Episode 144 Understanding the Rules of RMDs

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SPEAKERS
Bob French, Alex Murguia, 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. Who doesn't love a good acronym, because this week, we're talking RMDs.

Alex Murguia 00:47
Hi everyone. Welcome to retire with style. I'm Alex, and I'm here with the magical Wade Pfau.

Wade Pfau 00:56
Hey everybody.

Alex Murguia 00:59
Ta da. And today, we're going to be talking about required minimum distributions, and Wade in this, in this episode of required minimum distributions, should I stick to my required minimum contribution?

Wade Pfau 01:13
Whoa, have you been working on that all week?

Alex Murguia 01:15
No, I just thought of it right now. What do you think? Is it good?

Wade Pfau 01:22
Yeah, just stick to the witty rejoinders and we'll rejoinders.

Alex Murguia 01:27
Look at this. All right, pithy. All right. So what do we have planned today on required minimum distributions?

Wade Pfau 01:39
Yeah, well, it's one of those things that has come up in the past, and we thought we'd devote a whole episode to just how you make sure you're doing the calculations right and all that. It's something that people generally don't like. But just philosophically speaking, it makes sense with the idea that the government's trying to incentivize retirement savings, and so they give you a tax deduction on contributions into your qualified retirement plans. We're talking about not Roth. We're talking about the just traditional tax deferred accounts. You get tax deferral, but someday the government wants you to pay your taxes on that, and so required minimum distributions are the set of rules created to make sure that you don't get permanent tax deferral on these assets. Now you don't have to spend required minimum distributions, but you will have to take them out of your accounts. That will be ordinary income that goes into your adjusted gross income, so that raises your taxable income. It's not something that you can save with below the line deductions when it then comes to how this can impact social security taxation, Medicare premiums and all that sort of thing. So that's a marginal effective marginal tax rates can be higher than whatever your federal income tax bracket is implying. And as

Alex Murguia 02:53
a side note, I know where I believe the next episode is going to be on taxable ordering of withdrawal rates and things like that, but the withdrawal rate concept, you know, at a high level you use, you stated, it's just the government sort of wanting their tax deferral back. So that's reasonable, if you will, relative to all of these solicitations that you receive from them. But at a high level to what the government is doing is the government is creating their their in their view, the an optimal withdrawal strategy for them to get back their taxable accounts based on your life expectancy. So it's, it's kind of a, an interesting little take on withdrawal rates as well. What did you think?

Wade Pfau 03:35
Yeah, yeah. There's some discussion around variable spending strategies that just link to spend what your RMD tells you to spend, and then you have your your retirement spending strategies, because it is actuarial in that regard.

Alex Murguia 03:50
And so when you, when we talk about the calculations, for those of you listening at home, I mean, you can conceptually apply that same calculation to your taxable account if you wanted to, and there you go. And if you can spend below that watermark, all the better reinvest it.

Wade Pfau 04:08
But percentage it increases with age, because your time horizon gets shorter with age, and it's in an ideal setting you sort of spend down the asset over the foreseen time horizon. Okay,

Alex Murguia 04:21
so let's do the nuts and bolts of RMDs right way,

Wade Pfau 04:25
yeah. And also, just before I forget, because it wasn't in the notes, but this is all secure act 2.0 friendly. So it's a new discussion. A lot of rules were changed in secure act 1.0 and then again in secure act 2.0 and just at the same time, because we might otherwise forget, RMDs do not apply to Roth IRAs and before secure act 2.0 so this is the connection. There was RMDs on

Roth 401 Ks. But as of 2024 there are no longer RMDs on Roth 401 Ks, either. So no RMDs on Roth accounts. Yes, we're talking about owned that are owned by the retiree. Now there's a whole separate conversation around inherited IRAs and inherited Roth IRAs. They both have different RMDs, but today we are talking about RMDs when the account owner is still alive, so no RMDs on Roth IRAs or Roth 401. Ks. We're talking only about RMDs on IRAs or other qualified retirement plans that provide that tax deduction, okay, and tax deferral.

Alex Murguia 05:28
When? When would you start paying the piper on this?

Wade Pfau 05:32
Well, it used to be in the day, starting at age 70 and a half, and then secure act 1.0 changed it to age 72 and then secure act 2.0 changed it to right now it's 73 so if you were born before 1960 your starting age is now 73 if you were born in 1960 or later, your RMD starting age will be 75

Alex Murguia 05:59
Excellent. So this is kind of beneficial. No,

Wade Pfau 06:03
no. I was thinking

Alex Murguia 06:05
like Social Security, how they extended before you can get your money, etc. Here the government is actually pushing out their, their, their, uh, they're wanting to collect the taxes. So kind of a solid for investors in that regard, would you agree or disagree? Yeah, people

Wade Pfau 06:22
are living longer. And in 2022 they also released a new table that shows the RMD percentages that accounted for people are living longer, and so they have longer time horizons. And so the RMD rates came down a little bit, in addition to just later starting dates to just let people get more of that tax deferral. Now, the consideration when we get into tax efficient retirement distributions is, the longer you get to wait to start, if you are not aware of all these issues, the bigger that initial RMD will be when it does start. And that could have some serious tax implications. Well,

Alex Murguia 06:56
hopefully the, I mean, from a pure money, hopefully the compounding interest was taken hold. But no, I see what you're saying where, if you're trying to manage brackets this, you know, having to backload at least the first few years, a big chunk of that could throw, could throw off plans, if you will. Are there any so you said, when you can start collecting and the like. But you said people are living longer. And a corollary, corollary is people are also working longer. So what happens if you're working during those years?

Wade Pfau 07:28
Oh, after the RMD start age? Well, first to be clear, so the first year that RMDs are due, you're not required to make the payment until April 1 of the following year. In any subsequent years you have to make the distribution, I shouldn't say payment, but distribution that you will then have to pay taxes on the distribution has to be taken by December 31 now, in that first year, if

you do wait until closer to April 1, you'll have two years worth of RMDs due in one tax year. So you may want to be careful about this idea. Well, I could wait until April 1 of the following year to take out the distribution, but then I have to take the second year distribution in that same calendar year, and so we'll get that double whammy on the tax form. But yeah, beyond that. So getting to the question that you asked, if you are still working, RMDs are still generally do whether you're working or not, but there is an exception if, if you're working at a company where you're less than a 5% owner. So it wouldn't really work if you're just like a solo 401, K, where you're the only worker, but you're less than a 5% owner at the company, you don't have to take RMDs from that one employer plan account. You still would have to take RMDs from any other accounts, but you would not have to take your RMDs from that one particular account. Now, if it's allowed, you could roll over some of your other funds into that employer plan, and that would be a way to avoid the RMDs. When you

Alex Murguia 08:58
say it's allowed, just you don't mean if the government allows you, mean, like, if it's in your plan documents that you can roll over just just

Wade Pfau 09:04
to be great. When the plans are created, they have flexibility about rules for various things, and one of those may be, do they allow you to make rollovers into that plan?

Alex Murguia 09:18
Okay? And then the flip side is that's when you take it, what happens if you say, I'm not doing it, I'm not doing it, I'm mad as hell, and I'm not going to take it anymore. I'm not paying arm of these. So

Wade Pfau 09:29
if you don't take that distribution, eventually there's going to be a penalty on the amount that you didn't distribute, and that will grow with interest as well. And now, in the old days before, actually before secure act 2.0 the penalty was 50% of the amount not taken that was required to be taken. That has been reduced. It's now the a 25% penalty. But if you meet certain provisions, the penalty is 10% so it's less onerous than in the past, but still you. You don't want to just forget about taking RMDs, because these are still fairly stiff penalties for not doing so. It's potentially 10 or 25% of the amount you didn't take out, plus interest.

Alex Murguia 10:10
And then what happens when you don't spend all the money from your RMDs? Well, well, that's

Wade Pfau 10:16
the thing. You're not required to spend the money. You have to add it to your adjusted gross income, then you'll have to pay taxes on it, and don't forget estimated taxes if this is a consideration after retirement. But then you can always just reinvest it in a taxable brokerage account. You're not technically required to spend it. And that's where, when you see people complaining about RMDs on the internet, a lot of times they'll say something along the lines of, well, I don't want to spend this money. And it's not clear, like, do they not understand that you don't have to spend the money, you just have to pay taxes on it. Now it's understandable they I don't want to spend this money. Why should I pay taxes on it? Well, that that's what we talked about at the beginning. The government wants you to pay taxes at some point, but you can then

reinvest it in the taxable account after taking the distribution. And you cannot do a Roth conversion on RMDs, to be clear, as well.

Alex Murguia 11:07
And I think we mentioned this, this caveat, like every time this, this kind of theme comes up, because I have to say it's one of the most common misconceptions that that we come across from prospects when they come in to meet an advisor, or even clients, when, you know we're talking about RMD, and there's a financial plan and we're presenting it, it, it comes up quite a bit. It's one of those misconceptions. And so every time this comes up, we'll we'll mention it, where you don't have to spend it. You can always reinvest it. You do have to pay taxes on it, because, you know, government takes a bite, right? Like that kind of vibe. All right. What about aggregating? So, how would that work if, okay, there I'm work. I'm over 73 I'm over 73 I'm less than a 5% owner. I couldn't roll over the other plans into here. And so let's say that's $100,000 worth of 401, K's, but there's 300,000 and other plans. You're saying you aggregate the 300,000 amount, and that's what you pay RMDs on. I just want to have a use case so people can think about, yeah,

Wade Pfau 12:17
well, just related to this. So these accounts have individual owners, so there's no sort of aggregation across spouses, each spouse if, as they hit age 73 they each have their own RMDs that apply to their own accounts. So then, for a given individual, if you have multiple IRAs, you're allowed to aggregate them so that you can so if I have three different IRAs, each with $100,000 to use simple math for that, I'd calculate the RMD would be based on the total 300,000 but I could take the full RMD from one of those accounts. I don't have to take the RMD from each of those IRAs. So that's the account aggregation rule. It applies to IRAs. You can also aggregate across multiple 403, B plans, but that's really the end of it. Anything else, there is no aggregation. So if I have two different 401, KS, I can't aggregate them together and take the RMD from just one. I have to separately take that RMD amount from each 401 k plan. You can only aggregate across IRAs and across 403, B's Okay. Otherwise, again, taking separately and just to just emphasize again, because I think this is something people don't think about. For spouses, there's no kind of aggregation within the couple. Each spouse has their own accounts and has their own RMDs on those accounts.

Alex Murguia 13:42
Now it may jump the gun, but when we get to life expectancy and the tables and things like that, you know, individual versus joint, etc, it could be something to just to drive it home again.

Wade Pfau 13:55
And that point again is like, if I have an RMD, or I'm married to someone, I have an RMD. We can't take that RMD out of her account or out of the spouse's account, and it has to, I have to take my RMD out of my accounts. Okay, so lots of little technical details the RMD is, then just simply, you look at the value of the account on descent like at closing on December 31 at the end of the previous year. So it doesn't matter what the market's been doing in the current year, it's based on the account value at the end of the previous year. So if the market collapsed on January 1, you may owe an RMB on a much higher value from the previous end of the calendar year, but it's the December 31 account balance divided by the percentage rate, or just which is really just divided by the well multiplied by the percentage rate, which is the same as saying, divided by the life expectancy factor for that individual, based on their age and based on the

RMD table they're required to use. Okay, and there are a few options there that we'll we'll discuss.

Bob French 15:04
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Alex Murguia 15:34
Okay? You want to take us through an example.

Wade Pfau 15:38
Yeah, yes, sure. So well, let's, you know, let's introduce the tables, or at least one of the tables. There's three. If you pull out the IRS document on RMDs, they'll talk about three life tables. Table one is a single life table. Table two is kind of a joint table with tons of numbers, multiple pages long. And then table three is the uniform life table. RMDs. Generally, when we're talking about today with the owners of the account, it's generally going to be the table three. We'll talk more about that point. But generally table three, which is the uniform life table, the single life table, is only used in relation to certain beneficiaries with inherited accounts, it's not if you're single, you don't switch over to the single life table. You still use the uniform life table as the owner of the account and those so just to give you a couple examples of what that uniform life table looks like with RMD, starting at age 73 they say the life expectancy there is 26.5 years. So one divided by that, that's a 3.77% distribution rate required at age 80. They say it's a 20.2 year life expectancy. One divided by that, that's a 4.95% distribution rate. And for the purposes of our example, it's at age 85 there's a 16 year life expectancy. One divided by 16 is a 6.25% distribution rate. So if I have an IRA, and its value at the on December 31 was $130,000 and then this year on the previous year. So let's get actually So December, 31 2023 the IRA closed for the year worth $130,000 in 2024 at some point this year, I'll turn 85 my birthday, say, is in November. So in November, I'll turn age 85 I use the age 85 factor to determine my RMD in 2024 so it's the account value at the end of the previous year, $130,000 divided by the age factor for the age I turn this year. I'll turn 85 this year. The age factor for that is 16 years. So $130,000 divided by 16, my RMD for that account would be $8,125

Alex Murguia 18:11
so that's, that's actually, I mean, of all the things that the government does and like consider the tax code and everything, this is pretty standard division, if you will. Once you have the life expectancy chart, the the uniform Lifetime tables, it's really just, if you have 26 and a half years left, is one divided by 26 and a half and whatever percent that is, that's how much you can take.

Wade Pfau 18:36
Yeah, yeah. So that is a calculation. And again, that that's the life table that was introduced in 2022 so be careful, don't use one of those older life tables, or you can't. It's not that you get penalized because they would have higher RMDs than the newer life table. It lowered the RMD rates a little bit.

Alex Murguia 18:54

What I was thinking, Wade, just because you had introduced it earlier, and I'm trying to spot where there could be potential confusion. So once this gets rolling, it really is you just take the account value for the previous year on December 31 and then, assuming your birthday is January the first, you just take how many years you have left divided by the account value, and voila, there you go. As long as you pay it by before the end of the year, you're

Wade Pfau 19:21
in good shape, as long as you take the distribution, but Yeah, as long you take the Well,

Alex Murguia 19:26
that's what I meant by paying, but Yeah, as long as you take the distribution, the only wrinkles for people, and it probably is more the the emotional valence is probably the strongest the first year of doing it for the for the benefit of the audience, can you sort of talk us through the what you said in terms of buy beware that you may have two payments in one year in which will could throw off your income if you don't play it the right way. Can you go through that one more time in line? Yeah. So

Wade Pfau 19:56
let's, let's do the example of or this is a i. Turn. So we need years to be less abstract. So I'll turn 73 in September 2024 so my I'll have an RMD do this year, and it would be the previous year account balance, if it's still that $130,000 at the end of the previous calendar year, divided by 26.5 which is the life expectancy for the 73 year old. Now, in that first year, that's the amount I have to take out, but I can wait until April, as late as April 1, 2025 to take that out. If I do that, if I wait until after December 31 though, while I keep that money out of the adjusted gross income in 2024 but it will be added to the adjusted gross income in 2025

Alex Murguia 20:47
could you just, could you, if you take it January 1 or forward, can you apply that money to the previous tax

Wade Pfau 20:54
year? No, not. If you've taken the distribution after December 31

Alex Murguia 20:59
I just want to be absolutely clear for everyone. Okay,

Wade Pfau 21:01
so let's do defer taxes. But the caveat to that is, and then in 2025 I'll be turning 74 so I'll have an RMD due by December 31 of that year, which would be the account balance at the end of 2024 divided by the age 74 life expectancy factor. So I got to defer that age 73 RMD until the following tax year. But if I do that, I'm going to have two RMDs being added to my adjusted gross income in that second tax year. So that's just where you want to be careful with it. There may be reasons, some cases where it's worthwhile to wait, other cases where you probably shouldn't be waiting. But yeah, absolutely, case by case,

Alex Murguia 21:42
let's say the first year where you could have technically taken it you didn't want to, simply because you had some sort of windfall income. Oh, yeah, that could be a reason to wait. You

know, you don't want to put yourself in another bracket. And so you just defer, because you know that income is not going to happen the next year. And so you backload your RMD distributions. Thank you. Thank you. If

Wade Pfau 22:09
there was really no particular reason to wait, you've just doubled that ordinary income, approximately double it for the following tax year. Yeah,

Alex Murguia 22:19
and wait, I think, I don't think we need to do more than that with regards to RMDs, unless I missed something along the way. It's a nice, bite sized episode that folks can just consume based on just RMDs.

Wade Pfau 22:33
Well, not so fast there, Alex, we should talk about the three different tables, because

Alex Murguia 22:40
I already teased it

Wade Pfau 22:45
so well. Table three, that's the uniform life table. That's the one most commonly used to calculate these RMDs. And to be clear, it's used by unmarried owners. So that means single people don't get confused. If you're single, you don't use this table one, single life table. You use the table, three uniform life table. So unmarried owners, married owners whose spouses are not more than 10 years younger, and married owners whose spouses are not the sole beneficiaries of the IRA, that's who uses the the uniform life table.

Alex Murguia 23:18
So what would Leonardo DiCaprio use?

Wade Pfau 23:24
He would get to use table two, if you Well, if he got married to one of his younger girlfriends, he'll get married. He still would be a single or an unmarried owner, right?

Alex Murguia 23:38
Events? I was like, I wasn't 100% certain you catch that reference, but you, you took it like a fish to water. Man, you're, you watch TMZ. Are you a TMZ? Guy?

Wade Pfau 23:50
No, I, I don't know how I I've certainly it's in the news that he has younger girlfriends, but I don't know what, exactly why. I know that

Alex Murguia 24:01
you've been hanging around me then too much. And I'm probably if he

Wade Pfau 24:06
ends up marrying someone 20 years younger than him, when he hits for him, it'll be age 75 unless the rules change again. When he hits 75 he could use table two, which is a much longer

table where you have to actually line up the age of spouse one and the age of spouse two. And this is to be clear, this is actually table three. It's somewhat conservative about how quickly you have to spend down the account. Because even if you're unmarried, it's assuming you're married with a spouse who is 10 years younger than you. So it's like if I'm 73 it's assuming my spouse is 63 and so the joint life expectancy is higher, because you got a 63 year old as part of the conversation table. And that would be relevant, as long as my spouse is not more than 10 years younger. If my spouse is more than 10 years younger and is the sole beneficiary of the IRA, I can use. Will too. And so I can get an even smaller RMD factor by accounting for that spouse is more than 10 years younger than me. And that's also the table that gets used when sometimes people write me asking how for the RMD spending strategies, where the idea is your retirement spending is your RMD. How do they get those numbers at younger ages? Because the uniform life table only begins at age 73 the answer to that is, you go into the table two, and you just look at to get the 72 rate. You look at age 72 linked to age 62 and then you get age 71 linked to age 61 age 70 link to age 60 and you work back from there, and that's how you can get the RMD factors for all those younger ages as well, even though technically they don't have RMDs. You

Alex Murguia 25:48
know, I'm in this business, and I don't know the answer to this 100% just because we just solve it for people. Is, does a government like for somebody that without an advisor or whatnot? How do they go about figuring this out? Or do they just receive a letter from the government saying, This is how much we need to get?

Wade Pfau 26:10
I'm not 100% sure. I don't think the government's in the business of sending you notices about RMDs. That's

Alex Murguia 26:17
why I just for a second I'm thinking, what are they left to their own devices?

Wade Pfau 26:21
I think so, not 100% sure. If anyone's gotten a letter that wasn't, Hey, where's our money? You forgot your RMD, but actually reminding you friendly, friendly before the end of the year, we just kind

Alex Murguia 26:35
of do it. It's normal checklist for us, and I'm so involved in it from this vantage point that it just hit me right now, actually,

Wade Pfau 26:47
yeah, they'll know. Well,

Alex Murguia 26:53
I will come back in the next episode. I

Wade Pfau 26:55

wouldn't know what your RMD is going to be, because I don't know that they'd get a report during the current year of what your account value was at the end of the previous year, they would eventually know that when the following years,

Alex Murguia 27:08
sponsor come in, reports come

Wade Pfau 27:10
in, we'll table but, yeah, yeah, we'll table that for now. But speaking of tables, that's this table one again, is it's the single life table, but it's not used for account owners. It's only used for inherited IRAs, where the account goes to a beneficiary. And those have much they're based on single life tables, so much shorter life expectancies, so much higher RMDs, D rates. And so if you still have the ability to get a lifetime stretch with an inherited IRA that's using the table one factors. And if you have that 10 year period that still It looks like the government's going to have people using table one for the first nine years, and then the remainder of the account balance comes out in year 10.

Alex Murguia 27:56
There it is.

Wade Pfau 27:58
Yeah, that's if you want to have the shorter episode, we could stop there. If we don't want to talk about RMDs on annuities. Oh, we probably don't really need to do

Alex Murguia 28:08
it's up to you. You want to give the main one. You want

Wade Pfau 28:12
to at least mention qualified charitable distributions.

Alex Murguia 28:15
I don't do you.

Wade Pfau 28:19
Yeah, I mean, I think at some point we should bring in an advisor to talk about. I think it's like

Alex Murguia 28:23
there's certain topics, like chartal distributions, the Nua that we were looking at earlier. They merit their own episode, because they come up so much in the planning that it's almost like I don't want to batch them all into one, because then folks, you know, from a referencing standpoint, it's easy to see a title that just says RMD, and they can listen to that recording just so they can see a title. Anyways, listen to that recording. It comes up so much in in real life situations that I'd rather have it like anchor episodes, if you will. But again, that's just me,

Wade Pfau 28:57
so as a teaser for future episodes, qualified charitable distributions can be applied against RMDs allow you to send money up to $105,000 directly to a charity. Keep that money out of your adjusted gross income, which is a lot better than having a below the line charitable

deduction, net unrealized depreciation is actually the one way, and there's very strict rules about it that we'd have to get into in a separate episode, but that you can get money out of a employer plan and pay long term gains treatment instead of as ordinary income. Yeah, those warrant their own episodes. So I think we can end our required minimum distribution conversation there.

Alex Murguia 29:38
There. It is more to follow everyone. Thank you so much for listening in catch you

Wade Pfau 29:42
next time on retire with style. Bye.

Bob French 29:46
Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational. And educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you. Consult your financial advisor. All investing comes with the risk, including Risk of Loss past performance does not guarantee future results you

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