Episode 129 YouTube Live Q&A Part 1

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SPEAKERS
Alex Murguia, Bob French, Wade Pfau

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. Get ready for one of my favorite topics, the different types of planning methodologies. You only think I'm kidding here.

Wade Pfau 00:52
Hi everyone. Welcome to retire with style a special live edition, YouTube, live if you're listening on the podcast apps that will be the recorded version. But for everyone who's here live, welcome. I'm here with my trusty co host, Tom Selleck, or wait a

Alex Murguia 01:08
second, Magnum, Magnum, Magnum. Yeah,

Wade Pfau 01:11
with the mustache and with YouTube Live, everyone can see Alex has a very stunning mustache today.

Alex Murguia 01:20
I'm pretty good. I'm pretty good. Wade, well, what happened is, I was taking off my shirt this weekend, and I noticed on

Wade Pfau 01:28
the caller, looks like comic book in the 80s. Yeah, I

Alex Murguia 01:31
get that a lot, actually. But on the caller, I noticed I was fraying the collar. So I said, You know what? Let me see how this goes. I don't know. I don't know. The other thing is, my kids were looking at the thumbnail for the YouTube thing, and you know what they said, why are you letting Wade mug? You do? You know what that means. What was the word mug? M, O, G, why are you letting him mug? You

Wade Pfau 01:56
I did not know that acronym, or whatever it may be. That's like if you take a picture next to

Alex Murguia 01:59
somebody, but you're the good looking one, and you purposely look for somebody that's uglier than you, so you can take a picture next to them. They're saying, why are you letting Wade mog you? And I was like, Get out of here, man.

Wade Pfau 02:14
You gotta step up your game, huh? Yeah, I

Alex Murguia 02:17
gotta step up my game. So I'm desperate. I'm just, I'm just hustling for it at this point. Let me make sure this thing is working, though. I Yeah,

Wade Pfau 02:28
yeah. I believe we are live with our group here at YouTube Live. There is a seven second delay. So when you're typing in the chat there, it's going to take us a bit of time, but we're, we're getting your messages passed over for questions that come in. And then we did have some questions that came in before the show, so we we can get started with our backlog of questions, but we'll also be watching any questions you have. Please type those into the chat and we'll address them. We're that's what we're here for. Today. We're gonna talk about retirement planning from a with the questions that came in already from a number of different perspectives, and we'll see what else we get throughout the show. So welcome everyone.

Alex Murguia 03:07
Yeah, hey, everyone, and Wade. You may want to do an in the intro of retire with style, just just in case. I'm not sure it caught from the very start.

Wade Pfau 03:15
Oh, okay, so this is the retire with style special live YouTube edition. If you are listening on the podcast app, that means you are hearing the recording of it. But if you are here with us live, may 13, 2024 please ask your questions in the chat. And on that note, with the questions that came in in advance, we can get started as we wait for new questions to come in as well.

Alex Murguia 03:41
Alex, sure. And I think my kids got a hold of this because I'm seeing Bonjour from Ireland, from Mateo Murgia.

Wade Pfau 03:49
Oh, yeah.

Alex Murguia 03:50
I'm embarrassed to say, not only does he is he not from Ireland, he's got the language all confused. Yeah. I

Wade Pfau 03:58

think you know English in Ireland, yeah. I

Alex Murguia 03:59
think I'm gonna have to start taking the helmet off of him when he's walking around. Walking around the house. I think it may be compressing his skull and not letting the brain, not giving the brain enough space to oxygenate properly, at least. I'm thinking, is

Wade Pfau 04:13
his school year finished, or is he playing hooky to watch his dad on YouTube?

Alex Murguia 04:17
No, no. I have Ander and Mateo and their good friend Finn, they have what's called a two week work study. They're done with other AP courses and the like. Not that Mateo is taking AP courses, you know, that's that's overly ambitious for him, someone who visits and so once they're done, there's nothing to do in the school system. Yeah, it's one of those things where they're just babysitting them and so they have, they can do a work experience. So we're gonna, we're gonna put them to work over the next two weeks. And remember, I was telling you had that issue to deal with, so we didn't have time to kind of have an orientation. So I just said, just listen to this YouTube Live and. And we'll go, we'll do a bit after, you know, on

Wade Pfau 05:03
the job training.

Alex Murguia 05:04
Yeah, on the job training from that step. But so anyone that you see any suspicious entries,

Wade Pfau 05:14
sorry, positive reviews of Alex's performances.

Alex Murguia 05:17
Yes, but they're the ones that said you were mogging me. I think it was Ander who said it, which is, for those of you, is when your good looking guy exhibit a Wade purposely gets next to somebody that's less esthetically pleasing,

Wade Pfau 05:33
isn't that there's also, like a wingman or something? No,

Alex Murguia 05:36
no, come on, man. But yeah, so apparently I've been accused of mugging. You've been accused of mogging me. So hence I needed to change up my look that I don't see what the mud touch does. So there it is. Tom Sally,

Wade Pfau 05:48
yeah, Looking dapper. Thank

Alex Murguia 05:50
you. Thank you. So we got, we got. You know, our numbers are increasing, but before they decrease, that's actually handle some questions, right?

Wade Pfau 05:57
Okay, yes, question one, and some of these questions are rather lengthy, so I thought we'd start with a shorter question, Justin, get the ball rolling, so to speak, but a question one before you

Alex Murguia 06:10
get into that the way. So we have questions already. We, you know, on retirement researcher this weekend, we asked folks to send in questions, so we have a handful of questions so we can kind of get the ball rolling. But ideally, you folks are here listening, so send in your questions. We'll get to them, and we don't get to them today world, well, we'll have podcasts where we will get to them. I mean, last time we expanded the Q A for I don't know what it was, but over five episodes easily, right?

Wade Pfau 06:37
Yeah, more than that. So

Alex Murguia 06:39
type them in. We'll get to them all. In fact, we hope you do, because it gives us things to talk about in future episodes. But for right now, we have some preset ones. We'll start with those, and then we'll just play it by ear. And

Wade Pfau 06:51
yeah, as you ask questions, we'll incorporate those in. We won't just go through our whole list of pre, pre submitted questions, but Question one, Alex, once I retire, how can I determine how much I can spend for my portfolio monthly and not run out of money over my expected life? Is the probability of success using a Monte Carlo simulation the best option? Why

Alex Murguia 07:15
don't? Why don't I start with that a little bit and talk about the Monte Carlo part, and then you could jump into, I'm thinking funded ratio and stuff like that. Does that make sense? Wade, yeah, okay. With regards to Monte Carlo, I ultimately this has become the default tool for a lot of advisors when they do planning a couple of things. Monte Carlo is not like a financial plan. A lot of folks will say, Oh, here, we'll do a financial plan. And here's a Monte Carlo. That's a quick and dirty kind of thing, if you will. And what the Monte Carlo is doing is every portfolio, you have some expected return and some expected standard deviation around it. And standard deviation would be code for variability in any given year what that return will be. So if you know an ex, if the expected return is 10% a year and the standard deviation of that portfolio is 17% a year, what you're going to get is 67% of the time the returns will be between 27 return of 27 or negative seven that's within normal limits. And normal limits is the stats way of saying, hey, that's what you that's what you signed up for, if you will. You should expect that all right? And so when you're running a Monte Carlo, what it's doing, it's just randomizing those returns under those parameters, right? For the most part. Let's just leave it at that. You know, for the for the for the purposes of this, that's a fine enough statement. And so it's going to run, let's say 200 runs, 500 runs, 1000 runs, and that's what the portfolio will do. And within that, you gave it some target where I want to assume that I'm going to die at age 92 or something along those lines. And I want at least to die with a non with at least $1 in my account. Anything below $1 is zero. Sometimes there's, there's like bequest. And so in that stamp from that Spanish Point, maybe there's, I want to leave at least 250,000 for the next generation. And so anything below 250,000

is the equivalent of a failure, right? And so you run 1000 of these, just I said 1000 to say 1000 and afterwards you get it back, and it will say something like 80% chance of success. What that really means is, out of those 1000s of simulations that you run eight, out of 8000 simulations that you ran, 800 of them were above the watermark that you set. Okay, and so that has become the quick and dirty within our industry to determine if you're on track to achieve your objectives. That's That's simple enough. But then it isn't because there. Some issues that I don't think Monte Carlo runs through the tape on. Now, some advisors like to get into it with, well, the curve of the stock market is leptokurtic. You know, there's fat tails. No, no. They, they love to sort of say things like that to show off that. They they took stats beyond stats 101, you know, kind of thing, and they get into, oh, there's fat curves and so it's discounts everything and all that. I don't, I don't get into it like that. I think directionally Monte Carlo is a good tool for getting an assessment of it, you know, whether I'm gonna fight about the moral of the curve or the fat tails of the curve and things like that. Look, if I was running a quantitative hedge fund, that's a different story. But here we're doing a financial plan to see if you're on track and knowing that it's going to change year to year. I think that's fine, but that's not my issue that I that I have with Monte Carlo. From this standpoint, when you're doing Monte Carlo, there's two things that I think, from a planning perspective, make a lot of sense that you need to see. Number one is the magnitude of failure, and what I mean by that. And Wade actually started writing about this, you know. So I'm going to talk about it like if I'm the one that thought of it, but, but the reality is is, let's say you want to see if you're on track to achieve your goals, right? So it's doing those simulations, and it's seeing if by certain ages, even death, you have a certain amount right, and if you don't, it's counted as a failure, right? So let's say out of the 80% success rate, you know, let's say with 60% success rate. And I'm gonna kind of use these numbers. I don't know if they're bound to reality, but they help with the story. So 60% success rate, but the 40% that failed, half of them failed by less than $100 is that really a failure? Probably not, right. The other piece is with that is you would make adjustments along the way, if things were nosediving. So, you know, just based on that, Monte Carlo is not this panacea. The other piece of it is, the higher the success rate, the more likelihood that you're going to underspend in your retirement. And so if you really and maybe we can expand upon that, but if you really think about that, what are you doing this all four right? You're doing this all so you can enjoy your life. And if you spend your years accumulating only to then be scared about spending or not wanting to spend because you wanted to keep this magical number as a Monte Carlo score, I personally don't think that's, that's the way to go. So that's, that's how I would answer that. And the other piece at the beginning, we should have said this. This isn't investment advice. Talk to an advisor. We're just giving you sort of a practical thing, sense of how to look at things and how to begin to analyze it. Wade, did I get an A on that? A, B, A, C, what do you give me?

Wade Pfau 12:56
Yeah, Monte Carlo simulations. It's a way to build in randomness. So it's a common method used, and I don't have any particular fault with it like you. It's not necessarily my favorite go to approach. And the concern is just really, it can be a black box about what the assumptions are. You need average returns for each asset class. You need volatilities for each asset class. Those may not really be reported, but they're the results are very sensitive, like if you have slightly optimistic assumptions built into it, you could get a 95% success rate, but if you just say the average stock return is going to be 1% or 2% less per year, that could drop the success rate down to 70% so it really is sensitive. And so the way that we've approached things at McLean essence, well, more retirement research, I guess, in terms of we built the funded ratio tool, which just comes at it from a different direction. Because at the end of the day, if you use a

Monte Carlo simulation and you target a success rate, say you want, like, I want my plan to work with 90% success behind the scenes. There's a fixed rate of return that links to that, that if you took away the randomness and just got this fixed rate of return every year, it would correspond to a 90% success rate. Now that fixed rate of return would be well below the average, because if you assumed a fixed average rate of return, you'd actually get a 50% success rate from the Monte Carlo simulation. So Monte Carlo, you're implicitly assuming some sort of low fixed rate of return that's equivalent to having a high probability of success. That also gets an Alex's point about potentially underspending in retirement, because you're you're spending at a level that's connected to a low rate of return and also a longer than average lifetime. But the trouble in Monte Carlo is you don't know what that rate of return is. That's why I'm having to be a bit vague. It's less than the average, but it's something you would have to reverse engineer from the Monte Carlo. So I've really come to prefer to just come at it from the other. Section, which is, let's figure out a fixed rate of return that we're comfortable assuming it should not be the average, because, again, the average would be connected to a 50% success rate, and we do generally want the higher success rate, but we have more control over thinking about whether we link it to the tips yields, so treasury inflation protected securities, the real rate of return, plus inflation, which these days, has been in the ballpark of 2% there's another question later that was asked in advance that gets into some of that, but then you can control, okay, this is the rate of return, and with this rate of return, will my plan work? Do I have sufficient assets to meet the various goals that I've included in the financial plan. And if it works, that means you have enough assets, your funded ratio would be greater than one or greater than 100% and in that regard, if your plan can work, if you have fundedness, as you lower the rate of return, just in the other direction, that applies a higher probability of success. But in this case, you don't know what the success rate is, you'd have to reverse engineer that, so to speak. But it's just coming at the same problem, but from a different direction. Let's assume a conservative rate of return for the plan. Let's see if the plan works with that conservative rate of return. If we're comfortable that we can reasonably outperform that rate of return in retirement, and our plan works with that rate of return, that we should be okay. We should be in good shape. And so that's really how I like to approach things. And then specifically with the question, How can I determine how much I can spend on a monthly basis? Well, if you're trying to figure that out with either financial with either Monte Carlo or a funded ratio. That's where you can start playing around with, okay, right now, I run the plan with this spending goal, and I get a 95% success rate, or I have 130% funded status. That suggests I can raise the spending, and so I'll increase the spending until I get to the level I'm comfortable with. Whether that's a 90% success rate, although, as you were talking about Alex, people are flexible, therefore you can really target a lower success rate, maybe a 80% success rate, or a funded ratio of, say, 105 or 110% to build in some buffer there. But you can really increase your spending until you're getting to that threshold that you've deemed being reasonable, and then at that point, that's how you could approach determining what's the maximum I can spend that gives me a level of sustainability for the financial plan that I feel comfortable with.

Alex Murguia 17:32
Yeah, a couple things where you were talking, I was thinking, and what we see at McLean, and again, Wade and I are principles of McLean Asset Management retirement researcher and Risa, and this is our side gig right this podcast. But what we see a lot is folks popping around different advisors and going with the advisor that gives them a higher Monte Carlo score. And there's a thinking that, Oh, those investments are better because there's a higher Monte Carlo score. That's a load of BS kind of thing. This is where Wade said assumptions, you know, garbage in,

garbage out on the assumptions, right? And you just got to be careful with that. I wouldn't take I wouldn't, I wouldn't give that any credence at all. You know, just, just keep that in mind. I personally prefer the funded ratio a lot more, because it starts it from an angle that I just resonate with better, which is, okay, let's start conservatively. Can I make it, you know, assets divided by liabilities, and that's good enough, you know, and then you can go from there. But what it does is it doesn't involve these fancy sort of return assumptions that are you know that you need divine intervention sometimes for those things to work out accordingly. And and plans, I got to give you the a financial plan is not written in stone. It's not a think about Randy McNally and those roadmaps that you used to have years ago to go to some trip versus Waze, right? You want to think of planning like Waze, where you're going to constantly course correct if things happen, and so the assumptions and all that kind of stuff, and trying to be precise, it's just not worth the time. You're better off just going at it from a more fluid approach, and assessing as you go. And for me, the funded ratio is a much better tool for that. And how much do you spend? You spend enough until you don't feel comfortable anymore with the outlook of that score,

Wade Pfau 19:35
right until your scores are dropping below thresholds that you are concerned that this is not a good threshold to have for the plan, then I should maybe cut my spending to get back on course.

Alex Murguia 19:46
What's a quick and dirty I think once you drop below 80, 85% on the Monte Carlo, you want to see what's that about? If you're below 112, 115 on the funded ratio, i. I kind of start paying attention, you know, a little bit more you're more constrained, if you will. You're not in the danger zone, but there's a, there's definitely a constraint that you have,

Wade Pfau 20:09
yeah, and then how much you can react to that constraint if, if you have more flexibility to make a temporary spending cut that can allow you to play more fast and loose with not making cuts until you are getting closer to certain thresholds, lower success rates, lower funded ratios. But if you're not, if you don't have as much flexibility, then you really need to have built in a plan that may require a bit less spending, but that's keeping you higher above those thresholds to reduce any potential risk of having to make those cuts later.

Alex Murguia 20:45
Well, I think we answered that one,

Wade Pfau 20:49
and as we answered that, it looks like we had a few more questions come in. Are you

Bob French 20:52
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 retirement researcher.com/eight tips again. Get retirement researchers eight tips becoming a

retirement income investor by going to retirement researcher.com/eight tips. That's the number eight tips.

Alex Murguia 21:33
All right, what do you want to do here? Wade, do you want to give uh, do you want to play this?

Wade Pfau 21:37
Well, I was trying the I'm having trouble parsing the meaning of the first question, and it is an estate planning type question too, but we let's just work through them in order, since I haven't really had a chance to preview them too much. But this next question, when would an Accounts beneficiary designation and then literally reading it would not need to be the assets transferred to a grantor trust, if creditor, ex spouse or probate protection is not a goal, and so I'm not 100% sure what the question's truly trying to get at, but an important point to just emphasize here is beneficiary designations are primary importance. You can't overrule a beneficiary designation by writing a trust saying you want that asset to go to the trust, your will does not override a beneficiary designation. So if you want the asset to go into a trusted death, you have to make sure the beneficiary designation leads it to that particular outcome. And then if you just have to be careful with state law, if your beneficiary designations, or if spouses in some states have strong protections, where you may not just be able to to designate whoever you want to receive, the particular asset may have to go to a surviving spouse. But beyond that, I can't parse a lot out of I think there may be something with the grammar in that question that is confusing me. That's

Alex Murguia 23:07
okay, and we there's a couple more that are follow ups to what we just said that could be interesting. And yeah, with regards to the state planning question, I, because of the states and things like that, I agree. I want to be absolutely crystal clear with what's being asked. So we're gonna

Wade Pfau 23:23
punt on that has different laws. Yeah, exactly so.

Alex Murguia 23:27
And just realize there's only so many. This is a better medium for more, higher level kind of, kind of questions. But here's a couple of follow ups that are that are interesting to me, not that the other ones aren't. But this is first to how we kicked off the presentation. So I see this one right away from Bill with Monte Carlo analysis, the higher the withdrawal from the asset portfolio, the higher the failure rate. By lowering withdraws, you create a frugal retirement, maybe less than optimal. Yeah, this is, this is, was my point about the higher, the higher the probability, the most likely you're going to underspend, yeah, the

Wade Pfau 24:10
higher the success rate, then right? Yeah, it means you're spending less. Less spending equals higher success rate. More spending equals lower success rate.

Alex Murguia 24:19
Now someone can, yeah, that's challenging. You could be lucky. And, you know, the markets go up for in five for five years, 40% and then you rerun the Monte Carlo, and all of a sudden, you

know, you didn't technically increase your spending, but proportionally it's reduced. Yeah. So Jeff here, if the funded just because this is a follow up to the funded ratio, I'll let you start it off. If the funded ratio is, say, 115% should we just move all of our invested assets and tips? And I wasn't too clear, and while you were saying it, I was reading so maybe I didn't hear it. Did you discuss what the funded ratio score means? Like assets over liabilities, present value, that kind of thing, and what 115 means?

Wade Pfau 25:03
I didn't go into much detail about that, but yeah, that's the point. You look at all the household assets, including account balances and the present value of income streams, such as your Social Security benefits. If you could assume you had some amount in the bank today that would generate those future Social Security benefits. What would that amount be? That's its present value. Collect all your assets. Collect all your retirement liabilities, expenses, essential spending, discretionary spending, Legacy goals. What you want to have us have set aside for contingencies, and that will generally be all present values of future things that happen somewhere in the future, rather than being just today's expenses. And then, if the assets exceed the liabilities, you're funded for retirement. If you're assuming a tips yield treasury inflation protected securities, and your ratio is over one, it means if you had all your assets invested in tips, you should be able to fund those goals now, just question coming and saying, so if the funded ratio is, say, 115% should we now just move all our assets into tips? And that is the answer, generally, is no, but also it's in terms of the relationship between asset allocation and the funded ratio. It's not that you necessarily have to think about all tips, but purely speaking, you would want to be the less risky invested when you're your funded ratio is exactly you're exactly funded, because then any sort of Hiccup and you become underfunded as your funded ratio increases, that surplus is what you can really be more comfortable investing more aggressively. And if you are someone who's a very high safety first outlook, then tips or different types of protected income streams, you might want that that 100% part in those kinds of protected income streams. But then whatever that discretionary excess, the surplus, that 15% surplus, as that surplus gets bigger, that's how you can approach well, that part, it doesn't matter if it loses value, so I may want to invest that part more aggressively and build a greater upside, the potential to have even more in the future. That's the basic logic of asset allocation is, as your funded ratio increases above 100% you have more capacity to take risk. And whether you take risk on just the surplus, which is probably not the common answer, more people may take risk, especially if they're more total returns, taking risk on a lot more of that of their assets, but at least you have all i, all I need to do is beat the hurdle my investments have to perform better than a tips ladder. And if I'm confident I can do that with my investments, then you can can build your overall asset allocation that way.

Alex Murguia 27:58
What? What I would add more of a folksy kind of answer to this. 115% is, Wade, who said, you know you already won the game? This is the William Bernstein, yeah. William Bernstein, great on. I mean, if you, if you're like, getting into this from invest for the investment management purposes, any you know, great person. He's written the same book five times, kind of thing, William Bernstein, but there were three again and again and again and again, kind of, kind of, but he emails it when he says, Listen, you've already won the game. What is the purpose of investing? To put in $1 so you can come out with three later? Yes, you know, more money is better than less money. But ultimately, that's not the end game. It's you're doing something with it, and with this, you've already won the game. And so risk becomes a preference, and that's

very important. When risk is preferential, then you have a lot of flexibility on what you want to do. It's not just put it all in tips, but theoretically, that's what you're asking yourself. If I can somehow, you know, put all of my the present value of my future earnings and tips, that's fine. Practically, you can't do that, because Social Security income is part of that assets equation, and, you know, you got to wait for the money to come in, right? So it's not practically a thing to consider, but what you're doing theoretically is you're telling yourself, look, I've already won the game for what I want to accomplish and for how I want to live in retirement. That will satisfy me. I don't need to take more risk. So then the question you better have a very good reason why you should is all, you know, risk is a preference. So I just want to state that

Wade Pfau 29:41
well. And then I mean, just if you have that more safety first Outlook, you may agree more with kind of the speed Bodhi. He's a professor at Boston University. His outlook is you have no business investing in the stock market until you've effectively are 100% funded with safe assets. And then that, like I was saying, and then. The surplus could be invested in the stock market, but a lot of people don't take the safety first viewpoint to that extreme. So, and if you are total returns, you don't feel as much need to have safe assets to meet all those expenses. You are more comfortable having a diversified investment approach. So you've you've got some flexibility there, but yeah, strictly speaking, 500% is safe. Beyond that, you can do whatever you want with it. Wade

Alex Murguia 30:28
just to tap on this vein so we can it's gonna be hard to come back to these questions about funded ratio and stuff afterwards. Since we started, Maureen is asking, are long term care costs built into the funded ratio

Wade Pfau 30:42
with what we do at retirement researcher, yes, we have your liabilities. You identify your retirement budget. So how much do I want to spend between essential and discretionary throughout retirement? You identify any legacy goals, and then you identify your contingencies. And the way I approach that is, you decide what sort of long term care is the biggest contingency if I if I'm not going to feel comfortable retiring until I can fund, say, five years in a nursing home, just as an example, that would be a fairly conservative example, but you specifically say, Okay, here's this contingency liability between ages 91 and 95 I want to be able to spend an extra $100,000 a year, inflation adjusted, and then that becomes the long term care liability. And if you wouldn't want to retire until you have the ability to do something like that to fund that sort of liability, then that does become part of the funded ratio, because those contingency liabilities are there, you need enough asset to fund those. And so if you ultimately then never have the long term care event. What you've set aside for long term care just ends up funneling into the legacy at the end. But yes, I mean, someone could create a funded ratio and ignore long term care. But we we prefer to address long term care by specifically assuming some sort of long term care event built into the plan, built into the expenses you need to fund to be 100% funded for retirement.

Alex Murguia 32:15
And my my question is my only comment from that one is, I don't know if you're asking like, I don't think I'm going to need long term care, so I don't want to build it in. Or can the funded ratio

accommodate the math needed to to account for long term care? The second the question to the second answer is, yes, it can. And, you know, it's just a matter of putting a line item in,

Wade Pfau 32:40
just describing to be, yeah, the

Alex Murguia 32:41
the answer to the first one is, we just did a whole arc on long term care on this podcast. And one of the main takeaways is, look, insurance is for low probable, low probability events that are high cost, right? You want to protect yourself from that, but long term care is a double whammy. It's a high probability, high cost event, so you definitely want to fold that into your plan. If you're not, it's like not putting in food or something like that. You know you're going to get hungry. You're going to need care. I guess I just thought about that, but I guess you could have a heart attack walking down the street and you're done. But yeah, I mean, for the most part, you want to plan for long term care. Wade, yeah, all right, let me see. I think this has to do with

Wade Pfau 33:38
Susan has a couple of questions. I may still be on the same theme before we start a new theme. Yeah. Okay, so lots of questions coming in, we're gonna have to make sure we go back and cover everything.

Alex Murguia 33:51
Well, we can put our kids to work there in my tail. Can organize this, put on a nice Excel sheet for us and all of that stuff. Oh, wow. Actually, we got somebody else through their buddy, Finn Finn McBride, who was, by the way, poet laureate for Alexandra city as a elementary school kid. Oh,

Wade Pfau 34:09
I thought you were just naming Mateo Finn, since he said he was from Ireland. Oh, no no,

Alex Murguia 34:14
no, no. Well, there's Mateo Regia, obviously, and there's a Finn floating around there. I

Wade Pfau 34:21
thought it was being christened as Finn for my

Alex Murguia 34:25
so here I got, what does Susan ask? Okay, are you giving thought to how the uncertain future due to political instabilities, political environmental can be modeled? That's either Susan or that's one of my buddies that they love to bring up politics in the mix here. Why don't you answer that way?

Wade Pfau 34:47
Yeah, and so then sometimes, with the more sophisticated planning software, you can do scenario analysis, where you have your baseline plan, but then you can specifically. Actually say, Well, what if these other things happen, and that could be a big long term care event as an example, or on the political side, what if Social Security gets cut? Let's model that. Let's see how the plan does assuming the Social Security benefit cut, or what if tax rates go up to a

certain level? Let's build the plan again and see how it would perform with a higher tax environment, that sort of thing. On the environmental side, I don't think planning software can address that too well. That's and the only way you can really address that is just by factoring in contingency expenses. For some environmental reason, I'll need to move, and it's going to be costly, and so I just want to build in an additional expenditure to manage any sort of environmental impact beyond that, though, it's really you're assuming a conservative rate of return. You're hoping these sorts of catastrophic things don't happen. That may then ultimately mean your return assumption was not conservative enough, but that's how you generally approach it. And then if you have the ability to do the scenario testing, that's how you can look at some other factors as well, and other kind of variables that get looked at in scenario analysis. For couples, what if one person passes away much sooner than anticipated, which may make the retirement less expensive in some ways due to the less expenditures for that individual. But there can be other implications as well, such as, now the survivor is in the single payer tax bracket. Social Security is cut, the pension is gone, that sort of thing. So that would be another type of scenario to look at as well.

Alex Murguia 36:41
Okay, the other thing about this question that I want to make sure I I address is the you can always account for scenario analysis, but I want to because success is being a disciplined investor at the end of the day and when Wait, when you're doing your your analysis, all the studies that you've written up on sustainable withdrawal rates and all of that stuff. How many times did you think about hey, but I didn't account the Vietnam War during this time period. I did an account. I didn't account for Nixon's resignation during this time period. I didn't account for JFK assassination. I didn't account for the the inflation during the late 70s to early 80s. I didn't account for, you know, from from 1968 to 1978 the the stock market didn't return anything, or the gold thing. I didn't account for Black Monday. I didn't account for the savings and loans crisis. I didn't account for, no, no, no, I'm being dead serious though. I didn't account for the stock market bubble collapse. I didn't count for Enron and world comment and malfeasance in the corporate world. I didn't account for, etc, etc, etc, etc. I There's always, there's always a moment. There's always time to give investors pause and like the the political thing coming up, especially during an election year. Look, this is why, when you have an expected return, you have an accompanying standard deviation, results will vary. But the moment you start really adjusting your plan, because Biden's gonna get elected or Trump's gonna get elected or not, depending on your proclivity, I think that's problematic. You start getting in your own way of what's going to happen, because of how the markets work and how that is already incorporated in Corp in current prices. So scenario analysis is fine, but I don't think these kind of the political instabilities and this and that are something that I would hold yourself up on, because we could have done this, that political due to political instabilities. You could have written that in any month over the last 20 years. You know, remember, there's a recency effect of how you invest, where you take what's happening right now, and you extrapolate that into the future, and it's oh, this time. It's different, but it really is right. You have to, you have to be very, very careful about that, and you almost have to disabuse yourself from thinking about those things when you're doing your plan, because it just it doesn't hit the way you're going to hit. You think it's going to hit. That's my sort of PSA announcement,

Wade Pfau 39:34
yeah. And implicitly, Monte Carlo's analysis should account for you. Sometimes you get a few negative years returns and that sort of thing. So it's sort of built in. And if you assume a low

enough rate of return with the funded ratio, it's the same sort of ideas. This is a hurdle that I should be able to outperform, regardless of the various news events that are always happening. Randomness is being introduced. And so when I was giving examples of political. Instabilities, right? I wasn't referencing political things. It was really just more of, where does politics impact your retirement, if taxes increase, if social securities cut, things that are part of the public policy legislative process, not just simply, who's going to win the next election, although there could be some relationship to then policy implications, but, uh, it goes beyond just the the actual politics to public policy.

Alex Murguia 40:32
Yeah, and so I think that ends the whole Monte Carlo funded ratio. And in the ins and outs of that, something I would say is in August. On retirement researcher, what we do? What's we're going to be? We do it a few times a year. The next one we have scheduled is in August. And so we're going to be doing a retirement income challenge where we invite, it's an open invitation, and it's you know, and it's you know, if you're in, you're in, and we spend four days helping you create a plan. We start with the RESA, we start with then we move on to the funded ratio. We talk about the interpretations of those, etc, and that's coming up in August. And I would say, you know, go to retirement researcher, sorry. Retirement researcher.com, forward slash challenge, and that way you'll get notified the next time it's in. I don't think we have a specific date other than just generally August in

Wade Pfau 41:27
my calendar, I guess, subject to change, but the week of August 26 I have for the retirement income challenge.

Alex Murguia 41:35
So that could be something if you're wondering, Hey, what's this retirement income thing about from the plan. I'm just saying it because it was brought up, you know, quite a bit here. So Wade, I think that exhausts our uh, questions for

Wade Pfau 41:49
Yeah, the for money card,

Alex Murguia 41:51
one question took us 41 minutes. Oh, my Now,

Bob French 41:55
normally I'd want to say, let's cut it there, before we get too deep into the weeds, but I think that ship has sailed. We'll pick it up again next week to get more of your questions and don't forget to sign up for the wait list to get notified about our next Retirement Income Challenge, starting, as Wade said, on Monday, August 26 just go to retirement researcher.com/challenge to sign up. 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 risk, including Risk of Loss past performance does not guarantee future results.