

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 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

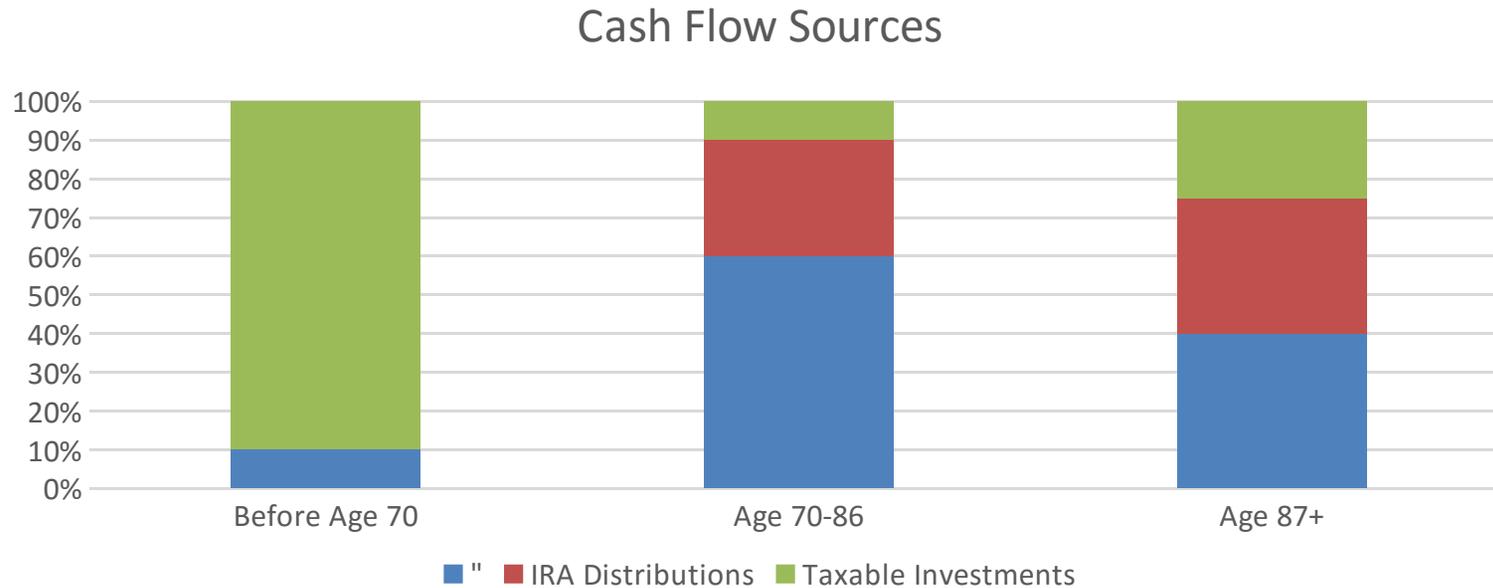
- We started with a simple list
 - Goals:
 - Activities, health, social, intellectual, community, family,....
 - Strategies:
 - For each of the goals above, general descriptions of how to achieve the goal,
 - e.g., “Travel to visit family members regularly”
 - Tactics:
 - Specific actions to be taken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

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