

# **F203 Retired with Questions:** Preparing for retirement without a pension

How we did it, so far

Lou Coglianesi

January 2016

# Topics

- Creating the Plan
  - What life would we like to lead?
- Budgeting
  - What do we expect to spend for that life?
- Income
  - Where will it come from and can we count on it?
- Evaluating the plan
  - What makes us believe we'll come out all right?
- Managing the plan
  - How do we know if we are on track?

# Creating the Plan

*aka You can't hit what you can't see*

- We looked at the same topics that came up in this group during 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 enough assets to last?
  - How much do we plan to leave to others?
  - Can we do this ourselves?

# Creating the plan

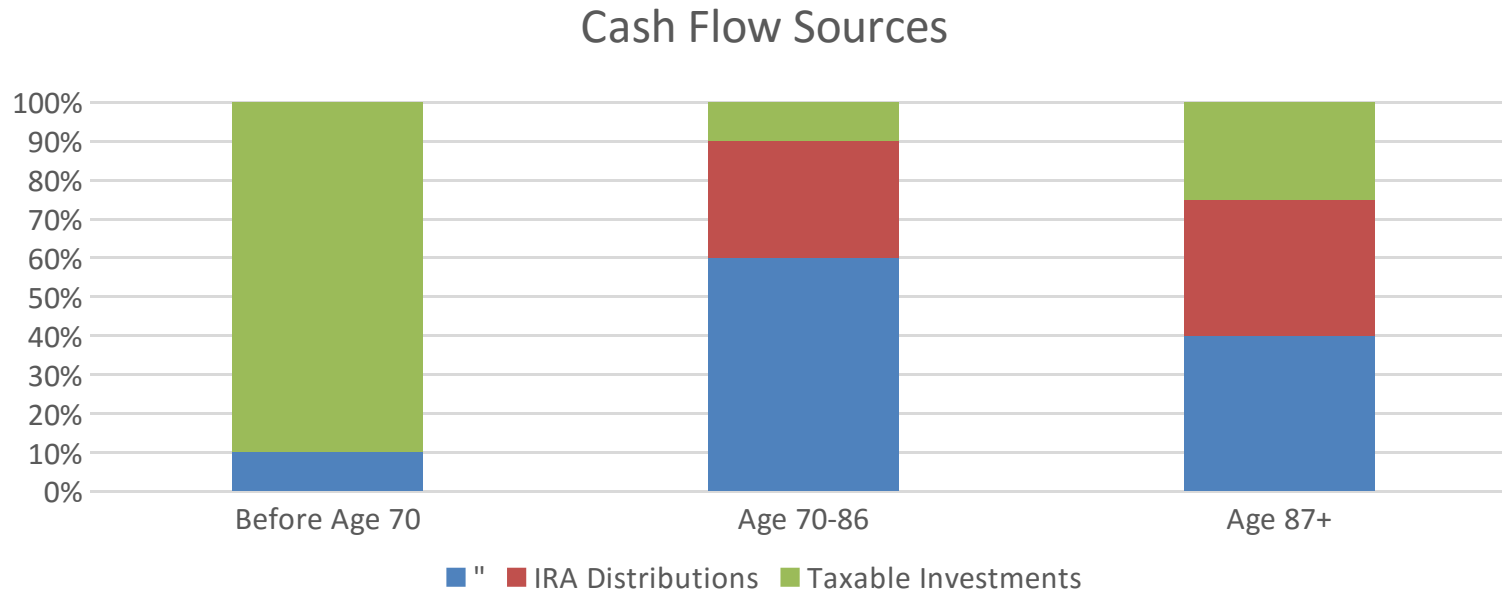
- We started with a simple list
  - Goals:
    - Activities, health, social, intellectual, community, family,....
  - Strategies:
    - For each of the goals above, general descriptions of how to achieve the goal,
    - e.g., “Travel to visit family members regularly”
  - Tactics:
    - Specific actions to be taken
- Fleshed it out with some templates from OLLI courses
  - Investment goals, family documentation, and others
- Asked financial advisors if their companies had a planning template

# Creating the Budget

## - the expense side

- 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 (from Quicken)
  - Essential expenses: food, housing, healthcare, etc.
  - Discretionary expenses: hobbies, travel, etc.
- We used history as a guide to estimate future spend
  - Looking at checking account and credit card statements.
  - 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? (besides dry cleaning)
  - 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?

# Income – “Generating the paycheck”



- To be comfortable with our investments we needed to:
  - 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 sure there are guaranteed sources to cover essential expenses to age 86
  - Be prepared to spend down the entire portfolio after age 86

Note: “Guaranteed Sources” are streams of income that do not depend on the market, e.g., Social Security, Pension, Annuities

# 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
  - Assessing risks and doing what mitigations we can
  - Keeping some assets in reserve

# 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



# Appendix

- Resources

- 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](https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/Generic_WPOFIN.pdf)

# Monte Carlo 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 if we moved

- **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