chapter3.
FINANCIAL PLANNING

A CHAPTER3 GUIDE

Financial *Guardrails.*

A retirement-income framework designed to help you spend confidently, protect the portfolio during difficult markets and enjoy more of your money when the plan is comfortably ahead.

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Two ways retirement *can go wrong*.

Spend too much and you may run out.

Spend too little and you may reach later life with money you could have enjoyed while your health, energy and family time were still available.

A good retirement-income plan needs to manage both risks.

THE LOWER GUARDRAIL

Protect against running out

If the portfolio falls materially, the planned income reduces temporarily. This gives the investments more room to recover and helps protect the long-term plan.

THE UPPER GUARDRAIL

Permission to spend more

If the portfolio grows materially, the planned income increases. This gives you permission to enjoy more of your money rather than preserving every gain indefinitely.

COLIN'S VIEW

The lower guardrail is there to help stop you running out of money. The upper guardrail is there to help stop you becoming the richest person in the graveyard.

A regular monthly income, *with three simple rules*.

Chapter3 uses **5% as a maximum illustrative starting withdrawal**, where the wider financial plan supports it. It is not a standard or expected rate — the starting income for any client is set by their own circumstances.

The income is normally paid monthly and is designed to feel like a retirement salary.

For example:

Long-term portfolio	**£600,000**
Annual portfolio-funded income	**£30,000**
Monthly retirement "salary"	**£2,500**

The rest of the portfolio remains invested to provide future growth and income.

RULE ONE
Inside the guardrails
The income normally rises each year with inflation, helping its spending power keep pace.

RULE TWO
Portfolio rises by 20%
The portfolio-funded income increases by 10%.

RULE THREE
Portfolio falls by 20%
The portfolio-funded income reduces by 10%.

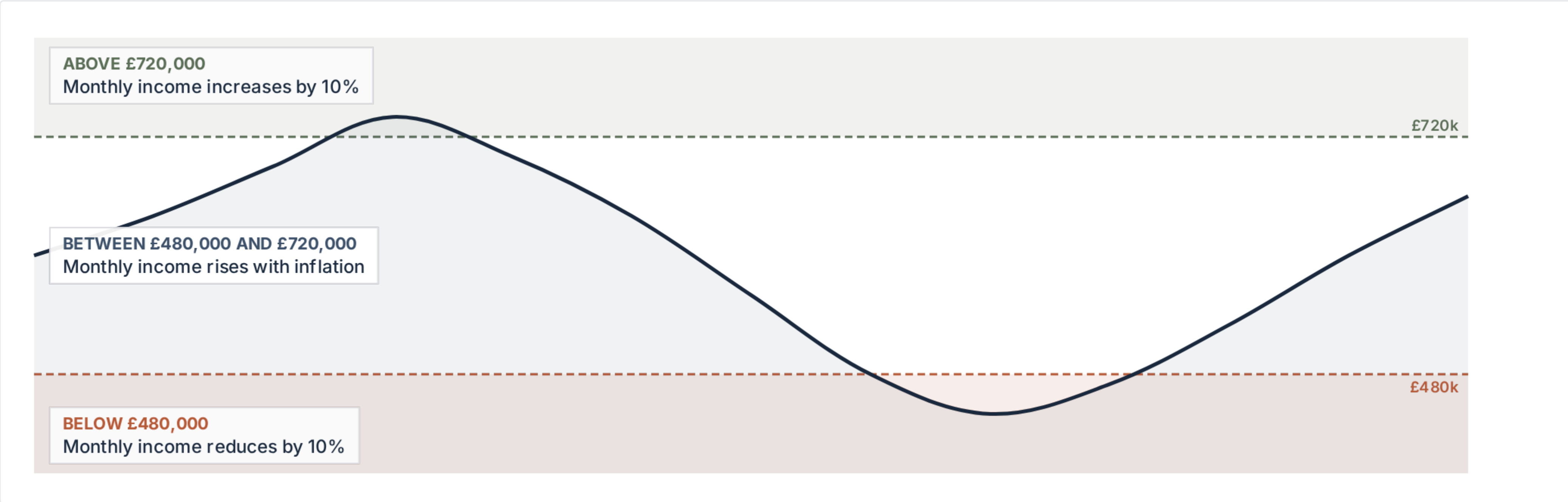
The figures below ignore the normal inflation adjustment simply to make the principle easy to see.

POSITION	MONTHLY INCOME
Inside the guardrails	**£2,500 plus inflation**
Upper guardrail reached	**£2,750**
Lower guardrail breached	**£2,250**

> **The lower guardrail helps protect against running out. The upper guardrail gives you permission to enjoy more.**

Five per cent is Chapter3's maximum starting point rather than a guaranteed safe rate. It is used where the wider financial plan and the client's ability to accept temporary reductions support it.

The rules are agreed *before markets become uncomfortable*.



> **The guardrails do not predict what markets will do. They give us a clear response after markets have moved.**

When markets fall, *we stop selling*.

This describes how we build retirement income plans for clients who hold a cash reserve. It is an approach, not a universal investment rule, and its suitability depends on the wider financial plan.

Most of the time, your monthly retirement income is paid from the investment portfolio.

But when markets have fallen sharply, selling investments to fund this month's spending can lock in losses at exactly the wrong time.

> *The basic principle is to buy low and sell high.*
> *Selling after a major fall works against it.*

That is what the war chest is for.

Where the wider financial plan supports it, we typically hold around two to three years of the income your investments need to provide in a separate, interest-bearing cash account. A larger cash reserve reduces the pressure to sell in a downturn, but tends to reduce long-term expected returns — so the size is agreed case by case, not applied as a universal rule.

DURING NORMAL MARKETS

Income comes from the portfolio

Your monthly retirement "salary" is funded from your investments in the usual way.

→

DURING A SERIOUS MARKET FALL

Income switches to the war chest

Routine investment sales stop, and the long-term portfolio is left alone and given time to recover.

→

WHEN MARKETS RECOVER

Income switches back

Portfolio withdrawals resume and the war chest is gradually rebuilt.

A simple example

Income needed from investments	**£30,000 a year**
Three-year war chest	£90,000

The war chest is not there to produce the highest return. It is there to provide **resilience**.

> **A temporary market fall should not force you to sell long-term investments on the cheap.**

The guardrails decide how much income you take. The war chest is designed to reduce the pressure to sell investments during difficult markets.

Sarah wants *£52,000 a year to spend*.

Desired household spending	**£52,000**
Secure pension income	**£22,000**
Required from investments	**£30,000**

Figures shown gross of tax; the mix across pensions, ISAs and other accounts is determined by the annual tax planning.

Sarah has a **£600,000 long-term investment portfolio** and a **separate £90,000 cash war chest** — **£690,000 in total**. Her plan therefore provides:

INITIAL PORTFOLIO-FUNDED RETIREMENT "SALARY"

£2,500 a month

THREE-YEAR WAR CHEST

£90,000

In normal markets	The £2,500 monthly income is paid from the portfolio and normally rises annually with inflation.
Upper guardrail reached	The portfolio-funded income increases by 10%.
Lower guardrail breached	The portfolio-funded income reduces by 10%.
War-chest rule active	The agreed monthly income is paid from the war chest rather than through routine investment sales.

> **Guardrails determine Sarah's income. The war chest reduces the pressure to sell investments during significant market falls. Tax planning determines which accounts provide the money.**

Simplified illustration only. Sarah's actual income would depend on her complete financial plan and personal circumstances.

Each year, we agree the income — *and the best way to provide it*.

1. AGREE THE INCOME

At the annual review, we look at:

- what you actually spent;
- the income already provided by pensions and other secure sources;
- inflation;
- the current portfolio position;
- whether either guardrail has been breached;
- whether your needs or circumstances have changed.

Together, we then agree the portfolio-funded income for the following year. That annual amount is paid monthly and is designed to feel like a retirement salary.

2. BUILD IT TAX-EFFICIENTLY

The same net income can be produced in several different ways.

It may come from a combination of pensions, ISAs, cash, general investment accounts and, where relevant, other family assets. Each source has different tax consequences.

We therefore work out the precise mix each year, taking account of:

- the tax bands and allowances available across both spouses;
- pension income and tax-free cash;
- ISA assets;
- investment gains and losses;
- one-off spending;
- the longer-term effect on the family's finances.

Using the wrong accounts, or withdrawing money in the wrong order, can create unnecessary tax running into thousands of pounds.

> **You receive one dependable monthly payment. Behind it, we manage the guardrails, the war chest and the tax planning across the family.**

Find out what retirement income *your money could support*.

A 30-minute introductory call is enough to discuss:

- the lifestyle you want in retirement;
- the pensions and investments already in place;
- the income your portfolio may be able to sustain;
- how Financial Guardrails and a war chest could work for you.

There is no need to prepare a detailed plan before the call. A rough idea of your pension and investment values and the annual income you would like is enough to begin.

If the approach looks relevant, I can explain how I would model it properly around your circumstances.

Book a 30-minute *introductory call*

BOOK YOUR CALL

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No fee for the introductory call. No obligation to proceed.

Financial Guardrails are a planning framework rather than a guaranteed investment outcome. The appropriate starting income, future adjustments and war-chest size depend on individual circumstances, including age, health, investment risk, tax, secure income, fees, inflation, spending flexibility and the expected length of retirement.

Investments can fall as well as rise, and clients may receive back less than they invest. Past performance is not a reliable guide to future returns. Tax treatment depends on individual circumstances and may change. This guide is general information and does not constitute personal financial advice.