Key Information for All Retirees - Transcript

Tom Mullooly: Welcome to the Mullooly Asset Management Podcast. This is Episode #248, 2-4-8. I am Tom Mullooly, and I'm joined here by my cohost, Brendan Mullooly.

Brendan M.: I am happy to be here. That is your line. I'm stealing it, and now everybody knows your secret. So-

Tom Mullooly: If you ever ask me, "How are you doing?" "I'm happy to be here."

Brendan M.: Yeah, well.

Tom Mullooly: That's an old line from Rocky Allen when he was on PLJ.

Brendan M.: That's where that came from?

Tom Mullooly: The most sarcastic DJ ever. So ...

Brendan M.: Well, it changes things up better than saying-

Tom Mullooly: "Hey, I'm fine. How are you?"

Brendan M.: ... "Good. How are you?" kind of thing. So, we have an interesting post to talk about this week. Going to give credit where it's due. Our friend Ashby Daniels-

Tom Mullooly: Friend of the firm.

Brendan M.: Yeah. He ... On his retirement field blog, kind of parsed through the most recent JP Morgan Guide to the Market. He broke it down into information that specifically retains to retirees because Ashby's firm, and his niche, is really working with people right on the cusp of retirement and, you know, through that phase of their life.

He did the heavy lifting here, in terms of breaking down some of these charts and giving us things to talk about. So we want to talk about them too. Obviously he, Ashby, had some pretty good information to share in there as well.

Tom Mullooly: The first chart that he shared was probably one of the best ones about life expectancy probabilities. And again, you know, we talk about this kind of stuff all the time, but it's a probability. It's an average.

Brendan M.: Yeah. But when people talk about averages, I think, in regard to a life expectancy, it's almost always to say, "Well, that doesn't matter for me. It's just an average." I'm ... Just to use one of these numbers that gets thrown around quite often in financial planning, but for a couple, joint life expectancy ... You know, right now, if you're 65 today, joint life expectancy, the odds of one of you reaching 90 years old is basically 50/50.

Tom Mullooly: I'm using the pregnant pause there because that is, please hit rewind in the last 15 seconds and hear that again.

Brendan M.: Right. But to your point about them being averages, and that means there are people, I suppose, who live far past 90, when you're taking into account two lives obviously here, but it means plenty of people, you know, die before then too. And, for whatever reason, everybody seems to think that they are in the camp of not going to see 90. I've said that-

Tom Mullooly: "I have bad genes," and, "My parents died in their 60s, so ..."

Brendan M.: Sure. And there are certainly reasons for life expectancies taking into account things like family histories, and your own current health, but if we're just playing the numbers game, I don't think that it is foolish at all to project financial planning recommendations as if somebody is going to live into their 90s because ... Like what if they do, and then you didn't plan for that? What's the alternative?

Tom Mullooly: It would be reckless if we didn't project for that far ahead. I think there's still a lot of people who kind of subscribe to that Mickey Mantle story where he lived a hard-drinking life because he believed that his ... You know, his father died at a young age, and he was going to go the same route.

Brendan M.: I wonder like ... And this is far outside of our realm, but I wonder if like that kind of mentality almost becomes like a self-fulfilling prophecy. It's a, "If you believe that you're going to die by the time you're 70, you lead such a life that maybe makes that more likely than just genetics do?"

Tom Mullooly: Yeah. You're ... Maybe you're taking more risks without even considering any other potential outcome.

Brendan M.: Although, anecdotally, you do all seem to read these stories every once in a while about the 95-year-old woman who drinks a bottle of wine every day or something, and that's like the recipe to her success, right?

Tom Mullooly: Yeah, yeah.

Brendan M.: But yeah, these are some really interesting numbers just to see. I mean, the odds of you know, one, a spouse reaching 85 is 75%. It's 80 years old, 90% odds. So like, you know, you need to really plan for this longevity when you're thinking about things like your investments, and the kind of income that they're going to need to throw off, and for how long. And that really drives a lot of discussion in terms of how portfolios can be allocated at the onset of a retirement plan. That may mean somebody is, you know, right around 65 years old today, as these averages are-

Tom Mullooly: We've got to look 30 years ahead.

Brendan M.: Yeah. And that's not to say you cannot, of course, correct ... In fact, I think it would be a mistake to say that you're not going to. You know, as time goes on, the circumstances change. You know, you've used X amount of your assets, here's what's remaining, health has maybe changed. Like you can change these projections, but for somebody who is 65 today and has a married spouse similar in age, yeah, I think the financial plan should be projected out into the 90s.

And there's a lot of things to address because of that.

Tom Mullooly: So that kind of leads to Ashby's second point, his second slide, where older Americans are working longer. And so a lot of people are now starting to say, "Well, I guess I'm going to be working into my 70s.

Brendan M.: Yeah. Well, I think you know, maybe you've reached that phase of your life where you'd like to retire, but considering all your income sources, social security, pension, what investments are able to throw off, maybe it's not going to fully support your lifestyle. Or, conversely, maybe it does, and you just retire for a while, and realize that like, you would still enjoy having something to do every day.

Tom Mullooly: Yeah. There's sadly a lot of stories of people, people we know, who worked their butts off their entire career, decided that they were going to fully retire, went home, sat on their butt, died. It happens.

Brendan M.: Or people retire, sit on their butts, and then say like, "This isn't for me. I still need something to do every day." And so, the slide from the JP Morgan Guide to the Markets, that Ashy shared also broke down ... First broke down the percentage of people in the civilian labor force by age groups. And so, the cohort of ... It starts at 65 to 69. It goes in those bands. So 65 to 69, 70 to 74, 75 to 79. So people between 65 and 80, the retirement years where you, you know, hopefully are still able to get around and do things. This percentage of people still in the labor force at these ages has risen across the board in all of these cohorts throughout the last two decades now. So, it's risen, even for the oldest, 75 to 79 was just 7% in 1996 who were in the labor force, and now 12%. I mean not-

Tom Mullooly: It's almost the double.

Brendan M.: Yeah. I mean, and so that's ... Let's just ballpark. Like one in 10 people, 75 to 79, are still working in some capacity, even though they're retired.

Tom Mullooly: You know what I thought was the best part of that chart was underneath it, they had major reasons why people work in retirement.

Brendan M.: This was really great, yeah.

Tom Mullooly: They broke it down into wants and needs. And so, of course, needs, "Hey, I want to buy something extra. I want to make ends meet. I've got a decline in my investments because they're not working with Mullooly Asset Management," you know, or keep their benefits or something like that. But the wants, I mean, this was fantastic to see these kind of responses. Nearly two-thirds of the people responding said they just want to stay active. They want to stay involved in a community, that they ... Half of the people responded said they enjoy working, keeping themselves busy.

Brendan M.: Good and encouraging answers, showing that, hopefully, in many cases, or odds are pretty good that if somebody is working and they're older, you don't need to be like, "Wow, I feel bad. They're working, and they're really old." It's probably because they want to be there.

Tom Mullooly: They want to be there, for a lot of them.

Brendan M.: For some people ... and it was about 19%, say they're doing it to make ends meet still. And I would lump in that buy extras, as like probably just making ends meet in disguise too. And that was about one in three. But-

Tom Mullooly: I don't know if you caught the quarterly earnings report from Walmart about two weeks ago? They're eliminating the greeter position.

Brendan M.: Oh, man. That's going to ... Is that going to-

Tom Mullooly: It's going to put a lot of these-

Brendan M.: They projected these numbers.

Tom Mullooly: ... people back on the street.

Brendan M.: So they extrapolated these numbers, I guess, based on demographics and trends to show projections for 2026, in terms of the percentages, and-

Tom Mullooly: I don't know.

Brendan M.: ... they might want to pair back those numbers a little bit.

Tom Mullooly: Just scale them back a bit. But they also then talked about how not everybody can keep working.

Brendan M.: Yeah. I think-

Tom Mullooly: That's a problem.

Brendan M.: I think that it's probably risky to assume. I don't know what alternatives you have. So, maybe take this factoid with a grain of salt, but it's not ... It's probably not wise to bank on being able to work in your older years.

Tom Mullooly: That was my takeaway from this slide. People ... Some people may want to work, but then they get sick, and things happen. They get disabled. They can't work anymore, you know, or there's a situation at home, and they've got to care for a spouse or family member, grandchild, who knows? But nearly half of the people who said that they couldn't work anymore was for health-related reasons.

Brendan M.: I liked this stat too. It said, expectations of workers versus retirees. So, the percentage of people that they surveyed that expected to retire at age 65 or older was about 70%. 69% said that they were going to work until later than 65 years old, which seems like a lot of people's plans these days. You know, work until mid-60s seems like a target area for a lot of people now. And maybe that is because it coincides with collecting your full social security benefit, in most cases. But the experience of actual retirees said that just 31% actually ended up working until 65 years old.

Tom Mullooly: You know, I have to believe that the difference between 70% of people who said that they planned on working to 65 or beyond, and the reality of only less than a third, 31%, of them getting their health problems, caring for a family member. One of the reasons that they gave ... outdated skills.

Brendan M.: And I think this goes together with another one that they mentioned, which is just changes at the company, downsizing-
Tom Mullooly: Your job's being eliminated.

Brendan M.: And we hear this from people all the time. It happens. It's reality. I think this just speaks to the idea of like returning to your financial plan because big things like this change over the course of just a year.

You know, your job could become obsolete. For whatever reason, it's not going to be there or you're not capable of doing it anymore. And so, going through these hypotheticals, I think, and saying, "All right. So what if this happens? Would we be okay? We're thinking, you know, our plan A is that we want to work until we're 65 years old, or 66. Well, we're only 60. What happens if, at 62, we don't have the ability to do this anymore? What would we have to do? Like could we live off our investments for a couple of years, and get some new skills to reenter the workforce? Could we work part-time? Could we take a ... Like could we take a lesser role, and just work part-time hours, and live off of our investments?" Like what are the options here, in the event that this happens, because you don't, unfortunately, have control over a lot of these reasons cited for retiring earlier than expected. If you had control, then you would just do what you want to, which was work a little longer.

Tom Mullooly: So when I was 23, 24 years old, I would make easily 200 dials a day. That is now obsolete. I can't do my job anymore. Can I collect like some kind of social disability for that?

Brendan M.: Right. Smile and dial is a thing of the past, Tom.

Tom Mullooly: Yeah, a lot of good charts in here. Some of the things that really got my attention? Income replacement needs in retirement. This was really important. We spend a lot of time talking about this with folks, about how are we going to actually now move forward without a paycheck in retirement>

Brendan M.: The way that we start with this, and I think, Ashy had some thoughts on this too that I thought were pretty good, but we want to get a reading when somebody comes into us on how cash flows exists now. And that oftentimes is with their job. And so, what's happening now, but that's not to say we're going to take your gross or net income numbers and just, you know, that's the assumption we move forward with that you'll need in retirement. I don't think we want to discount it too much. Like there are rules of thumb, like, "Oh, you'll need three-quarters of your income in retirement," or 60%, or whatever it is.

I like to do it step-by-step more, and look at these cash flows, put them into a spreadsheet, and say, "All right, well, like which ones of these are obviously coming off the table?, Like what things do you not do anymore when you are not working and you're retired? You're not sending money into your 401k anymore." And so if somebody ... Hopefully, this is one of the best things out there, aside from just the obvious benefits of a high savings rate. The obvious benefit is that you're saving and, hopefully, compounding money over the years for yourself. But the second benefit of that is if you were saving 20% of your income, you only need 80% right off the bat in retirement to live on because you don't need to save anymore when you're in retirement. You're in a totally different phase. You're not accumulating any more. You're de-accumulating.

Tom Mullooly: So, one of the other things that I think is important to realize is that when folks do retire ... Ashy called it, "Your normal week is six Saturdays and a Sunday."

Brendan M.: Yeah, I loved that.

Tom Mullooly: That's a great phrase. And we're probably going to steal that. But the idea is, "Hey, you know, instead of just going out to dinner on Saturday night, we can go out to dinner four nights a week." Your expenses are going to change, but they're going to change in a different way.

Brendan M.: Yeah. This was a great caveat to this. The chart that JP Morgan shared kind of like shaved off ... All right. So you're not saving anymore. Change in expenditures was, I think, where Ashy took a little exception to what they ballpark. They said, you know, "Shave 8% off of your pre-retirement income to account for how much less money you're going to spend."

And I think Ashby's point was that, maybe over the course of an entire retirement, you could say, "Yeah. You know what? At the end of the road, we did end up spending less than we did, you know, before we were retired." But that is not linear and/or it is not applied each and every year in a sense that, "Oh, we're just going to assume 8% less," because in the first couple of years of retirement, Ashby's point was ... that I totally agree with and you alluded to ... is I think there's actually a little bit of lifestyle inflation when people retire, at least initially. There may be some traveling, they're adjusting to this six Saturdays and a Sunday lifestyle, where maybe they're going out more-

Tom Mullooly: That would be the-

Brendan M.: ... hanging out with friends.

Tom Mullooly: ... equivalent of my doctor telling me that I could start eating chocolate again. "Hey, you're doing great. You can start eating chocolate again." It would be like, "Oh, wow! I can retire. Now I can go out to dinner every night of the week." So you do it for a while. But even after doing that for a while, it gets tiring.

Brendan M.: So if you're thinking of retirement expenses, there may be a drop, in terms of you're not saving any more, but some of that drop, in terms of the income you still need to live off of, may be eaten up. Like let's say you were saving 20%, and now you're ... So you're like, "All right. I only need 80% of my income." 5 or 10% of that, at least in the early years of retirement, if you plan on living it up, may be brought back into the fold because of doing these things or having a little fun. And I think that a smart plan should account for that. That should be part of a discussion you're having with your financial advisor because, I mean, you worked your entire career, and if you're in a good position ... Like you can make adjustments along the way, and you can project that, you know, ultimately you end up living on some less because you're ... less money, you're less mobile later on. I mean, these are all of the counter-factuals, like what-ifs that you want to be thinking about, I think, during the planning process.

Tom Mullooly: Makes sense. We've had the conversation around the kitchen table about maybe we should think about buying a place down in Hilton Head. I mean, we've only been going down there-

Brendan M.: Think of the Mullooly location?

Tom Mullooly: Oh yeah. So, we've only been going down there forever. We actually took a trip down there to spend a little time down there, but also to look around at some things. Some things we could afford, some things we can't definitely afford. But it hit me on the drive home. We all like going down there. I like going down there, especially. We go down to a swanky club, and we stay there for a week, and we can order drinks, and we can go out to dinner every single night. And I'm like, "This is really nice." But can you imagine living there, and having that style of living every day?

Brendan M.: Well, it wouldn't be nice anymore, because I think that-

Tom Mullooly: It's not special anymore.

Brendan M.: Exactly. And I think that no matter what we're discussing, it's this concept of like the hedonic treadmill that people discuss, where like you just constantly adjust to these ... And it goes in both ways. I think you constantly adjust in life to things that get better, and circumstances that get worse too, but we're constantly adjusting to them. And so, for a lot of people the hedonic treadmill means that they are constantly moving the goalpost on themselves. And so, if that life seems nice now as a vacation for a week, it's because it's special, and it's coming from a place where that's a step up. But if that were the baseline, then jeez, like what would be your vacation from Hilton Head-

Tom Mullooly: Oh, my goodness.

Brendan M.: ... and the club there? Like would that be ... What's the next level? I don't even know.

Tom Mullooly: I couldn't even think.

Brendan M.: I can't imagine. You can't imagine it now, but I'm sure you could after you adjusted to that lifestyle for a year or two. You'd be like, "Ah, this is normal."

Tom Mullooly: "I can't play a shipyard anymore." You know?

Brendan M.: Yeah. "I play golf every day. We go out to dinner."

Tom Mullooly: I would be at Heron Point, you know, every day.

Brendan M.: Man, I'd be like 50 pounds heavier too.

Tom Mullooly: Well, that's a problem for me if I'm 50 pounds heavier than I am. So what's your big takeaway from Ashby's post?

Brendan M.: I think there's a lot to consider when you're thinking about retirement. And I think that good advisors and planners, like I hope that we are, and that I know Ashy does great work too, that we're discussing these kinds of things, and we're using this kind of data to make informed decisions. And it's not to say, "Oh, we're just going to use the average here and say, this is exactly what you have to do because the numbers say that it makes sense," but it should at least be the starting point for the discussion. "Hey, here's what the data shows. Here's why we project you're going to live out into your 90s," or, "Here's why we can't bank on the fact that you think you'll be able to work until you're 70. And here's what we should do about that to make sure that you are okay, no matter what life is throwing at you."

Tom Mullooly: Yeah. I think my big takeaway, after looking at these slides that Ashy put together from the report, retirement is squishy. Planning for retirement is really an ongoing process. We meet a lot of people who say, "Yeah, I met with a financial planner three years ago," and they did a one-off kind of plan. It really doesn't work that way. It's something that's ongoing, and you need to be in touch with your advisor or planner on a regular basis. At least checking in to let them know what's going on. Things do change.

Good message. We thank Ashby Daniels for putting this together. A great post. We'll link to it in the show notes.

So that's going to wrap up Episode 248. Thanks for tuning in, and we will catch up with you on the next episode.