Insights Live℠
Withdrawal strategies for retirement

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TRANSCRIPT

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JIM ARMSTRONG: Hello, and welcome to the latest *Insights Live*℠: Withdrawal strategies for retirement. I'm Jim Armstrong, and I work on the webinar team here at Fidelity. This is the second of three webinars we'll be hosting about retirement income. Last month, you may remember we talked about creating your income plan. Today, we'll turn to withdrawal strategies that could help your savings go farther, including how to handle RMDs, required minimum distributions, and the ever-popular conversation about Roth conversions.

And then a little bit later on in the month, on November 20, we'll be taking your questions live about all aspects of retirement income planning in an Ask Fidelity Anything session. First, though, I want to thank our excellent panel for taking time out of their day to be with us and really offer a quick reminder to the audience as well that Fidelity does not give tax or legal advice. So nothing we talk about today should be interpreted as legal or tax advice.

The information we provide is going to be general in nature, and it might not apply to your specific situation. If you do have specific tax or legal questions about your situation, we would just suggest that you contact an accountant or a tax professional or an attorney to get those questions answered. All right. With that out of the way, I'd love to hand it over to our excellent team of panelists and have each of you introduce yourselves maybe for a minute or so, talk a little bit about what you do at Fidelity, and then a little bit more about the perspective that you'll bring to today's conversation. And Michelle, we'll start with you, if that's OK.

MICHELLE HOWELL: Thanks, Jim. I'm the vice president financial consultant in the Edina Investor Center in Minnesota. I work with high-net-worth clients and their families to co-create financial plans that integrate tax-efficient investment and withdrawal strategies mindful of their overarching legacy goals.

JIM: Excellent. Right on topic for what we need today. Christian, how about you?

CHRISTIAN JEEVES: Sure, Jim. I'm a regional vice president for our Planning Solutions team, where I collaborate with advisors and clients on options for how to help them really grow, distribute, and transfer that wealth in line with both their goals and also the preferences they may have.

JIM: Excellent. And Rita.

RITA ASSAF: I'm the vice president of our retirement products, where we educate clients on the different retirement offerings that we have, which also includes helping clients with withdrawal strategies so that they feel confident about their retirement planning.

JIM: Love it. All right. Thank you all. Rita, we'll actually start with you because rules around withdrawals from retirement accounts, well, let's just say they're not static. There's always lots of changes to keep up with. So maybe we can start off with you grounding us in some of the basics. Who needs to take withdrawals, and when do they need to take them?

RITA: Yeah, there have been a lot of changes, so it is confusing. But to explain what an RMD is, it's a required minimum distribution that's age-based, where you need to take out an amount each year if you have pretax retirement accounts. So this includes, for example, a traditional IRA or a 401(k) plan or another workplace plan, as well as inherited tax-deferred accounts. And if we think about the changes, first off, in 2019, there was something called SECURE 2.0, which was some federal legislation that revised rules around retirement savings.

It was then followed in 2022 by more legislation called SECURE 2.0. And why this is important is because within SECURE 2.0, they changed the first year of when you need to take RMDs to age 73, and this will set to be increased again in 2033, which will have the age at 75. And the SECURE Act also changed rules for inherited IRAs, mainly for non-spouse beneficiaries who inherit assets from the account owner who passed away, if you think in 2020 or later.

And the big change there is, they now have a 10-year period to take out those RMDs, where they have to take an RMD through each year, 1 through 9. And then by year 10, the entire account needs to be depleted. And one thing that you might have heard or seen is that these regulations were in proposed state, so clients were able to—if they weren't taking RMDs, they were not penalized. But starting January 1, the rules are finalized. So these non-spouse beneficiaries will have to take RMDs.

And then you mentioned the deadline. So the deadline is December 31. But there's one caveat. If you're turning 73, so you're a first-time RMD-taker, you can actually delay your first RMD until April 1 of the following year, so when you're 74. But what that means is that you're taking two RMDs, which can increase your tax liability.

JIM: So not that there's much appetite for more nuance in an already fairly complicated situation, but Christian, there are some cases where there are exceptions to RMDs. What are those about?

CHRISTIAN: There's a few scenarios that apply. Probably the most common one is if you're still working with an active employer. Now, if you have IRAs or monies with a former employer, you do have to take a requirement for those. And you can aggregate IRAs. But if you have an old employer plan, you do need to take an RMD for each one of those.

But as I mentioned, Jim, if you're still working, you can actually defer taking money from active employer plan. You have a few considerations. You can't be a contractor. So you actually need to be employed with the company itself. You must be active the entire year, and you can't own more than 5% of the company.

The other common scenarios that come up are if you have a Roth IRA. Since you are already taxed on that money, there's no age requirement to ever take it out. It's completely up to you.

And then one of the additional changes that happened with SECURE Act 2.0 that Rita mentioned was also the elimination of the Roth 401(k) required distribution. So formerly, that was required to be considered as part of the calculation. It's now been removed, which really allows for the flexibility and the growth potential, which is the whole point of doing it.

JIM: Got it. Absolutely. I want to, Rita, go back to you and bring in a couple of customer questions. We received so many excellent questions from people when they registered for today's webinar. We're going to try to answer as many of them as we can, and in large buckets, because a lot of them were the same. And so, Rita, the question that I want to share with you is around reaching RMD age, how much people need to withdraw.

So a couple of questions that I can share with you right now. Someone wrote in and said, "Is an RMD withdrawal a percentage or is it an amount?" And then along the same lines, a different viewer says, or asks, "Is it better to take RMDs as one withdrawal or multiple withdrawals?" which I guess is going to be an individual person's decision.

RITA: Yeah, first off, RMD is an amount, and calculating it is not as scary as it seems. So it involves taking your account balance from December 31 of the prior year and dividing it by what we call your Life Expectancy Factor. And that determines the amount.

So your life expectancy factor is the age at which you're expected to live, given your current age. But one thing to note is that your life expectancy factor and your account balance change each year, which means the amount changes each year that you need for an RMD. So if you just use an example of how that would work out, assume you have an IRA with an account balance of $100,000 on December 31 of the year before.

To calculate your RMD for when you turn 73, you would use a life expectancy factor of 26.5. So if you take $100,000 divided by 26.5, it gets you to around $3,700, $3,770. So it is an amount.

And one thing to note is that RMDs are calculated for each of your retirement accounts. If you have more than one IRA, you can actually total up your RMDs and withdraw it from one IRA. But if you have a 401(k), you do actually have to take the RMD from each of your 401(k)s. And so if you do have an account with Fidelity, we actually will calculate your RMD for you. So if you go to Fidelity.com/RMD, that will have it.

If you're just curious or just want to help calculate your RMD, we also have a calculator, which is Fidelity.com/RMDCalculator. But as to whether you should take RMDs as one withdrawal or multiple distributions, you hit it. I mean, it varies on your goals, and there isn't a right answer. The tax liability stays the same. But some people use their RMDs for day-to-day expenses, and so they like to take their RMD in a monthly or quarterly form. It's almost like a paycheck in retirement.

Others prefer one lump sum because they just want to finish the RMD and move on. But one way to help with that is to automate your withdrawals. So that way, if you do it at whatever frequency you want, you don't have to be worried that you'll miss your RMD.

JIM: Michelle, would love to bring you into the conversation now to touch on another area that we got a lot of questions on, which is taxes and how taking RMDs potentially affects the taxes that we owe.

MICHELLE: Thanks, Jim. Put simply, required distributions can cause your tax liability to increase. As an example, if you have a $1 million IRA and you're subject to required distributions at 73, you'll need to take just over $37,000 that first year of distribution. So when facing an increase in tax that large, that also has the impact of increasing your federal and state tax brackets.

Taxable income can also impact your Medicare premiums through the Income-Related Monthly Adjustment Amount, or what is referred to as IRMAA. IRMAA looks back two years at your taxable income and can cause your monthly premiums for Part B, as well as Part D Medicare plans to increase if your income exceeds certain threshold amounts. The potential increases range from $1,000 to $6,000 per year per person, depending on your taxable income. I know taxes and retirement can feel like a domino effect. Higher taxable income can increase your federal and state tax brackets alongside impacting your Medicare premiums. At Fidelity, we always want our clients to be aware of these sliding scales and to avoid any surprises in both income tax rates as well as Medicare premiums.

JIM: Follow-up question for you, Christian. What can people do with the money when they take an RMD, when they withdraw it from a retirement account? What options do they have?

CHRISTIAN: Well, I think one of the fun things to do, Jim, is spend it. It's certainly most fulfilling for many people to spend some of that money that they've saved so hard and worked so hard for, so that's certainly an option. And costs have gone up. So that's a simple answer to make sure you keep up with inflation.

It can be unnerving to spend it if you're not sure it's going to last. So it's always good to work with an advisor, like Michelle, to make sure that you get a sustainable spending rate and you're not going to run out. But I've also come across a lot of clients who, because they're concerned about running out of money, they actually underspend. And I would consider missing out on the money that you've saved and not spending it just as bad, and making sure you live your life to the fullest.

Additionally, another common misconception is that when I take it out, if I don't need it, I have to move it out of the company it's with, which is not true. So there's a lot of people that I find that actually just take it, Jim. They put it in their savings account. They put it in their investment account here at Fidelity. And then they invest it and continue to grow those dollars. And then finally, again, back to the fulfillment. A lot of clients find a lot of joy in giving it away, whether that be to another family member or maybe an organization that they really believe in.

JIM: Got it. One thing we also know is that a lot of people watching right now have retirement savings in a variety of different accounts: IRAs, Roths, taxable accounts. And so a common set of questions we get is, what order am I supposed to tap these in once I retire? So, Michelle, I'd like to share three questions that came in during registration to help you shape your answer.

Someone wrote simply, "What account should I withdraw from first?" Another viewer says, "I just want to know what's the best strategy for withdrawing from several different types of investments." And then finally, a third question is, "I'm looking forward to understanding better how to determine a withdrawal strategy from multiple accounts." Lots of people have this same question.

MICHELLE: All great questions, Jim. I think it's really helpful to understand the historical context around withdrawal strategies to better understand how they've evolved. So when we look back at the order of retirement strategies, withdrawal strategies, the historical approach used to be to drain the taxable assets first, tax-deferred assets secondly, and then finally, if there were any tax-free assets, to access those. That often led to much larger tax-deferred balances. And of course, that prompted much larger required distributions, and therefore taxation in retirement. Some of you may have heard this referred to as the ticking time bomb of taxation.

So these days, with lower tax rates and the awareness of required distribution taxation, the order of withdrawals has become a lot more customized for each client. So at Fidelity, there are really three ways we can help clients create a specific, strategic withdrawal plan that supports you in your individual situation. The first is, we can work with your tax advisor to receive a budget of additional taxable income that you can absorb without meaningfully increasing your tax situation. Secondarily, we can use our retirement tax strategies tool to project your tax situation for the current year and model in a specific withdrawal sequence for your consideration. Lastly, we can involve our wealth planners, who use our eMoney software, to illustrate both short-term as well as long-term implications of a particular withdrawal strategy.

JIM: Really great context, Michelle, to understand how customizable it can be. So that's great. And how do you work with people in your practice? What are the considerations that you encourage them to think about when each of us is coming up with our own withdrawal strategy?

MICHELLE: Yeah, in my practice, I think there are three main questions that we need to address to frame the withdrawal strategy. The first question is overarching. What do you want your wealth to do for your family, for your loved ones, and charitable causes that are important to you? If clients are charitably committed, we may not pursue strategies that create additional taxable income for clients, as charities can take over these assets tax-free.

Secondarily, what are the income sources that you have now and in the future? And then lastly, what are your expenses versus those income amounts, and how much additional cash might you need to support your lifestyle each year? So to put that all together, Jim, let's look at a hypothetical example.

Let's take a married couple, inherited—excuse me, interested in leaving assets to family. Let's say they have $500,000 in after-tax or non-retirement accounts and $1.5 million in IRAs, which are subject to future required distributions. They received $50,000 from their combined Social Security benefits, along with pensions of $40,000. Their gross income of $90,000, less the $32,300 standard deduction in 2024, means they'll fall in the 12% marginal tax bracket.

But what if this couple needs additional cash flow? What if they needed to take an additional $35,000 to support their lifestyle? Looking ahead, we know that these clients will be subject to required distributions in a few years, at 73.

So right now, they have additional room in that 12% tax bracket that could be optimized. This means they can distribute the additional income from their tax-deferred account and still maintain their 12% marginal rate. I think a lot of couples might feel good about a strategy that allows them to pay a lower marginal tax rate in their early years of retirement, as compared to perhaps their higher tax rates while they were working. And then additionally, a strategy like this allows some of the air to be released from that balloon of pretax savings before the required distributions begin.

JIM: Lots of variables in that situation, which I appreciate you walking us through. But Christian, I want to turn to you and talk about another variable that's really out of all of our control, market volatility. So Michelle was just running through hypothetical balances in that example, but those balances are definitely going to fluctuate year to year, if not to month. So how do you help folks figure out ways to mitigate or understand the impact that comes from market volatility when it comes to tapping their accounts?

CHRISTIAN: Yeah, absolutely, Jim. We hear that a lot. So market volatility can always impact the thought process on taking withdrawals because of the emotions it really creates. It may feel really, really good right now, but go back two years, and it felt a lot different.

So just like when you're working and you have a diversified investment approach that includes things like stocks, bonds, and cash, it's really important to make sure you have a diversified income approach as well. And what we mean by that is not just the types of accounts that may be pulling from, but also areas that make sure they include growth potential in the overall income plan, flexibility, as well as guarantees. And as you can see on the screen here, one of our core beliefs at Fidelity is that once you identify your essential expenses, you want to make sure those are met by predictable forms of income in the form of guarantees like a pension, a Social Security or a guaranteed income annuity.

So if you think about this and maybe if you're still working, a good example would be, depending on how you're paid, you may have a salary that paid you a predictable stream of income. That paycheck came in every single month. You were used to it, so you felt comfortable paying for bills with that.

It's very similar in retirement, Jim. So when you get to a place where you're retired, you don't want market volatility to question whether you can pay your bills. You want to make sure that you have that predictable income source coming in so you know that it's going to be repeatable and be there for you.

Now, you may have had some sort of bonus structure when you're working, which may make you more comfortable with volatility or ups and downs in both your balances, but maybe also your income. And so that's where the investment income approach can come into play for some of your discretionary expenses if you're comfortable with that sort of volatility. What's interesting is that predictable income can actually potentially increase confidence and peace of mind when market volatility happens.

There have been studies in the industry that have shown that people that have either pensions or predictable income sources, like I talked about, actually spend a lot more than those without it. And that's because of the fact that you see it coming from your savings account and the predictable income stream coming into your checking, versus watching your savings deplete and the market take that away. So it's not for everyone, but it certainly can be a beneficial approach for those who value predictability and the peace of mind when it comes to taking your income. With all that in mind, the bottom line is that it's really critical to make sure you get a well-diversified approach that allows you different levers and areas to pull from, just like Michelle mentioned. So if market volatility does hit, you have flexibility in where you can take it from.

JIM: All right. Let's continue the conversation about tax-smart strategies with RMDs by moving to one of our most popular, if not the most popular topic that we get questions about, Roth conversions. So, Rita, we'll start with you by asking you to explain a little bit about what it means to convert a traditional IRA to a Roth. We'll talk about why people might want to consider it.

And I've got a couple of customer questions that maybe can start you off. One person wrote in and said, "Are Roth conversions allowed by law?" And then somebody else said, "Are there any Roth conversion penalties?" So a lot of interest and some confusion about what's involved here, Rita.

RITA: Yeah, this is, like you said, a very popular question. But a Roth conversion, just put simply, is moving savings from a pretax account like a traditional IRA or workplace plan, like a 401(k) or 403(b), and converting it to a Roth IRA or Roth 401(k). But if you want to do this within your workplace plan, you need to check with your employer if they allow for a Roth 401(k) or Roth conversion. And then the other thing to note is that you do have to pay taxes on any taxable amount that you convert.

But one of the key questions of why to consider a Roth conversion is, do you think your marginal tax rate will be higher in retirement? And if it is going to be higher, this is where Roth conversions can be a benefit. Because as Michelle indicated, these Roth conversions can reduce the taxable distributions that you may need, taking the balloon out of the—reducing the balloon, I guess, and reducing the RMDs that you need to take in the future.

And as we think about are they allowed by law, they are. And there have been discussions in past years of, well, do we eliminate the backdoor Roth option? And that never happened and isn't currently the case. So Roth conversions are still allowed right now, per the law.

And another just thing you want to remember for any potential penalties is that RMDs are better if you know that your money will stay in the account for a longer period of time. And that's because if you think you need the money, for example, in less than five years, it needs to remain in the account for five years before your withdrawals can be tax-free and penalty-free. So it is a complex situation. And that's where we say it's good to check in with a financial professional or tax advisor because there can be some unexpected issues that you may find with it.

But a lot of the benefits with doing a Roth conversion is that it allows you to take advantage of Roth benefits, and that is tax-free withdrawals after a five-year aging period, no RMDs, and then something we call tax diversification, which means that you can actually leverage taxable distributions through a traditional IRA or 401(k), as well as tax-free distributions that you have available through a Roth IRA or Roth 401(k).

JIM: Got it. That's a great start. I'm happy to have a team of financial professionals in front of me right now, so I'm going to bounce some more questions about that off of each of you. Michelle, I'll start with you. What are the questions that somebody maybe watching right now should be asking themselves about whether or not converting to a Roth is right for them?

MICHELLE: Thanks, Jim. So in practice, there are really five considerations that you may want to consider. The first is, as Rita just mentioned, we do want to understand what your anticipated marginal tax rates may look like all throughout your retirement, realizing that they may not be static. They may fluctuate over time.

Secondarily, we want to understand what you want your wealth to do for your family and for causes that are important to you. So as an example, if you told me that you wanted to leave all your assets to charities, aggressive Roth conversion strategies may not make sense in your situation. Why pay the tax tab when charities dine for free?

Conversely, if we understand that you want to leave some assets to heirs and leave assets to charities, we might combine a strategy to convert to a Roth and donate to charity to help offset those tax implications deemed from the conversion. Thirdly, do you prioritize leaving tax-free assets to heirs over taxable assets to heirs? Would you be open to exploring strategies that might trade off in you paying more tax now for a smaller lifetime tax liability overall?

And lastly, do you have enough non-IRA funds available to pay for the conversion? As an example, a lot of clients are interested in conversions, but they may actually have limited funds available in after-tax sources to pay the tax liability. At Fidelity, we believe it's best that taxes due for the conversions are coming from after-tax sources, like savings or your brokerage accounts.

JIM: Those are great. Thank you for walking us through those, Michelle. Christian, I'd love to turn to you now with a more general question we seem to get a lot of, which is, have I missed the boat? Is it too late?

So a couple of customers wrote in. One person said, "At what age is it not beneficial to do a Roth conversion?" Another customer says, "At 83 years old, does a conversion still make sense for me?" So what do you think about that idea? Have I missed the boat? Is it too late?

CHRISTIAN: Yeah, it's a great question, one we get a lot, to your point, Jim. I think the good news is it may very well still make sense. A question we get a lot is, is it too late to do it after I do my required minimum distribution age? So the short answer is no.

If you're in the age in which you're doing the required distributions we talked about earlier, you're still fine to do Roth conversions anytime after that. You just need to make sure that you satisfy that required distribution first. With that in mind, I think you want to consider a few things, like Michelle mentioned.

You want to make sure you have that five-year holding period if you plan to use it for yourself. Make sure you have that time frame to see the benefit. If it is more of a legacy goal, then I think it depends on the very personal choice about how much taxes are you willing to pay. Do you have enough to pay for taxes out of pocket, as was discussed? What's your current tax bracket? And what's the time frame until you want it?

The good news is, we have a really helpful calculator that you can reference, which is on Fidelity.com/RothConversionCalculator. And you want to keep in mind a couple of things when you think about it. It's going to help you really get more insight into will it make sense for me? But you can also spread that out over many years. So even if you're older, it could still make sense. It could even make more sense that I spread it out over time.

Now, the other thing I'd just suggest to keep in mind is there is federal legislation that passed in 2017 called the Tax Cuts and Jobs Act, or TCJA, which made pretty significant changes to the tax code. What it did was it expanded tax brackets. It lowered the top tax rate, among other things.

And that is expected to sunset at the end of 2025. So some people may feel that it may make sense for me to do a little bit more than I initially planned to do. If I plan to do it out over multiple years, I may want to actually do some sooner rather than later. So those are just some considerations, Jim, to think about as you think about if it still makes sense for me.

JIM: I think a lot of people asking that "Does it still make sense for me?" question are probably in or maybe deep into their retirement phase of life. But Rita, what about clients who are still actively working, still employed? Do they have Roth conversion options as well?

RITA: They do, but say if you're still working, you want to see if you can actually contribute directly to a Roth 401(k) if your plan allows it. And the reason for that is, there are no income limits to contributing to a Roth 401(k), unlike a Roth IRA, where there is. And then on top of it, you can actually save more in a Roth 401(k).

So in 2025, you'll be able to contribute $23,500 to a Roth 401(k). And then if you're 50 or older, you can actually do another $7,500, which would bring your total to $31,000. And then as part of SECURE 2.0, another new feature is, you can now make super-sized catch-up contributions if you're between the ages of 60 and 63, and that is actually of $11,250. So it can be pretty significant.

But if that isn't available, you can actually leverage a Roth IRA. The issue with Roth IRA is that you need to have earned income and that there are income limits in terms of whether you can contribute to a Roth IRA. Or even if you can, it may dictate how much you can contribute. But the max in the Roth IRA is $7,000. If you're 50 or older, you can make a catch-up of $1,000, which brings the total to $8,000.

But if you can't contribute to a Roth 401(k) or a Roth IRA, that's where a conversion can come into play. So one option is a backdoor Roth, which includes basically making a nondeductible contribution to a traditional IRA and then converting those funds to a Roth IRA. And this is actually pretty useful for high earners, given that they can't fully deduct their traditional IRA contributions due to income limits as well.

JIM: Glad you brought that up. We also got a lot of questions about backdoor Roth and the mega backdoor version of that. So could you walk us through how the mega backdoor works?

RITA: Yeah, I love the term "mega backdoor," but it involves your workplace plan. So if your plan allows it, you would make an after-tax contribution to your 401(k) or workplace plan, and then you would do a conversion either to a Roth IRA or a Roth 401(k) if your plan allows it. And you might be wondering, well, what's an after-tax 401(k) contribution versus a Roth 401(k) contribution?

Well, an after-tax 401(k) contribution actually allows you to save even more in your workplace plan beyond the contribution limit that you have for pretax and Roth 401(k) contributions. That's why it's referred to as mega backdoor. You can save and convert even more.

The one difference, though, with the after-tax contribution is that you do need to pay taxes on any earnings, which is not considered—that is not part of a Roth 401(k). But a backdoor Roth, or even a mega backdoor Roth, are complex strategies. And you still want to talk to a professional just to make sure are you eligible, mainly because you don't want to make an unexpected tax liability or penalty mistake, because it can lead to that.

JIM: Yeah, absolutely. Speaking of taxes, let's widen our lens out a little bit when it comes to taxes on retirement withdrawals. We talked about Roth conversions. But Christian, I'll turn to you now to find out what other strategies clients might want to consider when trying to mitigate the tax impact of taking an RMD.

CHRISTIAN: Yeah, sure. A really interesting development, actually, from the SECURE Act 2.0 that we've discussed so far was the ability for clients to offset required distributions needed with excess income from guaranteed income annuities. So I'll give an example.

Given the time of year, I often like to use pie because it's the holiday season, and I love pie. So prior to the rule change, what used to happen is, if I decided to purchase an income annuity to cover my expenses, the amount I used to buy it would be removed from my IRA pie, if you will. And I would need to still take another slice of pie, in this case, the required distribution, from whatever remained in the account the years following.

With this new approach, what it stipulates is that I effectively create two pies, and each require me to take a piece. So what that means is that with the annuity that I may create, I do have a required amount. However, the excess income from it is going to far surpass what's required to be taken out. So I can use that excess income to offset the other required distribution I have in the remaining IRA.

So effectively, if I have enough and I'm full from the required distributions, I don't need more income. I may be able to keep that in there, not pay taxes on it, and let it continue to grow, which really helps me accomplish potentially other goals, like the charitable considerations we talked about before. So it's a very new concept that many clients are familiar with, but it can really help you limit and not do what you don't have to.

Another one that comes up a lot, Jim, is what's called the qualified longevity annuity contracts, called QLACs for short. And what it states is that it allows you to actually defer a portion of IRA monies, 25% of the balance or up to a maximum of $200,000, and move it into what's called a deferred income annuity. And what that allows you to do is it reduces the RMD requirement because it's lowering the overall aggregate balance of the IRA.

What should be considered, however, is that the income stream will need to start by age 85. So you basically take it out, but you do have to take income from it starting at age 85. It is considered ordinary income, so you may have a little bit more income later on in life. And while that does have the benefit of reducing RMDs, what actually a lot of clients find value from is the fact that it actually increases cash flow later on in life. So if you may have higher medical expenses you come across or even long-term care costs, it lets you pay for those without having the worry of coming in.

JIM: Really interesting. Thank you for that. You mentioned charitable giving a couple of times, and I wanted to take a deeper dive on that because we also got customer questions about how giving strategies might help manage taxes on retirement withdrawals.

One customer wrote in and said, "Can you please explain the benefits of donating from a pretax account to a charity or DAF?" A donor-advised fund. Similarly, another viewer says, "In lieu of a Roth conversion and planning for my legacy, does it make sense to target a traditional retirement account for charities and other assets for my heirs?"

CHRISTIAN: Sure. A really popular option is called a qualified charitable distribution, or a QCD for short. And what that means, Jim, is that you can actually donate $105,000 for 2024, or up to $108,000 starting next year, directly to a charitable organization. And what that allows you to do is it actually will satisfy likely all or some of the required distribution you have to take, but it can contribute towards that requirement.

So what you have to keep in mind is that, unfortunately, it doesn't allow for a donor-advised fund contribution. So you couldn't send it to a DAF, as you mentioned. But you can send it right to the organization. It needs to just go right to a 503(c).

And make sure you get a receipt because when you do your taxes, you want to have that handy in case they ask for proof that you sent it direct to the charity. But it's a really unique strategy. What's also interesting is that each spouse can do it up to the amounts I shared. So if there's two spouses that have separate IRAs and they want to do that strategy, they can go up to those limits I just mentioned.

JIM: Excellent. Rita, a question for you that is very close to impossible to answer, but I'm going to hit you with it anyway. How should someone be thinking about potential changes to future tax laws? Nothing, as we mentioned, is static at all in this space. And that, of course, is going to affect our decisions. So how do you help clients wrap their brains around that?

RITA: Yeah, I wish I could predict how tax laws might change, but I won't. So we do know that the tax policy is probably going to be front and center for the next administration. But as Christian mentioned, right now, the individual rate cuts from the Tax Cuts and Jobs Act are set to sunset at the end of '25.

And the reason why this comes up right now is because if you are doing a Roth conversion, you might be paying lower taxes right now versus in 2026 if no changes are made to that act. And this is where it's important to really plan for different scenarios and different tax strategies for those scenarios where we do have tools that can help you. So one to consider is our Fidelity Retirement Strategies Tax Estimator Tool, which you can find at Fidelity.com/RetirementTaxEstimator. Also, I know we keep saying this, this is where it's also good to continue to check in with a financial or tax professional.

JIM: Absolutely. Speaking of which, hey, Michelle, here's a financial question for you, another planning question. A lot of us watching right now will eventually leave retirement accounts to our heirs. And we got questions about this from many viewers as well.

So we're curious what people should be thinking about when it comes to passing on an IRA. So, for example, I've got a couple of questions to share. Someone asks, "How to position assets to maximize potential inheritance for my heirs and minimize taxes?" Similarly, a different question. "In my withdrawal strategy, how should I factor in the impact for my heirs, which will arise from the step up in cost basis for my after-tax investments?"

MICHELLE: Yeah, all good questions, Jim. Remember, assets left in a pretax IRA are uniquely subject to two potential tax consequences: estate tax and income tax. So when we all die, all our assets will be tallied up to be valued as part of our estate. And there is a determination of whether our estate is subject to federal and potentially state death tax.

Additionally, though, funds in a pretax IRA are also subject to income in respect of the decedent, or IRD, tax. It's important to note that's not double taxation. It's just that money that has been income tax sheltered is subject to income tax by your beneficiaries. So for spousal beneficiaries, this plays out like normal required distributions over your life expectancy. Rita reviewed this earlier.

But for non-spousal beneficiaries, beginning next year in 2025, you must deplete your inherited IRA by December 31 of the 10-year anniversary of death for the original owner. And if the original owner of the IRA passed away after their required distribution beginning date, there may also be a minimum distribution required in each of the nine years post death alongside the depletion requirement by the end of the 10-year anniversary of death. So in practice, that means that your loved ones may be subject to income tax at their ordinary income rates on the pretax inheritance while they're in their peak earning years.

And so all throughout this discussion, we've explored strategies that you can consider that help reduce the value of those pretax assets and prioritize growing the after-tax accounts, which can benefit from the step up in basis upon—step up in cost basis upon death. So as a recap, those strategies include targeting strategic withdrawals from a pretax IRA, Roth conversions, and then qualified charitable distributions.

JIM: So as we've mentioned, though, it comes to mind, so much that we've discussed is subject to change. Given that, Christian, how often should someone watching right now be revisiting or rethinking about their plan?

CHRISTIAN: Yeah, great question, Jim. So you may have heard of the concept of wabi-sabi. It's a Japanese philosophy that everything is transient in life. And so, just like that concept, retirement income plan is a living, breathing thing that's going to constantly change due to factors like markets, inflation, life events, et cetera.

So we would encourage people to review their plan at least once a year. But as I mentioned, life events do happen. So if those were to occur, we certainly would encourage you to review that sooner rather than later.

JIM: Got it. Once a year sounds just right. We do have a couple of customer questions that came in that I wanted to revisit or visit with each of you. And Christian, we'll start with you.

This is a very popular topic. The question is, what yearly withdrawal percentage is safe? That's, of course, a relative term. But people are very interested in how much should they be withdrawing every year.

CHRISTIAN: Yeah, I'm glad you asked that, Jim. A very common answer that we hear in the industry is 4%. It's what's called a sustainable withdrawal rate to take out from the portfolio. And that is determined, really, by the first year in which you take the money out. That's the balance you calculate the 4% off of. I would go back to what you mentioned, though, which is the word "safe."

Just because it's sustainable or safe doesn't mean it makes people comfortable. So we would encourage people to find a method, whether that's guaranteed income sources or fixed income investments, that allow them to feel confident to do that, if that's what they want to do. But you want to find that balance. But 4% is a very common scenario that's discussed. I would really encourage, as we've discussed many times today so far, to reach out to your advisor and talk through what may make sense for your plan to determine what you're comfortable spending.

JIM: Yeah, so much of this boils down to your individual comfort level and your unique situation and your unique plans. But thank you for that overall guidance. Michelle, similarly, a question that I thought you could take a pass at here. I think a lot of us find ourselves in the position of having worked many jobs over our lifetimes, and therefore potentially having lots of different workplace or retirement accounts in many, many different locations.

So one viewer sent us this question when they registered. Should I combine or consolidate my retirement accounts? How do you answer that?

MICHELLE: Absolutely. Simply put, absolutely. There are four benefits of consolidation. The first is just the holistic planning that we can support you with.

As advisors, we need to understand your entire financial picture, including details like cost basis on your holdings, the allocation of your portfolio, just so we can help you avoid redundancies and concentrations across stocks or industries. Another consideration is expenses. As consumers, we know that often when we buy in bulk, it reduces costs. That same concept is often true with investments. Your investment costs and advisory fees may be lower by having assets with one advisor.

Another consideration is relationship. This is near and dear to my heart. My goal for every one of the families I work with is to earn the right to be their primary advisor. My best work, our best work, is done when we have transparency around your entire financial situation. And this allows us to help you see around corners and incorporate strategies like those we discussed today.

And then lastly is just organization. Consolidation makes your life easier, your loved ones lives easier. Simple is always better.

JIM: Excellent. Thank you for that. Rita, another question for you now. It's an interesting one. How can I convert my IRA and 401(k) to a Roth IRA without paying taxes?

RITA: He gave me the fun one, I guess, there.

JIM: It's an honest question.

RITA: Well, there is a way to do it. If you do a backdoor Roth or if you're eligible through your workplace plan to do a mega backdoor Roth, there are ways that you can either limit the tax liability or not have to pay taxes. And so how you would do this is, if you're doing a backdoor Roth, you would contribute after-tax non-tax deductible contributions to the traditional IRA, meaning you haven't paid taxes on the—you have paid taxes on those contributions. So you will not be taxed.

Or for the mega backdoor Roth, you'd use that after-tax feature of the workplace plan if it's allowed to. And in both scenarios, you would then convert it to a Roth IRA where, if you do it in a timely fashion, you would not have any earnings where you would have to have taxes on. So it is a way to, if it's done in the right way, have no earnings, or at the very least, very limited—I mean, no taxes, or at the very least, have very limited taxes by doing it that way.

JIM: Got it. All right. Thank you all for your time today. As we start to wrap up, excuse me, I'd love it if you could each just leave our viewers with a couple, two, three takeaways, what you'd like for them to remember from this webinar. And Rita, we can start with you.

RITA: This is a lot of information. And the rules are confusing, and they're constantly changing, so don't feel bad about that. But the only thing you can control is having a solid plan and then working out those different scenarios so that you're prepared. And then as Christian said earlier, you want to check in with that plan at least once a year to make sure you're on track, or if something changes, you're covering it. And this is where having a good partner, like a financial professional, can help you make sense of everything and then understand your personal situation.

JIM: Got it. Christian?

CHRISTIAN: Yeah, Jim. Well, there's a lot of interesting and unique strategies and tactics that we talked about today that you can leverage. I really believe it's most important to start with the end in mind. And what I mean by that is that it's really important that you think through and share with your advisor what a successful retirement would look like so that you have that joint fulfillment that you save all that money for. From there, they can start to build that plan that addresses those priorities while also incorporating preferences and some of the strategies we talked about today based off of what resonated with you.

JIM: Got it. And Michelle, last word goes to you.

MICHELLE: Appreciate it. A common thread in our discussion has been how customized a financial plan must be to your own unique situation. We're blessed to live in a time when we're surrounded by information, but that can also be overwhelming.

And every strategy that we hear or read about isn't always applicable in our situation. So if the topics today discussed piqued any interest or prompted any questions for you, I'd really encourage you to reach out to your existing financial consultants. And if you don't have one, feel free to go to Fidelity.com and seek out our Find an Advisor tool to find somebody who you can partner with locally.

JIM: Excellent. Excellent. And again, I want to thank all three of you for taking time out of your busy schedules to share these great insights today.

And I also want to thank the audience, our viewers, for taking time out of your day to spend it with us as well. And we hope you also join us for part 3 of this retirement income series, coming up soon on November 20, where we will be taking more of your questions live. For more timely market updates and insights on other financial planning topics, we would also encourage you to subscribe to *Insights from Fidelity Wealth Management*℠. That's going to get you exclusive invitations to future Wealth Management webinars, as well as access to our weekly newsletter. Thank you taking time out of your day to be with us, and we hope to see you soon.

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