Insights Live: Tax-smart strategies for retirement

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TRANSCRIPT

SPEAKERS:

Ally Donnelly   Justin Bailey, CFP®   Michelle Caffrey, CFP®   Mitch Pomerance, CFP®, CFA®

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Jonathan Lamothe: Hello, everyone. And good afternoon or good morning depending on where you're joining us from today. My name is Jonathan Lamothe. And I am with Fidelity's educational team. And I'm happy to be introducing this great topic — tax smart strategies for retirement.

And before we begin, I want to mention that Fidelity does not give tax or legal advice. And nothing we discussed today should be interpreted as tax or legal advice. The information we are providing is going to be general in nature and may not apply to your situation directly. If you do have legal or tax questions about your specific situation, we do encourage and recommend that you talk with your tax advisor or attorney.

Now I'd like to take some time to introduce our moderator, Ally Donnelly. Ally is an award winning former journalist and an education — I'm sorry — an editorial director here and a digital content lead at Fidelity Investments. So Ally, I'm going to disappear. Take it away.

Ally Donnelly: All right. Thanks, Jon. And welcome to all of you. We're glad you're here. And we're grateful for the questions you submitted during registration. They've really helped shape today's conversation.

So we're excited to dig into an important topic — taxes and retirement income. This is the third of three webinars we've hosted about retirement income. So if you've missed any or want to rewatch them, you can find the replays at Fidelity.com/webinars.

OK. So let me set the stage. Our panel of professionals is going to do a deep dive on ways to help manage the taxes on your retirement income, the potential implications of converting assets from a traditional IRA to a Roth IRA, and withdrawal strategies designed to help lower your tax bill. Who doesn't want that? So, panelists, why don't we go around and talk about the work you do here at Fidelity and the perspective you bring to this panel? So, Justin, why don't we start with you?

Justin Bailey: Hi. I'm Justin Bailey. I'm a regional vice president supporting Fidelity representatives on the West Coast specific with retirement and tax planning concepts. I'm also a certified financial planner professional. And I've been with Fidelity over 25 years.

Ally Donnelly: Terrific. Michelle?

Michelle Caffrey: Hi, everyone. Thanks for having me today. So I am part of the advanced planning team here at Fidelity and partner with our clients and our trusted professionals to help develop comprehensive financial plans. In doing so, I explore their goals, review what they have in place today, identify potential issues, educate them on various concepts, and assist in plan implementation. I am also a CFP professional, have been with Fidelity for about seven years, and was in public accounting prior to joining the firm.

Ally Donnelly: Great. Mitch, how about you?

Mitch Pomerance: Hello. I'm Mitch Pomerance. I'm a vice president financial consultant at Fidelity. I'm a CFP professional and a CFA charterholder. I work with our clients to craft financial plans, help them efficiently save, invest, protect assets. My focus on a lot of the practice that I do is on income distribution, which I've cowritten several Fidelity viewpoints articles including Roth conversions, tax efficient retirement distributions. Finally, I'm also involved with our planning tools to help improve the capabilities of the planning and guidance center for ultimate enhancement of the client experience.

Ally Donnelly: Great. All right. So we think about taxes a lot during our working years. But they don't end at retirement unfortunately. So, Michelle, level set on what we mean when we say retirement income. Maybe start by running through the typical sources of retirement income.

Michelle Caffrey: Yeah. So the most common sources of income in retirement are Social Security, pensions, distributions from retirement accounts like 401(k)s, 403(b)s, and IRAs and the like. Other sources could be income from rental properties, distributions from business or passive investments, income from taxable investment accounts, and perhaps payments from nonqualified deferred compensation accounts.

And while each client situation is different, it's important to remember that the start dates for the different sources can vary based on age requirements and prior elections made. So for instance, pensions may begin at a certain age. Deferred compensation payments may begin after retirement and only last a few years. And income from investment accounts is, of course, ongoing.

And of course, the taxation of these different sources should be considered. So for instance, distributions from certain retirement accounts, including deferred compensation, are taxed as ordinary income just like wages would be. And income earned in taxable investment accounts such as municipal bond interest, may be tax exempt.

So these variables all lead to the importance of cash flow planning and understanding the flow, timing, and tax exposure of income sources over the life of the plan, also understanding the cash flow. So the money in and the money out helps to inform the investing in regards to the timing of withdrawals.

Ally Donnelly: OK. So we've got that cash flow, Justin. Will you explain how the income on different types of accounts is typically taxed?

Justin Bailey: Yes. And let's keep in mind that we do have a US tax code that's a progressive tax code. So as cash flow's coming in, make sure to think about your tax brackets like filling buckets. As the money comes in, we're going to claim taxes on it. But remember there's different buckets or different brackets.

So just to keep this in mind, one example, if I was this year, 2023, married filing jointly as my tax return, up to $89,450 is the 12% tax bracket. So let's say I have cash flow of $100,000. Well $89,450 would be taxed at 12%. Every dollar that goes beyond that $89,000 — so the $90, $92,000, — all of those dollars are now going to be taxed at the 22% tax bracket. So understanding my cash flow and what bucket it's filling is going to be pretty critical to say how can I keep in the lower tax brackets.

Now, having said that, typically most clients have three type of accounts when they retire. The first one, as Michelle mentioned, is going to be our retirement accounts. These are our tax deferred 401(k)s, 403(b)s, traditional and rollover IRAs. And most of the money in those accounts are going to be 100% taxable. So when we do the distributions, we take money out. It's going to start filling those buckets of our tax brackets.

However, the second account is going to be our taxable account. This is going to be our general savings — checking accounts, savings accounts, maybe a regular brokerage account. The taxes that are generated there really depend on the investments themselves. Michelle mentioned the municipal bonds. They're not going to go into the bucket because that's tax exempt. But other investments will generate some taxable cash that might have to go into, again, our tax brackets.

And then the third most common account we'll see will be what we call the tax free account or commonly known as the Roth IRA. And as long as we're taking this money out under qualified distribution, meaning we've held it over five years and over 59½, we take that money out tax free, which means that money does not go into the tax bracket bucket.

Ally Donnelly: Hmm. All right. So, Mitch, let me bring you in here. The account type also impacts taxes after retirement, right?

Mitch Pomerance: Yes, that's right. Asset location is very helpful, especially in anticipation of your required minimum distribution or RMDs. Asset location is a close relative of asset allocation. It just comes down to where we hold these assets for maximum impact and as we think about the order of distribution. So that'll help with our understanding of withdrawal rules and shaping a strategy. So it's important to the planning process as well.

Ally Donnelly: OK. So let's dig into the question of withdrawals. We've talked about how withdrawals from different types of accounts are taxed. Mitch, share if you would some strategies designed to help people manage the tax impact of withdrawals from nonretirement accounts.

Mitch Pomerance: Absolutely. So many clients have years in which they retire and there's a gap between that and collecting Social Security and pensions. We call these gap years because typically the client will have to rely on savings to bridge their income. But these years can also be effective from a planning perspective so that you can make changes to your pre-tax and after tax sources of income.

What we focus on is gap years utilization for tax bracket management. And that's a step further. What we're doing is, as Fidelity advisors and representatives, we're encouraging clients to delay Social Security as long as possible. And there may be years where you have to rely on your savings more heavily. And that's because you might have a shortfall of income. That combined with the new tax law that was just signed at the end of last year, SECURE 2.0, makes it increasingly likely that our clients are going to have some flexibility in the timing of their retirement cash flows.

In my work with the financial solutions team, we found that clients converting and staying within the federal 22% and 24% brackets for individual and couples could have a very large impact on the amount of taxes someone pays over their lifetime. The key insight here is that we're reducing future taxable income from RMDs and moving that into more tax efficient vehicles such as a Roth IRA. Therefore, if the brackets go up as we're in a historically low bracket environment, if they do go up over time, then you get a lot of value for investing.

Many clients have looked at distributing assets using rule of thumb. And so we're trying to take this a little step further. So it's generally not necessarily just accessing nonretirement, retirement Roth assets. Going a step further, we can make strategic withdrawals to limit the impact of taxes that eventually will add additional years to your portfolio.

Ally Donnelly: Hmm. All right. So let's stick with withdrawals. We've heard viewers' concerns about required minimum distributions or RMDs — that's a mouthful — from tax advantaged accounts. Michelle, to level set, can you go over how RMDs work and explain how things have changed given the new law that Mitch mentioned, the SECURE Act 2.0?

Michelle Caffrey: Yeah, of course, Ally. So the required minimum distributions or RMDs are the amounts that must be distributed out of certain retirement accounts at specific ages or trigger points. After all, the IRS only lets us defer taxes for so long.

So in general, RMDs from traditional IRAs and employer provided plans must begin at age 73 under SECURE Act 2.0, which was signed into law at the end of last year. For those who turned 72 prior to December 31 of 2022 or 70½ prior to June 30 of 2019, the RMDs continue as usual. The SECURE Act 2.0 also increases RMD age beginning in 2033 for certain individuals.

Now, the percentage that needs to be withdrawn each year is based on actuarial tables governed by the IRS. Generally speaking, this is roughly 3% to 4% of pre-tax retirement assets at the start and increases as the owner ages. So of course, a person who's 90 is required to withdraw much more than somebody in their 70s, right?

So two important notes are, one, RMDs are not required on Roth IRAs. Now, Roth 401(k) distributions are still required until 2024 under the SECURE Act 2.0. And number two is inherited retirement accounts are subject to their own rules. So essentially forget everything that I just said for those inherited accounts.

But as was mentioned earlier, distributions made from tax deferred accounts like an IRA are considered ordinary income when received. So depending on the composition of someone's assets — taxable versus tax advantaged — and the income streams outside of RMDs, certain clients may look to take distributions after they turn 59½ to manage their tax brackets and plan for expenses. So for instance, if someone is retired and has a low income year, they may look to take withdrawals from their retirement accounts before they have to or perhaps do a Roth conversion if they don't need to use the distribution to fund expenses.

The most common question I hear from recent retirees is, I know I have the money saved. But where should I take it from? And the answer to this relies on understanding the makeup of the assets available, the cash needs, and understanding the cash flows in place to fund those needs and then from there determine where the funds should be taken. So given the complexity around this, it's always best to work closely with a financial planner and accountant around the income and the tax planning.

Ally Donnelly: Yeah, complexity. [LAUGHS] It's a lot.

Michelle Caffrey: The name of the game.

Ally Donnelly: Yes. [LAUGHS] The SECURE 2.0 Act has a lot of important changes. And we've heard from clients concerned about taking RMDs that you're talking about, Michelle, especially during volatile markets. So, Mitch, let me ask you, how do you approach RMDs and taxes when there are these swings in the markets?

Mitch Pomerance: And we've certainly had swings in the markets. The first step I always do is prepare yourself for bad market or anticipated expenses. This goes along with our emergency discussion when we have clients emergency protection growth as we lead clients through the planning process.

But the way I plan with clients is the following. I encourage setting aside some emergency reserves initially for the first maybe two to four years after you stop working because we want to allow markets to recover in case you happen to retire at a bad time of the economic cycle. Some clients set up a CD ladder. And your Fidelity professional can help you with that.

The Fed has indeed slowed the stock market. But it's also given us a short term gift in the first couple of years of the yield curve. And that allows us to earn a competitive rate on the short end with a lower amount of risk. So this money could be set aside in a brokerage account. You don't feel like necessarily you're losing value so quickly.

The second step in the asset allocation discussion is reviewing a client's bond allocation. And some clients utilize annuities or credit or treasury bonds in a portion of the traditional IRA both to shield interest from current taxation but also to anticipate your future required minimum distributions. Many of the clients, they build in safeguards to allow bonds to come due at the time when they'll need to distribute the money.

And I'll say the third step is making sure that stocks, ETFs, more growth assets both domestic and foreign are held in long term growth buckets. And that could be easily Roth IRAs, which in general are tapped last due to their ability to grow tax free.

Ally Donnelly: Hmm. OK. I feel like I'm starting a lot of these questions by saying we've been getting a lot of questions. But we really have. So this is a great topic. So we've been getting a lot of questions about strategies to manage taxes on RMDs. So I want to spend some more time here.

It's the beginning of the year. It may be an opportunity for people to set themselves up for tax management. So, Mitch, does the timing of taking RMD distributions matter in terms of taxes?

Mitch Pomerance: So the short answer is no. In general, it doesn't matter. Hence it's required, as you know. But when it comes to deciding about the timing, each client's needs are different. Each situation is unique.

In years past, clients preferred to wait until the end of the year. And they did that because they wanted the asset to grow in value if it's declined. And maybe if they waited, it would come back. Nowadays and with Fidelity's capabilities, clients can simply transfer a security in kind from one IRA to a brokerage account and just pay the tax obligation out of a separate brokerage or checking account rather than pay the tax out of the distribution. This would make sense if the client thinks that they want to stay invested, and they think the security is undervalued.

Additionally, or separately I should say, clients may want to liquidate a bond position in their IRA and shift to a more aggressive allocation in their brokerage account because now their time horizon has extended. Again, the best strategy depends on your personal situation. So make sure you speak with a financial professional.

Ally Donnelly: Yeah. It brings up an interesting question. So, Justin, given what Mitch said, is it even possible to manage the taxes on your RMDs?

Justin Bailey: Well, it is with time. And so one thing is to take action before the RMD ever comes. So for those that are maybe in their 50s and 60s and, yeah, maybe RMD is off maybe 8, 10 years away, one thing that you can do is let's take some action now and take some of my IRA and convert it into a Roth. This is what I call letting air out of the balloon. We know these IRAs and retirement accounts get bigger and bigger and bigger. And especially if you don't use them, all of a sudden, I'm in my 70s with a big tax liability.

So with a little bit of planning, what we can do is, all right, every single year — maybe I'm 62, 63. Maybe I'm actually in a lower tax bracket. I can convert whatever portion I need to not to go too far into other brackets of taxes. Maybe it's $20,000, $30,000. And I can convert that into a Roth.

Now, what that does is two things. Number one, now that money is growing tax free. So that could go for heirs, long term care, maybe things in the future. But also, I've now piecemealed some of the taxes, let some of the air out of these IRAs so by the time RMD shows up, it's now a smaller amount. Therefore, the RMD requirement will be smaller.

Ally Donnelly: OK. So for some people in their 50s and 60s, Roth conversion may be an option. But, Mitch, how do we know? Explain in more detail under what circumstances that might make sense.

Mitch Pomerance: Absolutely. So the current tax tables are [CLEARS THROAT] allowing us a wide margin now within the brackets at the lower levels so that you could combine deductions along with Social Security postponement in order to allow clients to manage their brackets a little better and possibly convert at lower levels than at potentially higher tax levels in the future. As you know, we're in a historically low marginal rate environment. And that's going to continue for the next couple of years before they revert to higher levels potentially. This is especially true for clients with large IRA balances, let's say $2 million or more.

What I found in my work with clients and with work with the financial solutions team at Fidelity is I've run across two types of focused conversions. The first type is taking withdrawals in order to maximize your income during your lifetime. And the second type is converting so that you can leave a legacy to a loved one. I always tell people whenever you consider converting, it's important to look at the asset allocation, maintaining that.

But clients generally like this time of year, especially over the last year when markets are down and they could convert potentially at low asset levels and wait for mean reversion. Ultimately, I'll say in order to decide whether you convert or not, you want to look at the impact on the portfolio. And it's generally a function of time invested, tax rates, and asset growth.

So to summarize, higher growth potential of asset levels leads to greater impact from the conversion. Longer time horizons eliminate a lot of the tax drag that you find by having assets grow in nonretirement accounts and being taxed annually. And then higher tax rates in the future portend well for current year conversions. This is an additional benefit as a legacy asset, as an example, leaving assets to heirs tax free who are potentially in a higher bracket. So I would say that allocation of Roth could be more aggressive or less aggressive depending on the situation and the time horizon.

Ally Donnelly: All right. I'll speak for myself. I'm slightly intimidated by [LAUGHING] everything you just said. So it feels like Roth conversion is a complicated decision. So I'm wondering maybe if you could map it out with a recent scenario you've seen in a client.

Mitch Pomerance: Sure. I'll give two. One example is a single individual in late 60s who has about $1.5 million in an IRA. Let's say he doesn't need that income. Let's say he's got a nephew. And the nephew is going to be in a high tax bracket while the individual — let's say he's in the 22% tax bracket. He knows he wants to give a gift to his nephew down the road but maybe not ready yet.

So keeping an eye on his own taxes and trying to keep that low during his lifetime, if he converts his IRA to a Roth IRA, meanwhile living off cash for his living expenses, he could convert. And let's say his income is $50,000 from rental income. Currently the 22% tax bracket ceiling for 2023 is that $95,575 for a single person. So let's say he converts $45,000 so that he just stays within that top limit. And if he does that, he's converted at the 22% rate.

Now, when he passes away 20, 30 years down the road, his nephew inherits it at a 30% tax bracket. So not only has this individual given his nephew a gift. But he's also gifted it along with an 8% bonus on the money because that's the difference between the two tax brackets.

This is just an example of a one year conversion. But again, you want to meet annually with your Fidelity advisor to determine if year two the conversion makes sense because a lot can change between years. And a conversion one year doesn't necessarily mean it makes sense the next year.

Ally Donnelly: Yes.

Mitch Pomerance: [LAUGHS]

Ally Donnelly: I think you said you had two examples.

Mitch Pomerance: I did. I did. So I'll give you an example of a married couple. And let's say that they are just trying to prolong the time horizon of their nest egg. In order to do that, they decide they want to do some Roth conversions.

So let's say [CLEARS THROAT] they're both in their early 60s. They have $2½ million in traditional IRA assets. And they would like to now convert up to the 24% tax bracket because they think that down the road when they start taking RMDs — they've got a high level of IRA assets. RMDs are going to be large. They think they're going to be in a 30% tax bracket down the road when they start taking distributions. So they want to convert now. They want to convert at a potentially lower federal tax bracket.

So in this case, the income limit for a 24% bracket for a married couple is $364,000. Let's say this couple makes that are under that window by about $240,000. So they're willing to convert from their traditional IRA $240,000 in order to stay within that upper limit of the 24% bracket. And since they have ample savings on the side, they decide to convert without any tax withholding. And they decide they're going to use cash from another brokerage or savings account to cover the obligation next year.

So in this example, after they pay the taxes, that $240,000 at the 24 bracket becomes about $182,400 after taxes. Now, they convert let's say a stock mutual fund. And they convert it in kind to a Roth because they think, well, the stock is low. It's going to recover in the future. Let's say it does recover. Let's say over the next 15 years, it recovers at an 8% growth rate.

So by doing this conversion, what happened? First, their required minimum distribution amount has gone from what would be $212,000 to $191,000. So they saved a little money in taxes because they have less RMDs now. That doesn't seem like a big deal, right? Maybe not.

But if we look a little closer, the growth of that tax free asset now growing at 24% — after paying the taxes at 24%, the growth of that asset now growing at 8% a year and then taxed at a 30% rate of distribution leads to a difference of the net asset value to be $1.8 million versus if they had just not done it and kept it in their IRA, not paid taxes, but then just pay taxes as distributions. The difference would've been they would've had $1.7 million in a traditional IRA. So that's $145,000 in adjusted tax savings just from one year conversion.

So again, this is purely hypothetical. It doesn't account for other factors. And again, I'm using these assumptions as I illustrate it. It's a simple example. But what I tell people is this is something that I come across with clients. And this is an example of ways that people think about why they want to convert. So I always encourage you to talk with your financial professional before doing anything.

Ally Donnelly: Yeah. I mean, it does give you that insight into the window. I like that. So, Justin, besides Roth conversion, what else could clients be thinking about to manage their RMDs?

Justin Bailey: Yeah. I really encourage clients to take a look at something called the qualified longevity annuity contract. Now, that's a big word. In the industry, we actually use an acronym QLAC, Q-L-A-C. If they go into any web browser, type in Q-L-A-C, they'll get a bunch of information about it.

So what is a qualified longevity annuity contract? In 2014, the Treasury Department issued a ruling saying that you can take money from your IRA, put it into an income annuity, but you do not have to turn on the income. You can push that all the way out to age 85. And if you do that, they will exempt the money that you put into that contract from the RMD calculation.

Now, when they originally issued this out, about $130,000 was the max. But recently with the SECURE Act 2.0, now Congress has upped that to a maximum amount of $200,000 per person. Now, that's for life. There's no additional amount unless they move it up a little bit later on with more legislation. But at the end of the day, we can take $200,000, move it into this contract. And that $200,000 is now exempt from the RMD calculation.

Now, I want to be clear on one thing though. The main purpose of this solution is it will generate cash flow basically in your 80s. Push it out to age 85, and it'll create it.

So we do tend to find clients — as we get towards the end of the retirement, there are some changes in cash flow. Sometimes we need more generally for health care, long term care. Maybe we want to gift more. So this could be a solution to help us with a little bit of taxes on the RMD now but also help us with some cash flow needs towards the end of our retirement.

Ally Donnelly: Hmm. OK. So QLAC. I'm going to [LAUGHS] spend some time with that. A lot of clients also have questions about the inherited IRAs, which we talked a little bit about earlier, and the tax implications of that. So, Michelle, what are the considerations? And are there any strategies people can consider to help their heirs manage those taxes?

Michelle Caffrey: Yeah, sure. So these rules are quirky and can get complicated based on certain facts and circumstances. So to level set, there are generally two types of beneficiaries. And that would be eligible designated beneficiaries and noneligible designated beneficiaries. The required payouts are dictated by the type of beneficiary.

So an eligible designated beneficiary includes a surviving spouse, an eligible minor of the original owner, a person that is not more than 10 years younger than the original owner, or a disabled or chronically ill person. A noneligible designated beneficiary is most commonly a nonspousal inherited beneficiary. Talk about a mouthful there, right? So typically that would be an adult child.

So for deaths occurring after 2020, a noneligible designated beneficiary will have to withdraw all of the funds from the inherited IRAs by December 31 of the year which includes the 10th anniversary of the owner's death. So if someone inherited a retirement account prior to 2020, their distribution requirement will not change. But once the owner passes away, if there's remaining funds, different rules may apply.

Now, generally speaking, an eligible designated beneficiary like a surviving spouse is subject to different rules, which includes spreading RMDs over his or her lifetime. So typically a spouse inherits a retirement account as if it was his or her own. An important note around the 10 year rule is there are proposed regulations in play today that were issued by the IRS but have not been finalized. And these proposals could require distributions prior to year 10.

So again, these rules can get complicated. So each situation warrants a review. So depending on a client's personal situation, he or she may choose to take more than the required amount in year one through nine from the non-Roth accounts to manage the tax brackets rather than wait to take a much larger amount in year 10. If a client lives in a high tax state today, but they intend to move to a state that doesn't have state income taxes, they would choose to wait until then or vice versa. And given the tax free nature of the Roth IRA, it may make sense to wait until the funds are required to be distributed to take advantage of that tax free growth.

Ally Donnelly: OK. I feel like we should have — this could get complicated.

[LAUGHTER] Tattoo it on my forehead. I think about charitable options. Justin, how should we be thinking or how could we be thinking there?

Justin Bailey: Yeah, this is actually one of my most favorite strategies. If you're charitably inclined, you don't need the money especially with your RMD money coming out of your IRA to pay for expenses, you can do a qualified charitable distribution. So what is that? You can give up to — so there's a limit. You can give up to $100,000 of your IRA directly to a qualified charity.

What does that do? It does two things. Number one, that portion of the money does satisfy your RMD. So you are in compliance unless your RMD was $120,000. Then you'll still have to take the extra 20 beyond 100. But it will satisfy the RMD.

And you don't have to claim it as an income distribution. It's not going to be taxable because it went straight to the charity. So it saves you on the taxes. Plus on top of that, you are helping one of your causes that maybe is close and dear to your heart.

So of course, there's always going to be some complexity. We always recommend to talk to a tax advisor or make sure that it's always being given to a qualified charity. That would be my disclaimer on that. But this is one consideration I think everyone should be thinking about when they're our age.

Ally Donnelly: OK. All right. So, Michelle, as you're talking to your clients, what other kinds of things are you considering?

Michelle Caffrey: Yeah, so Justin spoke about how retirement accounts can be used for charity during life. But another consideration is incorporating charity into the estate plan. So if a client wishes to leave assets to charity at death, I always suggest starting with the retirement accounts. I say that because retirement assets are included in the taxable estate. But they do not get a step-up in basis.

So the distributions from the inherited accounts are ordinary income to the heir just like they were to the original owner. So if an heir inherits a share of stock with stepped-up basis and immediately sells it, there will be little to no capital gain versus inheriting an IRA, where distributions are subject to ordinary tax rates. So the non-Roth retirement accounts are the most tax inefficient assets to leave to heirs and the most efficient to leave to charity. So essentially giving the untaxed income away to that charity, which is tax exempt.

So this can be done very easily by naming a specific charity or a donor-advised fund as a beneficiary of a retirement account. Now, this could be done for the entire account or just a percentage. So you can choose there. And then I would say for married couples, in most cases, it would be suggested to pass the accounts to charity at the death of the surviving spouse to create tax efficiency for the estate.

Ally Donnelly: OK. All right. So thank you. We've gone through a lot here. And again, that complicated theme. But I'd love to get some final thoughts and maybe two key points. And take your time here. So what are one or two key points you want viewers to take away from this discussion? Justin, let's start with you.

Justin Bailey: Yeah. First of all, it can get complicated. Right? And we've mentioned a few exceptions and rules and things. I don't want anyone to walk away from this feeling this is too overwhelming. This is too complicated. I'm just going to give up, pay my taxes, and move on.

You can always just do one or two, maybe three of these strategies. And it will bring your overall taxes down, which means that's just more money in your pocket. It's always worth spending a little bit of time with a competent tax accountant and also your Fidelity representative just to figure out, well, what's the one or two things that I can do? We don't have to make it super complicated. Just one or two could make a big, big difference. That would be my first point.

Second point is, hey, one thing that Mitch mentioned early, early on was something about asset allocation. In our taxable accounts, there are different investments that are invested differently. Always pay attention to what does that investment — how does it tax? And do I have it in the right account, meaning if I have a regular bond, taxable bond that's going to give me interest, that's going to be taxable, I like to own those bonds more in IRA accounts where I can shelter it and shut it down versus maybe a stock I do like to own in a taxable account because I can get discounts on capital gains.

So just take a little extra time to ask, hey, before I invest in this investment, what are my returns? What's my risk? What are my fees? Also ask that fourth question, how am I taxed? And am I buying it in the right account?

Ally Donnelly: Yeah. It's interesting because I keep thinking of that no pain, no gain [LAUGHING] mentality because we've heard all of these great examples of who likes to pay taxes? So I'm interested to hear how you encourage a friend to just dig in.

Justin Bailey: Yeah. I always start small and usually the lowest hanging fruit. So the easiest way to dig in actually is going to be in about three weeks when everyone starts to get their 1099s emailed to them from Fidelity or from your other financial provider. And that's the road map to say, where am I getting taxed the most? And where am I getting taxed the least?

And sitting down, you don't have to understand the whole 1099. Just sit down with our Fidelity representative with your account to say, hey, where am I getting hurt the most? Where is it the least? And then let's just tweak some things. Let's just plan ahead for 2023 taxes and then eventually 2024. That's a great starting point is just open up those 1099s, have a discussion, and then start to formulate a plan.

Ally Donnelly: All right. All right. That's a great thought. Mitch, how about you? One or two thoughts that you hope folks leave away with today.

Mitch Pomerance: So thank you. I would say, number one, talk with your representative. Certain situations make sense for some people, not for others. Take a look at your 1099s. Take a look at what your tax documents said for last year. How much did you make? Is there an opportunity for you to save some money in taxes?

I would say that, number two, taxes are not the overall issue here. We're trying to plan with clients. And we're trying to help our clients see some value. And part of Fidelity's value of proposition, again, is that we're helping you come to the decision that you normally would come to but maybe come to a better decision.

And it's not always am I going to save $5,000 in taxes? Or am I going to pay an extra $200 a month in Medicare IRMAA because I did this? You want to look at things in the big picture. As Justin's saying, don't do anything too drastic. A lot of times, you could do it in small steps. So I think that's the important thing is baby steps and meeting with your advisor.

Ally Donnelly: Yeah. Yeah, baby steps. I really do love that theme of empowerment. Michelle, how about you? One or two things.

Michelle Caffrey: Yeah. So, Ally, I would echo everything that Justin and Mitch just said. But really focus on the importance of getting a financial plan in place and putting all of the pieces of the puzzle together and understanding how they all work together. So it's hard to come up with a cash flow plan if you don't understand all of the different makeup of your balance sheet, right? So the taxable accounts versus the retirement accounts, thinking about those outside income streams, the pensions, the Social Security, when are they hitting your cash flow, and what's the shortfall, and where is the best place to take those distributions.

And all of that is done with working with a financial representative and an accountant to talk through the complexities. As we all know, as I was going through the RMD rules for just regular retirement accounts or inherited retirement accounts, it's all very complex and constantly changing. Something was signed in December 29 of '22, that changed the scheme for some people that just turned 73. So it's really important to have that open dialogue with that financial representative or an accountant that's guiding you through the different stages of retirement.

Ally Donnelly: Yeah, you talk about making that plan. And I feel that's such a common theme almost with everything we talk about because it is, again, back to that sense of empowerment. So as you're talking about people making a plan, is that something like set it and forget it for life? Or how often do you encourage clients to revisit that plan so that they can talk about Roth conversions and everything else?

Michelle Caffrey: I would say at least on an annual basis. I would say set it and forget it is not something that I apply to planning because things are constantly changing. Things are changing within the markets. Things are changing within somebody's personal needs. So at least once a year, I would recommend getting with that financial representative to talk through the goals and the plans for the year.

Ally Donnelly: Terrific. Terrific. All right. Well, I want to send a huge thank you to each of our panelists for their insights. Michelle, thank you.

Michelle Caffrey: [LAUGHS]

Ally Donnelly: Justin, we so appreciate —

Michelle Caffrey: Thank you, Ally.

Ally Donnelly: Yeah. Mitch, thank you. Terrific. This was a great discussion. And I want to say to all of you, to learn more about other financial planning topics — I think we've settled here there are [LAUGHS] quite a bit — we encourage you to subscribe to Insights from Fidelity Wealth Management. It's a fantastic newsletter you can get emailed to you on a regular basis. It's awesome. And also exclusive invitations to future wealth management webinars and access to our newsletter for timely news and content from top Fidelity thought leaders. I'm Ally Donnelly. Thank you so much for being here. We hope to see you again soon.

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Roth conversion example:

The hypothetical example also assumes that there have been no non-tax-deductible contributions to the originating IRA and all withdrawals after the 30-year growth period will be taxed at a 30% federal tax rate. It also assumes taxes due on the conversion are paid using the IRA assets, which reduces the converted amount from the original $240,000 amount to the $182,000 after-tax amount. It assumes only qualified distributions are made from the Roth IRA after the 30-year growth period. This example is for illustrative purposes only and is not meant to reflect actual or future performance of any investment option. Please consult a tax advisor for information specific to your own situation.