Sound Retirement Radio.com
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HOSTED BY JASON PARKER

021 The Truth About Retirement Plans and IRAs with Ric Edelman

Speaker 1: Welcome back, America, to Sound Retirement Radio where we bring you concepts, ideas and strategies designed to help you achieve clarity, confidence and freedom as you prepare for and transition through retirement. And now, here is your host, Jason Parker.

Jason: Seattle, Tacoma, Olympia, Gig Harbor, all the good people right here in Kitsap County, welcome back to another round of Sound Retirement Radio. You know, I'm so appreciative of you all. And I am very grateful for the phone calls that we get and the emails.

Recently, I had a gentleman ask me locally here to come speak at their Rotary Club, which was just an awesome, awesome, experience and awesome time. Got to meet some really wonderful people, and I know that everything happens for a reason and, I hope that the message that I had to deliver that day really connected with the people that I that I got to meet with.

As you know, we are always looking to bring experts on to this program who can add real significant, meaningful value to our listeners' lives. I've got one of those people with us. But before I do, I know how much you all enjoy my jokes every Saturday morning, so I've got one here for you.

The first one is, What do lawyers wear to court? Well, they wear suits, of course. Law suits. (laughs) And then my, my next joke for the morning, this one, the grandkids will probably get. What did one pencil say to the other pencil? You're looking sharp! (laughs) You know, I love these jokes. My daughter, she's six years old, and she sits there at the kitchen table.

Oh, I'll share with you one more because this is her favorite. She says, "Dad, what did one tomato say to the other tomato? Ketch up!" (laughs) She's told me that joke probably fifty times. But they are kind of a fun way to start your morning. Anyhow, back to our show, our topic. Sound Retirement Radio is all about retirement. It's about adding significant value to your life. We want experts on this program who we believe can add that kind of value.

Today, we have Ric Edelman on the program. Ric Edelman has three times been ranked the number one independent financial advisor in the nation by Barron's. He and his firm have won more than one hundred financial business and community and philanthropic awards. And his, commitment to teaching consumers about personal finance and have, established him as a popular financial professional in America.

Ric Edelman with Edelman Financial services, welcome back to another round of Sound Retirement Radio.

Ric: Thank you very much, Jason. Good to be with you.

Jason: Boy, it's great to have you on the program. I have to tell you Ric, you know, it's been a couple of years, I think, since we had you on the program originally. And your program, our interview, has been one of our top downloaded podcasts from iTunes.

Ric: Well, thank you. That's very nice to hear. I'm happy to be able to convey this information to your terrific audience.

Jason: Yeah, people really connect with the way that you communicate, and you're only second to ... We had Dr. John Maxwell on here talking about leadership once. And you know, he's got you beat by a couple of books. He's written, I think, over sixty now.

Ric: (laughs)

Jason: (laughs)

Ric: I have a long way to go. I only have eight.

Jason: (laughs) Yeah, boy, you're doing good. Which brings me to my first question. You have eight books out. And you've got a new book out right now, which I've had the opportunity,not to read in its entirety, but I have had a chance to read through a lot of it. It's The Truth About Retirement Plans and IRAs. Why, after writing, already having several books out, why did you feel compelled to write another one? This one specifically?

Ric: It's an outgrowth of 2008. We all know what we went through in 2008 in the credit crisis with the incredibly deep, prolonged and startlingly unexpected decline in the stock market, the resulting loss of jobs, the millions of Americans who lost their homes. At the same time, baby boomers are reaching retirement age at the rate of 10,000 per day. So we have millions of Americans reaching retirement at the very moment their retirement was removed from them.

Their financial security was destroyed. They lost the value of their investments, their homes, and they lost their income from their jobs all at the same time. Although I've written across the complete array of personal finance over the last twenty-five years, and including, as you pointed out, I've dealt with the subject of retirement very often. It's an integral part of financial planning, of course.

What we're not finding ourselves in is a situation where retirement planning is now the number one financial focus for most Americans. In fact, in a recent survey just done a couple of months ago, home ownership fell to number two as the American dream. In the survey that was done, they asked, "What is the, what is the number one financial goal you have?" And for decades, owning a home has been the number one goal of Americans. It no longer is.

Retirement security is now the number one goal of most Americans. Home ownership is now number two. So people are thinking very hard about retirement. They realize the precariousness of their jobs. They realize that they can't count on their employer. They can't rely on the government. If they're going to enjoy a retirement in security, it's up to them to pull it off, and yet no one knows how to do it.

So although I've written about it in prior books, I'd never gave it the full breadth and depth that the subject demands, and I have never found any other book on the subject that does it either. So I said, "This is a real need. Americans need to know how to handle the 401(k) where they work or their 403(b) or Thrift Savings plan if they're in the government. Whatever their retirement plan is at work, you need to know how to contribute, how to manage the money in the account and how to withdraw the money in retirement. Those are the three parts of the book.

Part one is for people in their twenties and thirties. How do you get started when you don't think you're making enough money to afford it? Part two is about how to manage the money that's in the account you've got [00:06:00], how do you choose the investments. And Part 3 are for retirees and pre-retirees. How do you manage the withdrawals? How do you name beneficiaries? How do you handle the RMD? What do you do if there's a divorce or you inherit an IRA?

So I was amazed that this subject, I figured it's one big ... It's no big deal. It's not financial planning that the book is about. It's not retirement planning. It's retirement plans. It's just then 401(k), and yet the book comes in at about 350 pages.

Jason: (laughs) Yeah, yeah.

Ric: I was amazed at how much there was to say to cover it all completely.

Jason: Well, you know, one of the things I've appreciated about your books over the years is the readability of them. They're written in a language that is very accessible, and you don't have to have a degree in finance to understand what you're talking about. And I know I've appreciated that. I know other people who have read your books who have appreciated that, and I want to talk to you more about the three parts that you've broken with the book into there.

But before I do, I've got another question for you. Really more of a personal question. I think it mentioned at this point in your career, you have $11 billion in assets under management. And thousands of people that you serve, you're obviously in a position now where, if you just wanted to shut things down, not accept any new clients, and just serve people really well, you could probably do that.

So what I want to know, Ric, is why do you get out of bed in the morning? What motivates you to continue to produce content, to do your radio show, to write your books and to, to continue to, you know, get the word out on the stuff that you're doing?

Ric: Yeah, I appreciate the question. We're now at $13 billion in assets and 24,000 clients, 35 offices around the country, 450-some staff. And you're right, it's been a long time since my wife, Jean, and I ... Jean started the company with me moons ago. It's been a long time since we've needed economically to work. But that's not the reason we created the firm in the first place.

We created the firm to provide financial education for consumers on a mass basis because there is so few outlets for people to get the content they need that is in their best interest, that's objective, that's easy to understand and actually entertaining and fun along the way.

And it wasn't because we're trying to make a buck that we got into this business. It's because we were trying to help people create their own financial security so that they could enjoy financial comfort and achieve all their financial goals for themselves and their families. And our mission is not over yet. We only have twenty-four thousand clients, and there's three hundred million Americans out there.

Jason: (laughs)

Ric: So there are a lot of folks that are in need of our help and a lot of folks who continue to ask for our help. And our attitude has always been ... I mean, we never had a business plan that said we're going to have thirteen billion in assets and thirty-five offices. Our, our attitude was we're going to provide advice and education for people who want it. When people stop asking, we'll stop growing.

People continue to call us and ask for our help, and we're committed to continue trying to help them. So as long as people want our help, we'll be around to provide the assistance for them.

Jason: Obviously, you love what you do. for you, personally, do you ever see retirement as something that you all, that you ever embark on that journey?

Ric: Not in the classic sense, and I think I'm not unusual in that regard. Retirement, I talked about this in my first book, The Truth About Money, back in 1997, nearly 20 years ago. I made the prediction in 1997 that retirement would not exist in the 21st century. We have to understand that retirement was a 20th century invention. It didn't exist in the 1800s, and I don't believe it's going to exist in the 2000s.

The notion was that if you were alive, you worked. You either shot or grew your food, and you needed to be productive in order to support yourself. The notion of retiring at sixty-two, getting the social security check, getting a pension, was a modern invention that didn't even begin until the 1930s. And the notion of social security, Medicare, Medicaid, they didn't begin until the 1960s.

And so the notion of retiring at sixty-five and, and playing golf for the rest of your life, that is a relatively recent phenomenon. And I don't think it's going to be valid this century, not just for my wife and I because we love what we do, but I think for so many Americans, because we retire at sixty-five and you have a life expectancy now to ninety-five.

You're really going to play golf nonstop for thirty years with no productivity, no contribution to society. You're never going to get bored. I think that, that's unrealistic from a lifestyle perspective. I also think it's unrealistic from an economic perspective. It's ridiculous to assume that you can work for forty years, from age twenty to sixty, and then retire for thirty years and be able to somehow magically pull that off economically. You're going to run out of money because it was never designed for you to be able to work such a short period and retire for such a long period, relatively speaking.

So I think people are going to evolve dramatically, and the main difference is in our lifeline. Historically, it was linear, meaning we did one thing after the other. We went to school. We got a job. We retired. We died. We did them in that order. And you could throw some other things in there: got married, had kids, bought houses, etc. But we did everything one after the other: school, work, retirement, death.

Today, that's no longer the case. People go to school. They go to work, and then they go back to school. And then they go to work in a totally different career, and then they retire for several years, take some time off and then return to the workplace or get engaged in civic or social community services or philanthropy. They get into politics. They get involved in the arts. They help in the raising of grandchildren and great [00:12:00] grandchildren.

And so it becomes a cyclical lifeline instead of a linear one. You go back to doing things you did 20 years ago. So many people in their 50s are going back to college and reinventing themselves.

Jason: Ric we have to take our first commercial break. I hate to break your train of thought there, but we'll be right back in just a minute. (music plays) Alrighty, folks, welcome back to another round of Sound Retirement Radio. I'm your host, Jason Parker. It is my good fortune to have Ric Edelman, Edelman Financial Services on the program, considered one of the top financial advisors in the country on Sound Retirement Radio to share his advice and wisdom with all of our listeners about retirement.

He's got a new book out, The Truth About Retirement Plans and IRAs. Ric Edelman. I apologize for having to cut you off there. You're just sharing with our listeners about what retirement's going to look like in the future.

Ric: And as I was mentioning, Jason, thank you so much, for this opportunity to be with you. You know, our parents and our grandparents had a linear lifeline. We are experiencing a cyclical lifeline. And because of that, retirement for you and me and, baby boomers across the country, as well as Gen X, Gen Y and the millennials behind us, we are not going to experience retirement the way our grandparents did.

So yeah, I can maybe envision one day "retiring" from what I do right now, but that just means I'll reinvent myself and do something else, partly because I want to, partly because maybe economically I need to, partly because, of health issues, partly because of, personal preferences. So we need to recognize this fact and adjust our financial planning expectations accordingly.

Jason: So that kind of brings me right into the first part of your book where you're talking about saving for retirement and creating the balance between saving for the future and living today. You have a formula in your book where you talked about if you're twenty years old or thirty years old or maybe had something to do with how much money you're making, how much money you should have saved and how much money you'll need to have in the future in order to be able to retire.

But how, how do you balance that? How do you make sure you're saving enough but still being able to go out and live fully?

Ric: It's a really tough thing to figure out, especially if you're in your 20s. You can't really predict what your future life will be. You know, you're going to be married, how often you're getting married. How many children you're going to have? How many careers you're going to have? How many homes you're going to live in? So all you can do is make your best guess and then constantly refine your financial plan as you age and as new information becomes available.

Financial plans, are not products. It's a process. It's a living, breathing document that you revise on an ongoing basis to keep it current and relevant to your life. And so you're right, Jason, you're always to trying to balance your current need and desire for spending to enjoy and support your current lifestyle versus your need to save for the future, to support your future lifestyle so that work becomes optional at one point.

So you're not working because you have to. You're working only if you choose to. So at the very least, you should be saving ten percent of your pay in your employer's retirement plan. At the very least, that's what you should be doing. Now it's easy for being in an ivory tower to say that. A lot of folks would argue, "Gee, I don't make a whole lot of money. I can't afford to do that. I've so many bills."

And my response would be, "Okay, fine. If you really truly don't believe that you are earning enough money right now to save ten percent of your pay, then save one percent. Save just ten bucks." Just start somewhere, and then slowly, gradually increase it. And you'd be amazed at how fast you will find yourself at the ten percent savings rate.

Jason: Now what about acquiring debt? you know, speak to these people that are in their 20s. What would you say about, debt? What kind of debt is okay to acquire and what, what kind should they stay away from? What are your thoughts about debt in general?

Ric: In an ideal world, the only debt you would have is mortgage debt. however, we don't live in an ideal world. So it is not a surprise if you are also going to have a car loan and perhaps even student loans. Those three loans for houses, cars and student loan education are the only kinds of debt that are acceptable from a financial planning perspective.

Credit card debts, absolutely not. Personal loans, absolutely not. So if you have those debts, you need to do your ten to get rid of them as quickly as possible. The interest rates are very high, and they are not doing you any good. mortgage debt is fine because you're trading the asset for the, opportunity to, to own a home, which is an appreciating asset.

Jason: Or maybe for some people, it's appreciating. Now I'm part of the Gen X generation and you know we, everybody experienced the financial crisis in one way or the other. But my home has been my absolute worst investment of my entire life bar none.

Ric: But wait how long have you owned the home?

Jason: Eight years.

Ric: Well, that's my point. Give it thirty. I'm not suggesting that at any given moment for any given period, the home will be a good one. But history tells us that over a thirty-year period, it will be at least sustaining its value and probably growing. If you look at long term, and you know these numbers, Jason, if you look at long-term rates, homes only appreciate on average about 1 or 2 percent a year over long periods. To expect a home to grow at the same rate as the stock market is unrealistic and unsustainable.

So the fact that you had, over the last 8 years, starting with the credit crisis, in a way, a disappointing experience with home ownership doesn't surprise me in the least. But that shouldn't disappoint you from owning a home. In fact, let me turn it inside out. If you truly did believe that the home would not grow in value over the next thirty years, why own it in the first place? You might as well sell it and just rent.

You can rent the home you live in. You don't have to live in a one-bedroom basement apartment as a renter. Many homes are for sale. In fact, a lot of the real estate sales over the past two years as you know are result of investors buying homes. And those investors are turning these homes into rental properties.

So you don't have to own the home that you're living in. You can choose to rent it instead. An investor would be happy to buy it and rent it back to you.

Jason: Yeah. I think that's a good point that you make, though. I look at my house as a liability, not an investment. I guess at this point, for me personally, I can tell you we might be able to sell it for what we paid for at eight years later.

The thousands of dollars that we've put into it, making it nice and livable for what we're looking for and the hundreds of hours that have gone into it on my balance sheet, it really looks a lot more like a liability than it does an asset. And so maybe over thirty years' period of time we keep up with inflation.

But I'm just saying from my own personal experience. I know a lot of the people that we talk to, real estate's been one of the best investments they've ever made. A lot of people of my generation, that hasn't been their experience.

Ric: You're absolutely right. And over the last 10 years, nobody would be excited about real estate ownership. And most people would say what you said, that it's a terrible investment. And it's so funny because if you go back to the 1980s and 1990s, millions of people would say real estate was the best investment they ever made.

So it is all relative to the recent time period. The big mistake that investors make is what we call recency bias. They make two mistakes. The first one, recency bias says, "I'm going to take a look at what has happened recently and draw a conclusion from that."

So in your case, if you look at the value of your home over the past eight years, recently, it hasn't done well and that could cause you to have or develop a negative attitude about owning real, real estate for the next twenty years when, in fact, what has happened recently isn't a fair analysis.

Go back to the last 100 hundred years and evaluate real estate versus other asset classes, and you might get a little bit of a different sense.

Jason: So-

Ric: The other mistake ... sorry, go ahead.

Jason: I just wanted to ask. So when you think about real estate and you think about where prices are and you think about where wages and income is, I mean, obviously, we've seen a lot of appreciation in real estate. One of the concerns is inflation that people have. Do you really think that there's that much upward room for home prices with incomes pretty much being barely static over the last ten years?

Ric: Well, your question is ... Sounds to me as though you're asking about what is likely to happen to real estate prices in the near term.

Jason: In the future. Yeah.

Ric: And in the next three, five, ten years. And I would agree with you that real estate prices are unlikely to double in the next three years. They're unlikely to do very well, and you may very well see price stagnation or even price declines because real estate values are directly tied to incomes. Because if you're not making a good income, you can't afford to buy the house.

They're also very closely tied to interest rates. As interest rates go up, the value of a house goes down because the cost of the loan rises with the cost ... With interest rate. So you're absolutely right. I would not consider myself terribly bullish about real estate for the next three, five, ten years in many markets around the country. But my perspective isn't the next three, five, ten years. It's the next ten, twenty, thirty years

And I'm very confident that thirty years from now, your house will be worth a lot more money than it's worth today.

Jason: I think that's fair.

Ric: Which means, the real question is, how long will you own the home? If you're going to sell the house in the next three to five years, it doesn't matter that it might be worth more in thirty. And that's why I want people, when they're looking at home ownership, to take a very long-term time horizon. If you're not planning on living in the home for a very long period of time, you shouldn't be buying it.

Jason: And when you say long period of time, what, what, what is that? Fifteen, twenty?

Ric: Minimum of ten years.

Jason: Ten years, okay. Well, it's good. So there you go, listeners, if you're in your 20s and you're not going to be in the house for ten years, don't buy it. And my thought is, think of it as a liability, more of an asset.

Ric: And you're right, Jason. It is a liability. If you're going to own a home for only three or five years, maybe even only seven years, it is a liability. As you've experienced, the closing costs, the down payment, the repairs, maintenance, the upkeep, the taxes, the insurance.

Jason: Produces no income.

Ric: And you are spending all of that money in cash outlay for a house that may, may or may not be growing with inflation. And you could be taking all that cash and growing it into investments and paying rent and let the owner have to worry about all that stuff. So you're absolutely right. People tend, in their 20s and 30s, they tend to be too fast to buy a home. They should delay until they are in a lifestyle that is far more stable, where they're going to be able to stay in that house ten years or more.

Jason: All right. You know I want to transition to the next phase, kind of that middle group, the people that you address in your book who are really more in their 50s and 60s. They're getting ready to retire. That's on the horizon. It's, it's their dream. That's that what they want to do. Like you mentioned, that's the number one dream in America today. And I want to talk about them specifically because they have really gotten hit from a lot of different angles.

They're the sandwich generation. They've been taking care of their kids and their parents. They had to deal with skyrocketing college costs. They got slammed in the '08 crisis and they lost a lot of their, their 401(k), became a 201(k). You know, their housing prices got pummeled. So let's talk about them and what they should be doing. Where, where should they be right now?

Ric: They should not be making changes based on what has happened in the recent past. They should not be making changes based on what has happened to them personally. That's another mistake that people make in the world of behavioral finance. It's, it's called, a single size, analysis where they, they look, at a small sample size. They look at their personal experience and they conclude, this is how it is for everybody everywhere all the time.

Well, no. It's happened to you. But that doesn't mean it's happened to everyone else, everywhere else, all of the time. So we need to look broadly beyond your own personal experience to that of everybody's experience. If you lost money in your 401(k), maybe it's because you didn't choose the right investments or managed the account correctly.

Jason: So let's talk, let's talk some more about that in just a minute. We need to take another quick commercial break, and we'll be right back. (music plays) Alrighty folks, welcome back. This is Jason Parker with Sound Retirement Radio. I have Ric Edelman on the program. As many of you know, Ric is considered one of the top financial advisors in the country. Ric, thank you again for, being a guess on Sound Retirement Radio.

Ric: Happy to be with you, Jason.

Jason: We were just talking about making the wrong investments in your 401(k). One of the things you talked about in your new book is how to diversify your money. And your new book is The Truth About Retirement Plans and IRAs. But one of the things that I found interesting was your advice for younger people on how to how to allocate their assets. So maybe you'll talk quickly about that. But then also this next generation, this people that are approaching retirement, how should they be diversifying their money?

Ric: All categories of employees, the young and the middle aged and the older, all tend to invest too conservatively. They have too much money in bonds, fixed income, cash, money market account, government security. They have too much money too conservatively. They have too much fear about the stock market and they have not ... And they're not willing to invest enough of their money into stock funds. And the result is that they end up in retirement with hundreds of thousands of dollars less than they otherwise would have.

You need to remember two things. One, this is retirement account, meaning that you're not going to touch the money for thirty or forty years. Short-term volatility like even disastrous volatility like 2008 doesn't make any difference. If you were investing in your 401(k) and you continue to do so throughout 2008, today, even though the account went down in value by fifty or sixty percent in '09, today, the account is more than double the value.

If you continue to invest, you are richer today than you ever were before. But if instead you got really scared and you sold your investments and you let the cash or you stop contributing to your 401(k), all you did was sell low and you froze in place the losses that you incurred in '08 and '09. So you need to recognize that volatility is part of the game. And over decades, it doesn't hurt you. Instead, it actually helps you.

So step number one, for everybody, I don't care what your age is, 20s, 40s, 60s, you need to stay heavily invested in stock funds, both U.S. and international. And depending on your age, determines exactly how much of that should be, which I described in greater detail in my book, The Truth About Retirement Plans and IRAs.

But the bottom line is even retirees, people hitting 55, 60, 65, getting ready to retire, newly in retirement, their attitude is, "Gee, I'm retired now or I'm about to be. I need to have my money saved because I can't risk losing it. So I'm going to withdraw it all into bonds or government securities or cash." And they lock them money in at today's value. [00:28:00] And inflation, over the course of their retirement, destroys the value of that account. Even retirees need to keep a lot of their money in stocks.

Jason: I think that's a really interesting advice, and I agree with that. I think it's wonderful advice, especially in today's interest rate environment for bonds, you know. To speak for a moment about bonds, so you know, somebody is, let's say they're one year from retirement. They're, they're wanting to start taking a more conservative approach because they know that life is going to change here shortly. In today's interest rate environment, you want to be loading up on bonds. What would you tell that person?

Ric: It's fascinating that today, if we look at the investment landscape of the different asset classes, stocks, bonds, real estate, gold, foreign securities, commodities and so on, oil and gas, energy, you name it, if we look at all these different investments and we point to the one that's the riskiest right now, it's bonds. It's not stocks. It's not real estate. It's not gold. It's bonds.

The world's largest money manager, BlackRock, the CEO is a guy by the name of Larry Fink. His ... This company manages over four trillion dollars in assets globally, much of it in bonds. And Larry Fink went public a couple of months ago saying, "Bonds are too risky. You should rethink your bonds."

Warren Buffet recently said that bonds, in his opinion, are the most dangerous of all asset classes, and the reason is very simple. It's interest rates. What people don't understand is something called interest rate risk. They don't understand that as interest rates go up, the value of bonds goes down. This is not prediction. This is mathematical fact.

And in today's world, due to where interest rates are, the ratio is about one in seven, meaning for every one percent increase in bond ... Or increase in interest rates, for every one percent rise in rates, there's a seven percent [00:30:00] decline in the value of a bond. So I'll put it to you. Are interest rates going to go up, down or stay the same over the next several years?

Jason: I love that.

Ric: If you think that it is.

Jason: Yeah.

Ric: If you think they're going to go up, and that's what most people do, right, Jason?

Jason: Well, you know, I love that you ask the question because I'm asking people that question all the time. I have not met anybody who thinks interest rates are going to go below zero.

Ric: Exactly, although in fact, they have in Japan but we won't go there.

Jason: I (laughs). Well, negative interest rates. The bank ... they're going to start, charging the banks interest for holding cash and cash reserves. So I guess there's a negative potential.

Ric: Right, right. So but you're right. The interest rates, they're not going to go lower than most people believe that rates are due to rise. They don't know when. They don't know how much they'll rise. But eventually, rates will rise. If rates were to rise three percent, your bonds will lose twenty-one. This is mathematical certainty.

If you knew mathematically that your stock funds were going to lose twenty-one percent, would you continue to own them?

Jason: Well, so this gets us to this fundamental question that I, I think a lot of people want to have answered because the general advice that people are being given is still, if you're getting ready to retire, you put sixty percent of your money into bonds and forty percent in stocks or vice versa, maybe forty percent in stocks and sixty percent in bond. Is that still relevant in this interest rate environment?

Ric: Yes, it is. And here's why. This is really important. If you follow my advice literally, and I say bonds are risky and you say, "Oh, my goodness. Bonds are risky. That means I got to get rid of my bonds," where are you going to put the money? Into the alternative, which is stocks. And all of a sudden, one hundred percent of your money is now in stocks because you've sold your bonds.

Well, that doesn't make any sense because what if we have another repeat of 2008? You don't want to have a hundred percent of anything. That's not diversified. Well, how do you solve the problem? It's simple. When I say bonds are dangerous, I'm referring to a particular kind of bond, a long-term bond, a bond with a thirty-year maturity. A bond with a five-year maturity isn't nearly as risky as a thirty-year bond.

Shorter term bonds are safer because they aren't as sensitive to increases in interest rates. A thirty-day bond, like a thirty-day bank CD, is not sensitive at all to interest rates. A ninety-day bond or one-year bond has very little sensitivity. So what we do for our clients is yes, we have them heavily in bonds. But they're all short term and intermediate term.

We aren't loading them up on twenty-year and thirty-year maturity dates. We're giving them three-year and five-year maturity dates instead. So that they do have the diversification but they're also avoiding the major risks of interest rate increases.

Jason: When you look out into the world today, Mr. Edelman, you, you see, this massive seventeen trillion dollars of debt that the United States has amassed. All of this, this stimulus that the fed has been pumping into the system, which really hasn't stopped yet, um, are you concerned about any bubbles? You always hear that phrase bubbles or bubbles or there was a bubble in housing. There's a bubble in tech. Is there another bubble on the horizon?

Ric: Well, there are always bubbles, as you note. We can go back to the 1600s, the first real documented investment bubble was the tulip craze of 1636, that resulted in an economic depression that lasted a hundred and fifty years in Western Europe. there have been bubbles ever since there had been people investing.

So we'll never get rid of bubbles. All we can do is learn from these experiences and protect ourselves when bubbles occur. Because the nice thing about bubbles is that there is always recovery. Look at 2008, painful to go through it but there is ultimately recovery in the end. Better to protect yourself so that when the bubble bursts, you're not the one who gets caught short.

So bubbles don't worry me. as long as you are personally protected to be able to survive the bubble because there is recovery on the other side. Sort [00:34:00] of like a hurricane or a tornado or, or an earthquake, it ... You can get through it. You just have to make sure that you do. So build the shelter, defend yourself so that you can survive it and recover on the other side.

Having said that, I'm not terribly worried about the amount of debt that the nation has or of the, stimulus that the government has been using to get us out of the economic doldrums of the way. The economic stimulus programs did exactly what they were supposed to do. They did avert a financial crisis.

Was it distasteful? Yes. Do we prefer that we didn't have had to do it? Yes. But we did have to do it and so we're glad we did. Sort of like arguing about cancer surgery. Nobody wants to have cancer surgery but if you got to do it, you got do it and you'll be glad you did.

Jason: I have to tell you. I always enjoy your analogies. I think last time you referenced the, a drunk guy walking down a hall, bouncing from side to side. You were talking about (laughs) diversification. So you always, you have a good way of bringing this right down to an understanding level that everybody gets it.

Ric: Oh, I appreciate that. Which is related to the federal debt, and related not about the debt per se, unrelated about the deficit, I'm worried that the government continues to spend more money than it earns and that is what creates the debt in the first place. So the debt is the debt because that's based on past spending from prior congresses.

I'm more concerned with this congress and this president and the rate of spending that they are currently engaging in, which is continuing to make the problem worse. We can't continue in this path. We have to get our, our spending under control, um, because, it's important for the nation. Otherwise, we're not going to be able to pay our bills in the future and, you, as, one of the younger members of the, country, are going to be the ones footing that bill.

Jason: So that kind of-

Ric: So we have to fix that.

Jason: Yeah, that kind of gets me back to the point. You know, we're already starting to see the shift where, and this has been happening over time, where people that are responsible are being ask to carry more and more of the responsibility all the time and this health care overhaul, I think, is a good example of that. You know, I personally saw my health insurance premiums jump seventy percent in one year as a result of this Affordable Care Act that was passed.

And so one of the questions that we hear from people today that are retiring is they'll ask me, "Jason, how can we make sure we spend all of our money?" You know, there's one side of the equation. They're saying, "How do I make sure we don't run out of money?" Right? That's obviously a concern that needs to be addressed.

But then I've got this other people that are saying, "Jason, how can we make sure that we're spending enough so that we don't end up leaving a bunch of money behind for taxation or for gifts to people that, you know, they may or may not be stewards of the resources?"

Ric: It's what careful financial planning is all about, and that's where we spend the bulk of our energy for our clients, in answering those very important questions. We have to take, um, their goals in mind. We have to take into consideration their assets, their income, their expenses and their debt. We have to look predominantly at their goals and their health and their family circumstances to map out exactly the answer that you just laid out in front of us.

How ... When can I retire? What my income ... What can my income be? How do I sustain my income in retirement? And I'll just say that most retirees are investing too conservatively and as a result, they are putting themselves into a position where they're going to be facing real financial strife in their 80s and 90s. I'm not worried about their 60s. They, they feel flush. They look flush. Everything is great.

But you fast-forward twenty years, chances are you're still going to be alive. If you don't invest properly in your 60s, you're going to have a lot of trouble in your 80s.

Jason: All right, Ric. We need to take another break. We'll be right back.

Speaker 1: Are you fifty years or older and have at least five hundred thousand dollars of investable assets? If so, this message may be beneficial for you. Are you confident that you will be able to retire and not run out of money? Are you concerned about higher inflation, higher taxes and what market volatility will do to your portfolio?

If you answered yes to any of these questions, then I encourage you to take advantage of this offer. Jason Parker, the author of Sound Retirement Planning and president of Parker Financial, is offering a free report, entitled Ten Things to Know About Planning Your Retirement Income, that may provide you answers to the above questions and much more.

Call his office at 1-800-514-5046 to receive your report free of charge. Again, call now at 1-800-514-5046. (music plays)

Jason: Alrighty, folks, welcome back to another round of Sound Retirement Radio. It is my good fortune to have Ric Edelman on the program. Mr. Edelman is considered one of the top financial advisors in the country as rated by Barron's. He's been, won that award three time or three years, number one independent financial advisor.

And I want to shift gears, Mr. Edelman, into people that are, are transitioning into retirement right now. You have a chapter in your book, the last couple of chapters are all about the systematic approach, the systematic withdrawal plan on how to create steady, predictable income for the rest of your life. Will you take a minute and, and address that issue?

Ric: Sure, sure. The traditional old school way of managing money for a retiree is real simple. It's old. It's wrong. It doesn't look ... It doesn't work anymore, especially in today's interest rate environment. But what people would traditionally use to do is they would take their money in retirement and they invest it totally in what's called fixed income, meaning bonds, government securities, annuities, um, bank accounts and CDs, investments in municipal bonds as well, investments that produce a fixed income a fixed rate of return.

These would be government-guaranteed bonds or bank, insured CDs or what have you and they would pay a certain rate of interest. You know, if you invest a hundred thousand dollars at interest rates of ten percent, you get ten grand a year, everybody's happy.

Well, two problems with that. Number one, nobody's earning ten percent anymore (laughs).

Jason: (laughs)

Ric: It's not like, not like the good old days of the 1970s when bank CDs were paying fifteen percent. It's hard to believe, but they were.

Jason: It's incredible.

Ric: Those days are long gone. And due to inflation, the income you get today isn't worth as much a year from now because the cost of living goes up, but the income from the bond stays fixed. Why would you want to own a fixed income product in a rising-cost environment? So that doesn't work, and all you're doing is setting yourself up for failure in your 70s and 80s.

So here's what we recommend instead. It's called a systematic withdrawal plan, and here's what you do. You maintain your diversified portfolio: stocks, bonds, government securities, real estate, gold, oil and gas, natural resources, foreign securities. You maintain a globally diversified portfolio, just as though you were still at age 40.

And now, with that globally diversified portfolio, you reinvest all the income it produces, the dividends, the interests, the, the real estate rental income. You reinvest it. You don't take it in cash. And then, you instead generate a monthly income for yourself. You liquidate a small portion of the account on a monthly basis to receive a monthly check. And now, you're in total control of the size of that check. You can change it whenever you want. You can make it bigger or smaller. You can increase or decrease it. You can increase it with inflation.

And what we do for our clients is we make sure that the amount of the check they're receiving is less than the amount of growth that the portfolio is enjoying so that they're not only getting a good income today, we can increase their income over time to keep pace with the cost of living. And this is how we can help our clients ensure that they aren't going to run out of money.

Jason: Well, I think that's very wise. When you talk about inflation and you talk about the future, of some, the value of somebody's future dollars, how do we make predictions about inflation? What should we be assuming for inflation going forward? Some people are concerned we're going to see a deflationary environment.

Ric: Well, if that is the current, concern, you're absolutely right. I never make predictions, about these kinds of things because nobody knows what's going to happen next. But all we can do is look at history. Since 1926, inflation has been averaging about 3.2 percent per year. it's been
doing that for the last twenty-five years. It's been doing that for the last, fifteen years.

At the moment, inflation is very low. But that's only on an average national basis. In some areas, there's very significant inflation. The cost of health care is rising dramatically. You talked about how your health insurance premium has jumped seventy percent. the cost of education is skyrocketing. The cost of food is rising. The cost of gasoline is rising.

So although the average rate of inflation isn't rising, depending on where you spend your money, you might be experiencing massive amounts of inflation. So-

Jason: Yeah, and if you're a retiree and you're buying health care, food and fuel, maybe your house isn't going up and you're not making a lot of money ... You're not seeing a lot of inflation on home prices, but you're certainly feeling it at the, some of these other areas in your life.

Ric: Exactly right. So we have to assume that there will be inflation. Hey, if we're lucky, there won't be. And you won't have that pressure. But we can't ... That's not planning. That's wishful thinking. Planning says we're going to assume that there will be inflation. We can presume historic rates of inflation just for planning purposes. If inflation becomes worse, we can readjust our calculations accordingly. And if we assume that there will be inflation, we have to anticipate that.

For example, what's the big deal of 3.2 percent average inflation rate? It means every twenty-three years, the cost of living doubles. So if you're sixty, that means you're going to spend twice as much in your 80s as you spend today to buy the same goods and services. So if you right now spend a hundred grand a year, you're going to need two hundred grand a year in twenty-three years. Well, you better think about that today to make sure you're able to do that later or later, you're going to be homeless.

Jason: (laughs). Well, you don't want that. There's only about five minutes left so there's a couple of quick questions. If you could try to address this as quickly as possible. One of the things we're hearing a lot about in my little community these days are people are looking at HECM, the reverse mortgage program, to purchase a home in retirement so that they don't have a payment. What are your thoughts about these HECM mortgages, these home equity conversion mortgages for purchases?

Ric: We're not a fan. the concept is interesting. But when you look at the actual products, they're very expensive with interest rates that are very high, that are very restrictive and limited in their practical application and so as a result, we're not recommending them.

Jason: We're just about out of time, Ric. I wanted to ask you probably the most important question of the whole show. What did you think about my jokes at the very beginning?

Ric: (laugh) I think your daughter is very clever and creative and keep them coming.

Jason: (laughs) All right. Mr. Edelman, thanks so much for being a guest on Sound Retirement Radio.

Ric: My pleasure, Jason. Thanks.

Jason: Take care.

Speaker 1: Information and opinions expressed here are believed to be accurate and complete for general information only and should not be construed as specific tax, legal or financial advice for any individual and does not constitute a solicitation for any securities or insurance products. Please consult with your financial professional before taking action on anything discussed in this program.

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