KEEN ON
RETIREMENT

Is Your Retirement Plan Ready For Higher Inflation?

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody. And welcome to keen on retirement. I am your cohost, Steve Sanduski and we have another great show lined up here today with Mr. Bill Keen and Mr. Matt Wilson. Hey guys. How you doing here? Uh, As we are rolling into summertime,

Bill Keen: Summertime, Steve summertime, the Royals are in the park . Kids are out of school.

Steve Sanduski: that's right.

Bill Keen: Good time. Things are back to normal, kind of,

Matt Wilson: I think it's all good. Don't you?

Steve Sanduski: Yup. And temperatures are soaring and air conditioners are going.

Bill Keen: That's driving prices up for energy.

Steve Sanduski: Yeah. Well,

Bill Keen: trying to keep away our topic

Steve Sanduski: Yeah, I asked you to say funny, you should say that Bill, because we are going to be talking about inflation today and very important, very, very timely. and of course, inflation is something that if it gets out of control can affect your financial. Future can affect your projections that you guys put together for clients.

So we're definitely going to get into that. But before we get into that, we have something fun that we want to talk about. It's something that comes around every July 1st. So Matt, why don't you set the stage for what that is?

Matt Wilson: Yeah, we've talked about this before, you know, every time it, this rolls around. I never really remember it, but I see the headlines on July 1st and it's considered Bobby Bonilla day, not an official holiday,

Steve Sanduski: is there a hallmark card for Bobby Bonilla

Matt Wilson: Uh, You know, I don't

Steve Sanduski: that would make it, that would make it official.

Matt Wilson: Yes. And the reason it's Bobby Bonilla day is because he struck, I think it was the deal of a lifetime back in 2000. So he was playing for the Mets and he still had $5.9 million remaining on his contract. So the Mets agreed to buy it out.

And this is what they agreed to, that they would pay him 1.2 million a year for 25 years starting July 1st, 2011.

Bill Keen: So

Matt Wilson: over a decade later, That's right. They didn't have to come out of pocket with the 5.9

Bill Keen: million, by the way, why were they trying to buy him out? Was he going somewhere else or was he retiring or they

Matt Wilson: just want to get rid of him?

I don't know. I'm not that up to speed on his career they don't put the details in these headlines. They just give us the information. But essentially, you know, this is what the article states is that they negotiated An 8% interest rate. So that was their justification, I guess, for this.

Now remember back in 2000 interest rates were higher. Yeah. You have a treasury yield, I think was about 6%, 8%, you know, not probably that hard to justify corporate bond or something. Yeah, that's right. And at the time now this is the, the kicker, the Mets were invested. In an account with Bernie Madoff. Ooh.

Who was promising them, the owners of the meds, double digit returns. So they're like, well, Hey, we can make double digit returns with Madoff, pay this guy 8% to furthest contract. You know, they do the math on a spreadsheet and it all works. Unless, you know, Madoff steals all their money and it doesn't work out, which was the case in this situation.

So that's part of the reason it gets headlines too, is because of the Madoff connection involved with it.

Bill Keen: So Bobby Bonilla was smart enough. Now a lot of people would not have taken that deal. We talk a lot on our programs about this concept of instant gratification. People one at now, we want money.

Now we want more. Now we want to spend, now we have this, wiring, I guess that most of our clients, luckily, and folks educate, hopefully can work around that. You know, invest for the future and thoughtful. Well, he was smart enough to say, no, I'll take that deal. He must've not needed the 5.9 million.

He could wait 12 years for this income stream to start. And he, he essentially has a pension. I would sit around 1.2 million a year. You said

Matt Wilson: for 25 years, that's right. You know, flashy will eat that away. So it won't be, you know, won't stretch as far in the future.

Steve Sanduski: I got a couple of questions here for you, Matt. I'm not sure if you've got this information, but so one would be, this was a 25 year deal. Now what would happen if he died? During those 25 years, I wonder if the payments stop or whether it might go to a spouse or some beneficiary for the remainder of it, yeah, I'm not sure I saw that info either, but I think that would be an interesting thing to think about.

And then second, I wonder if I know the Mets, you mentioned they were invested with Bernie Madoff, but I wonder if maybe they took out an annuity

Matt Wilson: It's possible. you hear that some of it may be, they basically sell it to somebody else. You know, they just put the lump sum in and then it's done going forward. But the way the articles all read was. They were invested in Madoff. That was their annuity, I guess they make it sound like the Mets Got the short end of the deal on this one, for sure.

Steve Sanduski: but I think there's really good lessons here in terms of how we think about taking a lump sum distribution as it relates to pensions. I know that's something that you guys do every day is figuring out distributions. Do I take a lump sum? Do I take an annuity payout? You know, all those sorts of things.

So, lots of, you know, numbers, calculations that go in there are assumptions that need to be made. And so you definitely want to get a third-party professional to help you walk through that type of arrangement and figure out what makes most sense in your specific situation.

Matt Wilson: Yeah. with the benefit of hindsight, I mean, interest rates, there's zero current. they were zero right after the aftermath of the great recession in oh 8 0 9. There's very few people who ever thought they even get to zero. And now we're talking at some point, maybe they go negative.

I mean back in 2000, no one probably thought that was even an option. And you know, and so now we know when you do the simple calculations would say, I have no idea how they justified it, but it sounds like a simple calculation. We can make 12% here, pay out, you know, this over here at an 8% rate. We're going to come out ahead.

Well, if any of those variables change, the calculation changes, you have to look at things from a lot of different angles. That's

Bill Keen: right. And you know that a lot of, if not most of the investors that actually. Well, I was going to say made money with Bernie Madoff people that were in a positive net position with him while his scam was still going on.

I think a lot of those people had that money clawed back, correct?

Matt Wilson: Yeah. I don't, I don't recall. I'm sure they tried whether they are able to get it back or not. It's probably a different story, but

Bill Keen: they had it well, Bobby clawed back because he. Kind of arms linked to the

Matt Wilson: transaction. Yeah, it wasn't, he didn't put the money with them.

That was the Mets. Yeah. So there's some that have a contract with Bobby Bonilla.

Steve Sanduski: Yeah. And I think the Mets now are owned by a large hedge fund managers. So he's probably got a lot of discretionary cash and did I read somewhere that the Mets are actually embracing this thing? And so they're like making a big deal. Bobby Bonilla day and having some fun with it because it gets so much press

Matt Wilson: I think so. I mean, I think why not, what do they say? All publicity is good publicity. So they might as well get some airplay out of it.

Steve Sanduski: That's right. All right. Well, Hey, fun little story there, but also an important lesson. And let's dig into inflation because this is such an important topic. This is something that everybody, everybody listening to this faces and it impacts people differently. So depending on what you're purchasing.

Affects, whether you're buying stuff that is experiencing high inflation or whether you're buying things that maybe have low inflation or maybe deflation experience in deflation. So we get a lot of good things to talk about here. And Matt, you want to set the stage here for this?

Matt Wilson: we get a lot of questions that come up via course of our webinars or podcasts. People submit them to us. But then also in the one-on-one meetings that we have with individuals, and we try to cover the kind of hot topics that continue to come up consistently. And I would say inflation is probably the word of 20, 21.

I mean, it's just been no shortage of questions on inflation and the impact that's going to have, and people are worried about it. Rightfully so. we talk about inflation the whole time I've been in this industry, inflation has been a component to every financial plan that we put in place because is the silent killer.

So to speak. I just ran a, uh, calculation that at a 2.8% inflation. Which is very close to the long-term average, going back to the 1920s, your income needs need to double to maintain your standard of living 25 years in the future. Okay. So you have to have a plan that accounts for that.

You know, if we believe that whether inflation's higher, low, But there's just some component that things are going to cost more in the future. And I think most people that we talked to, they all fundamentally understand that. You know, I remember when you know, I was an intern first starting working with Bill 20 years ago.

One of the presentations you gave was. Around the stamps. That's an easy thing people could remember. Of course now they're forever stamps. So I have no idea what the prices are, but they used to post the price on the stamps and people don't mail anything, either whole different story.

Bill Keen: Yeah. I had a 1975 stamp. It was 10 cents. And I had them laminated and I said, this is going to be potentially one of the biggest issues that you'll face as retirees that are now living 25, 30 years in retirement. The prior generations had been kind of like nine to five to 65, watch TV for three years and die. And all of a sudden with the wonders of technology and medical care and so forth word, living 25, 30, 35 years in retirement, that postage stamp example was an easy one for people to have an understanding

Matt Wilson: of.

Steve Sanduski: So do you mind if I ask you some tough questions?

Matt Wilson: Okay.

Steve Sanduski: Okay. So.

Matt Wilson: What if we do mind,

Steve Sanduski: If you do mine well, then we're going to have a short podcast.

Bill Keen: You're going to do it anyway, so yeah, that's right. Okay. Go

Steve Sanduski: All right. So we know that the Fed has been very clear that they are targeting historically they've targeted like about a 2% annual rate of inflation. Now in the past. Year or two years, let's say, they've said we're actually gonna let it run a little higher than that. And we're okay if it goes above 2%, because we'd been below 2% in recent years.

We're okay. If it goes above 2%, because we've just, you know, we're coming out of COVID, we've had, you know, slow economic growth until here recently. So is inflation a good thing?

Matt Wilson: I believe it is because yeah. Typically when we see inflation in a controlled environment, you know, people are they're spending money. And, you know, potentially raise seeing prices by, you know, chasing, you know, certain products, goods, and services, but then also leads to higher wages. So over time you can see people's standard of living increase.

I believe because, you know, the wages typically will be in the same realm as inflation, but then, you know, you have discretionary income, you have things that are appreciating and value like your home, which might have a mortgage against it, which is at a fixed rate, hopefully. And your money in that case is getting cheaper.

So you invest the difference. And historically we've seen that provide a higher, rate of return by investing the money. Now there's been a lot of talk lately and you've brought this up, Steve, probably over the last several years about monitored monetary theory, which may be as a little bit different view on maybe some of the historical norms when it comes to some of this stuff.

Steve Sanduski: Yeah. And so modern monetary theory, and this really gets into the idea that the federal reserve and the treasury can create a huge amount of extra money that can be spent that can be invested into the economy and the real constraints. In terms of how much they can actually create is based on inflation.

So if inflation is under control, that's really the main constraint that the government can keep printing money. As long as inflation is under control. Now not every country can do that. The United States happens to be one of a small number of countries that are in a unique position of issuing its own currency.

And on top of that, the United States is the world's reserve currency. So everybody loves our currency. So we're in a unique position where we can create that currency. And as long as inflation's not out of control, then we're in pretty good shape. At least that's what modern monetary theory says. We've got a whole group of critics of that who think otherwise, and think that it's.

Government is too far in debt that that's going to cause other problems. So, with inflation, another question here, let's go back to the 2008 financial crisis. The fed started really opening up the money printing spigots back then, and they were trying to get inflation up. They were trying to get some growth going, but despite their best efforts to print print, print, we had low economic growth from 2008.

Up until recently, we also had low inflation from 2008 up until recently. So a lot of the people that were saying excessive money printing leads to lots of inflation that hasn't come true yet. So do we reconcile that?

Matt Wilson: that was The hot topic back in 2009 was hypertension. There's no way to avoid it. Considering what the government did with the stimulus packages that were created back in 2008 and, you know, gold ran up, you know, that was a investment that performed very well.

Typically, historically it's considered an inflation hedge. And the reality was just like you said, Steve, there wasn't hyper inflation. I mean, it was fairly benign. And despite the Fed's best efforts, all the money, the excess money that they were putting in the system was really just going into the banking system and sitting there.

It wasn't necessarily going through the economy, the velocity of money, which is a measurement that the federal reserve puts out was, continuing to decline. You know, that's how much money just moves throughout the financial system. Now, there are things that. Inflation, hard to measure. And this is where the structure.

So kind of back to early how you mentioned inflation a good thing. Well, another piece to that is if the dollar today was worth the same as it was, if it could buy the same basket of goods and services, as it could. In, you know, the 1930s part of what that doesn't do, if you have zero inflation, is it doesn't incense people to then do anything with their dollars.

So if someone has a massive amount of money, They don't ever have to do anything with it. And I mean, you could argue that someone with a massive amount of money, they could just leave it in cash and make zero, just live on it. But people generally don't do that. they then know, well, this money is going to be worth less than the future.

So I have to do something with this capital. I have to invest it, you know, and that's where businesses are formed. And that creates, technological innovation. You know, we have things like the Amazon effect. Increased productivity and efficiency, automation, globalization. I mean, that's part of all that stuff's created because people don't want to just sit on their dollars.

They want to invest and they want to make things better. So those are the reasons to why inflation actually hasn't been that high coming out of the great recession because we had all these other factors that were at play and also high debt is a, I would say deflationary, you know, issue because you have to service the debt.

So those dollars that could have, you know, been used to spend somewhere else. If you didn't have the debt, actually have to just go to pay the debt back. So there's some , cap on inflation, when you have more debt out there.

Bill Keen: What about the idea that the, our economy just continues to grow and expand.

And I know that, some will say that the answer to all these issues that we talk about regularly is better standards of living. Like you just mentioned, Matt technology, the innovation there the efficiencies, more participants in the economy, more people coming online. Moving out of poverty around the world, into these active economies.

More like you said, globalization. Isn't that the answer to a lot of this, if we were just a big stagnant economy with the same amount of participants and no technological innovation, nothing, it all just stayed the same. You probably could get by with the same amount of dollars being passed back and forth.

I'm overly simplifying this, but sometimes my mind likes to go. Rank point where let's say there's five people in an economy, they all have specialties and they're trading their services back and forth to make each other's lives better. Well, we don't have five people. Now we have tens of millions of people communicating back and forth and trading and navigating.

And seems to me like that, that concept is what helps to make these things. Okay. And that without inflation, that would be impossible. Without the money supply, increasing that growth and the productivity would be impossible. And I might be completely wrong. You might just completely disagree with me, Steve.

Steve Sanduski: Can I do that?

Matt Wilson: Yes,

Bill Keen: no. Yeah, please.

Steve Sanduski: Let me just kind of throw out this framework and get your guys' feedback on this. So what we hear a lot, or at least in some corners of the pundits out there that are talking about money and economics, they'll take a look at it. What the government is doing in terms of all of this money printing and say, okay, we've got trillions and trillions of money.

That's being pumped into the economy from the government. And then we've got technology which is rapidly advancing. And to your point, bill technology is causing things to be much more productive. So what used to cost us a dollar to get a dollar's worth of computer power now might cost us 20 cents for the same amount of computing power because of the advances in the technology.

on the one end, we've got technology, which is this massive deflationary force because of productivity improvements. It's causing prices to go down. We've got globalization. Which is still happening, which is causing prices to go down. So that's one end. And then on the other end of the spectrum, The government, which is pumping trillions of dollars into the economy, which you would think would cause things to inflate.

So you've got these two big forces that are bumping into each other and competing against each other. And I think up to this point, the net result has been, we haven't had much inflation. So the deflationary forces of technology and globalization and other things pulling prices down with the potential inflationary forces of all this.

Printing causing things to go up. The net result is ad spend kind of a neutral tug of war, but where we are seeing some leakage is a lot of that money that's going into the, the economy because of the government is ending up in financial assets. And so that's why we've seen well, one reason why we've seen real estate prices go up, we've seen stock prices go up.

And so the people that own the real estate, the people that own. The stock they're making out like a bandit in all of this, whereas there's a lot of other people who don't own those assets aren't doing quite so well. And so that is also contributing to wealth inequality, which is contributing to social issues and so on.

So we've got these big macro things that are all swirling around here at the same time. And I think that's what all of us are struggling with is how do we get these different levers in the right configuration so that we can have a capitalistic economy that really works well for as many people as possible.

Matt Wilson: Yeah. to your point there, Steve, you know, you mentioned, you know, we didn't have much inflation coming out of the oh 8 0 9 financial crisis and, while true as well by the consumer price index, which we'll cover here in a minute, but we did have asset price inflation. I mean after the great recession.

Yeah. Financial assets, real estate assets, physical assets, I mean, all appreciated in price. And, you know, partly because yes, they pumped all this money in the system and, you know, the folks that maybe were able to access. Looked at that and said, well, interest rates are zero sitting on cash. Isn't going to do anything.

So let's reinvest the money cause we don't need it to live on, we just have excess cash. And you know, now we're in a little bit different situation today and I think that's why it's getting a lot of different headlines. And partly because we have had massive amount of stimulus, Most it's ever been, which the next financial crisis will probably be the most stimulus we've ever had either. Cause it's always how it works. The numbers just keep getting bigger and bigger, but we've had a huge economic recovery too. And when we were looking at GDP numbers uh, last year, After kind of the COVID crisis first hit.

I mean, we had a positive 35% GDP number, you know, after it going down 30 plus percent. So it's a rebound, but just extreme recovery. And we have that coupled with major supply chain issues, there's a very tight labor market. And so those things are kind of all coming together to where now we're seeing.

not only the asset price inflation, but now we're seeing it show up in these consumer prices too. And that's where people are concerned about. Yes.

Bill Keen: And we are seeing that, especially

Matt Wilson: these past few months. Yeah. Yeah. in the consumer price index CPI, that's government's measure of inflation.

And that represents a, a basket of goods and services. There's eight components to it. There's food and beverages, housing apparel. Transportation, medical care, recreation, education, communication, and then other goods and services. And they all have different weights, you know, based on what they feel, how people spend their money.

They don't necessarily just change the weights all the time. So the current largest weight is housing at 42.2%.

Bill Keen: of the CPI number. housing

Matt Wilson: itself is almost half of what that is half and then food and beverage 15.3 transportation is 15.3. So yeah, it, all of those together now you're at over 70% between those three categories would have been driving an Eaton.

Darn it.

Steve Sanduski: Yeah.

If we could just stop doing those things, we'd have no inflation.

Matt Wilson: That's right. and they measure what they call headline CPI, which includes energy as well and food. Then they have core which excludes food and energy. Everyone always like, why do they exclude food energy? Well, they look at it both ways because energy can be volatile. here's a great example.

This was from the bureau of labor statistics, the government entity tracks all of this. In the month of may headline CPI. So this includes food and energy was up almost 5%, which was a, a very large number to see largest since we've seen since 2008 and this is on a year, over year basis. So going back to may of 2020 to may of this year, transportation. 19.9% jump from a year ago and that's 15% of the weight. So you can see there and then energy, 28.5% jump from a year ago in may of 2020. Now we got to kind of put some context around that.

I don't know how many of our listeners remember. Oil prices around a year ago were negative $37 a barrel. And so this is part of the reason why the fed is saying some of that is just due to the calculations. Like some of these huge increases so low. I mean, yes, they're not dismissing that there's not inflation, but they're just like what, when you come off negative $37, the future readings are going to look really high.

Yeah.

Steve Sanduski: So Matt, the transportation. Rate year over year inflation rate, very high energy rate. Very high. How about housing? Cause you mentioned housing is 42% of the chunk. What's the inflation rate in housing year over year.

Matt Wilson: 2.8, 9%.

Steve Sanduski: Now who believes that number?

Matt Wilson: Well, so they look at rent equivalents, and so they're not looking at purchasing a house. You know, they look at, if you had to go rent. I still don't, you know, not positive where rents are. Cause I don't follow the rental market very much. Now you could make the case again, the asset purchase is all time high purchasing a house.

Very expensive. We just talked about it. Last episode, interest rates are low, so the debt service cost. So to service the mortgage. Is actually not that bad from a historical standpoint, again, you have to finance a lot more money. You have to finance the whole purchase, or, you know, 80% of it, whatever you're going to put down on a higher price, but considering rates are lower.

The mortgage costs compared to historical standpoint, isn't nearly as high as it might seem, you know, to your point, Steve, like just when you look at the asset price.

Steve Sanduski: Are you on the government?

Bill Keen: Hey, if he is, I need to know

Matt Wilson: that. Yeah. So, these things too, like jumps even from month to month, like April to may like auto rental costs were up 16%.

We had airline fares, they were up 7% used cars, rose 7.3%. Furniture 2.1 new cars, 1.6% apparel, 1.2.

Those were very high readings on a month, over month basis to those or month over month. So just from April, but those only account for 10% of CPI services. So if we kind of break down like all these different categories, Okay.

Services. What are we actually most likely going to use on a, ongoing basis? Like you don't have to travel if it's too expensive, you don't have to travel in most cases. don't have to buy a used car all the time, unfortunate. If you have to go buy one today because used car prices are up I think that saw a number of, there were up almost 30% from a year.

But services rose 0.4% of the month over month basis where the headline number was 0.8% on a, on a month, over month basis. So services aren't necessarily growing as fast as some of these other categories. One of the other ways to look at this is from.

January of 2020 through may of 2021.

So instead of going back just one year, let's go back to pre pandemic figures. So airfares, if you go back to January 20, 20 are actually down 11.6%. So even though they've been jumping up significantly over the last few months, they're down from that period. Hotels or a down 3% apparels down 2.1% new cars and trucks up 3.5 and then used cars and trucks are actually up 29%.

That's where that number came from. take a little bit farther view, you can get past. Some of the noise we're seeing from the low baseline that Bill mentioned, you know, if you go back to January of 20.

Steve Sanduski: Yeah, I think that's such an important point, Matt. What do you use as your starting point? Because I see so much chart crime out there where people will specifically pick a starting point and an ending point. In such a way that it will make their case. Like if they want to make a case that there's massive inflation, they're going to pick a starting point where the price was really low and they're going to pick the ending point, which is the price is really high and say, oh my gosh, look, inflation is a hundred percent.

But like, what you just did, I think is, is very, very appropriate, which is let's go back pre pandemic, which is more of a normal baseline. And compare that to where we are today and that will help put in perspective what things are looking like. So I think we need to look at multiple time periods just to see what the trends are, whether we think this might be transitory or whether we think we're entering a new period where we're going to have elevated inflation for the foreseeable future.

Matt Wilson: Yeah. And I think that's the key. I. The people that we meet with, they've been around, they remember hyperinflation in the seventies and eighties, and that's what people are afraid of. I mean, that's really what it is. it's not these increases in prices. Most people expect that and they look at it like, well, if we're retired or looking to retire, we're not saving anymore.

And we're going to be on a fixed income. So to say, how's that going to impact us. So they get more, worried about it and seeing some of these numbers. And I think the reasons that this is the case, again, off a low base, but also the supply chain issues, the extremely tight labor market right now, which there is a piece that is, you know, related to the.

unemployment benefits some of that starting to drop off. So maybe we'll see more people in the labor force now. And pent up demand, I mean, just coming out of the fact that people really weren't able to or comfortable doing much of anything. Up until probably a few months ago, once the vaccine got rolled out and people were able to access it, there's a lot of people wanting to do a lot of things.

And they're willing to pay a little bit more if that's the case, or if you don't want to do it, you can't pay the price. Like again, airfare, rental cars mean rental cars are outrageous. Right now I've talked to several people. Who've traveled. They said rental car prices, and then I've actually have a data point.

Rental car prices are up about 110% versus a year ago.

Steve Sanduski: I can attest to that rental car prices are out of control. Oh my goodness.

Matt Wilson: And they got rid of their inventory during COVID. Cause they're like, well, no, one's traveling. Why are we sitting on all these cars? So they sold them all off and then now they can't get them

because

Steve Sanduski: Yeah. Yeah. chip shortages. have another question here that I think is very important for all of the listeners. And that is, as you guys put together financial projections for the future, do you have a number in there for inflation? And if so, what number are you using and has that number changed here in the past few months?

Matt Wilson: So we'll look at it in a couple of different ways, but our base scenario is 3%. even though the last decade, and this is on, your increase in the amount of money you need to spend to maintain your standard of living. we have a rate of return associated with the investment.

That varies based on how much are in stocks or bonds. And then we have, well, how much does your income need to go up each year just to maintain your standard of living. So, you know, like two different kinds of components there. And we run that at 3%, which again has been higher than the CPI index over the last decade

in the

Steve Sanduski: So that's more conservative. So you're taking a more conservative person.

Matt Wilson: Yeah. and the other thing. it's a real factor is that people spending does it just compound like that at 3% a year for the next 35 years, there are so many variables. I go into it the first decade, you know, we call, the go-go years and you're going to be traveling.

You're going to be doing a lot more. Most likely that first decade, second decade. Yeah. It starts to slow down a little bit, meaning you start to spend a little less and these things too, that maybe have a little bit more sensitivity to inflation, like travel. You're going to have less of that as well. And then the last decade, you know, this isn't a 30 year retirement you're doing as much.

Most likely again, everyone's a little bit different, but when we look at our clients as a, as a whole, that's typically the progression people go on. And if you were to map that out, well, you could make the case that you might spend less the last 10 years of your life. Then you are in the first 10. Yeah.

So if we're compounding it and we're showing a conservative 3% compounding every year, I think that's a very, very conservative way of looking at it, considering that people, most likely aren't continuing to do the same things they're doing in year one as they are in year 30. But we want to say, if you wanted to, you could, the other way is to look at it and say, well, your expenses could change.

That's long-term care, you know, medical. I mean, those things also come into factor, so

Steve Sanduski: So what would have to change in the outlook for inflation for you to either increase that 3% or decrease that 3%?

Matt Wilson: would be tough to want to change that over a projection over 30 years, if we didn't see a sustained increase in the CPI. And the sustained increase, you know, for me, would have to be for, for at least several years, like to really believe that this is a we're in a different room, then we are, you know, in the past.

I say that's our base case. We might say, look, we're going to run it base case. We're going to show you at three and a half. We're going to show you it for cause we want to be prepared for it.

And so we wanted to make sure are we prepared, you know, prepared for this in the future, since we don't know exactly what the future holds, but we also don't want to put a plan together that basically tells somebody you have to work until you're 85, because inflation is just going to not work anymore.

You know, it's just, it's going to eat up your lifestyle when we don't know. What do you mean,

Bill Keen: Matt? You tell a lot of our engineering clients, would be

Matt Wilson: impossible to build and yes, it actually an engineering client would, you know, after they had gone through all these myriad of scenarios with us, they kind of even laughed to themselves.

They're like, yeah, well, we can engineer a bridge. It'll never collapse, but it would be so cost prohibitive that no one would ever build it because of the cost. And it's the same thing with a financial plan. We can show you a financial plan that works. It just means that you can't retire ever cause it'll work And so people are like, yes, we get there's trade-offs there's trade-offs so there are unknowns and part of the financial planning process, and this is why we're so adamant and having these conversations with people on an annual basis, because things change. The financial plan that we put in place 10, 20 years ago is significantly different than your planning.

And so you can't just put it in a vacuum and say, here's what it is for the next 30 years. We have to constantly monitor and update that to address for these things, because there won't be periods where you know what here's our experience too, to your question, Steve, about the inflation rate quiets, we, we account for that the first, you know, that they're going to be spending 3% more.

Every single year we have zero clients who call us up and they say, okay, it's been a year. I need my 3%. Right. It never happens. Never once. we bring them in and ask them, how's their cashflow and people tell us, Hey, I might need a little bit more. They have different expenses coming up.

And we adjust it on an annual basis that way, but it's not necessarily just because of inflation. Now, what happens though, when we then have those constant conversations is over time. Yes. Hey, we need a little bit more in year five or year four or year seven, because inflation did kind of catch up to them and they aren't comfortable.

You know, maybe they had a little bit of a buffer in that buffer has gotten eaten up, so they want to increase their spending completely fine. So we don't see that on a year to year basis. We see that over periods of time. And that's why I say we don't want to just instantly adapt to. Because we know how this stuff changes, how it impacts retirees in a different way.

Steve Sanduski: so let's look in terms of. Defensive readiness. So we've got Def con 1, 2, 3, 4, 5. So Def con five is the lowest state of readiness. It's the least worry that there's going to be something bad happening.

Def con one is nuclear. War is imminent or it's already started. So as you think about inflation and your worry level about inflation, Def con 1, 2, 3, 4, 5.

Matt Wilson: still in Def con one.

Steve Sanduski: No, that's nuclear wars imminent.

Matt Wilson: Oh, I'm sorry. Def con five that I visited. I have my numbers backwards.

Steve Sanduski: Yeah.

Matt Wilson: Yes. believe. I mean, we are so early to call any concern do cite the issues, the fact that we're coming out of recovery. The stimulus, but it's also more the pinup demand relative to the COVID shutdown and the supply chain issues and the labor market.

I mean, then I think those kind of components would. I believe will alleviate themselves, especially over the next six to 12 months. Now people think, well, six, 12 months, a long time. It's like, well, that's how long sometimes it takes for things to kind of work themselves out and we might see higher inflation numbers into 2022.

And again, I still don't think that's, Def con one scenario know, , as of right now,

Steve Sanduski: Right, right. Sure. Okay, good. That just laying it out on the line there. This is coming from the same guy who in the second quarter of 20, 20 after the market had dropped substantially said. Yeah, I think we may be back at all time highs before the end of the year. And by golly, you are absolutely right. So we know we don't make predictions here.

We're not, you know, past performance, no guarantee of future performance. So all those caveats, but, but a YouTube guys have really been spot on in terms of thinking about and putting into context, all the things that are happening in the economy and the markets and stuff. You know, to hear you based on all the research and your experience to say, absolutely we monitor what's going on in the inflationary, but what we see right now, we're not concerned that this is a change in regime, so to speak and that we are entering a new period of substantially high inflation for a sustained period of time.

So happy, good to hear that. We should probably be wrapping up here. So, uh, Bill, any thoughts here that you want?

Bill Keen: I think the most important thing to take away from this today is as you're trying to apply what this means for you as a list, And an investor that shares what I think is the goal we all share. And that is to know at some point in the future, if not now that you're financially independent, that you could live on the investments and resources that you've accumulated over time a lot of years of discipline and saving and investing that you really have to have a thoughtful plan in place that tells you.

What can I spend each month after taxes and how might that look in the coming years and really design your life around that plan? I just had a Forbes article published today called retirement spending is up to you. So what kind of life do you want? And it talks about the thought processes and the feelings, and then what goes into the actual assets that you have, and what's possible because somewhere in there, your thought processes and your desires have to cry.

With what's actually prudent, reasonable and possible for your plan. And then working that plan and live in that plan without having to rethink it on a daily basis and worry about it. Nonstop watching these headlines that we've talked about today. But not just being aloof, having a plan that addresses them, that you come back to on a reasonably consistent basis and keep that thing updated.

That is probably one of the most important things I've seen in my 30 years for folks being successful in retirement and success can be defined a lot of different ways, not just around numbers, but around. The way we live and the w the way we sleep at night as well. So, hopefully you've garnered something from this episode today on this big topic of inflation.

And I would finally say that in every case that I've experienced in my career, when everyone is talking about something, it probably doesn't end up being a big issue. It's not going to be the big surprise that overtook the market. That no one was expecting and it probably isn't going to even rear its ugly head too much longer here.

And we know the fed has a lot of tools in its toolbox, being with rates at zero there's a lot they can start to do if they do see it come up. And we know that they're still, on the sidelines right now, kind of watching things play out.

Steve Sanduski: Excellent. All right. Well, we will wrap it up there. And for all of you listening, you can get all the details for today's episode, as well as all the previous ones, by going to keen wealth advisors.com. And we would love for you to do us a favor. If you enjoy the show, please go to your favorite. Podcast app where you might be listening to this and leave a review for the show or give it a, a five star rating.

If you, think it's that good. And then also tell your friends and colleagues about the show. We certainly want to continue to expand the audience for this. We think we've got some great. Content some great insight and wisdom that Bill and Matt are sharing here. every couple of weeks here, we put out these episodes, so we really appreciate your support.

So again, keen wealth advisors.com. Bill Matt. Thanks for another great show. Look forward to catching you on the next episode of keen on retirement.

Matt Wilson: Thank you. Thank you.