KEEN ON RETIREMENT

Welcome to Episode 3
With Bill Keen and Steve Sanduski

When is the Best Time to Retire?

Steve: Hello, everybody, and welcome back to another episode of Keen On Retirement. I'm your host Steve Sanduski. Here with me as always is Bill Keen. Hey, Bill, great to talk to you again.

Bill: Hey, Steve, great to be back on the program again.

Steve: Well, Bill, today we want to talk about when is the best time to retire? You have worked with many, many folks over the years that are dealing with this question about when is the best time to retire? Tell me a little bit about that. What are some of your overall high level thoughts here on when people should retire?

Bill: First off, Steve, there's a couple of things that come to mind, and one, it's highly individual. The things that we talk about today will be food for thought for all of our listeners, but each listener will have a different journey and a different thought process and different desires and goals. We'll talk about things that will apply across the board.

There's two pieces that I say we think about broad based and one is the financial piece. We talked tongue-in-cheek on one of our prior episodes about the best time to retire from a financial standpoint only and it was a trick question, in that, you could always work longer and make more money. From just a purely financial stand point the best time to retire could be argued to be never because you could always make more and have more resources. We do need to make sure financially things are handled. One side of it is the financial side, but the other side, I would argue equally as important, is the emotional side of things, it's how do we feel about what things are going to look like once we don't have to go to work every day and what are we going to be doing with our time.

Steve: Yes, and why don't we start with that talking about the emotional side. We'll certainly get to the financial side as well. As you and I were chatting here before we went live, I was just at a meeting this morning talking with a friend of mine. Actually, it was a group of folks that we get together with. We were talking about money and retirement. This particular gentleman was saying that he's over 65. He's got plenty of money to retire, but because of how he grew up, he has certain feelings or thoughts toward money, and to him, money is security.

He continues to work because it gives him this feeling of security, again, even though he's got enough money to retire. It really is an emotional decision for him. Just using that as a frame here, do you find oftentimes that people who may have enough money to retire but don't because there's other issues, again these emotional things that might come into play ... What are some of your thoughts on that?

Bill: Yes, for sure. I would, not knowing this gentleman you talked to this morning, I would suggest that probably he has some part of his lifestyle that he likes to give back.

Steve: Absolutely, yes. I mean, in fact, he talked about how they follow this 80/10/10 philosophy ever since he and his wife got married many, many years ago that they give away 10%, they save 10%, and then they live on the 80%. He said they absolutely have followed that over the years. At times they've done more than the 10 and 10 as well. Yes, very giving and generous folks too.

Bill: Sure. Well, Steve, that formula you just laid out there that's wisdom that's been around for a while. I believe that's wisdom that works, I really do. I think you hit on something important there as well. When I look at the emotional side of things for folks, there's a couple of sides to it. One, I ask is work stressful? Do people have ulcers as a result of going to their current place of business? Do they get along with their manager or their boss or the environment they're in? Do they agree with the work that the company is doing if they're working for somebody else?

Also that rolls right into this is the health, someone's health. I mean we have to look at if those things are affecting somebody's health, imagine staying on a job that's causing your health to deteriorate. Working long hours, like we said stress, not enjoying the job, or a combination of those things these are all things that are super important. On the other side of it too, we have to make sure that the financial house is in order because I don't want somebody to make an emotional retirement decision on the spur of the moment or a reactive emotional decision based on a bad situation, a bad boss, or based on maybe a stock price going down for the quarter or something that would engender someone to make a decision that wasn't in their best interest either. I'll tell you what these emotional things really are important. I think a lot of advisers and maybe a lot of folks that are trying to do this on their own aren't looking at those aspects of it at all. I think it's getting missed out there.

Steve: Yes, I think, basically you touched on this, it's this idea of what are we retiring from and what are we retiring to? Retiring from you don't really want to retire from a bad boss necessarily. I mean that's not necessarily a great reason. It might be a good reason to get a different job or get a transfer within the company. This idea of what are you retiring to I think is critical and really gets into this emotional aspect of, "Okay. If you're just quitting cold turkey and you're getting out of the workforce, what are you then going to do to fill up your day?"

I think back to my mom and dad where when my dad retired in his late '50's that was the last day he worked. He was fortunate because he had interests in the financial market. He kept himself busy just staying up to date with the markets and some interests like that that he had, playing some golf that sort of thing. My mom was a different story. When she "retired" that didn't last real long. She loves to play bridge. You can only play so much bridge. Then she kept taking part-time jobs. She had to continue to do some work. This idea of what are you retiring to in your experience, Bill, what are some of the challenges that you've seen your clients face as they exit the workforce and trying to fill up their day?

Bill: Remember in one of our prior episodes I talk about the purpose and the importance of a financial plan and that financial plan is all based around getting clarity on the why. We talk about the why. Why are we doing this? What's important to us? What's empowering? What's engaging? Where do we want to be spending our time with? If you think about this, you've got people who have in most cases they wouldn't be thinking about retirement if they hadn't done the work over a lifetime of living within their means, saving money, being prudent, being responsible and they have a lifetime of wisdom from that journey. They have a lifetime of that character that's gotten them to a position where they can even be thinking about the concept of retirement.

You get to that point and that formula is a formula for a really inspiring next chapter of life when you're not having to go into the office if you don't want to. You can spend your time on things. We have a process that we help people get clarity on it. We call it the dangers and the strengths and the opportunities facing us going forward. One of the things we say at Keen Wealth is that, "We help people think about their problems and think about the good things that they have coming down the road and make plans to avoid the dangers and the problems and to embrace and harness the opportunities and the strengths." The opportunities that you just asked about would be things about what do we want the time to look like when it comes to being with family?

That's going to be clarity on proximity, so where are we going to live in retirement? Are we going to stay put in the city we're in? Are we going to go to a different city where kids have relocated with grand kids possibly? What are we going to do to work on our health? Are we going to be joining the YMCA or another local gym type atmosphere? Not only does that help from the physical health that also helps from the social aspect being involved in things. When it comes to working on our health, it's such a big deal at this point.

Travels a big one. Some people have traveled with their work and they don't want to go. They'll say, "Out of the country again", they've had enough of that. Other people have never been out of the country and some just want to see the U.S. They want to go travel the U.S. and that's fine too. That speaks to what I said earlier about it's different for everyone.

I'll tell you what being in this seat as a financial advisor if you do it the way you should do it, and that's take the time to meet with folks and help them think through what's important to them, if you really go deep and do that, you will help people sit down and get clarity and uncover things they hadn't ever thought about before that are important to them. I'll tell you as a professional in this business nearly two and a half decades that's inspiring to me. It's inspiring to me to see people sit down and get clarity on what they want things to look like going forward. That's a long answer to your question about how we help people to get clarity on what they want to do once they retire and have all that time, but it is probably one of the most interesting and empowering things that we do here is see people plan the next half of their lives, it really is.

Steve: There's that all saying in your marriage vows, "For better or for worse", but then when one spouse retires it's like, "For better or for worse yes but not from spending 24 hours a day with each other."

Bill: Wow, Steve, you're hitting on some really good ones today. Now, this is true too.

Steve: Yes, so how do the husband and the wife adapt to ... It used to be one or both of them go to work on day long and then they come home together for the evening and that's great, but now if you're spending 24 hours a day with each other, how do couples adjust to the fact that they may be spending a whole lot more time with each other?

Bill: Great question. I've had the honor of seeing hundreds of people go through this. One thing that I might tell our listeners is that it does take a year or so to get in the swing of what this retired life feels like. I'll tell you this the first month or two feels like a long vacation. It's not even real to most people when they've retired. After just imagine thirty-five, forty years a time frame like that of going in and then being off like this, the reality sits in after about thirty to sixty days. Even though you know it intellectually that you're retired, but the reality sits in that, "Okay. We're not going back in every day." It does take a year or so I've seen to get in the rhythm of retirement.

Part of that, to your question is what are the different activities that the spouses do, in some cases, I see them spending all the time together, 24/7. I've got some great examples of long term of people that have been married for years and years and people that just love that. Then I also have examples of people that have other hobbies. They do things. They wake up each day. They go their different direction until the evening three or four times a week and that works for them too. What I would say to our listeners is enjoy the uncertainty of not knowing how it's going to look. If you've gotten to a point where you have resources and assets that you know you can retire, you've run the numbers and you know you can do it, all probabilities say yes, then enjoy the uncertainty of some of these things that are going to have to play out. Does that make sense, Steve?

Steve: Yes, it does. You've also heard of examples of people who retired and then thirty, sixty days later they're dead.

Bill: I know. You mentioned that I think maybe in one of our early sessions and one of our listeners we were laughing about it. We're like, "Oh, geese, man, Steve", but it was true.

Steve: I don't want to sound morbid here. I want to make sure we're preparing our listeners for this important stage of life when they're retiring and how it's a positive wonderful thing. Don't get so wrapped up in the work that we do and identify ourselves by the work that we do and take care of your health those sorts of things. Any thoughts that you had, Bill, in terms of how that it ties into this whole emotional thing? Is retirement ... It's a process. It's not necessarily an event, is it?

Bill: It is a process. It's a process of getting yourself to a position where work ... Number one, work becomes optional. I believe that you, me, everyone on this planet would like to know at some point that work is optional. At that point you have decisions that you can make. You have choices, different choices, and when you get to that point, I believe, that you need to just be focused and you need to be thinking about the things that'll keep you from being anxious and give you peace of mind in knowing that you've thought through the various things that you needed to think through with respect to keeping your financial house in order.

We keep saying that word "emotional". To me, it's just everything not financial is what that means to me if I defined it today. It's broad based but it's something that's different for everybody. I still think it's good for you and I today to have been talking about these different aspects to it. Some people like to go back to work and do some consulting that happens too. They come up with they love their work. They really love their work. That doesn't mean that they're abandoning their family or they're not moving on with their life. They just love their work. They're in that role. They'd like to maybe do some consulting and that's fine too. It's just to each it's own. What our process does, I believe, and what I think people should do if it's not with us or somebody is sit down and just get clarity on what's important to each person.

Steve: Okay, now we've talked about some of the emotional issues. Now let's talk about some of the financial issues that people have to keep in mind. What are some of your thoughts there?

Bill: Yes, sure. It's clarity for me on what it's really going to cost in retirement. We talk about are we able to retire and we just skim over that. The question is what will it cost to do the things that you want to do when the paycheck from your work stops coming in? We talked a little bit about it in prior podcasts. It's daunting when people start to realize that their paychecks at some point will stop. Now these 401K's and other savings accounts and social security these things are going to be what supports you for rest of your life. If you don't go back and work and consult, there's no other assets or resources or income coming in. You're relying upon these things.

In fact, Steve, we talked earlier that's what drives people to a financial advisor. We talk about what brings people to financial advisory to seek help? It's typically somewhere around five years out from retirement the light comes on and people say, "Why my goodness I need to go understand what's happening here", because they realize the reality of what has to happen, but clarity on what it costs to do the things you want to do and really think about it ... Again, this is one of those times when we're sitting down with somebody designing what the next half of life might look like, what would be exciting? What would be inspiring? What would you want to do? What are things from a stand point of helping kids, maybe putting grand kids through school, what you need to cover your baseline expenses, what medical costs might be.

Medicare kicks in at sixty-five now under current law. It covers about 80% of the major costs. You still have to insure for the 20%. It's called the "gap" that Medicare doesn't cover. What will those costs be? Now what will your health insurance be up to sixty-five? What will it be after sixty-five? Again, we've talked before it's all probabilities. We can just go by what things costs today and make some estimates out into the future. Getting conscious of those things, what will taxes look like, always working backwards on, "Okay. What do we need to clear?" We're not talking about what's a pretext income. Always speak in after tax income because that's what people can understand and get their mind around. It's really important to get clarity on that.

If you ask me, "Bill, what do you see? What are the things you see people commonly make mistakes on or things that can position someone to be unsuccessful or have to retool?", it's winging this part of it. I really tell folks don't wing this part of it. Get clarity on what it takes to spend, what it's going to take to spend, so it's not a surprise once you make that decision to retire. Does that make sense?

Steve: It does. Bill, when we talk about what you're spending in retirement, you and I both know that in the financial advisory business there's been this number which is 4%. For many years now the rule of thumb has been that you can spend 4% of your portfolio each year and still have a pretty good probability that you're not going to run out of money. Now with interests rates low I think some people are questioning whether that 4% number is still good. What are you doing as you're advising your clients? Do you work with a number like that? Is it more complicated than just picking one number?

Bill: You've opened up the door for me to talk about something that I hadn't really thought about this morning. It's got to be nimble. Having these rule of thumb, back of the napkin numbers, like that, they're great starting points. They're great starting points for looking at a portfolio and for clients to think, "Okay. Approximately what could I talk about of my investments?" If you've got a million dollar pool of capital, I can take out forty-thousand a year. By the way, that blows a lot of people away.

Steve: I got a million dollars. How am I going to live on forty-thousand dollars a year?

Bill: Yes. I tell my kids we go through these exercises and they say, "A million dollars, yes, a million dollars, you're a millionaire." I say, "Yes, you could live on about forty-thousand a year if you had a million", without touching your principle that's the back of the napkin idea, and they're like, "What? Forty-thousand a year." Of course, they have no concept what that even is.

Steve: Yes, I've got forty-thousand in student loans.

Bill: Student loans, right. That's a great place to start. Let me give you an example. We use computers today to run these analysis. The computer processing and power is amazing.

It does help us. We have to back it up and just look at reality. Again, we talked about keeping these financial plans updated. A couple of the input variables: Life expectancy. Now, of course, nobody knows the life expectancy. Imagine sitting down with somebody and they have a health issue ...

Man, it's hard to talk about it, Steve, but you have to. These are real life issues. Their life expectancy maybe it's five years, maybe it's ten, maybe it's less. Now are you going to tell someone that they can only spend 4% of the total if that's a condition that they're in? I had just a great story I had someone who had a condition, who was diagnosed with just a few years to live, and so we set up a program to be able to spend way more than that 4% a year for that family. I'm here to let you know that the diagnoses was wrong. We're ten years later and that client of ours is perfectly healthy. Somewhere in there around year four or five we had to make some adjustments.

Steve: Or they will run out of money.

Bill: Yes, absolutely. Absolutely. You've got to be nimble.

Steve: You got to be nimble there you go. Yes, exactly.

Bill: Let me tell you too a couple of things. One of the things about this is inflation. With the way this financial planning software works I've had the good fortune of seeing it, seeing plans created and then I've been able to see reality happen, so I'm not just putting numbers in a computer. I do have some perspective about how it actually works in real life and that helps to have been doing this on the road for a while here on the journey advising people and seeing how plans were planned and how reality happened even through tough times like '01, '02 and '08, '09. What did the plan say would happen? Then what really happened? Then as the market rebounded, did the plan write itself? I've gotten to see that happened. That's very valuable.

What happens with inflation, we have to enter an inflation rate in these plans, what I see with most folks most folks end up starting out they come up with a number if they do the work that they need to live on. That number, in my experience, hasn't needed to inflate a whole lot in the first five or ten years, that's just been my experience, and then I've even seen people's income needs drop off. They get out into their mid seventies and eighties, naturally and I think by desire, their income has dropped off. They've slowed down. They've stopped traveling. Then we see in the final years of life maybe a hyper spending if someone doesn't have long-term care or there're just health care expenses or they need some people in the home to help.

It's an interesting concept when it comes to what takes to live on. It's not just a straight line. Life doesn't happen in a straight line. You were talking about the interest rate you can pull out. I'm talking more about inflation and a lot of it summarized there. I hope that gives you just a sense for just how important it is to plan conservatively but not too conservatively so someone can't live and then make sure that things are getting updated regularly.

Steve: Yes. I think that is so important. You mentioned the word "nimble" here a couple times and the importance of ... We've got all these different variables. We've got what interest rates are. If we have a lot of money in savings, maybe at some point in time we're getting 4% on that, maybe today we're getting 1%, some small number. Inflation, right now we have very little inflation. Many of the people listening to this can remember back in the 1970's early '80 when we had double digit inflation and so those things change over time and the importance of having that plan reviewed regularly so that you can look at your assumptions on a regular basis and see if they still make sense and be able to make mid course corrections as opposed to do a plan today and five years later let's update it so it's got to be done quickly. Bill, let's talk about the timing. If someone has the flexibility of when they retire, are there some times within the year or certain ages that are better for people to retire from let's say from a tax stand point?

Bill: Yes. Good question. You have to be conscious of what's happening with tax brackets. If you're putting a plan together and you don't know, you're not including taxation, proactive tax thinking and planning, then in my mind it's not much of a plan. It's a partial plan at least at best. You have to sit down and look at where someone is at through the year, what the income earned is year to date, know where they are from the stand point of tax brackets. If someone goes later in the year and they've already made a nice amount of money, then we really would recommend postponing taking money out of an IRA, living on after tax money for the remainder of the year, and then getting clarity the following year on the different sources to pull money from. That's a huge one. I call it low hanging fruit for a client's planning situation.

There's other things like if you work through the end of a year at certain firms, you may qualify for a bonus, profit sharing. Some of the firms we work with that are privately held have stock pricing annually or quarterly. You've got to real sensitive about the timing of leaving throughout the year to make sure that you qualify for a certain stock price or maybe you want their earlier price. You just got to get real clarity on the timing that you're making these choices. There's a lot of things that go into it. A good firm will have a check list that you go down the check list and you have all these timing issues looked at and you just get conscious of it. Of course, we have that at our firm. The timing is a big deal.

Steve: Okay. How about things like when you retire should your house be paid off? I mean simple things like that. Should we go into retirement with still some debt on the books? Do you have any thoughts on that?

Bill: Everything that we do in this endeavor of successful long-term financial and retirement planning is based on financial decisions that I could call maybe the right answer from a textbook or a spread sheet review and then the emotional side of things. I know, Steve, you're a big student of our business and you're deeply immersed in our industry the work you're doing in your career. You know that there is a huge preponderance of evidence that the emotional aspect, the behavioral aspect, behavioral economics, this whole concept of the individual's reaction to things is not necessarily correct.

With that in mind, I would say that most cases that we deal with our clients like to have their debts paid off. I would tell you that if you look at a spread sheet or go to a classroom, they will tell you take as much debt as you can at these low rates, invest the money, and certainly you can make more than the 4% mortgage you would be getting. I don't know what you think about that, Steve. What do you think about that? I'd be interested to hear what you think.

Steve: Yes. I think you make a good point there that there's the mathematically correct answer which may be when interest rates are really low like this you should have some debt. My mortgage for example I have a five year fixed and then it adjusts. I'm paying 3% on my mortgage. If I were to adjust today, I think it would still be near 3%. Could I pay off my mortgage? Yes, but if I can borrow at 3% and hopefully I can invest and get a little bit more than that, that's a mathematically good decision. On the other hand, some people say, "Well, if I've got the money to be debt free, I'm going to be debt free", even though mathematically they be giving up a little bit of money. If that gives them that peace of mind that I know that I own my house free and clear and I own my cars free and clear, then that gives them a lot more satisfaction than maybe making a little bit extra money on their investments.

Bill: That's right. For me too it's about analyzing each client's situation, each client's demeanor, the way they look at things, because the one thing that we don't want a client to do is to make an emotional investment mistake. This will be a future episode. Because they have debts to get in the depth of an upcoming correction that will happen at some point again and maybe sell out because they wish they would've just paid their house off and now the markets gone down and, "Let's just sell it and pay the house off", I want to help people avoid that. I can tell if you do the work and go deep with clients, you can get a real sense for where people need to be from a risk tolerance stand point and then also from, "Should we have everything paid off or should we take advantage of these low rates, have some mortgage interest, get some tax deduction", and those types of things. I wish there was a answer that said yes or no. I have heard people out there saying, "Yes, there is this one answer for everyone." I don't believe that there is.

Steve: Well, and that's what a good planner, a good advisor does, is they get to know their client. They get to know what's important to them, what their values are, and that's how you put a good plan together. It's personalized to that individual or to that couple based on what is important to them, what their values are, and a good advisors going to ask great questions to help really bring that out and then they can put that good plan together. Well, Bill, as we're getting ready to wrap up here is there any final thought, anything else that you want to cover here before we close?

Bill: Yes, the last thing I'd like to talk about is simply I say there's a lot of things in this world that are beyond our control, but there are things that we do have control of. I say control the controllable. There's no excuse for not controlling the controllable and having a plan for the different aspects of the things we can't control as those things come at us, and that's why, "Hey, you have a thirty year mortgage." "Well, at least I know what it is."

The other mantra we say is avoid surprises. If you have a thirty year mortgage, it's fixed. We know what it is. It's not going to be a surprise. Controlling the controllable issues and getting conscious of the things you should be thinking about will allow folks to truly go out and enjoy their retirement, enjoy the why, and not worry about the noise in the middle that's happening when you turn on the TV and you see that the world's coming to an end.

Getting clarity on when we should take social security, what the IRA rules are, really thinking through these things gives you the ability to now not worry but not worry in a way that it can be reckless. If you don't have a financial plan that you're looking at and thinking about, people should be worried. They need to have a plan. If you do have a plan and you're following the plan and you're updating the plan, then you have the right to have a peaceful happy retirement. Get conscious of your plan once or twice a year, update it when necessary, and it really can take the complexity ... I'd say there's a great simplicity just beyond all this complexity if we've done the work.

Steve: Yes, and that's what a good planner does is they help take what can be very complicated and break it down into it's simplest components and allow people to have a great retirement and enjoy that. Bill, as always great, really enjoyed the conversation. I look forward to the next chat.

Bill: Hey, Steve, me too. Thank you so much. We'll talk to you soon.