

Cash flow modelling – the realities of freedom and choice

Tuesday 28th April 2015

Welcome



Keith Richards

CEO of the Personal Finance Society



www.thepfs.org/fpa

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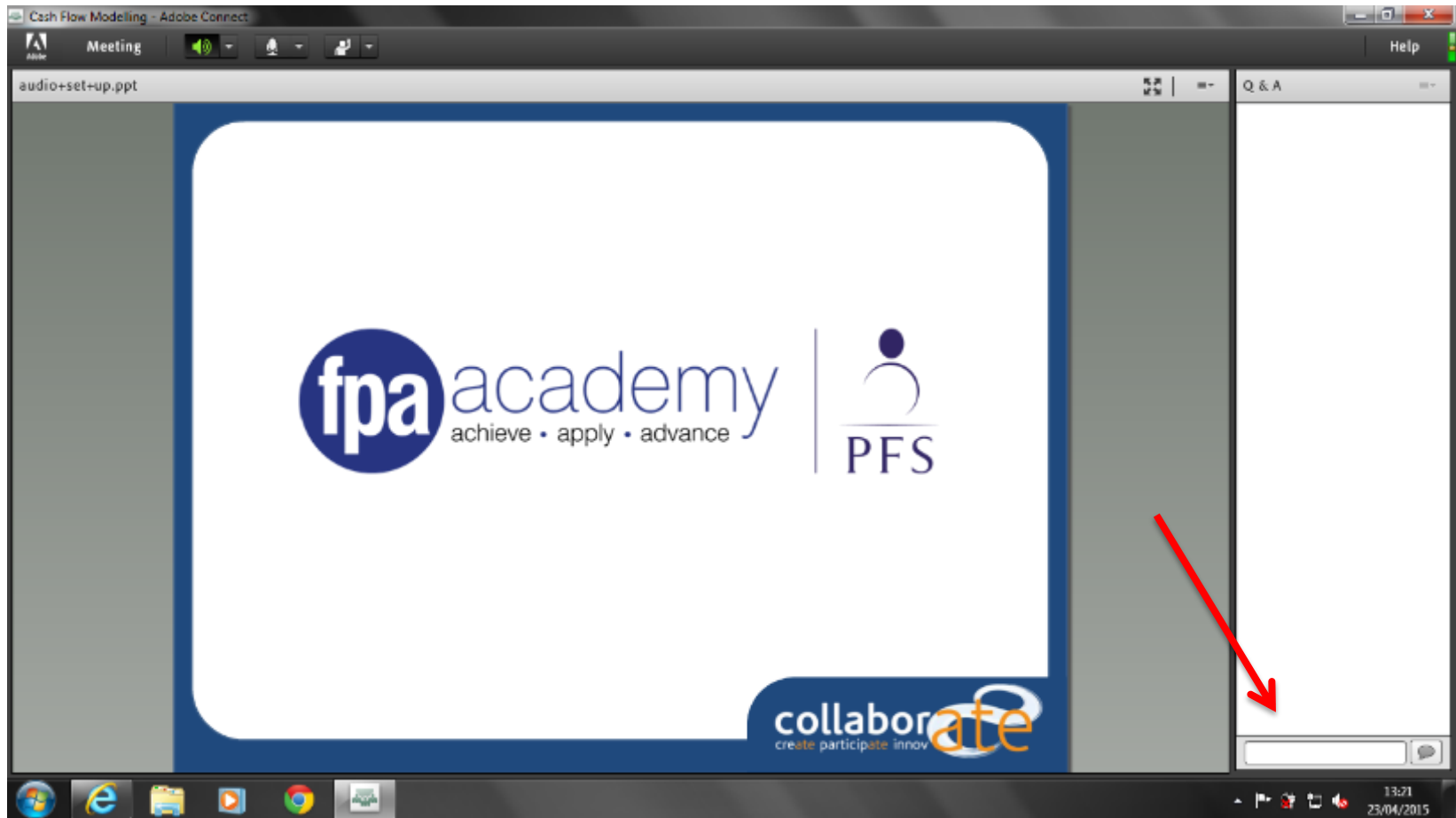
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Please submit your questions



Today's expert panellists



Paul Etheridge

Chairman of
The Prestwood Group



Martin Lines

Head of Business
Development,
Partnership



Robin Melley

Founder of
Matrix Capital



Rory Percival

Technical Specialist,
FCA

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The power of cash flow modelling



Paul Etheridge

Chairman of the Prestwood Group

Key points

- Development over the past 30 years
- Benefits to consumers
- Benefits to advisers
- How to guarantee profits

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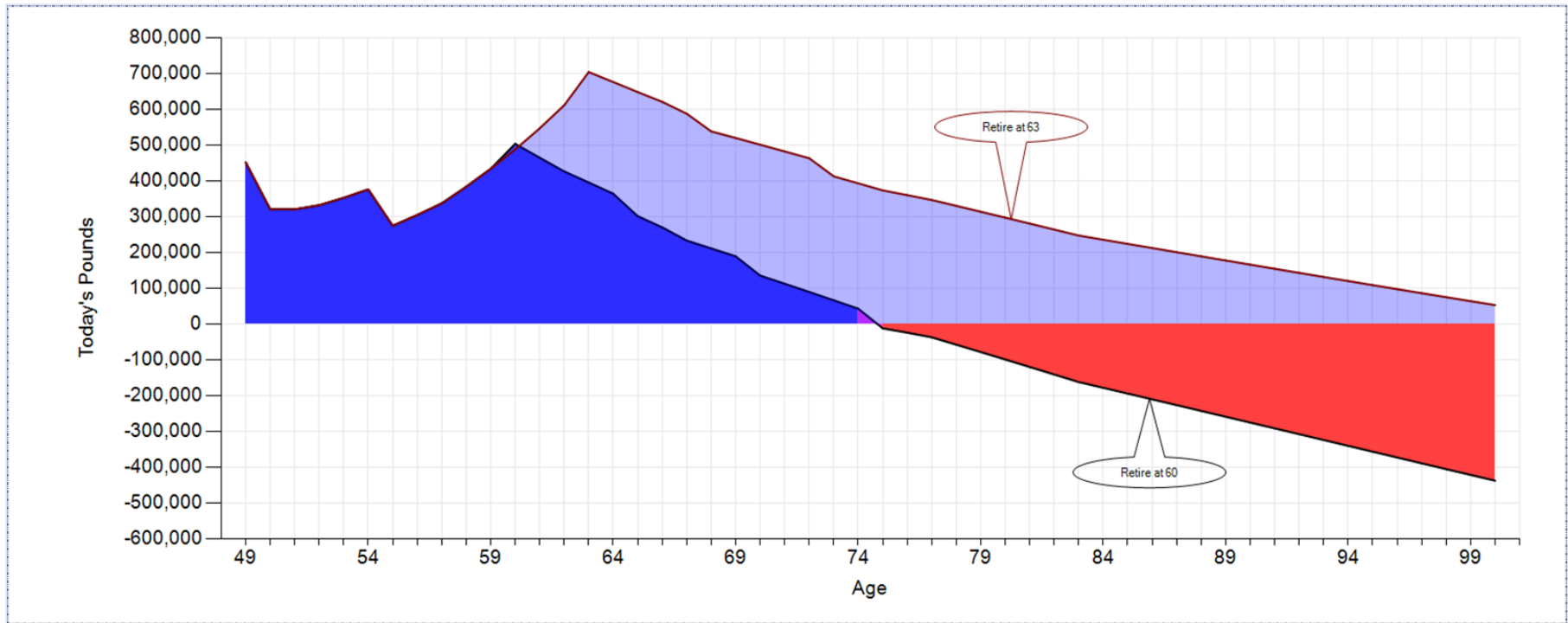
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Can I retire at Age 60?



Based on current assumptions, if the client retires at age 60, liquid capital would be exhausted by their age 75. Working and retiring 3 years later will provide enough until at least age 100.

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Numerous alternative solutions can be quickly demonstrated with clients in order to determine:-

- how much more regular income is required up to retirement.
- how much would need to be realised as a lump sum from other assets.
- how much the business should be sold for, and when.
- how much expenditure should be reduced by.
- what growth rate would be required from investments.
- how much more should be invested into a pension until retirement.

This empowers the client to make informed decisions during the meeting.

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The Impact of Freedom and Choice



Martin Lines
Partnership

Freedom and Choice



These reforms create more choices for individuals, and we want people to be equipped and ready to make informed decisions.

Treasury, March 2014

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Pensions make-over

Then

Trivial Commutation

Small Pots

Capped drawdown

Flexible drawdown

Annuity

Death benefits taxable

Annual Allowance

Now

Trivial Commutation

Small Pots

Uncrystallised Funds Pension Lump Sum

Flexi-Access Drawdown

Annuity – significant changes

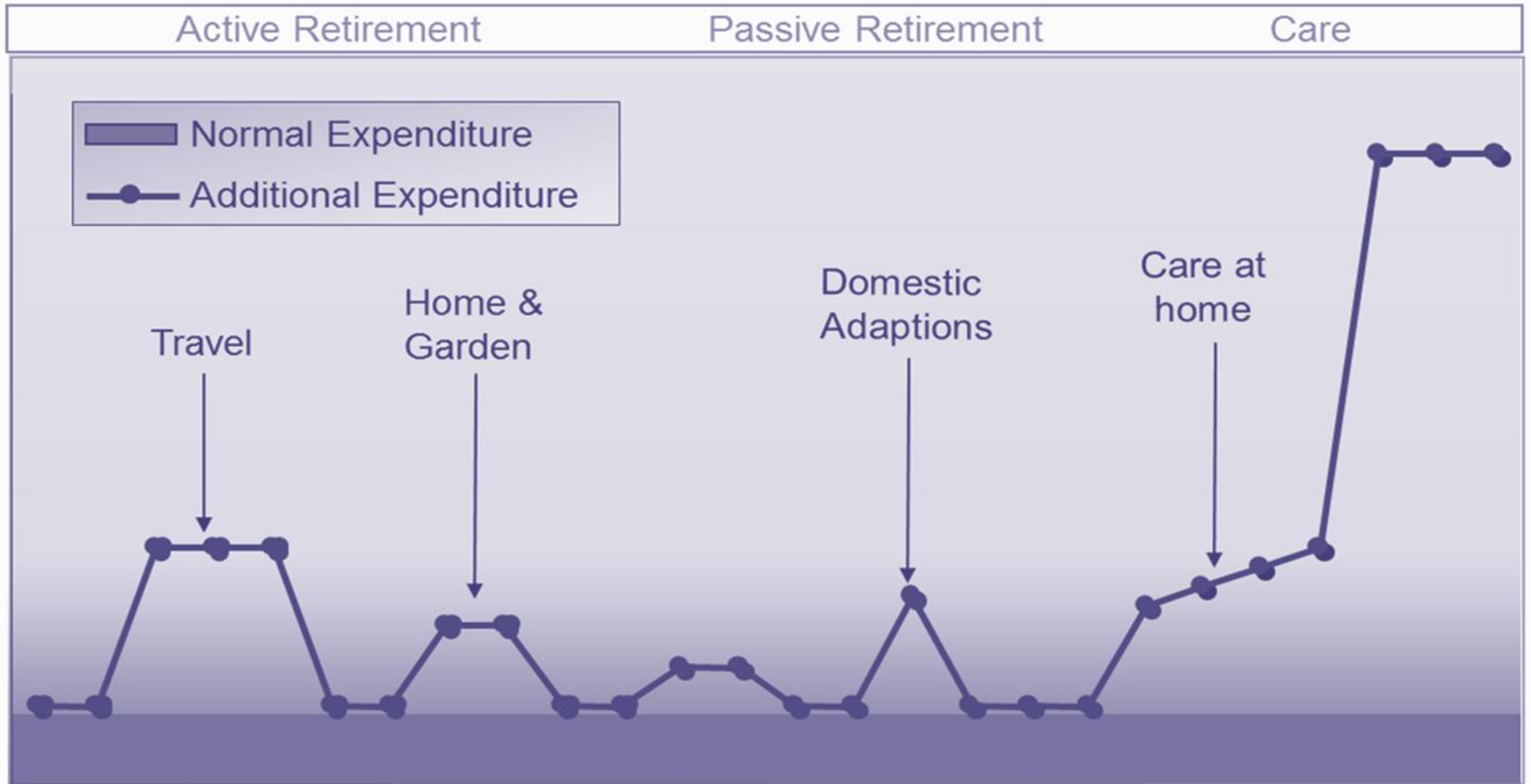
Death benefits - tax free pre 75

Annual Allowance(s)!

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We want this...



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But how do we avoid this?

Age UK: Pensioners at risk of running out of cash a decade early

10 January 2015 8:00 am | By Sam Brodbeck

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People with small pension pots are likely to run down their savings long before they die, old age charity Age UK warns.

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Some idea of objectives..

Option	%
Leave it invested and take an income from it	19%
Convert all of it into a regular retirement income guaranteed for the rest of your life	16%
Take all of it out and do with it as you please	7%
Take all of it out and invest in a way that gives you an income from it	5%
Convert some of it into a regular retirement income guaranteed for the rest of your life and invest the rest in a way that gives you an income from it	19%
Convert some of it into a regular retirement income guaranteed for the rest of your life and take the rest as cash to do as you please	13%
Don't know	22%

Financial Planner 26/1/15, research from NEST

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Revisiting capacity for loss

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20th November 2014

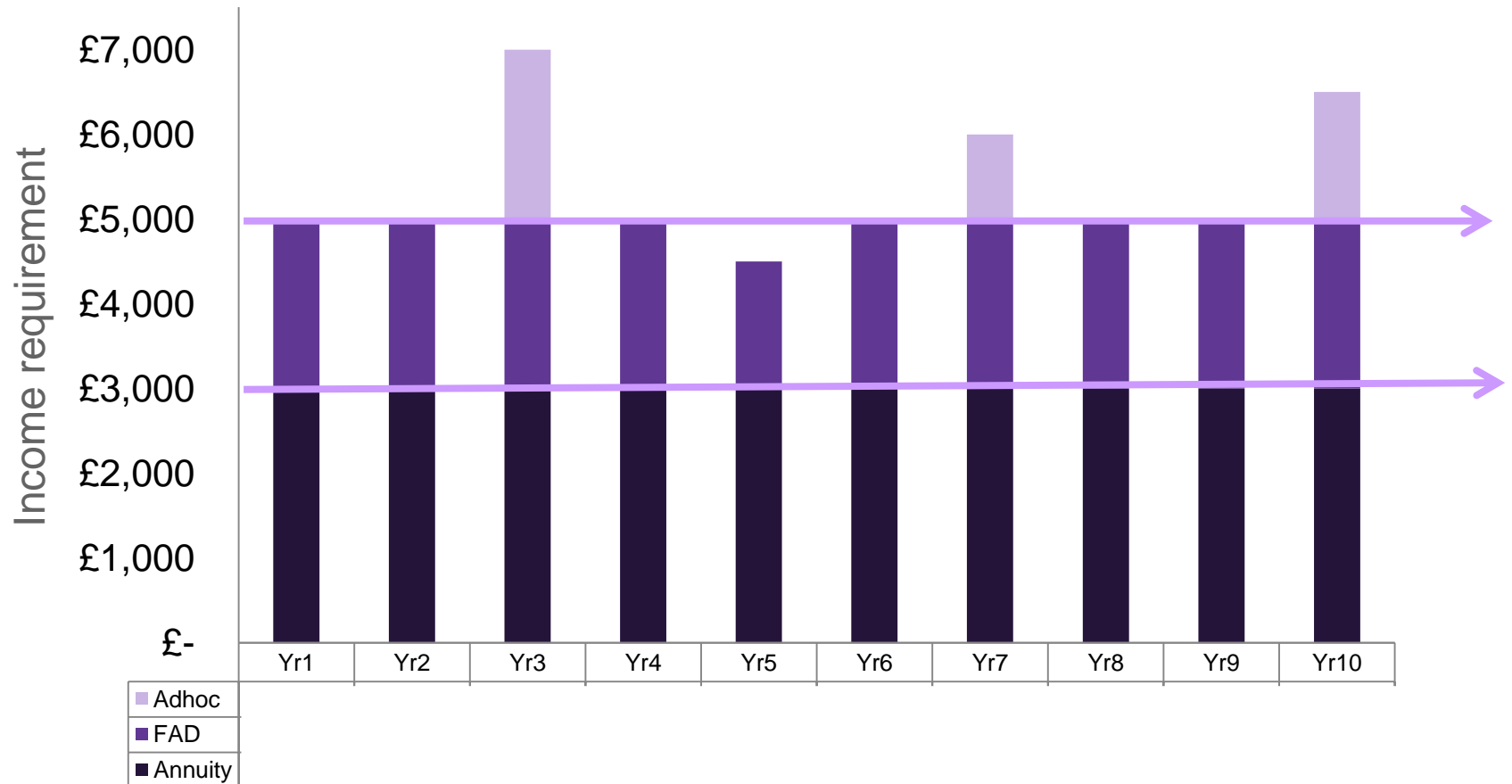
“...there is the risk the client might give an emotional answer, rather than the hard-nosed numbers point that capacity for loss is really getting at.”

Rory Percival, FCA, Money Marketing 20/11/14

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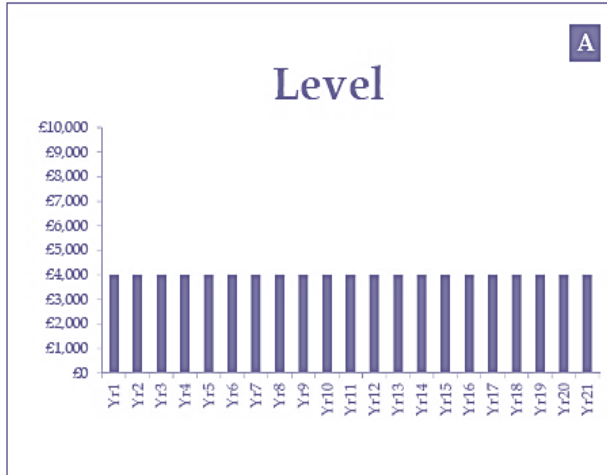


Combining annuity and drawdown

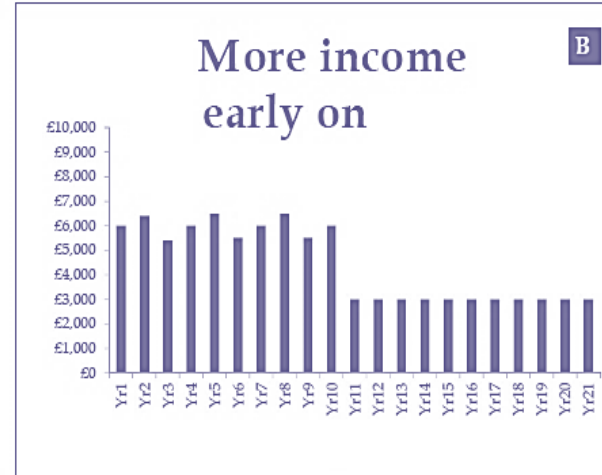


How will you use it?

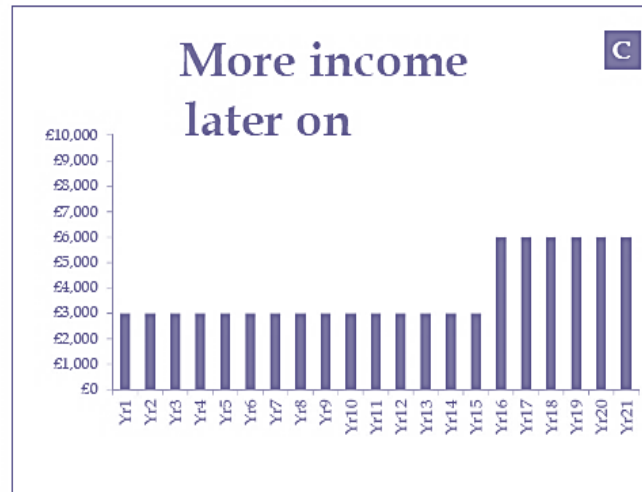
27%



55%



10%



Source: PPI / Ignition House, January 2015

Residential Care: interpretation

Assumes:

£72,000 cap

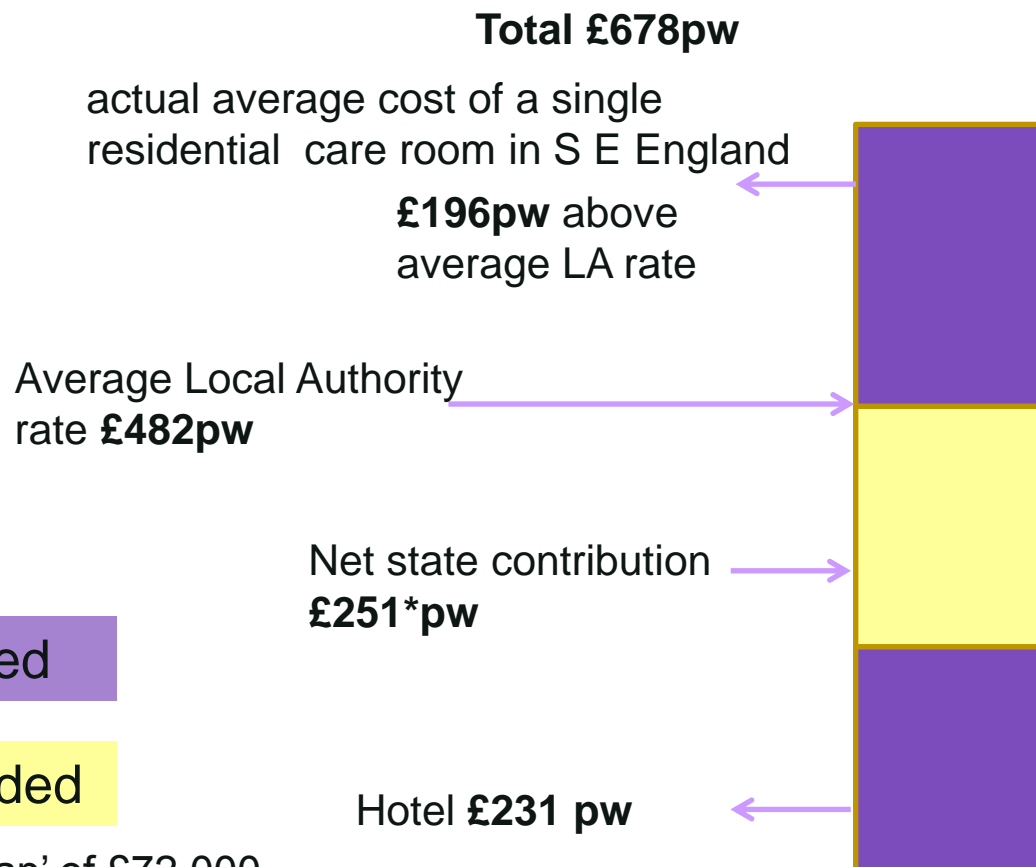
£12,000 hotel costs

After funding to the 'cap':

■ £427 per week - self funded

■ £251 per week - state funded

*only after self-funding up to the 'cap' of £72,000



Do not recommendations

- Upper threshold: £23,250 to £100,000 **Now £118k**
- Cap on **care** cost £25K to £50K (£35k?) **Now £72K**
- Hotel costs c£7k to £10k **Now £12k**
- Consistent **national assessment** criteria
- Better **information** and **advice** to be made available
- **Eligibility** criteria :“**substantial**” need

Take Care with your Pension

*“Those who...draw down their full pension pot quickly....need to **consider how this will effect their current and future entitlement to welfare and social care support**”.*

Freedom and choice
in pensions

Freedom and Choice in Pensions - Response to consultation, July 2014

Take Care with your Pension

Darling warns on care crisis and pension reforms

‘....it worries me that someone can take out a lump sum and six years down the line they don’t have the money...’

‘I think the bigger conversation in health that we have not had as a country is how we pay for people’s long-term care, which is at the moment as you know is **privately provided unless you have some acute condition.**’

New Model Adviser 8th January 2015

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Thank You

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Practical application

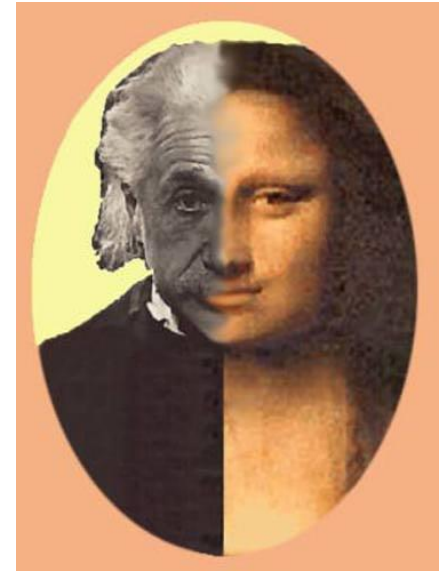


Robin Melley

Chartered Financial Planner
and Founder of Matrix Capital

Why use cashflow modelling?

- Financial planning is both an art and a science
- Financial planning -v- financial advice
- Profit centre and NOT a cost centre
- Powerful tool with the right client in the right circumstances



How we use cashflow modelling...

- Exploratory meetings
- Precision with needs analysis
- Platform for decision-making – scenarios
- Estate planning and gifting
- Calculating the client's “number”



Choosing the right software...

- Level of complexity
- Client types
- Talk to clients beforehand
- Integration with back-office system
- Accuracy and functionality



A consumer's perspective



Rory Percival
Technical Specialist, FCA

Question 1

A risk of drawdown is exhausting retirement funds either by underestimating longevity or spending too much too early. To what extent do you see cash flow modelling as an advice component?

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Question 2

Does the regulator have a view on the appropriateness and limitations of the different cash flow modelling software?

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Question 3

What rules apply to cash-flow modelling; for example, what assumptions should be used?

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Any questions for the panel?



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National Financial Planning Symposiums



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