

Cash Flow Planning – an Overview

Cash flow planning can be used to understand whether you are on target to achieve your financial goals throughout your lifetime and to help make informed decisions about your finances. Cash flow analyses can vary in their scale and complexity according to client situations and the level of detail being sought. Therefore, when it is appropriate, we tailor cash flow planning to each client's individual needs. Please note that the following note does not constitute personal advice or recommendations.

Sustainable withdrawal rate

Cantab Asset Management has traditionally used the '5% rule of thumb' for guiding clients on savings for retirement. The average long-term return over 50 years for a balanced portfolio of equities, bonds and alternatives has been estimated at a higher level in the region of 7% per annum. Clearly this rate of return can vary over shorter time periods.

The 5% rule of thumb provides a foundation for thinking about the portfolio size that may be required to generate a certain amount of income. This can provide a good starting point for discussions about setting goals and making plans – for example, agreeing the amount and frequency of contributions when working toward a target savings amount.

Whether 5% is a 'safe' withdrawal rate would be a separate discussion, as different forecasters will have their own views on the potential long-term returns of equities and bonds. Additionally, the rule allows for high-level cash flow analysis driven primarily by portfolio size but does not factor in, amongst other things, variable expenditures, ad-hoc lump sum withdrawals, and rates of taxation. However, the 5% rule remains a useful basis from which further planning can stem.

We create your personal cash flow plan in as much detail as you require and prefer, taking into consideration multiple factors and life events to provide a thorough analysis. Where appropriate, we can use spreadsheets and/or specialist cash flow planning software. A more detailed cash flow model may be better suited to those with particularly complex finances or those whose life situations and goals are likely to change frequently over time.

Precise yet adaptable

Your cash flow plan can help to answer key questions such as when you could comfortably retire, how long your money might last, how much inheritance tax your estate could incur, and how to plan for wealth transfer or monetary gifts in the most tax efficient way.

Various scenarios can be modelled, helping you to visualise how well placed you are to meet your financial objectives. There is the flexibility to make adaptations as your circumstances and priorities evolve, giving you confidence that your planning can remain on track.

Further, cash flow planning can be used to model situations that you might not have anticipated. This can help you to understand whether you should adapt your financial planning accordingly. For example, unforeseen costs (such as medical expenses or emergency repairs) and periods of high inflation and/or low returns can be incorporated, providing you with reassurance that your financial goals can still be reached if particular situations should materialise.



Advisers can add value

As mentioned above, 5% is a rule of thumb that relies on a number of underlying assumptions. It might not be appropriate in your circumstances – for example, you may wish to retire early or enjoy a standard of living in retirement that would not be amply funded by a 5% annual withdrawal rate. Many variables could affect your finances leading up to, and during, retirement. Working with a qualified professional can be reassuring and can add value in numerous ways. An advisor can:

- Work closely with you to understand your situation, goals, and preferences
- Develop and implement an appropriate cash flow plan tailored to your needs
- Use a 'scorecard' to monitor actual performance against the plan
- Assist you to gain clarity on your expenditures and income, tax rates, and asset class returns
- Help answer key questions, such as 'how much should we contribute to our portfolio each year for the next ten years' or 'how much tax might I pay when I start drawing down on our investment portfolio'?
- Adjust your plan as factors in your life change – and you can have more confidence working towards your financial targets

Final considerations

There are additional factors to consider regarding your plan. First, as mentioned above, a cash flow plan contains many assumptions, which might not be borne out in practice. This highlights the need to regularly review and reassess your plan. Second, planning reports and charts offer a snapshot of where you are and provide an indication of how achievable your future goals will be, but they cannot offer any guarantees. Finally, financial legislation can change, sometimes substantially. You may wish to seek professional advice on taxation and associated regulations.

Risk Warnings This document has been prepared based on our understanding of current UK law and HM Revenue and Customs practice, both of which may be the subject of change in the future. The opinions expressed herein are those of Cantab Asset Management Ltd and should not be construed as investment advice. Cantab Asset Management Ltd is authorised and regulated by the Financial Conduct Authority. As with all equity-based and bond-based investments, the value and the income therefrom can fall as well as rise and you may not get back all the money that you invested. The value of overseas securities will be influenced by the exchange rate used to convert these to sterling. Investments in stocks and shares should therefore be viewed as a medium to long-term investment. Past performance is not a guide to the future. It is important to note that in selecting ESG investments, a screening out process has taken place which eliminates many investments potentially providing good financial returns. By reducing the universe of possible investments, the investment performance of ESG portfolios might be less than that potentially produced by selecting from the larger unscreened universe.

cantabam.com

Cantab Asset Management Ltd
50 Station Road, Cambridge CB1 2JH
01223 52 2000
advice@cantabam.com

5th Floor, 8 Angel Court, London EC2R 7HP
020 3651 0570
advice@cantabam.com