Episode 23: What Are Your Spending Patterns in Retirement

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. Wade and Alex bring in guest David Blanchett. And in this episode, they see if they can turn that frown upside down as they dig into the retirement spending smile.

Alex Murguia 00:51
Hey, everybody, welcome to this edition of Retire with Style. I'm Alex. I'm here with Wade and Wade is going to introduce a very special guest far away. Wade

Wade Pfau 01:01
Okay, thanks, Alex. And for listeners of this podcast, I assume everyone knows who our guest is today David Blanchett is one of the leading researchers in the area of retirement income planning in the world. So we're very happy to have him here. He is currently the Managing Director and Head of Retirement Research at PGM DC solutions. He spent years at Morningstar. He's published over 100 articles. And I've always thought he effectively writes one research article per week going on now for the past 10 years. So I gotta imagine that 100 articles on his official bio is an underestimate. But he is Dr. David Blanchett with a PhD from Texas Tech University. And we're very happy to have you here, David to talk about in particular today, some of the the amazing research that you did on the idea of retirement spending smile that fits very well into our discussion about retirement budgeting. That's our current story arc is Alex.

Alex Murguia 01:55
Real quick, David, David, do you think in the world or in the US?

David Blanchette 02:00
What do you mean?

Alex Murguia 02:01
when Dave Wade said, expert in the world?

David Blanchette 02:06
The Galaxy give me the galaxy, okay. Like why? In the world? Okay.

Alex Murguia 02:10
All right. There it is. This Wade, it's just big in Japan outside of Japan. I couldn't help it. Wade, I saw that there. And it was just a softball down the middle.

Wade Pfau 02:24
Right, right. And most of Alaska and Canada. That's where we have to make sure we broadened beyond just these borders, contiguous us. But David, what we have been talking about recently is a budgeting for retirement. And I explained it in terms of in this is where the it's motivated by the smile. But you know, nobody knows how their spending is going to evolve in retirement. And so it's a matter of doing some guesswork around that. Most people probably will reduce at least discretionary types of spending as they age, health care can come into the mix there. But could you tell us about the research you did looking at actual households to see, to try to inform this kind of conversation around when I'm planning for my retirement, and I don't really know what's going to happen with my spending, especially in my 80s, and so forth, what does the data suggest might be a reasonable starting point for that?

David Blanchette 03:19
Sure. So you know, if we go back, this is about a decade old, there's actually quite a bit in this space. And the point that I kind of always make is that retirement is the most expensive purchase most households ever make, right? It's a lot more expensive than a home than a car, then your fancy new, you know, iPad, whatever. So it really is important to get it right. And I think that, you know, too many advisors in this space focus a lot on the asset part of the equation, they they build really efficient portfolios, they have, you know, capital market assumptions, or CMAs, for 50, asset classes, all this stuff. And then I'm just gonna assume that you retire and your spending goes up every year by inflation. Well, like it's a little bit more complicated than that, right? And, you know, obviously, everyone is different, you know, you have to kind of start with that in mind. But you can ask yourself, well, like, what, what differences do you see in reality, like looking at empirical data, versus what we commonly assume in financial plans. And, you know, one kind of common assumption, especially in research for the last 30 plus years, is that retirees increase their consumption or spending every year in retirement by inflation. So like, what this means literally, is that like, Oh, if the CPI went up like 3.2%, last year, that every single client out there calls up their advisor and says, Hey, CPI was up last year by 3.2%. I need to race. I think, what a better way to think about it. Well, what do actually people do over time, and you can use different datasets to look at this and, you know, kind of the the most common one uses what's called the Health and Retirement Study. And there's, there's, you know, now at least I would say, you know, 10 plus probably more than that papers, looking at, you know, how people how the same household evolves their spending over time, and there's kind of overwhelming evidence suggested that individuals don't increase their spending every year by inflation. They tend to overdo Use that a little bit. So, you know, for example, if inflation is, say, 3%, a year on average, a household might increase their spending by 1% a year. So that total amount spent is actually decreasing in real terms. As someone moves through retirement. Now, it gets kind of tricky as you get older. And this is based upon what you'd like like the average or the median, the median person continues to see this decline on average. The problem is, though, the average person does tend to see an increase at later ages, because there are a few folks that have kind of significant health expenses. And so I think, to me, the takeaway is just that when you're thinking about about retirement spending, it really isn't as simple as as assuming that it goes up every year by inflation. Advisors will say, well, like, well, so what and I say, so let, because it

might free up money that they can use when they're younger and more active to, you know, go on vacations, or used more effectively. So I think that, you know, kind of rethinking this decision around, you know, we have to assume that spending increases why inflation is really overly simplistic, it doesn't match reality.

Wade Pfau 05:59
Right. And more to that point, the so like, the 4% rule idea, has that assumption that you do increase spending for inflation every year. And I think one of the points you made with the spending smile article is that that's going to require a much bigger pot of assets to fund the retirement than otherwise. And you have some estimates around kind of, so to be clear, also, what the spending smile is, it's spending tends to decline from your retirement point until your mid 80s. And so that's you're coming down with a smile, and then you work your way back up again, later in retirement, but may never really surpass, or may get close to that initial starting point and say, your mid 90s, and so forth, because of health related or long term care related expenses, but it's a much less part of assets to get that retirement with a stunning smile, right?

David Blanchette 06:50
Well to me like and again, like that's why it's so important. It's, you know, it's it's shifting consumption to some extent of saying, Hey, you don't have to assume that you're going to increase your spending every year by inflation, you can actually maybe you either need less to retire, you can save less for retirement, or you can spend more when you first retire. So I think that what it helps retirees think about is, is how they can reshift their consumption. Now, there are there are important nuances there, right. So, you know, the smaller your overall retirement income goal, the less declines you tend to see, right. So if you're spending, say, like $25,000 a year, that tends to go down less than if you're spending say, $100,000 a year, and that should be somewhat intuitive, because individuals who are spending more consuming more are usually spending more on discretionary items, they can they can choose to cut back, and they tend to do so assuming they can.

Alex Murguia 07:45
It's I mean, in a funny sort of way, I think, do you think there's some thought process behind this in terms of, you know, people get caught up with what's the minimum sustainable withdrawal or maximum sustainable withdrawal rate? At not being aware of this spending smile? I get the sense that you're saying and I'm, I get it, but I just want to say it to for for our listenership people tend to kind of not spend enough during retirement, they understand hence, the quality of life isn't what they should be, if they don't know that this is a pattern that's most likely than not, is that a correct statement?

David Blanchette 08:21
Well, yeah, so what ends up happening, right is you is you're, you're spending less than 65, because you think you're gonna spend more when you're 85. And so you're effectively under consuming, right. And there's really interesting nuances here, when you get to the more kind of modeling aspect of things. So think about like your like, so you have assets and liabilities, right? So assets are your savings, your guaranteed income, the liability is your goal. Well, you know, virtually every American receives some form of guaranteed lifetime income benefit, like social security, that is increased annually by inflation. So it very well could be that all the inflation adjustments that you need in

retirement, you'll get from Social Security, and all of a sudden, then this kind of, you know, withdrawal amount you need from your portfolio is more nominal in nature than real. So if you're not increasing the withdrawal from your portfolio, the target by inflation, you know, all of a sudden, this notion of the 4% rule, it's built around this idea of earning money increased every year by inflation. So you know, a 4% real initial withdrawal rate is equivalent about to a 5%. Initial nominal, exactly, exactly. You can you can you can take out more from your portfolio because you don't need it to fund the same type of spending, especially as you move through retirement.

Alex Murguia 09:30
I agree. And may the financial planning gods like strike me down with a bolt of lightning through this window, but I think it's absolute idiocy, this kind of rigmarole around 4, 4% is the right rule 3.98% is the right amount. 3.85 is the right amount, and you do this year after year after year. Whereas if they've given any contemplation towards what will spending look like, you know, they give half as much effort on what will spending look like as opposed to what the right sustainable withdrawal rate is. I think people would be in a much better lays longer term.

David Blanchette 10:02
Well, so there's I mean, there's different, you know, it's really interesting if you think about about retiree consumption. So, you know, if you take like a, like a first level perspective on retiree spending, you know, what you what you would see is that, you know, health care costs, as everyone knows, are rising component of retiree spending. So if you look at like data from the Consumer Expenditure Survey of about 10% of retiree budgets go to health care at age 65. It's about 20%, at age 85. And so right there, someone would say, Well, David, you know, health care as a rising component of spending, everyone knows that health care costs have risen faster than general inflation. So you would say, well, actually, David, I need to assume that the inflation rate for the retiree goal should be more than inflation. Right. So my, you know, I'm gonna I would say, Oh, well, if inflation is 2%, I gotta assume it's a 3% rate because healthcare is this larger rising component? Well, the thing is, is that it is true that health care is a rising component of overall expenditures, but it's everything else that people can spend money on that they spend less on it. So there's an author that worries me is there's like, there's the there's what's called the CPI E, right, the CPI for the elderly. And if you don't think about about, you know, not just what people spend money with how they spend, you could actually read the total, the totally wrong conclusion. But what inflation rate to us because people just don't, you know, they they just actively choose to spin lessons, they move to retirement. And this effect is true, even even for folks who are overfunded. So if somebody will say, well, Oh, David, you know, like, yeah, you find this effect, because everyone is going to go broke. And no, if you isolate those, those households, in the hrs that have like, tons of money, they still reduce their consumption in real terms as well. So I think that it's not just you know, it's not because people have to spend less, they're just choosing to because they value different things as they move through retirement.

Alex Murguia 11:39
Now, when you control for wealth, you see a reduced spending, because I mean, the obvious thing is physical activity, right? You're not You're okay, healthcare is up, but you're not pickleball you're playing it less. I don't know, I'm just making something up. But there's an offset in terms of what you can do anyways, on the discretionary side,

Wade Pfau 11:57
The numbers around that are

David Blanchette 11:59
Go ahead Wade

Wade Pfau 12:00
Well it's just like the the spending smile pattern that you described, you put equations behind your person who spends $100,000, I plug that into that 4% Rule style analysis once and found that that 4% rule would be a 4.7% rule, based on this idea that you're not going to have spending grow for inflation, it's going to decrease and then eventually come back up. But that led to 15% Less assets for retirement. So just to put a little context around what exactly I mean, this is not insignificant, whatever we're talking about here, but sorry to interrupt you there.

David Blanchette 12:34
It's fine. Yeah. And I mean, like, so like, they're really the one interesting kind of nuance with with that analysis is that, you know, for those of you that are, you know, clients out there, it's based upon a regression. And, you know, the issue with regressions and older ages is it kind of the outliers come into come into play. And so like, there is the kind of tick up that you see, with the average, but you don't see that with the median, like the, like, median health care costs aren't that significant for the for the, for the median person who gets older, but there is a very real chance for folks that live a long time, you could have a significant health expense. And so there's kind of some unique nuances about the tail that don't exist with kind of the the earlier part of time where there just is this collective reduction in expenses on average for the vast majority of retirees.

Alex Murguia 13:17
And just to be clear, real quick Wade, just average is the average, right? Median. Do you want to explain to folks just in case, they're non advisors, we do have card number, a median is the number in the middle, you have a set response for what a median is?

David Blanchette 13:31
Well, so there's, there's three of us on today's podcast, I make $1 a year. Alex makes $100 a year Wade makes $1,000 a year

Alex Murguia 13:39
Okay, Wade, it makes more than that, relatively speaking, relatively speaking,

David Blanchette 13:43
rounded up, rounded up, okay, so, right, so you have $1 100,000. You know, like, if I add those up, like the average is what, like $300. Okay, the median though the middle person has only 100. And so the problem problem is, you know, where to use this with averages is that outliers can really affect what the result is. And so when you run like regressions or build models, you know, like, those are often focused more on the outlier. So that tail you see in like the spinning smile, it's being driven by, you know, some

individuals that do have these significant medical expenses, the average retiree isn't going to experience those however, the average retiree does reduce consumption collectively as you move through retirement. There's just kind of nuances in terms of how you look at retiree cohorts.

Alex Murguia 14:29
Yeah, I will say this, though, Wade and Elon Musk averaged about a net worth of $100 billion. Just wanted to.

David Blanchette 14:36
That's right.

Alex Murguia 14:40
Sorry, Wade I couldn't help it.

Wade Pfau 14:43
No, but I mean, this point about well, yeah, absolutely. So you've got like, sometimes people may spend years in a nursing home 100,000 plus a year, that's going to pull up that average in a way that helps create that smile, but so we don't plan for the average teacher. He usually, is there. Do you have any sort of sense when you're looking at the data of what percentage of the population may never really see that uptick in spending versus for those who do experience that uptick in spending? Is the assumption of constant inflation justice spending closer to what they might experience? Or is it worth more than that? Less than that?

David Blanchette 15:22
So here's where things get tricky. Okay, so the probability of experiencing significant health expenses increases you Ah, right. Americans, collectively, especially wealthy Americans are living longer. And so when you do research, there's this question of like, well, how relevant is it for individuals today? Who are 65? Who could be alive like 30 years from now? Right. So, you know, while it's true that, you know, only a minority experienced health shocks, what also tends to happen, though, when you experience a health shock, is that you tend to reduce your consumption afterwards. So in some other research, what I looked at is, if you experience a health shock, how does that how does that relate to future consumption? And like, it shouldn't be a surprise, right? Like, usually, if something happens, where you experience a health shock, you spend less afterwards again, there's this kind of effect? Where is it because of active choices? Because you have to, if you isolate household wealth, you know, people still tend to spend less over time. So, you know, I don't I don't know the answer to like, what the percentage is, especially in the context of like when you Forecast Improvement in mortality. But I do think that to me, like the takeaway is not so much to worry about, you know, like that ultimate tail risk, it's in a base financial plan, don't assume the retiree is going to increase spending every year by inflation, maybe assume it's 1%, less than inflation, or 2%. Less, just to kind of better calibrate what spending is going to look like on average,

Alex Murguia 16:41
but not every year, do you mean in certain yearly windows renewed every

David Blanchette 16:45
year. So if you assume inflation is 3% a year, you should assume the retiree spending goal increases every year by say, 1%, to better track how that's likely to evolve over time.

Alex Murguia 16:55
Okay, and you would do that, as opposed to the making it up now. So I could be off the first 10 years, let's add this inflation rate, the middle 10 years, let's add this inflation rate. And the end, let's add this, I'm kind of thinking in my head to correspond with the expenses of a spending smile, you're saying that just smooth it out, do x minus one and call it a day?

David Blanchette 17:15
So I'm gonna guess it like 95% plus of listeners are just using inflation right now. So I like to do baby steps like, you know, it's not like how how tools can incorporate, you know, spending the most important thing, right is everyone's going to have a different retirement, you know, like, these are these, these projections are a hot mess. You know, if you if you assume retiree consumption rises by inflation, you are likely going to suggest someone spend less or a lot less when they're younger retiree than if you just somehow incorporate this, this idea that spinning will will decline in real terms over time. So from my perspective, that's the most important thing. There's lots of ways to do it. But right now, the industry standard is to assume that spending is in real terms, not not not nominal, or some combination. So to me, let's, let's check that first box and then move on to more intricate ways of modeling how it will change over time.

Alex Murguia 18:05
Gotcha.

Bob French 18:06
Are you up for the challenge? Registration is open for retirement researchers August Retirement Income Challenge, starting on Monday, August 1, at noon, Eastern during this free four day challenge with Wade, Alex and I, you'll get to take the RISA run and analyze your own funded ratio. And if you put in the work, come out with a retirement income plan that fits you. Space is limited. So head over to risaprofile.com/podcast. To learn more, and sign up today. Again, that's risaprofile.com/podcast. See in the challenge,

Alex Murguia 18:45
Wade, you know what,

Wade Pfau 18:45
when I might explain just when I'm explaining the concept, and also because software may not allow different inflation rates to be used. I like that idea of just thinking about like the go go slow, go no go type of years where maybe, okay, I'm gonna assume the same kind of inflation, Justice spending through age 75. Then, though, it's hard to do this, I'm going to look through my categories of spending and assume okay, I may travel this between ages 7685. And, and so discreetly reduce spending at later ages rather than having that continual reduction. But I think ultimately, either way, it's moving towards the idea of, we don't necessarily need to assume that if I'm traveling around the world, in my 60s, I'm

going to be doing the same sort of thing in my 80's and that's an area where I'll probably spend significantly less. And that's also true with other categories as well go to

David Blanchette 19:38
so I really liked the idea of that more granular matching thinking about what are your expenditures and how they're going to evolve. So I think that is that is the best way to do it. I just don't know to what extent advisors planners do that today and how it can be modeled in a lot of the more

Alex Murguia 19:52
and you're also making a point that if your consumer, baby step it you know it just do x minus one x minus one on inflation, and that should get you there as well.

David Blanchette 20:04
Yeah, I mean, you know, you know, for lack of better terms, there's a lot of kind of terrifying information about healthcare costs, you know, there's the stats that healthcare is going to cost, you know, like 4000 hours a year, well, like you could do the same thing for all the years, but you could do it for your, your, your transportation, your your food, we don't do that. And those pieces are going to evolve as you move through time. But again, I just I just worry that as an industry, we spend so much time building like, perfect portfolios to like the second decimal spot, and just use very, very basic assumptions about the liability.

Alex Murguia 20:34
No, that was my point about if half the energy was was was spent on this. Half as much of the energy was spent on this as opposed to what the right sustainable withdrawal rate is, I think we'd be having the right context of conversations with clients, frankly. So 100% agree on another theme. Wade, I don't know if you picked up on this. And David, previously, we had Michael Finke on just talking about, you know, the general and Michael Wait, and David are longtime collaborators on many research projects. And, and a theme that I picked up that he was saying, and wait, and I share this is when you read a lot of these articles from journalists, or from, you know, the actual researchers, there's, it's easy to get a sense of these draconian outlooks on retirement. But when I'm listening to Michael, and I'm listening to you right now, and Wade and I are just chit chatting. I mean, the underlying theme, and what we want to do is get people to actually spend as much as they can and live a fulfilled retirement. And I think that's important to say, I think that you know, the why, right, you don't want to get to retirement, and then you're just getting by with the bare minimum. And I think I think you're reflecting that quite a bit. Am I Am I off on that? Is that is that one of the pillars that guides your thinking in terms of the retirement spending is, how can I get you to spend as much as you can to live this fulfilled retirement as opposed to taking the other angle?

David Blanchette 21:54
Yeah, I mean, if I knew how long you're going to live the returns of your portfolio, I cannot tell you exactly how much you've saved for retirement, you know, and so since we don't know that we have to deal with uncertainty. And I think the problem is, is that we often focus on one type of risk, which is don't not be broke at some older age. And that's definitely a risk, I'm not going to say it's not. But you know, if you ended up having like a bajillion dollars at age 95, that you could have spent on the

grandkids on travel, then you didn't live your best retirement. So it really is a balancing act. And I think that, you know, a lot of advisors, you know, they run financial plans to age 105 with 98% success rates. Well, like, that's absurd, right? You know, like, what you're what you're doing is you're is you're you're trading, you know, the the likelihood of being broke at 95, which is now zero for doing nothing when you can actually enjoy the money. So I think the key is, is a more balanced perspective. It's understanding what you want to spend, what are your assets? How do those match up and then building a better overall retirement strategy.

Wade Pfau 22:47
And with a theme we're on today about with a retirement spending smile, suggesting you can spend at a higher rate, another important factor that you've written about is, if you have income sources from outside the portfolio, yeah, that are going to last for your lifetime, such as Social Security benefits is one example. It's not necessarily catastrophic if you spend down your investment assets, and so that you find to be a really important factor that can allow someone to spend much more than the quote unquote, safe withdrawal rate. And so can you talk about that a little bit as well.

David Blanchette 23:19
I mean, like, that's why, like success rates are kind of a terrible metric to use in the grand scheme of things, right? I mean, because what they ignores that is the magnitude of failure, you know, so if I've got like, security and pensions covering 90% of my goal, and if I just simply decompose my lab building needs, and once all of my needs are covered, most of my wants are covered, I've got a portfolio, you could spend like six or 7%, like who cares? Go out, have fun, and adjust as you need to, right? When you ignore the fact that the portfolio is a marginal asset, its goal is to usually fund elastic spending, you can lead to very overly conservative estimates about well, like, what are the implications? If it does, if it does fail? So like, I mean, I'm not I'm not saying that, like, I actually still like 4% is a great starting point. The problem is, is that you know, you match it up against is what are your assets and liabilities? And what it what does it mean to truly fail? Well, you know, in reality, people are going to make changes over time, based upon how the how the market, you know, evolves and they might adjust their withdrawal rates are tools don't account for that, you know, success rates and account for magnitude of failure. And there's just a host of issues today, that lead to really some suboptimal recommendations from the vast majority of financial planning algorithms that are out there.

Alex Murguia 24:28
I think that's good. And I don't want to hold I don't want to talk to too much about this right now, because we're going to follow up with David and another episode about the planning tools that we can use for a retirement income, but this is a good teaser about that. One thing I'd like to throw out there and maybe we can conclude with with something like this. Wade, we've been we've been having the previous episodes have been about budgeting, you know, what types of budgeting systems work best, and things along those lines and how to budget for unexpected expenses, right, which is kind of almost an oxymoron in and of its So, but based on what you've heard from David about listen, there is there is, though, a pattern with regards to spending. From a practical standpoint, for folks that have been listening to the previous episodes, what what do you what do you recommend they should be doing, as they budget for retirement with this sort of expectations? How do they incorporate David's research into their spending into the spending in retirement? Obviously, we said, hey, just add inflation and subtract a

little bit. Wait, you're saying, you know, you're more granular in which you're that 1% that David was referring to where, you know, match it year by year and and have it reflect that spending smile? But what, what would take away can someone have with this from a practical standpoint,

Wade Pfau 25:46
I think the takeaway would be like how to construct the smile, the the other half of that smile, so you're kind of spending without the health care shocks, you don't have a smile, you have a while you're smiling on one side, but it just goes down and never comes back up. So you have to think about what do you want to construct as that reasonable uptick in spending that you want to be prepared for and that if you are prepared for that you feel comfortable that you have sufficient assets for retirement, and therefore feel like you can go ahead and spend your money as you want? And that's kind of the scenario is what what kind of uptick Do you want to plan for Is it five years in a nursing home, whatever the case may be, but also David is your accounting for. And if you have some specific numbers on that, it'd be great to see because otherwise, it's just guesswork, that indeed, someone moving to a nursing home is going to be spending quite a bit less on some of those other categories, because well, food would be provided through the nursing home costs, and so forth. So there could be a dramatic reduction in other expenses. The only issue there too, though, is when you layer in those high inflation rates on the long term care, that can really dwarf any sort of offset you might get with other expenses that don't grow at such high inflation rates. But yeah, I mean, it's how do you construct that smile? And are you for the most part comfortable? Confusing, the kind of suggestion coming out of the research? Or is there another approach you might think about using for something like that?

David Blanchette 27:19
This will be like, I've got a low bar here. I think the number one thing, my advice for retirees advisors is, is just rethink the assumption that retirees spending is going to increase every year by inflation, you know, drop it by 1%, drop it by 2%. You know, maybe even use inflation as your as your base estimate for a plan. We're gonna second plan and show them, hey, this is this is a more realistic estimate. There's a lot of uncertainties about life. But if you're spinning kind of better tracks, what we think will happen. This is how that how that main plan changes, I think that the idea is just to give people a better perception of what it's likely to look like. And again, I guess I'm less concerned today about exactly what that is given, you know, the flexibility of planning tools, and just the, you know, the wide usage today of inflation as the proxy for the benefit change.

Wade Pfau 28:06
Right. So whatever you do, you're moving in the right direction.

David Blanchette 28:09
Right

Alex Murguia 28:09
Now, I'm listening to this podcast, and I'm, I'm a consumer, and I'm thinking okay, inflation. You know, we're sitting at, yes, obviously, we want to make these podcasts evergreen, where someone listens to it two years from now. And it's not like the hell are they talking about? But inflation is upward? You know, it's crazy high right now. I think that's a scientific term. We'd use it quite often. But no, there's there's

two points I want to make. How should somebody be thinking about inflation? Based on what we're seeing now? Will it go back to a sort of range, if you will. And the other piece and I heard this in a previous podcast, you were in David, as it relates to the portfolio, I'm gonna throw in a Rinko, a portfolio allocation of stocks and bonds, if there is this sort of, I think the word was supercycle. Were in the 60s and so forth. You know, interest rates went down, you kind of referred to there was some study in England, where over the last, I don't know, 800 years, when did you go back that far? 100 years, ever since the Magna Carta was signed, interest rates have been going down? You know, something like that. Are we now on that upward trajectory? And what does that imply? Well, that change the smile to that, whatever, I again, I just want to present it to you and you folks, you know, talking about a little bit more.

David Blanchette 29:32
So you know, a lot to unpack there. Yeah, well, we

Alex Murguia 29:35
We had a couple of minutes left, and I thought, let me throw this in there, see where it goes.

David Blanchette 29:40
You know, like, while it's true that inflation is defined as like the CPI weighted basket of goods is high. You need to understand like what's been high like airline fuel, used car prices, motor oil, those have been some of the biggest drivers of gas of inflation and you know, like health care expert Chances are only up about 3%. So sure, you know, like, like the, like the the BLS definition of inflation has been high. And everyone's everyone's basket is different. And so I think that that it is true that, you know, like, if I'm renting a house in Miami, my rate has gone up 30%. If I'm a homeowner, you know, then my expenses potentially haven't risen as much at all, if I'm not driving much if I don't fly much. And so I think that inflation is a very real risk, but it's different for every person. But I do believe that, you know, like, the nature of the efficient retirement portfolio is very different than the efficient accumulation before I think that the role of real assets are far more important for a retiree to the extent they need to hedge or they have unhedged inflation risk, right. You know, Social Security is a pretty good hedge for inflation that's hedged to the CPI w to the extent that you want or need, you know, other other, you know, liabilities hedged to inflation, I believe in allocating more to real assets. So that's, you know, things like commodities, that's things like, potentially real estate, there's tips, there's even high bonds. I think those are all viable strategies, even your question about like long term interest rates? Gosh, you know, I have no idea that was like it was by the Bank of England 800 year study, I would be surprised if we see rates permanently go back to where they've been, like the long term average yield on on tenure governments is about 5%. I don't think we'll get there. But we could. Right. And so I think the key, you know, for most people is a high quality diversified portfolio that's designed with their liability in mind. So, you know, if you don't need as much inflation protection, you still have a different portfolio in retirement than accumulation. But there really is, I think, a value more for personalization in retirement, and then maybe as an accumulation.

Alex Murguia 31:42
Can you repeat all that

David Blanchette 31:44
to try but I wouldn't.

Alex Murguia 31:48
That's great. Wade, anything on that one?

Wade Pfau 31:50
I think he covered it. Well, but you made an interesting point. Yeah, consumer price inflation now much higher than healthcare inflation. It kind of mixes up the the algorithm behind the retirement spending smile, but this may just be an anomaly of what we're experiencing right now. And certainly, it takes a while for the inflation numbers, like every month, we hear, Oh, this month. Now, the past year inflation is 10%. But that's incorporating 11 of the 12 months that you heard in the previous month's numbers. So that should help sort itself out over time. And there's no reason to expect inflation to remain at the levels we've seen over the past year for them.

Alex Murguia 32:29
All right. Wade do you want to call it a day on this episode? And

Wade Pfau 32:34
Sounds good. I alluded to earlier. We are excited to invite David back very soon for another episode. So thanks, everyone, for listening to retirement retire style, and we'll see you again next week. Thanks for listening.

Alex Murguia 32:48
Bye now.

David Blanchette 32:49
See ya'll

Bob French 32:55
Wade and Alex are both principals and 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 a risk including risk of loss. Past performance does not guarantee future results.