

# Episode 186: How to Build a Retirement that Lasts (and Saves on Taxes)

Tue, Jul 08, 2025 4:18PM • 32:20

## SUMMARY KEYWORDS

Retirement planning, financial personality, tax strategies, Roth conversions, Social Security, Medicare, charitable contributions, qualified charitable distributions, income annuities, life insurance, sequence of returns risk, longevity risk, estate planning, taxable accounts, investment portfolio.

## SPEAKERS

Alex Murguia, Briana Corbin, Wade Pfau

### **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](https://risaprofile.com/style), and sign up to take the industry's first financial personality tool for retirement planning.

### **Briana Corbin** 00:38

I think your plan set, not so fast. Wade and Alex dig into what happens when things go really right, big portfolios, big rmds and even bigger tax headaches. But fortunately, they've got a few solutions.

### **Alex Murguia** 00:56

Hey everybody, welcome to retire with style. I'm Alex, and I'm here with my trusted companion, Mr. Wade Pfau, how are you? Wade,

### **Wade Pfau** 01:06

doing great. Hi everyone. Welcome back to the show.

### **Alex Murguia** 01:10

Yes. Welcome back. You met me

01:12

or everyone else? Everyone,

### **Alex Murguia** 01:16

all right, I can never be sure. You know, every Friday I get an email that says, hey, let's record next week when I don't get those emails, I don't know, maybe I did something wrong, right? Wade

**Wade Pfau 01:25**

could be he could be in the doghouse,

**Alex Murguia 01:29**

the dread prior pirate, Roberts. The dreaded pirate. Roberts, I think what was I going to say? So we're coming off of our YouTube Live session. What did you think? Way,

**Wade Pfau 01:41**

great questions. Yes, good turnout. We had. We've got plenty of questions to keep us going for a few episodes. So what

**Alex Murguia 01:47**

do you think about the answers? More important answers, great questions. The answers were

**Wade Pfau 01:51**

okay, or they were they were on on the top of the level, although that was a day you weren't feeling so good. I hope you've recovered since then, and I was the answering. So I have to say the answers were, I think

**Alex Murguia 02:04**

you would have probably been doing most of the answering. Anyways, if I'm being completely honest, I'm the color. Man, you're the you're the play by play. No, I was out of it. Man, I think I slept. I was I just got home from Miami, and that weekend, I think, I slept three four hours over three days. It was crazy. Just big high school reunion. I know how it is. Yeah.

**Wade Pfau 02:32**

What would that be for you? The 30/35

**Alex Murguia 02:35**

or so? 35th 35th Wow, wow. So I could, I could have done two, like, trips through high school, yeah, you know, from zero to 18th to 12th grade, right? Yeah, my goodness,

**Wade Pfau 02:49**

nothing like that to make you feel out of touch. Yeah, it's all

**Alex Murguia 02:54**

right in a funny sort of way. I'm sure. When we were kids like, you know, my parents were like, what my age is right now. And when you saw pictures, you're like, Man, those people are old. It's funny, right? But when you're there, you think, oh, yeah, I'm still, like, hitting my prime, you know, kind of thing, yeah, yeah. And I'm sure we saw pictures of the reunion and everything, and we look at it, we all look like everyone's parents.

**Wade Pfau 03:18**

And old days people when they were 30, they look like they were 60 today. So that I think less smoking is a big factor in that. Well,

**Alex Murguia 03:27**

these are a bunch of Cuban guys. So there's some, there's some cigars that they've been partaking in. But your points, well, taken, how's that? But going back to the questions, yeah, it was. It was a great YouTube Live. Go to YouTube and check it out. We have it recorded so you can go there and get your questions there. But something we did is we got so many questions we knew we weren't gonna be able, we knew we wouldn't be able to answer them all on the show, so we just still persisted and asked people to send us their questions so we could answer them in follow up episodes. So our next arc is really going through these questions, since it's they're top of mind to folks. The idea is that if a couple of people have questions like this that are top of mind, then so do our listeners. So we'll be hitting these questions up. And again, it's a great way to reach out, and, you know, be part of the community if, if you're listening to this and you have any questions, send them in, because we're gonna start recording the Q and A's now, and they're gonna be lots of episodes on this. And so if you send a question in now, we could potentially answer that towards the back half of this Q A. So feel free to keep on sending us questions. We're in our Q A mode right now. Right Way. That's

**Wade Pfau** 04:40

right. That's right. And, and you mentioned going to the YouTube page to see the YouTube Live, but actually it would have been the previous week's episode on the podcast as well.

**Alex Murguia** 04:49

Oh, there you go. There you go. So go to the Spotify, where you can listen to the podcast, or go to YouTube if you want to see Wade's wonderful face. Yeah. Wait, I didn't realize how good looking you were ever since I ever but the YouTube is really, like, made a difference for me, really, but I watched that on HD. Amazing, amazing. All right, what's your morning routine?

**Wade Pfau** 05:17

Try to shave. That's about it. There you go. There you go. No exfoliation. No, no. You do that before going to bed. You did that before going to bed. In the winter, I need some lotion, or my skin gets I'm just kidding.

05:32

You need to humor me

05:33

in the summer, nothing.

05:36

So in the winter, in the winter, what was it?

**Wade Pfau** 05:38

Just like face lotion, otherwise skin dries out.

**Alex Murguia** 05:46

You heard it here, folks, nothing flakes some weed. All right, man, let's get to it then

**Wade Pfau** 05:55

sure some of the listeners are starting to think enough of the small talk. Let's No no no, no, dive in.

**Alex Murguia 06:01**

It became big talk after you, so I'm talking about your skin routine. I think these are the questions people want to know. But all right, let's get to the first one. All right. Love, love the podcast. We'll see if they've listened to this intro. Been listening since the beginning, although I am a few behind right now. How about an episode opposite of what you normally cover? What the heck? What would that be? He retired. Normally, your show cover strategy is used to avoid this tax or that. What do you do when you've been on the fortunate side of life? Let's say you started with nothing but work hard and a well paying job. Kept the nose to the grindstone and just kept investing. You didn't retire early, but kept working not fire. Instead, you didn't retire. Now there's no chance to do Roth conversions. I think you might have continued to earn income at Mac. We're gonna have to edit this. We did this question. No, we didn't do this one.

**Wade Pfau 07:07**

You read it. It was creative, but we didn't do it on the here.

**Alex Murguia 07:12**

Are you sure? Yeah, pretty sure. All right, all right. Then the hell with the edit. We'll just keep on going. I could there was a very similar time

**Wade Pfau 07:22**

that came in a dance of the YouTube Live. And so we had reviewed those before, going,

**Alex Murguia 07:26**

okay, all right, my back. All right. So nothing happening so far, gents, although this person has done very well for themselves, flexing a little bit, all good.

**Wade Pfau 07:37**

Retire early. Their financial independence. Don't retire early.

**Alex Murguia 07:40**

Okay, so now there is no chance to do Roth conversions. I think you might have continued to earn income at max rates until you were 70. Therefore, therefore, with the past few years of market gains, you have more money than you ever dreamed possible. There is no avoiding taxes. There's no avoiding that 85% tax on Social Security, you will pay a lot for Medicare because of the Irma tax. Are there strategies left to use just pay taxes and be happy about it, which is fine, by the way, despite the success, you still worry about having enough. But also, but, but also, how when it is safe, to start giving money to heirs so that you can see them, enjoy it, or start gifting to charity. I know this has been covered anyway. Just a thought, okay,

**Wade Pfau 08:29**

yeah, so, well, part of with the idea of, like young tax strategies and things, I think there may be a lot of listeners who might relate to this kind of question, which is, I guess, the basic ideas are not necessarily overly concerned about running out of money. They've done pretty well. That wealth has been growing. They've achieved financial independence, but continued to work. And so they have that income coming in. That does reduce the possibility of potentially having Roth conversions, especially they mentioned this pretty good income if they're in the top tax brackets still at say, as they get closer to age 70, there may be a number of listeners in this situation. And

yeah, we can still talk about some ideas here at some point. So for those who are doing quite well, it means you've probably been at least doing backdoor Roth contributions. You got a nice Roth there. You may well, you have the choice of either, with a 401 K, going in the Roth direction, but you may have been taking advantage of the tax deductions, making full contributions to a 401 k. If you have self employment income, you may have had a solo 401 K to take full advantage of the employer contribution, and then you may have some surplus savings beyond that, and that's generally going in the taxable account. And so as you pass the financial independence threshold, and you continue to make full advantage of savings into tax deferred and you. Tax free accounts up to their limits, and then putting the remainder, continuing to put more into your taxable account. At some point, you might get to the stage where just the not that you're investing for dividends or anything, but a total return investment portfolio, is going to kick off quite a bit of income, just naturally. As part of there's a dividend yield and if it's thoughts the interest rate, if it's bonds, at some point, you might get to the level where you can comfortably live off the interest and dividends from your portfolio without having to sell any assets, or at least with, maybe with Social Security, plus just interest and dividends from the portfolio, you're meeting your full lifestyle. So then you're not necessarily worried about running out of money, because you don't have to sell assets to meet your expenses. What can you do in that kind of scenario? On the charitable side, if you do have charitable intent, we have talked about the qualified charitable distributions before. It's actually in the YouTube Live episode. I think it came up quite a bit too, where this year you can, if you're at least 70 and a half years old, it's not 73 or 75 like RMDs, it's still that 70 and a half. You can contribute up to \$108,000 directly from the IRA to a qualified charity, and keep that money out of your adjusted gross income, which is a much more powerful way to contribute to charity than having a below the line deduction. These days, it's hard to take advantage of a below the line deduction, so you can apply that against RMDs as well. And so if any money that ultimately would go to charity, you don't want to necessarily Roth convert beforehand, because you're probably going to be paying taxes on that. In the charity, that money can go to charity without any sort of tax implication. There's also really no need to be thinking about harvesting capital gains, because you're you're never going to have to sell assets to meet expenses, so you're never going to have to worry about triggering long term capital gains during your retirement. And there's a step up in basis at death for any beneficiaries beyond that. So no need to harvest gains, really, no need to be thinking about Roth conversions. I think we're going to have another question coming up later that had come in advance, about like, thinking about an annuity in a Roth IRA, and some of the themes we'll talk about with that one too, like you don't necessarily want other ordinary income if you're in this scenario I'm describing right now, because you're always going to have to deal with preferential income stacking. Of course,

**Alex Murguia 12:27**

that's a term that came up a lot during our YouTube live thing. I'm just going to guess preferential income stacking is not a commonly used word among our listeners, maybe just a little definition, because I think it's important with a lot of these questions. What that concept is?

**Wade Pfau 12:44**

Yeah, so your qualified dividends and long term capital gains. And in this scenario, you may not have long term capital gains because you're not selling assets, but all the qualified dividends being kicked off of your taxable account every year that is taxed at preferential rates. And there's a 0% bracket and then a 15% and then 20% but that 0% bracket, well, that income stacks on top of your ordinary income. So it's a situation where if I don't have any ordinary

income, I get it's for a couple right now, somewhere in the ballpark of \$120,000 of long term capital gains that'll be taxed at 0% as soon as I start adding ordinary income, I'll have to it's taxed as ordinary income, but then it's pushing my capital gains that that capacity ad hit 0% it's pushing a portion of that up into the 15% bracket. So it's like a double whammy. If I had ordinary income being taxed at 10% but that's also pushing capital gains from 0% to 15% I really have a 25% effective marginal tax rate there, and then a 27% and so that can be a downside of having other ordinary income sources. Of course, you can't help Social Security, but you might not really voluntarily want this is like the conversation around annuities and so forth. If you have those in your taxable brokerage account that's generating ordinary income, so you'll be taxed on that, plus you'll be taxed on the idea of pushing some of the equivalent amount of gains from 0% into 15% or at the more extreme level, the 3.8% surcharge could be applied to this idea, as well as the extra 5% tax as you go from the 15 to 20% preferential bracket. So that that does speak to in this kind of scenario, not necessarily one in a lot of other ordinary income being generated through your your taxable account, if you don't need the ordinary income again, coming from your IRA, thinking about qualified charitable distributions for that up to their limits, and then the question also got into like, gifting during your lifetime, so not necessarily just to charities, but potentially to your adult beneficiaries or your adult children. Something along those lines, a really powerful feature. In the tax code, especially if you are worried about estate taxes, is you have the annual gift exclusion limits in 2025 they're \$19,000 and that's from each person to each person. So if you have three kids, and if you're married filing jointly, a couple can give \$38,000 from 19,000 from each of the two people to each of those three kids. We're talking then about, you know, in this case, more than \$110,000 that you can gift, like as part of the your estate planning idea, or as part of that inheritance, those annual gifts, and that's excluded from estate tax considerations. So thinking about something like that, if you feel sufficiently funded as well. Now, if you are in a scenario where you worry Someday you may have to sell assets to meet expenses, long term capital gains and so forth, you could think about whether there's opportunities to gain harvest to help reduce the tax burden in the future when you have to sell assets for long term capital gains, but maybe not and gain harvest, for the uninitiated, is I, I voluntarily, it, sell appreciated assets and then immediately repurchase them in order to pay taxes on that long term capital gain, and then increase the cost basis for the the asset.

**Alex Murguia 16:27**

And you would do that voluntarily, because your current tax level for that particular year is is lower than what it could be in the

**Wade Pfau 16:35**

future. Yeah, if you're not being hit by Medicare surcharges or Social Security, you pretty much especially taking advantage of the 0% bracket, you might as well fill that up with gains potentially. And then maybe you want to look at filling up the 15% till you get to the net investment income tax. Or in wealthier scenarios, you might go to a higher level, the highest you pay right now on long term capital gains, would be the 23.8% which is the 20% rate plus the 3.8% Medicare, surfac,

**Alex Murguia 17:09**

all right, and I know we had some questions. I'm going to skip the next one. Maybe we deal with that in the next episode. There's a good question here that you alluded to. It could be a good way to put a bow to an episode and it's and we'll see how far you get along you get on with this one. In every married couple, oh boy, no, in every married couple, when one of the spouses will



die first the second might stick around for a long time. How can the retirement plan hedge the risk of a spouse's death? Here's a use case. Married couple. Husband is a main earner. Wife is three years younger, with little earnings. They have no pensions, sub million dollar in IRAs and 401 Ks, they're planning to take Social Security when he turns 70, which will cover a substantial portion of their needs budget. I assume that means essential expenses. Husband, Pia is \$4,000 Social Security benefits at 70 will be close to 5000 I assume that's a monthly and all that wife's benefit at age 67 will be 2000 for a total family income of almost 7000 a month. All right, when, whenever the first spouse dies, benefits will drop to 5000 a 28 and a half percent reduction, assuming that surviving spouse needs 6000 a month, they will face \$1,000 deficit at the same time, they will be facing a higher tax rate. I assume the right planning strategy will depend on the couple's resale profile. If the couple's resale style is protected income, and protected income means someone that values the commitment, values committing something that solves a lifelong problem. And contractual income, this desire for contractual income, to put the liability of their future needs from their balance sheet and to put it on somebody else's balance sheet, all right, and so let me read that statement again. If the couple's resale style is protected income, here's my thinking, If death happens late in life, a cue like could be very attractive. So explain what that is. If the death happens early term, life could work, but the couple would need insurance on each of the spouses, or a first death policy if the death happens somewhere on life expectancy. Neither the above might be cost effective. So the cover should purchase a culak on the wife at 85 with 100% first death continuation and some term insurance for each spouse. The age of 70 to 80, if one of the spouses happens to if one of the spouses happens to die somewhere in the five to 10 year period in the middle, they only have a few low incomes years before the Q lag kicks in. I'm not sure if this is cost effective or there are other alternatives to consider. If the couple style is total return of time segmentation. All they need to do is keep appropriate reserves in their diversified portfolio. If their style is risk crap, I am not sure what the options might be. What is a careful planner to do?

**Briana Corbin 20:36**

Okay, real talk. Markets don't always cooperate when you retire. That's why Wade Pfau is hosting a free webinar next week called four ways to manage sequence of returns risk. It's packed with smart, practical ways to help your money last so join us on July 15, from one to 2pm eastern by heading over to [retirewithstyle.com/podcast](https://retirewithstyle.com/podcast) to reserve your spot or check the show notes below. We'll see you there.

**Wade Pfau 21:06**

Okay, yeah, so there's a lot to unpack with this question, and you mentioned culak Just to first define the term. That's the qualified longevity annuity contract. It's available in IRAs. It has the extra tax benefit of while you're deferring income, not having to worry about paying on the RMD not having to take RMDs for that particular asset. Ideas, you might at any younger age, whether it's 50, 6070, get a qualified longevity annuity contract that may not begin paying income until I think the earliest is probably 75 but 7580 85 something like that, where the income annuity turns on the income at that point, and so it provides that late in life protection. And the payout rates can get quite high if you're deferring, especially to 80 or 85 because a lot of people are passing away by that point. So you get to get those mortality credits really pushed together for you, and while earning interest as well and in the meantime. So that's a tool for providing that late in life tail risk protection. What if I live an extremely long time? Well, if I buy a culak that starts income at 85 it's going to pay pretty well at those starting at that age, providing me that late in life protection at a lower cost, because I get to skip the payments before then, where I'm more likely

to live to receive those and therefore that makes them relatively more expensive. So that's the culak Now, now the just stepping back as well, because there's a lot in this question, right? The first just the theme of what the question was about, if one spouse dies earlier than you were planning for that can be a spending shot to the financial plan. Now, on the one hand, some of the expenses for the household will go down because it's less expensive for one person to live than it is for two people. But expenses won't drop in half by any means. There's still certain things that like you're living in the same house, all those expenses would pretty much stay the same. You still need a car, refrigerator, all that sort of thing. So it's just some expenses will go down after the death of the first spouse, but not necessarily a dramatic reduction in expenses, but also at the same time, you may lose some income sources, in particular, that spousal benefit from social security goes away. The larger benefit to the household becomes a survivor. Well, either if, if the person, if the worker, if that's the workers benefit, it continues as their retirement benefit, or if it's the lower income individual who survives. It becomes the survivor benefit for that individual. And then also the following year, you switch from married filing jointly to single filer status. And I mentioned how expenses don't necessarily drop in half, but a lot of the tax brackets, not all of them, but a lot of the tax brackets do drop in half, and so that can lead a single filer may end up paying more taxes than the married filing jointly in the case study I've looked at in retirement planning guidebook, where they had about \$2 million at the start of retirement. Looking at that kind of situation I was playing around with, well, what if one spouse did pass away earlier, the tax bill is going up by like \$9,000 in that case study, just as a single filer with the law. So there's that spousal benefit from Social Security, so less income, but still, they had \$9,000 more in taxes. And that's just one example, but it's a real idea. It's this idea of the widow's penalty, their surviving widow in a couple can be taxed at a much higher rate, so some expenses may decrease, but they also lose income sources, and taxes go up. And so that's a spending shock, potentially. Now how to think about that? Well, this is actually one of the main motivations to think about Roth conversions at younger ages. Is, in addition to just looking for opportunities where you're in have less income so you could potentially pay at lower tax rates, taking advantage of that married filing jointly status is a big benefit too. Let's do our ROP conversions to help reduce future RMDs, because if it's that single filer being hit by the same RMD as the couples hit by it's nice to have that RMD lowered if, especially if you're not needing to spend all that income anyway, and so you're just reinvesting it, but it's pushing you into a higher tax bracket along the way. And then so with this issue, the questions touching at looking at so if you're safety first and commitment oriented, if your income protection, the questions like discussing, how can I mix annuities with life insurance to potentially better hedge the longevity risks in the retirement plan, where life insurance gives you a much higher rate of return, so to speak, if you don't live very long, annuities give you a higher rate of return, so to speak, if you live a long time. And so I think the person asking this question was trying to balance, well, what if we think about using both life insurance and annuities, but then structured it in terms of, let's buy a term policy? Until, I think the question had said, through potentially age 75 or 80, and then by a culak for the Inc, so that would protect against early death giving that death benefit, and then to protect against a late death giving the culak. That's certainly a possibility. But you know, at these ages, term insurance can get quite expensive as well. And, yeah, in the world of like thinking about retirement income planning with life insurance and annuities, one of the strategies that gets discussed is called the covered asset strategy, and that's where you think about permanent life insurance and and the idea is that it backs the ability to purchase a single, single life income annuity. So taking another step back, if you think about joint lifetime annuities for the joint lives of two individuals, or if you think about, like adding cash refund provisions on annuities and that sort of thing, that's really just a form of life insurance,



you get a lower payout rate from the annuity because you're wanting to provide that protection, that if one person doesn't live as long, the other person's going to get more financial benefit from that contract, whether it is because it's a joint life payment, or because they're going to get a cash refund. So a single life, life only, income annuity, will generally have a much higher payout rate than any sort of joint life or cash refund, that sort of thing. But it's scary to buy a single life, life on the annuity, because then if you don't live very long, you don't get any anything back out of the contract. You You definitely wouldn't have gotten your money's worth out of the contract. But that's where this discovered asset strategy is. I get a permanent life insurance policy, and then the death benefit really backs my ability to buy a single life annuity. If I say, had a \$500,000 death benefit, and then I put \$500,000 in into a life only, single life income annuity, if I live a long time, I get a lot more money out of that annuity that I still get, that my beneficiary will get the \$500,000 out of the life insurance. The implied rate of return on that would be less, but overall, it's hedged my longevity risk. If I end up not living so long, then the death benefit replaces that asset to the household and the surviving spouse, if they so desired, could then use a portion of that to get their own life annuity. And so I haven't specifically tested this idea of trying to use a term policy for, say, the first half of retirement, but I'm thinking you're probably going to see more efficiency with this already established idea of the covered asset strategy, which is considering a permanent life insurance policy, which just means it's going to pay the death benefit, even if you live to 100 or beyond. And so it will make the premiums more expensive. But then a term policy, but already again, term's going to be pretty expensive if you're purchasing it at retirement to go on until, say, age 75 or 80. So looking at that, and then looking at the savings, then coming from the ability to get that single life, life only annuity with a higher payout rate, but having the life insurance backing that asset no matter how long you live, it's a way to help really calibrate your retirement spending to your life expectancy. So that would be at least something I would look at if, if you're thinking about what's the best sort of way to combine life insurance with annuities?

**Alex Murguia** 29:49

Okay, it's effectively, you're using the life insurance for the longevity needs and the annuities for the current essentials, kind of arranging deck chairs like that, which is. Nights,

**Wade Pfau** 30:03

you're hedging your life lifetime, because life insurance pays more if you don't live so long, the annuities pay more you live a long time, so that,

**Alex Murguia** 30:12

yeah, you're right, and don't forget, annuity is effectively like a life insurance policy, just in reverse, variance in case you live a long time. So,

**Wade Pfau** 30:24

yeah, it's insurance against living longer than expected. And life insurance is Insurance against not living as long as you were expecting or hoping for. All

**Alex Murguia** 30:34

right, wait, that concludes the first set of our Q and A's. You're ready for more the next episode?

**Wade Pfau** 30:41

Yeah, yeah, you're, you're sure we forgot the two questions. Told

**Alex Murguia 30:45**

you, I told you, these are meaty questions, sweet. All right.

**Wade Pfau 30:50**

They were Yeah, not all the questions are this meaty. But all

**Alex Murguia 30:53**

right, everyone, we'll catch you next week on retire with style, with more questions from our live audience. You

**Briana Corbin 31:04**

Alex 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