Episode 5 Secondary Retirement Income Styles Part 1

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. Technically, we may not always be correct, but our aim is true. Our hosts Wade Now Alex.

Wade Pfau 00:52
Hi, everyone, and welcome to another exciting episode of retire with style. I'm Wade Pfau, and I'm joined by

Alex Murguia 00:58
Alex Murguia, you

Wade Pfau 01:00
may to pick up that cue. We're excited to have you all back and to recap on my previously on retire with style.

Alex Murguia 01:10
We talked Wade, Wade, Wade, Wade Wade. Slow down. Did you say welcome to another exciting episode of retire?

Wade Pfau 01:21
Absolutely.

Alex Murguia 01:24
momentum, flyaway. I'm sorry, Wade go on.

Wade Pfau 01:31
Yes. And so what we want to do today is kind of continue the discussion of where we've been in terms of in previous episodes, we talked about the two primary distinct factors that helped to explain someone's style in terms of how they want to source their essential spending in retirement. And today, we'll build on that with some secondary factors. But to recap where we were with the two primary factors. The first one, Alex, it's probability based versus safety first,

Alex Murguia 02:00
yes, it is. You got your correct Wade. Good job.

Wade Pfau 02:04
Can you remind us what those mean?

Alex Murguia 02:06
Sure. You got me? Yeah. Probability base and safety first, is one of the most distinct factors that came out when we're looking at our retirement income style awareness study. And probability based approach is one in which you're comfortable with the probability that the underlying asset that effectively is your main investable asset for retirement for essential expenses and discretionary will increase in value, you're betting on that you're betting on the probability that time diversification that over time, it will increase in value, hence, you can take a sustainable withdrawal from it and not deplete the asset because it'll grow in value. Many times it's the stock market that we're referring to their safety first caveat, nothing is completely safe, we get it. But you know, from a naming convention standpoint, it works, if you will, the safety for probability that the flip side is safety first. And that really implies the belief that while you may get the logic of the probability based argument and you know, it's not free, you don't want to be tethered to this probable growth, if you will. And you'd rather effectively remove that, that liability from your balance sheet and put it on somebody else's, from the point of view of a contractual agreement. And so there you have this safety first notion that it really implies contractual income, which on a relative basis is safer than just expecting to ride on the coattails of capitalism, if you will, and that's probability versus safety first. Wade, what do you think? How did I do there

Wade Pfau 03:50
wonderful way you might think about it. It's just this idea of the risk premium that the stock, you want to benefit from outperformance of risky assets versus risk pooling, although safety first doesn't have to include risk pooling. But that's the idea of insurance where you have a group of individuals, some people live longer, some people don't live as long. And then the insurance company can manage these risks and pay everyone as they live to their life expectancy. But also holding individual bonds to maturity is part of that safety first family.

Alex Murguia 04:23
So let's put you on the hot seat. Now. Why don't you talk about the second factor that we discussed.

Wade Pfau 04:31
The other the other primary set of characteristics. It's the idea of optionality versus commitment. And optionality, of course, everyone, to some extent likes to keep their options open. But if you're optionality oriented, it means you really do want to keep your options open. You want to have the flexibility, to make changes to respond to new opportunities, new events, to not really be locked into anything and that can as to if you have a commitment orientation, it's not that you want to not have any options, but we're talking mainly about how you want to fund your reliable income. And that's not necessarily going to require all of your asset base. But commitment implies, you can check this off your to do list, you found a solution that will solve for a lifetime need, and you don't have to be as worried about it, you're comfortable, not necessarily having the full flexibility to make any sort of change you want. Because

you know, you have a solution that would work for you. And so when you think about the world, are you really focused on optionality? Or are you more comfortable committing to a strategy that, you know solves for a lifetime need?

Alex Murguia 05:41
Man, I can't stop you.

Wade Pfau 05:45
challenging one,

Alex Murguia 05:47
No, and if you want more just catch the previous episodes where we really get into these in greater detail. Now, something I think merits discussion is, there's nothing magical about these two versus the other retirement styles that we're going to mention. They're better make sense intuitively, but what sets these apart is they do a good job of of identifying retirement income personality types, but also solution sets. And I think that's what that's what really puts them over the top one when we're looking at all of these styles. And we'll get to two of them today, that we haven't mentioned, when we're looking at all of these styles, probability based safety first and optionality commitment orientation, were these very distinct styles, that that, again, can provide this nomenclature for strategies and profile. But they also explain a lot of the variability present in the other styles when when you account for them. So it was just a very unique situation in terms of how they played from each other, taking independently from the difference from other styles, and so forth. The other styles are actually quite telling us well, and so they help really solidify the story, that that this whole podcast is about, effectively, Wade do you wanna you want to start breaking the ice on these two other ones?

Wade Pfau 07:15
Sure, and maybe to be a little bit more clear. So it's not so much that we're talking about styles right now is we are just the factors that helped to explain styles.

Alex Murguia 07:24
Thank you. Wade, thank you. Thank you.

Wade Pfau 07:27
But the two second, well, there's four total secondary factors that we identified as having a distinct importance and explaining the style. The two we do want to focus on today in this episode are technical versus true liquidity and front loading versus back loading for retirement spending. And they both have precedents in the the academic and practitioner based world of, well, this is how we came across these factors in the first place is trying to just understand how people write about retirement issues, and looking for ways where there's a distinction. So why don't we start with the technical versus true liquidity. And this is a concept I had first learned about from Curtis Cloak, who's a practitioner, he focuses a lot on insurance based retirement income solutions, but he explained this very important distinction about liquidity like Alex, if you have a brokerage account, is that liquid?

Alex Murguia 08:24

Should I be writing this down? Wade?

Wade Pfau 08:28
No, first, it is a brokerage account liquid, for example?

Alex Murguia 08:32
Yes, it is. Unless it's it was gonna make a joke about there's some, there's some, there's some institutions that good luck transferring those assets over. For the most part, for the purposes of this, yes, a brokerage account is liquid.

Wade Pfau 08:49
And that's usually how we think about things. But that's at least at the initial outset. That's technical liquidity. Technically, a brokerage account is liquid. But really the distinction between we talked about retirement as different pre retirement, you're able to use more of this assets only model you're trying to save and grow a pot of assets, post retirement. It's called asset liability matching, you have to fund expenses. And you have to earmark assets to cover those expenses. So now, Alex, suppose you believe in the 4% rule, and there's a lot of debate about that, but we can set aside the debate for now. Yeah, let's pretend let's pretend that the 4% rule is fine. You want to spend $40,000 a year plus inflation from your million dollar brokerage account? Okay, is your brokerage account liquid?

Alex Murguia 09:46
No, it is not in the sense of where you're going with it. No, it is not liquid in the sense of liquidity and truly technical sense of liquidity. It is liquid in the true sense. It is not.

Wade Pfau 09:58
Right right technical as liquid, but in the meaningful true sense of retirement, it's not liquid, the entire million dollars has to be earmarked to meet your future $40,000 spending goal, you could technically spend it on something else, but doing so would directly jeopardize your ability to meet your future spending.

Alex Murguia 10:20
This is just real quick Wade to and also, this is a very important point in our system, you know, we were part of a wealth management firm McLean Asset Management. And many times there's let's say we're managing someone from a total return approach. And yeah, there's a, there's a distribution that they're taking, and they're right on that line with regards to their the probability that they have a success of maintaining such a distribution. But all of a sudden, the kitchen plumbing freezes over for whatever reason, and it needs to be redone. And they see the their account, and they realized, well, I'll just take whatever 30,000 from there. But, you know, specifically to the question Wade just asked me, yes, you can put in a trade order and have it in your account transferred the next day or maybe later that day. But the reality is, it's not technically liquid, that those assets are almost like set aside assets.

Wade Pfau 11:14
And the reason Curtis Cloak when he really I think he's the one who developed the concept, he was thinking about just explaining this concept with respect to annuities. But specifically think of a simple

income annuity. That's life only. So there's no cash refunds, there's no period certain payments or anything. And a lot of the world when they think about this will say, Well, you don't want to use such an income annuity because it doesn't have any liquidity. And this is where the distinction is, you will, indeed, the income annuity does not have liquidity. But if it's possible to earmark less assets to meet a spending goal through the annuity than it is through that investment portfolio. And that's because if you're worried about outliving your money, which gets into another factor we'll talk about shortly. If you're trying to manage a goal with investments only, you may have to set aside more to manage the joint longevity risk and market risks that you'll experience. The risk pooling through the annuity may allow you to earmark less assets to meet that goal. And so though you don't get true liquidity from the annuity by earmarking, less assets to meet your spending needs through the annuity, you're actually freeing up other assets to be a true source of liquidity for the financial plan, because you now have assets that are not earmarked for other purposes.

Alex Murguia 12:34
Wade, I want to say this, but in the other way. But before I do that, just because you threw out the term immediate annuity, you may want to give a quick definition, just in case somebody is thinking okay, what is a sphere effectively?

Wade Pfau 12:48
So a single premium immediate annuity, an income annuity, two different names for the same idea immediate annuity, it's a tool that may be attractive to the income protection style that will be ultimately discussing unnecessarily for every style, but it's the most basic simple form of an annuity, where you give up a premium amount to receive a contractually protected lifetime income. And of course, you can, it doesn't have to be for lifetime, it can include all kinds of other cash refunds and everything else. But the basic idea of a life on the spear or a single premium immediate annuity, is I give up a premium today to receive a monthly check each month for the rest of my life, no matter how long I live, and that's what an income annuity is.

Alex Murguia 13:31
And so Wade's example, he was treating it from one end of the spectrum, in terms of okay, if you have this, now, you spent money to buy a pension effectively, and you have income for your central expenses. You don't need to overcompensate, if you will, with it and play it safe, you know, or on a relative basis with income that you're drawing from your portfolio. That's kind of the same thing. But Wade when it comes to this, I think some folks kind of listen to the the true technical liquidity as you know, money is earmarked one is not you're just taking from the general piece of the portfolio. Talk about mental accounting, and this concept because I don't want people to just think, Oh, it's just a mental accounting, and that's that.

Wade Pfau 14:17
Well, yeah, I mean, there's a, it's related to mental accounting, but also it's mental accounting is where you're just kind of giving up the pot of assets. You're not really thinking about the liquidity so much as you're saying, okay, that particular whether it's you have different checking accounts or just you actually have jars with different money sitting on your table. Here's the jar for my restaurant spending for the month. Here's my jar to cover mean any sort of clothing expenses, whatever else. It's a way mental

accounting is just a way to divvy up assets for different purposes. And yeah, it's distinct from this idea of true versus technical. You're still earmarking assets for different examples, but it's a broader, I think, really a broader look at it than mental accounting, which is where you're really dividing up your budget and mentally accounting, this asset for this piece of the budget. And

Alex Murguia 15:11
It's almost like an extension of what you can potentially do. And so what does this look like in question form? Let me ask Wade, and let's get his opinion on how he feels. Personally. So let's do our, our question. So Wade and take your time answering this, so I can throw in some special effects. I prefer to sell assets assigned to other expenses if unexpected retirement expenses arise. Okay. Or, on the flip side, I prefer to have insurance coverage or reserve balances to draw from if unexpected retirement expenses arise. So where do you feel most in line with

Wade Pfau 15:58
as I've become so steeped into the world of retirement planning, and really the core of all that with our funded ratio, and with the asset liability matching? I definitely think about this sort of compartmentalization. So I do want reserve assets not earmarked for other purposes to be available for unexpected expenses. I don't want to just draw from the same pot of assets that really was meant for something else. But I'll just sort of reorient it and use it for the sort of unexpected spending needs that may arise.

Alex Murguia 16:31
Now about your no comment, Wade, no comments? No, I'm more in the camp that year from I don't think it's much, you know, you know, your rank is from one to six. One being the first statement six being the last statement. I'm probably four, three and a half, four. In that range. You give me the

Wade Pfau 16:54
three and a half. That's not a lie. No,

Alex Murguia 16:55
right? You can't get one fast Wade. Before I think you're more like a five, you give me a five vibe with that answer.

Bob French 17:05
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Alex Murguia 17:30
Yeah, now, I will say this, there's a nuance here, right? Like, why would first of all, who wouldn't want like to be able to reserve stuff, then the reality is, you can't always do that. But the nuance here is a breakeven that people kind of do. And they, they're, there's a bit of a, there's a bit of a gamble here, I

think. And that's, well, if I had the set asides, or if I'm paying years and years of insurance premiums for very low probability event, and if I would have just invested that those premiums, or you know, instead of having a set aside in cash or whatnot, have invested it, then that could, you know, if these events happen, just every so often, I could potentially sell fund it. And if I would have kept it invested my breakeven, you know, I would have more money at the end of the day, you follow where I'm going with this weight, and I how it has to do with reserves, and not so much freeing up, you know, liquidity and so forth. I think there's some people that approach it like that, like, the the present value of continually, you know, rolling rolling reserves versus in cash versus just investing it, you know, I'm willing to take my chances. I think there's some people that think like that.

Wade Pfau 18:42
Yeah, yeah. And that's fair enough, it's really this idea of, right back to that simple 4% real example. The idea is that supposed to work in the worst case scenario, and in other circumstances, you should have additional funds available to to be that source of the technical liquidity can become the true liquidity, and perhaps you're more comfortable relying on that.

Alex Murguia 19:05
Alright, you know, I think you may find some people also are technical liquidity, and then because they're very comfortable to with being flexible with their income, but say they do have to fix the kitchen that year. And the $40,000 distribution, for expense for just discretionary becomes $30,000. I guess they don't go to I don't know, Morocco, or or Epcot or something like that. That's a lot of money to spend. But yeah, maybe they just, you know, call it a day and do the staycation that year. So, you know, if you're willing to do that, then you know, there you can lose more flexibility to some extent, and that may be why somebody may be more technical liquidity. Have that sort of preference versus true. Okay, And then just looking at this, you folks may be wondering, well, how do people land? Well, actually, I'm sorry, Wade, let's let's talk about front loading and back loading. Before we get into kind of like, how do people usually land on on these? You take it away with front and back loading.

Wade Pfau 20:16
Yep, front loading and back loading this as it was, I think maybe the main inspiration here is Moshe malevsky, who, at the end of the day, any sort of concept you can think of in retirement planning was, in some way probably developed by him. He's so active and so prolific. But he talked about this idea of longevity, risk aversion. And longevity. Risk Aversion just means how worried are you about outliving your money. And the more longevity risk averse you are, he kind of explained it as your subjective life expectancy is, is longer than your objective life expectancy. And that's how we do always think about retirement planning, like your life expectancy might be 80, or 85. But you might want to build a financial plan that works 95 or 100. Because your longevity risk averse, because you're worried about outliving your money. And if you're self managing that longevity risk, you want to make sure you don't outlive it. So that concept, if you are longevity risk averse, that's a backloading preference, you're willing to sacrifice somewhat at the present, to better ensure that you won't be in a position later in life where you have to make substantial cuts. You don't want to outlive your assets. You don't want to be old and not have the resources needed to cover your expenses. You'll sometimes see surveys quoted in the consumer media saying that statements along the lines of people worry about outliving their money more than they worry about dying. And, of course, that's not going to be everyone. But if that sounds

like something you think about your probably you have a back loading preference, your longevity risk averse, whereas with front loading, it's a different idea. It's more, you kind of think in the opposite way you think, Okay, today, I'm alive. Today, I'm as healthy as I'm ever going to be. I don't know what the future will bring. I want to make sure I can get the most enjoyment, the most satisfaction out of retirement today. And I might not even be alive in the future. So in the improbable event, I live to 95 or 100, I am willing to spend spend less at that point if necessary, just because it's an uncertain outcome that may never happened. I want to make sure I get the most enjoyment and satisfaction out of retirement while I can. And if that resonates with you, that would suggest more of a front loading preference.

Alex Murguia 22:35
Yeah, and Wade, but with regards to this, I think it'd be helpful, especially coming from you. The this is where kind of I'm gonna throw out a term where people kind of define it. And then after they define it, I really think the folks that are listening to that, that person the economist define this term, they still don't know what the heck they're talking about, you know, because it's kind of like just a weirdness to it. But how does this differ from consumption smoothing, if at all?

Wade Pfau 23:08
Well, it's related, not consumption smoothing is generally this idea that because the whole basic like the Principles of Economics 101 is this idea of diminishing marginal utility, the more you can spend, the happier you are, but at a diminishing rate. So people if they're like risk averse, they generally would prefer to say spend the same amount every year versus maybe spending more of this year, but then less next year, they prefer a smoother spending power path, even if it's a lower average amount of spending than a more volatile spending path. And that basic consumption smoothing idea was always based on no longevity risk that there was just it was always capital P and the economics model you, you live through age capital T. And so you want to smooth your consumption. So what Moshe Malevsky introduced when he wrote an article about spending on the planet Vulcan, which was, if you're Spock from Star Trek, you're the perfectly rational person. If you don't have longevity risk, you know exactly how long you're going to live you consumptions move. But if you do have longevity risk, you're going to spend less over time is based on the probability of still being alive at that point. Yeah, the issue is just how much do you want to reduce that future spending versus not and that's where your subjective life expectancy comes into it to you. If you're very worried about outliving your money, even though the statistics tell you you have a very small chance of living past 100 You might still want to build a financial plan around the possibility of living past 100 for example.

Alex Murguia 24:49
Yeah, and this is where you know, I kind of catch these in much simpler words, not not not way I think Wade did a great job but in terms of where it's like consumption smoothing, like you know, that sounds like something you put over those But, you know, from my vantage point, when we're talking about commitment orientation and optionality commit, you know, optionality is when you you recognize the logic with regards to a contractual income for the rest of your life. But you end the conversation or the dialogue with Yeah, but you know, you end up with like a yeah, but, you know, here to me front loading and back loading, as opposed to Yeah, but yeah, I get it that you should spend relative to the probabilities, you're going to be alive, you know, that kind of thing. And I get it, that there's a sort of

retirement smile, you know, I get all of those things. But instead of saying, Yeah, but you do the, just in case, though, what if, what if I, I haven't hit the, you know, the longevity lottery, if you will,

Wade Pfau 25:53
you're saying there's a chance

Alex Murguia 25:54
So you're saying, there's a chance, that's right Wade. And you kind of even though you recognize that I should spend more earlier, I'm more active, etc, etc, etc. You can't do it, because you just want to enjoy yourself, you're too worried about that reverse legacy, where all of a sudden, you may be a burden to others. Or it's just one of those things that you you can't, you won't, you won't enjoy it. So you just naturally, you get the logic, you get the you know, the charts and all that kind of stuff. But yeah, just in case, you play it safe. And you backload Would you would you say? That's kind of the scientific explanation way.

Wade Pfau 26:37
Yeah, and it's just a matter of how safe you want to play it, ultimately. So if you aren't as worried about it, and you're more of a front loader, and at the extreme, you'll hear people say things along the lines of, oh, I'm never going to make it past 70. Even though they may not have any particular medical reason to say that, but that might be an extreme form of front loading preference, like there is, there is no, tomorrow is not going to happen. Let's enjoy today,

Alex Murguia 27:05
there's a concept of in psychology that you know, what is there's nothing, there's no right or wrong here. I mean, but the term that you kind of use to define man, maybe you should do something about it, it's maladaptive, right? It's it maladaptive. If you're functioning, and you're a functioning member of society, productive, whatever, you know, it's a quirk, right? It's, if it crosses that line, and it's maladaptive, then, you know, maybe there's an intervention to be had. And here the extremes are, if you're if you're frontloading, to your heart's content, you risk being a spendthrift, you can, on the flip side to that, if you're backloading, these are the stories where somebody, you know, passes away, a single person passes away with $10 million, but effectively, lived, like one of those end of the world folks were, you know, soup cans in the basement, and that was their breakfast, lunch and dinner, and really didn't live a life, if you will. And so I'm making an extreme example, to make a point. But the reality is that, you know, there's nothing wrong with being frightened up front loading and backloading, you know, you know, if it accommodates with your preferences, but just be careful when you know, when, when that line is crossed with regard to something being maladaptive because you know, we've seen it on both sides. Now Wade, let's let's see where your line is. And if you've crossed it for front loading and back loading, let me see here. This is the first one here we have a couple of these, and these are questions that we use in our study. These aren't ones that we use to make are not ones that we use to make the final cut. But you know, they're good nonetheless. So Wade, I want to spend more when I'm sure to be alive planning for reduce spending when my survival is less certain. Or I want to spend with an eye toward being as certain as I can that I will not run out of money as I get older. Which which where do you kind of tilt towards here?

Wade Pfau 29:18
Well, I think to some extent, I would aspire to be more of a front loader and that's something I I have trouble with but in practical terms I'm definitely far to the direction of being a backloading preference so that's the second statement probably going to have to score a six which that our scale of one through six I'll be

Alex Murguia 29:38
really man, at all the ones that we've done that's I would have never guessed that I don't know who you are No, um, I think I'm I'm more on a more on the left a little bit. It's fine. Not not too much. I'm more in the middle. I would I would love to split the baby but I can't

Wade Pfau 30:00
got six, five again.

Alex Murguia 30:02
Yeah, right. Three and a half, three and a half on this one? No, I think. I don't know. I'd have to. Now they not. You know, the irony is we add these to everyone, right? Yeah, I'm about a three. I think I'm a three on this one, at least this particular question, I can see another one where I can be, you know, a four, you know, it's one of those. So, you know, I'm definitely, you have to ask me three or four of these.

Wade Pfau 30:33
And that's the broader point that when we determine retirement styles, it's not we're not basing it on one question. There are a battery of questions that work together to determine the style.

Alex Murguia 30:43
But But in all seriousness, I didn't I didn't think you were that far in the extreme, or what do you think it was just this question?

Wade Pfau 30:51
No, I probably for the most part, I'm about as far to the backloading direction is really not the record for the most backlash.

Alex Murguia 31:00
But this is important, but let's talk about this. I mean, you're you're you've been you get it, you're effectively you, your graduate school, it's been financing economy, you know, that this kind of thing. You've been trained, if you will, to think maybe that you know, the consumption smoothing route the this or that, but it shows you just how strong this is. You're not wrong by any means Wade. But you follow what I'm getting at, like, even someone from your, from your vantage point from your background, from your sort of life experiences. You tilt more towards the far right, where, you know, I don't, you know, it just find that interesting, right? Or is it just is it just me Wade?

Wade Pfau 31:48

I know, when we get into styles, we'll talk about how risk wrap is kind of a behavioral quirk of the strategy. And yeah, some of these, I'm very much like, believe in the markets, but at the same time, I have a backloading preference. So yeah, I don't want to be completely dependent on the markets.

Alex Murguia 32:09
Okay, fair enough. Now, I know everyone's on pins and needles, like, where am I, you know, in the mix? How do I, how do I stand here? We did this, you know, national study. And what we found is let's take true and technical liquidity. We take true and technical liquidity, one being a score of one being technical liquidity, which means you're not earmarking, anything, you'll just take from a big bucket, and it is what it is kind of thing. And true liquidity being that things are earmark, I have everything in your mark for whatever. And yes, I can't earmark for every possible contingency for that I have insurance. Okay, so that's six true liquidity. One is technical liquidity, the average was, hang on, I got a point 4.05. There you go Wade. 4.05. So what you see here on a relative basis, is that folks really want this true liquidity. And it makes sense. You know, you take a step back. It's funny, right? It's, I don't know, if I'm falling into some bias trap here way. But once you see these means, and you begin to kind of do the Oh, yeah, I can see why. And you got a story behind it. Right? For me, the story is, well, who wouldn't want it? Right? Who wouldn't want true liquidity? If you can afford it? Why not? Right? I mean, the reality is, probably not everyone can afford it. So there's, there's limitations to it. And so on No Wade.

Wade Pfau 33:40
And for a lot of these factors to actually just somewhat coincidentally, perhaps that the means do end up being close to right in the middle of it so that there's an equal proportion of people on each side. And so that's not the case with the true versus technical liquidity, which may be helped to contribute to why it's a secondary factor instead of a primary factor.

Alex Murguia 34:01
I think Ding ding ding on that one. I, because there's been folks that, you know, we've been talking to we've been speaking about this ask us, How can liquidity isn't as strong of a factor? You know, you think about commitment orientation, and optionality and commitment, you're kind of locking something down maybe that affects though your thoughts on liquidity, etc, etc. That is a better center from a central tendency standpoint than then then true liquidity and technical liquidity, they're on a relative basis, people seem to just want that true liquidity more, which then, you know, it affects the dispersion, which, you know, to weights point, it's probably why it's a secondary factor. You know, from that vantage point, people just like to have things in cookie jars. front loading back loading. What would you say Wade there, what's the verdict?

Wade Pfau 34:55
Well, that that is an example of where the population is right in the middle. That was three 2.49 Compared to 3.5, which there's no statistical difference there. Yeah, an equal split between front loaders and backhoe loaders and the population.

Alex Murguia 35:09
Yeah. Fascinating, huh? It's one of those things. And this is where this is my, my, my point about, you think there's something to be said in terms of folks saying, Oh, well, the rational person should

consumptions move, because, etc, etc, you suspend relative to, you know, whatever. Well, you you had just said, the probabilities of being alive and consistently having this standard of living without fluctuations on that. But here, you're kind of seeing my responses maybe. Right? Maybe, maybe not.

Wade Pfau 35:44
It's a nice split.

Alex Murguia 35:46
Yeah, it's a nice split. Yeah, it's kind of cool. So, you know, for you folks listening, half of you are probably thinking, I don't know what I'm talking about. And the other half are probably thinking, I don't know what I'm talking about. But it evens out. To 3.5. So how are the correlations here? How did these How did these factors relate to how are they associated? That's it, because we don't know if they're, we don't know the direction? We don't know the the causality, if you will, but how are they associated with our probability and safety first and optionality commitment, what we find is a strong safety first. Tilt is associated with a strong back loading till make sense, you know, the more contractual income you want, that means you're thinking about sort of having that that income, you know, from a longevity perspective throughout your entire retirement, and you tend to want to back load, if you're doing that, you know, if you're trying to accommodate that, then those those two, those two sides of that coin make sense safety first and backloading. In a similar manner, there's a smaller association, but it's still positive and significant with regards to safety first and true liquidity, which against makes perfect sense. And it goes into weights going about if you, if you really go into that contractual income, you've provided yourself, even though you had to buy the pension, you've provided yourself with this extra form of liquidity, and you see the people that have that proclivity for it, you know, tilt towards that true liquidity point of view, where you want to tackle the optionality commitment orientation, or the or the mess up the directions, when I put the correlation on table.

Wade Pfau 37:40
You nailed it. So that with optional commitment we'll talk about so commitment orientation. And the combinations we're picking is just so the positive numbers align here, the commitment orientation is going to associate with more of a backloading preference, which I think makes sense to in terms of, if you're more worried about protecting your future self, you're also you're tend to be more comfortable committing to a strategy that you know, will solve the problem for your future self. And then with technical and true liquidity, the commitment orientation is correlated with the true liquidity mindset. So if you're a commitment oriented, you think more about, I want to have assets that are untethered to something else that are available is the I don't want to have to dip into a common pool of funds to meet a spending need. And then when I don't know if there's a strong of intuition about why that would be the case of some of the others, but maybe it's something you've been thinking about.

Alex Murguia 38:45
And in fairness, these are correlations, and we use a big data set. It's easier, frankly, to come across correlations and not that's why this is usually just a first step in the data analysis process. But you're seeing some associations there, then, and towards one, it's a little weaker, but it's still there. It's one of these merits further examination kind of comments. With regards to front loading and back loading and true and technical liquidity, what you do see is a stronger association with backloading. And this true

liquidity. And so you see these kind of you see this intuition playing out. Now, how does it look across genders? Pretty, they weren't significant differences when it came to true and technical liquidity. Males were, you know, effectively for 403 4.03 and females were 4.07. And that's not a significant difference. And so you see that, you know, from an interesting standpoint, there wasn't much difference between male and female. However, when you're looking at front loading and back loading, females tend to think about back loading a bit more, maybe males that make sense from a life expectancy standpoint doesn't it Wade, where males are less worried about outliving their assets, simply because they have a shorter lifespan, whereas females, you kind of see this, this, this greater sensitivity towards backloading. It's nice to sort of see something like that play up. Because it it, it helps it helps tell the story in a consistent way with other stories are being told marital status, you see here, what's got single folks are more true liquidity oriented than not. They're less dependent on others, you know, from that standpoint, are less dependent the wrong word, but there's, they're less resources available, because there's one less spouse, and so they kind of have to carve out the reserves or the things like that a little bit more. So then then then folks that are married, and you don't see any differences. However, when it comes to front loading and back loading, which you would think I mean, there's a slight, women are slightly more back loaders than men, but not enough to be statistically different. You would think women would and you could even make the case, maybe they should be significant, again, with that longevity argument that I set for true liquidity, but you're not really seeing that with regards to marital status. Wade, any follow up with that?

Wade Pfau 41:30
No, I think you pretty well.

Alex Murguia 41:33
So we did do it before the podcast, we were like, man, and we're gonna go over like descriptive statistics. And we say, heck yeah Wade!

Wade Pfau 41:41
No one's going to really gonna care about all these correlations.

Alex Murguia 41:48
I think when you listen to it, at least, I do. Let me see Not that I care about this statistics. But you're always when you hear people talking about this, you're always kind of inherently wonder, I wonder where I am with that. And so by showing you hey, look, this is how the average person did, you can kind of begin to get a sense of that. Now, again, what what was interesting to me in all of this, and looking at the data, my takeaway is, again, going back to the initial reason profile matrix, which is optionality commitment orientation, and then probability based and safety first in you put those two factors together, you have a matrix, and you can plot profiles and strategies. What I take from this is that both P S and a both probability safety first and optionality come in oriented orientation, are significantly related to technical and true liquidity and front loading and back learning to the degree that they indirectly absorb a lot of the variability that's being explained by those secondary factors. Hence, you know, when you're creating these models for retirement income, you know, if you could explain something in two variables instead of four, just use two. And so this helps really support the story of the main matrix. But it also sort of shows you how you can use these other factors to you know, to give it

more heft, if you will, to help to help out nuances with regards to the story. That's That's my my takeaway here. Wade Come on, man. Give me so

Wade Pfau 43:30
this may be I think we have we've got it so that the next two factors that we'll be discussing in our next episode are going to be the perpetual versus timebase flooring and accumulation versus distribution. And then that'll give us the foundation for really then putting everything together and to talk about styles in more detail.

Alex Murguia 43:51
Yeah, there's there's two more factors and there's one that we can discuss that didn't make the cut. So you stick around. Alright, thank you everyone for listening, and we'll catch you in the next episode. Wade, do you want to take us off.

Wade Pfau 44:04
Thanks everyone.

Bob French 44:12
Wade and Alex are both principals in McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tyson's 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.