Manual for New

Pre and Post Retirement Planner

including author's perspective.

The program's objectives:

If you are working, this program is designed to help you with how much to save. If you are already retired, it is designed to help you with how much you can spend without exhausting your investments before you die. More important, it is a program to help you make better financial decisions. How does it do this?

Overview: This amazing planner is unique in many ways.

1. It has TWO programs working in parallel so that you can COMPARE alternatives such as:

> Which of any ages from 62 to 70 is the best in your case to start Social Security?
> What if Social Security doesn't keep up with inflation?
> What if Medicare deductions from Social Security increase faster than inflation?
> Which pension survivor alternative is better for my spouse?
> Will survivor benefits be sufficient?
> Will an immediate annuity be a good alternative fixed-income investment?
> Will a higher stock allocation be worth the risk?
> How much, if any, life insurance should I have?
> Should I buy long-term-care insurance?
> Is a house or condo a good investment?
> With the Special Events tab, you can make even more comparisons of alternatives.

2 . It has a Special Events tab which lets you enter any cost or income at any age you want. Each of those entries can have its own growth rate. It has entries for life insurance and long-term-care. It also has provisions to enter a series of cost or income events over a specific age span with an individualized growth rate.

3. You can select death ages for either spouse and see the resultant survivor's affordable budgets including effects from Social Security and pension survivor benefits, life insurance income or long-term-care costs.

4. You can see what would have happened had you gone back in history and retired in both one of the best years to have retired (1948) and one of the worst (1965). These scenarios use the actual year-after-year values for returns and inflation. And you can enter your own guesses for what you think will happen to returns, inflation and tax rates in the future.

5. You can select your own mix of stocks, bonds and money markets and associated investment costs and see how investment allocations and costs affected the 1948 and 1965 scenarios.

6. There is a Comparison tab that allows users to enter their own chart titles and legend descriptions. This is important not just for decision making but also for articles or reports comparing different alternative retirement strategies.

 7. There is a tab where you can not only record your investment history, but it automatically calculates your total before-tax return for the previous year and a cumulative return over all of the history you have entered. You'll be able to see whether your past results are comparable to the market performance or if you have been doing better or worse.

8. It is a financial education tool. For example, it explains the pension entries which are often misunderstood in most planning programs. It shows how your investments might grow in different scenarios or how your purchasing power changes with inflation.

9. If you believe that Social Security's and a COLA pension's inflation adjustment or their various deductions will be lower or higher than your personal inflation rate, you can enter that difference.

10.   And miracle of miracles, there is this manual you can print.

But the most important thing of all is that it's two computer programs running in parallel so that you can COMPARE results for alternative choices or thing that can happen and therefore make better decisions considering your savings and the retirement spending level you select. Simply use one value for Case 1 and another for Case 2.

The download is only about 2 mb because it relies on the power of the full version of Microsoft's Excel (or Mac version). You do not need to know how to use Excel for this program because the Excel operating system is hidden in the background. There are instructions and examples below of the few quirks you should understand.

New to Excel? **Here are some Excel features we have incorporated:**

You can only make entries in the blue cells. The other cells are locked so as to protect the the program and licensed material. In some instances you will use controls by putting the point of the mouse cursor and left click to change values. This permits rapid evaluation of alternative inputs. **Do not drag values into other cells. Use the delete key and type in a new entry.**

You can add your own notes in the blue cells on the right hand margins of most of the tabs.

Try this here if you'd like. **Note, blue cells and buttons are inactive in the pdf printed version!**

Notes:
Simply type over this example to try. Text can extend beyond the cell.
You can also type in formulas in the notes. See example below.

4	<Select this cell with your mouse cursor and see formula in tool bar.
4	<You use the * to signify multiplication instead of x. Divide is the simple /.

You can quickly tell when Case 2 is different than Case 1:
If you enter a value for Case 2 that is different than Case 1, the Case 2 cell will turn to a bright red. If you change a Case 2 cell using an arrow key to a different value than Case 1, the cell will not change color, but you can easily see the difference. You can try each of these below:
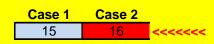
Case 1	Case 2	
15	16	<<<<<<< I

If the Case 2 cell is different than Case 1, it will be red!
You can type entries in red cells just as you can
blue cells--except when the red cell is next to
an arrow as below. Then you must click on the arrow.

Case 1	Case 2	
50	50	<<<<< Click on the arrow and watch it turn red.

Case 2 will always equal Case 1 unless you have overtyped them:
The default settings all have an equation in the Case 2 setting so that they will all be equal to Case 1 _unless you purposefully change Case 2 values_. If you enter a different value in Case 2 it will delete the underlying equation that makes Case 1 equal to Case 2.

Don't worry about this. If you want to enter the same value as Case 1, you can either simply type the Case 1 value in Case 2, or you can return it to the default equation. Let's see how.

Case 1	Case 2
15	16

<<<<<<

To restore Case 2 to its default value so that it will always equal Case 1, click on the Case 2 cell. Type = in that cell. Before tapping Enter, click on the Case 1 cell. Then Enter. It will turn blue if same value.
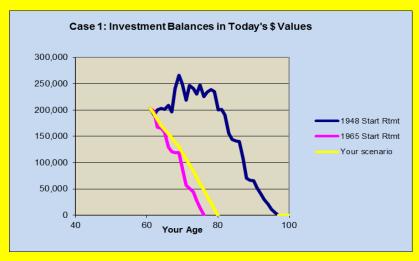
If you want to print pages:
Use Print Preview to decide which pages to print. Otherwise you may get lots of blank pages. Some tabs will look better in landscape format rather than portrait. Use Page Setup for this.

Save the original copy of this program.
We suggest that you save this original copy without change and then save it to a new file name on your hard drive so that if something happens you have the original program and its password.

Now for the important stuff!

On the Results tab, you will see two charts like that below. One chart is for Case 1 and the other for Case 2. Each chart has three lines, each based on a different scenario.

The three scenarios:

1. The results of your own choice for returns and inflation.

2. The results from an historical scenario that started with retirement in 1948. This was a very good year to start retirement as you will see because it had one of the best combinations of high returns and low inflation in the years that followed 1948. This scenario uses the actual historical returns and inflation for each year from 1948 on.

3. The results from this historical simulation beginning with retirement in 1965 represents one of the worst years to retire. In the years that followed, inflation was high and real returns lagged. This scenario also uses the actual historical returns and inflation for each year from 1965 on.

The Results tab charts the remaining investment balances at the end of each year.. To avoid running out of investments before running out of life, you can adjust your inputs, particularly annual spending so that you draw down investments more slowly. In the event that your investments may last far beyond the age you may live, you can increase spending until you see the investments disappear at what you consider to be a conservative planning age.
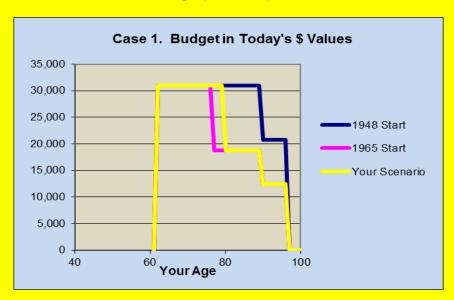
The investments are shown on an after-tax basis, that is, the sum of all of your investments less the uncollected taxes that are due someday on the deferred-tax investments like an employer savings plan or an IRA. The program calculates the tax using whatever you specified

as the average tax rate, not what would be your ordinary tax rate on a very large draw. The reason for using after-tax balances is to be able to give you the perspective of your share of investments without including Uncle Sam's share.

Investment balances, as all entries and results, are shown in today's dollar values. This, too, is to preserve perspective. For example, $100,000 in 20 years with 3% inflation is worth only about $55,000 in today's values or $30,000 in 40 years. Many financial programs mislead people showing future values to impress people with the results of the things they are promoting.

Once you exhaust investments, your spending will be limited to Social Security, pensions,` trusts, part-time work and perhaps what you can get from the equity on your home. The latter will be true only if you choose not to enter your home as a retirement resource in this program.

The In Conclusion tab demonstrates the income you can expect after exhausting investments. You can change the major inputs on this tab as well to see how inflation and other factors effect results. Note how much longer your money lasts with the 1948 start.

Case 1. Budget in Today's $ Values

Another unusual and important feature of this program is its coping with Special Events.

There are many things that are one-time or infrequent expenses such as purchasing a new car or replacing the roof or buying a vacation home. You can do this easily for any age of your life on the Special Events tab. These can either be income or cost events, and you can enter your own growth rate for each. All entries should be in today's dollar values unless you have a specific dollar value for a future year. In this case you would enter zero growth rate.

The Special Event tab includes an entry for uninsured Long-Term-Care costs. If you choose to make an entry here, you can enter your own assumption about how these costs grow. Importantly, the cost will be entered in the year before you die (even if it could represent several years of long-term-care). So, when you vary the age of either spouse to die, this cost will move with the death age--something it would not do if you entered such costs at a specific age.

Similarly, life insurance benefits on the Special Events tab will move with the death ages.

Further, the Special Event tab has provisions for a period of costs or income that might cover a number of years. This can be used to represent another pension or the costs of a contract you already hold.

Advance users can link the Special Event tab with other worksheets that contain equations or other data.
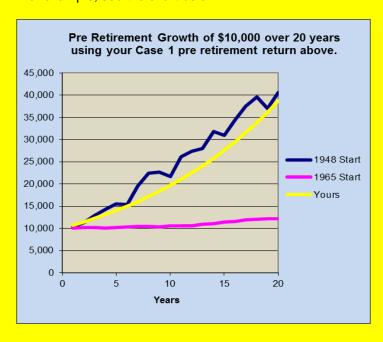
Inputs with perspective:

Along the way, we will show you what may be practical bounds for returns and inflation inputs. For example, we will show you how your combination of mix of investments and their costs grew or declined using each of the three scenario returns.

The Income tab shows illustrations of your time histories of inputs such as those for pensions and Social Security as well as survivor amounts based on the conditions you select on later tabs.

The Investments tab is a convenient way to update your balance information and see how the resulting allocations might match your allocation control percentages.
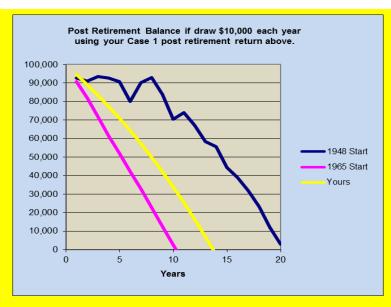
The Real Estate tab lets you enter potential sales dates and see cash you might get as well as the values that the program will use from these inputs.

The Returns & Inflation tab gives you illustrations showing the implications of your choices. For example, see the chart below:

In this case, if you chose a return that was close the 1948 Start, you likely would be using a very optimistic pre retirement return assumption compared to historical results. Or, if you chose a pre retirement return close to the 1965 case, it's possible that you might be too conservative.

Post retirement returns are not well understood, even by professional financial people. For some reason (perhaps they don't want to know), they ignore reverse-dollar-cost-averaging. They know that if you always make regular deposits to an investment that you will get an effective higher return than from a one-time deposit. That's dollar-cost-averaging where you buy more shares when the stock values are low and less shares when stock values are high. Yet retirees do just the opposite! They make regular withdrawals and suffer the reverse effect that can easily cost them 1% of the kind of returns quoted by a mutual fund. For this reason, we show an illustration of how your post retirement return would compare with the 1948 and 1965 scenarios in a regular withdrawal scenario. See the example below:

Post Retirement Balance if draw $10,000 each year using your Case 1 post retirement return above.
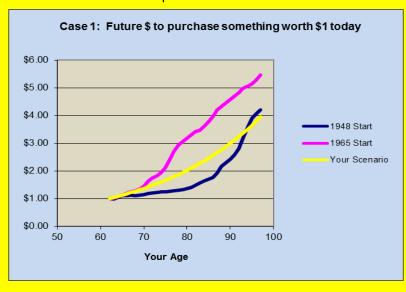
Once again, if your post retirement return assumption is too close to the 1948 scenario, you are probably being optimistic by historical results--or perhaps too conservative if very close to the 1965 scenario. Remember the 1948 and 1965 scenarios are based on your mix of stocks, bonds, cash (money markets) and your input for investment costs.

The 1948 and 1965 scenarios use actual returns and inflation from the year you retire corresponding to your stock/bond/cash allocations and associated costs. You enter your own return and inflation assumptions for Your Scenario.

Inflation assumptions:

Inflation has an extraordinary influence on retirement expenses, so your assumptions are really vital.

Again we offer some help by comparing your inflation assumption with historical scenarios. Most people seem to think that inflation averages about 3%. That's true if you include the years of the Great Depression, but long stretches of inflation have exceeded 4%. So we show your inflation assumption results compared with the results from the 1948 and 1965 scenarios. See the examples below:
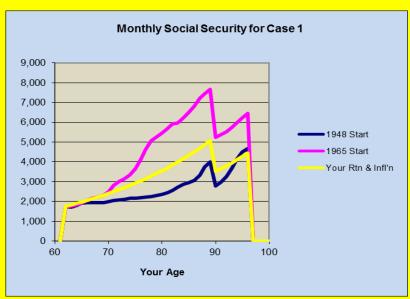

Case 1: Future $ to purchase something worth $1 today

Or the flip side of that coin:

Case 1: Purchasing Power of $1.00

A chart showing purchasing power of $1.00 declining with age, with three series: 1948 Start (dark blue), 1965 Start (magenta), and Your Scenario (yellow). Y-axis from $0.00 to $1.00, X-axis "Your Age" from 50 to 100.

Social Security inputs:

Social Security is the primary income source for many retired people. Yet the rules for it are very complex, confusing, and not well explained on www.ssa.gov, the official information site. There are two times when you don't have to worry too much about the rules. The first, of course, is for those people who are already getting their payments. The second is for those who are below about age 60 now. This latter group can simply insert the values for their "full retirement age" which is between 65 and 67 depending on their birth year. The reason for the use of this value and age to start is that all of the other ages to start Social Security are supposed to be actuarially equivalent. That is, over the average life-expectancy, the total receipts are approximately the same whether starting at 62 or 70. Be forewarned however that a low income spouse's payments are not actuarially equivalent, so when getting to about age 60, it's important to decide which age to start Social Security. Unfortunately, too many people who retire early automatically begin payments at 62. There are enough notes on the Income tab to help you through this. It's just not worth doing when you are much younger than about 60 because if you use the full-retirement-age values, the program will automatically calculate a low income spouse's benefit and for all cases, the survivor benefits.

Monthly Social Security for Case 1

A chart showing monthly Social Security for Case 1 with three series: 1948 Start (dark blue), 1965 Start (magenta), and Your Rtn & Infl'n (yellow). Y-axis from 0 to 9,000, X-axis "Your Age" from 60 to 100.
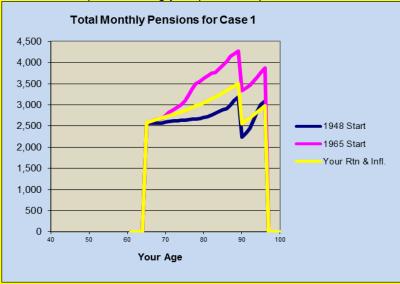
Survivor income for a widow is an important consideration. It's another reason to delay the start of Social Security as late as possible.

Those who are close to getting Social Security should input the amounts from their annual Social Security Administration (SSA) report which gives amounts for starting at ages 62, The full-retirement-age (now somewhere between 66 and 67, and age 70. For other ages go to www.ssa.gov.

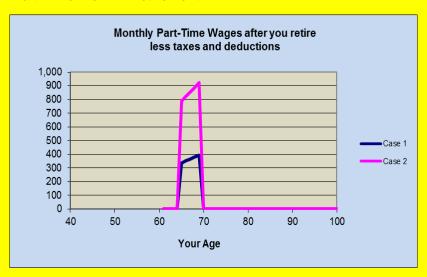Those who are already drawing Social Security should simply insert their current amounts.

Pensions:

It is very important to know whether a pension will be cost-of-living-adjusted (COLA) or if it's going to be a fixed number for the rest of your life that degrades with inflation each year. It's also important to know whether a program is asking for an input in future dollar terms of current values as in the quotes of Social Security. If you don't know, ask employer! We offer some help in choosing your pension input on the Income tab.

Again, survivor benefits are a really important consideration. Talk about this before selecting the survivor options that your employer offers.

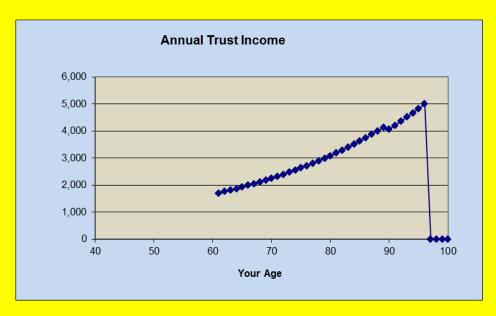**Part-Time Work in Retirement**

A lot of guess work is involved here because older people may have trouble finding work in retirement of not have the physical capability any more. It's a good idea to underestimate both how much you'll get as well as how long you may work. Also,

if you work before you reach your full-retirement-age for Social Security, and you decided to take Social Security early, you will get a smaller Social Security check. Check www.ssa.gov for current rules and hope that they don't get more stringent.

Trusts

Often wills call for setting up trusts for survivors for various reasons. The most common is to reduce estate taxes on the first death. Another is to protect assets in a second marriage. Or it may be important to put life insurance in a trust. It's important to know the terms of a trust to properly account for it in a forecast. The income tab provides for the income from a simple trust, but if you have a more complex one, you can represent it on the Special Events tab.

Annual Trust Income

Taxes:

Enter both ordinary income tax and the tax applicable to your returns on the Results tab. There is no specific entry for the tax that would be due when cashing taxable investments that have unrealized gains. Unrealized gains are the market value at the time of sale less the cost basis. However, you can use the Special Events tab to make entries for these taxes in the years that you would be selling the securities. You can even use the Special Events tab to spread these taxes out over several years. It generally would be most conservative to enter the entire capital gains tax in the year you retire. Keep in mind that highly appreciated securities will not be taxed if used for charitable contributions. Also you can give them as gifts to lower income people who will pay the tax but at their rate.
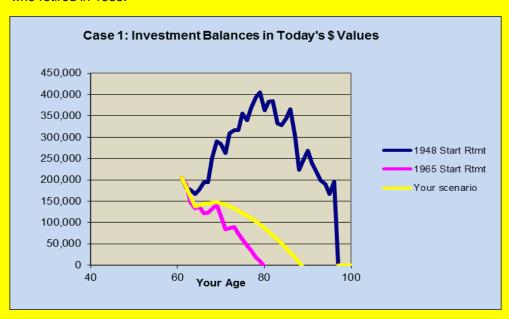
We cannot predict tax rates for the future because the rules change almost every year. It's generally wise to use conservative estimates a little above your current income tax divided by your adjusted-gross-income (AGI).

Results and Conclusions tabs:

The Results and Conclusions tabs are the ones where you put in a lot of judgment and show projections of future investment balances and budgets, respectfully. Here you input and experiment with different retirement ages, savings rates, how long you might live, and the all important amount you think you can afford to spend.

First of all, you don't want to run out of money before you run out of life. And you might

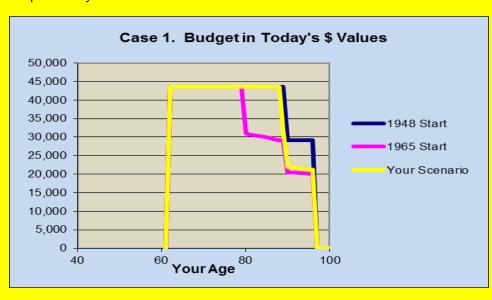consider leaving some money for your children or grandchildren. The results are going to be highly dependent on the future economy, taxes, and unforeseen events yet ahead. We show how far apart these extremes can be by showing what happened to returns in 1948, the best year to retire, and 1965 the worst historical year to retire because there were several drops in the stock market not too long after retiring and then a prolonged period of high inflation. Some are forecasting that we will see conditions like of worse than those faced by people who retired in 1965.

Then there's the importance of how much you will be able to spend in your retirement. This too depends on your investment performance but is very sensitive to how much you choose to spend early in retirement as well as what you may be left with after investments get so low that you worry about having enough just for emergencies. Then you are left to the mercy of Social Security and a pension if you have one of any value--or relatives or charity or welfare.
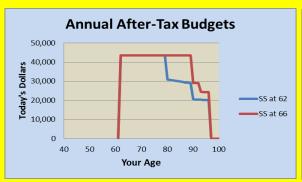
The case below shows importance of starting Social Security at ages beyond 62. Steps are caused by investment failures (corresponding to investments in the chart above) and death of a spouse. The age at which they occur is dependent on investments and how much you chose to spend early!
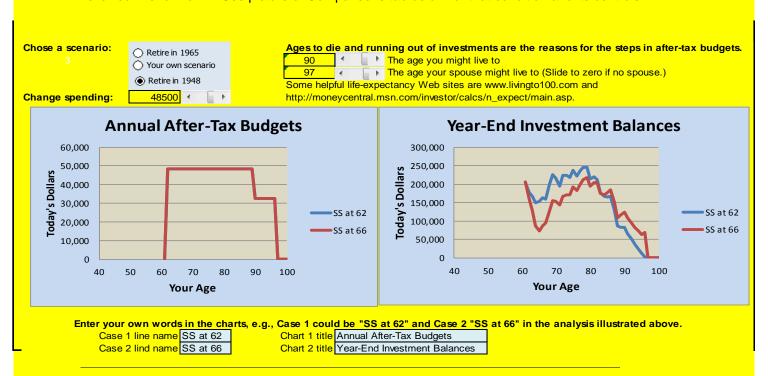
Comparisons tab:

This may be the most important tab of all. It takes advantage of Excel's power to display direct comparisons of budgets and investments for different alternatives so that you can choose the one that's best for you. It could be the best stock allocation, year to retire, choice between long-term-care insurance or not, whether to downsize home, protection for longevity, age to start taking Social Security or many other choices that people face before and after retirement.

The examples below illustrate the difference it makes to one couple trying to determine the best age to start Social Security.

By simply clicking on a button, the charts will change to a different scenario than those above which depict what would have happened for a couple retiring in 1965. For example, by clicking on the button for the scenario starting in 1948, the planner can see what would have happened in the best period of our financial history as a consequence of the booming economy that followed World War II. See picture of Comparisons tab below for that condition and its controls:

Chose a scenario:

3

○ Retire in 1965
○ Your own scenario
● Retire in 1948

Change spending: 48500 ◀ ▯ ▶

Ages to die and running out of investments are the reasons for the steps in after-tax budgets.

90 ◀ ▯ ▶ The age you might live to
97 ◀ ▯ ▶ The age your spouse might live to (Slide to zero if no spouse.)
Some helpful life-expectancy Web sites are www.livingto100.com and
http://moneycentral.msn.com/investor/calcs/n_expect/main.asp.

Enter your own words in the charts, e.g., Case 1 could be "SS at 62" and Case 2 "SS at 66" in the analysis illustrated above.

Case 1 line name	SS at 62	Chart 1 title	Annual After-Tax Budgets
Case 2 lind name	SS at 66	Chart 2 title	Year-End Investment Balances

The picture also illustrates that users can change titles and line identifies depending of the alternatives being considered.

The capability to compare alternative makes the Pre and Post Retirement Planner one of the most powerful planning programs available. It gives perspective like no other!

A Sanity Check--Your own history of returns:

The Investment History tab can be used for a record of your own investment history. It will automatically calculate the return you had in each previous year. You'll be able to see not only how you did compared to the markets as a whole, but to get a feeling for your ability to invest. For many users, it's an eye-opener to discover that they need help or that they've been too optimistic in the past.

Year	Ending Balance	Total Deposits	Total Withdrawals	Annual Return	Cumulative Return	Notes:
2007						
2008				0.0%	0.0%	
2009				0.0%	0.0%	
2010				0.0%	0.0%	
2011				0.0%	0.0%	
2012				0.0%	0.0%	
2013				0.0%	0.0%	
2014				0.0%	0.0%	
2015				0.0%	0.0%	
2016				0.0%	0.0%	
2017				0.0%	0.0%	
2018				0.0%	0.0%	
2019				0.0%	0.0%	
2020				0.0%	0.0%	

Now, let's get on with developing your own plan and gaining some perspective about retirement and the choices you can make to influence the outcome.

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