

F201 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 many of the same topics that came up in this group and with previous groups
 - 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 our lifetime?
 - How much do we plan to leave to others?
 - Can we do this ourselves?

Creating the plan (2)

- 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:
 - Health, social, intellectual, community, family, activities....
 - Strategies:
 - For each of the goals above, general descriptions of how to achieve the goal,
 - e.g., “Visit distant family members regularly”,
 - Or “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/visits each year

Creating the plan (3)

- 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/bin-public/060_www_fidelity_com/documents/Generic_WPOFIN.pdf
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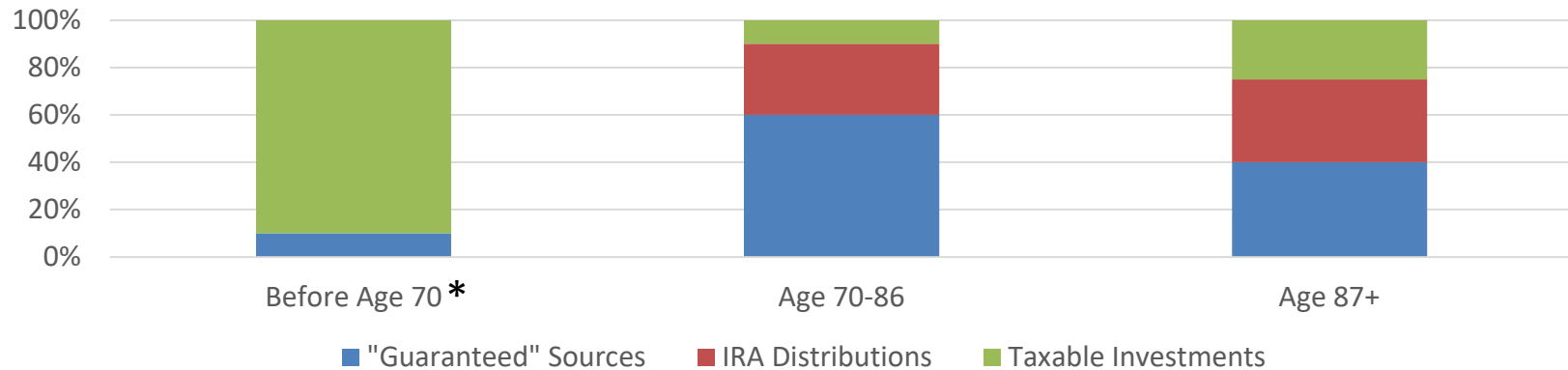
Creating the Budget

- 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 lifestyle & 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? Our 90s?
 - Answer: As we age, less discretionary spend, more essential spend for healthcare and living
 - When will we plan to be in Independent or Assisted Living?
 - How will we handle unexpected expenses?
 - Will we downsize our house before Independent/Assisted Living?
 - Answered in 2016: No, hopefully not
 - Built a new house in 2016 with 95% of our frequently used living space on the main level.

“Generating the paycheck”

- aka Where will the money come from?



	Before Age 72	Ages 72-86	Ages 87+
Key Ideas	<ol style="list-style-type: none"> 1. Have a safe source of cash flow until SSA & RMDs kick in. 2. Have a growth portfolio for longevity 	<ol style="list-style-type: none"> 1. Cover essential expenses from guaranteed sources and RMDs 2. Assure that we can generate RMDs efficiently even in down markets 	<ol style="list-style-type: none"> 1. Spend down both Taxable and IRA investments 2. "Bounce our last check"
Taxable Investments	<ol style="list-style-type: none"> 1. Cash flow from investment dividends and Muni bond ladder dividends and principal 2. Growth via a diversified portfolio of tax efficient assets 	<ol style="list-style-type: none"> 1. Tax efficient, diversified growth portfolio 2. Have enough cash to smooth out bill pay 3. Keep cash for emergencies emergencies 4. Harvest dividends, if needed, for expenses 	<ol style="list-style-type: none"> 1. Likely to be similar to the "Before Age 70" strategy but too far away to predict
IRA Investments	<ol style="list-style-type: none"> 1. Invest for growth via high risk and tax inefficient assets 2. Convert as much traditional IRA assets to Roth accounts as possible before SSA 	<ol style="list-style-type: none"> 1. Harvest dividends for most of the RMD 2. Sell shares as required for remainder of RMDs and for rebalancing 3. Pull from Roth for emergencies or taxes 	<ol style="list-style-type: none"> 1. Likely to be similar to the "Ages 70-86" strategy but too far away to predict

Note: "Guaranteed Sources" are a mix of Social Security & Pensions. "IRA Distributions" are Required Minimum Distributions

* Needs updating due to the Secure Act of 2019

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 cash from selling our house to meet future expenses
 - We plan a yearly “escrow” savings deposit for unexpected expenses

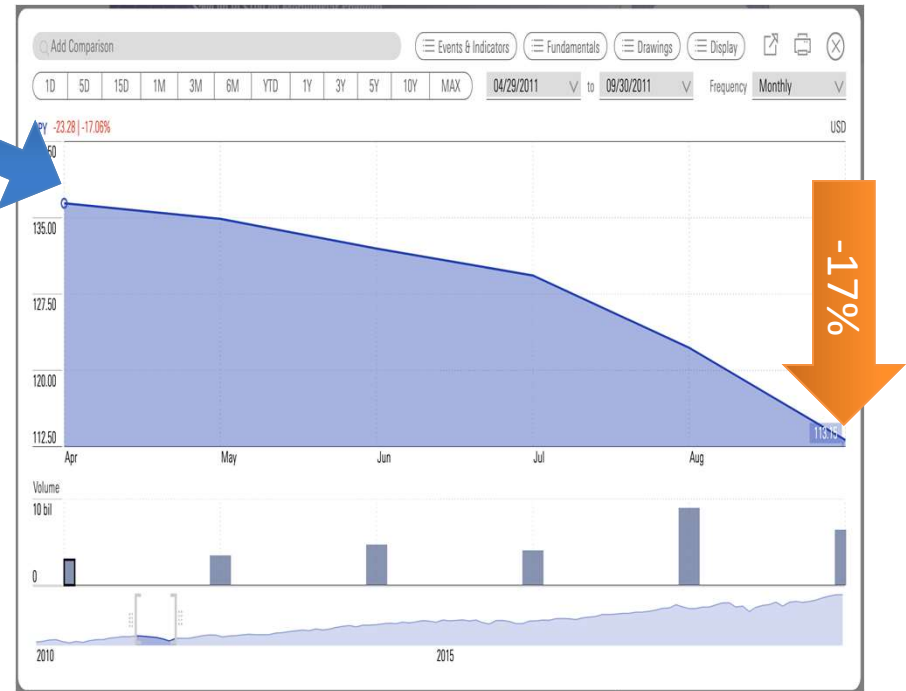
Assessing Risks

Risk	Mitigation strategy
Market (equity)	Have a plan and “dry powder” for market crashes. Simulate impact of permanent loss of investments. Essential expenses covered by guaranteed sources
Market (interest rate)	Manage bond positions through funds
Liquidity	Keep a cash reserve of 6+ months spending over guaranteed income. Hold most bond positions in funds.
Concentration	Diversification
Credit	Minimal exposure to junk and foreign bonds
Inflation	Mix of stocks and bonds
Longevity	Monitor spending and returns through simulations to age 97
Foreign investment	Minimal emerging market exposure.
Emotion - Both Fear and Greed	Focus on goals not returns What-if simulations regularly not at a crisis
Pension and/or SSA	Maintain adequate “At end” reserves
Early demise for one of us	Keep adequate documentation. Investigating portfolio managers. Cross-training. Simulating single scenarios.
Long term care	Self insured. Simulate costs regularly.

The Uh-Oh Moment

The market heads south the day I retire!

- I retired May 2011
- The market started tumbling immediately
- By September, we didn't have enough to make it to age 92!
- So,
 1. We didn't panic (much)
 2. We did some spending & income "what-ifs"
 3. We determined when we had to make changes
 4. The market, in the end, bailed us out



S&P went down 17%
from 4/30/11-9/30/11

Managing the plan

- How do we know if we are on track?

- Monthly (ish) – Focus on this year
 - Track this year’s spend vs. budget
 - Discuss trends in this year’s spend
 - Check up on “action items”
 - “What if...”,
 - “Don’t know about...”,
 - “Maybe we should look at...”, etc
 - Look at budgetary risks
- Quarterly – Focus on the future
 - Track investments and income
 - Track cash flow and cash-on-hand
 - Track assets vs. plan and trends
 - Track actions vs goals
 - Track risks and mitigations
 - Other longer-term topics as needed (taxes, travel, etc)
- Semi-Annually
 - Rebalance investment portfolio
- Yearly – Focus on our goals
 - Are we living the life we planned?
 - 4th Quarter & Year End review
 - Hold an “Off-site” review
 - Go away for 3-5 days depending on the destination
 - Reward ourselves for all our work
 - Review long term risks and mitigations
 - Plan next year’s travel
 - Discuss other important topics
 - Update the budget

Summary: It's a journey

- We started a version of this process the early 2000's
- It has evolved significantly over time
 - Focus has changed as our goals changed
 - Detail has been added when we needed more control
 - Detail was dropped when the work wasn't worth the effort
- But the structure was the same
 - Develop goals for the life we want to lead
 - Put together strategies and plans to meet those goals
 - Review how well the strategies and plans are working
 - Make adjustments as our goals change or as the world changes

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)
 - Reports the 225th best result (“90% Confidence”)
 - Has a few bugs & is just a simulation – not Gospel
- **Risks**
 - Are the simulations reasonable approximation of the future?
 - Will my assets behave like the market averages?
 - Are my estimates of future spend close to correct?
 - The simulation does not include “Black Swan” events like what happened in 2008-2009