

PlanMail

Tips to help you get even more out of PlanLab



Issue 6

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Greetings

PlanMail is a feature provided free to all PlanLab users. It aims to provide regular hints, tips, ideas and suggestions to allow you to get even more out of the PlanLab online financial planning program with Lifetime Cashflow Analysis.

PlanLab normally uses a client's current living expenses in conjunction with their other expenditure items (mortgage payments, policy premiums, savings goals, etc) to calculate cash flow requirements in the event of premature death, disability or retirement. This PlanMail will demonstrate how you can still carry out all these analyses even without details of your client's regular living expenses.

About the Sample Case used in this PlanMail

I've attempted to make the sample case used to demonstrate this technique as typical of the genre as possible. The couple has a joint income of around £7,000 gross per month, two children and make regular contributions to their employer sponsored pension schemes and their individual ISA plans. They know what their mortgage payments are and their life insurance premiums but have no idea how much they spend on other living expenses, suffice to say there is very little left in the bank account at the end of the month. When assessing the income needs in retirement and in the event of either client's death or disability, we decided to aim for the following living expenses requirements (this is in addition to any other items such as mortgage payments, retirement contributions, etc already mentioned):

- *Retirement:* 66% of current living expenses assuming 3% annual increase.
- *Premature Death of either spouse:* 75% of current living expenses increasing by 3% per year.
- *Disability of either spouse:* 100% of current living expenses increasing by 3% each year.

Step 1: Identifying Current Living Expenses

The clients have stated once they have paid their mortgage, pension, ISA and life insurance premiums, whatever income remains is spent on living expenses. If the clients stated they saved an amount from their income into a building society or deposit account and then spend what was left, we would simply first set-up this regular saving as a Distribute Income to An Asset transaction before proceeding. To establish what these remaining amounts are, we activate the PlanLab Discretionary Spending feature.

Discretionary Spending simply assumes all the client's regular monthly income is spent before the next income is received. These monthly amounts are included in the analysis as an expense item called Discretionary Spending. To review the audio visual tutorial that reviews the Discretionary Spending feature, please click [here](#).

To activate Discretionary Spending, go to the Assumptions screen in the Planning section of Detailed Planning as shown below. Here there is a tick box under the heading 'Spend All Excess Cash Flow'. Once ticked, PlanLab will assume any money left in the asset designated as the current account (above the amount entered in the box shown, in this case £1,000) will be spent once all other expenses have been met. *To check which asset PlanLab assumes is the current account, go to the Planning, Cash Flow Sources section. Whichever asset appears at the top of the list of available assets is the cash account.*

Spend All Excess Cash Flow	
<input checked="" type="checkbox"/> Spend Everything left in Current Account over (Use this if the client generally spends all income on a regular basis without accumulating savings.)	1000.00

Once Discretionary Spending has been included in the analysis, we can load the Super Ledger - Cash Flow document to learn the level of the client's current living expenses assuming they are spending all their remaining income on these expenses.

	End of Year 2008	2009	2010	2011
Outgoing Payments				
Basic Expenses				
Andrew Life Insurance	603	804	804	804
Loan Payments				
Loan for Main Residence	9,198	12,264	12,264	12,264
Retirement Plan Contributions				
Andrew Money Purchase	1,800	2,472	2,546	2,622
Isabelle Stakeholder	900	1,236	1,273	1,311
Discretionary Spending	19,694	31,808	31,250	32,993

From the above Super Ledger - Cash Flow we can see for the first full year of analysis (i.e. 2009) the clients are spending around £30,000 a year on all expense items not already identified. This is the amount we will use as the basis for the client's cash flow planning analysis.

Step 2: Setting Up the Cash Flow Planning Needs

Having established the current level of expenditure for the client, we can now use this figure to record the client's expenditure requirements in the event of disability, premature death and retirement. We have already agreed the level of current expenses for these need areas (see above) so all that remains is to record these figures in the Expenses, Living Expenses section of the program.

Retirement Expenses:

The expenses required during the client's retirement years are recorded as follows:

General Living Expense	
Description	Retirement Expenses
Type	General Living Expenses
Expense for	Both
Amount	1650.00
Frequency	Monthly
Percent Continuing...	
After First Death	0.00 %
After First Disability	0.00 %
After First Retirement	100.00 %
Start	First Client Retires
Stop	Never Ends
Note: The general inflation rate is applied to all living expenses.	
<input type="button" value="Save"/> <input type="button" value="Cancel"/>	

Description: 'Retirement Expenses' to identify the expense item.

Type: 'General Living Expenses'.

Expense for: This is an expense 'Both' clients will incur.

Amount: We had established the clients expected to incur 66% of their current expenditure levels during their retirement years. This figure should increase by 3% from now to retirement age and during retirement. In today's money, the expense level is $\text{£}30,000 \times 66\% = \text{£}19,800$ per annum or $\text{£}1,650$ per month. By entering $\text{£}1,650$ in the Amount field and recording 3% in the

Assumptions, General Inflation Rate input, PlanLab will automatically escalate this figure from now to retirement and beyond even though the expense does not begin until the clients retire. If we checked the Super Ledger - Cash Flow, we would see the £19,800 figure today has increased to over £30,000 when the expense begins at retirement.

Frequency: As PlanLab calculates cash flow on a monthly basis, it is best practice to record incomes and expenses as a monthly figure wherever possible.

Percent Continuing...

After First Death:

For the survivor needs analysis, PlanLab assumes death occurs today and as this living expenses entry has been recorded with the assumption the clients live to their retirement age and beyond, we do not want the expense item included in the survivor needs cash flow analysis. As such, we record zero percent continuing after first death.

After First Disability: As with the Percent Continuing After First Death, PlanLab also assumes disability would strike immediately and again as this living expense entry should only be included from retirement, we record a zero in the percent continuing after first disability input.

After First Retirement: We obviously want all of these expenses included in the retirement cash flow analysis so we record 100% in this input.

Start: We only want these expenses to feature from retirement age onwards, so the ideal 'Start' setting is 'First Client Retires' (although you could record Retires: Client A/B).

Stop: We can select how many years of analysis we want to include just before we produce the report so there is no need to record an end date or period in this input. By selecting 'Never Ends' the expense will continue for as long as the analysis.

Premature Death Expenses

The expenses required in the event either client suffers premature death are recorded as follows:

General Living Expense	
Description	Survivor Expenses
Type	General Living Expenses
Expense for	Both
Amount	1875.00
Frequency	Monthly
Percent Continuing...	
After First Death	100.00 %
After First Disability	0.00 %
After First Retirement	100.00 %
Start	First to Die
Stop	Never Ends
Note: The general inflation rate is applied to all living expenses.	
<input type="button" value="Save"/> <input type="button" value="Cancel"/>	

Description: 'Survivor Expenses' to identify the expense item.

Type: 'General Living Expenses'.

Expense for: This is an expense 'Both' clients will incur.

Amount: We had established the clients expected to incur 75% of their current expenditure levels in event either spouse suffered premature death. This figure will increase by the 3% level recorded in the Assumptions, General Inflation Rate input. The client's current expenditure has been established at £30,000 per annum therefore the need is 75% of £30,000 = £22,500 per annum or £1,875 per month.

Frequency: As PlanLab calculates cash flow on a monthly basis, it is best practice to record incomes and expenses as a monthly figure wherever possible.

Percent Continuing...

After First Death: We want this level of expenditure to be included in the survivor needs analysis so we record 100% in this input.

After First Disability: The disability cash flow needs analysis will have its own expenditure figure so we do not want these expenses included also. As such we enter zero in the percent continuing after first disability input.

After First Retirement: Although premature death is presumed to occur today, the analysis of needs in the event of death may continue from now to the survivor's retirement age and beyond.

If it does, we need the expenditure figures to continue to be included. As such we enter 100% in the percent continuing after first retirement input.

Start: We only want these expenses to feature in the event of either client suffering premature death so we select the 'First to Die' setting. No other available 'Start' option will achieve the correct results. If we chose 'Death: Client A', the expenses would not feature in the analysis where Client B dies and vice versa.

Stop: We can select how many years of analysis we want to include just before we produce the report so there is no need to record an end date or period in this input. By selecting 'Never Ends' the expense will continue for as long as the analysis.

Disability Expenses

The expenses required in the event either client becomes disabled are recorded as follows:

General Living Expense

Description

Type

Expense for

Amount

Frequency

Percent Continuing...

After First Death %

After First Disability %

After First Retirement %

Start

Stop

Note: The general inflation rate is applied to all living expenses.

Description: 'Disability Expenses' to identify the expense item.

Type: 'General Living Expenses'.

Expense for: This is an expense 'Both' clients will incur.

Amount: We had established the clients expected to incur 100% of their current expenditure levels in event either spouse becomes disabled. This figure will increase by the 3% level recorded in the Assumptions, General Inflation Rate input. The client's current expenditure has been established at £30,000 per annum or £2,500 per month.

Frequency: As PlanLab calculates cash flow on a monthly basis, it is best practice to record incomes and expenses as a monthly figure wherever possible.

Percent Continuing...

After First Death: The survivor cash flow needs analysis has its own expenditure figure so we do not want these expenses included as well. As such we enter zero in the percent continuing after first death input.

After First Disability: We want this level of expenditure to be included in the disability needs analysis so we record 100% in this input.

After First Retirement: Although disability is presumed to occur today, the analysis of needs in the event of either client becoming disabled may continue from now to the client's retirement age and beyond. If it does, we need the expenditure figures to continue to be included. As such we enter 100% in the percent continuing after first retirement input.

Start: We only want these expenses to feature in the event of either client becoming disabled so we select the 'First Client Disabled' setting. No other available 'Start' option will achieve the correct results. If we chose 'Disability: Client A', the expenses would not feature in the analysis where Client B becomes disabled and vice versa.

Stop: We can select how many years of analysis we want to include just before we produce the report so there is no need to record an end date or period in this input. By selecting 'Never Ends' the expense will continue for as long as the analysis.

Step 3: Checking the Analysis

Before compiling the client report, we need to check we have recorded the Living Expenses needs correctly. The easiest way to confirm the analysis reflects the client's requirements is to use the Super Ledgers.

Retirement Cash Flow Analysis

Firstly, we check the retirement living expenses are correct by loading the Super Ledger - Cash Flow:

End of Year	2022	2023	2024	2025	2026
Outgoing Payments					
Basic Expenses					
Retirement Expenses	0	23,706	31,773	32,726	33,708
Disability Expenses	0	0	0	0	0
Survivor Expenses	0	0	0	0	0
Andrew Life Insurance	804	804	804	804	804

From the above cut-out section of the ledger we can see the Retirement Expenses do not feature in the analysis until 2023. This lines up with the year the first client retires. The first full year of retirement (2024) lists annual expenses of £31,773 which again ties in with the specified expenses of £19,800 today increasing by 3% for 15 years. We can also see the disability and survivor needs expenses show zero amounts so we know these items have not been accidentally included in the retirement cash flow analysis.

Survivor Cash Flow Analysis

We can check the survivor needs features the correct expenditure amounts by using the Super Ledger - Death of Client A/B as shown below:

End of Year	2008	2009	2010	2011	2012
Outgoing Payments					
Basic Expenses					
Retirement Expenses	0	0	0	0	0
Disability Expenses	0	0	0	0	0
Survivor Expenses	15,000	23,175	23,870	24,586	25,324
Andrew Life Insurance	67	0	0	0	0

From the above section of the Super Ledger - Death of Client A we can see the Survivor Expenses featuring immediately and continuing year on year at increasing levels. The first full year of analysis (2009) shows expenses of £23,175 which ties in with the desired expenses level in the event of death of £22,500 increased by 3% inflation. The Disability Expenses show zero amounts so we know these have not been included. If we moved further through the ledger, we could check the Survivor Expenses continue past the client's retirement year of 2023 without any Retirement Expenses being listed.

Disability Cash Flow Analysis

We can check the disability needs features the correct expenditure amounts by using the Super Ledger - Client A/B Disabled as shown below:

End of Year	2008	2009	2010	2011	2012
Outgoing Payments					
Basic Expenses					
Retirement Expenses	0	0	0	0	0
Disability Expenses	22,500	30,900	31,827	32,782	33,765
Survivor Expenses	0	0	0	0	0
Andrew Life Insurance	603	804	804	804	804

Again we can see the Disability Expenses featuring immediately in the analysis as intended. The first full year in 2009 shows an expenses figure of £30,900 which again ties in with the need amount of £30,000 increased by 3% inflation. There are no Survivor Expenses listed and if we continue through the ledger we could check no additional Retirement Expenses are included.

The review of the various ledgers shows the analysis is working as we intended so we are free to go ahead and produce the client report.

I hope you found this edition of the PlanMail feature useful. We are looking to regularly issue similar messages to all our PlanLab users in the future. Please remember: If you have any suggestions or ideas for future PlanMail editions, please let me know.

Best wishes,

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