

F203 Retired with Questions: Preparing for retirement without a pension

How we did it, so far

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Topics

- Creating the Plan
 - What will life be like, how do we fund it
- Budgeting
 - Not a bad word
- Income
 - Sources and stability
- Evaluating the plan
 - What makes us believe we'll come out all right
- Managing the plan
 - What, When and How to track things

Creating the Plan

- Looking at the very topics that came up in this group at the first session
 - Where do we want live?
 - How do we want to live?
 - How will that change over time?
 - How will age affect what we want to do vs. what we'd be able to do
 - When will we need to go to independent/assisted living
 - Can we afford it?
 - What income do we have?
 - What income can we generate?
 - Do we have the assets to last?
 - How much do we plan to leave to others?

Creating the plan

1. We started with a simple list
 - Goals: Activities, health, social, intellectual, community, family,....
 - Tactics: For each of the goals above, general descriptions of how to achieve the goal, e.g., “Travel to visit family members regularly”
 - Implementations: Specific actions to be taken

2. Fleshed it out with some templates from OLLI courses
 - Investment goals, family documentation, and others

3. Asked financial advisors if their companies had a planning template
 - Settled on: Fidelity’s Wealth Planning Overview at
 - <https://www.fidelity.com/wealth-management/wealth-planning> or at
 - https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/Generic_WPOFIN.pdf

Creating the Budget

- The key idea
 - How could we tell if our money would last if we didn't know how much we spend
- We created a simple budget structure (in Quicken)
 - Essential expenses (food, housing, health, etc)
 - Discretionary expenses (hobbies, travel, et)
- We used history as a guide to estimate future spend
 - Looking at checking account and credit card statements.
 - How much did we spend on various items while we were still working?
 - How much did we spend on those items over the last few years?
 - What about spending that wasn't recorded (mostly ATM withdrawals)
- How much do we expect to spend in retirement?
 - How much more will we spend? (fun, health, etc.)
 - What will be less?
 - Will things change in our 70s? Our 80s?
 - When will we plan to be in Independent or Assisted Living?
 - Will we downsize our house before Independent/Assisted Living?
- To check things made sense, we compared actual spend to the budget for a few years

Income – “Generating the paycheck”

- The key is to be comfortable with the plan
 - For us it’s variation of the “bucket plan”
 - Needs
 - 60s: Get most cash flow from investments.
 - 70s: Harvest regular cash flows along with investments
 - Regular flows include a small pension, annuities and SSA
 - 80s+: Deal with inflation eroding pension and annuities. Also manage changes in expenses.
 - Plan for the portfolio
 - Make sure there is very safe portion for cash flows until 70
 - Make sure the rest of the portfolio is structured for long term growth
 - Be prepared to spend down the entire portfolio after age 85

Evaluating the financial plan

- What make us believe we'll come out all right
 - Experience with tracking our spending
 - Rules of thumb (3-4% rule)
 - Evaluations by multiple sources
 - Experience of acquaintances
 - Simple straight line analysis
 - Portfolio return vs. inflation
 - “Monte Carlo” Simulations
 - Various sites I heard about through OLLI
 - Fidelity Retirement Income Planner

Simulation Example

Fidelity's Retirement Income Planner

(complicated version)

- **Inputs**
 - External Income and sources
 - With changes over time
 - Including one time incomes
 - Investment Assets
 - All assets in all accounts
 - Expenses
 - By category and subcategory
 - Varied over time
 - Including infrequent large expenses (eg, a car)
 - How long we each expect to live
- **Outputs**
 - Assets remaining at end or shortfall
 - Year by year expenses, taxes, income, RMDs and asset balance
 - Some risk warnings
- **What if's**
 - The input values were different
 - Inflation were higher
 - We changed our asset allocation mix
 - We sell our house
- **What it does**
 - Runs 250 simulations of market returns against my portfolio
 - Calculates RMDs needed
 - Simulates yearly withdrawals from accounts in a tax appropriate way
 - Estimates taxes on assets and withdrawals (poorly)
 - Escalates expenses by inflation (with healthcare much more than everything else)
 - Throws away the worst 25 results (10% of the simulations)
- **Risks**
 - Are the simulations reasonable approximation of the future?
 - Will my assets behave like the market averages
 - Are my estimates of future spend close

Managing the plan

- Monthly
 - Track this year's spend vs budget
 - Discuss changes in spend for this year
 - Check up on “action items”
 - What if..., Don't know about..., Maybe we should look at...
- Quarterly
 - Track investments and income
 - Track actions we are taking against goals
 - Track risks and what we are doing about them
 - Track Assets vs. Plan
- Semi-Annually
 - Rebalance investment portfolio
- Yearly
 - Reward ourselves for the work we do
 - Review goals, strategies and tactics and adjust them
 - Update the budget