Episode 188: Are TIPS the Retirement Safety Net You've Been Missing?

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Retirement income, financial personality, inflation-protected bonds, TIPS, real yields, Social Security, inflation protection, bond ladders, asset location, tax efficiency, retirement planning, annuities, spending adjustments, cognitive decline, financial advisor.

SPEAKERS
Wade Pfau, Briana Corbin, Alex Murguia

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
tips aren't just for the wonks this week, Wade and Alex explain why inflation protected bonds might deserve a spot in your retirement and how to make sure your spouse isn't left scratching their head when it comes to the plan.

Alex Murguia 00:53
Hi everyone. I'm Alex and welcome to retire with Style. I'm here with my trusted co host, Wade Pfau

Wade Pfau 01:01
that's right. Hello, everyone.

Alex Murguia 01:04
Which one is right, that you're trusted or your Wade,

Wade Pfau 01:08
that you are here with me?

Alex Murguia 01:12
Yes, yes. Well, unless it's a CGI on uh, on our on our podcast,

Wade Pfau 01:19
AI generated. Wade,

Alex Murguia 01:21
yes, yes. And we're continuing our series on Q and A that started from our YouTube Live Q and A show. And again, please refer to YouTube to see the live version, just to check it out. And we'll be reposting these podcasts on YouTube as well. If you want to see what Wade and I look like me, not so much Wade, I check him out. But let's

Wade Pfau 01:49
get the full experience with the audio only. And most of our you

Alex Murguia 01:53
won't get the full on weight effect, a sight to behold. And so again, we're continuing with our Q and A's when we we have a couple of questions here that are clustered around tips, Treasury, inflation protection, securities, and so we'll touch upon that right now. You want to give a little, maybe, uh, preamble on on tips and what they are for the for some of our audience members,

Wade Pfau 02:24
well, it all started in 1997 Wow. Federal government, no tips are in the beginning. Actually, they only go back to 1997 funny story at McLean. We looked at them from the very start, but we were waiting until the the yields had matured enough, you know? I mean, so there was a nice sort of curve going up. Well, when they first came out, they were had 4% real yields, which, if I could guarantee a 4% real yield for the next 30 years, I'd be living the

Alex Murguia 02:55
I remember, yeah, there was they started before the.com crash, and, you know, they had to raise rates. And so rates were quite high, and it was like, My goodness of the next 10 years. I think tips were like the place to be at,

Wade Pfau 03:09
oh, yeah, especially if you had

Alex Murguia 03:12
an after games. Yeah, it was crazy. But I digress. Then

Wade Pfau 03:16
tip seals. They get negative for a while, and now they're, they're actually pretty healthy again. We probably will never see 4% again. That was it was a new market. It really hadn't sorted out. Usually, economists talk about the real interest rate being around 2% what's

Alex Murguia 03:30
somebody like you using words like never,

Wade Pfau 03:35
right? I shouldn't say never, but the odds are very low. I would say but two, and they're around two and a half percent these days, which is, I think, pretty darn good. And we, I think we've talked about before, like, if you could lock in your retirement funding with that kind of return, life is good. You want to get it, yeah, take

Alex Murguia 03:52

risk. Well, the reality is, I don't think people realize when, whenever anyone does a financial plan and the financial plan doesn't work, you're not supposed to, then all of a sudden assume a higher rate of return, you know? Oh, but that means I got to do, I got to be a better investor. If 8% is not going to cut it, I got to get 10% that shouldn't be too hard. That's that leads you to ruin. And so, to some extent, risk, yes, well, you know what? I mean,

Wade Pfau 04:16
it could pay off for you. But

Alex Murguia 04:18
thank you. Thank you. Usually, you know, no one's going to put planning assumptions that really expand beyond 8% being this, like real, aggressive kind of assumption,

Wade Pfau 04:29
and that when you're talking 8% that's probably not a real return either. That would have the inflation,

Alex Murguia 04:33
yeah, exactly, exactly. It's not no, no real return. So imagine so when tips are at we're hovering like that, yeah, what a time to be alive, aren't we? Yeah,

Wade Pfau 04:46
good old days. But they're, they're treasury bonds. It's just they, instead of a traditional treasury, has an interest rate, and that's in nominal terms, if you have a 10 year treasury. Rate yielding four and a half percent, you'll get four and a half percent every year. You don't know what the purchasing power of that will be, because you don't know what future inflation will be. If inflation is high, you're going to be hurt. Your returns may not keep up with inflation. If inflation is low, you might get a nice, real return from that asset. Tips went in the other direction. They're quoted in terms of a real rate of return, that's lower. So we're talking about like two and a half percent, just for an example, two and a half percent for tips, maybe at a time, four and a half to 5% for treasuries. Well, the difference is the inflation built in inflation projection for the tips, because tips are going to be that two and a half percent plus whatever inflation is. So if inflation is high, tips give you a higher return. If inflation is low, tips will give you a lower return. But they're they're linking you, and you know in your real rate of return with respect to inflation, and a two and a half percent real rate of return, backed by the full faith and credit of the US government, or is usually that's worth, thought to be worth quite a bit that something valuable is part of a potential retirement portfolio. But that's tips. It's they're different denominations. You can get them at auctions directly from at with a treasury, direct account. Or you can also trade on the secondary markets. And you can't get the full every 30 years, because there's some years where they stopped having 30 year tips, and that led to some gaps. Those gaps, I think there's not a six year period where there's no maturing tips, but if you go to a website like tipsladder.com they can give you a full menu of what tips to purchase on the secondary market to build the kind of ladder you're wanting to build? And so that's what tips are. Wait

Alex Murguia 06:47
The last point on that is the tax status. How are they taxed? What types of accounts maybe are better for them than not just because I know our listeners are the type that would be thinking about this.

Wade Pfau 06:58
Yeah, so tips are tax inefficient. They're not not tax efficient. Well, any bonds are not really tax efficient because they're kicking off interest. It's taxes ordinary income. But tips also have the it's called the phantom income type problem, where the principal value is getting inflation adjusted for inflation as well, and then you'll get that inflation adjusted principal value at the maturity date, but you're taxed on it along the way. You're taxed on those inflation adjustments to the principal along the way, even though you don't get that until the maturity date. And so that makes them even less tax efficient than other treasury bonds, for instance. So usually when we talk about asset location principles, and it's always with the caveat, asset allocation comes first, but to the extent that you have flexibility, we generally talk about tips being an asset that you'd want to consider for your tax deferred retirement accounts, such as an IRA or 401, K,

Alex Murguia 08:00
okay, so now that we got the house clean, clean, cleaning out of the way here, or housekeeping, whatever, let's start with the questions. So since a spea single premium immediate annuity with a CPI based inflation adjustments are no longer being offered. Can I, sorry, hurry this? Can I being solidly in the Risa quadrant of safety first commitment orientation? So that's income protection. Get an inflation adjusted income stream with a ladder of tips combined with a non cola SPIA. How large does the tips the how large does the ladder of the tips need to be to provide the inflation adjustment to the spea income? Or is there any other way to get guaranteed inflation adjusted income? The only, only other comment, because we were talking about this one, and this was a pure, you're going to answer this with tips. Frame of reference, I would also throw out there that you don't need specifically an inflation adjusted speed. There's many that ramp up as well, and you can kind of, you know,

Wade Pfau 09:16
cost of living adjustment, yeah, sorry,

Alex Murguia 09:19
you know, like, I wouldn't be overly obsessed with just specifically an inflation adjusted because they can't, they can't, like de risk that the insurance company is very tough for them.

Wade Pfau 09:30
Well, they can for the first 30 years, but, yeah, they can't be on the 30 year time horizon. And yeah, the there were in the past, there have been CPI adjusted spears, but the last company that offered then left the market in January 2020, and we haven't had any since that point,

Alex Murguia 09:46
is that the day of liberation was that, the day of liberation

Wade Pfau 09:51
of having Inflation Protected income, something like that. Yeah, but yeah, if you want, you. Well, inflation protection, we'll set aside, because this could go many directions, but there's the whole portfolio of equities is expected to hedge inflation over the long term, but it's quite volatile. So moving beyond that, for this specific discussion, I want more contractually driven inflation protection. The first step in this conversation always has to just be make sure at least the high earner in the couple is delaying Social Security. Because So Social Security does give you CPI

adjustments. It's defined slightly differently than the normal consumer price index that gets quoted in the media, that the CPI u, that Social Security uses the CPI W, but over time, it trends pretty closely, on average, to the broader inflation in the economy. And so delaying Social Security is an important source of inflation adjusted protected income for the high earner in the couple to get that for that joint lifetime protection for the couple. Then if you want more inflation adjusted or inflation protection, contractual inflation protection. We're talking about tips or I bonds. But I bonds, if you're already at the stage of retirement, are going to be hard to really factor in so much. So we'll stick to dips. And in that regard, the idea that you're we're kind of back of the 4% rule logic, that every year, my spending needs going to grow with the overall inflation rate in the economy. There's been a lot of research pointing to the idea that the typical household, their spending doesn't increase with inflation throughout retirement. Now we've got David Blanche at spending smile, that the real spending tends to decrease throughout retirement, until potentially late in retirement, when long term care and other spending shocks might come into play. But for the most part, the typical household they're spending doesn't increase with inflation. So if you're blending Social Security and a non Cola, SPIA, it's possible you already have enough inflation protection from the Social Security to get you through retirement. Another way to get inflation protection without specifically purchasing something with inflation protection is to ladder spears in overtime. So maybe make a big spiah purchase at the start of retirement, five or 10 years later, if the purchasing power from my speed is getting lower than I want, I can make an additional SPIA purchase at that time of another non, non adjusted payment amount to increase the overall amount of income that I get then. So this question was specifically getting at, well, let's build a full tips ladder alongside the spea. So like I was saying, maybe the Social Security is already is already getting you far enough in that direction you could potentially do that, but it's still going to be blending. The tips are not going to give you the inflation protection from the missing annuity. It's going to give you the inflation protection for the assets in the tips. And so it's helping to blend how much my income is inflation adjusted, how much isn't but maybe in this kind of scenario, you don't need the full tips ladder providing those payments every year. Maybe I have the fixed via I have Social Security. And then, just as a hypothetical example, I buy a 10 year tips, and then 10 years later I get that inflation adjusted purchasing power. Well, I've got an interest along the way, but the major portion that would be I get the face value 10 years from now, inflation adjusted. That could be the source of inflation protection, and then I could decide what to do with that. That's where I could ladder in. I could use some of those funds to purchase another SPIA at that point in time. That's probably more how I would be thinking about trying to get inflation protection over time, it's delay Social Security, at least for the high earner. I've argued you don't really need the inflation protection from the annuity, both because spending doesn't always increase with inflation anyway, but because then you can just put less than the annuity to begin with, leaving more outside of the annuity, and then potentially not building a full tips ladder, but maybe using tips strategically for part of the assets to make sure you have a source of contractually protected inflation adjusted spending power for later in retirement.

Alex Murguia 14:14
That's a mouthful.

Wade Pfau 14:17
Yeah, and I could tell you were really enjoying the answer.

Alex Murguia 14:22

Yeah. Yes, yeah, no, no, I like. What can I say next? The next question is, is there a downside to tips? Former advisor at our custodian was against tips in general, but never did really tell us why. I may start off with this, and then you, you can go from there. I would say this, a lot of advisors, a lot, not everyone or anything like that. I. Yeah, they're hesitant to implement bond ladders because of the quote, unquote work. It takes a lot of times. You can do a bond ladder, but you have to do those on a one off basis. You can't do that with a lot of people that want it's not like, if you have like these model portfolios, there's technologies now that allow you to trade at scale. It's just tougher to do that with individual bond ladders, you know. And you know, if people that do that sometimes, they just outsource it to a separately managed account manager that will handle that particular aspect for you. But that comes out of cost. That thing trickles down to your client, etc, because they don't have the resources to do that internally themselves. They don't have their own quote, unquote trading desk. Again, I'm speaking in generality. So any advisors listening in, I'm, you know, I'm just putting out there. It's one of those things. So from an admin standpoint, they hate it. I'm thinking perhaps this advisor just didn't want to do it, simply because of that. Like, I don't see how credibly hand over your heart. You look at tips and tell yourself, Oh, this is complete. Bs, I'm never going to consider this for clients. I don't know how you get there, other than maybe he just didn't want to be hassled, or she didn't want to be hassled with the administrative upkeeping of that, which is sad, because, by the same token. What are you paying them for? If not to offload that. But that's my, my gut answer to that. Wade, what's the academic answer with regards to tips and the like,

Wade Pfau 16:32
Yeah, let's, well, there's the two parts of this question. Is there a downside to tips? So we'll address that. But first, let's, yeah. Let's talk more about like this whole idea of the custodian was against tips in general, but never explained why. I had this experience too. One of our members of our retirement researcher Academy was talking to the bond person at one of the very large custodian brokerage brokerage houses in the US, and that person was also anti tips, and wasn't clear exactly why, but just trying to work through what it was all a little bit of a game of telephone. He was this person was telling me what the person at the brokerage house was saying and so forth. But it really sounded like that person just didn't understand tips. Part of it get tips, the yields, the quoted yields are lower because they're real yields, and inflation gets added on top of that. So part of it would be like, Well, why would you want a bond with a two and a half percent interest rate when these other bonds have 5% interest rates, well, and that's apples and oranges, it's two and a half percent plus inflation. But it almost seemed like that person didn't even understand that detail. And then another nuance I got from those conversations was inflation was high a few years ago, and so like it seemed like this person's answer was, oh yeah. Tips are doing great a few years ago, but now they're a terrible investment because inflation's back down, so you're not yielding as much. And I think that's really the wrong way to think about it, too, especially retirees. You have a liability in retirement that grows with inflation. So you want an asset that is providing you that sort of inflation protection that you can meet an expense that's growing with inflation, and that's so getting into Is there a downside to tips? Well, strictly speaking, if inflation is low, they'll underperform relative to traditional treasuries. But is that a downside? Not necessarily. If I'm trying to fund a liability that's linked to inflation, I want something that's going to pay off when the inflation is high, because I'll have to spend more if inflation is high, and so tips will outperform treasuries. If inflation is higher than expected, they'll underperform treasuries. If inflation is lower than expected, well, if inflation is higher than expected, I could be in a lot of trouble if I don't have an inflation protected asset. If inflation is lower than expected, I don't necessarily need all that

much return on my assets, because the spending is not going up. So that's where tips will will hedge your inflation risk. They will underperform if inflation is incredibly low. So I guess that's a downside, but it's not really, I'd say that's not really a downside. If

Alex Murguia 19:13
it has a purpose within the portfolio, if it's functioning to provide that purpose when needed, you're fine. There's no magical thing that's going to always perform the best when markets are up and perform the best when markets are down. That's just not how it works.

Briana Corbin 19:30
Are you getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement, and now is when they need to earn their keep to make sure you're on the right track. Download retirement researchers, eight tips to becoming a retirement income investor by heading over to retirement researcher.com/eight tips again. Get your copy of retirement researchers, eight tips to becoming a retirement income investor. Year by going to retirement researcher.com/eight tips. That's the number eight tips.

Wade Pfau 20:09
Yeah. And the only other kind of, I'd say, a minor downside of tips. It's more we talk about like the government can print money to pay its debts, but that can trigger inflation. Well, tips, issuing tips from the government's perspective, and I think the tips market is still so small that this is not that big of issue, but you can't inflate your way out of paying your obligations on tips, because if I print money to pay my debts, well, then that triggers more inflation, then that triggers a higher payout to the owners of tips. So it's like borrowing in a foreign currency. You can't inflate your way out of that, because inflation tends to depreciate your currency. So it's kind of issuing a government issuing tips is kind of like a government borrowing funds in a foreign currency, in that they're not able to inflate their way out of the debt. And that could just know we're gonna get

Alex Murguia 21:00
20 more questions thanks to this last point that you just brought up. Thank you. Wait,

Wade Pfau 21:06
but, but I'd say that's if we're trying to really think of downsides, that's

Alex Murguia 21:09
we're bringing in a Fed economist next to break that down for us.

Wade Pfau 21:15
Yeah, the other and then I guess also some folks are worried that CPI doesn't properly measure real inflation in the economy, and so if you think that the measure of CPI tips are using to adjust their payments doesn't adequately reflect your inflation rate, you might also view that as a downside. All right.

Alex Murguia 21:38
There it is. Okay. Next question, Larry kolikov And one of the and one other economist, I think the other economist is Gordon Lightfoot, but I'm not 100% certain. Uh, Larry coligoff And one other economist recommends putting some bond funds into tips. Now, what do you think?

Wade Pfau 22:04
Okay, yeah, yeah. And so, well, Larry kotlikova is from at Boston University, and actually his colleague there, speed body, he's the the true tips guy like Steve Bodie has written books about how you shouldn't even be in the stock market until you have sufficient like reliable income, the funded ratio for your essential expenses is 100% you should only have tips until you get to that threshold. And then

Alex Murguia 22:30
I think it's on his blood type is T IPs, by the way,

Wade Pfau 22:34
just right, right and so. But I think economists in general see value of that asset with inflation adjustments. And at the time of recording, I mentioned the tip seals are in the ballpark of two and a half percent. It's really so like, what do we think about putting money into tips right now? It's that idea of the whole, if you can win the game now, do you want to keep playing it like if a two and a half percent real interest rate is going to be sufficient to make sure your retirement needs are met? You want to take some of the risk off the table and put it into tips. And if you do want to de risk, I think tips are a reasonable way to look at doing that sort of de risking. Now with tips funds instead of individual tips holdings, tips funds are going to track interest rate, the real interest rate over time. There's, well, there's a possibility tips yields could get even higher than two and a half percent in the future. I don't like forecasting much, but one thing I do feel a little bit more comfortable forecasting is that there does seem to be, there has to be some sort of natural ceiling on how high real interest rates can go. And I think two and a half percent is flirting with it. I mean, it could get to 3% could get, like we said, it started at 4% but that was really, I think, a historical anomaly. If real tips yields go up, you'll see capital losses on your tips funds. If real yields go down, you'll see capital gains on your tips funds. And that's where we are at two and a half percent as a starting point. I think tips funds, if you're more comfortable using funds instead of individual bonds, I think it's reasonable to be thinking about tips, funds and this kind of rate environment, because, again, it's you're only going to have losses if the real rate goes above two and a half percent or goes above the level it was when you made that purchase. The

Alex Murguia 24:33
only thing I would, I would say this, and I guess I feel I need to be like this wet blanket kind of guy, is, I don't, I don't like the question, is this the right time to be putting some funds into TIPS, because Johnny said this, or something like that. I hate that kind of thing. And Larry colicop Could be, he'd be very well intentioned the same way. Wait, you wouldn't want somebody just saying, I'm going to do. This because Wade said something in a

Wade Pfau 25:01
podcast, yeah. And it's not about market timing, it's yeah, the opportunity to lock in your

Alex Murguia 25:06
goals. Yeah, exactly. That's that's where I was ultimately going with this at the end of the day, then you gotta, like, worry about what Larry thinks to get out of tips or something like that. And that defeats the purpose. You shouldn't be thinking, is it the right time to get into something, or is it the right time to get out of something? That's the last thing. That's the wrong thinking. I mean, I don't, I can't say it any other way than to I can try to be nice about it, but I don't want to

miss the point that's the wrong way to think about it. At the end of the day, you should be looking at different asset classes and realizing, does this complement the other ones that are currently in the portfolio? And if so, how, and in what scenarios will it do so and how will it potentially interact with the other pieces? And the answers are good for all of those things, then, yeah, it should merit strong consideration, irregardless of the current market economics that you're in. Because if you're predicating what you get into or out of based on the current environment, then it you're just going to end up going in and out of things for the rest of your financial life, if that's the mindset. And I'm not saying you can't pull it off, but I will say it's a pain to have to pull it off, you know? And you're gonna need a lot of luck to do it successfully, over and over again. And so I just don't think that's the mindset to be having, you know, should I get into it now? It's, is this something that merits consideration within a portfolio? Absolutely. Larry likes it. Okay, great. Good on Larry. I don't care, you know, I mean, like, it's more just what are the characteristics within it, and then assess it, and then if it feels good, then you know what to do. I don't know. Wait, is it? Was

Wade Pfau 26:51
I too strong? I don't think it's a market timing kind of thing, I would know, but it kind of speaks for Larry.

Alex Murguia 26:58
People reading this, it kind of leads to other people hearing this, and I want to kind of maybe nip it at the bud, and maybe I'm being overly sensitive to it, you know, and guilty, if so, I don't think this particular person asking the question, but these types of questions can lead to tricky thinking. Let me say it like

Wade Pfau 27:16
that, yeah, yeah, but it's probably more I think he would say it's always a good time to get into TIPS, to get that inflation protection assets as part of your retirement plan. And if you're not in in the past, well now it does based on historical trends and what are reasonable real interest rates. Now it does look like a particularly attractive time. So if you've been delaying, what are you waiting for? Something more like that. And I don't think he would ever then say, okay, now's a good time to get out of tips. It's not like, No, I just go down at negative 1% we're suddenly supposed to sell

Alex Murguia 27:49
them. I'm trying to, like, maybe play a role that I don't need to, because I'm almost being overly sensitive to the listeners hearing it and then how they're interpreting it.

Wade Pfau 27:58
Yeah. Okay, yeah. And

Alex Murguia 28:02
you know, be this overly zealous sort of guide when maybe I don't need to to your point.

Wade Pfau 28:08
Yeah, market timing is bad. We'll start with that. And when I'm talking about this, it's really more from the perspective of it's not a market timing argument. It's a if you can lock in your goals. Maybe you want to do so, and because the real interest rate is so high right now, it makes it all

that more easier to lock in your goals. So there may be more people who could lock in their goals, especially as we're now flirting with market highs again, if you're funded for retirement and you want to take some of the risk off the table, that's what I'm thinking of. More is Is now a good time to buy tips? All right? Okay, well, then I think that covers our tips discussion, but I've got a question for you. There we go. Okay, so, Alex, what is the best way to communicate our retirement financial plan to a spouse who is less interested in the financial side of things, I am a do it yourself planner. By the way,

Alex Murguia 29:10
you yourself, or

Wade Pfau 29:14
are you doing? I know you're I'm reading the question. Oh,

Alex Murguia 29:17
wait, you got so into character. I thought you were. I thought you were, oh, yeah, should I be nominated for an Academy? Wow. I thought for a second there. I thought you were actually asking me a question for yourself. Method acting, yes, wow.

Wade Pfau 29:31
Stanislavski, perhaps, yeah, that's where I learned it. All right? Marlon Brando, and

Alex Murguia 29:36
there you go. There you go. I didn't even know who he used, Marlon Brando, but Okay, here we go. To me, this is a common dynamic where, like, one partner is a DIY and the other one would not rather deal with the spreadsheets. And I think it becomes a division of labor issue that starts off within the couple, and it just sort of continues, if you will. You. And we see this all the time with our clients. I mean, that doesn't mean that it stays there. I mean, the good news is that for us, you don't need your spouse to love finance. Ultimately, you just need them to feel sort of secure, emotionally secure, to feel that they're heard and that they're included in the plan. That's where it gets trouble. So, and I know that they may not want to be there to carry the weight of constructing the plan, but I'm going to, I'm going to talk about this answer within the constructs of an advisor, because that's the dynamic that I know. From that standpoint. You know, the advisor crunches the numbers. There's always somebody that's heavily involved with the assumptions and fooling around, with fooling around and, by the way, but, you know, tweaking it here or there, that kind of thing. But it's still imminently important to make sure that the other person is heard, that they feel secure in it, and the like, not just that, oh, there's a plan, and they're taking care of it. So how to go about doing this? I mean, we just had Daniel Crosby on, and I suggest everyone check out that episode. We had it for two episodes, but one of the episodes, he was talking about his book, Soul of well, and one of the things that I think, one of the major themes of his book, was leading with meaning, like giving meaning to money, right? And at the end of the day, ultimately, this is a means to an end, right? The portfolio isn't. So we can die with the statements in our hand and, you know, carrying it up in the air like we want some prize or something like that. The idea is that this is the means, you know, far end. And so what is that? The things that give us meaning? And so from that standpoint, I mean, don't start with IRAs. Don't start with the math. Lead with meaning, not math, right? It's emotional before it's financial. And so if you don't make that connection to begin with, you're never gonna have them involved in your plan, right? I wouldn't start with, oh, we have an IRA account. Oh, I've

looked at these withdrawal rates, I've read Wade's book, and I've graphed what withdrawal rate fits us the best and what accounts, and I looked at everything nine ways, from Sunday in or that kind of thing. It really is just asking them point blank. Have you ever asked that person point blank when you think of your retirement, what's your ideal day like? Simply put right lead with that. That's going to get that person to focus on the values that they have, what money brings to the table, such as the freedom that it brings, the flexibility that it provides to your life, the value you can provide to family, the purpose it could provide to the impact of what your wealth can do. You know the sort of his book was called Soul of wealth. These are the items that make up the soul of that. And so really, I would lead with meaning you want them to to get more involved. It's not a matter of showing them the plan and finding some specific line item that's going to be like enlightening. It really is more how does this translate to meaning? And so I would start with the meaning, so then you could show them how you got that right. Translate the plan. Now that you've got that meaning going, imagine translating the plan, not the numbers, but what this allows them to do right. Instead of saying, let's say, Oh, we have 1.2 million, and we do this 4% rule that's going to give us this much, and this is how much we're going to spend. That's very cold, right? Who's going to get excited about that? As opposed to, you've understood that person's meaning or something like that? Yeah, it's your spouse, right? You've understood what makes them tick. Probably have a good sense of it. You just haven't thought of it in this sort of realm. Well, the reality is, get them excited about the plan could be something as simple as, Hey, I've mapped out our plan that lets us travel twice a year. It helps you volunteer more, and it helps with the grandkids college, you know, and we don't have to worry about running out of money to do all of those things. To me, that's a plan that I think one of the things that Cosby said Wade right, wasn't looking your you know, if you talk, it's hard to ask somebody what they value, but look at their expenses. Look at their monthly statements. Oh, you value charity, but I look at your monthly statements. The only thing charitable, Taco Bell was the only thing charitable here, and that was for your stomach. You know, I mean, like you can see values based on, you know, where, where the money trail goes, so all of a sudden, if you can point to values based on where retirement expenses are coming from and what they're providing within retirement. Now you've translated the plan into what it provides, right? It's that I've mapped out a plan that lets us travel twice a year, volunteer more do more things with the grandkids, pay for their college, not even worry about running out of money. All of a sudden that person is going to be more interested, right? You've led with meaning. You've translated that plan into a story, and ultimately, you're not trying to persuade them to follow the plan. You're put has some humility. You. And see it from their point of view. And what are their concerns? You know, show empathy of how you're addressing that within the plan, right? What worries you about retirement? What makes you feel secure? I mean, when we do our resa, which is our retirement income style awareness, one of the question sets that we always make just a standard is the retirement concerns part. We want to know their fears of running out of money. We want to know their contingency fears, healthcare fears, you know the things like that. I understanding what that feels like for that person goes a long way towards then that person giving you the time to understand how your plan manifests all of these things. Wade, that's what I got.

Wade Pfau 35:48
Yeah, I think that was a good answer. Can you talk a little bit more too, though about there may be an element of concern about cognitive decline and or the death of the person who's been building the plan that can be a very dangerous time for that surviving spouse, even if you've done all the things you've said, they may still not really be ready to implement

Alex Murguia 36:10
absolutely well, you see, I was doing this from the perspective of that person. Had an advisor. I see where you're going with this. Well, they said, do it yourself. You're somewhere, you're right, you're right. Well, I mean, all the things apply previously. The only other issue is, I've seen $10 million states become $1 million estates, and, yes, that's first world problems and all of that I get. But if that person is really not connected to the plan. What's going to happen is there'll be some passing, you know, the person, the primary person, passes away. And for Yes, guilty on generalities, let's assume that's the husband, and let's assume the husband is older, and so let's assume the husband will not outlive the wife, spouse, the other spouse, and so ultimately, by that time, let's say the husband lives to let's say 85 and seven year difference. Just to say something, the wife is 7879 right? Let's assume there's kids, those kids you know, are gonna do things their way. I mean, there is obviously, hopefully for the best intentions of the mom and assuming that they're fine financially as well. I've seen it both ways. But the reality is now you went from having this plan that was engineered, figured out for the youngest spouse's survival, that that's effectively going to be blown up for for whatever the kids want, unless you you've been involved with that. And there's a lot of unknown variables that that brings to the table. There's a lot of pros, but there's a lot of cons and buyer beware. And I've seen, I've seen it land both ways, very sadly. So to some extent, what happens in in that regard, when there's no chance that you're going to be able to to sort of get this person interested, and maybe you're not good at that. The person asking this question may not be very good at it. Usually, the people that do your software is a highly analytical folks, you know, engineer types, and those folks don't necessarily have the best bedside manners, you know. And the reality is, they're not the most persuasive in that regard. If the numbers don't work, they just show numbers and they think, well, the numbers are the numbers. Of course, you should do this doesn't necessarily work, right? And so what happens sometimes is that they bring in people along the way to serve as a just in case, hit by the if I get hit by the bus, this person is aware with the plan, speak to them. You know, they're up to speed, and it's somebody that is mutually trusted, and you feel good passing it on. It could be a child, but I would do that while you're alive, not necessarily in a will or something like that. The other piece that we get quite often is we've had these these, these people that are self directed investors, and they become clients with an advisor, let's say, in the early 70s, not because they think that, Oh, we're better quote, unquote, investors than them. It's just they've they've become, they've accepted the fact that if something happens to me, I need to make sure that my wife is taken care of, and so while I still have my faculties with me, I want to be able to kind of, you know, vet this potential advisor. And so if I know for the next five years, they've done a good job with me, I feel comfortable being able to hand over the reins to this person, full on reins to this person, if something were to happen to me, and we get that actually quite often, which makes sense is that what you're going with, Wade,

Wade Pfau 39:45
yeah, that having that contingency plan of there's somebody you trust who could either step in, well, step in and play a bigger role at some point in the process, whether it's while you're still alive and healthy, or if it's more if. A tendency to at the point of not being able to do the planning. Yeah,

Alex Murguia 40:05
and the reality is, what you lose 1% of crystal intelligence once you turn 50, or something like that. And so look, this stuff gets harder and harder as you age, when you're in your late 80s. I would think the last thing you want to be thinking about is, hey, do I adjust this nominally for

inflation, what was the CPI last year? How do I integrate that into, you know, that's, that's a whole mess at that point when usually you're just worried about getting to the airport on time, you know, before a certain amount of that, yeah, that would be the most stressful thing I'd be wanting to face at a certain age, simply because I spent the whole lifetime of boring. At a certain point, I want to, like, hit the pause button on that.

Wade Pfau 40:44
And this could also just be another use case for an annuity, for the spouse to at least having reliable income that doesn't require a lot of decision making. It's that that it's going to show up in their bank account every month. And, yeah, simplify. They got the basics covered. At the very least, if nothing else, simplify

Alex Murguia 41:04
the plan. And at the very least, you know that if, if I, if you know, there's an entity purchase at this amount, this person is going to get X amount every year, in addition to Social Security, that's going to cover making it up now, 85% of all essential expenses. You know what? That's a great base. The portfolio should more than subsidize anything else that's needed, and it's going to be difficult to mess that up, you know, if my little Johnny Jr runs that portfolio, yeah, it could be as simple as that, right?

Wade Pfau 41:39
We got a full episode there, I don't think so. Yeah, no, there are more questions to come, but we'll we'll save those for next time. So please stay tuned to retire with style.

Alex Murguia 41:51
All right, thanks for listening and catch you next week.

Briana Corbin 41:55
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.