Episode 109: RWS Live (not really) Answering Your Questions Part 3

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SPEAKERS
Alex Murguia, Wade Pfau, Bob French

Bob French 00:00
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. You know, if you all keep asking great questions, we're going to have to keep answering them. And that's what we're doing this week. This is your own fault.

Alex Murguia 00:51
Hello, everyone. Welcome to retire with style. This is Alex and I'm here with my trusted companion Wade Pfau, Wade. Thank you for joining us today. So happy to have you. Absolutely. Is

Wade Pfau 01:03
that your Terry Gross from NPR impersonation?

Alex Murguia 01:07
Well, all things considered all things considered that is

Wade Pfau 01:13
just trying to be more light on the light FM stations.

Alex Murguia 01:18
The quiet store. I was just trying to be I was trying to center myself and then I realized after the first two words, I was like, man, sounds kind of odd. Let me go with it and see what Wade says. But today, we will be thank you for joining and we'll be continuing with our q&a session, which was I would think around rousing success. Well, it depends on our answers, I guess. But based on the questions, it's been a great success. I think he's given us a lot of fuel for future episodes. And, you know, part of the content pieces that we can create throughout the year. Wade thoughts? Yeah.

Wade Pfau 01:59
And like I've seen in the past episode, it's always great to get these questions because it helps us understand better like, where the concerns are, where we might be not explaining something the way we thought we were or just new ideas new. Some of the times I learned new material, because I get a question. I don't know the answer to and have to look it up. And so it's great to hear your questions and, and we've probably got another few episodes still on just answering questions that came in for that live q&a. And

Alex Murguia 02:27
Wade, how many times do you learn something just by listening to my answers as well

Wade Pfau 02:35
look back and see if I could find

Alex Murguia 02:42
I'm gonna need the chapstick again. Oh, and please write in. We were the very we had a little friendly debate. It's winter right. And I'm in the camp where I put like a one of these chapstick things and every pocket that I have, obviously, you know, when you wash your clothes, you take them out etc. Because I lose so many of them I just put them in everyone and that is my sort of Hi Sue that anxiety of being out of pocket without chapstick. Wait what do you do it's just completely the opposite. You're

Wade Pfau 03:14
saying it was your OCD that you knew at the time and I to the extent I have any OCD it's more I don't want to be using more than one at a time. I'd want to make sure I use one down entirely before opening a new ones. I don't know it's like a different version of OCD.

Alex Murguia 03:28
I'm more profligate I guess you're saving the world

Wade Pfau 03:32
you're saving the world. miserly.

Alex Murguia 03:35
No no no. Probably efficient. It's just I move so many of them. Same thing with like, love it. Just put gloves in like the to a couple of main jackets that I use. And off we go. So wait, did I heard Santa came this morning to your house and drop something off? Yes, I

Wade Pfau 03:57
had a very nice gift that arrived overnight. I'm not open the package yet. I know what's in it for you. And it's a new next generation. Next step. It's a pull up bar that I'm going to have to figure out how to install and start doing pull ups.

Alex Murguia 04:15
There we go for you and Joseph you enjoy. Yes. We have a we're doing a little challenge within the Risa company behind behind the scenes where we're going to see if we can double up our pull up counts. So wait, where do you think you're by right now?

Wade Pfau 04:34
Well, the last time I was at a playground at the park and just tried I did get three pull ups and without effort. I didn't try to do a fourth one but i don't know i It's probably been six months since I did a pull up. Did

Alex Murguia 04:49
we did you have your shirt on when you did them or did you take off your shirt in a playground do a couple of photos. And then you're escorted out of the A

Wade Pfau 05:02
children's playground? No, I think me at the time. Okay,

Alex Murguia 05:10
good. Good. Thank you for throwing that in there, by the way.

Wade Pfau 05:17
no legitimate reason to be there. No,

Alex Murguia 05:19
I think I did. Uh, no, I just did right now before we started just to see what it would be. I'm at seven. So I'm a legit seven right now. No kidding. We'll see if we can double that up by when Trevor say end of February.

Wade Pfau 05:31
That's what he was saying.

Alex Murguia 05:33
Okay, there we go. So we'll do that. And just so I have you on record, push ups, what are we gonna? What are we gonna commit to?

Wade Pfau 05:43
The dream is to be 100 a day. Right now. It's more like 15 or 20 a day. But we'll see. Well, we'll see you back. There

Alex Murguia 05:49
we go. What are we talking about? If

Wade Pfau 05:54
you're already doing it the

Alex Murguia 05:55
royal way. There we go. Alright, so off we go. It's healthy 2020 for everyone. And now for your financial health. We have some questions du jour. Here want to rip the first one off?

Wade Pfau 06:09
Sure. And so in this episode, they're all different random topics still, but because this was actually what we were originally planning to use are the

Alex Murguia 06:20
bag with questions that were

Wade Pfau 06:21
locked in. In subsequent episodes, we may have more theme based questions where we put together on the same theme. But yeah, the first one kind of from the grab bag here.

Alex Murguia 06:30
I bought real real quick, because you said, you gotta remember, we have day jobs. So we just literally look at these. There's not a lot of prep. So I don't know how much time we're gonna be able to organize them. But we'll try.

Wade Pfau 06:42
I did that yesterday.

Alex Murguia 06:45
In topics?

Wade Pfau 06:48
Well, yeah. But yeah, the first one is kind of a withdrawal rate question. It's just one of the themes that we hear about. So I have $10 million of liquid assets now that that's not me personally.

Alex Murguia 07:03
Or you have more buddy.

Wade Pfau 07:06
So 10 million $10 million portfolio and a fully paid home, plan to retire in five years, and we'll probably save an additional one and a half million before that time. We oh, we're gonna be paying $500,000 for college educations. So now that they project to get at retirement without any investment growth with one point or 11 $11 million, without any investment growth, currently spending $300,000 a year? What should our expected spend be in retirement, assuming we don't have any other income other than Social Security?

Alex Murguia 07:43
Well, that's there are a lot of simplifying assumptions we're going to have to make here because we obviously don't know the life story, or you know, what their like streaming bundle looks like. And stuff like that, do you want to maybe talk about some of the simplifying assumptions we're gonna have to make?

Wade Pfau 08:01
Well, for one thing, we don't know if that $300,000 included tax payments or not, if it's if that's kind of net of taxes, you do have to add any tax payments on top of that. But But simply, they shouldn't have any problem continuing to spend $300,000 a year, even without any investment growth, 300,000 divided by one point, or sorry, by 11 million is a 2.7% withdrawal rate, which where interest rates are right now is, in past years, when interest rates were incredibly low. That might be a better guess, of what a good withdrawal rate would be. But in today's interest rate environment, that's a pretty conservative withdrawal rate. And that's not even counting the

Social Security yet. So with Social Security also added on there, you can spend even more, we just don't know whether or not we also have to add taxes on top of that, which could be the only kind of constrained there. But if they want to spend more than 300,000, they probably have some flexibility to do so. First,

Alex Murguia 09:02
yeah, I'd like to add a couple of just things to think about here. Are you interested in adoption? Because I think we can, we can do a reverse thing here. Now they're here. You know, first of all, congratulations, you know, it, it's a good problem to have, obviously. So Mazel Tov, that being the case, just some things to think about. Because obviously, we don't know your budget, or we don't know your goals, and because you can always spend, you know, as much money as you have. Right. So subject to that. That's the caveat, but in terms of thinking about spending in retirement, I think folks, you know, view the spending rules and think okay, let's just say it's, I need 100 grand, and I'm going to have to peg that to inflation every year. So 100 grand first year, 102,000, the second year, etc, etc. And then they They line it out and figure out how much that is. That's not how spending happens in retirement, it's not linearly going up like that, what usually happens is on a real real time spending basis, it goes down, it's not linear on the downside either. But if you look at it after the entire retirement horizon, you're going to see probably a decrease of 2% spending in real returns in real money. So you don't really need to always spend more and more and more and more and more it actually goes the other way around. And but it doesn't go the other way around linearly, it there's that U shaped curve, that sort of that spending smile that we all speak about, were at the beginning of retirement Life is good, let's, let's go to Morocco, let's do all these things, you know, then it goes down, simply because there's only so much you can do you get older, there's you're limited in your physical capacity to do things. And it's just the normal course of things. And then towards the end of life, it spikes up again, for healthcare reasons. But you don't need to think about your spending as you're trying to conceptualize this, is that that okay, me $300,000. Because that's what I'm spending down now. And every year, I need to get a little COLA to that. And I need to project that out for 35 years. That's just not how life works. Again, it's that you see a spending smile, the AV average it out, it's it goes down about 2% in real terms every year. That being the case, you can think about it in terms of replacement ratios. Now, that's not something that and Wade, maybe you can talk about this right after. But that's not something I would say hardcore economists love, because it doesn't take into account consumption smoothing. But a replacement ratio is if I'm spending 100, if I'm making 100 grand a year, and that's what I'm using to fund my living, and I'm able to slot into a standard of living that I can I can deal with, then when you retire because you're not, you're not spending as much anymore, you're not saving for retirement. So you know, you're contributing 15% of your salary and retirement accounts that's no longer needed. Right. If you're at a job where you had to drive to it, you had to have a certain sort of dress wear for it, you're going out to lunch all the time with friends for lunch, those sort of things that disappear effectively, you also are aren't paying as much in taxes because you're not working as much. So that's where the concept of replacement ratio comes in. And what does that look like? It varies obviously results vary, right? I've seen it in broken down into quartiles where at the highest quartile, you're looking at about low 80s replacement ratio at the lowest quartile, you're looking at something where your expenses in that being like 60%, you know, of what your salary was. And so if you want to begin to ballpark it, shoot for some number like that between 60 and 80. Run a budget, see how that works. But when you're budgeted out know that it's you don't need this consistent upswing, you may have some

milestone goals that are big ticket items. But for the most part for the every day, you're actually going to see a decrease over time. Wait, yeah,

Wade Pfau 13:16
and probably where that's most relevant. And this example is just the $500,000 estimated for college kind of deduce from that there must be some children living in the household at this point. If they're thinking they're gonna pay full, in full at a private university, maybe that means two children. If they're estimating something less per year, maybe they have more than two children. But once those children leave the household, you're not going to be spending as much especially teenagers, as I'm learning, have expensive grocery bills associated with them, and so forth. And so if you're spending 300,000, right now, a chunk of that is just paying for expenses related to child rearing that will go away. And that would be a reason why the the natural replacement rate is not going to be 100%. So that you may not even necessarily want to spend 300,000. But if you're if there are things you want to spend on so that you want to get that spending up, yeah, there's that's where back to my initial point of, you're looking at a 2.7% withdrawal rate right now. And that's completely reasonable in the current market environment. And as Alex was alluding to that the idea of the 4% rule concept assumes you increase spending every year for inflation. If your spending naturally declines in inflation adjusted terms that can allow a higher initial withdrawal rate. And so that would make 2.7% even more conservative as estimate of the initial withdrawal rate in retirement.

Alex Murguia 14:48
All right, next question.

Wade Pfau 14:50
All right.

Alex Murguia 14:53
Next question is, I've decided to delay claiming Social Security until age 70. If I become deceased, prior to age 70, can my wife maximize her survival benefits by claiming her survival benefits until I would have reached age 70?

Wade Pfau 15:13
Yeah, and I think with the to be completed literal about the way the question is, where did the answer is going to be? No, the there's no, it's not about the wife waiting until you would have reached age 70 or anything like that the way the survivor benefits calculated, if you haven't claimed yet. So if you pass away before full retirement age, the survivor benefit would be linked to the value of full retirement age. If you're older than full retirement age, and you're planning to claim at 70 and say you pass away at age 68, their survivor benefit would be linked to what you would have gotten if you claimed at the date of death. So basically, your age 68 benefit would translate into the survivor benefit. And that's how it's going to be if the survivor claims at their full retirement age. Now, survivor benefits do not have delay credits. So there's no reason to claim a survivor benefit. After full retirement age, you don't get those delay credits, that's maybe something that might be a little surprising. But the other interesting aspect of survivor benefits is, unlike spousal benefits, you can file a restricted application where you can say I just want my own worker benefits. I don't want the survivor benefits yet. Or you can say I just want my survivor benefit, I don't want the my own worker benefit yet. And so what that allows for for this survivor in this scenario, if your survivor benefit would be bigger than your own worker benefit,

you could claim your worker benefit early. And then when you reach full retirement age claim that survivor benefit, because again, there's no point in waiting past 70 to claim the survivor benefit, it's not going to increase beyond your full retirement age.

Alex Murguia 16:58
Can you see the last part again, Wade, so everyone hears that you have the

Wade Pfau 17:02
survivor benefit is bigger than your own worker benefit. Claim your own benefit early, maybe age 62, unless you're working anyway. And there's, it's all going to be taken away with the earnings test. But then, at full retirement age claim the survivor benefit, and full retirement age is somewhere between about 66 and a half and 67. At this point it it'll be 67 for anyone born in 1960, or later, so no need to wait past full retirement age to claim a survivor benefit. Now, on the other hand, if your own benefit will be larger, you can claim your Survivor Benefit early as early as age 60, actually not 62. And then when you reach 70, then you can claim your own worker benefits and get those delay credits on your own worker benefit. So that would be the way to approach this, but I'm going kind of beyond the original question. The original question is, no, if you if you're waiting till 70, but you passed away before 70, the survivor benefit is linked to what your benefit would have been at the age you pass away. You can't there's no way to to get further delay credits out. Now.

Alex Murguia 18:13
This occurs even if you put your hand on the Bible until the the social security people that I swear I was going to my husband was going to wait until 70 To claim right there,

Wade Pfau 18:23
they're not gonna listen to you. There's nothing that can be done in that scenario. All right.

Bob French 18:33
Hey, did you know Wade's updated the retirement planning guidebook for 2024. In addition to updating the numbers used throughout the book, we've reworked the tax planning discussion. You can get the updated version on Amazon or your preferred bookstore. And to celebrate this update, we will be hosting a webinar how to create tax efficient retirement distributions on Monday, February 5, at two Eastern admittedly not many people celebrate by talking about distribution strategies in retirement. But if you do, you're definitely one of us. For more information and to reserve your spot, go to Risa profile.com/podcast. Again, that's Risa profile.com/podcast. See you there.

Alex Murguia 19:22
All right. Next related question here is the current federal tax rates are scheduled to return to their higher 2017 rates starting in January, the first 2026 If Congress does nothing. Leave it right there, right. Congress does. If Congress does nothing come, they will revert to the higher 2017 rates with the current US national debt of approximately 34 trillion. Do you think Congress will do nothing and let the rates revert back to the higher 2017 rates? To help pay down the national debt, I'll start this off. Wade. And you could sort of add to it here. But I mean, the caveat is with the current US national debt of approximately 34 trillion, and things like that, you know, as a general matter, I don't we don't try to guess what they're going to do based on the debt being so high and things along those lines, listen, we all can read those numbers, we all understand

them. But when making decisions, we just go with what the law says, you know, the last change is fine. But I think a better strategy is not to anticipate what's going to happen, I think you'll find out more times than not, you are wrong, or things you are directionally right, but not, you know, in terms of magnitude may be off, you know, there's so many variables that can still play into it that we don't get into that game. I mean, we just take whatever the law says. And that's what, that's what you put into your Excel sheets, when you're trying to figure out what your next move should be waiting at.

Wade Pfau 21:10
That's what I use in all my analysis and discussion of tax planning and tax efficient retirement distributions, I assume current law, which is current law in 2026, the tax rates will change the 12% bracket will become 15%, like it was in 2017. And before the 22%, bracket will become 25%, and so on, and so forth. And so that is a more conservative assumption as well, because it's it's building in this idea that tax rates will be increased, not due to any action, but to do to that's what the current law is. And in that regard, it does, if you believe that current law will remain as it is, it creates the opportunity that in 2024, and 2025, there may be some unique chances to do Roth conversions or other strategies to realize taxes before those tax rates are set to increase. Now, there could be other opinions about this. Someone could just say, Well, right now, today's tax schedule, is what I want to assume forever into the future. You can make an argument for that. But I do agree with Alex that no, it's you have to go by current law and current law is we will have higher tax rates in 2026. Well,

Alex Murguia 22:26
and just to say, you don't have to do anything. That's just what we read. That's just how we play it. Yeah, if you consider all of this a big game, that's just how we played we don't get into the, oh, it's 34 trillion. But if it's a Democratic Congress and President, you know, it'll continue if it's a Republican isn't. It's just, my head will explode. If I start thinking like that, and nine times out of 10. You, it was wasted calories. Next question, you've thoroughly convinced me of the value of lifetime income protection through delayed Social Security and annuities. Good job wait. The question I have is how to right size the annuity? Should one aim to to charge should one aim to have one able, with Social Security to fund all of the projected longevity expenses? Or is it okay to have only a set percentage of those expenses guaranteed? And leave the rest of the investment portfolio? I like this question a lot. I'll let you kick it off with Yeah.

Wade Pfau 23:38
And so the question is really just do you want to have 100% of your longevity expenses or essential expenses covered with reliable income? If and this is probably your more income protection, if we were able to convince you that the value of lifetime income protections or have an that's just longevity because your overall retirement budget is longevity plus lifestyle, essential plus discretionary.

Alex Murguia 24:01
By using longevity, you mean essential expenses, just central expenses. Now,

Wade Pfau 24:05
where does when we would the Risa, we're implicitly assuming that you would seek to cover 100% of your essential expenses with reliable income sources. So that's the basic assumption, but it's not mandatory. And maybe even with a compromise if the other individuals total returns

is to only create reliable income for a portion of the longevity expenses, you definitely have flexibility. But the basic assumption is you would be seeking to cover 100% of your longevity or essential expenses with reliable income such as pensions, Social Security annuities, letters in the link.

Alex Murguia 24:42
What I would add to that is I think sometimes I don't think the first question the couple with the first question that they're sitting on $10 million in assets, but life is good, right? But and so they could potentially they have a budget that they can spend probably enough to cover they're not. But I think what happens, ideally you'd like to do 100%, because that allows you the flexibility to go all in on the, on the, what's it called on the discretionary, and, you know, match it with a more aggressive investment portfolio, and you have the comfort of knowing that you have liquidity because of the income that's coming in. But the, I think the greater reality is a lot of people just simply can't fund a private pension, you know, ensure their Social Security. And that may cover I'm just making it up 30% of your essential expenses, but you may not be able to buy an annuity or some sort of contractual income for the remaining 70%. Right. And so where are you? What, what should just drive? What's the next best thing? If you will? You know, you read some articles, there is no, there is no standard, like up from the mountaintop answer. But there are some really good academics that we respect, and you know, the first one that comes to mind is motion milewski. He's always shooting it around like 70%, you know, as a good target to hit from a minimum standpoint. So, you know, try to get as much as you can to that, if not, and, you know, the caveat is I don't want this to be a let them eat cake, because some people may not even be able to do that. But if you're thinking about it in those terms, obviously 100. But if that's not realistic, and if that's not your style, you should get a healthy slug. You know, I think having 70 is a good number. But again, that's probably telling you more about my baggage than, than yours. So there, there it is.

Wade Pfau 26:34
Yeah, and if you've used our funded ratio tool at retirement researcher, the you're kind of the idea is you want 100% funded nests for reliable income, but with what Alex is describing, you would actually allow yourself to be underfunded, with respect to reliable income. That's not usually how we explain the income. No, I don't

Alex Murguia 26:56
I'm just No, no, no, I, I just I'm coming at it from the standpoint of if you don't have enough money, and I think a lot of people may just simply don't have enough money to cover it. So at what point? Is it like, you know, below this number, I think you're really kind of, you know, I would feel uncomfortable myself.

Wade Pfau 27:16
You're not saying if you don't have enough money, you should just invest it and hope for the best. You're just saying no, no, no, no money to.

Alex Murguia 27:25
Okay, exactly, exactly. Yeah, I'm not saying buy a lottery ticket, if you can do it, and hope for the best. No, no, no, I'm just saying, realistically, I don't want people to feel bad thing. I can't get to 100%. You know, this is a failure. You get what you can. But, you know, I don't think

realistically, the average American is going to be able to pay 100%, you know, cover 100% of their essential expenses. Do you? I don't see that happening?

Wade Pfau 27:53
Well, for the I think the average American, probably Social Security would be sufficient to cover essential expenses. You started with this podcast? Maybe?

Alex Murguia 28:08
We'll leave it at that, then. Yeah, there's some comments. But uh, you know, then. Uh, yeah. I mean, like, when you get a bit, sometimes people say, so security is enough to cover you. Yeah. Because when I said earlier, I mean, there's studies that say, Well, suppose for people in the lowest SES bracket, the replacement ratio on Social Security is very high. And so it's easy for people to say, well, they're good, they're covered Social Security can, can get them there. But all that saying is these people are living, you know, you know, they're struggling, but they've struggled all their life. So if they continue to struggle in retirement, they don't know any better. So, hey, we're good. That's kind of, to me, I think that's, that's kind of, you know, sometimes Where were those kind of answers get at which I don't necessarily subscribe to, if we can, like help. You know, we shouldn't in some manner, but again, that that deviates from the q&a. On the next one, what's the you want to read that one? That one's a little long, and I'm gonna fumble it? Yeah.

Wade Pfau 29:13
And the I realized that printout I made cut off the right maybe 10% of the words, but I should be able to

Alex Murguia 29:20
practice. I can read it then. No, I haven't. I haven't on my computer. I'll read it. Alright. It's

Wade Pfau 29:25
a long one. All right. I'll

Alex Murguia 29:27
read it. I am sold on fixed income annuities, not annuitized in parentheses,

Wade Pfau 29:33
as an alternative have a fixed index annuities is what yeah, you're

Alex Murguia 29:37
right. fixed indexed annuities as an alternate approach to bonds for safe retirement income. I ran this approach by my investment advisor who works at a major investment non insurance firm, like a Morgan Stanley or something like that. And they said FIA A's are garbage in quotes, will get hit by too many fees, may not lose money, but will give up too much To upside, and they are read and they rarely deliver what is promised? Is this an example of channel conflict? Quoting and IE conflict of interest putting down products that the salesperson doesn't get commission or investment advisor fees on? Or am I truly missing something, guys? Is there no free lunch? Are there any no fee fixed annuities that are not garbage and from your unbiased opinion, my provide safe retiree income source given the right situation? Love the show and the banter back and forth before you get into the meat of the show up? Well? Yeah, exactly. I would

say this, this is not an example of channel conflict. I think it's an example of stupidity on the part of your advisor. Honestly, that's just lazy thinking. And it's somebody, you know, giving you a half assed answer, because they don't want to do the work. But you know, you Why don't you get it, you know, start the momentum. And I can add to,

Bob French 31:05
Hey, did you know Wade's updated the retirement planning guide book for 2024. In addition to updating the numbers used throughout the book, we've reworked the tax planning discussion, you can get the updated version on Amazon or your preferred bookstore. And to celebrate this update, we will be hosting a webinar how to create tax efficient retirement distributions on Monday, February 5, at two Eastern admittedly not many people celebrate by talking about distribution strategies in retirement. But if you do, you're definitely one of us. For more information, and to reserve your spot, go to Risa profile.com/podcast. Again, that's research profile.com/podcast. See you there. Yeah,

Wade Pfau 31:54
just that expression, giving up too much of the upside. It's important to not think of these as a stock alternative, but rather as a bond alternative, and so you're not going to get the full upside of the stock market. But hopefully, you're not replacing your stocks. With fixed index annuities, it's meant to be thought about more as you're replacing bonds with fixed index annuities, and then whether or not you actually may be getting more a higher average return than you could through bonds. That would, that's definitely a possibility. In terms of the fees, that's where this advisor may not really kind of understand what they're talking about. Because there aren't I mean, it's not that there's no fees. Sometimes they're marketed as being no fees with fixed index annuities. But there's not an external fee, it's a spread product. The is just like a checking account where the ideas, the insurance company invests your money and is able to earn more on it than they pay out to you. And that's how they they make money when they can quote unquote, say there's no fee, but there's not a fee. This advisor may be confusing variable annuities with fixed index annuities, if they talk about there being high fees, there are surrender charges, potentially. But if you're holding the annuity as a long term proposition, which you should be, it's not meant to be a short term investment. You don't ever have to pay those surrender charges. And so you're really not paying fees. The simple idea is if it's linked to the s&p 500, price returns, dividends excluded, because it's based on financial derivatives, there'll be a floor and a cap, suppose the the floor is 0%. Suppose the cap is 8%. It means if the s&p once you take dividends out once the s&p price return is determined, if it were if the market was down, you get 0%. If the market was up between zero and 8%, you get the full game at that point, again, not with dividends, but you get the full price return. If the market was more than 8%, you would be capped at and you get an 8% interest for the payment of payment for the year. Now with that kind of structure that can be competitive with bonds. And that's really what they should be compared to it's not giving the full upside of the stock market for sure. But it's it's potentially giving you a return that's competitive with bonds. And you do also get the tax deferral where you're not paying on those gains or interest credited until you take out of the annuity, which can be another way to help get a little bit of boost over taxable bonds, whichever year you're paying tax taxes on the interest earned. And so at the end of the day, you want to compare that to other bond options. And yeah, I think there are there are no fee, I'm sorry, no fee is not the right term here. There are no commission versions of fixed index annuities which can allow for even higher caps relative to commission based and so there are some competitive options out there and definitely deserves to be an option that people look at especially without

living benefits. So just For the underlying structured return, could be something to look at in the short term buckets with time segmentation. And then if you do want to add a lifetime income benefit, now that's an optional benefit, there is a fee for the optional lifetime income benefit, but there's also a lifetime income benefit associated with that fee. And that can be another option to look at for people in income protection that are seeking a lifetime income source.

Alex Murguia 35:26
There you go. That's the clean answer. Here's the dirty answer. No, I think something for listeners to point out, which I think is key FINDEX fin, fixed index annuity that's not annuitized. So if it was annuitized, which at this point, I'm not even sure this advisor is picking up on all these things. Effectively, your answer still stands if it is annuitize. And there's an extra fee for that part of the annuitization. Because it

Wade Pfau 35:56
becomes an immediate annuity and very few there you go ever annuitize

Alex Murguia 36:01
No, but what I'm getting at is it's just you know, it's an insurance product is ultimately what I'm getting at, it's just the reverse life insurance product. And that's how it should be presented not as an investment alternative, although the bonds is compelling. i But what gets me here is philosophically, this is the response that you receive, that your advisor can be a nice person I'm not, you know, it's controlling for this person being a nice person or not. I don't like that answer that's giving to a client. Because there's there's two things at at, at best, the person is a retirement and Kabila top, which is not a good outcome. Worse, that person doesn't care where you're coming from. And it's just jamming into you what they think that you should do, because that's what they would do. They're not taking into consideration, the whole reason why we created the Risa, which is how do you want to source retirement income? And let's work around that. Because again, the underlying assumption is, there are many credible strategies to get it right. It's not just the total return. And that's it, you know, which is what I'm going to assume this person is pushing to some extent. And and I think that's the problem with this industry, to some extent, is that there are many credible solutions if you as a professional discount something, and then just because it doesn't fit your business model, and then you the way you discount it is just by saying, Ah, that's full of crap. That's garbage. It's expensive. You don't get what they promised you whatever, whatever. I think that's lazy thinking 100% Lazy thinking, and it doesn't get you anywhere. At the end of the day. The other piece is commission you added as a question, is there a feel the option? Listen, we we do McLean asset management, we're managing principles of McLean asset management. So we were a fee only shop for a long time, you know, 20 years, you know, we started introducing insurance products simply because of the writings that we've done. And by we, I mean, wait, where it shows this as credible. So we, as opposed to always referring it out, we just took it in house. So we can balance both of them. And I can see the hand over my heart. One is not inherently better than the other at the end of the day, is what outcome is it solving for? And is does it do it efficiently? Because what the fee only people won't say is okay, here's a commission product, and you're paying these huge fees, you know, for the transaction. But you can make a strong case that paying a one time commission is much cheaper than paying an advisor 1% For that earmark amount of assets over 10 years, over 15 years over something like that. So I you know, I think that's a game that that's played a lot from a headline standpoint. But if you dig a little deeper, it really is, what product is being offered, and does it effectively and efficiently solve what you're looking for. But

in terms of your advisor, I look I think that's part of the problem with the industry. Not part of the solution. Not the totality of his or her advice, but this particular point of view. I do quarrel with you sir I don't know. rose by any other name. smells, smells sweet. Or whatever. Alright, Starcross lover. Why don't you read the last question?

Wade Pfau 39:22
Yeah, okay. So So 20 years ago in the financial industry and retiring with a house paid off was strongly recommended. We have Dave Ramsey.

Alex Murguia 39:35
We should have a sound effect every time his tape comes up. There's something like a clown horn or something like that.

Wade Pfau 39:43
Yeah, Dave Ramsey recommends getting a 15 year mortgage and then paying off I guess as fast as possible. On the other hand, Rick Edelstein or Edelman says to always carry a 30 year loan has come how come pain of for a mortgage at retirement is not talked about the same, or before retirement is not talked about the same as it was in the past. Okay. So basically, you want to maintain your mortgage for as long as possible, or do you want to get it paid off? And would you? Do you want to enter retirement still having to make mortgage payments? Or would you like to have that paid off before entering retirement? I think is a nice way to summarize that.

Bob French 40:26
I think there's

Alex Murguia 40:27
either right, there's no right or wrong, it's just goes back to what your style is. I mean, there's similar to the other one about discounting fixed index annuities, I think in the defense of these two folks. I think it's a matter of style, right? You want to maybe dig into that a little bit?

Wade Pfau 40:43
Yeah, yeah, I think that, right. If you're probability based, you're more likely to want to carry that mortgage, because you view it as well, my investments will earn a greater return that I'm paying on the mortgage. And so really, the the mortgage is a way to borrow to invest in the market. So it's, it's kind of like a negative bond, where it's letting you accelerate and invest more by having that mortgage in place. If your probability based, you're in kind of comfortable thinking that that's going to pay off for you, it will probably be the case that your portfolio earn more than you're paying in interest on the Morgan. So you're getting an extra boost from that. If you're a safety first, you're not going to be as comfortable with that approach. Do you feel more comfort, having the mortgage paid off so that you're not leveraged? And in retirement, you don't want to have those fixed mortgage payments in the early retirement years, which actually increase sequence of returns risk, because it requires a higher withdrawal rate, when you're the most vulnerable to market volatility. And so there's more of a case of let's get this paid off, not have to worry about it not have this fixed expense looming over our retirement. That one kind of caveat to that was if you got a mortgage 510 years ago, and it's like three and a half percent mortgage rate right now, you can pretty easily get safe short term treasury bills are other kinds of fixed income assets that will allow you to earn more than the mortgage rate. So you may want to instead of just simply paying off the mortgage, you may want to keep money in a short term fixed income

asset that's yielding more than the mortgage rate. And give yourself a little bit of extra boost from that. But if you're thinking more broadly about No, I just want a more diversified investment portfolio, I believe stocks will grow faster than the mortgage interest payments. And so let's leverage the mortgage to invest more in the stock market. Whether or not you're comfortable, that really does depend on whether you're more probability based or more safety first.

Alex Murguia 42:44
That's that's a good point. And I think this goes, the flip side to that is obviously, if you're, if your mortgage is higher than what the bonds are yielding, you may think about like speeding up paying off your mortgage, you know, all things being equal. But the other the other way to look at this, and I'm going to sort of put my Dave Ramsey hat on and Rick Adelman hat on. At the end of the day, I think Dave Ramsey speaks to an investor that's in the process of like getting out of debt, and things along those lines, like financial budgeting, so and being very fiscally disciplined, because there's not a lot of wiggle room. And usually folks have gotten into trouble with debt. Right. And so I can totally see why Dave Ramsey would find it prudent to instill a behavior in which they're paying off loans and not having debt, because of what may have happened previously, to his average listener, if you will. Right now, that's just me making assumptions that may not be tenable. But that's the vibe I get from the the audience that he has, it's the most common denominator audience of Americans that are struggling getting out of debt. Right. Rick Adelman speaks more to the mass affluent. I don't know if that's the right word. But, you know, let's just say 250,000 of investable assets. Right? So they have a lot more flexibility. They're probably not dealing as much with debt reduction or managing those basic finances. So I can see why he would say something along the lines of, hey, you know, what stocks for the long run, got it and just be paying this off. It's okay to carry this debt because over a 30 year horizon, you'll probably make more from the portfolio than you would have, you know, that you would have otherwise. I think there's there's something to that way, in terms of their advice is driven by who their audience members are as well.

Wade Pfau 44:42
Yeah, and it's in the context of Dave Ramsey's, not necessarily timeout, giving the mortgage paid off before retirement specifically, just getting the not wanting to have debt is a more general concept. Yeah,

Alex Murguia 44:55
and I totally see that and that that concludes This q&a We're 42 minutes in. And we did one more question. I know we'd go over. So in the interest of parsimony, we'll cut it there. What do you think? Wait,

Wade Pfau 45:10
sounds good. And we'll continue with more of your questions in the next episode.

Alex Murguia 45:15
All right, everyone. Thank you for listening.

Wade Pfau 45:19
Catch you next week on retirement style.

Bob French 45:23

Wade and Alex are both principals in McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tyson's Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. All investing comes with the risk including risk of loss. Past performance does not guarantee future results.