Financial Strategies

A lifestyle report prepared for

Mike Smith and Emily Smith

Current Situation

Presented by:

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Table of Contents

PLEASE READ CAREFULLY

Important Notes

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.

1

Executive Summary

This is an overview of the Financial Analysis prepared just for you.

This Executive Summary condenses numerous calculations into condensed, one-page summaries of the financial objectives. A one-page summary can never be complete, but it helps you determine areas of your finances that need further considerations. Before taking actions based on any item in this summary, you should examine the detailed analysis contained in the complete *Financial Analysis* that has been prepared for you.

Your Defined Goals

Maintaining Lifestyle

Make all outgoing payments without using assets you specified as your lifestyle assets.
Some assets represent crucial elements of your lifestyle. If a financial plan requires you to use or sell your lifestyle assets, it is unacceptable. You designated these assets as "Do Not Use":

- Home

Retirement

Maintain your defined lifestyle, including adjustments specified for retirement. You have defined retirement as the date when Mike reaches, or would have reached, age 65.

This analysis examines the effects of these goals on your overall finances.

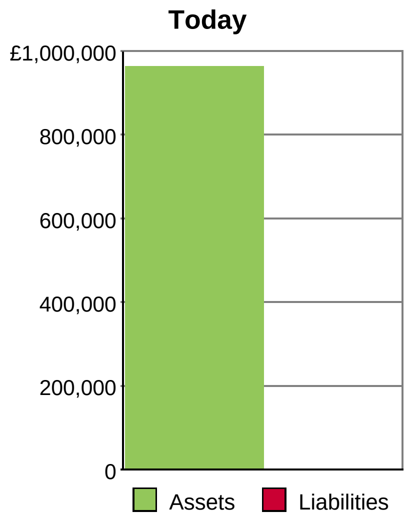
Your Assets and Liabilities Today

Your net worth is a financial "snapshot"—a balance sheet of your finances at a particular moment.

The following is a financial analysis balance sheet for Mike Smith, age 57, and Emily Smith, age 57.

Net Worth Changes With Your Cash Flow

You receive incoming cash and make outgoing payments. The excess produces more assets and any shortage results in a decrease in assets. Of course, the value of your assets may grow. If you borrowed to provide needed cash flow, your liabilities increased. Cash flow affects your assets and your liabilities; therefore, net worth changes with cash flow.



Assets

Liquid Assets	£70,000
Retirement Plans	£400,000
Residence	£500,000
Total Assets	**£970,000**

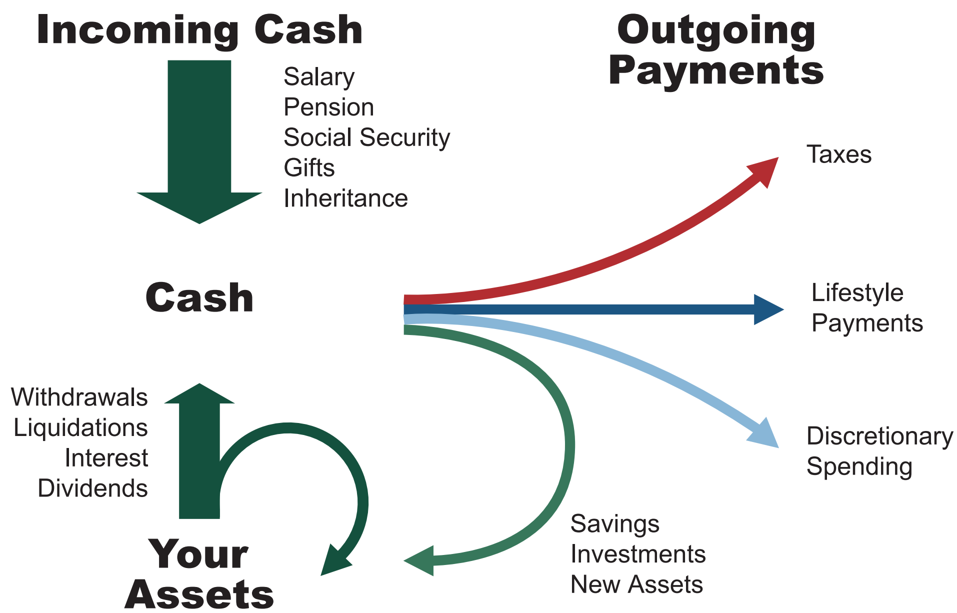
Liabilities

Total Liabilities	**£0**
Net Worth Today	**£970,000**

Your future net worth is determined by your cash flow.

Cash Flow

A careful review of your cash flow is at the heart of any effective financial planning. Money comes to you from both outside sources (such as salary) and inside sources (such as cash dividends from your assets). This money is used for outgoing payments or expenses, and you either spend or save any money that's left once your expenses are covered. When you're short, you either borrow money or use some of your assets.



If outgoing payments exceed expected income, a portion of your assets must be used (based on your priorities) to provide any additional amount needed.

Your Cash Flow Reflects Your Financial Lifestyle

- **Discretionary Spending**
  After all outgoing payments have been met each month, the portion of the money left over that is used for unspecified expenses
- **Shortfall**
  The portion of expenses that cannot be covered without the use of assets designated as "Do Not Use"

Cash Flow Used to Maintain Your Lifestyle

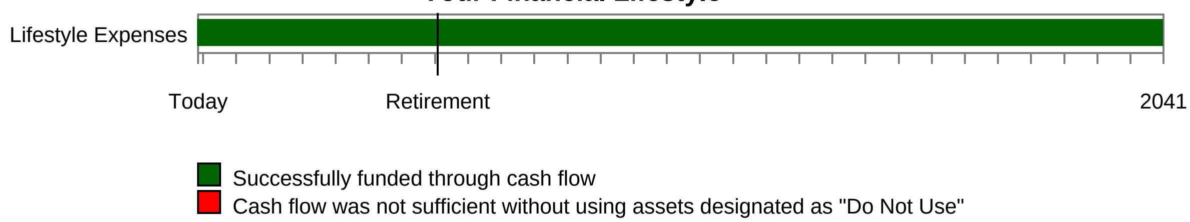
You can answer your most important financial questions by analyzing your monthly cash flow. Will you have sufficient cash flow to maintain your lifestyle? Will your assets continue to grow, or will they decrease or become depleted? You must know answers to these questions before you can make proper financial plans.

Cash Flow Objective

- Pay all lifestyle expenses and outgoing payments
- Under no circumstances use assets designated "Do Not Use" for cash flow

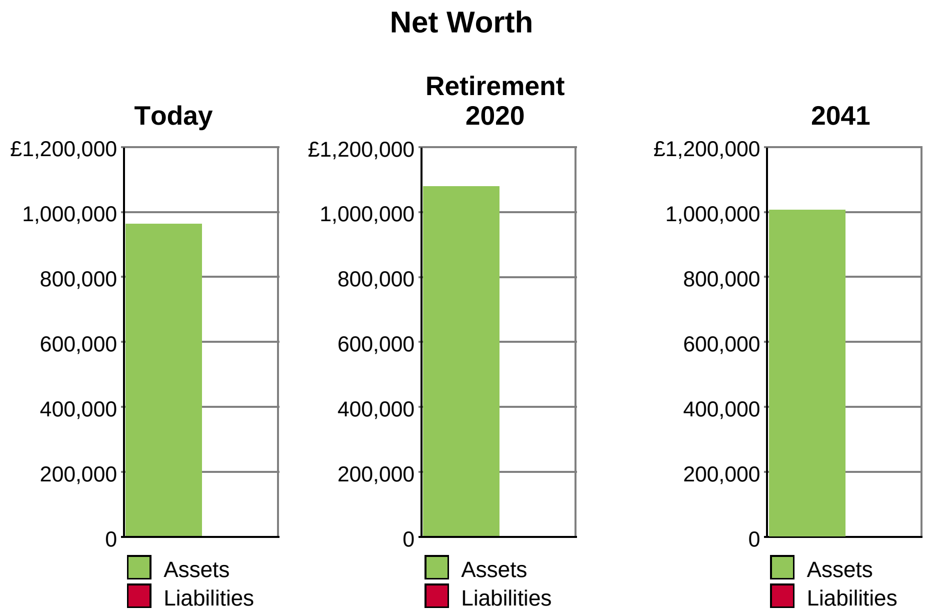
Will you run out of money? What should you expect?

Your Financial Lifestyle



It appears that your cash flow would be sufficient to maintain your lifestyle expenses.

Future Effects of Cash Flow on Your Assets and Liabilities



	Today	Retirement 2020	2041
Liquid Assets	£70,000	£544,412	£345,563
Retirement Plans	£400,000	£0	£0
Residence	£500,000	£542,327	£668,359
Total Assets	**£970,000**	**£1,086,739**	**£1,013,922**
Total Liabilities	**£0**	**£0**	**£0**
Total Net Worth	**£970,000**	**£1,086,739**	**£1,013,922**

Future values are shown at the end of the year and assumes everything goes as planned.

Effects of Uncertainties—Premature Death of Mike

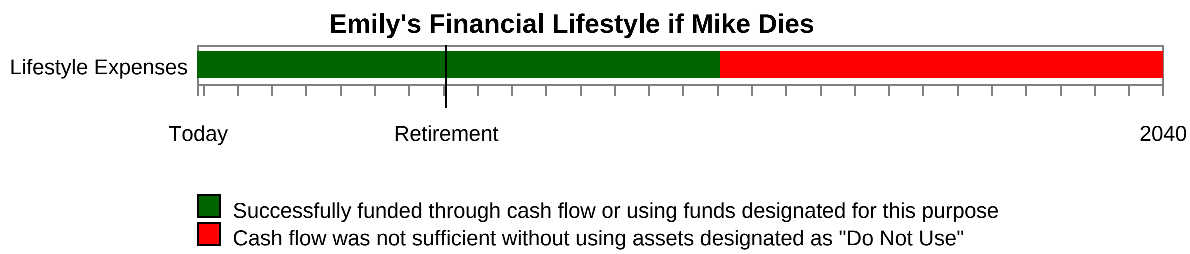
Premature death can have dramatic effects that are difficult to even imagine. However, proper financial planning involves carefully considering the possibility of premature death and its effects on your finances.

In order to analyse the lifestyle of the survivor in the event of a premature death, this portion of the analysis assumes that Mike dies tomorrow, and that Emily survives to the end of the illustration.

Cash Flow Objective

- Pay all lifestyle expenses and outgoing payments
- After applying education funds, pay any remaining education costs
- Under no circumstances use assets designated "Do Not Use" for cash flow

Will you maintain your lifestyle?



It appears your cash flow would be insufficient to maintain your lifestyle expenses following Mike's premature death.

Consider:

Shortfall occurred in February of 2028.
The value of the shortfall today invested at 5%: £260,142
You need to reduce your monthly outgoing payments by 26% beginning today.

Note: A cash flow failure occurred in February of 2028 with assets designated as "Do Not Use" equal to £587,262.

Effects of Uncertainties—Premature Death of Emily

If the situation were reversed, would Mike have sufficient cash flow if Emily died?

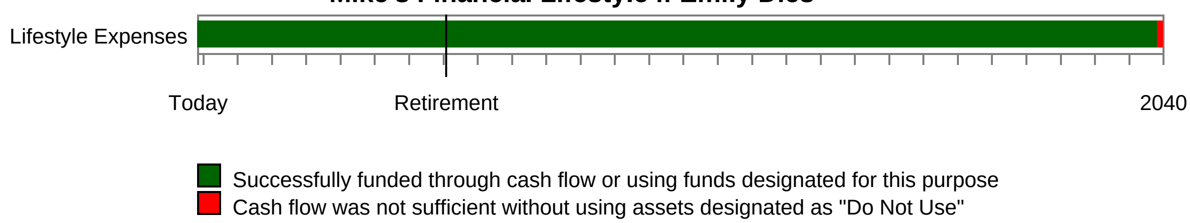
In order to analyse the lifestyle of the survivor in the event of a premature death, this portion of the analysis assumes that Emily dies tomorrow, and that Mike survives to the end of the illustration.

Cash Flow Objective

- Pay all lifestyle expenses and outgoing payments
- After applying education funds, pay any remaining education costs
- Under no circumstances use assets designated "Do Not Use" for cash flow

Will you maintain your lifestyle?

Mike's Financial Lifestyle if Emily Dies



It appears your cash flow would be insufficient to maintain your lifestyle expenses following Emily's premature death.

Consider:

Shortfall occurred in November of 2040.
The value of the shortfall today invested at 5%: £1,273
The value of this shortfall represents a very small adjustment to your outgoing payments each month.

Note: A cash flow failure occurred in November of 2040 with assets designated as "Do Not Use" equal to £661,742.

Mike's Disability—A Pre-Retirement Uncertainty

Long-term disability is another life uncertainty that prevents the accumulation of wealth.

- Salary stops
- Living expenses increase (especially medical care)
- Retirement contributions stop

Disability eliminates the income you need in order to build your wealth.

This illustration assumes Mike becomes disabled today and remains disabled for the duration of the analysis.

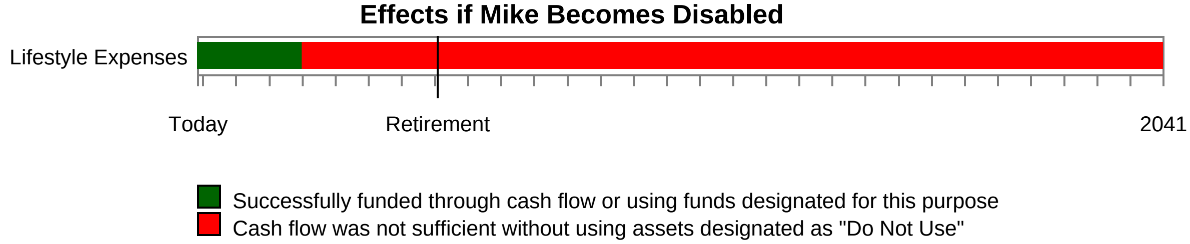
Before age 65, it is 3.48 times more likely that Mike will suffer a long-term disability than die![1]

Cash Flow Objective

- Pay all lifestyle expenses and outgoing payments
- Under no circumstances use assets designated "Do Not Use" for cash flow

Will you maintain your lifestyle?

Effects if Mike Becomes Disabled



It appears your cash flow would be insufficient to maintain your lifestyle expenses if Mike became disabled.

Consider:

Through year 2013, income should decrease 84%. If disability continued until retirement, expected income would decrease 81%. Outgoing payments between now and retirement are expected to decrease 21%.

Note: A cash flow failure occurred in January of 2016 with assets designated as "Do Not Use" equal to £1,003,489.

[1] Office of National Statistics.

Emily's Disability—A Pre-Retirement Uncertainty

This illustration assumes Emily becomes disabled today and remains disabled for the duration of the analysis.

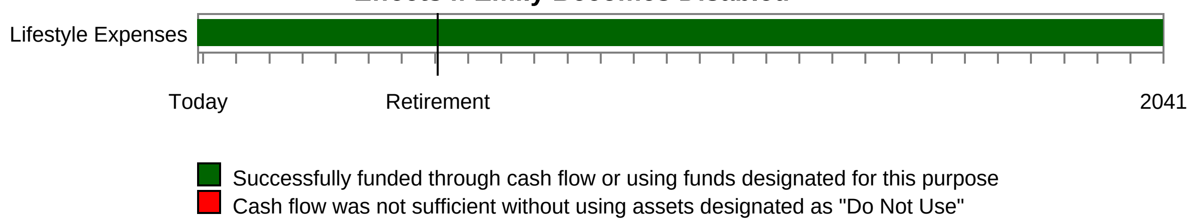
Before age 65, it is 5.45 times more likely that Emily will suffer a long-term disability than die![1]

Cash Flow Objective

- Pay all lifestyle expenses and outgoing payments
- Under no circumstances use assets designated "Do Not Use" for cash flow

Will you run out of money? What should you expect?

Effects if Emily Becomes Disabled



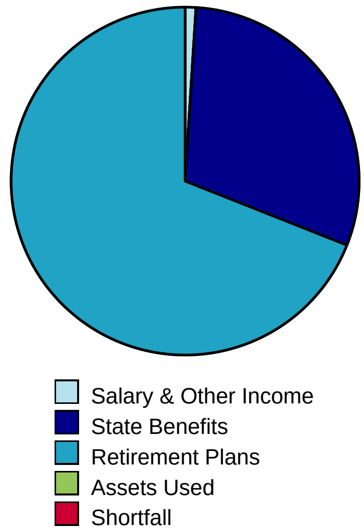
It appears your cash flow would be sufficient to maintain your lifestyle expenses—even if Emily became disabled.

[1] Office of National Statistics.

When You Reach Retirement

Retirement is planned in 2020 when Mike is age 65. Retirement is illustrated for 21 years.

Cash flow analysis shows the effects of your lifestyle spending on your savings and assets. Retirement success is defined as not running out of money.



Sources of Retirement Income

- Salary & Other Income 1%
- State Benefits 30%
- Retirement Plans 69%
- Assets Used 0%
- Shortfall 0%

Retirement Cash Flow Summary

Calculations assume retirement starts in year 2020 and continues for 21 years.

If everything goes as planned, the cash flow from your investments and assets is sufficient for the retirement years shown.
Consider:

Based on the expenses that you specified, your present plans would be sufficient to maintain your lifestyle. Proper financial planning should always consider ways that you might reduce your outgoing payments or increase savings while maintaining your lifestyle.

- Reducing your living expenses
- Reconsider uses of assets you designated as "Do Not Use"
- Reexamine your major cash flow needs: could they be reduced or delayed?

Note: These calculations are based on a specific period and do not reflect that your retirement may be longer or shorter. Values are adjusted based on an assumed inflation rate of 3%.

2

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

Your Facts

Mike Smith

Age: 57 **Male** **Born:** 01 Feb., 1955

Emily Smith

Age: 57 **Female** **Born:** 02 Feb., 1955

Mike and Emily are married.

Salaries

Employer	Employee	Current Salary	Frequency	Inflation Rate
XYZ Employer	Mike	£8,000	Monthly	2.000%
Part time nursing	Emily	£1,500	Monthly	3.000%

Current Bank Accounts, Savings, Deposit

Account Name	Owner	Current Balance	Balance As Of	Interest Rate	
Lloyds	Mike, Emily	£50,000	06 Nov., 2012	1.000%	This asset is the Cash Account

Tax-Efficient Investments

Account Name	Owner	Current Balance	Balance As Of	Interest Rate
Cash ISAs	Mike	£20,000	06 Nov., 2012	1.000%

Retirement Plans

Name	Owner	Current Balance	Balance As Of	Growth Rate	Owner Contrib.	Employer Contrib.
Aviva	Mike	£400,000	06 Nov., 2012	5.000%	5.000%	10.000%

Residences

Home

Owner	Current Value	Balance As Of	Cost Basis	Appreciation Rate
Mike, Emily	£500,000	06 Nov., 2012	£0	1.000%

Essential Living Expenses

Description	Amount	Frequency	Percent Continuing after First Death	Percent Continuing after First Disability	Percent Continuing after First Retirement
Normal living costs	£3,000	Monthly	100%	100%	100%

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?

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

Assumptions

You have defined retirement as the date when Mike reaches age 65.

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.

- Home

Your Cash Flow Process

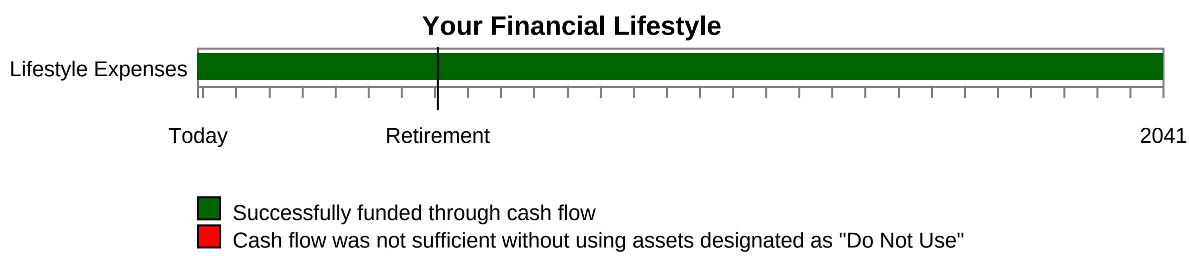
Cash flow is a simple, monthly process. You receive money from outside sources and deposit that money into your bank account. You use that account to pay your expenses and cover your lifestyle expenses. What you do not spend you save, invest, or use to purchase other assets. If your expenses exceed your 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

Although your incoming cash can often exceed your outgoing payments, you might notice that there never seems to be much money left over at the end of the month. The reason for this might be that the excess money is being used for *discretionary spending*.



Your cash flow is sufficient.

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.

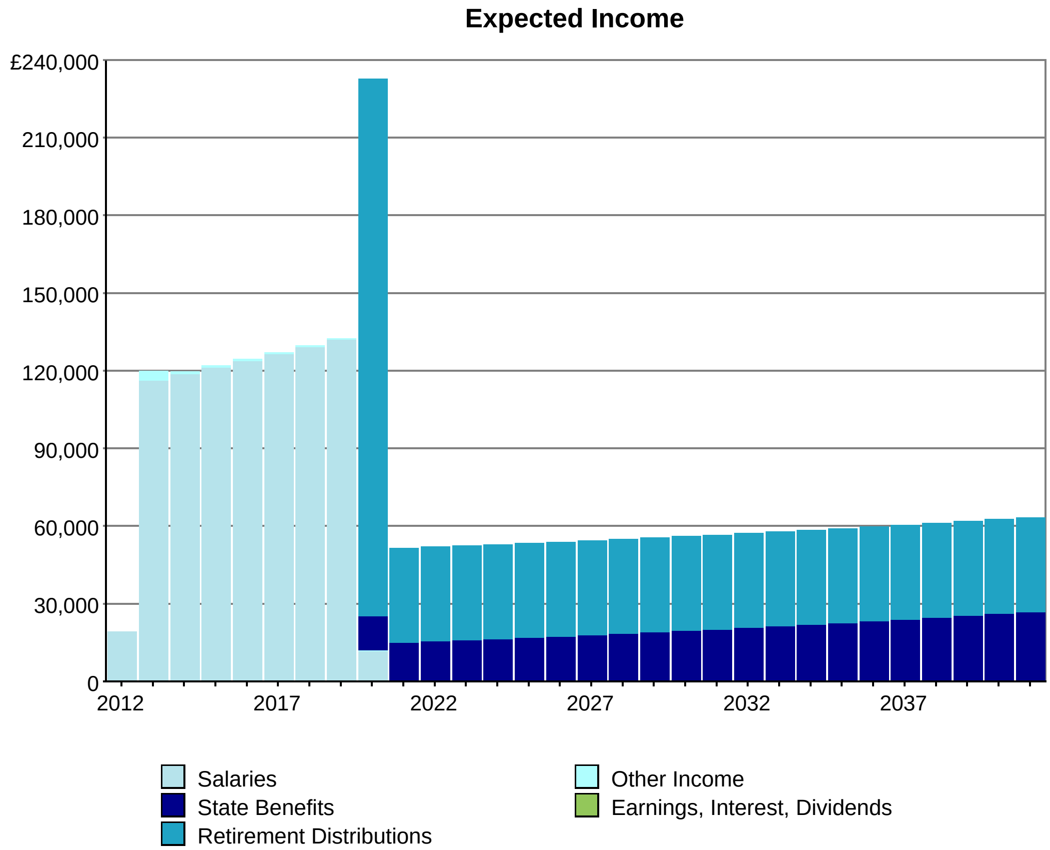
The use of some assets would cause a significant change in your lifestyle: such assets are marked "Do Not Use" or the desired use is indicated

Asset	**Limit Uses to**
Lloyds	Unrestricted
Cash ISAs	Unrestricted
Home	Do Not Use
Aviva	Retirement

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.

Incoming Cash Expected



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.

Incoming Cash Expected

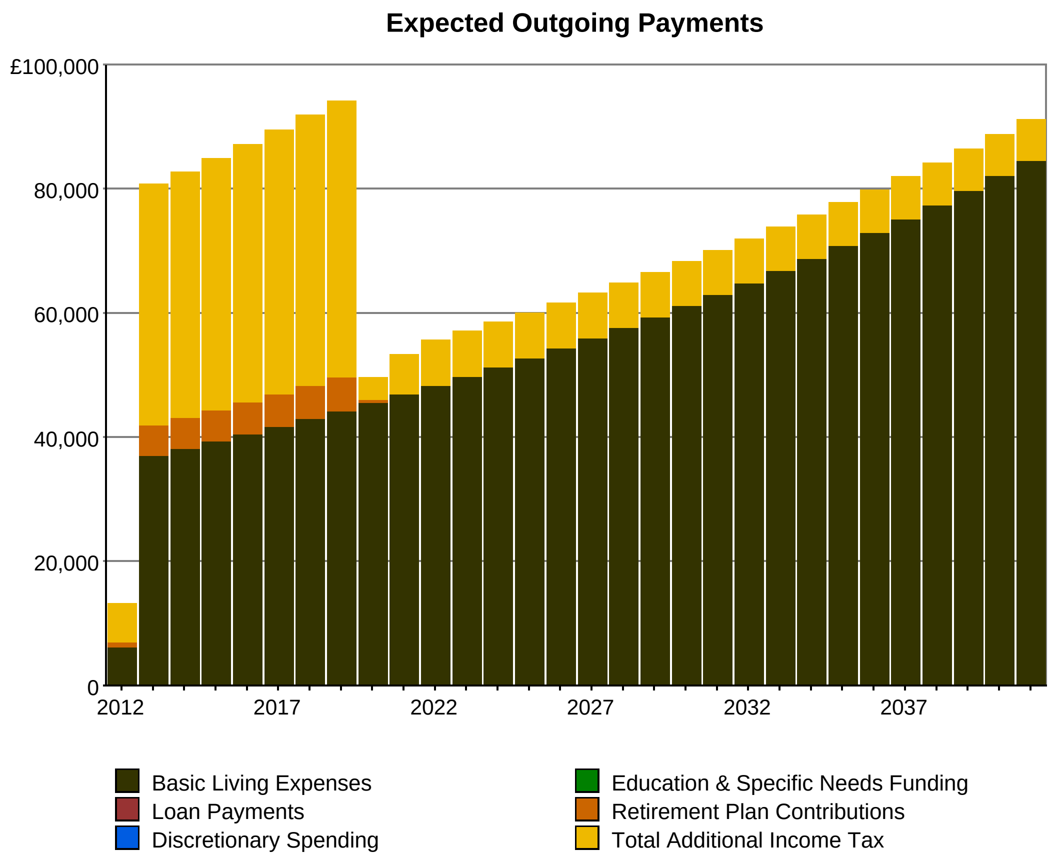
Incoming Cash Flow

Year	Salary	Other Income[1]	State Benefits[2]	Earnings (Cash, Dividends)	Retirement Plan Distributions	Total Expected Income
2012	£19,000	£0	£0	£0	£0	£19,000
2013	116,460	3,722	0	0	0	120,182
2014	118,975	997	0	0	0	119,971
2015	121,545	908	0	0	0	122,453
2016	124,173	818	0	0	0	124,991
2017	126,859	727	0	0	0	127,585
2018	129,605	634	0	0	0	130,238
2019	132,412	540	0	0	0	132,951
R 2020	11,273	444	13,106	0	208,985	233,808
2021	0	0	14,726	0	36,802	51,529
2022	0	0	15,168	0	36,802	51,971
2023	0	0	15,623	0	36,802	52,426
2024	0	0	16,092	0	36,802	52,894
2025	0	0	16,575	0	36,802	53,377
2026	0	0	17,072	0	36,802	53,874
2027	0	0	17,584	0	36,802	54,387
2028	0	0	18,112	0	36,802	54,914
2029	0	0	18,655	0	36,802	55,457
2030	0	0	19,215	0	36,802	56,017
2031	0	0	19,791	0	36,802	56,594
2032	0	0	20,385	0	36,802	57,187
2033	0	0	20,996	0	36,802	57,799
2034	0	0	21,626	0	36,802	58,429
2035	0	0	22,275	0	36,802	59,078
2036	0	0	22,943	0	36,802	59,746
2037	0	0	23,632	0	36,802	60,434
2038	0	0	24,341	0	36,802	61,143
2039	0	0	25,071	0	36,802	61,873
2040	0	0	25,823	0	36,802	62,625
2041	0	0	26,598	0	36,802	63,400

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.

[1] Other Income includes any estimated tax refunds for the prior year.
[2] State retirement benefits start at age listed in Planning Assumptions.
R-Retirement assumed to begin in this year.

Expected Outgoing Payments



Outgoing payments begin with compulsory expenses (such as taxation) and continue through your discretionary spending.

Expected Outgoing Payments

Outgoing Payments

Year	Basic Expenses	Education & Specific Needs	Loan Payments	Retirement Plan Contributions	Discre- tionary Spending	Tax Payments and Deductions[1]	Total Outgoing Payments
2012	£6,000	£0	£0	£800	£0	£6,398	£13,198
2013	37,080	0	0	4,896	0	39,135	81,111
2014	38,192	0	0	4,994	0	39,898	83,084
2015	39,338	0	0	5,094	0	40,863	85,295
2016	40,518	0	0	5,196	0	41,859	87,573
2017	41,734	0	0	5,300	0	42,875	89,908
2018	42,986	0	0	5,406	0	43,910	92,301
2019	44,275	0	0	5,514	0	44,837	94,626
R 2020	45,604	0	0	469	0	3,705	49,777
2021	46,972	0	0	0	0	6,526	53,498
2022	48,381	0	0	0	0	7,485	55,866
2023	49,832	0	0	0	0	7,468	57,301
2024	51,327	0	0	0	0	7,450	58,777
2025	52,867	0	0	0	0	7,429	60,296
2026	54,453	0	0	0	0	7,405	61,859
2027	56,087	0	0	0	0	7,380	63,467
2028	57,769	0	0	0	0	7,352	65,122
2029	59,503	0	0	0	0	7,322	66,824
2030	61,288	0	0	0	0	7,289	68,577
2031	63,126	0	0	0	0	7,254	70,380
2032	65,020	0	0	0	0	7,216	72,236
2033	66,971	0	0	0	0	7,175	74,146
2034	68,980	0	0	0	0	7,132	76,112
2035	71,049	0	0	0	0	7,085	78,134
2036	73,181	0	0	0	0	7,036	80,216
2037	75,376	0	0	0	0	6,983	82,359
2038	77,637	0	0	0	0	6,927	84,564
2039	79,966	0	0	0	0	6,868	86,834
2040	82,365	0	0	0	0	6,805	89,170
2041	84,836	0	0	0	0	6,738	91,574

Outgoing payments begin with compulsory expenses (such as taxation) and continue through your discretionary spending.

[1] All PAYE tax deductions plus additional tax payments (other income and capital gains tax). Refunds are shown as other income in the year received.
R-Retirement assumed to begin in this year.

Net Adjustments for Cash Flow

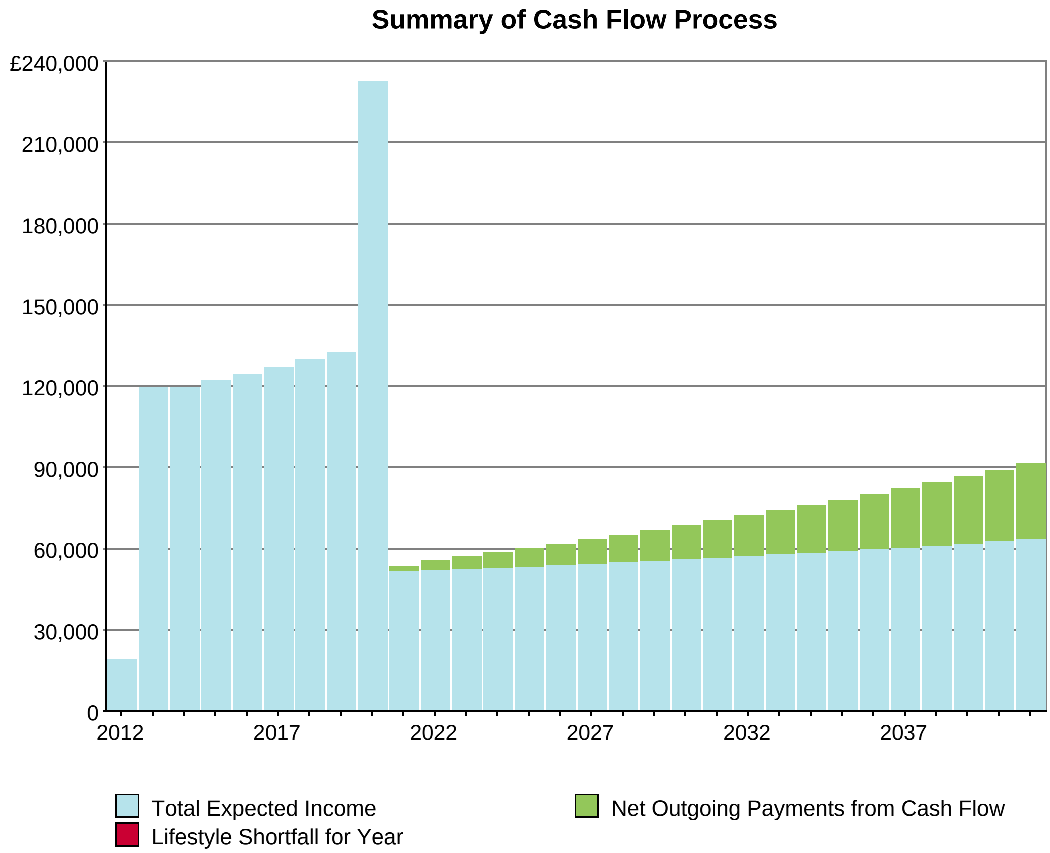
Net Adjustments for Year Based on Monthly Cash Flow

Year	Expected Income	New Loan Proceeds	Net Assets Used for Cash Flow	Annual Shortfall	Total Outgoing Payments
2012	£19,000	£0	£0	---	£13,198
2013	120,182	0	0	---	81,111
2014	119,971	0	0	---	83,084
2015	122,453	0	0	---	85,295
2016	124,991	0	0	---	87,573
2017	127,585	0	0	---	89,908
2018	130,238	0	0	---	92,301
2019	132,951	0	0	---	94,626
R 2020	233,808	0	0	---	49,777
2021	51,529	0	1,969	---	53,498
2022	51,971	0	3,896	---	55,866
2023	52,426	0	4,875	---	57,301
2024	52,894	0	5,883	---	58,777
2025	53,377	0	6,919	---	60,296
2026	53,874	0	7,984	---	61,859
2027	54,387	0	9,080	---	63,467
2028	54,914	0	10,207	---	65,122
2029	55,457	0	11,367	---	66,824
2030	56,017	0	12,560	---	68,577
2031	56,594	0	13,787	---	70,380
2032	57,187	0	15,049	---	72,236
2033	57,799	0	16,347	---	74,146
2034	58,429	0	17,683	---	76,112
2035	59,078	0	19,057	---	78,134
2036	59,746	0	20,471	---	80,216
2037	60,434	0	21,925	---	82,359
2038	61,143	0	23,421	---	84,564
2039	61,873	0	24,961	---	86,834
2040	62,625	0	26,545	---	89,170
2041	63,400	0	28,174	---	91,574

R-Retirement assumed to begin in this year.

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.



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 & Net Worth

Cash Flow & Net Worth

Year	Expected Income	Total Outgoing Payments	Net Paid from Cash Flow Process[1]	End of Year Assets[2]	End of Year Liabilities	Cumulative Annual Shortfall	Net Worth
2012	£19,000	£13,198	£0	£982,371	£0	---	£982,371
2013	120,182	81,111	0	1,062,350	0	---	1,062,350
2014	119,971	83,084	0	1,142,504	0	---	1,142,504
2015	122,453	85,295	0	1,225,392	0	---	1,225,392
2016	124,991	87,573	0	1,311,108	0	---	1,311,108
2017	127,585	89,908	0	1,399,764	0	---	1,399,764
2018	130,238	92,301	0	1,491,476	0	---	1,491,476
2019	132,951	94,626	0	1,586,495	0	---	1,586,495
R 2020	233,808	49,777	0	1,086,739	0	---	1,086,739
2021	51,529	53,498	1,969	1,095,624	0	---	1,095,624
2022	51,971	55,866	3,896	1,102,657	0	---	1,102,657
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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.

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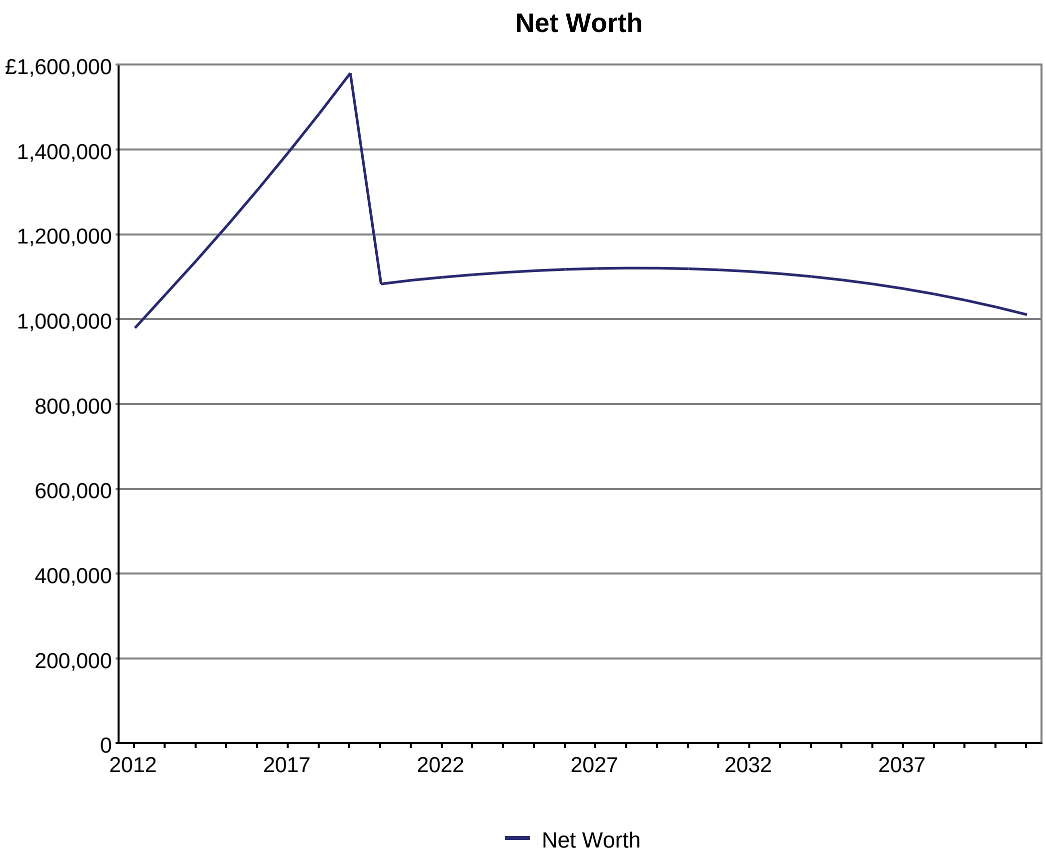
R-Retirement assumed to begin in this year.

Net Worth

Net Worth Equals Assets Less Liabilities

- Net worth reflects the ongoing cash flow process
- Examining cash flow focuses on the monthly finances
- Examining net worth focuses on the long-term overall effects



Conclusions

Based on the expenses that you specified, your present plans would be sufficient to maintain your lifestyle. 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 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.

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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?
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4

Retirement Analysis—Planning for Lifestyle Needs During Retirement

Will you outlive your retirement income?

Making plans now is the best way to ensure that you'll be able to maintain your desired lifestyle during retirement. In order to plan properly, you must consider both the opportunities and the obstacles within your current financial situation. This section of the analysis of your retirement cash flow answers the following questions:

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

Funding Your Retirement 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 Retirement 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. In order to maintain your desired lifestyle during retirement, you will need to be able to meet your expected expenses during retirement. 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 retirement lifestyle:

- Basic lifestyle expenses

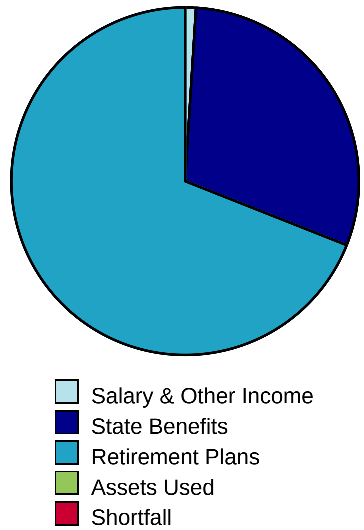
When You Reach Retirement

Retirement is planned in 2020 when Mike is age 65. Retirement is illustrated for 21 years.

Cash flow analysis shows the effects of your lifestyle spending on your savings and assets. Retirement success is defined as not running out of money.

Sources of Retirement Income

• Salary & Other Income	1%
• State Benefits	30%
• Retirement Plans	69%
• Assets Used	0%
• Shortfall	0%



Retirement Cash Flow Summary

Calculations assume retirement starts in year 2020 and continues for 21 years.

If everything goes as planned, the cash flow from your investments and assets is sufficient for the retirement years shown.

Note: These calculations are based on a specific period and do not reflect that your retirement may be longer or shorter. Values are adjusted based on an assumed inflation rate of 3%.

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.

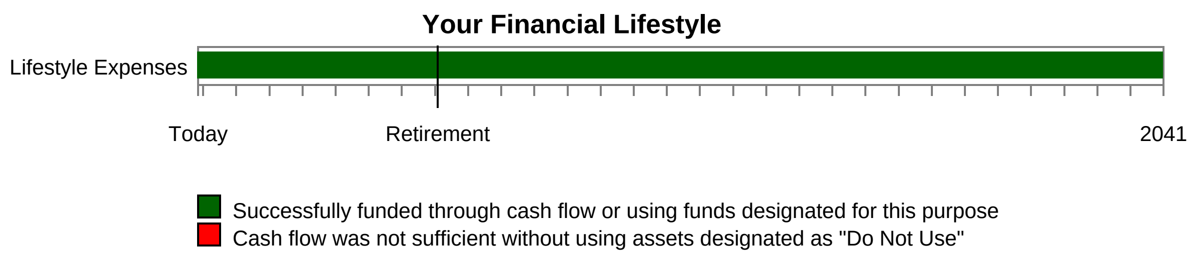
Your monthly cash flow process involves the following steps:

- 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

Although your incoming cash can often exceed your outgoing payments, you might notice that there never seems to be much money left over at the end of the month. The reason for this might be that the excess money is being used for *discretionary spending*.

Effects of your cash flow process—will you run out of money?



Your cash flow is sufficient to support your 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.

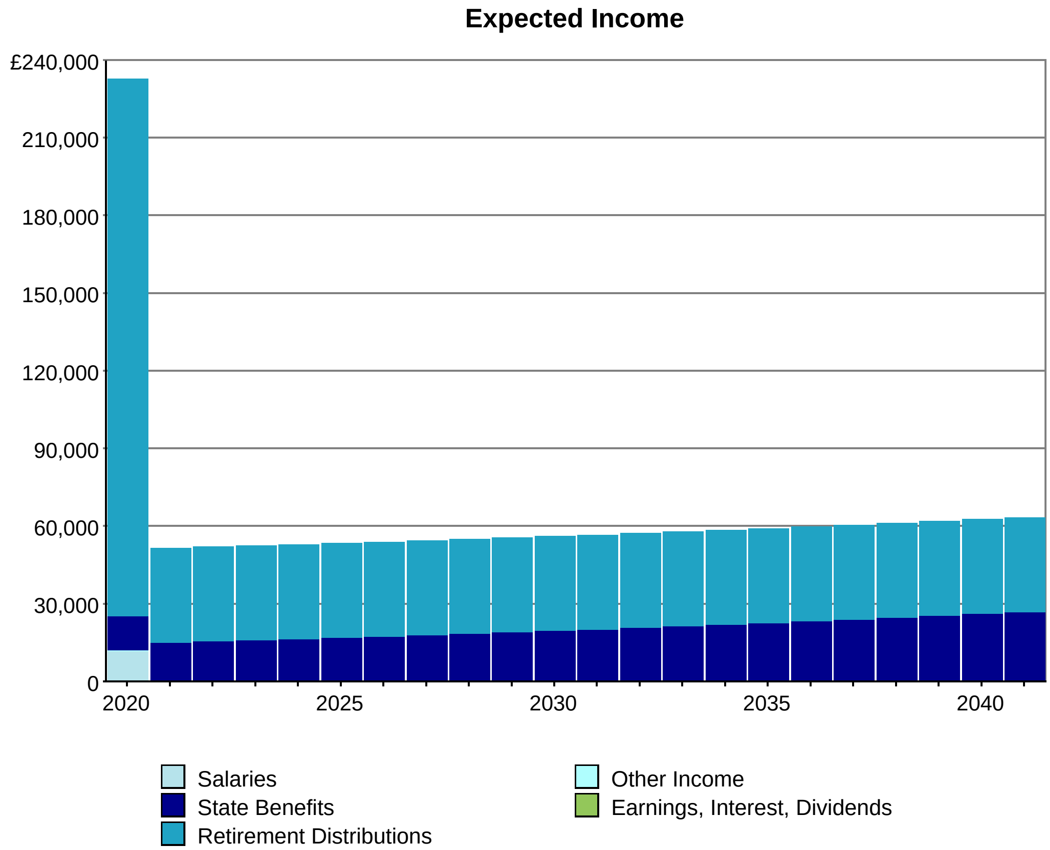
The use of some assets would cause a significant change in your lifestyle: such assets are marked "Do Not Use" or the desired use is indicated

Asset	Limit Uses to
Lloyds	Unrestricted
Cash ISAs	Unrestricted
Home	Do Not Use
Aviva	Retirement

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.

Incoming Cash Expected



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.

Incoming Cash Expected

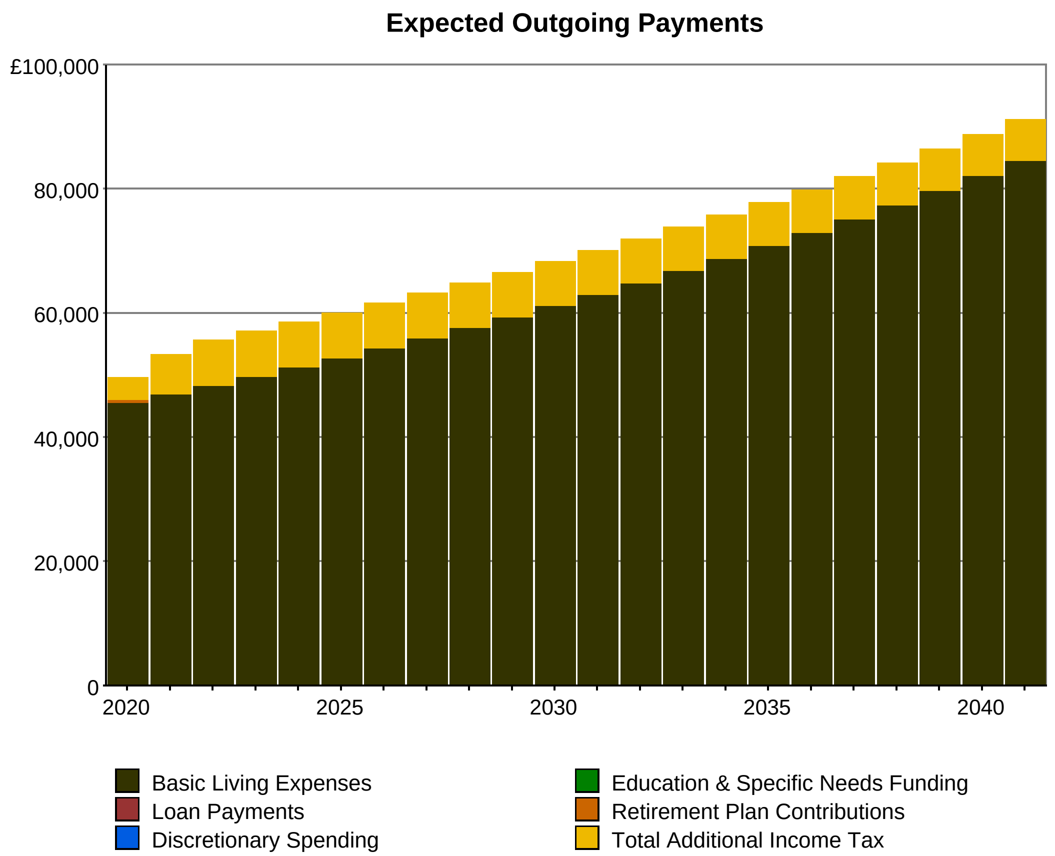
Incoming Cash Flow

Year	Salary	Other Income[1]	State Benefits[2]	Earnings (Cash, Dividends)	Retirement Plan Distributions	Total Expected Income
2020	£11,273	£444	£13,106	£0	£208,985	£233,808
2021	0	0	14,726	0	36,802	51,529
2022	0	0	15,168	0	36,802	51,971
2023	0	0	15,623	0	36,802	52,426
2024	0	0	16,092	0	36,802	52,894
2025	0	0	16,575	0	36,802	53,377
2026	0	0	17,072	0	36,802	53,874
2027	0	0	17,584	0	36,802	54,387
2028	0	0	18,112	0	36,802	54,914
2029	0	0	18,655	0	36,802	55,457
2030	0	0	19,215	0	36,802	56,017
2031	0	0	19,791	0	36,802	56,594
2032	0	0	20,385	0	36,802	57,187
2033	0	0	20,996	0	36,802	57,799
2034	0	0	21,626	0	36,802	58,429
2035	0	0	22,275	0	36,802	59,078
2036	0	0	22,943	0	36,802	59,746
2037	0	0	23,632	0	36,802	60,434
2038	0	0	24,341	0	36,802	61,143
2039	0	0	25,071	0	36,802	61,873
2040	0	0	25,823	0	36,802	62,625
2041	0	0	26,598	0	36,802	63,400

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.

[1] Other Income includes any estimated tax refunds for the prior year.
[2] State retirement benefits start at age listed in Planning Assumptions.

Expected Outgoing Payments



Outgoing payments begin with compulsory expenses (such as taxation) and continue through your discretionary spending.

Expected Outgoing Payments

Outgoing Payments

Year	Basic Expenses	Education & Specific Needs	Loan Payments	Retirement Plan Contributions	Discre-tionary Spending	Tax Payments and Deductions[1]	Total Outgoing Payments
2020	£45,604	£0	£0	£469	£0	£3,705	£49,777
2021	46,972	0	0	0	0	6,526	53,498
2022	48,381	0	0	0	0	7,485	55,866
2023	49,832	0	0	0	0	7,468	57,301
2024	51,327	0	0	0	0	7,450	58,777
2025	52,867	0	0	0	0	7,429	60,296
2026	54,453	0	0	0	0	7,405	61,859
2027	56,087	0	0	0	0	7,380	63,467
2028	57,769	0	0	0	0	7,352	65,122
2029	59,503	0	0	0	0	7,322	66,824
2030	61,288	0	0	0	0	7,289	68,577
2031	63,126	0	0	0	0	7,254	70,380
2032	65,020	0	0	0	0	7,216	72,236
2033	66,971	0	0	0	0	7,175	74,146
2034	68,980	0	0	0	0	7,132	76,112
2035	71,049	0	0	0	0	7,085	78,134
2036	73,181	0	0	0	0	7,036	80,216
2037	75,376	0	0	0	0	6,983	82,359
2038	77,637	0	0	0	0	6,927	84,564
2039	79,966	0	0	0	0	6,868	86,834
2040	82,365	0	0	0	0	6,805	89,170
2041	84,836	0	0	0	0	6,738	91,574

Outgoing payments begin with compulsory expenses (such as taxation) and continue through your discretionary spending.

[1] All PAYE tax deductions plus additional tax payments (other income and capital gains tax). Refunds are shown as other income in the year received.

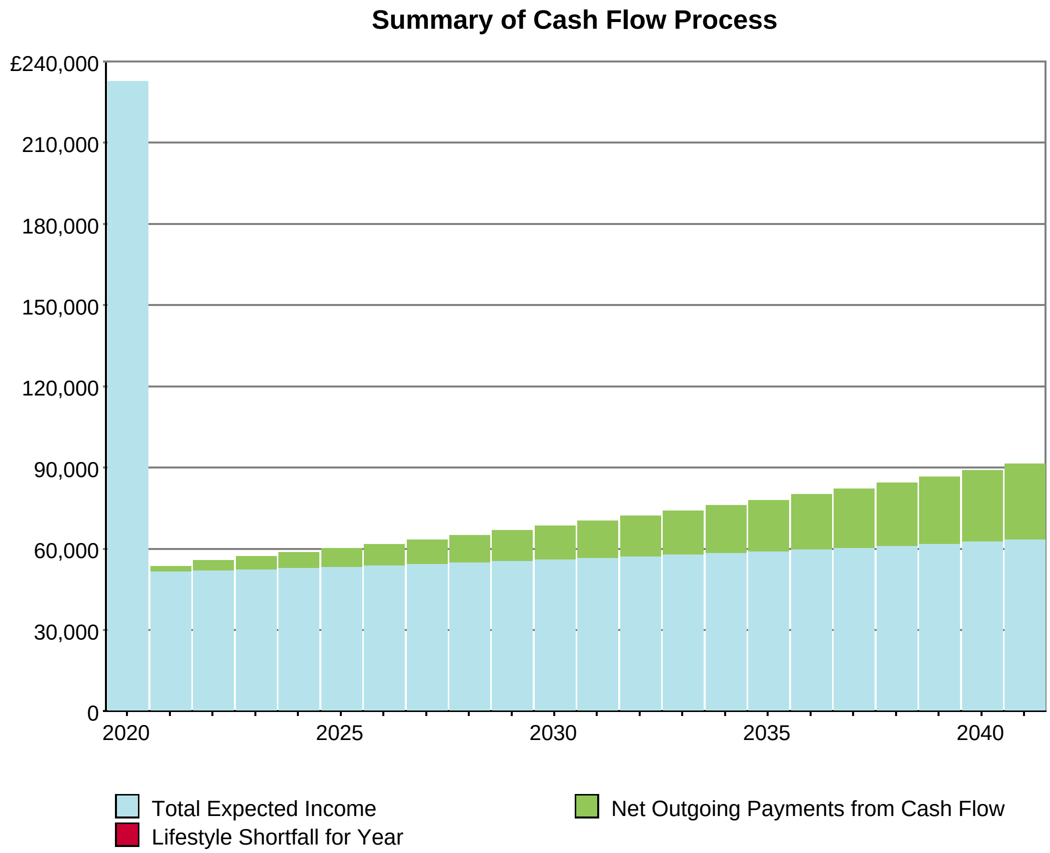
Net Adjustments for Cash Flow

Net Adjustments for Year Based on Monthly Cash Flow

Year	Expected Income	New Loan Proceeds	Net Assets Used for Cash Flow	Annual Shortfall	Total Outgoing Payments
2020	£233,808	£0	£0	---	£49,777
2021	51,529	0	1,969	---	53,498
2022	51,971	0	3,896	---	55,866
2023	52,426	0	4,875	---	57,301
2024	52,894	0	5,883	---	58,777
2025	53,377	0	6,919	---	60,296
2026	53,874	0	7,984	---	61,859
2027	54,387	0	9,080	---	63,467
2028	54,914	0	10,207	---	65,122
2029	55,457	0	11,367	---	66,824
2030	56,017	0	12,560	---	68,577
2031	56,594	0	13,787	---	70,380
2032	57,187	0	15,049	---	72,236
2033	57,799	0	16,347	---	74,146
2034	58,429	0	17,683	---	76,112
2035	59,078	0	19,057	---	78,134
2036	59,746	0	20,471	---	80,216
2037	60,434	0	21,925	---	82,359
2038	61,143	0	23,421	---	84,564
2039	61,873	0	24,961	---	86,834
2040	62,625	0	26,545	---	89,170
2041	63,400	0	28,174	---	91,574

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.



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 & Net Worth

Cash Flow & Net Worth

Year	Expected Income	Total Outgoing Payments	Net Paid from Cash Flow Process[1]	End of Year Assets[2]	End of Year Liabilities	Cumulative Annual Shortfall	Net Worth
2020	£233,808	£49,777	£0	£1,086,739	£0	---	£1,086,739
2021	51,529	53,498	1,969	1,095,624	0	---	1,095,624
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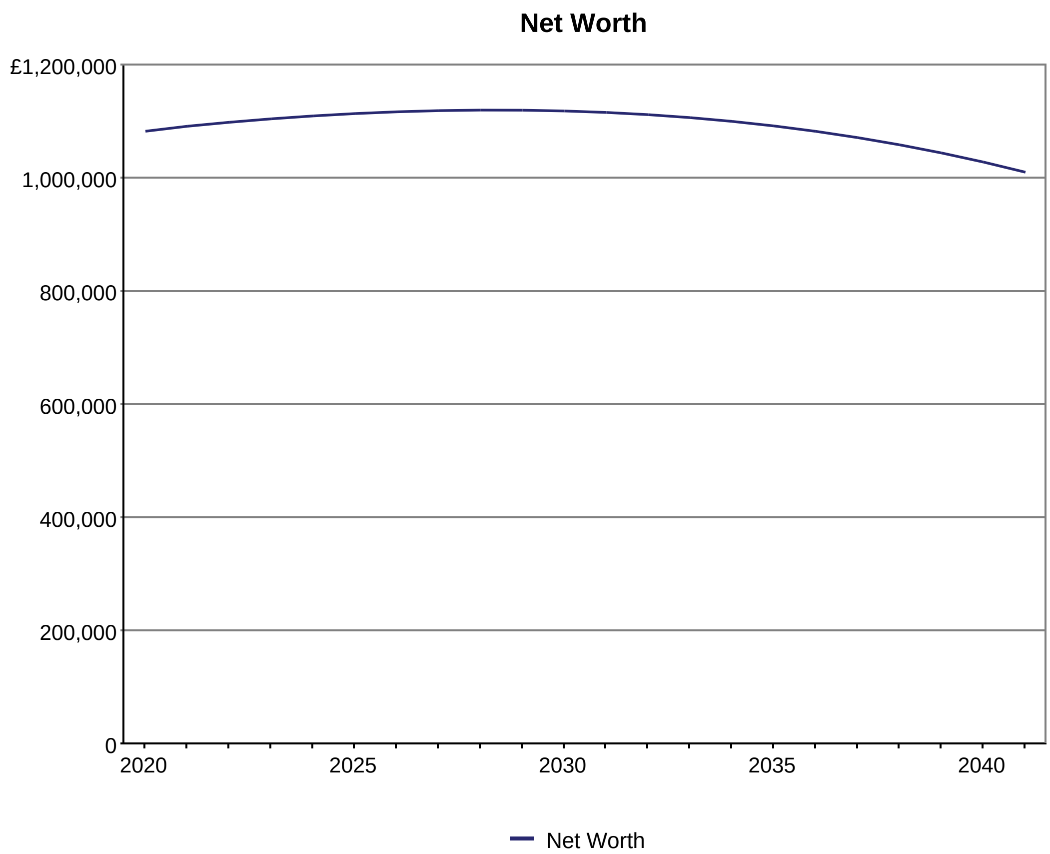

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Sources of Retirement Income

Three Sources of Retirement Income

1. The State Benefits—is it likely to be enough?

The answer is almost certainly NO.

Although retirement income paid by the State increases each year, it is actually falling relative to average earnings. This means that compared to those of working age, pensioners are becoming an increasingly poor section of society.

An example of how the real value of State Benefits has fallen is to compare the State Benefits with average earnings. In 1980, when the link between State Benefits and earnings was broken, the State Benefits was more than 20% of average earnings. Today it is less than 15%, and forecasts predict that by 2030 it could be below 10% of average earnings.[1]

2. Occupational Pensions

Occupational Pensions, or work pensions, are pensions that you get through joining your employer's pension scheme. Some occupational pension schemes are salary-related, which means the amount you get will depend upon the number of years you have been a member of the scheme and your final earnings on retirement. Other occupational pension schemes are run on a money purchase basis where the contributions are invested and used to buy a pension when you retire. The amount you will get from this type of pension scheme will depend upon the amount of money paid in and how well it has been invested.

3. Personal Pensions

A Personal Pension is a way of making regular savings for your retirement. You get them from pension providers, e.g. insurance companies and banks, who then invest your funds. As a result of changes made on April 6, 2006 (so-called "A-Day"), the maximum amount of tax-free cash you can take out of any type of pension is changing to a standard 25% of the value of the benefits and you no longer have to take out an income when you take out the tax-free lump sum.

There are a number of ways in which a pension can be used to provide a regular income, and the most common way used to be for the accumulated pension fund, less any tax-free lump sum taken, to be used to purchase an annuity from either the existing pension provider or another insurance company. However, there are now specialist products that offer alternative methods of providing an income from your pension fund and these should be fully explored before making any decision.

4. Savings and Individual Investments

Multiple investment vehicles can be established to help you save for retirement. Examples of personal savings plans include ISAs where you enjoy the benefits of tax-free growth within specified limits

No one income source whether that be State Benefits, additional pensions or a portfolio of investments, is intended to fund all your retirement nest-egg.

Build a retirement strategy based on all four of these sources of retirement income.

[1] Source: Government Actuary's Department, 2003

How Much Money Do I Need to Retire?

Building and Planning For Retirement

Determining How Much You Need

By the time you retire, you'll need a nest egg that will provide you with enough income to fill the gap left by your other income sources. But exactly how much is enough? The following points are important to consider:

- **Retirement Age**
  At what age do you plan to retire? The younger you retire, the longer your retirement will be, and the more money you'll need to carry you through it.
- **How Long Will Retirement Last?**
  What is your life expectancy? The longer you live, the more years of retirement you'll have to fund.
- **What are Your Living Expenses?**
  Use your current expenses as a starting point, but keep in mind that your expenses in retirement won't necessarily stay the same—what you spend early on may be different from what you spend later. If you're nearing retirement, the gap between your current expenses and your retirement expenses may be small. If retirement is many years away, the gap may be significant, and projecting your future expenses may be more difficult.
- **How Will My Retirement Plan Grow?**
  What rate of growth can you expect from your savings now and during retirement? Be conservative when projecting rates of return.

If everything goes as planned, the cash flow from your investments and assets is sufficient for the retirement years.

5

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 anymore. 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.

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.

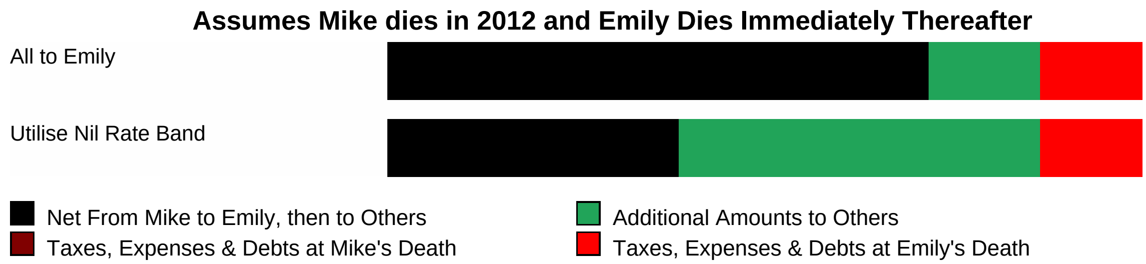
The Orderly Transfer of Your Estate (Continued)

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.

Comparison of Transfer Costs

This illustration shows the possible transfer costs if Mike dies at age 58 and Emily dies immediately thereafter. The illustration assumes that the total estate is worth £982,371 at that time, including life insurance death proceeds.



All To Emily[1]

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

Utilise Nil Rate Band[2]

This example assumes Mike 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 Mike's death this strategy allows this proportion of Mike's estate to be transferred to recipients other than Emily completely exempt of inheritance tax charges. If any nil band amount remains, Emily's estate will be able to increase the nil band amount proportional to that amount not used by Mike'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 Emily” 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.

[1] Property and other assets passes through the use of a will or other legally binding arrangement.
[2] 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.

Comparison of Transfer Costs (Continued)

This table shows the possible transfer costs if Mike dies at age 58 and Emily dies immediately thereafter. The table assumes that the total estate is worth £982,371 at that time, including life insurance death proceeds.

Mike Dies in 1	All to Emily	Utilise Nil Rate Band
Gross Estate	£704,013	£704,013
less Liabilities	0	0
Net Estate	704,013	704,013
Final Expenses[1]	0	0
Adjusted Gross Estate	704,013	704,013
Amount to Emily	704,013	379,013
Amount to Heirs	0	325,000
IHT Exemption Used	0	325,000
Taxable Estate	£0	£0
Inheritance Tax Due	£0	£0
Net to Heirs at Mike's death	**£0**	**£325,000**
Emily Dies in 2012		
Gross Estate		
Emily's Estate	£278,359	£278,359
Inherited from Mike	704,013	379,013
less Liabilities	0	0
Net Estate	982,371	657,371
Final Expenses	0	0
Adjusted Gross Estate	982,371	657,371
IHT Exemption Used	650,000	325,000
Taxable Estate	£332,371	£332,371
Inheritance Tax Due	£132,949	£132,949
Net to Heirs at Emily's death	**£849,423**	**£524,423**
Summary		
Total Estates and Insurance	£982,371	£982,371
Total Taxes and Expenses and Liabilities	£132,949	£132,949
Total to Heirs and Others	**£849,423**	**£849,423**

[1] Final Expenses include burial and other related costs along with estimated probate charges where appropriate.