Episode 100: YouTube Live Q&A w/ Bob French (Part 1)

00:01
Alex Murguia
Hey, everyone. Alex and Wade here for retire with style.

00:04
Wade Pfau
Start by going to Risaprofile.com/Style and sign up to take the industry's first financial personality tool for retirement planning. We do have our free winners selected at the Winners Guideline contact. And so please check your email for a message from retirement researcher.

00:17
Alex Murguia
Thanks again.

00:18
Bob French
The purpose of Retire with Style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to Risaprofile.com Style and sign up to take the industry's first financial personality tool for retirement planning.

01:01
Alex Murguia
Hey, everyone. We're here live doing our first YouTube live on our hundredth episode. If you can believe that Wade has not walked out once in the middle of one of these episodes. It's been closed. Sure Bri and Amber need a break. But speaking about putting things together and keeping the engine humming, in our 100th episode, we wanted to make a point, wade, myself, and Bob, to bring out Brie and Amber, they have been essential to the success of this podcast.

01:39
Alex Murguia
As you know, folks are always.

01:42
Alex Murguia
On the shoulders of giants, and I'm.

01:44
Alex Murguia
Sure Brie and Amber need a break.

01:46
Alex Murguia
From carrying us, but I wanted to.

01:48
Alex Murguia
Bring them here and just thank them.

01:50
Alex Murguia
For all the work they've brie, Amber, any intro, any words, any observations, thoughts, et cetera?

01:57
Brianna Corbin
You didn't say we had to speak, Alex. I'm just kidding. No, it's been a wild ride. I don't think any of us really knew we'd get to 100 full episodes, but excited to be here, excited that everyone's been enjoying it. We've had a lot of great feedback on all the episodes. So excited to be a part of it.

02:22
Alex Murguia
Excellent.

02:23
Brianna Corbin
Yes.

02:25
Alex Murguia
Amber.

02:25
Alex Murguia
Amber decides debating. Do I say something? Do I keep quiet? Do I say something? Do I keep quiet? You don't need to say anything, Amber. Your look says it all. Being that this is on YouTube live, you can check out what she has to say. She's a very emotive actor. All right, well, let's thank you both. Thank you.

02:53
Brianna Corbin
Have fun, guys.

02:54
Wade Pfau
It is pretty remarkable to get to episode 100. I think a number of us had our doubts we'd ever make it. But thank you both and thanks, everyone for listening and being part of the ride. Bob French. We're taking questions that you have, and we also requested questions in advance, so we do have a good stockpile of questions to lead us through the day.

03:19
Alex Murguia
But first, speaking about Doubting Thomas's, but.

03:22
Alex Murguia
First, speaking about Doubting Thomas's, who didn't think we'd get to 100, I'd like.

03:27
Alex Murguia
To introduce.

03:31
Alex Murguia
Bob Frank.

03:32
Wade Pfau
Dramatic pause.

03:33
Alex Murguia
And then Bri took over with me saying, no, Alex, you'll get to four episodes now.

03:33
Bob French
No, I didn't think we'd get to ten. In all honesty, for years before we started this podcast, alex has been just harping on us that we need to do a podcast. And for those of you who have been around for a while. It was first myself and Morgan saying, no, Alex, we know. Will you'll do three episodes and then forget it? And then Brie took over with me saying, no, Alex, you'll get to four episodes now. We trust you a little bit. Been it's been really great to see just how wrong we it's been.

04:17
Alex Murguia
Even greater to see just how funny you are.

04:21
Wade Pfau
I had my doubts as well.

04:24
Alex Murguia
I'm not sure which of the compliment that is. It's open for interpretation. What does it mean to you is.

04:32
Alex Murguia
The question you should be asking yourself.

04:35
Alex Murguia
By the like, I don't know. Riverside comes with these tracks. I've been doing like a laugh track and stuff. You guys haven't been hearing haven't you referenced that?

04:44
Wade Pfau
But I haven't heard anything.

04:45
Bob French
I have not heard any laugh tracks.

04:47
Alex Murguia
Alex not going to mess with it. So wait, any special announcements for us before we get going in our Magnus opus of small talk? For the first episode? Is there something you'd, like, we've been talking about?

05:00
Wade Pfau
I was going to do 100 push ups on the day of our 100 podcast. Before today, I think the most I ever got up to was about 65. But I have been doing my push ups today. I'm at 95 right now, so I thought it'd be fun to get to number 100 live on the episode. Does that sound good?

05:20
Alex Murguia
I'm doing a drum roll, so I'm.

05:22
Wade Pfau
Not going to be able to position the camera.

05:23
Alex Murguia
But here we go. All right, guys. And wait a second, wait a second. And there he is. Wave foul. We could what does he bring to the table?

05:33
Bob French
Corner of his head, behind his microphone.

05:35
Alex Murguia
He brings up not only does he oh, my goodness. He did it. Wade not only brings gray matter to the podcast, but he brings a level.

05:51
Alex Murguia
Of physicality not seen.

05:54
Alex Murguia
Yeah, his BMI is off the charge. He brings a level of physicality not seen other than first round draft picks. It's unbelievable. He has all the intangibles. He's able to create separation. He's able to get great separation when it comes to his peers. He's got a good motor. Never stops, that keyboard. He wears out like a keyboard a week. It's unbelievable. You used to see our PNL when it comes to weights, like keyboards and mouse usage, it's hard to carry, let me tell you. He's unbelievable.

06:29
Wade Pfau
That's a big part of the budget.

06:30
Alex Murguia
Say it again.

06:32
Alex Murguia
It's a big part of the budget.

06:33
Alex Murguia
He's a retirement income ball hawk. He's unbelievable. You know, defensive presence, offensive presence. In two words, generational talent.

06:44
Wade Pfau
Thank you, Alex.

06:45
Alex Murguia
Right, Bob? Absolutely. He's got that dog in him. He's got that dog in him. There we go. So 100 pushups. That's it.

06:55
Wade Pfau
Now I got to do it every day and keep Pythons going.

07:01
Alex Murguia
There we go. Here we go. It's going to turn into the gun show podcast. All right. What about you, Bob? Do you do anything working? So, by the way, people don't know.

07:16
Alex Murguia
This, but Bob is talking about generational talent.

07:26
Alex Murguia
I don't even know what you call it. He's like a frisbee football legend until a back injury took him out. Until a back injury took him out. He wore a headband, wristband, everything. He even had a camelback. He played with one of those camel packs on the back. So he didn't go out to drink water. He just played on the field taking sips while he was flipping that disc. Right, Bob?

07:48
Bob French
That's exactly how it went.

07:52
Alex Murguia
Okay.

07:58
Wade Pfau
And if anyone who's tuned in live on the YouTube live version of this, if you have questions as well, please do feel free to enter those into the comments. And yeah, maybe that's enough small talk. Should we jump into things here? Get to the big talk? All right. Yes. So we've got a number of questions that came in to help prepare for the episode. And the first one, it relates to tax planning for retirement, asking about the pluses and minuses wade?

08:31

Alex Murguia
Wade, thank you for not reading the.

08:33
Alex Murguia
Real first question, which was, why Alex thank you.

08:37
Wade Pfau
When is Alex getting thank you.

08:44
Alex Murguia
That's what I'm trying to do, but here I am.

08:50
Wade Pfau
Okay.

08:51
Alex Murguia
I'm sorry, Wade, I interrupt again.

08:53
Wade Pfau
So the first question that came in was really just asking about Roth conversions. So what's the pluses and minuses of converting assets to a Roth IRA versus keeping them in an IRA?

09:07
Alex Murguia
Do you want to you know what? I should ask the question.

09:13
Wade Pfau
Do I have to answer it?

09:16

Bob French
This is the last time we all try and be polite here.

09:20
Alex Murguia
It's just a tax break even question, to be honest with you. From that standpoint. I mean, you can make the case that you should strive to do it as much as possible relative to your goals, especially if you have sort of bequest things. But ultimately, it's really a tax optimization question more than anything for a spreadsheet to answer.

09:43
Wade Pfau
Yeah. And Also when You're Doing That Sort Of Calculation, that's Where All The Nonlinearities of The Tax Code Come Into Play, where Planning Ahead For What RMDs Can Do, considering How Generating Income Can Also Lead To More Taxes on Social Security benefits considering the irma surcharges, the 3.8% net investment income tax all that sort of thing means that if you think you may be in like the twelve or the 22% federal income tax bracket but when you overlay this later in retirement, especially after Social Security starts, you could be paying in the ballpark of 40% or more on each dollar of income. I also should have mentioned just how you stack long term capital gains on top of ordinary income as well, and how that can push up the tax rates. So in that regard, it can be helpful to get assets moved over to the Roth.

10:36
Wade Pfau
It's just, of course you have to generate taxes when you do that. But it's really, as you're saying, the question of when can you generate taxes at the lowest effective marginal tax rate, considering all these other side issues as well. And if you have opportunities to do that at a lower tax rate, it's definitely worth taking advantage of in most cases.

10:58
Bob French
I will put a little bit of caution on that statement that everything Wade you said is absolutely right. But it's one of those things also that a lot of people focus on to the detriment of other stuff. So for instance, last month in the academy during our office hours, we do our portfolio hot seat where I work with one of the members and anonymously walk through their portfolio. And one of the things they were concerned about, it was Roth conversions because they had met with one of the advisors through their company's 401K plan and the advisor was actually talking about retiring early to be able to maximize her Roth conversions without recognizing that retiring early means not earning a salary. So the net effect was they would have ended up with significantly less money than just not doing the Roth conversions and still working. There's a lot of folks who are very monomaniacally focused on minimizing those taxes in retirement.

12:10
Bob French
Whereas as Alex said, it's going to be that break even calculation. You want to focus in on your overall net worth or overall plan rather than the specific tax line item there.

12:23
Alex Murguia
The only thing to add is conceptually, though, what you're ultimately, I'm assuming you're no longer accumulating and now you're in that stage where you've retired now and you're thinking, do I convert? I mean, the question you want to ask yourself is what tax bracket am I currently in? Right? And is it going to be higher or lower than what I expect it to be in the future? And then that begins to guide your decision to some extent, assuming that you want to go through the process. You're asking yourself, is it easier for me to pay taxes now and then more beneficial because everything is tax free into the future, at least for my lifetime, versus I'm just going to keep things tax deferred right now. Not pay any tax, let it grow tax deferred, and in the future, potentially, my tax rate will be lower than what it is now.

13:11
Alex Murguia
Hence I'm just going to tap into it later in the future. It's that kind of give and take that you're conceptually playing with and it's just a matter of doing calisthenics around current and future tax rates and what's the right balance between them.

13:25
Wade Pfau
But it is hard to conceptualize because there are these nonlinearities and especially RMDs are the big thing that if you're not doing the tax planning, you may be surprised at how much you're required to pull out is taxable income in the future, which then can cause all these other issues that compound the tax impacts. But yeah, you never want to just minimize taxes like you were St. Bob. If you don't earn any income, you won't have any taxes, but if you earn more income, you're going to have more taxes. She was quick enough to know this.

13:57
Bob French
That didn't work out, that didn't pension.

13:59
Wade Pfau
It's really about maximizing the after tax value of your purchasing power in terms of either what you're spending or what you leave behind as a legacy, but on an after tax basis, not just minimizing taxes. Often the

best strategy may have more taxes because it allows for more growth and more legacy at the end, more or more spending throughout the retirement itself. So don't just try to minimize taxes, look for opportunities to maximize after tax.

14:34
Alex Murguia
We got, we got Karen here saying yay for 100 pushups.

14:40
Alex Murguia
Well, technically the last five, Karen, we.

14:44
Alex Murguia
Haven'T seen his word 95. We didn't see him do the first 95 and really we couldn't see him do the last five because he went under the desk. So I am going to choose to believe him and congratulate him as you are as well. So way to go, Wade, way to.

15:04
Wade Pfau
Go on the honor system. And I thought I'd be a lot sore after that, but doing so. Maybe tomorrow. But thank you, Karen, for the nice words.

15:13
Alex Murguia
Maybe tomorrow. Maybe tomorrow.

15:14
Wade Pfau
Eat a banana. Eat a banana. And we do have some questions coming in with the live portion as well that we may want to go ahead and address those. We'll make sure we get through all the questions that came in beforehand, too. Another live chat question is asking about something called pension maximization. And it's not an area that I've ever really done any particular research, but we can at least mention what that is. And so people at least have the idea. So if you ever heard of this idea of a pension maximization strategy, it's the idea that if you have a defined benefit pension, you have a single life option to get a payment for one lifetime. You have a joint lifetime option to get the payment for both you and a spouse. The joint payment will be less because it's going to last for the joint lifetime of two individuals.

16:04

Wade Pfau
So pension maximization is about looking at if I take the single life option, how much more income would I get than the joint life option? Could I use that to purchase a life insurance policy with the premium being the difference between those two pension payments that I could then provide to the surviving spouse and allow them to? Potentially the idea is if you find the opportunity where this is worthwhile, you could potentially get a lot more life insurance that way, which would then allow the surviving spouse, should that spouse be the survivor, to purchase a bigger annuity of their own in the future. It's definitely something worth considering and looking at, you do need to be eligible for life insurance, which can be more difficult when you're getting to the ages where you're taking on pensions. But, yeah, it's something you can look at when you're making those decisions.

17:04
Alex Murguia
Wait, just real quick, where did you see that question?

17:07
Bob French
This is in the Teams chat.

17:12
Wade Pfau
And then there's another question too, while we're on that theme. So the thoughts on using the home equity conversion mortgage, aka what we usually colloquially call a reverse mortgage line of credit, as bucket number one in a three bucket strategy. And I guess with that question, the idea there is we're building a bucketing strategy, so we're going to spend the short term bucket first, then we have a medium term bucket, then a long term bucket. So if you just spend the Hecam down as bucket number one in retirement I have simulated that strategy in past research. It's the same or equivalent to spend hecam first. And it's a way to leverage your investment assets because you're relying on the idea that your investments will earn a higher rate of return than the loan balance will grow with the Hecam. But if you're more probability based in outlook, you may be comfortable taking on that sort of opportunity and on average, investments probably will grow faster and that would be the guiding motivation behind it.

18:16
Wade Pfau
So it's a viable strategy for sure, if you're comfortable with the assumption and with the asset allocation necessary to have your investments have the potential to outperform what the loan would be growing at with the.

18:41

Alex Murguia
Question. Bob, maybe you want to add value to this podcast.

18:45
Alex Murguia
Sure. Can pretend, with the current treasury and.

18:50
Alex Murguia
Tips yield close to 5%, how would someone best go about buying a pension?

18:58
Bob French
So I'm assuming this means, well, buying a pension, I mean, I guess buy.

19:05
Alex Murguia
An annuity probably, is what they mean.

19:07
Alex Murguia
Yeah.

19:09
Bob French
The annuities kind of cost what they cost. I imagine with rates going up, they're costing a little bit. I don't imagine I know they're costing a little bit more than in the past a few years back, because at the end of the day, annuities are just bonds with an insurance wrapper put around it, so they're a little bit more expensive.

19:31
Wade Pfau
Rising rates will make annuities cheaper. I don't know what yeah, the idea of buying a pension is if you don't have a traditional company pension, sometimes people refer to annuities as like self made pensions.

19:46
Alex Murguia
Yeah.

19:46
Wade Pfau
As interest rates come up, the payout rates on annuities actually go up as well on a relative basis. And this was when interest rates were so low. It's like the mortality credits from annuity are not linked to interest rates, so they became relatively more important. So as interest rates come up, the relative case for the annuities gets weaker, the payments increase, but the payments on bonds increase as well.

20:09
Bob French
Yeah, you can think of it as they're starting to go on discount. I realized as I was saying it exactly the wrong way.

20:19
Wade Pfau
So did I, Bob.

20:20
Alex Murguia
So did know.

20:25
Bob French
It's just like any other good out there that when prices go down, it becomes more attractive. If you're looking at a car and if you're looking to buy a car and car prices start coming down, well, you can start looking at maybe a slightly nicer car. It's the same idea here. They can be really if you've looked at buying annuity in the past and decided, hey, I'm not interested. I'm not getting paid enough for the amount of money I'm giving to the insurance company, maybe take another look, it's probably not going to be a massive difference, but it'll be a difference.

21:07
Alex Murguia
This is another way I would look at it. And Wade, after I'm done, you can sort of give me the thumbs up, but also maybe explain how to practically pick one up. Because this question could be, since we don't know the context, this could just be like, what website do I go to? Kind of thing. Right. But to Bob's point, just to clear it up, remember the income from the annuity comes from two, you know, the natural rate, the rates are know, and it plays off of government bonds or whatnot. But then there's the mortality component to it. And when rates are low, the proportion of income coming from the mortality inherently becomes a greater share of it. When rates are higher, proportionately speaking, the income coming from the mortality, albeit more than bonds or whatever, proportionately, it becomes less as a percent of total income.

22:04
Alex Murguia
So that's the point Bob was trying to make. Now, from the standpoint there, how's that for save?

22:10
Alex Murguia
It's not just fun with me.

22:11
Bob French
Thank you.

22:12
Alex Murguia
It's not just laughs or whatever. I'm not just comic relief. Right?

22:19
Alex Murguia
Thank you. Eloquently.

22:22
Alex Murguia
My kids are taking the SATS today, actually. But then I don't actually know other than I would say talk to an advisor at McLean. But without sounding like that, how would.

22:34
Alex Murguia
Someone go about looking into it from a consumer standpoint? Not like theoretical piece, but okay, let me go to this website and start from here.

22:41
Wade Pfau
Well, this question was part of a very long series of questions that all linked together. I don't think they were asking that specifically.

22:50

Alex Murguia
Okay, let's ask that separately because it.

22:53
Bob French
Is an important mean wait, if I'm looking to go buy annuity, where do I go? How do I do this?

23:01
Wade Pfau
For the most part, it's not going to be a direct to consumer experience. You do have to work through some financial professional. Of course, McLean Asset Management can be a resource for this. There are some different websites out there that may appear for the most part as their direct to consumer and it's because behind the scenes there is an insurance agent on record. But they can give you that sort of experience that would be more in the income annuity world. Whenever you start talking about the variable annuities and so forth, you probably at some point are going to have a human intermediary as part of that effort. But yeah, you have to find a financial professional that you trust and are happy to work with to be able to do that.

23:49
Bob French
Speaking as all three of us are principals over at McLean, there are advisors there who are perfectly happy to or perfectly eager to help you figure out what you're looking for and be able to do that as well as Wade said, definitely some online tools there as well.

24:09
Bob French
Let's take a moment to let the audience know that this show is sponsored by Retirement Researcher. You can learn more about Retirement Researcher@retirementresearcher.com and subscribe to our newsletter where you'll receive weekly actionable information for your retirement planning benefit. Retirement Researcher is an online community devoted to helping you create the retirement income plan geared towards your goals.

24:34
Alex Murguia
Sure. And so here's a question from Karen why is it so hard to find an excellent fiduciary advisor that will give us personalized advice and direction but let us manage our money? We would like to find someone hourly to help us strategize okay. For me, I think through the course of this podcast we've been very candid about these kind of things. The truth is that advisors, business models just aren't geared towards hourly, most of them. There's many advisors that listen to this show and so I don't want to sound negative or positive or whatever, I'm just kind of maybe speak just from the business of advice, right? And disagree

agree. It is what it is, right? It becomes a business model question and frankly, the top advisors gravitate towards the business model that's assets under management because they provide the advice within a holistic piece and that's one of the main pieces now it's the business they chose to follow.

25:40
Alex Murguia
And what you'll find is a lot of the top advisors that's just how they that's almost a default to doing it. And the reality is the economics favor that model over others and I don't see that changing, frankly. Now something that we've know with McLean and with Retirement Researcher simply because Retirement Researcher was Wade's blog initially, and we turned that into, effectively, a membership site where folks can just know, learn, do it yourself, knock yourself out, because that's the only way we could scale.

26:22
Alex Murguia
If you called. Wade, hey, Wade, I'd like know ask.

26:25
Alex Murguia
You what your hourly rate is or whatnot? Or Bob, what's your hourly rate? The reality is in economics the economies of rent go to the scarce know and that's another way of saying it wouldn't be cost effective for you to hire Wade or hire Bob on an hourly basis nor would they want to simply because it doesn't scale from a business standpoint. And so Retirement Researcher and the like, we thought that's a great way where folks can do that. But then we also realized to your point, could we sort of create some sort of hourly component to it? And where we landed is not hourly. We just don't like that dynamic. We have many lawyers that are clients and to a T, the first words out of their mouth is I don't want to do this anymore. I'm tired of tracking my time. I want help.

27:15
Alex Murguia
We get CPAs that come into this industry and they're like I can't believe I was doing this hourly gig. It's terrible, I hate it. Why would we jump into that? Frey its bottom line is maybe the consumer wants it.

27:29
Bob French
But normally this explanation is it doesn't provide the best experience to the client either.

27:37
Alex Murguia
Yeah, everyone, I think listens to that and thinks whatever, that kind of thing.

27:44
Alex Murguia
So let's just get down to it here. And so the reality is though, we did open we do have just with retirement researcher, if you just want to do a plan, we'll price it and that's that. It could just be a plan and you go back into how many hours that take and divide it and figure out an hourly. But that's a one time plan. So there are advisors that are beginning to play with that. But you're not going to see a lot, especially at this level. You may see folks getting into the industry and things like that doing that, but that's just another business model altogether.

28:16
Bob French
I don't those at McLean, we do have those one time plans that do kind of do exactly what you're looking for there, Karen, where an advisor will work with you, figure out what needs to happen, how do you move forward, give you that blueprint and then you go do it. You go do the implementation and they'll be there to be able to help you with questions and follow ups and stuff like that. But you're the one in charge of that. You paid for a specific product and then you go do it.

28:50
Wade Pfau
And that does require getting over the inertia of you receive this plan. You really do need to go and do it. And I think certainly for the kinds of folks that we meet through retirement research or and with the podcast and so forth, they do have the capacity to move forward and do it. And so that one time planning option could be more valuable. But I think part of the reason why advisors might stick more with an assets under management model too is just because they know that inertia, if they give someone a plan, nothing's ever going to happen and they would actually like to see things followed through with and make sure that the appropriate actions are taken. And so by just having the advisor do that as part of the engagement, it makes it much more streamlined for most consumers. Not everyone, but most people appreciate that sort of approach.

29:42
Alex Murguia
So you got a blend of three perspectives. There's the business angle, there's the execution angle, and there's just doing the work angle at the same time. No, that's great. Here's a quick add on question for you, Bob. What level of education does someone need? And we're not trying that.

30:05
Alex Murguia
These are actual questions. Yeah.

30:10
Alex Murguia
What level of education for retirement? Researcher Academy.

30:14
Alex Murguia
Yeah.

30:14
Bob French
No, and Anne's mentioning, she's a CFA and she's read Wade's book or books, I think. Yeah, books. Plural in the generally, especially. So when I'm talking to outside people coming in to do presentations. So, in fact, this afternoon, I'm talking to someone over at dimensional about our workshop in December on women and financial planning. How I present this is the folks in the academy are very sophisticated, but it's not their day job. So for folks in kind of that mutual fund working with advisors type of the world, I present it as they're oftentimes as knowledgeable about the advisor, but you need to give them one or two more connections, give them one or two more pieces of context. So it's very in, I'll say, in the weeds in a lot of cases. Wade, your workshop yesterday on Medicare was about 4 hours. But at the same time, it's really designed for people who know smart people, but this isn't their job.

31:26
Bob French
They want to learn more about the topic. It's not just going to be purely, hey, here's this Social Security handbook and all the regulations. It's designed to give you the context. It's designed to give you the information that you need to make the decisions and implement the plan that you want.

31:45
Alex Murguia
Bob, it may be a good idea to come up with, like, a demographic, you know, simply because I think it could come know on different occasions. But here's a side funny note. Wait and I'll remind did when we did our pilot study for the Risa, we included a financial literacy quiz in it. And the consumers, the individuals did better on the financial and the financial literacy. It was a numeracy, not financial literacy. So numeracy is just math questions, like.

32:18
Alex Murguia
Who'S buried in Grant's Tomb but with math.

32:20
Wade Pfau
Right.

32:23
Alex Murguia
And the advisors did worse than the consumers that were part of the Retirement Researcher Academy. Remember that way were, like, laughing.

32:31
Alex Murguia
Because were like, oh, my goodness, look at this. We know our audience.

32:36
Alex Murguia
And so.

32:40
Alex Murguia
They naturally were drawn to us because we have a certain level of how we write. And so we don't necessarily dumb anything down, nor do we make it more complicated than necessary. We just provide the information that we feel will get you to where you need to go.

32:53
Wade Pfau
Yeah.

32:54
Bob French
We assume you're all smart people, and we give you that information and try and provide it in a reasonably entertaining way.

33:04
Wade Pfau
That's right. Yeah. There are more questions coming in. I think that one of these questions is probably from the person. So we do have all these Tips annuity combination questions there. We'll continue with those. But maybe before we get back to that again, there's another interesting question. With the total return portfolio and now with higher interest rates, can a 60 40 asset allocation, 60% stocks, 40% bonds, is the

4% rule safe? I think is basically what the question is getting at a little bit of commentary on that. So I'll be going to the Bogleheads conference this weekend and so I trying to catch up on what the Bogleheads are talking about. And one of the things that annoys me about some of their opinions is well right now with Tips, you can definitely support over 4%. If you build a Tips ladder, you're going to be getting somewhere around 2.4%.

34:01
Wade Pfau
Real is kind of the average yield coming out of that and I'd have to check, but that's going to support dramatically higher than 4% as a sustainable initial spending rate over the next 30 years. But then people take that and say, oh, so that means there's no such thing as a 4% rule. Of course 4% is safe. The 4% rule doesn't assume you build a 30 year Tips ladder. It assumes you use a 60 40 portfolio or anywhere from 50% to 75% stocks. That creates sequence risk, that creates market volatility. Just because you can support 4% with a Tips ladder doesn't mean you can automatically support 4% with a diversified portfolio. However, that being said, there's certainly a correlation. When interest rates are higher, it is much easier to support 4%. And now with Tips yields in that 2.4% range yeah, I can't really say that this is probability based versus safety.

34:58
Wade Pfau
First, if you're probability based, certainly today there's a much better probability that the 4% rule would work than a few years ago when interest rates were dramatically lower.

35:12
Alex Murguia
Without knowing the gentleman that wrote this in and thankful for writing it in. Right. We appreciate the contribution. But again, in the interest of just being candid, I don't like that question. To me that question no, look, there's many questions I asked that are stupid, so that's fine. But I don't like that question because I think it's the wrong frame of reference to be thinking about it. If you're deciding to take a total return approach and if you're in a 60 40 portfolio and if you look at the historical numbers off of that, I think you base your decision on something like that. Right. I mean, to me, what's happening now, to some extent, is I'm saying this and speaking in generality, so I apologize.

35:59
Alex Murguia
Here, but it's just you're using the.

36:02
Alex Murguia
Current situation to then guide what's happening tomorrow. And you're always going to be playing this

musical chairs when the whole point of all these studies was just to say, how would this perform throughout the entirety of an investment horizon? To me, this question opens the door for getting in, getting out, let me do this now, let me not do this now, that kind of thing. And I just don't like it because at the end of the day, it's almost as much about a philosophy of how you want to do this than at picking a particular time and saying, oh, if interest rates are high right now I can take out 4%. And if they lower, then you're going to put I don't know. It just gets into this rigmarole that I don't think you want to be thinking about when retirement income comes to play.

36:46
Alex Murguia
Bob, maybe you cannot find a better way of saying that, but I don't think you're thinking too differently than I am.

36:51
Bob French
Yeah, so, I mean, there is always the idea that the best predictor of future interest rates are today's interest rates. They're bad predictors, but they're the best ones we got. That being said, we do need to kind of look at the broader historical context, which, Alex, you're getting at. Which is why, kind of on the risky part of your portfolio, where interest rates are, as were talking about, does support higher levels of potentially higher levels of spending from reliable income sources, be it a bond ladder, annuity, what have you. But for that risky portion of the portfolio, this is where that probabilistic Monte Carlo type of analysis comes in so strongly. Being able to kind of analyze, hey, here's what I want to do. How likely is it that this will work out? And then what happens when it doesn't work out? And then being able to layer on distribution rules like we have in the payroll calculator in the academy, to analyze it from that perspective.

37:56
Alex Murguia
But make no mistake about it, there is no safe withdrawal rate exactly. From a risky portfolio, be it 4%, be it three and a half percent, because rates are lower or whatever. That's what people, I think, just keep on just conveniently overlooking when they begin this strategy. And that's why I don't and there.

38:19
Wade Pfau
Are people who are fundamentally comfortable relying on historical data and not comfortable relying on anything else, not comfortable relying on the idea that today's bond yield is the best predictor of future bond returns. And it took me a long time to really understand that mindset, but it is out there. And that's why this questions about things like the 4% rule live on. It's like, okay, it worked in historical data. So cool, okay.

38:46

Bob French
But this is actually a good entree into another question here, getting into the different approaches. We've got Karen talking about asking straight up, do some people other than herself not like don't they just don't appeal to her? And that's fine. The whole company of Risa is literally based on the idea that there's different approaches. Some people really like annuities. Some people, they're the worst thing in the world. It's really going to come down to what makes you comfortable. The same idea with these conversations about distribution rates, what type of distributions, how much and what types of risk are the ones you feel most comfortable with?

39:36
Alex Murguia
Yeah, I would say for Karen, I think it's a question that this is where the marketers won. There's two issues here. I'd like to lay the groundwork. The marketers have won. The marketers for assets under management have won. This sort of the current zeitgeist of how to take income from a portfolio. They just have the other piece. Let me just read the whole question. Do some people besides me not like annuities? They don't appeal to me, but I also don't really understand them. And I have seen advisors that did not do well for my parents. Helpful answer. This is a perfect encapsulation of what happens. Let's begin with, do people besides me not like annuities that's effectively?

40:21
Alex Murguia
Am I taking crazy pills or why.

40:24
Alex Murguia
Isn'T everyone, like, know that kind of thing? The marketers have won. The marketers for Fisher and in, these sort of AUM driven firms have won. Right. Because the fact that she's asking this means, oh, what's going on here? They don't appeal to me, but I also don't really understand them. Boom. I don't understand this. I hear in the noise that they suck, so I'm out of here. I'm not even going to ask. Right. That kind of thing. And then I have seen advisors do this for my parents and they railroaded them effectively. Yeah, I think a lot of annuity salesmen are paying for the sins of their fathers, largely 100%. There's a reason why the marketers have won. And so, ultimately, Karen, what I would.

41:07
Alex Murguia
Say is we did a whole arc.

41:08
Alex Murguia
On annuities that was five or six episodes, I would say. If you don't really understand them and you're

looking at it from the standpoint of a retirement income point of view, you owe it to yourself to do it. I mean, that way if you come back and write to us, the question of I don't really understand them disappears.

41:26
Wade Pfau
Or Retirement Planning Guidebook.

41:29
Alex Murguia
And then I think, look at that.

41:33
Wade Pfau
Take the research, because this issue of annuities, like Alice is saying, annuities have become a dirty word in US.

41:42
Alex Murguia
English.

41:42
Wade Pfau
I was once asked when I lived in Japan, why does English have these two different words, pension and annuity? In Japanese, there's just one word don't they mean the same thing? That was the idea that they should mean the same thing. But then it's all related to tax law and how annuities got certain tax deferral benefits. And so then they became treated more as investment vehicles instead of as insurance products and a whole rigmarole of, yeah, annuities and pensions. Social Security is annuity. It provides lifetime income. And that's the traditional idea of what annuity is. But if your retirement income style is total returns, then, yeah, maybe your intuitions are completely justified. Annuities are not going to be right for you. If your retirement Income Style is income protection, though, that's where you might want to spend some more time making sure that do you understand what these are?

42:36
Wade Pfau
What they can do, how they might contribute to your financial plan in the manner that might ultimately make you feel more comfortable with your retirement? Because they're financial products that will appeal to some people, will not appeal to other people. Past performance does not guarantee future results.

43:08

Bob French
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