

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 kind of 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**
 - What, when and how do we track things ?

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 the assets to last?
 - How much do we plan to leave to others?
 - Can we do this ourselves?

Creating the plan

- We started by brain-storming & writing down a simple list
 - A general list of the concerns & ideas swirling around in our heads
- We grouped our ideas into three categories
 - Goals:
 - Activities, health, social, intellectual, community, family,....
 - Strategies:
 - For each of the goals above, general descriptions of how to achieve the goal,
 - e.g., “Visit distant family members regularly”, “Travel to places we’ve always wanted to go”
 - Tactics:
 - For each strategy, what would we do to accomplish it
 - E.g., Travel tactics: Two long vacations per year – one international, one domestic. Also do several short trips each year

Creating the plan

- We augmented the list with information from other sources
 - Templates from other OLLI Financial courses
 - How to structure investment goals,
 - How should we document information for our family,
 - And other topics
 - Planning templates from financial advisors e.g., *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

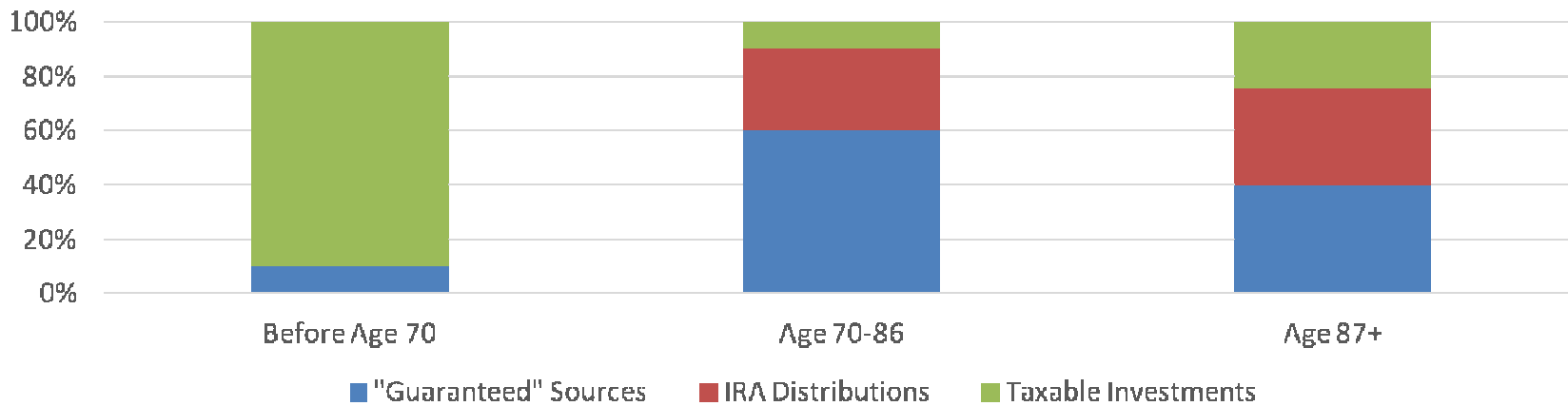
Creating the Budget

- How to tell if our money will last if we don't know how much we spend?
- We created a simple budget structure (in Quicken)
 - Essential expenses (food, housing, health, etc)
 - Discretionary expenses (hobbies, travel, etc)
- We used history as a guide to estimate future spend
 - Looking at checking account and credit card statements.
 - Also looked at spending that wasn't recorded (mostly ATM withdrawals)
 - Looked at how often we had big purchases (cars, furnaces,...)
- We then asked: How will our expenses change 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?
 - Answered in 2016: No, hopefully not

“Generating the paycheck”

- aka Where will the money come from?

Cash Flow Sources



	Before 70	Ages 70-86	Ages 87+
Key Idea	Have a safe source of cash flow Generate long term growth for longevity	Guarantee essential expenses are covered Assure that we can generate RMDs	Spend down both non-IRA and non-IRA investments
Non-IRA Investments	Bonds & cash for 5 years of expenses Remainder set up for long term growth	Set up for long term growth Harvest dividends as needed Keep just enough cash to smooth out bill pay	Likely to be like "Before Age 70" but too far away to predict
IRA Investments	All IRA assets set up for long term growth	Set up to generate RMDs either: a. Corporate bond ladder 5-10 years, with Remainder structured for growth b. Harvest dividends from funds	Likely to be like "Ages 70-86" but too far away to predict

Note: “Guaranteed Sources” are a mix of Social Security, Pensions, Annuities
 “IRA Distributions” are Required Minimum Distributions

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 (see appendix)
- Assessing risks and doing what mitigations we can
 - E.g., Keeping some assets in reserve
 - We aren't depending on the assets from the sale of our house
 - We plan a yearly “escrow” savings deposit for unexpected expenses

Managing the plan

- How do we know if we are on track?

- 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...
 - Look at budgetary risks
- Quarterly
 - Track investments and income
 - Track actions we are taking against goals
 - Track risks and mitigations
 - 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
 - Review long term risks and mitigations
 - Update the budget

Appendix: 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