

Episode 183: Retire Smarter Not Harder

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SUMMARY KEYWORDS

Retirement planning, financial advisor, financial plan, retirement income, asset allocation, Social Security, Medicare, tax planning, investment portfolio, financial independence, risk management, estate planning, health insurance, long-term care.

SPEAKERS

Wade Pfau, Briana Corbin, Alex Murguia, Speaker 1

Briana Corbin 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.

Briana Corbin 00:38

you just need a four year ladder in a Roth Wade and Alex dive into listener questions that prove retirement planning isn't just about what you own, it's about what you want.

Alex Murguia 00:49

Hey everyone, welcome to retire with star. I'm Alex Murguia and I'm here with my very trusted co host, Mr. Wade Pfau,

Wade Pfau 00:59

hi everyone. That's right. We're back for more action here, and we Retire with Style.

Alex Murguia 01:04

Which part is right? Wade, Pfau or very trusted coach, or both, all of the above, all of the above. Hey, you bet you. Better believe it, baby, nah, nah. Wade's the best, everybody. And today, Wade, you may want to talk about what's going on, what we're doing here, I think you'll be more clear than I am, as usual,

Wade Pfau 01:25

what's causing all this? Well, we're gonna have a webinar June 25 at 1pm Eastern time. Actually, not myself and Alex, although Alex will be the MC, but with some of the planners we have at McLean asset management, Jason Rizkallah and Brian bass, and they'll be talking about what's involved when working with a financial advisor. That webinar will be 1pm Eastern Time, June 25 we'll have a registration link in the show notes, and we welcome everyone to join that if you'd like to learn more about just what all do you need to be looking at when building a financial plan. Now we're we're gonna have this episode today, a bit out of order because we are doing a Q and A series. We had a YouTube live on June 2, and we got a lot of questions for

that, so we're gonna have a number of episodes just answering questions. But for today, there's a cluster of questions that were all in the theme of, here's some information. Give me a financial plan. And so we thought talking about some of those questions today would be helpful to start getting your juices flowing on what all is involved and whether it's worthwhile to consider working with a financial advisor. I mean, we're going to answer these questions from the perspective of you might ultimately decide to do things on your own, but if this is something that you've been thinking about, hopefully this episode will help you, and then listening to Brian bath and Jason ruscala from McLean asset management on that webinar might give you some further insights as well. So we we hope you'll enjoy the show today, and also check out that link to register for the webinar. June 25 at 1pm Eastern Time, what's involved with working with a financial advisor?

Alex Murguia 03:06

There it is. Yeah, Wade, this was the Gen this front loading this episode. The Genesis came about because of the questions we were getting. And we decided, You know what? Let's have a workshop in general about, what is it about a financial plan, you know, what is it working with an advisor, you know, providing a financial plan, because a lot of the questions we get, we almost want to answer it with 15 other questions. It's one of those that the quality of the questions determine if you're really thinking through things the right way. And sometimes the questions are just a bullet list of items, but they're really missing this connective tissue, and so maybe we can elucidate on that today. But more importantly, you know, we decided to dedicate just a whole workshop on these kind of things, because I think at the very least that'll help you think about what are the right questions you need to be asking yourself to formulate an effective plan, with or without an advisor that that's for us, it'd be icing on the cake. But for you folks, it's secondary. We get it. We're trying to lead you to the right place, if you will. And with that, let's let me break the ice with a question. Wade, what

Wade Pfau 04:16

do you think? All right, let's see if you remember which one we're gonna ask first. I remember, I remember,

Alex Murguia 04:26

I took my journey today. Now this question is from Chris. It says, wife retired last year at 49 and I plan to retire next year at my 49th birthday, we have a \$3 million Portfolio, 1.3 million and non qualified taxable. That means taxable 250k in Roth remainder is pre taxed.

Wade Pfau 04:54

That would be an IRA error for one, yeah, tax

Alex Murguia 04:57

deferred. I took the RE. Pizza and set up a four year ladder. What else am I missing? And then you made a point to say, by the way, I am a CFP and use E money. So feeling really confident with a little Winky smiley face. Wait, can you do the Winky smiley face for our YouTube viewers? Yeah, there right now. That's

05:19

pretty good, man.

Alex Murguia 05:22

I man. All right, I have a couple questions. Did you guess that this guy was a financial advisor beforehand? Or I'm wondering what made what possessed him to say I'm a CFP and feeling rather confident.

Wade Pfau 05:37

Yeah, usually when someone writes in with seeking financial guidance, I've they write long essays with all their financial information, and there's not a lot to go on with what we got here. So yeah, I guess I would be a little surprised to hear that someone's asking for like, what are they missing with their financial plan, given the minimal amount of details they provided to us with the question, and then E money is a popular financial planning software, but I wasn't completely sure the direction of are they when they say they're feeling rather confident? Is that, like, that's what they mean, they're really feeling rather confident, or was it some sort of jab at E money, maybe because this is actually, we're doing these episodes out of order, but some of the questions that came in were about, like financial planning assumptions. I if, if he means that E money has very optimistic planning assumptions, which makes it easy to have a high probability of success, so that I'm not exactly sure, especially with the wink afterward, whether if

Alex Murguia 06:42

I wrote that, and this goes back to emails and like on teams. When you spend like a whole hour on teams for like text, because you know, you want to make sure the tenor of your text is conveyed when you could have, at that point, just picked up the phone, I get the sense now that you say that, and the way I am myself, if I wrote that, I would mean it very sarcastically, as in, like, e money sucks, so I'm feeling rather confident. You know, wink, wink.

Wade Pfau 07:05

Yeah, right. Don't you think, Well, I just don't know which way to go with it. That That seems like a pretty reasonable interpretation. But then the other one is just simply, he's feeling confident, so

Alex Murguia 07:15

I'm not sure, yeah, but yet he's writing a question. That being the case, let's actually get to the question.

07:22

Okay, yeah. And the

Alex Murguia 07:26

question is about, what am I missing? So there, yeah, so, but then I before you get to the actual answer. But just think about this. This is, this is this sort of is a microcosm of what we get a lot, and so it's hard for us to do something with this, this, this, this strikes me as folks think financial advice is, here's a list of four things, bam, bam, bam, bam, bam. What do I do? What? What's not said is, what's I think the most important part, because I get the sense that folks, maybe not Chris, you were picking on him here for sport, but for the most part, I get the sense that folks think that it's a very one type of prescriptive solution. And that's the issue. It's not there's many ways to get to an answer. And getting to an answer for you wade, is, you know, is very different than getting to the answer for me. And you know, giving me what you did for my plan may suck for me, you know, I mean, and vice versa. And so it's one of those that the advisor is not trying

to be evasive by saying it depends, or, Oh, you have to, you know, whatever, do, such and such. It's just how it is. We don't go to a doctor and just say, Hey, this is my height, this is my weight, this is my blood pressure, and this is my I don't know what's the other my pulse, what's going on with me. My head is hurting, and when I stand up, I feel like falling down or something like that, right? It's more than just basic bullet point things. That's my soapbox. I think this applies to all the questions we're gonna get into, by the way, but Wade, let's do our best.

Wade Pfau 09:15

Yeah, yeah. So okay, just to review the facts here, since it's been a while, we've got this is a financial independence retire early type of case where, right now, they're 49 and 48 wife's been retired for a year. She's 49 he's 48 he's planning to retire next year, and he turns 49 so she'll be 50. So they're still looking at a pretty long time horizon on that retirement. They do have \$3 million dollars split between they've got some good tax diversification. There they took the RESA. And I would say that's step one in thinking about retirement as what is your retirement income style? How do you what is the RESA? Real quick, just the retirement income style awareness a tool we developed. You're getting into it. I'm sorry, man. Even the title of our podcast, retire with style. So great. Great for taking the reset. You didn't tell us what your style was. So that would be helpful to know. Well, you read a bond ladder, so time segmentation, yeah, and then mention and has a four year ladder. What else are they missing? So I guess from that, we could probably assume time segmentation, and as a part of time segmentation, they'll have a ladder that runs until he would be, I guess, 52 or 53 years old, someone that ballpark for the early retirement years. Probably they're thinking to potentially extend that over time. Okay, what else are they missing?

Alex Murguia 10:42

Well, for me, I would Oh, do you have a general thing, or do you have something specific? You're gonna say, well,

Wade Pfau 10:47

one just general thing is we don't know what kind of spending goals they have, so that there you go. Step one, 3 million could be plenty, or it could be kind of tight, depending on how much you'd actually like to spend each year. But if we can get into more depth and all that. What were you you're gonna say first?

Alex Murguia 11:02

No, you're right. Well, it depends on what are the goals? And in all of these questions that we're reviewing today, none of them have mentioned what they want to do with their wealth. It's all about what strategy should I implement? That's like saying what, what road should I? Should I take? I have a new car. It's great. What? What direction should I go in? They haven't told you where they wanted to go. So you're like, I don't know. You know, I ultimately, that's, that's what we're getting at. But here's a simple thing to consider, okay, he's gonna retire. He's a CFP, all right. Does he have equity in the company? Is he an owner of the company? Is there going to be a transition plan? If so, is he going to take is he going to be getting paid in installments over a five year period? Let's say. How is that going to be taxed? What are the gains on that? Can we think about, how do we offset that within the portfolio, and what strategy, perhaps an indexing, separately managed account strategy that's able to harvest losses over the that you implement now, over the next four years, so by the time the sale occurs, he can offset the gains with the losses that have been harvested. Things like that start running through my mind with

regards to strategy, and that would kind of usurp a lot of just these basic kind of I have \$3 million and I have this, and that points, it really is more. Where are we going here? Do you have kids? What do you want to do with the kids? Is there? Do you want to be impactful? I'm, in a way, I'm kind of just reiterating what you have in your book. And I think everyone talks about your book, but the reality. And they talk about, oh, all the strategies, how you go into the great details with regards to the tactics, right? Talk about tactics and tactics and tactics. And everyone here is looking for tactics. But what I haven't heard in any of these questions is a strategy as it relates to the goals. And I think you the first few chapters of your book, you do a great job in in setting the table for that. And I think you do a big service to everyone, if you just kind of set the table right now. Because I think the setting the table answer that you're about to give will, answer will, will provide a good foundation for these four questions that we're about to read.

Wade Pfau 13:20

Yeah, yeah. And this reminds me of one of the Amazon comments about the book. They thought the first few chapters were pretty boring, and all the excitement happened later. But no, there's a really important content in those early chapters. And I think the table of contents, and we're talking about the retirement planning guidebook right now, kind of the outline of what to talk about here. Chapter One was about your retirement income style. So we've already mentioned the RESA. Chapter Two is about retirement risks. So getting a sense of what kind of risks might you face in retirement, those relate to the longevity question of how long should you be planning for with retirement? Like, what sort of time horizon are we looking at here? And if you're both retired by 50, we could easily be talking about a 40 to 50 year retirement horizon. Market volatility, the sequence of returns, risk, all that kind of stuff, is the part of those risks, and then the spending shocks, long term care planning, health care spending shocks and especially when retiring well before Medicare eligibility, one of the important things to be looking at here is, how do you anticipate covering for the health insurance needs between ages 50 and 65 assuming you become eligible for Medicare at 65 but thinking about Your vulnerability to different retirement risks. And then chapter three is about the funded ratio, and we should spend some time, because that's where this whole question of we've heard about at least the investment portion of the asset. We heard about the assets on the balance sheet, and the investments like you mentioned, if there could be other assets, such as if he's selling his business. Or something along those lines. We've heard about the investment portfolio. There may be other assets. Social Security is probably one of the assets, but there could be others. Do home equity? Is there a you own a home? Just what are all your assets? And then what are all your liabilities? But not in the sense of like a mortgage payment, although that's important too, but just liabilities in the sense of, what are your retirement goals, your financial goals in

Alex Murguia 15:25

retirement in a pure, in a pure, calculated sense, like, if we're a Spock here, the reality is, goals are really future liabilities, future expenses. And so when we say liabilities, we mean aspirations and the like. It's a terrible way of framing it from a humanistic standpoint, but we're going to put our numbers guys cap on right now and speak, speak, speak from goals in those terms.

Wade Pfau 15:52

Yeah, like, if my goal is to spend 100 \$1,000 a year for the next 45 years, well that's a liability that I'm trying to fund. I want to be able to be able to be able to cover that \$100,000 a year for the next 45 years. So what are those liabilities? What are you trying to fund in retirement and then comparing the assets to liabilities? Now, with retirement researcher, we do frequent

retirement income challenges. Right now, we're rebuilding our funded ratio. It's going to be a new and improved and it'll be ready sometime in the fall. So we'll have another Retirement Income Challenge later this year, and we'll be sure to let everyone know about that. During those challenges, you get one week long access, free access to our funded ratio tool. So that can be a good opportunity. Or in this case, if you have other financial planning software, of course, you can use that as well. But with any financial planning software, you're entering the goals as expenses you you're going to try to fund, and then you're going to assess, do you have sufficient assets to fund those goals? And that's what the funded ratio idea is all about. So you definitely want to be thinking about, am I sufficiently funded to meet my retirement goals, just this question of, Am I missing anything? Well, because we don't know what your spending goals look like. We don't know whether you have sufficient assets to retire. You didn't mention, of course, that you're feeling confident. And assuming that wasn't satiric or sarcastic, maybe you've already done that sort of assessment and you are overfunded, so that would be great, but you definitely don't want to gloss over this, and that's the basic financial plan beyond that as well, in terms of what you want to be thinking about, do you have your estate planning and incapacity planning documents in place? The whole question of power of attorney, health care directives, all that sort of thing, preparing for just things that can happen in retirement. You're still pretty far away from Social Security, but at the very least, you want to be thinking about your Social Security claiming strategy, your retirement housing. What is your plan for housing in retirement? Do you already own a home? Will you continue to live there? Will you be moving? If you're moving, is it to a lower cost of living area or a higher cost of living area? Just where are you going to live in retirement? That the non financial considerations of Do you have a plan for how you're going to spend your days in retirement to make sure you're retiring to something that you have passion about and purpose for, and then a health will. And we mentioned briefly, but to really iterate again, health insurance. How are you going to cover your health insurance needs until you're eligible for Medicare, and you're still 15 years away from Medicare eligibility, if in the most typical case, so what? So what? So you don't have to necessarily make those decisions now, but things may change by then. But what are you going to do with your Medicare decisions as well, and also, do you have a plan in place to cover long term care spending shocks? Those would be the broad main considerations to be thinking about. Is that it that's the what else well, there's the tax planning, being efficient with your assets to get the most after tax spending power. But yeah, yes, that's, that's the the financial plan that you want to build. Now, of course, easier said than done, but certainly it's going to take time and effort, whether you do want to ultimately do this as a do it yourself, individual, or whether you would like to work with a financial advisor. For that, either option is potentially a consideration there. Sure.

Alex Murguia 19:36

All right, we'll go to the next

Wade Pfau 19:38

one. What do you have any more insights for? I get no, I, you

Alex Murguia 19:42

know, I gave you my my preamble to your answer, and you're right. I mean, you have all those things. The only thing specifically I would actually want to know from a financial planning standpoint is this whole retirement he's a CFP. Is he just a w2 or is there some. Equity involved, and how does just because we do a lot with business owners at McLean, and you know, transitioning from your business to an investment portfolio and making sure that transition of

that sale and all that takes place efficiently is paramount. I've seen it go sideways many times, and so I have this sensitivity to fix this first, because, from a business standpoint, now I'm taking the question and generalizing it to business owners. Listen, you spent your whole life building this, you know, it represents a huge portion of your net worth, and it also represents, it's the, you know, it's evidence of what you did during your career, to a large extent, and you don't want to blow that up in over the last five months because of an ill prepared Transition Plan, you know, or you don't, you don't want to, like, not maximize the value that was built because of some, you know, lazy thinking at the very end. And so to me, that's a huge sensitivity that that I'm always like blood in the water on in terms of addressing.

Wade Pfau 21:07

Well, that might be a good segue into the question from Scott that does involve a business.

21:12

Okay? That one,

Wade Pfau 21:16

yeah, go ahead. Okay, okay. So Scott writes he's 58, years old. He just sold his business and retired. He does have \$2.5 million of investment assets, half of which is in a 401 k and then half of which is in a taxable brokerage account. So two and a half million dollars. And then, plus from selling the business, he'll receive \$360,000 per year for the next 20 years. So until he's 78 years old, half of that amount will be taxed as ordinary income, and the other half, I don't know. I don't know if he meant non taxed or just taxed as long term gains. Help. Means a game plan. Alex,

Briana Corbin 22:02

Hey folks, quick mid episode, break Wade and Alex will be back in just a moment. But first, let's mark your calendars for something that you won't want to miss. On Wednesday, June 25 at 1pm eastern retirement researcher is hosting a free webinar. What's involved when working with an advisor? If you've ever asked yourself, Do I need an advisor? Or what does that even look like? Then this session is for you. You'll hear from McLean, asset management's very own Jason rascala and Brian bass, who will walk you through what the advisor relationship really entails, from picking the right fit to understanding the value that they can bring to your plan to save your seat head, to retire with style.com/podcast and that links also waiting for you in the show notes. Join us live on June 25 and get your answers to those advisor questions you've been meaning to ask. All right, let's get back to the show.

Alex Murguia 22:54

Yeah. Again. Just sold the business, I assume then it's too late in terms of preparation. I'm going to assume he was prepared properly, and so forth. I'd be first question is the 360 20 years, is there a cola on that? Is there some sort of cost adjustment on that? Simply because, you know, after certain number of years, that thing nominally, not nominally, but impactfully, really starts to decline in a major way. He's got Bucha, what are you talking about? There 2.5 million after that, in which he's going to draw assets from? From that 2.5 million, roughly 100 grand he could take from the port. I'm just throwing that out there. 80 100 grand. Another 8200 grand a year added to that, 360 No, that seems like a reasonable amount of money for a lot of folks. But again, I don't know what I have one part of the equation, but

Wade Pfau 24:02

not the other, right? We don't know the spending, and that's problematic. Yeah, that's besides that. How is the play? I mean, without knowing anything about the spending, yeah, I would be hopeful that 360,000 a year will cover their spending needs, so that they're not having to distribute from the portfolio. And now they've

Alex Murguia 24:21

got, it's a funny podcast, right? Because if the most common denominator of America is listening to this, that's a lot of money. That's a lot it's a lot of money. So I don't know, but if you know only people with net you know, the people of this podcast tend to have assets. I think a net worth of 3 million is probably par for the course, right? And so I get that sense just from the questions they have

Wade Pfau 24:45

a number of listeners that won't be anywhere near that level, but yeah, I

Alex Murguia 24:49

agree. I agree on you saying, like, you know, the median, if you will, and so, but to them, they'll be like, yeah, that's not a lot of money. I think my my parents would faint. It. If they had, you know, that kind of money. But again, I don't know what the, what the what the asset needs are,

Wade Pfau 25:09

yeah, yeah, and, but assuming that's enough to live off for the next 20 years, then yeah, it's really a matter of the the investment assets you kind of want to position to most effectively cover your spending after that business sale income ends, which would be around age 78 whether there's a conversation around Roth conversions as part of that, if you're getting about \$180,000 well, you have five years before you have to worry about Medicare surcharges. But your income, and assuming some of that taxable account is kicking off taxable income, you're probably getting close to the ballpark of where you might trigger a Medicare surcharge. And so you have five years to be doing some planning around that, whether it's doing some Roth conversions, paying the taxes on that to help also get down the taxable brokerage account to then potentially avoid having to face Irma surcharges in retirement, that would be something to look at. But again, we yeah, we can't get too specific on this, just because we have no idea what the spending goal looks like and whether there is capacity, maybe part of that \$360,000 could even be used to pay taxes on Roth conversions. But I would just something that jumped out was, once you get to age 63 your income might be in the ballpark of an Irma surcharge, and whether you can manage avoiding that, of course, that's still five years away, but it is something they have a heads up on.

Alex Murguia 26:47

Yeah, yeah. And maybe that's the way to deal with these questions, is just take one item and and play with that concept a little bit,

Wade Pfau 26:56

all right? And sorry, and that's assuming you're married filing jointly, which we don't know, even if you're married or not. So if you're single, then you're probably going to be hitting her Mr. Charges, without any ability to stop it.

Alex Murguia 27:10

All right, here's one that I, I think is a well, we'll do another one here. Your thoughts on using T bills for a quarter of a million dollars that will mature in a CD. I have 9000 in I think it's a month. I have 9000 a month. Net pension income, 3000 a month in another seven year, CD ladder, Social Security at age 67 is going to net. 1000 monthly, 400 in a Roth, 700 in pre tax. And he's eight, he's 60 years old. Again, are they married? Is he married? I don't know.

Wade Pfau 27:52

Well, the question here, so this one wasn't really asking us for a full financial plan. It's just there's a maturing CD with \$250,000 \$150,000 should he hold it in T bills? And this question's from Mark.

Alex Murguia 28:08

Oh, that's okay. I was in the mindset of all these other things, yeah. I

Wade Pfau 28:12

mean, because I want to talk about what, what the Social Security claiming strategy, the situation here that he's describing is, he's 60 years old, and he's, it sounds like he's planning to claim Social Security at 67 and so he's looking at his income, he's got a seven year period where he already will have \$12,000 a month coming in.

Alex Murguia 28:36

Yeah, of that, he already has 3000 you know, 36,000 a year coming in, in a CD ladder that will mature when he starts taking Social Security. So that's a little bit of a bridge kind of solution there. I don't have any issues with the 250,000 in CDs. The only thing I would say is, if you're I'm gonna make some simplifying assumptions here, in that your income with the 9000 net pension and the 3000 per month and a CD ladder, so roughly 12,000 a month, 100 you know, 140 150, a year. Let's just assume that that covers enough. Assume that covers your nut. My only issue, then, with a 250 in another CD is that that 250 that means your your overall investment allocation, the 400 in the Roth and the 700k in pre tax saving of 1.1 add to that the 250 let's say it brings you to 1.4 because there's money there that I'm just gonna round up. So you've got \$1.4 million Portfolio. At this point, I would start looking at the overall allocation, and does your overall allocation of which the CD lad of. Which the T bills, the quarter of a million proposing T bills is part of is that appropriate for you? You know it could be. And by appropriate, I mean temperamentally, simply because I am going to assume simple, simplifying assumption that you have the risk capacity. Capacity means I have the ability to take on risk, because my resources allow me as much to do so right? That's where the funded that's why the RESA and the funded ratio come in. And I already see echoes of the RESA because he's in a ladder. This guy's possibly time segmentation. If you're not, then that would change my answer as well. So I'm gonna assume you've taken the RESA, you've come out time segmentation. If you came out total return, I would have different questions. But I'm gonna assume it's time segmentation. You've taken the RESA. I'm gonna assume your risk capacity is, is okay with all of this, because I haven't, you know, you haven't you know, you haven't taken a funded ratio. I don't know if you have, etc, etc. So I'm going to assume your funded ratio is like 115 to 125% funded. That means assets divided by your liabilities. You put them in an equation, and it comes out to 120 so you're over funding. So I'm going to assume that, assuming that, then it really comes down to my thoughts are, is that in line with your quote, unquote, risk temperament? And it's not just simply, just a risk tolerance questionnaire. And look at me, I think those are kind of a joke. I mean it more in the sense of, does the overall allocation of 1.4 to you know, what is that? Wade,

that's like 8515 equities to fixed income, assuming the Roth and the pre tax is all in equities. So that's the other part. I don't know how much of the Roth and pre tax are in fixed income versus equities. I would want to know that because you're going to be in very safe instruments that are, you know, bond like cash equivalent instruments for that quarter of a million. In addition to that, I don't know if you have any emergency funds or just cash equivalents for, like, you know, spending money, if you will, but I would be, my answer would be, I would look at the overall investment allocation and how that part plays a role into all of that, because you seem to have income streams already set up. Wade,

Wade Pfau 32:25

right? Yeah, we don't know anything about asset allocation, but even if, it's probably not the case, but even if it was 100% stocks in the Roth and the pre tax, the IRA or 401, K, you still, because you've got a lot in CDs already, to be generating \$3,000 a month, you don't have all that aggressive of an asset allocation, as it is. And then, with asset location principles, you generally don't want to have bonds in your taxable brokerage account, that if you have the capacity to do so, you're better off having that more in the the IRA would be the first, another good point. That's another good point. So if, if there's capacity to play around with this, potentially having some sort of bond allocation inside the IRA, but then that lets you use this, what we're talking about for key builds here, these additional funds, could that go in a stock index fund, in a tax efficient stock index fund as part of that taxable brokerage account? But so it's also not clear if it's just a matter of, are you trying to the question? Never talks about the idea of a social security delay bridge. But is that the question? Because \$250,000 would be enough within the interest on that, not spending on that principle, but to cover

Alex Murguia 33:44

I'm assuming, I'm assuming that's what that 3000 per month and the seven year CD ladder is, because if he's 60 right now, that means that this ladder matures in 60s, when he's 67 and that happens to be the date when he's planning on claiming Social Security. So I'm just making that assumption, but that's that's just my that's just an inference, not a factual statement.

Wade Pfau 34:08

And this does sound like a scenario where Mark probably spent a significant portion of his career outside of Social Security, and that's why he does have a pretty healthy pension, but also \$1,000 a month is the Social Security benefit is on the low side, probably implying he didn't have that many years.

Alex Murguia 34:25

It could have been a government employee. Yeah. But as you can see here, the point of what we're doing is not necessarily, you know, picking on Mark positive or negatively. It's more when, when we receive questions. These are the things that go in our go through our heads, and that's why it becomes difficult to really answer these questions in any manner, because there are a lot of loose ends of potentialities. And this is why, this is what a financial plan resolves. Is this ability to really operate. Visualize all these variables that sometimes in your head, you think you've thought through but until you've really thought through them, you haven't. It's that kind of effect where you actually write down a thought, as opposed to just, you know, going 80% through a thought, and then, finishing that thought by just saying, et cetera, et cetera, and moving on to the next one. It's actually running through the finish line on these kind of things. But yeah, it's, I think the overarching theme for Mark is I would focus on before my thoughts on

the T bills for a quarter of a million, I need to see what the overall asset allocation is and how that plays a role, and make sure it's appropriate relative to everything that he's set up and relative to the milestones that he's going to be facing in his life in the upcoming years. That's the best answer I could give,

Wade Pfau 35:56

yeah, yeah. And also be thinking about that the asset well, not asset allocation, and also the asset location, and about whether you might be able to reposition some things to have if you do want more bonds, having them more in the IRA, and being able to put stocks, some stocks, in the taxable brokerage account to benefit more from the long term capital gains preferential treatment.

Alex Murguia 36:21

Yeah. And now he's, he's setting up two. He's got already one CD ladder seven years out, which is quite out there. And now he's thinking about doing another, Oh, yeah. Now he's thinking about just getting T bills themselves. I'm curious if this person is time segmentation. Maybe he's, there's a little bit of income protection there no and so I'm curious for him to do the RESA and see where he comes out in because there could be some amplification of strategies that may be more efficient for him. But that's, that's my secondary, uh, boondoggle that I would go down if I actually spoke to mark.

Wade Pfau 37:01

All right, so we've got one more question along these lines.

Alex Murguia 37:06

All right, it's looking to retire in eight months, and spouse in 28 as in 128 pension doesn't kick in until 2032 we have 150,000 in cash with both Roth and 401 k I don't know how much the Roth or 401 k's are. Doesn't say strategies or combo to consider to bridge the retirement gap. Do we have enough information that also

Wade Pfau 37:38

there's a pension that will begin in seven years. Right now they're both working, but the first person is looking to retire in eight months. The second person is looking to retire in three years, and then there would still be another four year window where they're retired. Both retired before the pension kicks in, they have \$150,000 in cash with both Roth and 401. K, it's, I don't know if that means I read that as an addition to, even in addition to, or that's what the the asset allocation

Alex Murguia 38:21

cash. Why would he have a Roth and 401, K in cash? 150,000 both of them, and as a combined, or individually, each has 150

Wade Pfau 38:32

I think that's combined. But, yeah, okay, we gotta decide how we're gonna answer the question. So I would say they've got \$150,000 in cash, and then they do also have a Roth and a 401, K, okay, fair, although we don't know they don't know anything about what those we don't even know how old they are. No, we don't so, so that's probably for a pension to kick in. They're in their late 50s right now, if the pension kicked in at 60, when they're 65 and seven years, say by

Alex Murguia 38:59

2032 they're 67

Wade Pfau 39:02

Yeah. Okay, so strategies or combos to consider to bridge the retirement gap. Well, they're they're working. And again, we got to know the funded ratio too. To know whether they have a sustainable plan and strategies. We got to know their resa, and we need to know the RESA, but yeah, we know very little about the assets or the liabilities, like we don't even we want to bridge a retirement gap. We don't even know what the pension will be, but the question is just, I've got a seven year gap before my pension begins. Maybe the idea is the pension will cover much of their needs after it begins in seven years. But how do we cover for those seven years?

Alex Murguia 39:45

I have to think though, when someone's writing these questions down, they directionally know these kind of things. But again, treat, treat our treat our responses as kind of like these are things we need to operationalize and quantify. You. And put into a plan so we can come up with a strategy that complements, you know, all these things we're talking about, and right now there's just a poverty of those ideas.

Wade Pfau 40:13

Yeah, we can. So let's just say we've got \$150,000 to work with to help make sure we can make it for the next seven years, with one person retiring in about a year and the other one retiring in about three years,

Alex Murguia 40:26

I would say, become best friends with Chris and mark in the above

Wade Pfau 40:34

but right, \$150,000 is not gonna generate and well, compared to some of these other questions, where we're talking about is \$360,000 enough for annual enough for annual spending. When we're talking about spreading out \$150,000 over six or seven years, that's not a big annual spending number. So potentially, considering opera, if you're underfunded, that's we don't know, but if you are part time work, maybe not dropping entirely out of the workforce, building some sort of bond ladder, if, if that's so desired, to get that \$150,000 converted into reliable income to help get you to 2032, but then also, as needed, supplement that with part time work in retirement.

Alex Murguia 41:22

Okay, so we're going with the assumption that this is a person of modest means, and 150,000 is effectively in their retirement accounts. Are in their retirement accounts, and they have a pension in 2032 maybe that pensions is something between 50 to 80,000 a year kind of thing. It's a tough one. I would really if they're if they're resa, you know, the RESA says income protection. This is where I would okay going back to work and the like. But they also have to fund themselves for a long period of time, and I don't know how much pure market investing is going to help with that regard. If they can stand the volatility, if they can get past the fragile decade is it's a it's something that is at risk, and they only get one shot at this. So if they took this, if they took the RESA and they came out, like time segmentation, income protection, I

would really be looking at, like, uh, an Fia, kind of a fixed index annuity, or something like that, that with living benefits that can provide some sort of muted upside, but at least, like, a nice income stream for a very long time, and they don't have to look at that, you know, ever again i, i For me, that's, I kind of hope that's where they're at, because that would provide, I think, a better strategy than if, let's say, it ended up being total return, and they just want to go for broke. I don't think they have enough to take that kind of risk. The risk capacity issue comes up in my in my view. Wait,

Wade Pfau 43:01

yeah, especially if that \$150,000 is the entire like investment balance, you got to really think about preserving that to some extent, for contingencies in retirement.

Alex Murguia 43:13

Yeah, to me, longevity and liquidity issues is paramount all of a sudden for this person assuming a modest pension. And you're right Wade sometimes just gotta go back to work. It is what it is.

Wade Pfau 43:31

And as we're trying to be comprehensive too, if, if you own a home when you turn 62 the reverse mortgage could be something, to think about, too personal. Way to bridge the gap 100%

Alex Murguia 43:45

all right, with all of these, why don't we end it with the granddaddy the mall? And I think you get a sense of the thinking that goes behind this, and how it's more than just, hey, this is my elevator pitch of a situation. Give me an answer before I get to the first floor. Just doesn't work that way. It works that way by creating a full financial plan and the like. And these are some questions that advisors may not be asking you these things, but they're thinking about them if you're ever like discussing something with them in any capacity. And so with that, the question that we got here is, is hiring a financial advisor worth it?

Wade Pfau 44:29

Yeah. And actually the well, the starting point, the RESA does touch upon that idea of, do you have retirement, self efficacy? Are you comfortable, and do you enjoy spending the time doing this, planning on your own or not? And then also, just, do you perceive an advisor being helpful in that process? Now, certainly we can, there's plenty of research out there, although admittedly it does tend to come from the financial services world. Yeah, but that shows the value of a financial planner in helping to improve outcomes. We have like David Blanchard has the idea of gamma, showing how the when you look at the overall impact of making good financial decisions, if an advisor helps facilitate that, he had estimates in the ballpark of 2.3% returns per additional returns per year to your investments would be the equivalent impact. So as long as advisory fees were less than that, you're getting net positive value out of it. But, but, yeah, that's all kind of the research side. I think we can just answer this question where, basically, in terms of what we've been discussing thus far, some people may not need to work with an advisor. They're fine on their own. But other people, though, may need help, and with the way the questions came in today, being able to sit down with that advisor, and having that advisor be able to ask you these things, get the answers, putting that into their software, building the plan around that, strategically looking at all these issues we've talked about between understanding

your liabilities and retirement, your funded ratio like is your plan on track to working long term care planning, health insurance, housing and retirement, tax planning for Retirement, your social security decision issues related to estate and incapacity planning, just getting your finances organized and under control. Yeah, there can absolutely be a lot of value in working with an advisor. And if that is something you want to learn more about, that's we have this webinar coming up. So June 25 you can click on the link in the show notes, it's going to be Brian bass and Jason rizkalla from McLean asset management, and Alex Murguia will be the MC for the event. But it's at 1pm Eastern Time, and you can go the webinar is called I lost the page. Oh, what's involved when working with an advisor to really be able to illustrate more clearly what we're saying here, all these different steps that go into building a financial plan, all the questions you need to be able to answer, whether you ultimately want to do that on your own or work with someone, you'll just get a really good groundwork for what you need to be considering when you build your plan for retirement. Alex,

Alex Murguia 47:23

no, I think you've said it all. I think 100% I mean, one of the reasons we're doing this workshop is we received all these questions, and we were like, I think we just need to just level set and show folks, this is what it takes. This is what goes into a financial plan. And if you wanted to create one, this is how you know, this is these are the steps you would need to go about doing it. And who better than two actual advisors going through, you know, and talking, talking, behind the scenes and talking, these are the components of a financial plan. This is where, this is their importance. This is why they're important. And if you get this wrong. This is potentially what could happen. And really it goes with our theme of being an informed consumer, whether you know the question is, hiring a financial advisor, worth it, those kind of things. I'm surprised we get those questions simply because we are financial advisors. We chose to do this professionally. And why would we choose to do something professionally, if it was smoke and mirrors, you know? I mean, there's that kind of thing. It's one of the largest industries in the country, you know, some of the so there is some value, you know, at the very least. But I understand too. I'm I don't want to, I really don't care to change anyone's mind one way or the other. What we do find is, what is your self efficacy with regards to retirement and complaining? Is it good? Is it not good? Number one, give yourself that honest answer. The other piece is, do you think an advisor is cost effective? Not can an advisor add value? Can it add value beyond what the expense be? Beyond its expense? Because then ultimately, it's a net positive, if you think so, then there you have it. If you don't think so, then that's fine. At least know what it takes to put everything together, you know? And and in that sense, yeah, I you know all when you do all that math to me, hand over my heart, a financial advisor is more than worth it. But like Wade said, That's and the answer you would expect from us. So caveat,

Wade Pfau 49:35

and also that we are specifically talking about advisors that do planning. There are many financial professionals, yes, yes, managing investment portfolios and buying dozens of mutual funds. Whether they're worth it is a different question. But we're talking about exactly

Alex Murguia 49:52

this is not an investment centric financial advice. This is a financial planning centric um. A financial advisor. And frankly, it's it could be a financial planning engagement only. It could be a financial planning engagement with asset management as well. It could be just asset management. So there's different dynamics. And so we discussed that as well, just so you sort

of choose your own adventure, if you will. And that's it for today. Everyone. Thank you for listening to retire with style. Wade any parting thoughts other than you want to repeat one more time when the when the event

Wade Pfau 50:31

is, yeah, that event, it's with Brian bass and Jason Rizkallah from McLean Asset Management and and they'll be talking about like, both one time planning as well as like ongoing management of assets. Alongside planning, it's called what's involved when working with a financial advisor. It's June 25 at 1pm Eastern Time, and you can register for the event in the show notes.

Alex Murguia 50:55

All right, everyone. Thank you. Yep,

Wade Pfau 50:57

catch you next time on retire with style.

Briana Corbin 51:00

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