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[Mark]

Hey everyone, it's Mark with another episode of the PlanVision podcast. I'm going to chat about guard rails. Well, these come up a fair amount with our clients, and some systems, online systems, and even advisory groups use guard rails as a way to help people think about their future and planning in retirement. And it's tied into how much people can spend in retirement. The guard rails give you a notion of how to handle your portfolio spending amounts based upon market performance. And it's very desirable for many to have an idea of how much they can spend. It's perfectly fair, I understand this. There has been a primary rule in quotes, "rule" in quotes, which many are aware of, and it's the 4% rule. If you spend 4% a year, you'll never run out of money. Now there even now appears to be a debate about that. Is it really 4%, can it be higher than that? Seen some bigger numbers. Which is where guard rails fit back into. And in theory, they allow you more flexibility. The guard rails, as I understand, enable you to spend more or less, depending upon market performance. And you might think, well that's understandable. If the market is doing great I can spend more. If it's not doing as well I can spend less.

My view of guard rails is that I don't like them. I'm not comfortable with using them. I don't think they're necessary. They don't sit well with me. Frankly, I think it's a relatively crude way to think of your life and your money. And let me explain. First, I don't like at all, and this is maybe my strongest point, the idea that your life in retirement, what you do, your quality of life is dependent upon the performance of the stock markets. Doesn't sit well with me at all. When you're a younger retiree and you're healthier, you're going to want to do more. These are the most important years for you. You don't know how long you have. Let's take a time period from maybe 60 to 78. A time frame I'm going to use here, it's about 18 years, right? Well, as you get older, don't they go faster? What does a 75, 80, 85 year old think? What do they want? Maybe they'd like their time back. As you age, do you have friends, family, people that are close to you that have passed or have gotten ill, can't do the things that they want? It happens more to us as we age. Your body and your energy change. So here's my point, if you're going to think about how you're going to live your life, I don't think you can sacrifice years. Let's say 63 and 64, you're in good health and you want to do things, but you have to restrain your spending because the markets don't do well? Seriously? Is that a consideration you're going to do? Hey, let's wait and see how things are going when we're 65, maybe we can spend a little more money. Keep your fingers crossed. That just sounds awful to me that you got to curtail spending just because you want to have a higher rate of return to have more money when you're 90, and you may not even know that you have more money.

The second one is that as you transition, you think about your future, you should know your expenses. You have a good idea of what your fixed and discretionary expenses are going to be. A pretty good notion of that. Of course, there's going to be some bumpy times. But for the vast majority of people, is there really going to be some dramatic change that you could experience? What I mean is if someone is spending 125 a year, might they also spend 180 a year because the market shot up? I don't think so. I think there will be a small change in spending likely. Increased consumption habits to enjoy life a bit more. But it wouldn't be a large change. That's why I don't think you have to let the markets dictate this. To me, it would be unusual behavior for someone to spend significantly more due to

market performance. Now some could do it. But most people just don't behave like this as they've gotten older and they have a better understanding of what they enjoy in life. My point is that you can spend a little bit more, maybe spend a little bit less or even maybe more than a little bit more, if you want, without markets dictating those.

A third point that I would mention about this, how do we think about the time frames that we're using these guard rails? Is it a calendar year? Is it the most recent rolling 12 month period? Is it next year? How do you do this, right? What I mean by that is let's say last year was a bad year in the markets. Does that mean the year going forward, you've got to limit your spending? Kind of like some sort of a government testing program? And then what happens if you do that, ok, I'm going to use the prior year, that's my rule. Prior year was poor, I have less money. Now well I'm going to spend less. Well, what if the beginning of the year is a rally, straight away. Now what do you do? And if the year that you're in is bad. You had plans to do things, all of a sudden the market completely tanks 20% sell off in July and August, but you had plans in the fall. Do you just have to postpone them until January when you're starting a new year? So there's this arbitrary component to it, the timing of it that just doesn't sit well with me.

I also want to talk about this from the perspective of an advisor. Now over my career, I've worked with thousands and thousands of people. Many of them are retirees, many of them are pre-retirees. I have never felt the need to tell them to have a guard rail for spending. I think I can talk with them in a common sense way about the numbers, how they're spending their money without having necessarily a true guard rail. I just don't think it's something that needs to be focused on if you've got a well thought out plan. My gosh, for me, a much better way to deal with this is setting up a portfolio that's going to work for you regardless of what happens so you can spend your money, what you want to spend it on without being dependent upon what the market does. You know, no one knows the future. But for those living off the money, time can be short and the future will be or can be uncertain for sure. So using asset allocation as a way to protect your spending patterns and enjoy your life is a much smarter way to think about spending money than having limitations based upon market performance.

[Outro]

Thank you for listening to the PlanVision podcast. Let us know if you have any questions or comments on the topics covered.