Your Winning Retirement Plan

Henry K. Hebeler

Overview

The purpose of this book is to introduce a technique developed by the author Henry Hebeler know as **Autopilot** use for developing and implementing both a saving plan before retirement, and a spend-down plan after retirement to ensure your retirement is fully funded for you life.

- **Chapter 1** Compares some of the more popular planning methods to the Autopilot method using real-world historic data.
- **Chapter 2** Identifies the factors that need to be taken into consideration when developing a plan including Savings, Life Expectancy, Inflation, Taxes and Uncertainty.
- **Chapter 3** Dives into investments covering Asset Allocation, Investment Vehicles and Real Estate.
- **Chapter 4** Is devoted to determining Return on Investment, reviewing factors that need to be considered, and instructions on how to determine what Return on Investment to expect for the asset allocation that represents your portfolio.
- **Chapter 5** Focuses on Preretirement planning, providing a step-by-step detailed instructions in building and implementing your plan.
- **Chapter6** Is dedicated to budgeting and planning after retirement to ensure you set expectations based on what assets you have accumulated, and details a process to re-assess and make appropriate adjustments to ensure a successful implementation of your retirement plan.

Conventions

Orange text in this document represents my thoughts, summary and conclusions. Purple text represents key/new terms. Hyperlinks follow regular conventions with blue underlined text.

Although the author passed away August 21, 2017, and the book is no longer in print, you can probably purchase a used book from Amazon for less than $10. In my opinion this is the best pre and post retirement planning book I have come across and if you are willing to put in the effort of reading and working through the various worksheets in this book you will not only have a realistic idea of what your retirement finances will look like, but you will have a plan on reaching your financial goals in retirement.

This document, recorded meetings/discussions along with spreadsheets I have developed corresponding to worksheets in the book can be downloaded on the Your Winning Retirement Plan webpage on my ArtCentrics.com website.

Disclaimers - Please read this!

- Most data presented here is dated. Tax laws, stock quotes and the general economy changes on a regular basis (yearly, weekly, and daily). Information provided here is just the starting point. It is up to you to ensure you have the latest information.
- Guidance and advice provided here is just my opinion. Guidance and information is just from what I have learned through the years. I have no degree associated with money, and have no certifications associated with finance. Take all information provided here with a grain of salt and verify with other resources before making a decision.
- Your situation is unique - Advice or recommendations provided here may NOT be appropriate for your situation. Financial decisions and investments that a person in their early 20's may be completely inappropriate for someone who is retired. Also investment considerations many times are dependent upon what your total financial resources are. Consider if the advice given is appropriate for your situation.

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Book Introduction

If you are not yet retired, you will be armed with tools that will show you realistic annual savings to meet your goals for all your savings needs, not just retirement. If you are already retired, you will have a competent method that will show you how much you can budget so your investments will last until you reach your goal line. This book does not address detailed insurance and estate plans, which at some point, require attention, but if you take the planning actions in this book, you'll be the winner with a winning retirement plan.

References and Resources

- Financial Planning Association – locate a professional planner
- Analyzenow.com – Hebelers website
- ArtCentrics:
  - Money Matters webpage
  - Your Winning Retirement Plan webpage
  - Class Outline and meeting agenda (This document)

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Chapter 1: The Realities of Financial Planning

Chapter Summary

This chapter points out the importance of having pre and post retirement plans on how to build and spend-down your nest egg. It identifies risk of out-living your savings and provides real-world scenarios on how some of the various approaches would have faired in different historic market conditions. Common mistakes and incorrect assumptions that many plans make are identified. A side-by-side comparison on how theses methods would have performed in comparison with the Autopilot method is provided.

References and Resources

- YouTube (Video 53min): Frontline: The Retirement Gamble
- PBS Planet Money(Audio – 22min): Episode 688 Brilliant Vs Boring
- Global Financial Data website.
- The Motley Fool: The Miracle of Compound Returns
- Analyze Now
  - 100 years of inflation history (excel spreadsheet)

Terms and Concepts

- Cost of Living Adjustments (**COLA**) – Adjustments made to a pension payout to counter rising cost of goods and services due to inflation.

- Dollar Cost Averaging – A phenomenon that benefits savers who make regular savings deposits. Deposits made when the market is low generate more growth than an equal number of deposits made when the market is high. The net result is a larger overall growth rate than would be predicted using steady market conditions.

- Feedback – The method of making periodic minor changes to a retirement plan based on current inflation rates and market performance.

- Postretirement Plan – Plan that tells how to control their financial matters so that their investments will support them until they die.

- Preretirement Plan – A road map that details how much to save, identifies the appropriate mixture of investments, and sets lifestyle expectations in retirement.

- Retirement Autopilot – The concept of applying airplane control technology to financial planning where compensating equations are applied to provide stability to your retirement to avoid large swings in savings requirements as market conditions fluctuate.

- Reverse Dollar Cost Averaging –The opposite of Dollar Cost Averaging, in Retirement when money taken out of an account on a regular basis receives a lower rate of return in a fluctuating market. Most retirement models to not take this into consideration.

- The Miracle of Compound Growth – The concept that even small amount of money can increase greatly over time when interest is applied to the funds.

Real-World Planning Problems

Mistake 1: Adding Apples and Oranges – Many plans assume pensions include Cost of Living Adjustments (COLA); Most do not. Even when plans do have COLA's they are generally capped at 2-3%. Although Social Security does include COLA adjustments these don't even keep up with inflation in the real world. The overall impact of this is that over time the purchasing power of money received from a pension plan and even Social Security is eroded.

Figure 1.1

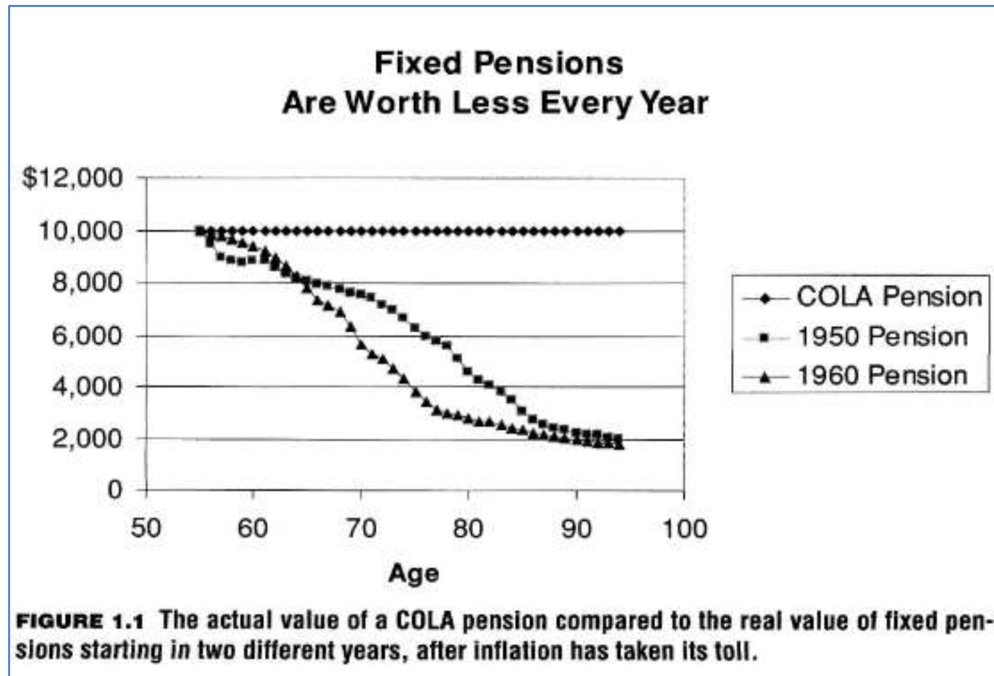

FIGURE 1.1 The actual value of a COLA pension compared to the real value of fixed pensions starting in two different years, after inflation has taken its toll.

Mistake 2: Assuming the Real World is Smooth – Many planning programs assume a theoretical constant inflation and return on investments. In practice, this will not provide a valid scenario when planning retirement. In the chart below a $1,000,000 retirement fund is spent at age 85 using historic values for market returns and inflation. Real world data from 1950 (good time to retire) shows the funds would run out at age 96. While Real world data from 1960 (bad time to retire) shows funds running out at about age 76.

Another issue identified by Hebeler is that many Funds and investment planners tend to give absolute rate of return values when trying to make a sales pitch. This can be very deceptive if inflation is not included. For instance a fund with 6% growth but with a 4% inflation for the year is actually only gaining 2% growth when it comes to spending power.

Figure 1.2

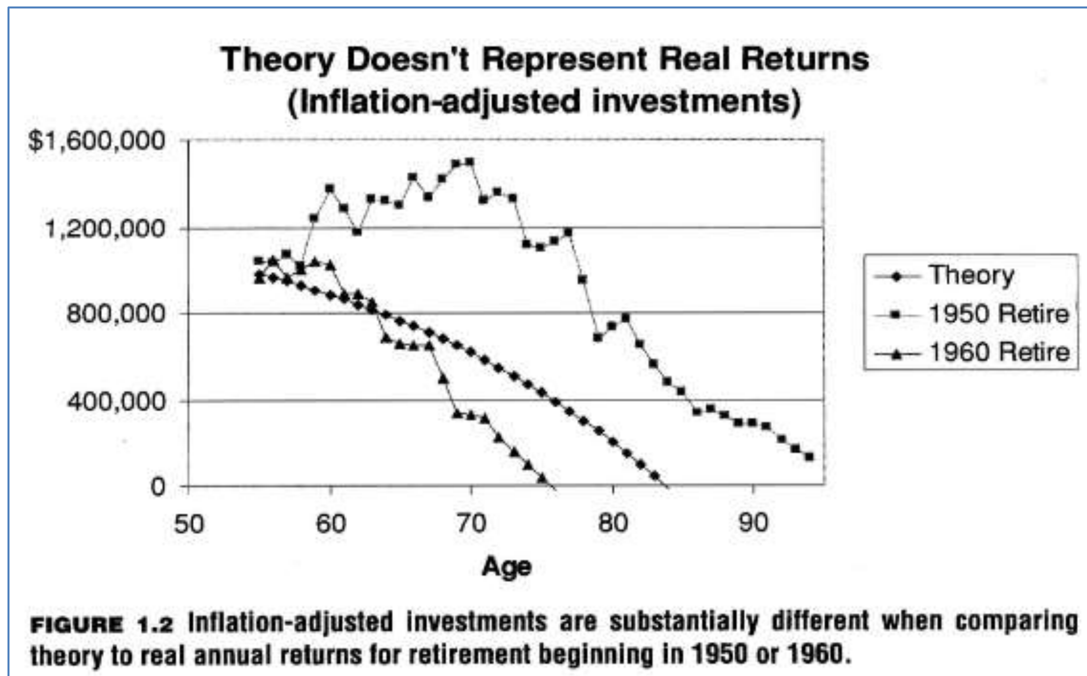

FIGURE 1.2 Inflation-adjusted investments are substantially different when comparing theory to real annual returns for retirement beginning in 1950 or 1960.

Mistake 3: Ignoring Investment Cost – Many paid planners and investment funds will not include their fees when providing projections of or histories of their plan/fund returns. Using the same historical data from Figure 1.2 in figure 1.3 but including a 1.5% fee, we can see that the age when funds run for the 1960 retirement scenario from 76 down to 73 (**3 years decrease**) while the 1950 retirement scenario has been decreased from 96 to 85 (**11 years decrease!**). You may think that a 1.5% charge is overstated in this scenario, but consider if you are paying a retirement planning company 1% fee (which is not uncommon) that does not include fees associated with funds that the retirement planner may be using. These combined fees may very well be in the 1.5% range. Another point of interest is how over time the fees really start to impact your return, where the difference in the 1950 vs the 1960 scenario shows a 12 year difference, but the impact of the fees goes from 3 years to 11 years (8 years difference!) over those 12 years.

Figure 1.3

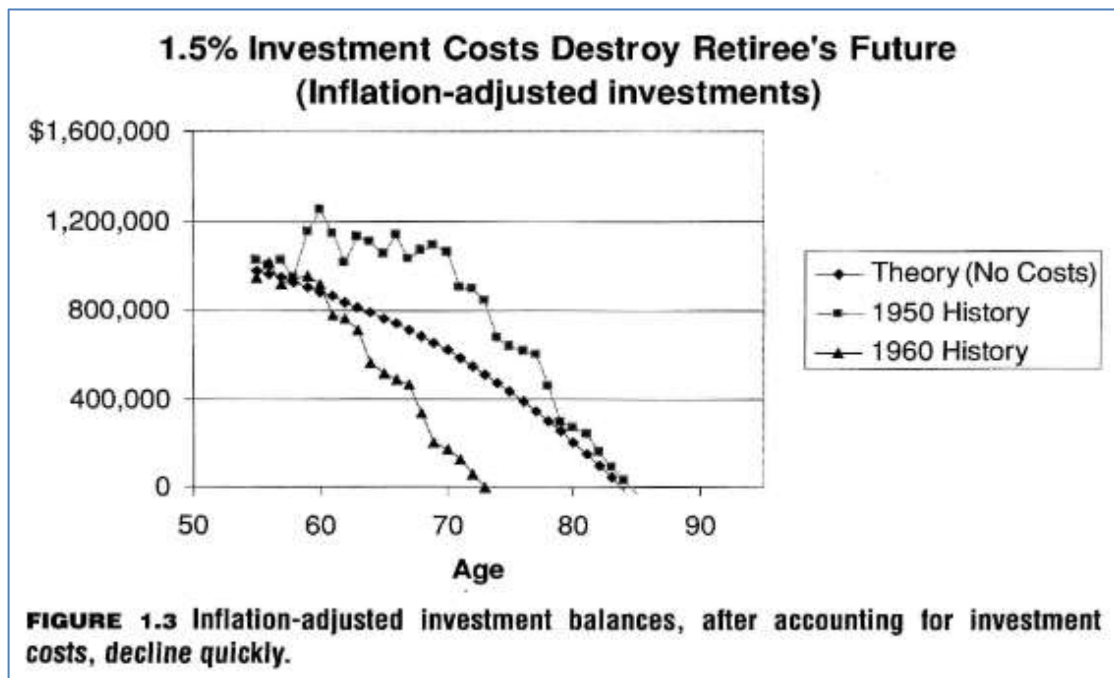

FIGURE 1.3 Inflation-adjusted investment balances, after accounting for investment costs, decline quickly.

Mistake 4: Not Defining Your Terms – It is important to take into account taxes when planning both for saving for retirement and in retirement. Remember while getting a tax break when contributing to a tax differed plan (ie 401k, IRA, etc.) the taxes will be due on these investments once you start to withdraw from these accounts. With Roth accounts the taxes are paid up front allowing growth and gains to go untaxed when withdrawn. After tax investments straddle these two where gains are taxed at different rates based on the time the investment was held.

Mistake 5: Using Calculations without Shock Absorption – Market fluctuations can make severe impacts to your retirement planning especially in immediate years just before and after retirement. For example lets say you are nearing retirement with $2,000,000 and the market takes a 30% dive for the year, as a result your $2,000,000 has now decreased to $1,700,000 (assuming you only had about $1,000,000 in the market) you have just seen a decrease of your retirement savings of 15%. This could severely impact your retirement plans! One of the primary focuses of this book is to provide a method to dampen these shocks to your retirement plans.

Mistake 6: Ignoring the Effect of Reverse Dollar Cost Averaging – Dollar cost averaging is the phenomenon when saving for retirement a person invest on a regular basis in a stock they will get better returns than the overall average over time since they purchase more shares when a stock drops. Reverse Dollar Cost Averaging is the exact opposite in retirement where a constant withdraw from an investment sees lower returns over time than the average since you are selling **more** shares when the price drops. This is exhibited in Figure 1.4 where it compare the ending balance after 10 years where a 23% loss occurs on the 2nd year followed by a 37% increase in year 3, still providing a 7% overall average return but as you can see with the funds depleted about 1 year earlier than if the returns were constant over this time period. Hebeler points out that retirees average about 0.5% less return than pre-retirement savers.

Figure 1.4

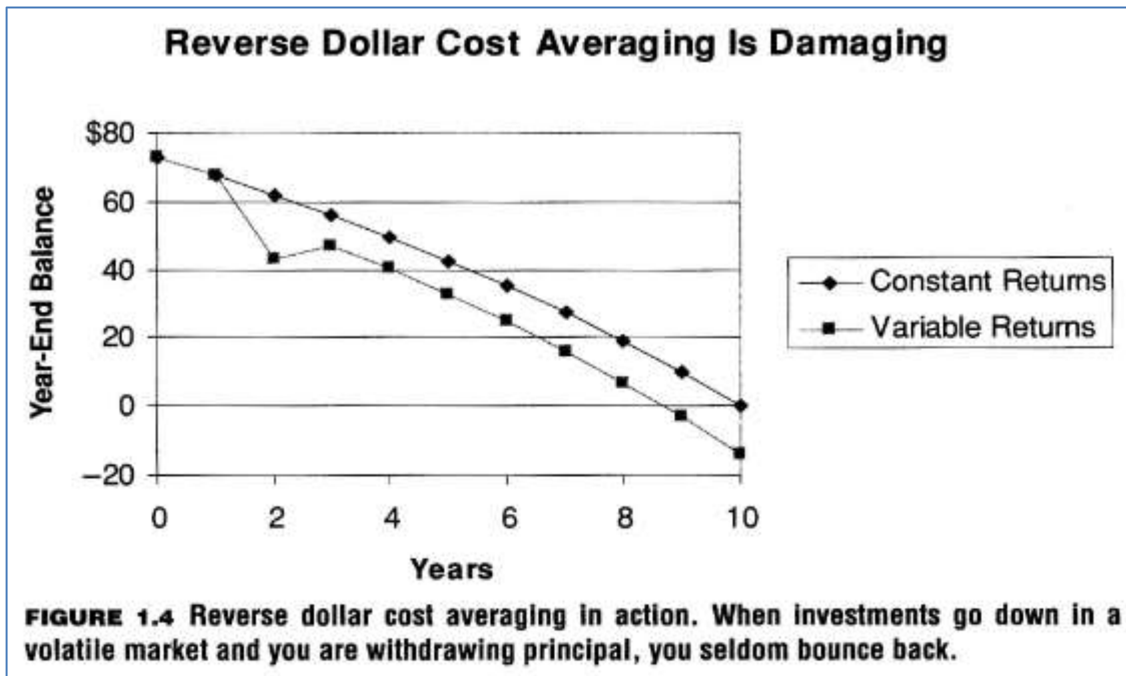

FIGURE 1.4 Reverse dollar cost averaging in action. When investments go down in a volatile market and you are withdrawing principal, you seldom bounce back.