Episode 138 The Meaning of Retirement

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SPEAKERS
Alex Murguia, Wade Pfau, Bob French, Jason Rizkallah

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 resaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning. You know what the best part of retirement is? You can do whatever you want. You know what the worst part is? You can do whatever you want? You should probably spend some time thinking about what that means.

Wade Pfau 00:55
Hey everyone, welcome to retire with style. I'm Wade. I'm here with my co host, Alex, and we're excited to be joined today as well by Jason rizkala, the Managing Director of Financial Planning at McLean Asset Management. Welcome to the show, everyone.

Jason Rizkallah 01:10
Thank you. Thank you for having

Alex Murguia 01:14
me. Thank you wade and away we go. What are we talking about today?

Wade Pfau 01:17
Yeah, I don't know if anyone has any small talk. We have had Jason on the show before, so we know about his family and background and everything, but I guess any small talk on your end, Jason, what's new in your world? It's been a little while since you've been on

Jason Rizkallah 01:30
the show? Yeah, just a little bit of time. Nothing for the

Alex Murguia 01:34
record. For the record. Sorry to interrupt, but did he get him a case right before the fight? Guys about about the reviews and the small talk and all that, and now he's the one pushing for the small dog, right? I

Wade Pfau 01:51

think 30 seconds is good, but I did see on LinkedIn recently, someone was mentioning one of their friends was on the show. And the comment was, Wow, you guys had 20 minutes of small talk before,

Alex Murguia 02:05
but it's become big talk

Wade Pfau 02:09
and the primary focus, but no, the real, real topic today is, and it is getting into some of the non financial aspects of life, but really just retirement. What does it mean to you? Are you ready to make that transition? Goal setting for retirement, where you want to live in retirement? Some of the non, well, partly financial, but more so as well the non financial aspects of retirement that we know, Jason, working with clients on a daily basis, really gets to see a lot of that live and in person type real world considerations that go beyond just financial issues in retirement. Absolutely, yeah, we're excited to dig into some of those topics. Barring any further small talk, we can go ahead and get started with all that and really ask the big question, kind of the question everyone wants to know, what does retirement mean? Jason, just broadly speaking, what is it all about when we say I'm ready to retire, I'm thinking about retirement. What is retirement?

Jason Rizkallah 03:12
Oh, well, I mean, that could be summed up in one sentence. It's whatever you decided to be. And then we can all go home. Now.

Wade Pfau 03:20
No episode links.

Jason Rizkallah 03:25
In all seriousness, though, it is what, whatever it is that you decide it to be at the end of the day, everybody's retirement is going to look different, the timing of it, what you want to accomplish in it, your approach to it, and not talking about numbers here, just your your kind of behavioral, your emotional aspect to leading up to retirement and throughout retirement is going to be different for everybody. The approach that you take should mirror what you want to accomplish with it, which is where the details come in, and oftentimes the numbers then follow suit. But really just looking at it from a broad, a broad base, you know, thinking about what you want to do, who do you want to do it with? When do you want to do it? These are some of the things that you have to think about as you're approaching or in retirement. Outside of the the financial aspect of it, the finances is what allows you to do things you know that you want to, but the initial thought around it, you know can can be different for everybody, and should be actually, you know, what you do versus what your friend or other family members do, or even your spouse, to a degree, is going to be different. And I think just taking the time to really think about what that is can add a lot of value when it comes to your approach and your comfort level with entering into retirement.

Wade Pfau 04:39
So related. Kind of question for that is, are you allowed to work and call yourself retired at the same time?

Jason Rizkallah 04:46
Absolutely, I think so. It's not. It's becoming more common. I'm not going to say it's fairly common, but it's becoming more common that folks are retiring from their careers. I. And then doing something else that may or may not generate financial gains for them, you know, at the end of the day, but it's doing something different than what they had done for the past 2530 35 maybe even 40 years for some folks. So yeah, working, working in retirement, or doing something else that can be considered work, is something that actually is crossing people's minds more often than not nowadays.

Wade Pfau 05:23
Yeah, like part time consulting in the same field, or even starting a new passion related business, something you've always dreamed of doing that maybe isn't going to pay as well as your career, but not necessarily needing to have that full time salary anymore, financial independence. Maybe that's really something we should talk about as well as really a key driver of what retirement can mean. It's having the flexibility financially to do what you want, and if you want to work for less pay or more more pay, but less pay if you just you have the freedom and independence to decide what you want to do with your time. That's

Jason Rizkallah 05:59
absolutely correct. We would ideally right. When you retire, you would want if you are going to continue with some type of employment again, either on a lesser scale of what you were previously doing, or maybe it's something completely different, a new venture. You know, for you, whether it's a hobby you're pursuing that actually generates, you know, some income or anything else, for that matter, you know, determining whether or not it's necessary or not, I think, is really the definition of retirement in my mind, right? Like, if you need to generate some additional income by doing this, this other type of work, once you've left your main career, then, you know, I don't know, maybe you're not technically retired that at that point, because it's necessary and it's just a continuation of working, but in a different capacity. But if it's a if it's a want, you know, or if it's a nice to have, it does add value, but at the end of the day, you know that if that income wasn't coming in, or that that extra job wasn't there, that you'll still be able to fulfill your goals and wishes with what you already have in place. That would be the true definition to me of retirement at that point.

Alex Murguia 07:03
No, that's good. Wade, what is your definition? Since you set up Jason with a question that you probably have your own particular answer

Wade Pfau 07:13
for my answer is pretty similar. I worked in that idea of financial independence. I think that's really a big part of it, if you can work if you want, but it's really you have that ability to just step away if you don't want to be doing it, because you have that financial independence. So the work is not controlling your life. It's really something you want to do or enjoy doing, and that's having that control, because financially you can can step away. To me, that's really the heart and soul of what retirement can mean. Yeah,

Jason Rizkallah 07:42
it's like, it's a choice, you know, that you can make at that point and at any time step away, you know, if you so chose to I, I

Alex Murguia 07:50
agree. I think it's, you know, when we explain the RESA to people, we say the RESA is, is an assessment tool that figures out how you prefer to source your retirement paycheck, right? And so to come up with that question to begin with, to begin to ponder that you're really beginning this transition of your you depleted your human capital, or by voluntarily or by force. You know, your ability to source income from your mind, from your work, your ability to work, you know, starts going down. Sometimes you choose to do it because you've you've invested it, you've created enough of an investment capital that you can draw retirement income from that, you know, from your invested from your investment capital that has accumulated now you need to distribute from it, like, where are you going to draw your retirement income from? I think once that transition takes place. You're effectively retired. Whether you want to keep on doing it or not. It's up to you. You know, love what you work you if you love what you do, you've never worked a day in your life, right? So why stop? But to some extent, yeah, it's that transition, if you will. I don't think there's a clear demarcation now when, when you're doing a plan for folks, how does that come up? Because at the end of the day, you have to ask them, so when do you when did you when I got to put a retirement date on this on this thing? How does that conversation hold? What? What reactions do you get from people when you say retired? You know, when are you going to retire? And what kind of misconceptions Do you think they may have about that number? Because I'm sure there's plenty of people that all of a sudden think that they can choose their own retirement date. You kind of the numbers bear out that that's really not the case. They're kind of forced at early retirement, either through job or some family requirement that they're needed, or this idea that, Oh and then, I'm going to consult part time. They realize no one really wants you to consult part time, very quick, ideal, yeah, but yeah. I mean, that's kind of just things people say. I think, what's your take,

Jason Rizkallah 09:50
sure? So you're right. I mean, when it comes down to planning, there is a date that we ultimately have to settle on, you know, with it, and ideally. Okay, right? There's a date that you have in mind, but as Alex mentioned, it's about half of individuals that retire that don't retire on their own terms. You know, whatever that may be, which you mentioned a few. Alex could be health reasons, whether yourself or family related needs. There. It could be job termination, whatever it may be at the end of the day that results in you having to stop working earlier than you expected. That's about that happens to about half of individuals, about 50% of folks, I know. Yeah, significant, yeah.

Wade Pfau 10:33
Surveys will show, if you ask people when they expect to retire, it's usually around 65 to 67 but then when you look at when people actually retire, the average is closer to 62 so you're potentially losing three to five years of employment that if that was assumed as part of your financial plan,

Alex Murguia 10:48
and I have a Wade, send me an email. He wants to talk. He wants to have a conversation with me after this podcast. I don't know what, but

Wade Pfau 10:57
for the best, shot at financial dependence.

Jason Rizkallah 11:05
Hope is not a plan. Hope is not a plan, no. But you know, with that said, ideally you would want to be able to pick your date. So what we do is a couple different approaches to that. One is flat out, when we're working with individuals, we ask them, you know, what they do have in mind? Let's look at what that would be like if you could pick your date, and it works out that way. Let's, let's run with that as like scenario one, if you will. And then oftentimes, if that dates far into the future, you know, five plus years into the future. And if there's any question of whether or not their job will be here or not, then we will also look at a date closer to now, maybe two or three years out, just to take a look there and see as well. And if there's vast differences between the outcomes or directions that would be recommended. So it's looking at scenarios that really can help to address, you know, the what ifs What if this were to happen to you? That's really the best approach to going about it.

Alex Murguia 12:03
Okay? Is another misconception that people have. Well, I'll let you, because I'm kind of leading you then with this retirement too. Sometimes, you know, if you look at any financial advisors website, although less and less, now, there's always retirement, and then there's a beach, or there's a golf course, or there's some boat, you know, something that has to do with leisure, if you will. What is your take on retirement just being golfing? Pickleball is an exception, because you could do that 12 hours a day. No problem. Absent pickleball. You know, have you ever tried to perfect the third shot drop? It takes hours, no, but absent something like that. Oh, wait, wait, we had small talk opportunity. Jason and I played pickleball the other day at a bike. Yeah, it was his first time, so I took him through it.

Jason Rizkallah 12:53
It might take hours.

Alex Murguia 12:58
We'll discuss that later, but no, the idea that retirement is just leisure, you know, that kind of thing. I What is your take on it? Because you've said things that resonated with me, which is, you don't retire from something, you retire into something. And it's hard to retire if all you're going to do, though, is, like, hit a golf ball for like, 20 hours out of the day. Yeah,

Jason Rizkallah 13:19
I can tell you that so many clients that I've worked with in financial planning and just throughout my career, you know, they went into retirement, either without without a plan or without any kind of direction. They just kind of winging it, if you will. And they assume, hey, I could golf or be on my boat, fishing, whatever it is that it is, you know, just in perpetuity. And what really happens is, yes, they do it for a period of time, let's call it six months, maybe even a year, you know, in some cases, and they do it maybe even daily for that amount of time. But more times than not, they'll come a point where they say, I can't, I can't do this forever, right? So there, what else can I do? You know, what else should I be focusing on? Let's start a podcast. Hey, that's, yeah, that's that'll keep you busy, right? And, and maybe that's why so many have popped up, you know, around different all kinds of things. You know, they've become very popular. But nonetheless, so what? Also, what also what you want to focus on then, is outside of leisure. It's not all about that, right? That's a big part of it should be and it's healthy, and that's what you worked hard for to put yourself in that position. But ultimately, you also want to focus on kind of

personal goals. What do you want to accomplish besides getting a better golf swing, you know, or a better score at a particular sport. What other things do you want to do? Is it spending time with family? Is it strengthening relationships with maybe children grandchildren that during your working years you weren't able to do? You know, as much of maybe it's with your spouse, doing things with your spouse that normally you didn't have the opportunity or time to do before. Because maybe. Both of you were working. Now, if one of you, or both of you is retired, you can re engage, you know, and doing things together that way. It's healthy to do things outside of each other, too. But you also got to remember that if you are, you know, if there is two people in this retirement, you know that both people are involved in it, and that both people are taking into consideration. So it's kind of just assessing, what is it that you want to do, what relationships do you want to either re establish or establish, and also focusing on that, not just, you know, going and doing the golfing every day.

Bob French 15:30
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Alex Murguia 15:58
One quick note on that, because you're talking in terms of, we, from your experience retirement as a couple, or retirement, somebody retires, and then 10 years later, the other spouse retires, or five years you know, I mean, when they're staggered, yep, what are maybe it's further down the line you want to bring that up, but just curious about your thoughts on that, and does that? Is that helpful to a transition? Is it just different altogether, or is it more hurtful, you know, in terms of smoothing out the transition, if only one spouse is retiring, yeah, from,

Jason Rizkallah 16:31
from a from, I'll pick the easy side of it. From a financial standpoint, it's easier because typically, there's income still coming in right now. If they staggered, it's easier. Yes, if they're staggered, it's easier. From a financial standpoint, usually there's health benefits still there. There's income coming in, you know, it's less pressure on assets. Things like this. From a non financial standpoint, it can get a little dicey sometimes, just to be just to be honest about it, meaning, you know, maybe there's the plan. I'll give a scenario, you know. And I'll use maybe your, what you had said, Alex, your exact number. So you have one spouse retiring, and then maybe seven to 10 years later the other spouse is retiring. Yeah, that might sound okay and doable from the very beginning, but a few years in, maybe that spouse that's still working wants to then be like, hey, you know, maybe five years is my number. Not, you know, not seven or 10, yeah. And oftentimes we find that being the case where initially there was a date set for that continuing working spouse, but that gets pushed up, you know, significantly as retirement kind of unfolds for the retired spouse. And so going into that, it may be planning around that again, under a scenario like I had mentioned, is can add a lot of value, you know, to that,

Alex Murguia 17:46
okay? And so based on that, what are some things somebody should be thinking about when deciding on a retirement date, if you will?

Jason Rizkallah 17:54
And like the timing, the timing of retirement very important. One can be a date that you want, and one can be a date that works. You know, those can be two different things for folks, and that's part of the planning process. To see is what I have in mind, achievable? You know, can I do that or not? Very common question, you know that that any planner should be looking to answer for their clients. But really, there's, there's, there's three kind of main categories, if you will. The one is, can I retire when I want to? Right? So I'm picking a date, and, you know, is this doable? That's fine. That's great. That's ideal. Again, that's an ideal world that

Alex Murguia 18:33
you pick my point. That's the point that I was, you know, this is good because you've amplified my my view, because I was just to me, that's retirement, whether I'm working or not, it's my human capital. I have enough investment capital to cut me up a retirement paycheck, so technically speaking, I can retire. I'm not gonna open up Wade's email, nor am I gonna attend the meeting after. I don't care. I don't care. That's right,

Jason Rizkallah 18:56
but that's financial independence, that's freedom, right? That's what those touch on from earlier and and I'll be honest, you know, I work with a lot of folks that say, Hey, I want to know. I don't plan to, but I want to know if I can retire today, right? I don't plan to for two years, but I want to know, Is it doable today with what I have? And that's very cool.

Alex Murguia 19:16
This is a great question. We you know, it's been a while since I work one on one, with with folks, right? And every once a while, people do reach out to me, and I make exceptions. But a question that we get tons from high level attorneys making 800 plus a year, or medical doctors making, you know, 800 plus a year, that kind of thing, and they've been doing it for quite a while, is, I know I can retire, but at what day can I stop working because I hate this? Yeah, and this is from burnout. This is, yes, I get, they love the law. They love, you know, that kind of but, you know, they, they, there's, there's this burnout that that sets in in these high powered attorneys or doctors. And they, you're right, they know they can, but they. Just want to laser focus on, when can I just walk out of here? It's kind of a reoccurring question that I get from them, no matter how much they make. It's the oddest thing. It's

Jason Rizkallah 20:09
very true. I mean, that that's, yes, there's a lot of you know, careers that are very demanding, you know, on your time and just on your body, perhaps mind, you do reach that point right, where you're, like, I got a couple more years left, but, but, dang, can I cut it today if I had to, you know, if I needed to. And that's so that's, you know, again, something that people, can I retire, you know, at that point. Another kind of, if you will, timing is, you know, should I retire? Now? This one can open up into a lot of different areas, right? The should I retire part well that some people based on, off of health of themselves or family, like we had mentioned earlier, right? Like, should I retire knowing that I have to, you know, take care of my my aging parents, or whatever it may be, rather than hire somebody to do it right for me or or have them being taken care of by a stranger. The should I retire? Can touch on a lot of things, the emotional side, as well as the financial side. The financial side, it's, I mean, it's really up to you, right? Should I retire? You tell me if you should. You know, in a way, but, but from a respect of of what else you

have to look at. That's a question that can easily be answered the next one, and this is the one that before we get

Alex Murguia 21:24
into that one, because that's an important one. But yeah, should I read how many people, and maybe we don't know, right, have retired and then a few years later, want to go back to the workforce, because they're, they're like, I need to work, or they actually need to because they had heroic assumptions in their financial plan, or they were like, total return folks, the market tanked in their fragile decade, and they're like, I have no contractual income, right? How many folks sort of try to go back and they reality? They get they face a reality check. Like, you know, you've been gone for two years. Your your network is not what it was. Sure you put LinkedIn open to work on your profile.

22:09
No one is, yeah,

Alex Murguia 22:13
yeah, I've got good news. Everybody I'm open to work. Great. No wait, like grand opening, grand opening, grand closing.

Jason Rizkallah 22:25
Well, you, hey, I think you can think, say this about a lot of industries. Now, we usually think of the tech industry as a very fast moving industry, right, like you become dated very soon, you know, very easily. Yeah, exactly, retirement, exactly, and that. But that translates to a lot of fields nowadays, medical, fields, law, certainly tax, I mean, accounting, finance, it can translate to a lot engineering. Things change so fast now, at a pace they never did before, that sales,

Alex Murguia 22:50
you lose your but like sales is about network. You lose your network, your contacts. No one cares.

Jason Rizkallah 22:55
That's right. So it be, the longer you're in retirement, the harder it is to return back from many. One can be from your own mindset, right? Two can be from what opportunities actually exist, you know, for you at that point. So I have not come across. I have be completely transparent. I haven't come across a significant amount of people that retire for a few years and then go back to what they were doing before. I have had more folks go back to something, but it isn't what they were doing, you know, now again, whether that was by choice, like they don't want to do what they were doing before, or by just the way it all the cards laid out, which was the opportunity wasn't there to do what they were doing before, but the capacity in which they go back is it's usually at a lesser scale, and not exactly what they were doing before

Alex Murguia 23:48
with that got you okay, that's helpful, and you were setting up for your third point. The you did. The Can I retire? The should I retire? Drum row, please.

Jason Rizkallah 23:56

The I need to retire. Okay, now the the need to retire again can be twofold, right? One can be again health concern. I just can't do what I'm doing anymore. You know, physically, I can't do it, or maybe even mentally, right? I don't have the ability to continue with it. You know, let's say you're a surgeon, and you're doing some some yard work, and you cut your hand in a way that it doesn't heal properly. I'm just saying, right? I'm just saying, now you can't use your hands, and now you're being forced into retirement, you know?

24:32
Or I laugh,

Jason Rizkallah 24:35
but it's a real I'm just like, it's a real scenario.

Alex Murguia 24:38
Here's a real example you can come up with,

Jason Rizkallah 24:41
I don't know. I just think it's surgeon not using our hands. It would be ironic if that happened, but, but this is a real life. Here's a real case I had. I had an attorney for our client, and this is when I was doing wealth management, not financial planning, and he got to a car accident. Uh, and he had to be put into a long term care facility, and he lost points of his memory, his functionality couldn't because no longer practice law at that point, you know, from a from a car accident, you know, being a lawyer. And so therefore, that was it. His his career, unfortunately, was was done. So the I need to retire again, can touch on a lot of things, right? It can touch on something happening to you that causes you to have to, that causes you not to work anymore, or, again, your position becomes terminated or replaced by AI as an example, or something of this nature where your services just aren't needed anymore. So again, what do you do at that point? You know, and I mean, planning is the thing to do. You have to at that point, because you have to know what's going on. But that, those are the three categories. Can I retire? Should I retire? And then I need to retire at the end of

Alex Murguia 25:49
the day? Wade, this is a side note, just because of this we I we actually had a client that was we saw his client, Doctor uses hands. Obviously develop Parkinson's had to stop, luckily, at disability insurance, but disability insurance could be something for us to do at some point in time. Wait

Wade Pfau 26:10
for an episode. Yeah, you actually want to buy a policy? Yeah, absolutely. Pre retirement years.

Alex Murguia 26:19
I think if I hit my head, I'll actually perform better.

Jason Rizkallah 26:24
Alex has improved. Have you noticed that? No, ever since that.

Alex Murguia 26:35
All right,

Jason Rizkallah 26:37
so I think some some questions you know, to consider, kind of, how can you help narrow down and and when we kind of began this, this presentation we were talking about, you know, what do you do? You know, like going into retirement? What do you do, except for leisure? Well, I mean, there's some questions to keep in mind as you're kind of putting together what your what your plan would be for retirement, right? I mean, that's, this is just some general questions that you can keep in mind to help you with it. These obviously can lead into 100 different directions. But again, just to get you started on some things like, what would you view as the perfect retirement, from a date to activities to time, what you're going to be doing and with who you're going to be doing it with? You know? How do you envision this kind of perfect retirement, you know, how would you spend a perfect day and a perfect week in retirement to help narrow that down, you know, to what is most important to you. What will you do in experience? You know, throughout retirement, what do you want to do in experience? Throughout retirement, where will you be? Who will you be doing it with? And you know, what resources would it take to ensure that you can make this happen? You know, both from a financial and from a time perspective, because time is a resource, right? It's something you use up and you don't want to, you know, run short of that. So again, looking at these sort of questions can help to narrow down, at least get you started thinking in the right path. You know, to it. Answering these questions isn't going to give you a plan, you know, per se, like just coming up with answers to these, but it gets you started down the right path. Yeah.

Alex Murguia 28:08
But these, these questions, are probably a mix of financial and non financial. Absolutely.

Jason Rizkallah 28:14
Yeah, absolutely. And you can start off with either or some people start off with the financial numbers. See what is possible from a spending goal, let's say right, from a spending ability. And then back into Okay, what do I What can I do with this money? What do I want to do with it? Or people go the other route, right? They have what they want to do, and they want to know if the resources they have, the financial resources they have, can support it. So it's, it's either, either angle you want to go at.

Wade Pfau 28:43
And there's another angle to that too. About with the non financial it's the idea of you invest in financial assets, but also investing in non financial assets. We learn anything from the song cats in the cradle. You can't neglect relationships. And then just assume that when you're retired, okay, I'm retired. I've got time to spend with you now. May not always work out. You've got to invest in those relationships pre retirement as well, and that's part of having the resources on the non financial side, making that investment to into those relationships before retiring, so that you'll have those relationships that you dreaming about post retirement as well. Yeah, I

Alex Murguia 29:24
think you're right. Wade real quick. I'll get one more in. In addition to the relationships, I think I heard this. I don't know where it was, but some of the like, the biggest flex when you're in your 30s and 40s is being, like, financially successful, right? A professional this kind of thing. But when you cross 50, and I can say this, I'm 51 and it starts getting in your head. The biggest flex becomes not being, you know, financially stable and this and that. It becomes being investing in

your health, like being healthy, you know, in a major way. And that's been, that's been like, front and center even, you know. Right next to, like McLean. And the reason all that in my head is is really turning that around. And maybe it's a knock on from, like my knee surgeries and the knee replacements, and finally, being able to walk without pain, and realizing, oh my god, I can run, you know, that kind of thing, and make and saying, Okay, I've got a window left I can if I get myself ready now, by the time I get older and older, you know, you're kind of investing in yourself. Now, I won't be whatever, you know, sofa you know, I won't be a couch potato or whatnot. I think that's another piece, you know, investing in relationships, but also investing in your own health, something that I think is under the radar. You're

Wade Pfau 30:40
gonna say the biggest flex was showing off your AARP membership card.

Alex Murguia 30:46
That's a given. That's

Wade Pfau 30:49
but, yeah, no, you're absolutely right investing in health as well to make sure that that dream you have for retirement is feasible. I

Jason Rizkallah 30:56
mean, and it's the same, the same approach with your finances, right? You you can't plan for your retirement finances one year until retirement, meaning, if you haven't been doing somewhat of a decent job up to that point, it's hard to make up that difference in that shorter window, right? It's the same thing kind of with your health. It's something hopefully, you know, you are keeping a little bit of a tabs on. Now becomes more serious and maybe more focusing as you get older, but it's a gradual kind of build up, right? So you can't neglect your health for 30 years and then expect it, expect you, you know, to be able to come turn around in one year. You know from it, it can be very hard for that. So it takes planning, and it takes time, and it takes energy and being focused on it can definitely, definitely help at different points in time

Alex Murguia 31:45
when you when you're talking to clients, because again, Jason is, you know, the managing director of planning within McLean asset management, and all the plans run through him, and you know, Steven and the like, but Jason sort of leads that group. And so you've done a lot of these. When you're bringing up these questions to begin the goal set, I think people have some sort of amorphous view of what they want to do. I don't think people kind of have things written well, maybe wait, but, you know, have things written down say, Okay, this is, you know, you're one year two, year three. When you review these questions with them, these are probably questions that they've pondered but never actually have been forced to answer, you know? And so what, what kind of responses do you get? If anything, sure?

Jason Rizkallah 32:33
So a lot of that, a lot of the answers we have to end up getting is, I don't know. I never thought about that, right? I mean, those are the exact responses that we get now, how we kind of as financial planners, how we're working it in, is we're gonna, we're gonna press you, right? We're gonna talk with you about it to see if we can come to to something that we can work with, that that we can build a plan around. So let, I'll use a very the easy one. I'll take the low hanging fruit,

which is like spending goals, right? A lot of folks will say, I don't know, you know what I want to spend. And there's, there's rules of thumbs out here, there's, oh, you're going to spend 80% of your pre retirement expenses, right? Replacement rate? Yes, exactly. I mean on and what we've seen, it's 100% you know, it's, it's not 80% people, people spend, you know what they spend, and you build a lifestyle around a certain spending. And for most folks, they're not willing to, or they don't want to cut that lifestyle by any means, right? So, so planning starting off that's general way. If somebody says, I don't know what my spending goal is, simply ask you, well, what do you spend now? You know on a yearly basis, what are your expenses now? And we'll work from that number other times. We may back into what is a sustainable spending number, right? So we'll say, Okay, you have these assets, these income streams. This is what you want to do. This is how much you can spend in any given year and not put yourself in jeopardy of depleting, you know, assets, for that matter. So there's, there's a couple different approaches when it comes to non financial goals, like spending time with family, or where are you going to live, yes, where are you going to live, or where do you want to travel to, or that, how

Alex Murguia 34:10
many pickleball clubs you belong to? That's right. You know, normal, normal. That

Jason Rizkallah 34:15
that us as financial planners. I mean, we're not going to be able to help you too much with those right? Because those are internal those are things that you have to spend the time developing and kind of deciding, what are those non financial goals. We can help you with the financial goals all day long. The non financial ones is definitely something you have to spend time with yourself coming up with.

Alex Murguia 34:38
I would say this, though there is this movement, which sometimes I buy into it, sometimes I don't, because the people that are profess it, I don't, you know, there needs to be a competence in the math, and I'm not so sure it's always there. But at the end of the day, to state the obvious, money is the instrument to accomplish the nine financial goals. You know. One like no one says, I want $50,000 because I want to see $50,000 on a table. They want to, maybe, but you know what? I mean, they want to use that to to actually do something with it, right?

Jason Rizkallah 35:13
Do 50,000 worth of something. So to some extent,

Alex Murguia 35:17
I think the advisor is somewhat of a medium, or, you know, you know, to help them make those decisions about money so they can accomplish their non financial stuff.

Jason Rizkallah 35:26
Absolutely, yes, they do feed into each other. So if we can, if we can help you determine what it is that you can spend or how much you can spend, then that could help you in determining and prioritizing what it is that you want to do with it. You know, both from a time and a money perspective. So you know, there one can help the other. You know, certainly with that. But as far as, as far as coming up with, what are those non financial goals like? Again, who do you want to spend your time with? How do you want to spend it? You know, these are things that you do have to think deeply about and spend some time with. It isn't something you're going to kind of

come up with in one hour, you know, sitting down with a piece of paper and said, okay, okay, now I got what I need. It's a building you know, you build it up over time, try different things, do different things, to see if that is something that can do. Like, the first time I ever played pickleball was with Alex, you know, and I enjoyed it a lot, I really did, and it could be something that I want to continue doing, but it could easily have been something I'm like, you know, that's not for me, you know, I gave it a try, but it's not, and not just using that as a personal example that could be with anything, you know, you join a club of doing something and you realize either you do or don't like it, you know, and is it willing to invest time and resources into it or not? So it's trying things too, as well. When

Wade Pfau 36:42
a related point there, too, is sometimes when you're thinking about hobbies, and if it's whatever it is, playing a guitar or anything, if it's something for the last 40 years, you thought, Oh, I really want to do that, but I don't have time. When I retire, I'll finally have time to do it. If you've neglected this kind of hobby for the past 40 years, it's quite possible that you're not actually going to do it in retirement. Either it's just not really the priority that you think it is, or you would have made time pre retirement. So being realistic about that kind of idea is also important. It's not the act of retiring isn't suddenly going to cause you to do all these things that you've been putting off for the last 40 years. How

Alex Murguia 37:21
dare you. I didn't choose a piano way piano chose me. Okay, that

Jason Rizkallah 37:32
was a hit. It's not for you. Alex.

Alex Murguia 37:37
Christmas season is coming up, and I'm gonna have those Charlie Brown piano classics with Giraldi, whatever it is, down pat soon. All right. No, no, you're right. Wade. I mean, listen, just because you said you want to do something, if you haven't had time, if you didn't make time for it, you're not all of a sudden, gonna magically make it in retirement. But these are good things to to to ask. And one of the reasons we're bringing this up today is just we have through retirement researcher, as you know, Wade and I are managing principals, or retirement researcher, and Jason's heavily involved with the planning that comes out of it, we're going to have our retirement income challenge, and that's going to take place the week of August, the 26th through the 29th where this, this, this sort of things to talk about is just, we're just scratching the surface here. We're just really stirring the pot on what it is to be retired and how to begin to develop a plan for retirement. But it all starts with the questions. Before you provide answers on financial planning, on the RESA on this or that, you need to ask yourself the right questions. And so I think Jason's done a great job of identifying what are the things you need to start thinking about. You know, when it the can I retire? The should I retire? The I need to retire, and then the non financial and financial question. So if this is something of interest, I strongly encourage you to sign up for that retirement income challenge on the week of the 26 it's for three or four days and the like. We'll have in the show notes, a link if you want to just sign up for it and get you going. This is something that we get tons of sign ups, you know, 500 plus all the time, easily, if not more. I'm just saying that because I know that's an easy number, but at least five least 500 attendees. So this is something that I strongly suggest, if you're listening to the podcast and your comments were, I wonder what mines are. I wonder what me and my spouses

are. You know, those kind of things. Wait, how's that? That's, I think, our first in podcast sort of ad, or whatever you call it,

Wade Pfau 39:44
you nailed it. And I would just add, well, if you're listening to this episode in the distant future, hello from the past. I hope things are going great. But also, we do these challenges, usually every three or four months too. So if it's already past August 26 2024 there will be other opportunities. As well. Just yeah in the mailing list with retirement, yeah, exactly.

Alex Murguia 40:03
We'll have a link for that as well. But Jason, any because you talk, you, you do, you do, I think two sessions just on this that's very detailed, correct?

Jason Rizkallah 40:12
Yes, we go into these topics and more in a fairly detailed manner during the retirement income challenge, and it's one day kind of dedicated to it, a large portion of that day for that so, yes, if these, if these topics are of interest, and you, or you want more information, kind of more details, join the the Income Challenge, and it'll be sure to provide that to

Alex Murguia 40:37
you. Well, thanks. Yeah. The other thing I learned today is that Jason actually, I had a good time playing. I did all with me. I've emailed him really incessantly after and he's just radio silent, so I don't know,

Jason Rizkallah 40:49
do not disturb.

Alex Murguia 40:53
He had a good time.

Jason Rizkallah 40:55
A great time. I would love to

Alex Murguia 41:00
do it again. I told you. I called Jess. He's up for it.

Wade Pfau 41:04
Are you saying, Wait, just asking if you're as good a pickleball as you say you are. Oh, I'm not better than me. You beat Jason the first time you ever played wearing it. No,

Alex Murguia 41:20
we just, we just hit. We were just hitting. We were just, he's never played, so I was just doing the dinking, the whatever, just the basics, just to give him that. But then there was a, you know, you can't hog a court. It's hard to keep a court by yourself. Yeah, can't even find a court. And so these two wanted to play as doubles, and they beat us one, uh, two out of three, but we got one we did. And considering that's Jason's first time out there, and these guys were pretty good, not bad, I'll take it, right? Jason, absolutely.

Jason Rizkallah 41:46
And we put up a fight on those other two we did.

41:49
It was just

Alex Murguia 41:50
positioning. If you never played, it's hard to know where your positioning is and stuff like that. And Jason and I didn't know each other, so you know, in terms of our play style, so it was fine, but we digress right again. Click on that. Click on the link if you want to chime in, and we'll have a follow up episode on what way

Wade Pfau 42:12
we're going to talk with Jason some more in our next episode on really the main changes you can expect in retirement. So kind of taking it to thinking ahead about retirement, but then also thinking about, Okay, now that you're retired, what's going to change for you and so, so you can also be planning for that as well. I

Alex Murguia 42:30
think I put, I put weight on the spot all of a sudden, by mistake, sorry, I

Wade Pfau 42:35
apologize at a time here. Yeah,

Alex Murguia 42:36
let's cut this off. All right, everyone. We'll catch you next time, take care.

Wade Pfau 42:43
Catch you next week on retire with style.

Bob French 42:46
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.

43:21
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Episode 133 YouTube Live Q&A (not really) Answering Your Retirement Planning Questions with Rob Cordeau

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SUMMARY KEYWORDS
wade, years, risk, retirement, rob, tax, rsu, stock, equity, thinking, sell, assets, wait, alex, bond, strategy, social security, retire, capital gains, sequence

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