

Q: What do you personally in the way of financial planning, and do you use a computer program or one of the methods in your books?

A: I always do an analysis at least once a year in order to (1) plan for my withholding, (2) determine how much we can spend considering our resources, and (3) rebalance my retirement investments.

Planning withholding is my toughest challenge. My income can be uneven because some of my investments are in partnerships where I can get a surprise when the K-1 tax report finally arrives in March. Ideally, I'd like to owe just a little to the IRS, but the unknowns with partnerships can make this difficult. Another problem with partnerships is that they often own properties in other states which means I have to file a return in each of those states as well.

Determining how much we can spend in retirement is easy because I use a comprehensive computer program from www.analyzenow.com in which I have to change little except my age each year and update my year-end balances. I believe we are facing conditions like those who retired in 1965 which was followed by some severe market declines and high inflation. People with less financial complexity could use a simpler program, but having read some retirement books will likely improve their perspective as might subscribing to a sound retirement planning newsletter not published by a firm with something to sell.

Rebalancing my investments is a once a year job that's not difficult. I keep my equities (stocks, stock funds and equity in investment real estate) as a percent above 100 minus my wife's age (She's younger.) and not more than 10% above that. Looking back over almost forty years of experience with this approach, I'd have to say that it has served me well by getting me to sell when stocks are high and buy when stocks are depressed.

When people switch to a new retirement program, whether on a computer or from a publication, I suggest that it may be useful to try another method as well to see if they get a result that's in the same "ballpark." No two programs will give precisely the same answers (and some results don't even make sense) because they all make different assumptions and simplifications—and, of course, no one could accurately predict the future anyway. That's why it's so important to do a new analysis every year instead of relying on the often quoted method of simply increasing next year's spending by the amount of last year's inflation.

Incidentally, when faced with a choice between a couple of alternatives, I almost always use a retirement computer program from www.analyzenow.com because that is one of the very few places that one can find retirement programs that show side by side comparisons of results for different alternatives. That's how I determined when we should start Social Security, whether to buy an immediate annuity, whether to get long-term-care insurance, etc.