Episode 3 The Building Blocks of Your Retirement Income Personality - Probability vs Safety First

Bob French 00:18
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 can safely assume that you probably want to listen to our hosts, Wade and Alex.

Wade Pfau 00:50
Hey, everyone, welcome to another episode of retire with style. I'm Wade Pfau. And joining me our co host,

Alex Murguia 00:57
Alex, Alex Murguia.

Wade Pfau 00:59
Alex Murguia, and we're happy you're here to join us for our third episode, where we're gonna continue to talk about retiring with style. And what we mean by that is getting a sense of what is your retirement style? And how do you want to approach building a retirement income strategy? And that we think that's step one, in the planning process, when you start to sit down and think in terms of how am I going to build a retirement income plan. To start cutting through everything out there, you need to get a sense of what your style is, because there's many credible strategies, as Alex likes to say in terms of how you're gonna approach retirement income plan. And so we've never in the past really had a way to help people identify what's the kind of style that might resonate with you as an individual. And at the same time outs, there's these new risks in retirement as well that people aren't used to, if you could remind us of those.

Alex Murguia 01:50
Yeah, and that's what we covered in the first episode, we did our origin story. But we also, you know, explain why it's important to have you know, the, you know, to understand what your style is, because you can, it leads to how you want to source retirement income. But in the second episode, we also spoke about the new risks that you face in retirement. And those are effectively longevity risk, which is the fear of running out of money, liquidity, which is sort of having, you know, being able to withstand a spending shot, be it for health concerns, or just general, my kitchen needs a complete renovation, because, you know, the pipes burst. There's also a sequence of return risk, which is the it's kind of fortune or misfortune, in terms of the stock market returns, as you enter retirement, we spoke about the

fragile decade, and specifically how the five years before and the five years right after your retirement, carry a disproportionate influence, on on, on potentially how much money you'd be able to withdraw from a portfolio. And so the sequence of returns risk is something that comes from front and center with regards to retirement, and then you have your general lifestyle concerns. And frankly, you know, throw in with sequences, that's more of a economic kind of variable, if you will, there's also significant inflation. And these are things that really, you know, that that bring about a lot of concern within retirement that why you were accumulating just didn't, it wasn't a salient simply because you have human capital that you're drawing upon, to fund your lifestyle to fund your everyday living, etc, etc. And once you are retired, that's no longer an option, if you will, because you've depleted your human capital. And now you have to think about ways to cut yourself this paycheck in retirement. So that's what we discussed in the first two episodes. Not what we wanted to start here Wade is really, I think what would be helpful is now now we talked about preferences. And, you know, the question that we didn't answer is, well, what are those preferences? And I think it'd be it's kind of cool to just discuss how we came about, you know, the process in how we came about quantifying these preferences. And this started 10 years ago, I would say, on your end, where you had an aha moment.

Wade Pfau 04:17
Yeah, starting to read about retirement planning, and just seeing people talking about it in such different ways. And then for a long time, I talked about this as there was a probability based school of thought for retirement and then safety, first school of thought for retirement. And you could ask these basic questions and get completely different answers. In terms of things such as are stocks riskier or less risky over longer time horizons? Is there such a thing as a safe withdrawal rate from an investment portfolio? And so that was really in the background, and as we talked about, like on the blog, retirement researcher and so forth, we get these questions and we really needed something to help measure a starting point. And so that's really what evolved into the study that created the retirement income style awareness. Just what what are the salient factors people have to think about?

Alex Murguia 05:09
And Wade, it just makes me think, too, because in Retirement Research, like we have, we have a lot of room, we have a big readership. And the questions were, and we may have mentioned this before, but Wade, should I do this? Bob? Should I do this? With regards to their outcomes? And we were hesitant to just do that. And frankly, we started thinking, how can we get to this, but you know, they, you know, sometimes, you know, progress happens from laziness, if you will. And, and the reality is, Wade, and I challenge ourselves to think, How can we find out? You know, what, what's a good starting point without bringing one number into the mix, without doing, you know, without actually having to run some sort of analysis that takes, you know, spreadsheets voluminous spreadsheets to kind of figure out and that's kind of got started us on this on this journey? What did you say Wade?

Wade Pfau 06:03
That's right, yeah, we have the great community at Retirement Researcher who, a lot of people who are very, like personal finances, they're happy. So they were very active and involved. And I think initially, we had about 900 different questions, to ask people to try to get a sense of what their preferences were. And the Retirement Researcher community was fundamental in helping us like, give feedback on which of these questions are good, which are bad, just copy editing, or here's a better way to state this

question, so forth. So we went from 900 down to 300. And kept going from there to try to let me know ultimately, with where we're at today, what we're talking about can be as few as 12 questions. But that was based on a very long process, starting with 900 questions, where we did the pilot study with Retirement Researcher and had about 1500 people who were, and we're very thankful, very active and participating in that. And then once that was a proof of concept that we wrote up as a research paper, and then having the alliance for lifetime income support an additional, like a nationally representative study with 3000 Americans, to make sure that what we were talking about, it wasn't just the personal finance hobbyists, retirement researcher who led us to particular conclusions. But do these types of conclusions that we found, do they apply to a broader, more representative slice of the American population. And as Alex likes to say about those results are in and yeah, it's even more robust in terms of finding the strength behind what we concluded in terms of understanding better what these types of preferences are. And so that's what we want to talk about today. And how we came to break this into a few different episodes. So it doesn't all come in at once. But a couple of the primary characteristics we found, and then also some of the secondary characteristics as well, in later episodes,

Alex Murguia 08:01
yeah, and we're going to talk today about probability based versus safety first thinking, and, you know, we thought the study was important simply because we can just say, these are factors, these are preferences, these are whatever thoughts, but the reality is, is that you have to quantify them, you have to make sure that these are factors that are, you know, that can be surfaced and can be quantified and measured, both reliably, but with a significant level of validity behind it. And that's where, you know, our studies were, you know, quite, quite illuminating in that regard for us. But, you know, that being the case, the first one that we really want to roll our sleeves up today is probability versus safety first, and this is something I credit Wade, frankly, that you're kind of starting to see in the, in just the general language beyond just, you know, Wade, and I talking about it, you're seeing other folks beginning to reference this and, and to some extent, it's kind of cool to start listening to it from others. But, you know, from from my vantage point, Wade, when I first read about it, you know, we started talking about it, and there was a big, and I think your thinking has evolved on this, where it was stock markets versus an annuity contract, you know, and then it goes into this whole, you know, safety first cops like nothing is safe, you know, that kind of thing. And, yes, we get that 100% We get that, but if you take a 40,000 foot view of what were your you were really distinguishing, I think it comes down to contractual income. And there's many ways to do it beyond just an, you know, contractual income, think about individual bonds, you know, and on the other side of that spectrum in terms of probability based, I know you refer to the stock market, but I think it can, it can go beyond just the stock market. Ultimately, I see it as an investment, that you are betting on the probabilities that it will rise in value over time. And because of that, you can take a sustainable withdrawal from it. Yeah, that's ultimately what you're looking at here with probability based versus safety first. And again, one view isn't more correct than the other. It's just how you want to source that aspect of your retirement income. I think that's the key. But Wade would you would you say that's an accurate depiction of how the thinking has evolved?

Wade Pfau 10:32
Yeah, yeah. Because now with the reset probability based versus safety. First, it's one of the characteristics we look at. Whereas initially, it was what I just called the two different schools of thought. And coincidentally, today, I had a chance to do a webinar presentation that uses a slide deck I

first developed a number of years ago, where I talked about probability based on safety first two schools of thought. And this was the first time I reviewed that slide. And since we've done all this work of the Risa, it was like, wow, yes, I was saying all this stuff in the past. But now the Risa confirms it was real. Like I say, in the probability based school people focus on their overall lifestyle in the safety first, did I say probability based school, they focus on their overall lifestyle, in the safety first approach, they distinguish between their longevity and their lifestyle. And and that was something we then absolutely confirmed with the Risa where, if you're more safety first, you tended to worry more about your lifestyle, if you were, I think I keep saying that backwards. But if you're probably based you, you focus more on your lifestyle. If your safety first you you focus more on your central spending. And that was one of several different things where intuitively it seemed how that was the way people were describing the world. And then when we actually did the analysis, we found that yes, these these factors play out. And so we see that. And so in trying to understand like, what are the trade offs? What matters with how people think about retirement, that old, those terms for the schools of thought they live on today is this factor? And I think you explained it right. Alex said simply, probability based and safety first don't have to encompass everything, there one factor and it really gets this idea of, if I'm probability based, I'm comfortable relying on growth that with bonds, I could layer up bonds and know exactly how much I can spend. And if I want to be able to spend more than that, I'm comfortable relying on some sort of growth asset that can give me an additional return above the the quote unquote, risk free rate from a bond, and sustainably include that in my retirement spending strategy. Whereas if I'm safety first, I don't want to be that dependent on this idea of market growth, I'd rather have some sort of contractual protection behind that. And it doesn't have to be an annuity, it can be just holding individual bonds to maturity. And the contractual protections implied by the fact that the bond issuer has to make those promise payments unless they default with I mean, nothing's 100% safe, but there's some sort of contractual protection behind that. And then the annuity can layer in the additional spending power beyond the fixed income alone.

Alex Murguia 13:15
And I think just this alone, without taking other factors into consideration, it provides an interesting ability to characterize certain certain income sources. Another one, we talked about, right? market base growth doesn't have any market base base growth, but assume it's for this right now. I'm gonna take it market base growth versus the security of, you know, five year government bonds, US government bonds, right risk free rate, etc, etc. Well, if you split down the middle, sometimes we get asked, What about rental income? You know, you can baseball cards, whatever. But what about rental income? And you know, Bob French is not here, but you know, him and you know, Wade, and so if we start thinking about that, and it's interesting, right? There's a contract for a lease. But the reality is, is that it's the credit quality matters, right? And so there's a probability kind of vibe to that. And then there's an underlying property. And so even that can be plotted somewhere along that spectrum. You know, frankly, I wouldn't say it's all the way safety first. And I definitely wouldn't say it's all the way probability based, but you get a sense here, of where things can lie weighed, what are your thoughts?

Wade Pfau 14:33
And there could be a sense of whether there's a potential for vacancies or whether there could be some spending shock in terms of something goes wrong with the property that requires an expenditure? So I

think, yeah, it's rental income, probability based or safety first. It depends on the specific circumstances of the real estate, in terms of how someone wants to classify

Alex Murguia 14:55
and Wade and I don't know I didn't want to I didn't mean to take this into the rental conversation. Should I brought it up more just to show that there's a lot of flexibility? You know, around this concept, it can apply to many to many types of assets, if you will. But ultimately, it's if you really stripped down to the the amino acids of what these assets represent, it's kind of, you know, are you taking a probability bet? Or are you doing safety first? And the other thing I would say is, you could be safety first, and understand the markets. I think sometimes there's this sort of, hey, you're why are you in the safety first tempted to realize that with time diversification, you can get higher return, etc, etc. And the reality is, is that it's not an irrational thought, I mean, it's perfectly reasonable for someone to say, hey, look, I just don't want to tether myself to the volatility of the stock market to enjoy how I source my retirement, I just don't want to do it.

Bob French 15:58
Let's take a moment to let the audience know that this show is sponsored by Retirement Researcher. You can learn more about Retirement Researcher at retirementresearcher.com And subscribe to our newsletter, where You'll receive weekly actionable information for your retirement planning benefit. Retirement Researcher is an online community devoted to helping you create the retirement income plan geared towards your goals.

Alex Murguia 16:24
And you can have that opposing thought and still be a safety first person. And so and vice versa to, like I get I get the whole volatility of the stock market, but I am fine. Being probability based I get it. You know, I so I think that's important. It's sort of an introversion, extroversion kind of tilt, if you will, that, that we're getting at here that you can be both and still be as justifiably correct as the person on the other side. And that's the ultimate grand assumption of what this entire podcast series is about. Wade.

Wade Pfau 17:03
Yeah, and maybe it's worth even like that. In the audience. Here are a couple of questions. These are from the nine hundreds. But they're part of it gets at the idea where when we ask these questions, well Alex, likes to throw out his term, that Likert scale, but it's really just there six circles, and pick the one that's closest to your feeling the statement on the left?

Alex Murguia 17:24
Well, I'm glad this is recorded, because I am gonna, maybe one of the few times ever, I'm gonna say Wade, this isn't a Likert scale kind of question said it's more of a semantic differential. Differential. There you go.

Wade Pfau 17:41
Alex brings us a survey background, that was never a focus of mine. Yeah, you've got six, six choices, is it? Do you fully agree with the statement on the left? Do you fully agree with the statement on the right? Or are you somewhere in the middle, but you don't get to choose right in the middle, you have to

either be to the left of the middle, or to the right of the middle? And Alex, if I can ask you one of these questions. And you've printed these out in such a tiny font that I'm gonna have to bring it a little closer here. But yeah, I'm gonna.

Alex Murguia 18:09
That's way the passive aggressive, that's Wade being passive aggressive.

Wade Pfau 18:13
Now, I just can't for the record. But let me read two statements, and let us know where you fall in this. So statement, one, short term investment losses early in retirement will not affect my retirement income potential over my investment horizon. Okay, and then statement two, I need to secure some of my more essential retirement income expenses, because short term investment losses early in retirement may greatly affect my retirement income potential over my investment horizon. So where do you fall in that statement?

Alex Murguia 18:51
Wade, if I feel like you know me, I feel like you should pierced right through my armor. No, I would say I fall into the category of the last one. I'm a little bit more along that and not not to the extreme. But I am more the last statement than the first, I would say why? Simply because I don't know. I've always liked the phrase that I've heard and that the market doesn't owe you a retirement, the markets not there to fund your retirement income. Market is a form of financing for her capitalism. At the end of the day, and we're piggybacking off the coattails of capitalism, if you will, when making those market driven decisions, and there's nothing wrong with that. But I'd rather not tether myself as strongly to that. And if I had the opportunity to have this secure layer of essential income, you know that then I don't have to worry about how lucky I am retiring into a specific economic cycle cycle, which I have no control of. I'm going to err on that side. Add a little bit more so that that would be my my choice. Do you approve or disapprove?

Wade Pfau 20:08
There's no correct answer here. That's what we're all about. But you're choosing an answer. That's more. You're leaning towards the safety first site.

Alex Murguia 20:15
I'm leaning a little bit more towards safety first. That's correct. Here, let me let me give you one. Drumroll, please. Oh, wait, wait, wait, let me try this. We just had a

Wade Pfau 20:24
Alex found a

Alex Murguia 20:25
Yeah, that's dangerous. Yeah. All right. Here, we got me put it in front of the screen. So I'm not

Wade Pfau 20:39
You're having that same problem right there. Tiny.

Alex Murguia 20:41
Yea I can't read it. I have to read it on the monitor. I didn't realize that. So short term investment losses early in retirement will not affect my retirement income potential over my investment horizon. First question. Second question. I need to secure some of my more essential retirement income expenses, because short term investment losses early in retirement may greatly affect my retirement income potential over my investment horizon.

Wade Pfau 21:14
Yeah, I so that leans into this issue of like, am I worried about sequence of returns risk? And very much so like, I mean, it's to some level, I'm comfortable with market growth, but I don't want to stake my entire retirement on that. So I'm gonna lean more to the the second statement there that?

Alex Murguia 21:32
Wade, I think I just read you the same question. You read me, by the way.

Wade Pfau 21:37
That was a different one. No, it's the same one. No. Okay. Well, yeah, you're right. It is. Yeah.

Alex Murguia 21:50
Because I was just doing it. Now, you know, a Wade to read you the first one, and redo it or let it go. Let it go. Let it go. So I consider retirement income withdrawals from my investment portfolio to be safe, since they have worked reasonably well, historically. That's on the left hand side. On the right hand side, I do not consider retirement income withdrawals from my investment portfolio to be safe, even though they have worked reasonably well, historically.

Wade Pfau 22:23
Yeah, so on that statement, I definitely understand the historical data. And I lean on that to stay the course whenever we do experience market volatility, too, just don't worry about it. Don't, don't panic, don't sell your stocks after a market downturn. But at the same time, when I get to that position where I have to live on distributions from my portfolio, I will not see the pure safety of the idea of I can just rely so I'm going to lean towards that second statement there as well, which is an unnecessary all the way towards the safety first side with that question, but somewhere to the right of center and being on the side with the safety first statement.

Alex Murguia 23:05
I I'm the same way their way that as well, I think, since we can't split the baby, if you will, I'm I'm a little bit to the, to the right of Yeah, to the right of center, I'm a little bit more safety first. So that would be the equivalent of saying, I'm socially liberal, fiscally conservative, not just kidding. That's kind of like the financial that someone says, they don't want to go one way or the other. But here now, I'm a little that safety first sight as well. And this is for another conversation. But this is why I think to some extent, we get too caught up in this 4% rule. Or you do podcasts all the time or right, or the 3.9867% rule, and things like that. I mean, just because this happened to work out historically, and this happened to be the withdrawal that work doesn't mean anything with regards to what's going to work in the future by

looking at something, you know, historically, you know, in terms of trying to get this level of preciseness, which I precision better said that doesn't necessarily exist. And I think this has echoes of that. At least that's how it hits me.

Wade Pfau 24:20
Yeah, yeah, there's a nuance there, too, because it's not that I don't expect markets to work. It's just that I don't want to have to completely rely on markets work. And I'm not going to feel comfortable with a strategy that does have to be completely reliant on markets working in these pivotal early years of my retirement. I still, I still want to be in the market, but I just don't have to. I don't want to have to completely rely on the market to source my essential spending in retirement.

Alex Murguia 24:50
Yeah, it's like in the movie airplane when the person says, No Lethal Weapon. And when Danny Glover says I'm too old for this to untether yourself from the market and have something more reliable, and I can see myself, you know, in that manner. Now, how did that what does the general audience look? What did it look like for them? I mean, we did the study, then at this point, it's, you know, good 4000 strong. And we've had, we've had another few 1000s of these just, you know, in Wades book, the first chapter of it, here's a good plug week, the first chapter of Wades, there'll be tired, I got it right here your retirement planning guide book. There's a there's a link for the Risa that you could take. And so

Wade Pfau 25:44
page 15,

Alex Murguia 25:45
page 15. Look at that. And so there's a there's a link there. So we have, you know, 1000s 1000s of these coming in. And wait, you may make you know, I'm sure people listening are just interested, hey, well, you know, what's the average? Where were people falling in? Where are people landing, if you will? Now, remember, it's it's a six item scale, where there's a statement on the left, and there's a statement on the right, and they pick where they're at? So it's one through six? And so 3.5 is the midpoint. Okay, I'll let you take it from there Wade.

Wade Pfau 26:14
Yeah. And in terms of Yeah, it wasn't just 1000s and 1000s. But yes, since the book was released in September 2021, we've had about 2500 people take the reset through that book, Lincoln, welcome. Anyone interested? And yeah, the middle score, if you're perfectly in the middle would be 3.5. And what we found thus far is the the number is 3.55, which is slightly on the safety first side, but very narrowly, so and also, that's close enough to 3.5. Yeah, I would say that pretty much done for this. Yeah, for the statistician, there may not be any statistical significance there. So it's, really we can't say that the the general population as a whole is different from the middle score, which it's like there's a bell shaped curve distribution around that, that most people tend to cluster in the middle. But then you've got some people who do lean more probability based who do lean more safety first, and you get a whole distribution of outcomes.

Alex Murguia 27:08

And I think that's, that's actually quite cool. In the sense of, it adds credence to this being a factor, right? In the sense of, if you take the population that's out there, you know, they had the mean happens to be the middle, you know, and that that's, that's very interesting. So in an oral distribution, then you have equal sides on the left and right. And so this also has implications that we'll get into over time. But if you really think about this, and the only thing I would add is that these are folks that are 45. And up, you know, folks where retirement income is a salient issue as opposed to a 25 year old. But if you really think about this, what what we're what we're finding is that there's a lot of folks that prefer to source retirement income, with a with a with a significant chunk of, quote, unquote, safety first. opportunities with, you know, safety first opportunity sets, and I'm fearing it my spider senses tell me, you know, when you read the paper, look at everything, etc, etc. I think the message is the overarching message is, you need the stock market to work for your retirement to be successful, full stop. I don't think that's the case. I don't think that's what people actually are, are tilting towards, frankly, and this is, this is a piece towards that. But that's no, that's a little seed that we're planting, if you will, for future episodes, perhaps, but it's a good midpoint. The other thing that we saw and Wade kind of thought he was gonna get into it earlier. Wade, I was gonna have to like, wait, wait. But we found that this is significantly related to longevity concerns, reserves, reserves for health, general, etc. And more specifically, the more safety first you were, the more you tilted towards wanting to source retirement income from contractual sources. The more you were concerned with regards to longevity, the more you were concerned about running out of money in retirement. Wade did you want to maybe go into that a little bit?

Wade Pfau 29:20
Yeah, that was what I was hinting at before. Were going back years before the Risa. I described it that way. And so when I was reviewing that slide, I had maintained Hey, I was like, wow, that's that's actually what we found with the recess. So it wasn't just a pipe dream, we actually now have some sort of empirical validation of that, that safety first tends to be focused more on longevity concern, which is their essential spending. And probability based. It's a I think you may have even used this analogy in the past podcast. It's this idea that of course, everyone's concerned about breathing the air, but a lot of times we're not really worried about it because we know the air is there. So if you're more probability based, you know, your longevity is covered, it's not really a concern for you.

Alex Murguia 30:07
Yeah, it's important mind you, but you're not worried. And Wade, you're so kind to say in a previous podcast, we only have like, this is our third episode.

Wade Pfau 30:17
Everything's running together for me. ONe of those earlier episodes,

Alex Murguia 30:21
yeah, and today I mean, Wade, and I speak frequently every day. And we're meetings, you know, quite quite a lot. And I think this is our fourth meeting today, you know, if it was a quote, unquote, meeting in and of itself, so

Wade Pfau 30:34

I may be mixing up another meeting. So if you did not have that analogy, it's a good one, this idea that, yes, we're absolutely concerned about needing oxygen to live. But we don't always worry about that on an ongoing basis. We know it's there for us. And if you're more probability based, you're just you don't have you know, you need to have that essential spending covered, but it's just something that you're not as worried about, or thinking about on an ongoing basis. You've got it covered.

Alex Murguia 31:00
Yeah. And sometimes I think this, you read articles about how, hey, the average American or X percent of Americans are concerned about longevity, you know, effectively income? Wow. It's one of those like, yea but I'd like to see those questions fleshed out that, that, that, that are actually accounting for these factors, for to get a better story. The other piece, I would like to say about longevity, Wade, is, when we did this, we controlled for other factors. That means some of you may be hearing this, and you may be thinking, but it's really just a matter of gender. Oh, but it's really just a matter of net worth. Oh, but it's really just a matter of retirement status, etc. All the demographic and other factors, if you will, this was significantly related. Probably the safety first was significant related to longevity concerns, even when controlling for age, marital status, retirement status, net worth. And actually another one I'd like to throw in there, loss aversion. And these are those and this is a foundational piece for all these risk questionnaires, you're handed out in retirement here answer three questions on, you know, to determine your your proclivity for wanting to take risk or not, you know, that that kind of thing. And so there's, there's a place for them, and we'll, we'll get into this in future episodes. But even when controlling for all of these factors, we're realizing that probability and safety first, you know, the spectrum of that factor is very telling with regards to longevity concerns, which is one of the main risks of retirement, that you kind of effectively want to take off the table. The other risks that this thing was that this thing this factor was quite significant for is how you viewed spending shocks. And there's two flavors that we realized we thought spending shocks health and just general, like the kitchen renovation that I mentioned earlier, are kind of in the same bucket. But that's not the case, folks view reserves. Healthcare is such a strong concern, that it's almost like it lives in its own universe a little bit a separate from, like, concerns for other types of spending shocks. And Wade do you want to go into what we found there?

Wade Pfau 33:16
Yeah, yeah, we were always thinking about four L's. And actually, like funny side story, like with the four L's just liquidity, we thought of as

Alex Murguia 33:25
People may not know what your four L's are off the bat

Wade Pfau 33:28
longevity, lifestyle, liquidity and legacy, but it's the liquidity is concerned about spending shocks. And a buddy of mine, Don graves, he added a fifth L long term care. And it turns out we're finding he's right. Liquidity can be divided between concerns about general spending shots. And that ultimately, there is concerns about long term care as a spending shock, that's distinct from concerns about other spending shocks. So it really is five L's its liquidity for general spending shocks. And then you could call it long term care, because it's liquidity for long term care or other health related spending shocks in retirement.

And so the probability based safety first factor does help to describe what type of individuals are going to have these concerns for these reserves, different types of reserves for these spending shots.

Alex Murguia 34:26
Yeah, no, it was quite good. And, and these are the safety first group that's the safety first group or high on longevity concerns and both types of reserves concern and incidentally, this is where specifically for the healthcare, again, the the loss aversion, the proxy for risk tolerance, was kind of silent on and so you have to ask yourself, you know, the right, you know, hammers for nails, you know, weights for scales, you know, no kind of thing. I think I said, right, I'm not sure if someone said that in the morning, and I was like, Oh, I gotta use that but You want to use the right, the right measure for the for the right situation at hand. The other thing that this was indicative of his lifestyle concerns folks that, you know, you have your bucket list more discretionary stuff, the folks that were higher on probability base, as opposed to safety first had stronger lifestyle concerns. It's interesting. If your safety first it's like, sure, if there's room for it great, I'll go to Disney World, you know, kind of thing. But with regards to probability base, those folks really, lifestyle is a concern, you know, this goes back to their yes, they realize, you know, they want they don't want to outlive their assets. But what concerns them is actually achieving these more, you know, discretionary kind of goals, if you will,

Wade Pfau 35:48
yeah, with safety. First, you're more concerned about making sure that your basics are covered with probability based, you're not not worried about that you're more concerned about maximizing your overall lifestyle, and getting the most possible enjoyment out of retirement.

Alex Murguia 36:03
And I would say to there's probability was also related to other retirement income style factors. But as opposed to introducing them, and then telling you to wait, let's not even introduce them, and ask you to wait. And we'll cover them in episodes where we, where we introduce all the factors, and then we can talk about how they, how they sort of play off each other, I think that would be a more interesting play. But I think what's another interesting factor here, and we talked about 3.5, being kinda like the middle ground, and it actually hits for this way, you may want to talk a little bit about gender differences and marital status differences that we found, I thought that was kind of cool.

Wade Pfau 36:43
Yeah, we see that just with the simple data, like the summary statistics, but also tends to hold up when we do that controlling for other factors as well. And with gender first, it's, we do see a tendency for women to lean more towards the safety first side. And for men to lean a bit more towards the probability based side for a lot of demographic characteristics, you don't see a difference in terms of how they score, it's, it's pretty consistent across the population. So it is interesting that with gender, you do see that distinction. And I think that fits into conventional wisdom about that idea that what is seen as mentored tend to be more like invest for upside, belief and market growth market for the defined retirement, women tend to be more oriented towards rookie contractual protections. Not and not overly, so it's, like we said 3.5 was the middle score. So men come in at 3.4. So a little bit leaning towards probability based, women come in at 3.69, which is leaning a little bit closer, more so on the safety first,

side, and that is a difference that is like, what we say statistically significant, it's meaningful. gender difference.

Alex Murguia 38:01
Yeah. But again, that doesn't mean that we control for all of that when looking at those other factors. And they remain significant. So it's, you know, this is just a good kind of, like, you know, fun with numbers, check it out. The other piece is marital status. And here, I'll start off with what you find it kind of fits intuition. Really, here, single folks, average 3.65, 3.5 is the middle right? Single folks average 3.65, that means a slight tilt towards safety first, it makes sense, there's one less person to potentially rely on, there's, there's you know, less support. And so contractual income actually helps you remove certain risks off of your own balance sheet, if you will, and push it to the other end of that contract. You know, the other party that's that's in that contract. And so you makes, makes, just intuitively makes sense. Married folks, it you don't really see it all the way into the, into the probability based side but it's more there right down the middle 3.51. So it's really there. They could go either way. They seem to be agnostic about it. But it's really the the difference is really between single and married, that kind of catches my attention at least 3.65 versus 3.51. Now, it's not

Wade Pfau 39:26
controlling when you put these numbers was that control?

Alex Murguia 39:30
T test.

Wade Pfau 39:31
So a lot of that might just be that in retirement due to women living longer. The single might be more reflective of women as well. And married couples.

Alex Murguia 39:41
That's a great point. Yeah, absolutely. But, you know, again, fun with numbers. That's what we found. And I believe that that could be it. We end on the note where Wade you're correcting me. I hate that. So be it so be it In the next episode, we'll talk about the other factor that we think you know, salt and pepper, peanut butter and jelly. We'll talk about probably the safety first and we'll leave it for the next one. Another fact that we think is actually quite important and, and distinct. And frankly, Wade and I didn't see it coming. When we were doing this study. We're like, oh, wow, this one. Alright, Wade

Wade Pfau 40:24
Retirement factor that you did not see coming. And how did those internet things work? This is the retirement factor that made you gasp that'll be on the next episode.

Alex Murguia 40:36
There you go. I don't know where you're going with that. Wade, we'll just

Wade Pfau 40:42
encourage you to keep listening to the next step.

Alex Murguia 40:46
Alright everyone. That's what we got. Alright, everyone, thank you. Wade, you want to send us off?

Wade Pfau 40:58
Thanks and see you again with our next episode shortly.

Alex Murguia 41:01
Bye

Bob French 41:04
Wade and Alex are both principals in 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 the risk including risk of loss. Past performance does not guarantee future results.