Ep #5: What Does Retirement Really Look Like??

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With Your Hosts

Micah Shilanski and Tammy Flanagan

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You can spend. You can save. What is the right thing to do? Federal benefits, thrifts, savings plans, too. You can save your own way, with help from Micah and Tammy. You can save your own way, save your own way…

Micah Shilanski: Welcome back to another podcast. I am your co-host, Micah Shilanski. And with me is the amazing Tammy Flanagan. Tammy, how are you doing today?

Tammy Flanagan: I'm just fine, Amazing Micah. I'm glad to be here again and looking forward to sharing some information with our audience about retirement planning.

Micah Shilanski: That's exactly right. Today is the fifth part in our five part series, and don't worry. Hopefully you've enjoyed these. We are going to have more. But we wanted a special part just about retirement. And this is going to be a fun one because we're going to take some concepts about retirement that I think are a little bit of misnomers. Sometimes people have a vision of retirement, but maybe it's not the reality of retirement. And so there's a couple of things that Tammy and I would really like to go through and maybe share some stories with you. How to learn from other people's mistakes, how to learn from other information out there so you can plan the best retirement. How's that sound, Tammy?

Tammy Flanagan: I've got some stories in mind, so I'm looking forward to hearing our headings.

Micah Shilanski: Perfect. All right. Well, I say let's start off with the first thing. Now, this is something that I talk with clients about all the time. When I'm working one on one with my financial planning clients, every single conversation we have, every meeting that we have, I always go through this, and this is cashflow.

Cashflow is the heartbeat of your retirement. This is why it's so important. It's not just, and I'm not talking budgeting, I'm not talking line items of 72 or 152 different things that where you spend your money. But we need a good understanding of where our money is coming from because in retirement, remember, it could come from many different places. Where's our money coming from, and broadly, where is it going?

And this is important because we are creatures of habit. You've been getting paychecks in every two weeks for years and decades. Now, all of a sudden your money is going to change. And we have this opportunity in retirement to keep in good habits or create new habits. But all of a sudden, if we get into bad habits and we get into excess spending, that can be detrimental to retirement.

Tammy Flanagan: It's detrimental to when you're working, but at least when you're working, you're still getting promotions and pay increases. Once you're retired, we call that a fixed income. Even though you do get cost of living adjustments, those adjustments only maintain if you're lucky, your standard of living, so you want to make sure, like you said, Micah, that that cashflow is going to be very similar, I think, to what you had while you were working so that you don't overspend and you don't deplete your assets too quickly.

Micah Shilanski: That's right. And this is one of the things that people get wrong. And Tammy and I, when we're working one on one with our client, she's a nicer than I am. She gives the client the answer. So I always ask my clients, "How much do you want to spend in retirement?" And I always think of that as an open ended question, when I know generally what the answer is and Tammy, what's the answer?

Tammy Flanagan: Well, you mean what they say to you?

Micah Shilanski: No, no, no. What's the real answer? Excuse me.

Tammy Flanagan: The real answer is that you normally spend what you bring in. Whatever's coming in, net income is what we spend. And we do that when we work. Every time we get a pay increase, we expand our lifestyle. It's the lucky person who decides to expand their savings when they get a pay increase. But we're more inclined to get the bigger car, buy the bigger house. And we can't do that anymore. We have to learn to live within our means. No matter if we have a six figure income in retirement or less, we can still live comfortably if we know what's coming in and how to control what's going out.

Micah Shilanski: Exactly. Super important. So that's one of the things, and we'll talk about this again, but one of the homework assignments, think about what you want your retirement spending to be. And then a quick check on it, a reality check, is going to be, is it pretty similar to your spending today? And if it's not and your then five years in retirement, you may want to re-look at that, right? More than likely you're going to be spending really close to what you're spending today. Now I always hear, "Micah, well, I don't have to drive to work anymore. I won't have a commute. I don't have to buy work clothes. I don't have to go out to eat." Right? I hear all these wonderful things that are very true.

However, we're still creatures of habit and we're used to spending money and you're just going to spend that money in other places. The only time that I see this as different is that if the house is going to be paid off really soon into retirement, I might look at it differently. Right? I might allocate that house payment out and say, we'll spend a little bit less. But other than that, I'm a pretty big stickler for saying, "No, we need to plan on what you're spending today. And if you want to spend less in retirement, then great, start spending less today. Let me know how it goes."

Tammy Flanagan: Right. And I guess the other thing too, is if you have children and they are launched and they're actually in jobs that are paying them benefits and they don't look like they're going to boomerang back home, that could be another reason why your income can go farther. If you're no longer paying for school expenses or just child-rearing expenses anymore. So I can see that being another possibility where you may need less, but be real careful about that because no sooner do they launch, than they start having families of their own and there goes your expenses again. So just be careful.

Micah Shilanski: So, when we talk about cashflow, one of the things that I love to do with my clients is I like them to know where their money goes. Now, we're not talking a budget with 72 different line items, right? And I call this cashflow planning, pick three or four categories and know where your money goes. And the reason this is important. Let's say, Tammy, we go into retirement and we say, we want to spend 7, $8,000 a month. Great. Well then all of a sudden, what if your spending starts increasing, you're starting spending 8,500, 9,000, 10,000? Well, one of the things that I will see happen all the time is that we say, "Well, it's because of X, it's because of Y." Right? We're pointing the finger at something else, but we don't actually know why we're spending money.

And so for a self-correcting thing to do in advance, what I love, is we break our spending down to three or four categories. So where do we normally spend money? And then once a month, very quickly, we look at this. Now, because I work in these numbers all the time my own personal stuff, I don't enjoy updating my Quicken with all of the spreadsheets and items and whatnot. And my wife, especially, doesn't like when I go ask her where she spent her money, right? This is not a good thing for family unity or marital unity in this case. So we created a system that we call cashflow planning, and basically what we do, and you can do this with a checking accounts or savings accounts, we do it with credit cards.

We have four different credit cards in how we track our spending. So we have a household, an entertainment, a travel and medical. And then basically, we put all of our expenses in those credit cards. And so if we say, "Great, as long as our household spending is between X and Y every month on that credit card, we're good." If, as long as travels between X and Y, medical is between X and Y, well, can't really control that one, right? But it's a range. Entertainment is between X and Y. And this creates a really quick way that once a month we get to look and we get to say, "Hey, did we spend too much this last month?" And if we do, we instantly know where. We now can't blame, "Oh, it's because I bought these tickets. Oh, it's because I did this." Nope, the entertainment card was over. Right? That means we spent too much money and now it becomes a self corrective behavior. And every client that I've had do this, they absolutely love it.

Tammy Flanagan: That's a good idea. Because that way you can say, "Well, next month then, we don't go to the movies because we overspent this month." And that's true though, because something always comes up. As my kids were planning to leave home and they're trying to save up the first month's rent and down payment, every time they got ahead, it was like, "Oh, now the car needs new tires. Oh, I just got my insurance bill. I need a crown or a root canal or something." So it's always some... And it's not just a little $10 expense. It's a big expense. So, I think, isn't another part of this to have some cash reserves?

Micah Shilanski: Absolutely. Right? So cashflow planning comes in those two elements. And I'm so glad you brought this up. One, on average, where are you spending your money? And then two, what are your reserves for those "Oh sugar," moments, right? Whether it's the car broke down, the water heater goes out, need a new fridge, right? And don't worry, all those happen in the same month. It's just the way it goes down. So this is where you should look at your spending. And even in retirement, you need to have a nice reserve of that three to five months, right? I don't think we always need six months when a retirement time for this purpose, but about a good three months of spending, normally that's going to cover any big thing that comes up.

Whether it's a car repair or a washer, dryer, or anything else. So if I'm spending $8,000 a month, that means I need at least 24, $25,000, just sitting in a savings account that I'm not using for any other purpose than "Oh, sugar, something broke. Now I need to get that money."

Tammy Flanagan: And then once you start depleting that savings account, how do you replenish it?

Micah Shilanski: That is a great question. Right? So it really comes into a why question. Why did we deplete this account, right? That was there. And sometimes there's two ways to do it. Number one, so your pension is fixed, right? Your social security is fixed income. So the only thing that you have that you can dip into, is going to be your investments, whether it's your TSP, your IRA, your Roth, your other accounts. Now we have to be careful in this team, and I know you know this, because we can't use these as bank accounts. And that's where people get in trouble, is they say, "Oh, my car broke down. Oh, my water heater went out, whatever. I need a new roof, $30,000." And they reach in and they treat your investments like a bank account when maybe that's not the best way to do it.

So one of the things that we look at is saying, "Okay, well, we look at your investments and we look at them and say, "Okay, great. Where are you at?" Right? "You had this big expense that's come out. Does your investments have enough room? Do they have the ability to replenish that savings account? Yes or no?" If they do, awesome. Maybe you had some good growth. These other things are there. Now we can take that money out. If the answer is no, if the markets are down or whatever reason, you can't do that with investments, that means you got to do it with cashflow. That means you have to adjust your spending every month. And now we know your four categories of spending, right? And you got to start adjusting from there to replenish that emergency fund because something else will come up.

Tammy Flanagan: That makes very good sense and it's an easy rule to follow. So, I think, that's something that a lot of people will really get something out of. So, I think that's a great way to think about it.

Micah Shilanski: Yeah. And even if we're not ready for retirement yet. Again, I'm years away from retirement, but I love doing this cashflow planning because it allows me now to save more. Right? Because I know what I'm spending, so it works out pretty good. All right, Tammy, let's talk about another one, which is pretty good, which is the where to live conversation. And I don't think you and I have chatted about this before. So this will be fun. This is a big thing that comes up, especially us being in Alaska, right? You being down in Florida, snowbirds in some capacity we have in common. So people want to leave Alaska and go out or they want to flock down to Florida. So when you're talking with clients, what are some things that they should be thinking about? Or what are discussions that you guys have had about relocating in retirement time?

Tammy Flanagan: Yeah, I got a recent story of a client who I thought she had it perfectly. She lives in Washington state, near the border of Oregon. If you know anything about taxes, in Washington state, your retirement benefit is totally tax-free, but you go over the border into Oregon and you can do all your shopping, sales tax free. There's a few States like that, where the border is in between a tax friendly state and one that's maybe not so much. That's a strategy, isn't it?

Micah Shilanski: I think that's a great strategy, right? So thinking about your taxes and what state you're going to move to is really, really important. And here's another way it works, too. So in Alaska, and we do not have a state income tax. I have some clients moving to a state that does have a state income tax. So before they moved, we did a bunch of Roth conversions, right? We took money out because we wanted to take it out and not pay a state income tax. So, think about that impact that that's going to have of all of a sudden, especially if you're going from one of our few tax free States to a tax state in retirement. Now you're going to be talking from 4 to 9% of your income goes in state taxes. What type of impact is that going to have on your cashflow?

Tammy Flanagan: Yeah. And there are some States that are much tax friendlier or tax not friendly than others. We have the largest population of federal retirees is in the state of California, but that's not necessarily a real tax friendly state. The tax rates there can be rather high and they do tax your federal retirement benefits. So maybe if you live there and plan to retire there, having more money in a Roth or an HSA or some tax-free account might be a nice way to cover some of those things that come up that could push you into a higher marginal state bracket, because even the States have marginal brackets.

Micah Shilanski: They do. Very much so. Another thing, Tammy, that comes up when moving, sometimes we get this aspect that we want to move back. We want to move closer to family, right? We haven't been there in 10, 15, 20, 30, 40 years, but we want to move back. And I'm always hesitant when clients do that, because I've had a lot of clients move out of Alaska, then move back because it's not the same. So if you want to do a relocation and you want to move, I'm a huge fan of renting. Go down and try a place out, go down and rent for a little bit and see what it's actually going to be like. And there's that thought, "Micah, I'm giving away my money. I am throwing away when I'm renting." Well, throwing them away money would be buying a very expensive house, figuring out it's the wrong place, selling it and going and buying something else. That's throwing away money. Right?

Tammy Flanagan: Or taking a loss because the market went down-

Micah Shilanski: That's right.

Tammy Flanagan: ... In the time that you bought it to sold it.

Micah Shilanski: Believe it or not, real estate doesn't always go up in value. Right?

Tammy Flanagan: Right. Well, apparently that idea of what you just said makes a ton of sense and right in our neighborhood in Florida, since like you said, so many people like to flock to Florida for retirement, they're building a community of 600 little, tiny houses. They're only probably 800 square feet, but you rent them. So you come down here, you maybe become a snowbird for a few years or you come and spend a year. See if you really like Florida, see if you like all the rain we get in the summer months to make sure that's what you want. And then you can come back later and purchase your forever home. I think that's a great idea. I think they'll be very popular.

Micah Shilanski: Yeah. Now on this same note, something to think about, we have clients that says, "Micah, I'm going to sell out of the house and we're going to buy an RV and we're going to travel around for a couple of years." And I like that, right? It's a very freeing idea. You're able to get out. You're able to do the things that you want to do. And I always have a joke with my clients. I say, "When you get to Arizona, so you sell your place in Alaska. By the time you get to Arizona, please give me a call." And they say, "Well, why?" I say, "Because I have a great couples therapist in Arizona. And by the time you've sold your 4,000 square foot house, you bought a 20 to 30 foot RV. You're 24/7 with three weeks in there. You know what? You're going to need a little space that's there."

So of course it's a joke, right? But the thought here is that when you move, when you make a change, especially if you're making a big life change, how is that going to affect your spousal relationship? If you both retire at the same time, and you're now spending 24/7, 365 with each other, what's that going to be like?

Tammy Flanagan: Right. And I think you brought up a good point because so many people have in their mind, their own individual mind, what retirement's going to look like. But you need to communicate that if that retirement is going to be shared with someone else, your significant other, your spouse. How many times have you met a client whose spouse had no idea that they were planning to be in an RV for the next year?

Micah Shilanski: Yep. Or where they wanted to move to or all these other things. These are great things that you guys need to talk about.

Tammy Flanagan: Yeah. And there's compromises. Because when we moved to Florida, that wasn't my dream. That was more of my husband's dream. So I was willing to give it a shot. Right? Because I wasn't ready to retire. So I had to reinvent my business and come up with some new friends and new doctors and new everything. So I said, "Let's do it on a trial basis. Let's see if it doesn't work out. We agree to go back." And so far we're very happy, but if it wouldn't have worked out, then we had that agreement in place. So you do have to make compromises in retirement, just like you did throughout the marriage.

Micah Shilanski: Tammy, I love that. You said, "You know what? Let's give it a shot. If it doesn't work out," giving yourself an out, that's going to be there. And this isn't negative, right? This is really good, because it allows us, at least mentally, I'll put on my pretend therapist hat for a second, it allows us at least mentally, to know it's not a permanent decision. This is temporary. It's short term. I can go with this and if we don't like it, I can go back to the way it was. And this is really important when you're making big, life changes like retirement. This is a huge change. You add a relocation as part of that, this could be some additional stress. So thinking about good mental ways to handle this is really important in retirement planning.

Tammy Flanagan: And I think that's also, besides being a little worried financially having enough money and having enough financial security in retirement, I think the mental aspects can be just as daunting. I remember, this is from the early days of my career, I used to follow a speaker who had taught about the psychological impact of retirement. And he'd always leave with the story about this couple that he knew and they shared their story with him and the wife was getting a little bit upset because the husband was in her house, her space, 24 hours a day, that had been her domain for the last 35 years.

So the way they solved the problem was they had a detached garage. So he went and remodeled the garage, added air conditioning, heat and lights, and put a desk in there. So in the morning he'd come and have breakfast with his wife. He would have his briefcase, he'd even get dressed and go out to his garage where he would spend the day until it was time for dinner and they saved the marriage.

Micah Shilanski: Perfect. What do you need to do to wade into this, right? It's not an all or nothing conversation. So having that's really important. And this goes to this next point that we wanted to rank the last one, is what's your plan in retirement, right? Especially as a federal employee. Most of the time, my federal employee clients can retire early. So in the US side, if you're retiring before 65, it's pretty much considered an early retirement. The federal community, we don't really look at it that way because you have such a great benefit plan, but it is. So if you're going to retire at that 57, 60 year old, you have a long life ahead of you. What's your plan going to be? How are you going to stay active? How are you going to stay mentally engaged?

Tammy Flanagan: That takes time. I know with my husband, he had to ease into it and he's still, some days are better than others as far as staying busy. But his plan has been every day, he has a list and he'll start the day with certain things. He's a very creature of habit. So he has, one day of the month he does the fertilizing or another day of the month, he rotates the tires. But he has a list of all the household things that need done. But then he fills it in with more fun things. Like he does some volunteer work on the weekends. He does some of the fixing up type things that he enjoys doing. So he keeps himself busy. And I think you have to put a little structure in your day, even if it's not the same type of structure you had when you worked, but you have to become your own boss. That's scary for some people.

Micah Shilanski: You do. And so, one of the things I love to do is with my pre-retirees, do this before you retire, right? Come up with this schedule, come up with this plan before you make a transition. The clients that I can have that, if you will, live retirement are acting set up as if you were retired in advance, have such a smooth, sail into retirement. It's so financially easily, it's mentally easy and we can't duplicate everything. Right? We still have a job. We still have work, but what can we do? What can we set up in that mindset so we can make this transition?

Tammy Flanagan: Right. Yeah. Even if it's starting a new hobby or starting a new vocation. Those are things you can get started with before you retire, you take a class or you join a club or you get involved with people who are like minded, because remember, you're also going to be leaving your coworkers behind which for some of us are our family. So you've got to establish this new group of like minded people who might have things in common with you once you're retired. So I think we sometimes underestimate the importance of planning mentally for the transition into retirement as well.

Micah Shilanski: We get all caught up in the numbers side of it. Yeah. So, I want to think about this too, when you're thinking about what do you want to do in retirement? Also think about that aging in place question that's going to be there. Is this the place that you want to be when you're 80 and 85 years young? When things start becoming a little bit more challenging to do physically, right? And maybe even mentally. Is this the community and the place you want to be? The reason I bring that up, my clients that can transition, that know where they want to be, somewhere between that 65 and 75 marker, is a lot easier. If all of a sudden you've got to go to a whole new community when you're 75, 80, 85 years young, it is really challenging. Building friends, getting relationship, that community involvement, Tammy, you were just talking about.

Tammy Flanagan: That's right. And you're much more able to make those transitions when you're in your sixties and seventies than you will be in your eighties. Even if you maintain your health, it's much harder to pick up and condense your lifetime of memories to be able to move to something smaller or less challenging physically. You want maybe that one level home rather than three levels up and down. So those are things you want to think about ahead of time. And also just the challenges of physical limitations. We're thinking about having Mr. GrabBar come out and put a little handle to get in and out of our pool and put it in the shower, at least in the guest room because our friends are aging too. So when they visit, we want to make sure that they don't have any struggles trying to manage being a guest. So there's a lot to think about, and a lot of resources for that as well.

Micah Shilanski: Tammy, one of the things when we talked a little bit about longterm care, I think it was last time, on this series, I forgot to mention one of the ideas that I really love to do with clients is encourage them with longterm care. Just like you were talking about. Take one months of longterm care premium and change your house up to get set up for. Your retirement house. Right? Do you take out stairs? Do you put in those grab bars, right? Do you widen doorframes? What can you do to age in place a little bit more? And as you're thinking about moving, keep that in mind, make it easy to stay healthy, right? Don't make hard decisions to stay healthy, do easy things now so that you can maintain your independence and your freedom as long as possible.

Tammy Flanagan: That's right. I know some of our friends are moving closer to where their children live, which there's pros and cons to that because your children may not stay where they're living right now. They may move and have job relocations. But if you know that it's something where they seem pretty well planted, you might consider if their property is large enough or there's a space nearby to have a little home that's close to them because they can be a big help as we get older. So I've known people to do that. In fact, one friend of mine built a little tiny house in their daughter's backyard. So when they come to visit, they're not in their hair, but they're right outside. So it's another way to manage getting older and being closer to family, but yet still maintaining their house outside of that state, if you can afford to do that.

Micah Shilanski: I like it. So let's talk about some action items, right? This one was a little bit less technical, but I think still really, really important for things for us to do and to be thinking about in retirement, regardless of your close to this transition or not, there's still a couple of takeaways and Tammy, I'll kick it off. I'll say the first thing that I think our listeners should absolutely do is do some form of cashflow planning. Something that's easy, something that they can do where they know broadly, right? Three to four categories, where is their money going on a monthly basis?

Tammy Flanagan: Yes. I think that's important. I loved your idea of the four credit cards.

Micah Shilanski: Yeah, it's good by the way, if you're a saver. If you're a bit of a spender and you have this tendency to go too far in credit cards, not the tool to use, right?

Tammy Flanagan: Then you need the cash envelope.

Micah Shilanski: Exactly. Envelope system is phenomenal. I absolutely love it. Yeah. I'm going to say another one, which would be really good is thinking about a retirement planner. And I encourage you to do this independently if you're married, before sharing it with your spouse, right? What do you want to do in retirement? So what would your day look like? I know everyone says day one sleeping in. Well, I don't know, that may or may not be the case. Right?

But what do you want to do in retire? What goals do you have? What are those bucket list items that you want to make sure you achieve? And what is your plan to do them? Start with that in process because that helps with a couple of things. One, it helps with our mental transition of getting ready to retire, but also it helps back into that other cashflow question, am I going to have enough money to do these things? Right? So, let's make sure those two are lining up.

Tammy Flanagan: Yeah. Retirement wild and free. There's a few good books out there on the mental transition to retirement that we might want to share some time with our audience, as well. Because there's a few that I would highly recommend.

Micah Shilanski: That's a great idea. We'll do on our website. So planyourfederalretirement.com/5, number five. That'll be the episode link to this podcast. And Tammy, let's do that. Let's start some good book ideas on there for our listeners. I like that.

Tammy Flanagan: I'll send you the links.

Micah Shilanski: Okay. Perfect. Well, this podcast is all about you guys taking action. So go do that. Do your retirement planning, do that cashflow planning, which is really good. Tammy and I have had a blast, well at least I've had fun doing these last five. I hope you have too.

Tammy Flanagan: I have too. Hope our listeners got something out of it. I think they did because when we have a conversation, I learn something. So if I'm learning something, I'm sure the listeners are learning something too.

Micah Shilanski: I agree. I always enjoy it. So if you have ideas, we're going to keep these podcasts going. Because we've had such a good time and we're getting great feedback. So, I'd love to know what your thoughts are, right? What things would you like us to talk about? You can send us a comment. You can jump on our website, planyourfederalretirement.com. You could send us a comment, send us an email on there and so now, what questions do you have that we should answer? What topics would you like us to discuss? And until next time, happy planning.

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