Insights Live: Generating income in retirement

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TRANSCRIPT

SPEAKERS:

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Views expressed are as of 11/10/2022, and based on the information available at that time, and may change based on market or other conditions. Please read the last page of this transcript for important additional information.

Mary Kay Leydon: Hi. I'm Mary Kay Leydon and I'm part of the educational events team here at Fidelity Investments. Welcome to today's webinar, Insights Live, Generating income in retirement. Before we begin, I'd like to mention that Fidelity does not give tax or legal advice. And nothing we discuss today should be interpreted as tax or legal advice. The information we're providing is going to be general in nature and may not apply to your situation. If you have tax or legal questions about your specific situation, we encourage you to talk to your tax advisor or attorney.

Now I'd like to introduce our moderator, Ally Donnelly. Ally is an award winning former journalist and the editorial director and digital content lead here at Fidelity Investments. Ally.

Ally Donnelly: MK, thank you. And welcome to you all. Thank you for being here. As MK said, I'm Ally Donnelly. And thank you for all the questions you submitted during registration. They really helped shape today's discussion. We are excited to discuss an important topic, a key part of just about everyone's retirement plan, retirement income.

This is one of three webinars we'll be hosting on the subject in the next couple of months. So we'll be tackling withdrawals, and tax smart strategies. And today, our panel of professionals is going to do a deep dive on defining and building your personal retirement income plan using savings, Social Security, and annuities to help create cash flow, and ways to try and protect and grow retirement income in inflationary environments.

So I'd ask all of our panelists, let's go around and talk about the work you do at Fidelity and the perspective you bring to the panel. Keri, let me start with you. Introduce yourself if you would.

Keri Dogan: Sure, thanks, Ally. My name is Keri Dogan. And I lead Fidelity's retirement income team. My team is focused on developing products, and tools, and experiences to help our customers transition to and live successfully in retirement. So that involves tackling questions like generating income, what we're talking about today, when to claim Social Security, how to think about health care coverage and retirement. So really soup to nuts in that experience.

ALLY: Terrific. Lars, tell us a little bit about what you do here at Fidelity.

Lars Schuster: Yeah, sure thing, Ally. And good morning, good afternoon, everyone. Thanks for being with us, sharing a little of your time. As Ally noted, I'm Lars Schuster. I'm an Institutional portfolio manager with Fidelity's Strategic Advisers. We're the lead portfolio manager for most of Fidelity's managed accounts. And as a member of the investment team, I'm responsible for delivering Strategic Advisers' managed account investment philosophy, process, ongoing investment activities to a wide range of investors.

ALLY: Terrific. Terri, introduce yourself. Tell us what you do.

Terri Lyders: Sure. Thank you, everybody, for joining us. My name is Terri Lyders. I'm part of a group called the Advanced Planning Group. And we work with representatives and their clients to develop financial plans. And certainly retirement is one of the biggest topics when we're developing those financial planning projections. And then also work very closely with clients as it relates to their legacy plans. That's what they want to leave to their children, their other family members, their friends, their charitable organizations.

And certainly, the role of retirement, and how that affects their portfolio over time, is going to affect those legacy goals.

ALLY: Terrific. Thank you to you all. Keri, I'm going to start the conversation off with you. Retirement income is a big subject. And it can seem a little overwhelming. Let's take a smaller bite at it. What are the things we should be thinking about or talking about before we really get to retirement income planning?

KERI: Yeah, retirement income planning is a big topic. And I think it stresses people out. We see high levels of anxiety for people when they're nearing retirement. There's excitement, but there's also that fear. And the good news is we see that people are much less stressed once they're a year or two into retirement. They have more confidence that they're going to live comfortably in retirement. And they're generally just feeling better. So that's the good news.

The bad news is there is that anxiety. And so hopefully today, we'll talk about some steps that people can take to reduce the anxiety as they move into retirement. A lot—

ALLY: Oh, go ahead.

KERI: I was going to say, a lot—

ALLY: I was going to say, take us through those steps. Sorry we're talking over each other.

KERI: That's OK. So a lot of people want to jump in when they're talking with Fidelity to the nuts and bolts of the income plan. How do I get a paycheck in retirement? But really, we need to take a bit of a step back before we get into that and figuring out if I have enough money in retirement. You really need to think about, what is your life going to look like in retirement? So where are you going to live? How are you going to spend your time? And that needs to be a conversation with your partner if you have one.

We've done some really interesting research here at Fidelity looking at couples and how there's a big dichotomy sometimes in the way that each part of the couple is thinking about retirement. So that's important to get on the same page on all those questions because that's going to be a big input into the actual dollars and cents of the income plan is, how much are you going to be spending on a day to day basis? What is your lifestyle going to look like? So starting there is really important before you get into the income plan itself.

ALLY: OK, so tell us what the steps are that we need to start doing. Give us action steps.

TERRI: So I'll step in here. I think the first thing to really think about, and this is where we move from the kind of aspirational fun part of retirement planning, to the nitty gritty of, OK, it's time to put pen to paper, is really figuring out, what kind of income do you need? What are your expenses going to be in retirement? And I like to break those down into two categories because I think they require a little bit of a different approach.

I think the first thing is to really look at what are your essential expenses? What are the things that you are going to have to pay every month? Are you going to have bill collectors coming after you? So things like groceries, utilities, property taxes, rent, and mortgage. Those are separate and apart then from your more discretionary expenses. I think of those are the things that are going to make life a little bit more enjoyable, but that can be adjusted accordingly. So things like travel and entertainment.

A good place to start often is your current expenses. But you need to kind of recognize that those expenses may change once you hit retirement, both over the short term as well as over the long term. So if you think about health insurance costs, health care costs, we have a lot of clients that have big travel plans for the first two, three, four, five years of retirement. Those may trail off over time. Some clients want to move. And so that's, of course, going to affect what their expenses are over time.

And then, of course, we want to not forget about the more intermittent expenses. Some people want to buy a car every three, five, seven, 10 years. We need to think about things like home repairs. So all of those are going to come into play when you're really thinking about, what do I need to save for? So first, we need to know what we're planning on spending.

ALLY: So of course, the challenge is make sure you have enough income to cover those critical expenses. Right?

TERRI: Yeah. And so that's where that different approach comes in. So for a lot of clients, they want to have more of a predictable source of income for the essential expenses. If we know we need groceries and have to pay the mortgage, we want to know a specific source of income that we can look to to make those payments. I know Keri is going to cover this in a little bit. But things like Social Security, and pensions, and annuities can provide those more predictable sources of income.

The other aspect is then looking at if we can't cover those essential sources, or essential expenses with predictable sources, or for the more discretionary type of income, it's a little—it's looking at towards our investment portfolio. And that's making sure that we are looking to the investments to help meet our long term needs and our legacy goals. And I know Lars is going to discuss that in a couple minutes.

And then the last thing I'll just say is that we need to be sure that we stay flexible over time. Retirement can be 20, 30, even 40 years for some of us. There's a lot of unknowns, a lot of changes that can happen during that time period. So it's really important to revisit your plan on a regular basis and to evaluate whether we need to make changes depending on what's happening in our lives, and of course, what's happening in the economy.

ALLY: Yeah, so Lars, how does Strategic Advisers think about retirement income for clients' managed accounts?

LARS: Yeah, Ally, we think about it from an investment perspective, like Terri was just talking about. And so on the Investment team, we're really, really focused on managing our client accounts in a manner that is consistent with each client's goals, their time horizon, something that Terri just brought up, preferences, just their overall financial situation.

So I think from that context, retirement income and how we manage it could vary quite differently from one person to the next. So for example, some may be able to derive enough income from dividends, and interest, in addition to Social Security. And therefore, as an investment team, we may have more bonds and more equity income focused investments.

Other investors may need more meaningful stock and bond diversification. And that would really seek to provide growth and outpace inflation over time, and maybe use systematic withdrawals to pay themselves in retirement. I think overall here, the point is is there is no one size fits all approach.

ALLY: Yeah. Well, Terri, since you're working with Fidelity representatives and clients, what are the primary concerns you hear from clients about their retirement income? I mean, I'm always worried I don't have enough.

TERRI: Yeah and that's one of the big ones. So the first thing is a lot of clients kind of initially say, I'm losing a paycheck. We've had decades of having some amount of money put in our bank accounts if we're employees and have a W-2 wage income, or if we're business owners, we have kind of a steady stream of money coming in from those business activities.

So the first thing is kind of getting over that there is no automatic payment coming into our bank accounts. The second one, Ally, is what you just mentioned, which is running out of money. And it's really interesting. I've worked with clients that have a million dollars, clients that have $5 million or more. And there is a very common theme of, what if I run out of money? And so it's the recognition of just knowing that you've got a plan in place.

The biggest issue, I think that I have from a concern standpoint, is that people get so concerned about losing a paycheck, and running out of money, that they don't spend. And that means that they may not be able to enjoy the retirement years as much as they could or should. And so the financial plan can go a long way towards, again, normalizing that spending, actually being able to see the expenses, and the income, and how those affect your retirement portfolio over time can give confidence that they can actually afford to spend the money and live the retirement that they deserve.

ALLY: Yeah, I mean, running out of money is certainly a scary thought. And for women, who often live longer than men, how does that longevity affect their retirement income planning, Keri?

KERI: Yeah, women do often live longer than men. And so that means they're going to have a lot more income needs over their retirement years. They spend a lot more money on health care, and long term care in the retirement years. Most people in nursing homes are women. Three-quarters of them are women. So that's just kind of reflective of how much more they need to think about making sure their money doesn't run out during their lifetimes.

And unfortunately, as part of that, we also see that women during their married years, if they're married to a man, they're less likely to control the finances. They usually defer to their husband in driving the finances. And so women typically are less likely to have a plan versus their male counterparts. And that leads to less confidence, they're more concerned and more worried about their income needs in the future.

The other challenge that we see with women is sometimes if they're in a marriage where their husband had a pension through their job, if the husband didn't select joint survivor benefits, then if the husband passes first, those paychecks from their employer are not going to keep coming.

And so that—sometimes, that's a surprise for women after their husbands pass. So these are all situations that make it much more challenging for women and much more important for them to get engaged in the planning process earlier in their lives so they have the confidence. Once they have a plan and they're familiar with the plan, we actually see that women are much more confident and feel a lot better going into retirement.

The other thing to keep in mind for women is that oftentimes, women end up retiring earlier than they expect because of caregiver needs. Three-quarters of women—of caregivers—are women. And so oftentimes, to take care of a sick spouse, relative, parent, child, they're having to step away from the workforce earlier. So I think that's just really important considerations as people put together the different scenarios that they may encounter as they move into retirement.

ALLY: Yeah, we talk about challenges and you touched on some things to do. But Terri, do a little bit of a deeper dive on strategies there for women.

TERRI: Yeah, I think what Keri said was really important, which is get involved. I do meetings day in and day out with clients. And it's very common to just have one person attend. And as Keri said, when it's a male and female married couple, a lot of times, it's the male who's having those meetings.

And we get all sorts of—my spouse isn't interested, busy. I would highly encourage women especially to get involved. The more you sit through those meetings, the more you get attuned to the acronyms, and the language that's used, and the more prepared you are that if you are the surviving spouse, you're comfortable with the representative that you're working with, and you're comfortable with your investment portfolios. It actually makes that, especially that first year after a spouse dies, a much easier transition.

The second thing is make sure that your plan reflects your longer life expectancy. My husband's grandmother died at 106. My grandmother died at 96. So women have a much longer life expectancy. Health care is getting much better at treating major illnesses. And so we need our plans to take us out not through age 85, but through 95 or so. And then the last thing is from a strategy standpoint, I think, again, Keri is going to talk about this in just a little bit, is consider delaying Social Security for as long as possible.

And generally, that means until age 70 if your finances can afford that. There's adjustments that will happen up until age 70 that really make it worth it from an income standpoint. And then also considering other sources of guaranteeing income like annuities. And then the last thing to come back to kind of Keri's final comment about women being caregivers, is really for all of us, whether women, male or female, is consider long term care insurance.

Health care expenses can be one of the most unpredictable, but one of the biggest concerns that clients have. And long term care insurance can provide you with, again, that kind of guaranteed source of income to help cover those type of expenses. And you can gain a little bit more confidence in your plan working out for you.

ALLY: Yeah, you talked about sources of income. So let's pivot there, Keri. What are the primary sources of income that people tend to think about when funding their retirement? What should we look at?

KERI: Well, first and foremost is Social Security, which Terri just talked about. And I'll talk a little bit about some of the considerations there. But that's really foundational for most Americans. And it's very important to people's income. But it's often understood and not—the options that you have with Social Security. So we'll talk more about that in a minute.

The second source of income, which is getting less common, but is still many of our clients have access to pensions. So whether those are public pensions for people who work in the government, or the school systems, or private pensions from employers, which is where we're seeing a big reduction, and then a number of companies that offer pensions. But there are still many, many people moving into retirement who are lucky enough to have those benefits to help them.

So those are two big forms of guaranteed income that I think give people a lot of peace of mind that they can count on those income streams every month. But oftentimes, that's not enough for people to cover their essential expenses that Terri talked about. So something that we found really helps give people a peace of mind to cover those essential expenses is to purchase an income annuity. So where you're giving up liquidity today for a chunk of your assets, you're kind of turning that over in order to get the promise of future cash flow.

So that's another source of guaranteed income that, again, really gives people peace of mind, especially when we're in markets like we're in right now where there's a lot of turbulence. They know they're going to still get that paycheck in and they're going to be able to pay their utility bill, their mortgage, and not have to worry about that.

The other source of income that's becoming more popular and more common amongst retirees is working part time. So one of the main drivers that people want to work in retirement is actually not about the income, but really about staying engaged, and having a routine, and keeping their mind busy. But there also is the benefit of income that comes with that. So that can be really important. But I will say that there's a lot more people who want to work in retirement than we actually see finding employment in retirement.

So it's something that's a little bit tough to count on as a regular source of income. And the last piece, which I'm going to punt it over to Lars to talk about, is really important, which is income generated from all of your retirement savings, and all the money that you've been socking away during your savings years.

LARS: Yeah, that's right, Keri. And I think that it's always been this feeling that, hey, during my working years, I'm accumulating, and I'm investing for growth over the long term. And then nirvana would be, I have enough savings that I can just shift to higher quality bonds. And then I can live off that interest, if you will, from those bonds.

And the challenge over the last decade or so has really been that bonds have not provided investors a meaningful enough amount of income given the fact that we've had historically low rates for much of the last 10 or 15 years. And I think the good news here is that picture has changed pretty dramatically here in 2022 because of stubbornly high inflation that's really led the Federal Reserve to raise interest rates as they are trying to bring inflation down.

Now, that move up in interest rates certainly has been painful in the near term from an investment standpoint if you're—in particular in bonds. But you look back over the last 40 years and we're really in a more attractive place given the increase in interest rates. It really has brightened the outlook for future returns, but also the income you might derive from those, those bonds. So let's think about it where we were just about nine, 10 months or so ago at the end of the year of 2021.

A index of high quality bonds had yields of about 1.75%. Today, those yields are actually north of 5%. And as we see inflation potentially continue to ease over the coming year or so, those become very attractive inflation adjusted yields. Now again, this is very different than what we've experienced over the last decade or so. And I think that if you look back over the last five or 10 years, Terri would agree with me, many investors were probably looking for different dividend paying stocks as a source of income.

And I think those investments still play a role for retirement income. But let's just not forget that bonds have really been reinvigorated by the higher interest rates of today. Now, of course, all this depends on the overall size of your investment portfolio. And I think relying specifically, and only on bonds for your retirement income, may not be enough to give you the income you may need each year as Terry talked about.

So thinking about this from the context of sustainability of income, overcoming inflation, those are key considerations. And that's really all about having appropriate purchasing power over time. So many investors may need income for 20 or 30 years from now. And to do that, you may need some level of growth and a very well diversified portfolio over time. And that means stocks. And stocks still play a role even if you're shifting or are in retirement, and thinking about that from a diversified mix of stock investments, not just ones focused on dividends.

ALLY: Yeah. Yeah. Terri, is there anything that we haven't talked about, other income sources that you encourage your clients to think about?

TERRI: Yeah, and so it's interesting because Lars I think really focused on interest and dividends from an investment portfolio. But there's the portfolio itself. There's the principal of the portfolio.

And another source of assets to be able to cover expenses is drawing down on that principal, tapping into the growth of that portfolio, as well as the principal, by selling assets. Retirement accounts can also, kind of in that same category, provide a source of income.

For those over age 59½, generally you're able to access retirement accounts free of penalty. And then of course, and for those of you who aren't taking RMDs, something to look forward to. They're required in most cases at age 72. So those are the required minimum distributions that the IRS says, OK, you've had all these years of saving up. Now we want our tax bill. So you're going to have to start removing money from those types of accounts, and with the exception, of course, of Roth IRAs that don't have a required minimum distribution on them.

ALLY: Yeah, but tapping your portfolio could have tax consequences. So what do we need to know there? What can you tell us about that?

TERRI: Yeah, so it's very important to consider the tax consequences of any drawdowns. And different account types are going to have different tax consequences. So for taxable accounts, those are the accounts where we get an interest or dividend payment, and we have to report it on our 1040 every year. And then of course when you sell assets, especially if you're not selling assets with a lot of gain, principal removal can be pretty tax efficient from those kind of accounts.

Traditional IRAs, deferred compensation plans, have the benefit of tax deferred growth. But when you start to take money out of those types of accounts, they're generally going to be subject to ordinary income taxation unless you've got after tax contributions that have gone in, and then of course, those would come out tax free. Roth IRAs, no taxation as the money grows, no taxation as you take the money out assuming that they are qualified withdrawals.

And then annuities are kind of a fourth category. And that depends on where the annuities are held. So if an annuity is held in a retirement account, like a traditional IRA, they're going to be subject to the regular IRA rules as money is removed. So ordinary income taxation. For nonqualified annuities, or those annuities that are held in just a regular taxable account, those of course, are going to be taxed deferred until assets are withdrawn. But then they're generally subject to either ordinary income, capital gains, or return or principal upon withdrawal.

So that's four or five different tax consequences. And so working with a professional can help you figure out in any given year, or over time, where should I be looking to to kind of supplement the Social Security, and the pension, and the dividends, and the interest with withdrawals from any one of these types of accounts?

ALLY: Yeah. Yeah. So from everything you've all said, we have many different sources of retirement income, or coming from a bunch of sources. But here's the question, Keri. Get ready. How much income does someone need to retire? How do you know when you can afford to retire?

KERI: Well, there are a lot of rules of thumb out there that many of you have probably heard about that I think are generally helpful when you're probably a little further away from retirement to think about what your retirement situation might look like. So probably the most popular one that's under a lot of debate right now is the 4% rule. So the idea that you can take out 4% of your assets every year, adjusted for inflation over time, and your money won't run out.

Again, there's a lot of debate as to whether that's too high, or maybe it should be lower than that. Fidelity cites a rule of thumb saying, look, based on your income at certain ages, so when you're 60, you should have about—you should be on track to have about eight times your income in order to retire to be on track to retire. So these are really helpful big guardrails. But I think you're going to hear from us throughout this conversation personal planning is critical.

So rules of thumb, generally helpful to figure out if you're in the ballpark. But the only way to really know if you're going to have enough to retire is to put together your own personal plan based on all the things we've talked about. What is your lifestyle going to look like? What expenses do you have? How much do you expect your lifestyle to change when you retire? Are going to be traveling a lot and spending more? Or are you going to be more at home and spending less than you did during the retirement year?

So that's really important, thinking about to Terri's point earlier about the essential expenses, the things that you know you're going to have to pay for year in and year out, versus those where you can tighten your belt if the markets are turbulent, or if you're a little bit more concerned, you can skip that big trip, or the big car purchase, or put it off for another year.

We also need to think about expenses, also the sources of income. So what are your Social Security payments likely to look like? Do you have any pensions? Do you have any annuities? Are you going to work in retirement? So really taking into account all of those expenses, all of the sources of income to see what our plan will tell you. So working with a professional, like Terri, or many of our other team members, or using some of the tools that we provide through Fidelity.com can really help give you that sense of, will I have enough? And do I have the confidence to move into retirement?

And then the last important point I make on that is these aren't one and done tools. Really, retirees need to look at their plan, and look at how they're doing against their plan, probably every year, or when there's major changes in their lives, or changes in the market. Again, to help hopefully give them that confidence that they can spend, they can take that trip, but knowing if there are changes that keep them from doing that, they should be on top of that. So it's kind of a process, I think, through your retirement years to make sure you're staying on track and making adjustments appropriately.

ALLY: Yeah, Terri, anything to add there?

TERRI: Yeah, so what just occurred to me when Keri was saying review your plan at least annually, I'm thinking maybe when you change your fire alarm, you can say, OK, it's time to update my plan.

KERI: I like it.

TERRI: The last thing I'll add is kind of a recognition that there's an intellectual exercise that goes along with putting together a financial plan. But there's also a very big emotional component. And it can be a really hard shift from the wealth building years over decades to making a shift to say, OK, now I'm accessing that money and I'm spending it. Many people want to avoid tapping into their investments since it feels like the opposite of what they have been trained their whole lives.

Save, save, save. In fact, we see a lot of retirees who actually want to continue to preserve or even grow their retirement savings after they retire. Drawing down feels like a loss to a lot of people. So remember that the reason for the accumulation of wealth for a lot of us in the first place is to have it to spend in retirement.

ALLY: Yeah, excellent. Good point. Keri, even picking a future retirement date, it definitely involves some guesswork. So how often do you see people's retirement plans change? Or are they set in stone and there you go?

KERI: That would be nice. But no. They do change. Most people think they're going to retire around 65 on average. And most people don't retire at 65. We see people retiring more at 61 or 62. So on average, people are retiring earlier than they expect. And that's because a lot of times, retirement isn't planned. I think we have this vision of retirement that we're going to have the retirement party, and then ride off into the sunset.

But it unfortunately doesn't work that way for a lot of people, even those who have planned really well, because life can get in the way. There's health emergencies become more common as we get older. And so sometimes, people need to retire early to tend to their own health care, or the health of their loved ones. Oftentimes, we hear from our clients that they retire earlier because they're not feeling as valued at work, or they get offered a really great retirement package to retire early.

And so it doesn't make sense for them to stay. So that's generally the direction that we see is people retiring early. Even though, when you talk to a lot of clients, they keep pushing the retirement date out, I think, to Terri's points around the discomfort with spending down. People get nervous about that and say, oh, another year, another year. But then these unforeseen circumstances can hit.

The other interesting dynamic that we see is that a lot of people stay employed primarily to keep access to their health plans. So they really are hesitant to leave the health plan that they've known for, in many cases, many, many years, and don't want to see a need to change providers or different types of expenses that they haven't expected in the past. So a lot of people stay longer.

And then on the flip side, some people leave earlier because of health issues. So health care, health concerns, are a big part of the unknowns.

ALLY: Yeah, so with the unknowns, obviously they're unknown because they're unknown. How do you plan for a good level of flexibility?

KERI: I think the most important thing is when you're going through the planning process is to look at different scenarios. Look at what ifs. What if I want to retire at 65? If that's your base case, you can put together a plan you feel really good about. Then look at, well, what happens if I don't make it in working in retirement till 65, and I end up having to leave at 60 or 61? What does that look like? And that might suggest you need to save a little bit more when you're further out from retirement.

But I would say going through all the different scenarios, so you have that confidence, if there are some curveballs that get thrown your way, that you're still going to be OK and you're still going to have enough money to retire. The other thing that we hear from a lot of our clients as they're entering retirement is they really like having that cash cushion. So kind of like the equivalent of an emergency fund for people who are during the working years.

So they don't have to constantly be tapping their assets, but they have that money put aside for their day to day spending, or if there's an unforeseen circumstance where they need to spend when they weren't expecting it. So that's another important part of the confidence building that we recommend as people move into retirement because it's all about confidence. Otherwise, we see exactly what Terri said people are spending less than they can because they're so concerned and so worried.

ALLY: Yeah, so many people are retiring sooner than planned is what you're saying, happily. Many of us are living longer too. But Lars, help me understand how to factor in that 10, 20, even 30 year retirement into your income plans.

LARS: Yeah, both Keri and Terri talked a lot about planning. And part of the planning aspect is understanding time horizons. And that's a little bit of what you're referring to, Ally. And there isn't just one time horizon. I think even Keri was just talking through that that you may have very short term time horizons. And so or you might have very long term ones like you're saying, 10, 20, 30 years.

And generally speaking, time horizon and understanding that, is one of the most important considerations for investment portfolios. So simply speaking, the shorter the time horizon, the more important capital preservation is. And that could mean investing in more conservative allocations, might entail lower volatile stocks, more bonds, various fixed income investments. Conversely, the longer the time horizon, that allows for more aggressive allocations like heavy emphasis on stocks, high yield bonds.

I noted earlier, it's all about overcoming the cost of inflation and really keeping purchasing power. That's top of mind. But historically, over the longer term periods that you're known—that you're kind of reflecting on, stocks really have shown a considerable success in outpacing inflation and providing growth to help improve the sustainability of retirement income.

The hard part, of course, is that over short term periods, like we're feeling this year, stocks can be very, very volatile. And they can decline. And then seeing the value of your hard earned investments fall is emotionally jarring. So during these moments, many investors want to seek the safety of cash, not from a planning perspective, just from an emotional standpoint. And it can really feel good in that moment.

Just remember that over time, having cash doesn't keep up with inflation. It erodes your future purchasing power. I think the good news here is that while stocks can be volatile over short periods of time, they have shown success in outpacing cash as time passes. In fact, historically, as you go out one year, then five year, then 10 years and beyond, the odds that stocks outpace cash does go up.

TERRI: Yeah, I'll also just add to that, Lars. When you're talking about short and long term time horizons from a planning perspective, is just to recognize that not only will your investments rise and fall with markets, but your sources of income may literally change. So when you first enter retirement, you may not be getting Social Security. You may not be getting required minimum distributions from retirement plan—retirement accounts.

You may be getting deferred compensation payments right after you've left a corporate position. Five, 10, 15 years, Social Security kicks in, required minimum distributions kick in, the deferred comp payments stop. So things will ebb and flow over time.

And so that goes back to, again, something I know that Lars and Keri and I have said multiple times, the importance of looking at your plan annually so that you can assess what's shifting year by year, and then just a reiteration of the importance of having a team around you that can include a financial professional, but also a tax advisor who can say, OK, based on what happened last year, here's the potential tax ramifications of what's going to happen for the next two or three years, doing tax projections, and really planning.

So it's a lot to kind of keep track of. And those other professionals can really help with that.

ALLY: Yeah, Terri, you talk about changing plans, right? And this past year has been very challenging, market volatility, high inflation, concerns about a potential recession. So how does this environment impact people saving for and living in retirement?

TERRI: Yeah, so for those saving for, people are revisiting their plans. Or they're putting them in place from the very beginning. Some of those people are thinking that they may need to boost their savings a little bit more. And then others are thinking, maybe I'm going to have to push back retirement for a few years, or maybe plan on working for a period of time, part time, especially if they're retiring before age 59½.

For those in retirement, they're reviewing discretionary spending. So is now the time to build the additions to the house? Maybe they want to wait until the cost of lumber comes down a little bit. Maybe it's time to put off the purchase of a new car. And then for those in retirement, again, income may be changing, income sources. So maybe now is the time to look at those cash reserves that Keri mentioned a little bit earlier rather than selling down assets given the market volatility, just with an ear towards at some point, you're going to want to top those cash reserves back up eventually.

It's interesting, or maybe not. Maybe it's predictable that clients with a plan actually tend to be less worried about the long term impact of short term volatility on their retirement goals. They understand that they may have to make short term adjustments such as where they're pulling money from to help with their long term success. And again, because they've planned for both good times and bad times, they also tend to have that cash cushion that Keri was talking about, which allows them to stay their course with the investments, and maybe even take advantage of some of the volatility that's happening.

ALLY: OK. So Lars, let's bring in protection. How can retirees protect the income they have from, say, inflation?

LARS: Yeah, and inflation certainly has been the headline event this year. And in my mind, diversification really can help here. And maybe, it comes from places that most people may not think. But certainly, growth exposure, or stocks in a well diversified portfolio, can really help fight inflation over time.

It's not just US stocks. That's non-US stocks as well. And the reason why that is is because companies can actually seek to raise prices over time. It helps boost earnings. But it also just kind of keeps the pace, or outpaces a bit to some degree, inflation. And so we see that today. You see that with a lot of food and beverage companies, for example.

There are also dividend paying companies that have current earnings. And that's different than maybe some of the areas of the market that have done well over the last decade or so, like various technology or consumer companies that have this promise of future earnings. So dividend paying companies, companies that are able to raise prices in this environment, they may actually hold up better in inflationary times.

But over time, I think most companies can really seek and do adjust to higher costs. And I think it's important to remember maybe the high inflation we're encountering today, it's unlikely to be this high for years to come. Also, look. I noted earlier several times, and I think it bears repeating, that stocks have broadly shown that they can outpace inflation and really give investors the ability to maintain their purchasing power that just happens over time.

Now beyond stocks, there are other types of more specific investments that can maybe hedge against the impacts of inflation, things like commodities. That would be investments into energy, agricultural, certain metals. You could also think in the bond space things like treasury inflation protected securities, or TIPS. These all kind of play a role in a well-diversified portfolio, particularly during periods of inflation.

ALLY: So I'm going to keep you giving us your wisdom for clients who are understandably concerned about inflation, and volatility, and potential recession. So I hear what you're saying. But how does someone factor those concerns into their plan?

LARS: Yeah, and it's certainly the tools, and sitting down having conversations with our professionals. We take into account that economic slowdowns do occur. We don't know exactly when they're always going to occur, especially years, years out. But they are a normal part of the investing process, a normal part of an economic cycle. And I think it's really, really important beyond diversification to have some discipline and ensure that you can stay invested through those challenging times that do occur.

Also, slowdowns and market adjustments, they haven't always lasted forever. So it's always important to be invested for those potential improvements that happen really sometimes without warning. And markets are always attempting to price in future events. And this is maybe one of the reasons why we've seen stocks and bonds they've shifted down this year. They're anticipating slower economic growth in the future, particularly given higher interest rates.

So again, the flip side is also true. Markets tend to rebound when things feel their worst. And that's because there is anticipation that the pace of growth will eventually bottom, corporate earnings do improve. And time and time again, we've seen that market recoveries can occur swiftly, and without warning. So to me, the success in really reaching a financial goal, having sustainable retirement income, it isn't about when to get in and out of the market at the exact right time. That's really, really difficult to do.

It's really about managing the level of risk in your portfolio to help you stay invested when markets are down and to allow you the benefit of participating in their eventual recovery.

ALLY: OK. So Keri, talk to us about annuities. Can annuities help here?

KERI: Sorry about that. Annuities can really help here. As I mentioned earlier, we hear from our clients all the time about the peace of mind they have when they purchase an annuity in times of market volatility. We just heard from a couple last week who was saying, they're not worried when they watch the news anymore and they see that the market is way down because they know they have their income from their pensions, their Social Security, and their annuities to cover their expenses.

The thing to consider in terms of inflation protection when it comes to income annuities is there is an option for most income annuities to purchase a cost of living adjustment feature, which means your monthly payments will increase directionally at the rate of inflation. Most people choose not to purchase that benefit, which I think historically because we haven't been in inflationary times for quite some time, was understandable. Now I think we're really seeing the benefit of buying the COL adjustment so you can cover your expenses even when your expenses are going up.

So that's really important. The other thing about annuities to build on to what Lars was saying about the changes in interest rates, that's also driving much higher payouts, payments, from your annuity purchases. So you're seeing more monthly income. So we're actually seeing a lot more people buying annuities now than we have in the past.

ALLY: Now I mean, some people think of Social Security as a type of annuity too, right? So what could retirees do to optimize those payments?

KERI: Yeah, so Social Security is absolutely probably the most important guaranteed income for most everybody because it's been very reliable, and it does adjust for inflation. Many of you probably saw that the adjustment that was made for next year at almost 9% of an adjustment is the biggest raise that retirees have seen in 40 years. So that gives, again, people peace of mind to spend, I think, and even in these inflationary times.

I think there are some misperceptions when it comes to Social Security. I hear it a lot from clients where they're retiring, again, at like 61 or 62, and their plan is to just start getting those income payments from Social Security right away because that's the perception that Social Security starts at 62. And it can start at 62. But as Terri alluded to earlier, you're really going to see a much bigger benefit on a month—your monthly paycheck is going to be significantly bigger if you wait until your full retirement age, which depending on when you're born is around 66 or 67, as much as a 30% increase in your monthly payments. So that's a big jump.

The other thing is you can delay until you're age 70. And for each year that you're delaying after age 66, say, you're going to see about an 8% increase. So those are significant changes in your monthly income. So you can really benefit from holding off.

Now everybody can't hold off. Some people need that income sooner. But there are other levers that you can pull. There's income annuities that can help you bridge the gap. So if you want to purchase an income annuity to get you through, say, five years to give you that paycheck until you do claim Social Security, or if you have some liquid assets, that cushion that can help get you through those years, you're going to make a big—you're going to see a big change in how much you're going to receive in terms of Social Security income over the course of your retirement years.

ALLY: Yeah, you've given us a lot of options there what you could do. But how should someone decide when it's best for them to start claiming Social Security?

KERI: Yeah, like with any of the things we're talking about here, the best thing you can do is to put together your personal analysis. So on Social Security claiming, we have some great online tools that people can use on their own, or with the help of their professional representative because people have to consider things like their health status, and what is their expected longevity. For people who don't expect to have a long life, like maybe the things I just said about claiming as late as possible don't make as much sense.

And what type of retirement lifestyle are you looking to lead? Those are all really important variables. There's also a lot of nuance in the rules around Social Security that we don't have time to get into today. But depending on if you're married, divorced, widowed, if you're working at all in retirement, those are all important considerations for your Social Security claiming. And again, you can learn a lot about that through our tools, and our education at Fidelity.

ALLY: Terrific. Terrific. There's been so much here to digest. And hopefully, everyone is taking mad notes. But Lars, what do you want to leave people with today?

LARS: Yeah, and this is very specific, very near term in nature. But I was talking about the discipline, and the up and down movement we've seen certainly, and maybe more down this year in the markets. It really has a lot of people thinking, boy, I may not be able to have the sort of retirement income that I would have thought I would a year ago.

The fact is is that this too shall pass. Markets are always adjusting to new things. But over time, we have a very strong belief that companies will drive earnings over time. And that's a very important growth engine. So thinking about these turbulent times sometimes is, again, around diversification, that it's not just one of these sources of income, and that you can think about a very diversified mix of stocks, bonds, annuities, and other sources, and that these turbulent times will eventually ease, and will be back to maybe what feels like a more normal time. And it won't be as stressful.

ALLY: Yeah. Yeah. That would be nice. Keri, how about you? What are your hopes for what people take away here?

KERI: Yeah, building on the stress—the stressful comment, I do think it's important for people to remember that everybody's retirement looks different. Everybody has different aspirations and different hopes and dreams of what their retirement is going to look like. So that really just comes back to the need for a personal plan. But from all the research we've done in talking with retirees, the thing I'd like to leave on an optimistic note is people in retirement are generally really happy, even sometimes when they're spending less than they could. Sometimes, there is that underspending.

But they're still really happy. They're not looking to spend more money. So that—I always find that really encouraging personally is that while it is stressful making that transition, there's some really good years on the other side that people are really embracing and excited about.

ALLY: Terrific. Terri, final thoughts.

TERRI: Well, anybody who knows me knows that I'm a little obsessed with food and cooking. And so my final comments are going to be kind of comparing the cooking process to the retirement process, which is really when I'm thinking about cooking, I want to make sure that I have a recipe, I want to make sure that I have the ingredients before I start cooking. I know some people like to cook their own meals, and some people like to have others do it for them.

Once you start cooking, you want to be able to adjust to changes. Is the heat too low, too high, too much spice, not enough? And then remembering that the ultimate goal at the end of it is to be able to enjoy what I eat. So when you kind of compare that to the retirement process, it's kind of the same. You want to have a plan in place. You want to have the asset base and the income to support the plan. You want to decide whether you're going to do it for yourself, or going to get professional assistance in doing it.

You want to revisit the plan over time to adjust for the unexpected. And then at the end of the day, remember, as Keri was talking about, the ultimate goal is to enjoy retirement, whatever that means for you.

ALLY: That is a great analogy. Enjoy what you eat. Well, I want to extend a huge thank you to our panelists for all of their insights. This was a great discussion. Thank you all.

KERI: Thank you.

TERRI: Thank you, everyone.

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