Insights Live℠
Creating a retirement income plan

October 10, 2024

TRANSCRIPT

SPEAKERS:

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Jim Armstrong: Hello, and welcome to the latest *Insights Live℠:* Creating a retirement income plan. I'm Jim Armstrong, and I work on the webinar team here at Fidelity. This is actually the first of three webinars that we'll be hosting about retirement income.

Today, we're going to talk about creating an income plan, and then next month, we'll turn to strategies for managing RMDs, required minimum distributions. We'll talk about Roths and more. And then on November 20, we'll be taking your questions live about all aspects of retirement income planning in an "Ask Fidelity Anything" session.

So today, we're obviously talking about long-term plans. But I want to say on behalf of all of us, that all of our minds, collectively here, are very much with the tens of millions of our fellow Americans who right now, are dealing with much more immediate needs, facing danger from and the aftermath of Hurricane Milton, while many of them are also still recovering from Hurricane Helene.

Our thoughts are with you today, as are our hopes for your safety. I also want to take a moment to thank the excellent team of professionals from Fidelity for being here today, thanking you for taking time out of your day to join us.

One last note for our audience. I do want to let you know that Fidelity doesn't give legal or tax advice, so nothing we discuss today should be interpreted as tax or legal advice. The information we provide is going to be more general in nature, and it might not apply to your situation.

If you do have legal questions or tax questions about your specific situation, we would just encourage you to talk with a tax professional or with your attorney. All right. With that out of the way, that's more than enough from me. Let's turn to our excellent panelists now.

Again, thank you for making time to be with us today. It would be great if each of you could just spend 30 seconds or so introducing yourself to the audience, and then talking a little bit about the perspective that you'll bring to today's conversation. So, Rita, we'll start with you if that's OK.

Rita Assaf: Sure, thank you for having me today. So my name is Rita. I'm the Vice President for Fidelity's retail retirement products, which we use to help clients understand how to save for retirement and transition to living in retirement.

JIM: Excellent, and Jermaine.

Jermaine Edwards: Hi, thanks. I'm glad to be here. My name is Jermaine Edwards, Vice President, Financial Consultant with Fidelity Investments in our Lehigh Valley Investment Center. I've been with Fidelity now over 13 years and have almost two decades of experience in the industry, helping clients prepare and maintain a successful and fun-filled retirement.

JIM: I like the fun-filled part. We'll dive deeper into that too, for sure. Jason, how about you?

Jason Webb: Yes, pleasure to be here today. My name is Jason Webb. I am a Regional Vice President with Fidelity Insurance Agency. I am a Certified Financial Planner® and 16-year veteran of Fidelity. I have spent the majority of my career helping clients and advisors create and implement retirement plans.

JIM: Perfect. All right. Again, thank you all for being here. Jermaine, we'll start with you with what's really an umbrella question. That's the lens through which we'll have this entire conversation today. This idea that going from saving to spending can be a significant adjustment for a lot of people.

We've spent years, decades of our working lives accumulating these assets, and we have to make that transition to start spending them. As we approach retirement age, it really becomes a lot more clear. What conversations do you have with people who are making or about to make that transition?

JERMAINE: Yeah, thanks, Jim. That was actually a good question. You hit the nail on the head with that. Because going from saving to spending in retirement, it can be a significant adjustment. Honestly, it could be a pretty emotional experience for retirees.

Think of it this way. Like as you mentioned, all of your life, you work hard, you climb the corporate ladder, you save, get paychecks, biweekly, once a month. But when you go into your retirement time, that stops. Paycheck stops. And instead of saving money, now you're spending it. And you have to make sure that this lasts you throughout your retirement years.

One of the questions that we all are often asked is, how much should I have saved up for retirement? Answer is always, it depends. The reason it depends is that a successful retirement is based on what your lifestyle and retirement looks like, and the income and assets you have to pay for it.

Perfect example. I recently asked a couple the other day to paint this picture of what a successful retirement would look like. One spouse said retirement is golfing three times a week. The other spouse looked over at him and said, well, no. It's spending more time with our grandchildren and checking off our destination list off our bucket list.

As you can see, this couple, they've lived in the same house for multiple years and had two totally different views of what retirement is. Imagine how many different responses we get when we ask that question.

I do love that question in the first meeting because in retirement planning, we must match your retirement lifestyle with your income and assets used to pay for it. Before the meeting with a client, we take them through an inventory of their income sources, their withdrawal sources, and their expenses.

We found this to be a crucial step that will serve as the foundation for the retirement income plan. We found that the more detailed that you can be with these inputs, the better and more effective the plan could potentially be.

JIM: Excellent, covered a lot of ground there. I want to talk with Rita, specifically to start, about expenses, because that can be such a black box, a blank slate. It's an overwhelming thing to look at and not even know where to begin, as you try to calculate and determine your post-retirement expenses. How do you give guidance to people?

RITA: Well, just echoing what Jermaine has said, your expenses and how you estimate them are going to be different than others. So the number varies. And while this seems daunting, try to turn it into a fun activity.

Retirement is what you make of it, and how you choose to prepare for retirement and how you prioritize spending is what's important. So we have great tools that can help you and our financial professionals are with you every step of the way. But I would say an easy place to start thinking about expenses is to start with your essentials or your non-negotiables.

So think of this as utilities and insurance costs. And if you don't know these expenses off the top of your head, there is a shortcut. Use an annual bank or credit card statements that often have yearly spending summaries. So start there.

Another consideration is health care. Many people actually do not account for health care costs in retirement, so it's important to include those. And it's often the biggest cost driver in retirement.

And then from there, what does your dream look like to you for retirement? Ask yourself a few questions. What type of lifestyle do you envision? What are some hobbies or interests? Where do you want to live?

And it doesn't have to be precise. Our lives are not static, and things can change. But having a plan can help you prepare and then you can adjust it as things change.

JIM: And there's some balance there too, Rita, it strikes me in reviewing the questions that people watching right now sent in when they registered for this webinar. This balance about trying to make the most of their income without potentially compromising their futures.

RITA: That's right. Balance is really the key here, not necessarily perfection. And retirement is a journey and your spending is going to change throughout all of it. So there are kind of three stages that we see overall in terms of how you're spending in retirement.

I'll go through each one, but it's three. It's the go-go years, the slow-go years, the no-go years. And helping you to understand these different stages may help you prepare better. So just starting with the go-go years, this is usually the beginning of your retirement.

This is where you're excited, you're active, you're traveling, you're golfing. Just going back to the example of the couple that Jermaine talked to. And this is usually when you're spending is higher.

And then you might be moving into what we call the slow-go years, which are a period of transition. You may not be as active, it might be a little bit more balanced, and you're usually focused on well-being and relationships, like spending time with your children or grandchildren.

Usually this means lower spending from your more active years. And your priorities may shift where you're looking at more financial security and ensuring that your savings can last.

And then finally, there are the no-go years, and this is generally dependent on your health. This can be the hardest stage to predict, and it's also the most emotional to plan for because it usually means increased health care costs and contemplating legacy and end-of-life plans.

But as I mentioned earlier, this is where the planning really becomes critical, because you want to make sure you have sufficient savings to cover medical care costs and potentially long-term care.

JIM: But thank you for that because I think go-go, slow-go, and no-go are a nice framework to at least begin to put that plan together. So, Jermaine, I'd like to turn to you now to talk specifically about a plan.

We've talked about prioritization and expenses and spending, but putting the pieces together to create that plan is kind of a different animal altogether. We got one person who sent in a question when they registered and said, I'm retired. I'd love to know how to create an income plan that starts approximately 10 years from now. Now everybody's got a different timeline, but planning is, if I'm correct, the same?

JERMAINE: It is, and that's a good question. And we get that one a lot. Ten years, five years. We always start with basically the same thing, writing out your potential income sources.

And these sources can include income you may have from part-time work that you transition to in retirement, dividends and interest from your portfolio, as well as predictable income sources like your Social Security, pensions, rental income, and income annuities. You can think of all of these as sources of your potentially steady stream of income.

And I know we'll talk about Social Security a little bit later, but this will likely be the most common income source that retirees have. If you have a pension, congratulations. That's a bonus. Companies have moved more from the defined benefit plans, like pensions, to more defined contribution plans, like 401(k)s.

One thing that we believe is that your essentials, or those non-negotiables, they could potentially be met with guaranteed sources of income. We all went through our retirement planning analysis and when we do that, we pair your expenses against your guaranteed income sources to see if you have what is called an income gap.

You'll hear a little bit more about that today, about what is an income gap. If you do have that income gap, that is where we look for sources of income to help fill it. I would say it's pretty common, when we have meetings, pretty much everyone has Social Security. But as I said before, really not too many pensions anymore.

I've met with a client, they had a slight income gap in their plan, where their essential expenses and their reliable source of income, they didn't match. But the good thing, they were big savers. They had money saved up in their 401(k), and we were able to use that to help them actually fill that gap.

We went over multiple different options, from bonds to income annuities, and they were able to make that right decision based on what made them feel most comfortable for their financial plan. It all comes down to preference and how you want to cover your expenses in retirement.

JIM: Yeah, no shortage of options there for sure. So let's start talking about some of those now. We're going to review different types of expenses even deeper over the next few minutes, as well as different types of income.

But Jason, I'd love to bring you into the conversation now to talk about strategies that maybe can help somebody watching right now begin the process of figuring out whether their funds in retirement might in fact be able to support their lifestyle.

JASON: Yeah, I think going back to what Rita and Jermaine talked about, it all starts with understanding expenses and inventorying the resources you have available to meet those expenses during retirement. Once you've determined what retirement will look like, a great way to provide financial security is to think about your assets in terms of three categories: emergencies, protection, and growth.

Now, we can break those down a little bit further. An emergency fund is designed to help prepare for potential financial setbacks. Think about the expenses that are often difficult, if not impossible, to plan for. Unexpected medical expenses, auto repairs, a roof replacement.

A good goal to shoot for is to have three to six months of expenses set aside to help cover the unexpected. The second category focuses on protection. This is where I spent a lot of my time. Protection can mean different things to different people.

When we think about protection and retirement, you should start by considering what in your life is most important to protect. For many retirees, what I tend to find is most important is protecting their lifestyle.

This means protecting their ability to meet the types of expenses that are either essential, the things that are the must-haves, like your food, your mortgage, your utilities, as well as the other non-negotiable expenses. The non-negotiables being the personal things you're not willing to compromise on in retirement. This can be things such as travel, golf memberships, gifting.

At Fidelity, we believe you should be able to cover the essential and non-negotiables with reliable sources of income, things like Social Security, pensions, or annuities, while leveraging your investment income to cover the other discretionary expenses that you can do without if the market experiences some type of correction or extended market downturn. Aligning your income sources with your overall retirement expenses can help you to live the retirement you envision.

JIM: Got it. So just to recap. So far, category one, emergency funds. Category two, protection. Category three?

JASON: Category three. So once you've accounted for the emergency fund and protected certain aspects of your life, the remaining assets are earmarked for the growth portion of your plan. This is typically the largest piece of a plan that helps retirees with both wealth accumulation and maintaining lifestyle throughout retirement, as well as potential legacy.

This also helps with addressing the impact of inflation over a long retirement. The key when thinking about the growth bucket in retirement is to understand how your investable assets complement the other aspects of your retirement plan, i.e., things like your income sources.

Structuring your retirement plan across emergency, protection, and growth format provides retirees a mix of growth, guarantees, and flexibility. Additionally, this approach aims to manage your lifestyle costs, i.e., covering those essential and non-negotiable expenses, while your discretionary spending may fluctuate based on market conditions.

This also helps address an often-overlooked risk of underspending in retirement, meaning retirees do not live the lifestyle they deserve based on concerns of running out of money.

JIM: I want to talk also a little bit about income sources right now. One reliable source of income in retirement is Social Security, which some folks are able to start claiming as early as 62 years old. Others can delay it one, two, three, or more years. You could delay up until age 70.

But Rita, I want to share a customer question with you that was one of many that we got asking largely the same thing, which is, when is the best time for me to claim or to take Social Security? And I realize that's an impossible question to ask in an audience of thousands of people because it varies so much on your personal circumstances, right?

RITA: It does. And understanding the benefits actually are challenging and it's confusing, and there's a lot of myths out there. But Social Security still is an important part of a retirement income plan.

So you can start receiving your Social Security benefits as early as age 62, but you're entitled to your full benefits when you reach your full retirement age, which—you have to love the acronyms here—is referred to as FRA. And right now, your FRA will depend on your date of birth. So right now, the FRA is age 67 for people who are turning 62 in 2024.

However, if you can do it, waiting to claim your Social Security benefit as late as possible would actually potentially increase your benefit. So here's an example. If your FRA is 67, your monthly income may increase by about 77% by just waiting to claim from age 62 to age 70.

So there are some benefits by doing that. There are some nuances, as we said, there is no one-size-fits-all. If you're planning with a spouse or you're claiming benefits after being widowed, there's definitely differences that could actually maximize your lifetime benefits. So you do want to check with this pretty carefully.

So my suggestion is a sort of high-level checklist. Know your numbers. Find out your FRA and when you need to claim and your estimated benefits and how that impacts your Social Security, your retirement income plan.

And note, there are cost-of-living adjustments. And I think we actually have one this year that might impact Social Security. So be on the lookout for that as well.

JIM: Yeah, lots of moving parts and lots of moving pieces to keep aware of there. So thank you for that. Now, what we know, collectively, is that Social Security might not be enough to cover all of someone's expenses in retirement. And that's because, Jermaine, as you'll explain to us, Social Security was not built to do that.

Now, what about the many people watching right now who don't also have another source of reliable income, like a pension, that could maybe supplement Social Security? What options do they have?

JERMAINE: Yeah, that's a good question, because you're correct. Social Security typically does not always cover retirees lifestyle. In fact, on average, it's said that Social Security was designed to cover only roughly 40% of a client's retirement needs.

Due to this, you'll need to think of other ways to create retirement income. One way is by allocating a portion of your assets towards a guaranteed income annuity. This is a way to stack your retirement cash flow and provide guaranteed income for you and your partner's life.

Let's take a look at a visual I like to look at. Looking at this visual here, you can see the difference between what the guaranteed income source is and what the overall essential expenses are. So if we look at that gold bottom bar, you can do that as the sum of all of the Social Security, if you have pension or any other type of income coming in, at that part there.

And then that red bar, what that red bar represents, essentials, or as we've been talking about, the non-negotiables. Now, we've said quite a few times that we believe that reliable income sources should be in line with essential expenses. And in this example, you can see that slight gap.

Now, when you look at the income annuity, which is that orange, that may fill the hole to not only cover the essentials, but there is also the potential to cover the discretionary expenses as well, which is represented by that top black line. This part of the planning process is so crucial because it comes down to preference.

I recently had a client that had a lot of concerns around volatility in the market, especially now, since her husband unfortunately passed away. She didn't have much experience with managing their investments and just wanted to go through this next chapter of life with less worry.

Thankfully, her husband left her in a great financial situation, and we were able to build out a plan that provided her with some guarantees in it with her income, and a sense of security. A few months ago, we had a very sharp decline in the market. However, she had a sense of security knowing that her cash flow was covered with her Social Security and her income annuity.

JIM: We know also that annuities can be confusing for a lot of people, especially as they're just starting to learn about them. So, Jason, we'll turn to you just to dive a little bit deeper into annuity options and trade-offs. And I would love to share a couple of other questions that came in from folks who registered for this webinar.

General stuff, like could an annuity fit into my retirement plan? Obviously, it's dependent on each person's situation. Someone else wrote in and said, looking for just the pros and cons of an annuity after the age of 70, for example.

JASON: Yeah, these are great questions. And the question upfront is can it fit into a retirement plan? Maybe. I think at the end of the day, it's all-around preferences. Now, when we think about annuities, this could be an entire topic on its own.

So I think it's worth mentioning that there are many different annuity products available today to help clients in various stages of life. So everything from early savers who are looking to accumulate wealth to individuals approaching retirement, all the way to those currently living in retirement.

When looking at annuities, in particular, at the lens of retirement, we often look at the types of annuities that can generate income. These types of annuities are simply insurance contracts designed to generate an income stream for life or for a set period of time.

Now, before evaluating this option, you first have to step back and ask the question: Do you need or want additional guaranteed income as part of your retirement plan? If the answer is yes, then we need to discuss preferences for which type of annuity may make the most sense.

For example, a fixed income annuity, which can start now or at a future date, may potentially help increase income. The trade-off, however, is that for this type of annuity, is you give up access and control of the asset used to fund the annuity.

Think of these types of annuities like a personal pension. You give up the asset in exchange for a reliable income stream that could last your entire retirement or the retirement of a joint annuitant.

Now, if you struggle with giving up access, if flexibility is important, there are other fixed income annuity options that do provide access to principal. The trade-off here, as compared to the previous annuity, is that the access will typically reduce future income payments. That will give you access for a lower payment.

So you have to have the trade-off of how important is liquidity and access. Am I willing to give up a little bit in the way of the cash flow I'm going to get to maintain access to the asset? Now, for other clients, variable annuities that provide income may be another option to consider.

These types of annuities allow policyholders to maintain exposure to the markets, while typically putting a floor on the minimum amount of income the client can receive per year for life. A policyholder's income has the potential to grow depending on the performance of the market or the underlying investment.

While these types of annuities can also provide access to principal, additional withdrawals above the income amount could alter future income payments. Now, the question from the audience around does it make sense over the age of 70, I actually get this question often.

Because one of the things that annuities are doing is that they are providing a lifetime income. They are providing peace of mind that you will have a steady stream as long as you live. And I think one of the concerns that often comes up is, well, what if I don't live that long?

Well, one, I would say upfront is that there is never a bad time to implement an income approach that makes someone more comfortable with their retirement. The key here, as I just outlined, is that not only do you have options in how you build that, but I think it's important to understand that your beneficiaries have options as well.

One of the misconceptions I run into very often is that they think if I purchase some type of income annuity and unfortunately pass away there shortly after, I lose all of that money. And the beauty of the way that we leverage these types of annuities at Fidelity is that that is not how we build them.

In fact, we offer beneficiary options on almost every single annuity that we provide for our clients. A cash refund, I think, is a great example of this. A cash refund simply states that every dollar allocated into that income annuity is either allocated to your retirement plan or your legacy plan.

If you live beyond the time frame and you're taking more money than you put in, that's great. But if for some reason you pass away prior to using the full amount of money that you've leveraged through that annuity, whatever's left will be passed on to your beneficiary.

So again, I just emphasize that there are beneficiary options. We have a few that we look at with our clients. It is based on preferences. But I would reiterate that with these types of annuities, every dollar allocated is used to go into your retirement plan or your legacy plan.

Now, the beauty of this to help with the complexity is that at Fidelity, we have access to financial planners, such as Jermaine, as well as annuity specialists that can help define and understand which annuity may make sense for you.

JIM: Excellent. Hey, Jason, while we have you, I want to hit you with another question that came in from a viewer that actually is a perfect segue into our next topics here. The question is, generally, besides annuities and Social Security and pension, are there any other income streams in retirement?

Which again, is a great segue to get us talking about another common source of retirement income, bond income. But I want to ask you specifically, Jason, should clients be thinking differently about the potential role of bonds in their portfolio, given not just the recent interest rate cut by the Fed, but the possibility for future ones as well? How does that affect their thinking about bonds?

JASON: Yeah, I get this question a lot. Bonds come up a lot. I even have a bit of a background here at Fidelity with our fixed income teams. Fixed investments, like bonds or even bond funds, can absolutely play a role for clients who are looking for income generation. Now, there are a few considerations, however, to keep in mind.

First, it typically takes more capital to build a well-diversified bond portfolio. This means, not just the extensive research that goes in, but making sure that you're spreading that risk out across multiple issuers.

Additionally, when you overallocate a portion of your portfolio to bonds, it could leave you under-allocated to stocks and expose you to things like inflation risk. So just things to consider. Second, and this is something I talk often about, especially in comparison to annuities, is the cash flow.

Your cash flow from individual bonds, or even bond funds, can vary month to month, which means that you will most likely have to dip into the principal from time to time, to help maintain a consistent cash flow. As you think about your retirement, if you have certain bills that are structured, maybe you still have a mortgage payment. That mortgage payment is not going to vary, but your cash flow from these types of securities can.

So it is important to understand that if you do draw off of the principal, it can have an impact on future cash flow. Now, when it comes to interest rates, I heard this, and I love this language. We are not going from awesome to awful overnight. So I do think that investors should be mindful, though, of things like reinvestment risk.

In a declining rate environment, newer issued bonds tend to offer lower yields, which can reduce income over time. This means that you're reinvesting the proceeds from maturing bond at lower rates, ultimately, potentially impacting how much income your portfolio can generate.

Now, again, as I talk about rates not going from awesome to awful overnight, that is short term. So when you are looking at building out a bond strategy, you want to make sure that you have the right amount allocated to bonds as well as stocks. And then you do want to make sure that you are considering the longer-term view when you leverage those types of securities.

JIM: So you mentioned bond strategy there. Jermaine, I have another blank slate question for you. Let's say someone watching right now is thinking about incorporating a bond strategy into a portfolio for the first time ever. Where on earth do you start?

JERMAINE: Yeah, that's a good question, and you just heard how Jason went over all the different pieces about the bond market. I mean, it's a large and sometimes complex market. Clients have a variety of options, including building out their own bond ladder, as Jason mentioned, or something like a bond mutual fund or separately managed account.

Individual bond ladders, they are a popular way of adding fixed income to your portfolio. The way that they work is each bond's maturity date is spaced out across several months or even years, so that the proceeds can be reinvested at regular intervals, as the bond matures.

With this strategy, you have to be on top of reinvesting the bonds as they mature to make sure your ladder stays intact. Some people do prefer not to have to worry about reinvesting the bonds on their own, so they look more towards a bond separately managed account, or as I said, an SMA.

With this strategy, you are now delegating the responsibility of the bond portfolio to a team of professionals. The great thing about bond SMAs is that there are many different types, and you will have options on how this fits into your overall portfolio.

JIM: Just strikes me as hearing you guys all talk. There's just so many unknowns during retirement, and retirement can be decades and decades long. Really long time to plan for.

And again, so much uncertainty with what's going to happen in the world and the markets and our personal lives even. Rita, can you help us get our heads around the specific risks that we should be thinking about when putting together a retirement income plan?

RITA: Yeah, I mean, there's definitely risks that can impact your plan, because no one can predict the future. I mean, the last couple of years, inflation, market volatility, these have all come up and clients are concerned. How does that impact my plan?

So just a few things that we bake into to deal with those risks that come up, one being longevity. As medical advances continue, it is really likely that a healthy 65-year-old today could live into their 80s or 90s. So you really do need to account for the fact that you might need 30 or more years of retirement income.

And you need to also plan for the fact that you may outlive your savings. So there's different scenario planning that you can do with how long you might live and how your income sources can help you. The second is health care.

Health care can be more expensive than you realize. And the risk by uncovered health care expenses is so substantial that you really need to factor in health insurance. So health insurance is one way that you can mitigate some of this risk.

Inflation. That's a common topic after the last couple of years, because it does impact the buying power of your money, and can impact then how you live in retirement. So you want to make sure you have an appropriate mix of investments based on your risk tolerance and the potential to keep up pace with inflation.

So this could include growth-oriented investments like stocks or stock mutual funds, potentially Treasury Inflation-Protected Securities, real estate, commodities. But that's where we can help you with what is that right mix according to you, to withstand those inflationary impact.

Market volatility. So the market has had cycles of highs and lows, and managing through a down market can be more challenging. But if you have a plan that is designed to weather market lows and highs, it can actually help you potentially take advantage of recoveries when they happen.

And then lastly, withdrawals. One of the most important things to focus on is a sustainable withdrawal rate. And what I mean by that, it's how much you withdraw and market conditions, which can impact how long your money can last. And again, we can't predict what markets will do, but this is where it's important to have a calculated plan for taking withdrawals in any type of market environment.

JIM: Thanks for that. All of those risks, by the way, super important, but I think some of them are worth spending a couple of extra minutes on. And we'll start with health care. So, Jermaine, help us get our heads around the expenses associated with health care and retirement.

JERMAINE: Yeah, health care is definitely one of the key risks in retirement that we see, and it's often overlooked by retirees. Remember, I mentioned writing out your expenses.

A lot of times we sit down and I'm like, well, where's your health care? And the clients forget about that. Just this August, Fidelity actually released its 23rd annual retiree health care estimate, and what it revealed is that a 65-year-old retiring this year can spend an average of $165,000. That's $165,000 in health care and medical expenses throughout retirement.

This estimate is up almost 5% over last year's estimate, and has doubled since the inaugural estimate in 2002. These estimates assume that an individual is enrolled in Original Medicare, both Part A and B, which covers your hospital insurance and medical insurance, and Part D, which covers prescription drugs.

Please note things like Medicare premiums, over-the-counter medications, dental and vision care, and other health care costs that Medicare typically does not cover, are left to retirees to manage on their own. When we go over a client's financial plan, we break health care down into buckets using national averages. What you see on the screen.

We like doing this because this will allow us to make sure that we are prepared for future cost while managing today's expenses. In our planning tool that I've mentioned a couple times now, health care costs, actually, they have the highest inflation rate, which allows us to really stress test these numbers against the assets.

When it comes to selecting Medicare coverage, many clients we sit down with feel just overwhelmed when selecting their plan. Fidelity actually has a team to help provide clarity around Medicare that is complimentary for both Fidelity and non-Fidelity clients. On the screen, you will see the link [Fidelity.com/Medicare] to schedule a time with them to help you with this very important decision.

JIM: All right. That's part of what I want to talk about next, as we segue over to Jason with another great customer question. You've set up the situation and the problem there, Jermaine. Jason, now let's talk about managing health care expenses. This is an actual question that came in. What strategy should I be considering when it comes to health care?

JASON: I think the first thing is simply plan ahead. As you can probably tell from Jermaine's comments, health care costs are often more than most anticipate. One of the challenges with health care costs is their unpredictable nature. So unlike other expenses that may be fixed or have a slight range, health care costs can vary person to person, based on medical conditions or even where they live.

To make this a bigger challenge, one of the things Jermaine had mentioned is around the inflation rate for health care. What we know through studies is that the cost of health care typically rise faster than your average inflation year over year. Now, a couple of things people can do in advance of retirement.

And now this is also in addition to your regular savings. Think about things like health savings accounts. If eligible, HSAs can provide another savings vehicle for retirement. They allow you to invest in stocks, bonds, mutual funds, all to help with growth.

Additionally, HSAs are considered triple tax advantaged. This means that contributions are tax deductible, growth is tax-free, and withdrawals for qualified medical expenses are tax-free. Additionally, any unused money in an HSA can be carried over to future years, all the way into retirement.

Another way individuals and families can help prepare for health care costs is to consider purchasing a long-term-care policy. This is actually something I talk about frequently. I've done some *Insights Live*℠ calls on this in the past.

What we know, statistically speaking, is that there is a 70% chance that an individual turning 65 years old today will have some type of long-term-care event. Planning ahead for long-term care can help families manage the financial and emotional challenges that arise when a loved one requires services to meet the needs of daily living.

The last point is simply understand your options. If you are retiring before age 65, it is important to know what you have available and the subsequent costs to bridge you until Medicare. Additionally, once you reach Medicare age, it is important to ensure that you have coverage that best aligns with your personal needs and preferences.

JIM: Another risk that Rita brought up had to do with market volatility, something that of course, as individuals, we have absolutely no control over. We can react to it, but we can't control it. Knowing that, Jermaine, how do you build a responsible investment strategy like that, knowing you can't control market volatility at all?

JERMAINE: Yeah, that's a good question, and that's something that is pretty much top of mind for individuals thinking about retirement. Kind of going back to what Jason did, he did a great job earlier going over our planning framework with that concept of emergency protection and growth.

And what he said, your growth bucket is typically your largest bucket, and how it is structured should be built around your overall financial plan. Most people have heard the term asset allocation—we heard a lot of that—which is your breakdown between your stocks, bonds, and cash in your account.

We typically hear an old rule of thumb from many retirees, is that take 100 minus your age and that gives you your overall asset allocation. I would say that we've pretty much evolved more from that into something much more—what we found for retirees is that they actually could potentially take on more risk in retirement, which in the future could lead to a larger legacy left to their loved ones.

Your asset allocation should be based on your overall strength of your financial plan, your time horizon, and your comfort level with risk. Now, this means that I can have twin brothers that are the same age, but due to their savings and risk tolerances, they can have two totally different asset mixes.

Asset allocation, it does come with its own set of trade-offs. Historically speaking, a higher percentage of stocks has often been associated with a higher potential return. However, higher potential return also comes with a higher risk that the account could fluctuate in value, particularly over the short run.

It's important to remember all of these options, including the most conservative ones, are subject to market volatility and the risk that your account can lose money. This is why we really stress the importance of making sure you have your emergency bucket and your protection bucket as strong as possible, so you don't have any knee-jerk reactions in retirement when your growth bucket is going through volatile times.

JIM: Now, the flip side, of course, of taking on too much risk is perhaps being too conservative with your investments. Jason, I have another customer question that I'm going to throw your way.

This one I really spent a lot of time thinking about because I appreciate the person's vulnerability and honesty that they wrote in and said, "Hi, I'm retired. I've got retirement accounts, but as I look at things right now, I feel like I may have been too conservative. But I don't want to lose my savings. What do I do?"

JASON: Yeah. So, Jim, I'm glad you asked that question. I'm glad that the person in the audience posed that question. I think people often overlook this risk. We spend a lot of time talking with people around being too aggressive too late, but I think being too conservative too early is something else as well.

What I always try to highlight is that retirement is not a finish line where you can just stop investing. Maintaining growth in your portfolio allows you to address two of the key risks to retirement income security that Rita had covered earlier. The first of those risks is inflation, right?

So most have experienced the impact of inflation, and I don't mean just over the last few years. Inflation impacts our purchasing power for goods and services. Structuring your retirement plan in a way that allows you to keep pace with inflation over the longer term is really designed to helping you keep pace with your own standard of living.

The second risk of being too conservative is longevity risk. Longevity risk in retirement refers to the possibility of outliving your savings. As life expectancies increase, retirees face the challenges of ensuring their savings and investments last their entire retirement, which could span several decades.

The good thing about having a solid income plan in place is that it often allows you to invest more appropriately to address these two risks.

JIM: Jermaine, I had a question for you too, about digging into some of your expertise in this area, knowing you've worked in this space for such a long time. Look back on your career here for us and give us some inside information.

What do people tend to overlook when it comes to retirement income planning? Help this audience get a little bit ahead of what most people tend to forget about.

JERMAINE: Yeah, I would say one of the key pieces is including their planning partner in the conversation. Think back to all the way in the beginning when I spoke about what the couple envisioned in retirement and they had two totally different visions of what that looks like.

And in all honesty, depending upon what the one planning partner says, could be a higher expense, especially around travel and vacation. I say it's very, very important that we get in as soon as possible to have that conversation, especially if one spouse is not that involved.

Even if they only attend a meeting once a year, it's still good to have an understanding of what is going on. And it will be less stressful if, unfortunately, something happens to a spouse that was dealing with the finances. What's another thing too is, we call it a family conversation, like family conversation with your loved ones.

A lot of parents—and I get it—they don't want their children to know about their wealth. But what I've seen is the children, find out later in life when they're helping their parents with their finances.

Your loved ones may have different goals for the inheritance or even may say, hey, I want you to—Mom and Dad—spend more now, as comparing it on to them in the future. We have a lot of estate planning conversations and I found that when my clients and their loved ones are on the same page, it really makes that process much easier.

JIM: Absolutely. I did mention, speaking of going back to the beginning of this particular webinar, I did mention what's coming up in the near future. In November, we're going to do a deep dive on RMDs, required minimum distributions, as well as Roth conversions and other considerations around a retirement withdrawal strategy.

But ahead of that session, Rita, what are some of the high-level things you think people might want to keep in mind, particularly when it comes to planning for RMDs?

RITA: Yeah, so this is such a popular topic, so I'm excited to dig into this in the next session. But RMDs are usually, the requirement, which right now is age 73, where you need to take distributions from your pretax retirement accounts.

And some people use their RMD money to live off of. Others, they don't need it. It's just an extra tax bill. So it is important to note that when you do take an RMD, it is treated as income and you are taxed.

But one important thing to keep in mind is that your investments keep moving in your IRA. So if an IRA has potentially grown, then your required minimum distribution most likely has grown. And you might need to withdraw a larger amount of money, which can push you into a higher tax bracket.

And most people do not realize this, which is the more that your taxes increase, it pushes you in a higher tax bracket from this RMD, and then your Social Security benefits could be taxed at the federal level and your Medicare costs could rise. So it is an important thing to factor in.

But this is where Roth conversions could actually be a strategy to move these pretax dollars that you have in your retirement accounts to a Roth account, which may not have an RMD attached to it. And Roth is actually a great way to pass money on to your loved ones, because these distributions are not taxed when they're taken out from your beneficiaries.

But the thing to think about with Roth conversions, and this comes up a lot from client questions, is like, when should I do it? And there are considerations there, but generally, it's better to think of Roth conversions before your RMD age so that it doesn't impact your tax bracket, and that you then have greater tax diversification once you are taking RMDs.

But as you said, this is an upcoming topic and we're excited to dig into that in our next session.

JIM: Talking a lot about it in November. But I do want to squeeze in one more question for you, Rita, just because we do constantly get so many questions about conversions. At a high level, what flashes to mind when you think about possible pitfalls that people might want to be aware of before making that Roth conversion?

RITA: Yeah, so I mean, it's a very complex topic, but I'll just have three considerations that can impact as you think of your Roth conversion. So when you think of Roth conversions, you really want to think through, will you be in a higher tax bracket when you retire? Are you planning to leave a substantial amount of money of your retirement assets to your heirs?

If so, then you want to consider a Roth conversion. Second is, how do you plan to pay for the taxes of the conversion? So you want to make sure that you are able to pay the current income taxes related to any taxable piece of your Roth conversion.

And that is a consideration in general, because you don't want to use money that you're in the IRA to pay for those taxes. It's generally better to take it out of non-retirement money so you're not eroding the value of the IRA by using taxes to pay for that Roth conversion.

And then third is really the time frame. So the benefits of a conversion really increase the longer that your money remains in the Roth account. And so the conversion may not make sense if you plan to tap that money in the Roth less than five years, because you might actually be subject to a penalty.

And there's a lot of confusion around what parts of the Roth conversion are taxed, whether it's after-tax, tax deductible, and how that impacts your IRA. So that's why it's a very careful element that you want to consider working with professionals to make sure that you do not make a mistake and you do not get penalized.

JIM: Absolutely. And again, we'll be covering this in depth next month. As we start to wrap up this particular conversation. Again, I want to thank you all for your time today. We packed so much into 45 minutes or so.

But as we do start to end the conversation, I would love it if each of you could just share with the audience one or two key takeaways that you think they should leave this webinar with.

JASON: So, I'll start. First, thank you for the time today. What I would leave you with is, when considering options for creating a well-diversified income strategy, you want to ensure you have the right mix of growth guarantees and flexibility to help provide yourself emotional security in retirement.

There will always be market volatility. There will always be something to worry about. And emotions can run high if your day to day is solely dependent on what happens short term in the stock and bond markets.

JIM: Absolutely. All right, Jermaine?

JERMAINE: Yeah, and thanks again. And I would say congratulations for everyone joining the call. This is very, very important. First thing, just please reach out to your financial advisor and set some time up today to make sure you're headed in the right direction.

Secondly, don't forget what is known as what we call the sandwich generation in retirement. And that is where you may find yourself taking care of not only your parents, but also your children and other loved ones. It's best to write out all these potential impacts in retirement so you're not caught off guard when it happens.

JIM: And Rita, last word belongs to you.

RITA: Yeah, I mean, Jermaine and Jason pretty much covered it. I guess what I would say is, don't let your emotions or fear get in the way of retirement planning. I know it's overwhelming, but having a plan can help you have more peace of mind and help you feel more prepared.

And checking in with that plan consistently can help you prepare for any changes or risks that we had discussed today. And just remember this, retirement is exciting. Make of it what you will. Enjoy it. Try to think of the positive.

JIM: Excellent, love the positive outlook. I appreciate it. Thank you all again for making time to be with us today. And thank you also to our audience, who also took time out of your day to be part of the conversation.

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LongTermCare.gov: How much care will you need? 02/18/2020. https://acl.gov/ltc/basic-needs/how-much-care-will-you-need

AARP: How much of your income will Social Security replace? Retrieved from https://www.aarp.org/retirement/social-security/questions-answers/income-replacement-rate.html.

The Retiree Health Care Cost Estimate is based on a single person retiring in 2024, 65-years-old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates projected with Mortality Improvements Scale MP-2021 as of 2022. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Cost Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, original Medicare. This calculation takes into account Medicare Part B base premiums and cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by original Medicare. This estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

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