

# Episode 192- Beyond the 4% Rule

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## SUMMARY KEYWORDS

Retirement income, 4% rule, bond yields, sustainable spending, sequence risk, asset allocation, TIPS ladder, cash refund provision, tax implications, variable spending strategies, financial planning, retirement income personality, dynamic guardrails, risk management, investment portfolio.

## SPEAKERS

Speaker 1, Wade Pfau, Alex Murguia, Briana Corbin

### **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

Dynamic guardrails to buffer assets to whether you can really still trust the 4% rule. This week, Wade and Alex wrap up their Q and A series with a grab bag of retirement questions and just a touch of 90s nostalgia.

### **Alex Murguia** 00:55

Hey, everyone, welcome to retire with style. I'm Alex, and I'm here with my trusted companion. Dr Wade Pfau, hello. Dr Maria, yes, hello. How are you? I'm doing great, excellent. So what's new? What's new since our last recording,

### **Wade Pfau** 01:20

seems like everything and nothing all at once. Wow,

### **Alex Murguia** 01:23

that sounds very

### **Wade Pfau** 01:26

What's that book in Chicago since the last time we spoke? So again, I was in Chicago. It's a lovely city. Oh, really? What are you doing there, speaking at a conference?

### **Alex Murguia** 01:37

Are you flexing by telling me that?

### **Wade Pfau** 01:42

Yeah, now it's

**Alex Murguia** 01:44

good friends. Had the pleasure to grace your presence.

**Wade Pfau** 01:48

It was a Morgan Stanley conference, actually. Oh, there you go.

**Alex Murguia** 01:53

There you go. How is he? How's he doing?

**Wade Pfau** 01:55

He's doing good. But I still, I get him confused with JP Morgan. That's, I'm always confusing those two guys? Well,

**Alex Murguia** 02:01

they weren't. I mean, they were effectively the same firm. I don't know when the 50s or whatever, and they had to break up to split up investment banking and the brokerage this stuff, at least, you

**Wade Pfau** 02:13

know, way back then, back in the advisory game. Yeah, yeah, yeah. One

**Alex Murguia** 02:16

of the books. I mean, I'm not like, an avid reader, like, like most people are, but I did read, for whatever reason, the house of Morgan years ago. It was an excellent book that's amazing, right? Yeah, one of those big ones. You know, I read it right after Team of Rivals because I dabbled in history. That was quite, quite an illuminating book. It's pretty cool. I recommend anyone that wants to know like the history of American Finance,

**Wade Pfau** 02:44

yeah, and I like the Gilded Age, so that's like a part of US history. Yeah, you

**Alex Murguia** 02:51

remind me of a robber baron. I always confuse you with Jay Gould, Henry Clay Frick. Yes. There you go. All right, so what are we back today? What do we got today? We

**Wade Pfau** 03:05

have episode, the last episode in the specific series on Q and A related to the sequence risk webinar. And that was a webinar we did in mid July, and I had a lot of content, so I didn't have time to answer questions during the webinar. But so many questions came in. We we just going through those questions is a lot of good stuff, and today there's no specific theme. It's kind of a hodgepodge of like flexible spending to help manage sequence risk, asset allocation to help manage sequence risk, even using products like a couple of questions came in about tips, ladders and spears, and think we'll have a lot of fun just with a pretty eclectic episode on ways to manage sequence risk.

**Alex Murguia** 03:49

Did you say a lot of fun? Lot of fun. Lot of fun. Hey, how about you make your presentations more clear so people don't ask so many questions?

**Wade Pfau** 03:57

A good idea.

**Alex Murguia** 04:01

That would help. No, no. All right, you're a presentation. I'm sorry. What'd

**Wade Pfau** 04:07

you say? That comes up a lot where I'll be presenting, and the questions come in are in completely different topics. Oh, that

**Alex Murguia** 04:13

happens all the time. Or you're saying something, and then they ask a question that you're gonna address three slides from now, and you're just like, yeah, just hold your horses. We'll get there. Yeah, but it's good, yeah, they're listening. That's what that means, yeah. And that's, that's a victory, right? Wade, it is, all right? Economy, yes, that tension, you caught him. So let's, let's get to, let's get to these questions. The first one's coming from Mark. His question is, how does the 4% rule change when bond yields are lower versus higher, and is there an ideal bond yield for this strategy?

**Wade Pfau** 04:55

Yeah, so that's something I've dabbled in over the years. I think bond yields are important. It's kind of the starting foundation for your returns in the subsequent time horizons. And indeed, well, the 4% rule historically worked in US historical data, but it certainly can be at risk when bond yields get lower. And in terms of the impact, there's [tipslider.com](https://www.tipslider.com) lets you see what's the sustainable spending rate on a 30 year tips ladder based on building a bond ladder at today's interest rates, right now, the average real interest rate is around 2.4% allowing for a 4.6% initial spending rate. When interest rates get lower, that spending number falls. When interest rates get higher, that spending number increases. What's the ideal bond yield for the strategy? If we're talking about real interest rates, the higher, the better. With nominal interest rates, it's a little trickier, because if the interest rate's higher, just because inflation's really high, that could tank your strategy. So you don't want interest rates to necessarily get too high for that reason. But with real interest rates, before you add the impacts of inflation, the higher, the better. It's just you're giving that much more return to cover that much more spending for your retirement.

**Alex Murguia** 06:12

So anyway, it's asked, I got a couple of questions here. First off, the question, how does the 4% rule change? The reality is that's the assumption that the 4% rule is something that you should go by. And to me, I don't, I don't like subscribe to to that, you know, other than a general sustainable spending rate based of a percentage of a portfolio, you're kind of alluding to it with your answer, which is, there's no 4% rule. It's, you look at it the day you're going to start these sustainable withdrawal rates, and, you know, incorporate the yield information into what a strategy would be, right?

**Wade Pfau** 06:48

And so the way I answered the question was, more, how does the potential sustainability of the 4% rule change when bond yields change? Rather than precision way, that's right, I made an implicit assumption that was not clearly stated. The

**Alex Murguia 07:01**

the other, the other piece, I would say that somebody could be asking if they're listening in Hey, I started this three years ago with the assumption that, let's say the sustainable rate could have been, I'm making a 4.4% four point, you know, but because the markets have done this, and the rates are this right now, if I had this money and I was starting from year one right now, the sustainable rate would be closer to 3.8 so how can I be year three into this right now, what started as a 4.6% distribution, and I've adjusted three years for positive inflation, I'm hovering now, you know, in north of 4.6 and if you're telling me that anyone with new money should be at 3.8 shouldn't I adjust? Because technically, speaking, who cares what happened the last few years? I'm just going to pretend all the money I have right now is new money. How would you answer that?

**Wade Pfau 07:57**

Yeah, it sounds like you're recalling themes from a question from last week that got pretty complicated, but, uh, no, if, if the are you

**Alex Murguia 08:06**

saying that you listen? Wade, are you saying didn't listen? Is that? Is that? Is that you're like? Is that your like? Are you

**Wade Pfau 08:13**

shaking me? No, this is a variation on a theme. It's not the same question. No, if interest rates had gone down, and that lowers the sustainable spending rate on a forward looking basis from today. Well, that means your portfolio balance rises if you own any bonds. The value of those bonds increased as interest rates declined, and so it may not really change your spending number. Yeah, you might have to use a lower withdrawal rate, but you might be using a lower withdrawal rate anyways, because the whole 4% rule logic, that's the withdrawal rate in year one that gives you an amount of spending that you then adjust for inflation, and you don't pay attention to the withdrawal rate after that, if your portfolio is growing, your withdrawal rate goes down. If your portfolio is declining, your withdrawal rate goes up. But you don't really pay attention to that with the logic of the 4% rule. So again, it's just may mean that because interest rates decline, and that lowered the subsequent withdrawal rate, well, you may be also using a lower withdrawal rate because your bonds are doing

**Alex Murguia 09:09**

better. Yeah, but if you weren't taking the withdrawal rate and you had an investment portfolio, your bonds would have done that. You kind of control for that, because the person that wasn't taking the withdrawal rate. You know, hadn't assumed had an investment portfolio that had fixed income, and so they benefited as well from the lower rate, yet they're still taking. Is still suggesting that they take a lower withdrawal rate,

**Wade Pfau 09:33**

yeah, but from a higher portfolio balance for them too,

**Alex Murguia 09:38**

yeah? So nominally, though, it'd be the same, yeah, I got, you know, as opposed to a percentage based. Okay, I'm glad I cleared that up for you.

**Wade Pfau 09:47**

So you're off the grid here. You're making up your own questions,

**Alex Murguia 09:52**

just thinking, No, but I'm looking at this and I'm thinking, Well, someone could say, well, you know, if yields went down, but I'm you're three into this, should I take into consideration? Yield thing, and the answer that I was searching for, what you said was the 4% rule really takes into account all of this only in the first year after that, you've locked in on that nominal amount, and all you're doing is adjusting for inflation

**Wade Pfau 10:11**

afterwards. Yeah, and then if yields went down after you retired, that probably helped to increase the value of your portfolio balance, and therefore your withdrawal rate as a percentage of what's left was probably also going down along with yields. And you

**Alex Murguia 10:27**

could say, Well, why do we do that? Well, the reality is, in the 4% rule world, that's what they did, you know, they looked at all these machinations across, you know, 80 some odd years, and it seemed to have worked out. And so that's their way of saying, we've already controlled for that in the 4% rule analysis, so you don't have to worry about it, right?

**Wade Pfau 10:48**

And that's, that's an implicit assumption of the 4% rule, that you don't have to worry about this kind of stuff, because it survived a lot of crazy cases in the past. And that's good enough. Quote, unquote, it will probably work. I mean, that's the idea behind a probability based outlook. It will probably work as well as it had with the craziness of the past as well. All right, we'll

**Alex Murguia 11:13**

see if you can probably answer this question. Wang coming up, if taking a fixed percentage from a portfolio which varies with portfolio size. What is a recommended percentage?

**Wade Pfau 11:27**

Okay, so this is the opposite of the 4% rule, to be clear. So the 4% rule was initial year. Percentage gives you an amount that you then adjust for inflation, and you don't pay attention to the percentage anymore. A constant or fixed percentage strategy is the opposite. It's I'm going to use a fixed percentage of what's left every year. So if I used 4% and mean, I take 4% of the remaining portfolio balance every year, and then my my I don't have a constant amount anymore. The amount of spending fluctuates with the portfolio performance. So it's the exact opposite strategy. Now we talk about how the 4% rule maximizes sequence risk because it uses volatiles. Volatile portfolios. Volatiles, yeah, volatiles. Volatile portfolios with constant spending. If you use a constant percentage strategy. There's no sequence risk for the portfolio balance. You always have the same portfolio balance at the end of the time horizon, and that lets you use a higher withdrawal rate. Now, how high that number could go? I just did a workshop for our retirement Research Academy using our payroll calculator to look at variable spending

strategies and based on calibrating downside risk, which was they were planning for a 34 year retirement. They didn't want their remaining wealth to drop below 10% of its initial value in inflation adjusted terms, and with the capital market assumptions based on current interest rates and so forth, I came up with the the quote, unquote 4% rule in that was actually 3.88% so pretty close, because this is longer than 30 years that we're talking about as a 34 year retirement, but then calibrated the same level of downside risk. The the fixed percentage that had the same downside risk was 9% now that left left led to a very different spending strategy, because you start with a very high amount of spending, but then you can really anticipate, for the most part, your portfolio to decline throughout retirement, and so your spending does drop dramatically by the end of the retirement horizon, but yeah, 9% was the number that gave you an equivalent amount of downside risk. Now again that you have to look at how this strategy works over time, and that's probably not going to be an attractive strategy for a lot of people, because it does lead to dramatic reductions in spending and people, just to give

**Alex Murguia** 13:52

people think about it, 9% of a million dollars is different than you know, the portfolio has been spent down than 9% of \$1,000 and the 9% of \$1,000 you can, you can continue that. Math turtles all the way down, yeah. But you know, nominally you're, you know, you're living off 50 cents,

**Wade Pfau** 14:14

yeah. So with the the 4% rule, you'd be spending 40,000 from a million dollars, and adjusting that for inflation over time, if you use a 9% fixed percentage strategy, you spend \$90,000 in year one, but you're probably gonna be spending around \$10,000 by year 30, and so that's not necessarily an attractive strategy to use, but we can't. We can't just say there's one recommended percentage to use. All we can really say is you can get away with using a higher percentage than the 4% rule equivalent would be, but what percentage you specifically use depends on your asset allocation, your assumptions about future market performance, and just how willing you are to see your spending drop over time. Yeah.

**Alex Murguia** 15:00

Uh, okay, wait, uh, next question here from Eric, and the previous one was from Chris. Thank you for that. And that was a YouTube comment. There's another YouTube comment,

**Wade Pfau** 15:10

right? A couple of these I just brought, I was going through the YouTube comments, the ones that really fit this theme I just put in here as well. Yeah,

**Alex Murguia** 15:18

this one's from Eric. Dynamic risk based guardrails to protect sustainable cash flows, as described by Derek Tharp and Justin Fitzpatrick, seem to be another useful approach. Risk based guardrails requires using software to help with recalculating each year, but for a lot of us, that's probably the kind of tinkering we're going to be doing anyways.

**Wade Pfau** 15:42

Uh huh, yeah. And so I kind of, so we've created a payroll calculator at the Retirement Research Academy,

**Alex Murguia 15:49**

just because you said payroll. Can you describe, I know you did last time, but describe the acronyms, what it means and kind of what it does, you know, give a

**Wade Pfau 15:56**

little level set so it lets you look at any variable spending strategies? Well, not any, but within the limit of the controls, we have a number of different variable spending strategies where you're defining to make them comparable, you have to define how much downside risk you're willing to take, and that's defined in terms of the pay rule. So P is a probability that you're willing to let your remaining wealth value fall below by year y of retirement. So for instance, I may be willing to accept a 10% chance that my remaining portfolio balance drops below \$100,000 in inflation adjusted terms by year 34 or year 35 or or year 40 of retirement. And then I apply that rule and maximize the initial spending and subsequent spending based on ensuring that I have at least that much money left in the portfolio by year y, with at least that that P percent probability. And one of the strategies we have is the the constant amount with a percentage floor and percentage ceiling around that. So I'll let my spending adjust for inflation every year, but I may put in a ceiling. I won't spend more than 10% of the remaining portfolio balance, and that's a capital preservation rule. And I may put in a floor that if my portfolio is doing really great, I'll be spending a smaller, smaller percentage of what's left, but I might put in a floor I'm never going to spend less than 3% of the remaining portfolio balance. And so that's a prosperity rule that would let my spending increase. And so the this dynamic risk based guardrails rule that Derek Tharp and Justin Fitzpatrick created. I think it's a more complicated version of that, where, rather than just setting like I mentioned, a 10% and 3% percentage guardrails, they're going to use dynamic guardrails. And I think what they do, it's so David Blanchett talked about the mortality updating constant probability of failure. Idea, every year you rerun the plan, accounting for the fact that as you get older, your time horizon gets shorter. But you want to find how much spending can I do for with my remaining time horizon to achieve a certain probability of success? And I think they're just applying that methodology to the guardrails, the percentage ceiling and the percentage floor. So rather than our more simple 3% floor and 10% ceiling, they're going to dynamically adjust the floor and ceiling to maintain some sort of constant probability of failure around the remaining time horizon, so that it's a really complex method that requires specialized software. But I don't know how much more value you get out of dynamically adjusting your your guardrails versus the actual spending amount that you use. But yeah, it's it's another option out there. And yeah,

**Alex Murguia 19:00**

but I think this is all like sometimes people like to give themselves this idea that look the more complicated, or the more I use Excel with formulas in it and everything like that. It makes it feel more sciencey, and it makes it feel more accurate, and all that stuff like I'm doing the work for making sure that they get a precise read on their retirement income planning. But the last three questions, to me are more research oriented questions, if you wanted to kind of set up a research study and kind of see what's what strategies may work. But in reality, I can't stress enough within our own firm and the like, we don't do this. I think Blanchett, you know, he called it, what he called it, but at the end of the day, advisors will run a plan, you know, every year or every so often, and simply, that plan is what's going to guide. Like, do you maintain the distribution? Do you take less? Do you take more? It's never this robotic process that you set it and forget it. And you know at the beginning, you know, every time the sun revolves around the world, one full time, we're going to reassess, you know, what the return was last year, and



adjust it accordingly to these arbitrary rules. It's just not done like that. And you can drive yourself crazy trying to figure out the best way. I think they're valuable to sort of get, to get a temperature of what a reasonable distribution is, which is, I think the payroll does a fantastic job on that in retirement. Researcher, and yes, we're talking our book, but it's still the truth. But the reality is, no one really does this. Advisors that can go crazy in the minutia don't really do this in practice, at least, you know, in general, maybe there's, you know, a few broken arrows or whatever. But the reality is, the plan dictates what a sensible withdrawal strategy is after you get a good temperature of the room of that,

**Wade Pfau** 21:00

yeah, or stated another way, like so the retirement researcher got it start dabbling in all this stuff. But it's a researcher, what's her face spending rate? You're trying

**Alex Murguia** 21:13

to get a sense of what, what's a reasonable, realistic amount, yeah,

**Wade Pfau** 21:17

but at the same time, you need a financial plan. That's the funded ratio. Is the way to get the actual financial plan and all this kind of investment based spending research ignores taxes. You really can't do this realistically without taxes. But the way that what we're talking about right now with variable spending strategies, that's like an overlay to the funded ratio. The first you figure out, what's my floor, reliable income, what's my diversified portfolio available for discretionary expenses, and then, well, what's my spending goal in retirement? But if you've got some flexibility there, and you'd like to have the ability to spend more if things are going well, and you think you have some ability to make cuts if things are doing poorly, that's where you could overlay the payroll calculator on that diversified piece, I'll enter the value of my diversified portfolio, and I'll get a variable spending strategy based on that, and that will help guide my variable spending and my discretionary spending in retirement, once I've got my core reliable, yeah, and I think that's a

**Alex Murguia** 22:16

much better way of of of overweighing your your entire like, distribution strategy, and even before that, a precursor to that is, what's your style, right? That makes this irrelevant. But the reality, if somebody is, if somebody is asking these questions, I don't know how to read them, other than what I see on the paper, whether what I see on the question itself. And so I just want to disabuse folks from the standpoint of, listen, this is just kind of, yeah, you said it's, it's an overlay after the financial plan has been done, because the financial plan is the one that actually does the heavy lifting on the distribution.

**Wade Pfau** 22:56

Yeah, yeah. And it's kind of maybe in a way ironic that it's the total returns audience that is most interested in this topic, and really thinks of it as retirement planning, but it's the income protection and other styles that, in reality, can get the most use out of this, because they're thinking more holistically about the plan, and then they're using This conversation to help guide their discretionary spending in retirement 100% Isn't it ironic? I

**Alex Murguia** 23:26

don't know why, yeah, yes, and Alanis Morris said you're correct.



**Wade Pfau 23:30**

The income protection gets more value out of variable spending than total returns.

**Alex Murguia 23:34**

What does ironic mean? Wait, no,

**Wade Pfau 23:39**

I mean on your wedding day, I was gonna sing, but I'll spare sure that's ironic or just unlucky

**Alex Murguia 23:48**

Exactly. All right. Next question from Brent in spears, single premium mediated annuities, if you die before initial capital, which is the price you pay to buy the SPIA before All right, so if you died before the initial capital has been dispensed, do loved ones get the remaining capital? And I think I would say how the distributions work in terms of from principle and from the remainder. So people kind of under fully understand the question, in case you don't,

**Briana Corbin 24:21**

Hey, real quick, a lot of what we talk about on this show comes straight from your questions, and we've got another chance to do it live. Join us on Monday, August 25 at 2pm eastern for our next YouTube Live Q and A. You can send in your questions ahead of time@retirewithstyle.com or just hop into the chat and ask us live. We'll drop the links in the show notes below. We'd love to see you there.

**Wade Pfau 24:45**

Yeah. So SB is a single premium immediate annuity. It's the most simple. You pay a single premium to get monthly paychecks for the rest of your life. When those monthly paychecks begin, and they don't have to begin right away, you could defer the initial payment, but once. To begin a portion, a portion of it as a return of your premium, and a portion of it represents interest that the company had earned on your premiums, as well as the mortality credits. And after around your life expectancy you spend, you get all your premium back, and then subsequently, it's all gains. And so the question is, like, what happens if you die before all of your initial premium had been returned? Although, for this particular calculation, it just be, if my premium was \$100,000 and it's paying me \$20,000 a year, it'd take me five years to get my initial premium back out of it. In that regard, do it? Does my do my loved ones get the remaining capital. And the answer is, well, they do, if you add a cash refund provision, so life only, in theory, would have the highest payout rate, and that's the your beneficiaries don't get anything. You're taking the most risk of dying early, and therefore getting the higher payout rate. But it's very common to add a cash refund provision, which is, if I die before getting the full premium out of it that remaining amount. So if I had received \$84,000 in annuity payments on a premium of \$100,000 and I die, then my beneficiaries would get the remaining \$16,000 that's a very popular feature in practice, and it's also interesting, if you look at annuity quotes, a lot of companies are nervous about issuing life only annuities. So in theory, life only annuities should have a higher payout rate. But in practice, the company with the best payouts is not even offering a life only version, and so you can get a better payout on the cash refund annuity. So always be looking into that. And yes, a cash refund is the provision you would add if you want your beneficiaries to make sure the entire premium you paid goes back to your family.

**Alex Murguia 26:55**

All right, you think it's a better payout like that, because they want people to buy the cash refunds and not the other one, for fear of getting sued, or something like

**Wade Pfau 27:03**

that. Well, it's just more simply, they don't offer the life only version for fear of getting sued. Okay? So they don't even borrow. The universe of companies offering the cash refunds is larger than the universe of companies offering life only. No in theory, and in many cases, life only will have a higher payout. It's just not unusual to see a higher payout, not from the same company, but from a different I

**Alex Murguia 27:24**

got you all right, so I got a similar question here. An old man turned 98 he won the lottery and died the next day. Isn't it ironic, or is it a series of unfortunate events? I

**Wade Pfau 27:39**

think it is. I mean, like, it's like having a fly in your Chardonnay.

**Alex Murguia 27:43**

Oh, death row, pardon, two minutes too late.

**Wade Pfau 27:48**

Spent your whole life afraid of flying, and then on your first flight, the plane crashed.

**Alex Murguia 27:52**

Wow, wait, that's very morbid, okay, and everyone

**Wade Pfau 27:55**

was on the radio all the time.

**Alex Murguia 27:57**

Where'd you go? It's like rain on your wedding day. I got the lyrics up here. I didn't know this song by memory.

**Wade Pfau 28:05**

It's a fee, right? When you've already

**Alex Murguia 28:07**

paid, all right, we'll spare everyone else our back and forth. All right, we got Barb here. What are the tax implications of building the tips letter. Do they do that within their 401 K's or other tax advantage plan? So I you know, it's asking, effectively, are there tax implications, or what are the tax implications of building a tips ladder? And since they are, should you do that within a 401 K or just tax advantage plans as opposed to taxable account,

**Wade Pfau 28:40**

yeah, generally speaking, our asset location principles are you want tax efficient asset classes in your taxable accounts, and you want tax inefficient asset classes in your tax advantaged accounts. Bonds are tax inefficient, especially compared to stock index funds. With stocks, you

get deferral on capital gains until they're realized. You can kick off the qualified dividends, which are taxed at a lower rate, and then long term capital gains are taxed at a lower rate. Bonds are kicking off a bunch of interest. It's taxed as ordinary income, so generally speaking, bonds go in your tax advantaged accounts. Now, asset allocation is always more important than asset location. So if you don't have the space to put bonds in your tax deferred accounts, you may have to put them in your taxable accounts. So

**Alex Murguia** 29:29

that would be like, it's like having 10,000 spoons when all you need is a knife. Yeah,

**Wade Pfau** 29:36

it's like having a lot of bonds in your taxable brokerage account. I

**Alex Murguia** 29:41

don't know what you put that in a song that would have been a great addition,

**Wade Pfau** 29:45

but then tips usually get dinged as being even less tax efficient than other types of treasury bonds, and that's because it's called, like the phantom income, the principal value is what you. Paid back at the maturity date, and that increases over time for inflation, but you don't actually get it till the maturity date, but you are taxed on those inflation increases as you go along, so the tax bill can be higher. And so usually we say tips are even less tax efficient than other treasury bonds, and so that would make them an even stronger candidate to hold in a tax advantage account when the space is available,

**Alex Murguia** 30:24

because when they make positive adjustments, you're going to get taxed on that positive adjustment, even though you haven't received the money. And you

**Wade Pfau** 30:31

probably there's probably not many 41k plans that would let you build a tip slot or inside but in practical terms, what you would do is roll that over to an IRA with a company that does let you buy individual bonds and build your tips ladder there,

**Alex Murguia** 30:47

all right. And the last question we have here from Mark is the 100 or 120 minus your age relevant today in determining your stock bond allocation, I don't think it was ever relevant. It was just a shortcut that people use, and probably brokers just to make financial planning easy on their, on their, on their minds. But why don't you answer that in a more formal map,

**Wade Pfau** 31:14

right? It's a shortcut. It's not the worst thing in the world.

**Alex Murguia** 31:19

Oh, my goodness, there you I mean, it's, it's in the world, you would say,

**Wade Pfau** 31:27

it sucks the using, like, 100 or 120 minus your age being your, what is this your bond allocation, right? Yeah, like, no, your stock. That'd be your stock allocation. And then the remainder would be your bonds. It's it's having you decrease your stock allocation as you get older, increasing your bond allocation as you get older. So if you're 73 100 minus 73 Yeah, so that would tell you to be 27% stocks, 73% bonds. If you're 101 you have negative stocks and positive

**Alex Murguia** 32:01

No, but you margin that baby.

**Wade Pfau** 32:04

Michael kitsies and I did that research about the rising equity glide path, which was showing as a risk management technique, you don't necessarily keep lowering your stock allocation as you go through retirement. You actually might want to increase it as you go through retirement. What not? You know? What that question

**Alex Murguia** 32:20

that reminds me, that was one of the answers. I thought when we were talking about sequence of return risk in the last episode, you were talking about buffer assets, and then we got into ways to do it without buffer assets kind of thing. And it hit me after the podcast that, you know, the rising equity glide path could work for some during the fragile decade, especially pre retirement, where they can kind of, you know, artificially lower their stock to bond allocation in their head, like, let's say, as opposed to 60/40 they're 40/60, and slowly work their way up. So by the time they're, like, five years into retirement, they're 60/40, or whatever.

**Wade Pfau** 32:55

Yeah, and so in that regard, just like target date funds pre retirement, you could use that kind of rule as a simplification, that when you're young, you have a higher stock allocation, and as you get closer retirement, you lower your stock allocation. It's just post retirement. You don't necessarily want to keep following that same approach. You'd be better off just keeping the same fixed stock allocation, not continuing to decrease it. And if anything, you might benefit from bringing them back up again later, if you're comfortable doing

**Alex Murguia** 33:26

that. And the only other thing I would say to that, because you'd be remiss not to mention it, Wade and this comes up, is you're not by any means advocating subdued 100% equity, etc, etc. May want to just touch base on that, the rising glide path. Someone goes, someone says, Oh, my goodness, how could an 80 year old have a 90% equity portfolio? Yeah, you

**Wade Pfau** 33:44

could sell cap. It's instead of, say, being 60% stocks throughout the entire retirement, you start retirement lower than that, but work your way back up to 60% stocks. I mean, it's still always you have to figure out what your asset allocation should be. This is more around fluctuating around that based on age to get those risk management benefits of having relatively lower stock allocation around your retirement date and then higher earlier on and higher later on. But no, it doesn't have to keep rising forever. You can cap it at some point.

**Alex Murguia** 34:21

All right, that sounds like good advice that you just didn't take.

**Wade Pfau** 34:26

It's a little too late.

**Alex Murguia** 34:29

Here you go. All right. And that concludes this episode of retire with style peppered in with some Alanis Morissette for those early 90s anthems. Wade, anybody else?

**Wade Pfau** 34:44

No, that's it. We'll catch you next time on retire with style. All righty.

**Briana Corbin** 34:50

Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons for. 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.