

# Episode 197 RWS Live! With Bill Bengen

## Part 2

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### SUMMARY KEYWORDS

Retirement income, asset allocation, risk management, tactical asset allocation, inflation, bond allocation, international stocks, safe withdrawal rate, sequence of returns, equity glide path, historical data, Monte Carlo simulations, retirement planning, financial personality, annuities.

### SPEAKERS

Alex Murguia, Wade Pfau, Speaker 1, Briana Corbin, Speaker 2, Bill Bengen

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

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

retirement planning isn't one size fits all, even when the guy who built the 4% rule is in the room. In this final part of our chat with Bill Bengen, we cover the questions you sent in and the research he's still working on today.

#### **Wade Pfau** 00:52

All right, next, Paul's asking in your book, in Section 13.3 you mentioned risk management to protect against bear markets. And by that, it's not market timing, but you talk about strategically changing allocations. Okay, so what are your normal asset allocations, and how do you adjust your target percentages as a part of that risk management process? Okay?

#### **Bill Bengen** 01:22

What I'm recommending now is an upgrade from what I have in my book, where I work a lot with a 55% stock portfolio. I've done some very recent research to indicate 65% works considerably better for the majority of retirees. So I would recommend a 65% stock, 30% bond, 5% cash portfolio, as far as adjusting that, the question is about adjusting that for

#### **Wade Pfau** 01:53

what was the question? The question asked about the idea of risk management you talk about in the book that maybe from the asset allocation risk

#### **Bill Bengen** 02:02

management, which also has another name called tactical asset allocation, is an attempt to preserve capital by reducing equity allocation or increasing it, depending upon one's perception

of risk in the stock market. And I use a third party to do that. I just don't feel comfortable doing it myself. Get my emotions involved. You have a third party that's done this for years and done it well, it's great to have that advice and not be worried. You know that you're going to do something damaging to your portfolio.

**Wade Pfau 02:37**

How big of swings? Maybe that's really what the question's getting at. Like, if that service suggests maybe now's the time to have a lower stock allocation, how far are you deviating from your target?

**Bill Bengen 02:50**

Yeah, I follow their recommendations myself, personally, but their recommendations recommend range from being 100% invested down to 0% they got you down to 0% stocks in early October 1987 before the big crash. So they rode through that crash without any ill effects at all. Okay?

**Wade Pfau 03:10**

So you are willing to make big swings. It sounds like,

**Bill Bengen 03:13**

yeah, there, yeah. There are times with where could demand, yeah. And it's not just reducing. It's very important, like in April of 2009 and it's very important at that scary time in the world to have a objective third party saying, hey, stocks are cheap. We got to load up now. Get that allocation up there. It's very important. Most instinct of individuals, including myself, was, well, let's see if the world survives this crisis or not. Of course, it does. If it doesn't, we have such bad problems, whatever else we talk about won't matter. So I think it's best to take a view that the world will survive.

**Wade Pfau 03:54**

Okay, there is a another question on inflation, and I think we've probably really already touched upon it. But to emphasize the point again, I'll ask the question. So if inflation is a big problem, why not take the entire bond allocation and put it in tips? Doesn't this solve at least part of the problem?

**Bill Bengen 04:13**

You could do that, but then you're taking a pretty strong position about what inflation is going to be doing in the future, and I myself have no, no clue, but I'd rather follow a more diversified approach. Include assets that may not be optimal at a particular time, but over the long run, it's done well,

**Wade Pfau 04:33**

okay, it's the entire bond allocation on I don't think you meant the entire like, don't go 100% tips, just

**Bill Bengen 04:40**

Yeah, I would think I met. Yeah, okay, okay,

**Wade Pfau 04:47**

some other questions on some tax planning things, but I think that's really beyond our scope for today. Okay, this is relevant, so with the US. Economy expected to grow at low single digits, and international emerging markets growing at higher rates. What are your thoughts about the percent of equities to place an international or us? And just as a lead into that in the book, with your baseline allocation, you would have 20% International, 80% us, because of the five way division.

**Bill Bengen 05:22**

I know that funds like from a major mutual fund supplier, which has a global fund and invest 37% I believe, of its assets in international stocks, and 63% domestic. That to me, seems like a reasonable breakout, particularly in the view the fact that domestic stocks are really expensive, and international stocks at least relatively cheaper. So increasing your international exposure to me makes sense.

**Wade Pfau 05:54**

Okay, great. Next question, I found your inflation research fascinating. So continuing on that line would not taking inflation adjustments in the first five years help mitigate the sequence of returns risks if starting at a higher than a safe max of 4.7% so maybe mixing the level spending strategy with the cola strategy, and skip the COLAs cost of living adjustments in years one to five,

**Bill Bengen 06:26**

5.7% was at the rate they're taking out.

**Wade Pfau 06:30**

Or No, yeah, just if you're starting higher than the universal safe max of 4.7%

**Bill Bengen 06:37**

that's a tough one for me to comment on, because I don't know what will happen to those factors. You know, inflation returns over the next five years. So once again, that's taking a position to a certain extent which may not be justified by what actually happened. So you have to be careful that. I mean, it sounds to make sense on the surface, but I don't know what it'll look like five years from now.

**Alex Murguia 07:04**

Okay, that's the next Yeah. That one here. Your approach to safe Max is historical. Worst case, Morningstar models, safe withdrawal rates using forward capital market assumptions and Carsten yes keys safe withdraw rate series uses the worst of both of those thoughts on each approach.

**Bill Bengen 07:28**

Well, I have a lot of respect for the folks at my Morningstar. They produce quality research. Christine Benz is first class researcher. I don't necessarily agree with their conclusions. Perhaps it's a difference in our methodology. I'm using historical data versus they're using projected data. The question is, how can we be sure about what will happen in the future? How dire will it be? I agree that over the next 10 years, American stocks are probably going to return a lot less than 10% a year, maybe zero. So that,

**Alex Murguia 08:10**

I mean, couldn't someone say again, just to play devil's advocate? Well, How accurate do you think the stock the historical stock returns are going to mimic? You know, future return, or the future returns, better said, are going to mimic what happened historically. It wouldn't it be better to take the current valuations and assess from there, and yeah, about technical allocations,

**Bill Bengen 08:33**

that's my methodology does that basically introduces a Shiller Cape stock market valuation, and that's one of the two prime factors in the determining withdrawal rate. So, you know, I think you're right. It's covered by that.

**Alex Murguia 08:47**

Yeah, it is covered if you're taking, if you're if you're getting to your initial number through that, yeah, then it would be covered. You're just not messing around with the allocation to cover. You're just, I get it.

**Wade Pfau 09:00**

And maybe also anyone using the forward projections, which I've done that sort of thing as well. But that was a bigger issue maybe five years ago, when interest rates were incredibly low, and now that interest rates have normalized, I think if you ask the Morningstar team what their estimates were today, they wouldn't be talking about 3% numbers anymore. But okay, then the next question on rebalancing. What about the idea of leaving rebalancing alone until equities hit 65% and maybe that's merging you talked about before your baseline strategy is 55% stocks, but maybe it'd be interesting to look at 65 What about, I guess, starting from 55 but not rebalancing until equities hit 65 I wonder how this would work, but rebalancing and taxable account generally does have a tax cost.

**Bill Bengen 09:51**

Well, the assumption there is that equity allocations will increase, then over time and then to send something they're proposing over. Variety of the rising equity glide path approach, which starts with a lower equity allocation and rises it raises it during time they're proposing something which, basically, it's not a conscious increase, something just rises out of market results. And that might work. That might work. I have, you know, once again, I haven't run running numbers on these things, so

**Wade Pfau 10:23**

yeah, some of these might just be more ideas of things to look at to see how that plays out.

**Bill Bengen 10:28**

Yeah, this field is full of surprises. I never make any assumptions about anything. Okay?

**Wade Pfau 10:34**

And well, right now we have a little pause in live questions. Please keep those coming in. We do still have some of the questions that came in advance, so I'll flip which list I'm using here for a minute. The next question, so why is the retirement planning community so hung up about the traditional drawdown paradigm in mapping out a successful retirement plan and not focusing in on the paradigm of a guaranteed or variable income model, in which a lot of the uncertainty and volatility of the drawdown paradigm is reduced or erased. I'm seeing a trend in generation xers towards this type of planning. And maybe to just rephrase that in another way, it's kind of with

what we talked about with retirement income styles like, why is there so much focus on just the investment portfolio? Is there? Maybe the question for you, Bill is like your thoughts on, what about using annuities or bond ladders or other forms of protection as that distribution process as well?

**Bill Bengen 11:30**

I, from my perspective, I can answer that. Years ago, I defined my role as a researcher as trying to maximize the amount of withdrawals I can be taken safely from a retirement investment account without taking additional risk. So I didn't focus on anything else, but there's been plenty of work and papers published that indicate that having an annuity as part of your retirement income plan can be beneficial, and I know you've done a lot of excellent work in this particular field, but I would have given serious consideration.

**Wade Pfau 12:08**

Okay, so yeah, it's not part of your research focus, but yeah, definitely you wouldn't dismiss it out of hand. It sounds like it, okay, yeah, that helps. Another question, I believe Bill mentioned that the sequence of returns risk starts to reduce after the first five to seven years. Does he think that this holds for, say, a 35 year retirement or a 40 year retirement? So maybe, like, the question is, really, if the retirement length is longer, would you change that window where you're you have the most worry about sequence risk?

**Bill Bengen 12:41**

Yeah, I think the first 10 years retirement are important to retirement, no matter what the length of the planning horizon, because what happens in a first 10 years will compound the longest the retirement. For example, if you have a bull market, a bear market occurring in year one, that's that's a serious problem. If you have one occurring in year eight, much less serious. So, yeah, the sequence of returns risk does ameliorate over time, but you can't discount the possibility of something happening in markets that's so outlandish that it might upset the applesauce example, that would be what happened in the late 60s when inflation started to rear up and lasted for over a decade. That was totally unexpected, I think, by most people. And who knows, we could have another financial crisis

**Alex Murguia 13:33**

that sort of since we're talking that question was posed from the standpoint of market performance, and the fragile decade related to market performance of which you're taking a withdrawal rate, it would be interesting, and I'll pose that exact same question, but with inflation going out of control in the early years versus the later years, and I know the answer, but it's nice to hear from you like, okay, consider The fragile decade, but, you know, replace stock market volatility with rampant inflation, you know, how would they make a much would that affect with the first 10 years of high inflation? You know, proportionally affect more 40 year retirement versus a 30 year retirement, or vice versa? You know, that kind of thing.

**Bill Bengen 14:17**

Absolutely. Yeah, because you you're getting it right off the top your portfolio is shaking a head right off the top.

**Briana Corbin 14:24**

Hey, there. I know you're in the middle of an episode, but I wanted to pop in and remind you that we are coming up on a huge milestone episode, 200 of retire with style, and we want you to be a part of it, whether you've been listening since the very beginning or just recently found the show. This is your chance to help us celebrate. You can send in a message, share your favorite moment, or ask Wade and Alex a question to be featured in the episode. Just head on over to [retirewithstyle.com](http://retirewithstyle.com) or check the show notes below for a link to get involved. While you're there, be sure to enter our special giveaway. We'll be sending out some pretty sweet Limited Edition. Shyam, retire with style merch boxes to a few lucky listeners, and don't forget to follow us on social media. We'll be posting polls and questions where you can vote on what gets featured in the episode. Episode 200 is all about the retire with style community, and we'd love for you to be a part of it. Okay, that's it. I'll let you get back to your

**Wade Pfau 15:22**

episode. Uh, another question that came in. So, if someone was to retire today, does Bill still think the 4.7% universal safe Max is appropriate given the high Cape ratio, the cyclically adjusted price earnings?

**Bill Bengen 15:38**

Yeah, the 4.7% rule really doesn't take into consideration what market valuation is. It's a rule based on observation of one particular retiree out of 400 who in 1968 ran into a buzz saw of back to back stock market declines and high inflation. So that I do think you need to take stock market valuation to account, I recommend in my book that a way to incorporate that and today's environment. If you're looking at a 30 year withdrawal from a tax deferred portfolio, I'd be looking closer to five and a half percent rather than 4.7

**Speaker 1 16:16**

because inflation is also not currently high.

**Bill Bengen 16:20**

Yeah, for the time being. Anyway, yeah. Okay.

**Speaker 1 16:25**

And then there's another question. It has come up somewhat already. Maybe there's not much more to add, but to revisit this point, Bill mentioned on the podcast that he's done some preliminary analysis on safe withdrawal rates with higher equity allocations. Can he discuss more of his initial findings,

**Bill Bengen 16:43**

yeah, I've been experimenting with 65% versus the 55% in my book, and I've run a scenario on it, tested against all 400 retirees, and in about 20% of the cases, particularly for those retirees who had a major bear market early retirement. It doesn't work quite as well as a 55% allocation, but the differences are generally quite small. The reduction in safe withdrawal rate is small for the other 80% of retirees, they get a pretty substantial bump in the withdrawal rate. So I think that it makes sense to use that 65% allocation and take defensive measures, risk management measures at times when the stock market looks risky, and then you'll have the best, best of both worlds.

**Speaker 1 17:33**

Okay, actually, questions are flying in. Now that's good. I don't know if they're all. Some of them may kind of be outside of the scope. Let me see if I can. But one kind words coming in from Brett. So truly, a great session. Thank you for putting this together, and thank you for your work and time and effort in publishing a richer retirement as all of us. And here's here's another question. So I'm curious if Bill did any analysis on rising equity glide paths or otherwise. I think now Part Two or otherwise, using a longer time horizon, more around 40 to 45 years,

**Bill Bengen 18:15**

you're talking about rising equity glide path for the 40 to 45 year, just two separate topics.

**Wade Pfau 18:22**

I interpret this as two separate topics. Okay, the answer is yes. For both. You have looked at both of those, right? Yeah, maybe just a brief comment on on the rising equity glide path idea, and then also the longer time horizon.

**Bill Bengen 18:36**

Yeah, it just so happens. This morning, I started work on a 40 year retirement scenario with a tax advantage account, and hopefully in the weeks and 10 days, I'll have that posted to my website. You can see the results of that. Obviously, the withdrawal rates are going to be lower, but definitely taking a look, I like to build a library on my website of scenarios that folks can choose, you know, like a buffet, something that fits their particular needs.

**Wade Pfau 19:04**

Yeah, please share what that website is, because I think that will interest a lot of our listeners. You do talk about it quite a bit in the book. The you can't put everything in the book. So, no,

**Bill Bengen 19:14**

yeah, it's a [www, dot bengen fs.com](http://www.billbengenfs.com), and the FS is my old business financial services reference. So it's good also if, for some reason, we run out of time to answer all the questions. I also have a feature on that website where you can click on Ask bill and ask him a question. I'll be doing my best to answer it.

**Wade Pfau 19:40**

Yeah, I think you'll get some good research ideas from our listeners that way as well. Okay, just trying to see there are a few questions. Here's from John So Bill said that capital market assumptions are taken into account with. Is Cape adjustments, but safe Max still predicts along the lines of opposite of past performance does not guarantee future results. Maybe. What's your

**Speaker 2 20:12**

question? Aha,

**Wade Pfau 20:15**

yeah, so the safe Max as being based on historical data, that's correct. Give the caveat, past performance does not ensure future outcomes. If you just comment on that concern,

**Bill Bengen 20:27**

yeah, sure. Well, it's it's a legitimate concern. We at our own risk, do we extrapolate past results into the future? Because we don't know a few conditions be much different. Unfortunately, there



is no methodology I know that can escape from that conundrum, because no one can really predict the future. So if we do use it, we use it with our eyes wide open that circumstances may arise which may invalidate it and force it to a whole new approach.

**Wade Pfau 21:01**

Okay, yeah. And another question coming in now. It's so there's now a bunch of questions on the rising equity glide path. So everyone he does, Bill does discuss that in heritary retirement. So the first part of this question is just asking, have you looked at it? But I'll read the question. Recent research, including work by myself and Michael kitsi suggest that a rising equity glide path in retirement may help mitigate sequence of returns risk. In your view, how compatible is this reverse glide path approach with the principles outlined in a richer retirement, especially for retirees who begin with a conservative allocation but want to safely increase their equity exposure?

**Bill Bengen 21:40**

Yeah, I my conclusion. I reached in my book, and I only analyzed one specific scenario. I think I started something like 50 or 55% stocks, and increased by 1% a year, every year throughout retirement. And it did have a beneficial effect. It wasn't equally beneficial for all retirees. Some enjoyed more, some enjoyed less, but it worked, I believe, for just about every single retiree to start out with a lower equity allocation and let it increase over time. And I think you and Michael opined in your paper on that some years ago. That was reason for that behavior is because you're avoiding the most serious effects of a major bear market early in retirement. If you have very high allocation, you're going to get harder if you start with a lower allocation of lower losses, and then you'll be increasing your allocation into a rising market, which is great.

**Wade Pfau 22:33**

Okay, yeah, and follow up on that. And I guess that's getting at this particular point. So right in your book, you looked at baseline 55% stocks. If you increase that to 85% stocks, your universal safe Max actually increased to 4.8% right? And then the way we have looked at it in the article, and I think what these questions are also getting at is, what if you maybe went the other way? So instead of being 55% stocks throughout retirement. Maybe kick down to, I don't want to go all the way to 25% for this scenario, but kick it down some and then work your way back up to the 55% stocks. Have you also looked at that kind of direction for things? Or might that

**Bill Bengen 23:15**

be that's essentially a rising equity glide path question, right? And I haven't looked, I've looked at allocations of 25% if you keep them fixed, they're not good for your retirement withdrawal rate, but if you let it rise, it might work, I don't know. Once again, I need to run the numbers to have confidence in an answer that question.

**Wade Pfau 23:36**

Okay, so yeah, that might be another future project. Is instead of starting at 55 and going up from there with about going less but then working your way back up to 55

**Bill Bengen 23:46**

in my work, I don't know, until I actually run the numbers, I plan to



**Speaker 1 23:51**

Okay, do you

**Wade Pfau 23:53**

see any other questions?

**Alex Murguia 23:54**

Alex, well, but something I would ask, and we covered, we asked it in the podcast. But I'm curious now again, because all these questions about, you know, changing in allocations and all of that. And many times I'm kind of like, what's good enough, right? The greatest Perfection is the enemy of good. You know, that kind of quote from an allocation perspective. I mean, is there a range that's fine, and you know what, you can call it a day, and not get all worked up about is there? Like you could just say, Listen, if you're between an allocation of, I'm making this up now, uh, 45% and 65% you're good to go, you know, for the most part. And you shouldn't get too worked up about it or lose sleep over it. That should get you around there. Is there kind of a range like that. I think people get caught up in this false sense of precision of 45% versus 43%

**Bill Bengen 24:54**

Yeah, you don't want to cut it too fine. Once again, I'm recommending going higher to get. Higher withdrawal rate without adding much risk at all. So, you know, I'd be recommending a minimum of 65% in a retirement portfolio these days, although you may adjust that for tactical reasons. Right now, you said minimum, yes, right? It's, I'm going to study higher allocations, you know.

**Alex Murguia 25:20**

Okay, so it's so, so if anything, wherever equity glide path you choose, as long as kind of, if it was you, let's say, if you started at 45% whatever artificially low allocation you have, you'd want to end up at some point at 65%

**Bill Bengen 25:36**

or higher. Yeah, you might end up higher than that. Yeah. Yeah.

**Wade Pfau 25:42**

Shyam, Okay, another question that did come in, and I think it's back on this idea of like doing Monte Carlo simulations instead. So with historical data, we have a set number of observations with Monte Carlo simulations. You could do a million test scenarios and the worst case outcomes are always going to be worse if you start adding in lots of additional simulations. I guess the question is really getting at like, what's your thoughts about making your numbers more in line with the worst case scenarios from a simulated approach rather historical data versus Monte Carlo. Let's kind of put the question that way. Yeah, what are your thoughts about Monte Carlo simulations in general?

**Bill Bengen 26:33**

If you're using Monte Carlo and you're using, you know, historic returns as a base to generate expected returns for that, I think that's fine. That should agree closely with what I'm doing. But if you project returns for stocks, let's say which are much, much less than would normally expect for an extended period of time, you may achieve a lower withdrawal rate, significantly lower

draw rate and whether that is accurate, I don't know who I can't predict the future. Who knows what will happen? But

**Wade Pfau** 27:11

okay, fair enough, I don't see any other questions right now. Alex, I mean, there's others that may be outside of the scope.

**Alex Murguia** 27:19

I've got one for Bill, do you favor the Adidas tracksuit that you have on over a Nike tracksuit?

**Bill Bengen** 27:31

I check my endorsement contract first. No, this is one of my favorite. This one of my favorite.

**Speaker 1** 27:42

It finals, right here.

**Bill Bengen** 27:44

I don't think of a puma guy myself. Yeah, well, when this wears out, I'm gonna be very sad.

**Alex Murguia** 27:50

You gotta break up the cardigan soon for the winner.

**Bill Bengen** 27:54

Hey, you never know what comes next, right?

**Wade Pfau** 27:59

Maybe one more question, because I think it does. This question really gets at the heart of maybe some confusion about in your new book, again, a richer retirement. Thank you. Supercharging the 4% rule. You're not really advocating for use of the so called universal safe max of 4.7% you're really talking about adjusting that based on the inflation environment, as well as market valuations. That being said, let me just ask this question, because it gives you a chance to really, I think, emphasize this point. So going back to the idea of adjusting the withdrawal rates when inflation is high or stock market performance is poor, it seems like that goes against the idea of basing one's withdrawal rate on the historical data, which suggests a 4.7% safe Max.

**Bill Bengen** 28:48

Your thoughts? Well, I think we're talking about two different things. A 4.7% safe Max is, once again, a worst case scenario. Represents an actual situation, a retiree who faced terrible bear market conditions, early retirement and terrible inflation. I don't see that happening in their field. I think the stock market's going to be difficult place, particularly the domestic stock market, but we may do well elsewhere and over time. I think if you use this, I just around a five and a half percent rate. I think that incorporates enough bad news. You know, otherwise, you end up with too much money at the end of retirement and regrets, all people often have with that

**Wade Pfau** 29:31

great, great. So to wrap things up, Tony, I'll just read what Tony wrote, because I think it's a great summary of things. Thank you, Bill, for taking the time to answer our questions with such clarity, your insights truly elevate the retirement conversation.

**Bill Bengen 29:46**

Well, it's very nice to replace us. Thank all the listeners. Thank all the listeners for asking some very sharp questions.

**Wade Pfau 29:53**

All right, yeah. Thank you everyone for joining us and for asking the questions. And again, if you would like to learn more, read further. It's a writ. To retirement by Bill Bengen, the father of the 4% rule, the really the father of present day financial planning based retirement income. And also your website, [bingenfs.com](http://bingenfs.com), for those who like to really dive in even deeper than the book goes, All right. Thanks everyone for listening. Thank you Bill, thank you Alex, and we'll catch you next time on retire with style.

**Bill Bengen 30:21**

Thanks so much Wade for having me.

**Briana Corbin 30:25**

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.