for long range planning purposes, it is acceptable to assume an average investment return.

For Rory: for someone in drawdown with a fund of say £500,000 taking £20K income, what would be a reasonable range of ongoing adviser charges?

Essentially, you are able to charge what you think is a reasonable fee as long as it is fully disclosed to the client. You must ensure that the cost of the advice is of value to the client in light of the level of charging involved.

What is F&TRC?

F&TRC is the Finance and Technology Research Centre which aims to maintain an unparalleled understanding of how technology can help people take better control of their money and improve the operation of the personal finance community.

One of useful tools they have available is a cash flow modelling software comparison which you may find helpful in deciding on which is the right program for your business. The comparison can be found at: www.advisersoftware.com . Log in or register, go to the Software tab and follow the Risk Profiling & Portfolio Analysis link.

Like many firms I am sure we have numerous old style clients who may not see the significance or are prepared to pay for it. How can this be overcome?

Paul: It's very easy to give a demonstration of the service, to show the benefits and the associated costs. It's important to build strong relationships and to become the trusted adviser. It is not all about products. Financial planning is the only profession dedicated to helping clients achieve what they want out of life. We arrange our meetings a year ahead and our paraplanners liaise with clients 90 days prior to planning meetings. Clients find this prior preparation very helpful. They don't want unnecessary meetings. Clients do a lot of preparations for their planning meetings and everyone understands the arrangements. Cost doesn't become an issue.

Robin: We moved to a fee charging model in 2009, so it is fair to say that it is easier to position cash flow modelling to new clients. We certainly had to think carefully as to how you explain the value of paying fees for cash flow modelling to existing clients but it does come down to explaining the value to clients. Also, you may have to accept that some legacy clients may never appreciate the value.