Insights Live℠

Retirement income and withdrawal strategies

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TRANSCRIPT

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SUZIE ALLEN: Hello, and welcome to the latest *Insights Live℠:* Retirement income and withdrawal strategies. I'm Suzie Allen, Vice President of *Insights from Fidelity Wealth Management℠*. This is the second in our three-part series on preparing for and living in retirement, where we'll address important questions you may face along your retirement journey. Retirement is a key component of Fidelity's comprehensive planning.

So a roadmap for today. We're going to take a close look at sources of retirement income and discuss drawdown strategies. We'll also talk about taxes and managing potential risks to your plan, including market volatility. But before we get going, I want to let you know Fidelity does not give tax or legal advice. And nothing we discuss today should be interpreted as tax or legal advice.

The information we are providing is going to be general in nature, and it may not apply to your situation. If you have legal or tax questions about your specific situation, we encourage you to talk to your attorney or tax professional. All right. I'm excited to introduce this team of professionals from Fidelity who are here with us today. I'll ask everyone to introduce themselves and briefly describe their role at Fidelity and the perspective they bring to this discussion. So let's welcome back, Rita, and start with you.

RITA ASSAF: Well, thanks for having me again. So I'm Rita Assaf. I cover our retail retirement products, and what that means is I help our clients understand how to use our various retirement account solutions for both saving and living in retirement.

SUZIE: All right. Thank you, Rita. Welcome, Christine.

CHRISTINE CHASE: Hi, Suzie. Thanks so much for having me today. I'm a Vice President, Financial Consultant, and a Certified Financial Planner® in Boston, Massachusetts. And I work with individuals and families to co-create comprehensive financial plans that provide comfort and confidence.

SUZIE: Excellent. And, Christian.

CHRISTIAN JEEVES: Yeah thanks for having me, Suzie. I'm a Planning Solutions Regional Vice President where I support the greater New England area. I specialize in helping Fidelity's financial professionals create confidence with their clients' financial plans.

SUZIE: Great to have you, Christian. All right, first question. Christine, in your practice, you work with many clients who are at or near this key transition point from putting money in their retirement savings accounts to taking it out. Where do you start in helping clients create an income and withdrawal strategy?

CHRISTINE: Yeah, so the best place to start is first having my clients map out what their expenses look like, both the essential, nonnegotiable expenses, like your groceries and utilities, as well as the discretionary spending, like travel, your golf membership, or presents for the grandkids. The next piece of the equation is gathering information on any sources of income that my clients will have in retirement. So most will have Social Security, some will have pensions or annuities, and I've also seen clients who have other sources of income, like rental income or part-time work income.

And once we know what the expenses are and what income sources we have as part of the plan, we can then figure out how much we need to withdraw from the portfolio to make up that difference. And part of that is we'll want to understand when required minimum distributions will start and how much those might be as well.

SUZIE: All right, thank you for that overview. We are going to do a deep dive on some of these. So let's start with tax-advantaged accounts, like traditional IRAs and 401(k)s, which for many of us is a significant source of our retirement savings. So who needs to take withdrawals from these accounts and when?

RITA: Yeah, so you spent all those years saving in these accounts and now, you've been scared over time and you're like, don't withdraw. You might get penalized and taxed. So you might be wondering when can I take money and when do I have to take money out of these accounts? I'll start with when can you. So after age 59½, you are eligible for what we call normal distributions from your tax-deferred accounts. So by "tax-deferred," we mean like a 401(k) or traditional or rollover IRA.

So you can actually withdraw from these accounts penalty-free, but since this amount was tax-deferred, you will have to pay ordinary income tax on the withdrawals. On the when you have to withdraw, that comes at age 73 right now as defined by the IRS. That age will change in 2035 to age 75, but you'll be subject to what we call required minimum distributions.

Something different, though, for Roth IRAs and Roth 401(k)s, there's a slight nuance. You need to be able to qualify for what we call qualified withdrawals, which one trigger is being age 59½, with the other being that it must be five years since you've made your first contribution to the Roth account to be able to withdraw your earnings, both tax- and penalty-free. And the good thing about Roth 401(k)s and Roth IRAs is there are no RMDs, so there's no required distributions from those accounts.

SUZIE: All right, well you mentioned RMDs. So let's talk about that a little more. When you reach RMD age, how much will you need to withdraw?

RITA: Well, the number varies each year. And that's because of your age and the balance of your account. So calculating an RMD involves taking your account balance on the last day of the year, so December 31, and it's December 31 of the prior year. And then dividing it by your life expectancy factor. So that life expectancy factor is actually based on what you're expected to live and your age. The IRS has those factors for you, so it's not something you need to figure out. You just figure out where you are in the table and it'll give you that factor.

And so if we want to use an example, you would take an IRA with an account balance of $100,000 on December 31, and then if you're 74, you could use a life expectancy factor of 25.5. By dividing those would get about $3,921. Don't worry though, this is not something you have to calculate for yourself most of the time. Usually your financial provider provides it for you, and if not, there's calculators and tools to help you. But RMDs are calculated separately for each of your accounts.

The one caveat is if you have an IRA, you can actually total up your RMDs from each IRA and take it out of one IRA. 401(k)s, you do actually have to take an RMD from each account. And if you have a RMD with Fidelity, we actually calculate it for you, which you can check out yourself at Fidelity.com/RMD, and we also have a calculator as well that can help you through that.

SUZIE: Some really great resources there. Thank you, Rita. Now, what are the rules for withdrawals from Roth IRAs? We talked about that quickly. So Christine, can you elaborate more here.

CHRISTINE: Sure, yeah. Rita started talking a little bit about this, but Roth IRA contributions are made with money that you've already paid taxes on. And so while it doesn't offer a tax deduction when you're contributing, their earnings can potentially grow tax-free with no obligation for

required minimum distributions in retirement. You can always withdraw your contributions from a Roth IRA, both tax-free and penalty-free, at any time.

I actually ran into this one time with a client where she got laid off doing a house renovation, and she needed to make a few more large payments, and the majority of her savings were in her 401(k) and she was under 59½. So we avoided taking withdrawals from that account and incurring a penalty. So after tapping into non-retirement dollars we were able to access some of her Roth contributions without any tax implications.

So that's for contributions, but withdrawing earnings from a Roth IRA is a different story. So in order to withdraw earnings tax free and penalty free, you must be at least 59-and-a-half and have made your first contribution at least five years ago. That's considered a qualified distribution. There might be exceptions to this rule, like a first-time home purchase, up to $10,000, disability, death, which would allow for tax-free withdrawals of earnings.

If you withdraw earnings before meeting both the age and the five-year requirements, those funds might be subject to income tax and a 10% early withdrawal penalty. That said, certain circumstances, like qualified education expenses, unreimbursed medical costs, or birth and adoption expenses can potentially waive the penalty. I'd say also be mindful if you're doing Roth conversions, that Roth conversions have their own five-year rule, meaning each converted amount must age five years before a penalty-free withdrawal.

So you can see how understanding these nuances can really help you avoid unexpected taxes and maximize the flexibility that Roth IRAs offer. So if all requirements are met and your withdrawal is a qualified withdrawal, it's great because the full amount comes out tax-free. So with the goal of maximizing the tax benefits on Roth IRAs, along with the fact that there are never any required minimum distributions, many of my clients choose to tap into this Roth bucket last, or might even use it for legacy planning.

SUZIE: All right. Super helpful overview, Christine, and I appreciate that example. Now let's talk about sources of predictable income. Earlier, Christine mentioned Social Security as an income source. So what are the options for claiming Social Security and how can someone decide when to claim them?

RITA: Yeah, I mean, Social Security is still going to be an important part of your retirement income plan, and understanding when you claim and how much you claim will be very important. So you can start receiving your Social Security retirement benefit as early as 62. However, you're entitled to your full benefits when you reach full retirement age or commonly referred to as FRA. Your FRA will depend on your date of birth. Right now, the FRA is 67. It's age 67 for people turning 62 in 2024.

Generally, the rule of thumb is waiting to claim your Social Security benefits can actually increase your benefit over time. So for every year you delay past your FRA, you get an 8% increase in your monthly benefit. Married couples actually have more options when it comes to Social Security. Each member of a couple can actually claim at different dates, and they might be eligible for spousal benefits.

They may also have the option of claiming benefits based on their own record, or 50% of their spouse's benefit. So for couples with big earnings differences, claiming the spousal benefit may actually be better than claiming on your own. It's really important to understand how much you have each month though, before you decide to claim and just note that your monthly benefit can change due to cost-of-living updates.

In 2025, we saw about a 2.5% increase in what we refer to as COLA, or cost-of-living updates, and we're waiting right now for the 2026 number, which could be reported as early as October 24. So understand your resources. Fidelity actually has a great self-service tool, where you can estimate your Social Security benefits and understand your strategy for claiming.

SUZIE: Awesome, Rita. Sticking with guaranteed income, another way to get guaranteed income is through an income annuity. And Christian, we love talking annuities with you. So what do clients need to understand about annuity options and trade-offs?

CHRISTIAN: Yeah, absolutely, Suzie. So I found in my history so far that there's actually a lot of client misconceptions when it comes to annuities. And I believe that assumptions can actually block possibilities. And what I mean by that is like, it's really important to make sure that you feel educated and empowered to make the best choice for you. It doesn't mean that it's necessarily right for your plan, but it is important to understand the pros and the cons.

So in their simplest form, annuities are really insurance contracts that transfer certain risks to the insurance company and away from you. And there's actually different types that exist. So you can see a few on the screen here. There's more deferred annuities that help you really grow your money to build your wealth. There's fixed annuities that really offer a form of principal preservation, like a CD. Then there's income annuities, which acts like a pension and create a lifetime predictable form of income.

And the reason that we thought it was important to share that here today was there was a survey done actually last year by the US Bureau of Labor that found 85% of private corporate workers no longer have access to a pension. And so for retirement, those income annuities actually can create a pension-like income stream for yourself. And they have pros and cons like anything else, but as you can notice here, just like Social Security, we talked about it as a predictable income stream, that's actually a form of a pension in its own way. It's really a government form of pension that you've paid into your whole life.

And then if you're fortunate enough to have that corporate pension in the middle, which are going away rapidly, it does create that predictable income stream for you as well. The right-hand side is that income annuity, where you can basically create a personal-type pension so that you can make sure that you're addressing the risk of outliving your money and that you're not dependent on the market for the income stream. And you have that predictability of what's going to happen on a month-to-month basis.

So it's really important to help really manage that uncertainty. Now, it doesn't offer the growth potential that a market does. So that's something you want to make sure that you consider as you think about it. So here at Fidelity, we believe it's really important that you actually have a well-diversified income plan that has both guarantees, but also flexibility and growth potential so that you can access what you need given whatever the market's calling for.

SUZIE: All right, a follow-up question for you there. So how can someone decide how much of their savings to annuitize?

CHRISTIAN: That's a great question, Suzie. One we certainly get a lot. I would say it is very personal, but one of our core beliefs here at Fidelity is that your essential expenses should be met by predictable forms of income. So Christine mentioned earlier the concept of understanding your expenses, what's essential versus what's discretionary.

And we don't want to see you have to rely on the market to pay for those essential expenses. We don't want you to have to worry about what's going on in Wall Street to make sure that you can pay the light bulb bill or make the car payment, whatever the case may be. So that's a really good starting point, to think about, how much more predictability might I need up and above what I have coming in from things like Social Security or the pensions you may have that we talked about earlier.

Another really helpful tool to start thinking about it, either if you're already in retirement or if you're going to be retiring soon, is how you were paid during those working years. So meaning, were you highly salary based? Did you have a very predictable form of income coming in each month that you were used to? It made you confident and comfortable to make sure you could pay your bills. Or was your pay more variable? Or did you have a combination of both?

And then finding that balance and determining, what do I want that to feel like when I retire? Do I want to replicate that predictability, or am I OK with some variability for maybe the discretionary, but I would like to make sure those essentials are mentioned like we talked about earlier? What I've often found—and I'm sure Christine can attest to this too—is that good savers can actually often be bad spenders because you've saved your whole life. You've piled this big lump sum of money. And so a recent study actually found that people felt more confident spending when they had that steady stream of income each month versus having a large nest egg to draw down on.

So the reason we share that is that if you've been a really good saver, it might be hard for you to feel good or confident to spend that money to use, even though you worked really hard for it. So it's a matter of really finding, what's the amount of predictability I need to make sure I can spend my money and feel good about it?

And then a final point I'll just make, Suzie, would be that, while that money can be helpful for predictability and to make sure you can spend it, when you give up that lump sum of money to create that pension, it does forego the ability that you can now participate in the market growth. And so if leaving a legacy is a really important goal for you, that's something you want to make sure that you're considering.

And needless to say, with that in mind, we would never suggest that you put 100% into an irrevocable vehicle like this. It's a matter of understanding how much predictability do I want to make sure that I can pay those bills on a repeatable basis. And we would never recommend you have a large chunk of money in that form of vehicle where it's illiquid. So you want to make sure you have that growth and flexibility for usually about half. And if you're thinking about more, you just want to make sure it makes sense for your plan and your needs.

SUZIE: That makes sense. Do your homework. Do some research. And I appreciate that good savers can often be bad spenders, so I think I'll take a look in the mirror on that one too. All right, so many of our clients plan for income from a mix of retirement and investment accounts. If someone has IRAs, Roths, and taxable accounts, how can they decide which account to draw from first?

CHRISTINE: Yeah, so one's withdrawal approach is going to depend on their tax situation and how their accounts are structured. So do they have all those types of accounts, and how much in each type of account? So one type of withdrawal approach is the traditional approach where you follow a sequential order. This is where you first withdraw from taxable accounts, where you're tapping into interest and dividends, capital gains, while allowing your tax deferred accounts to potentially continue growing.

Second, you'd withdraw from your tax-deferred accounts, like your traditional rollover IRAs and 401(k)s, and those withdrawals are taxed as ordinary income. Third, you withdraw from Roth IRAs, which will be tax-free as long as they're qualified distributions like we talked about. And this preserves that tax-free growth and flexibility for later years or legacy planning.

So this approach may provide more time for your tax-deferred and tax-free assets to potentially continue growing. It can also help manage taxable income in the earlier years of retirement. However, when people start taking money from the tax-deferred accounts, you can potentially face a spike in taxes, which, depending on the situation, could lead to higher taxes on Social Security and Medicare premiums.

I've seen this approach work well for individuals who might have large embedded gains in their taxable accounts, and also in a lower income bracket. In 2025, single filers with income under $48,350 and joint filers with income under $96,700, fall into the 0% tax bracket for long-term capital gains, so that could put out there a potential opportunity to draw down on taxable account funds, which might have lower tax implications at that time.

SUZIE: All right. So a follow-up question for you, Christine. Starting with taxable accounts will make sense for some clients but maybe not all. So what's another approach?

CHRISTINE: Yes. Another approach would be taking proportional withdrawals from their different accounts. Again, the taxable, the tax-deferred, and the Roth accounts. So instead of drawing exclusively from one account type, you would draw a blend from each, either in proportion to their size or based on a tax-efficient mix. And by balancing those withdrawals, you can smooth out the tax liability over time and hopefully avoid those sharp spikes in taxable income.

And so this could possibly allow someone to stay within a desired tax bracket, minimize those Medicare premium surcharges, or IRMAA, and reduce the impact of Social Security taxes, and this could be especially helpful for those who have large tax-deferred accounts. So in my experience, I have a lot of clients who have saved a lot of their retirement assets, maybe most of them in tax-deferred buckets like traditional IRAs, 401(k)s, 403(b)s, and this can often be attributed to the fact that Roth retirement savings accounts didn't really become available until the late '90s.

For example, the other day I spoke with my client, who is 62. He's about to retire, and has a large IRA balance. If we went with a traditional approach, we'd have him taking withdrawals from his cash bucket first. But after running his cash flow analysis, we realized that this might not be best for him. At 70, he plans to take Social Security, which would cover most of his expenses, and at 75, his required distributions would kick in, and this would be way above what he needed for expenses and likely bump him into a higher tax bracket.

So with that information, we decided to draw on his IRAs now to smooth out the taxes and hopefully avoid that higher tax bracket later in retirement.

SUZIE: It's a great example, thank you. And something we know clients are nervous about, understandably, is market volatility. And we're wondering how does market volatility impact the decision around the order of tapping your accounts?

CHRISTIAN: Yeah, absolutely, Suzie. That's a great question, one we get a lot. And needless to say it can be really, really nerve-racking to have volatility while you're trying to take money out of your portfolio. So first and foremost, we want to acknowledge that. I think the important distinction is that it won't necessarily change the type of account that you're going to tap from or withdraw from, but it could impact your confidence to be able to pull from those accounts.

And any financial plan that we put together here for you, our goal is to make sure that we build a plan, that you can live the dream that you envisioned, and not feel the need to pull back just because markets aren't cooperating. And so we want to make sure that you find that balance of predictability and growth potential in the account to make sure you have the confidence to still spend that money, no matter what the market's doing.

There's an interesting piece that we have here that we can—the slides also will be available afterwards, I've been told. So there's a lot of numbers on here. But just to quickly take you through it, if you'll notice on the left, we have Jordan and Shawna, and they decided they were going to retire, and they were fortunate enough to have saved about $1 million. And it was a really healthy savings nest egg.

And the timing of the retirement maybe wasn't the best. And what I mean by the best is they retired right into a really, really scary recession and bear market. And so after the first year, they took their $40,000 a year, which is a 4% rule, a very common rule of thumb that a lot of clients probably are familiar with. But then what happened was at the end of that year, that balance was a lot less. And so the million dollars went down to a much smaller amount. But Jordan and Shawna still needed their money, so they took out the portfolio. They made sure they took out their $40,000 a year. And what you'll notice is that at the end of it, looking back at the end of last year, we have $800,000 in withdrawals.

So they were able to live their life, make sure that they could pay those bills, and they actually had their portfolio grow back to what they had started with. And the point of this is that it does show that the math may work during a recession or severe market volatility. I think what's hard is that you want to make sure that you also have the emotional resilience to still spend that money during that time and that varies, Suzie, at a personal level. Everyone can handle risk very, very differently.

So I think it's an important distinction to help just be aware of as you think about retiring and you may retire into a market you can't control, what kind of experience do you want? Meaning, would I feel comfortable still spending money in a market like that, or would I potentially pull back?

I was actually an advisor at this time, Suzie, in 2008 and 2009, and I saw a lot of clients who again, despite the math worked and despite the planning we had done, still pulled back and still didn't maybe take the vacations they told me they wanted to take or visit the family cross country like they envisioned, and that made me upset. And so I think it's really important to find that balance as proactively as you can of how much predictability or salary do I need to make sure that if the markets don't cooperate, I still feel really confident.

And the bottom line is you're going to experience many of these market corrections during retirement. They're going to vary in their depth. But a financial professional like Christine or anyone else here at Fidelity can really help work with you to proactively model those different scenarios and help build a spending plan that you're going to be confident in.

SUZIE: And certainly want to underscore that last point. There are many market corrections in your lifetime, so working with someone like Christine can certainly help through those moments. Well, let's talk a bit more about investment accounts. So Christian had mentioned earlier finding that balance between predictability and growth. And so, Christine, I'm wondering how do help clients create a mix of investments that offer income as well as potential growth?

CHRISTINE: Yeah so to create a portfolio that balances income and growth potential, financial professionals often blend dividend-paying investments with assets that offer long-term appreciation. So dividend stocks, especially those from stable blue-chip companies, have the potential to provide regular cash flow and may increase payouts over time, which can make them an income-focused investment strategy. Other things like bonds, real estate investment trusts, or REITs, preferred stocks those all contribute steady income, while growth stocks and equity funds can drive capital appreciation.

And in my experience, a mix of different types of growth and income-oriented investments is usually best. The amount invested in each type of security depends on the client's goals and needs, risk tolerance, and other financial factors. I see many of my younger clients' portfolios will weight heavier to equities to grow their assets in their accumulation years while they have a longer time frame until retirement and usually a higher risk tolerance. And in contrast, my clients closer to or in retirement might prioritize income and stability in their portfolios.

For example, I met with a client the other day who was getting close to retiring and really nervous about the markets, and she had taken the set-it-and-forget-it approach with her retirement dollars, and hadn't made many changes to her investment strategy since she started working over 40 years ago. So she was still heavily weighted towards growth investments. And while that may have been appropriate when she was in her 20s, we decided that this was no longer in alignment with her risk tolerance today and her upcoming withdrawal needs.

So we rebalanced the portfolio to have a better balance of growth, income, and stability. But figuring out that right mix can be hard on your own. Honestly, that's probably one of the most common questions I get from new clients, and it's a really important one too. Over 90% of your portfolio is returns and risk can be attributed to your asset allocation. Think that mix of stocks, bonds, and cash. So I really recommend working with a financial professional to create an investment allocation that's tailored to you and your personal situation.

SUZIE: All right, also underscoring the importance of that personalization and working with someone like yourself. So I wanted to ask about bonds in portfolios. So should clients be thinking differently about the role of bonds in their portfolios, given the recent interest rate cut and possible pending cuts?

CHRISTINE: Yes, so I would say despite the recent interest rate cut and potentially further rate cuts in the future, we believe that bonds can continue to play a useful role in diversified portfolios. First of all, to put things in perspective, current yields on some bonds are still near multi-decade highs, which can provide solid income. And given the potential interest rate cuts moving forward, there might be additional opportunity in bonds. So in addition to those relatively high-coupon yields, the underlying bonds might also increase in market value as rates go down and bond prices rise.

Lower rates might also make bonds more competitive relative to cash and short-term instruments like money markets. Many of my clients have accumulated larger cash cushions while money market rates have been high, but I'm reaching out to them right now to decide what we should do with that excess cash above and beyond their emergency fund needs. Is cash still the right long-term strategy? When interest rates start getting cut, the stability and predictability of bond income becomes more attractive, especially for retirees or income-focused investors.

And in addition to these benefits, I'd say that bonds provide a diversification benefit against stock market swings. Historically, bonds and stocks move in opposite directions, which has meant that bonds can help preserve the value of portfolios when stocks that have fallen. So bonds can potentially offer stability during market downturns.

SUZIE: Great, let me ask a flip side of the question. What are some of the risks of being too conservative with your investments in retirement?

CHRISTIAN: Yeah, that's a great question, Suzie. What's interestingly enough, as we plan for retirement, we often need to think about the fact that this money may need to last us 30, maybe even 40 years if we're lucky and fortunate enough. And the reality is, that's hard for many humans to think about because it's just so far away. And there's one consideration that if we're too conservative, the value of our money could be impacted by things like inflation, which impact your purchasing power. You can see on the screen that $50,000 today is going to be worth less than $19,000 if we have 4% inflation after 25 years.

This is a risk I used to have to talk a little bit more about to be proactive with clients, but many clients are feeling it lately and understand it's a real risk that we need to make sure we account for. So that's one consideration, Suzie. I think the other one to think about is that we need to

make sure we're also planning for a long retirement, and that the money's going to be there for us. So if we live a long time and have longevity, that the money is still there. And sometimes people don't always anticipate how much later-in-life costs actually are.

So as an example, sometimes if you have a long-term care event later on in your life, it could really dramatically impact the end result of the plan. And someone turning 65 today has almost a 70% chance of needing some type of long-term care in their later years. So those expenses are really important to consider and make sure we're accounting for and getting that growth that we need to help combat that.

To help with that, a strategy that we often talk about here at Fidelity, too, is to think of your money really as having distinct roles and responsibilities. And what we mean by that is that if you have your money performing a certain job, or a portion allocated to certain distinct responsibilities, it helps you feel more confident to do things stay invested if you had that market volatility.

So having a level of an emergency fund if any unforeseen expenses happen. Having the right level of protection, which can take the form of income, predictability like we talked about, or maybe even some principal preservation, and then having the right level of growth. If you know your money is set into those distinct areas, you feel better and more confident to stay invested if the volatility does hit.

SUZIE: Excellent points, Christian. So earlier we talked about taxes and we wanted to circle back here. We know that many clients are concerned with taxes, understandably so. So what are some strategies designed to help manage taxes in retirement?

RITA: Yeah, this is a popular topic. Managing taxes in retirement is all coming down to timing, strategy, and flexibility. And one of the most effective strategies is that income smoothing, which Christine actually mentioned earlier. That's that mix of drawing from taxable, tax-deferred, and tax-free accounts, so that you can keep your annual income into a certain targeted bracket. And you want to do this because it helps minimize spikes in your taxable income, your tax rates, which can then spur when there is a spike, medical surcharges, and Social Security taxation as well.

Another option is tax-loss harvesting. So this is generally with your taxable accounts where you can actually sell underperforming assets to offset capital gains. And this is actually useful because it can reduce your taxable income. And in some cases, you can actually carry it forward to future years. Beyond that you'll want to consider Roth conversions. So this is where you're taking money that was in those tax-deferred retirement accounts and moving them into a tax-free bucket. But ideally, you'd be doing this during low income years so that you can manage the taxes on that and manage the tax bracket that you're trying to target.

And then finally, there's charitable giving strategies. A popular one is qualified charitable distributions, also known as QCDs, which helps you to reduce your tax-deferred balances as well. But each of these are just tactics that you can use to tailor to your personal goals and your income needs. So that's what's important here. This has to be tailored to your goals.

SUZIE: Awesome, Rita. Christian, any strategies to add here.

CHRISTIAN: Yeah, there's a couple other strategies that aren't as well-known that people would want to be aware of. So first and foremost is one that prior to the SECURE Act 2.0, payments from any income annuities that we've talked about so far today that were purchased with IRA money or other qualified assets could only satisfy the required minimum distribution for that annuity. So it actually separated from the IRA. And then the IRA would still have its own distinct required minimum distribution that you'd still have to take like we talked about earlier in the conversation with Rita.

Since the passage of SECURE 2.0, income that actually exceeds the required distribution needed for the annuity can be used to offset the other RMD from the originating account. So in some cases, like the income stream from the annuity can be used to actually help offset what else has to be taken out from the other IRAs or other qualified assets you may have, which means that you can have more money that can stay invested in your retirement portfolio longer, and give you more money to hopefully grow tax-deferred over a longer term.

The other consideration or a strategy that's not as well-known is what's called the qualified longevity annuity contracts. The government has passed this law that is often called QLACs, for short. And what they allow you to do is defer a portion of your IRA monies up to a maximum of $210,000 as of 2025, and move it into a deferred income annuity. And what that allows you to do is reduce the required distribution for what's left. So you lower the overall aggregate balance, and there's a lower RMD requirement.

What you also need to consider, though, is that if you do that, that income stream does need to start from the annuity by age 85. And it's considered ordinary income. So it does have the benefit of reducing the required distribution. And clients do find a lot of value sometimes from the later increase in cash flow, to help pay for higher medical expenses like we talked about, or even those long-term care costs that we had mentioned before. So just something to consider for, again, your personal situation like Rita had talked about.

SUZIE: All right. Awesome, great to talk about the more well-known and lesser-known strategies. There are a number of different considerations in the tax space. Rita, you mentioned Roth conversions and we discussed this in depth in our previous show. But it's a key area. So let's run through some of the rules again. Can you explain exactly what it means to convert a traditional IRA to a Roth, and why someone might want to do it?

RITA: Sure, so put simply, a Roth conversion is just moving money from a tax-deferred retirement account like a traditional IRA or 401(k) and moving it or converting it to a tax-free bucket, which is a Roth IRA or a Roth 401(k). And the scenario you mentioned with converting a traditional IRA to a Roth IRA, it's just one form of a Roth conversion. And that's the confusion that a lot of people have. There's many others. Another is what we hear of: backdoor Roth conversion.

This is where you make a non-tax-deductible contribution to a traditional IRA. And then convert that money to a Roth IRA. And you might have also heard of backdoor Roth. A mega backdoor Roth conversion, which is if your workplace plan allows it, making after-tax contributions to your workplace plan and then converting it over to either a Roth source, like a Roth 401(k) or Roth IRA.

The thing to remember with Roth conversions is that you might have to pay taxes on the amount that you convert. And this can actually, as I mentioned earlier, move you up in a tax bracket if you're not careful. But Roth conversions are generally done because many of these people are ineligible to contribute to what we call the front door, which is the Roth IRA, because of income limits. And by doing a Roth conversion, you can actually still take advantage of Roth benefits such as no RMDs and tax-free distributions.

But one of the key questions you want to consider with Roth conversions is that tax question I mentioned: Are you going to be in a higher tax bracket in retirement or not? Because this is where the income smoothing comes into place. But a common question we get a lot is, well, how much can I convert? Are there limits? There are no limits to the amount you can convert. You can convert any or all of your funds at any time. So it's really up to you, and one strategy actually is to convert just a portion of your funds each year to help better manage your tax liability. So that's just one strategy.

SUZIE: Awesome, Rita. Thank you so much. We talked a little bit about giving strategies earlier. So Christine I want to circle back there. Let's talk a bit more about these giving strategies designed to help manage taxes. So could you explain a bit more?

CHRISTINE: Absolutely. Yeah, so charitable giving in retirement can be a beneficial strategy to manage taxes while supporting meaningful causes that are important to you. So one tool that we briefly mentioned is the qualified charitable distribution, or QCD for short, which allows individuals who are 70½ or older to donate to qualified, eligible institutions, charitable organizations directly from their IRA up to $108,000 annually per individual in 2025 without increasing their taxable income, and it also counts towards their required minimum distribution if they're in that window.

For those who itemize deductions, traditional charitable contributions can also reduce taxable income, and a lot of people will donate cash, check, but you can also donate appreciated assets, like stocks or mutual funds, from your taxable accounts. And this can offer a double benefit,

avoiding capital gains tax and receiving a deduction for the full market value. And some people will utilize a donor-advised fund to do this.

A donor-advised fund is a giving vehicle that allows individuals to make charitable contributions, receive an immediate tax deduction, and then recommend the grants to charities over time. Think of it as a charitable investment account. So you contribute cash, securities, or other assets, and those funds can actually be invested and potentially grow tax-free until you're ready to distribute them to qualified nonprofits.

With a donor-advised fund, you can also bunch several years' worth of donations into one contribution to maximize tax benefits and then spread out your giving over time. And this can help exceed the standard deduction in a meaningful way. So you can see here we've got someone who might put $10,000 and donate that to charity each year, but you can see it doesn't really help them get over the standard deduction in a very meaningful way. With a donor advised fund, they might make three years' worth of contributions in one totaling $30,000, and get much higher above that standard deduction and have much more savings in that given year.

And I think the important note there is that they can still decide to only gift 10,000 to the charities and then give another $10,000, another $10,000. So your giving schedule can continue as planned, but you can maximize the deduction in a given year. And I would say that this can be particularly useful in years where you know your income will be higher, whether that's your earning a large bonus or payout at work. You could be taking a large withdrawal from your tax-deferred accounts or maybe doing Roth conversions. So timing these gifts strategically can smooth out tax liability.

SUZIE: All right, very helpful overview. Thanks, Christine. Earlier we talked about spending, maybe being good or bad spenders. So how can someone find the balance between spending too much and too little?

CHRISTIAN: Yeah, I love this question, Suzie, because as scary as it is to think about running out of money and spending too much, I think it's just as unfortunate in many cases, if you're going to spend too little and not really find joy in the retirement that you saved your whole life for. So there's actually, interestingly, a research done by a nonprofit research group based out of DC called the Retirement Income Institute, and they found that one third of people in the study that they did said they would only spend their portfolios earnings because they were afraid of running out of money, which is, again, scary because you're only going to spend the earnings, but you have all that extra money that's there for you.

There's actually a really, really great example I think that brings this to life by a former guest on the show. Dr. Michael Fink brought this to life one time, but it's this whole concept of what holds us back from spending that money. And I have the wonderful benefit of having two eight-year-

old twins, and we were fortunate enough to have their birthday recently. And no lie, we invited 50 children to our house because they're in separate classes and we didn't want anyone to feel left out.

The reason I share that story is that while 50 kids were invited, only about half RSVP'd. And I think that's a reality that we've all faced in life before. And so I was in a predicament. I can buy a cake, and when I have that cake, I basically am going to give a really small piece to each kid, because I want to make sure that I have enough for the 50 that might show up, even though only 25 said they were definitely going to. And while that's nice, on the same token, if I had had some sort of a bakery that would give me a deal that said, hey, when you're 26th kid shows up, we'll make sure we bring buy an extra cake for you, so that you don't have to worry about making sure you have it for the kids that could show up.

And the benefit of that would be, I would probably give a much larger piece to those earlier 25 kids that all RSVP'd because I felt confident that I would have a backup plan if something happened. This is basically what the risk of running out of your money is. We don't know how long we're going to live for Suzie, so we get concerned. Even though all the math may work and the plans may look good, I just don't know. I'm just not feeling really confident. So I'm going to maybe hold back and not take as much cake as I could, but if you have that predictability coming in, it could help you feel a lot more confident that I can take that bigger piece of cake.

And I would share that from the perspective of when you think about your budget—we've talked a lot today about essentials versus discretionaries. I wouldn't hold back on what discretionary looks like. There's a really great saying in one of our viewpoints that talks about, if you don't fly first class, your kids will. So even though you might not think you need anything else, I would work with an advisor to really think big about what is that ideal retirement look like? What could it be? Even if your needs are quote unquote, "met," think beyond the traditional spending needs. So meaning what other areas would really give you fulfillment?

Is there a legacy goal that we want to make sure that you actually live right now and see the kids or other people that matter to you enjoy now versus leaving it later, or there are even other giving goals or institutions that really matter to you, that you would find joy in seeing them be able to use those funds today versus waiting until later on in life. So it's really about finding that right balance, Suzie, avoid running out, but also not leave that joy on the table. And I know we've said it today a couple of times, but I can't reinforce again enough that the financial professionals here at Fidelity are here to help you find that balance. So please don't hold back on sharing what those dreams look like.

SUZIE: Amazing, Christian. Just running out of cake. Running out of money. Fitting 50 children—25 to 50 children in. Don't leave joy on the table. So many things to think about there. All right, how often should someone revisit their retirement income plan?

CHRISTINE: I believe that people should revisit their retirement income plan, at least on a yearly basis. Think of it as like your annual financial checkup, but more frequently if life circumstances or market conditions change. Major events, like shifts in health, spending, new tax laws, interest rates, or portfolio performance, can all impact the sustainability and efficiency of a retirement strategy. And additionally, periodic check-ins can help ensure that withdrawal strategies remain tax efficient, that our required minimum distributions are properly managed, and that income sources, like Social Security, pensions, and annuities, are aligned with our evolving goals.

SUZIE: All right, well. It's been so wonderful. Let's share some last thoughts as we're getting close to time. Would love for each of you to share a couple of next steps for our viewers. So Christian, let's start with you, please.

CHRISTIAN: Yeah, I'd love to. When I think about what we talked about today, the retirement journey is one that we often wait our whole lives for. And so I would just have you consider whether you're entering retirement now or even if you've been there a while, I would take a moment to really reflect and catalog what you want to make sure when you look back on it, when it's all over. What gave you the most joy that we just talked about as possible, and how do you get everything out of that retirement as you possibly can. And then make sure that your financial professional here at Fidelity has those captured and can review ways to make sure that those become a reality.

SUZIE: Well said. All right Rita.

RITA: This is really to build on what Christian had said. Don't simply retire from something, have something to retire to. And then through our retirement planning, financial planning that can actually fuel what you're retiring to.

SUZIE: Wonderful. All right, Christine.

CHRISTINE: Yeah, planning for retirement can seem like an overwhelming task, but you don't have to do it alone. So I'd encourage you to work with someone to create a plan that helps you transition into retirement with confidence so that you can spend your time thinking about the more exciting aspects of this major accomplishment.

SUZIE: All right. Well, I'd like to thank our amazing panelists for such great insights on this topic, and if you do have specific questions about your own situation, please reach out to your Fidelity representative. And if you don't have a representative, visit Fidelity.com/FindAnAdvisor.

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Source: U.S. Bureau of Labor Statistics, April 19, 2024

Source: Retirement Income Institute, June 2024.

Source: "How much care will you need?," US Department of Health and Human Services: Long-Term Care, February 2020, https://acl.gov/ltc/basic-needs/how-much-care-will-you-need

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