Episode 157:Retire with Style Live (not really) Q&A: Part 1

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retirement income, financial personality, international stocks, tax planning, Roth conversions, tax efficient distribution, Medicare reform, Social Security, funded ratio, stock bond glide path, income protection, asset allocation, retirement income plan, taxable savings, pension questions

SPEAKERS
Bob French, Wade Pfau, Alex Murguia, Briana Corbin

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,

Briana Corbin 00:41
where questions meet answers. This week, Wade and Alex are kicking off a special multi part Q and A session where they dive into all of your questions about all things retirement, no topics too big or too small. So let's get into it. Hi

Wade Pfau 00:56
everyone. Welcome to retire with style live YouTube edition. I'm Wade and

Alex Murguia 01:03
I'm Alex, and we're in vivo

Wade Pfau 01:08
and ready to answer your questions. All right, as we get going today, we did have more than 20 questions coming in advance, so we do have that to get started with. But please do feel free if you're here live to type your questions in the chat, and we'll be sure to address them now with the way the YouTube Live works. We're not able to see the YouTube live stream directly, but as you type in your questions, we do have our team behind the scenes who are going to forward those questions over to us, so there'll be a bit of a lag there, but we'll answer questions as they come in. And we've got a ton of questions to go through as we wait for your questions to come in as well. So we definitely have a lot for an action packed episode. Yeah,

Alex Murguia 01:48
and we, and thankfully, Wade, we got tons of questions just from the tax planning arc. We just not tax planning, but the sort of the tax distribute, tax efficient distribution arc we just did. And

Wade Pfau 02:01
also a number of questions about pensions. Now the pension questions that came in advance will save for a separate episode, because we know not everyone has a pension these days, so there may be some listeners who would like to skip an episode about pension questions. So we will cover those, but not today in the live session. It'll be coming in an upcoming episode. There we go. All right, so we can get started, Alex, I picked out a question for you to to get us headed down the path of Q and A. You ready? Fire away, man, see if I can trick you on this one. Yes. Are international stocks required? Why or why not

Alex Murguia 02:43
required? No, I would imagine for a portfolio. Well,

Wade Pfau 02:47
I mean, that's yeah, sometimes we have to make some assumptions about what's being asked. But yeah, I think that's the question for a portfolio, not for

Alex Murguia 02:56
they're required to get a license to be able to drive by 16. You have to have, you have to have equities in Indonesia. If not, it will not work. Or you have to buy from the from the country of whose car you you know the origin of the car that you, that you're driving. Now that's like, it comes up a lot, actually, international stocks. It comes up when there's specifically underperformance of of international stocks versus domestic, and we've had quite a run where that's been the case. There's a few ways to answer this question, just to level set a little bit. I think ultimately you have to ask yourself where you're from in terms of what you feel comfortable with in investing. And I think naturally, there's been many studies that you tend to invest where you're geographically located. It gives you this sense of comfort, if you will. So you have that, but I don't think that's where this person is coming in with this question. It's usually when there's lagging performance. It's why are we doing this? Anyways? You know, there's us, stocks we can invest in, and Google has a presence in Europe, Nvidia has a presence in whatever Africa. So we would benefit from those economies just the same we would do so with stocks that are domiciled in the US. So why do we need that sort of exposure to invest directly in international stocks? Okay, there's that. The answer is, you don't theoretically need any exposure to international stocks, but it's to the same degree that someone living in Europe doesn't need any exposure to US stocks to capture equity returns. In general, you can get equity returns wherever there's a publicly market, wherever there's a public market you know that's dealing with securities that being the case, the benefit of investing internationally. And let's just take the large cap asset class right now. Large cap asset class being large companies that have a, you know, a disproportionate, not disproportionate, but a proportion of representation in the economy. But it's just because of their large their revenues or their profits tend to swing that economy a little bit more, right? And so if we're just talking about large companies, large capital, capitalization companies. The benefit from investing in international stocks is diversification, but it's diversification not because there's an extra expected return from domestic stocks versus International, or international versus domestic, nor is it from like there's this huge, huge standard deviation smoothing that occurs. You do get that because the correlation to domestic, international stocks isn't one, but it's very high. So it's going to dampen that to some extent, to me, it's more you get more very variation of large companies, and so you're giving yourself a bigger sweet spot in which to capture large company market returns. Now I say that with the

assumption that I find tenable, which is there's not necessarily a higher expected return from a domestic company than an international company. As long as you know you have the basic sense of capitalism in place, there's no extra benefit from investing north of the equator, south of the equator, or something like that. You just have a greater representation. And what happens is that there's such a strong dispersion of returns that aren't like well distributed. That if you do that with international stocks, you give yourself the best chance to capture the returns that when they're there to this fullest extent across international and domestic so I it helps buffer you from that greater level of representation while still expecting the same type of return over the long term. Hence, it's more palatable to do so. I mean, I'm backtracking a little bit, so there is a diversification benefit, but not not from the standpoint of us is up, International is down, or international is up, US is down, I think they're probably gonna unless there's some huge issue in some country versus the other. They're probably going to track more or less the same in this global economy. But because it is a global economy, you want representation from all global companies. But it's not, it's not a bet that one is going to outperform the other.

Wade Pfau 07:39
Yeah, broad global diversification. I guess the only argument like in the context of retirement income, sometimes you'll hear people say, you know, we talk a lot about asset liability matching. If your liability is an expense goal that increases with inflation, it's probably the case that US stocks are more correlated with US inflation than international stocks. And so that might speak to investing in the US. But even that being said, I do think diversification is important, and there's always a rule for, yeah,

Alex Murguia 08:08
I would say this on strings, but you did bring up a good point, which is the dollar, because then a lot of people like to say, well, you know, once I convert it back to currencies within the US market, you know, whatever. I'm also subjected to currency risk from international stocks. So why have that aggravation? I think that's all baked into what I said previously. So I wouldn't sweat that. Where I do think it makes sense is to worry about the currency is when you're doing bonds, international bonds, and the like and those, my preference is to always just peg them to the US dollar, which is make sure they track the US dollar, even though they're international bonds, simply because of, partly because of what Wade was bringing up. How did I do? Did you stump the chump here? Wait, or are we good plus? All right, let me, let me, and now you my good man. Okay? I'll redo one straight up here, Wade, I love your show especially. No, no, here's the thing. I'm recently retired and plan on initially living on my taxable savings while doing Ira Roth conversions from my standard Ira eight. I've heard all the benefits of doing this, but one item that always seems to be left off when discussing this is I would think that even if taxes don't go up over time, people can still benefit assuming that the value of a Roth IRA increases as the stock investments go up. Isn't it possible that you could still gain with a Roth IRA in situations of good growth, even if taxes go down somewhat?

Wade Pfau 09:51
Okay? Yeah, it's an important question. Let me answer it kind of two different ways, because there is some truth to the point he's making. About maybe beneficial to do Roth conversions, even if taxes go down a bit in the future. However, with the way the question is stated, I don't think it's necessarily for the reason that that is being stated in the article or in the question. So let's first consider a simple world. You don't have any taxable funds, because that's going to be the hiccup. So you've got a tax deferred account and you've got a Roth IRA, let's consider so

just $10,000 in your tax deferred account right now, you're going to be in the 25% tax bracket if you convert now or in the future, so same tax rates today and in the future. If you convert today, you and then also, to make this math simple, let's say your money is going to double before you want to actually spend it. So you've got $10,000 in an IRA, you convert to the Roth, you actually get to send over $7,500 you got to pay tax, 25% that goes to the tax man. So you now have $7,500 in your Roth IRA, that money doubles, and then you're free to spend it. You have $15,000 after tax to spend now and then, I think getting at the nuance of the question about, well, what if your Roth IRA does really well? So we're saying your investments double.

Alex Murguia 11:15
This is the same allocation way to correct

Wade Pfau 11:19
Yeah, same and also just simple make it clear, same allocation. Conversely, you've got your $10,000 in your IRA, and you're going to leave it there until you're ready to spend it. So your 10,000 is now doubling to 20,000 you take a $20,000 distribution, 25% tax rate on that, you have $15,000 after tax, so you have the same amount after tax. Either way, if it's the same tax rate, it doesn't really matter if you do the Roth conversion or if you don't do the Roth conversion, you come out the same either way, if you believe tax rates will be lower in the future, you want to wait for the future to pay those taxes, which we speak against doing the Roth conversion. If you think tax rates will be higher in the future, you'd want to do the Roth conversion and then avoid those taxes at a higher rate in the future. But if you think the tax rate will be the same, then it really doesn't matter. And this idea that, well, if your investments grow tax free in the Roth, you're somehow better off. That's really not the case. Now, that being said, there's some additional nuance to add that would speak to maybe if you do think taxes will be a few percentage points lower in the future, you might still go ahead and do a Roth conversion today. One is to just give you that flexibility about with when RMDs begin on the IRA. You have to take that money out even if you don't want to. You have more flexibility, just by having more of that discretion for when you take money out of the Roth and the other is now we'll introduce a taxable account so that you're not paying the taxes out of the IRA. You're paying the taxes out of the taxable account. Taxable funds are quite inefficient. You have to pay ongoing taxes on interest dividends each year, and so that that will chip away at the value of the taxable fund that would have otherwise had been used to pay the taxes on the Roth conversion. So for that reason, you can build yourself a spreadsheet and see how you could come out ahead on an after tax basis by doing Roth conversions today, even if tax rates would be a little bit lower in the future. But that's kind of a more subtle reason related to the ongoing taxes on a taxable account. It's not related to this reason that I think because the money is going to grow, I'd rather have it growing in the Roth account, because all that growth will be tax free on that particular detail. It just, it doesn't really matter.

Alex Murguia 13:50
There you have it. Okay, excellent way.

Wade Pfau 13:53
All right, I see we do have some live questions coming in. All right, take one over. Yeah, the first one you're looking to buy beach property. And I guess just we could generalize that to any sort of property that you're looking to purchase with funds, the majority of which is in a 401, K pre tax

plan. So the distributions are going to be taxable smaller balances in the Roth and broker Oak Ridge accounts. So what's the best method to to make that purchase?

Alex Murguia 14:26
I'm assuming, since he said, Are they still working?

Wade Pfau 14:34
I'm assuming they're retired and nine and a half

Alex Murguia 14:40
without penalties from the qualified accounts.

Wade Pfau 14:42
Yeah, let's assume they're over 59 and a half, so they're not going to face penalties. Yeah? I mean, they don't really have a choice here anyway, but the the general point is, yeah, all that money turns out don't buy the house,

Alex Murguia 14:55
but they're

Wade Pfau 14:57
going to be distributed as taxable income. So. So the general idea of tax efficient distributions with our progressive tax code is to smooth those distributions over time, to take more advantage of lower tax rates and to not have that all dumped into a higher tax rate. So I yeah, this question is somewhat vague in terms of if you're going to buy this property. I guess the only real thing, real point we can make is maybe you don't want to pay all in cash for the property, because that would require too big a distribution and one tax year. Maybe try to spread that out over time, whether that means getting a mortgage or whatever the case may be, to minimize

Alex Murguia 15:38
more questions than I can answer, just like, what's like is the is the cost of the house, will it deplete all three accounts? Or is it like, is the price of the house 20% of what the accounts, what are in all of the accounts? And so I've got wiggle room to, you know, portion, partition them out properly. I

Wade Pfau 16:01
no interpretation of the small balances in the Roth and brokerage accounts is that they're not really going to be all that helpful to paying this bill. But I I'm assuming there would be surplus funds in the 401, K, so that you can buy the property and not get all of your retirement funds.

Alex Murguia 16:17
Okay, so now, though, with the information that's presented, the best method to do that would be drum roll. Like you said, it's difficult, but I think you just yeah, you follow the tax efficient distribution podcast that we had and kind of like, okay, you're using it for a house instead of for a car or something.

Wade Pfau 16:39

It's a variation on the tax efficient distribution, because it's about not wanting to take out too big of distribution in one calendar year, spread that out over time to take better advantage of our progressive tax code that's based on income. Okay, I hope that helps. Yeah, I

Alex Murguia 16:59
don't I don't know if we did there? Sorry, John,

Bob French 17:05
are you getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement, and now is when they need to earn their keep to make sure you're on the right track. Download retirement researchers, eight tips to becoming a retirement income investor by heading over to retirement. Researcher.com/eight tips again. Get retirement researchers, eight tips, becoming a retirement income investor by going to retirement. Researcher.com/eight tips. That's the number eight tips.

Alex Murguia 17:43
All right, we got Paul here. Do you have any thoughts about how the Trump administration will seek to reform Medicare, and I'm sorry, and Social Security? What steps do you recommend for retirees? This is a good segue for updates that you're also always thinking about, but I'll let you handle this. Let me, let me ask this one more time. Clearly, that way we can potentially use this as a separate item. But yeah, let me try one more time. Do you have any thoughts about how the Trump administration will seek to reform Medicare and Social Security. What steps do you recommend for retirees? So I

Wade Pfau 18:28
don't know if this is going to be a standalone video, because I think it's there's still a lot of uncertainty around that. It seems that there's not much expression about reducing social security benefits on the social security side, I think the only thing I've really heard is this idea of ending the taxation of Social Security benefits, which would eliminate the tax torpedo, which would make tax planning for retirement easier. On the Medicare side, what would that do for the deficit? Not, not necessarily be helpful for the deficits of our country. And there's this old idea we learned in economics, Ricardian equivalents, that if taxes go down, you end up just saving that money because you have to leave it as an inheritance to your kids so that they can pay the higher tax bills that will come in the future. So we'll see how that plays out on the Medicare side, there's not as much discussion we A lot's happened on the Medicare side, especially with prescription drugs 2025, Part D, prescription drug out of pocket, costs are now capped at $2,000 whether or not that cap survives will remain to be seen. But other than that, I haven't heard a whole lot about reform on Medicare, and at the end of the day, this is going to be a bigger problem in the early 2030s if Congress, and it's not just the presidency, it's Congress as well, much more so, if they follow their historical. Trends, we may not really see a whole lot happen until it really becomes that breaking point, which will be after the current administration is finished.

Alex Murguia 20:10
I mean, the only thing I would add from a couple steps back is we just went through the election where promises are made for votes. And so I would, I would, I wouldn't try to infer, okay, based on what was on the platform. This is what's coming down the pike. You know, with a lot of

certainty just yet, I think you got to just let things sort of settle a little bit before you can begin to kind of maybe directionally see certain things, but I agree with Wade, I don't think they're going to do anything with Social Security in any meaningful way until it gets more dire, frankly, because I there's no urgency, and I think there's a lot of sensationalism out on the media in terms of Social Security Trust Fund and the like. And what I would recommend is everyone listen to the series that we had on Social Security and how it's actually a pay as you go system from the start, not necessarily one that was based on having a trust fund, which, I believe, way that was initiated, what in the early 80s, with by Greenspan, of all people, in anticipation, yeah, Right, in anticipation of this surge in in seniors, people turning 65 right now. So in some funny sort of way, the trust fund, to me, is actually something the government did with a lot of foresight that you don't really see a lot of you know, in terms of having this trust fund to begin with, which was intended for this particular period of time. Right now, I don't believe the Trust Fund was meant to be in perpetuity. Anyways, am I misspeaking that way?

Wade Pfau 21:51
No, although with demographic trends, it's just increasingly everyone's getting older and fewer workers per beneficiary. So once a trust fund depletes, there's still payroll taxes coming in, they won't cover all the promise benefits into the conversation, and

Alex Murguia 22:05
that's what we discussed in the arc, and how there's, there's fixes, though, that could be made in place that don't seem incredibly difficult to implement based on what we've seen going on right now, and their shortfalls and things like that, agree, some sort

Wade Pfau 22:19
of combination raising the retirement age, reducing the cost of living, adjustment payroll tax, increasing payroll tax,

Alex Murguia 22:26
etc, or the or the ceiling on when you don't have to pay into it anymore, popping that out a little bit. So I'm not, I think to your point, yeah, that's, that's more of a congress thing, and I think that will be dealt with, but when it needs to not right now, it provides great like air time and then Medicare, I think you handled it right. So I don't have anything, yeah, and

Wade Pfau 22:49
at the end of the day, I don't think any sort of predictions about reform impact your claiming decision. And also, I don't think social security is going to disappear or anything like that. So it still generally speaks to not making claiming decisions with the idea that you better get out what you can because the system is about to disappear. That's not really the case. It'll be there. Okay,

Alex Murguia 23:15
here we go.

Wade Pfau 23:18
Yeah, with that next question, this is really more of a CPA question that the rule of 70 2t that we talked about the other day all the to avoid the 10% penalties on distributions from your tax deferred accounts before 59 and a half. The question is saying, If I attach a line of credit to the

cash value of my whole life policies, can I dump my 401 k into the line of credit before age 59 and a half without a 10% penalty? I've never seen any sort of discussion. I have no real comment on that. Either way, we'd have to

Alex Murguia 23:58
with the phrase, can I dump my 401 k into the line of credit.

Wade Pfau 24:02
Yeah, I don't understand what that means, because a line of credit, you don't put money into a line of credit.

Alex Murguia 24:07
I think it means it the other way around. I was for a second I thought, could I get a line of credit on my whole life policy and use that money and take out that line of credit and use it to further fund my 401, K, but maybe he's a business owner and he can just randomly, you know, has discretion on for I, I'm not 100% certain with that question.

Wade Pfau 24:33
I'm not either. Sorry. Okay,

Alex Murguia 24:36
and Mr. Mr. K, yeah, you're German. Wait, why don't you give this one a shot? No, no. All right, so we'll get we'll go to Matt here, whereas I'm 38 now, let's take from the action. I'm 38 and would like to retire in the next five years. My funded ratio is 91% What do you recommend for a stock bond glide path? I'm in the Inca protection quadrant, small pension that can be I assume he has a small pension that can be cashed out. Okay, Wade, why don't I talk about real quick, just I'll level set for a funded ratio. And then you can sort of bring this home the question, just because folks listening in may not know what a funded ratio means of 91 okay, and the funded ratio, Wade and I are big funds of the funded ratio as the initial financial plan process, more so than starting with a Monte Carlo plan. The funded ratio is when you essentially take the present value of your assets. And if you're taking the present value of your assets, it's really just looking at your statements and writing down what the account value is, because that is the actual present value. And then it gets a little more dodgy when you're trying to figure out the present value of your Social Security benefits and all that. But that still is an asset that should be accounted for, and it's a, you know, it's a present value calculation, but you do that and you get your assets, and let's say the present value of your assets is or, or is, to take this example, 900 What Is he off? I'm just looking for the question here. 91% let's say his the present value of his assets are $910,000 right? And now you take the present value of liabilities in retirement, right? And so that's just budgeting it out what you directionally, what you think you're going to be spending, and figuring out what that present value of those future liabilities are. And let's just say the present value of his future liabilities are a million dollars. Hence 910,000 divided by a million dollars is 91% so it's saying that his asset base can cover 91% of his future expenses. You know when he I'm assuming this is for retirement starting five years from now, so five years from 38 okay? And so the question is, specifically, what do you recommend for a stock buying bond glide path. I'm in the income protection quadrant, and he has small pensions that can be cashed out. Wade thoughts,

Wade Pfau 27:30

well, my first thought is a question. So when you say you're 91% funded, and with the funded ratio, we do offer several times a year with retirement research or the retirement income challenge, the next one will be next March. We have a funded ratio tool that you'll have access to during the retirement income challenge, and one of the assets you put in is future employment. So I'm not clear if this 91% funded ratio includes assumed earnings from the next five years, or if it's more assuming I retired right now, or at least I don't have any future earnings in my funded ratio, I'm

Alex Murguia 28:07
gonna assume, you gotta assume that he's not gonna be working after five years, and I'm gonna assume his calculation is correct.

Wade Pfau 28:15
Well, I just don't know if he's in I guess he's probably not including his future salaries, so that, with five more years of earnings exactly exceed 100% for his funded ratio?

Alex Murguia 28:27
No, I just think. I don't see it like that at all. I see five years. He's got five years left, but he knows what he's gonna make in those five years. And all in his funded ratio is 91% which I don't think that's a very good score, especially if you're going to retire at in your early 40s. If you're

Wade Pfau 28:47
43 years old, so that's five years from now, and you're still underfunded. You've got a long path ahead of you there. I'd be a little bit cautious about retiring in underfunded status, especially at such a young age, with I don't even

Alex Murguia 29:02
think retiring at 100% funded status makes a lot of sense at that. It wouldn't. It would have to be like, 115 or something like that before you're like, Okay, I got this for me. It just

Wade Pfau 29:17
depends on if you're more probability based you might and you're more flexible that you can cut expenses and so forth. But yeah, that's usually if you're going to retire early, you do want to try to be more overfunded as a cushion, but, and then, but then again, if you're able to return to work at some point in the future, maybe you view that as a way to bear some of that risk capacity,

Alex Murguia 29:41
I know, but I think sometimes, listen, take it from a Grizzle 51 year old. I think unless there's some gating factor that that on a personal level, you need to retire in five years, and that's that. I don't think you've got the capacity just based on this. I don't, I don't think the capacity is there to be able to do it point blank. Now, what do I recommend for stock bond glide path? I think we're getting ahead of ourselves, you know, simply because I can't get past the 91% but if you were to do something like that, you know, you probably aim so that by the time you are retired, you're something closer to 6040 and so you can proportionate that out however you'd like. And if you're in the income protection bracket, I I'm almost thinking the previous question is a wrong one to be asking. You know that that question I would be expecting would be, you know, how do I incorporate a private pension into my entire, the entirety of my allocation, not just Dr bonds, but

stock to bond to contractual income, and then of a small pension can be cashed out. I'm thinking, Well, why the hell do you want to do that if you're in the income protection bracket, you know, I mean, like, there's a lot of dissonance in that court, in this, in these statements, which, look, I appreciate you putting it in. I don't mean it in a bad way. I mean it more in the sense of, I think there's a lot of clarity of thought that needs to be accomplished, first from from how you're thinking about this before you get into the details of stuck to bond glide path allocation. I think, I think, you know, they read your articles and they think that's what I'm gonna do, a stock, a glide path. That's what I want. But before you even get into there, I think you need to do some soul searching in terms of, okay, can I really work? Can I really retire in five years? I get the whole fire thing and all that stuff. But can you really retire in five years? I also get that you may not have a choice, and there's a parent you may want to take care of that you need to. So I get that. But on paper, if it's the normal situation, it's not time to retire. And then what do you recommend for a stock the bond glide path, I You can't make any recommendations on that. Specifically, if you're in the income protection quadrant, I'd like to see how that gets weaved into the mix, first from a strategy perspective, before you think about the allocation. And then, are you sure you want to do that with your pension, considering your income protection, because you don't want to cash it out. And then realize, you know what, I do want some pension income. So it's kind of

Wade Pfau 32:25
probably not eligible to receive pension income for another good point.

Alex Murguia 32:29
Good point. Didn't even think about that good point. I was thinking of it in terms of, like, an annuity that the moment he stopped, he stopped. Yeah, I didn't think about an age pass, an age based pension.

Wade Pfau 32:40
Yeah, the pension might be pretty small, even if saved, because there's

Alex Murguia 32:45
so young. Okay, that's a fair point, but still, you see what I'm it's like, one step forward, one step back, one step forward, one step back. So I'm

Wade Pfau 32:55
another way to think about the income protection quadrant. There's this old saying, first build a floor and then exposed to upside. And that speaks to the question about the stock bond glide path, really, asset allocation comes later. First you want to be thinking about, Do I have sufficient reliable income to cover my basic expenses over my lifetime? Once I've established that, then I can start thinking about my asset allocation, and then by having sufficient reliable income, that speaks to you can potentially invest a bit more aggressively with the remaining investment assets, because your lifestyle is not as vulnerable to a market downturn. So it's really though, with income protection, the first question we asking is not the recommended stock bond glide path. It's how do I want to build that floor of protected income to serve my income protection needs? And way think about the stock, long stock. I'm looking

Alex Murguia 33:50
I'm looking Amber. Sent in a qualifying description here. This person is an Academy member, so thank you, Matt for that. And he said the tool included salary in the next five years. So I'm going

to assume he's run our funded ratio. And in there, you know how you have separations for essential expenses, funded ratio, discretionary etc.

Wade Pfau 34:15
Yeah, take a look at what's your funded ratio for essential expenses, for discretionary expenses, and for reserves. But generally speaking, what that funded ratio is telling you, if you've included five years more salary, is that five years from now, you're you have a 91% funded ratio or, I mean, you hit it today, but it's not really going to change, because you've included the asset of your next five years of earnings as part of the asset base available an income protection individual that doesn't bode well to retire, at least voluntarily, with a 91% funded ratio. And it's because if your income protection you're not comfortable, like if your total return is. You might say, okay, 91% funded ratio is fine, because the funded ratio is assuming my investments don't earn more than bonds will earn, but I'm pretty sure stocks will do better than bonds, and I can rely on that for my retirement. If your income protection, you're fundamentally saying I'm not comfortable relying on the idea that stocks will outperform bonds in a manner that will mean it's okay to retire underfunded, because I'm going to get that growth from the market to make up the difference.

Alex Murguia 35:26
Okay? And Matt put another question. Here you go to the chat on Riverside.

Wade Pfau 35:33
I think there are multiple places to look now.

Alex Murguia 35:36
No, I think maybe they're just being updated or whatnot. And he put, thank you both. Can I rephrase to ask the best strategy to get to 115 funded ratio? Well, that winning stocks

Wade Pfau 35:51
four options. Sorry. Well, you've got four options, work longer, save more, spend less or get a higher rate of return. That's the pick winning stocks. I guess. I

Alex Murguia 36:05
know it sounds we're not trying to be cheeky. It's just there's no there's no magic out there, and so weight is right. If you spend less, that improves your score. If you work longer, that improves your score. If you happen to hit on an investment, which we don't recommend, that kind of active stuff, but that would technically improve your score. So it's that kind of thing. So there's no matter. Is there more do stocks outperform over the long term bonds? Hence, the more you put in the stocks that will improve it? Yeah, but the problem with that is, you have to wait for it to occur, and so you can't really plan for that kind of optimism, if you will. I just wait.

Wade Pfau 36:51
I just didn't know we had two different chats. I was trying to get caught up on chat number two here. I didn't hear what you're

Alex Murguia 36:57
saying. It was wonderful, by the way,

Briana Corbin 37:02
that that's it for this week. But we're not done yet. Join us next time as we tackle even more of your retirement questions, because planning your best retirement is a gift that keeps on giving.

Bob French 37:13
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 a risk, including Risk of loss past performance does not guarantee future results.