Financial Plan

for

Homer and Marge Simpson

December 2009 to November 2010

Next review:

June 2010

Rob Simpson

Simpson Financial Services Ltd

Introduction

Dear Homer and Marge Simpson

Your new plan

This is your financial plan covering the year from December 2009 to November 2010. In it you will find an analysis of your financial situation based on the information you provided and our assessment of where any holes are. In each section my recommendations are clearly laid out and are designed to improve your situation and put you on the road towards meeting your goals and greater long term financial security. I hope you will find it straightforward and easy to understand.

Holistic planning

Your finances are inter-related. You can't make a change in one area, for example your investments, without this affecting another, perhaps your budget. Our approach reflects this and so does your plan. The system we use to create your plan makes sure that where one area is changed, the knock-on effects on others are also examined. We think you will find this much more useful than a more 'product focused' approach.

Regularly review progress against your plan

We believe that financial plans shouldn't just be written once and forgotten about. As your circumstances change or you put in place new arrangements, you should revisit your plan and update your details. That way you can ensure you remain on-track to improved financial health.

Yours sincerely,

Rob Simpson

Action Plan

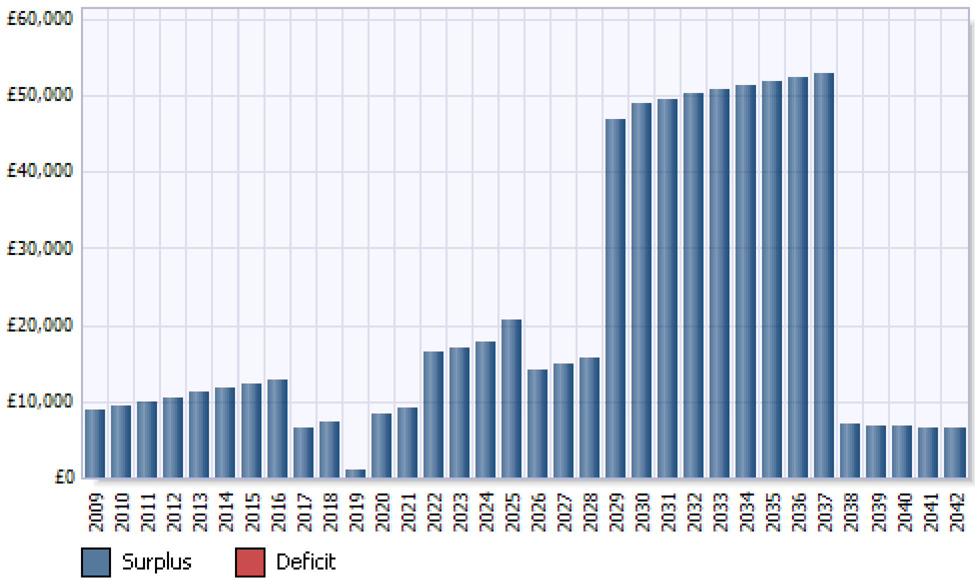
Plan Area	Priority	Goals	On track?	Action checklist
Budget	1	• Maintain budget surplus		• Review this analysis • Maintain your household budget (and create one if you don't already have one!) • Review your tax situation and ensure you are paying as little as you need
Protection	2	• Fill the gap in your household life insurance needs • Fill the gap in your household income needs were you to be unable to work due to illness • Fill the gap in your financial needs were you to suffer a critical illness		• You need to ensure that you reduce the gap in your life cover which we calculate as £448,728.62 for Homer and £227,058.35 for Marge • You need to ensure that you reduce the gap in your income replacement cover were you unable to work. We calculate this gap as £1,573.91 per month for Homer • You need to ensure that you are sufficiently covered were you or Marge affected by a critical illness. We calculate this gap as £89,584.54 for Homer and £54,223.39 for Marge
Estate	3			• Consider making gifts from income or capital • Consider putting any life insurance into trust • Consider making use of life assurance to meet liability • Consider writing a will
Mortgage	4			• Review the analysis provided in this section • Consider re-mortgaging to reduce your monthly payments and improve your budget
Retirement	5	• Retirement goal		• Consider saving more in your pension or adjusting your goals • Re-balance your pension investments in line with your target asset allocation • Consider contributing to a Stakeholder Pension for Marge • Get your State Pension forecast

Investing	6	• Around the World Cruise • Pay off mortgage: 3 Notsogreen Terrace		• Review risk analysis guidance provided • Rebalance existing available investments in line with target asset allocation • Invest new investments in line with target asset allocation • Consider investing more or reviewing your goals in order to stand a better chance of meeting them • Consider using Homer's and Marge's 2009/10 ISA allowances • Consider maximizing the assets in Marge's name and gaining further tax advice.

Budget

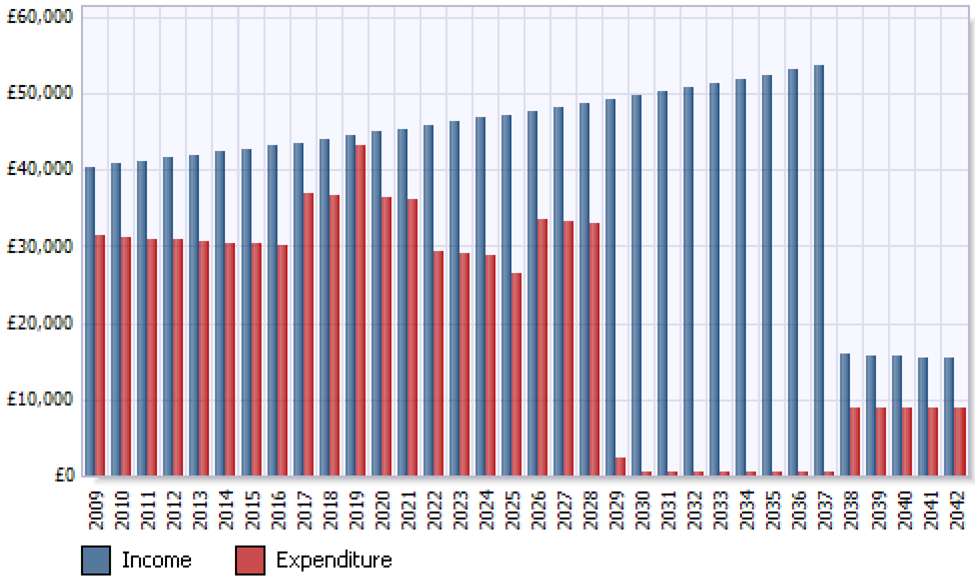
At a glance		
Plan affordability		**Status**
This year:	**Affordable**	
Beyond this year:	**Affordable**	No immediate action required, review next time

Your budget surplus over the coming years



Household budget surplus after planned expenditure has been taken away from planned income (after tax has been taken).

Your income and expenditure over the coming years



Household planned expenditure and planned income (after tax has been taken).

The above graphs show figures in today's prices (i.e. assuming that prices don't rise and that £1 now will be able to buy the same amount in the future as it can now). We have estimated the amount of tax you may pay each year, however this is only an estimate. If you would like us to look more closely at your tax situation, please let us know. Please refer to the section on Financial Planning Assumptions for more detail on the analysis and assumptions used.

This year

From the information provided you expect to have a positive cash flow over the next 12 months (the period which this plan covers) i.e. you plan to spend less than you gain in income (after tax).

This year's budget

Item	Amount
Income after tax	£40,674.48
Expenditure	£31,649.31
Surplus (deficit)	£9,025.17

Some of the changes we have included in your plan may save you money, others may cost you money. From the information we have however it looks as though your plan is affordable over the next 12 months .

Beyond this year

As you can see, based on your current plans your cash-flow will be positive throughout the period analysed i.e. you expect to spend less than you earn. This should enhance your overall wealth . Take a look at your Wealth Forecast in the Investing section, to see the impact on your investments.

Actions

- Review this analysis
- Maintain your household budget (and create one if you don't already have one!)
- Review your tax situation and ensure you are paying as little as you need

Investment

At a Glance - Current Portfolio		Status
Likelihood of meeting goals and any budget deficit:	**Unlikely**	
Additional lump sum required to meet goals:	**£533.19**	
OR		
Additional monthly savings required to meet goals:	£1.74	Significant action required to ensure goals met

Your Current Arrangements

The following table summarises your current investments:

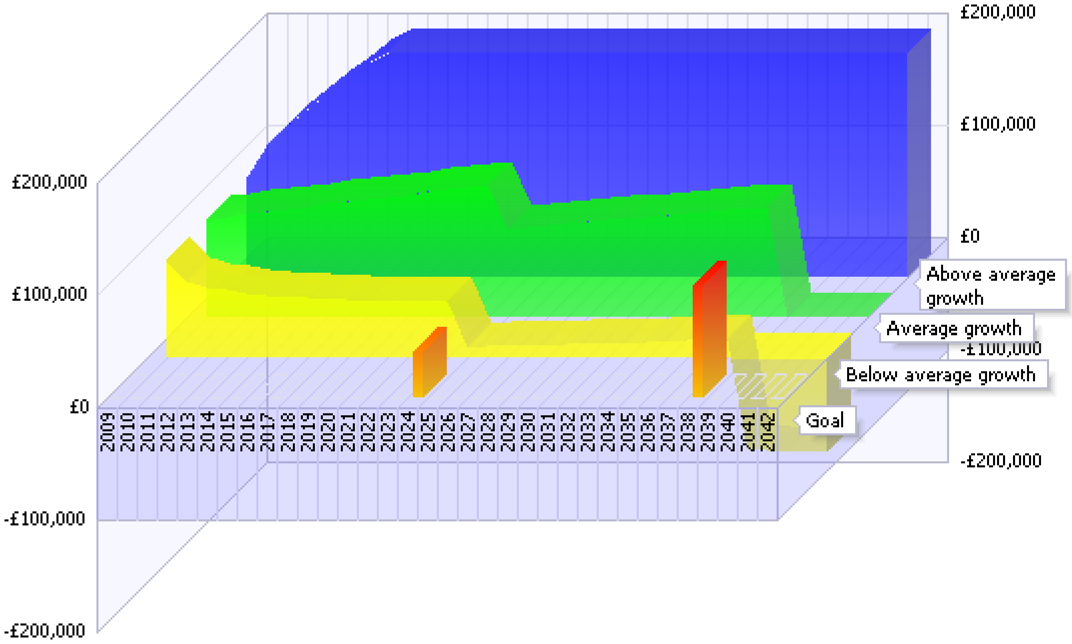
Investment	Type	Number of Units	Unit Price* (£)	Current Value (£)	Availability
Wrapped Investments:					
Transact	**Investment account**			**£42,124.50**	**Available**
BlackRock Global Equity A Acc	*Unit trust/ICVC (OEIC)*	*45,000.0000*	*0.9361*	*£42,124.50*	
Fidelity Funds Network	**Stocks and Shares ISA**			**£19,998.00**	**Available**
Fidelity Income Plus	*Unit trust/ICVC (OEIC)*	*11,000.0000*	*1.8180*	*£19,998.00*	
Unwrapped Investments					
Current Account	*Current account*	*0.0000*	*0.0000*	*£2,500.00*	*Available*
UK equities	*Individual stocks*	*0.0000*	*0.0000*	*£24,000.00*	*Available*
			Total:	**88,622.50 GBP**	

Your Investments goals

The following table summarises your investment goals:

Name	Amount	Start	End	Frequency	Growth
Around the World Cruise	£100,000.00	Jan 2038	Jan 2038	Annually	Price inflation
Pay off mortgage: 3 Notsogreen Terrace	£60,000.00	Dec 2024	Dec 2024	One Off	0%

Current portfolio performance (including goals and Budget deficit)



The wealth forecast graph (above) shows how a portfolio of assets based on your current arrangements might perform over the long term based on a number of assumptions. This is not a projection of how the investments you currently hold might perform.

The graph shows potential investment values and goals in today's prices and includes any deficit from your Budget.

Please note that stock market related investments can fall as well as rise and returns are not guaranteed.

The figures used are only examples of what a particular asset allocation strategy might achieve and are not minimum or maximum amounts or guaranteed in any way. The actual level of any return will depend on the specific investments made, how these grow or fall and on the tax treatment and charges incurred of each specific product.

From the analysis of the current portfolio wealth forecast chart above it looks unlikely that you will be able to meet the investment goals you set (shown in the 'Your investment goals' summary). In order to meet your goals on the average growth scenario, you would need to invest a lump sum of £533.19, or save an additional £1.74 on a monthly basis.

Please refer to the section on Financial Planning Assumptions for more detail on the analysis and assumptions used.

Your risk profile

You and Marge both completed the risk profiling exercise which looks at the trade-off between the risks involved in investing and the potential returns.

The following table shows the output from your risk profiling exercise:

Who	Questionnaire profile	Current portfolio risk
Homer	Balanced Investor	Motivated Investor
Marge	Balanced investor	Motivated Investor

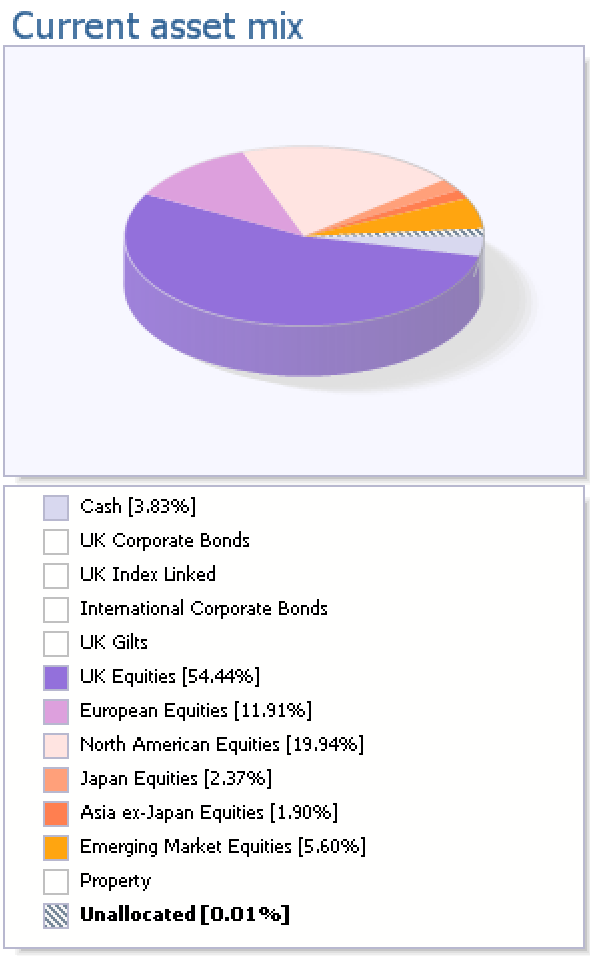
As a result of this exercise you have selected a risk level of 5 out of 10 and are happy with the "Balanced investor profile" as reflecting your attitude to risk for your investment strategy. A Balanced Investor is looking for a balance of risk and reward, seeking higher returns than those available from a high street deposit account and willing to accept a certain amount of fluctuation in the value of their investments as a result. However, they would feel uncomfortable if their investments were to fall in value significantly in one year.

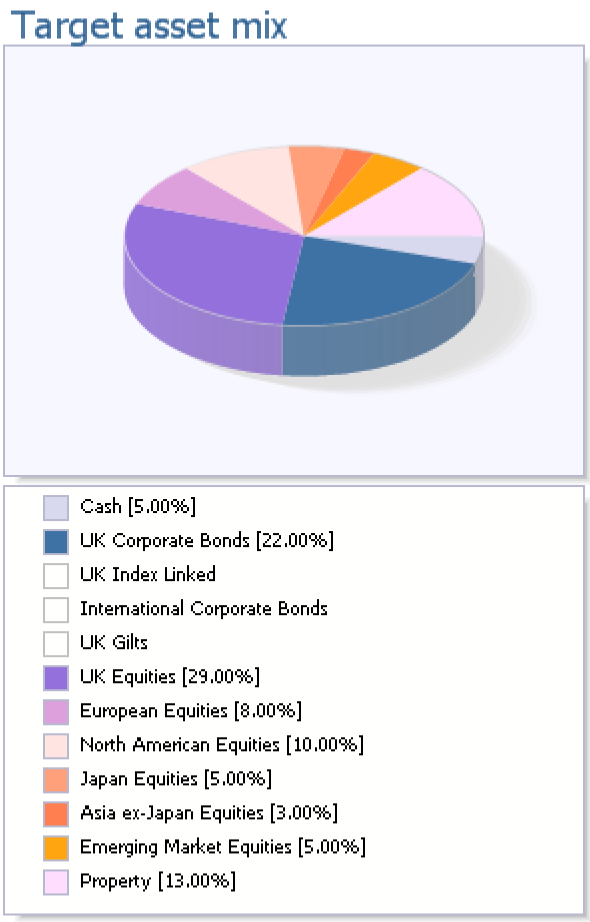
Asset allocation

Asset allocation (simply the mix of investment types that you hold) is the most important factor affecting the level of risk and likely return that you might face when investing over the long term. If you hold most of your money in cash then your chance of losing money is low but so will any returns be. If you invested most of your money in stocks and shares, the chance of losing money in the short term is higher, but in the long term the chances of a greater return are also higher.

From the information we have about your current investments and savings they are comprised of the asset types shown below in the left hand chart. Based on your attitude towards risk however, we recommend the asset allocation on the right.

Your Current and Target Asset Mixes





While the Current Portfolio (Motivated Investor) has an estimated potential annual growth rate (inflation adjusted) of 3.96% a year, the Target Portfolio (Balanced investor) estimated potential annual growth rate (inflation adjusted) of 3.22% a year.

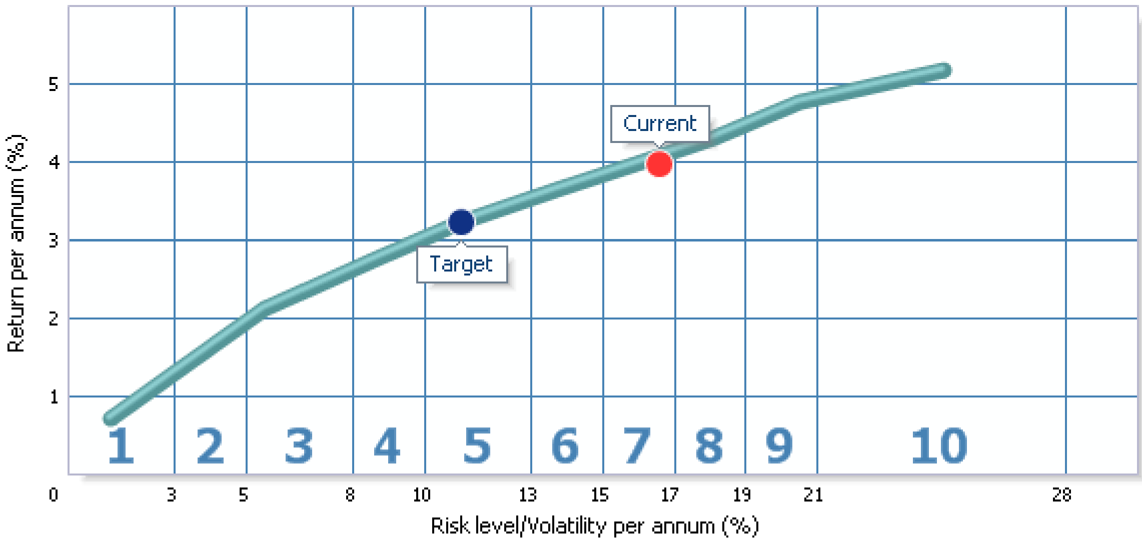
Your target asset allocation

We believe that a portfolio of investments that looks like the one above on the right may be appropriate for you.

The reason that this portfolio is appropriate for you is that the portfolio offers significant exposure to global stockmarkets, combined with a substantial holding in less risky assets which can reduce any capital loss in the event of a serious market fall. The capital value of the portfolio may fall, and an investor is not guaranteed to receive back the amount invested. Although the capital returns from this portfolio is potentially higher, the risk of this portfolio producing a capital loss whilst less than placing the whole fund in shares may be substantial especially in the short term. Any income received from this portfolio may fall as well as rise. This portfolio contains securities invested outside the UK, which may be subject to additional risks as a result of changes in currency exchange rates.

We therefore recommend you receive specific advice on moving your savings and investments towards this target over appropriate timescales and in as efficient manner as possible.

Risk and return expectations

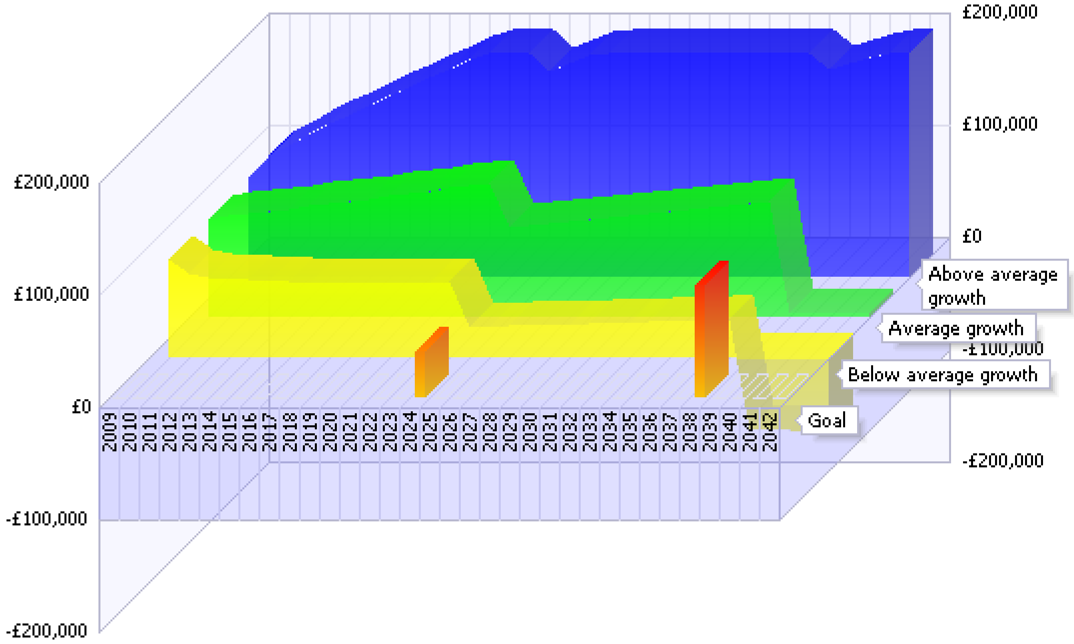


This graph shows your current portfolio and our suggested target portfolio on a Risk and Return basis.

The efficient frontier line shows the highest, most likely return you can expect for any level of risk you are prepared to take. This assumes average growth forecasts for the generic asset types. Anything under that efficient frontier line is said to be an inefficient portfolio – this is because you could either be achieving the same level of return for less risk or could achieve more return without increasing your risk.

By maintaining a portfolio in line with your target asset allocation, you can keep an efficient mix of risk and return.

Potential portfolio performance (including goals and Budget deficit)



The wealth forecast graph (above) shows how a model portfolio of assets based on the selected target asset allocation might perform over the long term based on a number of assumptions. This is not a projection of how the investments you currently hold might perform. The graph shows potential investment values and goals in today's prices and includes any deficit from your Budget.

Please note that stock market related investments can fall as well as rise and returns are not guaranteed.

The figures used are only examples of what a particular asset allocation strategy might achieve and are not minimum or maximum amounts or guaranteed in any way. The actual level of any return will depend on the specific investments made, how these grow or fall and on the tax treatment and charges incurred of each specific product.

Please refer to the section on Financial Planning Assumptions for more detail on the analysis and assumptions used.

How you can move towards an efficient portfolio

Firstly, you should always ensure that you have enough savings for emergencies and rainy days. You should always try to keep a certain amount of money in easy access cash accounts so that, if the unexpected happens, you do not have to dip into your long term investments or use higher cost debt. As a rule of thumb it is good to keep between 3 and 5 months expenditure, to cover this requirement, available in ready cash such as a savings account, national savings or similar investments. In your case therefore, you and Marge should maintain an emergency fund of between £15,412.33 and £25,687.21. You currently have an emergency fund of £0.00. We should discuss this in further detail.

We will focus on your available balance of £88,622.50.

Our recommendation is to invest this money in the Target Portfolio for risk level 5.

The ‘Potential portfolio performance’ section shows how a portfolio of assets based on the target asset allocation might perform, taking into account any goals, over the long term.

Meeting your investment goals

From the analysis shown in the target portfolio wealth forecast above it looks possible that you will be able to meet the investment goals you set (shown in the ‘Your investment goals’ summary). Based on very good and average growth scenarios no additional investment is currently required.

Proposed Portfolio Transactions

The table below shows the transactions suggested in order to move your current investments to the Target Portfolio .

Investment	Current	Future	Buy/(Sell)
Current Account	£2,500.00	£4,428.79	£1,928.79
UK equities	£24,000.00	£8,857.59	(-£15,142.41)
BlackRock Global Equity A Acc	£42,124.50	£35,430.35	(-£6,694.15)
Fidelity Income Plus	£19,998.00	£8,857.59	(-£11,140.41)
Invesco Perp Corporate Bond Acc	£0.00	£19,532.82	£19,532.82
SWIP Property Inc	£0.00	£11,514.86	£11,514.86
		Remainder:	**£0.50**

ISAs

You should consider using your ISA allowance for this tax year (2009/10) if you have not already done so. Marge should also consider using this year's ISA allowance if Marge has not already done so.

Some major changes to the old ISA and PEP regimes were introduced on 6 April 2008. For full details, please see the Investing section under Financial planning assumptions.

Not a tax planning tool

The aim of the tax calculations within this analysis is to present a reasonable idea of the dampening effect of taxation on the growth of assets. It is designed to serve as an introduction to discussions with an adviser and not as a replacement expert to tax planning. Specifically, the model does not calculate capital gains tax and investors with significant assets should take advice on this.

Asset ownership

As Marge is a zero rate tax payer and you are a higher rate tax payer you should consider ensuring that taxable assets are held in Marge's name to avoid paying higher rate tax. You should consider gaining further tax advice on this point.

Summary Recommendation

We recommend investment of the current available monies you indicated of £88,622.50 into the Target Portfolio .

The table below shows the likelihood of meeting your investment goals based on the transactions we have suggested.

At a glance – proposed portfolio		
Likelihood of meeting goals and any budget deficit:	**Unlikely**	**Status**
Additional lump sum required to meet goals:	£32,451.88	
OR		
Additional monthly savings required to meet goals:	£106.46	Significant action required to ensure goals met

Actions

- Review risk analysis guidance provided
- Rebalance existing available investments in line with target asset allocation
- Invest new investments in line with target asset allocation
- Consider investing more or reviewing your goals in order to stand a better chance of meeting them
- Consider using Homer's and Marge's 2009/10 ISA allowances
- Consider maximizing the assets in Marge's name and gaining further tax advice.

Mortgage

At a glance		
Total loan to value ration: 35%		**Status**
Affordability:	Affordable	
Affordability with 2% rise in interest rate:	Affordable	Some action required to meet goals

Existing Mortgages

3 Notsogreen Terrace, Rental property, Currently owned

From the information provided, you both have the following existing mortgage on 3 Notsogreen Terrace:

A variable rate interest only mortgage for £60,000.00 with a rate of 6.00% (GMAC). We calculate the approximate monthly cost as being around £292.05 and there is a potential saving of £71.08 per month.

It may be possible to save £71.08 per year in interest payments by transferring balances to the same kind of mortgage but with a lower rate. It looks like there is a worthwhile saving bearing in mind there could be some costs involved in re-mortgaging. We should discuss this in more detail and look at how this will help your cash flow.

1 Evergreen Terrace, Main residence, Currently owned

From the information provided, you both have the following existing mortgage on 1 Evergreen Terrace:

A variable rate repayment mortgage for £45,000.00 with a rate of 4.40% (Abbey). We calculate the approximate monthly cost as being around £245.39 . Your current mortgage arrangements appear satisfactory here .

Paying off loans

If you were both to use your existing investments of £60,000.00 (excluding your emergency fund of at least £15,412.33) to reduce the mortgage on 3 Notsogreen Terrace of £60,000.00 you could save £3,504.64 in interest each year or £52,569.55 over the remaining 15 years. This is in effect a guaranteed return of 6.00% each year (i.e. 6.00% you do NOT have to pay!). For a higher rate tax payer this would generate the equivalent of a guaranteed 10.00% return on investment.

If you were both to use your existing investments of £45,000.00 (excluding your emergency fund of at least £15,412.33) to reduce the mortgage on 1 Evergreen Terrace of £45,000.00 you could save £974.11 in interest each year or £19,482.13 over the remaining 20 years. This is in effect a guaranteed return of 4.40% each year (i.e. 4.40% you do NOT have to pay!). For a higher rate tax payer this would generate the equivalent of a guaranteed 7.33% return on investment.

Increase in monthly payments to pay mortgage off early

Lender	Mortgage type	Interest type	Extra payment (5 years)	Saving (5 years)	Extra payment (10 years)	Saving (10 years)
GMAC	interest only	variable	£369.29	£17,523.18	£863.49	£35,046.36
Abbey	repayment	variable	£52.37	£5,297.58	£159.53	£10,302.76
Total			**£421.66**	**£22,820.77**	**£1,023.02**	**£45,349.13**

Please be aware that many lenders charge penalties on early or over repayment on mortgages. The saving shown represents the difference in total outlay if the term of the mortgage is reduced by the period shown in brackets. Any early repayment calculations shown assume that the amounts quoted are invested, and assumes that the investments achieve a growth rate of 6% p.a. These figures are for illustration purposes only, and cannot be guaranteed. The value of investments can fall as well as rise.

Compared to other uses for your capital, paying off some or all of your mortgage early could be a good one. However, you need to be aware that it may have an impact on other financial goals. Please let us know if you would like to discuss this further.

Actions

- Review the analysis provided in this section
- Consider re-mortgaging to reduce your monthly payments and improve your budget

Protection

Please note that the following analysis excludes any company benefit protection schemes and/or schemes attached to pensions.

At a glance

Life insurance

Homer

Marge

Income replacement

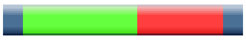
Homer

Marge

Critical illness

Homer

Marge



Status

Significant action required to ensure goals met

Protecting your financial security

Should either of you die early or be affected by a serious illness, ensuring that the household is financially secure is critical to a sound financial plan. This section looks at the different approaches you can take to protecting yourself against these situations.

What would happen if you were to die early?

Premature death	If Homer dies	If Marge dies
Pay off mortgage	£99,411.37	£99,411.37
Pay off debts	£5,000.00	£2,500.00
Support dependants	£88,549.99	£177,099.98
Support partner	£347,720.26	£0.00
Total costs	**£540,681.62**	**£279,011.35**
State benefits	£6,953.00	£6,953.00
Current arrangements	£85,000.00	£45,000.00
Total cover	**£91,953.00**	**£51,953.00**
Gap	**£448,728.62**	**£227,058.35**
Estimated cost	**£52.28 per month**	**£17.78 per month**

Were either Homer or Marge to die early, the capital required to meet the needs of the surviving partner and dependants is set out above.

Based on the information we have and our analysis there is a gap of around £448,728.62 in Homer's cover and around £227,058.35 in Marge 's cover. We suggest that you consider taking out additional life insurance to cover this gap. Level Term Assurance is generally the cheapest way of meeting this need. For a typical, healthy, 36 year old male who is a non-smoker, the cost of £448,728.62 of cover would be around £52.28 per month. For a healthy, 34 year old female who is a non-smoker, the cost of £227,058.35 of cover would be around £17.78 per month.

You both have a portfolio of savings and investments worth £88,622.50 and this would be insufficient to meet the gaps identified above.

What would happen if you were unable to work?

Unable to work	Homer	Marge
Monthly household expenditure	£1,573.91	£1,049.28
Total costs	**£18,886.97**	**£12,591.32**
Monthly net income from partner	£0.00	£2,738.43
Monthly sick pay and state benefits	£0.00	£0.00
Monthly current arrangements	£0.00	£0.00
Total cover	**£0.00**	**£2,738.43**
Gap per month	**£1,573.91**	**£0.00**
Estimated cost	**£0.00 per month**	**£0.00 per month**

If Homer was unable to work due to illness then you could not meet your household expenditure and would be faced with a gap of around £1,573.91 per month. We therefore suggest that Homer consider an income replacement policy which pays out income in case of becoming too ill to work. As Marge does not have any earned income then there is no need for protection here.

Income Replacement Insurance policies vary greatly in their coverage, the amount they will pay out and under what circumstances, however for a healthy, 36 year old male who is a non-smoker, the cost of covering a gap of £1,573.91 per month would be around £0.00 on the basis of a policy that paid out after 26 weeks.

What would happen if you suffered a critical illness?

Critical illness	Homer	Marge
Pay off mortgage	£99,411.37	£99,411.37
Pay off debts	£5,000.00	£2,500.00
Annual expenditure	£25,173.17	£25,173.17
Total costs	**£0.00**	**£0.00**
Net income from partner	£0.00	£32,861.15
Current arrangements	£40,000.00	£40,000.00
Total cover	**£40,000.00**	**£72,861.15**
Gap	**£89,584.54**	**£54,223.39**
Estimated cost	**£44.88 per month**	**£19.70 per month**

If Homer or Marge were affected by a critical illness (for example a heart attack, stroke or cancer) and survived apart from a period off work (see Income Replacement above) the costs of recuperating if you require ongoing nursing care or modifications to your home (perhaps to make it easier to get around if you had mobility problems) can be high. You will certainly want a good proportion of your household expenses paid for a period.

According to our analysis if Homer were to be affected by a critical illness then there would be a gap of £89,584.54 in the cover

According to our analysis if Marge were to be affected by a critical illness then there would be a gap of £54,223.39 in the cover

There are policies you can buy which cover these difficult times. They vary greatly in their coverage, the amount they will pay out and under what circumstances. However, for a healthy 36 year old male who is a non-smoker, the cost of covering £89,584.54 would be around £44.88 per month. For a typical healthy 34 year old female who is a non-smoker, the cost of covering £54,223.39 would be around £19.70 per month.

As you have savings and investments it would be possible to use these in the event of a critical illness. However, this would mean that you might be less well placed to meet your other financial goals and needs.

You should ensure that you have both made wills and that these are up to date.

Actions

- You need to ensure that you reduce the gap in your life cover which we calculate as £448,728.62 for Homer and £227,058.35 for Marge
- You need to ensure that you reduce the gap in your income replacement cover were you unable to work. We calculate this gap as £1,573.91 per month for Homer
- You need to ensure that you are sufficiently covered were you or Marge affected by a critical illness. We calculate this gap as £89,584.54 for Homer and £54,223.39 for Marge

Estate

At a glance	
	Status
Actions required in order to reduce the amount of IHT payable on the Client and Partner estate	Significant action required to ensure goals met

Summary of net estate

Homer's Assets	Type	Amount
Fidelity Funds Network	Investments	£19,998.00

Homer's Liabilities	Type	Amount

Marge's Assets	Type	Amount
Unwrapped	Investments	£24,000.00
Transact	Investments	£42,124.50

Marge's Liabilities	Type	Amount

Joint Assets	Type	Amount
3 Notsogreen Terrace	Let Property	£100,000.00
1 Evergreen Terrace	Used Property	£200,000.00
Unwrapped	Investments	£2,500.00

Joint Liabilities	Type	Amount
Abbey	Mortgage on used property	£39,411.37
GMAC	Mortgage on let property	£60,000.00

Wills

Neither of you have valid wills. Should you die, your estates will be distributed according to the provisions governing intestacy. You should consider making a will to ensure that your estates are distributed as you wish on your death.

Use of nil rate band

Homer has not made full use of the nil rate band available on death. It is possible that by re-arranging your estate to include gifts to a trust from which Marge can benefit, you could avoid these gifts falling into Marge’s estate, and thus be taxed on their subsequent death – while still not increasing your exposure to inheritance tax on your own death. Marge has not made full use of the nil rate band available on death. It is possible that by re-arranging your estate to include gifts to a trust from which Homer can benefit, you could avoid these gifts falling into Homer’s estate, and thus be taxed on their subsequent death – while still not increasing your exposure to inheritance tax on your own death.

Efficiency of asset distribution

Ignoring any life assurance or pension death benefits, neither of you have sufficient individually held assets to exceed the nil rate band should either of you die, and it would be advisable to re-arrange assets so that you are making full use of this entitlement to pass assets outside of your joint estates. You have jointly owned property which, if held as joint tenants, must pass to the surviving partner regardless of your wishes. You may wish to look into severing any joint tenancies and holding these assets as tenants in common – which would enable the asset to be passed in accordance with your wishes and may enable you to plan your estates more efficiency.

Gifts coming back into account

Homer has no previous gifts in the form of chargeable transfers or failed PETs now coming into account.

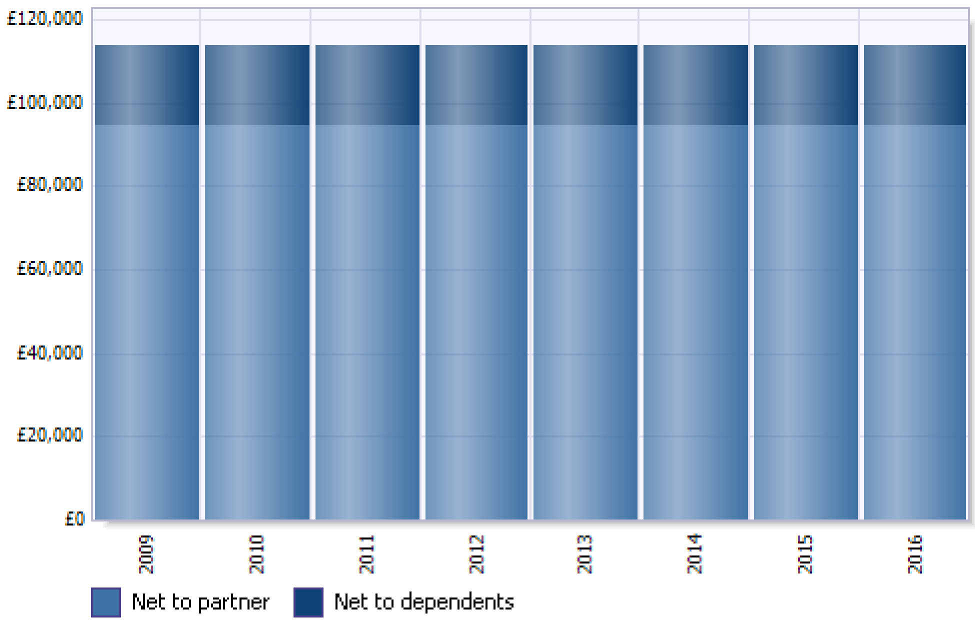
Marge has no previous gifts in the form of chargeable transfers or failed PETs now coming into account.

There are no joint previous gifts in the form of chargeable transfers or failed PETs now coming into account.

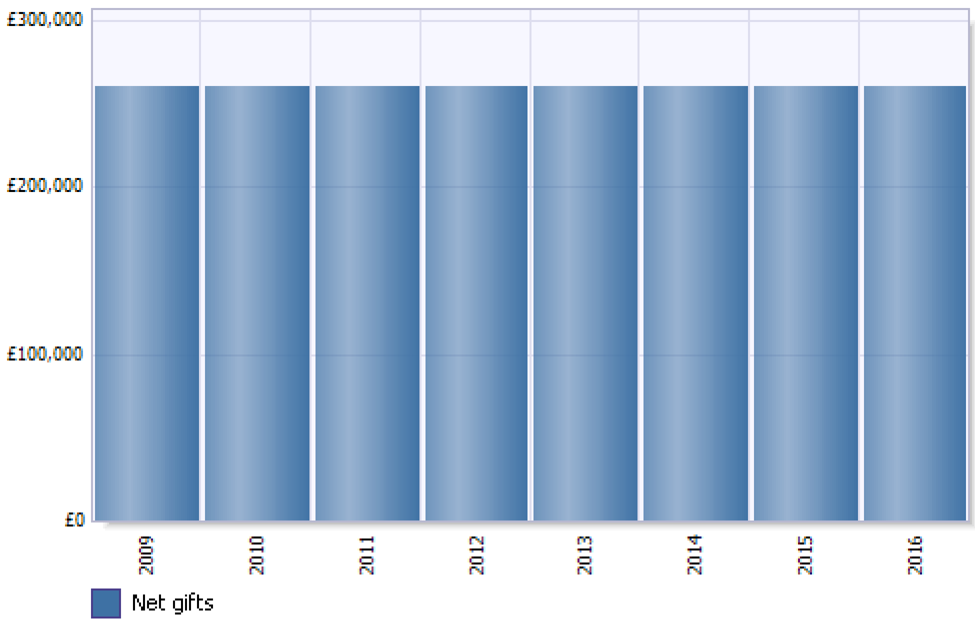
Inheritance tax liability

The following charts show the amount of inheritance tax you might have to pay should one of you die tomorrow (and then showing how the position may change over the next seven years), should the survivor of you then die soon thereafter in the current tax year, and overall on both deaths.

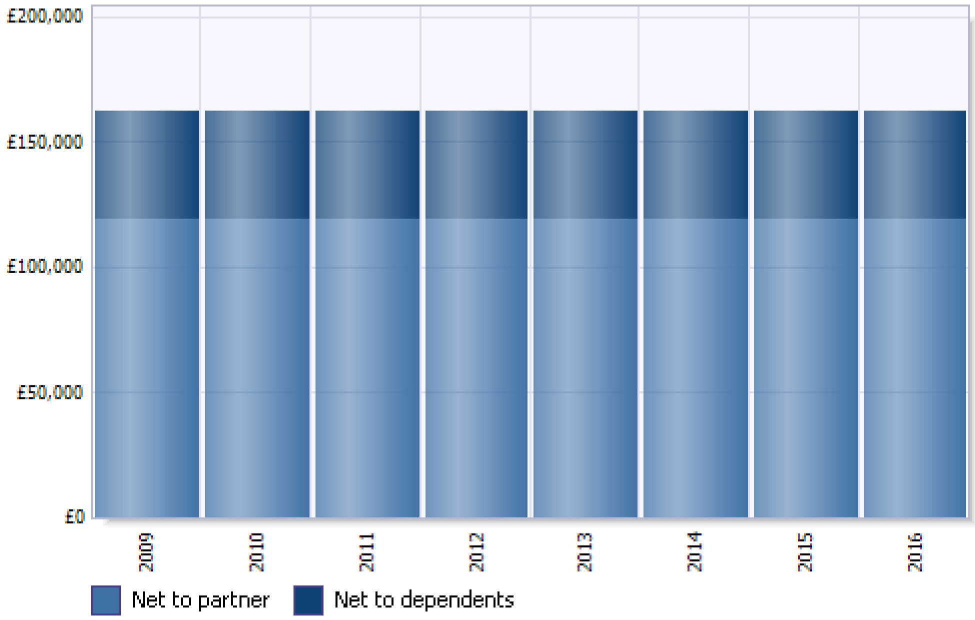
Where Homer dies first:



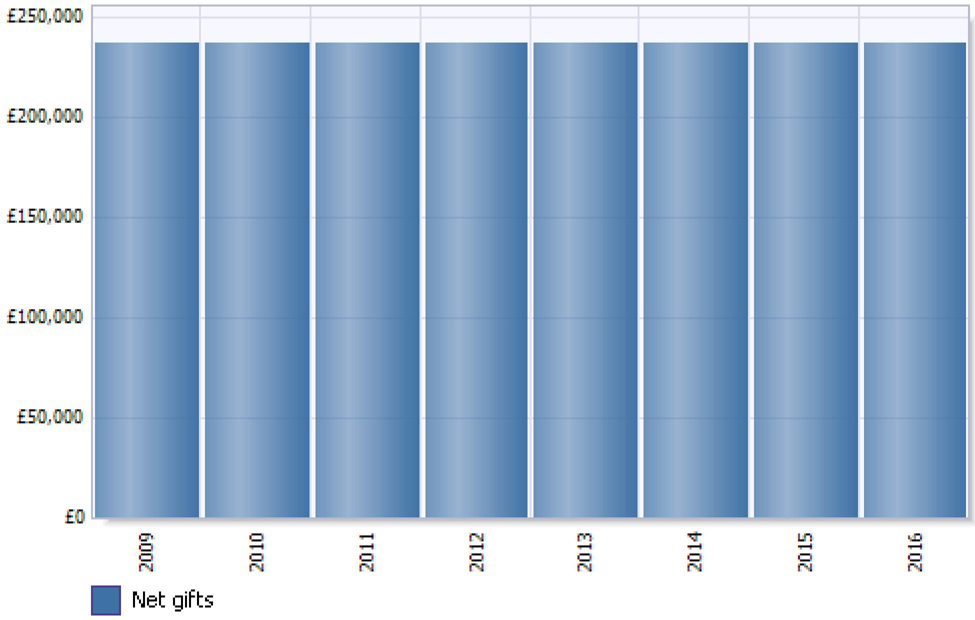
Where Marge dies soon thereafter



Where Marge dies first:



Where Homer dies soon thereafter



Actions

- Consider making gifts from income or capital
- Consider putting any life insurance into trust
- Consider making use of life assurance to meet liability

Retirement

At a Glance - Current Portfolio Retirement Shortfall		
Likelihood of meeting Investment and retirement goals:	**Unlikely**	**Status**
Transition Shortfall		
Single premium investment required to fill:	£331,062.17 lump sum	Significant action required to ensure goals met
OR		
Regular investment required to fill:	£984.03 per month	
Retirement Income Shortfall		
Single premium pension contribution required to fill:	£0.00 lump sum	
OR		
Regular pension contribution required to fill:	£0.00 per month	

Retirement Shortfall

Transition shortfall

A transition shortfall is the cash flow gap in the transition to retirement (i.e. the period between receiving benefit from the first pension and all pensions).

Based on the proposed portfolio and the analysis I have undertaken it looks like you have a transition shortfall of £41,754.11 lump sum. You could fill this gap by making a single premium investment of the given amount or a regular monthly investment of £135.99 per month.

Retirement income shortfall

A retirement income shortfall is the gap between the desired retirement income and the level of income forecast to be generated by the current arrangement(s).

Based on the proposed portfolio and the analysis I have undertaken it looks like you have a retirement income shortfall of £0.00 lump sum. You could fill this gap by making a single premium investment of the given amount or a regular monthly investment of £0.00 per month.

What you might get from your target asset allocation

The following table summarises your current pension arrangements:

Pension	Who	Date when payable	Age when payable	Annual amount	Increase
Burns Enegy plc	Homer	Jan 2038	65	£37,140.97	Price inflation

Homer and Marge are expected to have a total annual private pension of £37,140.97 when all pensions are payable. This figure may, however, increase or decrease depending on the pension benefit increase types.

What you might get from the state

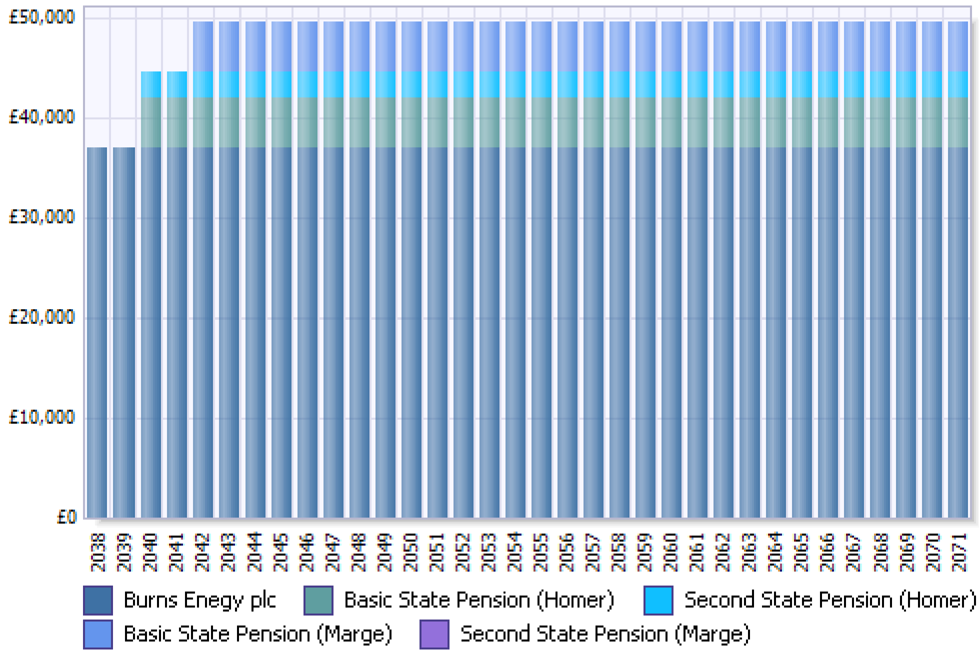
You might expect to receive the following pensions from the state. Please be aware though that these are only estimates and are provided for guidance only. In order to get a detailed forecast you need to complete form BR19 and submit this to the Department of Work and Pensions.

Who	Date when payable	Age when payable	Annual state pension	Annual second state pension	Total annual state pension
Homer	Jan 2040	67	£5,000.00	£2,700.00	£7,700.00
Marge	Jan 2042	67	£5,000.00	£0.00	£5,000.00

Homer is expected to have a total annual state pension of £7,700.00 and Marge is expected to have a total annual state pension of £5,000.00.

Household pension income forecast - all private and state pensions

The chart below illustrates the level of household income you might expect to receive from state pensions and from each of your other pension schemes in each year after you plan to take the benefits.



Assumptions

The forecast graphs are based on assumptions that Government pensions are maintained in their current form, that any Final Salary schemes provide the benefits expected and, if you have any invested pensions, estimates of how, over the long term, the target asset classes might perform. The projection does not make allowances for how particular products or funds might improve on or reduce these returns/losses. Please note that stock market related investments can fall as well as rise and returns are not guaranteed.

The graph shows figures in today's prices. This means that we have allowed for future inflation to give you an indication of how much you would be able to buy with this income. The figures used are only examples of what you might get and are not minimum or maximum amounts or guaranteed in any way. What you will get back will depend on how your investments grow or fall and on the tax treatment and charges incurred of each specific product.

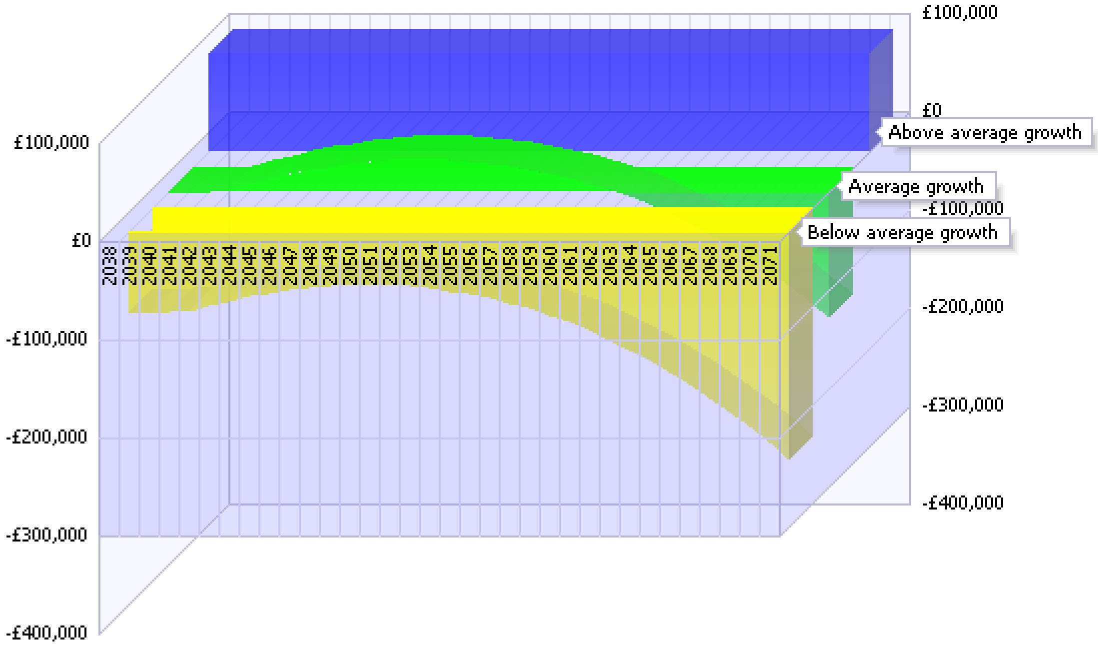
Please refer to the appendix on 'Financial Planning Assumptions' for a more detailed explanation of how your projections are created.

Your retirement goals

The following table summarises your retirement goals:

Name	Amount	Start	Duration	Growth
Retirement goal	£2,000.00	Jan 2038	Rest of life	Earnings inflation

Household wealth after retirement



The above graph shows your available 'wealth' i.e. total value of your savings and investments plus the income from your pension funds (the graph does not show the capital value of your pension funds). Beginning in the same year as the first pension income you expect to receive, or the first retirement goal (whichever is earlier), the forecast takes your investment wealth, and projects it forward taking into account growth on the funds based on three different scenarios. For any given year, any income received (entered into Budget or calculated in Investment and Retirement) is added to the wealth, while any expenses (Budget outgoings or Investment and Retirement goals) are subtracted, which therefore demonstrates the likelihood of meeting any goals in the context of your overall plan.

From the above wealth forecast graph it looks unlikely that you will be able to meet the investment goals (in the ‘Your investment goals’ section above) and retirement goal you have set (in the ‘Your retirement goal’ summary).

In order to meet your goals on the average growth scenario, you would need to make a one off contribution of £100,766.63 lump sum, or an additional contribution of £140.38 per month on a monthly basis.

Your risk profile

You and Marge both completed the risk profiling exercise which looks at the trade-off between the risks involved in investing and the potential returns.

The following table shows the output from your risk profiling exercise:

Who	Questionnaire profile	Current portfolio risk
Homer	Please select a risk level	Please select a risk level
Marge	Please select a risk level	Please select a risk level

As a result of this exercise you have selected a risk level of 5 out of 10 and are happy with the “Balanced investor profile” as reflecting your attitude to risk.A Balanced Investor is looking for a balance of risk and reward, seeking higher returns than those available from a high street deposit account and willing to accept a certain amount of fluctuation in the value of their investments as a result. However, they would feel uncomfortable if their investments were to fall in value significantly in one year.

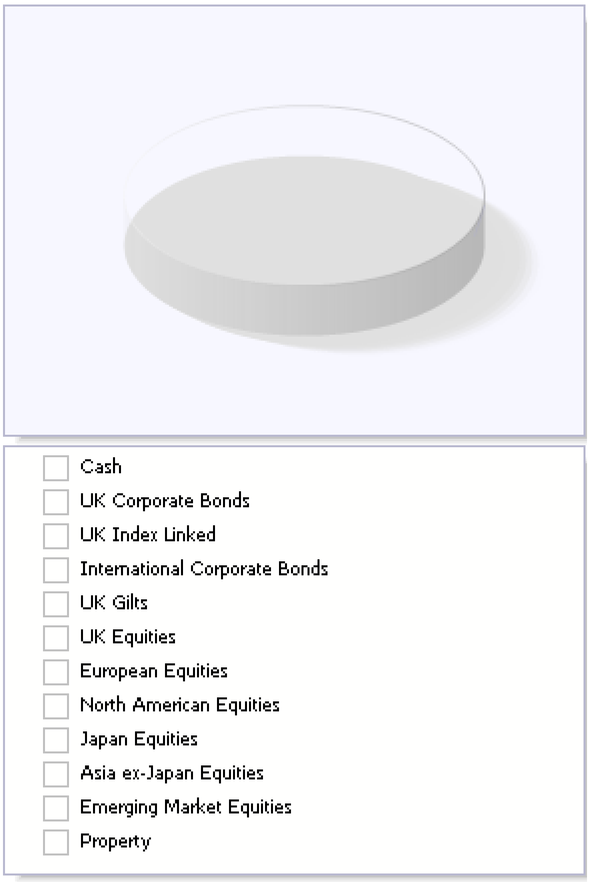
Asset allocation

Asset allocation (simply the mix of investment types that you hold) is the most important factor affecting the level of risk and likely return that you might face when investing over the long term. If you hold most of your money in cash then your chance of losing money is low but so will any returns be. If you invested most of your money in stocks and shares, the chance of losing money in the short term is higher, but in the long term the chances of a greater return are also higher.

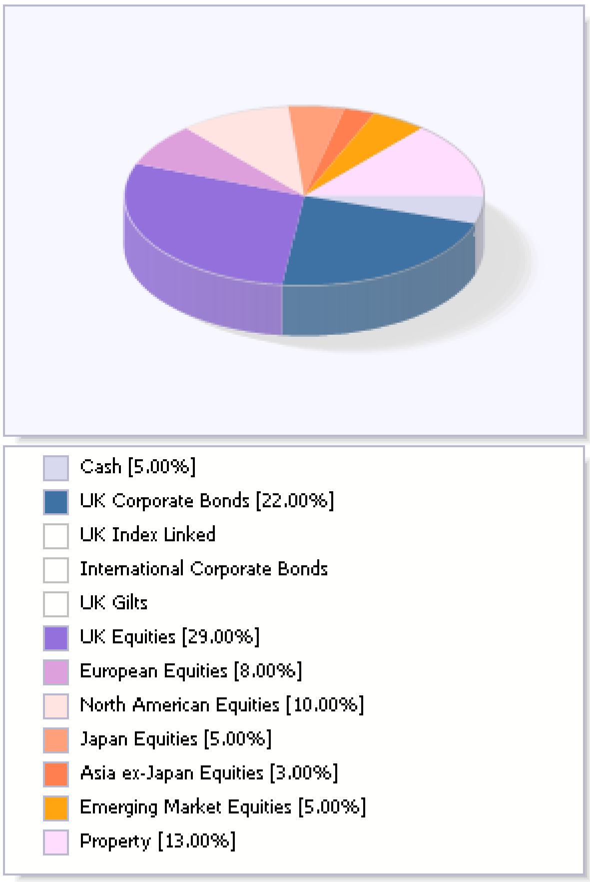
From the information we have the asset types shown on the left below, reflect your current asset allocation within your private pension plans. Based on your retirement goals and attitude towards risk however, we recommend the more efficient allocation on the right.

Current and target asset mixes

Current asset mix



Target asset mix



While the Current Portfolio (Please select a risk level) has an estimated potential annual growth rate (inflation adjusted) of 0.00% a year, the Target Portfolio (Balanced investor) estimated potential annual growth rate (inflation adjusted) of 3.22% a year.

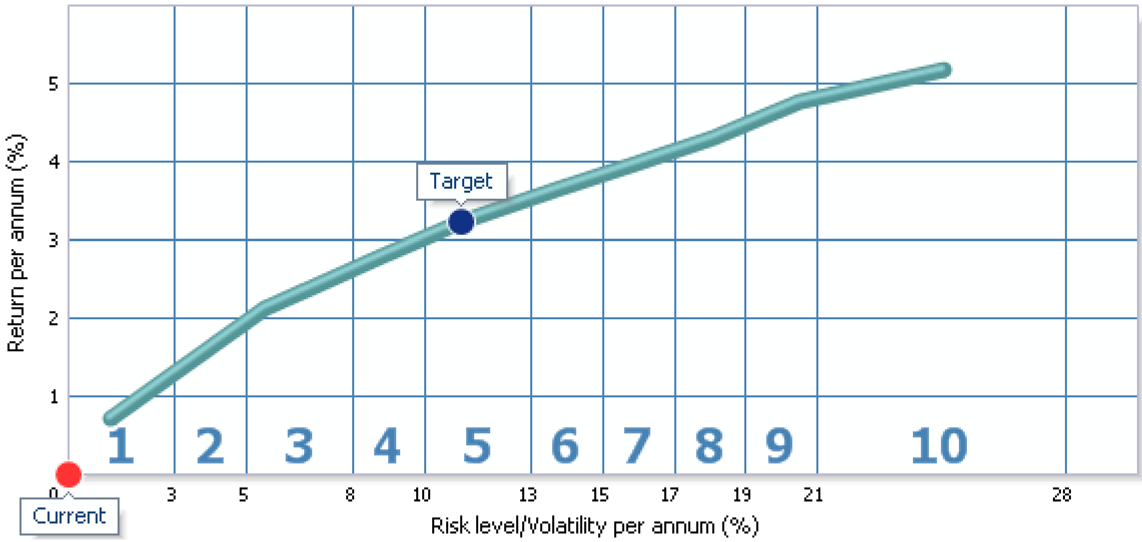
Your target asset allocation

We believe that a portfolio of investments that looks like the one above on the right may be appropriate for you.

The reason that this portfolio is appropriate for you is that the portfolio offers significant exposure to global stockmarkets, combined with a substantial holding in less risky assets which can reduce any capital loss in the event of a serious market fall. The capital value of the portfolio may fall, and an investor is not guaranteed to receive back the amount invested. Although the capital returns from this portfolio is potentially higher, the risk of this portfolio producing a capital loss whilst less than placing the whole fund in shares may be substantial especially in the short term. Any income received from this portfolio may fall as well as rise. This portfolio contains securities invested outside the UK, which may be subject to additional risks as a result of changes in currency exchange rates.

We therefore recommend you receive specific advice on moving your pension plans towards this target over appropriate timescales and in as efficient manner as possible.

Risk and return expectations



This graph shows your current portfolio and our suggested target portfolio on a Risk and Return basis.

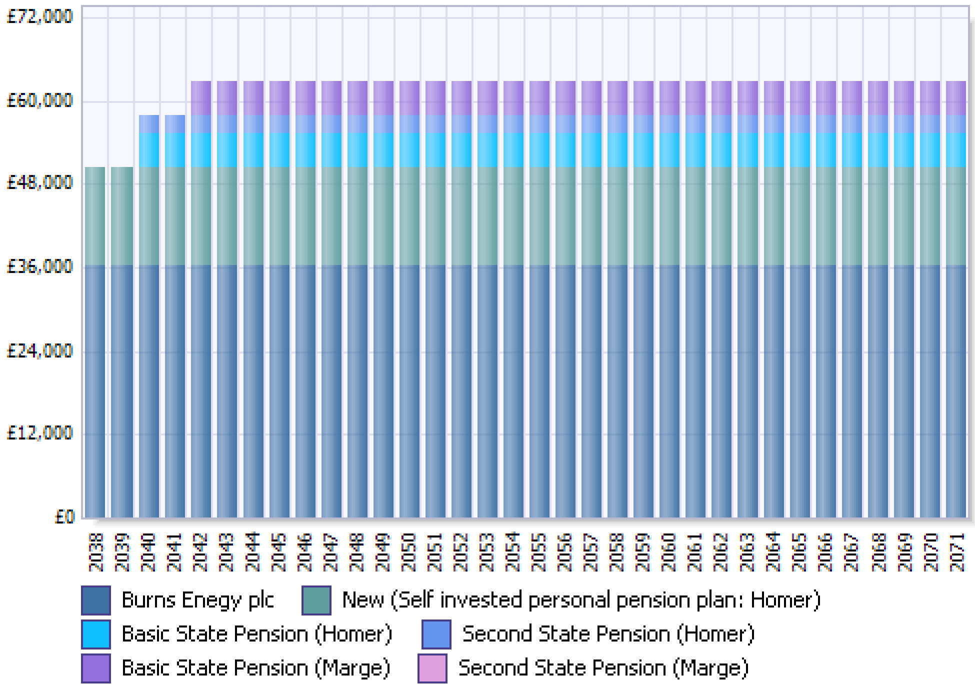
The efficient frontier line shows the highest, most likely return you can expect for any level of risk you are prepared to take. This assumes average growth forecasts for the generic asset types. Anything under that efficient frontier line is said to be an inefficient portfolio – this is because you could either be achieving the same level of return for less risk or could achieve more return without increasing your risk.

By maintaining a portfolio in line with your target asset allocation, you can keep an efficient mix of risk and return.

Potential portfolio performance

Household pension income forecast - all private and state pensions

The graph below, shows what level of pension might be provided in retirement, if invested in line with the proposed asset allocation (when all available pension arrangements are re-allocated to the target asset mix but un-available arrangements are left untouched) where appropriate and includes any proposed additional contributions, either one-off or regular. Details of the proposed additional contributions are provided in the Transactions section below. This estimate includes any pension arrangements together with the State Pension provision.



Meeting your investment and retirement goals

From our discussions and the analysis I have undertaken it looks possible that you will be able to meet the investment goal (in the 'Your Investment Goals' section below) and retirement goal you have set (in the 'Your Retirement goal' summary above).

Based on very good and average growth scenarios no additional contributions are currently required.

Transactions

The table below shows the transactions suggested in order to move your current available (for transfer) pensions to the target portfolio including any additional or increased contributions that have been proposed. The transactions relate to your available arrangements and New Money contributions.

Self invested personal pension plan - Homer		
Regular contribution	Employee	£600.00(Monthly)
Total to invest		**£0.00**
Funds selected:		
Aviva Balanced Managed Pn NU S3	100.00%	£0.00

Summary Recommendations

The table below shows likelihood of meeting investment and retirement goals based on the transactions we have suggested.

Summary based on Proposed Asset Allocation - Retirement shortfall		
Likelihood of meeting Investment and retirement goals:	**Possible**	**Status**
Transition Shortfall		
Single premium investment required to fill:	£41,754.11 lump sum	Some action required to meet goals
OR		
Regular investment required to fill:	£135.99 per month	
Retirement Income Shortfall		
Single premium pension contribution required to fill:	£0.00 lump sum	
OR		
Regular pension contribution required to fill:	£0.00 per month	

Actions

- Consider saving more in your pension or adjusting your goals
- Re-balance your pension investments in line with your target asset allocation
- Consider contributing to a Stakeholder Pension for Marge
- Get your State Pension forecast

Financial Planning Assumptions

Budget

Budget figures are in today's prices (i.e. assuming that prices don't rise and that £1 now will be able to buy the same amount in the future as it can now).

Tax is calculated on a calendar (not financial) year and is assumed to be paid in the year in which the income is earned. In reality this may not be the case, you should take further advice on whether you can manage your taxes any more efficiently than currently proposed.

Inflation rates	Rate
Price inflation	2.5
Earnings inflation	4

Investing

Risk

The risk of current portfolios is assessed only by looking at the risk associated with the currently held asset classes. This risk is measured using the expected volatility of these asset classes. It is important to note that this measure of risk does not include an assessment of product specific risks, such as; encashment outside of maturity dates, or security or fund specific risk or market timing.

Maximum likely loss and likely gain over 12 months

These figures are produced by taking the Estimated Potential Variances for a 12 month simulation and applying them to the portfolio.

Basic Methodology

We model asset returns using Geometric Brownian Motion, also known as the lognormal model. This model depends on two parameters: the expected growth rate (in our case the real i.e. inflation adjusted growth rate) and the volatility (standard deviation, a measure of the riskiness of the growth rate). These are estimated based on both historical returns and on an in house analysis of market data at the review date, including bond and gilt yields. We can then put these values into a closed form formula to calculate the likely returns at the 5%. 50% and 95% level into the future. For example we can calculate the annualised level of return the portfolio is likely to exceed over the next 20 years with a 95% probability.

The above assumptions are based on our analysis, however please note that stock market related investments can fall as well as rise and returns are not guaranteed. The figures used are only examples of what a particular asset allocation strategy might achieve and are not minimum or maximum amounts or guaranteed in any way. The actual level of any return will depend on the specific investments made, how these grow or fall and on the tax treatment and charges of each specific product.

Portfolio	Assumed average growth rate	Assumed average volatility
Portfolio 1	0.70%	1.20%
Portfolio 2	1.48%	3.56%
Portfolio 3	2.12%	5.51%
Portfolio 4	2.79%	8.80%
Portfolio 5	3.22%	11.02%
Portfolio 6	3.62%	13.67%
Portfolio 7	3.99%	16.08%
Portfolio 8	4.30%	18.11%
Portfolio 9	4.75%	20.55%
Portfolio 10	5.18%	24.59%

The Wealth Forecast

This forecast takes the Estimated Potential Returns and Variance for each Asset class and grows the portfolio using these estimates. Any regular savings are added in as is any surplus income from the Budget. These inflows are assumed to be allocated across assets such that the overall asset allocation remains unaltered. Goals are subtracted at the end of the year in which they fall.

Three possible forecasts are shown:

- A good performance, where the assets have a run of continually good years over the forecast. Statistically there is a 95% chance that the assets will grow at less than this rate.
- An average performance, where the assets continually grow at the Estimated Potential Return rate. Statistically this is the (50th percentile) the average return rate expected.
- A poor performance where the assets have a run of continually poor years. Statistically there is only a 5% chance that the assets will perform worse than this.

For each of the 5 years prior to a goal it is assumed that 20% of the assets needed to meet a goal are transferred into a risk free asset (like cash or gilts) which grows only at the rate of inflation. This 'life-styling' reflects what should happen as an investor moves closer to their goal and investment gains are 'locked in', reducing the exposure to more volatile assets. It also produces a more cautious forecast.

Retirement

See Investing Section for a description of investment concepts used.

Two retirement forecasts are produced. The pension income forecast shows the income that might be produced by state and private pensions while the pension wealth forecast shows income plus any tax free cash lump sums, minus goals.

Three types of pension are forecast in each:

- For Final Salary schemes the pension income is calculated using the scheme rules provided in the Arrangements Details screen i.e. the number of years as a scheme member, divided by the scheme basis (60th etc) times the final salary at the point the scheme is (or was) left. If this is a current scheme it is assumed that the individual remains a member of the scheme until they retire.
- For Money Purchase schemes (occupational, personal, stakeholder and retirement annuity) the forecast takes the Estimated Potential Returns and Variance for each Asset class held within any pensions and grows the pension portfolio using these estimates. Any regular contributions are added in at the end of the year as are those from any employer. These inflows are assumed to be allocated across assets such that the overall asset allocation remains unaltered. For the Pension Income Forecast only the average performance is taken and it is assumed that this grows free from income or capital gains tax.
- The resulting fund is assumed to purchase a Compulsory Purchase Annuity based on gender, Date of Birth, whether it is with/without guarantee and protected/non-protected rights.
- State Pensions. The maximum Basic State Pension is calculated as a set amount which rises each year by the lesser of RPI or 5%. The amount received by a household depends on whether an individual is married and the amount of years they have contributed to national insurance premiums. This latter factor is not taken into consideration.
- The maximum Second State Pension is calculated dependant on whether the individual is contracted in or contracted out and their level of National Insurance premiums based on earnings. It is assumed that the current year's earnings are the basis for the SSP calculation.
- It is important to note that for both state pensions, it is assumed that the maximum years of National Insurance contributions are made. In reality the actual amount will be calculated by the government and a detailed forecast needs to be obtained. It is quite likely that an amount less than the maximum will be received.

The portfolio growth rates used for pension funds are as follows:

Portfolio	Assumed average growth rate	Assumed average volatility
Portfolio 1	0.70%	1.20%
Portfolio 2	1.48%	3.56%
Portfolio 3	2.12%	5.51%
Portfolio 4	2.79%	8.80%
Portfolio 5	3.22%	11.02%
Portfolio 6	3.62%	13.67%
Portfolio 7	3.99%	16.08%
Portfolio 8	4.30%	18.11%
Portfolio 9	4.75%	20.55%
Portfolio 10	5.18%	24.59%

Glossary

Term	Explanation
Asset Allocation	Asset Allocation is simply the mix of underlying asset types held within an investment or portfolio of investments. The three key asset types in relation to stock market investing are bonds, equities and cash. Each of these asset types behaves in a different way with cash providing low returns which are relatively stable and equities (i.e. shares) potentially providing higher returns in the long run but which are quite volatile. Bonds behave somewhere in between. Asset classes can be further divided into a number of other categories. The trends in investment performance of each asset class over time are also important. The relationship between these trends (known as their Correlation) can help an investor reduce the variance of their overall portfolio. This is principally done by investing in more than one non-correlated asset classes such that as one is falling, the other is rising. This is known as diversification. Many studies have shown that asset allocation is responsible for the majority of the variation in investment returns and as such is fundamental to a successful investment
Contracting in or out	The government provides a second state pension and it is possible to contract in or out from this. 'Contracting Out' means that the individual (or their employer) pays lower National Insurance premiums which have to be, along with an age related rebate from the government, paid into an appropriate personal pension scheme that can run along side an existing private scheme. In return for the lower NI and rebates, no Second State Pension is payable.
Earnings Inflation	Earnings Inflation is the rate at which wages and salaries rise and is measured by the Earnings Index.
Gilts	Bonds issued by the government as a means of borrowing money. Gilts pay a coupon (interest) and are assumed to have no risk of default.
Price Inflation	Price Inflation is the rate at which prices rise and is measured by the Retail Price Index.
Real Terms	The plan always provides analysis in Real Terms i.e. in today's prices. Because of inflation £1 today is worth less in 10 years time and this is important because in order to afford the same lifestyle in 10 years you will need more money. This is the effect of Price Inflation. All analysis takes account of this effect and provides a more helpful analysis as a result.
Tax free cash lump sum	When a pension is taken it is often possible to request a proportion as a cash lump sum up to a specified maximum. No tax is payable on this money and so it can be very useful for retirement planning. If the lump sum is taken it will reduce (commute) the remaining pension so that any pension income will be lower.
Variance	Variance measures the amount by which an investment's price varies from its average over a period of time. This is expressed as a percentage.
Volatility	The rate at which the value of an investment fluctuates. With a highly volatile investment such as certain types of equities the price will tend to rise and fall quite rapidly and changes in value can be significant. With a less volatile investment such as bonds, changes in price will be slower and less marked. Volatility is measured using Variance.