

If forecasting is inaccurate, why do it?

We cannot predict the future with any accuracy. We don't really know whether the economy will go smoothly or if we'll go into a depression or hyperinflation or both, perhaps simultaneously. We don't know whether we'll have to support a relative or not. Why, then, should we bother to make a forecast?

There are several answers to this question. The first is that it gives pre-retirees some sense of how much they should be saving and it gives retirees an even better sense of how much they can afford to spend. Before retirement, if you under or over estimate how much you should save, you either can decide to change your retirement date or what will be your retirement life style. After retirement, if you redo the analysis each year, you get a better feeling whether you are doing the right thing. For example, a retiree may find that his current projection requires such a large reduction in spending compared to the previous year that it is apparent that she has been spending too much and must plan around a smaller budget.

Determining how much you should save or can spend is vital but not necessarily the most important thing, especially for retirees. There's another important thing that forecasting can do. That's find better choices among the many alternatives that will face retirees. This is done by comparing the results of one approach to another.

One of the most important strategic choices is when to start Social Security. By making two projections, say, one starting at 62 with one starting at 66, we can find the better choice by comparing the results of the projection for the start at age 62 with the projection for the start at age 66.

Another common choice is whether to invest in an immediate annuity. Like the Social Security decision, this is irreversible, so it's important to get it right. We simply compare the results for buying the annuity with the case for not buying the annuity.

But there are many other strategic decisions. Would I be better saving my money in a qualified plan or a taxable account? What pension or annuity survivor benefit is best? Should I convert my IRA to a Roth? Do I need long-term-care insurance? Do I need life insurance? Can I afford a vacation condo? Etc.

By making side-by-side comparisons we can make better choices from the alternatives we have. It's important to test the sensitivity of our choices to future changes in inflation, tax rates, returns, etc., because we cannot predict them. We can only guess. The programs on www.analyze.com make sensitivity tests easy. Try the **Free Retirement Planner** from this site. It was rated in the top three free planners by *Consumer Reports* and better than the next two for people with pensions.

The Free Retirement Planner, and other programs on the site, make such comparisons and investigations easy because they have two retirement programs running simultaneously in parallel. One can have one set of assumptions while the other has a different set. It's easy to change inflation, returns, tax rates, and other things. The **Pre and Post Retirement Planner** on the same site is more comprehensive and allows you to enter separate financial events such as life insurance benefits, long-term-care needs or enter the need to support your spendthrift mother-in-law if she runs out of money. Importantly, it gives users the capability to change death ages to test survivor benefit alternatives. Rather than using your own assumptions for returns and inflation, you can see what would have happened if you had started retirement both in the best and worst years from the past with their actual returns and inflation in each subsequent year. **The graphics show the results side-by-side.**

I like to emphasize the importance of doing replacement budgeting where, like responsible home owners associations, you build a reserve for things that have limited lives like your automobile, roof, furnace, hot water heater, paint within and outside of your house, etc. There is a Special Events tab on the Pre and Post Retirement Planner which makes this a snap.

You may not be able to project the future, but you'll get a much better idea of the kind of savings you'll need and how long your money might last under different conditions. You have to use a computer with Excel on it, but you don't need to know how to use Excel to use the programs. Excel works in the background. Download any of the programs and see how easy they are to use. Only a couple of the many programs on the site need passwords which you can get from the site. Password protected programs use financial indexes that are copyrighted, and we have to pay a fee for their use. No one takes any compensation for their work on Analyze Now, so the charges for these passwords are very nominal.

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