

ANALYZING THE FLOWS IN YOUR FINANCIAL PLAN



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For most investors—even those with significant wealth—a secure financial future doesn't simply happen. Instead, it must be carefully crafted to help meet your most important goals and leave nothing to chance. Of course, the future is unpredictable and your own personal situation changes over time. That makes it all the more challenging to answer the most crucial of financial questions: Are you on track towards achieving your financial objectives?

As an investor looking to make the smartest possible decisions about your money, you need a comprehensive understanding of your current financial situation and a reliable roadmap of where you're headed. The key lies in an important but often overlooked component of the financial planning process called cash-flow planning.

In short, cash-flow planning helps you determine if you'll accomplish your goals and live the life you desire. It can give you the knowledge to better control your financial destiny. At a basic level, cash-flow planning is the process of analyzing your annual income sources, such as salary and investment income, against your annual income uses, such as debt, living expenses and taxes—in short, “money in” versus “money out.”

Analyzing Your Personal Balance Sheet

Working with your financial planner, you can employ advanced computer modeling to develop “what if” scenarios about your financial future by projecting your cash flow, asset growth potential, taxes, the size of your estate and other relevant financial data over the full length of your life expectancy. This will allow you to complete a series of ‘what if’ situations that are designed to assist you in making intelligent decisions regarding one or a series of objectives.

Armed with such knowledge, you can analyze whether your current financial plan is adequate—or whether you and your financial planner need to make any changes to stay on course. You'll also be well-positioned to make financially sound decisions as new needs arise, such as financing an education for a child or grandchild, purchasing a vacation home or disposing of a highly appreciated asset such as concentrated stock or real estate. Consider the ways cash-flow planning can enhance just a few elements of your overall financial plan:

Retirement planning. Cash-flow planning analysis allows you to estimate the growth of your overall net worth each year, based on the specific financial strategies you use or are planning to use, as well as the impact of taxes and inflation. You and your financial planner can evaluate that information to assess if you're saving and building wealth fast enough to help reach retirement on schedule and in the way that you envision. Likewise, cash-flow analysis will enable you to create the optimal retirement income distribution plan built around your specific needs to help ensure you don't outlive your savings.

Debt management. As the asset side of your balance sheet grows, so too may the liabilities side. Cash-flow planning analysis can help clarify the long-term impact of your debt and expenditures. This exercise can help lead you to new, more cost-effective strategies for managing your liabilities and freeing up cash for more effective and profitable uses.

Estate planning. Without proper planning, estate taxes may significantly erode much of the estate you plan to leave to your heirs or to charities. But the cash-flow-planning process can help your heirs avoid unpleasant surprises in the future by estimating your estate tax burden and other related costs. Your financial planner can work with you to implement estate tax reduction strategies that give you maximum control over the disposition of your assets.

Business succession planning. If you are an entrepreneur, the decision to keep or sell your firm can significantly affect the strength of your cash flow and overall net worth. By using techniques to develop multiple "what if" scenarios, you'll be well positioned to make the most informed business-succession decision possible—one that reflects your needs, those of your family and those of any partners or employees you wish to include in the process.

Regardless of your goals, the process of cash-flow planning can provide you with the roadmap you need to make informed, confident decisions regarding your wealth and your financial plan. If you have previously reviewed your cash flow, consider conducting a new analysis based on updated information. If you haven't yet, now is the time to run the analysis.

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