Episode 97: Using Reliable Income to Manage Inflation

00:00
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.

00:02
Bob French
to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality.

00:40
Bob French
Want to buy money in the future with money that you have now and make sure that future money isn't worth less money we can explain, I promise.

00:51
Wade Pfau
Welcome to Retire with Style. I'm Wade. I'm joined by my trusty co host Alex. And we're both joined today by our trusty regular guest star and presenter. And what is it? The announcer for the show as well, Bob French. And welcome back to the show, Bob.

01:07
Bob French
Well, thanks for having me back.

01:09
Wade Pfau
And I don't know. Yes, he's got that booming radio voice to do the intros. But we are continuing with our discussion of inflation in this episode. I did mention at the end of the previous episode we'd be talking about the retirement styles, but then we realized there's actually a lot more to talk about before we even

get to going through the styles. So we may ultimately save that for the next episode as well. But what we do want to spend more time talking about in this episode is we began the discussion of Tips and I bonds, and particularly Tips in this context and started talking about whether you hold those in a mutual fund or whether you ladder those into a retirement income bond ladder. And so it's probably worth exploring more about that specific topic. And then we also have annuities on the agenda and the role Annuities play in this whole inflation conversation as well.

02:08
Wade Pfau
So I think that's going to be a good agenda for this particular episode.

02:12
Alex Murguia
Okay, Wade. That's great.

02:16
Wade Pfau
Thank you, Bob.

02:17
Alex Murguia
You're welcome.

02:18
Wade Pfau
Glad you approved.

02:19
Alex Murguia
Yeah, it's good. Let's proceed. Let's proceed. But Bob, did you notice how Wade did all of this? We kind of batched some of these episodes and so we just recorded one.

02:31
Wade Pfau
I don't know, giving away this five.

02:32
Alex Murguia

Minutes ago, man, everyone knows that. But what was interesting, do you see how Wade did these push ups in between episodes?

02:39
Bob French
It was very impressive.

02:42
Alex Murguia
You did like twelve and his voice didn't he was perfect. Not out of breath, nothing when he did this intro. You're on your way, Wade. You're on your way.

02:51
Wade Pfau
Yeah, just you wait.

02:55
Alex Murguia
Alexander Hamilton, everybody going to have to.

02:58
Wade Pfau
Get a new wardrobe.

03:00
Alex Murguia
Yeah, that's just looking a little tight, man. You're right. Now that you say that shit's looking a little tight on you, especially around the.

03:13
Wade Pfau
Tip flatter.

03:14
Alex Murguia
Carry on, Bob.

03:15
Bob French
There we go. Yeah. We started the conversation, as Wade said last week, around the different approaches that you can be using to deal with inflation. So the first one was investing and not hedging per se, just outgrowing know, being able to support those inflation adjustments in your distribution strategy because your expected return from your portfolio is higher than inflation and you're just able to pay for that. Now we're starting to get into more of the reliable income now we're starting to get into, well, how do you match inflation? How do you actually set it up so that you're going to have this specific amount of income to deal with whatever happens with inflation? And the first place that makes sense in that reliable income bucket to be looking at are Tips, which are explicitly.

04:16
Wade Pfau
Designed but let me stop you there. The first place we did talk about it in the last episode and it's worth just remembering is Social Security.

04:25
Bob French
Yes, absolutely. Especially within that reliable income bucket. Social Security worth pointing out that covers for the vast majority of folks a massive chunk of their retirement income spending and it's by its nature inflation adjusted. So that's on the table already. That's kind of table stakes, if you will. What we're talking about now is the stuff above and beyond Social Security. How do we ensure that we're going to have real spending power here, that we're not going to lose our spending power through time while still using reliable income sources? So let's talk about tips. So Tips are treasury inflation protected securities. They are treasury bonds that have inflation protection built in. So what is it? Every six months the treasury goes in, adjusts the principal on there and that means when they pay out, when they mature, you get a bigger payment. And also the coupons that come off of those because they're adjusting that principal, those coupons are inflation adjusted so you get more over time as well.

05:39
Bob French
So Tips can be a really solid way of building a ladder. And one of the things with when we think about building a bond ladder, what we're really doing is we're saying I'm locking in this income absent me wanting to go out and sell these bonds, these individual bonds that I'm holding. I know how much money I'm going to get at each point in time. I know what the coupons are going to be. I know what the principal payments are going to be and I'm just going to get that. Assuming the US. Government doesn't default or whoever the bond issuer is doesn't default, they should be incredibly highly rated bonds if they're not US. Treasuries for those of us living in the US. I know what I'm going to get with Tips. The statement is basically the same but not exactly because the statement is I know how much purchasing power I'm going to get.

06:42
Bob French
I don't necessarily know the dollar value with a traditional with a nominal treasury bond. I know the check I'm going to get. I know what that dollar value is going to be with Tips. I don't know what that dollar value is going to be but I know how much I'll be able to buy with it. And that's really what we want to focus on here. From a mechanic standpoint. Yeah, it's the same thing. You're buying Tips rather than a treasury bond. You're doing the same thing. The quotes are a little bit more complicated with Tips because of that inflation adjustment. But that's neither here nor there for this conversation. If you really want to get into it, we actually have a workshop in the Retirement Researcher Academy that gets through the mechanics of building out a bond ladder. So we don't need to go through all the math here, but you're just building a ladder that happens to be with Tips.

07:39
Bob French
One of the really important things here is it's got all the same advantages and disadvantages of any sort of bond ladder. They are more expensive than if you were to buy an equivalent annuity that's paying out the same amount, because you don't have those mortality credits effectively, but at the same time you have a lot more flexibility. You can do all these things. Your plan z is, I can go sell these bonds. They are marketable securities. If everything else is blowing up and you need that money, it's not hard to go sell a treasury bond. It might not be the best thing for your plan, but if we're already at that point, bad things have been happening already.

08:29
Wade Pfau
You said it correctly, but maybe worth clarifying. You said that bonds are more expensive than annuities.

08:34
Bob French
Yeah.

08:35
Wade Pfau
And someone listening might say, Wait a second, I thought you could basically get bonds Treasuries without any sort of markup, whereas annuities have all these fees baked in. So that's not what you're referencing. It's how much assets do you need to meet a goal? It's going to take more assets to meet a spending goal with bonds than with annuity. And that's the right context to think about things. But I just wanted to point that out.

08:58

Bob French
There's always a little bit of an empirical question there because the insurance companies, they're building in a profit for themselves. So there might be a rare situation where, yeah, when you go and price things out, it might be a little bit cheaper with a bond than this particular annuity you're looking at. But as a general statement, because you are buying an individual guaranteed payment before you're looking at treasury bonds, the government will be paying out all of this money. That tends to be more expensive than buying into annuity where they're baking in the fact that some people are not going to be living quite as long. There are those mortality credits where you get a little bit extra assuming you live longer. There's also talking about bond ladders, the issue that, well, bonds, us. Treasuries doesn't sell bonds longer than 30 years. Most people's retirement at least want to assume that their retirement is going to be longer than 30 years.

10:10
Bob French
So you have to kind of square that circle a little bit and deal with, well, what happens after 30 years. There's certainly some things to be thinking about there. But one of the things I want to kind of impress here is that if you go back two weeks when were talking about kind of inflation expectations, that when you go and buy or build, I should say. A Tips ladder or a bond ladder? A nominal bond ladder. The expectation if I put in the same amount of money to both, the expectation would be I'm going to get the same amount of money out because I may have a lower yield on the Tips ladder, but I'm going to have that inflation adjustment built in. So that's definitely one thing to call out. The difference is going to be, how does inflation actually turn out over the length of that ladder?

11:09
Bob French
And that's something that I think a lot of people get really hung up on and they worry about, do I win or do I lose? If inflation was higher, the people who bought the Tips ladder know they get more money. If inflation is lower than expectations, well, then the people who bought that Tips ladder lost. They got less. Know, Wade, as you were getting who, whether it was you or Alex, was getting to know, holding these things to maturity, once you've made that decision, you don't care about the market price anymore. When you're buying a Tips ladder, you're saying, I am buying this spending. I am buying this spending power.

11:57
Wade Pfau
That's a good phrase.

11:58
Bob French
Be whatever it is, that's a good phrase.

12:01
Alex Murguia
Yeah.

12:01
Wade Pfau
And also just to the point, too. So to the extent that you're trying to fund a spending need that may grow with inflation as a risk management strategy, you're more exposed or you're more vulnerable to high inflation than to low inflation. And so the Tips will help manage that risk better. So, like with that investment calculation of it? Well, if inflation is high, Tips will outperform. If inflation is low, regular Treasuries will outperform. Well, that's an investing context. In a retirement income context. If my spending need grows with inflation, I'm hedging that inflation risk with the Tips, even if they end up underperforming Treasuries, because inflation is really low. I was protecting myself against the risk of high inflation through the Tips.

12:46
Bob French
Exactly. The cost of underperforming inflation, the cost of inflation being higher for a retiree is not good. It's not a good thing, as a lot of people have been experiencing lately. I'm saying this very broadly and generally, but retirees generally should be willing to pay a little bit to take that risk off the table. It's a valuable thing, and that's definitely something to be considering. As part of this conversation, let's take.

13:25
Bob French
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.

13:52
Bob French
Yeah, not too much more to say about tips ladders. They're a thing. The other thing I'll call out, it doesn't need to be all or nothing. If you're someone who is in that time segmentation bucket or just generally looking at a tips ladder or any sort of bond ladder. It doesn't have to be all tips or all Treasuries or all nominal bonds. You can do both. Assuming that we're talking about treasury bonds, which are insanely and very highly liquid. It's not that big a deal to own, well, two bonds for every year probably wouldn't stack them. One year is a tips, one year is a nominal bond because that's going to lead to some really weird cash flows, but you can own both of them in any year. Kind of hedge your hedging, if you.

14:48
Wade Pfau
Will, and then a real quick 32nd intro, if anyone's just kind of wondering, how do you create a bot ladder? As you mentioned, we've done workshops on that at the Retirement Researcher Academy. But the basic idea is you start at the end. So say I want to build a 20 year tips ladder. I look at how much of the 20 year maturity tips do I need to buy to meet that spending obligation 20 years from now. And then that's going to include coupon payments. So then I go back to year 19. Well, after I get the coupon payment from the year 20 bond, how much more do I need? I buy that face value. Then I go to year 18. Now I've got coupon payments for years 19 and 20 coming in. How much of the year 18 maturity do I need to buy and so on all the way back to year one.

15:32
Wade Pfau
Now, with tips, there are some years that don't have maturing tips, and so you're going to have to finagle that a little bit. What I generally do is whatever tips was, the most recent tip, maturing tips. So, like, if there's no maturing tips in the year 2028, say, I think.

15:49
Bob French
It'S 2034 to 39 is where the.

15:51
Wade Pfau
Whole you've got that top of mind. So no tips 34 to 2039. So you're just going to have to buy like six years worth of spending at the 2034 maturity and then figure out how you're going to then spread.

16:06
Alex Murguia
That out over the next and then.

16:07
Bob French
Just hope they start issuing those bonds or those tips relatively soon and you can swap them in. And the other thing I'll call out again, for those of you who are academy members in the tool section, we do have a calculator that will do all that for you. For everyone else, it's not that hard. It's just kind of tedious to do that math and kind of work your way down. But for those of you who are in the academy, we've got something there for you. To do that. The other thing I want to call out here is I bonds. We always get yelled at if we don't explicitly talk about ibonds I bonds. They're not exactly on point to a bond ladder conversation

because there's no actual maturity date. You have to hold them, I think it's a year, and then they don't accrue any more money after I think it's 30 years.

17:06
Bob French
But within that window, they're still going to be growing, and you can pull money out. So you can kind of think of it as somewhere between your investment portfolio, especially because I bonds, everyone was credibly excited about them a year or two ago when they were paying really high rates. But that's because it's a variable rate, it's back down to earth. I don't know why it's paying exactly right now, but in line with inflation, which is why they were paying such high rates in the recent past.

17:43
Wade Pfau
It'S.

17:43
Alex Murguia
A good problem to have, but there's also limits on it, too, right?

17:48
Wade Pfau
Social Security number, $5,000 of a tax refund. So for a couple who's taking full advantage of all this, you could be getting $25,000 a year. And then if you started at age 36 and bought that $25,000 a year for the next 30 years, when you get to 65, you now have a 30 year bond letter coming in for $25,000.

18:15
Alex Murguia
I get that, but they may have.

18:17
Wade Pfau
To adjust the cap. But $25,000 a year, inflation adjusted for 30 years.

18:23
Alex Murguia
Maybe I'm misguided, but my only issue with that is that if I'm 35 and I'm buying bonds right now so I can take money out when I'm 65, that's a long time to hold money in fixed income while you're in the I guess there you do me deferral also. Yeah, I'm too market centric for that.

18:48
Wade Pfau
Depending on your risk tolerance, you got to make sure that if you're doing this, it's not giving you too big of waiting to fixed income. For sure.

18:55
Bob French
Yeah. There's also the issue that it's not going to be paying a specific amount like a bond or a tip. It is a variable rate. It's going to be effectively a pool of money that you can be pulling from. So it's actually tending more towards the risky asset side, or at least conceptually, it's tending more towards pulling from an investment portfolio to a certain extent. So definitely something that can be a useful tool, but it might not be exactly on point if you're wanting to lock in with tips, a certain amount of spending power, as opposed to, I want to be able to pull out a certain amount of money there. So I think at that point wade, why don't we kind of transition here into talking about the annuities? Because this is actually an interesting conversation. Currently, there are no income annuities out there that have inflation adjustment.

20:05
Bob French
They will pay you a set amount, but they will not adjust that set amount based on what inflation does.

20:12
Wade Pfau
Yeah. And to clarify, there are income annuities with cost of living adjustments, so you can get a fixed 2% growth or a fixed 3% growth. It's not true inflation protection, but it's something in the past, there have been providers that offered CPI adjusted income annuities. The last company in that market dropped out in January 2020. And so since January 2020, there is no CPI adjusted income annuities. And it's kind of a pity, but I guess no one was buying them when they existed. I was talking with a New York Life reporter, I think jeff Summer. He wrote a story in The New York Times. He tracked down, like, the one person that a major seller of income annuities who actually bought an inflation adjusted income annuity, and it was a retired actuary in Arizona.

21:02
Alex Murguia
Was item no, she's the.

21:04
Wade Pfau
First Social Security no, a retired actuary in Arizona was the only person that won. Of course it was an actuary, inflation adjusted income annuity to. So they weren't popular. And I think part of the reason is just

behaviorally, because you're going to get inflation adjustments. You're backloading the income, so they give a lower initial payout rate, and people tend to latch on whatever gives the highest initial payout rate, which is a nominal annuity, gives you more today. It's just not inflation adjusted. So they were not popular. And income and annuities in general, of course, are not popular. They're a small minority under 10% of all annuity sales. But that's the situation. There's no inflation protected income annuities today.

21:54
Bob French
So what do you do if you want inflation adjusted income and you want annuities?

22:00
Alex Murguia
But look, if the long term average of inflation is what was it, two, nine or whatever number you said before, right. Somewhere between two and three. And you're getting a cola. You can pick a Colas between two and three. I think it's good enough, to be honest with you.

22:14
Bob French
Yeah, there's definitely in a normal year, you can buy those riders that get you, as Wade said, two or a 3% increase in your premium every year, no matter what happens. The problem is, if we have situations like 2021 and 2022 where inflation was about 9% for both, buy the Costco.

22:41
Alex Murguia
Brand for those years. I mean, you'll be fine. There's a sequence of inflation risk signature start buying. Go on.

22:52
Wade Pfau
There's an inflation sequence of inflation risk. If in year one of retirement, the price level goes up 10% and then the rest of your retirement, it's 0% inflation. Your retirement is permanently now 10% more expensive.

23:06
Alex Murguia
Even if you buy costco. Even if you buy Costco, yes, even.

23:09

Wade Pfau
If you buy have you had that rotisserie chicken?

23:12
Alex Murguia
It's like, very cheap, and the hot dogs haven't gone up in, like, years, so you better double check your math. Wade.

23:23
Bob French
Yeah, well, that's an alternative. You can get a lot of the way along that way along towards inflation protection by getting that flat 2% adjustment. But it's not quite the same thing. And that's an important point here though, because as Wade talking about, there is that sequence of returns risk. If you were someone who shoot the pandemic was not kind to your career and you were right on that cusp of retiring, you decided to retire. Well, that inflation is going to carry its effects the rest of your life. And having some sort of real inflation protection matters to those people, matters to all of us. It is a very specific risk that there are ways of adjusting for. And Wade, you can elaborate on this a lot more than I can, but one of the big ways is kind of a stepwise approach with annuities or annuity ladder.

24:36
Bob French
There's a number of different ways of describing this, but effectively what it is you just have, hey, I've got my base annuity, the one that I'm starting retirement with, that's paying the bulk of what I want. But then you bring in other annuities that start once you start kind of feeling the bite of inflation there top yourself back up. And there's a couple of different ways of accomplishing this. But that's the basic idea here. If you're someone who really wants to know in a all but metaphysical sense where your money is coming from, if you want it coming from those income type annuities, yeah, that's one way to do it here. Wade, do you want to elaborate on that?

25:25
Wade Pfau
Yeah, just on that point in of itself, right. The idea is, well, get the annuity income that you want to have covered today. Over time, inflation will eat away at the purchasing power of that annuity income. But then the other point of this as well is what we do experience. And when you look at like David Blanchett's retirement spending smile and so forth, a lot of retirees, their spending needs do not increase completely with inflation. They may lag behind inflation to some degree, like 1% less inflation every year or something like that. And in that context you might find over time, even though the purchasing power from your annuity is not keeping up with inflation, it may still be enough. And that when you have Social Security as well, that is inflation adjusted. So maybe the blend of Social Security and your fixed annuity it's never the case that you need to buy more, but you have the flexibility and the option that if you are getting to the

point of okay, now that there's been some inflation, I really wish I had more reliable income that could purchase more goods and services at today's prices.

26:30
Wade Pfau
Then I can go ahead and ladder in an additional purchase and replenish that reliable income to get it up to a level that I'm more comfortable with. And so that's the laddering approach. Keep the optionality to buy annuities in the future and then make the decision about whether or not you need to do so. Definitely the way to think about it.

26:50
Bob French
Absolutely.

26:51
Wade Pfau
Now, the other big aspect of this is annuities in and of themselves aren't intended to provide the inflation protection, especially no CPI adjusted annuity. But it's what do they do for your other assets that may allow your other assets to be the source of inflation protection? And that's really the way I look at it, this idea of sequence of returns risk. If I'm spending from a portfolio and there's a market downturn, I can dig a hole for myself. Well, if I can lower the distribution rate from my portfolio, that makes it easier for my portfolio to grow. And so with the annuity, if I'm replacing some of my bonds with protected lifetime income, I'm going to have more of my spending need covered in the future through the annuity than I could through bonds. That's going to put less pressure on distributions for my other investments.

27:45
Wade Pfau
And then going back to what we talked about last week with this idea that hopefully stocks are going to outperform inflation over reasonable holding periods. Well, if I'm reducing the distribution pressures on those investments, I'm making it all the much easier for those other investments to grow and to provide the source of inflation protection that the annuity is not designed to do. It's making it easier for other assets to do that it's not doing.

28:09
Alex Murguia
I think that's a very important point. And that's why I was kind of like pushing back on the cola part, where it's like, listen, it's good enough. It's not like you need to every single thing you hold has to be a perfect annuity hedge. I mean, Bob likes to use the phrase a slug, right? If you have a good slug of stuff that helps you against inflation, a good slug of stuff that is going to outrun inflation, you're fine. I mean, I wouldn't get this precise sort of craziness of trying to line everything up, because you're right, Wade. Your spending over

between the age of, I don't know, whatever, that 65 through 95 is not going to perfectly track inflation anyways. It's probably going to be less. So there's no sense to have this undue anxiety over trying to perfectly match everything up.

29:00
Bob French
Are you getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement, and now is when they need to earn their keep. To make sure you're on the right track, download retirement Researchers Eight Tips To Becoming A Retirement Income Investor by Heading Over to retirementresearcher.com Eighttips again get Retirementresearchers Eight Tips To Becoming A Retirement Income Investor by Going to retirementresearcher.com Eighttips That's the number eight tips.

29:38
Wade Pfau
Yeah, in this context, too. I just recently a prominent type financial planner who writes for the media as well, kind of wrote a critique of one of my articles. And so we had some back and forth discussion about it, but at the end, we don't need to get into that. Ultimately, where we ended with the discussion is he could never consider annuity for income because it creates inflation risk. And his argument was, you talk about bond duration. Like, the higher the duration of a bond, the kind of in simple terms, the further away its maturity, the more sensitive it is to interest rate risk. If interest rates go up, it has a bigger loss. Well, annuities are very much long duration fixed income assets. So when inflation goes up and it's going to push up interest rates, it's going to reduce the purchasing power of the annuity, or it's going to reduce the present value of those future annuity payments.

30:39
Wade Pfau
And in that regard, it behaves like a long term bond. I thought he was more of a we don't know what the market is going to do, but he ultimately was saying, no, I'm so worried inflation is going to be high in the future. I don't believe the break evens between Treasuries and Tips. I only want to hold short term fixed income. I could never consider annuity. And then, okay, if you model well, yeah, if inflation is 8% a year, what I'm talking about of the annuity is going to work better for you than bonds. I guess, at that point. No, you just hold cash and you avoid having that interest rate risk. So then you just cross your fingers that stocks are going to keep up with that 8% inflation, but that's not at some level, you have to manage this risk.

31:29
Bob French
That's great for him. We always talk about what makes you comfortable in your plan, and if he's not comfortable with annuity or with the expectations of inflation. Cool.

31:41
Alex Murguia
Yeah.

31:44
Bob French
There's another conversation to be had there.

31:47
Alex Murguia
But what gets me when you're saying that is this is the person, I assume he's an A level journalist and he's providing advice, but he still can't sort of get out of his own way in terms of his opinions on the market. And that's where I'm like, you can be so smart about the market, but still be unwise about the market.

32:10
Wade Pfau
Right.

32:11
Alex Murguia
It's almost like, Why does he play that game? Or she play that. Why do they play that game? You don't need it. You just saw in the previous episode where Bob was saying, a simple vanilla 60 40 portfolio does fine against inflation 70% of the time over a 70 year rolling period. Okay, I was doing it from memory. Not only that, Bob, but Wade, that person doesn't care that the spread is the market's expectation of inflation. Why can't that person just remove his opinion from these things?

32:43
Wade Pfau
It becomes an argument for Tips, I think, or depending on how probability based you are, stocks. But it's either you've got to have Tips because you can't trust anything that's not in the fixed income world. That's. Not inflation adjusted, or you're going to trust that stocks.

33:02
Bob French
At the same time, though, if you're that worried about inflation, if you think inflation is going to be doing that, how much do you trust the government to be able to do those inflation adjustments? Once you start going down that road and start worrying about these catastrophic kind of tail type of risks, all bets kind of have to be off.

33:23
Alex Murguia
Not only that, Bob, but Wade, that person doesn't care that the spread is the market's expectation of inflation. That person is saying, I know more.

33:33
Bob French
Yeah.

33:34
Wade Pfau
So it doesn't even matter.

33:37
Alex Murguia
That was my beginning. That was my initial foray it was.

33:42
Wade Pfau
Like hubris, it's too early. You think you know more than the market. But also you could frame it as risk management. That's what I was saying earlier. If retirees are more vulnerable to risk, I mean to inflation, if they're more vulnerable to inflation, you need to make sure you have a plan to manage that inflation risk. But when he takes it, the further step of saying you can have anything other than short term treasuries or I guess tips in your fixed income portfolio because of this risk of inflation yeah. At some level, you're really taking that too far would be the argument that I would make. And to the extent that risk pooling through insurance gives you an extra yield over other fixed income assets, then it's back to the point I was saying earlier, it makes it easier for your other assets to provide the inflation protection, and it's still giving you a more diversified portfolio in that regard.

34:34
Alex Murguia
Yeah. That person wasn't taking into account, it seems to me, correct me if I'm wrong, the household allocation. Okay, fine. Even give them the argument for the annuities. But to your point but if you have annuity, then you could take more risk on the equity side. So.

34:48
Wade Pfau
You'Re still net blocked too, right?

34:51
Alex Murguia
You don't know how you have risk. What do you care?

35:00
Bob French
I want to jump back to the point that kind of got us on that you don't need to match up everything perfectly. One of the things that I always think about with retirement planning is just there's so much noise in the system. I think about it in terms of significant figures. If you remember, like, high school or middle school science class when they're teaching you how to measure these things, if your ruler only has to the 10th of an inch, you don't try and get to the hundredth of an inch. You can only measure as close to whatever our tools give us the ability. Our tools, they're not bad, but there's no precision. We want to get better than in the ballpark, but not that much better. We have to accept that there's just a lot of slop in our plans that we're going to have to continuously adjust these things.

36:03
Alex Murguia
This course correction is part it's course correction. Whoever thinks I got a 30 year plan and I've done a million Excels to back it up, it's kind of foolish. It's course correction. Get directionally the right way and then start adjusting along the way. And that's really what it is. I mean, everything else is just you're wasting your time. Go walk in the park with your spouse or something like that. It's better you see your time. I think.

36:33
Bob French
It depends on how much you like them or how much they like you.

36:36
Alex Murguia
Yeah, that's why, you know, I did some hedge. I hedged.

36:40
Bob French
There we go.

36:44
Alex Murguia
Bob, what are you doing after this? The weather's great. You want to walk? Take a walk?

36:53
Bob French
Well, I'm up in Maine, and we're recording this right before Hurricane Lee starts getting up this way. So we're going to see what this turns out to.

37:06
Alex Murguia
There's a hurricane floating around. Yeah, I really don't follow the news.

37:11
Wade Pfau
Is it supposed to hit DC as well for Alex?

37:14
Alex Murguia
No idea.

37:16
Bob French
No? You guys may get some rain. I don't know. But it's supposed to hit I think Portland is out of the cone at this point. It's going to be hitting the Maritimes up in.

37:31
Wade Pfau
The time this episode airs. It'll be way past alex's home was flooded.

37:36
Alex Murguia
That's right.

37:37
Wade Pfau
He just sat there not following the weather.

37:40
Alex Murguia
I'm from Miami. Right. So I don't pay attention to anything that's hurricane related anymore.

37:46
Bob French
It's not worth it.

37:47
Alex Murguia
Yeah, I've been, like, saturated with that kind of no pun intended with those kind of news feeds. Did you buy ice? Please tell me you bought ice. I would love it if you bought ice. Okay.

38:01
Bob French
I'm charging, like, power bricks and stuff like that, but that's the extent.

38:05
Alex Murguia
Are you covering your windows with plywood?

38:08
Bob French
I am not covering my windows. Although our neighbors just did pull down a tree that was dead this afternoon, so that works out.

38:17
Alex Murguia
There you go.

38:19
Bob French
But how do we get there? Where were we going with that? Oh, yeah. Whether your spouse likes you or not, but actually living your life in retirement rather than trying to match up to the thousandth decimal place. All of these minute planning details.

38:40
Wade Pfau
It's not always possible. No.

38:43

Alex Murguia
I think mistakes are made in the fringes. In the beginning, where you have no idea and you're guessing, and at the end where you're trying to give yourself this false sense of precision. I think you make the largest mistakes of again, get a healthy slug of everything and see how it yep.

39:05
Wade Pfau
Okay. Now, Bob, on your list, you did have variable annuities as well. We've mostly been talking about income annuities, right? Don't know if you want to add any color.

39:15
Bob French
Yeah, variable is obviously a little tougher to talk about because, well, they're variable, and even more specifically than that, it's incredibly product specific. You can find inflation protection in variable annuities. There are inflation riders on different products out there. There are also ones that are fixed in all but name, but the inherent underlying logic is going to be pretty darn similar. And this really gets into when we start talking through the different Risa Quadrants, the different ways that especially folks in the risk wrap quadrant are going to be dealing with this type of stuff. But variable annuities can be a way to give you a little bit more inflation protection than an income annuity simply because, well, there's an underlying investment in most, if not all of those variable annuities and how underlying may change. But there's presumably going to be some growth there that can take a little bit of the bite of inflation out or all of it, depending on what the product might be.

40:34
Bob French
So that's always going to be something that you're going to want to include in the conversation, especially for those folks who, again, are in more of that risk wrap type of quadrant.

40:46
Wade Pfau
Yeah. And just so in that context, it's more an argument of you can have the step up opportunities and so forth. If markets do well enough, you can increase the amount of income it provides, the protected income amount. It is hard to rely on that in most cases after retiring because market gains have to exceed your distributions and the fees to achieve new high watermarks that achieve income increases. But like you were saying too, there are some that have writers that do have some sort of inflation adjustment included as well. It definitely varies on a case by case basis.

41:25
Alex Murguia
To be clear on that. You're not saying then the variable annuity piece, it's not the market exposure for

capital gains that's going to uprun inflation because once you start digging distributions, you're not going to make those watermarks. It's more the writers that come with it that can provide that. Usually everything is caveatted with.

41:46
Wade Pfau
If markets do really well, usually it could keep up with inflation, but you can't really expect that in advance.

41:51
Alex Murguia
Exactly.

41:55
Wade Pfau
But then it's ultimately still the same sort of story. It's not that the annuity itself provides the inflation adjustment, it's just can it make it easier for other assets to provide the inflation adjustment.

42:05
Alex Murguia
Right, okay. And so the next phase of this would be taking everyone through the Risa Quadrants and showing how the underlying solution sets can potentially provide the right hedges. Is that correct, Bob?

42:20
Bob French
Absolutely.

42:22
Alex Murguia
Okay.

42:23
Bob French
We talked about understanding what inflation was. We've done two episodes on different tools that you can be using to deal with it, and now we're going to be talking about how to integrate those tools into your plan, how to actually build this into a plan that works for you and how you approach retirement income.

42:47
Alex Murguia

Perfect. Sounds like a plan. Hopefully you don't get inundated over the weekend with whatever hurricane what is it?

42:55
Bob French
Hurricane Lee is what hit two weeks ago when this comes.

43:03
Alex Murguia
Yes.

43:04
Wade Pfau
It's very much historical at this.

43:08
Alex Murguia
Right.

43:09
Wade Pfau
All right.

43:09
Alex Murguia
All right, everyone. Thanks for listening.

43:11
Wade Pfau
Have another episode, then on another ahead.

43:16
Alex Murguia
Alex, no. After you.

43:19
Wade Pfau

No. There will be future episodes of retire with style. And next, we do need to explore the risa quadrants to more specifically highlight how these different approaches and tools we've been talking about can fit in for different retirement income styles. Thanks, Bob, for being on the show. I think at this point, for sure, Alex owes you a jacket because you've been a guest more than five times, so I don't know where that's at.

43:44
Alex Murguia
That's not in the budget.

43:46
Wade Pfau
Saturday night live. You got to get here. Yeah.

43:50
Alex Murguia
He's like the Paul Simon of retire with style.

43:53
Bob French
As long as this is coming out of the budget, I'm good.

43:56
Alex Murguia
I will say this, bob, you didn't say a peep last time when we said goodbye. You were just there. The quiet man. Can you take us home? To everyone. Give us that enthusiasm. Give us that Wade file enthusiasm when you say goodbye. I don't know if I can do that level we believe in. You right, Wade? Give me your best shot. Give us your best exit. Come on.

44:17
Bob French
Well, thanks, everyone, for your time here. We really appreciate it. And looking forward to seeing you and concluding this conversation on inflation and managing it within your retirement plan next week. See you all later, everyone.

44:33
Alex Murguia
That was pretty good, Wade. Why don't he nailed it. That's a ten.

44:35
Wade Pfau
Yeah.

44:40
Alex Murguia
All right, everyone.

44:44
Bob French
Wade and Alex are both principals of McLean asset management and retirement researcher. Both are SEC registered investment advisors located in Tysons, 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 a risk, including risk of loss. Past performance does not guarantee future results.