Episode 133 YouTube Live Q&A (not really) Answering Your Retirement Planning Questions with Rob Cordeau

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SPEAKERS
Rob Cordeau, 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. You know who loves getting into the weeds? Our guest today. You thought I was gonna say Wade, didn't you?

Alex Murguia 00:46
Hello, all you retirement researchers, welcome to retire with style. I'm Alex, and I'm here with my trusted companion. Many people refer to him as my sidekick. Right Wade, Wade, Pfau.

Wade Pfau 01:03
That's right direction. There. Hey everyone

Alex Murguia 01:06
and Rob Cordeau, McLean's. Rob Cordeau, Hey Rob, welcome back, man.

Rob Cordeau 01:13
It's good to be here. Thank you so much for having all right.

Alex Murguia 01:17
And today, we want to continue our Q and A. As you know, every once in a while, I think we're going to be doing this with increasing frequency, because, you know, they kind of give us great content, and it's very salient to the moment we did a live YouTube Q and A, and we just couldn't. After two hours, we still had many questions to answer, and we couldn't get through them all. So in our retire with style tradition we're going, we've selected the remaining ones, and we're going to knock them out in this episode, right? Wade,

Wade Pfau 01:48

that's right, but, but first, Alex, for those watched on YouTube, I think we should discuss your sartorial choices with your velvety, pinstriped prison chic pajama look. Is that?

Alex Murguia 01:59
Thank you. The Satorial list, well, Wade, there is a Don't, don't poo poo the velour. It's, yeah, yeah. It's a little past spring, so it's a little warm for this. But I haven't cleaned out my closet yet, and it was hanging on the bed as I was making that transition, and I said, You know what? I'm gonna put this one, how to put this bad boy on today.

Wade Pfau 02:24
But you're right, puffy shoulders. Puffy shoulders too. No, that's

Alex Murguia 02:29
just my, my doubts from working out man, all those pull ups that you're not doing and I am. Maybe in two years, you can wear this bad boy. But until now, just just admire, just admire man.

Wade Pfau 02:42
Kind of looks like the Habsburg style clothes. Wow, the European monarchies,

Alex Murguia 02:49
you know, it's a, it's a nod to, to the Spanish ancestry, the Hapsburg. Wow. Look at that. Pretty good. Hey, by the way, you know what's a great show, cartoons, you know, it's a great show. Uh, I'm in love with it. The great on Hulu.

Rob Cordeau 03:09
Have you, have you guys heard of it? The great, I haven't seen it? Nope. You're talking

Alex Murguia 03:13
about Captain, the great from Russia. It's, it's, it's hilarious. It's done as a, you know, not a spoof, but, you know, it's one of those that it's hilarious. I mean, it's, it's good for, for my money, it one of the best shows out there right now. So check it out for all you listeners, the great

Wade Pfau 03:30
whole horse thing. Or is that? Well, no, no,

Alex Murguia 03:33
no, no. They take it. They take it head on. But it's kind of a joke the way, the way it came out in the show. The way they do it is that she was very forward thinking, all right? And you know her Peter, the great son, I forget his name on that show, great actor, you know, he's kind of seen as just a tool, really. And she, she convinces him to, kind of like, hey, look, let's embrace free speech, you know, that that kind of thing. And so they bring in a printing press into Russia, and the court folks start having fun with the printing press. And like in a veritable meme of fashion, they create images of her and and the the equine stable in Russia, you know, not, not very favorable. And they pass them all over the place. And before you know it, the rumor becomes, effectively a perceived reality. But she, she, like, takes it on and laughs at it in the show. I mean, I, I have no idea what happened in real life in that regard. But funny, of all the things, that's what you bring up. Wade,

Wade Pfau 04:42
yeah, that's what I know about. Very interesting. Wade, what

Alex Murguia 04:45
was inside your head? What prurient fantasies do you think about?

Wade Pfau 04:50
That's part of the fake history of strong women getting these kinds of slanders throughout history. I think, Rob, did

Alex Murguia 04:59
you see how Wade. Turned that around and made it into a powerful message for the female audience. Yes, right? Very impressive. Disabusing everyone of this falsehood. Very nice. Wade, very nice.

Wade Pfau 05:16
Yeah, we well about inaccuracy here. Harris,

Alex Murguia 05:23
we dabble. We dabble in precision. Rob precision and Wade knows

Wade Pfau 05:28
why we brought Rob in today, because some of these questions require even more precision than Alex and I could handle. So thank you, Rob for joining us today. With that being said, Maybe we should start diving into questions. All

Alex Murguia 05:42
right, let's do it.

Wade Pfau 05:43
So the first one is the reader. I'll be the reader. Get ready for an essay.

Alex Murguia 05:49
Yeah, I'll be the reader. All right. Hello, Alex. I love your show

Wade Pfau 05:54
and your shirt.

Alex Murguia 05:55
Hello Wade and Alex. Love your show I'm planning for retirement in a year. Asset allocation is an area that I need help. My risa style is total return. Currently, 50% of my taxable account is vested in RSUs restricted stock units. Best RSUs, yeah, sorry, restricted stock well, and in parentheses, yes, tech, so I assume in a technology stock, which are highly appreciated, 40% in the vanguard, 500 and growth indices, 10% in T bills, so 50% in RSUs, 40 in Vanguard, 500 and growth in disease and 10% in T bills. I'd like to manage sequencing risk by implementing the rising equity glide path approach. However, being in high being in a high income bracket, has made selling RSUs very costly, since the fixed income portion can cover two to three years of expenses. Is it recommended that I sell my RSUs and move into the desired asset allocation

before I retire? Or can I wait until retirement when my income bracket is much lower I don't expect to tap into my retirement accounts for the next 12 years? Thank you. Last name is now, that's my that's my teleprompter, Biden impersonation without being political, just funny. Humor is humor. All right, what do you what do you folks think here?

Wade Pfau 07:38
You know, I was just gonna say Rob is our resident expert on RSU. So really, that's a great opportunity.

Rob Cordeau 07:45
I think the first thing that jumps out at me is, I don't know if it's a he or she. I didn't catch that, but they would like to be in a rising equity glide path, but they're already at 90% equities, right? So right off the bat, we have a problem, and they recognize that. I think it comes down to whether the this person wants to embrace that risk. They mentioned the, you know, the sequence of returns risk. Wanting to be in this glide path. You can avoid the capital gains. You can avoid the income tax by holding on to our stocks, or you can sell those and mitigate your concentration risk and your your equity risk. So I think that's kind of the first question is, Which of those is more important? And that's a that's a really important question. You know, sometimes we do we want to let the tax tail wag. The investment dog is 90% equities really worth it going into retirement to avoid a slightly higher tax. Tax at that point,

Alex Murguia 08:55
Rob. But one thing he he stated there, and we kind of briefly spoke about it for like 10 seconds beforehand, is I'm under the impression, and I could be wrong, but my spider senses tell me, because he's talking about his income tax bracket, that he may be under the impression that RSUs are taxed at income at an income rate. But in fact, you want to do the big reveal.

Rob Cordeau 09:20
It is a little confusing on RSUs, so, and I've had clients tell me, I have RSUs, and what they really have is, is the shares that they've received from RSUs or ISOs or espp. So sometimes they have those shares,

Alex Murguia 09:41
and these are all incentives, because we threw out a lot of acronyms. Do you want to maybe just ISO?

Rob Cordeau 09:48
Like an ISO is an instant incentive. Stock option, plan, RS use our restricted stock units, so they're all just forms of executive compensation. Information that companies come out with and give to executives, but it, I think it's important to find out what the status is, because we've met with clients who say, Well, I have all these RSUs and then we look at and it's actually a brokerage account of shares that used to be RSUs, and they used to be stock options, or used to be in an espp, an employee stock purchase plan. So if they are stocks that are free and clear for them to sell, we might just be looking at capital gains. That's a very different situation than someone executing RSUs and having to pay ordinary income tax. So that's kind of an important distinction. If it's just capital gains, there's not much of a difference. A high income earner might be paying 5% more in cap gains than some than our typical retiree. You're looking at 20% versus 15. So I don't know that that would hold me back from selling. If I was 90% equities,

really looking to retire soon and wanting to to cut back on my equities, if it really is RSUs that are going to be taxed as ordinary income, then I'd start looking at the at the current bracket versus the expected bracket in retirement, and find out what sort of Delta are we really looking at. But it's a you know, that that question is an important one. If they don't mind the risk, or if they can afford the risk, then maybe waiting a little while until they're until they retire and their income drops off, then implementing the rising equity glide path could be an approach, yeah, but it comes with a lot of risk.

Wade Pfau 11:52
Wade, well, yeah. Rob, so like the if this does, if the RSUs are treated as capital gains, it's kind of like if you sold everything all at once, a lot of that would probably be taxed at the 23.8% with the 20. Well, we're not, we're not sure how much money we're talking about, but once you're above around that $600,000 range, 20% capital gains tax, and then the 3.8% net investment income tax, and yeah, they're probably never really in a situation where, if they kind of took the next 20 years to spread this out, not much of it at the income levels this person's probably at is going to come out at less than the 15% and even then, a lot of it may come out at 18.8% with the net investment income tax. So with that sort of difference not necessarily being so great that might speak to going ahead, to accelerate more, to getting a more diversified position, and getting to that lower stock allocation that they're looking for to set up for the rising equity glide path. That's kind of the point there. But if it were ordinary income, then there is a lot more to think about with maybe they're in the 37% bracket now in retirement, and with the current law projected to increase the tax rates in 2026 maybe they're thinking about the 25% bracket, or something in that ballpark. Of course, we never know what sort of changes will be done to taxes as well, where maybe capital gains taxes could have higher rates in the future, but you're kind of leaning in the direction that maybe working towards that diversification now might be worth the tax hit. Are there any other strategies to consider too, where they might hold that position but still be able to offset potential

Alex Murguia 13:41
I was thinking of a few, but one of the things that I'm not 100% clear on is the statement, since the fixed income portion can cover two to three years of expenses, to me, that means, oh, so he's planning on drawing just a fixed income, which, if he's already at a 9010 split, you know, he's going to be 100% equity. You know, the rising equity glide path or five years is gonna mean that he's gonna be taken on leverage to get even more equity exposure. So he's got a significant issue, right? Right? He or she has a significant issue right there. And I was thinking about our comments about long term care, where you said, you know, insurance is really about low probability events that are high cost. Right? To some extent, he's dealing with something like this in terms of, you know, you have a drawdown of 40% and where are you right? You know, from an equity standpoint, and we've seen this, and you have to start thinking in terms of you. It's like that book, Thinking in bets, in terms of the right decisions don't necessarily turn out positive all the time. You know, because life is out of your there's certain aspects of life that are just. Out of your control. But if you're very method, methodical and thought and, you know, and thoughtful about making every single decision accordingly, based on best practices, then a net in life, you should do better, right? That kind of thing, right? And so here's one of those things that you could put your head in the sand and just hope for the best, and SMP goes up, you know, the next five years, and you're a genius, or you do the opposite, and all of a sudden you think you're stupid, but you're not. You did the right thing from a prudent standpoint, right? Let me leave it at that. There's that rigmarole that, that this person has to decide, that's not

something we can answer for him. It's, it's up to, up to that person. But I think if you take a step back and think, What can I control to mitigate the risk? Since you're you're ending your life in terms of the human capital portion of it, all you have are your investments, right? You know, that kind of thing, and don't lose sight of that. The other piece, I would say is, let's assume I'm going to answer this like, if it's a capital gains issue. Well, and I'm going to also assume another simplifying assumption is, you know, you have other assets available that you can turn around and do other things with and to if you have a Vanguard 500 and you have gross indices, growth indices, I'm going to assume you're a passive investor, and so what you can do is set up a direct indexing strategy around that, if you can somehow sell those funds, and maybe there's somewhat of a gain, but not that much, etc, or you have a vintage of assets that you can apply to it, a new vintage of assets you can apply to it. And let's just say, for argument's sake, those RSUs are worth $100,000 again, argument's sake, and you have another $900,000 available now that kind of thing, what I would do is set up a direct indexing approach where you're mimicking, or you're tracking, effectively, a large market index, and that RSU is representative of the index of the industry within that index. So let's say, if this was Merck right, you have Merck stock, right? What I would do is create a complementary market portfolio around that, with individual stocks, keep the merc and then as you have individual losses in those other stocks, which you will if you're tracking the entire market, you turn around and sell those and you buy effectively similar stocks that that still maintain the tracking position of that market portfolio. And what you'll find is, over time, you're going to have losses that then you can apply to these capital gains, to the capital gains when you eventually sell the RSU stock, and give yourself three to four years to do that, because in any direct inducing strategy, the reality is, is you're going to maximize all of the losses that you could potentially get without any new vintages in about five to seven years. Then it kind of just trade baselines. Why? Because all mark all stocks over time kind of go up. That's the way that I would do it, I would have that RSU in a in, you know, in a direct indexing strategy, and that RSU pretty much represents the industry that it's in, and then complement it by buying a representative sample of stocks in the other indices. That gives you a tracking error of, let's say, three less than 3% all right. Tracking error means how will you perform relative to the index? And that's an error term. So over time, that should negate that should net out at zero. And so after five years, you should have nice passive losses available that you could be using to offset that RSU. And voila, there you go. That I that's a explain that on the fly, a complicated strategy like that. But Rob Wade that, did that make sense as I was explaining it? If

Bob French 18:47
you're looking for more personal advice, take a look at this episode. Sponsor, McLean asset management. You can learn more at McLean am.com that's m, c, L, E, A, n, a, m.com McLean Asset Management is there to help you on your path to the retirement that you deserve. And don't forget to check the show notes to get your free ebook on retirement income planning.

Rob Cordeau 19:17
It does. I think it's possible, the way they worded the question, it's possible that these have not been paid out yet, and therefore they've not been taxed for ordinary income tax yet. So, and the fact that they mention income tax bracket makes me think that might be the case. So they might be talking just ordinary income tax. If that's the case again, I think it comes back to the risk. We're talking 50% of that person's portfolio is in one position. I'm assuming plural, but I'm sure I'm assuming it's one position. That's a lot of risk. So that's the question that I would ask is, do you. Really want to go into retirement with 50% of your portfolio. Then

Alex Murguia 20:06
another way to frame that is you've been but if you, if you framed it like this, does it sound more appealing? Because he's framing it, not him. But most people frame it as I'm going to take a tax hit if I sell this. I don't want to sell this. But if all of a sudden, someone told you 15 years ago, I'm gonna give you these RSUs, I'm gonna give you income. I'm gonna give you taxable income for the next 15 years, that it's gonna equate to 90% not 90% it's gonna equate to 50% of your portfolio, which, let's just say it's $5 million you know. So it's two and a half million dollars. I'm gonna pay you out two and a half million dollars over the next 15 years, and I'm not even gonna tax you. It's gonna be tax defer for 15 years. But in 15 years, I want to, I want to get, I want to get taxes on that. How many people wouldn't accept, wouldn't say, Yeah, fine, of course. Right? True. A lot of folks say, yeah. Where do I sign? Right?

Rob Cordeau 21:01
But when the IRS comes knocking, people don't like to get all No

Alex Murguia 21:05
but, but you follow what I'm saying. It could be a frame it's a framing issue, because effectively, pat yourself on the back. You did great for 15 years, and you were given a, effectively, a tax loan, a tax liability loan, not to dissimilar from an ri an IRA, if you will.

Rob Cordeau 21:25
Yeah, and, you know, I've watched it, I think what, what colors my viewpoint of this is, I've watched it happen with clients and prospects. I had someone I knew back in the 90s who went to work for a tech company received some stock options as a signing bonus, and it was tiny. It's like $10,000 as a sign on bonus. That 10,000 grew to $1.6 million in five years, insane growth. And he wasn't a client of mine, just a friend. He was telling me about it, and I was telling him how he really needs to diversify. And I was telling him that when it was 800,000 and then he came back to me a few months later, it's a million. He said, Boy, Rob, I'm so glad I didn't listen to you. And I went to 1.6 million. Eventually it collapsed, and it's worthless. And His strategy was, I'm only going to pull out 250,000 a year. And I take myself up to what was then a break point for a tax bracket. So he let the tax tail wag the investment dog. He got to pull out one withdrawal of 250 and then he lost all the rest. So he was so concerned about paying that tax that out of $1.6 million investment, he only got 250 out of it. So it was, it was a good lesson for me. And there's other stories I've seen like that, where, with the best intentions being concentrated in individual stock, and it just, it takes a lot of risk.

Alex Murguia 23:00
I'll say this another thing, and wait, I want you to chime in here. There's a little bit of a dissonance in how this person is thinking about it. And what I want to point out is there's reservation in selling the RSUs, right? Simply because, look, this thing can maintain, you know, it can go up, you know, I don't want to sell it right now, it's, it's not going to go down, if you will, because if he knew it would go down, he'd sell it, right? But interestingly enough, he's worried about sequence risk, which sequence risk is two sided, right? There's an upside to sequence risk, which can be great, and there's a downside to sequence risk, which is, I have to do put in an equity glide path. You see what I'm getting at weight, like he's trying to put together a square peg in a round hole, in some in some overarching manner, in the sense of, he's trying to be on the conservative side for sequence risk, but for the RSU, which is, I think, significantly more

risky than sequence risk, because there, there's no diversification from unsystematic risk there, he's willing to roll The dice.

Wade Pfau 24:20
Yeah, and we don't know the the history of how these perform, but Rob, like in the case of your friend that you were describing, part of it might have been not wanting to pay taxes, but that sort of me order meteoric rise. Probably part of it was thinking it would go up forever. And that's where you're taking that concentration risk,

Rob Cordeau 24:40
right? So, but you bring up a good point, Alex, the idiosyncratic risk of having 50% of your portfolio in one stock far exceeds the sequence risk, right? And there's just no comparison. So I guess that's kind of the issue I have is, yes, I can see why they want. To address sequence of returns risk. I think that's a brilliant idea. The more pressing issue is the concentration. Yeah,

Alex Murguia 25:07
So said another way I would rather diversify RSU than worry about implementing a sequence risk strategy. If gun to my head, that's the one I'm addressing first. I don't even care about sequence risk. If I can't address the RSU, it's like there's a fire in the kitchen. I'm not going to be worried about the sheets in the bedroom,

Rob Cordeau 25:29
true, and we haven't talked about the dollar amount. But you know, if this was someone with a 10 million portfolio, 5 million in RSUs, they might be able to survive just fine with 5 million in other stocks and bonds and have a very healthy, happy retirement. Maybe they can afford the risk. But if you're talking about someone with only 2 million and a million is in RSUs, that creates a much different retirement, a million versus 2 million, right? So the dollar amount might shed some light on their risk capacity.

Alex Murguia 26:03
Do you know how much the lower shirts cost? Rob no no

Rob Cordeau 26:08
looks expensive to me.

Alex Murguia 26:10
It's criminal. It's criminal. Yeah. No. Wait. Any other things to point out in this

Wade Pfau 26:19
in this question, got this question. It's almost like a whole episode on one question, but we do have more

Alex Murguia 26:24
Well, I mean, don't forget the last sentence is, I don't expect to tap into my retirement accounts for the next 12

Wade Pfau 26:31

years. Yeah? So that there's a number, yeah. We just don't have complete information with this question about how from retirement and everything. Giving

Alex Murguia 26:43
them decision points, you've given decision points which is, which is what him and her and everyone else should be thinking about. All right. Next question, I wish I had discovered how important and interesting planning for retirement is about five years earlier, but I'm now a devoted fan of your guide, Wade and Alex and your podcast. Now I've read that terribly.

Wade Pfau 27:14
Let me do it with a little feeling a little more monotone. Yeah,

Alex Murguia 27:17
exactly. You know, my confidence is shot. Wait, can you do this one?

Wade Pfau 27:24
All right, I'll read. Yeah,

Rob Cordeau 27:27
I'm happy to be a reader too.

Alex Murguia 27:30
Halfway through, you realize you're doing a terrible job, and you're like, Oh my God, how do I get out of this?

Wade Pfau 27:34
Wait and Alex, I wish I had discovered how Wade and Alex. I wish I had discovered how important and interesting planning for retirement is about five years earlier, but now I'm a devoted fan to your guidebook, Wade and Alex and your podcast. Now my resa profile places me in the upper right quadrants total returns, no, they are upper right quadrant of safety first and optionality, that would be the upper left. Yeah. Okay, I think the recipe, I think they're upper left. So time, segmentation, safety first and optionality, although I might not be quite as safety oriented if I took the profile. Now, after learning more from reading and listening to you, my question revolves around the time I retire, when to take Social Security. I'm 65 and plan to retire shortly after I turn 67 in early 2026 what strategies would you recommend to preserve as much principal in that three, three year gap period? My wife and I have $1.3 million total in traditional IRAs and a regular joint brokerage account with 400,000 so 1.7 million total. We'll take my wife's Social Security when I retire. So we're getting some. She'll be 69 Okay, so he's 65 he'll retire at 67 she's 67 she'll be 69 she'll take Social Security, earning yearly $28,000 my Social Security will grow from $3,400 to $4,400 per month. If I wait to 70, and I did that calculation with 4400 a month, that's 52,800 a year. At age 70, would a bond myga or CD ladder be appropriate, or something else to provide help to reduce using up my principal. So wanting to avoid losing principal, our total essential expenses will be approximately $85,000 per year, net, net of taxes. The end, we don't know, you know, the

Alex Murguia 29:41
rational story,

Wade Pfau 29:45
yeah, yeah. And so I think the question is, really, there's a couple elements of, well, Social Security claiming decisions, and then how to build a Social Security bridge to try to get up to that $85,000 Which is, which is net of taxes. So taxes go on top of that, plus any discretionary spending too. Can that be done with some sort of sounds like wanting to do a laddered approach where you're only spending interest so that you can preserve the principal. But to be clear, if you did that too, it sounds like there's no sort of stock investing component. It's what I put in. You'd have to probably put close to $1.7 million into some sort of bond ladder to generate the type of interest you're looking for to fill that gap. And so thoughts on this scenario, gentlemen,

Rob Cordeau 30:39
you know one thing that jumps out at me is the Social Security claiming age. You know, skipping the bridge discussion for a minute. Yeah, we should start there. They, you know, they mentioned potentially wanting to start it at that age, versus delaying till 70. It looks like quite a gap between the earnings history between the two. One of them's 52,000 a year. The other is 28,000 a year. In terms of the benefit, a little more than whenever we see that come up, it's an even greater incentive for the higher earner to wait until age 70, right? Because now the way Social Security Works, whoever dies first, the surviving spouse gets the larger of the two benefits, right? So that means that if the higher earner waits till 70, even if they die early, that higher benefits going to continue until the second passes away. So that's yet. I mean, there's a lot of incentives for waiting until 70 to claim, but that's another one in their case that I can see based on the earnings history.

Wade Pfau 31:49
Yeah, he's the high earner. His wife is two years older, which offsets a little bit of the potential benefits. But yes, he's already saying to wait till 70. I think that part's probably pretty sound. I would really encourage them to make sure they've tested the strategy with Social Security claiming software just because the the wife may not need to wait till 69 that's something you'd really want to address with software once she reaches full retirement age and doesn't so she's already 67 just there's no not a it's more flexible for the low earner in the couple in terms of when they claim, since that benefit is only around for one of their lifetimes. So she the only thing that Social Security claiming software might suggest. I'm pretty sure it would tell him to claim a 70, as he plans to do, but it might recommend a different claiming age for the wife. She might not necessarily wait to 69

Rob Cordeau 32:46
yep, that's possible here. Good point,

Alex Murguia 32:47
which would then lower the bridging amount.

Wade Pfau 32:52
Well, now the bridge, there's still going to be that three year bridge. By the time he's 67 her income would be on either way. Well, because he's the younger one. Yeah, he's the younger one. Yeah, he's

Alex Murguia 33:03

the young one. Sorry, I was thinking of my traditionalist of the world. All right.

Wade Pfau 33:11
Well, yeah, the her, Well, if she waits till 69 she'll be getting 28,000 so there's still over 50 like $57,000 is the gap just for essential and that's plus taxes. So going to be, I don't know what the taxes will be, but probably over $60,000 of a gap for those three years when he does claim Social Security. It's going to fill a lot of that gap. They're not going to have a big distribute unless there's a biggest discretionary spending goal. They don't necessarily need a big distribution after age 70. So the other comment I had here was, they may be too focused on preserving principle. It's okay to spend some of that down given that you're not going to have a big spending need after each a big distribution need after age 70. That's,

Alex Murguia 33:58
that's, I wasn't even thinking about the social security. I figured you guys would answer it, so I didn't like bother putting any mental calories. There a couple points from a bond ladder standpoint, in this whole principle stuff, and what you may want to talk about when you're creating bond ladders in your simulations, I want to make it clear to everyone, we're not Wade. Wade's analysis doesn't just take dividend only, you know, effectively, it's he's counting on the maturity of the bond and using those proceeds as well as part of the process. And you got to think, okay, let's say your investments are composed of 10 units, just for argument's sake, right? And four of those units are in bonds, right? And you want to leave six of those units untouched, if you will, in retirement, you want to let them grow, or whatever you that's your more discretionary kind of thing. Well, if two of those units you use to create a bond ladder in which you're going to like, just deplete it. All in all, why? That who cares? Because you've left the other pieces to grow unencumbered, right? And so hopefully that growth will make up the difference of using those two units completely. That's effectively what a bond letter is. And the fact that you're in that sort of time segmentation, bucketing strategy, that's what you're counting on. Anyways, you're counting on actually, you know, you have these cookie jars, or you're going to use the assets for essential expenses for the time period that you have, and you're hoping that after that's done, you can replenish them with growth of the other assets. The benefit that this person has is that they're going to be able to do that from Social Security alone. So there's even a greater time horizon for the other assets to grow. So instead of quote, unquote handicapping, let's say eight of the units, because you don't want to go into principle on either one of those holdings, you've kind of stymied yourself a little bit in the growth of your overall portfolio. Way Rob

Wade Pfau 36:05
Yeah, yeah. Just to clarify for me, a retirement income bond ladder means you're spending the principal too, but what he's describing is living off the interest of a bond position to fill the gap and yeah, that might impact the total returns, just because, like I said, I of course, we don't know the full math here, but there's $1.7 million it's going to take an awful lot of that to generate enough interest without spending any principal to fill that income gap, and that means a high bond allocation that could sacrifice The potential total return of a more diversified portfolio that does allow for some spending of

Alex Murguia 36:44

principle, I think it's an inefficient use of assets. And I'm saying that, you know, with respect, you know, I don't mean to, like, poke at the poke the bear, or anything like that. It's just cold and calculating. That's That's not, in essence, an efficient use of assets,

Rob Cordeau 37:00
yeah, and I'm with Wade, I think it's going to require using up that principle during that period. And in fact, from a tax perspective, if they both stopped working, and there's a gap between when they stop and when Social Security starts, they might be in a very low bracket tax wise. So it might make sense to be doing some Ira distributions during that period. Would help sort of move money from one side of the fence, the IRA side, which has tax liability connected to it, over to their bucket of non qualified assets that they could pull from to handle their cash needs during these gap here 100%

Alex Murguia 37:42
I didn't even it didn't occur to me the the distribution part from the IRA.

Rob Cordeau 37:46
I mean, sometimes we think about IRAs like, boy, I'm not going to touch that till I'm 73 till RMDs start. But sometimes it's actually advantageous to either pull it out, or in this case, if they have enough in the individual account or the joint account, they could, they could push it into a Roth conversion with some of that income. So there's some some tax planning that should be done annually every one of those years too. And

Alex Murguia 38:10
if you listen to our Medicare episode, you don't want any bombs coming from there either. If you do that during that time period. Wade, am I wrong?

Wade Pfau 38:22
Oh, you mean those Irma surcharges? Yeah, yeah, they're already both 65 so they also have to make those Medicare decisions if they're still working at a large employer with at least well, at least 20 actively employed, at least 20 employees, they may not be switching to Medicare yet, but yeah, absolutely, the health insurance piece is important here too. Okay,

Alex Murguia 38:43
why don't we do this? Why don't we stop on this episode? We have a few more questions, but we're good. We're getting to that 40 minute witching hour time, and that just feels right for this podcast. So why don't we stop here and continue it on the flip side, Wade any parting thoughts?

Wade Pfau 39:04
Yeah, no, I think that's a great idea. Was we only got through two questions, but there's a lot to talk about, and I think the questions we still have remaining are going to be similar in terms of having a lot of wide ranging discussion, so probably those other three questions can be a whole episode in and of themselves. Alrighty,

Alex Murguia 39:21
thanks Rob for jumping in on this. Really appreciate it, man.

Rob Cordeau 39:25

Yeah, thanks for having me. It's been fun. Yeah,

Wade Pfau 39:27
thank you, Rob. Thanks everyone, and we'll continue with the Q and A on the next retire with style.

Bob French 39:34
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. You