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
    or at
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 (e.g., 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