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](https://www.fidelity.com/wealth-management/wealth-planning) or at
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**

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

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 (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 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

• 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