TOWN CLOSE
Financial Planning

Financial Plan

YOUR FINANCIAL PLAN

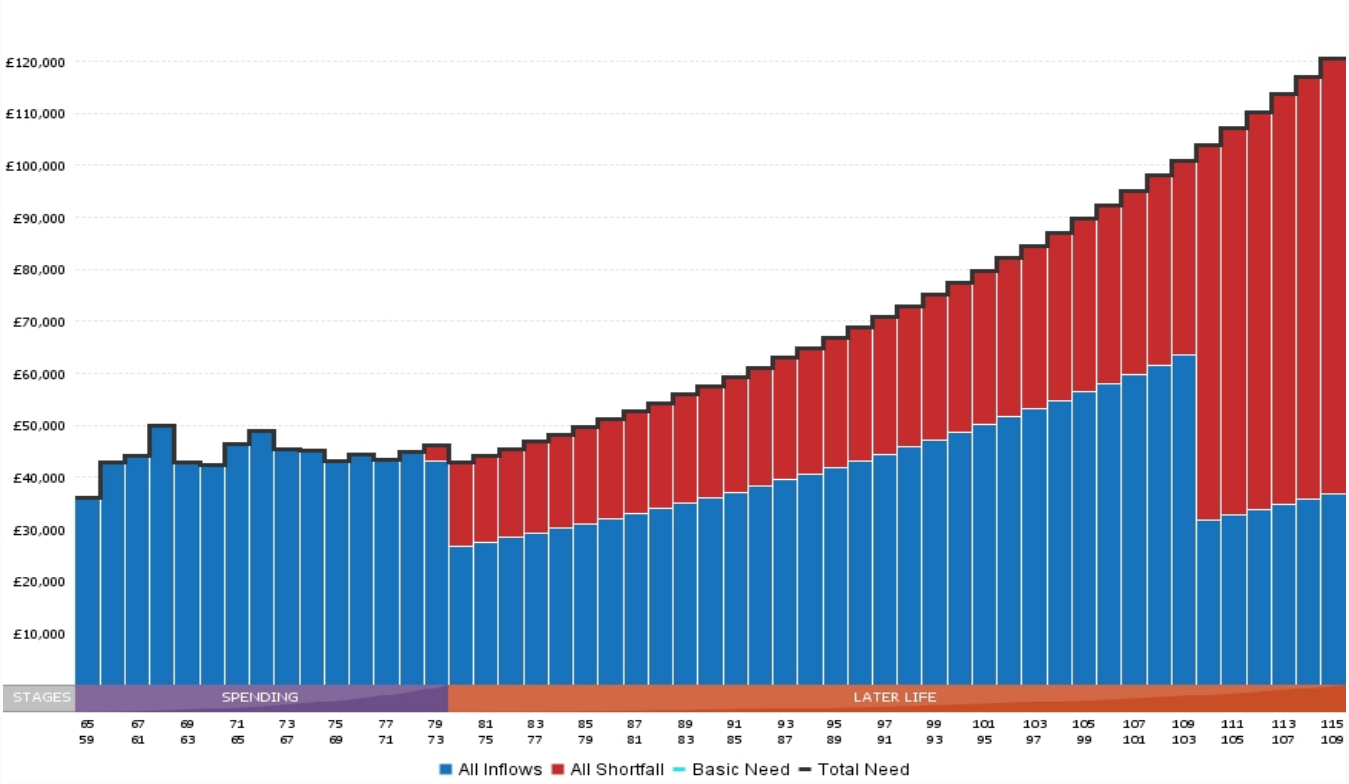
When will I run out of money?

Please see the explanatory notes in Appendix 3.

We do not expect you to run out of money. We'd like to keep it that way and help you continue enjoying your lifestyle for as long as you are able to.

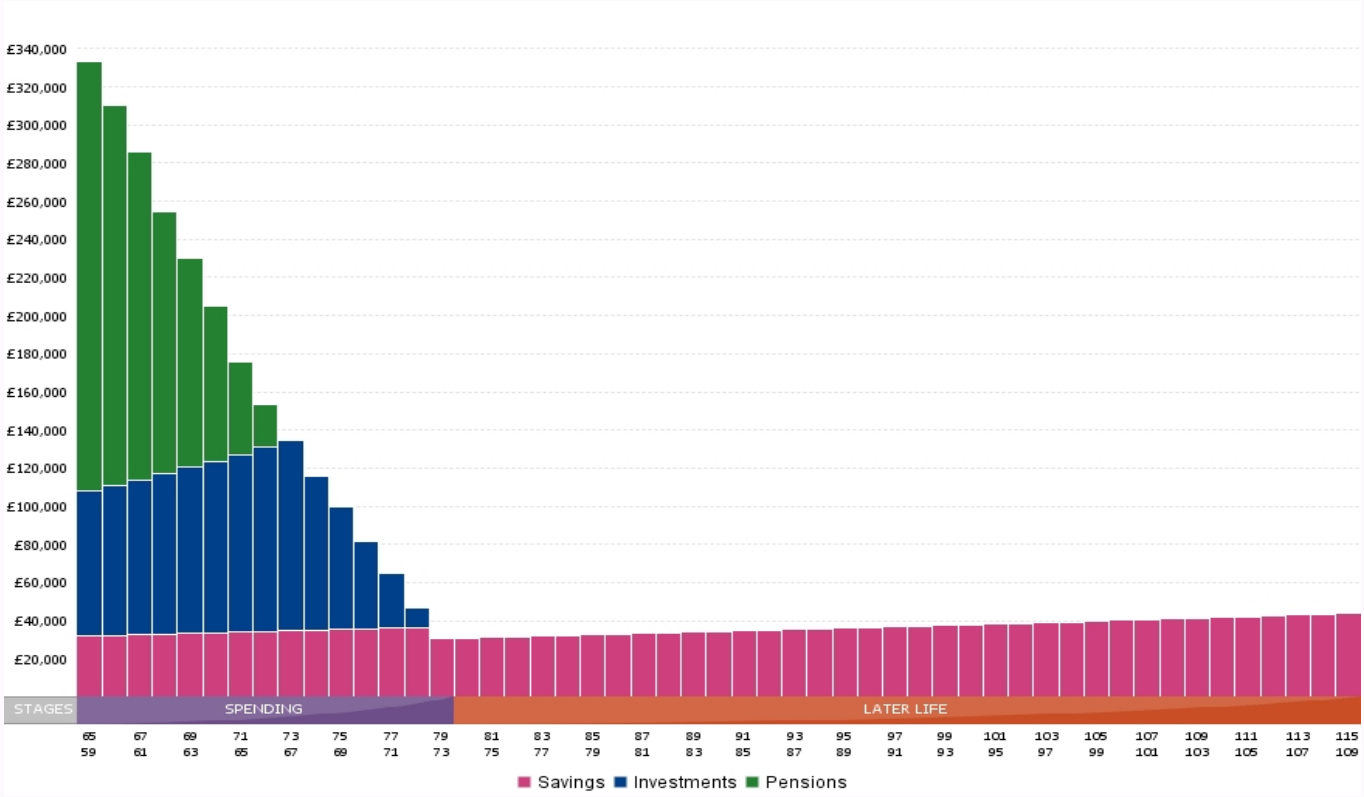
OR

We expect you to run short of money at age XX and this will require a change of lifestyle and/or for you to release money from your property. The likelihood is that you will start to change your spending patterns well in advance of this age to ensure that this becomes less likely.



How much do I have year to year?

This graph shows you how much you we expect you to have in savings, investments and pensions year by year.



What needs to be done?

Cut and past from the FPM/C/Z follow up email and add status

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The next 12 months

Over the next 12 months you need XXXX to cover your expected living costs.

This need will be covered as follows:

Pensions	£xxxx	(which accounts)
Savings	£xxxx	(which accounts)
Investments	£xxxx	(which accounts)
Asset sales	£xxxx	(which assets)
State Pensions	£xxxx	
Employer pensions	£xxxx	(which employers)
Other	£xxxx	(specify e.g. redundancy)
TOTAL	**£xxxx**	

Over the next 12 months we expect you to pay a total of £XXXX in tax.

The next three years

We have set aside £XXX in cash to cover your expenses over the next three years. These are the expenses that won't be covered by known income from work / state pensions / company pensions.

To this we have added £XXX to act as your emergency fund money will be held in XYZ account.

OR

Your net incomes should exceed your living costs by £XXX pm This money should be added to XYZ account / used to pay for ABC policy, to further strengthen your financial plan.

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YOUR PLANNING OBJECTIVES

The purpose of a financial plan is to achieve one, some or all of the following. We check them regularly to make your financial plan remains relevant and suitable.

Planning Outcome	Not Important <- - - - - - - - - - - - - - - - - - - -> Essential
Maintaining your standard of living in retirement	0 1 2 3 4 5 6 7 8 9 10
Not running out of money	0 1 2 3 4 5 6 7 8 9 10
Helping your children (education, housing, savings, gifts etc.)	0 1 2 3 4 5 6 7 8 9 10
Helping your grandchildren	0 1 2 3 4 5 6 7 8 9 10
Helping your parents	0 1 2 3 4 5 6 7 8 9 10
Providing in the event of your premature death	0 1 2 3 4 5 6 7 8 9 10
Providing if you can't work due to long-term illness or disability	0 1 2 3 4 5 6 7 8 9 10
Providing for long-term care	0 1 2 3 4 5 6 7 8 9 10
Avoid being a burden on your children	0 1 2 3 4 5 6 7 8 9 10
Leaving a legacy for your family, friends or a favourite charity	0 1 2 3 4 5 6 7 8 9 10
Mitigating your estate's IHT liability	0 1 2 3 4 5 6 7 8 9 10

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Planning Outcome	TCFP's Notes
Maintaining your standard of living in retirement	
Not running out of money	
Helping your children (education, housing, savings, gifts etc.)	
Helping your grandchildren	
Helping your parents	
Providing in the event of your premature death	
Providing if you can't work due to long-term illness or disability	
Providing for long-term care	
Avoid being a burden on your children	
Leaving a legacy for your family, friends or a favourite charity	
Mitigating your estate's IHT liability	

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YOUR INVESTMENT POLICY STATEMENT

All successful long-term investment strategy — being of necessity, goal-focused and planning-driven — proceeds from the answers to three key questions:

Who is this money for? What is this money for? When, and at what rate, will this money need to be withdrawn?

A robust Investment Policy Statement enshrines the answers to these questions in a way that cannot fail to be mutually understood and agreed upon.

A few fundamentals to begin with:

We've agreed that the only intelligent progression in the creation of a lifetime investment plan is: first goals, then a plan, and only then a portfolio. The objective of your portfolio, therefore, will simply be to execute the plan in the time allotted.

You are 52 & xx and your goal is to stop working in 10 years. We have determined that, at that time, you would like a net income of £XXXXX in today's terms. In addition, we have identified various other one-off expenses (home improvements, changing the car, etc.) that will occur and allowed for them in your financial plan.

Your State Pensions, once they become payable, will contribute towards this income target, thereby taking the pressure off your invested money.

It's essential that this income increases throughout your lifetime to offset the rate at which your cost of living will rise due to inflation.

We've agreed that, at retirement, you'll want to have £XXXX in cash in your accounts,, to cover about three years of your withdrawal needs.

Each year as your cash account ticks down, we will discuss how much should be taken from the invested side of your plan to top up the cash side of your plan.

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The figure will depend on how the investment side has fared. In a bad year we may move nothing, in an average year we may replace what you have taken and in a good year we may move more than has been taken.

You currently have accumulated £XXXX and have committed to invest an additional £XXXX pm in each of the 120 months until your projected retirement date. Based on those assumptions, you will need 8.7% pa compound return to reach your capital goal in 10 years.

Historically, a rate of return that high has only been achievable investing mainly in equities. We use a very diversified portfolio of tracker funds composed mainly of "The Great Companies of the World" and with allocations to smaller companies, emerging markets and the highest quality Government bonds.

The historical long-term return of this portfolio has been 5.5 – 6% pa on average net of all costs.

There can, of course, be no assurance of you achieving that return over the next 10 years. If you do not, adjustments may have to be made by way of increasing the amount you invest, or working longer, or scaling back your withdrawals in the early years of your retirement, among other options.

Equities subject not merely your return but your capital itself to very wide variances. For example, we can expect to experience average annual declines from peak to trough of at least 10%, with declines of 30% (or worse) occurring on average every five to six years.

Your investment policy will be to continue investing as planned through any and all the declines we may encounter, in the hope of acquiring relatively lower-priced shares. Again, there can be no assurance that such a strategy will succeed.

We've agreed that we will review this strategy no less than annually but, provided your goals do not change in the interim, we do not expect to alter materially either your plan or your portfolio.

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YOUR WITHDRAWAL STRATEGY

We agreed that the only intelligent progression in the creation of a retirement investing plan is: first, the goal (or goals), next the plan for achieving the goal(s), and only then a portfolio.

The objective of the portfolio, therefore, will simply be to execute the plan.

You are 62 & xx years old, non-smoking couple, entering retirement. This means, in actuarial terms, you have a joint life expectancy – the time until the second of you passes – in the range of 30 years.

Your stated goal is to be able to enjoy a net income of £xxxxx. In addition, we have identified various other one-off expenses (home improvements, changing the car, etc.) that will occur and allowed for them in your financial plan.

Your State Pensions, once they become payable, will contribute towards this income target, thereby taking the pressure off your invested money.

It's essential that this income increases throughout your lifetime to offset the rate at which your cost of living will rise due to inflation.

You have expressed a secondary goal of leaving meaningful legacies to your children and grandchildren, which we've concluded will require your principal, if possible, to keep growing in excess of the rate at which you are withdrawing from it.

To the extent that your overriding goal involves an income that has the potential to rise through time, we don't believe that fixed income securities, by their nature, have the ability to achieve that goal.

Instead, we believe that most of your retirement funds should be invested in the "Great Companies of the World", most of whom pay cash dividends that have historically risen quicker than inflation. In addition, historically, this class of equities has risen in value over longer periods of time.

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There can, of course, be no assurance that equities will either raise their dividends or increase in value at historical rates during your retirement.

You have accumulated £2.7m of capital for retirement. We have agreed to set aside, in cash in your accounts, £200,000 to cover about three years of your withdrawal needs. That leaves £2.5m to be invested.

Each year as your cash account ticks down, we will discuss how much should be taken from the invested side of your plan to top up the cash side of your plan. The figure will depend on how the investment side has fared. In a bad year we may move nothing, in an average year we may replace what you have taken and in a good year we may move more than has been taken.

In all instances we will remain mindful of inflation and look to increase your income, if possible, by 3% pa, which is equal to the long-term historical rate of inflation.

Among other risks, there is always the possibility that your investments will decline early in your retirement. For example, we can expect to experience average annual declines from peak to trough of at least 10%, with declines of 30% (or worse) occurring on average every five to six years.

We protect against the effect this might have on you psychologically by trying to maintain the three-year cash buffer described above.

We will review your overall investment strategy no less than annually but, provided your goals do not change in the interim, we do not expect to alter materially either your plan or your portfolio.

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EVENTS, RESOURCES, EXPENSES

This is a summary of your expected life events, resources, liabilities and spending plans. These figures are very important as they are the basis of your financial plan.

Please check your figures thoroughly and advise us if any changes should be made. The years shown below start on 6th April each year.

INSERT VOYANT TABLE

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DOCUMENTS & OTHER NOTES

Documents

You have the following legal documents in place:

ADD TABLE FROM CURRENT FP

Other notes

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WHAT TO EXPECT WHEN IT COMES TO INVESTMENTS

This is one of a series of short papers covering various aspects of investing. The others are "Risk", "Diversification" and "Strategy".

Everything you don't need in the next three years or as an emergency fund should be invested to beat inflation. Inflation at 3% pa means the value of your money halves every 20 years.

We must beat inflation if we are to provide you with the money you need to do the things you want.

If we don't you will be poorer tomorrow than you are today. That's a terrible result.
Therefore we arrive at a portfolio investing, typically, 20% in bonds and 80% in equites (please see "Investment strategy" for more detail)

However, your investments will suffer temporary setbacks!

Over some periods of time you could be worth less than you were previously, and this may persist for quite a few months. In our view, these temporary declines are much more acceptable compared to the permanent loss that inflation will inflict.

We will never know when a correction will begin. We won't know when it will end. But, we do know that, however deep or shallow the correction is, it will be temporary.

This level of uncertainty is not a risk (if you stick to your plan) when you have a 30+ year investment horizon.

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And when it is over the permanent uptrend will reassert itself.

Here's a rough idea of what you should expect to happen:

- An average annual drop of around 10-15% - i.e., values will drop by 1015% then recover.
- We will not flinch, to profit from this perfectly normal occurrence we would have pick both the top and bottom of the market.
- That means we would have to be right twice. We won't be.
- Nobody will be, not consistently. So, by far the best thing to do is sit on your hands.
- Furthermore, the chance of any decline over the next 12 months is about 25%.
- There's about a 13% chance it'll be 10%; And a 6% chance it's 20%.
- All of which means that, 75% of the time, values fall then recover in full during the same 12-month period.
- The other 25% of the time they recover not long after.
- All declines to date have proven to be temporary.
- In return for this you can expect inflation beating returns over the years.

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APPENDIX

Graph notes and assumptions

The following assumed rates of return, inflation and escalation have been used to prepare your forecasts. They are prudent and sensible.

Assumed rate
Inflation 3.00%
Bank savings and deposits and cash ISAs 1.50%
Pension and investment accounts and investment ISAs 4.00%
Property 3.00%
Lifetime Allowance Escalation 3.00%
Nil Rate Band Escalation 0.00% Main Residence Threshold Escalation 3.00%

Our forecasts, shown in the graphs above, overestimate your annual expenses because they assume you will pay more tax than is likely.

The forecasts are merely a snapshot in time to check that you have enough easily accessible money to last you a lifetime or longer.

In reality we will do our very best to keep tax to a minimum by carefully choosing what money should come from where year to year. In so doing, you can expect your money to last even longer than shown, all other things being equal.

WARNINGS

In combination, your financial plan and investment strategy should deliver what you want over the years. At times, the journey may seem bumpy but that's nothing to worry about. If you deviate from your plan and strategy your chances of success will diminish, jeopardising your long-term financial security and lifestyle.

Your plan is based on various assumptions, including the accuracy of the data entered and investment returns. Consequently, actual outcomes could differ materially from our expectations i.e. this financial plan represents just one of many possible outcomes.

Past performance of investments is no guarantee of future results. The future is ultimately unknowable.