Retirement Can Be Longer Than You Think - Transcript

Tim Mullooly: Welcome back to the Mullooly Asset Management podcast. This is episode number 267. This is Tim Mullooly. With me today is Brendan. Brendan, how are you doing?

Brendan: Okay, now that we're back here in the office. We lost power. Unexpected power outage Monday evening this week. A lot of people in Monmouth County area were affected.

Tim Mullooly: Yeah. One of the quickest, but craziest thunderstorms I think I've seen in years came through here on Monday night. It was nuts. I've got a lot of power.

Brendan: Yeah. I don't know, it's pretty wild how used to the modern conveniences we've become. I can do it without TV or internet, that's like a minor annoyance in my book, but air conditioning this time of year was definitely what I missed the most.

Tim Mullooly: Yeah. At my house, we were missing power from I think like 7:15 on Monday night through until like 2:00 PM, 3:00 PM on Tuesday. You're right, sleeping at night without any air conditioning, we've definitely been spoiled by the AC units. Yeah. I mean, even without apps or TV or internet, or just electricity in general. Monday night it was like 8:30, it was getting dark, and the power went out. I was like, "Well. I guess I'll go to bed." This is what happened before electricity. Oh, it's dark out? Time to go to bed.

Brendan: Yeah. Puts things into perspective, for sure.

Tim Mullooly: Yeah. So, before we dive into the couple articles that we have today, I want to talk about the Mets for a second, and how it always reminds me of the sequence of returns in terms of investing and how it matters I guess to an extent, like in terms for the Mets, when they win, because it's a long season, but the season gets a lot shorter when there's the trade deadline coming up, and teams need to make a decision in July whether they're going to be buyers or sellers, or if they're essentially going to go for it that year. The last couple of years for the Mets they've had really rough Junes, and that's kind of ruined their seasons, so now they're at the point where even if they play really well down the stretch, they're too far out of it, and they have the trade deadlines next week. They're going to be selling players at this point.

Brendan: Yeah, I think they-

Tim Mullooly: Even if they end up at like, around 500, which you think at the end of the year, like, "Oh, that's not too bad," but-

Brendan: The path they took to get there matters.

Tim Mullooly: Yeah, definitely.

Brendan: That's what you're saying, and winning games down the stretch to get back to 500 is maybe not as exciting as if they had perhaps hovered around 500 all season long, nice and even. Win a game, lose a game. Win a game, lose a game. Not that way you have a month where you lose several in a row and then pick up one, and lose several more. It definitely changes the perspective of the fan base, and it changes the way that they operate the team from a management perspective.

Tim Mullooly: Yeah, definitely. Which is interesting.

Brendan: Yeah, kind of like sequence of returns. There's actually an article this week that kind of talks about that period of time where people are most concerned with sequence of returns, and that's early retirement time-frame. Really good article from Ben Carlson about how you may have longer than you think to invest for retirement. He touched on a big concept that we discuss with clients who maybe feel the pressure of early retirement, believing that the biggest risk they face in that phase of their life is the market crashing or a recession, or both, when in reality, obviously, those do have an impact on the way that you manage your cash flows and your portfolio, but there are other things to consider at that point then. I thought Ben did a pretty good job putting some of these changes that we've experienced in modern society into perspective.

Tim Mullooly: Yeah. He talked about one of the numbers, like going back to he said 1870, 90% of males were in the labor force, participating in the labor force, whereas today that number is down to 20%, and this is for males over the age of 65. So, back in 1870, 90% of the males who were over the age of 65 were still working, whereas-

Brendan: Yeah, there's no such thing as retirement then. If you were alive, you were still working, because no one had invented this concept of hanging it up. Work was work, whether you were 10 years old or 80 years old.

Tim Mullooly: You worked, and then you died. Yeah.

Brendan: People were also living not as long then. I think the average, the other stat that he shared was that around 1900, the average mortality percentage for U.S. males in the first year of their life was 20%, meaning you had a one in five shot of not making it through the first year of your life. We don't reach a 20% probability of death in the U.S. here for males until age 62 now, and that's when people are thinking about retiring.

Tim Mullooly: That was like the total life expectancy for men back-

Brendan: Period.

Tim Mullooly: Yeah, period. If you were 62 years old, you were considered-

Brendan: You're above average. You beat the odds at that point. I think, so he said like 100 years ago, the average American died at age 51, and now average retirement age is 62.

Tim Mullooly: Right. So, just to put into perspective how relatively new the concept of retirement is, and also how much longer people are living, if you take into account that people tend to retire around age 65 nowadays, but they're living longer into their 90s, potentially like to a hundred. You retire, and the natural reaction is, "I'm going to retire. I should be more conservative. I should protect my assets and protect my money because I'm not going to be bringing in income anymore. I don't want to lose what I have." But at the same time, you're kind of cutting yourself off by-

Brendan: Also, the phase that comes up a lot is, "I can't afford to take losses in my investments." I agree to a degree. I think that you got to take two ends of the spectrum and balance them, and so obviously, you may not live forever, and you want to make sure that you spend the money that you took your entire career to accumulate, so you want to enjoy the fruits of your labor in retirement. But also, you got to weigh that against the other end of the spectrum, which is, "What if I live until 95, and I spent too much early on in retirement?" So, how do you balance those two obviously very, very different problems of-

Tim Mullooly: I need to protect my money, but I also need-

Brendan: Protection, but also not outliving it.

Tim Mullooly: Exactly, yeah, so it's a fine line, and that's why at the end, Ben stressed the importance of financial planning more than ever, to make sure that you have a plan in place to not outlive your money, but also not have it extremely, like too much at risk.

Brendan: Yeah. The planning process is going to help you to determine what percentage of your assets can sit in something safe, and probably not earn too much interest these days. I mean, another stat that he shared in that post is that 2% inflation, if we average something like that over a 30-year retirement, let's say, beginning today, if you do nothing with your money, meaning you don't get any interest at all, it's under the mattress or in a bank account earning nothing, 30 years of retirement halves the purchasing power that you have. So if you have a million dollars, 30 years from now, the million dollars is only going to by 500,000 dollars' worth of stuff. That's an average when we talk about inflation, because as many current retirees can tell you, some things that we pay for in our society have decreased in value a ton. Like electronics, for example. Computers and TVs, the stuff that you can get now, the dollars go a lot further than they did like 10 years ago, and so there's been a deflation in some areas of things you spend your money on.

But at the other end of the spectrum, you've got things like healthcare just exploding, like going through the roof, and so the things that retirees need may not all necessarily just be 2% more per year, and that's not going to happen ever year, but over time, your money buys less stuff, and so you got to have some portion of your assets growing, and so when you put together a plan, hopefully, you come to an answer of, "How much risk do I need to take?", because not many people want to take any more risk than they need to. You come up with a sensible mix of growth assets and stuff that's safer, that's going to throw off a little interest and pay for the more current expenses, while you can take a little more risk with the growth piece and hopefully hedge against that risk of running out of money over 20, 30 years of not working anymore.

Tim Mullooly: Yeah. It's definitely a balancing act there. Another point that Ben brought up in the article was that people are worried or suggesting, perhaps, that all of the baby boomer generation retiring and potentially taking all of their money out of the market is going to crash the market, and he had a couple of points to ... He was like, "There are a number of reasons why

I think that that's not correct, or not going to happen. I mean, one of them being that yeah, there's a large portion of people heading for retirement in the next decade, next handful of years, but it's been widely noted how baby boomer generation is very, very under-prepared for retirement, so these people are going to have to have a larger percentage of that balance that you were just talking about. They're going to have to have a larger percentage of it still invested to make up for their lack of savings that they didn't accumulate over the years.

Brendan: Yeah, you got to come up with a mix that's, it's usually a blend of what the person is comfortable with. People again tend to not want to take much, if any, risk once they reach retirement, but realistically, they may need to have a portion of their portfolio growing for the future, and it may be a portion that is more than they anticipated.

Tim Mullooly: Yeah, absolutely. He also noted how the millennial generation is now larger than the baby boomer generation just in general.

Brendan: So, there are people waiting who are also going to be buying stocks as they accumulate, and try to grow money for their own futures.

Tim Mullooly: As I'm sure has been the case with every generational turnover from the beginning of time.

Brendan: Yeah. Yeah, I don't think that using demographics as a standalone metric for why the market can't continue, I don't think that really works out. I think people just need to, on their own terms, figure out what a portfolio is going to look like that's going to stand up to reality, which is that if they're thinking about retirement in their early to mid-60s, they've got to plan for something that's 20 to 30 years, and obviously adjust over the course of time, as things happen, but you've really just going to have the right mentality with your money, because while you may not think that you can afford to take any losses in the market, that may be true with a portion of your money that you want to earmark for spending over the next one to three, three to five, five to 10 years, even, you want to be very conservative with stuff on the front end of that spectrum, a little bit more moderate with things in the five-to-10-year range, and then the 10-plus-year money, yeah, you want to have that in an allocation that can grow.

If it helps to separate those things out mentally, to know that, "Hey, my portfolio is down a little bit because the market hasn't been so hot lately, but I'm only really taking losses in the portion of it that I have earmarked for 10 years down the road," at this point, you can mentally think of that portion of your portfolio, whatever percentage is in there, "Oh, that's my 20-30-money. All right. Well, you know what? I do have some time to make that up."

Tim Mullooly: The volatility there is okay.

Brendan: Yeah. Maybe you don't have your monthly 401(k) contribution going in anymore, which is certainly something to be aware of, but you do have 10 years to ride out market volatility or whatever it actually breaks down to, and if you look at the odds of growth being there over a horizon such as 10 years plus into the future, the odds are good that we're going to get through whatever it is is the scary thing du jour at that moment in time, and that money in that bucket will come through for you when you need it down the road.

Tim Mullooly: Yeah, definitely.

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Tim Mullooly: In terms of financial planning and making sure that your money lasts for you, and that you find the balance of enjoying your life now while also still having money for retirement, he's significantly younger than the people we were just talking about, but the NFL running back Adrian Peterson was in the news yesterday and over the last couple days. Don't want to kick him while he's down, but there's a good lesson to be learned here in terms of the amount of income you have versus being able to live comfortably and not go into a serious amount of debt.

Brendan: There was an article in The Athletic, and basically, the premise was that after this upcoming NFL season, Adrian Peterson will have earned over one hundred million dollars playing football.

Tim Mullooly: Highest-paid running back in NFL history.

Brendan: Correct. Over the last two years now, there have been three law suits filed against him, all pertaining to debt collection. He's taken out loans and hasn't made payments, and so people are coming to collect their money from this guy who seemingly, on the surface, most would think this guy should be more than fine. I don't think we have the full story, and this could be another case of a professional athlete kind of being taken advantage of by bad players in our industry or related industries in terms of money management, but whether he was receiving guidance or not, I think there's a lesson here that you can be rich or poor at any income level based upon what it is that you're spending. We're looking at a guy who has made a hundred million dollars, and in terms of looking at his balance sheet, if we were to sit down and put one together for him, I would guess that his net worth is negative or close to zero from the sound of things, which means he's poorer than somebody who hasn't even earned a million dollars in their working career, but has been diligent in terms of living beneath their means.

Tim Mullooly: Yeah, exactly. I was going to say, in our industry, it's become kind of a cliché phrase, but live within your means is so important. I mean, I've heard from friends and peers that, "Once I get to this income level," or, "Once I'm making 100,000 ... I just want to make $100,000 a year, or X amount of dollars a year." I don't want to lecture my friends, but it's important to point out that the income level is not necessarily the important part. It's the difference between what you're making and what you're spending. You know, you can have someone who's making $40,000 a year, but they only spent $30,000 or $25,000 a year, and they're happier than the person like we're just talking about, like a running back who made a hundred million dollars, but is in debt.

Brendan: He's got nothing to show for it.

Tim Mullooly: Yeah. So the income level is less-

Brendan: Or, has a lot to show for it, but maybe doesn't own any of it, and it's all going to be repossessed sometime soon. I think Morgan Housel, who is a writer who we know from Twitter and elsewhere, but I think he has said some variation of the quote that wealth is what you don't see, implying that your savings and the stuff that you forgo buying to make maybe wiser decisions is really what turns into wealth over time, as opposed to that Mercedes in the driveway or the big house that you can't really afford, or any number of other things. I think it's not necessarily to say that you shouldn't ever buy those things. If you can afford nice things that you want, and you can fit it in and not stretch yourself too thin, or take on debt to get it, or turn your net worth into decidedly negative equation, then I think that's okay. I'm not here to tell people what houses to buy or what brands to own, but you just need to really take to heart that message of living beneath your means.

I think that it's a big reason why our process here for financial planning and working with clients always begins with putting together a map of their cash flow and their balance sheet for their household, because so many people, and I think athletes and maybe high earners especially, can be convinced that since they earn so much, that doing like a cash flow worksheet is beneath them, and that they don't need it, but no matter how many zeros are after the numbers, it can get away from you, and I would venture to say even more so when there are more zeros than less, because then, when the debt adds up, it's some serious money. Like, these people are coming after Adrian Peterson for several million dollars apiece, looking to collect their debts. Not sure how he got into this spot exactly, but man, yeah. You would think if you told somebody on the street, "Hey, you're going to earn 100 million dollars over the course of your working career, no matter what field you're in," I think most people would assume based upon that they're going to be okay.

Tim Mullooly: And that you never have to worry about money again.

Brendan: Right. Most people would take one percent of that and say that that would set them up pretty nicely to not worry about money for the rest of their life. If they got one million dollars today, I think that would help a lot of people out, but the trick is not acting like you just received that million dollars. You continue living your life based upon whatever your income level is now, or doing the same or similar things that you're doing now, and let that money really be valuable to you rather than just stepping up and saying, "Well, I have this money now, so I'm going to spend it."

Tim Mullooly: Yeah, exactly. The income level for people is not as important as the spending and the savings, but also just regardless of income level, debt in general is just a killer. I mean, whether you're making 40 grand a year or 100 million dollars, debt will come back to get you if you don't manage it correctly, and that all works into the cash flows and everything that we were talking about. So, hopefully more comes from this story and Adrian Peterson is okay.

Hopefully, that works out for him, but still a good lesson nonetheless to talk about.

But that's going to wrap up episode number 267 of the Mullooly Asset podcast. Thanks for listening, and we'll see you on the next one.