

**Strategies** 

A lifestyle report prepared for Keith Patterson and Kathryn Patterson

Wealth Management Analysis

#### Presented by: Ross Mackereth

For Evaluation Purposes Only

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# PLEASE READ CAREFULLY

This report illustrates your financial lifestyle, or your hypothetical cash flow and its effects on your net worth. This analysis provides only broad, general guidelines, which may be helpful in shaping your thinking about your planning needs. It can serve as a guide for discussions with your professional advisers. The quality of this analysis is dependent upon the accuracy of data provided by you. Calculations contained in this analysis are estimates only.

Actual results may vary substantially from the figures shown. All rates of return are hypothetical and are not a guarantee of future performance of any asset, including insurance or other financial products. All inflation rates are estimates provided by you.

This analysis contains very specific computations concerning the value of your assets today. These computations are based on assumptions you provided concerning the value of your assets today and the rate at which the assets will appreciate. These assumptions must be carefully reviewed for their reasonableness. These assumptions are only a "best guess". The actual values, rates of growth, and tax rates may be significantly different from those illustrated. The actual taxes due may be significantly greater or smaller than those illustrated. No guarantee can be made regarding values and taxes when actual appreciation rates and tax rates cannot be known at this time.

For illustrative purposes, many assumptions must be made concerning the sale of properties or the change of property ownership. These are for illustrative purposes and not to be considered as legal advice; only your solicitor should provide such advice. No legal or accounting advice is being rendered either by this report or through any other oral or written communications. Please discuss legal and accounting matters directly with your advisers in each of those areas. Because your planning concerns and goals may change in the future, periodically monitoring actual results and making appropriate adjustments are essential components of your program. Annual updating allows a year of estimated values to be replaced with actual results and can be very helpful in your determining whether your plans are on your desired course. Strategies may be proposed during the course of planning, including the acquisition of insurance and other financial products. When this occurs, additional information about the specific product (including a key features document, if required) will be provided for your review.



# **Confirmation of Facts**

The right plan must start with the right facts.

A financial plan must be dynamic; that is, able to change as quickly as your situation changes. Your plan is based on your facts and assumptions. You should be sure that all of the assumptions and facts listed here correctly reflect your situation and desires.

# CONFIRMATION OF FACTS

#### Keith Patterson

Age: 48 Male Born: 23 Jan., 1961

Email Address: keithkath@aol.com

#### Do not use Email for Notifications

Keith and Kathryn are married.

Home Phone: 0208 233 8967

Business Phone: 0870 455 644

#### **Mailing Address**

312 Great Charles Street London, 0, WC2 3AJ

#### **Children and Dependents**

#### Kathryn Patterson

Age: 48 Female Born: 23 Jan., 1961

Email Address: keithkath@aol.com

Do not use Email for Notifications

| Name<br>Jack<br>Julie              | <b>Date of Birth</b><br>02 Feb., 1996<br>14 Aug., 1998 | <b>Gender</b><br>Male<br>Female | <b>Relationship</b><br>Child<br>Child | <b>Dependent of</b><br>Keith, Kathryn<br>Keith, Kathryn |                                |
|------------------------------------|--------------------------------------------------------|---------------------------------|---------------------------------------|---------------------------------------------------------|--------------------------------|
| Salaries                           |                                                        |                                 |                                       |                                                         |                                |
| Employer                           | Employee                                               | Current<br>Salary               | Frequency                             | Inflation<br>Rate                                       |                                |
| GLC Development<br>Board           | Keith                                                  | £5,540                          | Monthly                               | 3.000%                                                  |                                |
| Kathryn's Part Time<br>Editor Work | Kathryn                                                | £1,900                          | Monthly                               | 3.000%                                                  |                                |
| Current Bank Acco                  | unts, Savings, Dep                                     | osit                            |                                       |                                                         |                                |
| Account                            | •                                                      | Current                         |                                       | Interest                                                |                                |
| Name                               | Owner                                                  | Balance                         | Balance As Of                         | Rate                                                    |                                |
| Current Account                    | Keith, Kathryn                                         | £2,670                          | 06 Jun., 2006                         | 0.000%                                                  | This asset is the Cash Account |
| Kathryn Bank<br>Account            | Kathryn                                                | £1,200                          | 06 Jun., 2006                         | 0.500%                                                  | Cush / locount                 |
| Deposit Account                    | Keith, Kathryn                                         | £12,900                         | 06 Jun., 2006                         | 4.750%                                                  |                                |
| Tax-Efficient Invest               | tments                                                 |                                 |                                       |                                                         |                                |
| Account<br>Name                    | Owner                                                  | Current<br>Balance              | Balance As Of                         | Interest<br>Rate                                        |                                |
| University Funding<br>ISA          | Keith                                                  | £2,100                          | 06 Jun., 2006                         | 6.000%                                                  |                                |
| School Funding ISA                 | Keith                                                  | £560                            | 06 Jun., 2006                         | 6.000%                                                  |                                |
| National Savings                   | Kathryn                                                | £4,908                          | 06 Jun., 2006                         | 6.000%                                                  |                                |
| Investment                         |                                                        |                                 |                                       |                                                         |                                |

| Investment |  |
|------------|--|
| • •        |  |

| Account          |       | Current |               | Interest |
|------------------|-------|---------|---------------|----------|
| Name             | Owner | Balance | Balance As Of | Rate     |
| Other Investment | Keith | £26,420 | 06 Jun., 2006 | 2.000%   |

# CONFIRMATION OF FACTS Your Facts (Continued)

#### **Investment Trust**

| investment fru                                                       | 151                                              |                                                 |                                                      |                                                                                                            | Rates                                                                                                                                                                                         |
|----------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name/Symbol<br>ABC Investment<br>XYZ Investment<br>Unit Trust / OEIC | Trust Keith                                      | Current<br>Value<br>£6,429<br>£9,279<br>£15,000 | 06 Jun., 2006                                        | £0                                                                                                         | Div.<br>Rate         App.<br>Rate           1.000% <sup>1</sup> 5.000%         5.000%           1.400% <sup>1</sup> 5.700%         5.700%           1.000% <sup>1</sup> 6.000%         6.000% |
| Stocks                                                               |                                                  |                                                 |                                                      |                                                                                                            |                                                                                                                                                                                               |
| Name/<br>Symbol<br>BRITISH AIRWA<br>PLC<br>(BAB)                     | Owner<br>AYS Keith, Kathryn                      | Current<br>Value<br>£5,150                      | Balance As Of<br>02 Mar., 2006                       | <b>Basis</b><br>£2,345                                                                                     | Div.         App.           Rate         Rate           0.000% <sup>1</sup> 4.300%                                                                                                            |
| Investment Bo                                                        | nds                                              |                                                 |                                                      |                                                                                                            |                                                                                                                                                                                               |
| Name/Symbol<br>ABC Bond<br>ACME Bond                                 | <b>Owner</b><br>Keith, Kathryn<br>Keith, Kathryn | £4,320 06 Ju                                    | nce As Of<br>nn., 2006<br>nn., 2006                  | Amount<br>£3,500 4.5                                                                                       | owth<br>Rate<br>00%<br>00%                                                                                                                                                                    |
| Bonds<br>Name/<br>Symbol<br>Government Bond                          | <b>Owner</b><br>ds Keith                         | Market<br>Value<br>£6,260                       | FaceCouporAmountInteres£5,5004.500%                  | t Frequency                                                                                                | <b>Maturity<br/>Date</b><br>04 Feb., 2012                                                                                                                                                     |
| Retirement Pla                                                       | ns                                               |                                                 |                                                      |                                                                                                            |                                                                                                                                                                                               |
| <b>Name</b><br>Kathryn PPP<br>GLC Dev. Money<br>Purchase             | <b>Owner</b><br>Kathryn<br>Keith                 | £900 0                                          | <b>Galance As Of</b><br>6 Jun., 2006<br>6 Jun., 2006 | Growth         Own           Rate         Cont           6.000%         £100           6.500%         £250 | $\begin{array}{c} \textbf{rib.}  \textbf{Contrib.} \\ \textbf{t} 0  \textbf{t} 0 \end{array}$                                                                                                 |
| Final Salary Sc                                                      | heme                                             |                                                 |                                                      |                                                                                                            |                                                                                                                                                                                               |
| <b>Name</b><br>Final Salary                                          | <b>Owner</b><br>Keith                            | Benefit Lump<br>£0 £55                          | Death In<br>Service<br>Sum Lump Sum<br>,000 £35,000  | Inflation<br>Rate Star<br>0.000% Star<br>retin                                                             | ting when Keith                                                                                                                                                                               |
| Rental Property                                                      | y                                                |                                                 |                                                      |                                                                                                            |                                                                                                                                                                                               |
| Buy to Let                                                           |                                                  |                                                 |                                                      |                                                                                                            |                                                                                                                                                                                               |
| <b>Owner</b><br>Keith                                                | Current<br>Value<br>£350,000                     | <b>Balance As Of</b><br>12 Mar., 2007           | Cost<br>Basis<br>£150,000                            | Appreciation<br>Rate<br>5.000%                                                                             |                                                                                                                                                                                               |
|                                                                      | Monthly<br>quency Expenses<br>nthly n/a          | Expenses                                        | Rental<br>Inflation<br>3.00%                         |                                                                                                            |                                                                                                                                                                                               |

<sup>1</sup> Dividends are assumed to be reinvested in similar investments.

# CONFIRMATION OF FACTS Your Facts (Continued)

#### Residences

#### **Family Home**

| <b>Owner</b><br>Keith, Kathryn | Current<br>Value<br>£345,000   | <b>Balance</b><br>06 Jun., |                             | Cost<br>Basis<br>£225,000  | Appreciation<br>Rate<br>3.000% |
|--------------------------------|--------------------------------|----------------------------|-----------------------------|----------------------------|--------------------------------|
| Personal Loan Secure           | d by this Asset                |                            |                             |                            |                                |
| Balance as of 06 Jun., 2006    | Mortgage<br>Balance<br>£93,000 | Payment<br>£642            | <b>Frequency</b><br>Monthly | Interest<br>Rate<br>5.200% |                                |

#### Life Insurance-Individual

|                               |                |                |                    | Face                |            |                    | Cash     |
|-------------------------------|----------------|----------------|--------------------|---------------------|------------|--------------------|----------|
| Name                          | Insured        | Owner          | Beneficiary        | Amount              | Premium    | Frequency          | Value    |
| Mortgage<br>Protection Policy | Keith          | Keith          | Kathryn            | £100,000            | £32        | Monthly            | £0       |
| ABC Term<br>XYZ Endowment     | Keith<br>Keith | Keith<br>Keith | Kathryn<br>Kathryn | £150,000<br>£25,000 | £45<br>£46 | Monthly<br>Monthly | £0<br>£0 |

#### **Disability Insurance-Individual**

| Name    | Insured | Owner | Monthly<br>Benefit | •        | Benefit<br>Period | Premium | Frequency |
|---------|---------|-------|--------------------|----------|-------------------|---------|-----------|
| ABC PHI | Keith   | Keith | £1,500             | 180 Days | Age 65            | £65     | Monthly   |

#### Long-Term Care Insurance-Individual

|                 |         | Daily   | Daily Home |         | Benefit  | <b>_</b> . | _         |
|-----------------|---------|---------|------------|---------|----------|------------|-----------|
| Name            | Insured | Benefit | Care       | Period  | Period   | Premium    | Frequency |
| IABC LTC Policy | Keith   | £355    | £0         | 90 Days | Lifetime | £65        | Monthly   |

#### Essential Living Expenses

|                               |         |                    | Percent<br>Continuing<br>after First | Percent<br>Continuing<br>after First | Percent<br>Continuing<br>after First |
|-------------------------------|---------|--------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Description                   | Amount  | Frequency          | Death                                |                                      | Retirement                           |
| Joint General Living Expenses | £3,750  | Monthly            | 100%                                 | 70%                                  | 70%                                  |
| Keith's Final Expenses        | £5,000  | Monthly            | 100%                                 | 100%                                 | 100%                                 |
| Kathryn's Final Expenses      | £5,000  | Monthly            | 100%                                 | 100%                                 | 100%                                 |
| Annual Holiday                | £3,500  | Annual             | 70%                                  | 100%                                 | 0%                                   |
| Retirement Living Expenses    | £3,500  | Monthly            | 50%                                  | 70%                                  | 100%                                 |
| Specific Need Expenses        |         |                    |                                      |                                      |                                      |
| Description                   | Amount  | Frequency          |                                      |                                      |                                      |
| Wedding                       | £15,000 | Monthly            |                                      |                                      |                                      |
| Education Expenses            |         |                    |                                      |                                      |                                      |
| -                             |         |                    | Percer                               | nt of                                |                                      |
| Description                   | Amount  | Frequency          | Estimated                            | Aid                                  |                                      |
| University                    | £9,500  | Annual             |                                      | 0%                                   |                                      |
| University                    | £9,500  | Annual             |                                      | 0%                                   |                                      |
| Public School                 | £15,000 | Annual             |                                      | 0%                                   |                                      |
| Debt                          |         |                    |                                      |                                      |                                      |
| Liability Name Owner          |         | Current<br>Balance | Balance As (                         |                                      | Interest<br>Rate                     |

| Liability Name  | Owner          | Balance | Balance As Of | Rate   |
|-----------------|----------------|---------|---------------|--------|
| Loan for Family | Keith, Kathryn | £93,000 | 06 Jun., 2006 | 5.200% |
| Home            |                |         |               |        |

# CONFIRMATION OF FACTS Your Facts (Continued)

#### Future Purchase

| Description    | Future Owners  | Anticipated Cost | Inflation | Start                       |
|----------------|----------------|------------------|-----------|-----------------------------|
| Golf Timeshare | Keith          | £25,000          | 3.000%    | Starting on Jan 01, 2015    |
| Italian Villa  | Keith, Kathryn | £165,000         | 3.000%    | Starting when Keith retires |

#### **Distribute Income to Specific Assets**

| Description                                                     | From                                           | То                     | Amount | Apply<br>Inflation |
|-----------------------------------------------------------------|------------------------------------------------|------------------------|--------|--------------------|
| University ISA Contributions<br>Already started and ending what | GLC Development Board <i>en Jack turns 22.</i> | University Funding ISA | £100   | no                 |
| School Funding ISA                                              | Kathryn's Part Time Editor<br>Work             | r School Funding ISA   | £120   | no                 |
| Already started and ending wh                                   | en Julie turns 23.                             |                        |        |                    |
| Final Salary to Deposit<br>Already started and ending after     | Final Salary<br>er the illustration.           | Deposit Account        | 100%   | n/a                |

#### **Pay Expenses**

| Description                                                  | From                                | То                   | Amount | Apply<br>Inflation |
|--------------------------------------------------------------|-------------------------------------|----------------------|--------|--------------------|
| Additional Loan Repayment<br>Already started and ending afte | XYZ Investment Trust<br>r 12 years. | Loan for Family Home | £250   | yes                |

#### **Reposition Assets**

| Description           | From                      | То                             | Frequency | Amount | Apply<br>Inflation |
|-----------------------|---------------------------|--------------------------------|-----------|--------|--------------------|
| ABC Bond              | ABC Bond                  | Deposit Account                | Monthly   | 100%   | n/a                |
| Starting when the fir | st client retires and en  | ling after a one time occurren | ce.       |        |                    |
| ABC Term              | ABC Term                  | Deposit Account                | Monthly   | 100%   | n/a                |
| Already started and   | ending after the illustra | ation.                         |           |        |                    |
| Mortgage Protection   |                           | n PolicyDeposit Account        | Monthly   | 100%   | n/a                |
| Already started and   | ending after the illustra | ation.                         |           |        |                    |
| ACME Bond             | ACME Bond                 | Deposit Account                | n/a       | n/a    | n/a                |
| Starting when both a  | clients retire.           |                                |           |        |                    |
| Sell Buy to Let       | Buy to Let                | Deposit Account                | n/a       | n/a    | n/a                |
| Starting when Keith   | retires.                  |                                |           |        |                    |
|                       |                           |                                |           |        |                    |



# **Financial Statements**

What is your financial situation today? If everything goes as planned, what will it be like in a few years?

Estimated balance sheets and other financial reports are included in this section.

#### FINANCIAL STATEMENTS

| <b>Your Current</b> | Situation- | -Balance | Sheet | View |
|---------------------|------------|----------|-------|------|
|                     |            |          |       |      |

|                         | Keith    | Kathryn | Joint    | Total    |
|-------------------------|----------|---------|----------|----------|
| Assets                  |          |         |          |          |
| Liquid Assets           |          |         |          |          |
| Current Account         |          |         | £2,670   | £2,670   |
| Kathryn Bank Account    |          | £1,200  |          | £1,200   |
| Deposit Account         |          |         | £12,900  | £12,900  |
| BRITISH AIRWAYS PLC     |          |         | £5,150   | £5,150   |
| Other Investment        | £26,420  |         |          | £26,420  |
| University Funding ISA  | £2,100   |         |          | £2,100   |
| School Funding ISA      | £560     |         |          | £560     |
| National Savings        |          | £4,908  |          | £4,908   |
| ABC Investment Trust    | £6,429   |         |          | £6,429   |
| XYZ Investment Trust    | £9,279   |         |          | £9,279   |
| Unit Trust / OEICs      |          |         | £15,000  | £15,000  |
| ABC Bond                |          |         | £4,320   | £4,320   |
| ACME Bond               |          |         | £1,320   | £1,320   |
| Retirement Plans        |          |         |          |          |
| Kathryn PPP             |          | £900    |          | £900     |
| GLC Dev. Money Purchase | £7,800   |         |          | £7,800   |
| Fixed Assets            |          |         |          |          |
| Government Bonds        | £6,260   |         |          | £6,260   |
| Buy to Let              | £350,000 |         |          | £350,000 |
| Residence               |          |         |          |          |
| Family Home             |          |         | £345,000 | £345,000 |
| Total Assets Today      | £408,848 | £7,008  | £386,360 | £802,216 |
| Total Assets Totay      | 2400,040 | æ7,000  | *300,300 | 2002,210 |
| Liabilities             |          |         |          |          |
| Mortgages               |          |         |          |          |
| Loan for Family Home    |          |         | £93,000  | £93,000  |
| Total Liabilities Today |          |         | £93,000  | £93,000  |
| Net Worth               |          |         |          |          |
| Your Assets             |          |         |          | £802,216 |
| Less Your Liabilities   |          |         |          | £93,000  |
| Less Tour Liaonnues     |          |         |          | 195,000  |
| Total Net Worth Today   |          |         |          | £709,216 |

# FINANCIAL STATEMENTS Balance Sheet

#### Values at End of Year

|                                   | 2009     | 2010     | 2011     | 2012     | 2013       |
|-----------------------------------|----------|----------|----------|----------|------------|
| Assets                            |          |          |          |          |            |
| Liquid Assets                     |          |          |          |          |            |
| Current Account                   | £1,000   | £0       | £0       | £0       | £0         |
| Kathryn Bank Account              | £1,221   | £1,227   | £0       | £0       | £0         |
| Deposit Account                   | £13,108  | £4,078   | £0       | £0       | £0         |
| BRITISH AIRWAYS                   | £6,031   | £6,290   | £6,561   | £6,843   | £7,137     |
| PLC                               |          |          |          |          |            |
| Other Investment                  | £32,496  | £34,475  | £36,576  | £38,804  | £30,629    |
| University Funding ISA            | £0       | £0       | £0       | £0       | £0         |
| School Funding ISA                | £0       | £0       | £0       | £0       | £0         |
| National Savings                  | £6,018   | £6,379   | £6,762   | £5,308   | £0         |
| ABC Investment Trust              | £7,747   | £8,171   | £8,619   | £9,090   | £9,588     |
| XYZ Investment Trust              | £9,384   | £6,818   | £4,113   | £1,262   | £0         |
| Unit Trust / OEICs                | £18,357  | £19,448  | £11,221  | £0       | £0         |
| ABC Bond                          | £4,899   | £5,078   | £5,264   | £5,457   | £5,657     |
| ACME Bond                         | £1,535   | £1,603   | £1,673   | £1,747   | £1,824     |
| <b>Retirement Plans</b>           |          |          |          |          |            |
| Kathryn PPP                       | £1,941   | £3,614   | £5,411   | £7,339   | £9,406     |
| GLC Dev. Money                    | £13,360  | £21,014  | £29,077  | £37,568  | £46,512    |
| Purchase                          |          |          |          |          |            |
| Fixed Assets                      |          |          |          |          |            |
| Government Bonds                  | £5,583   | £5,557   | £5,529   | £0       | £0         |
| Buy to Let                        | £400,257 | £420,270 | £441,283 | £463,347 | £486,515   |
| Residence                         |          |          |          |          |            |
| Family Home                       | £382,604 | £394,082 | £405,904 | £418,082 | £430,624   |
| ,                                 |          |          |          |          |            |
| Totals                            | £905,542 | £938,106 | £967,993 | £994,847 | £1,027,891 |
| Liabilities                       |          |          |          |          |            |
| Mortgages<br>Loan for Family Home | £80,244  | £73,554  | £66,509  | £59,088  | £53,015    |
| т                                 | 690 244  | 072 554  | 666 500  | 650,000  | 652 015    |
| Totals                            | £80,244  | £73,554  | £66,509  | £59,088  | £53,015    |
| Net Worth                         | £825,299 | £864,551 | £901,484 | £935,759 | £974,876   |

# 3

# Cash Flow Analysis—Funding Your Lifestyle

This analysis of the cash flow process illustrates your needs between now and retirement.

In order to help you clearly see both the opportunities and obstacles within your current financial situation, this section of the analysis of your cash flow answers the following questions:

- What does "maintaining your lifestyle" mean?
- How does your cash flow process work?
- What incoming cash can you expect to receive?
- What outgoing payments can you expect?
- How will your cash flow handle unexpected payments and fluctuations?
- How will your cash flow affect your assets?
- How will your net worth (the result of your cash flow) change?

## cash flow—your lifestyle prior to retirement Funding Your Lifestyle

This cash flow analysis examines all of the financial items that are part of your lifestyle. It simulates your typical spending and saving habits in order to determine (a) how you would meet your financial obligations and (b) what you would have left over for savings or investment.

#### **Maintaining Your Lifestyle**

In financial terms, *maintaining your lifestyle* means being able to meet your expected outgoing payments so that you can live in the manner to which you are accustomed. Expenses typically increase with the general cost of living or inflation.

#### **Cash Flow Analysis**

Examining your cash flow on a detailed monthly basis helps answer two essential questions: One, will I have enough money? And, two, if there is a problem, how severe is the shortfall?

While it's not a likely scenario, this section of your analysis assumes that everything goes as planned, which is helpful in evaluating your present situation. This section assumes that both of you live until retirement.

#### The following payments are necessary for you to maintain your lifestyle:

- Basic lifestyle expenses
- Wedding for Julie valued at £15,000 Monthly (Starting on Jan 01, 2023 and ending after a one time occurrence)
- Golf Timeshare for Keith costing £25,000 (value today) (starting on Jan 01, 2015)
- Italian Villa for Keith and Kathryn costing £165,000 (value today) (starting when Keith retires)
- Education for Jack
- Education for Julie
- Education for Jack
- Make payments on all loans

#### Assumptions

You have defined retirement as the date when Keith reaches age 60.

General inflation rate for analysis: 3%.

Some assets are essential for your lifestyle. Successfully maintaining your lifestyle means not using any portion of the assets you designated as "Do Not Use" when defining your priorities.

- Family Home
- Golf Timeshare

- Buy to Let
- Italian Villa

#### CASH FLOW—YOUR LIFESTYLE PRIOR TO RETIREMENT

# Your Cash Flow Process

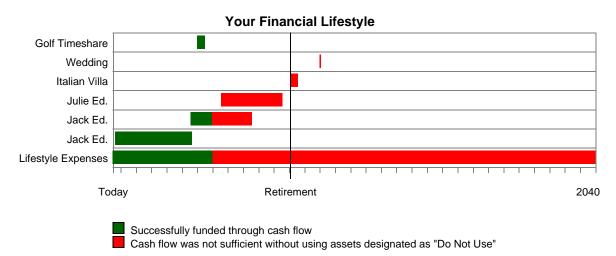
Cash flow is a simple, monthly process. You receive money from outside sources and deposit that money into your bank account. You use that account to pay your expenses and cover your lifestyle expenses. What you do not spend you save, invest, or use to purchase other assets. If your expenses exceed your income one month, you take some money out of the savings, sell an asset, or borrow the funds to pay the expenses. Cash flow analysis is the detailed study of this monthly process.

#### Your monthly cash flow process involves the following steps:

- Determine your expected incoming cash
- Determine your expected outgoing payments
- Compare incoming and outgoing cash: if outgoing payments exceed incoming cash, use an asset or borrow money to cover the shortage
- Adjust asset values as necessary

#### **Discretionary Spending**

Some of your expenditures fluctuate based on the funds available to you. When your incoming cash exceeds your outgoing payments, a portion of the excess cash may be used for discretionary spending. Cash flow analysis helps you identify and understand your discretionary spending, which can improve your financial situation.



A cash flow failure occurred in January of 2016 with assets designated as "Do Not Use" equal to  $\pounds 1,157,640$ .

# Your cash flow is insufficient. The value of the shortfall today invested at 6% is £113,632.

#### CASH FLOW—YOUR LIFESTYLE PRIOR TO RETIREMENT

# **Evaluating Shortfall**

The cash flow process determined that your plan was likely to experience a cash flow failure in year 2016. This analysis can help you determine the severity of the failure and identify the solutions best suited for you.

#### Annual Shortfall

Annual shortfall is the portion of expenses that cannot be covered without using assets designated as "Do Not Use." Shortfalls are shown as negative values.

#### • Discretionary Spending

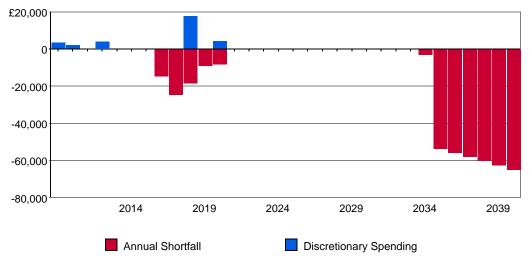
After all outgoing payments have been met each month, discretionary spending is the portion of the money left over that is used for unspecified expenses. Adjusting these amounts may reduce the annual shortfalls.

#### • "Do Not Use" Assets

The value of assets you designated as "Do Not Use" was  $\pounds 1,157,640$  in the year of the initial cash flow failure. You may want to re-consider the use of some of these assets.

#### "Red" Numbers

All values after the initial cash flow failure are printed in red to indicate these values are only possible if the shortfall amounts were provided.



#### Effects of Cash Flow

#### What adjustments should you make to your financial lifestyle?

Note: Cash flow is calculated monthly with the net values for the year shown; therefore, discretionary spending may occur one month and an income shortage occur in another month all in the same calendar year.

## CASH FLOW—YOUR LIFESTYLE PRIOR TO RETIREMENT Assets Used for Cash Flow

#### **Priority and Sources of Funds**

You have indicated your priorities and desired uses of certain assets. If there is not sufficient cash flow to pay your outgoing payments during a particular month, then these assets will be considered in the order shown below.

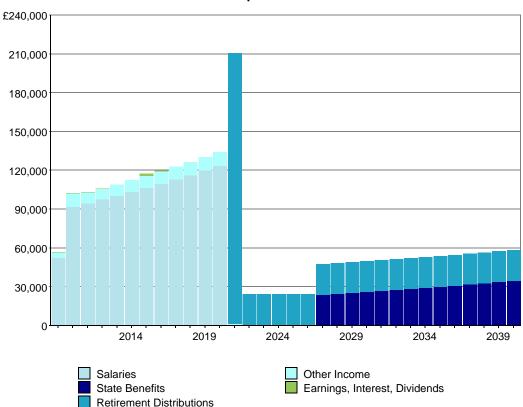
The use of some assets would cause a significant change in your lifestyle: such assets are marked "Do Not Use" or the desired use is indicated

| Limit Uses to |
|---------------|
| Unrestricted  |
| Do Not Use    |
| Do Not Use    |
| Education     |
| Education     |
| Retirement    |
| Retirement    |
| Do Not Use    |
| Do Not Use    |
|               |

#### Value of Assets

The cumulative effects of your cash flow change the value of your assets. The effects of cash flow include the addition of new assets or savings, the use of all or a portion of some assets to pay expenses, and appreciation or changes in the value of your assets.

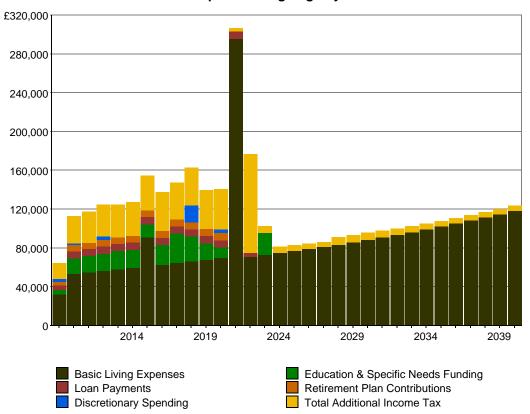
## cash flow—your lifestyle prior to retirement Incoming Cash Expected



**Expected Income** 

A cash flow failure occurred in January of 2016 with assets designated as "Do Not Use" equal to  $\pounds 1,157,640$ . The illustration assumes everything goes as anticipated. It does not reflect (*a*) liquidations or unplanned withdrawals from your assets or (*b*) new loan proceeds that may be necessary during any month that expenses exceed income.

## cash flow—your lifestyle prior to retirement Expected Outgoing Payments

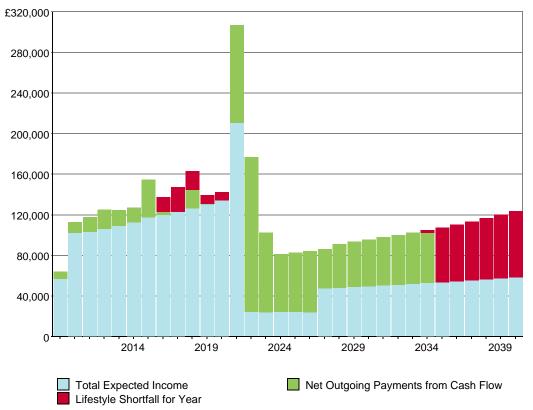


**Expected Outgoing Payments** 

A cash flow failure occurred in January of 2016 with assets designated as "Do Not Use" equal to  $\pm 1,157,640$ . Outgoing payments begin with compulsory expenses (such as taxation) and continue through your discretionary spending.

## CASH FLOW—YOUR LIFESTYLE PRIOR TO RETIREMENT Will Cash Flow Provide Needed Outgoing Payments?

By combining the information from the previous graphs, it is easy to see how your cash flow process works. Expected income is shown on top of the total outgoing payments. Any portion of payments remaining is paid by the cash flow process—using assets you have designated. When the cash flow process cannot provide the needed payments without using assets you designated as "Do Not Use," then you have failure with the needed amount shown as a shortfall.



#### **Summary of Cash Flow Process**

**Expected Income**—the sum of all income items before the cash flow process is applied to use any assets or new loans to meet outgoing payments

**Outgoing Payments from Cash Flow Process**—the portion of outgoing payments that were required to be paid from using various assets or new loans

**Shortfall**—the amount needed in a year to pay all desired outgoing payments to maintain your lifestyle, but without using any assets you designated as "Do Not Use"

### CASH FLOW—YOUR LIFESTYLE PRIOR TO RETIREMENT **Cash Flow & Net Worth**

#### **Cash Flow & Net Worth**

| Year<br>2009<br>2010<br>2011<br>2012<br>2013 | Expected<br>Income<br>£56,878<br>102,608<br>103,240<br>106,206<br>109,264 | <b>Total Outgoing</b><br><b>Payments</b><br>£63,900<br>113,117<br>117,775<br>125,072<br>124,946 | Net Paid from<br>Cash Flow<br>Process <sup>1</sup><br>£7,023<br>10,509<br>14,535<br>18,867<br>15,681 | End of<br>Year<br>Assets <sup>2</sup><br>£905,542<br>938,106<br>967,993<br>994,847<br>1,027,891 | End of<br>Year<br>Liabilities<br>£80,244<br>73,554<br>66,509<br>59,088<br>53,015 | Cumulative<br>Annual<br>Shortfall<br><br><br><br> | <b>Net Worth</b><br>£825,299<br>864,551<br>901,484<br>935,759<br>974,876                |
|----------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------------------------------|
| 2014<br>2015<br>2016<br>2017<br>2018         | 112,542<br>117,669<br>119,896<br>122,978<br>126,667                       | 127,380<br>155,030<br>137,709<br>147,655<br>163,205                                             | 14,838<br>37,362<br>3,311<br>0<br>18,102                                                             | 1,064,410<br>1,107,321<br>1,157,640<br>1,214,251<br>1,274,123                                   | 47,948<br>42,612<br>36,991<br>31,070<br>24,835                                   | 14,502<br>39,179<br>57,614                        | $1,016,462 \\1,064,710 \\1,106,147^3 \\1,144,002 \\1,191,674$                           |
| 2019<br>2020<br>R 2021<br>2022<br>2023       | 130,467<br>134,381<br>211,347<br>23,759<br>23,759                         | 140,029<br>140,818<br>308,109<br>177,190<br>102,680                                             | 648<br>0<br>96,762<br>153,431<br>78,921                                                              | 1,335,437<br>1,401,872<br>1,441,638<br>1,336,730<br>1,304,086                                   | $18,267 \\ 11,350 \\ 4,064 \\ 0 \\ 0 \\ 0$                                       | 66,528<br>74,565<br>74,565<br>74,565<br>74,565    | $\begin{array}{c} 1,250,641\\ 1,315,958\\ 1,363,009\\ 1,262,165\\ 1,229,521\end{array}$ |
| 2024                                         | 23,759                                                                    | 81,147                                                                                          | 57,388                                                                                               | $\begin{array}{c} 1,291,908\\ 1,277,088\\ 1,259,198\\ 1,262,281\\ 1,260,563\end{array}$         | 0                                                                                | 74,565                                            | 1,217,343                                                                               |
| 2025                                         | 23,759                                                                    | 82,686                                                                                          | 58,927                                                                                               |                                                                                                 | 0                                                                                | 74,565                                            | 1,202,523                                                                               |
| 2026                                         | 23,759                                                                    | 84,503                                                                                          | 60,744                                                                                               |                                                                                                 | 0                                                                                | 74,565                                            | 1,184,633                                                                               |
| 2027                                         | 47,252                                                                    | 86,126                                                                                          | 38,873                                                                                               |                                                                                                 | 0                                                                                | 74,565                                            | 1,187,716                                                                               |
| 2028                                         | 47,957                                                                    | 91,094                                                                                          | 43,137                                                                                               |                                                                                                 | 0                                                                                | 74,565                                            | 1,185,998                                                                               |
| 2029                                         | 48,683                                                                    | 93,311                                                                                          | 44,627                                                                                               | $1,256,694 \\1,250,528 \\1,241,914 \\1,230,689 \\1,216,685$                                     | 0                                                                                | 74,565                                            | 1,182,129                                                                               |
| 2030                                         | 49,431                                                                    | 95,572                                                                                          | 46,141                                                                                               |                                                                                                 | 0                                                                                | 74,565                                            | 1,175,963                                                                               |
| 2031                                         | 50,201                                                                    | 97,881                                                                                          | 47,680                                                                                               |                                                                                                 | 0                                                                                | 74,565                                            | 1,167,349                                                                               |
| 2032                                         | 50,994                                                                    | 100,239                                                                                         | 49,245                                                                                               |                                                                                                 | 0                                                                                | 74,565                                            | 1,156,124                                                                               |
| 2033                                         | 51,811                                                                    | 102,645                                                                                         | 50,834                                                                                               |                                                                                                 | 0                                                                                | 74,565                                            | 1,142,120                                                                               |
| 2034                                         | 52,653                                                                    | 105,102                                                                                         | 49,488                                                                                               | 1,202,683                                                                                       | 0                                                                                | 77,525                                            | 1,125,158                                                                               |
| 2035                                         | 53,520                                                                    | 107,608                                                                                         | 0                                                                                                    | 1,238,365                                                                                       | 0                                                                                | 131,614                                           | 1,106,751                                                                               |
| 2036                                         | 54,413                                                                    | 110,505                                                                                         | 0                                                                                                    | 1,275,110                                                                                       | 0                                                                                | 187,706                                           | 1,087,404                                                                               |
| 2037                                         | 55,332                                                                    | 113,662                                                                                         | 0                                                                                                    | 1,312,952                                                                                       | 0                                                                                | 246,036                                           | 1,066,916                                                                               |
| 2038                                         | 56,279                                                                    | 116,914                                                                                         | 0                                                                                                    | 1,351,923                                                                                       | 0                                                                                | 306,671                                           | 1,045,252                                                                               |
| 2039                                         | 57,255                                                                    | 120,263                                                                                         | 0                                                                                                    | 1,392,057                                                                                       | 0                                                                                | 369,679                                           | 1,022,378                                                                               |
| 2040                                         | 58,260                                                                    | 123,713                                                                                         | 0                                                                                                    | 1,433,389                                                                                       | 0                                                                                | 435,132                                           | 998,257                                                                                 |

A cash flow failure occurred in January of 2016 with assets designated as "Do Not Use" equal to £1,157,640.

#### Cash Flow Affects the Value of Assets

When Outgoing Payments exceed the Expected Income, existing assets must be used. If Expected Income exceeds Outgoing Payments then the surplus creates additional assets. These cash flow transactions are reflected in your assets. Net Worth is the difference in Assets and Liabilities.

3

R-Retirement assumed to begin in this year.

Net change in existing assets due to appreciation, depreciation, reinvested earnings, and other changes. Assets equal total income less outgoing payments plus net effects of cash flow plus existing assets.

Cash Flow Failure-Incoming cash flow plus any available assets remaining were insufficient to pay outgoing payments. Any assets remaining are those assets that you marked "Do Not Use".

## Conclusions

Based on the expenses that you specified, your present plans would not be sufficient to maintain your lifestyle. The value of this shortfall today is  $\pm 113,632$ . This is the equivalent of reducing your spending by  $\pm 1,728$  every month. The following options may help you optimize your cash flow:

#### **Reduce Expenses**

- Determine whether you can comfortably reduce your expenses by reexamining each individual expense
- Consider reducing your discretionary spending and increasing your savings
- Are you claiming all the tax allowances to which you are entitled? Invest in one of the many inexpensive tax guides at your local book shop before you complete your next tax return.

#### **Refinance Loans**

- You may reduce your monthly expenses by (*a*) refinancing a loan to obtain a lower rate or (*b*) extending the terms of a loan
- Consider the fees and any points associated with individual loans when comparing payments

#### Pay Off Loans

• Reduce your monthly expenses by selling a slow growing asset and using the proceeds to pay off your loans

#### Downsize

- Sell your current home and buy a home or apartment of lesser value
- Reduce or eliminate your mortgage payment
- Reduce other monthly expenses, such as home maintenance, insurance, and property taxes

#### **Change Some Investments**

- Examine your investment portfolio and consider options that might increase your yields
- Consider differences in risk, returns, and your time horizons before making changes
- Consider all taxation, fees and other important investment characteristics

#### **Reexamine Your Sensitivity to Life's Major Uncertainties**

- Is it possible that you will outlive your wealth during retirement?
- How would the unexpected death of you or your spouse affect the lifestyle of the survivors?
- What would happen to your plans if you or your spouse became disabled?
- Are you financially prepared for an extended nursing home stay during retirement?

#### Consider:

Shortfall occurred in January of 2016.£113,632The value of the shortfall today invested at 6%:£113,632You need to reduce your monthly outgoing payments by 5% beginning today.£113,632



# **Debt Management**

You can work for your money and pay interest or you can put your money to work and let it pay you interest.

Interest enhances your net worth when it's working for you. Compound interest is a key element in building your wealth. However, when interest is working against you, it can prevent your successful accumulation of wealth. Debt management is an essential aspect of any financial plan. Money not used for interest payments on debts can be saved and used to grow your wealth. The rewards for better debt management can easily double.

## DEBT MANAGEMENT **Analysing Your Debt**

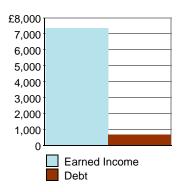
The effective use of debt can enhance your financial plans. Debt management starts with examining your existing debt. You should examine each individual debt as well as your total, overall debt. Total debt is often analysed by comparing earned income to debt payments.

#### Debt

Existing

| g                    |         | Date of       | Interest |         |                       | Maximum           |
|----------------------|---------|---------------|----------|---------|-----------------------|-------------------|
| Name                 | Balance | Balance       | Rate     | Payment | Frequency             | Credit            |
| Loan for Family Home | £93,000 | 06 Jun., 2006 | 5.200%   | £642    | Monthly               | n/a               |
| Total                | £93,000 |               |          | £642    | Initial Mon<br>Amount | thly <sup>1</sup> |

#### Monthly Earned Income vs. Monthly Debt Payment



#### Finding the Right Ratio of Debt and Income

| Total Monthly <sup>2</sup> Debt Payments | £642   |
|------------------------------------------|--------|
| Total Monthly <sup>2</sup> Earned Income | £7,440 |
| Debt-to-Earned Income Ratio              | 8.63%  |

The lower your debt-to-earned income ratio, the better your financial flexibility. A debt-to-earned income ratio of 20% or below is considered average. Depending on your particular circumstances, a ratio of 20% or higher may be a sign that your credit is out of control. The consequences of a debt-toearned income ratio above 20% include difficulty in obtaining future loans and lower credit ratings. You may also be unable to qualify for the best rates and terms. Earned income only includes salary. You have indicated that through the end of 2009, you would receive other income of £4,550.

#### Debt can help or hinder your financial success.

Existing debt payments and earned income are expressed on a monthly basis for the debt-to-income ratio analysis. Amounts <sup>2</sup> Values Based on a solution growth rate of 6%.

# **Summary of Individual Debts**

#### Loan for Family Home

| Balance | Date of<br>Balance | Interest<br>Rate | Payment | Frequency |
|---------|--------------------|------------------|---------|-----------|
| £93,000 | 06 Jun., 2006      | 5.200%           | £642    | Monthly   |

#### Loan Schedule

| Year | Annual<br>Payments | To Interest | To Principal | Ending<br>Balance |
|------|--------------------|-------------|--------------|-------------------|
| 2009 | £6,244             | £2,499      | £3,745       | £80,244           |
| 2010 | 10,704             | 4,015       | 6,689        | 73,554            |
| 2011 | 10,704             | 3,658       | 7,046        | 66,509            |
| 2012 | 10,704             | 3,283       | 7,421        | 59,088            |
| 2013 | 8,983              | 2,910       | 6,073        | 53,015            |
| 2014 | 7,704              | 2,637       | 5,067        | 47,948            |
| 2015 | 7,704              | 2,367       | 5,337        | 42,612            |
| 2016 | 7,704              | 2,083       | 5,621        | 36,991            |
| 2017 | 7,704              | 1,784       | 5,920        | 31,070            |
| 2018 | 7,704              | 1,468       | 6,236        | 24,835            |
| 2019 | 7,704              | 1,136       | 6,568        | 18,267            |
| 2020 | 7,704              | 787         | 6,917        | 11,350            |
| 2021 | 7,704              | 418         | 7,286        | 4,064             |
| 2022 | 4,130              | 66          | 4,064        | 0                 |

# 5

# Investment Analysis & Asset Allocation

Analysis of your investments starts with determining three things about your assets: what you have, how it works, and what to expect from it.

Understanding your existing investments is a key to any analysis of your current financial situation. You should have a good understanding of what you have and how your investments work together, before considering any changes to these investments. Then, when you decide to make changes in your investments, you should consider how the changes will affect your overall portfolio. This includes determining whether the proposed changes align with your financial objectives and risk tolerances. In other words, you should consider whether the changed portfolio will reflect your particular investment philosophy.

# **Classifying Your Investments**

Your portfolio, a collection of assets held for investment purposes, can be viewed in several ways. Each view of your assets helps you answer different questions about your overall planning. There are three views, or ways to classify your investments.

#### Assets Classes—What you have

Asset classes are groups of investments with similar characteristics and similar investment categories.

#### Investment Styles—How it works

Investment styles are groups of assets that have similar cash flow characteristics.

#### Volatility Classes—What to expect

Volatility classes are groups of investments that have similar risk and return relationships and respond to economic market situations similarly.

The best analysis of your investments is achieved when your entire portfolio is viewed from each of these three perspectives separately. This method provides more insight than trying to combine all of these characteristics into one single analysis or view.

# What You Have

Asset classes are groups of investments or investment categories with similar characteristics.



#### **Asset Class**

|   | Savings                                        | £3,870                |
|---|------------------------------------------------|-----------------------|
| _ | Cash, savings, national savings                |                       |
|   | Deposit Accounts                               | £12,900               |
| _ | Deposit accounts                               |                       |
|   | Government Bonds                               | £11,168               |
| _ | Long-term Gov Bonds, Intermediate Gov Bonds    |                       |
|   | Corporate Bonds                                | £6,200                |
| _ | High yield, high quality, zero-coupon bonds    |                       |
|   | International Bonds                            | £9,279                |
| _ | Emerging markets and developed countries bonds |                       |
|   | Large Company Stocks                           | £48,799               |
| _ | Large cap growth or value                      |                       |
|   | Small Company Stocks                           | £15,000               |
|   | Small and mid cap stocks                       |                       |
|   | Total                                          | £107,216 <sup>1</sup> |

<sup>1</sup> Assets held for other purposes of £695,000 are not included.

# How It Works

| Investment Style |     |  |
|------------------|-----|--|
| 32%              | 16% |  |

Investment styles are groups of assets that have similar cash flow characteristics.

#### **Investment Style**

| Cash                                                                                                                                                                                                                                | £16,770 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Cash assets can be converted to cash in a short time (days or a few weeks) with little or no loss in value.<br>Income                                                                                                               | £17,368 |
| Investment yield is primarily in the form of dividends or interest<br>or other earnings for income assets. These earnings are usually<br>paid at least annually and may be taken in cash or can be<br>reinvested.                   | £17,306 |
| Growth and Income<br>Some investments emphasize both growth and income. The<br>emphasis is some long-term growth but with some of the<br>earnings being realized each year as income.                                               | £38,699 |
| Growth<br>Investment yield is primarily in the form of appreciation or<br>growth for growth assets. Usually a portion or the entire asset<br>must be sold to realize any gain. Gain often qualifies for capital<br>gains treatment. | £34,379 |
|                                                                                                                                                                                                                                     |         |

£107,216<sup>1</sup>

<sup>1</sup> Assets held for other purposes of £695,000 are not included.

# Analysing Expected Risk and Return by Volatility

Volatility classes are groups of investments that have similar risk and return relationships and respond to market situations similarly.

#### Investment Yields and Risk Classes (Volatility Classes)

Assets are classified based on anticipated yields and risk. Five classes are used to represent the different groups of investments—each class with a different volatility. Volatility<sup>1</sup> is the relationship between the mean and the deviation from that mean. Historical records are used to determine the relationship of yields and risk for each class. Assets within a class usually respond similarly to various economic conditions.

#### Low Yields/Low Risk

The volatility class Very Conservative usually has low yields, but small variations from year to year.

#### High Yields/High Risk

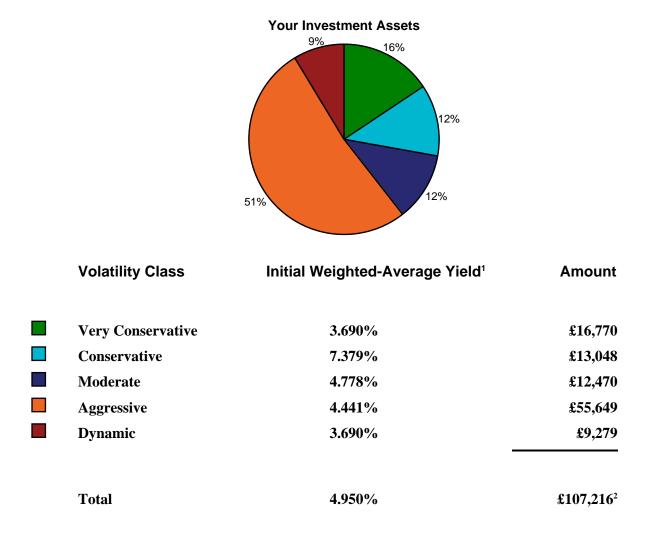
The volatility class *Dynamic* usually has high yields, but also may vary greatly from year to year. Some years may even have losses.

# Volatility class generally is the same for similar investments and investments within the same investment category.

<sup>&</sup>lt;sup>1</sup> The coefficient of variation is used to reflect the volatility of a class. It is the historical standard deviation divided by the mean of similar investments.

# Your Assets by Volatility

Volatility classes offer a risk/return view of your investments. The weighted-average yield (growth and income combined) for each volatility class is shown.



 $^1_{\ ^2}$  Weighted-average yield for bonds is based on the coupon interest rate. Assets held for other purposes of £695,000 are not included.

# Investments Profile & Allocation of Assets

Often it is helpful to compare your investment portfolio with the portfolios of people with similar risk tolerances, investment objectives, and time frames. These "typical" portfolios are referred to as investment profiles.

#### **Risk Tolerance**

Risk tolerance is the relationship between the amount of risk you are willing to take to achieve the growth you desire. Your risk tolerance is unique.

#### **Asset Allocation**

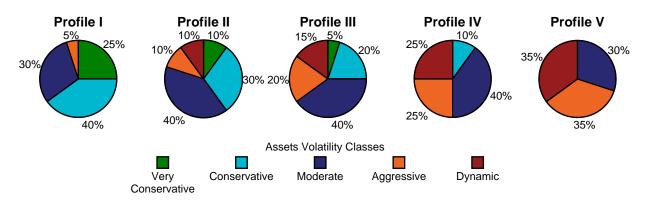
Asset allocation is the process of trying to maximize your mix of investments based on your risk tolerance, your purpose, and your investment time frame.

#### **Time Horizon**

Time horizon is your investment time frame. A short time horizon makes you less able to withstand losses. It may limit the amount of risk that is prudent.

#### **Investment Profiles**

Your profile should reflect your objectives, your risk tolerance, and your time horizon. These five profiles illustrate various classes of assets by volatility. Profiles may also be considered on an investment style basis, especially for cash flow analysis.



#### **Circumstances When Profile is Best Suited**

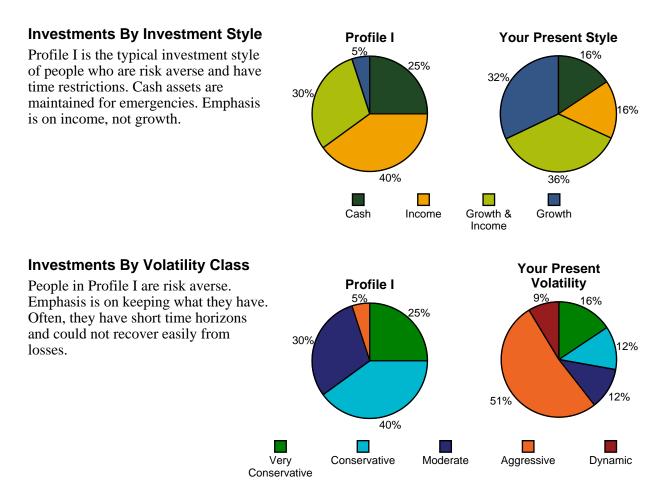
| ProfileI   | Risk averse, short time horizon, safety and income very important               |
|------------|---------------------------------------------------------------------------------|
| ProfileII  | Slow and steady growth with emphasis on income and keeping what you have        |
| ProfileIII | Balance between growth and income, limited time, not too many ups and downs     |
| ProfileIV  | Long-term growth, usually 10 + years, good returns, willing to accept risk      |
| ProfileV   | High level of risk while seeking high returns and growth over at least 10 years |

#### Which profile best describes you?

# **Do Your Investments Match Your Profile?**

Risk tolerance is the relationship between the amounts of risk you are willing to take to achieve the growth you desire. Many factors based on the information you provided for this analysis must be considered when determining the best profile for you. Your risk tolerance is unique and the only way some preferences can be determined is by asking you various questions. (These questions and your answers are at the end of this section of your analysis.) Profile I seems to match most closely your risk tolerances.

Any changes in your investments should attempt to match your portfolio on both a volatility class basis and on an investment style basis.



Changes to your portfolio should consider the effects on cash flow (investment style) and the effects on your overall risk and expected returns (volatility).

# Your Investment Risk Questionnaire Answers

Your Investment Risk Questionnaire helped determined your risk tolerances. Your answers, along with information such as age, net worth and assets available for investment were used to determine the investment profile that most closely matched your answers. It is important that you feel good about your investments.

#### Answers used to recommend an investment profile:

Your household's approximate gross annual income (before tax) is £101,088.

Your net worth (including your primary residence) is £709,216.

Your investment assets represent 15% of your net worth.

- 1. As a first time investor, you have yet to create a portfolio.
- 2. Your investment portfolio needs to provide an annual income of 7% or 8%.
- 3. You anticipate the first major use of your investment portfolio in 2 to 5 years.
- 4. Your primary investment goal is to generate long-term capital growth. You are not concerned about income from your investments.
- 5. In the next 5 years you think you may withdraw more than 20% of your portfolio.
- 6. If your portfoliio suddenly suffered a 20% loss you would immediately pull out of the portfolio and cut your losses.
- 7. Given a choice of these portfolios, you chose A (minimal risk with lower expected returns).
- 8. You evaluate and consider changing your investments monthly.
- 9. You defined your investment knowledge as being an expert investor.
- 10. You expect the before-tax return of your investment portfolio to be 4% to 6% over the long term (10+ years).

Based on the answers above and the other facts you have shared, it appears that you mostly closely match investment profile I. Investors in this profile generally are looking for risk averse investments, with safety and income being very important, since the time horizon is usually short.

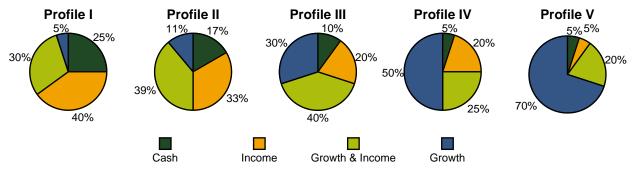
# **Compare Samples of Investment Profiles**

Often it is helpful to compare your investment portfolio with the portfolios of people with similar risk tolerances, investment objectives, and time frames. These typical portfolios are referred to as investment profiles.

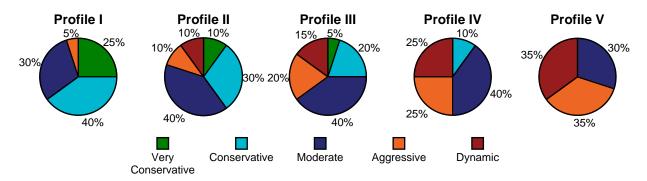
Items considered in each profile:

- Risk Tolerance
- Asset Allocation
- Time Horizon

#### **Investment Profiles by Investment Style**



#### **Investment Profiles by Volatility Classes**



#### **Circumstances When Profile is Best Suited**

| Profile I   | Risk averse, short time horizon, safety and income very important               |
|-------------|---------------------------------------------------------------------------------|
| Profile II  | Slow and steady growth with emphasis on income and keeping what you have        |
| Profile III | Balance between growth and income, limited time, not too many ups and downs     |
| Profile IV  | Long-term growth, usually 10 + years, good returns, willing to accept risk      |
| Profile V   | High level of risk while seeking high returns and growth over at least 10 years |



# Estate Planning

You worked a lifetime to accumulate your wealth. Proper estate planning can help ensure that your wealth goes to your desired heirs in your desired manner.

Once estate planning was thought to be only a concern for the rich. Not any more. Rising property prices have pushed huge numbers of homeowners within the clutches of the taxman. Everyone now needs estate planning. Designing a good estate plan means defining what should happen to the property you've worked a lifetime to accumulate. Estate planning can help you develop a firm strategy for the proper transfer of your wealth. By minimising the costs associated with transferring wealth, you can increase the amount passed on to your heirs.

## estate planning The Orderly Transfer of Your Estate

Estate planning is not just for the wealthy-everyone needs a well thought-out plan.

#### Your Plan and the Importance of Your Will

Successful long-term financial planning requires the writing of a will for each spouse. If no will exists, the deceased is deemed to die intestate and the estate is distributed in accordance with the laws of intestacy. So if you have a will, YOU make the decisions about what happens to your money and belongings after you die; if you don't, the court makes the decisions. There will be delays and every possibility of family disputes.

#### The role of the executor

Leaving a will allows a person's estate to be distributed in accordance with their wishes. It allows the appointment of an executor who will take control of the estate, pay any debts, expenses, any inheritance taxes and then distribute the balance to the beneficiaries.

#### **Transferring assets**

Simple back-to-back or mirror wills usually leave the estate of each spouse to the other, such that when the second spouse dies, the estate passes to some third party or parties, often children or grandchildren. It is this last transfer of assets than can give rise to a tax liability, if the nil-rate band is exceeded.

#### Joint and Common Ownership

If you and your spouse or civil partner own your home as 'joint tenants' then the surviving spouse or civil partner automatically inherits all of the property. If you are 'tenants in common' you each own a proportion (normally half) of the property and can pass that half on as you want. This can be done by wording the wills in such a way as to make provision, on the first death, for assets up to the value of the nil-rate band, to be passed at that time to the proposed eventual beneficiaries on the second death.

#### Gifting your home to your children

If you want to give your home away to your children while you're still alive, you might want to bear in mind that:

- Gifts to your children—unlike gifts to your spouse or civil partner—are not exempt from inheritance tax unless you live for seven years after making them.
- If you keep living there without paying a full market rent (on which your children pay tax) it's not an 'outright gift' but a 'gift with reservation' so it's still treated as part of your estate, and so liable for inheritance tax.
- From 6 April 2005 onwards you may be liable to pay an income tax charge on the 'benefit' you get from having free or low-cost use of property you formerly owned (or provided the funds to purchase). Income tax is charged on the rental income that the new owner of the gifted property receives.
- Once you have given away your home to your children then they own it and it becomes part of their assets; so if they are bankrupted or divorced, your home may have to be sold to pay creditors or to fund part of a divorce settlement.
- If your children sell your home, and it is not their main home, they will have to pay capital gains tax on any increase in its value.

# The Orderly Transfer of Your Estate (Continued)

#### **Downsizing to a smaller property**

If you decide to downsize to a smaller property and give away the proceeds of the sale of the larger property, these gifts may qualify as:

- 'Potentially exempt transfers' (PETs) so they wouldn't be taxable unless you die within seven years. Even if death occurs within seven years there may be a reduction in the amount of inheritance tax payable due to taper relief.
- Part of your annual exemption in portions each year. For example, if you give away £10,000, £3,000 will be exempt under your annual exemption and £7,000 will be a PET. Unless you have unused £3,000 from a previous year which can be carried forward (£6,000 total per person).

#### Trusts

You may decide to use a trust to pass assets to beneficiaries, particularly those who aren't immediately able to look after their own affairs. If you do use a trust to give something away this removes it from your estate, provided you don't use it or get any benefit from it. But bear in mind that gifts into a trust may be liable to IHT. Trusts are complicated and it's best to seek specialist professional advice.

#### **Equity release**

A commercial equity release scheme is a method of using the value of your home to raise money. This is like having a mortgage on your property but, instead of making monthly repayments, you repay the money when your house is sold. You can use these schemes to:

- Buy an annuity to give yourself a regular income for life
- Release cash to invest or spend as you want
- Before using a commercial equity release scheme you need to get proper advice because there are risks.
- The interest rate is fixed at the time you release the money—if the value of your home falls or doesn't grow by enough you could end up with no equity in your home
- If you change your mind after taking out the loan you could face substantial penalties

#### **Deed of Variation**

A deed of variation allows the beneficiaries of a will to change its contents after the death of the individual concerned. The deed of variation must be effected within two years of the death of the individual and although extremely useful it would be unwise to rely upon it as part of an individual's estate planning. It may be that the effectiveness is reduced by the government in the future. All the beneficiaries of the will must be in agreement. If minors are involved this is further complicated as they cannot themselves consent to the changes and an application must be made to the courts for consent to be obtained on their behalf. The deed itself must contain a statement that variation has an effect for inheritance tax as if the deceased had made the changes prior to death. The statement must be signed by all parties and where there is an additional tax liability must be signed by the personal representatives. The only instance where they can refuse is if there are insufficient assets available to pay the tax.

#### **Gift Inter Vivos Insurance**

This type of policy is designed to provide cover against inheritance tax if an individual makes a potentially exempt transfer (a gift) of assets out of their estate. If such a gift is made then the individual has to survive for seven years for it to be outside of the estate for inheritance tax purposes. If you should die in the meantime then there is a tax to pay over the period according to the percentage level dictated by legislation, which is on a decreasing basis between the date of death and the seventh year. This insurance will pay a sum assured which reduces in line with the reduction in inheritance tax liability. The insurance is only for seven years and typically the policy will have no surrender value after this period.

## ESTATE PLANNING The Orderly Transfer of Your Estate (Continued)

#### Whole of Life Insurance

If inheritance tax is unavoidable, one option is to arrange life insurance to cover the expected tax liability. A whole of life policy written in trust and payable at second death could be the most suitable life insurance option. These types of policy are not restricted to a specific period of coverage (or term) so the benefits are available irrespective of when death occurs. It is important these policies are written in a suitable trust to ensure the insurance benefits are paid directly to the beneficiaries and are not considered as assets of the deceased estate.

## estate planning Comparison of Transfer Costs

This illustration shows the possible transfer costs if Keith dies at age 49 and Kathryn dies immediately thereafter. The illustration assumes that the total estate is worth £1,180,542 at that time, including life insurance death proceeds.

## Assumes Keith dies in 2009 and Kathryn Dies Immediately Thereafter



#### All To Kathryn<sup>1</sup>

This example assumes that Keith leaves everything to Kathryn using a simple 'back-to-back' or 'Mirror Will' arrangement. This strategy results in a low transfer cost at the death of Keith but can lead to a large transfer cost at the subsequent death of Kathryn. At Kathryn's death, Kathryn's estate will receive an increase in the Nil Band Amount equal to Keith's portion which may help reduce total transfer costs.

#### Utilise Nil Rate Band<sup>2</sup>

This example assumes Keith is able, through the use of a will and other legally acceptable strategies, to leave an amount to others representing the level of the current inheritance tax nil rate band. At Keith's death this strategy allows this proportion of Keith's estate to be transferred to recipients other than Kathryn completely exempt of inheritance tax charges. If any nil band amount remains, Kathryn's estate will be able to increase the nil band amount proportional to that amount not used by Keith's estate.

The example above illustrates death in the same year. Depending on the sizes of the relative estates and the years elapsed between deaths, either of the above strategies could be employed. The "All to Kathryn" strategy would leverage future increases in the nil band rate as unused portions from the first-to-die would be applied at the higher nil band rate at second death in a later year. "Utilize Nil Rate Band" may be a better approach when it is desirable to bequest an asset to the heirs which may rapidly appreciate in the years after death, allowing a larger portion of the total estate to pass to the heirs tax-free.

You should consult your tax adviser before implementing any inheritance tax planning.

<sup>1</sup> Property and other assets passes through the use of a will or other legally binding arrangement.

<sup>2</sup> Where jointly held Property is transferred, pre-death ownership must be held as a 'Tenants-in-Common' arrangement in conjunction with the appropriate will provision.

## estate planning Comparison of Transfer Costs (Continued)

This table shows the possible transfer costs if Keith dies at age 49 and Kathryn dies immediately thereafter. The table assumes that the total estate is worth  $\pounds 1,180,542$  at that time, including life insurance death proceeds.

| Keith Dies in 1                             | All to Kathryn | Utilise Nil Rate Band |
|---------------------------------------------|----------------|-----------------------|
| Gross Estate                                | £957,594       | £957,594              |
| less Liabilities                            | 40,122         | 40,122                |
| Net Estate                                  | 917,472        | 917,472               |
| Final Expenses <sup>1</sup>                 | 5,000          | 5,000                 |
| Adjusted Gross Estate                       | 912,472        | 912,472               |
| Amount to Kathryn                           | 912,472        | 587,472               |
| Amount to Heirs                             | 325,000        | 225 000               |
| IHT Exemption Used                          | 0              | 325,000               |
| Taxable Estate                              | £0             | £0                    |
| Inheritance Tax Due                         | £0             | £0                    |
| Net to Heirs at Keith's death               | £0             | £325,000              |
| Kathryn Dies in 2009                        |                |                       |
| Gross Estate                                |                |                       |
| Kathryn's Estate                            | £222,948       | £222,948              |
| Inherited from Keith                        | 912,472        | 587,472               |
| less Liabilities                            | 40,122         | 40,122                |
| Net Estate                                  | 1,095,299      | 770,299               |
| Final Expenses                              | 5,000          | 5,000                 |
| Adjusted Gross Estate                       | 1,090,299      | 765,299               |
| IHT Exemption Used                          | 650,000        | 325,000               |
| Taxable Estate                              | £440,299       | £440,299              |
| Inheritance Tax Due                         | £176,119       | £176,119              |
| Net to Heirs at Kathryn's death             | £914,179       | £589,179              |
| Summary                                     |                |                       |
| Total Estates and Insurance                 | £1,180,542     | £1,180,542            |
| Total Taxes and Expenses<br>and Liabilities | £266,363       | £266,363              |
| Total to Heirs and Others                   | £914,179       | £914,179              |

<sup>1</sup> Final Expenses include burial and other related costs along with estimated probate charges where appropriate.



# **Planning Assumptions**

Assumptions used for this scenario referred to as .

No one knows the future or the exact sequence of events that may occur. Your plan is built on all of the facts you have shared, but it is still necessary to make various assumptions to illustrate your financial situation. You should be sure that you understand all of the assumptions listed here and that they correctly reflect your situation and desires. Assumptions appear with the section that are applicable. The following assumptions are of a more general nature and apply throughout your plan. Also, some assumptions required additional explanations.

| Keith Patterson   | Age: 48 | Male   | Born: 23 January, 1961 |
|-------------------|---------|--------|------------------------|
| Kathryn Patterson | Age: 48 | Female | Born: 23 January, 1961 |

Keith and Kathryn are married.

#### **State Benefits**

Keith is eligible for certain State Benefits. Keith's certain State Benefits are based on levels in today's terms increased by inflation. Keith plans to take State Benefits starting at age 65.

Kathryn is eligible for certain State Benefits. Kathryn's certain State Benefits are based on levels in today's terms increased by inflation. Kathryn plans to take State Benefits starting at age 65.

#### **Ages and Events**

Ages illustrated are based on the age as of the last birthday.

#### **Calculation Date**

The starting date for the calculations in this report is 30 June, 2009. Assets that were entered with a valuation date more than one month prior to this date have their value adjusted for appreciation to approximate the value of the asset on this calculation date.

#### **Calendar Year Processing**

Each year of the illustration ends with December. The current year will calculate from the month of the Calculation Date through December of that year.

#### **Nature of Monthly Calculations**

Calculations are made each month, based on the amounts available at the start of the month. No attempt is made to determine the exact date within a month various transactions occur.

#### **Interest Rates and Earnings**

Interest and earnings are credited for 1/12<sup>th</sup> of the annual amount requested for each month. This is for the purpose of helping to determine the applicable cash flow and does not represent a guarantee of this or any interest or earnings. All rates of return illustrated are hypothetical and are not associated with any particular investment product.

#### Insurance

The numbers produced by this analysis in no way guarantee the right to purchase life insurance in the amounts illustrated. If any new life insurance is illustrated, this presentation is not valid unless accompanied by a complete illustration of proposed policy values.

#### **Final Expenses**

**Keith:** Final Expenses: £5,000 Kathryn: Final Expenses: £5,000

#### **Estate Assumptions**

For the purposes of Inheritance Tax analysis, it is assumed death occurs to Keith at the end of the current year followed immediately by the death of Kathryn. Each client's estate is assessed individually at the time of death and jointly-held assets and liabilities are divided equally. The value of any assets jointly held with a third party are deemed part of the estate. Death benefits from pension plans are assumed to be held in trust and therefore not liable to Inheritance Taxation at the holder's death. However pension benefits transferred from Keith to Kathryn are considered part of the estate at Kathryn's death. Life insurance proceeds are paid to your named beneficiary and are considered part of the estate for Inheritance Tax purposes. This analysis incorporates the current Inheritance Tax Nil Rate band in its calculations.

#### Loans, Credit Cards, and Lines of Credit

Any form of credit illustrated is not a guarantee that such credit will be accepted by a lending institution. Different forms of credit may have a number of fees associated with various uses of the credit. Please consult the lending institution for details as well as all fees and rules for using that credit.

#### **Restrictive Uses of Assets**

Assets that are marked for restricted use will only be used to provide cash for that purpose.

#### **Income Taxes**

#### **Income Tax Rates**

Basic Income Tax Rate: 20% Higher Income Tax Rate: 40%

#### **Capital Gains Tax**

Taxation on the gains from assets that are liable to Capital Gains Tax is deducted at the fixed rate of 18% in the year the asset is liquidated or sold. Liable gains on Investment Bonds are taxed at 20%. An individual's Annual Exemption amount is deducted from the total gains in any given year before Capital Gains Tax is applied. The current Annual Exemption amount is increased annually by the State Benefits inflation rate. Capital Gains Tax is not applied to the following asset types: Bank Accounts, Other Bonds (Government), ISAs PEPs TESSAs, Property – Main Residence, Savings (Cash Equiv.) and Venture Capital Trusts. Entrepreneur Capital Gains Tax relief is not applied.

#### **Assumed Retirement**

Retirement is assumed to be when Keith reaches, or would have reached, age 60. Any change you indicated in the basic living expenses is applied at that time.

#### **General Inflation Rate**

A general inflation rate of 3% is used for all basic living expenses and where indicated.

#### **Education Payments**

Education costs are stated as annual amounts but are assumed to be paid in 12 monthly payments. Payments are assumed to start in August of each year unless a specific starting date is stated.

#### **Education Inflation Rate**

An education inflation rate of 6% is used for all education funding expenses. Historically, the cost of education has experienced a rate different than the general inflation rate of all goods and services. Adjustments for the education inflation rate are made in January of each year.

#### **Costs Associated with Long-Term Care**

Estimated costs of long-term care are based on the average costs for a nursing home stay in the current county of residence (Unknown), adjusted for the current level of long-term care inflation rate. Basic living expenses are further adjusted as if disabled and any salary or retirement contributions are discontinued. (Estimated costs based on SAGA Cost of Care Report 2008 from Laing and Buisson.)

#### **Discretionary Spending**

For this illustration, it has been assumed that you will spend any excess money in your cash account in excess of  $\pounds 1,000$ . In addition, it assumes that any tax refunds are spent. "Sweeps" and all other transactions are processed prior to determining the amount of discretionary spending for each month.