Casey Mullooly: Welcome back to the Mullooly Asset Podcast. This is your host, Casey Mullooly. Tim and Brendan are here again with me this week. Guys, thanks for hopping on. We're back for episode 405, and we're going to get into the weeds here, when it comes to retirement planning and talk about some high level ideas and concepts that we talk about a lot while we're sitting around the conference table with some clients. I wanted to get your guys opinion on a topic of conversation that comes up a lot, in dealing with clients, and building financial plans, and making decisions within those financial plans.

It's a high level conversation, and I'm not trying to pin you guys down here to any, better or worse than, answers. But I'm going to do exactly that. Is it better or worse? Is it better to have a lower amount in your investment account, and lower overhead expenses or is it better to have a higher amount in your investment account, and higher overhead expenses each month?

Brendan Mullooly: There's a lot that goes into that and it depends, but we can definitely flesh out what depends means here, because I think there are a lot of things to think through. For starters, the expenses and how solid or not they are matter. Because all else equal, if we're talking these numbers are rock solid. They're not going to change unless you do something like move or have a big change in your life. If we're talking your actual bills, then, I guess, in that case, you could be better off having less, but lower overhead. Obviously that's relative to the total amounts. But to say that maybe the expenses are... Everybody's expenses are discretionary to some degree.

You have some control over that. It's one of the biggest variables that we actually have direct control over when we're talking about financial plans. And if you have some wiggle room then I think, of course, all else equal, you prefer to have more money, because you can make adjustments down in spending. Whereas the money, if you're at retirement especially, you've accumulated what you're going to accumulate. And the idea that you would come into more money, or somehow make your accounts grow, while also drawing down on them. I think you'd prefer to have more.

Tim Mullooly: That was going to be my answer as well. If you had to pick one or the other, I would opt to have more money with more overhead, because you could always change the expenses if you really needed to, and wiggle that overhead lower, which means you have more money in your investment account and then lower overhead. Because otherwise I think it's... If we're assuming the same withdrawal rate and investment return rate for both, then they're almost a push, in that sense, because you're withdrawing the same percentage. Even though the dollar amounts are going to be higher or lower, if the assumptions are the same, then there wouldn't be too much of a difference.

Casey Mullooly: I think it depends on, Bren, like you said, what are the levers that we can pull in those situations? One of the levers, what you guys are talking about with the expenses, you can make cuts. But if you don't... If you are in the situation where you have less in your investment account, the only way that you're going to be able to increase that to offset the spending is by taking more risk in your investment account, which could work against you.

Brendan Mullooly: It's no guarantee of the better returns that you need to make up the difference.

Tim Mullooly: And then if you-

Brendan Mullooly: Over a long time, probably taking more risk is rewarded with better returns. But definitely not in the short term, we don't know that.

Tim Mullooly: Especially if you're withdrawing from these investment accounts to pay for the expenses too, then you have money coming out and you're taking more risks. If you have these expenses coming out of this account every month, and then the market goes down, you're only doubling down on how much is coming out of that account.

Casey Mullooly: We usually like to see if someone's drawing down their account because they're spending the money on every day stuff like groceries and mortgage payments and rent or whatever they need to spend the money on. We usually like to see them scale back the amount of risk in their account not take more.

Brendan Mullooly: It's counterintuitive but if you look at retirement planning tools, like the Monte Carlos, or any variation of retirement income planning, I think sometimes it's counterintuitive to folks not within our line of work to see that results, projected results at least tend to look better when you're making withdrawals from a more balanced portfolio, as opposed to one that is 100% in the market, let's say, just because you're not subjecting yourself to the full swings of the market. And therefore maybe taking distributions in a larger draw down than you otherwise would be in, if you had a more balanced mix when the market happens to be doing poorly.

Tim Mullooly: Then I guess it would depend on what your withdrawal rate is versus what your investment assumptions would be.

Brendan Mullooly: It depends on what the money is being used for, because I think in this theoretical example, we walk through this with folks in a lot of cases, when they're looking at making a big purchase, like a property, or they want to unload a burden like a current mortgage.

And they think that the idea maybe of... The one that comes up a lot in particular is being in retirement with no mortgage. You assume on the face that you would prefer that because you're going to have lower overhead. And that means less stress on the portfolio, but you got to remember too, that there's a chunk missing from that portfolio to get to that point. Which one of these is better? It's a trade off and it depends... On top of that because real estate in particular, it has more value to it than just the dollars and cents. You can definitely borrow against things like real estate too, which is maybe beyond the discussion for today, but it's not even necessarily just a dollars and cents decision. If you're talking about moving and you want to buy a house and you could have less, but you could have a house that makes you really happy.

Does that happiness outweigh the chunk of money that's going to be missing from your retirement accounts? And if the numbers don't look all too different, like what Tim was getting at, maybe the distribution rate's the same with the lower expenses and the smaller portfolio versus the bigger portfolio and the higher expenses. You have to factor in-

Tim Mullooly: And it comes down to a less of a financial decision and more of your general overall-

Brendan Mullooly: And that matters.

Tim Mullooly: Happiness decision.

Brendan Mullooly: That totally matters. I know people come to us for the dollars and cents feedback, but when we get to this point in a conversation where the results are comparable, then I think that it does... You have to know what the money is being used for, because it could very well be something that is such an improvement in quality of life standards that it's more worth it than anything that the money could have otherwise been spent on. And those are the intangibles that we help people with as advisors.

Casey Mullooly: I know on a recent video, I referenced a blog post done by Mike Piper about why you should use conservative spending amounts in retirement and he pointed to research that showed that the biggest risk to retirees is actually healthcare spending later in life and not market uncertainty. I think... I know we talked about how spending is more within people's control, but sometimes it's not.

Brendan Mullooly: This was... I remember reading this post. It was like spending shocks in retirement.

Casey Mullooly: Yes.

Brendan Mullooly: And the biggest spending shock that people will encounter is unforeseen healthcare expenses. Totally. We could make a really good budget-

Casey Mullooly: No one's foregoing that.

Brendan Mullooly: Yeah.

Casey Mullooly: No one is foregoing.

Brendan Mullooly: It's not a choice. You don't... You're right. You don't have complete control over your expenses. You do to some degree, but some that's not a discretionary expense.

Casey Mullooly: Exactly.

Brendan Mullooly: I'm doing this or there's serious ramifications.

Casey Mullooly: And that's a different discussion from maybe paying off a mortgage in retirement. But I think-

Brendan Mullooly: Not just as important.

Casey Mullooly: Assuming that when we talk about your expenses today, we have to make some assumptions when we're building a plan and that I think is the best that we can do is take what your life looks like today and at least over the next one, two, maybe out to five years, use those numbers to project what you're going to need from your investment accounts over the short term, but things happen and life changes. And I think having that wiggle room provides the peace of mind that a lot of people are looking for.

Obviously, I think that there is a degree that we want to plan for but there's also things that we can't plan for, like when people get sick and need to have medical treatment and that costs a lot of money. Obviously, that's one of the things that we'd rather not plan for but I think that when you really boil it down to health and making sure that people are around for as long as they can be, it's the number one reason why people save their money.

Brendan Mullooly: It's tough to even plan for those well I think because so much is just unknown. Let's say that we built in a surprise factor to retirement spending and patted the numbers a bit because we just can't predict things year to year or health emergencies at all.

But somebody who gets really sick at some point, maybe 50% of their monthly spend is going to healthcare and that's at the expense of other things that they were doing when they were healthier. It's not... You can't even just take it at face value and be like, "What if I got sick with this? What does that cost today? Let's inflate that into the future and say, surprise, when I turn 78, it's going to be this thing." You can get that specific if you want. I'm not sure there's value in it. It's just... I think you need to know that the cost can transform over time, which is as good a reason as any to continue updating them over time but also on a year to year to just build in the bleep happens fund where life throws a wrench in your plans and you're spending some money, you didn't think you were going to. It's a virtual certainty, although we don't know what the details will be until it comes.

Tim Mullooly: I feel like the best way you can plan for that really is to just while you're healthy and drawing down money or using, having expenses to just not overspend while you're healthy, to make sure that there is money left when, or if something like that happens.

Casey Mullooly: It's tough. You got to wait-

Tim Mullooly: You can't put a real dollar amount on I'm going to need X amount of thousands of dollars when I turned 75, because this is going to happen. We don't know that.

Brendan Mullooly: It'd be great if we did. Make life a lot easier to map out but you have to weigh the other side of that too, because if you leave too much for contingencies, then are you checking out at the end with regret.

Casey Mullooly: You need some enjoyment on the table too.

Brendan Mullooly: You have to balance those because they're at odds with one another and I certainly understand both sides of that. You don't want to be so cautious that you don't get to experience all the fun things that you could have, but some things we just don't know and you have to be prepared for them. That factors in when you're talking about big decisions with a change in not only the balance sheet, but the expenses moving into retirement, leaving wiggle room for some of the unknowns like that, I think matters too and can be part of the pros, cons discussion if you're thinking about what puts you in better shape. If you have more in the account or if you have less and you have some enjoyment out of that.

Casey Mullooly: I guess the best answer to my initial question of which one would be better would be to have more in your investment accounts and lower overhead spending.

Brendan Mullooly: Yeah. That's the match made in heaven.

Casey Mullooly: I also thought that-

Tim Mullooly: Or have a crystal ball to know what things are going to look like in the future.

Casey Mullooly: I'll take a crystal ball every day.

Brendan Mullooly: If we knew for the next 10 years that there weren't going to be any unforeseen things.

Tim Mullooly: Super healthy.

Brendan Mullooly: Spend then. Spend higher then and plan to transform the expenses after the life changing event that's going to occur in 2033 or whatever but short of having that crystal ball information, you have to take the full range of outcomes into account.

Casey Mullooly: I think that's the real value of retirement planning and I know we always say it, but it's an ongoing process. And I think that trying to thread that needle, on one hand, you could like you guys said, really miss out because you're scared that something is going to happen down the line.

And then if it doesn't happen, then maybe you'll be kicking yourself. We have to thread that needle and aim for something, but make changes along the way. I think the really interesting thing from that article from Mike Piper, which we'll link up in the show notes was that market uncertainty wasn't the biggest risk facing retirees.

Brendan Mullooly: Yeah. It's one that we spend an in inordinate amount of time discussing, and certainly focusing on behalf of clients as they hire us to do that portion of it for them. But I think that over a 20, 30 year retirement, I think the market returns will be somewhat predictable or close to expectations. We have pretty good data that shows what the market does over periods of time like that but it seems wild on a day to day, but there are far bigger risks to retirement than just the stock market. That's for sure.

Tim Mullooly: People do spend a lot of time worrying about what happens if the market drops a lot right when I retire and stuff? Obviously, you can't just completely eliminate that worry, but there are a lot of other variables not including market risk that you can actually control and you can't control what the market does. Like Brendan said, over a span of 20, 30 years, we have a pretty good idea of what's going to happen. But if people are worrying about certain things in retirement, you're going to drive yourself crazy worrying about the market because you have no control over the market. Easier said than done, but just don't worry about the market.

Casey Mullooly: The amount of time spent talking about the ins and outs of market dynamics and investing strategies is the overwhelming majority of the discussion points when it comes to financial planning and retirement planning.

But there are a whole host of different things that are probably less exciting to talk about, but probably more valuable to talk about.

Brendan Mullooly: What? You mean you don't want to talk about retirement income planning, dude? Why not?

Tim Mullooly: Not only more exciting to... They might be less exciting to talk about, but they're more actionable. You can actually do something about those things. Some people like to check things off their list and be like, "I actually did that. We can move on to the next thing." You can actually do that with some of the other parts of retirement planning and projections and whatnot.

Brendan Mullooly: One thing in particular that I'm thinking of is it's in the weeds of financial planning, but rather than focusing on the big market fluctuations, really what people are actually worried about is the income from their portfolios, which is related to what's happening with the market, but you could talk about contingency plans for if the market is going through a poor stretch, which should be our expectations when we're talking about multi decade period. We're going to have to get through a period of time like that.

And we know what we're going to need from the portfolio as a result. How flexible can we be with those numbers? And are we willing to hypothetically pull back on expenses, spending? Do a dynamic withdrawal, as opposed to taking the same amount from the account every single month. You can map that out and it's not specifically related to the market. That could be a more valuable use of time than worrying about swings in the market day to day. But what are you going to do as a result of it?

Casey Mullooly: But what's your year-end price target for that? S&P500?

Brendan Mullooly: Yeah. That's it.

Tim Mullooly: I'll tell you after you take care of all the rest of the stuff on the checklist, you know what I mean?

Casey Mullooly: Deal.

Tim Mullooly: I'm not actually going to tell you, but do the actual things that you can actually do first, and then we will worry about that.

Casey Mullooly: There's a lot to consider there. I know we covered the whole range of retirement planning there, but there's a lot of discussions outside of what the market has been doing over the last week, month, or even year that we can be having and that we are having with people. If you are interested in having those conversations, definitely reach out to us and we can have them with you too. That's going to wrap it up for episode 405 of the podcast. Thanks as always for tuning in. Any parting words here, guys? Let's go, Mets?

Tim Mullooly: Let's go.

Casey Mullooly: Cool. Let's go, Mets. We'll see you next week.