Money Unscripted: Doing Retirement Differently

[00:00:00.43] I finally went out and retired, got my dream job.

[00:00:02.96] You're working three or four days a week. Is that retirement?

[00:00:06.94] Well, I didn't think I'd be working this much.

[00:00:09.61] What were you concerned about?

[00:00:11.09] Just being able to pay the bills. I just decided that life's too short. I really wanted to try to go after it. It's not like work. I'm getting paid to do something I love to do.

[00:00:24.26] Welcome to Money Unscripted, a new podcast from Fidelity. We're having candid conversations about life and money, jargon and judgment-free. I'm Ally Donnelly. Thanks for being with us. Whether your retirement is 40 years away or only a few, Americans are thinking about our golden years a lot differently after the pandemic.

[00:00:42.11] Today, I'm sitting down with a leader on our retirement team to talk through how much we should be trying to save at all ages, the biggest expense most of us underestimate in retirement, and specific strategies to plan for the lifestyle we want. According to new Fidelity research, 2/3 of Americans are looking forward to working in retirement for pleasure just like Steve Apostolides who found his dream job after he officially retired.

[00:01:10.48] I just love being out there. There's nothing like it for me. That's my whole life. They tell me I was six months old when I was first put on a boat, and it was just like paradise for me. I just absolutely loved being on the water.

[00:01:23.65] You spent your whole life wanting to be out on the water, and yet you built your career on land.

[00:01:29.78] I did. I was always good with my hands as a carpenter. And so when I started looking, I got a job in retail lumber yard ground level up. And after 32 years, I ended up in management. But it was just a job. It wasn't anything that I really truly loved to do. And it was just to support the family basically.

[00:01:46.22] I'm married to my best friend, and I have three boys. When we first got married, we were very young. We were both 22 years old, had our first baby. So it was very difficult on one income back then. You weren't going out to dinner every week. And we were just doing what we could do to get by. You have to sacrifice a lot personally to take care of the rest of your family.

[00:02:09.75] When you were in your 40s and 50s, how did you think about retirement?

[00:02:15.22] I probably didn't think too much of it when I was in my 40s because you don't think you're that old when you're 40 years old. But I always was thinking down the road hoping that we'd have enough money to retire and enjoy ourselves and hopefully have the health to do that and just to be able to spend time together with my family and enjoy ourselves in however much time we have on this Earth.

[00:02:38.14] When the pandemic hit, you were obviously thinking about retiring at some point. But how did it shift the way you were thinking about a timeline and what you would do?

[00:02:48.16] I was thinking of retiring when I was 65, 66 years old. And then the pandemic hit when I was 62, 63. And with the uncertainty of everything going on, everybody wasn't sure what was going to happen, I just decided that it was time to get out now and do something different with my life.

[00:03:05.85] At 63, I decided it's time that I need to stop working and pursue my dream of getting my captain's license and getting back out on the water. Right now, I'm driving a shuttle boat on Boston Harbor. I do it three or four days during the summer and one or two days in the winter time. And I'm getting paid to do it, and it's just an awesome job.

[00:03:24.94] What were you concerned about?

[00:03:26.85] Just being able to pay the bills. Would we be able to stay in this house and pay everything and take care of everything with the funds we had coming through with Social Security and things like that? There were many, many questions we had about, would we be able to financially get by? Would we be able to afford to retire? That's such a huge decision in your life and a hard decision to make and be able to sleep comfortably.

[00:03:51.77] What would you tell your younger self?

[00:03:54.16] I really wish I had started sooner. And that's what I try to tell the kids. If you just try to do a little bit every week and put away, by the time you retire in 30, 40, 50 years, whatever it is you're working, you'll have money to do what you'd like to do.

[00:04:08.36] You're working three or four days a week. Is that retirement?

[00:04:11.73] Well, I didn't think I'd be working this much, but it's like I don't even go to work. I'm out here playing on the water, and it's just not even like a job to me. I pinch myself every day that I'm out there and so thankful that I finally got my dream.

[00:04:28.55] How great to see Steve living out his dream in retirement, a goal for us all. So how do we best plan for our own retirement? Well, I want to welcome in Rita Assaf. She's Vice President of Retirement Products here at Fidelity. Hey, Rita.

[00:04:41.27] Hey. Thanks for having me.

[00:04:42.57] So you deal with retirement questions day in and day out. What's the number one question you get?

[00:04:49.00] Well, it's oftentimes how much do I save? Am I saving enough? And will my savings actually last when I'm in retirement?

[00:04:55.65] OK. So give it to me straight, doc. How much do I need to save for retirement?

[00:04:59.89] Well, the straight talk is there is no one magic number that works for everyone. And that frustrates people. It's a personalized number. And if you think about it, here's why it's personalized. Where are you going to live? What's the cost of living? What is it going to cover? Are you going to potentially work in retirement? So the number does vary from person to person. But Fidelity does have some guidelines just to help you prepare.

[00:05:20.28] We suggest saving about one time your salary at age 30, and then it increases from there to get to that 10 times by age 67. So here's how it breaks out. So one times by age 30, three times by age 40, six times by age 50, and then eight times by age 60, and then 10 times by age 67.

[00:05:38.35] So when you say save, what do you mean exactly?

[00:05:42.41] So I'm referring to accounts that are specifically designed for retirement savings like a 401(k) and an IRA.

[00:05:48.83] Going back to those guidelines, eight times my salary by the time I'm 60. That seems like a really big number. If I want to try and chunk that out a little bit, what's the path to get there, say, if I want to try and set a goal annually every year?

[00:06:02.19] Sure. So Fidelity suggests saving about 15% of your pre-tax income each year. But that includes an employer match if you have access to one. So here's how that works. Let's say you save about 3%, and your company will match you 3%. So that's like free money. But even within that, 15% can seem a lot.

[00:06:22.75] And here's what we say. We say just try to work your way up. Like a great way to do that is maybe increasing your contributions by 1% each year. We know it can be difficult. We know there's other life challenges that are thrown at you. But it's really about how do I continue to increase my savings where I can.

[00:06:38.57] Steve said he's retired, right? But he's driving a shuttle boat. He's collecting a paycheck. He's working. So I guess that's more of a phased retirement, which the Fidelity State of Retirement Planning study found more and more Americans are leaning into.

[00:06:53.58] That's right. That's a relatively new thing, and it was a great finding out of the study. 2/3 of Americans are now thinking of working for pleasure in retirement. And specifically, it's the younger people like millennials leading the charge because post-pandemic, they're really being mindful of what is it that I want to do in retirement?

[00:07:10.47] What is that fun? What is that pleasure? And it's a great trend to seek because oftentimes, you hear, well, I retired and I have to work to make savings last. And that might be true for some people. But really turning that on its head and just working for pleasure and finding that second sort of chance is really exciting.

[00:07:29.44] And that's what Steve said, right? It was the pandemic that pushed him to retire probably sooner than he had expected. And for him, it was more about retiring when he was still healthy enough to travel with his wife and really enjoy their lives. But as you look at the younger generations, how is their lens changed when they think about retirement after the pandemic?

[00:07:48.30] Well, our study found that actually more than half of Gen Z and millennials found phased retirement as a goal. And the pandemic really changed that view. And Gen Z And millennials actually find the idea of phased retirement more likely than the traditional view of retirement, which is I stop working, and now I'm living off my savings.

[00:08:08.40] So that's been just an interesting thing to see that the sort of view of retirement is shifting right now. And I think a lot of it has come out of the pandemic. And honestly, the more I hear about it, I'm falling into that camp. What is that something different, that passion that I want to fill after I retire?

[00:08:25.43] Yeah. Yeah. I mean, there are people who are planning for that phased retirement, right? But there is another group altogether of people who stop working, they retired, and then they come out of retirement to work again. Why? What are you finding there?

[00:08:39.77] We actually saw a lot of that post-pandemic where people retired and then unretired. But in our study, we found that it was pretty split. So 37% felt that they needed the money, and 37% actually returned to work because they needed an activity. And then from there, the reasons really varied across the board of why they went back to work.

[00:08:58.44] Interesting. So if you're there, if you're still working in retirement, how does that or could that affect the way you think about saving and spending?

[00:09:08.24] Well, so a good retirement income plan usually looks at the different sources you have. So one aspect is any guaranteed income, so things like Social Security or pension. And you usually want to use that for your day-to-day living expenses. And then you use your retirement savings for anything else.

[00:09:26.01] So if you're working within retirement, getting that income from your job just allows you to delay taking that money out of your retirement savings. And there are benefits to that. The money can grow longer. But I will caution that at age 73 per IRS guidelines, if you do have any pre-tax or tax-deferred accounts, so think like a 401(k) or a traditional IRA, those do come with required minimum distributions. So at age 73, you will be required to take that money out.

[00:09:55.47] When we think about that money that we'll have for retirement savings, what should we expect it to cover?

[00:10:00.36] So we crunched the numbers, and we found that most people will need about 45% of their pre-tax, pre-retirement income in retirement with the rest coming from Social Security. But those expenses will vary because it's all dependent on and what you prioritize.

[00:10:16.76] And this is where you want to sit down to think through, what will you do in retirement and how will your savings cover the various expenses that you might have, which include I'm traveling early in my retirement to I've decided to slow down and play pickleball. So like all of that will definitely be up to you and what you personally prioritize.

[00:10:37.77] Once we're in retirement, what are some good strategies to try and make the savings last?

[00:10:43.86] So we crunched the numbers for that too. So it's generally about 4% in that first year. 4% of your savings is what you'll most likely withdraw. 4% to 5%. And then you'll want to adjust for inflation in later years. And some people think that's such a low number. But when it comes down to it, they are actually finding that 4% to 5%. So it's a generally good guideline that we use.

[00:11:05.26] As we think about our costs in retirement, what's one of the biggest?

[00:11:09.81] One of the biggest is definitely health care. It's the biggest expense, the most that's underestimated, and the most emotional to really get under. And the number keeps rising. So Fidelity does suggest that a couple in retirement will need about $315,000 for health care costs in retirement.

[00:11:28.05] Wow. And that's just a guideline, right? Because looking at your family history or whatever else is going on, that's a daunting thing. So let's talk our accounts. How do I know what to prioritize when it comes to retirement savings?

[00:11:39.50] That's the biggest question I tend to get actually because you have different types of accounts like we mentioned. So generally, we suggest saving first into a workplace retirement account. So like a 401(k). For some people, that's a 403(b). And you want to save up to the company match if you can.

[00:11:56.11] OK.

[00:11:56.52] From there, if you have access to an HSA or you want to utilize an HSA, you'd want to save up to the max.

[00:12:03.48] A health savings account?

[00:12:04.29] Mm-hmm. And from there, you'll want to consider increasing your savings into the 401(k) if you can. And if you want to go even further than that, this is where IRAs can come in. So you'll want to consider a Roth or traditional IRA. And something interesting is after the age of 50, you can make catch up contributions. So that is something to keep in mind because you can really turbocharge those savings after that point.

[00:12:28.99] So let's get strategic when it comes to planning for retirement by generation. If I'm Gen Z or millennial, where should I put my focus?

[00:12:37.57] So we usually say have a retirement plan. But the word plan really varies. Like you hear plan and people think, oh, my gosh, it's this big deal. But if you're on the younger end, a plan really could mean I'm saving in a retirement tax-advantaged account and I'm looking at how much I'm contributing and trying to increase that over time.

[00:12:57.34] That's the plan. That's it. And for some, they are actually worried that they're investing too aggressively. But that's actually something that you should consider because time is on your side, so you really want to take advantage of contributing money, but also looking at your investment allocation.

[00:13:13.43] I can imagine my younger self saying, Rita, I am dealing with student loan debt, I'm trying to get my life on the ground. You want to think about retirement?

[00:13:21.40] It's true, especially right now, the cost of student debt can get in the way. There's been higher cost of living in these last few years. It's hard to get people thinking about, well, how do I save for retirement when my day-to-day needs are different?

[00:13:34.80] Yeah.

[00:13:35.12] And this is where the tax advantages come in. So it's still worth it to try to contribute to a tax-advantaged retirement account because you can save on taxes.

[00:13:44.00] Right.

[00:13:44.33] And you can watch your earnings grow. So it just benefits you to put some away. I know it's hard, but you really want to take advantage of time while it's on your side.

[00:13:57.00] Gen X, they're not necessarily on retirement's doorstep, but they're walking up the front path.

[00:14:04.43] So you're Gen X. You've saved a bit. This is really want to try to formulate what that retirement income plan will be. So you're putting pen to paper. For example, how much do I think I'm actually going to need in retirement? What are those sources going to be? And then what's that mix of savings and investments for me to get there? So you're really dictating out that retirement income plan.

[00:14:27.09] That's also the same generation that's dealing with saving for college, maybe they're trying to take care of an elderly parent.

[00:14:33.77] It's that sandwich generation, yeah. They are handling multiple needs. It's sort of like the airplane analogy, like you want to put the air mask on you before your child. And so that is a hard pill to swallow because I know some people, they want to put their children first, their parents first if they have elderly parents. But you need to make sure you're in order to make sure that you're there for them even.

[00:14:56.16] Yeah That makes sense. So Boomers, either coming up on it, in retirement right now. What do you say to this group who's in it?

[00:15:05.21] They're literally either retiring or in retirement. So this is where you want to look at the expenses, where am I going to live? Am I going to work or not? It's brass tacks time to really understand how your savings and those income sources will cover the different types of expenses that you'll have in retirement.

[00:15:23.91] Is 65 still the magic number, or what do people say when asked like, when do you want to retire?

[00:15:30.38] I mean, that number will vary. The study did find that most people wanted to retire at around age 62. And maybe that is part of the phased retirement approach like I'm going to stop my traditional job and move on to something else. But it really does vary. And you often hear the number 65. That was usually referred to as the age of when you can start Social Security. But now, your full retirement age for Social Security is 67. So there's a lot of numbers in there. And it'll vary towards you and your goals.

[00:16:00.31] How confident are people feeling with retirement savings?

[00:16:04.26] This has been the surprising find that we saw in our study, which is overwhelmingly, 3/4 of respondents felt that they are confident that they can retire when and how they want to. And this is higher than we've seen in previous years after the pandemic where people were a little bit more pessimistic. So that optimism is increasing, and people are really thinking now of retirement as some sort of pleasure activity that they're looking for.

[00:16:30.34] As we look at that woulda, coulda, shoulda, like we're trying to help the folks coming up behind us, all the generations wish they had started sooner, including Gen Zers, who started planning on average at like age 20. How much earlier, and what does that look like?

[00:16:49.66] I keep saying interesting, but I just love being shocked by the data and the results. Gen Z has been very interested in retirement more so than I think previous generations have. They're getting started at earlier ages. And a lot of that that we found, it's come down to they've seen the previous generations struggle with finances. And so they're really thinking, I want to take control of this. I want to be able to know where my savings are going.

[00:17:15.64] And I'm looking at retirement differently. It may not be I'm just stopping in it's 30 years away. It could mean I stop in a couple of years, I do something else, and I maybe go back to work. So they're viewing it differently. But I applaud them for even getting the thinking earlier. I mean, I was not in their shoes at that time, so I'm just amazed by it. And I just want to say kudos.

[00:17:37.71] Yeah. Yeah. All right. So if I'm watching or listening to this and I'm motivated by this conversation, give me some to-dos. Give me an action plan.

[00:17:46.40] Sure. You really want to have a retirement plan in place. And again, that plan does not need to be this big, huge plan idea and it's overwhelming. But we do find that people who do some sort of planning feel way more confident that they can weather any surprises that come along. So for younger generations, that really is, what are the accounts I'm saving in? And for some, they're already saving in a workplace savings plan, so look at that. Consider potentially any other vehicles like an HSA, an IRA. And consider increasing savings over time.

[00:18:18.01] Like upping your contribution?

[00:18:19.24] Yes.

[00:18:19.54] OK.

[00:18:20.23] And then for older generations, it's really getting to the brass tacks of what that plan is going to do for you in retirement. What are those income sources, and what are those expenses? And for those who are literally retiring now, it might be a little bit of budgeting, understanding OK, what's the money that's going to come in? What are my savings going to cover? What are other sources going to cover? And where are they going to go for expenses? And how am I going to live?

[00:18:45.67] Yeah.

[00:18:46.10] And in fact, our study found all generations, including Gen Z, wanted to save earlier. And I think that's their advice to others right now, which is, don't regret that. Start earlier.

[00:18:58.18] Rita Assaf, I thank you so much.

[00:18:59.85] Thank you for having me. Love this topic.

[00:19:02.12] And thanks to you for joining us. If you're looking for more tools and resources, check out Fidelity.com/moneyunscripted. You can get your own retirement score to see how ready you are for retirement and get more strategies for saving at any age. Be sure to like, follow, subscribe, share, and we'll see you next time here on Money Unscripted. It's your life. Get your money's worth.

[00:19:31.91] [MUSIC PLAYING]

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These simulations take into account the volatility that a typical target date asset allocation might experience under different market conditions. Volatility of the stocks, bonds and shortterm asset classes is based on the historical annual data from 1926 through the most recent year-end data available from Ibbotson Associates, Inc. Stocks (domestic and foreign) are represented by Ibbotson Associates SBBI S&P 500 Total Return Index, bonds are represented by Ibbotson Associates SBBI U.S. Intermediate Term Government Bonds Total Return Index, and short term are represented by Ibbotson Associates SBBI 30-day U.S. Treasury Bills Total Return Index, respectively. It is not possible to invest directly in an index. All indices include reinvestment of dividends and interest income. All calculations are purely hypothetical and a suggested salary multiplier is not a guarantee of future results; it does not reflect the return of any particular investment or take into consideration the composition of a participant's particular account. The salary multiplier is intended only to be one source of information that may help you assess your retirement income needs. Remember, past performance is no guarantee of future results. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical calculations. Returns also will generally be reduced by taxes.

About the Fidelity Investments 2024 State of Retirement Planning Study
This study presents the findings of a national online survey, consisting of 2,014 adult financial decision-makers, age 18 plus, who own an investment account. Respondents had at least one investment account. The generations are defined as: Baby Boomers (ages 59-77), Gen X (ages 43-58), Millennials (ages 27-42) and Gen Z (ages 18-26). Interviewing was conducted December 7-15, 2023 by Big Village, which is not affiliated with Fidelity Investments. The results may not be representative of all adults meeting the same criteria as those surveyed.

About the Fidelity 2023 Retiree Health Care Cost Estimate
Estimate based on individuals retiring in 2023, 65-years-old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates projected with Mortality Improvements Scale MP-2020 as of 2022. Actual assets needed may be more or less

depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Cost Estimate assumes individuals do not have employer provided retiree health care coverage, but do qualify for the federal government's insurance program, original Medicare. The calculation takes into account Medicare Part B base premiums and cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by original Medicare. The estimate does not include other health related expenses, such as over-the-counter medications, most dental services and long-term care.

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